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Uniform system of dried fruit cost accounting

Dried Fruit Association of California

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UNIFORM SYSTEM
OF
DRIED FRUIT COST
ACCOUNTING

Prepared by
DRIED FRUIT ASSOCIATION
of CALIFORNIA

January 1, 1932

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FOREWORD

A YEAR ago, on January 1, 1931, the Dried Fruit Association of California issued a preliminary pamphlet on dried fruit cost accounting. At that time it was pointed out that under American competitive methods it is essential that business know its costs. It is one thing to absorb losses unknowingly and quite another to absorb them with knowledge beforehand that this must be done. In other words, the man who sells goods at a price on the assumption that he is making a profit and finds at the end of his fiscal year that his computations were all wrong because of insufficient knowledge of costs, is in quite a different position from the man who knows what he is doing every step of the way.

It has been repeatedly proven that where the various factors in an industry adopt uniform cost accounting methods and recognize the same elements of cost, a tremendous benefit redounds to the industry. In fact, in some industries the development of uniform cost accounting systems has had the effect of placing them on a profit-yielding basis, in contrast to a losing one, upon which they had struggled through the years.

There is every reason for believing that the California dried fruit industry can be materially benefited by the adoption of a uniform cost determining system. These benefits will inure not only to the factors engaged in packing and distributing, but also to the thousands of growers engaged in producing dried fruits. The Dried Fruit Association of California, dedicated as it is to promoting the welfare of this basic State industry, earnestly urges its members not only to study, but to install the uniform system proposed in this pamphlet. A full knowledge of costs is just as important to a packer as is a knowledge of products and trade practices.

ACCOUNTING SYSTEM FOR THE DRIED FRUIT PACKER

THE purpose of this manual is to outline an accounting system which can be adapted to the needs of any packer of dried fruits and which will bring about uniformity of accounting among members. An accounting system should accomplish two purposes. These purposes are to:

1. Set forth the financial condition of the business (what the business owns and owes) as of any given date, and
 2. Show the cost of operations and the resulting profit or loss.
- The system outlined here will accomplish both these purposes and will do it simply and practically, without any great departure from your present practice, and with very little, if any, additional expense.

Books of Original Entry

Before an accounting system can be adopted and put to use certain books of original entry are needed. The following records are necessary for the successful use of this system:

- Cash book.
- Purchase record.
- Sales book.
- Journal.
- General ledger.

The general ledger will include three controlling accounts for three subsidiary ledgers. These subsidiary ledgers are:

- Accounts receivable ledger.
- Accounts payable ledger.
- Grower's ledger

These records are common to any accounting system and do not require explanation. No forms for the books of original entry are outlined because standard forms of any size and shape desired can be obtained. All other forms and records used are merely detail to obtain information for the books of original entry.

Classification of Accounts

The classification of accounts falls naturally into two classes:

1. Asset and liability accounts which display what the business owns and owes, and
2. The operating accounts which show the cost of operations and the resulting profit or loss.

Asset and Liability Accounts

The asset and liability accounts, or real accounts, are as follows:

Assets

- Cash on hand and in bank.
- Accounts receivable.
- Notes receivable.
- Inventory—fruit.

- Inventory—materials.
- Land.
- Buildings.
- Machinery and equipment.
- Autos and trucks.

Liabilities

- Accounts payable.
- Growers' accounts.
- Notes payable.
- Reserve for depreciation.
- Reserve for bad debts.
- Capital.
- Surplus.

This classification is not exhaustive and is capable of elaboration. These accounts are common to any accounting system and are absolutely essential to obtain a true statement of financial condition. They should be set up in the general ledger, and transactions affecting them put through the books of original entry.

In setting up the real accounts the machinery of the business has been established. The primary objective of business is profits. To know the cost of operation, with its resulting profit or loss, is to know the extent to which a business enterprise has succeeded or failed to accomplish the principal purpose for which it was organized. This accounting system is designed to furnish the dried fruit packer with this information and for that reason deals thoroughly with his cost problem.

Operating Accounts

Operating accounts are divided into two classes: Income and expense. The income of the dried fruit packer is confined primarily to fruit sales, but there is miscellaneous income as shown in the following classification:

Income

- Sale of fruit.
- Miscellaneous income:
 - Seed sales.
 - Hog-feed sales.
 - Miscellaneous by-products sales.
 - Packing for others.
 - Sale of pits.
 - Handling charges.
 - Rentals sweat boxes and lugs.
 - Storage charges.

These miscellaneous income items are, in many cases, reduction of costs and should be so considered to arrive at a true unit cost. These accounts should be set up in the general ledger and all transactions affecting them put through the sales book and the cash book.

Expense Accounts

The costs are divided into two classes—cost of fruit and packing costs. The reason for the segregation of costs is in the nature of the commodity handled. Fruit is constantly fluctuating in price, which may or may not be known at the time a sale is made. Under such conditions it would seem to be the best procedure to separate the costs and attempt to arrive at a true packing cost which can always be applied to known sale or purchase prices to determine a profit on each transaction.

Cost of Fruit

The items entering into the cost of fruit are as follows:

Cost of Fruit

- Price paid to grower.
- Buyers' commissions.
- Purchasing expense.
 - Containers supplied grower.
 - Traveling expense (field men).
 - Miscellaneous buying expense.

Receiving (field).

Concentration.

- Demurrage.
- Freight.
- Hauling and handling.

Inventory gain or loss.

These accounts when set up in the ledger will represent the fruit costs. It may be difficult to allocate some of these costs to any particular fruit (if more than one fruit is handled), in which event they should be pro-rated on the percentage the total weight of each fruit received bears to the total weight of all fruits received.

Incidental to the segregation of the fruit costs into their different accounts various forms and records are required for the sake of simplicity and additional detailed information.

Fruit Records

The most essential records necessary in connection with the fruit accounts are a receiving tag, a grading sheet, a stemmer report in the case of raisins, and a pack-out report. Each of these forms is outlined. At the end of the week these daily reports will be posted to summary sheets. The headings of the summary sheets will be the same as the daily reports. The summary sheet will include weights for the week and accumulated weights for the period.

The grading sheet for cut fruits follows. The form can be adapted to fit the requirements of any kind of cut fruit:

GRADING SHEET							
Grower.....		Date.....		No.....			
Address.....		Variety.....					
Contract No.....		Car.....					
Total Weight	Standard	Choice	Extra Choice	Fancy	Extra Fancy		

The form to be used for raisins is the stemmer report. A suggested form is shown below:

STEMMER REPORT							
Date.....						No.....	
Boxes		Weights to Stemmer				Stemmed	
No.	Kind	Grower	Gross	Tare	Net	Net Wgt.	
						1 Crown	- - - - -
						2 Crown	- - - - -
						3 Crown	- - - - -
						4 Crown	- - - - -
						Choice	- - - - -
						Extra Choice	- - - - -
						Fancy	- - - - -
						Extra Fancy	- - - - -
						Bakers	- - - - -
						Culls	- - - - -
						Waste	- - - - -
		Total -				Total -	- - -

On one side is shown the weight going into the stemmer and on the other side the stemmed weights.

If these forms are used, the grade out of all fruit coming into the packing house can be determined at any time as well as the loss in waste.

The pack-out report is the same form for all fruits. A simple form is:

PACK-OUT REPORT						
Date.....					No.....	
SC No.	Variety	Grade	Marks	No. Pkgs.	Size Pkgs.	Net Weight

This report will be made up daily to show the total pack out for the day. It will serve as a check on sales contracts and the completion of sales orders.

If these forms are used in conjunction with the weekly summaries no difficulty should be encountered in determining the cost of fruit.

Cost of Packing

The cost of packing dried fruit can and should be determined by the packer. There are no unknown factors as in the case of fruit costs and the only difficulty lies in segregating the costs to their proper accounts and recognizing them as costs. The cost sheets shown here set forth the costs that should be known to the packer and considered in every transaction. They show the total cost of each item in packing 30 pounds Seeded Muscats or 25 pounds Santa Clara Prunes during the accounting period, the total number of boxes and pounds packed, and the unit cost.

1932 COST SHEET		
30-Pound Seeded Muscats		
	Total Cost	Unit Cost
DIRECT LABOR		
Receiving - - - - -		
Stemming - - - - -		
Grading - - - - -		
Recleaning - - - - -		
Drying - - - - -		
Capstemming - - - - -		
Processing - - - - -		
Seeding - - - - -		
Boxmaking - - - - -		
Packing - - - - -		
Shipping - - - - -		
Total Direct Labor - - - - -		
INDIRECT LABOR - - - - -		
TOTAL LABOR - - - - -		
MATERIALS - - - - -		
COST OF LABOR AND MATERIALS - - - - -		
OVERHEAD - - - - -		
TOTAL COST OF PACKING 30 LBS. SEEDED MUSCATS -		
SUMMARY		
Number of boxes packed.....		
Number of pounds packed.....		
Cost per box.....		
Cost per pound.....		

1932 COST SHEET
25-Pound Santa Clara Prunes

	Total Cost	Unit Cost
DIRECT LABOR		
Receiving - - - - -		
Grading - - - - -		
Processing - - - - -		
Boxmaking - - - - -		
Packing - - - - -		
Shipping - - - - -		
Total Direct Labor - - - - -		
INDIRECT LABOR - - - - -		
TOTAL LABOR - - - - -		
MATERIALS - - - - -		
COST OF LABOR AND MATERIALS - - - - -		
OVERHEAD - - - - -		
TOTAL COST OF PACKING 25 LBS. SANTA CLARA PRUNES		
SUMMARY		
Number of boxes packed.....		
Number of pounds packed.....		
Cost per box.....		
Cost per pound.....		

With sheets like these before him a packer can estimate the result of every transaction before it is consummated and plan his business accordingly. These sheets should be made up at the end of each accounting period and one would be made for each pack of fruit, i. e. 25-lb., 50-lb., 12½K, 25K, 48/15, 36/15, etc. For purpose of illustration, each item of cost on the prune sheet will be analyzed fully.

LABOR

Labor costs in the dried fruit industry, as in most other industries, are the greatest element in the cost of production. There are two classes of labor, direct and indirect.

Direct Labor

The principal direct labor in packing dried fruits other than raisins is:

- Direct Labor
- Receiving.
- Grading.
- Processing.
- Boxmaking.
- Packing.
- Shipping.

These labor costs are known and can be definitely and accurately applied to the cost of the particular pack of the fruit.

Indirect Labor

Indirect labor is labor that is essential to the packing of dried fruit but can not be definitely charged directly to any particular pack. Indirect labor is further divided into two classes. The first is labor employed on the fruit, and the second, general labor. The principal indirect labor costs incurred in the handling of fruit are the following:

Indirect Labor—Fruit

- Fumigation.
- Handsorting.
- Regrading.
- Test counting.
- Sacking for other than sales.
- Reconditioning.

These costs must be pro-rated to the various fruits and packs on some equitable basis. The better basis is on the percentage of sales weights. In other words each pack of each fruit should be charged with the percentage the weight of the sales of each pack bears to the weight of the total sales.

The second class of indirect labor is composed principally of the following:

Indirect Labor—General

- Supervision (foremen).
- Clean up.
- Engineer.
- Watchmen.
- Handling empty boxes and trays.
- Handling materials.
- Miscellaneous trucking and rehandling.
- Miscellaneous plant labor.

This class of labor does not actually apply to the packing of fruit but is necessary and amounts to a considerable item in a properly conducted packing house. The best method of allocating this cost is on the percentage of tonnage of fruit received. That is, the percentage the weight received of each fruit bears to the total weight of all fruits received.

Labor Records

The most essential records in cost finding are the labor records. They must be comparatively simple, compact, and elastic enough to permit every class of labor being included. There are two purposes for labor records—one is to determine the time put in and the amount due each employee, and the other to ascertain the labor costs for each opera-

tion. The following procedure offers a very simple method of handling labor charges and consists of three forms, a time card, a daily labor segregation and a weekly labor distribution. The following is a simple form of time card:

DAILY TIME CARD												
Name			No.....			Work done						
Date.....						Rate						
												Total hours.....
A.	6	6½	7	7½	8	8½	9	9½	10	10½	11	11½
M.	12	12½	1	1½	2	2½	3	3½	4	4½	5	5½
P.	6	6½	7	7½	8	8½	9	9½	10	10½	11	11½
M.	12	12½	1	1½	2	2½	3	3½	4	4½	5	5½

This card will be made out each day by the employee or the foreman and will show the time in and out, and the total hours put in by the employee. Under "work done" will be written in the work done during the day, such as grading, processing, etc. When these time cards are turned in to the office each morning they will be posted to weekly payroll sheets. One of these sheets will be made out for each employee.

Because of space limitations, the forms of "Weekly Payroll Sheet" and "Weekly Labor Distribution" shown herein are skeleton and contain only enough of the items that would appear in the complete form to serve as illustrations.

The suggested form for the weekly payroll sheet is as follows:

WEEKLY PAYROLL SHEET									
Name					Week ending				
No.					Rate				
Operation	Sun.	Mon.	Tue.	Wed.	Thu.	Fri.	Sat.	Hours	Amount
Prunes Supervision -									
“ Receiving - -									
“ Grading - - -									
“ Processing - -									
“ Boxmaking -									
“ Packing - - -									
“ Shipping - - -									
Raisins Supervision -									
“ Receiving - -									
“ Stemming - -									
“ Grading - - -									
“ Recleaning - -									
“ Drying - - - -									
“ Capstemming									
“ Processing - -									
“ Seeding - - -									
“ Boxmaking -									
“ Packing - - -									
“ Shipping - - -									
Apricots Supervision									
“ Receiving - -									
“ Grading - - -									
“ Processing - -									
“ Handsorting -									
“ Boxmaking -									
“ Packing - - -									
“ Shipping - - -									
Cleanup - - - - -									
Engineer - - - - -									
Watchmen - - - - -									
Handling Materials -									
Miscellaneous - - - -									
Totals - - - - -									

Each day the time cards will be posted to the individual sheets so that at the end of the week on one form will be the labor segregation, the total time put in and the amount due each employee. By the use of this form a great deal of detail will be eliminated, both in the plant and the office. At the end of the week these sheets will be posted to a labor

distribution which will act as a payroll record and a total labor segregation:

WEEKLY LABOR DISTRIBUTION										
Week ending.....						No.....				
No.	NAME	Check No.	Amount	PRUNES			APRICOTS			Eng'n'r
				Rec'v'g	Gr'd'g	Proces	Rec'v'g	Gr'd'g	Proces	
	Total - - -									

The weekly labor distribution will show the total amount of labor for each operation during the week and the total payroll. It is a simple matter to draw payroll checks from this record and at the same time have an absolute check on the mathematical accuracy of the payroll.

MATERIALS

The cost of materials in the packing of dried fruits are the following:

Materials

Purchase price.

Freight.

Storage.

These costs are found in the purchase record and the general ledger. At the end of each year an inventory should be taken of all materials on hand to determine the cost of materials used. Most materials used can be charged direct to a particular pack or fruit. Those that can not be so charged should be pro-rated on the percentage of sales weights.

OVERHEAD

Overhead includes all costs other than labor and material that are incurred in the packing of dried fruits. On the recognition and correct allocation of overhead depends to a great extent the success of a business enterprise. Overhead incurred in the packing of dried fruits is of two classes—plant overhead, and administrative and selling expense.

The plant overhead includes costs incurred in the plant and consists principally of the following:

Plant Overhead

Auto expense.

Depreciation—plant and equipment.

Insurance—stock and equipment.

Light, power and water.

Postage.

Rents and royalties.

Repairs and maintenance.

Stationery and supplies.

Storage.

Miscellaneous expense.

These items are general costs and can not be charged direct to any one fruit. They should be allocated on the percentage of sales weights.

A packing business has administrative and selling expense whether it packs one fruit or seven. These costs can not, in most cases, be charged direct to any particular fruit, but must be pro-rated over all of them. The most equitable basis for pro-ration is on sales weights. The classification has been divided between direct administrative expenses and expenses that must be pro-rated. The following items should be pro-rated on sales weights:

Administrative and selling expense (pro-rated on per cent of sales weights)—

Salaries.

Administrative.

Office.

Buyers.

Salesmen.

Telephone and telegraph.

Interest.

Taxes and licenses.

Traveling expense.

Bad debts.

Claims and allowances.

Depreciation—office furniture and fixtures, sales equipment.

Insurance—office furniture and fixtures, sales equipment.

Stationery and supplies.

Legal.

Light, heat and water.

Postage and printing.

Rent.

Repairs and maintenance.

Auditing.

Donations.

Dues and subscriptions.

Administrative and office salaries should include a fair amount for yourself and members of your family if they are working in the organization. They would not work for anyone else for nothing.

The following items can in most cases be charged direct against a particular pack:

Administrative and Selling Expense (direct)

Brokerage.

Discount.

Exchange.

Inspection—D. F. A.

State tolls.

Freight and cartage.

General

In the foregoing pages the cost sheet has been fully analyzed. The procedure outlined is very simple and practical. The system is virtually self-operating once it is installed and followed. No particular accounting training is required or any great amount of work. In all cases where pro-ration of costs is necessary they should be pro-rated on weights and not on money values as the former is the most equitable. The statements to be made up from the accounting records at the end of the accounting period are shown in the following pages. Also a complete classification of accounts is shown which includes all the principal accounts necessary in any packing house whether they pack one fruit or seven. This classification is not exhaustive and will permit of reasonable elaboration.

BALANCE SHEET

Assets

Cash on hand and in bank.....		
Accounts receivable		
Less: Reserve for bad debts.....		

Notes receivable		
Inventories—		
Fruit		
Materials		

Land		
Buildings		
Machinery and equipment		
Autos and trucks.....		
Total		
Less: Reserve for depreciation.....		
	_____	_____
Total assets		=====

Liabilities

Accounts payable		
Notes payable		
Growers' accounts		

Total liabilities		
Capital—		
Capital stock		
Surplus		
	_____	_____
Total		=====

The capital section of this balance sheet shows the form for a corporation. If the business is a sole ownership or a partnership, the individual interests would be shown in the capital section.

PROFIT AND LOSS STATEMENT

Sales	_____
Cost of fruit sold	
Opening inventory—packed fruit.....	_____
Cost of fruit packed—Schedule 1.....	_____
Total	_____
Less: Closing inventory—packed fruit.....	_____
Cost of fruit sold.....	_____
Gross profit	_____
Less: Administrative and selling expense.....	_____
Net profit	=====

COST OF PACKING FRUIT—SCHEDULE I

	Weight	Amount	Unit	Cost
Fruit inventories opening.....				
Purchases				
Total				_____
Less: Fruit inventories closing.....				_____
Fruit packed				_____
*Gain in weight (weight only).....				_____
Cost of fruit				_____
Labor				_____
Materials				_____
Overhead				_____
Cost of packing fruit.....				=====

This profit and loss statement is designed for a packing house packing only one fruit. In the event that more than one fruit is packed, the cost statement would provide columns for each fruit, but only the costs of all fruits would appear in the profit and loss statement. The profit and loss statement will show the final result of operations, but to the dried fruit packer the cost statement is of the paramount importance because it shows him the reason for the results and is a constant guide for the efficiency of his operations.

From the cost statement made up at the end of the period the individual cost sheets are made up and should tie in with the total.

*The gain or loss in weight is the difference between the weights going into the pack and the weights shipped. It is used to get true unit costs.

Classification of Accounts

Assets

- Cash on hand and in bank.
- Accounts receivable.
- Notes receivable.
- Inventory—fruit.
- Inventory—materials.
- Land.
- Buildings.
- Machinery and equipment.
- Autos and trucks.

Liabilities

- Accounts payable.
- Growers' accounts.
- Notes payable.
- Reserve for depreciation.
- Reserve for bad debts.
- Capital.
- Surplus.

Income

- Sale of fruit.
- Seed sales.
- Hog-feed sales.
- Miscellaneous by-product sales.
- Packing for others.
- Sale of pits.
- Handling charges.
- Rentals—sweat boxes and lugs.
- Storage charges.

Expense

- Cost of fruit.
 - Price paid to grower.
 - Buyers' commissions.
 - Purchasing expense.
 - Sacks supplied grower.
 - Boxes supplied grower.
 - Traveling expense (field men).
 - Miscellaneous buying expense.
 - Receiving (field).
 - Concentration.
 - Demurrage.
 - Freight.
 - Hauling and handling.
 - Storage.
 - Inventory gain or loss.

Cost of packing.

Materials.

Purchase price.
Freight.
Storage.

Labor.

Direct.

Receiving.
Grading.
Recleaning.
Drying.
Capstemming.
Processing.
Seeding.
Boxmaking and printing.
Packing.
Shipping.

Indirect.

Supervision (foremen).
Fumigation.
Handsorting.
Regrading.
Test counting.
Sacking for other than sales.
Reconditioning.
Clean up.
Engineer.
Watchmen.
Handling empty boxes and trays.
Handling materials.
Miscellaneous trucking and rehandling.
Miscellaneous plant labor.

Plant overhead.

Auto expense.
Depreciation—plant and equipment.
Insurance—stock and equipment.
Light, power and water.
Postage.
Rents and royalties.
Repairs and maintenance.
Stationery and supplies.
Storage.
Miscellaneous expense.

Administrative and selling expense

Salaries.

 Administrative.

 Office.

 Salesmen.

 Buyers.

Telephone and telegraph.

Brokerage.

Discount.

Exchange.

Interest.

Traveling expense.

Inspection—D. F. A.

Taxes and licenses.

Bad debts.

Claims and allowances.

Depreciation—office furniture and fixtures, sales equipment.

Insurance—office furniture and fixtures, sales equipment.

Stationery and supplies.

Legal.

Light, heat and water.

Postage and printing.

Rent.

Repairs and maintenance.

State tolls.

Freight and cartage.

Miscellaneous expense.

 Sample expense.

 Arbitration.

 Auditing.

 Donations.

 Dues and subscriptions.