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Retail inventory method and store budget control

Ernst & Ernst

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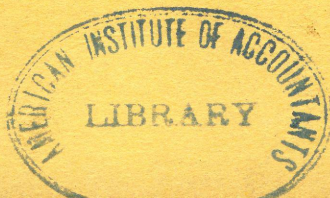
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THE RETAIL
INVENTORY METHOD
and
STORE BUDGET
CONTROL



Cal. Tol.



**THE RETAIL
INVENTORY METHOD**
and
**STORE BUDGET
CONTROL**

*PREPARED AND PUBLISHED
IN THE INTEREST OF
BETTER BUSINESS*

BY
ERNST & ERNST

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1926

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By
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M E T H O D

SUCCESS, the attainment of a definite purpose, comes with the introduction of method. The development of method made business a science. And the science of business, like any other science, is simply the knowledge and understanding of facts and figures, co-ordinated, arranged, systemized for practical timely use.

The RETAIL INVENTORY METHOD AND STORE BUDGET CONTROL

THE Retail Inventory Method is now recognized as the simplest, soundest and most satisfactory system of accounting for retail stores. It has been adopted by a majority of progressive independent specialty and department stores and by practically all the larger chain store organizations. Many other stores have it in partial operation.

Its functions are, principally: to simplify correct inventory pricing; to show *monthly* the profit and loss in each department or for the store as a whole; to make available, *whenever desired*, the statistics of operations and an accurate inventory; to provide a check on the physical inventory resulting in the disclosure of shortages due to theft, selling at unauthorized prices and other leaks.

Under the Retail Inventory Method, losses on merchandise are recorded and recognized as such in the periods in which the merchandise is marked down. This does away with the very common and unsound practise of valuing the inventory at too high a figure and burdening the future with carried-over losses due to overbuying or other causes in prior periods.

Individuals responsible for the merchandising function are, in many ways, aided in their work. They acquire and come to apply a knowledge of the economics

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of retailing, by having available, at all times, all facts expressed in terms in which they should do their thinking.

Many of the larger stores using the Retail Inventory Method have been able to dispense with the inconvenience of taking a general physical inventory at the end of their fiscal year. They maintain the desired control by the more satisfactory practise of inventory taking in one or more departments monthly.

Proper control of a merchandising business calls for the complete, timely and exact knowledge made possible by the Retail Inventory Method.

It will be noted upon referring to Treasury Decision (T.D. 3058) issued August 16, 1920, and T.D. 3296, approved March 3, 1922, that the use of the Retail Inventory Method in determining profit and loss for Federal Income Tax purposes, is specifically permitted.

The Retail Inventory Method is applicable, inexpensively, to all sizes and kinds of stores. It can not prove unsuccessful if understood and enforced.

The purpose of the pages that follow is to give the layman an easy and correct understanding of the Retail Inventory Method and its relation to Store Budget Control,—to show how simple and valuable the whole system is. The text is confined strictly to important principles and explanatory essentials; it is not argumentative; it is not complicated by technical details. But compact as it is, it is adequate.

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The reduction of the inventory at retail by a percentage representing the accumulated mark up develops the cost inventory. This in a few words describes the process and the aims of the Retail Inventory Method, from which are derived all the benefits in the nature of controls, information and safeguards that this method establishes.

From the standpoint of the accountant of the store, the prime purpose of the Retail Inventory Method is to determine monthly the gross profit in each section and the store as a whole, and to serve as a basis for the preparation of monthly statements of profit and loss.

Mark Up

Mark Up is the anticipated gross profit that is added to the cost in setting the selling prices, and is always expressed as a percentage of *the selling price*. It should be thought of as that part of the selling price which reflects the gross profit. For example: an article costing \$1.00 and priced to sell at \$1.50 indicates a mark up of \$.50 or 33 1/3% of the selling price.

Accumulated Mark Up

Accumulated Mark Up is the mark up contained in the retail inventory at the beginning of an accounting period, plus the mark up on purchases and any additional mark up in prices justified by market conditions.

Determination of Accumulated Mark Up Per Cent

The following example illustrates the computation of the accumulated mark up per cent affecting the oper-

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ation of a selling section for the period of one month:

	<u>COST</u>	<u>RETAIL</u>	<u>MARK UP</u>	
			<u>AMOUNT</u>	<u>PER CENT</u>
Beginning Inventory	\$28,605.97	\$45,916.49	\$17,310.52	37.70%
Add: Purchases	13,167.90	21,696.89	8,232.10	37.94%
Transportation				
Charges	296.89			
Additional				
Mark Up.....	-0-	122.50	122.50	
ACCUMULATED TOTALS	\$42,070.76	\$67,735.88	\$25,665.12	37.89%

A short cut in the determination of the cost inventory is possible by multiplying the retail inventory, in this case, by 62.11% (100% less 37.89%). 62.11% of the retail inventory represents cost; 37.89% is mark up. Showing transportation charges in this example as an addition to the purchase cost of merchandise, entering directly into the basis for computing the mark up per cent on purchases, is in accordance with general accounting practise.

Mark Downs

Mark Downs are reductions made in the retail prices of merchandise to arrive at prices which, it is anticipated, will result in sales. Mark downs should be recorded to cover all reductions from the marked or original selling price of merchandise to the disposal or actual sales price, and, of course, include employees' discounts, breakage, theft, allowances, etc.

It is important to note, in determining the cost value of the inventory, that mark downs do not affect the *per cent of mark up*. An error, often made in connection with the use of the Retail Inventory Method,

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is to deduct the mark downs from the mark up on purchases. This has the effect of producing an erroneous accumulated mark up per cent and will defeat one of the prime purposes of the Retail Inventory Method, which is to develop a sound cost value inventory.

Mark Down Cancellations

Mark Down Cancellations are increases made in the retail prices of merchandise, to offset previous mark downs which are to be cancelled. Mark down cancellations are made chiefly after merchandise has been marked down for a special sale, at the end of which it is desired to re-mark the remaining merchandise to its regular price. Mark down cancellations do not affect the accumulated mark up per cent. In determining the retail inventory, mark down cancellations are deducted from mark downs.

Determination of Inventories at Retail

Beginning Inventory at Retail		\$45,916.49
ADD: ADDITIONS TO RETAIL INVENTORY		
Purchases at Retail	\$21,696.89	
Additional Mark Up	122.50	21,819.39
TOTAL RETAIL INVENTORY AND ADDITIONS..		\$67,735.88
LESS: DEDUCTIONS FROM RETAIL INVENTORY		
Sales	\$23,379.67	
Mark Downs.....	\$2,553.17	
Less: Markdown cancellations....	286.74	\$2,266.43
Employees Discounts	218.45	
Inventory Shrinkage	121.92	2,606.80
TOTAL DEDUCTIONS		25,986.47
TOTAL DEDUCTIONS		25,986.47
Ending Inventory at Retail		\$41,749.41

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Determination of Cost Inventory

The cost inventory is ascertained by reducing the inventory at retail by a percentage which represents the accumulated mark up.

Ending Inventory at Retail	\$41,749.41
LESS: Amount of Mark Up in Ending Inventory based on an accumulated Mark Up of 37.89%	15,818.85
ENDING INVENTORY AT COST	\$25,930.56

The following examples, in the nature of a summary, illustrate the three examples preceding:

	<u>COST</u>	<u>RETAIL</u>	<u>PER CENT OF MARK UP</u>
BEGINNING INVENTORY AND ADDITIONS			
Beginning Inventory	\$28,605.97	\$45,916.49	37.70%
Purchases and Interdepart- mental Transfers	13,167.90	21,696.89	37.94%
Transportation Charges	296.89		
Additional Mark Up	-0-	122.50	
TOTAL	\$42,070.76	\$67,735.88	37.89%
DEDUCTIONS			
Net Sales	\$14,521.11	\$23,379.67	
Mark Downs	1,407.68	2,266.43	
Employees Discounts	135.68	218.45	
Inventory Shrinkage	75.73	121.92	
TOTAL DEDUCTIONS ... (A)	\$16,140.20	\$25,986.47	
Ending Inventory	\$25,930.56	\$41,749.41	37.89%

Determination of Cost of Sales

Beginning Inventory at Cost	\$28,605.97
ADD: Purchases at Cost	13,167.90
Transportation Charges	296.89
TOTAL	\$42,070.76
DEDUCT: Ending Inventory at Cost	25,930.56
COST OF SALES (B)	\$16,140.20

Note that items marked "A" and "B" are identical in amount.

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It has been said that the Retail Inventory Method is not accurate. Those who make this claim attempt to prove it by showing that, on a very small stock with purchases having a wide variation in mark up, it is not possible to determine the actual cost of the articles on hand. This is not a proper test of accuracy nor of practicality. It is aside from the purposes of the Retail Inventory Method to give the actual cost of an article or any small group of articles in stock. So it does not pretend to. *What the Retail Inventory Method does, in this particular connection, is to determine, with accuracy, the sound cost value of the inventory for the selling section as a whole.*

Exhibit "A," on the following page, illustrates the form that we have developed for displaying the operations of a selling section or department. It will be noted that, under Cost of Sales, an analysis is presented of all elements in addition to the actual cost of merchandise sold that enter into the cost of sales. These are:

Mark Downs

Employees Discounts

Allowance for Inventory Shrinkage

Net Alteration and Work Room Expense

Purchase Discounts

Charges made to customers for alterations are not a *part* of sales, but rather a service charge, and become a credit applied to Alteration Room Expense. In connection with draperies, carpets, etc., the part of the selling price which reflects the contribution of the Work Room, becomes a credit to Work Room Expense. In most well managed stores, a process of cost finding in

THE RETAIL INVENTORY METHOD

EXHIBIT "A"

Operations of a Selling Section

ONE MONTH AND
YEAR TO DATE

SECTION _____		M A Y				J U N		
	MONTH	%	YEAR TO DATE	%	MONTH	%	YEAR	
GROSS SALES	\$27 185 58		\$154 723 60					
Less: Returns and Allowances	3 805 91		17 019 43					
NET SALES	\$23 379 67	100.00	\$137 704 17	100.00				
COST OF SALES								
Cost of Merchandise Sold	\$14 521 11	62.11	\$ 86 340 51	62.70				
Cost of Mark Downs	1 407 68	6.02	8 738 49	6.33				
Cost of Employees' Discounts	135 68	.58	640 82	.47				
Cost of Inventory Shrinkage	75 73	.32	454 38	.33				
Alteration Room Expense - Net	165 94	.71	568 96	.41				
	\$16 306 14	69.74	\$ 96 723 16	70.24				
Less: Available Discount	1 204 05	5.15	7 009 14	5.09				
TOTAL COST OF SALES	\$15 102 09	64.59	\$ 89 714 02	65.15				
GROSS PROFIT	\$ 8 277 58	35.41	\$ 47 990 15	34.85				
EXPENSES								
DIRECT CHARGES								
PUBLICITY								
Direct Newspaper	\$ 794 91	3.40	\$ 4 337 78	3.15				
Direct by Mail	252 50	1.08	1 308 19	.95				
Direct Display	280 56	1.20	1 377 04	1.00				
Other Direct								
	\$ 1 327 97	5.68	\$ 7 023 01	5.10				
BUYING								
Direct Salaries	\$ 392 78	1.68	\$ 2 533 76	1.84				
Direct Traveling	151 97	.65	1 074 09	.78				
Other Direct	28 06	.12	151 47	.11				
	\$ 572 81	2.45	\$ 3 759 32	2.73				
SELLING								
Direct Selling Salaries	\$ 801 92	3.43	\$ 4 929 81	3.58				
Indirect Selling Salaries	140 28	.60	867 54	.63				
Fees and Commissions	406 81	1.74	2 327 20	1.69				
Other Direct	182 36	.78	1 366 72	.99				
	\$ 1 531 37	6.55	\$ 9 491 27	6.89				
TOTAL DIRECT CHARGES	\$ 3 432 15	14.68	\$ 20 273 60	14.72				
PRORATED CHARGES								
Administrative	\$ 1 346 66	5.78	\$ 7 841 92	5.70				
Occupancy								
Store Rental	1 285 88	5.50	7 959 30	5.78				
Warehouse Rental								
	245 49	1.05	1 969 17	1.43				
	327 32	1.40	523 28	.38				
Selling								
General Selling	303 93	1.30	1 914 08	1.39				
Delivery	280 56	1.20	1 487 21	1 08				
TOTAL PRORATED CHARGES	\$ 3 789 84	16.21	\$ 21 694 96	15.76				
TOTAL EXPENSE	\$ 7 221 99	30.89	\$ 41 968 56	30.48				
NET PROFIT	\$ 1 055 59	4.52	\$ 6 021 59	4.37				

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the Work Room makes it possible to ascertain the actual cost of each individual order.

Available discounts are all discounts available in due course in accordance with the terms of the invoice. They are usually credited to the selling section at the time the invoice is charged, whether they are actually realized or not. Quite a number of stores make it their policy to credit the selling section each month only with the amounts representing actual discounts realized. The better practise, generally, is to credit the selling sections with the discounts available.

Any discount larger than 2% is usually recognized as other than an inducement to pay the bill within a certain limit of time. Such a discount is a trade discount and considered more as an inducement to buy or a direct factor in the price of the article under consideration. Cash discounts are an earning from the use of capital, and 2% is considered adequate in every line of business as an inducement to customers to pay their bills promptly. Trade Discounts enter into the reduction of the Purchase Cost and affect the mark-up per cent while Cash Discounts may be considered as a reduction of the Cost of Sales or as "Other Income."

It will be noted in Exhibit "A," that the expenses are summarized under two main divisions; i.e., direct charges and prorated charges, the former, of course, subject to the control of the buyer to a greater extent than the latter.

THE MERCHANDISE BUDGET

Since we buy to sell, we must be influenced by the volume of sales accomplished during the past periods and so estimate the business of the next or succeeding period in the light of present facts and trends, and prospects for the future.

In planning the merchandise budget for the next season it is necessary to analyze the results accomplished during the preceding and corresponding season, to study and to know business conditions and the trends in each line of merchandise, so that the estimates made for the budget may be confidently accepted as a basis for action. If the plan for "this season" shows a material increase over the corresponding season of last year it should be predicated on something more than that variety of optimism which is born of a period of unusual prosperity. Too often increases in sales are planned, that cannot be realized, without adding materially to the facilities of the store, and this in turn, in many cases, would call for additional financing.

The Retail Inventory Method provides the foundation and the means for building the merchandise budget safely and with ease. In building the budget we think in terms of Sales and Purchases at retail rather than at cost.

We proceed to build, having a full appreciation of the necessity for proper balance in the inventory at all times if we are to achieve adequate turnover. We keep in mind that the budget is a striving for proper inventory control.

A comparatively high rate of turnover denotes an

AND STORE BUDGET CONTROL

efficiently merchandised department. Departments selling style merchandise should maintain higher rates of turnover than those selling staple merchandise. Large stocks are not necessarily complete stocks.

The budget must set a definite purchase allowance for each month. This allowance is based upon the amount of purchases that will be required to accomplish the estimated sales and maintain a proper balance in the ending inventory. In other words it is important to look ahead to the end of the season for which the budget is prepared and consider the amount of merchandise that it is safe to have on hand at that time.

For each month in the budgeted season we forecast the net sales, mark downs, mark up on purchases, cash discounts and turnover. Based on these forecasts the buyer is "open to buy" within the limitations of the amounts in the budget, these amounts, however, subject to revisions dictated largely by increases or decreases realized in Net Sales and of course always subject to the discretion of the merchandise manager who is or should be in position to recognize quickly the necessity for adjusting the plan in the light of current business trends and conditions.

If results are accomplished in accordance with the budget, there is no necessity for adjusting it. But when the accomplishment deviates from the plan, and this is frequently so, adjustment is necessary. It will be found that all variations are reflected in the difference between the actual cost inventory and the planned cost inventory.

To give effect to the variations in the actual, from the plan, it is only necessary to adjust the planned pur-

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chase allotment for the month to the extent of the difference between the actual cost inventory and the planned cost inventory. If the actual cost inventory is in excess of the planned cost inventory, then the planned purchase allotments are subject to revision downward to the extent of the excess of the actual over the planned.

EXHIBIT "B"
"Open to Buy" Report

OPEN TO BUY REPORT																							
DATE					May 31, 1926					DEPARTMENT													
	RESULT THIS YEAR			PLAN THIS YEAR			INCREASE OR DECREASE			RESULT LAST YEAR			REMARKS										
CURRENT MONTH																							
SALES	\$	23	379	67	\$	24	666	62	\$	1	286	95	\$	21	449	24							
PURCHASES AT RETAIL		21	819	39		22	898	54		1	079	15		18	954	66							
% MARK UP			38	29			38	00			29				37	07							
MARK DOWNS		2	606	80		2	713	33		106	53			2	543	88							
% TO SALES			11	15			11	00			15				11	86							
SEASON TO DATE																							
SALES	\$	137	704	17	\$	147	998	81	\$	10	295	64	\$	128	695	49							
PURCHASES AT RETAIL		130	181	34		136	690	40		6	509	06		113	727	96							
% MARK UP			37	30			38	00			70				37	17							
MARK DOWNS		14	927	13		14	798	98		127	15			18	673	72							
% TO SALES			10	84			10	00			84				14	51							
TURNOVER			3	36			3	60			24				3	02							
STOCKS																							
RETAIL STOCK		41	749	41		37	835	68		3	913	73		42	898	48							
COST STOCK		25	930	56		23	458	12		2	472	44		26	953	11							
OPEN TO BUY AT COST																							
		FEBRUARY AUGUST			MARCH SEPTEMBER			APRIL OCTOBER			MAY NOVEMBER			JUNE DECEMBER			JULY JANUARY			BALANCE OF SEASON			
PURCHASE ALLOTMENT														18	000	00	9	000	00	27	000	00	
ADD: DECREASE In Inventory																							
DEDUCT: INCREASE														2	472	44					2	472	44
ADJUSTED PURCHASE ALLOTMENT														15	527	56	9	000	00	24	527	56	
DEDUCT:																							
OUTSTANDING ORDERS														8	765	50	2	458	00	11	223	50	
MERCHANDISE IN TRANSIT														3	785	00					3	785	00
TOTAL COMMITMENTS														12	550	50	2	458	00	15	008	50	
OPEN TO BUY AT COST														2	977	06	6	542	00	9	519	06	
* DECREASE																							

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Merchandise control is initiated and effected by the limitations imposed upon buyers in the placing of orders for merchandise. These limitations, given in reports to the buyers of "open to buy" for their respective sections, must be complied with, under all circumstances and all conditions, if the budget system is to be effective.

The system in operation, permitting adjustments to meet actual conditions, makes a strong appeal to the average buyer. His or her allotment, on the budget, becomes immediately increased for any increase in sales or decrease in purchases and reduced for any decrease in sales or increase in purchases as compared with the plan.

The Budget is a plan and an estimate—a flexible guide, not a law—and *as a guide* it sets up a definite goal for the future, gives a definite objective to be reached and charts the way. Covering as it does, all anticipated purchases, expenses, sales and profits, it provides a live standard with which to check and compare actual operations and thereby prevent or stop mistakes and loss.

Exhibit "B" is an illustration of the form which we have provided as a medium for keeping buyers informed about the condition of their stocks and the limitations imposed by the "open to buy."

THE EXPENSE BUDGET

The Standard Classification of Expense as outlined by the Controllers' Congress of the National Retail Dry Goods Association is a major requirement in modern department store accounting.

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Fourteen Natural Divisions

This classification provides for fourteen natural divisions of expense:

1. *Salaries and Wages*
2. *Rentals*
3. *Advertising*
4. *Taxes*
5. *Interest*
6. *Supplies*
7. *Services Purchased*
8. *Unclassified*
9. *Traveling*
10. *Communication*
11. *Repairs*
12. *Insurance*
13. *Depreciation*
14. *Professional Services*

These divisions may be subdivided into as many sub-accounts as desired by the management and as called for by the size of the store. For example, the Salaries and Wages account for a medium size store might be subdivided as follows:

SALARIES AND WAGES

- Direct Selling*
- Office and Clerical*
- Superintendents and Assistants*
- Indirect Selling*
- Managers and Assistants*
- Executives*
- Work Room*
- Sundry*

For a large store, this subdivision can be amplified as much as desired.

Five Functional Groups

The classification also provides for five functional groups to which all expenses should be allocated:

- 1. Administrative*
- 2. Occupancy*
- 3. Publicity*
- 4. Buying*
- 5. Selling*

This group classification is suitable for medium size and large stores alike. It may be expanded into additional sub-classifications if desired. For example, Occupancy may be subdivided as follows:

OCCUPANCY

- Building Maintenance*
- Warehouse*
- Light, Heat and Power*

Proration of Expense to Selling Sections

Wherever possible, expenses should be allocated directly to a selling section, while the expenses of a general nature which cannot be charged in this way, must be prorated. Several ways of prorating these general expenses to the selling sections have been worked out.

In brief, they may be prorated as follows:

ADMINISTRATIVE—On Sales

OCCUPANCY—On the rental value of floor space occupied

PUBLICITY—On Sales (Where possible charge items direct to selling sections)

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BUYING—*On Cost Purchases* (Where possible charge items direct to selling sections)

SELLING—*On Sales* (Where possible charge items direct to selling sections)

It is always a simple matter to elaborate, upon the bases for prorating general charges. But the degree to which this is advisable is well tested by weighing the clerical expense involved with the advantages to be gained. In most stores, for example, it is well worth while to set a value per day on window space and to charge each selling section for the number of days it uses each window. Also, the proration of direct by mail advertising and of delivery expense, as separate items, should be given special consideration.

Work Room Expense

The expenses of work rooms should, of course, be classified according to the fourteen natural divisions but cannot be classified by the functional groups. Most work rooms show a loss and this loss should be allocated to the selling sections for which the work is done.

Preparation of the Expense Budget

The Expense Budget covers expenses, as distinct from Merchandise Purchases. It must be co-ordinated with the Merchandise Budget.

The first step in preparing an Expense Budget is to appoint a Budgetary Control Committee, including preferably the Controller, Store Manager, Publicity Director and General Merchandise Manager. Responsibility for the incurring of expense should be delegated

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definitely and exclusively to the proper individuals to assure control of all expenditures.

As many executives as possible should be given a part in the preparation of the budget. Aside from the value of their experience and suggestions, their interest aroused will be helpful in the work of accomplishing the planned results.

When reviewing the Merchandise Budget in connection with the preparation of the Expense Budget, it is advisable to discount the projected sales volume, to some extent, as a basis for estimating expenses.

Direct Expenses for each selling section and the General Expenses should be budgeted according to the functional groups, and according to the natural divisions; i.e., Salaries and Wages, Rentals, Advertising, etc. Alteration and Work Room expense is budgeted in a separate group according to the natural divisions.

It is advisable where practicable to provide for the centralization of supply stores and the maintenance of a physical control over the issuing of supplies. The duty of purchasing supplies should be delegated to one person. Supplies purchased should be charged to the control account, then charged to the departments as requisitioned. The charging to expense of purchases in the month in which they are bought does not indicate true expense, and loose control is the result.

The placing of Expense Purchase Orders should receive the same careful consideration as the placing of Merchandise Purchase Orders, and a major executive of the organization should approve all orders before they are formally issued.

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Provision should be made for the frequent comparison of actual results with the plan and for the compilation of cumulative figures for the year to date, showing the increases and decreases that have developed:

A definite expense minimum is necessary in conducting a business, regardless of volume of production or sales. This should be a known quantity. Increasing volume of business calls for increase in expense. But beyond a certain point the expense does not increase in the same progressive ratio as the sales. Then later, another point is reached, which, to exceed, requires, for a time, the application of a larger proportion of expense. *The art of Expense Control reaches its highest state of effectiveness when management has determined upon a reliable measure for gauging the amount of expense necessary for operating a business under varying degrees of activity in production and sales.*

The salary and wage committee should see to it that the amounts estimated in the Budget are conformed to, and that approvals for increases, beyond budget estimates, be made only where the circumstances justify such increases.

Exhibit "C" illustrates a working sheet used for computing the estimates for Direct Selling Salaries.

We have aimed so to treat this subject of Budget Control of Merchandise and Expense that the text will do more than just give a general idea of the efficient operation of the budget. To the merchant, who has progressed to the point where he is experiencing the benefits of what might be called the fundamentals of budget control, we trust that this text will prove help-

**COMPARATIVE STATISTICS FOR
THE RETAIL TRADE**

Included in the report of Committee IV of the National Distribution Conference, held under the auspices of the Chamber of Commerce of the United States, is the following statement:

“In spite of excellent work now being done by a number of trade associations, the need for uniform classifications of accounts and studies into the expenses of doing business should be brought to the attention of all engaged in distribution in order that this most important phase of trade association work shall be developed to the greatest possible extent. Every available trade and commercial organization facility as well as the aid of the trade press should be sought to this end.

“Distributors should study the costs attached to intangible items, such as losses due to lack of sufficient records; failure to plan intelligently; uneconomic extension of territory and services; neglect of simplification; ignorance; human mistakes; misdirected advertising; and seasonal fluctuations.”

It is our privilege to make annual audits of a very large number of stores in the United States, all sizes and types, located in every part of the country. We have, therefore, a most exceptional opportunity to study thoroughly, and on a broad scale, the various methods and relative operating results in the American retail field.

Our policy is to help our clients keep abreast of the times by bringing to their attention improvements in method which develop, and by giving them advice on

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the accounting and merchandising problems with which they are from time to time confronted. We have worked out a plan for compiling comparisons of the operations of stores that have consented to the use of their figures for the purpose and are in turn compensated by receiving the comparative data developed. These compilations reflect the results obtained, in merchandising, in different sections of the country and different kinds of communities, and are classified according to volume of sales and type of store. The purpose of this comparative data is to enable us to enlighten our clients, who participate, in regard to their relative position as to gross profit, operating expenses, net profit, turnover, etc., in their selling sections and store as a whole. The information from which the data is compiled is recognized by us as highly confidential and is always used in such a way as to prevent the disclosure of any client's figures.

ERNST & ERNST OFFICES

AKRON	LOUISVILLE
ATLANTA	MEMPHIS
BALTIMORE	MIAMI
BOSTON	MILWAUKEE
BUFFALO	MINNEAPOLIS
CANTON	NEW ORLEANS
CHICAGO	NEW YORK
CINCINNATI	OMAHA
CLEVELAND	PHILADELPHIA
COLUMBUS	PITTSBURGH
DALLAS	PROVIDENCE
DAVENPORT	RICHMOND
DAYTON	ROCHESTER
DENVER	ST. LOUIS
DETROIT	ST. PAUL
ERIE	SAN ANTONIO
FORT WORTH	SAN FRANCISCO
GRAND RAPIDS	TAMPA
HOUSTON	TOLEDO
INDIANAPOLIS	WACO
JACKSON	WASHINGTON
KALAMAZOO	WHEELING
KANSAS CITY	YOUNGSTOWN
LOS ANGELES	