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Accounting Methods for Mercantile Corporations*

BY WILLIAM F. BATTIN, C.P.A.

The subject selected for this paper, ACCOUNTING METHODS FOR MERCANTILE CORPORATIONS, is one upon which so much has been written that it does not seem possible to deal with it in the customary manner and arouse anything more than a polite show of interest. I propose, however, to examine the subject from a composite standpoint, namely, that of (a) the public accountant, and (b) the individual whose duty it may be to keep the books and accounts of such a corporation. As I proceed you will have an opportunity of deciding upon the probable length of time that I would be able to retain an imaginary position as a book-keeper.

Before proceeding to describe any of the accounting methods that might be successfully employed it may be helpful to ascertain the meaning of the word "mercantile." My observation has been that it is very often used without a clear understanding as to what class of business pursuits are included therein. A simple definition of the word would be: "appertaining to the buying and selling of merchandise." Taking this literally it might be considered eminently proper to assert that the word mercantile virtually covers all businesses formed for (a) the buying of merchandise and (b) the selling of it, whether in the purchased form or after its having passed through some additional process of manufacture. This would have the effect of including every business of such nature, whether a corner grocery or a factory whose plant covered many acres of ground. I incline to the opinion, however, that this interpretation is too liberal and that, in a general way, we should only consider as mercantile corporations those which sell their wares, whether wholesale or retail, in the form in which they were originally purchased. By this I do not mean that the grocer may not add sand to his sugar or chicory to his coffee; or that the milkman may not dilute his milk with water. These appear to have been trade privileges since, probably, long before accounts were given

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any serious thought, and it is not my purpose to discuss the ethics of the grocery or milk business.

When we think of the subject before us we must not allow ourselves to substitute therefor, as being synonymous, that much-abused word "system," which has been used to describe everything from a collection of numbers, which, when used in the order described by their inventor, will, it is said, guarantee a big winning at roulette, or some similar game of chance, to a carefully planned arrangement of records designed to relate the stupendous transactions of the United States government. We need something quite different for our mercantile corporations.

It may be interesting to discuss some of the difficulties that confront the average bookkeeper in connection with the accounts of almost any corporation.

He will find upon entering the service of the company that their methods are somewhat different from those in use by his previous employers. The average business man has had insufficient training in accounts and may even fail to realize the importance of keeping anything more than a careful record of cash transactions, sales and open accounts due from customers. Suspicion and sometimes resentment is felt by an employer when the incoming bookkeeper wishes, at the outset, to introduce new methods and to put into effect radical changes in the existing system. This feeling is quite natural in an employer who cannot be other than reluctant to permit changes to be made until he has had an opportunity of satisfying himself by observation of the accounting ability of his new bookkeeper. The latter, then, in such case would do well to be patient and in the meantime to follow the methods in use by his predecessors, looking to the future for opportunity to change matters to conform to sound and standard accounting methods. It should be borne in mind that "a little learning is a dangerous thing," and before making any change one should be convinced that it is an improvement over the one in use and be able to give reasons why. Do not make the mistake of instituting different methods merely for the sake of change, and, further, do not overlook the important factor, practicability. The best way is seldom the quickest, but, *per contra*, the simplest way, provided that it is a safe one and that it gives the required information, is the best.

We will suppose that we have overcome our initial difficulties

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and that we have been given permission to open a new set of books; also that we have been instructed to prepare a suitable scheme of accounts and to transfer the company's old accounts to conform to the new order of things. The first essential will be to go over the memoranda of improvements that we have made from time to time since we first occupied the position of bookkeeper to this imaginary corporation. Assuming that the memoranda have been carefully scrutinized, the following accounts and their general arrangement might be considered suitable.

Assets

- Land
- Buildings
- Furniture and fixtures
- Wagons, harness, etc.
- Horses and mules
- Unexpired insurance
- Supplies on hand
- Merchandise on hand
- Freight suspense
- Notes receivable
- Accounts receivable—customers
- Petty cash
- Cash

Liabilities

- Capital stock
- Reserve for depreciation
- Reserve for doubtful notes and accounts
- Notes receivable discounted
- Taxes accrued
- Notes payable
- Interest accrued
- Accounts payable
- Pay roll accrued
- Surplus
- Profit and loss

Cost of sales and expenses

- Cost of merchandise sold

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Salaries—management
“ —office and general
“ —salesmen

Rent
Light and power
Fuel and heating
Stationery and printing
Postage
Telegraph and telephone

Stable and delivery expenses
Traveling expense—salesmen
General expense
Insurance
Taxes and licenses
Repairs
Bad debts
Depreciation
Interest on borrowed money

Sales, etc.
Sales—suitably subdivided
Miscellaneous income
Interest on notes and accounts

The average ledger and trial balance thereof is a meaningless jumble of accounts which do not convey any instant intelligence to the bookkeeper, and to the lay mind bring a feeling of despair, not to say awe. The accounts in a ledger should in brief describe their mission or what they may reasonably be expected to contain, and nothing else should be entered therein. They should also be suitably classified so as to assist in quickly arriving at the status of the business. If these rules be adhered to—and I believe they have been in the above outline—less trouble will be experienced by the average bookkeeper at closing time in determining what is an asset or a charge to profit and loss, and what is a liability or a credit thereto.

It would seem to be in order now to describe some of the essential records that might be used in relating the transactions of such a business as we have in mind. This is not such a difficult task, as while there are a number of books and forms that

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are peculiar and necessary only to certain enterprises, there are others that are more or less general to all mercantile corporations. The former I will not attempt to describe, for the reason that this paper will hardly permit of my dealing with my subject in more than a general way.

Among the general records that may be installed—I was going to say with “impunity,” but that is a little too sweeping and I will therefore use the word “safety” as being more conservative—are the following:

- General ledger
- Customers' ledgers—suitably divided
- Voucher record
- Journal
- Cash book
- Sales summary
- Monthly trial balance
- Freight received
- Vouchers
- Stock record (where practicable)

In your own practice you may have found it essential to add other records, but the foregoing are all that it seems necessary to recommend for general purposes. A brief description of certain of them may be helpful.

GENERAL LEDGER

The purpose of the general ledger is to show, in somewhat condensed form, the changes in the affairs of the corporation in so far as these can be reflected in figures or groups of figures. It may be supported by as many subsidiary ledgers or other records as may be necessary suitably to classify the transactions or to subdivide them for convenience in handling. These might consist of customers' ledgers, accounts payable ledger or voucher record, departmental ledgers, etc. Each would be subject of course to a controlling account on the general ledger and, assuming all entries to have been correctly made, should balance with it.

The business of all corporations, except those in the nature of charitable or social organizations, is conducted for the purpose

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of profit, although this object is quite often not attained. The general ledger through an intelligent arrangement of its accounts should show the success or non-success of the enterprise and the causes—otherwise it will have fallen short of its purpose.

• CUSTOMERS' LEDGERS

The usual customers' ledgers will now be found to be of the loose-leaf variety, for a number of reasons. They are more elastic and may be subdivided into almost any desired form, such as, alphabetically, territorially, by commodities, departments, branch stores, etc. There is some danger in their use owing to the comparative ease with which substitutions may be made for fraudulent purposes, but, if the proper precautions are observed their advantages will be found almost overwhelmingly in their favor.

One feature of loose-leaf ledgers that I have found useful in the accounts of certain industries is that any desired number of designs of sheets may be used in the same cover, so as to record facts relating to various commodities whose descriptions, terms of sale, etc., are widely different. In a bound ledger this would be difficult, if not impossible.

Each customer's ledger or group will be found easier to handle and balance if controlled by a representative account on the general ledger. Such controlling accounts might be entitled: "Accounts Receivable—Customers A to G," or be given any other description that would clearly indicate the ledgers which they represented.

VOUCHER RECORD

The adoption of this record has been so general during the past few years that it seems unnecessary to describe it. Its uses have multiplied, and while at first it was often a large and unwieldy volume with numerous columns, many of which were seldom used, it is now conceded to be more effective and economical to have it of a reasonable size, with columns only for main divisions of expenditures. The latter are, where necessary, amplified in separate subsidiary records controlled by the various columns in the main voucher record. For instance, the column

"merchandise" may by means of these subsidiary records be subdivided into departments, commodities or any other desired classification. The "expenses" column may also be enlarged and divided to any necessary extent, and similarly any other classification of the transactions of the business.

The voucher record will, of course, require a controlling account to be kept for it on the general ledger. At the close of each month, or oftener if necessary, a list should be made of the numbers and amounts of all unpaid vouchers, the total of which should agree with the balance of the representative account on the general ledger. If it does not agree the difference should be located as soon as possible and adjusted.

This record is not only satisfactory for the distribution of vouchers, but I have found it very convenient for the purpose of recording transfers between accounts. In other words, it may be used as a journal, provided the privilege is not abused. A very good plan for this is to write the journal entry and description on an ordinary voucher form, attach any necessary papers thereto and enter it in the voucher record, debiting and crediting the accounts affected. The voucher may be given its proper numerical sequence, or a separate series of numbers may be used for these transfers.

Some accountants favor a combination voucher record and cash book. I fail to see any real gain from such a union, and believe that the economy resulting from not having to rewrite the names of payees, amounts, etc., in a separate cash book is more than offset by the fact that the introduction of cash columns renders the record non-elastic and restricts its general usefulness. It is also a temptation to develop the record into a columnal statement of disbursements, instead of expenditures as it is intended to be.

It has always seemed to me a good plan not to crowd too much into one book, no matter what its nature. The usual result of over-feeding is indigestion, and this applies to accounting records as well as to human beings.

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This record will be found more useful if it has two or three debit and credit columns. They will be found convenient for use

with controlling accounts, as only the monthly totals will require to be posted to the general ledger, the details being, of course, entered in the subsidiary ledgers to the accounts affected.

I favor having the space for the names of the accounts affected and the explanation in the center of each page, the columns being placed on either side. This minimizes the possibility of error in entering a debit amount in a credit column or vice versa, and also assists the mind when posting to the ledger.

CASH BOOK

We often hear: "Everyone knows what a cash book is." Does he, except in a very vague way? If you asked for a definition of the term it would probably cause a good deal of trouble to comply with your request. As I had some doubt about my own ability, I consulted the dictionary and here is what it states, quoting literally: "Cash book—a book devoted to a cash account." It seems to me that this much-abused record is entitled to a little more consideration; and so out of regard, or you may say with no regard, for its feelings I shall try my hand at a description. "A cash book is a record devoted to the receipt and disbursement of cash. It should show the source, form and amount of cash received and the direction, nature and amount of cash disbursed."

The receipts side of a correctly designed cash book should contain columns for necessary controlling accounts, cash sales, where these are a factor, and any others that may be essential. It might also contain a memorandum column for the daily deposits in the bank, thereby avoiding the necessity of entering these in the cheque book.

The disbursements side of such a cash book should contain columns for voucher and cheque numbers, controlling accounts upon which payments are made, and any others that may seem necessary. As will be explained under the heading *Cash*, the main disbursements should all be by cheque, petty payments being entered in a separate record.

The difference between the receipts and disbursements, plus the balance at the beginning of the month, should always be represented by cash in bank or in hand, or both.

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SALES SUMMARY

At one time it was the custom to enter the sales in a day book or register which gave full particulars of each transaction. This method has been largely superseded, and it is now usual to find that the sales summary is prepared on an adding machine, only the sales sheet numbers and amounts being listed. Where it is desired to classify sales separate lists require to be made for each division, the grand total being charged to the controlling account at the close of the month and divided among the various sales accounts. This method is quite efficient and, where the proper precautions are taken and proof made of the results, there is very little room for serious error.

FREIGHT RECEIVED

The purpose of this book, which may be loose-leaf, is mainly to provide a place in which to record the details of each consignment as and when received. It will be found very useful at inventory time, as it will clearly indicate the date upon which certain goods arrived and any doubt as to whether they should be included in the list of merchandise actually on hand can be very easily settled. It may also be found useful in making settlements with carriers, and separate columns may be provided for the amount payable to each railroad and express company with which the corporation deals.

STOCK RECORD

When we look at the huge and varied stocks of merchandise carried in certain businesses we may think, "How is it practicable to keep a running inventory of all these goods?" If we realize that each class of article carried can be very conveniently represented and its history recorded on one page of a record or on a single card of moderate size, and, further, that several thousand of the latter can be contained in a cabinet of reasonable dimensions, the task does not seem so stupendous. The real difficulty lies in the number of the transactions in each article. In some lines of merchandising there is no doubt that the keeping of a stock record would be largely unprofitable, but in a great many

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enterprises it would pay its cost many times. Certainly the main items, in which considerable money is invested, should be carefully recorded and the book balance compared with the periodical inventory. Serious discrepancies should be carefully investigated. The result will often be found astonishing.

By this time you may have come to the not unreasonable conclusion that I am venturing further into the slough of system than is consistent with my opening remarks. I have, however, only touched lightly on the various books and forms enumerated. There is a great deal more that might be said if time permitted.

We have now before us a list and description of the records in which the daily transactions are to be written, and we have also a schedule of the accounts to which the transactions are to be debited or credited. Let us now ascertain the purpose of each of these accounts.

ASSETS

Land

This account is intended to contain the cost, if a purchase be made, of the land required for the business of the company or the site upon which its various buildings are or may be erected. The cost would probably be made up of the following items:

Purchase price per agreement.

Mortgage assumed, if any, and interest thereon to date of purchase.

Abstract of title.

Legal services or commission.

Recording fees.

When all or part of the site is sold, the amount received should be credited to land account, and the difference as compared with the original cost charged or credited, as the case may be, to the profit and loss account.

This account is not intended to contain the cost of any land that is not required for business purposes. Any land that may be purchased strictly as an investment and upon which buildings may be erected for the purpose of rental should be shown in a separate account and so described.

Buildings

When the buildings are sufficiently numerous this account on the general ledger may be used as a controlling account, the items entering into the cost of the various structures being shown in a separate ledger or other suitable record. The latter will prove valuable for depreciation purposes, in addition to being an excellent reference when placing insurance or in case of fire. Even though no separate ledger be kept to contain the cost of the several buildings, an accurate record should be made of the cost of each. If desired, this may be done by means of individual, temporary accounts which upon the completion of construction may be closed into the one account *Buildings*. There is no objection, however, to leaving the individual building accounts on the ledger, unless, as previously mentioned, they be numerous.

The items that may constitute the cost of any building or buildings are so numerous that I shall only mention them very generally, as follows :

- Architects' fees.
- Labor.
- Material.
- Fire and accident insurance premiums, cost of contractors' bonds, etc.
- Interest.

Interest should be calculated only from the dates of the various payments, or, better still, the dates paid by the bank to the date when the building is ready for occupation. This method is correct in cases where money is not especially borrowed for construction purposes. In the case of bonds issued or loans made for construction it is usual to charge interest from the date that each loan commences to draw interest to the close of the construction period. The reason for this is that the entire sum of money borrowed usually lies idle and is earning nothing for the borrower.

The question of depreciation not only of buildings, but of all items of plant and equipment, is one that has added gray hairs to the head of many an accountant and bookkeeper. There are numbers of things that have to be taken into consideration before a fair rate can be determined. There is often the further

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condition that the head of the business strenuously objects to writing off any depreciation. Accountants have to thank the federal income tax law that it has made depreciation exceedingly popular. Officers of corporations who could not, by any argument, be made to consent to dealing with it now hail it with delight and display an eagerness that is quite amusing in the light of their former attitude.

In order to arrive at a fair rate of depreciation for buildings there should be taken into account, in a general way, the following factors:

- (a) Nature of the materials used in their construction.
- (b) Age of the buildings, if not newly erected, and their probable remaining life.
- (c) General uses to which they will be put.
- (d) Whether they are of a temporary or permanent nature.
- (e) Life of the town or district in which they may be situated.

The last-named condition is likely to occur only in mining or similar communities, the life of which is usually difficult to determine. In any rate or rates that may be established it is better to err on the side of liberality.

Furniture and Fixtures; Wagons, Harness, etc.

The titles of these two accounts seem to me to indicate in a general way what is chargeable to them, so that I shall not attempt to detail any of the numerous items.

It is necessary to provide depreciation on these two classes of assets and, as in the case of buildings, the factor of probable life will enter very largely into the question of fixing a rate.

Horses and Mules

The title of this account seems sufficiently self-explanatory. Purchases should be charged at cost and the fact that a "good trade" has been made will not warrant any increase over cost. The book value of an animal that dies or is killed should be immediately written off so as to leave in the account only the value of the live animals.

To my mind the best way of dealing with the question of depreciation of this class of assets is by means of a periodical

inventory, not less than semi-annual, at which time each remaining animal should be thoroughly examined and a fair value placed thereon, which in no case should exceed its original cost. If this practice be conscientiously and consistently followed the results will be found uniformly satisfactory and trustworthy.

Unexpired Insurance

I have given this account only as an example, as there are many others that might be opened to record expenses paid in advance. Care should be taken in all such accounts to write off in each month the correct proportion applicable thereto. The plan of writing off round figures or the estimated proportion is usually inexcusable and is generally due to laziness or lack of interest on the part of the bookkeeper.

Supplies on Hand

This account is designed to take care of material which is required in the conduct of the business, but which is not held for sale. It might contain such items as provender, fuel, twine, wrapping paper, packing cases, stationery and printing and numerous other articles of a similar nature. The quantity of each used in the various months may be determined in a number of ways. The value thereof should be charged in each month to suitable expense accounts.

Merchandise on Hand

There are many mercantile businesses whose merchandise accounts contain the bulk of their transactions. Here we will find on the debit side purchases, freight, allowances on sales, goods returned by customers, trade and cash discounts to customers, etc., and on the credit side sales, allowances and returns on purchases, discounts on purchases, etc. The resulting balance, at the end of the fiscal year, after applying the inventory, is usually a credit, thereby indicating an apparent excess of selling price over prime cost, but what may be its composition no one can tell without many pains and labors.

As a contrast let us examine a merchandise account that is properly kept. What do we find? On the debit side the first entry will be the amount of the last inventory, which will be supported by a well-written, carefully-described and priced list

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thereof, showing the value of each item of stock. Then will come the invoice cost of merchandise purchased for sale, plus the freight thereon and the amount of any direct handling charges. Before charging purchases to this account all the discounts should be deducted, except perhaps special discounts dependent upon the purchase of specified minimum quantities during a stated period. These latter might more properly be determined from month to month and credited to a suspense account so as not to disturb the normal percentages of gross profit.

On the credit side will be found the amounts of allowances and returns on purchases and the monthly cost of merchandise sold, which has been transferred to the account of that name. At the end of the fiscal period will be found the amount of the inventory and any adjustment thereof. The latter may be either a credit or a debit, as the actual inventory is less or greater than the balance of the merchandise account according to the ledger.

While we are on the subject of merchandise it may be pertinent to state that the inventory should contain nothing that has not been actually received and is on hand at that time. Merchandise in transit from shippers, claims for shortages, freight overcharges, rebates, etc., should be eliminated from the inventory and shown in separate accounts, suitably named. Many so-called inventories are made a dumping-ground for everything that has been forgotten during the period then closing, instead of a good, clean list of what is actually on the premises.

If any of the merchandise on hand has deteriorated in value or is unsalable, or if the market has fallen, the cost price should be reduced to meet such conditions. A suitable entry should be made in the books of account to show the reduction in values due to such causes and the loss may be stated separately in the profit and loss account.

Freight Suspense

In many cases merchandise is purchased "f. o. b. destination," which means usually that the shipper will pay the freight or will permit the amount thereof paid by the consignee to be deducted from the invoice when making settlement. I am satisfied that many of these recoverable freights are lost by the purchaser, owing to his or his bookkeeper's failure to make proper record thereof. The ordinary plan is to make a pencil notation on

the invoice, but, if this be omitted, the amount is often paid in full and the merchant not only makes no profit on his sale of that particular consignment, but on the contrary a considerable loss.

For the purpose of minimizing the chance of loss in this direction I would open an account to take care of such freight and also the proportion of consolidated car-load shipments that may be recoverable from other corporations. As deductions are made from invoices this account should be credited and accounts payable charged. When cash is received from others this account should be credited with the amount so recovered. The balance of the account should be analyzed at the end of each month to see that nothing is being omitted or allowed to get in arrears.

Notes Receivable

To this account should be charged as and when received notes given by customers in settlement, so-called, of their open accounts, a corresponding credit being made to the accounts receivable controlling account and the individual customers' accounts. If sufficiently numerous it would be as well to keep a book to be known as the *Notes Receivable Register*, in which should be recorded the details of each note received. As collections are made or renewals given, these facts should be stated in the register opposite the various notes. A list should be made of the notes uncollected at the end of each month, the total of which should agree with the balance of the notes receivable account on the general ledger.

Some bookkeepers make a practice of merely noting in a customer's account, usually in pencil, the fact that a note has been received, without making any formal entry to record the fact and the change in the form of the asset. This method is not to be commended and I have found that it is usually due to laziness or a failure to realize the importance of showing in one account all the notes that should be on hand at any given date.

Installment notes, such as will be found in the retailing of furniture, pianos, etc., may present some difficulties to the accountant of such corporations. They will probably require the use of specially designed books or forms in order to minimize the work of keeping a proper record of them.

Accounts Receivable—Customers

My reason for adding the word "customers" to the title of this controlling account is for the purpose of making it specific. The usual list of accounts receivable contains many accounts which do not result from the sale of merchandise. It seems to me very desirable that these miscellaneous debtors be eliminated from the customers' ledgers and the controlling accounts and recorded in either a sundry debtors account, individual accounts on the general ledger or, if there are many of them, in a separate ledger having a special controlling account. Such accounts usually consist of charges for freight claims, merchandise lost or damaged in transit, advances to employees, suspense items, etc., none of which should have a place in any total purporting to be due for merchandise sold.

The charges to this account will mainly come from the sales summary at the close of each month, the various invoices making up the total sales having been posted daily to the individual customers' accounts. There may be other charges from the voucher record and journal, but, ordinarily, these will be few in number. Credits will be obtained principally from (a) the cash book, representing collections; (b) from the sales summary, consisting of returns and allowances, and (c) from the journal, in the case of notes received from customers, etc.

If it is borne in mind that every charge or credit to an individual customer's account must also be similarly recorded in the controlling account, either at the time or every month by means of column totals, very little difficulty should be experienced in bringing the total of customers' accounts in the trial balance to agree with the balance of the controlling account at the close of each month.

In preparing the usual monthly trial balance of customers' accounts it would be very helpful to the credit man and instructive to the manager to classify the amounts due, by means of suitable columns, into such subdivisions as "accounts not due," "accounts due," "accounts past due," the latter being again divided into "30 days," "60 days," "90 days," etc.

It should be the endeavor of every accountant to keep each customer's account "clean." By this I mean that claims for allowances, returned goods, discounts, etc., should be promptly settled and the necessary entries made therefor. The practice of

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allowing these to accumulate is a harmful one and sometimes leads to a lost customer, in addition to destroying confidence in the word *receivable* as applied to the balances apparently due.

When accounts become very doubtful of collection they may, in order to minimize the number of accounts in the current ledgers, be transferred to a separate suspense ledger, for which a corresponding controlling account may be opened on the general ledger.

Petty Cash

Some cashiers make currency payments out of their general cash, recording these daily in a small memorandum book, and entering the total in the general cash book at the close of each month. Sometimes these disbursements are supported by receipts or vouchers, but more often not. A better plan and one that is coming into more general use is to set aside a fixed sum, suited to the needs of the business, which is charged to an account on the general ledger entitled *Petty Cash*. This amount never varies, unless it is found that changing conditions require it to be increased or decreased, and should always be represented by actual cash and vouchers on hand. As the fund becomes exhausted, and invariably at the close of each month, a cheque should be drawn on the general cash account for the total disbursements to date so as to restore the petty fund to its fixed balance. The general cash voucher should have attached to it the petty vouchers and should be distributed to the necessary accounts in the same manner as any other voucher.

If the petty cash disbursements are very numerous it would be advantageous to have a specially prepared book made containing suitable columns for the distribution of the payments, which could be totalled and posted to the general ledger at the end of each month. An alternative plan would be to have ruled sheets specially prepared with columns for distribution of expenses and a space for the signature of the person receiving the money. The latter feature would do away with the necessity for having separate vouchers.

Cash

In the past when the average person thought of cash he probably conjured up visions of gold and silver, treasury notes

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and greenbacks, and possibly if he were a mercenary individual his eyes glistened and his fingers twitched unconsciously. As the vast bulk of the settlements between debtor and creditor are now made by cheque, the word has in a manner changed and we seldom find every-day commercial transactions involving the transfer of currency, except in the case of retail stores that sell for cash only. A large percentage of business houses deposit their receipts daily and make all their disbursements by means of cheque. The term *cash* has therefore come to mean as a rule the amount of available funds at the company's bankers. In view of this fact there seems to me to be no necessity for keeping separate accounts in the general ledger for cash in bank. All available funds may be kept in the one account, *Cash*, and the balance of this should at all times agree with the balances in the various cheque-books and the cash on hand, not deposited. The latter item should be kept at the lowest possible figure and will usually represent receipts that have come in after the bank's closing hour. During the financial panic of 1907 it was a very different matter, but, as Rudyard Kipling might say, "that's another story."

It will be found useful to have the cash book contain a memorandum column in which to keep a record of the totals of the daily deposits. The total of this column at the end of each month should agree with the aggregate receipts, after taking into account any transfers between banks, etc.

It seems almost superfluous to say that proper vouchers should be obtained for all disbursements and these documents should clearly indicate the nature of the various payments. It is interesting to note that from a legal standpoint a cheque merely evidences the payment of the amount called for by it and, in the absence of other evidence, is not always proof of the discharge of a specific liability. The importance then of carefully prepared vouchers should not be overlooked.

Some cashiers only balance their cash whenever the spirit moves them; others when they have time; and others do it every day just before closing. The latter has always seemed to me a very fitting time, and nothing should be permitted to interrupt this daily duty. A careful record should be kept of the daily cash balancing and a suitable form may be provided for this purpose. An overage or shortage, if unlocated at the time, should

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be credited or debited to a *Cash-Over and Short* account until the error is discovered or passed upon by some one in authority and the amount written off.

LIABILITIES

Capital Stock

It is generally conceded that this account should be credited with the total authorized capital stock at par. Any unissued stock should appear as a debit in an account which might be entitled "unissued stock." The difference between the authorized and unissued stock should agree with the total par value of shares outstanding, as shown by the stock ledger.

Reserves for Depreciation

A common practice among accountants as well as bookkeepers is to credit depreciation directly against the various asset accounts, which are thereby arbitrarily reduced. The depreciation is thus lost sight of and the reason for the reduction in the asset account is not apparent on the surface. It seems preferable to place the amounts so set aside in a separate account or accounts, leaving the assets at their original cost. Depreciation is at best largely a matter of estimate—by estimate I do not mean guesswork—and in accounting practice as well as in many other things it seems wise to separate known facts from probabilities, no matter how scientifically the latter may be calculated.

The annual rates applying to different classes of assets vary and, as previously stated, they are dependent upon a number of circumstances, so that I will not attempt to enter into technical discussion of the matter. Whatever rates are adopted should be followed consistently until such time as experience has shown them.

It does not seem to me sufficient to introduce depreciation figures at the end of a fiscal period only. Each month should receive its proportion.

Reserves for Doubtful Notes and Accounts

The name of this account may, if desired, be changed to *Reserve for Bad Debts*, or it may be subdivided, a separate reserve being maintained for notes and one for accounts.

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It is a good plan to set aside each month a percentage, based on past experience, or, in the case of a new business, estimated, of the total charge sales for the month. At the end of the fiscal period the individual accounts should be carefully scrutinized and those that appear to be doubtful of collection should be credited to the reserve account, less the aggregate of the amounts set aside each month. When the monthly credits have been excessive the reserve accounts should be adjusted, unless the excess is inconsequential.

It has been found very helpful to mark at the head of each account reserved or partly reserved the letter R in red ink, together with the date when the reserve was created. The total of the accounts so marked should agree with the balance of the reserve account on the general ledger, after taking into account any collections that may have been made.

A principal reason for temporarily crediting doubtful accounts to a reserve account is that the question of their collectibility has not been settled. By this I mean that in accounts, as already stated, facts should be carefully kept apart from results that are reached by estimate or in any other similar manner. Another reason for creating a reserve is that when an account is closed by being actually written off and transferred to profit and loss there is every likelihood that it will be overlooked in the future. This is especially the case where loose-leaf ledgers are used and closed accounts are placed in a transfer binder to which reference is seldom made.

When collections are made of accounts included in the reserve account the latter should be cleared of such amounts and a credit made to profit and loss. If desired, a temporary account may be opened to be known as *Bad Debts Collected*, which will be closed later into profit and loss.

Notes Receivable Discounted

This is an account that will be very seldom met, even in the largest corporations which discount customers' paper. It is a most useful account, as it will at any time, if intelligently kept, indicate the total amount of such notes in the hands of banks and endorsed by the company on which there is a contingent and often very real liability.

The manner of keeping the account is quite simple. When

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notes are discounted the face value thereof should be credited to this account instead of, as is usual, to the asset account *Notes Receivable*. The interest charged by the bank should be debited to interest on borrowed money or some other similar account, and cash charged with the net proceeds. As the notes fall due entries should be made to record the fact of their having been collected or renewed, whether wholly or in part. The difference between the total of the *Notes Receivable* and *Notes Receivable Discounted* accounts should be represented by actual notes on hand which have not been discounted.

I have not thought it necessary to provide in the assets division a suspense or other account in which temporarily to place the amounts deducted by the banks on bills discounted by them. The question of whether such interest should be wholly charged to the month in which the notes are discounted or spread over the life of such notes is one upon which there may be a division of opinion, although there should be none.

Taxes Accrued

The use of this account, sometimes known as *Taxes Suspense*, is to provide each month for the estimated liability for taxes which will require to be paid to the city, county, state and, latterly, the federal government. As these are liquidated the account should be debited with such disbursements and finally adjusted to agree with the actual payments. Special assessments should not be charged herein when paid, unless they have been previously known and included in the monthly reserve.

Notes Payable

To this account should be credited, as and when drawn, all drafts or promissory notes issued by the corporation. When these are paid or renewed suitable entries should be made to record such facts.

When the number and amount of these obligations warrants it separate accounts may be opened for demand and time notes, so as to give the total of each class outstanding at a given date.

Interest Accrued

This account should be credited each month with the interest earned by the holders of the company's notes payable out-

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standing during the whole or any part of the month. Payments on account of such indebtedness should, of course, be charged to this account when made.

Accounts Payable

In my scheme of accounts this is intended to be the controlling account for the voucher record. There are other titles that might be given it, such as *Audited Vouchers, Vouchers Payable*, etc.

The credits to the account will usually consist of the total of the liabilities detailed in the voucher record, together with any miscellaneous entries from the journal. The debits will come mainly from the cash book, representing vouchers paid during the month. As far as possible it is preferable to have all adjustments of vouchers made through the voucher record, so as to have the latter, supported by the vouchers themselves, contain all information relative thereto.

As previously stated, the balance of the accounts payable account on the general ledger at the end of each month at least should be compared with the total unpaid vouchers, as obtained from a list of these taken from the voucher record and checked with the unpaid vouchers on hand. Any differences should be at once located and adjusted.

Pay Roll Accrued

This account should receive credit for all salaries and wages applicable to each individual month, corresponding debits being made to the necessary expense accounts. As payments are made or contra accounts deducted suitable entries will require to be made in and posted from the books of original entry.

Surplus

The balance of this account, before closing at any date, should represent the excess of the assets over liabilities at the date of the last closing of the books, less any dividends that may have been declared. The account should be charged or credited at the end of each fiscal period with the balance of the profit and loss account. It should also be debited with dividends as and when declared.

Some bookkeepers make a practice of charging or crediting

to this account items of expense or income occurring during a fiscal period, which appertain to a prior period. I do not favor this method, but prefer, if the items are of consequence, to open a separate account or accounts on the general ledger in which to record them. In any event they should be included in the profit and loss statement at the end of the year, but should be clearly stated as belonging to the prior period.

Profit and Loss

The appellation of "clearing-house" might be given to this account, as through it pass all the accounts that have a bearing on the results for the period. In the profit and loss account they are marshalled in review, the income on the one side and the expenses on the other. If there is a preponderance of income the corporation has made a profit; if the expenses are in excess there has been a loss.

It is the custom with many corporations to close the necessary accounts into the profit and loss account in the shortest way. This usually consists in taking them in the order in which they happen to occur in the general ledger, without regard to their natural sequence. Such a method is crude and by it the profit and loss account becomes simply an annual or semi-annual dumping-ground. An intelligent arrangement of the items in a profit and loss account will, in a large measure, by means of percentages, etc., derived therefrom, tell the story of where the profit has been made or the causes of the loss, so far as these may be reflected in figures. Physical reasons they will not disclose, but they will point the way in which investigation should be directed.

The balance of this account at the end of each fiscal period, whether a profit or a loss, should be transferred to surplus account.

(To be continued)