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# The Oleomargarine Industry

BY SIDNEY S. BOURGEOIS

An exhaustive search throughout the country for accounting data relating to the manufacture of oleomargarine has revealed that very little, if anything, has been written on this subject. Probably this is to be accounted for by the fact that executives engaged in the industry have had more than their share of trouble in other phases of the business, notable among which has been the long struggle for existence.

Oleomargarine manufacturers may be classified in two groups, those engaged in the production of oleomargarine from vegetable compounds, and others engaged in producing oleomargarine from animal fats. This article will cover the accounting practice in a corporation of medium size, manufacturing oleomargarine from vegetable compounds, although it is not expected that accounting methods would vary greatly between the two types of industries.

At the outset it may be stated that exceedingly accurate accounts can be maintained in an oleomargarine factory, owing to the simplicity of the manufacturing processes. Unit costs are therefore conveniently and easily ascertained.

The oleomargarine factory typifies essentially the dual nature of a continuous process and a synthetic industry. A group of various raw materials is uninterruptedly and continually passed through a comparatively simple and definite process, and fabricated—synthesized—into a single finished product. This is altogether unlike the intermittent and the analytical industries, where raw materials are passed through complicated and interrupted processes and analyzed into finished goods of several varieties, and where the problem of allocating costs to each product, as well as finding unit costs, is often difficult and conjectural.

Latest available government statistics indicate that the following classes and quantities of commodities were consumed as raw materials in the manufacture of oleomargarine in the United States during the fiscal year ending June 30, 1924:

	Pounds	Percentage of total
Cocoanut oil.....	83,059,000	28.21
Milk.....	69,090,000	23.46
Oleo oil.....	52,265,000	17.75

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Neutral lard.....	32,210,000	10.94
Cottonseed oil.....	20,640,000	7.00
Salt.....	20,593,000	6.99
Peanut oil.....	5,657,000	1.92
Oleo stearine.....	5,317,000	1.80
Oleo stock.....	2,756,000	.94
Butter.....	1,900,000	.65
Miscellaneous materials (consisting of corn oil, sesame oil, soda, coloring, mus- tard oil, palm-kernel oil, edible tallow, soybean oil, sugar and extract of vanilla).....	976,000	.34
	294,463,000	100.00

Oleomargarine is manufactured in two colors, yellow and white. Usually the only difference in quality between the yellow (colored) and white (uncolored) is the infusion during the blending process of a small quantity of butter coloring in the materials in order to produce a yellow or butter color. With white oleomargarine, a capsule containing butter coloring is included in every one-pound package, in order that the consumer may mix the contents with the oleomargarine to produce a substance of butter color. The difference in cost of production between the colored and uncolored products is so insignificant that it has never been found practical to attempt the computation.

There is, however, a very marked difference in the excise tax paid on the white product and that paid on the yellow. The United States government requires the placing on original containers, prior to leaving the factory, of a ten-cent revenue stamp for every one-pound package of yellow oleomargarine, while the white product is similarly taxed at the rate of only a quarter of a cent per pound, notwithstanding that no change in quality results from the addition of butter coloring.

The manufacturing cost of the two colors of products being virtually identical, it is necessary for the manufacturer to include the additional nine and three-quarters cents per pound in the selling price of the yellow product. For this reason excise taxes should be treated on the operating statement as a direct deduction from sales.

In the particular factory referred to in this article, the finished product is distributed, for the most part, direct to retail stores, restaurants, etc. Some few sales are made to wholesale establishments.

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The final stage in the actual production of oleomargarine is the churning of the compounded materials. The finished product is removed from the churners and generally placed in ninety-pound cube-shaped wooden containers. The white product is subsequently cut into one-pound, and the yellow into quarter-pound sizes, wrapped in parchment paper, and placed in one-pound cardboard containers. These one-pound containers are afterwards placed in original packages containing ten or thirty pounds each.

### INVENTORY CONTROL

It is highly desirable, and probably essential, to maintain perpetual inventories of all raw materials and finished goods, especially the latter. These can be kept very simply and with very little effort in pounds, gallons or whatever units of weight or measurement are most convenient. It is not necessary to consider monetary values in the perpetual inventories, as all materials and finished product are consumed and shipped immediately and usually there are no sudden and violent fluctuations in market prices of the raw materials or finished oleomargarine. On the contrary, they are rather stable commodities.

The record of perpetual inventories may take the forms of exhibit A (see page 345) for raw materials and exhibit B (see page 346) for the finished product. It will be observed that the pounds, gallons, or any other unit of weight or measurement used of materials and product may be known on any given day. These should agree, to a reasonable degree, with the physical inventories taken monthly.

The sources of information for the maintenance of the inventory records are the daily materials report (exhibit C, page 347) and the daily production report (exhibit D, page 348).

The initial step upon purchase and receipt of raw materials in the factory is to record the number of pounds or gallons on the line marked "purchased" (materials perpetual inventory, exhibit A). As the raw materials are processed, the pounds or gallons are entered under their proper captions on the daily materials report (exhibit C). As this form provides for a record of the total weights of materials used for each churning, with a knowledge of the total weight of oleomargarine manufactured therefrom it is a simple matter to compute the percentage of shrinkage resulting from each churning. The efficiency of the plant can thus be gauged accurately on each individual churning, so that the

average percentage of shrinkage in materials for the month can be held down to the lowest possible point consistent with legitimacy.

The daily production report (exhibit D) shows the result of each churning every day. The reason for using the ninety-pound cube as the unit in the production report is that the freshly made oleomargarine, while contained in cubes, is frequently stored in the factory refrigerator pending conversion into one-pound packages. Since one of the important purposes of these records is to insure a minimum amount of pilferage or other wastes, their function would be nearly defeated without a record of the original output from the churners. If stored for a day or two with no record kept, there could be no assurance that the stock had not been disturbed between the time of removal from the churners and the act of placing the product in smaller packages for distribution.

When the materials and production reports are turned in to the office, proper entries are made on the perpetual inventory records. The quantities of materials put in process are entered opposite the word "used" (exhibit A). The quantity of oleomargarine manufactured is entered opposite the word "manufactured" (exhibit B).

Should any of the materials be returned or sold, or wasted in any manner other than natural shrinkage in process of manufacture, these facts are recorded opposite their respective designations under the proper dates, on exhibit A. The combined quantities used, returned or sold and wasted constitute a proper deduction from the total of stock on hand at the beginning and purchases. The difference represents the stock of materials which should be on hand that day. This quantity is then brought forward to the next date opposite the designation "stock on hand." The procedure is continued each business day until the end of the month, when the physical inventories are taken and compared with the perpetual records. Any material variation between the two should be thoroughly investigated and reconciled, as the utter simplicity of the procedure should result in virtually exact agreement between the physical and perpetual inventories. The actual physical inventories are, of course, used as the starting point for the next month.

Practically the same procedure is involved in keeping the record of oleomargarine inventory, with due consideration to its differ-

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ence in nature. Whenever free samples are distributed, it is imperative that accurate record should be made of the withdrawals from stock, for two reasons. The cost of the sampling is a selling expense, and should therefore be included among the selling expenses and reflected as a reduction in cost of sales. Then, too, the withdrawal of stock without keeping a record thereof would seriously interfere with the efficacy of the perpetual inventory plan. The second reason is that the federal government requires the payment of the usual excise taxes on oleomargarine used for sampling purposes as well as on product actually sold.

### GENERAL BOOKS

Unlike the accounting procedure found necessary in many manufacturing enterprises, in the oleomargarine industry it is not advisable, and is in fact cumbersome, to carry on the books such accounts as goods in process, finished goods and cost of sales.

Unit costs are ascertained so simply without this procedure that it would be a waste of effort. All that is necessary is a cumulative record of raw-material purchases, labor and manufacturing expenses. They may be carried cumulatively on the general ledger for the entire fiscal year, there being no necessity to make actual physical closings of the books more frequently. Monthly or quarterly statements of operations and financial condition may be obtained by the use of working trial balances. All necessary information for this purpose is to be found on the general ledger, with the exception of inventories, deferred charges and accrued expenses. The inventories are brought into the statements by a charge to asset account and credits to raw material accounts (or, in the case of finished goods, by a deduction from cost of sales). Deferred charges and accrued expenses are handled in the usual manner. Valuations are generally made at actual cost of raw materials and the cost to manufacture finished oleomargarine.

The following accounts, relative to operations, should appear on the general ledger:

<i>Sales</i>	<i>Cost of sales</i>
Yellow oleomargarine	Oleomargarine inventory (beginning of period)
White oleomargarine	Raw materials:
<i>Sales deductions</i>	Cocoanut oil
Revenue stamps—yellow	Peanut oil
Revenue stamps—white	

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Milk	<i>Selling expenses</i>
Benzoate of soda	Salesmen's salaries and commissions
Salt	Salesmen's traveling expenses
Butter color and capsules	Advertising
Etc.	Salesmen's automobile upkeep
Labor (manufacturing)	Salesmen's automobile gas and oil
Containers and wrappers	Depreciation—salesmen's automobiles
Manufacturing expenses:	Free samples
Power	Miscellaneous
Lights	<i>Administrative expenses</i>
Fuel	Salaries
Insurance (fire, steam boiler, workmen's compensation, etc.)	Stationery and supplies
Water	Postage
Taxes (on plant, inventories, etc.)	Taxes (capital stock, internal-revenue license, etc.)
Royalties (if any)	Telephone and telegraph
Depreciation—plant equipment	Auditing
Depreciation—building	Insurance (fidelity, robbery, etc.)
Repairs—plant equipment	Depreciation—furniture and fixtures
Repairs—building	Legal
Ammonia	Traveling
Miscellaneous	Dues and subscriptions
Samples (credit)	Miscellaneous
Oleomargarine inventory (end of period)	<i>Other deductions</i>
<i>Delivery and shipping expenses</i>	Interest paid
Truck drivers	Bad debts
Truck upkeep	Discounts allowed
Truck gas and oil	Etc.
Depreciation—trucks	<i>Other income</i>
Freight and charges	Discounts earned
Miscellaneous	Sales of empty containers
	Etc.

UNIT COSTS

It is of great importance to oleomargarine manufacturers, as it is in nearly all manufacturing enterprises, to keep close observance of the cost of manufacture. A very convenient method of doing so is to reduce all costs to a one-hundred-pound-unit basis. In other words, the cost of every item on the statement of manufacturing costs should be based on the average one-hundred pounds of oleomargarine manufactured during the period. The total quantity produced during any period can be obtained from the perpetual inventory records. In this way, variations in cost

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between similar periods can be noted, and corrective measures may be applied to any unfavorable tendencies.

It has also been found of material benefit to compute unit costs of delivery, shipping, selling and administrative expenses—that is, of course, based on the quantitative volume of sales. Total number of pounds sold for any period can also be found by reference to perpetual inventory records.

### GOVERNMENT REPORTS

The bureau of internal revenue of the United States government requires of all concerns engaged in the manufacture of oleomargarine, a monthly report showing in pounds the consumption of each class of raw material, the total production of oleomargarine during the month and the total sales during the month. The production and sale of yellow and white oleomargarine has, of course, to be shown in separate quantities, owing to the difference in tax rates. The name and address of each customer during the month, as well as quantities, must be reported, and this report must also agree with the general report showing total quantities sold. Through this procedure the government is able to verify the correctness of revenue stamps used during the month.

The material, production and inventory records referred to in this article have been planned and adapted to the oleomargarine industry with the purpose in mind of facilitating the compilation of the monthly government reports. All information required therein can be ascertained from these records if they are properly kept.

### AUXILIARY INFORMATION

In addition to the usual financial and operating statements, various analyses of the productive efficiency of the plant may be made. Let us take the following hypothetical case as an illustration:

Quantity of oleomargarine manufactured . . . . .	330,000 lbs.
Raw materials consumed:	
Cocoanut oil . . . . .	268,000 lbs.
Milk . . . . .	69,000 "
Peanut oil . . . . .	34,000 "
Salt . . . . .	15,000 "
Benzoate of soda . . . . .	700 "
	386,700 lbs.



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Oleomargarine manufactured (as above).....	330,000 lbs.
Shrinkage—in weight.....	<u>56,700 "</u>
Shrinkage—in percentage.....	14.66%
Percentage of production to materials consumed....	85.34%

Based on these figures, the materials necessary to produce 100 pounds of oleomargarine were the following:

Cocoanut oil.....	81.21 lbs.
Milk.....	20.91 "
Peanut oil.....	10.30 "
Salt.....	4.55 "
Benzoate of soda.....	<u>.21 "</u>
	<u>117.18 "</u>

When the plan outlined in this article is carefully adhered to, the true history of operating activities will be clearly reflected in the records, from which intelligent statements for the guidance of the executive can be prepared.

Exhibit "A"

MATERIALS  
 PERPETUAL INVENTORY  
 Standard Margarin Company  
 Material: Coconut Oil Period: July 1st to July 31st, 1925

Dates	July 1st	July 2d	July 3d	July 4th	Etc.,	Etc.	Total
Stock on hand.....	16,000	13,500	12,500	13,600			
Purchased.....	6,000	7,000	9,000				
Total.....	22,000	20,500	21,500				
Used.....	8,000	7,500	7,900				
Returned or sold....	-0-	500	-0-				
Wasted.....	500	-0-	-0-				
Total.....	8,500	8,000	7,900				
Net stock on hand...	13,500	12,500	13,600				

Exhibit "B"

OLEOMARGARINE  
PERPETUAL INVENTORY  
Standard Margarin Company  
Color: Yellow    Period: July 1st to July 31st, 1925

Dates	July 1st	July 2d	July 3d	July 4th	Etc.,	Etc.	Total
Stock on hand.....	10,000	9,400	9,595	10,055			
Manufactured.....	10,890	10,700	10,400				
Returned.....	50	25	10				
Total.....	20,940	20,125	20,005				
Sales.....	11,500	10,500	9,900				
Samples.....	40	30	50				
Total.....	11,540	10,530	9,950				
Net stock on hand...	9,400	9,595	10,055				

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DAILY MATERIALS REPORT  
STANDARD MARGARIN COMPANY

Exhibit "C"

Date.....192..

MATERIALS PUT IN PROCESS

For Churning No. 1—Date....192.. For Churning No. 2—Date....192..

<i>Cocoanut oil:</i>		<i>Cocoanut oil:</i>	
<i>Regular:</i>		<i>Regular:</i>	
Barrel #1....lbs.		Barrel #1....lbs.	
Barrel #2...."		Barrel #2...."	
Barrel #3...." Total....lbs.		Barrel #3...." Total....lbs.	
<i>Hard:</i>		<i>Hard:</i>	
Barrel #1....lbs.		Barrel #1....lbs.	
Barrel #2...."		Barrel #2...."	
Barrel #3...." Total....lbs.		Barrel #3...." Total....lbs.	
<i>Peanut oil:</i>		<i>Peanut oil:</i>	
Barrel #1....lbs.		Barrel #1....lbs.	
Barrel #2...." Total....lbs.		Barrel #2...." Total....lbs.	
<i>Milk:</i>		<i>Milk:</i>	
.....gals.		.....gals.	
Total....lbs.		Total....lbs.	
<i>Salt:</i>		<i>Salt:</i>	
.....lbs.		.....lbs.	
Total....lbs.		Total....lbs.	
<i>Benzoate of soda:</i>		<i>Benzoate of soda:</i>	
.....lbs.		.....lbs.	
Total....lbs.		Total....lbs.	
<i>Butter color:</i>		<i>Butter color:</i>	
.....qts.		.....qts.	
Total....lbs.		Total....lbs.	
<hr/>		<hr/>	
Grand total. . . . .lbs.		Grand total. . . . .lbs.	

Approved:

.....  
Stock keeper

.....  
Factory superintendent

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DAILY PRODUCTION REPORT  
STANDARD MARGARIN COMPANY

*Exhibit "D"*

Date.....192..

*Yellow*

Churning No. 1	Churning No. 2
.....90# cubes, or.....lbs.	.....90# cubes, or.....lbs.
.....60# tubs, or.....lbs.	.....60# tubs, or.....lbs.
.....30# tubs, or.....lbs.	.....30# tubs, or.....lbs.
.....5# tins, or.....lbs.	.....5# tins, or.....lbs.
....., or.....lbs.	....., or.....lbs.
Approved:	Approved:
.....	.....
Factory superintendent	Factory superintendent
.....	.....
Stock keeper	Stock keeper

*White*

Churning No. 1	Churning No. 2
.....90# cubes, or.....lbs.	.....90# cubes, or.....lbs.
.....60# tubs, or.....lbs.	.....60# tubs, or.....lbs.
.....30# tubs, or.....lbs.	.....30# tubs, or.....lbs.
.....5# tins, or.....lbs.	.....5# tins, or.....lbs.
....., or.....lbs.	....., .....lbs.
Approved:	Approved:
.....	.....
Factory superintendent	Factory superintendent
.....	.....
Stock keeper	Stock keeper