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Bookkeeping is the art of recording business transactions and facts. Accountancy treats of the methods of classifying and recording business transactions and facts so that the facts shall be shown in their proper relations expressed in terms that will fully provide the information necessary to successful financial and business administration. Hence it may be seen that the most useful accounting system is that which discloses accurate information most frequently and soonest after the financial transactions have occurred.

The successful administration of any business, large or small, may be expressed in three terms: total sales; total purchases and expenses; and inventory of stock in trade. Rendered another way this might be expressed as: first, cost of doing business; second, volume of business done; third, profits and losses. The almost universal object of conducting business is to make profits; and the way to do this is to sell the product for more than it cost.

Now, what is cost? Cost has been defined as the amount, or equivalent, paid or given for anything—loss of any kind—expenditure—an outlay, as of money, time, labor, etc. Between cost and selling price a great gulf of expense is to be passed over. How it is to be bridged depends upon the merchant. There are no fixed rules for determining what the expense should be, as almost each case requires different treatment. Probably the most that can be said is that one should know what these expenses are, and what relations they bear to each other and to the whole.

While opinions may differ as to what kind of an accounting system to keep, it is universally agreed that it should be adequate and the results clearly stated. One of the reasons, I think, why better accounting systems have not been followed in the past is that many men cannot see where they bring in any money. There is something fascinating about a sale and the handing over of cash or the charging of a large sum against the account of a good payer.

*An address delivered before the Atlanta Ad. Men's Club.

One can see that; but it has taken years for business men to understand that a correct accounting system prevents loses, even though only by disclosing them and thus preventing their repetition.

What though, it is asked, are the prime essentials of an accounting system for retail merchants? In a distributive business where articles of merchandise are bought to sell again, we must have a record of the sales correctly entered and a record for purchases.

Now, if all business were done on a cash basis, the rest would be simple; the remainder would be accounted for by cash in bank —a truly ideal condition. But, in reality, at the end of the week or of the month the merchant, if he be prudent, should cast up his accounts and make a reckoning. He has a number of charge sales; a number of cash sales; payments on accounts previously made, and a quantity of unsold goods on hand, which, when listed, the business world calls inventory of stock in trade. The only way for him to find out what has been made or lost that month—which, added to or deducted from the previous month's showing will disclose the true financial condition—is to take an inventory of his stock on hand. He then lists this and makes up a statement of his other assets, money, accounts, notes, etc., deducts from the total all his payables and finds his present financial condition.

In order to prove this he makes up another statement which he calls a trading statement. This is composed of total sales for the month, less goods returned by purchasers, from which is deducted the cost of the goods he has bought to sell. This figure deducted from the sales will show the gross profits. From the gross profits are deducted the total expenses for the month, which will give him the net profit for the period under review. It is to be noted carefully that the difference between assets and liabilities should agree with the difference between total sales and purchases and expenses. This figure is affected only by what the merchant started with, but it is an important point in all accounting methods and is generally accepted as a proof of the accuracy of the work.

I am quite aware of the objection against preparing a monthly inventory because of the time and expense involved. While there is no other way as accurate as this, men experienced in certain lines of business have evolved two plans, which accomplish approximately the same result. One of these plans is to mark the cost price in conjunction with the selling price of each article to be sold and the other is to ascertain by experience the minimum profit of each class or grouping of sales made.

If one is honest with himself, he can get practically correct results by the system of ascertaining profits on the total sales. For instance, if it is well established that a minimum profit of 40% is made on total sales of $1,000, we know that $400 gross has been made. From this the total expenses are to be deducted. Here again we confront a number of complications. Some of the sales may have been made at a greater profit than 40% and it is likely that in a drive, a bargain sale, stock has been turned over at a less percent than that. It is true, though, that many concerns content themselves with this method of determining their profits until the end of the year, when they figure the inventory and then get a true view of their financial affairs.

In suggesting a system for a retail merchant, the first consideration, I think, would be to determine what kind of business he was going into. Let us say a retail grocer. He should of course have a bank account into which would be deposited all the receipts of cash and collections on account. He should have a cash register which should be carefully maintained, and in which should be deposited a petty cash fund to meet the every-day needs. All payments of every kind should be made by cheque, even though the cheques be cashed out of the petty cash fund. He should have a purchase record. Many merchants, to save time and expense, use a large book, called the invoice book, in which their invoices are pasted, leaving a margin of about 2 inches of blank paper to the right. Into this margin is extended the net amount of the invoice. At the end of the month this is footed and charged to merchandise purchases and accounts payable account is credited. Here I would say that if the merchant is fortunate enough to buy for cash the entry would be different in that each of the payments would be charged directly through the cash-book to merchandise purchased. If, however, he cannot pay cash, he makes the entry, but, as has been said, charges merchandise purchases and credits accounts payable account. When he is ready to settle these bills he charges accounts payable account and credits cash. In order to keep track of each invoice as it is paid a rubber stamp should be used, carrying the word "paid" and date, to be impressed upon the invoice. This will cover approximately his purchase record.

For the sales record the well known bill and charge system is recommended. As each of the salesmen makes sales during the day and enters them upon serially numbered order books, or record books, the total of each day's transactions is entered on the cash journal by proper reference to each salesman's order book. The detail is then entered in the accounts receivable ledger. This ledger is so made as to carry double pages for each account. The first page is perforated to the left so that, when at the end of the month the daily entries are completed and the entire month's business is recorded and footed, the customer's account is ready for him. The pages thus torn out form an itemized statement of the month's transactions and the copy left in is a permanent record in the accounts receivable ledger. The total of these sales is credited to merchandise sales and charged to accounts receivable account on the ledger. When these accounts are paid, entry is made on the cashbook charging cash and crediting accounts receivable account. Thus when all the accounts have been properly entered on the cash journal, and duly posted to the ledger, we have merchandise sales credited so much; accounts receivable charged with a similar amount; merchandise purchases charged with so much; accounts payable credited with a like sum. These four accounts practically constitute the business, with the exception of the total of general expense, which almost everybody knows how to record but few how to keep down.

With the controlling account checking the accounts receivable and the accounts payable; with the merchandise sales account and merchandise purchase account properly entered, the cash sales reasonably well safe guarded, the merchant has at hand about 75% of the necessary information to disclose his financial condition; that is, whether he is making a profit or loss. As has been said, the only accurate way to find this out is to ascertain the cost of the unsold goods, and do this each month. When this is done the merchant will know what the cost of his total sales was, and see practically at a glance whether the margin between his gross profits and his total expenses is sufficient to show him whether he is conducting business at a loss or a gain.

I refer again to the necessity for keeping accounts right. The times have changed and the business world looks askant upon the man doing business who never issues, or reluctantly gives out, a financial statement. Credit is given largely upon belief and information—belief that a man will pay his debts and information concerning his financial worth. No person can issue a correct statement unless reasonably accurate records are kept. If a merchant wishes to buy from a wholesaler and thus increase his accounts payable, he should present a correct statement. Or, if he wishes to borrow from the bank on his note, the bank will undoubtedly want a correct statement.