BOOKKEEPING PRACTICES OF SMALL INDEPENDENT GROCERY STORES

OF MOREHEAD TOWNSHIP OF GREENSBORO, NORTH CAROLINA

by

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A Thesis
Submitted to
the Faculty of the University of North Carolina
in Partial Fulfillment
of the Requirements for the Degree
Master of Science in Business Education

Greensboro

1950

Approved by:

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ACKNOWLEDGEMENT

The writer is deeply grateful to Dr. Vance T. Littlejohn for the guidance and assistance he has so unselfishly rendered throughout the study.

The writer is also grateful to Dr. Rowena Wellman for her help in the preparation of the questionnaire and the early organizational plans for the study.

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CHAPTER I

# THE PROBLEM AND DEFINITIONS OF TERMS USED

## Introduction

Emphasis has been directed to small business during the last decade. The number of small businesses has increased because thousands of servicemen, war workers, and others who wished to be relatively independent have opened small retail businesses of their own.[1]

Small business has always occupied an important place in our economy. It is essential to have a large number of relatively small business units if competition is to work effectively.[2] If there is to be a system of free private enterprise, opportunities for the small businessman to enter and to operate a business of his own must be maintained. Both large and small businesses have their place and their problems.[3]

One of the biggest problems of the small businessman is that of maintaining adequate records. Adequate records serve as a tool of management. If the manager is to handle buying, inventory control, credits and collections, expense control, personnel and other aspects of management efficiently, adequate records must be available.[4] It is also

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1. *How to Select, Organize, and Manage a Small Business*, With Particular Reference to Retail Establishments, Instructor's Manual, Washington, D. C.: Federal Security Agency, U. S. Office of Education, Vocational Division, Business Education Service, 1946. Foreword.

2. Pearce C. Kelley and Kenneth Lawyer, *How To Organize and Operate A Small Business*, New York: Prentice-Hall, Inc., 1949, p. 28.

3. *Ibid.*, p. 663.

4. *Ibid.*, p. 663.

necessary for the businessman to know how to interpret and analyze the records he maintains. If adequate records are not available, the owner is handicapped in analyzing operations; therefore, it is important to know what records are being kept.

The fact that such a large percentage of businesses fail each year is another evidence of the importance of maintaining adequate records. Surveys have revealed that a large number of businesses that fail have no satisfactory system of records. Welch and Sevin state that "An appraisal of the adequacy of records of New Jersey and Boston bankrupts disclosed that almost one-third kept no records, and that less than one-fourth kept adequate records."[5]

Records are needed by small businesses. Of the 400,000 new businesses that are established each year, approximately 25 per cent of retail stores fail during the first year, and over 50 per cent operate for less than three years.[6] Studies of business failures revealed that the highest first-year mortality is in groceries. "About seven of each ten new grocery stores opening today will survive into their second year. Only four of the ten may expect to celebrate their fourth birthday."[7]

Dun and Bradstreet lists 849 businesses with a capital of $50,000 or less in Greensboro. Of this number 145, or 17 per cent, are grocery

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5. Charles H. Welch and Charles H. Sevin, Record Keeping for Small Stores, A Manual for Small Retailers Describing What Records are Needed and How These may be Kept with a Minimum of Time and Effort, Washington, D. C.: United States Government Printing Office, 1942, p. 1.

6. How to Select, Organize and Manage a Small Business, loc. cit.

7. Welch and Sevin, loc. cit.

stores. Since records for grocery stores are typical of records needed for other small stores,[8] this group was selected.

## The Problem

Statement and Scope of the Problem. The purposes of this study were (1) to determine the bookkeeping practices prevailing in small, independent grocery stores of Greensboro, North Carolina, and (2) to analyze these practices for possible implications for bookkeeping training. These purposes were achieved by interviewing managers for data regarding the bookkeeping practices used in sixty-five independent grocery stores, and interpreting the data secured from the interviews.

The study was limited to the bookkeeping practices of independent grocery stores of Morehead Township of Greensboro, North Carolina. Elm Street, which is the principal street running north and south, divides the City into two townships--Morehead and Gilmer. Morehead Township, which is the western section of the city, was chosen for this study.

A questionnaire was used as the basis for the interviews. The questionnaire included items regarding personnel; bookkeepers and their training; preparation of financial statements and tax reports; books of original entry, ledgers, machines and forms used; and balance sheet and profit and loss statement information. No effort was made to get an appraisal from the managers of the adequacy of the bookkeeping system used or recommendations for needed changes in the system.

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8. John A. Pendery, Record Keeping for Small Businesses, Cincinnati, Ohio: South-Western Publishing Company, 1946.

Sources of Data and Method of Procedure. A list of all independent grocery stores of Greensboro was secured from the classified section of the 1949 City Directory. This list, which included 154 independent grocery stores in Greensboro, was arranged in alphabetical order by streets. Officials of the Guilford County Tax Office designated the streets included in each of the two townships which comprise the City of Greensboro. The eighty-seven independent grocery stores located in the western section, or Morehead Township, were chosen.

Information was secured from only sixty-five of the eighty-seven grocery stores. Of the remaining twenty-two for which no data were obtained, eight had gone out of business since the 1949 Directory was published, seven were eliminated because they have gas stations combined with the grocery stores, and the managers of the other seven did not choose to give the information sought.

A questionnaire was constructed for use as a guide in interviewing the store managers. 20th Century Bookkeeping and Accounting, Nineteenth Edition,[9] was used as a basis for items concerning bookkeeping practices. This is the State adopted textbook for North Carolina public secondary schools. Other bookkeeping and accounting textbooks were consulted for items not included in the basic text.

The proposed questionnaire was submitted to members of a graduate research seminar class. After their suggestions were incorporated, the

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9. Paul A. Carlson, Hamden L. Forkner, and Alva Leroy Prickett, 20th Century Bookkeeping and Accounting, Nineteenth Edition, Cincinnati, Ohio: South-Western Publishing Company, 1947.

questionnaire was then submitted to faculty advisers of graduate studies in business education. Their suggestions were incorporated and the questionnaire was tried out on managers of six grocery stores. When a few minor changes had been made in the terminology, the final form was mimeographed and used in interviewing the grocery store managers.

The questionnaire was divided into five sections. Section I, "Firm Description," included questions on type of ownership, number of full-time and part-time personnel, and bookkeepers and their training. Section II, "Financial Statements and Reports," dealt with the frequency and kinds of financial statements prepared and the personnel preparing them, the number of social security and tax reports prepared and the personnel preparing them, and bank reconciliations. Section III, "Books, Ledgers, Machines, and Forms," was concerned with the number and types of books of original entry, the ledgers, the office machines, and the printed forms used. Section IV, "Balance Sheet Items," included questions about the various items of a balance sheet; and Section V, "Profit and Loss Items," concerned items of a profit and loss statement. A copy of the questionnaire is appended to this report.

When all of the interviews had been completed, the questionnaires were arranged in seven groups--ten in each of six groups and five in the other. Data sheets, which were made for the seven groups, included all items listed on the questionnaire. Tabulations were made of all items on the seven data sheets. These tabulations were used as a basis for Chapter III.

## Definition of Terms Used

Small independent business. Several definitions have been given for a small business. The Committee for Economic Development[10] defines a small business as a business unit with fewer than fifty employees.[11] An independent business is an enterprise which is not a member of a chain. The term "small independent business" as used in this study refers to a business unit that is not a member of a chain and which has fewer than fifty employees.

Store manager or managers. Store manager is used in this study to refer to the owner of a sole proprietorship or a partner of a partnership, while the term "managers" refers to both owners and partners.

Outside bookkeeper. An outside bookkeeper is considered for purposes of this study to be anyone performing bookkeeping duties who is not a manager, member of the owner's family, or a regular employee of the store.

Double entry bookkeeping. Double entry bookkeeping is a system of bookkeeping which has two entries, a debit and a credit for each transaction. Increases in assets and expenses and decreases in liabilities, income, and net worth are recorded by debit entries; while increases in liabilities, net worth, and income, and decreases in assets and expenses are recorded by credit entries. The sum of the debits must equal the sum of the credits.[12]

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10. The Committee for Economic Development, which is composed of outstanding industrialists and economists, was organized in 1943 to direct postwar planning and especially to assist small businessmen to organize their postwar plans. R. W. Riis, "Industry's Plan for Postwar Prosperity," Reader's Digest, 42:80, June, 1943.

11. Kelley and Lawyer, op. cit., p. 4.

12. Harold S. Sloan and Arnold J. Zurcher, A Dictionary of Economics, New York: Barnes & Noble, Inc., 1949, p. 85.

Single entry bookkeeping. Single entry bookkeeping refers to all methods of keeping accounts other than double entry bookkeeping. Usually the theory of debits and credits is not applied as far as the keeping of accounting records is concerned. The accounts most frequently maintained by businesses using the single entry system are cash, personal accounts receivable, and personal accounts payable. Other asset and liability information is usually supplied by periodic inventory. "At best this is unsatisfactory because of the great possibility of errors of omission and errors of inconsistent valuation."[13]

Books of original entry. Books of original entry are books in which transactions are recorded originally in their chronological order. In a double-entry system, these entries are transferred to ledger accounts. Some of the books of original entry frequently used are day books, combined cash journals, general journals, and cash journals.

Ledgers. Ledgers are books of accounts. "It is the final book of accounts of a business firm in which all debts and credits are recorded under appropriate headings, usually in summary form."[14] The information is ordinarily transferred to the ledger from the books of original entry.

Balance Sheet. A balance sheet is a financial statement that shows the financial condition of an individual or business at any given date. It gives in summary form the assets, liabilities, and net worth of the individual or enterprise. "It is generally conceded to be the most important financial statement, the goal of accounting activity."[15]

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13. Jacob B. Taylor and Hermann C. Miller, Intermediate Accounting, Second Edition, New York: McGraw-Hill Book Company, Inc., 1938, p. 40.

14. Byrne J. Horton, Julien Ripley, Jr., and M. B. Schnapper, Dictionary of Modern Economics, Washington, D. C.: Public Affairs Press, 1948, p. 198.

15. Royal D. M. Bauer and Paul Holland Darby, An Outline of Elementary Accounting, Revised Edition, New York: Barnes & Noble, Inc., 1945, p. 9.

Profit and Loss Statement. A profit and loss statement is also a financial statement. This report shows the progress of the business for the fiscal period.[16] The source and amount of income, the nature and amount of expenses, and the net profit or net loss, are given on this report.

Trial Balance. A trial balance is a report of the debit and credit balances of ledger accounts which is usually arranged in debit and credit columns.[17] This report contains all the account totals which are later separated and appear on the appropriate financial statement--balance sheet or the profit and loss statement.

Net profit or net loss. Net profit represents the net increase in proprietorship resulting from business operations of the fiscal period. It is the amount by which total income for a fiscal period exceeds the total expenses.

Net loss represents the net decrease in proprietorship resulting from business operations. It is the amount by which total expenses for a fiscal period exceed total income.[18]

Cash Basis. When books are set up on the cash basis, income is recorded only when cash is received and expenses are recognized only when cash is paid out.

Accrual Basis. When the accrual basis is used, income is recorded for the fiscal period in which it is earned, whether it is received during

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16. Paul A. Carlson, Alva Leroy Prickett, and Hamden L. Forkner, Teachers Manual, 20th Century Bookkeeping and Accounting, 18th Edition, First Year Course, Cincinnati, Ohio: South-Western Publishing Company, 1942, p. 72.

17. Bauer and Darby, op. cit., p. 38.

18. Carlson, Prickett, and Forkner, Manual, loc. cit.

the period or not. Likewise, expenses incurred in earning the income are recorded as expense, whether or not payment has been made for them during that period. The resulting profit and loss statement includes the incomes earned during the period covered by the statement and the expenses that are covered by the same period.[19]

Withdrawals. Withdrawals are assets taken out of the business by the proprietor for his personal use.[20] These assets usually are cash or merchandise.

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19. Bauer and Darby, op. cit., p. 51.

20. Paul A. Carlson, Hamden L. Forkner, and Alva Leroy Prickett, Dictionary of Bookkeeping and Accounting Terminology, Cincinnati, Ohio: South-Western Publishing Company, 1942, p. 9.

## CHAPTER II

## REVIEW OF RELATED STUDIES

A search of the literature revealed that studies have been made regarding bookkeeping practices of small independent stores in several localities. References to eight studies completed since 1941 were found. The studies are reviewed. The communities in which the eight studies were made are: Minster, Ohio; Central New York State; Iowa City, Iowa; Terre Haute, Indiana; Tennessee and Northern Alabama; Pittsburg, Kansas; Lake Forest, Illinois; and Tallahassee, Florida. In the brief review presented in this chapter, the studies are identified by localities. Section A of the Bibliography gives the bibliographical data for these studies. Only one of the studies was limited to grocery stores, while the other seven included grocery stores and other small businesses.

Central New York State Study.[1] The purpose of this study which was made by Bachman was to find the bookkeeping errors commonly committed by the small business owner and to determine the effect of these errors on tax returns. Bachman also hoped that by studying these errors, business educators might learn what bookkeeping weaknesses exist and adapt teaching materials and techniques to overcome such errors.

Deputy collectors and internal revenue agents who have access to books of taxpayers under investigation were interviewed to determine what

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1. James E. Bachman, Bookkeeping Errors of the Small Business and How They Affect the Income Tax Return, (unpublished Master's thesis, Syracuse University, 1947.)

the most common errors are. Then a questionnaire including these most common errors was sent to 545 small business owners in the twenty-county area of Central New York.

The questionnaire also included items concerning general information about the size of the business, type of records kept, owner's formal education in bookkeeping; and specific information about methods of inventorying, basis of accounting, and number of employees. Two hundred twelve owners completed and returned the questionnaire.

Bachman found that many simple bookkeeping errors were made which would have a great effect on income and other tax returns. Owners with no formal bookkeeping training made more bookkeeping errors than those with training, but those with high school bookkeeping training also had a high percentage of errors.

Bachman also found that 85 per cent of the merchandising firms operate on the cash receipts and disbursements basis. Fifty-eight per cent of these businesses on the cash basis deduct bad debts as an operating expense in spite of the fact that the internal revenue code provides that in any business in which inventory is used, the accrual method of accounting is the only one that will correctly reflect income. The internal revenue investigators claimed that these errors are quite common, occurring in more than half of the small businesses investigated.

About 30 per cent of the business owners employing people in their business indicated that they have no payroll, social security, or withholding tax records.

About 61 per cent of the business owners who returned the questionnaire take an annual physical inventory; almost 20 per cent estimate inventory; and 19 per cent use no inventory figure in setting up the profit and loss statement. It was also found that 53 per cent of the businesses returning the questionnaire reported that inventory losses such as shrinkage and spoilage are deducted as operating expenses. This error distorts the true profit figure and the income tax figure.

Internal revenue investigators estimated that between 40 and 50 per cent of small business owners destroy their records much too soon, many because they have no confidence in the correctness of their methods. Almost one out of every three owners reported that records were kept for less than four years. The internal revenue code provides that the statute of limitation shall run for three years from filing date for a return.

It was recommended that bookkeeping teachers familiarize themselves with simplified bookkeeping systems and offer these courses as electives in high schools or in evening school. It was further recommended that teachers learn more about income and payroll tax forms.

<u>Pittsburg, Kansas, Study</u>.[2] In 1948 Collins made a study of the application of principles taught in high school bookkeeping courses by local businesses. The purpose of the study was to determine the frequency of use of material taught in the state adopted text in bookkeeping by store managers and accountants of Pittsburg, Kansas.

A questionnaire composed of seventy-two items that are included in the high school bookkeeping text--<u>Business Record Keeping</u>, by Elwell, Zelliott, and Good[3]--was used as a basis for interviews with managers or accountants of thirty business firms.

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2. Frank C. Collins, <u>A Study of the Application by Local Business Establishments of the Principles Taught in High School Bookkeeping Courses in Kansas</u>, (unpublished Master's thesis, Kansas State Teachers College, Pittsburg, Kansas, 1948.)

3. Fayette Elwell, Ernest A. Zelliott, and Harry I. Good, <u>Business Record Keeping</u>, Boston: Ginn Publishing Company, 1941.

Collins found that regardless of the number of personnel employed by a firm, present-day requirements make a thorough accounting system essential. Although there is great variation in the accounting systems in use, there is some correlation between what is taught in the high school bookkeeping course and in the accounting systems in use in the business firms contacted. Many of the small businesses engage a public accounting office to make their government reports and financial statements.

Twelve items on the questionnaire--checks, deposit slips, endorsements, insurance, payroll records, postage, prepaid expenses, proving cash, reconciliation statements, social security records, telephone and telegraph, checks, and withholding tax records--were reported frequently used by all of the firms contacted.

Collins concluded that

> . . . . the high schools are teaching much of the same material being used in actual accounting practice; however, the students are not being taught to use the items in the manner expected and required of them in actual business.[3]

Tennessee and Northern Alabama Study.[4] Franks' study of bookkeeping practices in one hundred small independent grocery stores was made to

> . . . . determine bookkeeping practices and methods used in keeping records by small independent grocery stores, to learn how inadequate the records of independent grocery stores have been, and to use the findings as a basis for formulating a record-keeping system that could be efficiently and economically used by retail grocers . . . and to point out the implications for teaching bookkeeping in secondary schools.[5]

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3. Ibid., p. 68.

4. Don Gold Franks, Bookkeeping In Small Independent Grocery Stores, (unpublished Master's thesis, University of Tennessee, 1941.)

5. Ibid., p. 2.

The findings of the study indicate that "records kept by the independent grocery merchants did not measure up to the standards which are necessary for the successful operation of a small business."[6]

Of the one hundred stores surveyed--eighty-one single proprietorships and nineteen partnerships--eighty-nine do not use double-entry bookkeeping, eighty-seven do not take trial balances, and ninety do not prepare balance sheets. Eighty-nine merchants reported that they adopted their own record-keeping system.

The combined cash journal is used in accounting for cash by forty-eight stores, while twenty-three stores reported that no record of cash is made. Seventy-five stores file purchase invoices as a substitute for purchases journals, while sixty-six of these stores use the same file of invoices as accounts payable ledgers. Forty-five stores use sales tickets as the accounts receivable ledgers.

On the basis of findings from 100 grocery stores, Franks recommended that more adequate records be maintained for purchases, contingent liabilities, capital investment, drawing, sales, depreciation, and delivery expenditures. He found that on the whole, systematic methods of record keeping were not used. He further recommended that merchants keep as few records as possible to give them the information needed in managing and operating their stores, and that more emphasis be placed on the development of courses in bookkeeping to train prospective merchants to keep records for small businesses. It was also recommended that owners and employees of small retail grocery stores take advantage, whenever possible, of evening classes conducted for people who are engaged in retailing.

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6. Ibid., p. 144.

Terre Haute, Indiana, Study.[7] Nasser made a survey of records and policies of one hundred small businesses in Terre Haute, Indiana, to ascertain: "Does the small businessman keep records? How adequate are his records? and What system of records is used?"[8]

It was found that seventy-one businesses use single-entry bookkeeping while twenty-nine use double entry. The single entry plan in use varies from a narrative of transactions recorded in a day book to a complete set of journals and a ledger including all significant items.

Proprietors or members of the owner's family are bookkeepers for sixty-five firms, but an outsider prepares the returns for sixty of these businesses. Outside agencies keep records for fourteen businesses; full-time bookkeepers for eleven; and part-time bookkeepers for ten. The part-time bookkeepers also serve as sales clerks.

All of the 100 firms reported that an inventory is taken. Fifty-four use the physical count method; forty-one, the estimated method; and five, the perpetual method.

Of the 100 businesses included in the study, forty-nine prepare profit and loss statements, thirty-nine prepare balance sheets, and thirty prepare trial balances.

It was recommended that a one-book system of accounts be used by small businesses. A cash register equipped with audit tape should be used and the daily information from the audit tape recorded in a combined cash journal. Cash Receipts should be deposited in the bank. The one-book system of accounts should be divided into the following sections: Fixed Asset Register, Sales Record, Combined Cash Journal, Expense Analysis Record, and Employees' Earnings Record.

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7. Mary Nasser, A Survey of the Records and Policies of Small Businesses in Terre Haute, Indiana, (unpublished Master's thesis, Indiana State Teachers College, Terre Haute, Indiana, 1946.)

8. Ibid., p. 4.

Iowa City, Iowa, Study.[9] Joslin interviewed ninety-two managers or bookkeepers of offices in the smaller type of business concerns. The purpose of the study was to

> determine to what extent the practice of bookkeeping in smaller types of business concerns coincides with or differs from instruction given in high school bookkeeping classes, as a basis for suggesting possible revisions in content and instructional procedures.[10]

It was found that records are kept by managers in 50 per cent of the businesses, by bookkeepers in 39 per cent, and by managers and bookkeepers in 11 per cent.

Balance sheets are prepared by 25 per cent of the firms, while profit and loss statements are made by 53 per cent.

Most concerns possessed some form of journal for original entries. Some of the books used for original entries did not seem to be journals in the true sense; for example, the check book stubs constituted the journal record in a few cases. The combined cash journal and the sales journal were used more frequently than any other type of book of original entry.

Only 29 per cent of the businesses use general ledgers; 20 per cent use expense ledgers; 16 per cent, accounts receivable ledgers; and 14 per cent, accounts payable ledgers.

Adding machines, typewriters, and cash registers are used by more than fifty per cent of the firms.

Joslin found that the records of no two of the ninety-two firms contacted were identical. He concluded that "no certain system can be

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9. George D. Joslin, An Analysis of Bookkeeping Practices Found in Business As A Basis for Improving High School Courses in Bookkeeping, (unpublished Master's thesis, State University of Iowa, 1941.)

10. Ibid., p. 1.

taught which will make students graduating from high school bookkeeping classes proficient in all systems which may be used by the multitude of business establishments."[11] He further concluded that

> . . . . certain principles could be taught with special emphasis placed on those specific phases of bookkeeping which are used by most of the small business concerns . . . . In the early part of the bookkeeping term much drilling should be given to the debits and credits of assets, liabilities, capital, cost, income, and expense accounts. Drill should be given five minutes daily until the class has the principles firmly in mind.[12]

Lake Forest, Illinois, Study.[13] In 1946, Latimer made a study to determine the bookkeeping systems and practices used in smaller independent establishments. The findings were to be used as a basis for revising the bookkeeping instruction plans of the high school to conform with the systems and practices of business; thereby aiding in the training program of high school bookkeeping students.

Data were compiled from interviews with bookkeepers or proprietors in fifty representative business establishments--twenty-nine single proprietorships, eighteen partnerships, and three corporations.

It was found that the records are kept by part-time bookkeepers in twenty-five establishments, by full-time bookkeepers in nineteen, and by proprietors in six. Auditors prepare the trial balance, post the journals and make out statements to customers at the end of the month for the six firms in which the records are kept by proprietors.

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11. Ibid., p. 32.

12. Ibid., p. 32.

13. Roy Anderson Latimer, A Study of Bookkeeping Systems and Practices in the Smaller Independent Business Establishments of Lake Forest, A Suburb of Chicago, Illinois, (unpublished Master's thesis, University of Iowa, 1946.)

Formal balance sheets and profit and loss statements are prepared by all fifty of the firms.

Books of original entry reported by the firms include day books, general journals, combined cash, cash receipts, cash payments, sales, and purchases journals. General journals and combined cash journals were reported by thirty-seven firms; separate cash receipts journals by twelve, purchases journals by twelve, and cash payments journals by eleven. General ledgers were used by all of the fifty firms. Posting was done daily in twenty-nine, weekly in fifteen, and monthly in the six firms in which the records are kept by the proprietors of the business.

Inventory was taken annually by all but one business. This inventory was prepared for each department at the end of the fiscal year by the employees of the organization.

It was found that there was a demand and a need for more bookkeepers in the smaller business establishments in the area investigated. The fact that more full-time bookkeepers are needed is indicated by the number of part-time bookkeepers shared by several firms.

The records and practices vary in detail and in construction, but they are based upon the fundamental principles of bookkeeping. Latimer concluded that students should be familiar with these fundamental principles in order that they might be able to apply them in various business situations. It was recommended that a second-year course in bookkeeping be added to the curriculum of the local high school.

Tallahassee, Leon County, Florida, Study.[14] The investigation made by Cochran in 1944 included sixty small businesses within a radius of fifty miles of Tallahassee. The purpose of the study was

> 1. to discover the variety of systems in use and peculiarities of each to fit the particular kind and style of small businesses within a radius of fifty miles of Tallahassee, Leon County, Florida;
>
> 2. to determine the adaptability of bookkeeping instruction now given in the traditional course to the systems now in use in the small businesses located in the area covered by this investigation;
>
> 3. to compare and summarize the findings of this study, and make possible recommendations as to revision of the bookkeeping course now offered in the local high schools and continuation schools for the benefit of those who will enter the small business field.[15]

Cochran found that most of the bookkeeping systems in the field surveyed are double entry systems which represents the bookkeeping system taught in the majority of secondary schools. More than 50 per cent of the small business managers interviewed stated that they had received bookkeeping training, but only one received training in a secondary school. It is interesting to note that 64 per cent of the small businesses use double entry bookkeeping, and that 75 per cent of the bookkeepers had some bookkeeping training. More than half of the small businesses use a columnar journal as the only formal book of original entry.

On the basis of the findings of the study, Cochran recommended that additional emphasis be placed on the use of the columnar journal

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14. Lou Cochran, A Survey of the Bookkeeping Needs of Small Businesses Within a Radius of Fifty Miles of Tallahassee, Leon County, Florida to Serve as a Basis for Determining the Partial Content for Commercial Training in Bookkeeping in High Schools and Continuation Schools in This Area, (unpublished Master's thesis, Florida State College for Women, 1944.)

15. Ibid., p. 2.

and that less emphasis be placed on special or separate journals. The importance of the cash register should be stressed, and provision for additional practice in handling the most common business forms should be made. Less emphasis should be placed on promissory notes, insurance registers, discounting papers, accrued and prepaid items, and reserve accounts. She further recommended that teachers should bring into the classroom forms and practices actually existing in the field and that they "should stress the principles and their applications to probable future needs of the immediate area and of other sections."[16] Students should be taught to analyze financial statements as a basis for improving bookkeeping practices.

Minster, Ohio, Study.[17] Bleicher made an investigation of the bookkeeping systems used by business houses of Minster, Ohio. A questionnaire was sent to sixty-five business houses in the community, and the investigator called at the business houses for the information. Fifty-one returns are included in the study.

Bleicher found that thirty-six of the businesses use the double entry system of bookkeeping, while twelve use a single entry system. The remaining three businesses did not report what system of bookkeeping they use. It was also found that thirty businesses keep books on the cash basis and that eleven of the larger firms use the accrual basis. No reports were received from the other ten businesses.

Of the fifty-one businesses included in the study, thirty-six do not have offices. The record keeping duties in these thirty-six firms

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16. Ibid., p. 72.

17. Sister Mary Adelia Bleicher, Bookkeeping Practices in Minster, Ohio, Business Firms, (unpublished Master's thesis, University of Cincinnati, 1949.)

are performed by owners, managers, or wives. Only seven of the thirty-six prepared their own income tax reports, but seventeen prepared their other government reports. In the fifteen businesses having offices, the current work is done by personnel within the business. Of these fifteen businesses, two secured additional help for financial reports, and closing of the books; ten, for income tax reports, and three for other governmental reports. Only three of the fifteen businesses with offices hired full-time bookkeepers.

Bleicher also found that thirty-five businesses take trial balances, forty-four firms prepare balance sheets, and forty-three prepare profit and loss statements. Almost all fifty-one of the businesses included in the study reported that a physical inventory is taken annually.

CHAPTER III

# FINDINGS

## I. Firm Description

Organization and Personnel. Managers of sixty-five independent grocery stores--fifty-two sole proprietorships and thirteen partnerships--were interviewed for the study. The size of the sole proprietorships, as determined by number of personnel, ranges from stores operated by one person to a store operated by eight full-time and twelve part-time employees. The number of personnel in partnerships ranges from one store having one full-time and one part-time employee to another using twenty-one full-time and eight part-time employees. The details of the distribution of the independent grocery stores according to full-time and part-time personnel are given in Table I.

In each of twenty-four stores--twenty-three sole proprietorships and one partnership--there is only one person that devotes full time to operating the business. Thirteen of these stores have no part-time employees; ten have only one part-time employee; and one other has three part-time employees.

There are two full-time operators in each of twenty-two stores--eighteen sole proprietorships and four partnerships. Ten of these stores use no part-time employees; five have one part-time employee; six, two part-time employees; and one store has four part-time employees.

Fourteen grocery stores--eight sole proprietorships and six partnerships--have three or four persons devoting full time to the business. Four of these stores have no part-time employees; six have one part-time employee; and four others have two part-time employees.

Of the sixty-five independent grocery stores, forty-six are operated by one or two persons devoting full time to the store; fourteen, by three or four full-time workers; and five others have five or more full-time workers.

TABLE I

DISTRIBUTION OF SMALL, INDEPENDENT GROCERY STORES
ACCORDING TO NUMBER OF FULL-TIME AND PART-TIME PERSONNEL

A. Proprietorships

| Full-time Personnel | Part-time Personnel | | | | | | |
|---|---|---|---|---|---|---|---|
| | None | One | Two | Three | Four | Five or More | Total |
| One . . . . . . . . | 13 | 9 | - | 1 | - | - | 23 |
| Two . . . . . . . . | 8 | 4 | 5 | - | 1 | - | 18 |
| Three . . . . . . . | 1 | 2 | 1 | - | - | - | 4 |
| Four . . . . . . . | 1 | 2 | 1 | - | - | - | 4 |
| Five or More . . . | 2 | - | - | - | - | 1 | 3 |
| Total | 25 | 17 | 7 | 1 | 1 | 1 | 52 |

B. Partnerships

| Full-time Personnel | Part-time Personnel | | | | | | |
|---|---|---|---|---|---|---|---|
| | None | One | Two | Three | Four | Five or More | Total |
| One . . . . . . . . | - | 1 | - | - | - | - | 1 |
| Two . . . . . . . . | 2 | 1 | 1 | - | - | - | 4 |
| Three . . . . . . . | - | 1 | - | - | - | - | 1 |
| Four . . . . . . . | 2 | 1 | 2 | - | - | - | 5 |
| Five or More | - | 1 | - | - | - | 1 | 2 |
| Total | 4 | 5 | 3 | - | - | 1 | 13 |

Bookkeepers. In fifty-two of the sixty-five grocery stores--forty-one sole proprietorships and eleven partnerships--the owners or partners are the bookkeepers. An inspection of the data showed that only ten of the fifty-two owner-bookkeepers have had bookkeeping training. Five received training in high school; three in business college; and two in college.

Seven grocery stores--six proprietorships and one partnership--have outside bookkeepers. The owners in six of these seven stores prepare the records that are given to the outside bookkeepers. The outside bookkeeper for the other store has full responsibility for the daily detailed records as well as the regular bookkeeping duties.

In four sole proprietorships a member of the owner's family serves as bookkeeper. Two of these bookkeepers have had training; two have not. In each of three of these stores, the wife is bookkeeper; in the other store, the daughter is bookkeeper. Of the two that combine bookkeeping duties with selling duties, one devotes full-time and one devotes part-time to the business.

The two largest stores are the only stores with a regular employee other than a family employee as bookkeeper. The largest, which is the partnership with twenty-one full-time employees, has the only full-time bookkeeper. This bookkeeper received his bookkeeping training in a business college, and was employed primarily because of his bookkeeping training. Although the bookkeeper is a full-time bookkeeper for the store, an outside auditor prepares the financial statements. The second largest store employs a combination cashier-bookkeeper, who has never had bookkeeping training.

In summarizing briefly, it should be observed that with the exclusion of the seven stores with outside bookkeepers, the two stores with a member of the owner's family who does not work in the store, and the one store with a full-time bookkeeper, there are fifty-five stores in which the books are kept by regular store personnel, fifty-two of whom are owners or partners. Only eleven of these fifty-five bookkeepers have had bookkeeping training.

Table II on page 26 shows the percentage distribution of personnel responsible for the bookkeeping duties for stores included in the Greensboro Study and for small businesses in other studies with comparable data.

In 86 per cent of the stores included in the Greensboro Study, the books are kept by the manager, or a member of the owner's family. This compares with 65 per cent in the Terre Haute, Indiana Study; 59 per cent in the Minster, Ohio Study; and 50 per cent in the Iowa City, Iowa Study. The fact that bookkeeping for small independent grocery stores in Greensboro is done by owners or members of the owner's family would appear to be somewhat typical of small businesses in other communities.

Although the Tennessee and Northern Alabama Study did not give the personnel responsible for records, Franks[1] concluded that one possible reason for the inadequate record keeping found in many of the 100 grocery stores surveyed is that merchants are not sufficiently trained in mathematics and bookkeeping to perform the mechanical procedures necessary in keeping records. More than ninety per cent of the stores had inadequate bookkeeping systems, which were in most cases due to a lack of sufficient records and financial statements.

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1. Franks, op. cit., p. 145.

TABLE II

PERCENTAGE DISTRIBUTION OF PERSONNEL RESPONSIBLE FOR BOOKKEEPING DUTIES

(Reported in Greensboro Study and Other Studies)

| Study | Percentage Distribution of Personnel | | | | |
|---|---|---|---|---|---|
| | Owners, Managers, and/or members of families | Full-time Bookkeepers | Part-time Bookkeepers | Outside Bookkeepers or Agencies | Others |
| Greensboro, N. C. (65 cases) | 86% | 1.5% | 1.5% | 11% | - |
| Terre Haute, Indiana (100 cases) | 65% | 11 % | 10 % | 14% | - |
| Minster, Ohio (51 cases) | 59% | 6 % | 23 % | - | 12% |
| Iowa City, Iowa (92 cases) | 50% | 39 % | - | - | 11% |
| Lake Forest, Illinois (50 cases) | 12% | 38 % | 50 % | - | - |

## II. Financial Statements and Reports

Financial Statements. Sixty-three of the sixty-five stores have profit and loss statements prepared, twenty-nine have balance sheets made, and eight have trial balances prepared. The owner of one store reported that he had only a balance sheet made, while another stated he had been in business such a short time he had not decided what financial statements he would prepare.

Table III gives the frequency distribution of stores having financial statements prepared at different time intervals.

TABLE III

DISTRIBUTION OF STORES AS TO FREQUENCY AND TIME OF PREPARATION OF FINANCIAL STATEMENTS

| Frequency of Preparation | Financial Statements | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Profit and Loss | | | Balance Sheet | | | Trial Balance | | |
| | Prop. | Part. | Total | Prop. | Part. | Total | Prop. | Part. | Total |
| Annually | 39 | 10 | 49 | 13 | 7 | 20 | 1 | 1 | 2 |
| Annually & Monthly | 2 | - | 2 | 2 | - | 2 | - | - | - |
| Semiannually | 2 | 1 | 3 | 2 | 1 | 3 | 1 | - | 1 |
| Every Four Months | 1 | - | 1 | 1 | - | 1 | - | - | - |
| Quarterly | 1 | 1 | 2 | - | - | - | 1 | - | 1 |
| Monthly | 5 | 1 | 6 | 2 | 1 | 3 | 2 | 2 | 4 |
| Total | 50 | 13 | 63 | 20 | 9 | 29 | 5 | 3 | 8 |

Of the sixty-three grocery stores that have profit and loss statements prepared, fifty-one have the statement made annually. Two of these stores also have profit and loss statements made monthly. Three stores have profit and loss statements prepared semiannually; one, every four months; two, quarterly; and six, monthly only. A copy of the annual income tax return comprises the only profit and loss statement for three of the stores.

Twenty-two of the twenty-nine stores having balance sheets made, have the statement prepared annually. Two of these stores also have balance sheets prepared monthly. Of the remaining seven stores reporting balance sheets, three have the statement prepared semiannually; one, every four months; and three, monthly.

Of the eight stores having trial balances taken, two have this statement made annually; one, semiannually; one, quarterly; and four, monthly.

Further analysis of the data (see Table IV) revealed that for thirty-five stores the profit and loss statement is the only statement prepared, and for one store the balance sheet is the only statement. For twenty stores both profit and loss statements and balance sheets were reported. Only eight stores were reported as having three statements--profit and loss statement, balance sheet, and trial balance--prepared. It is interesting to note that all eight of the stores reporting trial balances also reported that profit and loss statements and balance sheets are prepared.

Table IV on page 29 gives in summary form the distribution of grocery stores as to personnel preparing financial statements.

Store managers represent the largest group preparing financial statements. They prepare profit and loss statements for thirty-six of the sixty-three stores preparing profit and loss statements, balance sheets for fourteen of the twenty-nine stores preparing balance sheets, and trial balances for four of the eight stores preparing trial balances. One partnership manager prepares the profit and loss statement on the income tax blank only.

TABLE IV

DISTRIBUTION OF GROCERY STORES AS TO
PERSONNEL PREPARING FINANCIAL STATEMENTS

| Personnel | Financial Statements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Profit and Loss Only | | Balance Sheet Only | | Profit and Loss and Balance Sheet | | Profit and Loss, Balance Sheet, and Trial Balance | |
| | Prop. | Part. | Prop. | Part. | Prop. | Part. | Prop. | Part. |
| Store Managers | 19 | 4 | 1 | - | 6 | 3 | 2 | 2 |
| Outside Bookkeepers | 10 | - | - | - | 7 | 3 | 2 | 1 |
| Members of Families | 2 | - | - | - | 1 | - | 1 | - |
| Total | 31 | 4 | 1 | - | 14 | 6 | 5 | 3 |

Outside bookkeepers represent the second largest group preparing financial statements. Outside bookkeepers prepare profit and loss statements for twenty-three of the sixty-three stores preparing profit and loss statements, balance sheets for thirteen of the twenty-nine stores preparing balance sheets, and trial balances for three of the eight stores preparing trial balances. Two of the profit and loss statements prepared by outside bookkeepers are made on the annual income blank only.

The third group preparing financial statements is made up of members of the owners' families. A member of the owner's family prepares profit and loss statements for four of the sixty-three stores preparing profit and loss statements; balance sheets for two of the twenty-nine stores preparing balance sheets; and trial balances for one of the eight stores preparing trial balances.

Further study of the data revealed that thirty-seven store managers prepared all the financial statements. Twenty-three of these managers prepare only profit and loss statements, while one manager makes only a balance sheet. Nine managers prepare profit and loss statements and balance sheets, and four managers prepare these statements--profit and loss statements, balance sheets, and trial balances.

Outside bookkeepers prepare financial statements for twenty-three of the stores. The outside bookkeepers for ten stores prepare profit and loss statements only; for ten others, profit and loss statements and balance sheets; and for three, profit and loss statements, balance sheets, and trial balances.

Members of the owners' families prepare financial statements for four stores. Two of these prepare profit and loss statements only; one, profit and loss statements and balance sheets; while the fourth prepares profit and loss statements, balance sheets, and trial balances.

Table V shows the percentages of stores represented in this study for which financial statements are prepared as compared with six other studies with comparable data. Information concerning personnel preparing the statements was not available for all of the studies reviewed.

All of the small stores visited for the Lake Forest, Illinois, study reported that formal balance sheets and profit and loss statements are prepared. Information is not available for the number of stores preparing trial balances. It is interesting that nineteen of these stores have full-time bookkeepers; twenty-five have part-time bookkeepers; and in only six cases is the proprietor the bookkeeper.

It was found that a large majority of the store managers of the 100 grocery stores in the Tennessee and Northern Alabama Study did not recognize any difference between a trial balance and a balance sheet. Only thirteen per cent reported that trial balances are taken, while ten per cent stated that balance sheets are prepared.

More than two-thirds of the businesses included in the Lake Forest, Illinois, Study, the Pittsburg, Kansas, Study, and the Minster, Ohio, Study reported that financial statements are prepared. Less than half of the businesses in the Terre Haute, Indiana, Study and the Tennessee and Northern Alabama Study reported that financial statements are made.

The Greensboro Study followed the general pattern of other studies reviewed in that profit and loss statements are prepared by a larger number of businesses than any other financial statement, and that trial balances are prepared by fewer businesses than any other statement.

TABLE V

PERCENTAGES OF BUSINESSES PREPARING FINANCIAL STATEMENTS

(Reported in Greensboro Study and in other studies)

| Study | Percentages of Businesses | | |
|---|---|---|---|
| | Financial Statements | | |
| | Trial Balance | Balance Sheet | Profit and Loss |
| Greensboro, N. C. (65 cases) | 12% | 45% | 97% |
| Lake Forest, Illinois (50 cases) | - * | 100% | 100% |
| Pittsburg, Kansas (30 cases) | 100% | 93% | 100% |
| Minster, Ohio (51 cases) | 69% | 86% | 84% |
| Iowa City, Iowa (92 cases) | - * | 25% | 53% |
| Terre Haute, Indiana (100 cases) | 30% | 39% | 49% |
| Tennessee and Northern Alabama (100 cases) | 13% | 10% | - * |

* Data not available

<u>Closing the Books</u>. As shown in Table VI, fifty-four of the sixty-five grocery store managers reported that books were "closed." Although the frequency of closing books varies, it was found that forty-one, or approximately two-thirds, of the stores close books on an annual basis. The details regarding the frequency of closing books are given in Table VI.

TABLE VI

NUMBER OF STORES CLOSING BOOKS AND FREQUENCY OF CLOSING

| Frequency | Number of Stores | | |
|---|---|---|---|
| | Prop. | Part. | Total |
| Annually . . . . . . . . . . | 32 | 9 | 41 |
| Semiannually . . . . . . . | 1 | 1 | 2 |
| Four Months . . . . . . . | 1 | - | 1 |
| Quarterly . . . . . . . . | 1 | 1 | 2 |
| Monthly . . . . . . . . . | 7 | 1 | 8 |
| Not at all . . . . . . . . | 10 | 1 | 11 |
| Total | 52 | 13 | 65 |

Fifty-three stores close books when financial statements are prepared regardless of the frequency of preparation of statements. Forty-one of the fifty-three stores are proprietorships and twelve are partnerships. The other store manager among the fifty-four reported that books are closed annually rather than semiannually when financial statements are prepared.

One manager who said that books are not closed "just figures the tax information at that time." The managers of five stores reported that the system of records is not sufficient to close books. These stores use such systems as a file of daily balance slips, adding machine tape, a file of cash register tape and invoices. Of the remaining five store managers, four merely stated that they "Do not close books," and one who had just started his business did not know whether he would close books or not.

Uses Made of Financial Statements. Only forty-two store managers answered the question"What uses do you make of financial statements?" Some gave only one use; others, more than one. Table VII gives the answers received from the forty-two store managers.

TABLE VII

USES MADE OF FINANCIAL STATEMENTS
(Forty-two Store Managers)*

| Uses Made | Prop. | Part. | Total |
|---|---|---|---|
| Tax Purposes . . . . . . . . . | 30 | 10 | 40 |
| Credit Ratings . . . . . . . . | 6 | 3 | 9 |
| Comparisons . . . . . . . . . | 4 | - | 4 |
| Personal Use . . . . . . . . . | 3 | 1 | 4 |
| "To see what was made or lost" | 3 | - | 3 |
| "Records" . . . . . . . . . | 2 | - | 2 |
| Sales Record . . . . . . . . . | 1 | - | 1 |
| Capital . . . . . . . . . . | 1 | - | 1 |
| Review . . . . . . . . . . . | 1 | - | 1 |

* Some gave more than one use.

Forty grocery store managers answered that they use financial statements for tax purposes; nine, for credit ratings; four, for comparison; four, for personal use; and three, "to see what was made or lost."

Cash or Accrual Basis. Sixty-three of the sixty-five stores use the cash basis for keeping books. Only one proprietorship uses the accrual basis. In this store the daughter of the owner keeps the books. She has not had bookkeeping training. No information was available for one store. When the owner of the store was contacted he said that he did not know, but that his bookkeeper would know. A letter and a questionnaire were mailed to the bookkeeper, and when the questionnaire was returned, the question was unanswered.

Extending Credit. Answers to the question, "Do you extend credit?" revealed that thirty-six stores extend credit, five stores extend "limited credit," and twenty-four stores do not extend credit. The five store managers who answered that they granted "limited credit" had very few charge customers. In two cases, the owners had tried to change the business from a credit basis to a cash basis, but still had some charge customers. In three cases, the owners granted credit to special customers.

Social Security and Tax Reports. There are five social security and tax reports that grocery store owners make. These reports are: Quarterly Return of Income Tax Withheld on Wages, Social Security for Federal Old Age and Survivor's Insurance Benefits and Unemployment Insurance Compensation, Quarterly Income Tax Estimates, and the Annual Income Tax Return. Table VIII gives the number of stores preparing social security and tax reports distributed as to personnel preparing the statements.

TABLE VIII

NUMBER OF STORES PREPARING SOCIAL SECURITY AND TAX REPORTS DISTRIBUTED AS TO PERSONNEL PREPARING THE REPORTS

| | Tax Reports | | | | |
|---|---|---|---|---|---|
| | Social Security Reports | | | | |
| Personnel | With-holding Tax | Old Age and Survivors' Benefit | Unemploy-ment Insurance | Income Tax Estimate | Annual Income Tax |
| Owner or partner | 24 | 24 | 3 | 11 | 13 |
| Outside Bookkeeper | 9 | 6 | - | 8 | 42 |
| Member of owner's family | - | 2 | 1 | 1 | 6 |
| Employee | 1 | 1 | 1 | 1 | 1 |
| No special person | - | - | - | - | 2 |
| Total | 34 | 33 | 5 | 21 | 64 |

Only thirty-four of the fifty stores having two or more members of the store personnel actually have "employees" within the meaning of the law. These thirty-four grocery stores have the Quarterly Return of Income Tax Withheld on Wages, prepared. This report must be filed by every store having one or more employees.

Quarterly Social Security reports for Federal Old Age and Survivors' Benefits are prepared by thirty-three of the sixty-five stores. This report is required by employers of one person or more. The fact that members of the owner's family employed in the store are exempt from this tax probably accounts for the difference in the number of quarterly withholding tax reports and in the Social Security reports prepared.

In compliance with the law, Federal Unemployment Insurance Compensation reports are filed by the five stores that have eight or more employees.

Twenty-one of the sixty-five store managers file Quarterly Income Tax Estimates. Owners with gross incomes of a certain amount are required to declare an estimate of income for the coming year and make quarterly payments based upon the estimate.

Sixty-four of the sixty-five owners file the annual income tax return which is required of all persons making $600 or more a year. No information was available from one partnership because the partner interviewed did not wish to cooperate. Since the income tax law requires all partnerships to file a return in order to check on each partner's income, it seems that it would be correct to say that all stores file an annual income tax return.

Owners or partners prepare the withholding tax report for twenty-four of the thirty-four stores making the report. An employee prepares the report for one store, while outside bookkeepers make the reports for the remaining nine stores.

Of the thirty-three stores making the quarterly Social Security report for Federal Old Age Benefits, twenty-four have this report prepared by store managers. Of the remaining nine, six have the report prepared by outside bookkeepers; two, by members of the owner's family; and one, by an employee.

Of the five stores preparing reports for Federal Unemployment Insurance Compensation, three have the report prepared by managers; one, by an employee; and another, by a member of the owner's family.

Managers prepare the Quarterly Income Tax Estimate for eleven of the twenty-one stores having this report prepared. Outside bookkeepers make the report for eight stores, while a member of the owner's family and an employee prepare the reports for the other two grocery stores.

Only thirteen of the sixty-four managers filing an income tax return prepare their own return. Information on this point could not be secured from one store. Outside bookkeepers prepare the income tax return for forty-two stores; members of the owners' families, for six stores; and an employee, for one store. Two stores do not have any special person to prepare the income tax report. Each year both of these stores have a different person to figure the tax and prepare the return.

Outside bookkeepers prepare the annual income tax returns for approximately two-thirds of the stores. The situation is reversed with regard to the other tax and social security reports made. Owners or partners prepare more than half of all social security and tax reports. Outside bookkeepers rank second in the number of these statements they prepare.

Reconciliation of Bank Statements. Forty-eight of the sixty-five grocery stores maintain a bank account; seventeen, do not. Of the forty-eight stores maintaining a bank account, forty-one have the bank statement reconciled regularly; three, irregularly; and three do not have the statement reconciled. No information was available from the other store. Forty of the forty-one stores having the bank statement reconciled, receive and reconcile the statement monthly. The other store reconciles the statement every two or three months. The statement is received after a certain number of checks have been written--usually every two or three months.

Managers of the seventeen stores not using bank accounts gave various reasons why they do not maintain an account. Some said that service charges are too high, others think it would be bad for them because the tax departments could find out how much money they have, and some just want to pay cash.

Table IX gives a summary of the answers to the question, "Who reconciles the bank statement?" Thirty-two of the forty-one stores having the bank statement reconciled regularly, have store managers perform this duty. Outside bookkeepers reconcile the statement for four stores; members of the owners' families, for four other stores; and an employee performs this duty for one store.

TABLE IX

PERSONNEL RESPONSIBLE FOR RECONCILING BANK STATEMENTS

| Personnel | Number of Stores | | |
|---|---|---|---|
| | Prop. | Part. | Total |
| Managers . . . . . . . . | 22 | 10 | 32 |
| Outside Bookkeepers . . | 2 | 2 | 4 |
| Member of owner's family | 4 | - | 4 |
| Employee | 1 | - | 1 |
| Total | 29 | 12 | 41 |

## III. Bookkeeping Systems

Double Entry. A tabulation of the answers to the question, "Do you keep a double entry set of books?" revealed that only eight of the sixty-five grocery stores--four proprietorships and four partnerships--use the double entry system of bookkeeping. It has been noted earlier that eight stores also prepare trial balances, but it is interesting that only four of the stores--three proprietorships and one partnership--that prepare trial balances have a double entry set of books.

Six of the eight stores that have a double entry system of bookkeeping have balance sheets prepared, while of the total sixty-five stores only twenty-nine make balance sheets. All of the businesses using double entry sets of books have profit and loss statements prepared, but it should be noted that only two of the sixty-five stores did not have profit and loss statements made.

Further study of the data showed that only two of the seven stores regularly employing outside bookkeepers use the double entry system. For the other stores using the double entry system the books are kept by a member of the owner's family in each of two stores, one of the partners in each of two partnerships, and an employee in each of two stores--one proprietorship and one partnership.

Although only eight stores have a complete set of double entry books, others seem to have record systems with some features which involve debit and credit entries. This fact accounts for the apparent discrepancy in reporting methods of recording transactions as to debit and credit entries.

Books of Original Entry. Managers of fifty-six of the sixty-five grocery stores reported the use of books of original entry. Some stores use only one book of original entry; others use two or more. Table X gives in detail the different kinds of books of original entry used by the grocery stores included in this study.

TABLE X

FREQUENCY DISTRIBUTION OF BOOKS OF ORIGINAL ENTRY

| Books of Original Entry | Number of Stores | | |
|---|---|---|---|
| | Prop. | Part. | Total |
| Day Book Only | 14 | 5 | 19 |
| Combined Cash Journal Only | 13 | 5 | 18 |
| General Journal Only | 4 | - | 4 |
| Cash Receipts and Payments Only | 1 | - | 1 |
| Sales Journal Only | - | 1 | 1 |
| Penny Record Book | 1 | - | 1 |
| Four Day Books used for Sales, Salaries, Expenses, Inventory, Furniture and Fixtures | 1 | - | 1 |
| Day Book and Combined Cash Journal | 2 | 1 | 3 |
| Day Book, Cash Payments Journal, Purchases Journal, Sales Journal, and Payroll Journal | 1 | - | 1 |
| General Journal and Combined Cash Journal | 1 | - | 1 |
| Cash Receipts Journal and Cash Payments Journal | 1 | - | 1 |
| Cash Payments Journal, Purchases Journal, Sales Journal, and Outstanding Bills Book | 1 | - | 1 |
| Purchases Journal and Sales Journal | 1 | - | 1 |
| Purchases Journal, Sales Journal, and Expense Journal | 1 | - | 1 |
| Cash Payments Journal, Purchases Journal, and Sales Journal | - | 1 | 1 |
| Paid Outs Book, Daily Sales Book, and Weekly Sales | 1 | - | 1 |
| No Journals | 9 | - | 9 |
| Total | 52 | 13 | 65 |

Combined Cash Journals and Day Books were the most frequently reported books of original entry. Nineteen stores use day books only; eighteen others use combined cash journals only.

Twelve of the sixty-five stores use more than one book of original entry. Three of these stores have both day books and combined cash journals. Other combinations used by one store only are also listed in Table X.

Nine of the sixty-five store managers reported no books of original entry, but inquiry revealed that four of these nine managers actually record transactions in books which they call "ledgers." These ledgers are not "books of accounts."

In explaining the system of bookkeeping used, one of the four managers that uses a ledger as a book of original entry stated that at the end of the day he records directly in a ledger the cash received and paid out. In addition he keeps a detailed record of "paid outs" on a card.

Two other stores recording directly in the ledger summarize cash transactions only. One summarizes cash receipts on one ledger page and cash expenditures on another. The other store maintains details for cash transactions under three categories: cash receipts, expenditures for expenses, and other expenditures. No effort is made to classify expenses.

The fourth store manager records daily cash receipts and expenditures on a card under appropriate headings similar to T-accounts. He does not, however, use the principles of debit and credit. At the end of the week he transfers the total amount of receipts and expenditures to a ledger containing a cash account only.

Three of the remaining five stores reporting no books of original entry actually keep a daily summary of changes in cash on daily cash balance slips. One of these stores uses a special form distributed by the National Cash Register Company. Another has a printed form which has the weekly summary on the back of the daily cash slips. In addition to the daily and weekly summary, this store also uses the same form for a monthly summary. The third store uses a comparable mimeographed form. For these three stores, the cash summary sheets represent the only records maintained.

The remaining two stores not using books of original entry keep no formal records. They merely maintain a file in which they place all invoices, memoranda, and cash register tape. Notations are recorded on the cash register tape. The only use made of these records is for income tax reports.

Ledgers. A general ledger, or a book of final entry in which transactions are recorded under appropriate account headings, is used by seventeen of the sixty-five grocery stores. Although twenty-one stores reported the use of ledgers, the ledgers for four of these stores have been discussed with books of original entry because they are not used as books of accounts.

The seventeen stores using general ledgers as books of accounts reported various books of original entry. Five use a combined cash journal only; four, a day book only; and two, a combined cash journal and a day book. The remaining six stores using general ledgers reported the following books of original entry:

Sales journal only
General journal only
Cash Payments journal, Purchases journal, and Sales journal
Purchases journal and Sales journal
Day book, Cash payments book, Purchases journal, and Sales journal
General journal and Combined Cash journal

Thirty-nine of the forty-eight stores which do not have general ledgers have some form of a book of original entry. Since books of original entry have been discussed earlier in this chapter, no further reports will be made.

No separate accounts receivable or accounts payable ledgers are used by any of the stores. Each of the forty-one stores which extend credit and might have need for an accounts receivable ledger does use some substitute. A file of sales tickets is the substitute used by twenty-four stores. Fourteen stores use separate books for each customer. Three of these fourteen stores also use a file of sales tickets for irregular charge customers. Other substitutes reported for accounts receivable ledgers are: a card system, a file of tape, a memorandum, a small piece of paper for each customer, and audit tapes filed alphabetically.

Sixty-two of the sixty-five grocery stores use a file of invoices as the substitute for an accounts payable ledger. Another store manager pays cash and then files the invoices; therefore, they are not used as an accounts payable file. One of the two stores reporting no file of invoices pays cash as invoices are received. The manager of the other store stated that no filing system is used because "all bills are paid weekly."

Table XI gives the percentages of stores in the Greensboro Study using the various books of original entry and ledgers as compared with the findings from six other studies for which comparable data are available.

Grocery stores included in the Greensboro Study reported that day books and combined cash journals are used more frequently than any other books of original entry. Other studies of small businesses, which gave information regarding combined cash journals, revealed that more than 50 per cent of the businesses contacted use the combined cash journal. There

TABLE XI

PERCENTAGES OF BUSINESSES USING VARIOUS BOOKS OF ORIGINAL ENTRY AND LEDGERS

(Reported in Greensboro Study and in Other Studies)

| Books of Original Entry and Ledgers | Greensboro Study (65 cases) | Pittsburg Kansas (30 cases) | Tallahassee Study (60 cases) | Iowa City Study (92 cases) | Tennessee and N. Ala. (100 cases) | Lake Forest Study (50 cases) | Minster Ohio (51 cases) |
|---|---|---|---|---|---|---|---|
| A. Original Entry | | | | | | | |
| Day Books | 37% | - * | - | - | - | 14% | - |
| General Journal | 7% | 87% | - | 23% | 4% | 74% | - |
| Combined Cash Journal | 34% | - | 51% | 60% | 50% | 74% | - |
| Cash Journals | 7% | 47% | none | 29% | - | 24% | - |
| Sales Journal | 11% | 37% | none | 65% | 33% | 26% | - |
| Purchases Journal | 7% | 47% | none | 33% | 14% | 24% | - |
| B. Ledgers | | | | | | | |
| General | 26% | 100% | 45% | 29% | 44% | 100% | 60% |
| Accounts Receivable | none | - | 50% | 16% | 24% | 90% | - |
| Accounts Payable | none | - | 22% | 14% | 10% | 34% | - |
| Expense | none | - | - | 20% | - | - | - |

* - data not available

seems to be no consistency in the other books of original entry reported by stores in the Greensboro Study and by businesses included in the other studies.

The Greensboro Study shows that only 26 per cent of the stores use general ledgers. Findings from two of the other studies--the Pittsburg, Kansas, and the Lake Forest, Illinois--revealed that 100 per cent of the businesses contacted use general ledgers. All of the other studies reviewed show more frequent use of the general ledger than the Greensboro Study.

Not one of the Greensboro stores uses an accounts receivable ledger or an accounts payable ledger. Data concerning the use of subsidiary ledgers were not available for two of the other studies. However, two studies revealed that more than 50 per cent of the businesses use an accounts receivable ledger. All of the studies reported that less than one-half of the businesses use an accounts payable ledger.

Machines. Managers of fifty-three of the sixty-five grocery stores reported that some office machines are used. Fifty-two of the fifty-three said that an adding machine is used, while one other reported a bookkeeping and adding machine which is used for adding purposes only. Of the fifty-three stores using adding machines, four use typewriters; one, a typewriter and a calculator; and another, a check writer. This makes a total of fifty-two adding machines, one bookkeeping and adding machine, five typewriters, one calculator, and one checkwriter used by the fifty-three stores.

There are fifty-eight grocery stores that use cash registers. Forty-nine of the fifty-eight stores have one machine each. There are two cash registers in each of eight stores. The remaining store uses six cash registers.

In all cases, the managers interviewed were of the opinion that machines used in grocery store bookkeeping can be learned on the job.

Forms. Sixty-four of the sixty-five grocery store managers reported the use of printed forms. The number and kind of forms used are given in Table XII. It was found that more grocery stores use purchase invoices than any other business form. Sixty-three stores reported the use of purchase invoices; three of this number also use purchase orders.

TABLE XII

DISTRIBUTION OF FREQUENCY AND KINDS OF PRINTED FORMS

| Printed Forms | Number of Stores | | |
|---|---|---|---|
| | Prop. | Part. | Total |
| Purchase Invoices . . . . . | 50 | 13 | 63 |
| Check and Check Book . . . . | 36 | 12 | 48 |
| Deposit Tickets . . . . . . | 36 | 12 | 48 |
| Sales Slip . . . . . . . . . | 36 | 7 | 43 |
| Receipts for Cash Paid Out . | 14 | 5 | 19 |
| Detailed Audit Strip . . . . | 12 | 6 | 18 |
| Daily Cash Balance Slip . . | 12 | 4 | 16 |
| Receipts for Cash Received . | 13 | 3 | 16 |
| Merchandise Inventory Sheets | 8 | 3 | 11 |
| Credit Memorandum . . . . . . | 6 | 2 | 8 |
| Payroll Forms . . . . . . . | 5 | 2 | 7 |
| Statement of Accounts . . . | 4 | 2 | 6 |
| Petty Cash Vouchers . . . . | 5 | 1 | 6 |
| Cash Over and Short Vouchers | 4 | - | 4 |
| Purchase Orders . . . . . . | 3 | - | 3 |
| Fixed Asset Record Cards . . | 2 | - | 2 |
| Money Orders . . . . . . . . | 2 | - | 2 |
| Cashiers Checks . . . . . . | 2 | - | 2 |
| Certified Checks . . . . . . | - | 2 | 2 |
| Paid Out Pads . . . . . . . | - | 1 | 1 |
| Net Sales Summary . . . . . | 1 | - | 1 |
| Daily Operating Slip . . . . | 1 | - | 1 |

Next in order of frequency are check books and deposit tickets, which are used by forty-eight stores. The seventeen stores not using check books and deposit tickets have no bank accounts.

Forty-three of the sixty-five stores use sales tickets. Only two of the forty-three stores using sales tickets do not extend credit. These two stores use sales tickets to record daily sales and paid outs rather than to charge sales to individual customers.

## IV. Balance Sheet Items

Assets. Seventeen of the sixty-five grocery stores use general ledger accounts. Asset accounts reported by the seventeen stores with general ledgers are shown in Table XIII.

TABLE XIII

ASSET ACCOUNTS REPORTED BY STORES USING A GENERAL LEDGER

(Seventeen Stores)

| Asset Accounts | Number of Stores |
|---|---|
| Merchandise Inventory . . . . . . . . . . | 17 |
| Cash . . . . . . . . . . . . . . . . . . | 16 |
| Furniture and Fixtures . . . . . . . . . | 13 |
| Stores Supplies . . . . . . . . . . . . . | 9 |
| Delivery Equipment . . . . . . . . . . . | 8 |
| Petty Cash . . . . . . . . . . . . . . . | 7 |
| Accounts Receivable Controlling Account | 7 |
| Prepaid Insurance . . . . . . . . . . . . | 3 |
| Reserve for Depreciation on Furniture and Fixtures . . . . . . . . . . . . | 3 |
| Reserve for Bad Debts . . . . . . . . . . | 2 |
| Reserve for Depreciation on Delivery Equipment . . . . . . . . . . . . . . . | 1 |

All of the seventeen managers using ledgers stated that they have an account for merchandise inventory. Three of these managers reported that additional records are made for merchandise inventory. One of the managers uses the merchandise inventory sheet, and the other two have separate books for the additional records.

Forty-seven of the forty-eight stores not using ledgers have merchandise inventory records. One store manager reported that he does not take an inventory at all. Table XIV gives in detail the record systems used by the forty-eight stores for merchandise inventory.

TABLE XIV

MERCHANDISE INVENTORY RECORD SYSTEMS REPORTED BY STORES NOT USING LEDGERS

(Forty-eight Stores)

| Record Systems | Number of Stores |
|---|---|
| In a day book . . . . . . . . . . . . . . . . . . . . | 14 |
| On separate merchandise inventory sheets . . . . . | 14 |
| In a column in the combined cash journal . . . . . | 9 |
| In the general journal . . . . . . . . . . . . . . | 3 |
| On the income tax blank only . . . . . . . . . . . | 3 |
| On the yearly report . . . . . . . . . . . . . . . | 2 |
| In a separate book . . . . . . . . . . . . . . . . | 1 |
| In a cash book . . . . . . . . . . . . . . . . . . | 1 |
| No system . . . . . . . . . . . . . . . . . . . . . | 1 |
| Total | 48 |

Fourteen of the forty-eight stores not using ledgers maintain the information regarding merchandise inventory on an annual inventory sheet only. Fourteen other stores have the record in day books. Of the remaining twenty-one stores, nine managers reported that the record is kept in special columns in the combined cash journal; three, on the income tax blank only; three, in the general journal; two, on the"yearly report"; one, in a separate book; and another, in the cash book. The other store does not take inventory.

Of the seventeen stores using ledgers, sixteen have a cash account. The other store manager computes the cash from the records of daily sales receipts and payments.

All forty-eight stores not using ledgers have some record of cash. Managers of seventeen of the forty-eight stores secure the information for cash from columns in the combined cash journal, while nine others record details of the cash information in day books. The following table shows the various methods used by the forty-eight stores without general ledgers for recording cash information and the number of stores using each method.

TABLE XV

CASH RECORD SYSTEMS REPORTED BY STORES NOT USING LEDGERS

(Forty-eight Stores)

| Record System | Number of Stores |
|---|---|
| Columns in Combined Cash Journal . . | 17 |
| Day Books . . . . . . . . . . . . . . | 13 |
| Cash Books . . . . . . . . . . . . . . | 6 |
| Daily Cash Balance Slip File . . . . | 5 |
| General Journal . . . . . . . . . . . | 4 |
| Penny Record Book . . . . . . . . . | 1 |
| Cash Register Tape . . . . . . . . . | 1 |
| Adding Machine Tape . . . . . . . . | 1 |
| Total | 48 |

Four of the thirteen stores using day books to record cash information call these books "ledgers." These books are designated as "day books" because no effort is made to classify daily transactions in groups of accounts.

Seven of the seventeen stores with ledgers maintain an account in the general ledger for petty cash. Only two of the forty-eight stores not using ledgers maintain a Petty Cash Fund. One of these stores records petty cash information in a column in the combined cash journal; the other uses a daily balance slip.

Store managers in nine of the seventeen stores using general ledgers reported that accounts receivable records are maintained. The remaining eight stores extend no credit. Seven of the nine stores extending credit have an accounts receivable controlling account in the general ledger as well as a file of sales tickets to serve as a subsidiary accounts receivable ledger. The other two stores use a file of sales tickets as the only record.

Of the forty-eight stores not using general ledgers, sixteen do not extend credit. The thirty-two stores which extend credit have some record of accounts receivable information. Ten of the thirty-two store managers reported that accounts receivable items are recorded in a book of original entry--five in a combined cash journal; three, in a day book; one, in a general journal; and another, in a sales journal.

The substitutes for accounts receivable ledgers reported by the thirty-two store managers not using general ledgers are:

| | |
|---|---|
| sales tickets only | 17 |
| book for each customer | 7 |
| books for customers or file of sales tickets | 3 |
| memoranda | 2 |
| index card file | 1 |
| adding machine tape | 1 |
| audit tape filed alphabetically by customer's name | 1 |

Only two of the sixty-five stores reported that a reserve for bad debts account is used. These two stores record the information in a separate account in the general ledger. Only one of the stores extends credit; the other uses the reserve account to take care of bad checks only.

Thirteen of the seventeen grocery stores using ledgers have an account for Furniture and Fixtures. In one instance, the manager records the furniture and fixtures information in a separate book; therefore, twelve grocery stores actually use ledger accounts for Furniture and Fixtures.

Twenty-two of the forty-eight stores not using general ledgers have records of furniture and fixtures. The information regarding furniture and fixtures is recorded in a variety of ways as is shown in Table XVI.

TABLE XVI

RECORD SYSTEMS FOR FURNITURE AND FIXTURES REPORTED BY STORES NOT USING LEDGERS

(Twenty-two of the Forty-eight)

| Record Systems | Number of Stores |
|---|---|
| Columns in a combined cash journal . . . . . . . . . . . | 6 |
| Income tax blank only . . . . . . . . . . . . . . . . . | 6 |
| Day Book . . . . . . . . . . . . . . . . . . . . . . . | 4 |
| Separate books . . . . . . . . . . . . . . . . . . . . | 3 |
| General journal . . . . . . . . . . . . . . . . . . . | 1 |
| Yearly statement . . . . . . . . . . . . . . . . . . . | 1 |
| Separate sheet . . . . . . . . . . . . . . . . . . . . | 1 |
| Total | 22 |

Only three of the store managers using ledgers reported that a ledger account for Reserve for Depreciation on Furniture and Fixtures is used. Managers of three of the forty-eight stores not using ledgers stated that they maintain records of Reserve for Depreciation on Furniture and Fixtures. Two of these reported the use of a column in the combined cash journal. The other manager has the record on the income tax blank and in a "book."

Of the seventeen stores using a general ledger, eight maintain an account for Delivery Equipment. Eleven of the forty-eight stores not using ledgers have records of Delivery Equipment. In eight of these eleven stores, the information is recorded in a combined cash journal. Each of the managers of the other three stores stated that a different practice is followed. One records the information in a general journal; one, on a daily cash balance slip; and the other, on the income tax blank only.

Reserves for depreciation on delivery equipment are set up by three stores. Only one of the three stores uses a general ledger and maintains a ledger account for reserve for depreciation on delivery equipment. The other two stores not using a general ledger record the information in a column in a combined cash journal.

Nine of the seventeen stores using a general ledger have an account for store supplies and three use an account for prepaid insurance. Only seven of the forty-eight stores not using general ledgers maintain a record of Prepaid Insurance and Store Supplies. Four of the seven stores recording information regarding prepaid insurance and three of the seven recording information concerning store supplies, have special columns in the combined cash journal. Managers of the three other stores recording prepaid insurance, and four other stores recording store supplies reported that the information for these items is classified as expense.

Table XVII gives in summary form the number of stores for which a record is maintained for various asset items.

TABLE XVII

ASSET ITEMS ON WHICH RECORDS ARE MAINTAINED

(Seventeen Stores Using Ledgers and Forty-eight Stores not Using Ledgers)

| Asset Items | Number of Stores | | |
|---|---|---|---|
| | With Ledger Accounts | Without Ledgers | Total |
| Merchandise Inventory . . . . . . | 17 | 47 | 64 |
| Cash . . . . . . . . . . . . . . . | 16 | 48 | 64 |
| Accounts Receivable . . . . . . . | 9 | 32 | 41 |
| Furniture and Fixtures . . . . . | 13 | 22 | 35 |
| Delivery Equipment . . . . . . . | 8 | 11 | 19 |
| Store Supplies . . . . . . . . . | 9 | 7 | 16 |
| Prepaid Insurance . . . . . . . . | 3 | 7 | 10 |
| Petty Cash . . . . . . . . . . . | 7 | 2 | 9 |
| Reserve for Depreciation on Furniture and Fixtures . . . . | 3 | 3 | 6 |
| Reserve for Depreciation on Delivery Equipment . . . . . . | 1 | 2 | 3 |
| Reserve for Bad Debts . . . . . . | 2 | - | 2 |

In summarizing briefly, sixty-four stores have merchandise inventory records, and sixty-four have cash records. All of the stores that extend credit maintain accounts receivable records. More than one-half of the stores have records for furniture and fixtures. Less than one-third have records for delivery equipment and store supplies, while less than one-fifth maintain records for prepaid insurance, petty cash, reserves for bad debts, and reserves for depreciation on furniture and fixtures and delivery equipment.

Frequency of Proving Cash. The managers of all sixty-five stores reported that cash is proved. Fifty-six of the sixty-five stores prove cash daily; six others, weekly. Of the three remaining stores, one proves cash three times a week; and one, monthly. The manager for the other store stated that he had no definite time to prove cash. Details of the methods used in proving cash were not recorded.

Fifty-eight grocery stores use cash registers. Thirty-six stores have machines equipped with audit tape. It is interesting that only twenty-nine of the thirty-six stores having cash registers with audit tapes use the tape to help in proving cash.

Bank Deposits. Forty-eight of the sixty-five grocery stores maintain bank accounts. However, only one of the forty-eight stores using a bank account deposits the total cash receipts without making payments from the receipts. This store uses a petty cash fund to take care of small payments. Although there are eight other stores that have petty cash funds, the managers of all eight of these stores reported that payments are made from the cash receipts before deposits are made.

Cash Over and Short. Eighteen of the sixty-five grocery stores maintain a record of cash over and short. These eighteen stores use a variety of systems for recording cash over and short. The details of the systems used by the eighteen stores for recording this information are given in Table XVIII. Two managers who stated that information is recorded were unable to explain the system they used.

TABLE XVIII

SYSTEMS USED FOR RECORDING CASH OVER AND SHORT

(Eighteen Stores)

| Systems Used | Number of Stores |
|---|---|
| Day Book . . . . . . . . . . . . . . . . . . | 5 |
| Daily Cash Balance Slip . . . . . . . . | 3 |
| Special Account . . . . . . . . . . . . | 3 |
| Audit Tape . . . . . . . . . . . . . . . . | 2 |
| Cash Column of Combined Cash Journal . . | 1 |
| "As an expense" . . . . . . . . . . . . | 1 |
| "Just record but not in an account" . . | 1 |
| Not given . . . . . . . . . . . . . . . . | 2 |
| Total | 18 |

Cash Payments. Nineteen of the sixty-five store managers reported that all cash payments are made with cash. The remaining forty-six stores make payments with cash and checks. It is interesting that none of the stores use checks alone, although one manager stated that all cash receipts are deposited before payments are made. This owner uses a petty cash fund for the small payments and checks for the large amounts.

Receipts from Charge Customers and Cash Sales. In answer to the question, "Are cash receipts from charge customers entered separately from cash sales receipts?" managers of twelve of the forty-one stores extending credit reported that these records of receipts are made separately. Twenty-three managers reported that no effort is made to maintain separate records for receipts from cash sales and receipts from charge customers; while six other managers did not answer the question.

Charge Accounts. There are forty-one stores that extend credit, five of which extend "limited credit." Only thirty-two of the forty-one store managers extending credit answered the question, "How long do you carry a customer's account before it becomes a bad debt?" One of the thirty-two managers answering the question said that he never gives up, while another stated that he considers the debt bad if it is not paid when it becomes due. Table XIX gives the length of time customers' accounts are carried before they are considered bad debts.

Store managers of only two of the sixty-five grocery stores reported that a ledger account is maintained for Reserve for Bad Debts. When questioned about the basis for calculating the reserve, one manager answered that he estimates the amount for the reserve on the basis of losses for the current year; the other said he has no fixed basis upon which to calculate the reserve.

TABLE XIX

LENGTH OF TIME CUSTOMERS' ACCOUNTS ARE CARRIED BEFORE CONSIDERED BAD DEBTS

(Thirty-two Stores)

| Length of Time | Number of Stores |
|---|---|
| Never gives up . . . . . . . . . . . . . . . . . . . . | 1 |
| Two years . . . . . . . . . . . . . . . . . . . . | 1 |
| One year . . . . . . . . . . . . . . . . . . . . | 3 |
| Sixty days . . . . . . . . . . . . . . . . . . . . | 1 |
| One month . . . . . . . . . . . . . . . . . . . . | 3 |
| Two weeks . . . . . . . . . . . . . . . . . . . . | 1 |
| One week . . . . . . . . . . . . . . . . . . . . | 1 |
| According to the way they are charged . . . . . . . . | 2 |
| "When not paid when due" . . . . . . . . . . . . . . | 1 |
| No definite time . . . . . . . . . . . . . . . . . . | 18 |
| Total | 32 |

Method and Frequency of Inventory. Of the sixty-five grocery stores, sixty-three use the physical count method of inventory, one store uses an "estimated" method, and the other store does not take inventory. The manager of the store using the "estimated method" simply records on a printed form an estimate of the stock on the shelves quarterly.

Table XX shows the number of stores that use cost, retail, or retail less discount price for taking inventory. Thirty of the sixty-four businesses taking inventory use the cost price, while two other stores use both the cost and retail prices.

The frequency with which the sixty-three grocery stores that use the physical count method of inventory take inventory ranges from monthly to annually. There are fifty-one stores that take inventory annually. For one store, produce is inventoried weekly; meat market, monthly; and groceries, semiannually. Table XXI shows details regarding the frequency of taking inventory.

TABLE XX

PRICING METHODS USED FOR CALCULATING MERCHANDISE INVENTORY

| Price Used | Number of Stores |
|---|---|
| Cost Price . . . . . . . . . . . . . . . . | 30 |
| Retail Price . . . . . . . . . . . . . . . | 24 |
| Retail Price Less Discount . . . . . . . | 8 |
| Both Cost and Retail Price . . . . . . . | 2 |
| Total | 64 |

TABLE XXI

FREQUENCY OF TAKING INVENTORY

| Frequency | Number of Stores |
|---|---|
| Annually . . . . . . . . . . . . . . . . . | 51 |
| Semiannually . . . . . . . . . . . . . . | 7 |
| Four Months . . . . . . . . . . . . . . | 1 |
| Quarterly . . . . . . . . . . . . . . . . | 1 |
| Monthly . . . . . . . . . . . . . . . . . | 2 |
| Variable . . . . . . . . . . . . . . . . . | 1* |
| Total | 63 |

* Produce inventoried weekly; meat market, monthly, and groceries, semiannually.

Liabilities. Store managers of the seventeen stores using ledgers reported the use of records for very few liability items. Table XXII gives the number of stores using the various liability accounts.

TABLE XXII

LIABILITY ACCOUNTS REPORTED BY STORES USING A GENERAL LEDGER

(Seventeen Stores)

| Liability Accounts | Number of Stores |
|---|---|
| Accounts Payable Controlling Account . . . | 9 |
| Sales Tax Payable . . . . . . . . . . . . . | 5 |
| Employee Payroll Deductions Payable . . . | 5 |
| Employer Payroll Taxes Payable . . . . . . | 4 |
| Social Security Taxes Payable . . . . . . | 4 |
| Unemployment Insurance Payable . . . . . . | 2 |
| Mortgages Payable . . . . . . . . . . . . | 2 |
| Notes Payable . . . . . . . . . . . . . . . | 1 |
| Accrued Interest Payable . . . . . . . . . | 1 |

While the table shows that only nine of the stores have an accounts payable controlling account, all of the seventeen stores have some record of accounts payable. The other eight stores use a file of invoices as the only record of accounts payable.

Forty-five of the forty-eight store managers not using ledgers reported that some record of accounts payable is made; the other three stated that no records for accounts payable are needed as they pay cash for all purchases. Of the forty-five stores maintaining accounts payable records, forty use a file of invoices as the only record; three record the information in a column of a combined cash journal; one, in a general journal; and the other, in a day book.

Five of the seventeen stores using a general ledger have a ledger account for sales tax payable, while only nine of the forty-eight stores not using ledgers maintain records of sales tax payable information.

These nine stores use the following books of original entry to record the information:

| | |
|---|---|
| combined cash journal | 5 stores |
| general journal | 2 stores |
| sales journal | 1 store |
| day book | 1 store |

Records of Social Security Taxes Payable are maintained by four of the seventeen stores using a general ledger and by only six of the forty-eight stores not using ledgers. Four of these six stores record the information in a column of the combined cash journal. One store records the information in a general journal, and another, in a cash payments journal.

Five stores record employee payroll deductions payable items in ledger accounts, while only four of the forty-eight stores not using ledgers make any record of this liability. For all of these four stores, the information is recorded in a column of the combined cash journal.

Only one of the forty-eight store managers not using ledgers records information concerning employer payroll taxes payable and federal unemployment insurance payable. These records are made in a combined cash journal. No records are maintained for notes payable, accrued interest payable, and mortgages payable by any of the forty-eight stores not using a general ledger.

Table XXIII gives in summary form the number of stores for which a record is maintained for the various liability items. Accounts payable is the only liability item for which records are maintained by more than one-half of the stores. Less than one-third record information concerning sales tax payable, social security taxes payable, and employee payroll deductions, while less than one-sixth maintain records of employer payroll taxes payable, Federal unemployment insurance payable, mortgages payable, notes payable, and accrued interest payable.

TABLE XXIII

LIABILITY ITEMS FOR WHICH RECORDS ARE MAINTAINED

(17 Stores Using Ledgers and 48 Stores Not Using Ledgers)

| Liability Items | Number of Stores | | |
|---|---|---|---|
| | With Ledger Accounts | Without Ledgers | Total |
| Accounts Payable . . . . . . . . . . | 17a | 45b | 62c |
| Sales Tax Payable . . . . . . . . . | 5 | 9 | 14 |
| Social Security Taxes Payable . . | 4 | 6 | 10 |
| Employee Payroll Deductions . . . | 5 | 4 | 9 |
| Employer Payroll Taxes Payable . . | 4 | 1 | 5 |
| Federal Unemployment Insurance Payable . . . . . . . . . . . . . | 2 | 1 | 3 |
| Mortgages Payable . . . . . . . . . | 2 | - | 2 |
| Notes Payable . . . . . . . . . . . | 1 | - | 1 |
| Accrued Interest Payable . . . . . | 1 | - | 1 |

a Eight in invoice file only.
b Forty in invoice file only.
c Three stores pay cash; therefore, keep no accounts payable records.

Net Worth Items. Table XXIV shows the status of record keeping for net worth items for the sixty-five grocery stores. Thirty managers reported that no record is maintained for any net worth item. Two of these stores use a general ledger. Of the thirty-five managers reporting that some record of net worth items is made, only eighteen maintain a record of capital; twenty-seven, drawing or personal; six, profit and loss summary; and six, withdrawals.

Of the fifteen stores using ledger accounts, eight have capital accounts. Three of these stores use only capital accounts; two use capital and drawing accounts; two, capital, drawing, and withdrawals accounts; and one uses capital, drawing, and profit and loss summary accounts. The net worth items are recorded here under the captions given by the managers without interpretation.

TABLE XXIV

NET WORTH ITEMS

(17 Stores Using Ledgers and 48 Stores Not Using Ledgers)

| Net Worth Items | Number of Stores | | |
|---|---|---|---|
| | With Ledger Accounts | Without Ledgers | Total |
| Capital only . . . . . . . . . . . | 3 | 1 | 4 |
| Capital and Drawing . . . . . . | 2 | 6 | 8 |
| Capital and Withdrawals . . . . | - | 1 | 1 |
| Capital, Drawing and Profit and Loss . . . . . . . . . . . . . | 1 | 1 | 2 |
| Capital, Drawing, and Withdrawals . . . . . . . . . | 2 | 1 | 3 |
| Drawing or Personal only . . . . | 3 | 9 | 12 |
| Drawing and Profit and Loss . . | - | 1 | 1 |
| Drawing, Profit and Loss, and Withdrawals . . . . . . . | 1 | - | 1 |
| Profit and Loss only . . . . . . | 2 | - | 2 |
| Withdrawals only . . . . . . . . | 1 | - | 1 |
| No Net Worth items . . . . . . . | 2 | 28 | 30 |
| Total | 17 | 48 | 65 |

Nine stores using a general ledger have drawing accounts. Three of these stores use the drawing account as the only net worth account. The remaining six use additional net worth accounts.

Two of the four stores using profit and loss summary ledger accounts maintain no other net worth accounts, while one of the four stores using a ledger account for withdrawals has no other net worth account.

Of the twenty stores using record systems other than ledger accounts for recording net worth items, ten maintain records for capital information. One store maintains capital records only. Six stores record information concerning capital and drawing items; one records capital and withdrawals; one, capital, drawing, and profit and loss summary information; and one, capital, drawing, and withdrawals.

Eighteen of the twenty stores using record systems other than ledger accounts record information concerning drawing or personal items. Nine record drawing information as the only net worth item.

Net worth information is recorded in a variety of ways by the twenty stores without ledgers. Nine of the twenty use columns in a combined cash journal. Three record net worth information in a day book; two record the capital information on income tax blanks only, but use sales slips or a personal expense book for drawing information. One store uses a separate book for capital and drawing items; one records capital information on the personal bank account check stub; and the other uses a special section in a "book" for these records. The remaining three stores gave no information concerning the record system used to record net worth items.

<u>Recording</u> <u>Original</u> <u>Investment</u>. It is surprising that only eighteen of the sixty-five grocery store managers know how the original investment was recorded. The other forty-seven store managers have no idea what record, if any, was made of the original investment. Nine of the eighteen managers that know how the investment was recorded use a general ledger. Six of the nine managers reported that the original investment is recorded in the capital account. Of the remaining three managers using a general ledger, one recorded the original investment in the personal or drawing account, another "in some account," and the other manager recorded the original investment on the beginning inventory record only.

The nine stores without ledger accounts reported various systems for recording the original investment. Two recorded it on the balance sheet; two, in a journal; one, in the capital records; one, on the check stub; one, in "another book"; one, in the inventory book; and another, on a sales slip.

Transferral of net profit or loss. Thirteen of the seventeen store managers that use ledger accounts answered the question, "To what proprietorship account is net profit or loss transferred at the end of the fiscal period?" Five of these managers reported that net profit or loss is transferred to the capital account, while three others stated that it is transferred to the profit and loss summary account. Another manager said that he transfers profit or loss to the drawing account. Of the remaining four managers who answered the question, two do not know to what account it is transferred, one reported that it is transferred to the income tax report only, and the other, to the balance sheet.

Nineteen managers who do not use ledgers volunteered information concerning the transferral of net profit or loss at the end of the fiscal period. Nine of these reported that net profit or loss is transferred to the income tax blank; four, to records of capital items; two, to records of drawing items; two, to records of profit and loss summary information; one, "to a sheet of paper;" and the other, " the merchandise inventory book."

Withdrawals by owners. Forty-three of the sixty-five grocery store managers stated that withdrawals of cash or merchandise are made. When asked what account is debited for withdrawals only nine of the seventeen managers with ledger accounts answered. Four of these managers debit drawing accounts, while four others debit withdrawals accounts. The other manager with ledger accounts stated that he records withdrawals "in a book." Twenty-three managers without ledger accounts reported records of withdrawals. In fifteen instances the term "drawing" or "personal" accompanies the individual's name. In two other cases, the term "withdrawals" is used. Other answers received from the remaining six managers are: "with salary records," in "miscellaneous paid outs," on "adding machine tape," "just on a list," and "in a day book."

These store managers were also asked what account is credited for merchandise withdrawals. Of the twenty managers answering, nineteen said, "sales," and one, "purchases." Ledger accounts are used by five who reported that the sales account is credited and by the one who reported that the purchases account is credited. The remaining fourteen who stated that sales is credited, record withdrawals of merchandise with sales records other than a sales account.

Managers' Salaries. Managers of twenty grocery stores--eleven proprietorships and nine partnerships--receive salaries. Only eleven of the twenty managers receiving salaries make any debit entry for the amount. Of these eleven managers, six stated that the personal or drawing account is debited; four, salaries expense account; and one, the withdrawals account.

## V. Profit and Loss Items

Income. Only three different income items were reported by the sixty-five grocery stores. These are: sales, sales returns and allowances, and purchases discounts. The number of stores reporting records for income items is given in Table XXV.

Sales records are maintained by all seventeen stores using ledgers and by forty-five of the forty-eight stores not using ledgers. Each of the seventeen stores using ledgers has an account in the ledger for sales.

TABLE XXV

INCOME ITEMS ON WHICH RECORDS ARE MAINTAINED

(17 Stores Using Ledgers and 48 Stores Not Using Ledgers)

| Income Items | Number of Stores | | |
|---|---|---|---|
| | With Ledger Accounts | Without Ledgers | Total |
| Sales . . . . . . . . . . . . . . . | 17 | 45 | 62 |
| Sales Returns and Allowances . . | 5 | 5 | 10 |
| Purchases Discounts . . . . . . . | 3 | 1 | 4 |

Table XXVI shows the method used by the forty-eight stores without ledgers for recording sales, sales returns and allowances, and purchases discounts.

TABLE XXVI

METHODS OF RECORDING SALES, SALES RETURNS AND ALLOWANCES, AND PURCHASES DISCOUNTS

(48 Stores Not Using Ledgers)

| Methods of Recording | Number of Stores | | |
|---|---|---|---|
| | Sales | Sales Returns and Allowances | Purchases Discounts |
| Column in Combined Cash Journal | 13 | 3 | 1 |
| In Day Book . . . . . . . . . . | 12 | - | - |
| In Sales Book . . . . . . . . . | 5 | - | - |
| Separate page in a book . . . . | 5 | - | - |
| In General Journal . . . . . . | 3 | 1 | - |
| On Daily Cash Balance Slip . . | 3 | 1 | - |
| In Cash Book . . . . . . . . . | 2 | - | - |
| On Cash Register Tape . . . . . | 1 | - | - |
| On Adding Machine Tape . . . . | 1 | - | - |
| Total | 45 | 5 | 1 |

Thirteen of the forty-five stores reporting sales records have the information in a column of the combined cash journal, while twelve others enter the sales information in day books. Two of the twelve store managers using day books have special systems. One does not record sales separately but arrives at the amount of daily sales by adding the total cash receipts and paid outs and subtracting the cash on hand at the beginning of the day. The balance he calls "Daily Sales." The other records the amount of daily sales on a card. At the end of the week, he transfers the total to the day book. Miscellaneous methods of recording sales are used by the remaining twenty not using ledgers.

Sales Returns and Allowances are recorded by five of the seventeen stores using ledgers. Four of the five have special accounts for sales returns and allowances, while one other debits the sales account for this information.

Five of the forty-eight stores not using ledgers record sales returns and allowances. Three of these five use columns in the combined cash journal; one enters the information in the general journal; and another, on a daily cash balance slip.

Purchases Discounts Accounts are used by three of the seventeen stores with ledgers. A majority of the other store managers reported that, since the amount of the invoice minus the discount is recorded, no separate record is made for the discount. Only one of the forty-eight stores not using ledgers records Purchases Discounts. This manager uses a column in the combined cash journal.

Of the sixty-five grocery stores, only fourteen separate sales by produce, meat, and grocery departments. One of the fourteen stores separates meat sales only.

Forty-nine of the sixty-five grocery store managers reported that they take advantage of all purchase discounts offered. Five store managers stated that they take advantage of some discounts, and eleven reported that they did not take advantage of any discounts.

Forty-seven of the forty-nine store managers taking advantage of purchase discounts reported a system of keeping up with due dates for receiving the discounts. Of the forty-seven reporting systems of keeping up with due dates, twenty file the invoices by dates; twenty-one pay cash; and four pay all invoices weekly. One of the two remaining stores "checks the invoices" and the other deals with only one company that gives discounts.

Cost and Expense Items. An inspection of the data revealed that the seventeen grocery stores using ledgers maintain more complete records for cost and expense items than for any other group of accounts. One store does not classify expense items, but records them all in one account called "Miscellaneous Expense." Items recorded in this account include: Delivery, Depreciation on Furniture and Fixtures, Depreciation on Delivery Equipment, Heat, Light, Water, Expired Insurance, Losses on Bad Debts, Rent, Repairs, Salaries, Supplies Used, Taxes, Telephone and Telegraph.

Table XXVII on page 67 gives the expense items recorded by the seventeen stores using ledgers and the forty-eight stores not using ledgers.

A record of some expenses is made by each of the forty-eight stores not using ledgers. The record systems vary from columns in a combined cash journal to adding machine tape and a daily cash balance slip. Table XXVIII gives in summary form the expense items recorded and the record systems used by the forty-eight stores without ledgers. The column headed "Others" includes records made on adding machine tape, daily cash

TABLE XXVII

COST AND EXPENSE ITEMS FOR WHICH RECORDS ARE MAINTAINED

(17 Stores Using Ledgers and 48 Stores Not Using Ledgers)

| Cost and Expense Items | Number of Stores | | |
|---|---|---|---|
| | With Ledger Accounts | Without Ledgers | Total |
| Purchases . . . . . . . . . . . . . | 17 | 37 | 54 |
| Heat, Light, and Water . . . . . | 16 | 37 | 53 |
| Telephone and Telegraph . . . . . | 16 | 36 | 52 |
| Taxes . . . . . . . . . . . . . . | 16 | 33 | 49 |
| Supplies Used . . . . . . . . . . | 15 | 32 | 47 |
| Expired Insurance . . . . . . . . | 14 | 33 | 47 |
| Repairs . . . . . . . . . . . . . | 15 | 30 | 45 |
| Salaries . . . . . . . . . . . . . | 15 | 27 | 42 |
| Rent . . . . . . . . . . . . . . | 13 | 27 | 40 |
| Advertising . . . . . . . . . . . | 15 | 20 | 35 |
| Delivery . . . . . . . . . . . . . | 13 | 20 | 33 |
| Depreciation on Furniture and Fixtures . . . . . . . . . . . | 12 | 21 | 33 |
| Depreciation on Delivery Equipment . . . . . . . . . . . . . | 9 | 9 | 18 |
| Losses on Bad Debts . . . . . . . | 4 | 9 | 13 |
| Miscellaneous . . . . . . . . . . | 2 | 7 | 9 |
| Purchases Returns and Allowances | 5 | 3 | 8 |
| Interest Expense . . . . . . . . | 2 | 2 | 4 |
| Donations . . . . . . . . . . . . | - | 4 | 4 |
| Laundry and Linen Service . . . . | - | 4 | 4 |
| Sales Tax and Taxable Items . . . | - | 4 | 4 |
| Employee Discount . . . . . . . . | 1 | 1 | 2 |
| Salary Advances . . . . . . . . . | 2 | - | 2 |
| Extermination . . . . . . . . . . | - | 2 | 2 |
| Refrigeration Service and Supplies | - | 2 | 2 |
| Postage . . . . . . . . . . . . . | - | 1 | 1 |
| Saw Service . . . . . . . . . . . | - | 1 | 1 |
| Trash . . . . . . . . . . . . . . | - | 1 | 1 |
| Freight In . . . . . . . . . . . | 1 | - | 1 |

balance slip, cards and later transferred to a day book, incoming invoices, and sales tickets.

Seven store managers not using ledgers reported the following expense items which were not included in the questionnaire: Donations, Laundry and Linen Service, Sales Tax and Taxable Items, Extermination, Refrigeration Service and Supplies, Postage, Saw Service, and Trash. The systems used to record these expenses are also given in Table XXVIII.

Seven of the forty-eight stores not using ledgers do not classify expenses. Three of these seven stores list the amount paid, to whom paid, and for what paid under the heading "Paid Outs," while two other stores record the information on daily cash balance slips. The two remaining stores maintain a file of invoices as the only record for expenses.

Delivery Service. Thirty-four of the sixty-five grocery stores reported a delivery service. Thirty-three stores reported a delivery expense record. Further analysis of the data revealed that only thirty-one of the sixty-five stores reported both delivery service and delivery expense records. The variations in the answers received for these two questions may be accounted for in several ways. In one instance, the owner stated he does not have a delivery service, but when the outside bookkeeper was contacted, he reported that a delivery expense account is used. Another owner said that he does not use a delivery service, but he included delivery expense in the group of expenses for which records are made. Three stores have delivery service, but the records for expenses are not classified by expenses; therefore, these stores are not included among the stores reporting that a record of delivery expense items is maintained.

TABLE XXVIII

SYSTEMS USED FOR RECORDING COST AND EXPENSE INFORMATION BY STORES NOT USING LEDGERS

(Forty-eight Stores)

| Cost and Expense Items | Number of Stores | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Combined Cash Journal | Day Book | General Journal | Cash Payments Journal | Separate Book | Separate Expense Page | Income Tax Blank | Others* | Total |
| Purchases | 13 | 7 | 4 | 3 | 2 | 2 | - | 6 | 37 |
| Heat, Light, and Water | 14 | 7 | 4 | 3 | 1 | 3 | - | 5 | 37 |
| Telephone and Telegraph | 13 | 8 | 4 | 3 | 1 | 3 | - | 4 | 36 |
| Expired Insurance | 11 | 8 | 4 | 3 | 1 | 2 | - | 4 | 33 |
| Taxes | 10 | 8 | 4 | 3 | 1 | 3 | - | 4 | 33 |
| Supplies Used | 11 | 8 | 3 | 3 | 1 | 3 | - | 3 | 32 |
| Repairs | 12 | 7 | 4 | 2 | 1 | 2 | - | 2 | 30 |
| Salaries | 11 | 6 | 3 | 2 | 1 | 1 | - | 3 | 27 |
| Rent | 11 | 6 | 3 | 2 | - | 2 | - | 3 | 27 |
| Depreciation on Furniture and Fixtures | 4 | 1 | 3 | 2 | - | - | 11 | - | 21 |
| Delivery | 10 | 3 | 3 | 1 | 1 | 1 | - | 1 | 20 |
| Advertising | 8 | 5 | 3 | 2 | - | 1 | - | 1 | 20 |
| Depreciation on Delivery Equipment | 2 | 2 | 3 | 1 | - | - | 1 | - | 9 |
| Losses on Bad Debts | 1 | 1 | 1 | - | - | 1 | 4 | 1 | 9 |
| Miscellaneous | 6 | - | - | - | - | 1 | - | - | 7 |
| Donations | 3 | - | - | - | - | - | - | 1 | 4 |
| Laundry and Linen Service | 2 | - | - | - | - | - | - | 2 | 4 |
| Sales Tax and Taxable Items | 3 | - | - | - | - | - | - | 1 | 4 |
| Extermination | - | - | - | - | - | - | - | 2 | 2 |
| Refrigeration Service and Supplies | 1 | - | - | - | - | - | - | 1 | 2 |
| Purchases Returns and Allowances | 1 | 1 | 1 | - | - | - | - | - | 3 |
| Postage | - | - | - | - | - | - | - | 1 | 1 |
| Employee Discount | 1 | - | - | - | - | - | - | - | 1 |
| Saw Service | - | - | - | - | - | - | - | 1 | 1 |
| Trash | 1 | - | - | - | - | - | - | - | 1 |

* Records made on adding machine tape, daily cash balance slips, cards, incoming invoices, and sales tickets.

Payrolls. Forty-three of the sixty-five grocery stores reported that a payroll is prepared. Thirty-nine of these stores reported that the employees are paid by cash; four stated that they are paid by check. Of the remaining twenty-two stores, eleven have no employees; six have one part-time employee; and five, have two persons operating the business. At least three of these five stores are operated by the owner and his wife.

Of the forty-three grocery stores preparing a payroll, forty-two prepare the payroll weekly, and one, monthly. Forty of the forty-three payrolls are prepared by the managers, while the remaining three are prepared by bookkeepers.

Sales to Employees. Thirty-seven of the sixty-five store managers answered the question, "How are sales made to employees?" Twenty-one of these reported that sales are made at a discount; eleven, at the selling price; and four, at cost. The other manager stated that on special quantities he sells to the employees at cost.

Twenty-seven of the managers reported that sales to employees are handled as an increase in sales. Two others carry the sales as a reduction to purchases.

Salary Advances To Employees. Only sixteen of the sixty-five store managers reported that salary advances are made to employees. These salary advances are recorded by five stores as an increase in salary expense; by four, on a sales slip; and by one, as a memorandum. The other six stores do not make a written record of salary advances but "just remember them."

Separate Records for Income Tax. Thirty-nine of the sixty-five grocery stores reported that separate records are made for expenses that are deductible from income tax. Only twenty-nine of these thirty-nine managers explained the system used. Twelve managers use separate columns in a combined cash journal; eight record the information in a "separate place in a book." Table XXIX gives the answers received from the twenty-nine managers who explained the method used to separate deductible and non-deductible income tax expenses.

TABLE XXIX

METHODS OF SEPARATING DEDUCTIBLE AND NON-DEDUCTIBLE INCOME TAX EXPENSES

(Twenty-nine Stores)

| Method Used | Number of Stores |
|---|---|
| Columns in Combined Cash Journal | 12 |
| Separate place in the "book" . . | 8 |
| In Expense Book . . . . . . . . | 2 |
| In Separate Ledger Account . . . | 1 |
| In Separate Book . . . . . . . . | 1 |
| In Separate File . . . . . . . . | 1 |
| By Invoices . . . . . . . . . . | 1 |
| Others* . . . . . . . . . . . . | 3 |
| Total | 29 |

* One manager said, "the bookkeeper does this;" one, "just go through and add up deductible expenses;" and the other said, "all are deductible."

## CHAPTER IV

## SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### SUMMARY OF FINDINGS

Managers of the sixty-five independent grocery stores--fifty-two sole proprietorships and thirteen partnerships--in Morehead Township of Greensboro, North Carolina, were interviewed for the study. The purpose of the study was to determine the bookkeeping practices of small independent grocery stores.

Of the sixty-five independent grocery stores, forty-six have one or two full-time workers; fourteen have three or four; and five have more than five full-time workers. The size of the sole proprietorships, as determined by number of personnel, ranges from stores operated by one person to a store with eight full-time and twelve part-time employees. The number of personnel in partnerships ranges from one full-time and one part-time employee to one store with twenty-one full-time and eight part-time employees.

In fifty-five of these sixty-five stores, the books or records are kept by regular store personnel, fifty-two of whom are owners or partners. Only ten of these fifty-two owner-bookkeepers have had bookkeeping training. Five received training in high school; three, in business college; and two, in college. Only one store has a full-time bookkeeper.

The fact that bookkeeping for small, independent grocery stores in Greensboro is done by managers or members of the owner's family would appear to be somewhat typical of small businesses in other communities.

Similar investigations of bookkeeping practices in small businesses made in Minster, Ohio; Terre Haute, Indiana; and Iowa City, Iowa; revealed that the largest percentages of bookkeepers also consist of owners or managers.

Only eight of the sixty-five grocery stores use double entry bookkeeping systems. Other stores seem to have record systems with some features which involve debit and credit entries. Eight stores also have trial balances prepared, but only four of these stores have a double entry set of books.

Forty-four stores--thirty-three proprietorships and eleven partnerships--use only one book of original entry; twelve stores--ten proprietorships and two partnerships--use two or more books of original entry; and nine proprietorships use no books of original entry. Of the forty-four stores using one book of original entry, nineteen use a day book; and eighteen, a combined cash journal. Three of the twelve stores using two or more books of original entry use both day books and combined cash journals.

General ledgers are used only by seventeen stores. None of the stores use subsidiary ledgers for accounts receivable or accounts payable. The forty-one stores which extend credit and have a need for accounts receivable records use some substitute for an accounts receivable ledger. The most frequently used systems are files of sales tickets and separate books for each customer which were reported by twenty-four stores and fourteen stores respectively. Sixty-two stores use a file of invoices as the substitute for an accounts payable ledger. The other three stores pay cash for all purchases.

Studies made in other communities which gave information regarding the combined cash journal reported that more than 50 per cent of the businesses contacted use the combined cash journal. There is great variation in the other books or original entry used by the stores included in the Greensboro Study and the businesses contacted for studies in other communities.

General ledgers are used more frequently by businesses contacted for studies in other communities than they are by the grocery stores of the Greensboro Study.

At least one financial statement is prepared by sixty-four of the sixty-five stores. Sixty-three prepare profit and loss statements in some form. Twenty-nine have balance sheets prepared, while eight stores take trial balances. Only eight stores have three statements made--profit and loss statements, balance sheets, and trial balances. Twenty stores make profit and loss statements and balance sheets. Thirty-five stores prepare profit and loss statements only, while one store prepares only a balance sheet.

The findings of this study are consistent with other studies reviewed in that most small businesses prepare profit and loss statements. However, the small independent grocery stores in Greensboro make less use of trial balances than small businesses reported by other studies.

Only forty-two store managers reported that any use is made of financial statements. Some of the forty-two managers gave only one use; others gave two or more. Forty store managers reported that financial statements are used for tax purposes while nine stated that these statements are used for credit ratings. Four managers stated that financial statements are used for comparisons, and four others answered for personal use.

Assets for which records are most commonly used are cash and merchandise inventory. Sixty-four stores have merchandise inventory records, and sixty- four have cash records. More than one-half of the stores, or all which extend credit, maintain records for accounts receivable. Furniture and fixtures information is also recorded by more than 50 per cent of the stores. Less than one-third have records for delivery equipment, and store supplies, while less than one-fifth have prepaid insurance, petty cash, reserve for bad debts, reserve for depreciation on furniture and fixtures, and reserve for depreciation on delivery equipment records.

The physical count method of inventory is used by sixty-three stores. Of the two remaining stores, one uses an "estimated" method, and one does not take inventory. Thirty of the sixty-four stores use cost price for taking inventory; twenty-four use retail price; eight use retail price less discount, and two use both cost and retail methods. Fifty-one stores take inventory annually.

Accounts payable is the only liability item reported by more than half of the sixty-five stores. Sixty-two stores have records for accounts payable, but forty-eight of these stores have the file of invoices as the only record. The remaining three stores, which pay cash for all purchases, have no need of accounts payable records. Less than one-fourth of the stores use liability accounts for sales tax payable, social security taxes payable, employee payroll deductions payable, and employer payroll taxes payable. Less than one-tenth have records for unemployment insurance payable, mortgages payable, notes payable, and accrued interest payable.

Only thirty-five stores--fifteen with ledgers and twenty with other record systems--reported that any record of net worth items is made. Of the nineteen stores which maintain records for only one net worth item, twelve record personal or drawing information; four, capital information; two, profit and loss summary items, and one, withdrawals. Ten stores reported that records are maintained for two net worth items; while six reported records for three net worth items. In all, only seventeen of the thirty-five stores record information under the caption "capital."

Net worth information is recorded in a variety of ways by the twenty stores without ledgers. Nine use columns in a combined cash journal, three record the information in a day book, while two others record capital information on income tax blanks only, but use sales slips or personal expense books for drawing or personal information. Of the remaining six stores, one uses a separate book for capital and drawing, one records capital information on the personal bank account check stub, another uses a special section of a book, and three stores gave no information regarding the record system used to record net worth items.

Only eighteen store managers reported that they know how the original investment was recorded.

Thirteen of the seventeen store managers using a general ledger reported that net profit or loss is transferred to some net worth account at the end of the fiscal period. Of the thirteen, five transferred net profit or loss to the capital account; three, to the profit and loss summary account; and one, to the drawing account. Of the remaining four stores using a general ledger, one transfers the amount of net profit or net loss to the income tax blank only; one, to the balance sheet only, and two others do not know to what account it is transferred.

Nineteen of the forty-eight managers not using a general ledger volunteered information concerning the transferral of net profit or net loss at the end of the fiscal period. Only eight of these reported that the information is transferred to records of net worth items while nine others indicated that it is transferred to the income tax blank only.

Forty-three of the sixty-five grocery store managers stated that withdrawals of cash or merchandise are made, but only thirty-two record these withdrawals. Nine maintain ledger accounts and debit drawing or withdrawals accounts. Seventeen of the twenty-three managers without ledgers record withdrawals with drawing or withdrawals records, while each of the remaining stores uses a different method.

Six of the twenty stores which reported that a "credit" entry for withdrawals is made use ledger accounts. Five of these six credit the sales account, and one credits the purchases account. The other fourteen not using ledgers record withdrawals with the sales records.

Managers of twenty grocery stores--eleven proprietorships and nine partnerships--receive salaries. Only eleven of the twenty managers, six of whom are partnership managers, reported that records are made of the salaries.

Only three different income items were reported by the sixty-five stores. These are sales, sales returns and allowances, and purchases discounts. Sixty-two store managers reported that sales records are made. Each of the seventeen stores with a general ledger has an account for sales while the forty-five stores without general ledgers record the information regarding sales in a variety of ways. Ten stores reported that sales returns and allowances records are maintained, and four have purchase discount records.

Some system for recording cost and expense information is used by all of the sixty-five stores; yet not any one cost or expense item was reported by all sixty-five stores. Fifty-four stores maintain records for purchases; fifty-three, for heat, light, and water; and fifty-two, for telephone and telegraph. More than forty stores record information for taxes, supplies, insurance, repairs, salaries, and rent. Thirty or more stores reported records for advertising, delivery, and depreciation on furniture and fixtures. Records for other cost and expense items were reported by less than one-third of the stores.

An outside bookkeeper is employed to make out the income tax return for forty-four grocery stores. In fifty-five of the sixty-five grocery stores, the books or records are kept by regular store personnel, but only twenty of these fifty-five bookkeepers prepare the annual income tax return.

Forty-eight of the sixty-five stores maintain bank accounts; forty-one stores have the bank statement reconciled regularly. Only one of the stores using a bank account deposits all cash receipts without making payments from the receipts. Forty-six stores make payments with cash and checks; nineteen, make all payments with cash.

Twelve of the forty-one stores extending credit maintain separate records for cash receipts from charge customers and from cash sales.

Fifty-eight of the sixty-five grocery stores use cash registers, but only thirty-six stores have machines equipped with audit tape. Twenty-nine of the stores use the audit tape in proving cash.

Sixty-four of the sixty-five store managers reported that printed forms are used. Purchase invoices are used by more grocery stores than any other form. Sixty-three managers reported that purchase invoices are used. Other printed forms reported used by more than half of the sixty-five stores were checks and check books, deposit tickets, and sales slips. All forty-eight of the stores maintaining bank accounts reported the use of checks and check books and deposit tickets.

## CONCLUSIONS

On the basis of the findings of this study, there appears to be no demand for full-time bookkeepers in small, independent grocery stores of Greensboro, North Carolina. Regular store personnel, fifty-two of whom are owners or partners, perform the bookkeeping duties in fifty-five of the sixty-five grocery stores.

There seems to be no uniformity with regard to record systems and books of original entry used, or bookkeeping information recorded by the small grocery stores. Although a detailed analysis was not made of the actual nature and structure of the books of original entry used, if the titles of these books suggest the content, records from these books would appear to be inadequate. The fact that only eleven of the fifty-five regular store personnel who serve as bookkeepers have had bookkeeping training would appear to be in part, at least, responsible for the inadequate records maintained by the small, independent stores.

The only stores with reasonably adequate records seem to be the eight stores using double entry bookkeeping. Since the record systems used by the fifty-seven stores with single entry have no uniformity and, in many cases, do not provide for recording all transactions, it appears that the present single entry systems are inadequate. The inadequacy in the record keeping systems may not necessarily be in the single entry system; however, the stores with inadequate records are using some form of single entry records.

In the main, even the seventeen stores using a general ledger, or book of accounts, do not have accounts necessary for balance sheet purposes. The stores without a general ledger are more deficient in this respect. The only asset items for which records are maintained by a majority of the stores are cash and merchandise inventory. In many instances, records for these items appear to be unsystematic and incomplete. The fact that only forty-eight of the sixty-five stores use bank accounts, together with the fact that records of cash receipts and payments, in many cases, are maintained only in summary in the form of daily balances would indicate that cash controls are not adequate. Further evidence of the inadequacy of these records is found in the merchandise inventory records. Managers in forty-three stores withdraw merchandise for personal use, but only thirty-two managers maintain records for the withdrawals.

The fact that only twenty-nine of the sixty-five stores have balance sheets prepared may be accounted for in part by the fact that records for assets, liabilities, and net worth items are incomplete and unsystematic.

Although some form of statement of profit and loss was reported by all but one of the stores, the accuracy and adequacy of the statements would appear to be doubtful in the majority of cases due to the inadequacy of the underlying records. The bookkeeping systems, in the main, do not provide for classification and analysis of income and expense items. All stores reported that some record of cost and expense items is maintained, but no single cost or expense item was reported by all sixty-five stores.

Only a very few owners and managers of small, independent grocery stores of Greensboro use financial statements for managerial purposes. This evidence of lack of use of financial statements for managerial purposes may be accounted for by the fact that records are not providing data for statements which could be used with any degree of confidence.

Approximately one-third of the store managers prepare their own annual income tax return, while outside bookkeepers are employed to make out the returns for the other stores. It is not known whether managers choose to pay for these services rather than prepare their own tax returns, or whether they do not understand the procedure. At any rate, it would appear that they should have a knowledge of income tax procedures.

The inadequacies of record keeping systems in small independent grocery stores seems to be evidence of a lack of understanding on the part of managers of the importance of records as a basis of scientific management and a lack of knowledge of the principles and practices in bookkeeping.

Although it is the duty of schools to investigate and use the practices and materials of local businesses as a basis for training students, the findings of this study of bookkeeping practices used in small independent grocery stores would not warrant adopting the bookkeeping systems used in the school service area in Greensboro as a basis for training.

Bookkeeping training for small independent grocery stores should be one aspect of the training for small business management, or an aspect of the training program for distributive workers in grocery stores rather than limited specialized training for the job of bookkeeping.

RECOMMENDATIONS

As a result of the findings presented in this investigation, and in light of the preceding conclusions, it appears that:

1. Managers of small independent stores need to have a thorough understanding of the importance of complete records for scientific control of their businesses and a knowledge of the fundamentals of record keeping in order to interpret the condition of their businesses.

2. If managers consider the single entry system to be appropriate for small businesses, the present systems in use should be refined to provide complete records.

3. Until the single entry systems can be refined and modified, it is recommended that a double entry system which does provide for more adequate records be used.

4. Since the balance sheet is considered to be of paramount importance in business and can be prepared from detailed records of assets, liabilities, and net worth, it is recommended that the systems now in use provide these details.

5. Managers either should take advantage of opportunities available for bookkeeping instruction which are now offered by local business colleges and the Greensboro Evening College, or should secure the aid of the local Merchants' Association, the adult training program, or the high school in organizing bookkeeping classes for managers.

6. If managers of small businesses are not financially able to employ a regular bookkeeper, or if they do not wish to have another person responsible for the bookkeeping duties, an accountant or some other qualified person should be employed to install a bookkeeping system

that would provide all the necessary information for management and for tax and statement purposes.

7. The high school curriculum for business education for management, for distributive education, and for certain diversified occupations should include bookkeeping appropriate for various types of small retail establishments since there is little demand for full-time bookkeepers in small businesses.

8. Although specific modifications in the content of the present bookkeeping courses cannot be justified on the basis of the findings of this study, bookkeeping instructors should stress the importance of maintaining adequate and accurate records; also possible adaptations of the principles appropriate to the needs of independent grocery stores and other small business enterprises.

9. Instructors responsible for the bookkeeping training for managers of small businesses should make greater use of the practice sets illustrative of record systems for a variety of small businesses.

10. Further study based on a careful analysis of the needs of various businesses should be made of the materials available that would provide for records of all necessary information. An effective method of keeping businessmen informed of the availability of these materials should be devised.

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APPENDIX

QUESTIONNAIRE

I. Firm Description:

Firm Name ______________________________ Address ____________________
Type of ownership: Proprietorship ___; Partnership ___; Corporation ___
How many persons devote full time to operating the business? __________
How many part-time employees (excluding outside bookkeeping agency) do you have? ______________________________
Do you have a full-time bookkeeper? . . . . . . . . . . . . . Yes __ No ___
Who is your bookkeeper?

______ Owner or one of owners ____________________________
______ Outside bookkeeper ______________________ Address____________
______ Outside agency __________________________ Address____________
______ Member of the family ______ Who ____________________________
______ Another employee ________________________________________
______ Others ____________________________________________

If an outside bookkeeper or agency--who keeps the records that are given to the bookkeeper or agency? ____________________________
If member of the family--does he perform other duties in the store? Yes ____ No ____
If yes, what duties? ____________________________________
If another employee is the bookkeeper or recordkeeper, was he employed primarily to keep records or books? . . . . . . . . . . . . Yes ___ No ___
Has the bookkeeper had any bookkeeping training? . . . . . . Yes ___ No ___
Where did the bookkeeper receive his bookkeeping training?

______ College
______ Business College
______ Evening College
______ High School
______ Other

II. Financial Statements and Reports:

Are the following statements prepared?
Trial Balance . . . . . . . . . . . Yes ___ No ___ How often? __________
Balance Sheet . . . . . . . . . . . Yes ___ No ___ How often? __________
Profit and Loss (Income and Expense) Yes ___ No ___ How often? __________
Who prepares these statements? ________________________________
Are books closed when financial statements are prepared? . . Yes___ No ___
What uses do you make of financial statements? ____________________
____________________________________________________________
Is the accrual basis or cash basis used? __________________________
Do you extend credit? . . . . . . . . . . . . . . . . . . . . Yes ___ No __

Who prepares the following tax reports?
Withholding records and quarterly withholding returns ______________
Quarterly reports for employee Old Age Benefits for Social Security ____
Federal unemployment insurance compensation reports ______________
Quarterly income tax estimates ______________
Income tax returns ______________
Is the bank statement reconciled? . . . . . . . . . . . . . . . Yes __ No __
If so, how often? ______________
Who reconciles the bank statement? ______________

III. Books, Ledgers, Machines, and Forms

Do you keep a double entry set of books? . . . . . . . . . . . Yes __ No __
What journals do you use?
______ Day Book
______ General Journal
______ Combined Cash Journal with Special Columns
______ Cash Receipts and Payments Journal
______ Cash Receipts
______ Cash Payments
______ Purchases
______ Sales
______ Others ______________
What ledgers do you use?
______ General
______ Bound ______ Loose-leaf
______ Accounts Receivable
______ Bound ______ Loose-leaf
If no, what do you substitute for it?
______ Book for each customer
______ File of sales tickets
______ Card System
______ Others ______________
______ Accounts Payable
______ Bound ______ Loose-leaf
If no, what do you substitute for it?
______ File of Invoices
______ Others ______________
______ Others ______________
What machines does the bookkeeper use? ______________
Which machines could be learned on the job? ______________
What business forms do you use?
______ Check and check book
______ Cashiers checks
______ Certified checks
______ Petty cash Vouchers
______ Cash Over and Short Vouchers
______ Detailed Audit Strip
______ Daily Balance Slip
______ Deposit Tickets
______ Receipts for Cash Paid Out
______ Receipts for Cash Received
______ Sales Slip
______ Credit Memorandum
______ Statement of account
______ Invoices
______ Purchase Orders
______ Merchandise Inventory Sheets
______ Payroll Forms
______ Fixed Asset Record Cards
______ Stock Certificates
______ Bills of lading
______ Trade Acceptances
______ Money Orders
______ Notes Receivable
______ Notes Payable
______ Others ______________
______________

IV. Balance Sheet Items:

A. Assets

Do you use the following asset accounts? (If no, what is the source of Information for the Balance Sheet if one is prepared?)

Cash . . . . . . . . . . . . . . . . . . . . . Yes ___ No ________________
Petty Cash . . . . . . . . . . . . . . . . . . Yes ___ No ________________
Accounts Receivable . . . . . . . . . . . . . Yes ___ No ________________
Reserve for Bad Debts . . . . . . . . . . . . Yes ___ No ________________
Notes Receivable . . . . . . . . . . . . . . Yes ___ No ________________
Merchandise Inventory . . . . . . . . . . . . Yes ___ No ________________
Furniture and Fixtures . . . . . . . . . . . Yes ___ No ________________
Reserve for Depreciation on Furniture and Fixtures . . . . . . . . . . . . . . . . . . Yes ___ No ________________
Delivery Equipment . . . . . . . . . . . . . Yes ___ No ________________
Reserve for Depreciation on Delivery Equipment . . . . . . . . . . . . . . . . . Yes ___ No ________________
Prepaid Insurance . . . . . . . . . . . . . . Yes ___ No ________________
Store Supplies . . . . . . . . . . . . . . . Yes ___ No ________________
Others ____________________________________________

Are cash receipts from customers entered separately from cash sales receipts? . . . . . . . . . . . . . . . . . . . . . . . . Yes __ No __
Do bank deposits represent total cash receipts? . . . . . . . . Yes __ No __
Do you prove cash? . . . . . . . . . . . . . . . . . . . . . . . Yes __ No __
If so, how often? Daily ___; Weekly ___; Monthly ___; Other ___________
How many cash registers do you have? ______________________
Are they equipped with audit tape? . . . . . . . . . . . . . . . Yes __ No __
Do you use the audit tape in proving cash? . . . . . . . . . . Yes __ No __
How are cash payments handled?

______ Cash with memo ______ Voucher Check
______ Check ______ Other ______________________

Is cash over and short recorded? . . . . . . . . . . . . . . . . Yes __ No __
If so, how? ____________________________________________
How long do you carry a customer's account before it becomes a bad debt?
____________________________________________
If a reserve for bad debts account is used, on what basis do you calculate the reserve? ______________________________
What method of inventory do you use? Physical Count __; Estimated __; Perpetual __
Do you use the cost or retail price? ______________________
If physical count method is used, how often do you take inventory? ______
If the estimated method is used, what basis is used for estimating? _____

B. Liabilities

Do you use the following liability accounts? If no, what is source of information for the balance sheet, if one is made?

Notes Payable . . . . . . . . . . . . . . . Yes ___ No ________________
Accounts Payable . . . . . . . . . . . . . . Yes ___ No ________________
Sales Tax Payable . . . . . . . . . . . . . Yes ___ No ________________
Employee Payroll Deductions . . . . . . . . Yes ___ No ________________
Employer Payroll Taxes Payable . . . . . . . Yes ___ No ________________
Social Security Taxes Payable . . . . . . . Yes ___ No ________________
Federal Unemployment Insurance Payable . . . Yes ___ No ________________
Accrued Interest Payable . . . . . . . . . . Yes ___ No ________________
Mortgages Payable . . . . . . . . . . . . . Yes ___ No ________________
Others ____________________________________________

C. Proprietorship or Capital

Do you use the following Proprietorship Accounts? If not, what is the source of information for balance sheet if one is made?

Capital . . . . . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Drawing . . . . . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Surplus . . . . . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Profit and Loss . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Others ______________________________________________

How is the original investment recorded ? __________________

To what proprietorship account is net profit or loss transferred at the end of the fiscal period? ______________________________

What account is debited for withdrawals by owners? ______________

In what account are merchandise withdrawals by owner credited? __________

Does the owner receive a salary? . . . . . . . . . . Yes ___ No __________

If so, what account is debited? ____________________________

V. Profit and Loss Items:

A. Income

Do you use the following income accounts? (If no, what is the source of information for the profit and loss statement, if one is prepared?)

Sales . . . . . . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Sales Returns and Allowances . . . . . . . . . . . Yes ___ No __________

Purchases Discounts . . . . . . . . . . . . . . . . . Yes ___ No __________

Interest Income . . . . . . . . . . . . . . . . . . . Yes ___ No __________

Others ______________________________________________

Are sales separated by departments as grocery, produce, and meat? Yes__No__

Do you take advantage of the purchases discounts offered? . . . . Yes__No__

What system is used for due dates for discounts and for notes?__________

B. Cost and Expense

Do you use the following Cost and Expense Accounts? (If no, what is the source of information for Profit and Loss Statement?)

Advertising . . . . . . . . . . . . Yes ___ No ____________________

Delivery . . . . . . . . . . . . . Yes ___ No ____________________

Depreciation on Furniture and Fixtures Yes __ No ____________________

Depreciation on Delivery Equipment Yes ___ No ____________________

Heat, Light, and Water . . . . . . Yes ___ No ____________________

Interest . . . . . . . . . . . . . Yes ___ No ____________________

Expired Insurance . . . . . . . . . Yes ___ No ____________________

Losses on Bad Debts . . . . . . . . Yes ___ No ____________________

Rent. . . . . . . . . . . . . . . . Yes ___ No ____________________

Repairs . . . . . . . . . . . . . . Yes ___ No ____________________

Salaries . . . . . . . . . . . . . Yes ___ No ____________________

Supplies Used . . . . . . . . . . . Yes ___ No ____________________

Taxes . . . . . . . . . . . . . . . Yes ___ No ____________________

Telephone and Telegraph . . . . . . Yes ___ No ____________________

Purchases . . . . . . . . . . . . . Yes ___ No ____________________

Purchases Returns and Allowances . Yes ___ No ____________________

Employee Discount . . . . . . . . . Yes ___ No ____________________

Salary Advances . . . . . . . . . . Yes ___ No ____________________

Others ______________________________________________

Do you have a delivery service? . . . . . . . . . . . . . . . Yes ___ No ___

Are employees paid by : cash? ____ check? ____ other? ______________

Are sales to employees made at: cost ___; selling price ___; discount on sales ___
Are these sales handled as a reduction to purchases? ___ increase in sales?___
Is the payroll prepared weekly? ___ Biweekly? ___ Monthly? ___ Other? ___
Who prepares the payroll? ________________________________________
Are salary advances made to employees? . . . . . . . . . . . . Yes ___ No __
If so, how are these recorded? ____________________________________
Are separate records kept for expenses that are deductible from income tax?. . . . . . . . . . . . . . . . . . . . . . . . . Yes ___ No __
If so, how? ______________________________________________________