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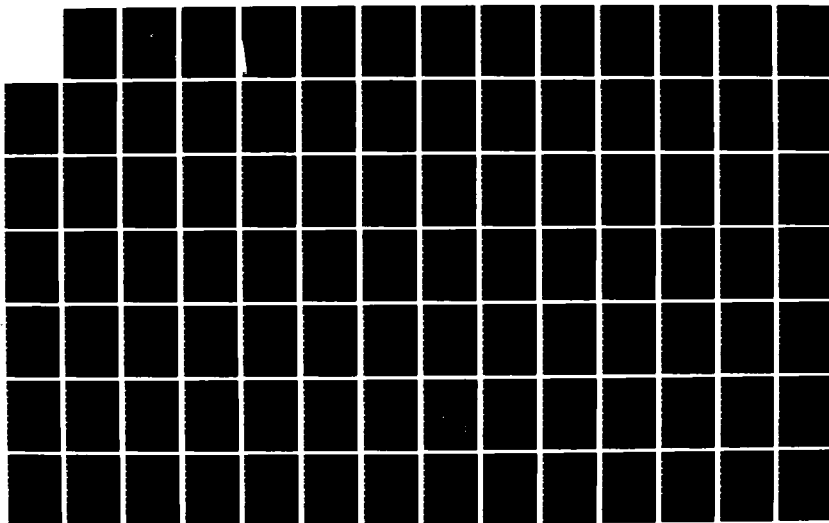
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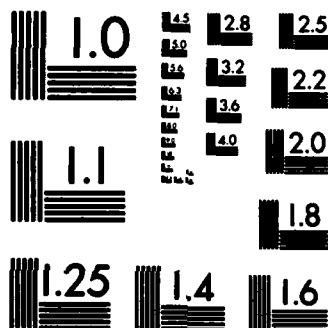
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THESIS

AN EVALUATION OF THE NAVY RESALE SYSTEM'S
OPERATING AND FINANCIAL STATEMENTS

by

Michael Stephen Barnett

March 1984

Thesis Advisors:

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An Evaluation of the Navy Resale System
Operating and Financial Statements

by

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Lieutenant Commander, Supply Corps, United States Navy
B.S., University of Kansas, 1973

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

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ABSTRACT

This thesis contains an evaluation of the Navy Resale System financial and operating statements used to manage the sales activities from the headquarters, region, main, and branch levels. Navy Resale System (NRS) statements are compared to the National Retail Merchants Association's (NRMA) statements presented in the Retail Accounting Manual and to statements provided by major retailers.

From the results of the evaluation a number of conclusions are drawn. To summarize the Navy Resale System statements are essentially sound. However, change is needed in expense statement and leased sales presentation to communicate a better picture of how the Navy Resale System compares to other major retailers.

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I. INTRODUCTION

A. GENERAL INFORMATION

The military exchange system consists of retail store operations located on bases throughout the world. This organization of stores had sales revenues which exceeded 6.3 billion dollars in Fiscal Year (FY) 1982. In comparison to the countries leading retailers, in 1982 the military exchange system's total sales ranked in fifth position behind Sears, K mart, J. C. Penny, and Federated Department Stores. [Ref. 1: p. R121]

The Navy Resale System FY 1982 total sales exceeded 1.5 billion which equates to approximately twenty-three percent of the total military exchange sales. These sales would place the Navy Resale System in twenty-third position in relation to the countries retailers. [Ref.1: p. R121]

Generation of such revenues places the Navy Resale System in the category of "big business." As such an operation, it should follow the precepts of sound management and proper accounting.

B. NEED FOR A STUDY OF THE NAVY RESALE SYSTEM FINANCIAL OPERATING STATEMENTS

For management and fiscal control information, the executives of the Navy Resale System rely on operating and

financial reports provided by the Navy Resale and Services Support Office. These operating and financial reports must contain data which is accurate, clear, and concise.

The Commander of the Navy Resale and Service Support Office has expressed concern that there may be a lack of properly presented financial management information available to the Navy Resale System and has requested that this study be undertaken. [Ref. 2]

C. OBJECTIVE AND SCOPE OF THE THESIS

The objective of this thesis is to determine what operating and financial information should be made available to headquarters, region, main, and branch levels of the Navy Resale System to properly manage the local sales activities.

The scope of this thesis is limited to a review of Navy Resale System reports and to provide recommendations for their improvement. It is beyond the scope of this thesis to provide an economic analysis of such recommendations or implementation procedures.

This thesis introduces general retail accounting and reporting standards as provided in the National Retail Merchants Association, Retail Accounting Manual. Based on an analysis of current literature common weaknesses and ways of improving the effectiveness of management reports are described. This information is provided to not only make improvements in what information should be provided but also

to explain how the information should be provided to encourage its use. The thesis reviews current retail operating and financial reports provided by major companies within the retailing industry to determine to what extent the retailing industry follows the Retail Accounting Manual.

D. METHOD OF RESEARCH

A review of the literature that was available from the following data bases was completed:

1. Defense Logistics Studies Information Exchange, U. S. Army Logistics Management Center, Fort Lee, Virginia.
2. Defense Technical Information Center and Defense Documentation Center, Defense Logistics Agency, Cameron Station, Alexandria, Virginia.
3. The Naval Postgraduate School Thesis, Technical Reports, and General Collections, Monterey, California
4. DIALOG Information Retrieval Service, Lockheed Missile and Space Co., Inc., Palo Alto, California.

Letters were sent to the top twenty retailers, in sales volume, as listed by Standard and Poors, November 1981 edition of Industry Surveys and to the Army and Air Force Exchange Service in an attempt to obtain operating and financial reports representative of the major retailers. Responses were received from nine of the retailers including the Army and Air Force Exchange Service. Of those nine, six retailers supplied various operating and financial accounting reports.

Interviews were conducted with twelve executive level personnel at the Navy Resale and Services Support Office and

seven executive level personnel at the region and exchange level.

E. THESIS ORGANIZATION

The first chapter briefly introduced the magnitude of the Navy Exchange System and presented the impetus for the research. It also delineated the author's objectives and research methodology.

Chapter Two provides the reader with an introduction to retail accounting and the reports currently suggested by the National Retail Merchants Association. It also provides techniques to improve the effectiveness of management reports as well as common weaknesses of management reports.

Chapter Three provides a description and discussion of operating and financial reports used by the private and public sector.

Chapter Four provides a description and discussion of operating and financial reports used by the Navy Resale System.

Finally, in Chapter Five, the author makes comparisons between the National Retail Merchants Association, private, public, and Navy Resale System reports. Conclusions and recommendations are then drawn based on the comparisons and the retail accounting standards provided in the Retail Accounting Manual.

II. RETAIL ACCOUNTING AND REPORTING

A. INTRODUCTION

This chapter describes the various aspects of retail accounting in accordance with today's generally accepted procedures and norms. The topics covered are merchandise accounting, expense accounting, management reporting, and the improvement of management reports. The Merchandise Accounting section defines the various types of departments in retail stores and the computation of gross margin for these departments. The Expense Accounting section describes the recommended method of segregating expenses for expense control. The Management Reporting section provides the rationale for various management reports and suggested formats for each type report. In the section on improving management reports, techniques for improving reports are described and some of the major weaknesses in current reports are delineated.

B. MERCHANDISE ACCOUNTING

1. Departments Within Retail Stores

As defined by the National Retail Merchants Association (NRMA) in their Retail Accounting Manual (RAM) departmentalized stores are organized in a series of departments "for the purpose of maximizing efficiency and

control in either selling merchandise or rendering services." Departments differ in the nature of an item or service sold, the method of inventory valuation, and their relation to other departments. The NRMA has defined six principal types of departments as follows:

a. Retail Inventory Departments

Retail inventory departments "sell merchandise to the public, using the retail inventory method of accounting to determine departmental inventories at retail and at cost, and to compute [owned retail] gross margin." (Owned retail gross margin refers to the gross margin of departments which are owned by the store versus the gross margin of leased or licensed departments.) Basic merchandise such as hardware, fashion goods, linens, stationery, jewelry, notions, housewares, and luggage, as well as other typical department store merchandise are usually sold in retail inventory departments.

b. Cost or Non-Retail Selling Departments

Cost or non-retail selling departments, otherwise known as service departments, carry inventory on hand at cost only, versus cost and retail. Typical cost selling departments are beauty salons, flower shops, custom order departments, gift wrapping, repair departments, restaurants, and engraving. Inventory in these departments consists of

supplies necessary to perform the service involved; not finished goods for resale.

c. Contract Departments

Contract departments sell merchandise at whole-sale prices to business and institutional purchasers such as hotels, restaurants, hospitals, and churches. The orders placed by these businesses are normally very large, therefore, prices charged are considerably lower than the normal retail prices charged for the same items to a store's regular customers. Items normally sold in this manner are furniture, linens and domestics, and china and glassware.

d. Leased or Licensed Departments

Leased Departments are merchandise or service departments operated by independent companies under contract or lease. Usually these departments are highly specialized in nature or require a heavy investment in equipment which the store does not desire to make. Examples of these departments might be shoe or shoe repair, auto repair, vending, beauty salons, photo studios, pharmacies, and optical shops. In return for the permission to operate such a department the independent firm pays a fixed percentage of their sales to the lessor store. Normally, a leased department follows the store policies and procedures and is presented to the patron as if it were just another part of the store.

e. Workrooms

Workrooms are departments that ordinarily deal with alterations and repair of merchandise sold in retail departments. However, workrooms also set-up, assemble, and finish merchandise before it is put on sale. Because there is a similarity between workrooms and cost selling departments, guides were established by the NRMA as an aid to proper classification. The NRMA guide states that:

A department should be considered a merchandise service workroom if:

1. its operations and income are substantially involved with services performed for the principal retail department(s);
2. its revenue is used only as an offset against the workroom's cost, and is not included in the principal retail department's sales;
3. the amount charged for services performed is sufficient to enable the workroom to operate at or near the break-even point; and
4. it neither manufactures an item nor, in effect, converts merchandise into a finished product.

The more common types of workrooms are drapery, engraving-glassware and stationery, furniture, men's and boy's clothing alterations, and monogramming workrooms.

f. Miscellaneous Revenue Operations

Miscellaneous revenue operations consist of various services which stores furnish at a nominal charge to patrons. Some of these services are delivery and layaway

charges, check cashing, money order sales, pay toilets, and scales. [Ref. 3: pp. V1 - V4]

2. Computation of Gross Margin

The NRMA has suggested that the various departments' gross margin be split into three major groups, Owned Retail Departments, Owned Cost Departments (including Contract), and Leased and Licensed Departments instead of grouping them into one total amount.

In general, gross margin for owned departments is derived by subtracting from net sales the net cost of merchandise sold, workroom loss or gain, and other costs of sales. The detailed method for computation of gross margin for owned retail and cost departments, as provided by the RAM, are described in Appendix A.

Leased or licensed departments differ from an owned department in that its merchandise does not, per se, have a merchandise cost or a gross margin. Instead, reported gross margin for these departments is the net sales less the gross commission. The RAM states,

For development of departmental operating statements, leased department commissions are considered as part of gross margin. In the development of financial statements, leased department sales and commissions are shown separately from owned departments. [Ref. 3: pp. V13-V15]

C. EXPENSE ACCOUNTING

Expense accounting improves profitability through the control of operating expenses. This is done by accumulating

operating expenses into expense centers and then holding the center's management responsible for controlling expenses by comparing actual to budgeted and prior years' figures.

The NRMA's Retail Accounting Manual (RAM) describes in detail how expenses should be recorded and reported. This section discusses the basic concepts of expense recording and reporting. A detailed presentation of expense recording is provided in APPENDIX B.

1. Expense Centers

For the RAM to serve the needs of not only large store chains but also small, one man operations, 10 expense summaries were created, with 44 expense centers and 22 subexpense centers. The smaller operations need only use the 10 expense summaries that follow:

- 010 Property and equipment
- 100 Company management
- 200 Accounting and management information
- 300 Credit and accounts receivable
- 400 Sales promotion
- 500 Services and operations
- 600 Personnel
- 700 Merchandise
- 800 Selling and supporting services
- 900 Merchandising

A company may use as many of the 44 expense centers as they desire to provide needed expense breakdown. Some of

the largest companies may even find it preferable to add more expense centers. An example of the breakdown possible is shown below using expense center 800, selling and supporting services:

800 Selling and Supporting Services

810 Selling Supervision

820 Direct Selling

830 Customer Services

840 Selling Support Services

860 Central Wrapping and Packing

880 Delivery

If all the expense centers are not used, the NRMA has suggested the management expense centers ending with "10" be used to accumulate items of expense for unused expense centers. Using the expense summary above, a firm might want to use the expense center 820-Direct Selling and then accumulate all other expenses in expense center 810-Selling Supervision.

An even more detailed breakdown can be made using subexpense centers. The 820-Direct Selling expense center can be divided into the following subexpense centers:

820 Direct Selling

821 Retail Selling Departments Salespeople

823 Interior Decorators

824 Cost Selling Departments Salespeople

826 Floor Cashiers and Wrappers

828 Forward Stock Maintenance

2. Natural Divisions

The RAM classifies 17 types of expenses which they identify as natural divisions besides accumulating the expenses by areas of activity. Some of the largest firms may desire to add more natural divisions, however the 17 natural divisions that follow should be sufficient for most firms:

01 Payroll

03 Media Costs

04 Taxes

06 Supplies

07 Services purchased

08 Unclassified

09 Travel

10 Communications

11 Pensions

12 Insurance

13 Depreciation

14 Professional services

16 Bad debts

17 Equipment rentals

18 Outside maintenance and equipment service contracts

20 Real property rentals

92 Credits and outside revenues

Additionally, three transfer accounts are identified by the RAM as an aid to transferring expenses between expense centers:

02 Allocated fringe benefits

90 Expense transfers-in

91 Expense transfers-out [Ref. 3: pp. II 1-III 5]

The allocated fringe benefits transfer account (Acct # 02) is used to redistribute actual expenses accumulated in Expense Center 660- Medical and Other Employee Services and Expense Center 670- Supplementary Benefits to all other expense centers having a natural payroll division. The remaining transfer accounts (Acct # 90 and 91) are needed to effect a transfer from one expense center to another in order to properly reflect the actual operating costs of the expense centers; the amount to be transferred out of an expense center is the composite of several natural divisions.

3. Expense Comparisons

Why is there a need for expense centers if all expenses are also tracked by natural division? The National Retail Merchants Association states,

Because of the increasingly diversified manner in which stores are performing identical activities, comparisons by natural divisions are becoming more meaningful as the valid basis for such comparison. This comes about principally because with mechanization and the use of more sophisticated equipment, the number of people and the resulting payroll expense are reduced, while the amount of depreciation and equipment rental cost is increased. In

other instances, greater reliance on outside service bureaus and service agencies are similarly replacing payroll and supply expense in the expense center concerned. Therefore, comparability by natural division diminishes, although comparability by expense center remains significant and valid. [Ref. 3: p. II-10]

D. MANAGEMENT REPORTING

This section describes management reports that are suggested as necessary by the National Retail Merchants Association (NRMA). Included are the various retail merchandise departments reports, cost or non-retail operation departments reports, expense reports, branch store reports, and top executive level reports.

1. Merchandise Department Performance Statistics

a. Merchandise Department Statistics

Merchandise department statistics are developed on owned retail inventoried merchandise as a means to measure a department buyer's performance. Through the review of a merchandise department's total company performance and other direct expenses over which a buyer has control management may evaluate a buyer's performance.

The NRMA has stated,

Departmental expense distribution is a matter in which considerable latitude must be allowed. Hard and fast rules cannot be applied. The distribution of expenses to selling departments poses problems on which many differing views are held.

In general there are two approaches to departmental expense accounting; the Net Profit Plan and the Contribution Plan.

The Net Profit approach is a full cost approach which requires the allocation of indirect expenses in addition to direct expenses. The supporters of this method believe that it produces a profit figure that can be used to judge the operations of the department and that it develops some degree of responsibility by the buyer for the department's profit performance. The Net Profit approach has certain disadvantages. First, the buyer is not in a position to have any affect on the expenses pro-rated to his or her department. Second, it is difficult to develop a reasonable or meaningful basis for proration which usually leads to the use of sales as the proration base and the subsequent concealment of the department's true performance picture. Third, the allocation of expenses can be both costly and time-consuming. Finally, most expense control is the responsibility of operating and sales supporting activities, not the selling department.

The Contribution approach, on the other hand, accommodates both the measurement of department results and evaluation of a buyer's performance without the disadvantages above. The contribution approach is based on the concept that each selling department generates a gross margin on its sales as well as related direct expenses. The difference between these direct expenses and the gross margin produces the contribution. The RAM states, that

expenses used in figuring contribution are different depending on whether you are computing a selling locations contribution or a total company contribution. This difference is caused by the expansion from single store to multi-store organizations. In the single store operation the department buyer is responsible for all departmental expenses including those related to acquisition, distribution, promotion, and selling of merchandise. In the multi-store organizations the sales manager is responsible for selling location expenses while buyers are held responsible for acquisition, distribution, and promotion of merchandise as well as other expenses that are performed on a central basis and cannot be associated with a single selling location. Expenses which cannot be associated with a single selling location cause the difference between the summation of all selling location contributions and the total company's contribution.

b. Merchandise Department Performance Reports

Merchandise department reporting differs for multi-store operations as compared to single store companies, since both the selling location and central organization expenses are accounted for separately. This results in the need for two merchandise department reports, one for the total company and another for the selling locations. The NRMA suggested reports may be seen in Exhibits 2-1 and 2-2. Though these are only suggested formats, the information

19-

EXHIBIT 2-2 DEPARTMENT CONTRIBUTION BY SELLING LOCATION

Department		Period										19							
		Department Supervision % to Sales		Salespeople Payroll % to Sales		Dept. Supplies % to Sales		Sales Promotion % to Sales		Other Direct & Assigned Expenses % to Sales			Dept. Contrib. % to Sales		Sales % of Common Base		Sales per Sq Foot		Gross Margin Dollars Per Sq Foot
S T O R E		Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%	Am't	%
		TY	PL	LY	TY	PL	LY	TY	PL	LY	TY	PL	LY	TY	PL	LY	TY	PL	LY

EXHIBIT 2-2 DEPARTMENT CONTRIBUTION BY SELLING LOCATION

provided is considered the minimum necessary for proper evaluation of a departments gross margin performance.

In producing a total company contribution figure the Department Total Company Contribution report, Exhibit 2-1, uses only direct expense items which are easily obtainable and relatively meaningful on a total company basis: merchandising and buying costs, and advertising media costs. Other costs, such as merchandise distribution expense, can be added to the report if a company feels the added costs of computations are worthwhile and necessary in measuring company and buyer performance. The more expenses allocated to a department, the closer the report approaches the net profit or full cost approach.

The Department Contribution By Selling Location report, Exhibit 2-2, uses direct selling expenses that are related to a selling location such as selling payroll and supplies. In addition there are other valuable departmental statistics which can be used in evaluating a department's performance by selling location. Two of these, sales per square foot and gross margin dollars per square foot are shown on Exhibit 2-2. [Ref. 3: pp. VII 1-3]

2. Cost or Non-Retail Operation Reports

In the previous section the discussion covered merchandise departments that are controlled by the retail inventory method. Departments that are normally considered

cost or non-retail departments are not suited to the use of the retail inventory method, since they do not have inventories or purchases at retail and are not concerned with markons (markon is the increase in price between cost and retail used to cover direct expenses, overhead, and generate a profit) as an element of recordkeeping. In addition these departments usually do not have problems of markdowns (markdown is the reduction of a retail price to enhance movement of an item) and shortages as separate elements in the determination of gross margin. Though the derivation of cost of sales for the various cost departments is similar in principle to retail departments, the elements of cost are usually very different.

For the above reasons, and because it would not be appropriate to allocate expenses such as buying and merchandise management, separate operating statements should be prepared for cost or non-retail operations which are independent of any other department. [Ref. 3: p. VI-1] However, the NRMA has stated that, sales of cost selling departments should be included in total store sales. The NRMA suggests the use of Exhibit 2-3 for any of the cost departments or workrooms normally operated in conjunction with retail stores. A detailed explanation of the items in the operating statement can be seen in Appendix C.

OPERATING REPORT						DISTRIBUTION OF WORKROOM COST TO THE RETAIL SELLING DEPARTMENT(S)				
1.	Revenue from Sales to Customers					Retail Department No.	Work Units	Distribution of Production Cost \$	Sales to Customers \$	Net Department Charges \$
LABOR AND MATERIALS										
2.	Inventory of Materials and Supplies—Beginning of Period									
3.	Purchases of Materials and Supplies									
4.	Material and Labor Services Purchases									
5.	Total									
6.	Inventory of Materials and Supplies—End of Period									
7.	Materials and Supplies Used									
8.	Direct Labor									
9.	Overhead Labor									
10.	Total Labor									
11.	Work in Process Adjustment									
12.	Total Materials and Labor									
OTHER MANUFACTURING CHARGES										
13.	Space Charge									
14.	Supplies									
15.	Utilities									
16.	Use of Cars and Trucks									
17.	Cars and Travel									
18.	Services Purchased									
19.	Repairs to Equipment									
20.	Payroll Taxes and Supplementary Benefits									
21.	Insurance									
22.	Depreciation									
23.	TOTAL COST OF MANUFACTURING CHARGES									
24.	TOTAL COST OF PRODUCTION									
25.	Less Credits from Transfers									
26.	Net Cost of Production									
27.	PROFIT OR LOSS (Indirect Manufacturing Departments and Merchandise Service Workrooms)									
STATISTICS.										
28.	Operating Expenses (for Cost Selling Departments only)								No. of Hours Worked	
29.	Operating Expenses (for Cost Selling Departments only)								Average No. of Employees	
30.	Operating Profit or Loss (Cost Selling Departments)								Average Floor Space in Sq. Ft.	
31.	Operating Profit or Loss (Cost Selling Departments)								Average Cost per Unit	

This statement can be used for any of the Coal Departments or Workrooms normally operated in a retail store. However, the operation of a Restaurant involves so many problems which are different from the Ordinary Retail or Coal Department that a special form of operating statement is provided.

3. Summaries of Expense Data

To achieve the objective of improved profitability as stated in the expense accounting section of this chapter, management must be provided with reports concerning expenses in the monthly financial statements. These reports can then be used for comparison against the company's budget and to expense percentages provided by the NRMA for retailers similar in size, merchandise composition or geographic section of the country. The Retail Accounting Manual provides six different expense reports which are described below.

The first expense report shown in the RAM displays expenses by expense summary as compared to the current budget and to last year's performance, and shows variances from the budget. Amounts are shown both for the current month and season-to-date. The report as presented in Exhibit 2-4A shows only the 10 expense summaries. However, companies that use expense and subexpense centers may wish to display them as in Exhibit 2-4B.

The second expense report shown is a statement of operating expenses by natural division. This report is similar in format to the first report and is presented in Exhibit 2-5.

The third expense report is displayed in Exhibit 2-6 and is a report for individual expense centers. The format for this report provides for variances from budgeted

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE SUMMARY
(SUGGESTED FOR USE BY SMALLER FIRMS)**

Period _____

CLASSIFICATION OF EXPENSE	MONTH						SEASON-TO-DATE					
	THIS YEAR		BUDGET		BUDGET VAR		THIS YEAR		BUDGET		BUDGET VAR	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
NAME												
010 Property and Equipment												
100 Company Management												
200 Accounting and Management Info.												
300 Credit and Accounts Receivable												
400 Sales Promotion												
500 Service and Operations												
600 Personnel												
700 Merchandise Receiving, Storage and Distribution												
800 Selling and Supporting Services												
900 Merchandising												
TOTAL EXPENSE												

**EXHIBIT 2-4A COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE SUMMARY**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER**

Continued

CLASSIFICATION OF EXPENSE	M O N T H						S E A S O N - T O - D A T E					
	THIS YEAR		BUDGET		BUDGET VAR.		THIS YEAR		BUDGET		BUDGET VAR.	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
NAME												
010 Property and Equipment												
020 Real Estate, Bldgs. & Bldg. Equip..												
030 Furniture, Fixtures & Non-Bldg. Equip.												
100 Company Management												
110 Executive Office												
130 Branch Management												
140 Internal Audit												
150 Legal & Consumer Activities												
200 Accounting & Management Information												
210 Control Mgmt., Gen'l Acctg. & Statistical												
220 Sales Audit												
230 Accounts Payable												
240 Payroll & Timekeeping Dept.												
260 Data Processing												
300 Credit & Accounts Receivable												
310 Credit Management												
330 Collection												
340 Accounts Receivable & Bill Adjustment												
350 Cash Office												
360 Branch Store Offices												
400 Sales Promotion												
410 Sales Promotion Management												
420 Advertising												
421 Newspaper												
425 Radio												
426 TV												
427 Direct Mail												
428 Other Advertising												
Continued												

**EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER**

Continued

COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER

Period _____

CLASSIFICATION OF EXPENSE	M O N T H						S E A S O N - T O - D A Y E					
	THIS YEAR		BUDGET		BUDGET VAR.		THIS YEAR		BUDGET		BUDGET VAR.	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
NAME												
430 Shows, Special Events and Exhibits												
431 Public Relations												
432 Merchandise Shows												
434 Special Events and Exhibits												
440 Display												
441 Display Production												
444 Sign Shop												
500 Service and Operations												
510 Service and Operations Management												
530 Security												
550 Telephones and Communications												
560 Utilities												
570 Housekeeping												
580 Maintenance and Repairs												
600 Personnel												
610 Personnel Management												
620 Employment												
640 Training												
660 Medical and Other Employee Services												
670 Supplementary Benefits												
700 Merchandise Receiving, Storage and Distrib.												
710 Mgmt. of Mch. Recvg., Storage & Distrib.												
720 Receiving and Marking												
721 Receiving												
723 Checking												
725 Marking												
750 Shuttle Services												
727 Returns to Vendors												
730 Reserve Stock Storage												
Continued												

EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER

Continued

COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER

CLASSIFICATION OF EXPENSE	Period _____									
	M O N T H					S E A S O N - T O - D A T E				
	THIS YEAR	BUDGET	BUDGET VAR.	LAST YEAR		THIS YEAR	BUDGET	BUDGET VAR.	LAST YEAR	
NAME	AMT.	%	AMT.	%	AMT.	AMT.	%	AMT.	%	AMT.
800 Selling and Supporting Services										
810 Selling Supervision										
820 Direct Selling										
821 Retail Selling Depts.-Salespeople										
822 Interior Decorators										
824 Cost Selling Depts.-Salespeople										
826 Floor Cashiers and Wrappers										
828 Forward Stock Maintenance										
830 Customer Services										
840 Selling Support Services										
860 Central Wrapping and Packing										
860 Delivery										
881 Package										
883 Furniture and Built										
886 Freight, Express and Parcel Post										
900 Merchandising										
910 Merchandising Management										
920 Buying										
930 Merchandise Control										
TOTAL EXPENSE										

EXHIBIT 2-4B COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY EXPENSE CENTER AND SUBCENTER

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY NATURAL DIVISION**

NATURAL DIVISIONS NAME	MONTH						SEASON-TO-DATE					
	THIS YEAR		BUDGET		BUDGET VAR		THIS YEAR		BUDGET		BUDGET VAR	
	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%	AMT.	%
01 Payroll												
03 Media Costs												
04 Taxes												
06 Supplies												
07 Services Purchased												
08 Unclassified												
09 Travel												
10 Communications												
11 Pensions												
12 Insurance												
13 Depreciation												
14 Professional Services												
16 Bad Debts												
17 Equipment Rentals												
18 Outside Maintenance & Equip. Service Contracts												
20 Real Property Rentals												
92 Credits and Outside Revenues												
02 Allocated Fringe Benefits												
90 Expense Transfers - In												
93-Expense Transfers - Out												

EXHIBIT 2-5 COMPARATIVE STATEMENT OF OPERATING EXPENSES
BY NATURAL DIVISION

EXPENSE CENTER REPORT

Central Org.		X	Supervisor H. Jones	EXPENSE CENTER 240 Payroll & Timekeeping Department	ACTIVITY UNIT Payments Made	UNITS THIS PERIOD 1,000	PERIOD III		
Store									
(Check One)									
NATURAL DIVISION			CURRENT PERIOD			YEAR-TO-DATE			
NO.	TITLE	ACTUAL	BUDGET	VARIANCE		ACTUAL	BUDGET	VARIANCE	
				AMOUNT	%			AMOUNT	%
01	Payroll	\$2,660	\$2,350	\$(310)		\$7,620	\$6,555	\$(1,065)	
02	Allocated Fringe Benefits	266	236	(30)		762	656	(106)	
06	Supplies	84	100	16		311	280	(31)	
07	Services Purchased	188	150	(38)		482	415	(67)	
08	Unclassified	92	50	(42)		171	135	(36)	
90	Expense Transfers In	275	250	(25)		825	750	(75)	
TOTALS		\$3,565	\$3,136	\$(429)	(13.68)	\$10,171	\$8,791	\$(1,380)	(15.70)

Exhibit 2-6 EXPENSE CENTER REPORT

expenses and may be made for a single selling location or aggregated for the firm as a whole.

The fourth expense report deals with expense center productivity and is shown in Exhibit 2-7. This report deals not only with expenses by natural division for an expense center, but also with production measurement in the form of productive hours consumed, average hourly production pay rates, relative work loads, total dollars expended, and other factors entering into the analysis of an expense center. However, it must be understood that not all expense centers can use productivity measurement techniques. For example it would be difficult to establish a productivity measurement for the Property and Equipment, the Company Management, and the Sales Promotion expense centers, since it would be difficult to define a transaction in relation to these expense centers. However, it is easy to define transactions in the Accounting and Management Information (bills paid), Credit and Accounts Receivable (accounts collected), and Personnel Expense Centers (personnel hired or trained).

The fifth expense report is used to establish a flexible budget for an expense center and is illustrated in Exhibit 2-8. As stated in the RAM, "The unit used to measure the level of activity should be one which reflects the work load of the expense center and which may be measured relatively easily." The RAM goes on to stress the

[illegible]

EXHIBIT 2-7 EXPENSE CENTER PRODUCTIVITY REPORT

Continued

EXPENSE CENTER REPORT
FLEXIBLE BUDGET

CENTRAL ORG.		X	SUPERVISOR H. JONES	EXPENSE CENTER 240 - Payroll and Timekeeping Department	ACTIVITY UNIT								
STORE					PAYMENTS MADE								
(CHECK ONE)			LEVEL OF ACTIVITY										
NATURAL DIVISION			800	900	1,000	1,100	1,200	1,300	1,400	1,500			
			EXPENSE BUDGET FOR PERIOD										
01 Payroll			4,200	4,200	4,700	4,700	5,800	5,800	6,300	6,300			
03 Media Costs													
04 Taxes													
06 Supplies			80	80	100	110	120	130	140	150			
07 Services Purchased			120	135	150	165	180	195	210	225			
08 Unclassified -			40	45	50	55	60	65	70	75			
09 Travel													
10 Communications													
11 Pensions													
12 Insurance													
13 Depreciation													
14 Professional Services													
16 Bad Debts													
17 Equipment Rentals													

EXHIBIT 2-8 EXPENSE CENTER REPORT FLEXIBLE BUDGET

(Cont'd)

**EXPENSE CENTER REPORT
FLEXIBLE BUDGET**

CENTRAL ORG.		X	SUPERVISOR H. JONES	EXPENSE CENTER 240 - Payroll and Timekeeping Department	ACTIVITY UNIT PAYMENTS MADE							
STORE (CHECK ONE)					LEVEL OF ACTIVITY							
					800	900	1,000	1,100	1,200	1,300	1,400	1,500
NATURAL DIVISION					EXPENSE BUDGET FOR PERIOD							
18 Outside Maintenance and Equip. Service Contracts												
20 Real Property Rentals												
92 Credits and Outside Revenues												
02 Allocated Fringe Benefits			630	630	705	705	705	870	870	870	945	945
90 Expense Transfers - In			200	225	250	275	275	300	325	350	375	375
91 Expense Transfers - Out												
TOTALS			5,270	5,325	5,955	6,010	6,010	7,330	7,385	8,015	8,070	8,070

PAYROLL DETAIL

JOB FUNCTION	SALARY FOR PERIOD	NO.		AMT.		NO.		AMT.		NO.		AMT.		NO.		AMT.	
		1	2	1,000	2,000	1	2	1,000	2,000	1	2	1,000	2,000	1	2	1,000	2,000
Supervisor	\$1,000	1	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1	1,000	1
Mech. Operator	600	2	2	1,200	2	1,200	2	1,200	3	1,800	3	1,800	3	1,800	3	1,800	3
Gen'l Clerk	500	4	4	2,000	5	2,500	5	2,500	6	3,000	6	3,000	7	3,500	7	3,500	7
TOTALS				4,200		4,700		4,700		5,800		5,800		6,300		6,300	

SUMMARY

BUDGETED VARIABLE EXPENSE RATE \$ 8.25 PER ACTIVITY UNIT	Supervisor's Signature _____	2-2-76 Date
--	------------------------------	----------------

EXHIBIT 2-8 EXPENSE CENTER REPORT FLEXIBLE BUDGET

importance of agreement on the budgeted level of productivity at each activity level between the individual setting the budgeted amounts and the supervisor who must work within those budgets.

The final expense report provided by the RAM, a payroll and production summary, is depicted in Exhibit 2-9. Payroll is normally the largest natural division expense in every expense center and, therefore, deserves the extra control. This report delves further into the area of payroll than the expense center productivity report by dividing the payroll into smaller periods of time, by delineating planned requirements for executive, regular, and overtime payroll and by giving statistics in the area of average wage rates.

Besides the reports discussed above the RAM contends that it is feasible to develop a supplemental system of exception reports which will direct top management's attention directly to problem areas. As an example, a report could be produced that lists those expense accounts that have budget variances exceeding a certain percentage. [Ref. 3: pp. VIII 1-13] This could be problematic if the reports are used as a means for evaluating a managers performance [Ref. 4: pp. 109-113]. If a manager's evaluation is based strictly on his department's performance in regard to the short term budget, he will tend to make sure his figures look good in relation to the short term budget regardless of

[illegible]

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the affect on long term profitability of the company. The manager could do this either by manipulation of the records or by making less cost effective decisions, such as putting off needed repairs until money is available in the budget. [Ref. 4: pp. 109-113]

4. Branch Store Reporting

With the advent of multi-store operations many new problems in retail accounting have become apparent when attempting to evaluate the profitability of each store. The proper charging of expenses is of major concern. In this area it has become common to charge expenses directly incurred by a location to that location while all other expenses are recorded initially as a central organization expense. The central organization expenses are then assigned or allocated to profit centers.

A sample branch store report can be seen in Exhibit 2-10. This report may be changed or altered slightly depending on management's information needs. However, it should show the store's operating results for each month and year-to-date. Besides those columns shown, many companies add a column to show variances from the budget and last year. Though comparisons to budget are usually considered realistic and essential to the measurement of current performance the same cannot be said for comparisons to last year. Allen H. Seed III, in his article "Improving the Effectiveness of

INDIVIDUAL STORE LOCATION OPERATING STATEMENT

	MONTH OF _____				STORE _____			
	MONTH				TO DATE			
	This Year		Budget		This Year		Budget	
	Amount	%	Amount	%	Amount	%	Amount	%
Net Sales								
Owned Retail								
Cost								
Leased								
Total								
Gross Margin								
Retail								
Cost								
Leased								
Expenses*								
010 Property & Equipment								
100 Company Management								
300 Credit and A/C Receivable								
400 Sales Promotion								
500 Service and Operations								
600 Personnel								
700 Merch. Receiving, Storage and Distribution								
800 Selling and Supporting Services								
Total								
Location Contribution								
Allocation of Central Organization Expenses**								
Operating Income								

*Includes both direct and assignable expenses. Note - omits expense summaries 200 and 900, since these expense summaries do not typically include any direct or assignable expenses. (See Exhibit #2)

**Used only in those cases where such allocation is made.

EXHIBIT 2-10 INDIVIDUAL STORE LOCATION OPERATING STATEMENT

Management Reports" [Ref. 5: p. 63], and Louis C. Moscarello, in his book Retail Accounting and Financial Control [Ref. 6: p. 323], object to comparisons made to last year. Each state that a comparison to previous years is looking backward at times that may have been either exceptionally good or bad and is not consistent with the philosophy of management by objectives.

5. Executive Level Reporting

In the previous sections the discussion has been concerned mainly with reports received by operating managers. This section discusses senior executive level reporting. As background to this discussion, the need for planning on a seasonal, annual, and long-term basis is emphasized.

a. Planning and Budgeting

Long-term goals, looking ahead three to five years or more, should reflect where the firm is, where it wants to go (its objectives), and what resources, including funds, are needed to achieve the objectives. Seasonal and annual plans must, in-turn, reflect the intent of the firm's long-range objectives.

A prime objective for each firm is the profit objective. Depending on the organization, this objective may be simply to cover their cost of operation, such as for nonprofit organizations similar to Goodwill Industries, or to make a profit which can be shared by the stockholders of

the company. To obtain this objective company-wide profit plans must be established reflecting management's expectations for sales, gross margin, operating expenses, and other income. From this company-wide profit plan detailed operating budgets must be prepared for each responsible location whether it be a profit or expense center. Once the detailed plans are established and agreement reached between senior management and the levels of operating management (i.e., buyers, merchandise managers, and store managers), each member of the management team then has a financial plan which he or she is expected to follow. With the concept of management by objectives and the above planning functions installed as an integral part of a firm's method of operation, reports can be developed to provide top management with the feedback necessary to perform their management responsibilities. [Ref. 3: pp. X1-2]

b. Suggested Reporting Formats

The NRMA has suggested three reports for senior executive level management though they stress that these reports represent only one of several alternatives and that the specific reports used will depend on management's specific needs and desires. The reports consist of a total company balance sheet, a condensed income statement, and a total company income and expense statement. The following assumptions apply to each of the suggested reports:

1. The firm has several selling locations.
2. The firm accounts for inventory investment by departments so that gross merchandise margin can be determined by department and by location.
3. The firm develops a written profit plan for each fiscal period.
4. The firm is organized so that individual store managers have responsibility for the direct and assignable operating expenses of the store.
5. The firm uses the expense center summaries, expense centers, and sub-expense centers as outlined in this manual, providing sufficient expense center breakdowns to reflect executive responsibilities.
6. The firm uses flexible expense budgets.

(1) Total Company Balance Sheet. This report, as shown in Exhibit 2-11, presents a summary of data with only significant pieces of information or key figures that the NRMA has considered to be necessary to management needs. The information is compared with a plan and is shown in trend format so that management can more easily spot problems. Finally all dollar amounts are rounded to the nearest thousand dollars for easier reading with no degradation of report quality.

(2) Condensed Income Statement. The report shown in Exhibit 2-12 presents a conventional company-wide operating report prepared for management. It is an accumulation of individual-selling-location income statements for the current month and for the year-to-date.

TOTAL COMPANY BALANCE SHEET
PERIOD ENDED _____
(in Thousands)

	CURRENT ASSETS						FIXED ASSETS		OTHER ASSETS	
	CASH		ACCTS REC.		INVENTORIES		CURRENT ASSETS			
	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL
JAN		1,175		10,789		4,767		54		378
FEB	1,250	1,259	10,075	10,171	5,300	5,258		54	410	402
MAR	1,200	1,212	10,485	10,443	5,200	5,478	55	56	415	410
APR	1,300	1,340	11,090	11,282	5,525	5,437	60	71	415	418
MAY	1,160		10,680		5,030		53		405	
JUN	1,100		10,935		5,450		55		400	
JUL	1,100		10,765		5,625		55		385	
AUG										
SEP										
OCT										
NOV										
DEC										
JAN										

NOTE: Until such time as a company develops a formal profit plan, last year's figures may be shown in the plan column. However, to be most effective as a management standard, the plan should reflect expected future results.

EXHIBIT 2-11 TOTAL COMPANY BALANCE SHEET

(Cont'd)

TOTAL COMPANY BALANCE SHEET

	CURRENT LIABILITIES												STOCKHOLDERS' INVESTMENT	CURRENT RATIO	
	ACCOUNTS PAYABLE		ACCUMULATED EXPENSES		INCOME TAXES		OTHER PAYABLES		DEFERRED INCOME TAXES AND LONG TERM DEBT		PLAN	ACTUAL		PLAN	ACTUAL
	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL	PLAN	ACTUAL					
JAN		3,615		116		537		1,311		3,785		16,466		3.01	
FEB	3,400	3,438	120	119	620	562	1,250	1,260	3,785	3,785		16,600	16,615	3.11	
MAR	3,175	3,457	135	150	790	735	1,133	1,175	1,133	3,785		16,915	16,935	3.14	
APR	3,600	3,590	225	315	860	880	1,325	1,386	3,785	3,785		17,175	16,202	2.95	
MAY	3,200		450		635		910		3,785			17,200		3.30	
JUN	3,125		545		730		975		3,785			17,370		3.26	
JUL	3,005		420		825		1,050		3,785			17,545		3.31	
AUG															
SEP															
OCT															
NOV															
DEC															
JAN															

NOTE: Until such time as a company develops a formal profit plan, last year's figures may be shown in the plan column. However, to be most effective as a management standard, the plan should reflect expected future results.

EXHIBIT 2-11 TOTAL COMPANY BALANCE SHEET

CONDENSED INCOME STATEMENT

Period	PERIOD				YEAR-TO-DATE			
	THIS YEAR	BUDGET	VARIANCE	LAST YEAR	THIS YEAR	BUDGET	VARIANCE	LAST YEAR
Total Sales								
Owned Retail Sales								
Less, Returns & Allowances								
Net Owned Retail Sales								
Cost of Merchandise Handled								
Gross Margin - Owned Depts.								
Commissions from Leased Depts.								
Workroom and Other Cost of Sales								
Gross Margin								
Operating Expenses								
Operating Income (Loss)								
Other Income, Net								
Finance Charge Income								
Sundry Revenue								
Interest Income								
Interest Expense								
Income (Loss) Before Taxes								
Provisions for Taxes Based on Income								
Federal								
State and Local								
NET INCOME								

EXHIBIT 2-12 CONDENSED INCOME STATEMENT

(3) Total Company Income and Expense Statement.

Exhibit 2-13 illustrates several concepts of sound management reporting. First, only significant elements of information are presented to management for a quick, overall picture of the operating results. Second, all amounts are presented in trend format, as well as showing season-to-date and year-to-date. Third, all amounts are compared to the profit plan with variations to plan being highlighted. Fourth, Return on Sales, Assets, and Equity are highlighted. Finally, the five reasons for planned profits differing from actual profits are highlighted. The reasons for differences are:

1. Volume Variance ((Actual Net Sales - Planned Net Sales) X Planned Gross Margin Rate)
2. Rate Variance ((Actual G.M. - Planned G.M. Rate) X Actual Net Sales)
3. Operating Expense Budget Adjustment (Total operating expense per profit plan minus total budgeted operating expense based on activity levels.)
4. Operating Expense Spending Variance (Total budgeted operating expense based on actual activity levels minus total actual operating expense.)
5. Net Other Income Variance (Variation between actual net other income and planned net other income.) [Ref. 3: pp. X6-7]

E. EFFECTIVE FINANCIAL MANAGEMENT REPORTS

As discussed in the introduction of this thesis the following section will describe techniques for improving the effectiveness of management accounting reports and

TOTAL COMPANY INCOME AND EXPENSE STATEMENT

IN THOUSANDS																			

weaknesses which should be avoided in management accounting reports:

1. Improving the Effectiveness of Management Reports

Allen H. Seed III, in his article "Improving the Effectiveness of Management Reports", presented the following categories and techniques to improve the effectiveness of management reports:

a. Report Content

* Attention should be focused on key controllable items on which the concerned executive can affect change.

* Actual results should be compared with plan, budget or standard to evaluate information in relation to objectives.

* Significant ratios and unit costs should be included on reports so that quantitative results may be related to activity levels.

* Trends should be emphasized for planning purposes in order that unfavorable trends may be controlled and so that benefit may be gained from favorable trends.

* Non-accounting information should be shown on accounting reports so that the reports will contain the whole picture.

b. Timing of Reports

* The frequency of reports should be related to the frequency of action that can be taken based on those reports.

* The reports should be distributed immediately after the close of the period reported in order that action may be taken to correct problems encountered.

c. Recipient of Report

* "Limit the distribution of reports to persons who actually act on the information contained in the reports, not only to reduce cost of preparation, but, most importantly, to use more effectively the time of the recipients." [Ref. 5: p. 67]

* Higher levels of management should receive only summarized or interpreted results so that attention will be focused on results obtained.

d. Presentation

* Reports must be kept simple in order that key information is not buried by excess information.

* Uniform formats should be established for all reports so that it is easy for an executive to follow from one report to another.

* Columns of numerical data should be broken up by placing captions in the middle of the report.

* "Identify each report with the name of the individual responsible and accountable for the results

shown, thereby personalizing the report and causing it to receive more attention." [Ref. 5: p. 67]

* Report significant figures only. [Ref. 5: pp. 66-67]

2. Common Weaknesses of Management Reports

In his article, "Dynamic Accounting for Effective Management" [Ref. 7: pp. 11-12], Hugh G. Luke presents five common weaknesses that should be avoided when preparing management accounting reports.

The first and most common weakness is the presentation of too much information -- not only too many conflicting, overlapping or unnecessary reports, but also a large amount of useless information in valuable reports, such as too many columns or too fine a breakdown. The personnel responsible for preparing the report are not always to blame, since all too often it is the executive receiving the report that requests such detail. The executive then has a tendency to either become enslaved by the mass of information or he ignores it altogether.

The second weakness is the omission of important information, which is caused primarily by the short sighted belief that only information provided by the accounting system belongs on a management report. There are areas of performance, such as in distribution and personnel, where results may be better measured using a medium other than dollars.

The third weakness is a lack of integration in the reporting system. As businesses expand more, and more information is requested by various departments and is subsequently provided without a reasoned determination that the information is really needed by the department or company as a whole. Another way of introducing a lack of integration is through the institution of reports aimed at correcting a temporary problem and then continuing the reports once the problem is solved.

The fourth weakness in reports is a lack of clarity. This weakness may be reflected in content or form or both. The report must satisfy the real interests and needs of management while maintaining the use of proper accounting principles and methods.

The fifth weakness is failure to distinguish between the kinds of information for planning and the kinds needed for control. For example, the sales information needed for planning departmental purchases does not have to be broken down by each location, however, for inventory control purposes, sales by location is normally considered necessary.

III. INFORMATION PROVIDED IN GENERAL PRACTICE

A. INTRODUCTION

This chapter is intended to examine retail financial statements used by major companies in the private sector and the Army and Air Force Exchange Service (AAFES) in the public sector. This chapter is divided into five sections: retail merchandise reports, non-retail merchandise reports, expense reports, branch store reports, and executive level reports. Exhibit 3-1. provides a synopsis of what type reports were provide by each of the major companies and AAFES.

B. RETAIL MERCHANDISE REPORTS

The May Department Stores Company, J. C. Penny Company, and the Army and Air Force Exchange Service provided the retail merchandise reports shown in Exhibits 3-2, 3-3, and 3-4. Though each report is different, there are some similarities among the reports. Each report provides an initial markon percentage, a month-to-date dollar sales amount, a markdown dollar amount, and a month-to-date dollar gross profit amount for each department. Two of the three reports provide a sales percentage to total sales, a gross profit percentage to sales, a dollar inventory shortage provision, a weeks of stock figure, an inventory turnover figure, and a

Companies Type Report	JCPenny	Woolworth	May	Carter Hawley Hale	AAFES	Name Withheld
Retail Merchandise	X		X		X	
Non-retail Merchandise					X	
Expense	X		X		X	X
Branch	X	X			X	
Executive	X	X	X	X	X	

EXHIBIT 3-1 REPORTS RECEIVED FROM RETAILERS

TOTAL SALES	RECEIPTS STD			EQM STOCK			WMS SUPPLY			THROWAWAY			GROSS MARGIN			IND			MARKDOWN		
	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
1	1000000 5 day average 1000000																				
2	1000000 5 day average 1000000																				
3	1000000 5 day average 1000000																				
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41	1000000 5 day average 1000000																				
42	1000000 5 day average 1000000																				
43	1000000 5 day average 1000000																				
44	1000000 5 day average 1000000																				
45	1000000 5 day average 1000000																				
46	1000000 5 day average 1000000																				
47	1000000 5 day average 1000000																				
48	1000000 5 day average 1000000																				
49	1000000 5 day average 1000000																				
50	1000000 5 day average 1000000																				

EXHIBIT 3-2 REVIEW OF KEY MERCHANDISE STATISTICS

NO. 2

DEPAK MT RECORD REPORT
APRIL, 1983

STATE CISTRICT

PHOC ID FEB33P
JUNE CITY

DEPTS	MERCHANDISE STATISTICS										NET INVENTORY		
	MERCHANDISE SALES					GROSS PROFIT					A ON O/U		
	FAIOR VP	CURR YR	ACTUAL	PCT	PRICE OTHER	MARK	THIS YEAR	LAST YEAR	PCT	PER SO	INC/	STOCK	PER
	ACTUAL	PLAN		C/U	DEKS	AKONS	UP	DOLLARS	PCT	DOLLARS	DEC	TV	LY

EXHIBIT 3-3 DEPARTMENT RECORD REPORT

[illegible]

EXHIBIT 3-4 STATEMENT OF RETAIL DEPARTMENT OPERATIONS

current inventory dollar amount for each department. The following items were unique to one report and were provided for each department:

1. Dollar receipts season-to-date
2. Dollar markdowns last year
3. Percentage change in markdowns this year versus last year
4. Markdown usage ranking this year and last year
5. Shortage provision to sales percentage
6. Average dollar inventory year-to-date
7. Gross margin return on investment percentage
8. Prior years sales actual
9. Current year plan sales
10. Percentage over or under prior years sales
11. Last years dollar gross profit and percentage to sales
12. Percentage increase or decrease in gross profit
13. Gross profit per square foot this year and last year
14. Dollar inventory over or under plan
15. Sales per square foot

Each report provides a total of all departments for each of the above items.

C. COST OR NON-RETAIL MERCHANDISE REPORTS

The Army and Air Force Exchange Service provided the comparative cost or non-retail merchandise report shown in Exhibit 3-5. The report is segmented into sales, cost of

BRANCH OPERATING STATEMENT									
PCN 517M COMUS FOOD									
372N BERSHIMON 079									
ARMY AND AIR FORCE EXCHANGE SERVICE									
0012 SOUTH TEXAS AREA									
0001 ALAMO ER									
PER END 25 OCT 1962									
PAGE 749									
GR	AM	EXCH	ACT	DR	ACCOUNT DESCRIPTION	CUR. NO.	3	V.T.D.	3
STATISTICAL DATA									
CLOSING FOOD 034									
0001	0012	372N	21	01	NET-SALE	30,204	28.50	32,257	39.00
0001	0012	372N	21	01	NET-SALE	7,736	28.50	129,833	39.00
0001	0012	372N	21	01	NET-SALE	101	0.30	513	0.15
0001	0012	372N	21	01	NET-SALE	26,426	77.13	201,907	60.77
0001	0012	372N	21	01	DIRECT GROSS PROFIT				
0001	0012	372N	21	01	NET-SALE	16,761	43.00	117,123	35.25
0001	0012	372N	21	01	NET-SALE	575	1.65	8,557	2.55
0001	0012	372N	21	01	NET-SALE	15,186	41.35	108,565	32.66
0001	0012	372N	21	01	DIRECT PERSONNEL COST				
0001	0012	372N	21	01	NET-SALE	1,510	0.45	1,510	0.45
0001	0012	372N	21	01	NET-SALE	15,013	0.25	15,013	0.25
0001	0012	372N	21	01	NET-SALE	735	2.73	735	2.73
0001	0012	372N	21	01	NET-SALE	39	0.12	39	0.12
0001	0012	372N	21	01	NET-SALE	3,172	0.25	3,172	0.25
0001	0012	372N	21	01	NET-SALE	1,062	0.55	1,062	0.55
0001	0012	372N	21	01	NET-SALE	1,206	0.34	1,206	0.34
0001	0012	372N	21	01	NET-SALE	136	0.50	136	0.50
0001	0012	372N	21	01	NET-SALE	7	0.02	7	0.02
0001	0012	372N	21	01	NET-SALE	65	0.15	65	0.15
0001	0012	372N	21	01	NET-SALE	121	0.35	121	0.35
0001	0012	372N	21	01	NET-SALE	1,242	3.29	1,242	3.29
0001	0012	372N	21	01	NET-SALE	6,900	19.09	6,900	19.09
0001	0012	372N	21	01	NET-SALE	5,703	16.25	5,703	16.25
0001	0012	372N	21	01	NET-SALE	90,597	12.19	90,597	12.19

EXHIBIT 3-5 BRANCH OPERATING STATEMENT

sales, gross profit, direct personnel costs, direct other expense, direct operating results, and statistical data. For each of these segments, except the statistical data segment, a dollar amount and a percentage to sales are given for the current month and year-to-date. The direct personnel cost segment is divided into personnel dollars paid and personnel dollars transferred to other departments. The direct other expense segment is also further divided into each of the various expense accounts used by the local AAFES exchange. The statistical data given includes the average number of employees, productivity, and average wage cost for the current month and year-to-date as well as the end-of-month inventory.

D. EXPENSE REPORTS

Expense reports from the May Department Stores Company, the J. C. Penny Company, and the Army and Air Force Exchange Service will be described in detail in the following sections. Besides the reports described below, two expense reports were received from a company with sales listed in the top twenty general merchandisers, desiring that their reports remain confidential. However it should be noted that one report listed expenses by expense center and the other listed expenses by natural division within expense centers.

1. May Department Stores Company

The May Department Stores Company report, Exhibit 3-6, is a comparative statement of operating expenses by expense center and subcenter and is provided on a single 8 1/2 X 11 inch page. Figures are provided for actual dollar expenses, actual expenses as a percentage of sales, and a ranking between other May Department Stores Company branches. Figures are also provided for the difference, better or worse, than plan and last year in dollars and as a percentage to sales. Finally, a column gives the percentage change in expense dollars, actual versus last year. The above listed figures are provided for the current month and year-to-date.

2. J. C. Penny Company

The J. C. Penny Company report, Exhibit 3-7, does not exactly fit a type of report listed in Chapter II, however it can be loosely described as a comparative statement of operating expenses by natural division within expense centers. A current month and year-to-date dollar amount is provided for this year, last year, and the difference between this year and last year for each account used by the activity. Separate reports, which are several pages in length, are provided for each department.

3. Army and Air Force Exchange Service

The Army and Air Force Exchange Service report, Exhibit 3-8, is interpreted to be a statement of operating

THE MAY DEPARTMENT STORES COMPANY
STORE COMPANY EXPENSE ANALYSIS

536

STORE NO.	ACCOUNT NAME	MONTH										F. Y. G.										Q END SUB. L.Y.		
		ACTUAL					BETTER (IMPROVE) THAN					ACTUAL					BETTER (IMPROVE) THAN							
		PLAN					LAST YEAR					PLAN					LAST YEAR							
		Q	Y	Q	Y	Q	Y	Q	Y	Q	Y	Q	Y	Q	Y	Q	Y							
1000	GENERAL MGMT.																							
1100	SEC. & SHORTHAND																							
1200	RENT. EST. COSTS																							
1300	RENT. S. P. I. ST.																							
1400	TOTAL GEN. MGMT.																							
2100	CHIEF MGR. ACCTG.																							
2200	CHIEF MGR. MESSAGING																							
2300	CHIEF MGR. S. P. D.																							
2400	CHIEF MGR. PAYABLE																							
2500	SALES ACCTG.																							
2600	EXP. PROCEEDINGS																							
2700	EXP. PROCEEDINGS																							
2800	TOTAL CONTROL																							
3200	PRO. & SAL. INC.																							
3300	ACCTG. MGMT. IV.																							
3400	CHIEF MGR. ACCTG.																							
3500	CHIEF MGR. ACCTG.																							
3600	CHIEF MGR. ACCTG.																							
3700	CHIEF MGR. ACCTG.																							
3800	CHIEF MGR. ACCTG.																							
3900	CHIEF MGR. ACCTG.																							
4000	TOTAL CONTROL																							
4200	SEC. PUBL. ACCTG.																							
4300	SEC. PUBL. ACCTG.																							
4400	SEC. PUBL. ACCTG.																							
4500	SEC. PUBL. ACCTG.																							
4600	SEC. PUBL. ACCTG.																							
4700	SEC. PUBL. ACCTG.																							
4800	SEC. PUBL. ACCTG.																							
4900	SEC. PUBL. ACCTG.																							
5000	TOTAL CONTROL																							
5100	SERVICE & OPER.																							
5200	SUPPLY POWER.																							
5300	PRINT SHOP																							
5400	SEC. TELEPHONE																							
5500	TELEPHONES																							
5600	TELEPHONE																							
5700	TELEPHONE																							
5800	TELEPHONE																							
5900	TOTAL OPERATIONS																							
6100	PERSONNEL SUPP.																							
6200	PERSONNEL S. P. D. TAG																							
6300	P. D. TAGS																							
6400	EXP. PROCEEDINGS																							
6500	TOTAL PERSONNEL																							
7100	RECEIVING & CORR.																							
7200	RECEIVING & CORR.																							
7300	TEL. MGMT. TAGS																							
8000	RECEIVING & CORR.																							
8100	RECEIVING & CORR.																							
8200	RECEIVING & CORR.																							
8300	RECEIVING & CORR.																							
8400	RECEIVING & CORR.																							
8500	RECEIVING & CORR.																							
8600	RECEIVING & CORR.																							
8700	RECEIVING & CORR.																							
8800	RECEIVING & CORR.																							
8900	RECEIVING & CORR.																							
9000	TOTAL RECEIVING																							
9100	RECEIVING & CORR.																							
9200	RECEIVING & CORR.																							
9300	RECEIVING & CORR.																							
9400	RECEIVING & CORR.																							
9500	RECEIVING & CORR.																							
9600	RECEIVING & CORR.																							
9700	RECEIVING & CORR.																							
9800	RECEIVING & CORR.																							
9900	TOTAL RECEIVING																							
10000	TOTAL SALES & EXP.																							

Exp: 1 00 *0000 = SALES NAME
1 0000 = TOTAL
1 0000 = SALES & TELEPHONE

EXHIBIT 3-6 STORE COMPANY EXPENSE ANALYSIS

ACCOUNT		EXPENSE ANALYSIS			
TITLE		PERIOD		YEAR TO DATE	
		THIS YEAR	LAST YEAR	THIS YEAR	OVER* UNDER LAST YEAR
007500	MERCHANDISE (RETAIL)				
7000	SALARIES				
7001	SALARY EXPENSE - SELLING				
7002	SALARY ADJUSTMENTS				
7003	SALARY TRANSFERS - SELLING				
7004	TOT SELLING AND SERV SALARIES				
7005	SALARY EXPENSE - MANAGEMENT				
7006	SALARY TRANSFERS - MGMT				
7007	TOT MANAGEMENT SALARIES				
7008	SALARY EXP - SALES SUPPORT				
7009	SALARY TRANSFERS - SALES SUPPORT				
7010	TOT SALES SUPPORT SALARIES				
7011	TOTAL SALARIES				
7012	PAYROLL TAXES				
7013	FICA & FUI TAX EXPENSE				
7014	SUI TAXES				
7015	TOT PAYROLL TAXES				
7016	ADVERTISING				
7017	ADVERTISING EXPENSE NEWSPAPERS				
7018	ADVERTISING EXPENSE MISC ITEMS				
7019	ADVERTISING EXPENSE SALES CONTESTS				
7020	NATIONAL ADVERTISING COST				
7021	TOT ADVERTISING				
7022	DISPLAY				
7023	DISPLAY MATERIAL FROM CENT OFF				
7024	DISPLAY MATERIAL OTH THAN LOCAL PUR				
7025	DISPLAY SAMPLES				
7026	DISPLAY SUPPLIES-LOCAL PURCH & FRT				
7027	TOT DISPLAY				
7028	GENERAL EXP MOSE RELATED				
7029	TRUCK EXPENDABLES				

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO		EXPENSE ANALYSIS		YEAR TO DATE			
007900		MERCHANDISE (RETAIL)					
		ACCOUNT		PERIOD		OVER* UNDER	
		TITLE		LAST YEAR		LAST YEAR	
				THIS YEAR		THIS YEAR	
7459		TRANSFER OF REFUND					
		TOT MERCHANDISE RELATED					
7204		GENERAL EXP SALES RELATED					
7228		WRAPPING SUPPLIES					
7318		POINT OF SALE SUPPLIES & SALES BOOK					
7431		RETURN GOODS TRANSPORTATION EXP					
7438		CLOVER/SHORT CASH					
7451		NON-COLLECTIBLE CHECKS & CDS					
		MISCELLANEOUS INCOME					
		TOT SALES RELATED					
7231		GENERAL EXP PROPERTY RELATED					
7247		LIGHT HEAT WATER					
7299		UNIFORMS & LAUNDRY EXP					
7304		FIXTURE MAINTENANCE SUPPLIES					
7308		TRASH REMOVAL EXPENSE					
		HOUSEKEEPING SERV & SUPP					
		TOT PROPERTY RELATED					
7202		GENERAL EXP ADMIN RELATED					
7207		STATIONERY, PRINTING, OFFICE SUPPLIES					
7311		STORE & OFFICE ACCESSORIES					
7341		MISCELLANEOUS FREIGHT & CARTAGE					
7351		OUTSIDE SERVICE BUREAU CHARGE					
7401		TELEPHONE AND TELEGRAM CHARGES					
7404		TRAVEL EXPENSE					
7410		TRAINING FEES					
7412		PERSONNEL RELATIONS EXPENSE					
7491		ASSOC DONATIONS TO CHARITIES					
7493		MISCELLANEOUS EXPENSE					
		NATIONWIDE SERVICE CHARGE					
		TOT ADMIN RELATED					
		TOTAL GENERAL EXPENSE					
		NET EXP ON STOCK POS & AVE CASH					

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO		EXPENSE ANALYSIS				YEAR TO DATE	
007900		MERCHANDISE (RETAIL)					
ACCOUNT		PERIOD		YEAR TO DATE			
TITLE		LAST YEAR		THIS YEAR			
CODE		LAST YEAR		THIS YEAR			
TOTAL OPERATING EXP							
FACILITY EXPENSES							
RENT							
7601	LANDLORD RENT EXPENSE						
7621	REAL ESTATE TAXES						
7632	RENT PAID - PENNEY OWNED PROPERTIES						
	TOT RENT						
PLANT AND EQUIPMENT EXP							
7242	MAINT CONTRACTS POS EQUIPMENT						
7298	PAINTING						
7301	MAINTENANCE REPAIR - BUILDINGS						
7302	REPAIRS TO FIXTURES						
7309	SECURITY EXPENSE-ALARM SYS AND SVCS						
7351	TRUCK MAINTENANCE & REPAIRS						
7352	DEPRECIATION-FURNITURE&FIXTURES						
	TOT PLANT AND EQUIPMENT EXP						
TAXES, OTHER THAN PAYROLL							
7501	LOCAL LICENSES TAX						
7502	PERSONAL PROP TAX - TANGIBLES						
7504	FRANCHISE TAX-INCOME						
7511	FRANCHISE TAXES-CAPITAL						
7515	STATE & LOCAL INCOME TAXES						
7519	PERSUNAL PROPERTY TAX ACCR & REV						
7516	SALES & USE TAX						
	TOT TAXES, OTHER THAN PAYROLL						
SUPPORT EXPENSES							
7405	DISTRICT & REGIONAL SERVICES						
	DISTRICT & REG SERVICES COSTS						
	TOT DISTRICT AND REG SERVICES						
CORPORATE SERVICES							
7451	WED DENTAL (NON-CONTR TERM LIFE						

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO		TOTAL SERVICE ACTIVITIES		EXPENSE ANALYSIS			
003800							
CODE	ACCOUNT	TITLE	PERIOD		YEAR TO DATE		
			THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	OVER* UNDER
		TOT ADMIN RELATED					
		TOTAL GENERAL EXPENSE					
		TOTAL OPERATING EXP					
		FACILITY EXPENSES					
		PLANT AND EQUIPMENT EXP					
7298		PAINTING					
7301		MAINTENANCE REPAIR - BUILDINGS					
7302		REPAIRS TO FIXTURES					
7307		TRUCK MAINTENANCE & REPAIRS					
		TOT PLANT AND EQUIPMENT EXP					
		TAXES, OTHER THAN PAYROLL					
7511		MISC--LOCAL EMPLOYMENT TAXES					
		TOT TAXES, OTHER THAN PAYROLL					
		SUPPORT EXPENSES					
		CORPORATE SERVICES					
7051		DED DENTAL/ENON-CONTR TERM LIFE					
7200		CONSUMER AFFAIRS EXPENSE.					
7345		PERNET COST					
7345		PAYROLL COST					
		TOT CORPORATE SERVICES					
		TOTAL FACILITY AND SUPPORT EXP					

EXHIBIT 3-7 EXPENSE ANALYSIS

ACTIVITY NO 003103		CATALOG DESK		EXPENSE ANALYSIS							
ACCOUNT				PERIOD			YEAR TO DATE				
CODE		TITLE		THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR	THIS YEAR	LAST YEAR	OVER* UNDER LAST YEAR		
127		ADVERTISING CATALOG ADV-CAT DIV CHGS TO STORES TOT ADVERTISING									
		TOTAL GENERAL EXPENSE									
		TOTAL OPERATING EXP									

EXHIBIT 3-7 EXPENSE ANALYSIS

expenses by natural division within a department. In comparison to the J. C. Penny Company report, which gives a detailed breakdown of expenses, the AAFES report aggregates various expenses under a few natural division or account headings which allows the presentation of all departments on one 11 X 8 1/2 inch page. Columns containing dollars and a percentage to sales for the current period and year-to-date are provided for each department as well as a column for a last year year-to-date percentage of sales.

E. BRANCH STORE REPORTS

The J. C. Penny Company, F. W. Woolworth Company, and the Army and Air Force Exchange Service provided the Branch Store reports shown in Exhibits 3-9, 3-10, 3-11, 3-12, and 3-13. Besides these reports the expense reports in the previous section are provided to the branch stores by J. C. Penny Company and AAFES.

1. J. C. Penny Company

The J. C. Penny Company report, Exhibit 3-9, consists of two 11 X 8 1/2 inch pages. The first page is an operating statement and the second page is an analysis of operating profit and an operating summary by periods.

The Operating Statement is divided into segments for sales, credit sales, gross profit, operating expenses, and other expenses. Actual dollar amounts, actual percentage this year, plan percentage, and actual percentage last year

NET SELLING AREA SQUARE FEET	OPERATING STATEMENT						RECAP		
	PERIOD						YEAR TO DATE		
	AMOUNT	ACTUAL % THIS YEAR	STORE PLAN %	DIST/REG PLAN %	ACTUAL % LAST YEAR	AMOUNT	ACTUAL % THIS YEAR	STORE PLAN %	ACTUAL LAST YEAR
SALES % OVERMANAGED * LAST YEAR									
MERCHANDISE									
CATALOG DESK SERVICES									
RESTAURANT									
LICENSED DEPARTMENTS									
TOTAL SALES									
CREDIT SALES—JCP CARD % NO SALES									
CREDIT SALES—BANK CARDS % NO SALES									
STORE MARKDOWNS % NOSE SALES									
PRICE BREAKS % NOSE SALES									
PRICE REDUCTIONS % NOSE SALES									
ASSOCIATE DISCOUNTS % NOSE SALES									
SHRINKAGE % NOSE SALES									
BEGINNING INVENTORY % MARKUP									
PURCHASES AT RETAIL % MARKUP									
SPECIAL MARKUP ADJUST. % PURCHASES									
GROSS MARGIN % NOSE SALES									
MERCHANDISING CHANGE % PURCHASES									
FREIGHT % PURCHASES AT RETAIL									
ENDING INVENTORY RETAIL % MARKUP									
COST									
GROSS PROFIT									
SALARIES									
PAYROLL TAXES									
ADVERTISING AND DISPLAY									
GENERAL EXPENSE									
INTEREST									
TOTAL OPERATING EXPENSE									
OPERATING PROFIT/LOSS*									
RENT									
PLANT AND EQUIPMENT									
TAXES									
DISTRICT AND REGIONAL SERVICES									
CORPORATE SERVICES									
STONE PROFIT/LOSS* (NOT INCLUDING DISTRICT TAXES)									

EXHIBIT 3-9 OPERATING STATEMENT

YEAR TO DATE	MERCHANDISE				CATALOG DESK		CUSTOMER SERVICES		RESTAURANT	LICENSED	PRE-OPENING/ REGIONAL PROJECTS
	AMOUNT		ACTUAL %		AMOUNT	ACTUAL %	AUTOMOTIVE	ALL OTHER			
	AMOUNT	ACTUAL %	LAST YR %								
	SALES										
	COST OF SALES										
	GROSS PROFIT										
	SELLING & SERV. SALARIES										
	DEPARTMENT PROFIT/LOSS*										
	MANAGEMENT SALARIES										
	SALES SUPPORT SALARIES										
	HOUSE HANDLING SALARIES										
	TOTAL SALARIES										
	PAYROLL TAXES										
	ADVERTISING										
	DISPLAY										
	GENERAL EXPENSE										
	MERCHANDISE RELATED										
	SALES RELATED										
	PROPERTY RELATED										
	ADMINISTRATIVE										
	INTEREST										
	TOTAL OPERATING EXPENSE										
	OPERATING PROFIT/LOSS*										

[illegible]

CP-8826 (Rev. 11/79) (Rear) (Back)

EXHIBIT 3-12 INCOME AND EXPENSE OPERATING STATEMENT

[illegible]

1

[illegible]

REPORT ON STATISTICAL SERVICE

ANALYSIS - STATISTICS STATEMENT

Page 2

Command Name

NO REFERENCE MAP

3722

3012

0001

Operating Results as Percentages of Sales

SECTION 1

Sales Breakdown

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	12,823	11,871	12,823	11,871
Indirect	1,171	1,171	1,171	1,171
Total	14,000	13,042	14,000	13,042

Operating Profit

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Costs

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,171	1,171	1,171	1,171
Indirect	1,171	1,171	1,171	1,171
Total	2,342	2,342	2,342	2,342

SECTION 2

Operating Results as Percentages of Sales

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Profit

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Costs

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,171	1,171	1,171	1,171
Indirect	1,171	1,171	1,171	1,171
Total	2,342	2,342	2,342	2,342

SECTION 3

Operating Results as Percentages of Sales

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Profit

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Costs

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,171	1,171	1,171	1,171
Indirect	1,171	1,171	1,171	1,171
Total	2,342	2,342	2,342	2,342

SECTION 4

Operating Results as Percentages of Sales

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Profit

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Costs

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,171	1,171	1,171	1,171
Indirect	1,171	1,171	1,171	1,171
Total	2,342	2,342	2,342	2,342

SECTION 5

Operating Results as Percentages of Sales

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Profit

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,597	1,048	1,597	1,048
Indirect	1,171	1,171	1,171	1,171
Total	2,768	2,219	2,768	2,219

Operating Costs

Part	Current Period		Year to Date	
	This Year	Last Year	This Year	Last Year
Direct	1,171	1,171	1,171	1,171
Indirect	1,171	1,171	1,171	1,171
Total	2,342	2,342	2,342	2,342

EXHIBIT 3-13 ANALYSIS AND STATISTICS STATEMENT

are given for the current period and year-to-date. The sales segment is further divided into merchandise, catalog desk, services, restaurant, and licensed department sales. The credit sales segment consists of memo entries for J. C. Penny credit card sales and bank credit card sales. The gross profit segment gives breakdowns on various types of markdowns, shrinkage, beginning inventory, purchases at retail, special markup adjustments, gross margin, merchandising charge, freight, and ending inventory at retail and cost. The operating expense segment is subdivided into salaries, payroll taxes, advertising and display, general expense, and interest. The other expense segment is divided into rent, plant and equipment, taxes, district and regional services, and corporate services.

The Analysis of Operating Profit gives a summary of sales, gross profit, salaries, operating expenses, and operating profit or loss for each of the following areas:

1. Merchandise departments
2. Catalog desk
3. Customer services departments
4. Restaurant
5. Licensed departments
6. Pre-opening / regional projects

The Operating Summary by Periods gives a summary of sales, store profit or loss, retail book inventory, average

cash on hand, fixture and equipment additions, and gross return on merchandise investment for each period of the year that is completed.

2. F. W. Woolworth Company

The F. W. Woolworth Company's operating statement, Exhibit 3-10, is made up of two 11 X 8 1/2 inch pages. The operating statement is divided into the following segments:

1. Total Sales Including License
2. Total Salary
3. Net Rent
4. Total Prorate
5. Total Advertising
6. Credit Expense
7. Total Electric
8. Wrap Supplies
9. Total Repairs
10. Total Maintenance
11. Total Community
12. Security
13. Total Display Material
14. Total Supplies
15. Total Services Purchased
16. Total Miscellaneous
17. Total Opening Expense
18. Total Other

19. Total Sundry
20. Total Store Expense
21. Estimate Store Profit

Most of these segments are further subdivided giving even more detail. For example sales is divided into merchandise sales, department 1340 sales (food service department), and licensee sales. Besides regular entries several memo entries concerning hours worked, salary, and department 1340 expenses are provided. Actual dollar amounts and percentages to sales for this year (abbreviated on F. W. Woolworth statements as C/S), percentage increase between this year and last year (abbreviated on statements as C/S incr.), and this year's actual dollar increase over last year's are given for the current period and year-to-date. Memo amounts are also given for various types of supply inventories and inventory increases.

3. Army and Air Force Exchange Service

The Army and Air Force Exchange Service has four main branch store operating reports. The Branch Operating Statement Exhibit 3-11, the Income and Expense Operating Statement Exhibit 3-12, and the Analysis and Statistics Statement Exhibit 3-13. The Branch Operating Statement is provided for the retail, food, services, and vending departments. The food service version of the Branch Operating Statement was discussed in the cost or non-retail department

section of this chapter. Because of its similarity to the retail and other branch statements further discussion is not necessary.

The Income and Expense Operating Statement is a one page comparative report prepared on 11 X 8 1/2 inch paper. It is split into five sections. The first four sections detail the retail, food, services, and vending department's sales per capita, net sales, gross profit, direct personnel costs, direct other expenses, depreciation, and direct operating profit. The final section summarizes the four sections above and details the general and administrative, depot and warehouse, exchange region, and headquarters personnel costs and other expenses, concession income, other income, and average military strength. Dollar amounts and percentages to sales are provided for actual this year, last year, and plan as well as a percentage variance from plan and last year for the current period and year-to-date.

The Analysis and Statistics Statement is a two page, two part report prepared on 11 X 8 1/2 inch paper. Each part is split into five sections as delineated below:

- a. Part one, section one gives the following employee statistics:
 1. Computed average number of employees
 2. Sales per employee (productivity)
 3. Average wage cost per employee
- b. Part one, section two is an analysis of gross profit.

- c. Part one, section three is an analysis of other income.
- d. Part one, section four is a personnel cost variation report.
- e. Part one, section five is a recapitulation of expenses.
- f. Part two, section one is a direct versus concession sales breakdown.
- g. Part two, section two gives operating results as a percentage of sales.
- h. Part two, section three gives the number of overtime hours and the related percentage to regular hours.
- i. Part two, section four gives the number of sick leave hours and the related percentage to regular hours.
- j. Part two, section five gives inventory statistics.

F. EXECUTIVE LEVEL REPORTS

Executive level reports vary in style. In this area reports were received from J. C. Penny Company, F. W. Woolworth Company, May Department Stores Company, Carter Hawley Hale Stores, Inc., and Army and Air Force Exchange Service.

1. J. C. Penny Company

The J. C. Penny Company furnished two reports, the J. C. Penny Stores, Exhibit 3-14, and the J. C. Penny Stores Operating Statistics, Exhibit 3-15, which it provides to executive level management.

The J. C. Penny Stores report is a condensed income statement similar to that shown in chapter II. The only

JCPENNY STORES
(AMOUNTS IN MILLIONS)

	OCTOBER			YEAR TO DATE		
	1982	1981	1981	1982	1981	1981
	ACTUAL	BUDGET	ACTUAL	ACTUAL	BUDGET	ACTUAL
SALES						
MERCHANDISE
CATALOG DESKS
SERVICES, RESTAURANTS, LICENSED DEPTS.
TOTAL SALES (1.660 vs. 1.678)						
% BETTER (WORSE) LAST YEAR	.%	.%	.%	.%	.%	.%
COMPARATIVE STORES %	.%	.%	.%	.%	.%	.%
GROSS PROFIT						
MERCHANDISE
% TO MERCHANDISE SALES	.%	.%	.%	.%	.%	.%
TOTAL
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
OPERATING EXPENSE						
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
OPERATING PROFIT						
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
FACILITY AND SUPPORT EXPENSE						
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
% PROFIT						
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
ACCRUALS						
ADJUSTED STORE PROFIT						
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
% BETTER (WORSE) LAST YEAR	.%	.%	.%	.%	.%	.%
INVENTORY AT RETAIL						
BEGINNING OF PERIOD - ADJUSTED	\$	\$	\$	\$	\$	\$
END OF PERIOD - PRELIMINARY EARNED						

EXHIBIT 3-14 JCPENNY STORES

JCPENNEY STORES OPERATING STATISTICS
(AMOUNTS IN MILLIONS)

	OCTOBER					
	1982			1981		
	ACTUAL	BUDGET	ACTUAL	ACTUAL	BUDGET	ACTUAL
<u>MERCHANDISE RELATED</u>						
<u>FOR THE MONTH</u>						
PURCHASES AT RETAIL	.%	.%	.%			
MARKUP % ON PURCHASES	.%	.%	.%			
FREIGHT % - PURCHASES AT RETAIL	.%	.%	.%			
<u>MARKDOWNS</u>				<u>% TO MDSE. SALES</u>		
STORE MARKDOWNS%	.%	.%
PRICE BREAKS%	.%	.%
PRICE REDUCTIONS%	.%	.%
ASSOCIATES DISCOUNT%	.%	.%
SPECIAL M/U ADJUSTMENTS%	.%	.%
TOTAL MARKDOWNS%	.%	.%
<u>YEAR TO DATE</u>						
PURCHASES AT RETAIL	.%	.%	.%			
MARKUP % ON PURCHASES	.%	.%	.%			
ADDITIONAL MARKUP	.%	.%	.%			
EFFECT ON MARKUP %	.%	.%	.%			
FREIGHT % - PURCHASES AT RETAIL	.%	.%	.%			
<u>MARKDOWNS</u>				<u>% TO MDSE. SALES</u>		
STORE MARKDOWNS%	.%	.%
PRICE BREAKS%	.%	.%
PRICE REDUCTIONS%	.%	.%
ASSOCIATES DISCOUNT%	.%	.%
SPECIAL M/U ADJUSTMENTS%	.%	.%
TOTAL MARKDOWNS%	.%	.%
	OCTOBER			YEAR TO DATE		
	1982			1982		
	ACTUAL	BUDGET	ACTUAL	ACTUAL	BUDGET	ACTUAL
<u>OPERATING EXPENSE</u>						
SALARIES	.%	.%	.%	.%	.%	.%
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
PAYROLL TAXES	.%	.%	.%	.%	.%	.%
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
ADVERTISING	.%	.%	.%	.%	.%	.%
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
DISPLAY
GENERAL EXPENSE
INTEREST
TOTAL OPERATING EXPENSE
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%
<u>FACILITY AND SUPPORT EXPENSE</u>						
OCCUPANCY
PLANT AND EQUIPMENT
TAXES
DISTRICT AND REGIONAL SERVICES
CORPORATE SERVICES
TOTAL FACILITY AND SUPPORT EXPENSE
% TO TOTAL SALES	.%	.%	.%	.%	.%	.%

EXHIBIT 3-15 JCPENNEY STORES OPERATING STATISTICS

major differences are the lack of a variance column and the addition of memo inventory figures, though, there are some minor changes in title names and presentation.

The J. C. Penny Stores Operating Statistics summarizes merchandise and expense statistics. The report provides merchandise related purchases, markups, markdowns, and freight as well as operating, facility, and support expenses for the current period and year-to-date. Figures are provided for this year, budget, and last year.

2. F. W. Woolworth Company

The F. W. Woolworth Company provides a Retail Operations Summary, Exhibit 3-16, in addition to an aggregated operating statement identical in format to Exhibit 3-10. The Retail Operations Summary, a yearly report, is a five year comparison of sales, gross profit, merchandising, expense, and square footage statistics. Dollar amounts and percentages to sales or percentage gain per square foot are given. This report also lists the name of the manager responsible for the store during the most current period.

3. May Department Stores Company

The May Department Stores Company furnished a combined earnings report Exhibit 3-17 which is similar to the condensed income statement in chapter II, but in a different format. This report provides, in separate sections, net sales, earnings after interest and before

	1977	1978	1979	1980	1981	GAJH	R.O. ESTI. 90
SALES MDSE. Z C'IN PER SQ. FT.							
SALES 340 Z C'IN PER SQ. FT.							
SALES OMIED Z C'IN PER SQ. FT.							
SALES LICENSÉE Z C'IN PER SQ. FT.							
SALES TOTAL Z C'IN PER SQ. FT.							
BOOK-GROSS-W/O 340 ACTUAL GROSS MDSE. ACTUAL GROSS 340 ACTUAL GROSS W/340							
SHRINKAGE SHRINKAGE % NET A. % TO S.V.G.S. NET A. % TO S.V.G.S. NET COST TO SELL MDSE. INV. SELL Z C'IN ACTUAL CIR. INV. LIN. FT./SQ. FT.* TURNOVER Z C'IN. COST TO MDSE. SALES INVESTMENT Z C'IN. (COST) INCL. 340 EXPENSE MDSE. NET ALLOCATIONS NET FINANCIAL EQUIPMENT PROCESSES TOTAL INVESTMENT TOTAL EXPENSE C.5							
TOTAL PROFIT							
NET PROFIT B. PRIN. ON DEF. SHIRT AS-90/DIV./7551. GEN. INC. INVESTMENTAL FINANCE							

EXHIBIT 3-16 RETAIL OPERATIONS SUMMARY

	1977	1978	1979	1980	1981	GAIN	R.O. CON. P/L
EXPENSES: A							
STATE PRIC							
ALT. L.M. OFFIC. RE TAX & INS.							
STIMULATING CREDIT							
RLOS. EXPENSE							
INSUR. DEFENSE LIC. INC.							
LIC. INCOME (GENT) **							
NET RENT							
C/S							
HOUSE. SALARIES							
C/S HOUSE. SALARY							
DEPT. 350 SALARIES							
C/S 13.5 PALES							
TOTAL SALARIES							
C/S							
INSURANCE PRORATE							
C/S							
ADMIN PRORATE							
C/S							
TAX & DEPR. PRORATE							
C/S							
TOTAL PRORATE							
C/S							
ADVERTISING (NET)							
C/S							
NET CREDIT EXPENSE							
C/S							
ELECTRICITY							
C/S							
MAP SUPPLIES							
C/S							
SUNDRIES-MAJOR CATEGORIES							
REPAIRS							
C/S							
TRAIN. MAIL							
C/S							
MAINT. CONTRACTS							
C/S							
COMMUNICATIONS							
C/S							
SECURITY							
C/S							
OTHER EXPENSES							
C/S							
TOTAL SUNDRIES							
C/S							
INITIAL SLOPE EXPENSE							
C/S							
EXPENSES COST TO SELL BASED ON GROSS SALES EXCEPT WHERE OTHERWISE INDICATED							
PM INCLUDES INCOME FROM CONCESSIONS AND LICENSEES IN MODULORIN STORES							
INITIAL SLOPE OPENING EXPENSE							
1977							
1978							
1979							
1980							
1981							
DOLL							PAGE 2

EXHIBIT 3-16 RETAIL OPERATIONS SUMMARY

AD-A142 856

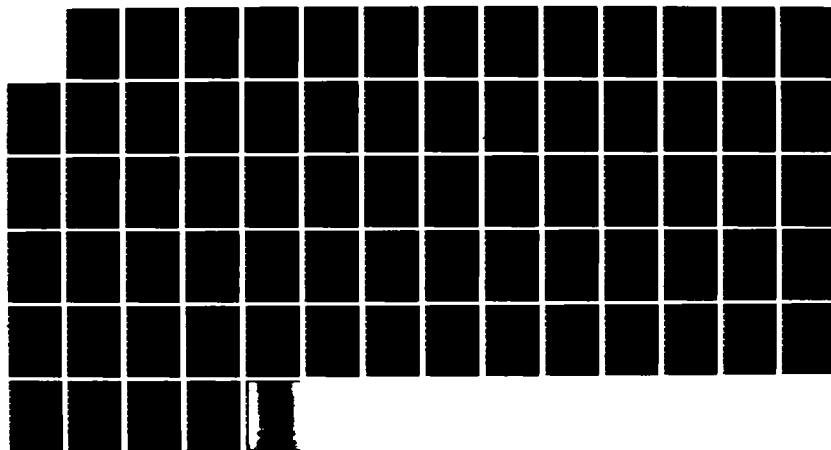
AN EVALUATION OF THE NAVY RESALE SYSTEM'S OPERATING AND
FINANCIAL STATEMENTS(U) NAVAL POSTGRADUATE SCHOOL
MONTEREY CA M S BARNETT MAR 84

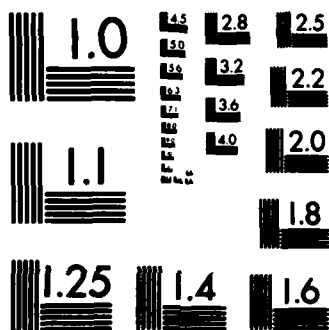
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NL





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

[illegible]

	GROSS MARGIN	OPERATING EXPENSE	INTEREST EXPENSE	OTHER INCOME
	B/(M) THAN LY	B/(M) THAN LY	B/(M) THAN LY	B/(M) THAN LY
ACTUAL	%	\$	%	%
L				
W/B				
S				
P				
C				
O				
N				
A				
D				
V				
J				
D/S				
V				
VS				
R				
101				

EXHIBIT 3-17 EARNINGS--STORE COMPANIES

taxes, flow through, return on net assets, gross margin, operating expense interest expense and other income for each of its department store companies.

The net sales section provides actual dollars this year, the difference in dollars between this year and last year, the percentage of change to this years sales, the percentage of change to this years sales on a store for store basis i.e. excludes new store openings, and a dollar amount and percentage to sales better or worse than plan.

The earnings after interest and before taxes section provides the actual dollars this year, the difference in dollars and as a percentage between this year and last year, a dollar amount and percentage to sales better or worse than plan, and a percentage of sales for this year and last year.

The gross margin and operating expense sections give actual this year, better or worse than last year and better or worse than plan in dollars and as a percentage. In addition the operating expense section has a column for the change in operating expenses versus last year.

The interest expense and other income sections give actual this year in dollars and as a percentage to sales as well as dollars better or worse than last year and plan.

"Flow through," the increase in profit due to increased sales has columns for last year and plan, while return on net assets has columns for this year, last year, and plan.

4. Carter Hawley Hale Stores, Inc.

Carter Hawley Hale Stores, Inc. provided an Operating Results, and a Balance Sheet report.

The Operating Results report, Exhibit 3-18, is again similar to the condensed income statement in chapter II. However, like the J. C. Penny Company report, there is no column for variances. Additionally, there are two statistics added: average assets employed and return on assets for the year-to-date.

The Balance Sheet Exhibit 3-19 is a detailed accounting of the company position in its various asset, liability and capital accounts. Dollar amounts, rounded to the nearest thousand, are given for this year, plan, and last year.

5. Army and Air Force Exchange Service

Army and Air Force Exchange Service reports for executive level personnel are identical in format to those received at each of their branch stores, and therefore, need no further review. Each store's operating statement is available to all levels of management. However, each higher level of management receives reports which aggregate all branch stores within the purview of that level of management. At the headquarters level aggregate reports are available for Europe, Pacific, overseas combined, continental United States, and total AAFES.

CARTER HAWLEY HALE STORES, INC.
OPERATING RESULTS
 (\$000)

SCHEDULE CHM-14
COMPANY
DATE

	MONTH						YEAR TO DATE					
	This Year		Plan		Last Year		This Year		Plan		Last Year	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
SALES												
1 Retail												
2 Cost												
3 Leased												
4 TOTAL												
5 Finance Charges												
6 TOTAL												
GROSS MARGIN												
7 Retail												
8 Cost												
9 Leased												
10 TOTAL												
EXPENSE												
11 Payroll												
12 Non-Payroll												
13 TOTAL												
14 Other Income												
OPERATING												
15 PROFIT												
16 Pre Opening Expense												
17 Real Estate Cost												
Interest, Benefits &												
18 Corp. Admin.												
PHX TAX												
19 EARNINGS												
FEDERAL STATE												
20 INCOME TAX												
21 NET EARNINGS												
22. go Assets Employed and Asset Turnover												
23 RETURN ON ASSETS												

Date _____ Prepared by _____
 Date _____ Prepared by _____

EXHIBIT 3-18 OPERATING RESULTS

Carter Hawley Hale Stores, Inc.

DIVISION
SCHEDULE ABALANCE SHEET
In Thousands

LINE NO		DIVISION		DATE	
		THIS YEAR	PLAN	LAST YEAR	
1	Cash on hand				
2	Cash in banks				
3	Temporary investments				
4	Accounts receivable				
5	C.O.D. and miscellaneous receivable				
6	Less: Allowance for doubtful accounts	()	()
7	Merchandise inventories				
8	Operating supplies, prepaid taxes insurance, etc.				
9	Total Current Assets				
10	Accounts payable				
11	Accrued salaries, general taxes, etc.				
12	Total Current Liabilities				
13	Working Capital				
14	Fixtures and equipment				
15	Less: Accumulated depreciation fixtures and equipment	()	()
16	Total Fixtures and Equipment				
17	Other assets				
18	Other long term liabilities				
19	Basis for Interest, Benefits and Corporate Allocation				
20	Net capital lease costs from Corporate				
21	Land				
22	Buildings and land improvements				
23	Less: Improvements				
24	Less: Accumulated depreciation buildings and lease improvements	()	()
25	Total Real Property				
26	Net Assets Employed				
27	Construction in progress				
28	Total Net Assets (Must equal line 41)				
ANALYSIS OF DIVISIONAL INVESTMENT					
29	Divisional investment (From prior year line 39)				
30	Current year net earnings				
31	Income taxes				
32	Capitalized interest				
33	Interest, benefits and Corporate (IBC)				
34	Advances (repayments) from Corporate				
35	Cash transfers from (to) Corporate				
36	Actual real estate expenses to Corporate	()	()
37	Allocated real estate expenses from Corporate				
38	Other				
39	Balance at end of period				
40	Net capital lease costs from Corporate				
41	Divisional investment including net capital lease costs				

Average Basis for Interest, Benefits and Corporate Allocation (YTD)

Average Net Assets Employed (YTD)

Date _____ Prepared By _____ Date _____ Approved By _____

0/00

EXHIBIT 3-19 BALANCE SHEET

IV. NAVY EXCHANGE FINANCIAL OPERATING STATEMENTS

A. INTRODUCTION

This chapter discusses the financial operating statements used by the various levels of management of the Navy Resale System to properly manage the local sales activities. This chapter is divided into five main sections, retail merchandise reports, cost or non-retail merchandise reports, expense reports, branch store reports, and executive level reports.

The reports discussed below, which are provided to all levels of management throughout the Navy Resale System are identical in format. The only difference in the reports received by successively higher levels of management is the level of aggregation. The following is a list of aggregation levels from highest to lowest:

- * Worldwide - Aggregation of all exchanges worldwide and is provided to headquarters level executives
- * CONUS - Aggregation of all continental United States exchanges and is provided to headquarters level executives
- * Overseas - Aggregation of all overseas exchanges and is provided to headquarters level executives
- * Region - Aggregation of exchanges within a region and is provided to regional level executives

- * Exchange Complex - Aggregation of the main exchange and each branch exchange under an individual exchange and is provided to executives at each main Exchange with branches
- * Exchange - A single exchange report provided to executives at each main Exchange
- * Branch - A single branch exchange report and is provided to executives at each main and branch exchange

B. RETAIL MERCHANDISE REPORTS

The Navy Resale System provides one major merchandise report titled Retail Departmental Operations, which is shown in Exhibit 4-1. This report gives details of each department used by a particular activity or its subactivities. For each department three major groupings of figures are provided on this report retail inventory, sales, and gross profit. Figures are provided for the budget, actual, and actual last year. All figures are rounded to the nearest dollar. The retail inventory group includes the dollar amount at the beginning of month and end of month (EOM) for the retail inventory as well as computed percentages for the months actual EOM inventory as a percentage of budget and last year.

FORM 5-11, 10-1-67										NAVY RETAIL AND SERVICE SUPPORT OFFICE										FOLLOWED BY										PERIOD ENDING										SC03									
SC03										NAVY RETAIL AND SERVICE SUPPORT OFFICE										FOLLOWED BY										PERIOD ENDING										SC03									
DEPARTMENT										RETAIL INVENTORY										SALES										GROSS PROFIT										RETAIL INVENTORY									
										B O M										I V A P T										I V A P T										I V A P T									
										E O M										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
										I V A P T										I V A P T										I V A P T										I V A P T									
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The sales group lists the month and year-to-date sales and percentages similar to those above only with the substitution of monthly and year-to-date sales for EOM inventory.

The gross profit group records the month and year-to-date dollar gross profit along with corresponding percentages to sales, the initial markon percentage year-to-date, markdowns as a percentage to sales for the month and year-to-date, and provision for inventory shrinkage as a percentage to sales for the month and year-to-date.

C. COST OR NON-RETAIL MERCHANDISE REPORTS

There are two main reports produced by the Navy Resale System which provide financial management information in regards to cost or non-retail merchandising activities. These reports are titled Service Departmental Operations and Service Department Employee Benefits and Other Direct Expense. Examples of these reports are provided in Exhibits 4-2 and 4-3.

1. Service Departmental Operations Report

This report gives details of each cost or non-retail department used by a particular activity or its subactivities. The report gives dollar amounts for beginning-of-month (BOM) and end-of-month (EOM) inventory at cost, sales, gross profit, payroll, employee benefits, other direct expense, equipment depreciation, net departmental contribution, number of employee equivalent man months, and average

dollar sales per man month. For each of these items, except the inventory figures, dollar amounts are given for budget, actual, last year, budget year-to-date, actual year-to-date, and last year year-to-date. Only budget, actual, and last year dollar amounts are provided for the BOM and EOM inventory figures. In addition gross profit, payroll, employee benefits, other direct expenses, equipment depreciation, and net departmental contribution are computed as a percentage of sales. All dollar amounts are rounded to the nearest dollar and all percentages to the nearest tenth.

Most of the terms listed above are commonly used. However, number of employee equivalent man months and average dollar sales per man month need further explanation.

a. Number of Employee Equivalent Man Months

The number of employee equivalent man months is used by management to determine the average dollar sales per man month at the completion of a month. It is computed by dividing total hours worked by 173.3.

b. Average Dollar Sales per Man Month

At the completion of a month, average dollar sales per man month is computed by dividing sales by the number of employee equivalent man months. This statistic is the key element used in budgeting direct selling payroll for the next year.

Budgeted direct selling payroll is computed in the following manner:

1. Budgeted dollar sales is divided by the budgeted dollar sales per man month to give the budgeted equivalent man months. The budgeted dollar sales per man month is last years average dollar sales per man month adjusted based on management's forecast of the future sales and inflation.
2. Budgeted equivalent man months multiplied by budgeted average wage rate gives budgeted dollar direct selling payroll. The budgeted average wage rate is the median wage rate of the department during the last three months for which actual results are available, increased by a factor for inflationary wage increases and merit increases. [Ref. 8: pp. 7-10]

2. Service Department Employee Benefits and Other Direct Expense Report

This report gives a more detailed breakdown of the employee benefits and other direct expense information than the Service Departmental Operations Report. The following eleven items of information are provided by department: Provision for annual leave, employee benefits-local national, taxes-FICA, retirement annuity contribution, total employees benefits, area support allocation (allocation of regional expenses to the department), stationery and supplies, repairs and minor replacements, utility expense, miscellaneous expense, and total other direct expense.

D. EXPENSE REPORTS

The Navy Resale System has no separate expense reports as discussed in the second chapter of this thesis. All reports concerned with expenses are included in the branch store reports, and are examined in the following section.

E. BRANCH STORE REPORTS

All Navy Exchange store financial operating reports are similar in format. The reports are provided on 11 by 8 1/2 inch paper with current month figures on the left-hand side and year-to-date figures on the right-hand side separated by a column with a description of the item and its corresponding account number. Under both the current and the year-to-date headings, columns are provided for budgeted dollars, actual this year dollars, and actual last year dollars, as well as adjacent columns for percent to sales. In addition, columns are provided for percent variance to budget and percent variance to last year. All dollar amounts are rounded to the nearest dollar and all percentages to the nearest tenth. The branch reports are normally received one to two months after completion of an accounting month.

Each main and branch exchange receives the following financial operating reports from the Navy Resale and Services Support Office on a monthly basis:

1. Retail Operations

The Retail Operations report, Exhibit 4-4, is divided into five sections. The first section provides a summary of sales, provision for inventory shortage, cost of sales, total cost of sales, and gross profit which are extracted from the Retail Departmental Operations report. The second section of the Retail Operations report provides a breakdown of receiving and shipping, direct selling, and

procurement payroll and related benefits, as well as, an aggregation of total personnel costs. The third section provides other direct expense broken down into the following accounts:

- * 310 Area Support Allocations -- are the directly related merchandise expenses pro-rated to each exchange by the exchanges regional office.
- * 313 Stationery and Supplies
- * 315 Repairs and Minor Replacements
- * 317 Utility Expense
- * 319 Miscellaneous Expense
- * 305 Equipment Depreciation

Besides the above breakdown of expense, a subtotal of other direct expense before equipment depreciation and a total of other direct expense after equipment depreciation is provided. The fourth section provides the total retail net contribution. The final section provides employee equivalent man months and average dollar sales per equivalent man month for the receiving and shipping, and the direct selling departments, as well as the employee equivalent man months and the procurement payroll dollars before allocation for the procurement department.

2. Service Operations

The Service Operations report, Exhibit 4-5, provides a summation of all service department operations from the Service Departmental Operations report. It includes sales,

cost of sales, gross profit, payroll and benefits, other direct expenses broken-down in the same manner as the Retail Operations report, total direct expense, and service net contribution.

3. General Expense Payroll

The General Expense Payroll report, Exhibit 4-6 is a breakdown of all general expense departments payroll and benefits, as well as, the related employee equivalent man months and payroll dollars before allocation. The following is a list of those departments broken out:

- * 321-11 General staff
- * 321-21 Accounting
- * 321-31 Data processing
- * 321-41 Visual merchandise
- * 321-52 Security
- * 321-57 Cleaning
- * 321-58 Maintenance
- * 321-61 Personnel
- * 321-70/77 Warehouse

4. General Expense

The General Expense report, Exhibit 4-7, is a breakdown of all general expense and other income. The report is broken down into sections for various general expenses, miscellaneous general expense, central office expense, centrally funded exchange expense, and other income..

FORM 507, 1-60 (REV. 1-58)										NAVAL RESERVE AND SERVES SUPPORT OFFICE										NAVAL EXCHANGE DIVISION										GENERAL EXPENSE PAYROLL										SC07										YEAR TO DATE										SC07										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR										ACTUAL YEAR		
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FORM 508 - NAVY BUDGET
NAVY BUDGET AND SERVICE SUPPORT OFFICE
NAVY EXTERNAL DIVISION

GENERAL EXPENSES										YEAR TO DATE										SCOB									
CURRENT MONTH										YEAR TO DATE										SCOB									
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31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150
151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180
181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210
211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240
241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270
271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300
301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330
331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360
361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390
391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420
421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450
451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480
481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510
511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540
541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570
571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600
601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630
631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660
661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690
691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720
721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750
751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780
781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810
811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840
841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870
871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900
901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930
931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960
961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990
991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020

EXHIBIT 4-7 GENERAL EXPENSE

a. Various General Expenses

The various general expense section is broken-down into the following accounts:

- * 320 Area support allocation
- * 323 Stationery and supplies
- * 325 Repairs, replacements, and alterations
- * 327 Auto
- * 332 Utility
- * 333 Freight and express
- * 334 Cash shortages and overages
- * 335 Travel
- * 336 Telephone, telegraph, and postal
- * 337 Maintenance contract labor charge
- * 331 Depreciation equipment
- * 326 Depreciation building improvement
- * 343 Depreciation building

b. Miscellaneous General Expense

The miscellaneous general expense section is broken-down into the following accounts:

- * 339-1 Miscellaneous
- * 339-2 Uncollected returned checks
- * 339-3 Local bank service charges
- * 339-4 Merchandise shortage-damage in transit
- * 339-5 Conversion differential
- * 339-6 Uncollected receivables

- * 339-7 Equipment rentals
- * 339-8 Overaged merchandise intransit
- * 339-9 Maintenance labor charge
- * 339-10 Training and development
- * 339-11 Custodial labor Navy Exchange crew
- * 339-12 Retail clothing store expense credit
- * 339-15 Field Support Office reimbursable expense clearance account
- * 339-16 Provision for bad debts
- * 339-18 Exchange distribution expenses transferred
- * 339-19 Consolidated procurement office surcharge
- * 339-20 Relocation
- * 339-21 Miscellaneous expense data processing
- * 339-22 Equipment rental data processing

c. Central Office Expense

The central office expense section consists of a single entry and is an allocation of central office expenses to each exchange based on a percentage of sales.

d. Centrally Funded Exchange Expense

The centrally funded exchange expense section is broken-down into the following accounts:

- * 342-1 Workers compensation and public liability
- * 342-2 Self insurance
- * 342-3 Group insurance medical
- * 342-4 Group insurance life
- * 342-5 Stationery and supplies

- * 342-9 Management trainee program
- * 342-11 Executive management program
- * 342-10 Miscellaneous

d. Other Income

The other income section is broken-down into the following accounts:

- * 344 Purchase discounts taken
- * 346-1 Miscellaneous income
- * 346-2 Service charge on sales to other activities
- * 346-3 Service charge distribution centers
- * 346-4 Income from bad check charges
- * 346-5 Layaway service charges
- * 346-7 Income from mail orders
- * 347 Income from concessions
- * 348 Income from money orders and travelers checks

5. Operating Statement (Excluding Retail Clothing Stores and Navy Lodges)

The Operating Statement, Exhibit 4-8, provides a summary of information provided on the Retail Operations, Service Operations, General Expense Payroll, and General Expense reports. The operating statement is used by management for a quick overall picture of an exchanges operations.

6. Retail Clothing Stores

The Retail Clothing Store report, Exhibit 4-9, is provided to those exchanges which sell military uniforms that have been procured by the Defense Personnel Support

Center. These uniforms are sold at cost resulting in either a zero or negative gross profit. The total cost to each Exchange for this operation is reimbursed with appropriated funds leading to a break-even situation for the exchange.

The report provides the sales, cost of sales, gross profit, payroll and benefits, other direct expense, net retail clothing store reimbursable cost, and inventory at cost figures for the beginning and ending of the month.

7. Navy Lodges

The Navy Lodge report, Exhibit 4-10, is provided to those exchanges with Navy Lodges. The report provides sales, cost of sales, gross profit, payroll and benefits, other direct expenses, and net contribution. In addition, since, the Navy Lodge system has been set up as a separate entity from the Navy Resale System the Navy Lodge report includes building and equipment depreciation, and project amortization, as well as, a charge for services rendered by the Navy Resale and Services Support Office. A total Navy Lodge net profit or loss is presented.

F. EXECUTIVE LEVEL REPORTS

Executive level reports are identical in format to those reports received by Exchanges.

1. Regional Reports

To supervise the management of the regional exchanges the region receives a consolidation report for the

region as well as copies of each exchanges operating reports. The regional consolidation report is an aggregation of all regional exchange's reports along with the regional office reports. The regional office reports are not within the scope of this thesis. However, they are consistent with the reports received by each exchange.

2. Headquarters Reports

To oversee the management of all exchanges, headquarters level executives receive a worldwide consolidation report, a continental United States consolidation report, and a overseas consolidation report. In addition, if necessary, headquarters executives have access to both regional reports and individual exchange reports.

Besides the operating statements the headquarters level executives receive a comparative balance sheet, this year to last year, at the end of each year.

V. COMPARISONS, CONCLUSIONS, AND RECOMMENDATIONS

A. INTRODUCTION

In this chapter, a comparison of the Navy financial operating reports is made with those prepared by the private and public sector as well as with the National Retail Merchants Association (NRMA). The final section of this chapter presents conclusions and recommendations based on the comparison.

B. COMPARISONS

1. Retail Merchandise Reports

A report similar to the Department Total Company Contribution report, as described in Chapter II, is not prepared by NAVRESSO nor was it provided by any of the private or public sector retailers thus eliminating any comparisons.

The Department Contribution by Selling Location report, described in Chapter II, the NAVRESSO Retail Departmental Operations report and similar reports provided by the private and public sector are compared here. Those items such as, a month-to-date dollar sales amount which are common to the NRMA, and the private and public sector reports are also found in the NAVRESSO report, except mark-down dollars. Of those items that are common to at least two

of the three private and public retailers and the NRMA, only an inventory turnover figure is not provided by NAVRESSO. There are four items which were common to at least one private or public sector retailer and the NRMA which are not provided by NAVRESSO: markdowns dollars last year, sales per square foot, and gross profit per square foot for this year and gross profit per square foot for last year.

2. Expense Reports

In Chapter IV it was stated that there are no expense reports provided by the Navy Resale and Services Support Office other than the limited expense breakdowns provided in the branch store reports. Therefore, comparisons provided in the following section are between the National Retail Merchants Association and the public and private sector companies.

a. Comparative Statement of Operating Expenses by Expense Center and Subcenter

The May Department Stores Company and the company desiring to keep their reports confidential provided reports similar to the Comparative Statement of Operating Expenses by Expense Center and Subcenter. The May Department Stores Company report is similar to the statement suggested by the NRMA, however there are some changes and additions. First there is a column for ranking of expenses within the companies other branch stores. Second, instead of giving the plan and last year dollar amount and

percentage to sales, the May Company report provides the difference, better or worse, than plan and last year in dollars and as a percentage to sales. Finally a column gives the percentage change in expense dollars, actual versus last year.

b. Comparative Statement of Operating Expenses by Natural Division

The Army and Air Force Exchange Service Expense Analysis Statement is similar to the NRMA Comparative Statement of Operating Expenses by Natural Division in that the AAFES report provides current period and year-to-date expense dollars and expenses as a percentage of sales by natural division and a last year year-to-date percentage of sales. Besides the figures provided by the AAFES report the NRMA report provides budget and budget variance in dollars and as a percentage of sales as well as a last year dollar amount. The lack of either a budget or budget variance on the AAFES report does not allow evaluation of information in relation to objectives as stated in Chapter II under improving the effectiveness of management reports.

c. Other Expense Reports

The Expense Center Report, Expense Center Productivity Report, Expense Center Report Flexible Budget, and Payroll and Production Summary have no private or public sector reports with which to be compared. The J. C. Penny Company report and a report from the company requesting

confidentiality were both expense reports by natural division within an expense center. Though these type reports were not suggested by the National Retail Merchants Association the Retail Accounting Manual stated that some firms would want to make changes in the form of presentation.

3. Cost or Non-Retail Merchandise Reports

In this area only the NRMA and the public sector retailer, AAFES, provide reports to compare to NAVRESSO reports.

The NRMA Workroom and Cost Department Operating Statement is heavily oriented towards workrooms which are rarely seen, or may even be non-existent within Navy Exchanges. The major point of interest in the NRMA report is that after direct gross profit is computed, operating expenses by expense center are subtracted to determine operating profit or loss for cost selling departments.

In comparing the AAFES cost department operating statement with the NAVRESSO Service Departmental Operations and Service Department Benefits and Other Direct Expense reports there are several differences. First, AAFES provides a separate report for each of its cost operations, (Food, Services, and Vending), whereas NAVRESSO places all cost departments in separate sections on the same sheet. Second, NAVRESSO has further segregated its Services departments into Barber Shops, Beauty Shops, Gasoline Operations,

Auto Repair, Optical Shops, Flower Shops, Food Operations, Personalized Services, and Vending Operations versus the three listed above for AAFES. Third, AAFES has more direct expense categories than NRMA's natural divisions while NAVRESSO has fewer categories than NRMA's natural divisions. Finally, the NAVRESSO reports provide figures for budget, actual, and last year for the current month and year to date while the AAFES reports only provide actual for the current month and year-to-date.

4. Branch Store Reports

In comparing NRMA's Individual Store Location Operating Statement, the branch operating statements provided by J. C. Penny Stores Company, F. W. Woolworth Company, and Army and Air Force Exchange Service as well as the Navy Resale and Services Support Office statement it should be noted that each private sector retailer, AAFES and the NRMA segment leased sales. This segmentation is done on the individual operating statements; except for AAFES where it is done on the Analysis and Statistics Statement. NAVRESSO does not segment leased sales. Gross profit is shown as sales minus cost of sales giving gross profit on the J.C. Penny Stores, AAFES, and NAVRESSO statements. On the F.W. Woolworth Company and NRMA statements gross profit is shown without cost of sales. The retailers use different methods of reporting expenses. J. C. Penny Stores

summarizes expenses in natural divisions. F. W. Woolworth Company and AAFES list expenses in natural divisions and subdivisions. The National Retail Merchants Association lists expenses by expense center. The Navy Resale System lists expenses by natural division and subdivision.

5. Executive Level Reports

a. Total Company Balance Sheet

A total company balance sheet as presented by the NRMA was not received from any of the public or private sector retailers. A typical balance sheet was received from the Carter Hawley Hale Stores, Inc. which compares this year to last year and plan. A similar balance sheet is also provided by NAVRESSO, however, it only compares this year to last year.

b. Condensed Income Statement

When comparing the condensed income statements provided by the J. C. Penny Stores Company, the May Departments Stores Company, and Carter Hawley Hale Stores, Inc. with the National Retail Merchants Association Condensed Income Statement little difference is found in the information provided. The information provided on the Army and Air Force Exchange Service and Navy Resale and Service Support Office condensed income statement is presented in a different format. Instead of summarizing all departments data AAFES segments retail, food, services, and vending department data while NAVRESSO segments retail and

services data. Besides this segmentation each public sector retailer then reports general expenses leaving exchange net earnings. AAFES and NAVRESSO reports provide the same type comparisons as the private sector and NRMA reports, ie. this year, last year, plan, and variance to plan.

c. Total Company Income and Expense Statement

There were no reports similar to the NRMA Total Company Income and Expense Statement.

C. CONCLUSIONS, DISCUSSION, AND RECOMMENDATIONS

1. Retail Merchandise Reports

a. Department Total Company Contribution Report

Recommendation:

A department total company contribution report presented in Chapter II, Exhibit 2-1 should be adopted at this time. The reports distribution would be limited to those activities that perform "significant" purchasing functions such as regions and independent main Exchanges not under a region.

This report computes a gross profit margin for each department and then subtracts that department's direct merchandising payroll and promotional expenses to determine a departmental contribution. Such a report would be meaningful in the Navy Resale System.

As stated in Chapter II a buyer's performance must be measured. This measurement is possible, to a limited extent, with the current Retail Departmental Operations report. However, it does not include any direct

merchandising payroll or promotional expenses. The recent conversion to a more regionalized system of purchasing by the Navy Exchange System, facilitates a reasonable allocation of a buyer's and related staff members payroll to a given department.

As for promotional expenses the Navy Resale System has traditionally spent little in advertising, using point of sale display almost exclusively to reach its market. In the past few years more and more dollars have been spent on the direct mailing of advertisements to patrons. Though direct mail advertising is not as costly as radio and television advertising, direct mail is becoming a more significant item and is in need of more control. Tracking of the direct merchandising payroll and promotional expense will provide management with the information to control direct merchandising payroll and promotional expense as necessary.

b. Department Contribution by Selling Location Report

Recommendation:

Inventory turnover, sales per square foot, gross profit per square foot for this year, and gross profit per square foot for last year be added to the Retail Departmental Operations report.

The Retail Departmental Operations report, the equivalent of the NRMA's Department Contribution by Selling Location report, does not provide six items of statistical information, listed above in the comparison section as being

provided by the NRMA and public and private sector retailers.

Based upon this research the author concludes that of the six items listed, the two markdown dollar figures can be eliminated from consideration for inclusion on the Retail Departmental Operations report. A markdown percentage to sales figure is provided and is the more useful figure when reviewing or budgeting markdowns since markdowns are budgeted as a percentage of sales.

The other four items, inventory turnover, sales per square foot, gross profit per square foot for this year, and gross profit per square foot for last year, can be added to the report by removing the beginning-of-month inventory figure (which is already available under the heading End-of-Month Inventory on the previous months report) and reducing the size of the department title column. The inventory turnover figure is needed, it is an indicator of departments with dead stock that needs management action. The sales per square foot and gross profit per square foot figures are needed to ensure management properly allocates floor and shelf space to the items that are selling as well as generating profit for the store.

Besides the lack of statistical figures, the NRMA Department Contribution by Selling Location report subtracts various direct selling expenses from each depart-

ment before coming to a departmental contribution for each department. A comparison of the NAVRESSO Retail Departmental Operations report shows that direct selling expense is not subtracted from each department. This is appropriate because of the size of each Navy Exchange department. At all but the very largest exchanges one person may handle several different departments. At some of the smaller exchanges one person may be responsible for every department in the store. However, total retail department gross margin minus direct selling expenses giving a total retail department contribution is presented on the Retail Operations report and is discussed later in this chapter.

2. Expense Reports

a. General

Recommendation:

A system using expense centers and natural divisions be implemented.

The Navy Resale and Services Support Office does not provide comparative expense reports. From this lack of comparative expense reports indicates that expense analysis is an area in need of revision by the Navy Resale System.

As stated in Chapter II expense accounting improves profitability through the control of operating expenses. This is done by accumulating operating expenses into expense centers and then holding the center's manage-

ment responsible for controlling expenses by comparing actual to budgeted and prior years' figures. It was also pointed out in Chapter II that there is only limited usefulness of comparisons among stores when using natural divisions because of the diversified manner in which stores perform identical activities.

The Navy Resale System branch store reports use quasi-natural divisions in the expense section of the report, instead of expense centers, to hold its managers accountable. The use of natural divisions could be argued for when each Exchange was considered a separate entity and pro-rations would have been extremely difficult, but now that most Exchanges have been formed into regions and the pro-ration problem has been significantly reduced the argument is more difficult to justify.

Though implementation of this system is not within the scope of this thesis it is realized that there will in all likelihood be major resistance to a change of this magnitude. However, if the Navy Resale System is to remain competitive with other major retailers the change must be made so that adequate comparisons can be made with private and public sector retailers.

b. Comparative Statement of Operating Expenses by
Expense Center and Subcenter

Recommendation:

A modified version of the Comparative Statement of Operating Expenses by Expense Center and Subcenter presented in Chapter II, Exhibit 2-4B be adopted.

The Navy Resale and Services Support Office does not provide a comparative statement of operating expenses by expense center and subcenter.

To maintain the current level of support to the Navy Welfare and Recreation funds the Navy Resale System must be competitive with other retailers in the private and public sector. To be competitive the Navy Resale System must be able to compare its operating and financial statistics with that of other major retailers. To make these necessary comparisons a report similar to the Comparative Statement of Operating Expenses by Expense Center and Subcenter is needed. The specific subcenters used in the report would be modified to better correspond with the Navy Resale System. For example the use of subcenters 425 (Radio) and 426 (TV) would be eliminated. The rest of the statement's format is suitable.

c. Comparative Statement of Operating Expenses by
Natural Division

Recommendation:

It is recommended that a modified version of the Comparative Statement of Operating Expenses by Natural Division presented in Chapter II, Exhibit 2-5 be adopted.

The Navy Resale and Services Support Office does not provide a comparative statement of operating expenses by natural division.

Though comparisons by natural division are not as beneficial as comparisons by expense center they are still of use when analyzing expenses. Therefore a report such as the Comparative Statement of Operating Expenses by Natural Division is needed. The report should be modified by adding at least one natural division for utilities because of the major emphasis now placed on utilities expense. For ease of comparison with other major retailers the elimination of natural divisions provided in the Retail Accounting Manual is not recommended. The rest of the statement's format is suitable to the Navy Resale System.

d. Other Expense Reports

Recommendation:

The other expense center reports be phased into the system as soon as management considers it feasible but no later than one year from initial implementation of the proposed system.

The Navy Resale and Service Support Office does not provide an Expense Center Report, Expense Center Productivity Report, Expense Center Report Flexible Budget, or a Payroll and Production Summary.

As suggested in Chapter II each of the above reports is necessary to the proper management of a retail organization. The Expense Center Report is necessary to

report expenses within an expense center and to give feedback on management of the expense center. The Expense Center Productivity Report provides feedback with specific productivity measurements for those areas where production goals can be set. The Expense Center Report Flexible Budget establishes the budget used on the Expense Center Report. The Payroll and Production Summary provides a breakdown of payroll expenses -- normally the largest expense in every expense center. Given the magnitude of change required by this new expense accounting system it would be better to phase these remaining expense reports in over time.

3. Cost or Non-Retail Merchandise Reports

The cost or non-retail merchandise reports require modification to be compatible with the recommended change to the expense accounting system and the treatment of leased sales and commissions in Chapter II.

a. Service Department Operations Report

Recommendation:

A report similar to the Service Department Operations report shown in Exhibit 5-1 be adopted.

The Service Departmental Operations report presently aggregates all sales, cost and leased. It also aggregates cost departments gross profit and leased departments commissions. To show a more accurate picture of owned versus leased sales and related gross profits the sales and commissions of leased operations should be separated from

SERVICE DEPARTMENT OPERATIONS

DEPARTMENT	INVENTORY AT BOM	EOM	COST SALES	LEASED SALES	TOTAL SALES	TOTAL COST	1 TO GROSS SLS	LEASED GROSS	1 TO GROSS SLS	TOTAL GROSS	1 TO GROSS SLS	EXPENSES	1 TO SLS	LOC CONT	1 TO SLS
J1	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD														
J2	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD														
J3	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD														
J5	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD														

EXHIBIT 5-1 SERVICE DEPARTMENT OPERATIONS

owned operations. The current report does give a breakdown of services payroll, employee benefits, other direct expense, and depreciation before computing the net departmental contribution. These four divisions of expense are not necessary when holding management responsible by expense center instead of by natural division, therefore a single column titled expenses is all that is required. The new Service Department Expense Center Report will give a breakdown of expenses by expense summary.

b. Service Department Expense Center Report

Recommendation:

A report similar to the Service Department Expense Center Report shown in Exhibit 5-2 be adopted.

The natural division expense breakdown on the current Service Department Benefits and Other Direct Expense report is not necessary when managing by expense centers. The natural division breakdowns should be replaced with expense summary breakdowns and a column should be added for average wage rate until the Payroll and Production Summary report is produced.

4. Branch Store Reports

Chapter II recommended change to the expense accounting system and the separation of leased sales and commissions from owned sales and gross profit. Current branch store reports requires modification to make them compatible with the recommended changes.

SERVICE DEPARTMENT EXPENSE CENTER REPORT

DEPARTMENT	PROP & EQUIP	COMP MGMT	CREDIT & ACCTS REC'D	SALES PRONO	SERV & OPER	PERS	MERCH, REC'D, STOR., & DIST	SELL & SUPP SERV	TOTAL	MHE	AVR	\$ SALES/ EQUIV MM
J1	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD											
J2	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD											
J3	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD											
J5	BUDGET ACTUAL LY BUD YTD ACT YTD LY YTD											

EXHIBIT 5-2 SERVICE DEPARTMENT EXPENSE CENTER REPORT

a. Retail Operations

Recommendation:

A report similar to the Retail Operations report shown in Exhibit 5-3 be adopted.

The Retail Operations report, the equivalent of the NRMA Individual Store Location Operating Statement, does not show leased sales or commissions separately from owned departments. As is indicated in Chapter II, to show a true picture of sales and related gross profits the sales and commissions of leased operations should be separated. In addition the Retail Operations report currently lists expenses by natural division versus expense summary. Again when managing by expense centers, instead of natural divisions, a breakdown by expense summary is more beneficial. Until a Payroll and Production Summary report is put into use: man month equivalents, average wage rate, and dollar sales per equivalent man month should be reported on the Retail Operations report.

b. Services Operations

Recommendation:

A report similar to the Service Operations report shown in Exhibit 5-4 be adopted.

The changes necessary on the Service Operations report are almost identical to those on the Retail Operations report. The only exception is that man month equivalents, average wage rate, and dollar sales per equiva-

RETAIL OPERATIONS

CURRENT MONTH

BUDGET % TO THIS YEAR SLS
BUDGET % TO LAST YEAR SLS
BUDGET % TO BUDGET SLS

YEAR-TO-DATE

BUDGET % TO THIS YEAR SLS
BUDGET % TO LAST YEAR SLS
BUDGET % TO BUDGET SLS

DESCRIPTION

RETAIL

NET SALES
OWNED
COST
LEASED
TOTAL

GROSS MARGIN
OWNED
COST
LEASED
TOTAL

EXPENSES

PROPERTY & EQUIP
COMPANY MGMT
ACCT & MGMT INFO
CREDIT & ACCTS RECV
SALES PROMOTION
SERVICE & OPERATIONS
PERSONNEL
MERCH, RECV, STOR, & DIST
SELLING & SUPPORT SVC
TOTAL

LOCATION CONTRIBUTION

REC & SHIP MME
AWR
\$ S/EMM

DIRECT MME
AWR
\$ S/EMM

PROC MME
AWR
P/R \$ BEFORE
ALLOC

EXHIBIT 5-3 RETAIL OPERATIONS

SERVICES OPERATIONS

CURRENT MONTH				YEAR-TO-DATE				DESCRIPTION	BUDGET	Z TO SLS	LAST YEAR	Z TO SLS	VAR BUDGET	LAST YEAR	Z TO SLS
BUDGET	Z TO SLS	THIS YEAR	SLS	THIS YEAR	SLS	Z TO SLS	VAR BUDGET								
SERVICES															
NET SALES															
OWNED															
COST															
LEASED															
TOTAL															
GROSS MARGIN															
OWNED															
COST															
LEASED															
TOTAL															
EXPENSES															
PROPTY & EQUIP															
COMPANY MGNT															
ACCT & MGMT INFO															
CREDIT & ACCTS RECV															
SALES PROMOTION															
SERVICE & OPERATIONS															
PERSONNEL															
MERCH, RECV, STOR, & DIST															
SELLING & SUPPORT SVC															
TOTAL															
LOCATION CONTRIBUTION															

EXHIBIT 5-4 SERVICES OPERATIONS

lent man month listed on the Retail Operations report are reported on the new Service Department Expense Center report and are not needed on the Service Operations report.

c. General Expense Payroll and General Expense

Recommendation:

The General Expense Payroll and General Expense reports be eliminated.

The General Expense Payroll and General Expense reports are no longer necessary: The information would be available on the new expense reports.

d. Operating Statement (Excluding Retail Clothing Stores and Navy Lodges)

Recommendation:

A report similar to the Operating Statement shown in Exhibit 5-5 be adopted.

The changes necessary on the Operating Statement are almost identical to those on the Retail Operations report. The only exception is that allocation of regional and headquarters expenses as well as centrally funded exchange expenses would be subtracted and other income would be added to the location contribution to give a total exchange net profit or loss.

e. Retail Clothing Stores and Navy Lodges

Recommendation:

The Retail Clothing Stores and Navy Lodges report be changed to separate owned sales and gross profit from leased sales and commissions as well as reflect expense summaries versus expense natural divisions.

OPERATING STATEMENT (EXCLUDING RETAIL CLOTHING STORES AND NAVY LODGES)

<u>CURRENT MONTH</u>		<u>YEAR-TO-DATE</u>			
BUDGET	% TO THIS YEAR SLS	% TO THIS YEAR SLS	% TO BUDGET SLS	% TO LAST YEAR SLS	% TO SLS
DESCRIPTION					
EXCHANGE					
NET SALES					
OWNED					
COST					
LEASED					
TOTAL					
GROSS MARGIN					
OWNED					
COST					
LEASED					
TOTAL					
EXPENSES					
PROPERTY & EQUIP					
COMPANY MGMT					
ACCT & MGMT INFO					
CREDIT & ACCTS RECV					
SALES PROMOTION					
SERVICE & OPERATIONS					
PERSONNEL					
MERCH. RECV. STOR. & DIST					
SELLING & SUPPORT SVC					
TOTAL					
LOCATION CONTRIBUTION					
ALLOCATION OF					
REGIONAL EXPENSE					
CENTRAL OFF EXP					
CENTRALLY FUND EXP					
EXCH OTHER INCOME					
EXCH NET PROFIT OF (LOSS)					

EXHIBIT 5-5 OPERATING STATEMENT

Like the retail stores, retail clothing stores and Navy Lodge's could be operated as leased operations or owned operations. Therefore for uniformity owned sales and gross profit should be separated from leased sales and commissions. As before expenses should be changed to reflect expense summaries.

5. Executive Level Reports

a. Total Company Balance Sheet

Recommendation:

A report similar to the Total Company Balance Sheet presented in Chapter II should be developed for use at the headquarters level of the Navy Resale System.

The Navy Resale and Services Support Office does not prepare a total company balance sheet.

As stated in Chapter II the total company balance sheet is considered necessary for management. The trend format of the balance sheet allows management to more easily spot problems. The Total Company Balance Sheet presented in Chapter II would need some changes such as the removal of income taxes and deferred income taxes since they are not applicable to the Navy Resale System. Other changes might include revisions to column names and the possible addition of other financial ratios.

b. Condensed Income Statements

Recommendation:

A condensed income statement be prepared by aggregating at the worldwide level the Operating Statement proposed in this chapter.

Changes to the current Navy Resale System operating statement necessitate changes to the current NRS condensed income statement.

The Navy Resale System condensed operating statement is a worldwide aggregation of operating statement's. This method of aggregating at different levels, but using the same format, is consistent with Chapter II. To improve the effectiveness of reports, uniform formats should be established for all reports so that it is easy for an executive to follow one report to another. Based on the analysis in Chapters II through V recommendations were made for changes to the Operating Statement. It follows that these changes will be reflected in the condensed operating statement.

c. Total Company Income and Expense Statement

Recommendation:

A Total Company Income and Expense Statement similar to that presented in Chapter II Exhibit 2-13 be prepared for executives at the headquarters level.

The Navy Resale and Services Support Office does not prepare a total company income and expense statement.

Though no reports similar to the Total Company Income and Expense Statement were provided by either the public or private sector retailers; this author agrees, with the National Retail Merchants Association, that there is a need for such a statement. As was stated in Chapter II the report provides a quick overall picture of the operating

results in a trend format. This tends to highlight potential problems and allows the executive to take faster action to correct a problem.

D. CLOSING REMARKS

The author does not recommend that changes to the Navy Resale and Services Support Office financial reporting system be made entirely on the basis of this thesis without extensive cost benefit analysis into the areas discussed in the above recommendations. Though the emphasis of this thesis was in the area of what financial information should be available, and not how it would be implemented, thought was given to the area of implementation before each recommendation. Though there may be resistance to changing the old financial reporting system by staff that currently use it, with strong support from the Commander of the Navy Resale and Service Support Office the implementation of the changes would be successful and as demonstrated in this thesis useful.

APPENDIX A

GROSS MARGIN COMPUTATION

This manual suggests several specific departmentally-grouped gross margin results rather than condensing all of these group figures into a single total. To the extent that the groupings apply to each individual selling location, they are set forth separately, as follows:

1. Gross Margin—Owned Retail Departments
2. Gross Margin—Owned Cost Departments (including Contract)
3. Gross Margin—Leased/Licensed Departments

As a general rule, gross margin for owned departments is derived by subtracting from net sales the following: a) total net cost of merchandise sold, b) workroom loss or gain, and c) other cost of sales.

1. Owned Retail Departments

The net cost of merchandise sold for owned retail departments is obtained as follows:

- | | |
|--|----------|
| a. Merchandise inventory at gross cost (before cash discount) at the beginning of the period | \$ _____ |
| b. Net merchandise purchases at gross invoice cost for the period | _____ |
| c. Inward transportation cost on merchandise purchases for the period | _____ |
| d. Total—Sum of a, b, and c | \$ _____ |
| e. Merchandise inventory at gross cost, at the end of the period | _____ |
| f. Amount (d) less amount (e), such difference being the gross cost of merchandise sold for the period | \$ _____ |
| g. Cash discounts earned | _____ |
| h. Net cost of merchandise (f-g) | \$ _____ |

The net cost of merchandise sold for owned retail departments is obtained by subtracting the cash discounts earned on merchandise purchases from the gross cost of merchandise sold.

The calculation of the amount of cash discounts earned on purchases is to be determined as follows:

—Merchandise of retail inventory departments should be carried in inventory on a gross cost basis—that is, before cash discounts.

—As a corollary of a), discounts may be taken into income only as earned. Consequently, it is necessary to maintain a reserve for unearned discounts to apply against the inventory account carried on a gross cost basis. To do otherwise would be to overstate gross margin in some years and understate it in others. The computation of the unearned discount should be based on the average rate of discount on purchases by departments during the period, considering also discounts applicable to the opening inventory.

To determine the total merchandise costs for retail inventory departments, it is necessary to add net workroom loss or gain and other cost of sales, if any, to the previously-established gross cost of merchandise sold.

2. Owned Cost Departments

In the instance of cost departments, purchases are normally entered net of cash discounts, if any. The total merchandise costs for owned cost departments is obtained as follows:

a. Inventory at net cost at the beginning of the period

The inventory should be priced at net cost or market, whichever is lower.

b. Purchases at net cost for the period

Include here all purchases of materials and supplies, less returns and allowances, trade discounts, and cash discounts. Include also all direct labor and other production costs.

c. Transportation cost on purchases for the period

d. Total sum of a, b, and c

e. Inventory at net cost at the end of the period

f. Amount (d) less amount (e)

This difference is the total merchandise cost of owned cost departments, after cash discount, for the period.

APPENDIX B

EXPENSE CENTER ACCOUNTING

A. Introduction to Expense Accounting

The primary objective of expense accounting is control through the accumulation of operating expenses by major areas of responsibility. This accumulation is necessary because a prerequisite for controlling expenses is the identification of responsibility for the incurrence of the expenses. After expenses are accumulated by major areas of responsibility and identified with the individual executives responsible for each operation, performance can be measured by comparing actual expenses incurred with planned and prior years' results.

The basic framework of the chart of accounts consists of a breakdown of total operating expenses first into expense summaries and then into expense centers and sub-expense centers which conform to the areas of responsibility within a retail store.

The chart of accounts provides for ten major categories (expense summaries) for the accumulation of expenses, as follows:

- 010 Property and Equipment
- 100 Company Management
- 200 Accounting and Management Information
- 300 Credit and Accounts Receivable
- 400 Sales Promotion
- 500 Service and Operations
- 600 Personnel
- 700 Merchandise Receiving, Storage, and Distribution
- 800 Selling and Supporting Services
- 900 Merchandising

As shown in Exhibit 1 at the end of Chapter I, for companies that want a further breakdown of expenses by responsibility, 44 expense centers and 22 sub-expense centers are provided within the ten expense summaries. This expense breakdown provides companies with a degree of flexibility in the recording and reporting of expenses.

The total expenses within each expense summary or expense center are classified by "natural divisions of expense." The chart of accounts specifies 17 natural divisions of expense (described more fully in Section D).

Not all of the 17 natural divisions are included in every expense center. Some natural divisions—media costs, bad debts, pensions, and real property rentals—are restricted to only one expense center, while other natural divisions—payroll, supplies, unclassified, and travel—are included in most expense centers.

In addition to the 17 basic natural divisions, three additional natural divisions are provided for the redistribution of expenses between expense centers. Costs are accumulated in each expense center by the various natural divisions of expense. Whenever practicable, it is advisable to make charges directly to the various expense centers. Occasionally it is necessary to effect a transfer of expense from one expense center to another in order to reflect properly the actual operating costs of the expense center. When such a transfer involves an expense of a single natural division, the debit and the offsetting credit to the expense centers involved should be made through the particular natural division involved. However, when the amount to be transferred out of an expense center is the composite of several natural divisions, then the credit to the expense center should be made in Natural Division 91 - Expense Transfers Out, and the debit or charge to the other expense center should appear in Natural Division 90 -

Expense Transfers In. For example, data processing provides services for various expense centers such as accounts receivable and merchandise control. Therefore, Expense Center 280 - Data Processing includes Natural Division 91 - Expense Transfers Out while Expense Centers 340 - Accounts Receivable and Bill Adjustment and 930 - Merchandise Control include Natural Division 90 - Expense Transfers In. Natural Division 02 - Allocated Fringe Benefits has been provided to facilitate the allocation of fringe benefits so that fringe benefits may be correlated with payroll in each expense center.

Every expense item is assigned or coded with a basic five-digit number, as will become clear after reading Section D of this chapter. The first three digits represent the expense center charged with the expense, and the last two digits represent the natural division involved. Thus, the payroll (Natural Division -01) of the controller (charged to Expense Center 210) is coded or identified as 210-01.

The description of each expense center includes an introduction which describes the content and nature of the work of each expense center as well as the type of expenses to be accumulated therein. In determining where charges should be made, especially those relating to payroll, the user of the manual should read the description of work operations and the description of payroll charges in each expense center.

In establishing a basis for accumulating expenses in each expense center, a decision had to be made whether to provide for all conceivable costs related to that expense center or to recognize only the major portion of costs. In certain expense centers, the accumulation of costs approaches the all-inclusive basis. In most other centers, however, some costs are excluded because the work required to make the finer segregation would probably not be worth the effort. For example, the delivery and data-processing expense centers include all the equipment costs associated with the work of those centers, while the equipment costs associated with the accounts receivable and bill adjustment expense center are excluded. It should also be noted that in no case—even in those centers where the full cost concept is approached—can it be said that every item of cost has been provided for.

The concept of expense accounting outlined above has guided the development of a practical manual that takes into consideration management's need to minimize clerical costs as well as to obtain vital accounting data.

B. Revisions in Expense Centers

The major revisions in expense centers are as follows:

1. The establishment of ten expense summaries
2. An increase in the number of expense centers from 23 to 44, plus 22 sub-expense centers, making a total of 66 expense areas of activity
3. The establishment of a management expense center within each expense summary (except 010), such as 110, 210, etc.
4. The establishment of a separate expense center for Data Processing, 280
5. The designation of five expense centers as equipment-intensive centers and the assignment of the depreciation, equipment rental, and outside maintenance and equipment service contract natural divisions to those five expense centers.

Following are brief descriptions of the five major revisions:

The establishment of ten expense summaries is intended for those smaller companies and single-unit speciality stores which do not require the detailed breakdown provided by the 66 areas of activity. For smaller companies, the costs of maintaining the detailed information outweigh the advantages provided by the more detailed breakdown of expenses.

The increase in the number of expense centers from 23 to 44 (plus 22 sub-expense centers) is provided as a guide for larger companies which desire a more detailed breakout of expense centers. The increasing importance of controlling expenses has led to a desire for a finer breakdown of expense centers so that responsibility can be more strictly assigned and monitored. With the increased use of electronic data processing, the task of accumulating expenses has also become easier.

At the same time, the new structure provides for more detailed fan-out possibilities for

those larger stores which need a breakdown of more than 66 expense centers for their internal reporting purposes. For example, within Expense Center 210 (Control Management, General Accounting, and Statistical), a store may provide expense centers for Control Management (211), General Accounting (212), and Statistical (213). For external reporting purposes, 211, 212, and 213 would be summarized in 210. The Accounts Payable expense center (230) may be broken out into an Order Office (231) and an Invoice and Payment Office (235), which would then be summarized in 230 for external reporting purposes.

A "management" expense center whose last two digits are 10 is included in each expense summary (except 010) to accumulate the supervision and other management costs of operations, such as fees paid for hiring executives, and dues, and subscriptions, etc.

In providing for the allocation of payroll costs to the management expense centers of the respective expense summaries, it was determined that those executives who report directly to the chief executive officer and who represent the policy making level of the company should be charged to payroll in Expense Account 110-01 instead of in their respective expense centers. For example, in larger stores where vice presidents-merchandising for fashion merchandise and hard goods oversee the merchandising function of the various departments and determine the merchandising philosophy of the store, their payroll would be charged to 110-01 instead of 910-01.

For the purpose of reporting statistics to outside financial services and trade publications, the "10" expense summaries serves as an accumulation of all other expense centers within a particular expense summary. If a company uses an expense center within an expense summary and chooses not to use all of the expense centers within that expense summary, then it should use the 10 expense center to accumulate all of the expenses identified with the specific centers that it chose not to use. For example, if a company chooses to break out only Branch Management (130) within the Company Management expense summary, then Internal Audit (140) and Legal and Consumer Activities (150) should be accumulated in Expense Center 110 along with Executive Office.

A separate expense center for data processing has been included in the revised chart of accounts. Accounting and data processing were previously combined in Expense Center 210 and no provision existed for transferring data processing costs to other expense centers. In recent years, the data processing function has assumed the performance of many functions outside the accounting expense center, such as billing and credit authorization in Expense Summary 300 - Credit and Accounts Receivable, and Merchandise Control in Expense Summary 900 - Merchandising. Therefore, a separate expense center for data processing has been added in the revised edition, including a provision for the transfer of expenses to the expense center served by data processing.

Most data processing costs (including program maintenance, but excepting research and development, the costs of reruns caused by data processing department errors, and the net underutilized capacity of the data processing center) should be allocated to other expense centers. Therefore, the only costs remaining in the data processing expense center will be the residual costs — that is, underutilized capacity, research and development, etc.

This manual does not recommend any particular basis for the allocation of data processing expenses. The use of elapsed time for each EDP application performed for other expense centers would seem to be the most appropriate method. Where a specific EDP application benefits more than one expense center, another relevant allocation should be made.

Five expense centers are identified as equipment-intensive expense centers—that is, expense centers where equipment represents a significant investment and where a major portion of the work operations of the center has been mechanized. These expense centers are as follows:

- 280 Data Processing
- 550 Telephones and Communications
- 720 Receiving and Marking
- 750 Shuttle Services
- 880 Delivery

Natural Divisions 13 - Depreciation and 17 - Equipment Rentals have been assigned only to these five expense centers, and to the two property and equipment expense centers (020 and 030). Depreciation and Equipment Rentals for all expense centers other than the above five should be charged to 020 or 030 - 13 and 17. Natural Division 18 - Outside Maintenance and Equipment Service Contracts has also been assigned to these five expense centers. Outside Maintenance and Equipment Service Contracts for all other expense centers should be charged to 580-18, Maintenance and Repairs.

C. Transfers of Expenses Between Expense Centers

Since the primary emphasis of this manual is effective expense control rather than the identification of the total cost of each activity performed, the manual generally follows the principle that all expenses shall be charged to the center where the work is done, with no transfer being made when work is done for the use and benefit of another center. However, it is occasionally necessary to effect a transfer from one expense center to another in order to reflect properly the actual operating costs of the expense centers. When a transfer involves a single natural division, the debit and the offsetting credit are made through the natural division involved. When the amount to be transferred out of an expense center is the composite of several natural divisions, then the credit should be made in Natural Division 91 - Expense Transfers Out and the corresponding debit or charge to the other expense center should appear in Natural Division 90 - Expense Transfers In.

The chart of accounts contains Natural Division 91 - Transfers Out for the following expense centers, where transfers out are significant:

- 280 — Data Processing
- 550 — Telephones and Communications
- 580 — Maintenance and Repairs
- 880 — Delivery

Similarly, the chart of accounts provides Natural Division 90 - Transfers In for the following expense centers:

- 210 — Control Management, General Accounting, and Statistical
- 220 — Sales Audit
- 230 — Accounts Payable
- 240 — Payroll and Timekeeping Department
- 280 — Data Processing
- 310 — Credit Management
- 330 — Collection
- 340 — Accounts Receivable and Bill Adjustment
- 420 — Advertising
- 430 — Shows, Special Events, and Exhibits
- 720 — Receiving and Marking
- 750 — Shuttle Services
- 820 — Direct Selling
- 930 — Merchandise Control

The purpose of these transfer accounts, therefore, is to provide a means of effecting transfers or reductions in the total costs charged to an expense center without disturbing the other natural divisions.

For example, Data Processing (Expense Center 280) contains account number 280-91 for Expense Transfers Out so that companies may credit here data processing costs allocable to other expense centers, such as:

- 210-90 Control Management, General Accounting, and Statistical
- 220-90 Sales Audit
- 230-90 Accounts Payable
- 240-90 Payroll and Timekeeping Department
- 310-90 Credit Management
- 330-90 Collection
- 340-90 Accounts Receivable and Bill Adjustment
- 930-90 Merchandise Control

Allocated Fringe Benefits (Natural Division — 02)

In recent years, supplementary payroll benefits have increased. Since the magnitude of this expense per employee is substantial, a greater effort should be made to exercise control over the total of payroll plus supplementary benefits. To accomplish this and to focus supervisory attention on this problem, a separate natural division (02) has been created for allocated fringe benefits. Its position in the chart of accounts, immediately after payroll, will focus attention on the total of payroll and supplementary benefits; thus expense control efforts can be exerted accordingly.

All of the actual expenses which comprise total fringe benefits are initially accumulated in their proper natural division in Expense Center 660 - Medical and Other Employee Services and Expense Center 670 - Supplementary Benefits. The 02 classification has been provided to permit the redistribution of fringe benefit expenses from Expense Centers 660 and 670 to all other expense centers having a payroll natural division. The offsetting credit to these charges should be to Expense Account 660-02 or 670-02.

This allocation of total expense of Expense Centers 660 and 670 to each expense center should be based on the total payroll costs of each of the expense centers.

D. Natural Divisions of Expense

All expenses of operating a retail firm, whether an individual unit or part of a multi-store group, and all expenses of the centralized functions that are related to the operation of a group of retail selling locations, are classified into one of the 17 basic natural divisions of expense. All of these, except 08 — Unclassified, are descriptive of a major category of expense, referred to hereafter as natural divisions. A separate basic natural division, 92 — Credits and Outside Revenues, has been established to provide for such credits to expense as may result from the receipt of outside revenue or from a charge to accounts outside the framework of the expense centers.

The natural divisions of expense are as follows:

Basic Natural Divisions

- 01 — Payroll
- 03 — Media Costs
- 04 — Taxes
- 06 — Supplies
- 07 — Services Purchased
- 08 — Unclassified
- 09 — Travel
- 10 — Communications
- 11 — Pensions
- 12 — Insurance
- 13 — Depreciation
- 14 — Professional Services
- 16 — Bad Debts
- 17 — Equipment Rentals
- 18 — Outside Maintenance and Equipment Service Contracts
- 20 — Real Property Rentals
- 92 — Credits and Outside Revenues

Additional Natural Divisions (Transfer Accounts - See Chapter II, Section C)

- 02 — Allocated Fringe Benefits
- 90 — Expense Transfers In
- 91 — Expense Transfers Out

The 17 basic natural divisions of expense together with three additional natural divisions - 02 - Allocated Fringe Benefits, 90 - Expense Transfers In and 91 - Expense Transfers Out — provided for redistribution and offset purposes constitute the backbone of the system of expense classification presented in this manual.

Brief definitions of the natural divisions of expense are given in this chapter. The integration of natural divisions into the complete scheme of expense summaries and expense centers is outlined in Chapter III, Structure of Expense Centers.

Revisions in Natural Divisions

The major revisions in the natural divisions are as follows:

Natural Division 17 - Equipment Costs has been changed to Equipment Rentals.

Natural Division 18 - Outside Maintenance and Equipment Service Contracts has been added.

Natural Division 15 - Donations has been eliminated and included in 08 - Unclassified.

Natural Division 03 - Advertising has been changed to Media Costs.

1. Natural Division 17 - Equipment Costs was provided in the former edition of the Retail Accounting Manual for the accumulation of all costs of major labor-saving equipment purchased for the purpose of substituting equipment for personnel. This natural division included the depreciation, rentals, and repairs applicable to major labor-saving equipment. That natural division has been changed from "Equipment Costs" to "Equipment Rentals" in order to identify specifically by proper natural division all costs of rental equipment in those expense centers where equipment represents a significant investment

Natural Divisions 13 - Depreciation and 18 - Outside Maintenance and Equipment Service Contracts have also been provided in those expense centers where equipment represents a significant investment so that all costs of owning or leasing and operating equipment are accumulated in those expense centers.

Where equipment is a significant investment, it is assumed that the maintenance of this equipment will also be significant, whether it is performed by the company's own personnel, through outside service contracts, or included under the terms of a lease for the rental of the equipment.

2. Natural Division 18 - Outside Maintenance and Equipment Service Contracts has been created specifically for those expense centers where repair or maintenance work is performed by an outside company whether under separate contract or on a per-job billing basis. Such contracts tend to have an ongoing basis by contrast, instead of the incidental purchase of a service on an occasional basis which should be charged to 07 - Services Purchased. The need for a separate natural division for outside maintenance and equipment service contracts resulted from the advent of sophisticated equipment, such as data processing equipment, point-of-sale devices, and mechanized receiving and distribution systems, the repair and maintenance of which requires a degree of expertise normally available only from outside sources.

Description of Natural Divisions

A summary of the expense items to be charged to each of the natural divisions follows:

Natural Division 01 - Payroll

The natural division Payroll includes, in general, all items of compensation for services actually rendered by employees of a company, such as salaries, wages, commissions, promotion money, and bonuses and prizes for contests and similar events. It also includes payments or provisions for vacations, sick leave or absence, separation, holiday and military leave, etc.

This account should not be charged with items of payroll which are to be capitalized; charged to the cost of merchandise in manufacturing, alteration, or service departments; or billed by outside agencies on a contractual or similar basis.

Natural Division 02 - Allocated Fringe Benefits

A transfer account has been provided to allocate fringe benefits out of their appropriate expense centers to all other expense centers with a payroll natural division (see Section C of this chapter).

Natural Division 03 - Media Costs

The natural division Media Costs (which is restricted to only one expense center, 420 -

Advertising) includes all costs of media, such as the cost of space in newspapers, periodicals, programs, streetcars, and billboards; the cost of radio and television station time; and the cost of direct mail advertising. It also includes direct outside costs of electros, cuts, mats and engraving related to the above.

This account should not be charged with the production costs incident to the preparation of the various types of media advertising; such costs should be charged to their appropriate natural divisions—such as payroll, supplies, services purchased, etc.

Natural Division 04 - Taxes

The natural division Taxes includes all taxes paid or accrued (with the exception of federal and state and local taxes based on income, which are treated as a deduction from income before taxes rather than as an operating expense).

Include as a charge to this natural division all state and local taxes (excluding taxes based on income); also include unemployment, social security, and disability taxes and all license fees of a similar character imposed by the various government agencies.

Natural Division 06 - Supplies

The natural division Supplies includes the cost of items consumed in the operation of the business, such as stationery and related items and materials for wrapping, packing, cleaning, repairing, etc. Also included in this natural division are various supplies used in the generation of heat, light, and power, such as the purchase of coal, oil, gas, water, and electricity.

In the interest of simplicity, supplies has been divided into two distinct categories: administrative supplies and functional supplies. Administrative supplies are those of a general nature, such as pencils, pens, paper clips, ordinary stationery, etc., and are therefore charged entirely to Expense Center 510 - Service and Operations Management. Functional supplies are those of a special nature — usually characteristic of and purchased specifically for a particular expense center — and therefore may be significant in amount, such as voucher checks, accounts receivable statements, wrapping or cleaning supplies, repair parts, sales checks, etc. — and should be charged to Natural Division 06 - Supplies in the specific expense center.

Natural Division 07 - Services Purchased

The natural division Services Purchased includes charges for all non-professional services rendered by outsiders which aid, supplement, or substitute for the normal routine activity of the store. It consists exclusively of services performed by outsiders, whether they be companies, individuals, agencies, or independent contractors, provided the services are not chargeable to Natural Division 14 - Professional Services or 18 - Outside Maintenance and Equipment Service Contracts.

Examples of the types of service to be included in Services Purchased are:

- Cleaning services
- Delivery services
- Shopping services
- Detective and alarm services
- Armored car services
- Calculating, statistical, typing services, etc.
- Collection agency services
- Attorney fees for collection of past-due accounts receivable.

For fees paid to executive personnel agencies engaged for procurement of executives within each expense summary area, (see Special Explanation E 12).

This account should not be charged with any internal costs incidental to the performance of any of the above services; such items should be charged to the appropriate natural divisions.

Natural Division 08 - Unclassified

The natural division Unclassified includes all expenses not otherwise classified as chargeable to another natural division. Care should be exercised to limit charges to this account to items which are specified in the manual or which cannot be more appropriately charged elsewhere.

Examples of the type of charges to be included in this natural division are:

- Net cash shortages and bank service charges
- Supper money
- Policy adjustments
- Cost of certain lost or damaged merchandise (see Special Explanation M 4)
- Traffic fines
- Want ads
- Dues and subscriptions
- Donations to qualified charities and institutions
- Expense of interviewing and hiring executives including all interview travel expenses paid to applicants and moving allowances paid to executives hired (see Special Explanation E 12 a and b)
- Loss on comparison and test purchases

Natural Division 09 - Travel

The natural division Travel includes all expenses arising as a result of domestic (whether local or out of town) and foreign travel of all employees of the company for business purposes. Such expenses include transportation, hotel bills, meals, tips, and incidentals.

Also include as a charge to this natural division local transportation expenses, such as transportation costs for travel between selling locations, warehouses, and/or the central organization, automobile hire for collectors, messengers, nurses, and items of a similar character. However, traveling expenses of applicants for positions should be charged to Natural Division 06 - Unclassified.

Also charge allowances to employees for use of their cars on company business (see Special Explanation E 6, Chapter IV).

Natural Division 10 - Communications

The natural division Communications includes all expenses relative to the cost of store and central organization communications, including local and long distance telephone services, all postage (except postage on parcel post delivery and postage on merchandise returned to vendors, which costs are to be charged back to the vendor and consequently credited to departmental purchases). Where rental charges are included with the normal utility billings, the rental should be included in this natural division. However, when a total communication system is leased or rented from outside sources, the charges incurred in connection with the rental should be included in Natural Division 17 - Equipment Rentals.

Natural Division 11 - Pensions

The natural division Pensions (which is restricted to only one expense center, 670 - Supplementary Benefits), includes all expenses relating to pensions, retirement allowances, and contributions to pension funds, insured and trustee plans, direct payments to retired employees.

This natural division should not include internal administrative, clerical, or other costs incidental to the administration of pension and retirement programs, which should be charged to the applicable natural division.

Natural Division 12 - Insurance

The natural division Insurance includes the cost of all insurance, including employer group medical and health insurance. The cost of term insurance should be distributed over the term for which the protection is furnished.

Dividends and earnings on mutual and reciprocal insurance contracts should be credited to this natural division.

Natural Division 13 - Depreciation

The natural division Depreciation includes depreciation of the original cost of the capital assets employed in the operation of the business, such as:

- Buildings
- Leasehold improvements

Equipment
Furniture and fixtures

Depreciation is limited to those expense centers where equipment represents a significant investment in the operations of the expense centers.

Natural Division 14 - Professional Services

The natural division Professional Services includes, in general, the cost of any service of a highly specialized and professional character furnished by outside professional organizations, such as:

Legal fees
Accounting fees
Appraisal fees
Management services fees
Architectural fees (if not chargeable to a capital account)
Special surveys and studies

Professional services are distinguished from services purchased in that they are limited to those services which, by their very nature, are normally secured from outside specialists and experts qualified by training, and often licensed by governmental bodies or divisions.

Do not include financial or economic services which are regularly issued as publications, nor attorney fees for the collection of past due accounts receivable which should be charged to Natural Division 07 - Services Purchased.

Natural Division 16 - Bad Debts

The natural division Bad Debts (which is restricted to only one expense center, 330 - Collection) includes either actual bad debts written off or the provision relating to an allowance for doubtful accounts. It also includes losses due to bad checks and fraudulent purchases, less recoveries.

Natural Division 17 - Equipment Rentals

The natural division Equipment Rentals includes the costs of all equipment rented or leased and is restricted to those expense centers where equipment represents a significant investment in the operation of that expense center.

The infrequent, incidental rental of equipment, such as chairs for fashion shows, is considered a miscellaneous expense item and should be charged to Natural Division 08 — Unclassified of the expense center using the equipment. It is not to be considered as equipment rental in the same sense that major items of equipment are rented or leased for the performance of the regular, repetitive work of an expense center.

Natural Division 18 - Outside Maintenance and Equipment Service Contracts

A new natural division has been established because of the increase in recent years in outside contractual arrangements for servicing and maintaining equipment. Natural Division 18 has been restricted to those expense centers where equipment represents a substantial investment in the operations of the expense center. If this equipment is being leased, the maintenance may be provided for under the terms of the lease. If the maintenance is stated separately in the lease, it should be charged to Natural Division 18; if not stated separately, it should be included in Natural Division 17.

Natural Division 20 - Real Property Rentals

The natural division Real Property Rentals (which is restricted to only one expense center, 020 - Real Estate, Buildings, and Building Equipment) includes expenses incurred or rent paid for real estate used in the operation of the business. Income received for the subletting of rented space (other than the licensing or leasing of a department) should be a credit against the charges to this natural division.

Do not include in this natural division expenses such as taxes, interest, supplies, repairs, insurance, and depreciation when paid directly by the store. These items should be charged to the applicable natural divisions. This natural division applies to real estate only.

Natural Division 90 - Expense Transfers In
Natural Division 91 - Expense Transfers Out

For further discussion of transfer accounts, see Section C in this chapter.

Natural Division 92 - Credits and Outside Revenues

This natural division consists of two categories:

1. **Credits.** There are occasions when an expense center should be credited with amounts which are either debited to accounts outside of the operating expense ledger or to operations not directly associated with carrying on the business. In such cases the expense center will be credited through this natural division regardless of whether the credit applies to one or more of the basic natural divisions. For example, the following are among the types of transactions which require the utilization of Natural Division 92:

- a. Cost of merchandise (as in the case of workroom departments and indirect manufacturing departments)
- b. Capital accounts (for improvements made by the company's regular employees)
- c. Tenants and lessees (for services rendered).

2. **Outside Revenues.** Several items of revenues received by the company which are not classified as revenues or other income are to be included as a credit to operating expense in the particular expense center via this natural division. Examples of these types of transactions are:

- a. Income from work performed as a service bureau
- b. Check cashing and utility bill service fees
- c. Layaway handling charges and charges for CODs
- d. Sales of used display supplies, wastepaper, and other salvage, and sales of shopping bags, gift wrap, etc. (when not operated as a costselling department)
- e. Income from vending machines, locker rentals, pay toilets, etc.
- f. Delivery charges to customers
- g. Money order and traveler's check fees.

Note that credit handling and service charge income is not included in this natural division (see Special Explanations E 14 and E 19e, Chapter IV).

APPENDIX C

WORKROOM AND COST DEPARTMENT OPERATING STATEMENT -- LINE ITEM EXPLANATIONS

Explanation of Items (Lines) in the Operating Statement (See Exhibit 1)

1. Revenue

Only actual amounts received from customers should be considered as revenue for the cost and workroom departments.

- a. In cost selling departments, customer sales revenue should be treated the same as in any retail department.
- b. In indirect manufacturing departments, there should be no sales directly to customers. The work processed should be transferred to a regular retail department or to a cost selling department for sale to customers.
- c. In merchandise service workrooms, the income received from customers is generally recorded on a sales check in the retail selling department. At the end of the accounting, these sales should be accumulated and credited at this line (or "item") on the merchandise service workroom statement.

All bookkeeping transfers for work done for other departments in the store should be treated as reductions of the cost of operating in the cost department.

2. Inventory of Materials and Supplies

Physical inventory valued at cost or market, whichever is lower, at the beginning of the accounting period.

3. Purchases of Materials and Supplies

This account should include all materials and supplies plus inward transportation charges, less purchase discount.

4. Material and Labor Services Purchased

Include any invoices covering services purchased from outside contractors for work that is normally performed in a store workroom, and constitutes the principal activity of the workroom. For example, draperies and slip covers.

5. Total

This is the total of Lines 2, 3, and 4.

6. Inventory of Materials and Supplies

Physical inventory at the end of the period valued as in Item 2.

7. Materials and Supplies Used

This is the difference between Lines 5 and 6.

8. Direct Labor

Includes direct payroll incurred in production or processing of material or rendering the service involved. This consists of all operators, machine operators, repair men, tailors, furniture finishers, beauty salon operators, etc.

9. Indirect Labor

Includes payrolls indirectly involved in the processing of merchandise: that is, supervision, clericals, fitters, and examiners.

10. Total Labor

This is the total of Lines 8 and 9.

11. Work-in-Process Adjustment

This is the difference between the actual or estimated value of material and labor applicable to goods in process of completion at the beginning and end of the period. Where the closing work-in-process inventory is greater than the beginning work in process inventory, the difference will reduce the material and labor costs for the period and should be entered as a credit. Where the opening inventory is greater than the closing inventory, the amount should be entered as an additional cost.

12. Total Materials and Labor

This is the total of Lines 7 and 10, and plus or minus Line 11.

13. Space Charge

Cost, workroom, and manufacturing departments should be charged for space occupied (other than selling space) where the product made or service performed becomes part of the cost of sales of a department servicing store customers as a regular selling department. The amount so determined should be transferred to the cost departments from Expense Center 020 - Real Estate. It should represent a composite of rent, taxes depreciation, etc., as applicable. This charge is to be made whether or not occupancy is pro-rated to retail selling departments.

Charge (Line 13) the space charges applicable to production and non-selling area occupied by these departments. Selling space occupied by the cost department should be reflected on Line 28 statistically, rather than by an actual transfer. This space should be charged at a weighted rate in the manner used for all retail selling departments.

14. Supplies

This includes functional and miscellaneous supplies not consumed in the direct productive process, such as needles, tape measures, scissors, etc., used in an alteration workroom. However, thread would be charged to Purchases of Material and Supplies, line 3.

15. Utilities

Charge the cost of utilities consumed in the direct production process, where utility consumption constitutes a significant portion of the expense inherent in the workroom operation. Examples: Fur storage, shoe repair, etc.

16. Use of Cars and Trucks

Includes charges for the use of owned and hired vehicles.

17. Carfare and Travel

Charge the cost of carfare and traveling expenses, excluding the use of owned and hired vehicles, which are charged to Line 16.

18. Services Purchased

Includes charges from outside agencies for consultation fees, instruction, etc.

19. Repairs to Equipment

Charge the cost of repairs of equipment and machinery used in the manufacturing process of the workroom.

20. Payroll Taxes and Supplementary Benefits

Charge the cost of unemployment and workmen's compensation insurance and FICA on direct and indirect labor, plus such supplementary benefits as are applicable to production costs.

21. Insurance

This account includes fire and theft insurance, particularly in the case of fur storage departments.

22. Depreciation

Charge the depreciation on operating equipment and equipment of a specialized nature which is specifically related to the workroom operation.

NOTE: In the case of all the direct manufacturing charges, lines 13 through 22, which represent debits to the cost of production of sales of the cost department, credit Natural Division - 92 of the Expense Center(s) from which these charges are transferred.

With respect to indirect manufacturing departments and merchandise service workrooms, some stores have been in the practice of charging taxes other than payroll taxes and indirect administrative expenses, such as office costs and executive salaries, to workroom costs. The altogether sensible theory for doing so is: If workroom cost data are used to determine, among other things, whether or not the workroom should be run by the store or leased to an outside contractor, these overhead costs must be considered. Certainly an outside contractor would include similar costs in the charge for doing this work for the store. However, there are so many ways to prorate such overhead costs, and so much detail is involved in preparing many monthly journal entries to credit various overhead expense accounts and charge workroom costs, that the problem of standardization would probably be solved better by eliminating most overhead charges from workroom costs. This will not and should not deter stores from noting on their internal workroom statements that if the workroom had been charged with all overhead, the workroom loss would have been so much greater.

23. Total Other Manufacturing Charges

This is the total of Lines 13 through 22.

24. Total Cost of Production

This is the total of Lines 12 and 23.

25. Credits from Transfers

Those transfers which represent work done for departments of the store other than the parent departments are shown as reductions of the cost of production of the cost department. Also include credit for items manufactured for selling departments, whether they are principal retail departments of the workroom or not. The estimated cost should be charged to the selling departments' cost purchases. Work done for expense centers—such as display, porters' uniforms, etc.—will be credited also to Line 25. All transfers should represent only the actual cost of the work done. In most cases, it is necessary to use estimated costs, but wherever estimated costs are used, they should be reviewed regularly for accuracy. In no case should a theoretical profit be placed on top of the cost.

26. Net Cost of Production

This is the difference between Lines 24 and 25.

27. Profit or Loss-Indirect Manufacturing Departments and Merchandise Service Workrooms

Indirect Manufacturing Departments

The profit or loss is the same as net cost of production, Line 26. The profit or loss of a manufacturing department should be charged to the cost purchases of the selling departments buying its products, in proportion to the transfers to those departments during the period. The operating profit or loss reflects errors in estimating the cost of the original transfers.

Merchandising Service Workrooms

This is the difference between Lines 1 and 26.

The profit or loss of a merchandise service workroom is to be distributed as workroom cost to the parent selling departments using the service in proportion to the amount of work done for each parent department. Wherever possible, the factor to be used in measuring the proportion of work done should be a work unit of time. Standard units of time for each element in every workroom operation should be established. For example: Enlarging the armholes in a woman's coat might have a standard time of forty minutes, and, assuming ten minutes represents one work unit, would represent four work units. The net cost of production, Line 26, should be distributed to the parent departments on the basis of the work units. Then, each parent department should receive credit for the amount of revenue it has obtained, and the difference between its portion of the net cost of production and such revenue represents the amount of workroom cost to the individual selling department.

The following example will illustrate the distribution of workroom costs:

Assume net cost of production (Line 26) is \$2,000 and income from sales to customers (Line 1) is \$500, out of which \$50 is applicable to Department 30 and \$450 to Department 35. The loss (Line 27) is \$1,500. Out of a total of 1,000 work units produced during the period, Departments 30 and 35 accounted for 200 and 800 work units, respectively. The \$2,000 (net cost of production) should be distributed to Departments 30 and 35 in the same ratio as the work units of the departments are to the total work units—that is, \$400 should be allocated to Department 30 and \$1,600 to Department 35. These amounts are then reduced by the income from sales to customers, \$50 and \$450, respectively. The net charges to Department 30 are \$350 and to Department 35, \$1,150. These total department charges of \$1,500 are equal to the amount of the profit or loss (Line 27).

28. Operating Expenses (Cost Selling Departments Only)

The charging of total store expenses to the cost departments should be done only in the case of cost selling departments and in the same manner used for all retail selling departments. This section of the statement will not be used in the case of manufacturing departments or merchandise service workrooms.

It is recommended that such allocations of expense center costs as may be directly associated with specific expense centers in this manual be identified on the cost selling department operating statement by individual headings under 28a-28b, etc. The charges to operating expenses of cost selling departments which cannot be specifically related to individual expense centers are to be combined and shown under a general caption.

All cost selling departments selling payroll included here shall also be included in cost department statements statistically rather than by a transfer entry.

29. Total Operating Expenses

This is the total of Lines 28a, b, c, etc.

30. Operating Profit or Loss-Cost Selling Departments

This is the difference between Line 1 and the total of Lines 26 and 29.

The profit or loss of a cost selling department, Line 30, is not to be distributed to any other department, but is treated the same as the profit or loss in any retail-selling department.

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