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Fur Farm Accounting

BY HARRY S. TEMPLE

Although people have been engaged in fur farming for many years, the fact that most of the operators are individual proprietors with limited amounts of capital has resulted in the use of extremely simple and meagre accounting methods with the owners doing practically all of the bookkeeping. An explanation of a typical procedure in use at the present time, with some constructive criticisms, are briefly presented in this article.

Fur farming is being closely watched by the state governments for the reason that the industry has automatically divided itself into two classes of fur farmers: the unscrupulous promoters and the men who are interested in the breeding and selling of animals and pelts for a legitimate return on their investments. The unscrupulous promoters are selling units of interest in a business presumably represented by specific animals and are impressing their prospective purchasers with large profits due to the high productivity of the animals, endeavoring to substantiate their elaborate claims with governmental statistics. Unfortunately, the claims have in many instances failed, because this type of breeder is not an experienced fur man or animal breeder, and the inability of the promoted companies to show which animals belong to a particular individual has brought the promotion of fur-farming companies into disrepute and under the severe regulations of the "blue sky" commissions in many states.

However, there are many breeders who, by their conscientious work, by the dissemination of helpful information on animal husbandry and by their long experience in the industry, have partly reestablished public confidence in the venture. They are, however, greatly handicapped by state laws imposed for the control of the unscrupulous-promoter type of breeder.

It is obvious that there are many ways in which adequate accounting procedure is helpful to the industry in giving accurate information about costs, losses and gains. A method of accounting procedure in use at present by one of the most modern fur ranches dealing in foxes and mink may be considered as typical of the industry as a whole.

Fur Farm Accounting

The balance-sheet of this ranch reveals briefly:

<i>Assets</i>	<i>Liabilities and capital</i>
Current assets:	Current liabilities:
Cash in bank	Accounts payable
Accounts receivable	Notes payable
Notes receivable	Accrued taxes
Inventory:	
Live stock (classified)	
Pelts	
Supplies	
Fixed assets:	Deferred income:
Land	Ranching advances
Ranch buildings (10)	
Ranch house (10)	
Office furniture and fixtures (10)	
Fences—steel (15)	
Fences—wood (20)	
Kennels (20)	
Pens—wood (20)	
Ranch equipment (20)	
Automobiles (25)	
Shipping crates (20)	
<i>Less:</i> depreciation reserves	
Deferred assets:	Capital:
Office supplies	Capital stock
Insurance prepaid	Surplus

NOTE.—The numbers following fixed asset items refer to depreciation rates allowed by the federal income-tax department.

The profit-and-loss accounts are:

Gross sales	\$	
<i>Less:</i> returns and allowances		_____
Net sales	\$	\$
Cost of goods sold:		
Inventory January 1	\$	
<i>Add:</i> purchases		_____
	\$	\$
<i>Deduct:</i> inventory December 31	\$	\$
Gross profit on sales	\$	\$
General expenses:		
Sales salaries and commissions	\$	\$
Ranch salaries		
Office salaries		
Advertising		
Dues and subscriptions		
Interest		
Repairs and maintenance		

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Taxes and federal income tax	\$		\$
Travelling and car expense			
Depreciation			
Telephone and telegraph			
Light and power			
Misc. supplies and expense			
Postage			
Fuel			
Drugs and medical attention			
Live-stock inspection			
Stationery and printing			
Legal and special service	\$		\$
Operating profit			\$
 Other income:			
Ranching income	\$		
Miscellaneous income	\$		\$
			\$
 Other charges:			
Bad debts	\$		
Miscellaneous	\$		\$
Net profit for year			\$

The most casual scrutiny of the above profit-and-loss formula will disclose the fact that little information is furnished with regard to the several types or phases of operation, although there is a generous refinement of expenses.

In actual practice the purchases account above contains not only cost of animals bought, but all manner of losses incurred due to forced pelting, ordinary pelting, loss on sales, strayed animals, et cetera.

In commenting upon the profit-and-loss statement, it is well to bear in mind the fact that the average fur farmer is his own book-keeper, and the larger the farm, the less time he has to give to the maintenance of correct accounting records.

The three principal sources of income are: the sale of live stock, sale of pelts, and ranching income derived from care of animals belonging to others. With regard to the last mentioned, a cash advance deposit per animal is required at the beginning of the year and is treated as deferred income. At the end of the year proper adjustments are made to reflect the annual cost of caring for the animals. The method of determining the maintenance cost per animal for the year is to assemble all of the appropriate expenses and divide the total by an average inventory of animals and same-season pups on hand throughout the year. These

costs do not usually include such items as advertising expense and extraneous charges in which outside owners would have no interest.

Sales are accounted for in the usual commercial manner and need no mention here.

Conflicting opinions center around the valuation of the herd, the cost of sales and the proper way to handle the various types of losses. Truly the above gross profit on sales is not that alone but also contains many factors which have not been disclosed in the statement.

There are apparently two distinct divisions in the business of fur farming, first, the raising and breeding of animals for sale as live stock or pelts; second, the ranching of live stock owned by others.

In accounting for the owned live stock, an inventory record of the animals, such as is put out by the American National Fox Breeders' Association of Minneapolis, Minnesota, will suffice. Whether bought or bred, each animal should be represented by a sheet in the record and in case of a purchase, the price paid for the animal should be inserted. All progeny should be recorded in the inventory record. To avoid complicated bookkeeping as is outlined in many works on animal husbandry, all feeding cost should be charged as expense of operation for the year. The increase in value of the animals due to natural growth is not taken into consideration until the animals are sold, a practice which is not incompatible with income-tax regulations.

Suggestions for simplification of the method of accounting for inventories and cost of sales are briefly stated herewith, with advantages and disadvantages.

METHOD A

The book value of all stock purchased would be the purchase price. All pups whelped on the farm would have no inventory value unless some nominal amount such as one dollar were placed on each for general ledger control purposes. All expenses of feeding and caring for the animals would be charged to operations and not capitalized.

When live stock is sold, if it has been purchased, the cost of sales is the purchase price. If it has been whelped on the farm it has no cost, the sale price being wholly a taxable profit. Complete inventory of every animal would be necessary under this

method and proof of the general ledger control of animal inventories, which may be kept either in numbers or dollars, would have to be made by actual count from time to time.

Inventories on the general ledger would be in two or more accounts, one of which includes only animals purchased and their cost, while the other would contain animals bred, without a value.

The advantages of this method are:

1. It is simple and easily handled by the average fur man who is his own bookkeeper.
2. It is conservative.
3. It eliminates the burden of taxation in the early years of the business.
4. It eliminates the hazard of over-valuation which deceives many in the purchase of capital stock of fur-farming companies.
5. It facilitates accounting for losses occurring through death, straying and other means.

The disadvantages seem to be:

1. In not valuing progeny a large secret reserve is created.
2. By not capitalizing the cost of caring for the animals, a true index of their costs is ignored; but it may easily be observed that almost any value placed on the herd by any method is at best a guess.
3. The true net worth of the business is not carried on the books. This disadvantage may be partly overcome by stating the inventory, the number, gender and ages of the live stock in well defined groups, and so allowing the reader of a fur farmer's statement to estimate quickly the net worth by placing an arbitrary value on each type of live stock.

METHOD B

A second method of valuing inventories is to capitalize from year to year the costs of feeding and caring for the animals, establishing a unit cost for each year, and entering it on the inventory record of each animal. When the animal is sold, cost of sales will then include the feeding costs for each year accumulated to date as well as the purchase price. The general ledger inventory account will control the inventory cards and include the purchase price and accumulated feeding costs by years.

This involves considerable bookkeeping, is no index as to the value of the animal and, if the sales are large in the early years, it tends to increase taxes in the formative years of the business.

METHOD C

A third method is to value all animals at their pelt worth at the date of inventory. This renders a no more correct value of the stock than does not valuing it at all. Furthermore it would result in the inclusion in cost of sales of losses not yet sustained on animals purchased, usually for a great deal more than their pelt value and inventory adjustments.

It would seem that method A would be fairest, because, after all, successful breeding is what every farmer desires and the expense per pup amounts to a relatively small item. The sale of pups is so largely profit that for ordinary purposes their sales could be treated as all profit, whether sold alive or as pelts.

A reconstructed balance-sheet giving effect to inventories suggested under the first method explained, might be as follows:

<i>Assets</i>	<i>Liabilities and capital</i>
Current:	Current liabilities:
Cash \$	Accounts payable . . . \$
Accounts receivable	Notes payable
Notes receivable	Accrued Taxes
Inventories	
Live stock bought (No.)	
Live stock bred, no value expressed—	
Under 1 year Male Female	Deferred income:
1 year " "	Ranching advances . . . \$
2 years " "	
3 years " "	
Over 3 years " "	
Pelts	
Supplies	
Fixed assets:	Capital:
Plant and equipment \$	Capital stock \$
Less: depreciation reserve _____	Surplus \$
Deferred assets \$	
\$ _____	\$ _____
=====	=====

A profit-and-loss account following the general plan outlined in the first method of inventory valuation would contain the following items:

Net sales—animals purchased	\$
Cost of purchased animals sold	_____
Gross profit	\$

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Net sales—animals whelped—gross profit	\$ _____
Total gross profit	\$ _____
General expenses	\$ _____
Less: ranching income	_____
Losses through death, etc.	\$ _____
Operating profit	\$ _____
Other income and expense (net)	_____
Net profit for year	\$ _____

Appropriate refinements of each phase of operation may be provided.

Ranching income is shown as a deduction from general expenses inasmuch as the amount usually charged for ranching is cost plus ten per cent. which barely covers overhead. Many ranchers, however, charge a flat fee of \$150 per animal each year plus \$10 for care of each pup.

RECORDS

A card inventory would seem to be more efficient than the bound stock book, because if there is a sheet for each animal, large ranches of a thousand head or more would find books cumbersome for continuous handling. However, any stock record which includes a place for purchase prices would be adaptable to the foregoing methods. Records of whelped pups might well be cross-referenced to show parentage.

Other books of account are a simple cash journal with as many columns as desired for debits and credits to banks, general ledger, accounts receivable and payable, certain expenses, inventories, and classifications of income.

A general ledger, and accounts receivable and accounts payable subsidiary-ledgers comprise the remainder of the records. The animal inventory and progeny records are very carefully kept as important aids to the correct mating processes. Printed forms showing layouts of the pens and animals in each, together with inspection charts, are valuable and necessary adjuncts to successful breeding.

Many ranches caring for outsiders' live stock render the owner detailed reports at whelping time giving data as to exact location of the animals, size of litter, conditions of the pups and parents, dates, and other pertinent information.

The fur-farming industry is growing, despite the disrepute that scheming promoters have brought to it and despite the increase in

state regulation. Properly conducted it is profitable and intensely interesting to both the farmer and the casual observer. Profits, however, depend upon knowledge, experience, and quality of stock bred. Inasmuch as the national and state associations of fur farmers make available facts and figures based on actual experience it may be accepted that the use of adequate and uniform accounting records will be the greatest aid in securing and applying knowledge obtained from each farm.

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