1972

Businessman's information guide

Illinois Society of Certified Public Accountants. Committee on Business Opportunities

American Institute of Certified Public Accountants. Committee on Economic Opportunity

United States. Office of Minority Business Enterprise

BUSINESSMAN'S INFORMATION GUIDE

AICPA

American Institute of
Certified Public Accountants

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Adapted and Published by the
Committee on Economic Opportunity

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Developed by the
Committee on Business Opportunities of the
Illinois Society of Certified Public Accountants

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Committee on Economic Opportunity of the
American Institute of Certified Public Accountants

in cooperation with the
Office of Minority Business Enterprise of the
United States Department of Commerce

Contents

FOREWORD

HOW TO USE BIG

SECTION 1	Starting a Business
SECTION 2	Business Records
SECTION 3	Chart of Accounts
SECTION 4	Business Statements
SECTION 5	Business Taxes
SECTION 6	Using Outside Help
SECTION 7	Business Words

Foreword

In the September 1971 issue of the magazine *Black Enterprise*, Abraham S. Venable, former Director of the Office of Minority Business Enterprise, wrote that in ten years he had reviewed 500 or more articles and books on minority business. All of them criticized one thing or another, but not more than two or three dealt with solving its problems. In recent years, he had reviewed hundreds of proposals to the federal government for funding projects for business assistance; 95 percent of the material explained the problems and only 5 percent dealt with how to solve them. One of the greatest difficulties, he felt, was that these businessmen did not understand systems and procedures. Systems are a series of steps by which to get to a desired result; procedures are the details of the steps in the system. One of the most important things needed was help in supplying the technical assistance with which to build a business that could prosper and grow.

Those who worked on this project believe that small business, in general, suffers from a lack of technical assistance. This *Businessman's Information Guide*, which will be called BIG, is a joint effort of individuals who have had broad experience in advising and assisting various areas of business. Their object in developing BIG was to provide a general set of guidelines to those who plan to or who already own small businesses. Users of BIG must bear in mind that these are general guidelines and cannot be specific or exact for all business. They suggest the type of things which should be done. When the businessman's experience or training is not enough to let him perform certain tasks or to make a necessary choice between different things, he should get professional or experienced assistance.

This project was conceived by the Committee on Business Opportunities of the Illinois Society of Certified Public Accountants. While many of the persons contributing to BIG are members of that society and others belong to similar professional groups, the contents of BIG do not necessarily reflect the views of any of such groups or their members, nor has any portion of BIG been acted upon by the membership or the governing body of any professional group. The business instruction necessary to supplement this guide should be obtained from the appropriate professions.

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SAMUEL A. SAKOL, *Editor*
Glencoe, Illinois

How to Use BIG

The developers of BIG have designed the guide particularly to assist persons who are in the process of setting up their own small business. BIG should provide help in the planning stage, in setting up adequate records and control procedures, and as a reference source for steps to be taken when the business is operating. It should be helpful too for businesses already operating, as a comparison of what *is* being done with what *might* be done to add to the successful operation of the business.

BIG is intended to be used for different kinds of business and by people who may have quite a lot, a little, or no business experience or training. As a result, parts of it may be too simple or not needed by some, and parts may be too difficult or not needed by others. Plan to use what fits your needs; get outside advice on what you may not understand.

BIG is organized according to the following working sections:

Section 1 — Starting a Business. What to find out, figure out, think about and decide before going into a small business.

Section 2 — Business Records. What kinds of forms and records are necessary to operate a small business.

Section 3 — Chart of Accounts. An explanation of how it is used and a suggested chart of accounts for a small business.

Section 4 — Business Statements. What types of statements can be used to show how the business has done, and what condition it is in presently.

Section 5 — Business Taxes. What you should know about some of the many different kinds of taxes that a small business may have to pay.

Section 6 — Using Outside Help. Why, when, and what sources of outside help may be needed by the small businessman.

Section 7 — Business Words. For those who may not be familiar with them, a list of words used in BIG, and in business, with a simple definition of their business meaning.

Upon getting his copy of BIG, the user should look through the entire contents. This can be done quickly, to get some idea of the material in BIG. He should not be discouraged if all of it is not understood at this first reading. Then, as he progresses through each stage, particular sections should be carefully studied. BIG should be used as a working tool so that in time it will become the specific guide for his business.

Section 1
Starting a Business

Contents

	Page
General	1
What Is a Small Business	1
What Is Required to Start a Successful Small Business?	1
Small Business Planning Check List	2
Proposed Products or Services	4
Definition	4
Qualifications	4
Restrictions	4
Economics	4
Facility Requirements	5
General	5
Use of Facility	6
Description	6
Estimated Cost of Facilities	6
Estimating Your Costs	6
General Information on Costs	6
Volume	7
Other Costs	8
Estimating Your Fixed Cost	8
Estimating Your Direct Costs	8
Estimating Your Other Costs	9
Summarizing Your Cost Estimates	11
Estimating Your Selling Prices	11
Sales Forecasts	12
Preparing Your Projected Cash Flow	12
General	12
Source of Cash Flow Data	12
Preparing the Cash Flow Projection	14
Determination of Capital Required	16
Providing Financing	17
General	17
Sources of Finance	17
How to Contact Sources of Financing	18
Your Business Organization	18

1

Starting a Business

General

What Is a Small Business?

A small business is usually considered one with few employees, rather low sales volume, and small capital and assets. The owner is usually directly involved in the management as well as the operations of the business and may not have had much training or experience in accounting, taxes, finance, business practices and procedures.

What Is Required to Start a Successful Small Business?

It is important to realize that to start a new business of *any* type is to be exposed to a risk of business failure; to start a new small business is to increase the exposure; to start a new small business without enough financial support further increases the risk; and to start such a business without enough planning in advance and without seeking the information necessary to run the business is to increase the risk of failure almost to the point of certainty.

According to Dun and Bradstreet, in 1970 there were 10,748 business failures in the United States of which 8,019, or 75 percent, were small businesses. The same source stated: "Underlying causes of business failures include incompetence, lack of experience, neglect, fraud and disaster."

The most frequent apparent causes of failures were classified as follows for businesses of several sizes but all of them with less than $100,000 of liabilities:

Inadequate sales	43.9% — 46.5%
Competitive weakness	22.8 — 24.9
Heavy operating expense	5.8 — 11.2
Receivable difficulties	3.5 — 8.0
Poor location	3.8 — 7.2

The type of small business most likely to succeed is one which is:

- Based on a product or service, which can be
- Obtained in necessary volume at a cost, so that after adding a profit, it can be
- Sold at a competitive price to
- Buyers who will pay for it and in total will buy enough so that the necessary volume will be reached.

What follows is intended to aid the BIG user in determining if his idea is a sound one on which to build a small business and, if he decides it is, to point out other considerations he must face.

Small Business Planning Check List

Before actually starting a small business, the individual should prepare a check list of items to be covered in his planning. While he is trying to decide, the list may be increased as new items come up. Such a list should:

1. Provide direction to the planning effort to keep it orderly and logical.
2. Serve as a record of items considered, rejected, and approved, in order to avoid redoing something already done.
3. Provide target dates for action to be taken.
4. Serve as a record of the extent of planning.

Specific items to be included on the check list (see sample opposite) might include, but not be limited, to the following:

1. Definition of proposed product or service
2. Facilities required
3. Cost estimates
4. Sales forecast
5. Cash flow
6. Financing
7. Organization

Most of the above items are so closely related that one depends on another.

What follows in this section deals with starting a new business. But most of it, if not all, also applies if an existing business is to be bought from someone. The only real difference is that it may be easier to get some of the information from the present owner, if he has it and it can be relied on. This section also supposes that the business will make and sell a product. Though some of it would not be necessary for a business which buys and sells a product or sells a service, the general guide to getting information for decision-making would still apply.

Small Business Planning Check List
(To Be Used in Conjunction With *Businessman's Information Guide*)

Things to Do	Suggestions in BIG	Suggested Form	Record of Action		
			Target Date	Date Completed	Notes of Reviews, Discussions, Changes, Etc.
Define Products	Sec. 1 Page 4				
Determine Facilities Needed	Sec. 1 Page 5	Facilities Requirement Worksheet			
Determine Product Costs	Sec. 1 Page 6	Summary of Estimated Costs			
Project Sales	Sec. 1 Page 12	Sales Forecast			
Project Cash Flow	Sec. 1 Page 12	Projected Cash Flow			
Arrange Financing	Sec. 1 Page 17				
Set Up Organization	Sec. 1 Page 18				
Other Items					

Proposed Products or Services

Definition

The first step in starting a new business must be to have a clear idea of the products or services upon which your business will be built. You must be able to describe, first to yourself and later to others, what you plan to do.

Write, in everyday, nontechnical words, a simple definition of the goods or services which will be the source of income to your business. Be as specific as you can. Include in your definition a brief description of your potential customers and area and method of sales.

Your first attempt to prepare an adequate definition will be difficult and probably incomplete. Keep working on it until you are satisfied; then, get someone to read it to determine if it is clear to others.

As your planning progresses, your first ideas of the products or services you will offer may change; if so, rewrite your definition. Remember, this will be the basis of all the other planning steps, and later, the source of your income. Be sure you know your products or services and can clearly describe them to others.

Qualifications

Having developed a sound written description of the products or services to be sold by your business, you must next make a careful analysis of your ability to handle the product or service. Is it something with which you have had experience or training, or do you expect to "learn as you go"?

Make as complete a list as you can of all the skills required to get your product or service to the customer. Opposite each item on the list indicate your abilities for those you plan to handle yourself, or the source of help if you expect others to handle the item. You may have open tasks. Put these on your check list. (Sec. 1, page 3.)

Does your idea for starting a business still look good to you?

Restrictions

When you are satisfied that all necessary tasks involved in your proposed business can be handled, you must make sure that there are no government or business restrictions which would stop you from being in that particular business. Are there local, state, or federal laws prohibiting or regulating the business? Are there any qualifying licenses required? Are there any patents, copyrights, or business franchise restrictions?

If you are not certain about answers to these questions, put them on your check list.

Economics

Without being concerned at this point in your planning about the profit possibility of your business idea, examine your source of sales. Is yours a seasonal or a year-round type item? Is it a one-time or a frequently needed purchase? Is it a new item for which a demand must be created, or is the demand already there? How is the demand now being met—by the same item or by another item? How does your item compare with the existing one? How will you sell your item—through existing outlets, by mail, or by your own sales group or outlet? Does your item require after-sale service? What type of competition will you face? Who will be your suppliers? What is the normal method of payment for your type of item?

In asking yourself these questions, you are also asking if your idea still looks good to you. Does it?

Facility Requirements

General

Your next step should be to prepare a detailed work sheet describing the facilities required. Facilities include all the equipment, furniture, fixtures, tools, space, etc. that you will need to run your business. These items will make up the fixed costs of your business and, as such, should be carefully controlled. Shown below is an example of the type of work sheet which will be helpful to you in both making a record of your requirements and estimating the related costs.

You can see that the suggested work sheet is set up to provide space for the following requirements: Use of Facility, Description of Facility, Estimated Cost of Facility, Monthly Cost, Record of Action Taken Regarding Obtaining the Facility.

You may be able to get all your requirements on one work sheet or it may take many.

Facility Requirement Work Sheet

Use of Facility	Description of Facility	Estimated Cost of Facility Which Is:			Monthly Cost of Facility	Record of Action
		Most Desirable	Next Most Desirable	Least Desirable		

Use of Facility

The use to which the facility will be put will determine the order of the listing. If yours is a service type of business, there will be few Use classifications. If there is a product involved, there may be several. Examples of Use include the following:

1. Storage (for raw material, purchased parts, items ready to sell, supplies)
2. Manufacture (may be one or more classes, depending on the nature of your product)
3. Shipping, Receiving, Delivery
4. Sales
5. Office

When one facility is used for more than one purpose, it should be listed under Multiple Use. The cost for such a facility will be divided among the various purposes it serves and the item listed under each use. For example, a building may be used for manufacture, sales, and office purposes. The cost of using the building would be divided according to the purposes for which it is used.

Description

Each facility required for a given use should be listed. For example, under such a caption as Sales Use you may list "Store." Then under Store list the description, size, and general location of the type of store best suited to your purpose. Next list the same data for your second choice of a store, and finally, the least desirable type of store and location which could be used for your business.

Then do the same thing for Store Fixtures, and continue until all your required facilities are listed. In some cases you may have no second or third choices.

Estimated Cost of Facilities

Prepare an estimated cost of the most desirable, next most desirable, and least desirable facilities which you have listed.

When this task has been completed, you will have everything required to determine the capital needed for facilities, the basis for fixed costs, and a control sheet to keep track of your commitments for facilities.

The actual facilities you get will be the result of decisions you must make by working out a balance between your capital available and the effectiveness of differently priced facilities. Be sure you consider both buying and renting as you make these decisions.

If you need help in this task, see Section 6, "Using Outside Help."

Estimating Your Costs

General Information on Costs

The following is intended to help the BIG user understand and prepare cost estimates for a small business selling products or services which are similar in the way they are prepared for the market. More involved procedures would be needed for widely different items produced in a single business. Do not hesitate to get outside help in preparing and reviewing your estimates.

The cost of operating your proposed business is made up of various parts, depending on the type of business. In general, these will include the following:

1. *Fixed costs.* These are the costs which are about the same from the day you start in business until a change is made in the fixed cost items. Rent, light, power, and depreciation are types of fixed costs. Your salary may also be included here. Fixed costs are the same regardless of the amount of your sales or production.
2. *Direct costs.* These are costs which go up or down with increases or decreases in your sales and production. The product you buy to resell to your customer or the material and labor of making the product yourself are direct costs.

   Direct cost may be material cost if it originates with a purchase you make, or it may be labor cost if it comes from your payroll. All direct costs can be related to a particular product or service.
3. *Indirect costs.* These costs may vary from period to period but not necessarily in the same proportion as your sales or production. They are for those goods and services which are necessary to your business but are not related to particular items you sell.

Volume

From the above over-simplified explanation of cost factors you can determine that the cost of your product or service, at the point in time it is ready to be sold, includes the direct cost of the material and labor going into it plus some portion of the fixed and indirect costs. The amount of fixed and indirect cost that each product or service must carry depends on the number or volume of items produced and sold.

At the end of any given period the volume is known and the actual cost can be determined. However, you cannot wait until the end of a period to determine your costs and the related selling prices. Therefore, it is necessary to estimate the volume before you can estimate the cost.

Your estimate of volume must represent a realistic balance between your ability to produce goods or services and your ability to sell them. In most cases the amount of fixed and indirect costs to be added to the direct cost of an item can be best stated as a percentage of the direct cost.

For example, if your estimated monthly volume is 500 units at an average direct cost of $20 each, and estimated monthly fixed costs are $1,000 and estimated indirect costs are $500, the overhead rate and unit costs would be as shown below.

	Fixed cost	$ 1,000
	Indirect cost	500
Your overhead =	Total	$ 1,500
Direct cost = 500 X $20		$10,000
Overhead + Direct =		$11,500

Your overhead rate is:

$$\frac{1{,}500}{10{,}000} = 15\%$$

Unit cost = $20 + 15% = $23

500 units X $23 = $11,500

Therefore, your selling price must be set based on a $23 cost.

Other Costs

In addition to the costs described above, you will probably have selling costs and general and administrative costs. The selling costs will include sales salaries, commissions, advertising, and similar items related to your sales efforts.

General and administrative costs include office salaries, supplies, interest, taxes, and similar items. Both sales and general and administrative costs are added to each item as a percentage in the same manner as described for fixed and indirect costs.

Estimating Your Fixed Cost

Because of the relationship of your fixed cost to your cash flow and financing (discussed later in this section), it will be necessary for you to make some assumptions which may later have to be changed. However, on the basis that it is better to estimate your cost on the high side than to estimate too low, you should use the Most Desirable cost figures shown on your facility work sheet to estimate fixed cost.

In setting up your facility work sheet, you have grouped the various items by the use or function they serve. By so doing, you have divided your facilities into production, sales, and office use.

Write the monthly cost after each item on the work sheet. For items which are rented or for which you will receive monthly bills, you already know the monthly cost. For items you will buy, the monthly cost is determined by dividing the amount you expect to pay for an item by the number of months you expect to use it.

The total of the monthly costs for each item within a use group will give you the estimate of the fixed costs for that group.

Estimating Your Direct Costs

Remember that direct costs are made up of the material and labor costs which go into the item you will sell, whether you deal in products or in services.

To estimate your direct costs, you must first make a list of all the materials going into the item (this list is called a *bill of materials*) and a list of each task of labor required to complete the item (called an *operations sheet*). Your ability to prepare the necessary bills of material and operations sheets is a good test of your qualifications for your proposed business.

Estimate the cost of the materials and of the labor operations. Be sure to include the necessary scrap or waste in the materials and any freight or handling costs related to the materials. Labor costs should be estimated on the basis of the time required for the operations multiplied by the rate you will pay for labor. The time factor should include a normal amount of lost time. The labor rate should include the taxes and any fringe benefits for which you expect to pay.

Estimating Your Other Costs

The indirect costs, sales costs, and general and administrative costs may each contain fixed costs (from your facility work sheet), material costs (mainly supplies), labor costs, and certain other costs such as interest expense.

Prepare a sheet for each type (indirect, sales, general and administrative) in the same manner you did for direct cost.

Summary of Cost Estimates

Product Name or Number	1	2	3	Total
Per Unit Material Labor Total		Direct cost		
Estimated Volume				XXXXX
Total Material Labor Total				
		Full Cost		
Total Direct cost Overhead cost Total				
Per Unit Direct cost Overhead cost Total				
Selling Price % Mark-up				

	Overhead			
	Indirect	Selling	General	Total
Material Labor Fixed Other Total				
Total Overhead Rates				
Total Direct Cost Total Overhead Cost Total Full Cost				

Summarizing Your Cost Estimates

The work sheet can be used in summarizing your cost estimates (and in setting your selling price). Do not be frightened; it is not as difficult as it may appear. You have already finished the hard part of your estimating task.

From the estimate sheets you have prepared, copy the unit estimates of material cost and labor cost for items in the area indicated on the summary. Then copy the overhead costs for indirect, sales, and office (general and administrative). It will be more informative if you indicate the cost sources (Fixed, Material, Labor, Other).

Add the material and labor costs to get the total for each item. Also, add the material costs for all items, the labor cost for all items, and the total cost for all items. The total material plus the total labor must equal the overall unit total. Do the same thing for the overhead costs. This step will prove that you made no arithmetical errors.

Figure the overhead rate for the indirect costs by dividing your total direct cost into your total indirect cost. Do the same for your total sales cost, your total general and administrative costs, and the total overhead cost. The overhead cost rate is the only one used in determining the full cost of your items. The other rates will be used later as a measure of your ability to control costs.

Copy the total direct cost for each item into the Total Full Cost section of your summary. Multiply the direct cost by the total overhead rate and write the amount in the Total Full Cost space.

Add the direct cost to the overhead to get the full cost for each item. Add the overhead for all items. If your answer is equal to the total overhead cost, your arithmetic is correct. If the numbers are not equal, you have made an error. Check your work.

To determine your full cost per unit for each item follow the same steps you used for the total cost. These figures can be checked by multiplying each item's unit overhead cost by the estimated volume. The answer should equal the total overhead for the item.

Estimating Your Selling Prices

When you have completed your cost estimate summary, you know the figures upon which you must set your selling prices. How do these compare with the price of the items with which you will be competing? If your full cost is equal to or higher than the competitive item, you have either estimated some factor too high, or there is a serious possibility that you should not go into your proposed business.

Look at the amount of overhead cost in each item. Can you realistically expect to cut this —either by reducing your overhead estimate, or by spreading it by an increase in your estimated volume? Could you reduce your estimate of direct cost by changing material, or by having someone else do a portion of your labor? Now is the time to face up to such problems.

If your full cost is lower than competing items, how do you set a selling price? You must get enough for your item to pay your taxes, to repay any loans you may have incurred to get started, to get a fair return on the investment made in your business, to build up adequate reserves for future growth and to carry you over unforeseen adverse business events.

On the other hand, you must not set a price so high that it will prohibit or greatly reduce sales or will be an invitation for competition to enter your field.

This is another test of your qualifications to enter your proposed business. You should know enough about your items, your competition, and your markets to set your selling prices.

When you get your business started, you will be making many business decisions as difficult as this.

Do not overlook the possibility of having someone from the outside advise you about your selling prices. (See Section 6, "Using Outside Help.")

Sales Forecasts

You have already estimated your volume and set your selling prices. Your sales forecast must be made on the basis of these two factors. In addition, you must consider any seasonal variance which is to be expected in your business.

One other important factor is the rate at which you will go from zero sales (before you start) to what you expect to be your normal volume.

The sales forecast will be used to estimate your cash needs. Do not be too optimistic in your forecast for the early months of your business. If you fall much below your estimated sales volume, you will probably find your business short of the cash needed to keep your business operating. Remember that you will have to pay for labor, material, rent, etc., every month. Many businesses fail within their first year because of cash shortages even though they are operating at a profit. Cash problems may also occur if the business expands more quickly than was expected.

To prepare your sales forecast, use a work sheet set up as shown opposite.

Write the number of units of each item you expect to sell in each month. Then write the number of units you expect to have returned each month. Multiply the units by the unit selling price. (If your business is based on many different items of a similar nature, you may have to group like items and use an average price.) Then add the units and amounts for each item listed in the first month to the same item in the second month to get your year-to-date forecast.

Please note that the forecast sheet provides space to indicate the actual sales made. You should check to see how close your sales forecast is to actual sales from time to time. This will enable you to adjust purchases of material or your payroll, as appropriate, at an early date. Also, this will help you in making the next sales forecast.

Preparing Your Projected Cash Flow

General

Your cash flow projection is like a moving picture of what you expect your proposed business to do in the periods covered by it. It will pull together all the planning you have been doing; it will tell you what problems you face in getting cash to keep your business going; it will be an important aid to you in arranging for financing; and it will serve as a basis for checking your actual business experience with your projections.

Source of Cash Flow Data

If in your planning you have followed the steps suggested in this section of BIG and have prepared work sheets similar to those shown, you are ready to prepare your cash flow. If you have not prepared such work sheets, do so. If any of the prior steps are unclear to you, get someone to help you handle them. And above all remember this—you have made a great many

Sales Forecast

Month		ITEM 1: (NAME) UNIT SELLING PRICE				ITEM 2: (NAME) UNIT SELLING PRICE				ITEM 3: (NAME) UNIT SELLING PRICE				TOTAL DOLLARS	
		ESTIMATED		ACTUAL		ESTIMATED		ACTUAL		ESTIMATED		ACTUAL		ESTIMATED	ACTUAL
		Units	$	Units	$	Units	$	Units	$	Units	$	Units	$		
1. January	Sales														
	Returns														
	Net														
2. February	Sales														
	Returns														
	Net														
Year to Date															
	Sales														
	Returns														
	Net														
3. March	Sales														
	Returns														
	Net														
Year to Date															
	Sales														
	Returns														
	Net														
4. April	Sales														
	Returns														
	Net														
Year to Date															
	Sales														
	Returns														
	Net														
12. December	Sales														
	Returns														
	Net														
Year to Date															
	Sales														
	Returns														
	Net														

assumptions to get this far in your planning; some probably will not be valid. When you realize that an assumption is incorrect, you must redo your planning on the basis of a new assumption.

Your forecast of cash flow will only be as correct as the assumptions it is based on; and, the early success of your business depends to a large extent on the accuracy of your cash flow projection.

Preparing the Cash Flow Projection

On the opposite page is a suggested form for your cash flow statement. In brief, it provides space to show, by month, the amount of cash you had to start the month, the amount of cash you received, the amount of cash you spent, and how much cash you had at the end of the month.

1. *Cash at beginning of period*

   In the first column of the statement, which represents all time before you start your business, the figure is zero. For all other periods (months) the beginning balance is equal to the cash at the end of the prior period.

2. *Cash received*

   a. From cash sales.

   b. From collection of receivables.

   By your sales forecast you know the dollar amount of sales. Estimate how much of this will be cash sales and write the amounts on line 3 for each period.

   The remaining sales will be paid for at a later date—you must estimate when. If you expect them to be paid for within 15 days, put one-half of the charge sales in the period they were sold, and one-half in the following period, on line 4. (Remember to add one-half of the preceding period's charge sales.) If you expect that it may take 30 days to collect for your charge sales, put each month's charge sales on line 4 of the following month. Any charge sales you expect to require more than 30 days to collect should be added to the second, third, etc., following period.

   In each case the charge-sale figure used should be reduced by the amount of uncollectible charges you expect to have.

   c. From other sources.

   Skip over lines 6 through 15 until you have completed the Cash-Paid-Out section.

3. *Cash paid out*

   a. For capital equipment.

   This is the amount you will expect to pay for the equipment, tools, furniture, fixtures, and similar items needed in your business. You know this type of item from your facility-required work sheet. It may be full payment, or monthly time payments. It does not include repayment of loans you may make to buy capital items. If such a loan is made, it is added to cash, and the entire amount of cash payment for equipment is entered in the period in which the transaction was made.

   The total of all payments for capital equipment should be written on line 17 for the period in which payment is to be made.

   b. For trade accounts payable.

   Trade accounts, as used here, means the bills you have for materials and outside services which become a part of the products or services you will sell. You can

Projected Cash Flow

	Period	Prestart		1. Jan.		2. Feb.		12. Dec.	
		Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
1	Cash at Beginning of Period	-0-	-0-						
2	Add Cash Received:								
3	From cash sales	-0-							
4	From collections of receivables	-0-							
5	Sub total (lines 3-4)								
6	From other sources								
7	Owner's investment								
8	Stock sale								
9	Short-term loans								
10	Long-term loans								
11									
12									
13									
14	Total cash received								
15	Total Cash Available								
16	Subtract Cash Paid Out:								
17	For capital equipment	-0-							
18	For trade accounts payable	-0-							
19	For payroll	-0-							
20	For indirect expense	-0-							
21	For sales expense	-0-							
22	For gen'l & admin. expense	-0-							
23	For taxes	-0-							
24	Sub total (lines 17-23)								
25	For interest	-0-							
26	For repayments	-0-							
27									
28	For dividends	-0-							
29	For owner's withdrawal	-0-							
30									
31									
32									
33	Total cash paid out								
34	Cash at End of Period (Total Available – Cash Paid)								
35	Memo – Cash Balance Start	-0-							
36	Total lines 3 and 4								
37	Total lines 17 thru 23								
38	Memo – Cash Balance End								

estimate them from your bills of material and your estimated volume. A part of your estimated calculation must be based on the amount of time which will be required to process materials into salable items. Another factor is the terms on which you buy your materials. For example, if all your material purchases are on a ten-day payment basis, your estimated trade accounts paid would be written on line 18 for the period during which payment is to be made.

c. For payroll.

Your expected payroll for each month should be written on line 19. The payroll figure should include all deductions taken from employees' pay and the related payroll tax which your business will have to pay. (Such deductions and tax reserves should be placed in a separate bank account to insure that they are available when needed.)

d. Indirect expense.

e. Sales expense.

f. General and administrative expense.

You have estimated these three types of expense in preparing your overhead estimate. They should be written in lines 20, 21, and 22 for each period. Be sure you do not include the payroll portion of overhead that has been handled in (c) above.

g. For taxes.

You have already taken care of the payroll related taxes. The other tax payments will be on your tax calendar. (See Section 5.) Write your estimates for various periods on line 23.

h. For interest.

i. For loan repayments.

Skip these two lines (25 and 26) for the present time.

j. For dividends.

k. For owner's withdrawals.

Skip these two lines (28 and 29) for the present time.

Determination of Capital Required

Add lines 3 and 4 for each period and write the total for each period on lines 5 and 36. Add lines 17 through 23 for each period and write the totals for each period on lines 24 and 37 as a minus figure (in brackets). For the pre-start period, there should be all zeros at this point. For the first active month, subtract line 37 from line 36. Write the answer in line 38. This will probably be a minus figure. Write the figure in line 38 on line 35 of the next period. Be sure to put it in brackets if it is minus.

For the second period, subtract line 37 from the total of lines 35 and 36 and write the answer in line 38. Continue this operation for all 12 periods.

The figure in line 38, if it is minus ( ), indicates the amount of cash you need to cover payments during the period. If it is not a minus figure it indicates cash available at the end of the month. It would be convenient to have your end-of-the-month cash balance be at least as much as you plan to pay out during the following month.

Before finishing your projected cash flow statement, you should read the material which follows on methods of financing a small business.

You are now at the point where you must decide how you propose to finance your business. In lines 7, 8, 9, and 10 (11, 12, or 13, if you have other sources of cash), write the amount of cash you expect to get from the various sources.

In lines 25 and 26 write your expected interest and loan payments for each period. Now add lines 5 through 13 by period to get the period cash-received amount and write the answer in line 14. Next add lines 24 through 32 to get the expected cash payments, and write the answer in line 33. The beginning cash balance plus the estimated cash received is the cash available which you will write in line 15. This figure, minus the expected payment which you will have written on line 33, will give you the projected cash balance at the end of the period. Write this on line 34 for the current period, and on line 1 for the next period. Do this for 12 periods, and your projected cash flow statement will be complete.

Providing Financing

General

When you have finished your cash forecast so that you know the amount of money you will need by month, you must decide to what sources you will go in order to raise the money. Before doing that, however, ask yourself if your proposed business venture still looks good to you. At what point in the first year will your business be bringing in more cash each month than you will be paying out? Is the amount of money you will have to raise reasonable for a new small business? Do you believe others will be willing to advance you money? Are you willing to invest your own time in the business? If you can answer these questions favorably, then go ahead and attempt to raise your money.

Sources of Finance

The following is a general description of the kinds of sources from which you may be able to raise your required money.

1. *Self-investment.* If you have the necessary cash available to get your business started, this is probably your best available source. Self-investment will eliminate the disadvantages that are present in other methods of financing, as indicated below.
2. *Sale of stock in your business.* The advantages of selling stock as a source of business capital include the following:
   a. It avoids the regular drain on cash to meet interest payments.
   b. It avoids periodic payments on principal.
   c. Stockholders may actively assist you in your business and in contacts with potential customers.

   These advantages may be offset somewhat by the disadvantage of giving up a portion of your ownership to the other stockholders. Do not enter into any stock agreement without sound professional advice.
3. *Borrowing.* This is probably the most common means of financing a small business. You may raise your required amount of money in one or more of these ways:
   a. A personal loan to you which may be secured by your business or by your personal assets.
   b. Loans to you or to the business from your family, friends or employees.
   c. Advances from your customers.
   d. Loans from equipment manufacturers or suppliers.
   e. Loans from financial institutions. (These may be either long- or short-term loans and may be made by the bank alone or by governmental and private agencies whose

role is to help small businesses get started. Among such agencies are the Small Business Investment Corporation, OMBE (Office of Minority Business Enterprise), local chambers of commerce, MESBIC (Minority Enterprise Small Business Investment Corporation), and local church, neighborhood, or civic groups.

If you do borrow, your best arrangement would be to secure a "line of credit" in place of borrowing the full amount at one time. This enables you to borrow part of the money as you need it. While it is customary to charge a small amount of interest for the line of credit, it is much less than the interest which would be charged on monies you borrow today but will not use until sometime in the future.

How to Contact Sources of Financing

Your first step should be to determine what funds you will be able to raise yourself. Then you can tell how much, and when, you will need money from other sources. After that, decide on which type of financing you would prefer to use. If it is some type of investing in your business, you should get in touch with an attorney who can give you advice in this area.

If you expect a large amount of your business to come from one or more established large businesses, you may contact them to find out if they have a program to aid small businesses in getting started. Perhaps your product or service may be of sufficient importance to the large business that they would be willing to help you.

Will your business require enough equipment or material to make your supplier interested in financing you? If you think there is a possibility, contact the supplier and present your ideas to him.

Have you any established relationship with a bank? If so, talk over your plans with your contact in the bank.

Are you a member of a minority group? The United States Department of Commerce has set up the Office of Minority Business Enterprise to help you if you are. If you cannot locate a representative of OMBE in your city, write to this address:

The Office of Minority Business Enterprise
U.S. Department of Commerce
Washington, D. C. 20230

In most large cities there are other groups who may be able to help you with the actual financing, or direct you to sources of financing. The local chamber of commerce, or some branch of your city government should know of such groups.

When you make your contacts, be confident. You have carefully considered your proposed business—you know what you want to do, how to do it, and what help you will need to do it. Make a clear, simple, businesslike presentation of your ideas and you will, in most cases, receive a businesslike answer. Be prepared to accept an unfavorable answer, to listen to suggestions, and to consider restrictions or changes in your plans. You will not receive help at every contact, but each one will be an opportunity for you to make someone interested in your business. (See Section 6, "Using Outside Help.")

Your Business Organization

There are things you should consider about your business which, although simple, are often made as hasty decisions. Have you thought about these matters?

1. The legal form of your new business—whether it will be a corporation, a partnership, or a proprietorship.

2. What the name of your business will be.
3. What bank you will use.
4. How you will keep your non-business money and expenses separate from your business accounts.
5. The business requirements you must take care of, such as your vendor's number, your employee number, licenses, permits, etc.
6. What types and amounts of insurance you will carry.
7. What advertising you will do.
8. The extent to which you will need accounting, legal, marketing and technical information.
9. Which tasks of your business you will delegate to full- or part-time employees.
10. What will happen to your business if you become ill or disabled.

BIG, developed as a *general* guide, cannot give you *specific* help on these points. It can only point out the types of items you should consider and suggest that you make full use of any local, experienced assistance which is available to you.

Section 2
Business Records

Contents

	Page
Introduction	21
What Are Accounting Records?	21
What Is the Purpose of Accounting Records?	21
How Do You Keep Good Accounting Records?	21
Cash Sales	22
Sales on Credit	24
Sales Returns and Allowances	26
Sales Journal	28
Cash Receipts	28
Cash Discounts on Sales	30
Cash Receipts Journal	30
Accounts Receivable	31
Cash Drawer or Cash Register and Closing	32
Recording the Buying of Merchandise on Account	32
Purchase Returns and Allowances	34
Purchase Journal	36
Cash Disbursements	37
Cash Discount on Purchases	38
Cash Withdrawals by the Owner	38
Petty Cash Fund	39
Cash Disbursements Journal	40
Time Card or Time Sheet	42
Payroll Register or Payroll Journal	44
Employee Earnings Record	46
Payroll Check	48
General Journal	48
General Ledger	48
Trial Balance	50
Illustration of Journals, General Ledger, and Trial Balance Work Sheet	51
Posting Transactions	51
Trial Balance Work Sheet	71

2

Business Records

Introduction

One of the purposes of BIG is to help the owner of a business keep the accounting records necessary to run his business. Some of the records and accounts needed will be different for different kinds of business — depending on whether the business makes a product, buys and sells a product, or sells a service. The records will differ too with the size of business, but the basic ideas are the same. The examples and explanations used here are intended to be a general guide that a business can follow. In some cases the help of a bookkeeper should be considered by the businessman. When unusual situations arise or a difficult problem occurs, the businessman should get the help of a professional accountant.

Lack of proper records or inability to understand existing ones is a frequent cause of business failure. A key to good business management is good accounting records.

What Are Accounting Records?

Accounting records are involved with every activity of your business. Each time you buy, sell, order, trade, produce an item, or provide a service, some business record must be created.

What Is the Purpose of Accounting Records?

Accounting records are needed to get information for such things as Social Security, wages and hours of employment, workmen's compensation, income taxes, sales taxes, etc. Just as important is their use as a valuable tool for the businessman in determining how his business is doing and what can be done to improve it.

In addition, when a friend asks you how your business is doing, you can answer either good, fair, better, or worse and satisfy his curiosity. But, if the Internal Revenue Service wants to collect taxes or if a bank is to make a loan, you must be able to show them *exactly* how your business is doing and how you expect your business to do in the future. The only way to get these answers is from good accounting records.

How Do You Keep Good Accounting Records?

There used to be a story among small businessmen that if they wrote everything down on pieces of paper and kept them in a shoebox, an accountant could come in once a month or once every six months and straighten out the shoebox. Even if the accountant could "straighten out the shoebox," it still would not produce good accounting records. The shoebox approach harms a business in many ways:

1. It is an inaccurate way of keeping information, which results in errors.

2. It is more costly to hire an accountant to clean up your mistakes than it is to establish proper records in the beginning.
3. Timely information is not immediately available as a tool in management decision-making.

The following examples and explanations will serve as guides to good accounting records.

Cash Sales

When the full price is received at the time of sale, it is known as a cash sale.

At the time of a cash sale, a record must be made for the cash received. This record may be a form of receipt (see opposite) or may be rung up on a cash register. The receipt or cash register tape should show the date of the sale, the amount received, and the sales tax on the sale. See the section, "Cash Drawer or Cash Register" for what needs to be done at the end of each day.

Businessman Company

946 West Main
Anytown, USA 12345
Phone 987-6543

Customer's Order No. ______ Phone No. 998-3340 Date DEC. 2 19 71

Name JOE BLOWSON

Address 607 NORTH 17th THISTOWN, ILL.

Sold By	Cash	C.O.D.	Charge	On Acct.	Mdse. Ret.	Paid Out	Terms
JM.	✓						

Quantity	Description	Price	Amount	
100	2 × 10 × 16 FT. YELLOW PINE	2.20	220	00
	LESS DISCOUNT 10%		22	00
			198	00
	SALES TAX		9	90
	TOTAL		207	90

00001 Received By Joe Blowson

Sales on Credit

When the full price is not received at the time of sale, it is known as a charge sale or a sale on credit.

Such sales bring about an account receivable which is to be collected at a later time. The sales on credit must be kept separate from cash sales. A charge-sales slip must be made out even if a cash register is used. The sales slip in this case will serve as support for the difference between the cash taken in and total sales on the cash register tape.

The charge-sales slip should show the following information:

1. A preprinted serial number.
2. The terms of the sale.
3. The date of the sale.
4. The name and address of the customer.
5. The number and the description of each item.
6. The unit price of each item.
7. The total amount of the sale.
8. The amount of cash received at the time of the sale.
9. A signature of the person who received the merchandise.
10. A signature of the person who sold the goods.

The charge-sales slips are the accounts receivable which are created when a customer purchases an item but doesn't pay cash for it. (Sales slips can be designed so that the same form can be used for both charge and cash sales as in the samples shown.)

At the end of each day the charge sales should be totaled and posted to the customers' accounts receivable ledger. The charge-sales tickets should be filed according to the customer's name as a record of what each customer owes.

Businessman Company

946 West Main
Anytown, USA 12345
Phone 987-6543

Customer's Order No. ________ Phone No. 457-7893 Date Dec. 1 1971

Name Jim Smith

Address 103 South 18th Anytown, Ill.

Sold By	Cash	C.O.D.	Charge	On Acct.	Mdse. Ret.	Paid Out	Terms
JM.			✓				N 30

Quantity	Description	Price	Amount	
10 Bags	Cement	1.90	19	00
5 Bags	Lime	1.10	5	50
			24	50
	Sales Tax		1	23
	TOTAL		25	73

00002 Received By Jim Smith

Sales Returns and Allowances

The businessman may agree to take back goods which were sold to a customer, or he may reduce the price at which a sale was made because of a customer's complaint with which he agrees. Sales returns and allowances are decreases in sales.

If it was a cash sale, he will pay the customer the amount in cash and make out a cash-sales slip, clearly marking it "refund" or "allowance" so he can correctly account for the reduction in cash. If it was a charge sale, he makes out a charge-sales slip, again clearly marking it "credit" to show that the customer owes him that much less.

Businessman Company

946 West Main
Anytown, USA 12345
Phone 987-6543

Customer's Order No. ______ Phone No. 457-7893 Date Dec. 1 1971

Name Jim Smith

Address 103 South 18th Anytown, Ill.

Sold By	Cash	C.O.D.	Charge	On Acct.	Mdse. Ret.	Paid Out	Terms
Jim.					✓		

Quantity	Description	Price	Amount	
2	Bags Cement	1.90	3	80
	Sales Tax			19
	CREDIT			
	TOTAL		3.	99

00003 Received By Jim Smith

Sales Journal

The non-cash sales should be posted to a sales journal. The sales journal is a summary of sales sold on credit. The sales journal may be prepared at the same time as the non-cash sales slip and the accounts receivable ledger, or it may be prepared separately.

The sales journal should show the date of the sale, sales slip number, amount of sale, and, if preferred, a breakdown by product or type of sales.

Sales Journal

Date		Ticket Nos.	Sales		Sales Discounts		Mdse. Returned		Accounts Receivable	
Dec.	1	1-150	1900	50	30	00	20	50	1850	00
	2	151-284	1960	00	20	50	10	00	1929	50
	3	285-410	2175	50	35	50	15	00	2125	00

Cash Receipts

Cash usually comes from three sources:

1. Cash sales to customers.
2. Cash received on account for sales previously made on credit.
3. Miscellaneous sources.

Each time one of these sources of cash is received, a written record must be made. If it is a cash sale, the record may be a cash register tape. If not, the record may be in the form of a receipt. The receipt for cash should be prepared in at least two copies, with the original going to the person making the payment and the other copy being kept by the businessman for recording the cash.

When cash is received on account, the receipt should show the customer's name, etc., and be posted as a credit to the customer's accounts receivable ledger.

Miscellaneous cash receipts should show the source, amount, and nature of the cash received. Cash receipts should be summarized in a cash receipts journal.

Businessman Company

946 West Main
Anytown, USA 12345
Phone 987-6543

Customer's Order No. ______ Phone No. ______ Date DEC. 15 19 71

Name Jim Smith

Address 103 South 18th Anytown, ILL.

Sold By	Cash	C.O.D.	Charge	On Acct.	Mdse. Ret.	Paid Out	Terms
[illegible]				✓			

Quantity	Description	Price	Amount	
	REC'D ON ACCT.		10	00
	TOTAL			

00004 Received By ______

Cash Discounts on Sales

When merchandise is bought on credit, the buyer is expected to pay the seller within the time agreed upon. To encourage the buyer to make payment before the end of the credit period, the seller may allow a deduction from the amount owed. A deduction that the seller allows on the amount of an invoice to encourage the purchaser to make prompt payment is known as a cash discount.

When the customer takes advantage of a cash discount, the seller receives a sum less than the sales price recorded on his books. This cash discount is a deduction from sales and is debited on the books of the seller to an account with the title of Sales Discounts.

Cash Receipts Journal

The cash receipts journal is a summary of cash received showing the source from which the cash came.

The cash receipts journal should have the following columns or information:

1. Date of receipt of the cash.
2. Source from which received.
3. Total amount received.
4. A column for the amount from cash sales.
5. A column for the amount received on account.
6. A column for miscellaneous cash receipts stating the nature of the receipt.

Cash Receipts Journal

Date		Total Cash Received		Sales Discounts		Cash Sales		Received on Account		Other		Explanation
Dec	1	2410	02	9	98	400	02	2000	00	19	98	Scrap Sold
	2	2730	40	10	10	420	75	2319	75			
	3	2610	50	10	50	406	00	2200	00	15	00	Vending Mche.

Accounts Receivable

The charge-sales tickets should be posted to a sales journal and accounts receivable ledger. The accounts receivable ledger should show the following information:

1. The date of the sale.
2. The number of the sales slip.
3. The amount of the sale.
4. The name and address of the customer (on the top of each ledger card).
5. A credit column to record the cash received or other reductions in the account.
6. A balance column representing the amount that the customer owes to the businessman.

Accounts Receivable Ledger

Customer Jim Smith

Address 103 South 18th

Anytown, U.S.A.

Date		Explanation	Ref.	Debit		Credit		Balance	
Dec.	1	Sale	00001	25	73			25	73
	1	Return	00002			3	99	21	74
	15	Cash	00004			10	00	11	74

Cash Drawer or Cash Register and Closing

The businessman should always keep track of how much cash he starts with each day. It would be good if he started with the same amount every day, but he should always count the cash before he opens his business to the public.

At the end of the day, the businessman should count the cash he has. He should also separate the different tickets and count these items. If the businessman is using a cash register having several keys, the tape for that day may show separate totals for each type of ticket—charge sales, cash sales, etc. To balance with the tape of the cash register, it is important that all the transactions are recorded on the cash register and all the tickets are filled out properly. After arriving at the correct balance (see illustration below), the businessman should write the totals for cash collected, non-cash sales, sales discounts, and sales returns in the sales and cash receipts journals. He should do this every day so that he has a record of each day's transactions.

Balancing and summarizing the day's transactions may be done as follows:

(1)	Total cash in drawer or register		\$4,801.50
(2)	Cash sales		\$1,078.50
(3)	Collections on accounts receivable	\$3,700.50	
(4)	Less — cash discounts allowed	98.50	3,602.00
(5)	Cash sales of scrap		21.00
(6)	Amount to be deposited		\$4,701.50
(7)	Working cash fund (1-6)		\$ 100.00
(8)	Cash sales (as above)		\$1,078.50
(9)	Charge sales		5,781.50
(10)	Total sales (8 + 9)		\$6,860.00
(11)	Returned merchandise		\$ 90.00

The businessman should keep a file for each set of tickets and at the end of the day put that day's tickets in their respective file. It is important that all cash totals and related slips agree with the cash on hand. The non-cash sales tickets are very important since the businessman wants to keep a record of who owes money (accounts receivable) to his business.

Recording the Buying of Merchandise on Account

Goods carried in stock for sale to customers are known as merchandise. Merchandise may be purchased from a salesman, a wholesaler, manufacturer, or from a catalog. When merchandise is purchased, the businessman should prepare a form known as a purchase order (see opposite). The purchase order should be prepared in more than one copy. The purchase order should show from whom the merchandise is being purchased, the date ordered, the method of shipment, the terms of payment, the quantity ordered, a description of the item, the cost of each item, total cost of all items ordered, desired date of receipt of the merchandise, and the name and signature of the person ordering the merchandise.

The original copy of the purchase order should be given to the person from whom the merchandise is being purchased. A duplicate copy or copies should be maintained by the businessman to be used as a record of merchandise on order and to check the merchandise when received.

Businessman Company
946 West Main
Anytown, USA 12345
Phone 987-6543

Purchase Order

No. 1228

THIS NUMBER MUST APPEAR ON ALL INVOICES, PACKAGES AND SHIPPING PAPERS.

Vendor
OAK PANEL COMPANY
1300 PEACHTREE ST.
ATLANTA, GA. 00632

PLEASE ENTER THIS ORDER SUBJECT TO THE TERMS, CONDITIONS AND INSTRUCTIONS.

Date NOV. 1, 1971 | Date Needed NOV. 15, 1971 | Special Instructions

F.O.B ATLANTA | Terms 2-10N30 | Ship Via SOUTH/BLUE

Date	Date	Date	Date	Quantity	Unit	Description	Unit Cost	Total	
Qty. Rec.	Qty. Rec.	Qty. Rec.	Qty. Rec.						
				1000	SHTS	OAK PANEL No. 345	2.00	$2,000.00	
						USE TAX		80.00	
							$	2,080.00	

Ordered By Jerry Atal

When the merchandise is received, it should be checked to see that it is in good condition and agrees with the order. The receipt of the merchandise should be noted on a copy of the purchase order or on a receiving report (see opposite), and the person receiving the merchandise should sign for it.

When the merchandise is received, or soon after, the businessman should receive a bill or invoice requesting payment. These invoices vary from business to business, but most invoices include the following:

1. The name and address of the one from whom the merchandise was purchased.
2. The name and address of the purchaser.
3. The date of the invoice.
4. The seller's invoice number.
5. The method of shipment.
6. The terms of payment.
7. The buyer's purchase order number.
8. The quantity, description, and unit price of items purchased.
9. The total cost of each item and the total of the invoice.

When the businessman receives this invoice it is important for him to know that the items he ordered have been received and that he has been charged the proper amount. He should, therefore, perform the following:

1. Compare the invoice with the purchase order to see that the items on the invoice agree with those on the purchase order.
2. Examine the receiving report to see if all items were delivered.
3. Check the invoice to see that quantities and prices are in agreement with the purchase order.
4. Check the accuracy of the multiplication on each line and the addition of the total column.
5. Verify the computation of the sales tax and discount, if applicable.
6. After Steps 1 through 5 above have been completed, the invoice should be approved for payment in writing on the face of the invoice.

At this point the invoice may be paid or entered in the purchase journal. A purchase journal is necessary when items are not paid promptly or are numerous.

Purchase Returns and Allowances

The buyer of merchandise may be allowed credit by the seller for the return of part or all of the merchandise purchased. He may also be allowed credit if the merchandise received was not up to quality or was damaged.

The buyer usually receives a credit memorandum from the seller showing the amount of the purchase returned or the purchase allowance. The credit memorandum should be applied against any amounts owed the vendor or a refund should be requested. The purchase order form properly marked "returned goods" may be used as a record to be sure credit is received.

Receiving Report

NO. ____________

DATE *Nov. 15* 19 *71*

RECEIVED FROM *Oak Panel Company*

ADDRESS *Atlanta, Ga.* PURCHASE ORDER NO. *1228*

QUANTITY	UNIT	DESCRIPTION OF ARTICLE
1000	SHTS	OAK Panel No. 345

Received By *Jerry Atal*

Purchase Journal

If invoices are not paid promptly or are numerous, they should be recorded in a purchase journal or schedule of unpaid invoices.

The purchase journal should include the following columns:

1. The date the invoice was received.
2. The invoice number.
3. The name of the firm from whom the purchase was made.
4. The date paid (to be completed when paid).
5. The check number by which it was paid (to be completed when paid).
6. The amount of the invoice.
7. The account or account number to which the expense is to be charged, or a column for each major expense account with a miscellaneous column for those accounts used infrequently.

Purchase Journal

Date		Invoice No.	Vendor	Date Paid		Check No.	Amount		Mdse. Pur.		
NOV	15	3456	OAK PANEL CO.	DEC	5	0030	2300	00	2300	00	

Cash Disbursements

All bills, purchases, expenses, etc., should be paid by check. No check should be written until there is proof that the service or merchandise has been received and is satisfactory. When a check is written, the purpose for payment should be stated on the check and the check stub. The bill, invoice, or proof that the service or merchandise has been received should be clearly marked "paid," dated, and the check number listed to prevent duplicate payment. The paid bill should then be filed in a "paid" file in alphabetical order for future reference. After the check has been written, it should be recorded in a cash disbursements journal for the purpose of summarizing the various types of expenses paid.

Businessman Company
946 West Main
Anytown, USA 12345

Date	Invoice	Amount	
Nov.15	3456	2,300	00

2-4
135

No. 0030

AMOUNT Two thousand two hundred fiftyeight + 40/100 —— DOLLARS

CHECK NO.
0030

Oak Panel Company

Date	Gross		Discount		Net	
Dec.5	2300	00	41	60	2258	40

PAY TO THE ORDER OF
1300 Peachtree St.
Atlanta, GA. 00632

BUSINESSMAN COMPANY

FIRST NATIONAL BANK—ANYTOWN, USA 12345
MAGNETIC NOS.

Cash Discount on Purchases

To encourage the buyer to make payment for merchandise before the end of an agreed-upon credit period, the seller may allow a deduction from the amount owed. When the buyer takes advantage of this discount, he pays less than the purchase price recorded on his books in Accounts Payable. The cash discount is a deduction from purchases and is credited on the books of the buyer to an account with the title of Discount on Purchases.

Cash Withdrawals by the Owner

A person who is sole owner of a business often withdraws cash from the business as he needs it for personal use. This represents a withdrawal of an asset from the business. Withdrawals by the proprietor are not deductible expenses for federal income tax purposes. Because of this, withdrawals of cash or other assets by the proprietor are not charged to an expense account. They should be charged to an account known as a *drawing account*.

Petty Cash Fund

Good business practice requires that two rules be closely followed when dealing with cash:

1. All cash receipts must be deposited in the bank each day and not be used to pay expenses.
2. All expenses should be paid by check.

Every business, however, has many small bills which are more easily paid by cash. It is just not practical, for example, to pay messengers or buy postage stamps with checks. These cash payments, which are exceptions to Rule 2 above, require that a special cash fund be used for small expenses. This type of fund is called a *petty cash fund.*

To create such a fund:

1. Estimate the amount of these small expenses that will be paid in cash during an average two-week to one-month period.
2. Cash a business check for this amount and keep all the money in a separate place in the control of only one person. This fund should remain at that fixed amount and not change from one period to another.
3. Each time an expense is paid out of this fund a bill marked "paid" or a signed receipt for the amount paid should be kept with the money so that at all times the total of bills or receipts and the money still in the fund will equal the fixed amount of the petty cash fund.
4. Remove all paid bills and signed receipts when the fund becomes low, and write a business check for the total of these items. When this check is cashed, it replaces the money used and brings the balance of cash in the fund to the original fixed amount. When the fund is reimbursed, the various expense accounts should be charged for the amounts spent.

Petty Cash Disbursement

No. ______ Date DEC. 1 19 71

$ 1.02

TO POSTMAN

Amount One + 02/100 DOLLARS

For POSTAGE

Account Number POSTAGE

Approved By Jerry Atae

Received Payment Mr. Postman

Cash Disbursements Journal

The cash disbursements journal (see opposite) should show the following information:

1. Check number
2. To whom written
3. Date written
4. Gross amount
5. Discount taken
6. Net amount
7. A distribution to the expense or account affected

Cash Disbursements Journal

Check No.	Check Issued To	Date	<Memo> Gross		Discount		Net		Account Payable			
0030	OAK PANEL COMPANY	DEC. 5	2300	00	41	60	2258	40	2300	00		

Time Card or Time Sheet

Each employee of the business should prepare a time card or time sheet (see opposite). This time card covers a specific pay period such as one week, two weeks, etc. At the end of this period of time, the following steps should be performed:

1. The time cards are examined for records of tardiness, leaving early, absence, etc.
2. The regular hours are extended into the Hours column.
3. The amount of overtime for each day is figured and entered on the time record.
4. The regular hours and overtime hours are totaled separately.
5. The rates for regular time and overtime are entered and the earnings are computed.
6. The hours and earnings for regular and overtime are then added to show total hours and total earnings.
7. The different deductions are figured and then the net amount to be paid is determined.

After completion of these steps, the next records to be prepared are the payroll checks, payroll register or payroll journal, and the employee earnings records.

No. ________ Name JOHN DOE

Pay Period Ending DEC. 12, 1971

Reg. Hrs.	Rate	Amount	FICA	No. of Exempt.
79	1.60	121.60	6.57	M-2
OT Hrs.	**Rate**	**Amount**	**Fed. WH**	**Total Earn.**
2	2.40	4.80	9.83	126.40
Total		**Amount**	**State WH**	**Total Ded.**
81		126.40	4.00	30.40
			Other	**Net**
			INS. 10.00	96.00

	IN	OUT	IN	OUT	IN	OUT	
1	NOV. 29 7:00 AM	NOV. 29 11:30 AM	NOV. 29 12:00 PM	NOV. 29 3:30 PM			8
2	NOV. 30 7:00 AM	NOV. 30 11:30 AM	NOV. 30 12:00 PM	NOV. 30 3:30 PM			8
3	DEC. 1 6:59 AM	DEC. 1 11:31 AM	DEC. 1 1201 PM	DEC. 1 3:31 PM			8
4	DEC. 2 7:30 AM	DEC. 2 11:30 AM	DEC. 2 12:00 PM	DEC. 2 3:30 PM			$7\frac{1}{2}$
5	DEC. 3 7:00 AM	DEC. 3 11:30 AM	DEC. 3 12:00 PM	DEC. 3 4:30 PM			9
6							
7							
8	DEC 6 7:00 AM	DEC. 6 11:30 AM	DEC. 6 12:00 PM	DEC. 6 3:30 PM			8
9	DEC. 7 6:50 AM	DEC. 7 11:30 AM	DEC. 7 12:00 PM	DEC. 7 3:35 PM			8
10	DEC. 8 7:00 AM	DEC. 8 11:30 AM	DEC. 8 12:00 PM	DEC. 8 3:30 PM			8
11	DEC. 9 7:30 AM	DEC. 9 11:30 AM	DEC. 9 12:00 PM	DEC. 9 3:30 PM			$7\frac{1}{2}$
12	DEC. 10 7:00 AM	DEC. 10 11:30 AM	DEC. 10 12:00 PM	DEC. 10 4:30 PM			9
13							
14							
	IN	OUT	IN	OUT	IN	OUT	

Total Hours Are Correct

Totals 81

Jerry Atay

Signature

Payroll Register or Payroll Journal

After completing the time cards, the payroll register or payroll journal should be completed using the information from the time cards. Simple forms are available with which you can write the payroll check, payroll journal, and the employee earnings records all at the same time. These systems save the time of writing the same information more than once.

The total earnings figure from each time card is entered in the Total Earnings column of the payroll journal opposite the name of the employee. The section headed Deductions is used to enter the amounts that are deducted from the employees' earnings. The column headed FICA Tax is used for Social Security. The Social Security tax can be computed or obtained from a government table.

The column headed Federal Income Tax is used for the federal income tax withheld from each employee's earnings. This can also be obtained from a government table. This same thing would be done for state and city income taxes. The column headed Other is used to enter such items as deductions for purchase of savings bonds, union dues, etc. The space headed Net Pay is used for the amount due each employee.

After the entries for all employees have been made, each of the amount columns is totaled. To check these additions compare the total of the Total Earnings column with the sum of the totals of the Net Pay column and the Deductions columns.

Payroll Journal

Dept. or Place ______________ Payroll Period Ending DEC. 12, 1971

Name	Period Ending	Time Worked	Earnings: Reg.	Earnings: O.T.	Total	Deductions: FICA	Deductions: Fed WH	Deductions: State WH	Deductions:	Deductions: Other	Net Pay	√	Check No.	
JOHN DOE	DEC 12	81	121.60	4.80	126.40	6.57	9.83	4.00		10.00	96.00		1043	

Prepared By Mary Jones Checked By Susan Smith Approved By Jerry Atal

Employee Earnings Record

A detailed account is kept for the payments made to each employee. This record, known as the *employee's earnings record*, is kept on cards or sheets. A separate card or sheet is kept for each employee. This record is made with divisions for totals every three months because the businessman is required to make reports to the federal, state, and some city governments on a quarterly basis.

The amount columns of the employee's earnings record are the same as the amount columns of the payroll journal. The quarterly totals line provides space for the totals for the quarter, and the final quarter provides space for entering the totals for the year. The yearly totals are needed for preparation of annual reports to the federal, state, and some city governments.

Employee Earnings Record

Name JOHN DOE

Address 302 So. SYCAMORE, ANYTOWN, U.S.A. Telephone 334·6272 Income Tax Status M·2

Soc. Sec. No. 334·52·6272

Exempt From FICA ☐ Inc Tax ☐

Reason

Date	Rate	Fixed Earnings			Fixed Deductions				
9·1·71	1·60								INS. 10.00

No. of Exempts. 2

Effective Date JAN. 1, 1971

Date of Exempt. Cert. JAN. 1, 1971

Name	Period Ending	Time Worked	Earnings Reg.	O.T.	Total	FICA	Fed WH	State WH		Other	Net Pay	✓	Check No.	Period	Cumulated Earnings
JOHN DOE	DEC 12	81	121·60	4.80	126.40	6.57	9.83	4.00		10.00	96.00		1043	1	
														2	
														3	
														4	
														5	
														6	
														7	
														8	
														9	
														10	
														11	
														12	
														13	
														14	
													Qtrly Total		
													Yr. to Date		
														1	
														2	

Payroll Check

All payments to employees for work done should be by check. It is helpful to use a different type of check for payroll than that for general disbursements. If, however, the same type of check is used for both payroll and general disbursements, additional information should be entered on the check stub. This information should include total earnings, payroll deductions, etc. (see opposite).

The amount of the payroll check should be the same as the Net Pay column of the payroll journal and employee earnings record.

General Journal

A book in which any of the records of a business are first written is called a journal. There are many kinds of journals. The basic types are as follows:

1. General journal
2. Sales journal
3. Purchase journal
4. Cash receipts journal
5. Cash disbursements journal
6. Payroll journal

Every journal has two parts—the debit part and the credit part. The general journal usually has two amount columns: the left-hand amount column is called the *debit* column; the right-hand amount column is called the *credit* column.

The general journal is used to record openings, closings, corrections, and unusual entries which cannot be recorded in the special types of journals. See page 52 for a sample general journal form.

General Ledger

As business is transacted, there will be changes in the asset, liability, and proprietorship accounts. Entries will have to be made in the various journals to record these changes.

The entries in these various journals do not bring together in one place all the information about one item, such as cash, accounts receivable, etc. For this reason, the items from the various journals are sorted into forms known as *accounts.* An account is a device for grouping and summarizing the entries in the various journals.

A group of these accounts is known as a *general ledger.* The general ledger may be a bound book or a loose-leaf book. It may also be a group of ledger sheets or cards filed in a tray or cabinet.

The difference between the debits (left side) and credits (right side) of a general ledger account is known as the *account balance.* If an account contains only one entry, this single amount is the account balance. If it contains entries on both sides, the difference between the totals of each side is the account balance.

Name	Period Ending	Hrs.	Regular	O.T.	Total	FICA	Fed WH	State WH		Other	Net Pay
JOHN DOE	DEC 12	81	121.60	4.80	126.40	6.57	9.83	4.00		10.00	96.00
		Earnings				Deductions					

Businessman Company
Anytown, USA 12345

Detach and Retain Stub

Businessman Company
946 West Main
Anytown, USA 12345

Payroll
Check

1043

$\frac{2\text{-}4}{135}$

Pay To The Order Of JOHN DOE Date DEC. 17 19 71 $96.00

NINETY SIX + 00/100 Dollars

Businessman Company

First National Bank - Anytown, USA 12345

Magnetic Nos.

The balance of each liability, income, and proprietor's capital account is usually a *credit* balance. The balance of each asset and expense account is usually a *debit* balance. Assets are anything owned by the business, and liabilities are amounts due to others. The difference between them is known as the *owner's capital.* Income accounts are used to indicate what the business charges others, such as sales, purchase discounts, interest received, etc. Expense accounts show what others charge the business, such as purchases, wages, rent, etc. See page 57 for a sample general ledger form.

Trial Balance

Bookkeeping records are valuable only to the extent that they are accurate. The bookkeeper should be careful to avoid errors, and he should use methods which will help him detect errors. One method of detecting or checking for errors which occur is the use of a *trial balance*. See page 72 for a sample trial balance form.

The trial balance is composed of three columns: account title, debit, and credit columns. Each account balance in the general ledger is entered in the appropriate column of the trial balance. After all balances have been entered, the sum of the debits should equal the sum of the credits. If they do not, proceed as follows (if the error has not been found in the first step, continue on to the next steps until it is located):

1. Add the debit and credit columns of the trial balance again.
2. Find the difference between the sum of the debits and credits on the trial balance and look in the ledger and the journals for that amount. The amount may have been omitted from the trial balance or an amount from a journal may not have been posted to the ledger.
3. Divide the difference between the sum of the debits and credits on the trial balance by two. Look in the ledger for that amount to see if it has been posted in the wrong column. A $100 debit posted in error as a credit, for example, would result in a $200 difference.
4. Divide the difference between the sum of the debits and credits of the trial balance by nine. If the difference can be divided evenly by nine, figures in an amount posted to the general ledger may have been switched (transposed); for example, $92 may have been posted in error as $29. This would result in a difference of $63 (which can be evenly divided by nine).
5. Trace the balances on the trial balance back to the ledger account to locate an error made in copying the amount on the trial balance.
6. Check the adding and subtracting done to arrive at the ledger account balances.
7. Trace the postings of each journal to the general ledger accounts by checking off each posting. You may find that an item was posted twice, not posted at all, posted incorrectly, or entered in the wrong column, that is, a debit posted as a credit.
8. Examine the journal and the ledger account to see that each item is checked twice or checked at all. All postings have now been retraced and the error should have been located.
9. If the error was not located, "refoot" and "crossfoot" each journal. To refoot is to again add each column. To crossfoot is to see that the totals of all columns of the journal balance correctly. (For example, check to see that in the payroll journal, the Gross Pay column equals the sum of the Net Pay column plus all the deduction columns.)

Illustration of Journals, General Ledger, and Trial Balance Work Sheet

George New purchased a lumber yard on September 30, 1971. Mr. New plans to set up a personal bookkeeping system. He has prepared the following lists of things owned and amounts owed:

Things owned (assets):	
Cash	$ 5,900
Accounts receivable	14,300
Merchandise inventory	16,500
Shop equipment	1,500
Office equipment	1,200
Trucks	12,200
	$51,600
Amounts owed (liabilities):	
Note payable	$30,000

Prepare the opening journal entry for Mr. New and post the entry to the proper general ledger account.

Posting Transactions

At the close of business on October 31, 1971, Mr. New prepares to post his general ledger for the month. He performs the following steps:

1. Prepares to check his sales, cash receipts, payroll, purchase, and cash disbursements journals.
2. Totals and crossfoots each journal.
3. Checks crossfooting again before posting to be sure that they are balanced.
4. Enters each figure in the proper general ledger account.
5. Adds or subtracts the entries in each general ledger account to the beginning balance to obtain new balance or ending balance at October 31, 1971.

The complete set of journals and general ledger accounts follow (pp. 52-70).

General Journal

Date		Name of Account	Post Ref.	Debit		Credit	
Sept	30	Cash		5900	00		
		Accounts Receivable		14,300	00		
		Merchandise Inventory		16,500	00		
		Shop Equipment		1,500	00		
		Office Equipment		1,200	00		
		Trucks		12,200	00		
		Note Payable				30,000	00
		George New, Capital				21,600	00
		To Record the Opening					
		Entry for George New					

Sales Journal

Date		Sales				Sales Discounts		Mdse. Returned		Accounts Receivable	
Oct. Total		5735	19			130	00	287	80	5317	39

Cash Receipts Journal											
Date		Total Cash Received		Sales Discounts		Cash Sales		Received on Account		Other		Explanation
Oct	Total	7756	47	120	00	1287	80	6563	67	25	00	Sale Scrap

Payroll Journal

Dept. or Place ____________________ Payroll Period Ending ____________________

Name	Period Ending	Time Worked	Earnings			Deductions					Net Pay	√	Check No.	
			Reg.	O.T.	Total	FICA	Fed WH	State WH		Ins. Other				
TOTALS	OCT		700.00	14.05	714.05	37.13	50.00	15.00		9.75	602.17			
					✓	✓	✓	✓		✓	✓			

Prepared By ____________________ Checked By ____________________ Approved By ____________________

Purchase Journal

Date	Invoice No.	Vendor	Date Paid	Check No.	Amount	Purchase Merchandise	Freight	Utilities	Truck Gas & Oil	Advert.	Office Supplies	Repairs & Maint.	Other	Explanation
													10 00	Donation United Fund
													6 75	Dues Lumber Assoc.
													400 00	Sales Tax
Oct Totals					5409 32	4666 00	80 11	56 46	38 95	91 15	22 90	37 00	416 75	
					✓	✓	✓		✓					
							Light·Power	29 15	✓	✓	✓	✓	✓ 10 00	Donations
							Water	4 00	✓				✓ 6 75	Dues
							Telephone	23 31	✓				✓ 400 00	Sales Tax
								56 46					416 75	

Cash Disbursements Journal

Check No.	Check Issued To	Date	Gross	Discount	Net	Accounts Payable	Drawing	Note Pay.	Int. Exp.	Other	Explanation
										19 50	INSURANCE
										19 65	TRAVEL
OCT. TOTALS			4442 47	54 72	4387 75	3403 32	500 00	350 00	150 00	39 15	
				✓	✓	✓	✓	✓	✓ ✓	19 50	INSURANCE
									✓	19 65	TRAVEL
										39 15	

Account No. Cash

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Sept	30	Opening Balance	GJ	5900 00		5900 00	
Oct	31		CR	7756 47			
	31		PRJ		602 17		
	31		CD		4387 75	8666 55	

Account No. Accounts Receivable

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Sept	30	Opening Balance	GJ	14300 00		14300 00	
Oct	31		SJ	5317 39			
	31		CR		6563 67	13053 72	

Account No. Merchandise Inventory

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Sept	30	Opening Balance	GJ	16500 00		16500 00	
Oct	31		GJ 4	452 00		16952 00	

Account No. SHOP EQUIPMENT

GENERAL LEDGER

Date 1971		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
SEPT	30	OPENING BALANCE	GJ	1500 00		1500 00	

Account No. OFFICE EQUIPMENT

GENERAL LEDGER

Date 1971		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
SEPT	30	OPENING BALANCE	GJ	1200 00		1200 00	

Account No. TRUCKS

GENERAL LEDGER

Date 1971		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
SEPT	30	OPENING BALANCE	GJ	12200 00		12200 00	

Account No. ACCUMULATED DEPT - SHOP E

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		GJ 3		25 00		25 00

Account No. ACCUMULATED DEPT · OFFICE E

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		GJ 3		20 00		20 00

Account No. ACCUMULATED DEPT · TRUCKS

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		GJ 3		255 00		255 00

Account No. ACCRUED PAYROLL TAXES · FEDERAL **GENERAL LEDGER**

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PRJ		37 13		
	31		PRJ		50 00		87 13
	31		GJ 1		37 13		124 26

Account No. ACCRUED PAYROLL TAXES · STATE **GENERAL LEDGER**

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PRJ		15 00		15 00

Account No. ACCOUNTS PAYABLE **GENERAL LEDGER**

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ		5409 32		
	31		CD	3403 32			2006 00

GENERAL LEDGER

Account No. Accrued Rent

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		GJ2		500 00		500 00

GENERAL LEDGER

Account No.

Date 19___		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit

GENERAL LEDGER

Account No.

Date 19___		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit

Account No. NOTE PAYABLE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
SEPT	30	OPENING BALANCE	GJ		30000 00		30000 00
OCT	31		CD	350 00			29650 00

Account No. GEORGE NEW - CAPITAL

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
SEPT	30	OPENING BALANCE	GJ		21600 00		21600 00

Account No. GEORGE NEW - DRAWING

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		CD	500 00		500 00	

Account No. SALES

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		SJ		5735 19		
	31		CR		1287 80		7022 99

Account No. SALES DISCOUNTS

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		SJ	130 00			
	31		CR	120 00		250 00	

Account No. MERCHANDISE RETURNS SALES

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		SJ	287 80		287 80	

Account No. SALE SCRAP

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		CR		25 00		25 00

Account No. PURCHASES

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	4666 00		4666 00	
	31		GJ 4		452 00	4214 00	

Account No. PURCHASE DISCOUNTS

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		CD		54 72		54 72

Account No. SALARIES

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PRT	714 05		714 05	

Account No. PAYROLL TAX EXPENSE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		GJ 1	37 13		37 13	

Account No. FREIGHT

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	80 11		80 11	

Account No. LIGHT + POWER

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	29 15		29 15	

Account No. WATER

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	4 00		4 00	

Account No. TELEPHONE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	23 31		23 31	

Account No. Truck Gas + Oil

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		PJ	38 95		38 95	

Account No. Advertising

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		PJ	91 15		91 15	

Account No. Office Supplies

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		PJ	22 90		22 90	

Account No. REPAIRS + MAINT.

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	37 00		37 00	

Account No. DONATIONS

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	10 00		10 00	

Account No. DUES

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	6 75		6 75	

Account No. SALES TAX EXPENSE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PJ	400 00		400 00	

Account No. INSURANCE EXPENSE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		PRJ		9 75		
	31		CD	19 50		9 75	

Account No. TRAVEL EXPENSE

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
OCT	31		CD	19 65		19 65	

Account No. Interest Expense

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		CD	150 00		150 00	

Account No. Rent Expense

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		GJ2	500 00		500 00	

Account No. Depreciation

GENERAL LEDGER

Date 19 71		Explanation	Reference	Debit	Credit	Balance Debit	Balance Credit
Oct	31		GJ3	300 00		300 00	

Trial Balance Worksheet

Mr. New would now like to know if he has posted the transactions correctly and if the general ledger account balances are correct. In order to obtain this information and prepare financial statements for the month of October 1971 he prepared a trial balance work sheet.

The trial balance worksheet contains the following.

1. Debit and credit columns for the balance from each general ledger account. The sum of the debits and credits should equal; if they do not, Mr. New will have to locate the error before proceeding.
2. Debit and credit columns for adjustments to the general ledger account balances.
   a. The first observation which Mr. New makes is that there is no payroll tax expense. He examines the payroll journal and notes that the employees' share of FICA taxes was $37.13. Mr. New writes a journal entry in the general journal for the same amount to record his portion of the expense, and posts the amounts to the trial balance work sheet and the general ledger accounts.
   b. Mr. New also notes that no rental expense for the lumber yard has been recorded. He prepares a general journal entry to record the unpaid rent, and posts this amount to the trial balance work sheet and the general ledger accounts.
   c. Mr. New does not maintain perpetual inventory records, nor does he count his inventory at the end of each month. His cost of merchandise is generally 60 percent of the sales price. Sales for the month of October were $7,023 times 60 percent which equals $4,214 for the cost of merchandise sold. The purchase account has $4,666 as purchases for the month, so the $4,214 is subtracted to obtain $452 representing the merchandise purchases which are estimated as added to the inventory. Mr. New records a general journal entry for this amount, and posts it to the work sheet and the general ledger accounts.

      Mr. New will count his inventory every six months and adjust to the physical count at that time.
   d. No depreciation expense has been recorded, so Mr. New prepares a schedule of equipment and calculates the depreciation expense. He then prepares a general journal entry to record the depreciation, and posts to the work sheet and the general ledger accounts.
3. Debit and credit columns are provided for income and expense accounts. The balances from the per books and adjustments columns are extended into these columns for preparation of the income statement. The difference between the sum of the debits and credits should be the net income or loss for the period.
4. Debit and credit columns are provided for the balance sheet accounts. The same procedures are followed as for the income and expense accounts. The difference between the sum of the debits and credits should equal the net income, which is an addition or deduction to the capital account of Mr. New.

Mr. New may stop at this point and utilize the information for his internal purposes or he may prepare formal financial statements. The preparation of such statements and the need for them is explained and illustrated in Section 4.

A trial balance work sheet is illustrated on the following pages (pp. 72-75).

George New Lumber Company

Trial Balance Work Sheet

October 31, 1971

Account	Per Books October 31 Debit	Per Books October 31 Credit	Adjustments October 31 Debit	Adjustments October 31 Credit	Income + Expense October 31 Debit	Income + Expense October 31 Credit	Balance Sheet October 31 Debit	Balance Sheet October 31 Credit
Cash	8666 55						8666 55	
Accounts Receivable	13053 72						13053 72	
Merchandise Inventory	16500 00		③ 452 00				16952 00	
Shop Equipment	1500 00						1500 00	
Accumulated Depreciation				④ 25 00				25 00
Office Equipment	1200 00						1200 00	
Accumulated Depreciation				④ 20 00				20 00
Trucks	12200 00						12200 00	
Accumulated Depreciation				④ 255 00				255 00
Note Payable		29650 00						29650 00
Accounts Payable		2006 00						2006 00
Accrued Payroll Taxes - Federal		87 13		① 37 13				124 26
Accrued Payroll Taxes - State		15 00						15 00
Accrued Rent				② 500 00				500 00
George New, Capital		21600 00						21600 00
George New, Drawing	500 00						500 00	
Subtotal	53620 27	53358 13	452 00	837 13			54072 27	54195 24

George New Lumber Company

Trial Balance Work Sheet

October 31, 1971

Account	Per Books October 31 Debit	Per Books October 31 Credit	Adjustments October 31 Debit	Adjustments October 31 Credit	Income & Expense October 31 Debit	Income & Expense October 31 Credit	Balance Sheet October 31 Debit	Balance Sheet October 31 Credit
Bal. Fwd.	53420 27	53358 13	452 00	837 13			54072 27	54195 26
Sales		7022 99				7022 99		
Sales Discounts	250 00				250 00			
Merchandise Returns-Sales	287 80				287 80			
Sale Scrap		25 00				25 00		
Purchases	4666 00			(3) 452 00	4214 00			
Purchase Discounts		54 72				54 72		
Salaries	714 05				714 05			
Payroll Taxes			(1) 37 13		37 13			
Freight	80 11				80 11			
Light and Power	29 15				29 15			
Water	4 00				4 00			
Telephone	23 31				23 31			
Truck Gas and Oil	38 95				38 95			
Advertising	91 15				91 15			
Office Supplies	22 90				22 90			
Subtotal	59827 69	60460 84	489 13	1289 13	5792 55	7102 71	54072 27	54195 26

George New Lumber Company

Trial Balance Work Sheet

October 31, 1971

Account	Per Books October 31 Debit	Per Books October 31 Credit	Adjustments October 31 Debit	Adjustments October 31 Credit	Income & Expense October 31 Debit	Income & Expense October 31 Credit	Balance Sheet October 31 Debit	Balance Sheet October 31 Credit
Bal. Fwd.	59827 69	60460 84	489 13	1289 13	5792 55	7102 71	54072 27	54195 26
Repairs and Maint.	37 00				37 00			
Donations	10 00				10 00			
Dues	6 75				6 75			
Sales Tax	400 00				400 00			
Insurance	9 75				9 75			
Travel	19 65				19 65			
Interest	150 00				150 00			
Rent			(2) 500 00		500 00			
Depreciation			(4) 300 00		300 00			
Subtotal					7225 70	7102 71	54072 27	54195 26
						122 99	122 99	
Total	60460 84	60460 84	1289 13	1289 13	7225 70	7225 70	54195 26	54195 26

General Journal

Date		(1) Name of Account	Post Ref.	Debit		Credit	
Oct	31	Payroll Tax Expense		37	13		
		Accrued Payroll					
		Taxes - Federal				37	13
		To Accrue Employer					
		Portion of FICA Expense					

General Journal

Date		(2) Name of Account	Post Ref.	Debit		Credit	
Oct	31	Rent Expense		500	00		
		Accrued Rent				500	00
		To Accrue Rent for					
		Month of October					

General Journal

Date		(3) Name of Account	Post Ref.	Debit		Credit	
Oct	31	Merchandise Inventory		452	00		
		Purchases				452	00
		To Adjust Merchandise					
		Inventory Through Purchases					
		For Changes in Inventory					
		in October < Cost of Goods					
		Sold Equals 60% of Sales >					

General Journal

Date		(4) Name of Account	Post Ref.	Debit		Credit	
Oct	31	Depreciation Expense		300	00		
		Accum. Depr. - Shop E.				25	00
		Accum. Depr. - Office E.				20	00
		Accum. Depr. - Trucks				255	00
		To Record Monthly					
		Depreciation Expense					

Kind of Property	Date Acquired	Method	Rate	Cost		Annual Depreciation		Monthly Depreciation	
				$		$		$	
Shop Equipment	Sept 30, 71	S.L.	5 Yrs	1500	00	300	00	25	00
Office Equipment	Sept 30, 71	S.L.	5 Yrs	1200	00	240	00	20	00
Trucks	Sept 30, 71	S.L.	4 Yrs	12200	00	3060	00	255	00
				14,900	00	3600	00	300	00

Section 3
Chart of Accounts

Section 3
Chart of Accounts

3

Chart of Accounts

Every business transaction affects one or more accounts of the general ledger which was described in Section 2. In identifying the accounts involved, the use of a numbering system can save time and help in avoiding possible error. Such a numbering system is called a *chart of accounts.* A block of numbers is assigned to each type of account and numbers within that block are used for all the accounts of that type. This can be seen in the sample chart which follows.

The span of numbers assigned should be big enough so that as new accounts are needed, they can be given numbers within the proper group. Some businesses will have need for accounts that others will not use. A retail business, for example, will not use accounts for various material, labor, and expenses that would be used by a business which makes a product. In each instance the accounts should be designed to best serve the individual case.

The chart which follows is intended for a non-manufacturing business. It would permit the addition of many more accounts in each group if they became necessary in the future.

	Account No.
BALANCE SHEET (Accounts 1 through 500)	
ASSETS (1-300)	
Cash (1-50)	
Petty Cash (Cash on Hand)	11
Cash in Bank — General (Regular Bank Account)	21
Cash in Bank — Payroll (Payroll Bank Account)	31
Receivables From Others (51-100)	
Notes Receivable	51
Accounts Receivable — Customers	61
Accounts Receivable — Others	71
Inventories (101-150)	
Inventory — Goods for Sale	101
Inventory — Supplies	121
Prepaid Expenses (151-200)	
Prepaid Advertising	151
Prepaid Insurance	161
Prepaid Interest	171
Prepaid Rent	181

	Account No.
Property and Equipment (201-250)	
Land	201
Buildings	211
Buildings — Allowance for Depreciation	212
Automobiles and Trucks	216
Automobiles and Trucks — Allowance for Depreciation	217
Furniture and Office Equipment	221
Furniture and Office Equipment — Allowance for Depreciation	222
Machinery	226
Machinery — Allowance for Depreciation	227
Tools	231
Tools — Allowance for Depreciation	232
Leasehold Improvements (Rented Property Improvements)	246
Leasehold Improvements — Allowance for Amortization	247
Miscellaneous Assets (251-300)	
Organization Expenses (Business Starting Costs)	251
Deposits (Advance Payments)	261

LIABILITIES (301-450)

Notes and Amounts Payable to Others (301-350)	
Notes Payable — Short Term	301
Accounts Payable (Bills Payable)	311
Sales Taxes Payable	321
FICA Tax Withheld	331
Federal Income Taxes Withheld	332
State Income Taxes Withheld	333
Expenses Owed to Others (351-400)	
Accrued Wages (Wages Owed)	351
Accrued Commissions (Commissions Owed)	356
Accrued Interest (Interest Owed)	361
Accrued Federal Unemployment Taxes (Fed. Unemployment Taxes Owed)	371
Accrued State Unemployment Taxes (State Unemployment Taxes Owed)	372
Accrued Real Estate Taxes (Real Estate Taxes Owed)	381
Accrued Federal Income Taxes (Federal Income Taxes Owed)	391
Accrued State Income Taxes (State Income Taxes Owed)	392
Long-Term Obligations (401-450)	
Notes Payable — Long-Term	401
Mortgages Payable	411

OWNERSHIP EQUITY (451-500)

*Capital Investment (Investment in Business)	451
**Capital Stock (Stock Issued)	461
*Drawings (Cash Used Personally)	481
Retained Earnings (Profit Not Spent)	491

*For use only by sole owners or partners
**For use only by corporations

	Account No.
PROFIT OR LOSS STATEMENT (Accounts 501-999)	
Sales and Other Income (501-550)	
Sales of Merchandise	501
Sales Returns and Allowances	502
Cash Discounts Allowed (Discounts to Customers)	503
Service Charges	511
Rental Income	521
Cash Discounts Taken (Discounts from Suppliers)	531
Miscellaneous Income	541
Cost of Goods Sold (551-600)	
Cost of Merchandise Sold	551
Freight on Purchases	561
Cost of Business Operations (601-700)	
Wages	601
Labor from Agencies	602
Supplies	611
Tools	612
Rental of Equipment	621
Repairs to Equipment and Machinery	631
Repairs to Trucks	632
Truck maintenance (Gas and Oil for Trucks)	641
Selling Expenses (701-750)	
Advertising	701
Automobile Expenses — Salesmen	711
Commissions	721
Entertainment Expenses	731
Travel Expenses	741
Administrative Expenses (General Expenses) (751-800)	
Salaries	751
Office Supplies	761
Postage	762
Telephones	763
Dues & Subscriptions	764
Insurance — Miscellaneous	771
Group Insurance	772
Workmen's Compensation Insurance	773
Automobile Expense	781
Professional Services	786
Bad Debts	791
Interest	796
Miscellaneous Expenses (801-850)	
Building Expenses (851-900)	
Rent	851
Repairs to Building	861
Utilities	871

	Account No.
Depreciation (901-950)	
Depreciation — Buildings	911
Depreciation — Automobiles	916
Depreciation — Furniture and Office Equipment	921
Depreciation — Machinery	926
Depreciation — Tools	931
Amortization — Rented Property Improvements	946
Taxes (951-999)	
FICA Taxes	951
Unemployment Taxes	952
Real Estate Taxes	961
Miscellaneous Taxes	962
Federal Income Taxes	991
State Income Taxes	992

Section 4
Business Statements

Contents

Page

Purposes of Business Statements 81

The Basic Business Statements 81

Preparing the Business Statements 82

4

Business Statements

Purposes of Business Statements

Business statements are written reports which describe the condition of the business. Some of the purposes of business statements are to determine answers to questions such as these:

1. How profitable is the business?
2. Which costs appear to be a problem?
3. What is the makeup of business assets?
4. How much is owed on debts of various kinds?
5. How much is the owner's investment?
6. What significant changes have occurred between years (or months)?

The Basic Business Statements

There are basically two important business statements or reports:

1. *Statement of Earnings*

   This report shows the sources of income, the costs and expenses of running the business, and what is left over for profit.

2. *Balance Sheet*

   This report shows information at a specific date such as at the end of a month or months or at the end of a year. It summarizes what the business *owns*, grouped into different kinds of assets. Similarly it summarizes what the business *owes*, grouped into different kinds of liabilities. It is completed by showing the owner's investment in the business and the amount by which his investment has been increased from profits kept in the business or decreased by losses or withdrawals.

Two other statements classed as equally basic for a larger business are analyses derived from the balance sheet and earnings statement sources. For the small business these are apt to be rather simple supplements although not without significance. The Statement of Changes in Financial Position summarizes the sources from which cash or other current funds were obtained and how they were used. For example the sources of funds might be from operations, borrowings, additional investment, etc. The uses of funds might be to increase equipment, inventory, receivables or to reduce liabilities, etc. The Statement of Retained Earnings summarizes the net income earned, any portion taken out or distributed, the balance retained for business use and the accumulated income which has been left in the business. Various other supplementary schedules may also be prepared to show in greater detail some of the principal elements of the Statement of Earnings and the Balance Sheet.

Preparing the Business Statements

The proper preparation of business statements generally requires a person with some experience. Perhaps an accountant may be needed where matters are more complicated. It may be possible to hire someone on a part-time basis for smaller businesses.

Before preparing business statements, it is necessary that the following work be completed:

1. All transactions must be recorded in the journals.
2. The postings from the journals must be made to the ledger.
3. The trial balance must be prepared.

The above procedure was explained in Section 2 and illustrated in that section for the case of George New and his lumber business. It is suggested that that portion be reviewed before examining the sample financial statements in this section. In the case of the ABC Company, it was assumed that the adjustments for things such as depreciation, prepaid expenses, and similar items were made before the trial balance was prepared so that no further adjustments were necessary.

From the completed Trial Balance Work Sheet, the Statement of Earnings and Balance Sheet which follow can be easily prepared by copying from the last four columns. If there are numerous accounts listed, similar accounts may be grouped together in one amount on the statements.

Samples of business statements follow (pp. 83-85).

ABC Company
Trial Balance Work Sheet
Six months ended January 31, 1972

Acct. No.		Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Statement of Earnings Dr. Expenses	Statement of Earnings Cr. Income	Balance Sheet Dr. Assets	Balance Sheet Cr. Liabilities and Equity
21	Cash in bank	$ 4,000						$ 4,000	
61	Accounts receivable – customers	12,000						12,000	
101	Inventory – goods for sale	18,000						18,000	
181	Prepaid rent	500						500	
216	Automobiles and trucks	4,200						4,200	
217	Autos and trucks – allowance for deprec.		$ 2,100					(2,100)	
311	Accounts payable		7,000						$ 7,000
351	Accrued wages		2,600						2,600
401	Notes payable – long-term		3,000						3,000
451	Capital investment		5,000						5,000
491	Retained earnings		5,280						5,280
501	Sales of merchandise		108,000				$108,000		
502	Sales returns	1,000					(1,000)		
551	Cost of merchandise sold	51,700				$51,700			
601	Wages	10,000				10,000			
611	Supplies	6,200				6,200			
721	Commissions	4,000				4,000			
751	Salaries	11,700				11,700			
761	Office supplies	300				300			
791	Bad debts	1,200				1,200			
796	Interest	300				300			
851	Rent	6,000				6,000			
916	Depreciation – autos and trucks	1,000				1,000			
951	FICA taxes	880				880			
	Net earnings					13,720			13,720
		$132,980	$132,980			$107,000	$107,000	$36,600	$36,600

ABC Company

Balance Sheet

January 31, 1972

ASSETS

Current Assets:			
Cash in Bank		$ 4,000	
Accounts Receivable — Customers		12,000	
Inventory — Goods for Sale		18,000	
Prepaid Rent		500	
			$34,500
Property and Equipment:			
Automobiles and Trucks		$ 4,200	
Less depreciation		2,100	
			2,100
			$36,600

LIABILITIES AND OWNER'S EQUITY

Current Liabilities:			
Accounts Payable		$ 7,000	
Accrued Wages		2,600	
			$ 9,600
Long-Term Liabilities — Notes Payable			3,000
Owner's Equity:			
Capital Investment		$ 5,000	
Retained Earnings:			
July 31, 1971	$ 5,280		
Net earnings before Income Taxes — Six Months Ended January 31, 1972	13,720		
		19,000	
			24,000
			$36,600

ABC Company
Statement of Earnings

Six Months Ended January 31, 1972

Income			
Sales of merchandise	$108,000		
Less — Sales Returns	1,000		
Net Sales		$107,000	
Cost of Merchandise Sold		51,700	
Gross Profit on Sales			$55,300
Operating Expenses:			
Cost of Business Operations:			
Wages	$ 10,000		
Supplies	6,200		
		$ 16,200	
Selling Expenses — Commissions		4,000	
Administrative Expenses:			
Salaries	$ 11,700		
Office Supplies	300		
Bad Debts	1,200		
Interest	300		
		13,500	
Building Expenses — Rent		6,000	
Depreciation — Autos and Trucks		1,000	
Taxes — FICA		880	
			41,580
Net Earnings Before Income Taxes			$13,720

Section 5
Business Taxes

Section 5
Business Taxes

Contents

	Page
General	87
Payroll Taxes	87
Federal Social Security	87
Federal Unemployment	87
State Unemployment	88
Federal Income Tax Withholding from Employees	88
Federal Depositary Payments of Withheld Income and Social Security Taxes	88
State Income Tax Withholding	89
Sales Tax	89
Property Tax	89
Income Taxes	89

5

Business Taxes

General

Taxes are an important concern in any business undertaking. To avoid penalties and interest charges, required returns must be filed and tax payments made when due. Any new business must obtain proper identification numbers in order to report taxes. One number, called an *Employer Identification Number*, is used in reporting all federal taxes. It may be obtained by completing Federal Form SS-4. State identification numbers vary with the type of tax and should be applied for to the taxing body.

Businesses are generally subject to four types of taxes: payroll, sales, property, and income. Each of these will be discussed in turn.

Payroll Taxes

When a business pays salaries to even one employee, it becomes subject to payroll taxes. If the business is a corporation, even the "owner" is an employee. An employer is responsible both for taxes he withholds from his employee (for example, federal and state income taxes) and for taxes which are assessed against him directly (for example, Social Security and unemployment). Payroll taxes must be deposited by dates which vary according to the amount of taxes payable. The following paragraphs summarize the requirements that were in effect in May 1972.

Federal Social Security

The tax rate is 5.2 percent each on employer and employee, or a total of 10.4 percent on wages up to $9,000 per year for each employee. The maximum Social Security to be withheld is $468 per employee per year. An equal amount is payable by the employer.

Self-employed persons pay 7.5 percent on a maximum earned amount of $9,000. This maximum tax is $675.

Federal Unemployment

Annual wages up to $4,200 per employee are subject to this tax at an effective rate of .5 percent. An *employer* is one who employs one or more persons in each of 20 days in a year, each day being in a different week, *or* one who has a payroll of at least $1,500 in a calendar quarter (for example, January, February, and March).

This tax is payable (with exceptions as noted below) by the end of the month following each of the first three calendar quarters (for example, on April 30 for the quarter made up of January, February, and March). Each payment is made to a depositary (authorized commercial bank) accompanied by Form 508, Federal Tax Deposit — Federal Unemployment Taxes. Quarterly returns are not required. Instead, a report, Form 940, must be filed for the whole year and is due by January 31 of the next year. Any balance of tax due for the year must be paid in January (using Depositary Form 508).

The following rules and exceptions should be noted.

1. An employer is one who meets the test in either a current calendar year or the preceding calendar year. The test (as indicated above) is payment of wages of $1,500 or more during any calendar quarter in the current calendar year or in the preceding calendar year; or, employment of one or more persons in each of 20 days in the calendar year, each day being in a different week.
2. The quarterly payments previously described are not required if the tax for that quarter plus the tax not deposited for prior quarters in the calendar year is $100 or less. For example, if the computed tax for the quarter ended March 31 was $90, no depositary payment would be required for that. Then, if the tax for the quarter ended June 30 was $240, there would be a depositary payment of $330 to be made by July 31.

State Unemployment

All states (plus the District of Columbia and Puerto Rico) have unemployment taxes with the wage base the same as the federal maximum of $4,200 per employee. State tax rates are usually based on "experience" and will vary from employer to employer.

Federal Income Tax Withholding from Employees

Withholding tables are available from which to determine the amount to be withheld based on the employee's compensation for each pay period and the number of exemptions claimed by him.

Federal Depositary Payments of Withheld Income and Social Security Taxes

The time of payment is summarized below for income tax withheld from employees, Social Security tax withheld, plus the employer's share of Social Security tax.

1. If the amount of these taxes is less than $200 for a calendar *quarter*, the employer is not required to make deposits. The payment will be made directly to the Internal Revenue Service with quarterly tax returns, which are due by the last day of the month following the close of the quarter.
2. If the amount of tax is at least $200 for the first month of a quarter, or if it is at least $200 for the first two months of that quarter, depositary payments must be made by the 15th day of the month after the $200 is reached. Final payment for a quarter is made to the depositary by the last day of the month after the quarter.
3. Earlier deposit payments are required if the tax is $2,000 or more for a month or less. (Details of this requirement are not considered of sufficient interest and should be obtained by anyone to whom it would apply.)

State Income Tax Withholding

Each state has its own requirements for depositing state income tax withheld from employees. Tables are available by which to determine the amount to be withheld from each employee.

Sales Tax

Sales taxes are levied by state and local authorities and apply to businesses which sell to consumers, as opposed to those which sell to other businesses for resale. Even if sales to consumers are only a small percentage of total sales, you are required to collect and report taxes on such sales. Generally, sales taxes are due by the last day of the following month. Rates, of course, vary among the taxing bodies.

Property Tax

If a business owns real estate, it must pay real estate taxes. If a business leases its premises, its lease might call for payment of real estate taxes, or the amount of any increase in real estate taxes, as additional rent. Real estate taxes are generally due in several installments during the year.

A business may be taxed on its personal property, and a corporation, additionally, on its capital stock. Both of these latter taxes require the filing of a tax return. These returns should be discussed with your attorney before completion.

Income Taxes

The federal government as well as most states and many cities collect taxes based on income. It is, of course, not possible to generalize about them.

Income taxes levied on a business depend on the form in which the business is conducted. Generally, a sole owner or a member of a partnership will report the net income from the business in his individual income tax return. A partnership files a separate information return from which the taxable amounts are reported by each partner on his individual return. A sole owner reports the various items of income and expense directly in his individual return. The income as reported is taxed by the federal government at individual rates which vary with the amount of income.

A corporation pays taxes based on its net income. Dividends paid to its shareholders out of such earnings are taxed again to its shareholders when received. Federal corporate tax rates are 22 percent on the first $25,000 of taxable income and 48 percent on the remainder.

Depending on the nature of the business, other taxes and licenses may be required by federal, state, and local taxing authorities.

Federal and many state income taxes are payable in advance based on estimates of tax. For those whose year ends on December 31, the estimated payments are due April 15, June 15, September 15, and January 15. The tax return and any balance of tax remaining is due on March 15 of the following year for corporations and April 15 for all other taxpayers. For those whose year ends in a month other than December, the due dates vary correspondingly.

Section 6
Using Outside Help

Section 6
Using Outside Help

Contents

	Page
Bookkeepers	91
Certified Public Accountants	91
Attorneys	92
Form of Organization	92
Dealing with Others	92
Personal Planning	93
Technical Assistance Programs	93
Bankers	94
The Small Business Administration	95
Insurance Advisers	95

6

Using Outside Help

Bookkeepers

Proper accounting information is important in planning, organizing, and controlling a business. It helps provide answers to the basic questions, "How am I doing?" and "Where am I going?" In previous sections of BIG it was pointed out that there are times and conditions when outside help in this area may be needed. This will depend in part on the size and nature of the business and your own experience and available time. Your accountant, attorney, or banker can help you decide your needs for a bookkeeper (part- or full-time) or for a bookkeeping service.

It is important that someone perform the following:

1. Start and keep an accounting system for the accurate and timely recording of your company's cash receipts, disbursements, sales, and operating expenses.
2. Periodically prepare the following:
   a. Statement of assets and liabilities as of a given date (commonly referred to as a *balance sheet*).
   b. Statement of results of operations for a given period of time (commonly referred to as an *income statement*).
   c. Statement of changes in financial position.
   d. Listings of customers owing you money as of a given date and to whom you owe money.
   e. Such other financial information as may be needed.
3. Prepare state and federal income tax returns.
4. Prepare Social Security, withholding, personal property, and other tax returns.
5. Make estimates about future prospects that may be requested by banks and other lenders from whom loans are requested.

Certified Public Accountants

In addition to bookkeeping requirements, you may need the services of a certified public accountant (CPA). A CPA is an accountant who has passed a written examination prepared by the American Institute of Certified Public Accountants and has received a state license for the public practice of accountancy. CPAs provide the following services:

1. *Auditing.* Although you may have hired your own bookkeeper to maintain your accounting records and prepare financial statements, there are many reasons why you

may need financial statements certified by a CPA. For example, banks and other lenders frequently require that you have an audit before a loan is granted and during the period that the loan is outstanding.

2. *Taxes.* Most businesses do not have employees who are experts in tax matters and therefore must rely on professional assistance. This is particularly true today when the tax laws are complex and continuously changing. The tax services provided by CPAs include planning transactions for the lowest present and future tax liabilities, preparation of tax returns, conferences with taxing authorities who are examining prior years' tax returns and estate planning.
3. *Consulting.* Because of their experience with many companies in many industries, CPAs may be able to assist you in cost reduction, improvement of reports, installing or upgrading accounting systems, budgeting and forecasts, financial analysis, production control, quality control, compensation of personnel, and records management.

In addition to the services above, a CPA may also perform special studies and investigations of suspected frauds.

Attorneys

Trying to operate a small business without assistance from attorneys, when needed, can be an expensive economy. The small businessman's problems can be grouped into two major areas: starting a new business and operating a going business.

Whether the small business is to be operated by one individual or by several, the problems connected with starting up are generally similar.

Form of Organization

The individual or individuals planning to start a business may need assistance in deciding whether to operate as a sole proprietorship, general or limited partnership, or corporation. There are differences in personal liability for business debts, in income tax effect, and in other respects that need to be clearly understood.

Dealing with Others

The small business may need professional help in dealing with other parties.

1. *Financial institutions.* The typical small business may have to borrow much of its initial capital from a bank under the Small Business Administration loan-guarantee program. In addition, there may be Minority Enterprise Small Business Investment Companies (MESBICS) serving his community who may be interested in investing in the business. If so, many documents must be prepared.
2. *Owners of possible store or plant locations.* Should the new business rent or purchase? What does the "fine print" in the typical lease or sale contract mean?
3. *Union officials.* In many industries or lines of business, the employer will have no choice but to accept a union shop. In other cases, however, the employer faces difficult decisions. Whether or not the employer accepts the union, he will need help in negotiating agreements necessary between employer and employee.
4. *Governmental bodies.* The small business may be eligible for grants, loans, loan guarantees, and favorable treatment in bidding for service or supply contracts let by

governmental agencies. The lawyer may be able to help in locating the source of such assistance and in preparing any necessary documents.

Some form of law or regulation affects nearly every business although some may be more affected than others.

For example, it is illegal in most states for a truck owner to operate his truck for hire without some form of permit or certificate. On another level, every business faces zoning problems, almost every business must obtain necessary licenses and permits under various health, liquor, dangerous occupations or other regulations; if a business name other than the owner's is used, it may be necessary to file a form with a governmental agency, such as the County Recorder. The trade name or trademark proposed to be used may conflict with trade names or trademarks held by others; in any event, registration may be advisable to protect a desired trademark or trade name. "Truth-in-lending" laws may apply to a retailer's credit operation. And, finally, federal economic controls may apply, both to prices and to wages.

5. *With franchising companies.* Under certain conditions, operating a franchise may reduce some of the risks and problems faced by a new business. But it has many of its own risks for which advice of an attorney is needed.
6. *Others.* In addition to the parties listed above, it may be necessary to enter into long-term agreements with suppliers, customers or employees or to negotiate insurance coverage or have other relationships for which legal advice may be needed.

In operating a going business, whether an existing business was purchased or a new one started, there will be many of the problems discussed above. In addition, other problems will arise, which probably will involve the attorney:

1. The employer may be served with wage deduction orders against employees, which, if not handled properly, can result in personal liability on the part of the employer.
2. The business may face collection problems with its customers.
3. The business may become involved in disputes with its trade creditors.
4. The business may have disputes with both present and former employees.
5. Expansion opportunities may present themselves and questions similar to those which arise in starting a business may need to be considered.

Personal Planning

The above discussions dealt with the owner's problems in starting and operating the business. In addition, there may be a need to revise his own financial and estate planning in view of the risks and opportunities presented by his business. Advice may be needed for protecting his family's financial security from the business risks.

Technical Assistance Programs

In the larger urban areas, such as New York, Chicago, Los Angeles, Boston, and Philadelphia, various organizations (e.g., state societies of certified public accountants) maintain programs to provide technical assistance to qualifying businesses.

The American Institute of Certified Public Accountants, located in New York, knows of similar activities in many other cities. The local affiliate of the Office of Minority Business Enterprise may also be able to assist you.

Bankers

The modern commercial bank offers a wide range of services for its customers and can be very helpful to the businessman. In addition to offering many other services, it (1) accepts money for safeguarding in the form of deposits and (2) supplies capital in the form of loans.

You become a depositor in a bank by opening an account there. While banks solicit new accounts, they are particular, to a degree, about the persons or firms approached. Being in business themselves to make profits, they prefer as depositors those who will maintain balances in their accounts and who will bring profitable loans to the banks. The bank may require you to maintain a minimum balance in your checking account. Your banker will assist you in determining the types and number of checking accounts (and savings accounts) your company should have.

Bank loans are advances of money by banks in exchange for an agreement to repay the bank at some future time with an agreed rate of interest. Loans may be either secured or unsecured. Unsecured loans are normally made to well-known customers in amounts within the customer's ability to repay. A loan is secured when the borrower gives the bank a right to claim title to valuable property (collateral). The bank can sell this collateral and use the proceeds as payment for the loan should the borrower be unable to pay. The banker will normally request that the market value of the collateral be considerably in excess of the loan balance. The length of time for which banks make loans ranges from loans payable on demand, to term and mortgage loans running for a number of years. The period involved is determined by the proposed use of the money. Since interest must be paid, it is important that the money be put to profitable use. From the use of the borrowed funds, you should earn enough to cover interest and a margin of profit for yourself. Loans made by banks must, of course, be repaid. The method of repayment is shown in the loan agreement. The interest payments may be at one or more times during a year or at the due date of the loan. Similarly, the principal may be payable on an installment basis or in full on a specific due date.

The nature of the banking business is such that it lends itself readily to other services. The following are some of the other services offered by banks:

1. *Business advice.* It is frequently said that the banker should be business guide and friend to his clients. Bank officers develop a broad understanding of the operations of their clients. Some banks employ engineering and management experts who are made available to their clients for suggestions and guidance. It is very important that you find a banker who is interested in you and your company. You should consult with him regularly and ask his advice on the more important decisions affecting the future of your company.
2. *Credit advice.* Every sizable bank has a credit department which handles credit problems that arise daily. A bank with a good credit department can frequently be helpful to you.
3. *Agency services.* Though it may act as agent in many important and complex ways, the bank's use as an agent for collection and disbursement services of various kinds would be of most interest to the smaller business.
4. *Trust services.* Most banks have trust departments which, among other things, handle financial affairs for people who want them to manage their investments or hold them and to collect the income and pay it out as agreed upon. Some buy this service while living; others name the bank as executor in a will to take charge when the individual dies.
5. *Safe deposit boxes.* Many banks provide safe deposit box services. The boxes are of different sizes and are charged for accordingly. The service is a simple one but is frequently used by businessmen for the safekeeping of various corporate records.

Office of Minority Business Enterprise

The Office of Minority Business Enterprise (OMBE), created in 1969 by Executive Order and operating under the direction of the Secretary of Commerce, assists in the establishment of new minority enterprises and in the expansion of existing ones. The Office coordinates plans, programs, and operations of the federal government and state and local governments to foster the growth of minority business enterprise; mobilizes and stimulates the activities and resources of business and trade associations, universities, foundations, and professional and other private interests involved in aiding minority enterprise; maintains an information center for compiling and disseminating helpful information in successful (and unsuccessful) minority business ventures in order to benefit and guide new developments in minority entrepreneurship; and locates and makes available commitments of capital, expertise, and information in such a way that the needs of minority business development can most effectively be filled.

For information on the services available through OMBE, contact the local affiliate in your state or write directly to:

The Office of Minority Business Enterprise
U.S. Department of Commerce
Washington, D.C. 20230.

The Small Business Administration

The Small Business Administration (SBA) is an independent government agency created by Congress in 1953 to help small businesses grow and prosper. The SBA has offices in a large number of cities throughout the country. SBA offers small businesses financial assistance, including lease guarantees, management assistance, aid in obtaining government contracts, counseling services, and more than 800 publications. In addition, the SBA is responsible for the Small Business Investment Company (SBIC) program. Small Business Investment Companies provide capital, chiefly in the form of long-term loans or part ownership financing, to small business concerns. You should contact the nearest SBA office to find out more about the various types of financial assistance being offered by the SBA.

Insurance Advisers

If a businessman cannot afford insurance, he cannot afford to be in business. He can have too little insurance or too much insurance, but he must have insurance. Like many things relating to being in business, this is technical and complicated and it is therefore necessary to have the assistance of a good insurance adviser. He can tell you what insurance you should have, how much to have, and see that you don't overpay for it. A meeting with your insurance man should not take place less than annually.

There are four basic kinds of insurance:

1. *Property.* Property insurance covers your property from various types of losses such as fire and theft. Protection can also be obtained for windstorm, hail, riots, explosions, etc. This is known as extended coverage. Property includes such things as buildings, machines, furniture, inventory, etc.
2. *Liability.* Liability insurance covers you against losses caused by your own carelessness or negligence. Even though you are careful, under the law you may not have been as careful as you should have been. The amount of a damage claim can be huge. Setting

proper limits of coverage for this type of insurance is very important and should be discussed with your insurance man.

3. *Motor vehicle.* Motor vehicle insurance is very important insurance and usually includes a combination of 1 and 2 above. There are many kinds and types of policies, such as those for owned and non-owned vehicles or automobiles. There is also a wide variation in the rates or costs depending upon things like "deductibles" or how much the insurance company deducts before they begin to pay claims. Again, a good insurance broker is a big help.

4. *Special types.* Certain kinds of insurance are offered to cover you for particular things such as:

   a. Workmen's compensation, which is required by law in most states to protect you and your employees against injuries which happen while at work.

   b. Life insurance, in case you die and your business or family will need money.

   c. Health or medical insurance, which pays hospital and doctor bills.

   d. Disability insurance, which pays you a salary while you are disabled.

   e. Business interruption, which can pay for expenses and the loss of profits if your business is interrupted by a fire, until you are able to start again.

There are fairly new developments in the insurance field. An example of this is a "comprehensive" or "package" policy. This has all your insurance needs written into one or two policies instead of many policies for different kinds of coverage. The cost is usually less than when it is bought separately. There are also "umbrella" policies which provide added coverage at a lesser rate for amounts in excess of the first policy.

Insurance should be purchased before you start in business. It is not something you "wait until later" to buy. Insurance people are usually happy to discuss your needs with you and seldom charge for their advice. Their profit is made if and when you decide to purchase an insurance policy from them.

If you do not know a good insurance man, one of your other professional advisers can possibly assist you in finding one.

Section 7
Business Words

Contents

	Page
Asset	97
Bad Debt	97
Balance Sheet	98
Buildings	98
Cash	98
Corporate Seal	98
Corporation	98
Cost of Sales	98
Deposit Slip	99
Earnings Projection	99
Equipment	99
Income Statement	99
Income Taxes	99
Income Taxes Payable	99
Inventory	100
Invoice	100
Land	100
Landlord's Waiver	100
Liability	100
Net Income	101
Other Operating Costs	101
Owner's Equity	101
Partnership	101
Payables	101
Payment on Account	101
Petty Cash	101
Receivables	102
Receiving Report	102
References	102
Sale	102
Sales Discount	102
Signature Card	102
Sole Proprietorship	103
Trade-Style Registration	103
Vendor	103

7

Business Words

Some may be familiar with the business language used in BIG or understand the use as explained in each section. For those who may not be so sure, some of the business words are here defined and explained. It is believed that by use of a separate section, the guide will be more readable than if the various sections were interrupted with lengthy explanations. This separation also results in a brief "dictionary of business words" which can also be used separately from BIG to obtain explanations for words and terms. The terms are arranged in alphabetical order with brief definitions followed by additional comments or examples which might be helpful.

Asset. An asset is something owned by the business which is of use to the business.

Some assets are necessary just so there is a place for people to come together to work or to operate the business. Such assets include land, buildings, equipment, trucks, etc. These kinds of assets are generally kept for a fairly long time and are not sold to make a profit for the company.

Other kinds of assets may be kept for only a short time and are sold to make a profit for the company or are used to buy other assets or pay off operating costs of the business. Such items would include inventories, which are sold for profit, or cash, which is spent to buy other assets or pay for other costs. Receivables are considered an asset because they represent money owed to you. As soon as this debt is paid, you have more cash to use.

Bad Debt. A bad debt is a receivable amount which you cannot collect.

A receivable arises when you sell something but do not collect cash immediately. If the customer never pays you that amount, you no longer have a receivable and have lost that amount of money which you expected to receive. It is called a bad debt because your customer did not pay the debt he owed you.

Balance Sheet. A balance sheet is a report which shows, on any particular day, what assets you own, what liabilities you owe, and the amount of your investment in the business.

This kind of report is called a balance sheet because of the way it is written, the amounts on the left and right sides of the report are equal, or are "in balance," as shown by this example:

Assets		*Liabilities and Owner's Equity*	
Cash	$100	Accounts payable	$100
Receivables	300	Notes Payable	100
Fixed Assets	200	Mortgage Payable	200
			400
		Owner's Equity	200
	$600		$600

Therefore, the total of the liabilities and investment in the business will always equal the total of the assets; also, to find the investment in the business, you would subtract the liabilities from the assets.

A balance sheet is also called a financial statement which shows the financial condition of the business on a particular day.

Buildings. Buildings include any factory, warehouse, office, store, or garage owned by the business.

Any structure which is used for the operation of the business or to hold inventory or equipment owned by the business is considered a building.

Such buildings may be on land owned by the business or may be on rented land. Also, the buildings themselves may be owned or rented. When owned they will appear on the balance sheet; when rented they usually do not appear there, since only assets owned by the business appear on its balance sheet. Buildings are an asset.

Cash. Cash is money which may be in your pocket, in the cash register, or in the bank.

The cash in your pocket which belongs to the business should not be mixed with your personal cash. Also, except in certain cases, none of this cash should be spent to buy things for your business. The cash in the bank for your business usually will be in a checking account. This money can be spent only by writing a check. Except in certain cases, checks should be issued to buy all things for your business. Cash is an asset.

Corporate Seal. A corporate seal is a notation made on certain legal documents and agreements in which one of the parties is a corporation.

An officer of the corporation will sign the document and the seal of the corporation may also be added. Generally the seal is a metal disc about the size of a half-dollar which is mounted on the face of a hand-stamping tool. The document requiring the seal is placed between the stamps of the tool and the impression is squeezed onto the paper.

Corporation. A corporation is one of the three basic forms of legal organization for your company. The other two basic forms are a sole proprietorship or a partnership.

In order to be a legal "company" it is necessary to file certain forms with the state to obtain Articles of Incorporation, etc. In this form of organization at least three persons are required to start the company as incorporators. A corporation sells shares of stock, which are certificates indicating ownership, to as many people as is desirable and they are called shareholders. The shareholders then elect a board of directors who guide the company on an overall basis. The board of directors then elect a president and other officers who run the company on a day-to-day basis.

Cost of Sales. Cost of sales represents the cost of the particular products or services which are sold by the business.

When the product sold is merely purchased from another company for this resale, the cost of sales is basically the price paid to the supplier. When the product is manufactured or assembled, the cost of sales includes the costs of the required parts in the product, labor required for manufacture or assembly, and other costs relating directly to the product.

If the business sells services, the cost of sales includes mainly the wages for the people who provide the services plus certain other required costs which relate directly to the service. Cost of sales is subtracted from sales in finding net income.

Deposit Slip. A deposit slip is a form which is given to the bank along with the coins, currency, and checks which you deposit.

The deposit slip merely provides a listing of the items and dollar amounts put into the bank. The bank keeps a copy for their records and you keep one for yours.

Earnings Projection. An earnings projection is an estimate of how much money your business expects to earn in the future.

When completed, a statement of your earnings projection will look like an income statement. The difference is that an income statement reflects what has happened in the past, while a projection reflects what you expect will happen in the future. The projection may cover a month, a year, or several months or years.

Equipment. Equipment includes machinery, trucks, cars, tools, show cases, scales, two-wheeled hand trucks, lockers, air conditioning units, and other such items which are owned by the business.

Sometimes pieces of equipment that are used for the same purpose are grouped together and called "delivery equipment," "factory equipment," "office equipment," etc. Equipment is an asset.

Income Statement. An income statement is a report which tells you how much money the business made or lost over a period of time. The period of time might be a day, a week, a month, or a year or more. Generally, such a report covers not less than a month nor more than a year.

The following is an example of the general way an income statement looks:

Sales	$1,000
Cost of Sales	600
	400
Other operating costs	200
	200
Income taxes	100
Net income	$ 100

The net income figure does not mean there will be an increase in cash of that amount during the period covered by the statement. Some of the income may have gone into increased equipment, inventory, etc. or toward reduction of liabilities.

Income Taxes. Income taxes are the taxes which must be paid to the federal or state government and which are based on the profits made by the business.

Income taxes represent a cost to the business and therefore are shown on the income statement.

Income Taxes Payable. Income taxes payable represent the taxes which are payable to the federal or to state or local governments by your business.

Usually, these taxes must be paid only four or five times a year and therefore at certain times you will owe the government for taxes which you have not yet paid. These amounts are just like other payables except that the amounts owed are for income taxes. Income taxes payable are liabilities.

Inventory. This term is most important to those businesses which sell a product. For such businesses, inventory includes the product items which you have purchased or manufactured but which you have not yet sold. In most businesses which sell a product, it is necessary to have a stock of the products that are being sold to customers — that is the inventory.

In some cases the products being sold are purchased as they are from another company (your supplier) and merely sold to your customer as they are without many changes, except perhaps for putting them in another package. In other cases, the products being sold are manufactured or assembled within the company; if this is so, inventory includes both the completed products and the parts and pieces used to make the product.

Sometimes, supply items such as envelopes, writing paper, and other printed forms might be included as inventory.

Businesses which sell services typically do not have inventory, except for inventories of supply items. Inventory is an asset.

Invoice. An invoice is a bill. You may send a bill to one of your customers or you may receive a bill from one of your suppliers (called vendors).

A bill which you send to a customer is called a customer invoice; a bill received from a supplier is called a vendor invoice.

Since the words "invoice" or "bill" or "order" are used for these two different things it can be confusing. Therefore, it is best to always call one a *customer* invoice and the other a *vendor* or purchase invoice.

Land. Land is the ground which is owned by your business.

You may put parking lots, buildings, or other structures on the land or just leave it empty for later use. Any additions of shrubberies and trees or excavating done to make hills, etc. are also considered land or costs of land. It represents the ground which has permanent life or something which grows from the ground.

When this land is owned it appears on the balance sheet; when it is rented it usually does not appear there. Land is an asset.

Landlord's Waiver. A landlord's waiver is a legal form which is signed by the landlord of the premises you may rent for your business. Such a form is usually not necessary unless requested by a supplier or a bank, etc.

When a landlord signs such a waiver he is giving assurance that if you fail to pay the rent he will *not* try to hold any of your inventory, furniture, etc., which may be on the premises until you do pay it.

Liability. A liability is something which is owed by the business to other people or another business. A liability includes such things as payables, income taxes payable, or other obligations of the company.

Liabilities may be caused by incurring any of the following debts:

1. Buying an asset which you do not pay for with cash immediately and for which you owe somebody.
2. Costs of operations for payrolls, light bills, etc., which are not paid for immediately and for which you owe somebody.
3. Borrowing cash from a bank or another business, which must be paid back.

Some of the liabilities must be paid off in a short time, such as those for payrolls and light bills. Others may not have to be paid off for a longer time, such as amounts borrowed from a bank.

Net Income. Net income is the amount that is left after subtracting all the costs of running the business from the sales made by the business.

Such costs include cost of sales, other operating costs, and income taxes.

Other Operating Costs. Other operating costs include all costs except those relating directly to the product or service being sold by the business.

Costs relating directly to the product or service are included in cost of sales. Other operating costs include items such as salaries for salesmen, secretaries, and clerks, repairs to office furniture, hospitalization insurance for office employees, etc. Other operating costs are deducted from sales in finding net income.

Owner's Equity. Owner's equity represents the amount of cash or other assets which you have put in and have left in the business.

It is found by subtracting the liabilities of the business from the assets of the business; the amount that is left represents your investment in the business.

The dollar amount of your investment in the business merely represents the difference between the assets and the liabilities of the business; the amount is not necessarily what the business is worth. If you sold the business for cash and paid off all of your liabilities, the amount which you would have left might be more or less than what is called your investment in the business.

Partnership. A partnership is one of the three basic forms of legal organization for your company. The other two basic forms are a sole proprietorship or a corporation.

In this form of organization there are two or more owners who organize the business, put in the owners' equity, and share in the profits or losses of the company. Before starting the company the owners (called partners) should agree on how much owner's equity each partner must contribute, the extent that each partner will work in the company, the share of the profits or losses to be received by each of them, etc. This agreement should be in writing to avoid any future misunderstandings. It is desirable to have the agreement prepared by an attorney. If the business is not successful and the partnership can't pay all it owes, the partners may be required to do so using their personal assets.

Payables. Payables are the amounts of cash which your business owes to other people or businesses.

Many times when you buy a product or service you will immediately pay cash to the seller. At other times you will buy things "on account."

The amount that your business owes is said to be "payable" since you have not yet paid the cash. The opposite of payables is receivables.

Payment on Account. Receivables are defined as the amounts of cash which other people owe you. Whenever they pay a part of that they have made a "payment on account."

Petty Cash. Petty cash is a special kind of cash fund used to pay for minor items.

Generally you should pay all bills by writing checks. However, sometimes it may be necessary to buy small items or pay a delivery charge with dollar bills and coins. Therefore, it may be convenient to have a small amount of bills and coins which is kept in a safe place to use for these needs. These amounts should *not* be kept in the cash register or at least, if they are, they should be kept separate from the other cash in the register.

Receivables. Receivables are the amounts of cash which other people owe to your business.

Many times when you sell the product or service of your business you will immediately receive cash from the buyer. At other times you will sell things on account. The amount that the buyer owes you is said to be "receivable" since he owes it to you, but you have not yet received the cash.

The opposite of receivables is payables. Receivables are an asset.

Receiving Report. A receiving report is a form on which you, or one of your employees, has written down a description and the quantities of merchandise which you have ordered from a supplier and which are being delivered. You do this so that you have a record of what you have received. Later, when you receive a vendor invoice for the items, you should compare the items shown on the bill with the receiving report to make sure you actually received everything for which you are being billed.

References. References are names of people which you give to someone so that they can contact those people to ask questions about you or your business.

You would do this so that someone could learn about you from other people in order to get separate opinions about your character, personal habits, temperament, etc. The persons who are references may be relatives, friends, business associates, teachers, etc.; usually the person requesting the references will indicate what sources he wants.

Sale. A sale occurs when a person or another business buys the product or service of your business.

The amount that he agrees to pay to your business is the dollar amount which is added to sales which appear on the first line of your income statement. In some cases the buyer will pay you immediately. In other cases the buyer will merely agree to pay you and will owe you the money. In either case, the dealing is called a sale. When the buyer merely agrees to owe you for the sale, a receivable appears on the balance sheet of your business.

Sales Discount. A sales discount is a reduction from the regular price you charge another person or business when they buy something from you.

A discount from the regular price which a customer might pay you can occur in the following situations:

1. When the customer pays you cash immediately rather than charging it.
2. When the customer buys in larger volume, saving you handling and shipping costs, etc., you may be able to sell to him at a reduced price.
3. When you may have some merchandise which is old or damaged which can only be sold by reducing the regular price.

Signature Card. A signature card is a card requested by a bank when you open a checking account. On this card are placed the signatures of all persons who are allowed to sign checks for your company so that bank personnel can identify those signatures and make sure they are the ones which should be appearing on the checks.

If a signature on one of your business checks is different from that which is on the signature card or it is omitted, the bank may not cash the check.

Sole Proprietorship. A sole proprietorship is one of the three basic forms of legal organization for your company. The other two basic forms are a partnership and a corporation.

In this form of organization there is one owner and if his company should get into a position of owing more to others than the amount of cash and other assets which it has, the owner's personal assets (home, car, etc.) may be required to be sold to pay the obligations of the business.

Trade-Style Registration. A trade-style registration results when you file a form with the state to keep anyone else from using the name of your company. This is not required if your company is a corporation.

This situation is desirable so that there is no confusion between your company and someone else's. It is necessary to file this form only if your company is a sole proprietorship or a partnership; the state will not let any other company use your name. If your company is a corporation, it is not necessary to file this form since the state lets only one corporation use a name.

Vendor. A vendor is a supplier for your company. The supplier may provide you with goods or services. He is an outsider who sells you something.

Examples of vendors are those people or companies who sell the following things to your company:

1. Inventory merchandise
2. Cleaning supplies
3. Forms, paper, stationery, and supplies
4. Window washing
5. Car and truck repairs