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Accounting for Fleet Corporation Vessels*

By Will-A. Clader

The United States Shipping Board Merchant Fleet Corporation vessels owned by the government are operated by private interests under two arrangements. For the operation of vessels under the "operating agreement, 1924" printed accounting instructions for managing operators were issued by the general comptroller of the Fleet Corporation effective September 1, 1926, superseding previous instructions. Recently the board inaugurated the policy of paying for the operation of the vessels on the basis of lump-sum compensation to the managing operators. Such an arrangement is called a "lump sum" agreement, especially designated as "operating agreement—1930."

The lump-sum agreement between the managing operator and the Fleet Corporation for the operation of vessels provides that the accounting and auditing procedure to be followed and the books and accounts to be maintained shall be as prescribed by the Fleet Corporation. Detailed instructions, which must be observed, are issued to the operator but they are not as comprehensive as the previous instructions. All transactions affecting the operations of the line, other than the managing operator's private overhead expenses and the compensation received from the Fleet Corporation under the operating agreement, are required to be recorded in books installed and maintained separate from the managing operator's private accounts. The books of original entry to be maintained during the entire period of the operation of the Fleet Corporation's vessels under the lump-sum agreement are:

Cashbook
Accounts-payable voucher register
Journal register
Freight book

The operating agreement provides that the operation of the vessels is to be financed by the operator, who allots from its private funds from time to time sufficient cash to man, operate and supply the vessels. Such cash, together with all collections

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of revenue and other collections incident to the operation of the vessels, is deposited in separate bank accounts and recorded in the Fleet Corporation cashbook, which shows the date of each remittance, name of remitter, a brief description of what the remittance covers, vessel and voyage number, amount, and the proper columnar distribution of the various receipts to the appropriate account classifications. Cash disbursements affecting the operation of the vessels are also recorded in the Fleet Corporation cashbook and must show in detail the date of the cheques, cheque number, voucher number, name of payee, and amount. The accounting instructions state that all cash disbursements recorded in this cashbook should be charged to accounts payable. At the end of each month the various columns should be summarized and the totals posted to the general ledger control accounts.

Invoices for supplies, etc., together with all other expenses related to the operation of the vessels are recorded in the accounts-payable voucher register in order that the accounts may reflect at any time all liabilities resulting from the operations. Expenditures are covered by accounts-payable vouchers which are entered in the register. The vouchers and the register show the date, number, name of creditor, brief description of each item (such as supplies, repairs, advances, etc.), vessel and voyage number, and the columnar distribution to the account affected. At the end of each month the various columns are summarized and the totals posted to the general ledger control accounts.

Transfers between accounts, revenue manifests, expense statements submitted by masters and sub-agents, and all other transactions which are not recorded in either the cashbook or the accounts-payable voucher register are recorded in the journal register through the medium of formal journal vouchers, which must be listed in numerical order in debit and credit columns sufficient for the accounts which are most used. The various account columns are summarized at the end of each month and the totals posted to the general ledger control accounts.

The Fleet Corporation recommends that postings be made to the individual subsidiary accounts, later described, directly from the accounts-payable vouchers, journal vouchers, and other original entry documents, rather than from the books of original entry, in order that the operator may be assured of the benefit of the required control system, which will be described. The vouchers and other original entry documents should be selfexplanatory and have securely attached to them the bills, statements, etc., comprising the basis for the entry.

The use of a freight book as a book of original entry is optional. When used as a part of the accounting records it is confined entirely to an analysis of open accounts receivable. It is also a record from which the necessary information may be obtained to close the books and to prepare financial statements and to adjust the accounts-receivable control and determine the amount of freight collections received prior to journalization of manifested revenue to be credited to accounts receivable. The freight book is also universally used by all steamship companies as a traffic record of shipments booked prior to the preparation of bills of lading and vessel manifests. As such it is often called a "cargo commitment register."

Control and subsidiary accounts are prescribed as follows:

	Control accounts	*Subsidiary accounts*
1	Cash in banks—operating	By banks
2	Cash in banks—general average custodian funds	By banks and general average cases
3	Petty cash	
	Accounts receivable:	
4	Domestic freights receivable	By domestic sub-agents and local debtors
5	Foreign freights receivable	By foreign sub-agents
6	General average claims receivable	In the name of insurance carriers or adjusters by vessel, voyage, number and claim number
7	Marine insurance losses receivable	
8	Protection and indemnity claims receivable	
9	Miscellaneous accounts receivable	By individual debtor
10	Advances to domestic sub-agents	By sub-agents
11	Advances to foreign sub-agents	By sub-agents
12	Masters	By masters, vessels and voyages
13	Slop-chest purchases	By vessels and voyages
14	Containers	By vessels and voyages
15	Departmental stores, supplies and equipment	By location
16	Prepaid insurance premiums	
17	Prepaid pier rentals	
18	Prepaid conference expense	
19	Prepaid advertising	
20	Accounts payable	By individual creditors
21	Unclaimed wages	
22	Collections and deposits for passenger transportation	
23	Reserve for operation of vessel expense	

24 Reserve for vessels repairs	
25 Operating corporation—capital account	
26 Operation of vessels revenue *	By vessel and voyage
27 Transshipment revenue *	By vessel and voyage
28 Slop-chest sales	
29 Foreign exchange gains and losses	Identify postings by vessel and voyage
30 Cash discounts earned	
31 Special discounts	
32 Interest earned on bank deposits	
33 Operation of vessels expense *	By vessel and voyage
34 Transshipment expense *	By vessel and voyage
35 Cost of slop-chest sales	
36 Vessel repairs *	By vessel and voyage
37 Bad accounts	

NOTE.—In the submission of monthly trial balances to the Fleet Corporation the balances in accounts marked with an asterisk (*) should be divided between: (1) Completed voyages; (2) Incompleted voyages.

It is required that the control accounts be kept in a general ledger and the subsidiary accounts in separate ledgers. The use and purposes of the control and subsidiary accounts are explained in the accounting directions of the Fleet Corporation given to operators under the lump-sum agreement.

"Cash in banks—operating" account shows all cash in banks to the credit of the operator of the line. Bank accounts in foreign countries are recorded in both the foreign currency amount and the United States dollar equivalent. Subsidiary accounts are kept by banks and locations.

Cash collected by the operator in general average cases and held pending transfer to the adjusters is recorded in the account "Cash in banks—general average custodian funds." Subsidiary accounts are kept by banks and general average cases.

The petty-cash account shows the cash in the custody of the operator in the form of an imprest fund, which is to be used only for the payment of minor urgent and necessary disbursements. At the end of each month before the books are closed the petty-cash fund shall be reimbursed for disbursements made therefrom.

Prepaid outward revenue and collect inward revenue due from domestic sub-agents and local debtors and from foreign sub-agents are charged to the control accounts prescribed as already shown. The subsidiary accounts must be kept in the name of sub-agents and local debtors, and the postings must be by vessel and voyage.

The charges to these subsidiary accounts must be made at the time of journalizing the revenue manifests.

Charges recoverable from insurance carriers and general average adjusters are recorded in the accounts provided for them. The subsidiary accounts must be kept by the name of the insurance carriers or adjusters and show vessel, voyage number and claim number. It is required that amounts due for charge-backs against sub-agents, vendors, etc., shall be charged to miscellaneous accounts receivable, and that subsidiary accounts be kept in the name of the debtor.

Protection and indemnity insurance is carried to indemnify the operator against losses due to injury to persons, damage to other vessels except by collision, damage to docks and piers, damage to or shortage of vessel's cargo and various other losses or expenses as specified in the covering policies.

In case of damage by storm, fire or casualty at sea the amount of loss is determined by "general average adjusters" of whom there are only about fifty in the United States. Any expenses incurred in protecting the vessel and its contents against loss or damage are apportioned to the vessel and its contents and a proper proportion of such expenses must be borne by everyone having an interest therein. It would be possible for a shipper of goods to suffer loss on account of a fire aboard ship even though his shipment was in a part of the ship not damaged by the fire, and he must look to his insurance company for reimbursement.

All receivable items reflected in receivable accounts must be billed promptly, the collection bills numbered and a methodical follow-up system employed to insure the prompt collection of money due.

It is to be observed that separate control and subsidiary accounts are provided for the purpose of recording advances to domestic and foreign sub-agents. These accounts show the cash advanced to sub-agents to disburse when no arrangements are made with them to finance disbursements at their respective ports, in part, at least, from collections of revenue. Disbursement accounts received from sub-agents to liquidate the advances made to them are audited completely by the accounting department of the line and recorded promptly, so that these advance accounts will at all times reflect the sub-agents' actual accountability to the operating company. The subsidiary accounts are kept by agents, and the postings are governed by vessels and voyages.

Advances to masters for payrolls and miscellaneous expenses chargeable to operation of vessels expense, allotments, and slop-chest sales are charged to "master's" account. Masters are required to make separate settlements at the termination of each voyage and to return any unexpended cash. Books of master's receipt forms, each book containing twenty-five quintuple forms numbered individually, are furnished by the Fleet Corporation to assist the operator in handling the masters' accounts. When a master obtains an advance from a sub-agent he signs the quintuple receipts and gives the first four copies to the sub-agents. The original and duplicate copies are forwarded by the sub-agent to his principal with his port accounts, and the third is sent to his principal immediately after making the advance to the master. The fourth copy is retained by the sub-agent. The fifth is not removed from the master's book. The master is required to produce the book at the time of settlement to permit a complete check of all advances to him. When voyages terminate at ports other than those where the operator's general offices are located, payrolls are handled through the masters' accounts by charging the master with unclaimed wages, fines and allotments, and crediting him with the gross amount of the payroll and the unexpended cash advances returned. Subsidiary accounts are kept in names of masters by vessels and voyages.

Allotments are payments made to dependents or other persons designated by members of the crews on account of their wages.

Slop-chest supplies on board the vessels of the line, as required by the navigation laws of the United States, are charged to the slop-chest-purchases account. At the end of each voyage a complete inventory of slop-chest supplies is taken and an entry made to the slop-chest-purchases account crediting the completed voyage and charging the succeeding voyage with the amount of the inventory, priced at cost. The balance remaining under the completed voyage is transferred to cost of slop-chest sales. The sales are recorded on the payrolls for the voyage. Slop-chest-purchases account is supported by subsidiary accounts showing vessel and voyages. While the entries in the slop-chest sales and cost of slop-chest sales accounts should show the vessel and voyage number, no subsidiary records are prescribed.

An alternate method of recording slop-chest transactions, which has been suggested to steamship operators, provides for the use of two accounts, namely, "slop-chest inventories" and "profit-and-loss on slop-chest sales." Under this method the slop-chest-inventory account is charged with the inventories, at cost, on board vessel at the beginning of a voyage and is also charged with all purchases made during the voyage. At the end of each voyage a complete inventory of slop-chest supplies on hand is taken and an entry crediting the terminated voyage and charging the succeeding voyage is made. The revenue from the sale of slop-chest supplies is also credited to the slop-chest-inventory account, usually in one entry from the final payroll voucher showing deductions made from slop-chest supplies issued during the whole voyage. The entire balance remaining in a particular voyage account after these credits have been made is transferred to the profit-and-loss on slop-chest-sales account. This transfer is usually supported by a slop-chest sales report giving a history of all slop-chest transactions occurring during the particular voyage period.

A slop-chest is a full complement of outer, under and oiled clothing, including boots or shoes, hats or caps, and everything necessary for the wear of a seaman, and a full supply of tobacco and blankets. This stock may be sold to the seaman at a profit of not exceeding ten per cent. of the wholesale value at the port at which the voyage commenced.

The refund value of all containers purchased is charged to the containers account, which is credited with the value of containers returned, lost or destroyed. The value of containers lost or destroyed is charged to operation of vessels expense. Subsidiary accounts are arranged by vessel and voyage and show the serial number of containers, from whom they were purchased and their refund value. In order that the containers account may be maintained on a current basis, physical inventories of containers on board each vessel are taken at the end of each voyage. The value of the inventory at the termination of the voyage is transferred to the container account of the succeeding voyage. A memorandum record is kept of containers on which no initial deposit was paid but for which the operator is liable if the containers are not returned within a certain time.

Departmental stores, supplies and equipment are not charged to any particular voyage until the material has been actually delivered to the vessel and the officer's receipt for the material delivered has been obtained. The cost of such purchases held pending the arrival of the vessel for which they were purchased is carried in the account prescribed, the subsidiary accounts showing the location, until the material is delivered to the vessel, when the charge is transferred to operation of vessels expense.

There are prepayment accounts in which to record prepaid expenses deferred, such as insurance, pier rentals, conference expenses and advertising. Such expenses are allocated over the voyages affected and transferred to operation of vessels expense.

Passenger fares collected in advance or deposits collected from prospective travelers for accommodations are credited to the account "collections and deposits for passenger transportation." A subsidiary record is kept showing the name and address of the creditor. As passage for each voyage is taken, the amount is transferred to operation of vessels revenue.

Cash transferred from the operator's private funds to the line's Fleet Corporation bank accounts is credited to the operator's capital account. Cash in the line's Fleet Corporation fund in excess of the operator's needs, which it is desired to return to the private bank account, are charged to this capital account. A corresponding account is kept on the operating corporation's private books to which such transfers of cash are charged or credited.

Operation of vessels revenues and expenses are kept to show the gain or loss from each completed voyage. Each account is divided between completed and incompleted voyages. The revenues and expenses applicable to incompleted voyages are stated on the balance-sheet as deferred income and deferred charges. The income and expenses of completed voyages are often divided between inbound and outbound traffic, although such a division is not prescribed by the Fleet Corporation. Subsidiary ledgers are kept to show the income and expenses of each voyage, incompleted voyages being separated from completed voyages. At the completion of a voyage transfers are made from the incompleted voyage ledger to the completed voyage ledger.

The Shipping Board defines the accounting period of a voyage as from discharge to discharge. A voyage begins at the completion of discharge of a cargo at a home port, includes the period intervening between that time and the time of sailing from home port, the outward voyage, intermediate voyages, if any, and the homeward voyage to time of discharge of cargo or ballast at home port.

All revenues from freight, passengers and mail, earned by the vessels assigned to the line, are credited to the control account "operations of vessels revenue." The subsidiary accounts are kept by vessel and voyage. The revenue manifests are completely audited, recorded and credited to this account as soon as possible after the vessel sails, in the case of outbound freight from a domestic port, and as soon as possible after the manifests are received from sub-agents in the case of inbound freight from foreign ports. Charges are made concurrently to domestic or foreign freights receivable.

The operator generally keeps a subdivision of revenues to show the sources from which they are derived.

Revenues from advance, prepaid-beyond, and transshipment ventures, and arbitraries or miscellaneous manifested items are credited to the transshipment revenue account, and amounts paid to shippers, consignees, transportation companies, etc., in these transactions are charged to the transshipment expense account. In support of these accounts, subsidiary accounts are maintained by vessel and voyage. In these records the entries are identified by manifest and bill-of-lading references.

The term "arbitraries" is loosely applied by steamship men. Stevedoring and port charges as well as "prepaid beyond" and "advance charges" have been termed arbitraries. An arbitrary may be defined as "that part of a through rate that is arbitrarily added to a base rate." It is usually evolved to equalize the total of two base rates as compared with a through rate from the same point of origin to the same ultimate destination. Its use is to enable transportation companies that do not have a terminus at ultimate destination to compete with direct service. The arbitrary may be paid to the connecting carrier in its entirety or the originating carrier may retain it and pay the actual cost of "beyond" transportation. The latter procedure is frequently followed and often results in a loss to the originating carrier, thereby causing a "shrinkage of the base rate," which, up to a point, is still profitable business for the originating carrier.

Accounts are kept in the general ledger for other income from operation of vessels such as foreign exchange gains and losses, cash discounts earned, special discounts and interest earned on bank deposits. All other sources of income are kept in the private ledger of the operator. Postings to the account for gains and losses resulting from foreign currency transactions should indicate the vessel and voyage to which the item is applicable. Small differences in sub-agents' and masters' accounts from differences in exchange are transferred currently to this account.

Invoices which are subject to cash discount may be entered in the accounts-payable voucher register in either the net or gross amount. In case invoices are entered in the gross amount and distributed to the appropriate expense account accordingly, the discounts when taken are entered in a separate column in the cash-disbursement register.

Special and confidential discounts received by the operator on tonnage, stevedoring, winchmen, tug-boat service, appropriated berths, etc., are deposited in operating bank accounts and credited to "special discount account." The balance in this account may be transferred currently or annually to the expense account which was charged with the original invoiced amount and in cases where such transfer is made to expense accounts, there must be sufficient detail to show the proper vessel, voyage number and accounting distribution.

Operating expenses incurred in the operation of vessels are chargeable to operation of vessels expense, incompleted voyages, to remain in that account until the termination of the voyage. Subsidiary accounts are kept by vessel and voyage.

As the gains or losses from the operation of the vessels under the lump-sum agreement are for the managing operator's own account, the Fleet Corporation does not require the operator to furnish it periodically with a great amount of detail as to the expenditures, but it does request that all disbursement documents be filed away methodically with the original entry documents for such examination as the corporation may desire its auditors to make from time to time.

The Fleet Corporation recommends that operation of vessels expense be divided in a subsidiary ledger by vessel and voyage under the following classifications:

Wages
Stores and supplies
Fuel and water
Port charges
Wharfage and dockage
Cargo expense
Traffic expense
Miscellaneous vessel expense

In many cases of shipping accounting charges to the accounts port charges, wharfage and dockage, cargo expense, and traffic expense are not apportioned to voyage accounts.

Some lines do not own port or cargo handling facilities, and they receive bills on account of port and cargo expenses that are directly applicable to voyages. A schedule is furnished to the operator in which are shown the principal items to be included in each group in order to assist in the distribution of the expenses.

Stores, equipment, spares and supplies, including water and fuel, purchased and delivered to a vessel during the period of a voyage are chargeable to the voyage in which the delivery date falls. Such stores and supplies are inventoried at the termination of each voyage and the value of the inventory is transferred from the completed voyage to the succeeding voyage.

There is no provision in the prescribed accounting procedure under lump-sum agreements for lay-up expenses when a vessel is not in operation. In the accounting manual of managing operators under the "operating agreement, 1924" an account is prescribed for such expenses termed "inactive vessels expense."

As the vessels are government owned, the Fleet Corporation requires all repair work to be covered by repair specifications and awards to the repair firms must be evidenced by formal repair contracts signed by the contracting parties. The accounts-payable vouchers drawn to pay the contractors must be supported by the original bills, contracts and copy of the awards, specifications and proposals received. The cost of repairs must be charged to the voyage in which the date of the award falls. Repair expenses may be broken down between departments and classes of expenses for statistical purposes.

Under some agreements the operator is liable for repairs to vessels to a stipulated extent in each contract year, any excess being borne by the Fleet Corporation. In such instances the stipulated annual amount is apportioned to voyages and credited to a reserve account. Cost of repairs is charged to the reserve account by vessels and voyages.

There is no mention under lump-sum agreements in the accounting instructions of the proper disposition of expenses by the vessel which is undergoing repairs. Some steamship accounting requires such expenses to be charged to the repairs accounts as being a part of the cost of the repairs.

As the vessels belong to the government, the operator does not account for depreciation of the ships operated.

What has been said indicates that the accounting procedure is described by the Fleet Corporation in considerable detail. The Fleet Corporation books are to be kept in accordance with the suggestions and instructions issued to the operators of government-owned vessels.

The line must forward to the Fleet Corporation not later than the fifteenth of each month a trial balance, in duplicate, of the general ledger control accounts as of the end of the preceding month. The open balances in operation of vessels revenue, transshipment revenue, operation of vessels expense, transshipment expense and vessels repairs must be shown on the trial balance divided between terminated and unterminated voyages, the division being as of the date of the trial balance.

After all voyage accounts have been received from the subagents and recorded for any particular voyage a statement of revenues and expenses, in duplicate, must be forwarded to the Fleet Corporation. This statement is required to show the total revenue earned, transshipment revenue and expense, operation of vessels expense, and vessels repairs. These statements should be forwarded with the monthly trial balances.

Compensation due the managing operator from the Fleet Corporation under the lump-sum agreement is entered on a public voucher and submitted to the nearest district auditor of the Shipping Board, who approves it, if in order, and sends it to the home office of the Fleet Corporation for payment.

The compensation paid operating managers under the operating agreements other than lump-sum agreements generally included commission on the various revenues, and the net revenues or profits belonged to the Fleet Corporation. The Fleet Corporation was, therefore, in need of more detailed information than under the lump-sum agreements. In addition to more detailed accounting for revenues and expenses it prescribed comprehensive revenue documents and records, procedure for handling collections and disbursements, and more supporting reports, schedules and documents with the trial balance.

The general comptroller of the Fleet Corporation has lately issued instructions to lump-sum operators covering the method to be followed in closing the books at the end of the fiscal year, which are summarized below.

All income and expense accounts of voyages terminated within the fiscal period must be closed at the end of the period to a profit-and-loss account. The balances in operating accounts covering voyages which will terminate in the succeeding fiscal year must be treated as deferred income and expense items. Managing operators are not required to observe the fiscal periods of the United States Shipping Board—Merchant Fleet Corporation. It is required that, before closing, all uncollectible accounts be charged off; masters' and allotment balances on terminated voyages be cleared to proper accounts; profits or losses on advance charges, "prepaid beyond" charges and miscellaneous manifested items be transferred to the revenue account; cost of empty containers on hand be transferred to accounts receivable; the nominal elements in slop-chest inventories account be closed to the prescribed accounts; prepaid expenses affecting terminated voyages be transferred to the appropriate accounts; and manifests relating to terminated voyages be recorded and included in the revenue account before the account is closed.

"Reserve for operation of vessel expense" must be credited with the estimated amount of unrecorded expense properly chargeable against operation of vessel expense accounts of voyages terminated within the fiscal period, showing vessel and voyage in subsidiary accounts.

When a vessel's first and last voyage of a series of voyages under the repair clause of the 1930 operating agreement fall within the same fiscal year the difference between the total reserve for vessel repairs and the sum of the total actual expenditures for repairs and accrued repairs on the last voyage of the series as shown by the conditional survey must be closed to profit-and-loss. When the first voyage of the series and the last voyage fall in different fiscal years the reserve for vessel repairs of the particular vessel must not be closed until the last voyage of the series has terminated.

Managing operators whose contracts with protection and indemnity insurance underwriters contain a deductible franchise must transfer to operation of vessels expense all prepaid claims applicable to voyages terminated within the fiscal period which are not recoverable from the underwriters by reason of the deductible franchise in the insurance policy.