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Advantages of An Accounting System for Garages

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A proper accounting system should be one intended to further the legitimate objects of business and not merely designed for keeping books.

In any business there are two considerations, the accomplishment of a technical operation to serve the needs of customers and the making of a profit in return for this accomplishment. It might seem offhand that one of these conditions naturally implies the other, but this is not always the case. A business may fail because of lack of attention to it as a money making enterprise. A proper business system is an important aid to the management, though without the existence of personal qualifications a business will fail despite the system. The system, however, can be of great importance in the development of personal qualifications which are essential to success.

The Advantages of An Accounting System for Garages

By J. GORDON HILL, C. P. A.
of MacHugh, Hill & Co.

AN essential part of any organization for doing business is its accounting system. The business of operating a garage may not seem to require the same attention to accounting as the large corporations engaged in "big business," but there is the same necessity, though in a smaller field of attaining the greatest possible efficiency. A vital factor in the efficient management of a garage can be found in the advantages to be derived from an adequate accounting system, as surely as in other lines of successful business enterprise.

The average experience of a garage man is that at first the volume of business is small and therefore does not appear to justify the expense of an elaborate set of books, requiring the whole time of a bookkeeper. Under such conditions, the work of bookkeeping is either neglected or deferred, until it is found necessary to keep some kind of records, in order to render bills to customers and collect the ever-needed cash. Often, too, the work of book-

Accounting System for Garages

keeping is assigned to one of the garage employees, as a sort of sideline, or the manager himself attempts the arduous task, when nothing more serious demands his attention, even though he might have to devote some of his evening hours to the work.

It is little wonder then that many garage men have cultivated the attitude that books of account are only a necessary evil from which they would gladly be delivered, if there were any way of escape—if customers could be induced to pay cash on exit, then perhaps the bookkeeping could be limited to the monthly bank statement, indicating (let us hope) ever-growing balances in bank, built up on one hand by daily deposits out of the cash drawer, and reduced on the other hand by checks drawn promptly in payment of supplies, wages and expenses.

Inasmuch as the garage business cannot be conducted on the cash-as-you-exit method, the manager must look for other ways of solving his bookkeeping problem. And it may be said in all confidence that there can be no better time to undertake its solution than when the business is in its state of transition from a small beginning to an assured success; indeed it may not be too much to say that the solution of this problem will prove to be a decided factor in assuring the success of the undertaking.

Accounting System for Garages

There are two phases of the book-keeping problem, which, if properly understood and provided for, will insure a satisfactory solution of the problem as a whole. The matter of first importance is that the system of accounts and the methods of gathering and recording the facts of the business, are so well defined and formulated that the books of account shall be the greatest possible aid to the management of the business, instead of (as may possibly happen) being a hindrance thereto.

The other important phase is that the right individual should be selected for faithfully, honestly and capably carrying out the methods formulated for keeping the accounts and doing other necessary office work. In cases where the volume of business seems too small to engage all the time of one individual and therefore does not warrant paying the salary of a competent bookkeeper, the mistake should not be made of compromising on a poorly qualified bookkeeper at a low salary. A better arrangement is to engage a competent bookkeeper for part of his available time, even though it might be found necessary to pay him all of the poorly qualified bookkeeper's salary.

In a general way, the principles of accounting apply to the business of a garage; certainly the accounts should be based on sound accounting principles. But, on the other hand, the busi-

Accounting System for Garages

ness offers problems peculiar to itself which must be fully understood and provided for. Therefore the mistake should not be made of copying or transplanting a "system," part and parcel, from another line of business and attempting to force the business to fit the system. A system of accounts suitable for a large manufacturing enterprise would undoubtedly impose upon a garage burdens which would be unnecessary and expensive. Again, a system found suitable for a department store or a cash grocery is not necessarily the one best adapted to the use of a garage. The garage man would do well, therefore, to withhold his approval of any system of accounts which cannot be demonstrated as suitable, either to his own satisfaction or that of his accounting advisor. He should be particular to guard against the danger of being "sold" with any system which might be offered as a premium upon the purchase of some office device. None of such devices are wholly without merit, and some can be used to advantage in a garage office, but they have their limitations as well as advantages, and none of them obviate the necessity for a complete specialized system of accounts.

One of the objections which may be raised against installing an approved accounting system is its cost. There is often a temptation to defer the matter until such time as the business and

Accounting System for Garages

profits) increase sufficiently to warrant what seems to be a luxury. There are two errors of judgment involved in this point of view.

The cost of installing an approved accounting system should not be looked upon as an expense from which the business will benefit only during the time it is being installed. Although an intangible asset, it is nevertheless of permanent value to the business, and should therefore be looked upon as an investment in a vital factor of its organization; the benefits accrue during the whole future of the business.

It should also be realized that an approved accounting system when installed does contribute something toward increasing the volume of business and insuring the maximum of profit consistent with service. It would be unreasonable therefore to discard or defer its use in anticipation of improvements in the business, inasmuch as the accounting system itself would aid materially in bringing about such improvements. The architecture of a modern garage and its mechanical equipment are designed for permanent efficiency and economy; so should the equipment be for conducting it as a profitable business.

The benefits to be derived from an approved accounting system may be classed under four headings: 1, Control; 2, Knowledge of Facts; 3, Good Will; 4, Efficiency.

Accounting System for Garages

Control

The accounting system as a whole, but particularly the data supplied regularly from the floor of the garage, afford a means of control over the business, which acts as an assurance that the work is being efficiently done. Although by some shortsighted people, such data may be regarded as "red tape," yet with a skillful manager, it is the means by which he keeps in touch with and controls the details of the business.

One of the most common sources of loss in any business, and it is peculiarly so in a garage, is a mistake honestly made. Garage men in particular appreciate the advantage of having only honest employees, for their honesty must be depended upon. But mistakes can be made with the best intention. In the rush of business, it is easy to defer (and finally forget) making memorandum for some service rendered or commodity supplied. As an illustration, it may be asked how many garages make any profit on gas? or how many can determine at all if they make a profit or suffer a loss? The margin of profit on gas is small enough, and so it can easily be reduced to nil by a few honest mistakes.

The so-called red tape also contributes something toward economy in the use of employees' time; so that it is

Accounting System for Garages

possible for the manager to determine from day to day whether or not each employee is contributing his share of service. When employees realize that they are held to account for the full use of their time, there is an incentive for them to make a good record for themselves, even though a process of elimination may be found advisable to this end.

Moreover, the realization on their part that any failure to perform their duties faithfully (skillfully, as well as honestly) will surely be brought into the light, tends to insure the quality of service as well as a full measure thereof.

Knowledge of Facts

In the second place, an accounting system affords a knowledge of the facts of the business which cannot fail to acquaint the manager with details which are invaluable in shaping its future policies. The manager may be an expert in all lines affecting the conduct of a garage, but without the lessons to be learned from a complete system of accounts, it is not possible for him to manage his affairs as a money-making business; and only a profitable business can survive.

A certain department may be conducted with eminent satisfaction to patrons from the standpoint of work-

Accounting System for Garages

manship, but the statements prepared from the books indicate that financially the department is unsatisfactory because it is operated at a loss. And the remedy may not be found in higher rates to be charged patrons; perhaps still lower rates would attract more business and thereby turn the loss into a substantial profit. These are questions of vital importance to the business, which are being continually raised (and answered) by the accounting system.

Good Will

Every business man recognizes the value of a business to be found in the favor it has gained with its customers or patrons. The patrons of a garage are invariably made up of the successful business men of a community who are peculiarly susceptible to up-to-date business methods. A service bearing the marks of efficiency makes an appeal which does not stop with present patrons; it becomes the subject of wholesome gossip, which attracts others as patrons.

An accounting system is, or should be, more than a system of accounts; it should be a business system, that is, a system designed to further the legitimate objects of business and not merely a system designed for keeping books.

Accounting System for Garages

The so-called red tape can really be shorn of its uselessness and made a factor in promoting efficiency. It is not only a basis for making charges to customers; it is made the means of insuring that specific service is rendered promptly and of an accepted standard.

But, even after these objects are obtained, the books of account themselves are a factor in promoting the good will of patrons. Their only contact with the books is through the medium of the bills received for services rendered. To receive these bills with reasonable promptness, and to earn a reputation for accuracy and fairness in making charges, certainly contributes much toward winning the favor of customers. Moreover, if a dispute arises, an inadvertent mistake which may sometimes occur can be detected and promptly corrected, or the data will be at hand to justify the charge.

Efficiency

The degree of efficiency to be attained in any business may be looked at from two angles: (1) the accomplishment of a technical operation which best serves the needs of its customers or patrons; and (2) the making of a profit which rewards the business for its accomplishments. At first, it might seem that one of these conditions necessarily implies the other, but

Accounting System for Garages

not always is this so. A tragedy often enacted in business is that a worthy enterprise fails through lack of proper attention to it as a money-making business.

The successful operation of a garage, like any other business, is of course dependent upon its management being in competent hands. The accounting system (or business system) properly outlined, is a valuable aid to the management, although it is not claimed that it will make good deficiencies in the manager. If the personal qualifications do not exist, or cannot be developed, the business will fail, despite the system. But the system can be an important factor in the development of those personal qualifications which make for success.

It is, however, in the making of a profit that the accounting system plays its most important part in a business organization. This can be (and has been) best demonstrated in the actual working of such a system. But a few instances may be mentioned by which this end is served. In the matter of charge accounts, collections can be consistently made with average promptness, and losses from bad debts can be reduced to a minimum. In other, and perhaps more important matters, the profitableness of an accounting system can be demonstrated by a study of the financial statements of the business.

Accounting System for Garages

Financial Statements

The only contact, which the manager of a business finds it necessary to maintain with the books of account, is made through the medium of financial statements prepared therefrom as an index to the welfare and progress of the business. To regard these statements as only the concern of the bookkeeper who prepares them is a mistake *on the part of the manager, which may be set down as fatal*; and it may be safely interpreted as a confession of weakness in management.

By disregarding financial statements, the manager in effect makes scrap of a large part of his equipment for doing business. There is little wonder, that, under such circumstances, an accounting system is regarded as an unnecessary expense. It is, for failure can be attained without the expense and in spite of the advantages (unused) of an accounting system.

On the other hand, there is much to be gained by a patient study, on the part of the manager, of the financial statements of his business. He should not hesitate to undertake such a study on the ground that he is unfamiliar with bookkeeping or financial statements. His knowledge of the business will enable him to make a more practical use of the accounting data than if he were merely an accountant; and he

Accounting System for Garages

will soon discover the value of this study in building up his knowledge of the business as a whole.

In general the financial statements consist of the Balance Sheet and the Profit and Loss statement, each of which is explained below. The best results can be obtained by having these statements prepared monthly, even though some factors (like inventories) are estimated until actual results can be obtained (yearly or every six months) to verify the estimates.

Balance Sheet

The Balance Sheet of a garage, like that of any other business, is an exhibit of the assets and liabilities of the business, from which the net worth is ascertained. It answers the question as to where the business has arrived, by indicating its financial position. A study of the financial side of the business is as necessary to its success as a study of and attention to the practical operation of the garage.

A condition may exist where there is every indication that the business is making a profit, and yet there is always difficulty in raising the necessary funds to meet current obligations. A study of the Balance Sheet will yield the solution of the problem. It may be that collections are slower than they might be; or too large a stock of

Accounting System for Garages

supplies is being carried; or the business may be expanding on a wholesome basis faster than the available capital can maintain the business.

In the latter event, the apparent remedy is to seek additional capital, and the banker with whom the deposit account has been kept is the logical source of the needed funds. It is the Balance Sheet, showing assets and liabilities, in which the banker will be most interested in deciding the conditions and amount of the loan asked for; and, if the business is normally profitable, there is every reason to expect a loan of sufficient amount to relieve the financial stringency.

The net worth of the business represents the owner's investment therein. This consists of his original outlay, to which is added from time to time the profits earned from operations; on the other hand net worth is reduced by losses incurred. When the net worth is increased by profits to an amount in excess of the financial needs of the business, then that happy condition is attained wherein "dividends" may be declared, or a "melon cut." But, if profits, real or anticipated, are withdrawn in the shape of funds which are urgently needed in the business, then financial embarrassment is bound to follow.

These are some of the valuable lessons to be learned from a faithful study of the Balance Sheet.

Accounting System for Garages

Profit and Loss

Perhaps the more important financial statement of a business is the one indicating whether its operations have resulted in profit or loss. Whereas the the Balance Sheet answers the question as to where the business has arrived, the Profit and Loss Statement answers the question **how** the business has attained its position; and, by the same faithful study, it may be made the means, to a large extent, of determining beforehand what the financial position shall be in the future.

The general plan of stating the operations of a garage is to separate its activities into departments, such as storage, washing and polishing, repairs, gasoline and oils, accessories, etc., etc. The income (sales) and the direct cost is applied to each of the departments, so that it can be determined what is the direct result of each one—profit or loss. One of the important problems of an accounting system is to provide the best means for distributing income and direct costs to each department. The importance of getting this distribution accurately cannot be too greatly emphasized; inaccurate results may lead to costly errors in policy.

After results by departments are thus obtained, the general expenses, applicable to the business as a whole,

Accounting System for Garages

are shown in accordance with a fixed classification, and deducted from the departmental profits to determine the "net profit" for the month, or other period.

A study of the Profit and Loss statement for a certain period may not seem to yield much by way of suggestion as to future improvements. The best results can be obtained by comparison of one period with another, preferably similar months (or periods) of successive years. In this way improvements are invariably suggested and the benefits thereof can be observed in the better financial results obtained. The advantages of standardizing the accounting methods are then realized, and the system is established as an indispensable part of the organization.

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