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Manual of accounting practice based upon the standard accounting system for electrical contractors and retailers

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Manual of
Accounting
Practice



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In presenting the following Manual of Accounting Practice special credit is due to those who, in 1917 and 1918, laid so solid a foundation for good accounting practice for electrical contractors and retailers, in designing the Standard Accounting System. Eight years of study and use of this system by hundreds of users has proven its value as a practical accounting system to meet the particular needs of the electrical contractors and retailers.

New forms have been added to the Standard Accounting System to provide the users with more definite information, through the more complete analysis of the contracting and retailing departments of the business.

This Manual of Accounting Practice has been prepared by E. A. McQuade, auditor, Arthur L. Abbott, technical director, and Laurence W. Davis, general manager of the Association of Electragists, International, in order to give to users of the system simple and practical explanations of the methods and operations involved.

Manual of Accounting Practice

based upon the
Standard Accounting System
for
Electrical Contractors and Retailers



Prepared and Published by

Association of Electricians
INTERNATIONAL

~~15 West 37th St.,~~ New York City

NATIONAL ELECTRICAL CONTRACTORS
ASSOCIATION

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Association of Electragists
INTERNATIONAL

15 WEST 37TH STREET
NEW YORK

FOREWORD

In preparing the following Manual of Accounting Practice the Association of Electragists, International, hopes to place in the hands of thousands of electrical contractors and retailers the key to a door of business knowledge that they can open to success and profits. Ignorance of the cost of business operations stands in the way of progress for men in every industry more than any other one thing. No business is ready to open its doors until its cost accounting methods have been decided upon and installed.

A comprehensive cost accounting system is the best check in the world upon productive efficiency. Every item of expense is set out in such a way as to permit of comparisons from month to month and from year to year in the individual business, and where the system is uniform it has the added advantage of providing the means through which users of the system can compare with each other.

A good accounting system is to the manager of a business what a chart is to the captain of a ship. The mere producing of a precise and correct financial statement is not the end of accounting. Its real function is to show the relation that costs, expenses, charges and gross and net profits bear to sales; what was the turnover of stock and capital; how the business stands in relation to its debtors and creditors; what are its proper proportions between fixed and current assets and owned and borrowed capital; what is the relation between net income and capital invested; and finally how all these things compare with similar periods in preceding years.

While it is very important that we secure adequate profits from the operation of our business, these profits should be secured from efficient business operation rather than from charging the public for our inefficiency.

It profits a man very little to put an abnormally high price on his services. Volume has a great deal to do with profits in any business and if prices are placed so high as to decrease volume, profits will not be satisfactory even at high prices.

The first thing that a business man should do when he finds his costs are high and his profits unsatisfactory, is to undertake to reduce his productive and selling cost; the last thing for him to do is to increase the price of his product. This is sound economics and good business practice.

It is foolhardy for a man to sell his business service blindly at the prices he thinks other men are asking, without knowing the relations of his own costs to those prices. For the percentage of successes among those "other men" who are setting his prices is pitifully small.

The Electragists' Standard Accounting System has not "just happened". It represents many years of practical field use and the continued study of the Association of Electragists in extending and developing it to meet the fullest requirements of the electrical contractors and retailers in their especial industry problems.

The principles of accounting as laid down by the Accounting Committees of the Electrical Manufacturers' Council and the Electrical Supply Jobbers' Association have been embodied in this system, to the end that the electrical industry may be able to present correct, comprehensive figures as to the results the various branches of the industry are obtaining and the difficulties they are encountering. The system has been approved and endorsed by the National Electrical Credit Association—for the use of sound accounting methods by electrical contractors and retailers is a necessity for the advancement of credit.

Trade associations and their service to the industry are a means to an end, and not the end in themselves. They can only point out the way to help the member to help himself.

The Association of Electragists, International, appeals to every electrical contractor and retailer to take this key to sound accounting and open the door to his greater success and profit.


GENERAL MANAGER

Section I.

CARDINAL PRINCIPLES

- 1—All forms should be standardized.
- 2—All sales, whether contract, jobbing, day work, or retail should be costed.
- 3—A merchandise account should be created through debit entries for purchases and credit entries at cost for materials sold in any way.
- 4—A general ledger containing all controlling accounts should be made a part of this system.
- 5—All liabilities should be vouchered each month irrespective of receipt of goods or correctness of invoice. Provision should be made for charging vendors for any errors or discrepancies in bills.
- 6—Cash book should combine bank records, both receipts and payments, so that debit entries equalize bank deposits for the month and credit entries equalize charges to bank balance. The cash book should not be used for distribution.

Every contractor and dealer intending to follow the Standard Accounting System, at the start should familiarize himself with these cardinal principles.

Of the foregoing six cardinal principles the most important are:

2.—All sales, whether contract, jobbing, day work, or retail, should be costed.

Unless the owner of a business is in a position at the end of each month to tell the gross margin on his sales and determine the actual profit for the month, he is working absolutely in the dark, and perhaps on false premises. In order to obtain the knowledge of his gross margin on the various classes of sales each month, it is vital that costs be obtained on all contracts and sales.

With respect to contracts, the exact cost of labor and materials must be obtained on each job since it is essential that the margin

be determined for each contract sale, as well as for the total business of contracting.

In the case of merchandise sales, it is equally important that a method of costing be used which will give as accurate results as possible in determining the cost of all materials sold, in order that a sound check may be kept upon retail sales and upon merchandise in stock at all times. It has been found practicable, however, to adopt a method which will materially lessen the labor of costing merchandise sales, by determining at frequent intervals the percentage or ratio of costs to gross sales by costing all sales for one month and applying that percentage to the sales between checking periods in order to arrive at costs in those months. For example, assume the first month's exact cost figures showed that cost of sales was \$3,197, while the sale price was \$4,963; it is shown that cost was 64½% of sales. If in the next month, the sales were \$6,000 the cost of sales may be assumed to be 64½% of that, or \$3,870. This method would be followed for, say, three months and then, to check the accuracy of the percentage used, the fifth month's sales would be costed with the greatest accuracy, as were the first month's. The percentage thus obtained would then be used for the following three months.

3.—*A merchandise account should be created through debit entries for purchases and credit entries at cost for materials sold in any way.*

The users of this system will thus have a running book inventory of their merchandise on hand, instead of knowing the value of their merchandise stock only once a year when the annual inventory is taken.

Naturally, some inaccuracies will creep into the costing of sales, but this account at all times should reflect, within say 5 percent, the amount of merchandise on hand, and this should be the basis for regulating the amount of insurance and purchases of materials.

5.—*All liabilities should be vouchered each month irrespective of receipt of goods or correctness of invoice. Provision should be made for charging vendors for any errors or discrepancies in bills.*

This principle can not be emphasized too strongly.

All liabilities should be vouchered each month irrespective of receipt of goods or correctness of invoice. This is a radical departure

from the old time custom of waiting until all questions of receipt of material or correctness of invoice have been adjusted.

From a legal standpoint when a purchase is made F.O.B. cars at shipping point the purchaser is responsible for all material billed by a vendor as soon as goods have been placed in the possession of the common carrier. Adjustment due for any cause may be charged to the vendor's account, but the original charge should be approved for the entire amount.

The system does not suggest the payment of liabilities created, if the factor of readjustment warrants withholding settlement until results can be obtained from debit memorandums to the vendor, but every contractor and dealer should have in the books a complete record of his legal obligations and thus be in position to regulate his operations accordingly, and particularly to provide for payment of liabilities when due.

Section II.

INSTRUCTIONS FOR OPENING BOOKS

A physical inventory of merchandise, tools, furniture and fixtures, autos and equipment should be taken; and the balance of the accounts in the old books covering these items should be made to agree with the inventory figures. This is done, of course, by debiting or crediting the asset account, against contra entries to "Profit and Loss" account or such reserve accounts as may have been established.

It is then necessary to make a record, on the job envelopes supplied with the new system, of all the uncompleted unbilled contract jobs, showing the cost of the material used, the direct job expense incurred and the amount expended for labor on each job. The value of all of the merchandise used on such jobs will be included in the figure covering the inventory value of merchandise; the total of the amount expended for labor will be set up in the balance sheet as the figure for "Labor in Progress" and the total of the amounts listed on the job envelopes under the direct job expense column will be set up in the balance sheet as the figure for "Direct Job Expense."

In the trial balance book of the new system are listed—in a separate division—all of the asset and liability accounts; all of these accounts should be set up in the old books before closing, so that, when the new set of books is opened, the controlling ledger accounts will be in conformity with the requirements of the system. The old books will then be closed, as at the end of a fiscal year, and the balance of the various accounts transferred to the General Ledger of the new system, in the order in which they appear in the trial balance book.

Section III.

EXPLANATION OF GENERAL ACCOUNTING THEORY OF SYSTEM

The sheets of original entry, in which are placed the entries covering the various transactions occurring in the business, are five in number:

Sales Recapitulation
Voucher Disbursement
Cash Received
Cash Paid
Journal

All sales, except those for cash which are entered in the Cash Received sheet, are entered in the Sales Recapitulation Sheet, the amounts at which the sales are billed being credited to an account entitled "Sales Billed" and being debited to "Accounts Receivable." This sheet also provides for debiting "Cost of Sales" and crediting "Merchandise," "Labor" and "Direct Job Expense" for the costs of each of such items involved in the sales.

Entries in connection with assets acquired and expenses incurred are made in the Voucher Disbursement Sheet, being credited to "Accounts Payable" and debited to the various asset and expense accounts.

When actual cash payment by check is made to the persons supplying the assets or services, entry is then made in the Cash Paid Sheet. In this record an entry is made every time a check is issued, the debit being to "Accounts Payable," since all amounts due were first credited to "Accounts Payable" through the Voucher Disburse-

ment sheet. The Cash Paid sheet will agree with the stubs of the checkbook. (*Small payments in currency should be paid from a "Petty Cash" account, as described on page 37.*)

All cash receipts are entered in the **Cash Received Sheet**; most cash receipts will either be from customers owing the proprietor money, which are credited, therefore, to "Accounts Receivable," or will arise out of cash sales, in which event the amounts received are credited to "Sales Billed," as hereinafter explained in detail. This sheet will agree with the record of deposits made in the bank.

1. Only transactions involving cash can be entered in the **Cash Received and Cash Paid** sheets.
2. Only entries involving sales on credit can be entered in the **Sales Recapitulation** sheet.
3. Only entries involving the acquisition of assets or incurring of expense can be entered in the **Voucher Disbursement** sheet.

The purpose of the **Journal** is to record other facts properly and transfer from one account to another debits and credits for transactions which are not included under the above three classes of original entry.

To give an example, let us assume that an allowance is made to a customer for whom contracting work has been done; entry would have to be made in the Journal debiting "Sales Allowances" and crediting the customer. Or, suppose the business had purchased material from a jobber on thirty days terms, so that there was a credit to the jobber's account in "Accounts Payable," and also that work had been done for him, the amount of which has been debited to his account in "Accounts Receivable." It may be agreed to apply one amount against the other; this, of course, requires a credit to "Accounts Receivable" and a debit to "Accounts Payable"; such an entry is made in the Journal.

There are other occasions when it will be necessary to make entries which cannot be made in any of the other sheets of original entry and therefore are made in the Journal. Certain closing entries at the end of each month are also to be made through the Journal, as explained later in "Closing the Books for the Month."

Costing of Sales

The basic principle in the system is the costing of sales, with entries debiting an account entitled "Cost of Sales" and crediting the various elements of prime cost (at their cost value), namely, merchandise, labor and direct job expense. These accounts—"Merchandise," "Labor" and "Direct Job Expense"—will, therefore, at all times, be carried at figures representing, respectively, the merchandise on hand at cost, labor costs not yet billed for, and direct job expense not yet billed for. To make this clear, let us assume the following facts:

1. The purchase of merchandise amounting to \$5,000, which has, through the Voucher Disbursement sheet, been debited to "Merchandise" account.
2. Payments on account of payroll on contracting jobs amounting to \$1,000 which have been debited to "Labor" account through the Voucher Disbursement sheet.
3. Payments on account of direct job expense amounting to \$100 which have been debited to "Direct Job Expense" through the Voucher Disbursement sheet.
4. Contracting sales billed amounting to \$2,500, which have been credited to "Sales Billed" through the Sales Recapitulation sheet and in connection with which the further entry has been made, debiting "Cost of Sales" \$2,050, and crediting "Merchandise" \$800, "Labor" \$1,200, and "Direct Job Expense" \$50.

The accounts would then stand as follows:

Dr.	Merchandise	Cr.
For purchases	\$5,000	For the value at cost of mdse. used in sales billed amounting to \$2,500.
		\$ 800

The net debit balance of \$4,200 in the "Merchandise" account will, therefore, represent the cost value of merchandise on hand and out on uncompleted jobs not yet billed. This can be checked by comparison with the actual physical inventory and the job

envelopes relating to unbilled jobs, from which can be taken a record of the merchandise withdrawn from the wareroom for use on such unbilled jobs.

Dr.	Labor	Cr.
For payments made on a/c contracting payroll	\$2,000	For the value of labor used on sales billed amounting to \$2,500... \$1,200

The net debit balance of \$800 in "Labor" account, it is plain, represents amounts paid for labor on contracting operations which have not yet been billed for. This balance can be confirmed by totalling the time cards in the various job envelopes covering the work not yet billed.

Dr.	Direct Job Expense	Cr.
For payments made...	\$ 100	For the amounts of direct job expense involved on jobs billed for \$ 50

The net debit balance in this account of \$50 represents, therefore, amounts paid for direct job expense on jobs not yet billed for, and can be confirmed by totalling the various amounts under this heading on the job envelopes relating to the jobs not yet billed for.

Dr.	Cost of Sales	Cr.
Representing the cost, in mdse., labor and direct job expense of sales billed amounting to \$2,500.	\$2,050	

Dr.	Sales Billed	Cr.
		For the total of sales billed to customers ... \$2,500

The difference between the "Cost of Sales" account and the "Sales Billed" account represents the gross margin on sales billed. At the end of the fiscal year, when the books are closed, these two accounts are closed out by transfer to "Profit and Loss" account, which latter account will then appear as follows:

Dr.	Profit and Loss		Cr.
Cost of Sales	\$2,050	Sales billed	\$2,500

(It will be understood, of course, that the amounts thus transferred to "Profit and Loss" account will represent the total of twelve months operations; we are simply illustrating this through the transactions on one month's operations.)

"Merchandise," "Labor" and "Direct Job Expense" accounts will not be closed into "Profit and Loss" account, but will appear on the balance sheet as assets.

In the case of merchandise sold at retail, the accounting features are simplified, as there is only one prime cost to be figured, namely, the cost of the merchandise, there being no elements of direct labor and direct job expense. In such sales, after crediting "Sales Billed," the only entry to be made is to debit "Cost of Sales" and credit "Merchandise."

The remainder of the accounts are those used in practically all businesses, whether cost systems are used or not. These accounts are divided into two classes:

Asset and Liability accounts
Income and Expense accounts

Accounts in the first group are not closed into "Profit and Loss" account at the end of the fiscal year, but are carried in the "Balance Sheet," (also called "Statement of Assets and Liabilities"). Accounts in the second group, inasmuch as they do not represent property or claims in our favor (assets), or claims against us (liabilities), are closed into "Profit and Loss" account at the end of the fiscal year. The net balance of the "Profit and Loss" account is then transferred to "Surplus" account, which, together with the "Capital" account and reserves, represents the difference between assets and liabilities.

Forms and Directions

The forms necessary to the operation of the Standard Accounting System are shown on pages 54 to 67. These records provide a simple, accurate and flexible accounting system for the average electrical contractor and dealer. The system is designed to meet the needs of the contractor who does no retailing, the dealer

who does no contracting, and the business which includes both contracting and retailing. The contractor and the contractor-dealer will use all of the forms, but the dealer who does a retail business exclusively will not need the first seven forms.

The system has been designed particularly to meet the needs of the average contractor-dealer who desires a system of accounting that can be readily followed and that will reflect the true conditions of his business, yet the system will also be found flexible enough to meet the needs of a business of any size.

Section IV.

THE JOB AND SALES RECORDS

When an order for work of any nature involving labor and material, or repair work involving possibly labor only is received from a customer, the first step is the original entry in a book of some kind so that the record may have a starting point.

It is common practice to have an order book with duplicate or triplicate leaves and to give the upper or original leaf to the mechanic as his instructions to proceed with the work. This gives the office the duplicate copy as a permanent record of the original instructions, and in cases where a triplicate is made, this extra copy can be used for such purposes as the owner may decide.

Whatever form is used is a matter of choice, but written instructions should go on every job with the mechanic, or with the foreman.

Form 1—Material Requisition

This being done, Form No. 1 of this system, the Material Requisition, comes into use. No material should leave the shop, or be ordered from any outside concern unless this form is first made out.

It is to be remembered that this is an office form and record for the protection of your stock and of those in charge of same, and the original should not leave the office.

The material having been delivered and signed for on the duplicate copy by the workman in charge of the job, the original copy

of the ticket should now be costed and both copies immediately placed in the Job Envelope, Form No. 4.

Form 2 —Time Card

2A—Labor Summary Sheet

2B—Pay Roll Sheet

The Time Card is to be made out by the workman and turned in by him daily. These cards are used in filling out the Labor Summary Sheets and the Pay Roll Sheets. The Pay Roll Sheet is a summary of all time cards showing the total amounts earned by each workman, while the Labor Summary Sheet—one of which is a part of the records of each Job Envelope—distributes the labor according to jobs. The total of the daily entries on the Labor Summary Sheets should equal the total amount due workmen as shown by the Pay Roll Sheets.

Non-Productive Labor—It frequently happens, however, that a part of the workmen's time cannot be charged to specific jobs, as when a workman is paid for eight hours work per day regardless of the time actually put in on jobs. To meet the requirements of this situation, a special Job Envelope should be used each month, containing a Labor Summary Sheet to which will be posted a record of such labor. On the name line of the Job Envelope fill in the title "Non-Productive Labor" because this envelope contains a record of the labor cost which will ultimately be charged to "Non-Productive Labor" account. It has been found desirable, in using such an envelope, to place a number on it to be used indefinitely—say number 05—and a workman, in filling out his time card, will indicate this number as a job number in recording that part of his time not chargeable to an actual job. We discuss below—in Section 5, under the heading "Labor in Progress"—the accounting methods used in recording the facts disclosed by these records.

Where the amount of labor on a job is too small to require the use of a Labor Summary Sheet, the entries as to labor cost may be posted direct to the outside of the Job Envelope.

Form 3—Returned Material Record

Whenever any material is returned from a job one of these forms is to be made out, listing the quantity and kind of material returned. The workman, or whoever checks the returned material,

can fill in all of the form excepting the cost column. The form is then turned over to the bookkeeper, who will cost the material and then file the card in the proper job envelope.

Form 4—Job Envelope

This envelope is intended to contain all of the records of material, labor and direct job expense. As the job progresses all of the information should be entered on the front of the envelope.

Enter the requisition number and total cost from each Material Requisition, or if the Material Summary Sheet is used, enter totals from these sheets. As to labor, for a small job, an entry may be made from each Time Card. When the Labor Summary Sheet is used, enter the total amount from this sheet at the end of the month.

The column headed "Direct Job Expense" is for the entry of such items as "Telephone charges" and "Carfare" indicated on the time card, as well as freight, express and cartage directly applying on this particular job, the permit or inspection fee, and compensation insurance expense. This last named item will hereinafter be discussed in detail.

The sum of material total, labor total and expense total will show the total prime cost of the job.

Credits should be shown on Job Envelope in red ink. When work in progress is billed a red ink line should be drawn on the Job Envelope showing the point at which billing has been made, to show clearly the unbilled items entered thereafter. The envelopes should be filed numerically in the job envelope file.

If desired, the value of merchandise at cost on unbilled work can be obtained by adding the total of merchandise columns on the various job envelopes which have not been billed at the end of each month.

Form 5—Material Summary Sheet

This form is to be used to assemble all charges to the job of each kind of material, also to show the credit for material returned, so that assuming that the work is all done during one month, the column headed "Total" will at the completion of the job show the actual net quantity used of each kind of material.

The form is intended principally to be used for "time and materials" jobs when it is necessary to render itemized bills for material. Such jobs are almost invariably billed monthly. The total cost of material on a job may be entered to the Job Envelope from each Material Summary Sheet, or if several of these sheets are required for one month's progress on a job, the total of all these sheets may be entered as one figure on the Job Envelope, if this is considered desirable in order to save space.

This form may also be used on any job in order to save labor; for example, if there have been four deliveries of #14 wire to the job and some has been returned for credit, by using this form there is only one item to be costed instead of five. The cost clerk can easily determine for himself on what jobs this method will effect a saving of time.

Another use for this form is for the purpose of arriving at the totals of materials used as a check against the estimated quantities.

Form 50—Job Sheet for Wiring Installations

There has been provided for use in small wiring jobs, a job sheet, the use of which enables the contractor to dispense with the job envelope, material requisition sheets, material credit slips, material summary sheet, and labor summary sheet. A copy of this job sheet—which is known as Form 50—accompanies each set of the Standard Cost Accounting System; they may be purchased at the rate of \$2.50 per 100 for members and \$3.00 per 100 for non-members.

The form provides for recording the following data:

1. A list of all material needed, or in other words, a requisition for this material.
2. A list of material sent to the job. (3 columns for 3 separate deliveries.)
3. Columns for material returned, net material used, unit cost, and cost extension, so that the total cost of all material used can be figured.
4. A labor record, with spaces for date, workman's name, hours worked, rate per hour, and amount of wages.
5. A record of job expense.

6. A condensed summary of the estimate (for house wiring jobs.)
7. A summary for contract jobs, showing material and labor cost, job expense, total prime cost, selling price, total margin, overhead and net profit.
8. A summary for time and material jobs, showing material cost, labor cost, job expense, total prime cost, amount to be added for overhead and profit and the selling price.

In order to save labor in making entries, the description of all the common materials has been printed in the proper columns and blank lines are left for additional items if these are necessary.

The form when folded, is standard letter size, 8½ inch by 11 inch, so that completed job records may be filed either alphabetically or numerically as an ordinary folder, and all papers pertaining to a job may be kept together by placing other papers inside the folded job sheet. A space for entering the customer's name and job number is provided along the right-hand edge of the first page, this making it easy to locate any sheet wanted after it is filed.

The economy in the use of this system will be apparent, and it will be found entirely suitable for use for all ordinary house wiring jobs and many other small wiring installations.

Form 6—Charge Sales Ticket

No one form has been designed in this system for a charge sales ticket. This ticket will vary according to the use of a cash register, duplicating sales register or sales book. Whatever kind of a ticket is used, provision should be made for obtaining the cost on each sale of this kind.

Form 7—Cash Sales Ticket

No one form is recommended. Explanation and instruction for charge sales ticket holds good for this form also.

Form 8—Bill to Customer

No one form is recommended. All bills should be made in duplicate. Use plain paper for the duplicate. The duplicate should be some distinctive color such as canary.

The bill and duplicate will carry the job number and also a consecutive bill number. The duplicate is to be filed according to the consecutive number in a standard binder, from which postings are made direct to the "Accounts Receivable" Ledger. The number on the duplicate is to be used as the folio number in this ledger.

Form 9—Credit Memorandum to Customer

No one form is recommended. Forms in duplicate should be provided for sending credit memoranda to customers, covering any allowances or adjustments. The duplicates are to be retained in a binder.

Repair Sales

It is well to keep a close check on repair sales, to be sure that the work is not being done at a loss, and hereunder we outline a suggested plan for handling this class of business.

Keep one job envelope for each month's repair sales; it is usually found desirable to attach a tag to each article repaired, on which there is made a memorandum of the materials and labor used, and these tags, together with the cash sale slips when payment is received immediately on completion of the work, are placed in the envelope.

The repair sales for cash are entered daily in the Cash Received sheet under the column headed "Cash Sales." The tags relating to repair sales on credit are placed in the job envelope along with the tags covering repair sales for cash. At the end of the month they are billed to the customers in the usual way, at which time they are totalled and an entry made in the Sales Recapitulation sheet, this entry being made under the "Construction Sales" column because of the existence of the item of labor and the fact that no provision is made in any other column for labor. The figures as to cost of sales are, of course, obtained from the tags.

Just as is done with respect to all cash sales, at the end of the month a separate entry is made in the Journal regarding repair sales for cash, debiting "Cost of Sales" and crediting "Merchandise" and "Labor." Also, a memorandum of the amount for the month is made in the Sales Recapitulation Sheet; it is to be understood that this figure, however, is not included in the figures to be posted

to the General Ledger, as the entry crediting "Sales Billed" is made in the Cash Received sheet and the entry regarding "Cost of Sales" is made in the Journal.

Material used must be exactly costed; the percentage basis described in the explanation of Cardinal Principle No. 2 cannot be applied here because the sales price includes labor as well as merchandise.

In costing labor, several questions arise. If the work is done by mechanics paid on the basis of their time cards, their labor would be costed just as in the case of contract sales.

If the labor is performed by a counter salesman in his spare moments, it would not be possible, in debiting "Cost of Sales," to credit "Labor" account for his time, because no debit to this account would ever be made for the salary of the salesman. Generally, it will be found satisfactory to make no costing entry for the labor in these cases. However, where the salesman does a good deal of this work, the "Salary" account to which his wage is charged should be credited, instead of "Labor" account, with the value of his time used on such business. When part of his time has been devoted to repair sales on credit, the entry in the Sales Recapitulation Sheet cannot cover his salary because there is no column for it; therefore, a separate entry should be made in the Journal debiting "Cost of Sales" and crediting "Salary" account.

In some cases, enough of this work is done to justify the employment of a shop man, on a salary, who, however, may have perhaps eight hours out of a forty-four hour week unoccupied by this class of work, and who in these idle periods, is employed on odd jobs around the shop. The salary of this man should be charged to "Labor" account. Under such conditions he should make a notation on each tag of the time put in on the work; if at the end of the month, the total time indicated on the tags does not equal his total working hours, an entry should be made in the Journal charging "Salary" account and crediting "Labor" account for the value of his time not used on repair jobs; a notation of this charge should be made on the Job Envelope so that the proprietor can ascertain from month to month whether he is justified in retaining the man for the repair work.

SECTION V.

THE ACCOUNTING BOOKS

All of the preceding forms have to do with the handling and recording of individual sales—construction sales, repair sales, store sales, lamp sales, etc. Such forms provided with the system have been designed to best meet the requirements of the contractor and dealer, but in some cases similar forms or other forms for handling sale transactions already in use by the contractor and dealer can be continued and provide the necessary information to properly use the Standard Accounting System.

We now come to those forms which compose the Accounting Books of record which make up the System. These forms are:

Sales Recapitulation
Accounts Receivable
Cash Received
Cash Paid
Voucher Disbursement
Journal
Accounts Payable
General Ledger
Trial Balance

The first of these forms is

Form 10—Sales Recapitulation Sheet

Progressively during the month the amount of bills rendered for Construction Sales, together with the cost as shown on the Job Envelopes or Job records, should be entered on the Sales Recapitulation Sheet. These entries should be made at the time the bills are made out and rendered to the customer. Entries for Store Sales, Lamp Sales, etc., should be made at the end of the month, or at regular periods during the month, when the total of such sales has been computed from the sales records, together with the cost of such sales computed as previously described on page 6.

At the end of the month the Sales Recapitulation Sheet will show the total of all sales with their costs, and with the cost on construction sales separated as to materials, labor and direct job

expense. These totals will be used in making the monthly closing entries, as explained later under "Closing the Books for the Month."

"Cost of Construction Sales," "Cost of Store Sales," etc., show, of course, the original direct cost of the sale (prime cost) and do not include overhead.

The extra column is provided on this sheet so that it can be used for such other sub-division of business as may be desired, such as "Fixture Sales."

Form 11—Accounts Receivable

This is a simple form of sales ledger page, with debit, credit and balance columns, but if the particular business of any contractor necessitates a different form of sales ledger sheet, such sheet, of course, can be substituted.

Debit entries for "Accounts Receivable" are obtained from the "Sales Billed" columns of the Sales Recapitulation Sheet, and credit entries from the "Accounts Receivable" column in the Cash Received Book.

The Accounts Receivable and Accounts Payable ledgers have been made in small compact form to permit of their being readily kept in a fireproof safe, since these records are essential to the continuing of a business in case of its destruction by fire.

Form 12—Cash Received

Enter on this sheet all receipts from customers in the "Accounts Receivable" column and show discount deducted under "Cash Discount Allowed" column.

All receipts other than those affecting "Accounts Receivable" and Cash Sales are to be entered in the column headed "General Ledger" and posted direct to the credit of the proper accounts in the General Ledger.

Cash sales in total are to be recorded daily in the column provided.

In the columns marked "Bank" should be entered all deposits made in the banks. These deposits should equal the total receipts for the day. That is, the total of all cash receipts, ("Accounts Receivable", "General Ledger" and "Cash Sales") should equal the total deposits in bank or banks.

Form 13—Cash Paid

The gross amount of all payments by check, of whatever nature, are to be entered on this sheet in column marked "Accounts Payable" and the discount obtained under "Discount Earned." (*Small payments in currency should be paid from a "Petty Cash" account, as described on page 37.*)

A column is provided under the heading of "Bank" in which should be entered the net amounts of all payments on the same line as the entry to "Accounts Payable", so that at the end of each month the total debits to "Accounts Payable" less discounts, should equal the total of withdrawals from the banks.

This sheet is placed in the same binder as the Cash Received sheet. On both Cash Received and Cash Paid sheets provision is made for two bank accounts, and on the latter sheet is a column for bank balances.

Form 14—Voucher Disbursement Sheet

It will have been observed from the preceding discussion of the Cash Paid sheet, that all disbursements, of whatever nature, are debited to "Accounts Payable." There is implied, therefore, a prior credit to "Accounts Payable," and this is provided for through the Voucher Disbursement sheet, in which are entered all bills for merchandise, services, etc., the credits to "Accounts Payable" being accompanied by debits to the various asset and expense accounts. It has generally been found desirable where possible, to make entries in this record once or twice a month, that is when the larger share of disbursements is made, but where a payment is made between these periods, it is, of course, necessary to make the entry in the Voucher Disbursement sheet at the same time the entry is made in the Cash Paid record.

It is essential, as stated in the "Cardinal Principles" of this Standard Accounting System, that all liabilities or indebtedness should be vouchered each month and entered in the Voucher Disbursement record, irrespective of whether they are to be paid that month or not. Therefore, at the end of the month all bills remaining unpaid and not previously entered should be vouchered and entered in the Voucher Disbursement sheet.

It will be seen then that the difference between the credits

SUPPLEMENT TO THE MANUAL OF ACCOUNTING PRACTICE

Since the manual was prepared, the Cash Paid and Voucher Disbursement Sheets have been consolidated into one sheet known as the Cash Paid and Voucher Disbursement Sheet, with the view of eliminating the necessity of making entries to the debit and credit of Accounts Payable in cases where bills are paid immediately on receipt.

By reference to the explanation of the use of these records (pp. 22 and 23), it will be observed that the old procedure provides that where a bill is paid on receipt, an entry is first made in the Voucher Disbursement Record charging the expense or asset account and crediting Accounts Payable; this being followed by an entry on the Cash Paid Sheet debiting Accounts Payable and crediting Cash (bank).

By the use of the consolidated form, bills paid on receipt are charged directly to the asset or expense account with corresponding credit to Cash.

If a bill is received which will not be paid at once, it is immediately entered on the new form to the debit of the asset or expense account, with credit to Accounts Payable. When an amount carried in Accounts Payable is paid, entry is made to the debit of Accounts Payable with credit to Cash (bank). The use of the column headed "Discount" is as described on pp. 22 in the explanation of the Cash Paid Sheet.

It will be clear that the totals of the three columns "Discount", "Bank" and "Accounts Payable" under the master heading "Credit" will equal the total of the various columns under the master heading "Debit".

In order to thoroughly understand the workings of the new Cash Paid and Voucher Disbursement Sheet, the explanations of the old Cash Paid Sheet and the Voucher Disbursement Sheet (pp. 22 and 23) should be carefully studied.

In closing the books at the end of the month, an entry should be made in the Journal similar in character to that set forth for the closing of the old Cash Paid Sheet. Thus:

Debit:

Accounts Payable
Merchandise
Labor
Direct Job Expense
General Ledger
Automobile

Credit:

Cash
Discount
Accounts Payable

to "Accounts Payable" as made in the Voucher Disbursement record and the debits to "Accounts Payable" as made in the Cash Paid record, will represent the amount of bills rendered the business for merchandise received, services rendered, etc., for which payment has not yet been made.

When an entry is made in the Voucher Disbursement record, the amount involved is entered in the column headed "Accounts Payable," to which account the amount is credited. At the same time the amount is entered in the column which bears the name of the account to which the amount is to be debited. All of the columns to the right of the "Accounts Payable" column cover accounts to which the debits are made offsetting the credits to "Accounts Payable."

The column headed "Misc." represents a specific account in the General Ledger entitled "Miscellaneous Expense" and should not be used for other accounts.

The "General Ledger" column is used for debits to all accounts for which specific columns are not provided. There are some expenses—such as rent, insurance, etc.—for which entries are made only once a month or even less frequently. It was, therefore, not considered necessary to provide separate disbursement columns for them in the Voucher Disbursement sheet; debits to such accounts, as well as to asset accounts such as furniture and fixtures, automobiles, etc., are accordingly made through the "General Ledger" column.

The individual entries in the "Accounts Payable" column are posted to the credit of the respective accounts in the Accounts Payable ledger and the total of this column is posted to the credit of "Accounts Payable" in the General Ledger.

All of the columns to the right of the "Accounts Payable" column, with the exception of the "General Ledger" column, are totaled at the end of the month and posted to the debit of the accounts of the same names in the General Ledger.

Obviously, the total of the entries in the "General Ledger" column cannot be posted in one amount to a General Ledger account, as is done with the totals of all the other columns, but each individual entry is posted to the debit of the respective account in the General Ledger to which it relates.

It will be seen that the total of all of the columns to the right of the "Accounts Payable" column will be equal to the total of the "Accounts Payable" column, and before starting posting this should be confirmed, as a check on the correctness of footings.

The names of the various accounts to be opened in the General Ledger are hereinafter mentioned. It is believed that the various expense accounts provided will meet the needs of most businesses; it may be added, however, that where debits to the "Miscellaneous Expense" account assume large proportions, an analysis should be made of the account with the view of ascertaining whether an additional General Ledger account, or accounts, should be opened for some particular class, or classes, of expenses for which expenditures are made frequently enough to justify it.

Form 15—Journal

The use of the Journal has already been explained on page 9.

Individual items entered during the month to either the debit or credit of the respective columns in the Journal should be posted directly to their proper accounts in the books, with the exception of the "Merchandise" columns (both debit and credit) which can be totaled at the end of the month and each posted in one entry to the "Merchandise" account.

Form 16—Accounts Payable

Credit entries for "Accounts Payable" are obtained from the "Accounts Payable" column in the Voucher Disbursement book and debit entries from the "Accounts Payable" column in the Cash Paid Book.

Form 17—General Ledger

Accounts should be opened in the General Ledger for each account shown in the Trial Balance (Asset and Liability Accounts and Income and Expense Accounts). Methods of making entries to General Ledger accounts are shown in Section VI, headed "Closing Books for the Month".

Form 18—Trial Balance

The purpose of the Trial Balance is to determine that all entries made in the Accounting System have been correctly en-

tered and that the totals of all the debits balance the totals of all the credits in the General Ledger accounts at the end of each month.

When starting the new system a trial balance should be obtained, and at the end of each month the new balances of the various accounts are copied from the General Ledger and entered as debits or credits respectively in the Trial Balance.

Since printing the Trial Balance Book, it has been found advisable to add new accounts to the system, which are, therefore, not printed in the trial balance book. These accounts are the following:

- Returns and Allowances
- Maintenance and Repairs
- Non-Productive Labor
- Prepaid Compensation Insurance Premiums
- Accrued Wages
- Reserve for Taxes

The balance of "Returns and Allowances" should be inserted in the Trial Balance book immediately following "Commissions Allowed." The balances of "Maintenance and Repairs" and "Non-Productive Labor" should be inserted in the Trial Balance book immediately following "Other General Expenses." "Prepaid Compensation Insurance Premiums" should be inserted directly following "Deferred Charges to Income." "Accrued Wages" will appear only when the "Labor" account is reconciled against the underlying time cards, but when the account does contain a balance, it should appear immediately after "Accounts Payable" in the Trial Balance book. "Reserve for Taxes" should be inserted immediately following "Reserve for Depreciation Merchandise."

"Freight, Express, Cartage" should not be in the Trial Balance book, as the system no longer provides for a separate account for this item. As elsewhere mentioned, the freight, etc., on purchases of merchandise is charged direct to "Merchandise", all other freight, express and cartage charges being debited to "Miscellaneous Expense," or "Direct Job Expense."

The term "Furniture and Office Appliances" as mentioned in the Trial Balance book, should be changed to "Furniture and Fixtures" to conform with general practice and the manner in which the account is designated elsewhere in the system and in explanations thereof.

The balance of "Miscellaneous Expense" in the General Ledger is posted opposite the printed item "Other General Expense" in the Trial Balance book.

Section VI.

CLOSING BOOKS FOR THE MONTH

Sales Recapitulation Sheet

Total all columns and journalize the summary of the footings as follows:

Debit "Accounts Receivable" and credit "Sales Billed" for the total of the "Sales Billed" columns under all the various department headings.

Debit "Cost of Sales" and credit "Merchandise", "Labor" and "Direct Job Expense" for the amounts of the footings of these columns under the "Construction Sales" heading.

Debit "Cost of Sales" and credit "Merchandise" for the total of the "Cost of Sales" columns under all of the remaining department headings.

In order that the Sales Recapitulation sheet will reflect the total of "Sales Billed", including cash sales, the cash sales should be entered in the various classifications in memorandum form only. It is understood that the "Cash Sales" figures are not to be included in the amounts of the entries posted from the Sales Recapitulation sheet to the General Ledger, as these are posted direct from the Cash Received sheet.

Cash Received

Credit total of "Accounts Receivable" to same account in the General Ledger.

Credit total of "Cash Sales" to "Sales Billed" in the General Ledger.

Entries in the "General Ledger" column should be posted individually to the credit of the respective accounts in the General Ledger, so no posting in total is made from this column.

Debit total of "Cash Discount Allowed" to same account in General Ledger.

Total cash receipts as shown by the "Bank" column are posted to the debit of "Cash" in the General Ledger.

With respect to "Cash Sales", it is necessary to make an entry debiting "Cost of Sales" and crediting "Merchandise" for the cost of the merchandise thus sold. This is done in the Journal; the cost of the cash sales being obtained from the duplicate cash sales slips.

Cash Paid

Debit total of "Accounts Payable" to same account in General Ledger.

Credit total of "Discount Earned" to same account in General Ledger.

Net cash payments as shown by "Bank" column are posted to the credit of "Cash" in the General Ledger.

The "Cash" balance in the General Ledger should equal the difference between the "Bank" columns—as totalled at the end of the month—of the two halves of the cash book, plus the cash balance at the beginning of the month.

Voucher Disbursement Book

Credit total of "Accounts Payable" to same account in the General Ledger.

Debit total of each column from "Merchandise" to "Miscellaneous" (with the exception of "General Ledger") to the respective accounts in the General Ledger, with the exception of the "Freight" column, which is posted direct to the debit of "Merchandise" account. It should be understood that only freight and express on purchases of merchandise are to be entered in this column; any other charges of freight or express should be entered in the "Miscellaneous" column.

Debit any entries in "General Ledger" column direct to their respective individual accounts in the General Ledger.

Journal

Use the Journal for the following entries, (definitions of the principles involved in making these entries are given in Section VIII):

NOTE. The Journal is also to be used in closing books for the year and at any time for entries between various accounts in the General Ledger where transfer is necessary; but it is understood that the Journal is merely a method of transfer from one account to another appearing in any of the books of the system.)

Credit "Reserve for Doubtful Notes and Accounts Receivable" and debit "Allowance for Loss on Notes and Accounts Receivable."

Credit "Reserves for Depreciation on Furniture and Fixtures" and debit "Allowance for Depreciation on Furniture and Fixtures".

Credit "Reserve for Depreciation on Automobiles" and debit "Allowance for Depreciation on Automobiles".

Credit "Reserve for Depreciation on Tools" and debit "Allowance for Depreciation on Tools".

Credit "Reserve for Depreciation on Merchandise" and debit "Allowance for Depreciation of Merchandise".

Credit "Reserve for Taxes" and debit "Taxes" for estimated amount.

Debit "Insurance" and credit "Insurance Premium Advances" for month's proportion of insurance expense.

Similarly, where there are other items of expense for which payment has been made in advance for a period, debit the expense account and credit the asset (Deferred Charges to Income) account.

Debit "Direct Job Expense" and credit "Prepaid Compensation Insurance Premiums" for the compensation insurance on wages paid on jobs billed during the month.

Debit "Non-Productive Labor" and credit "Labor" for the amount of wages paid during the month to journeymen and helpers not chargeable to particular jobs.

Lamp Sales:

The method of recording Lamp Sales, and the entries made, are the same as those used in all other merchandise sales. However, inasmuch as lamps are handled on a consignment basis, under which payments are made to the supplier only as sales are made, it should be noted that when the lamps are received, a memorandum entry is made in a separate book (usually provided by the supplier) setting forth the fact that a certain number of lamps have been received and are held for the account of the supplier. There is, of course, no provision for posting this entry to the General Ledger, inasmuch as it is a memorandum only.

At the end of the month, one entry is made in the Journal debiting "Merchandise" and crediting "Accounts Payable" for the amount due to the supplier on the month's sales; this amount will equal the total of the entries made during and at the end of the month, debiting "Cost of Sales" and crediting "Merchandise" for the "Cost of Lamp Sales". When remittance is made to the sup-

plier, the usual entry is made on the Cash Paid Sheet debiting "Accounts Payable".

All entries in the Journal will, of course, be posted to their respective accounts in the General Ledger.

General Ledger

All accounts in the General Ledger should then be balanced and entered in the proper places in the Trial Balance book.

Trial Balance Book

The Trial Balance book covers Assets and Liabilities (Balance Sheet Accounts) and the Income and Expense accounts classified under Summary of Operations.

The balances from the General Ledger accounts are transferred to the same accounts in the Trial Balance and entered as debits or credits respectively. The accounts are all designated in the Trial Balance sheet as debit or credit as an aid to the proper entry of the items to these accounts.

If all of the entries in the Accounting System have been correctly entered, the totals of all the debits will balance the totals of all the credits in the Trial Balance at the end of each month.

Closing the Books at End of Fiscal Year

In closing the books for the month the various income and expense accounts are not closed out by transfer to the "Profit and Loss" account; this is done only at the end of the fiscal year when an inventory is taken.

The "Profit and Loss" account is simply a clearance account to which, when closing the books at the end of a fiscal year are transferred the balances contained in the various income and expense accounts, as distinguished from asset and liability accounts. It will be noted that the Trial Balance Book separates the income and expense accounts from the Balance Sheet (Asset and Liability) accounts, the former division being grouped under the heading "Summary of Operations". All of the accounts in this section of the Trial Balance are transferred to "Profit and Loss" account when closing the books at the end of fiscal year.

It is clear that if the total of all the expense accounts are deducted from the total of all the income accounts, the difference will represent the net income or profit, which is the figure the proprietor is most interested in. This subtraction of expense accounts from income accounts is accomplished, in accounting practice, by

1. Crediting the various **expense** accounts with the amounts of their balances, the offsetting debits being made to "Profit and Loss" account.
2. Debiting the various **income** accounts with the amounts of their balances, the offsetting credits being made to "Profit and Loss" account.

The difference between the debits and credits in the "Profit and Loss" account will, therefore, be the same figure as that obtained by subtraction of the expense accounts from the income accounts, i.e., the net income or profit.

After the various income and expense accounts have been closed into the "Profit and Loss" account, the latter account is transferred to the debit or credit, as the case may be, of the "Surplus" account, as explained on page 47.

Section VII.

ANALYZING THE MONTHLY STATEMENT

The prime purpose of an accounting system is to furnish to the management of the business certain information which is essential to the proper operation of the business. The mere act of keeping an accurate record of all the figures in a set of books will not furnish this information unless these figures are set up in an intelligent statement which may be analyzed by the business managers.

After having obtained the monthly trial balance, which proves that the records have been accurately kept, a statement of Profit and Loss, etc., should be drawn off for study. Such statements prepared from the total figures of a combined contracting and dealing business will show the net position of the combined business,

but will not show what each branch of the business is contributing to this result or whether one of the departments may not actually be operating at a loss.

It is greatly to be desired that the figures for the operation of the business should be properly separated and the items allocated to the two departments, and the method of making this allocation is explained later on in Section IX of this Manual.

However, even though this departmentalizing of the business is not carried out, it is equally important that the contractor-dealer should analyze his overhead expenses each month and prepare a Profit and Loss statement after his books have been balanced. The following forms have been designed for use by any business—either the contractor who does no dealing, the dealer who merchandises only, or the contractor-dealer who does both. The contractor-dealer who does not separate his statement by an analysis of his business by departments will use only the third column on forms 17 and 18 headed “Total of All Departments”.

Analysis of Overhead Expense—Form 17

The figures to be entered on this sheet are the totals for the month of each of the items and are obtained from the General Ledger, these total amounts for the month being entered in the last division of the sheet headed “Total of All Departments”. Columns are also provided, not only for the figures for the current month, but for the corresponding month of the previous year and for the total operations of the year to date, compared with the same period of the previous year.

Having taken off the statement for the combined business under the heading “Total of All Departments” these amounts will then be allocated between the two departments of the business as shown in Section IX “Departmentalization of Business and Allocation of Overhead to Departments”.

From this “Analysis of Overhead Expense” a clear statement is shown to the business manager of what has entered into the overhead cost of the business for the month and for the year to date, both for the combined business and by departments, and these figures are compared in detail for the same periods of the previous year as a guide to determining whether efficiency has been maintained under all items of expense.

Profit and Loss Statement—Form 18

After the total overhead has been determined through the "Analysis of Overhead Expense", the Profit and Loss statement should then be prepared showing the complete operations of the business and the net income earned for the month. On this form provision is also made for showing the total results to date for the year (that is, from the date of closing the books at the end of the last fiscal period to the present date), and a comparison for both the month and the year's figures with the same periods of the previous year to determine the progress and true position of the business.

Let us assume that a Profit and Loss Statement for the month ended June 30th were being made. The figures in the Trial Balance Book as of June 30th will represent the accumulation of the figures resulting from operations since closing the books at the end of the last fiscal year; in making up the Profit and Loss statement, therefore, the figures for the column headed "For . . . Months to Date" can be taken direct from the Trial Balance Book. The figures for the column headed "For Month of . . ." can be obtained either from the General Ledger or by subtracting the balances of the accounts in the Trial Balance Book as of May 31st from the balances as of June 30th.

All of these figures will first be entered as a total in the division of the sheet headed "Total of All Departments", and this amount will then be split up into the two amounts to be charged respectively to the two departments, as previously explained.

The contractor-dealer who so departmentalizes his Profit and Loss statement will positively know whether or not each department is standing on its own feet and making a profit.

Statement of Assets and Liabilities

A statement of assets and liabilities should also be drawn off for the proprietor each month. This statement is simply a copy of the balance sheet section of the Trial Balance Book, with the net profit for the year added to the "Surplus" Account, since the "Surplus" in the Trial Balance remains as it was at the end of the last fiscal year until the books are again closed out at the end of the next fiscal year.

This figure of the net profit for the year to be added to the Surplus account can be obtained from the Profit and Loss statement, and should agree with the difference between the debits and the credits in the "Summary of Operations" section of the Trial Balance Book.

Cumulative Statement of Overhead Ratios—Form 19

Markups on future business must include reasonable allowances for future overhead. Future overhead must therefore be predicted as closely as possible, and a ratio between overhead and some other element of the business must be made use of. How shall a man determine what his overhead is today, when his volume of business, and to some extent his expenses, are fluctuating from month to month? Shall overhead in the contracting department be figured as a percentage of sales, of prime cost, or of labor cost?

The key to the solution of the first of these problems is given by the Cumulative Statement of Overhead Ratios. Under any but very abnormal conditions a close approximation to the contractor's actual overhead at the present time and during the next few months will be the average figure for the last twelve months to date. Such a figure, always including a whole year's business, will include the effects of all seasonal fluctuations. Being a figure for the last twelve months it is always up to date.

The form provides for entering under each main heading the figure for the current month and for the last twelve months to date. The ratios of overhead to labor cost, to total prime cost, and to net sales billed are shown for the contracting department; and for the merchandising department, the ratios of overhead to prime cost and to net sales. In all cases the twelve-months-to-date figures are used for figuring ratios.

These overhead ratios will seldom show any violent fluctuation. After the record has been kept up for a few months, the general trend of the ratios will be apparent at a glance, showing plainly whether the overhead is increasing, decreasing or remaining stationary in proportion to the volume of business.

By computing the percentages which the overhead bears to sales, to prime cost and to labor cost on construction work, and to sales and prime cost in the merchandising department, the con-

tractor-dealer is provided with complete data and can make his computations on whichever basis he desires.

Section VIII.

DEFINITIONS AND EXPLANATION OF ACCOUNTS USED IN SYSTEM

Balance Sheet Accounts

Assets

Fixed Investments:

Real Estate

Furniture and Fixtures

Automobiles

Tools

Investments

Current Assets:

Merchandise

Labor in Progress

Direct Job Expense

Notes Receivable

Accounts Receivable

Trade Acceptances Receivable

Cash

Petty Cash

Cash Advances

Deferred Assets:

Insurance Premium Advances

Taxes Paid in Advance

Deferred Charges to Income

Prepaid Compensation Insurance Premium

Liabilities

Capital Stock

Current Liabilities:

Notes Payable
Acceptances Payable
Accounts Payable
Taxes Accrued

Working Reserves:

Reserve for Doubtful Notes and Accounts Receivable
Reserve for Depreciation, Automobiles
Reserve for Depreciation, Tools
Reserve for Depreciation, Merchandise
Reserve for Taxes

Surplus

Definitions of Assets

Fixed Investments:

Real Estate—Cost of land and buildings acquired for use of business.

Furniture and Fixtures—Cost of all new or important replacements of furniture, fixtures, instruments, etc., for offices or warehouse.

Automobiles—Cost of all autos, trucks or other motor vehicles.

Tools—Cost of all tools used in connection with the contracting end of the business, except equipment chargeable to Furniture and Fixtures.

Investments—Bonds, mortgages and stocks of other companies acquired for investment or other purposes.

Definitions of Current Assets

Merchandise—Cost of material carried in warehouses. This account will be charged with the cost of all purchases of merchandise, including freight and express charges, and will be credited on the same basis with material shipped out. In costing sales the freight and express charges must be included; for example, if 1000 units of a particular class of merchandise were purchased

FOB the jobber's town at a cost of \$975 and the purchaser paid freight of \$25, both amounts would be charged to Merchandise account, and in costing sales involving the use of such merchandise, each unit would be valued at \$1.

Labor in Progress—(The term "Labor in Progress" is used interchangeably with the term "Labor"; it is understood that they refer to the same account). This account is charged with the amounts paid to workmen. It is credited from the Sales Recapitulation Sheet with the amount representing the "cost of labor" on jobs billed. Another credit to this account is made for the amount of labor not chargeable to specific jobs for which a special job envelope is provided (as per explanation of Forms 2, 2A and 2B). This is done by debiting an account entitled "Non-productive Labor" and crediting "Labor" account at the end of each month for the total amount shown on the Labor Summary Sheet in the special job envelope used for such purpose; this amount has, of course, already been charged to "Labor" account as payments were made to the workmen.

It will be clear that the balance in the "Labor" account at any time will represent the amount expended for labor on jobs not yet billed. The accuracy of the figure should be confirmed from time to time—not less than once every three months—by taking out the job envelopes on all uncompleted work, totaling the amounts of labor shown to be charged to each job, and comparing the amount with the balance of the "Labor" account. There should be no difference if the work has been correctly done, but where, due to errors by cost clerks, a difference does appear, the account should be adjusted to agree with the total of the job envelopes by debiting or crediting the "Labor" account, as the case may require, against a contra entry to "Non-productive Labor" account.

In connection with the reconciliation at the end of any month of the balance of the "Labor" account against the Labor Summary Sheets in the job envelopes on uncompleted work, it may happen that the labor used in the last three or four days of the month has not been paid for, due to the fact that pay day comes on say the second of the succeeding month; obviously, if the workmen's time cards have, as is usually the case, been posted to the Labor Summary Sheets daily, the total of the Labor Summary Sheets in the job envelopes will exceed the balance of the "Labor" account because this account has not been charged with the cost of the

labor for the last three or four days of the month. To meet this situation, which of course arises only when a reconciliation of the "Labor" account is being made, it is necessary to debit the "Labor" account and credit an account entitled "Accrued Wages" with a figure representing the amounts then due to employees. This entry is reversed on the first of the following month so that when the payroll is disbursed on say the second of the month, the amount thereof can be charged as usual to "Labor" account.

Direct Job Expense—Total of sundry disbursements on unbilled jobs.

Notes Receivable—For face amount of notes.

Accounts Receivable—This account represents the unpaid balances in open accounts against customers, as per "Accounts Receivable" ledger.

Trade Acceptances Receivable—For face amount of Trade Acceptances held.

Cash—This account represents the aggregate of cash on deposit with banks.

Petty Cash—It is advised that a petty cash fund be established, from which small disbursements will be made. The method of handling is as follows:

Draw a check to the order of "Cash" for the amount which it is decided is sufficient for the needs of the business, debiting it to a General Ledger asset account entitled "Petty Cash". This check is cashed and the proceeds given to the person placed in charge of the fund. For every disbursement made from the fund, vouchers will be made, to which will be attached receipts received for the expenditures. When it becomes necessary to replenish the cash box, withdraw all of the vouchers held covering disbursements, bind them together and total, and enter the total amount in the Voucher Disbursement sheet. The various items making up the total will have been analyzed as to class of expense, and the amounts of the various classes of expense will be debited to the respective accounts in the Voucher Disbursement Sheet, the total being credited, as usual, to Accounts Payable in that sheet. The account in the Accounts Payable ledger will be entitled "Petty Cash Replenishment Account". A check is then drawn for Cash, debiting Accounts Payable—"Petty Cash Replenishment Account", for the

amount involved and the proceeds handed to the custodian of the fund.

It will be realized that receipts from cash sales, etc., are not to be mixed with the petty cash funds, but should be deposited in the bank.

Cash Advances—This account will be charged with all temporary and permanent advances to employees on account of traveling and other expenses when such advances are to be accounted for at some later date; also includes contingent funds placed in the hands of local managers for current and immediate disbursements and certified checks deposited with bids.

Definitions of Deferred Assets

Insurance Premium Advances—This account will be charged with all premiums paid for insurance and will be credited monthly with a proper pro-rata share of such premiums as should be charged to "Insurance" and "Automobile Expense" accounts. The balance in this account should at all times indicate the net amount of premiums paid for the unexpired period of existing policies.

Taxes Paid in Advance—This account will be charged with all payments for taxes upon real and personal property when such payments are in advance of the period covered by the tax. A pro rata share of such tax will be transferred monthly from this account to "Taxes" account. The balance in the account should at all times indicate the net amount of taxes paid in advance.

Deferred Charges to Income—To this account will be charged disbursements of an expense nature which apply to a period subsequent to the month in which the disbursement is made.

(Note: This account may be charged with unusual disbursements for stationery, printed forms, etc., when it is desired to spread the expense over a period of several months; also with the amount of interest paid in advance on borrowed money. See discussion of Interest Account).

Prepaid Compensation Insurance Premiums—In estimating jobs, as well as in the accounting involved after the job is completed, it is highly desirable to include as many items among prime costs as are possible to ascertain accurately. An expense that can, and should, be included among prime costs is Compensation Insur-

ance Premiums on the wages of employees used in contracting operations, in view of the fact that it is a direct percentage of the labor costs involved. The accounting procedure when this compensation insurance expense is included as a prime cost, and not as an overhead expense, is explained below:

Let us assume a payment of \$110 on January 1st for compensation insurance premium for three months, of which \$100 covers insurance on employees used in contracting operations. This amount of \$100 will be debited to an asset account entitled "Prepaid Compensation Insurance Premiums". As each job is completed, the compensation insurance will be computed and noted on the job envelope, and at the end of the month an entry is made in the Journal debiting "Direct Job Expense" and crediting "Prepaid Compensation Insurance Premiums", for the total of all premiums covering wages on all jobs billed during the month. The "Prepaid Compensation Insurance Premiums" account will cover only the insurance expense on that part of the payroll relating to payments for labor used in contracting. Compensation insurance premiums on clerical employees, which of course, cannot be charged as a prime cost, will be considered as an overhead expense and charged directly to the "Insurance" account.

It should be understood that the balance in the "Prepaid Compensation Insurance Premiums" account will, at all times during the year, be treated as an asset or liability, and only at the end of the insurance year, when adjustment is made with the insurance company or state fund, will it be treated as an expense or income account and transferred to the "Profit and Loss" account.

It will be found that the "Prepaid Compensation Insurance Premiums" account, at the end of the year, instead of being balanced out, will contain a small debit or credit balance, due to the fact that the payments made to the insurance company or state fund, have been only approximations of the account due. An adjustment is made with the insurance company or state fund, generally at the end of the insurance year, by which the total payments are made to cover the exact amount due on the basis of the exact amounts expended for salaries and payroll for the year. It will be necessary at this time to make an entry debiting "Direct Job Expense" and crediting "Prepaid Compensation Insurance Premiums" account for the amount of insurance on the Labor used up until the end of the insurance year on uncompleted

and unbilled jobs, with proper notations on each job envelope, so that the amounts thus noted will not be included in those entered when the jobs are finally completed.

Any balance that then remains in the "Prepaid Compensation Insurance Premiums" account is no longer to be treated as an asset or liability account, but becomes an expense or income item, to be transferred to the debit or credit of "Profit & Loss" account. In the event the balance is a debit, it will be listed in the Analysis of Overhead Expense, if a credit it will be listed as other income on the Profit and Loss statement. When the balance is a debit, the item will be listed in one of the blank spaces in the Analysis of Overhead Expense and carried to the "Contracting" column; it will appear only once a year and, therefore, will not be shown in the Analysis of Overhead Expense except in the month during which the adjustment with the insurance company or the state fund is made.

In some cases, where jobs are done involving only very small accounts of labor, the inclusion, as a prime cost, of compensation insurance expense might be considered to involve a disproportionate amount of work. In such cases, the practice may be dispensed with, without greatly affecting the proper accounting of the transactions, although it is urged that, where practicable, the system be used consistently in all cases. Where compensation insurance expense is not treated as a prime cost in regard to such small amounts, but is so treated on large jobs, it will be seen that, due to the fact no entry is made with respect to the small jobs debiting "Direct Job Expense" and crediting "Prepaid Compensation Insurance Premiums", a certain part of the debits to the latter account will never be liquidated by credits. The excess debits will be reflected in the balance of the account at the end of the insurance year, to be treated as an income or expense item, as explained above. We give below specimen transactions involving these points.

1. Amounts paid throughout year to insurance company, to debit of "Prepaid Compensation Insurance Premiums" account, \$1000.

Dr. Prepaid Compensation Insurance Premiums \$1,000.
Cr. Cash \$1,000.

2. Amounts credited during year on completed jobs, \$870.

Dr. Direct Job Expense \$870.

Cr. Prepaid Compensation Insurance Premiums \$870.

3. Amount credited at end of insurance year (when adjustment is being made with insurance company) covering premium on wages paid on uncompleted and unbilled jobs, \$100.

Dr. Direct Job Expense \$100.

Cr. Prepaid Compensation Insurance Premiums \$100.

4. Amount actually due insurance company, on basis of actual payroll, \$1,030. Additional payment required to insurance company, \$30.

Dr. Prepaid Compensation Insurance Premiums \$30.

Cr. Cash \$30.

Ledger Account

Prepaid Compensation Insurance Premiums

Dr.		Cr.
Item No. 1.....	\$1,000.	Item No. 2.....\$ 870.
Item No. 4.....	30.	Item No. 3..... 100.

At this point there is a net debit balance of \$60. in the account which is transferred to "Profit & Loss" account by crediting "Prepaid Compensation Insurance Premiums" and debiting "Profit & Loss" account:

Dr. to P. & L.	60.
<hr/> \$1,030.	<hr/> \$1,030.

In some cases, an amount is paid to the insurance company representing approximately the premium due on three month's wages. This amount is held by the insurance company during the life of the policy and quarterly payments are made by the contractor for the full amount due on the payroll for the period. Under these conditions, the amount retained by the insurance company is set up as an asset in the account entitled "Prepaid Compensation Insurance Premiums". As jobs are completed "Direct Job Expense" is debited and an account entitled "Compensation Insurance Premiums" credited for the amount of premium applying on the amount expended for labor on such jobs. By the time the quarterly payment period arrives, there will have been accumulated in this

account sufficient funds—after allowing for “Labor in Progress”—to meet the debit covering the payment to the insurance company. As the amount credited to the “Compensation Insurance Premiums” account will cover only the compensation insurance on workmen’s wages, the amount paid the insurance company will exceed the amount accumulated in the account; the excess will, as explained above, be charged to “Insurance”.

It will be understood that the “Compensation Insurance Premiums” account—which will always contain a credit balance between the quarterly payment periods—will not, of course, be treated as an income account in the monthly statements, but will appear among the liabilities.

Definitions of Liabilities

Capital Stock—Face value of shares of capital stock issued as per stock certificate books. The figure at which stock without par value is carried is the amount of cash received therefor; if some other asset is received for the stock, the stock will be carried at the same figure at which the asset is valued.

If not a corporation this account should be designated as “Capital Account” and include all money actually invested by the owner.

Notes and Acceptances Payable—For aggregate of unpaid notes and acceptances payable. The procedure in setting forth the liability under notes and trade acceptances payable is as follows:

An entry is first made in the Voucher Disbursement sheet crediting “Accounts Payable” and debiting the asset or expense account involved. The next step is to use the Journal and, through a debit entry to the vendor’s account in the “Accounts Payable” column, discharge the obligation to the vendor in the “Accounts Payable” ledger, making a corresponding credit entry in the name of the vendor to an account entitled “Notes and Acceptances Payable” in the General Ledger.

When notes or trade acceptances become due and payable, the foregoing entries should be reversed, thereby creating a new liability in the “Accounts Payable” ledger in favor of the vendor and charging the amount involved (in the vendor’s name) to “Notes and Acceptances Payable” in the General Ledger so that this will be balanced.

Cash payment of the note or acceptance is entered in the "Accounts Payable" column of the Cash Paid sheet in the usual way, which liquidates the outstanding account in the vendor's name in the "Accounts Payable" ledger.

By handling notes and acceptances payable in this manner the contractor-dealer's balance sheet will always show the true amount of his accounts payable and the amount owed in the form of notes and trade acceptances.

Example: Contractor-dealer (A) secures from vendor (B) \$4,000. worth of merchandise. A makes a settlement of invoice by cash payment of \$2,000. and a trade acceptance of \$2,000. The following are the entries to be made:

1. Credit B in "Accounts Payable" column of the Voucher Disbursement sheet with \$4,000, debiting "Merchandise" with the same amount.

2. Draw check for \$2,000 charging to B's account in the "Accounts Payable" column of the Cash Paid sheet.

3. In the Journal, debit B's account in the "Accounts Payable" column and credit, in the name of B, "Notes and Acceptances Payable" through the "General Ledger" column.

4. When the trade acceptance becomes due (and this also applies in the case of a note), A draws a check for \$2,000 to meet the obligation, but having no column on the Cash Paid sheet through which he can debit "Notes and Acceptances Payable" to relieve the liability previously created in the name of B through the Journal entry, he makes a Journal entry crediting B's account in "Accounts Payable" \$2,000 and debiting, in B's name, "Notes and Acceptances Payable". This entry clears the liability in the General Ledger under "Notes and Acceptances Payable" in favor of B and there now appears in the "Accounts Payable" ledger on B's account a credit of \$2,000 which will be offset by charging to B on the Cash Paid Sheet in the "Accounts Payable" column this \$2,000 with a corresponding entry in the "Bank" column.

Accounts Payable—For aggregate of unpaid vouchers covering purchases of materials, payrolls and all other disbursements, as per "Accounts Payable" ledger.

Reserves

(NOTE: *Reserves are simply transfers from the surplus account as precaution against future losses and if not used to offset loss are in reality a part of surplus. Through creation of the Reserves the contractor faces frankly the problem of ultimate loss in these five asset accounts, and forces his customers to pay for these Reserves through their inclusion in his overhead expense.*)

Reserve for Taxes and Accrued Taxes—The “Reserve for Taxes” will be credited monthly, against debits to “Taxes” with the estimated tax on the profits from each month’s operations. This relates only to Federal and state income and profit taxes; when taxes of other kinds are paid in advance, payments are debited to “Taxes Paid in Advance” the handling of which is explained elsewhere.

At the end of the year, when inventory is taken and it is possible to figure the tax accurately, the balance in “Reserve for Taxes” is adjusted to agree with the exact amount of tax due on the actual profits. As the amount is then payable within a short time—March 15th in the case of Federal taxes—the balance of the account is transferred to “Accrued Taxes” which is listed in the Trial Balance book as a current liability. This leaves the “Reserve” account without any balance until the end of January in the new year, when it receives a credit for the estimated tax on that month’s operations. This amount is not of the same character as the amount carried to the credit of “Accrued Taxes” because the latter amount is one for which a return will be filed with the Government admitting liability in full therefor and for which payment will be made in a short time, while the balance in the “Reserve” account at the end of January is an estimate only for an amount which will not be payable for fourteen or fifteen months.

Reserve for Doubtful Notes and Accounts Receivable—This account will be credited monthly with an amount covering the estimated loss, due to failure to collect, on each month’s sales on credit, and the account entitled “Allowance for Loss on Notes and Accounts Receivable” debited with the same amount. It is generally found most satisfactory to establish the amount to be set up by taking a percentage of the sales on credit. We cannot suggest any percentage, because it will vary with the conditions in different territories and the care with which credit is extended by individual

proprietors. The most we can say is that the figures will naturally have to be based on the past experience of each proprietor and changed as occasion may require. We would also point out that here, as in similar cases, it is far better to find at the end of the year that too large a reserve has been set up than to be faced with the necessity of taking a large slice of the year's profits to increase the reserve.

As bad accounts are actually charged off during the year, the amounts thereof will be debited to the "Reserve" account and credited to "Accounts Receivable".

At the end of the year, the proprietor will go over his "Accounts Receivable" ledger and make a list of all accounts as to the collection of which there exists any doubt whatever, and the amount to the credit of the "Reserve" account should equal the total of these doubtful accounts. If the amount to the credit of the "Reserve" account exceeds the total of the doubtful accounts, the excess will be transferred to the credit of "Profit and Loss" account; if the amount to the credit of the "Reserve" account is less than the total of doubtful accounts, an additional appropriation must be made by debiting "Allowance for Loss on Notes and Accounts Receivable", and crediting "Reserve for Doubtful Notes and Accounts Receivable".

Reserve for Depreciation of Furniture and Fixtures—This account will be credited monthly with one-twelfth proportion of the estimated annual depreciation on first cost of furniture and fixtures in offices and warehouses, and "Allowance for Depreciation of Furniture and Fixtures" account will be debited that amount.

(NOTE: *All standard Furniture and Fixtures will be depreciated at the rate of at least 10 percent of first cost annually. Where building is leased depreciation on partitions, shelvings, etc., must be sufficient so that their book value is nil at expiration of lease.*)

Reserve for Depreciation of Automobiles—This account will be credited monthly with one-twelfth proportion of the estimated annual depreciation on first cost of automobiles and "Allowance for Depreciation of Automobiles" account charged with this amount.

(NOTE: *Rates of depreciation will be at rate of at least 33-1/3 percent annually of first cost.*)

Reserve for Depreciation on Tools—This account will be credited monthly with one-twelfth proportion of the estimated annual depreciation on tools, and "Allowance for Depreciation on Tools" account will be charged with the same amount.

(NOTE: Rates of depreciation will be at least 33-1/3 per cent annually of the first cost.)

Reserve for Depreciation of Merchandise—It will be realized that stock may become shop-worn or even obsolete, that there may be returns of merchandise sold on time payments that cannot be sold as new stock, that merchandise may be taken from the wareroom and no record made thereof, and that errors may be made in costing sales so that amounts which are smaller than are required by the actual facts will be credited to "Merchandise" account, against debits to "Cost of Sales" account, and the stock on hand will therefore, be carried at too high a figure.

It is essential that, each month, a charge be made against the profits to take care of these factors, so that it will not be necessary, at the end of the year, to make a large debit to "Profit and Loss" to cover the difference between the value of the merchandise as actually physically inventoried and the figure at which carried on the books. The amount set up as a reserve each month should be a certain percentage of the stock on hand as carried in the "Merchandise" account. Obviously no percentage can be suggested that will exactly meet all conditions, but, based upon the experience of many contractor-dealers, we feel that least 1 percent per month of the balance in "Merchandise" account should be used, (at the rate of 12 percent per annum), i.e., if the "Merchandise" account figure at the first of March were \$6,000, the amount set up in the "Reserve" account at the end of March would be \$60. Each proprietor will have to decide for himself what figure should be used in connection with his business, but we would again point out that it is infinitely better to find, at the end of the year, that any errors have resulted in an increase, rather than a decrease of estimated profits.

Any difference between the balance of the "Merchandise" account and the actual physical value of stock on hand as disclosed by the inventory, will be debited to the "Reserve for Depreciation of Merchandise" account; if this account does not contain a large enough balance to take care of the entire amount of the difference,

the excess will be debited to "Profit and Loss" account. If the "Reserve" account, after being debited with the difference, contains an unused credit balance, it will be transferred to the credit of "Profit and Loss" account. Below we give specimen entries:

Case No. 1

<i>Balance of Merchandise account</i>	\$5,000
<i>Inventory value of stock on hand</i>	4,000
<i>Balance in Reserve Account</i>	900
Dr. Reserve Account	\$900
Dr. Profit and Loss Account	100
Cr. Merchandise Account	1,000

Case No. 2

<i>Balance of Merchandise account</i>	\$5,000
<i>Inventory value of stock on hand</i>	4,200
<i>Balance in Reserve account</i>	900
Dr. Reserve account	\$800
Cr. Merchandise Account	800
Dr. Reserve Account	\$100
Cr. Profit and Loss account	100

Profit and Loss Account—The "Profit and Loss" account is simply a clearance account to which, when closing the books at the end of the fiscal year, are transferred the balances contained in the various income and expense accounts. Description of the entries to this account is given on page 29, under the heading "Closing the Books at End of Fiscal Year".

Surplus Account—As stated above, the "Profit and Loss" account is only a clearance account at the end of a fiscal year, and the net debit or credit in this account, (after payment of dividends in the case of a corporation), is transferred to "Surplus" account, which, except under circumstances which we do not need to discuss here, represents the accumulation of undistributed profits.

It is to be understood that no entries to "Surplus" account are made except at the time of closing the books at the end of a fiscal year, when an inventory is taken.

Accounts Grouped Under Heading

Summary of Operations

Sales Billed	Cr.
Returns & Allowances	Dr.
Cash Discount Allowed	Dr.
Cost of Sales	Dr.
Commission Allowed	Dr.

Sundry Earnings:

Commission Received	Cr.
Cash Discount Earned	Cr.

General Expenses:

Salaries	Dr.
Non-Productive Labor	Dr.
Rent	Dr.
Light, Heat, Power	Dr.
Stationery & Office Supplies	Dr.
Traveling and Entertaining	Dr.
Telegraph and Telephone	Dr.
Postage	Dr.
Advertising	Dr.
Taxes	Dr.
Insurance	Dr.
Association Expenses	Dr.
Warehouse Upkeep	Dr.
Maintenance & Repairs	Dr.
Interest	Dr.
Automobiles	Dr.
Miscellaneous	Dr.

Reserve Appropriations:

Allowance for Loss on Notes and Accounts Receivable...	Dr.
Allowance for Depreciation on Furniture & Fixtures.....	Dr.
Allowance for Depreciation on Automobiles	Dr.
Allowance for Depreciation on Tools.....	Dr.
Allowance for Depreciation of Merchandise	Dr.

Definitions of Accounts Under Summary of Operations

Sales Billed—This account represents the amount at which all sales have been billed.

Returns and Allowances—Allowances—It sometimes happens that a contractor, after having billed a customer for a job, will make a reduction in the amount of the bill in order to meet the customer's views; the amount of such a reduction would be debited to "Returns and Allowances" and credited to "Accounts Receivable".

Returns —Similarly, if merchandise sold is returned, this account will be debited (with the amount for which "Sales Billed" was originally credited) and "Accounts Receivable" or "Cash" credited; in the case of merchandise returns, however, it is necessary to make an additional entry debiting "Merchandise" and crediting "Cost of Sales" to record the fact that the stock on hand has increased.

Cash Discount Allowed—Allowances to cover discounts for cash settlements received from customers when such discounts are contingent upon settlement within a specified time.

Cost of Sales—This account represents the cost of sales billed, as credited in "Sales Billed" account in General Ledger.

Commissions Allowed—Allowance to agents and others for services in securing orders.

Commissions Received—Amount received from manufacturers and others as compensation for negotiating sales which are billed directly by the manufacturer or other vendor.

Cash Discounts Received—For cash discounts deducted in payment of vendor's invoices.

General Expense Accounts:

Salaries—For compensation paid to all officers, managers and employees, except journeymen and helpers. Owners of the business engaged in active management should pay themselves a salary equal to that which it would require to secure someone else to fill their positions.

(Note: Commissions allowed agents for securing orders are not treated as salaries but are shown separately under "Commissions Allowed").

Non-Productive Labor—For wage payments to journeymen and helpers, not chargeable to specific jobs; also when the "Labor" account is reconciled against the time cards in the job envelopes on uncompleted work, any difference that is found to exist is charged to this account.

Rent—Amount paid as rental of all offices and warehouse space; also taxes and insurance paid on leased property.

Light, Heat, Power—Expense incurred in lighting or heating offices and in furnishing light, heat and power for warehouses and shops.

Stationery and Office Supplies—Cost of stationery and minor supplies and conveniences, also books, reports, forms and miscellaneous office supplies, together with freight or express charges thereon.

Traveling and Entertaining—Payments for transportation, hotel and other necessary expenses of travel for all employees, excepting where such items are charged to "Direct Job Expense" on some specific job. Also expenses incurred in entertainment of customers.

Telegraph and Telephone—For all telegraph and telephone charges.

Postage—Cost of postage stamps.

Advertising—All expenses for advertising of whatever nature.

Taxes—For income and property taxes accrued in monthly proportions. (Taxes paid on rented or leased property are chargeable to "Rent" account).

Insurance—This account is debited monthly, against credits to "Insurance Premium Advances" account, with an amount representing the month's proportion of all insurance premiums paid, with the following exceptions:

- (a) Premiums for all classes of insurance on automobiles, which are charged to "Automobile Expense".
- (b) Premium for compensation insurance on wages paid journeymen and helpers which is charged to "Prepaid Compensation Insurance Premiums" account, as elsewhere described.
- (c) Premiums for insurance covering leased property which are charged to "Rent" account.

Association Expenses—Dues and assessments in business associations.

Warehouse Upkeep—Includes all payments for packing materials such as excelsior, twine, burlap, wrapping paper, boxes, etc., consumed in operation of wrapping, packing or boxing, also cost of

repairing and renewing all short-lived or inexpensive tools, together with freight and express charges thereon.

Maintenance and Repairs—This account will be charged with expenditures for repairs to furniture and fixtures, painting of premises, alterations, etc.

Interest—This account includes all charges for interest, whether for notes payable, trade acceptances payable or open account. If money is borrowed for three months, and the interest is paid in advance, (the bank crediting the contractor-dealer with the net proceeds of the loan,) the entire amount of the interest should not be charged against one month's operations. The amount will be first charged to "Deferred Charges to Income"; at the end of the first month one-third of the amount will be charged to "Interest" account and credited to "Deferred Charges to Income"; and so on until the "Deferred Charges to Income" account is liquidated.

Automobiles—Cost of maintaining and operating motor vehicles, such as rent of garage, repair and renewals of equipment, supplies (gasoline and oil), fire, theft and liability insurance on vehicles.

Miscellaneous Expense—Includes all incidental and miscellaneous disbursements (except warehouse expenses) not otherwise provided for in this classification, such as contributions to civic organizations, charitable gifts, donations, street car fares, advertising for help, fees for mercantile agency reports, and minor expenditures not otherwise classified.

(NOTE: If the "Miscellaneous Expense" account should assume large proportions an analysis of the account should be made with the view of ascertaining whether an additional General Ledger account, or accounts, should be opened for some particular class, or classes, of expenses for which expenditures are made frequently enough to justify it.)

Reserve Appropriations:

Allowance for Loss on Notes and Accounts Receivable

Allowance for Depreciation on Furniture & Fixtures

Allowance for Depreciation of Automobiles

Allowance for Depreciation on Tools

Allowance for Depreciation of Merchandise

These accounts, as previously referred to under "Reserves" in the definitions of Liabilities, will be debited with the amounts credited to their relative "Reserve" accounts.

SECTION IX.

ILLUSTRATIONS OF FORMS AND ENTRIES

In order that a clear understanding may be had of the actual entries of various transactions through the forms and books of the Standard Accounting System the following illustrations are shown as recording the operations of a contractor-dealer business for one month. The transactions shown are limited to as few as possible in order to include them on one sheet of each form, but they will serve to illustrate the principles involved in accounting for an actual business of any volume.

A physical inventory of merchandise, furniture and fixtures, automobiles, tools and equipment has been taken, and the balances of these accounts in the General Ledger have been made to agree with the inventory figures. The books having been closed for the fiscal year, a statement of assets and liabilities is then drawn off, as follows:

Statement of Assets and Liabilities—Jan. 1st.

Assets

Fixed Investments:

Real Estate			
Furniture and Fixtures	\$	700.00	
Automobiles		1,300.00	
Tools		250.00	\$ 2,250.00

Investments

Current Assets:

Merchandise		4,200.00	
Labor in Progress		124.25	
Direct Job Expense		22.50	
Notes Receivable			
Accounts Receivable		3,733.00	
Trade Acceptances Receivable			
Cash		1,382.28	
Petty Cash		75.00	
Cash Advances			9,537.03

Deferred Assets:

Insurance Premium Advances		113.00	
Taxes Paid in Advance			
Deferred Charges to Income			
Prepaid Compensation Insurance Premium ...		2.54	115.54
			\$11,902.57

Liabilities

Capital\$ 7,500.00

Current Liabilities:

Notes Payable			
Acceptances Payable			
Accounts Payable		1,604.00	
Taxes Accrued			

Working Reserves:

Reserve for Doubtful Notes and Accounts Receivable		200.00	
Reserve for Taxes		45.00	
Surplus		2,553.57	\$11,902.57

Transactions for the Month of January

<p>Jan. 2 Received from John Smith in settlement of account \$500., less \$10 discount allowed \$490.00 Cash Lamp Sales 20.00 Cash Repair Sales 6.00 Paid Rent 140.00</p> <p>Jan. 3 Paid American Jobbing Company on open account \$400.00 Billed John Smith Job No. 81 50.17 Cash Store Sales 50.00 Paid bill for light, heat and power 24.52 Paid bills for telephone and telegraph 26.55 Paid insurance company on account pre-paid compensation insurance premiums 60.00</p> <p>Jan. 4 Received from William Jones in settlement of account \$200.00 Bought of American Jobbing Company merchandise invoiced at 400.00 Billed Edward Appleton Job No. 82 35.00 Cash store sales 25.00 Cash repair sales 10.00 Paid wages 226.00</p> <p>Jan. 6 Received from Edward Appleton on his open account \$300.00 Bought of Thomas Gibson & Company merchandise invoiced at 425.00 Billed Charles Blauvelt Job No. 84 45.00 Billed Main St. Dept. Store, for lamps sold 80.00 Cash lamp sales Jan. 2nd to 5th 20.00 Cash store sales 38.00 Cash repair sales 4.00</p> <p>Jan. 7 Billed William Jones Job No. 87 \$175.00 Jan. 8 Bought of D. J. Davis merchandise invoiced at \$350.00</p> <p>Jan. 9 Cash store sales \$ 42.00 Cash repair sales Jan. 6th to 8th 14.00</p> <p>Jan. 10 Received from Phil. Sawyer in settlement of open account \$600.00 Billed Clarence McDonald Job No. 90 65.00</p> <p>Jan. 11 Store sale to William Edgven on credit \$387.63 Paid for advertising 61.20 Paid wages 210.00</p> <p>Jan. 13 Received from Charles Blauvelt on his open account \$124.00 Paid express on merchandise received 10.00 Billed Columbia Laundry for Lamps sold 65.00 Cash lamp sales Jan. 8th to 12th 15.00 Cash repair sales Jan. 9th to 12th 10.00 Paid Association dues 7.50 Bought postage stamps 8.00</p> <p>Jan. 14 Received from James Conway on his open account \$260.00</p> <p>Jan. 15 Paid United States Electric Supply Company on open account \$500.00 Bought of American Jobbing Company merchandise invoiced at 700.00 Billed John Bixby Job No. 83 450.00 Billed William Morris Job No. 86 990.10 Cash store sales Jan. 10th to 14th 236.00 Paid salaries 275.00 Paid for repairs to store equipment 30.00</p>	<p>Jan. 17 Received from Clarence McDonald in settlement of his open account \$400.00 Bought of United States Electric Supply Company merchandise invoiced at 525.00</p> <p>Jan. 18 Received from John Bixby in settlement of open account \$464.00 Paid Thomas Gibson & Company in settlement of open account—\$600., less \$12. cash discount 588.00 Paid wages 220.00</p> <p>Jan. 20 Cash lamp sales Jan. 13th to 19th \$ 40.00 Cash store sales Jan. 18th to 19th 260.00 Cash repair sales Jan. 13th to 19th 10.00</p> <p>Jan. 21 Paid for stationery \$ 86.03</p> <p>Jan. 22 Paid D. J. Davis on open account \$104.00</p> <p>Jan. 25 Paid wages \$259.00</p> <p>Jan. 27 Received from J. D. Axford on his open account \$552.00 Paid foreman for his payments on account of direct job expense 22.00</p> <p>Jan. 28 Cash lamp sales Jan. 20th to 27th \$ 31.66 Cash repair sales 10.00</p> <p>Jan. 29 Paid salaries \$275.00 Paid garage bill 87.89 Paid proprietor to reimburse him for miscellaneous business expenditures 18.30 Paid proprietor to reimburse him for business expenditures for travelling and entertainment 65.00</p> <p>Jan. 30 Billed J. D. Axford Job No. 85 \$980.00 Billed J. B. Johnstone Job No. 88 850.00 Billed W. A. Wood Job No. 89 327.00 Cash store sales Jan. 20th to 29th 250.00 Billed following repair sales, made during month: Edward Appleton 24.00 D. D. Blauvelt 10.00 Charged commission for securing contracts Insurance account and credited month's proportion 114.42 Charged Taxes and credited Accrued month's proportion 12.55 Made entries debiting Allowance accounts and crediting Reserve accounts as follows: Loss on Notes and Accounts Receivable 44.00 Depreciation on Furniture and Fixtures 15.00 Depreciation on Tools 15.00 Depreciation on Automobiles 50.00 Depreciation on Merchandise 42.00 Charged Labor and credited Accrued wages for wages from Jan. 27th to 30th preparatory to balancing Labor account against time cards 168.00 Charged Non-productive Labor and credited Labor for labor during month not applicable to particular jobs 40.51 Sent credit memorandum to William Morris against Job No. 86 50.00 Made entry debiting Direct Job Expense and crediting Prepaid Compensation Insurance Premiums for Compensation and Insurance premiums on jobs billed in Jan. 21.61</p>
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JOB ENVELOPE

JOB NO. 85 DATE Jan. 2, 1925
 AMOUNT OF CONTRACT \$ 980.⁰⁰ CUSTOMER'S ORDER NO. Letter 12-29-24
 NAME J. D. Afford
 ADDRESS 125 Main St.
 DATE BILLED Jan. 15, 1925 TOTAL COST \$ 669.⁰⁰

MATERIAL			LABOR			DIRECT JOB EXPENSE		
REQ. NO.		TOTAL	DATE	TOTAL	DATE	TOTAL		TOTAL
Sheet #1	Material Summary	391.28	See Labor Summary	250.80		Surface Permit		70
" 2	" " "	14.72				Comp. Insurance		6.50
								5
TOTAL		406.00		250.80				12.20

Materials 406
 Labor 250.80
 Direct Job Exp. 12.20
 Total 669.00

EMPLOYMENT ASSOCIATION OF ELECTRICIANS INTERNATIONAL
FORM NO. 5

RETURNED MATERIAL RECORD

CREDIT TO JOB NO. 85 DATE Jan. 14, 1925
 ROUGHING _____ FINISHING _____ TOOLS _____
 NAME J. D. Afford
 ADDRESS 125 Main St.

EMPLOYMENT ASSOCIATION OF ELECTRICIANS INTERNATIONAL
FORM NO. 1

REQUISITION FOR MATERIAL

NO. 1 DATE Jan. 2, 1925
 CHARGE TO JOB NO. 85 FROM STOCK FROM VENDOR _____
 ROUGHING _____ FINISHING _____ TOOLS _____
 NAME J. D. Afford
 ADDRESS 125 Main St.

QUANTITY	DATE DELIVERED	MATERIAL	COST
2,000'	Jan. 2	1/2" Conduit galv.	
350'	"	3/4" " "	
100'	"	1" " "	
40'	"	1 1/4" " "	
30'	"	2" " "	
2	"	1 1/4" L's	
2	"	2" L's	

REMARKS: See Job Envelope

EMPLOYMENT ASSOCIATION OF ELECTRICIANS INTERNATIONAL
FORM NO. 2

TIME CARD

DATE Jan. 3, 1925

EMPLOYED TO DAY AS FOLLOWS	JOB NO.	CAR FARE	TELEPHONE	RATE	HOURS
<u>125 Main St. (Afford)</u>	<u>85</u>	<u>.20</u>		<u>.90</u>	<u>8</u>

SIGNED J. B. Thompson

TOTAL RECD BY J. B. Thompson

MATERIAL SUMMARY SHEET

JOB NO. 85

NAME J. D. Afford

ADDRESS 125 Main St

NO		4		3		2		1		TOTAL	CREDIT ON RETURNS	TOTAL	MATERIAL	UNIT COST	COST	UNIT PRICE	SELLING
DATE	AMT.	DATE	AMT.	DATE	AMT.	DATE	AMT.	DATE	AMT.								
					1/2 360'		2,000'		2,360'	110'	2,250'	1/2" Conduit galv.	5.50	123.60			
					1/2 320'		350'		670'	300'	300'	3/4" " "	7.00	21.00			
					1/2 100'		100'		20'	80'	1" " "	10.00	8.00				
					1/2 20'		40'		60'	10'	50'	1 1/2" " "	23.00	6.75			
					1/2 30'		30'		20'	20'	2" " "	12.00	6.00				
					1/2 2'		2'		4'	1'	3'	1 1/2" L's " "	30.00	9.00			
					1/2 2'		2'		2'	2'	2" L's " "	70.00	14.00				
					1/2 25'		10'		80'	115'	15'	100'	*54151 Outlet Boxes	15.00	15.00		
					1/2 30'		50'		80'	5'	75'	*52151 " "	18.00	10.50			
					1/2 70'		70'		5'	65'	*52613 Conors	10.00	6.50				
					1/2 15'		15'		5'	10'	*5263 " "	10.00	1.00				
					1/2 20'		100'		120'	10'	110'	3/4" Insulate Conors	3.00	3.90			
					1/2 1'		1'		1'	1'	2" FE Condulet & Conors	3.00	3.60				
					1/4 1000'		1000'		5000'	7000'	400'	6600'	*14 R.G. S.C. wire	6.00	42.00		
					1/2 300'		300'		40'	260'	40'	260'	*8 " " "	19.00	4.90		
					1/2 181'		181'		16'	165'	16'	165'	*4 Sta. Wire	24.00	5.60		
					1/2 110'		110'		110'	110'	*0 " " "	68.00	7.48				
					1/4 5'		5'		35'	45'	45'	S.P. Junction Switches & Plates	41.00	18.45			
					1/4 10'		15'		25'	20'	20'	Conor Outlets & Plates	34.00	6.80			
					1/2							Cabinets & Panel Boards		74.00			
														74.00			
														39.120			

LABOR SUMMARY SHEET

JOB NO. 85

NAME J. D. Afford

FOR MONTH OF January 1925

ADDRESS 125 Main St.

NAME	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total Hours	Rate	Amount		
J. B. Thompson			8	8	4		8	8	8	4		8	8	8																			85 1/2	.90	76.95	
W. J. Nelson			8	8	4		8	8	8	4		8	8	8																			87	.60	52.20	
J. Norton							8	8	8	4		8	8	8																				62	.90	55.80
A. B. Hammigan							4	8	8	4		8	8																					48	.60	28.80
H. J. Carter								8	8	4		8	8																					41 1/2	.90	37.13
																																		250.88		

PAY ROLL

PAGE 4

FOR PERIOD FROM Jan. 6, 1925 TO Jan. 11, 1925

HOURS WORKED										TOTAL HOURS	RATE	PER	TOTAL EARNED	DEDUCTION	NET AMOUNT	NO.	NAME
6	7	8	9	10	11	DATE											
8	8		8	8	4					36	90	Ms.	32.40			1.	Anderson, H. C.
8	8		8	8	4					36	60		21.60			2.	Carter, H. J.
		8	8	8	4					28	90		25.20			3.	Carter, H. J.
8	8	8	8	8	4					44	60		26.40			4.	Hammigan
8	8	8	8	8	4					44	60		26.40			5.	Nelson, W. J.
8	8	8	8	8	4					44	90		39.60			6.	Norton, J.
8	8	8	8	8	4					44	90		39.60			7.	Thompson, J. B.
4	7	8	5	8						32	90		28.80			8.	Todd, P.
8	8	8	8	8	7 1/2					47 1/2	40		19.00			9.	Walker, Geo.
													239.00				

SALES RECAPITULATION SHEET

FOR MONTH OF January 1925
 COPYRIGHT—MAY, 1924, BY ELECT. CONTRACTORS AND RELAY CO., INC., NEW YORK, N. Y.

CUSTOMER'S BILL NO.	JOB NO.	CONSTRUCTION SALES						LAMP SALES		STORE SALES		SALES	
		MOSE COST	LABOR COST	DIRECT JOB EXPENSE	COST OF SALES	SALES BILLED	COST OF LAMP SALES	LAMP SALES BILLED	COST OF STORE SALES	STORE SALES BILLED	COST OF SALES	SALES BILLED	
864	81	2,103	15	30	34.33	50.17							
865	82	1,490	11	22	26.12	35							
866	84	1,862	14.50	29	33.41	45							
867	Sales Sicks						54.70	80					
868	87	78.75	4.8	4	13.975	17.5							
869	90	2.8	17.16	34	45.50	45							
870	Sales Sicks								259.12	387.63			
871	" "						44.40	65					
872	83	1,842.0	143.15	286	332.21	450							
873	86	4.4	254.90	826	477.16	990.10							
874	85	4.06	250.80	1220	469	980							
875	88	3,642.5	248.50	958	624.33	850							
876	89	192	77.72	1620	225.92	327							
Repair Sales	500 X	220	14.95		24.15	34							
	Total	1,674.95	1,095.63	542.25	2,824.83	4,001.27	99.10	145	259.12	387.63			
<p>Memor. of Details of Credit Sales and Cash Sales combined for Profit and Loss Statement</p>													
Credit Sales (above)		1,674.95	1,095.63	542.25	2,824.83	4,001.27	99.10	145	259.12	387.63			
Cash Sales: Repairs		15.60	24.45		40.25	44	85.94	124.66					
Stamp													
Store									604	901			
Total Sales		1,690.55	1,120.33	542.25	2,865.13	4,045.27	185.04	271.66	863.12	1,288.63			
TOTAL													

VOUCHER DISBURSEMENT SHEET

COPYRIGHT, ASSOCIATION OF ELECTRICIANS - INTERNATIONAL, FORM NO. 14

CREDIT			DEBIT												
VOUCHER NO.	NAME	FIELD	ACCOUNTS PAYABLE	MOSE.	LABOR	DIRECT FOR EXTERNAL	FOLIO IN GENERAL LEDGER	GENERAL LEDGER	SALARIES	FREIGHT STAT. AND EXP. AND OFFICE SUPPLIES	WAREHOUSE OFFICE EXPENSES	TEL. AND TEL.	POSTAGE	AUTOMO. BILE	MISC.
443	American Realty Co. - Rent		14.0					14.0							
444	U.S. Light & Fuel Co. - Light's house		24.52					24.52				24.50			
445	City Telephone Co.		21.50									5.00			
446	Western Virginia Tel. Co.		5.55												
447	West Virginia Administration Bldg. Cont. work		6.0					6.0							
448	American Jobbing Co. - Motor.		4.00	4.00	2.26										
449	Powell - Garage		22.6												
450	W. B. Siskin & Co. - Merchandise		42.5	42.5											
451	D. J. Davis Sup Co. -		3.50	3.50											
452	Sparks News - Advertising		6.120					6.120							
453	Powell - Garage		21.0		2.10										
454	Post Office - Stamps		8												
455	Amer. Exp. Co. - expenses on travel		1.0						1.0						
456	Black Contractors Assoc. - Dues		7.50					7.50							
457	Amer. Jobbing Co. - Merchandise		7.00	7.00											
458	Salvino		27.5						27.5						
459	Rebano In Store Equipment		9.0												
460	U.S. Electric Sup. Co. - Motor.		52.5	52.5											
461	Powell - Garage		22.0		22.0										
462	Edmond Steamferry Co.		36.03						36.03						
463	Powell - Garage		2.5		2.5										
464	Sheet job expense		2.2			2.2									
465	Salvino		27.5						27.5						
466	Local Garage Co.		87.19											87.19	
467	Proquiter - Misc. expenses		18.30												18.30
468	" - Travel & maintenance		6.5												
469	B. F. Edgar - (expenses on travel)		114.42												
	TOTALS		4576.41	2400	91.5	2.2		502.64	550	10	36.03	26.55	8	87.19	18.30

CASH RECEIVED

COPYRIGHT - ASSOCIATION OF ELECTRICIANS - INTERNATIONAL FORM NO. 18		NAME		FOLIO	CASH RECEIVABLE	CASH RECEIVABLE ALLOWANCE	GENERAL LEDGER	CASH SALES	BANK	BANK
DATE	DESCRIPTION									
1935										
Jan 2	John Smith - Settlement of account				500	10		L 20	400	
2	Camp Sales							R 6	26	
3	Repair Sales							S 50	50	
4	Mon. Jones - on account				200			S 25		
4	Strand Sales							R 10	295	
4	Repair Sales									
6	Edur. Appleton - on account				300					
6	Camp Sales - Jan. 2-5							L 20		
6	Straw Sales							S 38		
6	Repair Sales							R 4	342	
9	Straw Sales							S 42		
9	Repair Sales - Jan. 6-8				400			R 14	56	
10	Phil. Sawyer on account								600	
12	Chas. Glahett - on account				124					
13	Camp Sales - Jan. 6-12							L 15		
13	Repair Sales - " 9-12							R 10	149	
14	James Conway - on account				260				260	
15	Straw Sales - Jan. 10-14							S 236	236	
17	G. M. Donald on account				400					
17	John Rippy - " "				444				864	
20	Camp Sales - Jan. 13-19							L 40		
20	Straw Sales - " 15-19							S 260		
20	Repair Sales - " 13-19							R 10	310	
27	J. D. Offord - on account				552				552	
28	Camp Sales - Jan. 20-27							L 3166		
28	Repair Sales - " "							R 10	4166	
30	Straw Sales - " " 30							S 250	250	
	TOTAL				3400	10			109166	448166

CASH PAID

COPYRIGHT BY ASSEN OF ELECT CONTRACTORS AND BUILDERS FORM NO. 15

VOUCHER NUMBER	CHECK NUMBER	DATE 1925	NAME	FOLIO	ACCOUNTS PAYABLE	DISCOUNT PAID	BANK BALANCE	BANK	BANK BALANCE
403	502	Jan 2	American Realty Co		140		140		1758.28
392	503		Amer. Jobbing Co.		400		400		
404	504		W. S. Light & Power Co.		24.52		24.52		
405	505		City Telephone Co.		21.50		21.50		
406	506		Western Union Tel. Co.		505		505		
407	507		Utilities Steamship Exchange		60		60		1297.21
409	508		Payroll - wages		226		226		1306.21
412	509		Payroll - wages		995		995		
413	510		Payroll - wages		210		210		2118.426
414	511		Dist. Office - stamps		8		8		
415	512		American Express Co.		110		110		
416	513		Electrical Contractors Assocn.		7.50		7.50		2372.76
394	514		W. S. Elec. Sup. Co.		500		500		
418	515		Salaries		275		275		
419	516		John Koch - repairman		3.00		3.00		2063.76
420	517		Joe Johnson & Co.		600		600		
421	518		Payroll - wages		220		220		2119.76
422	519		Blood Stationery Co.		96.03		96.03		2393.73
399	520		D. J. Davis Sup. Co.		104		104		2289.73
423	521		Payroll - wages		259		259		2030.73
424	522		J. B. Duly (Assman)		22		22		2560.73
425	523		Salaries		275		275		
426	524		Local Storage Co.		87.89		87.89		
427	525		Printer		83.30		83.30		2156.20
428	526		E. S. Edgar		114.42		114.42		2291.78
429	526								
TOTAL					3759.16	12	3717.16		

DR.

JOURNAL

CR.

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MOSE.	GENERAL LEDGER	ACCOUNTS PAYABLE	ACCOUNTS RECEIVABLE	FOUR	N A M E	N A M E	FOUR	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	GENERAL LEDGER	MOSE.
					Journal Entries from Salvo Receipt Sheet Debit Salvo Billed 4,081.27 Credit Salvo Paid 145 Salvo Billed 387.63 4,533.90						
	2324.85		4533.90		By Accounts Receivable	By Salvo Billed				4533.90	
					By Cost of Salvo (cont.)	By Merchandise				1095.68	1074.95
	99.10				By Cost of Salvo (cont.)	By Merchandise				54.25	
	259.12				By Cost of Salvo (cont.)	By Merchandise				99.10	259.12
	431.66				Journal Entries from Cash Received Sheet						
	1.0				By Cash						
					By Cash Discount Allowed				34.00	1091.66	
						By Accounts Receivable					
						By Salvo Billed					
		3729.16			Journal Entries from Cash Paid Sheet						
					By Accounts Payable						
						By Discount Earned				1.0	
						By Cash				3717.16	
	7647.6	3729.16	4533.90		TOTALS	TOTALS		3400		10504.65	2033.17
					3480.76 2297.16 4788.47 15,297.82	3480.76 2297.16 4788.47 15,297.82					

COMPONENT-NAT. ASS. OF ELECT. CONTRACTORS AND DEALERS, FORM NO. 18

MOSE	GENERAL LEDGER	ACCOUNTS PAYABLE	ACCOUNTS RECEIVABLE	7610	NAME	7610	NAME	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	GENERAL LEDGER	MOSE
1255					Dr. Insurance You months proportions		Dr. Auto. Premium Advances proportions			1255	
15					Dr. Tools You months proportions		Dr. Reserve for Tools proportions			15	
44					Dr. Allowance: You Auto on Note and Insurance's Expense		Dr. Reserve: Auto. Premiums proportions			44	
10					Dr. Depreciation on Automobile		Dr. Depreciation on Automobile			10	
50					Dr. Depreciation on Tools		Dr. Depreciation on Tools			50	
15					Dr. Depreciation on proportions		Dr. Merchandise proportions			15	
42										42	
168					Dr. Salary You unpaid wages to Jan. 31		Dr. Assumed Wages			168	
4051					Dr. New Productive Salary of Insurance's Expense and that of "Salary" section and that of "Tools" section					4051	
2161					Dr. Direct Job Expense You compensation before and after cost lamp auto		(Paid Compensation) You Insurance's Expense before and after cost lamp auto			2161	
8594					Dr. Cost of Sales You cost of		Dr. Merchandise cost lamp auto			8594	
18504					Dr. Merchandise You cost of credit and cost lamp auto (amount due supplier of lamp on lamp auto)		Dr. Accounts Payable cost lamp auto lamp on lamp auto		18504		
604					Dr. Cost of Sales You cost of		Dr. Merchandise cost lamp auto			604	
4025					Dr. Cost of Sales You cost of		Dr. Merchandise cost lamp auto			4025	
50					Dr. Returns and allowance on		Dr. Accounts Receivable Job #88 - Jones			50	
119856					TOTALS		TOTALS			119856	
18504								50	18504	44332	70554

Trial Balance—Jan. 31st.

Balance Sheet Accounts

Assets	Dr.	Cr.
Fixed Investments:		
Real Estate	Dr.	
Furniture and Fixtures	Dr.	\$ 700.00
Automobiles	Dr.	1,300.00
Tools	Dr.	250.00
Investments	Dr.	
Current Assets:		
Merchandise	Dr.	4,056.33
Labor in Progress	Dr.	46.41
Direct Job Expense	Dr.	11.86
Notes Receivable	Dr.	
Accounts Receivable	Dr.	4,671.90
Trade Acceptances Receivable	Dr.	
Cash	Dr.	2,291.78
Petty Cash	Dr.	75.00
Cash Advances	Dr.	
Deferred Assets:		
Insurance Premium Advances	Dr.	100.45
Taxes Paid in Advance	Dr.	
Deferred Charges to Income	Dr.	
Prepaid Compensation Insurance Premium	Dr.	40.93
Liabilities		
Capital Stock	Cr.	\$ 7,500.00
Current Liabilities:		
Notes Payable	Cr.	
Acceptances Payable	Cr.	
Accounts Payable	Cr.	2,636.29
Taxes Accrued	Cr.	
Wages Accrued	Cr.	168.00
Working Reserves:		
Reserve for Doubtful Notes and Accounts Receivable	Cr.	244.00
Reserve for Depreciation, Automobiles ..	Cr.	50.00
Reserve for Depreciation, Tools	Cr.	15.00
Reserve for Depreciation, Merchandise ..	Cr.	42.00
Reserve for Taxes	Cr.	60.00
Surplus	Cr.	2,553.57
	\$13,544.66	\$13,278.86

ACCOUNTS RECEIVABLE

NAME

ADDRESS

COPYRIGHT—ASSOCIATION OF ELECTROGRAPHS, INTERNATIONAL, FORM NO. 11-A

DATE	FOLIO	DEBITS	✓	DATE	FOLIO	CREDITS	✓	BALANCE

Illustration of Form 11

**Trial Balance—Jan. 31st.
Summary of Operations**

	Dr.		Cr.
Sales Billed	Cr.		\$ 5,625.56
Returns & Allowances	Dr. \$	50.00	
Cash Discount Allowed	Dr.	10.00	
Cost of Sales Billed	Dr.	3,913.29	
Commission Allowed	Dr.	114.42	
Sundry Earnings:			
Commision Received	Cr.		
Cash Discount Earned	Cr.		12.00
General Expenses:			
Salaries	Dr.	550.00	
Non-Productive Labor	Dr.	40.51	
Rent	Dr.	140.00	
Light, Heat, Power	Dr.	24.52	
Stationery & Office Supplies	Dr.	36.03	
Traveling and Entertaining	Dr.	65.00	
Telegraph and Telephone	Dr.	26.55	
Postage	Dr.	8.00	
Advertising	Dr.	61.20	
Taxes	Dr.	15.00	
Insurance	Dr.	12.55	
Association Expenses	Dr.	7.50	
Warehouse Upkeep	Dr.		
Maintenance & Repairs	Dr.	30.00	
Interest	Dr.		
Automobiles	Dr.	87.89	
Miscellaneous	Dr.	18.30	
Reserve Appropriations:			
Allowance for Loss on Notes and Accounts Receivable	Dr.	44.00	
Allowance for Depreciation on Furniture & Fixtures	Dr.	10.00	
Allowance for Depreciation on Automobiles ..	Dr.	50.00	
Allowance for Depreciation on Tools.....	Dr.	15.00	
Allowance for Depreciation of Merchandise..	Dr.	42.00	
		<u>\$ 5,371.76</u>	<u>\$ 5,637.56</u>

Proof of Trial Balance

Balance Sheet Accounts	Total Drs.	\$13,544.66	Total Crs.	\$13,278.86
Summary of Operations		5,371.76		5,637.56
		<u>\$18,916.42</u>		<u>\$18,916.42</u>

ACCOUNTS PAYABLE

NAME _____

ADDRESS _____

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DATE	FOLIO	DEBIT	DATE	VOUCHER NUMBER	CREDIT	CREDIT BAL.

ANALYSIS OF OVERHEAD EXPENSE

FOR MONTH ENDING Janv. 31, 1925

ACCOUNT	CONTRACTING DEPARTMENT				MERCHANDISING DEPARTMENT				TOTAL OF ALL DEPARTMENTS			
	For Month of		Months to Date		For		Months to Date		For		Months to Date	
	Current Year	Last Year	For Fiscal Year	Last Year	Current Fiscal Year	Last Year	Current Fiscal Year	Last Year	Current Fiscal Year	Last Year	Current Fiscal Year	Last Year
Management Salaries	200				100				300			
Office Salaries	130				120				250			
Non Productive Labor	4051								4051			
Rent	45				95				140			
Light & Power	462				20				2452			
Sup. & Office Supplies	2403				10				3603			
Traveling & Ent.	50				15				65			
Telephone & Telegraph	2155				15				2655			
Postage	6				2				8			
Advertising	3720				24				6120			
Taxes	13				2				15			
Insurance												
Auto Expense	1155				1				1255			
Warehouse (upkeep)	750								750			
Interest												
Automobile	7689				11				8789			
Maintenance & Repair					30				30			
Miscellaneous	930				9				1830			
Allowances for:												
Less on Notes & Accounts Rec.	40				4				44			
Dep. - Furn. & Fixt.	6				4				10			
Dep. - Automobile	43				7				50			
Dep. - Tools	15				7				15			
Dep. - Merchandise	25				17				42			
TOTAL	80805				476				128405			

PROFIT AND LOSS STATEMENT

FOR MONTH ENDING June 30, 1925

	CONTRACTING DEPARTMENT			MERCHANDISING DEPARTMENT			TOTAL OF ALL DEPARTMENTS		
	For Month of Current Year	Last Year	Months to Date Each Year	For Month of Current Year	Last Year	Months to Date Each Year	For Month of Current Year	Last Year	Months to Date Each Year
SALES BILLED									
Returns & Allowances	4,065.27			15,602.29			5,625.56		
Cash Discounts Allowed	50						50		
Total Deductions From Sales	10						10		
NET SALES BILLED	4,005.27			15,602.29			5,565.56		
Cost of Sales:									
Merchandise	1,690.65			10,481.16			2,738.71		
Labor	1,120.33						1,120.33		
Direct Job Expense	54.25						54.25		
Commissions Paid	1,114.42						1,114.42		
TOTAL PRIME COST OF SALES	2,979.55			10,481.16			4,027.71		
GROSS MARGIN	10,252.72			5,121.13			1,537.85		
Overhead Expense	808.65			476			1,284.05		
PROFIT FROM OPERATIONS	2,174.71			363.13			253.80		
Deductions:									
Total Deductions	2,174.71			363.13			253.80		
BALANCE									
Other Income:									
Commissions Rec'd.	7			5			12		
Cash Disc. Earned									
Sundry									
TOTAL NET INCOME	2,224.67			413			265.80		
Rate of Gross Margin	25.41%			32.82%			27.43%		
Rate of Net Profit	5.54%			2.64%			4.77%		

Statement of Assets and Liabilities—Jan. 31st.

Assets

Fixed Investments:

Real Estate		
Furniture and Fixtures	\$ 700.00	
Automobiles	1,300.00	
Tools	250.00	\$ 2,250.00

Investments

Current Assets:

Merchandise	4,056.33	
Labor in Progress	46.41	
Direct Job Expense	11.86	
Notes Receivable		
Accounts Receivable	4,671.90	
Trade Acceptances Receivable		
Cash	2,291.78	
Petty Cash	75.00	
Cash Advances		11,153.28

Deferred Assets:

Insurance Premium Advances	100.45	
Taxes Paid in Advance		
Deferred Charges to Income		
Prepaid Compensation Insurance Premiums....	40.93	141.38

\$13,544.66

Liabilities

Capital

\$ 7,500.00

Current Liabilities:

Notes Payable	
Acceptances Payable	
Accounts Payable	2,636.29
Taxes Accrued	
Wages Accrued	168.00

Working Reserves:

Reserves for Doubtful Notes and Accounts Receivable	244.00
Reserve for Depreciation on Furniture and Fix- tures	10.00
Reserve for Depreciation on Automobiles	50.00
Reserve for Depreciation on Tools.....	15.00
Reserve for Depreciation of Merchandise	42.00
Reserve for Taxes	60.00

Surplus

2,553.57

Undivided Profits

265.80

\$13,544.66

CUMULATIVE STATEMENT OF OVERHEAD RATIOS

FOR YEAR ENDING *Dec. 31, 1925*

MONTH ENDING	OVERHEAD			CONTRACTING DEPARTMENT			LABOR COST			TOTAL PRIME COST			NET SALES BILLED			OVERHEAD %		
	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %
<i>Janv. 31</i>	80805	978960		112033	1616050	60 1/2%	297955	3625075	27%	405527	4840956	20 1/2%						

MERCHANTISING DEPARTMENT

MONTH ENDING	PRIME COST OF SALES			NET SALES BILLED			OVERHEAD %		
	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %	THIS MONTH	12 MONTHS TO DATE	OVERHEAD %
<i>Janv. 31</i>	474	586052	1 1/4%	104816	1407705	4 1/2%	156029	1950117	9.4%

Section X.

DEPARTMENTALIZATION OF BUSINESS

Allocation of Overhead to Departments

As previously stated, the Standard Accounting System was prepared to meet the requirements of the contractor who does no retailing, the dealer who does no contracting and the contractor-dealer conducting both classes of business. It is highly important however, where both classes of operations are conducted, that the proprietor know the results of each department separately, in order that he may ascertain whether each department is standing on its own feet and producing a profit or whether, perhaps, one department is carrying the other.

To aid in ascertaining these facts, an Analysis of Overhead Expense statement and a Profit and Loss statement have been provided for the departmentalization of the business. The problem in setting up the figures in these statements is to distribute overhead expense accounts in their proper proportions to the respective departments, and we have hereinafter detailed some of the considerations to be observed in such allocation of expenses.

It is highly desirable, and we strongly urge, that this departmentalization plan be adopted. In some businesses, however, where the merchandising end is very small in volume, it may not be entirely practical to put the suggested additions to the system into effect and the single combined statement will be used.

In introducing this departmentalization plan, it is necessary to make a careful analysis of the various classes of expenses. The expense accounts can be divided into two groups: (1) those in which percentages can be obtained, to be used indefinitely, until there is a change in conditions obviously requiring adjustment of a percentage; and (2) those where distribution is effected on the basis of each entry made on the Voucher Disbursement Sheet. The time and effort required to obtain the percentages to be used in the first group of expenses will be well worth while, in view of the fact that the work will not have to be repeated except at infrequent occasions.

The following accounts are in the first group:

Salaries	Allowance for Loss on Notes and Accounts Receivable
Non-Productive Labor	Allowance for Depreciation on Furniture & Appliances
Rent	Allowance for Depreciation on Automobiles
Light, Heat and Power	Allowance for Depreciation on Tools
Telegraph and Telephone	
Postage	
Automobiles	

The following accounts are in the second group:

Stationery & Office Supplies	Association Expenses
Traveling & Entertaining	Warehouse Upkeep
Advertising	Interest
Taxes	Other General Expenses
Insurance	Allowance for Depreciation of Merchandise

The allocation to departments of the various items in the Profit and Loss Statement can be obtained from the sheets of original entry (Sales Recapitulation, Voucher Disbursement, Journal, Cash Received, Cash Paid), with the exception of Overhead Expense, which will be obtained from the Analysis of Overhead Expense.

The principle involved in this distribution of Overhead Expense is simple—each item of expense is broken up and charged to the department for the benefit of which it is incurred. The distribution of some of the expense items to the two departments is not difficult, being clearly applicable to one or the other department. It is with respect to such items as salaries, rent, etc., that difficulty arises in apportioning the costs to the two departments.

Salaries—The best method is to take each employee's time and, by actual study of his work, ascertain the portions of his time used for the benefit of each department. Once these figures have been obtained with respect to all salaried employes, the total salary bill for the month can be properly distributed to the two departments; and the proportion (in percentage) thus once obtained by actual analysis can generally be used without change indefinitely, until there is a change in the duties of any employee, or there is a greater or smaller number of employes.

Non-Productive Labor—This will, of course, be allocated to the Contracting Department.

Rent—Usually the space used can be divided into three parts—store, wareroom or stockroom and office space. In many cases the rent covers the ground floor of a building together with the cellar; obviously a hundred square feet in the cellar are not worth as much as a hundred square feet in the store, and in estimating the value of the space used, consideration must be given to this point. It is difficult to attempt to give any definite method of valuing the various sections of the premises; in many cases, it will be possible to get some light on the subject from one's landlord.

To take a specific example, let us assume that rent of \$150 per month is being paid for a shop on the street level, 15 ft. x 55 ft., with a cellar of the same dimensions; assume, further, that the value of the cellar space has been fixed at \$20 per month, leaving the value of the floor above \$130 per month; and that the rear 15 feet of the store is used for office space. The value per square foot of the ground floor is, therefore, 15.75 cents; the space used for selling merchandise—15 x 40—is valued, therefore, at \$94.50, and this should be charged to the merchandise department.

The office space is valued at \$35.50; and since it is used in recording transactions relating to both merchandising and contracting, for estimating, and for billing both merchandise and contract sales, the amount must be divided between the two departments. In view of the comparatively small amount involved, it will generally be found satisfactory to use the simple methods of allocating this amount of \$33.50 on the basis of the sales volume of each department for, say, the previous six months; if the contract sales were twice as large as merchandise sales, \$11.83 would be allocated to the merchandise division while the balance of \$23.67 would be distributed to the contracting division.

The wareroom is used to store merchandise sold at retail as well as that used in construction sales, and the amount of \$20 fixed as the value of this space should be distributed on the basis of the relative portions used to store articles sold only at retail and those used in construction jobs. This will be difficult to do exactly, because some articles are used not only for construction work but sold at retail as well; but when taking a physical inventory fairly accurate figures can be obtained, and a basis satisfac-

tory for the purpose ascertained. If figures of \$6,000 inventory for merchandise sold at retail and \$2,000 inventory for construction job merchandise have been determined, the amount of \$20 at which the cellar space is valued, would be distributed \$15 to the merchandise department and \$5 to the contracting department.

Summarizing this example, of the \$150 paid monthly for rent, \$121.33 would be allocated to the merchandise department and \$28.67 to the contracting department, arrived at as follows:

	Mdse. Dept.	Contract. Dept
Store Space	\$94.50	
Office Space	11.83	\$23.67
Ware-room	15.00	5.00
	121.33	28.67

Light, Heat and Power—The greater part of lighting is for the store (in which, of course, the window is included); the basis of distributing this factor is the connected load in the various parts of the premises, with due consideration for the number of hours per day during which each part is lighted. If the cost of the current used for running motors is included with the lighting cost in one bill from the power company, this, of course, will have to be taken into consideration.

As to heat, the store and office will naturally, in most seasons, be kept at a higher temperature than the wareroom, and each individual proprietor will be able to determine a fair method of distribution of this item; if the office space is large enough to warrant it, the heating charge applicable thereto can be divided between the two departments in the same manner as the rental charge for this space is allocated.

Stationery and Office Supplies—It is not difficult to distribute this item to the two departments, as many invoices for stationery and supplies can be charged to the particular department for the benefit of which it is used. Where, however, an invoice covers the cost of letterheads and envelopes or billheads, which are used for the benefit of both departments, the best that can be done is for the proprietor or bookkeeper to estimate, as near as possible, from past experience, what proportions of them will be used for each department.

Traveling and Entertaining—These items can generally be charged directly to one department or the other as disbursement is made.

Telegraph and Telephone—To distribute this item scientifically, it would be necessary to make a record of each call and telegram, which is, of course, impracticable. The proprietor or bookkeeper will generally be able to approximate the sums that should be allocated to the two departments.

Postage—Similarly with this item; to distribute it scientifically, it would be necessary to make a record analyzing each day's outward mail; this would, of course, not pay for the labor involved, and the more practical method is for the bookkeeper to approximate a fair distribution.

Advertising—This item should be allocated to merchandise or contracting on the basis of the department benefited by each advertisement.

Taxes—Federal and state taxes on profits should be distributed on the basis of the profit earned by each department. If the taxes paid cover the operations of a year when the business had not been departmentalized, the best that could be done would be to allocate the tax payment in proportion to the volume of sales of each department. In some states, taxes are levied on the stock of merchandise on hand; these taxes would be distributed in the same proportion that the inventory is divided between contracting materials and merchandise sold at retail; where the stock is mixed together so that it would be difficult to arrive at the exact proportions, an approximation thereof will have to be made.

Insurance—Compensation insurance on wages paid in contracting operations is treated as part of the prime cost, as previously explained; compensation insurance on salaries of clerical help will be distributed in the same manner as the salaries are allocated.

Insurance on automobiles will be charged to automobile expenses, the distribution of which is discussed below.

Fire insurance on stock and fixtures:—Insurance on stocks of

merchandise will be distributed in the proportion in which the stock is divided between merchandise sold at retail and contracting merchandise. In regard to insurance on furniture and fixtures, an inventory should be made, listing all of the various items, with their values, and the department in which used. The cost of insurance on fixtures used in the store would be distributed to the merchandise departments; on fixtures in the wareroom, would be distributed in the proportion in which the stock is divided between the two classes of merchandise; the furniture and fixtures in the office would be allocated to the clerk or clerks using them and the cost of the insurance would be distributed in the same manner as the salaries of the clerks.

Association Expenses—These will be distributed to the two departments in proportion to the sales volume of each department, unless in some particular case, there should be reasons for charging the dues of an association wholly to one or the other department.

Warehouse Upkeep—This item will be distributed in the proportions in which the stock is divided between merchandise sold at retail and contracting merchandise.

Interest—In many cases, money is borrowed to finance the payroll of a specific large contract, or money is borrowed to finance a special sales campaign on washing-machines sold on time payments. In these cases, the interest on the loan will be charged to the contracting and merchandising department respectively. In many other cases, however, it cannot be said that the funds are borrowed specifically for the benefit of one or the other department, but are used for the general purpose of the business, to finance accounts, notes and acceptances receivable, merchandise, and labor in progress. To distribute the interest cost in such circumstances, it is necessary to divide accounts, notes and acceptances receivable into two accounts—one representing the amount due on contract sales, the balance for merchandise sales; and also to divide the merchandise inventory into two amounts representing the approximate amounts of each class of merchandise carried. To take a specific case, let us assume a contractor-dealer's financial statement showed the following condition:

	Contracting	Mdse.	Total
Labor in Progress	\$2,000		\$2,000
Mdse.	3,000	\$5,000	8,000
Accounts, Notes and Acceptances			
Rec.	5,000	1,000	6,000
	<hr/>	<hr/>	<hr/>
	10,000	6,000	16,000

Under these conditions, 6/16ths of the interest cost would be allocated to merchandising and 10/16ths to contracting.

Automobiles—The proprietor will know approximately the extent to which the automobiles are used for the benefit of the two departments. Generally, they will be used to a much larger extent for one department than the other; in some cases, one automobile may be used exclusively for the benefit of one department alone. A study of the use of the automobile for a period of a month may be necessary to arrive at a proper relationship. However arrived at, the various items of expense in connection with the maintenance of automobiles (including insurance, as referred to above) will be distributed to the merchandising and contracting departments in the same proportion that the automobiles are used for the benefit of each department.

Maintenance and Repairs—The expenditures charged to this account will be analyzed each month. It will be ascertained what part of the premises, or what furniture, has been subject of such expenditures, and the amount will be allocated in the proportion that the subject of the repairs is used for the benefit of the two departments. For example, if a charge to this account were made for painting the shelves in the store on which are carried articles sold at retail, the expenses would be allocated to the Merchandise Department. If the adding machine should get out of order and money be spent to repair it, the expense would be distributed between the departments in proportion to the sales volume of each department. There will be little difficulty in allocating this class of expense, as the bookkeeper or proprietor will have little trouble in deciding for the benefit of which department the expense is incurred.

Other General Expenses—All such items should be analyzed and distributed to the department for the benefit of which incurred.

Allowance for Loss on Notes and Accounts Receivable—The net sales for each month, less the sales for cash, will be divided into two amounts representing contract sales and merchandise sales, and the allowance for loss will be distributed in the same proportions that exist between the sales on credit in each department.

Allowance for Depreciation on Furniture and Fixtures—The inventory of furniture and fixtures used in distributing the insurance expense item will be used in connection with the allocation of the allowance for depreciation, and the distribution will be made in the same manner as in the case of the insurance expense.

Allowance for Depreciation of Automobiles—This item will be distributed on the same manner as automobile expense.

Allowance for Depreciation of Tools—This item will almost invariably be distributable in entirety to contracting.

Allowance for Depreciation of Merchandise—This item will be distributed in the same proportions as the stock is divided between merchandise used in contracting and merchandise sold at retail.

Other Departments

In the majority of cases, the division of the business into two departments—merchandising and contracting—will meet the requirements. However, where a motor repair business is done it will be found desirable, and we strongly recommend, that the business be further departmentalized to provide for this class of the business. Some proprietors will also wish to have a separate department for, say fixtures.

The allocation of the various expense items to three or four departments will be made on the same principles used in distributing to only two departments, as explained above.

Section XI.

WORK IN PROGRESS

In many cases, contracts are spread over a period of several months, during which billings are made for partial payments in amounts which may or may not cover the prime cost and overhead. Overhead, of course, is accruing during this period and unless special accounting consideration is given to these transactions, erroneous results may be shown by the statements of profit and loss for the months during which the contracts are running.

Ordinarily, where this class of contract does not represent a large part of the business and where the jobs are completed at least during the first month following their beginning, the billings for partial payments may be credited to a liability account entitled "Partial Payments on Uncompleted Contracts" and no entry be made to "Sales Billed" until the contract is completed and final billing made. This method will usually meet the requirements of the business just described.

However, where this class of contract forms a large part of the business and the jobs extend over a period of several months, it is recommended that the following method be used. To make the matter entirely clear, actual figures are presented.

Assume a contract was taken for \$4,500 and at the end of the first month a billing of \$1,200 was made, while the prime cost to date was \$1,417, made up of \$840 labor, \$560 material and \$17 direct job expense. Assume, further, that the ratio of overhead to labor cost on this job is estimated to be 50%, or \$420. If \$1,200 is treated as a sale billed and the amount credited to "Sales Billed", in order to show a gross margin sufficient to cover only the overhead without any profit the debit to "Cost of Sales" in connection with the transaction should be this \$1,200 less \$420, or \$780.

As the actual prime costs total \$1,417, the question arises as to what will be done with the difference between that amount and the debit to "Cost of Sales" of \$780, a difference of \$637. Since this \$637 is part of the cost of sales, which cannot however be debited to "Cost of Sales" in the current month, the amount must be debited to an account entitled "Deferred Charges to Cost of Sales". The entries will therefore appear as follows:

In the Sales Recapitulation sheet, \$1,200 is entered in the "Sales Billed" column of Construction Sales. \$780 is entered in the "Cost of Sales" column. In view of the small amount of direct job expense, the full amount of such expense incurred thus far can be taken care of at one time instead of splitting up the amount and deferring the charge for part of it. Therefore, \$17 will be entered in the "Direct Job Expense" column. This leaves \$763 to be divided between the Merchandise and Labor columns, and the amount will be divided in the same proportions as exists between the actual amounts expended on these items—namely \$840 for labor and \$560 for material. The amount to be entered in the "Labor" column will therefore be \$458, and the amount in the "Merchandise" column \$305.

CONSTRUCTION SALES

Mdse. Cost	Labor Cost	Direct Job Expense	Cost of Sales	Sales Billed
\$305	\$458	\$17	\$780	\$1200

In the Journal an entry will be made as follows:

Dr.	Cr.
Deferred Charges to	Merchandise:
Cost of Sales	Actual Cost \$560
\$637	Credited above 305 \$255
	Labor:
	Actual Cost \$840
	Credited above 458 \$382

A separate ledger should be used to control the account entitled "Deferred Charges to Cost of Sales", a separate page being kept for each contract, with three columns; one for the amount of labor, one for the amount of material and the last for the total. A memorandum should be made on the relative job envelopes showing the entries made to "Cost of Sales" and "Deferred Charges to Cost of Sales".

Let us assume that the contract is completed the following month, and that the customer is billed with the difference of \$3,300, the additional prime costs being \$1,825, divided as \$630 for ma-

material, \$1170 for labor, and \$25 for direct job expense. The \$3,300 should be credited to "Sales Billed" through the Sales Recapitulation sheet; this entry would also show the "Cost of Sales" as \$1,825, —\$630 for material, \$1,170 for labor, and \$25 direct job expense.

CONSTRUCTION SALES

Mdse. Cost	Labor Cost	Direct Job Expense	Cost of Sales	Sales Billed
\$630	\$1170	\$25	\$1825	\$3300

A Journal entry would then be made debiting "Cost of Sales" and crediting "Deferred Charges to Cost of Sales" for the \$637 debited to the latter account the previous month. For the purpose of the profit and loss statement, the entry must indicate how the amount is divided between material and labor, as follows.

Dr. Cost of Sales	\$637
Merchandise	\$255
Labor	382
Cr. Deferred Charges to Cost of Sales	\$637

Summarizing our entries on this job, therefore, we have:

The contract price	\$4,500
Prime costs:	\$ 780
	1,825
	637
	3,242
Gross margin	\$1,258

Of this gross margin of \$1,258, on the completed job, \$420 was taken into the first month's figures. The balance of \$838 gross margin is shown in the second month's figures, as "Sales Billed" is credited \$3,300, while "Cost of Sales" is debited \$1,825 through the Sales Recapitulation Sheet and \$637 through the Journal, a total of \$2,462, leaving the gross margin stated of \$838.

In the unusual case where the billing made is larger than the prime costs and estimated overhead, only that part of the amount which covers prime cost and overhead will be credited to "Sales Billed", the balance being credited to "Partial Payments on Uncompleted Contracts". Take the case described above, where the

prime costs up to the time of the first billing were \$1,417, and let us assume that the amount of the billing is \$1,900. As the overhead is estimated to be \$420, the total amount that can be credited to "Sales Billed" is \$1,837, the balance of \$63 being credited to "Partial Payments on Uncompleted Contracts". It will be seen that, by so doing, the conservative practice is followed of taking profit into the books only on completion of the contract. The entry in the Sales Recapitulation Sheet would be as follows:

CONSTRUCTION SALES

Mdse. Cost	Labor Cost	Direct Job Expense	Cost of Sales	Sales Billed
\$560	\$840	\$17	\$1417	\$1837

An additional entry would be made in the Journal debiting "Accounts Receivable" and crediting "Partial Payments on Uncompleted Contracts" for the \$63.

In the next month the \$4,500 contract is completed, when the balance of \$2,600 is billed, with costs of \$1,825, and the entry in the Sales Recapitulation Sheet would be as follows:

CONSTRUCTION SALES

Mdse. Cost	Labor Cost	Direct Job Expense	Cost of Sales	Sales Billed
\$630	\$1170	\$25	\$1825	\$2600

An entry would then be made in the Journal, debiting "Partial Payments on Uncompleted Contracts" and crediting "Sales Billed" \$63, in reversal of the entry to the latter account made the previous month. Thus, in the first month a gross margin of \$420 would be shown; in the second month \$838, making the total gross margin of \$1,258.

Where the business has any large volume of contracts running over a period of several months, it will almost invariably be possible for the contractor to make monthly billings. However, occasions may arise where no billing can be made. The starting point of the method outlined above for handling work in progress is the billing; where no billing is made, the method cannot, therefore, be used. In view of the fact that this condition will arise with respect

to a very small portion of the contractor's business, we are not offering a method for meeting the situation, particularly in view of the fact that such a method would be extremely complicated and not worth the time and labor involved in maintaining it. In any event, if the work on which no billing had been made, ran over a second month, almost certainly a billing could be made at the end of the second month, at which time the method outlined above would operate; so that, only one month's profit and loss statement would contain figures not presenting the situation entirely in accordance with the facts and then only with respect to a small portion of the business.

In the very unlikely event that the partial billing does not even cover the estimated overhead, the amount should be credited to "Partial Payments on Uncompleted Contracts", as, even if the debit to "Cost of Sales" were only 1c, the gross margin disclosed would still be insufficient to cover the overhead. Such a job is thus placed, from an accounting standpoint, in the same category as those on which no billing has been made.

In order that the contractor's statement may be a true statement, and neither show an apparent loss on sales billed some months because of unbilled costs and overhead on work in progress, nor show a false profit in other months when final billings are made on such work, it is important that the foregoing methods of accounting for work in progress be studied and the principles adopted.

The
Standard Accounting System
 For
Electrical Contractors and Retailers

The complete system will be shipped to any electrical contractor or dealer, boxed, f. o. b. shipping point, for sixty-five dollars (\$65.00), or to members of the Association of Electragists, International, at the special cost price of fifty dollars (\$50.00). Shipment can only be made upon receipt of payment, or C.O.D., but you have the privilege of examination and if you are not satisfied, the system can be returned within ten days and your payment will be refunded.

Books, paper, stock and printing are of the best quality and the supply of forms furnished with the complete system are sufficient for a normal purchase. Additional supplies of forms are carried in stock at the Association office and furnished at the following prices:

Name and Form Number	Unit Quantity	Regular Price	Special Price to Members
Form 1 Requisition for Material (in duplicate) ..	50	.60	.45
Form 2 Time Cards	400	1.70	1.35
Form 2A Labor Summary	100	1.00	.80
Form 2B Pay Roll Sheet (long)	50	.75	.60
Form 2C Pay Roll Sheet (short)	50	.75	.60
Standard Post Binder (for payroll sheets)	1	4.00	3.50
Form 3 Returned Material (in duplicate)	50	.60	.45
Form 4 Job Envelope	50	1.65	1.25
Form 5 Material Summary	25	.25	.20
Form 10 Sales Recapitulation	25	1.80	1.45
Form 11 Accounts Receivable	50	.90	.70
Form 12 Cash Received	50	2.50	2.00
Form 13 Cash Paid	50	2.50	2.00
Form 14 Voucher Disbursements	50	2.70	2.15
Form 15 Journal	25	1.30	1.05
Form 16 Accounts Payable	50	.90	.70
Standard Loose Leaf Binder, 9 x 14	1	12.50	10.00
Standard Loose Leaf Binder 7 x 8	1	11.50	9.00
Trial Balance Book (bound)	1	3.10	2.50
General Ledger (bound)	1	4.75	3.65
Transfer Binder, 9 x 14	1	9.00	7.00
Transfer Binder, 7 x 8	1	8.00	6.25
Form 17 Analysis of Overhead Expense	25	1.60	1.25
Form 18 Profit and Loss Statement	25	1.60	1.25
Form 19 Cumulative Statement of Overhead	5	.65	.50
Compression Binder, 8½ x 14 (for Forms 17, 18, 19)	1	3.25	2.75

Address the

Association of Electragists
INTERNATIONAL

15 West 37th Street, New York