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to

Uniform Accounting for Locker and Freezer Provisioners

by Thornton W. Snead, Sr.
and Paul C. Wilkins

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U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Acknowledgment: The National Institute of Locker and Freezer Provisioners was instrumental in bringing together a committee to consider a uniform accounting system for the industry. Thornton W. Snead, Sr., Consultant on Uniform Accounting Systems and Procedures, did the basic work under contract with Farmer Cooperative Service. Paul C. Wilkins of Farmer Cooperative Service was coordinator of the project and co-author of this Guide. Robert L. Madeira, Executive Director, National Institute of Locker and Freezer Provisioners, and J. L. Pidcock, Assistant Secretary of Marketing, Illinois Agricultural Association, made valuable contributions in planning the system.

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Guide to Uniform Accounting for Locker and Freezer Provisioners

by

Thornton W. Snead, Sr.

and

Paul C. Wilkins

Locker and freezer provisioners are faced with increasing competition, demands for new services, and narrowing marketing margins. Greater efficiency in procurement, processing, and merchandising is necessary not only to the successful operation of these businesses, but, ultimately, to their very survival.

Recordkeeping in the industry has, in general, failed to keep pace with changing needs. The result is that most provisioners do not have current, accurate accounting information readily at hand to

help them make sound business decisions affecting the efficiency of their operations.

Better financial records would help locker and freezer provisioners operate more efficiently and thus permit lower marketing margins. This would benefit both producers and consumers. Realizing this, Farmer Cooperative Service, in cooperation with others, undertook to develop a uniform accounting system for the industry.

This Guide explains the uniform accounting system and gives instructions for operating it. Sample forms and entries illustrate basic procedures -- the emphasis is on visual presentation. The Guide is not intended to teach accounting, nor is it a textbook of accounting principles. It is, in fact, a Guide.

The LFP System

Successful operation in this highly competitive field requires maximum efficiency. This, in turn, requires current, accurate information upon which management can base decisions. This Uniform Accounting System for Locker and Freezer Provisioners (LFP System) is designed to furnish such financial information to management.

Advantages

Adopting a uniform accounting system will enable the locker and freezer provisioning industry to develop financial, production, and other operating standards heretofore unavailable. These standards will provide guides for operators to

measure their efficiency and improve their operations.

The LFP system provides more control of labor costs and materials than is found in most of the systems that firms in this industry now use. Sales and costs of sales are departmentalized so as to arrive at gross margins by departments. Operating expenses are classified as plant, selling and delivery, and general and administrative. This information provides facts and figures which will help in planning and can lead to better management.

An important advantage will be that all provisioners using the LFP system will be speaking the same language. Cost of sales, gross margins, and operating profit will not mean one thing to one operator and something entirely different to another. Thus, provisioners will be in a better position to compare their plants and operations and, through this exchange of information, improve their efficiency.

Flexibility

The LFP system is flexible enough to meet the needs of most firms in the industry. It provides procedures for plants engaged in custom storage and processing, and in processing plant-owned products for sale. It is suitable for the various types of business organizations -- single proprietorships, partnerships, cooperative

corporations, and corporations that are not cooperatives.

Since the majority of the businesses in this industry are single proprietorships or partnerships, the Guide uses their customary accounting terminology. Cooperatives and other corporations use some different accounts and terminology. In the case of a corporation that is not a cooperative, the difference lies in the net worth accounts. (See discussion of net worth accounts.)

Incorporated cooperatives use still different terminology. These organizations use the term "revenue" instead of "income"; "net savings" instead of "net profit"; and "undistributed savings" in place of "surplus." The major net worth accounts for incorporated cooperatives also are shown in the net worth section of this Guide.

Most firms in the industry do not have accountants trained to operate complex cost accounting systems. The LFP system has been designed, therefore, to be used by anyone with a knowledge of double entry bookkeeping. The importance of cost and speed in providing information for management also has been kept in mind.

Firms adopting the LFP uniform system probably will need to make some changes in their recordkeeping. Generally these changes will be minor and will be in accordance with accepted accounting procedures.

Operating Statement and Balance Sheet

The operating statement and the balance sheet (statement of assets, liabilities, and net worth) are the immediate end results of recordkeeping or accounting. However, this Guide presents them first rather than last. Why? Because seeing the finished product should make it easier to understand the accounting procedures and the forms used.

Explanation

The next few paragraphs explain briefly how the sample operating statement is set up.

Sales in the locker and freezer provisioning industry fall into two distinct

classifications -- sale of services and sale of merchandise. The LFP uniform accounting system is tailored to provide meaningful information on these two classifications.

Sale of Services

Services also are divided into two groups -- storage and processing. Storage consists of annual and short-term locker rentals, and commercial or bulk storage. Processing services include custom processing for patrons, and processing plant-owned products for sale.

In the latter situation, the cost of processing plant-owned food products is transferred at the end of the accounting period from the processing department to the department handling the sale of the product. This procedure, called an inter-departmental transfer, is described in detail in the section "Using the LFP System."

Sale of Merchandise

Merchandise sales are classified as sales of meats, frozen foods, and other merchandise.

The heading "Meats" includes beef, veal, pork, lamb, poultry, and specialty meat products. Whenever these products have been prepared in any way by the processing department, the cost or estimated cost of direct processing labor and supplies is charged to the meat sales department as part of the cost of goods sold.

"Frozen foods" includes frozen packaged foods; bulk fruits (such as 30-pound

tins of cherries or strawberries); and frozen foods purchased from outside sources, refrigerated, and sold to customers.

"Other Merchandise" consists of freezers, freezing supplies, and other merchandise that cannot be classed as meats or frozen foods. Firms selling freezers should handle them in a special account, as shown in the expansion chart.

End Results

A monthly operating statement similar to the accompanying one can be prepared by a locker and freezer provisioner who adopts the LFP system. It uses the two basic classifications of sales described in the preceding section -- service and merchandise. Following the sales figure is the cost of sales; beneath that, gross margins. Up to this point the statement has been departmentalized so that gross margins can be calculated for each major activity.

Operating expenses are not departmentalized in the same manner. They are classified into plant, selling and delivery, and general and administrative expense.

The balance sheet, which follows the operating statement, is typical of most such statements found in accounting systems. It is given to assist locker and freezer provisioners in preparing statements of their own. It needs no special explanation here.

Typical Monthly
OPERATING STATEMENT
Using the LFP Uniform System of Accounting
NOTE - Figures used here are fictitious - For illustration only

Acct. No. or class. ¹		TOTALS	SERVICES		MERCHANDISE		
			Storage 401	Pro'ss'g 402	Meats 404	Frozen Foods 405	Other 406
(400)	Sales	\$12,900.00 - 100.0%	\$1,050.00	\$2,100.00	\$6,125.00	\$2,700.00	\$925.00
	Cost of Sales						
(502-a)	Direct labor- processing			1,078.00			
(502-b)	Processing supplies used			410.00			
				1,488.00			
(502-c)	Inter-dept. transfer			(428.00)	428.00		
	Cost of mdse. sold				4,595.00	2,180.00	525.00
(500)	Total cost of sales	8,788.00 - 68.1%	-	1,060.00	5,023.00	2,180.00	525.00
	Gross Margins	4,112.00	1,050.00	1,040.00	1,102.00	520.00	400.00
	%-Margins to net sales	31.9%	100.0%	49.5%	18.0%	19.3%	43.2%
(10)	Operating Expense						
	Plant	1,023.00 - 7.9%					
	Selling and delivery	1,222.00 - 9.5%					
	General and administrative	1,262.00 - 9.8%			Sales	100.0%	
	Total operating exp.	3,507.00 - 27.2%			Cost of sales	68.1%	
					Operating expense	27.2%	
	Operating Profit	605.00 - 4.7%			Operating profit	4.7%	
						100.0%	
(700)	Add: Other income	207.00					
(800)	Deduct: Other outgo	228.00					
		(21.00)					
	Net Profit - before taxes	\$584.00					

¹Numbers ending in zero identify classifications of accounts. Other numbers identify specific accounts.

Account
Number

OPERATING EXPENSE

Plant

11	Indirect labor	\$130.00	
13	Plant supplies	50.00	
14	Power, light, heat and water	300.00	
15	Repairs - maintenance	110.00	
16	Rent	130.00	
18	Laundry	32.00	
19	Depreciation - building and equipment	210.00	
21	Taxes - real estate, etc.	<u>61.00</u>	\$1,023.00

Selling and Delivery

31	Wages, salaries, commissions	600.00	
32	Advertising - promotion	237.00	
35	Truck (delivery) expense	215.00	
36	Depreciation - truck(s), auto	<u>170.00</u>	1,222.00

General - Administrative

51	Salaries - off./part./prop.	500.00	
52	Salaries - office	275.00	
54	Office supplies, postage	78.00	
55	Insurance - other than life	108.00	
56	Dues and subscriptions	15.00	
58	Telegraph and telephone	42.00	
59	Bad debt expense	64.00	
61	Donations	10.00	
62	Travel and entertainment	70.00	
63	Payroll taxes	46.00	
64	Other taxes and licenses	17.00	
65	Legal and prof. fees	25.00	
66	Depreciation - office equipment		
67	Miscellaneous	<u>12.00</u>	1,262.00

Total operating expense

3,507.00

OTHER INCOME

701	Discounts earned	-	
703	Interest and earnings - financing	118.00	
704	Bad debts recovered	109.00	
706	Cash - over and short	(20.00)	207.00

OTHER OUTGO

801	Discounts (cash) allowed	-	
802	Interest expense	116.00	
804	Life insurance expense	<u>112.00</u>	228.00

TYPICAL BALANCE SHEET

Using the LFP Uniform System of Accounting

Note - Figures used here are fictitious - for illustration only

Account Number	ASSETS		
	<u>Current Assets</u>		
101	Cash - in office	\$300.00	
102			
103	In bank(s)	6,702.00	\$7,002.00
104			
111	Notes receivable - due from customers	786.00	
112			
113	Accounts receivable - due from customers	8,435.00	
114	Accounts receivable - due from officers/employees	346.00	
115	Bank - financing reserve	387.00	
116		9,954.00	
251	Less: Allowance for doubtful accounts	962.00	8,992.00
	<u>Inventories</u>		
131	Meats and poultry - for resale	398.00	
132	Frozen foods - for resale	2,964.00	
133	Freezers - for resale	2,796.00	
134	Freezing supplies - for resale	798.00	
135	Processing supplies	485.00	
136			
137			7,441.00
	Total current assets		23,435.00
	<u>Investments</u>		
141	U. S. bonds	750.00	
142	Cash surrender value - life insurance	1,079.00	
143			1,829.00
	<u>Prepaid</u>		
161	Interest	78.00	
162	Taxes	167.00	
163	Insurance	375.00	
164			620.00
	<u>Fixed - Property and Equipment</u>		
171	Land	4,800.00	
172	Building	\$18,650.00	
253	Less: Allowance for depreciation	6,520.00	12,130.00
173	Plant equipment	10,555.00	
253	Less: Allowance for depreciation	4,250.00	6,305.00
174	Truck(s) - automobile(s)	4,875.00	
253	Less: Allowance for depreciation	2,860.00	2,015.00
175	Office equipment	650.00	
253	Less: Allowance for depreciation	250.00	400.00
	Total assets		\$51,534.00

TYPICAL BALANCE SHEET - Cont.

Account Number	LIABILITIES		
	<u>Current Liabilities</u>		
201	Accounts payable - trade	\$1,876.00	
202			
203	Notes payable - trade	1,793.40	
204			
205	Notes payable - bank(s)	5,000.00	
221	Accrued interest payable	86.00	
222	Accrued salaries and commissions	74.00	
223	Accrued payroll withholdings	127.00	
224			
225			
226	Accrued sales taxes payable	<u>204.00</u>	
	Total current liabilities		\$9,160.40
	<u>Long Term</u>		
241	Mortgage payable		3,500.00
	NET WORTH		
311	Proprietors capital account	35,000.00	
312			
313	Proprietors drawing account	(1,700.00)	
314			
351	Profit and loss account	4,989.60	
351	Profit and loss - current period	<u>584.00</u>	<u>38,873.60</u>
	Total liabilities and net worth		<u>\$51,534.00</u>

General Description of System

The heart of the LFP system lies in four basic accounting forms, which are designated in this Guide as "A," "B," "C," and "D." They are described briefly here and are discussed in detail and illustrated in the section "Four Basic Accounting Forms."

Form "A" is used to record all cash received and all sales. This information comes from sales tickets, order forms, and similar records. Form "B" is a record of cash disbursed and purchases. These figures come from records of pay-

ments, such as check books, and from invoices for purchases. Form "C," the General Journal, is provided for end-of-the-period entries, such as depreciation and allowance for doubtful accounts.

At the end of the accounting period -- usually the end of each month -- information from Forms "A" and "B" is summarized and posted to Form "D," the General Ledger. The accounting information from Form "C," the General Journal, also is posted to the General Ledger at the end of the month.

Flow of Accounting Information

Form "A"

CASH RECEIVED and SALES RECORD

Record on this form all cash receipts and charges. The form provides for: separating sales by departments; recording sales tax and carrying charges; debits and credits to accounts receivable, notes receivable, and other General Ledger accounts.

Form "B"

CASH DISBURSED and PURCHASE RECORD

Record on this form all withdrawals from banks. This form provides for: recording direct labor costs of processing, operating expenses by function, purchases by sales classification, and debits and credits to other General Ledger accounts.

Form "C"

GENERAL JOURNAL

Record end-of-the-period entries, such as allowance for doubtful accounts, depreciation, purchases to be paid for at a later date, and interdepartmental transfers.

Form "D"

GENERAL LEDGER

Set up and indexed to conform to the numerical chart of accounts.

This chart illustrates how accounting information flows through the system. It also shows the relationship between Form "D," the General Ledger, and the other three forms.

Identification of Accounts

In the LFP system, accounts are classified by numbers instead of names. Numbers are used because it is easier to memorize them and much easier to insert them in worksheets and forms.

Basic Classification of Accounts

Here is the basic classification of accounts. Similar accounts are grouped together to assist operators in remembering them. For example, the 400 group designates sales and service income, while the group numbered below 100 designates operating expenses.

OPERATING EXPENSES in the General Ledger are numbered from	10 to 99
ASSET accounts in the General Ledger are numbered from	100 to 199
LIABILITY accounts in the General Ledger are numbered from	200 to 299
NET WORTH accounts in the General Ledger are numbered from	300 to 399
SALES accounts in the General Ledger are numbered from	400 to 499
COST OF SALES accounts in the General Ledger are numbered from	500 to 599
OTHER INCOME accounts in the General Ledger are numbered from	700 to 799
OTHER OUTGO accounts in the General Ledger are numbered from	800 to 899

Numerical Chart of Accounts

This detailed numerical chart covers the accounts most locker and freezer provisioners will need. There are unassigned

numbers in the chart to take care of any accounts that might be required for operations peculiar to a particular business. It is best, however, to keep such extra accounts to a minimum.

NUMERICAL CHART OF ACCOUNTS

SALES		COST OF SALES	
<u>Account Number</u>		<u>Account Number</u>	
401	Storage	501	
402	Processing	502-a	Direct Labor - Processing
		502-b	Processing Supplies Used
		502-c	Direct Cost Charged to Plant Owned Products
403		503	
404	Sales - Meats	504	Cost of Meat Sold
405	Sales - Frozen Foods	505	Cost of Frozen Foods Sold
406	Sales - Other Merchandise	506	Cost of Other Merchandise Sold
OTHER INCOME		OTHER OUTGO	
701	Discounts Earned	801	Discounts (Cash) Allowed
702		802	Interest Expense
703	Interest and Earnings - Financing	803	
704	Bad Debts Recovered	804	Life Insurance Expense
705	Gain or Loss on Sale of Fixed Assets	805	
706	Cash Over and Short	806	
707		807	
708		808	

OPERATING EXPENSE

<u>Account Number</u>	<u>Plant</u>	<u>Account Number</u>	<u>General and Administrative</u>
11	Indirect Labor	51	Salaries - Officers/Proprietors/ Partners
12		52	Salaries - Office
13	Plant supplies	53	
14	Utilities - Power, Light, Heat, and Water	54	Office Supplies and Postage
15	Repairs and Maintenance	55	Insurance
16	Rent	56	Dues and Subscriptions
17		57	
18	Laundry	58	Telephone and Telegraph
19	Depreciation - Building and Equipment	59	Bad Debt Expense
21	Taxes - Real Estate, etc.	61	Donations
22		62	Travel and Entertainment
		63	Payroll Taxes
	<u>Selling and Delivery</u>	64	Other Taxes and Licenses
31	Wages, Salaries, Commissions	65	Legal and Professional Fees
32	Advertising and Promotion	66	Depreciation - Office Equipment
33		67	Miscellaneous Expense
34		68	
35	Delivery Truck Expense	69	
36	Depreciation - Truck and Automobile		
37			
38			

<u>Account Number</u>	ASSETS	<u>Account Number</u>	ASSETS (Continued)
101	Cash - In Office	161	Prepaid Interest
102		162	Prepaid Taxes
103	Cash - In Bank(s)	163	Prepaid Insurance
104		164	
111	Notes - Due from Customers	171	Land
112		172	Building
113	Accounts - Due from Customers	173	Plant Equipment
114	Accounts - Due from Officers and Employees	174	Truck(s) and Automobile(s)
115	Bank - Financing Reserve	175	Office Equipment
116		176	
		177	
131	Inventory - Meats and Poultry - For Resale		LIABILITIES
132	Inventory - Frozen Foods - For Resale	201	Accounts Payable - Trade
133	Inventory - Freezers - For Resale	202	
134	Inventory - Freezing Supplies - For Resale	203	Notes Payable - Trade
135	Inventory - Processing Supplies	204	
136		205	Notes Payable - Bank(s)
137		206	
141	U.S. Bonds	221	Accrued Interest Payable
142	Cash Surrender Value-Life Insurance	222	Accrued Salaries and Commissions
143		223	Accrued Payroll and Withholding Taxes
		224	

<u>Account Number</u>	LIABILITIES (Continued)	<u>Account Number</u>	NET WORTH
225		311	Proprietors/Partners - Capital Account
226	Accrued Sales Taxes	312	
227		313	Proprietors/Partners - Drawing Account
241	Mortgage Payable	314	
251	Allowance for Doubtful Accounts	351	Profit and Loss
252			
253	Allowance for Depreciation		
254			

Expansion Chart

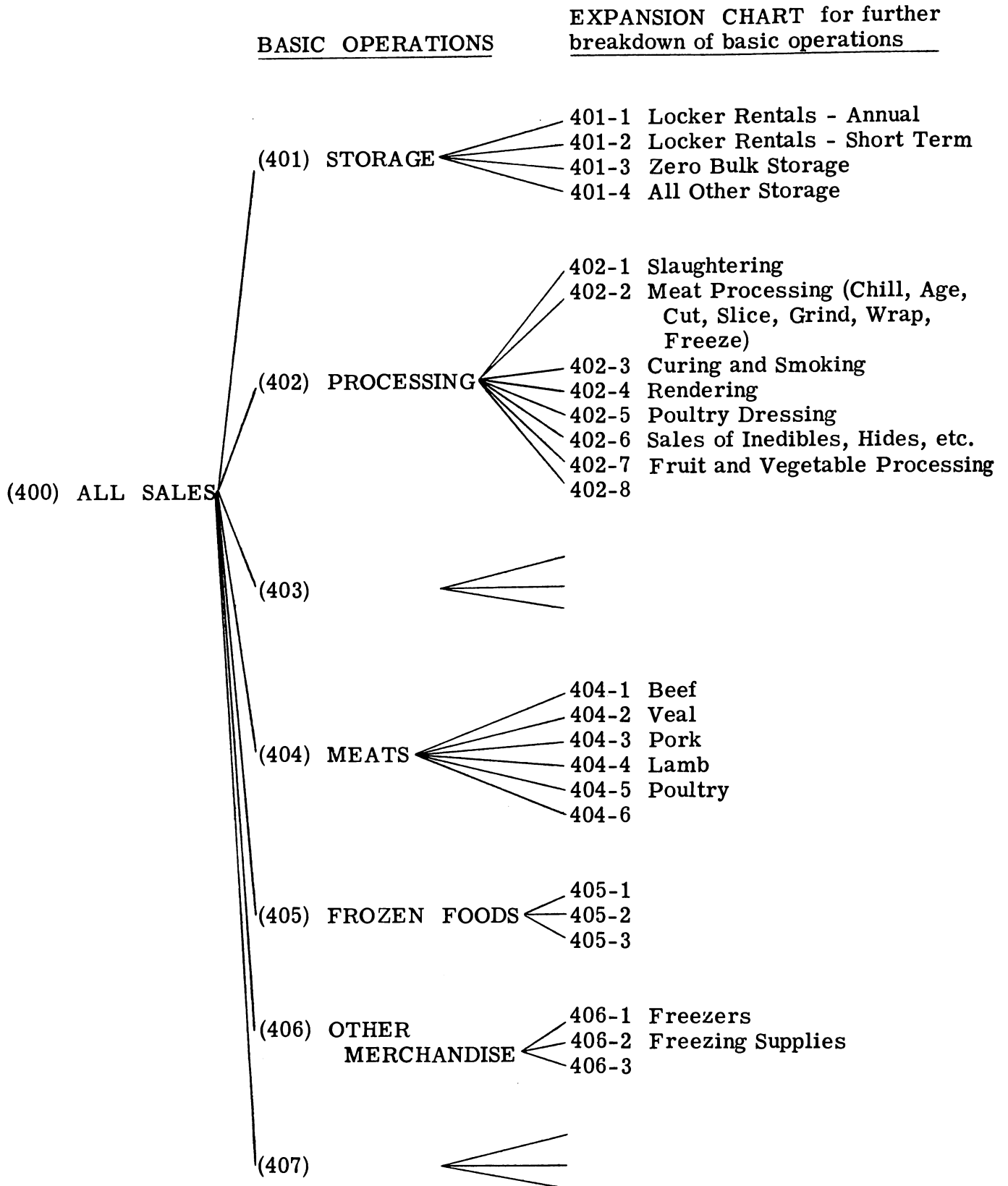
The sales accounts common to most operations are Storage (401), Processing (402), Sales-Meats (404), Sales-Frozen Foods (405), and Sales-Other Merchandise (406). These five accounts form the basic classification of income or sales for the LFP uniform system.

However, many operators will need more detailed sales information than would be provided by just these five accounts. The following Expansion Chart illustrates how basic accounts can be expanded. For example, account 402 is Processing.

Operators desiring more detail should not set up a single account for Processing (402). Instead they should use accounts such as those listed on the right-hand side of the chart: Slaughtering, (402-1); Meat Processing, (402-2); and Curing and Smoking (402-3).

It is not necessary to expand all the basic income accounts just because one is expanded. An operator may choose to break down processing into the seven accounts shown for this type of income but still have only one account, Storage (401), for locker rentals, bulk storage, and other storage income.

EXPANSION CHART



Four Basic Accounting Forms

This section of the Guide describes the four basic accounting forms used in the LFP uniform accounting system.

Form "A," Cash Received and Sales Record, and Form "B," Cash Disbursed and Purchase Record, were designed especially for this system. Form "C," General Journal, and Form "D," General Ledger, are similar to forms used in nearly every accounting system.

The General Ledger, Form "D," differs in that it provides columns for departmentalizing or allocating income and expenses. For example, a ledger sheet can be set up for Processing (402). The detail columns on this sheet can be used to show the breakdown of processing revenue into Slaughtering (402-1), Meat Processing (402-2), and Curing and Smoking (402-3).

Form "A" - Cash Received and Sales Record

This form, with sample entries, shows how to record cash received and sales. All cash receipts and all charge sales are entered on this form. The accounting data comes from sales tickets, processing tickets, receipts for payments on accounts, cash register tapes, and other records of cash received and charges. Information from this form is summarized and posted to the General Ledger, Form "D."

The left side of the form is self-balancing, as shown on the sample. It provides all the accounting data necessary to record cash received and sales. Alone, however, it does not provide the detailed sales information necessary for the management of most firms. This is the function of the right side of the form.

One column is provided on the left side for recording "All Sales Income." The right side provides 14 columns for

breaking down this sales income into as many classifications as desired. Thus the total from all columns on the right side must equal the total of the "All Sales Income" column on the left side.

In posting information from Form "A" to the General Ledger, the total of the "All Sales Income" column on the left side is not used. Instead, the information on the right side of the form showing the detailed breakdown is posted. More detailed discussion of this is found in the section titled "Posting to the General Ledger."

The following are brief descriptions of typical entries on Form "A." For easy reference, each item is numbered.

Line one - Total brought forward from previous sheet.

Items 1, 2, and 5 - Cash received as payment on account.

Item 3 - Charge sales of meats, frozen food, and a freezer.

Items 4 and 12 - Sales of merchandise. In both, a note was given as security for payment. The amount of each note includes the cost of the merchandise purchased and the sales tax. One also includes finance charges.

Item 6 - Cash sale of meats, frozen foods, and locker rental.

Items 7 and 13 - Summary of cash register receipts showing sale of custom processing services, meats, frozen foods, and other merchandise.

Item 8 - Owner of firm puts \$500 into the business.

Item 9 - Cash received on a bill previously written off the books as uncollectible.

Item 10 - Bank loan of \$1,000. Interest amounting to \$30 was withheld by the

bank and \$970 was deposited to the firm's account.

Form "B" - Cash Disbursed and Purchase Record

The sample Form "B" illustrates the method of handling cash disbursements and purchases. All cash disbursed and all purchases not paid for at the end of the month should be entered on this form. The accounting data comes from check stubs, disbursement vouchers, or other records of cash disbursed, and from invoices of merchandise received but not yet paid for.

The total of all debits will equal the total of all credits on the left side of the form, as shown in the illustration. This provides all the accounting information necessary for recording cash disbursements and purchases. It does not provide, however, as much detail as most operators need. The right side of Form "B" is designed for this purpose.

One column is provided on the left side for all operating expenses, and another column for recording all merchandise purchases. The right side of the form provides 13 columns for breaking down these 2 types of expenditures into as many classifications as desired. Thus the total of all figures shown in columns on the right side must equal the total of the Operating Expenses and Merchandise Purchases on the left side. In posting information from this form, these totals are not used. Instead, the detailed breakdown of Operating Expenses and Merchandise Purchases shown on the right side is posted.

The following are brief description of typical entries on Form "B."

Items 1 through 6 - Payroll, including withdrawal by proprietor.

Items 7, 8, and 13 - Paid for merchandise purchased.

Items 9, 10, and 11 - Paid for various monthly operating expenses.

Item 12 - Paid payroll withholding tax to Collector of Internal Revenue.

Item 14 - Purchased equipment.

Item 15 - Paid \$500 on bank loan.

Items 16 through 20 - Reimbursed petty cash.

Item 21 - Entered unpaid invoice for merchandise purchased. (End-of-month entry.)

Form "C" - General Journal

Form "C" is used for entries that cannot readily be made on Forms "A" or "B." Entries that would normally be made on Form "C" include the monthly charge for depreciation, bad debts, inter-departmental transfers for processing plant-owned products, and cost of goods sold during the month. If the entry to set up accounts payable for merchandise purchased but not paid for during the month is not made on Form "B," it should be recorded here (see illustrative entry 4).

This form provides two columns in addition to the debit and credit columns. One is headed "Source" and the other "Detail." The "Source" column may be used to show authority for an entry or source of information supporting an entry. For example, if an entry affecting a partner's capital or drawing account needs to be initialled by that partner, the "Source" column can be used for this purpose. Other entries are based on information contained in memoranda, tabulations, or worksheets. The "Source" column should be used to identify these.

The "Detail" column is useful when writing off bad debts or making similar entries. For example, in writing off a number of uncollectible accounts, the total is debited to (251) Allowance for Doubtful

Accounts and credited to (113) Accounts - Due from Customers. The "Detail" column is used to show the amounts of the individual accounts being written off which is then posted to the accounts receivable ledger.

Form "D" - General Ledger

Form "D" is a sample General Ledger form. In addition to the columns usually found on a general ledger sheet, a number of others are provided for recording more

detailed information. For example, one account can be used for recording all processing labor, with the detail columns used for a breakdown into such classifications as slaughter, meat processing, and curing labor.

The column headed "Balance" is used to record the cumulative balance in the account. The column headed "Month" is used to show the total for each month and is particularly useful when a number of entries are made for the same account each month.

FORM "A"
CASH RECEIVED AND SALES RECORD

MONTH OF

January 1959

I T E M	D A T E	SOURCE	SALES TICKET NO.	ALL CASH RECEIVED				SALES TAX	ALL SALES INCOME				AC				
				DR - 103					CR-226								
					10	6	10	78			2	80	48	11	998	32	12
1	30	John A. Jones	398					42	50								
2		Harry T. Smith	399					28	30								
3		L.T. Holmes - Food Plan	400								7	73			3	78	77
4		R.J. London	401								3	45			1	15	04
5		Susan North	402					33	80								
6		County Hotel	403					76	76		2	28			7	44	8
7		Cash Register	404					60	90		1	20			5	97	0
8	31	F.L. Owen	405					500	00								
9		Ace Collection Agency (H.T. Hacker)	406					18	75								
10		Irish National Bank	407					97	00								
11																	
12		Alice Smith	408								5	88			1	95	91
13		Cash Register	409					80	25		2	47			7	78	
14																	
15					12	422	04				3	03	49	12	900	00	12
16																	
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32																	
33																	
34																	
35																	

Account Number	Pos	Debits
(103)	Bank-Cash Received	\$12,422.04
(113)	Accounts Receivable	12,393.00
(111)	Notes Receivable	1,973.00
(various)	General Ledger	1,502.40
		<u>28,291.44</u>

Account
Number

(103) Bank-Cash Received
(113) Accounts Receivable
(111) Notes Receivable
(various) General Ledger

Pos

Debits

\$12,422.04
12,393.00
1,973.00
1,502.40

28,291.44

ACCOUNTS RECEIVABLE			NOTES RECEIVABLE		GENERAL LEDGER		ACCT. NO.	ITEM
DEBITS	CREDITS	DEBITS	CREDITS	DEBITS	CREDITS			
20712	1230590	164000	28950	147240	85610			
	4250 ✓						1	
	2830 ✓						2	
38650	✓						3	
	✓ 12329				480 703		4	
	3380 ✓						5	
							6	
							7	
					50000 311		8	
					1875 704		9	
				3000	161		10	
					100000 205		11	
	✓ 20979				800 703		12	
							13	
							14	
39362	1241050	197308	28950	150240	238765		15	
							16	
							17	
							18	
							19	
							20	
							21	
							22	

	<u>Credits</u>		<u>Account Number</u>
04	\$303.49	Accrued Sales Tax	(226)
32	12,410.50	Accounts Receivable	(113)
08	289.50	Notes Receivable	(111)
10	2,387.65	General Ledger	(various)
	12,900.00	All Sales Income	Post breakdown of sales to appropriate account -- see opposite page
<u>14</u>	<u>28,291.14</u>		

Post breakdown of
sales to appropriate
account -- see
opposite page

33

35

I T E M	C R E D I T S																				A L L S									
	S T O R A G E										P R O C E S S I N G																			
	401										402																			
	103800										208700																			
1																														
2																														
3																														
4																														
5																														
6	1200																													
7											600																			
8																														
9																														
10																														
11																														
12																														
13											700																			
14																														
15	1050 00										2100 00																			
16																														
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35																														

Post to General Ledger

\$1,050.00	Income - Storage
2,100.00	Income - Processing
6,125.00	Income - Sale of Meats
2,700.00	Income - Sale of Frozen Foods
925.00	Income - Sales of Other Merchandise
<hr/>	
12,900.00	Total Income - All Sales

Post to General Ledger

\$1,050.00	Income - Storage
2,100.00	Income - Processing
6,125.00	Income - Sale of Meats
2,700.00	Income - Sale of Frozen Foods
925.00	Income - Sales of Other Merchandise
<u>12,900.00</u>	Total Income - All Sales

MONTH OF January 1959

SALES INCOMES										CREDITS										I T E M										
MEATS										FROZEN FOODS																				
404										405																				
404										406																				
573184										254113										60035										1
																														2
5800										2077										30000										3
9264										2240																				4
																														5
4048										2200																				6
2800										1400										1170										7
																														8
																														9
																														10
																														11
14204										4970										417										12
3200										3000										878										13
																														14
612500										270000										92500										15
																														16
																														17
																														18
																														19
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																														34
																														35

ger - Credits only

(401)

(402)

(404)

(405)

(406) or (406-1) Freezers

(406-2) Freezing Supplies

\$600.00

325.00

925.00

ger - Credits only

(401)		
(402)		
(404)		
(405)		
(406) or (406-1) Freezers	\$600.00	
(406-2) Freezing Supplies	325.00	
	<u>925.00</u>	

FORM "B"

CASH DISBURSED AND PURCHASE RECORD

MONTH OF

January 1959

I T E M	D A T E	PAID TO, OR, PURCHASED FROM	CHECK NO. OR JNL. ENTRY	CASH PAID CR-103				PAYROLL WITH'LDGS. CR-223				ENTER DIRECT LABOR. PRSS'ING.			
					10	388	65			247	00	933	00		
1	30	Robert White - Payroll	343		66	98				13	02	80	00		
2		Al Brown "	344		55	28				9	72	65	00		
3		Susan Hard "	345		63	08				6	92				
4		Joseph Jones "	346		62	48				12	52				
5		John Sawyer "	347		66	98				13	02				
6		J.F.L. Owner-Prop. "	348		84	30				15	70				
7		Arcadia Packing Co.	349		18	79	0								
8		Ace Frozen Food Co.	350		17	00	00								
9		General Accounting Co.	351		90	00									
10		Black Electric Co.	352		32	70									
11		State Power & Light Co.	353		32	00	00								
12		Director Internal Revenue	354		28	79	0								
13		A.B. Seasoning Co.	355		39	27									
14		R & A Matar Co.	356		74	72									
15		First National Bank	357		50	00	00								
16		Reimburse Petty Cash	358		88	40									
17		"													
18		"													
19		"													
20		"													
21		Jackson Poultry Co. Jnl. Ety													
22					12	578	64			317	90	1075	00		
23															
24															
25															

Post to C

Acct.
(502-a)

Direct Labor - Processing \$1,

Do not post.
Instead post
detail on
opposite page }

Operating Expenses 3,
Purchases - Inventory 6,


(various)

General Ledger

2,

13,

BURSED & PURCHASE RECORD

ENTER ALL OPERATING EXPENSE	ACCT. NO.	ENTER ALL MOSE, PURCHASES	GENERAL LEDGER		ACCT. NO.	I T E M
			DEBITS	CREDITS		
228710		613800	187600	59845		
	502-0					1
	502-0					2
7000	52					3
7500	31					4
8000	31					5
10000	51					6
	131	18790				7
	132	17000				8
9000	65					9
3270	15					10
32000	14					11
			28790		223	12
	135	3927				13
			7472		174	14
			50000		205	15
1875	35					16
3200	32					17
720	15					18
545	35					19
2500	54					20
	131	11650		11650	201	21
314320		665167	273862	71495		22
						23
						24
						25
						26
						27
						28
						29
						30
						31
						32
						33
						34
						35

General Ledger

Debits	Credits		Acct.
078.00	\$12,578.64	Cash Paid	(103)
	317.90	Payroll Withholding	(223)
	714.95	General Ledger	(various)
143.20			
651.67			
738.62			

I T E M	ACCT. NO.	DEBIT				OPERATING EXPENSE				DEBIT				ACCT. NO.	DE ME
		PLANT OPERATING				SELLING - DELIVERY				GENERAL ADM'S'TIVE.					
			584	30				885	80			817	00		46
1															
2															
3												70	00	52	
4	31							75	00						
5	31							80	00						
6												100	00	51	
7															1
8															
9												90	00	65	
10	15		32	70											
11	14		32	00											
12															
13															
14															
15															
16	35							18	75						
17	32							32	00						
18	15		72	0											
19	35							54	5						
20												25	00	54	
21															1
22			944	20				1097	00			1102	00		49
23															
24															
25															

Operating Expenses

Summarize by acct. no. and post to General Ledger

Plant Operating
Accounts

11

through

29

\$944.20

Selling and Delivery
Accounts

31

through

49

\$1,097.00

General and Admin.
Accounts

51

through

69

\$1,102.00

Total operating expense

\$3,143.20

MONTH OF January 1959

IT		MERCHANDISE PURCHASES				DEBIT		ACCT. NO.			I T E M
ATS		PROCESSING SUPPLIES	FROZEN FOODS			OTHER 133					
760		28073	50200			68767					1
											2
											3
											4
											5
											6
											7
											8
											9
											10
											11
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											34
											35

Merchandise Purchases

Post to Inventory Accts. in General Ledger

Acct.

(131) Meats	\$4,972.00
(132) Frozen Foods	672.00
(133) Freezers	687.67
(135) Processing Supplies	320.00

Total

6,651.67

FORM "C"
GENERAL JOURNAL

DAY	DESCRIPTION OF ENTRIES	
	DEBIT	CREDIT
1-31	Depreciation - Building and Equipment Depreciation - Truck and Auto Depreciation - Office Equipment Allowance for Depreciation To set up depreciation expense for month	
1-31	Bad Debt Expense Allowance for Bad Debts To set up bad debt expense for month	
1-31	Cost of Meat Sold Direct Expense Charge To charge the direct expense (processing and supplies) incurred in processing owned meat to cost of meat sold. — to for an explanation of how compute the amount of the charge	
1-31	Inventory - Frozen Foods Accounts Payable - To set up accounts payable for purchases in January which will be paid later (see 21 for alternative method of accounts payable.)	

MONTH OF

January

19 *59*

	SOURCE	DETAIL	GENERAL LEDGER			
			ACCOUNT NUMBER	DEBIT	✓	CREDIT
<i>L</i>			<i>19</i>	<i>210 00</i>		
			<i>36</i>	<i>170 00</i>		
			<i>66</i>	<i>59 00</i>		
<i>Depreciation</i>			<i>253</i>			<i>439 00</i>
<i>7 January</i>						
			<i>67</i>	<i>64 00</i>		
<i>Subtotal Accounts</i>			<i>251</i>			<i>64 00</i>
<i>of January</i>						
			<i>504</i>	<i>428 00</i>		
<i>arged to Plant owned Product</i>			<i>502-C</i>			<i>428 00</i>
<i>labor</i>						
<i>& plant</i>						
<i>(See pages</i>						
<i>1 to</i>						
<i>2.)</i>						
			<i>132</i>	<i>170 00</i>		
<i>Zero Frozen Food Co.</i>			<i>201</i>			<i>170 00</i>
<i>ses Made</i>						
<i>ter (See Farm B,</i>						
<i>recording</i>						

FORM "D"
GENERAL LEDGER

NAME OF ACCOUNT

Processing

DETAIL

<i>Slaughtering</i>	<i>Meat</i>	<i>Cure</i>
<i>402-1</i>	<i>402-2</i>	<i>402-3</i>
450.00	1100.00	500.00
425.00	1050.00	400.00
430.00	1150.00	450.00

Rendering	DATE	REF.	DEBITS	CREDITS	BALANCE	DR. OR CR.	MONTH
402-4	1959						
5000	1-31	A		2100 00	2100 00		
2500	2-28	A		1900 00	4000 00		
2000	3-31	A		2050 00	6050 00		

Importance of Sales Tickets

Most firms use sales tickets to record sales of processing services, locker rentals, and sales of merchandise. Sales tickets are original records and provide a good part of the information needed for operating the LFP system. They should be preserved.

There are many kinds of sales tickets. Most are prepared in duplicate or triplicate, depending on the needs of the firm. Generally the first copy is the accounting or office copy and the second is for the customer. If there is a third, it is the work order or processing copy.

Sales tickets vary greatly in size, design, and complexity. Some firms use simple forms containing a minimum of reprinting but providing space for writing in the basic information on customer identity, type of transaction, and description of service or product sold. Large complex forms, used by many freezer provisioners, not only combine the func-

tions of order form, sales ticket, and processing ticket, but also have pre-printed headings and stubs covering all the products and services the firm offers.

All sales tickets should be numbered consecutively and all numbers accounted for. On charge sales, the number of the ticket may be noted on the customer's account sheet for future reference.

When a sales ticket is entered on the Cash Received and Sales Record (Form "A"), care should be taken to separate such an item as sales tax from the actual sales value. See entry on line 6 of the illustrated Form "A."

Some operators require a ticket for every sale -- cash or charge. Others use tickets only for charge sales, and analyze cash sales by means of a cash register. Whichever procedure is used, care should be taken to insure that sales can be properly departmentalized and that other charges, such as sales tax and carrying charges, are properly recorded.

Using the LFP System

This section of the Guide explains how to use the LFP Uniform Accounting System. Instructions for preparing an operating statement are given first; then instructions for balance sheet accounts; and finally, instructions concerning posting, and preparing a trial balance.

In discussing individual accounts, both the number and title as shown in the Numerical Chart of Accounts are given. This makes it easier to refer to the sample forms and statements included in the Guide.

Operating Statement Accounts

Locker and freezer provisioners will find that they can manage their businesses

more efficiently when operating statements are available to them monthly. The LFP system is designed so that a bookkeeper can prepare an operating statement readily and have it in the hands of management shortly after the end of each month.

Generally, balance sheets are not prepared monthly. Most locker and freezer provisioners find that an annual or semi-annual balance sheet meets their needs.

Accounts affecting the operating statement and the accounting procedures involved are discussed in the Guide in this order: (1) Sales; (2) cost of sales; (3) gross margins; (4) operating expenses -- plant, selling and delivery, and general and administrative; and (5) other income -- other outgo.

Sales

The sales figure shown in the typical operating statement both in total and by departments is important to accounting records. It is one yardstick for measuring results of operations. Every other figure in the statement -- such as cost of sales, gross margins, operating expense, and operating profit -- can be uniformly related to and expressed as a percentage of sales.

Bookkeepers should be careful not to confuse "billings" with sales and thus include such items as sales taxes and carrying charges.

The number of sales or revenue accounts selected will depend upon the number of different functions the business performs and the needs of the operator. The Expansion Chart, page 14, should be used as a guide in setting up these accounts. Only accounts necessary for managing the business should be set up, because each one added tends to increase the job of taking inventory, allocating labor, and performing similar administrative and bookkeeping tasks.

Storage Revenue

Storage revenue comes from annual and short-term locker rentals and from bulk zero and other refrigerated storage.

Most firms consider revenue from these activities as belonging to the period the storage service was sold, even though deferred income frequently is involved, as in the case of annual locker rentals. The LFP Uniform System conforms to this generally accepted industry practice.

In constructing a monthly operating statement, however, the unearned portion of annual locker rental revenue is excluded from that month's storage revenue. To accomplish this, multiply the number of lockers rented on an annual basis by one-

twelfth of the average locker-rental rate. To this figure add all revenue received during the month for short-term locker rentals, bulk storage, and other refrigerated storage. This will produce a substantially accurate total of storage revenue for the month and will avoid including unearned locker rental revenue.

Some operators may wish to keep a detailed record of deferred locker rentals. A method for doing this is described later in the Guide in the section, "Deferred Locker Rental Revenue."

Cost of Sales

The LFP system provides a method for determining cost of sales so that gross margins can be calculated for each department. This information is used in preparing an operating statement (see sample).

Three types of expenses are included in cost of sales. They are:

1. Direct processing labor.
2. Processing supplies used.
3. Purchase cost of merchandise sold.

In this system, all direct labor and all supplies used in processing are recorded as a cost to the processing department. In firms that do custom processing and also process plant-owned products, part of these costs are then charged against the products being processed for sale. This is done through an interdepartmental transfer of costs from the processing department to the department credited with the sale of the product. This transfer of costs is illustrated on the typical operating statement. The accounting procedure involved is discussed under "Interdepartmental Transfers."

Freezer provisioning firms that do no custom processing have no reason to use

the interdepartmental transfer procedures; their direct cost of processing applies only to plant-owned products. The operating statement for this type of firm would show no processing income. The direct cost of processing would be shown in the Cost of Sales section for the departments credited with the sale of the products.

Cost of sales is discussed by departments in the following sections.

Storage Department

As shown in the typical operating statement, there is no cost of sales in the storage department. Ordinarily, this department uses little or no direct labor or supplies. Labor used to transfer frozen food from freezer to locker or to handle frozen food for eventual home freezer storage can rightfully be called part of the processing function and charged to that department. Labor used to assemble frozen food orders should be charged to selling and delivery.

About the only labor used in the storage department is for defrosting coils, cleaning storage rooms, and repairing and maintaining lockers and other equipment. This is not shown as direct labor in the storage department but as Indirect Labor (11), a plant operating expense account.

Processing Department

The processing department is the manufacturing or production branch of the business. It serves customers and also serves other departments. The typical operating statement shows the two types of direct costs in the processing department. These are Direct Labor - Processing (502-a) and Processing Supplies Used (502-b).

(502-a) Direct Labor - Processing - In this LFP system labor is classified as: direct labor - processing; indirect labor - plant; selling and delivery labor; and general and administrative labor.

Only direct labor - processing is included as an item in cost of sales. Processing labor can be subdivided according to function, such as slaughter, meat processing, and curing labor. Procedures for determining direct labor costs for processing are discussed in the section "Labor Allocation."

(502-b) Processing Supplies Used - Processing supplies include items needed for wrapping and packaging, curing and seasoning materials, shrouds, small processing tools, and similar supplies. These should not be confused with Plant Supplies (13) or Office Supplies and Postage (54). Computing the cost of processing supplies involves proper recording of purchases and correct inventorying. These procedures are discussed next.

Cost of Merchandise Sold

In determining cost of merchandise sold, two accounting procedures must be considered. They concern method of handling purchases, and proper inventorying methods.

The typical balance sheet shows these five classifications under Inventories:

- (131) Meats and Poultry - For Resale
- (132) Frozen Foods - For Resale
- (133) Freezers - For Resale
- (134) Freezing Supplies - For Resale
- (135) Processing Supplies

Note that inventory accounts 131 through 134 cover merchandise purchased for resale. Inventory account 135 covers supplies to be used in the processing department and not for resale. Meat and poultry purchased and debited to account (131) Meat and Poultry - For Resale frequently take on added value because they are processed before being sold by the meat department. Merchandise in accounts 132, 133, and 134

is usually sold "as is" and thus takes on no added value.

Form "B," Cash Disbursed and Purchase Record, illustrates the handling of purchases to the inventory accounts. The column on the left side headed "Enter All Mdse. Purchases" shows the total of all such purchases and serves as a control column. The purchases are then analyzed on the right-hand side of the form.

All the purchases shown on Form "B" are recorded in the inventory accounts. These debits to inventory increase the dollar value of the assets. As inventories are sold or used, the amount on hand decreases. These decreases in value are recorded by taking out of inventory the cost value of the merchandise sold or used during the same period. This is done by journal entry in the General Journal, Form "C," at the end of the period, decreasing (crediting) the inventory accounts and charging (debiting) this amount to the proper cost of sales account (See accounts in the 500 group in the Numerical Chart of Accounts).

Frequency of Inventories - It is essential that inventories be taken at the end of each accounting period to determine accurately the cost of merchandise sold or supplies used. If monthly operating statements are prepared then inventories must be taken monthly.

The most accurate method of inventorying is an actual physical count of all merchandise and supplies on hand. Some operators maintain running inventories by setting up a card or sheet for each item. Purchases are added and merchandise sold or used is deducted, so that a running record is kept of merchandise on hand. The running inventory record is verified from time to time by actual physical count of the merchandise.

Operators who cannot take a complete physical inventory each month may group their products into three or four categories and inventory one category the first month,

another the following month, and so on. In the months when no physical inventory of a category of products is taken, gross margin percentages, based upon previous experience, are used in determining inventory. This method reduces the task of taking inventories yet provides for a physical count of all products three or four times a year.

Calculating Cost of Merchandise Sold - Proper procedure for calculating the cost of merchandise sold, using the frozen food department as an illustration, is as follows:

Inventory of frozen foods at delivered cost at beginning of period	\$2,900
Add: Purchases of frozen food - Form "B"	672
	3,572
Deduct: Inventory at end of the period	1,392
Cost of frozen food sold (see operating statement)	\$2,180

Interdepartmental Transfers

Firms which do only custom processing deduct the cost of processing labor and supplies from custom processing revenue. The resulting figure is the gross margin on custom processing.

Most firms, however, do other processing. They also process plant-owned products for sale. This makes it necessary to charge part of the direct processing costs to the product being processed for sale by means of an interdepartmental transfer.

In making this charge, the direct cost of labor and supplies for processing plant-owned products is transferred from the processing department and added to the cost of merchandise sold in the particular department that will sell the product. This is done with a journal entry debiting the cost of sales account benefiting from the processing and crediting the processing department. For example, if meat is processed for sale, the entry will show a debit to (504) Cost of Meat Sold and a credit to (502-c) Direct Cost Charged to Plant Owned Products.

The General Journal, Form "C," illustrates an interdepartmental transfer entry. The typical operating statement also illustrates how interdepartmental transfers affect the cost of sales in various departments.

Determining Transfer Costs - Interdepartmental transfers should be at cost. Several procedures that will accomplish this are described here. The operator can select the one that best suits his needs.

Firms in which plant-owned products represent a rather minor portion of total processing volume may calculate the amount to be transferred on a per pound basis. A number of tests can be made to determine the average cost per pound for direct labor and processing supplies for major processing activities. Each month a careful record is kept of the pounds of plant-owned products processed. At the end of the month the total cost can be calculated and the interdepartmental transfer of cost made.

Other procedures are more desirable if volume is large or if substantially different techniques are involved in custom processing and in processing plant-owned products.

If processing costs and techniques for plant-owned products and custom processing are similar, the direct cost of labor and supplies can be divided on the basis of pounds handled in each category. Interdepartmental transfer of costs can then be made.

In plants where processing plant-owned products differs substantially in labor and supply requirements from custom processing, (i.e., manufacturing bologna) a still different procedure is required. In this situation, direct labor costs for processing plant-owned products may be calculated either by multiplying hourly processing-crew cost by hours spent in this work, or by keeping individual time sheets for employees. Supply cost may be determined

by maintaining a record of supplies used on plant-owned products or, if this is not possible, by estimating supplies used.

Labor Allocation

Labor expense frequently represents half the operating cost of a locker or freezer provisioning plant. Adequate records help control this cost.

The amount of detailed information needed on labor costs varies widely among plants, and the degree of accuracy necessary in allocating such labor by departments varies just as widely. Three procedures for allocating labor costs are described here. The operator can select the procedure that will give him the type of information he requires.

1. Allocating labor cost by primary function - Wages and salaries can be allocated to departments according to each employee's primary function. For example, if an employee is hired as a meat cutter, his total wages would be charged to processing even though he spent part of his time selling. In this setup, no part of the cost is charged to work done outside the major function on the assumption the employee would be necessary even if he did not perform the minor function. Therefore, since the employee must be paid anyway, any work he does outside his major function is "free."

2. Allocating labor cost by estimating labor usage - In this procedure, allocation of wages and salaries to departments is based upon an estimate of the time employees work in each. Time is allocated on the basis of expected work and is limited to each employee's two, or at most three, basic activities. Distribution of employees' salaries and wages among departments is not changed unless a major shift in operations occurs.

The owner-manager's salary is charged to "management," unless he regularly spends a substantial portion of his time in

Table 1. - *Estimated distribution of employees' time*

Employee	Direct labor- processing (502-a)	Selling and delivery (31)	Indirect labor-plant (11)	Office (52)	Management (51)
<i>Percent</i>					
Employee A	75	15	10	-	-
Employee B	80	10	10	-	-
Employee C	-	20	-	80	-
Employee D	-	75	25	-	-
Owner-operator	-	-	-	-	100

processing or selling. In that case, a portion of his salary should be prorated to the other department.

Table 1 shows how a firm with five employees, including the owner-operator, can allocate employees' time by functions. The account to which each type of work would be charged also is shown.

These percentages are then used to allocate the payroll to appropriate functions (table 2).

A plant operator should take the following steps in applying this method to his own business:

Set up a form similar to table 1 to show estimated distribution of employees' time by functions. If the processing department (402) is divided into two or more departments, for example, slaughtering (402-1) and meat processing (402-2), then the column headed Direct labor-processing (502-a) in the time sheet should be elimi-

nated and new columns established to show direct labor for these functions. The columns should be headed Direct labor - slaughtering, and Direct labor - meat processing.

List all employees, including the owner-operator, and estimate the percentage of time each will spend in each function or department. Past experience, plus an estimate of future business, should suffice in making the distribution. If an employee spends only a nominal amount of time in a second or third function, make no allocation beyond the primary function.

Set up a form similar to table 2 to show the allocation of payroll. List each employee and his weekly salary. Use the percentages showing distribution of the employees' time in allocating their salaries to the various departments. This form will then contain the information necessary to record the payroll on Form "B" - Cash Disbursed and Purchase Record.

Table 2. - *Allocation of payroll, by functions*

Employee	Weekly salary	Direct labor- processing (502-a)	Selling and delivery (31)	Indirect labor-plant (11)	Office (52)	Management (51)
Employee A	\$90.00	\$67.50	\$13.50	\$9.00	-	-
Employee B	80.00	64.00	8.00	8.00	-	-
Employee C	75.00	-	15.00	-	\$60.00	-
Employee D	70.00	-	52.50	17.50	-	-
Owner-operator	125.00	-	-	-	-	\$125.00
	440.00	131.50	89.00	34.50	60.00	125.00

If the owner-operator regularly devotes a significant portion of his time to other than management functions part of his salary should be charged to the department in which he is working but at the going wage rate for that type of work. Take, for example, an owner-operator who draws \$125 a week from the business and who works half-time in the processing department. If the weekly wage for an employee doing this type of work is \$80, the owner-operator's salary would be allocated as follows:

Direct labor - processing (502-a)	\$40
Salaries - Off. Prop./Part. (51)	85
	<hr/>
Total owner-operator's salary	\$125

3. Allocating labor cost by time records - The third and most accurate method of allocating labor costs among departments is to maintain a daily record of the time each employee works in the various departments. This record is then used to distribute or allocate salaries and wages. A satisfactory variation of this method is to maintain such a daily record for one week out of each month and use the information as a basis for distributing wages and salaries during the entire month. A form such as illustrated in table 2 can be used for allocating each employee's salary. This in turn provides the information for recording the payroll on Form "B."

A weekly payroll record, similar to the accompanying one, can be used for recording time worked by employees by functions. This form can be mimeographed and kept in a loose leaf notebook. A description of the activities falling into each function can be mimeographed on the back of the form.

Gross Margins

Gross margins are calculated by subtracting direct cost of sales from net sales. These gross margin figures are

important to management and should be provided quickly, both in total amount and as a percentage of sales, at the end of each month. Every month this information is delayed lessens its value.

The LFP system provides for determining gross margins by departments. These data are important because they show management how each department is contributing to the cost of operating the plant and the amount remaining after paying for direct labor and materials used. They also serve as a measure of operating efficiency. Changes in the gross margin percentages by department are a signal to management to investigate.

Gross margin data can be most useful when accounting is done uniformly over a period of time. This permits comparisons. Once basic departments have been established, expense accounts selected, and the method of allocating payroll determined, no changes should be made unless there is a basic change in operations, or an adjustment is necessary to improve the usefulness of the information.

Operating Expense

Operating expenses are numbered from 11 through 99 and grouped according to 3 distinct functions. They are classified as:

1. Plant expense
2. Selling and delivery expense
3. General and administrative expense

Many expenses such as those for labor, utilities, advertising, laundry, and rent are regularly paid at the end of each week or month. These present no problem in preparing monthly operating statements as the necessary information is readily available. (The one exception is labor when paid on a weekly basis. In this case, some operators may find it desirable to accrue

WEEKLY PAYROLL RECORD

Name of employee _____ For week ending _____ 19__

Day of week	Time in	Time out	Total hours worked	Time in each function				
				Processing	Selling and delivery	Indirect labor-plant	Office	Management
Monday	a.m.							
	p.m.							
Tuesday	a.m.							
	p.m.							
Wednesday	a.m.							
	p.m.							
Thursday	a.m.							
	p.m.							
Friday	a.m.							
	p.m.							
Saturday	a.m.							
	p.m.							
Sunday	a.m.							
	p.m.							
Total								

Note: Must be completed each day. Estimate time in each department to nearest 1/2 hour (or 1 hour).
Total of hours by functions must equal total hours worked.

labor expense for a part of the week in order to show exact labor cost for the month.)

A great many other expenses are paid on a quarterly, semiannual, or annual basis. These include insurance, real estate taxes, payroll taxes, and accounting fees. In constructing monthly operating statements, it is desirable to show a charge for these expenses each month rather than show them in full in the month of payment. For this type of expense, monthly charge (one-twelfth of the estimated annual expense for each item) should be calculated and used in preparing the monthly report. These monthly estimates need not be entered on the books, they are used only in preparing monthly statements.

Two other expenses, not included among those just mentioned, are entered on the books each month so that a monthly charge will appear on the operating statement. These two expenses are depreciation and bad debt expense. The method of computing them is explained elsewhere in this Guide.

The three types of operating expense accounts will now be discussed by number and title. If the title of the account clearly indicates its nature, no further comments will be made.

Plant Expense

Plant expenses are those incurred in operating the physical plant of the business. They include repairs and maintenance of buildings and equipment, depreciation, rent, utilities, real estate taxes, and similar expenses. The numerical chart of accounts specifically shows which accounts are classed as plant expense.

(11) Indirect Labor - Charge to this account all labor used for maintenance of buildings and equipment, janitorial labor, salaries of watchmen, and other plant labor not directly related to processing. Many firms have very little indirect labor and it generally is performed by processing employees. Under such circumstances,

some part of the processing employees' wages might be charged here. The procedure described earlier for allocating payroll can be used to determine this cost.

(13) Plant Supplies - Charge to this account insecticides, cleaning materials, paper towels, paper bags, and similar supplies used in the business. Do not charge any processing supplies, or those used in the repair and maintenance of buildings and equipment.

(14) Utilities - Power, Light, Heat, and Water - This title is self-explanatory.

(15) Repairs and Maintenance - All expense incurred in the repair and maintenance of buildings and equipment, including cost of supplies and materials purchased for this purpose, is recorded here.

(16) Rent - This title is self-explanatory.

(18) Laundry - This title is self-explanatory.

(19) Depreciation - Building and Equipment - Records of fixed assets (such as buildings, processing and office equipment, and trucks) should be maintained for proper accounting and for tax purposes. Most stationery stores carry printed forms for this purpose which show date of purchase, purchase price, rate of depreciation, and amount of depreciation charged. From such records the total annual depreciation can be determined. One-twelfth of this amount is charged (debited) each month to this account (19) and credited to (253) Allowance for Depreciation, using the General Journal for the entry.

(21) Taxes - Real Estate, etc. - All taxes resulting from ownership of land, buildings, and equipment.

Selling and Delivery Expense

Most plants consider costs incurred in delivering products as part of selling

expense. Therefore, in this Guide, delivery and selling expenses are combined. However, firms with substantial delivery expenses may prefer to record them separately. There are sufficient unassigned numbers in the numerical chart of accounts to take care of this contingency.

(31) Wages, Salaries, Commissions - All wages, salaries, and commissions connected with selling and delivery are recorded here. The procedure described earlier for allocating payroll can be used to determine the amounts chargeable to this account.

When a commission or bonus has been earned by an employee but not actually paid to him during an accounting period, it should be debited to this account and credited to Accrued Salaries and Commissions (222). When paid in the next accounting period, the amount is debited to account 222.

(32) Advertising and Promotion - Include all costs of newspaper, magazine, and radio advertising. Also include stationery and postage used in direct mail promotion. These costs should be kept separate from Office Supplies and Postage (54).

(35) Delivery Truck Expense - Expenses incurred in operating trucks are charged to this account. Costs of gas and oil, tires, repairs, and licenses are included.

(36) Depreciation - Truck and Automobile - The cost of trucks and automobiles is usually recorded with other fixed assets. From these records, depreciation expense can be calculated and debited to this account. The credit entry would be to (253) Allowance for Depreciation and the entry would be handled through the General Journal.

General and Administrative Expense

General and administrative expense covers accounts used for recording costs

of managing the business. It includes salaries of officers or proprietors, office salaries and supplies, and insurance.

(51) Salaries - Officers/ Proprietors/ Partners - If officers are also employees of the firm, it is no problem to charge their salaries to the proper account. In some proprietorships and partnerships, however, the owner-operators make no monthly charge against the business equivalent to this salary expense. In such cases, operating expenses are not fully stated and operating reports may not be truly comparable with those of other firms. A fair and equitable charge should be made for salaries, debiting this account (51) and crediting Proprietors/Partners - Drawing Account (313).

The owner may actually draw more or less than the amount recorded as his salary. However, these monthly credits to his drawing account, together with his actual withdrawals which are debited to his drawing account, all clear at the end of the period into the Capital Account. The result is that the operating statement shows a realistic charge for officers' salaries regardless of the amount actually drawn by the owners.

It is sometimes difficult to decide what amount to charge each month for the owner's or partner's salary. One solution to this problem is to use the amount that would be paid an outsider to perform the same administrative tasks that the owner or partner performs.

(52) Salaries - Office - Charge here the salaries of all secretaries, bookkeepers, accountants, and others engaged in office work.

(54) Office Supplies and Postage - This account includes the cost of stationery, invoices, sales tickets, and accounting supplies. It also includes postage, except that used in direct mail promotion which is charged to Advertising and Promotion (32).

(55) Insurance - Record here all premiums for fire and theft insurance covering buildings, equipment, and merchandise. Business interruption insurance, personal liability insurance, and surety bonds are also included in this account.

Do not include the expense of life insurance premiums. These should be charged to Life Insurance Expense (804). In this connection, keep in mind that the cash surrender value of life insurance should not be shown as an asset unless the beneficiary is the business itself.

Businesses carrying hospitalization insurance on employees or providing similar insurance benefits should set up a separate account for this expense. One of the unassigned numbers between 50 and 99 in the chart of accounts should be used.

(56) Dues and Subscriptions - This account is for dues to business and trade organizations and subscriptions to trade magazines.

(58) Telephone and Telegraph - Charge to this account all telephone and telegraph bills. If considerable extra expense is incurred in telephone selling, the added cost might better be charged to Advertising and Promotion (32).

(59) Bad Debt Expense - Some operators do not consider an account bad until it has been declared uncollectible. Under these circumstances, the usual procedure is to charge it off directly to this account.

A better procedure is to anticipate such losses by setting up an Allowance for Doubtful Accounts (251). This is accomplished by first estimating bad debt expense and then determining the percentage this expense is of sales. Each month a charge for doubtful accounts is made, using monthly sales figures and the estimated bad debt percentage. Bad Debt Expense (59) is debited for this amount in the General Journal and the Allowance for Doubtful Accounts (251) is credited.

When an account is judged uncollectible, it is charged off to Allowance for Doubtful Accounts (251). This procedure has the effect of charging a bad debt to the month in which the sale was made, rather than a future time when the debt would bear no relationship to sales.

If the balance in the Allowance for Doubtful Accounts increases steadily, the percentage figure being used to calculate bad debts should be decreased. On the other hand, if the balance decreases too rapidly, the percentage figure should be increased.

(61) Donations - This title is self-explanatory.

(62) Travel and Entertainment - This account should be used to record travel and entertainment costs incurred in attending meetings in connection with the business, in entertaining suppliers or customers, and in like activities. Company entertainment for employees and similar expenses also should be charged to this account.

(63) Payroll Taxes - This title is self-explanatory.

(64) Other Taxes and Licenses - Include all local or State taxes and licenses required to conduct the business. Do not charge to this account income, real estate, or payroll taxes.

(65) Legal and Professional Fees - Accountant and legal fees paid for collecting accounts are recorded here.

(66) Depreciation - Office Equipment - See discussion under Depreciation - Building and Equipment (19) for proper procedure in accounting for depreciation of office equipment.

(67) Miscellaneous Expense - Only incidental or miscellaneous expenses that cannot be identified with any other account should be charged here.

Other Income--Other Outgo

Certain income and outgo do not result directly from operations of the business. It is accepted accounting practice to show these items at the bottom of the operating statement after the operating profit is calculated. This gives a clearer picture of results.

Other Income

The 700 group of accounts is used to record non-operating income. This includes such items as earned interest and discounts. Should all or part of a debt previously listed as uncollectible be paid, the net amount recovered is recorded as Other Income.

(701) Discounts Earned - Discounts taken for paying a bill within a given period are credited to this account. This is done by crediting account 701 in the General Ledger column of Form "B" when the entry is made showing payment of the bill.

(703) Interest and Earnings - Financing - Credit to this account any interest earned on notes receivable from customers, as well as interest and carrying charges earned from installment accounts. The method of recording carrying charges is illustrated on Form "A."

(704) Bad Debts Recovered - Whenever part or all of an account that has been written off the Allowance for Doubtful Accounts is subsequently recovered, the net amount recovered (after deducting collection expense) should be credited to this account. There is an example on Form "A," item 9.

(706) Cash - Over and Short - As mentioned previously, cash received (currency and checks) should be deposited in the bank each day. If the cash either exceeds or is short of the amount shown on Form "A," the difference should be recorded here.

If cash exceeds the amount shown on Form "A," the difference is credited to this account using the General Ledger columns on Form "A." If cash is short, the difference should be made up from the petty cash and added to the deposit. When petty cash is reimbursed, this shortage would be charged to the Cash - Over and Short account.

Other Outgo

Other Outgo accounts in the General Ledger are numbered from 800 to 899. Among the accounts so classified are: Discounts allowed, interest, and life insurance expense.

(801) Discounts (Cash) Allowed - Here would go any deductions allowed customers for paying their accounts within a certain period. This type deduction should not be confused with reductions in selling price for volume purchases.

(802) Interest Expense - All interest expenses incurred by the firm in borrowing money, as well as interest paid on installment purchases of equipment, is recorded here.

(804) Life Insurance Expense - When a life insurance premium is paid from funds of the business and the business is the beneficiary, that portion of the premium that is expense should be charged to this account. A portion of the premium is capitalized by increasing the cash surrender value of this asset. (See (142) Cash Surrender Value - Life Insurance).

If premiums are paid with funds of the business but the business is not the beneficiary, the proper procedure is to charge (debit) the premiums to the proprietor's or partner's drawing or capital account.

Generally, incorporated businesses can be designated as beneficiaries of insurance policies. Frequently partnerships are shown as beneficiaries and, under some circumstances, individual partners are the

beneficiaries. In a single proprietorship, the individual's estate rather than the business is generally the beneficiary.

Balance Sheet Accounts

This section of the LFP Guide contains specific instructions for preparing a balance sheet. Assets are discussed first; then liabilities; and, last, net worth.

A typical balance sheet is shown on pages 6 and 7.

Current Assets

Current assets are made up of cash, receivables, and inventories. Accounting procedures will be explained for each of these classifications, with the various accounts identified by number and title.

Cash

Cash is the first asset recorded on a balance sheet. It includes cash in the bank as well as cash on hand.

(101) Cash - In Office - Cash is kept in the office to pay certain minor expenses connected with operating the business. This money, known as the petty cash fund, is kept separate from the regular cash receipts recorded on Form "A" and deposited in the bank.

As cash is taken from the petty cash fund to pay small bills, it is replaced with a receipted bill or petty cash slip showing the amount paid, to whom, and for what. Each of these slips and receipted bills should also show the account number to which the expense will be charged. Periodically, the petty cash fund is replenished and an entry made to record the expenditures.

This example illustrates the usual procedure for handling petty cash. At the

beginning of the month, the petty cash fund is \$100. At the end of the month, the petty cash fund contains paid bills and other evidence of expenditures amounting to \$88.40 and \$11.60 in cash. These bills and other expense records can be filed in an envelope, with a summary on the outside of the envelope showing the amounts and account numbers to be charged. A check for \$88.40 is then drawn to the order of Petty Cash, restoring the fund to its original \$100.

The method of recording petty cash expenditures is illustrated on Form "B," items 16 - 20.

(103) Cash - In Bank(s) - Total receipts, as shown on Form "A," should be deposited in the bank daily. The monthly statement from the bank should be reconciled with the firm's books. Any charges for bank services or any credits require a General Journal entry.

Receivables

The typical balance sheet shows receivables in four groups:

(111) Notes - Due from Customers

(113) Accounts - Due from Customers

(114) Accounts - Due from Officers and Employees

(115) Bank - Financing Reserve

Other groups can be set up if necessary, using unassigned numbers from the chart of accounts.

(111) Notes - Due from Customers - This includes promissory notes accepted in settlement of open accounts and installment notes received from food plan or freezer provisioning activities. If there are sizable numbers of these notes, it would be well to open a separate ledger with an account for each one. On Form "A," control columns have been set up for Notes

Receivable as well as Accounts Receivable.

(113) Accounts - Due from Customers - These are charges made on open account. All charges to accounts receivable and all payments on account are entered in special columns provided on Form "A." Totals of these columns provide the control figures for the General Ledger account. An individual card or ledger sheet is used for each customer, showing all charges and all credits. It is important that the sum of the balances in these individual accounts agree with the total control figure in the General Ledger.

(114) Accounts - Due from Officers and Employees - Any charge, loan, or advance to officers (if a corporation), or to employees should be entered here. It is important to keep these accounts separate from Accounts - Due from Customers.

(115) Bank - Financing Reserve - Many banks advance funds with either notes or accounts receivable assigned as security. It is a common practice for a bank to advance 90 to 95 percent of the face value of the notes or accounts so assigned, withholding 5 or 10 percent until the loan is liquidated. The firm borrowing the money records the amount withheld under (115) Bank - Financing Reserve.

To illustrate, assume that a total of \$4,000 in notes receivable has been assigned to the bank as security for a loan. The bank issues a credit memo for \$3,600 which indicates this amount has been credited to the firms account. Using this memo, the borrower's entry on Form "A" Cash Received and Sales Record, would be:

Debit - (103) Cash - in Bank	\$3,600
Debit - (115) Bank - Financing Reserve	400
(Using General Ledger column)	
Credit - (205) Notes Payable - Bank	\$4,000
(Using General Ledger column)	

Procedures from here on vary in detail depending upon terms of the loan, such as whether the bank or the borrower collects the notes receivable, whether collections by the bank are with or without recourse, and so on.

Assume, however, that the firm borrowing the money makes collection of two of the assigned notes for a total of \$1,000. Receipt of this amount would be recorded on Form "A" as follows:

Debit - (103) Cash - in Bank	\$1,000
Credit - (111) Notes - Due from Customers	1,000

Again depending on arrangements with the bank, the procedure might be to draw a check payable to the bank for the full amount of the collection (\$1,000). This would be entered on Form "B," Cash Disbursed and Purchase Record, as follows:

Debit - (205) Notes Payable - Bank	\$1,000
Credit - (103) Cash in Bank	1,000

This reduces the bank loan from \$4,000 to \$3,000.

If the procedure of remitting to the bank in full is followed, the bank would issue a credit memo for \$100, the 10 percent of the \$1,000 withheld at the time of the loan. Using this memo, the entry on Form "A" would be:

Debit - (103) Cash - in Bank	\$100
Credit - (115) Bank - Financing Reserve	100

The General Ledger column would be used for the credit entry.

If a check is issued to the bank for only \$900, the entry on Form "B" would be:

Credit - (103) Cash - in Bank	\$900
Credit - (115) Bank - Financing Reserve	100
Debit - (205) Notes Payable - Bank	\$1,000

The result of these procedures is that notes receivable and notes payable have

each been reduced by \$1,000 and the \$100 withheld by the bank has been returned, either by crediting to the borrowing firm's bank account, as in the first illustration, or applying it to the loan as shown in the second illustration.

A careful record should be maintained of each note or account assigned to the bank. The record can be on a card or a debit-credit ledger sheet. The record should show amount, date assigned, date due, payment on account, renewals, and related information.

Whenever a financial statement is prepared, a footnote should indicate the amount of notes or accounts receivable that have been assigned as security for loans shown on the statement.

(251) Allowance for Doubtful Accounts - See Bad Debt Expense (59) for a discussion of this account.

Inventories

Inventory accounts number 131-135 are discussed together, since the same comments apply to all of them.

(131) Inventory - Meats and Poultry - For Resale

(132) Inventory - Frozen Food - For Resale

(133) Inventory - Freezers - For Resale

(134) Inventory - Freezing Supplies - For Resale

(135) Inventory - Processing Supplies

Cost of merchandise going into inventory should be recorded at the delivered cost. That is, it should include both the purchase price and the cost involved in getting the merchandise delivered to the plant. In calculating cost of sales, this same delivered cost should be used.

Inventorying methods vary and no one method can be recommended for all firms. Probably most lockers and freezer provisioners use the First In - First Out method (FIFO). This means that merchandise and supplies are inventoried at the price most recently paid for the product.

If processing plant-owned products constitutes an important part of the business, a rather large volume of partially processed products is often carried over from one period to another. It is sometimes necessary to inventory these products at partially processed value rather than at raw material cost or at finished value. When such a procedure is determined to be necessary, the work-in-process valuation should be raw material costs plus direct processing labor cost and processing supplies used.

Other information on inventories and inventorying methods was presented earlier in the Guide in the section, "Cost of Sales."

Investments

Frequently a firm owns certain assets which are not necessary to or used in the operation of the business. These may include Government bonds, real estate not used in the business, and similar assets. Cash surrender value of life insurance also comes under this category, if the business is the beneficiary named in the policy.

(141) U. S. Bonds - Treasury bonds are used to illustrate the accounting procedure for handling this type of investment. When bonds are purchased for the business, the investment appears as an asset in this account and the income derived from it goes to Other Income. An account number should be selected to record this income. This could be (702) Income from Investments.

When such an investment is made and it is intended that the sum invested be

taken out of the business, the procedure is different. The investment is not shown as an asset but rather is charged to the proprietor's or partner's drawing or capital account, thus recording the removal of funds from the business.

(142) Cash Surrender Value - Life Insurance - This asset is shown on the books of the business only if the business is the beneficiary. Premium expense should be charged to (804) Life Insurance Expense, as discussed under that account. The insurance agency can be helpful in determining cash surrender value.

Prepaid Accounts

Frequently certain expenses are paid in one accounting period but the benefits derived from the expenditure are realized over a considerable number of accounting periods. To report the entire expense in a single monthly operating statement would distort that statement and reduce its value. For this reason, an accounting procedure should be used whereby the expense can be prorated on a monthly basis.

Most locker and freezer provisioners will probably need to set up three prepaid accounts:

(161) Prepaid Interest

(162) Prepaid Taxes

(163) Prepaid Insurance

The following example, using account (163) Prepaid Insurance, illustrates the accounting procedure used for all prepaid accounts.

A yearly insurance premium is \$600. If this were charged directly to (55) Insurance in the month in which the premium was paid, that monthly statement would be distorted and would not be comparable with others.

To prevent this, and at the same time to indicate that this expense has been paid in advance, charge the full amount of this bill to Prepaid Insurance (163). Then, before the close of the period, make a General Journal entry debiting (55) Insurance with one-twelfth of the \$600 expense and crediting (163) Prepaid Insurance with the same amount. This is continued each month until the entire amount has been wiped out. This procedure is repeated when premiums are paid again.

Most stationery stores carry standard forms that are useful in recording important insurance information, such as amount of insurance, dates premiums are due, coverage, and similar data.

Fixed Property and Equipment

Fixed property and equipment are part of the total assets of a firm. The typical balance sheet illustrates how these assets should be presented, along with allowances for depreciation.

Five accounts will be sufficient to record the fixed property and equipment of most firms. They are:

(171) Land

(172) Building

(173) Plant Equipment

(174) Truck(s) and Automobile(s)

(175) Office Equipment

When fixed property or equipment is disposed of, the gain or loss -- after deducting the allowance for depreciation from the purchase price -- is handled through the Other Income or Other Outgo accounts. It would be appropriate to establish an account to record this transaction, such as (705) Gain or Loss on Sale of Fixed Assets.

Most firms have small investment in store equipment and will record it with account (173) Plant Equipment. However, if considerable store equipment is owned and used in the business, a special account may be set up to record this asset. Any unused number in the 170 account group (for example, 176) should be selected.

Land and buildings not used in the business but held for investment purposes should be recorded in the 140 account group and classified as investments.

Liabilities

Liabilities are debit items and are the obligations of the business. Various liability accounts are discussed in this section of the Guide in the order in which they appear on the typical balance sheet.

Payables

Payables are described in this Guide in order of time of settlement. For example, (201) Accounts Payable - Trade is for accounts that are generally due and payable on request or at the end of the month. On the other hand, items under (203) Notes Payable - Trade are generally longer term liabilities.

(201) Accounts Payable - Trade - Invoices and bills not paid during the period covered by the operating statement should be entered on the books before they are closed or before the operating statement and balance sheet are prepared. If this is not done, the books will not present a true picture of the firm's inventories or liabilities.

The General Journal, Form "C," illustrates how these payables are entered on the books. When there are a number of such accounts each month, they can be handled in the same manner as accounts receivable; that is, a separate ledger sheet for each.

An alternative method of handling these accounts payable is to enter them on the Cash Disbursed and Purchase Record, Form "B." Entry number 21 on the typical form illustrates this procedure. Instead of making an entry in the General Journal, the net amount of the accounts payable is debited in the proper Merchandise Purchases column and credited to "Accounts Payable - Trade" in the General Ledger column. Note that the notation "Jnl Ety" (Journal Entry) is used in the Check Number column to indicate that no check was issued.

This procedure can also be used for recording other unpaid bills. Such bills are debited to the proper expense account and credited in the General Ledger column to Accounts Payable - Trade. When the unpaid bills are of a recurring nature, such as the power bill, this procedure need not be followed if one such bill is paid and posted to the books each month.

(203) Notes Payable - Trade - Notes payable are occasionally given to suppliers in settlement of an open account. When these liabilities have been recorded in account (201) Accounts Payable - Trade, and later a note is given, the procedure then is to debit (201) Accounts Payable - Trade and credit (203) Notes Payable - Trade. The General Journal, Form "C," is used for making the entry.

(205) Notes Payable - Bank(s) - The procedure here is the same as for (203) Notes Payable - Trade. These obligations may be in the form of a single or a series of notes, or notes secured by assigning notes or accounts receivable. The method of liquidating such notes varies considerably, depending upon arrangements with the lending bank. All payments on notes are recorded on Form "B" as illustrated. The total of the individual notes payable should be checked and reconciled with the control figures in the General Ledger.

An up-to-date schedule of all notes payable should be maintained. This

schedule should show the amount, date of payment, to whom and where payable and related information.

Additional information on this account is given in the discussion of (115) Bank - Financing Reserve.

Accrued Expenses

Accrued expenses are obligations that have been incurred in the course of conducting the business but which will not be paid until a later date.

(221) Accrued Interest Payable - Interest paid in advance is shown in account (161) Prepaid Interest. If, however, interest is not to be paid until some future date, that portion of the interest expense incurred during the accounting period should be recorded so that the obligation will show in the books. The procedure is to enter in the General Journal a debit to (802) Interest Expense and a credit to (221) Accrued Interest Payable.

(222) Accrued Salaries and Commissions - The need to accrue salaries and commissions arises when expenses have been incurred but not paid by the end of an accounting period. It is important to show these expenses in the operating statement and these liabilities in the balance sheet.

The procedure for showing this is by Journal entry, debiting the proper wage or commission account and crediting (222) Accrued Salaries and Commissions. When the obligation is paid at a later date account (222) is debited and the liability liquidated.

(223) Accrued Payroll and Withholding Taxes

(226) Accrued Sales Taxes

These two accounts are provided to record monies that have either been withheld from payrolls or collected from cus-

tomers and are to be paid to some agency such as the Internal Revenue Service. Form "B" illustrates how to record amounts withheld. Form "A" shows how sales taxes collected from customers are recorded.

(241) Mortgage Payable - This title is self-explanatory.

Reserves

A reserve is an account with a credit balance, set up because the expenses of operation have decreased an asset or created a liability. Most firms will need these two accounts:

(251) Allowance for Doubtful Accounts

(253) Allowance for Depreciation

The procedure for setting up these accounts is covered elsewhere in the Guide. See the discussion of account (59) Bad Debt Expense for information on (251) Allowance for Doubtful Accounts. Discussions of accounts (19) Depreciation - Building and Equipment, (36) Depreciation - Truck and Automobile, and (66) Depreciation - Office Equipment also refer to (253) Allowance for Depreciation.

These accounts are shown on the left side of the balance sheet as deductions from an asset account. Allowance for Doubtful Accounts (251) is shown as a deduct from total receivables. Allowance for Depreciation (253) is shown as a deduct from the various fixed asset accounts.

Deferred Locker Rental Revenue

The trend in the industry is to consider storage revenue as earned in the period in which the storage service was sold. Thus, the balance sheet in this Guide shows no deferred locker-rental revenue.

Many operators who receive a substantial portion of their revenue from annual locker rentals may wish, however, to show this deferred income on the balance sheet. When this deferred income is shown only on the end-of-the year balance sheet the following procedure is suggested.

Set up a General Ledger account (261) Deferred Locker Rental Revenue. At the end of the year, determine the amount of unearned locker rental revenue. Transfer this amount by General Journal entry out of the storage revenue account by debiting (401) Storage, and crediting (261) Deferred Locker Rental Revenue. At the beginning of the next accounting period, reverse this entry so that the deferred revenue will be shown as current revenue.

A number of methods have been developed for calculating the amount of deferred locker rental revenue. Table 3 illustrates one method. The percent deferred is always 4.17 the first month of the fiscal year; 12.50, the second month; and so on.

Some operators constructing end-of-the-month balance sheets may wish to show this deferred locker rental revenue each month. In that event, a different accounting procedure is necessary. One practical method is to credit all revenue

from short-term locker rentals, bulk storage and other refrigerated storage to (401) Storage. Revenue from annual locker rentals, however, is credited to (261) Deferred Locker Rental Revenue. At the end of each month the earned portion of this revenue is transferred from this account to (401) Storage, using the techniques of determining earned locker rentals described in the section, "Storage Revenue."

Net Worth

Many firms in the locker and freezer provisioning industry are organized as single proprietorships or as partnerships. The net worth accounts necessary for this type of ownership are:

(311) Proprietors/Partners - Capital Account(s)

(313) Proprietors/Partners - Drawing Account(s)

(351) Profit and Loss

If the firm is organized as a corporation, net worth accounts would be designated:

(311) Capital Stock - Authorized and Issued

Table 3. - Method of calculating deferred locker rental revenue

Month	Annual rentals billed	Deduct rentals cancelled	Net annual rentals	Percent deferred	Amount deferred
January	\$800	-	\$800	4.17	\$33.36
February	600	-	600	12.50	75.00
March	400	-	400	20.83	83.32
April	400	-	400	29.17	116.68
May	500	\$50	450	37.50	168.75
June	400	-	400	45.83	183.32
July	300	50	250	54.17	135.42
August	200	-	200	62.50	125.00
September	400	-	400	70.83	283.32
October	500	-	500	79.16	395.80
November	800	-	800	87.48	699.84
December	800	-	800	95.83	766.64
Total	6,100	100	6,000		3,066.45

(313) Surplus

(351) Profit and Loss

If the firm is organized as an incorporated cooperative, the accounts would be designated as follows:

(311) Preferred Stock - Authorized and Issued

(312) Common Stock (Voting or Membership Stock)

(313) Undistributed Savings

(351) Savings and Loss

Posting to the General Ledger

All posting to the General Ledger is from Form "A" - Cash Received and Sales Record; Form "B" - Cash Disbursed and Purchase Record; and Form "C" - General Journal.

Form "A" shows end-of-the-month totals. The total of some columns, such as accounts 103, 111, 113, 226, are posted directly to the General Ledger. However, when the term "various" is used as shown in the instructions at the bottom of the form, this means that posting must be by individual items. For example, each item in the General Ledger columns on the left-hand side must be posted separately, or else like items in these columns must be combined in a summary for posting.

The information in the All Sales Income column (\$12,900) on the left-hand side of Form "A" is not posted. This information is broken down on the right-hand side and is posted to the appropriate accounts as shown on the illustrated form.

The same general procedure applies in posting from Form "B" as in posting from Form "A." Items in the General Ledger columns on the left hand side are posted individually. The information in

the Operating Expense column and the Merchandise Purchases column is not posted, as it is further broken down on the right-hand side. The remaining columns on the left-hand side are posted directly to the General Ledger.

As an aid in posting, the right-hand side provides columns for further classifying operating expenses and merchandise purchased. Operating expenses are classified into three types - plant operating expense, selling and delivery expense, and general and administrative expense. The various items listed in these columns are posted by the account number identifying the expense. The totals of these columns are not posted.

Also on the right-hand side are columns for classifying merchandise purchases. The totals of these columns may be posted directly to the General Ledger, with the possible exception of the column headed Other. Depending on the use made of the columns, it may be necessary to post individual items from this column.

Most entries on Form "C" are posted as individual items to the various General Ledger accounts.

Trial Balance

The four-page trial balance form which follows will assist in preparing the monthly operating statement and balance sheet. Each account in the General Ledger is listed by name and number, with blank spaces for additional accounts that may be required. The accounts are listed to conform to the chart of accounts.

When the debit or credit balance of each account from the General Ledger is entered on this form and the form "balances," the operating statement and the balance sheet can be prepared.

Operators desiring to use a trial balance form may buy suitable blank columnar paper or have a supply printed.

TRIAL BALANCE FORM - General Ledger
Used to prepare Balance Sheet and Operating Statement

[illegible]

	Acct. No.	MONTH				YEAR TO DATE			
		Debits		Credits		Debits		Credits	
SALES									
Storage	401								
Processing	402								
	403								
Sales - meats	404								
Sales - frozen foods	405								
Sales - other merchandise	406								
TOTAL SALES									
Deduct - COST OF SALES									
Direct labor - processing	502-a								
Processing supplies used	502-b								
Direct cost charged to plant owned products	502-c								
Cost of meat sold	504								
Cost of frozen foods sold	505								
Cost of other merchandise sold	506								
TOTAL COST OF SALES									
GROSS MARGINS									
PLANT									
Indirect labor	11								
	12								
Plant supplies	13								
Utilities and power, light, heat, and water	14								
Repair and maintenance	15								
Rent	16								
	17								
Laundry	18								
Depreciation - building and equipment	19								
Taxes - real estate, etc.	21								
	22								
	23								
SELLING and DELIVERY									
Wages, salaries, and commissions	31								
Advertising and promotion	32								
	33								
	34								
Truck expense	35								
Depreciation - truck and auto	36								
	37								
	38								
	39								

Operating Expenses - Continued	Acct. No.	MONTH				YEAR TO DATE			
		Debits		Credits		Debits		Credits	
GENERAL ADMINISTRATIVE									
Salaries - off./prop./part.	51								
Salaries - office	52								
	53								
Office supplies and postage	54								
Insurance	55								
Dues and subscriptions	56								
	57								
Telephone and telegraph	58								
Bad debt expense	59								
Donations	61								
Travel and entertainment	62								
Payroll taxes	63								
Other taxes and licenses	64								
Legal and professional fees	65								
Depreciation - office equipment	66								
Miscellaneous	67								
	68								
	69								
Total operating expenses									
Operating profit or loss									
Add: OTHER INCOME									
Discounts earned	701								
	702								
Interest and earnings - financing	703								
Bad debts recovered	704								
Gain or loss on sale of fixed assets	705								
Cash - over and short	706								
	707								
Deduct: OTHER OUTGO									
Discounts (cash) allowed	801								
Interest expense	802								
	803								
Life insurance expense	804								
	805								
	806								
	807								
	808								
	809								
Net profit or loss									

Other Publications Available

Business Management of Frozen Food Locker and Related Plants,
Marketing Research Report 258, James J. Mullen and Lloyd M.
DeBoer

Merchandising Frozen Food by Locker and Freezer Provisioning
Plants, Marketing Research Report 313, Bert D. Miner

1955 Survey - Frozen Food Locker Plants, Utilization Research
Report 1, P. C. Wilkins, L. B. Mann, and B. D. Miner

Producing and Merchandising Sausage in Small Plants, FCS
Circular 5, C. G. Randell

Inedible Offal as a Hog Feed - Processing and Feeding by Small
Slaughterers, FCS General Report 37, Bert D. Miner

Operating Costs of Selected Frozen Food Locker Cooperatives,
Bulletin 71, Paul C. Wilkins and L. B. Mann

A copy of each of these publications may be obtained upon request
while a supply is available from --

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