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SAME TITLE

Remimeo
Finance
Bureau Hats
OES
AGF
Treasury Hats
FBO

THE THEORY OF BOOK KEEPING AND ACCOUNTANCY

PART 5

SCIENTOLOGY (R) ORGANIZATIONS

ABBREVIATED BOOK KEEPING

Earlier the term "abbreviated book keeping" has been used to mean BOOK KEEPING which by-passed and ignored the use of Personal Accounts.

In other words, the double entry is effected by entries made directly between the Organization's Bank Account and another Impersonal Account of the Organization.

E.g. the Organization received clothing from Hepworth's for the staff on 1st July of value \$200.00. A check was paid to Hepworth's on 1 September for these clothes.

Abbreviated BOOK KEEPING merely records as follows:

EXAMPLE 32:

BANK ACCOUNT

1 September Paid to Hepworth's	200.00
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STAFF CLOTHING ACCOUNT

1 September Bank A/C Hepworth's	200.00
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The only entry is from Bank Account to Staff Clothing Account - the Personal Account of Hepworth's has been ignored completely. Earlier Examples 27, 28 and 29 further demonstrated this.

Now once the payment has been made, then this does produce the correct end result given by full and formal BOOK KEEPING.

And as long as the payment for the MEST or SERVICES received is paid for within the same financial period, then the correct end result is recorded in the Accounts.

You only have to be careful when the receipt of the GOODS or SERVICES occurred in one financial period and the payment occurred in the subsequent period.

Let us assume for the sake of Example 32 that the financial period ended on 31 July. We then have the situation that MEST to the value of \$200.00 was received on 1 July but that it had not been paid for until after 31 July i.e. it was paid on 1 September.

Now the BOOK KEEPING is deficient since we do not record the fact that the Organization owes Hepworths \$200.00 for Staff Clothing. This now demonstrates that abbreviated BOOK KEEPING gives a missing sequence i.e. in this case the missing sequence is the recording of the INFLOW of MEST from Hepworths of value \$200.00.

However, this is handled by now bringing into the BOOK KEEPING the correct recording of this missing sequence by the following entry:

STAFF WELFARE ACCOUNT

31 July	Hepworths for clothes received on 1 July	200.00
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HEPWORTHS

31 July	Clothes delivered to the Organization on 1 July	200.00
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Therefore you will now see that we now have correctly recorded the INFLOW of MEST from Hepworths and the fact that this amount is owed to them. Thus the Accounts are now fully and correctly recorded.

This demonstrates that abbreviated BOOK KEEPING is quite safe to use as long as, at the end of the financial period, all amounts owing for MEST and SERVICES are correctly recorded as above. And in recording these amounts owing, then the Personal Accounts do have to be recorded as in the case of Hepworths Accounts above. They cannot be by-passed or ignored at this juncture.

The above entry would be noted in the Journal Book prior to entry onto the Accounts.

And what generally happens in an abbreviated BOOK KEEPING system is that the organization will record all such amounts owing at the financial year end in one entry.

For example, assume that the Organization owed the following amounts at 31 July.

	\$
1. Books and Meters from Pubs received on 18 June.	1800.00
2. Clothes from Hepworths as above.	200.00
3. Telephone Account to 30th June.	251.00
4. Legal bill from lawyer Suskins received on 31 May.	701.00
	2952.00
	2952.00

The entry made is shown by the following Journal Note:

<u>JOURNAL</u>	<u>Debit</u>	<u>Credit</u>
Purchases of Books and Meters Account	1800.00	
Staff Welfare Account	200.00	
Telephone Account	251.00	
Legal & Professional Expenses Account	701.00	
Sundry Creditors		2952.00

You will observe that the debit entries are correctly made to the appropriate Impersonal Accounts to record the INFLOW of MEST or SERVICES to that Account.

You will also note that the credit entry is made to a "Sundry Creditor's Account". If this "Sundry Creditor's Account" is merely taken to be a collective Personal Account for Pubs Org, Hepworths, the Telephone Company and Suskins, then its function should be clear. We could equally well have used four separate Personal Accounts but, for convenience, they are generally all recorded in one collective Account as above when using a system of abbreviated BOOK KEEPING.

It should be noted that the Monthly Bills Summary maintained by a Scientology Organization does show the amounts owing by the Organization and, at the end of a financial period, this can be used to make the Journal entry of the above nature. It also should be observed that until such Monthly Bills Summary is entered into the Accounts by a Journal Entry as above that it will not form part of the official Accounts; the above Journal entry has the effect of making it part of the official BOOK KEEPING and brings it into the Income and Expenditure Account and Balance Sheet.

EXAMPLE 33:

Now, let us take another example.

On 1st July, the Organization delivered 10 hours of Review Auditing to student Smythe on credit at cost \$200.00. On the 15th August, Smythe paid the Organization \$200.00 to clear his debt.

Abbreviated BOOK KEEPING will record this as follows:

<u>BANK ACCOUNT</u>	
15 Aug MONEY from Smythe	200.00

SALES OF TRAINING AND PROCESSING ACCOUNT

15 Aug Bank A/C	200.00
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The only entry is made between the Bank Account and the Sales of Training and Processing Account i.e. from one Impersonal Account to another. The Personal Account of Smythe has been by-passed and ignored. Examples 25 and 26 given earlier further demonstrated this.

Now once the payment has been received from Smythe, then the correct end result of full BOOK KEEPING is produced by the above entry. As long as the SERVICE delivered and the MONEY received for such SERVICE both occur within the same financial period, then the above entry produces the correct end result.

But if the SERVICE is delivered in one financial period and the MONEY for this SERVICE is received in the following financial period, then a further entry is needed to make the BOOK KEEPING correct, for the financial period.

Let us assume, again, the financial period ends on 31 July. In this case, it is apparent that a SERVICE of value \$200.00 was delivered within the financial period to 31 July and that it was not paid for until the subsequent period. The BOOK KEEPING is therefore deficient in that it neither records the OUTFLOW of the SERVICE by the Organization in that period or the debt owed by Smythe to the Organization.

This again shows that abbreviated BOOK KEEPING gives a missing sequence i.e. in this instance the missing sequence is the omission of the record of the OUTFLOW by the Organization of the SERVICE to Smythe on 1 July.

Therefore, to correct this we now record this missing sequence as follows:

SALES OF TRAINING AND PROCESSING ACCOUNT

31 July Review delivered
to Smythe on 1 July 200.00

SMYTHE ACCOUNT

31 July Review received
from the Organ-
ization on
1 July 200.00

The effect of the above entries is to record the sequence that was missing, i.e. we have now recorded the OUTFLOW of SERVICE by the Organization and the receipt of this SERVICE by Smythe. Thus the value of the SERVICES delivered by the Organization in the period is correctly recorded and, also, the debt due from Smythe is correctly recorded.

This demonstrates that abbreviated BOOK KEEPING is quite safe to use as long as, at the end of a financial period, all debts due to the Organization for SERVICES or MEST delivered are brought in and recorded in the above fashion. And in recording these amounts the Personal Accounts do have to be recorded as in the case of Smythe's Account above.

The above entry would generally be recorded by a Note in the Journal prior to the entry being made.

But what generally happens is that the Organization will record all such Debts owing to the Organization by one Journal entry.

For example, let us say that at 31 July the following debts were due to the Organization:

1. Review delivered to Smythe on 1 July (as above).	200.00
2. Cramming Charge for Jones on 7 July.	5.00
3. HSDC delivered to Humphreys on 22 July.	500.00
	<u>705.00</u>

The entry that has to be made in the Accounts is shown by the following Journal Note:

<u>JOURNAL</u>	<u>Debit</u>	<u>Credit</u>
Sundry Debtors	705.00	
Sales of Training and Processing Account		705.00

Thus a note is first made in the Journal as above and then these entries are copied into the Accounts concerned.

The credit entry to Sales of Training and Processing now means that the full value of SERVICES delivered in the Period are recorded.

You will note that the Debit entry is made to a "Sundry Debtors Account" and if this is regarded as a collective Personal Account for Smythe, Jones and Humphreys then it will be understood. We could equally well have kept separate Personal Accounts for each of these persons; the use of one Sundry Debtors Account merely cuts down the BOOK KEEPING entries.

This will be appreciated more if you realize that there could be hundreds of such debts to be entered - not just three.

It should be noted that the Department of Income of a Scientology Organization keeps Statements to show the amounts of such Debts due to the Organization and these have to be used to obtain the above details. It also should be observed that until the above Journal entry is made, that these Statements will not form part of the official BOOK KEEPING records or get entered into the Income and Expenditure Account and Balance Sheet.

EXAMPLE 34:

Let us take another example. On 15 July Hargreaves made an advance payment to the Organization for his HSDC of \$500.00. He does not commence the Course until 8 August.

Abbreviated BOOK KEEPING usually would record this as follows:

<u>BANK ACCOUNT</u>	
15 July	MONEY from Hargreaves 500.00
<u>SALES OF TRAINING AND PROCESSING ACCOUNT</u>	
	15 July Bank Account 500.00

Again if the receipt of the MONEY and the commencement of the HSDC occurred within the same financial period then the above entry would give the correct end phenomena of full BOOK KEEPING.

But if the financial period ends before the SERVICE is commenced then again a further entry needs to be made to correct the BOOK KEEPING.

Let us assume, again, that the financial period ends on 31 July. In this case it is apparent that the above abbreviated BOOK KEEPING does not record the correct situation. In the first instance, it shows the delivery of SERVICE at value \$500.00 by the credit to Sales of Training and Processing Account, but this SERVICE was not delivered within the financial period, it was delivered on 8 August. Secondly, since Hargreaves has not commenced his SERVICE at 31 July then it is apparent that the Organization owes him this amount of \$500.00 at that date. It is an Advance Payment.

Therefore, the following entry has to be made to correct the situation. Again this would be noted in the Journal Note book before entry into the Accounts as follows:

<u>JOURNAL</u>		
	<u>Debit</u>	<u>Credit</u>
Sales of Training and Processing	500.00	
Hargreaves Account		500.00

The effect of this entry is twofold. Firstly the debit entry to Sales of Training and Processing Account corrects the erroneous recording of this as a SERVICE delivered. Secondly the credit entry to Hargreaves Account records the fact that the Organization owes this amount to Hargreaves.

The correct end result for this transaction is shown below and you will see we now have achieved this by the above correcting entry. This was earlier demonstrated in Example 20.

<u>BANK ACCOUNT</u>		
15 July	MONEY from Hargreaves	500.00
<u>HARGREAVES</u>		
	15 July	MONEY paid to the Organi- zation
		500.00

You will observe that the above Journal entry when entered into the Accounts does now produce the above situation; the erroneous credit to Sales of Training and Processing Account has been cancelled by the debit entry shown and it is now correctly recorded as a credit to Hargreaves.

If you could make the above entry direct from Bank Account to Hargreaves Account in the first place, then no adjustment would be necessary. The trouble is that when dealing with a system of abbreviated BOOK KEEPING and the Organization is

receiving hundreds of amounts of MONEY for SERVICE then it is not easily convenient to separate out which are advance payments and which are not.

Therefore it is usual for the whole of the MONEY received for Training and Processing to be credited to Sales of Training and Processing in the first instance and, then, those amounts relating to advance payments are taken out by debit entry and credited to the individual Personal Accounts concerned as shown above.

Now usually the Organization will have many such amounts of advance payments at the end of the financial period and it is usual to deal with them in one Journal entry as shown below.

Let us assume that at 31 July there were the following advance payments.

1.	15 July Hargreaves for HSDC as above	500.00
2.	17 July Bilkins for 25 hour intensive commenced on 12 August	375.00
3.	29 July Wilkins for 5 hour intensive started on 31 August	100.00
		975.00

The entry to be made in the Accounts is shown by the following Journal Note:

<u>JOURNAL</u>	<u>Debit</u>	<u>Credit</u>
Sales of Training and Processing Account	975.00	
Advance Payments Account		975.00

The effect of the above debit entry is to delete from Sales of Training and Processing Account the value of SERVICES not delivered at 31 July. The effect of the credit entry is to record the amounts due to these persons making advance payments. If the "Advance Payments Account" is regarded as a collective Account for Hargreaves, Bilkins and Wilkins, then it should be understandable. We could equally have recorded separate Accounts for each of them, but again it makes for less BOOK KEEPING if one entry is made to "Advance Payments Account".

The Statements kept by the Department of Income of a Scientology Organization will show (by the credit balances) which students have paid MONEY in advance and in fact these records will have to be used to obtain the details for the above type of Journal entry. It also should be observed that until the above Journal entry is made, that these Statements will not form part of the official BOOK KEEPING records or bring them into the Income and Expenditure Account and Balance Sheet. It is the making of the above Journal Note and its entry into the Accounts that does bring these Statements of the Department of Income into the BOOK KEEPING.

Therefore, in summation, abbreviated BOOK KEEPING can be used and a correct Income and Expenditure Account and Balance Sheet can be produced by the following sequence of steps.

A. Use the Bank Account as the stable datum and complete double entry BOOK KEEPING from this as follows:

a. Credit entries to the Bank Account for payments to Outside Persons for the supply of MEST or SERVICES are debited to the appropriate Impersonal Accounts.

Credit entries for payments to Outside Persons not for the supply of MEST or SERVICES would still be debited directly to the Personal Account of the Outside Person concerned. For example, a Loan made by the Organization to an Outside Person is still debited directly to the Personal Account concerned as shown in Example 19.

The debit obviously must still go to the Personal Account or else the money owed to the Organization will not be recorded.

b. Debit entries to the Bank Account for MONEY received in respect of MEST or SERVICES supplied or to be supplied are credited directly to the appropriate Impersonal Accounts.

MONEY received from Outside Persons not in respect of MEST or SERVICES supplies or to be supplied will be credited directly to the Personal Account of the OUTSIDE Person concerned. Thus a Loan or Capital received will still be credited to the Personal Account of the Outside Person loaning the MONEY as shown by Example 21 and Example 22. This credit must still go directly to the Personal Account of the Person concerned or else the Organization will not record its liability for the MONEY it owes.

B. Adjustments are made for Debts owing by the Organization in respect of MEST or SERVICES received by the Organization within the financial period as shown in Example 32 above.

C. Adjustments are made for Debts owing to the Organization in respect of MEST or SERVICES supplied by the Organization within the financial period as shown above in Example 33.

D. Adjustments are made for Advance Payments received in the financial period as shown in Example 34 above.

Then if further adjustments are made for the following, as demonstrated in Example 31, an Income and Expenditure Account and Balance Sheet can be prepared.

E. Stocks.

F. Accrued Expenses.

G. Prepayments.

H. Depreciation.

I. Provision for Bad Debts.

This subject of abbreviated BOOK KEEPING has been laboriously gone over because this is the method used by Scientology Organizations in the preparation of their Income and Expenditure Accounts and Balance Sheets.

If you examine Board Policy Letter of 10 October 1970, "Accounts Audit Series No. 5", you will see that the preparation of the Income and Expenditure Account and the Balance Sheet is done by abbreviated BOOK KEEPING as above.

But to give an understanding of abbreviated BOOK KEEPING it was first necessary to explain full formal BOOK KEEPING and then bridge over into abbreviated BOOK KEEPING. If a full understanding of the subject is obtained in the first instance, then it is possible to understand an abbreviated or shortened version.

And to complete the understanding of abbreviated BOOK KEEPING we now go back to Example 31 and complete the same Income and Expenditure Account and Balance Sheet by using the abbreviated method as practiced by Scientology Organizations. This is shown in Part 6 of this Policy Letter Series.

This then should provide an effective bridge between the full study of the subject and the abbreviation method shown in the above Board Policy Letter of 10 October 1970.

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