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Branch Accounting for Packing Industries*

By DUNCAN E. PEDIGO

The success of the average branch of the large packing industries throughout the country depends to a great extent upon the individual effort of the local branch manager.

He must be a man who is thoroughly familiar with the packing industry and must be in position at all times to furnish his customers with particular brands of the various kinds of products handled by them. Competition is keen in this industry, and the manager must use good judgment in the selection of his products.

Prompt deliveries of perishable goods are absolutely essential. Failure on the part of the market-keeper to accept late delivery of perishable goods such as beef, pork, mutton, poultry, etc., always results in a loss of from one to five cents per pound. Especially is this true during the summer season on account of the rapid decomposition of this class of products, hauled for several hours in the summer heat and then returned to the cooler. The tainted parts must be cut away, causing a shrinkage in weight, and the balance will have to be sold at a reduced price.

The manager should make special efforts at the end of the week, if necessary, to dispose of all fresh meat on hand. Usually, new consignments are received on Monday of each week and the average buyer will insist on having either the fresh stock or a reduction in price on that carried over from the previous week. This rule does not apply so strictly to beef, which often hangs in the cooler from one to two weeks.

PURCHASES

Most purchases are made from one of the company's packing plants, usually the one to which the branch house is nearest. These shipments are made in the company's refrigerator cars. The invoice for contents of the car is prepared in quadruplicate—the original being retained by the plant making the shipment; the second copy sent to the home office; the third copy mailed to the branch to which the shipment is made, and the fourth copy placed in the car, to be used at the place of destination in checking the quantities.

* A thesis presented at the November, 1920, examinations of the American Institute of Accountants.

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Some criticism might be made of this method of receiving, but, owing to the fact that the cooler man (known in other industries as stock clerk) is held responsible for all stock in his care, he is careful when checking incoming consignments of merchandise.

Local purchases are usually made from an imprest fund in the hands of the branch cashier or from a special fund carried in one of the local banks in the name of the manager and cashier jointly. Special bank accounts are carried only at branches where large local purchases are made. These funds are replenished once a week by the home office.

Perpetual inventory records are imperative. The stock records must show in detail every class and brand of product handled. Not only should the amount be shown in dollars and cents, but also by pieces and weight. Pieces and weight columns are to be balanced as accurately as the money columns, because weekly reports must be made to the home office showing the gross profit of the various departments, the percentage of gross profit to sales and the percentage of shrinkage. The percentage of shrinkage is affected in various ways: atmospheric conditions, kind of refrigeration used in the cooler, cutting, etc. It is essential for the manager to know how his shrinkages occur. Often he is able to discover where errors have been made in entering weights on sales tickets. Inventory shortages are often traced by the abnormal rising of shrinkage figures. If the manager's weekly reports show heavy shrinkages, he is immediately on the alert to find the source of the trouble.

Physical inventories are taken once a week, usually late in the week when the stock is at its lowest. This inventory is taken by the cooler man, assisted by someone from the accounting department, and is a comparatively simple task if the stock is properly kept. After the inventory has been taken, it is compared with the stock records, and, if any discrepancies exist, steps are immediately taken to trace the differences. After the inventory quantities have been approved as correct, they are priced and entered upon the stock records, which are then closed for the week. The figures of the various departments are summarized and entered on a weekly departmental statement.

Where large cold storage stocks, such as eggs, frozen beef and pork cuts, etc., are carried at outside storage houses, a cold storage account should be opened on the general ledger, and to this

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account should be debited all goods placed in storage and credited to the regular stock accounts, warehouse receipts being taken for the merchandise placed therein. No stock should be withdrawn from storage without a signed order from the manager. When stock is taken out of cold storage, the cold storage stock account should be credited and the regular stock accounts debited. A statement of quantities should be obtained at least once a month from the warehouse and compared with the cold storage account.

Every carcass of beef, veal, mutton, etc., contained in a shipment must be accounted for individually by consignment, lot and tag numbers. These numbers are assigned by the packing house making the shipment. When the invoice is received, a distribution consignment sheet is opened, upon which is entered the lot and tag number and weight of each carcass. These sheets are held open until the entire consignment has been sold.

When a consignment of beef and mutton is received, it is usually in whole or half carcasses, many of which are later cut to fill the requirements of the daily orders. After all cuts have been sold and accounted for, the consignment sales sheet is closed and the profit or loss and shrinkage on each carcass is computed.

The stock clerk, to perform his duties efficiently, must be familiar with the different cuts and their percentages of the whole carcass, as quite often tags are lost and the percentage method must be applied as a means of finding where the posting should be made.

SALES

Each sales ticket is prepared in quadruplicate. The original is retained at the office; the second copy accompanies the delivery of the goods and is retained by the customer; the third copy is used as a means of obtaining the customer's receipt for the delivery of the merchandise and is turned over to the accounting department by the driver at the end of his day's run. They are then arranged in numerical order and compared with the original invoice for the purpose of ascertaining whether or not all deliveries were made as originally invoiced and properly receipted. The fourth copy is merely kept on file for possible call by the general office, but is very seldom used.

At the close of the day's business, all sales tickets are sorted and account must be given for all numbers. After this procedure is completed, a recapitulation of all tickets issued during the day

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is made, showing the ticket number, number of pieces and amount of sale. The day's sales are then summarized upon a distribution sheet where each kind and brand of merchandise is grouped under its particular classification. The totals of the pieces, weight and money columns are then proved against the totals contained on the daily recapitulations of sales mentioned above.

The daily distribution sheets are summarized at the end of the week; and the totals for the week are entered on the weekly departmental sheet, a separate sheet being used for each department. The departments are generally as follows:

- Fresh beef department.
- Fresh pork department.
- Smoked and dry salt meat department.
- Produce department.
- Canned goods department.
- Pharmaceutical department.

These sheets are compiled in duplicate, the original being sent to the home office and the duplicate retained by the branch office.

Return sales should be distributed and summarized in the same manner as the sales; and these totals should be deducted from the total sales of the items affected. This should be done before posting the sales totals for the week to the departmental profit and loss statement.

SALESMEN'S TONNAGE REPORTS

It is necessary that the manager be furnished a report of each salesman, showing the total of every class of product sold by him during the week. This statement should also show the gross profit on each class of merchandise sold, a statement of all expenses incurred by the salesman during the week, such as salary, entertainment, traveling expenses, etc., and the net profit or loss for the week.

Each salesman is also furnished with a copy of this statement, which serves as a means of encouragement. If his weekly statement shows a loss, it is obvious to him that such a condition cannot continue indefinitely, and naturally, he will work harder to prevent a recurrence of the same condition the following week.

Some question might be raised as to whether these statements are worth the clerical effort consumed in their preparation, but they have been found by managers to be a source of valuable information. Some salesmen may be making large sales on which

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the margin of profit is very small and making no effort to sell those products upon which a much larger percentage of profit is to be made, such as canned meats, pharmaceutical products, etc.

The following operating accounts should appear on the general ledger:

Sales. One sales account is sufficient. No advantage is to be gained by carrying a separate sales account for each department, as this information is shown on the weekly reports.

Cost of Sales. The rule applies here that is given under the caption *sales*.

Auto Delivery Expense. Charge this account with wages of drivers, helpers, gasoline, accessories, repairs, garage rent, insurance, depreciation of autos, etc.

Stable Expense. Charge this account with drivers' wages, wagon repairs, horse-shoeing, stable rent, insurance, stable-keepers' wages, horse feed, depreciation of wagons, etc. This account has entirely disappeared from the books of many branches, following the introduction of motor delivery.

Salesmen's Salaries. Charge this account with salaries of all salesmen.

Salesmen's Expense. Charge this account with salesmen's traveling expenses, meals, carfare, telephone, telegraph and other items chargeable to selling expense.

Office Salaries. Charge this account with salaries of clerical assistants.

General Salaries. Charge this account with the salaries of the manager and the men who spend their entire time in the cooler.

Insurance. Charge this account with all insurance except that portion properly chargeable to delivery expense. At the end of each month before closing the books, inventory the unexpired portion and carry into the following month.

Rent. Charge this account with rent of building occupied or other rented storages.

Taxes. Charge this account with local taxes only. Federal income and profits taxes are handled by the home office.

Stationery and Postage. Charge this account with purchases of stationery, postage, etc. All stationery is furnished by the home office and is invoiced to the branch.

Heat, Light and Power. Charge this account with purchases of coal, wood, light, power, etc.

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General Expense. Charge this account with sundry items for which no other account appears on the ledger, but under no condition should this account be used as a dumping ground.

Freight and Express. Charge this account with all freight and express. At the end of the period, close to cost of sales that portion applicable to incoming shipments. Deduct from sales the amount applicable to outgoing shipments.

Bad Debts. Charge this account with all losses on customers' accounts applicable to the current year, but only upon advice from the credit department of the home office.

Depreciation. Charge this account with all depreciation for period not directly chargeable to delivery expense.

Balance-sheet accounts are as follows:

ASSETS

Cash. Imprest funds or special funds referred to under the caption *purchases* are the only cash accounts carried in the general ledger. These accounts are reimbursed weekly by the home office for the amount of disbursements as shown by the weekly cash statement. All cash collected on accounts is deposited to the credit of the home office and charged to that account and cannot be drawn upon by the branch.

Notes Receivable. Charge this account with notes taken in payment of accounts or for merchandise.

Accounts receivable. Charge this account with all charges to customers for merchandise purchases, etc. Credit this account with returns, allowances, bad debts written off, notes taken in payment of accounts, etc.

Inventory. Charge this account with purchases, return sales at cost and freight and cartage on inbound shipments. It is not necessary to open an account with each class of inventory items, as this information appears on the weekly statement.

Property Accounts. Charge this account with purchases of buildings, furniture and fixtures, machinery and equipment, real estate, automobiles, etc. Credit this account with sales of property items at the values at which they were taken into the account, debiting or crediting the differences to profit and loss.

Salesmen's Advances. Charge this account with all advances made to salesmen for expenses. Credit this account with expense accounts rendered by salesmen.

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Unexpired Insurance. Charge this account with all premiums, other than life insurance. Credit this account with absorbed premiums.

LIABILITIES

Accounts Payable. Credit this account with all purchases. Charge this account with payments to creditors, allowances made by creditors, returned purchases, etc.

Depreciation Reserve. Credit this account with total amount charged to depreciation accounts. Charge this account with total previously credited to account when making sale of property items or writing off obsolete items.

General Office Account. Credit this account with all invoices for merchandise purchases, expenses, equipment, etc., purchased from the general office or any of the packing plants. Charge this account with all cash deposited to their credit, returned purchases, overcharges, returned equipment, etc.

Many accounts ordinarily appearing on the general ledger in other businesses are not shown in the foregoing classification of general ledger accounts because most of the transactions are between the home office and the branch.

No provision has been made for the allocation of expenses to the various departments, as such procedure is not customary. Merchandise purchase and sales accounts are closed weekly, while the operating expense accounts are closed only at the end of each four weeks' period.