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Accounting for a Magazine Publishing Business

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Accounting for a Magazine Publishing Business

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The method of recording the facts of a magazine publishing business is somewhat different from the accounting of an ordinary manufacturing or trading concern. Although conducted on an instalment basis, it is nevertheless quite different from the ordinary instalment business, in that the income is not credited until each copy of the magazine is delivered. and, besides, in cancellations account must be taken of the undelivered copies as well as the cash balance on the account itself. In the explanation to follow, an effort will be made to present the required entries, in journal form, together with an elucidation of the more complicated records.

In beginning this discussion, let us assume that company X, a publishing house, publishes a magazine weekly and, besides, manufactures books that are sold with the magazine. Subscriptions are taken at a flat rate and a book is sold with the magazine at a rate slightly in excess of cost. Both are sold at one price to the subscriber. Sales are made on a commission basis only, and the first payment is collected when the books are delivered. Subsequent collections are made by collectors who are on a salary and commission basis. In addition to the subscription income, income is derived from news-stand sales, and the main source of income is advertising. The expenses usually associated with the above are subscription expenses, advertising, news-stand, manufacturing and mailing of the magazine, editorial and art costs and general expenses, comprising managerial, rent, etc., of the office. The manufacturing cost of the books is charged to finished stock, and that account is credited at cost when the books are delivered to the subscriber. The period may comprise 28 days, thus allowing four issues per period, or it can be conducted on a monthly basis. The advantages of the former method consist of (1) the fact that there are exactly four issues per period and comparisons can be made more effectively and (2) it eliminates the necessity of many accruals and adjustment entries. The 28-day period has been found easy to operate and seems preferable to the other method if the magazine, is published weekly. For a monthly magazine, the monthly period might prove more advantageous.

Advertising

The advertising income for the issues printed within the period is recorded by a charge to advertising accounts receivable for the amount billed—the full advertising rate less the agency commission—and a credit to advertising income. It then becomes advisable to set up a reserve for cash discount—allowed on payments within a given time—and a reserve for bad debts. Both these items are chargeable to advertising expenses. Beside the solicitors' salaries and expenses, rent, supplies and other advertising expenses are chargeable to advertising department expenses. At the end of each period an advertising department statement should be prepared, supporting the magazine profit and loss statement.

News-stand

The news-stand department is responsible for the shipments of copies to the news-stands and receives credit for the news-stand income. When the credit is entered for the income based upon the number of copies at the agreed rate, care must be exercised in charging to the income reserves for returns and bad debts. The reserve for returns can be well calculated upon previous experience, although it must be carefully checked against the actual returns, and the rate must be changed when necessary. It has been suggested that instead of setting up a definite percentage of deliveries as a reserve for returns, and allowing it to remain, an adjustment be made on the current reserve due to differences between a previous reserve and the actual. In other words, if a reserve was set up for 20 per cent returns on an issue and if four months later, when the issue is closed, the actual proves to be, say, 18 per cent, the current reserve should be reduced by two per cent, thus giving more income to the news-stand department for its good results. In this way, the reserve will always cover 20 per cent of the sales of the last four months. Much may be said on both sides of this question—on the one side, that the records will be more accurate, and, on the other, that the current issue receives credit for a saving that should have gone to the issue affected. It must be borne in mind that, beside past experience, another factor that will seriously affect this reserve is the date when the issue is sent out. Late issues always bring a far larger percentage of returns than those that are sent out on time.

Manufacturing and Mailing

The actual cost of manufacturing and mailing the magazine is properly charged against each issue by the cost accounting department and the total cost per issue is charged against the magazine profit and loss each period.

Editorial and Art Costs

The editorial and art costs, comprising manuscripts, drawings and departmental salaries and expenses, are likewise charged to each issue. The actual cost of manuscripts and drawings for the issue can be easily determined by pricing each manuscript and drawing used at cost price. The articles and illustrations can be taken from a copy marked by the editorial and art department.

Administration

The administration expenses comprise, mainly, officers' salaries, rent of subscription offices, prospectuses and stretchers, repairs on damaged books and other incidental expenses connected with the securing of subscriptions and maintaining the department.

Subscription Income and Expenses

The accounting for subscription income and expenses is the most troublesome and requires careful handling and attention. The subscription is taken, the book is delivered and the first payment is collected. At the same time, the salesman is paid his commission. To record the subscription, charge magazine accounts receivable and credit a reserve—reserve for outstanding copies. For the expenses incurred, this entry is necessary:

Deferred book expense
" " delivery expense
" commissions
To stock delivered
" cash

The book expense covers the actual cost of the books delivered and the other charges cover the actual cash outlay in securing the subscription. The charges are made to deferred expense accounts, as explained later. It then becomes advisable to set up necessary reserves, charging them to deferred expenses as:

Deferred bad debts
" anticipated cancellations
Collection expenses
To reserve for bad debts
" " cancellations
" " collection expenses

The first two reserves are set up on a percentage basis, based upon past experience. The collection expense reserve is calculated as follows:

From the total subscription deduct the amount of the first payment collected. Divide the remainder by the average amount collected per collection obtained from past experience records. The result is the estimated number of collections to be made. Multiplied by the average cost per collection, also available, this gives us the amount of the collection reserve. The charge to deferred collection expenses is written off as the copies are delivered. The actual future collection expenses incurred are charged to the reserve for collection expenses.

We have on the books at this time a deferred income in the account reserve for outstanding copies and deferred expenses, i. e. cost of books, delivery, commission, collection and bad debts. I have omitted the cancellation charge for special future discussion. We also know the number of copies to be delivered on the unexpired subscriptions. When the subscribers' copies are delivered, the income should be credited and the expenses applicable to these copies should be charged. It is readily conceivable that the total reserve for outstanding copies will be credited to income when the last copies are delivered. In the meantime, the income to be credited per copy is calculated by dividing the total deferred income—reserve for outstanding copies—by the number of copies to be delivered. This income, per copy, multiplied by the number of subscription copies delivered per issue, will represent the subscription income per issue. In like manner, the deferred expenses carried are applicable to the undelivered copies. The unit charge per copy for the definite deferred expenses can be ascertained and charged to the income credited. This method of deferring income and expenses on subscriptions and writing them off against the copies delivered is sound in theory and is easy to apply. The entries necessary to record income and expenses on subscription copies follow:

Reserve for outstanding copies
To subscription income
To record the income on ———— subscription copies at the rate of ———— per copy.

Cost of books
" " " delivery
Loss on bad debts
Commissions
Collection expenses
To deferred book expenses
" " delivery expense
" bad debts
" commissions
" collection expenses
To charge to expenses the proportionate part of the deferred expenses, based upon ———— subscription copies.

CANCELLATIONS

The manner of recording cancellations is more difficult. It is necessary to consider not only the balance on the accounts rereceivable, but also the balance in the reserve for outstanding copies and the deferred expenses applicable to that cancelled account. When the subscription is taken, an entry is made charging deferred anticipated cancellations and crediting reserve for cancellations. When the account is cancelled the balance of the account is written off by a charge to reserve for cancellations and a credit to the accounts receivable. Thus far the recording is simple. It then becomes necessary to charge reserve for outstanding copies—thus reducing the reserve by the deferred income on the cancelled copies—and to credit deferred anticipated cancellations. Then the following entry becomes necessary.

Deferred loss on cancellations
To deferred book cost
" " delivery
" commissions
To charge against deferred loss on cancellations the actual

expenses on the above cancellations which are not recoverable.

This loss is calculated on the same basis as the other charges against subscription expense. The expense on these cancelled subscriptions was originally charged to deferred expenses, and these accounts were credited with their proper amount when the copies were delivered. Consequently it is only proper to take from the deferred expenses and charge as an actual expense the unrecoverable portion of the incurred expenses applicable to these cancelled copies. Of course, all returned books are credited at cost to this deferred loss on cancelled account. This net loss on cancellations is written off on the same unit rate basis as the other expenses, as it is an actual loss. The entry necessary is

Loss on cancellations

To deferred loss on cancellations

To write off the proper proportionate part of the deferred loss on cancellations based upon ———— subscription copies at ———— per copy.

To close the matter of cancellations, another entry is necessary to record the value of the copies cancelled in excess of the amount cancelled:

Deferred anticipated cancellations

To deferred loss on cancellations

This reduces the actual loss on cancellations which must eventually be written off.

The reserves and deferred income and expenses and the number of copies to be delivered must be carefully watched and constantly checked. When necessary, rates of reserves should be increased or decreased, and the total number of copies to be delivered should be checked against the actual subscription list.