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Wilhelm Jensen

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Treatment of the Returnable Package in Accounts

BY WILHELM JENSEN

The invitation of Mr. Lyman in the June number of *THE JOURNAL* to discuss this subject should be hailed with glee by all accountants and bookkeepers who have to deal with empties. I find the subject causes more heartache than any other one thing, and I believe this is largely due to the fact that we attempt to do a thing which cannot be done, that we attempt to inject a certainty into a matter which is uncertain.

Of Mr. Lyman's four subdivisions of the matter, we can eliminate No. 3—expenses of maintaining the package. This expense is very easily kept track of, and must be regarded as a legitimate selling expense. No. 1 should not cause much trouble either, because the liability does not exist, until we receive the empties back, when it becomes a cash liability to be discharged almost immediately; but, as a rule, it merges into the regular account of the customer as an offset against charges. The statement that the redemption of returned packages has forced a concern to the wall must, I believe, be taken with a grain of salt. It was probably the straw that broke the back of an already overloaded camel.

Element No. 2, the asset of the actual value of the package in the hands of the customer, is expressed in the accounts receivable, and it remains to be ascertained which part of these is a cash asset and which not. This problem Mr. Lyman solves by a division of the customer's account; but in the last analysis what does he gain thereby? If the package were returned immediately, and such return always made part of the settlement of the account, all good and well; but when the customer settles his account, including the package, with cash, and then, perhaps years after, returns the package—what then? We have forgotten all about this contingency of having to buy empties back for cash, as we certainly cannot continue in our statements to consider the contingency for years. The uncertainty exists, and no account or entry will eliminate it, so why worry? Fortunately we have the possibility of averaging; we can by observation establish an average—estimated of course, but fairly correct—of the part of the accounts receivable which is

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represented by returnable packages; and we can in our monthly statements change this from a cash asset to fixed.

And finally we have element No. 4, the profit on returnable packages not returned. The utter impossibility of ascertaining this, contingent upon the actions of others over whom we have no authority, makes it again necessary to estimate, say at inventory taking; we do not know which packages will be returned, and which will not, hence averaging again. This element is, of course, so absolutely dependent upon the previous one—No. 2—that they really might be considered one.

In the cement business, when cement is sold in sacks, it is customary to include the price of the sacks in the price of cement, and allow a credit of 10c for each sack received in serviceable condition or nearly so, culling such sacks as cannot possibly be used again. I handle this branch of the business in the following manner:

Sacks bought are charged to sacks account.

Sales are charged to customers, sacks included, and credited to sales account and to customers' sacks account.

Sacks returned are credited to customer's account and charged to customers' sacks account.

On my monthly statement of accounts receivable, I consider a certain percentage due in cash, balance in sacks, basing my percentage on previous experience.

I open a customers' sacks account each year, charging to the 1913 account all returns during the first three months of 1914, and then on April 1 close the account. Sacks are bought at various prices, and I establish an average cost price. By dividing the balance of the account by ten, I have the amount of sacks lost, and a simple computation shows the amount to be credited to sacks account and the amount of profit.

For illustration we will assume that the average cost of a sack is 8c, and that customers' sacks account on April 1 shows a credit balance of \$5,000. It is evident that 50,000 sacks are returnable but not returned. I close the account and credit

Sacks account 50,000 sacks @ 8c	\$4,000.00
Profit and loss account	1,000.00

I am fully aware that I am estimating a great deal, but I have never missed my guess very far, and I have eliminated a great deal of worry.