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## Primer on Bookkeeping for Cooperative

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A PRIMER OF  
**BOOKKEEPING**  
FOR  
**COOPERATIVES**



*By  
Thomas J. ...*



BY  
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**THIRTY-FIVE CENTS**

# A PRIMER OF BOOKKEEPING FOR COOPERATIVES

## INTRODUCTION

The need for a short yet comprehensive pamphlet on bookkeeping for cooperatives has been evident for a long time. However, the difficulties involved in condensing so much material on bookkeeping and accounting have deterred me time and again from preparing it. This pamphlet is to reach those who have no bookkeeping knowledge, those who have a special problem to be solved, and those who know bookkeeping and wish to comprehend more fully the philosophy underlying its theory.

I want to make it very clear that it is not the aim of this pamphlet to serve as a text in bookkeeping. If, after a thorough study, it gives the reader an understanding of the purpose of bookkeeping, and the method of handling a few typical transactions, if it helps him to realize the need of a complete knowledge of the subject so that he will read and study standard works, it will have served its purpose.

There has been much talk about devising a uniform set of books. The technique of bookkeeping is uniform; what we need in the cooperative movement is a uniform understanding of the balance sheet and the operating statement. The definitions of the many accounts used must be uniform, so that any statement rendered by any cooperative can be read and understood by all. The important matter for us is to record uniformly both our good and our disastrous experiences.

Books are devised and set up to furnish the information desired. The setting up of such books may vary greatly. Bookkeeping knowledge, bookkeeping training, the type of management, and the business itself will determine the kind of books to be kept. It is the accountant's duty to strike a balance: a business must not be over-burdened with its accounting system, and yet it must have records adequate to furnish essential information.

This pamphlet consists of four sections, and it should be studied both forward and backward.

The first section has been prepared to create a feeling for bookkeeping and to show that sound economic theory is the prerequisite to attaining a healthy balance sheet and a successful operating statement.

The second section deals with the theory of accounts and with bookkeeping technique and language.

The third section starts with a bookkeeping chart, which is, in a sense, a conclusion to both sections one and two, as well as an introduction to the system of books presented therein.

The fourth section contains a brief table of definitions of terms in general use. There is also a sample balance sheet and operating statement which is standard enough to serve, for the present, as a step toward making comparative records for cooperatives.

## Section 1

### BOOKS ARE WRITTEN TO TELL A STORY

Bookkeeping is a technique and must be learned as such, but to find the story that books tell is possible for all. To use the word "books" for bookkeeping records often creates confusion, but should it? The author writes his book to tell a story; the business man keeps his books for the same purpose. Bookkeeping is the technique of writing the book. The technique is the same for all - I, for one, hope that we will not interfere with style.

Bookkeeping can be summarized briefly by stating that it records two things: that which is happening, and simultaneously, the reason for its happening. In other words, it deals with concrete things and their motion.

The simplest method of bookkeeping can be likened to the taking of a photograph of the concrete things of a business, its assets and its liabilities, at the beginning and again at the close of the period under review. By finding in each picture the difference between assets and liabilities, we discover whether there is a change, whether there is a gain or a loss. But the why and how that would explain the change is not recorded. Suppose that, in addition to the two still photographs, we had taken a motion picture of the business during the entire period, we should have then not only the opening and the closing photographs, but we should have also a continuous record accounting for the change. The photographs of any business at the beginning and at the end, as well as the motion picture in between, could be uniform as to photographic technique, but the pictures themselves would vary greatly.

The job of the bookkeeper can be compared to the job of the historian, recording events from his peculiar point of view. There is one great difference, however, between writing history and keeping books. The historian records events for which he is not responsible; in business, events can be planned so that success is possible. Therefore, one of the prime functions of a set of books is to be an adequate diary in which the happenings of the business are recorded. It is an illusion, however, to assume that the keeping of books can in itself assure success. It can only contribute to success by providing accurate knowledge of all its transactions.

If each of us were to keep a diary of his daily life there would be as many varieties of diaries as there would be people keeping them. One person would devote space to recording the weather, another to the food he has eaten, still another to what he has been reading and thinking. We could draw conclusions from these records. The summary of these conclusions would not be: "It rained - It snowed - It hailed"; it would be: "We had fifteen days of snow; one hundred days of sunshine; the average rainfall was three inches." An item which at the time might have been of utmost importance, such as a case of indigestion, might not be rated sufficiently important to be recorded in the analysis of the period.

To apply this to bookkeeping, let us take as an example our smallest unit,

the cooperative club. Each club varies in the methods it pursues in reaching its goal. There are many roads that lead to Rome, and the shortest is not always the wisest; tastes, inclinations, beliefs, personalities, all determine the road to be followed. Let us assume that the Rome we are heading for is a cooperative store. With some, the goal is clear; others have only an intuitive feeling that this might be a good idea. First, therefore, we must clarify our vision, we must pursue sound methods, we must have a good foundation of economics. Business is an art of which economics is the science. Many an artist has been lost to the world because he lacked the technique, or the science, he needed to practice his art.

But to come back to the bookkeeping for a club. However, the bookkeeping is so much a part of the thing as a whole, that I want to sketch a few high lights of the club's history. Let us imagine a community where the people are neighborly. The children go to the same school, perhaps the adults attend the same church, or perhaps they meet as commuters. There lives in this community a man who is a member of a cooperative in the city. (Let us call this man John.) John had often tried to interest others in his "pet idea", but it was not until newspapers and magazines began to popularize it, that an interest grew, and a small group then met at his house to discuss this cooperative scheme. They found it differed in one important respect from other panaceas: it was an idea that did not necessitate much talking, it was an idea that could develop only as it was practiced. It seemed, therefore, that joining together to procure and distribute certain commodities would be a good starting place.

The first job was to interest more people, but to do that the group had to have more knowledge of how the thing worked. To reach others, it was necessary to convince others. A discussion group was organized; books on the subject had to be obtained. But why buy three copies of any book when one, properly handed around, would furnish the necessary instruction? Thus resulted the first cooperative business transaction. Each put in a quarter; John picked up the book in the city, and the members of the group went to work informing themselves. They did not record this transaction, and yet the record of it, had it been properly understood, would have furnished the basis for understanding many problems that would confront the group time and again. It might be well, therefore, to give time now to understanding this piece of business.

The group had made a capital investment. Was it fair that each should pay a quarter? Should not the one who read the book first have paid somewhat more than the one who got it last? Should lots have been drawn as to which should have the book first? How about the fellow who spilled his coffee on it? Should he have paid more because of the damage? And, finally, what was to happen to the book after it had been read? At the time when this first business venture was to be liquidated, should the book be donated to the community library and the capital investment be written off in toto, or should the book be sold and the proceeds of the sale be divided in equal parts? And should the group make some payment to John for having taken his time in getting the book and for the carfare he spent? A complete bookkeeping system could have been built around whatever course was pursued. Although the system of recording might have been similar, the information would have varied according to the decisions made.



When the group was large enough, a club was launched to buy certain foods in case lots and to distribute these among the members. Certain expenditures had to be incurred immediately. The members of the group found that they must pay cash for the merchandise, although they intended to collect from themselves after delivery; that they needed some stationery; that there were other incidental expenses. The easiest way to meet these expenses was to collect an equal "contribution" from each member. But the word "contribution" sounded too much like charity, so they called it a membership fee. And by virtue of this fee, each took out a membership in the Consumers Cooperative Club of So-and-So. They bought the stationery and paid the other incidental expenses. And, again, a business transaction had taken place. Was this membership fee returnable when a member wished to withdraw? In spending these fees, had a capital investment been made? Many clubs have answered these two questions in the affirmative, and the first error in judgment was also the first recording on the books. A liability was set up, payable to each member, representing the amount paid in by him; a corresponding asset was set up and it was called "Prepaid Organization Expense" which was to be amortized over the first six months period of business. In short, the club started by mortgaging its own future. Did all fully understand that this had happened? If so, well and good, but would it not have been better to have had this transaction appear as non-returnable income from members and as an expense to pay for the necessary cost of organizing, thus affecting the operating statement and not the balance sheet?

So far John had been good enough to let the members use his phone for club business; he had taken his lunch hour to go to the wholesaler with the order. He was willing to have the merchandise delivered to his house and let the group use his garage to pack the individual orders. It looked as if each member was going to save some twenty cents on the dollar in participating in the club. But were they right in this assumption? Weren't they taking advantage of John? Suppose they had had to pay for all of this, would there still have been the twenty percent margin? Would it not have been better to determine the actual saving, even though the group should have decided to impose upon John's good nature for the time being?

An important question was that of paying for the merchandise in advance and collecting for it after delivery. The average weekly order would not exceed five dollars, so each member made such a deposit with the club to create a revolving fund. The group now needed a custodian for its funds, and this raised the question of formalizing various functions. A treasurer was elected, a secretary, a president and a vice-president. Simple by-laws to govern the enterprise were adopted. A bank account was opened.

Now came the job of compiling the first order. Many types of merchandise were desired, but there were only a few that were in sufficient demand to permit their being bought at wholesale prices. But how to remember the amount of each item ordered by the individual? And so the first bookkeeping form evolved: an individual order blank with name, address, date and space for listing the various items. The second bookkeeping form evolved: a master order sheet on which the individual orders could be compiled to furnish the total order for the wholesaler. To avoid confusion and disagreement, it was decided

to keep both blanks in duplicate form. On the master order blank was provided space in which to mark down the wholesale price as per the catalogue, from which to compute the wholesale cost; there was also space to enter the best local retail price for the same items, so that the actual saving, or margin, on each order could be computed.

It was decided that the individual orders be placed not later than Thursday of each week and that the group meet Thursday nights to compile these orders and make out the master order sheet. The order, placed with the wholesaler on Friday, would be delivered the following Monday. This necessitated the group's getting together on Tuesday night to repack the merchandise and to make out the individual bills. But it would be too difficult for all to meet twice a week, so two committees, both to be changed at frequent intervals, were elected, one to meet Tuesday nights to handle the merchandise and the billing, the other to meet Thursday nights to make up the order and to fill out the master blank.

The question of the price at which to bill the members involved much discussion. Because no overhead had to be paid for, it was argued that the members should be billed at the price for which the merchandise had been purchased. But who, then, would make up the loss on items that might spoil or that might break? Where would the funds for other contingencies come from? So it was argued that the club should operate on a five percent margin, returning savings above that. But, because of the plan for a store, which requires some sixteen cents on the sales dollar to meet expenses, the group decided to operate on that basis and to return to the members, in the form of savings returns,\* only the savings above sixteen percent. If the first or the second argument had prevailed, another error in judgment would have resulted, because the group would have become accustomed to a saving too large to be maintained permanently on a volunteer set-up, and impossible on a salaried one.

But to come back to the bookkeeping records. Individual order blanks and the master order sheet have been devised. A bank account has been opened. Membership fees, members' deposits, as well as moneys collected for merchandise sales, have been deposited. Various disbursements by check have been made. So far, one can tell only how much money is in the bank, but, by classifying the receipts in a cash receipt book, it is possible to tell the various sources of these receipts. By classifying the disbursements in a cash disbursement book, it is possible to group the various disbursements. If credit is allowed to members - and let us hope that that is not the case - a book will be needed to record these credit sales. If the club arranges for credit on its own purchases - and let us hope that this is not the case - then a book will be needed to record this. To know each member's deposit and purchases, his individual record must be kept.

At the end of a week, or a month, the books are totalled and they tell a story. For example, the total receipts were five hundred dollars, representing

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\*Other terms for savings return are rebate, patronage dividend, or purchase refund. The term savings return will be used throughout this pamphlet, since it is the one suggested by the Cooperative League.

eighty dollars of deposits by members, four hundred dollars of sales to members and twenty dollars membership fees. The total disbursements of four hundred dollars represent three hundred and eighty-five dollars of merchandise purchased and fifteen dollars of expenditures analyzed as to their nature. There is, on hand, forty dollars worth of merchandise at cost, and four members still owe a total of twenty dollars for merchandise delivered to them. From this information a financial statement is drawn, which shows that the assets exceed the liabilities by eighty dollars, and this fact is proved by the same net result appearing in the operating statement. This statement can be prepared by using a reporting form, though it is better to keep a general ledger and a general journal for this purpose. One job remains, and that is to dispose of the undivided gain of eighty dollars, which is about eighteen percent of income. According to the members' decision, sixteen percent is retained as a reserve in the treasury; the rest is returned to the members in proportion to their purchases.

This is the simplest form. Of course, there are many variations and many aspects not taken into account here. For instance, some merchandise is returned to the wholesaler; this will result in a credit on his next bill. Suppose the club buys of the cooperative wholesale and recognizes the necessity of investing in its capital stock, then a new heading called "Investment" appears under "Assets". The club might have arranged for the collective buying of coal; it places the order for the member with the coal dealer and receives a commission from him. This results in a new classification of income. The club might decide to return these commissions only to those members patronizing this service; if so, it is necessary to keep an individual sales record of this particular merchandise for each member. On the other hand, the members of the group have learned that when they open their store, carrying many items with a variety of margins, the only practical plan for savings returns will be a uniform one for all, so they may establish such a policy at the start.

I hope that all this will prove the need for sound and efficient bookkeeping methods. Fundamentally, these methods will be the same; in practice, however, they will have to be adapted to the kind of club, to the amount of bookkeeping time, and to the type of bookkeeping knowledge available. In any case, there must be uniformly sound bookkeeping and accounting procedure, but this does not mean that the books should determine in advance a uniform method by which the business must be conducted, without allowing for human differences. We are looking toward a live movement, not one that is put into a strait jacket. A business is not run for its accounting system - bookkeeping is undertaken to facilitate the doing of business. In a sense, it is the universally accepted language of business and, as such, it must follow accepted patterns and be exact and precise in its expression.



## Section 2

### THIS SECTION DEALS WITH BOOKKEEPING TECHNIQUE

- 1 - The simplest set of books
- 2 - The language of bookkeeping
- 3 - The balance sheet and its accounts
- 4 - Divisions of the balance sheet
- 5 - Capital and general reserve accounts
- 6 - The operating statement
- 7 - Divisions of the operating statement
- 8 - Disposition of net gain
- 9 - General Journal and General Ledger
- 10 - Specialized journals
- 11 - Petty Cash Fund
- 12 - Charge sales and credit purchases
- 13 - Subsidiary books
- 14 - Control accounts
- 15 - Trial balance
- 16 - Debits and credits

Up to this point, I have tried to develop only a feeling for bookkeeping. For those, however, who must have a working knowledge of this subject the following specific information has been prepared.

The technique of bookkeeping is orthodox. Books are so devised as to disclose errors in technique, sometimes at once, sometimes not until the trial balance (which we shall discuss later) is taken.

1 - THE SIMPLEST SET OF BOOKS. - The simplest set of books consists of a General Journal and a General Ledger. Any additions to them represent only elaborations and adaptations that will expedite and accelerate bookkeeping. The general journal is the diary of the business; the general ledger is the analysis and the summary of the diary. It is from the general ledger that the financial statements are prepared.

2 - THE LANGUAGE OF BOOKKEEPING. - The language in which the story of a business is recorded is one composed of relative values and measurements. Currency -- which I shall call cash -- is used for this measurement. The books record the flow of cash in and out of the business. There are two things we must measure: first, in what form money comes into and leaves the business; second, the reasons for its coming and going. Therefore, for every transaction that takes place, there are two recordings: the fact that the cash either came or went, and the reason for its coming or going. Since these two related recordings are always equal in amount, this type of bookkeeping is called the Double-Entry System.

3 - THE BALANCE SHEET AND ITS ACCOUNTS. - The Assets and the Liabilities of a business are expressed in terms of their cash value. For example: accounts receivable represent a deferred collection of cash, and, when they become doubt-

ful of collection, they must be reduced in value to show the amount which it is expected will ultimately be received.

The merchandise inventory -- the count of merchandise on hand at any time -- must reflect the value at which it can be converted into cash. In order to be conservative, the inventory usually is valued at the cost price or the market price, whichever is the lower.

The furniture and fixtures should at all times reflect the cash value that they represent in the conduct of the business. When a typewriter is bought for X dollars, these dollars show the necessity value to the business; but, as the typewriter is used, its cash value decreases; it will have to be replaced after a certain time; it could not be sold at its original cost. This decrease of the cash dollar must be measured as an expense to the business. The bookkeeping term for this is Depreciation. Certain expenses are paid in advance - for example, insurance may be paid for a three year period. The prepaid portion is listed as a Prepaid Expense or a Deferred Asset; the used portion is charged to the operating cost of the business. Accounts Payable, Notes Payable, and other indebtedness represent the cash value of debts that the business must meet sooner or later. The Mortgage Payable represents the cash value of a debt for which certain assets of the business are pledged. The capital stock represents the cash for which the stock was issued. In a cooperative business, this stock is repurchased at a price no higher than was paid for it. Finally, the General Reserve represents the difference between the assets (things we own) and the liabilities and capital stock (things we owe). But suppose there were a deficit instead of a general reserve -- that the liabilities and the capital stock exceeded the assets of the business. This would mean, in the first place, that capital stock could no longer be redeemed because, under the law of many states, capital stock can be redeemed only out of surplus (general reserve); in the second place, the value of the capital stock, though not redeemable, would no longer be at par, but it would be the par value minus the amount of the deficit.

4 - DIVISIONS OF THE BALANCE SHEET. - To express the financial condition of a business in its balance sheet more clearly, the various kinds of assets and liabilities are classified. Current assets are those which we expect to be converted into cash within the current year, such as the cash in bank, the accounts receivable, the merchandise inventory. Fixed Assets represent the cash invested in land, buildings and equipment necessary to the conduct of the business. Deferred Assets represent expenditures already made, but pertaining to the conduct of the business in the future. Current Liabilities represent indebtedness which must be met at an early date. Fixed Liabilities represent indebtedness that must be paid some time far in the future, or an indebtedness which is secured by the fixed assets of the business. The Capital Stock represents the cash to be paid out last of all. In cooperative business, the General Reserve represents assets owned in common by the members.

5 - CAPITAL AND GENERAL RESERVE ACCOUNTS. - Always remember, Assets represent the things owned by a business, and Liabilities represent the things owed by a business. Both are measured in terms of cash. Capital represents the value of the investment in a business. Other terms used for capital are Net

Worth or Proprietorship. There are two kinds of proprietorship in a cooperative: that portion owned individually (as in any business), capital stock; and that portion owned collectively, general reserve, or social capital. The operating accounts of a business such as sales, cost of sales, and expenses, are kept to analyze the reasons for the increases or decreases in proprietorship. But mark well; in private business, there is no collectively owned capital, therefore the operating accounts affect the individual proprietorship either for better or for worse; if there is a surplus, the capital stock value is at par plus the amount of the surplus; if there is a deficit, the capital stock value is at par less the amount of the deficit. In cooperative business, the individual proprietorship is not affected, unless there be a deficit; it is only the general reserve, the collectively owned capital, that either increases or decreases.

Let us put the above in the form of a simple equation:

For Commercial Business: Assets - Liabilities = Proprietorship

For Cooperative Business: Assets - Liabilities = Capital + General Reserve

Every business transaction results in a change in at least one of the terms of the equation, but the effect of each transaction must be such that the equation remains the same. For instance: a business receives cash from a customer. The asset "Cash" is increased; the asset "Accounts Receivable" is decreased. The total assets remain unchanged. Or again, a check is given for rent. The asset "Cash" is decreased; the general reserve (proprietorship) is decreased a like amount; both sides of the equation remain equal.

The balance sheet shows what a business owns and what it owes. The operating statement reflects the causes of the changes taking place during a period. The balance sheet shows the actual dollars of the business. The operating statement uses the dollar as a measurement of income and outgo.

6 - THE OPERATING STATEMENT. - The accounts appearing in the operating statement of trading concerns are generally classified into three groups; the motion of the incoming dollars as Sales; the motion of the outgoing dollars as Merchandise Purchased and Expenses; and finally, the count of the remaining dollars as Gain. This gain must also appear in the general reserve when the balance sheet is made up. If there is a loss -- if more dollars flow out of the business than come in -- the general reserve should show a corresponding reduction.

7 - DIVISIONS OF THE OPERATING STATEMENT. - The three divisions of the operating statement are usually the same for all trading concerns; these are then subdivided into classifications to fit the business operated. For example, sales can be classified according to the commodities sold. The subdivisions of the cost of merchandise sold are generally made to correspond to those under sales. The cost of the merchandise sold is computed by deducting the value of the inventory of merchandise on hand at the end of a period from the value of the inventory on hand at the beginning of the period plus the cost of merchandise purchased during the period. The difference between the sales and the cost of merchandise sold is called gross gain, one of the vital figures in a business.

Because of keen competition, the averages of the gross gain, or margin, are fairly uniform in any type of business and it must have close attention. Expenses are subdivided into the types of expense the particular business incurs. This classification of expense can again be grouped as to selling expense, delivery expense, administrative expense, and so on.

8 - DISPOSITION OF NET GAIN. - In a cooperative business, the disposition of the net gain is subject to decision either by the Board of Directors or by the membership. Part of the net gain can be returned to the members in proportion to their patronage. The amount of this return becomes a direct liability and is recorded in an account called Savings Returns Payable. The remainder of the net gain, not returned, becomes an increase in the general reserve.

9 - GENERAL JOURNAL AND GENERAL LEDGER. - The general ledger, in which the analysis of the general journal is made, will contain such accounts as are deemed necessary to analyze the operations of the business. There will be asset accounts; liability and capital accounts; income and sales accounts; merchandise purchase accounts; and expense accounts.

10 - SPECIALIZED JOURNALS. - The general journal would in itself be sufficient for keeping the diary of the business - but every single transaction would have to be listed in it. Because of the number of transactions, such bookkeeping would be a cumbersome task. Therefore, the general journal is broken up into specialized journals: all cash transactions are recorded in the Cash Receipts and Disbursements Journal (or Cash Book); charge sales - sales not immediately paid for - are recorded in the Sales Journal (or Sales Book); all purchases of merchandise for resale or manufacture are recorded in the Purchase Journal - in most cooperatives, expenses not immediately paid are also entered through the Purchase Journal. This leaves in the General Journal only those entries that do not come under the above classifications: for example, depreciation, provision for doubtful accounts, inventory adjustments. All the journals are then posted in the general ledger.

11 - PETTY CASH FUND. - At this point, let us state a rule which cooperatives should never violate: all cash income should be deposited to the bank account and all disbursements should be made through the bank account. However, this rule is not practical when it comes to petty expenditures such as a telephone call or carfare, so a bookkeeping device is used which overcomes this difficulty. This device is the Petty Cash Fund. A definite amount of cash, decided upon in relation to the needs of the business, is drawn from the bank and is set up as a Petty Cash Fund under "Assets". Petty disbursements and C.O.D.'s, for which a check is not acceptable, are paid from this fund. For every payment, a receipted slip is put into the fund. When Petty Cash runs low, a check is drawn reimbursing the fund for the disbursements made and bringing it back to its original amount. The total disbursements are classified as to their nature and represent the bill for the check which is entered and distributed in the books like any other bill. This device means that, to the extent of the petty cash fund, the business acts as its own banker.

12 - CHARGE SALES AND CREDIT PURCHASES. - To understand more clearly the

mechanics of the sales book, it should be realized that all merchandise transactions with customers are composed of both a charge and a collection. When you buy your groceries for cash and the clerk tells you the amount of your purchase, he is, in fact, charging you at that very moment. When you take out your money and pay for the groceries, you are paying for this charge. Because the charge and the payment happen simultaneously, the entry for the charge is omitted - only when there is a lapse of time between the two transactions should the charge be recorded as well as the payment. When a charge sale takes place, the amount of the sale is shown as a charge, or debit, to the customer's account and as a corresponding credit to the sales account. When this charge is paid, the customer's account is credited and the collection is recorded in the cash receipts journal. The same kind of procedure takes place in the case of a credit purchase, except that the bookkeeping mechanics are exactly reversed.

13 - SUBSIDIARY BOOKS. - Any other books that a business may keep, such as: payroll book, members' purchase account, capital stock book, members' deposit book, detailed accounts receivable book or detailed accounts payable book represent subsidiary analyses of various general ledger accounts. For all general ledger accounts, subsidiary books could be kept; just what books to keep are dictated by the need of the business.

14 - CONTROL ACCOUNTS. - These various subsidiary books are subject to what is called, in bookkeeping terms, a control account. This control account is the general ledger account. The detailed information in these subsidiary books is posted from the journals and, if this detail is properly recorded, it must agree with the general ledger account in which the summary information of the particular item was posted.

15 - TRIAL BALANCE. - Another device of bookkeeping should be mentioned. Each transaction recorded represents a double entry, affecting both the credit of one account and the debit of another. Therefore, after all the journals have been posted, or recapitulated, in the general ledger, there should be an equal dollar amount of debit and credit entries. When all the debit balances and all the credit balances are added, their totals must be equal; this process is called the taking of a trial balance. It is at this point that bookkeeping and accounting merge. Although the trial balance may be correct, it is still possible that the wrong accounts were debited or credited, and it is part of the work of the accountant to analyze and verify the various accounts; and to determine whether the entries made coincide with the theory underlying these accounts, and whether the assets and liabilities as shown truly reflect the condition of the business. In the case of poorly trained bookkeepers, much of the accountant's time is spent, not with the verifying of accounts, but with the locating of mechanical bookkeeping errors.

16 - DEBITS AND CREDITS. - There is one bookkeeping term that still needs explanation, and that is the meaning of debit and credit. Debit entries are complementary to credit entries, debit entries go on the left side of the ledger account and credit entries go on the right side. These terms were first used in single entry bookkeeping and meant keeping a record of those owing the business (debit) and of those to whom the business owed (credit). In other words,

single entry bookkeeping concerned itself solely with assets and liabilities, assets being represented by debit balances, liabilities being represented by credit balances. Double entry bookkeeping added a new classification of accounts which represents the difference between assets and liabilities; this classification is called proprietorship, and is made up of income and expense accounts. The income accounts record increases in proprietorship, the expense accounts record decreases in proprietorship. In double entry bookkeeping, as far as assets and liabilities (called real accounts) are concerned, debits and credits retain their original meaning; as far as income and expense accounts (called nominal accounts) are concerned, debit means an increase in an expense account, or a decrease in an income account; credit means an increase in an income account, or a decrease in an expense account. Or, to put it simply, debit means loss and credit means gain in the proprietorship.



### Section 3.

#### A SIMPLE SET OF BOOKS

This section contains a bookkeeping chart, and shows the forms for the most generally used books. In these forms is recorded a short business experience. The entries are made in the various journals and are posted to the general ledger. A trial balance of the general ledger and the subsidiary ledgers is taken. The adjusting entries which lead to the preparation of the operating statement and the balance sheet are made. Finally, the books are closed and the necessary closing entries are indicated.

The cash report form I have shown is based on the use of a cash register, but it can be used equally well by those who do not have one. Those who do not have a cash register will have to make out a sales slip for every sale, and, at the end of the day, will have to total both the cash sales and the credit sales; and, instead of entering the cash sales as per the register, they will enter the cash sales as per the sales slips. Whether there be a cash register or not, a slip must be made out for each charge sale, which is entered in the Sales Book, and also for each collection made against previous charge sales. The cash paid out slips, as listed in the cash report, are refunded from the petty cash fund.

A separate receipt book is kept in addition to the cash register - or the sales slips. A receipt is made out for all income which does not affect sales in one way or another, for example: income from membership fees, the sale of capital, etc. These receipts are entered individually in the cash receipts journal.

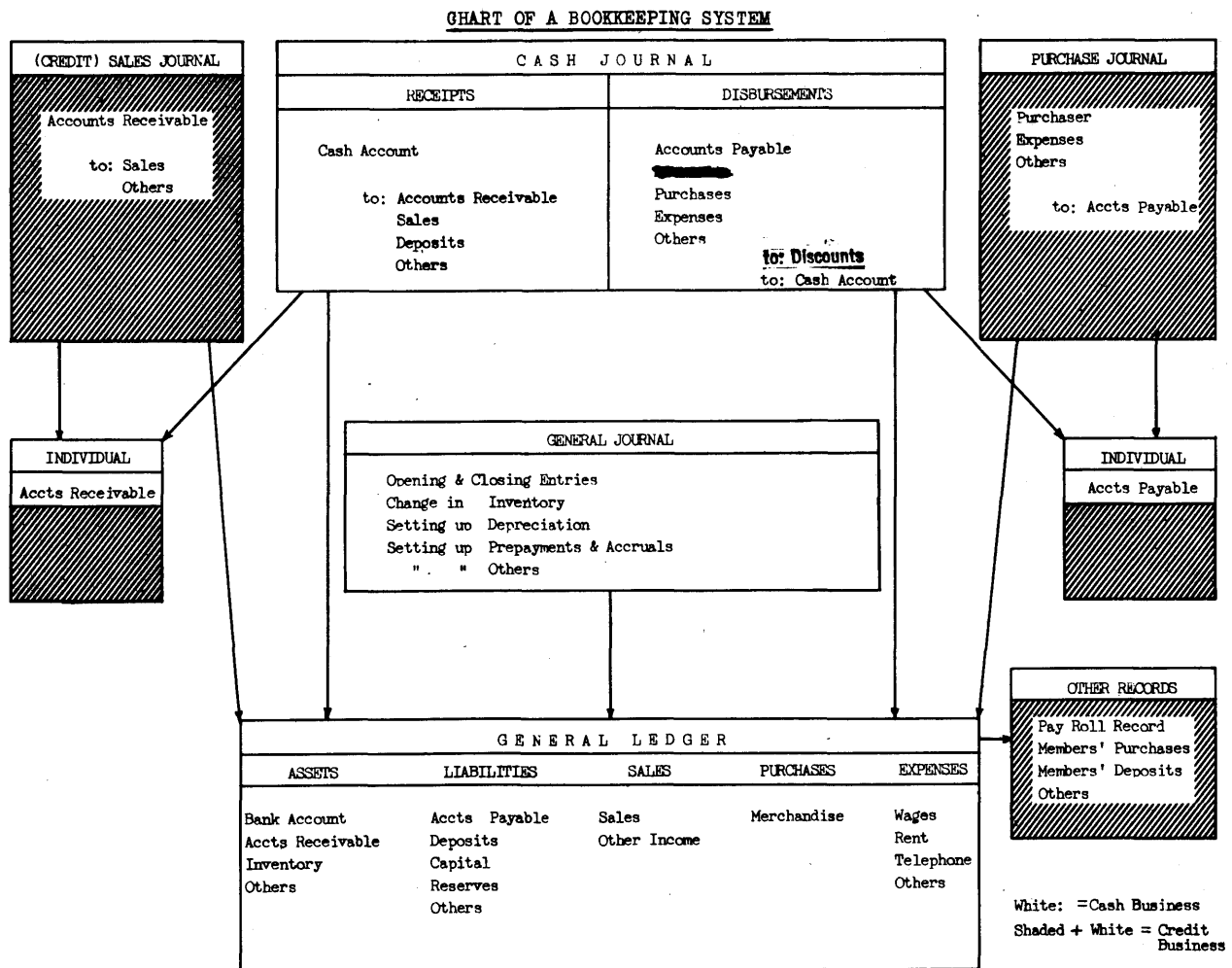
A study of the balance sheet and the operating statement drawn from this bookkeeping system will show that the information for each account appearing in the balance sheet and operating statement is recorded in individual columns. Therefore, this system can be adapted to whatever type of business or whatever information is desired. It is only necessary first to determine what is the information desired, and then to classify it into accounts and to head up the columns to accumulate that information.

Because certain accounts are affected only once in a great while, it would be wasteful to use a separate column to accumulate the information of those various accounts; it is, therefore, satisfactory to use one column, if this column, when it is posted to the general ledger, is analyzed as to those accounts.

In addition to the actual bookkeeping entries made in the various forms, I have also entered some explanatory notes. These notes are shown either in parentheses or at the bottom of the forms submitted. To separate the regular postings in the general ledger from the closing entries, a dotted line is drawn between the posting from the journal and the closing entry.

In these forms, there is no provision for keeping records of savings re-

turns, because most cooperatives use the following plan. The members are given receipts for their purchases; whenever a cash register is used, the register ticket is the receipt. The members save their tickets and when the savings are to be paid - quarterly, semi-annually, or annually - the members are notified that the tickets are to be returned. Generally one or two weeks' time is given for this. The tickets of each member are added, and a list is compiled with the names of the members and the amounts of their patronage. The savings return is then computed at the percentage determined by either the board or the membership, but this percentage must never exceed the percentage of net gain. The difference between total sales and sales to members, as per the list, gives the amount of trading by non-members. Of course, this information is not wholly reliable, since some of the slips of the members get lost. Even with this disadvantage, this method recommends itself because it is inexpensive.



DAILY CASH REPORT

NO: 2

DATE: 7/2/37

<u>A</u> Register Reading at end of day	346.84	
Register Reading at beginning of day	124.25	
<u>RECEIPTS FOR DAY</u> (Total cash sales slips and received on account slips)		222.59

<u>B</u> <u>POSTING INFORMATION:</u>		
Cash Sales-Register Key	220.10	
Received on account-Register Key	2.49	
		222.59
List of received on account slips:		
<u>Arnold</u>	2.49	
_____		
_____		
_____		

<u>C</u> <u>CASH ANALYSIS:</u>		
	\$20.00	
	\$10.00	40.00
	\$ 5.00	20.00
	\$ 2.00	-
	\$ 1.00	108.00
	\$ .50	8.50
	\$ .25	6.25
	\$ .10	4.80
	\$ .05	2.30
	\$ .01	.22
<u>CHECK:</u>	F. James	10.12
	C. Cross	25.30
<u>PAID OUT SLIPS:</u>		
French Bakery	5.64	
Krus Fruits	4.36	
Carfare	1.10	
Express	1.00	
Refund, Etc.	<del>1.10</del>	
Check #12 drawn		12.10
		237.59
Less: Petty Cash Fund		15.00
Bank Deposit 7/3/37		222.59

This report can be altered to fit any need.

CASH RECEIPTS JOURNAL

PAGE NO. 1

(NOTE: Symbol for posting to General Ledger C.R. 1)

1937	DR. (MEMO.)	CR.		CR.		CR.		CR.					
		TOTAL	BANK DEPOSITS	ACCOUNTS RECEIV. NAME	AMOUNT	SALES (CASH)	COM. (CASH)	ACCOUNT	GENERAL LEDGER AMOUNT				
July 1	Register Reading - Report #1 (or if there is no register- Sales Slips #1-25) receipt #1- J.F. Coal Co. " #2- Williams " #3- Arnold " #4- Falk	119 00				119 00							
		5 25					5 25	Capital				25 00	✓
		25 00						Capital				25 00	✓
		25 00						Capital				25 00	✓
2	Register Reading - Report #2 (or if there is no register- Sales Slips #26-85) receipt #5-sale of empty boxes " #6- J.F. Coal Co. " #7- Clusa Service " #8- Long (and so on, for one week, or one month, as the case may require.)	222 59	199 25	Arnold	2 49	220 10							
		1 00						Other Income				1 00	
		3 00					3 00	Prepaid Insurance				4 00	
		4 00						Capital				25 00	✓
		25 00	255 59										
		454 84	454 84			339 10	8 25					105 00	
		(1)				(51)	(52)	Capital				(27)	100 00
								Prepaid Insurance				(7)	4 00
								Other Income				(53)	1 00
								Detail posted					✓

NOTE: Posting to General Ledger in Journal Form

REMARK:

Dr. Cr.

Cash Account 454 84  
 To Accounts Receivable 2 49  
 Sales 339 10  
 Commissions 8 25  
 General Ledger (as analyzed) 105 00  
PROOF 454 84 454 84

These postings to the General Ledger re-  
 present the cumulative Journal entries  
 summarizing Cash Receipts.

Note: Circled figures represent the numbers of the General Ledger accounts to which the information is posted.

CASH DISBURSEMENTS JOURNAL

PAGE 1

(NOTE: Symbol for posting to General Ledger C.D. 1)

1937	CHECK NO.	CHECK	CR.		DR.		DR.		DR.		GENERAL LEDGER	
			NET CHECK	DISCOUNTS	ACCOUNTS PAYABLE	MDSE. PURCHASES (CASH)	EXPENSES ACCOUNT	AMOUNT	ACCOUNT	AMOUNT	ACCOUNT	AMOUNT
July 1	1	East. Coop. Whole.	141 65	2 89	144 54							
1	2	S. Barone (Cash purchase)	21 60			21 60						
	3	Void										
1	4	N.Y. Real Estate Co.	10 00					Rent	10 00			
1	5	N.Y. Telephone Co.	2 50					Tele.	2 50			
1	6	Clusa Service	16 00							Prepaid Insurance	16 00	
2	7	East. Coop. Whole.	150 34	3 07	153 41			Salaries	25 00			
2	8	S. MacLean	25 00									
2	9	Petty Cash Fund	15 00							Petty Cash Fund	15 00	✓
	10	Arnold	5 00							Capital	5 00	✓
2	11	Natl. Cash Register Co.	25 00		25 00			Miscell.	2 10			
2	12	Petty Cash Exp.	12 10				10 00					
		(And so on, for one week, or one month, as the case may require.)										
			424 19	5 96	322 95	31 60			39 60			36 00
			(1) ✓	(53) ✓	(25) ✓	(60) ✓		Rent (72) ✓	10 00	Prepaid Ins.	16 00	(7) ✓
					Detail posted ✓			Telephone (74) ✓	2 50	Petty Cash Fund	15 00	(2) ✓
								Salaries (70) ✓	25 00	Capital	5 00	(27) ✓
								Miscell. (77) ✓	2 10	Detail posted ✓		

NOTE: Posting to General Ledger in Journal Form:

Accounts Payable	DR.	322 95	CR.	
Merchandise Purchases		31 60		
Expenses (as analyzed)		39 60		
General Ledger Column (as analyzed)		36 00		
To Cash Account				424 19
Other Income (Discounts)				5 96
<u>PROOF</u>		<u>430 15</u>		<u>430 15</u>

REMARK:

These postings to the General Ledger represent the cumulative Journal Entries summarizing Cash Disbursements.

Note: Circled figures represent the numbers of the General Ledger accounts to which the information is posted.

PURCHASE JOURNAL									
PAGE NO. 1									
(NOTE: Symbol for posting to General Ledger P.J. 1)									
CR.					DR.				
1937	INVOICE NO.	ACCOUNT PAYABLE	MDSE. PURCHASES	EXPENSES		GENERAL LEDGER		AMOUNT	AMOUNT
				ACCOUNT	AMOUNT	ACCOUNT	AMOUNT		
July 1	1	144 54 ✓	136 54 ✓	Wrapping Supplies	8 00				
2	2	153 41 ✓	149 96 ✓	Office Supplies	3 45				
3	3	56 00 ✓	56 00 ✓						
3	4	125 00 ✓						Furniture & Fixtures	125 00
		478 95	342 50						125 00
		(25) ✓	(60) ✓	Wrapping Supplies	8 00			Furniture & Fixtures	125 00
		Detail posted ✓		Office Supplies	3 45				

NOTE: Posting to General Ledger in Journal Form:

DR.	CR.
342 50	
11 45	
125 00	
<u>478 95</u>	478 95
	<u>478 95</u>

REMARK: These postings to the General Ledger represent the cumulative Journal Entries summarizing Purchases of Merchandise or Services on credit.

Note: Circled figures represent the numbers of the General Ledger accounts to which the information is posted.



(CREDIT) SALES JOURNAL

PAGE NO. 1

(NOTE: Symbol for posting to General Ledger S.J. 1)

SALES		DR.	CR.		CR.	CR.
1937	SLIP NO.	ACCOUNT RECEIVABLE	SALES	COMMISSIONS	OTHER	
July 1	3	2 49 ✓	2 49			
1	9	3 00 ✓		3 00		
2	12	4 00 ✓	4 00			
2	26	7 00 ✓	7 00			
		16 49	13 49	3 00		
		(3) ✓	(51) ✓	(52) ✓		
		detail posted ✓				

NOTE: Posting to General Ledger in Journal Form:

Accounts Receivable  
 To Sales  
 Commissions  
PROOF

16 49  
 13 49  
 3 00  
16 49

REMARK:

These postings to the General Ledger represent the cumulative Journal Entries summarizing Credit Sales.

Note: Circled figures represent the numbers of the General Ledger accounts to which the information is posted.

GENERAL JOURNAL

PAGE NO. 1

(NOTE: Symbol for posting to General Ledger J 1)

JULY 31, 1937 - ADJUSTING ENTRIES		DR.		CR.	
Merchandise Inventory	(4) ✓	91	81		
To Merchandise Purchases	(60) ✓			91	81
Merchandise Inventory taken evening of 7/31/37 by special committee - priced and extended by the manager - checked by the committee.					
Depreciation Expense	(73) ✓	1	04		
To Reserve for Depreciation-Furniture & Fixtures	(6) ✓			1	04
1 cash register \$125. - estimated life 10 years \$125.-: 10 = \$12.50: 12 = \$1.04 per month					
Insurance Expense	(75) ✓		33		
To Prepaid Insurance	(7) ✓				33
Fire Insurance \$12.-3 year policy. \$12.: 3 = \$4.-: 12 = \$.33 per month					
JULY 31, 1937 - CLOSING ENTRIES					
Sales	(51) ✓	352	59		
Commissions	(52) ✓	11	25		
Other Income	(53) ✓	6	96		
Merchandise Purchases	(60) ✓			282	29
Salaries	(70) ✓			25	00
Wrapping Supplies	(71) ✓			8	00
Rent	(72) ✓			10	00
Depreciation	(73) ✓			1	04
Telephone	(74) ✓			2	50
Insurance	(75) ✓				33
Office Supplies	(76) ✓			3	45
Miscellaneous Expense	(77) ✓			2	10
General Reserve	(28) ✓			36	09
<u>PROOF</u>		370	80	370	80
General Reserve	(28) ✓	14	55		
To Savings Returns Payable	(26) ✓			14	55
Net Gain \$36.09 on \$352.59 Sales = 10.3%. Savings returns declared at 5% on \$291.- sales to members.					
AUGUST 1, 1937 - OPENING ENTRY					
Merchandise Purchases	(60) ✓	91	81		
To Merchandise Inventory	(4) ✓			91	81
To transfer the merchandise shown in the inventory account as of 7/31/37 to the Merchandise Purchase Account.					

Note: Circled figures represent the numbers of the General Ledger accounts to which the information is posted.

GENERAL LEDGER

Account No. 1									
BANK ACCOUNT									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 31	(closing entry)	CR 1	454	84	July 31		CD 1	424	19
					July 31	to Balance		30	65
			454	84				454	84
1937 Aug. 1	Balance		30	65					

Assets

Account No. 2									
PETTY CASH FUND									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 31	(closing entry)	CD 1	15	00	July 31			15	00
					July 31	to Balance		15	00
			15	00				15	00
1937 Aug. 1	Balance		15	00					

Account No. 3									
ACCOUNTS RECEIVABLE									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 31	(closing entry)	SJ 1	16	49	July 31		CR 1	2	49
					July 31	to Balance		14	00
			16	49				16	49
1937 Aug. 1	Balance		14	00					

Account No. 4									
MERCHANDISE INVENTORY									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 31	(closing entry)	J 1	91	81	July 31	To Balance		91	81
					July 31			91	81
			91	81					
1937 Aug. 1	Balance (opening entry)		91	81	Aug. 1	To Reverse Inventory Entry	J 1	91	81
								91	81
			91	81					

GENERAL LEDGER (continued)

FURNITURE AND FIXTURES										Account No. 5	Assets
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS				
1937											
July 31	Cash Register (closing entry)	PJ 1	125 00	July 31	To Balance			125 00			
			125 00					125 00			
1937 Aug. 1	Balance		125 00								

RESERVE FOR DEPRECIATION - FURNITURE & FIXTURES										Account No. 6
1937										
	(closing entry)			July 31		J 1		1 04		
July 31	To Balance		1 04					1 04		
			1 04					1 04		
1937 Aug. 1	Balance							1 04		

PREPAID INSURANCE										Account No. 7
1937										
July 31		CD 1	16 00	July 31		CR 1		4 00		
	(closing entry)			July 31		J 1		33		
			16 00	July 31	To Balance			11 67		
			16 00					16 00		
1937 Aug. 1	Balance		11 67							

ACCOUNTS PAYABLE										Account No. 25	Liabilities & Capital
1937											
July 31	(closing entry)	CD 1	322 95	July 31		PJ 1		478 95			
July 31	To Balance		156 00					478 95			
			478 95					478 95			
1937 Aug. 1	Balance							156 00			

SAVINGS RETURNS PAYABLE										Account No. 26
1937										
	(closing entry)			July 31		J 1		14 55		
July 31	To Balance		14 55					14 55		
			14 55					14 55		
1937 Aug. 1	Balance							14 55		

GENERAL LEDGER (continued)

Account No.27							
CAPITAL STOCK							
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS
1937				1937			
July 31	(closing entry)	CD 1	5 00	July 31		CR 1	100 00
July 31	To Balance		95 00				
			100 00				100 00
				1937			
				Aug. 1	Balance		95 00

Liabil-  
ities  
& Capital

Account No.28							
GENERAL RESERVE							
1937							
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS
1937				1937			
July 31	(closing entry)	J 1	14 55	July 31		J 1	36 09
July 31	To Balance		21 54				
			36 09				36 09
				1937			
				Aug. 1	Balance		21 54

Account No.51							
SALES							
1937							
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS
1937				1937			
July 31	(closing entry)			July 31		CR 1	339 10
July 31	To Close	J 1	352 59	July 31		SJ 1	13 49
			352 59				
							352 59

Income

Account No.52							
COMMISSIONS							
1937							
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS
1937				1937			
July 31	(closing entry)			July 31		CR 1	8 25
July 31	To Close	J 1	11 25	July 31		SJ 1	3 00
			11 25				
							11 25

Account No.53							
OTHER INCOME							
1937							
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS
1937				1937			
July 31	(closing entry)			July 31	Sale of Boxes	CR 1	1 00
July 31	To Close	J 1	6 96	July 31	Discounts	CD 1	5 96
			6 96				
							6 96

GENERAL LEDGER (continued)

Account No. 60									
MERCHANDISE PURCHASES									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	CD 1	31	60	July	31	J 1	91	81
	31	PJ 1	342	50					
	(closing entry)				July	31	To Close	J 1	282 29
	(opening entry)		374	10					374 10
1937									
Aug.	1	To reverse Inventory Entry	J 1	91 81					

Mer-  
chan-  
dise

Account No. 70									
SALARIES									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	CD 1	25	00	July	31	To Close	J 1	25 00
	(closing entry)								25 00
			25	00					

Expense

Account No. 71									
WRAPPING SUPPLIES									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	PJ 1	8	00	July	31	To Close	J 1	8 00
	(closing entry)								8 00
			8	00					

Account No. 72									
RENT									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	CD 1	10	00	July	31	To Close	J 1	10 00
	(closing entry)								10 00
			10	00					

Account No. 73									
DEPRECIATION									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	J 1	1	04	July	31	To Close	J 1	1 04
	(closing entry)								1 04
			1	04					

Account No. 74									
TELEPHONE									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937									
July	31	CD 1	2	50	July	31	To Close	J 1	2 50
	(closing entry)								2 50
			2	50					



GENERAL LEDGER (continued)

Account No. 75									
INSURANCE EXPENSE									
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS	Expense	
1937									
July 31	(closing entry)	J 1	33	July 31	To Close	J 1	33		
			33				33		

Account No. 76									
OFFICE SUPPLIES									
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS		
1937									
July 31	(closing entry)	PJ 1	3 45	July 31	To Close	J 1	3 45		
			3 45				3 45		

Account No. 77									
MISCELLANEOUS EXPENSES									
DATE	ITEMS	FOLIO	DEBITS	DATE	ITEMS	FOLIO	CREDITS		
1937									
July 31	Carfare, etc. (closing entry)	CD 1	2 10	July 31	To Close	J 1	2 10		
			2 10				2 10		

TRIAL BALANCE AND

	ACCT. NO.	DR.		CR.		DR.		CR.		
		TRIAL BALANCE				ADJUSTING ENTRIES				
		JULY 31, 1937				JULY 31, 1937				
						(See General Journal)				
<b>ASSETS:</b>										
Bank Account	1	30	65							
Petty Cash Fund	2	15	00							
Accounts Receivable	3	14	00							
Merchandise Inventory	4	-				91	81			
Furniture & Fixtures	5	125	00							
Reserve for Depreciation	6								1 04	
Prepaid Insurance	7	12	00						33	
<b>LIABILITIES: &amp; Capital</b>										
Accounts Payable	25					156	00			
Savings Returns Payable	26					-				
Capital Stock	27					95	00			
General Reserve	28					-				
<b>INCOME:</b>										
Sales	51					352	59			
Commissions	52					11	25			
Other Income	53					6	96			
<b>PURCHASES &amp; EXPENSES:</b>										
Merchandise Purchases	60	374	10						91 81	
Salaries	70	25	00							
Wrapping Supplies	71	8	00							
Rent	72	10	00							
Depreciation	73	-						1 04		
Telephone	74	2	50							
Insurance	75	-						33		
Office Supplies	76	3	45							
Miscellaneous Expenses	77	2	10							
<b>TOTAL</b>		621	80			621	80	93	18	93 18

ADJUSTING ENTRIES

DR.		CR.		DR.		CR.		SUPPORTING DATA FOR ACCOUNTS
EXPENSE AND INCOME				BALANCE SHEET AS OF JULY 31, 1937				
				30	65			Reconciliation of Bank Statements.
				15	00			Actual Count
				14	00			Trial Balance of Accts. Receivable Ledger
				91	81			Inventory Records
				125	00			List of Fixtures
							1 04	Verification of computation
				11	67			Verification of insurance policies
							156 00	Trial Balance of Accts. Payable Ledger
							-	
							95 00	Trial Balance of Capital Stock Ledger
							-	
		352	59					Record of Members purchases
		11	25					Analyzed in detail in General Ledger
		6	96					
282	29							
25	00							Payroll Book
8	00							
10	00							
1	04							
2	50							
	33							
3	45							
2	10							Analyzed in detail in General Ledger
334	71	370	80	288	13	252	04	
GAIN	36 09					36	09	
370	80	370	80	288	13	288	13	

ACCOUNTS RECEIVABLE

LEDGER - CUSTOMERS

ARNOLD										
<u>DATE</u> 1937		ITEMS	FOLIO ✓	DEBITS		<u>DATE</u> 1937		ITEMS	FOLIO ✓	CREDITS
July	1		SJ 1 A	2	49	July	2		CR 1 A	2 49

COAL DEALER										
<u>DATE</u> 1937		ITEMS	FOLIO ✓	DEBITS		<u>DATE</u> 1937		ITEMS	FOLIO ✓	CREDITS
July	1		SJ 1	3	00					

LONG										
<u>DATE</u> 1937		ITEMS	FOLIO ✓	DEBITS		<u>DATE</u> 1937		ITEMS	FOLIO ✓	CREDITS
July	2		SJ 1	7	00					

WILLIAMS										
<u>DATE</u> 1937		ITEMS	FOLIO ✓	DEBITS		<u>DATE</u> 1937		ITEMS	FOLIO ✓	CREDITS
July	2		SJ 1	4	00					

TRIAL BALANCE - ACCOUNTS RECEIVABLE LEDGER

	DR.	CR.
Arnold	-	-
Coal Dealer	3.00	
Long	7.00	
Williams	4.00	
	<u>14.00</u>	<u>-</u>
TOTAL (As Per General Ledger Control Acct.)	<u>14.00</u>	<u>-</u>

ACCOUNTS PAYABLE LEDGER

NATIONAL CASH REGISTER CO.							
DATE 1937	ITEMS	FOLIO ✓	DEBITS	DATE 1937	ITEMS	FOLIO ✓	CREDITS
July 2		CD 1	25 00	July 3	100.00	PJ 1	125 00

EASTERN COOP. WHOLESALE											
1937										1937	
July 1		CD 1 A	144	54	July 1		PJ 1 A	144	54		
2		CD 1 B	153	41	2		PJ 1 B	153	41		
					3	56.00	PJ 1	56	00		

TRIAL BALANCE - ACCOUNTS PAYABLE LEDGER

	DR.	CR.
Eastern Coop. Wholesale		56.00
National Cash Register Co.		<u>100.00</u>
TOTAL (As Per General Ledger Control Acct.)	<u>-</u>	<u>156.00</u>

CAPITAL STOCK LEDGER

(Specially designed forms for Capital Stock for Cooperatives are available)

ARNOLD									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 2		CD 1	5	00	July 1	20.00	CR 1	25	00

FALK									
1937									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 1					July 1		CR 1	25	00

LONG									
1937									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 2					July 2		CR 1	25	00

WILLIAMS									
1937									
DATE	ITEMS	FOLIO	DEBITS		DATE	ITEMS	FOLIO	CREDITS	
1937					1937				
July 1					July 1		CR 1	25	00

TRIAL BALANCE - CAPITAL STOCK LEDGER

	CR.	DR.
Arnold		20.00
Falk		25.00
Long		25.00
Williams		25.00
TOTAL (As per General Ledger Control Acct)	-	<u>95.00</u>



COOPERATIVE CLUB OF SO AND SO, INC.

BALANCE SHEET AS OF JULY 31, 1937

A S S E T S

CURRENT ASSETS:

Cash in Bank	30.65	
Petty Cash Fund	15.00	
Accounts Receivable	14.00	
Merchandise Inventory	<u>91.81</u>	151.46

FIXED ASSETS:

Furniture and Fixtures	125.00	
Less: Reserve for Depreciation	<u>1.04</u>	123.96

DEFERRED ASSETS:

Prepaid Insurance		<u>11.67</u>
<u>TOTAL ASSETS</u>		<u>287.09</u>

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts Payable	156.00	
Savings Returns Payable	<u>14.55</u>	170.55

CAPITAL STOCK - Paid In

95.00

GENERAL RESERVE:

Net Gain for Period	36.09	
Less: Savings Returns Payable	<u>14.55</u>	
Balance in General Reserve 7/31/37		<u>21.54</u>

TOTAL LIABILITIES AND CAPITAL

287.09

COOPERATIVE CLUB OF SO AND SO, INC.

STATEMENT OF OPERATIONS

JULY 1, 1937 TO JULY 31, 1937

<u>INCOME:</u>			
Sales		352.59	100%
<u>COST OF MERCHANDISE SOLD:</u>			
Merchandise Purchases	374.10		
Less: Merchandise Inventory 7/31/37	<u>91.81</u>		
		282.29	80%
<u>GROSS GAIN</u>		70.30	20%
<u>EXPENSES:</u>			
Salaries	25.00		
Wrapping Supplies	8.00		
Rent	10.00		
Depreciation	1.04		
Telephone	2.50		
Insurance	.33		
Office Supplies	3.45		
Miscellaneous Expenses	<u>2.10</u>		
<u>TOTAL EXPENSES</u>		52.42	14.9%
		17.88	5.1%
<u>OTHER INCOME:</u>			
Discounts	5.96		
Commissions	11.25		
Miscellaneous	<u>1.00</u>		
		18.21	5.2%
<u>NET GAIN FOR PERIOD</u>		<u>36.09</u>	<u>10.3%</u>

The figures used in this example are purely hypothetical and bear no relation either in percentage or amount to the figures of any actual business.

## SECTION 4

### A. DEFINITIONS OF TERMS COMMONLY USED IN BOOKKEEPING

### B. A TYPICAL BALANCE SHEET AND OPERATING STATEMENT OF A COOPERATIVE TRADING CONCERN

<u>Term</u>	<u>Definition</u>	<u>Page Reference</u>
ACCOUNT	The record of any particular group of entries.	11, 13
ACCOUNTANCY	The profession whose principal functions are to devise methods of recording, to prepare statements from these records, and to advise business through the interpretation of its accounts.	11
ACCOUNTS PAYABLE	(Creditors' Accounts) Debts owed by the business on open account which arise in the regular course of business.	8, 11
ACCOUNTS RECEIVABLE	(Customers' Accounts) Debts owed to the business by customers; these debts arise from sales in the regular course of business.	7, 9, 11
ACCRUAL (PAYABLE)	An amount owing, and therefore set up on the books, for a service rendered but not yet billed to the business.	
ASSETS	Things owned by a business, available for the payment of debts or capital.	8, 10, 12
ASSETS, CURRENT	Those assets, such as accounts receivable, merchandise inventories, etc., which, in the due course of business, will be converted into cash.	8
ASSETS, DEFERRED	An expenditure made for a service rendered to the business, whose benefit will extend into the future.	8
ASSETS, FIXED	Those assets, such as land, buildings and equipment, which, by their nature, constitute a permanent investment in the business. It is not expected that these will be converted into cash except upon liquidation.	8

<u>Term</u>	<u>Definition</u>	<u>Page Reference</u>
AUDIT	The examination of the books and accounts, and other records of financial transactions of a business, and the rendition of correct financial statements, based upon this examination.	11
BALANCE	The difference between the debit and the credit sides of an account.	11
BALANCE SHEET	A financial statement, as of a certain date, showing the assets, liabilities and capital of a business.	7,8,9,13
BOOKKEEPING	The systematic recording of business transactions.	2, 7
BOOKS OF ORIGINAL ENTRY	Those books in which the original entries of business transactions are made.	
BUDGET	An estimate of the future income and expenditures of a business, generally based upon the past experiences of that business or of one similar to it, but modified by the expected effect of future trends.	
CAPITAL	The funds invested by the stockholders in the business (capital stock) plus the reserves or minus the deficit accumulated by the business.	8, 10
CAPITAL EXPENDITURES	Expenditures made for those things such as land, buildings or equipment that will be permanently used by the business to carry out its function.	3
CHARGES	The same as debit (q.v.).	11
CLOSING OF BOOKS	The transferring and closing out of the income and expenses accounts, the balancing and ruling off of the remaining asset, liability and capital accounts, and the bringing forward of these balances.	13
COLUMNIZATION	The use of various columns in books and records to accumulate particular information of the same type, thus reducing the number of postings.	13

<u>Term</u>	<u>Definition</u>	<u>Page Reference</u>
CONTROL ACCOUNT	That account in the general ledger whose balance at any given time equals the aggregate of all of the individual account balances in the subsidiary ledger which it controls.	11
CREDIT	The ability to borrow money, to purchase merchandise and/or to procure services on the promise to pay at a later date.	10
CREDIT ENTRIES	Those entries that are complimentary to debit entries. They appear on the right side of an account.	11, 12
DEBIT ENTRIES	Those entries that are complimentary to credit entries. They appear on the left side of an account.	11, 12
DEFERRED CHARGES	The same as deferred assets (q.v.).	8
DEFERRED INCOME	Money received in advance for a service to be rendered in the future.	
DEFICIT	The excess of the sum of the liabilities and capital stock over the aggregate value of the assets.	8
DEPRECIATION	The decrease in the cash value of a piece of equipment (because of use or obsolescence), which decrease must be considered as an expense of the business.	8, 10
DISCOUNT	An allowance made on a bill to induce prompt payment.	
DOUBLE ENTRY SYSTEM	The system of bookkeeping which makes two entries (the debit and the credit) for every transaction recorded.	7, 12
ENTRY	The record of a transaction in the books.	11, 13
GENERAL LEDGER	That book of the business which contains the analysis and summary of the journals. Financial statements are prepared from this book.	7,10,11,13
GENERAL RESERVE	Assets minus liabilities and capital. In cooperative business, the general reserve is owned in common by the members.	8, 9, 10

<u>Term</u>	<u>Definition</u>	Page Reference
GROSS GAIN	The difference between sales and the cost of merchandise sold.	9, 10
INVENTORY	The count and valuation of merchandise on hand at any time.	8
JOURNAL, GENERAL	The book in which the opening, adjusting and closing entries are made.	7, 10
JOURNAL, CASH	(Cash Book) The journal in which all cash transactions are recorded.	10, 11, 13
JOURNAL, PURCHASE	(Purchase Book) The journal in which all purchases of merchandise for resale or for manufacture are recorded. In most cooperatives, expenses not immediately paid are also recorded in the purchase journal.	10, 11
JOURNAL, SALES	(Sales Book) The journal in which charge sales - sales made on credit - are recorded.	10, 11, 13
LIABILITIES	Debts owed by a business.	8, 10, 12
LIABILITIES, ACCRUED	The same as accrual (q.v.).	
LIABILITIES, CURRENT	Debts which are due at once or in the very near future.	8
MARK DOWN	A reduction in the selling price.	
MARK UP	That which is added to the cost of merchandise in order to determine the selling price.	
MARGIN, GROSS	The same as gross gain (q.v.).	10
OVERHEAD	The expenses necessary for the conduct of the business.	
OPERATING EXPENSES	The total expense involved in the selling and distribution of merchandise, and in the administration of the business. The term can be further subdivided into selling expenses, delivery expenses, administrative expenses, general expenses, etc.	10
OPERATING STATEMENT	The statement showing the income, the ex-	9, 13

<u>Term</u>	<u>Definition</u>	<u>Page Reference</u>
	penses, and the gain or loss from the operations of a business during a given period.	
PETTY CASH FUND	A specific amount of cash, decided upon in relation to the need of the business, drawn from the bank and used to pay for petty expenditures such as telephone calls, car-fares, etc.	10, 13
POSTING	The recording, in a ledger, of original entries appearing in the journals.	10, 11, 13
PREPAID EXPENSES	See deferred assets.	8
RATIO	The relationship that certain amounts bear to each other.	
REBATES	Another term for savings returns (q.v.).	5
RECORDS	The books of account, the subsidiary records and other documents pertaining to the business.	6
RESERVE FOR DEPRECIATION	An account whose balance, when deducted from the asset account to which it applies, serves properly to evaluate that asset as of the date of the balance sheet.	
SAVINGS RETURNS	That portion of the net gain returned to members, and in some cases to non-members, in proportion to their patronage.	5, 10, 13, 14
TRIAL BALANCE	A listing of all the debit balances and all the credit balances in the accounts of a ledger. The total of the debits should equal the total of the credits.	11, 13
TURNOVER OF MERCHANDISE	The number of times the average merchandise inventory is moved during the year.	
UNDIVIDED GAIN	The amount remaining after the operating expenses have been deducted from the gross margin. From this the savings returns and other approved appropriations are deducted; the remainder is then transferred to the general reserve.	9, 10

SAMPLE OF PROPOSED BALANCE SHEET  
FOR COOPERATIVE TRADING CONCERNS  
EXHIBIT A

A S S E T S

CURRENT ASSETS:

Cash in Bank	-	
Petty Cash & Register Funds	-	
Accounts Receivable	-	
Merchandise Inventory	-	
	-	

TOTAL CURRENT ASSETS

FIXED ASSETS:

Land	-	
Buildings	-	
Less: Reserve for Depreciation	-	-
Furniture and Equipment	-	
Less: Reserve for Depreciation	-	-
Delivery Equipment	-	
Less: Reserve for Depreciation	-	-
	-	-

TOTAL FIXED ASSETS

DEFERRED ASSETS:

Prepaid Insurance	-	
Wrapping Supplies	-	
Taxes and Licenses	-	
	-	

TOTAL DEFERRED ASSETS

TOTAL ASSETS

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts Payable	-	
Notes Payable	-	
Deposits Payable	-	
Savings Returns Payable	-	
Accrued: Interest	-	
Taxes	-	
	-	-

TOTAL CURRENT LIABILITIES

FIRST MORTGAGE

CAPITAL STOCK - Paid In

GENERAL RESERVE:

Balance at beginning	-	
Less: Savings Returns	-	
Plus: Net Gain for Period (See Exh. B)	-	
Balance at end	-	-

TOTAL LIABILITIES AND CAPITAL



SAMPLE OF PROPOSED OPERATING STATEMENT  
FOR COOPERATIVE TRADING CONCERNS  
EXHIBIT B

SALES

COST OF MERCHANDISE SOLD:

Inventory (beginning of period)	-	
Plus: Merchandise Purchases	-	
Freight In	-	
	<hr style="width: 50%; margin: 0 auto;"/>	<hr style="width: 50%; margin: 0 auto;"/>
Less: Inventory (end of period)		<hr style="width: 50%; margin: 0 auto;"/>

COST OF MERCHANDISE SOLD

-  
-

GROSS GAIN

EXPENSES AND DEDUCTIONS:

SELLING EXPENSES:

Wages of Sales Force	-	
Advertising	-	
Wrapping and Store Supplies	-	
	<hr style="width: 50%; margin: 0 auto;"/>	-

DELIVERY EXPENSES:

Wages of Delivery Force	-	
Truck Expense & Maintenance	-	
Garage Rent	-	
Truck Depreciation	-	
Insurance on Trucks	-	
	<hr style="width: 50%; margin: 0 auto;"/>	-

ADMINISTRATIVE EXPENSES:

Wages for Administration	-	
Office Supplies	-	
Audit and Legal	-	
Telephone and Telegraph	-	
	<hr style="width: 50%; margin: 0 auto;"/>	-

GENERAL EXPENSES:

Rent	-	
Light, Heat & Power	-	
Insurance	-	
Depreciation-Fixtures	-	
Depreciation-Buildings	-	
Interest	-	
Taxes	-	
Repairs	-	
	<hr style="width: 50%; margin: 0 auto;"/>	-

TOTAL EXPENSES AND DEDUCTIONS

-  
-

OTHER INCOME:

Discounts	-	
Others	-	
	<hr style="width: 50%; margin: 0 auto;"/>	-

NET GAIN FOR PERIOD (SEE EXHIBIT A)

-  
-  

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### RULES FOR TAKING INVENTORY

Accuracy in taking inventory cannot be stressed too strongly, since a discrepancy will entirely throw off an operating statement or balance sheet, and might result in ultimate failure.

1. The merchandise should be arranged in advance of the taking of inventory, in order to facilitate the count.
2. An inventory committee should be chosen by the board of directors from its own members or from the membership at large. It should, as a rule, include the manager and employees.
3. In preparation for taking inventory, the committee should make sure that there are enough inventory blanks on hand. The committee should divide the store into zones, each of which is to be covered by three members of the committee. If proper plans are not made, the committee is liable to perform its task in a haphazard manner, possibly leaving part of its work unfinished.
4. Each crew of the inventory committee works most efficiently when one member does the counting and calling, another checks his work, and a third writes down the data.
5. Itemized statements should be requested from all creditors, and accounts payable balances proven. It should be ascertained that all merchandise has been billed and that all deliveries have been made for the bills payable.
6. Consignment of commission goods must not be included in the inventory proper, but should be listed separately for memorandum purposes. Goods sold but not delivered should be left out of the inventory. Goods held in storage must be confirmed by the storage houses before they are added to the inventory.
7. If the inventory is taken while the store remains open for business, it is necessary to adjust for all sales made or new merchandise received while the inventory is being taken.
8. Wrapping supplies, office supplies, fuel, ice, etc., should be listed separately.
9. Inventories should be listed in duplicate, one copy to be left with the manager, the other with the chairman of the inventory committee.
10. Inventories must be priced by persons familiar with the current market. It is advisable to consult representatives of wholesalers as well as price books.
11. Pricing should be either at cost or at market, whichever is lower. Cost marks cannot be relied upon exclusively, unless they have first been tested as to their accuracy.
12. Provision must be made for odds and ends, goods out of style, articles more or less shopworn.
13. The calculating, as well as the pricing of the inventory, should be done independently both by the committee and by the management.
14. Any qualifications should be noted and the inventory should be certified by the signatures of the members of the committee.
15. Finally, the auditor or audit committee should be furnished with the two completed copies of the inventory and should compare them in order to tally the result before using it in making up the financial statements.

The taking of inventory should also furnish the occasion for a review of the purchasing policy with respect to the normal amount of any item which should be carried in stock.

(Name of the Cooperative Association)

CASH DISBURSEMENTS AND VOUCHER JOURNAL

Line	Date		Check No.	Reference		Explanation	Name and Address of Payee	Invoice or Bill		Deductions		Amount Payable	Amount of Check	Due Date of Payment	Date Check Paid by Bank	Remarks
	Mo.	Day		Source No.	No.			Amount	Cash	Others						
	2	3		5	6			7	11	12	13					
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
11																
12																
13																
14																
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16																
17																
18																
19																
20																
21																
22																
23																
24																
25																
26																
27																
28	Note: The difference between the totals of columns 13 and 14 will show the balance of Accounts Payable.															
29	At the end of the month two Journal Entries are made:															
30	1. Charge various accounts (make a summary) for total amount of Column 10 and credit Accounts Payable, Column 13, and other accounts															
31	for deductions, totals in Columns 11 and 12.															
32	2. Credit Cash, total Column 14, and charge an equal amount to Accounts Payable.															
33																



(Name of the Cooperative Association)

NOTES RECEIVABLE REGISTER

Year		Name of Payor	Reference		Date of Payment	Date of Maturity	Interest			Date		Face Value	Remarks
Month	Day		Source	Number			From (date)	Rate	Amount	Discounted	Paid		

Note: Credits will be entered in red.

(Name of the Cooperative Association)

PERPETUAL INVENTORY RECORD

Name of Item

Identification No. \_\_\_\_\_

Maximum ..... Minimum ..... Description of Item .....

Year		Purchase Order Number	Received From or Issued to	Purchases and Issues			Balance		
Month	Day			Quantity	Price	Amount	Quantity	Unit Cost	Amount
			R R I						

Notes: R - Symbol for receipts, i.e., additions.  
 I - Symbol for issues, i.e., deductions, recorded in red.  
 The balance is extended every time an entry is made, be it purchase or issue, and the new average unit cost is calculated; every time an issue is made, the last average unit cost is used.



.....  
(Name of the Cooperative Association)

REQUISITION ON PURCHASING AGENT

On Hand ..... Date .....  
.....  
.....

Date Ordered by Purchasing Agent .....  
  
Purchase Order Number .....

To Purchasing Agent:

Please order .....

Ship to ..... Via .....

Quantity	Identi- fication Number Of Item	Description	For What Purpose

Ordered  
by.....

Notes:

- Original (white) to Purchasing Agent, to be filed by units, and within units, numerically.
- White copy to requisitioning unit, to be filed numerically.
- Blue copy as tickler, to unit requesting, to be filed chronologically.
- Blue copy as tickler, to Purchasing Agent, to be filed chronologically.
- White copy to unit which is to receive the goods.
- Pink copy to General Manager.











PAYROLL

Period Covered From..... to .....

Name of Unit .....

Date .....

Line	Name	Rate Per		Number of Working		Amount Earned	Deduction from Employees	Net Amount Payable to Employees Acct. No. 2113	Contributions by the Association		Signature of Payee
		M Month	D Day	D Days	H Hours				Acct. No. 2111	Acct. No. 2112	
1	2	3	4	5	6	6	8	9	10	11	12
<p>Summary</p> <p>Copies to: Paymaster                      Community Manager</p>											