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The treatment of the returnable package in accounts is a subject on which I have found a wide difference of opinion, and I believe its discussion would be of benefit to accountants in general.

The importance of proper records for the returnable package exists in many lines of commerce, but notably in the mineral water, liquor and cracker businesses. The account presents four distinct features:

1. There is the liability to the customer for the return to him of the amount charged for the package, when it is billed out to him with merchandise contained therein.

2. There is the asset of the actual value of the package in the hands of the customer to be returned.

3. There is the loss or expense of maintenance of the package, and the loss from wear and breakage or the value of the packages worn out and discarded or dumped.

4. There is the element of profit on those packages which are never returned but are broken or retained by the consumer.

Taking these in the order named, we have first the liability to customers. This is very important. In my experience, I know of one large factory that was forced to the wall by the redemption of returnable packages during a panic. The records did not include this liability and the company was unprepared to meet the sudden call for the redemption of outstanding obligations of this character, which the tightness of money caused people to look up and convert into cash.

In order to handle this item properly it is necessary to start at the time the package is billed out to the customer, (see form 1 at end of this article) and separate it from the merchandise therein. From the sales sheet it is posted to the customers' or sales ledger (form 2) and it is so recorded there that one may at any time ascertain at a glance whether the customer is indebted for merchandise or owes for returnable packages.

The next step is the credit memo. covering the return of these packages (form 3) which, like the sales sheet, is posted direct to the customers' or sales ledgers. The total of packages charged to customers is credited monthly to outstanding returnable package account in the general ledger, and this account is charged monthly with the packages redeemed both from the total of the column in the cash book for those paid for in cash and the total of the credit memos for those credited through these records. The difference in the outstanding returnable package account, if handled in this manner, will at all times show the amount, in dollars and cents, of packages outstanding.

The keeping of the returnable package separate from the merchandise is important, not only for proper accounting and to ascertain the true condition of accounts receivable, but it is also important in arriving at proper commissions due salesmen, as no factory or business can properly pay a commission on that part of the sales which nets them no profit and is only a necessary expense in their operation.

The second factor is the asset consisting of the value of the package to be redeemed.

As in almost every case where a returnable container is used in trade the price charged for the container exceeds its actual cost, this asset cannot equal the amount charged. In many cases the original cost is not more than sixty or seventy per cent of the charge and its value as an asset is less than its original cost, for by use it has become second-hand and requires expense in labor and often in material before it can again be fit for use. Therefore when considering these outstanding packages as an asset, they can only be properly so taken at a value not to exceed their cash second-hand worth if returned and in stock. This asset only appears on the books, of course, at inventory periods, and is handled as shown later.

The third question is maintenance or loss.

The cost of maintenance is handled as would be any other expense account in the records and is covered by an account known as maintenance of returnable packages. This includes all labor and material used in cleaning or repairing and preparing returned containers for use, but does not cover the value of containers discarded or dumped. Worn out or discarded containers are charged to profit and loss and credited to returnable packages account.

It will be noted that I here introduce a new account, "returnable packages account." This account has nothing to do with the account known as "outstanding returnable packages," mentioned above. Returnable packages account is started with the inventory of packages on hand in the factory or warehouse and the inventory of the actual value of returnable packages in the hands of customers. To this account is charged during the year the purchases (at cost) of new containers. It is credited with containers discarded or dumped. In other words, the returnable package account is the asset account and the outstanding returnable packages account is the liability account. These two, with the maintenance of returnable packages account, complete the accounting record of the returnable package in all cases where the container is charged for as a part of the selling price of the merchandise; but they do not in any way cover the method necessary or desirable where the value of the container is not included in the selling price or repurchased by the manufacturer, but is simply kept track of and collected by the distributor, as is the case in a few branches of trade.

This now brings us to the fourth and last element, that of profit on containers broken or retained by the consumer.

While this profit does undoubtedly exist, the determination of its exact amount is extremely difficult, if not impossible, and the only practical method is to determine by experience the percentage of the containers sold which are never returned, but are paid for by customers and whose age precludes their being returned for credit. In arriving at this percentage, care should be used to be conservative in order that the liability may not be reduced below its real amount. Once ascertained, this profit is credited to profit and loss and charged to outstanding returnable packages account; but this must be done, of course, before the inventory of containers in hands of customers is made up, as that also is calculated on a percentage basis and governed by the balance shown on the outstanding returnable package account.

There is another important feature in the proper handling of returnable packages which I have not discussed and that is the relation to accounts receivable. Unless form 2 or something similar is used for a customers' or sales ledger, it will be very difficult to separate the real asset in the accounts receivable from the amount due for returnable packages, and in certifying to the statement the accountant is likely to deceive the banker or stockholder who receives his report as to the real condition of the business under examination, and thereby not only to hurt his own reputation, but to injure the profession as a whole.

I should like to see this subject discussed by others in The Journal of Accountancy, and trust this article will provoke a discussion.

Heading to be in usual form for sales sheets.

Date	Articles	Mdse.	Pkgs.	Total

Form No. 1, Sales Sheet, size to be made to suit business.

Heading to be in usual form for sales ledger sheets.

DEBIT					CREDIT				
Date		Mdse.	Pkgs.	Total	Total	Mdse.	Pkgs.		Date

Form No. 2, Customers' Ledger, size to be made to suit business.

Heading to be in usual form for credit memos.

Date	Articles	Mdse.	Pkgs.	Total

Form No. 3, Credit Memos., size to be made to suit business.