

9-1919

Candy Manufacturers' Accounts

SWilliam A. Shenton

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Shenton, SWilliam A. (1919) "Candy Manufacturers' Accounts," *Journal of Accountancy*. Vol. 28: Iss. 3, Article 4.

Available at: <https://egrove.olemiss.edu/jofa/vol28/iss3/4>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Candy Manufacturers' Accounts*

BY WILLAM A. SHENTON

This article is written for the purpose of outlining the essential and peculiar features in accounting for the business conducted by a class of candy manufacturers who produce a grade of hard candies formed in machine presses.

In recent years there has come into being a variety of business enterprises that have been developed through the exploitation of their wares or product by means of extensive advertising campaigns. Among such is this class of candy manufacturers.

Owing to the very nature of the industry, it must be more or less apparent even to the outsider that there must be certain fundamental factors contributing to the successful conduct of business of this sort. It is essential that there should be

- (a) A meritorious trade name or brand;
- (b) A national sales field;
- (c) A gross profit margin sufficient to carry the advertising and selling costs;
- (d) A standardized product.

A careful consideration of these factors suggests to the mind of the accountant certain basic requirements in accounting to meet the needs of concerns of this type. For instance, it will be seen that the management in order to direct the business intelligently must know with a reasonable degree of certainty the relationship between the cost of manufacturing, the cost of selling and the selling prices. A knowledge of these facts appears especially essential when it is known that as a matter of selling policy a considerable percentage of manufactured product is frequently distributed as free goods to the jobbers throughout the country.

The succeeding comments upon the nature of the accounts for this class of candy manufacturers relate to the accounting phases of the business in the order indicated below:

1. Factory accounts;
2. Advertising and selling expenses;
3. Financial.

*A thesis presented at the May, 1919, examinations of the American Institute of Accountants.

FACTORY ACCOUNTS

Nature of operations

It will be well, perhaps, to indicate fully at the outset the nature of the product and the operations through which it must pass until packed and ready for shipment. Naturally the principal ingredient or raw material would be sugar and as a matter of fact is granulated sugar. This is mixed with glucose, essential oils and other fluids and passes successively through a series of manufacturing operations, pulverizing and mixing, drying, blending and pressing, before the candy is produced in finished form.

The product must then be wrapped, labelled and packed in cartons and boxes before being ready for shipment. The cartons and boxes, however, are standard in respect to quantity. Each package contains a given number of candies, uniform in size and weight, each carton a given number of packages, and each box contains a given number of cartons. The factory accounts, therefore, are divisible into three separate divisions, namely, cost of manufactured candy, cost of labelling, wrapping and packing and cost of shipping.

It is not the intention to describe here in detail the various accounting steps necessary to obtain an accurate statement of costs, but to indicate these rather by an outline and to show at the same time the unusual features connected therewith. However, certain basic principles must be clearly understood. In order adequately to perform their proper functions the factory or cost accounts must of necessity be tied with the financial books of account, and such costs must embrace all the elements comprising cost of production, whether for raw materials, labor or manufacturing expenses.

Stores accounts

It is a well understood fact that it is as essential to control the quantity and value of stores as it is accurately to record cash transactions; and the need in this case is emphasized by the fact that tinfoil, an expensive, compact material and easily stolen, is used in quantities to wrap the candy, so that, unless some standards of control are established, losses of material due to theft would possibly never be noticed.

To reduce to the minimum possibilities of this sort and automatically to check incomplete and inaccurate records of materials delivered into production is a vital part of the duty of the cost

Candy Manufacturers' Accounts

accountant. This may be facilitated by standardized quantity production under a system of factory or work orders, designed to control the issuance of sufficient stores to produce only the quantity of finished product called for by the work order and controlled by departmental delivery reports linked with the work order to which they are applicable.

The very nature of the business and the requirements of standardized production limit the kinds of raw and packing material stores necessary to be carried, and it has been found to be advantageous to keep individual stores accounts in the factory ledger. These stores accounts are designed to show, on the debit side, the date, name of vendor, price and amount of materials received and these charges may be posted direct from the audited voucher to the debit of the respective accounts affected. Likewise, stores delivered into production may be posted direct to the credit of these accounts from the material delivery tickets. Again these credits may be posted from such tickets as to quantities only and the extension of cost may be computed by one calculation at the end of the month. For example, by footing the debit quantities and amounts the average cost price of the material purchased during the month may readily be found, and thus by footing the credit or consumed quantities and applying the average cost price the extension in money values is readily ascertainable. Of course, this method of averaging prices might in many cases be very unsatisfactory, but with commodities not subject to excessive fluctuation and where it is necessary to carry comparatively small quantities in stock, no hardship is worked and the accounting is made simpler.

Production accounts

From the preceding paragraph it will be observed that the cost of raw materials consumed may be charged direct to the departmental cost accounts affected—this is meant to cover both the candy manufacturing and wrapping and packing departments. The cost of productive labor may also be applied to the departmental cost accounts direct from the payroll distribution. In like manner, specific overhead charges that are directly applicable to each particular department may be charged direct, such as repairs to machinery, power, rent, etc. There then remain for distribution to the various departments items of general overhead

The Journal of Accountancy

that are not directly applicable to any particular department, and these, owing to the fact that the major portion of the direct labor is performed by hand rather than machine operations, may be distributed on the basis of productive labor hours.

As between the manufacturing and wrapping and packing departments, however, a conversion in the unit of cost must be made. Materials go into production on the basis of the unit of pounds, but in the wrapping and packing department the unit is a box, so that it is necessary to establish the weight of candy in each box in order to make the change to the final unit. The selling price, of course, is based on the box unit, so that the cost of sales must conform to that unit if proper comparisons are to be made.

Adequate waste reports must be made. For instance, breakage of candy constantly occurs in the wrapping and packing operations and credit should be made to cover the scrap value of this broken candy which, if clean, is returned to the pulverizing room and reground.

It is as essential to record the movement of materials between departments as it is to record the original issue of stores into production. This may be done on interdepartmental delivery forms, and the quantities shown thereon may be posted to the credit of material account of the department delivering and to the debit of the material account of the department receiving. The computation of cost may be established in one calculation at the close of the month in a manner similar to that described in the treatment of the stores accounts, except that the cost in the department delivering would first have to be assembled and to include the charge for raw materials, labor and burden before the credit could be applied and a corresponding charge made to the succeeding department.

These bookkeeping operations being performed, the results at closing periods will show the quantity and value of materials in process on hand in each department and finally the quantity and value of finished stock produced.

The shipments ordinarily comprise three classes, namely, goods sold, free goods and consignments to branch offices, and these must be treated differently in the general accounts. The cost of goods sold should be charged to cost of sales, the cost of

Candy Manufacturers' Accounts

free goods to free goods account and the cost of consignments to branches should be charged to the stock accounts at each branch and carried at cost until sold.

ADVERTISING AND SELLING EXPENSES

The aggregate expenditure during the year for advertising is apt to amount to a considerable sum and inasmuch as commitments of this sort are made some time in advance it is advisable to keep a separate register to record them. Such a record may be kept to show the total contracted for, the distribution of the several classes of advertising, namely, magazines, newspapers, street cars, outdoor display cards and others, and, in addition, provide for recording the number of the audited voucher and the reference to the "copy" that the voucher covered. This record would serve to show the outstanding commitments on advertising contracts and provide the means of comparison with the total advertising appropriation authorized.

The sales field is usually divided into territorial divisions. Some effort should be made to show the relationship between the advertising and selling costs and the sales returns. Of course, it is a practical impossibility accurately to apply advertising expenditures to sales, but managers need some statistics to guide them and to indicate the efficiency of the sales effort in the various divisions. The advertising expense covering newspapers, street cars, outdoor displays, etc., can be more or less definitely applied to the returns by divisions or subdivisions, but the application of advertising in national magazines is another matter. With regard to advertising in such magazines, the proper method of segregating the cost and applying it to the divisional or subdivisional sales returns is to do this on the ratio of the circulation of each magazine in each division to the total circulation of the magazine in the entire sales territory. However, magazine circulations are not always obtainable and the next best plan of distribution is that based on the ratio of the population in the division as compared with the total population in the sales field.

Direct selling expenses embracing salesmen's salaries and expenses and commissions may be more readily applied to the division wherein the expense is incurred. As a matter of fact, it

The Journal of Accountancy

is usual, in addition, to assemble the results of each salesman's effort and apply the cost of selling connected therewith.

It must be clear that comparative statements of this character, showing the results and percentages of cost for the month and the period of the year to date, as compared with similar periods in preceding years, which are tied to and form a part of the monthly report to the management, must be of great value in formulating future sales policies.

FINANCIAL

Customers' accounts

The money value represented in the average sale is ordinarily small, but the volume of sales may be large. This means that granting credit becomes more a matter of policy and clerical routine than a special study of the responsibility of customers and the limits of credit to be extended. And, again, volume suggests the necessity for carefully watching the age of accounts on the books. Therefore, for the purpose of facilitating collections and to furnish the required data as to age and collectibility of the outstanding accounts, it will be well to prepare monthly trial balances subdivided as between "not past due" and "past due" accounts, with such further analysis of past due items as will indicate their age and probability of collection.

Machinery and equipment

Care should be exercised in distinguishing between capital outlay for machinery and equipment to see that the charges made actually represent the value of the fixed property and are not in reality items of an experimental character. It does frequently happen, especially in the early life of an enterprise of this sort, that considerable sums are expended in designing and constructing machines that never become serviceable; and, unless distinction is made between the cost of useful machines and the cost of experimental work on machines that have no productive value, the assets of the company will become unduly inflated.

It would seem clear that at best the cost of experimental work should be spread over only a limited period as compared with the cost of a machine useful for production purposes.

General

The fact that the product is standardized makes it possible to fill orders completely. In a single clerical operation can be

Candy Manufacturers' Accounts

made all departmental copies of the order, but for the purpose of ready identification each copy should be made on different colored paper. These several copies of the order may include the following:

1. Acknowledgment of order.
2. Customer's invoice.
3. Factory order.
4. Shipping order.
5. Sales department record.
6. Collection record.
7. Bookkeeping posting record.

In conclusion, all accounts to be most useful must serve a constructive purpose, and this cannot be done unless the accounts are properly assembled and results promptly obtained. It is only when the managers are promptly furnished with proper accounting data that they are able best to direct selling policies, productive efforts and meet the needs of the business, financial or otherwise.