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## Accounting for Retail Shoe Stores\*

BY T. J. AHLBERG

Generally speaking, retail shoe store accounting is comparatively simple and no very difficult problems are encountered. However, as in any other business, certain phases of operating must be carefully watched by the management.

In this day of high prices and low production it is essential that the purchaser be careful in selecting merchandise of standard grades and styles, in order to be sure of its ultimate sale and to prevent any accumulation of freak styles which may not be easily moved. So it behooves the retailer to watch his stock closely and inaugurate reduction sales on all "slow" merchandise. The public has gradually become accustomed to paying high prices, but on the other hand it demands value for the money expended. The purchasing department must, therefore, buy carefully and of conservative styles.

The stock-keeping records should be complete in every detail and should reflect the essential elements of grade and style as well as quantity, mark-up, etc. It is an important factor in retailing to carry a perpetual inventory, classified first as to kind (men's, women's, boys', etc.), then as to grade (price in this case), next, line (low, high or freak). Subclassified under these divisions would come the size, stock number and any other elements which may affect the turnover. Such a record would enable the management to dispose of the slow moving merchandise and would assist in determining the trend of the public demand. In this latter particular it would assist in future buying, which in turn would materially increase the percentages of turnover and therefore increase profits.

The objection generally brought up in regard to this detail is that it carries with it an expensive clerical force to handle the entries, but in some cases with which I am familiar it has produced actual results in turnover and has been acknowledged an aid in the purchasing end of the business as well as the sales. Much, of

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course, depends on the personnel in the management of a business and the human element enters largely.

All expenses of the business as well as the merchandise received should be accrued or entered on the purchase record or voucher register. Such a purchase record appears on page 100.

This record can be enlarged to meet the requirements of the business. The detail of the merchandise received can be entered on the stock sheets from the information shown on the invoices when entered in the purchase record.

### SALES

With each sale ticket there should go to the office a record of the cost and sales price (cost preferably in code) from which a record is made on the stock sheets as to cost and on the sales sheets as to cost and sale. It is a prime necessity to follow the fluctuations in sales and for that purpose a columnar sales record should be kept. The daily sales are summarized first under the kind and then in columns as to cost and sales price. This will enable inventory control accounts to be kept in the general ledger, which will be debited with the purchases and credited with the cost of sales each half month or month, whichever is the more advisable. The other entries from the sales record would be a debit to cost of sales account and a credit to sales account. A sales record of this character appears on page 100, but other columns can be added if desired.

Under findings should be grouped repair work, laces, etc. All further detail as to the moving of any particular styles can be determined from the stock sheets hereinbefore outlined. Return sales are not so numerous as to entail a great deal of clerical work. All returns should be entered on a return sales summary as to cost and selling prices and the postings to the general ledger accounts would necessarily be the reverse of the sales exhibits. In this method no sales postings would be made from the cash receipts book for sales or from the cheque register for return sales, but all postings would be made from the summary sheets. The detail of return sales would be entered on the stock sheets in the same way as purchases and at the original cost price.

The operating accounts which an average business should carry on the general ledger follow, showing the explanation necessary.

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*Sales*—(departmentalized to conform to requirements as shown in the sales summary)

Credited with:

Cash and charge sales of merchandise from the sales summary.

Debited with:

Return sales and allowances from the return sales summary.

*Cost of Sales*—(departmentalized as above)

Debited with:

Cost price of sales from the sales summary.

Credited with:

Cost price of return sales from the return sales summary.

This account would necessarily include cost of freight, express and cartage on the merchandise sold, mention of which is made later under the inventory accounts.

### *Buying Salaries*

Debited with the salaries (or proportion) of all buyers and clerical assistants directly assigned to that work.

### *Buying Expense*

Debited with all expenses incurred by the buying force such as traveling and all other expenses applicable thereto.

### *Sales Salaries*

Debited with the salaries of the sales force both regular and extra, including floormen, salesmen, stock boys, wrappers and a proportion of the cashiers' time.

### *P. M.'s.*

Debited with commissions, bonuses, etc. commonly known as P. M.'s.

### *Advertising*

Debited with all expense incurred for newspaper space, circulars, street car cards, billboards, window display, light applicable, and button hooks, shoe horns or other "novelties"; also any donations which are distinctly a necessary part of publicity and from which a benefit is derived.

### *Other selling expense*

Debited with sundry miscellaneous expenses, such as wrap-

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PURCHASE RECORD MONTH OF ..... 19.....

| Date | Supplier | Accts. payable | Men's |     | Women's |     | Children's | Findings | Expenses |      |
|------|----------|----------------|-------|-----|---------|-----|------------|----------|----------|------|
|      |          |                | High  | Low | High    | Low |            |          | Cost     | Sale |
|      |          |                |       |     |         |     |            |          |          |      |
|      |          |                |       |     |         |     |            |          |          |      |
|      |          |                |       |     |         |     |            |          |          |      |
|      |          |                |       |     |         |     |            |          |          |      |
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SALES SUMMARY MONTH OF ..... 19.....

| Date | Men's High |      | Men's Low |      | Women's High |      | Women's Low |      | Children's |      | Findings |      |
|------|------------|------|-----------|------|--------------|------|-------------|------|------------|------|----------|------|
|      | Cost       | Sale | Cost      | Sale | Cost         | Sale | Cost        | Sale | Cost       | Sale | Cost     | Sale |
|      |            |      |           |      |              |      |             |      |            |      |          |      |
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ping paper, twine and other selling expense not included in the foregoing accounts.

### *Delivery Expense*

Debited with wages of drivers and wagon boys, automobile expense, horse expense (feed, shoeing and stable), repairs, taxes and insurance on delivery equipment.

### *Delivery Equipment Depreciation*

Debited with depreciation on automobiles, trucks, wagons, horses and other delivery equipment.

### *Office Salaries*

Debited with salaries of office force not directly chargeable to buying or selling salaries.

### *Office Expense*

Debited with sundry expenses of maintaining the office.

### *Stationery, Printing and Postage*

Debited with stationery, postage stamps, stamped envelopes, accounting forms, etc. Does not include postage for advertising purposes.

### *Insurance*

Debited with the expired portion of insurance premiums of all classes except delivery equipment.

### *Taxes*

Debited with taxes on merchandise stock and all other taxes with the exception of federal income and excess profits taxes.

### *Rent*

Debited with rent of store and any rented equipment used and for storage space.

### *Heat, Light and Power*

Debited with purchases of fuel, light, power and supplies appertaining thereto; also wages of engineers, firemen, etc.

### *Repairs*

Debited with incidental repairs to furniture, fixtures or store equipment.

### *General Expense*

Debited with janitors' wages, telephone, telegraph, cleaning, dues and subscriptions and other sundry items.

### *Donations*

Debited with contributions from which the business derives no direct benefit, which are not deductible in deter-

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mining federal taxes (if corporation, not deductible; if individual or partnership, to a limited extent).

### *Bad Debts*

Debited with losses on customers' account appertaining to current year's sales.

Credited with recoveries on above item.

Losses sustained on sales to customers in previous years are a charge to surplus.

### *Discount Earned*

Credited with discounts taken on merchandise purchases.

Debited with discounts taken but subsequently not allowed by creditor.

### *Income Tax*

Debited with amount of tax accrued and payable. Reverse entry would be a credit to accounts payable or accrued income tax.

### *Discount Allowed*

Debited with discounts allowed to customers (very infrequent).

### *Interest Earned*

Credited with interest earned and received on notes receivable or customers' accounts.

### *Interest Expense*

Debited with interest accrued or paid on borrowed money.

### *Cash Over and Short*

Debited or credited, as the case may be, with all irregularities in daily cash transactions.

### *Miscellaneous Earnings*

Credited with sales of waste paper, boxes, etc.

### *Depreciation*

Debited with amount provided as depreciation for period.

Interest on investment in business is not considered in this outline of accounts.

The balance-sheet accounts would be as follows:

### *Bank, Cash*

Debited with cash receipts from all sources which should be deposited daily.

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Credited with disbursements by cheque.

Balance at end of period shows cash on deposit not withdrawn.

### *Imprest Fund*

Debited with original amount drawn for the office cash. All subsequent reimbursements are distributed on the voucher register.

### *Notes Receivable*

Debited with notes taken in payment for merchandise or on loans made to individuals.

Credited with payments made on principal or notes written off as bad debts.

### *Accounts Receivable*

Debited with all charge sales to customers.

Credited with payments by customers, returned merchandise, sales, allowances, bad accounts written off and notes taken in payment of open account.

The balance of this account should agree with the sum total of the individual accounts in the customers' ledgers at any given posting period.

### *Inventory*—(departmentalized as detailed in purchase record).

Debited with merchandise purchased and return sales at cost, plus freight, express and cartage.

Credited with cost of merchandise sold and credit memos. received from creditors (not including cash discount).

### *Fixed Assets Accounts (classified)*

Debited with purchases of real estate, buildings, furniture, fixtures, equipment, delivery equipment, etc.

Credited with cost value of above items discarded or sold. These accounts should show the cost value of all equipment used at any given date.

### *Insurance Unexpired*

Debited with insurance premiums on merchandise, buildings and equipment.

Credited with expired portion of premiums.

### *Notes Payable*

Credited with funds borrowed on notes.

Debited with payments of principal on notes.



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### *Accounts Payable*

Credited with recorded purchases.

Debited with payments to creditors, allowances to creditors, and returned purchases and notes given in settlement of open accounts.

*Reserves for Depreciation*—(classified as to fixed assets analysis).

Credited with amount provided during period.

Debited with proportion previously reserved, in case of discarding or sale of fixed assets.

### *Investment Accounts*

In the case of a corporation, capital stock and surplus accounts. In the case of individual or partnership, the respective investment accounts.

In the accounts herein provided no provision is made for depreciation of stock. This is ignored for the reason that in order to follow out the detail of this system it is necessary to carry the control inventory at actual cost. In case of a desire to provide for losses on obsolete stock an entry can be made debiting depreciation on stock and crediting a reserve account, thereby not affecting the actual inventory cost records.

In determining the departmental profit and loss it is an easy matter to allocate the expenses incurred against the various departments. In this arrangement of accounts we already have an actual gross profit, so the problem confronting us is the distribution of the overhead to the departments.

Rent should be allocated in the proportion of space occupied by each kind of merchandise. The distribution of buying salaries and expenses can be determined from the time spent on purchasing each kind of merchandise, and the cost of sales method would no doubt provide a correct basis for distribution of departmental overhead.

P. M's. distribution can also be easily determined in accordance with the merchandise on which P. M's. were paid. Taxes and insurance should be distributed on the basis of the value of each kind of merchandise used in calculating taxable or insurable values.

In short, all expense that can be distributed departmentally on a known basis should present no great problem, albeit it may

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necessitate some clerical labor, and the other expenses can be distributed on the cost-of-sales basis as perhaps the best method.

Thus actual profits in all departments can be determined and will afford the management a greater insight to operations than if handled loosely. It is essential to discontinue the unprofitable elements of a business and specialize on the more profitable items.

The most essential part of the foregoing plan of accounts is the stock sheets, which will enable the management to keep in close touch with the moving of styles and will prevent any undue accumulation. Strict adherence to the detail outlined will produce results and will fully warrant any added expenditure for clerical assistance.