

9-1929

Accounts of the Fruit and Produce Commission Merchant

Gabriel A. D. Preinreich

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Preinreich, Gabriel A. D. (1929) "Accounts of the Fruit and Produce Commission Merchant," *Journal of Accountancy*. Vol. 48 : Iss. 3 , Article 2.

Available at: <https://egrove.olemiss.edu/jofa/vol48/iss3/2>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Accounts of the Fruit and Produce Commission Merchant

BY GABRIEL A. D. PREINREICH

The fruit and produce commission merchant is the middleman between the grower and the retailer. His principal business, as indicated by his name, is the sale of consigned merchandise and the remittance of the proceeds to the owner, after deduction of all expenses, which include a commission for services rendered.

In actual practice, the activities of the larger firms are more varied and usually embrace all the following:

1. Sale of consigned merchandise on a commission basis.
2. Sale of consigned merchandise on a profit-and-loss-sharing basis.
3. Retailing of credit to growers.
4. Operation of owned or leased farms and marketing of crops raised.
5. Purchase of merchandise as principals for immediate resale.
6. Purchase of merchandise as principals or agents for deferred resale.
7. Operation of transportation facilities for marketing and delivery.
8. Prosecution of transportation claims.

As far as his activities as an agent are concerned, the fruit and produce commission merchant may well be compared to a stock broker: both operate in a highly sensitive and widely, sometimes erratically, fluctuating market; both serve a large and changing clientele, and both must be equipped to give effect to orders and account for them with the utmost promptness. In fact, delay is even more fatal to the former, because he is dealing in a perishable commodity, which, unless promptly disposed of, will turn into a liability and invite endless complaints involving questions of fact not always susceptible of proof.

Speed and accuracy in rendering account of sales are so essential to the success of every commission house that there should be no exceptions to the cardinal rule that all shipments received and sold during the day must be accounted for before the office closes for the same day. An accounting system not adapted to this paramount requirement will inevitably act as a serious handicap in the race against the keenest competition.

Unfortunately, the necessity of maintaining an efficient and up-to-date accounting department is not always realized by the heads

of large firms, who, as a rule, built up their businesses from a very modest start and are therefore not sufficiently conversant with modern methods. Old-fashioned, cumbersome practices and considerable duplication of work still prevail in many offices, although the introduction of a system based upon the latest statement machines would simplify the task greatly and insure greater accuracy at the same time.

The following paragraphs will give a brief outline of the routine of a large fruit and commission house with particular attention to certain accounting problems arising from special conditions not found elsewhere, which call for highly specialized treatment if the best results are to be obtained.

Receipt of merchandise. Shipments from many different sources are received during the night at railroad freight yards or docks and must either be sold on the spot, or be transported to the various markets in the city. In either case, the merchandise is eventually distributed among the salesmen in lots described in detail on consignment reports prepared in duplicate by the buying agent and attached to the shipping documents. The salesman retains the duplicate, signs the original and forwards it with freight bill, inspection certificate and other documents to the office, where a separate voucher envelope is immediately prepared for each carload for the filing of all papers and information appertaining to it.

Sales. Selling activities are usually confined to the hours between midnight and noon. Sales pads containing original and duplicate sales slips and two sold cards are used. The original is sent to the billing department and the duplicate retained by the salesman, while one sold card is given to the purchaser and the other attached to the goods sold. Upon delivery, the signature of the purchaser must be obtained and the signed card returned to the office, to be filed with others in numerical order by days.

Billing and collection. In the billing department, cartage rates are entered on the sales tickets, which are then extended, totaled, checked and sorted alphabetically for the benefit of the billing-machine operator.

The collection records present a radical departure from the old-fashioned accounts-receivable ledgers, which is necessitated by special trade customs and conditions. Perhaps in no other business are unauthorized reductions of prices previously agreed to so widespread or tolerated to such an extent. A very large

percentage of invoices is never paid in full, but returned with so-called "clips" marked thereon and accompanied by a remittance for the reduced amount. Since each invoice lists many items, several of which may be adjusted arbitrarily by the purchaser, it would be impossible to record and explain all these differences on the standard ledger account. For this reason the accounts-receivable ledgers consist of duplicate invoices filed in alphabetical order in several loose-leaf binders. These sheets may be marked up readily to conform to the explanation furnished, while the original bill returned with the remittance is sent to the salesman for adjustment with the buyer. Sometimes insistence upon the agreed price is successful; generally, however, the differences are eventually allowed.

Invoice blanks are prepared in sets of original and duplicate, ready for use in a statement machine having separate counters for amount, cartage, containers and total, corresponding to columns on the invoice. In addition to date, description and price, the number of the sales ticket is also entered, in order to facilitate reference to the signed sold card, whenever the purchaser can not be found to have received the item in dispute. Typed invoice sets are filed in an alphabetical tray, the originals being detached and forwarded daily or weekly, in accordance with arrangements made with the individual customers. Until the invoice is sent out, all subsequent sales are simply added to preceding ones on the same sheets and the machine automatically prints the grand total in the last column.

Remittances are sorted alphabetically and entered in separate columns of the cash-receipt book for each subdivision having a separate controlling account. Postings are made with the usual date and folio references by using a "paid" stamp, or by deducting part payments to show open balances.

Once a week all canceled sheets are taken out and those accumulated in the tray for the current week substituted, the weekly totals shown by the counters of the statement machine being posted to the general ledger:

Dr. Accounts receivable	A-F
	G-O
	P-Z
	Chain stores
	Cr. Sales
	Containers
	Cartage income

For weeks overlapping the end of the month, two readings are taken from the machine, so that the general ledger may show the monthly closing figure as well.

The allowance book is posted by means of an "allowed" stamp or by deducting part allowances from the amount shown to be due. The weekly posting to the general ledger is as follows:

Dr. Sales canceled	
Sales allowances	
Cost of sales:	
Containers	
Cartage	
Cr. Accounts receivable	A-F
	G-O
	P-Z
	Chain stores

Proof of the correctness of all postings is obtained by preparing weekly lists of all open items and comparing the totals with the controls.

The account-sales department. The account-sales department has two divisions, one for commission consignors and the other for joint-venture shippers and others. Commission consignors are those who pay a flat commission for the services of the consignee as already mentioned. Their number is considerable, but the individual shipments are small, so that one carload frequently contains consignments from several dozen different parties, each of whom expects to receive his separate cheque by return mail. Joint-venture shippers ship merchandise in carload lots with the understanding that the net profit or loss from the sale will be shared in a specified ratio, generally half and half. In such cases drafts are usually drawn upon the consignee for the cost. Account sales are demanded daily, but they need not be accompanied by remittances as the business connection is permanent enough to require only periodical settlements offsetting profits against losses.

The voucher envelopes previously referred to form the basic record, from which all further entries originate. All documents received are segregated according to commission consignors, joint-venture shippers, farms operated and outright purchases. Separate envelopes must be prepared for each carload, all documents stamped with the proper envelope number and the information supplied by them entered on the face of the envelope, which is then placed in an active file, pending the receipt of the

Accounts of the Fruit and Produce Commission Merchant

sales reports. Freight bills are passed on to the disbursing desk, where their payment is recorded in separate columns of the cash-disbursement book in accordance with the plan of segregation. Other disbursements to be authorized by the account-sales department are the payment of drafts drawn against joint-venture shipments and remittances to shippers out of accumulated joint-venture profits, charges being made to "joint-venture cost" and "shippers' ledger control" respectively.

By noon, salesmen report the prices realized for each shipment and the high-pressure work of the account-sales department begins. Freight and cartage are prorated to the individual commission consignors, and amounts are extended, added and checked before the consignment reports thus prepared are turned over to the operators of the account-sales machines.

The account sales for commission transactions consist of voucher cheques with duplicate and triplicate copies, supplied in pads with carbon paper inserted, ready for use. The original has a horizontal perforation, in order that the lower part, the cheque, may readily be detached by the payee. The upper half, the voucher, is ruled in columnar form for the recording of the following information:

Date
Description
Price
Gross amount
Freight
Cartage
Commission
Net amount

A statement machine with five separate counters is used and, at the end of the day, the totals accumulated are entered in corresponding columns of the commission cashbook. A separate bank account is necessary for commission transactions exclusively, in view of the excessive number of small cheques mailed daily which would render the reconciliation of the general bank account too difficult.

The monthly totals of the commission cashbook are posted to the general ledger as follows:

Dr. Sales of commission shipments	Cr. Consignors' freight
	Cartage income
	Commissions earned
	Cash

Consignors' freight having been charged with freight bills paid upon receipt of shipments, the account should now balance. Differences must be analyzed and identified with incomplete transactions or errors to be adjusted.

When the voucher cheques are signed and mailed, the duplicate account sales are bound in numerical order by days for future reference, while the triplicates are filed under the name of the agent, who is entitled to a commission for having obtained the shipment from the consignor. The monthly sales totals of each agent are obtained from these sheets and form the basis of entries for commissions payable credited once a month to the individual accounts in the agents' ledger.

Account sales for joint-venture shipments are somewhat similar to those used for commission transactions, except that there are no cheques attached and that columns are provided for the following:

Date
Car number
Description
Price
Gross amount
Cost
Freight and storage
Cartage
(Commission)
Half profit (*loss*)
Net amount
Remitted
Balance

Blanks are supplied in triplicate sets with carbons, each set being used in lieu of a ledger account and filed in alphabetical order in trays, as accounts-receivable cards are used with book-keeping machines in many other kinds of business. Postings are made from the cashbook columns already mentioned to the cost, freight and remitted columns of the account sales, while the consignment reports duly completed provide the information for the gross amount and cartage columns. Cross footing at the bottom yields the one-half profit, the net amount and the balance for the day. With these figures inserted, the three copies are separated; the originals mailed; the duplicates bound to support the daily totals entered from the counters of the machine into the shippers' journal, and the triplicates filed in loose-leaf binders by the names

Accounts of the Fruit and Produce Commission Merchant

of shippers, but not until the balances have been carried forward to new account-sales sets for the following day. As a rule, no commission is due agents on joint-venture shipments.

The balance of the shippers' ledger control account must equal the total of open balances in the tray, after the shippers' journal is posted as follows:

Dr. Sales of joint venture shipments		Cr. Joint-venture cost
		" freight and storage
		" cartage
		" profits
		(Commissions earned)
		Shippers' ledger control

Joint-venture cost and freight accounts should balance, unless the sale of a shipment is delayed beyond the end of the month. In this case, which will be further referred to under storage transactions, no posting of cost and freight is made from the cashbook until the sale is effected. Any items left unchecked in those two cash-disbursement columns at the end of the month will equal the balances of the cost and freight controls in the general ledger and also the aggregate of items appearing under the same headings on the face of voucher envelopes left in the active file. Joint-venture cartage is closed out monthly to cartage income, unless cartage was earned on an unsold shipment, when the transferring entry must be so adjusted as to leave a debit balance in the joint-venture cartage account corresponding to the total of cartage items listed on the face of active envelopes.

It will be noted that the shippers' ledger actually has four controls, of which three are supported by envelopes and one by the alphabetical tray. If the number of transactions is comparatively small and most shipments are received for immediate resale, the four controls may be combined in one. In the case of a large firm, however, the subdivision will be found helpful, not only because errors may be traced, but also because inventory items are kept separate from accounts receivable or payable balances.

Retailing of credit. In most instances it is necessary to finance shippers during the growing season and to deduct advances thus made from credits due for shipments received. Agreements made with individual shippers vary greatly and range all the way from clean commission or joint-venture transactions or a combination

of both to outright purchases, with provision for the full or prorated deduction of advances from proceeds of shipments until the debt is repaid. In all cases it is possible to use the account-sales blanks described, although some of the columns may not be needed.

Such advances are frequently secured by notes, chattel mortgages on crops or other collateral. Memorandum records contain the necessary information, which is not reflected on the books of account, because experience shows that when crops are poor advances are uncollectable, whether secured or not.

Credit agreements do not provide for interest in the average deal, provided the debt is liquidated at the end of the season. If, however, the shipper must be "carried" for another season, it is customary to charge one year's interest.

Operation of leased or owned farms. The usual problem of accounting for subsidiaries in its simplest form occurs in operating leased or owned farms. A separate set of books is kept for each farm, controlled by an investment account and an operating account for each in the general ledger. A revolving fund account, subject to cheques drawn by the farm manager, is opened in the local bank for operating expenses and replenished by transfer upon receipt of a monthly cash report. Freight and other expenditures incurred in behalf of each farm are entered in separate columns of the cash-disbursement book. Postings are made from these records in detail to the farm ledgers and in total to the operating controls. Sales are entered by the account-sales department in a separate book for each farm and the monthly totals are posted to the general ledger as follows:

Dr. Sales of operated farms	Cr. Texas farm operating account
	Cartage income
	Commissions earned

and to the farm ledgers:

Dr. Control
Cartage
Commissions paid

Cr. Sales

In order to determine the ability of operated farms to compete with outside enterprises it is advisable to treat them exactly as though they were regular consignors. Objections need not be raised against this method in the preparation of consolidated statements, since the amount of expected income is readily available for adjustment.

Purchase of merchandise as principals for immediate resale. Farm managers and others are frequently instructed to buy merchandise and ship it to headquarters. In the case of farms, the regular monthly cash statements will show the amount spent for purchases, supported by vouchers covering each transaction. If it is desired to reflect the profit on the farm books, the sale is entered in the farm-sales journal; if not, the farm merely gets credit for the amount spent. The same two methods may be used in transactions through buying agents. If the agent has a contractual interest in the results of his campaign, he may be treated like any other shipper to whom advances have been made. If not, as in the case of corporate officers, his expenditures may be charged direct to cost of sales.

Purchase and storage of merchandise for deferred resale. Onions, potatoes and other durable vegetables are cheaper in fall than in spring, and it may therefore pay to store them in large quantities. Commission merchants usually engage in this highly speculative activity for their own account as well as in behalf of shippers or as a joint venture.

Accounting records treating this phase of the business should be especially clear and complete, because it is generally necessary to pledge the stock over the winter months as a security for borrowed money, the merchant's own cash resources being already at their lowest ebb on account of advances made to his own farms and other growers in anticipation of next year's crop. This fact to the contrary notwithstanding, it is the practice to charge all expenditures to cost of sales and to set up estimated inventories at the ends of the months, because the actual amount invested in them is often forgotten. In order to avoid guessing, and to save the time spent in analyzing all records for the banker, when borrowing becomes necessary, it is preferable to open a separate storage-ledger column in the cash-disbursement book, in which all cost, freight and storage expenditures made for the firm's own account are entered, the monthly total being posted to storage-ledger control. Voucher envelopes kept on file for every item from the subsidiary storage ledger, which should be reconciled monthly in the usual way. Inventory statements may be drawn up on regular account-sales sheets to be submitted to the bank. When sales are made, the corresponding envelopes will be removed to inactive files and the amounts charged to the respective subdivisions of cost of sales from a monthly summary.

Storage transactions in which others participate are best combined with the regular joint-venture shippers' records. No account sales need be posted or mailed until the merchandise is sold, because the payment of his draft is sufficient notice to the shipper. Joint-venture cost, freight and storage and cartage accounts will, in this case, show substantial debit balances, which, however, are readily supported by voucher envelopes in the active files, until all stored merchandise is finally sold.

Operation of transportation facilities. The ownership of a large fleet of motor trucks is not only a source of comfortable profit, but of considerable satisfaction as well, because of promptness and trustworthy deliveries. With the exception of direct sales from the docks, the same merchandise is carted at least twice: first to the markets and then from the markets to the customers' premises. Repacking and storage increase the need for good delivery facilities.

From an accounting point of view, one feature of trucking operations deserves special attention: how to give credit to the trucks for every haul without organizing a separate trucking business which would render regular bills for its services. The great majority of cartage bills can be eliminated by charging the cartage rates fixed in many large cities by the truckmen's unions to every shipper and customer and crediting the proceeds to the cartage-income account as already indicated in preceding paragraphs. An exception should be made in favor of shippers, whenever goods are sold direct from the docks, because then no service is actually rendered.

Cartage earned on the hauling of outright purchases to market is entered daily from the envelopes in a cartage journal. Another daily entry to the same record arises from delivery hauls to customers who prefer to buy at prices including delivery. As no cartage may be charged to them, the amount earned is entered in the journal instead of on the sales ticket. At the end of the month the total accumulated from both sources is charged to cost of sales and credited to cartage income. Similarly, cartage credited to customers through the allowance book is a charge to cost of sales and not to the income earned by the trucks, if the service was rendered by them.

Trips in addition to the regular two hauls for each package are reported daily by the truck foreman and entered on the envelopes of the respective shipments. Cartage earned on merchandise in

storage is credited to cartage income each month by the simple expedient of bringing joint-venture cartage and storage-ledger control accounts into agreement with the totals shown by the envelopes supporting each control. The profit realized by the trucks on cartage charged against unsold merchandise is, of course, anticipated income, for which adjustment may be made when financial statements are prepared.

Cartage must sometimes be paid to outside truckmen, when owned trucks are unavailable. Amounts so expended are a direct charge against cartage income.

Prosecution of transportation claims. Prosecution of transportation claims would seem to be merely a secondary activity not worthy of being listed among sources of income. As a matter of fact, considerable income is realized from the practical application of the legal theory that if the carrier fails to deliver the goods at the appointed time and market prices subsequently decline the loss so suffered should be borne by the party at fault. Competition forces railroads to settle claims of this nature promptly, so that it pays for a large firm to employ an experienced freight auditor who will, of course, investigate all other grounds for claims as well.

Claims are accounted for on a cash basis. They are entered in a claim register, from which a monthly posting is made to memorandum accounts on the general ledger, so as to show the total of unsettled claims offset by a reserve for the same amount. Collections are posted to the register opposite the original entry and a monthly posting transfers the proceeds to income, against which the salary of the freight auditor and collection expenses are proper charges. If claims are pressed in behalf of some of the larger shippers, register sheets may be opened for them like ledger accounts and collections divided with them in the agreed ratio.

Accounts payable. It has been assumed that no records of accounts payable, such as a voucher register, are being kept. Indeed, no elaborate control over liabilities is needed, because business is transacted almost entirely on a cash basis. Merchandise must be paid for either before shipment or, together with freight, immediately upon receipt. Accounts which may accrue from month to month are therefore limited to expense liabilities for which no special system is needed beyond the preparation of a list showing classified totals of bills which could not be paid before the cashbook closed for the preceding month.

Cash records. The more important columns of the cash-disbursement book, some of which have already been mentioned, are the following:

Consignors' freight
Agents' ledger (commissions payable)
Shippers' ledger
Joint-venture cost
Joint-venture freight and storage
Storage ledger
Merchandise
Freight and storage
Containers
Texas farms
Florida farms
New Jersey farms
Trucking expenses
Expense ledger
General ledger

The columns of the cash-receipt book will be headed somewhat as follows:

Accounts receivable A-F
 G-O
 P-Z
 Chain stores
Cash sales
Transportation claims
General ledger

Other columns may be added as circumstances require, but the general form and use of the books is not different from forms and uses in other kinds of business. If too many bank accounts have to be carried, a cash summary book will be helpful in obtaining the daily cash position.

Income account. A standard form for the income account, which could be pronounced theoretically correct, does not seem to have been found so far. A form widely used, which has the approval of a prominent accounting firm, disregards the fact that the fruit and produce commission merchant is merely a broker after all and considers him the purchaser of all merchandise received from commission and joint-venture consignors to be resold for his own account at the purchase price. In other words, both sales and merchandise accounts are inflated by the same figure, namely, the total of sales for account of consignors, while commissions earned and joint-venture profits are stated as separate income items.

Accounts of the Fruit and Produce Commission Merchant

It is true that the agency relationship is not so well defined in all its ramifications and is not consistently followed to the same conclusions as in the case of other brokers. For instance, sales allowances can not be collected from shippers, sales including delivery are not adjusted for cartage expense, transportation claims collected are not passed on to consignors unless it is so specifically agreed. On the other hand, salesmen seldom identify every price with a package and an individual consignor; they merely report the market average for everybody, perhaps with a slight tendency to be on the safe side, which is, in turn, checked by competition. When small quantities of merchandise remain unsold, they are in effect purchased from the consignor without his knowledge, by sending him an account sales and a remittance based on the market price. These trade practices may imply a certain measure of proprietary interest, but they hardly justify the utter disregard of the commission merchant's position as a factor, nor the statement of the same income twice—once in the gross amount under sales and again in net figures as commissions earned, etc.

A compromise which will satisfy the merchant's insistence that his total sales be shown and will also describe facts more accurately is suggested in the following form:

INCOME		
Sales		\$7,892,341.57
Less: sales for account of		
Commission consignors *	\$2,908,238.21	
Joint-venture shippers	3,416,089.01	6,324,327.22
		\$1,568,014.35
Sales for own account		\$1,568,014.35
Commissions earned		290,823.82
Profit on joint ventures		277,976.86
		2,136,815.03
Less: sales allowances		91,814.56
		Total income from sales
		\$2,045,000.47
Cost of sales		
Merchandise	\$823,123.53	
Freight and storage	390,137.18	
Cartage	32,924.92	
Containers	17,929.48	

* Includes operated farms.

The Journal of Accountancy

Agents' salaries, commissions and ex- penses	\$80,498.45	
Miscellaneous	1,653.88	\$1,346,267.44
Gross profit		\$ 698,733.03

The remainder of the income account does not present special problems. Income from farming, truck operations and claims is best included under the caption "other income," after general and administrative expenses, since it is derived from activities which are not an integral part of the commission merchant's business but merely incidental to it.

The various forms of income accounts all suffer in point of clarity from the fact that collection records are not segregated according to the three main sources of income. Allowances, for instance, are known in total, but can not be allocated separately. This, however, must be considered a matter of secondary importance compared to the necessity of saving time and effort, and of reducing the unwieldy mass of detail to manageable proportions.