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R. F. Hampson

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Accounting for Photographers

By R. F. HAMPSON

The majority of individuals and firms engaged in the photographic business operate portrait studios as their principal activity. Commercial and news photography, if handled at all, is generally the work of a separate and smaller department. The principal technical operations in a portrait studio may be stated briefly as follows:

Exposure of plates or films in operating room; development in dark room of the exposed plates or films; retouching the negatives; printing proofs on sensitized paper (day-light or arc-light method); additional retouching of negatives selected for order; printing and developing finished prints. Further technical detail, involving applications of the laws of optics and chemistry, will be omitted as this paper is intended to treat primarily of the work of the accounting department.

In those photographic businesses, where the annual volume of sales is not less than \$25,000.00 nor more than \$300,000.00, the following list of books and blanks to be used by the accounting department in recording the various transactions should prove adequate:

- General ledger
- Sales ledgers
(departmentalized, if necessary)
- Sales journal
- Sales returns and allowances journal
- Voucher register
- Cash-receipts book
- Cash-disbursements book
- Cheque book
- Petty-cash vouchers
- General journal
- Journal vouchers
- Payroll record

A satisfactory classification of general ledger accounts, arranged in the order of their appearance on the monthly or annual statements, is shown below:

ASSETS (WITH VALUATION ACCOUNTS) AND DEFERRED CHARGES

Current:

- Cash in bank
- Petty-cash fund
- Notes receivable
- Accounts receivable
- Reserve for doubtful accounts
- Chemicals
- Frames
- Mounts
- Paper
- Plates

The total of the above group is the amount of the "merchandise" item on the balance-sheet.

Fixed:

- Land
- Building
- Depreciation reserve for building
- Furniture and fixtures
- Depreciation reserve for furniture and fixtures
- Cameras
- Depreciation reserve for cameras
- Lenses
- Depreciation reserve for lenses

Deferred charges:

- Insurance unexpired
- Stationery on hand
- Salaries prepaid

Current liabilities:

- Accounts payable
- Notes payable
- Salaries accrued
- Reserve for taxes

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CAPITAL

- If a corporation:
 - Capital stock, preferred
 - Capital stock, common
 - Surplus
- If a partnership:
 - William Smith, capital
 - Henry Jones, capital
- If a sole proprietorship:
 - John Doe, capital

INCOME AND EXPENSE ACCOUNTS (departmentalized, if necessary)

LIABILITIES AND CAPITAL

- Gross sales
- Sales returns and allowances
- Discount on purchases
- Cost of sales
- Advertising
- Bad debts
- Depreciation
- Heat and light
- Insurance
- Interest
- Postage
- Salaries
- Stationery and printing
- Sundry expenses
- Taxes
- Telephone and telegraph
- Profit-and-loss

With the intention of grouping relevant transactions and records under logical captions, they have been arranged under seven principal headings, as follows:

1. Purchases
2. Sales
3. Cash records
4. Payroll system
5. Provision for depreciation
6. Inventories and stock control
7. Insurance

Ordinarily, the transactions of a photographic business do not require anything in the way of accounting treatment different from that which is usual to the average medium-sized business. There are, however, a few exceptions to this statement and these are taken up under their appropriate captions below.

Purchases:

After approval of requisition from any department in need of materials or supplies a formal order should be made up in the office of the purchasing agent. This order should be prepared in triplicate, the original going to the firm from which the goods are ordered, the duplicate to the accounting department, and the triplicate should be retained for the files of the purchasing agent.

When the material is received it should be unpacked and carefully checked, the count of the contents being made by a receiving clerk who does not know the quantity called for by the order. It is believed that this method of checking is very effective in the detection of shortages, as it is necessary that the receiving clerk actually count the contents of every case received. The expiration dates of all sensitized materials, i. e., films, paper or plates, should be noted at this time and any expired goods should be promptly returned to the vendor. A chronological record should be kept of all incoming shipments, showing in separate columns the date received, name and address of shipper, detailed description of articles received, amount of freight or express paid on the shipment and any special remarks. After the checking is completed, the merchandise should be placed in the stock-room and withdrawn only on requisitions approved by some authorized employee.

The date of receipt and quantities should be entered in spaces provided therefor on the accounting department's copy of the purchase order.

The invoice, when received, should be verified by the accounting department as to quantity, price and extensions and, if found correct, approved and filed alphabetically until date of payment.

A card record of all purchases should be maintained, showing, as to each purchase, the name of the article, name and address of dealer, price per unit, discount from list price and date of purchase, these cards being filed alphabetically under the name of the articles purchased.

Sales:

Ordinarily, many orders are given orally by customers in the reception room but probably an equal or greater number is received through the mail. In either case, the order should be entered on a ticket-register machine, which furnishes three numbered copies, preferably of different colors. One copy should be attached to the proofs selected by the customer for the finished order; another copy should be temporarily filed and used in making up a daily sales report; and the third copy should be used by the accounting department as the basis of an entry in the sales journal.

The order should be made up from the data shown on the copy which is sent to the retouching department, where the negatives covering the selected proofs are withdrawn from the files for finished retouching. When the retouching has been completed, the negatives are sent to the printing department for printing and developing. The negative is then filed and the prints, when thoroughly dried, are sent to the finishing section where the backgrounds are spotted in and the necessary folders supplied. The finished order then goes to the reception-room bookkeeper, who should make out an invoice from the customer's account card, checking it against the number of photographs received from the finishing section.

If any photographs or frames are submitted on approval, they should not be entered on the books until accepted or until a reasonable time for examination by a prospective customer has elapsed. If the goods are accepted the transaction can be entered as an ordinary sale, the sales journal showing instead of a regular order number the number of the blank used when forwarding the photographs on approval. All photographs or frames out on approval should be followed by letters requesting prompt acceptance or return of the goods.

At the end of each fiscal period there should be set aside as a reserve for doubtful accounts a certain amount, e. g., one per cent. of the gross sales made during that period. A good credit manager may be able to keep this rate down to one-half of one per cent.; if it exceeds two per cent. it is usually indicative of poor credit management. Trial balances should be submitted monthly, showing the customers' accounts which are 30 days old, over 60 days old and over 90 days old.

Cash Records:

With very few exceptions, payments from customers are received personally in the reception room or through the mail. If received in the reception room, the amounts collected should be turned in once or twice daily to the cashier, who should make out a ticket in triplicate for the amount received from each customer, one copy of this ticket being given to the reception clerk as her receipt for the money, another placed on the permanent numerical file of such tickets, and the third used as the specific item for which an entry must be made in the cash-receipts book in much the same way that each cheque stub furnishes the basis for an entry in the cash-disbursements book. Remittances received through the mail would be treated substantially the same as when received in the reception room. All cash receipts should be deposited daily and, of course, the total of each group of daily entries must agree with the amount of the deposit for that date.

All cash disbursements, petty-cash items excepted, should be made by cheque. If the business is incorporated, all cheques should be signed and countersigned by two responsible, bonded executives. If it is a partnership, this function should be exercised by two of the active partners, where this is possible, and, in the case of a sole proprietorship, the signature of the owner will usually suffice. A record of the daily deposits can be kept on the cheque book stubs and this total less the accumulated total of cheques drawn, gives the bank balance each day. In addition to this record, a daily report, showing bank balance at close of previous day, deposit (analyzed as to sources of receipts), disbursements (classified as to nature of payments) and bank balance at close of day, will prove very useful to the management. As soon as practicable after the close of each month, the balance shown by the pass book should be reconciled with the balance of the "cash in bank" account and a record should be kept of all outstanding cheques.

The petty-cash fund, the amount of which will depend on the needs of each business, should be treated as follows:

Each disbursement should be recorded on a small, printed and numbered ticket to which can be attached, when practicable, any supporting papers, such as express receipts, receipts from newspaper agents, cash-register receipts for small purchases, etc. When the fund is about three-fourths expended a cheque, payable

to the cashier, should be drawn for the total of all tickets on hand, thereby bringing the fund up to its maximum amount. Such a cheque should be drawn on the last day of a fiscal period, regardless of the condition of the fund, in order that the amount shown on the balance-sheet may be entirely represented by cash, and all the expense items should be charged to the proper period.

Payroll System:

Any one of numerous payroll forms probably will prove satisfactory for the average photographic business, but one which permits on the same sheet an analysis of the total wages and salaries according to liability-insurance classifications will be found advantageous, when the insurance company's auditor makes his periodical visits for the purpose of determining the exact premium earned.

To minimize errors, the payroll should be prepared one day before distribution of the envelopes, where this is practicable. No changes on the payroll, i. e., additions, removals, increases or decreases, should be made except upon written instructions of the proper executive. One cheque for the total amount necessary to fill the envelopes should be drawn in favor of the cashier. An analysis of the items should be made, in order to determine the proper number of bills and coins of each denomination and this analysis given to the bank, on its blank, at the time of cashing the payroll cheque.

A receipt for his pay should be signed by each employee, and the payrolls, with these receipts attached, should be filed chronologically.

When closing the books at the end of a fiscal period accrued or prepaid salaries should be taken into account. Any unclaimed pay can be deposited in bank but liability therefor should be shown for a reasonable length of time.

Provision for Depreciation:

Depreciation should be provided for by charging off at the close of each fiscal period an estimated amount covering the physical depreciation for that period. No account is ordinarily taken of obsolescence. On furniture and fixtures, for example, if the estimated life is ten years, the full cost should be depreciated on a straight-line basis over that period, no account being

taken in most cases of any possible residual value. The expense element can be brought on the books by inclusion with all of the other similar charges to one account for "depreciation," but the credit, in each case, should be to a reserve for depreciation which becomes a valuation account for its particular asset. This reserve for depreciation or valuation account should be shown on the balance-sheet as a deduction from the book value of the asset, the asset account not being changed during its life except when increased by purchases of new furniture or fixtures. In this way, the balance-sheets will exhibit the original cost, the amount of depreciation charged off and the estimated value at the close of each fiscal period.

Inventories and Stock Control:

A physical inventory of the merchandise should be taken monthly. Only that part of the merchandise which is in the stock-room should be included in the inventory, as the unused portions of packages in the hands of laboratory employees occasionally become light-struck or otherwise spoiled and their value would be doubtful. It is also important to exclude from the inventory all sensitized paper, plates or films whose expiration date is not beyond the inventory date. Depreciation of the stock may also have to be provided for if the proper temperature is not maintained in the stock-room, as the photographic paper, for example, is quickly affected by excessive heat.

The basis of valuation for the merchandise inventory should be cost or market, whichever is lower.

A graphic perpetual inventory, maintained in the office of the purchasing agent, showing as to each item of the stock, quantity on hand, quantity ordered and minimum quantity, will be found very helpful if the stock is large or varied. By means of colored map tacks, the falling of any item to its minimum can be automatically determined and the replenishment of the stock greatly facilitated. The positions of the tacks should be adjusted daily, the necessary information being obtained from the receiving records and the stock-room requisitions.

Insurance:

The following forms of insurance should be carried by every photographic business:

- (a) Fire insurance on building (if owned)
- (b) Fire insurance on fixtures
- (c) Fire insurance on merchandise
- (d) Liability insurance on automobiles (if owned)
- (e) Fire, theft and damage insurance on automobiles
(if owned)
- (f) Employers' liability insurance, covering accidents to
employees
- (g) Owners, landlords and tenants' liability insurance
- (h) Public liability insurance
- (i) Use and occupancy insurance

When a policy is taken out, the total amount of the premium should be charged to "insurance unexpired" and this account should be credited at the end of each fiscal period with the total of the insurance-expense charges of the several policies. If the business is departmentalized, the expense of each form of insurance should be allocated to the several departments on as equitable a basis as can be devised, the total of the items thus obtained determining the total periodic charge to each department.

The amount of insurance carried in the balance-sheet as a deferred charge should represent the full amount unexpired at that date as it is not considered desirable to use the short-rate surrender value in the accounts of a going concern.

Individual surety bonds should be required of all employees handling money or in charge of valuable supplies, the premium on these bonds being paid by the employer.

In concluding this paper, the writer wishes to invite attention to the very valuable statistical information which may be obtained from records kept in accordance with the above outline. Unit costs, the percentage relations of the various expenses to net sales and the comparison of these with previous fiscal periods permit what is otherwise impossible, namely, the substitution of trustworthy conclusions for deceptive opinions.