

2-1919

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Recommended Citation

Field, W. P. (1919) "Accounting Control for Company Store or Commissary," *Journal of Accountancy*. Vol. 27: Iss. 2, Article 2.

Available at: <https://egrove.olemiss.edu/jofa/vol27/iss2/2>

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Accounting Control for Company Store or Commissary*

BY W. P. FIELD

A practical method of accounting control for the retail store is here presented. The system as outlined has survived the test of many years, and experience has demonstrated its practical value in stopping leaks and securing for clients a reasonable execution of their mandates, in the management of this very necessary but much neglected department.

The plan starts with the receipt of the invoice, which, as it comes in from the mail, should first be recorded in an invoice record. This is a memorandum book serving to keep pending transactions in hand until ready for the bookkeeper. For a plan of ruling see exhibit A. The columns explain themselves. The plan of numbering is important, as the invoice number plus the line number becomes the lot number of the article, which is to be placed, first on original packages, and subsequently on contents.

The lot number is a device whereby goods are so marked that they can be quickly and accurately identified with purchase, cost, price, stock and inventory records, and whereby their age can be determined at a glance. It is a composite number made up of three parts—the first giving the approximate date of the warehouse receipt, the first and second together the invoice number, and the last the item on the invoice. The detail is as follows:

Prepare a list of the twelve months of the year, repeat it eight times and number consecutively from 1 to 96. Use these key numbers for numbering invoices in the invoice record. The first invoice record in January of the first year of the system becomes No. 101, the first 1 indicating the month, the second 1 the consecutive number in the month. The first invoice in February becomes 201; the first in January of the second year 1301, the second 1302. Follow this through for eight years. The last December is 96 and the first invoice recorded in that month will be 9601. By this time, there should be no goods left in stock from the first year, so that the plan can begin again with number 1 for the key.

*A thesis presented at the November, 1918, examinations of the American Institute of Accountants.

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The number 3541 on an invoice would mean that the invoice was the forty-first to be recorded in November of the third year of the system. The number 6314 would indicate the fourteenth invoice of the sixth March. As already noted, the last units of the lot number indicate the item on the original invoice. As an example, the number 162445, noted on an article, would mean that the article was received in April of the second year of the system, and would be found on the forty-fifth line of invoice 1624. It should be noted that the number 162445 is read, sixteen, twenty-four, forty-five, and not one hundred and sixty-two thousand, four hundred and forty-five.

As soon as recorded, the invoice should go to the purchasing department for approval as to prices, and from there to the cost clerk, where calculations are revised and the laid down unit cost is established. From here it passes along to the proper authority, who notes on the margin the retail price at which the goods are to be sold, having in mind the expressed policy of the company as to the profits and the past performances of the store as shown by the monthly financial statements.

As soon as prices have been established, the merchandise covered by the invoice is "taken up"—that is, it is billed at retail value against the warehouseman in charge of the deposit that is to receive the goods. The bill is prepared and put through in every way just as if an actual sale of the goods had been made to the warehouseman. The detail shown on the bill is but a repetition of the detail on the original invoice, except that retail values are substituted for costs, and, in addition, the lot numbers are shown on the margin. All goods are billed in triplicate, a bill for each invoice. The day the goods arrive, the warehouseman receives his bill, the duplicate goes to a suitable file in the office and the third goes to the accountant, together with the original invoice, to be recorded in the purchase record, registered in the bill register and posted to the stock ledger.

The purchase record is a loose-leaf book, suitably ruled, with the sheets alphabetically arranged, and with additional special tabs for groups, such as sugar, rice, soap, etc. For detail of ruling see exhibit B. A sheet is provided for each article. The detail of each invoice, together with that of the corresponding bill, must be posted to these sheets—thus in a period of time working up a complete history of each article carried. The great value of the

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PURCHASE RECORD

Lot number	Date	Name of article	Details	Quantities	First Cost	Final cost	Selling prices		Load %

EXHIBIT "B"

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record becomes at once apparent. Given the past performances and the present stock, the future can be gauged with great accuracy, thus providing the purchasing department with the exact information necessary to assure a sufficient supply at all times, and leaving no excuse for overstocking. In this detail of company store management is perhaps the one big idea in which the commissary differs from the average town establishment, and it makes the former an infinitely bigger problem. If the town merchant finds himself overstocked, he reduces prices and converts an error into an asset by obtaining the fame that goes with good goods and low prices. If he finds himself going a bit short, he covers as far as possible on his neighbors, and saves his face by increased prices. His customer's servant crosses the street and gets the needed article, and home life goes along as usual.

Not so with the company store manager. If he overbuys he is in a dilemma. If he reduces his prices he simply makes less profit on his sales and raises a rumpus further down the line by creating a decreased demand where it is equally hard to handle. Again, if he underbuys, he is at his wits' end to adjust himself, as the short article—flour, potatoes, lard, coffee, codfish, be it what it may—will cause no end of immediate trouble in the community, and at the same time create another "out" in some neighboring line which was not prepared to care for the increased demand. The columns on this sheet explain themselves generally. The three columns for selling prices are to cover the different units at which sales are made. Thus, condensed milk calls for a price per tin, per dozen and per case. The per cent. column is for recording the ratio the loading bears to the retail price. By way of summarizing the effect of the purchase record, it can be stated that it puts the "buyer" in his place, and keeps him there; his blunders become self-evident, and in case of need his services can be dispensed with and the work carried along by the next in line without difficulty.

The bill register is kept by the bookkeeper. In it are registered all bills and invoices received from the purchasing department, as well as others from the warehousemen covering transfers to retail departments. These entries should be made in groups, so that the totals will give at the end of the month the needed statistics. For instance, the first page can be made a record of grocery purchases, the second dry goods and the third hardware,

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the next sundries, following with groups covering issues by the different warehouses, etc. The act of billing produces the loading which is the difference between the cost value and the retail value of an article. The amount of it is more or less, according to the policy of the company. The figures produced by the bill register at the end of the month give the cost, retail value and loading of each group of articles. The loading is always calculated as a percentage of the selling value. Given the retail value of the stock in any department, a reference to the statistics will immediately give the percentage of loading, and the cost of the stock is immediately produced. At the end of the month, the general ledger of the store department gives the retail value of the stock in hand, and a rapid calculation shows how much loading must be set aside to reduce it to cost. This much done, the balance remaining in loading account is the gross profit for the month. From this amount, expenses, allowances, rebates and shorts are deducted, and the net profit for the department is produced. For detail of form see exhibit C.

The stock ledger is a loose-leaf ledger, with the sheets arranged in groups indicated by tabs. An account is kept with each article billed to the warehouse, quite the same as accounts are kept with individuals in any auxiliary ledger. Each account is charged with the retail value of the corresponding article billed in as per warehouse receipts, while the same account is credited with the issues billed out to retail departments. The balance in any account is the retail value of that article in stock.

A trial balance is taken from this ledger at the end of each month, which must be in agreement with the controlling account in the general ledger. Constantly during the month, tests are being made of the accounts, overs and shorts being billed in as additional purchases, or out to profit and loss (shortages) as the case may be. The advantage of this form of stock ledger will be at once apparent. It cannot be forced. It is impossible for the warehouseman to get a credit to an article without at the same time producing an acceptable charge against another department. Likewise an invoice cannot be credited to a shipper without the corresponding debit being made against the goods. This particular idea is very important as it eliminates at once the possibility of invoices getting through unless value has been received.

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As the purchasing department bills new goods to be received against the warehouseman, so does the warehouseman prepare and cause to be recorded bills made by him covering transfers to retail departments. The warehouseman is provided with a suitable book in which he notes all bills received and the value, also at retail, of all goods billed out. The balance must agree with the controlling account of the warehouse in the general ledger. Upon the receipt of goods from the carrier, the warehouseman is compelled to be vigilant. Any slip on his part will produce a difference between stock ledger and inventory which will be difficult to explain. All shortages must be carefully noted and billed back to the accountant to be charged off, or placed in claim account, or deducted from shipper's invoice. As stock is received, all original packages are marked on the outside with the lot number shown in the bill. When original packages are opened in the retail departments, the contents are marked with the lot number and retail price. In the retail grocery departments it is not practicable to mark a few standard articles, such as sugar, beans, potatoes, cod-fish, lard, rice, ham, bacon, salt pork, condensed milk, beer, sardines, etc. These goods, being few in number and of great movement, a blackboard is provided and placed in a prominent place, where prices may be seen by all. Care should be taken to use good counter-scales, and in a suitable place locate an extra one, where the public can test the packages at pleasure—the idea being to place every possible means of self-protection in the hands of the customer.

As goods are delivered to retail departments, they are accompanied by bills. These are recorded by the clerk in charge in a blotter provided for the purpose—a book in which is noted the date, number and amount of bills covering goods received from the warehouseman figured at retail prices. In this book is also noted the daily product of the cash register. The account is opened with an inventory. The balance in the blotter at any moment is stock on hand at retail values. The difference between inventory and blotter is an "over" or "short." If an over has been produced, a bill is prepared in the office charging the department and crediting "overs." If a shortage has been produced, a ticket is prepared, and after being properly approved it is rung up and deposited in the cash register like any other credit due to the clerk. Inventories are taken frequently by independent clerks.

The entire stock being divided up into small departments, it is but a one or two hours' job to list the goods in any one clerk's account. To price the goods is easy, as the retail prices are notorious—in fact, at the tip of the tongue of every clerk—while calculations are rapid as prices are as a rule multiples of five. It is customary to take some departments weekly, much depending on past history. Dry goods and hardware are as a rule taken every two or three months, hats and shoes monthly.

A cash register of simple make is given each clerk. All credits of whatever nature are rung up like cash. If it is a credit sale to an officer, the order is rung up for its full retail value. If there is a rebate for a quantity sale, it is noted on a sheet and registered at the end of the day. If there is a credit for breakage or damaged goods, if goods are taken from stock for store expenses, if there is a credit sale to the company, or be it what it may, the token in the shape of a ticket is invariably rung up. All sales other than to officers and to the company should be for cash. Laborers and employees should be advanced cash on demand, on account of accrued salary, at the main office. It is much cheaper to record a cash advance once a day or less to a laborer than to record many credit sales. Also the laborer is better satisfied. The only objection to cash is where the policy of the company is to sell goods at a higher level than is current in the district. When this is the case, suitable plans for due bills can be worked out without interfering with the main idea.

The operations of the retail departments are closed for the day at about 2 p. m. At this hour trade is slack, the light good, and no inconvenience is caused by treating sales made in the late afternoon as of the next day. Having taken a reading of the cash register, the clerk proceeds to count his cash and list the tickets, orders or tokens that make up the day's transactions. All being in order, separate packages are made of the cash and tickets, one going to the cashier and the other to the transfer clerk together with a report prepared on a form similar to exhibit D.

We have now come to the last detail in the ceaseless round of store activities of immediate interest. We have seen the goods arrive and have noted how they are taken up and passed through the warehouse and retail store, and beyond to the hands of the customer.

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DAILY REPORT

Retail Department

Date

In charge

Cash register		
Last reading		\$
First reading		

Difference		\$

Summary		
Credit sales		\$
Officers		
Employees		
Company		
Expenses		
Rebates		
Shortages, bills		
Damaged goods		
Transfers to other departments		
x		
x		
x		
x		
Shortages, inventory		

Total		\$
Cash		
Gold	\$	
Bills		
Silver		

Total		\$

EXHIBIT "D"

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We now treat of the transfer clerk. His is an important position. He manages the clearing house of the business. To his cage come all the packages from the retail departments containing the tickets as rung up in the cash registers. These tickets are carefully checked against the statements and passed along to the baskets in suitable groups until all packages have been opened. It is perfectly clear, then, that the tickets in the various baskets must equal the total amount rung up on all the cash registers for the day. One basket contains all credit sales to officers, another all rebates, another all shortages, etc., etc. These baskets are turned over to able assistants who again sort them for billing out. The tickets in the officers' basket are now arranged by name, and then a bill is prepared in duplicate. It may be that an officer has made purchases in a dozen departments for the day, but in the end all his tickets come together in the hands of one clerk and they are billed out together. In this way the tickets are finally billed out or passed along by the clearing department, and the net of the day's operation is a report giving the totals to be credited to departments and charged against the cashier, the officers' ledger, expenses, inventory, shorts, rebates, leakage and breakage, etc., etc.

In passing, it should be stated that the group of transactions here described appertains particularly to groceries. For the handling of most articles of hardware and dry goods, it is usually sufficient to take up purchases at retail prices direct in the retail departments—this of course under the eye of a competent supervisor. When the warehouse is cut out, there will be no need for a stock ledger, nor is a purchase record required. In handling the drug store, no trouble will be found if distinction is made between the prescription and proprietary departments. The meat shop is a problem needing special study, but here, too, it is practicable to apply the general idea as outlined. Of all the situations in which the method is of value, perhaps the most noted is in the management of a branch store located at a distance from the warehouse, where everything that has been said in regard to the retail store can be adapted. In short, it has been demonstrated that the plan has almost universal application and only meets its Waterloo when it tackles the ice man.