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A SYSTEM OF ACCOUNTS

FOR A SMALL CONSUMERS'

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CO-OPERATIVE

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By

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A SYSTEM OF ACCOUNTS FOR A SMALL CONSUMERS' CO-OPERATIVE

By Earl R. Browder.

Of systems of bookkeeping there is no end. Every kind of business and every individual business has a system of its own. There are probably no two sets of books in existence which are exactly alike. This condition is to some extent necessary, and we cannot expect that even in the Co-operative Movement we shall soon find accounting methods completely standardized.

It is in the Co-operative Movement, however, that the need for standardization methods is most felt. Especially is this so in Consumers' Co-operation. But unfortunately, the co-operator who investigates accounting systems for the purpose of applying them to his own "infant" co-operative, too often finds nothing but a maze of "forms," "reports," "columnar books," etc., most of which he finds he cannot apply to his own business with convenience or economy. He therefore falls back upon his more or less complete knowledge of accounting principles and constructs a system of his own.

In preparing this leaflet on accounting the purpose has been to present a simple working scheme for small societies, which represents the concensus of opinion as to proper method. However, the forms will not work of themselves. This and all systems presuppose some knowledge of book-keeping by the user.

At present it is not possible to draw up a set of forms which will be applicable to any large number of organizations. There must first be a greater understanding of the principles upon which it must be constructed, and more agreement as to what results are wanted. Toward these ends the League is working.

If possible, avoid the use of unnecessary special forms, which are very expensive, and use forms which may be obtained already ruled.

The original entry for **cash sales** will probably be by means of a cash register, which is the most efficient manner of handling cash receipts. If it is impossible to install a cash register system, sales slips with carbon copies should be used (Form No. 1), in which case every slip must be carefully accounted for, each clerk being responsible for the book in his possession, and the total cash sales entered, from these slips, in the cash report at the close of each day.

Every receipt of cash, other than cash sales, is entered upon Form No. 2. This is a carbon receipt book. One receipt is given to the payor, and the amount of the one retained is entered on the cash report each day.

Every **cash payment** is entered upon Form No. 3. This voucher gives the details of the obligation that is cancelled, the approval of the manager, the certificate of correctness if passed upon by any other than the manager, and the receipt of the payee. The voucher is numbered and entered in the cash report each day. Some such voucher should always be provided for cases where an invoice is not obtainable. When an invoice is available it provides the best voucher possible when properly receipted. The manager's O. K. should appear on each voucher.

Form No. 4 is a **Daily Cash Summary of Receipts and Payments**. The form given is merely suggestive. In practice it may be varied to suit the needs of the business. Here is the only place where the **cash is balanced daily**. This should always be done. The entries may be made daily from this Summary or from the separate slips into the Journal, or the cash account may be carried forward on this Summary until the end of the month and then the cash totals posted directly in the General Ledger. The distinctive feature is that nothing but cash transactions are included in this Summary, and that every cash transaction is indicated fully, showing its full significance.

Form No. 5 is a tabulation of **Credit Sales** for each day. The credit sales are originally entered upon slips of the **same kind** as Form No. 1, but of **different color**. Each day they are totalled on Form No. 5, classified by departments, and entered in the Journal.

Form No. 6 is the **Invoice Register**, in which every invoice for purchases is entered when received. Some stores include in the Register all information as to discounts and deductions of every kind; small stores will not find this necessary. The essential points are that it gives a total of Accounts Payable incurred during the month, the distribution of merchandise purchases by departments, and indicates for what account any other purchases are made. At the end of the month the total of this Register is entered in the Journal (Form No. 7), crediting Accounts Payable, debiting Merchandise with goods charged to departments, and debiting Expense and other accounts with whatever was purchased for that purpose.

All transactions not covered by the cash or credit reports are entered upon a Journal Voucher (a plain ruled slip on which are noted

the details of the transaction covered, and the accounts to be debited and credited), which explains their nature fully, and from there to the Journal. For example, all discounts earned during the month and deducted from Accounts Payable are entered upon a Journal Voucher and the total at the end of the month credited to Discount and debited to Accounts Payable.

The **details of Accounts Receivable** are not noticed daily in the Journal. The totals merely are entered. At the end of the month, these go to the General Ledger, to the Accounts Receivable page, as an asst. The details are posted direct in an Accounts Receivable Ledger from the original charge slips and from the daily cash report. The total balances of this Accounts Receivable Ledger are verified at the end of the month by comparison with the "control" account in the General Ledger.

The same method is used with the **details of the Accounts Payable**: these are posted in an Accounts Payable Ledger directly from the Invoice Register and the cash report. The total balances at the end of the month are verified similarly in the General Ledger.

The **Journal** (Form No. 7) co-ordinates all the business and classifies it for entry once a month into the General Ledger. The first column, General Ledger, takes the place of from about six to eighteen separate columns which would be necessary if there were a column for every account not enumerated in the other five columns. Such items as these should be posted in the General Column: Capital Stock, Interest, Dividends, Discounts, Fixtures, Taxes, Real Estate, etc. Other columns are opened for Cash, Merchandise, Expenses, Accounts Payable and Accounts Receivable. Entries should be made daily, and the totals classified and posted to the General Ledger at the end of the month.

The **General Ledger** is the most essential book in the whole system of accounting. It is posted once a month from the Journal, or the special slips, vouchers, registers and ledgers. Additional columns are opened for each of the items usually entered in the Journal Column under "General Ledger" column, the other columns being the same as in the Journal. These items are classified and the month's totals are entered. In the Ledger should be found all the information of the month's operations, and in such a co-ordinated form that nothing is lacking but an inventory of the property in the possession of the Society with which, from the records, can be made up at once the complete Trading and Savings and Loss Accounts of the Society.

Surplus Savings (or profits) are not ordinarily ascertained oftener than once each quarter in co-operative circles. The wisdom of frequent inventories and the quarterly stock-taking, however, have been amply demonstrated. These have become as important institutions in the Co-operative Movement as the Savings-return or Purchase Dividend. After the quarterly inventory has been taken, **the excess of Assets over Liabilities** should be ascertained. This amount, in Co-operative phraseology, is the surplus-saving. If by agreement with the members of the Society it has been determined to pay this surplus saving back to them, in proportion to their purchases, this should be done quarterly. If not, the whole surplus savings may be employed for the general welfare of the members through many social measures. It is customary to set aside from the surplus saving a certain proportion (20%) for a reserve fund, for depreciation and expansion, and an additional amount (not less than 5%) for co-operative educational purposes. Interest on capital stock and the expenses of the store must, of course, also be divided before the final distribution of the surplus saving is made among the members.

The essential points of this system are that:

- (1) Cash transactions are handled separately;
- (2) The Cash balanced each day;
- (3) Credit transactions are similarly separated, and come into the Journal distinctively noted as credit transactions;
- (4) All other transactions are handled by Journal Vouchers, and are entered directly in the Journal;
- (5) All transactions of whatever nature are entered **immediately**, whether they involve the payment of cash or not.

The CO-OPERATIVE LEAGUE will be glad to answer questions about accounting methods for Co-operative Societies.

