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ACCOUNTING FOR AUTOMOTIVE VEHICLES IN A TAXICAB COMPANY

By NAOMI B. THOMAS, Baltimore Chapter ASWA

The taxicab industry ranges from a one cab entrepreneur, who usually acts as chauffeur of his cab, to the large companies which operate cab fleets of two to three thousand vehicles. Automotive vehicles are the largest and sometimes the only fixed asset investment in a taxicab operation. Some companies lease their cabs instead of purchasing them outright but generally the industry purchases cabs through car dealer agencies by competitive bids. In general, each company uses only one make of car for its entire fleet, to avoid heavy inventories of parts and supplies and to minimize purchasing and handling. A reasonably large inventory is necessary with only one make of car due to annual model changes. The purchasing department must preplan to keep the stock free of obsolete parts as old models are discontinued and new models put into service.

The taxicab industry is a cash business with daily passenger revenue representing 99% of cash receipts. Current assets, therefore, are generally cash in the bank.

Let us consider a specific company. We operate two separate cab companies (one a wholly owned subsidiary) from our one garage with 300 taxicabs on a two shift basis. Each cab is operated both day and night. The number of cabs we are permitted to operate is limited by the Public Service Commission of Maryland. General books and accounting records are kept separately for each company.

Cabs in active service are accounted for daily from the records of shift operations. The driver or chauffeur performance records are considered as the control of operations in a broad sense. In other words, the cab and driver present the unit of production, as a cab without a driver is a non-productive expense. Production records maintained for driver control and supervision give added accounting records. We operate 24 hours per day, 365 days a year. For our 300 cabs operating on two shifts, seven days a week, the chauffeurs payroll averages about 1000 employees per week. A five-day work week is observed for regular drivers supplemented by part time drivers.

Daily shift operations of both cabs and drivers are controlled by I.B.M. dispatcher-cashier sheets, which list numerically by cab number, the regular driver's name and payroll number, for each cab for each day of the week. Part-time or substitute drivers are entered manually by the dispatching office. As the cab is issued to the driver at shift time, a driver's manifest is time stamped and time out is manually entered on the dispatching sheet. This information is forwarded to the cashier's office, and when the drivers check in at the end of each shift, their manifests and cash receipts are turned in to the cashier. Revenue for each cab is entered on the dispatcher-cashier sheet, which also becomes the basis for control of the cash.

From the dispatcher-cashier sheets, and the drivers' manifests, or trip sheets as they are sometimes called, the I.B.M. department compiles full information recording date, driver's payroll number, cab number, radio or non-radio cab, miles run, gasoline used, trips completed, passengers carried, hours out, meter revenue, extra revenue (baggage, etc.), phone call revenue and total revenue. As drivers are paid on a commissions basis, this information is basically compiled for payroll purposes, but complete daily operating and statistical information is obtained at the same time.

At present our cabs are being run for two years with replacement of 150 cabs each year. Replacements are generally made monthly during the year, so the shop can handle the replacement of cabs along with its normal repair and maintenance work.

Cars are paid for when delivered and the manufacturer's certificate of origin is furnished. The shop superintendent checks the new car against the specifications of the order, as cars for taxicab service are ordered with special equipment not ordinarily installed on those manufactured for personal use. Information as to the serial number of the cab as well as the assigned stock number are furnished the accounting office. After verification with invoice and title, a cab records card is prepared showing the date received, from

whom purchased, voucher number, cost, model, and serial number. These cards are held as a record of each car in stock until the shop indicates that the car has been given its permanent cab number and specifies the date it is to go into service. As we operate the cabs on rental tires on a mileage basis contract, car cost is adjusted for removal of tires to a take-off tire inventory record. These take-off tires are usually included as equipment on old cabs sold, or are sometimes sold to tire dealers or individuals.

The car record cards are used as a basis for calculating the depreciation (two years straight line) and a columnar depreciation schedule shows the in service date, effective date of depreciation, cab number, model, serial number, cost, salvage value, monthly depreciation rate and expiration date. Finally the cab record cards are filed by cab number under cabs in service, and the old replaced cab card is removed to a cars for sale file.

Cabs in service from the 1st to the 15th inclusive are charged with a full month's depreciation, while cabs in service from the 16th or after are not charged with depreciation until the following month. If there appears to be a permanent trend up or down in the used car market, salvage value on cabs is adjusted with a corresponding adjustment of depreciation.

Some taxicab companies charge cab depreciation on a mileage basis, but this method, though more scientific, has certain disadvantages. A relatively new cab may be wrecked and out of service for one or two weeks. Also calculations under the mileage basis are more time-consuming.

A continuous "equipment sold schedule" showing date sold, name of purchaser, sales price, and whether for cash or on contract, is prepared during the year as old cabs are disposed of. This information is useful for management and necessary for income tax reporting. Old cabs on hand for sale are controlled by physical count and reported to the accounting office at the end of each month. All car titles are held by the accounting office until cars are sold or disposed of. Car card records filed by year and month sold are retained for at least five years after date of sale. If a car sold is repossessed, the original car card is returned to the active file under repossessed cars for sale, with notation as to the date of repossession and current book value after adjustment of contract sale. These records have proved indispensable over the years as a source of com-

plete information regarding equipment both past and present.

In addition to the taxicab fleet, we have street patrol cars, service cars and service and tow trucks. We also maintain a number of old cabs repaired and re-conditioned for use on a daily rental basis to our own employees. Accounting for this equipment generally follows that used on taxicabs.

Direct operating expenses for tires and gasoline are accumulated from punched card records of mileage and gasoline issued, and gasoline costs are adjusted to physical inventory at the end of each month through a volume variance account. Variances are in part due to daily temperature changes inasmuch as gasoline expands as temperature rises and shrinks when it falls. Since gasoline is sold at per gallon of volume, a 60 degree temperature has been adopted by the petroleum industry as the average temperature throughout the country. The formula used is to multiply the number of gallons by .0006 per degree of gasoline temperature, above or below 60 degrees. The b.t.u. or energy content does not change with temperature.

Cab radios are by lease contract on a monthly unit rental basis, which includes repairs and servicing by the lessor's own employees in space provided in the cab garage.

One of the largest costs in taxicab operations is liability insurance on each cab for personal injury and property damage. While all companies have safety departments and safety promotion programs, little progress has been made in reducing this insurance cost. This is primarily due to the higher costs of settling claims in recent years despite the reduction in accident frequency.

No dollar operating and maintenance costs are maintained for each individual cab, but major repairs or replacements are recorded. These records are reviewed by the shop superintendent, and if it appears that one cab comes in too frequently for the same repair job, the case is investigated.

Each cab runs an average of eight thousand miles per month and is scheduled for a regular lubrication every five days and for brake inspection monthly. Every ten days, the shop receives a report on each cab from the I.B.M. department showing miles run and daily average of gasoline and oil used. A cab using above the average in gasoline is thus brought to the

attention of the shop superintendent who ordinarily schedules it for an engine overhaul or replacement. There is a continuous effort to improve the ratio of mileage to gasoline consumption, as gasoline with current high Federal and State taxes is a major operating cost. The high powered car of today with its quick get-away and automatic transmission consumes gas at a much higher rate than comparable cars of even three years ago. Some cab companies are presently experimenting with diesel engines.

A preventative maintenance program has recently been adopted which provides that ten cabs receive a complete inspection every day, insuring that each cab receives a complete inspection once a month. Each mechanic on the inspection line is responsible for his assigned group of cars for the life of the car. If his inspection shows the need of repair work of any type, the cab is scheduled to be held in the shop for the estimated time required to complete the work. The mechanics do a complete repair job at all times, as they do not know when the car they are repairing is scheduled to be replaced.

Under this plan of scheduled inspection, placing the responsibility for a specific group of cars to a specified mechanic, it is hoped to reduce daily driver complaints of motor trouble and street breakdowns. The method may also bring to light the effect of the individual driver on maintenance costs.

Repairs are made by replacing the entire unit on the car, so that when a cab is scheduled in the shop for a particular repair job, it is tied up only as long as it takes to remove the old unit and replace it with another. The damaged or worn units are completely overhauled including replacement of any worn parts, and are then returned to stock. The same process of replacement and then repair is also followed in the body shop from bent fenders to damaged frames.

While all repair work is not priced, the purchasing and parts department keeps average unit cost on all types of repairs. These records are assembled from historical costs with parts prices adjusted to current costs. However, on repair for accident damage, an itemized work order is made and the individual cab is invoiced for all repair parts and labor.

Contrary to popular belief, taxicab companies do not welcome bad weather, as it slows traffic and creates additional driving

hazards, which in turn reduces revenue and increases operating costs.

It is no longer considered a luxury to ride a cab: it has become a necessary means of transportation. In this highly competitive industry, it is the aim of all companies to give the best service at the lowest possible rate. The accounting department recognizes this and plays a vital part in keeping costs at a minimum.

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A manual may be compiled in one complete unit or it may be sub-divided into several units as:—

Chart of Accounts with instructions for the use of the accounts.

Samples of all forms with explanations for their use.

Special procedure write ups for individual departments, such payroll, cash receipts, etc.

Regardless of how many sub-divisions there may be, top management should have a master manual which incorporates *all* written procedures.

People: Procedure manuals become effective only through compliance, and while it is not the intent of this discussion to take up the human relations aspect of an accounting system, it nevertheless must be noted that the importance of PEOPLE cannot be by-passed or underestimated. The conversion or installation of an adequate accounting system does not mean that it will function efficiently on its own merits. The cooperation or resistance of people who operate the system can make the finest system succeed or fail.

People should become sufficiently acquainted with the procedures and requirements so as to result in the integration of all functions of the system. People need to be accustomed to doing things in a definite way or a new way. Perhaps one of the biggest jobs companies face in a new system design is the changing the attitude of the people who do the work. Acceptance by the people can be brought about by a good training program, one that will make them feel that they help and that their job is important.

Installing a new system or the conversion of an existing one may be a rather trying experience for a while, but when it starts to clear up, somehow it clears up rapidly and we find the various functions of the new accounting system have been integrated.