Companies Miscellaneous, while in the detail ledger of Individuals and Companies Miscellaneous will appear the name of the individual who receives the money. . . .

Again the interest accounts do not pass through either of these accounts. Also a few Bills Payable in case we wish to borrow money and a few Bills Receivable in case we loan money, do not originate in these accounts, but the majority of the Bills Receivable and Bills Payable are given and received in liquidation of accounts which originally appear in either Accounts Payable or Accounts Receivable. (Author's Note: Notes Payable, Notes Receivable.) In the same way most of the cash paid out and received is in liquidation of transactions originally recorded in one or the other of these two accounts.

Among other transactions which would not pass through Accounts Payable and Accounts Receivable would be invoices for goods shipped on consignment and dividends payable.

From the foregoing it will be evident that Taylor's object was to segregate in Accounts Payable all transactions which represent indebtedness contracted in the regular conduct of the business and which must ultimately enter into the cost of the company's products and their sale; similarly in Accounts Receivable to show all of the amounts owed the company by customers to whom it has sold goods. Not only do we thus avoid confusing various kinds of obligations, but the closing of the company's books is facilitated, as are also the determination of costs and the profit or loss on sales of the company's products as distinguished from revenue and profit from other sources.

In addition to the Cash Book and the two special journals mentioned, which will be described more fully, a company may have special journals for other types of transactions where the volume may warrant their use; for example, merchandise shipped on consignment and dividends payable. A summarization of the transaction entered currently and in detail in these special journals would at the end of the month be entered in the General Journal and all other transactions would be entered currently and in detail in the General Journal. The latter would be grouped under appropriate headings representing the General Ledger accounts involved. For example; a customer gives us a note in settlement of an account which would be entered under a heading Accounts Receivable Credit—Notes Receivable Debit. Or a salesman turns in an expense statement accounting for the use of money that had been advanced to him. This would be entered under the heading Individuals and Companies Credit—Sales Expense Debit. Special journals might be used, however, if the volume of such transactions were sufficiently large.

A fault frequently found in present day accounting practice is the failure to pass certain transactions involving expenditure of money through Accounts Payable but, because the company operates on a cash basis as far as the transactions in question are concerned, to enter them only in the Cash Book as payment is made. I have reference to such things as monthly bills for telephone service, telegrams, freight, electricity, etc. The only purpose in doing this is to save the journal entry in the register of Accounts Payable and the consequent posting to the detailed ledger account of the creditor concerned. In such cases the expense account concerned is debited from the Cash Book. Any advantage resulting from this practice is offset by the lack of clarity and by the complication in closing the books which it entails. Where the practice adopted by Taylor, of handling virtually all transactions with debtors or creditors through Accounts Payable and Accounts Receivable in the manner which will be described, is used, both general accounting and cost keeping are simplified and rendered self checking to a great degree. In addition, the activities of the business as reflected by revenue and expenses are so analyzed as to present information in the form required for the periodic reports discussed in my previous article. From day to day the management may obtain from the Cash Book and from the Registers of Accounts Payable and Receivable a clear picture of the state of the business as set forth in the Daily Report of Cash Transactions—and in even greater detail if desired. For example, from the Register of Accounts Payable, the manager may not only know what the obligations for the month to date amount to, but he may also from one source of information know how much of this is charged to stores for materials or supplies, how much is for payrolls and how much is charged to the several classes of indirect expense. Likewise, from the Register of Accounts Receivable he may know the total of all sales billed and the amount of sales for each class of product or even subdivisions thereof.

In describing the Register of Accounts Payable and its use Taylor wrote:

> One of the greatest advantages of this system is that we are enabled to number consecutively . . . all of the transactions . . . and by means of these consecutive numbers trace readily each transaction and follow it through the books, however complex the business and however great the volume of it may be. . . .
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> After the first column in which is to be entered the consecutive number of the voucher on which payment is to be made, and the date column in which the date of entry of the voucher is written, comes the column headed Accounts Payable, Cr. Here are written the names of the parties whom we owe, or in case it is a transaction with our own employes, the payroll or salary list is entered, with the full amount to be paid in the amount column, also the detail ledger folio in which this individual account is to be found. (Author's Note: In Taylor's original practice a separate voucher was sent with the check to the creditor who was required to receipt and return it. The face of the voucher carried the purchase order number and the customer's invoice number or date for each item covered by the voucher as well as the amounts and on the back was shown the account or accounts to which the amount of the voucher should be charged. When payment was made both the number of the voucher and the check were shown in the Cash Book. The voucher number was posted to the detail ledger when the individual account was posted from the entry in the Register of Accounts Payable and the check number from the Cash Book when the debit entry was made. The use of voucher-checks has become common practice; this document receives a voucher number when entered in the Register of Accounts Payable and is regarded solely as a voucher until such time as the check portion is signed by the proper official. It is then given a consecutive check number on the bank from which it is to be paid. The importance of keeping these two series of numbers independent will be obvious.)
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> The balance of the page is used for entering the names of the various accounts which are to be debited, equaling the amount which the Accounts Payable have been credited, and in order to simplify the entries in the General Journal, which are made at the end of the month from this book, this page is divided up into a series of columns, a whole column being used for each of the most active accounts in the General Ledger which are affected by the bills which we have to pay.

For the average business these columns would be about as follows and would be headed up according to the first letters of the classification for the business as discussed in the second article of this series. For example there would be debit columns for each of the following:

A. Auxiliary Department Expense
B. General Business or Administrative Expense
C. Sales Expense
D. Manufacturing Department Expense
E. Research and Development (experimental) Expense
G to W. Products; one or more columns as might be desirable, depending upon the nature of the business
S. Stores (purchased materials)
X, Y and Z. Capital Expenditures (Building, Real Estate and Equipment.

A column for any General Ledger accounts not included in the foregoing; for example, weekly payrolls which may not be distributed to the various expense or work in progress accounts until the end of the month and taxes paid in advance which are to be apportioned monthly to costs. For such entries the column should provide, in addition to the amount, space for a symbol or description indicating the nature of the charge, as well as the particular account to which it is to be debited.

Instead of a single column for the principal expense groups as indicated above, each section might provide several columns for the major subdivisions of a group or General Ledger account in accordance with the classification, provided the number of transactions were sufficient to justify such an arrangement. While the segregation into the principal expense groups is sufficient for posting at the end of the month to the General Journal and thence to the proper General Ledger accounts, it is necessary that in one way or another, the individual entries be so identified as to enable their being set up on the Monthly Expense Analysis as supporting detail of their General Ledger account or expense class, in conformity with the classification. As I have stated, this may be accomplished by the provision of columns for all or the most important subdivisions, or by providing under each heading space for the symbol of the individual entries as well as the amount. Usually an effective compromise is to provide sub-columns for a few of the more important of the subdivisions of the principal expense groups, these showing their symbols at the top, and to provide one column with space for entering the symbol in front of the amount for all others. In the case of columns in which all or several subdivisions of a principal expense group are to be entered, the expenses pertaining to each of the several symbols must either be picked out at the end of the month or they may be posted daily to detailed ledger accounts in the same manner that the entries are posted to the detailed ledger accounts of the various creditors.

As previously stated, one of the important aims of the Taylor system of accounting is to avoid errors, or if errors do occur, to enable their being promptly brought to light and located. It is evident that the total of the amounts entered in the columns of the Register of Accounts Payable representing the General Ledger accounts to be debited should agree with the total of the amounts entered in the creditor's column. This should be done each day so that at the end of the month we are assured that the amounts to be debited and credited in the General Ledger are free from error and in balance. In a similar manner the debits and credits in the Cash Book should be balanced each day. The Daily Report of Cash and Related Transactions should be so designed as to require this daily balancing of the various journals.

Reverting for a moment to the Register of Accounts Payable, it was Taylor's practice usually to disregard the vendors invoice as a source of entries on vouchers and the consequent entry in the register of Accounts Payable. It was the rule that a purchase order be issued for every service and for all materials furnished by a vendor, and that in each case the exact net amount be shown on the purchase order. When the vendor had filled a purchase order, the person who received the goods sent a written notice to a person designated as Auditor, to the person who had originated the requisition for the goods and to the purchasing agent. Next an inspection was ordered and made by a designated person qualified to pass upon the quality of the goods. The Inspector reported in writing, sending a copy to the Auditor and to the Purchasing Agent. Each of the parties mentioned had a copy of the purchasing order to which he attached the reports concerning the goods. Upon receipt of the two notices, providing the goods proved to be as ordered, the Purchasing Agent considered the transaction closed and withdrew it from his follow-up system. The person who originated the requisition took appropriate action, as in the case of materials for stock, the Balance-of-Stores Clerk entered them on his Balance-of-Stores records; if special materials procured were to be used in the production of a specific order, the clerk in charge of that function accordingly posted his records and advised the production supervisor of the availability of the materials. The Auditor made out a voucher in favor of the vendor which he passed through to the Accounting Department to be approved, entered and paid in due course. Upon the voucher the Auditor made all of his entries from the copy of the purchase order and, theoretically at least, paid no attention to the customer's bill. Exceptions of course must be made to such a rule as this in accordance with the dictates of common sense.

All along the line Taylor attempted to provide safeguards against fraudulent or dishonest practice, such as might be possible between a Purchasing Agent and a vendor in the absence of inspection and approval of bills by persons who are not responsible to the person who places the order. In this instance it will be evident that fraud might not be committed without collusion between the vendor and at least three people in the company's employ. However, this safeguarding is only incident to the handling of the transaction efficiently rather than something superimposed thereon primarily as a preventative measure.

The Register of Accounts Receivable is quite similar to the Register of Accounts Payable. Its first group of columns provides for the following entries: The consecutive number of the transaction, which is of course entered on the invoice to be sent to the customer; the date of the transaction; the folio (page or card number) of the customer's account in the detailed Ledger of Accounts Receivable; the name of the customer; the total amount of the invoice to be debited to the customer's account and included in the aggregate General Ledger debit to Accounts Receivable at the end of the month. The remainder of the page is ruled to provide a number of columns each to be headed with the General Ledger account to be credited, which collectively is included in the broad grouping of Merchandise Sales. These columns would represent respectively the major classes of the company's products in conformity with the classification. As explained in discussing the Register of Accounts Payable, it is usually desirable to provide under these headings space in which to enter the symbol of the sub-groups or of the specific products which it includes, in order to facilitate more detailed analysis of sales and profit or loss as set forth on the monthly report.

Each day the Register of Accounts Receivable is checked to see that it is in balance; i. e., that the total of the entries in the debit column agrees with the sum of the totals in the several credit columns, and the doing of this is assured by the fact that the information is necessary to making out the daily report of transactions. Postings are made daily to the detailed ledger accounts of the various customers, and at the end of the month the totals of the columns are transferred to the General Journal and thence posted to the General Ledger accounts concerned.

In the average business the three special journals that have been discussed together with the General Journal are adequate. This of course involves the compromise of using the General Journal as a book of initial entry for any other class of transaction. Typical of such exceptions is the example noted above of a customer who gives a note in liquidation of an Account Receivable. Such a transaction would be entered as it occurred in space alloted at the beginning of the month in the General Journal, under the heading Notes Receivable Debit—Accounts Receivable Credit. From such entries there would be a daily