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Accounting for Fraternal Beneficiary Societies

BY J. A. BOULAY

During many years past articles in periodicals and chapters in books have been written on the subject of accounting methods for fraternal beneficiary societies. Although much more of this literature has been produced in England than in this country, a fair amount of it has been published in America. In view of this fact it would seem that in offering an article at this time, some reason should be given for doing so. In what follows I hope to present some points on the subject which will be of value to those interested in accounting for such organizations as are here under consideration.

CHARACTER OF ORGANIZATION

There are in the United States numbers of organizations which are composed of local units, variously termed chapters, councils, lodges, camps, etc., with a central organization exercising certain supervisory and administrative functions. Usually the local units receive membership dues from all their members and act as the representatives of the parent organization in collecting assessments for special benefits, such as death benefits or life insurance, from members belonging to the corresponding classes of membership. Income is derived from initiation fees, the sale of insignia and other incidentals and from the production of plays, festivals or other affairs of similar character, in addition to dues and assessments.

We are dealing with a society as such, and it is assumed that club features are absent. The organization exists for the benefit of its members, and it participates in civic and social affairs. Its expenditures will, of course, reflect its activities.

Local units usually pay some part of the membership dues which they receive to the central organization in the form of a tax based on membership or a levy determined in some other manner. Officers of such organizations are designated by various official titles, each organization differing from others in one or more of these. However, these titles do not affect the requirements for a system of accounts. This then, in a general way, is the sort of organization for which it is proposed to suggest a suitable plan of accounting.

GENERAL PLAN

There appears to be no occasion for presenting all the details involved in designing, installing and operating such a system here nor to go far into description of the conduct of business by the type of organization for which it is intended. Hence this article will be confined, for the most part, to those matters which are treated somewhat differently from what is usually found in the offices of such organizations. The system is designed to permit the preparation of statements on either the basis of cash receipts and disbursements, the accrual basis, or both, without difficulty. Provision is made for two major classes of membership: one which pays dues and perhaps occasional special levies for specific purposes; the other which pays all that the first does and in addition is assessed regularly for death or similar benefits. A separate group of accounts is carried in the general ledger for each of these two groups, and as many more sections for other funds can be provided as conditions demand, although special funds of small amount will ordinarily be handled through one special account each in one of the major divisions of the ledger. It is hardly necessary to add that the system may and should be varied to fit particular needs without destroying its essential character. The system of accounts as here discussed is intended for local units having a total membership of five hundred or more.

CHART OF ACCOUNTS

The chart of accounts will consist of as many sections as there are major fund groups to be separately handled, the balance-sheet accounts being on a plan somewhat as follows:

General fund:

- Cash accounts
- Special funds
- Due from members:
 - Dues
 - Special
- Sundry accounts receivable
- Loans receivable
- Investments
- Equipment
- Prepaid expenses

- Accounts payable
- Notes payable

Accrued expenses
Reserves
Inter-fund accounts
Surplus

Insurance fund:

Cash accounts
Due from members—assessments

Accounts payable
Accrued liabilities
Inter-fund accounts
Surplus

Any other special funds:

Cash accounts
Accounts receivable

Accounts payable
Accrued expenses
Inter-fund accounts
Surplus

Income accounts should be so classified as to show each class of income from members and at the same time to segregate as a group all income from members. Items of income not strictly applicable to the current period may be segregated under appropriate accounts such as "recoveries" with suitable sub-accounts. Income from special activities may be recorded in the income section in as many accounts as are required.

In classifying expenses it is well to group the accounts in accordance with some logical general plan. For instance, payments made to the central organization may form the first group, office expenses the second, society activities the third and external affairs next. Bad accounts may follow with appropriate subdivisions.

BOOKS OF ACCOUNT

Books of account in use in the system of accounting under discussion consist of the following:

General ledger
Membership journal—charges
Membership journal—credits
Membership ledger—associate
Membership ledger—insurance

Combined receipt book and auxiliary record of cash receipts
Record of cash receipts
Purchase order
Record of cash disbursements

As reference is later made to these forms and their use, they will be described fully.

It is usually found impractical to record on the membership ledger all the information concerning individual members which it is desired to have in readily available form, hence it may be found advisable to keep such records on what may be called history cards, filed in the same order as membership ledger cards.

APPLICATIONS FOR MEMBERSHIP

As applications for membership are received they are investigated and passed upon by the investigating body and then voted upon by the organization as a whole or a prescribed division. The application itself shows the class of membership sought. A part or all of the initiation fee may accompany the application. At the appointed time the applicants are initiated and their names entered upon the records. In the case of insurance members a medical examination will have been made in the interval between the receipt of the application and the initiation of the applicant.

As the next step the history card may be filled in, the information shown being somewhat as follows:

Proposed by
Date elected
Date each degree was taken
Transferred from or to other designated unit
Transferred from or to other class of membership
Suspended and the reasons therefor
Withdrew
Reinstated
Information for insurance purposes
Military service
Offices held

It will be apparent that all details are not given in the above description, but it affords a general idea of what may be required.

ACCUMULATING CHARGES TO MEMBERS

When the history cards have been completed the names of members admitted at a particular time or during a certain period

are entered on the membership journal with an addressograph, the addresses being omitted to save space, although the plates contain them.

The "membership journal—charges" is printed on white paper and contains at the top: Sheet No., year, quarter, month, posted by, totaled by. Columns are provided with the following headings:

Name
Date
Dues
Assessments
Special:
 Initiation fees
 (Blank)
Sundry:
 Memo.
 Amount

This form is used for recording and accumulating charges to members only. A form of similar design but of different color is used for entering all non-cash credits to members.

At the beginning of each quarter or other period all members' names are printed on the charge journal with the addressing machine. The sheets are then placed in a listing machine, dues are first printed and totaled by pages; next the other columns are printed and totaled. A recapitulation is made on a separate sheet. Sheets may be kept in pen and ink during periods when entries are few, as distinguished from the beginning of an accounting period. All non-cash credits to members are entered on the "membership journal—credits" which differs from the other only in color and the substitution of the word "credits" for "charges".

MEMBERSHIP LEDGER

A card $9\frac{3}{4}$ inches by $7\frac{1}{2}$ inches is used for membership-ledger purposes. Associate members' cards are buff colored and are notched at the top and bottom so that insurance members' cards which are salmon colored can be seen without removing any of the cards. This is done because the insurance membership is ordinarily only a fraction of associate membership. The top of the card on one side is the bottom on the other, both sides being ruled and printed.

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Associate members' cards are arranged as follows: at the upper left-hand section is a space for the name and address of the member which may be printed with an addressograph if desired; the upper right-hand section is used for recording information which it is desired to have readily accessible at all times, such as: firm or business, residence address, business address, business telephone, residence telephone, occupation, etc.; the lower portion of the card is provided with columns for bookkeeping entries. This lower portion is arranged as follows, from left to right:

Charges:

Date

Charged to (this refers to the ending date of the period charged for)

Dues

Folio

Memo.

Special

Credits:

Date

Paid to (similar to "charged to", above)

Folio

Dues

Memo.

Special

Balance:

Dues

Special

Total

Insurance members' cards are like the associate members' except as will now be explained. The upper right hand section contains the following form:

Policy:

No.

Date

Amount

Beneficiary

Address

and at the right of this:

Rates:

Date

Rate

Information concerning occupation, etc., is spread across the card between the two upper sections and the money columns.

Columns provided on the insurance card are from left to right:

Charges:

- Date
- Dues
- Assessments
- Folio
- Memo.
- Special

Credits:

- Date
- Folio
- Dues
- Assessments
- Memo.
- Special

Balance:

- Dues
- Assessments
- Special total

It has been found convenient to file all membership ledger cards in alphabetical order in a tray desk without regard to classes of membership.

POSTING FROM MEMBERSHIP JOURNALS

Non-cash charges and credits are posted from the membership journals to the membership-ledger cards. At the close of each accounting period, column totals are posted from the recapitulation sheets to the appropriate general ledger accounts and the sheets filed in a binder.

CASH RECEIPTS

As has been previously indicated a combined receipt issued to members paying and an auxiliary cash-receipts book is used. These are printed eight to a page and bound. Perforations are made to divide the original receipts which contain spaces for amounts arranged as follows:

Dues to..... _____
Insurance to..... _____
..... _____
Total..... _____

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On the duplicate the amounts fit into columns headed: dues, assessments, special, total. Each binder is labeled to show: book no., receipts no., period. Duplicate receipt pages are print numbered in red in a small square.

Postings are made to the credit of members on the membership-ledger cards from these duplicate receipts, and at suitable intervals totals are entered in the record of cash receipts.

The record of cash receipts is a double-page form containing the following columns from left to right:

Deposits:

Date

General fund

Insurance fund

Other funds:

Fund

Amount

Cash:

General fund

Insurance fund

Other funds:

Fund

Amount

Date

Name

Explanation

Reference

Total

Members:

Dues

Assessments

Special:

Memo.

Amount

(Special columns)

General:

Account

L. F.

Amount

Cash receipts from miscellaneous sources are transferred in total from subsidiary records or entered direct into the record of cash receipts. At the close of each accounting period totals of

special columns and individual items from general columns are posted to the proper general ledger accounts.

CASH DISBURSEMENTS

The use of triplicate purchase order forms is recommended. It makes for regularity and facilitates correct distribution of charges and auditing.

Columns provided on the record of cash disbursements are as follows from left to right:

Memo. deposits:

Date

General fund

Insurance fund

Other funds:

Fund

Amount

Checks:

Number

General fund

Insurance fund

Other funds:

Fund

Amount

Date

Name

Explanation

General:

Amount

L. F.

Amount

Members:

Memo.

Amount

Expenses

(Columns as required)

This, like the record of cash receipts, is a double-page form.

Refunds and other payments requiring posting to members' accounts are posted direct from this record and a summary of these items is made periodically for posting to the membership controlling accounts in the general ledger. Totals from special columns are posted to the general ledger accounts indicated, at

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the close of each accounting period, and individual items are posted to the general ledger from general columns.

GENERAL JOURNAL

An ordinary journal will serve the purpose, since it is used only for recording unpaid bills and deferred and accrued items and for closing the books at the end of each fiscal period.

All adjustments involving cash receipts are made in the record of cash receipts and all those involving cash disbursements are made in the record of cash disbursements. Posting references in the general ledger to books of original entry are as follows: membership journals, M.; cash receipts, R. or C. R.; cash disbursements, D. or C. D., and general journal, J. It follows that the source of a general-ledger entry and its character as cash or non-cash can be readily seen from the posting reference appearing opposite the item. With this arrangement it is a comparatively simple matter, as has been found in actual practice, to prepare periodical statements on either the cash-receipts-and-disbursements basis or the accrual basis or both.

FINANCIAL STATEMENTS

Financial reports to the central organization may be prepared on either the cash-receipts-and-disbursements basis or the accrual basis from the general ledger. Balance-sheets and statements of income and expenses are prepared by funds. If inter-fund balances are retained in the accounts at closing time, financial statements may be in the following form as to headings for parallel columns:

- Total all funds
- Inter-fund eliminations
- General fund
- Insurance fund
- Any other funds maintained

If inter-fund balances are closed into surplus accounts at closing dates, the column for inter-fund eliminations is not needed. In that case the analyses of surplus accounts will show what inter-fund balances have been closed into surplus. Contingent and other minor funds should be merged into the general or some other major fund in income and expense accounts and in statements of income and expenses. Cash or other assets remaining in such minor funds at the close of each period will appear in the

general ledger and can be stated accordingly in the balance-sheet. Schedules supporting balance-sheet items and income and expense items should conform to the arrangement in the principal statements to which they relate.

SUMMARY

Statistical records and special analyses should not ordinarily be incorporated in the books of account but kept in other suitable form.

In devising and installing systems of accounts for organizations of this type, it is, of course, necessary to conform to by-law requirements. In some cases these will be found unwieldy, but ordinarily sufficient latitude exists to permit essentially proper accounting.

Some of the advantages claimed for the plan of accounting explained above may be mentioned, although it is believed that, for the most part at least, they are already recognized. A method of controlling members' accounts with a minimum of time, effort and chance of error is explained; a method of recording cash receipts with less work than is usually involved is presented. Provision is made for what may be termed horizontal as well as vertical control of members' accounts, so that the general ledger shows at a glance the status of members' accounts in the aggregate as to each class of obligations, while the individual ledger cards always contain the same information regarding individual members. Comprehensive statements of members' accounts can be prepared from these records in minimum time with assured accuracy. The system affords a means of preparing financial statements on either or both the cash-receipts-and-disbursements basis or the accrual basis, from the same general ledger.

In the matter of auditing it is evident that much time is saved where books have been kept in accordance with the above plan as compared with what is frequently found in organizations of the kind here considered.

It is hardly necessary to add that the details of such a system can be varied to suit the requirements of each case, while preserving its essential features which might be uniform for an entire organization. Some such organizations have uniform systems of accounting, which is undoubtedly as it should be. It is also true that some of the systems in use are antiquated.