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# SUB LEDGERS HAVE LONG MEMORIES

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BY SARAH F. FRIEND, Atlantic Chapter, ASWA

With the coming of spring, there is born in the human mind an urgency to do something new. This characteristic, creative spirit is seen in every profession and occupation. The housewife, filled with a surge of energy that seems to have been dormant throughout the winter, will suddenly plunge into the task of heavy cleaning and rearranging to make her home more attractive. The artist can be seen with his palette and brush on some remote hillside trying to capture the fresh beauty for posterity, while the gardener abandons his four walls for the soil, armed with spade, bulbs, and seed.

The same mysterious magic seeks out the accountant too, and without realizing she is being spurred by the change in seasons, she feels an impelling urge to "do something different" in connection with her work. Let us analyze this urge and see if there is not a satisfactory solution for applying a new-found ambition which, if left to its own devices, develops into an insidious disease known as "spring fever".

As accountants, we strive to present the best possible records to our employers and auditors; as women, we derive enormous satisfaction and joy in good record-keeping, however, unless our records expand and advance, along with industrial and administrative needs, we cannot say they are desirable.

Each accountant knows the individuality of her own organization and the operational phases that set it apart from others. It affords the accountant the opportunity to meet a challenge in setting up a means of maintaining accurate and informative records. There are divisions and sub-divisions of management that overlap one another but each is invariably connected with the accounting department. Since the work of an accountant points to trends and special needs of her company, there may be additional data she could provide other departments without sacrificing the efficiency or speed of her own department. This is not a plea for more reports but, rather, a plea for better records being made available to management. This may mean eliminating a few of the more tedious

reports which have lost their appeal and use to the busy executive of today.

More and more we find management depending on the accountant to provide facts and figures that affect company policy and, while the accountant may not have reached that level within her organization whereby she is a participant in the setting or changing of company policy, her work is a counterpart of the conference table. The very fact that her records are used in making decisions affecting many aspects of business is reason enough for her to fill her job with enthusiasm and a vigorous endeavor to produce better records. Let us consider some of the ways the accountant can improve her record keeping and, at the same time, enable her to present more tangible evidence of some particular need or trend within her firm.

For our purpose in this article, we will confine our consideration to examples of subledger records, which, properly kept, can be of great value, improperly kept—are time consuming and dust catchers only.

One topic, always a vital one, is insurance. Since insurance is an integral part of all business, any program now in effect has been determined over a period of years, reflecting the individual needs of certain businesses. Management has, from experience, or through consultation with attorneys, auditors, and insurance agents, established an insurance pattern which may vary slightly from year to year according to anticipated needs, or the fluctuation of business itself. But, healthy businesses expand and, too often, the insurance program is sadly neglected. This creates an unnecessary and dangerous situation. It will be well to remember that without proper insurance, firms have suffered serious financial losses causing shut down of operations, curtailment in expansion programs, and even bankruptcy. An equally evil situation is manifested through careless over-insurance brought about, usually, by laxity in correlating insurance records.

A sub ledger for prepaid insurance is one of the finest records the accountant can have, especially if hers is a manu-

facturing or multi-establishment concern. As an answer to the insurance equation, she can make her monthly charges to expense with more accuracy and have at her finger tips a record packed with information than can be used with great advantage in both administrative and industrial departments. A simple test will prove whether or not the sub ledger is expedient. The following questions should be answered "yes". A "no" points to neglect.

1. Are all properties adequately covered by fire and extended coverage?
2. Are book values in line with actual insurance coverage?
3. Has the firm investigated the "replacement value" insurance or, perhaps, the report form which covers inventories by monthly peaks rather than for set amounts?
4. Has there been a recent study of plant operations from the standpoint of safety, in conjunction with insurance? If so, are all hazards covered?
5. Can the accountant give a prompt answer to these questions merely by reference to her books?
  - (a) Will your workmen's compensation or liability policies develop an additional premium?
  - (b) Are the limits on public liability too low? Too high?

A suggested method of setting up the sub ledger is to use a small post binder with general ledger type sheets, allowing a column for each plant or location. Each policy held by the company will be set up on a separate sheet and, at the heading, a record made of the policy name and number, date, term, the property covered, type of coverage, amount of coverage, rates, and the name and address of agent. Distribution of the original premium is then made under various plants or locations according to the policy. In order to bring the sub ledger in balance with the general ledger figure of prepaid insurance, the expired portion of the policy should be credited. If the policy covers a given number of months with a flat premium it is a simple matter to adjust the prepaid figure in the sub ledger. Where the premium is based on a contingency such as payroll or sales, actual payroll or sales must be applied to the policy rate to determine the actual amount of applied premium. It will be noted that by such application, there will automatically be an accrual of additional premium in cases where the contingency has been underestimated for, as the actual premium is reduced, by transfer

to expense account, the debit balance can become a credit and an automatic liability. This method of accruing the liability eliminates the worry of distorting monthly operating statements. If provisions are not made, a payroll audit by your insurance company could reveal a liability long after the end of an accounting year, thus affecting two years' profit.

After all policies are set up and adjusted to actual asset value, they should be grouped according to coverage; for example, under "Fire Insurance" you will want to group those policies covering Buildings, Machinery and Equipment, Office Furniture and Fixtures, merchandise, etc. Under "Comprehensive" will be your automobile policies, truck, lift truck and/or other vehicle policies. Next, Public Liability, Workmen's Compensation, Robbery, and any miscellaneous coverage not applicable to properties.

Once the policies are entered and adjusted into a sub ledger account, the accountant will find it an easy matter to determine each month's credits to prepaid insurance and she can be certain her record will be heartily endorsed by her auditors. The greater the number of policies, the more time will be saved in the annual audit work, which can be doubly rewarding when the audit fee depends upon time spent on the audit.

Just as in the case of insurance, the accountant will find that Taxes and Licenses can be charged with more accuracy through the use of a sub ledger. Here, the accountant will need two divisions: Prepaid, and Accrued. Suggested account captions are City Property, State and County Property, Business Licenses, Intangibles, Corporation, etc. Until the taxes are paid, they are accrued and charged to expense. Upon payment of the tax, a journal entry is made transferring the accrual to prepaid account. Having a detailed check on the firm's taxes makes for better record keeping and, again, will save a vast amount of time during the annual audit.

One of the most valuable sub ledgers is the equipment register. If the accountant does not have an up-to-date record of all properties she should, at first opportunity, establish such a record. The detail of the company's Fixed Assets should be registered (each item on a separate sheet) showing date of purchase, vendor, serial number, motor number, model number, price, rate of depreciation, amount of depreciation by month and year, amount of

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## 1957 ANNUAL MEETING

AWSCPA ASWA

Place: Edgewater Gulf Hotel, Edgewater Park, Mississippi

Theme: The Accountant's Vital Role in Management

Schedule:

Wednesday, October 23

Arrive in New Orleans in ample time to join other "early arrivals" at pre-convention dinner in the French Quarter followed by a tour of night clubs.

Thursday, October 24

Morning: Registration; Board meetings; Workshops.

Luncheon: Technical program.

Afternoon: Joint business meeting; Workshops.

Evening: Reception; Plantation party; Scheduled committee meetings.

Friday, October 25

Morning: AWSCPA Business meeting; Workshops.

Luncheon: Technical program.

Afternoon: ASWA Business meeting.

Evening: AWSCPA Supper Technical program.

Saturday, October 26

Morning: ASWA Business meeting (Completion).

Luncheon: Chapter Presidents; AWS-CPA Board meeting.

Afternoon: Free for sightseeing, golf; etc.

Evening: Reception; Banquet.

Sunday, October 27

Morning: Board meetings.

Registration Chairman

Ruth Reynolds, 504 Thompson Building.  
Tulsa, Oklahoma

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insurance, policy name and number, and any other pertinent information the accountant wishes to record. Any subsequent change in asset value as it affects the general ledger figure must, necessarily, be posted in the equipment register. This sub ledger is particularly effective in checking annual depreciation, book value of assets, etc., and can be used as a basis for establishing insurance values.

The equipment register should be divided by asset grouping, i.e., Buildings, Trucks, Lift Trucks, Automobiles, Office Furniture and Fixtures, Leasehold Improvements, etc., then subdivided by location. Each plant manager should have a copy of the equipment registered at his location. Through his cooperation, the accountant can be advised periodically about changes, disposals or junking of equipment so that her permanent records are at all times accurate.

Too many records can be a menace to the smooth functioning of an accounting department but over-simplification can, on the other hand, be a detriment to the smooth functioning of the company. An ideal can be effected through a study by management and the accountant. A list of the various daily, weekly, and monthly reports, together with the estimated time of preparation and labor cost, should be prepared by the accountant. With the help of management, the actual value of each report can be classified and it will be noted that often reports can be consolidated, abbreviated and even abolished when studied with intelligence.

Let us leave it to our sub ledgers to have long memories and use our time to consider our record keeping objectively and retain only the best. With real thought behind the purpose, we cannot avoid becoming better accountants.