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Editor's Notes

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

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EDITOR'S NOTES

We note that the major articles in this issue are basically concerned with the problems of the small businessman.

The first one, *Accounting for Small Business*, considers areas in which the small businessman needs professional accounting help both when he commences to set up his business and later when he is trying to develop ways to operate more economically with a view to increasing profits.

The second one, *How to Succeed as a Self-Employed Accountant with Lots and Lots of Trying*, is an exposition of the approach that at least one CPA has taken toward an accounting practice as a sole practitioner.

As we review these two papers, we recall the oft-repeated prediction that the small business stands in dire peril of being gobbled up by the conglomerates and that the sole practitioner and small CPA firm are waging a losing battle against the inroads of the "big eight" and the other large CPA firms.

It is our opinion, however, that these blue views of the future for the little man are unduly pessimistic for at least two reasons. First, it seems to us that the assimilation of the small business and the small practitioner by their larger counterparts are a normal evolutionary process, an evidence of progress and growth and a happening not to be viewed with alarm.

In this respect we echo the opinion of Marvin Stone, CPA, past president of the American Institute of CPA's, as stated in the July/August, 1968 issue of *THE CPA*.

Mr. Stone took exception to the theory that the local practitioner is being squeezed out of the market, and cited the services that the local practitioner can appropriately render for the small business as contrasted to the services needed by large businesses which must be rendered by appropriately larger CPA firms.

Secondly, so long as we are a people with a competitive spirit there will be the ever new crop of new businesses and of new professional practices to replace those that are absorbed into larger entities. Will and Ariel Durant in their profound and original book, "The Lessons of History," describe history as a fragment of biology and, "the first biological lesson of history is that life is competition—peaceful when food abounds, violent when the mouths outrun the food."

One indication of the competitive spirit might be noted from the list of "new incorporations" put out by the Chamber of Commerce of the City of Cincinnati for the month of January, 1969. The record for this one city

showed 160 new corporate groups for that month. If this listing is in any way typical of other areas, the evolutionary process is producing small business at a record-breaking rate.

BY SUBSTITUTING ADDITION-SUBTRACTION FOR DOUBLE-ENTRY BOOKKEEPING, IS RED CHINA'S GREAT LEAP FORWARD STEPPING BACK?

Life in Red China holds few charms for bourgeois Americans. Still, businessmen baffled by their accountants' double entry bookkeeping system will sigh with envy when they learn that the authors of the Great Leap Forward have outlawed the debit-credit method (left side, debit—right side, credit) for a system of addition-subtraction.

"Red China has recently undertaken the development of new patterns and concepts of accounting which owe nothing to the West," writes Dr. Paul Kircher, chairman of the Accounting Division, University of California, Los Angeles.

According to Professor Kircher, the Peking publication Ta-kung Pao put it this way:

"For the last 16 years we have followed a devious course of groping in the dark field of accounting work. We have gained the experience and the lessons. In the early days of the liberation, owing to lack of experience we basically employ the set of bookkeeping methods used under capitalism in old China, and later on we copied a set of bookkeeping methods from foreign countries. These methods were so complicated that they produced a certain unfavorable effect on the development of production circulation and the construction undertaking. As a result, the broad masses of accounting and economic workers all fervently hoped for an accounting reform, one after another carrying out innovations and experiments in an attempt to create a new accounting theory and bookkeeping method in the interest of our economic construction."

Dr. Kircher claims that the Ministry of Commerce decided a year ago to introduce a revolutionary reform to abolish the debit-credit bookkeeping method and adopt the addition-subtraction method. In the minds of Communist leaders it represents the first step in the establishment of an accounting theory and system of socialist commerce.

He quotes Red newspaper sources as stating:

"The appearance of the addition-subtraction bookkeeping method shows that the debit-credit bookkeeping method—which has for many years been flaunted as 'most scientific,' 'most perfect,' and sacrosanct—not only should,

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then assembled into a special listing which we refer to as the "activation." The service bureau programs from this.

When I made the decision to switch from manual to DP, I decided that it had to be all or nothing if this was to work successfully. The first account I selected involved a balance sheet with four departmental income reports, plus a subsidiary record. I figured that if I could get this one to work satisfactorily, the simpler ones would be comparatively easy.

Client Acceptance

There was no problem with client acceptance because I absorbed the cost of conversion—which was substantial. Of course, new clients must pay for their activation, but I felt that the old ones had already paid an equivalent cost when they were set up on a manual basis. At this stage, the conversion was for my benefit more than the client's.

The main change the client had to accept at the outset was that he now had to use three-part snap-out voucher checks instead of his old, familiar check-book with stubs, and he adjusted without too much difficulty. When I informed the client about the change I used a positive approach; I told him this is what we were going to do. Since most of the clients did not know what I was talking about anyway, they did not care how I processed the work as long as it did not cost them any more money.

Essential Control

More and more accountants across the country are using some form of data processing for their write-up work with varying degrees of success. Although much depends upon the quality of the service bureau, a great deal also depends upon how well the accountant has organized the flow of work within his own office. The planning and upkeep of client files, the observance of points of control, the use of check-off lists, and the adherence to time schedules—all of these are just as important as the actual processing.

The objective is, of course, to cut down on the accountant's time as much as possible without in any way interfering with the thoroughness with which he can review and control the work.

There are a few short-cut techniques that I use in certain situations that are as convenient for manual bookkeeping as they are for DP methods. For example, I use a check-off list in reconciling bank statements; this eliminates the need to sort the checks. I also reverse tradition by recording all transactions on a cash basis, and then adjust to an accrual basis by journal entry. The previous accrual can then be re-

versed and the new accrual set up as of the close of each reporting period.

This same technique can also be used with certain types of receivables, and has long been standard procedure for adjusting inventories and cost of sales.

Admittedly, these short-cut techniques have their deficiencies and must be handled with due care. However, the more traditional methods also have their deficiencies, and just as often come to grief in the hands of the unskilled.

In Conclusion

As you can see, self-employment offers many challenges and little opportunity for boredom. What is the attraction? It isn't the money. The money is there, all right, but it still requires hard work and personal discipline to earn it. Primarily, the appeal springs from intangible satisfactions. Despite my problems—and who does not have problems—I consider myself one of the lucky ones who discovered a very pleasant and interesting way to earn a living.

BY SUBSTITUTING ADDITION

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but also can, completely be changed. Provided that we hold high the great red banner of the thought of Mao Tse-tung, eliminate superstitions, liberate our minds, and dare to innovate and create, then we shall be able to conquer this solid 'fortress' of accounting work and win."

"In accordance with the practical state of business operation of enterprises and changes in State property, it employs the language—'addition' and 'subtraction'—most familiar to people in keeping accounts. If a transaction is an addition in quantity, it is entered in the 'addition' side. If it is a subtraction of quantity, it is entered in the 'subtraction' side. This everybody can understand and do."

And what does Professor Kircher think of the Red's didactic?

"It is not easy to tell," he writes, "whether the Chinese suggestion really will have some meritorious aspects. Certainly we must admit that for centuries accountants have had to meet complaints that 'debit and credit' is unnecessarily complicated for the average layman, and even for many managers. But then most managers never see the actual accounts (nor do modern financial executives, particularly with computer systems). Therefore, whether the mechanics of handling an account uses the terms 'debit and credit' or 'addition and subtraction' does not seem terribly important any longer."