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Small Business

S-T-R-E-T-C-H-I-N-G The Accounting Dollar

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This column is based on a manuscript submitted by Norma Yoder of the Los Angeles Chapter of the American Society of Women Accountants, entitled, "How a CPA Firm Can Hold Small Accounts - and Make Money With Them."

THE MONEY SQUEEZE

With the cost of living — and the cost of doing business — going up steadily, small businesses are feeling the bite and cinching in their expenses. High on the list of expenses viewed with an eye toward economizing are accounting services. Still small businesses generally feel that they need the expertise of a CPA to handle the consulting and tax work.

Accounting firms realize that something must be done to strike a good balance between quality accounting services and economy. It is a well-known fact that small business clients require a good bit more service than the large well-staffed businesses, and some of the time charges that an accounting firm may incur — and has to charge for — are for services that do not necessarily require the skill of a trained accountant.

Bookkeeping services may well be the

answer in cases where the small business does not have the staff to prepare the journals of original entry, such as Cash Receipts, Cash Disbursements, Sales Journal and Purchase Journal, and to post these to the General Ledger. Oftentimes, the charge per hour made by bookkeeping services is quite reasonable, and since their personnel is usually well trained in basic bookkeeping, they are efficient and accurate.

Firms of individuals offering bookkeeping services are very much interested in write-up work and accounting firms are relieved of time-consuming detail and can concentrate on the type of work which is commensurate with their special training and skills — and their fees.

Bookkeeping services are available in many different ways. There are firms who employ a number of full-charge bookkeepers, and they often have a large clientele of small business firms. In some areas, bookkeeping firms are now hiring salespeople and solicit business very actively. Then, there are individuals who like to work out of their homes, rather than be tied down to a full-time job, or who want to do extra work at home or "moonlight".

Ordinarily, the firm or individual rendering the bookkeeping service bills the small business client directly, but the arrangements could be made through the

accounting firm so long as the client understands that there are two different and distinct services involved.

The small business benefits by obtaining the needed services at rates that vary with the degree of technical knowledge required.

GOOD RECORDS. A MUST

No question about it . . . record keeping is with us to stay . . . and growing. Many bookkeeping services and accounting practices are going to small computers, timesharing or working with service bureaus to cope with the ever-increasing volume of records. They can handle not only the general ledger, receivables and payables, but they do billing, create subsidiary ledgers, write the payroll and prepare payroll tax records, as well as produce sophisticated finished financial statements for presentation to the client.

Computers also can replace costly bookkeeping departments in small businesses that need to cut expenses. An appalling 80% of new businesses go bankrupt in their first year and the failures are usually attributable to several factors, with the following ranking high on the list:

1. Poor record keeping;
2. Excessive expenses;
3. Locked-in income, with no way of increasing sales.

Causes #1 and #2 seem to go hand-in-hand, since small businesses often feel that they cannot afford to get professional help and their own personnel — in many instances — is inadequate in number of inadequately trained to keep records that accurately reflect the transactions and the financial position of the operation. The expense of utilizing outside services can be kept down by splitting the bookkeeping and the accounting and tax-related functions. If the bookkeeping service is made aware of the fact that it is working under close supervision of an accounting firm, the concept will work very well.

Cause #3 is not accounting-related, but, drawing on their special training and experience with many other clients, the accountants may be in a position to advise the client and suggest changes in marketing techniques and approaches, diversification or economies in production.

A WORKABLE SYSTEM

Here is a concept developed by a CPA firm which utilized both handwritten bookkeeping and two types of computer systems. It is easily adaptable to a bookkeeping service or for use by the personnel of a small business.

The system consists of a three-ring binder which is divided into 9 sections, as follows:

SECTION 1: Chart of accounts.

While this appears self-explanatory on the surface, the development of a good and flexible chart of accounts should be given time and thought. The chart should provide for additions in logical sequence and a numbering system that can easily be converted to computer use, if and when desired.

SECTION 2: Financial statements. This section can be very "busy", especially where comparisons between periods are helpful. Periodic financial statements show up trends, peaks and slacks, times to expand and times to contract, as well as providing a good basis for cash flow statements and forecasts. Statements may be called for only on an annual basis, they may be prepared on a quarterly interim basis plus an annual certified statement, or they may be unaudited statements prepared monthly, quarterly or less often.

SECTION 3: Journal entries.

Oftentimes these are pencil copies of journal entries that are made at year-end, or they may be "standard" journal entries that are re-

quired each time financial statements are prepared, such as accruals of payroll, payroll taxes, general taxes, depreciation and insurance write-offs, and cost of sales based on a percentage of sales. Where computers are used, these would be the input sheets for processing.

SECTION 4: Assets

This section will contain periodic bank reconciliations, schedules of prepaid insurance, records of physical inventory counts, aged accounts receivable schedules and depreciation schedules. These supporting workpapers are very helpful in checking financial statements, whether they originate as a trial balance in a hand-posted system or are run off by computers. They have to be kept neatly and brought up-to-date at regular intervals.

SECTION 5: Liabilities and equity.

This section is very similar to section 4 since it contains the detail behind the figures on the balance sheet, this time on the liability side. Among the more important schedules are records of notes payable, accounts payable, mortgages, accruals of interest, taxes and those operating expenses that have not been recorded as accounts payable.

Records reflecting the equity or the net worth of the business vary with the type or form in which the business is conducted. Obviously, corporations require different equity records than partnerships and sole proprietorships. A schedule of the changes in the retained earnings of a corporation is not only a necessary, but also a very interesting document. In the case of partnerships or sole proprietorships, a record of draws against the earnings of the business must be kept.

SECTION 6: Income.

In addition to schedules showing sales by line, this section would contain such related papers as sales tax returns.

SECTION 7: Expenses.

Naturally, not every category of expense "deserves" a schedule to be placed in this section. However, very important schedules are payroll, payroll taxes, general taxes, professional fees, advertising and business promotion, etc. Each business has a different list of expense accounts that require analysis at the end of the year, and it

is a great deal easier to maintain schedules on a month-to-month or quarter-to-quarter basis. Usually, the accounting firm will designate the expense account schedules to be maintained — mostly those that are required to be listed in detail on the Federal and State tax returns.

SECTION 8: Working trial balance.

In a hand-posted bookkeeping system, this section would contain the trial balances taken off the general ledger to prove that it is in balance. If computers are used, this section would contain the input sheets prepared from the various journals, with "proof" tapes attached to prevent out-of-balance down-time when they are processed.

SECTION 9: Audit notes.

This could easily be the most important section of all since it should contain notes on any out-of-the ordinary transactions. Also, this would be the "Permanent File" containing the history of the company, such as date of inception of the business, officers' or partners' names and Social Security numbers, percentages of ownership and percentages for distribution of profits (in a partnership), a checklist of services to be performed and a record of time spent on the work for the client — which becomes the basis for billing.

Of course, there is room for variety in the use of these binders. Different people have different concepts of priorities, but it appears that the information accumulated in these sections is basic and necessary. This system can work very well especially where the bookkeeping service takes care of most of the work throughout the year and the accounting firm is utilized primarily at year-end for the preparation of financial statements and the required tax returns.

When this three-ring binder or a similar record is kept conscientiously and up-to-date at all times, there should be significant savings in the time that the accountants have to spend in their year-end audit and tax preparation. Thus, they can concentrate on the type of services for which they are best qualified and which should benefit the small business beyond the mere requirements of record-keeping.

Small businesses do need a good system of record keeping and a good tax advisor. And they do need to cut costs wherever possible. The bookkeeping service and the accounting firm can be a most helpful team.