1926

Book shop accounts and records

Cedric R. Crowell

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GENERAL MANAGER
DOUBLEDAY, PAGE BOOK SHOP COMPANY, INC.
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ISSUED BY THE

National Association of Book Publishers

25 WEST 33RD STREET NEW YORK

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FOREWORD

To successfully operate any business, there are certain records and accounts which must be kept so that the proprietor or his manager can at any time make a survey of the business and proceed with his plans on the basis of facts plus imagination, instead of imagination only. The general retail book business is no exception, and a retail book shop will become increasingly profitable as proper records are made and studied, pertaining to sales, investment, inventory, cost of operation, and revenue.

The usual principles of good bookkeeping apply, of course, to a book shop. If he is not already familiar with these principles, it will be wise for anyone contemplating entering the business of bookselling or hoping for advancement in it, to familiarize himself with them. They can be found in any good elementary book on bookkeeping. Supplementing these, however, are some general observations and specific suggestions which may prove of additional value.

C. R. C.

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BOOKSHOP ACCOUNTS AND RECORDS

Sales Records

Probably the first record to which most booksellers refer is the sales record. This is quite natural and proper, for the retailer is not concerned with production problems, large shipping problems, etc.; his sole function is to sell at retail what he buys at wholesale and the best index of the success of his effort is recorded in his cash register. The total daily store sales and cumulative sales should be recorded for permanent record by months and the corresponding months in each year should be compared. The following table illustrates an effective method of keeping this comparative record which, to be of any real value, must always be kept up to date.

TABLE No. I

Comparative Daily Sales Record

October Sales

Date		1924	1925	1926	1927	1928	1929
1	day	110.05	120.17				
	total						
2	day	92.10	105.04				
	total	202.15	225.21				
3	day	105.26	111.61				
	total	307.41	336.82				
4	day	125.05	Sunday				
	total	432.46					
5	day	Sunday	194.00				
	total		530.82				
6	day	200.10	140.16				
	total	632.56	670.98				
7	day	118.69	150.15				
	total	751.25	821.13				
8	*And so on throughout each month*						

By a careful study of these figures and a frequent check-up to find average daily sales in any given period from a week to a year, the trend of the business can be easily determined and an extra effort should be exerted in the low sales periods to increase the otherwise normal business. The bookseller should, of course, always strive for, and can usually attain, an appreciable increase each month over the corresponding month of the previous year. No definite percentage of increase can be suggested here, because a great many conditions enter into the matter; but the goal should be high and every effort should be made to attain it.

In addition to the cumulative record showing the whole store sales trend, it is desirable to keep a similar record for all permanent selling personnel so that the bookseller knows who are his most productive employees, whether his personnel is steadily improving in sales ability, and whether he is overpaying some and underpaying others. (If the store is departmentalized, similar departmental records will be important, but most book shops are not sufficiently large to warrant this last record.)

Investment in Stock

The record of investment in stock is very necessary, if not quite as important as the sales record upon which it is based. The initial investment in stock for a new book shop should be determined on the basis of a *conservative* estimate of annual sales. The following table gives suggested initial stock for book shops of varying sizes.

TABLE No. II

Suggested Initial Stock for New Book Shops

Conservative Estimate of Annual Sales	Average Daily Sales	Cost Price of Sales	Initial Stock	Rate of Turnover‡ if Average Stock is same as Initial Stock
$10,000	$33	$6,600*	$2,000	3.3
15,000	50	10,000*	2,750	3.6
20,000	66	13,000†	3,300	3.9
25,000	82	16,250†	4,000	4.06
50,000	164	32,500†	7,500	4.33

**Discount figured at 33 1-3%*
†Discount figured at 35%
‡Turnover—See definition on page 5

The manager of the new book shop should estimate his sales, for basis of investment, *very* conservatively. He can always buy additional stock to meet an increase in sales over his estimate, but if sales do not materialize on the basis of his estimate, he will find himself handicapped at the outset with excessive stock investment which will depreciate very rapidly, with the resulting shrinkage of assets. The above table represents the maximum initial stock which should be purchased; any amount which can be carried below these figures and still give satisfaction to customers will be still better.

Stock Turnover

Care in controlling the initial investment will be futile in the subsequent operation of the shop unless the bookseller adopts and adheres to a comprehensive plan of inventory control. Every successful merchant must secure a reasonable rate of stock turnover.

TABLE No. III

STOCK TURNOVER

Month	Stock on first day of month		Monthly Retail Sales
January	$3,500		$2,000
February	4,000		1,600
March	4,200		1,700
April	4,000		1,900
May	3,900		1,900
June	4,200		2,000
July	3,700		1,600
August	3,700		1,400
September	4,500		1,500
October	6,000		2,000
November	6,500		1,800
December	7,500		5,600
Total	$55,700	Total Sales	$25,000
		Less 35%	8,750
			$16,250—Cost of Sales 65%

12 months/$55,700

$4,642—Average Stock

$4,642/$16,250=3.5006 Annual Turnover

Turnover is the relation between average inventory at cost price and annual sales, figured at cost price—cost price must always be compared with cost price.

Table No. III illustrates the practical operation of the theory of stock turnover.

The above annual turnover—3.5006—is a fair rate of turnover, and one which should be reached by every general book shop. A turnover of four or five times a year is frequently obtained in book shops, but usually on annual sales of more than $25,000.

The question naturally arises as to how this relationship of sales to stock investment can be maintained. Failure to properly understand the theory and practice of stock control will usually result in bankruptcy proceedings, with attendant loss to book shop proprietor and creditors.

A more rapid rate of turnover can be secured on sales indicated in the table by reducing stock on hand; or by increasing sales and keeping stock investment at the same amount as is indicated in the table. It is never wise to wait until the year has elapsed before computing the turnover. An indication of the probable turnover can be computed at any time as is illustrated in Table No. IV.

TABLE No. IV

COMPUTATION OF APPROXIMATE RATE OF YEARLY TURNOVER BASED ON FIVE MONTHS SALES

Month	Stock on first day of month		Monthly Retail Sales	
January	$3,500		$2,000	
February	4,000		1,600	
March	4,200		1,700	
April	4,000		1,900	
May	3,900		1,900	
Total	$19,600	Total Sales	$ 9,100	
		Less 35%	3,185	
			$ 5,915	—Cost of Sales 65%

5 months/$19,600

$3,920—Average Stock

$3,920/$5,915=1.509 Five months Turnover

If turnover for five months is 1.509, annual turnover at present rate will be:
5/1.509=.302×12=3.624.

PURCHASE BUDGET

Table No. V represents the inventory control or purchase budget of a bookseller who has been carrying excessive stock in comparison to the volume of his business. He has had too much money tied up in stock and has accordingly found it frequently necessary to borrow from bank or individuals to meet his current operating expenses. Accordingly he has had heavy interest charges and the burden of notes payable to bother him, with the result that his best effort has not been given to his immediate task—bookselling.

Estimate of sales will naturally be computed by use of comparative monthly sales records of previous years illustrated in Table No. I; by the trend of sales in the two or three months immediately preceding, and by general business conditions. (If the shop is new and has no such record, the bookseller must be even more cautious in setting a conservative sales estimate.) After taking into consideration the above factors, he estimates his sales by months for the first six months of a given period and for convenience we shall use the same basic sales figures as in Table No. III.

Of course it is impossible to adhere to any arbitrary monthly expenditure for stock without materially injuring the shop's sales, but if the bookseller is going to control his stock investment, the *figure for the six months period must be strictly followed* with the following exceptions: on the first of

TABLE No. V

PURCHASE BUDGET

Month	*Ultra-Conservative Sales Estimate*	
January	$2,000	
February	1,600	
March	1,700	
April	1,900	
May	1,900	
June	2,000	
Total Estimated Sales	$11,100	
Cost of sales, i.e., retail price less average discount (35%)		$7,215
Physical inventory, January 1st	$6,500	
This is too high for estimated *annual* sales of $25,000 for if average stock is $6,500, turnover will be: 65% of $25,000—$16,250; 6,500/16,250=2.5 Turnover		
Accordingly the bookseller sets an inventory reduction goal for himself.		
Desired inventory July 1st to secure improvement in rate of turnover	5,000	
Necessary reduction of inventory is		$1,500
Bookseller's estimate of sales for six months period is $11,100 at selling price or $7,250 at cost price.		
Available funds for purchase, if same inventory on July 1st as on January 1st would be satisfactory		$7,215
But there is a necessary inventory reduction of		1,500
Therefore available funds for purchase in the six months period under discussion are		$5,715

This available sum should be arbitrarily spread over the six months period something like this:

January	$1,200
February	800
March	1,000
April	700
May	900
June	1,115
	$5,715

every month the purchase budget should be revised on the basis of actual net sales and actual purchases for the preceding month. The revision can be best explained by Table No. V.

A similar revision should be made each month so that the budget is always up to date and yielding either more funds for purchases, if business is on the up grade, and in excess of estimated sales; or warning the

TABLE No. VI

MONTHLY CORRECTION OF PURCHASE BUDGET

Available for six months purchases on first of January	$5,715
January sales were $300 in excess of the conservative estimate, therefore available funds may be increased* by 65% of $300, i.e., cost of sales	195
Revised total, with correction based on *actual* sales in January	$5,910
Actual purchases in January on basis of *orders placed* and *not* on basis of bills received	1,600
Balance available for remaining five months	$4,310

Arbitrary Distribution:

February	$700
March	895
April	700
May	900
June	1,115
	$4,310

*Available funds will be *decreased* by 65% of the amount, if actual sales are less than estimated sales.

bookseller that his enthusiasm for the purchase of books is outstripping his ability to sell them. If the purchase budget is carefully followed, the bookseller will have a constant control of his stock investment. Of course the amounts will vary with the volume of sales, but the procedure will remain the same regardless of the volume.

INVENTORY

As has been indicated in an earlier paragraph, it is wise to take a physical inventory of stock on January 1st of each year. To make a comprehensive inventory, much preliminary work is necessary. When books are received from publisher or jobber, each book should be marked, and always in the same place, to indicate year and month of acquisition, retail and cost price and numbered to correspond to the number the bookseller gives the invoice on which the books were originally charged. The year and month of acquisition, and the cost price should preferably be indicated in code. A code word of ten letters, or two words of five letters each, should be selected, no two letters of which are the same, such as

N	O	R	T	H	F	I	E	L	D
1	2	3	4	5	6	7	8	9	0

to indicate the cost price of the book. The year and the month of acquisition are quite usually indicated by using the alphabet in sequence and designating the month of acquisition by the number of that month in the year. For instance, a $2.00 book, costing $1.33, purchased in the fourth month (April) of the first year of operation is marked:

A^4 $2.00
NRR

A $10.00 book costing $6.25 purchased in December of the second year would be marked:

B^{12} $10.00
FOH

The inventory should be taken at selling price, cost price and year of acquisition and by the classification of the books, that is, fiction, biography, history, poetry, etc. The table below is a suggested model for the Work Sheets.

In connection with the taking of the inventory, the following suggestions may prove helpful:

1. In case any sales are made during the inventory from stock already listed, total of such sales at selling price and cost price should be deducted from the work sheet covering the classification, prior to transfer of figures to Summary Sheets. (Table No. VIII.)
2. Care should be taken to include all stock in reserve in stock room, under tables, in cabinets, behind books in shelves, in windows, on special order shelf and in any other places where reserve or display stock is kept.

TABLE No. VII

WORK SHEET

Section No. .... **Inventory—Midnight, Jan. 1, 1926.**

Classification .... **BE ACCURATE**

(Use separate sheet for each classification)

S.P.=Selling Price C.P.=Cost Price

Regular Discount						Short Discount, i.e., less than 30%					
Acquired This Year		Last Year		Previous Years		This Year		Last Year		Previous Years	
S.P.	C.P.	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.
10.00	6.60	4.00	2.67	5.00	3.15	10.00	7.50				
5.00	3.40										
2.00	1.33										
3.00	1.95										
7.50	5.00										

3. On Sale stock, if any, should be listed and properly labelled on Work Sheets as a separate classification and totals should be forwarded to the Summary Sheet. All exchange accounts with other retail dealers and so far as possible, all On Sale stock, if any, should be adjusted before the inventory.

4. Proper tie-off should be made on inventory date, i.e., no books should be included, invoice for which is dated after inventory date and received before that time; books in transit for which invoices have been dated prior to inventory date should be included; and necessary adjustment must be made in case any books have been sold from invoices dated after inventory date.

After the actual recording of the Work Sheets, they should be carefully gathered and checked to be sure that none are missing. The figures for each classification should then be totalled on the Work Sheets and these figures should be transferred to the Summary Sheet (Table No. VIII) and properly extended.

Final Recapitulation Sheet (Table No. IX) should then be drawn up. It is this sheet and the Summary Sheets which will give the bookseller the most accurate picture of his inventory. From its study he will know the amount of stock on hand at retail and cost price; he can determine the average discount on his stock on hand; he can find out the proportionate amount of his total investment which is represented in the various classifications; he can tell how much of his stock is current and how much of it has remained on his shelves unsold for a year or more; he can compare it with the inventory of the previous year and discover whether his record of year-old stock is better this year than it was last year, etc.

When sales are made from the books on hand the average cost price* of such sales is deducted from the record of stock on hand, and as books are placed in stock their cost price is added to the record of stock on hand. This record is what is known as a ledger inventory, and should be computed at least once a month. (It should not be confused with the figures in the purchase budget which are based on the record of orders placed and estimated sales. A bookseller will frequently charge books to his purchase budget months before they are received. Some of them may eventually be removed from the publishers' lists, or in case of business reverses the bookseller may cancel such orders before they are shipped.) The ledger inventory is computed from actual sales and actual bills payable for books received, as indicated in Table No X.

It will be noted that an arbitrary cost of sales figure of 65% has been used in Table No. X. This figure is based on the experience in aver-

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*This will be 65% if average discount is 35%, i.e. 100% retail price, less 35% discount=65% cost of sales; or 66 if average discount is 34%, or 67 if average discount is 33%.

TABLE No. VIII

Inventory Summary Sheet

Section No.	Classification	This Year		Last Year		Previous Years		Total	
		S.P.	C.P.	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.

TABLE No. IX

Inventory Final Recapitulation Sheet

(Make out after Summary Sheets)

DATE January 1, 1926

	This Year		Last Year		Previous Years		Total	
	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.	S.P.	C.P.
Regular Discount	$5,000	$3,250	$2,000	$1,300	$1,000	$600	$8,000	$5,150
Short Discount								
TOTAL	5,000	3,250	2,000	1,300	1,000	600	8,000	5,150

	S.P.	C.P.
TOTAL STOCK		
This Year	5,000	3,250
Last Year	2,000	1,300
Previous Years	1,000	600
Total Stock before corrections	8,000	5,150
CORRECTIONS:		
Add bills dated prior to Jan. 1st for books in transit	25	16
Add books received prior to Jan. 1st for which bills have not been received	15	9
Add due shop on exchange accounts with firms or individuals	150	100
Add correction (stock left out of work sheets in error)	250	160
Other corrections		
Total t6 be added to Total Stock	440	285
Revised Total before subtractions	8,440	5,435
CORRECTIONS:		
Subtract: We owe firms and individuals on exchange accounts	25	16
Subtract correction (stock included in work sheets in error)	45	30
Subtract: We hold deposits on customers' special orders for books not yet received or billed	75	47
Subtract bills dated after Jan. 1st for stock already received and included in inventory		
Other corrections		
Total to be subtracted from Revised Total	145	93
FINAL TOTAL	8,295	5,342
TOTAL PHYSICAL INVENTORY	8,295	5,342
LEDGER INVENTORY	8,000	5.160
DIFFERENCE: Shortage		
Overage	295	182

TABLE No. X

LEDGER INVENTORY

Physical inventory January 1st	$5,000
Additions to stock in month of January at cost price	500
February 1st inventory if no sales had been made	$5,500
January sales $1,600 at selling price; or, if the average discount was 35%, at cost price, 65% of $1,600	1 040
Ledger inventory February 1st	$4,460
On March 1st the ledger inventory record should read as follows:	
Ledger inventory February 1st	$4,460
Additions to stock in month of February at cost price	700
March 1st inventory if no sales had been made	$5,160
February sales $1,400 at selling price, or, if the average discount was 35%—cost price	910
Ledger inventory—March 1st	$4,250

age general book shops where large discounts on quantity orders, and prevailing general discounts to the trade by the general publishers, net this average figure in spite of the fact that some books carry a discount of 33 1-3%, others 30%, and in cases of text books sometimes as low as 15%. If any bookseller over a period of months finds by careful analysis that his cost of sales is in excess of 65%, or less than 65%, he should use his own percentage figures in his monthly computation of ledger stock on hand.

This should be repeated each month and physical inventory whenever taken (preferably on January 1st and July 1st) should be compared with ledger inventory figures. There will usually be a difference. If the ledger inventory has been properly kept and the physical inventory properly taken, an excess of the physical inventory over the ledger inventory will indicate that the cost of sales percentage has been too high, i.e., that the average discount has really been better than computed. A physical inventory less than the ledger inventory indicates one or more of the following:

1. Cost of sales percentage has been too low, i.e., average discount has really been less than computed.
2. Sales have not been properly recorded.
3. Discounts, if any to customers, have not been properly recorded.
4. Mark downs have not been properly taken.
5. Books have been stolen.

An analysis, even though it is a long process, to discover the exact cause is important. Average cost of sales can be verified or corrected by use of inventory sheets, or by taking all of the invoices for the period and totalling the selling price and the cost price and seeing what percentage the latter bears to the former. Most invoices are marked on receipt to indicate selling price. In cases where this is not done by the publisher the bookseller should so mark them. An analysis of the other possible causes is not so simple and the bookseller may find no check-up possible on the past six months, but he should keep a watchful eye on all possible leakages in the future. If the discrepancy between physical and ledger inventory is excessive, another inventory should be taken on the first of the following month.

It may also prove important to occasionally take an inventory on the basis of publishers to discover which publisher if any, is receiving most adequate representation and also which publisher's books are securing the slowest rate of turnover.

Mark Down

No matter how carefully the buying has been done, it is inevitable that some books will stay on the bookseller's shelves for a year. All such titles should receive careful study in an attempt to analyze their failure to sell, and the bookseller should be able to draw certain deductions for use in future buying and selling. Such books however, must be in the great minority if a reasonable rate of turnover is to be obtained. Prompt clearance of such books at whatever they will bring is preferable to their retention in stock where they are a constant discouragement to bookseller and customer alike.

If the bookseller has been cautious in his accounting methods he has set up a reserve for losses fund by taking a small percentage of his sales—1% or 2%, to cover the losses incidental to bad purchases, uncollectable accounts and other miscellaneous losses. It is to this reserve for losses fund that mark down on all stock should be charged and Table No. XI is a suggested method for such mark down procedure.

The old price in the book should be crossed out, but not erased, and the new price carefully indicated for the bookseller's information and the customer's.

Of course the *actual* monetary loss is represented by the difference between clearance sale price and original cost; but on the other hand these mark down books should bear their share of overhead expense and consequently, good bookkeeping dictates that the loss is the difference between the arbitrary cost of sales of the clearance price, that is 65% of the clearance price if average discount is 35%, and the original cost price. This loss should be charged to the reserve for losses fund. If a still further mark down proves necessary to effect final clearance, the procedure is to subtract 65% of the new clearance price from 65% of the previous clearance price. This is a further loss to be charged to the reserve for losses account.

TABLE No. XI

MARK DOWN RECORD

Date................................

Quantity	Publisher	Author	Title	Mark*	Old cost price per volume	Total old cost price	Sale price per volume	Total sale price	65% total sale price	Loss at cost price†

*Mark=Code of purchase date.
†To obtain loss at cost, subtract 65% of total sale price from total old cost price.

PURCHASE RECORD

All orders for books given to publishers and jobbers should be in writing; and discounts, terms of payments, shipping instructions, etc., should be carefully indicated, and any special arrangement entered into between buyer and seller should be noted. It is necessary for the bookseller to keep a copy of such orders so that he may check invoices and shipments against the orders and be sure that he is receiving correct quantity, correct discount and terms, etc.

Many booksellers have found almost indispensable a card index record of their stock and all purchases except for special order. A suggested form for the card is indicated in Table No. XII.

CARD RECORD OF STOCK

On receipt of invoices from source of purchase, the bookseller should give them a register number for easy future reference if necessary, and enter them in a register book. A suggested method for this is to number consecutively, beginning with No. 1, all invoices dated in the current month. These are indexed numerically in a register book as follows:

Sept. 1	No. 1	Smith & Co.	42.71
	No. 2	Jones Pub. Co.	17.28
Sept. 2	No. 3	Brown Co.	20.10
		etc.	

It should be remembered that the register number of each invoice should also be written in each book, as suggested in an earlier part of this paper.

TABLE No. XII

CARD RECORD OF STOCK

Author			
Title		Subject	Fiction
Edition			
Publisher		Selling Price	2.00

Date		12-5-5	12-20-5	1-1-6			
Stock		2	2	1			
Date	11-5-5	12-6-5	12-20-5				
Order	25	50	15				
Discount	*(whatever it is for each purchase)*						
Date							
Stock							
Date							
Order							
Discount							

The bookseller will naturally keep a record of his total purchases from each publisher, so that he will know at any time whether his purchases for a given period of time are in excess of purchases in the corresponding period in previous years.

COST OF DOING BUSINESS

"The cost of doing business" in a retail book shop is the term applied to all items of expense incidental to the operation of such a shop exclusive only of the cost of merchandise. The bookseller can classify his cost of doing business under the following headings:

Rent
Salaries
Shipping
Advertising
Equipment depreciation
Reserve for losses
General or Miscellaneous expenses

All cost of doing business and any net profit must come out of the difference between the selling price and the cost price of the books sold. In general book shops the prevailing percentage difference between selling price and cost price is 35%, providing the bookseller uses enough books carrying a discount in excess of 35% to offset those which carry a discount less than 35%. To secure a profit of 5% on retail sales with average discount of 35% necessitates keeping the cost of doing business at 30%.

The following items will vary somewhat under different circumstances, but as listed they may prove a helpful guide.

Rent	8%
Salaries	10%
Advertising	2%
*Shipping	2%
Equipment depreciation	1%
Reserve for losses	2%
General expense	5%
Total	30%

These percentages are based on *annual* sales and some of the items will run in excess of the indicated percentages in some months (see Table No. XIII); but they cannot total *annually* in excess of 30% if the average cost of sales is 65%, i.e., 35% discount on net retail price, and the desired profit is 5%.

Rent

Careful study of this table should prove particularly helpful to the individual who is contemplating opening a bookstore and has perhaps consulted real estate agents for space. Rents for good retail locations in all cities with which the writer is familiar are very high at present, with no indication of recession. If a store is available at $4,000, the bookseller should do a gross annual business of at least $50,000, or an average of $164 per day, which represents approximately 80 items of sale *every day* for a year. A $3,000 a year location must produce at least $37,500 in annual sales, or it is too expensive. Sometimes it is possible to make a sliding rental agreement which provides for an increased rent every year, but with the first year less than the initial asking price. In this way the problem of financing is somewhat easier as the rent problem grows with the probable growth of the business. Sometimes a bookseller will fail to charge himself rent because he owns the building in which he operates the store. This practice is thoroughly unsound and should be avoided. The market rental value of such space should always be included as a rental charge in the computation of cost of doing business.

Salaries

Salary expense quite properly carries the highest percentage of cost. A book shop caters to the intellectual needs of the community and needs the service of an intelligent personnel. Unfortunately neither gross sales nor gross margin of profit is sufficient to produce compensation commensurate with the compensation in many other fields where the requirements are less exacting. Until these conditions are remedied by a larger book buying public, or a more uniformly liberal discount, or both, book shop personnel cannot

*This figure will be considerably higher west of Chicago.

be paid as liberally as book shop proprietors would wish. Under present conditions, total annual salaries cannot exceed 10% unless the manager is willing to take less than a 5% profit or scale down his other costs of doing business so that he can add 1% or 2% to his salary quota. Of course a proprietor should charge his salary to the business if he is giving his time to it.

Advertising

No book shop can expect to open its doors and by virtue of that fact find trade flocking to its shelves. A book having a sale in America of 100,000 copies is a comparative rarity. Yet America has a population well in excess of 100,000,000 people. In other words, best sellers are purchased by about one person out of a thousand and the sale of the average book is probably to not more than four persons out of 100,000. This is both an encouraging and discouraging sign. Encouraging — because it indicates the potential possibilities in the retail book business, and discouraging—because it indicates the inertia to book buying among the American people notwithstanding the millions and millions of dollars already spent in book advertising. The impression that a local bookseller can make on these potential opportunities by advertising is, of course, very limited, since he has available only 2% of his annual sales for this purpose.

Initial promotion work for a new shop will normally exceed the 2% figure, but a special appropriation should be made for this initial work.

In a store doing $25,000 per year, the available annual funds will be only about $500. Quite naturally there is a difference of opinion as to the percentage of sales that should be devoted to advertising. Here again the bookseller may devote more than 2% to advertising if he can scale down his other operating costs, but if his average margin of profit on selling price is 35% and he gets a 5% net profit, he must keep these total operating costs down to 30%. This figure is as unchanging as logic. The bookseller's store window is probably his greatest potential advertising medium and he should utilize it to the utmost to create sales. In some of the large general department stores window space is figured as an advertising expense but it is doubtful whether the average bookseller should so consider it. The National Association of Book Publishers has a booklet covering the whole subject of bookstore advertising and publicity, containing many valuable suggested methods.

Shipping

Shipping will of course vary in different localities depending on the distance from the market. Shipping expense should include all transportation costs on purchases from any source and a careful study should periodically be made to discover if the most economical shipping routes and methods are being used. This is particularly true of shops in the middle west where shipping expense will invariably run to 4% or 5% and in the far west even higher. In such cases the bookseller will have to save on some of his other operating expenses if he is to keep his annual cost of doing business within the 30% figure. In many other lines of business the shipping expense is included in the cost of the merchandise to be sold. This is quite proper in lines where the dealer makes his own retail price; but in the case of general book shops, the retail price is almost invariably made by the publisher and the book is advertised at that price. Accordingly the bookseller does not set his own retail price on the basis of his actual cost of doing business, plus his cost of merchandise, plus his net profit. He must, as it were, necessarily work backwards and compute his cost of doing business on the basis of publisher's advertised selling price.

Equipment

When a store owner offers his property for lease, it is offered almost invariably as is, i.e., no provision is made for shelving, floor covering, lighting fixtures, etc. As a result the bookseller like other merchants, must provide adequate fixtures for carrying and displaying his merchandise. He must also purchase certain store supplies for permanent use such as cash register, etc. All of these items whose life will run over the period of the lease, should be considered equipment and should be included in the equipment account. The total of all this equipment, we shall say by way of illustration, will cost between $1,500 and $2,000 for a small book shop. This is perhaps a slightly inadequate figure, but annual sales of $30,000 to $40,000 should not carry much more than this. While theoretically equipment is an asset and figures as such on a financial statement, equipment will bring next to nothing at resale after installation. Obviously equipment costs represent a comparatively large initial investment, next to stock, the largest single initial cost. This equipment naturally depreciates in value and its depreciation is a legitimate cost of doing business. It should be noted here that failure to charge operating costs to any business results in a false profit statement. If the profit is in excess of what it should be on the basis of actual operating costs, the proprietor of the business will pay a larger Government profit tax than is necessary. Equipment should be depreciated over the term of the lease. If the equipment cost is $3,000 and the lease is for 10 years, the annual depreciation should be $300, or $25 per month.

As new and necessary items of equipment are added from time to time, these should be placed in the equipment account and the depreciation on these items computed over the balance of the lease. If any equipment is sold, the equipment account should be credited with the sale and the monthly equipment charge will be proportionately reduced. Care should be taken not to charge to equipment, supplies and items for only temporary current usage; all such items should be included under general expense.

Reserve for Losses

Reserve for losses account has already been referred to in the paragraph devoted to mark downs. This fund is gradually accumulated by setting aside 2% of retail sales for such losses as inevitably develop in any retail business, such as: necessary mark-downs, uncollectable charge accounts, theft, etc. Such items are some of the hazards of the business of bookselling and they should be underwritten from all sales by a regular percentage withdrawal as suggested instead of being underwritten only by the sales of the particular month in which the actual losses occur. Any loss should be charged to the reserve for losses fund, and the account will be decreased by the amount of such deduction. It is well to let the fund accumulate on this same basis even though annual deductions do not equal annual additions, for it is always available for the unforeseen contingency. If after several years it assumes a disproportionate relationship to stock investment and accounts receivable some part of it can quite properly be absorbed in the profits of the business.

General Expense

General expense is the catch-all account in the above classification of cost of doing business. Some authorities consider it too inclusive and recommend that such items as heat and light, delivery, supplies, telephone, towel supply, insurance, taxes, repairs and interest on capital invested be segregated. The writer agrees that such items must of course be carried as separate ledger accounts, and must be segregated for detailed analysis on a general expense itemized statement (Table No. XIV). But in the writer's opinion a better perspective of the business can be obtained if the operation analysis sheets (Table No. XIII) are not cluttered with information in too great detail. All the items properly fall in this general expense account which are *not* rent, salaries, advertising, shipping, equipment depreciation, and reserve for losses.

Operation Analysis

The operation analysis sheet is made up from the respective ledger accounts and includes all ledger entries under the various headings for the respective months. Any good book on double entry bookkeeping gives detailed information for the keeping of ledgers and the journal, the book of initial entry.

The operation analysis sheet on page 20 reveals on examination several important points. It is first of all obvious that the first three months of operation have resulted in a loss of $89.90, or 1.3% of sales. This should not be a discouraging sign, for a comparative study of the respective months indicates that the third month alone showed a 2% profit which was more than offset by losses in January and February. It is apparent

TABLE No. XIII

For Year 19....

OPERATION ANALYSIS SHEET*

Description		January %†	January	February %	February	March %	March
Book Sales	month cumulative		2,250 00		2,000 00 4,250 00		2,478 13 6,728 13
Magazine Sales	month cumulative		50 00		40 00 90 00		45 25 135 25
Miscellaneous Sales	month cumulative		34 82		22 76 57 58		31 29 88 87
TOTAL SALES	month cumulative		2,334 82		2,062 76 4,397 58		2,554 67 6,952 25
COST OF SALES	month cumulative	65.7	1,533 80	65.4 65.5	1,348 36 2,882 16	65.0 65.3	1,660 54 4,542 70
Rent	month cumulative	8.5	200 00	9.7 9.1	200 00 400 00	7.8 8.7	200 00 600 00
Salaries	month cumulative	15.0	350 00	15.4 15.2	318 50 668 50	13.7 14.5	350 00 1,010 50
Advertising	month cumulative			2.0 1.7	87 94 87 94	1.6 1.8	38 50 126 44
Shipping	month cumulative	2.0	45 00	1.0 1.5	21 00 66 00	2.0 1.7	51 00 117 00
Equipment Depreciation	month cumulative	1.1	25 00	1.2 1.1	25 00 50 00	1.0 1.1	25 00 75 00
Reserve for Losses	month cumulative	2.0	46 69	2.0 2.0	41 24 87 93	2.0 2.0	51 08 139 01
General Expense	month cumulative	6.0	140 09	7.5 6.7	155 71 295 80	5.0 6.1	127 70 423 50
TOTAL COST OF DOING BUSINESS	month cumulative	34.5	806 78	41.2 37.6	849 39 1,656 17	33.0 36.0	843 28 2,499 45
TOTAL ALL EXPENSE‡	month cumulative	100.2	2,340 58	106.6 103.2	2,197 75 4,538 33	98.0 101.3	2,503 82 7,042 15
EARNINGS§ or LOSS	month cumulative	.2	(5 76)	6.6 3.2	(134 99) (140 75)	2.0 1.3	50 85 (89 90)

**This form should cover entire year.*

†*All percentages are % of sales, i.e. item divided by total sales. Cost of sales represents average cost of merchandise sold, and under no circumstances the amount of merchandise added to stock in a given month.*

‡*Includes cost of sales, and total cost of doing business.*

§*Subtract total all expense from total sales, or if total all expense exceeds total sales, subtract latter from former for loss represented by figures in parenthesis.*

TABLE No. XIV

ITEMIZED GENERAL EXPENSE*

		January	February	March
Accounting	month	12 00	10 00	14 25
	cumulative		22 00	36 25
Bond	month	50	50	50
	cumulative		1 00	1 50
Care of Store	month	20 00	15 00	22 00
	cumulative		35 00	57 00
Carfare	month	3 00	2 00	2 25
	cumulative		5 00	7 25
Check Exchange	month		50	10
	cumulative		50	60
Credit Research & Collection	month		1 50	
	cumulative		1 50	1 50
Delivery†	month	4 25	6 25	14 00
	cumulative		10 50	24 50
Equipment Repairs	month	5 75		
	cumulative		5 75	5 75
Insurance	month	10 11	5.00	2 15
	cumulative		15 11	17 26
Lights	month	25 15	30 15	20 15
	cumulative		55 30	75 45
Miscellaneous	month	14 83	20 00	10 00
	cumulative		34 83	44 83
Printing & Stationery‡	month	17 00	12 81	10 00
	cumulative		29 81	39 81
Shipping Material	month	10 00		3 52
	cumulative		10 00	13 52
Stamps‡	month	4 00	15 00	15 50
	cumulative		19 00	34 50
Supper Money	month		3 00	
	cumulative		3 00	3 00
Telegrams	month	2 00	2 50	5 00
	cumulative		4 50	9 50
Telephone	month	4 00	6 00	4 78
	cumulative		10 00	14 78
Travel	month		15 00	
	cumulative		15 00	15 00
Trade Helps§	month	4 00	7 00	
	cumulative		11 00	11 00
Water & Towel Supply	month	3 50	3 50	3 50
	cumulative		7 00	10 50
(Any other items that may occur, all preferably arranged alphabetically)				
TOTAL	month	140 09	155 71	127 70
	cumulative		295 80	423 50

*This form should cover entire year.
†On retail transactions only.
‡Exclusive of such items for advertising.
§Trade papers, Trade List Annual, Cumulative Index, Etc.

that losses in February were heavier than in January; that February sales were smaller than in either of the other months, and that February total cost of doing business in money and percentage was more than in January or March. A detailed study of February cost of doing business indicates that: (a) salaries were $31.50 less than in the other months (February is a short month); (b) advertising was $87.94 heavier than in January when no advertising expense was incurred, and $49.44 heavier than in March (the results of the February advertising were not immediately apparent in increased sales, as frequently happens; but March showed a substantial gain in sales over January and February); (c) shipping was $24.00 less than in January, and $30.00 less than in March; (d) equipment depreciation was the same in all three months; (e) reserve for losses varies but slightly in amount and remains constant in percentage of sales; (f) February general expense is higher in money and percentage than either January or March; and (g) the total cost of doing business is higher in money and percentage than either of the other months. This combined with small sales naturally makes February business comparatively unsatisfactory. Steps should be taken by the bookseller at once to change the results in March. The figures for March indicate that quite properly he made an effort in the direction of increased sales, rather than curtailed expenses, for his sales are materially better, his total cost of doing business is only $6.11 less than in February, and his earnings are $50.85 compared with February losses of $134.99—a difference of $185.84.

It should be borne in mind constantly that percentage figures are quite as important as figures representing dollars and cents. Every operating expense is large or small only in relation to the volume of sales. One bookseller for instance might be spending $25,000 per year for salaries and yet have a lower salary percentage than a bookseller spending $2,000 annually for salaries. A comparison of figures between the two for mutual help could be based only on the percentage relation the various items bear to sales.

The itemized general expense sheet referred to in an earlier paragraph may be kept in the form of Table No. XIV.

Trial Balance

In addition to the operation analysis sheets there should of course be the usual monthly trial balances, for details of which reference is again suggested to a good elementary book on double entry bookkeeping. These trial balances should list all assets, liabilities and capital, and indicate current net worth.

Operation Budget

The writer recommends a budget system for future operation. This should be prepared on sheets exactly like those in Table No. XIII, and should be prepared for several months at a time on the basis of estimated sales and expenses. For instance on January 1st, the bookseller estimates for the next six months his monthly sales and sets them down in black and white; he next estimates his cost of doing business on the basis of fixed charges such as rent, reserve for losses, known salary, expenses, etc., and estimates his probable other expenses. After setting all this down in his budget of operation, and figuring percentages, he can compare his totals and his earnings, or losses, on the basis of his estimated business. In this manner he will know where the weak spots are, he can tighten up on expenditures or better still "loosen up" on selling effort. The objection is frequently advanced that a merchant does just as good work without a budget, and that budget making is a waste of time. If a thorough knowledge of his business, and its possibilities for success or failure are of no importance to any merchant, including the bookseller, budget making *is* a waste of time. But the alert bookseller, who wants to know what his book shop holds in prospect, and how he can help make the prospect brighter, will spend the necessary time to make operation budgets, and guide his imagination by the known and probable facts in the case.

CONCLUSION

In conclusion, the writer would like to point out that he is aware that the principal function of a book shop is to sell books. The keeping of records recommended herein, and still others not mentioned, are valuable only in that they will enable the bookseller to so manage his shop that he will be the more likely to remain solvent, and be able to continue indefinitely, and with increasing profit, one of the most interesting of all vocations—bookselling.

Supplementary Reading

It has been the writer's purpose to set down herein some specific suggestions for the more efficient business management of general retail book shops. There are of course several publications, available in book or pamphlet form, covering the general subject of retailing to which reference will prove valuable. Briefest and perhaps best suited to the needs of the average bookseller are the pamphlets and publications of the Domestic Distribution Department of the Chamber of Commerce of the United States, Washington, D. C., listed below. Single copies are available without cost to those requesting them.

Merchandise Turnover and Stock Control

A Commercial Tower of Babel

Trade Relations

Economies in Central Delivery Systems

Planning Your Business Ahead

Better Retailing

Service for Distributors

Retailers' Expenses

The Merchants Service of the National Cash Register Co., Dayton, Ohio, have available for free distribution several small pamphlets on general retailing together with operation and salary cost charts. All of them are available without charge.

The Domestic Service Division of the United States Department of Commerce, Washington, D. C., has issued a series of bulletins which may be secured by retail merchants.

Pamphlets issued by the National Association of Book Publishers, 25 West 33rd Street, New York City, are listed below. They are available on request.

- THE SUCCESSFUL BOOKSHOP
- OPENING A BOOK DEPARTMENT
- THE RENTAL LIBRARY
- BOOK SHOP ACCOUNTS AND RECORDS
- BOOKSTORE ADVERTISING AND WINDOW DISPLAYS
- DEVELOPING THE MAIL ORDER BUSINESS OF THE BOOKSTORE
- YEAR-ROUND BOOKSELLING NEWS (*published fortnightly*)