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Harry L. Cavanagh

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## Mail Order Accounting\*

By HARRY L. CAVANAGH

One of the most conspicuous features of modern business is the remarkable growth of the mail order houses. This business, while not by any means of recent origin, has only of late years developed into the mammoth proportions that have amazed the commercial world.

One may form some conception of the magnitude and rapid growth of this particular business from the fact that one large house increased its sales from \$66,000,000.00 in 1911 to \$178,000,000.00 in 1917, and another house increased its sales from \$40,000,000.00 in 1913 to \$74,000,000.00 in 1917. Many other concerns, while not so large, have also had wonderful success.

The volume of orders and the small margin of gross profit on which the companies must do business make it imperative that the overhead expense be kept at a minimum. This has been the cause of many problems for the accountant, for, as one of the officers of a large company stated, "We do not want to spend a dollar to keep track of a quarter."

The accounting suitable for the mail order business is very much the same as that required for a retail department store, the various kinds of merchandise being grouped and subdivided into departments, known by letter or number, preferably the latter. Each department is charged with its purchases of merchandise, direct expenses and labor and a proportion of the indirect overhead, and credited with its sales. The advertising should also be charged to the various departments on an equitable basis, and as this is one of the principal items of expense, the distribution is most important.

Each department should be, as it were, a complete store in itself, and the accounting should reflect this condition.

There are many unusual features to be found in a mail order house, one of them being that the company receives payment for its merchandise in advance—that is, in nearly every case the cash accompanies the order. There are various ways in which this prepayment may be handled, but the most practical is as follows:

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The total cash received on orders should be credited to an account designated "customers," against which will be charged the sale and the postage or express charges that were included in the remittance, and also any refund of the original amount, the aim being to clear the "customers" account of completed orders and leave therein only the company's liability for unfilled orders.

Ascertaining the sales has been one of the most perplexing problems with which the large houses have had to contend. Various methods have been employed, but as yet no thoroughly satisfactory or economical one has been devised.

The most appropriate time for determining sales is at the balancing of the order, that is, after the various items called for in the order have been packed or assembled, the bill is made up and the customer notified that his remittance was short or a refund is made for any amount that may have been overpaid.

In the smaller houses the analyzing of the sales is not difficult as the volume is not large, but in the larger houses where the number of orders shipped each day runs up into the thousands, and prompt shipments are essential, the analyzing and totaling is a great task. However, by keeping the number of departments down to, say, twenty or so principal departments, the sales could be analyzed at the time of balancing the order by abstracting on a sheet large enough to have a column for each department. The reason for having so few departments is to have all departments on one sheet. This work could be performed by girls who would, with a little experience, become quick and accurate. At the close of each day the sheets would be collected, footed and summarized, thus ascertaining the cash sales for the day.

C. O. D. shipments and other than cash sales could be analyzed without much difficulty as the number of such sales is not large. The method outlined herewith gives the amount of actual sales each day, and is more satisfactory than the method now generally employed of having each department report its shipments daily and using those figures as the sales. The principal departments could be further subdivided and their sales ascertained reasonably accurately by one of the several methods now in use, having, under the plan formulated herewith, a controlling figure on the principal departments' sales.

An inventory should be taken at least twice a year of the cash on the unfilled orders in the house and the balance shown

on customers' account should be adjusted therewith. It is to be expected that there will be a difference to adjust, especially in the larger houses, as it is practically impossible to keep the account with such accuracy that no adjustment will be necessary. Furthermore, the cost of such accuracy would be prohibitive.

The handling of the cash refunds made to customers is also a problem. To decide to just what extent the detail should be carried is hard, as the number of refunds issued each day runs up into the thousands. The aim is to record these issues with as little detail as possible, yet to have some check on them.

The general plan is to divide the refund cheques into three classes: first, refunds from five to ninety-nine cents; second, those from one to ten dollars; and third, those of ten dollars and over. No cash refunds for less than five cents are given as no charge for less than five cents is made.

The refund cheques from five to ninety-nine cents are, in most houses, certificates printed for each amount from five to ninety-nine cents and made payable to bearer, so that when a refund for, say, seventy-two cents is made, a certificate calling for that amount is delivered. No record of the certificates issued is kept other than the total of the amount issued each day. This total is set upon the books as a liability, either at the end of the week or month, and charged to the proper accounts, e.g., refunds issued to balance an order would be charged against customers' account while refunds issued for return goods would be charged against sales, etc. As these certificates are redeemed either through banks or as cash on additional orders, the amount so redeemed should be charged against the amount shown as outstanding on the books and the certificates should be cancelled. As it is impossible to reconcile the amount outstanding, a new series should be started at least once a year and the issues and redemptions of each series should be kept in separate accounts. By this method, after a few years' time, a series would show a relatively small amount outstanding, and it is then reasonably safe to assume that only a small portion of this amount will be claimed, so the balance may properly be written off.

The second and third classes of refund cheques mentioned should be handled in the usual manner of issuing cheques, the amount issued being set up as a liability and the proper accounts debited. The reason for separating the cheques into two classes

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is to have closer supervision of those issued over ten dollars. As to what extent the outstanding cheques from one to ten dollars should be reconciled and checked is a matter of opinion, governed in large measure by the number issued. But the cheques over ten dollars should be carefully compared, when paid, with the office record, and those outstanding should be reconciled at least twice a year with the ledger balance.

The manner of making the office record has been given considerable attention. The use of a cheque stub or register would never do where there are thousands of cheques issued each day. A very satisfactory record is to have a carbon copy made showing the name, amount and number of each cheque. This duplicate is filed numerically, and when the original cheque has been paid the duplicate is withdrawn from the file. The total of the duplicates withdrawn each day should correspond with the total paid, thus affording a check on the amount paid. A total of the duplicates in the file should be the amount of outstanding cheques.

The manner of handling the amounts due from customers is also somewhat unusual. In many houses amounts of less than five cents are ignored, and of the amounts from five to fifty cents no record is kept, the customer being notified by the forwarding of a printed slip which states the amount due.

The total amount of these items is treated as a separate account, to which payments are credited, and at the close of the fiscal period the balance is prorated against the various departments.

Of the amount over fifty cents the only record is a carbon duplicate of the charge slip. These duplicates are filed in the most convenient manner, and when paid the duplicate is removed from the file. The total of these charge slips represents the unpaid accounts and should agree with the controlling account on the general ledger.

Another interesting feature is the manner of handling the cost of preparing, publishing and distributing the general catalogues, of which there are usually two a year. The preparation of a mail order catalogue requires several months' preliminary work—the drawings have to be ordered, cuts and electros made and the editorial work done. This work is called catalogue preparation, and, as it costs many thousands of dollars, considerable attention should be given to the accounting relative thereto.

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It is well to designate each general catalogue by a number, so that the charges may be made against the particular catalogue for which they were intended. A controlling account should be set up on the general ledger for each catalogue and the details should be kept in a subledger.

The preparation work should be divided under these general headings:

- Drawings
- Electros, cuts and zincs
- Special type
- Editorial
- Publicity department expense

These general accounts should be further divided to correspond with the merchandise departments, so that it may be seen just what each department has expended in the different classes of preparation.

After the preparation work has been completed the cost is distributed to the various departments for which the work has been performed, each department assuming a portion of the cost of preparing various parts of the catalogue which are not directly chargeable to any department. As to when the charge should be made to the departments depends upon the custom of the company, but it should be made during the period when each department is deriving the benefits of the catalogue.

The cost of publishing is another feature that requires careful attention. Most catalogues are purchased at a stated price for the stock, press work and binding, and the distribution of the cost to the departments should be made on the basis of pages used in the catalogue. The general space should be prorated over the different departments on the same basis.

The cost of distribution is also made on the basis of pages used, and consists of addressing, mailing, wrappers and the overhead expense of the distribution department. The feature that troubles the accountant most in regard to the catalogue expense is a basis of distribution which will equalize the charge over a period, and not leave some months with practically no charges while in other months the charges would be enormous. This can be overcome, however, by charging to each department a certain estimated percentage of the sales each month and crediting a reserve account. These estimated charges could be adjusted when the actual costs were determined.