

HUBBARD COMMUNICATIONS OFFICE  
Saint Hill Manor, East Grinstead, Sussex

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Finance Bureau Hata  
Asst. Guard. Fin.  
Org. Exec. Secs.  
Treasury

THE THEORY OF BOOK KEEPING AND ACCOUNTANCY - PART 6  
SCIENTOLOGY ORGANIZATIONS - INCOME AND EXPENDITURE ACCOUNT  
AND BALANCE SHEET

EXAMPLE 35.

We now go back to Example 31 and complete the same Income and Expenditure Account and Balance Sheet by the use of abbreviated BOOK KEEPING.

In preparing this Income and Expenditure Account and Balance Sheet steps A to I, as listed above, are carried out in the following fashion.

Step A.

We firstly enter up the Bank Account exactly as before. Then we complete the double entry BOOK KEEPING for each item of Income and each item Disbursed by posting to the appropriate Impersonal Account - or to the appropriate Personal Account where this is relevant.

It should be noted that in this Example each item of Income and each item Disbursed is posted separately. This can conveniently be done because the number of receipts and the number of items disbursed are relatively few.

However in the normal Scientology Organization the numbers of Receipts and the numbers of Disbursements are measured in their hundreds or thousands and it would thus cause a tremendous amount of BOOK KEEPING to post each such item separately.

Therefore to save all this unnecessary BOOK KEEPING it is far better to summarise all the Income items and to summarise all the Disbursement items into their relevant categories before making the postings to complete the double entry. In this way a tremendous amount of BOOK KEEPING is saved.

H.C.O. Policy Letter of 10th October 1970, "ACCOUNTS, AUDIT SERIES No. 4", shows how this is done.

This Policy Letter shows that the receipts of Income are finally broken down into categories and summarised on the "Income Summary Sheet" and that the items disbursed are finally broken down into categories and summarised in the "Summary of Disbursements".

Thus hundreds or thousands of items of Income may be summarised under some 10 to 15 categories on the Income Summary Sheet and then only these 10 to 15 summary totals are posted.

Similarly hundreds or thousands of items disbursed may be summarised under some 20 to 40 categories on the Summary of Disbursements and then only these 20 to 40 summary totals are posted.

It is in this fashion that the amount of BOOK KEEPING is cut down tremendously.

Steps B to I.

These are firstly recorded in the Journal Note Book and then posted to the Accounts indicated by the Journal entries. And in this example all the Journal Entries are shown together on one sheet since this is the normal way they would be recorded.

Impersonal Accounts

Bank Account

21.	11th Jan	Able	300.00	13.	19th Jan	E.G.U.D.C. Rates	200.00
22.	17th "	Books Sales	50.00	14.	31st "	Pubs Org On A/C	100.00
23.	21st "	Beal	200.00	15.	" "	Wages - Silwell	40.00
24.	31st "	John Smith	1500.00	16.	17th Feb	Bigwood - Rent	250.00
25.	28th Feb	Beal	200.00	17.	20th "	Personal Expenses John Smith	100.00
26.	12th Mar	Jenkins	280.00	18.	28th "	Wages - Silwell	40.00
27.	11th "	Cutts	200.00	19.	20th Mar	Electricity Co.	70.00
28.	29th "	Sparke	500.00	20.	27th "	Simons On A/C	250.00
			<u>3230.00</u>				<u>1050.00</u>
					31st Mar	Balance	<u>2180.00</u>
			<u>3230.00</u>				<u>3230.00</u>
	31st Mar	Balance	2180.00				

Purchases of Books and Meters Accounts

14.	31st Mar	Bank A/C -		31st Mar	J. 1 - Stocks	910.00	
	"	Pubs Org	100.00	"	"	Transfer to Income & Expenditure /C	190.00
	"	J. 7 -					
	"	Pubs	1000.00				
			<u>1100.00</u>				<u>1100.00</u>

Wages Account

15.	31st Jan	Bank A/C Stilwell	40.00	31st Mar	Transfer to Income & Expenditure A/C	120.00
18.	28th Feb	do	40.00			
	31 Mar	J. 2 Stilwell	40.00			
			<u>120.00</u>			<u>120.00</u>

Rates Account

13.	19th Jan	Bank A/C EGUDC	200.00	31st Mar	J.4. Prepaid	100.00
				" "	Transfer to Income & Expenditure A/C	100.00
			<u>200.00</u>			<u>200.00</u>

Rent Account

16.	17th Feb	Bank A/C Bigwood	250.00	31st Mar	Transfer to Income & Expenditure A/C	250.00
			<u>250.00</u>			<u>250.00</u>

Electricity Account

19.	20th Mar	Bank A/C - Electricity Co.	70.00	31st Mar	Transfer to Income & Expenditure A/C	105.00
	31st Mar	J3 do	35.00			
			<u>105.00</u>			<u>105.00</u>

Telephone Account

	31st Mar	J.7 Telephone Co.	60.00	31st Mar	Transfer to Income & Expenditure A/C	60.00
			<u>60.00</u>			<u>60.00</u>

Stationery Account

31st Mar	J.7 Godstone	80.00	31st Mar	Transfer to Income & Expenditure A/C	80.00
		<u>80.00</u>			<u>80.00</u>

Depreciation Account

31st Mar	J.5 Furniture	25.00	31st Mar	Transfer to Income & Expenditure A/C	25.00
		<u>25.00</u>			<u>25.00</u>

Provision for Bad Debts (Income and Expenditure A/C)

31st Mar	J.6 Re Beal	50.00	31st Mar	Transfer to Income & Expenditure A/C	50.00
		<u>50.00</u>			<u>50.00</u>

Sales of Books and Meters Account

31st Mar	Transfer to Income & Expenditure A/C	330.00	22. 17th Jan	Bank A/C - Book Sales	50.00
		<u>330.00</u>	26. 12th Mar	Bank A/C Jenkins	280.00
		<u>330.00</u>			<u>330.00</u>

Sales of Training and Processing Account

31st Mar	J.9 Advance Payments	500.00	21. 11th Jan	Able	300.00
" "	Transfer to Income & Expenditure A/C	1000.00	23. 21st "	Beal	200.00
		<u>1500.00</u>	25. 28th Feb	Beal	200.00
		<u>1500.00</u>	26. 11th Mar	Cutts	200.00
		<u>1500.00</u>	28. 29th "	Sprake	500.00
		<u>1500.00</u>	31st Mar	J.8 Debt - Beal	100.00
		<u>1500.00</u>			<u>1500.00</u>

Furniture Account

20.	27th Mar	Bank A/C Simons	250.00	31st Mar	J.5 Depreciation	25.00
	31st Mar	J.7 Simons	250.00	"	"	475.00
			<u>500.00</u>			<u>500.00</u>
	31st Mar	Balance	475.00			

Provision for Bad Debts (Balance Sheet)

31st Mar J.6 Re Beal 50.00

Stock Account

31st Mar J.1 910.00

Prepayments

31st Mar J.4 re Rates 100.00

Personal Accounts

John Smith - Capital Account

17.	20th Feb	Bank A/C -	100.00	24.	31st Jan	Bank A/C	1500.00
	31st Mar	Balance	1750.00		31st Mar	J. 10	350.00
			<u>1850.00</u>				<u>1850.00</u>
					31st Mar	Balance	1750.00

Sundry Creditors

31st Mar J.7 1390.00

Sundry Debtors

31st Mar J.8 - Beal 100.00

Accrued Expenses

31st Mar	J.2 Wages for Stilwell	40.00
" "	J.3 Electricity for March	35.00
		<u>75.00</u>

Advance Payments

31st Mar	J.9 - Sprake	500.00
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Journal Note Book

All the adjusting entries as detailed in steps B to I, above, are firstly recorded as a note on this Journal Note Book. It is emphasised that this Journal Note Book merely makes a note of what has to be done - it is not part of the double entry BOOK KEEPING. When the note has been made in the Journal Note Book then the entries to the relevant Accounts are made exactly as written.

The first six Journal Notes are those made in Example 31 and these are entered first and numbered again '1' to '6' to provide continuity with that Example. The other Journal Notes in respect of Debts owing by The Organization, Debts owing to The Organization and Advance Payments are numbered '7', '8' and '9', respectively.

Postings made to the respective Accounts from these Journal Notes are referenced on the Accounts concerned by the relevant Journal number i.e. "J1", "J2", etc.

	<u>Debit</u>	<u>Credit</u>
1. Stock Account	910.00	
Purchases of Books and Meters Account		910.00
Being the value of Stock of Books and Meters at 31st March now entered into the records.		
2. Wages Account	40.00	
Accrued Expenses Account		40.00
Being the entry of £40.00 wages due to Stilwell at 31st March.		
3. Electricity Account	35.00	
Accrued Expenses Account		35.00
Being the entry of the amount due to the Electricity Co. for the month of March.		

	<u>Debit</u>	<u>Credit</u>
4. Prepayments Accounts	100.00	
Rates Account		100.00
Being the recording of three months Rates prepaid for the months of April, May and June.		
5. Depreciation Account	25.00	
Furniture		25.00
Being three months depreciation on Furniture written off to Income and Expenditure Account.		
6. Expense of Provision for Bad Debts	50.00	
Provision for Bad Debts		50.00
Being 50% provision being made against debt due from Beal of \$100.00.		
7. Purchases of Books and Meters Account (i.e. Pubs Org)	1000.00	
Telephone Account (i.e. Telephone Co.)	60.00	
Stationery Account (i.e. Godstone)	80.00	
Furniture Account (i.e. Simons & Co.)	250.00	
Sundry Creditors Account		1390.00
Being entry of debts owing to suppliers at 31st March. (Note these details should be obtainable from the Monthly Bills Summary.)		
8. Sundry Debtors Account (i.e. Beal)	100.00	
Sales of Training and Processing Account		100.00
Being entry of Debt due to The Organization at 31st March. (Note: details of such debts owed to The Organization should be available from the Statements maintained by the Department of Income.)		
9. Sales of Training and Processing Account	500.00	
Payments in Advance Account (i.e. Spraks)		500.00
Being adjustment for Advance Payments received at 31st March. Note that details of Advance Payments should be available from the Statements kept by the Department of Income. They will reflect as credit balances on the Statements.		

Now we list down all the balances as before to prove out the Arithmetical accuracy of the BOOK KEEPING:

<u>Trial Balance</u>		<u>Debit</u>	<u>Credit</u>
Purchases of Books and Meters		190.00	
Wages		120.00	
Rates		100.00	
Rent		250.00	
Electricity		105.00	
Telephone		60.00	
Stationery		80.00	
Depreciation		25.00	
Provision for Bad Debts		50.00	
Sales of Training and Processing			1,000.00
Sales of Books and E-Meters			330.00
Furniture		475.00	
Bank Account		2,180.00	
Sundry Debtor		100.00	
Provision for Bad Debt			50.00
Stock		910.00	
Prepayments		100.00	
John Smith Capital Account			1,400.00
Sundry Creditors			1,390.00
Accrued Expenses			75.00
Advance Payments			500.00
		4,745.00	4,745.00

Both sides of the Trial Balance are the same and so the Arithmetical accuracy of the BOOK KEEPING is proven.

As before all those Accounts above the line go into the Income and Expenditure Account and, upon placing them into the Income and Expenditure Account, they are permanently closed off by the entry "Transfer to Income and Expenditure Account". You will observe that the relevant Accounts are closed off in this fashion already but you should be aware that this entry is made after the above Trial Balance and when entering the figures onto the Income and Expenditure Account.

Those figures below the line go onto the Balance Sheet as before; further the Profit of \$350.00 as shown on the Income and Expenditure Account below is carried down to the Balance Sheet.



This profit is owed by The Organization to the owner - John Smith - and so it is added or credited to the amount already owed to him by The Organization.

This action of bringing the Profit from Income and Expenditure Account to the Balance Sheet is described by the following Journal Note. This would be Journal Number '10'.

	<u>Debit</u>	<u>Credit</u>
Income and Expenditure Account -	350.00	
John Smith - Capital Account		350.00

The debit entry reflects the debit entry on the Income and Expenditure Account made when striking the balance of profit.

The credit entry is made to the Account of John Smith. This entry has been made already to John Smith's Personal Account in the Example above but you should be aware that the time of making the entry is after the Trial Balance. It is the final entry made when the Balance Sheet is balanced.

Thus the balance shown as owing to John Smith on the Trial Balance is \$1400.00. Then, on completion of the Balance Sheet and the establishment of the profit of \$350.00, the above Journal Note No ' 10 ' is made and the credit entry of \$350.00 is made to John Smith's Personal Account. This makes the balance owing to him \$1750.00 in accordance with the Balance Sheet.

The Income and Expenditure Account and Balance Sheet is set out below and you will observe that they are exactly the same as shown in Example 31. This demonstrates that the use of Abbreviated BOOK KEEPING plus full formal BOOK KEEPING for outstanding transactions at the end of the Financial Period does produce the correct result.

<u>John Smith</u>			
<u>Income and Expenditure Account</u>			
<u>For the three months to 31st March</u>			
Purchases of Books and Meters	1100.00	Sales of Training and Processing	1000.00
<u>Less: Stocks</u>	<u>910.00</u>		
	190.00		
Wages	120.00	Sales of Books and Meters	330.00
Rates	100.00		
Rent	250.00		
Electricity	105.00		
Telephone	60.00		
Stationery	80.00		

Depreciation	25.00	
Provision for Bad Debts	50.00	
Profit for the Period	350.00	
	<u>1330.00</u>	<u>1330.00</u>

Balance Sheet at 31st March

<u>Assets</u>		<u>Liabilities</u>	
Furniture at cost	500.00	John Smith Capital Account	
Less;		- Balance	1400.00
Depreciation	<u>25.00</u> 475.00	Add: Profit	<u>350.00</u>
Balance at Bank	2180.00		1750.00
Sundry Debtor	100.00	Sundry Creditors	1390.00
Less; Provision		Accrued Expenses	75.00
for Bad Debts	<u>50.00</u>	Advance Payments	500.00
	50.00		
Stock	910.00		
Prepayments	100.00		
	<u>3715.00</u>		<u>3715.00</u>

FINAL NOTES - REFERENCE HCO POLICY LETTER of 10th October. "ACCOUNTS  
AUDIT SERIES No. 5 "HOW TO DO FINAL ACCOUNTS"

KEEPING OF "ACCOUNTS"

If you examine the "Working Papers" for Income and Expenditure Account and Balance Sheet in the above Policy Letter of 10th October you will observe that the various "Accounts" shown are kept horizontally across the page and produce their final balance to the right hand side of the page in the 'Final Figures' column.

This is different to the methods shown in this Policy Letter where each "Account" has been kept in vertical fashion. That is to say that all the debit entries have been listed down the left hand side of the "Account" and all the credit entries have been listed down the right hand side of the "Account".

H.C.O. Policy Letter of 10th October, above, keeps the "Accounts" horizontally because this is more convenient administratively but you should be aware that it produces exactly the same result as though each Account was kept in vertical fashion. If you follow any of these

"Accounts" across the page you see that the entries indicated are either "debit" or "credit". And if you took all the "debit" entries for any "Account" shown and listed them vertically down the left hand side of a page and then listed all credit entries for that "Account" down the right hand side of the same page, and then struck the balance, you would find yourself with the same result as that shown in the "Final Figures" column.

A BALANCE SHEET FOR THE UNITED KINGDOM AND COMMONWEALTH

As explained in this Policy Letter a Balance Sheet lists Assets on the left hand or debit side and lists Liabilities on the right hand or credit side.

This is of course completely correct and logical since this reflects the exact manner in which such Assets and Liabilities are recorded in the respective "Accounts". Assets are debit balances and Liabilities are credit balances and the Balance Sheet should simply record this.

It is therefore completely illogical to find that Balance Sheets prepared in the U.K. and the Commonwealth usually list Liabilities on the left hand or debit side and list Assets on the right hand or credit side.

This is something which has grown up by custom over the years and the writer is not aware of any logical reason for it. But because of this custom you will find that the Balance Sheet shown in the above Policy Letter of 10th October does list Assets on the right hand side and lists Liabilities on the left hand side.

However there is no need to be confused by this illogicality of English custom. Just realize that Assets are debit balances and should be on the left hand side and that Liabilities are credit balances and should be on the right hand side.

And you have the writer's full permission to produce a Balance Sheet in a logical manner - with Assets on the left hand side and Liabilities on the right hand side - and to completely disregard this illogical custom.

The Americans do this correctly anyway and any U.S. Balance Sheet is produced logically with Assets on the left hand side and Liabilities on the right hand side.

Derek Field  
Accountant WW

for

Denny Gogerly  
Treasurer WW

for

Herbie Parkhouse  
D/Guardian Finance WW

for

Jane Kembar  
The Guardian WW

for

Mary Sue Hubbard  
The Controller

for

L. RON HUBBARD  
FOUNDER

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