

Introduction to Books and Records

69349



FEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE

Fraud, Waste, and
Abuse

Charge 5131

(Not 5114)

INTRODUCTION TO BOOKS AND RECORDS

BY

ECONOMIC AND FINANCIAL CRIMES TRAINING UNIT

TRAINING DIVISION

FEDERAL BUREAU OF INVESTIGATION

NCJRS

III, 23 1980

ACQUISITIONS

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FORWARD

Introduction to books and records has been prepared for state and local law enforcement officers. The purpose of this document is to assist the student in understanding how a transaction flows through an accounting system and what financial statements are generated by a business enterprise at the end of an accounting period.

The scope of this text is necessarily limited in view of the fact that it is being written for the investigator and not for an auditor. In the majority of white collar crime cases where a set of books and records has been maintained by the subject, it may be necessary to conduct a detailed examination of the particular records which relate to the offense being investigated. In such a case it may be necessary for the investigator to utilize the expertise of an accountant. The non-accountant investigator should not even attempt such a review without expert assistance.

The investigator, however, needs a basic understanding of accounting concepts and terminology to assist him in conducting a thorough and meaningful interview of the white collar criminal. Further, he must be in a position to present the facts of the case to the prosecutor. This

presentation must coordinate the accounting analysis done by the auditor and the investigation performed by the officer. The auditor's workpapers will, for the most part, stand by themselves, but an overview of their relationship to the business-related crime is needed.

History of Accounting

Accounting is more than three thousand years old. Stone and clay tablets containing financial records have been discovered by archeologists in several locations throughout the world. The Roman Empire developed methods of recording and summarizing numerical information. The Romans kept elaborate records for such purposes as keeping track of their military personnel and their military payroll. The American Indian used notches on sticks and strings of beads to denote the accumulation of data.

The art of accounting evolved slowly over thousands of years until trade and business reached the complexity which required something more sophisticated. During the Industrial Revolution in Europe large pools of capital were needed to finance the purchase of machinery and equipment. Partnerships; joint-stock companies, and corporations evolved to meet this need. New accounting procedures had to be developed to meet the needs of these new business organizations.

While the art of accounting is very old, the profession of Accounting, in comparison to other professions, is extremely young.

ACCOUNTING AND THE FUNDAMENTAL EQUATION

Accounting has been defined as the process of recording, classifying, summarizing, and analyzing business transactions and determining to what extent these transactions affect the earnings of a business.

To understand the complete accounting cycle it is logical to begin by analyzing one of the financial statements, the Balance Sheet. The BALANCE SHEET is a financial statement depicting at a specific time and in a systematic manner the assets, liabilities and capital of a business organization.

The concept of the Balance Sheet can best be described through the Fundamental Accounting Equation which states that assets are equal to liabilities plus capital or assets minus liabilities is equal to capital.

FUNDAMENTAL EQUATION

Assets = liabilities + capital

or

Assets - liabilities = capital

The ASSETS are the economic resources which are owned by the business. LIABILITIES are the debts or obligations of the business, and capital, proprietorship, net worth, and owners'

equity are all used interchangeably to mean the difference between the assets and liabilities. These terms indicate what the business is worth.

EXAMPLE PROBLEM I

J. Smith decides to organize a laundry business on June 30, 197X. Smith takes \$2500 from his personal bank account and invests it into his business. Smith purchases \$1200 worth of laundry equipment paying \$700 in cash and charging the balance (Accounts Payable). Smith also purchases a delivery truck for \$4,000, paying \$1500 in cash and giving a note (Note Payable) for the remaining balance.

What is Joe Smith's Capital?

ACCOUNT FORM

Joe Smith's Laundry

Balance Sheet

June 30, 197X

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	\$ 300	Accounts Payable	\$ 500
Laundry Equipment	1,200	Note Payable	<u>2,500</u>
Delivery Truck	<u>4,000</u>	Total Liabilities	\$3,000
		<u>Capital</u>	
		Joe Smith's Capital	<u>\$2,500</u>
Total Assets	<u>\$5,500</u>	Total Liabilities and Capital	<u>\$5,500</u>

If we take another look at our fundamental equation it is easy to see we are following the equation Assets = Liabilities + Capital. When this equation is applied to the format of the Balance Sheet it is said to be in ACCOUNT FORM.

If we follow the equation Assets - Liabilities = Capital in our preparation of the balance sheet it is said to be in REPORT FORM, as illustrated as follows:

REPORT FORM

Joe Smith's Laundry

Balance Sheet

June 30, 197X

ASSETS

Cash	\$ 300	
Laundry Equipment	1,200	
Delivery Truck	<u>4,000</u>	
Total Assets		\$5,500

LIABILITIES

Accounts Payable	\$ 500	
Notes Payable	<u>2,500</u>	
Total Liabilities		<u>3,000</u>

CAPITAL

Joe Smith's Capital		<u>\$2,500</u>
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On the following pages we have an example of William West's Balance Sheet. Let us take the Balance Sheet section by section and see how it is constructed and exactly what appears on the Balance Sheet. It follows the fundamental equation, only it is set out in more detail.

WILLIAM WEST COMPANY

Balance Sheet

December 31, 1974

CURRENT ASSETS

Cash		\$10,000	
Notes Receivable		12,000	
Accounts Receivable	\$75,000		
Less: Allowance for Bad Debts	<u>6,250</u>		
Estimated Recovery Value		68,750	
Merchandise Inventory		20,000	
Prepaid Expenses		<u>3,000</u>	
Total Current Assets			\$113,750

FIXED ASSETS

Furniture and Fixtures	\$15,000		
Less: Allowance for Depreciation	<u>3,000</u>		
Depreciated Cost		\$12,000	
Delivery Equipment	8,000		
Less: Allowance for Depreciation	<u>1,500</u>		
Depreciated Cost		6,500	
Building	60,000		
Less: Allowance for Depreciation	7,500		
Depreciated Cost		<u>52,500</u>	
Total Fixed Assets			<u>71,000</u>
Total Assets			<u>\$184,750</u>

WILLIAM WEST COMPANY
BALANCE SHEET (CONTINUED)
DECEMBER 31, 1974

CURRENT LIABILITIES

Notes Payable	\$15,000	
Accounts Payable	32,000	
Accrued Expenses Payable	<u>600</u>	
Total Current Liabilities		\$47,600

LONG-TERM LIABILITIES

Mortgage Payable (20 - years)	35,000	
Total Long-term Liabilities		<u>35,000</u>
Total Liabilities		\$82,600

CAPITAL

William West, Capital 1-1-74	\$85,000	
Net Profit for year	\$32,150	
Less Withdrawals for year	<u>15,000</u>	
Net Increase to Capital		<u>17,150</u>
William West, Capital 12-31-74		<u>102,150</u>
		<u>\$184,750</u>

The Balance Sheet, as well as all other financial statements, begins with a heading. The heading consists of the company name, the name of the financial statement and the date. The balance sheet represents the financial picture as it stood on one particular day, December 31, 1974. The balance sheet is divided into three major categories: assets, liabilities and capital. Let us now look at the balance sheet section by section and explain what each account is and what it is comprised of.

I. CURRENT ASSETS

Current Assets include cash and all other assets which could be converted into cash within one year.

CASH

The bills and coins in the business as well as the money on deposit in a bank. These deposits may take the form of savings accounts or checking accounts.

NOTES RECEIVABLE

A formal written promise by a debtor to pay a specified amount of money usually with interest, at a definite time.

ACCOUNTS RECEIVABLE

Claims against customers arising from the sale of merchandise or services on credit.

ALLOWANCE FOR BAD DEBTS

An estimated amount of accounts receivable which will probably be uncollectable due to non-payment by a customer of a sale for credit.

MERCHANDISE INVENTORY

Goods purchased or produced for the purpose of sale to customers.

PREPAID EXPENSES

Expenses paid in advance such as rent, insurance, etc.

II. FIXED ASSETS

Those assets not intended for sale and which are used over and over again in order to manufacture the product, display it, warehouse it, or transport it.

FURNITURE AND FIXTURES

The furnishings and fixtures which are owned by the business.

ALLOWANCE FOR DEPRECIATION

The decline in the useful value of the fixed assets due to wear and tear from usage and the passage of time.

DELIVERY EQUIPMENT

The vehicles used to get the goods from the business to the customer.

BUILDING

The physical structure which houses the company.

III. CURRENT LIABILITIES

All debts of the company which fall due within a twelve month period.

NOTES PAYABLE

A promissory note given by the business to a bank, individual, or other business entity evidencing a debt owed for the purchase of merchandise or some other assets and usually due in less than one year.

ACCOUNTS PAYABLE

A short-term liability usually arising from the purchase of merchandise for credit. Unlike the note payable no formal written promise to pay is issued.

ACCRUED EXPENSES PAYABLE

Expenses which are owed but not yet paid. Common example is salaries owed to the employees but not paid until the end of the pay period.

IV. LONG-TERM LIABILITIES

Debts of a business with distant maturity dates. Common examples are mortgages and bonds payable.

MORTGAGE PAYABLE

Debts secured by mortgages on specific assets of the business. Failure by the business to pay this obligation would give the creditor a legal right to force the sale of the pledged asset as a means of obtaining payment.

V. CAPITAL

What the business is worth. The difference between the assets and the liabilities.

As we have just seen, the assets and liabilities shown on the balance sheet are arranged in a definite order. In most commercial enterprises this arrangement of assets is in the order of liquidity. Liquidity of assets is the quickness in which an asset can be converted into cash in the ordinary course of business. With regard to liabilities, liquidity is the liability which fall due or matures first, are generally listed first. Those which mature later are listed later.

Again it is worthwhile to mention that balance sheet only reflects the assets, liabilities, and capital for one business entity on a given day.

EXAMPLE PROBLEM II

Robert Jordan organized a trucking business on September 1, 1974, by investing \$5,000 in cash into the business.

On September 2, 1974, Jordan purchased a truck from OK Motors for \$3,000 in cash.

On September 5, Jordan purchased \$1500 of office equipment from the Harris Office Supply Company on credit.

On September 9, Jordan sent a check to the Harris Office Supply Company for \$500 to reduce his liability.

On September 15, Jordan withdrew \$300 from the business for his personal living expenses.

On September 16, Jordan paid an employee \$150 for his first weeks salary.

On September 27, Jordan pays rent in the amount of \$200 for office space.

On September 28, Jordan does a trucking job for Albert Smith. Jordan charges Smith \$300 to be paid by Smith in 30 days.

On September 30, Jordan changed his liability to Harris Office Supply Company by giving Harris a non-interest bearing note for \$500.

What are Jordan's assets, liabilities, and capital on September 30, 1974?

	<u>ASSETS</u>	=	<u>LIABILITIES</u>	+	<u>CAPITAL</u>
Sept. 1	\$ +5,000	=	0	+	\$+5,000
Sept. 2	+ <u>3,000</u>				
	8,000				
	- <u>3,000</u>				
	5,000	=	0	+	5,000
Sept. 5	+ <u>1,500</u>		+ <u>1,500</u>		<u>0</u>
	6,500	=	1,500	+	5,000
Sept. 9	- <u>500</u>		- <u>500</u>		<u>0</u>
	6,000	=	1,000	+	5,000
Sept. 15	- <u>300</u>		<u>0</u>		- <u>300</u>
	5,700	=	1,000	+	4,700
Sept. 16	- <u>150</u>		<u>0</u>		- <u>150</u>
	5,550	=	1,000	+	4,550
Sept. 27	- <u>200</u>	=	<u>0</u>		- <u>200</u>
	5,350	=	1,000	+	4,350
Sept. 28	+ <u>300</u>		<u>0</u>		+ <u>300</u>
	5,650	=	1,000	+	4,650
Sept. 30			+ <u>500</u>		
			1,500		
Sept. 30	<u>0</u>	=	- <u>500</u>	+	<u>0</u>
	\$ <u>5,650</u>		\$ <u>1,000</u>	+	\$ <u>4,650</u>

From the foregoing transactions it is quite easy to see that the following changes may occur within the categories of our assets, liabilities, and capital.

Increase in Assets

Decrease in Assets

Increase in Liabilities

Decrease in Liabilities

Increase in Capital

Decrease in Capital

DEBITS AND CREDITS

Many businesses have thousands of transactions occurring each day. It is not practical to prepare a balance sheet after each transaction or even at the end of each day. Instead, the thousands of transactions are recorded in the accounting record, and, at the end of the month, specific period, or year, a balance sheet is prepared from these accounting records.

An ACCOUNT is a systematic arrangement of increases and decreases affecting the same person or thing. There is a separate account prepared for each different asset, liability, and capital account.

Two specimen forms of accounts are illustrated below, but the words appearing in parenthesis are placed there only to indicate the purpose of each column, and in many cases are not used in actual accounts.

(Debit)

(Credit)

Year		Expla- nation	L.F.	Amount	Year		Expla- nation	L.F.	Amount
Mos.	Day				Mos.	Day			
"T" ACCOUNT FORM									

Year		Explanation	L.F.	Debit	Credit	Balance
Mos.	Day					
BALANCE ACCOUNT FORM						

An account is divided into two sides: The DEBIT side or left-hand side and the CREDIT side or right-hand side.

In illustration number 1, the first two columns are used to record the date. The month is written in the extreme left column and the day appears in the column to the right of the month. The year is written above the month in the extreme left-hand column. It is not necessary to repeat the year and month for each transaction. Instead they are written only when they change.

The explanation column is used to provide information regarding the nature of the transaction. The L.F. (Ledger Folio) is used to show where the information appearing in this transaction has come from. It is an important reference for investigators in following a transaction through the books and records of a business. The amount columns indicates the dollar and cents value of the transaction.

In illustration number 2 the date, explanation, and L.F. columns are identical to illustration #1. The debit column is used for recording all debits to that particular account and the credit column is used to record all credits to that particular account. The effects of debiting and crediting an account will be discussed later in this section. The balance column gives us a running total of this particular account.

It is important to remember that we have a separate account for each different asset, liability, capital, income and expense account. When each of these accounts are grouped together, usually in a loose leaf binder, it is known as a LEDGER. A LEDGER is a book in which accounts are kept.

In accounting we have two different categories of ledgers. We have the GENERAL LEDGER which consists of all assets, liability, capital, income and expense accounts. We also have SUBSIDIARY LEDGER which is a group of accounts which are contained in a separate ledger and which support a single account in the General Ledger.

In the General Ledger we have an Account Receivable Control account which is an aggregate of all money owed to our business. This total dollar value is comprised of many different individuals and companies. The total dollar value appears in the General Ledger in the Accounts Receivable Account while we have an individual dollar breakdown by customer in the the Accounts Receivable Subsidiary Ledger.

EXAMPLE:

GENERAL LEDGER

ACC. REC. SUBSIDIARY LEDGER

ACCOUNTS RECEIVABLE

1,500

T. Albert 100

R. Brown 500

R. Clark 300

E. Drew 600

Total 1,500

From the example we can more clearly see that the Accounts Receivable Control Account in the General Ledger reflects that \$1,500 is owed to us. The Subsidiary Ledger breaks down the \$1,500 by customer and shows us how much each customer owes us. At the end of any accounting period the Subsidiary Ledger and the Control Account must be in balance.

INCREASES AND DECREASES IN THE LEDGER ACCOUNT

<u>ASSETS</u>		=	<u>LIABILITIES</u>		<u>+CAPITAL</u>	
<u>Debit</u>	<u>Credit</u>		<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
(Increase)	(Decrease)		(Decrease)	(Increase)	(Decrease)	(Increase)
Normal				Normal		Normal
Balance				Balance		Balance

Assets appear on the left side of our Account Form Balance Sheet. It is convenient to remember that an increase in an asset is recorded on the left (Debit) side. The normal balance of an asset account is a debit.

Liabilities and Capital appear on the right side of the balance sheet, therefore we increase Liabilities and Capital accounts by recording on the right (Credit) side. The normal balance of a Liability or Capital account is a credit.

EQUALITY OF DEBITS AND CREDITS

DOUBLE ENTRY METHOD

For every debit we must have a corresponding credit or credits. Each Business transaction affects two or more accounts.

At the completion of each transaction the total dollar valuation of the debits and credits will be equal.

EXAMPLE:

Joe Smith purchases a building for \$12,000. Smith paid \$5,000 in cash and gave a note for \$7,000.

<u>BUILDING</u>		<u>CASH</u>		<u>NOTES PAYABLE</u>	
(Debit)	(Credit)	(Debit)	(Credit)	(Debit)	(Credit)
12,000			5,000		7,000

After analyzing the completed transaction, note the Debit side of the Building Account has been affected by a \$12,000 entry and the credit side of Cash and the credit side of Notes Payable has been affected by \$5,000 and \$7,000 respectively or a total of \$12,000. As explained earlier total dollar valuation of Debits and Credits must be equal at the completion of each transaction.

EXAMPLE NUMBER 3: Recording Transactions in the Ledger:

J. WEBSTER REAL ESTATE COMPANY

- A. J. Webster invests \$20,000 cash in the business on September 1, 1974.
- B. On September 3, Webster Real Estate Company purchased land for cash in the amount of \$7,000.
- C. September 5, Webster Real Estate Co. purchased a building from O.K. Construction Co. for \$12,000. The terms of the purchase required a cash payment of \$5,000 with the remaining \$7,000 payable in 90 days.
- D. On September 10, Webster Real Estate sold a portion of its land on credit (Accounts Receivable) to Carter Drugstore for \$2,000. The land was sold at cost so no gain or loss resulted.
- E. On September 14, the Webster Real Estate Co. purchased office equipment on credit from General Equipment, Inc. in the amount of \$1,800.
- F. On September 20, cash of \$500 was received as partial collection of the Account Receivable for Carter's Drugstore.
- G. A cash payment of \$1,000 was made on September 30, in partial settlement of the amount owing to General Equipment, Inc.

The following is an example of the balanced accounts utilized in recording Example number 3 into the ledger.

CASH		
A 20,000	7,000	B
F 500	5,000	C
	1,000	G
<hr/>		
7,500		

ACCOUNTS RECEIVABLE		
D 2,000	500	F
<hr/>		
1,500		

OFFICE EQUIPMENT		
E 1,800		
<hr/>		
1,800		

BUILDING		
C 12,000		
<hr/>		
12,000		

LAND		
B 7,000	2,000	D
<hr/>		
5,000		

ACCOUNTS PAYABLE		
G 1,000	7,000	C
	1,800	E
<hr/>		
	7,800	

J. ROBERTS, CAPITAL		
	20,000	A
<hr/>		
	20,000	

The process of determining what the current balance of any particular account is referred to as BALANCING AN ACCOUNT.

The Balance Sheet for the foregoing problem would appear as follows:

J. Webster Real Estate
Balance Sheet
September 30, 1974

<u>ASSETS</u>		<u>LIABILITIES</u>	
Cash	\$7,500	Accounts Payable	\$ 7,800
Accounts Receivable	1,500	<u>CAPITAL</u>	
Office Equipment	1,800	J. Webster Capital	<u>20,000</u>
Land	5,000		
Building	<u>12,000</u>		
Total Assets	<u>\$27,800</u>	Total Liabilities & Capital	<u>\$27,800</u>

THE JOURNAL TRANSACTION

A business event which can be expressed in money and must be recorded in the accounting records.

JOURNAL

The book of original entry which is a chronological record, showing for each day the debits and credits from transactions.

In our discussion of accounting procedures to date we have been analyzing financial transactions in terms of Debits and Credits in the ledger account. Although transactions could be entered directly into the ledger it is more feasible to initially record each transaction into the journal. If we continued to record transactions into the ledger we would not have a record of each transaction in its entirety. The debit would be in one account and the credit would be in another account. A second problem encountered if we recorded directly into the ledger would be the absence of a chronological listing of each transaction. If we wanted to find what transaction occurred on a particular date we would have to search through the entire General Ledger.

To alleviate these problems we initially record our transactions into the book of original entry, the JOURNAL. This process of recording the entry into the journal is called JOURNALIZING.

The following is the sequence of steps by which information flows through an accounting system.

Occurrence of a business transaction

Preparation of a business document

Information is recorded and summarized into the Journal

Information transferred from the Journal to the Ledger.

(This procedure is called "posting")

Adjusting entries

Financial Statements prepared from the Ledger.

Closing entries.

There are several types of Journals used by most businesses. However, for the purpose of illustrating how entries are first recorded into a journal we will use the GENERAL JOURNAL.

GENERAL JOURNAL

Date	Explanation	L.F.	Debit	Credit

The first pair of columns of the General Journal are for recording the date. The year is written across the top of this column, the month appears in the left hand column and day appears in the column to the right of the month.

The account and explanation column is used for recording the account to be debited and the account to be credited. The account debited appears on the first line against the left hand explanation column. The account credited will appear on the line following the debit and will be indented approximately one inch. If we have a compound entry where we have more than one debit or credit, each debit will be directly under the other debits and the credit will be directly under the other credits.

The L.F. (Ledger Folio) Column gives the number of the account in the General Ledger to which this account has been posted.

The two remaining amount columns are used to record the dollar valuation for the accounts affected. The left hand amount column or debit column is where the dollar valuation of the debit account is recorded. The right hand amount column (credit) is used for recording the dollar valuation of the credit account. No dollar signs are recorded in either the Journal or the Ledger. In the Journals as well as in the Ledger the debits will always be equal to the credits. (See Example 4, Page 29.)

EXAMPLE PROBLEM #4.

JOURNALIZING ENTRIES

The transactions for this problem are taken from
Example Problem #3, Page 22.

The following are the General Journal entries
for this problem:

GENERAL JOURNAL

Date	Account	L.F.	Debit	Credit
Sept. 1	Cash J. Webster, Capital		20,000	20,000
3	Land Cash		7,000	7,000
5	Building Cash Accounts Payable OK Construction		12,000	5,000 7,000
10	Accounts Receivable- Carter Drug Store Land		2,000	2,000
14	Office Equipment Account Payable-General Equip. Co.		1,800	1,800
20	Cash Accounts Receivable- Carter Drug Store		500	500
30	Accounts Payable- General Equip. Co. Cash		1,000	1,000

To this point, in our discussion of accounting all transactions have been recorded in the General Journal. We have seen that several accounts including cash have been debited and credited frequently throughout the month.

In addition to recording each entry in the General Journal we must also post each transaction from the General Journal to the ledger. It would be more efficient if we could group similar transactions together and combine them into a single posting at the end of the month. Also, a great deal of time and effort could be saved.

In addition to the above we are limited to one person recording transactions into the General Journal. As we shall see later, this is very poor internal control since we have no provisions for a check on the accuracy of this employees work. In a large operation it would be virtually impossible for one individual to record all of the days transactions.

Since the majority of all business transactions fall into one of four categories we generally set up a Special Journal for each category.

1. Charge Sales
2. Credit Purchases
3. Cash Receipts
4. Cash Payments

Since we have expanded our Journals by the use of Special Journals we now have five Journals:

SALES JOURNAL

All transactions involving a sale on credit.

PURCHASES JOURNAL

All transactions involving a purchase of merchandise on credit.

CASH RECEIPTS JOURNAL

All transactions involving the receipt of cash.

CASH PAYMENTS JOURNAL

All transactions involving the payment of cash.

GENERAL JOURNAL

Any transaction which cannot be recorded in one of the other four Journals.

Special Journals are time saving, labor saving devices which allows several people to work on the journalizing of transactions at the same time. Special Journals are also important from an investigators standpoint since they enhance internal control by segregating duties and thus reduce the possibility of fraud.

To this point in our discussion of accounting we have only been concerned with the Assets, Liabilities and Capital Accounts. We should now take a look at the accounts which makes up our profit or loss. The Income Statement shows the result of the company's operations for a specified period and indicates to what extent net income has been earned or a loss sustained. The Income Statement contains

two primary categories. These categories are Income and Expense. INCOME represents monies received by a business entity for the goods they have sold or the services they have rendered. Income increases the owners equity in a business. EXPENSES are the costs of the goods and services used up in the process of obtaining revenue. Expenses cause the owners equity to decrease.

The equation utilized in the preparation of the Income Statement is: $\text{Income} - \text{Expenses} = \text{Net Income or Net Loss}$.

INCOME		EXPENSES	
Debit	Credit	Debit	Credit
(Decrease)	(Increase)	(Increase)	(Decrease)
	Normal		
	Balance		

On the following page we have an illustration of an Income Statement of the Elliott Distributing Company.

ELLIOTT DISTRIBUTING COMPANY
 INCOME STATEMENT
 FOR YEAR ENDED DECEMBER 31, 19XX

Revenue:			
Gross Sales			\$83,300
Less: Sales Returns and Allowances			<u>650</u>
Net Sales			82,650
Cost of Goods Sold:			
Merchandise Inventory			
January 1, 19XX		7,750	
Purchases	\$49,400		
Less: Purchase Returns And Allowances		<u>275</u>	
Net Purchases	\$49,125		
Add: Freight-In		<u>1,100</u>	
Net Cost Purchases			50,225
Goods Available for Sale			<u>\$57,975</u>
Merchandise Inventory			
December 31, 19XX		<u>8,950</u>	
Cost of Goods Sold			<u>49,025</u>
Gross Profit From Sales			\$33,625
Operating Expenses:			
Selling Expenses:			
Sales Salaries	\$6,200		
Rent Expense, Selling Space	\$4,800		
Advertising Expense	900		
Freight-Out And Delivery Expense	\$1,350		
Store Supplies Used	425		
Depreciation Expense, Store Equipment	<u>775</u>		
Total Selling Expenses			\$14,450
General And Administrative Expenses:			
Office Salaries	\$3,100		
Rent Expense, Office Space	600		
Expired Insurance	65		
Office Supplies Used	125		
Depreciation Expense, Office Equipment	<u>110</u>		
Total General and Administrative Expenses			4,000
Total Operating Expenses			<u>18,450</u>
Net Income			<u><u>\$15,175</u></u>

Let's take a look at the preceding Income Statement and determine what accounts have affected our company making a profit of \$15,175.00.

HEADING

As in the Balance Sheet the Income Statement also has a heading which consists of the name of the company, the name of the financial statement and the date. As opposed to the Balance Sheet the Income Statement date is preceded by the term "for the year, period, or month ended." The Income Statement reflects the net income or loss for the entire period stated in the heading.

GROSS SALES

Total revenue received from the sale of our merchandise.

SALES RETURNS AND ALLOWANCES

The sale price of all merchandise returned to our company for which we have given an allowance.

NET SALES

The net dollar valuation of all merchandise sold.

MERCHANDISE INVENTORY 1-1-7X

The dollar valuation of the goods we have available to sell on 1-1-7X.

PURCHASES

The cost of the merchandise which we have purchased for the purpose of resale.

PURCHASE RETURNS AND ALLOWANCES

The goods we have returned, for any reason for which we have received an allowance.

NET PURCHASES

The net dollar valuation of merchandise we have purchased for the purpose of resale.

FREIGHT-IN

The transportation costs charged to us to get the merchandise to our place of business. Freight-In is added to purchases in determining the cost of the goods we have purchased for resale.

NET COST OF PURCHASES

The total of net purchases and freight in. The cost of the merchandise plus additional costs of getting the merchandise to our place of business.

GOODS AVAILABLE FOR SALE

The total goods we have available to sell. The total of our beginning merchandise inventory and cost of purchases.

MERCHANDISE INVENTORY 12-31-7X

The dollar valuation of the merchandise on hand and not sold at the end of the year.

COST OF GOODS SOLD

The difference between the goods we have available to sell and the ending merchandise inventory which is the merchandise we did not sell.

GROSS PROFIT

The difference between the dollar valuation of goods sold and the cost of these same goods.

OPERATING EXPENSES

The expenses incurred in the process of operating the business. Operating Expenses are generally broken into sub-groups of selling and administrative expenses.

SELLING EXPENSES

The expenses allocated to the selling of merchandise.

ADMINISTRATIVE EXPENSES

The expenses allocated to the management and administration of the business.

TOTAL OPERATING EXPENSES

Total of all expenses incurred in the sale of our merchandise.

NET INCOME

The profit earned. The difference between the Gross Profit and Total Operating Expenses.

EXAMPLE NUMBER 5

The following is a list of transactions for the J. Webster Real Estate Company for the month of October, 197X.

On October 1, 197X, Webster makes an initial investment of \$5,000 into the business.

On October 1, Webster paid \$120 for newspaper advertising describing houses for sale.

On October 6, Webster earned and collected a commission of \$750 by selling a residence previously listed by a client.

On October 16, Webster ordered newspaper advertising at a price of \$90, payment was to be made in 90 days.

On October 20, a commission of \$1,130 was earned by selling a client's residence. The sale agreement provided that the commission would be paid in 60 days.

On October 30, Webster paid \$700 in salaries to his office employees for services rendered during October.

On October 30, a telephone bill for October amounting to \$48 was received. Payment was requested by November 10.

On October 30, Webster withdrew \$600 in cash for his own personal use.

DATE	ACCOUNT	LF.	DEBIT	CREDIT
197X October	Cash	100	5,000	
	J. Webster, Capital	301		5,000
1	Advertising	500	120	
	Cash	100		120
6	Cash	100	750	
	Sales Commissions Earned	400		750
16	Advertising Expense	500	90	
	Account Payable	200		90
20	Accounts Receivable	103	1,130	
	Sales Commissions Earned	400		1,130
30	Office Salaried Expense	501	700	
	Cash	100		700
30	Telephone Expense	502	48	
	Accounts Payable	200		48
30	J. Webster, Drawing	300	600	
	Cash	100		600

CASH

100

DATE	EXPLANATION	LF.	DEBIT	CREDIT	BALANCE
197X					
Oct. 1		GJ-1	5000		5000
1		GJ-1		120	4880
6		GJ-1	750		5630
30		GJ-1		700	4930
30		GJ-1		600	4330

ACCOUNTS RECEIVABLE

103

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 20		GJ-1	1130		1130

ACCOUNTS PAYABLE

200

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 16		GJ-1		90	90
30		GJ-1		48	138

J. WEBSTER, DRAWING

300

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 30		GJ-1	600		600

J. WEBSTER, CAPITAL

301

DATE	EXPLANATION	LF.	DEBIT	CREDIT	BALANCE
197X					
Oct. 1		GJ-1		5000	5000

SALES COMMISSIONS EARNED 400

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 6		GJ-1		750	750
20		GJ-1		1130	1880

ADVERTISING EXPENSE 500

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 1		GJ-1	120		120
16		GJ-1	90		210

OFFICE SALARIES EXPENSE 501

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 30		GJ-1	700		700

J. WEBSTER REAL ESTATE CO.

INCOME STATEMENT

FOR THE MONTH ENDED

OCTOBER 30, 1975

Revenue

Sales Commissions Earned \$1,880

Expenses

Advertising Expense \$210

Office Salaries 700

Expense

Telephone Expense 48

Total Expenses 958

Net Income \$ 922

J. WEBSTER REAL ESTATE CO.

BALANCE SHEET

OCTOBER 30, 1974

ASSETS

Cash \$4,330

Accounts Receivable 1,130

Total Assets \$5,460

LIABILITIES

Accounts Payable \$ 138

CAPITAL

J. Webster, Cap. Oct. 1, 1974 \$5,000

Net Income for Oct. \$922

Less J. Webster Drawing 600 322

J. Webster Capital Oct. 30, 1974 5,322

Total Liabilities and Capital \$5,460

ADJUSTING ENTRIES

At the end of any particular period we want our financial statements (Income Statement and Balance Sheet) to be accurate. Due to the changes in the value of accounts such as insurance, the records do not always reflect the correct value. Before the financial Statements can be prepared accurately consideration must be given to those accounts which do not appear, or are not correctly stated in the various accounts.

EXAMPLE

We purchase a 6 year Insurance Policy for \$360. on 1-1-7X. This transaction would be recorded in the General Journal at the date of purchase as follows.

Prepaid Insurance	360	
Cash		360

At the end of the first year 1/6 of 360 or \$60 of insurance is used up. The transaction to record this using up of insurance over the course of the year is recorded as follows.

INSURANCE EXPENSE

60

PREPAID INSURANCE

60

PREPAID INSURANCE		CASH		INSURANCE EXPENSE	
① 360	60 ②		360 ①	② 60	
300			360	60	

The transaction recording the Insurance Expense of \$60. is an Adjusting Entry. From the use of T Accounts we can see our Insurance Expense for \$60. reduces the asset Prepaid Insurance to \$300. for the remaining five years.

Since it is not our intention to attempt to make each investigator an Accountant we feel the above information regarding Adjusting entries is sufficient. It should be kept in mind that this is but one example of many forms of Adjusting entries. It should also be remembered that Adjusting Entries will be recorded in the General Journal at the end of any accounting period.

Work Sheet

On the following page we have an illustration of a work sheet for the Webster Real Estate Company. It is sometimes referred to as a "Working Trial Balance."

WEBSTER REAL ESTATE COMPANY
WORK SHEET
FOR PERIOD ENDED MAY 31, 1974

	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
CASH	5,100				5,100				5,100	
ACCOUNTS RECEIVABLE	17,300				17,300				17,300	
UNEXPIRED INSURANCE	360			A 60	300				300	
OFFICE SUPPLIES	900			B 650	250				250	
OFFICE EQUIPMENT	4,800				4,800				4,800	
ACCUM. DEP.: OFFICE EQUIP		560		C 40		600				600
NOTES PAYABLE		8,000				8,000				8,000
ACCOUNTS PAYABLE		1,800				1,800				1,800
UNEARNED COMMISSIONS		1,500	E 800			700				700
J. WEBSTER, CAPITAL, MAY 31, 1974		16,000				16,000				16,000
J. WEBSTER, DRAWING	1,000				1,000				1,000	
COMMISSIONS EARNED		15,000		E 800		15,800		15,800		
RENT EXPENSE	2,400				2,400		2,400			
SALARIES EXPENSE	11,000		F 200		11,200		11,200			
	42,860	42,860								
INSURANCE EXPENSE			A 60		60		60			
OFFICE SUPPLIES EXPENSE			B 650		650		650			
DEP. EXP.: OFFICE EQUIP.			C 40		40		40			
INTEREST EXPENSE			D 50		50		50			
INTEREST PAYABLE				D 50		50				50
SALARIES PAYABLE				E 200		200				200
			1,800	1,800	43,150	43,150	14,400	15,800		
NET INCOME							1,400			1,400
							15,800	15,800	28,750	28,750

The work sheet is a working paper prepared in pencil by the Accountant for his use in preparing the financial statements. It is utilized as a means of organizing accounting data.

The heading appearing on the work sheet is similar to the heading appearing on the Income Statement since it also contains the company's name, the name of the working paper, and the statement for the month, period, or year ended followed by the date.

In the extreme left-hand column we record all accounts which have a balance. If an account has a zero balance it is not recorded on the work sheet. The accounts are listed in order of liquidity and are taken directly from the Trial Balance. The Trial Balance was prepared after all Journal and adjusting entries have been posted to the General Ledger. The Trial Balance is prepared for the purpose of assuring that the debits and credits in the General Ledger are equal at this point in time. The amounts recorded in the Trial Balance column is also taken from the completed Trial Balance. As you have probably noticed each amount column is divided into the debit and credit side. As we complete our discussion of the work sheet you will see how all columns come into balance when the work sheet is completed.

The Adjustment column is the recording of all adjustments which have been recorded in the General Journal for the purpose of bringing each account to its correct balance.

The Adjusted Trial Balance column is the balance of the Trial Balance and adjustment columns. This column reflects the correct valuation of each account at the end of the period.

The Income Statement columns contains all Revenue and Expense Accounts. The Balance Sheet Columns contain the balances of all Asset, Liability and Capital Accounts.

You will notice that when totaled the Debits are equal to the Credits in both the Trial Balance, Adjustment, and Adjusted Trial Balance columns. The totals of the Debits and Credits in the Income Statement columns of the work sheet are not in balance initially. We subtract the smaller amount (Debit side) from the larger amount (Credit side) and place the difference on the smaller side (Debit side). Remembering our double entry rule which states for every debit we need a corresponding credit. We must now take our balancing amount of \$1400 and transfer it to the credit side of the Balance Sheet column. This difference of \$1400 represents our net income and when transferred to the credit side of the

Balance Sheet has the effect of increasing our capital. As you will remember income increases our capital and also causes the debits and credits on our Income Statement and Balance Sheet to be in balance.

CLOSING ENTRIES

The owner wants to know the results of his business for each business period, he also does not want to confuse the results for one period with those of another. It is necessary to develop a way of starting the INCOME and Expense Accounts for each period with a clean slate. This is accomplished by means of closing the books at the end of each period.

The process of closing the books is accomplished by transferring the balances of all income and Expense Accounts to a summary account called P & L Summary or Income and Expense Summary.

Closing the books can be accomplished by following these FOUR steps.

1. Transferring all Income Accounts to the P & L Summary.
2. Transferring all Expense Accounts to P & L Summary.
3. Transferring the P & L Summary Balance to the Drawing Account.
4. Transferring the balance of the Drawing Account to the Capital Account.

At the completion of the closing entries, which are recorded in the General Journal, the only Accounts which remain open are the Assets, Liabilities and the owners Capital Account.

At the completion of the closing entries an after closing trial balance or post-closing trial balance is prepared. This trial balance lists all Assets, Liabilities, and Capital Accounts. The total debits of the trial balance must be equal to the total credits of the Trial Balance.

On the following pages we have illustrated the journal entries necessary to close the books of the Webster Real Estate Company which was previously discussed in example problem number 4, Page 37. We have also taken the closing entries from the General Journal and have posted them to the General Ledger and thereafter prepared a post closing Trial Balance.

DATE	ACCOUNT	LF.	DEBIT	CREDIT
197X				
Oct. 30	Sales Commissions Earned	400	1880	
	P&L Summary	600		1880
30	P&L Summary	600	958	
	Advertising Expense	500		210
	Office Salaries Expense	501		700
	Telephone Expense	502		48
30	P&L Summary	600	922	
	J. Webster Drawing	300		922
30	J. Webster Drawing	300	322	
	J. Webster Capital	301		322

CLOSING ENTRIES

DATE		EXPLANATION	LF.	DEBIT	CREDIT	BALANCE
CASH						100
197X						
Oct.	1		GJ-1	5000		5000
	1		GJ-1		120	4880
	6		GJ-1	750		5630
	30		GJ-1		700	4930
	30		GJ-1		600	4330
ACCOUNTS RECEIVABLE						103
Date		Explanation	LF.	Debit	Credit	Balance
Oct.	20		GJ-1	1130		1130
ACCOUNTS PAYABLE						200
Date		Explanation	LF.	Debit	Credit	Balance
197X						
Oct.	16		GJ-1		90	90
	30		GJ-1		48	138
J. WEBSTER DRAWING						300
Date		Explanation	LF.	Debit	Credit	Balance
197X						
Oct.	30		GJ-1	600		600
	30		GJ-2		922	322
	30		GJ-2	322		0

J. WEBSTER, CAPITAL

301

DATE	EXPLANATION	LF.	DEBIT	CREDIT	BALANCE
197X					
Oct. 1		GJ-1		5000	5000
30		GJ-2		322	5322

SALES COMMISSIONS EARNED 400

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 6		GJ-1		750	750
20		GJ-1		1130	1880
30		GJ-2	1880		0

ADVERTISING EXPENSE 500

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 1		GJ-1	120		120
16		GJ-1	90		210
30		GJ-2		210	0

OFFICE SALARIES EXPENSE 501

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 30		GJ-1	700		700
30		GJ-2		700	0

TELEPHONE EXPENSE

502

DATE	EXPLANATION	LF.	DEBIT	CREDIT	BALANCE
197X					
Oct. 30		GJ-1	48		48
30		GJ-2		48	0

P&PSUMMARY

600

Date	Explanation	LF.	Debit	Credit	Balance
197X					
Oct. 30		GJ-2		1880	1880
30		GJ-2	958		922
30		GJ-2	922		0

J. WEBSTER REAL ESTATE CO.

POST-CLOSING TRIAL BALANCE

OCTOBER 30, 197X

Cash	\$4,330	
Accounts Receivable	1,130	
Accounts Payable		\$ 138
J. Webster, Capital		<u>5,322</u>
	<u>\$5,460</u>	<u>\$ 5,460</u>

VOUCHER SYSTEM

The VOUCHER SYSTEM is one method utilized in establishing control over the making of expenditures and the payment of liabilities. When we utilize the voucher system we have eliminated the need for the Purchases Journal and the Cash Disbursements Journal.

A voucher is prepared for each expenditure, regardless of whether the expenditure covers a service, an asset to be used by the business, or merchandise for resale. The liability, when utilizing the voucher system, must be recorded as soon as it is incurred.

EXAMPLE

A telephone bill is received on June 8 in the amount of \$50. This bill is paid on June 15th.

The recording of this transaction when utilizing special journals would be as follows.

CASH DISBURSEMENTS JOURNAL

June 15	Telephone Expense	50	
	Cash		50

VOUCHER SYSTEM

As soon as bill is received.

June 8	Telephone Expense	50	
	Vouchers Payable		50

VOUCHER SYSTEM - When voucher paid.

June 15	Voucher Payable	50	
	Cash		50

SPECIAL JOURNALS

TELEPHONE EXPENSE

50

CASH

50

VOUCHER SYSTEM

TELEPHONE EXPENSE

50

CASH

50

VOUCHER PAYABLE

50

50

You can see from the preceding example that the end result is exactly the same regardless of whether we utilize special Journals or the Voucher System.

VOUCHER JACKET

Since invoices are normally received from creditors in many different sizes it is common for a company to prepare a voucher jacket for maintaining all invoices relative to one particular transaction.

The voucher jacket is assigned a number and has blanks on both sides for information regarding the transaction.

When these blanks are filled in we know the accounts which are to be debited and credited as well as the initials of the individual authorized to record and approve the transactions.

The following is an example of a voucher jacket for the Westwood Corporation.

WESTWOOD CORPORATION
SAN DIEGO, CALIFORNIA

PAY TO..... VOUCHER NO.....
..... DATE.....
..... DATE DUE.....

DATE OF INVOICE.....GROSS AMOUNT \$.....
INVOICE NUMBER.....CASH DISCOUNT \$.....
NET DISCOUNT \$.....

APPROVAL

DATES

EXTENSIONS AND FOOTINGS VERIFIED
PRICES IN AGREEMENT WITH PURCHASE ORDER
QUANTITIES IN AGREEMENT WITH RECEIVING REPORT
CREDIT TERMS IN AGREEMENT WITH PURCHASE ORDER
ACCOUNT DISTRIBUTION & RECORDING APPROVED
(FOR ACCOUNTING DEPT)
APPROVED FOR PAYMENT
(FOR TREASURER'S DEPT)

1. A SEPARATE VOUCHER FOR EVERY INVOICE
2. CONSECUTIVE NUMBERING OF VOUCHERS
3. NAME AND ADDRESS OF CREDITOR LISTED ON VOUCHER
4. DESCRIPTION OF THE LIABILITY, INCLUDING AMOUNT AND TERMS
OF PAYMENT

Account Number _____

Account Distribution

Voucher No. _____

Date _____ Amount

Date _____

Purchases _____

Date Due _____

Transportation In _____

Repairs _____

Heat, Light, and Power _____

Payee _____

Advertising _____

Deliver Expense _____

Misc. General Expense _____

Telephone and Telegraph _____

Amount of Invoice _____

Sales Salaries _____

Cash Discount _____

Office Salaries _____

Net Amount _____

Paid by Check No. _____

Date of Check _____

Amount of Check _____

Credit Vouchers Payable
(Total) _____

Entered in Voucher
Register By _____

Accounting Distribution
By _____

- 5. Approval Signatures for
 - A. Verification of Invoice
 - B. Recording in Accounts
 - C. Payment of Liability

6. Date of Check and Check Number Listed on Voucher.

VOUCHER REGISTER

When utilizing special journals the purchases journal is used exclusively for entering purchases we have made from our suppliers on account. Other assets of the business were recorded in the Cash Disbursements Journal only when they were actually paid for.

When utilizing the Voucher System the methods of recording transactions are changed considerably. Under this voucher system, vouchers are prepared immediately for all purchases and expenses incurred and are immediately entered into the voucher register. When entered into the voucher register the appropriate account is debited and the liability is always Vouchers Payable. When the voucher is paid the liability (Voucher Payable) is decreased.

VOUCHER REGISTER

VOUCHER NO.	DATE	CREDITOR	PAYMENT		VOUC- HER PAYABLE CR	PUR- CHASES DR	TRANS- PORTA- TION IN, DR	ADVER- TISING DR	SUP- PLIES DR	RE- PAIRS DR	ACCRD- PAY- ROLL DR	OTHER GENERAL LEDGER ACCT.			
			DATE (19_)	CHECK NO.								ACCT. NAME	LP	DBT. CRD	
241	MAY	1	BLACK CO.	MAY 10	632	1,000	1,000								
242		2	MIDWEST FREIGHT		3 627	50		50							
243		4	AMES CO.		4 628	125				125					
244		5	1ST NATL. BANK		5 629	8,080							NOTES PAYABLE	24	8,000
													INTEREST EXP.	79	80
245		5	RATHCO, INC.		6 631	1,200	1,200								
246		5	MIDWEST FREIGHT		6 630	110		110							
286			O.K. SUPPLY			70				70					
287		30	J. JONES		30 665	210				210					
288			BLACK CO.			1,176	1,176								
289		31	MIDWEST FREIGHT		31 666	90		90							
290		31	PAYROLL		31 667	1,865					1,865				
						25,875	9,220	640	510	470	335	3,800			10,900
						(21)	(51)	(52)	(61)	(14)	(74)	(24)			(✓)

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CHECK REGISTER

The check register is nothing more than a simplified cash disbursements journal. A check is written, when using the voucher system, only after a voucher has been approved and recorded in the voucher register. At the point whereby the check is prepared a notation is made in the "Payment" Section of the Voucher Register. This is done by recording the date of the check as well as the check number, which was prepared for the payment of the voucher, in the payment column. This procedure allows the Voucher Register to reflect at all times the vouchers which remain unpaid.

In the general ledger the control account "Vouchers Payable" should reflect the difference between the debit balance of Vouchers Payable contained in the check register and the credit balance of Voucher Payable from the Voucher Register. The balance of the Vouchers Payable Control Account should be the total of the unpaid vouchers.

CHECK REGISTER

CHECK NO.	DATE (19__)	PAYEE	VOUCHER NO.	VOUCHERS PAYABLE, DR	PURCHASE DISCOUNT, CR	CASH CR
627	MAY 3	MIDWEST FREIGHT	242	50		50
628	4	AMES COMPANY	243	125		125
629	5	1ST NATIONAL BANK	244	8,080		8,080
630	6	MIDWEST FREIGHT	246	110		110
631	6	RATHCO, INC.	245	1,200		1,200
632	10	BLACK COMPANY	241	1,000	20	980
<hr/>						
665	30	J. JONES	287	210		210
666	31	MIDWEST FREIGHT	289	90		90
667	31	PAYROLL	290	1,865		1,865
				23,600	240	23,420
				(21)	(52)	(1)

MERCHANDISE INVENTORY

The MERCHANDISE INVENTORY is the amount of available merchandise you have to sell in the ordinary course of your business. A major objective of accounting for inventories is the matching of costs against revenues from the sale of merchandise, so that there may be a proper determination of the income which has been realized.

The inventory of merchandise on hand at any particular time may be determined by either a physical or a perpetual inventory. A PHYSICAL INVENTORY is an actual count of the merchandise which is on hand and available for resale. A PERPETUAL INVENTORY is a record showing a running count of the merchandise on hand and available. Generally a perpetual inventory is maintained throughout the period and a physical inventory is taken at the end of the period to determine the actual inventory. At this point the perpetual inventory is adjusted to reflect the actual count of merchandise on hand.

There are a number of methods generally used in determining the inventory cost.

Among these are First-in, First-out; Last-in-First-out; and Average cost.

FIRST-IN, FIRST-OUT (FIFO)

This method of inventory cost is based on the assumption that the first goods purchased are the first to be sold. An example of the FIFO method would be the sale

of perishable goods at a grocery store. The first goods purchased should be the first goods sold.

This method has the effect of giving a relatively high inventory valuation during a period of rising prices, and a relatively low valuation in a period of falling prices. We are selling the goods purchased or manufactured first leaving the goods (inventory) we purchased last as inventory. During a period of rising prices we are going to have a high inventory valuation since the merchandise on hand are the goods we purchased most recently at the highest price. Conversely during a period of declining prices the inventory valuation will be low since our most current prices will be declining.

LAST-IN, FIRST-OUT - (LIFO)

The goods most recently acquired or manufactured will be the goods issued or sold first. The inventory is priced at the earliest invoice price instead of the latest as in the FIFO method. The most current inventory is sold or issued therefore our inventory consists of the oldest goods. An example of the LIFO method could be the lumber on sale at a lumber yard. As additional inventory is received it is piled on top of the existing inventory, thus, the last-in will be the first sold.

AVERAGE COST

The inventory is recorded according to the average price paid during the period.

The following is an illustration of inventory priced according to each of the three previously described inventory methods. It should be noted that the method used is a costing concept. It is not necessary to actually move the goods in accordance with the selected application.

DATE	PURCHASES		ISSUANCES	COST OF UNITS SOLD	BALANCE
			<u>LIFO METHOD</u>		
1975 MARCH	1				150 UNITS @ 50¢ } \$75.00
	5		50 UNITS @ 50¢	\$25.00	100 UNITS @ 50¢ } \$50.00
	8	100 UNITS @ 60¢			200 UNITS 100 @ 50¢ } \$110.00
		\$60.00			100 @ 60¢ }
	11		50 UNITS @ 60¢	\$30.00	150 UNITS 100 @ 50¢ } \$80.00
					50 @ 60¢ }
			<u>FIFO METHOD</u>		
1975 MARCH	1				150 UNITS @ 50¢ } \$75.00
	5		50 UNITS @ 50¢	\$25.00	100 UNITS @ 50¢ } \$50.00
	8	100 UNITS @ 60¢			200 UNITS 100 @ 50¢ } \$110.00
		\$60.00			100 @ 60¢ }
	11		50 UNITS @ 50¢	\$25.00	150 UNITS 50 @ 50¢ } \$85.00
					100 @ 60¢ }
			<u>AVERAGE COST</u>		
1975 MARCH	1				150 UNITS @ 50¢ } \$75.00
	5		50 UNITS @ 50¢	\$25.00	100 UNITS @ 50¢ } \$50.00
	8	100 UNITS @ 60¢			200 UNITS @ 55¢ } \$110.00
		\$60.00			
	11		50 UNITS @ 55¢	\$27.50	150 UNITS @ 55¢ } \$82.50

TYPES OF BUSINESS ORGANIZATIONS

All of the previous discussion and examples have dealt with the operation of a business owned by one individual, typically we have three different types of business:

1. SOLE PROPRIETORSHIP

A business owned by one individual.

2. PARTNERSHIP

A business owned by two or more individuals.

3. CORPORATION

An artificial person, invisible, intangible, and existing only in contemplation of law.

PARTNERSHIP

As mentioned above a PARTNERSHIP is a business which is owned by two or more individuals. Since the partners generally pool their funds, knowledge, skills, efforts, and goodwill, they should be able to accomplish more by working together than they could if each worked individually.

The written agreement between the partners is referred to as THE ARTICLES OF CO-PARTNERSHIP and generally cover the following:

1. Name of Partnership
2. The names and addresses of the partners.
3. Type of business established.

4. Amount invested by each partner.
5. Provision for dividing profits.
6. Duties and Responsibilities of cash partner.
7. Duration of the partnership.

A partnership has a limited life and legally ceases to exist upon death of a partner, withdrawal of a partner, bankruptcy of a partner, agreement between the partners, judicial/deed, and illegal business activity.

There are three general types of partnerships:

1. GENERAL PARTNERSHIP

Each partner actively participate in the operation of the business and is fully liable for all its debts.

2. LIMITED PARTNERSHIP

A partnership in which some, but not all, of the partners have complied with the limited partnership act and have, as a result, limited their personal liability to the amounts which they have agreed to contribute as capital. The limited partner, if he has made contributions in accordance with the limited partnership act, cannot be called upon for further debts of the firm in the event the firm is unable to meet its obligations. The limited partner

may not act as an agent or participate in the management of the business. A limited partnership must have at least one general partner.

3. SPECIAL PARTNERSHIP

A partnership which is formed for one purpose and ceases to exist when that purpose has been accomplished.

The following are five types of partners who may be associated with a partnership.

1. GENERAL OR ACTIVE PARTNERS

Participate in the management of the business and are recognized as partners.

2. LIMITED PARTNERS

Partners whose liability is limited to the amount of their capital contributions. They do not actively participate in the management of the business.

3. NOMINAL PARTNERS

Partners who have limited or no financial interest in a firm but have permitted themselves to be identified as partners. As a result, when persons have relied on such representation, the nominal partners may become just as liable for the debts of the firm as are general partners.

4. SILENT PARTNERS

Partners who have a financial interest in the firm, but neither participate in its management nor are known to be partners.

5. SECRET PARTNERS

Partners who have a financial interest in the firm and actively participate in the management, but are not known to be partners.

Generally the only difference between the financial statements of a proprietorship and the financial statements of a partnership is located in the owners equity section of the Balance Sheet.

The following example illustrates the owners equity section of a Balance Sheet assuming both partners beginning capital balance was \$20,000 and a profit of \$17,000 was realized. Since there was no specific agreement as to how profits would be divided, they are split equally between the two partners.

CAPITAL SECTION OF BALANCE SHEET OF A PARTNERSHIP. PROFIT
FOR PERIOD IS \$17,000.

<u>CAPITAL</u>	
Benjamin Cahill, Capital (Beg. Bal.)	20,000.00
Share of Net Income for Period	\$8,500.00
Less: Withdrawals for Period	<u>5,000.00</u>
Net Increase to Capital	<u>3,500.00</u>
Benjamin Cahill, Capital (Ending Bal.)	\$23,500.00
Edward Jones, Capital (Beg. Bal.)	\$20,000.00
Share of Net Income for Period	8,500.00
Less: Withdrawals for Period	<u>3,850.30</u>
Increase to Capital	<u>4,649.70</u>
Edward Jones, Capital (Ending Bal.)	<u>24,649.70</u>
TOTAL CAPITAL	<u>\$48,149.70</u>

CORPORATION

A corporation is owned by the stockholders, but the stockholders do not normally participate in the management or operation of the business. The corporation is distinct from the people who own it, but it possesses all of the rights of a natural person except those obvious rights such as voting and marriage which only a living person may exercise.

We generally have two types of corporations.

1. PUBLIC CORPORATION

A corporation formed for a government purpose. Eg. utility companies, municipality, towns, state universities etc.

2. PRIVATE CORPORATION

A corporation formed for private benefit and for the eventual gain which may accrue to the stockholders.

A corporation is formed under the authority of a state, or as a result of state or Federal legislation. The corporation will generally make application to the secretary of state in the form of Articles of Incorporation, requesting authority to operate as a business entity. The Articles of Incorporation generally contain the following:

1. Name and principal place of business of the corporation.

2. The type of business activity to be conducted.
3. The expected life, in years, of the corporation.
4. Maximum numbers of shares of stock which may be issued.
5. The par or stated value of a share of stock.
6. The names and addresses of the incorporators of the corporation.
7. The names and addresses of the directors who will serve until their successors are chosen.
8. Additional information required by the state.

The following is an illustration of a corporate Balance Sheet.

THE MORRIS MFG. CO., INC.
BALANCE SHEET
DECEMBER 31, 19XX
ASSETS

Current Assets:	
Cash.....	\$ 17,400.00
Accounts Receivable.....	\$40,000.00
Less: Allowance for Bad Debts.....	<u>800.00</u>
Estimated Recovery Value.....	39,200.00
Inventory--Raw Materials.....	\$15,000.00
Inventory--Work-In-Process.....	32,000.00
Inventory--Finished Goods.....	<u>10,000.00</u>
Total Inventories.....	57,000.00
Prepaid Expenses.....	<u>1,500.00</u>
Total Current Assets.....	\$115,100.00
Fixed Assets:	
Machinery and Equipment.....	\$52,000.00
Less: Allowance for Depreciation.....	<u>22,000.00</u>
Depreciated Cost.....	\$30,000.00
Furniture and Fixtures.....	\$12,600.00
Less: Allowance for Depreciation.....	<u>5,000.00</u>
Depreciated Cost.....	<u>7,600.00</u>
Total Fixed Assets.....	37,600.00
Total Assets.....	<u>\$152,700.00</u>

LIABILITIES

Current Liabilities:	
Accounts Payable.....	\$46,500.00
Accrued Expenses Payable.....	2,400.00
Taxes Payable.....	3,500.00
Federal Income Tax Payable.....	<u>1,920.00</u>
Total Current Liabilities.....	\$ 54,320.00

STOCKHOLDERS' EQUITY

Capital Contributed for Shares:	
Capital Stock--\$100 Par Value:	
Authorized--1,000 Shares.....	\$100,000.00
Unissued--- 250 Shares.....	<u>25,000.00</u>
Issued--- 750 Shares.....	75,000.00
Retained Earnings (Schedule A-1).....	<u>23,380.00</u>
Total Stockholders' Equity.....	98,380.00
Total Liabilities And Stockholders' Equity.....	<u>\$152,700.00</u>

THE MORRIS MFG. CO., INC.
SCHEDULE A-1
RETAINED EARNINGS
DECEMBER 31, 19XX

Balance -- January 1, 19XX.....	\$18,900.00
Net Income for 19XX.....	4,480.00
Total--December 31, 19XX.....	<u>\$23,380.00</u>

Glossary

ACCOUNT: Record of day-to-day changes in items that appear on the balance sheet or income statement. See also T-Account.

ACCOUNT, NOMINAL: Temporary account for an item appearing on an income statement and closed to a balance sheet account at the end of an accounting period.

ACCOUNT, REAL: Account for an item appearing on a balance sheet; distinguished from nominal account.

ACCOUNT PAYABLE: An obligation to pay an amount to a creditor.

ACCOUNT RECEIVABLE: An amount that is owed to the business, usually by one of its customers, as a result of the ordinary extension of credit.

ACCOUNTING, COST: The process of collecting material, labor, and overhead costs and attaching them to products.

ACCOUNTING PERIOD: The period of time over which an income statement summarizes the changes in the owners' equity.

ACCRUAL CONCEPT: Net income is measured as the difference between revenues and expenses rather than between cash receipts and expenditures.

ASSET: Property or property right owned by the business which is valuable either because it will be converted into cash or because it is expected to benefit future operations and which was acquired at a measurable cost.

ASSET, CURRENT: An asset which is either currently in the form of cash or is expected to be converted into cash within a short period, usually one year.

ASSET, FIXED: Tangible property of relatively long life that generally is used in the production of goods and services.

BALANCE, BEGINNING: The amount in an account at the start of the accounting period.

BALANCE, NEW: The amount in an account at the end of the accounting period; the difference between the beginning balance plus the increases minus the decreases. The amount reported on the next balance sheet.

BALANCE SHEET: A financial statement that reports the assets and equities of a company as of a specified time.

BALANCE SHEET, CONSOLIDATED: Aggregate accounts for the various categories of assets and liabilities of a corporate family.

BANK RECONCILIATION: A comparison of the customer's records with the records of the bank.

CAPITAL EXPENDITURE: Payment for an asset.

CORPORATION: An artificial being, or business entity, which is legally separate from the persons who own it.

CR: Abbreviation of Credit.

CREDIT ENTRY: An entry on the right-hand side of an account. The record of a decrease in any asset account. The record of an increase in an equity account.

CREDITOR: One who lends money.

DEBIT ENTRY: A left-hand entry. The record of an increase in any asset account. The record of a decrease in an equity account.

DEBT: Current and noncurrent liabilities; i. e., equities of creditors.

DEPRECIATION: Portions of the cost of an asset charged off to expenses according to a predetermined plan; includes obsolescence.

DISCOUNT: Amount by which the face value of a financial instrument exceeds the sales price.

DIVIDEND: Portion of profits distributed to stockholders.

DIVIDEND, STOCK: Dividend paid in the form of shares of stock in the issuing corporation.

DOUBLE-ENTRY ACCOUNTING: The usual type of accounting in which two aspects of each event are recorded.

DR: Abbreviation of Debit.

ENTRY, CLOSING: One step in transferring the balance of an account to another account; an entry reducing one account to zero and offset by an entry increasing another account by the same amount.

ENTRY, LEFT-HAND: See Debit Entry.

ENTRY, RIGHT-HAND: See Credit Entry.

EQUITIES, OWNERS': Claims against assets by owners.

EXPENSE: A decrease in owners' equity resulting from the operation of the business.

EXPENSE, ACCRUED: A liability account arising from expenses that are incurred prior to the related expenditure; example, accrued wages.

EXPENSE, PREPAID: An expense recognized after a relevant expenditure; an expense for future benefits.

FIFO: The first-in-first-out method of inventory valuation, which assumes that the goods that enter inventory first are the first to be sold.

FISCAL YEAR: An accounting period of one year not starting on January 1, and ending December 31,

GOODWILL: An intangible asset representing the difference between the purchase price and the value of the tangible assets purchased.

INCOME, NET: Excess of total revenues over total expenses in a given period. See also Accrual Concept.

INCOME STATEMENT: An accounting report of the extent to which the owners' equity has increased or decreased during a given period of time, and the specific factors responsible for the change; a statement of revenues and expenses for a given period.

INTEREST: Charge for the use of money.

INVENTORY: Goods being held for sale, and material and partly finished products which upon completion will be sold.

INVENTORY, PERPETUAL: Record of the cost of each individual item.

INVOICE: Bill for goods delivered, or services rendered.

JOURNAL: Book of original entry; a chronological listing of transactions.

LEDGER: A group of accounts.

LIABILITY: The equity of a creditor.

LIABILITY, CURRENT: Obligation that becomes due within a short time, usually one year.

LIFO: The last-in-first-out method of inventory valuation which assumes that the goods that enter inventory last are the first to be sold.

LIQUIDITY: Ability to meet current obligations.

LOSS, NET: Excess of total expenses over total revenues in a given period.

NET WORTH: The excess of asset value over creditor claims;
Assets — Liabilities = Net Worth (Equity).

NOTE: A written promise to pay.

NOTE RECEIVABLE: A debt that is evidenced by a note or other written acknowledgment.

PAR VALUE: A specified amount printed on the face of a stock certificate; not to be confused with market value.

PARTNER: One of the owners of an unincorporated business.

PETTY CASH FUND: Established for a small payment (postage, etc.) to avoid writing checks for small amounts; fund should contain cash and receipts for money spent.

PHYSICAL INVENTORY, TAKING OF: Counting all merchandise on hand, usually at the end of an accounting period.

POSTING: Transfer of an entry from the journal to a ledger account.

PROFIT AND LOSS ACCOUNT: A temporary account to which are transferred revenue and expense accounts at the end of an accounting period.

PROFIT, GROSS: Sales minus cost of goods sold.

PROPRIETOR: The owner of an unincorporated business.

REVENUE: An increase in owners' equity arising from operations.

STATED VALUE: A specified amount usually set near the amount the corporation actually receives from the sale of stock; the amount at which stock is recorded on the balance sheet.

STOCK, AUTHORIZED: The number of share authorized by directors, for issuance to investors.

STOCK, ISSUED: The number of shares of stock actually sold or distributed by a corporation.

STOCK, OUTSTANDING: Issued stock less treasury stock.

STOCK, PREFERRED: A class of stock entitled to preferential treatment with regard to dividends or with regard to the distribution of assets in the event of liquidation.

STOCK CERTIFICATE: A document evidencing ownership in a corporation.

STOCK SPLIT: An exchange of the shares outstanding for two or more times their number.

STOCKHOLDER: An owner of an incorporated business, the ownership being evidenced by stock certificates.

SURPLUS, CAPITAL: An increase in owners' equity not generated through the company's earnings.

T-ACCOUNT: Form for recording increases and decreases on either side of vertical line, with account title on the top. See also Account.

TRANSACTION: Each business event that is recorded in the accounting records.

VOUCHER SYSTEM: A control system within a company for cash payment.

WORK SHEET: Prepared by an accountant as a way of organizing accounting data.

FRAUD PROBLEM #1

On pages 83 through 106 we have a complete set of books of the XYZ Company. You have been contacted by William Padgett, president of the XYZ Company who advised you that his company appears to be doing well but the profit for the XYZ Company has been decreasing each month.

Mr. Padgett advised that he has an accountant, Robert Williams, who is responsible for handling all of the accounting as well as making all deposits of cash. Mr. Padgett advised that he is of the impression that Williams is living beyond his means and may possibly be embezzling from the XYZ Company.

Mr. Padgett provided all the books and records of the XYZ Company for the month of March.

CONTINUED

1 OF 2

X.Y.Z. Company

Purchases Journal

PJ-2

DATE		Account Credited	LF.			Amount
1975						
1	MAR. 4	J. Brown	-			1400-
2	10	R. Doyle	-			2700-
3	21	P. Joseph	-			1280-
4	31	E Long	-			1790-
5						<u>7170-</u>
6						(500/201)
7						
8						
9						
10						
11						
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XYZ COMPANY

CASH DISBURSEMENTS JOURNAL

CO-2

DATE EXPLANATION
1975

MAR 3 RENT FOR MARCH
5 PURCHASED MERCHANDISE
7 PURCHASED EQUIPMENT
10 PAID ADVERTISING
18 INVOICE (2/12/75) IN FULL
25 PAID SALARIES
31 INVOICE (3/10/75) IN FULL
TOTALS

CHECK NO.	CASH	PURCHASE DISCOUNTS	NAME	OTHER ACCOUNTS L.F.	AMOUNT
101	250.-				
102	1250.-				
103	5000.-				
104	250.-				
105	400.-				
106	600.-				
107	2700.-				
	10450.-	0.-			
	(100)	(10)			

ACCOUNT DEBITED	ACCOUNTS PAYABLE	PURCHASES	OTHER ACCOUNTS L.F.	AMOUNT
RENT			600-	250.-
EQUIPMENT		1250.-	105	5000.-
ADVERT. EXP.			601-	250.-
K. SMITH	400.-		✓	
SALARIES			602-	600.-
R. DOYLE	2700.-		✓	
	3100.-	1250.-		6100.-
	(200)	(500)		(10)

XYZ Company
CASH RECEIPTS JOURNAL

DATE EXPLANATION

1975

DATE EXPLANATION	CASH	SALES DISCOUNTS	DEBITS NAME	OTHER ACCOUNTS L.F.	AMOUNT
MAR 3 CASH SALE	3,000.-				
6 SALE OF EQUIPMENT	4,000.-				
10 INVOICE OF 3/7 LESS 3% (IN FULL)	1,372.-	28.-			
19 COLLECTION OF NOTE - NO INTEREST	6,000.-				
19 CASH SALE	4,200.-				
26 CASH SALE	2,700.-				
27 INVOICE OF 3/17 (IN FULL)	1,000.-				
28 INVOICE OF 3/3 (IN FULL)	400.-				
Total	<u>22,472.-</u>	<u>28.-</u>			
	(100)	(400)			

ACCOUNT CREDITED	ACCOUNTS RECEIVABLE	SALES	OTHER L.F.	CR-3 ACCOUNTS AMOUNT
		3,000.-		
EQUIPMENT			105	4,000.-
T. BAKER	1,400.-		✓	
NOTE REC.		4,200.00	101	6,000.-
		2,700.00		
D. ALBERT	1,000.-		✓	1,000.-
R. CHILDS	400.-		✓	
	<u>2,800.-</u>	<u>9,700.-</u>		<u>12,000.-</u>
	(100)	(400)		(✓)

1-98-

X.Y.Z. Company
GENERAL Ledger

CASH							100
DATE	Explanation	L.F.		Debit	Credit		BAL.
1925							
MAR. 1	BAL.	✓					11000 -
31		CR-3		22472 -			33472 -
31		CD.			10450 -		23022 -
NOTES RECEIVABLE							
101							
BAL							
MAR. 1	BAL.	✓					6000 -
31		CR-3			6000 -		- 0 -
MERCHANDISE INVENTORY							
102							
BAL							
MAR. 1	BAL.	✓					12000 -
ACCOUNTS RECEIVABLE							
103							
BAL.							
MAR. 1	BAL.	✓					21700 -
31		CR-3			2800 -		18900 -
31		SJ-3		6900 -			25800 -

1 2 3 4 5 6

PREPAID INSURANCE 104

Date	Explanation	L.F.	Debit	Credit	Bal.
MAR 1	Bal.	✓			1080 -

Equipment 105

Date	Explanation	L.F.	Debit	Credit	Bal.
MAR 1	Bal	✓			6000 -
6		CR-3		4000 -	5600 -
7		CD-2	5000 -		6100 -

ACCUMULATED DEPRECIATION - EQUIPMENT 106

Date	Explanation	L.F.	Debit	Credit	Bal.
MAR 1	Bal	✓			8000 -

BUILDING 107

Date	Explanation	L.F.	Debit	Credit	Bal.
MAR 1	Bal.	✓			49000 -

ACCUMULATED DEPRECIATION - BUILDING

109

Date	Explanation	L.F.		Debit	Credit		BAL.
1925							
MAR 1	BAL	✓					16000-

NOTES PAYABLE

200

Date	Explanation	L.F.		Debit	Credit		BAL.
MAR 1	BAL	✓					16000-

ACCOUNTS PAYABLE

201

Date	Explanation	L.F.		Debit	Credit		BAL.
MAR 1		✓					21200-
31		CD-2		3100-			18100-
31		PJ-2			7170-		25270-

		1	2	3	4	5	6	
SALES							400	
1	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
2	MAR 31		CR-3		9700-		9700-	
3	31		ST-3		6900-		16600-	
4								
5								
6								
7								
8								
9								
10	SALES DISCOUNTS							401
11	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
12	MAR 31		CR-3	28-			28-	
13								
14								
15								
16								
17								
18	PURCHASES							500
19	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
20	MAR 31		CD-2	1250-			1250-	
21	31		BT-2	7170-			8420-	
22								
23								
24								
25	RENT EXPENSE							600
26	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
27	MAR 3		CD-2	250-			250-	
28								
29								
30	ADVERTISING EXPENSE							601
31	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
32	MAR 10		CD-2	250-			250-	
33								
34								
35	SALARIES EXPENSE							602
36	<u>DATE</u>	<u>Explanation</u>	<u>L.F.</u>	<u>Debit</u>	<u>Credit</u>		<u>Bal.</u>	
37	MAR 25		CD-2	600-			600-	
38								
39								
40								

Subsidiary Ledger
Accounts Receivable

D. Albert

Date	Explanation	L.F.	Debit	CREDIT	BAL.
1 15					
1 Jan 3		SJ-1	1500-		1500-
2 12		CR-1		1500-	-0-
3 15		SJ-1	600-		600-
4 Feb 4		CR-1		300-	300-
5 16		CR-2		300-	-0-
6 18		SJ-2	1500-		1500-
7 29		SJ-2	1800-		3300-
8 Mar 17		SJ-3	1000-		4300-
9 24		SJ-3	1425-		5725-
10 27		CR-3		1000-	4725-
11					
12					
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14					
15					
16					
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L. Edwards

Date	Explanation			L.F.	Debit	Credit	Balance
1925							
Feb. 10				SJ-2	1000-		1000-
12				SJ-2	1500-		2500-
15				CR-2		2500-	-0-
MAR. 12				SJ-3	1250-		1250-
6							
7							
8							
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SUBSIDIARY LEDGERS - Account Payable
J. Brown

DATE	EXPLANATION	1	2	3	4	5	6
				LF	DEBIT	CREDIT	BALANCE
1979							
1 JAN 10				PJ-1		1200 -	1200 -
2 JAN 15				CD-1	1200 -		-0 -
FEB 9				PJ-1		800 -	800 -
4 27				CD-1	800 -		-0 -
5 MAR 4				PJ-2		1400 -	1400 -
6							
7							
8							
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X.Y.Z. Company
Balance Sheet
MARCH 31, 1975

	<u>Current Assets</u>				
1	Cash		\$23022-		
2	Merchandise Inventory		9420-		
3	Accounts Receivable		25800-		
4	Prepaid Insurance		1080-		
5	<u>TOTAL Current Assets</u>			\$59322-	
6	<u>Fixed Assets</u>				
7	Equipment		\$61000-		
8	Less Accumulated Depreciation		8000-	\$53000-	
9	Building		49000-		
10	Less Accumulated Depreciation		16000-	\$33000-	
11	<u>TOTAL Assets</u>				\$145322-
12	<u>Liabilities</u>				
13	Notes Payable		\$16000-		
14	Accounts Payable		25270-		
15	Accrued Expenses Payable		3800-		
16	<u>TOTAL Liabilities</u>			\$45070-	
17	<u>CAPITAL</u>				
18	T. Richardson, Cap 3-1-75		\$95750-		
19	Net Income for March		4472-		
20	<u>T. Richardson, Capital 3-31-75</u>			\$100222-	
21	<u>TOTAL Liabilities and Capital</u>				\$145322-
22					
23					
24					
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X.Y.Z. Company
Income Statement
 For the month ended MARCH 31, 1925

1	Sales			\$16600-	
2	less: Sales Discounts			<u>28-</u>	
3	NET SALES				\$16572-
4	Cost of Goods Sold				
5	Merchandise Inventory 3-1-25		\$12000-		
6	PURCHASES		<u>8420-</u>		
7	Goods Available for Sale		20420-		
8	less Merchandise Inventory 3-31-25		<u>9420-</u>		
9	Cost of Goods Sold				\$11000-
10	Gross Profit on Sales				\$5572-
11	Expenses				
12	Rent Expense			250-	
13	Advertising Expense			<u>250-</u>	
14	SALARIES Expense			<u>600-</u>	
15	TOTAL Expenses				\$1100-
16	NET INCOME				<u>\$4472-</u>

FRAUD PROBLEM #2

The investigators will be given the background of this case by the instructor.

LESSEE A. Suspect		
TYPE NAMES OF ALL LESSEES		
DEPUTY		
TYPE NAMES OF ALL DEPUTIES		
INTRODUCTIONS, AFFILIATIONS		
REMARKS, ETC.		
	Columbus	/s/ A. Suspect
	PASSWORD	LESSEE
	PASSWORD	LESSEE
	PASSWORD	LESSEE
	PASSWORD	DEPUTY
	PASSWORD	DEPUTY

BILLING DATE	6/15
DATE RENTED	6/15/XX
RENTAL	\$10.50
CHARGE ACCT.	

NO.	234	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

IDENTIFICATION

NAME A. Suspect	NAME Springfield	NAME
RESIDENCE 1000 Main St. Virginia	RESIDENCE	RESIDENCE
PHONE 411-3564	PHONE	PHONE
FIRM Win, Place & Show	FIRM	FIRM
ADDRESS Fairfax, Va.	ADDRESS	ADDRESS
PHONE 249-1939	PHONE	PHONE
MOTHER'S MAIDEN NAME Amy Browne	MOTHER'S MAIDEN NAME	MOTHER'S MAIDEN NAME
COLOR OF HAIR Brown	COLOR OF HAIR	COLOR OF HAIR
COLOR OF EYES Blue	COLOR OF EYES	COLOR OF EYES
HEIGHT 5'	HEIGHT	HEIGHT
WEIGHT 190	WEIGHT	WEIGHT
REMARKS DOB 5/24/34	REMARKS	REMARKS

Soc. Sec. # 211-17-3941



Record of Safe Deposit Box Entrance

BOX

ACCOMPANYING
PERSONS

BOOTH NO.

SIGNATURE OF BOX RENTOR

/s/ A. Suspect

PASSWORD
Columbia

BOOTH EXAMINED BY RKM ATTENDANT

BOX NO. 234

NAME OF LESSEE A. Suspect

RECORD OF VISITS -- SAFE DEPOSIT

CAT. NO. 1-1314

DATE	TIME	BY	REASON	INITIALS	REMARKS
6/15/73	AS				
9/17/73	AS				
1/8/74	AS				
4/7/74	AS				
6/3/74	AS				
6/10/74	AS				
7/12/74	AS				



northern virginia bank

STATEMENT

A. Suspect
1000 Main St
Springfield, Va

ACCOUNT
NUMBER 123-456-7

STATEMENT
DATE June 24, 1974

BALANCE LAST STATEMENT	TOTAL AMOUNT CHECKS	No. Checks	No. De- posits	TOTAL AMOUNT DEPOSITS	BALANCE THIS STATEMENT
1,201.50	25,972.18	11	2	26,000.00	1,229.32

CHECKS		DEPOSITS	DATE	BALANCE
		Balance	5-24	1,201.50
200.00	27.50		5-25	974.00
58.00		1,000.00	5-28	1,916.00
94.50	10.00		6-02	1,811.50
223.52			6-05	1,587.98
312.07	14.50		6-08	1,261.41
14.79		25,000.00	6-10	26,246.62
25,000.00			6-15	1,246.62
17.30			6-20	1,229.32

PLEASE COMPARE WITH YOUR RECORDS AND REPORT ANY DIFFERENCE PROMPTLY

179-432-8
ACCOUNT NUMBER

FEDERAL RESERVE BANK

12-31-73
DATE OF THIS STATEMENT

A SUSPECT
1000 MAIN STREET
SPRINGFIELD, VIRGINIA

DEBITS		CREDITS		DATE			BALANCE
		BALANCE FORWARD		11	30	73	7159.78
149.10				12	1	73	7010.68
37.60	29.40			12	4	73	6943.68
174.00		200.00		12	8	73	6969.68
19.26				12	10	73	6950.42
407.19				12	15	73	6543.23
17.18				12	16	73	6526.05
86.50				12	19	73	6439.55
		155.10		12	20	73	6594.65
110.15				12	22	73	6484.50
32.60	156.80			12	24	73	6295.10
130.60				12	26	73	6164.50
164.50				12	30	73	6000.00

CC CERTIFICATES OF DEPOSIT
CD OVERDRAWN
ENR ENR
FD FEDERAL DEPOSIT INSURANCE CORPORATION
FT FEDERAL TRUST
GSA GOVERNMENT SERVICE ACCOUNTS
LCA LIFE SAVINGS ACCOUNTS
MCA MONEY MARKET ACCOUNTS
NCA NATIONAL CHECK CLEARING
OCD OVERDRAFTS
PDC PAYROLL DEPOSIT
RCD RETIREMENT
SCC SERVICE CHARGES
STC STATEMENT

NO. OF DEBITS

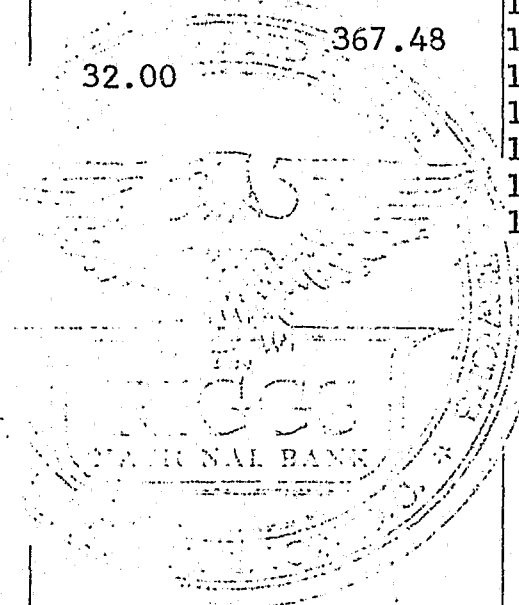
179-432-8
ACCOUNT NUMBER

TRICCS NATIONAL BANK
OF WASHINGTON, D. C.

12-31-74
DATE OF THIS STATEMENT

A SUSPECT
1000 MAIN STREET
SPRINGFIELD, VIRGINIA

DEBITS		DEPOSITS		DATE		AMOUNT
		BALANCE FORWARD		12	1	74 2508.44
32.00	26.05			12	3	74 2450.39
6.07				12	4	74 2444.32
25.00	20.00			12	5	74 2399.32
225.00				12	8	74 2174.32
15.00	130.10			12	10	74 2029.22
7.51				12	12	74 2021.71
276.03				12	15	74 1745.68
		367.48		12	19	74 2113.16
18.75	32.00			12	20	74 2062.81
25.80				12	21	74 2037.01
15.00				12	22	74 2022.01
10.00				12	26	74 2012.01
12.01				12	29	74 2000.00



KEY:
 CD CASH DEPOSIT
 CR CASH CREDIT
 DD DEPOSIT
 DR DEBIT
 DT DEPOSIT
 SC SERVICE CHARGE FOR PREVIOUS STATEMENT PERIOD
 OD OVERDRAWN
 PD PAID BY DEBIT
 PE PAID BY CREDIT
 ST STOP CHECK
 TR TRANSFER
 NO. OF DEBITS

DEPOSIT TICKET

DEPOSITED IN

THE NORTHERN VIRGINIA BANK
Springfield, Virginia

SUBJECT TO CONDITIONS AS PRINTED ON THE REVERSE SIDE OF THIS TICKET

NAME A. Suspect

ADDRESS Springfield, Va.

DATE June 10 19 74

ACCOUNT NUMBER



1 2 3 - 4 5 6 - 7

CASH	DOLLARS	CENTS
	25.000	
LIST CHECK BY BANK NUMBER		
TOTAL \$		


A. Suspect
Springfield, Va.

68-750/580

DATE June 15 19 74

PAY TO THE ORDER OF CASH \$ 25,000.00

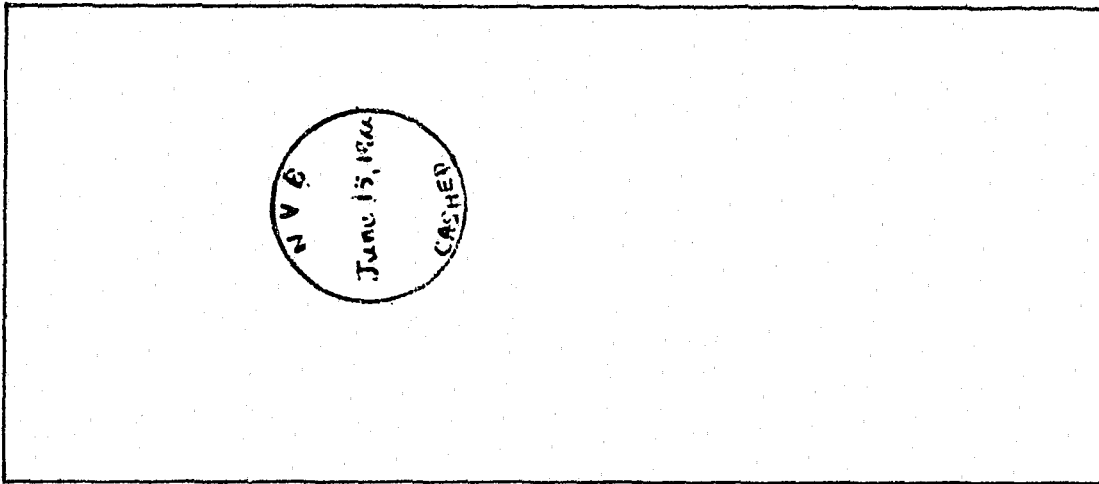
Twenty five thousand and -----no/100 DOLLARS

 **northern virginia bank**
SPRINGFIELD, VIRGINIA

FOR _____ /s/ A. Suspect

⑆0560⑉0750⑆

P-5 THE FINANCIAL CO.



For Deposit Only
National Bank of Washington
Bache & Co.

Nat'l Bank
of
Washington
15-7
June 23, 19xx

The Northern
Virginia Bank
68-750
June 24, 19xx



northern virginia bank
SPRINGFIELD, VIRGINIA 22150

59197

PAY TO THE
ORDER OF Cash

SPECIMEN

\$5,000.00

June 16 1974 68-750
560

Five Thousand

SPECIMEN

NOT NEGOTIABLE

no/100

DOLLARS

CASHIER'S CHECK

/s/

, Cashier

ARTIST'S DISCOUNT

@:0560m0750i: 009 697m0j*

for Deposit Only
National Bank of Washington
Bache & Company.

National Bank
of
Washington
15.7
June 25, 19xx

The Northern
Virginia Bank
68-750
June 26, 19xx

ORDER OF CASH

NOT NEGOTIABLE

SPRINGFIELD, VIRGINIA 22150

northern virginia bank

1 - 59198

June 16 19 74 ⁵⁸⁻⁷⁵⁰/₅₆₀

\$10,000.00

PAY TO THE ORDER OF Cash

Ten thousand --- SPECIMEN --- no/100 DOLLARS :

CASHIER'S CHECK

/s/, Cashier

AUTHORIZED SIGNATURE

⑆0560⑉0750⑆ 009 697⑉0⑆

For Deposit Only
National Bank of Washington
Bache & Co.

National Bank
of
Washington
15.7
June 27, 19xx

The Northern
Virginia Bank
68-750
June 30, 19xx



northern Virginia Bank
SPRINGFIELD, VIRGINIA 22150

1- 59199

June 16 1974 ³⁰⁻⁷⁵⁰₅₆₀

PAY TO THE
ORDER OF Cash

SPECIMEN

\$ 10,000.00

Ten Thousand

SPECIMEN

NOT NEGOTIABLE

no/100

DOLLARS

CASHIER'S CHECK

/s/, Cashier

Signature required

⑆0560⑉0750⑆

009 697⑉0⑆

PERIOD ENDING

December 31, 1974

A. Suspect
Springfield, Va.

YOUR ACCOUNT NUMBER

2345678

STATEMENT OF YOUR SECURITY ACCOUNT WITH

BACHE & CO
Founded 1879

MEMBER NEW YORK STOCK EXCHANGE AMERICAN STOCK EXCHANGE
MEMBER FINANCIAL RISK MANAGEMENT AND OTHER LEADING STOCK AND BOND EXCHANGES

30 WALL ST. • NEW YORK 5.

KINDLY MENTION YOUR ACCOUNT NUMBER WHEN REFERRING TO THIS STATEMENT OR OTHER TRANSACTIONS.

TYPE OF CUNT	DATE	QUANTITY BOUGHT OR RECEIVED	QUANTITY SOLD OR DELIVERED	DESCRIPTION	PRICE OR SYMBOL	AMOUNT DEBITED (CHARGED) TO YOUR ACCOUNT	AMOUNT CREDITED TO YOUR ACCOUNT	BALANCE (BY TYPE OF ACC.)
	6 19	100		ABC Corporation	100	10,000.00		10,000.00
	6 19			Check			10,000.00	-0-
	6 20	100		ABC Corporation	100	10,000.00		10,000.00
	6 20			Check			10,000.00	-0-
	6 22	200		DEF Corporation	25	5,000.00		5,000.00
	6 22			Check			5,000.00	-0-
	9 20			ABC Corporation @ \$1.00	Div.		200.00	200.00
	11 10			DEF Corporation @ \$0.25	DIV		50.00	250.00
				Position:				
				200 Shares ABC Corporation				
				200 Shares DEF Corporation				

- 119 -

KINDLY DIRECT INQUIRIES CONCERNING THIS STATEMENT TO THE BACHE OFFICE WHICH SERVICES YOUR ACCOUNT. SEE REVERSE SIDE FOR ADDRESS AND TELEPHONE NUMBER.

LEDGER

FOR DESCRIPTION OF TYPE OF ACCOUNT AND EXPLANATION OF SYMBOLS USED, SEE REVERSE SIDE.

INDIVIDUAL SAVINGS ACCOUNT

The undersigned hereby agrees to the conditions printed on the reverse side of this card.

Sign here — Mr. Q Suspect
 → Mrs. Q Suspect
 Miss

I am a Citizen of U.S.A.

Mailing address 1000 Main St. Springfield, Va. Zip Code 22312

Employment (firm name or Gov't Agency) Win. Place & Show

Occupation Self-employed

Office Phone 249-1939 Home Phone 411-3564

Date of birth 5/24/34 Mother's Maiden Name AMY BROWN

Bank reference K. Smith

Social Security Number 211-17-3941

Branch Form S-42 Date Opened 9/6/72 Account Opened by (Over) M. Jones Initial Deposit \$ 500.00

Depositor's Contract

In making deposits the depositor agrees with The Riggs Bank of Washington, Washington, D. C., that items received for deposit or collection are accepted on the following terms and conditions: This bank acts only as depositor's collecting agent and assumes no responsibility beyond its exercise of due care. All items are credited subject to final payment and to receipt of proceeds of final payment in cash or solvent credits by this bank at its own office. This bank may forward items to correspondents and shall not be liable for default or negligence of correspondents selected with due care nor for losses in transit, and each correspondent shall not be liable except for its own negligence. Items and their proceeds may be handled by any Federal Reserve Bank in accordance with applicable Federal Reserve rules, and by this bank or any correspondent, in accordance with any common bank usage, with any practice or procedure that a Federal Reserve Bank may use or permit another bank to use, or with any other lawful means. This bank may charge back at any time, any item drawn on this bank if, within the bank's normal handling period for such item, it is not to be honored against the drawer's account. An item received after this bank's regular afternoon closing hour shall be deemed received the next business day.

When items are sorted and posted electronically, the bank assumes no responsibility for damage or delay due to the depositor's failure to use properly coded checks, drafts or other instruments issued by the bank, or due to the use of such checks or other instruments by another with the depositor's knowledge.

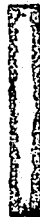
The depositor has read the rules and regulations of the Savings Department now in effect and agrees thereto. Notice of any amendments to these rules will be given by posting same in the lobby of the bank.

Accounts on which no deposits or withdrawals have been made for three years may be placed in the inactive ledger, and inactive accounts with balances of less than \$10.00 will be subject to a service charge of \$1.00 per annum, not to exceed any remaining balance.

The **RIGGS NATIONAL BANK**
of WASHINGTON, D. C.

STATEMENT OF SAVINGS

PLEASE READ INSTRUCTIONS
ON BACK



A. Suspect
Springfield, Va.

ACCT. NO.
SA7-12457

SOC. SEC. NO.
211-17-3941

CLOSE OF BUSINESS
12-31-73

DATE	DEPOSITS	WITHDRAWALS	BALANCE
		BALANCE FORWARD	\$4,550.00
10-1-73			
11-1-73	\$400.00		4,950.00
12-10-73	50.00		5,000.00

F 1161
REV. 2-69

INTEREST - YEAR TO DATE
\$185.00

INTEREST PAID THIS QTR.
\$50.00

\$5,000.00

The **RIGGS NATIONAL BANK**
of WASHINGTON, D. C.

STATEMENT OF SAVINGS

PLEASE READ INSTRUCTIONS
ON BACK

A. Suspect
Springfield, Va.

ACCT. NO.
S87-12457

SOC. SEC. NO.
211-17-3941

CLOSE OF BUSINESS
12-31-74

DATE	DEPOSITS	WITHDRAWALS	BALANCE
10-1-74			\$8,000.00
11-15-74	\$375.00		8,375.00
12-11-74	125.00		8,500.00
		BALANCE FORWARD	

INTEREST - YEAR TO DATE
\$375.00

INTEREST PAID THIS QTR.
\$125.00

\$8,500.00

CAR INVOICE



LINDSAY CADILLAC COMPANY
 1525 KENWOOD AVENUE PHONE 643-0320
 ALEXANDRIA, VA. 22302

00483

DATE <u>10/30/73</u> SOLD TO A. Suspect Springfield SALESMAN _____ TELEPHONE _____	DESCRIPTION OF MOTOR VEHICLE MAKE Buick YEAR 1973 MOTOR NUMBER BS 246357 SERIAL NUMBER LE 479137 MODEL 12-12 BODY STYLE 2 Dr. IGN. KEY 12345 TRUNK KEY 34567 NEW OR USED New CAR GRADED 1965 Rambler	TERMS OF TIME CONTRACT FINANCE COMPANY Riggs National Bank PAYMENTS OF \$ 250.00 EACH PAYABLE ON THE 4th DAY OF EACH MONTH BEGINNING Nov. 4, 1973 SUMMARY OF INSURANCE COVERAGE FIRE \$ TERM THEFT \$ TERM COMPREHENSIVE \$ TERM COLLISION-UPSET \$ TERM P.D. & P.L. \$ TERM COMPANY - BUREAU - AGENT George Prince Company
--	---	---

OPTIONAL EQUIPMENT AND ACCESSORIES

DESCRIPTION	PRICE
BASIC PRICES OF CAR TRANSPORTATION OPTIONAL EQUIPMENT AND ACCESSORIES	
ALL OTHER CHARGES TITLE OR SALES TAX \$..... PERSONAL PROPERTY TAX INSPECTION FEE REGISTRATION FEE CERTIFICATE OF TITLE LICENSE AND RECORDING FEES OTHER (SPECIFY)	
CASH SALE PRICE	\$6,000.00
DEPOSIT	
CASH ON DELIVERY	
TRADE-IN ALLOWANCE	\$1,000.00
TOTAL CASH PRICE BALANCE	
TOTAL COST OF FINANCING	
CREDITOR'S LIFE INSURANCE	
AMOUNT OF FINANCE CHARGE	
TOTAL TIME PRICE BALANCE DUE FROM THE PURCHASER	\$5,000.00

NO LIABILITY INSURANCE INCLUDED

CAR INVOICE



LINDSAY CADILLAC COMPANY

1525 KENWOOD AVENUE PHONE 693-9350
ALEXANDRIA, VA. 22302

06487

DATE 7/10/74 SOLD TO A. Suspect Springfield	DESCRIPTION OF MOTOR VEHICLE MAKE Cadillac YEAR 1974 MOTOR NUMBER ST 191046 SERIAL NUMBER PO 213028 MODEL 14/4 BODY STYLE Tudor IGN. KEY 17842 TRUNK KEY 34763 NEW OR USED New CAR TRADED 1973 Buick	TERMS OF TIME CONTRACT FINANCE COMPANY Riggs National Bank PAYMENTS OF \$ 200.00 EACH PAYABLE ON THE 1st DAY OF EACH MONTH BEGINNING Aug. 1, 1974
		SUMMARY OF INSURANCE COVERAGE FIRE \$ _____ TERM _____ THEFT \$ _____ TERM _____ COMPREHENSIVE \$ _____ TERM _____ COLLISION-UPSET \$ _____ TERM _____ P.D. & P.L. \$ _____ TERM _____ COMPANY - BROKER - AGENT Anne Arundel Company
SALESMAN _____ TELEPHONE _____		

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* OPTIONAL EQUIPMENT AND ACCESSORIES		
DESCRIPTION	PRICE	
		BASIC PRICE OF CAR TRANSPORTATION OPTIONAL EQUIPMENT AND ACCESSORIES
		ALL OTHER CHARGES
		TITLE OR SALES TAX \$ _____
		FEDERAL PROPERTY TAX _____
		REGISTRATION FEE _____
		CERTIFICATE OF TITLE _____
		NOTARIAL AND RECORDING FEES _____
		OTHER (ITEMIZE) _____
		CASH SALE PRICE \$6900.00
		DEPOSIT 1000.00
		CASH ON DELIVERY
		TRADE-IN ALLOWANCE 3000.00
		TOTAL CASH PRICE BALANCE \$2500.00
		TOTAL COST OF INSURANCE
		CREDITOR'S LIFE INSURANCE
		AMOUNT OF FINANCE CHARGE
		TOTAL TIME PRICE BALANCE DUE FROM THE PURCHASER \$2500.00

NO LIABILITY INSURANCE INCLUDED

The ~~WINGS~~ NATIONAL BANK
of WASHINGTON, D. C.

15 3
540

Washington, D.C. December 23, 1974 NO 008180

*Pay to the
order of*

Capital Furriers, Inc.

\$ 5,000.00

Five Thousand and -----no/100

Dollars

CASHIER'S CHECK

VOID, Cashier

AUTHORIZED SIGNATURE

⑈008180⑈ ⑈0540⑈0003⑈ 01⑈09220093⑈

PURCHASER

DETACH BEFORE PRESENTING TO PURCHASER

December 23, 1974 NO 008180

\$,000.00

Five Thousand and -----no/100

CASHIER'S CHECK

VOID, Cashier

GENERAL LEDGER CHECK PAYMENT REGISTER

⑈008181⑈ ⑈0540⑈0003⑈ 01⑈09220093⑈

PURCHASER A. Suspect, Springfield, Va.

The RIGGS NATIONAL BANK
of WASHINGTON, D. C.

15-3
5-0

Washington, D.C. May 23, 1973 NO 004302

Pay to the order of Peerless Jewelers

\$ 5,000.00

Five Thousand and 00/100

00/100 Dollars

CASHIER'S CHECK

VOID

11-7-73
AUTHENTICATED SIGNATURE

⑈008180⑈ ⑆0540⑈0003⑆ 01⑈09220093⑈

PURCHASER

DETACH BEFORE PRESENTING TO PURCHASER

NO 004302

\$,000.00

Five Thousand and 00/100

00/100

CASHIER'S CHECK

VOID Cashier

GENERAL LEDGER CHECK PAYMENT REGISTER

⑈008180⑈ ⑆0540⑈0003⑆ 01⑈09220093⑈

PURCHASER

A. Suspect, Springfield, Va

THIS DEED,

made and entered into this 26th day of November, 19xx, between John L. Smith, and Mary D. Smith, his wife, parties of the first part; and A. Suspect and Joyce Suspect, his wife, tenants by the entirety, parties of the second part,

WITNESSETH,

that for and in consideration of the sum of \$5.00 cash in hand paid and other good valuable considerations, the receipts of all of which is hereby acknowledged, the parties of the first part do hereby grant, bargain, sell and convey with **GENERAL WARRANTY OF TITLE**, unto the parties of the second part as tenants by the entirety with the common law right of survivorship expressly retained, that is, in case of death of either of the parties of the second part, title to the land together with structures and appurtenances thereon, hereby conveyed, shall vest in the survivor, in fee simple, all of that certain lot or parcel of land located in the Backlick District, Fairfax County, Virginia, with all rights, easements, improvements and appurtenances thereunto belonging bounded and described as follows:

"Beginning at a point 70 feet west of the center of Main Street, and 275 feet north of Broad Avenue, thence in a northerly direction 175 feet to a point, thence westwardly 350 feet to a point, thence southwardly 175 feet to a point, thence eastwardly 350 feet to the point of beginning, having erected thereon a two-story brick dwelling with attached garage known and numbered as 1000 Main Street, Springfield, Virginia."

And being the same land which was conveyed to the parties of the first part by Paul Winslow, widower, by deed dated March 30, 1961, and recorded in Deed Book No. 162, page 871 of the land records of said County.

REFERENCE is hereby made to said deed for a further and more detailed description of the realty hereby conveyed.

The parties of the first part covenant that they have the right to convey the said land; that the parties of the second part shall have quiet possession of the same, free from all encumbrances; and they, the parties of the first part, will execute such further assurances as may be deemed appropriate.

District-Realty Title Insurance Corporation

1030 15th Street, N.W. / Washington, D.C. 20005 / 202-462-8800

Case No. 00480

A. Suspect
 1000 Main Street
 Springfield, Virginia

Date December 17, 1973
 Address 1000 Main Street, Springfield
 Subdivision Lake Louise
 Block
 Square 42

In the Matter of Loan Purchase, Sale, Lot

The Fire Insurance Companies must be notified of the change of ownership.

I/We, hereby approve and acknowledge receipt of a copy of this settlement sheet.

TELEPHONE 123-6567

NAME A. Suspect

ATTORNEY

ADDRESS 1000 Main Street, Springfield, Va.

Price	4	0	0	0	0	-
Mortgage Riggs National Bank	3	5	0	0	0	-
Deposit	5	0	0	0	0	-
Commission						
Conveyancing						
Appraisal Fee						
First Deed of Trust						
Interest						
Insurance						
Second Trust						
Interest						
Deferred Payments						
Insurance						
Water Rent						
Taxes						
Front Foot Benefit Charges						
Taxes for						
Rent Paid to		@				per mo.
Survey						
Title Insurance & Interim Binder (Owners-Mortgagees)						
Examination of Title						
Preliminary Report						
Tax Certificate and Report						
Conveyancing						
Recording						
Noting Conveyance						
Notary Fee and Notary Services						
Settlement Fee/Service Charge						
Registering and Identifying Notes						
D.C. Recording Tax						
Maryland Recording Tax						
Maryland State Transfer Tax						
Maryland County Transfer Tax						
Balance						

No responsibility is assumed by this company as to correctness of information furnished as to principal, interest, insurance and encumbrances on assumed trusts; water rent; taxes or assessments except as reported on the tax certificate; municipal violations or matters of zoning.

The **RIGGS NATIONAL BANK** of WASHINGTON, D. C.
 1503 PENNSYLVANIA AVE., N. W. WASHINGTON, D. C. 20013

KEY TO CODES

STATEMENT OF MORTGAGE ACCOUNT

A. Suspect
 Anytown

243 INCREASE PRINCIPAL
 245 DECREASE PRINCIPAL
 249 PAYMENT REVERSAL
 253 LATE CHG. REVERSAL
 255 CONST. ADVANCE REVERSAL
 259 FIRE INS. DISB. REV.
 261 COUNTY TAX DISB. REV.
 265 TOWN TAX DISB. REV.
 267 FHA MORTG. INS. REV.
 271 MISC. ESCROW DISB. REV.
 275 REGULAR PAYMENT
 283 CONSTRUCTION ADVANCE
 285 ESCROW PAYMENT
 289 LATE CHG. PAYMENT
 291 PRINCIPAL CURTAILMENT
 295 INTEREST PAYMENT
 297 FIRE INS. DISB.
 301 COUNTY TAX DISB.
 305 TOWN TAX DISB.
 307 FHA MORTG. INS. DISB.
 311 MISC. ESCROW DISB.

MORTGAGE LOAN ACCOUNT NUMBER	DATE OF STATEMENT		DATE PAID THROUGH		INTEREST RATE	CURRENT ESCROW BALANCE		ANNUAL TAX DISBURSEMENT		ANNUAL INTEREST PAID			
189406	1	10	75	12	31	74	7½	30	00	800	00	2,500	00

CODE	TRANSACTION AMOUNT		DATE PAID		PRINCIPAL PAID		INTEREST PAID		ESCROW PAID		PRINCIPAL BALANCE		
	Balance		12	31	73						20,000	00	
245	4500	00	2	2	74	3,000	00	1,200	00	300	00	17,000	00
285													
295													
301	400	00	6	15	74					(400)	00		
245	13,700	00	9	2	74	12,000	00	1,300	00	400	00	5,000	00
285													
295													
301	400	00	12	15	74					(400)	00		
	Balance		12	31	74							5,000	00

FORM 1182 A (CONF.) REV. 10-69

RETAIN THIS STATEMENT FOR YOUR RECORDS

END