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Charles H. Sevin

E. R. Hawkins

United States. Department of Commerce. Office of Domestic Commerce. Marketing Division

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*Establishing and
Operating a . . .*



Bookkeeping Service



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Establishing and Operating a . . .



Bookkeeping Service



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UNITED STATES DEPARTMENT OF COMMERCE
HENRY A. WALLACE, *Secretary*

ESTABLISHING AND OPERATING A
Bookkeeping Service



Industrial (Small Business) Series No. 41

By
CHARLES H. SEVIN

Under the direction of
E. R. HAWKINS

Marketing Division
Office of Domestic Commerce
United States Department of Commerce
Washington 25, D. C.

Note

This booklet offers basic information and counsel on Establishing and Operating a Bookkeeping Service. It contains no magic formula for success, but it does suggest some practical standards by which the interested reader can measure his qualifications and prospects as well as gain some understanding of the operating problems involved. This booklet is made possible through a grant of funds from the Veterans' Administration.

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CHAPTER I

WHAT A BOOKKEEPING SERVICE IS

This book discusses a small firm offering a bookkeeping, accounting, and tax service which might consist of only one member and an assistant, or at most around 8 to 10 people. Gross receipts might range from as little as \$3,000 to \$4,000 a year for a newcomer to around \$40,000 to \$50,000 annually. The firm might be located in either a large city or a small community. The clients would themselves be small businesses—the neighborhood grocer and druggist, an auto repair shop, a trucking firm, a machine shop, a leather goods jobber, or perhaps ranchers or small grain elevators or canneries in the rural areas.

You may be considering the idea of starting such a bookkeeping service. How do you go about establishing and operating it? What do you have to know? Do you have to be a certified public accountant? How much money do you need to get started? How much can you expect in the way of earnings? What are the advantages and disadvantages? What are the prospects for success?

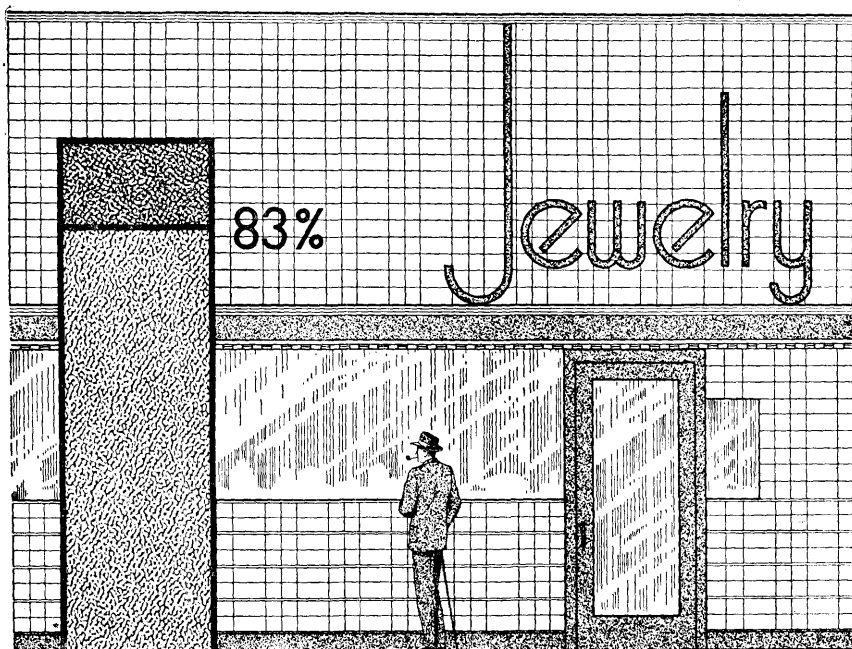
You will find the answers to such questions in this booklet. But before you study the details you will want to know something about the nature of such services as a whole—the background, the present situation, and the outlook. These broad subjects are covered briefly in this chapter.

Importance of Bookkeeping Services

Primarily, the accountant provides his clients with good business records. Adequate records are becoming more and more essential to the small businessman. This is true for a number of reasons.

For example, numerous studies by the Department of Commerce and other agencies have shown that most small business establishments that failed either had inadequate records or none at all. Business success and good record-keeping seem to go hand in hand. An adequate record-keeping system helps to reduce the probability of failure and increase the chances of survival.

Good records also help to increase profits. In a study of retail management practice, made by the Department of Commerce, it was found that among the stores surveyed most of the profitable ones had good records, whereas most of the unprofitable ones had poor records: "It is not



surprising that 83 percent of the profitably-operated stores kept up-to-date accounts, that 88 percent of them kept neat and orderly books. * * * Compare these percentages with those for unprofitably operated stores—40 percent and 47 percent * * *. Poor bookkeeping appears to be a decidedly large factor in the unsuccessful operation of a business.”¹

There are other reasons why good records are important to the small businessman:

1. Records protect the businessman's family from legal entanglements in the settlement of his estate.
2. In the case of destruction or loss of property, records assist the businessman in recovering the property, proving ownership, and establishing claims.
3. Records enhance the possibilities of borrowing money from banks or others.
4. Records place the proprietor in a better position for bargaining if he desires to sell his business.
5. Finally, the Federal income and withholding tax regulations, Federal excise tax regulations, the Social Security Act, the Wages and Hours Law, sales tax laws in many of the States or cities, and an increasing number of other tax laws and regulations require certain records and reports from every businessman.

¹ Survey of Retail Management Practices. Domestic Commerce Series No. 81, U. S. Department of Commerce, 1933; p. 8. Government Printing Office, Washington 25, D. C.

The proprietors of even the smallest businesses are becoming increasingly aware of the necessity and value of records. Thus the accountant renders an important service to his clients.

What the Accountant Does

Most small businesses probably first seek the services of an accountant because of taxes. Businessmen want help not only with their Federal income taxes, but also with all types of State and local taxes including social security, and sales taxes. The small businessman usually has a positive dislike of any printed form and is only too glad to be rid of the worry of filling it out. It is necessary for the accountant to have a sound knowledge of all taxes affecting businessmen and he must keep abreast of current developments. This is no easy task.

The design and installation of a record-keeping system is another part of the accountant's job. System work often calls for diplomacy and patience. The accountant may find that although the businessman will insist upon an adequate bookkeeping system, he will sometimes be unable or unwilling to discontinue poor business practices of years' standing—such as the loose handling of cash—which make the operation of a good system impossible.

Bookkeeping may be the most important work of the small firm. This work may be done at the client's place of business, or the transactions may be entered in books kept in the accountant's office. Monthly adjust-



ments, trial balances, and financial statements usually are part of the bookkeeping work.

Auditing, in the commonly accepted sense, is typically the least important work for the accountant who serves smaller businesses. This is true for a number of reasons, one of them being that small businesses seldom have a need for independently audited financial statements.

Many proprietors of small businesses have no disinterested person with whom they can discuss their management problems. The accountant may frequently be consulted on management matters far removed from accountancy. An accountant in a small town in Texas reported a typical incident. "Keene," said his client, "I have to get a water pipe across the road. How do I go about it?" The accountant got the necessary information for him. Management assistance in all kinds of operating problems may be part of the work of the small firm.

The Outlook for the Future

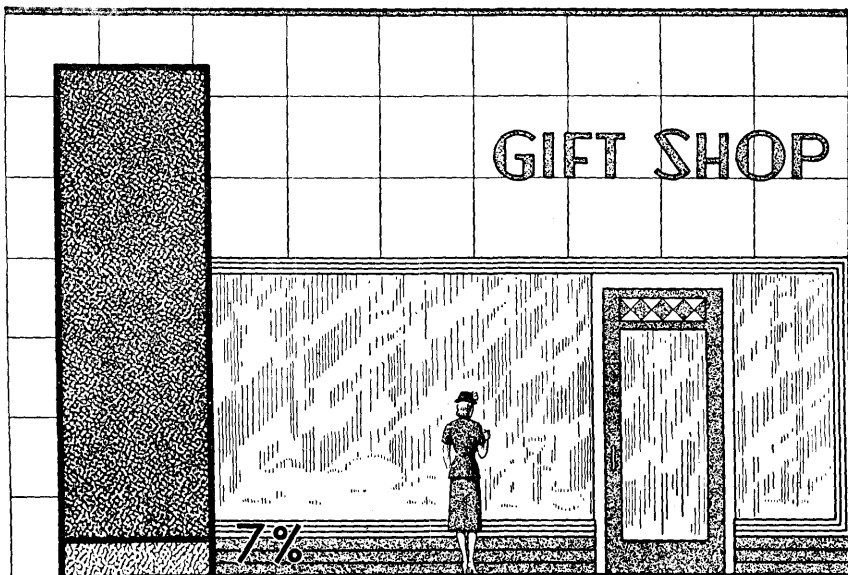
All indications seem to point to a rising long-term demand for the services of small bookkeeping firms. We have already mentioned the increasing need for records and reports on the part of businessmen because of tax laws and regulations and their growing awareness of the value of records for good management. These trends are likely to continue in the future.

Some of the most likely prospective clients for bookkeeping services are to be found among new small businesses that are just getting established. The number of new business enterprises declined during the war, but is now increasing rapidly. Thus, in the last few years, the estimated number of new businesses has been as follows:

1940 — 357,300	1943 — 143,400
1941 — 447,600	1944 — 272,800
1942 — 334,700	1945 — 421,700

Of course, the economic fortunes of the accountant are closely tied in with the course of the business cycle. When conditions in general are good, more new businesses are started and it is easier to get new clients and adequate fees. In both good times and bad, however, the potential market for the services of small bookkeeping firms is a large one. For one thing, what facts are available show that, at present, a very small proportion of the proprietors of small businesses keep adequate records.

For example, a survey was recently made among small businessmen in Philadelphia, many of whom had been in business for a long time. Over one-fourth stated that they kept no business records at all. About the records of the others, the report on the survey reads as follows: "Fifteen percent said that they merely kept files of bills. Forty-nine percent claimed that they kept some form of single entry records. The interviewers' comments on the schedules, however, indicated that these single-entry books



varied all the way from very good to worthless. Only 8 percent maintained full sets of double-entry books.”²

These facts are summarized in the table below:

	<i>Percent of total</i>
No business records at all.....	28
Files of bills only	15
Some form of single-entry records.....	49
Full sets of double-entry books.....	8
 Total	 100

Of those businessmen whose records consisted of files of bills or of single-entry books, only about one-fourth kept them in such a form that profit-and-loss statements could be drawn up at short notice. Of the remaining three-fourths, about half appeared to be keeping complete and accurate records of their current receipt and expense items, but were not classifying or totaling them. They could prepare profit-and-loss statements from their records if they considered them sufficiently important, but rarely did so for their own purposes. The files of bills and the single-entry books of the remaining three-eighths of the businessmen who kept records of these types appeared to be too incomplete to be useful for any purpose.

The survey goes on to say that, “the primary reasons why so many of the . . . group kept no business records or kept them in an unsatisfactory manner were overwork and lack of time.”

Many small businesses cannot afford to hire full-time bookkeepers (only 7 percent of the businessmen who kept records, in the study referred to above, had full-time bookkeepers). Also, many proprietors apparently

² From a survey of a sample group of self-employed persons in Philadelphia made by the Bureau of Old-Age and Survivors Insurance, Social Security Board.

have neither the time, the patience, nor the knowledge to keep simple but adequate records themselves. It seems, therefore, that there should be opportunities for many small bookkeeping firms, provided that businessmen can be sold on the need and value of good records.

As in any line of endeavor, there are cases of both successes and failures among small bookkeeping firms. While failure to succeed is sometimes the result of conditions beyond the control of the individual, in the great majority of cases success or failure in this activity is largely dependent on the individual.

If you decide to go into this field and want to increase your chance of success, you will have to meet and solve many problems. These are discussed in the following chapters.

CHAPTER II

REQUIREMENTS FOR ESTABLISHING A BOOKKEEPING SERVICE

To operate a bookkeeping service successfully, the accountant must actually know his subject matter thoroughly, not only the simple fundamentals but also the many other matters that make this work more complicated than it appears on the surface. He must be able to write clearly, to talk convincingly, make friends easily, and inspire confidence in his ability by his personality and bearing. He must be prepared to engage in long hours of overtime work, to undertake rush assignments, and to do much detailed routine work.

If you are thinking about entering this field of endeavor, some of the things you must consider in regard to requirements are:

1. Education.
2. Experience.
3. Capital.
4. The C. P. A. certificate.
5. State laws and regulations.

Education

Obviously, the person interested in starting a small bookkeeping firm of his own needs to have a technical background, a sound training in accounting and related subjects. This basic training will include, first of all, thorough study of the theory and practice of accounting. If possible, it should also include the more specialized subjects such as taxation, systems, cost accounting, auditing, and commercial law.

In addition, the accountant needs to have some knowledge of finance, insurance, and related subjects. He should not overlook training in English, since his relations with his clients require him to talk and write clearly and effectively.

This basic training can be obtained in any good standard course in accountancy at the college level. The work can be done either through full-time residence, through part-time courses in the evening, or through a good correspondence course. The equivalent of 2 or 3 years' full-time residence is usually considered to give sufficient theoretical training.

Experience

There seems to be rather general agreement that practical experience is one of the important requirements. Most accountants who have a firm of their own advise at least 1 or 2 years of experience working in a good small firm.

One accountant states that it is best to get experience because otherwise there is danger of giving incorrect advice to clients which may have serious consequences. Another accountant says that it is very important to get experience because the average student learns only the fundamentals of accounting in school. "You learn much accounting in practice," he says. "Also, you learn how to organize your work, and how to set up a practical system of checks for errors. You can do sloppy and inefficient work unless you have had experience in organizing it."

You can also get the necessary practical experience, by working as a bookkeeper for one or two private firms. This means having complete charge of a set of double-entry books—including the making of adjusting entries, trial balances, and the preparation of financial statements and all tax returns. A period of 1 to 2 years is regarded as the minimum length of time for acquiring experience in this way.

A person thinking of entering this field might first get a full-time or part-time job as a bookkeeper for a private firm and pick up odd accounting and bookkeeping jobs on the side. He might also get part-time work while going to school. This work may be done in the evenings or on Saturday and Sunday. In this way the accountant not only can get experience, but also can get a few clients as a basis for starting out for himself.

If you have had private accounting or bookkeeping experience in a certain kind of business you can often specialize in that field. For example, many small firms specialize in restaurants or laundries, or drug stores or some other line. Usually this is because the accountant has a detailed knowledge of the accounting and operating problems in that line of business which he acquired through experience.

Capital

If you were thinking of starting a grocery store, it would be obvious that capital would be needed to buy fixtures and equipment, to buy the initial inventory of merchandise and to cover expenses until the business gets on its feet. The need for capital when establishing a bookkeeping service, however, may not be so evident.

For example, some accountants state that when starting out in this field you do not need any equipment or even an office. You can work at home and either do your own typing or have it done on a part-time basis. "All the accountant needs to start with are pencils and columnar pads of paper."

Or, it may be possible to get desk space in an office for as little as \$10 a month in the larger cities, or \$5 a month in the smaller towns. Announcements and business cards, stationery and envelopes, and a few other miscellaneous supplies may be all that is needed in the way of organization expenses.

Thus there appears to be rather general agreement that a minimum of investment in furniture, equipment, and supplies is advisable when starting out in this field. Later on, after you have become established, you can acquire a typewriter, adding machine, filing cabinets, and other equipment, and you can rent and furnish an office out of accumulated and current earnings.

You do need some capital in the very beginning, however, because of the length of time before you can expect to get a sufficient income from your practice. Typically the accountant does not have any clients when he first establishes his office. Even if you have a few clients when you start out, it will be at least a month before you can bill them for your services, and probably an additional 1 or 2 weeks before they remit.

Accordingly, there is a unanimity of opinion that you should have enough money in the bank to pay your living expenses for at least 6 months. Some accountants say that you should have enough to live on for at least a year, and that if you start out cold in a new town where you do not have any acquaintances, it might be 2 or 3 years before you break even and get really established in your practice.

Before starting out on your own, therefore, make a budget of your capital requirements. List each item of organization expense; make a careful estimate of your operating expenses (which should be kept to a minimum); and most important of all, budget your living expenses for a period of at least 6 months. Of course, this budget will vary with each person, depending on such factors as the amount he is accustomed to spending, his location, and how many clients he has in the beginning. The total amount might be \$500 for one individual or \$1,000 for another. But whatever the figure, you should have the budgeted amount of money available.

C. P. A. Certificate

Do you need to be a C. P. A. in order to start a small bookkeeping firm of your own? The answer is, "No, it is not absolutely necessary, but it certainly helps." That is, it is not legally necessary to have a C. P. A. certificate to engage in public accounting, as it is necessary for a doctor or dentist to have a license from the State before he can practice. But the prestige value of a C. P. A. certificate is of inestimable benefit. A statement below about the C. P. A. requirement throws more light on the subject:

"An essential to advancement in public accounting is the certified public accountant certificate issued by the State, on the basis of an examination

that tests proficiency in the field of accounting and commercial law. Each State has its own laws governing the issuance of this certificate, and the laws of the various States differ somewhat as to academic and experience requirements. In every instance, however, they restrict the issuance of certificates to those who have successfully completed a written examination. The examination generally extends over a period of two or three days and is held semiannually. Tests are given in practical accounting, theory of accounts, auditing, and commercial law. Uniform examinations prepared by the American Institute of Accountants have been accepted by 44 States for use in the tests.

“As to academic background, in most States a high school graduate is permitted to take the examination. This minimum scholastic requirement, however, is gradually being changed to one that calls for college graduation or at least college study. The States of New York and New Jersey, pioneers in this matter, require graduation from a college recognized as offering an approved course of study. A number of States have laws which encourage college study in preparation for the certificate, by providing that such study may be accepted in reduction of the required years of experience in accounting practice.

“As to the amount of practical experience required before a candidate can take the C. P. A. examination, or before a C. P. A. certificate will be issued, the State laws differ. Some practical experience in either the professional or commercial field is usually required before entrance to the examination. A total of from 2 to 6 years' experience in public accounting is usually a prerequisite to receiving the certificate.”³

State Laws and Regulations

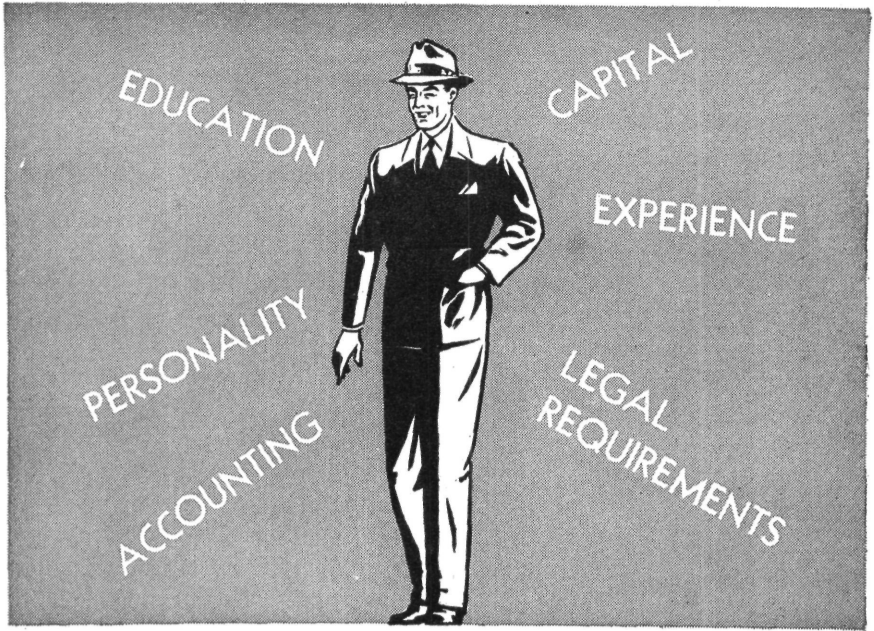
In addition to the C. P. A. laws, 17 States and 1 Territory now have other laws regulating the practice of public accounting. These are as follows:

Arizona	Kentucky	North Carolina
California	Louisiana	Tennessee
Colorado	Maryland	Texas
Florida	Michigan	Virginia
Illinois	Mississippi	Wisconsin
Iowa	Missouri	Puerto Rico

Since laws are different in the various States, and since laws, State boards of Accountancy rules and regulations, and court decisions concerning accounting legislation are continually changing, it is not possible to make complete summaries of the provisions.

In general, however, the 17 present State laws require an annual registration fee and a license before you can practice public accounting. What

³ “Public Accounting as a Career,” American Institute of Accountants, 13 East 41st St., New York 17, N. Y. p. 21.



constitutes public accounting is variously defined. In some of the States, public accounting does not include a bookkeeping service only. The California law requires 3 years' experience as a full-time employee of a C. P. A. or P. A. (public accountant) or 1 year of such experience plus the completion of a recognized course of accounting, either as a student in residence or by correspondence. The requirements as to education and experience differ in the various States.

You will want to investigate the matter thoroughly whether or not you locate in one of the States listed above. You can find out about the accountancy law in your State by writing to the secretary of your State board of accountancy. A list of these secretaries will be found in the Appendix.⁴

The requirements for entering this field can be summarized as follows:

1. You should have completed a recognized course of accounting, but you do not need to be a C. P. A.
2. You should have had at least 1 year's experience working in a small firm of the kind you are thinking of establishing, or equivalent experience as a bookkeeper for private firms.
3. You should have saved enough money to pay your operating and living expenses for at least 6 months.
4. In those States which have regulatory legislation, you may need to meet the requirements for registration and licensing as a "Public Accountant."

⁴ A loose-leaf "Accountancy Law Service," which contains all the accounting laws, State board rules and regulations, and court decisions is published by Commerce Clearing House, Inc., in cooperation with the American Institute of Accountants (\$30 per year).

CHAPTER III

SERVICES RENDERED

The accountant who is dealing with small businessmen is in somewhat the position of a teacher and a missionary. The businessman may have asked for the services of the accountant in the first instance because of his ignorance of simple bookkeeping practices. In his dealings with clients, the accountant is continually illustrating the principles, explaining the procedures, and showing the businessman how to use records in the operation of his business.

According to one accountant, of the services rendered by small firms, tax work is the most important, followed by systems and bookkeeping, while auditing is the least important category.

*Taxes*⁵

Most small businessmen are worried by the job of filling out tax reports and forms. They are only too glad to be rid of this worry by placing the job in the accountant's hands, once they realize that the accountant is ready and able to undertake the onerous task of supplying the information requested. Many small businessmen, for example, cannot make figures prove. Therefore, filling out the quarterly reports in connection with social security and withholding taxes is quite a job for them.

Further, many businessmen feel that they cannot take the time necessary for filling out the tax forms. There has been a steady increase in the number of taxes and licenses requiring forms or reports of one kind or another. Some idea of this burden can be obtained from the following list of taxes and licenses—all involving forms and reports—which were paid by a druggist in Philadelphia:

Pharmacy license (local)	Milk license (local)
Trader's license (local)	Explosives license (Federal)
Cigarette license (local)	Income tax (State)
Soda fountain license (local)	Income tax (Federal)
Liquor license (Federal)	Corporation capital stock tax (State)
Liquor license (State)	Excise tax (Federal)
Narcotics license (Federal)	Social security taxes (State)
Alcohol license (local)	Withholding tax (Federal)

⁵ Many lawyers feel that the preparation of income tax returns and related activities involves the practice of law and the issue has been raised in litigation on a number of occasions. There have also been conferences between lawyers and C.P.A.'s on this subject. See "National Conference of Lawyers and Certified Public Accountants" *Journal of Accountancy*, Feb. 1946, p. 120.

Meat license (local)

Stock and fixtures tax (city)

Minor privileges tax (city)

The small businessman could get into serious tax difficulties if he were improperly advised. Therefore, it is necessary for the accountant to be thoroughly familiar with all tax requirements, including the miscellaneous local taxes and licenses which are in effect in his community.

The accountant must keep abreast of new developments and changes in tax laws and regulations. He should have had a good tax course, by correspondence or otherwise, and he should subscribe to and read one of the loose-leaf tax services. He should also have in his library one or more of the standard reference handbooks on taxes containing practical problems and solutions.

Keeping abreast of tax developments is not an easy task as can be seen from the following:

. . . A man who wanted to keep in touch with the latest tax developments during the past year would have had to wade through this mountainous mass:

Ten thousand tax decisions by the United States Tax Court, the district courts, the appeals courts, and the Supreme Court.

Several thousand "mimeographs" which are policy statements issued by the Internal Revenue Bureau.

Some 40,000 so-called ruling letters, written by the Bureau in answer to specific inquiries.

About 200 Treasury decisions, embodying important changes in the tax regulations which interpret the tax laws.

Every taxpayer is responsible for knowing what affects him in all this flood, as well as in the tax laws themselves.⁶

Systems

At first glance, it would appear to be a simple task to design and install a record-keeping system in a small business. Actually the work is more difficult than it seems on the surface. The system must not only be adequate, but also it must be easily understood and require a minimum of the businessman's time if he is going to keep the books. It may not be easy to accomplish these objectives. Another difficulty is that of persuading the client and his employees to conform to the requirements of the system.

One accountant discussed these difficulties as follows:

"The accountant will find that although the client may insist that he wants a good accounting system, he will sometimes come close to giving up the whole idea rather than to discontinue poor practices of years' standing. The accountant can usually save the situation by tact and diplomacy. Going slowly and taking the work in progressive steps, he can help the client to become accustomed to necessary changes one at a time.

⁶ From "Tax Report" in the Wall Street Journal, New York, December 26, 1945, as reported in the Journal of Accountancy, February 1946, p. 184.

"This procedure stretches the work out, sometimes over many months, but it pays in the end. Often it is advisable to have the client do duplicate work, applying the old and new methods at the same time. If, after a trial period you are asked, 'How long do we have to keep up this old way?' you will know your plan is a success. If, after a reasonable time, there seems to be no interest in discontinuing the old method, then it is time to ask yourself if your system is the right one.

"After the accountant has familiarized himself with the client's business he should find out what will be expected of the system to be installed. This is not an easy task, as many clients do not know exactly what they want or need and depend upon the accountant to tell them. One of our clients in the trucking business wanted a monthly cost-per-mile analysis on each truck. Another trucker, just as successful, wasn't interested in such detail, but was satisfied with a simple operating statement for his business as a whole. One client will follow every step of the work with the greatest interest; another will show no interest whatever except in the final results. It is just as important to know the client himself, as to know the details of his business.

"With a sole proprietor, the hardest habit to break is his looseness with cash. He rarely takes a regular fixed amount for personal use, preferring to 'tap the till,' whenever he wishes, for amounts varying from a few cents to many dollars. Many use checks for out-of-town payments only, preferring to pay local bills by currency. They continually mix business and personal funds. A client who leaves his store, collects several accounts, uses the proceeds to pay bills—both business and personal—and returns several hours later to ring up the difference as a cash sale, challenges the tact and patience of any accountant.

"Sometimes cash complexities which plague the accountant are not entirely the fault of the client. For example, country stores, mines, and other outlying enterprises are often far from a bank, making it inconvenient to deposit regularly. Occasionally large sums are kept on hand to cash pay checks or to buy produce from farmers. Bartering offers a nice accounting problem. Many country storekeepers are shrewd traders, and will go through the day making deal after deal with little or no cash involved. Only the merchant's memory and his scant notes are available.

"The accountant must develop an ability to explain accounting procedures and practices in simple language with commonplace analogies. He must have the patience to explain the simplest procedures again and again. One of our clients—a successful businessman—did not know how to reconcile his bank account. He, therefore, established two checking accounts and used them alternately. He would allow one to lie dormant using the other until all checks had cleared, and then compare the bank balance with his checkbook figure."⁷

⁷ Rea, Richard C., "Public Accounting in Smaller Communities," *Journal of Accountancy*, October 1945, p. 276.

Accountants often are asked to design and install a system in a type of business with which they are not familiar. They need to be familiar with sources of information on accounting problems in various lines. Trade journals are one good source of such information. One accountant advises going to the client's office and leafing through past issues of the journals or asking him to watch for articles dealing with accounting. Or, you can usually find files of trade journals in most local public libraries.

Ask your client if there is a trade association in his field and whether they have any recommended accounting system. If the client is not familiar with the trade associations in his field, and many small businessmen are not, you can consult the trade association directory compiled by the Department of Commerce.⁸ Finally, there are several books available dealing with the design of accounting systems. Some of them have chapters dealing with specific lines of business in addition to a general discussion of system design.

Bookkeeping

Bookkeeping work can be the accountant's largest and most stable source of income. In fact, many accountants specialize in rendering a bookkeeping service only.

Every kind of small business enterprise which is too small to have a full-time bookkeeper may be a potential client for this type of service. Small retailers and service establishments located in neighborhood or central shopping districts are obvious prospects, but the accountant should not overlook such prospects as small wholesale establishments, mines, quarries, trucking firms, and small manufacturing establishments.

A manufacturer doing as much as \$200,000 worth of business a year may yet be too small to hire a full-time bookkeeper. He may have but few transactions, each transaction being relatively large in volume, so that he may require only 2 or 3 days' bookkeeping work a month (most such manufacturers do not have any kind of cost accounting system and require but straight bookkeeping work).

A bookkeeping service involves, of course, the design of a set of books for the client. After the system has been set up, the books may be kept either in the accountant's office or in the client's place of business. The trend seems to be toward the former practice, since it has several advantages of timesaving and increased efficiency.

When the books are kept in the accountant's office, it is also necessary to design a daily report sheet for each client. The report sheet, filled out by the client each day, usually includes such items as the cash register readings, bank deposits, and a listing of all payments by cash and check for purchases and expenses.

⁸ See list of references in Appendix.

It is necessary to study the client's business carefully before designing the daily report form. It should conform to his physical lay-out and his methods of doing business. For example, in a drug store, the number and location of the departmental cash registers, the methods of making bank deposits, and methods of recording cash payments are some of the factors which should be taken into consideration in designing this form. These

CENTRAL FOOD MARKET
DAILY CASH SHEET

No. 183
Day Monday
Date Mar. 18 - 46

Balance Brought Forward from Sat. Mar. 16 - 46 375.26

RECEIPTS

Sales	Total	Charge	Cash	
Meats (register No.1)	<u>54.13</u>	<u>8.42</u>	<u>45.71</u>	
Fresh fruits & vegetables (register No. 2)	<u>38.00</u>	<u>5.40</u>	<u>32.60</u>	
Other (register No.3) taxable (State sales tax)	<u>93.73</u>	<u>18.26</u>	<u>75.47</u>	
non-taxable	<u>25.74</u>	<u>7.64</u>	<u>18.10</u>	
Total	<u>211.60</u>	<u>39.72</u>	<u>171.88</u>	<u>171.88</u>
Received on account (main cashier)				<u>42.67</u>
Other receipts (main cashier)				
<u>Sale waste paper</u>			<u>.38</u>	
<u>customer made toll</u>				
<u>call on phone</u>			<u>.15</u>	<u>.53</u>
Total cash to account for				<u>590.34</u>

DISBURSEMENTS

Purchases - meats	<u>- 0 -</u>	
- fresh fruits & vegetables	<u>7.43</u>	
- other	<u>2.10</u>	
Deposits - Central Bank	<u>500.00</u>	
- Citizens Bank	<u>- 0 -</u>	
Expenses etc.		
<u>Express</u>	<u>.75</u>	
<u>Postage</u>	<u>.30</u>	
<u>Utilities</u>	<u>.26</u>	
		<u>510.89</u>
	Balance	<u>79.50</u>
	Cash actually on hand	<u>80.13</u>
	Over - short	<u>.63</u>

daily forms can be either mimeographed or printed with the client's name and address at the top.

Some clients mail these reports in to the accountant's office once a week or so, but many accountants prefer to pick them up so as to have the opportunity of discussing the client's problems with him. The client's checkbook stubs, canceled checks, and bank statement as well as the daily sheets are also usually taken to the accountant's office once a month. This makes it possible to check the daily sheets as well as to make a reconciliation of the bank account.

On the basis of these daily report forms, the accountant's office makes the journal and ledger entries and prepares a monthly trial balance. In many lines of trade, monthly financial statements are also prepared. To do so, the client takes an actual physical inventory where this is feasible. In other cases, the gross margin percentage of the previous period is applied to the monthly sales. Or, purchases are taken as the equivalent of cost of goods sold where inventories are of minor importance or do not vary much in amount.

One accountant who keeps his clients' books in his office, stated that most of them have never seen "their books." He describes the advantages of keeping the books in his office as follows:

"Several capable girls, trained by the accountant himself, if necessary, can handle a surprising number of clients. Working with fewer interruptions, with good equipment and well-mastered fundamentals, they can turn out such work in one-third to one-half the time it could be done in the client's own office by the average bookkeeper."⁹

In some types of very small business establishments, however, it may be preferable for the accountant to keep the books in the client's place of business. The businessman may not be the type who can prepare even the daily report sheet accurately and consistently. Therefore, it may be necessary for the accountant to collect the information for the records through a personal visit to the business premises. Sometimes the accountant not only enters all the transactions but also makes out the checks for payment of bills, and all the pay-roll records. Fees for such work are often collected weekly at the rate of say \$5 or \$10 or \$15 per week. The fees may also be fixed on an hourly basis, however.

Tax work is usually combined with bookkeeping service. Clients usually expect such tax service and also it is advantageous for the accountant to combine these two services. One accountant describes this advantage as follows:

"With his client's bookkeeping under his continual supervision, the accountant can make adjustments and corrections through the year so that when the year-end statement is prepared there is little further to be done. This is of invaluable help during tax season, for if the interim

⁹Rea, *ibid.* p. 278.

accounting work has been properly handled, the preparation of tax returns becomes almost routine, and the accountant's office can handle many times the volume which could be handled if he were called in only after the end of the year."¹⁰

Accounting and Auditing

When the client has his own bookkeeper there is often an opportunity for what may be called accounting or superficial auditing work. Opportunities for this kind of service may exist because there is more work than one bookkeeper can do, but not enough for two; because the client does not want the bookkeeper to know too much about his business; because the bookkeeper is not capable of doing certain phases of the work; or because the client wishes to check on his bookkeeper.

A service of this kind usually requires the accountant to go over the bookkeeper's work to see that there are no errors, mistakes in techniques, or dishonesty. Also the accountant may make the adjusting entries, take off a trial balance, and prepare monthly profit-and-loss statements and balance sheets. Check-up work of this character requires, of course, a higher degree of accounting ability than bookkeeping work.

Auditing work, in the usually accepted sense of the term, is the least important service rendered by small accounting firms. In the first place, small businesses infrequently have a need for independent audits for purposes of accountability to outsiders. In the second place, the small businessman seldom can afford the expense of a thorough audit. In fact, one accountant states that during the war he turned down several requests for audits from medium-sized firms because he realized that the value of the service to the client would be less than the cost of the time he would have to spend on these assignments. Finally, most small businessmen have a mistaken conception of the term auditing. To them, anything an accountant does is auditing.

An accountant explained the problems involved in performing audits for smaller clients as follows:

"Auditing work for smaller clients often requires a deviation from standard procedures mainly because the books and records are either inadequate or poorly kept, or both. Normal auditing procedures are usually not understood and the client is likely to gain the impression that time is being wasted, unless the accountant takes the time and patience to explain in simple English what is being done and why. Confirming bank balances is not particularly difficult, but usually it requires a visit to the banks to explain the whole idea and to get all sections of the confirmation form filled out and signed.

"Confirming accounts receivable is particularly exasperating at times. Even the most simply and carefully worded request does not prevent

¹⁰ Ibid, p. 278.

many debtors from sending the accountant a check, money order, or cash, or calling on the phone, or coming in person to protest a disputed amount.

“Many clients seem to believe accountants have occult powers and need only to gaze for a few minutes at a set of books in order to find errors, omissions, and defalcations. It is quite an experience to be called in for an audit, only to find there is nothing to audit, and that your prospective clients believe you can produce a financial statement out of thin air.”¹¹

This accountant feels, however, that there are opportunities for auditing work in some cases. He states his views as follows:

“In the smaller communities a great deal more business is done on good faith and character than in the larger cities. At first, many bankers do not see the advantage of asking for financial statements that have been independently verified. They are quite willing to accept a prospective borrower’s own estimated statement of his financial position if they feel they know the borrower. The same attitude is apparent in other business dealings, it being common practice for businessmen in small communities to take each other at face value in entering into partnership agreements, buying and selling interests in business, and making similar deals without an accurate accounting. Once they have discovered the values of auditing and accounting they are quick to take advantage of them. The accountant can feel he is really fulfilling his destiny when he finally discovers that his clients consider his office an extension of their own, and his advice necessary before entering into any important program or negotiation.”¹²

Management Advice and Assistance

The small businessman, who employs no controller, needs the equivalent of certain controllership services that probably only his accountant can supply. For example, he needs assistance in interpreting and using the figures obtained from his records. He needs to be shown how to use ratios and how to analyze financial statements.

One accountant made an arrangement with a wholesale grocer whereby he renders a bookkeeping service for retail grocers who are members of the wholesaler’s voluntary chain. He prepares monthly profit-and-loss statements for these grocers based on a uniform classification of accounts. These statements include the grocer’s own ratios and “standard ratios.” The standard ratios are goal figures computed by averaging the results of the more profitable stores of the voluntary group during the past month. Differences between these standard ratios and the retailer’s own ratios are pointed out by the accountant and help is given to the retailer in analyzing the differences and discovering and correcting the causes of unfavorable results. In this way, much progress has been made in con-

¹¹ Ibid. p. 278.

¹² Ibid. p. 278.

A Monthly Profit-and-Loss Statement

Item	Month of July—			Year to date (7 months)—		
	Your store		Group of stores— percentage of sales	Your store		Group of stores— percentage of sales
	Dollars	Percentage of sales		Dollars	Percentage of sales	
Net sales	3,575.56	100.00	100.00	29,602.93	100.00	100.00
Less: Cost of goods sold	3,033.44	84.82	80.20	25,249.85	85.29	80.92
Gross margin	542.12	15.18	19.80	4,353.08	14.71	19.08
Less: Operating expenses:						
Wages	125.74	3.55	6.37	1,148.14	3.89	6.45
Store expenses:						
Rent	61.50	1.72	1.26	430.50	1.45	1.16
Heat, light, power, and water	19.01	.53	.65	156.43	.53	.80
Store supplies	4.18	.12	.41	14.44	.05	.44
Repairs to equipment30	.13	.13	.80	.18	.18
Depreciation of store equipment	5.00	.14	.33	35.00	.12	.36
Telephone and postage	11.27	.32	.24	95.39	.32	.27
Advertising	20.00	.56	.61	198.87	.67	.79
Delivery (not including wages)	6.20	.17	.86	27.34	.09	.79
Taxes	20.19	.56	.66	109.04	.37	.73
Miscellaneous	21.08	.58	.83	125.19	.42	.80
Total operating expenses	294.47	8.25	12.35	2,341.14	7.91	12.77
Net operating profit	247.65	6.93	7.45	2,011.94	6.80	6.31

trolling and reducing expenses and in otherwise improving the general efficiency of this group of stores.

Another accountant reports that he does the same thing for a group of small power laundries in his locality, using the uniform accounting system developed by one of the trade associations in this field, and comparing the individual laundry's ratios with standard ratios for the group.

Still another accountant reports that he collects standard ratios for different lines of trade from various sources, such as trade associations, trade journals, mercantile agencies, governmental publications, etc., and furnishes them to his clients for comparison with their ratios.

A bookkeeping system for a general merchandise store which shows departmental sales and profits was set up by yet another accountant. The owner of the store now gets control figures which he finds very valuable in his buying program, in controlling his stocks, setting prices, and for his general merchandising policies. The accountant shows the merchant how to get the necessary figures, and how to use them.

While an accountant can provide invaluable management assistance to the small businessman, he should keep in mind that his objective is to be of real help and not to exhibit the extent of his accounting knowledge. The accountant can lead the businessman but he should not be so far ahead that his clients cannot follow.

While many accountants who establish their own firms will find it best to specialize in bookkeeping, perhaps combining it with taxes, others will wish to extend the range of services rendered to include systems, accounting and auditing. All of them will probably find that management assistance is an important aspect of their services.

Typical Operating Ratios of 50 Retail Trades, 1939

Trade	Percentage of net sales								Inventory turn-over (times per year)
	Gross margin	Total operating expense	Net profit or loss	Proprietors' wages	Employees' wages	Rent or occupancy	Advertising	Bad-debt losses	
Foods, beverages, and restaurants:									
Alcoholic beverages	26.8	24.2	2.6	9.8	5.4	3.3	0.5	0.4	6.6
Bakery shops	54.0	48.0	6.0	11.0	20.9	6.1	.7	.2	13.8
Confectionery	34.1	29.3	4.8	12.0	6.6	6.6	.5	.3	10.8
Dairy and poultry products	39.2	35.5	3.7	8.6	12.1	3.4	.9	.6	35.9
Drinking places, taverns, and bars	35.9	31.9	4.0	10.8	9.0	5.9	.4	.7	15.8
Groceries	18.4	16.9	1.5	7.0	4.2	2.6	.6	.4	10.0
Groceries and meats	19.2	17.3	1.9	5.7	5.6	2.3	.6	.5	13.5
Groceries and filling stations	16.8	15.7	1.1	7.9	2.7	2.8	.3	.8	11.3
Meats	23.5	21.7	1.8	7.8	6.2	3.0	.4	.3	50.8
Restaurants and other eating places	43.3	39.2	4.1	8.3	16.3	6.8	.6	.4	25.9
General merchandise and farmers' supplies:									
Country general stores	17.9	15.4	2.5	6.2	4.2	2.2	.5	.8	3.9
Dry goods and general merchandise	28.1	25.1	3.0	8.2	6.7	3.9	1.1	.5	2.0
Farm implements	19.7	18.7	1.0	6.2	5.4	2.0	.4	.5	2.9
Farmers' supplies	17.5	15.0	2.5	4.2	4.3	1.9	.3	.5	8.7
Limited-price variety	31.5	26.5	5.0	9.4	7.2	5.1	.8	.2	2.8
Apparel:									
Custom tailors	63.2	61.9	1.3	17.3	26.8	8.0	1.6	.9	1.7
Family clothing (including children's shops)	30.6	27.3	3.3	8.4	6.9	4.7	1.3	.6	2.0
Furs	50.2	44.6	5.6	14.4	10.5	6.9	2.5	.6	2.0
Lingerie, hosiery, millinery, accessories	35.8	32.5	3.3	12.6	6.8	8.0	1.0	.2	2.8
Men's clothing	31.8	28.3	3.5	9.6	6.5	4.5	1.5	.6	1.8
Men's furnishings	34.2	33.2	1.0	11.3	6.4	8.3	1.2	.5	1.9
Shoes	32.9	30.7	2.2	10.4	7.3	6.0	2.0	.3	1.8
Women's ready-to-wear	30.5	28.7	1.8	9.2	7.0	5.3	1.2	.4	3.8
Automotive:									
Automotive accessories and parts	34.3	29.1	5.2	8.8	9.1	3.7	1.1	.8	3.0
Filling stations	24.3	22.3	2.0	8.8	5.8	4.3	.4	.5	15.9
Garages (with repairing)	48.9	46.8	2.1	14.9	15.9	6.8	.8	1.0	4.0
Motor vehicles	17.1	15.9	1.2	2.5	6.5	1.5	.6	.3	8.3
Furniture and household wares:									
Electric and gas household appliances	35.3	32.8	2.5	10.1	10.7	3.5	1.5	.5	4.6
Floor coverings	37.0	34.7	2.3	12.6	10.0	4.4	1.0	.5	3.1
Furniture	38.1	33.7	4.4	8.9	9.8	5.1	1.6	1.0	2.7
Furniture and undertaking	42.1	37.5	4.6	12.2	8.4	4.7	1.5	1.5	1.9
House furnishings	39.4	37.2	2.2	12.5	11.3	5.2	1.0	.7	2.8
Radios	44.5	42.1	2.4	19.8	10.0	5.1	2.4	.8	3.9
Building materials and hardware:									
Hardware	29.1	26.7	2.4	8.9	7.6	4.0	.9	.6	2.0
Paint, wallpaper, and glass	34.9	32.7	2.2	11.8	8.2	4.2	1.3	.8	2.6
Hardware and farm implements	20.4	20.6	-2	6.5	6.2	2.3	.6	.5	2.4
Hardware and furniture	29.9	26.9	3.0	9.2	7.5	3.5	.9	1.0	1.9
Lumber and building materials	26.9	24.0	2.9	6.5	8.2	2.4	.5	.8	3.2
Other retailing:									
Books	35.4	34.8	.6	9.7	10.2	6.2	1.0	.1	2.3
Cigar stores and stands	23.9	21.6	2.3	9.2	4.8	5.6	.3	.3	8.0
Coal and other fuel	30.1	27.3	2.8	8.4	8.6	2.2	.6	.6	8.0
Drugs	30.5	28.1	2.4	9.6	7.8	4.8	.9	.3	3.1
Gifts, novelties, and souvenirs	42.3	36.0	6.3	15.4	6.1	9.7	.9	.5	1.8
Jewelry	48.9	43.6	5.3	17.0	10.4	6.4	2.1	1.0	1.1
Monuments	62.1	59.1	3.0	16.0	17.7	3.1	1.1	.9	1.3
Musical instruments	39.7	37.6	2.1	12.4	10.2	4.7	2.2	.4	3.0
Florists and nurseries	58.4	53.3	5.1	15.4	16.9	6.0	1.4	.6	3.7
Office equipment and supplies	40.4	37.4	3.0	10.4	13.3	4.0	1.2	(1)	3.2
Sporting goods	33.2	30.5	2.7	10.5	7.2	4.9	1.3	.4	3.1
Stationery	33.0	30.0	3.0	10.1	7.9	5.7	.9	.3	2.9

§1 Not available.

§ Source: Standard Ratios for Retailing, by Walter Mitchell, Jr., Dun & Bradstreet, Inc., 290 Broadway, New York.

CHAPTER IV

EARNINGS AND EXPENSES

Many factors influence the earnings which can be anticipated by an accountant who is thinking of establishing a small firm. Your accounting ability is one important factor. An honest self-appraisal of the salary you can command in the open market as a private accountant furnishes some indication of expected earnings in the beginning. Personality and ability to get clients is, of course, an important factor. The number of years in practice also affects earnings. Normally, you can look forward to an increase in income with age, up to a certain point.

Aside from these personal factors, the size and other characteristics of the town or city in which the accountant is located affect his earnings. How many accountants are there in the community and what is the nature of their competition? How much are doctors and lawyers in the community getting? What is the cost of living in the community? What are the prevailing wage rates and office rents?

Finally, the type of clientele and the value of the accountant's services to his clients, since they affect his fees, will obviously be reflected in his total earnings.

Statistics on Earnings

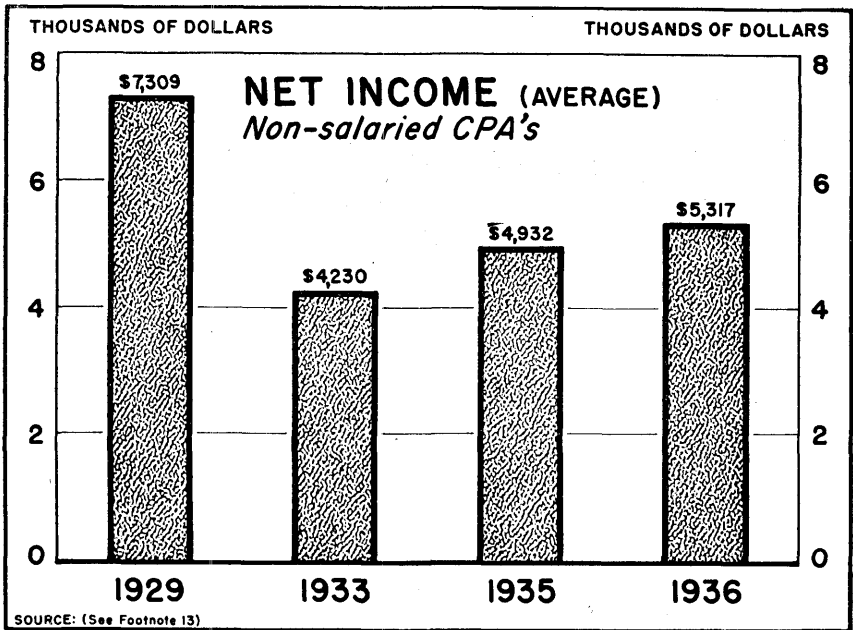
There is little information available on the earnings of public accountants—especially of accountants who offer bookkeeping and related services to small businesses. What few figures there are usually relate to C. P. A.'s who are members of large accounting firms. Such figures probably exaggerate the earning possibilities of small firms which have small businesses as their clients. However, they do furnish some indication of earnings.

The chart below shows the average net income—gross income less expenses such as office rent and salaries—of independently practicing certified public accountants. These figures were collected by means of questionnaire surveys among a sample group of C. P. A.'s.¹³

Based on Federal income tax returns of partnerships classified as "Accountants, Auditors and Bookkeeping Services," the average net income per partner (gross earnings less expense) was \$6,488 in 1939.¹⁴ Of

¹³ "Incomes in Selected Professions," Survey of Current Business, May 1944, p. 15.

¹⁴ "Supplement to Statistics of Income for 1939, Part I. Compiled from Partnership Returns of Income" Treasury Department, Bureau of Internal Revenue, Washington 25, D. C., pp. 46 and 47.



course this is an average which includes both C. P. A.'s and non-C. P. A.'s and large as well as small partnerships. It was probably higher than the average net earnings in 1939 of the smaller firm we are writing about.

On the other hand, several accountants who have their own small firms reported rather high earnings figures for more recent years. For example, a young accountant who had been practicing for only 4 years in a large city stated that his earnings before expenses approached \$10,000 in 1945. Another accountant stated that a firm consisting of one man and a girl should be able to earn around \$10,000 a year. These figures, however, may reflect abnormally high wartime earnings.

An accountant in a small town, where both operating and living expenses are lower than in large cities, states that the minimum gross earnings should be around \$6,000 a year for a firm consisting of one man and a girl.

Factors Affecting Earnings

One accountant who has been in practice for himself for 18 years states that his net earnings have increased each year and that he expected them to continue to increase until he was ready to retire. He may have been somewhat optimistic, but it is probably reasonable to expect earnings to increase, up to a certain point, with the number of years in practice. This tends to be substantiated by the figures on page 24 showing how the average net income (after expenses) of lawyers increases markedly with

age until the late forties and does not turn sharply downward until approximately the age of sixty.¹⁵

<i>Age of practitioner</i>	<i>Average net income of lawyers, 1941</i>
27½	\$2,000
32½	3,000
37½	4,500
42½	5,000
45	5,900
47½	6,500
52½	6,000
55	6,000
57½	5,900
62½	4,900
65	4,500
Average, all age groups.....	4,900

As lawyers are somewhat like accountants in that they rely upon business enterprises rather than individuals for the major part of their clientele, and since physical dexterity (such as is required of dentists) is not involved, it is probable that if comparable figures for accountants were available, they would show similar results.

The size of the city or town in which the accountant practices is another important factor affecting the dollar income. Again, no data are available for accountants, but the following figures showing how income for lawyers varies with size of locality, may furnish some indication on this point.¹⁶

<i>Population of place located</i>	<i>Average net income of lawyers, 1941</i>
Under 1,000	\$2,600
1,000 to 2,499.....	2,850
2,500 to 4,999.....	2,900
5,000 to 9,999.....	3,800
10,000 to 24,999.....	4,000
25,000 to 49,999.....	4,400
50,000 to 99,999.....	5,000
100,000 to 249,000.....	4,600
250,000 to 499,999.....	5,500
500,000 and over.....	6,500
United States average.....	4,900

Although the above figures show an almost unbroken increase the average net income of lawyers as the size of the city or town increases, this may be somewhat misleading as to the relative opportunities for small accounting firms in small versus large places. The above figures include earnings of lawyers who are members of large law firms with large corporations as clients. Such lawyers tend to be concentrated in the larger cities. If the earnings of these corporation lawyers were taken out, leaving only the figures for individual practitioners with small businesses as clients, the rate of increase in earnings as size of place increases

¹⁵ Survey of Current Business, op. cit., chart 1.

¹⁶ Ibid., chart 2.

probably would be much less. Likewise, if figures were available for the earnings of small accounting firms according to size of place, they would probably not show as steep an increase for the larger cities as in the above table.

Of course, since expenses are higher in the larger cities, a greater dollar income may be worth no more in terms of real income than somewhat lesser dollar income in the smaller communities.

Expenses

In a survey of earnings of C. P. A.'s for the years 1934, 1935, and 1936, it was found that the percentage of net income to gross income ranged from 51.0 percent to 51.8 percent; that is, expenses were around 48 percent of the gross income.¹⁷ Figures on expenses for the year 1939, obtained from Federal income tax compilations for partnerships, mentioned previously, show the following ratios of expenses and net income to gross earnings:

	<i>Percent of gross income</i>
Salaries and wages.....	36
Rent	4
Other expenses	15
	55
Total expenses	55
Net income of partnerships.....	45

More recently, an accounting firm in a small town consisting of three partners and four employees had expenses and net earnings for 1945 as follows:

	<i>Percent of gross income</i>
Salaries and wages.....	40
Rent, supplies, and other expenses.....	20
	60
Total expenses	60
Net income of partnership.....	40

The above figures apply to established firms. As was suggested in a previous chapter, it is best for a person just starting out in this field to keep his expenses at a minimum. The accountant might operate from his own home with telephone facilities or use desk space in an office, and do his own typing or employ a part-time typist. In such a case, his first year's expenses should not exceed \$400 or \$500.

After an accountant has enough clients to warrant an office and a full-time employee, however, he may find that at the outset his ratio of expense to gross earnings will be very high, but will gradually decline as his gross earnings increase.

When the initial difficulties of establishing a clientele have been surmounted, the accountant probably will find his gross earnings increasing from year to year, with about half his income going for expenses and the other half remaining as net earnings.

¹⁷ "Income of Independent Professional Practitioners," Survey of Current Business, April 1938, p. 13.

CHAPTER V

CHOOSING YOUR LOCALITY

When an accountant is thinking of starting out for himself, in most cases he probably does not give as careful consideration to the problems of locations as, let us say, the individual who is establishing a women's apparel shop. And this is probably rightly so, since the exact site or building in which the accountant locates his office, while it may involve factors of prestige and convenience, is usually not so important a matter as the choice of a site for a women's dress shop.

However, there are important problems involved in the choice of a *locality*, that is the city or town or community in which you expect to practice. In fact, the question may be, should you choose a locality at all, or should you practice in the place where you now happen to be situated? If you decide to consider moving from your present locality, should you choose a big city or a small town? Finally, which city or which town should you choose?

Your Present Locality

When one accountant was asked how a person thinking of establishing his own practice could determine where there was room for him, he answered that there were opportunities for additional firms offering book-keeping services in almost any town or city. He may have had in mind conditions which existed during the war, for other accountants who discussed opportunities were not so optimistic.

Several accountants stated, however, that there really was no problem involved in the choice of a locality since an accountant had a very poor chance of success except in a city or town where he had a large acquaintanceship among businessmen. One of them put it this way, "A new accountant is like a new doctor, or if anything he is in an even more difficult position. You can't start cold. You can't go into a strange city or town without knowing any prospective clients or at least knowing someone who can recommend you. On the other hand, the larger your acquaintanceship among business people, the better your chances for success."

The problem of measuring the potential market for your services is thus related to the problem of getting clients. One accountant estimated that around 15 to 20 clients can support a person who is just starting out in practice for himself. Therefore, if your business contacts are such that

you can reasonably expect to get this number of clients, then there is at least a minimum potential market for your services in your present locality. Of course, you will also want to take into consideration the possibilities for future growth.

In the above discussion, the choice of a locality appears to narrow down to the city or town in which you have numerous business contacts. In most cases, this probably means the city or town in which you are now living. But if you do not have numerous business contacts, then you may have the problem of choosing a locality. This might involve moving from a larger community to a smaller one, rather than the other way around.

Opportunities in Smaller Communities

Today, there may be opportunities in communities which a few years ago were considered too small to support a bookkeeping service. Thus, if your contacts are somewhat limited, a smaller community in which there is no accountant might offer a better opportunity than a large city in which the field may be relatively overcrowded.

How small a community will support a bookkeeping service for small business? An accountant in a small town in Ohio made a survey which helps to answer this question. He reported on this survey as follows:

“A short time ago, the author saw a letter from a public accountant practicing in a town of approximately 1,000 population, offering services



in taxes, systems, bookkeeping, and auditing. We doubt if there are many public accountants practicing full time in communities as small as this. Consequently it is interesting to consider what the minimum requirements might be for a satisfactory practice of this type.

"In an effort to answer this and other questions, a survey of the State of Ohio was undertaken in an effort to determine how many people, including office help, were engaged in the practice of public accountancy. While the methods used would probably not meet the approval of professional pollers, enough information was gained to draw interesting conclusions.

"For the purpose of the survey, the metropolitan areas of Cleveland, Akron, Canton-Massillon, Youngstown, Toledo, Columbus, Dayton, and Cincinnati were excluded. Letters were sent to accountants whose addresses were known, and to secretaries of service clubs in cities and towns having about 2,500 population or more.

"Analysis of these replies showed that population alone was but a rough measure of the opportunities. After some study, the total number of businesses in the communities was found to be a more satisfactory index, despite the fact that individual businesses vary widely in size and complexity of accounting needs. In this connection it was estimated that an allowance should be made in the number of eligible businesses to the extent of 10 percent for companies whose offices are located elsewhere, and those businesses which retain accounting firms situated in the larger cities.

"The number of people engaged in the practice of public accounting, including office help, was then compared to the number of businesses. A study of these data indicated that, as a general rule, 1 person to 50 businesses seemed to be the most favorable ratio under present conditions. Some communities which had a lower ratio, as low as 1 to 25 in one instance, showed tendencies toward overcrowding. Some accountants in areas where a ratio higher than 1 to 50 prevailed stated more help could be used if available, indicating prospects for further growth.

"In general this ratio means that if a community has 400 businesses, then, if properly developed, it should offer enough public accounting work to utilize satisfactorily the services of 8 people. Approximately half of these would be accountants and the rest typists, bookkeepers, secretaries, etc. Therefore, assuming that the smallest public accounting office would consist of 1 accountant and 1 girl acting as typist, secretary, and bookkeeper, the smallest community capable of supporting a public accounting office should have approximately 100 businesses. It is recognized, of course, that varying local conditions will have a definite influence on this general rule.

"It is not unusual to find several communities not far apart which, if taken together, offer satisfactory opportunities. It must be kept in mind, however, that in a practice of this type the accountant is limited in the

area he can cover, since most small businesses like to be in frequent touch with the accountant, often several times a week. In view of this limitation, it is suggested that only those communities should be considered which lie within an area approximately 25 miles in diameter, and at least one of these communities should have not less than 100 businesses. This does not mean that clients will not develop outside this area, nor that there will not be clients in the rural sections. But if there is not at least one community in the area which in itself is big enough to support an office, the clients outside the community will not justify its operation.

"It has been stated that normally the most favorable ratio is 1 person engaged in public accounting to every 50 businesses under present conditions. There are two reasons for this qualifying phrase. First, there are still many businessmen, even in areas served by well established firms of public accountants, who do not know what a public accountant is nor what he can do for them. A program to correct this situation would certainly help to lower this present ratio to considerably less than 1 person to 50 businesses. The local accountant is able to combat this situation to some extent, but it is a slow and difficult task. Valuable assistance could be provided by State and national accounting societies.

"Secondly, recognition should be given under present conditions to the needs of taxing authorities and regulatory agencies for reports and statistics which the smaller businessman likes to have prepared by his public accountant. While a curtailment of these requirements might tend to decrease the demand for the accountant's services to some extent, there is hope that the effect will not be serious. For many smaller businesses, the reports, returns, and statistics required of them in recent years resulted in the first acquaintance with a public accountant. They have thus learned what a public accountant can do for them, and it is more than likely that they will continue to seek his advice and assistance.

"But what can be expected of this field in the future? How many people can be remuneratively engaged in practices of this type?"

"For the State of Ohio as a whole there are approximately 50,000 businesses outside the eight metropolitan areas previously mentioned. About one-half, or 25,000 are in areas concentrated enough to justify an office of two or more persons. Applying the ratio of 1 to 50, these areas should provide enough work for about 500 people. Based on the areas sampled in our survey only about 325 are so employed at the present time.

"While the findings presented herein are confined to the State of Ohio, there is good reason to believe that the same conditions exist in other States. Taking the United States as a whole we must conclude that outside the larger cities, there are today opportunities open to thousands of qualified accountants, and these opportunities could be greatly increased if more businessmen were informed as to what a public accountant is and how he serves the community in which he practices."¹⁸

¹⁸ Rea, Richard C., "How Small A Community Will Support a Public Accountant's Office?" *Journal of Accountancy*, April 1946, p. 289.

Several accountants state that each person employed in a small firm can handle, on the average, about 15 regular clients. A "minimum-sized" two-person firm, can handle about 30 clients. Thus the previous estimate that there should be at least 100 business establishments in a community—including manufacturers, wholesalers, retailers, and service establishments—means that, on the average, the accountant should be able to get 30 percent of the businesses in a smaller community as clients. The other 70 percent probably would be either too big or too little to employ book-keeping services, or they would have outside accountants.

Points to Check

Of course, the number of businesses in the community is not the only factor you need to consider when choosing a locality. Many other things, such as the general economic conditions, should also be investigated. The following check list will suggest some of the questions which should be considered. Obviously this list does not cover everything—no list could. It does, however, suggest some of the more important things. This list should be used as a starter.

A check or notation in this column will show you have considered each point.

Economic factors in the community:

- Have you determined the total number of business establishments in the community—including manufacturers, wholesalers, retailers, and service establishments?
- Are the industrial or agricultural conditions good?
- Is the trend up, down or stationary?
- Is the source of the community's wealth well diversified and varied or is it a one-industry community?
- Are the major industries old and well established, new and growing, or recent and uncertain?
- Are the industries stable or subject to wide fluctuations?
- Is the economic outlook for the community promising, uncertain, or poor?
- Is the population of the community growing, standing still, declining?
- Are transportation facilities, banking facilities, schools, and so on, good, adequate or poor?
- Are the civic associations aggressive, adequate, stagnant or poor?

A check or notation in this column will show you have considered each point.

The need for a new bookkeeping service in community:

- Have you canvassed the community to determine the number of bookkeeping services of the type you plan now operating?
- Have any bookkeeping services of this type closed recently? Why?
- Are the bookkeeping services which are in operation busy?
- Is business adequately served by the present bookkeeping services?
- Are people now going out of the community for the services you would render them?
- Is another bookkeeping service needed?

Competition:

- Do competitors leave an opening for you to enter because they are not alert and aggressive?
- Are competitors well established?
- Will competition be strong and active or weak and sluggish?
- Do you have a competitive chance?

Advice from others:

- What do business and service clubs, the Chamber of Commerce, and others think of the prospects for another bookkeeping service in this community?
- Have you talked to a banker or lawyer? What does he think about your plan?

CHAPTER VI

GETTING CLIENTS

Getting clients is undoubtedly the most difficult hurdle to be overcome by the accountant just establishing his own office. The problems facing the accountant are like those confronting the young doctor or lawyer who is just starting to practice.

Should the accountant advertise? Should he solicit clients? The codes of ethics of most of the various organized accounting groups either forbid or restrict such practices. One accountant's discussion of this point is given on the following pages.

*Soliciting*¹⁹

"When a young man opens an office and has his name painted on the door, he is immediately confronted by the problem of solicitation, and it is only the strong man who can resist, unless he be one of those unusual and fortunate people whose personal acquaintance and friendship are so large and influential that clients will flock to his office without effort on his part.

"Typically, however, the accountant has no reason to expect the community to make a path to his door. So, after sitting for a few weeks or months ready for practice but finding none, it is natural for him to decide to call upon some of his neighbors in the business district and suggest to them that they engage his services as an accountant.

"In defense of this plan much has been written and said. It has been asserted that accountancy is not a profession, but a commercial service, and therefore may be sold like any other commercial commodity. It has been alleged that although accountancy may have professional aspects, it is so closely allied with business that it is folly to attempt to draw a line of division between it and the sale of goods. It has been repeatedly stated that the business world needs accountancy and for the good of the whole body politic the advantages of accountancy should be brought before the businessman. And so, say the proponents of soliciting, the accountant who starts with the idea that he will not solicit will not succeed, and the public will suffer loss of potential benefits because the public will not know of the assistance which lies ready to hand.

¹⁹ Adapted from Richardson, A. P. "The Ethics of A Profession." American Institute Publishing Co., Inc., New York, 1931, ch. VII.

"These are powerful arguments and it is not easy to overthrow them even in academic discussion. It is even more difficult to combat them down in the thick of the workaday world where people jostle and struggle for livelihood.

"But the arguments, although strong, are not sound. Soliciting involves things which are opposed to decency.

"As an illustration let us suppose the young accountant goes to the firm of Smith, Brown & Robinson, manufacturers of cotton textiles. The following conversation ensues:

"Well, young man, what can I do for you? What are you selling?"

"I am Mr. John Doe. I am operating an office in this neighborhood for the practice of accounting. I have experience which enables me to undertake accounting engagements to the satisfaction of my clients. My rates are reasonable and my services are rendered promptly."

"Are you one of those accountants who are willing to accept the word of a client where there is no reason to suspect wrongdoing?"

"Here the young man begins to find how soliciting develops. He pauses a moment and then remembering that his desk is clean and his filing cabinets empty, or perhaps that even his stomach is empty, he says: 'Of course, I should not overlook anything which was clearly wrong but if I had reason to believe that statements were correct I should not be unnecessarily inquisitive.'

"We employ at the present time the firm of Blank & Blank to do our auditing. Are they friends of yours?"

"Well, the firm of Blank & Blank has a certain reputation, but I think that I can do better work and more to your liking."

"I may tell you in confidence that our audit fees last year were \$3,000. Now without looking at our books or anything of that sort, can you give me a price which would be more favorable to us?"

"Naturally, I should hesitate to quote a flat rate, but if Blank & Blank can do the work for \$3,000 I am quite sure that I, who have much less overhead to meet, can do it satisfactory for \$2,000."

"Would you consider the engagement at \$1,500?"

"Again the loneliness of the accountant's office comes to mind, and after a moment's thought and apparent mental calculation, he replies: 'Yes, I will undertake the work for \$1,500.'

"At this point, the businessman may engage the soliciting accountant with the intention of finding out whether his audit fees in the past have been excessive or not.

"So the young man who has entered the office of a manufacturer with nothing more than a rather desperate hope of finding something to do emerges either with or without an unprofitable engagement. He has, however, engaged in two unethical practices. In the first place, having found that a fellow practitioner was established there, he should have bowed and departed. He did neither. In the next place he quoted a fee which

he could not possibly know was adequate or inadequate. His sole purpose was to get a job. He did not consider whether he was competent to do the work or not; he did not stop to estimate the extent of the work involved; he gave no consideration to the number of assistants required. He simply went blindly ahead grasping at a receding and decreasing fee."

Another accountant expresses his views on the disadvantages of soliciting as follows:

"As a result of our experiences we have found that the best clients, the ones who are most appreciative of our services, are those who have come to us either of their own accord or through reference. After all, accounting services are not tangible merchandise on which a definite value can be set. Accounting services cannot be weighed nor measured, and as a result they cannot be sold. It is a much different proposition where a customer can see the merchandise he is going to buy and satisfy himself that it is what he wants and knows exactly what it will cost him before he makes a purchase.

"A client who has been sold accounting services is quite likely to take the attitude 'Well, you sold me a bill of goods, now show me something for my money.' Any accountant who has been practicing for any length of time knows that this attitude places him at a definite disadvantage because so often the results found by an honest accountant may be highly unfavorable from the client's point of view.

"How much different it is when the client approaches the accountant, who is then placed in a bargaining position and can say 'I will do the work which you request but you must understand that I will report exactly what I find whether it is favorable or unfavorable'." ²⁰

*Advertising*²¹

There has been a great deal of advertising by accountants. Probably hundreds of thousands of dollars have been dissipated in this way, and most of it has been unproductive, because it is undoubtedly true that nearly all accounting engagements are attributable to personal acquaintance, reputation, and recommendation, entirely irrespective of what may appear in the advertising columns of the press or in circular letters sent through the mail.

It may be said that advertising by professional men does not pay. It is difficult to believe that any discerning man of business would engage an accountant for the intimate and confidential task of accounting because he had happened to see the name of the accountant or firm of accountants in print. One would not engage a physician by reference to a telephone directory, except perhaps in some case of emergency. One would not engage a lawyer to conduct a litigation because he had seen the lawyer's name advertised. Nor would anyone ordinarily engage an accountant by

²⁰ Rea, Richard C., Letter to the Editor, *The Journal of Accountancy*, September 1942, p. 260.

²¹ Adapted from Richardson, *op. cit.*, ch. VIII.

virtue of advertisement. The accountant is brought into touch with all the details of one's business, its trade secrets, its financial conditions, its prospects, and its retrospects, and it is doubtful that anyone would engage an accountant to do that sort of work without knowing something about the man engaged.

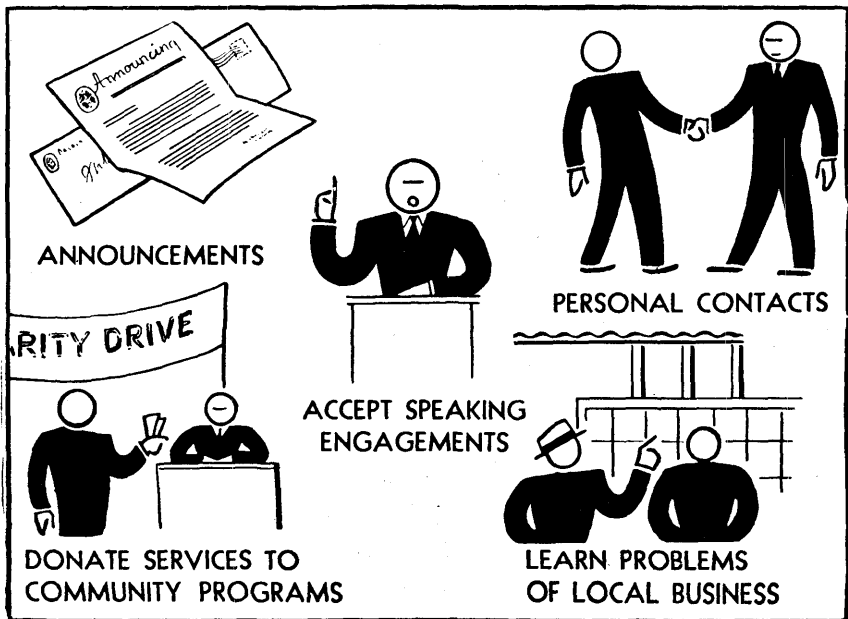
Some of the accountants just starting out resent the restrictions which prevent advertising. They believe that they should be allowed to advertise because they are not well known. They say that the "big firms" are opposed to advertising because they wish to ward off competition. If all accountants advertised, however, what chance would the small firm have against the resources of the long and well-established firm? If the principal accounting firms were to indulge in a constant battle of advertisement the chance of the small firm might be far less than it is at present

Establishing Clientele

Of course, the problem still remains, how to get the first few clients to come to your office of their own accord so that they can refer you to other clients. Here are a few suggestions:

1. Send out announcements or visit businessmen whom you know and acquaint them with the fact that you are starting an office of your own. But don't come right out and ask them for their accounting work or offer to do it for less.

2. In the same way, visit with your personal contacts among men just starting out in business for themselves.



3. Accept invitations to speak before business groups and service clubs.

4. Offer your services free of charge for auditing and checking the receipts for community programs, charity drives, campaigns for building new hospitals, or churches, and so on. Accept positions as auditor or treasurer for social and fraternal organizations.

5. Make a survey of your community. Find out the major types of industries and businesses that support it, i. e., those containing the largest number of smaller firms. Get around in these businesses and learn to talk their language and be familiar with the current problems of the industries in your community. At the same time you can make friendships among these businessmen.

6. In many smaller communities where there is no public accountant at present, a qualified practitioner would be welcome. He might be able to get the backing of the chamber of commerce, the local banks, and attorneys.

Some accountants operate an itinerant bookkeeping and tax service by having their offices in trucks which travel to the client's place of business. Apparently this method of operation combines some of the advantages of efficiency resulting from doing the work in the accountant's own office with some of the benefits of working at the client's place of business. It also has some promotional features. An accountant who has organized such traveling offices describes their operation as follows:

"I started in 1922 with about a thousand dollars. I bought a bookkeeping machine and typewriter and installed them in a portable office. This office was so constructed as to utilize all motion-saving and time-saving features. To sell the service I merely drove the new outfit to the front of a store and invited the proprietor to come out and see something new. When he asked what it was for I told him, so that the matter of selling became more a campaign of telling. The idea was very well received."

Purchasing a Practice

Instead of building up your own clientele from scratch, you may be able to purchase the practice of another accountant who wants to retire for reasons of a personal nature such as health, or old age. The advantages of getting clients in this way are obvious. As with so many things, however, the advantages may be offset by the disadvantages.

In the first place, a sizable capital investment may be required. Secondly, since accounting services are of such a personal and confidential nature, you may not be able to retain all of the clients of the accountant whose practice you have purchased. This might be especially true of the smaller businesses to whom a bookkeeping service is rendered. In fact, it is not very often that the clientele of a small accounting firm offering a bookkeeping and tax service to small businesses can be purchased.

Then there is the problem of determining how much to pay for an established practice. The natural tendency on the part of the seller is to exaggerate the good features of the practice he is selling. This means that you should make a very careful investigation before deciding on the value of the practice. You should allow for a certain percentage of clients whom you will probably lose. Then you must decide how much you will pay for the net income of the accountant's practice.

Purchasing a Plan of Operation

Some accountants have developed methods and plans for getting clients and for operating a bookkeeping service. They then sell these methods and plans to accountants in other territories who are anxious to enter the field.

One accountant, who operates traveling offices, and who has experimented with many types of bodies, machines, forms, and methods, explains this type of assistance in getting clients as follows:

"In the last 10 or 12 years, various accountants have applied to us for information on how to conduct such a business and we have experimented with various methods of getting this information to them. It involves blueprints and construction details including photographs of construction operations; it involves the entire accounting system, which is specially designed for this type work, with filled-in forms and detailed



instructions for its operation. It involves sales information and advertising methods. It involves a training course for assistants and the type of contract upon which they can successfully be hired. It then involves continuous correspondence with this office during the term of the accountant's operations.

"To transmit this information to a distant accountant in such form that he can immediately commence operations involves considerable expense in the way of blueprints, photographs, forms, and a great deal of stenographic expense. We have tried various methods of compensation for such costs. We have tried assessing a flat fee for complete information but have found that this does not cover stenographic costs during the time of the accountant's operations. We have finally arrived at the point where we sign a lease contract with a qualified accountant desiring to operate in unoccupied territory. The lease provides that he may use our trademark and our copyrighted material. We furnish him all construction and operational information. The territory he is to occupy is decided by geographic compactness and density of population. In such a specified territory we agree to furnish no one else with information or the use of our name and we do agree to furnish the accountant with any information he may find necessary.

"The accountant pays to this office a flat fee for the original blueprints, forms, photographs, and other intimate details. From the time the lease is signed and during its operation the accountant also pays to this office one percent of his revenue to cover the cost of continued correspondence and information. * * * The accountants in such enterprises do very well financially after their first three or four months and their income ranges from \$2,400 to \$6,000 annually."

Another accountant describes his methods of assistance in establishing a bookkeeping service as follows:

"Our business was started as the result of finding a definite need for the services that we offer which are, namely, a complete program for the establishment of a bookkeeping, accounting, and tax service for small business by use of our copyrighted plan.

"Not only did we find a large field for the need of our copyrighted forms and plan among small businesses but we also found a large field for the establishment of licensees to use this plan in their respective communities to service small business. The result was that we now have a number of licensees who operate under our name using our plan and forms in serving small business."

CHAPTER VII

SETTING FEES

One of the earliest problems the accountant has to consider is the amount of the fee which he shall ask for his services. This, of course, is not easy since it is not a question of the weighing or measuring of a commodity, and there is no definite cost upon which he can base his charges. The chief element which enters into the fee is the service rendered by the accountant himself, and its value is difficult to fix. The fees will be determined, to some extent at least, by supply and demand as reflected by the prevailing rates in the locality in which he practices. But sometimes it is difficult to know what these prevailing rates are.

Factors To Be Considered

One accountant lists the factors to be considered in setting fees as these:

1. The prosperity of the community.
2. Your acceptance in the community.
3. Competition from other accountants in the community.
4. The value of your services to the client.
5. The number of hours worked for the client.

In discussing this last factor, he pointed out that when an accountant is just starting, much of his work will be of a kind which could be handled by an assistant. Naturally the accountant cannot charge for the typing and routine work at the same rate he would charge for his other services.

Hourly Rates

In replying to an accountant who asked about fee determination, another accountant wrote as follows:

“On our regular accounting work we charge purely on an hourly basis, making no contract price at all. A different situation arose on our monthly bookkeeping work, and our present practice follows somewhat the following thinking:

“The fees for this monthly work are based upon two factors: (1) the time required for the average bookkeeper to do the work satisfactorily and (2) the value of the work to the client.

“I realize that the word ‘average’ is somewhat hard to define, but for the purposes of this discussion let us say it is a girl who has had basic

high school training in bookkeeping, writes a neat hand, has normal intelligence and an aptitude for the work. We charge for her time twice what we pay her plus an allowance for overhead. For example, if we are paying her 60 cents an hour and our overhead figures out to be about 30 cents an hour, we charge \$1.50.

“In considering the value of the work to the client we take into consideration what he would be paying if he hired someone to do the work in his own office, the quality of work he would get based upon local talent available, and to a certain extent, the client’s financial condition. Let us suppose for example that we have set up some books for a client and he then asks us to assume the responsibility of keeping these books. We do not quote flat fees for this type of work but will tell him to let us try it for 2 or 3 months and meanwhile we will guarantee him that it will not cost more than, for example, \$20 a month.

“We have found that it usually takes 3 months to get a set-up running smoothly so that the work is ready when we need it and in the way we must have it. Now suppose that at the end of 3 months we find the work will take 10 to 12 hours. We will then tell him we can handle the work for approximately \$15 or \$20 a month and if he is satisfied we go ahead on that basis.

“Now let us suppose that as the months progress we are able to accomplish the work in 8 hours due to increased efficiency in our own office. Our staff has become accustomed to the job, is familiar with it in every detail and has succeeded in working out simplified procedures. We feel that this saving due to our own efforts is an additional profit to which we are justly entitled. If he is financially able to pay us this value, we continue to charge him on that basis. Conversely, if in some month the time required should jump up above normal due to some fault of ours, we would hold the charge down within the proposed range and absorb the loss.

“If the client is not in a good financial position, as sometimes happens, he probably needs our services more than he would if his operations were profitable and we cooperate by reducing the charge to help him out.

“One reason we do not quote definite fixed fees for monthly work is because most clients who have never had our bookkeeping service go into the arrangement with a feeling of uncertainty. Once we have gained their confidence and they learn to appreciate the value of it, they place more work upon us than we had originally bargained for and tend to resist any increase in the fixed fee.

“We have always felt that the clients who give us work throughout the year are entitled to preferred attention during tax season with no increase in their rates. Those clients who only seek our assistance after the end of the year are charged a slightly higher set of rates to compensate for the large amount of overtime we must all work in order to handle the load.

“At the beginning of each tax season we work up a schedule of minimum rates for each type of return taking into consideration not only the

time involved in actually preparing a return but also the cost of maintaining our tax services, the time required to study them and the heavy load we have to carry during this fatiguing period. If the tax return takes more time than usual, we charge upwards from these minimum rates depending upon the time involved. To put it another way, the minimum rate is almost what you would call a set-up charge in the same sense as used in cost accounting.

"This procedure seems to work out very well, and we know that most of our clients feel our charges are less than they had expected to pay, which gives us a feeling of great satisfaction.

"Again we find we must take a client's financial position into consideration. A man with a net income of only \$2,000 may require more time than one with an income of \$10,000, but the latter should certainly pay more for the work than the former."²²

The importance of the value of the work to the client as a factor in setting fees is brought out in the following observation of another accountant who operates a bookkeeping service in a large city:

"We have repeated calls from small businesses, such as restaurants and small stores, which we are unable to take on, due to the fact that they cannot afford to pay us the amount we would have to charge to handle this work, which our overhead and salaries of the personnel in our organization would require."

It is not possible to set up any actual schedule of rates because these vary so much owing to the factors outlined previously. Also they vary in different parts of the country.

Flat Fees

Instead of charging on the basis of time, some accountants state that they think it more equitable and practical to charge a flat fee for monthly bookkeeping services. The small businessman, they say, likes this arrangement better, because he wants to know how much his bookkeeping work will cost him each month.

Of course, it is difficult to quote a fee in advance to a new or prospective client. "You can quote a tentative fee to a client, however," said one accountant, "based on the number of hours you anticipate will be spent there in the course of a month. Keep a record of all the time actually spent on this account. Then at the end of the month, multiply this time by some rate such as \$3 or \$5 per hour, and you will know how much to set for the fee."

Discussing this question further, the accountant went on to say that very often the fees are set on a trial and error basis. Sometimes the accountant finds himself in error because there is more work than he

²² Rea, Richard C., from an unpublished letter dated Oct. 23, 1945.

anticipated or because the amount of work increases. If experience shows that the fee is not sufficient the question should be discussed with the client and if the client agrees, then an adjustment can be made. "If not," said the accountant, "then you can make it up on someone else."

In his opinion, it does not take long to get sufficient experience on how to quote fees correctly. Within 6 months to a year, the accountant will be able to estimate fairly accurately how much work will be involved for a new client.

Another accountant verified this observation. He states that the process of setting fees is based on experience. "Study the client, find out what he needs and wants in the way of information—for example, it might be a drug store which will need a departmental breakdown of sales—and then estimate the amount of work involved. If it is a bookkeeping and tax service, then include in this estimate, the time spent in designing a set of books and a daily report form. And don't forget the time spent in making monthly trial balances, bank reconciliations, profit-and-loss statements, and all tax returns."

This accountant stated that his fixed fees for a complete bookkeeping service such as the above usually ranged from \$25 to \$30 a month and upwards.

Whether or not you charge a fixed fee for certain kinds of services, it can be seen that in the last analysis the two most important factors in determining fees are (1) the time required, and (2) the value of the services to the client.

CHAPTER VIII

MANAGEMENT PROBLEMS

A client who should find occasion to visit the offices of his accountant on a particularly busy day or night when rush work is in progress might obtain an unfavorable impression. He might doubt the ability of the accountant to devise an efficient system for him when the accountant's office is in a state of apparent confusion.

Organization and Personnel

No accountant, even if his office is small, can ignore for long the problem of the internal conduct of his practice. Some organization must be developed and this must be constantly changed as the circumstances require. For one thing, rush work and busy seasons are permanent problems. The ability to carry out rush work to a successful conclusion and to carry peak loads efficiently requires careful planning and organization. A well-organized office can handle much more work than a poorly organized one.

Employees should be trained so that they can handle all the details and routine work. The accountant should organize his work so that he can be on the outside as much as possible creating new business.

Some tips on organizing work were given by one accountant as follows:

1. The filing of working papers is important. Set up a standard arrangement for filing all working papers so that they are in the same sequence for all clients.

2. A file of charts of accounts (with numbers for each account) for all clients to whom a bookkeeping service is rendered facilitates the work of the girls in bookkeeping and also helps in dealing with clients. A master chart can be designed as the groundwork for any new system, and then altered and adapted to each business.

3. Everyone in the organization, including members of the firm, should keep a time card, recording all productive time. The data from these time cards should be posted to a time record for each client. The total time for each employee multiplied by his rate is the basis for the charge to the client.

The quality of personnel is, of course, an important element in an efficient organization. In fact, no organization is better than the employees who make it up. One accountant who hires girls to do the bookkeeping work in his office states that he tries to employ "superior" girls and he pays them more than the market rate. These girls have had bookkeeping

CARD NO. 6

CLIENT Central Food Market

DATE	DESCRIPTION OF WORK	BY	P	T	C	FORM	A	B	C	D	E	X
	Balance Forward						1/2	1		15	2	
3-30	Instructions on county tax returns and signing of same	RR				910 911	1	2				
	March Totals						1	1/2		15	2	
4-6	Pick up work for March	R.B.										
4-7	Culling daily sheets	gm								3		
7	Finish daily sheets & enter checks	gm								3		
8	Reconcile Bank, enter unpaid invoices, recap Journal	gm								2 1/2		
9	Post Ledger, Trial Balance	gm M/K				B/S-3 P/L-3				3		
		R.B.	✓					1/2			1	
10	Deliver statements & review with manager, discuss cash shortage and overage with manager	R.B.						1				
	April Totals							2		11 1/2	1	
5-1	Confer with revenue agent on 1943 Return	RR				1040	1					

Each person keeps a memo of his time for the day, posting from it to the master card. The totals are transferred at the end of the month into the accounts receivable ledger and are extended at the respective rates for each class. The key to the letters at the top of the form are as follows:

P - prepared T - typed C - checked

The column headed "form" is to include the different form numbers. 910 and 911 refer to the county tax return form numbers. B/S-3 and P/L-3 refer respectively to the balance sheet and profit and loss statements for the month of March. 1040 is the number of Federal individual tax return form. The last six columns are as follows:

A - Partners' time
 B - Senior accountants and field men
 C - Junior accountants
 D - Grade A typists and bookkeepers
 E - Grade B typists and bookkeepers
 X - Extra help

training in commercial high school or business college plus actual book-keeping experience in a private firm.

Even a small firm may find it necessary to hire temporary employees. A partner of a fair-sized firm of accountants who has had considerable experience in hiring temporary employees offers the following suggestions:

1. Hire early.
2. Train as much as possible.
3. Don't slight personal investigation of references before hiring.
4. Treat temporary employees as if they were part of the permanent organization and try to give them a sense of making a useful contribution.

Equipment and Supplies

Although an accountant who is just starting out can begin with a minimum of equipment, as his clientele and organization grow he will need type-

writers, adding machines, and filing cabinets. Even a small office may have around \$400 to \$500 worth of equipment. One accountant advises shopping around for second-hand nonmechanical equipment through dealers and by watching advertisements. In this way it is often possible to pick up bargains in desks, chairs, filing cabinets, etc. Also, he states that sometimes accountants, like doctors, do work for a client which needs to be done, but for which the client hasn't any money to pay immediately. In such cases, the accountant might acquire a filing case or other piece of equipment as payment for his services.

Another accountant believes that only new mechanical equipment should be purchased. His view is that the mechanical equipment used in an accounting office should be the very best obtainable, since no workman can produce the best results with poor or inadequate tools. Inferior mechanical equipment might be false economy.

He further advises that if there is more than one typewriter, they should be standardized as to make and model. They should also be replaced simultaneously at regularly recurring intervals before the type begins to show signs of wear. This is because of the frequent practice of having various parts of the same report simultaneously typed by different typists on different machines. When machines are not uniform, the results of this practice are not pleasing to the eye when the report is assembled and bound.

All mechanical equipment should be serviced regularly by a competent service man, to minimize the possibilities of a breakdown during a busy period.

Standardization of stationery and supplies to the greatest possible extent is also desirable. It should be practical to adopt not more than four or five sizes for working paper and report paper, and the fewer the sizes the better. Paper of uniform grade and quality should be used, and the accountant should assure himself of the availability of a reasonably continuous supply in the future, so that clients' reports will be uniform.

The accountant should keep a form book of all forms designed for his own as well as for his clients' use. Each form should be numbered, and the date and quantity ordered should be printed on the form. The name of the printer, specifications, prices paid, and other details should be noted on these sample forms or elsewhere in the form book.

A modern and up-to-date library is just as necessary in an accounting office as in a law office. Some type of loose-leaf Federal income tax service has become one of the essential working tools of accountancy. Similar series covering the operation of State and Federal pay-roll tax laws and various State tax laws are also frequently found in accountant's offices.

Periodicals dealing with accountancy and perhaps some trade journals representing industries and trades in which a number of clients are engaged will also accumulate. Standard texts and references on intermediate and advanced accounting and handbooks on various phases of accounting will

form the basis of a library which, over the course of years, will probably amount to 100 volumes or more.

Reports

An accountant's report, whether it is the report of an audit or a monthly financial statement, is the only tangible evidence of his work. Also, it is usually a permanent document or will remain in the client's files for an indefinite period of time. It may be submitted or shown to persons of whom the accountant never hears. Consequently, too much care cannot be exercised in the preparation of neat and attractive reports of uniform quality. The best grade of paper and carbons obtainable should be used.

The last step before the signature of a report is the final proofreading. This should be done by the accountant himself. Regardless of the amount of care exercised in the typing and checking of reports, an experienced accountant will often detect errors which have slipped through. It is not unnatural that clients should place undue importance on such minor errors. Therefore, extreme measures must be adopted to guard against them. Much fine work can be overshadowed by carelessly prepared reports.

APPENDIX

References for Further Reading

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