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**ACCOUNTING
SUGGESTIONS**
for
**MISSISSIPPI
BUSINESSMEN**

By
WILLIAM V. GEORGE

**BUREAU OF
BUSINESS
RESEARCH
UNIVERSITY OF
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Mississippi Businessmen

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BUREAU OF BUSINESS RESEARCH
UNIVERSITY OF MISSISSIPPI
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PREFACE

Mississippi businessmen, in fact all businessmen, should be vitally interested in the operating results of their enterprises. They are hopeful of increasing net income. The tool which produces the results they are so interested in is accounting, often referred to as the language of business, the medium through which operating results are made known.

This brief study in no way undertakes to teach the multitude of complex problems that arise in accounting for business today. Rather, it offers a brief explanation of, or reference to, some of the problems which will arise in even small businesses. Many of the topics of discussion will be elementary to some. Their inclusion here, however, is intended to stimulate thinking about some accounting essentials of which most businessmen are aware, although they have not seen fit to use all of them in their businesses. If the booklet results in just one Mississippi businessman adopting new methods or procedures which eventually help his business, then it will have served its purpose.

The booklet is divided into two parts: the first should be of interest to the owner or manager,

while in the appendix will be found some material which will be of aid to the bookkeeper or the accounting department. The former attempts to explain, in very general terms, some of the items that make control of accounts necessary for healthy operating conditions. One entire chapter is devoted to available services of the certified public accountant, together with a chart of location, in the state, of the registered professional accountants as of this writing. Certified public accountants are available to Mississippi businessmen, large and small. The recommendation that you investigate the possibility of retaining them to serve you is wholeheartedly made. Accounting is a complex field, and businessmen today need competent, *independent*, professional advice. The service fee of the professional accountant will be recovered many fold by those of you who take him into your confidence. The appendix contains formulas for the computation of useful financial ratios, and a set of mathematical proofs, which, if mastered by the bookkeeper or members of the accounting department, will be of much benefit to office procedure.

This booklet does not attempt to teach accounting principles. It is hoped, however, that it will stimulate an additional interest in the maintenance

of adequate records and the desirability of utilizing the available services of certified public accountants in your efforts to improve existing record-keeping, which in turn will strengthen your business.

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I. INTRODUCTION

Lack of adequate records is undesirable and may prove to be a costly experience in small as well as large businesses. Probably a majority of large business firms maintain adequate records, but small and medium-sized businesses, the country over, have been and still are in need of aid with regard to accounting and record keeping. All businessmen are interested in methods of increasing "net profit" from firm operations. Sound accounting techniques play a large role in determining what the profit figure really should be at the end of the operating period. This booklet has been prepared in an effort to help the Mississippi businessman understand the complexities of adequate record-keeping and to encourage him to seek professional accounting aid.

Business firms which enjoy comparatively large volume, and by necessity maintain adequate office personnel, ordinarily have the services of capable clerical help who, with the aid of the professional accountant, manage to keep comprehensive business records. Smaller firms, whether they are engaged in the marketing of necessities, are manufacturers, or are service establishments, need and should request aid in regard to maintenance of accounts.

Prior to comparatively recent federal legislation setting forth requirements under the Social Security program, some small business records were not carefully kept. Income tax payments were not experienced by the small firm. Record-keeping in many cases was composed of a record of bank deposits and disbursements. The small businessman operated his business on principles learned from experience and kept his records "in his head." Requirements of governmental agencies will not now allow this. Complete standardized records are mandatory to conform with the requirements of such legislation as the Social Security Act, the Fair Labor Standards Act of 1938, and the Internal Revenue Code. Records must be accurate, not approximations. Furthermore, forms must be maintained subject to inspection by federal officers for varying periods of time. For example, forms prepared in compliance with the Wage and Hour Law must be preserved for at least four years from the last date of entry. Records must be available for inspection and transcription at any time by the Wage and Hour Division.¹ Certainly this latter requirement necessitates accurate record-keeping. Of course, not all business requirements

¹J. K. Lasser, (Ed.), *Handbook of Accounting Methods*, (Toronto: D. Van Nostrand Company, Inc., 1943), pp. 308-9.

are the same, so different types of records are necessary from one type of firm to another. Some firms require more rigid control of inventories, all require tight control over cash, while still others will need more control over disbursements than will firms in other lines. Determination of firm requirements is subject to the nature of the business, its size, amount of services it renders, and so forth.

Definition of Accounting

One source states that, "A storekeeper in Pittsburgh had what he described as 'the world's best accounting system'—a roll of money in his pocket. If it shrank, he figured that he was losing money; if it grew he believed that his business was profitable. That was all he thought he needed to know. That merchant was in business. He is not in it now!"² The bulletin further states that one business out of every six makes a satisfactory profit. Most of the failures take place within the first five years. Nearly all business failures have one thing in common—poor record-keeping.³

²Department of Commerce, *Small Business Aids*, No. 302, citing "Profit from Store Records," one of 17 booklets making up the handbook, *Better Retailing*, published by the National Cash Register Company, Dayton, Ohio.

³Department of Commerce, *ibid.*

Accounting is universally recognized as the language through which operating results are made known. It is an orderly presentation of the operating results and financial condition of the firm. Necessary steps to the end result include recording of transactions, assembling of data after recording, analysis and interpretation of data, and finally, statement interpretation of the data. One author⁴ has stated that the major purposes of an accounting system are: "(1) to record business transactions, (2) to safeguard assets, and (3) to control operations."

Knowledge of accounting principles is necessary if results are to be correctly portrayed. If the small business does not employ competent clerical help to maintain its records, outside help is imperative. It is true that outside aid involves business expense but in many cases, the nominal cost results in large savings elsewhere in the operations of the business. Discussion of the desirability of retaining the services of certified public accountants in medium-sized and smaller businesses will be found later in this booklet. The old adage, "an ounce of prevention is worth a pound of cure," applies particularly to accounting problems faced by all business today.

⁴Lasser, *op. cit.*, p. 3.

II. CONTROL OF CRITICAL ACCOUNTS

Normally, large businesses make use of a Chart of Accounts. This is merely a classified listing of the accounts found in its ledgers. Large firms have need for widely diversified accounts with subsidiary ledgers very often of voluminous nature. This large breakdown of accounts is not necessary in smaller businesses although the most important accounts are found in all sizes of firms. All organizations have assets and liabilities. In small firms the necessary accounts may be few, but all-important nonetheless. The most important of these will now be discussed with recommendations thereto. The discussion has been limited to current accounts. No mention is made, herein, of fixed assets which normally include land, buildings and other real property.

CASH

Control of cash is probably the most important single problem of any businessman other than those who operate their businesses singlehandedly. Any firm employing help must tightly control its cash. It is not a matter of distrusting employees. By and large, most persons are honest, or desire to be. Loose control of cash, however, creates

temptation which may eventually influence an honest employee to change his habits. The owner and all of his employees will do better work and have a higher regard for each other if theft temptations are kept at a minimum. This need for control is obvious to everyone.

Use of Cash Registers

A fundamental requirement for the adequate control of cash receipts is the use of automatically recording cash registers. If the register produces printed receipts, customers should be encouraged to ask for them. This procedure requires the person receiving payment to ring-up the sale. The dials will automatically record the receipt of cash. Of course, the owner or manager should be the only person authorized to unlock and lift the register cover for the purpose of taking the register reading when checking cash receipts. Ordinarily, the bookkeeper should not be assigned this task.

A specified amount of register cash for purposes of making change should be planned. Daily receipts—that amount in the register in excess of change—should be regularly deposited in the bank on the day following its receipt. This amount should therefore be the net amount of cash received the previous day. One word of caution is needed at this point—if possible, it is better that

someone other than the bookkeeper make bank deposits. Fraud is made easy for the bookkeeper who also has access to cash. Misappropriations may be covered by manipulation of accounts, whereas a division of duties will require collusion between two or more employees for purposes of misappropriation of funds.

Periodic checks should be made comparing the cash receipts total against the following day's bank deposit. If the method explained above is rigidly followed, cash receipts for any one day should be the same as the bank deposit made the following day. If any discrepancy is found, a thorough investigation should be made and the full details determined. *This point is very important.*

Bank Reconciliation

Each month, when the bank statement is received, the bank balance should be reconciled with the cash balance as shown by the ledger. The principles of reconciling a bank account are generally well understood. It is important, however, to effect the reconciliation in a systematic and orderly manner. The following simple bank reconciliation is presented so that orderliness may be emphasized. This will help to set forth the adjustments which are necessary to bring the ledger

balance into agreement with the cash balance as shown by the bank statement.

Bank Reconciliation, October 31, 1949

Balance, per books		\$2,190.57	
Deduct bank's charges			
not on the books:			
Exchange	\$.10		
Collection	.25		
N. S. F. Check—			
John Doe	63.85	64.20	
		<u>64.20</u>	
		\$2,254.77	
		<u><u>2,254.77</u></u>	
Balance, per bank			
statement		\$2,494.27	
Add deposit not taken up			
by bank		60.50	
		<u>60.50</u>	
		\$2,554.77	
Deduct outstanding checks:			
#14	\$200.00		
#15	100.00	300.00	
		<u>300.00</u>	
		\$2,254.77	
		<u><u>2,254.77</u></u>	

The bank reconciliation takes into account items which have not been recorded by both the bank and the firm. These include such things as deposits not yet taken up on the bank statement, outstanding checks, bank service charges, returned

customer's checks, and other items for which reciprocal recordings have not yet been made.

It is most important that the firm's cash, as shown by its ledger account, be adjusted for applicable transactions which have not been recorded, so that the accuracy of both the firm books and the depository records will be proved. Bank reconciliation should take place as soon as possible after receipt of the bank statement. This operation affords a check on the accuracy of both parties, either of whom may make errors. All banks request depositors to examine their statements and report irregularities promptly.

Petty Cash Fund

Expenditures for business expenses and purchases of merchandise obviously must be controlled and only legitimate claims should be paid. One sound approach to adequate control is the use of a petty cash fund. Small expenditures will be paid from the fund while large items will be paid by check.

The amount in a petty cash fund necessarily depends upon the volume of payments being made from it. Conceivably, some firms may need a \$10 fund while others may require \$50. The procedure ordinarily followed is to establish a fund with the total amount placed in the petty-cashier's

hands, who has the responsibility of paying small bills. Expenses under a specified amount will be paid from the fund and with each outlay of cash a receipt must be received. At all times, the total cash plus the receipted vouchers in the petty cash fund should total the original amount of the fund. When the fund gets low, the receipted vouchers are collected and totaled. Replenishment in the amount of the receipted vouchers is then made to the fund from general cash. This latter operation results in debits to expense accounts on the basis of the receipts, and a credit to cash.

Use of a petty cash fund eliminates the writing of checks for small expenditures, thereby saving time, stationery charges, and possible bank service charges if bank charges are based upon the number of checks written.

Voucher Checks

Pre-numbered checks should be used by every business so that all checks can be accounted for when they are returned by the bank. After cancellation by the bank, all checks should be "booked" in numerical sequence and filed away. Many types of voucher checks are in existence. One example is a perforated form, one-half of which is the check-blank, and the other half (likewise pre-numbered) is a voucher form on which

space is found for a full explanation of the expenditure—date, amount, payee, address, invoice number, and other such information. These voucher forms present the basis for charges to the various accounts.

A further control of cash can be obtained by instituting a requirement for counter-signing checks. This, in effect, requires a person in authority to approve through his signature payment of the liability. Needless to say, the requirement setting forth the necessity for two signatures to validate a check affords additional control over possible fraudulent disbursements.

ACCOUNTS RECEIVABLE

Those firms which extend credit to customers should maintain careful control over accounts receivable, endeavoring to keep all accounts on a current basis in so far as is possible. Current accounts are much easier to collect than are past-due accounts. If credit terms are net thirty days, for example, accounts may become doubtful of full collection when they become ninety days past due. The businessman can usefully spend a good portion of his time watching accounts receivable and pressing for collection of past-due accounts.

When accounts are carried past due date, working capital is then invested in doubtful receivables.

A good volume of sales soon becomes damaging if the accounts cannot be subsequently collected. Many firms have failed because their working capital has been tied up in receivables by a manager who did not recognize the inherent danger of poor credit principles. The manager who allows working capital to be frozen in excessive accounts receivable is flirting with disaster.

Most owners and managers realize what is at stake when credit is granted. In small communities the owner knows his customers, their financial status, and their credit standing. In such cases, most losses are probably not great. Where any doubt whatsoever exists, it would be well to investigate, through the local credit bureau, all applications for credit. The nominal charge involved is recovered many-fold in following months. Local credit bureaus offer many services, and through correspondent bureaus in other cities and states quite accurate information may be obtained with regard to new residents in the community.

INVENTORIES

Another important item in any business is inventory control. Equally as important as sales, the inventory on the shelves and tables must be protected from theft, damage, and loss from fire, flood, and earthquakes. Protection against acts of

Providence can best be provided for through insurance. Certainly, the acts cannot be humanly avoided. Merchandising techniques afford the best control over theft.

There are, however, accounting methods of inventory evaluation which should be mentioned here. For reasons understood by all merchants, both the opening and closing inventory valuation figure directly affects both the statement of profit and loss and the balance sheet. Some of the methods of valuing inventories for statement purposes are, (1) first-in first-out (FIFO), (2) last-in first-out (LIFO), (3) lower of cost or market, and (4) base stock. These four methods, and variations of them, form the nucleus of inventory valuation principles. Large firms have various reasons for using specific methods. To thoroughly take advantage of some methods, however, somewhat comprehensive records are needed which would not be feasible for some of the smaller businesses.

One accepted accounting principle available to small business for inventory valuation is use of "lower of cost or market." An example will clearly portray this principle.

<u>Item</u>	<u>Cost</u>	<u>Market</u>
1	\$1.00	\$1.05
2	2.50	2.25
3	1.50	1.50

For inventory valuation purposes, each item is valued at the lower of the two values. For instance, item 1 would be valued at \$1.00, its cost; item 2 would be carried at \$2.25, its current cost; and item 3 would be valued at \$1.50, there being no change in original and current cost.

This principle is favored by accountants because of its conservative nature. Valuation, for statement purposes, of items in excess of present cost is unrealistic because it anticipates future profit. From a conservative standpoint, accounting should anticipate losses but not profits. This method of inventory valuation is acceptable for federal income tax purposes.⁵ It is comparatively simple, requiring only a knowledge of current as compared with original cost prices.

Repossessed Goods

For those firms which repossess goods sold on time, correct inventory valuation is necessary when the merchandise is placed back in stock. The unpaid balance on the original contract will not do

⁵*Student's Tax Law Service*, (New York: Prentice-Hall, Inc., 1948), pp. 2603-4.

because there is present in such a proposal danger of either overvaluing or undervaluing the goods. Probably the soundest method is to estimate what the article will bring when sold in its present condition, and deduct from this figure the normal gross profit for the firm. Consultation with the professional accountant is advisable in this regard.

For example, let us assume that merchandise is sold in 1948 for \$400. Cost of the goods is \$240, leaving gross profit in the amount of \$160 or 40 per cent of the sales price. To date, the purchaser has made payments totaling \$150. If the repossessed valuation, for inventory purposes is \$125, a possible entry to record the repossession is:⁶

Repossessed Merchandise	125
Deferred Gross Profit, 1948	100
Loss on Repossessions	25
Installment Accounts Receivable, 1948	250

The installment accounts receivable is reduced by the uncollected balance; the deferred gross profit is reduced by \$100 which represents 40 per cent of the gross receivable at the time of repossession;

⁶See Howard S. Noble, Wilbert E. Karrenbrock, and Harry Simons, *Advanced Accounting*, (Cincinnati: South-Western Publishing Company, 1941), p. 295 ff.

the repossessed merchandise account is charged for its reported value of \$125; and the loss is the balancing figure. It is true that the above entry shows a loss although prior profits on the transaction had been taken up. Thus far, profit in the amount of \$60, (.40 x \$150), has been recognized. Net gain is therefore \$35 which is proved as follows:

Total amount received from sale		\$150
Loss through depreciation of equipment:		
Cost	\$240	
Value assigned upon repossession	125	115
Net Gain		<u>\$ 35</u>

Inventory Taking

Before the task of inventorying merchandise is begun, all employees should be briefed and instructions thoroughly explained. An effort should be made to explain that the job ahead is not just a task to be completed as quickly as possible. Since the final results of inventories directly affect the profit or loss figure as well as the balance sheet presentation of the business, it is vital that every precaution be taken to achieve exactness in so far as is possible.

When the actual count begins, one person should call out each item and the quantity. These

figures will be recorded by a second person who will repeat the figures back to the counter, after recording. Each group of items should be labeled or checked off as having been recorded so that they will not be recorded again. Inventory tags best accomplish this problem. After recording has taken place, a supervisor will determine that all items have been counted.

After all merchandise has been counted, the summary sheets are prepared by transferring results from the original sheets to the summaries. The next step is to insert each item's value as determined by "lower of cost or market" explained above. This operation should be carefully checked by one other person. Before cost extensions are made, all figures should be carefully scrutinized to see that no errors or transpositions took place when transferring data from the original to the summary sheets.

Extensions of individual items are then made and the resulting columns are totaled. All summary sheet totals, taken together, produce the total inventory valuation. The suggestion for accuracy *cannot* be overemphasized. Incorrect inventory valuation at the end of an accounting period not only distorts the current year's operating results but also directly affects the profit or loss figure for the following period.

ACCOUNTS PAYABLE

Some businessmen may not believe that control of payables is needed because they pay them as they accrue and become due. If the merchant operates on a strictly cash basis, it is true that at any one moment his liabilities may be few and of nominal amount. However, for those merchants who purchase merchandise on terms such as 2/10, n/30, it is very important that rigid control over payables be maintained.

All merchants recognize, or should recognize, that considerable savings can be made if available cash discounts are taken. This, of course, requires that invoices be processed for payment prior to the expiration of the discount period. For small firms, the use of a "tickler" file is suggested. A small file box will suffice. File divisions are set up, one division for each day in the month, 1 to 31 inclusive. If an invoice is received dated the fifth day of the month and the discount period is ten days, payment must be made by the fifteenth in order to take advantage of the discount. In such a case, management may have a policy of paying such an invoice on the eighth day after its issuance, hence the invoice is filed in the "tickler file" under the thirteenth day of month.

The person who prepares the voucher checks

will have as one of his duties the task of removing invoices due on that particular day. After preparation of the voucher check, the invoice should be stamped with the check number and the date on which the invoice was paid. The invoice is then removed from the tickler file and refiled in the "paid" file. This procedure will do much to insure the prompt payment of liabilities and the advantages gained by taking available cash discounts. Another distinct advantage of such a system is the ease with which total current trade liabilities may be quickly reviewed and totaled. It is necessary only to total the invoices found in the "tickler" file to find total current liabilities on any specific date.

III. AVAILABLE SERVICES OF THE CERTIFIED PUBLIC ACCOUNTANT

The practicing certified public accountant can be of great service to all business, large and small. Some small businessmen have come to realize, through past experience, the importance of the professional accountant's services which certainly are not confined precisely within the range of activities usually considered in the realm of accounting. One writer, stressing the importance of the service to small business has said that, "The widespread idea that public accountants are interested mainly in serving big business is a mistaken one. There are, of course, large firms of public accountants whose organizations are more suited to the needs of big business, but there are many small firms and individual practitioners who are fully qualified and *ready* to be of help to the small retailer."⁷

The desirability of retaining a certified public accountant by the small businessman cannot be over-emphasized nor recommended too strongly.

⁷Department of Commerce, *Small Business Aids, No. 84*, citing Richard C. Rea, "A Small Retail Store Needs a Public Accountant as Much as a Big One to Help Run the Business," *House Furnishing Review*, The Haire Publishing Co., New York, N. Y.

The accountant is a professional man—an expert in his field. Certified public accountants pass difficult professional examinations after long and serious study covering all phases of accounting, financial management, and tax problems. They offer professional services in their field just as does the doctor in the field of medicine, the lawyer in legal matters, or the engineer in his field. You depend upon your doctor to keep you well, your lawyer to represent you in legal matters, and your minister, priest, or rabbi in religious fields. Does it not, then seem logical to retain the practicing certified public accountant to advise you on problems of a financial and accounting nature?

TYPES OF SERVICES

The certified public accountant can help you in six separate phases of your problems:⁸

- (1) planning a bookkeeping system
- (2) modernizing a bookkeeping system
- (3) keeping the bookkeeper up-to-date
- (4) auditing the books
- (5) studying the company's problems, and
- (6) advising on tax developments.

All of these aspects of your problems are important. Even though your firm employs a full-time

⁸Department of Commerce, *ibid.*

accountant, you should investigate the advisability of retaining an independent certified public accountant to aid you.

Planning the System

No two types of businesses have the same accounting requirements. This means that no single business should copy the type of records used or the exact system of another firm. By far the soundest advice anyone can give you upon entering into a new business is to secure the services of a certified public accountant for purposes of establishing your system.

Simplicity should be the first consideration. Present needs should be met in the original work with flexibility also important so that future expansion can be efficiently handled. A new system should not, ". . . provide a too extensive account classification to provide for both the present and far distant future, when a simpler and less detailed one will facilitate routine operations now."⁹ The system must be adequate but not cumbersome.

Quite often, more accounts are actually needed than appear to be necessary to one inexperienced in accounting principles. The practicing certified public accountant will study the over-all require-

⁹Lasser, *op. cit.*, p. 26.

ments of the business both now and with a vision of possible future expansion. From his past experience, he will present a plan to management wherein his recommendations will take the form of a printed report. This service will also incorporate the accountant's recommendations for types of forms to be used in the business as well as the forms to be used in journals and ledgers. In this regard, the accountant will attempt to keep forms standardized so that resulting printing bills will be kept at a minimum.

Modernizing a System

Some firms are still using systems which were established several years ago and are now obsolete, in part, at least. Principles of merchandising, advertising, and styles of equipment change periodically. By the same token, accounting requirements change. Adjustment to meet new needs is advisable from the standpoint of efficiency and economy. Certainly, the expense incurred in gathering and analyzing useless information should be avoided. Conversely, needed information not now being gathered should be included in the accounting program.

The certified public accountant will study the present system in use and make recommendations for needed changes. His advice in some cases will

be to remove old familiar practices which will not be necessarily pleasant for the person accustomed to working with the old system. Old habits are hard to break and this is no exception. Ordinarily, systems changes are made gradually so that workers with the existing system will not be rendered helpless by the sudden innovation.

If complete faith in the accountant is shown by the persons working with the existing system, much good can come from his recommendations. The reverse is also true.

Keeping the Bookkeeper Up-to-Date

When an accountant is retained by the businessman, he can do much to help an inexperienced bookkeeper who is charged with the responsibility of doing the routine operations in the firm's office. The certified public accountant will coach the client's clerk in the methods of handling routine operations and will illustrate to him the necessity of accuracy and promptness in recording transactions. Through the coaching process, smooth operation of the system is enhanced. At the same time, the client's clerk realizes that his job is an important intermediary to the end result—the balance sheet and the profit and loss statement at the end of the accounting period. This service is need-

ed in some firms, not necessary in others, but all should recognize its usefulness.

Auditing the Books

This task will be done prior to issuance of statements for the preceding accounting period. Subsequent to completion of their audits, certified public accountants make available to the client their certified statements. In the report accompanying the statements prepared by the accountants will be found any exception which they may take to company practices. It is most desirable that *certified* statements be written for each year. These statements are advisable whether the type of organization be the sole proprietorship, the partnership, or the corporation. In the case of the partnership, it is necessary that individual partners' interests be protected. Certified statements provide the best means of accomplishing this necessity.

For small businesses an annual audit will not take long for experienced accountants and the resultant fee will be money well spent.

Studying the Company's Problems

A certified public accountant who is retained by the businessman can offer much sound advice on problems faced by the business. Through his an-

analyses he can point out trends which are significant—trends in sales volume, labor costs, advertising expenses, unit costs, bad debt losses, and a host of related items. The businessman may realize that these items are important but he does not always know how to make use of the available data. Such analyses are one of the many services offered clients by the practicing independent certified public accountant.

Business today is complex, ever-changing, and is in need of progressive management. Progressive management must change *with* the times—not *later*. The dormant, old-fashioned manager will not ordinarily be successful when thrown into competition with those who utilize modern methods. The soundest advice which can be offered the businessman is for him to recognize the available services of independent experts. He should seek them out and procure their services so that he may successfully compete with modern methods. The certified public accountant will provide critical, *honest* appraisal of the general situation as he views it. His recommendations will be the result of his expert knowledge and past experience.

Advising on Tax Developments

State and federal taxation laws have become so

complex and controversial that advice should be sought on all situations. In this field alone, it is possible for a certified public accountant to save you more money than his fee in its entirety. No attempt will be made here to mention any of the complexities with which the layman will probably not be familiar. It will suffice to say that this type of service should be utilized. Many, many tax matters are in dispute even among authorities which makes the layman's viewpoint even less secure. The accountant who does a considerable amount of tax work is constantly studying the latest developments and decisions of the tax authorities. His knowledge will, in most instances, be very valuable to you.

The tax problem is not merely one of federal income tax requirements. State income taxation will also be handled by the accountant. Different handling of the problem is necessary for the individual proprietorship, the partnership and the corporation. In most cases the income tax returns will be completed after the annual audit has taken place.

Availability of the CPA

Emphasis should again be given to the fact that the practicing certified public accountant is not available or needed *only* by big business. Many

accounting firms, it is true, specialize for big business audits and tax work just as the physician and surgeon very often specializes in eye-ear-nose and throat, or the brain, or the heart. Many of the firms which work primarily with the large corporations are located in the large cities—the financial centers of the country.

Most resident certified public accountants, those who maintain offices in small towns and cities such as are found in Mississippi, are available to even small businessmen. These men are ready and willing to serve you. Depending, of course, upon their past experience, they are in a position to offer you good, sound, independent advice and counsel. Their services to you cannot be recommended too highly. The services which were previously referred to in this chapter may be obtained in small communities as well as the larger cities of the state.

It was not many years ago that certified public accountants in Mississippi were few and scattered—not generally available to most businesses. The recent World War II called some of them into the service, leaving many communities without a single practitioner. Now, at this writing, the State of Mississippi is fortunate in having 139 persons residing in the State licensed to practice as certified public accountants. This is an achievement which

the state, in general, can point to with pride. Many of the additions to the roll of licensed practitioners are returned servicemen who entered the profession. Additional persons become licensed after examinations which are administered in May and November of each year. Increasing numbers of certified public accountants mean that many businessmen, who previously did not have the opportunity to use this service, now find that practicing professional accountants are located in their communities. This, of course, is a very desirable development. Shown below is a compilation of the resident certified public accountants now licensed in Mississippi, as of the date of this writing.¹⁰

A listing of certified public accountants in Mississippi by counties, cities, and towns is intended to give you some idea of the availability, by geographical location, of the number of accountants who are located in your vicinity.

Any one of these persons will be pleased to discuss your problems with you. Each one will explain to you the approximate fee required for the work you desire to be done. There is not one better bit of advice possible than that of recommending that you call on the independent certified

¹⁰Information obtained from Mississippi State Board of Public Accountancy, P. O. Box 65, Jackson, Mississippi, November 25, 1949.

public accountant of your choice and explain your particular situation in detail to him. He will not invalidate the trust you repose in him by disclosing confidential business facts. Everything that you tell him about your business will be handled in the very strictest confidence by him.

In listing the resident practitioners in the State of Mississippi it might be well to point out that there are certified public accountants, residing in states other than Mississippi, who have been duly authorized by the Mississippi State Board of Public Accountancy and who hold reciprocal C. P. A. certificates from that Board. These individuals therefore are in fact duly authorized practitioners. The purpose of this listing however, was to show by geographical locations the resident CPA's in Mississippi, but the list does not intend in any manner to convey the impression that those certified public accountants residing in states other than Mississippi would not be available for accounting services.

SUMMARY OF CERTIFIED PUBLIC
ACCOUNTANTS BY COUNTIES,
CITIES AND TOWNS

Name of County	Number of Towns in this County in which there are CPA's	Name of Towns	Number of CPA's in this County
Adams	1	Natchez	4
Bolivar	1	Boyle	1
Coahoma	1	Clarksdale	3
Forrest	1	Hattiesburg	7
Hancock	1	Waveland	1
Harrison	2	Gulfport and Biloxi	9
Hinds	1	Jackson	45
Humphreys	1	Belzoni	1
Itawamba	1	Dorsey	1
Jackson	1	Ocean Springs	1
Jones	2	Ellisville and Laurel	8
Lafayette	2	Oxford and University	4
Lauderdale	1	Meridian	13
Lee	1	Tupelo	5
Leflore	2	Greenwood and Itta Bena	12
Lowndes	1	Columbus	3
Marshall	1	Holly Springs	1
Oktibbeha	2	Starkville and State College	5
Pike	1	McComb	1
Warren	1	Vicksburg	2
Washington	2	Greenville and Stoneville	11
Yazoo	1	Yazoo City	1
			139

APPENDIX

AIDS FOR BOOKKEEPERS AND BOOKKEEPING DEPARTMENTS

Ratios

I. Current or Working Capital Ratio

This ratio is often called the banker's ratio, since bankers will generally give credit requests quick application of the principle. Working capital is defined as the excess of current assets over current liabilities. The ratio itself is found by the formula:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

It is important, of course, to realize that the ratio will be much different from one industry to another. For example, some companies in the tobacco industry will have a current ratio to 15:1 while railroads may have less than 1:1.

II. Acid-Test Ratio or Liquidity Ratio

This ratio refers to the relationship of "quick assets" to current liabilities. It is found by

$$\frac{\text{"quick assets"}}{\text{current liabilities}}$$

or

$$\frac{\text{Cash} + \text{Temporary Investments} + \text{Receivables}}{\text{Current Liabilities}}$$

Quick assets include all current assets exclusive of inventories.

III. Proprietary Ratio

The formula for derivation of this ratio is:

$$\frac{\text{Capital (proprietorship)}}{\text{Total liabilities (current and fixed)}}$$

This ratio is a strong indication of credit strength. The ratio, of course, is considered along with the current ratio. It is possible to vastly improve the current ratio by long-term borrowing, using the proceeds to pay current liabilities. Credit analysts would be quick to note, however, that although the current ratio increased, the proprietary ratio varied in the opposite direction.

IV. Turnover of Receivables

This information may be determined by finding the relationship between the average balance of all receivables and the credit sales for the period. For example, if credit sales for the month of January are \$30,000 and the average outstanding balance of accounts receivable is \$60,000, the monthly turnover is $\frac{1}{2}$ or 50 per cent. The average outstanding balance should be determined by averaging either daily or weekly balances. Prior to computation of the ratio, bad debts should be eliminated, and all adjustments for returns and allowances should be made.

In the example given above, we see that payments on accounts receivable were about one-half what they should have totaled, assuming that credit terms are net 30 days. If the regular credit period is 30 days, the turnover rate should be near one; a rate of less than one indicates that on the average, customers are not currently living up to their obligations.

If payments on account are not keeping pace with credit sales, it is then apparent that one of three things is the cause:

- (1) credit policy is too liberal
- (2) credit department is lax in following-up collections, or
- (3) bad accounts have not been written off.

V. Turnover of Merchandise

The ratio is found by this formula :

$$\frac{\text{Merchandise Cost of Sales}}{\text{Inventory Valuation}}$$

This result represents the number of times the value of merchandise is replaced during any one period. Ordinarily, it is stated as the number of times per year. The result is a valuable indication of inventory control *efficiency*. A slow turnover may mean over-investment in merchandise. It should be understood, however, that stock turnover varies widely between different types of industries. For example, chain grocery stores may turn their stocks 15 times per year, or more, while an antique dealer may reasonably have a ratio of one-half, or a complete turnover once every two years.

VI. Ratio of Net Profit to Sales

The formula for derivation of the ratio is :

$$\frac{\text{Net Income}}{\text{Net Sales}}$$

This ratio has little significance unless used in analysis of the entire financial statement of income and expense, because of the wide variations in form of capitalization as well as variations in definitions of "net income" which arise as a result of different handlings of expense items. It does, however, produce a good indication of the amount of net income gained from a specified amount of sales.

Mathematical Proofs

Much personal satisfaction is gained after doing a job if one can *feel* that it has been done correctly. If it is *known* that the work is correct, even greater satisfaction is felt. On the following pages will be found some mathematical proofs which will prove very helpful to those whose duties it is to work in the accounting or book-keeping department of any business. The writer is grateful to a Mississippi firm of Certified Public Accountants which supplied the proofs with the hope of passing along useful information to the readers of this booklet. Application of the proofs in your accounting duties will prove most advantageous in helping to determine the correctness of your work.

It is realized by all concerned that adding and calculating machines are virtually a necessity today. It is not intended that these "Mathematical Proofs" would obviate the usefulness of these machines, but rather to supplement mechanical devices and to develop some interesting principles of proving your work which may in some instances not require the use of mechanical devices.

*A Few Practical Suggestions for Handling
the Fundamental Arithmetical Operations
of Addition, Multiplication and Division*

ADDITION

\$ 68,489.32
134,731.89
185,440.37
8,648.43
2,309.87
150,641.24
86,841.39
55,632.87
<hr/>
\$692,735.38
<hr/> <hr/>

As these columns were added, the totals of each column, with the brought forward figure, were jotted down on a piece of scratch paper as follows:

48 ✓
43 ✓
35 ✓
33 ✓
47 ✓
42 ✓
39 ✓
6 ✓

What you do is this:

1st—Add *up*, 7 through 2, obtaining 48. You write 48 down on scratch paper, then you add *down*, 2 through 7, also obtaining 48. Then you place a *check mark* opposite 48 to show that you obtained the same figure coming down as going up.

2nd—With 4 to carry, you add *up* 4 to the 8 through 3, then you add *down* 4 to 3 through 8, resulting in 43, following same procedure as was used for first column.

3rd and so on to conclusion.

Particularly for a long column of addition, the procedure is superior to adding up through the entire solution and then adding down through the entire solution. Actually you jot these little figures on a piece of scratch paper, to the side. Of course, you immediately write the figures in as a total as you get the same amount adding down as adding up.

In reality this method is a splendid safe-guard and an orderly procedure rather than an arithmetical proof.

PROOF OF MULTIPLICATION

\$75,894.85 x 1,291.24 equals \$97,998,466.11

	Multiplicand	
\$75,894.85 equals 46 equals 10 equals		1
	Multiplier	
1,291.24 equals 19 equals 10 equals		1
(1 times 1 equals 1)		<u>1</u>
	Product	
\$97,998,466.1140 equals 64 equals 10 equals		<u><u>1</u></u>

Take another example:

	8541 x 374 equals 3,194,334	
Multiplicand	8541 equals 18 equals	9
Multiplier	374 equals 14 equals	5
	(5 times 9 equals 45)	45 equals 9
Product	3,194,334 equals 27	equals 9

In the first example the proof is (1) while in the second example the proof is (9).

The procedure for this proof, taking the examples as an illustration, is as follows:

Add digits in multiplicand and re-add until there is one digit—46 equals 10 equals 1. Then add digits in multi-

In the first example the proof is (1) while in the second example the proof is (9).

plier and re-add until there is one digit—19 equals 10 equals 1. Then multiply these digits—1 times 1 equals 1.

Then add the digits in the product and re-add until there is one digit—64 equals 10 equals 1. If the digit thus finally obtained in the product is the same as the digit obtained in the combination of multiplicand and multiplier, then your calculation is correct.

In the second example, whenever you obtain a figure of 9 in the multiplicand, it is unnecessary to obtain a final digit in the multiplier because 9 multiplied by any figure will result in a final reduction to 9; hence, the digit in the product must be 9.

This final proof can, of course, be any one figure, 1 through 9. The reason for this simple yet effective proof is quite obvious. You simply reduce the multiplicand and multiplier to its lowest term, then multiply. Accordingly, the product must be so treated.

DIVISION

Division is more difficult and some what more trying than multiplication and addition.

When a calculating machine is not available, here's a good procedure:

Sales	\$185,973.75	100.00%
Cost of Sales	79,641.87	42.82%
Gross Profit	<u>\$106,331.88</u>	<u>57.18%</u>

First, make a schedule of Sales, \$185,973.75, representing 100% :

<u>Times</u>	<u>Product</u>
1	\$ 185,973.75
2	371,947.50
3	557,921.25
4	743,895.00
5	929,868.75
6	1,115,842.50
7	1,301,816.25
8	1,487,790.00
9	1,673,763.75

The foregoing table takes only a few minutes to prepare. Each multiplication is proved as we go along. Just so the first figure is right, we are safe on the others. For instance, $8 \times \$185,973.75$ is the same as twice 4 times that figure, or 3 times that figure plus 5 times that figure, et cetera. Accordingly, the other calculations were proved.

Then when you make the calculation to determine the percentages for Cost of Sales and for Gross Profit, you proceed as in long division. You can tell immediately from inspection that the first figure in the quotient is 4, and so on, with each multiplication pre-determined.

In addition to determining the percentage of gross profit there are usually a number of other percentages to be calculated, using Sales as 100%, thus making a table and a proof thereof of even greater value.

$$\$79,641.87 \div \$185,973.75 = 42.82$$

With a remainder of 7910250

PROOF

Long Way: $42.82\% \times \$185,973.75 +$
7910250 equals

\$79,641.87

Short Way — The Way We Recommend:

$$\begin{array}{r}
 \$79,641.87 = 42 = 6 \\
 42.82\% = 16 = 7 \\
 \$185,973.75 = 45 = 9 \\
 7 \times 9 = 63 = \overline{9} \\
 + \\
 7910250 = 24 = 6 \\
 \hline
 9 + 6 = 15 = 6
 \end{array}$$

Your proof is 6. You can reduce all figures to one figure, then you can prove as you would ordinarily, i.e.:

The dividend results in one figure of 6

Therefore

Multiply the divisor (\$185,973.75) or 9

By the quotient (42.82) or 7

and you get $63 = 9$

Then add the remainder (7910250) or 6

Then add 9 and 6 = 15 = 6, which is

the same as the dividend.

SUBTRACTION

Since it is so easy to check subtraction by adding back, it is our opinion that an actual mathematical proof will seldom be necessary. Solely for the purpose of completeness and as a matter of interest and for whatever principles may be herein developed, we are presenting herewith examples of proofs of subtraction on the same basis as hereinbefore stated for multiplication and division.

$$\begin{array}{r}
 \$78,432.91 \text{ equals } 34 \text{ equals } 7 \\
 21,632.84 \text{ equals } 26 \text{ equals } 8 \\
 \hline
 \$56,800.07 \text{ equals } 26 \text{ equals } 8
 \end{array}
 \left. \begin{array}{l} \\ \\ \end{array} \right\} \begin{array}{l} \\ \text{equals } 16 \\ \text{equals } 7 \end{array}$$

or taking the same example :

\$78,432.91	equals	34
<u>21,632.84</u>	equals	<u>26</u>
\$56,800.07	equals 26,	8
	or	8

In the first instance we reduced the digits in the minuend, the subtrahend and the remainder to the smallest single digit, then :

1st — We determined the final digit in the minuend to be 7

2nd— We add the final digit in the subtrahend to the final digit in the remainder, resulting in a final digit of 7

In the second instance, here is what we did :

1st — Added the digits in the minuend but did *not* reduce to a single digit but merely extended the first addition of 34

2nd— Added the digits in the subtrahend but did *not* reduce to a single digit but merely extended the first addition of 26

3rd— Deducted the 26 from 34, obtaining 8

4th— Added the digits in the remainder and then *did* reduce to a final digit which agreed with Step 3, of 8

The foregoing methods, though slightly different, did prove the accuracy of the subtraction. In this example, the total of the digits in the minuend exceeded the total of the digits in the subtrahend. For that reason, a mere subtraction of these digits served as a sufficient proof.

Take the following example, where the sum of the digits in the subtrahend is greater than the sum of the digits in the minuend :

$$\begin{array}{r}
 \$132,782.62 \text{ equals } 31 \text{ equals} \quad 4 \\
 \underline{8,694.78 \text{ equals } 42 \text{ equals } 6} \\
 \$127,084.87 \text{ equals } 34 \text{ equals } 7 \quad \left. \vphantom{\begin{array}{l} 31 \\ 42 \\ 34 \end{array}} \right\} \begin{array}{l} \text{equals } 13 \\ \text{equals } 4 \end{array}
 \end{array}$$

In the foregoing example, due to the fact that we can not deduct the sum of digits in the subtrahend from the sum of the digits in the minuend, we proved our calculation by:

- 1st — Adding the digits in the minuend and reducing to a single digit of 4
- 2nd — Adding the digits in the subtrahend and reducing to a single digit of 6
- 3rd — Adding the digits in the remainder and reducing to a single digit of 7
-
- 4th — Adding the 6 and 7, per steps 2 and 3, obtaining and reducing this amount to a single digit to prove the calculation 13 4
-

GENERAL REMARKS

One fundamental thought we have in mind is the question of properly pointing off the decimal mark. The danger of making large errors in this respect is always present. To minimize this type of error we suggest that you test the accuracy of the solution by using the nearest round percentage figure as an indication, such as:

1%

5%

10%

15%

20%

25%

et cetera

to the nearest actual calculation.

Such procedures as the following are helpful:

	25% of \$13,698.73		
Take	\$13,698.73	equals	100%
Divide by 2	6,849.365	equals	50%
Divide by 2	3,424.6825	equals	25%
To prove mulitply by	4		
Thus making	<hr/> \$13,698.7300	equals	100%

In other words it is much easier to divide by 2 than to divide by 4.

You will find, we believe, that the figure 9 is comparable to the letter e in that it is our impression that you will find them used more often than other figures and letters. When we multiply 9 by any figure we obtain a figure the sum of whose digits will add to a final figure of 9.

While speaking of these unusual methods of proving et cetera, we thought it might be of interest to here state our understanding of:

The Origin of United States symbol for the dollar— \$

It is our understanding that in some foreign country many years ago this symbol was developed. Finding it necessary to record the United States Dollar so frequently, some large foreign financial institution conceived the idea of adopting a kind of short-hand symbol for the United States dollar.

- | | |
|--|----|
| 1st— They took the States and used | S |
| 2nd— And then United, but instead of
making a perfect U, they simply
made it shorter by making two lines
slightly oblique | II |
| 3rd— Then they brought them together to
stand for the United States dollar or
our Dollar sign as we know it today | \$ |

CONCLUSION

It must be realized that these proofs are not infallible. If you have an off-setting error, the proof will not detect that. The same is true, of course, with a Trial Balance or with any other proof, but this condition does not in any manner vitiate the usefulness of a proof, as there is no proof of which we have knowledge which will prove that everybody is right all the time.

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