

Chapter XXI

Effective Accounting Methods

ESSENTIAL TO THE SOCIAL AGENCY. Every social agency has to handle money. Accurate and adequate methods of accounting for all money received and spent and of showing continuously the agency's financial condition are essential to carrying on its work intelligently. The work of the agency must be planned and administered with a knowledge of the funds available and likely to be available for the expenditures which have been made and are likely to be made. Dollars are one of the units for measuring service. The executive who would control the service of his organization must also control its finances.

The administrators of public agencies are enjoined by law, under heavy penalties, to keep their expenditures within the amounts and purposes of their appropriations. In order to keep within those limitations accurate, thorough, and current financial reports and controls are necessary. These are usually provided by the governmental accounting authority.

To the board of directors of the private agency, of which we shall speak primarily in this chapter, clear information regarding the agency's financial status is essential; the trustees of contributed funds must know continuously the status of those funds. Staff members also should be clearly informed of the agency's financial situation and should act as partners in the effort to secure economy and efficiency in expenditure.

Furthermore, careful accounting, with consequent reports on the income and outgo of funds, is the right and privilege of contributors who have supplied funds, whether they have given directly to the agency or through the community chest. The continuance and enlargement of public support rests to a considerable extent on the confidence of the community that funds are properly handled. This confidence is produced not only by the competence of the service rendered but also by adequate financial information.

A thoroughgoing accounting system, sufficiently detailed to give the necessary information to meet these needs yet sufficiently simple to keep to a minimum the cost of compiling the data, is essential to the conduct of the social agency.

ACCOUNTING AS A MEANS OF INTERPRETATION. A good accounting system for a social agency is more than a mere record of its financing. It is a means of interpreting the activities of the organization in terms of dollars. It should therefore be planned from the point of view of the financial facts needed by the executive, the staff members, the board members, and the general public.

The system used should be set up by competent accountants. In conference with the public relations advisers, the board, the executive, and even the staff, they will advise on routine methods of handling accounts. In this way, effective decisions can be made as to what classifications of income and expense are necessary to present a clear picture of the sources of the agency's funds, to give control over its activities, and to provide those who are interested and responsible with accurate and understandable information.

Naturally an accounting system should begin with those agency activities which have financial significance. It should be a "made-to-order" system devised to fit the individual agency. The basis of the system can often be found in the constitution or the bylaws, which may prescribe the sources of funds and the purposes for which they may be spent. Those documents will be supplemented in the properly conducted organization by a written description of the accounting system, a classification of accounts, and a statement of the procedure to be followed in accounting—all made a part of the statement of standard practices in the office manual. The accounting system must be an integral part of the organization's plan of operation.

If the agency is a member of a community chest, the accounting system is usually standardized to some extent for all the member agencies, so far as the material prescribed for monthly and annual financial reports is concerned. The chest should prepare a manual of accounting which includes a definition of each account classification used in its report forms. Each agency will use only those items which reflect its own financial experience. The use of common definitions of accounts makes possible valid comparisons between the income and expense of agencies; it also helps the chest budget committee in its consideration of agency budgets.

RECORD OF RECEIPTS. The creation of an accounting system might begin with a record of all receipts. This record would account as completely as possible for all the income of the organization.

All checks and currency as received should be listed in a day book or journal. In addition to the name of the person paying the money, each entry should also indicate the account to which it belongs—for example, Income from Investments, Membership Dues, Contributions, Refunds, Payments by Patients, Community Chest, and so on.

Cash payments should be recorded by a system of duplicate receipts, serially numbered in a bound book. The perforated original is given to the payee; the carbon copy is kept in the receipt book as a permanent record. The staff auditor or bookkeeper should audit the duplicate receipts daily. If one of the receipts is voided, the original copy should be stapled to the duplicate. Auditing is performed by running a total of the amounts on the bound carbon copies and comparing the total with the signed duplicate deposit slip and the cash receipts journal.

The distribution of these items can be handled either by posting each payment in a ledger on the particular page for each classification of income or by distributing it across the properly classified columns of the cash receipts journal, in which one column is assigned to each of the items of income which the agency wishes to record.

A variation of this system for larger social agencies may be found in the use of a remittance register—a machine which records each payment, distributes it to the proper account, and shows the amount received in each account. Each of the accounts may be subdivided into sections of the ledger if large numbers of payments are received from contributors.

Pledges of subscribers should be similarly reported as representing potential cash, and payments received should be credited against these accounts. Other accounts receivable, such as payments due from patients, should be handled in the same way, so that the balance available from any given source can be readily estimated at any time.

(a) *Classification of Receipts.* The classification of receipts depends on the nature of the agency, but it may include in general:

Income from earnings, such as payments by beneficiaries, by users of privileges, or by patients.

Profits from concessions and the like.

Income from investments and property, including interest on

stocks and bonds, rental from tenants of real estate, and similar payments for the use of property owned by the agency.

Membership fees not in the nature of payment for services rendered.

Direct gifts from contributors.

Payments from the community chest.

Receipts from public funds made as a contribution rather than for services rendered.

(b) *Gifts in Kind.* The agency may also wish to record the value of gifts in kind, as in the case of a children's institution which receives large contributions of canned goods and clothing. An entry of equal amount should then be made in the expenditures of the organization. In that way a complete picture is given of the expenses which would have been incurred if these donations in kind had not been received. The market value of the commodities is usually estimated.

(c) *Checking and Depositing Cash.* All cash received should immediately be deposited intact in the organization's name in the bank, and a deposit slip made out. To prevent any discrepancy the slips should be totaled separately from the day's cash receipts. The two totals should be checked. Any discrepancies should be followed up immediately so that any error may be rectified.

Never under any circumstances should any of the organization's funds be deposited except in the name of the organization and to its own account. Various difficulties have arisen when executives have deposited agency money to their own accounts and made payments on behalf of the organization with their own checks. Obviously in such cases it may be difficult to determine which payments the executive has made on his account and which on that of the agency.

Moreover, no cash received should be kept in the agency's office for a petty cash account. Neither should any refunds be made from the petty cash. They should be made by check to ensure proper accountability.

Competent, accurate, and up-to-date recording of all receipts is essential in proper accounting for a social agency.

(d) *Working from Source Material.* Good accounting procedure requires that records be made as far as possible from original source material. Thus pledges should be listed from the original pledge cards. In many agencies, too, payments are posted on those cards—both to prevent error in spelling, address, and amount, and to keep to a minimum the work of preparing records and the space required

for them. On the same principle, payments on bills may be posted at first hand direct from the bills to the pledge or ledger card, rather than at second hand from the list of payments on the daily cash sheet.

Yet many agencies, particularly community chests, are finding it an advantage to use mechanical posting and billing systems which require the setting up of individual ledger cards. A large agency may find it most economical to post payments from a carbon copy of the daily cash sheet. Each agency should study its needs and adopt the cheapest and most accurate system.

RECORD OF EXPENDITURES. Competent accounting for receipts is only part of the problem of effective accounting methods. Expenditure also must be recorded.

(a) *Classification of Accounts.* As has already been suggested, the beginning of a system lies in a classification of accounts, which will reveal the main classes of expense of the organization. This classification should cover the different types of expenditures, such as salaries, printing, postage, stationery, office supplies, automobile expense, carfare, food, fuel, clothing, rent for clients, and medical and nursing supplies. Good accounting will reduce as far as possible the amount hidden behind the item "Miscellaneous." It seems all too often to be a convenient pocket into which the careless accountant puts all the items which it is too much trouble to classify in detail or which he wants to cover up. Ordinarily all expenditures which total more than \$50 during a year should be itemized.

(b) *Keeping Track of Petty Cash.* Minor expenses—such as express, messenger service paid in cash, payments for insufficient postage, collect telegrams, and the like—which occur infrequently and in small amounts and must be paid for at the time of delivery of the article, may be paid from the petty cash fund. Separate entry should be made of each item. The petty cash account should be guarded, as is cash income, by a duplicate receipt book. In it the nature of the expenditure is entered. To it the person who received the money signs his name. He is given the carbon copy; the serially numbered, signed original of the receipt remains in the book as a record of the expenditure. A check should be drawn when it is necessary to replenish this fund. The money should be kept in a locked drawer or in a special section of the safe. Separate accounts of all receipts and of all payments from the fund should be kept.

(c) *Use of Voucher Checks.* All expenditures other than those from petty cash should be handled by voucher checks. A good system

provides for each voucher to be made up of two equal parts. The upper half is a check; the lower half a description of the account for which the check is payment. There should be two carbon copies of each voucher check. In an alphabetical file should be kept the original bill, one carbon copy of the voucher, a copy of the original order for the goods, a copy of the receiving slip which shows that the goods have been received, the original invoice which came with the goods, and any other material—such as copies of correspondence—which affects that purchase. The other carbon copy of the voucher check should be kept in a numerical file, for ease in auditing and in locating any voucher regarding which question has arisen.

Frank E. Chapman offers the following advice:¹

Before a voucher is drawn, each of the following documents should be checked: the invoice against the original order to insure correctness of price, and against the receiving slip to insure correctness of amount of commodity billed; and the invoice itself for correctness of extension and footing. It is of primary importance in designing a voucher blank to adopt a form that will permit the easy segregation of the items vouchered to proper expense account. This is desirable both for ease of handling and for permanency of record. The number and name of the account having been noted on the voucher, it is an easy procedure to post from this form to the cash book and to distribute the expense to the proper departmental account in the operation.

(d) *Charging of Discounts.* When discounts are taken (as, for example, those allowed a social agency on a typewriter), the voucher should show the full amount of the invoice, the discount, and the net amount due and paid. Only the net amount would be charged against the account in the agency's books.

(e) *Analysis of Expenses by Departments.* Expenses should be accounted for, not only by type of expenditure but also, in a complex organization, according to the department for which the expenditure has been made. This departmentalized account of expense should cover all payments made on purchases, rentals, and other obligations, as well as the details of the pay roll, so that the salary cost for each department can be accurately known.

Each supervisor or department head should be required to keep an accurate record of the time worked by the employees for whom he was responsible and to submit in advance of each pay day a statement of the exact amount to be paid each employee, with deductions for absence when such deductions are made and a report of any overtime for which compensation is to be paid. Time books may be purchased, divided on a

¹ *Hospital Organization and Operation*, pp. 53, 55. The Macmillan Company, New York, 1924.

daily, weekly, semi-monthly, or monthly basis, in which department heads can easily keep track of all employees who are paid on a daily basis. . . . The actual computing of this pay roll would impress vividly upon the head whether he has lived within his budget allowance. It will automatically provide another check as to accuracy, assuring that the accounting department will under no condition pass any item of payment without thoroughly checking it.²

This system may be too elaborate for the small agency, but there are many medium-sized and large organizations for which it is practical.

We find useful a 4-by-6-inch card for each employee which shows for 20 paydays (that is all the card will hold) the rate of pay at each pay period, deductions for federal income tax, retirement insurance, group hospital and medical insurance, chest pledge, war bonds, and miscellaneous items, and also the net amount paid. This information is drawn off each payday onto a slip which is given to the employee along with his pay check. The pay-roll deduction information slip or some similar form is required by law.

The fundamental principle remains that all payments should be fully documented. If an order has not been filled out for a given purchase—and this is often the case even in the best of organizations—the bill should be approved in initials by the person responsible for incurring the expense.

(f) *Getting Checks Signed.* The method of signing checks is a problem for many social agencies. It has already been suggested that all checks of \$50 or over be signed by the executive and countersigned by the treasurer, and that checks of less than \$50 be signed by the executive alone. Even this rather simple suggestion presents difficulties when the treasurer or the executive, or both, are out of the city. In some organizations one of the other elected officers may sign checks in the absence of the treasurer, and an assistant to the executive may sign checks when the latter is away. If both officers are absent, or if the executive has no assistant, it may be wise to provide that any two officers of the organization may sign checks. All authorized signatures must be placed on file with the bank, together with a certified copy of the board resolution which authorized the signatures. Furthermore, the staff auditor or bookkeeper should initial all vouchers before signature, to certify correctness of amount and validity of expenditure.

In order to minimize the problem of getting checks to an officer for his signature we try to confine the bulk of our check writing to

² *Ibid.*, p. 55.

two days a month—the fifteenth and the last day (pay days, quite naturally). If your agency has weekly pay days, that means twice as much work. Not many do, however.

The payment of all funds should be properly safeguarded. Ample assurance should be given that the expenditure is authorized and that by an authorized signature it is certified as being proper. Under no circumstances should the treasurer or executive sign a check in advance in expectation of absence on his part, because of the possible danger that it may come into the hands of an unauthorized person or that someone on the inside may find the temptation too great and fill out the check for personal purposes.

By the way, since checks have sometimes been raised in amount, it is wise to purchase a check protector so that you can stamp the amount of the payment into the fabric of the check.

CASH VS. ACCRUAL SYSTEM. No matter in what way the accounts of the social agency are classified, they may be kept by two main systems:

(a) *Cash System.* The first of these is the so-called cash system. Its fundamental principle is the recording of actual cash receipts and disbursements. For example, if a typewriter is bought in January but is not paid for until March, the price of the typewriter is listed as a March disbursement. This system is simple because all that is necessary to make up a report of expense is the record of daily disbursements from the petty cash account and the stubs in the check book (or the carbon copies if voucher checks are used). The cash system of bookkeeping is especially adaptable to small organizations which do not handle large sums of money and the accounts of which are kept by volunteer treasurers or by clerks untrained in bookkeeping.

The trouble with this system is that it does not give a clear picture of the actual financial condition of the organization at any given time. For example, a hospital patient might receive in January \$100 worth of service, for which he ought to pay during that month. The value of that service should be part of the hospital's income for January. If the patient divides his payments into ten equal parts and pays one each month beginning March first, the receipt of this cash, under the cash system of bookkeeping, would not show when the service was rendered. On the other hand, the patient's food would have to be bought in January. Yet, if the hospital through lack of funds did not pay for it until March, the payment would appear as a March disbursement, although it would have no rela-

tionship to the actual work of the hospital during that month. The cash system thus may lag one or more months behind the actual experience of the organization, depending on how promptly the agency makes its collections and pays its bills. If, however, the same procedure is followed year after year no serious harm is done, especially if the cash receipts and disbursements are not used as a basis for large-scale planning. The cash system could be recommended, therefore, for smaller organizations and for those which conduct work of a more or less routine character.

(b) *Income or Accrual System.* The cash system is not adequate for large organizations and for those which must plan their work carefully from month to month with reference to the strategy of finance and service. For such organizations, the accrual or income method of bookkeeping is far more satisfactory. This system is based on the principle of recording income and expense when it is actually received or incurred. Thus in a hospital, under this system of bookkeeping, the payments due from patients, regardless of when the payment was actually made, would appear as income for the month in which the services were rendered. The obligations for payment for purchases and salaries would appear as expenditures of the month in which the expense was incurred. This plan gives an accurate picture of the actual financial operation of the organization, of the relationship between income from operations and the cost of those operations, and of the actual deficits incurred in operation and the reasons for those deficits.

The trouble with the accrual system is that it requires a more complex system of records and a more capable bookkeeper than does the cash system. It is by far the more satisfactory system, however, for an organization which really wishes to know its current financial situation and to plan in relation to that situation.

In spite of the arguments in favor of the accrual system of bookkeeping, community chests usually use the cash system. One reason is that the major expenditure of the chest is payment of cash to its member agencies for their cash requirements. Another is that many of the agencies are small, with volunteer bookkeepers or with staff personnel who are not specialists in accounting but who "double" in other office functions. These "amateurs" are not equal to the requirements of the accrual system. Their agencies do not need its refinements of information. Hence in the interest of uniformity all agencies in the chest use the lowest common denominator of accounting, the cash system.

The social agency which plans either a new bookkeeping system or a revision of the one in use should examine carefully the merits of these two methods. In consultation with competent accountants, it should determine upon the one which will most easily and quickly give the information desired.

(c) *Keeping Track of Payments Due on Pledges.* Part of the problem of bookkeeping for a social agency which has to collect funds from subscribers is to keep a record of the amounts due for the current year and from previous years, so that statements may be easily and correctly made out and credit for payment may be given promptly and accurately.

The system used by the Community Chest and Council of Houston and Harris County, Texas, may be suggestive. Subscribers receive statements from this organization when payments are due and each month thereafter until the payments are made. The system for recording pledges and payments and preparing the statements is one of the most economical in labor costs that we have ever seen. The staff auditor, Vance B. Lawrence, has prepared the following description of the procedure:

The pledges receivable ledgers are what is known as "snap-out" forms. The original, 6 by $7\frac{7}{8}$ inches, is the ledger sheet. This is printed on twenty-four pound ledger paper. Attached on the back of this ledger sheet are six identical forms printed on twelve pound tissue. These are perforated at the top for easy removal. This form is made up with one-time carbon interleaved.

When it is time to bill the pledger, the tissue copy nearest the ledger sheet together with its sheet of carbon is pulled out. This statement shows all of the posting and other information that is on the ledger sheet. The name and address are so typed that the statement may be folded one time and inserted in a window envelope. Then, after sealing, the bill is ready for mailing. The name and address, directions about how payment is to be made, and first entry of amount of balance due are typed on this form.

Posting of payments and subsequent balances due is done on a posting machine. It accumulates the totals of the postings, deducts the amount paid from the previous balance, and enters the new balance on the ledger and on the statements attached to it. Hence they are always ready for mailing. If the supply of statement forms is exhausted before the account is paid in full, new sheets are set up in the same manner.

NEED FOR UNIFORM BOOKKEEPING SYSTEM. Not only accuracy but also uniformity of bookkeeping methods should be looked for in social agencies. On the contrary, there seem to be almost as many bookkeeping systems as there are social agencies. Usually, unless a

community chest has been working on the problem of uniform accounting methods for its members, no two agency accounting systems are the same. Therefore it is often impossible without great difficulty to secure comparable financial reports and get information regarding comparative costs of operation.

Some national agencies have required uniform financial reports of their local branches.

A few strides toward uniform financial and statistical reports have been taken in those communities in which local agencies have participated, usually under the leadership of the community chest or council, in the biennial studies of the volume and cost of social work. Until recently this material was assembled and published by the United States Children's Bureau; now it is handled by Community Chests and Councils, Inc.

Social agencies everywhere should work toward uniform accounting methods. When uniform systems of financial and statistical reporting are generally adopted it will be possible for agencies to compare their items of income and expense with those of other agencies which do similar work throughout the city, state, and nation. On the basis of such comparisons conclusions can be drawn which will be of great value in improving social service. This has been demonstrated already by the present limited participation of agencies in the volume and cost studies just mentioned.

COMPETENT PERSONNEL. Good accounting methods presuppose competent personnel. The employee who handles the accounts must be accurate, orderly, and reliable. Sometimes an agency is so fortunate as to secure a volunteer treasurer who will keep the books in excellent shape and present financial reports promptly and satisfactorily. Most social agencies, however, will probably find it desirable to employ either a full-time or part-time accountant with good training, competence, and sound experience.

Many organizations do not need full-time bookkeepers. Sometimes bookkeeping duties can be combined with statistical responsibilities. Indeed in a small agency, where the size of the budget or the extent of the program does not justify a full-time bookkeeper, any fairly intelligent clerical employee can be trained satisfactorily to keep simple but adequate accounts.

Full-time work for a bookkeeper can sometimes be found by centralizing all the agency's accounts in the accountant's office, even though the organization may be highly departmentalized. Again,

several organizations may unite in employing an accountant who will keep books for all of them. A good many community chests and councils of social agencies keep the accounts for a considerable number of their smaller member organizations in their central offices. In this way all necessary bookkeeping service is provided for the organizations. The central auditor or bookkeeper may also help in improving accounting methods as well as in advising on the preparation of budgets and office financial records.

BONDS AND THEFT INSURANCE. Although honesty is one of the self-evident qualities required of employees who handle funds, the social agency should have all such employees, as well as all officers who may sign checks, bonded for an amount sufficient to cover the largest amount of money each is likely to handle. The cost of a blanket bond with a reputable company is low. The bond assures ample protection for the organization if any employee or officer who handles cash or checks should ever fail in his trust. Individual bonds are not necessary. A "blanket" bond which covers the whole group of money-handling employees and check-signing officers is cheaper per person. The bond should be paid for by the agency.

In addition to bonds, the agency may take out burglary and theft insurance to protect it against possible loss of cash, especially at campaign time when considerable sums of money are turned in by volunteer workers. As an added safeguard at such times arrangements can be made with the police to have detectives guard those who handle cash until it is actually deposited in a secure place. This may be the agency's own safe (if it is reasonably burglarproof), a hotel safe, or the bank itself. Special arrangements can be made to have the bank kept open after official hours if campaign activities require late work by auditors.

All these precautions are worth while, even though no cash is ever stolen. They give the public assurance that the money it has paid is amply protected, and they prevent the loss of confidence which would be suffered if theft ever actually occurred.

FINANCIAL REPORTS. One of the primary purposes of an accounting system is the preparation, for those who direct or participate in the work of the organization, of financial reports which will enable them to plan and to carry out that work more effectively.

(a) *Daily Reports.* Financial reports may be made daily. For example, the executive of an organization which makes a public appeal for funds may receive figures as to the amount pledged and paid

each day during the year and as to the total amount pledged and paid to date. With that record, he can compare the current year with past years to see what progress is being made. He may check this financial report with the report of services rendered to see whether income is keeping pace with the service performed with that income. In a large organization he may also wish to see daily reports of expenses (if the accrual system of bookkeeping is used) so that he may control the outgo and plan ways of maintaining or increasing the income to meet that outgo.

We once thought daily reports useful in our own work. Later experience, however, makes us feel that they are unnecessary in most agencies. You may be able to impress your president or treasurer with your up-to-date knowledge if you can flash on him an up-to-the-day record of payments and disbursements and of probable assets and liabilities for the balance of the year. Personally we cannot see any other use for daily reports in this time of annual financial campaigns. Daily reports use a lot of expensive labor that might well be utilized otherwise. We find that monthly reports give us all the data we can use in financial administration and in collection procedure. Collect only the figures you can use!

(b) *Monthly and Yearly Reports.* Practically every social agency prepares monthly reports of income and expense for the board of directors, for possible newspaper publicity, and for the information and guidance of the executive and his staff. Community chests usually require of their member agencies monthly financial reports, on uniform blanks provided by the chest, as a justification for the monthly payment expected by each agency from the chest. The information contained in monthly reports is usually combined in an annual report which is given to the newspapers, published in the year book of the society, and used in other forms of publicity.

(c) *Publicity Values in Reports.* Financial reports are basic both to organization control and to sound public interpretation. The accounting system and reporting procedures should therefore be worked out, as has been suggested, by accountants in conference with public relations advisers. The latter can make suggestions as to the information which the public should have about the work of the organization and the ways in which those expenditures are classified.

For example, family service societies often have been criticized by unthinking people for spending too much for the salaries of their

workers and too little, as the average person thinks, for actual food, fuel, and clothing for their clients. These thoughtless people forget that the service of trained workers is far more important than the material relief they give; that the relief is merely part of the program of skilled rehabilitative treatment. A family society which divided its expenses into two main items—for example, "Salaries, \$25,000" and "Relief, \$25,000"—would neither interpret its work adequately nor gain public good will. The public attitude would be entirely different if this same organization divided its accounts as follows:

Material relief (food, fuel, clothing, and other material necessities for families and individuals cared for by the organization), \$25,000.

Service (compensation of skilled social workers to help disturbed and distressed families and individuals work out their own problems), \$15,000.

Facilities for service (office rent, salaries of typists to keep necessary records, bus fare and automobile expense for calls on clients, telephone expense for messages to and in behalf of clients), \$5,000.

Supervision (salaries of executives to co-ordinate work of staff, to plan more effective work, and to train and supervise workers so that they will secure best possible results), \$5,000.

This form of statement would secure better understanding of the agency's work than would otherwise be possible, would doubtless be read because people are interested in what money is spent for, and would prevent the criticism of "charitable overhead" which, unjustifiable as it is, proves one of the greatest handicaps to securing public support for social work in most cities.

(d) *Beware of Too Great Detail.* Only that information which is necessary for the understanding and interpretation of the work of the organization should be carried in monthly and annual financial reports. Although the books themselves may be exceedingly detailed, an organization should watch carefully lest its financial reports seem so intricate that no one will read them. On the other hand, the reports should not be so lacking in detail that some suspicious persons may think the organization is trying to cover up something. The report should be sufficiently specific to reveal the significant operations of the organization and to make control, suggestion, and constructive criticism possible. Still, the report should not present those petty details which really mean nothing at all.

(e) *Comparative Reports.* For administrative use by the executive, department heads, and the board, the monthly financial report should show, in parallel columns, not only the experience of the

past month but also the totals for each item for the year to date, the corresponding figures for the month and period in the preceding year, the budget for each item for the year to date, and the amount over or under the budget for each item. Then you have figures that mean something and really can exert some control!

(f) *Annual Reports.* It is manifest that for the sake of uniformity the monthly statement should correspond in classification with the annual statement of the organization. This makes for simplicity, economy, understanding, and easy comparison of figures.

Ordinarily, therefore, the annual financial report differs from the monthly report chiefly in showing the assets and liabilities of the organization. Although this statement may sometimes be omitted from the monthly report, it is vital for the annual report. It shows what financial progress the organization is making. It is especially important for the agency which uses the cash system of bookkeeping. An organization which at the close of the year showed a larger amount of unpaid bills or borrowed money than at the beginning of the year would be in an undesirable financial condition. On the other hand, one which could show that during the year it had reduced the amount of its borrowings, or had paid them all up and had also paid all its outstanding bills, would be in a much more favorable position. In the same way, the organization should show annually the status of its capital accounts. By this those who are interested may know whether the agency has increased its property holdings and investments.

It is also suggested that securities and properties be itemized as to name of donor and amount and as to name of security and amount. The location and value of each property may also be given. In addition, the value at which the stocks and properties are listed should be stated—for example, the par value, the market value, or the value at which the stock or property was received.

(g) *Unit Costs of Service.* Part of the monthly and annual report of the social agency, when it has a measurable form of service, might well be a statement of the cost per unit of that service.

Thus for a children's institution it is important to know the cost per child per day for the month and for the year, in comparison with periods in the past, to see the trend of cost. This figure is computed by recording the number of children in the institution each day during the month. If there are 24 children on the first of the month, that makes 24 days of care; if 25 on the second day, 25 days of care, and so on. These daily totals, added together, give the total number

of days of care for the month. Dividing this figure into the total cost of operating the institution for the month gives the cost per child per day.

Unit costs may be compared with those of other institutions, to discover whether the service is adequate or inadequate.

Similar figures should be prepared for hospitals and all other organizations in which definite figures are available as to the number of persons served and the quantity of the service that has been rendered.

Costs may be further analyzed—for example, in the case of a hospital—as to the cost for private patients and ward patients, or the cost per patient per day for fuel, food, and so forth. Cost accounting for large institutions is complicated because of the problem of allocating the overhead—such as heat, light, rent, supervision, and other expenses—to the various departments of the organization. Nevertheless a cost accounting system, properly installed and operated, is of great value in controlling the operations of any institution.

(h) *Auditing the Accounts.* The accounting should not be left entirely to regular employees of the agency or to a volunteer bookkeeper. The accounts should be audited at least annually by competent auditors. The advantages of having the auditing done during the year at their convenience are evident. It costs less that way than if you insist on having your audit made between January 1 and March 15, when the auditor is swamped with income tax work.

In smaller organizations, certified public accountants, with their higher charge for service, need not ordinarily be employed when satisfactory auditors not connected with the agency are available. Many large community chests and councils have their own auditor audit the accounts of the member agencies as well as keep the books of the chest and council. The books of the chest and council, however, should be audited by a certified public accountant. (You should not audit the books yourself.)

Large independent organizations should employ certified public accountants, of known reputation, who are competent to handle the more intricate problems of accounting procedure and whose prestige in the community is commensurate with the size of the organization.

An auditor should be competent, disinterested, thoroughgoing, and constructively critical. If he is widely experienced in accounting and office methods, he may be able to make valuable suggestions for economy and accuracy. Every organization should welcome such

suggestions and request that recommendations for improvement be made when the audit is submitted.

Regardless of whether the auditing is done at one period of the year or continuously (as in some larger organizations), an annual auditor's report—stated in intelligent terms and showing his certification that the accounts are in good shape—should be prepared for every organization. There is no reason why, if the books are well kept, the auditor should not be encouraged to make any favorable comments he wishes to. His certified report plus his commendation should then be given widespread publicity. Often his commendatory letter of transmittal is reproduced in the printed matter of the organization.

Sometimes accountants can be persuaded to give their services free or at actual labor cost. Even full cost of a competent audit is worth paying for, because of the public confidence it helps to build, because of the assurance it gives to the management that the accounts are in good shape, because of the value of auditorial check-up in preventing fraud, dishonesty, or inaccuracy, and because of the suggestions that it may make for improvement of methods.

(i) *Graphic Reports.* Although the figures of monthly and annual financial reports may in themselves make an interesting story of the work of the organization, their interpretive qualities may be further emphasized by putting them in graphic form. For example, bars which show the relationship between the various items of income and expense over a period of years, with the bars for each year shaded differently, will make a much clearer impression on the casual and non-technical observer than will the figures themselves. Charts may be used to show how low the agency's overhead cost is as compared with the service cost, or to exhibit other relationships which may be considered creditable. Curves which show the trends in the various details of income and expense over a period of years may be equally worth while. A cumulative curve may be used to show the progress of payments on subscriptions day by day, week by week, or month by month during the year. On the same graph, other curves drawn in different kinds of lines (solid, dotted, dot-and-dash, and so on) may show the comparative experience of the organization in collections for several years. Charts and graphs may be duplicated by any one of the various processes which have been mentioned. They may be sent to members of the board of directors, reproduced in printed bulletins of the organization, or given to the newspapers for publicity use.

This book cannot present a detailed treatise on charts, but two warnings to chart makers are necessary:

The first is to make the chart represent the full amount which is being considered. A contrary practice seems sometimes to be followed when the chart maker wishes to have an increase in income seem larger than is actually the case and therefore starts his chart part way up the scale of amounts. For example—if the income of an organization in 1943 was \$5,000; in 1944, \$6,000; in 1945, \$7,000; and in 1946, \$8,000—the “chartist” might start his chart at the \$4,000 mark instead of the zero mark and leave only \$1,000 showing on the \$5,000 bar for the year 1943. This \$1,000 segment would appear very small in comparison with the \$4,000 visible on the \$8,000 bar for the year 1946. If, however, all these bars were started at the zero mark, as they should be, the contrast would be much less. Charts and graphs can be used readily enough for misrepresentation without such palpably fallacious comparisons as this being introduced.

The other warning on this subject is to divide into comparable units of length all the data to be classified and expressed by bars or curves. It is difficult, for example, to compare a bar that represents \$10 with one that depicts \$10,000, because the disparity between the length of the two bars is too great for proper representation on an ordinary sheet of paper. It is better in such event to combine several \$10 items into one classification of \$100 or more. The unit of measurement should be carefully chosen so that the largest figure to be included in the chart can be drawn on the sheet of paper (preferably 8½ by 11 inches) and the smallest bar will not be too small to be represented in comparable terms.

Anyone interested in the preparation of graphic financial reports will find it well worth his trouble to read one or two of the standard books on chart making and then to experiment with different kinds of charts so that he can present the fundamental figures of his organization by various devices. Skilled graphic procedure will enable all those responsible for the conduct of the organization to see the relationship between the different elements of income and expense and to follow the trends of operation as expressed in terms of dollars. The use of graphic methods will quickly indicate dangers to be avoided and action to be taken. It will make possible a control of the operation of the whole organization which would be much more difficult if the figures used in financial reports were interpreted by words alone.

QUESTIONS

1. In some typical social agency you know, what values has the accounting system?
2. Does the accounting system include any interpretive considerations?
3. How are receipts recorded?
4. How is cash handled?
5. How are expenditures classified?
6. How is petty cash handled?
7. Are voucher checks used?
8. Are expenses departmentalized?
9. Who is authorized to sign checks?
10. Is the cash or the accrual system of bookkeeping used?
11. How are billing and payments on pledges handled?
12. Has this agency developed a bookkeeping system uniform with that of other agencies? If so, what are the elements of this uniformity?
13. What are the qualifications of the persons who handle the books?
14. What is done about bonding and theft insurance?
15. What sorts of financial reports are made?
16. What publicity values do they have?
17. How does the annual report differ from the monthly reports?
18. Are unit costs of service figured? If so, what?
19. Are the accounts audited? If so, how and by whom?
20. Are reports put in graphic shape?
21. How could these various elements in accounting procedure be improved?