

Standard Classification of Accounts

PRINTING
INDUSTRIES OF
AMERICA, INC.

The Ratios Studies of Printing Industries of America are based on the GATF/PIA Standard Classification of Accounts. Reports of members, from which the Ratios Studies are prepared, are submitted on forms that follow these standard classifications and descriptions. Please be sure that your accounts substantially conform to the standard, not only in reporting your figures on the Ratio Studies form, but also in making subsequent comparisons of your results to those of other firms as reported in the Annual GATF/PIA Ratios Study. If you have any questions about classifications, call H.R. Margolis Company at 610-667-4310.

Ratio Studies

GATF
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Ratios

I. CLASSIFYING EMPLOYEES

It is important that employees be apportioned correctly between Factory, Administrative (office) and Selling. The explanations in the GATF/PIA Standard Classification of Accounts (see "Factory Payroll" and other salary items) give the general classifications. However, there are some employees whose functions overlap into two or more of these areas.

Part-Time Employees

One of the most important facts shown in the GATF/PIA Ratios Study is Value Added per Factory Employee. The Ratios study also computes the highly significant Pay per Employee and Production or Sales per Employee.

It is necessary, therefore, that your listing of the number of employees in your firm be reasonably accurate. Note that the information requested is the average number of "FULL-TIME" employees.

If your firm has a substantial number of part-time employees, you should count them as a proportionate number of full-time employees. For example, if you have 20 part-time employees who work an average of three months (one quarter of a year), they would be equivalent to (one fourth of 20) or five full-time employees.

Perhaps an easier way to make the calculation is to add all of the wages paid to part-time employees and divide this total by what would be the total annual pay of one of them. Thus, if the total of all part-time wages paid to eight employees is \$32,000 and the average annual full-time pay of one of them would have been \$16,000, you would divide \$32,000 by \$16,000, and add two employees to your number of regular full-time employees.

Split Time

For employees, especially Executives, whose time and effort are divided between Factory (Production), Administrative and/or Selling, accuracy requires that their salaries or wages be split or apportioned

accordingly (to the nearest tenth if necessary).

If only a MINOR amount of the executive's or employee's time is split, he should be classified and his entire wage or salary allocated to his PREDOMINANT function - Factory, Administrative or Selling. Where a split is indicated, a reasonable estimate of the split or apportionment is all that is necessary.

In classifying employees, the FUNCTION of the employee is the important consideration, not where the work is performed. When doubt exists as to classification or split, preference should be given first to Factory, then to Selling, and finally to Administrative.

Estimators: If their function is primarily to prepare estimates, they should be classified as General Factory. If their time is split between preparing estimates (Factory), checking Job Cost Sheets and preparing them for billing (Administrative), and/or compiling production records and standards (Factory), their time (salaries) should be split and apportioned (pro rated) accordingly.

Production Control or Scheduling: Employees who schedule and follow jobs through production to completion and delivery should be classified as General Factory regardless of whether the work is done in the plant or in the office.

Sales Coordinators: Employees whose primary job is to take over from salespeople the details of job preparation (ordering art work, separations and finishing, maintaining customer contact for copy, proofs, etc.), should be classified as General Factory. If their jobs are to obtain sales leads, answer sales calls and type sales quotes their time (salaries) should be classified as Selling Clerical.

Purchasing Agents: Employees who specify and order paper, ink, and other materials and factory supplies should be classified as General Factory.

OWNERS' "SALARIES"

Owners should always include in the expenses of their business an adequate "salary" for their services, even if it is not actually drawn. Otherwise, the real comparable profits of an unincorporated business may be grossly misstated. Even though these "salaries" may later be deleted from expenses in preparing tax returns, they should be included in the expenses shown in GATF/PIA Ratios reports for proprietorships and partnerships in order for them to be comparable to a corporation. The amount of these "salaries" will depend on the individual business.

These Owners' "salaries" should always be apportioned between Factory, Administrative and Selling according to reasonable estimates of time spent on each of these phases of the business, as explained above.

If the corp. has "S" status for tax purposes, and the "S" distributions exceeds the typical tax payment, the excess should be recorded as compensation. The same rule would apply for a bonus to the officer; it would be considered compensation as well.

II. BALANCE SHEET ACCOUNTS

ASSETS

Current Assets

- CashThis account show cash in banks and on hand.
- Notes and Accounts ReceivableFace value of notes and outstanding charges held against others.
- Allowance for Bad DebtsProvision for possible losses from uncollectible accounts
- InventoriesThis account is the sum of Finished Goods, Work in Process, Raw
 Work in Process Materials and Other Inventories.
 Paper
 Other Chargeable Materials
 Department Supplies
- Marketable SecuritiesShows the cost of securities, readily convertible into cash.
- Other Current AssetsShows other current assets not already listed, such as prepaid expenses, etc.
 Income Tax Refund Receivable
 Interest Receivable
 Prepaid Interest
 Prepaid Insurance
 Prepaid Officers' Life Insurance
 Prepaid Taxes
 Prepaid Expenses - Other
 Loans and Exchanges

Fixed Assets

- Real Estate - Land and BuildingsThese accounts represent the gross costs of these assets.
 Land
 Buildings
 Accumulated Depreciation - Building ..Accumulated depreciation on buildings used for business.
- Machinery and EquipmentGross cost of machinery and equipment used for business.
 Accumulated Dep. Machinery
 & EquipmentAccumulated depreciation on productive assets.
- Other Fixed Assets.....This account represents the gross cost of such fixed assets as:
 Furniture and Fixtures, Vehicles, Others.
 Accumulated Other Fixed Assets....Measures the accumulated depreciation on these assets.
- Other AssetsOther assets not included in other classifications such as: Cash Value of Life
 Insurance, Deposits, Goodwill, Long Term Investments, Organization
 Expenses, Others.

LIABILITIES

Current Liabilities

- Notes and Mortgages Payable
 Within One YearThis account shows obligations of the business, such as negotiable paper or
 other written promises, which the firm is to pay within one year.
- Accounts PayableShows the liability of the business for the total of balances owed
 to creditors and due within one year.
- Other Current LiabilitiesThese accounts show all other obligations payable within one year.
 Payroll Taxes Payable
 Sales Taxes Collected
 Accrued Expenses
 Estimated Federal and State Income Taxes
 Other Current Liabilities

- Long-Term LiabilitiesThis accounts show long-term obligations of the business. Examples are loan
 and equipment mortgages, long-term notes and bonds issued by the business.

EQUITY

- Total EquityThis account represents the total of your Capital and Retained Earnings (net
 of any treasury stock) for Corporations or the net capital of an individual
 Proprietorship or Partnership.

III. OPERATING STATEMENT ACCOUNTS

SALES REVENUES

- Gross SalesTotal sales billed to customers.
 Sales Returns and AllowancesReductions to gross sales resulting from billed jobs returned by
 customers or credits allowed to customers.
- Sales DiscountsCash discounts allowed to customers.
- Net SalesGross Sales less Sales Returns and Allowances and Sales Discounts.

EXPLANATION OF COMPUTATION OF VALUE OF PRODUCT PRODUCED

The net sales (sales less returns, allowances and discounts) is increased for a net increase in work-in-process inventory or decreased for a net decrease in work in process. The inventory of work in process at the beginning of the period is deducted from net sales, and the inventory or work in process at the end of the period is added to obtain the Value of Product Produced for the period.

MATERIALS USED

- PaperCost of paper used in the cost of the product produced.
- Purchase DiscountsDiscounts allowed by paper suppliers. Deducted from paper purchases to arrive at net paper purchases.
- Other Chargeable MaterialsThis account is the sum of other chargeable materials recorded in the subschedule, including:
 - Ink
 - Film
 - Plates
 - Proofing Materials
 - Other Chargeable Materials
- Outside ServicesThis account is the sum of outside service costs recorded in the subschedule, including:
 - Prepress
 - Printing
 - Binding
 - Other Outside Services

MATERIALS USED IN PRODUCT PRODUCED DIFFERENTIATED FROM FACTORY SUPPLIES

Be careful to distinguish between materials used in the product produced and factory supplies. Materials used are those that are chargeable to specific jobs. Such materials and services include paper, ink, plates, proofing materials, other chargeable materials, outside prepress, outside printing, outside bindery and other outside services.

Supplies are those items used in the operations of the business, but not chargeable to specific jobs. For example, oil, chemicals, electronic prepress supplies, stripping supplies, bindery supplies. These expenses are included in "Factory Supplies and Expenses."

IMPORTANT TO STUDY

The allocation of Executive Salaries' including Officers', Proprietors', and Partners' Salaries is extremely important. The Ratio Study and questionnaire provide for these salaries to be classified as follows: 1) Factory, 2) Administrative, and 3) Selling.

Please apportion (i.e., pro rate) these salaries in accordance with the time devoted by the Executives to factory production, administrative functions and selling activities. A more complete explanation will be found under "CLASSIFYING EMPLOYEES."

FACTORY (PRODUCTION) PAYROLL

- Executive SalariesAll compensation earned by owners, officers and supervisory employees applicable to production. (see classifying employees)
- Direct WagesWages earned by factory employees engaged in production. Temporary staffing labor engaged in production belongs here.
- General Factory Salaries and WagesSalaries and wages of non-supervisory production employees who are engaged in work not directly related to chargeable jobs and not, therefore, reported as direct labor. Examples are estimators, schedulers, etc.
- Packing, Shipping and Delivery Wages....Shipping clerks, drivers, helpers, messengers, etc.
- Payroll Taxes.....(Federal, State Local) This account is charged with government taxes for retirement, unemployment benefits and other, as they cover Production Employees. Examples are F.I.C.A. and federal and state unemployment taxes.
- Employee BenefitsPremiums or other expenses of disability or health insurance plans, life insurance, pension, retirement or profit sharing plans, etc., as they relate to Production Employees

FACTORY OR PRODUCTION EXPENSES (NON-PAYROLL)

"Fixed Expenses"

- Depreciation - Real EstateThe provision for depreciation of real estate used in manufacturing.
- Depreciation - Other.....The provision for depreciation of other fixed assets used in manufacturing.

Recommended Straight-Line Useful Lives for Depreciable Assets

Building	30 yrs	Computerized Equipment	5 yrs
Leasehold Improvement	life of lease or 10 yrs	Furniture and Fixtures	10 yrs
Building Improvements	10-30 yrs	Vehicles	5 yrs
Machinery and Equipment	10 yrs		

- Taxes - Real Estate.....This account is charged with real estate or other taxes based on the value or cost of land and real property used in manufacturing.
- Taxes - Other Property.....This account is charged with all other taxes based on the value or cost of production machinery, equipment and other personal property.
- InsuranceThe amortization of insurance premiums for fire, business interruption, workers compensation and other types of insurance applicable to manufacturing.
- Building RentThe rentals for buildings and space used in manufacturing.
- UtilitiesThis account is charged with all expenses for heat, light, power and water.
- Equipment Rental.....This account is charged for rental of equipment used in manufacturing.

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Other Factory Expenses

- Factory Supplies and Expense.....This account covers all expenses incurred for specific factory departments or production or cost centers, but not chargeable to specific jobs. Examples are oil chemicals, electronic prepress supplies, stripping supplies, press supplies and bindery supplies.
- Packing, Shipping, Delivery Expenses ..Such items as shipping materials and supplies, freight, express, parcel post, outside delivery services, delivery vehicle expenses and other expenses applicable to receiving and delivery. This account should be offset by charges to the customer. Some firms may want to include mailing costs of catalogs.
- Repairs and Maintenance.....This account includes all repairs and maintenance expenses of buildings and factory machinery and equipment, including computer type equipment.
- Other Factory Expenses.....This account is charged with miscellaneous factory expenses, which cannot be readily allocated to any one of the above accounts.

ADMINISTRATIVE EXPENSES

- Salaries - ExecutiveAll compensation earned by executives serving in a general supervisory capacity, such as president, general manager, treasurer, etc. But, if an executive spends part of his time as general plant manager, as sales manager or in selling work, his salary should be allocated accordingly to Factory and/or to Sales. (See Classifying Employees)
- Salaries - OfficeAll amounts earned by office clerical help, such as accountants, bookkeepers, billing clerks, telephone operators, receptionists, and others.
- Payroll Taxes.....(Federal, State and Local) Government taxes for retirement, unemployment benefits, and other, but only as they cover Administrative Employees. Examples are F.I.C.A. and federal and state unemployment taxes.
- Employee BenefitsPremiums or other expenses of disability or health insurance plans, life insurance, pension, retirement or profit sharing plans, etc., as they relate to Administrative Employees.
- Bad Debts.....This account provides for losses on uncollectible accounts.
- Data Processing Expenses.....This account includes all current year expenses to maintain your management information system including software and updates.
- Office Supplies and ExpensesThis account generally includes office supplies, stationery and postage.
- Professional FeesIncludes legal, accounting, consulting and other professional fees.
- Taxes - BusinessBusiness taxes such as franchise, gross receipts, capital stock, and others. It does not include real or personal property taxes applicable to manufacturing or payroll taxes.
- TelephoneThis account is charged for telephone and related expenses.
- Other Administrative ExpensesAdministrative expenses such as: Contributions, Depreciation - Administrative, Dues and Subscriptions, Officers Life Insurance, Vehicle Expenses - Administrative, and Other Administrative Expenses.

SELLING EXPENSES

- Salaries - ExecutiveAll compensation earned by executives in proportion to the time they devote to directing and supervising salespeople, or to personal selling, contacting customers, and other sales duties. But, where an executive spends part of his time as general plant manager or in administration, his salary should be allocated accordingly to Factory and/or to Administrative. (See Classifying Employees)
- Salaries and Commissions - Salespeople..This account is charged with sales salaries, commissions and other compensation earned by sales representatives.
- Salaries - Sales Office ClericalCharge to this account the proper proportion of salaries of office employees working on sales matters. (See Classifying Employees)
- Payroll Taxes.....(Federal, State and Local) This account is charged with government taxes for retirement, unemployment benefits, and other, as they cover Sales Employees. Examples are F.I.C.A. and federal and state unemployment taxes.
- Employee BenefitsPremiums or other expense of disability or health insurance plans, life insurance, pension, retirement or profit sharing plans, etc., as they relate to Sales Employees.
- AdvertisingCost of mailing lists bought or compiled; the expense of preparing, printing and mailing the firm's advertising; the cost of newspaper, radio or television advertising or promotion; directory, novelty, and other forms of advertising.
- Travel and Entertainment.....All travel expenses related to selling and entertainment of customers or prospects.
- Other Selling ExpensesCovers such selling expenses as: Branch Office Expenses and Brokerage Expenses, Christmas Expenses, Depreciation - Selling, Selling Gifts, Other Selling Expenses not shown elsewhere.

INTERESTInterest on notes and other indebtedness incurred during the period.

OTHER INCOME AND EXPENSE

- Other incomeAll miscellaneous and extraordinary income such as: Discounts Earned on Collection of State Sales Taxes, Interest Income, Gain on Sale of Fixed Assets, Sale of Scrap, Rental Income, Commissions, Dividend Income, Extraordinary Gains, Other Non-Operational Income.
- Other ExpensesAll miscellaneous and extraordinary expenses such as: Loss on the Sale of Fixed Assets, Extraordinary Losses, Other Non-Operational Expenses.