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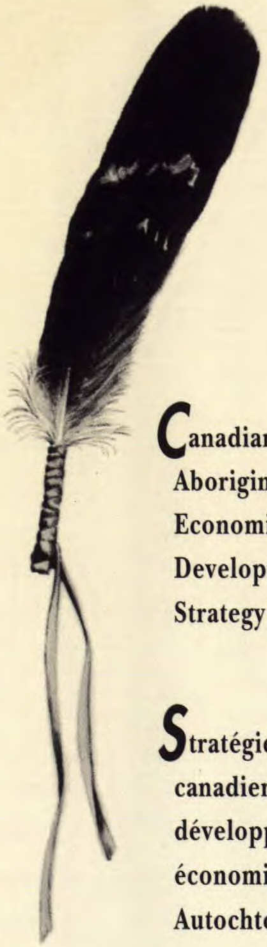
THE ONE-BOOK ACCOUNTING SYSTEM

A Guide For Small Wholesalers



Canadian Aboriginal Economic Development Strategy

Stratégie canadienne de développement économique des Autochtones

Canada

THE ONE-BOOK ACCOUNTING SYSTEM

A Guide For Small Wholesalers

THE ONE BOOK ACCOUNTING SYSTEM: A GUIDE FOR SMALL WHOLESALERS

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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 wholesale 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

Examine Figure 1 on page 7. This example details the format for the One Book Accounting System for Wholesalers. 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 subsequent headings which include the "*bank*" account, accounts receivable, accounts payable.

All the other items you would need to record are included here, except 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 Figure 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 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 to use without restrictions. Cash includes currency 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 which has 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 are not intended for resale. In this column you would record the present dollar value of your fixed assets.

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 investment plus retained earnings represent the owner equity in the company.

OTHER INCOME (Column 16) arises from events and transactions significantly different from the customary business activities of the company. Generally, other income will include revenues such as 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) includes all discounts or allowances to customers on the sale of merchandise, as well as returns of merchandise sold. Sales Returns subtracted Gross Sales (Column 17) equals Net Sales.

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

EXPENSES (Column 20) are the costs of running a business. Some typical expenses are salaries, utilities, advertising, supplies, and interest. Note that the cost of goods acquired for resale should be treated as Purchases (Column 19) rather than Expenses.

EXAMPLE: GENERAL DISTRIBUTORS

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 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	
1	Mar. 1	Balance Forward				500.00			12,400.00			41,150.00			77,150.0									1
2	Mar. 1	Daily Entry		1,750.00	1,750.00	500.00	1,600.00		14,000.00	700.00	875.00	40,975.00		75.00	77,225.00				50.00	1,500.00	50.00	125.00	25.00	2
3	Mar. 1	Cash Short			5.00	495.00														1,925.00			5.00	3
4	Mar. 2	Daily Entry		1,800.00	1,795.00	500.00			15,445.00	800.00	575.00	41,200.00		100.00	77,325.00								350.00	4
5	Mar. 2	Charge off bad debt					1,445.00				325.00	40,875.00											325.00	5
6	Mar. 2	P.A.Y. Rent Co	3					300.00	15,145.00														300.00	6
7	Mar. 2	C.A. Green	4					1,535.00	13,610.00														1,535.00	7
8	Marc. 2	Minister of Finance	5					450.00	13,160.00														450.00	8
9		etc.																						9
10		etc.																						10
11		etc.																						11
12																								12
13																								13
14																								14
15																								15
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28																								28
29																								
30																								30
31																								31
32																								32
33																								33
34																								34
35	Mar. 31	TOTAL MONTHLY		51,335.00	51,335.00	500.00	51,335.00	53,735.00	10,000.00	3,250.00	3,400.00	41,000.00	6,900.00	6,250.00	77,000.00	0	0	0	1,185.00	51,000.000	1,000.00	37,500.00	16,005.00	35
36	Mar. 31	YEAR -TO-DATE		137,950.00	137,950.00	500.00	162,950.00	163,375.00	10,000.00	3,250.00	10,000.00	41,000.00	19,000.00	19,500.00	77,000.00	0	25,000.00	0	3,450.00	139,000.00	4,000.00	118,750.00	45,125.00	36

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 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: GENERAL DISTRIBUTORS

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	REMARKS	CHEQUE	OWNER'S DRAWINGS	PAYROLL				RENT	PROPERTY & BUSINESS TAX	REPAIR & MAINTEN-ANCE	ADVERTISING	AUTO-MOBILE	DELIVERY	DUES & LICENSES	INSURANCE	INTEREST	LEGAL & AUDIT	SUPPLIES	TELEPHONE	TRAVEL	UTILITIES	OTHER	
					NET PAY	INCOME TAX	INSURANCE	PENSION																
1	Mar. 1	Transfer Co.												25.00										1
2	Mar. 1	Cash short																					5.00	2
3	Mar. 2	Supplies Expense																	350.00					3
4	Mar. 2	Charge off bad debt																					325.00	4
5	Mar. 2	P.A.Y. Rent Co.	3						300.00															5
6	Mar. 2	C.A. Green	4		1,535.00																			6
7	Mar. 2	Minister of Finance				390.00	25.00	35.00																7
8		etc.																						8
9		etc.																						9
10		etc.																						10
11		etc.																						11
12																								12
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33																								33
34																								34
35	Mar. 31	TOTAL MONTHLY		5,000.00	3,070.00	785.00	55.00	65.00	1,950.00	280.00	20.00	1,200.00	1,000.00	600.00	200.00	350.00	100.00	250.00	500.00	200.00	75.00	150.00	185.00	35
36	Mar. 31	YEAR-TO-DATE		15,000.00	9,210.00	2,335.00	165.00	195.00	5,850.00	840.00	50.00	1,500.00	2,750.00	1,625.00	600.00	1,150.00	300.00	250.00	1,560.00	400.00	200.00	475.00	750.00	36

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 wholesale business and tells you how to record it. If you follow the Rule Table closely, you should not 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*". Follow the examples in Figure 3, "*In/Out*" Example Entries.

Table 1 IN/OUT RULE TABLE

	TYPE OF TRANSACTION	IN COLUMN TITLE	COL. #	OUT COLUMN TITLE	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 expenses distribution

A/R Account Receivable
A/P Accounts Payable

EXAMPLE: GENERAL DISTRIBUTORS

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		750.00																750.00				A
B		Credit sales								700.00										700.00				B
C		Sundry cash sales		125.00															125.00					C
D		Sundry credit sales								25.00									25.00					D
E		Sales tax collected		75.00										75.00										E
F		Returned sales for cash			50.00																50.00			F
G		Returned sales for credit									40.00										40.00			G
H		Allowance on credit sales									60.00										60.00			H
I		Discount given									70.00										70.00			I
J		Bank withdrawals		1,500.00				1,500.00																J
K		Received on account		875.00							875.00													K
L		Charge off bad debt									325.00												325.00	L
M		Fixed asset purchase by cash			25.00											25.00								M
N		A.B. Equipment Co.						1,600.00								1,600.00								N
O		Fixed asset purchase by charge												1,350.00		1,350.00								O
P		Inventory purchase by cash			100.00																	100.00		P
Q		C.D. Supply Co.						10,500.00														10,500.00		Q
R		Inventory purchase by charge												2,500.00								2,500.00		R
S		Supplies expense			35.00																		35.00	S
T		P.A.Y. Rent Co.						300.00															300.00	T
U		Supplies expenses												75.00									75.00	U
V		Returned purchase for cash		125.00																		(125.00)		V
W		Returned purchase for credit											350.00									(350.00)		W
X		C.D. Supply Co.						175.00					175.00											X
Y		Minister of Finance						275.00					275.00											Y
Z		Cash balance short			10.00																		10.00	Z
AA		Bank deposit			2,125.00		2,125.00																	AA
BB		Customer cheque returned (NSF)						475.00		475.00														BB
CC		Bank Loan					50,000.00										50,000.00							CC
DD		Loan Co.						25,000.00									(25,000.00)							DD
EE		Loan Co.						3,500.00															3,500.00	EE
FF		Increase capitalization					5,000.00											5,000.00						FF

Example 1 Take the first transaction, A, a straight-forward cash sale of $750. 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).

Example 2 Now look at the second transaction, B, a credit sale of $700. In this case General Distributors enters the "*In*" amount to Accounts Receivable - Receivable (Column 7) instead of Cash - Received (Column 1) as in the previous example. However, the company enters the "*Out*" amount to Gross Sales (Column 17), as in Example 1. 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 this symbol indicates you should also post the $700 amount to a sub-ledger for Accounts Receivable.

Example 3 Skip down the far left column in Figure 3 to transaction T, which the Rule Table indicates is an expense payment by cheque. A $300 cheque is made out to the P.A.Y. Rent Co. for rent. Here, you will find the $300 "*In*" entry recorded under Expenses (Column 20) and the "*Out*" entry recorded under Bank - Withdrawals (Column 5). This time the symbol (**) appears on the Rule Table and the footnote at the bottom indicates you should also enter the $300 rent expense to the Expense Distribution. (In this case, the amount would be entered to Rent (Column 26) of the Expense Distribution.)

Example 4 Finally, look at transaction V in Figure 3, recorded as merchandise returned to a supplier. General Distributors receives $125 cash for this return. It enters the "In" amount to Cash - Received (Column 1) and the "*Out*" amount to Purchase and Freight (Column 19). Notice that the $125 amount is bracketed in 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 Purchase column, so the latter applies.

Now that you have covered the special features of the In/Out 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 check it against the corresponding entry in Figure 3.

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 balance should agree to actual counts. If they do not, you have made an error and need to check your addition and subtraction.

STEP 4 SIMPLIFYING DAILY TRANSACTIONS

Obviously in a wholesaling business you will not be able to use the In/Out Rule Table to enter the vast number of business transactions resulting from over-the-counter sales or through salespeople in the field. Since you must balance the cash at the end of a 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 daily entry to the One Book covering most of your business transactions.

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

a) Enter the opening cash balance. This is likely to be the "cash float" that is kept in the cash register. In the example the amount is $500.

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

   i) Gross Sales (not including sales tax) are $1,500. From this subtract the discounts and allowances to customers ($50) and credit sales ($700) to arrive at cash sales for the day ($750).

   ii) Add the amount of Sales Tax received ($75).

   iii) Add the amount of payments on account from credit customers ($875).

   iv) Add additions to cash from other sources (e.g. bank withdrawals (nil) and other income ($50).

   v) The result is cash received ($1,750).

c) Now determine the cash paid out for the day.

i) Purchases and freight ($125). This would include merchandise for resale only.

ii) Expenses ($25). An example would be cleaning supplies for the store.

iii) Accounts payable payments (nil). These are payments made to creditors out of cash.

iv) Bank deposits ($1,600). Note that the amount of deposit is determined so that the closing cash balance equals the opening cash balance (e.g. the $500 cash float).

d) Determine the closing cash balance as follows:

Opening Cash Balance
Plus: Cash Received
Less: Cash Paid Out

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 (a).

If selling is dispensed; that is, if travelling salespeople or a number of distribution outlets are involved in selling, Daily Sales Reports for each salesperson or outlet should be set up, as illustrated in Figure 4 (b). The format is identical to the Daily Entry Sheet, and the Daily Entry Sheet is prepared by summarizing the Daily Sales Reports. This is also illustrated in Figure 4 (b).

If sales are to be recorded by division (e.g. category of merchandise or product group), a Division Sales Report is prepared. The total amount of sales will equal Gross Sales on the Daily Entry Sheet.

Make a single daily entry to the One Book. Note that column numbers on the left-hand side of the Daily Entry Sheet conform to the appropriate columns in the)*ne Book*". Each amount on the Daily Entry Sheet which has a column number opposite on the left-hand side should be entered to the corresponding column in the One Book in a single line. You can use a second line to enter the cash short as this example has done to make your records clearer.

NOTE: Except for transaction types in the In/Out Rule Table that are not covered by the Daily Entry but occur from time to time, the Single-line Daily Entry is about all the work there is to the One Book on a daily basis.

EXAMPLE: GENERAL DISTRIBUTORS

Figure 4(a) The Daily Entry Sheet

GENERAL DISTRIBUTORS

DAILY ENTRY SHEET

DATE: *March 1* **DAY:** *Monday*

	Opening Cash - Balance			+ 500 00
	Plus: Cash - Received			
	Cash Sales			
17	Gross Sales	+ 1 500 00		
18	Less: Sales Returns	- 50 00		
7	Less: Accounts Receivable - Receivable	- 700 00		
11	Equals: Cash Sales	=	+ 750 00	
	Sales Tax		+ 75 00	
8	Accounts Receivable - Collected		+ 875 00	
5	Bank - Withdrawals		+ 0	
16	Other Income		+ 50 00	
1	Cash Received		=	+ 1 750 00
	Less: Cash - Paid Out			
19	Purchases & Freight		+ 125 00	
20	Expenses		+ 25 00	
10	Accounts Payable - Paid		+ 0	
4	Bank Deposits		+ 1 600 00	
2	Cash - Paid Out		=	- 1 750 00
	Equals: Closing Cash - Balance			= 500 00
	Less: Actual Cash Balance			- 495 00
2 1 20 (20)	Equals: Cash Balance Short (Over)			= 5 00

Figure 4(b) - Daily Sales Report

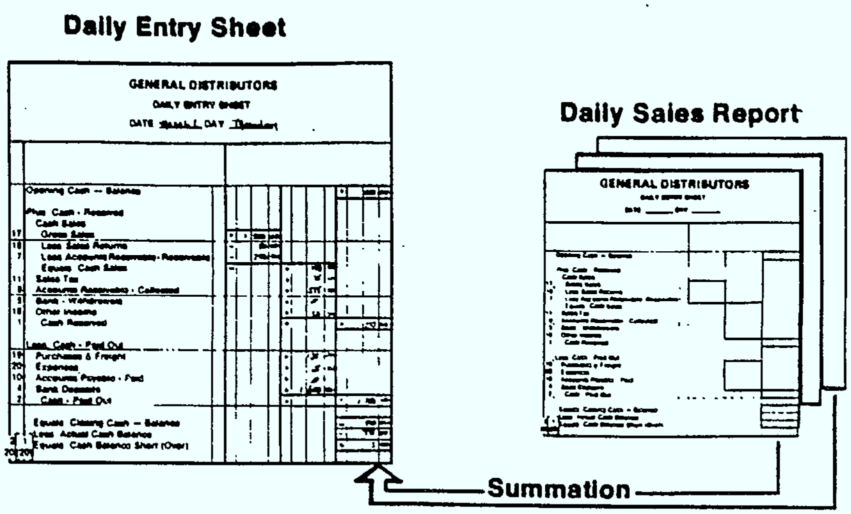

Figure 4(c) - Division Sales Report

DIVISION SALES REPORT						
DATE: *March 1* DAY: *Monday*						
Auto Parts & Accessories	**Electrical Parts & Supplies**	**Hardware**	**Building Supplies**	**Paint, Stains, etc.**	**Household Appliances**	**Other**
$ 205.00	*$ 10.00*	*$ 95.00*	*$ 450.00*	*$ 18.00*	*$ 10.00*	*$ 10.00*
10.00	*15.00*	*5.00*	*5.00*	*12.00*	*7.00*	
5.00		*75.00*	*15.00*	*42.00*	*3.00*	
45.00		*10.00*	*11.00*	*3.00*		
77.00			*9.00*			
65.00			*105.00*			
88.00			*95.00*			
$ 495.00	*$ 25.00*	*$ 185.00*	*$ 690.00*	*$ 75.00*	*$ 20.00*	*$ 10.00*
IMPORTANT NOTE: Division totals must equal Gross Sales on Daily Entry Sheet.						

STEP 5 SETTING UP YOUR BOOKS

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

If you are starting up 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 TITLE	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	NTEREST 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 expenses distribution

A/R Account 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 steps, 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 $60,000 is recorded under Other Liabilities (Column 14) and the owner contribution of $65,000 is entered under Owner 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 $125,000 appears here in Column 4.

2) The second entry, Cash on Hand, indicates a Bank Withdrawal of $500, 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 $25,000 entered in Other Assets (Column 13) is likely for a fixed asset such as a delivery truck. The second purchase for $75,000 entered in Purchases and Freight (Column 19) is for freight charges and inventory intended for resale. The owner has therefore spent $100,000 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.

In Figure 5, some rules have been combined to show you that it is the amount of the Ins and 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 identified the transaction you wish to record within the Rule Table, you simply follow the basic In/Out entry rules.

EXAMPLE: GENERAL DISTRIBUTORS

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								
				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*					*125,000.00*		*125,000.00*								*60,000.00*	*65,000.00*					
3																							
4																							
5	*Jan. 2*	*Cash on Hand*		*500.00*		*500.00*		*500.00*	*124,500.00*														
6	*Jan. 3*	*Purchase of assets*						*100,000.00*	*24,500.00*							*25,000.00*						*75,000.00*	
7																							
8																							
9																							
10																							
11																							
12																							
13																							
14																							
15		*Existing Business*																					
16	*Dec. 31*	*Balance forward*				*500.00*			*10,425.00*			*40,500.00*			*76,500.00*								
17																							
18																							
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36																							

Now if you own an existing wholesaling 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 are outlined below.)

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

d) total the Accounts Payable. (This may also 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 bank 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:

Balance as per bank statement		$_______
Less:	Outstanding cheques	$_______
Plus:	Outstanding deposits	$_______
Equals:	Balance as per One Book	$_______

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.

EXAMPLE: GENERAL DISTRIBUTORS

Figure 6 - Accounts Receivable Ledger Card

ACCOUNT NUMBER: M-1093 BILLING DATE 8 ACCOUNT LIMIT: $2,000.00

COMPANY NAME: Dumont's Garage PHONE: 668-0244 ACCOUNT CLASS : B

ADDRESS: Sampson Street ACCOUNT PAYABLE CONTACT:

CITY : Anytown Mrs. Paulette Jackson (Ext. 14)

RESTRICTIONS If order above a count limit check with Mr. Heaton

SPECIAL CIRCUMSTANCES Do not deliver Wed. PM or Saturday

DATE	PAYMENT $	PURCHASE $	INVOICE NO.	QUANTITY	DESCRIPTION	BALANCE
1-4-90		420.00	08271	300	Transmission Parts	420.00
14-4-90	420.00					-
5-6-90		614.00	08419	2000	Transmission Parts	614.00
5-6-90		210.00	08420	150	Transmission Parts	824.00
17-6-90	824.00					-

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.

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 WHOLESALE INVENTORY METHOD

If you are a larger wholesaler, the Wholesale Inventory Method (W.I.M) will enable you to monitor your Gross Margin (Sales less Cost of Sales) and determine the effects of pricing, discounts and allowances, and shrinkage. While this method is not as accurate as the Retail Inventory Method described in the One Book Accounting System for Retailers, it will help you to better determine the profitability of your wholesale business. There are three steps to the implementation of the Wholesale 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 the supplier
* a return of merchandise to a supplier after it has been received and recorded
* a credit note received from the supplier
* any additional markup 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 is lower than it should be, you can make a decision to reprice the merchandise right on the spot. And if you do not feel you can, you know that you will have to make it up somewhere or your profits will be impaired.

B. Set up an Inventory Running Tally as in Figure 9b to keep a running value of inventory at both cost and retail. In Figure 9b you will notice that the inventory on January 1st is recorded at a retail value of $312,500 and a cost value of $200,000. 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 is a bother, but it is also the last time you will ever have to take inventory at cost again.

C. Prepare an Income Statement. This is treated in Part B, along with the general discussion on the preparation of the Financial Statements.

Figure 9 (a) - Receiving Journal

	RECEIVING JOURNAL				
	DATE	**PARTICULARS**	**LANDED COST**	**RETAIL**	**MARKUP %**
(1)	*Mar. 1*	*A.B.C. Supplies Ltd. Inv. 4781*	*$ 4,710.00*	*$7,610.00*	*38.1%*
(2)	*Mar. 1*	*Return merchandise to ABC Box Co.*	*(1,400.00)*	*(1,950.00)*	-
(3)	*Mar. 2*	*Credit note received from Noyco*	*(100.00)*	-	-
(4)	*Mar. 2*	*Markup 10 pants $25 each*		*250.00*	-
		EXAMPLES			
	March	TOTAL	*$97,500.00*	*$150,000.00*	*35.0%*

Example (1) - RECEIPT OF MERCHANDISE - A shipment of merchandise from A.B.C. Supplies Ltd. is received at a total cost of $4,710.00. This amount includes all freight, import duties, and foregin exchange payments that may have been added. The retail value of $7,610.00 represents the sum of all the prices that you have attached to the goods. The 38.1% markup is calculated as follows:

$$\frac{\text{Retail Value - Landed Cost Value}}{\text{Retail Value}} \times 100 = \frac{\$7{,}610 - \$4{,}710}{\$7{,}610} \times 100 = 38.1\%$$

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 $1,400.00 and priced at a retail value of $1,950.00 is returned to ABC Box Co. because it is damaged. 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 $100.00. 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 pants are marked up an additional $25.00 after they have been priced initially. The amount is added to "*retail*" because it raises the retail value of your inventory.

Figure 9b - Inventory Running Tally

			1	2	3	
			COST	RETAIL	%	
Jan. 1	INVENTORY	=	*200,000.00*	*312,500.00*		
	PLUS: Purchase & Freight	+	*88,000.00*	*137,500.00*		
	EQUALS: Goods Available for Sale	=	*288,000.00*	*450,000.00*		
	LESS: Sales	-	*48,000.00*	*75,000.00*	64	
	LESS: Discounts, Allowances & Shrinkages	-	*750.00*	*1,175.00*		
Feb. 1	INVENTORY	=	*239,250.00*	*373,825.00*		
	PLUS: Purchase & Freight	+	*85,000.00*	*125,000.00*		
	EQUALS: Goods Available for Sale	=	*324,250.00*	*498,825.00*		
	LESS: Sales	-	*65,000.00*	*100,000.00*	65	
	LESS: Discounts, Allowances & Shrinkages	-	*2,000.00*	*3,075.00*		
Mar. 1	INVENTORY (1)	=	*257,250.00*	*395,750.00*		
	PLUS: Purchase & Freight (2)	+	*97,500.00*	*150,000.00*		
	EQUALS: Goods Available for Sale (3)	=	*354,750.00*	*545,750.00*		
	LESS: Sales (4)	-	*81,250.00*	*125,000.00*	65	
	LESS: Discounts, Allowances & Shrinkages (5)	-	*3,750.00*	*5,770.00*		
Apr. 1	INVENTORY (6)	=	*269,750.00*	*414,950.00*		
	PLUS: Purchase & Freight	+				
	EQUALS: Goods Available for Sale	=				
	LESS: Sales	-				
	LESS: Discounts, Allowances & Shrinkages	-				
May 1	INVENTORY	=				
	PLUS: Purchase & Freight	+				
	EQUALS: Goods Available for Sale	=				
	LESS: Sales	-				
	LESS: Discounts, Allowances & Shrinkages	-				
June 1	INVENTORY	=				

Figure 9b (continued)

Line 1 - is the inventory value at both cost and retail, as determined from the calculations of the previous month.

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

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

$$\frac{\$354,750}{\$545,750} \quad X \quad 100 \quad = \quad 65.0\%$$

Line 4 - is retail sales net of all merchandise returns. Sales are a reduction of the retail value of inventory for March. To find the cost value of the reduction simply multiply the retail value by the "*cost percentage*" as follows:

Sales (at cost) = $125,000 x 65.0% = $81,250

Line 5 - are discounts, allowances and shrinkage. They are reductions of the retail value of inventory for March. An accurate amount can only be determined when an actual physical inventory count is made. Since this is only done once a year, an estimate is used throughout the year and can be based on experience in the previous year . The estimate can be calculated using the following formula:

$$\%\ \text{Estimate} \quad = \quad \frac{\text{Discounts, Allowances and Shrinkage*}}{\text{Sales*}} \quad X\ 100$$

* previous year amounts.

The % estimate is then applied to the present period sales to estimate the shrinkage at retail value.

To find the cost value of the reduction, simply multiply the retail value by the "*cost percentage*" as follows:

Discounts, Allowances, & Shrinkage = $5,770 x 65.0% = $3,750

NOTE: The actual amount of Discounts, Allowances, and Shrinkage is determined with an actual physical inventory count. For example, the calculated value of inventory on April 1st is $414,950.00. If the actual count was $412,950.00, then the estimate of Discounts, Allowances, and Shrinkage since the last count would be undervalued by $2,000.

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 reducations 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 statements; the Conventional Statement and the Wholesale Inventory Method Statement. If you have decided to use the Wholesale Inventory Method you can go straight to that explanation of the income statement on page 43. Otherwise, you may proceed here with instructions on how to prepare a Conventional Income Statement.

Conventional Method

Examine the Income Statement prepared by General Distributors in Figure 10. Notice that this is a summary of business operations for the month of March and year-to-date. You subtract the 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:	Cost of Goods Sold
Equals:	Gross Margin
Less:	Total Expenses
Equals:	Net Income Before Income Taxes

Note that the information on the Income Statement comes from the One Book (Figure 1) and the Expense Distribution (Figure 2). 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 in order to complete your Income Statement.

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 in Figure 11 to calculate approximate monthly inventory values 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 Wholesale Inventory Method Approach.

Depreciation

You need to consider non-cash expenditures such as depreciation to reflect the results of all business operations. Here is a straight-forward method of 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 depreciation values
* Divide by twelve to find the monthly depreciation charge.
* Use this amount to enter the Income Statement in Figure 10.

Income Tax

Income tax is another special treatment item which 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: GENERAL DISTRIBUTORS

Figure 10 - Income Statement

	GENERAL DISTRIBUTORS INCOME STATEMENT MONTH ENDEND ***March 31*****, 1990**																
COL. #		**CURRENT MONTH**												**YEAR TO DATE**			
17	Gross Sales									+	51	000	00		139	000	00
18	Less: Sales Returns									-	1	000	00		4	000	00
	Equals: Net Sales									=	50	000	00		135	000	00
	Less: Cost of Goods Sold																
	Beginning Inventory	+	130	000	00												
19	Plus: Purchases & Freight	+	37	500	00												
	Equals: Goods Available for Sale	=	167	500	00												
	Less: Ending Inventory	-	135	000	00												
	Equals: Cost Of Goods Sold	=								-	32	500	00		87	750	00
	Equals: Gross Margin									=	17	500	00		47	250	00
	Less: Expenses																
	Salaries and Wages																
21	Owner's Drawings					+	5	000	00						15	000	00
22	Payroll - Net Pay					+	3	070	00						9	210	00
23	Payroll - Income Tax					+		785	00						2	335	00
24	Payroll - Insurance					+		55	00							165	00
25	Payroll - Pension					+		65	00							195	00
	Occupancy																00
26	Rent					+	1	950	00						5	850	00
27	Property and Business Tax					+		280	00							840	00
28	Repair and Maintenance					+		20	00							50	00
	General Expense																
29	Advertising					+	1	200	00						1	500	00
30	Automobile					+	1	000	00						2	750	00
31	Delivery					+		600	00						1	625	00
32	Dues and Licenses					+		200	00							600	00
33	Insurance					+		350	00						1	150	00
34	Interest					+		100	00							300	00
35	Legal and Audit					+		250	00							250	00
36	Supplies					+		500	00						1	580	00
37	Telephone					+		200	00							400	00
38	Travel					+		75	00							200	00
39	Utilities					+		150	00							475	00
40	Other					+		185	00							750	00
*	Depreciation					+		500	00						1	500	00
	** TOTAL EXPENSES					=				-	16	585	00		48	625	00
	EQUALS: Net Income from Operations									=		915	00			625	00
16	Plus: Other Income									+	1	185	00		3	450	00
	Equals: Net Income Before Taxes									=	2	100	00		4	075	00
	Less: Income Taxes									-		750	00		2	250	00
	Equals: Net Income									=	1	350	00		1	625	00

Figure 11 - Monthly Inventory Value

Year - 1990		$	%
JANUARY 1ST	INVENTORY AT COST	104,000.00	
PLUS JAN.	PURCHASES AT COST	39,000.00	
LESS JAN.	NET SALES AT COST	26,000.00	65%
FEBRUARY 1ST	INVENTORY AT COST	117,000.00	
PLUS FEB.	PURCHASES AT COST	42,250.00	
LESS FEB.	NET SALES AT COST	29,250.00	65%
MARCH 1ST	INVENTORY AT COST	130,000.00	
PLUS MAR.	PURCHASES AT COST	37,500.00	
LESS MAR.	NET SALES AT COST	32,500.00	65%
APRIL 1ST.	NVENTORY AT COST	135,000.00	
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 COSTT		

NOTE: The January 1st inventory value of $104,000 is the actual cost value as determined by the year-end count. To this amount add the January purchases of $39,000 (which is column 19 from the One Book for January). Then subtract January Net Sale **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 ($117,000) at cost. Simply follow the procedure each month so that you have a "*running tally*" of inventory valued at cost.

Examine the Super Wholesaling Company's Income Statement in Figure 12a. 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:	Cost of Goods Sold
Equals:	Gross Margin
Less:	Total Expenses
Equals:	Net Income Before Income Taxes

The Income Statement for a **divisionalized** wholesaling operation is illustrated in Figure 12b. It is precisely the same as the one in Figure 12a with the one exception of a format change to enable you to report net sales, cost of goods sold, and gross margin by division.

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 Expense Distribution. Most of the information you need will come from these sources.

You will need to prepare estimates for "*special treatment*" items in order to complete your Wholesale Inventory Method Income Statement.

Cost of Goods Sold

Recall the earlier discussion of the Wholesale Inventory Method (Part A - Step 7) and the procedures involved in preparing the Inventory Running Tally in Figure 9b. With the exception of discounts, allowances, and shrinkage, all other cost of goods sold information is taken directly from the tally. Before you can determine discounts, allowances, and shrinkage accurately, you must take actual physical inventory at **retail** value. Normally, you would do this at your year end. If, however, you took a physical inventory on April 1st at a retail value of say $412,950, then the discounts, allowances, and shrinkage would be the difference between that amount and the calculated inventory value of $414,950 on the Inventory Running Tally in Figure 9b.

The amount recorded*, then, in the Income Statement would be calculated as follows:

($414,950 - $412,950) x 65% = $1300

The 65% amount is introduced above to convert the retail value to a cost value, and is also taken from the Inventory Running Tally in Figure 9b.

*NOTE: If you have used an estimate for discounts, allowances, and shrinkage, then this will be the amount that the estimate is over or short.

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 of calculating the amount of depreciation expense:

* List the net book value of all your fixed assets. These assets might include buildings, machinery, trucks, equipment, 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 to enter on your Income Statement.

Income Tax

Income tax is another special treatment item which 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*" from last year, and you 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: SUPER WHOLESALING COMPANY
Figure 12a - Income Statement

SUPER WHOLESALING COMPANY
INCOME STATEMENT
MONTH ENDEND *March 31*, 19*90*

COL. #		CURRENT MONTH								YEAR TO DATE			
17	Gross Sales					+	135	000	00		350	000	00
18	Less: Sales Returns					-	10	000	00		50	00	00
	Equals: Net Sales					=	125	000	00		300	000	00
	Less: Cost of Goods Sold												
	Cost of Good Sold (at initial markup)	+	81	250	00						194	250	00
	Plus: Cost of discounts, allowances & shrinkage	+	3	750	00						6	500	00
	Equals: Cost Of Goods Sold	=				-	85	000	00		200	750	00
	Equals: Gross Margin					=	40	000	00		99	250	00
	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 General Distributors).

INCOME STATEMENT (DIVISIONAL)

MONTH ENDEND _______ , 19 ____ .

COL.		DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	DIVISION ____	CURRENT MONTH	YEAR TO DATE
17	Gross Sales												
18	Less: Sales Returns												
	Equals: Net Sales												
	Less: Cost of Goods Sold												
	Landed Cost												
	Discounts, Allowances, & Shrinkage												
	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 Expense												
20	TOTAL EXPENSES												
	EQUALS: Net Income from Operations												
19	Plus: Other Income												
	Equals: Net Income Before Taxes												
	Less: Income Taxes												
	Equals: Net Income												

Figure 12b - Income Statement (divisionalized)

Advantages of Using the Wholesale Inventory Method

If you are a larger wholesaler, many of the advantages of the Wholesale 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 WHOLESALING COMPANY

Figure 13a - Conventional Income Statement

	1990		1989	
NET SALES	$ 800,000	100.0%	$ 700,000	100.0%
COST OF GOODS SOLD				
Opening Inventory, Jan. 1	97,150		114,325	
Purchases	500,000		375,000	
Freight	7,500		4,250	
	604,650		493,575	
Closing Inventory, Dec. 31	61,450		44,875	
Cost of Goods Sold	$543,200	67.9%	$488,700	64.1%
GROSS MARGIN	$256,800	32.1%	$251,300	35.9%

Figure 13b - Wholesale Inventory Method Income Statement

	1990		1989	
NET SALES	$ 800,000	100.0%	$ 700,000	100.0%
LESS: Cost Of Goods Sold (at initial markup)	504,000	63.0%	423,500	60.5%
LESS: Cost of Discounts, Allowances & Shrinkage	39,200	4.9%	25,200	3.6%
Cost of Goods Sold	$543,200	67.9%	$448,700	64.1%
GROSS MARGIN	$256,800	32.1%	$251,300	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 Wholesale Inventory Method, you do not need to do an actual inventory count to give a reasonably reliable indication of gross margin achievement. (Though an actual inventory count is still required at year end). Table 2 compares the two approaches:

Conventional Income Statement Figure 13 (a)	**Wholesale 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** decisons and/or **theft** of inventory.	* while still impossible to determine the individual effects of **price reductions** and **theft** on gross margin, their combined impact is known.
* an actual physical inventory count is necessary to produce reliable information on gross margin.	* no actual physical inventory count is necessary to produce reasonably 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.

* retail is used throughout (rather than wholesale) as the price the wholesaler charges his customers.

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 previous Balance Sheet, adjusting it by any new additions or sales of fixed assets from Column 13 of the "*One Book*" for March, and finally by subtracting the amount of depreciation for March. For General Distributors it looks like this:

FIXED ASSETS

(Balance sheet Feb. 28, not shown)		$50,500
Plus: (Col. 13 of *One Book*)*	Fixed Asset additions	--
Less: (Col. 13 of *One Book*)*	Fixed Asset reduction	--
Less:	Depreciation for March	500
EQUALS:	Fixed Assets (March 31)	$50,000

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

EXAMPLE: GENERAL DISTRIBUTORS

Figure 14 Balance Sheet

GENERAL DISTRIBUTORS

Balance Sheet
As Of March 31, 1990

ASSETS					
CURRENT ASSETS					
Cash	+		500	00	
Bank	+	10	000	00	
Accounts Receivable	+	41	000	00	
Inventory	+	135	000	00	
Other	+				
TOTAL CURRENT ASSETS	=	186	500	00	+
FIXED ASSETS					
Land	+				
Building (net of accumulated depreciation)	+				
Equipment (net of accumulated depreciation)	+	50	000	00	
Other	+				
TOTAL FIXED ASSETS	=	50	000	00	+
TOTAL ASSETS		236	500	00	=
LIABILITIES AND OWNER'S EQUITY					
CURRENT LIABILITIES					
Accounts Payable	+	77	000	00	
Other	+	25	000	00	
TOTAL CURRENT LIABILITIES		102	000	00	
LONG TERM LIABILITIES	+				
TOTAL LIABILITIES	=	102	000	00	+
OWNER'S EQUITY					
Owner's Capital	+	125	000	00	
Retained Earnings - At Beginning of Period	+	8	150	00	
ADD: Present Period Net Income	+	1	350	00	
TOTAL OWNER'S EQUITY	=	134	500	00	+
TOTAL LIABILITIES AND OWNER'S EQUITY		236	500	00	=

You will notice that a space for land, building, 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 ADJUSTMENT 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, not shown)	$25,000
Plus: Additions to Liabilities (Col. 14 of "One Book" for March)*	--
Less: Reduction to Liabilities (Col. 14 of "One Book" for March)*	--
Equals: Total Liabilities	
Less: Accounts Payable (Balance Sheet March 31)	$25,000

***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 such items as bank loans and notes that must be repaid within a year. "Long-term" liabilities include mortgages and term loans that will be repaid over a longer period.

STEP 5 BALANCE SHEET ADJUSTMENT FOR OWNER'S EQUITY

Consider each item on the Balance Sheet in turn:

a) Owner's Capital

This term is used to indicate the amount of the initial investment made by the owner 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. For General Distributors it looks like this:

Owner's Capital (Balance Sheet Feb. 28)	$125,000
Plus: Additions (Column 15 of One Book)*	--
Less: Withdrawals (Column 15 of One Book)*	—
Equals: Owner's Capital (Balance Sheet March 31)	$125,000

*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. It is desirable to show such changes separately from the original investment.

In the case of General Distributors, the retained earnings at February 28 were $8,150.

c) Present Period Income

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

If you have followed these steps closely, you will indeed find 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 Statements 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 the performance of your business 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: GENERAL DISTRIBUTORS

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 for both Total Current Assets and Total Current Liabilities directly from the Balance Sheet as 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 towards a lower ratio can serve to warn you that you may begin having problems paying your current bills.

> **EXAMPLE: ABC MANUFACTURING COMPANY**
>
> $$\frac{\$186{,}500}{\$102{,}000} \quad X \quad 100 \quad = \quad 183\%$$

ii) **QUICK RATIO** is the ratio between Current Assets excluding inventory and Total Current Liabilities. Again, you would take the amounts from the balance sheets. But note this time, you would need to deduct inventory from your Total Current Assets to make the following calculation:

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

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 General Distributors. Notice that the Current Ratio by itself did not identify this problem.

> **EXAMPLE: GENERAL DISTRIBUTORS**
>
> $$\frac{\$186{,}500 - \$135{,}000}{\$101{,}000} \quad X \quad 100 \quad = \quad 50\%$$

B. Productivity Ratios

In order to evaluate the productivity of your wholesale 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:

Annual Cost of Goods Sold ÷ Average Inventory

OR

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

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 rate is commonly considered favourable. However, you have to read behind the numbers on this one. An inventory turnover rate that is <u>too</u> high may mean that you are keeping inventory too low. "Out of Stocks" may result. But you probably would not need a ratio to alert you when this is happening; so try for improving rates of turnover.

EXAMPLE: GENERAL DISTRIBUTORS

$$\$32{,}500 \times 12 \div \frac{\$130{,}000 + \$135{,}000}{2} = 2.9$$

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 your Accounts Receivable figure on your Balance Sheet and your Net Sales figure from your Income Statement for this month and calculate as follows:

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

*monthly

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

EXAMPLE: GENERAL DISTRIBUTORS

$$\frac{\$41{,}000}{\$50{,}000 \times 12} \times 365 = 25 \text{ days}$$

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:

$$\frac{\text{Operating Expenses}}{\text{Net Sales}} \times 100$$

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 identify the specific problem.

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

EXAMPLE: GENERAL DISTRIBUTORS

$$\frac{\$16{,}535}{\$50{,}000} \times 100 = 33.1\%$$

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 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 this ratio as follows:

$$\frac{\text{Gross Margin}}{\text{Net Sales}} \times 100$$

The Gross Margin 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 mark-up or paying too much for the inventory. Or it may be what you intend: a deliberate policy of selling at low prices to achieve larger sales volumes. To be profitable, such a policy must result in large sales volumes and be accompanied by low operating costs.

If you are using the shorthand method to determine inventory values at cost rather than taking actual counts, you can not 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. This is why it is wise to take an inventory count as often as you can.

EXAMPLE: GENERAL DISTRIBUTORS

$$\frac{\$17{,}500}{\$50{,}000} \times 100 = 35\%$$

ii) **NET PROFIT** as a percentage of Sales expresses the portion of profit in every sales dollar. You would find figures for both Net Profit (after Taxes, if applicable) and Net Sales on your Income Statement for the current month to calculate this ratio:

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

Net profit is influenced directly by changes in Gross Margin and Operating Expenses. 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, Net Profit should be adjusted before the ratio is calculated.

EXAMPLE: GENERAL DISTRIBUTORS

$$\frac{\$1{,}350}{\$50{,}000} \times 100 = 2.7\%$$

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

$$\frac{\text{Annual Net Profit after Taxes}}{\text{Average Total Owner's Equity}} \quad \text{X} \quad 100$$

Although there is nothing wrong with reviewing this ratio monthly, it makes more sense to review it at the end of the year since the returns on most other forms of investment are calculated on an annual basis. This ratio provides an all-encompassing measure of the health of your business. It tells you the rate of return on your investment in the business. Therefore, one of the first things you would do is compare this percentage to the yield on other forms of investment. 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 just calculated with 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.

EXAMPLE: GENERAL DISTRIBUTORS

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 $1,350 and Total Owner's Equity was $134,500 at the end of the month and $133,150 (i.e. $134,500 - $1,350) at the beginning of the month. Thus, Average Total Owner's Equity was $133,825. Therefore, Return on Owner's Investment was

$$\frac{1{,}350}{133{,}825} \quad \text{X} \quad 100 \quad = \quad 1.0\%$$

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).

COMPARATIVE FINANCIAL DATA FOR THE WHOLESALE INDUSTRY

Comparing the ratios for your business with the ratios of other businesses in the wholesale industry 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 reflect the ratio norms for specific regions of Canada.

EXAMPLE: GENERAL DISTRIBUTORS

General Distributors is a distributor of general merchandise.

		General Distributors	Industry Ratios from Table 3 Comparative Financial Data
A. WORKING CAPITAL RATIOS			
A-1	Current Ratio	183%	140%
A-2	Quick Ratio	50%	N/A
B. PRODUCTIVITY RATIOS			
B-1	Inventory Turnover	2.9 times	3.9 times
B-2	Collection Period	25 days	37 days
B-3	Operating Expense (as % of sales)	33.1%	N/A
C. PROFITABILITY RATIOS			
C-1	Gross Margin (as % of sales)	35%	25%
C-2	Net Profit (as % of sales)	2.7%	1.1%
C-3	Return on Owner's Investment	12.1%	5.9%

Although the Inventory Turnover rate is slower for General Distributors than the industry average, the other comparisons are very favourable.

EXAMPLE: GENERAL DISTRIBUTORS

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
WHOLESALE TRADE	(31,727)	80.9	19.1	1.29	1.97	14.57	7.40	44	6.2	37.7	196.6	242.5
App. & Dry Goods	(1,370)	81.7	18.3	1.55	2.01	12.36	6.15	57	5.9	13.0	162.3	196.3
Coal & Coke	(27)	81.0	19.0	1.49	2.13	10.59	4.96	57	7.7	71.6	109.4	171.6
Drug & Toilet Prep.	(449)	75.9	24.1	1.48	1.71	13.22	7.71	47	7.4	21.5	170.0	202.6
Food	(2448)	88.0	12.0	1.23	0.97	11.56	11.91	23	16.3	46.2	168.4	212.3
Furn. & Furnishings	(584)	77.0	23.0	1.43	1.30	9.35	7.19	66	5.3	17.1	207.8	234.4
General Merchandise	(51)	75.2	24.8	1.40	1.08	5.93	5.62	37	3.9	39.6	176.0	202.8
Grain	(148)	72.3	27.7	0.72	0.71	11.41	16.06	20	2.1	31.7	1279.6	1324.8
Hdwe., Plmbg. & Heating	(1,335)	77.3	22.7	1.66	2.49	15.43	6.20	46	5.3	21.9	134.7	171.7
Livestock	(471)	79.3	20.7	1.15	0.25	2.97	11.78	24	11.7	108.3	248.5	350.2
Lumber & Bldg. Prod.	(3,671)	82.7	17.3	1.43	2.06	12.35	5.99	52	7.1	40.3	138.7	189.7
Machinery, Electrical	(1,412)	77.0	23.0	1.41	2.50	16.01	6.40	60	5.6	22.1	181.9	210.3
Machinery, Farm	(1,381)	84.3	15.7	1.47	3.12	28.24	8.41	43	6.0	25.4	168.7	218.8
Machinery, Industrial	(5,419)	72.4	27.6	1.42	3.35	17.84	5.33	61	4.6	45.1	168.3	213.1
Metal Products	(537)	86.8	13.2	1.41	1.72	13.43	7.83	53	5.6	40.3	233.5	301.5
Motor Vehicle & Parts	(1,668)	77.6	22.4	1.37	1.83	10.37	5.67	40	4.5	42.7	172.4	216.3
Paper	(360)	83.8	16.2	1.46	1.62	16.77	10.33	44	15.3	21.0	168.2	201.8
Petroleum Products	(969)	86.2	13.8	1.05	1.30	13.79	10.62	28	16.0	67.2	230.2	317.1
Scrap & Waste Dealers	(712)	80.1	19.9	1.44	2.74	14.44	5.26	34	9.5	55.3	112.0	143.5
Tobacco	(209)	92.1	7.9	1.65	0.79	18.43	23.35	22	23.7	34.6	172.9	249.1
Other Wholesalers	(8,475)	79.2	20.8	1.48	2.56	18.19	8.27	59	6.4	34.6	159.5	207.0

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
2																								2
3																								3
4																								4
5																								5
6																								6
7																								7
8																								8
9																								9
10																								10
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30																								
31																								31
32																								32
33																								33
34																								34
35																								35
36																								36

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 & 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																								2
3																								3
4																								4
5																								5
6																								6
7																								7
8																								8
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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	-		
11	Equals: Cash Sales	=	+	
	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)			=

Receiving Journal

RECEIVING JOURNAL				
DATE	PARTICULARS	LANDED COST	RETAIL	MARKUP %
	TOTAL			

Inventory Running Tally

Inventory Running Tally

			1	2	3
			COST	RETAIL	%
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				
	INVENTORY				
	PLUS: Purchases & Freight				
	EQUALS: Goods Available for Sale				
	LESS: Sales				
	LESS: Discounts, Allowances, & Shrinkage				

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												

Balance Sheet

Balance Sheet
As Of ____________

ASSETS		
CURRENT ASSETS		
Cash	+	
Bank	+	
Accounts Receivable	+	
Inventory	+	
Other	+	
TOTAL CURRENT ASSETS	=	+
FIXED ASSETS		
Land	+	
Building (net of accumulated depreciation)	+	
Equipment (net of accumulated depreciation)	+	
Other	+	
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	%							

Income Statement

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.

Income Statement - (Divisional)

INCOME STATEMENT (DIVISIONAL)

MONTH ENDEND _______ , 19 ____ -

COL. #		DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	DIVISION	CURRENT MONTH	YEAR TO DATE
17	Gross Sales												
18	Less: Sales Returns												
	Equals: Net Sales												
	Less: Cost of Goods Sold												
	Landed Cost												
	Discounts, Allowances, & Shrinkage												
	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 Expense												
20	TOTAL EXPENSES												
	EQUALS: Net Income from Operations												
16	Plus: Other Income												
	Equals: Net Income Before Taxes												
	Less: Income Taxes												
	Equals: Net Income												

DATE DUE
DATE DE RETOUR
