

Club Accounting

AVOID THIS - Member Fees to Offset an Equally Allocated Expense

We treasurers are a very conscientious lot. We want to do the right thing. Sometimes when we think we are doing the right thing, we are really doing the wrong thing. This is especially true when we try to track each partner's contribution to an equally allocated expense by filling in the "Fee" column on the "Enter Member Deposit" screen.

Gene Rooks and Rip West have really helped me to come to grips with this particular problem. I have probably driven them half crazy with all my questions and examples. Many of my examples were hard to follow. I have cobbled together another example showing the real effect of using member fees to offset an equally allocated expense. Perhaps it will be easier to follow. Rip West calls it the "DOUBLE WHAMMY" effect. I did not fully appreciate his use of the word "double" until I ran these three case studies.

Example Scenario:

This example is about a club that has 12 members and a value of \$132,000 as of January. At the February meeting, the partners decide to purchase a portable LCD projector so everybody can see and work on SSGs together at future meetings. The projector will cost the club \$1200. The partners decide to split the cost equally. Each partner adds an extra \$100 to the usual \$100 investment contribution. The treasurer collects \$2400, dutifully records a \$100 PAYMENT and a \$100 FEE for each member. A few days later the treasurer purchases the projector and enters an "Equally Allocated Expense" for \$1200. The club's investments as of the February's valuation are exactly the same in January.

The partners' unit ownership levels are different for each of the three studies. In the first case, everybody owns an equal share in the club. Very few clubs actually fit into this model. It is the easy case. It works just like we expect. Each partner's real share of the projector is \$100. The second case is really more typical of my club. We have some partners that have been in the club for 13 years and some that have been with us for only 2 years. The expense analysis shows something that we did not expect. Senior members are paying much less of the expense than junior members. It gets worse. The third case contains a new member, member number 12. When you look at the new member's "Real Share" of the of the \$1200 expense, you will see why Rip West calls this the "DOUBLE WHAMMY" effect. The new member pays almost \$200. Remember, the original intent was to share the cost of the projector equally, \$100 per partner.

Why We Should Never Ever Use Member Fees to Offset an Equally Allocated Expense

Case 1 - No Problem - Everybody Owns an Equal Share of the Club

As Of Jan 31, 2006			As Of Feb 28, 2006			\$1200 Expense Analyzed		
Partner	Paid In Altogether	Total Units	Paid In Since 2/1/06	Total Units	Current Value	Expected Value	Difference	Real Share of Expense
1	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
2	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
3	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
4	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
5	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
6	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
7	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
8	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
9	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
10	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
11	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
12	\$11,000.00	110	\$200.00	110.008929	\$11,100.00	\$11,100.00	(\$0.00)	\$100.00
Totals	\$132,000.00	1320	\$2,400.00	1320.107148	\$133,200.00	\$133,200.00		\$1,200.00

Case 2 - How to Cheat Junior Partners - It Could Be Worse

As Of Jan 31, 2006			As Of Feb 28, 2006			\$1200 Expense Analyzed		
Partner	Paid In Altogether	Total Units	Paid In Since 2/1/06	Total Units	Current Value	Expected Value	Difference	Real Share of Expense
1	\$16,500.00	165	\$200.00	165.008929	\$16,649.55	\$16,600.00	\$49.55	\$50.45
2	\$15,500.00	155	\$200.00	155.008929	\$15,640.54	\$15,600.00	\$40.54	\$59.46
3	\$14,500.00	145	\$200.00	145.008929	\$14,631.53	\$14,600.00	\$31.53	\$68.47
4	\$13,500.00	135	\$200.00	135.008929	\$13,622.52	\$13,600.00	\$22.52	\$77.48
5	\$12,500.00	125	\$200.00	125.008929	\$12,613.51	\$12,600.00	\$13.51	\$86.49
6	\$11,500.00	115	\$200.00	115.008929	\$11,604.50	\$11,600.00	\$4.50	\$95.50
7	\$10,500.00	105	\$200.00	105.008929	\$10,595.50	\$10,600.00	(\$4.50)	\$104.50
8	\$9,500.00	95	\$200.00	95.008929	\$9,586.49	\$9,600.00	(\$13.51)	\$113.51
9	\$8,500.00	85	\$200.00	85.008929	\$8,577.48	\$8,600.00	(\$22.52)	\$122.52
10	\$7,500.00	75	\$200.00	75.008929	\$7,568.47	\$7,600.00	(\$31.53)	\$131.53
11	\$6,500.00	65	\$200.00	65.008929	\$6,559.46	\$6,600.00	(\$40.54)	\$140.54
12	\$5,500.00	55	\$200.00	55.008929	\$5,550.45	\$5,600.00	(\$49.55)	\$149.55
Totals	\$132,000.00	1320	\$2,400.00	1320.107148	\$133,200.00	\$133,200.00		\$1,200.00

Case 3 - How to Cheat New Partners - They May Never Recover!

As Of Jan 31, 2006			As Of Feb 28, 2006			\$1200 Expense Analyzed		
Partner	Paid In Altogether	Total Units	Paid In Since 2/1/06	Total Units	Current Value	Expected Value	Difference	Real Share of Expense
1	\$22,000.00	220	\$200.00	220.008929	\$22,199.10	\$22,100.00	\$99.10	\$0.90
2	\$20,000.00	200	\$200.00	200.008929	\$20,181.08	\$20,100.00	\$81.08	\$18.92
3	\$18,000.00	180	\$200.00	180.008929	\$18,163.06	\$18,100.00	\$63.06	\$36.94
4	\$16,000.00	160	\$200.00	160.008929	\$16,145.04	\$16,100.00	\$45.04	\$54.96
5	\$14,000.00	140	\$200.00	140.008929	\$14,127.03	\$14,100.00	\$27.03	\$72.97
6	\$12,000.00	120	\$200.00	120.008929	\$12,109.01	\$12,100.00	\$9.01	\$90.99
7	\$10,000.00	100	\$200.00	100.008929	\$10,090.99	\$10,100.00	(\$9.01)	\$109.01
8	\$8,000.00	80	\$200.00	80.008929	\$8,072.97	\$8,100.00	(\$27.03)	\$127.03
9	\$6,000.00	60	\$200.00	60.008929	\$6,054.95	\$6,100.00	(\$45.05)	\$145.05
10	\$4,000.00	40	\$200.00	40.008929	\$4,036.94	\$4,100.00	(\$63.06)	\$163.06
11	\$2,000.00	20	\$200.00	20.008929	\$2,018.92	\$2,100.00	(\$81.08)	\$181.08
12	\$0.00	0	\$200.00	0.008929	\$0.90	\$100.00	(\$99.10)	\$199.10
Totals	\$132,000.00	1320	\$2,400.00	1320.107148	\$133,200.00	\$133,200.00		\$1,200.00

The treasurer could have avoided these unintended consequences by simply entering the partners' contributions as a \$200 PAYMENT and NO FEES. Then, a few days later the treasurer purchases the projector and enters an "Equally Allocated Expense" for \$1200. That is all there is to it! Each partner is automatically charged \$100 for their share of the projector. Each partner will be credited with a \$100 tax deduction, if the projector was deemed to be a deductible expense.

Thank you,

Ron Cox, Treasurer
Triad Investment Club