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Henry G. Greenfeld

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Accounts of Instalment Furniture Dealers*

BY HENRY G. GREENFELD

The income-tax regulations (article 42 of regulations 45) permit dealers engaged in the sale of furniture on the instalment plan to determine their incomes by

1. considering the gross profit on an instalment sale as realized at the time the sale is effected, or
2. considering only such part of the gross profit on an instalment sale as realized as is collected in cash.

As no particular problems present themselves in keeping accounts in accordance with the first method, this discussion will be confined to the dealer keeping his accounts according to the second method.

The original record of sales is the order sheet prepared by the salesman making the sale. The order sheet should be prepared in duplicate so that the original may serve as an office copy and the duplicate as a combination shipping order and delivery receipt. Should it be desired to supply the customer with a copy of the order, it would, of course, be necessary to prepare the order in triplicate, but this is not a customary practice in the trade.

The sales subdivide themselves into three classes: cash sales including C. O. D. sales, charge sales and instalment sales.

Cash and C. O. D. sales may both be entered in one cash sales register, which should have column headings to show

1. Register number
2. Date
3. Customer
4. Address
5. Date to deliver
6. Amount of sale
7. Cash sale
8. Deposit

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9. Balance due
10. Date delivered
11. Balance collected

Should the C. O. D. sales, however, be numerous, it would be advisable to keep them in a separate C. O. D. register. In handling cash and C. O. D. sales the sales should be registered, the cash turned over to the cashier and the sales slips stamped so as to show whether they are cash sales or C. O. D. sales. The original slips should then be turned over to the bookkeeping department and the duplicates to the shipping department.

In the case of charge and instalment sales, the credit department will be called to pass on the sale before any further action is taken. Should this department approve the sale, notation of that fact should be made on all copies of the sales order; the necessary leases or mortgages should be drawn, signed by the customer; the sale should be registered in the charge and instalment sales register; and any cash deposit on the sale should be turned over to the cashier. The duplicate copy of the sales order may then be turned over to the shipping department and the original to the bookkeeping department. The charge and instalment sales register should be headed to show

1. Register number
2. Date
3. Customer
4. Address
5. Date to deliver
6. Amount of sale
7. Charge sale
8. Instalment sale
9. Deposits on sales
10. To collect on sales
11. Date delivered
12. Amount collected

The sales should be checked against the shipping orders and the records of the shipping department as well as the cashier's record regularly, so as to complete the record as contained in the sales registers.

Upon receipt of the duplicate shipping order, the shipping department should call for the furniture from the stock clerk

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and prepare the necessary route lists. Should the stock clerk be unable to supply all the furniture required, that fact should be noted on the original shipping order and a short-shipment ticket in duplicate should be prepared, one copy of which should go to the office and the other be retained by the stock clerk until the furniture becomes available and is shipped.

There should be kept in the shipping department a continuous record of all shipments made, showing

1. Date
2. Cash sale register number
3. Charge and instalment sale register number
4. Name
5. Address
6. Amount to collect
7. Name of driver
8. Time left
9. Receipt returned
10. Remarks

Should any shipment be refused by the customer, notation should be made by the driver on the shipping order and turned in to the shipping department, which should cause to be prepared a credit memorandum covering the items refused. This credit memorandum should be checked by the stock clerk at the time he replaces the furniture in stock and should be approved by some one in authority before being passed to the books. This department should prepare daily and turn in to the office a list of all shipments made and C. O. D.'s collected.

Detail records should also be kept in this department of loads carried by individual trucks, miles run and cost of operating the trucks so as to form a basis for comparison of the work done by the several trucks in use.

No merchandise should be accepted for return except when authorized by the issuance, by the office, of a "bring-back" ticket. Returns of current year sales should be segregated from defaults and returns of prior year sales and be entered in a return register.

The handling of defaults, allowance and returns of prior years

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is a troublesome one, as it is necessary to assemble the following information with respect to each entry.

1. Amount of sale
2. Cost of goods sold
3. Amount of profit to be realized
4. Cash collections prior years, yearly
5. Cash collections current year
6. Profits reported in prior years, yearly
7. Amount to be charged to unrealized gross profits on instalment sales
8. Present value of merchandise repossessed
9. Amount to be charged to realized profits on instalment sales
10. Amount to be credited to customer

By indicating the above on each credit memorandum, however, it becomes possible to summarize the totals in a special defaults journal and place the facts on the books. The defaults journal should be headed as follows:

1. Date
2. Credit memorandum register number
3. Name
4. Folio
5. Amount of sale
6. Cost of goods sold
7. Amount of profit to be realized (col. 1-2)
8. Cash collections prior years
9. Cash collections current year
10. Profits reported in prior years
11. Amount to be charged to unrealized gross profit on instalment sales (col. 7-10)
12. Present value of merchandise repossessed
13. Amount to be charged to realized profits on instalment sales (col 6 + 10 — (col 8 + 9 + 12)
14. Amount to be credited to customers (col 11 + 12 + 13)

The cash records consist of the collectors' daily and weekly reports, cashier's daily sheets, the cash receipts book and the cash disbursements book. Collectors should be required to turn in a daily report with their cash collections. These reports after

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being checked by the cashier should be numbered consecutively, listed in the cashier's daily sheets and turned over to the bookkeeping department before being filed permanently. In addition, collectors should be required to turn in a weekly report covering total cash collected by them during the week. This report should be handed in either to the collection or credit manager, dependent on which one is in charge of collections, so as to enable him to judge the ability of the collectors. The cashier's sheets which contain a complete record of all cash collections made by the collectors should be numbered consecutively, proven with the daily deposit, summarized in the cash receipts book, and then turned over to the bookkeeping department. Cash registers in the cashier's department will be found useful and will provide an additional safeguard for the cash.

The cash receipts may be audited by comparison of the daily deposits with the daily receipts and a check of the cashier's sheets against the collectors' daily and weekly reports, the cash sales register, the charge and instalment sales register, the original sales slips, the cash register and the shipping department records.

The cash disbursements book is a simple one and does not require any particular comment.

With reference to the charge and instalment accounts, it is important that they be kept posted continuously up-to-date. When posting sales to these accounts, "soft sales," i. e. sales of soft goods, which have very little value in case of default, should be distinguished from "hard sales," so as to guide the credit department as to the extent it may press delinquent customers for payment. Postings to the customers' accounts should, in the case of sales, be made from original order sheets; in the case of cash collections from cashier's sheets and collectors' reports; in case of returns, from credit memoranda; and in case of cash refunds from cash refund authorizations. Posting machines will be found of great value in this class of work because of the large volume of the postings and the need of proving quickly.

In the case of the instalment accounts, it will also be found desirable to maintain controlling accounts for each one or two thousand accounts. These controlling accounts need not be kept on the general ledger but may be kept in a memorandum record

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supporting the instalment accounts controlling account on the general ledger.

After all postings to the customers' accounts have been made for the day, the accounts affected by the day's postings should be compared with the collectors' cards and the latter should be brought into agreement with the ledger accounts. Should any of the collectors' cards not be on hand, notation of postings and balances due may be made on a blackboard in the collectors' room or a report should be drawn up and posted in the collectors' room so that the collectors may be able to bring their cards up to date when they come in.

Refunds should not be made except on the authority of either the credit department or the store manager or an assistant to whom the power has been delegated, nor should a cash sale or C. O. D. sale be cancelled except on similar authority. If this rule be not observed, serious abuses may develop.

Purchase bills should be compared with original orders and the receiving records before being approved for entry. It will be best for the receiving department records to be constructed without reference to either bills or lists of the merchandise expected, as otherwise there will be a tendency to pass the merchandise received without a proper count.

Both purchase and expense bills may be entered in a voucher register and the vouchers may be prepared in duplicate so that one may serve as an office record and the other as a pay statement. At the time the vouchers are drawn care should be taken to prepare separate vouchers for bills of different maturities. All vouchers entered should be settled by cheque. Current cash receipts should not be used for this purpose. The audit of purchases and expenses may then be made by comparing the approved vouchers and the bills attached with the receiving department records, the voucher register and copy of original orders placed and checked against the cash records for payment. Small incidental expenses should be paid out of a petty cash fund, which should be replenished from time to time by passing through a voucher for expenditures made.

Excepting the item of unrealized gross profits on instalment sales, the assets and liabilities of instalment dealers are similar to the assets and liabilities of other retail dealers. The item

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unrealized gross profits on instalment sales represents the amount of profit to be realized on instalment accounts appearing as an asset on the balance-sheet when collected in cash.

The expenses of instalment dealers do not differ materially from the expenses of other retail dealers, with the one exception that collection expenses are much higher. With respect to income, however, special treatment is required.

For this purpose the sales are divided into two classes

Class 1. includes cash sales, charge sales and instalment sales on which an initial payment of 25 per cent or more is made.

Class 2. includes all other instalment sales.

To determine the gross profits to be taken into income, it is necessary to include all the gross profit on sales of class 1 and that proportion of gross profit on sales of class 2 which is realized by cash collection.

The first step to be taken is to determine the cost of the goods sold and the proportion of that amount which should be charged against each of the two classes of sales. Should no records covering this distribution be available, it may be pro-rated on the basis of sales.

The application of the cost of the goods sold against the sales of class 1 gives the gross profit on sales of class 1.

With respect to class 2, however, the difference between the sales and the cost of the goods sold is the amount of unrealized gross profit on instalment sales.

Journalized the above entries would read:

- | | | |
|---|-------------|-------------|
| 1. Sales class 1 | \$. | |
| To cost of goods sold | | \$. |
| Profit and loss sales class 1 | | \$. |
| To close the above accounts and determine gross profit thereon. | | |
| 2. Sales class 2 | \$. | |
| To cost of goods sold | | \$. |
| Unrealized gross profit
on instalment sales | | \$. |
| To close the sales account into its component parts. | | |

The second step is to determine the amount of unrealized gross

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profits on instalment sales which has been realized. To do this, it is first necessary to ascertain the cash collections on instalment accounts, including collections on instalment sales of prior years, and then to take that proportion of the cash collections which the amount credited to unrealized gross profits on instalment sales, as shown by journal entry 2, bears to the sales shown in the same entry. Before taking the proportion of cash collections shown above, however, there should be excluded from cash collections the amount collected during the current year on defaulted accounts. This step may be journalized as follows:

3. Unrealized gross profit on instalment sales	\$.....
To realized profits on instalment sales	\$.....
For.....per cent of cash collections on instalment accounts for year realized, collections.....	

The third step is concerned with the handling of defaults, returns etc.

Treasury regulations provide that when the vendee defaults and the dealer is unable to recover personal property sold, the dealer should report as a loss the difference between the total amount actually received and the cost of the goods sold plus the amounts returned as profit from sales in former years. Should the dealer recover the personal property sold, his loss would be decreased by the present value of the property recovered. Assuming, then, a case in which the dealer recovered personal property, the entry appearing on his books would read

4. Property repossessed	\$.....	
Unrealized gross profit on instalment sales	\$.....	
Realized profits on instalment sales	\$.....	
To accounts receivable		\$.....
For amount of default		
Cost of goods sold	\$.....	
Amount returned as profits in prior years	
	<hr/>	
Total	\$.....	

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Amounts recovered \$.....	
Merchandise	
repossessed \$.....
<hr/>	
Amount chargeable	
to realized profits	
on instalment sales	\$.....
Unrealized gross	
profit on	
instalment sales
Amount to be	
credited to	
customers	\$.....

Returns of current year's sales and allowances thereon should be charged against the sales account before applying the cost of goods against that account.

The stock records should be kept on cards and should be arranged so as to show

1. Name of manufacturer
2. Manufacturer's number
3. House number
4. Description
5. Purchase order number, date and quantity ordered
6. Date, voucher number and quantity received
7. Cost price, which usually is in code
8. Date, sale number and quantity sold
9. Balance

As stock is normally held in part at the retail store and in part at one or more warehouses, it is best to have a different colored card used for each place at which merchandise is stored. Transfer slips should be used to cover shipments from one place to another.

The finding of customers' names and addresses sometimes presents a peculiar problem. This is especially true of dealers selling to non-English-speaking customers, who frequently possess names which do not sound as they are spelled or are unable to pronounce their names with sufficient distinctness to enable one to find them in the ordinary index. This difficulty may be overcome by keeping a

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special index arranged by towns and streets, as such customers usually are able to give their addresses. In keeping an index of this kind, a new card should be placed in the files every time a customer changes his address, but the old one should not be disturbed, as past experience shows that customers sometimes remember old addresses and not the new.