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The Accounts of the Public Accountant

BY ROBERT S. PASLEY

I have never been called upon to systematize or audit the accounts of a public accountant nor have I heard that any of my fellow practitioners number accountants among their clients. While some accountants are, no doubt, like the proverbial shoemaker, there are others who practise what they preach. It is strange but true that even those systematic ones do not call in a fellow practitioner to install a system of bookkeeping or audit their accounts. The result is that the public accountant, in designing a system of accounting for his own requirements, cannot draw upon his experience as he invariably can when dealing with the affairs of his clients.

We are all familiar with the arguments advanced in favor of uniform systems of accounting for the same industry. Many of us have advanced these arguments and initiated and installed such uniform systems. Why should not the accounting methods of the public accountant follow along uniform lines for the general reasons which govern other lines of endeavor? If there were no other reason in favor of it there would be then something having an intimate appeal, in addition to golf, as a subject of discussion with our friends when we meet at conventions.

While I have the temerity to present in this article an outline of the simple accounting methods followed by my firm, I do not submit this as ideal but rather as a ground-work upon which a generally acceptable uniform accounting system for public accountants might be established.

The books and records kept dealing with the bookkeeping are as follows:

- Staff weekly time reports
- Cost sheets
- Summary time-book
- Duplicate bills to clients
- Monthly summarization of billing and costs
- Case ledger
- Journal
- Cashbook
- Private ledger

As time is the basis of accountants' charges to clients, with some exceptions, the members of the staff are required to prepare weekly and at the end of each month time-sheets showing the case or cases upon which engaged and a summary of the number of hours spent thereon. The summary is supported by a brief description of the character of the work performed each day. This time-sheet deals with time only and there is no provision made thereon for money values. The principals also prepare time-sheets.

The bookkeeper endeavors so to arrange it that all time-sheets for the previous week are in his possession by the following Tuesday. This is possible except in the case of men out of town at distant points. The time-sheets are numbered consecutively and posted to the cost sheets so that the cost information is always up to date. Each case under way has a separate cost sheet. While a number is given to each case as it comes to the office, and this number never changes but follows the case all through the working papers, reports and correspondence, we find that no useful purpose would be served by giving a cost number to each cost sheet—the name of the case or case number being deemed sufficient. The posting of the time-sheet to the cost sheet consists of entering the date, accountant's name, time-sheet number and the hours. No money values ever appear on the time-sheet or cost sheets. In the event of proving claims the original cost sheet and time-sheets can be produced, as all essential information is shown thereon.

Before filing the time-sheets they are collated weekly in a summary book under the name of each staff member. The time of each staff and firm member is summarized monthly and brought together showing the total number of hours charged to cases in the month. This record also furnishes statistical information in time only as to idle time, holidays, etc.

The bills to clients are made in duplicate, the duplicates being numbered consecutively and filed in a loose-leaf binder. When bills are paid the duplicates are so stamped. This binder is consequently the accounts-receivable ledger.

The rest of the current bookkeeping work consists of recording the cash receipts and disbursements. This is a columnar book and on the receipt side provides for bank, accounts receivable and miscellaneous. The disbursement side is divided according to the main expense classifications and a miscellaneous column.

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As all expenses applicable to each month are paid within the month, a voucher register is not necessary.

At the end of each month the cost sheets are balanced by abstracting a trial balance in the following form:

<i>Case</i>	<i>September 1st</i>		<i>Month of September</i>		<i>Total</i>	
	<i>Hours</i>	<i>Amount</i>	<i>Hours</i>	<i>Amount</i>	<i>Hours</i>	<i>Amount</i>
Jones.....	50		180		230	
Smith.....			600		600	
Johnson.....	<u>250</u>		<u>75</u>		<u>325</u>	
	300	—	855	—	1,155	—

The number of hours under the month of September should agree exactly with the total charged to cases appearing in the time-summary book. While this agreement proves that all time chargeable to cases has been so charged, it does not eliminate the possibility of charging time to the wrong case. The individual posting of the time sheets should be always rechecked.

After this agreement is effected the money cost is inserted on this work sheet. In the case of September 1st this is copied from the detailed schedule of the previous month of "cases under way." The individual costs for the month of September are determined by multiplying the number of hours on each case as shown by this work sheet by the hour rate. The extension of the sum of the money values of the first two columns into the third column furnishes the total hours and money cost of "costs unbilled" before transferring the costs of the cases billed within the month.

The private ledger entry is as follows:

Costs unbilled.....	\$ - -
Expenses charged in costs.....	\$ - -
Partners' earnings.....	\$ - -

The debit above is determined by multiplying the month men-hours by the hour rate, the credit for partners' earnings is computed as explained later, and the credit for absorbed expenses represents the difference between the total amount charged costs and the credit for partners' earnings.

At this point I shall be obliged to digress slightly for the purpose of dwelling a moment on this hour rate.

The system I am outlining here has as its base the theory that every case should bear its proportionate share of all expenses incurred by the firm—salaries, supervision, office rent, stationery, etc. The salaries paid the staff are included in the total overhead,

and there is also included an amount based on the proportion which partners' time charged to cases bears to the total number of month working hours. This amount is calculated at the rate paid to the chief of staff, and a credit account is established called partners' earnings charged to cases.

Theoretically, all expenses incurred each month are spread over the individual cases by establishing an hour rate as the quotient of the total number of hours charged to cases divided into the sum of all expenses including salaries. This method, however, is cumbersome and to some extent misleading. It is cumbersome as it entails a different rate each month, running into decimals; it is misleading for the reason that in the average accountant's office the total of month hours charged cases is considerably higher in the earlier months of the year than at any other time, resulting in a low hour rate in these earlier months and consequently a misleading net profit, as no reserve results for idle time later in the year.

The plan found practical and advocated here is to establish an hour rate based upon the results of the two immediate prior years and to maintain this rate throughout the current year. The total number of hours charged to cases for the two years is divided into the sum of all expenses for the two years, and the quotient is then slightly increased to round figures for ease in the bookkeeping work. It will be found by this method that in the earlier months of the year there will be a substantial credit in the private ledger representing the excess of costs charged to cases over the actual expenses incurred, which, in reality, represents a reserve for idle time. This credit, unfortunately, will surely decrease as the year goes on. The balance at the end of the year, whether credit or debit, represents the amount by which the total expenses were over-absorbed or under-absorbed. This method has the additional advantage of uniformity throughout the year, the costs of each case depending then upon the time spent thereon, and not upon the salary rate of the men actually engaged on the work. By this method costs and the efficiency of the office administration may be compared. As is well known to all practising accountants, men are assigned to cases, with some exceptions, because of their availability. It is rather an absurdity to consider that on an occasion when a senior accountant handled a certain case the costs were higher that time than on other occasions when the work was done by a semi-senior. It is especially absurd if this particular

senior accountant completed the work in less time than was usually required, and if not assigned to this case would have been idle. Would it be better management to keep the client waiting and allow the senior accountant to remain idle until a semi-senior or lower-salaried man became available? Yet under the system of charging cases with actual salary costs all this might happen, but the costs in the case would appear as favorable as ever.

Having balanced the cost sheets, the cases billed in the month are summarized. The cost of each case billed is transferred to this summary from the cost-ledger trial balance. The open items left on this trial balance are listed and represent costs on cases under way—the total thereof being in agreement with the control account. A physical separation is then made of the cost sheets by transferring to a special binder the cost sheets on cases billed. No money values are entered on the cost sheets now or at any other time.

The summary of cases billed appears as follows, and the totals are posted to the private ledger accounts as shown below:

<i>Case No.</i>	<i>Case</i>	<i>Bill No.</i>	<i>Hours</i>	<i>Fee</i>	<i>Costs</i>	<i>Profit</i>
				\$ --	\$ --	
				-----	-----	
				\$ x x	\$ x x	
				Dr. A/cs rec.	Dr. Costs billed	
				Cr. Fees	Cr. Costs unbilled	

The individual items on the summary are posted to the case ledger, which is loose-leaf and ruled as follows:

<i>Date</i>	<i>Hours</i>	<i>Fee</i>	<i>Costs</i>	<i>Profit</i>
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A trial balance of the case ledger agrees with the accounts "fees" and "costs billed" in the private ledger, and the total of the profit column will represent the actual net profit to date after adding thereto the account "partners' earnings," interest received, and deducting the balance of under-absorbed expenses.

The income account would appear as follows:

Cases billed.....	\$ --
Costs on cases billed.....	--

	\$ --
<i>Add:</i> Partners' earnings.....	\$ --
Interest received.....	--

	\$ --
<i>Deduct:</i> Expenses under-absorbed.....	--
<i>Net profit</i>	\$ --

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Expenses over-absorbed would appear as a credit on the balance-sheet, and in effect would represent a reserve for idle time. The individual expense accounts such as salaries, rent, telephone, etc., remain open all year, and at the year end are charged to the account "expenses charged to costs." These expense accounts should, however, be listed each month on the firm's statement.

The net profit can be stated monthly under this system on an actual cash-received-and-disbursed basis by making the necessary and obvious journal entry.