A BOOKKEEPING SYSTEM FOR THE PROFESSIONAL OFFICE

A MEANS OF ACCOUNTING THAT IS BOTH HELPFUL AND PAINLESS

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A LANDSCAPE architect once observed that the practice of landscape architecture was so enjoyable that it seemed almost criminal to have to charge for it! This is probably quite true. However, until a lifetime endowment of some type is provided for all landscape architects, it will be necessary to charge for professional services.

Once he starts to charge for his services, the landscape architect in private practice initiates a whole chain of troubles. He can, of course, learn whether he is making money or not simply by looking in his pocket—or in his bank book. However, this does not provide the data required by the Bureau of Internal Revenue at the end of the year. Nor does it tell him whether or not he is charging enough for his services, or making money on some jobs and losing on others.

Bookkeeping thus becomes one of those necessary evils—one of those many; many things that keep the landscape architect from practicing landscape architecture.

Over a period of quite a number of years we have gradually developed a bookkeeping "system" (if it can be called that) which seems to work efficiently and effectively for the office of Harland Bartholomew and Associates. This system was worked out with the assistance of Mr. Harvie Kernaghan of Bansley, Kienener & Kernaghan, Accountants, of St. Louis, Missouri.

The system has been adapted to the particular needs of this office. It should not be expected that it would have a universal application. However, the system and the various procedures that are a part of it might be provocative of measures that would be helpful in other offices.

The two objectives of any bookkeeping system are: (1) to account for property and property interest—and to provide the information necessary to make sure that you pay the proper income tax; and (2) to provide the information that you need to run your office intelligently and profitably, including answers to such questions as whether or not you are charging your clients enough, which types of jobs are making money, and which types are losing money. This latter information should be supplied on a sufficiently current basis for remedial measures to be undertaken if a job (or the office as a whole) is in financial difficulties. In the case of our office we have the problem of determining profit and loss on three branch offices in addition to the home office and the various individual jobs. A bookkeeping system is nothing more nor less than the most efficient and economical way to achieve these two objectives.

While the "accrual method" of bookkeeping has certain advantages, particularly when very few jobs ever start or end on the first of the year, we have found the "cash basis" the simplest to use and the easiest to understand. We have also found it advantageous to use the calendar year as the fiscal year.

To gain the first objective—the gathering of adequate data on which to fill out income tax forms satisfactorily—we found that if we kept records on twenty-four separate "accounts" and knew how much money we spent for each, we could answer all of the over-all questions.

The twenty-four accounts are as follows:

- Capital Improvements
- Prepaid Expense
- Partners' Withdrawals
- Vacations and Bonus
- Partners' Salaries
- Employees' Salaries
- Employees' Overtime
- Withholding—Federal
- Withholding—City
- Federal Insurance Contributions Act
- Federal Unemployment Tax
- State Unemployment Tax
- Other Taxes and Licenses
- Travel
- Services (payments for consultants, accountants, etc.)
- Printing—Photos—Reproductions
- Supplies—Books—Publications
- Dues and Subscriptions
- Postage and Express
- Telephone and Telegraph
- Contributions
- Rent—Utilities—Insurance
- Petty Cash Expenditures
- Miscellaneous Expenses
For convenience in identifying the accounts, we gave each one a letter.

This having been done, it next seemed that if every check that was written should be written for only one of these accounts, then all you would have to do would be to list the checks in appropriate columns and add them up.

While this increases the number of checks, it simplifies the accounting.

We devised Sheet One—a simple tabular listing—to show how much we spent on each account. Here, we ran into a difficulty with the "refunds"—i.e., instances where we obtained prints for a client and the client re-
imburse us; other instances where railroad or airline tickets were not used; even some cases where more money was withdrawn for travel expense than was actually used. This was solved by making a place on Sheet One for these refunds and then subtracting them to give our "net" expenditures for each account for each month.*

One advantage of this procedure is that the bank helps you by providing you with the bank balance. You know whether or not you have done the job accurately because you have to end with the same figure the bank did—and banks very, very seldom make a mistake.

We prepared a summary sheet for this "account" information (Sheet Two), and a very similar sheet (Sheet Three), which showed the status of each account for that part of the year to date. Sheets Two and Three, in large part, are merely copied from Sheet One.

From Sheets Two and Three it is possible to make a balance sheet at the end of each month listing the assets and liabilities. The form used for this is shown on Sheet Four.

To determine on an over-all basis whether or not the entire operation was profitable for the month and for that part of the year to date, a "profit-and-loss summary" is prepared (Sheet Five). In preparing this sheet it is necessary to depart a bit from the "cash basis" point of view. There are certain expenses that do not run evenly month by month, including the vacations which come during the summer and our bonus which is paid at the end of the year. These can best be estimated and spread evenly throughout the year until the end of the year when actual figures are used. Then, the capital improvements (furniture, air conditioners, automobiles, etc.) are shown, not in the amount of money spent but as the permitted allowance for depreciation. We keep lists of all capital improvements with a depreciation schedule for each one. This is kept up to date each month. From the profit and loss summary it is possible to ascertain a reasonably accurate estimate of the status of each of our offices for each month and for that part of the year to date.

Now, we come to the second of the two objectives, that of providing the information needed on each individual job.

While this is the more difficult part of the bookkeeping system, the problems in connection with it are greatly simplified when it is understood that all you have to do is to provide yourself with the information that you, yourself, need in running your office. No one else cares at all how you do it, and you don't have to follow any particular rules of accounting or bookkeeping if you don't want to.

At this point the overhead enters the picture. The
"overhead" is actually that part of office expense that cannot be directly charged to any one particular job. It consists of such things as the rent, utility bills, time that you spend trying to get jobs that don't materialize, and time spent at ASLA Annual Meetings. One objective of any efficient office operation is to keep this overhead as low as possible; and one way, of course, to keep it low is to try to charge as many expenses as you can to the various jobs which you have. This we endeavored to do for many years, and conscientiously tracked down items of petty cash, telephone calls, telegrams—down to the smallest possible item.

Such a procedure, however, runs up the cost of bookkeeping. You can easily spend more money allocating an item of expenditure than is represented by the expenditure itself.

We found that, of our total expenses, 87 per cent consisted of salaries, services, travel, and printing. By far the largest part—two thirds—consisted of salaries and services. We came to the conclusion that if we should allocate salaries, services, travel, and printing expenses, as far as possible, among our jobs, we could then distribute the remaining expenses, which become the "overhead," in proportion to the allocation of salary cost. The result was not too different from the detailed allocation, and the amount of time saved was considerable.

We set up space to do all of this allocation right on the check stub. When we finished designing the check stub (as you can see from the accompanying illustration) the stub was much larger than the check. We provided a space at the top of the page for receipts, and then allocated most of the page to identifying the account for which the check was written. Then, if the check was for salary, services, travel, or printing, a space was provided for allocating it among jobs.

In this system a large part of the bookkeeping is done when the check is written. Much of the procedure after that is mechanical. Each project has a sheet (Sheet Six), and the allocated amounts are transferred from the checkbook to these sheets and then tabulated at the end of the month. The totals for that part of the year to date are then transferred each month from Sheet Six to Sheet Seven.

Sheet Seven is probably the key to our method of allocating expenses among the various jobs. We know our total office cost to date from the profit-and-loss summary on Sheet Five; we know how much we have been able to allocate among the various jobs by adding all our totals on Sheet Six. The difference between the total amount we have allocated and our total cost becomes the "overhead"—or what we show on Sheet Seven as "other" expenses. This is then allocated among the jobs in direct proportion to the percentage of the salary expense on the job of the total allocable salary expense.

Then, finally, each month Sheet Eight is completed showing the current status of each of the jobs that we have under contract. The amount spent in any given month on any job is found by subtracting the Sheet Seven total of the previous month from the Sheet Seven total of the current month.

We have found three important considerations in the allocation of job expense. To our surprise, one of our biggest difficulties came about from the lack of general knowledge on the part of the office staff as to when a job was a job—when it started and when it was finished. We had instances of confusion when we did three rather similar jobs for the same client or did several jobs at the same time for different clients in the same city. This difficulty is avoided very simply by giving every

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number before they do work on any job. (Sometimes when the number can’t be found, a rather interesting set of circumstances develops!) This “job number” procedure has been of material assistance.

Our work in job cost analysis is simplified by allocating the cost only to the closest dollar. Since the needed information is an approximation anyway, worrying with the pennies provides a needless complication.

The job cost allocation (Sheet Seven) is done each month accumulatively for that part of the year to date. Frequently, a job will start and end within a period of a few days or few weeks. Under the system we devised, it necessarily has to be kept in our calculations for the entire year. At the end of each year we remove from our job list all of the completed jobs.

While this involves a complication in the keeping of so many items on the books for such a long period of time, actually it is a very fair procedure for two reasons: (1) since expenses are uneven over the year, each job by following this method carries its true part of the overhead expense for the year; (2) the final computation on Sheet Seven at the end of the year can use the final figures for vacation and bonus expense, for prepaid expense, and for the depreciation allowance, and need not depend on any estimates.

While we are finding methods of improving this “system” from time to time, we have been quite pleased with its operation to date. Our bookkeeping requires between three and five days each month in comparison with a previous total of twenty days. Of more importance, however, is the fact that the “system” provides us with information on job costs, as of the first of a month, usually by the 10th and always by the 15th of the month—in time to enable remedial action if needed. Information provided is in a form easily utilized in making estimates for new work. We feel that it has made the “necessary evil” as painless—and as helpful—as possible.