

1924

Manual of instruction for the installation and operation of the national cost and accounting system; Supplement to Manual of instruction for the installation and operation of the national cost and accounting system

National Tent & Awning Manufacturers' Association

National Canvas Goods Manufacturers' Association

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Manual *of* Instruction

for the Installation and Operation of the

National Cost and Accounting System



Produced by the

National Tent & Awning
Manufacturers' Association

Incorporated

STATISTICAL
DEPARTMENT
Price, Waverhouse & Co.
NEW YORK

Manual *of* Instruction

for the Installation and Operation of the

National Cost and Accounting System



Produced by the

National Tent & Awning
Manufacturers' Association

Incorporated

Prepared by

NATIONAL LABORATORY ON COST INVESTIGATION
National Tent & Awning Manufacturers' Association, Inc.

CLAIRE I. WEIKERT, Chairman.

E. E. PILGRAM, Authorized Accountant.

St. Paul, Minnesota.
1924.



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for the Installation and Operation of the

National Cost and Accounting System



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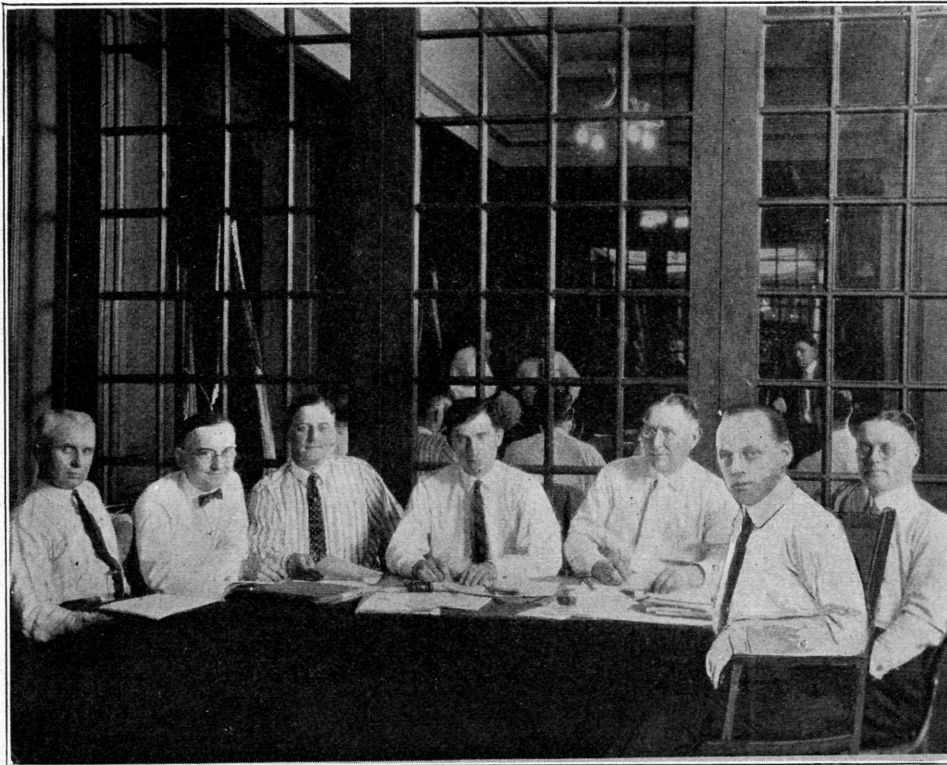
National Tent & Awning Manufacturers' Association, Inc.

Introduction

The National Tent & Awning Manufacturers' Association has had a varied experience in the production and installation of a uniform Cost Accounting System. This experience has been in many fields wherein failure has resulted and success at various times. Our association started out with the idea of buying a cost system and we endeavored to employ experts to install our system duly bought from experts. This method was an absolute failure. Our membership refused to accept anything from an outsider, viz., "A non-member of our trade" and secondly, they refused to pay the price of installation, which prices to them were exorbitant. Eight years of experimentation resulted in the installation of about ten cost systems, not any one similar to the other in all particulars.

produced by our own men engaged in our own industry. We have been guided by the advice of the so-called expert but the cost system as displayed herein is a production of our own minds and is distinctly qualified in that, it is the result of experimentation by men who know our industry.

It is one thing to develop a cost system but it is another thing to teach this system to our membership and install it into our plants. We have realized that our membership must be convinced of the value of such a cost system before they will pay money for it and because of this, it has been our policy to give this system to our membership free of charge. This we have done, and through a process of lectures, printed matter of various kinds and individual advice, our system has been installed



THE NATIONAL COST LABORATORY IN SESSION IN CHICAGO, JULY, 1923.

Louis Ellingson, Chicago, Ill.; Frank Tische, Boston, Mass.; R. Laecke, Milwaukee, Wis.; Claire I. Weikert, Chairman, St. Paul, Minn.; Frank Lohiser, Buffalo, N. Y.; Chas. E. Lindh, Philadelphia, Pa.; Herbert Scantlebury, Boston, Mass.

In the year 1921 the National Cost Laboratory was established. This Laboratory is composed of seven men appointed by the Board of Directors of the National Association. The Cost Laboratory proceeded along a different line, viz., they realized that only through experimentation in their own plants could a cost system be found and as a result our own cost system has been made, developed and

in over two hundred plants in the United States to date.

In January, 1924, after years of study, the National Cost Laboratory decided upon an accounting system to tie up to the cost system and complete the total cost accounting system which was started in 1921. In order to present this accounting system and show its relationship to the cost system, it is

necessary to publish a description thereof, together with instructions. It is the decision of the National Cost Laboratory that the National Cost Accounting System shall be displayed to our membership in every possible form in order that it can be thoroughly understood by all executives in our industry.

With this object in view, we are publishing this "Manual of Instruction" and have endeavored to present in our language (not the language of the expert) this Cost and Accounting System as it operates in our factories. The fundamental system is displayed here. It is natural that from the foundation many branches can be developed and from time to time the Laboratory expects to publish supplements to this booklet explaining the various developments from these fundamentals.

The writing, planning and production of this booklet has required much thought and labor and for a great deal of this work, the National Cost Laboratory wishes to acknowledge the assistance of

the needs of a uniform system and have decided that uniformity is absolutely necessary so that we may all "speak the same language."

Many possible methods were investigated and the members of the Laboratory were governed by the fact that modern methods are based on the principal of "Do It Now." Most accounting records are based on the method of entering the work daily into a Cash Book and Journal, allowing it to accumulate until the end of the month. Banking accounting was first to discourage this. The Bank's records are always up to date and every accounting record is balanced in its entirety every day at closing. The average merchant only knows at the beginning of the following month what occurred during the previous month and it is not until after the statements are gone and his bookkeeper has found time to enter and close the general ledger accounts that the merchant is able to receive some information about activities since the first of the year.



CLAIRE I. WEIKERT,

Chairman National Cost Laboratory, N. T. & A. M. A., St. Paul, Minn.

Mr. E. E. Pilgram, the authorized accountant of the Laboratory.

The creation of a system of cost accounting for the members of the National Tent & Awning Manufacturers' Association to arrive at uniform costs of operation is not merely a matter of "Fly by night." The Cost Laboratory has carefully studied

Our new Tent and Awning Cost and Accounting System is based on the banking house method. The members of the association are able to receive information and the most valuable information about their business, not only at the end of the month but at any time, even daily, in a daily statement of profits on every possible commodity, may it be awn-

ings, covers, storage, rehangings, etc. The system will show the proprietor how his overhead is applied whether or not it is being absorbed through the rate of costs or whether the overhead is checking out in such a manner that the busy season absorbs enough so that it takes care of and carries him through the slack months. The daily financial statement shows at all times the increase in the net worth.

All of these facts are hard to arrive at in the ordinary bookkeeping system, the National Cost Accounting System shows all of this information on the surface, together with constant balance of

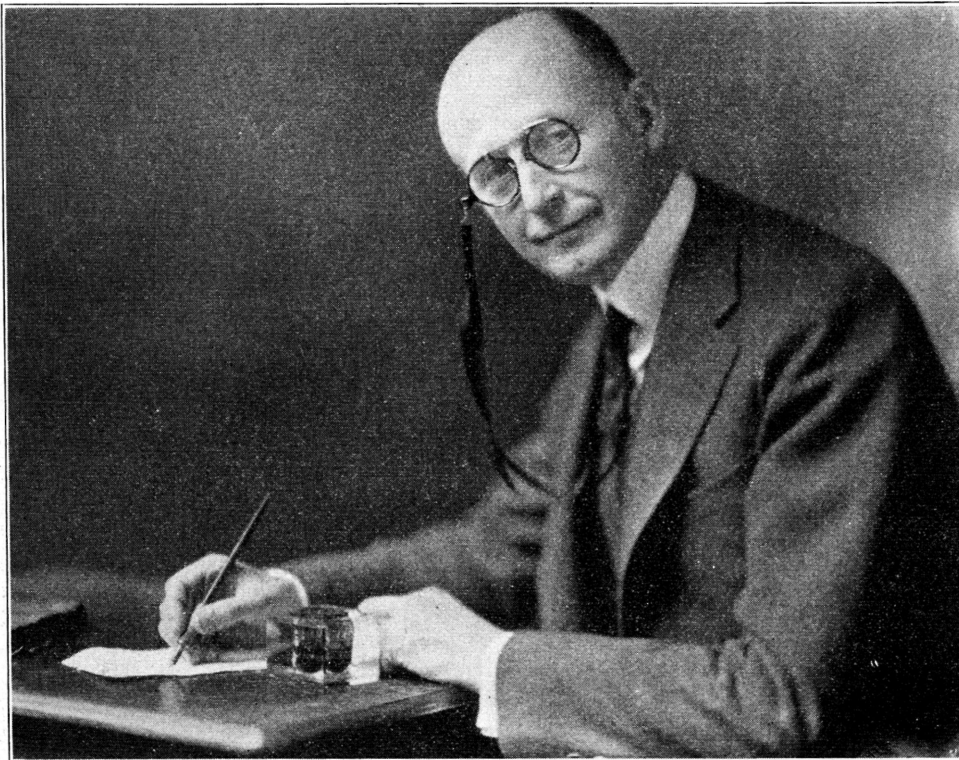
Accounts Receivable as well as Accounts Payable, Sales Accounts, Expense Accounts and profits by the day, month and year.

The members of the association should avail themselves of this system so that when general cost bulletins are given out a due comparison can be made and in this respect, build up their own business and assist the association to produce cost facts.

CLAIRE I. WEIKERT, Chairman.

NATIONAL LABORATORY ON COST INVESTIGATION,

National Tent & Awning Manufacturers' Association.



E. E. PILGRAM,

Authorized Accountant, National Cost Laboratory, N. T. & A. M. A.



JAMES E. MCGREGOR,

The National Secretary-Treasurer, N. T. & A. M. A., St. Paul, Minn.



THE NATIONAL BOARD OF DIRECTORS IN SESSION IN CHICAGO, JULY, 1923.

E. Mitchell, Indianapolis, Ind.; A. Swanfeldt, Los Angeles, Cal.; H. Adams, New York, N. Y.; R. Limbach, Boston, Mass.; A. Wilcox, Toledo, Ohio, 2nd V. Pres.; E. Pease, Providence, R. I.; 1st V. Pres.; R. Laacke, Milwaukee, Wis., Pres.; C. I. Weikert, St. Paul, Minn., Chairman; J. E. McGregor, St. Paul, Minn., Sec.-Treas.; H. Smith, Chicago, Ill.; S. Nicholson, Baltimore, Md.; F. Tische, Boston, Mass.; J. Dilg, St. Louis, Mo.

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Opening of the Books

Laying the Foundation

1. You cannot build a house without a solid foundation upon which to set up the modern structure. In the same manner you can not keep books unless you have a starting point. You are in business to do business and to do business there are certain things necessary. You must have cash with which to buy your material, autos and trucks in which to get the orders and deliver them. You may have been in business for a while and people owe you money for merchandise delivered, and again you may owe some bills yourself. All of these items you must bring to a piece of paper first and

the result will show what your business is worth. It is a statement of what you "own" and what you "owe." In the language of bookkeeping or accounting it is called making up a statement of Assets & Liabilities, Assets of what is due you and Liabilities of what you are liable for or what you owe.

2. Figure 1. shows you this statement. Enter on Page 9, in pencil the amount of money in your store or which you may carry in your pockets belonging to the business. Let us say you have \$47.29 on hand. Enter the amount where it reads: "Cash on hand."

Statement of what I "own" and what I "owe":

| | | |
|-----|--|----------------|
| 1 | Cash on hand ----- | <u>47.29</u> |
| 2 | Cash in bank ----- | <u>195.30</u> |
| 3 | Customers Accounts (Accounts Receivable)-- | <u>1768.40</u> |
| 4 | Inventory of Merchandise Stock ----- | <u>3938.74</u> |
| 5 | Notes held by me ----- | <u>—</u> |
| 6 | Real Estate ----- | <u>—</u> |
| 6B | Building ----- | <u>—</u> |
| 6M | Machinery & Tools ----- | <u>1544.90</u> |
| 6F | Furniture & Fixtures ----- | <u>350.00</u> |
| 6A | Autos & Trucks ----- | <u>1750.00</u> |
| 8 | Proprietors Personal Account ----- | <u>—</u> |
| | Assets: Total of what I "own": | <u>9594.13</u> |
| 10 | Purchase Accounts (Accounts Payable) ----- | <u>745.00</u> |
| 11. | Notes on borrowed money I owe ----- | <u>500.00</u> |
| 12 | Mortgage ----- | <u>—</u> |
| | Liabilities: Total of what I owe ----- | <u>1245.00</u> |
| | I own | <u>9594.13</u> |
| | deduct what I owe | <u>1245.00</u> |
| 17 | Net Worth or Capital | <u>8347.13</u> |

FIG. 1

Statement of what I "own" and what I "owe":

| | | |
|-----|--|-------|
| 1 | Cash on hand ----- | _____ |
| 2 | Cash in bank ----- | _____ |
| 3 | Customers Accounts (Accounts Receivable)-- | _____ |
| 4 | Inventory of Merchandise Stock ----- | _____ |
| 5 | Notes held by me ----- | _____ |
| 6 | Real Estate ----- | _____ |
| 6B | Building ----- | _____ |
| 6M | Machinery & Tools ----- | _____ |
| 6F | Furniture & Fixtures ----- | _____ |
| 6A | Autos & Trucks ----- | _____ |
| 8 | Proprietors Personal Account ----- | _____ |
| | Assets: Total of what I "own": | _____ |
| 10 | Purchase Accounts (Accounts Payable) ----- | _____ |
| 11. | Notes on borrowed money I owe ----- | _____ |
| 12 | Mortgage ----- | _____ |
| | Liabilities: Total of what I owe ----- | _____ |
| | I own | _____ |
| | deduct what I owe | _____ |
| 17 | Net Worth or Capital | _____ |

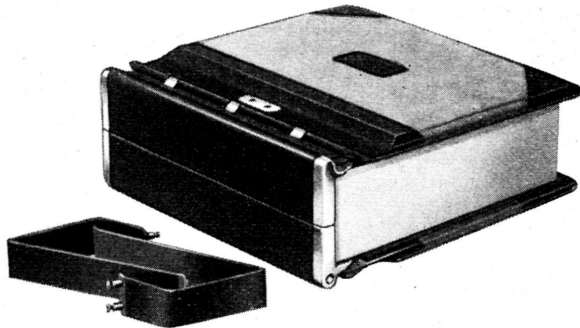
3. Now go to your checkbook and on the second line write the amount of the money in the bank. Let it be \$195.30. Write it on line 2, as you see it on the check stub.

4. Take your daybook or file in which you carry the amounts which the customers owe you. Make up a list of all accounts as follows and add them up. The total write on line 3.

You may find that your customers owe you as follows:

| | |
|---------------------------------------|----------|
| W. S. Abbey, 1924 31st St..... | \$ 14.25 |
| L. M. Bauer, 217 Washington Blvd..... | 641.40 |
| R. D. Becker, 347 4th St..... | 1.47 |
| Bigelow & Co., Madison Square..... | 4.85 |
| N. G. Caldwell, Suburbantown..... | 16.90 |
| C. O. D. Acct.: Geo. Davies..... | 2.50 |
| Cash Sale Acct. | 0.00 |
| Geo. Dick & Co., City..... | 602.65 |
| Wm. Keller, 549 7th St..... | 18.00 |
| Zanders Hardware Co., City..... | 466.38 |

Total\$1,768.40



THE ACCOUNTING BOOK
(Closed)

5. So that you may get your books started correctly it is necessary that you should take inventory. After you have this done and have all the items added up on a sheet of paper enter the total on line 4. If it is not possible to take an actual inventory you should make a close estimate.

6. If you have accepted any notes from customers in payment of their account enter total on line 5. If you own the building in which you transact your business take the last Real Estate taxbill from your files and enter the assessed amount of Real Estate on line 6. The assessed value of the building itself enter on line 6B. From bills for benches, sewing machines and other equipment get a total and enter that on line 6M. The total of desk, typewriter, adding machine and other equipment which you may have in the office enter on line 6F.

Get the original value of your autos and trucks, total them together and enter on line 6A. If you, yourself, or a relative or a friend owes some money that was lent from the business enter the amount on line 8.

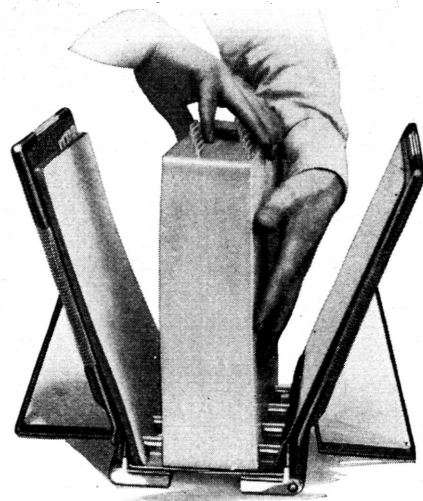
7. Add all these figures together which have been entered on Fig. 1 so far and you will get a true statement of what is due you or of your Assets, the money invested in your business.

8. Now go to your invoice file and pick out all invoices or bills that are not yet paid, and you may find that these bills read as follows:

| | |
|------------------------------|----------|
| Chicago Canvas Co. | \$250.00 |
| Murphy Tent & Awning Co..... | 101.50 |
| Illinois Hardware Co..... | 25.00 |
| K. C. Stationery Co..... | 3.00 |
| City Tent & Awning Co..... | 365.50 |

Total.....\$745.00

Enter the total on line 10.



THE ACCOUNTING BOOK
(Opened)

9. If you owe your banker or a friend any money used in the business for which you gave a promissory note, enter the amount on line 11. If you have a mortgage on the building, enter the unpaid amount thereof on line 12.

10. Enter the totals of lines 10 to 12 where it reads "Total of what I owe."

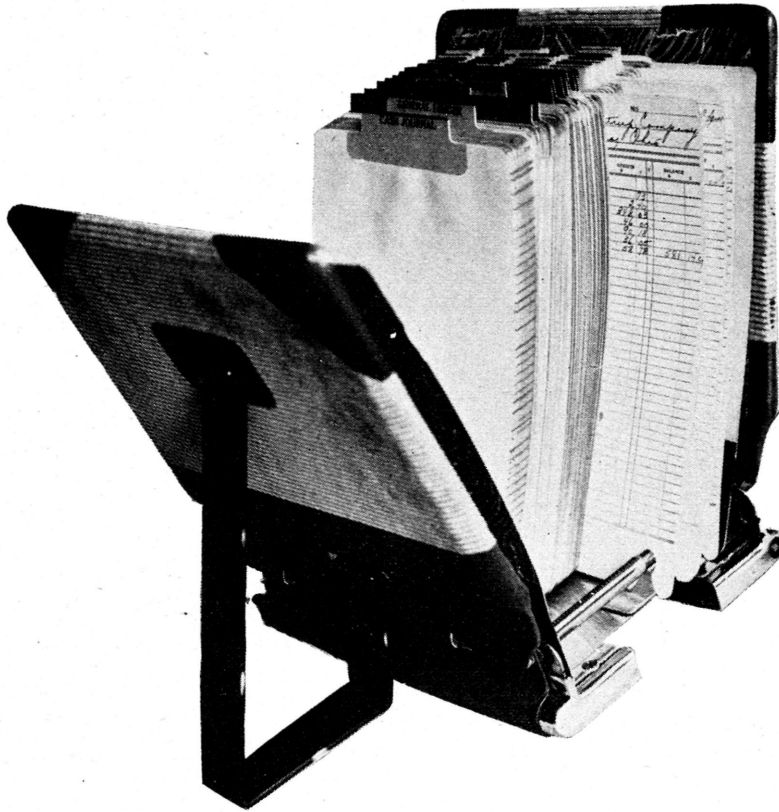
11. Bring the total of what is due you on the line below and deduct from it what you owe and the difference will be the net amount you have invested in your business which is called your "Net Worth," account No. 17.

Writing up the Ledgers:

12. You have now completed the first step of laying the foundation of your business on which to build up your accounting system. You will now have to go into a few more details about it. Your

Cash-Journal Book
General Ledger

Take some of the yellow ledger sheets, Form 691, and write on the first line at the top the name of



THE LEDGER

accounting record book is divided into four yellow indexes or parts:

- Customers' Ledger
- Purchase Ledger

the account from the list given below and also insert the account number where it reads "No....." Each account number and name of the account must go on a separate card. Fig. 2.

| No. <u>1.</u> | | | | | | | | | |
|--|-------|--------|---|---|---------|---|---|---------|---|
| <u>Cash on hand</u> | | | | | | | | | |
| <small>FORM 691 PILGRAM & COMPANY, INC., MILWAUKEE</small> | | | | | | | | | |
| DATE | MEMO. | DEBITS | | | CREDITS | | | BALANCE | |
| | | \$ | ¢ | √ | \$ | ¢ | √ | \$ | ¢ |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

FIG. 2

13. General Ledger Accounts:

| | | | |
|-----|---|-----|--|
| 1 | Cash on hand | 32A | Depreciation on Trucks & Autos |
| 2 | Cash in Bank | 33L | Liabilities Insurance |
| 3 | Customers' Accounts (Accounts Receivable) | 33F | Fire Insurance |
| 4 | Merchandise Stock | 33A | Auto & Truck Insurance |
| 5 | Notes Receivable | 34F | Federal Taxes |
| 6R | Real Estate | 34S | State Taxes |
| 6B | Building | 35 | Advertising |
| 6M | Machinery & Tools | 36 | Office Expense |
| 6F | Furniture & Fixtures | 37 | Carfare |
| 6A | Autos & Trucks | 38 | Telephone |
| 7 | | 39 | Telegraph |
| 8 | Proprietor's Personal Account | 40 | Legal & Collection Expense |
| 9 | | 41 | Heat, Light & Power |
| 10 | Purchase Accounts (Accounts Payable) | 42 | Postage |
| 11 | Notes Payable (Money borrowed from Bank) | 43 | Factory Repairs |
| 12 | Mortgage | 44 | Water |
| 13 | | 45 | Managers' Salaries |
| 14 | | 46 | Salesmen's Salaries and Commissions |
| 15 | | 47 | Bookkeepers' & Steno. Salaries |
| 16 | | 48 | Bad Debts |
| 17 | Capital Investment | 49 | Lost Time: Non-Productive |
| 18 | | 50 | Interest on borrowed money |
| 19 | Profit & Loss | 51 | 2% Discounts Allowed |
| 20 | Sales | 52 | Stationery & Printing |
| 21 | | 53 | Subscriptions |
| 22 | | 54 | Donations & Dues |
| 23 | | 55 | Factory Expense |
| 24 | | 56 | Lost & Damaged Goods |
| 25 | | 57 | Auto Repairs |
| 26 | Goods Returned (Return Sales) | 58 | Experiments |
| 27 | Miscel. Income | 59 | Defective Work |
| 28 | Discounts Taken | 60 | Parcel Post, Express, Freight & Cartage |
| 29 | | 61 | Miscel. Expense |
| 30 | Rent | 62 | Foreman, Forelady, Shipping Clerk & Errand Boy |
| 31E | Interest on Investment | 70 | Shop Payroll: Productive Labor |
| 31S | Interest on Inventory | 90 | Labor Used in Costs |
| 31A | Interest on Open Accounts | 91 | Overhead Used in Costs |
| 31B | Interest on Bank Balance | 92 | Material Used in Costs |
| 31C | Interest on Capital | 95 | Profit on Sales |
| 32E | Depreciation on Equipment | 99 | Overhead Distribution |
| 32F | Depreciation on Fixtures | | |

When every one of these accounts are written up, file them by numbers in your ledger binder under the yellow tab: General Ledger.

14. All account numbers from 1 to 9 file in back of red tab called "Assets." All account numbers from 10 to 19 file under "Liabilities." All accounts from 20 to 29 file in back of red tab called "Revenues." All accounts numbers from 30 to 69 file in back of red tab called "Expenses."

15. Take your list of Net Worth or Capital from Fig. 1 and enter the amounts therefrom on to every card. The last amount on the line of Net Worth

If you write a figure in the Debit column, write the same figure also in the balance column. If you write a figure in the Credit column, write the figure also in the balance column but write "CR" after it, which means that it is a credit balance, see Fig. 4.

17. When all amounts have been written in the debit column and in the credit column and the balances have been written out in the balance columns and the credit balances show "CR" after the amount, take a piece of paper or use your adding machine and write up all the debit balances, making

No. _____

Cash on hand

FORM 691 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|--------------|------------------|--------------|---------|--------------|
| | | \$ | \$ | \$ |
| <i>1924</i> | | | | |
| <i>Jan 1</i> | <i>Inventory</i> | <i>47 29</i> | | <i>47 29</i> |
| | | | | |
| | | | | |

FIG. 3

enter in account No. 17, called Capital Investment. It is the Capital that you invested in your business.

16. Fig. 3. Take the yellow ledgersheet card "Cash on hand." Under the word "Date" on the extreme left write the year "1924" or whatever year you are starting this accounting system. On the black line below write the month and the day you are writing up this card. On the black line in the Memo column write "Inventory." All accounts from No. 1 to No. 8 from sheet Fig. 1 are entered in the next column called "Debits." All accounts from No. 10 to No. 17 are written in the "Credit" column. Fig. 4.

a total. Write up all the credit balances and strike a total. If both totals agree you will know that your work is correct.

| Debit Balances | Credit Balances |
|----------------|-----------------|
| \$47.29 | \$745.00 |
| 195.30 | 500.00 |
| 1,768.40 | 8,347.13 |
| 3,938.24 | |
| 1,542.90 | |
| 350.00 | |
| 1,750.00 | |
| \$9,592.13 | \$9,592.13 |

No. 10

Purchase Accounts
(Accounts Payable)

FORM 691 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|--------------|------------------|--------|---------------|------------------|
| | | \$ | \$ | \$ |
| <i>1924</i> | | | | |
| <i>Jan 1</i> | <i>Inventory</i> | | <i>745 00</i> | <i>745.00 Cr</i> |
| | | | | |
| | | | | |

FIG. 4

Customers' Ledger:

18. When you wrote up sheet Fig. 1, on line 3, you entered the total amount which is due from your customers. Now take all the amounts, one by one, and write up for each customer a ledger sheet Form 691. Write the year (1924), in the date column, Jan. 2 or the date of whenever you start the system, write the amount in the debit column and again in the balance column.

Add up all ledger sheet balances on a piece of paper or on the adding machine and the total amount must agree with the amount of account No. 3 in the General Ledger, which sheets you have written up before.

| |
|---------------|
| Debit. |
| \$14.25 |
| 641.40 |
| 1.47 |
| 4.85 |
| 16.90 |
| 2.50 |
| 602.65 |
| 18.00 |
| 466.38 |
| \$1,768.40 |

No. _____

R. S. Becker

347 - 4th St.

| DATE | MEMO. | DEBITS | \$ | ¢ | √ | CREDITS | \$ | ¢ | √ | BALANCE | \$ | ¢ |
|--------------|-------|--------|----|------------|---|---------|----|---|---|---------|------------|---|
| <i>1924</i> | | | | | | | | | | | | |
| <i>Jan 7</i> | | | | <i>147</i> | | | | | | | <i>147</i> | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

FIG. 5

Purchase Ledger.

19. Again when you wrote up sheet Fig. 1 on line 10 you wrote the total amounts of the bills that you owe. Write up a separate ledger sheet for everybody that you owe, one sheet being used for every individual account, person or wholesale house, electric light company or stationery house. Write the amounts in the Credit Column on the ledger sheet and write the amounts also in the balance column and write "CR" after it, because it is a Credit Balance and we want to distinguish Debit balances (what is due you) from Credit balances (what you owe). Fig 6.

Add up on a sheet of paper or on the adding machine all amounts in the balance columns of the

Purchase accounts and the total must agree with the amount in the balance column of account No. 10 of the General Ledger.

20. You have now completed laying the foundation for the new start of your business and the work you have done so far is called by the accountants, "Opening a set of books."

21. In reality there are four books in one:

- Cash Book and Journal.
- General Ledger.
- Customers' Ledger (Accounts Receivable).
- Purchase Ledger (Accounts Payable).

The Cash Book and Journal will be taken up in the next chapter.

No. _____

Murphy Text & Binding Co.

City.

| DATE | MEMO. | DEBITS | \$ | ¢ | √ | CREDITS | \$ | ¢ | √ | BALANCE | \$ | ¢ |
|--------------|-------|--------|----|---|---|---------|------------|-----------|---|---------|------------|-----------|
| <i>1924</i> | | | | | | | | | | | | |
| <i>Jan 7</i> | | | | | | | <i>101</i> | <i>50</i> | | | <i>101</i> | <i>50</i> |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

FIG. 6

CHAPTER 2

The Cash Book and Journal

21. In the foregoing chapter you have learned how to open a set of books and now you are ready to start with the daily routine and the operations of every day.

22. Take a Cash-Journal sheet Form 693 from the package and write the date of posting or writing up of the card where it reads: "Date" Fig. 7.

| CHECKS ISSUED FROM NO. TO NO. | | ACCT'S PAYABLE FOR INVOICES ENTERED ONLY | | ALL OTHER CHECKS GIVEN OUT | | M | | N | | |
|-------------------------------|----|--|--------------------------------------|----------------------------|----|-----|----|----|-----|----|
| DR. NO. 10 CR. NO. 2 K | | ACCT. NO. | DR. EACH ACCT. NO. CR. NO. 2 L | | | | | | | |
| 45 | 00 | 70 | 164 | 50 | 99 | 145 | 75 | 90 | 14 | 49 |
| 3 | 00 | | | | | | | 91 | 76 | 77 |
| 101 | 50 | | | | | | | 94 | 84 | 74 |
| | | | | | | | | 95 | 70 | 45 |
| ✓ 149 | 50 | | 164 | 50 | | | | | | |
| | | | | | | 145 | 75 | | 145 | 75 |

Overhead Distribution

| DAILY CASH JOURNAL | | | | | | | | | | DATE | |
|--|--|--|--|----------------------|---|--|-------|-----|-----------------------------|-----------------------------------|--|
| CASH RECEIVED | | | | | | | | | | INVOICES FROM NO. SENT OUT TO NO. | |
| FROM CUSTOMERS | | | | | | 2% DISC. ALLOWED | SALES | | GOODS RETURNED BY CUSTOMERS | | |
| NAME | | ENTER ON RIGHT HAND SIDE OF ACCT'S REC. LEDGER | | DR: 51 CR: 3 C | DR: ACCT'S REC 3 CR: ACCT. NO'S D | DR: ACCT. NO. 26 CR: ACCT'S REC. 3 E | | | | | |
| Mrs. J. Abbey | | 14 75 | | | ✓ 145 | 75 | ✓ | 170 | | | |
| L. M. Bauer | | 78 40 | | | | | | | | | |
| Ed. Chelous | | 74 50 | | 50 | | | | | | | |
| Geo. Abbott (C.O.D.) | | 7 50 | | | | | | | | | |
| wh. sale # 413 | | 10 50 | | | | | | | | | |
| " # 450 | | 50 | | | | | | | | | |
| " # 448 | | 7 00 | | | | | | | | | |
| Mrs. Keller | | 17 64 | | 36 | | | | | | | |
| wh. sale # 454 | | 1 96 | | | | | | | | | |
| DISCTS TAKEN & RETURNS ON PURCHASES | | | | | | | | | | | |
| DISCOUNTS TAKEN ON INVOICES PAID | | | | | GOODS RETURNED TO WHOLESALE HOUSE | | | | | | |
| DR: ACCT. 10 | | CR: ACCT. 26 | | DR: ACCT. 10 | | CR: ACCT. 4 | | | | | |
| ✓ 703 | | ✓ 700 | | | | | | | | | |
| INVOICES FROM NO. RECEIVED TO NO. | | | | | | | | | | | |
| MDSE. PURCHASES GOODS FOR SALE ONLY | | | | | OTHER INVOICES ALL EXCEPT MDSE. | | | | | | |
| DR: NO. 4 | | CR: NO. 10 | | DR: ACCT. NO'S | | CR: NO. 10 | | | | | |
| H | | J | | | | | | | | | |
| 147 | | 45 | | 54 | | 3 | | 40 | | | |
| 10 | | 50 | | 41 | | 10 | | 70 | | | |
| 13 | | 50 | | | | | | | | | |
| ENTER TOTAL ON CREDIT SIDE OF ACCT. 3 | | | | | | | | | | | |
| | | 358 | | 75 | | ✓ 86 | | | | | |
| OTHER CASH RECEIVED: | | | | | | | | | | | |
| | | 151 | | 45 | | 13 | | 60 | | | |
| TOTAL CASH RECEIVED: | | | | | | | | | | | |
| | | 358 | | 75 | | | | | | | |
| TAKE ALL MONEY RECEIVED TO BANK. | | | | | | | | | | | |
| TOTAL MUST AGREE WITH DEPOSIT SLIP. | | | | | | | | | | | |
| ENTER TOTAL IN GEN. LEDGER ON DEBIT OF ACCT. NO. 2 | | | | | | | | | | | |

FIG. 7

Cash Received.

23. You have just opened your mail and have divided orders from Cash and checks received, then sort checks alphabetically. Write the name of the customer who sends his check in column A of the card and the amount of the check in column B. It may be that Wm. Keller pays your bill of \$18.00 which you mailed him. You permitted him to deduct 2 per cent for cash if the bill was paid within 10 days. Therefore he deducted 36c and now he has mailed check for \$17.64. In this case write the amount of the check in column B and the discount he deducts write in column C. (See Fig. 7.) Continue and write all checks in the same manner.

It may be that they were not all checks but someone came into the store and paid a bill in cash. Write the name in column A and the amount of cash received in column B; if discount is deducted write this again in column C.

Cash Sales, or C. O. D.'s

24. Whenever you make a cash sale or a C. O. D. you must not simply place the money in the cash drawer. In all cases regardless of how small the cash sale may be it is necessary that you write up a set of cost forms. This is necessary because every sale may be considered a cash sale after you have received your money. Instead you let the customer have the merchandise on the promise that he will pay for it later. A charge sale, when it comes to the cost system has to be analyzed as to how much of it is labor, merchandise and other expenses as well as profit or loss. The same must be done with a cash sale. It may not be manufactured but there is surely some selling expense to be applied as far as cost is concerned. Therefore for every cash sale write up a cost form No. 3, more fully discussed in the cost system. Open one account in the customers' ledger and call it "Cash Sales" and all moneys coming in are credited to this account and the cost form number is given on the cash journal card in column A, the amount is entered in column B.

25. When you are ready on this day to make your bank deposit add up column B, make out your bank deposit slip and deposit ALL money you received so that your deposit slip agrees with the Cash-Journal card. Fig. 9.

Invoices Sent Out.

26. From the white copy of Cost Form No. 3 you make your bill. You will now learn how to enter the amounts of the white copies to the Cash-Journal.

Arrange all Cost Forms alphabetically.

In starting this system start with No. 1 and give each Cost Form a consecutive billing number in addition to the printed Cost Form number in the up-

per right hand corner. Your Cost Form will not always come through in rotation, one job may take several days to be completed, while a later Cost Form may come through at once. When you write your bill for the customer place the new invoice or billing number on the invoice also. Fig. 8.

Send your bills through the mail. Now take your Cash-Journal card and the Cost Forms. You have started today with Nos. 1 to 7, tomorrow you will use 8 to 13, the following day with Nos. 14 to 22 and so on throughout the year you will continue and at the end of the year you know just how many bills were sent out, but today you have started with No. 1. Enter No. 1 in column E at the top of the Cash-Journal card where it reads "Invoices sent out" from No. (write here) 1 to No. (write here) 7.

Write all amounts in column D and add up the column. If the space is too small, because you have more amounts than lines, total all of the Cost Forms on your machine and enter the total in column D. Fig. 8.

Lay the Cost Forms aside for the time being, you will come to them in a little while.

Invoices Received.

27. You have also received some invoices from the outside for purchases you made. These are entered in columns H and J. These invoices received are entered and numbered just like the invoices sent out. Today possibly start from No. 1 to 6, tomorrow from 7 to 9, the next day from 10 to 14 and so on. At the end of the year you will know just how many purchases you have made. Enter the first and the last number on the Cash-Journal card.

28. Write on these invoices the account to which they are to be charged. For this use the account list on page 12. If the invoices are for material which you are going to use in the manufacture of your awnings, tents and so on, write in the center of the invoice No. 4, which is your Merchandise Stock account. If the next invoice is for stationery which you bought for your shop use, write stationery account number on the invoice from your account list on page 12 which is No. 52. On your light bill write No. 41. Fig. 10.

Enter all your invoices by their account numbers, that is, enter all your invoices for account No. 4 for purchases of material in column H and add up. This column is for invoices of material only. All other invoices write up in column J and give the account number in front of the amount. Add up both columns.

Checks Written.

29. Take your checkbook. You no doubt have written some checks for something, possibly they were payroll checks which you have issued or for some invoices received that were entered in the up-

Form No. 3
 DATE SOLD
 DATE BILLED
 TERMS

ALL-WISE TENT & AWNING CO.

St. Paul, Minn.

JOB No. 6

No. 451

Sold to *R. J. Becker*
 Address *St. Paul* State *Minn.*
 When Wanted _____ Via _____
 Remarks _____

ORDER NO. _____

SALESMAN _____

| | | | | |
|---|--|--|---|--|
| <input type="checkbox"/> PAID C. O. D. REG. | <input checked="" type="checkbox"/> WILL CALL DELIVER PUT UP | <input type="checkbox"/> FREIGHT EXPRESS P. POST | <input type="checkbox"/> PREPAID COLLECT | DATE PROMISED <u><i>Tuesday</i></u> |
|---|--|--|---|--|

| | | |
|--|---|--|
| STYLE AND BRAID <u><i>8 oz white.</i></u> | ARTICLES <u><i>One Piece Awning Complete</i></u> | SIZES <i>5-6</i> <i>5-6</i> <i>70-0</i> |
|--|---|--|

| ROOMS | HOW MANY | FRONT | ARM | BUILDING | PITCH | FRAME How Many Arms | SLIP ON | TIE ON |
|-------|----------|-------|-----|----------|-------|---------------------|---------|--------|
|-------|----------|-------|-----|----------|-------|---------------------|---------|--------|

1 Front Rod 19-9
4 Arms 5-5
4 Stubs 1"
all on wood

Same Curtain
12" Width of Curtain
Small Scallop
 Braid
 Fringe
 Stenciling

- Estimate: *70-*
7.50
 Cover *3.75*
 Fringe 48.90
 Extra Strips *79.75*
15.85
 Top Lettering
 Curtain Lettering 145.75
 Frame
 Top Rod
 Iron or Brick Fastening
 Extra Work
 Window Awning
 Window Awning Cover

| DAILY CASH JOURNAL | | | | DATE |
|-------------------------------------|--|----------------------|--|---|
| CASH RECEIVED | | | INVOICES FROM NO. SENT OUT TO NO. | |
| FROM CUSTOMERS | | 2% DISC. ALLOWED | SALES | GOODS RETURNED BY CUSTOMERS |
| NAME A | ENTER ON RIGHT HAND SIDE OF ACCT'S REC LEDGER B | DR: 51 CR: 3 C | DR: ACCT'S REC 3 CR: ACCT. NO'S D | DR: ACCT. NO. 26 CR: ACCT'S REC 2 E |
| | | | 145.75 | |
| DISC'TS TAKEN & RETURNS ON PURCHASE | | | | |

 PRICE 48.90

FIG. 8

chase ledger. Every check has a number on the stub. Insert the first and the last check numbers of the checks issued on the cash-journal card over the column L where it reads checks issued from No.— to No.—.

If the checks are made out for bills received which are entered previously in your purchase ledger write the amounts in column K. If they are payroll checks write them in column L and where it reads Acct. No. (Account numbers) write checks for payroll, No. 70 which you find on your account number list. Add the columns. Fig. 11.

This will answer the purpose for this time, about columns M and N you will learn as you go along.

DEPOSITED WITH
The Merchants National Bank
SAINT PAUL, MINN.
FOR CREDIT OF

All -wise Int & Currency Co
Jan 4 1924

ALL ITEMS CREDITED SUBJECT TO PAYMENT

In receiving items for collection or credit, this bank acts only as your agent, upon the conditions printed on the pass books now issued by this bank, and those set forth in circular dated October 25, 1923, issued by the Saint Paul Clearing House Association and any amendments thereof, and this bank reserves the privilege of declining to honor the check of a depositor when his funds on deposit, exclusive of conditional credits, are insufficient to cover the check.

| DOLLARS | | CENTS | | DOLLARS | | CENTS |
|---------|--|-------|---------------------------------|---------|----|-------|
| | | | BILLS | 17 | 00 | |
| | | | GOLD | | | 46 |
| | | | SILVER | | | |
| | | | CHECKS LIST CHECKS SINGLY | 14 | 45 | |
| | | | | 78 | 40 | |
| | | | | 74 | 50 | |
| | | | | 17 | 64 | |
| | | | | 358 | 45 | |
| | | | TOTAL | | | |

FORM 96 PLEASE SEE THAT ALL CHECKS ARE ENDORSED

FIG. 9

CHAPTER 3

How to Enter the Customer's Ledger

30. You have learned in the first chapter how to write the balances of accounts which the cus-

tomers owed you on the ledger sheets of the customers' ledger.

You have made some new sales for which you sent bills out from the Cost Forms. These new "Sales charges" as they are called in the accounting language must be added to the balances as they now stand on the books or if there is no sheet for the customer you must write up a new sheet. Write the date again as you did when you started the day's work, only use the date of the cash-journal card. In the Memo column write the Billing or Invoice number and the Cost Form number. Write the amount of the Cost Form in Debit column and in the Balance column add the new amount to the old amount. You know now what the customer owes you in total. Fig. 12.

31. Place the ledger sheet one notch over to the right so that it extends over the other sheets. This is called "offset" the sheet. Do so with every Cost Form ticket that is to be entered today, write the date of the Cash-Journal card, invoice number, Cost Form number, amount in debit column and add to yesterday's amount in balance column.

32. Have you written up this work correctly? Writing up the new charges from the Cost Forms into your customer's ledger is called "posting" to the customers' ledger. Are you sure that you have done this correctly and made no mistake? You are able to check yourself by using the following method. Take a sheet of paper or a ledger sheet and on the left hand side write the amount from the balance column before you have written in the new amount in the debit column and added this to the balance column. On the right hand side write the amounts of the balance columns after you have made the entry and added it to the balance columns.

| Left before posting was made | Right after posting was made. |
|---------------------------------|----------------------------------|
| | Fig. 12 |
| 1.47 | 50.37 |
| 3.25 | 12.50 |
| 20.00 | 67.00 |
| 75.00 | 100.00 |
| 98.65 | 113.75 |
| \$198.37 | \$343.62 |
| | 343.62 |
| | 198.37 |
| | \$145.25 |

Add up both columns and deduct the left column from the right column. The difference must agree with the item of sales charges in column D of your Cash-Journal card. Does it? If not then there is some mistake and you will have to check back and compare the amounts on the Cost Forms with what you entered on the ledger sheets and add them again to the balances.

Chicago, Ill. _____ 192 _____

All-Wise Tent & Awning Co.
St. Paul, Minn.

3

BOUGHT OF

UNIVERSAL SUPPLY CO.

MANUFACTURERS OF

TENTS, PAULINS, AWNINGS, HAY AND WAGON COVERS
DUCK OF ALL WEIGHTS AND WIDTHS

Charge to Acct #

4

127 45

DAILY CASH JOURNAL DATE Jan. 2, 1924

| CASH RECEIVED | | INVOICES FROM NO | | ENT OUT TO NO | |
|---|--|----------------------|---|--|-------------|
| FROM CUSTOMERS | | 2% DISC ALLOWED | SALES | GOODS RETURNED BY CUSTOMERS | |
| NAME A | ENTER ON RIGHT HAND SIDE OF ACCT'S REC LEDGER B | DR: 51 CR: 3 C | DR: ACCT'S REC 3 CR: ACCT. NO'S D | DR: ACCT NO. 26 CR: ACCT'S REC 3 E | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| ENTER TOTAL ON CREDIT SIDE OF ACCT 3 | | | 127 45 | 52 | 340 |
| OTHER CASH RECEIVED. | | | 10 50 | 41 | 1020 |
| | | | 13 50 | | |
| | | | 151 45 | | 1360 |

16

4
H

FIG. 10

| | | | | | |
|---|-----------|--------------------------------------|---|---|--|
| CHECKS ISSUED FROM NO. <i>749-750</i> TO NO. | | | | | |
| ACCT'S PAYABLE FOR INVOICES ENTERED ONLY | | ALL OTHER CHECKS GIVEN OUT | | | |
| DR: NO. 10 CR: NO. 2 K | ACCT. NO. | DR: EACH ACCT. NO. CR: NO. 2 L | M | N | |
| <i>75 00</i> | <i>70</i> | <i>167 50</i> | | | |
| <i>3 00</i> | | | | | |
| <i>101 50</i> | | | | | |
| <i>179 50</i> | | <i>167 50</i> | | | |

| | | | | |
|------------------------------|-----------|----------------|--|---------------|
| No. 247 | | No. 249 | | <i>366 05</i> |
| <i>deposit</i> | | <i>Bal</i> | | |
| <i>Jan 7 1924</i> | | <i>195.30</i> | | |
| ORDER OF | | <i>358.75</i> | | |
| <i>Pay Roll</i> | | <i>553.55</i> | | |
| FOR | <i>70</i> | <i>167 50</i> | | <i>3 00</i> |
| \$ | | <i>391 05</i> | | <i>363 05</i> |
| No. 248 | | | | |
| <i>Jan 7 1924</i> | | | | <i>101 50</i> |
| ORDER OF | | | | |
| <i>Illinois Hardware Co.</i> | | | | |
| FOR | <i>10</i> | | | |
| \$ | | <i>75 00</i> | | <i>461 55</i> |
| | | <i>366.05</i> | | |

FORM 693

FIG. 11

Form No. 3
DATE SOLD

DATE BILLED

TERMS

ALL-WISE TENT & AWNING CO.

St. Paul, Minn.

JOB No.

6

No. 451

Sold to R. D. Becker
Address 347 - 4th St. St. Paul State Minnesota
When Wanted _____ Via _____
Remarks _____

ORDER NO.

SALESMAN

| | | | | |
|---|---|--|---|---------------------------------|
| <input type="checkbox"/> PAID C. O. D. REG. | <input checked="checked" type="checkbox"/> WILL CALL DELIVER PUT UP | <input type="checkbox"/> FREIGHT EXPRESS P. POST | <input type="checkbox"/> PREPAID COLLECT | DATE PROMISED <u>Tuesday</u> |
|---|---|--|---|---------------------------------|

STYLE AND BRAID

8 oz white

ARTICLES

One Pull Awning Complete

SIZES

5-6
5-6
70-0

| | | | | | | | | | |
|-------|----------|-------|-----|----------|-------|------------------------|---------|--------|---------------------|
| ROOMS | HOW MANY | FRONT | ARM | BUILDING | PITCH | FRAME How Many Arms | SLIP ON | TIE ON | <u>same</u> Curtain |
|-------|----------|-------|-----|----------|-------|------------------------|---------|--------|---------------------|

1 Front Rod 19-9
4 Arms 5-5
4 Stubs 1"
all on hand

17" Width of Curtain

Small Scollop

..... Braid

..... Fringe

..... Stenciling

Estimate

Cover

Fringe

Extra Strips

Top Lettering

Curtain Lettering

Frame

Top Rod

Iron or
Brick Fastening

Extra Work

Window Awning

Window
Awning Cover

No.

R. D. Becker
347 - 4th St.

| DATE | MEMO. | DEBITS | | ✓ | CREDITS | | ✓ | BALANCE | |
|--------------|--------------|--------|---|---|--------------|---|---|--------------|---|
| | | \$ | ¢ | | \$ | ¢ | | \$ | ¢ |
| <u>Jan 7</u> | | | | | | | | | |
| <u>7</u> | <u>6-451</u> | | | | <u>147</u> | | | <u>147</u> | |
| | | | | | <u>48 90</u> | | | <u>50 37</u> | |
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PRICE **\$ 48.90**

32. If correct however, you may put the sheets over one notch and file them into their regular places.

How to Enter (Post) Cash Received in the Customers' Ledger.

33. Write the Cash Received items up on the ledger cards in the same manner as you did with the invoices or bills you sent out, only that the amounts are written into the credit columns of the ledger and are deducted from the amounts in the balance columns, because when doing so the customers do not owe you the first amount any longer, the indebtedness is smaller. Find your ledger card, write the month and day, in the Memo column write "Cash," in the credit column write the amount

of the check, on the following line of the credit column write the amount of the discount and deduct both items, the amount of the check and the amount of the discount from the balance column. Fig. 13.

Put your sheet out again one notch in order to prove your work later on.

When all items are written up in the ledger and have been deducted from the balance, use a sheet of paper again and enter thereon on the left side all the balances before the "posting" was done and on the right side all the balances after the "posting" was made. Deduct the smaller amount from the larger amount and this difference must agree with the amount in column B plus C of the Cash-Journal card. If not, check back in the same way as it is done with charges or invoices sent out.

| DAILY CASH JOURNAL | | | | | | | | | | DATE <u>Jan 7, 1924</u> | |
|--------------------------------------|--|---|----|----------------------|----|--|--|--|--|-------------------------|--|
| CASH RECEIVED | | | | | | INVOICES FROM NO SENT OUT TO NO | | | | | |
| FROM CUSTOMERS | | | | 2% DISC ALLOWED | | SALES | | GOODS RETURNED BY CUSTOMERS | | | |
| NAME | | ENTER ON RIGHT HAND SIDE OF ACCT'S REC LEDGER | | DR: 51 CR: 3 C | | DR: ACCT'S REC 3 CR: ACCT NO S D | | DR: ACCT NO. 26 CR: ACCT'S REC 3 E | | | |
| <i>Wm J Abbey</i> | | 14 | 45 | | | | | | | | |
| <i>L. M Bauer</i> | | 28 | 40 | | | | | | | | |
| <i>Ed Origelow</i> | | 74 | 50 | | 50 | | | | | | |
| <i>Geo Davis (C.O.D.)</i> | | 7 | 50 | | | | | | | | |
| <i>Cash sale (# 413)</i> | | 10 | 50 | | | | | | | | |
| <i>" # 450</i> | | | 50 | | | | | | | | |
| <i>" # 448</i> | | | 7 | 00 | | | | | | | |
| <i>Mr Keller</i> | | 17 | 64 | | | | | | | | |
| <i>Cash sale #452</i> | | | 1 | 96 | | | | | | | |
| DISC TS TAKEN & RETURNS ON PURCHASES | | | | | | | | | | | |
| | | | | | | DISCOUNTS TAKEN ON INVOICES PAID | | GOODS RETURNED TO WHOLESALE HOUSE | | | |
| | | | | | | DR ACCT. 10 CR ACCT 28 | | DR: ACCT. 10 | | | |

| | |
|--------------------------------|--|
| No. _____ | |
| <i>Wm Keller</i> | |
| <i>549 - 7th st</i> | |

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|-------|-------------|--------|---------|---------|
| 1924 | | \$ | \$ | \$ |
| Jan 1 | | 18 | | 18.00 |
| " 7 | <i>Cash</i> | | 17 64 | |
| " 7 | <i>dis.</i> | | 36 | |

FIG. 13

CHAPTER 4

How to write up ("Post") the Purchase Ledger.

34. You have just completed the work of posting or writing up the customers' ledger which was done for bills sent out and cash received. The purchase ledger works just the opposite; it is for bills received and cash paid out. Take the invoices which you received from the vendor or the party you bought from and use these invoices direct to write up the purchase ledger or to post to the purchase ledger as the accountant calls it.

For instance: You have an invoice received from Universal Supply Co., for \$75.00. You had not written up a sheet for them when you opened the ledger, because you did not owe them anything at the time. Take a new ledger sheet, write their name and address on the first and second line at the top.

In the Date column write the month and date of the invoice, in the Memo column write the number of the invoice which you placed before in the upper right hand corner, in the Credit column write the amount of the invoice and in the Balance column write the amount again and add "Cr." to it to indicate that the balance is a credit.

Take the next invoice. Let there be a credit balance on this account of \$137.50; the new invoice is for \$10.00. Write the month and date of the invoice, in the Memo column write the number of the invoice of the right hand corner, in the Credit column write the amount of \$10.00 and add it to the balance, which now reads \$147.50 CR.

Do likewise with all the rest of the invoices and in every case when the posting has been done set the sheet one notch over. Again, when completed you will prove your work that no mistake has been made. Take sheet of paper again, as you made the proof of the Customers' Ledger and enter on the left side the amounts before any posting was made. If there was no old balance leave the space blank. On the right hand side write all the amounts after the posting has been made. Add up the two columns and the difference between the smaller and

larger amounts must agree with the amount in columns H and J of your Cash-Journal card. If correct put your sheets into their regular places.

Entering the Checks on the Purchase Ledger.

35. Take your check book. The first and the last check numbers are entered on the Cash-Journal card. Find the amounts as you entered them on the Cash-Journal card in Column K and write them up in the Accounts of the Purchase ledger direct from the check stubs. In the Date column write the month and day of your Cash-Journal card, in the Memo column give the check number, in the Debit column write the amount of the check, because it is not money received but paid out and in the Balance column deduct it from the Credit balance. If there is still a Credit balance do not forget to write Cr. after it. When all of this is completed and you have set your cards one notch out in every case and you have posted all the items in column K, prove your work again as before by bringing the balances down on a sheet, old balances on the left side, new balances on the right side, deduct the smaller total from the larger total and the difference must agree with the total of your Cash-Journal card in column F.

Discounts Deducted.

36. When you are writing checks in payment of invoices which some time before you have entered on the Credit side of the Purchase ledger, enter the amount of this discount on the check stub too. When you are writing up the Cash Journal card enter the discount together and put the total amount in column F. When you come to the entering of the amount of the check on the Debit side of the Purchase ledger enter the amount of the Discount on the Debit side of the account also, and deduct the amount of the check and the discount from the balance. When the proof is made and you have deducted all the old balances from the new balances the difference must agree with the amounts in columns F. and K.

CHAPTER 5

The General Ledger

37. In previous chapters you have learned that the accounting system is divided into four parts:

Cash Book and Journal.
Customers' Ledger.
Purchase Ledger.
General Ledger.

Again you have learned how to handle the Customers' Ledger and the Purchase Ledger and now you will learn the necessities of the General Ledger.

38. You have also become acquainted with the fact that the General Ledger is divided into four parts.

Assets. (What you own.)
Liabilities. (What you owe.)
Revenues. (Income made from sales.)
Expenses. (Payments made to conduct the business.)

You have learned that Assets are items that are due you, that you own, that must be paid to you, the cash drawer owes you the money therein, the bank owes you the money you deposited, the customers owe you the money for work done, in the

building, when sold there is an amount of money due you, the same with the machinery and trucks.

You have also learned that Liabilities are items which you have to pay, the Purchase ledger contains all the bills which you must pay, the Notes Payable, the amount borrowed from the bank which must be paid. The Mortgage on the building must be reduced.

There are two other parts in the General Ledger, however, and these are

Revenues and Expenses.

39. Revenue is the gross income of what you have sold. If you sell an article and it did not cost you anything, the money you take in would be a revenue or gross income.

40. However, it has cost you material and labor and other expenses such as rent, light, heat, delivery expense, printing matter, telephone, etc., which must be deducted from the sales to find out what your profit has been.

41. All these things have to be recorded for two reasons, viz.: because it is the only way to find out what it costs you to do business and because the Income Tax collector demands it.



BOOKKEEPER "OFFSETTING" LEDGER SHEETS

The General Ledger Accounts.

To become fully acquainted with the General Ledger it is also necessary that you study the nature of these accounts and what must be "charged" to them, and what must be "credited."

Ledger Accounts—Assets.

42. **Account No. 1—Cash on Hand.** This account shows an amount on hand out of which you pay small items, such as freight charges, carfare, donations, etc. We will come to it later, when all the money is paid out, how you will get it back into your Cash Account, called Petty Cash.

43. **Account No. 2—Cash in Bank.** As stated before you should deposit all the money which you collect or take in. It should not get mixed up with your money in the Petty Cash Drawer. Against the deposits you write the checks and they are put against the bank account from the Cash Journal card and the balance of the account should always agree with the amount as shown on your check stubs.

44. **Account No. 3—Customers' Accounts.** To this account post your charges from the Cash-Journal card, the daily deliveries you have which are called "charges," and credit the account on the right hand side with the money that has been paid against the account together with the Discount the customer deducted. Sometime there may be some other charges against this account which are called Journal entries; for details see under "Journal-Entries."

45. **Account No. 4—Merchandise Stock.** All raw material bought for manufacture or any finished article which is bought for re-sale is charged to this account.

46. **Account No. 5—Notes Receivable.** If you take a promissory note in settlement of a customer's account it should be shown as a debit to this account. When you want to deposit the note you make a deposit slip just the same as if you deposit a check and instead of crediting it to the customer's account you credit it to Notes Receivable.

47. **Account No. 6—Equipment Accounts.** This group of accounts is divided into several parts. There is Real Estate which you own and on which site the building stands that you are occupying. The division is made in this manner instead of throwing them all into one account, because the building, machinery, furniture and autos depreciate in value every year and the rate of depreciation varies. For detail see Depreciation.

48. **Account No. 8—Proprietor's Personal Account.** Unless you are incorporated, you cannot draw any money out of the business and call it salary. If you were working for someone else and made over \$1,000.00 you would have to pay an in-

come tax to the Federal Government. If you consider yourself an employe of your company you will have to pay tax on the money which you draw from the business and also pay a tax on the net income at the end of the year. In order to know just how much money you have drawn from the business, open an account for yourself and charge everything to this account, that which is personal, such as home telephone, household expenses, personal drawings for cash, etc.

Ledger Accounts Liabilities.

49. **Account No. 10—Accounts Payable.** This account should always show just what you owe. On the right hand side, in the Credit column, you record all invoices received and which you owe and on the debit side you enter all the payments made on account or in full payment of the bills. The Balance column will always show the difference or what is still unpaid on bills.

50. **Account No. 11—Notes Payable.** When you borrow money from the bank or give what is called a Trade Acceptance in payment of merchandise purchased, that amount is credited here, and charged to the Accounts Payable Account only after an entry has been made on the Journal card. The account is cleared by writing a check and charging same to this account.

51. **Account No. 12—Mortgage Payable.** This account always shows a credit and when you are making a payment, the amount of the check is deducted from the balance, after it is recorded on the Cash Journal card.

52. **Account No. 17—Capital.** This account is very rarely touched. If, however, you want to put additional money into the business, the amount is credited to this account and at the end of the year the profit which you have made is also credited, should it be a Loss, however, the loss is deducted from the capital.

53. **Account No. 19—Profit and Loss.** No entries are ever made to this account during the year. At the end of the year all "Revenues" accounts are credited to this account and the Expenses are debited; that is the way we find out how much money is made. See special instructions of closing the books at the end of the year.

54. **Account No. 20—Ledger Accounts—Revenues.** You are keeping books in the double entry method. Every item that goes on the left hand side of the ledger must also be entered on the right hand side. Therefore when you have made a sale and you charge this item to the Customers' account in the Accounts Receivable ledger, some other account must be credited with this amount. In this case the item is credited or the various items are credited to the Sales Account which is No. 20.

You may divide your Sales, too, in different departments. If you wish to know how many awnings you sold make up an Awnings Sales account and credit only that part of the daily sales to this account which is Awnings. If you want to keep track of Covers sold open up a Cover Sales Account and credit the Covers Sales only to this account. If you want to know at the end of the year how much you did in Rehangings Awnings open an account for that.

55. **Account No. 26—Goods Returned (Return Sales.)** In some cases it may occur that you have delivered and billed some goods to a customer who finds it necessary to return these goods. In such a case you will have to give him credit on your books and you must make out a Credit Memorandum for him. In the same way as you make out your Cost Form when you charge the article to your customer, you must make out a Cost Form now and mark it "Credit" with a red or blue pencil so that it is not charged to him again by mistake. On the Cash Journal card this or that item is entered in column E, Fig. 14.

56. **Account No. 27—Miscellaneous Income.** In many cases there are some sales made that are not Merchandise Sales. For instance, you may have some waste paper and scrap which you sold; this is not a sale of awnings, covers or tents, therefore it should be credited to the above account.

57. **Account No. 28—Discount Taken.** When you pay your bills in time in the same manner as you allow your customers a special discount of 2 per cent, such special discount is allowed you for prompt payment. When you write a check for \$19.60 in payment of an item for \$20.00 the deduction which you made of 40c is the discount taken and should be put on the check stub also. When you put the total amount of the checks on your Cash-Journal card the total amount of the discount is also entered there but in column F.

58. **Account No. 30—Rent.** Rent is the money paid for the use of the building. It is a cost of doing business and so if the manufacturer is a tenant he should place in his overhead the yearly rent he is paying for the building in which he is doing business. If the manufacturer owns his own building, he should compute his rent at that amount which he could command on the market should he rent his building to another. In other words, rent is computed according to market conditions. If it is difficult to derive this latter fact, the owner of a building should put in at least 6 per cent of the value of his property as rent. Remember, rent is not a profit, it is the cost of the use of a building and therefore is cost and goes into overhead. This rent, if you are the owner is credited to the Miscel-

laneous Income account, discussed in Account No. 27.

59. **Account No. 31E—Interest on Investment.** Suppose you did not buy any Machinery, Sewing Machines, Auto Trucks, you had no money in the business, you had no money standing out from your customers, you did not have the money in the bank which you now have, you had, in other words, no money in dollars and cents invested in your business but had it all in your pocket; would you keep it there?

Of course not. You would invest it somewhere where it could earn at least 6 per cent interest for you, either in Real Estate Loans, First Mortgages or something else. While your money now is invested in your business it is tied up and dead to you as far as the investment is concerned. It is, therefore, necessary that you charge into your costs 6 per cent interest which the money would earn for you otherwise. And it is therefore necessary that you charge to account No. 31E 6 per cent on your machinery and tools and credit this amount to account No. 27 which is Miscellaneous Income. Details will be explained to you in the monthly closing method.

60. **Account No. 31S—Interest on Stock on Hand.** In the same manner as described above it is necessary that you charge the 6 per cent interest to this account for the money that you have invested in raw material or finished goods. This is done in the inventory at the first of the year if you have no other figure. The 6 per cent is charged to account No. 31 and credited to Miscellaneous Income. Further details will be given in the discussion of the cost system.

61. **Account No. 31A—Interest on Customers' Accounts.** In the way described in account No. 31E it is necessary to charge 6 per cent to account No. 31A and credit the amount to Miscellaneous Income No. 27. At the first of each month when statements are sent out a manufacturer will have outstanding a certain amount of open accounts. In other words, money belonging to him but in the hands of his customers, which money will not be collected for, on the average, thirty days. This represents the money of the manufacturers in the hands of the customer. It is a cost element because it is money used in the business and therefore 6% must be charged. In order to charge this, the manufacturer should take his twelve open account statements for the twelve months of the year, add them together and divide by twelve and take six per cent of the result and place it in his overhead.

Cash capital clearly defined means, that amount of money which was invested in the business and which is not found in stock or fixtures. The cash

Capital item will apply to old established businesses and represents the amount of money paid for the business at the time that it was started, which amount of money cannot be represented by any fixtures or machinery or stock now existing in the plant. In a new firm just starting up, which has placed, for instance, \$10,000 in cash capital into a business, the larger portion of this money will go for stock and fixtures and machinery and therefore a 6% interest should not be taken on this portion which is invested under subdivisions "A" and "B" for 6% has already been taken under those subdivisions.

Most manufacturers have money in the bank in open accounts upon which no interest is drawn (that is, if they are lucky enough to have any money at all); this represents money used in the business upon which there is no return. The manufacturer should take his twelve monthly statements from the bank, add the totals and divide by twelve and take six per cent of the result and place it in his overhead.

62. Account No. 32—Depreciation. If you buy a cash register, an auto, a sewing machine, etc., and you have made a part payment on it, and have used it for a little while and now you want to sell it, can you get your original price back? Under normal circumstances you cannot, because the article has been used, that is why it has lost in value. In the accounting language it is said this article has depreciated, it has lost in value. If you buy a new sewing machine it is estimated that the good life of this machine is 10 years, after which it has a junk value, because a later model is out or you may have found a different way of doing the work. At the end of the year it is necessary, therefore, to charge off your books $1/10$ of 10 years, or 10% of the original value of the machine to an account called Depreciation. The amount is credited to the Machinery and Tool Account, so that there is nothing left after 10 years, except the junk value.

The same thing is done with your Office Fixtures.

The Auto Trucks you must depreciate 33 1-3% because a truck will not last much longer than three years.

If your building is of brick, depreciate it 3% per year. If it is a wooden structure, depreciate it 5% per year.

63. Account No. 33—Insurance. Into this account charge all insurance, on merchandise, autos, building, machinery, liabilities, etc.

64. Account No. 34F—Federal Taxes. Federal Taxes are your Income Taxes. This must be kept separate from the State Taxes, as the government will not permit you to deduct same from your Income Tax Report.

65. Account No. 34S—State Taxes. This account covers your Personal Property Tax and Real Estate Tax.

66. Account No. 35—Advertising. Into this account charge advertising which you place with newspapers, magazines and whatever advertising you may do by circular letter service. Do not charge advertisements in newspapers into this account, which you may use for hiring help, or wanting to sell something. The only advertising which is recorded here, is that used to advertise the merchandise you have for sale.

67. Account No. 36—Office Expense. Into this account put all small expenses that apply to the office, a pencil sharpener, painting a sign on the door, advertising for help, etc.

68. Account No. 37—Carfare. This account speaks for itself.

69. Account No. 38—Telephone. Against this account charge the monthly Telephone bill.

70. Account No. 39—Telegraph. Against this account the Telegraph bills.

71. Account No. 40—Legal and Collection Expenses. To this account you place all payments which you make to lawyers, also charges for collecting accounts which have been given to an attorney for collection.

72. Account No. 41—Heat, Light and Power. If you rent a place of business which you are obliged to heat, your fuel bills are charged to this account. Also the Light and Power bill for running your motors in the shop.

73. Account No. 42—Postage. Stamps in sending out your daily mail and outgoing Parcel Post is charged to this account.

74. Account No. 43—Repairs—Factory. If there are any repairs necessary on your single needle machines or any other machines, on various floors of the building as far as the shop is concerned, charge these items to this account.

75. Account No. 44—Water. Charge your quarterly water bill to this account.

76. Account No. 45—Managers' Salaries. This item needs some explaining. The owner of a business, be he a sole owner, or be there two or three owners, all should get a salary and this salary is a part of cost and has nothing to do with profit. In a corporation, the executives are paid a salary, this salary goes into overhead. Just so the salary of managers, proprietors and partners should go in the overhead as a cost. The one big question is, how much should the salary be? The best answer to that question is that the salary should be commensurate with the value of the services of the man. In the case of an owner of the business in the meas-

urement of his salary, he should take into consideration that his business should make for him a little better salary than what he might earn were he to sell his business and work for his competitor. For surely, if the owner of a business cannot earn from his business in salary as much as his competitor will pay him for his services, he ought to sell his business and go and work for his competitor for his own welfare.

The owner of a business who is the active executive thereof, was drawing less in salary than he was paying his own foreman. This is correct if the foreman is a better man than he, but as the executive of his own business he should receive a salary commensurate as a principal and with his services to the business.

Salaries should not be confused with profit. In talking with a tent and awning manufacturer at the end of a season he was asked, "Well, Mr. ———, did you make any money this year?" He responded, "Yes, I made \$4,000 and never saw so much money before." "Is that profit or does that include your salary?" He responded, "Oh, that includes my salary," and then he was informed that he really had not made any profit, that what he had made was a \$4,000 salary for that year and that his profit was yet to be seen. This is a condition which exists in over 80% of the manufacturers in our business. Mr. Weikert, National Chairman, says:

"A certain large firm in this country informed me that their overhead was less than mine. I challenged them because I have found on investigation that there is very little fluctuation in overhead cost based upon the right computation and so I looked over their Overhead Schedule and found that there were six members of the corporation, all of them non-productive labor. In other words, they were bookkeepers, salesmen and executives and each one of them drew as a salary \$1,500.00. The firm did a business of \$250,000 that year. I criticized them for the amount of their salaries, stating that their salaries were not sufficient considering the fact that they were capable of doing that amount of business. They responded, 'Oh, but we made \$24,000 profit,' and I asked them what they did with this so-called profit. They said, they divided it between the six of them, giving each one \$4,000. I informed them that if they had taken the \$4,000 and added it to the \$1,500.00 and placed it as salary in their overhead, their overhead would have been equal to mine and this is what they should have done, then the firm would not have shown a profit, it would have come out even, each one of them getting a fair salary.

In connection with this matter, it might be fair to remark that I have heard from many an older manufacturer in our trade in answer to my criticism,

that they have not been successful business men, this remark, 'But I have made money, I have been able to eat each year,' and I have asked in return, 'Have you lived, or have you drawn a sufficient salary from your business to live, an American life?' This is a fair question and can be seriously considered. Salary is the payment for services of a non-producer and is a part of cost. Profit is a reward to a business man. A business man, to use a French word, is an 'intreprenneur' which means literally an 'enterpriser,' in our language it means a 'risk-taker.' A business man takes his capital, invests it in machinery, material and labor, manufactures articles and takes the risk of selling them to the customer for two main objects. First, to earn a salary for himself and second, to make if possible, a profit. A profit is provided for by economic law and profit is granted to the business man by society as a reward for the risk he takes in using his capital to produce. Very few tent and awning men have been so rewarded for very few have ever seen a profit, and we can safely say also, that very few have been sufficiently compensated in a salary." Let us conclude that salary must go in overhead and it should be figured correctly.

77. **Account No. 46—Salesmen's Salaries.** All salaries and commissions due salesmen who do the actual selling are charged here.

78. **Account No. 47—Bookkeeper's and Steno. Salaries.** All people in your office whether they do bookkeeping or stenographic work or statistical work in some form, their salary is charged to this account.

79. **Account No. 48—Bad Debts.** Like every other merchant you will experience that there are some accounts or customers that you have trusted and which money you cannot collect. They are not good to keep on the books, but as you have given them your merchandise, and charged them in your Customers' Ledger, you cannot take out the ledger sheet and forget about it. Since you are keeping double entry bookkeeping, which means that for every debit or charge you place on the books there must be a credit also, it is necessary that you credit the Customers' Account in the Customers' Ledger and charge the account to Bad Debts. This enters into your profit statement and therefore goes into your overhead expense, because you will not make a profit on this customer.

80. **Account No. 49—Lost Time.** This account will be considered when the Cost system is discussed.

The Lost Labor Item. This is an item which is forgotten by many, admitted by most, and practically guessed at by all. It is admitted that all the salaries of non-productive labor go into overhead and

we have dealt with this matter under items "sixteen," "seventeen" and "eighteen." Now you are passing to the salaries of productive laborers, viz., the money paid to factory girls, awning hangers, ropers and job men for their services. They are producers and are termed productive labor. Is all the time for which you pay money actually productive? In other words, is it spent on jobs for your customers? The general answer is "no." The lost time in your business is tremendous and comes out most among the awning hangers. Your only difficulty is to know how much of the money you spend for productive labor is lost and for the firm that maintains no time cards, all you can advise is, that it follow the suggestions of the Cost Laboratory relative to the percentage of lost time. Lost time is easily found, for on a time card will be shown the hours spent and how they are spent by each laborer. It is easy to figure the total number of hours which the laborer worked and for which he was paid. It is also easy to figure how many of these hours were spent on productive jobs and how many of them were spent sweeping the floor, cleaning the machines, in the dressing rooms and other non-productive activities. The ratio of the lost hours in proportion to the number of actual hours worked is the percentage of lost time. It is interesting to note the actual conclusion and the percentage of lost time in one plant for the year 1921, as follows:

| | |
|-----------|----------|
| January | 54 % |
| February | 45 % |
| March | 34+ % |
| April | 19¾ % |
| May | 26 2-3 % |
| June | 19 % |
| July | 25 2-3 % |
| August | 35+ % |
| September | 54 1-3 % |
| October | 53+ % |
| November | 55 1-3 % |
| December | 75½ % |

The average lost labor was 35.84% or practically 36%. It is interesting to know that in April the percentage was 19¾% and jumped in May to 26 2-3% and then back to 19% in June. Upon investigation of the time card it was found that this increase of the lost time in May was caused by the taking on of inexperienced help as the season became rushed and by June they were experienced enough to lower the percentage. It is a simple matter to place this item in the overhead for all the manufacturer needs to do is to find the total amount of money he paid for productive labor and take at least 40% of it, if he uses that percentage and place it in his overhead. The Cost Laboratory will from time to time publish the

average percentage of lost labor from investigations of factories where time cards are kept.

81. **Account No. 50—Interest on Borrowed Money.** There may be an occasion that the bank will let you have additional money in form of a loan to pay for material which you have a chance to buy right. In that case you will owe the bank interest and when the bank credits your account with \$985.00 they have deducted the interest and you will have to pay them \$1,000.00 back when your note falls due, therefore, you must credit the bank on your books in the Notes Payable account No. 11 with \$1,000.00 and deposit \$985.00 to your Bank account and charge the Interest account with \$15.00.

82. **Account No. 51, 2% Discount in 10 Days.** For prompt payment within 10 days from the date of invoice sent to your customer you agreed (this is customary in most every business) to allow him 2% on the full amount. When he sends his check he deducts this discount and makes his check so much less. You cannot carry this small amount on your books, however, and therefore must credit his account in full, but as you have double entry bookkeeping, where you must credit the same amount that was charged before, you must place this discount into a separate account entitled as above.

83. **Account No. 52—Stationery & Printing.** To this account you charge all printing matter and stationery for the office and shop. Your job tickets, billheads, envelopes, etc.

84. **Account No. 53—Subscriptions.** Any magazine that you may buy for a year's subscription is charged here. It should be of interest to you to know how many you have subscribed for and how many you actually read, if any. Probably you will find out that you can save some money.

85. **Account No. 54—Donations and Dues.** There are always people who are begging for some Donation, be it for the church or other institutions. This should be charged to this account. Also the fee for your Local, State and National Associations.

86. **Account No. 55—Factory Repairs.** Into this account you should place any expense for repairs, etc., around the factory. Possibly you want to put a new lock on the rear door, or have tools sharpened, etc.

87. **Account No. 56—Lost and Damaged Goods.** Goods may be lost in transit or they may get damaged so that the customer will not accept them and you are obliged to replace them to hold him as a customer; in such cases charge the first lot to this account.

88. **Account No. 57—Auto Repairs.** All auto repairs, for tires, new spark plugs, adjustments, garage

bills in general, together with gas and oil, are charged to this account. If you take the mileage from the speedometer you can find out quick enough what it costs you to keep up your trucks and salesmen's cars.

89. **Account No. 58—Experiments.** If you are trying to put out a new article on the market it costs you labor of your men, your own time possibly and also material. All of these must be taken care of. A shop ticket should be made out in the same manner as you make one for the customer, and after the job is completed charge it to this account instead of to the Customers' Ledger.

90. **Account No. 59—Defective Work.** Material which your cutter may have cut wrong or where an awning has to be rehung, such time should be charged to this account. Everything must be taken care of. If there has been time spent in duplication of work it must be recorded on the books.

92. **Account No. 60—Parcel Post, Express, Freight & Cartage.** Freight for goods coming in and going out, cartage bringing it in from the depot,

express charges in and out are all charged to this account.

93. **Account No. 61—Miscellaneous Expense.** Put any Expense items that have not been mentioned in any of these accounts above here, and when in doubt charge to this account, remembering that all expense items must be recorded.

94. **Account No. 62—Foreman, Forelady, Shipping Clerk and Errand Boy.** The wages for all of these people named above are charged to this account. While they are not directly on a productive basis so that they do no specific work on any job number or job ticket, still the supervision must be there that the plant is going right. Therefore, the wages cannot be put into the Payroll of the shop but must be kept separate.

95. **Account No. 70—Shop Payroll.** The payroll of the help, girls and men, who are doing the cutting, single needle work, double needle work, heavy needle work, girls' handwork, men's handwork, frame work, stenciling and erecting, are charged to this account.

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|------------------------------------|----------------------------------|----------------------------------|------------------------|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|---------------|-------------------------------|---------------------------------|-------------------------------|--|--|--|--|--|--|--------------|--|--|--|--|--|--|--|--|--|
| Form No. 3 DATE SOLD DATE BILLED TERMS | <h2 style="margin: 0;">ALL-WISE TENT & AWNING CO.</h2> <p style="margin: 0;">St. Paul, Minn.</p> | JOB No. <h1 style="margin: 0;">N^o 453</h1> ORDER NO. SALESMAN | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sold to <u>N. G. Caldwell</u> Address <u>Suburban Ave</u> State <u>Miss.</u> When Wanted _____ Via _____ Remarks _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border: none;"> <tr> <td style="border: none;"><input type="checkbox"/> PAID</td> <td style="border: none;"><input type="checkbox"/> WILL CALL</td> <td style="border: none;"><input type="checkbox"/> FREIGHT</td> <td style="border: none;"><input type="checkbox"/> PREPAID</td> <td style="border: none;">DATE PROMISED</td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> C. O. D.</td> <td style="border: none;"><input type="checkbox"/> DELIVER</td> <td style="border: none;"><input type="checkbox"/> EXPRESS</td> <td style="border: none;"><input type="checkbox"/> COLLECT</td> <td></td> </tr> <tr> <td style="border: none;"><input type="checkbox"/> REG.</td> <td style="border: none;"><input type="checkbox"/> PUT UP</td> <td style="border: none;"><input type="checkbox"/> POST</td> <td style="border: none;"></td> <td></td> </tr> </table> | | <input type="checkbox"/> PAID | <input type="checkbox"/> WILL CALL | <input type="checkbox"/> FREIGHT | <input type="checkbox"/> PREPAID | DATE PROMISED | <input type="checkbox"/> C. O. D. | <input type="checkbox"/> DELIVER | <input type="checkbox"/> EXPRESS | <input type="checkbox"/> COLLECT | | <input type="checkbox"/> REG. | <input type="checkbox"/> PUT UP | <input type="checkbox"/> POST | | | | | | | | | | | | | | | | |
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| STYLE AND BRAID _____ ARTICLES <u>115</u> SIZES _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border: none;"> <tr> <td style="border: none;">ROOMS</td> <td style="border: none;">HOW MANY</td> <td style="border: none;">FRONT</td> <td style="border: none;">ARM</td> <td style="border: none;">BUILDING</td> <td style="border: none;">PITCH</td> <td style="border: none;">FRAME How Many Arms</td> <td style="border: none;">SLIP ON</td> <td style="border: none;">TIE ON</td> <td style="border: none;">..... Curtain</td> </tr> <tr> <td colspan="9" style="border: none;">.....Width of Curtain</td> </tr> <tr> <td colspan="9" style="border: none;">.....Scollop</td> </tr> </table> | | ROOMS | HOW MANY | FRONT | ARM | BUILDING | PITCH | FRAME How Many Arms | SLIP ON | TIE ON | Curtain |Width of Curtain | | | | | | | | |Scollop | | | | | | | | | |
| ROOMS | HOW MANY | FRONT | ARM | BUILDING | PITCH | FRAME How Many Arms | SLIP ON | TIE ON | Curtain | | | | | | | | | | | | | | | | | | | | | |
|Width of Curtain | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|Scollop | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

FIG. 14

The National Cost System



Form No. 3

DATE SOLD

1/2/21

DATE BILLED

1/2/21

TERMS

2/10-30

ALL-WISE TENT & AWNING CO.

St. Paul, Minn.

JOB No.

6

No. 451

ORDER NO.

SALESMAN

Sold to *R. S. Becker*
 Address *327 - 4th St. St. Paul* State *Minn.*
 When Wanted _____ Via _____
 Remarks _____

| | | | | |
|-----------------------------------|--|----------------------------------|----------------------------------|----------------|
| <input type="checkbox"/> PAID | <input type="checkbox"/> WILL CALL | <input type="checkbox"/> FREIGHT | <input type="checkbox"/> PREPAID | DATE PROMISED |
| <input type="checkbox"/> C. O. D. | <input type="checkbox"/> DELIVER | <input type="checkbox"/> EXPRESS | <input type="checkbox"/> COLLECT | <i>Tuesday</i> |
| <input type="checkbox"/> REG. | <input checked="" type="checkbox"/> PUT UP | <input type="checkbox"/> P. POST | | |

| | | |
|-------------------|---------------------------------|---|
| STYLE AND BRAID | ARTICLES | SIZES |
| <i>8 oz white</i> | <i>One Pull Awning Complete</i> | <i>5-6</i> <i>5-6</i> <i>70-0</i> |

| ROOMS | HOW MANY | FRONT | ARM | BUILDING | PITCH | FRAME <small>How Many Arms</small> | SLIP ON | TIE ON |
|-------|----------|-------|-----|----------|-------|---------------------------------------|---------|--------|
|-------|----------|-------|-----|----------|-------|---------------------------------------|---------|--------|

1 Front Rod 19-9
4 Arms 5-5
4 Struts 1"
all in wood

- same* Curtain
- 17"* Width of Curtain
- Small* Scollop
- Braid
- Fringe
- Stenciling
- Estimate
- Cover
- Fringe
- Extra Strips
- Top Lettering
- Curtain Lettering
- Frame
- Top Rod
- Iron or
- Brick Fastening
- Extra Work
- Window Awning
- Window
- Awning Cover

PRICE *\$48.90*

CHAPTER 6

96. No matter what business you may be in, in order to make money you will have to take into consideration the amount of money that the article costs which you are about to sell. In every article of merchandise that you are going to sell there are several elements involved which must be clearly classified.

97. If you manufacture chairs there is a certain amount of feet of lumber used. The raw lumber from the mill has a certain cost and you have had to pay that cost plus a profit to the lumber mill. The lumber was then kiln dried which added something to the cost. After that the lumber went into manufacture, and every time something was added to this manufacture which finally turned out to be a chair, additional labor or material added to the cost, but that was not all. In the manufacture, fuel was used to create heat and steam for kiln drying, or electric power was used for the running of motors, there was rent paid, insurance for workmen's compensation, advertising to tell the world about the article, postage for sending out letters, telephone, telegraph, taxes, bookkeeper's salary, repairs on machinery, trucks and many other little expenses. All of these expenses which come about in any business are called "Factory Burden" or "Overhead Expense." Such overhead is an expense to you and the public must pay for your expenses if you are to make any money. This expense called overhead must therefore be included in your cost of articles.

98. Cost is therefore composed of three elements, (1) Material, (2) Labor, and (3) Overhead.

What is a Cost System?

99. In order that you may understand just what a cost system really is, analyze what constitutes cost, and then realize that a cost system is merely the recording of cost. You have in cost only three fundamental elements. There are only three elements to cost. The first is material. Material is easily figured, because all you need to know is the amount of material on the job and then know its cost to you, laid down in your plant.

100. The second item of cost is labor. Labor cost is easily figured, because that is the amount of money you pay to the laborer who performed the job, and you know what you pay your help. Therefore, it is easy to figure that cost.

101. The third item of cost is overhead.

102. **What is Overhead?** Overhead defined is the Cost of doing business or the cost of running a business, it is that Cost which is not charged against material and labor.

If overhead is a part of "three" of cost, you must know what it is in dollars and cents so that on

every job the correct proportion of overhead is charged in order to find the cost.

The accounts of your General Accounts list from No. 30 to 69 constitute "Overhead."

How Does the Cost System Operate?

In order to understand the routine of a cost system clearly follow closely the transactions of how the time cards and the cost forms go through shop and office.

103. You want to record material and overhead, and when you have recorded those, you are able to find your cost.

104. To find costs we have a set of Cost Forms, blue, pink and white. The blue sheet is your shop sheet. The pink sheet is your factory sheet, and the white sheet is your office record tracer.

105. You have the ordinary pencil carbons that are put between three sheets—two carbons.

106. A salesman brings in an order, it does not matter what it is written on. It is turned over to somebody in the office, or he, himself, grabs the order tab and records the order on the order sheet. Fig. 15. The name of the party, his address, and where. You have all the lines or spaces to set forth just what you are to do with the job. You have the big space here to draw your pictures. You have here style and braid, which means what it is to be made of—10-ounce single fill, or khaki. Articles, what is your total quantity? 7-4x11-8 tents or whatever it is. Then it is set forth in your specifications. The line on the other side applies mostly to awnings, except your estimate element and your price element. Now you will notice that a white margin is allowed (3) on the white copy.

107. It isn't policy to put the price on all three sheets, and send them to the factory and the shop. If your laborers see the prices you get for your goods they begin to think they are underpaid and the best thing to do is to keep that element of it in your office. Therefore, the margin is left and you carry your estimate and your price items out on the white margin. That is the idea of the margin. You will notice the blue, the pink and the white all have the same copy on it.

108. Now the order is written, and the three sheets are torn off the tab, and as they are torn off—the carbons are taken out and shoved into the next three and the tab is left for the next order. You will notice that the sheets are numbered, over in the corner, 451, or whatever number you are holding.

109. The only object of that number is to identify the order, that is all. Just to identify the order. And all orders in the plant are identified that way.

| Quantity | MATERIAL | Quantity | MATERIAL | Quantity | MATERIAL | Quantity | MATERIAL |
|----------|-------------------------|----------|----------------------|-----------------|----------------|----------|----------------------|
| | Ft. Pipe | | No. Plates | | Rd. Jaw Slides | | No. Pipe Clamps |
| | " " | | " " | | " " " | | " " " |
| 70 | " $\frac{1}{2}$ " | | " " | | " " " | | " " " |
| 77 | " $\frac{3}{8}$ " | | " " | | " " " | | " " " |
| | " " | | " " | | " " " | | " " " |
| | " Rd. Iron | | " " | | Sq. " " | | Expansion Fittings |
| | " " " | | " Slip Tees | | " " " | | " Shields |
| | " " " | 7 | " $\frac{1}{2}$ " " | | " " " | | " " " |
| | " " " | | " " " | | Slide Rods | | Top Rod Hooks |
| | " Sq. " | | " " " | | " " " | | " " " |
| | " " " | | " " " | | " " " | | " " " |
| | " " " | | " " " | | " " " | | " " " |
| | " " | | " " | | " " | | Bolts |
| | Elbows | | Truss Rod Ends | | | | " " |
| | " " | | " " " " | | Nut Ends | | " " |
| | " " | | " " " | 7 $\frac{3}{8}$ | " " " | | " " |
| | " " | | " " Braces | | " " " | | " " |
| | " " | | " " " | | | | " " |
| | " " | | " " | | Awning Hooks | | Stub Hinges |
| | " " | | " " | | " " " | 4 1" | " " |
| | Tees | | Plate Hinges | | " " " | | " " |
| | " " | | " " " | | " " " | | " " |
| | " " | | " " " | | Brick " " | | " " |
| | " " | | " " " | | " " " | | 5 Glass Rings |
| | " " | | " " " | | " " " | | 110 ft 4 1/4" Rope |
| | " " | | " " " | | " " " | | " " |
| | No. Tips or Eye Ends | | Spike " | | No. Screw Eyes | | " " |
| 7 | " $\frac{1}{2}$ " " " " | | " " | 74 | " 8 " " | | " " |
| 4 | " $\frac{3}{8}$ " " " " | | " " | | " " " | | " " |
| | " " " " " | | " " | | " " " | | No. Ft. Lateral Arms |
| | " " " " " | | " " | | " " " | | " " " " |
| | " " " " " | | " " | | " " " | | " " " " |
| | " " " " " | | Heads D. A. Brackets | | " " " | | " " " " |
| | No. Slide Rod End | | " " | | " " " | | No. Gear Boxes |
| | " " " " | | No. Jaw Hinges | | " " " | | " Worn End Bkts. |
| | " " " " | | " " " | | Screws | | " Gear End Bkts. |
| | " " " " | | " " " | | " " " | | " Blank End Bkts. |
| | " " " " | | " " " | | " " " | | " Center Supports |
| | " " " " | | " " " | | " " " | | " Roller Couplings |
| | " " " " | | No. 1 Cleats | | " " " | | " Shaft Guides |
| | " " " " | | No. 2 " | | Lag Screws | | " Knuckle Joints |
| | Turn Buckles | | No. 3 " | | " " " | | " " |
| | " " | | No. 4 " | | " " " | | " " |

| Quantity | MATERIAL | Quantity | MATERIAL | Quantity | MATERIAL |
|----------|----------|----------|----------|----------|----------------|
| 9 W | Cut 8-6 | No. | Blocks | | Twine |
| 7 W | Cut 7-7 | " | " | 7 | No. 5 Grommets |
| 1 W | Cut 5-7 | " | " | 33 | " 7 " |
| | | " | " | | " " |
| | | " | " | | " " |
| | | " | " | | " " |
| | | " | " | | " " |
| | | Ft. | Rope | | |
| | | " | " | | |
| | | " | " | | Yds. Fringe |
| | | " | " | | " " |
| | | " | " | | " " |
| | | Yds. | Thread | | |
| | | " | " | | |
| | | " | " | | Snap Hooks |
| | | | | | " " |
| | | | Bobbins | | |
| | | | | | |
| | | | Marline | | Knob Patches |
| | | | | | " " |
| | | | | | " " |

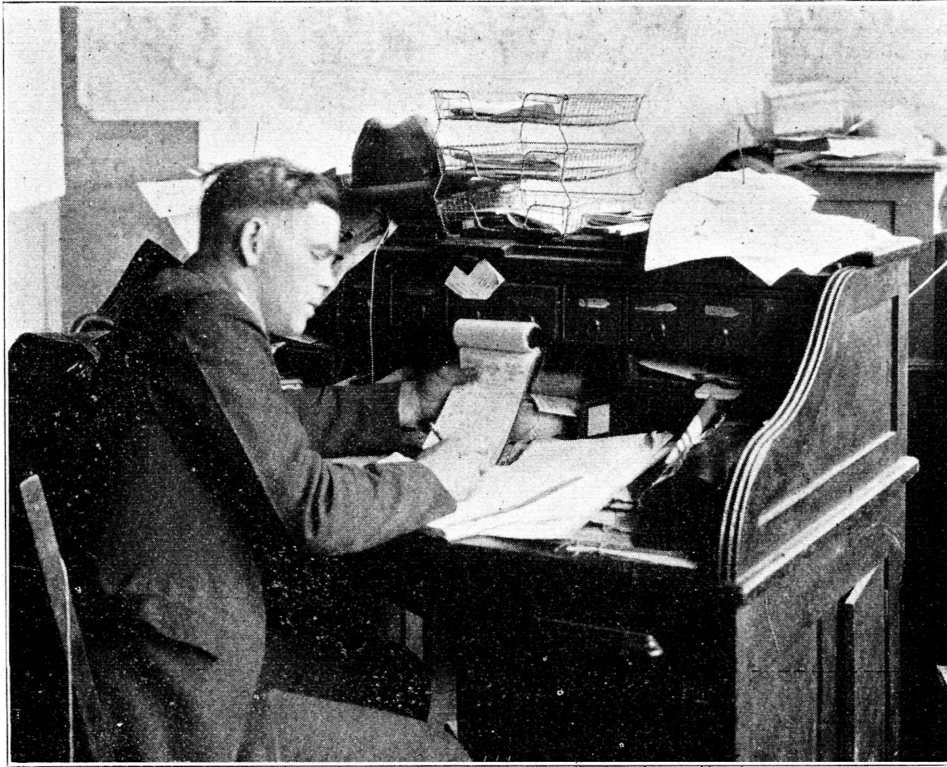
33 ft Curtain

Ends

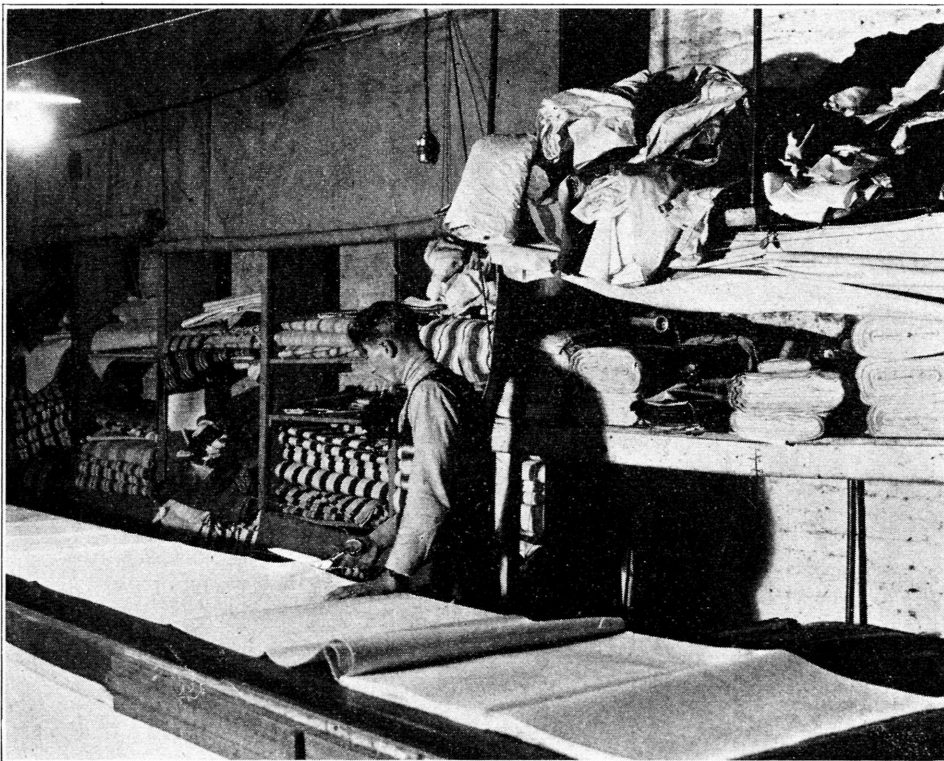
FIG. 17



THE SALESMAN MAKES THE SALE



THE SALESMAN WRITES UP THE ORDER



CUTTER CUTS ORDER FOLLOWING PINK SHEET



CUTTER ENTERS MATERIAL ON PINK SHEET

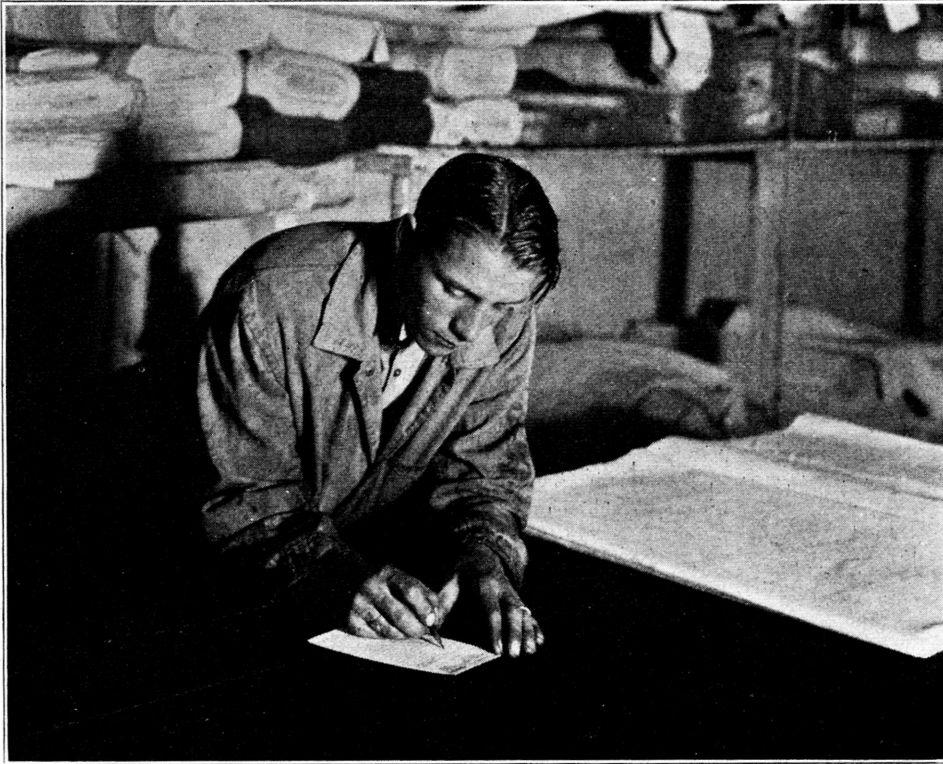
On your time ticket, for instance, a girl or a man doesn't work for John Smith or Bill Jones, but he works on Job No. 451 or Job No. 696. There is a real object to that. Lots of your labor can't write, and if you allow them to write the name of the job you never could read it, but they can write numbers and you can read them.

110. Fig. 17 represents the back of a pink sheet. Now what happened to that pink sheet? As soon as you tore the three sheets off of the tab the pink sheet went to the factory; the blue sheet went to the shop, or if you will, the pink sheet went to female labor; the blue sheet to your masculine labor, your awning erectors, tent pole makers, your frame makers, and the people that finally ship the goods, even in a case where you ship out a Gold Metal Stool, the

blue sheet goes to the shipping department. It is the last sheet handled in the operation of your plant, outside of the cost record. Now the pink sheet; what happens? The cutter got it in the shop. Now making a 5x5x20 awning the cutter gets it and he or she notes that it is Job No. 451, and Job No. 451 is marked on the time card. And he puts down cutting, and he puts down his time cutting the job. Now what does he do? As soon as he has cut the job he turns the pink sheet over and he writes what he put into the job—31 yards of 10-ounce Hartford, Fig. 19, or 10-ounce Magnolia, or 10-ounce any brand of duck. He puts in the quantity, and so on. The printed items here are put here for the purpose of helping the help so that they don't have to be too clerical. If they just check or put in numbers you

| Quantity | MATERIAL | Quantity | MATERIAL | Quantity | MATERIAL |
|----------|--------------------|----------|---------------|----------|-----------------|
| 31 | yds 10 oz Hartford | | No.....Blocks | |Twine |
| | | | "....." | |Grommets |
| | | | "....." | | No.....Grommets |
| | | | "....." | | "....." |
| | | | "....." | | "....." |
| | | | "....." | | "....." |
| | | | "....." | | "....." |
| | | | "....." | | "....." |

FIG. 19



CUTTER ENTERS HIS TIME ON TIME CARD
(SEE FIG. 20)

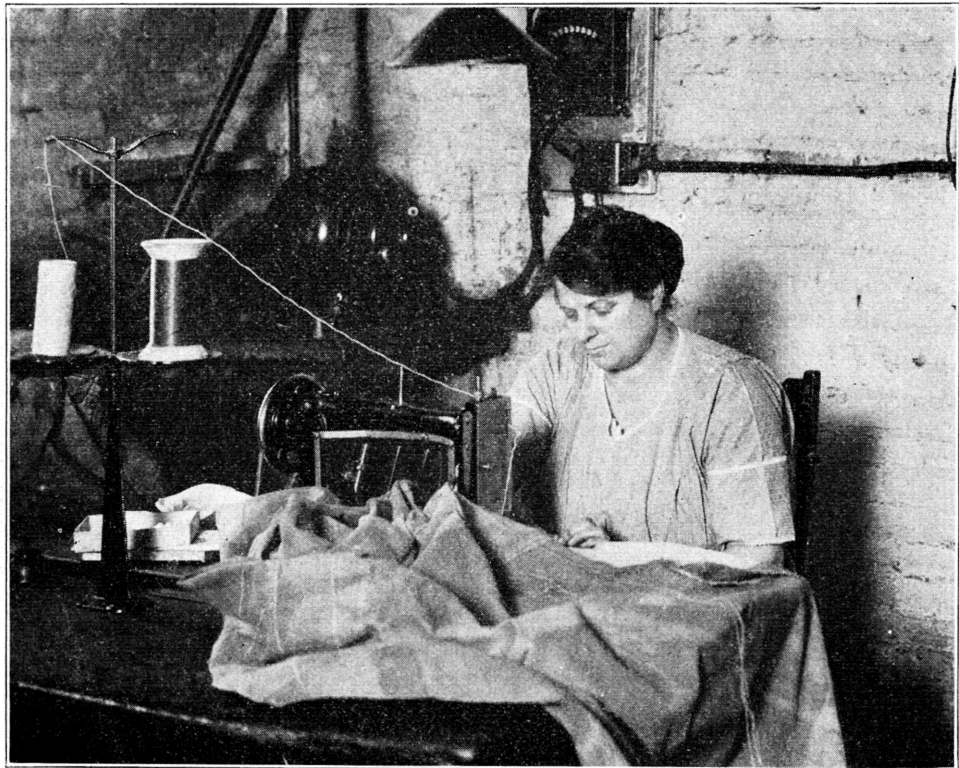
will get better returns, and that is why those names and items are provided for you. Any person in the factory who adds material to a job writes it on a pink sheet. Any person in the shop that adds material on a job writes it on the blue sheet, and that is the one slogan you have to have. "Notice: Write

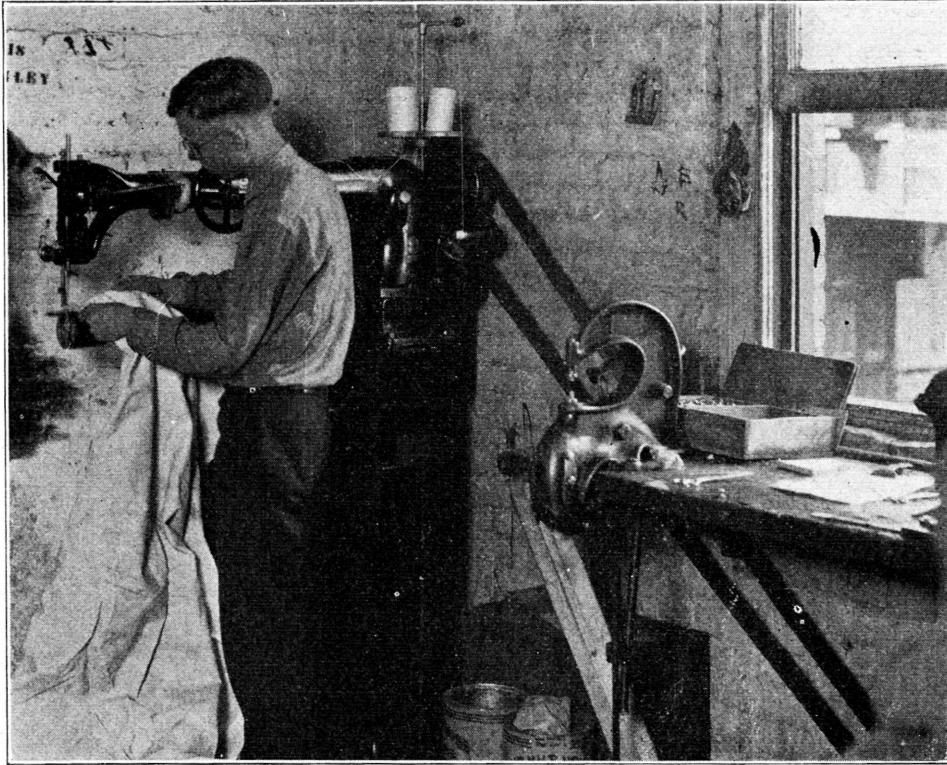
all material used on back of this sheet." That is printed on there for the purpose of helping your labor.

111. Now the awning having been cut, you take an ordinary tag and pin it to the awning with the



DOUBLE NEEDLE GIRL PUTS WIDTHS TOGETHER

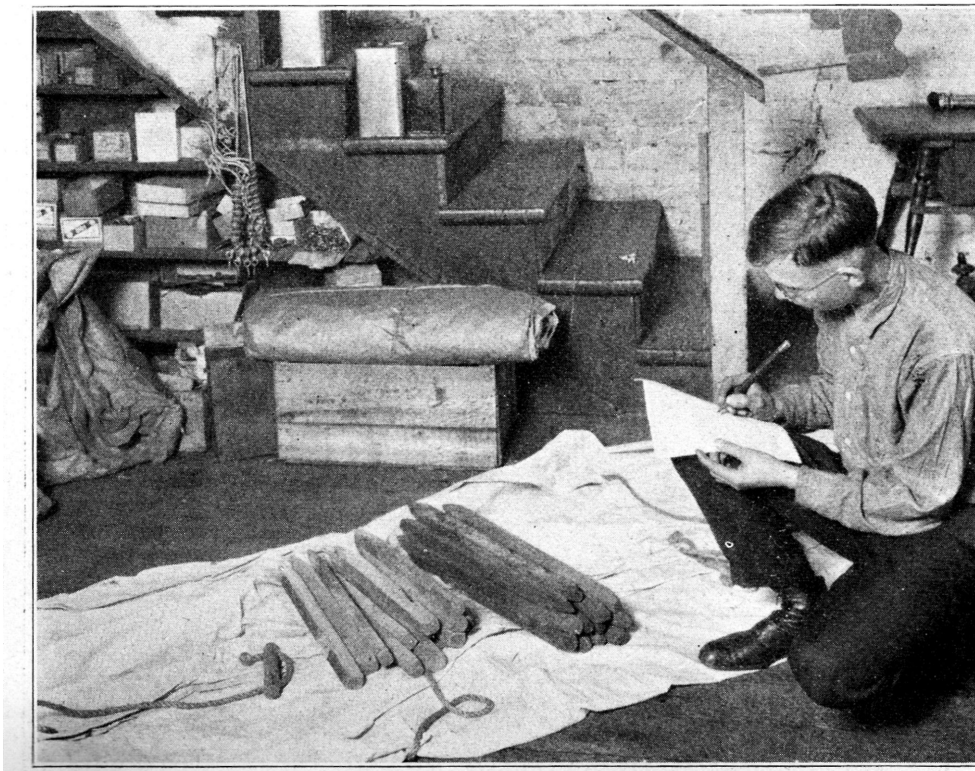




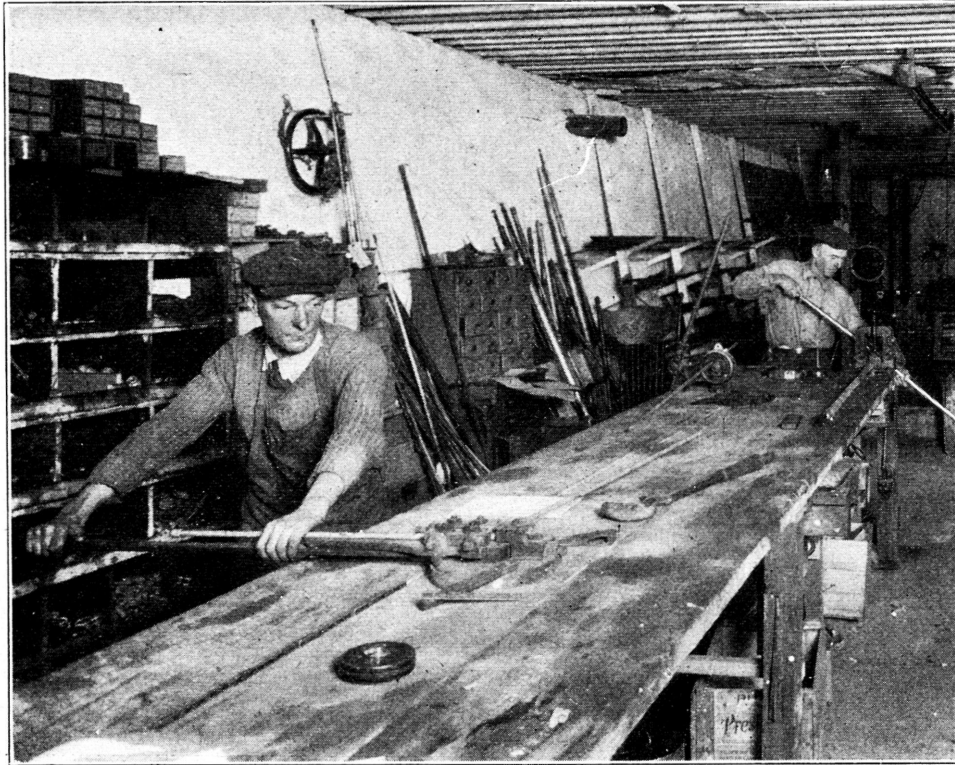
FINISHER DOES HIS PART

to go to the painter, or if you have your own sign-painting shop, the pink sheet, together with the awning, goes to the paint shop, and the pink sheet is used for the copy and the painter keeps a time card and shows his time in the lettering of that awning. The awning is now finished—that is, the canvas end of it, and it is rolled up and sent down

either for shipping purposes, or it is placed in the erection department for the men to take it out. The factory is through with the awning. What do they do with the pink sheet? They send it back to the office. The pink sheet goes right back to the office. If the finishers put on grommets, they mark down "12 No. 2 grommets—2 No. 5. So many ob-



FINISHER CHECKING MATERIAL ON PINK SHEET



FRAME AND POLE DEPARTMENT FOLLOWING BLUE SHEET

long grommets." Whatever they put in is marked on the sheets, and it doesn't take long for him to do it. All you have to do is to enforce that idea that nobody puts material on a job without they write it down. And you will be surprised how easy it is.

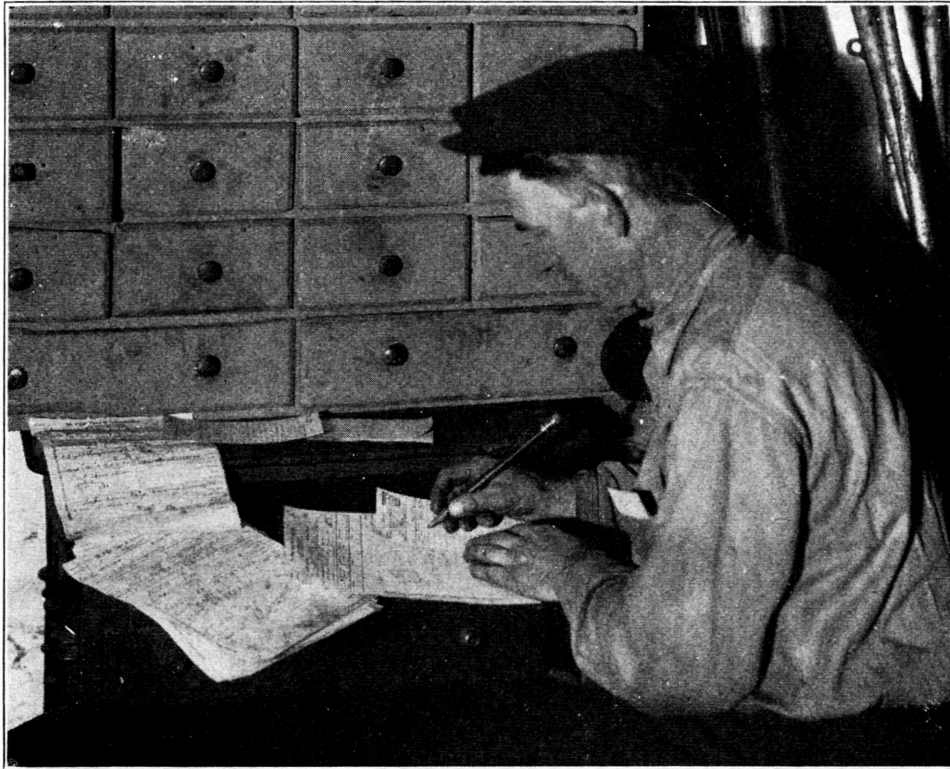
113. If you repair a curtain for an automobile,

there will be recorded on the pink sheet the size of celluloid that went into the window. A 10x 10 window is written on there.

114. The blue sheet, Fig. 16, at the same time that the pink sheet is issued, went to the shop, to the male help. Now in this case, the awning calls for a frame, so the frame has to be made, and is



SHOP MAN ENTERS MATERIAL ON BLUE SHEET



SHOP MAN ENTERS HIS TIME ON TIME CARD

being made at the same time the cover is made. The man who makes the frame starts cutting his pipe and he records everything that goes in. So many nut ends, so many eye ends. The size of them, etc., and you say, "Oh, you are getting too specific—you are going to have them down there

so they will be counting the threads on the pipe." Now listen, you can't get too specific in our cost work—you have too many leaks and this does not mean anything in the recording.

115. A certain man who never went to school in his life, making frames this last year, knew when



PINK SHEETS ARE TURNED IN TO COST GIRL

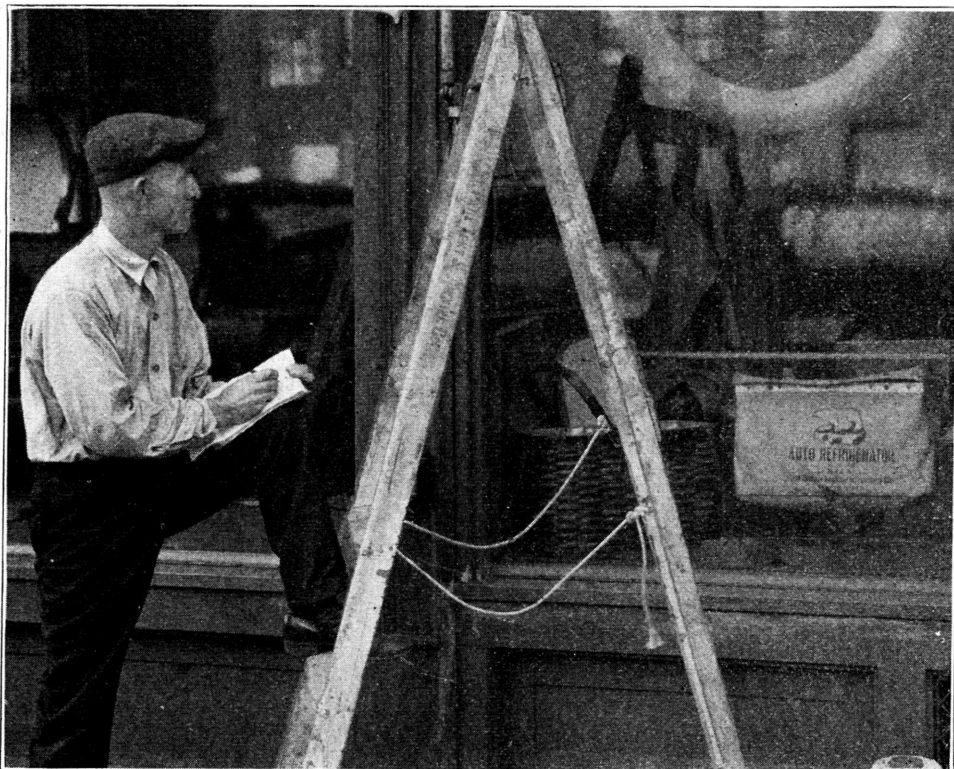


FOREMAN HANDING BLUE SHEETS TO ERECTION MAN

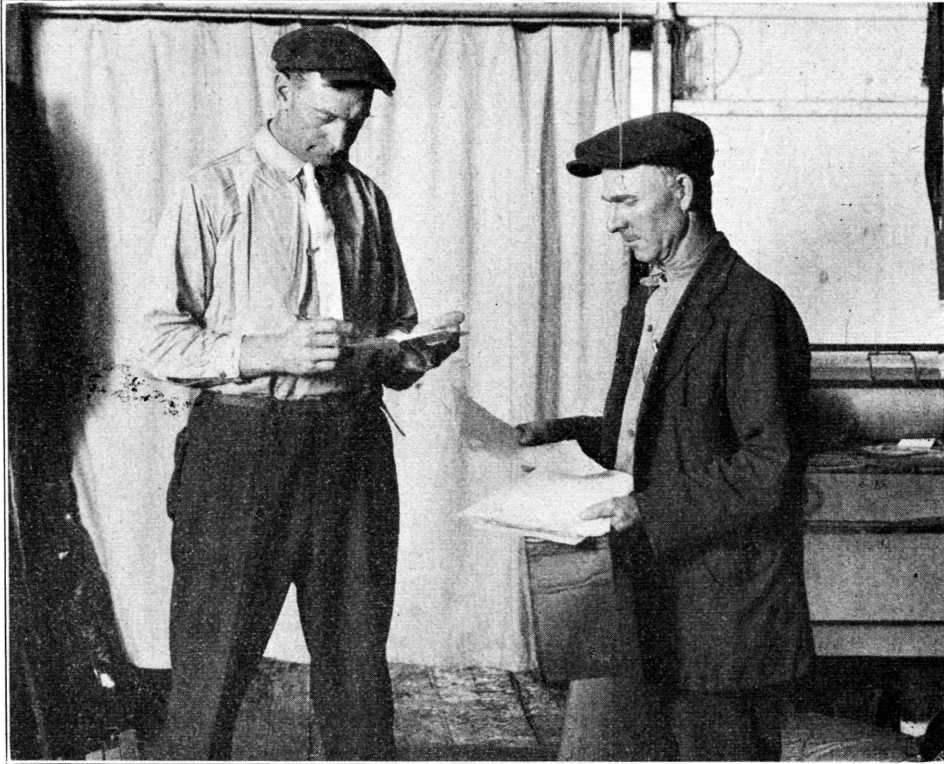
he put an eye or a nut end on, and he could write it down here, by putting in a figure wherever it was called for.

116. Now your frame is made, and the awning is ready to be erected. The foreman lines up his trucks in the morning. This awning with the frame is put on the truck. You take the blue sheet and

put it in a leather folder which the men carry and they take the blue sheet with them on the job. Now why is that? Because your erection men invariably add material. They put in rope—they put in pulleys, they put in screw-eyes, or something of that kind and they are instructed to record the material they use on the back of this sheet. Not only that,



ERECTION MAN ENTERS MATERIAL ON BLUE SHEET



FOREMAN CHECKS BLUE SHEET ON RETURN OF ERECTION MAN

the foreman in giving out the blue sheet, or if the foreman is the only erection man, he keeps his own record, will record just what jobs are on that truck. That is all there is to that, and then when the men come back they must give those blue sheets back to the foreman and the foreman checks them to make sure they didn't leave anything out.

Now you say, "Well, you must have ideal labor." No! No! Everyone has the same kind of labor that you have. There are all classes of labor, from Dagoes to any class you care to mention. You say, "Well, you'll never get your labor to do this." Why not? True, the first two weeks you may find them fudging on you. On a job a time ticket would come



COST GIRL POINTS OUT AN UNUSUAL LOSS TO EXECUTIVE



EXECUTIVE CHECKS FOREMAN AND MACHINE GIRL—TOO MUCH TIME

in with three hours on it marked against a little job, and a big job would come in marked only 30 minutes. What was the cause of it? Inaccuracy. They thought it was a joke. What did you do? Send the foreman on the truck with them for two days, and the foreman enforced it and said, "Here, you have got to do it this way, or you are not playing with us." Now incidentally, what is your capacity in the plant?

118. You are an executive, that is what you are being paid for. Ninety per cent of the men in the tent and awning business are not executives—they are laborers. They have come from the bench—have come from the salesmen's class, or have come from the sail-making class, or mechanic's class, these men—this is not derogatory, they are facts. These men have come up. They are not executives. They don't know how, as they say in the army, to pass the buck; how to stand in one place and order the job to be done all over and see that it is done, but it is wonderful to be an executive when you have a cost system where you can check.

119. You should have an order in your plant that any cost sheet that shows a loss shall be placed on your desk. A little 7x9 tarpaulin is made, and it shows a terrible loss. Look it over in a minute, as an executive, and you see three hours' time for single needle work. Right off the bat you know there is something wrong and if, as an executive, you were not well enough informed to know that you shouldn't be where you are. But you are experienced in this business, and you know that, and you

go to the time card and find that Susie had three hours' time charged against that job. You go up to the factory, get the forelady and say to her, "How come Susie took three hours to sew this tarpaulin?" She says, "Let's go see Susie." You go to see Susie. She said, "I was working on the tarpaulin and Grace told me to go over there and help Mrs. So and So pull that heavy cover through the double needle." "Well, why did you charge that time on this job?" "Well, I just figured I was only off a short time so I charged it all against this job." You say, "You took three hours. Look here, Susie, you know from the office we would think you were not an efficient girl because it took you three hours to sew a 7x9 tarpaulin and yet we find you are a good girl, but that you didn't charge your time correctly. Now you must be accurate or we may get a false impression and if we have a false impression you might be unjustifiably let out."

120. You will be surprised at the co-operation you get when they realize that their bosses are checking them, that they are learning how efficient they are, and they try to show on their time cards how efficient they are, what good work they are doing, so as to get an advance in pay, and, be assured, that is another executive job to pay his help in proportion to the returns he gets, and the cost system tells him the return he gets, and if he is any kind of an executive he will watch that, too.

121. Now your Blue Sheet. The awning goes out. It is put up by your help. The blue sheet comes back and is turned into the office. When the



BLUE SHEETS ARE TURNED IN TO COST GIRL

blue sheet comes to the office the job is out. Under no circumstances allow your blue sheet to be returned to your office until the job is finished. When you have the three sheets reunited, your cost is ready to be figured and in addition to that your awning is ready to be billed.

122. What did you do with the white sheet while the pink and blue sheets were traveling through the factory and the shop? You put the white sheet in an Order Pending file and filed it under the name of the party. Now about a week after the awning was started John Jones calls up and he says, "What is the matter with you, why don't you put up my awning?" Fig. 18.

123. You go to the Orders Pending file and look it up and you find that the pink and white are together and we know right off that the awning has finished the factory. You don't have to go up to the factory and cause them the trouble of looking up this John Jones order. You know they are through with it and you go right to the shop where it actually is and say, "Why hasn't this been put up?" Therefore your white sheet with this system forms a tracer. You know where your job is at every point.

124. Now all three sheets are reunited. The job is finished, and you begin to figure the cost. What do you do? Now turn your white sheet over and you will find a cost record on the back of it.

125. Now the cost clerk, we will say she is the girl in the office or else is the boy, or whatever you

have in your office, or yourself as an executive. Say you are the only person in the office—you are going to figure the cost of this awning. Now the one essential that your cost system demands, over and above the bookkeeping which you are probably having done is this: When you start to put your cost system in, go out and buy a little book with an index in it, and call it your cost book and every time you buy something, write the cost of that thing in the book under the proper classification laid down in your plant. If you will do that you will find lots of trouble overcome. You will buy a stool and somebody comes in and wants to buy one and you don't know what it costs you. You go to your little cost book and look up Stools and you find just what it cost you when it came into the plant.

126. Now for starting a cost system, here is what you have to do. Get your cost book, get your bill file out—go through your bills and record the cost of your goods in your little cost book. It will help you immensely in figuring costs. Every morning—and it takes about 30 minutes of a morning, ordinarily speaking—about 30 minutes to an hour—in the rush season, or make it at the most an hour and a half of your stenographer's or bookkeeper's time to record the cost work on to the cost record. It won't hurt them any. The time every day has been recorded under the classification.

127. For instance, the cutter's time, and her name was Grace, under the day, put Grace down there. Fig. 18. It took her 45 minutes to cut

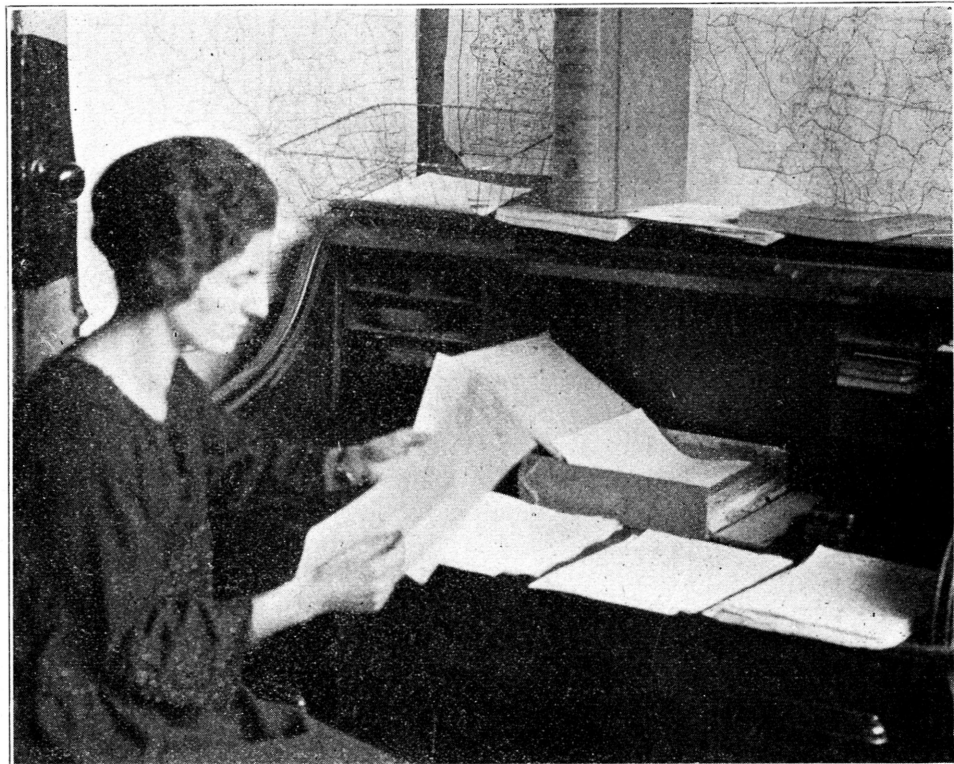


COST GIRL ENTERS TIME FROM TIME CARDS ONTO COST RECORD

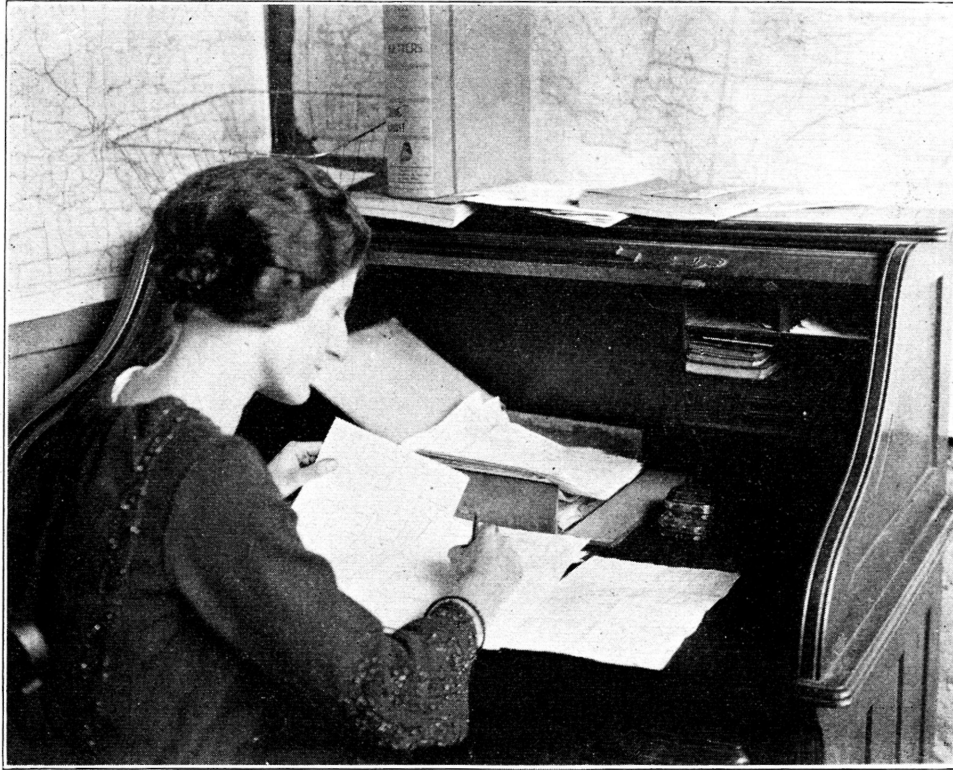
the awning. The double needle girls' name was Mary, and we find the date, Mary, and her time; and over here, the single needle girl, we find her time, and it took her 2 hours to single needle the awning. Girls' handwork, if there was any—men's handwork—we find grommet machine work. The men's handwork and girls' handwork generally occurs in

the finishing or packing department. Over here in the blacksmith department we found the time of making the frame; and in the erecting department we found the time of putting up this awning. The time is all there.

128. Now how about the material? We took the blue sheet and the pink sheet and we turned them



COST GIRL PUTS BLUE, PINK AND WHITE SHEETS TOGETHER



**COST GIRL TRANSPOSES MATERIAL FROM PINK AND BLUE SHEETS
TO COST RECORD**

over and we record from those sheets the material. The first item was 31 yards of 10-ounce single fill. We look in our cost book and find what it costs us per yard.

You know what grommets cost you per dozen—that is how you figure them out—so much per doz-

en. You know what eye ends cost you per dozen. Now you total up your total material items here and then you add 10% for wastage on material. That takes care of that little piece cut off the end of the bolt and shoved under the table. When you cut a painted stripe, that takes care of that wastage



COST GIRL RECORDING MATERIAL COST FROM COST BOOK

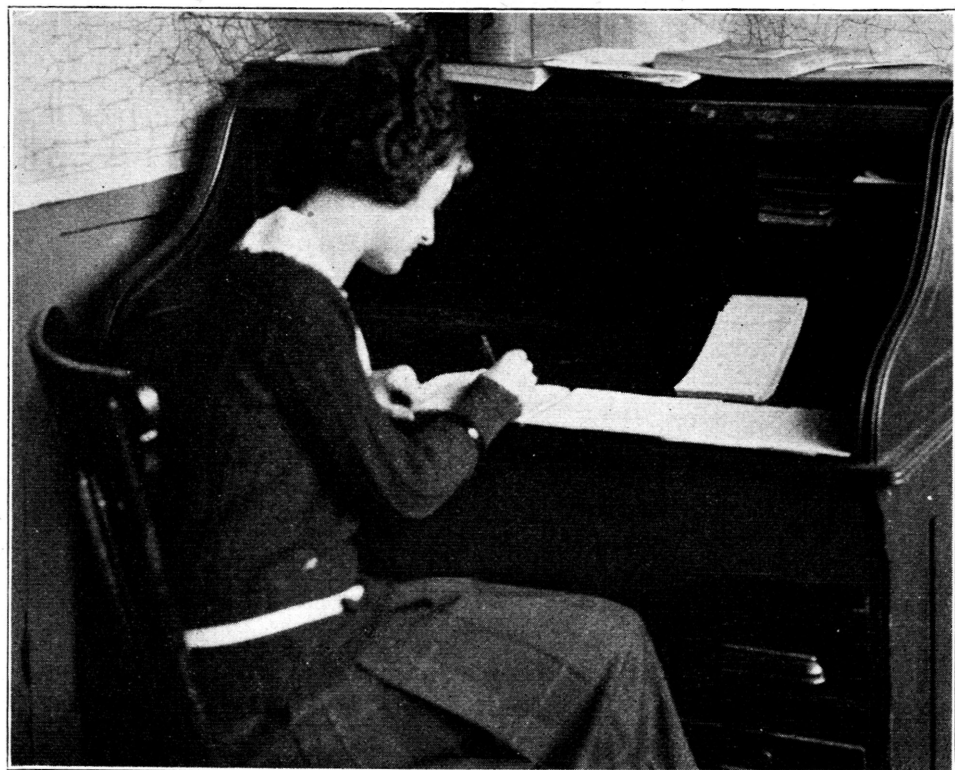


EMPLOYEES TURN IN TIME CARDS AT NIGHT

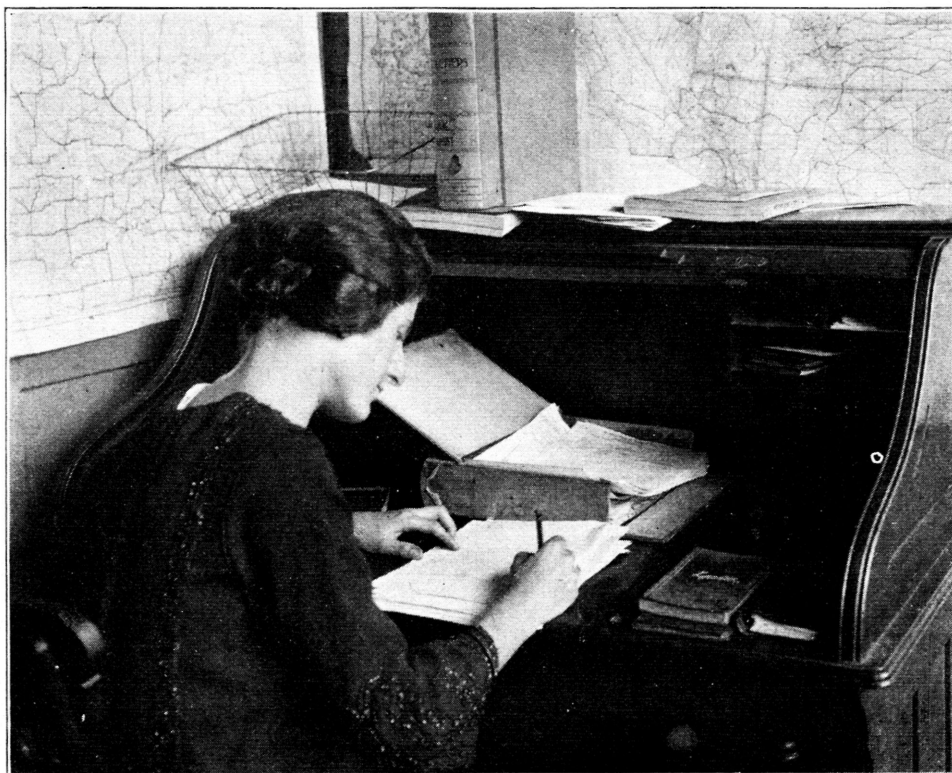
when you are cutting your bias. All that wastage, on material is taken care of by adding 10% to the actual material cost, which gives you a total material cost, and you have it here. Transfer it over to the right under "Total Merchandise Cost." Here it is marked down. Fig. 22.

129. Now your labor. What do you do about

that? You transpose the labor up here. You see here on your cost sheet, cutting 20 minutes. What did you pay Grace per hour? Why you paid her 60c an hour and 20 minutes is a third of an hour, so Grace got 20c. Double needle girl. What do you pay Mary? You pay her 35c an hour, and it took her 15 minutes—well, that is a quarter of that.



COST GIRL ENTERS TIME IN SALARY BOOK



COST GIRL TOTALLING COSTS ON EACH JOB

Single needle—whatever time is down there. You come to erecting, and find 2 hours' time by Martin. You pay him 75c an hour, so that is a dollar and a half; and you find 2 hours' time for Henry—he was the helper. You pay him 50c an hour, so that's a dollar. Total your labor cost and find here Total Labor Cost. You have the first two elements of cost—total merchandise cost and total labor cost. Fig. 22.

130. What is the third element—Overhead—the joker—the thing you have forgotten—the thing that one man asked if it was a new make of automobile. Never understood the word “overhead”—how do you figure it? The average overhead as found in the laboratory today is hitting around \$2.00 an hour. Use \$2.00. Right here add up the total hours on this job and you find that adding these minutes and these minutes and this hour, and so many minutes, and these two hours, and these two hours and so on, that you have spent say four hours on this job. Total actual productive hours spent on this job. Our overhead is \$2.00 an hour for 4 hours. That is \$8.00. So you have the three items of cost. Add them up—you have the total cost. If you know what you sold it at, you know whether to write down so much profit by subtracting the cost from the selling price, or if you sold it at less than the cost to us you will write it down in the lost column; but you know what you lost on every job and you know what you made on every job. You will be dumb-founded to learn what happens in your plant. Fig. 22.

131. One manufacturer says, “Up in our country we have snow. We make toboggan cushions. We were making them—hundreds of them—wonderful business we were having. Our cost system in January, 1921, showed us where we were selling a 6-foot toboggan cushion for 90c. It cost us \$2.80 to make it. I knew we had got to raise our price.” And then, “We won't get any business.” I thought, “We ought to be thankful for it—we don't want any business at this rate—what is the sense of being a charitable institution?” We are making about one-tenth as many toboggan cushions as we used to make, but we make something on what we make—and that is the whole thing. The cost system tells us.

It is great, you know. For the first year we had a lot of fun. I bet father and he bet me. Somebody would call up and want a price. At that time, of course, we did not have any cost facts. We were just beginning—and he would give a price and then I'd bet him we'd lose money on it. Then I would give a price, and he'd bet me—and then when the cost sheets came through we would sharpen our pencils, but you couldn't fool the cost sheet—you couldn't fool them. It would prove whether or not we made or lost, but as we watched them closely, we, as executives and estimators, the salesmen, also, began to learn how to estimate. We began to know just like that what it would cost us to make that article, just as we know now about what it would cost to repair a hole in a tarpaulin.” You will find out something about that when you get this cost system in.

CHAPTER 7

HOW DOES THE COST SYSTEM WORK IN WITH THE ACCOUNTING SYSTEM?

The Daily Time Card.

132. To accomplish this it is necessary to keep track of the time which has been spent on every job.

133. The National Time Card is arranged for every workman to have a separate card. If you as owner of your business are doing actual factory work on jobs with a job number, there should be a time card for yourself.

Every workman should have a number which is entered on the time card with his name and date of working day.

When a cost form comes into the factory and is handed over to the workman, he records on the time card the Job number, the kind of work he is about to perform, whether cutting, machine operation, handwork, etc. He then looks at the clock and enters into "start" column the time shown on the clock's dial and when he has finished this job he enters on the card the time as shown on the clock's dial. Fig. 20.

He does likewise with every job number. By no means should a workman do any work unless he has a cost form which tells him what to do. There must be a uniform system or no system will work.

134. If the workman does work for which he has no cost form such as cleaning up in the evening such time is also entered on the time card as "shop work" or non-productive time, because it is not on any specific job where the time will be charged to the customer later. Fig. 20.

Productive Hours.

135. Any time for which a cost form was made out and which shows on the time card the hours and minutes applied to that specific job, is called: Productive hours, because they produce an income, as the cash layout to the workman will again be collected from the customer. Fig. 20.

Non-Productive Hours.

136. Any time which was spent by some workman on some work for which no cost form was issued, such as cleaning up or the supervision by the foreman or forelady, such time is called "Non-productive" Hours. The time is producing nothing and cannot be charged direct to a customer. This time is therefore called Lost Time and must be charged to the other Overhead Expense accounts. Fig. 20.

Recording Productive Hours.

137. Every morning when the time cards come in from the previous day the time spent on Cost Forms is recorded on that specific Cost Form. If it



COST GIRL PUTS ORDERS SHOWING LOSSES ON EXECUTIVE'S DESK DAILY

Form No. 2

DAILY TIME CARD

Order From
National Laboratory on Cost Investigation
National Tent & Awning Manufacturers Ass'n
 CLAIRE I. WEIKERT, Chairman
 439-441 Endicott Bldg., St. Paul, Minn.

INVESTIGATION
 OF COSTS
 produces
 FACTS

Name Lucie Olson

No. 10 Date Jan 11, 1944

| Job No. | Kind of Work | T I M E | | | | Total |
|---------|--------------|---------|------|--------|------|-------|
| | | START | | FINISH | | |
| | | Hr. | Min. | Hr. | Min. | |
| 647 | Cutting | 8 | 0 | 8 | 45 | 75 |
| 424 | G.S.W. | 8 | 45 | 9 | 10 | 45 |
| 451 | Cutting | 9 | 10 | 9 | 55 | 45 |
| 647 | S.N. | 9 | 55 | 10 | 0 | 45 |
| 451 | S.N. | 10 | 0 | 10 | 15 | 15 |
| Shop | | 10 | 15 | 11 | 0 | 1.45 |
| 543 | G.S.W. | 1 | 0 | 3 | 50 | 4.50 |
| 527 | S.N. | 3 | 50 | 4 | 30 | 40 |
| Shop | | 4 | 30 | 5 | 0 | 30 |
| | | | | | | 8.00 |
| TOTAL | | | | | | |

Be Accurate—Every Minute Counts.

Productive Hours 5. 3/4
 Non-Productive Hours 4. 1/4

FIG. 20

is for cutting, give the date on the Cost Form, enter the workman's number in the blank space and the hours and minutes next to it and check off the recording of time on the time card. If it is for grommet machine work enter the date in that specific column, the workman's number and the hours and minutes. Check off the item on your time card. When all time has been recorded total up all productive time and the non-productive hours on the time card and enter them at the bottom of the card. See Fig. 22.

When All Time is Entered.

138. Whenever a pink or blue copy comes

to the bookkeeper or cost clerk fasten these copies to the white copy and when all three copies are pinned together it is a sign that the job has been delivered and that consequently all time has come through.

Summary of Labor Cost.

139. After all time has been recorded on the Cost form total up all departments (Fig. 22) and enter the total hours under the heading "Summary of Costs" into their different departments such as Cutting, Double Needle or Erecting.

Figuring Time Costs.

140. When all productive hours have been totaled and transferred to the summary sheet use the rate of what you pay your workmen on the hour basis and multiply this by the hours and minutes. Total the amount and enter the total where it reads "Total Labor Cost." Fig. 22.

Monthly Record of Productive and Non-Productive Hours.

141. After the time cards have been figured and the total hours and minutes for each job number have been entered in the "Total" column, it is necessary that the total of the productive hours of all workmen's cards is entered on the sheet of "Monthly Record of Productive Hours and Non-Productive Hours." Fig. 21.

142. In the first column enter the total of all hours that the men have worked, those are the hours which they are paid for.

In the second column enter the "Productive" hours of ALL workmen's cards.

In the third column enter the total of ALL workmen's cards as far as the Non-Productive hours are concerned.

Columns two and three must agree with column one.

Continue so every day and at the end of the month total up the sheet and you will get a grand total of all productive hours.

How to Arrive at a Cost Overhead Unit.

143. At the end of the month when all postings have been made, when the interest on the investment, on inventory, on cash capital, on open accounts, on bank balance, when the depreciation on equipment, on furniture and autos has been figured, enter from your ledger the balances in the balance columns of accounts No. 30-69, into the form called "Overhead Distribution." Enter all balances in the Total Column, disregard the Factory Overhead, Shop and Erecting and Administrative and Selling columns, and disregard the "Square feet occupied." Fig. 35.

After all accounts have been entered as they stand in your ledger, total up the column.

Monthly Record of Productive and Non-productive Hours

Month _____ 192_____

| MONTH | DEPT. | | | DEPT. | | | DEPT. | | | DEPT. | | | DEPT. | | |
|-------|----------|-----------|--------------|----------|-----------|--------------|----------|-----------|--------------|----------|-----------|--------------|----------|-----------|--------------|
| | Paid Hrs | Prod. Hrs | Non-pro. Hrs | Paid Hrs | Prod. Hrs | Non-pro. Hrs | Paid Hrs | Prod. Hrs | Non-pro. Hrs | Paid Hrs | Prod. Hrs | Non-pro. Hrs | Paid Hrs | Prod. Hrs | Non-pro. Hrs |
| 1924 | January | | | | | | | | | | | | | | |
| 1 | 74 | 54 | 40 | | | | | | | | | | | | |
| 2 | 79 | 60 | 47 | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | |
| 6 | | | | | | | | | | | | | | | |
| 7 | | | | | | | | | | | | | | | |
| 8 | | | | | | | | | | | | | | | |
| 9 | | | | | | | | | | | | | | | |
| 10 | | | | | | | | | | | | | | | |
| 11 | | | | | | | | | | | | | | | |
| 12 | | | | | | | | | | | | | | | |
| 13 | | | | | | | | | | | | | | | |
| 14 | | | | | | | | | | | | | | | |
| 15 | | | | | | | | | | | | | | | |
| 16 | | | | | | | | | | | | | | | |
| 17 | | | | | | | | | | | | | | | |
| 18 | | | | | | | | | | | | | | | |
| 19 | | | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | | | |
| 21 | | | | | | | | | | | | | | | |
| 22 | | | | | | | | | | | | | | | |
| 23 | | | | | | | | | | | | | | | |
| 24 | | | | | | | | | | | | | | | |
| 25 | | | | | | | | | | | | | | | |
| 26 | | | | | | | | | | | | | | | |
| 27 | | | | | | | | | | | | | | | |
| 28 | | | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | | | |
| 30 | | | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | | | |
| TOTAL | 344 | 181 | 563 | | | | | | | | | | | | |

FIG. 21

| MERCHANDISE COST | | AMOUNT |
|--------------------------------|----------------|------------------|
| 30 ² / ₃ | yds 8 of white | 7 51 |
| 11 | " Curtain | 2 31 |
| 35 | #7 Grammets | 17 |
| 20' | 1/2" Pipe | 1 40 |
| 44 | 3/8" Rope | 1 34 |
| 7 | 1/2" Alp. Leds | 17 |
| 7 | 3/8" Nut Ends | 10 |
| 4 | 1" Stud Hinges | 56 |
| 7 | 1/2" Eye Ends | 17 |
| 4 | 3/8" | 74 |
| 5 | Glass Rings | 45 |
| 1 | #3 Olets | 04 |
| 24 | #8 Screw Eyes | 06 |
| 110' | 1/4" Rope | 1 65 |
| | | 15 60 |
| | 10% wastage | 1 56 |
| TOTAL | | 17 16 |

| SUMMARY OF COSTS | | |
|------------------|-----------|--------|
| Kind of Work | No. Hours | Amount |
| Cutting | 75 | .15 |
| Double Needle | 15 | .09 |
| Single Needle | 70 | .41 |
| Grom Machine | 70 | .76 |
| Girls' Hand Work | | |
| Men's Hand Work | 5 | .04 |
| Erecting | 30 | .57 |
| Blacksmithing | 30 | .69 |
| | 7 | .76 |
| TOTAL LABOR COST | | 3.61 |
| Overhead | 7.70 | 70.70 |
| Total Mdse. Cost | | 17.16 |
| Total Cost | | 41.47 |
| Selling Price | | 48.90 |
| Profit | | 7.43 |
| Loss | | |

| Date | Cutting | Hours | Date | Double Needle | Hours | Date | Single Needle | Hours |
|------|---------|-------|------|---------------|-------|------|---------------|-----------------|
| 1/2 | Geo | 75 | 1/2 | Jimie | 15 | 1/2 | Elise | 1 40 |
| | | | | | | 1/2 | Gene | 7 |
| | | | | | | | | 3 40 |

| Date | Blacksmithing | Hours | Date | Erecting | Hours |
|------|---------------|-------|------|----------|--------------|
| 1/2 | Allen | 7 | 1/2 | Allen | 1 30 |
| | | | 1/3 | Eine | 1 30 |
| | | | | | 3 |

| Date | Girls' Hand Work | Hours | Date | Men's Hand Work | Hours | Date | Grom Machine | Hours |
|------|------------------|-------|------|-----------------|-------|------|--------------|-------|
| 1/2 | Gene | 5 | 1/2 | Gene | 70 | | | |

FIG. 22

144. Under that total enter the total of the productive hours from the record of productive hours.

145. Divide the total productive hours into the total of the expenses and the amount arrived at is the total cost per one hour of overhead.

146. Every Cost Form must take over so much overhead.

The total hours on the summary sheet of labor which was the total of all productive operations on that Cost Form is multiplied by the "Overhead" cost per hour and extended into the column where it reads "Overhead" below the Total Labor Cost.

Merchandise Cost.

147. From the blue and pink forms the material used for the completion of this Cost Form is entered on the white sheet. Fig. 22.

The quantity is now extended by the inventory or invoice cost of the merchandise and totaled. 10% is added for wastage, and spoilage on awnings and 3% on tents and covers, and the grand total is entered in the column called Total Merchandise Cost in the right hand corner of the white Cost Form.

Total Cost and Figuring the Profit on Cost Forms.

148. The total labor cost, the overhead and the merchandise cost have now been extended. These are the three components of Total Cost. Fig. 22.

149. Add these items now and enter the total in the "Total Cost" column. On the following line enter the Selling price from the front side of the job ticket. Now deduct the Total cost from the

Selling price and you will soon find out if you made a profit or a loss on this job.

Cost Distribution Records.

150. When all tickets of yesterday have been figured, the Material used has been entered in the Material column and has been figured, and extended into the Material column of the Summary, the labor has been figured, the overhead rate has been multiplied by the total hours on this job and the profit has been figured. Take all of the sheets thus figured and you are ready for your cost finding of the profits for the day.

Total LABOR COSTS ONLY of all tickets and enter the total on your Cash Journal card in column N under account 90.

Total all Overhead items of the tickets and enter the total on your cash journal card in column N under account 91.

Total all Material used or Merchandise Cost and enter in column N under account 92.

Total all profit items and deduct therefrom possible loss items and enter total under column 95 in column N.

The total of column N must agree with column D.

Enter the total amount in column N also under account No. 99.

REMEMBER: The total of the accounts 90 to 95 must always agree with the total of account No. 20, column D, and No. 99, column N. This concludes the figuring of Costs.

| Cost Distribution | | | | | |
|-------------------|-----|----|----|-----|----|
| | M | | | N | |
| 99 | 145 | 75 | 90 | 14 | 79 |
| | | | 91 | 76 | 77 |
| | | | 92 | 84 | 74 |
| | | | 95 | 70 | 45 |
| | 145 | 75 | | 145 | 75 |

| DATE Jan 7, 1944 | |
|--------------------------------------|-----------------------------|
| INVOICES SENT OUT | FROM NO. TO NO. |
| SALES | GOODS RETURNED BY CUSTOMERS |
| DR: ACC'TS REC 3 | DR: ACCT. NO. 26 |
| CR: ACCT. NO'S D | CR: ACCT'S REC. 3 E |
| 145 | 75 |
| DISC'TS TAKEN & RETURNS ON PURCHASES | |

FIG. 23

CHAPTER 8

The Daily Posting of the General Ledger.

The Cash Journal card has been completed.

151. Cash Received has been entered in column A, B and C. Sales in column D. Fig. 29.

152. If goods have been returned by customers, the total thereof is entered in column E. The amounts are credited in the Accounts Receivable or Customers' Ledger on the credit side and the proof is made in the same manner as described when Sales charges were discussed, that is, deduct the balances before any postings were made from the balances after the postings were made. The difference must agree with the total of column E. Fig. 29.

153. Discounts taken are entered on the Cash Journal card in column F. Fig. 29.

154. Goods returned by you are recorded in column G, they are deducted in the Purchase or Accounts Payable Ledger from the accounts and a proof is made as stated above. Fig. 29.

155. All invoices which have been received are entered in column H and J. Fig. 29.

156. All checks have been entered in column K and L. Fig. 30.

157. In case there are any Journal or Transfer entries, they are made and the account numbers are given for the account to which they are charged or credited. Fig. 30.

The entries have all been made, they were recorded on the Cash Journal card, which is the day book. All necessary writing has been eliminated. The details of Sales charges are on the Cost Forms. The details of the invoices received are on the invoices themselves and the details of the checks are on the check stubs.

You are now ready to apply all of this information to the General Ledger, which is the HEART OF YOUR BUSINESS.

Place your ledger at your left-hand side.

Find the first account to which entries or postings have to be made.

Posting the Bank Account.

158. There is a balance on this account of \$195.30. Your Cash Journal card reads: Enter total in General Ledger on Debit of Acct. No. 2. Fig. 24.

In the date column write "Jan. 2," in the Debit column enter the amount \$358.25. Check off the amount in front of \$358.25.

Are there any other columns affected which should be posted or entered on Card No. 2? Going over the Cash Journal card we find nothing in columns D, E, F, G, H and J.

However, checks were written against the Bank account and these checks should be taken off the Bank account.

Under the column of Checks issued it reads in column K: Debit Acct. No. 10 and Credit Acct. No. 2.

Therefore enter the date of the Cash Journal card in the date column and nothing in the Debit column, but in the Credit column write the amounts of checks issued first \$129.50 and \$162.50. Place a check after the amounts.

Since there is nothing else to be posted to the Bank account, add to the Debit Balance of \$195.30 the amount of the deposit which is also a Debit balance, \$195.30 plus \$358.25 equals \$553.55 and deduct from this amount the two amounts of checks written which are entered on the credit side, \$129.50 and \$162.50 equals \$292.00, deducted from \$553.55 leaves a balance of \$261.55. This amount you enter in the Balance column.

159. In every case check off the amounts entered in the ledger, so that they may not be entered twice. Debits in front, credits in back of the amounts.

160. Whenever you have completed an entry to any account and you are ready to place it back into the ledger; do not put it all the way back but place it one notch over to the right so that it becomes extended on the right side; this is called your "offset" in the ledger sheet.

161. Now take the next ledger sheet, which is No. 3 (Accounts Receivable). Fig. 24.

Look on the Cash Journal Card and see if any items are to be charged to this account.

In column D it reads that the Sales are to be charged to Acct. 3.

Write the date again and in the debit column write the amount \$145.25. In the Credit column write the amount from column E \$1.75 because the heading reads Cr. Accts. Recd. 3.

Going over the card carefully you will find that it reads in column C: Credit 86c. Now write on the ledger sheet today's date and in the credit column the amount 86c. Check off the amount.

From Column B enter total on Credit side of Acct. 3 \$358.25 and then turn to the reverse side of the Cash Journal card.

For Acct. 3 there is nothing in columns K, L, M, N, O and P.

In column Q there is a debit of \$1.45; enter this amount on the debit side of the Acct. 3. Check off amount.

No. 2
Bank Account.

| DATE 19 <u>21</u> | MEMO. | DEBITS \$ | ¢ | √ | CREDITS \$ | ¢ | √ | BALANCE \$ | ¢ |
|----------------------|-----------|--------------|----|---|---------------|----|---|---------------|----|
| Jan 1 | Inventory | | | | | | | 195 | 30 |
| ✓ | | 358 | 75 | | | | | | |
| ✓ | | | | | 179 | 50 | | | |
| ✓ | | | | | 167 | 50 | | 761 | 55 |

No. 3
Customer Accounts
(Accounts Receivable)

| DATE 19 <u>21</u> | MEMO. | DEBITS \$ | ¢ | √ | CREDITS \$ | ¢ | √ | BALANCE \$ | ¢ |
|----------------------|-----------|--------------|----|---|---------------|----|---|---------------|----|
| Jan 1 | Inventory | | | | | | | 1768 | 40 |
| ✓ | | 145 | 75 | | 358 | 75 | | | |
| ✓ | | 145 | | | 86 | | | | |
| ✓ | | | | | 175 | | | 1554 | 74 |

No. 11
Merchandise Stock
(Purchases)

| DATE 19 <u>21</u> | MEMO. | DEBITS \$ | ¢ | √ | CREDITS \$ | ¢ | √ | BALANCE \$ | ¢ |
|----------------------|-----------|--------------|----|---|---------------|---|---|---------------|----|
| Jan 1 | Inventory | | | | | | | 3938 | 74 |
| ✓ | | 457 | 45 | | 700 | | | 4087 | 69 |

No. 10
Purchase Accounts
(Accounts Payable)

| DATE 19 <u>21</u> | MEMO. | DEBITS \$ | ¢ | √ | CREDITS \$ | ¢ | √ | BALANCE \$ | ¢ |
|----------------------|-----------|--------------|----|---|---------------|----|---|---------------|-----|
| Jan 1 | Inventory | | | | | | | 745 | 00c |
| ✓ | | 703 | | | 151 | 45 | | | |
| ✓ | | 700 | | | 13 | 60 | | | |
| ✓ | | 179 | 50 | | | | | 771 | 57c |

FIG. 24

FORM 531 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|-------|-------|--------|---------|---------|
| | | \$ | \$ | \$ |
| Jan 7 | | 10.40 | | 10.40 |

Summary Table:

| | |
|--------------|---------------|
| BALANCE | 145.75 |
| CE | 1.75 |
| TOTAL | 147.50 |

FIG. 25

FORM 531 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|-------|-------|--------|---------|---------|
| | | \$ | \$ | \$ |
| Jan 7 | | 7.50 | | 167.50 |

Summary Table:

| | |
|--------------|---------------|
| BALANCE | 145.00 |
| CE | 2.40 |
| TOTAL | 147.40 |

FIG. 26

When all of these amounts are entered on the ledger card No. 3, add the debit items to the balance \$1,768.40.

| | |
|-----------|------------|
| | \$1,768.40 |
| Add Debit | 145.25 |
| Add Debit | 1.45 |
| | <hr/> |
| | \$1,915.10 |

and from this amount deduct the

| | |
|---------|------------|
| Credits | \$358.25 |
| | .86 |
| | 1.75 |
| | <hr/> |
| | 360.86 |
| | <hr/> |
| | \$1,554.24 |

Enter this amount in the Balance column and offset account.

No. 90

No. 91

No. 92

No. 95

Profit on Sales

| DEBITS | CREDITS | BALANCE |
|--------|---------|---------|
| \$ | \$ | \$ |
| | | 70 45c |

BALANCE \$ 76 74c

BALANCE \$ 84 74c

BALANCE \$ 14 79c

No. 99

Cost Distribution

FORM 891 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO | DEBITS | CREDITS | BALANCE |
|-------|------|--------|---------|---------|
| | | \$ | \$ | \$ |
| 1921 | | | | |
| Jan 7 | | 145 75 | | 145 75 |

FIG. 27

162. Take out Acct. No. 10. (Accounts Payable.) Fig. 24.

Write date in Date column, from column F the amount of \$2.03 in Debit column, column G \$7.00 in Debit column. Amount from column H \$151.45 and from column J \$13.60 in Credit column, and amount from column K \$129.50 on Debit side, because it reads above Dr. No. 10.

Total card and add credits to the Credit balance and deduct therefrom the debits in the Debit column of the ledger sheet.

| | | | |
|---------|--------|--------------|--|
| | | \$745.00 CR. | |
| Credits | | 151.45 | |
| Credits | | 13.60 | |
| | | \$910.05 | |
| Debits | \$2.03 | | |
| Debits | 7.00 | | |
| Debits | 129.50 | 138.53 | |
| | | \$771.52 CR | |

Offset the card.

163. Do likewise with all other cards. Discounts allowed enter on Debit side of card No. 51. Goods returned enter on Debit side of card No. 26. Discounts taken enter on Credit side of card No. 28. Goods Returned enter on Debit side of card No. 4. Mdse. Purchased enter on Debit side of card No. 4. From column J the amount \$3.40 to No. 52. The amount of \$10.20 on Debit side of No. 41. From column L the amount of \$162.50 to No. 70. From column M on Debit side of No. 99 \$145.25. All amounts in column N to Accts. 90, 91, 92 and 95 on Credit side. From column R \$1.45 to Credit side of Acct. 60.

164. When all accounts have been posted and all accounts have been offset, it is advisable that you know and are sure that all postings have been made correctly. In other words, it is necessary that the work is proven back. Fig. 28.

To do so take a ledger card, enter in the Debit column on the first line:

Old Debit Bal.
New Credit Bal.

No. _____

Cross: General Ledger
Jan. 7. 1924.

FORM 591 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS \$ | ✓ | CREDITS \$ | ✓ | BALANCE \$ |
|------|-------|--------------|---|---------------|---|---------------|
| | | OLD DEBIT | | NEW DEBIT | | |
| | | NEW CREDIT | | OLD CREDIT | | |
| | | 195 30 | | 761 55 | | |
| | | 1768 40 | | 1554 74 | | |
| | | 2938 74 | | 4087 69 | | |
| | | 771 57 | | 745 00 | | |
| | | 145 75 | | | | |
| | | | | 175 | | |
| | | 7 03 | | | | |
| | | | | 10 70 | | |
| | | | | 86 | | |
| | | | | 340 | | |
| | | 145 | | | | |
| | | | | 167 50 | | |
| | | 14 79 | | | | |
| | | 76 77 | | | | |
| | | 84 74 | | | | |
| | | 70 45 | | | | |
| | | | | 145 75 | | |
| | | 6967 44 | | 6967 44 | | |

FIG. 28

and on the first line in the Credit Column:

- New Debit Bal.
- Old Credit Bal.

Write into the Debit column all balances of the offset accounts which either show a Debit balance before any entries were made or all balances that show a Credit balance after the entries were made.

Write into the Credit column all balances which show a credit before any entries were made or balances which show a Debit balance after the posting was made.

Total up the Debit and Credit columns and if the work was done correctly both columns must agree.

165. If they are not in balance, you must check back your entries. Did you mark every Credit balance CR.?

Did you put the amounts in the right columns?

Did you make the correct additions and subtractions on the ledger cards?

166. The system of course requires that you do this every time you enter something to the General Ledger accounts. The Association wants to eliminate the work at the end of the month, when there is a certain amount of rush coming about, the principle is "DO IT NOW" and never put off until tomorrow if it can be done today. If this method is used you will have your books in balance at all times and there will be no hunting for mistakes at the end of the month.

If Debits and Credits balance place offset sheet back into place.

| DAILY CASH JOURNAL | | | | DATE <u>Jan. 7, 1924</u> | | | |
|--|--|----------------------|--------------------------------------|--|---------|---|--|
| CASH RECEIVED | | | | INVOICES FROM NO. 1-7 SENT OUT TO NO. | | | |
| FROM CUSTOMERS | | 2% DISC. ALLOWED | | SALES | | GOODS RETURNED BY CUSTOMERS | |
| NAME | ENTER ON RIGHT HAND SIDE OF ACCT'S REC. LEDGER B | DR: 51 CR: 3 C | DR: ACC'TS REC 3 CR: ACCT. NO'S D | | | DR: ACCT. NO. 26 CR: ACCT'S REC. 3 E | |
| <i>Wm J. Abbey</i> | 14 75 | | ✓ 145 75 ✓ | | | ✓ 1 75 ✓ | |
| <i>L. M. Bauer</i> | 784 40 | | | | | | |
| <i>Ed. Orndorff</i> | 74 50 | 50 | | | | | |
| <i>Geo. Straub (C.O.D.)</i> | 7 50 | | | | | | |
| <i>Wh. Sale # 443</i> | 10 50 | | | | | | |
| " # 450 | 50 | | | | | | |
| " # 448 | 7 00 | | | | | | |
| <i>Wm. Keller</i> | 17 64 | 36 | | | | | |
| <i>Wh. Sale # 457</i> | 1 96 | | | | | | |
| | | | | DISC'TS TAKEN & RETURNS ON PURCHASES | | | |
| | | | | DISCOUNTS TAKEN ON INVOICES PAID | | GOODS RETURNED TO WHOLESALE HOUSE | |
| | | | | DR: ACCT. 10 CR: ACCT. 28 F | | DR: ACCT. 10 CR: ACCT. 4 G | |
| | | | | 1 703 ✓ | | 1 7 00 ✓ | |
| | | | | | | | |
| | | | | INVOICES FROM NO. RECEIVED TO NO. 1-6 | | | |
| | | | | MDSE. PURCHASES GOODS FOR SALE ONLY | | OTHER INVOICES ALL EXCEPT MDSE. | |
| | | | | DR: NO. 4 CR: NO. 10 H | | DR: ACCT. NO'S. CR: NO. 10 J | |
| | | | | 147 45 | 57 ✓ | 3 40 | |
| | | | | 10 50 | 41 ✓ | 10 70 | |
| | | | | 13 50 | | | |
| ENTER TOTAL ON CREDIT SIDE OF ACCT. 3 | | 358 75 ✓ | 86 ✓ | | | | |
| OTHER CASH RECEIVED: | | | | 1151 45 ✓ | 13 60 ✓ | | |
| TOTAL CASH RECEIVED: | | 358 75 | | | | | |
| TAKE ALL MONEY RECEIVED TO BANK. | | | | | | | |
| TOTAL MUST AGREE WITH DEPOSIT SLIP. | | | | | | | |
| ENTER TOTAL IN GEN. LEDGER ON DEBIT OF ACCT. NO. 2 | | | | | | | |
| FORM 695 H C. MILLER CO., MFG. STATIONERS, MILWAUKEE | | | | | | | |

FIG. 29

CHAPTER 9

General Review.

You have learned how to transact such work in your business as it comes about every day. Now make a general review.

167. Your bookkeeper should get into this daily routine:

Time Cards.

First thing in the morning figure the time cards. Enter the time in the total column. Add up card and get the amount of total hours which the workman is going to be paid for. Separate Productive hours from Non-Productive hours and enter them at the bottom of the time card Form No. 2. Fig. 20.

Record of Productive Hours.

168. From the time card Form No. 2 enter the total of ALL productive hours from ALL time cards on Form 811A. The Total Hours in first column "Paid Hours," the Productive Hours in Col. 2, the Non-Productive Hours in Col. 3. Keep on doing so every day and at the end of the month total all three columns. This record will be used later in your cost figures. Fig. 21.

| SUMMARY OF COSTS | | | |
|-------------------------|-----------|-------------|--------------|
| Kind of Work | No. Hours | | Amount |
| Cutting | | 45 | .15 |
| Double Needle | | 15 | .09 |
| Single Needle | 1 | 40 | .41 |
| | 7 | | .76 |
| Grom Machine | | 40 | .14 |
| Girls' Hand Work | | | |
| Men's Hand Work | | 5 | .04 |
| | 1 | 30 | .57 |
| Erecting | 1 | 30 | .69 |
| Blacksmithing | 7 | | .76 |
| TOTAL LABOR COST | | 9.45 | 3.61 |
| Overhead | | 4.20 | 20.70 |
| Total Mdse. Cost | | | 17.16 |
| Total Cost | | | 41.47 |
| Selling Price | | | 48.90 |
| Profit | | | 7.43 |
| Loss | | | |

FIG. 31

Form No. 2

DAILY TIME CARD

Order From
National Laboratory on Cost Investigation
National Tent & Awning Manufacturers Ass'n
CLAIRE I. WEIKERT, Chairman
439-441 Erbe Scott Bldg., St. Paul, Minn.

INVESTIGATION
OF COSTS
produces
FACTS

Name Susie Olson

No. 10 Date Jan 7. 1924

| Job No. | Kind of Work | T I M E | | | | Total |
|---------|--------------|---------|------|--------|------|-------|
| | | START | | FINISH | | |
| | | Hr. | Min. | Hr. | Min. | |
| 451 | Cutting | 8 | 0 | 8 | 40 | |
| | | | | | | |
| | | | | | | |
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| | | | | | | |
| TOTAL | | | | | | |

Be Accurate—Every Minute Counts.

Productive Hours _____
Non-Productive Hours _____

FIG. 32

Cost Record of Cost Forms.

169. When the pink and the blue sheets have come back from the shop and the factory is certain that all labor applied has come through from the time cards and the material used on the two tickets from the factory and shop, attach these two copies to the white copy held in your open files. Fig. 22.

170. From the pink and blue tickets enter the material on the white copy and make your extensions. Add to the amount 10% for waste on Awnings and 3% on Tents and Covers. Fig. 22.

171. From the Time Cards enter every day as they are coming through, the labor applied in the distribution columns of cutting, erecting, etc., in hours and minutes. When completed enter the total of each column in the summary column. Fig. 22.

172. Total up the hours and multiply this total by the rates that you pay your workmen. Fig. 22.

173. Multiply the total hours by the average Overhead rate. Enter this amount under "Overhead."

174. Enter the Merchandise Cost on the next line and total up the Labor, Overhead and Mdse. Costs. This will give you the Total Cost of this Job number. Fig. 22.

175. From the reverse side enter the selling price in the next column and deduct the cost from the selling price, which will give either the profit or the loss on this particular job.

Do so with all white Cost Forms for the day.

Total up all white Cost Forms from the front side and enter total in column D of the Cash Journal card. Fig. 29.

176. Add up all Labor Costs, all Overhead, all Mdse. Costs, all Profits separately and deduct possible losses from the profits. Enter them under their specific acct. numbers on the Cash Journal card in Col. N and the total of all of these enter in column M under No. 99. Fig. 23.

177. After mail is opened enter the remittances or cash received in columns A, B, and C of the Cash Journal card. Check the remittances against the ledger accounts of the Customers' ledger. Fig. 29.

178. On invoices received, give the next consecutive filing number and sort invoices into Mdse. Purchased or other expense accounts. Give the number of these account numbers on the invoices. List invoices for purchases in column H and all other in column J and write the account number in this column in front of the amount. Fig. 29.

179. From the check book get the next check number to be entered and give the first and last number. Fig. 30.

180. If invoices have been paid for the Purchase or Accounts Payable ledger, list these in column K, all others enter in column L and give the account number in front of the amount. Fig. 30.

181. If any discount has been deducted, enter this discount on the check stubs when the check is made out and enter such discount deducted in column F. Fig. 29.

182. If any goods have been returned to a vendor from whom you received the goods you must make a bill against him and charge it to him in column G. Fig. 29.

183. If any goods are returned by any of your customers you will have to make a Credit entry in

form of a bill and mark it "Credit." This credit is handled through column E. Fig. 29.

184. **IMPORTANT, REMEMBER:** All items in columns B, C, D, E, must be posted to the Customers' ledger from the cash received card or sales charges, (White copy of Cost Forms or Credit Memorandum). Journal entries if marked Acct. No. 3 must be posted from the Journal card to the Customers' ledger.

185. All items from columns F, G, H, J, K and Journal entries must also be entered in the Accounts Payable ledger on the individual accounts, Discount taken from the check stubs, Goods returned from Debit Memoranda, Invoices received from the invoices direct, Checks issued from the check stubs and Journal Entries from the Journal card.

186. **IMPORTANT:** The Accounts Receivable or Customers' Ledger and the Accounts Payable or Purchase Ledger are posted **ONLY** from invoices, checks and remittances, **BUT** the General Ledger is posted **ONLY** from the Cash Journal card, from Figs. 29 and 30.

The Daily Report.

187. In many cases the proprietor is out all day and does not get back until closing hour. In that case he does not always know what is going on in his office and factory until he returns. It is advisable that he should be informed by some daily information that will keep him in close touch with all business transactions. He should know how much money has been received, what checks have been written, what the shipments were for the day and possibly what profit was made on the sales. The bookkeeper is therefore requested to make the following report immediately after the day's work is completed. Fig. 33.

The proprietor should study this report that he be acquainted with the conditions in his office and can study out needs for his business. The comparisons with last month and last year are of innumerable value if followed up properly. In the same manner he should study those sales that are showing a loss so that the selling price or the cutting of his expenses may be rectified. The more information you can get about your business the better for the success. Not being able to get any information, and running along during the busy season, thinking that you may have had a favorable business success, and then being awakened at the end of the season or year to the contrary, has sent many a good merchant into sad disappointment, and final despair.

188. Check over the opposite form of a daily report carefully. Give the date of your Cash Journal card.

Daily Report Jan 7. 1924.

| | | | |
|----|---------------------------------|----------------|--------------------|
| 1 | Cash on hand | | <u>47.29</u> |
| 2 | Bank Balance | <u>195.30</u> | |
| | Deposits today | <u>358.75</u> | |
| | Checks today | <u>497.00</u> | |
| | Cash in Bank today | | <u>761.55</u> |
| 3 | Outstdg Accounts | <u>1768.40</u> | |
| | Charges today | <u>145.75</u> | |
| | Debits " | <u>1.45</u> | |
| | Payments on acct | <u>358.75</u> | |
| | Credits today | <u>7.61</u> | |
| | Accounts Receivable | | <u>1554.74</u> |
| 4 | Merchandise Stock | <u>4087.69</u> | |
| 92 | Deduct Material used | <u>84.74</u> | |
| | Inventory on hand | | <u>3998.45</u> |
| 5 | Notes Receivable | | <u>-</u> |
| 6M | Machinery & Tools | <u>1547.90</u> | |
| 6F | Furniture & Fixt. | <u>350.00</u> | |
| 6A | Autos & Trucks | <u>1750.00</u> | |
| | Total Equipment | | <u>3647.90</u> |
| 8 | Personal Accts | | <u>-</u> |
| | Total Assets | | <u>\$ 9,504.43</u> |
| 10 | Accounts Payable | <u>745.00</u> | |
| | Invoices today | <u>165.05</u> | |
| | Credits | <u>-</u> | |
| | Checks issued | <u>179.50</u> | |
| | Debits | <u>9.03</u> | |
| | Accts Payable today | <u>771.57</u> | |
| 11 | Notes Payable | <u>500.00</u> | |
| | Total Liabilities: | | <u>\$ 1,271.57</u> |
| | (Deduct Liab. from Assets:) | | |
| | Net Worth: | | <u>\$ 8,232.91</u> |
| 17 | Capital: | | <u>\$ 8,347.13</u> |
| | (Deduct Capital from Net Worth) | | |
| | This years Profit: | | <u>\$ -</u> |
| | Loss: | | <u>\$ 114.22</u> |
| 96 | Profit from Sales | <u>70.45</u> | |
| 27 | Miscel Income | <u>-</u> | |
| 28 | Discounts Earned | <u>703</u> | |
| | Total Income | | <u>\$ 774.48</u> |
| | Overhead over charged | | <u>\$ -</u> |
| | " short " | | <u>\$ 136.70</u> |

From Cash account enter the amount. There has been no change since opening of the books, so enter here \$47.29 from Fig. 1.

From Bank account enter yesterday's balance before any posting was made.

To it add the deposit for the day and deduct checks issued.

In the next column enter the balance in bank as it appears on the ledger.

Accounts Receivable or Customers' Accounts: Take yesterday's balance, to it add the charges and deduct from the amounts paid on account, under credits enter the discount; in the next column enter the balance as it appears on the ledger today.

Inventory: Enter here amount as it appears on Account 4. From it deduct the material, No. 92, which has been used as recorded on the white Cost Forms. The difference will give the inventory on hand this day.

Equipment: The different items combine together and insert the total amount.

Personal Accounts: Add these together and enter in column 8.

Add up the total Assets (what you own).

Accounts Payable: Take yesterday's balance or the balance before any postings or entries were made. Add today's invoices and credits from Journal entries, if there were any; deduct the checks issued and the discount taken and enter the amount of the accounts payable as they now appear.

Enter Notes Payable from Acct. No. 11.

Total up all Liabilities (what you owe).

Deduct the amount of Liabilities from the amount of Assets.

This will give you the Net worth of your business again.

Deduct from this the amount of your Capital, Account No. 17, as it was at the first of the year, because this amount does not change until the last of this year.

189. The difference will give you the profit or the loss for this year.

190. Every time there is a loss put the amount in a circle, put a ring around it, that means in the accounting language that it is a loss.

191. A Sales Report may be made out. In No. 20 enter the sales from column D or the ledger account in the general ledger: for today, for this month so far and for the total year as it reads in the balance column of Acct. No. 20. Fig. 34.

From the total sales deduct the goods returned, Acct. No. 26.

This gives you the Net Sales.

From the Net Sales deduct balance column of Material, Acct. No. 92.

This gives the Gross Profit.

Deduct Overhead used, Acct. No. 91, from the Gross Profit, and you will have the profit you have made on your sales.

To this add the Miscel, Income, No. 27, and the discount you deducted in payment of invoices, No. 28.

This will give you the total profit on your business operations. Fig. 33.

Overhead Used Too Little or Too Much.

192. You are charging into your costs as discussed in the overhead paragraph, a rate per productive hour based on the total expense you had for the month divided by the productive hours, hours which helped to produce something on part of the laborers in the factory and the shop. This labor of productive hours was charged to the article you manufactured together with the material. You were further instructed to take the number of hours and multiply them by the rate of the Overhead. This rate was arrived at by taking the total of all expense accounts from Nos. 30 to 69 and dividing them by the total number of productive hours your plant had worked for that month or better by the average of all months. You were told that in this manner you would receive at the end of a period of 12 months a twelve months average rate.

193. You will readily understand that if you work in January 700 productive hours, in February 800, in March 900, in April 700, in May 1,000, in June 2,000, and in July 1,500, and your expenses for an example had been alike every month, let us say \$2,000.00, your rate would have been as follows:

| | | | | |
|-------|--------------------------|--------------|--------|--------------------|
| Jan. | 700 hours divided into | \$2,000.00 | equals | \$2.82 rate |
| Feb. | 800 hours divided into | 2,000.00 | equals | 2.50 rate |
| Mar. | 900 hours divided into | 2,000.00 | equals | 2.22 rate |
| April | 700 hours divided into | 2,000.00 | equals | 2.82 rate |
| May | 1,000 hours divided into | 2,000.00 | equals | 2.00 rate |
| June | 2,000 hours divided into | 2,000.00 | equals | 1.00 rate |
| July | 1,500 hours divided into | 2,000.00 | equals | 1.33 rate |
| | | <u>7,600</u> | | <u>\$14,000.00</u> |
| | | | | \$1.84 aver. |

Your rate in January would have been \$2.82 per productive hour and your rate in June would have been \$1.00 per productive hour. If you apply these variations in rates every month you would have no comparison in costs and you would not find out where your loss on awnings is if you apply \$2.82 in January and \$1.00 in June. You use, therefore, the average rate and base it on your last year's business and the average rate in this case based on the seven months would be \$1.84.

194. In order to be sure and strike a conservative rate in the beginning, the Cost Laboratory suggests the rate to be \$2.00. This is the average rate from experience or reports that have been received at the National headquarters.

195. How does this average rate affect the accounting system? No doubt you can readily see

| | | |
|----|---------------------|--------------------|
| | Daily Sales Report | <u>Jan 4, 1924</u> |
| 20 | Sales | <u>145.75</u> |
| 26 | Deduct Returns | <u>1.75</u> |
| | Net Sales | <u>143.50</u> |
| 92 | Material Used | <u>84.74</u> |
| | Gross Profit | <u>59.76</u> |
| 90 | Deduct Payroll | <u>14.79</u> |
| 91 | " Overhead | <u>26.77</u> |
| | Profit | <u>18.70</u> |
| | Loss | <u> </u> |
| 27 | Add Misc Income | <u> </u> |
| 28 | Add Discounts | <u>4.03</u> |
| | Actual Profit | <u>40.73</u> |
| | Actual Loss | <u> </u> |
| | | |
| | Sales today | <u>145.75</u> |
| | Sales for the month | <u>145.75</u> |
| | Sales for the year | <u>145.75</u> |
| | Last year | <u>70.70</u> |
| | Increase this year | <u>75.05</u> |
| | Decrease this year | <u> </u> |

FIG. 34

that if you use the average rate not all expenses will be charged into the costs in January and too much expense will be charged to costs in June. Therefore to make our cost accounting system balance you MUST WATCH closely the overhead not charged to the costs.

196. This is done two ways: (1) Add up all expenses from Nos. 30 to 69 and from this total deduct Account No. 91. If No. 91 is smaller the costs are not charged enough, if the No. 91 is larger, the costs have been overcharged. (See monthly report.) Fig. 38.

197. During the months that you are busy you must have enough productive hours to reduce the overhead not charged and you must have so much overhead reserve that you can go through the fall season and to the first of the year. All overhead charged during the year should agree with the total of all accounts from Nos. 30 to 69. If it does you know that your cost system works out right. If it does not, your overhead rate was incorrect. Remember: It has taken all awning and tent manufacturers 13 months to find the correct average overhead cost rate.

CHAPTER 10

MONTHLY JOURNAL ENTRY

Interest on Investment.

198. It was said in this manual that it was necessary to include some Journal entries in the monthly closing about Interest due you in behalf of your money invested in the business. You are entitled to 6% on these investments which means $\frac{1}{2}$ of 1% of the amount. In other words: If you have a bank balance of \$1,000.00, the amount that is to be charged to Interest on Bank Balance is \$5.00 because 1% of \$1,000.00 is \$10.00 and $\frac{1}{2}$ thereof is \$5.00. And so on with other accounts, $\frac{1}{2}$ of 1% on all of them. Fig. 36.

Depreciation.

199. It was also said that 10% should be charged for the year against Depreciation, because at the end of the year your sewing machines, fixtures, autos, etc., have not the same value as in the beginning.

On Furniture and Fixtures the depreciative rate is 10% while on your Autos it should be $33\frac{1}{3}\%$.

To make it a monthly rate, however, to get your costs right it is necessary to charge $\frac{1}{12}$ of 10% for the year, or in other words:

Your Furniture and Fixtures may be worth at the beginning of the year \$350.00. 10% thereof for the year is \$35.00. $\frac{1}{12}$ for the month of January is \$35.00 divided by 12 or \$2.91.

Again your trucks may be worth now \$1,750.00; $33\frac{1}{3}\%$ for the year is \$583.33, or $\frac{1}{12}$ for the month of January is \$48.61.

These entries are made in the Journal entry column, the Furniture and Fixture Account is credited and the Depreciation Account is charged.

Manager's Salary.

200. The proprietor of the business very often does not draw his salary weekly, but has incoming bills charged to his account and occasionally draws some cash. In that case do not charge his drawings to Manager's Salary account but charge all checks or cash to his personal account, No. 8. At the end of the month credit his salary in full to his personal account and charge it to Manager's Salary, No. 45. Fig. 36.

After these entries have been made and they are entered on the accounts you are able to proceed with your cost work and close the books for the month.

Overhead Distribution for the Month.

201. Take the expense accounts as they stand in the ledger from Nos. 30 to 69 and list the balances as you find them in their respective accounts on the special sheet "Overhead Distribution Sheet for

Overhead Distribution for Month *January 1924*

| | TOTAL | Factory Overhead |
|--|----------------|------------------|
| Square Feet Occupied | | |
| Area Units | | |
| Expense Accounts Distribution: | | |
| Rent | 100 00 | |
| Int. on Investment <i>1/2 of 1%</i> 3678.10 | 18 14 | |
| Int. on Inventory <i>1/2 of 1%</i> 3480.63 | 17 40 | |
| Int. on Cash Capital | + | |
| Int. on Open Accounts <i>1/2 of 1%</i> 4315.40 | 11 58 | |
| Int. on Bank Balances <i>1/2 of 1%</i> 445.80 | 4 43 | |
| Depreciation on Equip. <i>1/12 of 10%</i> 1544.90 | 14 86 | |
| Depreciation on Furn. <i>1/12 of 10%</i> 400.00 | 3 33 | |
| Depreciation on Autos <i>1/12 of 33 1/3%</i> 1750.00 | 48 61 | |
| Liability Insurance | 17 00 | |
| Fire Insurance | 7 50 | |
| Automobile Insurance | + | |
| Federal Taxes | + | |
| State Taxes | 38 79 | |
| Advertising | 175 00 | |
| Office Expense | 19 40 | |
| Carfare | + | |
| Telephone | 11 43 | |
| Telegraph | + | |
| Legal & Collection Exp. | 5 00 | |
| Heat, Light & Power | 13 75 | |
| Postage | 10 00 | |
| Repairs | + | |
| Water | + | |
| Managers' Salaries | 400 00 | |
| Salesmen's Salaries | 50 00 | |
| Bookkeepers' & Stenographers' Salaries | 100 00 | |
| Bad Debts | 7 65 | |
| Lost Time <i>630 p. hr</i> | 254 69 | |
| Interest on Borrowed Money | + | |
| 2% Disc. in 10 days losses | 63 78 | |
| Stationery & Printing | 7 00 | |
| Subscriptions | + | |
| Donations, Dues | 45 00 | |
| Factory Expense | 17 95 | |
| Lost & Damaged Goods | + | |
| Auto Repairs | 43 85 | |
| Experiments | + | |
| Defective Work | 7 85 | |
| Parcel Post | 143 45 | |
| Miscellaneous | + | |
| Foreman, Shipping Clerk, Etc. | 445 00 | |
| Total | 1714 54 | |
| Productive Hours | 781 | |
| Total Cost Per Hour | \$ 2 20 | \$ |

FIG. 35

Trial Balance
January 31 1921

| | Debit Balances | | Credit Balances |
|---------------------------|-------------------|------------------|--------------------|
| Cash on hand | 100 00 | Accounts Payable | 834 50 |
| Cash in bank | 345 80 | Notes Payable | 500 00 |
| Accounts Receivable | 7325 40 | Capital | 8347 13 |
| Merchandise Stock | 4712 83 | Sales | 3899 13 |
| Machinery & Tools | 1530 04 | Miscel. Expense | 4935 50 |
| Furniture & Fixtures | 396 67 | Discounts Taken | 147 79 |
| Trucks & Autos | 1701 39 | Labor Used | 47403 |
| Personal Account | 300 00 | Overhead Used | 1712 54 |
| Jetson's Sales | 5340 | Material Used | 1435 70 |
| Debt | 10000 | Profit on Sales | 44596 |
| Int. on Investment | 1814 | | |
| Int. on Inventory | 17 40 | | |
| Int. on Open Accounts | 11 58 | | |
| Int. on Bond Balance | 7 43 | | |
| Depreciation on Equip. | 1786 | | |
| Depreciation on Furniture | 333 | | |
| Depreciation on Autos | 4861 | | |
| Liability Insurance | 1700 | | |
| Fire Insurance | 750 | | |
| State Taxes | 3879 | | |
| Advertising | 17500 | | |
| Office Expense | 1970 | | |
| Telephone | 1143 | | |
| Legal Expense | 500 | | |
| Heat Light Power | 1375 | | |
| Postage | 1000 | | |
| Manager's Salary | 70000 | | |
| Salmon's Salary | 5000 | | |
| Bookkeeper's Salary | 10000 | | |
| Bad Debts | 765 | | |
| Lost Time | 35469 | | |
| Discount | 6328 | | |
| Stationery & Printing | 700 | | |
| Donations & Gifts | 7500 | | |
| Factory Expense | 1745 | | |
| Auto Repairs | 7385 | | |
| Reflective Wear | 785 | | |
| M.P. Freight | 14345 | | |
| Insurance etc | 74500 | | |
| Factory Labor | 47403 | | |
| Cost Distribution | 384573 | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | 17488 63 | | |
| | | 17488 63 | |

the Month." Total up the column and give the total below. Fig. 35.

202. From the record of productive hours take the total productive hours from the first of the month on and enter them in the space below. Fig. 21.

Divide the total expenses by the total of the productive hours and the amount you receive is the hour rate which you are to use for the extension of the hours used on every Cost Form, multiplied by the hour rate gives you the overhead for every job.

Monthly Closing.

203. In the average accounting set there falls a lot of extra work at the end of the month. All accounts after posting must be totaled, the balance must be arrived upon, a Trial Balance must be made. A trial balance is a method to find out if your ledgers are in balance. Every customer's account must be totaled and the balance extended on the sheet. All accounts must then be added and the total must agree with Account No. 3.

The same must be done with the Accounts Payable Ledger.

204. You may readily see if there are quite a few accounts that the work is going to be burdensome. Not so with your new books. If you have followed the method described there is no trial balance to make because you have checked your work daily.

205. After you have found your mistakes in the old fashioned method, the following month has advanced somewhat and you create double work because you have to catch up with current month's work.

When the balances are out you are able to proceed with the cost information.

206. Not so in your new accounting system. As soon as the last proof is out, your work is completed and you at once start with the cost information.

The Trial Balance.

207. After all Entries have been made for the month, and after these entries have been posted and the proof has been made as previously described, it is customary to make the Trial Balance. Enter all accounts by names and amounts on a sheet of paper, all Debits on the left hand side and Credits on the right hand side and total the Debit and the Credit columns. If your books are in balance, both amounts must agree. They must agree because you proved your work every day after you made the entries and these proofs checked out. A Trial Balance is made for a permanent record of the accounts in case of fire. Should your books be burned, you have at least a starting point for a

new set of books. This Trial Balance should therefore not be filed with the books but be taken home and preserved. Fig. 37.

Monthly Report.

208. When the books have been closed it is your desire to find out how much money you have made. Fig. 38.

Take for this the monthly Report Statement, divided into statement of Assets and Liabilities and the Profit and Loss Statement and fill in the figures from your Trial Balance sheet as you see them there.

The amount of the statement of Assets and Liabilities, of what is yours that you have invested in your business deducting from this the items that you owe, shows you the increase of the investment for the year, while the Profit and Loss statement will show you the amount of money made during the year. The Net amount of the Assets and Liabilities statement and the Net amount of the Profit and Loss statement must agree.

Overhead—Not Enough Charged and Too Much Charged.

209. You have in this system an accounting system and a cost system. Fig. 38.

Quite naturally both should check out and must balance with each other.

At the beginning of the year you are not so busy as during the summer months and therefore you have not as many productive hours. But your Overhead expenses may be as great in the winter months as in the summer. If you apply all of the expenses against your costs in January, your costs run up too high because the rate is larger during the winter. Therefore you must use the average for the year and you must apply the average to your figuring of the Overhead.

210. To get the true average your cost system must be running for 12 months. At the end of the twelve months you have the true cost average for this year and on the thirteenth month you deduct the first month and add the thirteenth month, at the fourteenth month you deduct the second month and add the fourteenth, at the fifteenth you deduct the third and add the fifteenth. And so on, you will always keep up a true twelve months' average for figuring the total hours used on a job, multiplied by the overhead rate, which will give you the overhead this job has to take.

At the end of the month your Profit and Loss statement will therefore tell you how much overhead you were short in your costs and in the high summer months it should show how much more overhead you had placed into your Cost Forms than you really should.

Monthly Report

January 1924.

Statement of Assets & Liabilities:

| | | | | | |
|----|---------------------|-----------------|----|--------------------|-----------------|
| 1 | Cash on hand | <u>100.00</u> | 10 | Accounts Payable | <u>834.50</u> |
| 2 | Cash in bank | <u>345.80</u> | 11 | Notes Payable | <u>500.00</u> |
| 3 | Accounts Receivable | <u>4315.70</u> | | | |
| 4 | Misc Stock | <u>4715.83</u> | | | |
| 92 | Less Material | <u>1735.70</u> | | Total Liabilities: | <u>1334.50</u> |
| | Inventory | <u>3480.63</u> | | Deduct from Assets | <u>10169.73</u> |
| 5 | Notes Receivable | | | | |
| 6M | Machinery & Tools | <u>1530.04</u> | | Net Worth: | <u>8835.43</u> |
| 6F | Furniture & Fixt | <u>396.67</u> | | | |
| 6A | Autos & Trucks | <u>1701.39</u> | 17 | Deduct Capital | <u>8347.13</u> |
| | Equipment | <u>3648.10</u> | | | |
| 8 | Personal Acct. | <u>300.00</u> | | Profit | <u>488.10</u> |
| | | | | Loss | |
| | Total Assets | <u>10169.73</u> | | | |

Profit & Loss:

| | | | | | |
|----|-----------------------|----------------|----|------------------|---------------|
| 20 | Sales | <u>3899.13</u> | | Profit forwarded | <u>475.96</u> |
| 26 | Less Returns | <u>53.40</u> | 27 | Miscel Income | <u>49.35</u> |
| | Net Sales | <u>3845.73</u> | 28 | Discounts Earned | <u>17.79</u> |
| 92 | Less Material Used | <u>1735.70</u> | | Actual Profit | <u>488.10</u> |
| | Gross Profit | <u>2610.53</u> | | Actual Loss | |
| 90 | Deduct Payroll | <u>477.03</u> | | | |
| | " Overhead | <u>1717.54</u> | | | |
| | Total | <u>4184.57</u> | | | |
| | Profit on Operations: | <u>475.96</u> | | | |

Comparison of Expenses paid out ^{and} actually charged to Costs:

| | Productive Labor | Overhead |
|--------------------|------------------|----------------|
| Expenses paid out | <u>477.03</u> | <u>1717.54</u> |
| Charged to costs | <u>460.70</u> | <u>1738.49</u> |
| Not enough charged | <u>11.33</u> | |
| Too much charged | | <u>75.95</u> |

CHAPTER 11

Closing the Books at the End of the Year.

211. You have by this time full knowledge of how to conduct your accounting and cost work. You have done the daily routine work, you have posted charges and checks received to the Customers' ledger or accounts receivable, you have posted the invoices on checks to accounts payable, the purchase ledger, you made up the cash-journal card daily posted the general ledger, you made your daily and monthly statement, figured your average cost rate and kept up your records on Productive and Non-productive time. You were able to keep up your cost system and know how much profit has been made. Gradually you are drifting towards the end of the year, you are preparing to take stock and you will be ready to close the books in an official way which results in the income tax return.

212. You have made the last entries for the month of December in the same way as you made them every other month. You made your entries for the interests on investments, bank balance, open accounts, etc. You made the entries for depreciations, etc., and you made your monthly report.

213. Now you receive your inventory. It is all figured and you supervised the taking of it yourself and you are confident that your figure is correct.

Let us say that in your monthly report for December the Material Used was \$27,919.43. You have taken inventory now and the Cost of Goods Sold amounts to \$28,772.66. There is a difference of \$853.23 and the inventory is short. This difference is laid to two ways, either you did not cost your inventory right or there is a leakage. Some goods may have disappeared, or it may also be that the waste of 10% which you charge to the awning cost and the 3% which you charge to tents and covers was not sufficient.

214. In closing your books, however, you take the new inventory figure, the actual figure.

215. By closing a set of books is meant that you bring your General Ledger back to the starting point. When you opened your books at the beginning of the year you had only those accounts on hand which showed you either what you owned at that time or what you owed.

216. All other accounts were accounts of operations. You operated in the selling, it cost you so much money for the material you sold, which was figured in your cost. It cost you so much for labor which went into the manufacturing of the goods and it cost you so much for the expense of doing business which was called Overhead. You are right back at your starting point.

You learned that cost consisted of labor, material and overhead and that the difference between cost and selling price is profit.

217. If there is any profit at the end of the year it is added to the Capital, Account No. 17, or if there is a loss at the end it is deducted from this account.

218. In business is wanted the following: What were your sales, how much labor did you pay out, how much material did you use in manufacturing, how high were your expenses? Your banker and you yourself want to know: How much profit did you make, added this year to the net worth of last year? Are you worth more this year than last year?

How is a Set of Books Closed?

219. After you have made out your Trial Balance sheet at the end of the year and found that this sheet balances on both sides, you take a ledger card for making your closing entries. Use a ledger card because the space on the journal section of the Cash Journal card under date of December 31 is too small. Fig. 39.

220. Headup this ledger card: "Journal entries for closing 1924 operations."

221. It was said before that the Profit and Loss account embraces only the accounts of operations during the year, which means the accounts of Sales and Expenses which are Accts. Nos. 20 to '99. Fig. 40.

222. All of these accounts are to be transferred into one account to show up a difference. If the total sales are greater than the cost and expenses, in that case there is a profit, or if the sales are smaller than the cost and expenses in that case there will be a loss.

223. Actual operation. All accounts that have a credit balance are to be charged so that the account shows no balance. All accounts that are showing a debit balance must be credited so that they show no balance at all. If an expense account is credited something else must be debited because you have double entry bookkeeping, making two entries in every case, one debit and an offsetting credit to keep the books in "balance." Fig. 41.

224. The station in which all of these accounts assemble, in which the Debits and Credits are placed to find the difference of a profit or a loss is Acct. No. 19, or Profit and Loss.

225. The Profit and Loss account is used for this purpose only, no entries are credited or charged to this account, during the year, special expense accounts may be set up for a purpose, but if it is an expense it must go through the overhead distribution section of your books.

No. _____

Journal Entries for Closing out 1944 Operations: Dec. 31, 1944

FORM 591 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE 1944 | MEMO. | DEBITS \$ | ¢ | CREDITS \$ | ¢ | BALANCE \$ | ¢ |
|--------------|--|--------------|----|---------------|----|---------------|---|
| Dec 31 | Debit Sundry Accounts Credit Profit & Loss #19: | | | | | | |
| | #10 Salts | 54,734 | 80 | 54,734 | 80 | | |
| | #17 Misc Income | 745 | 66 | 745 | 66 | | |
| | #18 Discounts | 171 | 50 | 171 | 50 | | |
| | | 55,650 | 96 | 55,650 | 96 | | |
| | Debit Profit & Loss #19 Credit Sundry Accts: | | | | | | |
| | #30 Rent | 1700 | 00 | 1700 | 00 | | |
| | 31 E Int of Investment | 417 | 68 | 417 | 68 | | |
| | 31 S " " Inventory | 708 | 80 | 708 | 80 | | |
| | 31 Q " Capital | 153 | 39 | 153 | 39 | | |
| | 31 A " Other accts | 138 | 96 | 138 | 96 | | |
| | 31 B " Bank Bal | 76 | 76 | 76 | 76 | | |
| | 31 E Deprec Equip | 154 | 37 | 154 | 37 | | |
| | 31 F " " Int | 39 | 96 | 39 | 96 | | |
| | 31 A " " Autos | 593 | 37 | 593 | 37 | | |
| | 33 L Lab. Equip. | 50 | 00 | 50 | 00 | | |
| | 33 F Fuel | 47 | 50 | 47 | 50 | | |
| | 33 A Auto | 38 | 00 | 38 | 00 | | |
| | 34 S State Taxes | 138 | 79 | 138 | 79 | | |
| | 35 Advertising | 540 | 00 | 540 | 00 | | |
| | 36 office Expense | 78 | 40 | 78 | 40 | | |
| | 37 Repairs | 11 | 05 | 11 | 05 | | |
| | 38 Telephone | 170 | 00 | 170 | 00 | | |
| | 39 Telegraph | 79 | 40 | 79 | 40 | | |
| | 40 Legal & Collect Exp | 45 | 00 | 45 | 00 | | |
| | 41 Light & Heat Costs | 136 | 00 | 136 | 00 | | |
| | 47 Postage | 38 | 00 | 38 | 00 | | |
| | 43 Repairs | 37 | 50 | 37 | 00 | | |
| | 45 Managers Salary | 7400 | 00 | 7400 | 00 | | |
| | 46 Salesmans Sal. | 1600 | 00 | 1600 | 00 | | |
| | 47 Oper & Maint Sal | 1700 | 00 | 1700 | 00 | | |
| | 48 Bad debts | 87 | 50 | 87 | 50 | | |
| | 49 Telephone | 4756 | 78 | 4756 | 78 | | |
| | Forwarded | | | | | | |

FIG. 39

No. _____

*Journal Entries for Closing out
1921 Operations. Dec. 31. 1921.*

FORM #91 PILGRIM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | | ✓ | CREDITS | | ✓ | BALANCE | |
|--------|--|---------------|-----------|---|---------------|-----------|---|---------|---|
| | | \$ | ¢ | | \$ | ¢ | | \$ | ¢ |
| | <i>Forwarded</i> | | | | | | | | |
| | 50 Interest | 30 | 00 | | 30 | 00 | | | |
| | 51 Account | 578 | 79 | | 578 | 79 | | | |
| | 54 Stationery & City | 78 | 00 | | 78 | 00 | | | |
| | 52 Subscriptions | 10 | 00 | | 10 | 00 | | | |
| | 54 Amalium & Dues | 67 | 95 | | 67 | 95 | | | |
| | 55 Factory Expens | 745 | 39 | | 745 | 39 | | | |
| | 56 Lost & damaged Goods | 18 | 00 | | 18 | 00 | | | |
| | 57 Auto Repair | 69 | 40 | | 69 | 40 | | | |
| | 58 Experiments | 5 | 00 | | 5 | 00 | | | |
| | 59 Defective Work | 77 | 85 | | 77 | 85 | | | |
| | 60 Pkt & Express | 345 | 87 | | 345 | 87 | | | |
| | 61 Misc Expense | 41 | 75 | | 41 | 75 | | | |
| | 62 Inven't etc | 7450 | 00 | | 7450 | 00 | | | |
| | | <u>17552.</u> | <u>61</u> | | <u>17552.</u> | <u>61</u> | | | |
| | 70 Prod Labor | 5528. | 88 | | 5528. | 88 | | | |
| | 76 Return Sales | 154 | 79 | | 154 | 79 | | | |
| | & Mdr Stock | 38747 | 32 | | 38747 | 32 | | | |
| Dec 31 | Dr. Mdr Stock #14 | 9474 | 66 | | | | | | |
| | Cr. Profit Loss #19 | | | | 9474. | 66 | | | |
| | Taking Inventory out of purchases and changing it to Stock #14 | | | | | | | | |
| | | \$ 70958 | 76 | | \$ 70958 | 76 | | | |
| | Dr. Sundry Accts | | | | | | | | |
| | 90 | 5493. | 74 | | | | | | |
| | 91 | 17374 | 40 | | | | | | |
| | 92 | 28772 | 66 | | | | | | |
| | 95 | 2989 | 71 | | | | | | |
| | Cr. Cont Dist. #99 | | | | 54580. | 51 | | | |
| | Closing out accts. | | | | | | | | |
| | Dr. Profit Loss #19 | 3597. | 52 | | | | | | |
| | Cr. Capital #17 | | | | 3597 | 52 | | | |
| | Transfr 1921 Profits | | | | | | | | |

FIG. 40

NO. 70

Merchandise Sales

FORM 891 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|--------|---------------|-----------|---------|-----------|
| | | \$ | \$ | \$ |
| 1924 | | | | 54,355.33 |
| Dec 20 | Forwarded | | 127.50 | 54,482.83 |
| 21 | | | 17.65 | 54,500.48 |
| 22 | | | 3.54 | 54,504.02 |
| 23 | | | 29.70 | 54,533.72 |
| 24 | | | 31.45 | 54,565.17 |
| 26 | | | 45.23 | 54,610.40 |
| 27 | | | 1.24 | 54,611.64 |
| 29 | | | 39.50 | 54,651.14 |
| 30 | | | 10.00 | 54,661.14 |
| 31 | | | 73.66 | 54,734.80 |
| 31 | Credit & Loss | 54,734.80 | | = |

NO. 70

Factory Labor: Productive Labor

FORM 891 PILGRAM & COMPANY, INC., MILWAUKEE

| DATE | MEMO. | DEBITS | CREDITS | BALANCE |
|--------|--------------------|--------|----------|----------|
| | | \$ | \$ | \$ |
| 1924 | | | | |
| Dec 31 | Ind. Credit & Loss | | 5,578.88 | 5,578.88 |
| | | | | = |

FIG. 41

Overhead Distribution for Month *December 1921*

| | TOTAL | Factory Overhead | Shop and Erecting | Administrative and Selling |
|--|------------------|------------------|-------------------|----------------------------|
| Square Feet Occupied | | | | |
| Area Units | | | | |
| Expense Accounts Distribution: | | | | |
| Rent | 1700 00 | | | |
| Int. on Investment | 717 68 | | | |
| Int. on Inventory | 408 80 | | | |
| Int. on Cash Capital | 153 39 | | | |
| Int. on Open Accounts | 138 96 | | | |
| Int. on Bank Balances | 76 76 | | | |
| Depreciation on Equip. | 154 37 | | | |
| Depreciation on Furn. | 39 96 | | | |
| Depreciation on Autos | 593 37 | | | |
| Liability Insurance | 50 00 | | | |
| Fire Insurance | 47 50 | | | |
| Automobile Insurance | 38 00 | | | |
| Federal Taxes | - | | | |
| State Taxes | 128 79 | | | |
| Advertising | 540 00 | | | |
| Office Expense | 78 40 | | | |
| Carfare | 11 05 | | | |
| Telephone | 170 00 | | | |
| Telegraph | 79 40 | | | |
| Legal & Collection Exp. | 45 00 | | | |
| Heat, Light & Power | 136 00 | | | |
| Postage | 28 00 | | | |
| Repairs | 37 50 | | | |
| Water | - | | | |
| Managers' Salaries | 7400 00 | | | |
| Salesmen's Salaries | 1600 00 | | | |
| Bookkeepers' & Stenographers' Salaries | 1700 00 | | | |
| Bad Debts | 87 50 | | | |
| Lost Time | 4256 78 | | | |
| Interest on Borrowed Money | 30 00 | | | |
| 2% Disc. in 10 days losses | 578 79 | | | |
| Stationery & Printing | 78 00 | | | |
| Subscriptions | 10 00 | | | |
| Donations, Dues | 67 95 | | | |
| Factory Expense | 745 39 | | | |
| Lost & Damaged Goods | 18 00 | | | |
| Auto Repairs | 69 40 | | | |
| Experiments | 5 00 | | | |
| Defective Work | 77 85 | | | |
| Parcel Post | 345 87 | | | |
| Miscellaneous | 41 75 | | | |
| Foreman, Shipping Clerk, Etc. | 7450 00 | | | |
| Total | 17,553.61 | | | |
| Productive Hours | 8776 hrs | | | |
| Total Cost Per Hour | \$ 200 | \$ | \$ | % |

FIG. 42

Monthly Report December 1944

Statement of Assets & Liabilities:

| | | | | | |
|----|---------------------|------------------|----|--------------------|-----------------|
| 1 | Cash on hand | <u>100.00</u> | 10 | Accounts Payable | <u>3763.96</u> |
| 2 | Cash in bank | <u>798.75</u> | 11 | Notes Payable | <u>5000.00</u> |
| 3 | Accounts Receivable | <u>4274.90</u> | | | |
| 4 | Mdse Stock | <u>38.747.34</u> | | | |
| 92 | Less Material | <u>78.777.66</u> | | | |
| | Inventory | <u>9.474.66</u> | | Total Liabilities: | <u>4763.96</u> |
| 5 | Notes Receivable | <u>100.00</u> | | Deduct from Assets | <u>16703.61</u> |
| 6M | Machinery & Tools | <u>1388.58</u> | | | |
| 6F | Furniture & Fixt | <u>310.04</u> | | Net Worth: | <u>11939.65</u> |
| 6A | Autos & Trucks | <u>1156.68</u> | | | |
| | Equipment | <u>4855.30</u> | 17 | Deduct Capital | <u>8347.13</u> |
| 8 | Personal Acct | <u>500.00</u> | | | |
| | Total Assets: | <u>16703.61</u> | | Profit | <u>3594.54</u> |
| | | | | Loss | <u>0.00</u> |

Profit & Loss:

| | | | | | |
|----|-----------------------|------------------|----|------------------|----------------|
| 20 | Sales | <u>54734.80</u> | | Profit forwarded | <u>4745.26</u> |
| 26 | Less Returns | <u>154.29</u> | 27 | Miscel Income | <u>745.66</u> |
| | Net Sales | <u>54580.51</u> | 28 | Discounts Earned | <u>171.50</u> |
| 92 | Less Material used | <u>78.777.66</u> | | Actual Profit | <u>3594.54</u> |
| | Gross Profit | <u>45807.85</u> | | Actual Loss | <u>0.00</u> |
| 90 | Deduct Payroll | <u>5578.88</u> | | | |
| 91 | " Overhead | <u>17.553.61</u> | | | |
| | Total | <u>43084.49</u> | | | |
| | Profit on Operations: | <u>4745.36</u> | | | |

Comparison of Expenses paid out and actually charged to Costs:

| | Productive Labor | Overhead |
|--------------------|------------------|------------------|
| Expenses paid out | <u>5578.88</u> | <u>17.553.61</u> |
| Charged to costs | <u>5493.74</u> | <u>17344.90</u> |
| Not enough charged | <u>3564</u> | <u>478.71</u> |
| Too much charged | <u>0.00</u> | <u>0.00</u> |

Statement of Assets & Liabilities
after closing the year

1924.

226. When the Journal entries have been written up, the accounts have been credited or debited and are all closed out, which means they are balanced and show no amount in the balance column, there is a balance left in the Profit and Loss account.

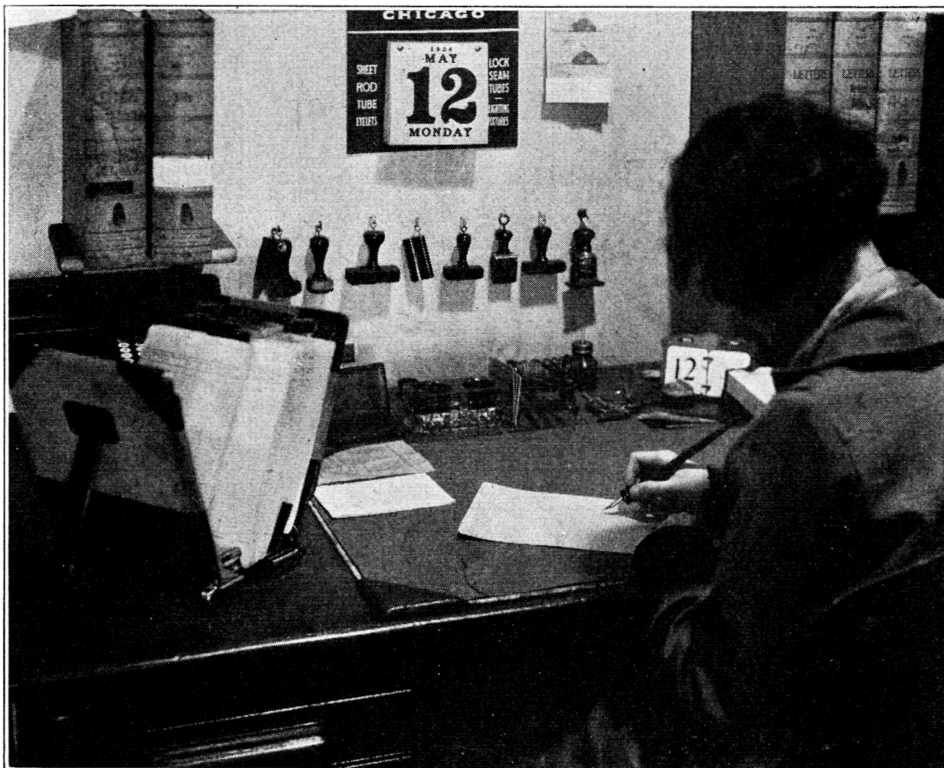
227. Make another Journal entry for this amount of \$3,592.52 and debit, Profit and Loss and credit Acct. No. 17, Capital account. This account will then show that your Assets (what you own) is \$3,592.52 greater than it was on the first of the year. Fig. 40.

The Balance Sheet.

228. After the closing of your books make a Trial Balance of those accounts that are still open that still show a balance. These accounts are those from No. 1 to No. 17. They are the accounts of your Assets (what you own) and your Liabilities (what you owe) and you are right back at the statement with which you opened your books in Fig. 1. Fig. 45.

| | | | |
|---|-----------------------|----------------|------------------|
| 1 | Cash on hand | | <u>100.00</u> |
| 2 | Cash in bank | | <u>798.75</u> |
| 3 | Accounts Receivable | | <u>4374.90</u> |
| 4 | Merchandise Inventory | | <u>9,474.66</u> |
| 5 | Notes Receivable | | <u>100.00</u> |
| 6M | Machinery & Tools | | <u>1388.58</u> |
| 6F | Furniture & Fixtures | | <u>310.04</u> |
| 6A | Autos & Trucks | | <u>1156.68</u> |
| 8 | Personal Account | | <u>500.00</u> |
| Total Assets (what I own): | | | <u>16,703.61</u> |
| 10 | Accounts Payable | <u>3763.96</u> | |
| 11 | Notes Payable | <u>500.00</u> | |
| Total Liabilities: (what I owe) | | | <u>4,263.96</u> |
| Net Worth: | | | <u>11,939.65</u> |
| 17 | Capital | | <u>11,939.65</u> |

FIG. 45



BOOKKEEPER MAKES FINAL STATEMENT AFTER CLOSING

CHAPTER 12

Income Tax Return to the Federal Government.

229. After your balance sheet is out you are at liberty to begin with the next year's work. However, when you receive the income tax blanks from the government you must make out your tax return. There is no use of going to a lawyer or calling in an expert accountant; you can make out this return yourself because your books have been arranged from the beginning the way the government desired. Take your Profit and Loss account and from it just copy the figures direct into the income tax blank. On line 1, under Schedule A, enter the total of Accts. Nos. 20, 27, 28, and deduct from this amount the goods returned, Acct. No. 26. Fig. 46.

On line 2 enter the Productive labor, Account No. 70.

Line 3 leave blank.

On line 4 your account, No. 4, less the inventory of January 1st.

On line 6 the inventory at the first of the year when you opened the books.

Total up lines 2 to 6.

On line 8 enter the amount of inventory the last day of the year, December 31st.

In column 9 deduct this inventory.

Instead of filling out lines 10 to 16, make a copy of your Overhead Distribution for December and attach this sheet to the return. Enter the amount of the Overhead Distribution on line 17.

Add item on line 9 and item on line 17 and enter the total of these two items on line 18.

Deduct line 18 from line 1 and the amount in line 19 must agree with the amount of your profit and loss account which you transferred to account 17, the capital account.

Transfer the amount of your income from the business to the front side of the Tax return and enter in line 2.

On line 1 enter the amount of the salary the business paid you. On line 2 enter the net Income from line 19 (Schedule A.) If you had any other income enter that on line 9 and give explanation. Total up your total income and the net amount enter on line 18. Enter the amount again on line 19 and on line 22 show that you are married and have three children, the wife has an exemption of \$2,500.00 and the children each the exemption of \$400.00 total \$3,700.00. Deduct 23 from 19 and enter balance in column 24. Figure 4% on this balance and enter the amount on line 25 and 34.

This completes your income tax return which must be sent to the government before March 15

with check attached for at least one-fourth of the total on line 34.

Petty Cash.

230. You learned in the chapter discussing the Cash-Journal that it was the best policy to deposit all money which is received or paid in. However, in every business there are some expenses to be paid out, such as carfare, postage, small stationery matters and so on. In order to do this you must have money. The best way to handle this is to create a Petty Cash Fund. This is an amount of money which you keep on hand and separate it from the incoming money. To do this write a check say for \$100.00 and make it payable to "petty cash," indorse it on the back by putting your name there, and go to the bank and get small change, dollar bills, halves, quarters, dimes and nickels. Place this into a separate box. Whenever you pay out something write on a slip of paper the amount and what it was for and the account number to which it is to be charged, if for postage account No. 42, if for carfare account No. 37, etc. At night count your cash and you must have either currency and coins or slips in the box. Add all currency and coins and slips together and the total must be \$100.00 or the amount you have chosen to be in the drawer. Some business houses get along with \$25.00 for a petty cash fund. When you are running low and have more slips in the drawer than cash write a check for the total of all of the slips and mark on the check stub the accounts and amounts to which the different amounts should be charged. Now go to the bank, cash your check and place the amount back into the box and you have again the original value of \$100.00. On the Cash-Journal card the individual account numbers and amounts are stated that make up the amount of the Petty Cash check.

Daily Filing of Costs Forms.

231. When the operation of the daily charges has been completed and the material on the pink form which came from the factory and the material from the blue form which came from the shipping department or shop or erection has been entered on the white form, the office Costs Distribution form and the labor has been figured and the overhead and the profit have been figured, you enter a billing number on all three forms. This you also recorded on the Cash Journal card by entering of all numbers, the first and the last. You then entered the charges to your Accounts Receivable Ledger and made your proof.

The work for these Cost Forms is now completed and they must be filed away. File the pink copy by

Form 1040 U. S. INTERNAL REVENUE (Auditor's Stamp)

INDIVIDUAL INCOME TAX RETURN

FOR NET INCOMES OF MORE THAN \$5,000 OR NET INCOMES, REGARDLESS OF AMOUNT, IF DERIVED FROM A PROFESSION OR BUSINESS, INCLUDING FARMING

For Calendar Year 1923

Or for period begun 1922, and ended 1923

File This Return No. Later Than the 15th Day of the Third Month Following the Close of the Taxable Period (PRINT NAME AND ADDRESS PLAINLY BELOW)

Name: Al. Wise; Address: All-Wise Tent & Awning Co., Saint Paul, Ramsey, Minn.

Do Not Write in These Spaces SERIAL NUMBER, FILE CODE, FIRST PAYMENT, Examined by, (Cashier's Stamp), Cash Check M. O. Cert. of Ind.

OCCUPATION, PROFESSION, OR KIND OF BUSINESS

- 1. Are you a citizen or resident of the United States? Yes
2. If you filed a return for 1922, to what Collector's office was it sent? none
3. Is this a joint return of husband and wife? No
4. If not, is a separate return being filed by your husband or wife? No
5. Were you married and living with husband or wife on the last day of your taxable period? Yes
6. If not, were you on the last day of your taxable period supporting one or more persons living in your household who are closely related to you by blood, marriage, or adoption? None
7. How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective were receiving their chief support from you on the last day of your taxable period? none

Table with columns: Item and Instruction No., INCOME, Amount received, Expenses paid. Includes entries for All-Wise Tent & Awning Co. with amounts 7400.00 and 3597.52.

Overhead Distribution for Month December 1923

SCHEDULE A.—INCOME FROM BUSINESS OR PROFESSION. (See Instruction 2.)

Table for Schedule A with columns for Total income from business or profession, Cost of Goods Sold (Labor, Material, Merchandise, etc.), and Other Business Deductions (Salaries, Rent, Interest, etc.).

Summary table for Schedule A showing Totals and Net Income of 5997.52.

COMPUTATION OF TAX

Table for Computation of Tax showing Net Income (5997.52), Less: Dividends, Personal Exemption (3700.00), Total Tax (91.70), and Balance of Tax (91.70).

An amended return must be marked "Amended" at top of return.

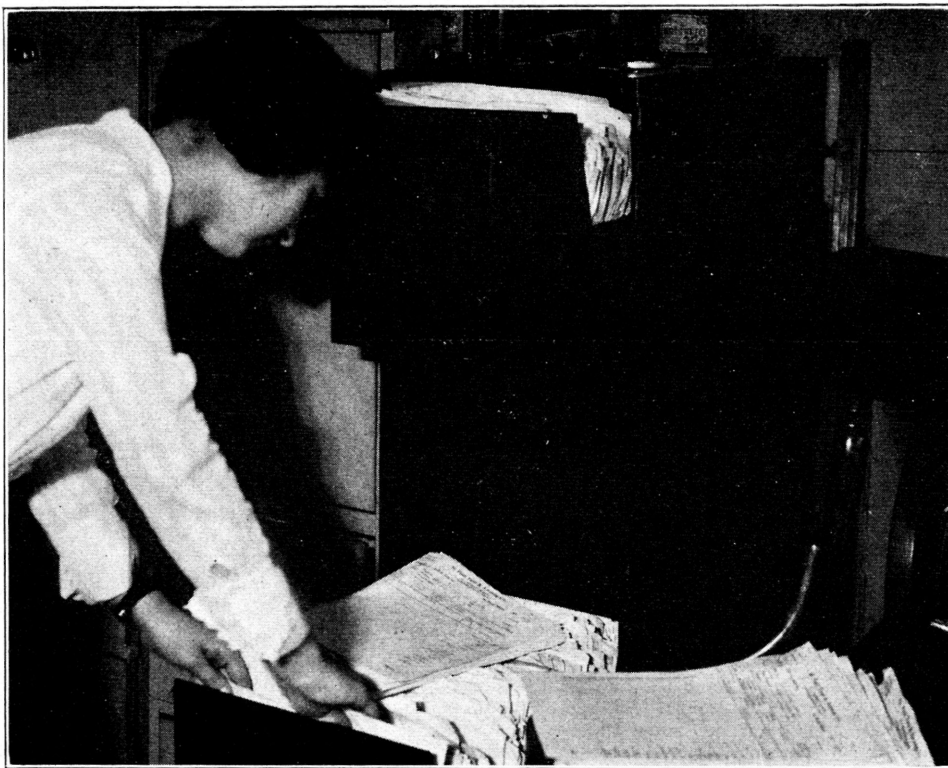
Checks and drafts will be accepted only if payable at par.

the printed Cost Form number, so that you have a consecutive file and can trace an order by the Cost Form number, the blue copy file numerically by the billing number so that you have a consecutive file number as they were posted. This is for Auditing purposes, and in case the books get out of balance, so that they can be checked back.

The white Cost Form file alphabetically so that when R. D. Becker calls up in two years for another awning this Cost Form can be easily taken from the file. You have the charge there but what is more important you have the cost and labor and overhead there too, in case he thinks the price is too high this time.

232. Filing Accounts Payable Invoices. After Purchase Invoices for the Accounts Payable or Purchase Ledger have been entered on the Cash-Journal card and after they have been posted to the

ledger and the proof has been made and you know that the entries have been made correctly, file these invoices in an alphabetical index file where they will be held until they are paid. When the invoices have been paid take them out of this file and file them numerically by the invoice number in the right hand corner. It will be very seldom that you have to look up a price because you have made that notation in the little cost book from which you price the white Cost Form. There is another advantage of filing the invoices in this way, you do not need so much filing space, as in an alphabetical filing drawer, which becomes very much crowded towards the end of the year. When the filing space which you have reserved for the filing of invoices becomes crowded, take the early invoices out and file them somewhere else, so you will see that the filing record is very flexible. File your invoices so that the last invoice number is always in front.



BOOKKEEPER FILES COMPLETED ORDERS AWAY

CHAPTER 13

**WHAT OUR COST ACCOUNTING SYSTEM
MEANS TO THE EXECUTIVE**

In concluding the exposition of this our first stage of the cost accounting system, we believe it advisable to set forth the transition from the no-cost-system condition to the condition arrived at after you have a cost system in your plant.

Remember the olden days and to some, those conditions exist now, when no cost knowledge was had in your plant. Your price level was based upon that of your competitor. If he could quote a certain price, you could also but very likely he knew no more about costs than you did, so that you were both guessing and fighting between yourselves upon a foundation absolutely uncontrolled by cost elements and we must admit that the only way price can be computed is based upon costs plus a reasonable profit.

Our defense is, of course, that we had a fair knowledge of what the goods cost us. As one manufacturer stated, he always made sure that his cost was \$2.00 over what it actually was and then he knew he was safe but when asked what it actually was, he was unable to answer the question.

How many times have you been called upon to quote a price? Let us take for instance, the transfer man who brings in a paulin or truck cover to

be repaired. It is sent up to the factory, it is repaired and it comes down rolled up and the transfer man calls for it and asks, "How much?" What is your answer? Is your answer controlled by cost plus profit? If you have no cost system you must admit that it is not and in those olden days if we were to confess actually what occurred, we would admit that many a time our price depended entirely upon how much we could get, and if the transfer man was a better man than we were in bluffing, we would be the losers, and so conditions were more or less similar to gambling.

From time to time we checked up our costs so to speak. We would take a standard article such as a 9'4"x11'8" tent, find out the material cost, find out the labor cost, guess at our overhead hoping that we were hitting it correctly and then governed our price according to this conclusion unless competition caused us to disregard these so-called facts. This has been the method. It has been so in your plant before you had a cost system and will continue so until you have a cost system.

Let us now consider conditions after the National Cost Accounting System has been installed. The reading of this book gives to you as an executive, a clear idea of the functioning of the system and indicates to you the fact that as an executive, you receive a daily report of the condition of your busi-



**THE EXECUTIVE MUST GUESS AT THE PRICE
THE TRANSFER MAN ASKS, "HOW MUCH?"**

ness showing your total sales, the amount of material used, the amount of labor expended, the amount of overhead collected, the absorbed and unabsorbed overhead, the profit and loss on each class of articles and on your total sales, and many other features which are necessary to the proper conduct of any business.

Our business is seasonable and we have therefore concluded that it is not possible to know what we are doing until the end of a twelve month period. This conclusion is erroneous, for from the National Cost Accounting System, you may know what you

tant things for the business than figuring prices. This can be done by a paid employee so that when the transfer man comes in, gets his paulin or cover and asks, "How much?" the office girl can hand him a bill and prove the cost to him if there is any dispute.

It has been said that lack of knowledge in cost causes the executive to lack the stamina necessary to demand fair prices. This is absolutely true and the reverse of this is also true that knowledge of cost gives to the executive that stamina or "backbone" which causes him not only to ask a fair price



THE TRANSFER MAN ASKS, "HOW MUCH?"
THE OFFICE GIRL INFORMS HIM OF THE PRICE AND PROVES THE COST

are doing every day no matter what time of the year, but another splendid feature of a system of this kind is the fact that you know the profit and loss on every job you do. The job is the unit and when you know the returns on every activity you have a different story to tell, in a similar case referred to above where the transfer man brings in a paulin. This time it goes to the factory and the cost sheet shows the amount of labor and material used on the job, the amount of overhead, correctly distributed giving total cost to which a fair profit is added and a selling price is arrived at. This work is done by the bookkeeper, stenographer or cost girl and not by you as an executive. Your time can be spent in doing bigger and more impor-

but to demand and get a fair price based upon cost facts which can be proved.

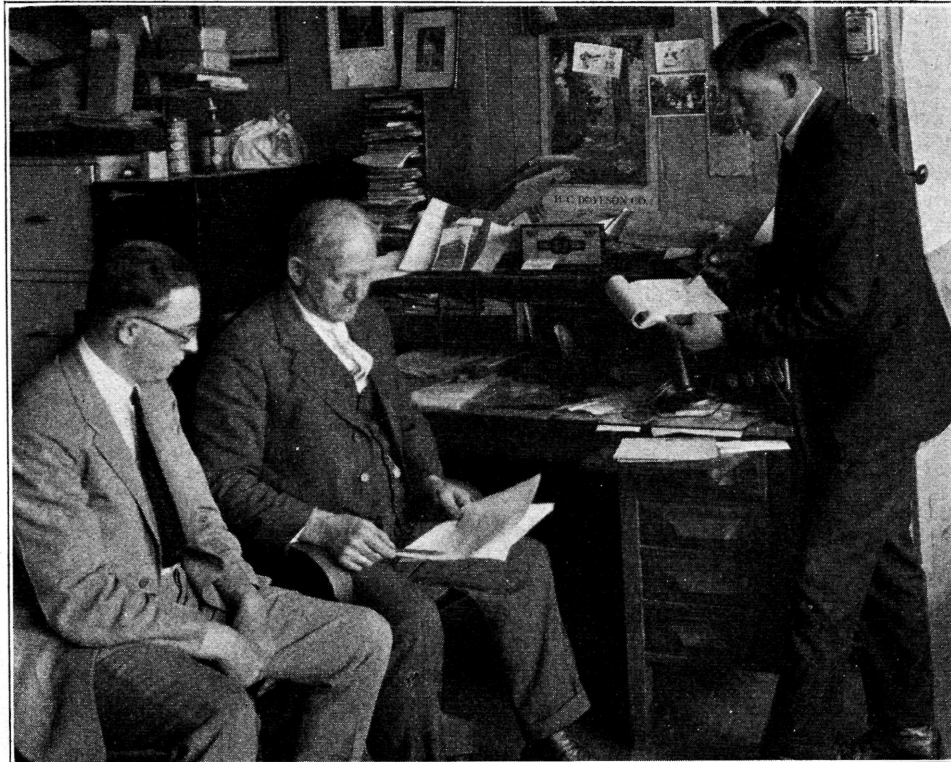
From the standpoint of competition, any one manufacturer is subject to the criticism of his competitors and we know from our own activities, from our own experiences, that we cannot understand sometimes what our competitors do and if we are on good terms, with them, we will invariably complain because of some certain policy fostered by the competitive house.

When you have a cost system you are in your fort well supplied with ammunition, for when your competitor complains of your activities, you can prove to him as well as to your customers, the truth of what you are doing and the advisability thereof.

From a standpoint of personal satisfaction, this means a great deal, so that to the executive the cost accounting system is a means to the end which makes him a true executive. A business man today

One is COST ACCOUNTING and the other is FAIR COMPETITION.

This book deals thoroughly with the subject of cost accounting and places before you as a business



**THE COMPETITOR COMPLAINS, THE EXECUTIVE PROVES HIS COSTS AND
SUBSTANTIATES HIS SALESMAN**

cannot be a gambler and succeed. The law of the survival of the fittest will get him in the end for he is not fit. A business man must be fit and in order to be so fit or qualified, he must be thoroughly schooled in at least two fields of business activity.

man and the head of a tent and awning manufacturing business, the explanation and means whereby you may obtain that knowledge which is the first essential in the makeup of a REAL EXECUTIVE and a GOOD BUSINESS MAN.

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SUPPLEMENT
to
Manual *of* Instruction
for the Installation and Operation of the
National
Cost and Accounting System
The Second Stage



Produced by the
National Tent & Awning
Manufacturers' Association
Incorporated

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by

National Tent & Awning Manufacturers' Association, Inc.

St. Paul, Minnesota

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Prepared by

NATIONAL LABORATORY ON COST INVESTIGATION
National Tent & Awning Manufacturers' Association, Inc.

CLAIRE I. WEIKERT, Chairman.

E. E. PILGRAM, Authorized Accountant.

St. Paul, Minnesota.

1924.



CHAPTER 1.

Why a Second Stage?

The second stage of the Cost System by vote of the Laboratory is to be submitted to only those firms who have used the first stage of the Cost System for one year. You are thereby respectfully requested not to publish this information and try as far as possible, to keep quiet, your progress into the second stage, as far as beginners are concerned. You can see the reason for this. Only those who have gone through the kindergarten can advance into the grades, and many would not start if they knew the course was extensive.

Your Laboratory has realized for some time that the distribution of overhead on the productive hour, using one unit and including all overhead against the one productive hour, has caused some complaint and some difficulty. From the standpoint of the beginner, it has been the solution of his problem, for when the story is told at the end of the year, he has at least determined and figured all his overhead, but in order that our Cost System may be perfect, your Laboratory recommends the use of this second stage explained as follows:

We firmly believe that after you have used the first stage you can thoroughly understand this second stage. The main objections to the so-called first stage were these: First, if the overhead is charged against the productive hours, how about merchandise articles such as duck, camp cots, and other articles which you sell over the counter, do they have any overhead? Under the first stage system the answer was "No," because all of the overhead was distributed against the productive hour.

The second objection was, why should an article produced entirely in the factory, such as a paulin or tent, bear an overhead rate which is burdened by that great mass of overhead necessary to produce awnings? Our answer to this question has been, figure the same amount per hour, no matter where the hour is used, because all you want is to get your overhead back at the end of the year.

Now in order to overcome these objections, we have worked out the final solution which is called our second stage, and we believe this stage will be absolutely satisfactory. It has been installed in many plants and is working perfectly.

The Principle of the Second Stage:

The only change from the first stage is the distribution of overhead. Overhead will be found in the same manner as in the first stage; in other words, on the average monthly or the yearly basis arriving at your total overhead in round dollars. Then instead of dividing the total overhead by the total actual productive hours, in order to get the overhead rate per

hour, you divide your overhead into 4 parts, which we call allocating the overhead, and will be explained in detail under that paragraph. These 4 parts are: (1) Factory Overhead, (2) Shop & Erection Overhead, (3) Administrative and (4) Selling. Then divide the total actual productive hours showing the amount in the factory and then the amount in the shop and erecting. By factory it is meant all labor used in the sewing rooms, roping rooms and factory production. By shop and erection it is meant all labor used in the frame department, blacksmith shop, pole department and erection.

By dividing the factory overhead by the total actual productive hours in the factory, you will get an overhead rate per hour for the factory overhead. By dividing the shop and erection overhead by the actual productive hours used in the shop and erection department, you will get the overhead rate per hour in the shop and erection department. In other words, instead of having one rate you are going to have two rates; one for the hour used in the factory and the other for the hour used in the shop and erection. The administrative and selling overhead is distributed on a percentage basis. Definite explanation follows.

From this system your cost would be as follows:

Labor cost, material cost, overhead-factory, overhead-shop, and erection. Total of the above equals manufacturing cost. The selling overhead (which equals a percentage on the manufacturing cost) added to the manufacturing cost, gives you total cost. The principle of this is that from now on you are going to find the exact cost of the articles such as tents or awnings to the end of its manufacturing stage and before it is sold. In other words, every article is going to be a merchandise article whether you make it or merely handle it, and will carry a merchandise overhead called the selling overhead before the total cost is figured. Example follows.

In the explanation of the following recommendation we have endeavored to follow the recommendations of experts in accounting and at the same time produce something that will fit the actual conditions in your business. Overhead naturally must be allocated or departmentized according to some fundamental basis and sometimes you must be arbitrary. Use as a basis the following fundamentals, square foot basis as to floor space and departments; the ratio of the factory hour to the shop and erection hours; for instance, 20,000 hours, of which 15,000 is factory and 5,000 hours shop, the ratio then is one-fourth ($\frac{1}{4}$) shop and three-fourths ($\frac{3}{4}$) factory or one (1) to three (3).

CHAPTER 2.

The Accounting System:

1. There is no change in the principal of posting to the Cash Journal card and the different ledgers. As a matter of fact no changes are taking place in the Accounts Receivable and Accounts Payable Ledgers. There is no material change in the General Ledger either.

2. It was mentioned in the first stage that the Sales Account may be broadened, that the proprietor may want to know how much he has sold of awnings, separated from tents, tarpaulins, camp furniture, etc. All that is necessary is to open cards for these accounts in the general ledger under the heading of Account No. 20, viz:

- 20A Awning Sales
- 20C Covers Sales
- 20T Tents Sales
- 20S Storage Sales
- 20R Rehangings Sales
- 20P Paulins Sales
- 20F Camp Furniture Sales

3. Of course the proprietor also wants to know how much profit he is making on every one of the commodities, therefore it is necessary to open up the

following accounts under the heading of Account No 95.

- 95A Profit on Awning Sales
- 95C Profit on Covers Sales
- 95T Profit on Tent Sales
- 95S Profit on Storage
- 95R Profit on Rehangings
- 95P Profit on Paulins Sales
- 95F Profit on Camp Furniture Sales.

4. The following accounts will also have to be opened:

- 82 Total Factory Expense
- 83 Total Shop & Erection Expense
- 84 Total Selling Expense
- 89 Expense Distribution
- 90 Productive Labor Absorbed
- 91 Material Used in Sales
- 91S Material Used in Stock
- 92 Factory Overhead Absorbed
- 93 Shop & Erection Overhead Absorbed
- 94 Selling Overhead Absorbed
- 99 Cost Distribution

The use of these accounts will be explained as the operation of the work is described.

CHAPTER 3.

The Cost System:

5. **Cost Forms:** The Cost Forms change from No. 3 to No. 4, Fig. 1. The blue (Shop & Erection) copy and the pink (Factory) copy remain as in the first stage. On the back of the office copy the **Summary of Cost Distribution** changes to the following:

Total Labor Cost
 Total Merchandise Cost
 Factory Overhead
 Shop and Erection Overhead
 Total Manufacturing Cost
 Selling Overhead
 Total Cost
 Selling Price
 Profit
 Loss

6. The Cost Forms follow the regular routine as described in the first stage through the shop and factory. The blue copy goes to the blacksmith shop and the erection is made therefrom, the pink copy goes to the factory and the sewing is done therefrom. The white copy stays in the office. The returned pink copy is attached to the white copy. From the daily time cards the fraction of hours are recorded on the white copy under their respective departments. When the blue copy is returned all copies come out of the file and the labor cost is figured; from the pink and blue copies the material used is transferred to the white copy, extended and entered under Total Merchandise Cost.

The number of hours of Cutting, Double Needle, Single Needle, Grommet Machine, Girls' Hand Work and Men's Hand Work are added together and multiplied by the established Factory Overhead rate (how to arrive at this rate will be explained later) and entered under "Factory Overhead." The number of hours under Erection and Blacksmithing are added together and multiplied by the established rate for Shop and Erection and the amount is entered under "Shop and Erection Overhead."

7. The total of Total Labor Cost, Total Merchandise Cost, Factory Overhead and Shop and Erection Overhead constitutes the "Total Manufacturing Cost."

8. Let it be explained right here that the cost of goods ends here if goods are manufactured and placed into stock to be sold at a later date. This is also the cost of the merchandise when inventory is taken at the end of the year or during any period. If the goods as extended on the white sheet have been shipped or awnings have been erected it is necessary to add to the Manufacturing Cost the established percentage for Selling Expense, the percentage of what

it costs to sell the goods. How to arrive at this percentage will be taken up in a later Chapter.

9. Selling Overhead added to the Manufacturing Cost gives the Total Cost of the article sold and shipped. From this amount the difference is taken of the Selling Price, which constitutes either a profit or loss.

10. **Time Cards: Form 2.** There is no change in the time cards. They are made out as outlined in the first stage. Each Workman has a daily Time Card. Name, Clock Number and Date are written thereon. The workman enters the job number from the blue or pink Cost Form on the time card as he finds it in the upper right hand corner of the Cost Form. Next he enters the kind of work he is about to do on the job, C for Cutting, D N for Double Needle, S N for Single Needle, G H W for Girls' Hand Work, M H W for Men's Hand Work, G M for Grommet Machine, E for Erecting and B for Blacksmithing. If the workman does not perform any particular work on any specific Cost Form, or in case of delay, machine breakdown, cleaning up, etc., the workman will enter on the time card S W for shop work. This time is called "Non-Productive." In the columns of "Time" he will enter the hour and minute started and when the job is completed the hour and minute finished. Nothing will be entered in the Total column, the total time for each job will be extended in the office.

11. **The Unit Time System.** Most manufacturers have adopted the Unit Time Card System. An hour has sixty minutes and it is somewhat hard to extend fractions of minutes into hours. The manufacturer has therefore adopted a medium to transfer minutes into decimals or 6 minutes to a unit, or "Ten Units" to the hour.

The Unit System therefore divides the hour as follows:

| | |
|-------------------|----------|
| 6 minutes equals | 1 Unit |
| 12 minutes equals | 2 Units |
| 18 minutes equals | 3 Units |
| 24 minutes equals | 4 Units |
| 30 minutes equals | 5 Units |
| 36 minutes equals | 6 Units |
| 42 minutes equals | 7 Units |
| 48 minutes equals | 8 Units |
| 54 minutes equals | 9 Units |
| 60 minutes equals | 10 Units |

In order to figure the time cards it is a very simple matter to transfer the minutes into units. Divide the minutes by six and you will have the units. For instance: The workman's card reads:

Cutting from 8:00 to 8:25—25 minutes—4 Units
 G H W from 8:25 to 9:10—45 minutes—8 Units
 Cutting from 9:10 to 9:35—25 minutes—4 Units

| MERCHANDISE COST | | AMOUNT | |
|------------------|----------------|-----------|-----------|
| 30 1/2 | Yds 8 of White | 7 | 51 |
| 11 | • Curtains | 4 | 31 |
| 35 | # 4 Gramsets | | 12 |
| 20 | 1/4" Rope | 1 | 70 |
| 22 | 3/8" Rope | 1 | 32 |
| 7 | 1/2" Slip Lugs | | 12 |
| 7 | 3/8" Nut Ends | | 10 |
| 4 | " Stud Straps | | 56 |
| 7 | 1/2" Eye Ends | | 12 |
| 4 | 2 1/8" | | 24 |
| 5 | Glass Rings | | 45 |
| 1 | # 3 Bead | | 04 |
| 22 | # 8 Screw Eyes | | 06 |
| 110 | 1/4" Rope | 1 | 65 |
| | | 15 | 60 |
| | 10% wastage | | 152 |
| | TOTAL | 17 | 16 |

| SUMMARY OF COSTS | | |
|---------------------------------|-------------|--------------|
| Kind of Work | No. Hours | Amount |
| Cutting | 4 | .15 |
| Double Needle | 7 | .09 |
| Single Needle | 3 | .41 |
| | 40 | .76 |
| Grom Machine | 3 | .14 |
| Girls' Hand Work | | |
| Men's Hand Work | 1 | .04 |
| | 5 | .57 |
| Erecting | 5 | .69 |
| Blacksmithing | 20 | .76 |
| TOTAL LABOR COST | | 3.61 |
| Total Mdse. Cost | | 17.16 |
| Factory Overhead | 1.50 4.3 | 6.45 |
| Shop and Erection Overhead | 1.60 5.0 | 8.00 |
| Total Manufacturing Cost | | 31.61 |
| Selling Overhead | 17% | 3.79 |
| Total Cost | | 35.40 |
| Selling Price | | 48.90 |
| Profit | | 14.50 |
| Loss | | |

| Date | Cutting | Hours | Date | Double Needle | Hours | Date | Single Needle | Hours |
|------|---------|-------|------|---------------|-------|------|---------------|-------|
| 6/20 | Geo | 4 | 6/20 | Jane | 1 | 6/20 | Elaine | 13 |
| | | | | | | 6/24 | Jane | 7 |
| | | | | | | | | 33 |

| Date | Blacksmithing | Hours | Date | Erecting | Hours |
|------|---------------|-------|------|----------|-------|
| 6/25 | Allen | 7 | 6/20 | Allen | 15 |
| | | | 6/20 | Emma | 15 |

| Date | Girls' Hand Work | Hours | Date | Men's Hand Work | Hours | Date | Grom Machine | Hours |
|------|------------------|-------|------|-----------------|-------|------|--------------|-------|
| | | | 6/30 | Jane | 1 | 6/30 | Jane | 3 |

FIG. 1

Form No. 2
DAILY TIME CARD
 National Laboratory on Cost Investigation
 National Tent & Awning Manufacturers Ass'n
 CLAIRE I. WEIKERT, Chairman
 439-441 Endicott Bldg., St. Paul, Minn.

Name *Jessie Olson*
 No. _____ Date *Jan. 30, 1944*

| Job No. | Kind of Work | T I M E | | | | Total |
|--------------|--------------|-----------|----------|-----------|----------|-----------|
| | | START | | FINISH | | |
| | | Hr. | Min. | Hr. | Min. | |
| <i>647</i> | <i>@</i> | <i>8</i> | <i>0</i> | <i>8</i> | <i>4</i> | <i>4</i> |
| <i>444</i> | <i>GHW</i> | <i>8</i> | <i>4</i> | <i>9</i> | <i>2</i> | <i>8</i> |
| <i>451</i> | <i>@</i> | <i>9</i> | <i>2</i> | <i>9</i> | <i>6</i> | <i>4</i> |
| <i>647</i> | <i>n</i> | <i>9</i> | <i>6</i> | <i>10</i> | <i>0</i> | <i>4</i> |
| <i>451</i> | <i>S.N.</i> | <i>10</i> | <i>0</i> | <i>10</i> | <i>3</i> | <i>3</i> |
| <i>shop</i> | | <i>10</i> | <i>3</i> | <i>14</i> | <i>0</i> | <i>17</i> |
| <i>543</i> | <i>GHW</i> | <i>1</i> | <i>0</i> | <i>3</i> | <i>9</i> | <i>29</i> |
| <i>587</i> | <i>S.N.</i> | <i>3</i> | <i>9</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| <i>shop</i> | | <i>4</i> | <i>5</i> | <i>5</i> | <i>0</i> | <i>5</i> |
| TOTAL | | | | | | <i>80</i> |

Be Accurate—Every Minute Counts.

Productive Hours *58*
 Non-Productive Hours *22*

FIG. 2

D N from..... 9.35 to 10:00—25 minutes—4 Units
 D N from.....10:00 to 10:15—15 minutes—3 Units
 Shop from.....10:15 to 12:00—1.45 min.—17 Units
 G H W from.. 1:00 to 3:50—2.50 min.—29 Units
 S N from..... 3:50 to 4:30—40 minutes—6 Units
 Shop from..... 4:30 to 5:00—30 minutes—5 Units

8.00 Hours 80 Units

Fig. 2

When the units are now entered on the summary sheet of productive and non-productive hours, they are arranged in decimals or by hundredths and are

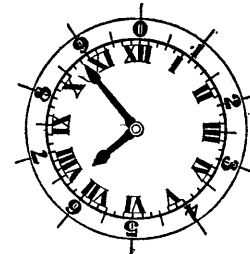


FIG. 3

easier and much quicker to add. This applies also to Cost Forms, where, after the work is completed, the units will have to be added. There is no transformation from minutes into hours necessary.

In most factories the clocks are arranged for the Unit System by pasting from a calendar the figures of 1-0 over the minutes as indicated above, so that the large hand of the clock will point to the units as well as the minutes. Fig. 3.

12. **Recording of Time on Cost Form No. 4.** The first thing every morning is the extending of hours and units on the time cards for the previous day. The time is extended for every job number or every line on the time cards. The total time is entered in the Total column. When all time is extended the card is totaled. Total of all hours must agree with the total hours from the time clock card. The time is now separated into Productive hours and Non-Productive hours. Productive hours are those hours which have a Cost Form number in front. Add these hours and units and enter the total on the bottom of the card under Productive hours. Total all hours and units that have S W (Shopwork) written under "Kind of Work" and the total number enter under Non-Productive hours on the bottom of the time card. The total of Productive and Non-Productive hours must agree with the total of hours on the time card as well as the Clock card.

When this is completed enter the hours spent on each job on the white copy of the Cost Forms by the Job No., which is the same as the Cost Form number in the upper right hand corner. In the date column enter the date, under Cutting, Double Needle, Single Needle, etc., enter the workman's number, in the hours column enter the hours and units. Fig. 1.

13. **Record of Productive and Non-Productive Hours, Form 811A.** From the time cards the hours are entered onto this sheet. Under "Dept." open up the following columns: Total Depts., Factory Dept., Shop and Erection Dept. Fig. 4.

Month June 1928

Monthly Record of Productive and Non-productive Hours

| MONTH | TOTAL | | | | FACTORY | | | | SHOP & REPAIR | | | | DEPT. | | | | DEPT. | | | | DEPT. | | | | | | | |
|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|---------------|-------|-----------|-------|
| | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | | Possible Hrs. | | Non-pro | |
| | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. | Paid Hrs. | Prod. |
| 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | 928 | 692 | 476 | 504 | 173 | 168 | 103 | | | | | | | | | | | | | | | | | | | | | |
| 3 | 907 | 458 | 459 | 526 | 274 | 154 | 95 | | | | | | | | | | | | | | | | | | | | | |
| 4 | 676 | 441 | 405 | 448 | 325 | 93 | 75 | | | | | | | | | | | | | | | | | | | | | |
| 5 | 685 | 436 | 449 | 389 | 314 | 75 | 174 | | | | | | | | | | | | | | | | | | | | | |
| 6 | 1005 | 420 | 445 | 403 | 540 | 183 | 94 | | | | | | | | | | | | | | | | | | | | | |
| 7 | 761 | 479 | 487 | 521 | 249 | 177 | 115 | | | | | | | | | | | | | | | | | | | | | |
| 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | 713 | 523 | 410 | 537 | 404 | 125 | 75 | | | | | | | | | | | | | | | | | | | | | |
| 10 | 986 | 593 | 343 | 697 | 448 | 199 | 184 | | | | | | | | | | | | | | | | | | | | | |
| 11 | 786 | 439 | 347 | 448 | 464 | 164 | 183 | | | | | | | | | | | | | | | | | | | | | |
| 12 | 803 | 557 | 446 | 513 | 351 | 174 | 124 | | | | | | | | | | | | | | | | | | | | | |
| 13 | 793 | 605 | 188 | 453 | 380 | 73 | 115 | | | | | | | | | | | | | | | | | | | | | |
| 14 | 613 | 431 | 184 | 379 | 314 | 65 | 117 | | | | | | | | | | | | | | | | | | | | | |
| 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 16 | 778 | 570 | 408 | 443 | 349 | 94 | 114 | | | | | | | | | | | | | | | | | | | | | |
| 17 | 470 | 444 | 306 | 444 | 310 | 117 | 194 | | | | | | | | | | | | | | | | | | | | | |
| 18 | 806 | 604 | 494 | 448 | 353 | 75 | 127 | | | | | | | | | | | | | | | | | | | | | |
| 19 | 948 | 650 | 448 | 547 | 388 | 159 | 139 | | | | | | | | | | | | | | | | | | | | | |
| 20 | 949 | 496 | 153 | 636 | 498 | 138 | 135 | | | | | | | | | | | | | | | | | | | | | |
| 21 | 459 | 648 | 311 | 561 | 347 | 164 | 147 | | | | | | | | | | | | | | | | | | | | | |
| 22 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 23 | 714 | 545 | 184 | 453 | 374 | 79 | 108 | | | | | | | | | | | | | | | | | | | | | |
| 24 | 649 | 545 | 104 | 461 | 296 | 65 | 39 | | | | | | | | | | | | | | | | | | | | | |
| 25 | 717 | 496 | 441 | 461 | 359 | 104 | 119 | | | | | | | | | | | | | | | | | | | | | |
| 26 | 983 | 678 | 305 | 655 | 458 | 197 | 108 | | | | | | | | | | | | | | | | | | | | | |
| 27 | 896 | 606 | 490 | 491 | 338 | 153 | 137 | | | | | | | | | | | | | | | | | | | | | |
| 28 | 966 | 717 | 189 | 697 | 528 | 164 | 135 | | | | | | | | | | | | | | | | | | | | | |
| 29 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 | 946 | 639 | 307 | 614 | 379 | 195 | 114 | | | | | | | | | | | | | | | | | | | | | |
| 31 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL | 10610 | 14374 | 6438 | 2065 | 4710 | 3355 | 4883 | | | | | | | | | | | | | | | | | | | | | |

FIG. 4

From the time cards add up all productive hours for factory work and the total of hours and units enter under "Prod" in the Factory column. Add up all Non-Productive hours for Factory work and enter hours and units under "Non-Pro" in the Factory column. The total of these two columns are the paid hours which you will pay the workmen for factory work performed. Do likewise with the productive and non-productive hours for work on blacksmith work and erection work and enter the totals in the columns of the S and E Dept. Add the paid hours of Factory and S and E and enter the amount in the Total column under "Paid Hours." Do the same with productive and non-productive hours.

This is done every day from the time cards and at the end of the month the sheet is totaled to arrive at the Grand Total of the different Departments.

14. Recording Time in Payroll Book. Every workman is listed in the weekly payroll book. From the time card which agrees with the clock card the total hours are entered in the payroll book and on Saturday or Payday the total hours are added and extended by the workman's hour rate. This insures that all hours are correctly handled and agree all around, the payroll book with the clock cards and the time records of form 811A.

CHAPTER 4.

15. How the Second Stage Works in With the Accounting System. The time cards have been figured, the productive and non-productive hours have been recorded on Form 811A and the time has been distributed on Cost Forms No. 4.

The blue and pink copies have returned from the factory, the merchandise is transferred to the white copy, figured out and the total is entered in "Summary of Costs" under "Total Merchandise Cost." Fig. 1.

The various columns of operations are added, the hours transferred to Summary of Costs and extended by the workman's rate. Total Labor Costs are added. Hours for Factory work are added and extended by the established rate.

Shop and Erection hours are added and extended by their respective rate and the overhead is entered in the Shop and Erection Overhead column. Figures so far arrived at are added and you have the Manufacturing Cost for this Cost Form. To this amount a certain percentage for selling is added to arrive at the Total Cost. On the following line the Selling Price is entered from the front page and the difference is recorded as either Profit or Loss. In as much as it is hard to arrive at the cost rates until the working of the cost system is under way for several months, the National Laboratory on Cost Investigation nevertheless suggests that you use the following figures as cost rates until the rates of your own business have been established. These rates are given as averages arrived at from installations made under the supervision of the Laboratory.

Factory Overhead \$2.00 per hour
 Shop & Erection \$2.25 per hour
 Selling Overhead 12% added to Mfg. Cost.

16. The Cash Journal Card. When all Cost Forms have been figured, the billing has been made of all yesterday's completed jobs, sort the Cost Forms for the distribution of Sales. One pile for Awnings, another for Tents, Covers, Storage, Rehanging, Paulins, Camp Furniture or whatever departments you may have selected. Add up all the Sub-Totals and get one Grand Total.

Enter the letter of the Sales Account and the amount in column (1) of the Cash Journal card. Do so with all letters and amounts and the Total must agree with the Grand Total. Fig. 5.

From the back of the white Cost Forms add up all "Total Labor Costs" items and enter this amount on the back of the Cash Journal Card in Column N and give Account No. 90 in front of the amount. Add up all items of "Total Mdse. Cost" and enter under No. 91, all Factory Overhead under No. 92, all Shop and Erection Overhead under No. 93, all Selling Overhead under No. 94 and total all profit items of Awn-

ings, deducting therefrom possible Loss items and enter on the Cash Journal Card in Column N under 95A, Fig. 6.

Do likewise with every other commodity. If there are losses only in some commodities the items should be entered in Column M. The difference between Column M and Column N should agree with the Total of Sales in Column D on the front page of the Cash Journal Card. Enter this amount in Column M under Acct. No. 99.

When the Journal has all been entered up with Cash Received, Invoices Received, Checks Issued and Journal Entries, post the General Ledger as given in the first stage.

17. Monthly Closing. The General Ledger has been posted daily and the month is drawing to a close. It is at this time necessary to figure the Interest on the various investments and also the Depreciations as described in the first stage.

18. On Form 811A the time of the Productive and Non-Productive hours was established by Factory and Shop & Erection Depts. The Non-Productive hours are an expense as they were not productive and cannot be collected from the customers through the Labor rate on the Cost Forms. If, therefore, an expense they must be charged to the expense column in the general ledger and it is necessary that the following Journal entry is made. First take the Total Paid Hours and divide this number into the total amount of the payroll of account 70 for this specific month. The result will give the average labor rate per hour for that month. Multiply the total Factory Non-Productive hours by this labor rate and also the total Non-Productive hours of the Shop & Erection by this labor rate. Now make the Journal entry charging acct. 49, and crediting acct. 70 with these two amounts. (The items should be extended separately, because in the Cost Distribution the Lost time for the factory must be charged to factory expense only). Fig. 6.

19. Overhead Distribution for the Month.: Form 14. After the Trial Balance, Fig. 7, has been completed and the books are in balance, the Overhead Expense accounts from No. 30 to 69 are entered into this form and the distribution is made into the departments of (1) Factory, (2) Shop & Erection, (3) Administrative, and (4) Selling. Fig. 8.

20. Rent. In order to make the distribution of this account you must have the square feet which every department occupies. Measure off the floors you are occupying, the floor area for the factory separate from the Shop and Erection, from the office and the sales department. Washrooms, stairs and storage room throw into the Administrative or Office. When the total square feet have been established, enter the items on the line of "Square Feet Occupied."

DAILY CASH JOURNAL

DATE June 30, 1972

| | | | | | | | | |
|--|-----------|--------------------------------|-----------------------------------|------------|--|-------|-----------------------------------|--|
| CHECKS ISSUED FROM NO. TO NO. <u>758-793</u> | | | <i>Cost Distribution</i> | | | | INVOICES FROM NO. SENT OUT TO NO. | |
| ACCT'S PAYABLE FOR INVOICES ENTERED ONLY | | | | | | | SALES | |
| ALL OTHER CHECKS GIVEN OUT | | | DR: ACC'TS REC 3 CR: ACCT. NO'S D | | DR: ACCT. NO. 26 CR: ACCT'S REC. 3 E | | | |
| DR: NO. 10 CR: NO. 2 K | ACCT. NO. | DR: EACH ACCT. NO. CR: NO. 2 L | M | N | A 1925 20 | 35 49 | | |
| 1451 29 | 70 | 345 30 99 | 4765 03 | 790 93 | T 345 75 | | | |
| | | | | T 108 75 | S 4 50 | | | |
| | | | | S 50 | A 17 45 | | | |
| | | | | A 1 19 | P 447 10 | | | |
| | | | | P 4 47 | F 57 43 | | | |
| | | | | F 9 45 | | | | |
| | | | | 90 727 93 | 4765 03 | | | |
| | | | | 91 1548 44 | DISCOUNTS TAKEN & RETURNS ON PURCHASES | | | |
| | | | | 92 445 30 | DISCOUNTS TAKEN ON INVOICES PAID | | | |
| | | | | 93 98 70 | GOODS RETURNED TO WHOLESALE HOUSE | | | |
| | | | | 94 450 49 | DR: ACCT. 10 CR: ACCT. 28 F | | | |
| | | | 4765.03 | 4765.03 | DR: ACCT. 10 CR: ACCT. 4 G | | | |
| | | | O | P | INVOICES FROM NO. RECEIVED TO NO. | | | |
| | | | | | MDSE. PURCHASES GOODS FOR SALE ONLY | | | |
| | | | | | OTHER INVOICES - ALL EXCEPT MDSE. | | | |
| | | | | | DR: NO. 4 CR: NO. 10 H | | | |
| | | | | | DR: ACCT. NO'S CR: NO. 10 J | | | |

JOURNAL ENTRIES

| | ACCT. L | DEBIT Q | ACCT. R | CREDIT R |
|-------------------------------|---------|---------|---------|----------|
| Factory: 335.5 hrs @ 65 | 49 | 218 06 | 70 | 405 15 |
| 816 488.3 @ 65 | 49 | 187 09 | | |
| Last time for June | | | | |
| Total Factory Expense | 84 | 405 15 | | |
| Total Shop & Section Expense | 83 | 644 76 | | |
| Total Selling Expense | 84 | 860 84 | | |
| Expense Distribution for June | | | 89 | 4676.77 |

FIG. 6

FIG. 5

Now enter the amount of rent paid for the month only and divide it by the total square feet and multiply out every department. The amounts to be entered in the Distribution sheet are for the specific month only.

21. Interest on Investment. Investment is the equipment used in producing work. This consists of the Factory Machinery, Office Furniture, Trucks for delivery and Autos for Selling. The easiest way to handle this distribution is to set up different accounts for the various departments. Charge $\frac{1}{2}$ of 1% on that machinery which is used in the Factory work. Open up a special account for this as 31F, charge $\frac{1}{2}$ of 1% per month on that part of the machinery and the auto trucks which are used in the Blacksmith Shop and for Erecting under account 31E, charge $\frac{1}{2}$ of 1% on $\frac{1}{2}$ of the Furniture & Fixtures under acct 31O and charge $\frac{1}{2}$ of 1% of $\frac{1}{2}$ of the Furniture and the Selling Autos under acct 31S. The different items are entered on the Overhead Distribution sheet in their respective columns and added in the Total column. (The percentage is taken on the NET amount of these accounts, after depreciation has been taken off).

22. Interest on Inventory. $\frac{1}{2}$ of 1% is charged to this account and entered on the Overhead Distribution sheet in column 3.

23. Interest on Cash Capital. $\frac{1}{2}$ of 1% on money charged to personal accounts or investments made in Stocks and Bonds. Entered in column 3.

24. Interest on Bank Balances. Entered in column 3.

25. Depreciation on Equipment. Factory Equipment in column 1. Shop and Erection Equipment in column 2.

26. Depreciation on Furniture and Fixtures. $\frac{1}{2}$ in column 3, $\frac{1}{2}$ in column 4.

27. Depreciation on Autos. Trucks in column 2, Autos for Selling in column 4.

28. Liability Insurance. Column 3.

29. Fire Insurance. Column 3.

30. Automobile Insurance. $\frac{3}{4}$ in column 2, $\frac{1}{4}$ in column 4.

31. Federal Taxes. Column 3.

32. State Taxes. Column 3.

33. Advertising. Column 4.

34. Office Expense. $\frac{1}{2}$ in column 3, $\frac{1}{2}$ in column 4.

35. Carfare. Column 3

36. Telephone. $\frac{1}{2}$ column 3, $\frac{1}{2}$ column 4.

37. Telegraph. $\frac{1}{2}$ column 3, $\frac{1}{2}$ column 4.

38. Legal and collection expense. Column 4.

39. Heat, light and power. Column 3.

40. Postage. Column 4.

41. Repairs. Factory repairs column 1, shop repairs column 2.

42. Water. Column 3.

43. Managers or Executive Salaries. If the Executive devotes all his time to Factory Superintending to column 3. If only partly and partly to selling, $\frac{1}{2}$ to column 3, $\frac{1}{2}$ to column 4.

44. Salesmens Salaries. Column 4.

45. Office Salaries. $\frac{3}{4}$ to column 3, $\frac{1}{4}$ to column 4.

46. Bad Debts. Column 4.

47. Lost Time. That part for which Journal Entry was made applying to Factory column 1, the other part to column 2.

48. Interest on Borrowed Money. Column 3.

49. Discount on Sales. Column 4.

50. Stationery and Printing. $\frac{1}{2}$ column 3, $\frac{1}{2}$ column 4.

51. Subscriptions. Column 3.

52. Donations and Dues. Column 4.

53. Factory Expense. That part for Factory column 1, that part for Shop and Erection in column 2.

54. Lost and Damaged Goods. Column 3.

55. Auto Repairs. If for trucks column 2, if for selling autos in column 4.

56. Experiments. If for Factory column 1, shop and erection column 2.

57. Defective Work. If fault of the factory in column 1, if fault of the Salesmen in column 4.

58. Parcel Post, Freight, Etc. Freight in column 3, Freight out column 4.

59. Miscellaneous Expense. Column 3.

60. Wages of Foremen, Shipping Clerk, Errand Boys, Etc. Column 3.

61. The distribution of these expense accounts of course can only be given in a general way, it is for the proprietor to decide how the division is to be made. For instance you may have some heavy printing for the Sales department; in that case the item should be charged to No. 4.

All distributions have been made. The sheet is added as per Fig. 8. The amounts of totals balance with the total column.

62. Now enter from Form 811A the total productive hours in the Total column, the productive hours for the factory in the factory column and the productive hours for Shop and Erection in column 2.

63. Below that figure the percentage of the factory hours to the Total in this case 67%. Figure the percentage of the Shop and Erection hours to the Total, in this case 33%. Take 67% of the Administrative Expense and enter the amount in column 1. Take 33% of the Administrative Expense and enter the amount in column 2. Inasmuch as the Administrative Expense affects every Manufacturing Department, this expense will have to be prorated amongst the Factory Departments by above percentages. Now total the Factory and Shop and Erection columns. This constitutes the total expense accrued for

Trial Balances

| | May 1924 | | | June 1924 | | |
|---------------------|----------|----|-------|-----------|----|-------|
| Cash on hand | 100 | 00 | | 100 | 00 | |
| Cash in Bank | 1728 | 90 | | 4445 | 35 | |
| Accounts Receivable | 16044 | 94 | | 17985 | 39 | |
| Mdse Purchases | 54864 | 47 | | 65718 | 38 | |
| Notes Receivable | 1750 | 00 | | 1750 | 00 | |
| Factory Equipment | 16644 | 48 | | 16644 | 48 | |
| Shop Equipment | 1698 | 45 | | 1698 | 45 | |
| Autos & Trucks | 4555 | 83 | | 4555 | 83 | |
| Office Furniture | 1988 | 60 | | 1988 | 60 | |
| Goodwill | 10000 | 00 | | 10000 | 00 | |
| Personal Accounts | 5400 | 00 | | 5500 | 00 | |
| Accounts Payable | | | 8307 | 66 | | 3448 |
| Notes Payable | | | 10000 | 00 | | 10000 |
| Reserve for Depr. | | | 6856 | 33 | | 6940 |
| Capital Stock | | | 45000 | 00 | | 45000 |
| Surplus | | | 34811 | 05 | | 34811 |
| Awning Sales | | | 43049 | 47 | | 40945 |
| Covers " | | | 8484 | 68 | | 9548 |
| Tents " | | | 518 | 40 | | 1600 |
| Storage | | | 1717 | 00 | | 1734 |
| Rehanging | | | 1436 | 91 | | 4948 |
| Paulons | | | 3518 | 40 | | 5748 |
| Camp Furniture | | | 1548 | 90 | | 1749 |
| Misc Income | | | 1549 | 48 | | 1730 |
| Return Sales | 147 | 56 | | 168 | 40 | |
| Discounts Earned | | | 518 | 49 | | 647 |
| Rent | 1000 | 00 | | 1400 | 00 | |
| Int on Fact Equip. | 1859 | | | 4683 | | |
| Int on Shop Equip | 1174 | | | 1787 | | |
| Interest on Autos | 4015 | | | 4489 | | |
| Interest on Trucks | 4048 | | | 4849 | | |
| Int on Office Equip | 4434 | | | 4390 | | |
| Int on Inventory | 56130 | | | 67356 | | |
| Int on Cash Capital | - | | | 4600 | | |
| Int on Open Accts | 44033 | | | 34044 | | |
| Int on Bank Bal | 4000 | | | 4864 | | |
| Depr on Factory Equ | 6945 | | | 8696 | | |
| Depr on Shop Equ. | 7075 | | | 7684 | | |
| Depr on Fur & Fixt | 8480 | | | 10098 | | |
| Depr on Trucks | 9370 | | | 11444 | | |
| Depr on Autos | 3518 | | | 3843 | | |
| Liability Ins | 18944 | | | 18944 | | |
| Fire Insurance | 3975 | | | 7950 | | |
| Auto Insurance | 7461 | | | 7185 | | |
| State Taxes | 6098 | | | 6098 | | |
| Advertising | 31198 | | | 40410 | | |
| Office Expense | 43764 | | | 49135 | | |
| Carfare | 1500 | | | 1500 | | |
| Tel & Tel | 15643 | | | 18465 | | |
| Legal & Coll Exp | 14000 | | | 14000 | | |
| Heat Light & Power | 15649 | | | 19470 | | |
| Postage | 4374 | | | 4964 | | |
| Allowances | 34581 | | | 33335 | | |
| Executive Salaries | 341580 | | | 389818 | | |
| Salemsens " | 76350 | | | 103500 | | |
| Office Salaries | 54004 | | | 74810 | | |

Trial Balance Continued:

| | May | 1924 | June | 1924 |
|----------------------|-----------|-----------|-----------|-----------|
| Bad Debts | 453 | | 453 | |
| Lost Time | 1609 49 | | 2014 64 | |
| Interest | 131 98 | | 198 04 | |
| Sales Discounts | 143 47 | | 186 71 | |
| Printing & Stat. | 175 40 | | 145 50 | |
| Subscriptions | 50 00 | | 50 00 | |
| Donations & Dues | 134 40 | | 184 40 | |
| Factory Expense | 1059 79 | | 1178 08 | |
| Auto Expense | 71 15 | | 74 60 | |
| Auto Repairs | 315 57 | | 346 04 | |
| Defective Work | 117 56 | | 147 76 | |
| Freight In | 200 00 | | 387 17 | |
| Freight Out | 145 41 | | 33 | |
| Misc Exp. | - | | 33 95 | |
| Sales Expense | 41 286 | | 140 81 | |
| Productive Labor | 1708 63 | | 2647 81 | |
| | 145795 77 | 145795 77 | 143717 39 | 143717 39 |
| Total Factory Expens | 3897 18 | | 5018 85 | |
| Total Shop " | 2067 95 | | 2717 41 | |
| Total Selling " | 5945 20 | | 6806 04 | |
| Exp. Distribution | | 17910 33 | | 15537 10 |
| | 138406 10 | 138406 10 | 159449 49 | 159449 49 |
| Labor absorbed | | 1619 25 | | 2513 72 |
| Material Used | | 22349 18 | | 35790 25 |
| Fact OH absorbed | | 4137 63 | | 5699 21 |
| S&E OH absorbed | | 2816 44 | | 3621 14 |
| Selling OH " | | 4735 29 | | 4927 63 |
| Profit Allowings | | 3345 16 | | 9765 48 |
| " Covers | | 330 12 | | 381 12 |
| " Tents | | 150 93 | | 80 00 |
| " Storage | | 115 08 | | 121 42 |
| " Rehanging | | 108 22 | | 204 98 |
| " Paulins | | 44 76 | | 68 71 |
| " Camp Fur. | | 360 54 | | 432 33 |
| Cost Distribution | 40115 60 | | 64006 04 | |
| | 178321 70 | 178321 70 | 223455 51 | 223455 51 |

FIG 7.

the different departments for this specific month. Divide the productive hours into the total Factory Expense and you will find the rate of cost per hour to be applied in figuring the overhead on your Cost Forms.

Do likewise with Shop and Erection.

Expense Distribution.

64. It is not advisable to close out your accounts at the end of every month into the Factory and Shop and Erection Expense accounts, you would lose the identity of your expenses and what they were paid for. But you must also know for reason later ex-

plained what the Factory Expense is. It is therefore suggested that an Expense Distribution account be opened which is credited by Journal Entry after this sheet is made up and charged "Total Factory Expense" with the amount of the Cost Distribution sheet. Likewise with the Shop and Erection Expense as well as the Selling Expense. Fig. 6.

Selling Expense Percentage.

65. The Factory Cost rate has been established, so has the Shop and Erection rate. Now the Selling Percentage will be located, in the following manner: Take a Cost Form No. 4 and where it shows the

Form 14

Overhead Distribution for Month *June 1924*

| | TOTAL | FACTORY | Shop and Erecting | Administrative | Selling |
|----------------------|-------|---------|-------------------|----------------|---------|
| Square Feet Occupied | 17500 | 6650 | 7450 | 1700 | 1700 |
| Area Units | | | | | |

Expense Accounts Distribution:

| DEPT'S | 1. | 2. | 3. | 4. |
|--------------------------------|-------------|------------|-------------------------|-----------|
| 1-4 Rent <i>.016 off</i> | 700 00 | 106 40 | 39 70 | 47 70 |
| 1-4 Int. on Investment | 46 71 | 8 74 | ^{6 15} 8 01 | 4 74 |
| 3 Int. on Inventory | 114 76 | | | 9 79 |
| 3-4 Int. on Cash Capital | 26 00 | | | |
| 3 Int. on Open Accounts | 80 11 | | | 26 00 |
| 3 Int. on Bank Balances | 86 4 | | | 80 11 |
| 1-7 Depreciation on Equip. | 73 78 | 17 71 | 6 07 | |
| 3-4 Depreciation on Furn. | 18 18 | | | 86 4 |
| 2-4 Depreciation on Autos | 71 99 | | | 9 09 |
| 3 Liability Insurance | - | | | 18 74 |
| 3 Fire Insurance | 39 75 | | | 3 75 |
| 2-4 Automobile Insurance | 47 74 | | 35 43 | 11 81 |
| 3 Federal Taxes | - | | | |
| 3 State Taxes | - | | | |
| 4 Advertising | 90 17 | | | 90 17 |
| 3-4 Office Expense | 53 73 | | | 76 87 |
| 3 Carfare | - | | | 76 86 |
| 3-4 Telephone | 78 47 | | | |
| 3-4 Telegraph | - | | | 14 71 |
| 4 Legal & Collection Exp. | - | | | 14 71 |
| 3 Heat, Light & Power | 36 41 | | | |
| 4 Postage | 5 90 | | | 36 41 |
| 3 Repairs <i>Selling Exp.</i> | 7 95 | | | 5 90 |
| 1 Water <i>Allowance</i> | 7 54 | | | 7 95 |
| 3-4 Managers' Salaries | 48 73 8 | | | 7 54 |
| 4 Salesmen's Salaries | 271 50 | | | 41 19 |
| 3 Office Salaries | 208 08 | | | 271 50 |
| 4 Bad Debts | - | | | |
| 3 Lost Time | 405 15 | 718 06 | 187 09 | |
| 3 Int. on Borrowed Money | 58 06 | | | 58 06 |
| 4 2% Disc't, in 10 days losses | 43 74 | | | 43 74 |
| 3-4 Stationery & Printing | 40 10 | | | 10 05 |
| 3 Subscriptions | - | | | 10 05 |
| 4 Donations, Dues | 50 00 | | | 50 00 |
| 1-2 Factory Expense | 118 79 | 90 79 | 78 00 | |
| 1-2 Lost & Damaged Goods | 3 45 | 3 45 | | |
| 2 Auto Repairs | 10 47 | | 10 47 | |
| 1-2 Experiments | - | | | |
| 1-2 Defective Work | 25 40 | 40 00 | | 5 40 |
| 3-4 Parcel Post <i>Freight</i> | 41 96 | | | 40 96 |
| 3 Miscellaneous | 33 95 | | | 33 95 |
| 3 Foreman, Ship. Clerk, etc. | | | | |
| | | 46 15 | 370 47 | 981 36 |
| | | 657 57 | 373 84 | |
| Total | 7676 77 | 1171 67 | 644 76 | 860 84 |
| Productive Hours | 1437.2 Hrs. | 971.0 Hrs. | 466.7 Hrs. | |
| | | 67 % | 33 % | |
| Total Cost Per Hour | | \$ 1.15 | \$ 1.20 | 78 / 10 % |

FIG. 8

Total Labor Cost enter the amount of account 70 for the month. Fig. 9.

Under Total Merchandise Cost enter the amount of Material used from account 91. Under Factory Overhead enter the amount from account 82 or from the Overhead Distribution sheet just discussed, and under Shop and Erection enter the amount from the Distribution sheet or account 83. Add these amounts together and the total Manufacturing Cost is established of all goods manufactured during the month. It was said that a percentage had to be added to the Manufacturing Cost, to arrive at the Total Cost. This percentage is arrived at by dividing the Selling Expense by the Total Manufacturing Cost. Fig.9.

Average Cost Rate Sheet.

66. The Awning business is a seasonable business. The productive hours in June are much greater than in December, the expenses may remain for every month alike, if the expense is the same in December as in June and the productive hours are less, naturally the cost rate will fluctuate greatly. It does not pay, however, to have a lot of different cost rates during the seasons, the proprietor will never know what the actual cost is, therefore it is advisable to adopt the average annual cost rate to figure the Overhead. And it is important to know just what the average Non-Productive Time in one's plant is. A Summary is therefore adopted showing the Productive and Non-Productive Hours for the month, the hours and Expenses for the Factory and Shop and Erection Departments and the Cost of the Manufacturing process together with the Selling Expense and the Percentage thereof and the Cost rates of the Manufacturing Departments. Fig. 10 shows this form. The first month (when the Cost system is installed) is entered on this form. The cost rates and Sales percentages are shown. The following month is entered and added to the first. An Average is stricken. The third month is added and an average is stricken. And so on until twelve months have been entered and their average has been stricken.

The thirteenth month is also added, but the first month is deducted to maintain a twelve month average, and the fourteenth month is added and the

second is deducted. In this manner a true average of costs is maintained. It is wrong to merely add to the sheet and receive an average of averages; there may be two months of heavy season in the report and only one month of the dullest. A twelve months average is the correct method to apply to your costs.

67. **Checking up the correctness of the Cost system with the Accounting system. Overhead checking out short or Over.** Of course the proprietor wants to know whether or not his cost system stands correct and if all expenses for which he paid money are actually again collected from the customers through the cost system. This can easily be accomplished in the following manner.

There are four departments: Labor, Factory Expense, Shop and Erection Expense and Selling Expense; Labor account No. 70 shows the Labor paid out, No. 90 the Labor charged to Customers in the Costs Forms. Number 82 shows the Factory Expense actually paid out, No. 92 the Factory Overhead charged through the Cost Forms; Number 83 the Shop and Erection Expense actually paid out, No. 93 the Shop and Erection Overhead charged through the Cost Forms; Number 84 the Selling Expense actually accrued and No. 94 the Selling Percentage charged through the Cost Forms. If the Expenses and the Overhead charged check out the Cost system is correct. But it does not for several reasons. The Labor cannot check out, because there are some white tickets in the file on which time has been recorded but it has not yet been charged to the customers, because the blue and pink copies have not yet been returned. This applies also to the Factory and Shop and Erection hours which were recorded on the white copies but have not been billed out.

The actual Cost rate should never be applied to costs, they should always be raised about 10% to insure possible increase in expenses.

If the Expenses are going higher than the Overhead absorbed during the dull season, it is a sign that the busier months will have to absorb any expense that is left over from the duller months. Fig. 11 explains just where the cost system stands on this matter.

Comparison of Expenses actually paid and Overhead charged in Costs:

| | Labor | Factory | Shop & Erect | Selling |
|------------------|---------------|-----------------|---------------|-----------------|
| Expenses paid | <u>934.18</u> | <u>1,171.67</u> | <u>644.76</u> | <u>860.84</u> |
| Charged in Costs | <u>894.47</u> | <u>1,561.58</u> | <u>804.70</u> | <u>1,973.44</u> |
| Overhead short | <u>397.1</u> | | | <u>668.80</u> |
| " over | | <u>439.91</u> | <u>160.44</u> | |

Average Cost Rates

| Month | Total Hours | | | | Labor | |
|-----------|-------------|---------|-------------|----|--------|----------------|
| | Paid Hours | Pro Hrs | Non-Pro Hrs | % | Hrs | Amount |
| May 1944 | 1751.4 | 1118.7 | 632.7 | 36 | 1118.7 | 966.14 .86 |
| June 1944 | 2061.0 | 1437.2 | 623.8 | 30 | 1437.2 | 934.18 .65 |
| Average | 3817.4 | 2555.9 | 1261.5 | 33 | 2555.9 | 1900.32 .75 |

| Factory Hrs | Shop & Erector | | Selling | | % of Total |
|-------------|----------------|-------|---------|----------|------------|
| | Amount | Hrs | Amount | Hrs | |
| 757.4 | 1377.19 | 366.3 | 936.48 | 5566.39 | 813.81 |
| | 1.83 | | 7.60 | | 14.6 |
| 971.0 | 1171.57 | 466.2 | 624.26 | 11141.16 | 860.84 |
| | 1.15 | | 1.40 | | 7.8 |
| 1743.4 | 2493.86 | 832.5 | 1580.74 | 16707.55 | 1674.65 |
| | 1.45 | | 1.89 | | 10. |

FIG. 10

68. Goods Manufactured for Stock, Samples, Experiments and Defective Work:

When Cost Forms are coming through for other work than charges to Customers or for work as stated above, it is necessary that a Journal entry be made charging "Defective Work" or whatever account it may be and crediting "Misc. Income."

This cannot be credited to Sales as such accounts are only for profits. These Stock transactions are not made for Profit, they go to the various accounts at cost, and as there is no selling transaction entered

in to no selling expense is charged either.

Of course a certain amount of Factory Overhead is absorbed and the material used therein must be credited to 91S "Material used for Stock." This material cannot be credited to the regular account, as you will be interested to know at the end of the year what percentage the material is to the selling price, of the total sales.

The material and overhead therefore are credited to the 91S and 92 and 93 accounts and charged to 99 "Cost Distribution Account."

CHAPTER 5.**The Daily Report**

69. It is universally known that if the inventory is on hand the proprietor can figure up a balance sheet. From the National Cost and Accounting system this figure is always available.

All proprietors who have adopted the National Cost system find the Daily Report to be the pulse of the HEART OF THEIR BUSINESS.

An executive in St. Paul from the observation and study of the daily report says that regardless of how he tried to bring up a certain article onto a paying basis, that it could not be done, and eliminated it from the list of manufacture. An Executive in Detroit claims that the daily report in comparison gives him the danger signal when his salesmen need encouragement. The daily report gives him the danger signal to stimulate special sales, to keep above the average sales line.

A proprietor in Milwaukee claims that the daily report is the balance wheel of his business, the scale on which is weighed his financial status of how to buy and how to pay.

Another proprietor proclaims that the daily report is the greatest support when he finds it necessary to borrow money from his bank and that his banker told him, that business conditions would be better amongst the trade if merchants armored themselves with reports of its kind.

The National Cost Laboratory encourages the adoption of daily information about the business, the instrument of the proprietor to watch like a barometer which indicates when the storm cloud appears. Fig. 12.

Daily Report June 30, 1944.

| Assets & Liabilities: | |
|--------------------------|---------------------|
| Cash on hand | <u>100.00</u> |
| Bank Balance | <u>1678.39</u> |
| Deposit | <u>1109.45</u> |
| Checks | <u>264.49</u> |
| Cash in Bank | <u>7445.35</u> |
| Accts Rec | <u>16.349.61</u> |
| Charges Today | <u>4765.03</u> |
| Debits | <u>-</u> |
| Remittances | <u>1.109.45</u> |
| Credits | <u>-</u> |
| Outstdg Accts | <u>17.985.39</u> |
| Inv & Purch | <u>65.004.30</u> |
| Purchases | <u>716.08</u> |
| Less Material | <u>25790.75</u> |
| Inventory today | <u>49.948.13</u> |
| Equipment | <u>44.884.96</u> |
| Sundry Accounts | <u>17.450.00</u> |
| Total Assets | \$ 90.573.83 |
| Accts Payable | <u>3095.05</u> |
| Invoices today | <u>716.08</u> |
| Invoices Paid | <u>364.49</u> |
| Accounts Payable today | <u>3.448.84</u> |
| Notes Payable | <u>10.000.00</u> |
| Reserve for Deprec. | <u>6.940.78</u> |
| Total Liabilities | 40.369.14 |
| Deduct from Assets | <u>40.369.14</u> |
| Net Worth | \$ 70.404.71 |
| Deduct Capital & Surplus | <u>57.811.05</u> |
| Profit, Loss | \$ 17.393.66 |

| Sales: | Today | This Month | This Year |
|---------------------|-----------------|------------------|------------------|
| Awnings: | <u>1435.40</u> | <u>17,876.40</u> | <u>40,945.47</u> |
| Covers | <u>-</u> | <u>1,043.64</u> | <u>9,578.30</u> |
| Tents | <u>245.75</u> | <u>1,084.00</u> | <u>1,600.40</u> |
| Storage | <u>4.50</u> | <u>17.50</u> | <u>1,734.50</u> |
| Rehanging | <u>17.45</u> | <u>1,491.39</u> | <u>4,948.30</u> |
| Paulins | <u>447.10</u> | <u>4,410.15</u> | <u>5,478.35</u> |
| Camp Furniture | <u>57.43</u> | <u>400.40</u> | <u>1,749.30</u> |
| Total Sales: | 4,765.03 | 43,941.46 | 64,174.47 |

| Profit: | Profit & Loss on Sales: | | |
|---------------------|-------------------------|-----------------|------------------|
| Awnings | <u>470.93</u> | <u>6440.37</u> | <u>9,765.48</u> |
| Covers | <u>-</u> | <u>51.00</u> | <u>381.14</u> |
| Tents | <u>108.45</u> | <u>344.07</u> | <u>480.00</u> |
| Storage | <u>50</u> | <u>6.34</u> | <u>141.47</u> |
| Rehanging | <u>1.19</u> | <u>96.76</u> | <u>404.98</u> |
| Paulins | <u>4.47</u> | <u>45.98</u> | <u>68.74</u> |
| Camp Furniture | <u>445</u> | <u>71.79</u> | <u>437.33</u> |
| Total Profit | 394.39 | 6,996.76 | 11,454.07 |

FIG. 12

CHAPTER 6.

Profit and Loss

70. The daily report starts anew with the first of the month as far as the daily and monthly sales and profits from sales are concerned. A monthly Profit and Loss, however, is affected from the information in the accounts 70 to 99. These accounts show the Comparison of the Profit and Loss Statement as they are derived from the Accounting and Cost System. Fig. 13.

And THIS STATEMENT is the only true story of the conduct of your business. If you are interested to know why you are in business and where you are making money in business it is necessary to study the details of your cost system thoroughly. It is not sufficient to merely take inventory at the end of the year to establish the Cost of Merchandise sold, because if you take inventory at Market prices and your original cost prices were higher, you will suffer a loss in your profits which has nothing to do with your cost system. It is the actual cost which has to be considered in inventory or figuring cost of the Cost Forms, so that the inventory or merchandise purchase account is credited with the amount with which it was charged. If the prices with which the inventory was figured are too high or over the mar-

ket price, a depreciation may be taken which, however, is deducted from the profits after the final Profit and Loss Statement has been made up.

To show that your Inventory is checking out right and that the proper prices have been used in figuring cost, you must use the actual cost of purchase. You will then have a true comparison, of the items that constitute cost: Labor, Material, Factory Overhead, Shop and Erection Overhead and Selling Percentage.

Then and only then can you take action to decide on what articles are profitable for you to manufacture.

Another reason why the records must be kept in detail is the fact that Miscellaneous Income and Discounts Earned or any other Earnings are not to be included in the Profits from the Sales Division. They are Earnings outside the operations from business. Many a merchant is in the habit of including these items in his profits when closing the books at any time, and of course he will receive a fictitious statement where the profit was made and occasionally the Miscellaneous Income is greater than the profits from operations.

Comparison of Profit & Loss Statement derived from the Accounting and Cost Systems.

Accounting

Cost System

| | Sales | | | | Profits | | | |
|------------------|----------|--|--|-----------|---------|----------|--|-----------|
| Awnings | | | | 40,975.47 | | | | 97,654.8 |
| Covers | | | | 9,548.30 | | | | 381.14 |
| Tents | | | | 1,600.40 | | | | 480.00 |
| Storage | | | | 1,734.50 | | | | 141.44 |
| Rehanging | | | | 4,948.30 | | | | 404.98 |
| Paulins | | | | 5,748.35 | | | | 687.4 |
| Camp Furniture | | | | 1,749.30 | | | | 434.35 |
| | | | | | | | | 11,454.07 |
| Total Sales | | | | 64,174.44 | | | | |
| Less Returns | | | | 1,284.0 | | | | |
| Net Sales | | | | 62,890.44 | | | | 11,454.07 |
| Less Material | | | | 35,790.45 | | | | |
| Gross Profit | | | | 27,099.99 | | | | 11,454.07 |
| Less Expenses: # | | | | | | | | |
| Payroll | 7,644.81 | | | | 4.1 | 149.09 | | |
| Factory Exp | 5,018.85 | | | | 7.8 | 680.36 | | |
| S & E Exp | 3,714.41 | | | | 5.8 | 91.07 | | |
| Selling Exp | 6,806.04 | | | | 10.4 | 1,878.41 | | |
| | | | | 18,179.91 | | | | 14,184.1 |
| Net Profit | | | | 10,035.86 | 15.1 | | | 10,035.86 |
| Misc Income | | | | 1,730.50 | | | | 1,730.50 |
| Discounts Earned | | | | 647.30 | | | | 647.30 |
| Actual Profit | | | | 14,393.66 | | | | 14,393.66 |

Expense items in the Profit columns constitute Overhead charged too much into costs or not charged enough:

| | Labor | Factory | Shop & E | Selling |
|--------------------|----------|----------|----------|----------|
| Actual Expense | 7,644.81 | 5,018.85 | 3,714.41 | 6,806.04 |
| Absorbed in O H | 7,513.72 | 5,699.41 | 3,621.14 | 4,947.63 |
| Not charged enough | 149.09 | | 91.07 | 1,878.41 |
| Charged too much | 91.07 | 680.36 | | |
| | 1,878.41 | | | |
| | 680.36 | | | |
| | 1,481.41 | | | |

short

FIG. 13

Chapter 7

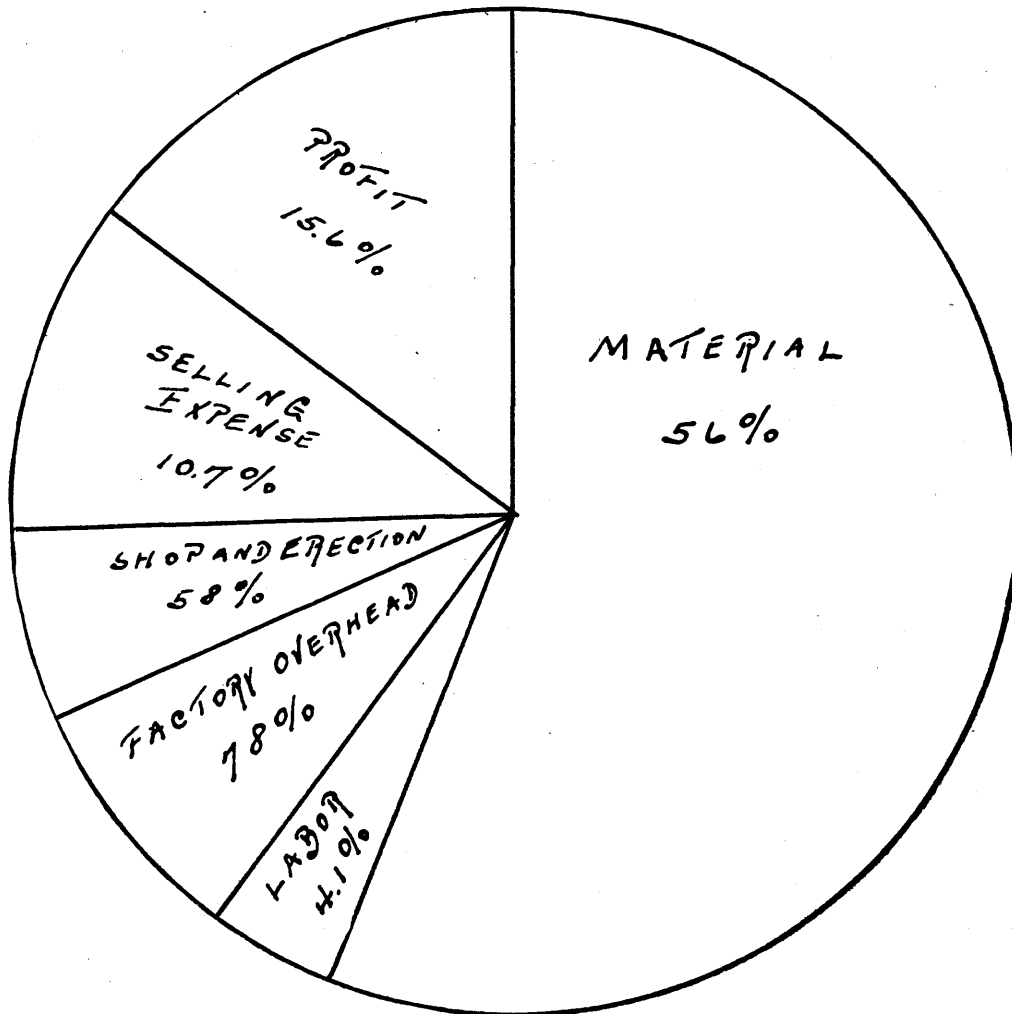
Charting Your Business.

71. No better method can be used than a story told through pictures. No better method can we recommend to a business man than the operation of his business reflected in charts. It is the barometer, again the warning signal if studied right. In the same manner as a budget is laid at the beginning of the year, so should the expenses be curbed and remain in the proper proportion with the sales. Only in that case can a business man be successful. The average cost of Merchandise figured on the selling price should reach about 38%, not more than 40% and the expense, labor and overhead as well as Selling Expense should not exceed 40%. Charts will show the check out of the parts the sales should con-

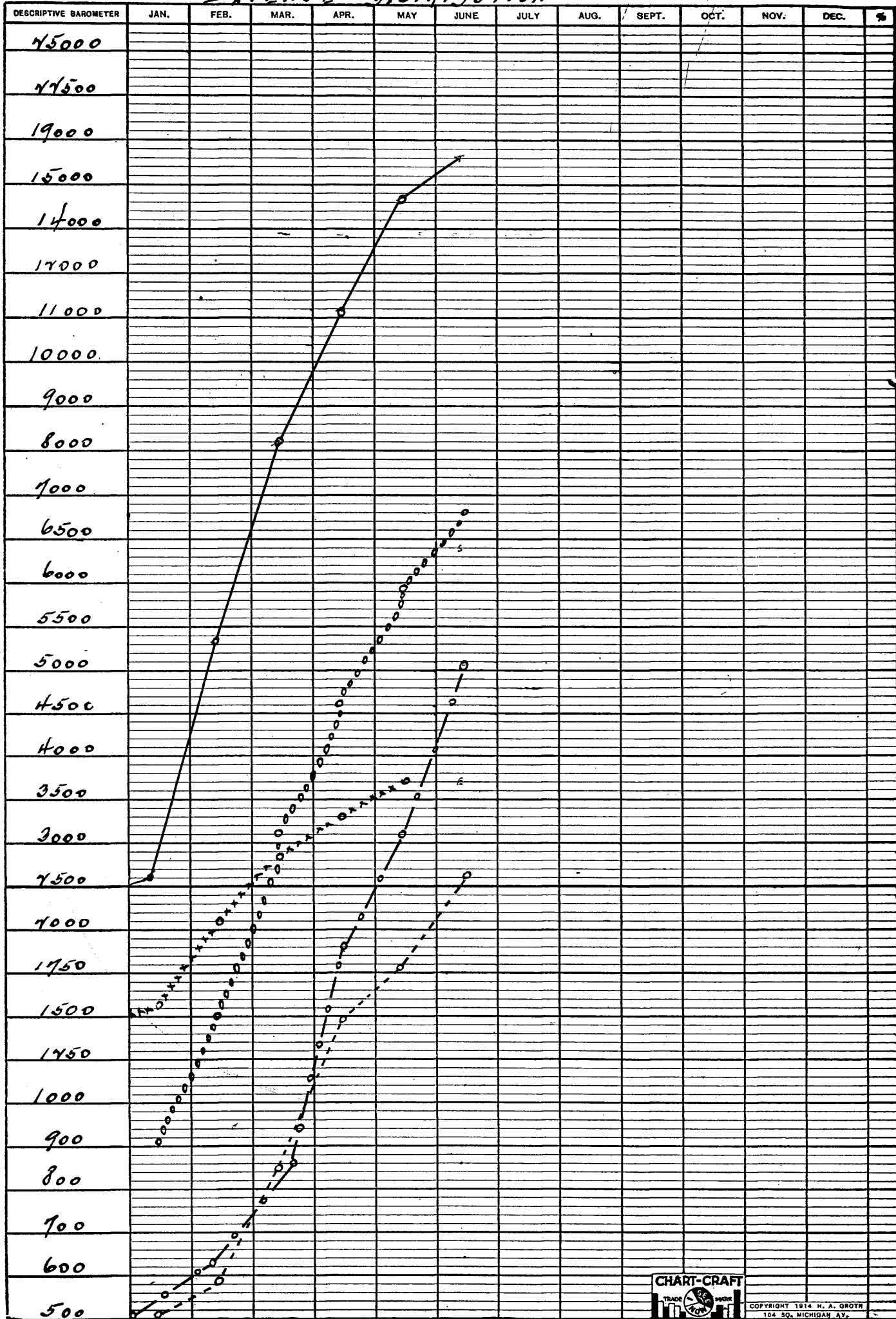
sist of and if the overhead expense is running too high, the danger signal arises and shows that it is time to look into the increase of the expenditures.

Comparative charts about sales and expenses are of great interest to the executive the second year, or if brought up from the previous year. They will show the increase in sales the reduction of overhead and the increase in Profits.

Nothing succeeds like Success and success with the executive lies not in assisting in the shop or helping erecting awnings, but in studying figure facts about his business and applying them accordingly and wisely.

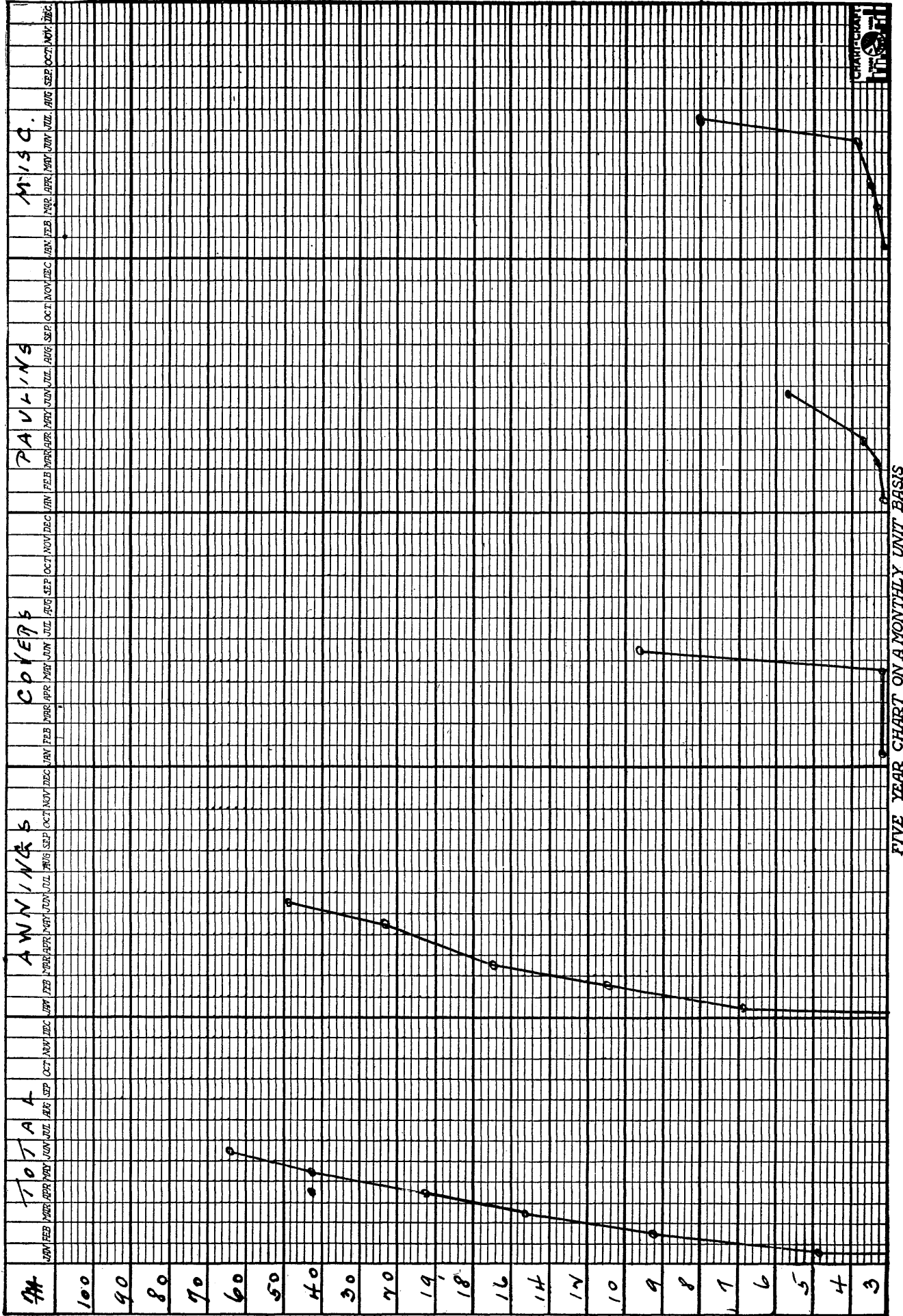


EXPENSE DISTRIBUTION



SHIPMENTS

BCI 11



FIVE YEAR CHART ON A MONTHLY UNIT BASIS



INDEX

| | | | |
|--|--------|---------------------------------|--------|
| A | | M | |
| Administrative Expense Divided | 63 | Market Price | 70 |
| Advertising | 33 | Miscellaneous Expense | 59 |
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| Auto Repairs | 55 | N | |
| Average Cost Rates | 66 | Non-Productive Time | 10, 12 |
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