

A SURVEY OF THE ACCOUNTING SYSTEMS  
AVAILABLE TO SMALL BUSINESSES

A THESIS

SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BY

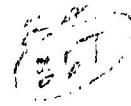
Vivian Jeannette Johnson

Atlanta, Georgia

August, 1963

*R iv*

*T 43*



D E D I C A T I O N

Dedicated to Mother and Dad whose unfailing love, understanding, and efforts have made possible whatever I have accomplished.

A C K N O W L E D G M E N T S

The co-operation of the following persons who have read this survey, made constructive suggestions, and helped in numerous other ways to make it possible is appreciated:

Mr. James T. Ratliff, Advisor  
Professor, Morris Brown College  
Atlanta, Georgia

Dr. Harding B. Young, Dean  
Graduate School of Business  
Atlanta University  
Atlanta, Georgia

Mr. Jesse B. Blayton, C.P.A.  
Atlanta University  
Atlanta, Georgia

Miss Yvonne M. Miller, Office Manager  
Hale's Accounting Office  
Atlanta, Georgia

Representative of the United States  
Department of Commerce  
Atlanta, Georgia

Representative from the Remington Rand  
Corporation  
Atlanta, Georgia

C O N T E N T S

Chapter	Page
I. Introduction . . . . .	1
The Problem	
The Purpose	
Method of Procedure	
Definition of Terms and Concepts	
II. Public Accounting Services Available To Small Businesses . . . . .	9
Auditing	
Hale's Accounting System	
The Mobile Accounting System	
III. Simplified Accounting Systems . . . . .	25
The Ideal System	
The Penny Record System	
Simplified Unit Invoice Accounting Plan	
IV. Conclusion and Recommendations . . . . .	33
Appendixes . . . . .	38
A - Typical Balance Sheet and A Typical Profit and Loss Statement	
B - A List of Addresses Where the Simplified Accounting Systems Discussed May Be Obtained	
C - Facsimile Page of The Ideal System Social Security And Payroll Record	
Bibliography . . . . .	42

# C H A P T E R O N E

## INTRODUCTION

The most outstanding cause of failures of small business proprietors is the lack of adequate recordkeeping and sound business training.<sup>1</sup> According to recent statistics, over eighty percent of small business failures in retailing and commercial service trades have been the result of the owners' inability to avoid certain conditions which would have been revealed had adequate records been maintained.<sup>2</sup>

Many small business operators keep their records in a single-entry memorandum fashion, with no financial statements and system of checks and balances. This is usually due to the fact that they do not know double-entry bookkeeping, and are financially unable to employ full-time personnel competent to do the work. In the short-run, maintaining records on a single-entry basis may appear to reduce expenses of recordkeeping; but in the long-run, the money saved on recordkeeping is only a fraction of the

---

<sup>1</sup>Pearce C. Kelley. How To Organize And Operate A Small Business (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1955), p. 611.

<sup>2</sup>Elizabeth Heidbreder. Recordkeeping Systems, Small Store And Service Trade (Washington, D.C.: Small Business Administration, 1962), p. 1.

amount that would be lost due to inadequate recordkeeping.<sup>3</sup>

Double-entry bookkeeping requires that in entering transactions on the books of account that, for each transaction the sum of the items debited equal the sum of the items credited. In other words, every figure is recorded twice and therefore, the total debits and total credits should always equal. The equality of the debits and credits is checked by listing and totalling them. This list is referred to as a trial balance.

"Single-entry bookkeeping is defined as a method whereby accounts are maintained with debtors and creditors separately but which does not embrace the double-entry concept. That is to say the system does not assume that for each positive posting there shall be a negative posting in the same amount."<sup>4</sup>

Prior to the discovery of double-entry bookkeeping, the single-entry system was used. It required the recording of only commercial transactions because the proprietor was concerned primarily with the determination of the amount due from customers and the amount owed to creditors. This system made use of only two books - the Day Book, and the Account Book. The Day Book was used for recording descriptions and amounts of the various transactions as they occurred.

---

<sup>3</sup>Kelley. op cit. p. 612.

<sup>4</sup>Interview with Jesse B. Blayton, Certified Public Accountant, Atlanta, Georgia, July 18, 1963.

The amount was later posted to the Account Book which was simply a book of personal accounts, or what we now refer to as a ledger. The single-entry system did not provide for the recording of all the transactions of the business, which means that it provided no basis for drawing up financial statements. Consequently, this system merely furnished evidence for following up credit transactions and was of very little value when it came to solving actual accounting problems.<sup>5</sup>

The introduction of the double-entry system corrected the weaknesses of the single-entry system. It involved the use of three books - the day book, the journal, and the ledger. The bookkeeping procedure was divided into recording, journalizing, and posting. Since the double-entry system required the recording of all transactions, the day book was expanded to serve as a memorandum record for credit transactions as well as a record of the cash received and cash disbursed.

The ledger of accounts was also expanded into a general ledger which housed a complete set of financial and operating accounts. In addition to showing the balances due from customers and owed to creditors, it became a "master book" of accounts. The journal was a new feature which classified the debit and credit elements of each transaction. It served

---

<sup>5</sup>William R. Thompson. Accounting Systems, Their Design And Installation (Chicago: LaSalle Extension University, 1942), pp. 38-50.

as a link between the day book and the ledger. The function of the journal was to route the information of the various transactions to the proper ledger accounts.

Today, the day book has been combined with the journal. The two books - the ledger and journal - constitute the basic structure of the double-entry bookkeeping system. They enable the bookkeeper to carry out the entire process of recording, summarizing, and balancing. They serve as a permanent record of all transactions in chronological order, to classify the various debits and credits, and to ascertain in a separate account, the results of all debits and credits.<sup>6</sup>

The conduct of modern business has become extremely complicated. Some of the factors which have contributed to this development are governmental regulations and controls, increased competition, changes in supply and demand, Federal and State taxes, and an increased amount of paper work, etc. Larger business firms have found it necessary to employ specialized assistants who are full-time accountants, for dealing with the many problems faced by management.<sup>7</sup> These accountants prepare the financial statements and statistical information required to keep management informed concerning such matters as the volume of business transacted; the amount invested in inventory; losses from credit sales; the lia-

---

<sup>6</sup>Ibid.

<sup>7</sup>Robert E. Witschey. Public Accounting Services For Small Manufacturers (Washington, D.C.: Small Business Administration, 1954), p. 2.



bilities of the business; the lines of goods on which the company is making a profit; the break-even point; etc.<sup>8</sup>

Some small business owners are not financially able to employ specialists in their companies, although they recognize the need for them. Many small businessmen are turning to the public accountant for assistance.

The purpose of this paper is to call attention to some of the accounting systems that are available to small business firms. This study presents salient features of several accounting systems that are available to small business proprietors, giving a description of the system, and the types of businesses for which the system is best suited. The systems presented in this paper include: Hale's Accounting System, the Mobile Accounting System, and several simplified accounting systems.

Data which form the basis of this study were collected by visits to the firms which designed and installed the particular system; by research in libraries, and by personal interviews. Other materials were obtained from various governmental agencies, particularly the United States Department of Commerce, and the Small Business Administration.

The following concepts are defined in the context in which they will be used in this paper.

Bookkeeping is concerned primarily with recording and analysis of financial transactions; whereas, accounting is

---

<sup>8</sup>Heidbreder. op cit. pp. 1-2.

concerned primarily with analysis and interpretation of results of financial operations, as an aid to management in making decisions with respect to production, distribution and promotion of goods and services, and in the control of costs. Accounting has also been defined as "the systematic recording of all the essential financial facts of a business enterprise, the construction of clear summaries of these facts, and the interpretation of these summaries."<sup>9</sup> The principal purpose of accounting is to describe change; therefore, in accounting for a business entity, the central goal is the determination of income, or changes resulting from efficiency of operations.<sup>10</sup>

Accounting system refers to an organization of reports, statements, and forms which supply management with such information as the assets, liabilities, and net worth of the company at a given time, the amount of profit earned in a given period, the amount of sales, sales returns, purchases, inventories, and any other information concerning the financial aspects of the business. The accounting system will vary from one type of business to another in order that it might meet the needs of the particular business.

System revision is the improvement of a system which is in use by the business, but perhaps is not supplying

---

<sup>9</sup>Frank Hatch Streightoff. Elementary Accounting (New York: Harper & Brothers Publishers, 1928), p. 1.

<sup>10</sup>Morton Backer. Handbook Of Modern Accounting Theory (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1961), pp. 2-4.

sufficient information. As the business grows, it is a good policy to review the system from time to time and modify it according to the needs of the business.<sup>11</sup>

Business has been defined as "any legitimate activity of private citizens in the fields of manufacturing, mining, agriculture, transportation and the provision of all the other goods and services upon which our economy rests, wherein the entrepreneur seeks a profit. Profit being the reward from the successful operation of a business."<sup>12</sup>

An audit is the expert examination of the accounting records and statements to give assurance that the records and statements have been kept in accord with the accepted accounting principles. It consists of a searching analytical review of the statements, accounting records, and supporting data.<sup>13</sup>

The most widely used measures of the size of businesses are (1) number of employees, and (2) annual net sales. Small business as it is used in this paper, and as it is used by the United States Department of Commerce, includes manufacturing plants with 100 employees or less; retail stores, service establishments, hotels, places of amusement, and construction companies, with annual net sales of less

---

<sup>11</sup>John J. W. Neuner. Accounting Systems, Installation And Procedures (Scranton, Pennsylvania: International Textbook Company, 1949), pp. 1-2.

<sup>12</sup>Interview with Jesse B. Blayton, Certified Public Accountant, Atlanta, Georgia, July 18, 1963.

<sup>13</sup>Walter B. Meigs, Principles of Auditing (Homewood, Ill., Richard D. Irwin, Inc., 1959), pp. 1-21.

than \$100,000, and wholesale establishments with net sales of less than \$500,000.<sup>14</sup>

Many of our giant corporations of today started out as small businesses. Small business concerns function as suppliers of materials and parts, service agencies to the large firms and their employees, and as customers which use, rather than distribute products of the large corporations. The small business concerns are also instrumental in pioneering some innovations and proving their worth on a small scale until the transition stage is reached. Small business enterprises get approximately thirty-five cents of every sales dollar in this country.<sup>15</sup> With small business organizations playing such a major role in our American economy, it has become increasingly necessary for more research to be done in the area of recordkeeping for the small business.

---

<sup>14</sup>Kelley. op cit. p. 3.

<sup>15</sup>Jessie Croft Ellis. Small Business Bibliography (Boston: F.N. Faxon Company, 1951), p. xii.

## C H A P T E R T W O

### PUBLIC ACCOUNTING SERVICES AVAILABLE TO SMALL BUSINESSES

Public accounting as defined by the Committee on Terminology is "The practice of accounting by men whose services are available to the public for compensation. It may consist in the performance of original work, in the examination and revision of the original work of others (auditing), or in rendering of collateral services for which a knowledge of the art, and experience in its practice create a special fitness."<sup>1</sup> The men who carry on these functions are known as public accountants.

The public accountant may be noncertified or certified. The noncertified public accountant practices the same as a certified public accountant, but does not have a license from the state Board of Accountancy. Some states have "Public Accountant" provisions in the accounting law. These provisions allow the public accountant to perform all of the functions of a certified public accountant except verifying financial statements. In many instances, government agencies

---

<sup>1</sup>Committee on Terminology, Accounting Research Bulletin, No. 7, p. 59, quoted in James Don Edwards, History of Public Accounting in the United States (East Lansing, Michigan: Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, 1960), p. 40.

do not allow public accountants to represent their clients on tax questions or in similar accounting matters which may come before an administrative agency, without an examination.<sup>2</sup>

The requirements for a license as a public accountant are not nearly as rigorous as the requirements for the C.P.A. certificate, and usually do not necessitate the taking of an examination.

The certified public accountant is subject to strict regulations. He must meet requirements of age, education, experience, and examination before he is licensed to practice. The C.P.A. certificate is not only a license to practice, but it is also a symbol of technical competence.<sup>3</sup>

The public accounting field is continuously growing as the need for comprehensive records becomes increasingly essential. The public accountant, certified and noncertified, is compelled to be familiar with the tax laws affecting the various forms of business organization as well as any other current developments that might affect the business concerns for which he maintains records. Many owner-managers of small business organizations have no one with whom they can discuss their management problems; consequently, many public accountants are called upon to listen to problems and answer questions

---

<sup>2</sup>James Don Edwards. History of Public Accounting in the United States (East Lansing, Michigan: Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, 1960), p. 41.

<sup>3</sup>Meigs. op cit. pp. 2-4.

that have nothing to do with accounting. For instance, one accountant is said to have had his client to say, "I've got to get a water pipe across the road. How do I do it?"<sup>4</sup> Of course, the accountant assisted him in finding the necessary information. Such services might very well become a part of the accountant's duty.

Business executives have come to depend upon summaries of current financial transactions and conditions originating throughout the business in terms of dollars, man-hours, material weights, customer calls, employee terminations, etc. They have learned that truth and logic are not inborn qualities of the reporting process; therefore, the audit has been initiated to assure management of the reliability of the data provided for their use.<sup>5</sup>

Auditing is an important part of the work performed by the accountant. Audits may be classified as (1) Continuous audits and (2) Periodic audits. The continuous audit is carried on primarily in large business enterprises. These companies usually have their own payroll staff of accountants who make continuous checks of the work performed by the accounting department. The periodic audit is done by an independent public accountant. This serves to assure management and other interested parties that the

---

<sup>4</sup>Charles H. Sevin. Starting and Managing A Small Book-keeping Service. (Washington, D.C.: Small Business Administration, 1962), pp. 2-3.

<sup>5</sup>Meigs. op cit. p. 77.

statements present a fair picture of the financial position of the business and the results of operations, and that they are in keeping with generally accepted accounting principles.<sup>6</sup>

The auditor frequently takes a tour of the plant before beginning the actual examination. This is done in order that he might familiarize himself with the plant layout, manufacturing processes, the principal products, and the physical safeguards surrounding inventories. This inspection need not be limited to the beginning of the audit; it might very well take place throughout the examination.

The auditor begins his examination with a review of the general records, financial and non-financial. The financial records are those records pertaining to the monetary receipts and expenditures and other money matters. The non-financial records are those records that are unrelated to the monetary condition of the company, and include such matters as the partnership agreement, minutes of directors and stockholders meetings, contracts with customers and suppliers, government regulations affecting the business, etc.<sup>7</sup>

The auditor continues by reviewing the system of internal control. The system of internal control has been defined as "those measures and methods adopted within the

---

<sup>6</sup>H. A. Finney and H. E. Miller. Principles of Accounting, Introductory (5th ed., Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1958), pp. 1-2.

<sup>7</sup>Meigs. op cit. pp. 172-192.



organization itself to safeguard the cash and other assets of the company as well as to check the clerical accuracy of the bookkeeping."<sup>8</sup> The system of internal control serves to safeguard the resources from waste, fraud, inefficiency, etc. and to promote accuracy and reliability in accounting and operating data.

The system of internal control, like the system of accounting, is not standard. It must be established to meet the needs of the particular business. Therefore, the public accountant must be acquainted with the various types of business firms and the needs peculiar to them. In some cases the auditor finds it necessary to recommend bookkeeping methods that create a check of one transaction against another.

The examination includes a verification of the assets. In doing this, the auditor might examine each account in the asset section of the balance sheet. For instance, in verifying the cash account, the auditor makes an independent verification of the bank accounts. This, of course, is done by securing statements from the bank and establishing agreement between the two sets of independently maintained but related records. He also counts the cash on hand, reviews the system of internal control over the cash, and tests samples of transactions affecting the cash.

---

<sup>8</sup>American Institute of Certified Public Accountants. Examination of Financial Statements by Independent Public Accountants (New York: American Institute of C.P.A.'s, 1936), quoted in Meigs, op cit. p. 74.

In reviewing the accounts receivable account, the auditor determines the age of the accounts which in turn assists him in determining that accounts are properly recorded as well as evidences the collection policies of the firm. The auditor also examines the plant and equipment accounts to determine their accuracy as well as the accuracy of the reserves for depreciation.<sup>9</sup> The listed purposes have been given as the more important purposes of plant records.

1. They provide a basis for charging current operations with a proper share of depreciation.
2. They provide a basis for accumulating information required for both income and property tax returns.
3. They provide a basis for detailed information on capital investments.
4. They provide a basis for determining adequate insurance coverage.
5. They provide a basis for determining losses in the event of fire or other casualty.
6. They provide a basis for establishing maintenance records.<sup>10</sup>

The examination of the inventories is another important examination, and this evaluation is often a difficult one. This is due to the fact that in addition to the costs of materials and labor, other costs of operation must be added to the product.

Before the examination is completed, the auditor reviews the liability, equity, income, and expense accounts.

---

<sup>9</sup>Witschey. op cit. pp. 6-7.

<sup>10</sup>Ibid.

As a result of such an examination, the auditor is in a position to make suggestions as to ways to increase profits and develop a program of continuous assistance. The objective of the examination is to draw up the financial activities of the business for a given period in such a way as to present a reliable picture of the financial condition of the business and the operating results for that period. This picture is then presented in the form of an audit report.

The audit report in which the independent public accountant expresses an opinion as to the fairness of the client's financial statements, is a written report. It is addressed to the person who engaged the auditor. It might be either a short-form report or a long-form report. The short-form report often consists of only two paragraphs. The first paragraph gives the scope of the examination; and the second paragraph gives the auditor's opinion based on his examination of the records.<sup>11</sup>

The long-form report is a somewhat confidential document available only to the management, except in cases where a copy is provided for the banker. The long-form report includes the two paragraphs comprising the short-form report as well as any analysis or recommendations that might be useful to management. The writing of this report represents the final step of the examination.<sup>12</sup>

---

<sup>11</sup>Meigs. op cit. p. 5.

<sup>12</sup>Ibid. pp. 6-7.

### Hale's Accounting System

This system is used by Hale's Accounting Office which is operated by Dr. Larzette G. Hale, a Certified Public Accountant, located in Atlanta, Georgia. This office offers many services to the small business proprietor. One service offered by this firm is a survey of the small business proprietor's present recordkeeping system to determine if it is providing the information needed, and if it is doing so efficiently. In many instances, a good deal of streamlining can be done, which might mean combining certain records, thus eliminating a large amount of duplication. In other instances, the system may be revised; and for those firms that have no system, a system may be designed and installed. There might also be a review of the office procedures to determine any unnecessary duplications of jobs. The accountants in this office prepare tax returns and in a number of cases, do the actual bookkeeping for small business firms. Hale's system of accounting is a simplified system; it is flexible and may be adapted to fit the needs of the particular type of business organization.<sup>13</sup>

For some of the clients using this system, the record-keeping process begins with the writing of the checks. The information to be placed on the check is either carried to the office or telephoned in. The authorization for the

---

<sup>13</sup>Interview with Yvonne Miller, Office Manager for Hale's Accounting Office, Atlanta, Georgia, June 26, 1963.

writing of only one or two checks is usually telephoned in. In cases where there is a need for several checks, such as for the payroll, the information is written and sent to the office. Any change in the payroll, etc. is telephoned in.

The check-stub information is recorded in the cash disbursements journal and posted to the general ledger. The general ledger has three columns - debit, credit, and balance columns. The balance column enables the accountants to draw a financial statement at any time during the month without having to stop and compute the balances.<sup>14</sup>

The income is recorded in somewhat the same manner. The income figure is taken from cash transmittal slips which contain the source of the income, the amount, the receipt number, and the date. The deposit slip is attached to the cash transmittal slip. In other cases, the income is recorded directly from the receipt book with deposit slips for verification. These amounts are posted to the general ledger from which a trial balance is taken. This is done by adding the total liabilities, net worth, and income and obtaining a total; the total assets are added to the total expenses and another total is obtained. If the two totals are the same, the statements relative to the financial condition of the business are drawn up, typed, and sent to the client. These statements consist of a balance sheet and a profit and loss statement.

---

<sup>14</sup>Interview with Yvonne Miller, Office Manager for Hale's Accounting Office, Atlanta, Georgia, June 26, 1963.

The balance sheet gives a list of the assets which are those items owned by the particular business. These items include cash, amounts owed to the business as a result of credit transactions, machinery, land, building, office supplies, etc. The asset section of the balance sheet is followed by the liability section; liabilities being the debts or amounts owed to creditors. Included in the liabilities are accounts payable, notes payable, taxes payable, etc. The third and final section of the balance sheet is referred to as the net worth, owner's equity, or proprietorship section. This section represents the excess of the assets over the liabilities. Included here are retained earnings, paid-in surplus, capital, etc. In the final analysis, the total of the liabilities and owner's equity should equal the total of the assets.<sup>15</sup>

The profit and loss statement provides for a list of all of the sources of income. This list is then totalled. Below the list of income items is a list of expense items which is also totalled. The difference between these totals, when one total is subtracted from the other, is net profit if the income exceeds the expenses, and net loss if the expenses exceed the income. A typical balance sheet and a typical profit and loss statement for a small manufacturer are given in appendix A, pages 38 and 39.

---

<sup>15</sup>Interview with Yvonne Miller, Office Manager for Hale's Accounting Office, Atlanta, Georgia, July 1, 1963.

The financial statements for hospitals, homes, and similar institutions are recorded on specially prepared forms that divide the various expenditures and sources of income into specific categories. For instance; the first division for expenditures is entitled salaries and wages under which are listed such sub-divisions as executives and assistants, doctors and dentists, clerical workers, etc. The next division is institution and office under which are rent, fuel, light, and water, building repairs, equipment, office supplies, telephone and telegraph, etc. The third division, educational, includes such expenses as are connected with conferences and conventions, institutes and training courses, productions and exhibits, printed matter and literature. The final category is entitled clients and beneficiaries and includes board and lodging, transportation, clothing and laundry, medical and dental supplies, glasses, loans and allowances, recreation and entertainment, etc. The operation expenditures are totalled at the bottom of the form.<sup>16</sup>

The first main division of the income statement is entitled donations and gifts under which are listed general, special, and foundation. The next division is income from the government in the form of subsidies and payments, the sub-classification might be the state, county, or township. The third and final main division is the revenue division,

---

<sup>16</sup>Interview with Yvonne Miller, Office Manager for Hale's Accounting Office, Atlanta, Georgia, July 19, 1963.

the board from beneficiaries, membership and registration dues, sale of salvage equipment, and other revenue sources. This sheet is also totalled and the difference between the totals on the two sheets represents the net income or net loss.

These forms provide a column for the amount allotted in the budget for expenses and the amount anticipated in the form of income for the year; the amount allotted for expenses and anticipated in income from the beginning of the year to the date of preparation of the statement; the actual amount received and disbursed from the beginning of the year to the date of preparation of the statement; and the actual amount received and disbursed during the current month. These divisions enable management to compare one expense with another expense, one period's income and expense with that of another period, the budgeted amount with the actual amount spent, and one income source with another source of income.<sup>17</sup>

The clients depend solely on the various financial statements for guidance in making important business decisions. For instance, the client is informed through the statements as to how much business he is doing. He can readily see how much is done on a cash basis and how much is done on a credit basis. He is also able to see how

---

<sup>17</sup>Interview with Yvonne Miller, Office Manager for Hale's Accounting Office, Atlanta, Georgia, July 19, 1963.



much he has loss from credit sales in the form of uncollectible accounts, sales returns and allowances, etc. The statements provide the client with the necessary information required by government bodies, management, and owners. They assist the sales division in planning its activities by providing accurate cost estimates, information as to the ability of the firm or factory to produce at a required volume, and reports on the availability of cash to finance the necessary inventories. They assist in production planning by furnishing up-to-date cost information on labor, material, administrative expenses, and selling expenses. These statements also guide management in making decisions for expansion or curtailment.

In other situations, the client simply mails his financial information into the office together with deposit slips, invoices, and check vouchers. The checks are written from the invoices and check vouchers which are returned along with the checks to the client. The receipts are recorded from the deposit slips. The end of the month procedure described in the above discussion is followed in all situations. The variation comes in the method and procedure of securing the initial information.

Some of the clients write their own checks and mail the check stubs and receipt book to the accounting office. The amounts on the check stubs are recorded in the cash disbursements journal, and the amounts in the receipt book are

recorded in the cash receipt book are recorded in the cash receipts journal. These amounts are posted in the general ledger from which a trial balance is taken and the financial statements are prepared.

Among the other services offered by this office are auditing services and reviews of the needs of the small business proprietor and assistance to him through development of inventory controls, sound credit procedures, sound sales policies, etc.

#### The Mobile Accountant

Another public accountant with valuable services for the small business proprietor is the "Accountant on Wheels", or the mobile accountant. In this particular situation, the public accountant has set up his practice in a truck or a trailer. He has provided himself with shelves, file cabinets, typewriter, desk, calculator, and office supplies inside his trailer.<sup>18</sup>

This accountant goes about from one small business to another selling his bookkeeping service. The mobile accountant does not use one particular accounting system, but he sets up a relatively uniform system in accordance with the needs of the particular establishment. He might install a simplified system of recordkeeping that will enable the small business proprietor to keep up with his invoices, sales slips,

---

Interview with Jesse B. Blayton, Certified Public Accountant, Atlanta, Georgia, June 24, 1963.

employee data, income, disbursements, receivables, etc. During his periodic visits, which might be monthly, semi-monthly, or weekly, depending upon the requirements of the business, the accountant will take this information and arrange it in significant accounting order. He will make monthly adjustments, trial balances, and end-of-the-month statements - balance sheet, and profit and loss statement - and inform the client as to the financial condition of the business. He might also analyze significant deviations from the norm and make suggestions for corrections.<sup>19</sup>

While the public accountant can provide management information and advice to the small businessman, he should be tactful in that he does not make his client feel inferior or that he is just showing off his recordkeeping knowledge. Progress in improving the efficiency of the small business firm and in controlling and reducing expenses has been the result of such advice.<sup>20</sup>

The businesses for which the services of public accountants are most suited are those businesses that are possibly too small to necessitate the employment of a full-time bookkeeper; those businesses having few transactions, each transaction being relatively large, so that only two or three days' bookkeeping work a month is all that is necessary; small

---

<sup>19</sup>Interview with Jesse B. Blayton, Certified Public Accountant, Atlanta, Georgia, June 24, 1963.

<sup>20</sup>Sevin. op cit. pp. 22-23.

retailers and service establishments located in neighborhood or central shopping districts; etc.<sup>21</sup>

---

<sup>21</sup>Ibid. p. 16.

## C H A P T E R T H R E E

### SIMPLIFIED ACCOUNTING SYSTEMS

Many small business proprietors dislike dealing with figures; others feel that it takes them away from more important duties; and still others are simply uninformed as to the importance of recordkeeping. These proprietors may secure proper records using the least amount of effort by hiring a part-time bookkeeper, affiliating with an accounting service, or making use of an approved simplified bookkeeping system. This chapter deals specifically with some of the simplified accounting systems available to small business.

Simplified record systems are very helpful to those businesses that require daily recordkeeping and for which the public accounting system cannot be effectively utilized. The firms that make frequent use of these systems include retail merchants, groceries, drug stores, beauty shops, doctors, lawyers, and brokers who need a simple accounting system. These systems simplify recordkeeping to the extent that an untrained clerk or bookkeeper can keep the records by simply following directions. In many cases the proprietor himself is able to maintain adequate records

without the help of the bookkeeper. These systems are designed to assist the small business executive in keeping accurate records of each transaction and to have on hand the necessary information to simplify the making of income tax returns.<sup>1</sup> These systems may be used for bookkeeping on a cash or on an accrual basis.

The basic records of most small business firms consist of a cash receipts journal, cash payments journal, purchases and expense journal, and summary forms which facilitate the preparation of statements and government reports. These simplified systems may be purchased ready for use, and in most cases, the entire system may be contained in one binder. These systems are generally the same except for some variation in column titles due to the needs of the particular business. Refill sheets are also available for purchase. See appendix B, page 40 for the addresses where these systems may be purchased. The systems usually provide for cash receipts on the left-hand page, and cash payments on the right-hand page of the same book. This enables the bookkeeper to ascertain the cash balance by totalling each page and finding the difference in the totals.<sup>2</sup>

#### The Ideal System

The Ideal System or the General Bookkeeping and Tax Record System might be used to meet the requirements of some

---

<sup>1</sup>Kelley, op cit. p. 611.

<sup>2</sup>Ibid.

two hundred different kinds of business firms and professions. This system is complete with instructions, specimen entries, and demonstrations of the use of the columnar journal. The book may be purchased in either loose-leaf or bound form, complete with double-page cash journal forms; summary forms, including profit and loss statement and balance sheet; forms for the recording of the assets and depreciation, and mortgage and loan data; and forms for the savings record of the employees.<sup>3</sup>

The Ideal Company also provides a social security and payroll record that can be started at any time of the year. It requires no bookkeeping experience in that it is simple and easy to keep. The forms provide for quick preparation of all payroll tax reports on a weekly, quarterly, or yearly basis. The payroll summary forms provide for the accumulation of payroll totals by department; and they may be used as a payroll disbursement journal. A facsimile page is given in appendix C, on page 41.

This system has been approved by the tax authorities, inspectors, and auditors and they have found that it conforms to all Federal and State law requirements.<sup>4</sup>

#### Penny Record Book System

This system consists of a year's supply of ruled forms with space provided to record daily and weekly records of

---

<sup>3</sup>Ibid. p. 633.

<sup>4</sup>The Ideal Company. The General Bookkeeping and Tax Record System (New York: The Ideal Company).

purchases, expenses, sales, and payroll deductions. It also provides a form for the summary of the week's business. It is an eight-column affair with column one for the date; column two for any remarks or description of the transaction; column three for cash receipts from cash sales or on account, this figure might be the total for the day or individual transactions; column four for receipts other than from sales; column five for money spent for purchases of merchandise for resale, this might also be the total for the day or individual transactions; column six for payments of expenses; column seven for a description of the transaction for which money was paid out which could not be classified in column five or six; and column eight is provided for the amounts of the items entered in column seven.

This system is designed to provide management with only general information; the information provided, however is better than no information at all and will assist management greatly in making business decisions. Management might wish to supplement this system with an accounts receivable and accounts payable ledger if the company is buying and selling on credit.<sup>5</sup> The address from which this system might be ordered is listed in appendix B, on page 40.

#### Simplified Unit Invoice Accounting Plan

The Remington Rand Corporation has devised a bookless bookkeeping system for accounting for those companies whose

---

<sup>5</sup>Kelley. op cit. pp. 634-635.



paperwork deals primarily with accounts receivable. The system is called the Kolect-A-Matic Simplified Unit Invoice Accounting Plan, (SUIAP). The basic unit of the SUIAP is a duplicate of the bill itself. The copies of the invoices become the accounts receivable ledger which eliminate posting and at the same time, provide detailed information about the transaction. The system is complete with Kolect-A-Matic equipment which visibly indexes every name and reserves a pocket in which a summarized credit history and full information on current charges may be kept. When the invoices arrive from the billing department, they are alphabetized by controls in a multisort. They are then totalled by controls and the control totals are recapitulated to prove with the billing department transmittal slips.<sup>6</sup>

The invoice is filed in the Kolect-A-Matic tray by the name of the account and behind the older invoice. The visible margins (signals) graphically age the oldest charges. In this case, the signal will show the month of the oldest charge. If there is no outstanding charge, the signal is placed over the current month. The invoices for infrequent customers are placed in a pocket indexed see "Ha Misc." On this pocket the signal is also set over the date of the oldest invoice. This tends to call attention to any other invoices which may be delinquent.

---

<sup>6</sup>Remington Rand Corporation. Remington Rand Kolect-A-Matic Simplified Unit Invoice Accounting Plan (New York: Remington Rand Systems, Division of Sperry Rand Corporation).

When the customer pays his account in full, the invoice is pulled and stamped paid. If there is a discount, it is entered on the invoice. In cases of partial payment, the invoice is pulled and a partial payment slip is made out in duplicate. The original copy is placed with the paid invoices, the duplicate is stapled to the invoice copy, and both are returned to the pocket. These slips are only used when the customer is paying on account. The position of the signal remains in the same position because there is still a balance due in the month covered by the signal. If that particular invoice had been paid in full, and if there was still another invoice that had not been paid, the signal would be moved to cover the month of the next due invoice. If no more invoices are due, the signal is moved to the neutral center position.<sup>7</sup>

If through error, a customer underpays or overpays, debit or credit notes are used. For example, when a person underpays, a debit note is created in duplicate and date-stamped paid. The original copy is placed in the pocket and the duplicate copy is attached to the paid invoice copy and placed with the invoices. The signal remains over the month of the invoice for which the debit note was made. In the case of an overpayment, a credit note is created in duplicate and the invoice is date-stamped paid. The duplicate is attached to the paid invoice and placed with the paid in-

---

<sup>7</sup>Ibid.

voices. The signal is now set over the month having the oldest charge. If there are no charges, the signal is moved to the extreme right to indicate a credit balance.

Duplicates are always attached to the invoice copies. The white copies are always added and the pink copies are always subtracted on the proof. The clerk is able to tell whether an item is to be added or subtracted by the color of the form. She knows that all invoices and white forms - original partial payment slips, original debit notes, and duplicate credit notes - are added; and the amounts from pink copies - duplicate partial payment slips, duplicate debit notes, and original credit notes - are subtracted.

The clerk simply lists the amounts from forms pulled from each control group in order to secure the credit posting to each account. The discounts are not listed by controls, but they are listed in order that they might be posted to the general ledger. The individual control totals are listed and subtalled and the discount is subtracted, leaving a balance which must agree with the remittances. By listing all checks together, a tape for the bank deposit is automatically secured - a carbon copy may be kept by the firm.<sup>8</sup>

The Remington Rand Corporation provides its own Kolect-A-Matic equipment and the safe-desk in which the records are housed. The equipment is insulated to guard the records from fire. It is said to be able to withstand heat reaching

---

<sup>8</sup>Ibid.

1700° fahrenheit for at least one hour without damage to the paper content.

The advantages that can be expected from this system include the fact that accounting machines have been eliminated, ledger records are duplicates of the customer's invoice, ledger contains only open items, and collection follow-up is faster due to the use of the graph-a-matic signal.<sup>9</sup>

As was mentioned previously, this system is designed for those businesses which deal almost entirely in accounts receivable. The real estate broker is a good example of one who would find this system very economical and time-saving. Check appendix B, on page 40 for the purchase address.

---

<sup>9</sup>Ibid.

## C H A P T E R F O U R

### CONCLUSION AND RECOMMENDATIONS

It is not within the scope of this paper to consider, or even enumerate, all accounting systems that are available to the small business firm. Certain features of the systems presented were pointed-out in order that the small business proprietor might gain some insight as to the services that are available.

This study is an attempt to point out to the small businessman that he need not employ a full-time accountant in order to maintain accurate records. It is also an effort to introduce the small business proprietor to various accounting systems, in order to give him an opportunity to evaluate their worth to him.

It is suggested that the proprietor first evaluate his present recordkeeping system. Do you store your receipts and invoices in paper bags, under ink blotters, in unorganized drawers, and other similar places? If this is so, there is no wonder that you overstate your income and leave off half of your expenses when you have to "remember" the income and expenses for income tax purposes. In many instances, you are paying more than your share of the taxes.

It is suggested that you arrange your paperwork in some systematic order. Keep your receipts in such a way that you will know just what amount was received as well as the exact date of the receipt. Frequent visits to the public library is a good habit. Ask the librarian for the latest books and materials on accounting and accounting systems. It is also good to familiarize yourself with the various agencies that can be of assistance in the development of accounting systems. Trade associations give accounting assistance to business proprietors. A number of these associations maintain systems departments which prepare uniform accounting systems. In many instances, the associations employ traveling representatives who are responsible for supervising the installation of systems, as well as training the work staff.

You may employ the services of a public accountant, who will study the present accounting system; study the functional organization of the business; study the peculiarities of procedures for the sales - receivables cycle; the purchases - payables cycle; cash receipts and disbursements; study the time and payroll system; and check the plant and equipment records. On the basis of the information gathered, the accountant will design and install a system to fit the needs of your particular firm.

Organizations of accountants are important sources of systems information. The National Association of Cost

Accountants publishes an annual year book and semi-monthly bulletins which carry a great deal of information on accounting systems. These publications are written by accountants who have solved the accounting problems of many business firms. The information is made available to the public for a nominal fee.<sup>1</sup>

The American Institute of Certified Public Accountants Publishes the Journal of Accountancy, which contains a variety of systems problems. The American Institute of Certified Public Accountants also publishes the Accountant's Index, which is a bibliography of accounting articles and books published.<sup>2</sup>

Another source of information on accounting systems and procedures is the Harvard Bureau of Business Research. This organization makes extensive studies of accounting procedures of retail trade. These studies have influenced the installation of better accounting systems.

Insurance companies may also be included in this list of sources of systems information, for they have done a great deal of research in certain areas. For instance, the Policyholders' Division of the Metropolitan Life Insurance Company has done research and made publications available to the public free of charge. Those studies have covered such subjects as "Accounting for Milk Delivery

---

<sup>1</sup>Thompson. op cit. pp. 735-736.

<sup>2</sup>Ibid. p. 736.

Routes," "Promoting Honesty Among Chain Store Employees," "Stock Control For The Chain Grocer," etc.

Many agencies of the Federal Government carry-on research in accounting. Among Federal agencies which carry-on research are the Federal Trade Commission, the Department of Agriculture, the Bureau of Mines, the Interstate Commerce Commission, and the Department of Commerce. These agencies have done a great amount of work in investigations and research. Results of studies made by Federal agencies may be secured from the Government Printing Office in Washington, D.C.<sup>3</sup>

Large corporations such as General Motors, Chrysler and Goodyear have done research in accounting. University bureaus of business research; consultation bureaus of large home-study schools, and chambers of commerce also perform research in accounting. We must not omit from the list of organizations doing research in accounting the various business machine manufacturers which maintain systems divisions. Some of the firms noted for research in accounting are International Business Machines Corporation, Remington Rand Incorporated and Burroughs Corporation.

The groups referred to above are working toward simplified and uniform accounting systems; standardization of account classifications and terminology. Today our economic order tends toward regulation and co-operation, which means

---

<sup>3</sup>Ibid. p. 737.



that, as a result of this tendency, there will be more stress on uniform accounting. Modern conditions increase the necessity for group action and co-operation; and comparative data on group operations become more important for the success of the individual proprietor.<sup>4</sup>

After you have revised your present system of accounting, you will find that you will benefit by possibly purchasing fewer pieces of equipment, such as file cabinets; thus eliminating some equipment which has been unnecessarily taking up office space. Revision of the system may also reduce the overall amount of paperwork, and improve the efficiency of your bookkeeping operations. A critical revision and planning of the bookkeeping system would make certain that each record that you create, process, and maintain meets definite standards, and is therefore, more useful.

---

<sup>4</sup>Ibid.

A P P E N D I X A

BALANCE SHEET

Assets

Current assets:

Cash		XXX	
Accounts receivable	XXX		
Deduct allowance for doubtful accounts	<u>XXX</u>	XXX	
Inventories:			
Finished goods	XXX		
Goods in process	XXX		
Materials	<u>XXX</u>	XXX	
Unexpired insurance		<u>XXX</u>	
Total current assets			XXX

Fixed assets:

Land		XXX	
Buildings	XXX		
Deduct accumulated depreciation	<u>XXX</u>	XXX	
Machinery and equipment	XXX		
Deduct accumulated depreciation	<u>XXX</u>	XXX	
Furniture and fixtures	XXX		
Deduct accumulated depreciation	<u>XXX</u>	XXX	
Total fixed assets			<u>XXX</u>
			<u>XXX</u>

Liabilities

Current liabilities:

Accounts payable		XXX	
Accrued salaries and wages		XXX	
Federal income tax payable		<u>XXX</u>	
Total current liabilities			XXX

Owner's Equity

Capital			<u>XXX</u>
			<u>XXX</u>

## PROFIT AND LOSS STATEMENT

Gross sales		XXX
Deduct:		
Sales returns and allowances	XXX	
Sales discounts	<u>XXX</u>	<u>XXX</u>
Net sales		<u>XXX</u>
Deduct cost of goods sold:		
Finished goods inventory (beginning)	XXX	
Cost of goods manufactured	<u>XXX</u>	
Total	XXX	
Deduct finished goods inventory (ending)	<u>XXX</u>	
Cost of goods sold		<u>XXX</u>
Gross profit on sales		<u>XXX</u>
Deduct expenses:		
Selling expenses:		
Advertising	XXX	
Salesmen's traveling expenses	XXX	
Heat and light	XXX	
Miscellaneous selling expenses	<u>XXX</u>	XXX
General expenses:		
Officers' salaries	XXX	
Office salaries	XXX	
Stationery and printing	XXX	
Office supplies used	XXX	
Depreciation:		
Building	XXX	
Furniture and fixtures	XXX	
Heat and light	XXX	
Insurance expense	XXX	
Taxes	XXX	
Bad debts expense	XXX	
Miscellaneous general expenses	<u>XXX</u>	<u>XXX</u>
Total expenses		<u>XXX</u>
Net income before federal income tax		XXX
Federal income tax		<u>XXX</u>
Net income		<u>XXX</u>

A P P E N D I X B

A LIST OF ADDRESSES WHERE THE SIMPLIFIED  
ACCOUNTING SYSTEMS DISCUSSED MAY  
BE OBTAINED

The Ideal System

The Ideal Company  
6 Church Street  
New York 6, New York

The Penny Record System

The Penny Record Company  
Oklahoma City, Oklahoma

The Simplified Unit Invoice Accounting Plan

Remington Rand Systems  
Division of Sperry Rand Corporation  
122 East 42nd Street  
New York 17, New York

FACSIMILE PAGE - THE IDEAL SYSTEM SOCIAL SECURITY AND PAYROLL RECORD.

INDIVIDUAL PAYROLL RECORD FOR YEAR ENDING \_\_\_\_\_ 19\_\_

NAME OF EMPLOYEE \_\_\_\_\_ SOCIAL SECURITY NO. \_\_\_\_\_ DATE EMPLOYED \_\_\_\_\_  
 ADDRESS \_\_\_\_\_ CITY \_\_\_\_\_ MARRIED  NUMBER OF EXEMPTIONS } DATE TERMINATED \_\_\_\_\_  
 PHONE \_\_\_\_\_ DATE OF BIRTH \_\_\_\_\_ SINGLE  CLAIMED ON FORM W4 } REASON \_\_\_\_\_

THE IDEAL SYSTEM. COPYRIGHT U.S. PAT. OFFICE

IDEAL SYSTEM - FORM Q-812

WEEK ENDING	HOURS WORKED		RATE	PER	REGULAR TIME EARNINGS	OVERTIME EARNINGS	OTHER COMPEN-SATION	TOTAL EARNINGS (A)	DEDUCTIONS FROM EMPLOYEE'S EARNINGS					TOTAL DEDUCTIONS (B)	NET AMOUNT PAID EMPLOYEE (COL. A LESS COL. B)	CHECK NO
	REG. TIME	OVER TIME							STATE UNEMP. INS. AT %	FEDERAL OLD AGE AT %	FEDERAL WITHHOLD-ING TAXES	OTHER WITHHOLD-ING TAXES	OTHER DEDUCTIONS			
1																1
2																2
3																3
4																4
5																5
6																6
7																7
8																8
9																9
10																10
11																11
12																12
13																13
14	TOTAL 1ST QUARTER															14
15																15
16																16
17																17
18																18
19																19
20																20
21																21
22																22
23																23
24																24
25																25
26																26
27																27
28	TOTAL 2ND QUARTER															28
29																29
30																30
31																31
32																32
33																33

THE IDEAL SYSTEM  
 REG. U. S. PAT. OFFICE  
 PUBLISHED BY  
 THE IDEAL SYSTEM CO., LOS ANGELES

INDIVIDUAL PAYROLL RECORD FOR YEAR ENDING

19

NAME OF EMPLOYEE \_\_\_\_\_ SOCIAL SECURITY NO. \_\_\_\_\_ DATE EMPLOYED \_\_\_\_\_  
 ADDRESS \_\_\_\_\_ CITY \_\_\_\_\_ MARRIED  NUMBER OF EXEMPTIONS } DATE TERMINATED \_\_\_\_\_  
 PHONE \_\_\_\_\_ DATE OF BIRTH \_\_\_\_\_ SINGLE  CLAIMED ON FORM W4 } REASON \_\_\_\_\_

THE IDEAL SYSTEM. COPYRIGHT U.S. PAT. OFFICE

IDEAL SYSTEM - FORM Q-812

WEEK ENDING	HOURS WORKED		RATE	PER	REGULAR TIME EARNINGS	OVERTIME EARNINGS	OTHER COMPEN-SATION	TOTAL EARNINGS (A)	DEDUCTIONS FROM EMPLOYEE'S EARNINGS						NET AMOUNT PAID EMPLOYEE (COL. A LESS COL. B)	CHECK NO	
	REG. TIME	OVER TIME							STATE UNEMP. INS. AT %	FEDERAL OLD AGE AT %	FEDERAL WITHHOLD-ING TAXES	OTHER WITHHOLD-ING TAXES	OTHER DEDUCTIONS	TOTAL DEDUCTIONS (B)			
1																	1
2																	2
3																	3
4																	4
5																	5
6																	6
7																	7
8																	8
9																	9
10																	10
11																	11
12																	12
13																	13
14	TOTAL 3RD QUARTER																14
15																	15
16																	16
17																	17
18																	18
19																	19
20																	20
21																	21
22																	22
23																	23
24																	24
25																	25
26																	26
27																	27
28	TOTAL 4TH QUARTER																28
29	TOTAL FIRST QUARTER																29
30	TOTAL SECOND QUARTER																30
31	TOTAL THIRD QUARTER																31
32	TOTAL FOURTH QUARTER																32
33	TOTAL FOR YEAR																33

REG. U. S. PAT. OFFICE  
 PUBLISHED BY  
 THE IDEAL SYSTEM CO., LOS ANGELES

## B I B L I O G R A P H Y

### Books

- Backer, Morton. Handbook of Modern Accounting Theory. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1961.
- Edwards, James Don. History of Public Accounting in the United States. East Lansing, Michigan: Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, 1960.
- Ellis, Jessie Croft. Small Business Bibliography. Boston: F.N. Faxon Company, 1951.
- Finney, F. A. and Miller, H. E. Principles of Accounting, Introductory. 5th ed. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1958.
- Kelley, Pearce C. How To Organize And Operate A Small Business. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1955.
- Meigs, Walter B. Principles of Auditing. Homewood, Ill,: Richard D. Irwin, Inc., 1959.
- Neuner, John J. Accounting Systems, Installation and Procedures. Scranton, Pennsylvania: International Textbook Company, 1949.
- Streightoff, Frank Hatch. Elementary Accounting. New York: Harper & Brothers Publishers, 1928.
- Thompson, William R. Accounting Systems, Their Design And Installation. Chicago: LaSalle Extension University, 1942.

### Pamphlets

- Heidbreder, Elizabeth. Recordkeeping Systems, Small Store And Service Trade. Washington, D.C.: Small Business Administration, 1962.

Ideal Company. The General Bookkeeping and Tax Record System. New York: The Ideal Company.

Remington Rand Corporation. Remington Rand Kolect-A-Matic Simplified Unit Invoice Accounting Plan. New York: Remington Rand Systems, Division of Sperry Rand Corporation.

Sevin, Charles H. Starting and Managing A Small Bookkeeping Service. Washington, D.C.: Small Business Administration, 1962.

Witschey, Robert E. Public Accounting Services For Small Manufacturers. Washington, D.C.: Small Business Administration, 1954.

#### Other

Atlanta University, Atlanta, Georgia. Personal interviews with Jesse B. Blayton, Certified Public Accountant. June 24, 1963; July 18, 1963.

Hale's Accounting Office, Atlanta, Georgia. Personal interviews with Yvonne M. Miller, Office Manager. June 26, 1963; July 1, 1963; July 19, 1963.