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of expenditure. Thus, the incorporation of standard costs with actual costs on the books of account necessitates a modification of the basis of costs classifications at the point of origin in order to provide the refinement required for control while at the same time retaining those classifications needed for profit determination.

In connection with the predetermination of what cost should be in formulating cost standards, there is also needed accurate classification of costs based on variability at various rates of activity. Thus, the variable or flexible budget has emerged with more scientific and valid cost classifications related to variability. By developing standards in the form of rates per unit of activity for fully variable costs, fixed allowances for wholly fixed costs, and rates and allowances for semi-variable costs, measurement of performance as a step in control is made possible for any rate of activity experiences.

The operating budget and standard costs, related to normal capacity operation, should be one and the same thing; the budget should simply be the means of setting additional standards at levels of operation other than normal, but at all times with reference to the standards as a basis. It should be remembered that the basic standards are those standards which, once established, are used from year to year, and are changed only when a method or procedure is revised. Again, since no one can foresee many of the changes which are bound to occur in any future period, the budget must be sufficiently flexible to incorporate properly all changes in wage rates, operating conditions, etc., as they occur. Failure to provide such flexibility may result in failure of the budget as a tool of cost control. In addition, budgets should be made in detail as it is generally considered that lump sum budget allowances never secure results.

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ACCOUNTING PROBLEMS OF SMALL BUSINESS

By BEN W. BRANNON, C.P.A.

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This article was the subject of a talk given by Mr. Brannon before the Atlanta Chapter of ASWA in May of this year.

Accounting is recording business history, and the accountant is the historian. For the accountant keeps the record, or log, of the financial transactions of the business.

And those records ought to be properly kept whether the purpose of the business is to make a profit, to maintain health and welfare, or to save souls. Indeed the stockholders, the owners, the various governmental agencies, and management insist that those records properly and adequately disclose the facts.

The accountant then is an important person in business and in society. Let no one discount his responsibilities.

Concepts of *small* business may differ, but the difference is only in where to draw the line.

Small businesses have many problems in common with large ones. Both have to live with government regulations, price ceilings and wage freezes in a war economy. Both have to compete with the government for competent personnel. Both have to pay sales taxes, income taxes, payroll taxes, and excise taxes. Both have the problems of balanced inventories, collections of receivables, paying trade creditors. Then—the problems of *smaller* businesses are made more acute by the lack of facilities, personnel, or even the time for management to properly act upon those self same problems. Add to this, the fact that smaller businesses often cannot afford, or think they cannot afford, to retain the services of experts in each of these fields and you begin to see that the problems of small business often are even greater than those of big business.

You might say "but those are not ac-

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counting problems". I believe them to be. Remember, that as accountants you must do more than record—you must interpret—you must forecast—you must advise with and for management. In your peculiarly *inside* position you ought to be the first person to know the problems. And, recognizing where the problems are, lend some intelligent thinking to their solution. If enough thought and energy is spent on any business problem a solution can and will be found. We must not so tie ourselves down to details which a lower paid clerk could perform, that we fail to have time to devote to the bigger problems.

Let's consider the matter of costs. Accounting for costs has become a fine art. It has more importance than setting the final selling price for a product. Cost accountants can determine which of the operations in making a finished product are most expensive and why—whether it is worth while to install labor saving machinery—whether it would be preferable to have certain parts processed outside—which divisions are being run most efficiently—whether it would be feasable, cost wise, to substitute other raw materials. In general, without the cost system, and the cost accountant, business would have to depend much more on guesswork. Profit margins would have to be higher—losses would be bigger too. There would be more business failures, because business men would not find out what was happening to them until it had happened.

Here is a classic example of a situation like this. The proprietor, a manufacturer, was one of the busiest men that lived. To work at seven o'clock every morning running here, rushing there, calling long distance, getting sales, getting production, getting volume. He was too busy to stop and eat—he had to get another order. He was too busy to stop and discuss costs or accounting—he had to run out to the plant to see how they were making out with that order for 1000 units. He didn't have time to worry about the records he had to *sell* and *produce*. You've heard about the fellow who bragged that he lost money on every sale but his volume made up for it. Well, this man's volume *caught up* with him. You can imagine the end of the story, lost business,—lost savings,—lost home.

In a pamphlet prepared by a local bank the statement is made that their experience in 1951 inticates a turnover of accounts in dealer organizations of about 20% occurring mainly from concerns going out of business, or selling their business, as a result of unprofitable operations due *primarily* to *inadequate or inaccurate* accounting information.

One of the main problems facing small business today is the lack of an accounting system or cost system which will warn management of dangers before it is too late. Say that small business cannot afford such a system? It's like saying you can't afford head lights or a horn on an automobile.

Another accounting problem of small business is the matter of peak load work—having everything fall due at one time. What can you do about it? About some things—nothing. But "God give us the wisdom to recognize what can be changed and the fortitude to proceed accordingly". Let's discuss a few of the things that can be changed. First, the matter of closing the books.

The accounting department is called upon by law to prepare W-2's including summaries, 1099's, sales tax reports, Old Age Benefit reports, Unemployment Insurance reports, excise tax reports and many, many others as of December 31st. Add to these the matter of closing the books, preparing financial statements, sending invoices and statements to customers, paying creditors, preparing reports for the sales manager and other equally revered brass in the top echelon of management and one can appreciate why some accountants develop ulcers. But, something *can* be done to help relieve the situation.

For instance, what is sacred about a December 31st fiscal year?—when a November 30th, or a January 31st, or an April 30th closing would just as adequately reflect a *year* of profits. Possibly another fiscal year would even better reflect a *cycle* of profits. For instance, I have never understood why automobile manufacturers, or dealers, would insist upon a calendar year closing—and yet bring out their new models before the end of the year. A fall closing would correspond with model changes. Then—a year's operations would not include the same of two *different* year models.

Let's mention cycle billing. You would be surprised to learn how many small businesses are still sending monthly statements to their customer *as of the end of every month*—right when they are already the busiest. Far too many of them are even waiting until the end of the month to begin to prepare those statements for the customers. Yet more and more companies are eliminating customers' statements altogether. They say that the invoice is sufficient if the customer is properly informed.

Maybe, however, there is either a real or fancied reason why you must send an itemized statement to every customer every month. You might inquire if it is necessary that those statements be made as of the end of the month. Indeed, is it necessary that they all go out as of any period? Maybe one-third could go out as of the 5th, one-third as of the 15th, and one-third as of the 25th of the month. Possibly the subsidiary accounts could be balanced to controls as of those dates too.

Another problem of small business is the time it takes to post and balance the general ledger at the end of the month. The general manager, the sales manager, the production manager, and the other managers keep asking the accounting department to give them more and more breakdowns and analyses. The result is that the general ledger often times is absolutely unwieldly. Let me say here that machine posting of the general ldger is not necessarlily the answer to this problem. True, you can have just as many accounts as you like if you are posting on a machine. I know of one company who has five full trays or tubs of general ledger accounts,—but the poor bookkeeper spends more time every month trying to balance her books that she does in posting them. In addition to the human mistakes and errors which anyone will make it seems that someone has always borrowed a ledger card and forgotten to tell her about it.

In another company (a much larger company incidentally), the general ledger trial balance can be abstracted in financial statement form in quite a short time. Because here the general ledger is a series of control accounts—possibly 75 or 80. The particular company makes use of what is known as an analysis ledger. (Of course you all have seen, probably use, analysis ledgers. This is the ledger sheet which has the debit, credit, and balance columns on the extreme right—just to the left of these are the date, description, and folio columns, and to the left of these are a series of columns—from 4 to about 30 depending on the size and ruling). There will be a control account for each major classification and these columns to the left constitutes subsidiary or analysis accounts. For instance, this particular company has about ten bank accounts, but in the general ledger one control amount is carried for "cash in banks" with separate columns to the left for each individual bank. Likewise control accounts are carried on these analysis ledgers for such other classifications as fixed assets, reserve for depreciation, prepaid expenses, sales, cost of sales, selling expenses, administrative expenses, etc.

By planning, it is possible to correlate the vertical columns in the journals so as to have an account number and amount column for the various *control* accounts in the general ledger. At the end of the month the totals in these columns will be posted to the control in the general ledger and of course the recapped subtotals will be posted in their respective columns to the left.

If the recaps are made cumulatively, from day to day, there is not much left to do at the end of the month. The bookkeeper of this company is seldom required to work overtime even at the end of the month because her boss, the Treasurer of the company, recognized the problem of peakload and intelligently smoothed the work out over the month. Many of the short cut techniques used in that company today came from the bookkeeper herself.

But, as accountants, we must keep abreast of modern ideas and developments. And this leads to the last of the accounting problems of small business which we shall conside—office machines. The volume of most small businesses may not justify the installation of heavy expensive accounting machines such as punched cards, machines for posting general ledgers, elaborate cash registers and the like. However, there are machines and methods to overcome almost any bottleneck in the accounting department and which may not cost a fortune. Again, by giving some intelligent thinking and research to the problem, the solution can usually be found. The pegboard payroll system has solved the problem of many companies. This device enables the payroll clerk to prepare the pay slip, or check, the individual employee's earnings record, and the payroll journal all in one operation by use of pegs, collated forms and carbon paper. Many firms are making use of this same principle to post their sales, receipts, and accounts receivable, etc. The operation is inexpensive.

You might consider too whether you have the right machines at the proper places. Remember, that an idle office machine is just as wasteful, though in smaller degree, as an idle fabricating machine is in a plant. The way to make a machine a labor saver is to keep it in use. It is a shameful waste to have an adding machine on every clerk's desk when they need and use that machine only a total of about an hour a day. I know of one company which does not keep an office machine on anyone's desk. They have a long work table on which there are two

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There are hundreds of hidden taxes these days—but no place where a taxpayer can hide.

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adding machines and one calculator. When someone has some adding or calculating to do they go over to this centrally located table. Of course, at times, they may take the machine to their desk if the circumstances are such as to warrant it. This system was born of poverty when their sales volume was less than 100 thousand dollars and their accounting was handled by two people. Now, with more people in the accounting department and a sales volume of about a million and three-quarter dollars the procedure still works effectively.

We have mentioned some of the accounting *problems* of small business. It is not difficult to locate the problems in any situation—once you get into it. But the real sense of achievement comes from dissolving those problems—from finding the answer—from making a solution work.

It sometimes seems that congress, the state legislatures, and management have conspired to complicate the problem. The accountant *will* find the answer.

If more people had a better understanding of accounting, perhaps they would have a better conception of the achievements of our American economy, and the ways in which the various parts of the economy, including small business, fit together—like a puzzle.

The accountants are taking the lead in putting the pieces of this jig-saw puzzle together. The value of their services is becoming recognized. They will be even more appreciated as management, the stockholders, and government officials read and interpret the history which they are recording.

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