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Accounting for a Professional Institute*

BY EDWIN E. LEFFLER

Institutes, made up of members of a profession, are, as a rule, organized to promote and benefit that profession and as such their activities are diversified. Some of these activities are educational; some assist in maintenance of high standards of ethics; others concern the establishment of a library and keeping the members in touch with all new literature appertaining to the profession.

Accounting for an institute of this nature has many phases. The revenue comes from the payment of dues, the subscription to a monthly journal or bulletin, the sales of advertising and so on. The expenditures must be distributed to various committees and appropriations. While these organizations are not as a rule run to create a large surplus, it is essential nevertheless that they employ modern methods in their accounting.

In this paper I will endeavor to point out some of the salient features of a system for such an institution, covering the matter only in a general way and in the following order: first, describing the principal books necessary; then a simple chart of accounts; following this by a description of the method for recording the various revenues and expenditures; the preparation of a budget; the treatment of accounts payable and some other matters of a more or less general character.

In describing the books I shall omit all reference to minute books, members' records and books of a like character, simply confining myself to the accounting books. The principal books essential to a system for an institute are cashbook, journal, dues and sales journal, general ledger, members' dues ledger, petty cash book and possibly a miscellaneous accounts receivable ledger.

No description of the cashbook and journal is necessary except to say that they should be columnar books and that the headings for the columns can be worked out readily for any different classification desired. The members' dues ledger can easily be designed to cover a period of ten years by having the pages

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printed on both sides and perforated on both ends so that they may be reversed in the binder. Five sets of columns may be printed on each side to take care of five years. The columns should be divided for dues charged and dues paid showing date and amount under each heading. A short sheet with the members' numbers (entered in numerical order), names and grades, as "fellow," "member," "associate," may be printed; and this will last for a number of periods, changing the long sheet with the columns as frequently as necessary.

The dues and sales journal should have columns for date, bill number, name, total charge and distributions, such as entrance fees, current dues, past dues, subscriptions, etc.

A comprehensive chart of accounts should be thought out and arranged with regard to the peculiar necessities of the institute in mind. The following chart is submitted merely to cover the matter in a general way and is not intended to be a finished product.

Assets: real estate—buildings—furniture and fixtures—library—investments—inventories (year-book, journal, membership buttons, etc.)—cash—accounts receivable (dues, subscriptions, advertisement, buttons and miscellaneous)—cash in fund for promotion of membership—blank bond of fund for library extension.

Liabilities: accounts payable—advance dues—entrance fees and dues advanced by applicants—reserve for depreciation of buildings—reserve for depreciation of furniture and fixtures—reserve for fund for promotion of membership—reserve for fund for library extension—surplus.

Revenue: current dues—past dues—student dues—entrance fees—subscriptions—sales of special articles—sales of buttons—advertising—interest on bank balances—interest on investments—miscellaneous revenue.

Expenditures: salaries—binding and mailing journal—stationery and printing—general expenses—express—postage—meetings—membership committee expenses—standards committee expenses—year-book expense—blank medal award—dues written off as uncollectible.

Many of these expense items must be distributed to show the amounts expended for each of the various committees, necessitating, for example, several salary accounts.

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Revenues in most instances will be from similar sources in all organizations, as entrance fees, dues, student dues, subscriptions, advertising, interest, sales of buttons and so on.

One of the main difficulties in designing a system of this kind will be the method of accounting for yearly dues. In describing this method let us start from the point when an applicant is voted a member.

The first step when an applicant has been voted a member is to assign to this member a number. These numbers should be used consecutively, taking the next open number from the short sheet in the members' dues ledger. This number should serve to identify everything appertaining to the member. It should appear on his bill for dues, be used for filing purposes and so on. When a member is dropped or resigns, after a certain time has elapsed his number should be used for a new member.

On the first of the year, all dues should be extended into the dues charged column of the members' dues ledger and bills should be mailed for these dues. The columns should be footed and the totals carried to the dues and sales journal. This should be proved by multiplying the number of members by the yearly dues. Dues of members elected during the year are charged through the dues and sales journal and distributed to the various columns. These charges are then posted to the members' dues ledger according to the numbers that have been assigned to them. Advertising, subscriptions, sales of buttons, etc., are charged through the dues and sales journal, distributed in appropriate columns and posted in the proper subsidiary ledgers.

Cash received is entered in the cash receipt book in proper columns. This entry should show member's account number in the case of dues, to facilitate posting to the members' dues ledger. Appropriate control accounts are set up in the general ledger and a proof of accounts receivable ledgers is taken at short intervals. At the end of the year, all dues unpaid are transferred by journal entry from current dues to past dues. Entrance fees, dues and any other money accompanying an applicant's application should be credited to a liability account, "dues and fees advanced by applicants." As members are elected their fees are

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journalized from this account to entrance fees, dues and other appropriate accounts.

For purposes of following up delinquent members, after a definite period of time has elapsed and the members have not paid bills for dues, the membership mailing list may be run off on statement forms and arranged in numerical order. These may be readily compared with members' dues ledgers and statements for members in arrears may be sent out. After a certain time, notices should be sent out by the same method as above enclosing extracts from the by-laws relative to dues.

When bills are received they are verified as to the receipt of the goods and as to quantities. They are then checked as to prices and extensions. All these operations are indicated on the bills by means of a rubber stamp. Cheques are made out and distributed to the proper committees and appropriations. A statement of these disbursements is made, with sheets showing the amount charged to each appropriation for the period and the amount of the appropriation unexpended. These statements are submitted to the finance committee at its monthly meeting. When this statement of disbursements has been approved for payment by the finance committee and the chairman has signed the statement of cheques, the cheques and statement are delivered to the treasurer. The treasurer signs the cheques, verifying the amount of the cheques by the list approved by the finance committee. The cheques are then mailed, and the vouchers are stamped "approved for payment by the finance committee" with the date and numbers of cheques inserted in the proper spaces. The vouchers are then filed by vendors' names and each voucher has endorsed on it a complete record, thus showing that it has been completely checked and approved as well as showing the cheque number and date of payment.

An imprest petty cash fund should be maintained for petty expenditures. Disbursements are made on a regular petty cash voucher properly approved by some designated person. These disbursements are distributed to the various committees' appropriations and a voucher showing such distribution is made out. This is submitted to the finance committee at the next meeting

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and approved in the same manner as described in the previous discussion.

In a system such as is described here it probably will not be necessary to run a purchase journal and accounts payable ledger, but this liability should be reflected on the books at the time of the yearly closing. These bills cannot be distributed to the various committees, as they have not been approved by the finance committee. This liability may be shown, however, by setting up the bills unpaid at the close of the fiscal period as accounts payable and charging profit and loss by means of a journal entry. After the closing this entry should be reversed.

Towards the end of the fiscal year it is well to write to the chairmen of the various committees giving them all the detail possible as to the amount of the appropriations and expenditures for the previous years and asking for an estimate of their needs for the next year. When these estimates are returned a tentative budget is prepared for the consideration of the finance committee.

This tentative budget is submitted to the finance committee, with a statement in proper columns showing receipts in past years—from what sources the revenue was obtained—the disbursements in past years showing the amount expended for each committee—the amounts appropriated for each committee for the ensuing year—the estimated income from various sources for the ensuing appropriation year—the appropriations provided for the different committees for the preceding years—the estimated surplus or deficit for the ensuing year—the record of expenditures for different items of each committee's appropriation.

With these facts before it the finance committee prepares a final budget for the next year, showing the amount allotted to each committee and the purposes for which the appropriations are to be expended.

A monthly statement should be prepared and mailed to the chairmen of the various committees showing the expenditures of their individual committees to date, together with the amount of their appropriations still unexpended and any known expenses to be incurred for their committee.

Usually some revenue is received which is to be set aside for a specific purpose, such as a "fund for the promotion of technical papers." These funds may be carried as cash, preferably in a

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savings bank or in investments in gilt-edged securities. These funds are best treated by setting them up as an asset and offsetting them by a reserve account for the same amount. Earnings or disbursements for the fund should not be reflected in the institute's earnings but should go direct to the fund for which intended. A statement of these funds should be incorporated in the annual report to the board of directors.

Some societies receive numerous donations. For these a receipt book printed and numbered consecutively should be used. For every donation received, a receipt should be forwarded to the donor, the stub or duplicate remaining as the society's record. These stubs should be footed once a month or at designated periods and the totals should be brought into the cash received book and be properly distributed.

Lists of donations should be published in the society's bulletin, and the people expected to donate to a certain society should be warned to see that they receive a receipt.

Careful account for membership buttons or badges sold to members should be made. Records should be kept of the amount of sales and the cost of these sales. This is important that the society may not lose money on sales, unless it is the policy to do so. On the other hand only a moderate profit should be made.

It is important that members' mailing lists be kept up to date. Forms should be prepared to record all changes of address, grade or other information. These forms should be initialed by the person making the change on the mailing list, ordering the new stencil or taking any other step that is necessary to complete the society's record of these changes.

It is good policy to have the books of the society audited regularly and the annual reports certified by a recognized firm of accountants.

In conclusion it may be stated that this article has only attempted to bring out some of the main features in a system for a professional institution and does not purport to cover the entire field. Much could be done in the way of standardizing accounts for institutes, as it seems to be a phase of accounting that readily lends itself to standardization. It would appear that a wide field is open for the accountant and that he owes it to his professional brother to give some thought to his brother's needs.