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ACCOUNTING FOR
TRUCK GARDENERS' CO-OPERATIVE MARKETING
ASSOCIATIONS

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A Thesis
Presented to the College of Commerce
and
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In partial fulfillment
of the
Requirements for the
Degree of Master of Business Administration

By
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DEDICATED TO
PROFESSOR CLYDE BELFORD
without whose assistance and guidance
this work could not have
been accomplished

PREFACE

Co-operation is a new word to industries; and it is even more so to agriculture in particular. Since agriculture is an industry of small units, farmers are generally self-employed. Being self-employed, they are self-directed and not accustomed to working with large crowds as the case in factories. Furthermore, agriculture primarily depends upon space. For this reason, agriculture must spread over wide areas of land. Rural districts are, consequently, far away from urban centers. Even from farm to farm they are sometimes miles apart. As a result, farmers come into contact with nature more than they come into contact with men. Farmers, as a whole, are therefore more or less individualistic. This explains why the development of co-operation in agriculture is so recent, or when it is once started, its progress is so slow. Though in recent years co-operative activities in certain lines of agriculture have developed enormously, agricultural co-operation is still in its stage of infancy. Looking forward to the future, there is yet much to be done.

Agriculture is the most important of all industries. Out of its products the world is clothed and fed. Agricultural co-operation is a step toward the solution of our rural problems. Any measure which is beneficial to the toilers of the soil is indirectly beneficial to the world at large; and, for that reason, it is worthy of our most

serious consideration. Sensing the importance of this subject and knowing that good accounting is the key to all successful administration, whether on farm, or store, or factory, I devote this paper to the accounting for truck gardeners' co-operative associations.

The solutions to the various accounting problems given in this paper are by no means final. It is my purpose to point out only some of the general principles involved. No attempt is being made to lay down any hard and fast rules for all cases; for each co-operative association has its own conditions to meet. When I was preparing to write the paper, I was surprised by the scarcity of writing which had been devoted to this phase of agricultural co-operation. Consequently, it is also my purpose, by this paper, to stimulate interest of accounting students along this line.

I claim no authority on this subject. My experience in agricultural co-operative accounting is quite limited. For this reason, there might be some vital points which I have unintentionally omitted. I am especially indebted to Professor Clyde Belford for his suggestions and criticism. I have benefitted greatly from personal interviews of managers and presidents of many co-operative associations in Southern California to whom I want to express my sincerest thanks.

My chief obligations, however, are due to Mr. E.R. Wolfe, manager of the Los Angeles Asparagus Growers' Associa-

tion, who has so generously permitted me to use many forms and charts of his organization, and who has given me much valuable information and materials which I could not have otherwise obtained.

ROBERT L. MOK

Los Angeles, California.
May 28, 1926.

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BOOK I. INTRODUCTION

CHAPTER I
IMPORTANCE OF THE STUDY OF THE SUBJECT

"Economics", says Professor Marshall, "is a study of mankind in the ordinary business of life."¹ Professor Carver defines economics as "the study of man's effort to get a living".² Accepting these two definitions of Economics for the time being, we may include co-operation as "one way of conducting a certain part of this business", or, "one of man's efforts to get a living." It is evident, therefore, that the subject of co-operation lies within the economics proper; and for that matter it is worthy of our serious consideration not only viewed from a theoretical way, but from a practical standpoint as well.

What is then, this way of conducting business, or this effort of getting a living which forms the subject matter of our inquiry? It is the way of co-operation, or Working together. However, the term must be further explained; for in the bare sense of "working together", co-operation embraces practically every possible form of business organization. Thus, from the time iron ore is extracted from the earth to the moment that a tool is put

¹Alfred Marshall, Principles of Economics, 8th ed., 1.

²T. N. Carver, Principles of Rural Economics, 1.

in the carpenter's shop, the original ore has to go through numerous processes of "working together" before the final product can be produced. But this co-operation is not the co-operation of our inquiry. Co-operation in the sense of our inquiry implies a bond of union over and above the relations of money tie; that is to say, it implies a co-operative society in which the associated members join together for the attainment in common of some definite business purpose.

Co-operative societies of this character are of four general classifications.

1. Co-operative banks.
2. Co-operative workers' societies.
3. Co-operative stores (buying and marketing).
4. Agricultural marketing societies.

However, co-operative societies belonging to the first three classes are not called for in our present inquiry. Consequently, attention will now be directed to the societies of the last group, and of truck gardeners' co-operative marketing associations in particular. Here again, we are not interested in the organizaing of such associations, neither are we interested in the management of them, though these phases are unquestionably of great importance. But what we are interested in here are the accounting problems involved both in theories and practice.

The importance of this phase of the subject should not be overlooked by organizers of any co-operative society. An accounting system is an integral part of a business organization. Many times the success or failure of a business depends upon, to a more or less extent, the efficiency of its accounting department. Reliable financial facts concerning a business can only be obtained through a well-planned accounting system. Agricultural co-operative marketing societies are in the experimental stage. The results of these experiments probably mean the life of agricultural co-operative marketing movement. This consideration makes the accounting phases of the subject even more important; for it affects not only one co-operative society, but the whole co-operative movement, and consequently, the welfare of the entire rural population.

Probably it may be safe to say that there are many kinds of truck gardeners' co-operative marketing associations, perhaps as many as the number of truck farming products. Thus, to lay down any hard and fast accounting rules which would work in any marketing association is an impossibility. Nevertheless, there are certain underlying principles which if applied with modification could form the bases of any accounting system. Such principles together with their applications will constitute the subject matter of the chapters following. Remembering that each accounting system is an individual problem, we shall make no attempt to outline any complete system for

any association, but general principles for all truck gardeners' co-operative marketing associations. Our method of procedure will follow the logical sequence in the operation of such associations.

CHAPTER II.

A STATEMENT OF THE PROBLEMS INVOLVED

What, then, are the accounting problems of truck gardeners' co-operative marketing associations? In this respect, there are five- each of which deals with a particular phase of the whole system. First of all, we shall consider the problem of accounting for capital,- a factor without which a business enterprise cannot operate. Secondly, we have the problem of accounting for merchandise. As the acquirement of merchandise is necessary before any sale can take place, the next task in our case is to account for the produce delivered to the association by its members. This means an account must be kept with each member, and besides these personal and individual accounts, a merchandise controlling account must be kept.

When merchandise is placed with the association, the next course is naturally the beginning of selling activity. Thus, our third problem is to account for such sales. The problem of sales is too broad to be given in full here. Be it sufficient to say in passing that the main thing to account for in this connection is the total quantity sold and the total price received from such sales. It is obvious that if these two figures are available, the average price per unit (pound, or other unit of measurement) can be computed.

Now with sales taken place, and a "common" price

computed, logically, our fourth step is the making of remittance to the members who have contributed their products to the association. This part of the accounting work we call the "accounting for 'pools'".

An association, in order to meet its expenses, must derive its revenue from its members. Thus, whenever remittances are made to its members, a certain percentage of such remittances is deducted for this purpose. But this percentage is only an estimate amount of total expense that is likely to incur. It seldom happens that the total deductions charged to the members exactly covers the total amount of expense. Consequently, in most cases there is a surplus earning left after paying off of all expense items; for conservative policy dictates that a liberal percentage be charged as deductions. The existence of this surplus earning gives us our fifth accounting problem; namely, the accounting for surplus. The particular task here is the distribution of this surplus to the members on a certain equitable basis.

In summing up, our accounting work involves five main problems. The first considers that of capital, the second has to do with merchandise, the third deals with sales, the fourth concerns itself with making remittances to growers, and the fifth takes up distribution of surplus earnings.

BOOK II. ACCOUNTING FOR CAPITAL

CHAPTER III.

NON-STOCK ASSOCIATIONS

Assuming that a co-operative marketing association has been organized and is ready for operation, the organization will not function by itself. Some force there must be to motivate it. Reference is made here to capital. It matters not whether a business organization is large or small; the presence of capital is indispensable for its operation. To be sure some organizations require more of it, while others operate with a small layout. This fact, however, does not invalidate the case that capital is a requirement as well as a necessity in any form of business organization. Consequently, in accounting for co-operative marketing associations, we shall begin with capital accounts as the logical point of departure.

There are two sources from which co-operative associations may secure capital to operate. First, the members may subscribe among themselves for the necessary capital to start. If this is the case we shall call it self-financing.

The laws regulating co-operative societies varies in different states. Some states legalize only the organizing of non-stock associations; others allow both the stock and non-stock associations to exist. When it is a non-stock organization, it is a non-profit organization. It declares no dividends, and is exempted from federal income tax. The usual method used to finance a non-stock association is by

assessing membership dues or fees from the members. In one of the co-operative associations in Los Angeles, each member is to pay to the association upon his admittance a sum of five dollars per acre of land under his cultivation. In a non-stock association, no account captioned "capital" should be used; for its usage would be entirely misleading as to its legal and financial status. Probably an account called "membership interest" would be sufficient to account for money raised in this way. This account is, of course, to be a controlling account in the general ledger. A subsidiary ledger should ~~should~~ be kept to record the dues collected from each member. This means that an account must be kept with each grower belonging to the association. Oftentimes dues collected in this way alone is not sufficient to meet the capital requirements. The association may decide to build a store, or a cold-storage plant, or to purchase equipment, the cost of any one of which would far exceed the sum total of the membership dues. In such an instance, it is not uncommon for the members to subscribe among themselves for the necessary funds. They regard their subscriptions similar to investments made in the co-operative project. The accounting for funds thus raised is not different from the accounting for membership dues. Each member's subscription should be credited to his own account with the total amount of subscriptions credited to "Membership Interest".

CHAPTER IV.
STOCK ASSOCIATIONS

In the stock associations the accounting for capital is somewhat different. Some associations limit the privilege of holding stocks to their own members. This is done to prevent the power to control from falling into the hands of those who have no interest in the farmers, but merely holding stock for profits. Some associations require their members to buy their stocks in much the same way as the non-stock associations assess their members for membership dues. Stock certificates, of course, must be used in the stock associations. The "stock record" will then take the place of the subsidiary ledger of "membership interest" as in the case of a non-stock association. The account of "capital stock" is needed here to record outstanding stock as in any other business organization. This does not mean, however, that a stock association could do away with the account which we have called "membership interest"; the purpose and use of which will be discussed fully in connection with surplus accounts. Be it sufficient to bear in mind at present that both the stock and non-stock associations should maintain such an account.

While we are in the course of discussing financing co-operative marketing associations, we may take up another phase of the subject, though it does not belong properly to "capital accounts". Frequently, officers or members of

such associations give corporate notes to secure loans from banks or investment companies. Loans thus secured will be paid off by the surplus earnings at the end of the year or season. Such transactions must be taken up as liabilities and be treated as such.

BOOK III. ACCOUNTING FOR MERCHANDISE

CHAPTER V.
DIFFERENCE BETWEEN CO-OPERATIVE MARKETING
ASSOCIATION AND COMMISSION HOUSE

Having organized a co-operative marketing association and having secured sufficient capital to begin operation, we will not turn our attention to merchandise, the things that the association is to handle or to be more exact, the truck farming products.

The fact that when the products are delivered to the association by the farmers, the prices at which such products will be sold in the future are unknown, makes it impossible to record merchandise in terms of dollars and cents. If arbitrary figures are used, it would simply increase the accounting difficulties. Evidently, a common denomination is needed. This denominator is found in the unit in which the products are sold. Thus, if potatoes are sold by weight, the potatoes account will be kept in terms of pounds, and if tomatoes are sold by the box, the tomato account will be kept in boxes.

There is one essential feature which separates a co-operative marketing association from a commission house. To put it in simple language, the latter acts as a selling agent for the farmers individually while the former acts for them collectively. A commission merchant sells his patron's products on their own accounts; but a

co-operative association sells on behalf of all its members. The merchandise in a commission house must be identified (by the owners) and when sold they are again so identified. This is necessary because the farmer owning those products sold is to receive the money therefrom. But in a co-operative marketing association such identification is unnecessary, for a sale will be everybody's or all the members' sale. When a farmer delivers his products to his association, he relinquishes the ownership of his products. All he has now is a claim against the association for so many pounds or boxes of potatoes or tomatoes. To illustrate: A and B each send 100 pounds of potatoes to a commission merchant to "sell on commission", assuming that their products are of the same grade. A's potatoes were sold at .04¢ per pound, while B's potatoes, not because of inferior quality but because of the slack of the market at that particular time, were sold at .03½¢ per pound. When the commission merchant makes remittance to A, he will send him \$4.00 less commission; while B will receive \$3.50 less commission. But assuming the same set of conditions exist as before with the exception that A and B let a co-operative marketing association handle their products, A will not get .04¢ per pound for his potatoes and at the same time B will not get .03½¢; but each of them will receive .03½¢ per pound. This phase of the subject, however, pertains

to sales and will be discussed more fully later. Let us now turn to the matter of merchandise. Since both the co-operative marketing association and the commission merchant sell produce on behalf of others, it is necessary for both of them to keep individual accounts with farmers or members. As to the matter of inventory control, they again do not differ from each other. In order to sell intelligently, both of them need information regarding the character and quantity of merchandise inventory. Consequently, in accounting for merchandise, they all face the same set of problems. What these problems are will be discussed at length in the following chapters.

CHAPTER VI.
DIFFERENCE BETWEEN JOBBERS AND
CO-OPERATIVE ASSOCIATIONS

In a jobbing business, conditions are entirely different. The jobber is by no means the agent of the farmers. He buys their products outright and sells them in his own account. Merchandise bought in this case could, therefore, be kept in terms of dollars and cents. All that a jobber needs to keep is a merchandise control account similar to the one to be used by a co-operative association. But differing from a co-operative association, a jobber does not need to keep an inventory account with each farmer, for his liability is determinable at the time of the purchase. All that is necessary is an inventory "control" account which tells him the amount of goods he has on hand at any time. With such discussion of merchandise accounts of various kinds of selling agencies before us as a background, we are ready now to take up the actual forms and records in connection with keeping merchandise inventory.

CHAPTER VII.

RECEIVING TICKET

The receiving ticket is the basic form of the inventory records. It corresponds in utility to an incoming invoice. But in effect, it is a receipt given for merchandise, or farm products received, and forms the basis for all inventory entries. This receiving ticket should be so designed that it will give all information essential to the keeping of merchandise records. First of all, provisions should be made for the entering of the name of the grower or member, and the date on which the merchandise is received. Some associations handling exclusively one kind of farm product provide space in their receiving tickets for the entering of the "lot" number. Thus, each member is given a number, and when a farmer sends in his produce, his "lot" number will be stamped on the containers thereof. This is done in order that merchandise may easily be traced to its grower. Whenever there is a complaint about goods sold, all that the manager of the association has to do is to ask his customer for the "lot" number, and the grower is at once identified.

The most important data that a receiving ticket should furnish are the kinds of products and the quantities thereof. An association which handles all sorts of truck farming products may not find sufficient space in its receiving ticket to print all the names of the products it

handles. However, this type of marketing association is very rare. Most of the marketing associations specialize in certain lines. Though some deal with "general" products, there are always some "principal" products which constitute the greater part of their sales. Consequently, receiving tickets could be printed with the names of several principal products, and with blank spaces for the entering of products not so common.

Figure I shows a form designed to meet this purpose. An association which deals exclusively in one product could also adopt this form shown in Figure I. In fact, this form is even more practical in the latter's case, for it shows for certainty the kind of product that it is to receive; therefore, its receiving ticket could be printed to meet the exact requirements. Figure 2 is the receiving ticket of the Los Angeles Asparagus Growers' Association.

Receiving tickets are made out at the time that the products are received. They should be made out in at least two copies. The originals are retained by the association for the purpose of making entries to the "grower's" accounts and other tabulations, while the duplicates are given to the growers as receipts.

Before we consider "grower's" accounts and the inventory record, contrast may be made here between the basic records of original entry to merchandise account of

San Pedro Vegetable Growers' Ass'n.
San Pedro, California

Received of _____

Address: _____ Date: _____

	Quantity	Weight
<i>Description</i>		
<i>Green Peas</i>		
<i>Beans</i>		
<i>Lima Beans</i>		
<i>Tomato</i>		
<i>Etc.</i>		

Figure 11.

L. A. Asparagus Growers' Ass'n.
Los Angeles, California.

Received of: _____

Address: _____ Date: _____

<i>Description</i>	<i>Boxes</i>	<i>Pounds</i>
<i>Common No. 1</i>		
<i>Common No. 2</i>		
<i>Fancy No. 1</i>		
<i>Fancy No. 2</i>		
<i>Miscellaneous</i>		

Remarks: _____

Received by: _____

Inspected by: _____

Figure 2.

a jobber and a marketing association. The jobber, as pointed out above, buys outright instead of taking merchandise in trust and sells on account. Therefore, when a jobber buys, he receives no "receiving ticket" and gives no "receiving ticket" for that matter. What he gets from his creditor is an invoice accompanying the goods. A form of such an invoice is shown in Figure 3.

From this form a jobber will make entry to his inventory record. It will also be seen from this form that the amount of purchases is known when goods are received. This is a distinct advantage over the ~~uses~~^{CASES} of the commission merchant and the marketing association. The jobber can carry accounts with creditors under "accounts payable" and off-setting those credits by charging to "purchases" or "merchandise". But in the cases of the commission merchant and the co-operative marketing association, this cannot be done. It would be absurd to carry "accounts payable" in terms of pounds of potatoes, dozens of carrots, crates of cabbages, etc. Further confusion would add to the matter when we remember that there might be several grades of one product. Not being able to put its creditors under "accounts payable", the commission merchant and marketing association keep accounts with growers by the form which we shall call "growers' account" which is the subject matter of our next discussion.

No.

Golden State Fruit and Vegetable Company
Los Angeles, California

Sold to: M

Address: _____ Date _____

<i>Description</i>	<i>Quantity</i>	<i>Price</i>	<i>Extention</i>	<i>Total</i>

Figure 3.

CHAPTER VIII.
GROWERS' ACCOUNT

All marketing associations have what is called a "pooling" period. It is nothing other than an accounting period between an association and its members; or more precisely, it is the length of time for which an association settles its accounts with the growers. In other business enterprises, it is called "term of trade". Now the length of this "pooling" period varies with different types of marketing associations. As a matter of fact, it varies with the stability of the price of the farm products handled by an association. That is to say that "pooling" period of an association which handles a product the price of which fluctuates violently, will necessarily be short. But an association handling a product the price of which is relatively stable could employ a longer "pool". Thus, the Walnut Growers' Association or the Orange Growers' Exchange may operate two or three pools in the whole season without doing injustice to some of its growers. But in the case of the Truck Gardeners' Association, it is entirely a different matter. Prices of truck farming products fluctuate almost every day. The important thing to remember about truck farming is seasonableness of the products. The farmer who by his skill or experience produces an early crop naturally should enjoy a higher price for his products. In order to "render therefore unto

Caesar the things that are Caesar's", the pooling period of a truck gardeners' marketing association is made quite short, which usually runs from one to two weeks.

Having now fixed in our minds that a co-operative marketing association is to settle its account with its members once in a certain period of time, forgetting for a moment the length of this period which is immaterial for our purpose at present, there would at once occur to our minds that some form of record must be provided for this assembly of all the "receiving tickets" belonging to one member in a given period of time. It will be remembered that in a "receiving ticket" several kinds of products or several grades of the same kind are entered. What is important for the association to know is the total number of boxes or pounds of each kind of product received from each member during a pooling period. Evidently some sort of summary is needed. To accomplish this purpose the "grower's account" chart is designed, a form which is shown in Figure 4, (The Growers' Account of the Los Angeles Asparagus Growers' Association).

It will be seen in the form that a good many lines are provided for making entries. The number of lines needed, of course, depends upon the length of the "pooling" period. A weekly pool certainly does not need more than ten or twelve lines, while a monthly pool will require correspondingly more. When the pooling period is too long,

*Los Angeles Asparagus Growers' Association
Los Angeles, California
Grower's Account*

Grower :

Lot No.

Pool No.

Date :

to

Date	Receipt No.	Common No. 1		Comm. No. 2		Fancy No. 1		Fancy No. 2	
		Boxes	Pounds	Boxes	Pounds	Boxes	Pounds	Boxes	Pounds

more than one sheet may be used. The form shown in Figure 4 is a weekly pool.

After one day's receiving is over, all the receiving tickets should be collected and arranged in either alphabetical order (according to the names of the growers), or numerical order (according to the "lot" numbers). This is done to facilitate the matter of posting. Each of the receiving tickets will, then, be entered into its respective account. This operation is repeated every day in a pool; thus at the end of a pool (assuming that it is a weekly pool, and that the growers send their products in once a day), each account will have accumulated entries in each column in the form. After the last entry has been made, all the columns should be footed and a total of each obtained. When an association deals in a commodity in terms of "box" or "crate", the columns in the form captioned "weight" are unnecessary. But when the unit of measurement is "pound", the "weight" column cannot be omitted. Some associations like the Los Angeles Asparagus Growers' Association, keep track of both "box" and "pound", though the unit of measurement is the "pound". The reason for this is that in perishable products such as truck farming products, there is always a shrinkage in weight. Consequently, inventory kept in weight alone could never be absolutely accurate, and periodical adjustment is necessary. But inventory kept in "boxes" could be checked

out sufficiently accurately; therefore, from the standpoint of inventory control, the keeping of inventory in "boxes" is also important.

Marketing associations which handle more than one kind of products can modify the form shown in Figure 4 to suit their own requirements. It is only a matter of putting enough columns in a form. In case the number of columns runs too large, two sheets may be used in place of one, or if the pooling period is not very long, which means that there are not too many entries for any one product, the form shown in Figure 5 may be used to good advantage, which is really a combination of two sheets into one. This form which we call "grower's account" is, or should be, kept by both the commission merchant and the marketing association.

The figure shows a large rectangular frame containing two identical grid sections stacked vertically. Each grid section is composed of 10 columns and 6 rows of lines. The top grid section has three horizontal lines positioned above its top edge, and the bottom grid section has one horizontal line positioned below its bottom edge. The grid lines are thin and black, while the frame lines are thicker.

Figure 5.

CHAPTER IX.

PERPETUAL INVENTORY RECORD

The "grower's account" shows the amount of products each grower sends in in the course of a pool. But the total amount of each product that the association receives each day is not known to us so far. Consequently, another merchandise record is needed to furnish such information. In a business like the marketing of truck farming products, the matter of inventory control is of primary importance. The amount of inventory on hand should be known at any time; for the turnover of such farm products is so fast that inventory records of a few days ago would probably have become history. For this reason, most of the truck gardeners' marketing associations keep what is called "perpetual" inventory record,- a record which shows the amounts received each day and the amounts sold each day. Deducting the amounts sold from the amounts received, the balances naturally represent amounts on hand. Balances are thus carried from day to day. The inventory record of the Los Angeles Asparagus Growers' Association is shown in Figure 6. Record of this kind, besides giving the amounts of merchandise on hand at the end of each day, has two other distinct advantages. It will be seen in Figure 6 that the number of boxes and pounds for each grade of asparagus are kept. Now if at the

*Los Angeles Asparagus Growers' Association
Los Angeles, California*

Inventory Record

No. _____ Date: from _____ to _____

Date	Common No. 1		Common No. 2		Fancy No. 1		Fancy No. 2	
	Boxes	Pounds	Boxes	Pounds	Boxes	Pounds	Boxes	Pounds
<i>Balance</i>								
<i>Received</i>								
<i>Total</i>								
<i>Sold</i>								
<i>Balance</i>								
<i>Received</i>								
<i>Total</i>								
<i>Sold</i>								
<i>Balance</i>								
<i>Etc.</i>								

Figure 6.

end of a day a physical count shows that the number in boxes comes out correct, but in weight a slight shortage is found, one would at once know that, barring losses in other ways, the amount of shrinkage is the difference between the book inventory and the physical inventory. Having thus determined the shrinkage, adjustment will be made to correct the book inventory to correspond with the physical inventory. On the other hand, if both the "box" column and the "pound" column are found to be out of balance, one would at once know that losses other than shrinkage had occurred and efforts would be made to locate those differences.

An association which handles a good many commodities may use an inventory record shown in Figure 7. Figure 6 uses the headings of the vertical columns for the names of the products and the horizontal lines for "balance", "received", etc. Figure 7 just reverses the order of Figure 6. While Figure 7 permits the keeping of more than fifteen or twenty commodities on one sheet, it could only be used for one day. A new sheet, then, must be used each day. The figures to be entered in the first column if every new sheet is an exact copy of the last column of the previous sheet. However, the form can still be further modified. Instead of using one sheet for a day, an association could use one sheet for one commodity. This would necessarily change the "description" column in Figure 7 to a "date" column.

We have in the preceding paragraphs been discussing the various problems and forms in connection with keeping merchandise inventory. But how are the different data collected? And from what source are they obtained? For the present, we will take up the "received" data, and defer discussing the "sales" data until we take up the "sales accounts" in the next book.

The source of the "received" data is naturally from the receiving tickets. But it will be remembered that in the receiving tickets all kinds of products, or all grades of the same kind are entered. Obviously, a recapitulation of these receiving tickets must be made before the total amount of each product or each grade received can be obtained. Figure 8 shows the recapitulation sheet of the Los Angeles Asparagus Growers' Association.

The receiving tickets after having been entered in the "grower's accounts", will then be tabulated in the form shown in Figure 8, putting each grade received in its respective columns. When all the "tickets" have been entered the columns are footed; thus, the total amount of each grade received in a day is obtained. These totals will then be entered in the "received" line in the "inventory record".

CHAPTER X.

MERCHANDISE ACCOUNTS IN A BRANCH OFFICE

It would not be complete, however, to leave our discussion of merchandise accounts without devoting some space to merchandise accounts in a branch office. Up to this point our discussion on merchandise accounts has been confined to an association which has no branch office, and all of its members send their produce directly to the association. But this is not always the case. A group of members may live so far from the association that it is physically impossible for them to deliver their produce individually to the association. In addition to this physical difficulty, there is an economic consideration in regard to the matter of shipment.

Associations which handle products of a vast territory, therefore, maintain branch offices at convenient points for the benefit of their distant farmers. Produce received by the branch office will be shipped in large quantities to the main office. But that is not all the advantage of a branch office. When shipments are to be made to cities which are nearer to the branch office, it is certainly a waste in money in addition to delay in time to ship products to the main office and then divert them to the shipping points. In order to save freight and time, the main office simply wires a branch office to make the shipments locally.

To account for the merchandise in a branch office should present no difficulty. We shall again approach the problem from a logical standpoint. When products are delivered to a branch office, they are handled exactly as they would be handled in the main office. A receiving ticket is made out for each lot received. From this point on two alternatives are offered for the keeping of the "grower's account", which we have discussed before.

First, in the case of a branch which keeps the "grower's accounts", it would run the receiving tickets through the "grower's accounts" and then to the inventory records as though it were an independent office. At the end of a day's business when the "inventory record" is completed, all the branch office has to do is to wire the main office the amount of products received, the amount of shipment (both sales and shipment to the main office), and the balance on hand. The main office, therefore, keeps no account with the members belonging to the branch office district. It does, however, keep a controlling account with the branch office so that at the end of a pooling period, the total amount of "receipts" in the branch is known. The amount of "receipts" in the branch multiplied by the "pooling prices" will give the amount of money that should go to the branch for distribution to the growers in that district. This phase of the problem really

belongs to a later discussion, and it will be more fully elaborated upon when we come to that point.¹ The thing to remember here is that the main office instead of keeping accounts with the growers in a branch office district, keeps a controlling account with the branch office.

Secondly, if the branch office does not keep accounts with growers, that part of accounting work falls on the shoulders of the main office. The branch office after making a recapitulation of the "receiving tickets", and subsequently an inventory record, will send all the "receiving tickets" to the main office for the purpose of making entries to the growers' accounts. Since the main office keeps accounts with growers, the main office can remit directly to the growers instead of through its branch. In that case the branch simply acts as a receiving and shipping agent and not a paying agent of the main office.

As to the control of inventories of an association which operates one or more branch offices, the matter is again not difficult. As remarked above, at the end of each day's business, each office wires in a report to the main office. The report is in the form of an "inventory record". These records can then be further recapitulated into one grand control account.

¹Book V, Chapters XV and XVI.

BOOK IV. ACCOUNTING FOR SALES

CHAPTER XI.
SALES INVOICE

Having discussed the various problems in connection with accounting for merchandise in Book III, we shall now take another logical step,- the accounting for sales. Before we take up the accounting records, a word of generalization may be helpful. The main problem in accounting for sales, which distinguishes a co-operative marketing association from other business organizations, is to keep track of the amount of merchandise sold (in units of measurement appropriable to that class of merchandise), and the amount of money collected or collectable from the sales. Sales are of two general classifications; namely, cash sales, and credit sales. In accounting they do not present two separate problems, but are merely two phases of the same one. For this reason, one will be discussed alongside with the other.

The first accounting record of a sale is the sales invoice. Of course, when an order for delivery is received, either through the telegraph or telephone, an "order blank" may be filled out. But for all practical purposes, that phase may be left out for the time being.

As remarked at the beginning, sales may be for cash or on account. Some associations use one form of invoice for cash sales and another form for credit sales.

Since the same kind of information is called for in both cases, there is no useful purpose served in using two different invoices for different kinds of sales. A better way is to use the same form for both credit and cash sales, but print the invoices in two different colors, using one color for each kind of sales. This will not complicate the accounting work in the least. On the other hand, it helps to facilitate the office work in sorting, checking, and tabulating the invoices.

Figure 9 shows the sales invoice of the Los Angeles Asparagus Growers' Association. The form only illustrates the general principles involved, and other associations may, of course, devise other forms adaptable to their own business. Reiterating again here that the essential information called for is the amount of each grade sold, the price at which each grade is sold, and finally the amount of money received or to be received from each grade sold. Therefore, any form of invoice to be complete must provide spaces for the recording of these particulars.

Los Angeles Asparagus Growers' Association
Los Angeles, California

Sold to M _____
Address: _____

Date: _____

Lot No.	Quantity	Description	Weight	Price	Total

Figure 9.

CHAPTER XII.
SALES RECORD

After the making out of sales invoices, the next accounting task is to assemble sales data into related groups, or to say the same thing in other words, to find out a total amount of each product sold, and the total amount of money received or receivable for each kind of product sold. To illustrate: the Los Angeles Asparagus Growers' Association handles four grades of asparagus; namely, Common No. 1, Common No. 2, Fancy No. 1, and Fancy No. 2. Thus in its "sales record" (a form of which is shown in Figure 10) the total number of pounds of each grade sold, and the total amount of money received or receivable for each grade sold must be entered in their respective columns. The "box" column is inserted merely for the purpose of checking the accuracy of the physical inventory. It is of no importance in the matter of computing "pools". One "sales record" should be used in one "pool" only. A new one should be used for each "pool", for at the end of a "pool", the different columns should be footed, and a total for each column is thus obtained. Each day two separate entries are made to each column, one for cash sales and the other for credit sales. The segregation of cash sales from credit sales is quite important, not because the mixing of these two kinds of sales would

Los Angeles Asparagus Growers' Association

Los Angeles, California

Sales Record

Pool No. _____ Date: from _____ to _____

Date	Remark	Common No. 1		Common No. 2		Fancy No. 1		Fancy No. 2	
		Bx	Price	Bx	Price	Bx	Price	Bx	Price
	Cash Sales								
	Credit Sales								
	Cash Sales								
	Credit Sales								
	Cash Sales								
	Credit Sales								
	Etc.								

Figure 10.

affect the results in "pooling" (for the final results will be just the same); but because of the necessity of control in accounting records. It is clear that on a particular day the total of the four "amount (\$)" columns for cash sales should equal the amount of money received for "cash sales" of that day. To check the accuracy of these "cash" entries in the record, simply take an adding machine total of all the cash sales invoices. If the adding machine total corresponds with the total of the four money columns, it is a proof that the "cash" entries in the "cash sales" lines are correct. Here it gives us the first basis of a double entry bookkeeping. The total amount of cash sales is then credited to the "cash sales" account with a corresponding amount debited to the "cash" account.

The same may be said of credit sales, except that the total of the four "amount (\$)" columns for credit sales represents "accounts receivable" instead of "cash". This total is also checked by the total of all the credit sales invoices. When agreement is effected, "credit sales" account should be credited and "accounts receivable" (controlled) should be debited with the same amount.

Thus far we have been assuming that the daily entries to the columns are available. But how are they obtained? We recall that when we are discussing "inventory record", practically the same sort of information is called for there as here. The only point of difference is that in

the "inventory record" we want to know the total amount of different kinds or grades received, and in the "sales record", we are interested in the total amount of each kind or grade sold; and in addition, to knowing the amounts in weight, we want to find out the amounts in money. As the "inventory record" is compiled from the "receiving tickets", similarly, the "sales record" is compiled from the "sales invoices". To accomplish this purpose a recapitulation sheet similar to that used in connection with "inventory record" is also used here. But instead of having two columns for each grade, three columns are provided for. A form of such a sheet is shown in Figure 11. At the end of a day's business, the sales invoices are sorted into cash sales and credit sales. All the cash sales invoices will be tabulated item by item on the cash sales recapitulation sheet. When the cash sales invoices are all tabulated, the various columns are footed and the totals are transposed to the "sales record" The same thing is repeated with the credit sales invoices.

CHAPTER XIII.

CUSTOMERS' ACCOUNTS RECEIVABLE

Cash sales as indicated in the preceding paragraph are charged to the "cash" account and credited to the "cash sales" account. After this is done, the accounting work for cash sales is completed. But as to credit sales, something is yet to be done. This leads us into the subject of keeping "customers' accounts receivable". There are many, many forms used in connection with keeping accounts receivable. The form to be used by any association depends to a large extent upon the accounting system it uses and the kind of bookkeeping machine it employs. For this reason, no generalization can be made at this point. However, the general principles are the same in all cases. First, an individual account should be opened with each customer. Secondly, these accounts are to be controlled by a controlling account in the general ledger; thus, the balance in the controlling account is the sum of the balances in the individual accounts.

After credit sales, there, of course, comes the mailing of statements. There are as many forms of statements as the business firms themselves. An association will do well to design a form to suit its particular requirements. The essential things called for in a statement are the balance carried over, the amount of charges,

the amount of credits, and then the final balance. Besides these, provision should be made for entering of dates, memo, invoice numbers, etc. In designing the statement, due consideration must be given to the make of the statement machine that the association is going to purchase.

CHAPTER XIV.
CONSIGNMENT ACCOUNTS

The discussion on sales has been confined to sales direct from the association to purchasers. This is an ideal situation, for the main purpose of the association is to effect saving by eliminating as much middle-man handling as possible. But this cannot always be done. Sometimes shipments are made to distant markets. On account of the lack of information regarding the financial integrity of the prospective purchasers, associations prefer to ship goods to some reputable commission houses in those distant markets rather than take the risk in dealing directly with unknown buyers. Again, when the local market has an over-supply of vegetable products, the removal of which necessitates a reduction of prices, the association may find it more profitable to dispose of this surplus by consigning it to other markets where the supply of such products is relatively small.

Under these circumstances, the accounting for consignments naturally arises. Consignments are not sales; therefore, they should not be treated as such. When consignments are made, they should be deducted from the "inventory record", for that part of the inventory is no longer "on hand", and not available for other purposes. On the other hand, account should be opened with the consignee, charging him with, not the amount of money the consignments

will bring (for the amount is unknown as yet), but charging him with the amount of goods consigned. The form of consignment account could be identically the same as the "inventory record" used in connection with accounting for merchandise (Book III, Chapter IX). The amounts of different kinds of goods consigned are entered in the account just as the "inventory record". When report of sales is received from the consignee, the amount of sales is deducted from the "consignment account" and entered in the "sales record" just as any other sales.

In passing we might mention sales made to jobbers. Jobbers as pointed out above (Book III, Chapter V) buy goods outright and sell them on their own account. Their status is not different from that of any other customers; and sales made to them should be handled along with other sales in the regular course of business.

BOOK V. ACCOUNTING FOR "POOLS"

CHAPTER XV.

"POOLING" METHODS

In the previous Book we have considered the various selling problems of the co-operative marketing associations. Now assuming that collections from sales have been made,- a matter not differing in the slightest degree from any other form of business organization, the next logical accounting procedure in the association is the making of remittances to the growers or members. But before we take up the matter of remittance, we have first to consider the problem of pooling.

Brief reference (Book III, Chapter V) has been made before to the methods of pooling. The main idea in pooling is to get a "common" price for each kind or grade of product sold during a fixed period of time. Thus, if during a certain period 10,000 pounds of potatoes were sold for \$2,000.00 and 40,000 pounds of peas were sold for \$4,000.00, the "common" or "pooling" prices would be \$0.20 and \$0.10 for potatoes and peas respectively. These prices then are the prices for potatoes and peas in that period. This means that growers who marketed their products through the association in that period will be paid \$0.20 per pound for their potatoes and \$0.10 per pound for their peas. This is the principle of "pooling" in co-operative marketing accounting, and this same principle will hold true whether there are two commodities or twenty commodities, two grades or twenty grades.

Leaving aside the accounting phase of "pooling" for a moment while we look into the economic significance of it. This method of "averaging" is a direct result of the shortcomings of the commission house accounting. In the first place, a commission house has to keep a sales account, besides that of the "receiving" account, with each and every person who deals with it. But how about a co-operative marketing association? No such accounts are necessary. All it is obliged to do is to keep a general "sales record" (Book IV, Chapter XII) for all its members as a whole. How much simpler has the whole accounting system become is immeasurable. Naturally with a simpler system, the office force can correspondingly be reduced. The savings here will amount to a considerable sum in dollars and cents.

Again if a commission merchant sells A's potatoes at \$0.12 per pound and B's at \$0.10 per pound, assuming that there is no difference in quality between the two producers' products and that the commission merchant merely happened to sell A's product first, the price of potatoes will not be \$0.11, but \$0.12 for A and \$0.10 for B.

In economics the theory of value tells us that at a certain price a certain quantity will be sold. A commission merchant will first try to get the highest price he can at a certain quantity. This is done for his own benefit as well as that of his patrons', for his

remuneration consists of certain percentage of sales. Now after a certain quantity has been sold, the removal of the remainder must occasion a reduction in price. The commission merchant does not care in the least whose products consist of the remainder of his merchandise. All he cares is to dispose of as much as he can, for the more he sells the larger will his commission be. Even though he sells at the lowest price in the market, he has nothing to lose, but on the other hand, he has his commission to gain.

This is all well for the commission merchant. But how about the farmers who happen to have their products sold at the last? Therefore, from the standpoint of justice the "pooling" method is far superior to commission house methods of handling sales.

There is still another point to be considered. It would not be such a great damage to the few "last" farmers if a commission merchant can dispose of their products at all, for though they receive lower prices, they get something for their products anyhow. But suppose the commission merchant could not sell the "remainder" at any price, and due to the high perishability of the products, they are all totally spoiled, this loss will not fall on the commission merchant, but on the farmers who happen to own the spoiled products. But under the "pooling" method of a co-operative marketing association, this loss will not fall on one farmer or on a group of farmers, but will be shared proportionately by all members of the association. This phase

of the subject will be discussed and illustrated fully in the following chapter. The "pooling" plan of a co-operative marketing association is, therefore, both profit-sharing and loss-sharing in character.

CHAPTER XVI.
POOLINGS ILLUSTRATED

With some of the principles of "pooling" in our mind as a background, we are now ready to take up some concrete illustration of such principles. For the sake of simplicity, we shall start with examples given in the beginning of the last chapter and proceed with our pooling.

Suppose A and B are the members of a truck gardeners' co-operative marketing association, and further suppose this association handles potatoes and peas exclusively (for the principles are the same with more members and more products). During a certain "pool", A contributed 6,000 pounds of potatoes and 10,000 pounds of peas to the association. B's contribution during the same period consists of 4,000 pounds of potatoes and 30,000 pounds of peas. At the end of that period, all the potatoes and peas were sold. In that "pool" the potatoes and peas were, however, sold at various prices but when the sales record was totalled, it showed the amount of money collected from the sale of potatoes was \$2,000.00 and that of peas was \$4,000.00.

The following are abstracts of the accounting records of the association. In these abstracts no attempt is made to show the details. Only summaries are shown.

In A's and B's own "grower's account" (Book III, Chapter VII), we find their respective accounts stand at the end of the period as follows:

A's Grower's Account

	Potatoes	Peas
	- - - -	- - - -
	- - - -	- - - -
Total amt. of produce rec'd.	<u>6,000 lbs.</u>	<u>10,000 lbs.</u>

B's Grower's Account

	Potatoes	Peas
	- - - -	- - - -
	- - - -	- - - -
Total amt. of produce rec'd.	<u>4,000 lbs.</u>	<u>30,000 lbs.</u>

We also will find the "Inventory Record" (book III, Chapter VIII) would show in part as follows:

INVENTORY RECORD

	Potatoes	Peas
Total amt. of produce rec'd.	10,000 lbs.	40,000 lbs.
Deduct:		
Total amt. of sales.	<u>10,000 lbs.</u>	<u>40,000 lbs.</u>
BALANCE	<u>00,000 lbs.</u>	<u>00,000 lbs.</u>

Likewise we find in the "sales record", (Book IV, Chapter XI) in summaries as follows:

SALES RECORD.

	Potatoes		Peas	
	Wt.	Price	Wt.	Price
	- - -	- - -	- - -	- - -
	- - -	- - -	- - -	- - -
Total amt. of Sales	10,000 lbs.	\$2,000.00	40,000 lbs.	\$4,000.00

Now we shall start with our pooling.

POTATOES:

Total Price Rec'd.	<u>\$2,000.00</u>	= \$0.20 pooling
Total Weight Sold	10,000 lbs.	price

PEAS:

Total Price Rec'd.	<u>\$4,000.00</u>	= \$0.10 pooling
Total Weight Sold	40,000 lbs.	price

Having arrived at the pooling prices, we shall now make up a sort of "pooling statement" as a report to our growers, A and B. But before we do that, a few words must be said in regard to the source of revenue of a co-operative marketing association. One of the important characteristics of such an association is self-support. A co-operative marketing association is not a charitable organization. It is a business organization. No business organization can long exist if it is incapable of self-support. This means that those who share the benefits of

the association must also contribute to its support if it is to exist continually. To state the same thing more precisely, those who enjoy a greater part of the benefits of the association should also share a greater part of its expenses, or in other words, proportional responsibility. Proportional to what? Proportional to the weight of products contributed by each? This would be a fair basis if the association only handles one kind of product and there is also only one grade of that product, or if the association handles more than one kind of product, all the products are equal in value per unit. But this condition seldom, if ever, exists. We, therefore, have to look elsewhere for a more satisfactory basis for our computation. Co-operative marketing associations have worked out a plan whereby a member is to contribute to the support of his association in proportion to the volume of business he transacts with the association. Thus, when a "pool" is completed and a "pooling statement" is made up, a certain percentage of the gross proceeds is deducted as "commission" or "handling charges" before the net proceeds are remitted to a member. Now this percentage is an arbitrary figure. Experience will tell an association the right percentage it should deduct as "handling charges".

Now with this discussion on "handling charges" or "commission", we shall proceed with the "pooling state-

ment". The percentage in our deduction is, say, ten per cent.

A'S POOLING STATEMENT

Date Rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amt. rec'd.	<u>6,000 lbs.</u>	<u>10,000 lbs.</u>

Potatoes: Pooling price \$0.20 X 6,000 = \$1,200.00

Peas: Pooling price \$0.10 X 10,000 = 1,000.00
 GROSS PROCEEDS RECEIVABLE \$2,200.00

Deduct: Commission 10% 220.00
 NET AMOUNT RECEIVABLE \$1,980.00

B'S POOLING STATEMENT

Date Rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amt. rec'd.	<u>4,000 lbs.</u>	<u>30,000 lbs.</u>

Potatoes: Pooling price \$0.20 X 4,000 = \$ 800.00

Peas: Pooling price \$0.10 X 30,000 = 3,000.00
 GROSS AMOUNT RECEIVABLE \$3,800.00

Deduct: Commission 10% 380.00
 NET AMOUNT RECEIVABLE \$3,420.00

After the "pooling" is thus made, the really difficult accounting problems of a co-operative marketing association have apparently been solved. Under our hypothetical illustration, the matter of closing the books is comparatively an easy task. Before "pooling" our account stood as follows:-

CASH	SALES
6,000	6,000

When the pooling was completed and remittances were made to growers, our accounts were changed to read as follows:-

CASH	REMITTANCES TO GROWERS	SALES
6,000	5,400	5,400
		6,000

The "remittance to growers" account is in reality what other business houses call "cost of goods sold". Therefore, closing the "remittance to growers" into "sales", the balance of "sales" account represents the gross profit from sales. After this closing, our accounts will appear as follows:-

CASH	REMITTANCE TO GROWERS	SALES
6,000	5,400	5,400
	5,400	6,000

In order to close "sales" account, we have to open a new account called "commission earned" or "gross profit from sales" or any other appropriate name. After this account is opened, our books will stand as follows:-

<u>CASH</u>		<u>REMITTANCE TO GROWERS</u>	
6,000	5,400	5,400	5,400
		<u>5,400</u>	<u>5,400</u>
<u>SALES</u>		<u>COMMISSION EARNED</u>	
5,400	6,000		600
600			
<u>6,000</u>	<u>6,000</u>		

Our trial balance at this point will read as follows:-

<u>ASSETS</u>		<u>LIABILITY</u>	
Cash	600	Commission earned	600

It is evident that all expenses of operation will be closed into the "commission earned" account; thus, the balance of that account will represent the surplus earning. It will also be remembered that when we made up the "pooling statement" for each grower, we deducted ten per cent of the gross proceeds from each grower's statement. This means we have

to figure commission as many times as the number of growers, and if there is a great number of members in the association, the work in computation is considerable. However, there is an easier method to accomplish the same results and at the same time, it saves a great deal of clerical work. In simple words, this method deducts commission from sales before computing for "pooling" prices. We shall now use the same data given above and work out the "pooling" according to this second method. The "sales record" as given before is as follows:-

SALES RECORD

	Potatoes		Peas	
	Wt.	Price	Wt.	Price
	- - -	- - - -	- - -	- - - -
	- - -	- - - -	- - -	- - - -
Total amt.				
Sales	10,000 lbs.	\$2,000.00	40,000 lbs.	\$4,000.00
Deduct: Commission				
	10% of Sales	200.00		400.00
NET	10,000 lbs.	\$1,800.00	40,000 lbs.	\$3,600.00

POTATOES:

Total Price	<u>\$1,800.00</u>	=	\$0.18 pooling price
Total Wt. Sold	10,000 lbs.		

PEAS:

Total Price	<u>\$3,600.00</u>	=	\$0.09 pooling price
Total Wt. Sold	40,000.00		

The new pooling statement for A and B respectively are as follows:-

A'S POOLING STATEMENT

Date Rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amt. rec'd.	<u>6,000 lbs.</u>	<u>10,000 lbs.</u>
Potatoes: Pooling price \$0.18 X 6,000	=	\$1,080.00
Peas: Pooling price \$0.09 X 10,000	=	<u>900.00</u>
NET AMOUNT RECEIVABLE		<u>\$1,980.00</u>

B'S POOLING STATEMENT

Date Rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total Amt. Rec'd.	<u>4,000 lbs.</u>	<u>30,000 lbs.</u>
Potatoes: Pooling price \$0.18 X 4,000	=	\$ 720.00
Peas Pooling price \$0.09 X 30,000	=	<u>2,700.00</u>
NET AMOUNT RECEIVABLE		<u>\$3,420.00</u>

Thus so far as final results are concerned, one method does not differ from the other. As to the form of "pooling statement", no definite remark could be made which will hold good in all cases. Each co-operative association, should,

therefore, design the form which will serve the best for its purpose.

Though the name "co-operative marketing association" conveys the idea of a selling agency, most, if not all, of such associations do more or less buying for its members. Owing to the economy of large scale purchase, the associations often buy fertilizer, machinery, feed, seeds, packing container, etc., and sell the same to its members at cost. When this is done, the association seldom collects from each member for his purchases in cash, but deducts these charges from the "pooling" money that he is to receive. Consequently, provision must be made in the "pooling statement" for the deducting of charges in purchases which are common in a particular association in question.

In the foregoing illustration, we closed our books at the end of a pooling^{period}. But this is not necessary especially when the length of a "pool" is short; which is the case of most of the truck gardeners' co-operative marketing associations. The usual practice is to close the books at the end of a season. Whether the books are closed at the end of a pool, or at the end of a season, or at any other intermediate period, the principles should be the same. The "remittance" account is closed into sales. If there is more than one sales account; that is, cash sales and credit sales, close them into a combined sales account. The balance of the sales account then represents the amount of "commission" or

"handling charges" earned. This balance is transferred to a "commission" account; thus, closing the "sales" account. Expense accounts are, of course, closed into the "commission" account after the latter had been opened.

Besides the length of the "pools", there is a more important factor to be considered in determining when the books should be closed. In our hypothetical illustration, we supposed that at the end of a pooling period, everything on hand had been sold, or in other words, there is no inventory. Were this the case, there would be no objection in closing the books at the end of a pool. But this is a very improbable case. Although the rate of turnover of vegetable marketing is faster than most other business, it is not unusual that some sort of inventory is left on hand. In our foregoing illustration, we supposed there was no inventory, that is to say, the quantities received equaled the quantities sold. But now we consider a case which has a merchandise inventory, or that the quantities sold do not equal the quantities received. First, let us see what are the effects in the case in which there is a merchandise inventory, and each member is paid (at the end of each pool) for the total amount of products he delivered to the association during that particular pool.

Now since there is a merchandise inventory, the quantities sold must be less than the quantities received. But since the members are paid for the total amounts of

products they delivered to the association during a "pool", the association is in fact paying (to the growers) for goods which are not sold and still on hand. The question which naturally suggests itself now is, where does the association obtain the necessary funds to pay for goods not yet sold. The most common source of this fund is from a special reserve. At the end of a season, when all the expenses have been paid for, the amount of surplus earning is usually re-distributed back to the growers. But before this is done, a certain percentage of that surplus is retained in the association as reserves for this purpose. Now granting there are available funds to meet such needs, is there objection to paying growers for products still on hand? The answer to this is that if there is no change in selling prices between the present "pool" and the "pool" following, there is no objection in doing so; for the amount of money paid out for "unsold" goods in this "pool" will be replaced by the sales of such unsold goods in the next pool. In this case the association just breaks "even". It gains nothing from the members, and at the same time it loses nothing. But suppose prices drop during the next "pool", the association will be losing money; for it receives less from the sale of the unsold goods (previous pool) than the amount it had paid out. Conversely, if prices go up in the next "pool", the association will be benefitted thereby. As a whole, the association stands more chance for losing

money through a declining market than by making money in a rising market; for the only time that occasions rising prices is when there is a shortage in supply, and when there is a shortage in supply, there is seldom anything left on hand unsold.

All truck gardeners' co-operative marketing associations recognize the difficult problem involved in treating the inventory at the end of a "pool". For this reason, most of them do not close their books by the "pool". From the above discussion, we have seen that if an association pays its members for the total amount of products they delivered to the association in a "pool", the association is more likely to suffer a loss. The next question confronting us is how should an association handle its inventory so that it will neither make a profit nor suffer a loss. There is one method by which merchandise inventory is not only carried from one pool to another in the "inventory record", but also in the "growers' accounts". In this way the "growers' accounts" always carry a balance from "pool to pool", instead of having a clean slate for each pool. According to this method, the amount of inventory to be carried forward is expressed in the following formula:-

The amount of inventory to be carried forward from pool "X" to pool "Y" by Grower "A" =

<u>Total amt. of products delivered to the ass'n. by "A"</u>	
total amt. of products rec'd. by ass'n. from all members	X

The amount of merchandise inventory unsold.

To express the same thing in a ratio, we arrive at the following:

The amount to be carried forward by a member to the total amount of inventory equals the ratio the total amount he delivers to the association to the total amount the association receives from all members multiplied by the amount of merchandise inventory unsold.

It will be noticed from this method that it distributes the merchandise inventory to the members according to their production. This method which is strictly in keeping with the co-operative idea works no hardship on a certain member or a certain group of members. But when an association handles a good many kinds of products, and the membership of the association is large, this method will cause considerable clerical work to operate, besides the many complicated problems involved. On account of this, many associations make no attempt to carry inventory forward (in growers' accounts) from one pool to another. The "growers' accounts" are closed at the end of each pool, and new accounts are opened for each new pool. The losses thus suffered are made up by charging a higher percentage of commission. Accurate as the method prescribed above seems

to be, it has both advantages and disadvantages. Each association should, therefore, decide for itself whether the advantages thus obtained can over-balance the disadvantages suffered. In the following paragraph, we shall illustrate the working of this method.

For the sake of simplicity, we shall assume all the conditions given in the illustration above with only one exception. The total sales prices remain unchanged, but the totals in the "weight" columns (in the Sales record) are changed to read 8,000 lbs. and 20,000 lbs. for potatoes and peas respectively. That is to say that the merchandise inventory consists of 2,000 lbs. of potatoes and 20,000 lbs. of peas. The "growers' accounts" as given in the above illustration are as follows:-

A'S GROWERS' ACCOUNT

Date rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amt. rec'd.	<u>6,000 lbs.</u>	<u>10,000 lbs.</u>

B'S GROWERS' ACCOUNT

Date rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amt. rec'd.	<u>4,000 lbs.</u>	<u>30,000 lbs.</u>

The "Inventory Record" in this case will be as follows:-

<u>INVENTORY RECORD</u>		
	Potatoes	Peas
Total amounts of produce received	10,000 lbs.	40,000 lbs.
Deduct: Sales	<u>8,000 lbs.</u>	<u>20,000 lbs.</u>
MDSE. INVENTORY	<u>2,000 lbs.</u>	<u>20,000 lbs.</u>

Before we proceed with the "pooling", we shall first compute an amount of inventory A and B should carry forward to the next "pool". Formula given above:-

$$\frac{\text{Total amt. of produce delivered to the ass'n. by "A"}}{\text{Total amt. of same rec'd. by ass'n. from all members}} \quad \times$$

$$\text{The amount of mdse, inventory unsold} \quad =$$

$$\text{The amt. of inventory carried forward by "A".}$$

Substituting these by the figures in our case, we will arrive at the following:

A's apportionment of inventory:

$$\text{Potatoes: } \frac{6000}{10,000} \times 2000 \text{ lbs.} = 1200 \text{ lbs.}$$

$$\text{Peas: } \frac{10,000}{40,000} \times 20,000 \text{ lbs.} = 5000 \text{ lbs.}$$

B's apportionment of inventory:

Potatoes: $\frac{4000}{10000} \times 2,000 \text{ lbs.} = 800 \text{ lbs.}$

Peas: $\frac{30000}{40000} \times 20,000 \text{ lbs.} = 15000 \text{ lbs.}$

With these computations completed we shall proceed with the "pooling". The new "sales record" is as follows:-

SALES RECORD

Potatoes		Peas	
Wt.	Price	Wt.	Price
- - -	- - - -	- - -	- - - -
- - -	- - - -	- - -	- - - -
<hr/>			
Total amt.			
Sales	<u>8,000 lbs. \$2,000.00</u>	<u>20,000 lbs. \$4,000.00</u>	

POTATOES:

Total price rec'd. $\frac{\$2000.00}{8000 \text{ lbs.}} = \$0.25 \text{ pooling price}$
 Total weight sold

PEAS:

Total price rec'd. $\frac{\$4000.00}{20000 \text{ lbs.}} = \$0.20 \text{ pooling price}$
 Total wt. sold

With the pooling prices thus arrived at, we now make up the "pooling statements" as follows:-

A'S POOLING STATEMENT

Date rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amts. rec'd.	<u>6,000 lbs.</u>	<u>10,000 lbs.</u>
Deduct: Inventory		
Carried Forward	<u>1,200 lbs.</u>	<u>5,000 lbs.</u>
	<u>4,800 lbs.</u>	<u>5,000 lbs.</u>

Potatoes: Pooling price \$0.25 X 4800	=	\$1,200.00
Peas : Pooling price \$0.20 X 5000	=	<u>1,000.00</u>
GROSS AMOUNT RECEIVABLE		<u>\$2,200.00</u>
Deduct: Commission 10%		<u>220.00</u>
NET AMOUNT RECEIVABLE		<u><u>\$1,980.00</u></u>

B'S POOLING STATEMENT

Date rec'd.	Potatoes	Peas
- - - -	- - - -	- - - -
- - - -	- - - -	- - - -
Total amts. rec'd.	<u>4,000 lbs.</u>	<u>30,000 lbs.</u>
Deduct: Inventory		
Carried Forward	<u>800 lbs.</u>	<u>15,000 lbs.</u>
	<u>3,200 lbs.</u>	<u>15,000 lbs.</u>

Potatoes: Pooling price \$0.25 X 3200	=	\$ 800.00
Peas : Pooling price \$0.20 X 15000	=	<u>3,000.00</u>
GROSS AMOUNT RECEIVABLE		<u>\$3,800.00</u>
Deduct: Commission 10%		<u>380.00</u>
NET AMOUNT RECEIVABLE		<u><u>\$3,420.00</u></u>

It will be observed that the final results in both cases are the same. The reason for this is because we have not altered the totals of the selling prices. The decrease in the quantities sold gives an increase to the "pooling prices".

Thus far we have possibly analyzed all the various phases of "pooling" method in principle and practice with one exception. It is in the treating of spoilage in "pooling". If we remember the co-operative idea set forth in the discussion of all these accounting principles, we should have no difficulty in handling spoilage accounting. The "co-operative" idea means that both profits and losses are shared by everyone, not equally, but according to some equitable basis. The element of spoilage is inevitable. This is especially true of a truck gardeners' co-operative marketing association. Even equipped with the modern refrigerating facilities, a certain amount of spoilage is always present. In this case an association can, of course, charge a higher percentage from the gross proceeds as commission to cover losses through spoilage just as it does in the case of losses through fluctuation of prices between two "pools". But this method is so grossly unscientific and inaccurate, that a more equitable method is indeed necessary to give better results. We have seen from above how the merchandise inventory at the end of a "pool" may be divided proportionately among the members. Likewise the

amount of spoilage may be treated identically. The amount to be deducted from a "growers' account" as spoilage to the total spoilage should bear the same ratio as the total amount of products contributed by that grower to the total amount of that product received by the association from all growers. The working of this method has been fully illustrated above. Consequently, it is superfluous to repeat it here.

However, there is another method used by co-operative marketing associations in accounting for spoilage. Spoilage is a loss; and in a co-operative marketing association, it is a common loss. The immediate effect of spoilage is the decreasing of the merchandise inventory. When merchandise inventory is decreased, while the total amount of sales prices remains constant, it means the lowering of the "pooling" prices per unit sold. Thus, if the amount of spoilage is added to the "weight" column when computed for "pools", the resultant "pooling price" will automatically take care of losses through spoilage. Let us assume that our "sales account" to be the same as before. The amounts which formally constituted the merchandise inventory are now changed to be spoilage. Now if the quantities spoiled were each sold for \$10.00, our "sales record" would undoubtedly be as follows:-

SALES RECORD

Date	Potatoes		Peas	
	Wt.	Price	Wt.	Price
- - -	- - -	- - - -	- - -	- - - -
- - -	- - -	- - - -	- - -	- - - -
Total amt.	<hr/>			
Sales	8000 lbs.	\$2000.00	20,000 lbs.	\$4000.00
Spoilage	<hr/>			
Sold	2000 lbs.	10.00	20,000 lbs.	10.00
	10000 lbs.	\$2010.00	40,000 lbs.	\$4010.00

It is noticed from the above record that by adding the amount of spoilage in the "weight" columns, and also the amount of money they were sold for in the "price" column, we have taken care of the spoilage. Now the same principle would hold true if the spoilage turns out to be a complete loss. All we have to do to account for such loss is simply to add the amount of spoilage to the "weight" columns and do nothing to the "price" columns. Our "sales record" under that condition would be as follows:-

SALES RECORD

Date	Potatoes		Peas	
	Wt.	Price	Wt.	Price
- - -	- - -	- - - -	- - -	- - - -
- - -	- - -	- - - -	- - -	- - - -
Total amt.				
Sales	8000 lbs.	\$2000.00	20,000 lbs.	\$4000.00
Spoilage	2000 lbs.		20,000 lbs.	
	10000 lbs.	\$2000.00	40,000 lbs.	\$4000.00

And from this "sales record", "pooling prices" are computed as illustrated before.

BOOK VI. ACCOUNTING FOR SURPLUS

CHAPTER XVII.

DISTRIBUTION OF SURPLUS

After accounting for capital, merchandise, sales and "pools", we have now come to the last stage in accounting for truck gardeners' co-operative marketing associations. It is the accounting for surplus. Technically, the name "surplus" is incorrect in our case, for it implies earning over and above expenses in a "profit" organization. But co-operative marketing organizations are non-profit in character. Furthermore, there is another point to be considered. The law¹ exempts agricultural co-operative marketing associations from federal income tax. Thus, if the name "surplus" is in any way used, it may lead to confusion and misunderstanding. The name of "net commission earned" may express the meaning of the account better. However, the name "surplus" has such a wide market usage, we shall use it for lack of a better term.

When we closed our books in the preceding chapter, we arrived at the "commission earned" account with a credit of \$600.00. To offset this amount we have a debit balance of \$600.00 in the "cash" account. The commission account, as we have pointed out above, represents the gross amount of commission earned. Out of this amount must be paid the

¹Revenue Act of 1924, Section 700, Article 29.

expenses of operation. For the time being we shall assume the total expenses of the association amounts to \$200.00. And when the expense accounts are closed into the "commission" account, our accounts will show the following balance:-

CASH	COMMISSION EARNED
400	400

Our problem now is to distribute the "surplus" earning to the members whose patronage had made this "surplus" possible. Evidently, a common basis for distribution is necessary. What shall we use then? Shall we distribute on the basis of "acreage" cultivated? This will undoubtedly be a fair basis if all the association handled but one kind of product and also the production per acre among the members is about equal. But if these two conditions are not met with, this basis is inadequate. Shall we distribute on the basis of "poundage" received then? Here again, two qualifications limit the usage of this basis. If the association handles one product exclusively, and there is but one grade of that product, this basis may be accepted as fair. Otherwise, it does not serve our purpose.

Since these two bases we have enumerated are far from being practical in all cases, we have to look for a third one. The "net commission" is earned on the total amount of sales by the association. Now this total amount

of sales by the association is in reality individual sales by the different members. Or putting the same thing in a different way, the total "gross proceeds" of all the members equals the total amount of sales. A third basis thus at once suggests itself. It is the distributing of surplus earning according to the volume of business transacted with the association. It will be noticed that this basis makes no limitation on the number of products handled, or the number of grade, or the number of acres cultivated. It has only one common unit of measurement, the dollar and cent.

For the sake of simplicity and continuity, we shall illustrate the working of this basis by the figures we used in our previous illustrations. It may be mentioned in passing that oftentimes before the balance in the "commission" account is transferred to the "surplus" account, a certain portion of the balance thereof is deducted and credited to special reserve accounts. Sometimes these reserves are for educational purposes, or for publicity purposes. But in our present illustration we shall leave out this phase of the subject. This does not mean that it is unimportant, but it presents no difficult accounting problems.

To begin with we shall transfer the balance of the "commission" account to the "surplus" account, or the "membership interest" account. Our accounts will then read as follows:-

CASH	MEMBERSHIP INTEREST
400	400

There are two ways in stating the formula for distributing the surplus earning. One uses the gross amounts as numerator and denominator, while the other uses the net figures. Since the gross and the net are in the same ratio (the "gross" is reduced ten per cent to arrive at the "net"), the final results will be the same whichever formula is employed. They are as follows:

- (1) The amount of surplus earning to be credited to A's "membership interest" account =

$$\frac{\text{A's gross proceeds receivable (for the season)}}{\text{Ass'n.'s total amt. of sales (for the season)}} \times$$

The amount of surplus earning.

- (2) The amount of surplus earning to be credited to A's "membership interest" account =

$$\frac{\text{A's total amt. of net receipts (for the season)}}{\text{Total amt. remittances to all members (for season)}} \times$$

The amount of surplus earning.

Using the first formula and the figures we have arrived at in the preceding chapter to distribute our surplus earning of \$400.00, A's and B's respective share will be as follows:-

A'S SHARE

$$\frac{2,200}{6,000} \times \$400.00 = \$146.66$$

B'S SHARE

$$\frac{3,800}{6,000} \times \$400.00 = \$253.34$$

Now using the second formula to compute the same thing, the following answers will be obtained:-

A'S SHARE

$$\frac{1,980}{5,400} \times \$400.00 = \$146.66$$

B'S SHARE

$$\frac{3,420}{5,400} \times \$400.00 = \$253.34$$

Further remark on this point is not necessary. Be it sufficient to repeat that whichever method is used, the final results are identical. Now when the computation for the distribution of surplus earning is complete, our next step is to close the "membership interest" account and open an account with each member. When this is finished our accounts will read as follows:-

<u>CASH</u>	<u>A'S MEMBERSHIP INTEREST</u>	<u>B'S MEMBERSHIP INTEREST</u>
400	146.66	253.34

However, the closing of the general "membership interest" account is sometimes unnecessary. In an association having a large membership, the general "membership interest" account serves as a controlling account of the individual members' account. After the surplus earning is thus credited to different members, it is customary for the Board of Directors to vote for its disposition. If the board votes to leave the money in the association, nothing else is needed to record in the books. Should the board vote for a physical distribution of such earning, all our accounts are, of course, closed. Very seldom, indeed, does the Board of Directors favor the physical distribution to all the surplus earnings. If the association is a going concern, it needs funds to carry on its daily business, and if it handles seasonal crops only, it has to be equipped with ready cash to start in the following season. Consequently, the physical distribution is generally on the basis of a certain percentage of the book account. In our case, we shall assume that fifty per cent of the book figures will be distributed in cash; and after such distribution, our accounts will show the following balance:-

<u>CASH</u>	<u>A'S MEMBERSHIP INTEREST</u>	<u>B'S MEMBERSHIP INTEREST</u>
200	73.33	126.67

When the last figure is recorded in our books, our accounting work for the association is thus completed.

CHAPTER XVIII.

CONCLUSION

In the foregoing chapters, the accounting problems which are likely to be encountered by a co-operative marketing association have been discussed at length. It must be borne in mind that the solutions to such problems are not in any case absolute; for they are never intended to be so. The principles laid down are not water-tight compartments; and as such, they must be modified and reconstructed to serve the needs of a particular case in question. Accounting systems are individual problems. Two associations may be organized to sell the same kind of product and to distribute by the same methods. Even in that case one accounting system may work perfectly in one and work disastrously in the other. What we could do best is to present the problems and the solutions thereof in such a general way, so that any co-operative marketing association may with discretion use this work as a guide to map out a system adaptable to the conditions peculiar to its own concern.

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APPENDIX I.

ARTICLES OF INCORPORATION AND BY-LAWS
OF THE
LOS ANGELES ASPARAGUS GROWERS' ASSOCIATION

A R T I C L E S O F I N C O R P O R A T I O N
OF THE
LOS ANGELES ASPARAGUS GROWERS' ASSOCIATION

KNOW ALL MEN BY THESE PRESENTS:

THAT WE, the undersigned, a majority of whom are citizens and residents of the State of California, have this day associated ourselves together for the purpose of forming a non-profit, co-operative association, without capital stock, under the laws of the State of California.

AND WE HEREBY CERTIFY:

FIRST: That the name of said association shall be,

LOS ANGELES ASPARAGUS GROWERS' ASSOCIATION

SECOND: That the purposes for which it is formed are :

1. To promote, foster and encourage the intelligent and orderly marketing of its members' agricultural products through co-operation; to eliminate speculation and waste, and to make the distribution of agricultural products of its members to the consumers as direct as can be efficiently done.

2. To engage in any activity in connection with the marketing, selling, preserving, harvesting, drying, processing, manufacturing, canning, packing, grading, storing, handling, or utilization of any agricultural products produced or delivered to it by its members; or the manufacturing or marketing of the by-products thereof; or any activity in connection with the purchase, hiring, or use by its members of supplies, machinery or equipment; or in the financing of any such

activities; or in any one or more of the activities specified in this section; to handle the agricultural products of non-members to an amount not greater in value than the value of such products as are dealt in or handled by it for its own members, and to use its facilities for such purpose; PROVIDED, however, that it shall handle such products and use its facilities in such manner only for the purpose of keeping such facilities in constant and economical employment, and not for the purpose of making a profit.

3. To borrow money without limitation as to amount of corporate indebtedness or liability; and to make advances to members.

4. To act as the agent or representative of any member or members in any of the above mentioned activities.

5. To purchase or otherwise acquire, and to hold, own and exercise all rights of ownership in, and to sell, transfer or pledge, or guarantee the payment of dividends or interest on, or the retirement or redemption of, shares of the capital stock or bonds of any corporation or association engaged in any related activity or in the warehousing or handling or marketing for packing or manufacturing or processing or preparing for market of any of the products handled by the association.

6. To establish reserves and to invest the funds thereof in bonds or in such other property as may be provided in the by-laws.

7. To buy, hold and exercise all privileges or ownership, over such real or personal property as may be necessary

or convenient for the conduct and operation of any of the business of the association, or incidental thereto.

.8. To levy assessments in the manner and in the amount as may be provided in its by-laws.

9. To do each and every thing necessary, suitable or proper for the accomplishment of any one of the purposes or the attainment of any one or more of the subjects herein enumerated; or conducive to or expedient for the interest or benefit of the association; and to contract accordingly; and in addition to exercise and possess all powers, rights and privileges necessary or incidental to the purposes for which the association is organized or to the activities in which it is engaged; and to do any such thing anywhere.

10. To purchase, acquire, take, own, hold, lease, sell, convey, mortgage, and hypothecate, real and personal property, both within the State of California and elsewhere.

11. To do anything ordinary corporations may do not inconsistent with the laws governing non-profit co-operative associations.

THIRD: That the place where the principal business of said association is to be transacted is the City of Los Angeles, County of Los Angeles, State of California.

FOURTH: That the term for which said association is to exist is fifty (50) years from and after the date of its incorporation.

FIFTH: That the number of Directors of said association

shall be seven (7) and the term of office of such Directors shall be ~~one~~ (1) year from and after the date of their election and until the election of their successors in the event an election is not held within one (1) year from the previous election.

SIXTH: That this association shall have no capital stock and the voting power of each member shall be the same as of every other member, whether he or it be an original incorporator or becomes a member later, and irrespective of his or its property interest in such association; that any firm, partnership, corporation or association which shall become a member of this association shall have the same, and no greater, voting right than an individual member, and shall be entitled to be represented by some person to be appointed by it; that the property interests of each member in such association shall be equal to the proportional amount such member has paid in admission fees and assessments, (less any repayments to him) bears to the total amount paid in admission fees and assessments, less repayments, by all of the then members of the association.

That for the purpose of determining the property interests of any member of this association, any payments, credits or obligations made, created or incurred on account of the purchase, sale, shipping, packing, handling, or advertising of asparagus or other agricultural products produced by any member, shall not be considered as admission fees or assessments or repayments thereof.

That any person, firm, partnership, corporation or association having the qualifications, and paying the membership fee hereinafter set out, and whose admission to membership the Board of Directors shall by majority vote of the members thereof determine not to be inimical to the best interests of the association, may become a member of the association; that any person, firm, partnership, corporation or association is qualified for membership in this association if he or it owns a minimum of five (5) acres of growing asparagus within the State of California, irrespective of who may own the fee simple of the land on which said asparagus is grown, and pays a membership fee equal to five dollars (\$5.00) for each such acre, including any landlord whose rental is represented by a percentage of the asparagus grown on the premises leased by him, in the event such percentage, multiplied by the acreage leased and planted to asparagus, is greater than five (5), in which instance the membership fee shall be equal to the percentage payable as rental times the number of acres leased and planted to asparagus times five dollars (\$5.00).

B Y - L A W S
OF THE
LOS ANGELES ASPARAGUS GROWERS' ASSOCIATION

The name of the Corporation shall be the:

LOS ANGELES ASPARAGUS GROWERS' ASSOCIATION.

Article 1. Corporate Powers- The corporate powers of the corporation shall be vested in seven (7) directors, who shall be members, and four (4) shall constitute a quorum for the transaction of business.

Article 2. Election of Directors- The directors shall be elected by ballot at the annual meeting of the members, to serve for one year, and until their successors are elected. Their term of office shall begin immediately after election.

Article 3. Vacancies- Vacancies in the Board of Directors shall be filled by other directors in office, and such persons shall hold office until the first meeting of the members thereafter.

Article 4. Power of Directors- The directors shall have power:

1. To call special meetings of the members when they deem it necessary. And they shall call a meeting at any time, upon the written request of one-half of the members.

2. To appoint and remove, at pleasure, all officers, agents and employees of the corporation, prescribe their duties, fix their compensation and require from them security for faithful service.

3. To conduct, manage and control the affairs and business of the corporation, and to make rules and regulations not inconsistent with the laws of the State of California, or by-laws of the association, for the guidance of the officers and management of the affairs of the corporation.

4. To incur indebtedness up to but not beyond the sum of five thousand dollars (\$5000.00).

The terms and amount of such indebtedness shall be entered on the minutes of the Board, and the note or obligation given for the same, signed officially by the President and Secretary, shall be binding on the corporation. There shall be no limit to the amount of indebtedness to its members on account of asparagus or other produce of such members handled by the association.

5. To make, alter, amend and repeal rules and regulations for the management of the Association and covering the conduct of members and their relations and obligations to the association.

6. To make contracts with its members covering the delivery or sale of asparagus, or other produce, produced or owned by the members.

Article 5. Duties of Directors- It shall be the duty of the Directors:

1. To cause to be kept a complete record of all their minutes and acts and of the proceedings of the members, and present a full statement at the regular annual meeting of the members, showing in detail the assets and liabilities

of the Association, and generally the condition of its affairs.

2. To supervise all officers, agents and employees, and see that their duties are properly performed. To cause to be issued to the members certificates of membership.

Article 6. Officers- The officers shall be a President, Vice-President, Secretary and Treasurer, which officers shall be elected and hold office at the pleasure of the Board of Directors. The offices of Secretary and Treasurer may be held by one and the same person. The compensation and tenure of office of all the officers of the corporation (other than directors) shall be fixed and determined by the Board of Directors.

Article 7. President- The Board of Directors shall, at their first regular meeting, elect one of their number to act as President, and one to act as Vice-President; and if at any time the President shall be unable to act, the Vice-President shall take his place and perform his duties; and if the Vice-President, from any cause, shall be unable to act, they shall appoint some other member of the Board so to do, in whom shall be vested, for the time being, all the duties and functions of his office. The President, or in his absence the Vice-President, or in his absence the Director as above appointed, shall:

1. Preside over all meetings of the members and directors, and shall have the casting vote.

2. He shall sign, as President, all certificates of membership and all contracts and other instruments of writing which have been first approved by the Board of Directors, and shall draw checks upon the Treasurer.

3. He shall call the Directors together whenever he deems it necessary, and shall have, subject to the advice of the Directors, direction of the affairs of the association, and generally shall discharge such other duties as may be required of him by the by-laws of this corporation.

The President, or two of the Directors, may call special meetings of the Directors at any time, and notice shall be given of such called meetings by depositing a written notice thereof in the post-office at the principal place of business of the association, postage prepaid, addressed to each Director at his last known address, at least forty-eight hours before the time set for meeting. Such service of notice shall be entered on the minutes of the corporation; and the said minutes, upon being read and approved at a subsequent meeting of the Board, shall be conclusive upon the question of service.

Regular meetings of the Board of Directors may be held on the first Monday of each calendar month, at twelve o'clock M., at the principal office of the company without further notice.

Special meetings of the Board of Directors may be held pursuant to written waiver of notice or consent signed by all of the members in lieu of any other notice.

Article 8. Secretary- The Board of Directors shall elect a Secretary.

1. It shall be the duty of the Secretary to keep a record of the proceedings of the Board of Directors and of the members.

2. He shall keep the corporate seal of the association and the book of blank certificates of membership, fill up and countersign all certificates issued, and make the corresponding entries in the margin of such book on such issuance; and he shall affix said corporate seal to all papers requiring a seal.

3. He shall keep a proper transfer book, and ledger in debit and credit form, showing the members and the date of issuance and transfer of certificates of membership.

4. He shall keep proper account books; and discharge such other duties as pertain to his office and as are prescribed by the Board of Directors.

5. The Secretary shall serve all notices required either by law or the by-laws of the association; and in case of his absence, inability, refusal or neglect so to do, then such notices may be served by any person thereunto directed by the President or Vice-President of the corporation.

Article 9. Treasurer- The Treasurer shall receive and keep all the funds of the corporation, and pay them out only on the check of the President and himself.

Article 10. Books and Papers- The books and such papers as may be placed on file by vote of the members or

directors, shall at all times in business hours be subject to the inspection of the Board of Directors and of any member.

Article 11. Certificates of Membership- Certificates of membership shall be of such form and device as the Board of Directors may direct; and each certificate shall be signed by the President and countersigned by the Secretary, and shall contain a statement to the effect that the membership is subject to the provisions of the Articles of Incorporation and By-Laws of the association.

The certificate book shall contain a margin, on which shall be entered the number, date and name of the person expressed in the corresponding certificate and such other matter as the Board of Directors may provide.

Article 12. Members' Meeting- The annual meeting of the members shall be held at the office of the Association in Los Angeles, California, at 9 O'clock A.M., on the first Monday in May in each year, for the purpose of electing Directors and transacting such other business as may properly come before the meeting. No further notice of such regular meeting need be given. Notice of special meetings shall be given by depositing a written notice of the time and place thereof in the post-office at the principal place of business of the association, postage prepaid, addressed to each member at his address as the same appears of record on the books of the association, at least ten days prior to the date of meeting.

No meeting of members shall be competent to transact business unless a majority of the members shall be present either in person or by proxy, except to adjourn from day to day, or until such time as may be deemed proper.

At such annual meeting of the members, directors for the ensuing year shall be elected by ballot to serve for one year, and until their successors are elected. If, however, for want of a quorum or other cause, a members' meeting shall not be held on the day above named, or should the members fail to complete their elections, or such other business as may be presented for their consideration, those present may adjourn from day to day, until the same shall be accomplished. Members may vote at all meetings by proxy. Such proxy shall be in writing, signed and dated by the member and shall be effective only for meetings designated therein and any adjournment thereof.

Article 13. Voting- At all corporate meetings each member either in person or by proxy, shall be entitled to one vote. Such proxy shall be in writing, and filed with the Secretary.

Article 14. Amendments- The by-laws may be repealed or amended, or new by-laws may be adopted, at the annual meeting, or at any other meeting of the members, called for that purpose by the Directors, by a vote representing two-thirds of the members. The written assent of two-thirds of the members is effectual to repeal or amend any by-laws, or to adopt additional by-laws. Whenever any amendment or new

by-law is adopted, it must be copied in the book of by-laws, with the original by-laws, and immediately after them. If any by-law is repealed, the fact of repeal, with the date of meeting at which the repeal was enacted, or written consent was filed, must be stated in said book. Until copied or stated as hereinbefore required, no by-law, nor any amendment nor repeal thereof, can be enforced against any person, other than the association, not having actual notice thereof.

Article 15. Seal- The Association shall have a common seal, consisting of the following wording: "Los Angeles Asparagus Growers' Association - Incorporated February 1924, California."

Article 16. Executive Committee- There shall be an Executive Committee, to be elected by the Board of Directors, to hold office at its pleasure, to consist of four members of such Board, which executive committee shall have all of the functions and powers of the Board of Directors, subject to the general direction and control of the Board. Three members of such committee shall constitute a quorum and a majority of such quorum shall have power to represent or act for the committee.

Article 17. Fines- That in addition to any other penalties, the Board of Directors shall have authority to fine any member a sum not to exceed One Hundred (\$100.00) dollars for each acre of asparagus owned by such member, for infraction of the By-Laws or the rules and regulations of the Association, or any contract between such member and the Association.

Article 18. Assessments- The Board of Directors may levy assessments necessary to construct buildings, offices or other places and to buy or lease land on which to place or construct the same for the uses or operations of the corporation, or in order to raise funds for advertising purposes. All such assessments shall be levied against members in proportion to the number of acres of asparagus owned by members. In the event any member owns an undivided interest (as opposed to the whole interest) in any number of acres of asparagus the assessment against such member shall be proportionately less than if he owned the whole interest.

Money paid the corporation on account of membership fees or assessments may be used for general purposes unless in the levying of any assessment a special purpose is designated.

Article 19. Rules for Membership- New members may be admitted in the manner as provided in the Articles of Incorporation. No membership may be assigned except as herein provided. Any member may be expelled by majority vote of a quorum of the Board of Directors at any regular meeting or special meeting called for that purpose for any of the following reasons:

Failure of the member to abide by the By-Laws or rules and regulations of the association, or any contract between the corporation and such member, or failure to pay assessments or other money obligations due to the corporation.

No such member shall be expelled without notice, either delivered in person to the member or by mail addressed to his last known address and or without being granted the privilege of making a defense. The action of the Board of Directors in expelling any member shall be conclusive of such notice and the opportunity of defense.

In the event of expulsion, the member expelled shall have no claim or interest in the assets of the corporation, other than his right to receive money due, or to become due, on account of the delivery of any asparagus or other produce to the Association.

Article 20. Withdrawal of Members- Any member may withdraw from the association at any time on written notice to the association, except during such period of time as there may be in force between such member and the corporation any contract covering the delivery or sale of produce owned or produced, or to be produced, by such member, or during such time as such member may be obligated to the association.

In the event any member shall at any time lose the qualification for membership he may be suspended by the Board of Directors from all of the rights or privileges of the corporation, but such suspension shall not alter the force or effect of any contract between the corporation and such member.

In the event of the withdrawal or suspension of any member, except during any period that expulsion proceedings of such member may be pending, the member so withdrawn or sus-

pended shall be entitled to receive from the corporation a sum equal to one-half of the book value of his membership, such sum to be payable at any time within one year after the time of such withdrawal or suspension, or in lieu thereof may assign his membership to any person theretofore accepted for membership by the Board of Directors; provided however, if the admission fee originally paid for such membership would not have been sufficient to qualify such assignee for membership, such assignee shall pay to the association such additional sum as would, together with such sum as was originally paid, have been required to so qualify him, before such assignment shall be effective for any purpose.