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By Walter Mucklow

In a recent conversation with the editor, I tried in vain to extract from him a request that I should write "something" and also a promise that he would publish it in the Journal. Naturally, I failed, but I did secure a half promise that if I would submit a "something" he might read it.

I happen to be somewhat deeply interested in cemeteries; not in accounting for them—their object and use are evident—but in accountancy connected with them; and it would appear that this is particularly fitting for one residing in Florida, where for the past few years we have been burying memories and other things, and are now experiencing the beginning of a resurrection and of the better life which assuredly awaits us: in other words, resurrection has begun in what the pessimists thought was a valley of dead bones.

At any rate, I suggested cemeteries as a cheerful and interesting subject, but the editor discouraged me with the statement that "Cemeteries are dead," to which the obvious retort was that "A voice from the dead sometimes receives attention."

There are several methods of approaching a cemetery. One may go in a hearse, and in that event the passenger sees nothing, or one may go in a motor car and by observation may gather some ideas for use in other directions. If one approaches the matter by the second method, one comes across the payment of commissions to salesmen, especially of real estate on an instalment plan, a subject of interest not only to cemetery owners but to a larger class, namely, real-estate owners and dealers.

Some four or five years ago, all accountants practising in Florida were called upon to audit accounts in which salesmen's commissions played an important part, and many of us encountered difficulties. Unfortunately our clients usually thought they had not sufficient time to consult us in advance and, therefore, the accounts presented to us were, not seldom, far from being satisfactorily stated and there was no opportunity to perfect imperfect systems.

The accountant who writes these words, examined numerous "systems," but none appeared to him to meet all the requirements, and it was not until quieter times came that there occurred the opportunity to test other methods.

The plan which is described below differs radically from any which the writer has seen, but in practice it has proved efficient and it provides for easy and frequent reconcilements with the controlling accounts in the general ledger.

The calculation of commissions is subject to so many vagaries that it is impossible to mention them all in a short article, but it is hoped that the example which is given will illustrate the method sufficiently clearly to enable a reader to adapt the idea to any particular set of requirements.

A common situation may be described as follows:

Lots are offered for sale at various prices, on various terms, ranging from cash sales to terms extending over years.

Sales are made by a body of salesmen, who may receive various rates of commissions, paid in instalments as purchasers make their remittances.

There are various over-riding commissions to sales managers, advertising managers and other managers. Frequently the commissions on a sale are divided among several salesmen.

All commissions are contingent upon the purchasers making their payments, and, as payments are made, the commissions cease being contingent and become earned.

It is assumed in the examples that all sums paid by a purchaser on account of his lots are credited to salesmen until the entire commission is so credited. Frequently only a portion of such payments is so credited, but this does not affect the principle.

Advances are made periodically to the salesmen and to the managers—perhaps in regular amounts at regular intervals, perhaps irregularly as to both amounts and periods.

We have, then, three accounts to deal with, each of which must be kept separate, although they are all related to each other.

These three accounts may be called:

1. Contingent commissions, entered when a sale is made.
2. Earned commissions, being that portion of the above which has become payable to the salesmen on account of payments made by the purchaser.
3. Advances, namely, cash paid to the salesmen and managers on account of commissions.

These accounts are brought into the books as follows:

Contingent-commissions account is credited each month, through the journal or sales register, with the total commissions on sales made during that month, and commission account is debited. This latter is an operating expense which is closed into the profit-and-loss account. Periodically, as suggested below, the contingent-commissions account is debited with advances and when these equal the total amount credited, the liability is discharged.

Earned-commissions account is a memorandum account which does not appear on the general ledger, but the balance can always be ascertained from the statements rendered to salesmen.

Advances account is charged from the cashbook with amounts paid to the salesmen from time to time and periodically may be closed out into the contingent-commissions account.

It is required that the records be kept in such a manner as to show each salesman's account in detail and in such a way that the totals may be readily checked with the controlling accounts in the general ledger.

In the case of large concerns doing an active business, a large force of salesmen may be employed and a good many managers may be involved, but in the examples given it will be sufficient to show only the one page illustrated herein; it being understood that any requisite number of short leaves, cut to the heavy line in the illustration, may be inserted. A page is opened for each salesman and one for each manager having an over-riding commission, these latter being treated as are the pages for salesmen.

In the general ledger we open accounts, headed, respectively:

1. Contingent commissions
2. Advances—and we have a memorandum account
3. Commissions earned

Of these, numbers 1 and 2 are by far the most important, for No. 1 gives the total liability of the principal and No. 2 the total cash paid on account thereof.

A sales journal is maintained, in which all sales are entered, whether made for cash or on terms. It is convenient to number these sales consecutively and, if it be desired, to subdivide the sales into several classes. A separate series of numbers may be used for each class, each one having a letter of the alphabet to distinguish it, e.g., A–1, A–2, A–3, B–1, B–2, B–3 and etc., etc.

This sales journal should, in general, show:

- Number of sale
- Name of purchaser
- Address of purchaser
- Description of property sold
- Sales price
- Cost price
- Profit
- Total contingent commission
- Names of salesmen and the amount of commission going to each

It may be that some sales do not carry any commission, but it is well to enter on the commission register every sale made, as it then affords a valuable record when, in the future, it is desired to ascertain any particulars of the commissions allowed or earned.

The methods of paying salesmen vary, but it is usually wise to provide for their payment only at stated periods, usually weekly, fortnightly or monthly, for, if business be active, the accounting department may be overburdened if salesmen expect payments daily or at irregular periods. If commissions are to be paid weekly the accounts should be closed, say, on Thursday night, and payments made on the following Saturday.

A common custom is to provide each salesman with a fixed drawing account, payable, say, weekly, and to prepare monthly statements. In such circumstances it may be provided that a salesman draw only a portion of his earned commission for a given month, the balance remaining with the owner for a stated period, say, three months, in order to afford the owner protection against barren months. Such a provision is easily carried out by this plan, by showing such details on the monthly statements.

Turning to our illustration:

			Total Comm.		Jan.	Feb.	Mch.	Apr.	May	June	July	Aug.
							A. BAKER					
January												
142	Timson		100.									
143	Adamson		80.	80.	40.	10.	10.	10.	10.	—	—	—
149	Cuppedge		75.									
150	Marx		60.									
151	Hoover		40.	40.	20.	5.	5.	—	5.	5.	—	—
152	Miller		150.	75.	25.	√	√	√	10.			
153	Lamb		80.									
154	Walker	√										
170	Bright		55.									
171	Fisk		30.	20.	20.	—	—	—	—	—	—	—
	Total		12401	500.	270.	25.	30.	20.	35.			

This is a sheet 11 x 8½″ of stock, ruling, punched for a ring binder.

1. Let us suppose that our record commences with January; then at the end of January, all sales made in that month will be written in on a typewriter, showing sale number, name and total commission and the word "January" is written at the head of the list.

2. These commissions will be added and the total must agree with the amount charged in January to contingent commissions, proving that all commissions are entered in the commission register.

3. If Mr. Baker is the first name on the list of salesmen when arranged alphabetically, his name is typed as shown.

4. Each of the columns is headed with the name of a month, as in the example.

5. Loose leaves are cut to the size indicated by the heavy black line, and one such sheet is devoted to each salesman and to each manager, his name being typed at the head of his page in place of the "A. Baker."

6. Each commission shown in column 1 is then entered on the sheet of the saleman to whom it is to be credited. In the example, four are credited in whole or in part to A. Baker.

In the cases of sales Nos. 152 and 171, the commission is split. Baker is credited with a portion and the remainder is divided among other salesmen and entered on their short sheets, similar to that for Baker.

7. It is assumed in the example that salesmen are to be paid their commissions as collections are made and that all collections are so credited until the entire commission is paid.

8. At the close of January, one takes the sales sub-ledger, showing the individual accounts with purchasers and from it enters in this register the total payments made on each sale. These entries are made on the page of the salesman who is credited with the commission; e.g., Baker's sheet shows all receipts on sales 143 and 151 and his share of the receipts on sales 152 and 171.

9. Each column headed January is added and the totals carried to a summary sheet, the total of which will show the total commissions earned in January.

10. At the close of February and each succeeding month similar entries are made.

11. At the close of each month there are entered in the appropriate column all receipts made on sales in previous months, taken from the customers' accounts in the sales sub-ledger, until the entire amount of the commission is collected; e.g., in the form shown, sale No. 143 yields $10 in February, March, April and May, when the commission is fully paid and a heavy line is drawn.

12. Each sale must be examined each month until the commission is fully earned; it is convenient to place a √ in the monthly column if no payment be made in any month and, when the commission is completed, a heavy line may be drawn, as indicated, and a √ placed against the first column, (as in No. 154) showing that no more commission is to be entered.

13. At the close of each month a statement is rendered to each salesman, showing the commissions earned in that month on all his sales which are still open and, also the contingent commissions credited to him in that month; as follows:

			Contingent	*Earned*
A. Baker: Jan.				
	No. 143	Adamson.............	$80.00	$40.00
	151	Hoover...............	40.00	20.00
	152	Miller................	75.00	25.00
		etc., etc.		

The above sales will appear on each of Baker's accounts for subsequent months under "earned," until fully paid up., e.g., Nos. 143, 151 and 152 will appear in the second column at the head of the statement for each subsequent month until the $80.00, $40.00 and $75.00 are fully paid.

Advances must be taken from the cashbook or voucher record, according to the system used.

If a regular sum be paid weekly, as is often the case, no ledger account is required, but if paid irregularly the amounts should be posted to the debit of salesman's account in a sub-ledger for commissions and this account may be credited with the commissions earned, as shown on the register.

It is wise to make out salesmen's monthly statements monthly and to carry forward the totals from month to month in some such form as the following:

	Contingent commissions	*Commissions earned*	*Advances*
Baker			
January..........	$500.00	$270.00	$350.00

These totals should be carried forward to February. For instance Baker's statement for May might be in the following form:

STATEMENT OF COMMISSIONS OF A. BAKER FOR MAY

		Contingent	*Earned*
No. 143	Adamson (Jan. sales)......................		$ 10.00
151	Hoover..................................		5.00
152	Miller..................................		10.00
	Feb..........................		
	March........................		
	April........................		
186	Brenner (May sales)......................	$ 20.00	10.00
190	Hall....................................	80.00	40.00
191	Milner..................................	60.00	60.00
		$160.00	$250.00

Balance brought forward (i.e.) advances in excess of earned commissions..............................	$225.00
Advances in May..................................	250.00
	475.00
Earned in May....................................	250.00
Balance forward...............................Dr.	$225.00

Totals to date:	*Advances*	*Contingent*	*Earned*
Brought forward..........................	$1,100.00	$1,600.00	$ 900.00
Add May..............................	250.00	160.00	250.00
Carried forward to June..................	$1,350.00	$1,760.00	$1,150.00

Contingent in excess of earned.............	$610.00
Advances in excess of earned..............	200.00
Contingent in excess of advances...........	410.00

If these salesmen's monthly statements be carried to a summary sheet, the total of contingent commissions and of the advances should agree with the totals of these accounts in the general ledger.

The advantages of preparing these monthly statements are obvious. Not only do they show the salesmen each month the conditions of their accounts, but they bring out clearly the relations between the contingent commissions, the advances and the earned commissions.

In some offices it is the practice to credit advances account on the ledger with the commissions earned, the balance being an asset or liability, as the case may be, but the writer prefers not to make such entries until the books are closed, as it prevents checking the totals of these accounts as shown on the salesmen's accounts against the trial balance. Furthermore when the entries are not made until the books are closed the difference can clearly be shown on the monthly statement of operations where such a deduction can be made.

I feel it necessary to apologize for dealing so deeply in detail, but the matter is of some importance and it seems to be impossible to explain it clearly by following the easier and pleasanter course of dealing in generalities. Therefore, I trust my efforts at description have not failed entirely in reaching their objective.