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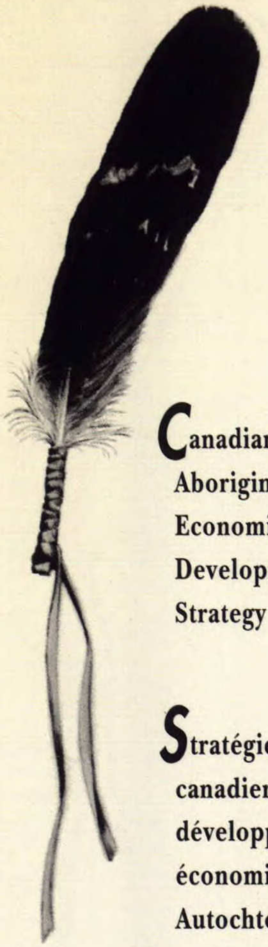

THE ONE-BOOK ACCOUNTING SYSTEM:

A Guide For Small Retailers

Canadian
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THE ONE-BOOK ACCOUNTING SYSTEM:

A Guide For Small Retailers

THE ONE BOOK ACCOUNTING SYSTEM: A GUIDE FOR SMALL RETAILERS

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INTRODUCTION

This book is one of a series of four one-book accounting system guides written and prepared by the Manitoba Institute of Management Inc. (MIM). They have been produced through funding from Industry, Science and Technology Canada for the Research and Advocacy Program of the Canadian Aboriginal Economic Development Strategy, and are designed to assist Aboriginal people across Canada to achieve sound financial management through the use of basic accounting practices. The titles in the series are:

Small Retailers
Small Wholesalers
Small Service Business
Small Manufacturers

These guides are available by contacting an Aboriginal Business Development Program Officer in your region about your proposed business project.

The One Book Accounting System book provides clear, step-by-step instruction in basic accounting procedures specifically designed for new or existing retail businesses. The System allows you to record all of your financial transactions in one book. This recorded information can provide you with a clear picture of where your business stands at any given time, which is the key to sound financial management.

There are three major parts to System:

PART A FINANCIAL RECORDS

PART B FINANCIAL STATEMENTS

PART C FINANCIAL ANALYSIS

This book is designed as a counselling guide. It is the experience of MIM that it is most effective if you complete one section at a time. In this way, you can concentrate on one area without being overwhelmed by the total subject matter. When you feel confident about your understanding of one section, then you will move on to the next. Should you have questions about the information in this book, please contact the business development officer who provided it to you.

THIS GUIDE IS DESIGNED TO ASSIST THE READER TO DEVELOP SOUND FINANCIAL ANALYSIS OF A NEW OR EXISTING ENTERPRISE BUT CANNOT GUARANTEE SUCCESS IN BUSINESS.

NOTE THAT THE EXAMPLES USED ARE NOT OF ANY ACTUAL BUSINESSES AND ARE PROVIDED SOLELY FOR THE PURPOSES OF EXPLAINING THE ELEMENTS OF AN ACCOUNTING SYSTEM.

PART A FINANCIAL RECORDS

STEP 1 GETTING STARTED

Examine Figure 1 on page 7. This example details the format for the One Book Accounting System for Retailers. You will notice that there are twenty columns. These twenty columns are sufficient to handle any financial transactions that are likely to occur in your business.

Now examine the column descriptions. The first three columns, for instance, represent the *"cash"* account and are used to record cash received, cash paid out and the cash balance. You will find another three columns representing monies paid in, monies paid out and the balance under each of the three subesquent headings which include the *"bank"* account, accounts receivable, and accounts payable.

All the other items you would need to record are included here, except for a breakdown of expenses. Notice that column twenty is intended for recording all expenses. (You will find an easy way to keep track of expense information in Step 2.)

Before proceeding any further, however, let us first define what is meant by each account category, taking them in turn as they appear in the example of Figure 1. At the outset, it is important to clarify what kind of information belongs in each category.

CASH (Columns 1 to 3) consists of funds that are immediately available for use without restrictions. Cash includes notes and coin, cheques awaiting deposit, bank drafts and money orders.

BANK (Columns 4 to 6) includes money on deposit with the bank, usually in the form of a current account.

ACCOUNTS RECEIVABLE (Columns 7 to 9) are amounts owed to the company, usually by customers who have made credit purchases. This category might also include claims for income tax refunds or general sales tax (GST) rebates.

ACCOUNTS PAYABLE (Columns 10 to 12) are short-term liabilities owed by the company to its suppliers and other vendors or agencies. These accounts usually arise from the purchase of merchandise or services.

OTHER ASSETS (Column 13) are all assets owned by the business other than Cash, Bank Deposits or Accounts Receivable. In most instances these assets will be equipment (such as a cash register) which have a relatively long life and are used in the operation of the business. These assets, commonly called fixed assets, are owned by the business and not intended for resale. In this column you would record the present dollar value of your fixed assets.

EXAMPLE: REAL RETAILING COMPANY

Figure 1 - One Book Accounting System

				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
	DATE	REMARKS	CHEQUE	CASH			BANK			ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE			OTHER ASSETS	OTHER LIABILITIES	OWNER'S INVEST-MENT	OTHER INCOME	GROSS SALES	SALES RETURNS	PURCHASES & FREIGHT	EXPENSES	
				RECEIVED	PAID OUT	BALANCE	DEPOSITS	WITH-DRAWALS	BALANCE	RECEIVABLE	COLLECTED	BALANCE	PAID	PAYABLE	BALANCE									
				IN	OUT		IN	OUT		IN	OUT		IN	OUT		IN(OUT)	IN(OUT)	IN(OUT)	OUT	OUT	IN	IN	IN	
1	Mar. 1	Balance Forward				100.00			2,480.00			8,230.00			15,430.00									1
2	Mar. 1	Daily Entry		350.00	350.00	100.00	320.00		2,800.00	140.00	175.00	8,195.00		15.00	15,445.00				10.00	300.00	18.00	25.00	5.00	2
3	Mar. 1	Cash Short			1.00	99.00																	1.00	3
4	Mar. 2	Daily Entry		360.00	368.00	100.00	289.00		3,089.00	160.00	115.00	8,240.00		20.00	15,465.00					386.00			70.00	4
5	Mar. 2	Charge off bad debt.									65.00	8,175.00											66.00	5
6	Mar. 2	P.A.Y. Rent Co	3					60.00	3,029.00														60.00	6
7	Mar. 2	C.A. Green	4					307.00	2,722.00														307.00	7
8	Mar. 2	Minister of Finance	5					90.00	2,632.00														90.00	8
9		etc.																						9
10		etc.																						10
11		etc.																						11
12		etc.																						12
13																								13
14																								14
15																								15
16																								16
17																								17
18																								18
19																								19
20																								20
21																								21
22																								22
23																								23
24																								24
25																								25
26																								26
27																								27
28																								28
29																								29
30																								30
31	Mar. 31	TOTAL MONTH		10,267.00	10,267.00	100.00	10,267.00	10,747.00	2,000.00	650.00	680.00	8,200.00	1,280.00	1,250.00	15,400.00	0	0	0	237.00	10,200.00	200.00	7,500.00	3,217.00	31
32																								32
33																								33
34																								34
35																								35
36	Mar. 31	YEAR-TO-DATE		27,590.00	27,590.00	100.00	32,590.00	32,675.00	2,000.00	2,100.00	2,000.00	8,200.00	3,800.00	3,900.00	15,400.00	0	5,000.00	0	690.00	27,800.00	800.00	23,750.00	9,025.00	36

OTHER LIABILITIES (Column 14) include all debts other than Accounts Payable such as deferred revenues, mortgages payable, and bank loans.

OWNER'S INVESTMENTS (Column 15) are the funds and assets invested in the company by the owner(s). Again, the present dollar value is used when assets other than cash make up the investment. The total of all owner's investment plus retained earnings represent the owner's equity in the company.

OTHER INCOME (Column 16) arises from events and transactions significantly different from the customary business activities of the company. On the whole, Other Income will include rent, interest and miscellaneous sources other than sales.

GROSS SALES (Column 17) are the revenues from the sale of merchandise or services during the normal operations of business. Sales tax is treated as an Account Payable and is not included in Gross Sales.

SALES RETURNS (Column 18) include all discounts or allowances to customers on the sale of merchandise, as well as returns of merchandise sold. Sales Returns subtracted from Gross Sales equals Net Sales.

PURCHASES (Column 19) are the landed costs of merchandise acquired for the purpose of resale.

EXPENSES (Column 20) are the costs of running a business. Some typical examples are rent, salaries, utilities, advertising, and interest. Note that the cost of goods acquired for resale should be treated as Purchases rather than Expenses.

Now examine Figure 2 on page 11. Here you will find the Expense Distribution detailed in Columns 21 to 40. Note the similarity of the formats between the Expense Distribution (Figure 2) and the One Book (Figure 1). You can transpose the expense entries you have recorded in Column 20 of the One Book to the appropriate Expense Distribution categories on the reverse side with a minimum of effort when time permits. The total expenses in the Expense Distribution should always equal the Expense Column total,(Column 20 in the One Book), featured in Figure 1.

EXAMPLE: REAL RETAILING COMPANY

Figure 2 Expense Distribution

				21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
	DATE 1990	REMARKS	CHEQUE NO.	OWNER DRAWINGS	PAYROLL				RENT	PROPERTY & BUSINESS TAX	REPAIR & MAIN-TENANCE	ADVER-TISING	AUTO-MOBILE	DELIVERY	DUES & LICENSES	INSURANCE	INTEREST	LEGAL & AUDIT	SUPPLIES	TELEPHONE	TRAVEL	UTILITIES	OTHER	
					NET PAY	INCOME TAX	INSURANCE	PENSION																
1																								1
2	Mar. 1	Bullet Transfer												5.00										2
3	Mar. 1	Cash Short																					1.00	3
4	Mar. 2	Supplies Expense																	70.00					4
5	Mar. 2	Charges off bad Acct.																					66.00	5
6	Mar. 2	X.Y. Rent Co.	3						80.00															6
7	Mar. 2	A.B. Smith	4		307.00																			7
8	Mar. 2	Minister of Finance	5			78.00	5.00	7.00																8
9		etc.																						9
10		etc.																						10
11																								11
12																								12
13																								13
14																								14
15																								15
16																								16
17																								17
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24																								24
25																								25
26																								26
27																								27
28																								28
29																								
30																								30
31	Mar. 31	TOTAL MONTH		1,000.00	614.00	157.00	11.00	13.00	390.00	56.00	4.00	250.00	200.00	120.00	40.00	70.00	20.00	50.00	100.00	40.00	15.00	30.00	37.00	31
32																								32
33																								33
34																								34
35																								35
36	Mar. 31	YEAR-TO-DATE		3,000.00	1,842.00	471.00	33.00	38.00	1,170.00	168.00	10.00	300.00	550.00	325.00	120.00	210.00	60.00	50.00	312.00	80.00	40.00	85.00	150.00	36

EXAMPLE: REAL RETAILING COMPANY

Figure 3 - "*In/Out*" Example Entries

				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
	DATE	REMARKS	CHEQUE	CASH			BANK			ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE			OTHER ASSETS	OTHER LIABILITIES	OWNER'S INVESTMENT	OTHER INCOME	GROSS SALES	SALES RETURNS	PURCHASES & FREIGHT	EXPENSES	
				RECEIVED	PAID OUT	BALANCE	DEPOSITS	WITH-DRAWALS	BALANCE	RECEIVABLE	COLLECTED	BALANCE	PAID	PAYABLE	BALANCE									
				IN	OUT		IN	OUT		IN	OUT		IN	OUT		IN(OUT)	IN(OUT)	IN(OUT)	OUT	OUT	IN	IN	IN	
A		Cash sales		150.00																150.00				A
B		Credit sales								140.00										140.00				B
C		Sundry cash sales		25.00															25.00					C
D		Sundry credit sales								5.00									5.00					D
E		Sales tax collected		15.00										15.00										E
F		Returned sales for cash			10.00																10.00			F
G		Returned sales for credit									8.00										8.00			G
H		Allowance on credit sales									12.00										12.00			H
I		Discount given									14.00										14.00			I
J		Bank withdrawals		300.00				300.00																J
K		Received on account		175.00							175.00													K
L		Charge off bad debt.									86.00												86.00	L
M		Fixed asset purchase by cash			5.00											5.00								M
N		A.B. Equipment Co.	1					320.00								320.00								N
O		Fixed asset purchase by charge												270.00		270.00								O
P		Inventory purchase by cash			20.00																	20.00		P
Q		C.D. Supply Co.	2					2,100.00														2,100.00		Q
R		Inventory purchase by charge												500.00								500.00		R
S		Supplies expense			7.00																		7.00	S
T		X. Y. Rent Co.	3					80.00															80.00	T
U		Supplies expenses												15.00									15.00	U
V		Returned purchase for cash		25.00																		(25.00)		V
W		Returned purchase for credit											70.00									(70.00)		W
X		C.D. Supply Co.	4					36.00					36.00											X
Y		Minister of Finance	5					56.00					56.00											Y
Z		Cash balance short			2.00																		2.00	Z
AA		Bank deposit			425.00		425.00																	AA
BB		Customer cheque returned (NSF)						96.00		96.00														BB
CC		Bank Loan					10,000.00										10,000.00							CC
DD		Good Loan Co.	6					5,000.00									(5,000.00)							DD
EE		Good Loan Co.	7					700.00															700.00	EE
FF		Increase capitalization					1,000.00											1,000.00						FF

STEP 2 USING THE "IN" AND "OUT" RULE TABLE

The "*In*" and "*Out*" Rule Table in Table 1 gives you a breakdown of almost every transaction that is likely to occur in a retail business and tells you how to record it. If you follow the rule table closely, you shouldn't go wrong. The left hand column lists 32 different business transactions while the remaining two columns tell you where to record the "*In*" and "*Out*" amounts. Every transaction must have at least two entries. The amount of the "*Ins*" must always equal the amount of the "*Outs*".

Table 1 - IN/OUT RULE TABLE

	TYPE OF TRANSACTION	IN COLUMN TITLE	COL. #	OUT COLUMN	COL. #
A	CASH SALES	CASH - RECEIVED	1	GROSS SALES	17
B	CREDIT SALES	A/R - RECEIVABLE	*7	GROSS SALES	17
C	SUNDRY CASH SALES	CASH - RECEIVED	1	OTHER INCOME	16
D	SUNDRY CREDIT SALES	A/R - RECEIVABLE	*7	OTHER INCOME	16
E	SALES TAX COLLECTED	CASH - RECEIVED	1	A/P - PAYABLE	*11
F	RETURNED SALES FOR CASH	SALES RETURNS	18	CASH - PAID OUT	2
G	RETURNED SALES FOR CREDIT	SALES RETURNS	18	A/R - COLLECTED	*8
H	ALLOWANCE ON CREDIT SALES	SALES RETURNS	18	A/R - COLLECTED	*8
I	DISCOUNTS GIVEN	SALES RETURNS	18	A/R - COLLECTED	*8
J	BANK WITHDRAWAL	CASH - RECEIVED	1	BANK WITHDRAWAL	5
K	RECEIVED ON ACCOUNTS	CASH - RECEIVED	1	A/R - COLLECTED	*8
L	CHARGE OFF BAD ACCOUNTS	EXPENSES	**20	A/R - COLLECTED	*8
M	FIXED ASSET PURCHASE BY CASH	OTHER ASSETS	13	CASH - PAID OUT	2
N	FIXED ASSET PURCHASE BY CHEQUE	OTHER ASSETS	13	BANK WITHDRAWAL	5
O	FIXED ASSET PURCHASE BY CHARGE	OTHER ASSETS	13	A/P - PAYABLE	*11
P	INVENTORY PURCHASE BY CASH	PURCHASES	19	CASH - PAID OUT	2
Q	INVENTORY PURCHASE BY CHEQUE	PURCHASES	19	BANK WITHDRAWAL	5
R	INVENTORY PURCHASE BY CHARGE	PURCHASES	19	A/P - PAYABLE	*11
S	EXPENSE PAYMENT BY CASH	EXPENSES	**20	CASH - PAID OUT	2
T	EXPENSE PAYMENT BY CHEQUE	EXPENSES	**20	BANK WITHDRAWAL	5
U	EXPENSE PAYMENT BY CHARGE	EXPENSES	**20	A/P - PAYABLE	*11
V	RETURNED PURCHASE FOR CASH	CASH - RECEIVED	1	(PURCHASES)	19
W	RETURNED PURCHASE FOR CREDIT	A/P - PAID	*10	(PURCHASES)	19
X	PAYMENT OF CHARGE PURCHASES	A/P - PAID	*10	BANK WITHDRAWAL	5
Y	SALES TAX PAYMENT	A/P - PAID	*10	BANK WITHDRAWAL	5
Z	CASH BALANCE SHORT	EXPENSES	**20	CASH - PAID OUT	2
AA	BANK DEPOSITS	BANK - DEPOSITS	4	CASH - PAID OUT	2
BB	CUSTOMER'S CHEQUE RETURNED (NSF)	A/R - RECEIVABLE	*7	BANK WITHDRAWAL	5
CC	BANK LOAN	BANK - DEPOSITS	4	OTHER LIABILITIES	14
DD	LOAN REPAYMENT BY CHEQUE	(OTHER LIABILITIES)	14	BANK WITHDRAWAL	5
EE	INTEREST ON LOAN	EXPENSES	**20	BANK WITHDRAWAL	5
FF	INCREASE CAPITALIZATION	BANK - DEPOSITS	4	OWNER'S INVESTMENT	15

* Also posted to sub-ledger
** Also posted to expense distribution

A/R ACCOUNTS RECEIVABLE
A/P ACCOUNTS PAYABLE

Example 1 Take the first transaction A, a straight-forward cash sale of $150. The "*In/Out Rule Table*" instructs you to enter the "*In*" amount to *Cash Received*, Column 1, and the "*Out*" amount to *Gross Sales*, Column 17. If you trace this through to the same line of the Example in Figure 3, you will see that this has been done.

Example 2 Now look at the second transaction, B, a similar sale but this time for credit. The entry is the same except that the "*In*" amount is entered to *Acounts Receivable - Receivable*, Column 7, instead of *Cash - Received*, Column 1, as in the previous example. Notice that the symbol (*) appears in the "*In/Out Rule Table*" for this transaction. If you refer to the footnote at the bottom of the Table you will see that the symbol indicates that you should also post the amount to a sub-ledger for Accounts Receivable.

Example 3 Skip down the Rule Table to transaction T, an expense payment by cheque. A $60 cheque is made out to the X.Y. Rent Co. for rent. If you trace this through to Figure 3 you'll find a $60 "*In*" entry to Expenses, Column 20, and a $60 "*Out*" entry to ***Bank - Withdrawals***, Column 5. This time the symbol (**) appears on the ***Rule Table*** and the footnote at the bottom indicates that you should also enter the $60 rent expense to the Expense Distribution sheet. Although not shown, the amount would be entered to *Rent*, Column 26 of the Expense Distribution.

Example 4 Finally, look at transaction V in the Rule Table, a returned purchase for cash. Merchandise is returned to a supplier and $25 cash is received. An entry for $25 is entered as an "*In*" to ***Cash - Received***, Column 1, and as an "*Out*" to ***Purchases & Freight***, Column 19. (This is a bit tricky so read carefully.) Notice that the amount is a bracketed entry to Column 19. Brackets are used to change an amount to "In" if it is entered to an "*Out*" column, and to an "*Out*" if it is entered to an "*In*" column. In this case the brackets appear in the *Purchases* column so the latter applies.

Now that you've covered the special features of the Rule Table, you should be able to handle the remaining transaction types. To confirm your understanding, take each transaction type in the Rule Table, anticipate what the entry will look like, and then confirm your thinking by referring to Figure 3, the "*In/Out*" Example Entries.

STEP 3 KEEPING THE SYSTEM BALANCED

Remember that the sum of all the "*In*" entries must equal the sum of all the "*Out*" entries. You can check this quickly by totalling each column and then comparing the sum of all the "*In*" columns to the sum of all the "*Out*" columns. Any difference indicates that you have made an error. It is a good idea to balance each line every time you make an entry, so that it never becomes a big job to find an error.

The first four categories in the One Book keep "*running tallies*" on Cash, Bank, Accounts Receivable, and Accounts Payable. At any time the balances should agree to actual counts. If they do not, you have made an error and need to recheck your addition and subtraction.

STEP 4 SIMPLIFYING DAILY TRANSACTION ENTRIES

Obviously, in a retail business, you will not be able to use the Rule Table to enter the vast amount of business transactions processed through your cash register on any given day. Since you must balance the cash at the end of the day, you can use the Daily Entry Sheet (as illustrated in Figure 4) for this purpose. You can then use this information to make a single entry covering most transactions to the One Book.

Make the entries to the Daily Entry Sheet as illustrated in Figure 4 and balance the cash. Follow these steps:

a) Enter the opening cash balance. This is likely to be the cash float kept in the cash register. In the example the amount is $100.

b) Then work out all the cash received throughout the day.

  i) Gross Sales (not including sales tax) are $300. Now subtract the discounts and allowances to customers ($10) and credit sales ($140) to arrive at cash sales for the day ($150).

  ii) Add the amount of Sales Tax received ($15).

  iii) Add the amount of Payments on Account from credit customers ($175).

  iv) Add additions to cash from other sources. Bank withdrawals are nil and other income is $10.

  v) Enter the total cash received as $350.

EXAMPLE: REAL RETAILING COMPANY

Figure 4 - The Daily Entry Sheet

REAL RETAILING COMPANY
DAILY ENTRY SHEET

DATE: *March 1/90* DAY: *Monday*

COL													
	Opening Cash - Balance									+		100	00
	Plus: Cash - Received												
	Cash Sales												
17	Gross Sales	+		300	00								
18	Less: Sales Returns	-		10	00								
7	Less: Accounts Receivable-Receivable	-		140	00								
	Equals: Cash Sales	=				+		150	00				
11	Sales Tax					+		15	00				
8	Accounts Receivable - Collected					+		175	00				
5	Bank - Withdrawals					+							
16	Other Income					+		10	00				
1	Cash Received					=				+		350	00
	Less: Cash - Paid Out												
19	Purchases & Freight					+		25	00				
20	Expenses					+		5	00				
10	Accounts Payable - Paid					+							
4	Bank Deposits					+		320	00				
2	Cash - Paid Out					=				-		350	00
	Equals: Closing Cash - Balance									=		100	00
	Less: Actual Cash Balance									-		99	00
2 1 20 (20)	Equals: Cash Balance Short (Over)									=		1	00

EXAMPLE: REAL RETAILING COMPANY

Figure 5 - System Start-Up

				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
	DATE	REMARKS	CHEQUE	CASH			BANK			ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE			OTHER ASSETS	OTHER LIABILITIES	OWNER'S INVESTMENT	OTHER INCOME	GROSS SALES	SALES RETURNS	PURCHASES & FREIGHT	EXPENSES
				RECEIVED	PAID OUT	BALANCE	DEPOSITS	WITH-DRAWALS	BALANCE	RECEIVABLE	COLLECTED	BALANCE	PAID	PAYABLE	BALANCE								
	1990			IN	OUT		IN	OUT		IN	OUT		IN	OUT		IN(OUT)	IN(OUT)	IN(OUT)	OUT	OUT	IN	IN	IN
1		*New Business*																					
2	*Jan. 1*	*Initial Financing*					*25,000.00*		*25,000.00*								*12,000.00*	*13,000.00*					
3																							
4																							
5	*Jan. 2*	*Cash on Hand*		*100.00*		*100.00*		*100.00*	*24,900.00*														
6	*Jan. 3*	*Purchase of assets*						*20,000.00*	*4,900.00*							*5,000.00*						*15,000.00*	
7																							
8																							
9																							
10																							
11																							
12																							
13																							
14																							
15		*Existing Business*																					
16	*Dec. 31*	*Balance forward*				*100.00*			*2,086.00*			*8,100.00*			*15,300.00*								
17																							
18																							
19																							
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35																							
36																							

c) Now, determine the cash paid out for the day:

i) Enter $25 for Purchases and Freight. This would include merchandise for resale only.

ii) Add $5 for expenses. An example would be cleaning supplies for the store.

iii) Enter nil for Accounts Payable. These are cash payments made to creditors.

iv) Add Bank Deposits ($320). Note that the amount of the deposit is determined so that the closing cash balance equals the opening cash balance (the $100 cash float).

v) Enter the total Cash - Paid Out as $350.

d) Determine the closing cash balance as follows:

Opening Cash balance	$100
Plus Cash Received	+ $350
Less Cash Paid Out	- $350

e) Count the actual cash in the cash register to determine the cash balance short or over and complete the Daily Entry Sheet as indicated in Figure 4.

Now you are ready to make a single daily entry to the One Book. Note that column numbers on the left-hand side of the form conform to the appropriate columns in the One Book. Each amount on the Daily Entry Sheet which has a column number opposite on the left-hand side has been entered to the corresponding column in the One Book on a single line. You can use a second line to enter the Cash Short as this example has done to make your records clearer.

The single-line Daily Entry is about all the work there is to the One Book on a daily basis. The only exceptions would be transaction types in the In/Out Rule Table which occur only now and then, and are therefore not covered by the Daily Entry.

STEP 5 SETTING UP YOUR BOOKS

Starting the One Book Accounting System for Retailers is a simple matter, whether you're setting up a set of books for a new business or switching to this system for an existing business.

If you are starting a new business, you can begin making your entries by following the In/Out Rule Table shown here.

IN/OUT RULE TABLE

	TYPE OF TRANSACTION	IN COLUMN TITLE	COL. #	OUT COLUMN	COL. #
A	CASH SALES	CASH - RECEIVED	1	GROSS SALES	17
B	CREDIT SALES	A/R - RECEIVABLE	°7	GROSS SALES	17
C	SUNDRY CASH SALES	CASH - RECEIVED	1	OTHER INCOME	16
D	SUNDRY CREDIT SALES	A/R - RECEIVABLE	°7	OTHER INCOME	16
E	SALES TAX COLLECTED	CASH - RECEIVED	1	A/P - PAYABLE	°11
F	RETURNED SALES FOR CASH	SALES RETURNS	18	CASH - PAID OUT	2
G	RETURNED SALES FOR CREDIT	SALES RETURNS	18	A/R - COLLECTED	°8
H	ALLOWANCE ON CREDIT SALES	SALES RETURNS	18	A/R - COLLECTED	°8
I	DISCOUNTS GIVEN	SALES RETURNS	18	A/R - COLLECTED	°8
J	BANK WITHDRAWAL	CASH - RECEIVED	1	BANK WITHDRAWAL	5
K	RECEIVED ON ACCOUNTS	CASH - RECEIVED	1	A/R - COLLECTED	°8
L	CHARGE OFF BAD ACCOUNTS	EXPENSES	°°20	A/R - COLLECTED	°8
M	FIXED ASSET PURCHASE BY CASH	OTHER ASSETS	13	CASH - PAID OUT	2
N	FIXED ASSET PURCHASE BY CHEQUE	OTHER ASSETS	13	BANK WITHDRAWAL	5
O	FIXED ASSET PURCHASE BY CHARGE	OTHER ASSETS	13	A/P - PAYABLE	°11
P	INVENTORY PURCHASE BY CASH	PURCHASES	19	CASH - PAID OUT	2
Q	INVENTORY PURCHASE BY CHEQUE	PURCHASES	19	BANK WITHDRAWAL	5
R	INVENTORY PURCHASE BY CHARGE	PURCHASES	19	A/P - PAYABLE	°11
S	EXPENSE PAYMENT BY CASH	EXPENSES	°°20	CASH - PAID OUT	2
T	EXPENSE PAYMENT BY CHEQUE	EXPENSES	°°20	BANK WITHDRAWAL	5
U	EXPENSE PAYMENT BY CHARGE	EXPENSES	°°20	A/P - PAYABLE	°11
V	RETURNED PURCHASE FOR CASH	CASH RECEIVED	1	(PURCHASES)	19
W	RETURNED PURCHASE FOR CREDIT	A/P - PAID	°10	(PURCHASES)	19
X	PAYMENT OF CHARGE PURCHASES	A/P - PAID	°10	BANK WITHDRAWAL	5
Y	SALES TAX PAYMENT	A/P - PAID	°10	BANK WITHDRAWAL	5
Z	CASH BALANCE SHORT	EXPENSES	°°20	CASH - PAID OUT	2
AA	BANK DEPOSITS	BANK - DEPOSITS	4	CASH - PAID OUT	2
BB	CUSTOMER'S CHEQUE RETURNED (NSF)	A/R - RECEIVABLE	°7	BANK WITHDRAWAL	5
CC	BANK LOAN	BANK - DEPOSITS	4	OTHER LIABILITIES	14
DD	LOAN REPAYMENT BY CHEQUE	(OTHER LIABILITIES)	14	BANK WITHDRAWAL	5
EE	INTEREST ON LOAN	EXPENSES	°°20	BANK WITHDRAWAL	5
FF	INCREASE CAPITALIZATION	BANK - DEPOSITS	4	OWNER'S INVESTMENT	15

° Also posted to sub-ledger
°° Also posted to expense distribution

A/R ACCOUNTS RECEIVABLE
A/P ACCOUNTS PAYABLE

Figure 5, System Start-up, is a sample illustration of a new business's first entries to the One Book. Note the following entries, referring to the In/Out Rule Table as necessary.

1) Initial Financing, the first entry, indicates the company's start-up capital. According to the Rule Table, a bank loan for $12,000 is recorded under Other Liabilities (Column 14) and the owner's contribution of $13,000 is entered under Owner's Investment (Column 15). The corresponding "*In*" Column for both entries is Bank - Deposits (Column 4). Therefore, the total start-up capital in the amount of $25,000 appears here in Column 4.

2) The second entry, Cash on hand, indicates a Bank Withdrawal of $100, duly entered in Column 5. Note that the owner has subtracted this withdrawal from the forward balance and recorded the revised balance in Column 6. The Rule Table states that a Bank Withdrawal will appear as Cash Received, (Column 1) the corresponding "*In*" Column. The owner also keeps a running tally of his cash balance in Column 3.

3) Purchase of Assets, the third entry, indicates two different kinds of goods acquired. The first purchase for $5000 entered in Other Assets (Column 13) is likely for fixed assets such as a cash register, shelving and so on. The second purchase for $15,000 entered in Purchases & Freight (Column 19) is for freight charges and inventory intended for resale. The owner has therefore spent $20,000 and he enters this amount in Bank Withdrawals (Column 5). He continues to keep a running tally of his bank balance, as indicated in Column 6.

Some rules have been combined to show you that it's the amount of the Ins and the Outs which must balance, not the number of each. In following the Rule Table you will have also noticed that you do not necessarily move from left to right across the page as you are making your entries. Once you have indentified the transaction you wish to record within the Rule Table, you simply follow the basic In/Out entry rules.

Now if you own an existing retail business, you would begin by setting up the formats for the One Book and Expense Distribution as in Figures 1 and 2. Your opening entry would set up the four *"balance"* columns, Cash, Bank, Accounts Receivable and Accounts Payable. To determine your starting balance for each of these four categories you would:

a) count the actual cash on hand

b) prepare a bank reconciliation (Instructions to follow).

c) total the Accounts Receivable (This may be a separate ledger or a file of duplicate charge sales slips.)

d) total the Accounts Payable (Again, this may be a separate ledger or file of unpaid supplier invoices.)

The entries recorded for the existing business in Figure 5 reflect each of these four totals.

It is necessary to prepare a bank reconciliation because the bank balance as shown on your bank statement may be different than the bank balance you would use to start up the One Book. You may, for example, have issued cheques which have not yet been presented to your bank. Or you may have made deposits to your account which have not yet been recorded by the bank. At the same time, you may not have recorded charges and interest or other debits and credits made to your account in the One Book which nonetheless appear on your bank statement.

To find the bank balance for the One Book use the following calculation as illustrated here:

Balance as per bank statement	$ 3,045.00
Less: Outstanding cheques	($ 1,050.00)
Plus: Outstanding deposits	$ 90.00
Equals: Balance as per One Book	$ 2,085.00

STEP 6 KEEPING ADDITIONAL RECORDS

As your business expands, a One Book system without supporting records and ledgers may no longer be feasible. Depending on the volume of your business, you may have to keep a separate Accounts Receivable Ledger with one page or card for each customer. You would need to keep a record of amounts charged, amounts received, and the balance owing by the customer, and file these pages alphabetically in a book binder or tray.

You may be able to eliminate this ledger if you keep duplicates of charge sales slips. Simply keep a file of these slips organized alphabetically. Then, when a customer makes a payment, mark the charge slip "*Paid*" and remove it from the file.

Whether you keep an actual Accounts Receivable Ledger or a file of charge slips, the sum of the amounts owing should always equal the Accounts Receivable - Balance (Column 9) of the One Book. Figure 6 illustrates an example of an Accounts Receivable Ledger Card.

A similar Accounts Payable Ledger may be required if you do a great deal of purchasing from a limited number of suppliers. Again, an alternative could be to keep outstanding invoices filed by supplier in an "*accordion*" file. Then, when you pay an invoice mark it "*Paid*" and remove it from the file.

Whether you keep an actual Accounts Payable Ledger or a file of unpaid invoices, the sum of the amounts owing should always equal the Accounts Payable - Balance (Column 12) of the One Book. An example of an Accounts Payable Ledger Card is illustrated in Figure 7.

Finally, if you have a large number of employees, you may require separate payroll records. Figure 8a illustrates a Payroll Sheet and Figure 8b, an Individual Employee Record.

EXAMPLE: REAL RETAILING COMPANY

Figure 6 - Accounts Receivable Ledger Card

ACCOUNT NUMBER _______ BILLING DATE _______ ACCOUNT LIMIT ____________

NAME (IN FULL) ______________________ ACCOUNT CLASS ____________

ADDRESS ______________________ AUTHORIZED USERS (signatures)

CITY ______________________ 1. ____________

PHONE (RES.) __________ (BUS.) __________ 2. ____________

RESTRICTIONS 1. ______________________ 3. ____________

2. ______________________ 4. ____________

SPECIAL CIRCUMSTANCES ______________________

____

1-4-90		*20.99*	*Dress Slacks*	*20.99*
14-4-90	*20.99*			*–*
5-6-90		*10.50*	*Scarf*	*10.50*
5-6-90		*10.00*	*Suit (Baby)*	*20.50*
17-6-90	*20.50*			*–*

Figure 7 - Accounts Payable Ledger Card

NAME: ____________ Acct. No. ____________
ADDRESS: ____________ Sheet. No. ____________

DATE	DETAILS	REF.	DISCOUNT	DEBIT	CREDIT	BALANCE

Figure 8 (a) - Payroll Sheet

PAY PERIOD FROM: ____________ TO: ____________

EMPLOYEE NAME	GROSS WAGES	EMPLOYEES' DEDUCTIONS							NET WAGES

Figure 8 (b) - Individual Employee Record

NAME: ____________ ADDRESS: ____________

DATE			GROSS WAGES	EMPLOYEE'S DEDUCTIONS							NET WAGES
Mo.	Day	Time Period									

STEP 7 USING THE RETAIL INVENTORY METHOD

If you are (or become) a large retailer, the Retail Inventory Method will enable you to monitor your Gross Margin (Sales less Cost of Sales) constantly as it is affected by pricing, markdowns and shrinkage. There are four stages to the implementation of the Retail Inventory Method:

A. Set up a Receiving Journal as in Figure 9a to keep a record of the following transactions:

* a receipt of merchandise from a supplier
* a return of merchandise to a supplier after it has been received and recorded
* a credit note from a supplier
* any additional markups to goods already priced.

Follow the example of the Receiving Journal presented in Figure 9a. You should use the Receiving Journal as a management tool. Watch the markup on each invoice. If it's lower than it should be, you can make a decision to reprice the merchandise right on the spot. And if you don't feel you can, you know that you will have to make it up somewhere or your profits will be impaired.

B. Set up a Markdown Register as in Figure 9b to keep a record of all price reductions for sales events or clearances of merchandise. Follow the example in 9b. The Markdown Register should also be used as a management tool to prevent markdowns from eroding your gross margin. You have a complete history of the nature and extent of your markdown decisions in this register. So if your gross margin is eroding due to too many sales events, poor buying or bad pricing by staff, you have the information available to take corrective action and turn developing problems into profit opportunities.

Figure 9 (a) - Receiving Journal

	RECEIVING JOURNAL				
	DATE	PARTICULARS	LANDED COST	RETAIL	MARKUP %
(1)	*Mar. 1*	*XYZ Fashion Ltd. Inv.: 5792*	*$ 942.00*	*$1,522.00*	*38.1%*
(2)	*Mar. 1*	*Return merchandise to ABC Box Co.*	*(280.00)*	*(390.00)*	-
(3)	*Mar. 2*	*Credit note received from Sportswear*	*(20.00)*	-	-
(4)	*Mar. 2*	*Markup 10 sweaters $5 each*		*50.00*	-
		EXAMPLES			
	March	TOTAL	*$19,500*	*$30,000*	*35.0%*

Example (1) - RECEIPT OF MERCHANDISE - A shipment of merchandise from XYZ Fashion Ltd. is received at a total cost of $942.00. This amount includes all freight, import duties, and foreign exchange payments that may have been added. The retail value of $1,522.00 represents the sum of all the prices that you have attached to the goods. The 38.1% markup is calculated as follows:

$$\frac{\text{Retail Value - Landed Cost Value}}{\text{Retail Value}} \quad X \quad 100$$

$$\frac{\$1{,}522 - \$942}{\$1{,}522} \quad X \quad 100 \quad = \quad 38.1\%$$

If all these goods were sold at the prices marked, the gross margin percentage would be 38.1% of sales.

Example (2) - RETURN TO SUPPLIER - Merchandise valued at a cost of $280.00 and priced at a retail value of $390.00 is returned to ABC Box Co. because it is soiled. Both the amounts are bracketed because they reduce the value of inventory at cost and at retail.

Example (3) - CREDIT FROM SUPPLIER - A supplier sends a credit for $20.00. However, you have already received the merchandise at its full cost. The amount is a bracketed entry to "*landed cost*" since it reduces the cost value of your inventory.

Example (4) - ADDITIONAL MARKUP - Ten sweaters are marked up an additional $5.00 after they have been priced initially. The amount is added to "*retail*" because it raises the retail value of your inventory.

Figure 9 (b) - Markdown Register

MARKDOWN REGISTER							
							March 1990
DATE	PARTICULARS	OLD PRICE	NEW PRICE	DIFFERENCE	QUANTITY	EXTENSION	REASON
(1) *Mar. 5*	*Reduce price - ladies dresses*	*$ 30.00*	*$25.00*	*$5.00*	*10*	*$50.00*	*aged stock (ABC Fashioı*
(2) *Mar. 15*	*Cancel Markdown - sweaters*	*$12.00*	*$15.00*	*(3.00)*	*15*	*(45.00)*	*to regular af sale*
	EXAMPLES						
March	TOTAL					*$1,154.00*	

Example (1) - PRICE REDUCTION - Ten ladies' dresses are reduced from $30.00 to $25.00 to clear. The price tickets on the merchandise are revised and the entry to the Markdown Register made as shown.

Example (2) - MARKDOWN CANCELLATION - Fifteen sweaters are left over after a sale event. Since they are regular stock they are repriced at the regular price of $15.00. The entry is made in the Markdown Register as shown. You will notice that $1,154 of markdowns have been made in March. You've reduced the retail value of your inventory by this amount.

C. Set up an Inventory Running Tally as in Figure 9c to keep a running value of inventory both at cost and at retail. In Figure 9c you will notice that the inventory on January 1st is recorded at a retail value of $62,500 and a cost value of $40,000. To start up your own system, you will have to take a physical inventory both at cost and at retail to find both amounts. It's a bother, but it's also the last time you'll ever have to take inventory at cost again!

D. Prepare an Income Statement. The Income Statement is treated in the next section, Part B.

Figure 9 (c) - Inventory Running Tally

				1	2	3	
				COST	RETAIL	%	
Jan. 1	INVENTORY		=	40,000.00	62,500.00		
	PLUS: Purchase & Freight		+	17,600.00	27,500.00		
	EQUALS: Goods Available for Sale		=	57,600.00	90,000.00		
	LESS: Sales		-	9,600.00	150.00	64.0	
	LESS: Markdown		-	150.00	235.00		
Feb. 1	INVENTORY		=	47,860.00	74,765.00		
	PLUS: Purchase & Freight		+	17,000.00	25,000.00		
	EQUALS: Goods Available for Sale		=	64,850.00	99,765.00		
	LESS: Sales		-	13,000.00	20,000.00	65.0	
	LESS: Markdown		-	400.00	615.00		
Mar. 1	INVENTORY	(1)	=	51,450.00	79,150.00		
	PLUS: Purchase & Freight	(2)	+	19,500.00	30,000.00		
	EQUALS: Goods Available for Sale	(3)	=	70,950.00	109,150.00		
	LESS: Sales	(4)	-	16,250.00	25,000.00	65.0	
	LESS: Markdown	(5)	-	750.00	1,154.00		
Apr. 1	INVENTORY	(6)	=	53,960.00	82,996.00		
	PLUS: Purchase & Freight		+				
	EQUALS: Goods Available for Sale		=				
	LESS: Sales		-				
	LESS: Markdown		-				
May 1	INVENTORY		=				
	PLUS: Purchase & Freight		+				
	EQUALS: Goods Available for Sale		=				
	LESS: Sales		-				
	LESS: Markdown		-				
June 1	INVENTORY						

Line (1) - is the inventory value at both cost and retail as determined from the previous month's calculations.

Line (2) - is the amount of additions to inventory at both cost and retail. Refer to the Receiving Journal Figure 9 (a) and see that the two totals have been taken directly from here.

Line (3) - is a summation. This line is used to calculate the "*cost percentage*" as follows:

$$\frac{\$\ 70{,}950}{\$109{,}150} \quad \text{X} \quad 100 \quad = 65.0\%$$

Line (4) & (5) are treated similarly. Retail sales of $25,000 for March are net of all merchandise returns. Markdowns of $1,154 are taken directly from the Markdown Register illustrated in Figure 9 (b). Both amounts are reductions from the retail value of the inventory for March. To find the cost value of the reductions, simply multiply each retail value by the "*cost percentage*" as follows:

Sales (at cost) = $25,000 X 65.0% = $16,250
Markdowns (at cost) = $1,154 X 65.0% = $750

Line (6) - is the value of inventory at both cost and retail at the beginning of April and is the result of subtracting the inventory reductions in lines (4) and (5) from the Goods Available for sale in line (3).

PART B FINANCIAL STATEMENTS

THE INCOME STATEMENT

The Income Statement is a summary of business operations for a period, be it monthly, semi-annually, or annually. This section will present two kinds of income statement; the Conventional Statement and the Retail Inventory Method Statement. If you have decided to use the Retail Inventory Method you can go straight to that explanation of the income statement on page 42. Otherwise you may proceed here with instructions on how to prepare a Conventional Income Statement.

Conventional Method

Examine the Income Statement prepared by the Real Retailing Company in Figure 10. Notice that this is a summary of business operations for the month of March and year-to-date. You subtract cost of goods sold and expenses from revenue for the same period of time to figure out the net profit or income earned. Essentially, what you really have is something like this:

Sales	
Less:	Costs of Goods Sold
Equals:	Gross Margin
Less:	Total Expenses
Equals:	Net Income Before Taxes

Note that the information on the Income Statement comes from the One Book and the Expense Distribution. The numbers on the left-hand side of the Income Statement correspond to the column numbers in both the One Book and the Expense Distribution. Most of the information you need will come from these sources.

You will need to prepare estimates for "*special treatment*" items, cost of goods sold, depreciation, and income tax (if applicable) to complete your Income Statement.

EXAMPLE: REAL RETAILING COMPANY

Figure 10 - Income Statement

REAL RETAILING COMPANY
INCOME STATEMENT
MONTH ENDEND March 31, 1990

COL #		CURRENT MONTH						YEAR TO DATE
17	Gross Sales					+	10 200 00	27 800 00
18	Less: Sales Returns					-	200 00	800 00
	Equals: Net Sales					=	10 000 00	27 000 00
	Less: Cost of Goods Sold							
	Beginning Inventory	+	26 000 00					
19	Plus: Purchases & Freight	+	7 500 00					
	Equals: Goods Available for Sale	=	33 500 00					
	Less: Ending Inventory	-	27 000 00					
	Equals: Cost Of Goods Sold	=				-	6 500 00	17 550 00
	Equals: Gross Margin					=	3 500 00	9 450 00
	Less: Expenses							
	Salaries and Wages							
21	Owner - Drawings			+	1 000 00			3 000 00
22	Payroll - Net Pay			+	614 00			1 842 00
23	Payroll - Income Tax			+	187 00			471 00
24	Payroll - Insurance			+	11 00			38 00
25	Payroll - Pension			+	13 00			38 00
	Occupancy							
26	Rent			+	380 00			1 170 00
27	Property and Business Tax			+	56 00			168 00
28	Repair and Maintenance			+	4 00			10 00
	General Expenses							
29	Advertising			+	230 00			300 00
30	Automobile			+	200 00			580 00
31	Delivery			+	120 00			325 00
32	Dues and Licenses			+	40 00			120 00
33	Insurance			+	70 00			210 00
34	Interest			+	20 00			80 00
35	Legal and Audit			+	50 00			50 00
36	Supplies			+	100 00			312 00
37	Telephone			+	40 00			80 00
38	Travel			+	15 00			40 00
39	Utilities			+	30 00			95 00
40	Other			+	37 00			150 00
*	Depreciation			+	100 00			300 00
	** TOTAL EXPENSES			=			3 317 00	9 325 00
	EQUALS: Net Income from Operations					=	183 00	125 00
16	Plus: Other Income					+	237 00	690 00
	Equals: Net Income Before Taxes					=	420 00	815 00
	Less: Income Taxes					-	150 00	450 00
	Equals: Net Income					=	270 00	365 00

Notes:

* Depreciation is not taken from the One-Book spreadsheet, but is an adjustment discussed in this section.

** This total should equal the expenses figure from Column 20 + the depreciation figure.

Cost of Goods Sold

Before you calculate the gross margin for the period you must know the cost values of the inventory at the beginning and at the end of the period. Use the worksheet shown in Figure 11 to calculate approximate monthly inventories at cost. Your calculations will not be completely accurate but they will certainly be worthwhile if you do not intend to take an inventory count every month or if you do not intend to use the Retail Inventory Method.

Depreciation

You need to consider non-cash expenditures such as depreciation in order to reflect the results of all business operations. Here is a straight-forward method for calculating the amount of depreciation expense:

* List the undepreciated value of all your fixed assets. This list might include buildings, fixtures, equipment and delivery trucks, but will not include land.
* Decide how long each asset is likely to last before you have to trade it in or scrap it.
* Divide the number of years it will last into the amount to be depreciated to find the annual depreciation.
* Total all your depreciation values.
* Divide by twelve to find the monthly depreciation charge.

Use this amount to enter on the Income Statement.

Income Tax

Income tax is another special item and its treatment varies from business to business and province to province. Depending on your Aboriginal Status, you may not be required to pay income tax. If you are required to pay income tax, you may know the percentage of income tax on "*before tax net profits*" last year, and can use the same percentage this year for the Income Statement. If you do not know, contact a Revenue Canada office in your area.

EXAMPLE: REAL RETAILING COMPANY

Figure 11 - Monthly Inventory Value

Year - 1990

		$	%
JANUARY 1ST	INVENTORY AT COST	20,800.00	
PLUS JAN.	PURCHASES AT COST	7,800.00	
LESS JAN.	NET SALES AT COST	5,200.00	65%
FEBRUARY 1ST	INVENTORY AT COST	23,400.00	
PLUS FEB.	PURCHASES AT COST	8,450.00	
LESS FEB.	NET SALES AT COST	5,850.00	65%
MARCH 1ST	INVENTORY AT COST	26,000.00	
PLUS MAR.	PURCHASES AT COST	7,500.00	
LESS MAR.	NET SALES AT COST	6,500.00	65%
APRIL 1ST.	INVENTORY AT COST	27,000.00	
PLUS APR.	PURCHASES AT COST		
LESS APR.	NET SALES AT COST		
MAY 1ST	INVENTORY AT COST		
PLUS MAY	PURCHASES AT COST		
LESS MAY	NET SALES AT COST		
JUNE 1ST	INVENTORY AT COST		
PLUS JUNE	PURCHASES AT COST		
LESS JUNE	NET SALES AT COST		
JULY 1ST	INVENTORY AT COST		
PLUS JULY	PURCHASES AT COST		
LESS JULY	NET SALES AT COST		
AUGUST 1ST.	INVENTORY AT COST		
PLUS AUG.	PURCHASES AT COST		
LESS AUG.	NET SALES AT COST		
SEPTEMBER 1ST	INVENTORY AT COST		
PLUS SEPT.	PURCHASES AT COST		
LESS SEPT.	NET SALES AT COST		
OCTOBER 1ST	INVENTORY AT COST		
PLUS OCT.	PURCHASES AT COST		
LESS OCT.	NET SALES AT COST		
NOVEMBER 1ST	INVENTORY AT COST		
PLUS NOV.	PURCHASES AT COST		
LESS NOV.	NET SALES AT COST		
DECEMBER 1ST.	INVENTORY AT COST		
PLUS APR.	PURCHASES AT COST		
LESS APR.	NET SALES AT COST		
JANUARY 1ST	INVENTORY AT COST		

NOTE: The January 1st inventory value of $20,800 is the actual cost value as determined by the year-end count. To this amount add the January purchases of $7,800 (which is Column 19 from the One Book for January). Then subtract January Net Sales at cost calculated as follows:

Gross Sales (Column 17)

Less:	Sales Returns (Column 18)
Equals:	Net Sales (at retail)
Times:	Approximate Cost of Goods Sold percentage of sales (e.g. 65% assumed on worksheet)*

Equals: Net Sales (at cost)

* The 65% Cost of Goods Sold percentage of Sales is approximated from the most recent Income Statement available. If this is not available the reciprocal of an estimate of the overall markup percentage can be used. (e.g. 100% - 35% = 65% where 35% is the average markup percentage on sales).

The result is ending inventory ($23,400) at cost. Simply follow the procedure each month so that you have a "*running tally*" of inventory valued at cost.

Examine the Super Retailing Company's Income Statement in Figure 12. Notice that this is a summary of business operations for the month of March and year to date. You subtract cost of goods sold and expenses from revenue for the same period of time to figure out the net profit or income earned. Essentially, what you have is something like this:

Sales	
Less:	Cost of Goods Sold
Equals:	Gross Margin
Less:	Total Expenses
Equals:	Net Income Before Taxes

You will notice that the information on the Income Statement comes primarily from the One Book and Expense Distribution. The numbers on the left-hand side of the Income Statement correspond to the column numbers on both the One Book and the Expense Distribution. Most of the information you need will come from these sources.

You will need to prepare estimates for "*special treatment*" items cost of goods sold, depreciation, and income tax to complete your Retail Inventory Method Income Statement.

EXAMPLE: SUPER RETAILING COMPANY

Figure 12 - Income Statement

INCOME STATEMENT
MONTH ENDEND March 31, 1990

COL. #		CURRENT MONTH								YEAR TO DATE			
17	Gross Sales					+	27	000	00		70	000	00
18	Less: Sales Returns					-	2	000	00		10	00	00
	Equals: Net Sales					=	25	000	00		60	000	00
	Less: Cost of Goods Sold												
	Cost of Good Sold (at initial markup)	+	16	250	00						38	850	00
	Plus: Cost of markdowns	+		750	00						1	300	00
	Plus: Cost of shrinkage	-		0								0	
	Equals: Cost Of Goods Sold	=				-	17	000	00		40	150	00
	Equals: Gross Margin					=	8	000	00		19	850	00
	Less: Expenses												
	Salaries and Wages												
21	Owner - Drawings	+											
22	Payroll - Net Pay	+											
23	Payroll - Income Tax	+											
24	Payroll - Insurance	+											
25	Payroll - Pension	+											
	Occupancy												
26	Rent	+											
27	Property and Business Tax	+											
28	Repair and Maintenance	+											
	General Expense												
29	Advertising	+											
30	Automobile	+											
31	Delivery	+											
32	Dues and Licenses	+											
33	Insurance	+											
34	Interest	+											
35	Legal and Audit	+											
36	Supplies	+											
37	Telephone	+											
38	Travel	+											
39	Utilities	+											
40	Other	+											
*	Depreciation	+											
*	TOTAL EXPENSES	=											
	EQUALS: Net Income from Operations					=							
18	Plus: Other Income					+							
	Equals: Net Income Before Taxes					=							
	Less: Income Taxes					-							
	Equals: Net Income					=							

Notes:
1. Amounts will not agree to One Book entries (which relate to Real Retailing Company).
2. Completed for the section of the Income Statement that is treated differently because of the use of the Retail Inventory Method.

Cost of Goods Sold

Recall the earlier discussion of the Retail Inventory Method (page 29) and the procedures involved in preparing the Inventory Running Tally in Figure 9c. With the exception of "*shrinkage*" all other cost of goods sold information is taken directly from the tally. Before you can determine "*shrinkage*" you must take an actual physical inventory at retail value. Normally you would do this at your year end. If, however, you took a physical inventory on April 1 at a retail value of $80,000, then the shrinkage would be the difference between that amount and the calculated inventory value of $82,996 on the Inventory Running Tally in Figure 9c. The amount recorded, then, in the Income Statement would be calculated as follows:

$$(\$82{,}996 - \$80{,}000) \text{ X } 65\% = \$1{,}947$$

The 65% amount is introduced here to convert the retail value to a cost value, also taken from the Running Inventory Tally in Figure 9c. Note that in the Figure 12 example, no allowance has been made for shrinkage, for the assumption is that no physical inventory has taken place. Actually, it is a good idea to make a monthly estimate of shrinkage based on last year's performance and simply adjust this estimate to a true value when you do take a physical inventory.

Depreciation

You must consider non-cash expenditures such as depreciation to reflect the results of all your business operations. Here is a straight-forward method to calculate the depreciation expense:

* List the net book value of all your fixed assets. This list might include buildings, fixtures, machinery, equipment and trucks, but will not include land.
* Decide how long each asset is likely to last before you have to trade it in or scrap it.
* Divide the number of years it will last into the amount to be depreciated to the the annual depreciation.
* Total all your depreciation values.
* Divide by twelve to find the monthly depreciation charge.

Use this amount to enter on the Income Statement.

Income Tax

Income tax is another special item and its treatment varies from business to business and province to province. Depending on your Aboriginal Status, you may not be required to pay income tax. If you are required to pay income tax, you may know the percentage of income tax on "*before tax net profits*" last year, and can use the same percentage this year for the Income Statement. If you do not know, contact a Revenue Canada office in your area.

Advantages of Using the Retail Inventory Method

If you are a large retailer, many of the advantages of the Retail Inventory Method will become apparent as you prepare an Income Statement for your business. Examine the two Income Statements in Figures 13a and 13b.

EXAMPLE: SUPER RETAILING COMPANY

(1) Figure 13 (a) Conventional Income Statement

	1990		1989	
NET SALES	$ 160,000	100.0%	$ 140,000	100.0%
COST OF GOODS SOLD				
Opening Inventory, Jan. 1	19,430		22,865	
Purchases	100,000		75,000	
Freight	1,500		850	
	120,930		98,715	
Closing Inventory, Dec. 31	12,290	67.9%	8,975	
Cost of Goods Sold	108,640		89,740	64.1%
GROSS MARGIN	51,360	32.1%	50,260	35.9%

(2) Figure 13 (b) Retail Inventory Method Income Statement

	1990		1989	
NET SALES	$ 160,000	100.0%	$ 140,000	100.0%
COST OF GOODS SOLD				
(at Initial Markup)	100,800	63.0%	84,700	60.5%
LESS: Cost of Markdowns	7,520	4.7%	4,200	3.0%
LESS: Cost of Shrinkage	320	0.2%	840	0.6%
Cost of Goods Sold	108,640	67.9%	89,740	64.1%
GROSS MARGIN	51,360	32.1%	50,260	35.9%

NOTE: Operating expenses and the net income calculation have been omitted for clarity of presentation.

If you are preparing a Conventional Income Statement, as in Figure 13a, you must make an actual inventory count in order to produce an accurate figure for the gross margin. However, if you prepare an income statement on a month to month basis using the Retail Inventory Method, you do not need to do an actual inventory count to give a reliable indication of gross margin achievement. (Though an actual inventory count is still required at year end). The following table compares the two approaches:

Conventional Income Statement Figure 13 (a)	Retail Inventory Method Income Statement Figure 13 (b)
* indicates that gross margin has dropped substantially as a percentage of sales.	* indicates that gross margin has dropped substantially as a percentage of sales.
* no way to determine whether gross margin deterioration is due to **initial pricing.**	* through Cost of Goods Sold (at initial mark-up) pricing problems are indicated (e.g. mark-ups less than previous year or supplier price increases not passed along).
* no way to determine whether gross margin deterioration is due to **price reduction** decisions.	* through Cost of Markdowns, **price reduction** problems are indicated (e.g. effect of clearances and sale events).
* no way to determine whether gross margin deterioration is due to **theft.**	* through Cost of Shrinkage, **theft** of merchandise problems are indicated. However, an actual physical inventory must be performed before shrinkage can be calculated.
* an actual physical inventory count is necessary to produce reliable information on gross margin.	* no actual physical inventory count is necessary to produce reliable information on gross margin. An annual physical inventory is required to check accuracy, however.
* all physical inventories are taken at **cost.**	* a physical inventory at both **cost** and **retail** is necessary to set up the system. Subsequently, all physical inventories are taken at **retail** values only.

THE BALANCE SHEET

The Balance Sheet is a statement of the financial position of a business as of the end of a given period. As you will note in Figure 14, the Balance Sheet consists of three sections, ASSETS, LIABILITIES, and OWNER'S EQUITY. All Balance Sheets are prepared on the basis of the following relationship:

ASSETS = LIABILITIES + OWNER'S EQUITY

Follow the steps outlined below to complete the Balance Sheet.

STEP 1 "ONE BOOK" BALANCES

As you can see in Figure 14, the amounts of CASH, BANK, ACCOUNTS RECEIVABLE, and ACCOUNTS PAYABLE are taken directly from the "*One Book*" balances without adjustment.

STEP 2 "INCOME STATEMENT" ITEMS

Similarly, the INVENTORY and NET INCOME amounts are taken directly from the Income Statement for March, as shown in Figure 14.

STEP 3 BALANCE SHEET ADJUSTMENT FOR "FIXED ASSETS"

The value of fixed assets is the original cost less the accumulated depreciation. You can calculate the amount at March 31 by using the fixed asset value on the prior period's Balance Sheet, and adjusting it to reflect any new additions or sales of fixed assets from Column 13 of the One Book for March. Then you would subtract the amount of depreciation for March. The following example details calculations used by the Real Retailing Company.

FIXED ASSETS	
(Balance Sheet Feb. 28)	$10,100
Plus: Fixed Asset additions (Column 13 of One Book)	--
Less: Fixed Asset reductions (Column 13 of One Book)*	--
Less: depreciation for March	100
EQUALS: Fixed Assets March 31	$10,000

* NOTE: The amount will be a fixed asset reduction if it is bracketed; otherwise, it is an addition.

EXAMPLE: REAL RETAILING COMPANY

Figure 14 - Balance Sheet

REAL RETAILING COMPANY

BALANCE SHEET
AS OF March 31/90

ASSETS					
CURRENT ASSETS					
CASH	+		100	00	
BANK	+	2	000	00	
ACCOUNTS RECEIVABLE	+	8	200	00	
INVENTORY	+	27	000	00	
TOTAL CURRENT ASSETS	=	37	300	00	+
FIXED ASSETS					
LAND	+				
BUILDING NET OF ACCUMULATED DEPRECIATION	+				
EQUIPMENT (NET OF ACCUMULATED DEPRECIATION)	+	10	000	00	
TOTAL FIXED ASSETS	=	10	000	00	+
TOTAL ASSETS		47	300	00	=
LIABILITIES AND OWNER'S EQUITY					
CURRENT LIABILITIES					
ACCOUNTS PAYABLE	+	15	400	00	
OTHER	+	5	000	00	
TOTAL CURRENT LIABILITIES		20	400	00	
LONG TERM LIABILITIES	+				
TOTAL LIABILITIES	=	20	400	00	+
OWNER'S EQUITY					
OWNER'S CAPITAL	+	25	000	00	
RETAINED EARNINGS - AT BEGINNING OF PERIOD	+	1	630	00	
ADD: PRESENT PERIOD NET INCOME	+		270	00	
TOTAL OWNER'S EQUITY	=	26	900	00	+
TOTAL LIABILITIES AND OWNER'S EQUITY		47	300	00	=

You will notice that a space for land, buildings, and equipment has been provided on the Balance Sheet should you require this amount of detail. Remember, though, that land is never depreciated, only the buildings and equipment.

STEP 4 BALANCE SHEET ADJUSTMENTS FOR "LIABILITIES"

Step 1 has already dealt with Accounts Payable, leaving only "*other*" current liabilities and long-term liabilities on the Balance Sheet. The treatment is very similar to that of fixed assets in Step 3, as the following example shows:

Total Liabilities less Accounts Payable (Balance Sheet Feb 28)	$5,000
Plus: Additions to Liabilities (Column 14 of One Book)*	--
Less: Reduction to Liabilities (Column 14 of One Book)*	--
EQUALS: Total Liabilities Less Accounts Payable (Balance Sheet March 31)	$5,000

*** NOTE: The amount will be a liability reduction if it is bracketed; otherwise, it is an addition.**

Once again, you will notice that a space is provided for both "*current*" and "*long-term*" liabilities on the Balance Sheet, should you require this amount of detail. "*Current*" liabilities would include bank loans and notes that must be repaid within the year. "*Long-term*" liabilities would include mortgages and term loans that will be repaid over a longer period.

STEP 5 BALANCE SHEET ADJUSTMENTS FOR OWNER'S EQUITY

Consider each item on the Balance Sheet in turn:

a) Owner's Capital

This term indicates the amount of the owner's initial investment plus any more or less permanent investments in the business made by the owner at later dates. If there are no subsequent investments, the amount of Owner's Capital will remain constant. The following example illustrates this case:

Owner's Capital (Balance Sheet Feb. 28)	$25,000
Plus: Additions (Column 15 of One Book)*	--
Less: Withdrawals (Column 15 of One Book)*	--
EQUALS: Owner's Capital (Balance Sheet March 31)	$25,000

* **Note: The amount will be an owner's capital withdrawal if it is bracketed; otherwise, it is an addition.**

b) Retained Earnings

Business operations which result in profit or loss affect the amount of Owner's Equity. Likewise, if the owner withdraws part or all of the earnings, this action will affect the amount of equity in the business. In short, earnings which are retained in the business (not taken out by the owner) increase the owner's equity.

In the case of the Real Retailing Company, the retained earnings at Feb. 28 were $1630.

c) Present Period Net Income

You will have already found this amount in Step 2 with the Income Statement figure for Net Income.

If you have followed the steps closely, you will find indeed that,

ASSETS = LIABILITIES + OWNER'S EQUITY.

PART C FINANCIAL ANALYSIS

RATIO ANALYSIS

You may recall in the Introduction of this guide book we spoke of complete and accurate accounting records as the key to sound financial management. The information you record in the One Book system and calculate in your financial statement provides you with enough data to monitor both the favourable and unfavourable trends occurring in your business. Ratio Analysis is a very useful tool to help you track your business's performance on a monthly, quarterly, or yearly basis. There are basically three kinds of ratios you can work with, as indicated below in Figure 15.

EXAMPLE: REAL RETAILING COMPANY

Figure 15 - Analysis Form for Key Business Ratios

	MONTH YEAR							
A. WORKING CAPITAL RATIOS								
A-1. CURRENT RATIO	No.							
A-2. QUICK RATIO	No.							
B. PRODUCTIVITY RATIOS								
B-1. INVENTORY TURNOVER	No. of Times							
B-2. COLLECTION PERIOD	Days							
B-3. OPERATING EXPENSES as a % of Sales	%							
C. PROFITABILITY RATIOS								
C-1. GROSS PROFIT as a % of Sales	%							
C-2. NET PROFIT as a % of Sales	%							
C-3. RETURN ON OWNER'S INVESTMENT	%							

A. Working Capital Ratios

You would use working capital ratios in order to determine whether or not your working capital is sufficient.

i) **CURRENT RATIO** is the ratio between total Current Assets (including inventory) and total Current Liabilities. You can take the amounts directly from the Balance Sheet and calculate as follows:

$$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}} \quad X \quad 100$$

A Current Ratio of 150% is usually considered satisfactory though this naturally varies by industry. A trend toward a lower ratio can serve to warn you that you may begin to have problems paying your current bills.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$37{,}300}{\$20{,}400} \quad X \quad 100 \quad = \quad 183\%$$

ii) **QUICK RATIO** is the ratio between Current Assets excluding inventory and Total Current Liabilities. Again, you would take the amounts from the Balance Sheet and calculate as follows:

$$\frac{\text{Current Assets excluding Inventory}}{\text{Total Current Liabilities}} \quad X \quad 100$$

The Quick Ratio focuses on immediate liquidity. If this ratio falls much below 100% you could have liquidity problems within weeks. The example below signals a problem for the Real Retailing Company. Notice that the Current Ratio by itself did not identify this problem.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$37{,}300 \quad - \quad \$27{,}000}{\$20{,}400} \quad X \quad 100 \quad = \quad 50\%$$

B. Productivity Ratios

In order to evaluate the productivity of your retail business, you need to analyze trends in three key areas: Inventory Turnover; Collection Period; and Operating Expense. A downward trend in any one of these areas could adversely affect the overall productivity of your business.

i) **INVENTORY TURNOVER** is the number of times inventory is turned over or replaced in a year. Taking the information from your Income Statement, you would calculate as follows:

$$\text{Annual Cost of Goods Sold} \div \text{Average Inventory}$$

OR

$$\text{Monthly Cost of Goods Sold X 12} \div \frac{\text{Starting Inv + Ending Inv}}{2}$$

Turnover naturally varies widely from industry to industry. The trend, however, is the key element in assessing productivity in your business. A high or increasing inventory turnover is commonly considered favourable. But you may have to read between the numbers. An inventory rate that is too high may mean that you are keeping inventory too low. Poor assortments may be a result. In most cases, you would not need a ratio to alert you when this is happening, so try for improving rates of turnover.

EXAMPLE: REAL RETAILING COMPANY

$$\$6{,}500 \times 12 \div \frac{\$26{,}000 + \$27{,}000}{2} = 2.9$$

ii) **COLLECTION PERIOD** is the average term of credit extended in total days. If this is 30, for example, the average time it takes you to collect an account receivable is 30 days. You would find the Accounts Receivable on your Balance Sheet and your Net Sales figure from your current month's Income Statement and calculate as follows:

$$\frac{\text{Accounts Receivable}}{\text{Net Sales X 12}} \times \text{365 Days}$$

A period of less than 30 days is realistic and preferable for most industries. If discounts are offered for prompt payment, you would expect the average collection period to be shorter, since most customers would pay quickly in order to receive the discount. Of course, the older an account receivable becomes, the greater the likelihood that it might not be collected in full.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$8{,}200}{\$10{,}000 \text{ X } 12} \quad \text{X} \quad 365 \quad = \quad 25 \text{ days}$$

iii) **OPERATING EXPENSE** as a percentage of Sales is the relationship of operating cost to revenue. You would find figures for your Operating Expenses and Net Sales on your Income Statement for the current month and calculate as follows:

$$\frac{\text{Operating Expense}}{\text{Net Sales}} \quad \text{X} \quad 100$$

Watch this ratio carefully. Even in a good year, if you lose control over expenses, your profit can be eliminated. If a bad trend begins to develop, calculate the same ratio for each operating expense and indentify the specific problem.

Remember, the Operating Expense Ratio must remain lower than the Gross Margin Ratio in order to make a profit.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$3{,}317}{\$10{,}000} \quad \text{x} \quad 100 \quad = \quad 33.2\%$$

C. Profitability Ratios

In order to determine whether or not your business is sufficiently profitable, you need to analyze your Gross Margin, Net Profit and Return on Owner's Investment.

i) **GROSS MARGIN** as a percentage of Sales is the Gross Profit on sales expressed as a percentage of Net Sales. Taking the figures for the Gross Margin and Net Sales from your Income Statement for the current month, you would calculate as follows:

$$\frac{\text{Gross Margin}}{\text{Net Sales}} \quad \text{X} \quad 100$$

This ratio may tell you a great deal. If it is high or increasing, it may indicate that you are purchasing at low prices, selling at high prices, or both. A low or decreasing gross margin ratio, on the other hand, may indicate that you are taking an inadequate markup or paying too much for the merchandise or raw material. Or this ratio might also indicate your retailing policy, such as selling at low prices to achieve larger sales volumes. Such a policy must result in large sales volumes and be accompanied by low operating costs in order for your business to be profitable.

If you are using the shorthand method to determine inventory values at cost rather than taking actual counts, you cannot monitor this ratio month by month. Recall the method we outlined on the worksheet in Figure 11. To work out the inventory value, you are really assuming your gross margin. That is why it's wise to take an inventory count as often as you can.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$3{,}500}{\$10{,}000} \quad \text{x} \quad 100 \quad = \quad 35\%$$

ii) **NET PROFIT** as a percentage of Sales expresses the portion of profit in every sales dollar. You would take figures for the Net Profit and Net Sales from your Income Statement for the current month and calculate as follows:

$$\frac{\text{Net Profit (after taxes, if applicable)}}{\text{Net Sales}} \times 100$$

Changes in Gross Margin and Operating Expenses directly influence your Net Profit. So if the ratio is low or starts dropping, you should refer to these ratios to find the problem.

The Net Profit Ratio will only be useful to you if the salary you take out of the business represents a fair salary or management fee. Otherwise, you would have to adjust your Net Profit figure before calculating this ratio.

EXAMPLE: REAL RETAILING COMPANY

$$\frac{\$270}{\$10{,}000} \times 100 = 2.7\%$$

iii) **RETURN ON OWNER'S INVESTMENT** is the measure of the earning ability of the capital which you have invested in the business. You should use the amount of the Net Profit from your annual Income Statement, and Total Owner's Equity from Balance Sheets prepared at the beginning and end of the year and calculate this ratio as follows:

$$\frac{\text{Annual Net Profit (after taxes, if applicable)}}{\text{Average Total Owner's Equity}} \times 100$$

EXAMPLE: REAL RETAILING COMPANY

Since annual data is not available, we will have to illustrate this ratio using the data for the current month only. Net Profit after Tax was $270 and Total Owner's Equity was $26,900 at the end of the month and $26,630 (i.e. $26,900 - $270) at the beginning of the month. Thus, Average Total Owner's Equity was $26,765. Therefore, Return on Owner's Investment was

$$\frac{\$270}{\$26{,}765} \times 100 = 1.0\%$$

Bear in mind that the result, in this example, is for a <u>month</u> rather than a year. If this same rate is earned throughout the year, the annual return on owner's investment would be 12.1% (but this is a <u>very</u> questionable assumption.).

Although there is nothing wrong with reviewing the Return on Owner's Investment Ratio monthly, it makes more sense to review it at the end of the year since the return on most other forms of investment are calculated on an annual basis. Essentially, this ratio provides you with the rate of return on your investment in the business, so one of the first things you would do is compare this percentage to the yield on other forms of investments. If you were to invest the same amount of money in a savings certificate, for example, would the accrued interest be higher or lower than the return on your business investment which you have calculated using this ratio? If you know the exact rate of return on your business investment, you will be in a good position to make plans for the future in relation to the feasibility of considering other forms of investment. At the same time, the Return on Owner's Investment Ratio could help you to focus on possible ways of increasing the yield on your present investment.

COMPARATIVE FINANCIAL DATA FOR THE RETAIL TRADE

Comparing the ratios for your business with the ratios of other businesses in the retail trade is a useful exercise to assess how your business is faring, but note that it can serve only as a general guide. The ratios are based on broad group averages which include a great variety and range of individual businesses. As well, the data in Table 3 is prepared from national statistics, and therefore does not necessarily reflect the ratio norms for specific regions of Canada.

EXAMPLE: REAL RETAILING COMPANY

The Real Retailing Company is a retailer of Men's Clothing

		Real Retailing Company	Industry Ratios from Table 3 Comparative Financial Data
A. WORKING CAPITAL RATIOS			
A-1	Current Ratio	183%	168%
A-2	Quick Ratio	50%	N/A
B. PRODUCTIVITY RATIOS			
B-1	Inventory Turnover	2.9 times	3.8 times
B-2	Collection Period	25 days	26 days
B-3	Operating Expense (as % of sales)	33.2%	NA
C. PROFITABILITY RATIOS			
C-1	Gross Margin (as % of sales)	35%	33%
C-2	Net Profit (as % of sales)	2.7%	3.4%
C-3	Return on Owner's Investment	12.1%	12.4%

TABLE 3 - COMPARATIVE FINANCIAL DATA

LINE OF BUSINESS (and number of concerns reporting)		Cost of Goods Sold	Gross Margin	Current Assets to Current Debt	Profits on Sales	Profits on Tangible Net Worth	Sales to Tangible Net Worth	Collection Period	Sales to Inventory	Fixed Assets to Tangible Net Worth	Current Debt to Tangible Net Worth	Total Debt to Tangible Net Worth
		Per Cent	Per Cent	Times	Per Cent	Per Cent	Times	Days	Times	Per Cent	Per Cent	Per Cent
RETAIL TRADE	(43,786)	73.3	26.7	1.38	3.62	28.83	7.54	15	7.0	48.9	128.7	178.0
Auto Acc. & Parts	(1,719)	71.4	28.6	1.39	2.71	21.69	8.01	18	4.7	54.1	189.9	270.7
Book & Stat. Stores	(539)	55.8	44.2	1.90	3.37	14.20	4.22	90	5.0	36.6	112.5	166.6
Clothing, Men's	(1,431)	67.0	33.0	1.66	3.40	12.37	3.63	28	3.8	20.6	89.6	119.6
Clothing, Women's	(1,872)	60.5	39.5	1.82	4.09	20.92	5.11	20	6.1	41.4	92.8	148.6
Dept. Stores	(156)	65.1	34.9	1.44	1.52	7.87	5.17	18	6.0	39.7	98.8	147.3
Drug Stores	(2,471)	68.4	31.9	1.50	2.43	15.28	6.30	9	4.7	33.7	127.0	167.6
Dry Goods	(1,603)	66.2	33.8	1.58	2.78	12.83	4.66	17	4.5	29.8	98.5	132.3
Elec. Appliances	(242)	56.8	43.2	1.69	2.83	21.57	7.83	55	5.6	23.5	149.0	236.3
Florists	(545)	50.5	49.5	1.14	4.21	23.57	5.59	31	15.4	70.1	112.7	161.2
Food Stores	(4,482)	82.1	17.9	1.12	1.25	12.89	10.28	5	18.1	60.0	88.5	137.8
Fuel Dealers	(685)	77.3	22.7	1.11	1.22	5.85	4.80	48	22.9	62.7	98.9	138.6
Furniture	(4,079)	69.0	31.0	1.52	2.73	15.73	5.77	39	4.9	38.8	143.8	187.0
Gas Service Stns.	(3,888)	75.1	24.9	0.97	2.12	23.39	11.01	18	14.6	103.9	188.3	298.6
General Mdse.	(1,766)	80.9	19.1	1.67	3.31	19.34	5.86	20	6.6	53.7	87.1	141.5
Hardware	(1,576)	67.9	32.1	1.81	3.50	16.45	4.70	28	4.3	27.3	81.8	129.4
Jewelry Stores	(904)	52.9	47.1	1.63	6.60	20.10	3.04	34	2.8	28.1	87.3	113.7
Motor Veh. Dealers	(4,449)	81.8	18.2	1.14	1.21	19.45	15.18	12	8.7	78.5	279.8	349.1
Motor Veh. Repairs	(2,350)	63.0	37.0	1.18	3.86	24.24	6.24	34	12.9	64.7	121.8	165.8
Shoe Stores	(677)	58.2	41.8	1.72	2.77	12.02	4.36	14	4.2	28.3	98.4	130.1
Tobacconists	(131)	81.3	18.7	0.83	0.46	5.21	11.39	4	8.8	58.3	242.7	521.9
Variety Stores	(542)	59.7	40.3	2.02	2.85	11.69	4.11	15	4.9	48.4	58.8	86.3

Appendix
BLANK FORMS

One Book Accounting System

				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
	DATE	REMARKS	CHEQUE	CASH			BANK			ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE			OTHER ASSETS	OTHER LIABILITIES	OWNER'S INVESTMENT	OTHER INCOME	GROSS SALES	SALES RETURNS	PURCHASES & FREIGHT	EXPENSES	
				RECEIVED	PAID OUT	BALANCE	DEPOSITS	WITH-DRAWALS	BALANCE	RECEIV-ABLE	COLLECT-ED	BALANCE	PAID	PAYABLE	BALANCE									
				IN	OUT		IN	OUT		IN	OUT		IN	OUT		IN(OUT)	IN(OUT)	IN(OUT)	OUT	OUT	IN	IN	IN	
1																								1
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Expense Distribution

				21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
	DATE	REMARKS	CHEQUE NO.	OWNER'S DRAWINGS	PAYROLL				RENT	PROPERTY & BUSINESS TAX	REPAIR & MAINTENANCE	ADVERTISING	AUTOMOBILE	DELIVERY	DUES & LICENSES	INSURANCE	INTEREST	LEGAL & AUDIT	SUPPLIES	TELEPHONE	TRAVEL	UTILITIES	OTHER	
					NET PAY	INCOME TAX	INSURANCE	PENSION																
1																								1
2																								2
3																								3
4																								4
5																								5
6																								6
7																								7
8																								8
9																								9
10																								10
11																								11
12																								12
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28																								28
29																								
30																								30
31																								31
32																								32
33																								33
34																								34
35																								35
36																								36

Daily Entry Sheet

DAILY ENTRY SHEET

DATE: ____________ DAY: ____________

	Opening Cash - Balance			+
	Plus: Cash - Received			
	Cash Sales			
17	Gross Sales	+		
18	Less: Sales Returns	-		
7	Less: Accounts Receivable-Receivable	-		
	Equals: Cash Sales	=	+	
11	Sales Tax		+	
8	Accounts Receivable - Collected		+	
5	Bank - Withdrawals		+	
16	Other Income		+	
1	Cash Received		=	+
	Less: Cash - Paid Out			
19	Purchases & Freight		+	
20	Expenses		+	
10	Accounts Payable - Paid		+	
4	Bank Deposits		+	
2	Cash - Paid Out		=	-
	Equals: Closing Cash - Balance			=
	Less: Actual Cash Balance			-
2 1 20 (20)	Equals: Cash Balance Short (Over)			=

Accounts Receivable Ledger Card

ACCOUNT NUMBER ____________ BILLING DATE ________ ACCOUNT LIMIT ________

ACCOUNT CLASS ________

COMPANY NAME ____________ PHONE ____________

ADDRESS ____________ ACCOUNT PAYABLE CONTACT ____________

CITY ____________ ____________

RESTRICTIONS 1. ____________

2. ____________

SPECIAL CIRCUMSTANCES ____________

____

DATE	PAYMENT $	PURCHASE $	INVOICE NO.	QUANTITY	DESCRIPTION	BALANCE

Accounts Payable Ledger Card

NAME ______________________________ ACCT. NO. ____________

ADDRESS ______________________________ SHEET NO. ____________

DATE	DETAILS	REF.	DISCOUNT	DEBIT	CREDIT	BALANCE

Payroll Sheet

PAY PERIOD FROM ______________________ TO ______________________

EMPLOYEE NAME	GROSS WAGES	EMPLOYEES' DEDUCTIONS							NET WAGES

Individual Employee Record

NAME ______________________________ ADDRESS ______________________________

DATE			GROSS WAGES	EMPLOYEE'S DEDUCTIONS															NET WAGES	
Mo.	Day	Time Period																		

Inventory Running Tally

			1	2	3
			COST	RETAIL	%
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Markdowns				

Monthly Inventory Value

Year -

		$	%
JANUARY 1ST	INVENTORY AT COST		
PLUS JAN.	PURCHASES AT COST		
LESS JAN.	NET SALES AT COST		
FEBRUARY 1ST	INVENTORY AT COST		
PLUS FEB.	PURCHASES AT COST		
LESS FEB.	NET SALES AT COST		
MARCH 1ST	INVENTORY AT COST		
PLUS MAR.	PURCHASES AT COST		
LESS MAR.	NET SALES AT COST		
APRIL 1ST.	NVENTORY AT COST		
PLUS APR.	PURCHASES AT COST		
LESS APR.	NET SALES AT COST		
MAY 1ST	INVENTORY AT COST		
PLUS MAY	PURCHASES AT COST		
LESS MAY	NET SALES AT COST		
JUNE 1ST	INVENTORY AT COST		
PLUS JUNE	PURCHASES AT COST		
LESS JUNE	NET SALES AT COST		
JULY 1ST	INVENTORY AT COST		
PLUS JULY	PURCHASES AT COST		
LESS JULY	NET SALES AT COST		
AUGUST 1ST.	INVENTORY AT COST		
PLUS AUG.	PURCHASES AT COST		
LESS AUG.	NET SALES AT COST		
SEPTEMBER 1ST	INVENTORY AT COST		
PLUS SEPT.	PURCHASES AT COST		
LESS SEPT.	NET SALES AT COST		
OCTOBER 1ST	INVENTORY AT COST		
PLUS OCT.	PURCHASES AT COST		
LESS OCT.	NET SALES AT COST		
NOVEMBER 1ST	INVENTORY AT COST		
PLUS NOV.	PURCHASES AT COST		
LESS NOV.	NET SALES AT COST		
DECEMBER 1ST.	INVENTORY AT COST		
PLUS APR.	PURCHASES AT COST		
LESS APR.	NET SALES AT COST		
JANUARY 1ST	INVENTORY AT COSTT		

Receiving Journal

RECEIVING JOURNAL				
DATE	PARTICULARS	LANDED COST	RETAIL	MARKUP %
	TOTAL			

Markdown Register

MARKDOWN REGISTER

DATE	PARTICULARS	OLD PRICE	NEW PRICE	DIFFERENCE	QUANTITY	EXTENSION	REASON

Income Statement (Conventional)

INCOME STATEMENT
MONTH ENDEND ________ , 19 ____ .

COL. #		CURRENT MONTH			YEAR TO DATE
17	Gross Sales			+	
18	Less: Sales Returns			-	
	Equals: Net Sales			=	
	Less: Cost of Goods Sold				
	Beginning Inventory	+			
19	Plus: Purchases & Freight	+			
	Equals: Goods Available for Sale	=			
	Less: Ending Inventory	-			
	Equals: Cost Of Goods Sold	=		-	
	Equals: Gross Margin			=	
	Less: Expenses				
	Salaries and Wages				
21	Owner's Drawings		+		
22	Payroll - Net Pay		+		
23	Payroll - Income Tax		+		
24	Payroll - Insurance		+		
25	Payroll - Pension		+		
	Occupancy				
26	Rent		+		
27	Property and Business Tax		+		
28	Repair and Maintenance		+		
	General Expense				
29	Advertising		+		
30	Automobile		+		
31	Delivery		+		
32	Dues and Licenses		+		
33	Insurance		+		
34	Interest		+		
35	Legal and Audit		+		
36	Supplies		+		
37	Telephone		+		
38	Travel		+		
39	Utilities		+		
40	Other		+		
*	Depreciation		+		
	** TOTAL EXPENSES		=	-	
	EQUALS: Net Income from Operations			=	
16	Plus: Other Income			+	
	Equals: Net Income Before Taxes			=	
	Less: Income Taxes			-	
	Equals: Net Income			=	

Notes:
* Depreciation is not taken from the One-Book spreadsheet, but is an adjustment discussed in this section.
** This total should equal the expenses figure from Column 20 + the depreciation figure.

(Retail Inventory Method)

INCOME STATEMENT
MONTH ENDEND ________, 19____

COL. #		CURRENT MONTH		YEAR TO DATE
17	Gross Sales		+	
18	Less: Sales Returns		-	
	Equals: Net Sales		=	
	Less: Cost of Goods Sold			
	Cost of Good Sold (at initial markup)	+		
	Plus: Cost of markdowns	+		
	Plus: Cost of shrinkage	+		
	Equals: Cost Of Goods Sold	=	-	
	Equals: Gross Margin		=	
	Less: Expenses			
	Salaries and Wages			
21	Owner's Drawings	+		
22	Payroll - Net Pay	+		
23	Payroll - Income Tax	+		
24	Payroll - Insurance	+		
25	Payroll - Pension	+		
	Occupancy			
26	Rent	+		
27	Property and Business Tax	+		
28	Repair and Maintenance	+		
	General Expense			
29	Advertising	+		
30	Automobile	+		
31	Delivery	+		
32	Dues and Licenses	+		
33	Insurance	+		
34	Interest	+		
35	Legal and Audit	+		
36	Supplies	+		
37	Telephone	+		
38	Travel	+		
39	Utilities	+		
40	Other	+		
•	Depreciation	+		
•	TOTAL EXPENSES	=	−	
	EQUALS: Net Income from Operations		=	
16	Plus: Other Income		+	
	Equals: Net Income Before Taxes		=	
	Less: Income Taxes		-	
	Equals: Net Income		=	

Notes:
1. Amounts will not agree to One Book entries (which relate to Real Retailing Company).
2. Completed for the section of the Income Statement that is treated differently because of the use of the Retail Inventory Method.

Balance Sheet

BALANCE SHEET
AS OF ________________

ASSETS		
CURRENT ASSETS		
CASH	+	
BANK	+	
ACCOUNTS RECEIVABLE	+	
INVENTORY	+	
TOTAL CURRENT ASSETS	=	+
FIXED ASSETS		
LAND	+	
BUILDING (NET OF ACCUMULATED DEPRECIATION	+	
EQUIPMENT (NET OF ACCUMULATED DEPRECIATION)	+	
TOTAL FIXED ASSETS	=	+
TOTAL ASSETS		=
LIABILITIES AND OWNER'S EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	+	
OTHER	+	
TOTAL CURRENT LIABILITIES		
LONG TERM LIABILITIES	+	
TOTAL LIABILITIES	=	+
OWNER'S EQUITY		
OWNER'S CAPITAL	+	
RETAINED EARNINGS - AT BEGINNING OF PERIOD	+	
ADD: PRESENT PERIOD NET INCOME	+	
TOTAL OWNER'S EQUITY	=	+
TOTAL LIABILITIES AND OWNER'S EQUITY		=

Analysis Form for Key Business Ratios

	MONTH YEAR							
A. WORKING CAPITAL RATIOS								
A-1. CURRENT RATIO	No.							
A-2. QUICK RATIO	No.							
B. PRODUCTIVITY RATIOS								
B-1. INVENTORY TURNOVER	No. of Times							
B-2. COLLECTION PERIOD	Days							
B-3. OPERATING EXPENSES as a % of Sales	%							
C. PROFITABILITY RATIOS								
C-1. GROSS PROFIT as a % of Sales	%							
C-2. NET PROFIT as a % of Sales	%							
C-3. RETURN ON OWNER 'S INVESTMENT	%							