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FINANCIAL MANAGEMENT *and* ACCOUNTING

by **IRA W. RUBEL, C.P.A.**
Ira Rubel & Company, Chicago

A Printers' Ink Business Book

Here is the first full-length book ever published on the financial management of the advertising agency: agency accounting, cost accounting, budgeting, and the details of a modern accounting system especially set up by Mr. Rubel to fit the advertising agency's financial structure and needs.

The scope of the book is two-fold:

Part 1 covers the history and nature of the advertising agency business. It tells what different services agencies perform and how they are paid for performing these services. It covers such additional subjects as the basis of the agency's compensation, credits and collections and budgeting. This part is written for the principals in advertising agencies and advertising managers who deal with advertising agencies.

Part 2 gives detailed accounting methods to be used by agencies. This part although intended primarily for those interested in the financial end of the agency, including the lawyer, the accountant and the treasurer, should be of interest also to every agency executive and every advertiser.

The material in this book is based on the author's more than 20 years experience working with large and small advertising agencies. The methods and systems it describes have been used efficiently in the more profitable operation of scores of agencies.

ADVERTISING AGENCY FINANCIAL MANAGEMENT AND ACCOUNTING

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FINANCIAL MANAGEMENT AND ACCOUNTING

By IRA W. RUBEL, C.P.A.,
Partner, Ira Rubel & Company

INTRODUCTION BY
Joseph B. Bell
Vice President and Assistant Treasurer, Ruthrauff & Ryan, Inc.



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I WISH to express my gratitude to the following persons and organizations that have aided and advised me, some through the twenty-five years when I was devising and experimenting, and some during the months when this book was shaping itself:

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co-worker with me in the development of agency cost accounting and general accounting systems (many of the basic methods explained were developed by Mr. Fields, who, in addition, gathered much of the material used here); and to the staffs of Ira Rubel & Company and Rubel and Fields.

IRA W. RUBEL

Chicago, Illinois

Introduction

SOME years ago Mr. Ira Rubel was invited to address a group at a round-table discussion held in conjunction with the annual meeting of the A.A.A.A. The subject of his talk, profit control of accounts, was acceptable to some; others held that budgeting or projecting costs and revenue by accounts could not be done successfully. I believe it would be safe to say that many of those who took the opposite view at that time revised their thinking during the ensuing years.

While it is not possible to evolve a plan that might be adaptable to fit every case, due mainly to the variables peculiar to the business in which we are engaged, it is possible to establish a basis sufficiently flexible to serve as a pattern. This Mr. Rubel has done to a marked degree.

It will become apparent to the reader that a great deal of time and study has been devoted to the solution of some of the important problems which confront those responsible for financial management and accounting.

JOSEPH B. BELL

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Part I

Financial Management and Operation

Preface to Part I

DURING the past twenty years, the writer has investigated the accounting and cost-accounting systems of many large and small advertising agencies. The obsolete records and the need for systematic methods are appallng. A few of the larger agencies have financial managers whose backgrounds enable them to accept and discharge the important responsibility of financial management. The smaller agencies must depend on the knowledge of the principal owners and the public accountants who serve them.

This book is intended as a guide for agency executives and owners in the management of financial affairs. No attempt will be made to discuss the creation or development of advertising plans and campaigns. The work will be confined to problems concerning internal management, finances and accounting.

Because the advertising agency business is a personal service business, each agency operates somewhat differently from any other. The methods of operation depend largely on the nature of the management, the key personnel and the agency's principal clients. After all, an agency contributes a service to its clients which is intended to familiarize prospective purchasers with the merits of the clients' products and to stimulate such prospects into actually making purchases.

Of course, it is expected that when this service is delivered, the agency will be paid a sufficient sum to cover its costs and a reasonable profit. The owners of an advertising agency are in the business to make money.

The commission system, which is almost a universal practice in the profession, places the agency in a different position from

that of most other professions or personal service businesses. A firm of architects, attorneys or accountants accepts an assignment on a fee basis which is calculated to return the total cost plus a reasonable profit. These fees are related to the skill required, the results accomplished and the time involved. In the advertising agency business, the agency receives a commission (generally fifteen percent of the selling price of advertising purchased for the client). Unfortunately, this commission is in proportion to the advertising purchased as contrasted with the fee received by the architect, engineer or accountant, which is based on the skill required, results accomplished and time involved. It will be readily understood that the advertiser whose expenditures are comparatively little sometimes requires as much service as, or more than, one whose expenditures are much greater. This at once presents an interesting and a difficult problem, which is of the nature of things that I shall attempt to explain in this book.

Generally, the advertising agency executive is a person who has acquired one or more of the skills needed to conceive advertising programs and direct their completion. The prior experience of most agency executives often consists of contact work, copy preparation, art direction, etc. Too frequently such executives are unwilling to give sufficient consideration to the important phase of financial management because they feel that this is a function they do not fully understand, and one which may be delegated to clerks and office personnel. Nothing is further from the truth.

The financial management of an advertising agency consists of analyzing each problem and arriving at a sensible conclusion based on facts. Every executive is constantly faced with the necessity of making decisions concerning financial affairs. A decision based on factual information is much more likely to be sound than one arrived at without the benefit of such facts. Factual information concerning financial matters is readily obtainable.

With that viewpoint, this book has been written to show:

1. What facts and figures are needed in the management of the financial affairs of an advertising agency.
2. How these facts and figures can best be secured.

In Part I, we deal with what is needed and in doing so discuss the history and functions of the agency business. In Part II, we discuss the detailed bookkeeping and accounting procedures to describe how the facts needed by management can be best secured.

1. Looking Backward

ADVERTISING is not modern in origin. It undoubtedly began at the earliest time when competition caused each man to make efforts to gain prominence—a process of human nature which has gone on ever since. Competition naturally arose at the earliest time of civilization when communities were brought together and each individual followed the urge to better himself.

THE BEGINNINGS OF ADVERTISING

Advertising, then, is nearly as old as civilization. There are records more than three thousand years old of announcements advertising for runaway slaves, written on papyri and exhumed from the ruins of Thebes. The Greek and Roman advertisements of gladiatorial exhibitions are reminiscent of the modern "billing" of circuses. There is linguistic proof of the existence of the town crier in early Hebrew civilization, and of hawkers of retail wares in Roman times. The excavations of Pompeii have revealed various "bills"—tablets attached to pillars—on the walls of that ancient city, and there are records in literature of signs over shops and stalls in Rome advertising crafts and merchandise.

As early as the late seventeenth century, advertising was already a source of profits for the first newspapers. From the first daily published in England in Queen Anne's time until the nineteenth century, newspaper advertising was limited to announcements identifying craftsmen, merchandise and services for sale. Even in the early nineteenth century, the newspaper was a local venture usually religious or political in nature. Few had large circulations. If a company wished to advertise, it dealt

directly with the paper. There was no particular skill involved in newspaper advertising in the early stages. A simple announcement served both the advertiser and the public.

After the phase of Great Expansion—industrial, geographical and modern mass production methods—production facilities were greatly in excess of natural demand. This brought about the necessity of the persuasive sales appeal—the need to create new markets and new customers. The businessman began to feel the need to *persuade* prospective customers. The businessman *and* the periodicals felt the need to cover wider geographic areas in a more persuasive manner. The problems and profits inherent in this situation were the foundations of the modern advertising agency.

THE RISE OF THE AGENCY*

The first advertising agent was a middleman or jobber in advertising space. He contracted space from publishers, which in turn he retailed to advertisers at a profit.

In 1820 there were about 360 newspapers published in the United States. In 1830 there were over one thousand. In 1841 there is the first definite record of the advertising agent, who, according to Rowell, was Volney B. Palmer. Palmer set himself up in Philadelphia as an agent for country newspapers, obtaining orders for advertising, forwarding the copy to the paper and collecting payment.

Palmer was closely followed by others and before long there were a number of agents in the business. Only a few years passed before the jobbers changed their methods of operation. They soon began to act as space brokers. They made contracts for space on their own accounts and resold the space to advertisers. The early days of the agency business occupy a unique position in business history in that the affairs were conducted in confused state. The early agents were at once agents for the advertiser

* There is little record of the early days of the advertising agency. The best that is available is to be found in *Forty Years an Advertising Agent* by George P. Rowell, who was one of the pioneers in the history of the agency.

and for the publication, and space brokers on their own behalf, while some dealt also in printers' materials; and, finally, a few published their own periodicals, selling advertising in these periodicals to the same newspaper for which they acted as agent and whose space they brokered. It was indeed a catch-as-catch-can business, with payments sometimes being made in "supplies" and with great "flexibility" of rates, etc.

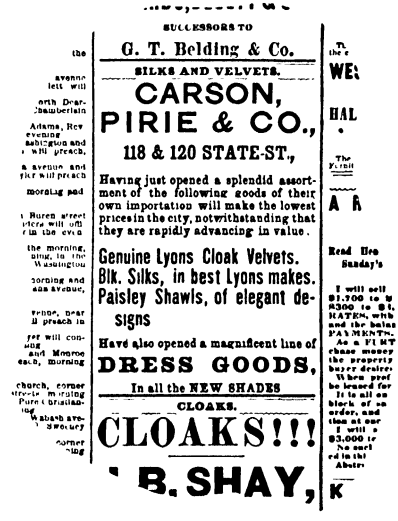
Yet since about Palmer's time, for over a hundred years, the agency has been the nerve-center of the advertising business. But it is only today that the advertising agent has achieved the stature of a professional man. The last lap in the progress of the agency began about 1930. It was a fork in the road for the agency: Either fold-up or gear-up. Business couldn't depend on old-fashioned methods to help push it out of the red. The agency had to devise new ways to serve. That agency which was able to gear-up to the new demands of the early '30's was the agency which was successful. It is that agency which represents what is typical in the new attitude of the agency business which has made a simple sales job into a complex professional service.

THE EVOLUTION OF ADVERTISING

In the nineteenth century a substantial part of advertising consisted of what would now be termed announcements and of items we now find in the classified advertising section of newspapers. In addition to these, however, the advertising agencies sold a quantity of space to the "patent medicine" business. During the period around 1870, modern medicine was in its infancy. As a result there was a considerable field for the sale of all sorts of remedies. These accounts, which almost any agency would frown on today, were perhaps the backbone of the early agency business.

Those were the days of rugged individualism, not of professional ethics. It was the pioneering period. There was no social legislation and, looking backward, it appears that there was little conscience or application of a moral standard in most business. Thus it was natural that the advertising agency seldom

investigated the merits of the product it advertised. Actually, it can scarcely be said that the agency was responsible for the advertising that it sold and placed. In most cases, the advertiser and not the agency prepared the copy for the advertisement. All the agent did was to sell the space, forward the advertising copy and instructions to the publisher, and collect for the advertisement.


SUCCESSORS TO

G. T. Belding & Co.

SILKS AND VELVETS.

CARSON, PIRIE & CO.,

118 & 120 STATE-ST.,

Having just opened a splendid assortment of the following goods of their own importation will make the lowest prices in the city, notwithstanding that they are rapidly advancing in value.

Genuine Lyons Cloak Velvets.
Blk. Silks, in best Lyons makes.
Paisley Shawls, of elegant designs

Have also opened a magnificent line of

DRESS GOODS,

In all the NEW SHADES

CLOAKS.

CLOAKS!!!

B. SHAY,

FIG. 1. Advertisement in *Chicago Tribune,* October 23, 1870.

In addition to the classified and patent medicine advertising, the early agency placed what we today might consider legitimate advertising, including local notices and the advertising of farm implements and a few other products. Mail-order houses and manufacturers of farm products, books and machinery were some of the first industries to use advertising as a sales tool. The development of advertisements from 1870 to 1911 is indicated in Figures 1, 2 and 3. The 1870 advertisement is a far cry from the elaborately designed advertisement for the same store today; while the 1911 advertisement for the Buick Motor Company

shows that the trend was beginning to change into what is used in present-day styles of advertising.

The nature of the advertising agency business, as it was first constituted, was bound to cause trouble. Nearly all agencies were committed for large amounts of space in the publications which they represented. Consequently, it was profitable for them to urge their clients to use those particular papers. This, of course, was not economically sound. In addition, if the advertiser wanted to use space in periodicals that the agency did not have direct representation for, it was necessary for the agent to try some makeshift negotiations for the space. Agencies were in constant competition with each other in an effort to secure the space that an advertiser wanted. At the best, the agencies' basis of operations was not conducive to creating confidence between the advertiser and the agent since it was never clear to whom the agency was responsible.

This confused state of affairs finally stimulated a clarification of the business, and toward the close of the nineteenth century the agencies began to give up the position of space jobber by instituting what was called the open contract.

THE OPEN CONTRACT

Under the open contract plan, the agency became the representative of the advertiser. The open contract provided that the advertiser have free access to all of the information available to the agency. The agency promised to buy the space needed by the advertiser at the lowest possible rates, and in return charge a commission for its services. The agency began to promise the advertiser unbiased recommendations concerning circulation, population, general reputation of the paper, etc.

The open contract clearly was the beginning of the system existing today for remunerating advertising agencies through a commission paid by the publication.

In 1891, George Batten opened an agency in New York City. From the very beginning, he adhered to the new principle of

buying space for the advertiser at the lowest possible cost. To this cost he added fifteen percent for his services.

In contrast to the questionable speculative profit that agencies had received when they jobbed space, this new basis provided a reasonable profit margin. It placed the agency in a more



FIG. 2. Advertisement in *Chicago Tribune*, Wednesday, January 10, 1900.

secure position and enabled it to develop services for the advertiser.

As agencies throughout the country began to adhere more and more to the open contract system, two important developments occurred:

1. They had made their decision to work for the advertisers' interests exclusively.

2. In addition to buying space for the advertiser at the lowest possible cost, they began to provide additional services and to be known as service organizations.

It is during this period that we first hear of "copywriters." Simultaneously with this development in the advertising agency business, publishers began to stabilize their rates so that those agencies which still acted as space brokers had difficulty in buying space below the market. By about 1890, many newspapers had arranged to pay advertising agencies a commission of fifteen percent on the space placed. National magazines at that time were paying agencies a commission of ten percent.

During the period from 1890 to about 1930 when agencies were making the transition from space brokers to service organizations, there were many agencies and advertisers who still were wedded to the old idea of buying space below the market. This brought about the vicious practice of price cutting, which the agencies accomplished by rebating a part of their commissions to the advertisers.

In 1910, out of twenty-five reasonably large advertising agencies doing business with the Curtis Publishing Company, ten were suspected of rebating commissions. In 1920, six of these ten price-cutting agencies were still in business, but by 1930 only one of them remained.

During the period from 1890 to 1930, publishers began to see that the advertising agency was a valuable tool for legitimately creating advertising business. There was a real incentive for them to protect the agency from price cutting and unsound competition, for the publisher wanted the advertiser to get his money's worth. Since the publishers were not in a position to conceive the advertising campaign, select the media, prepare the copy and visualize the art work, the advertising agency was the perfect answer to their problem.

In 1893, the American Newspaper Publishers' Association adopted a resolution which provided that agencies' commissions be paid only to advertising agencies and that no similar price

reduction be allowed to advertisers. The Curtis Publishing Company in 1901 put into effect a new contract arrangement with advertising agencies. This new contract provided for a commission of ten percent to approved advertising agencies. To be approved the agencies agreed to charge advertisers the full card



FIG. 3. Advertisement in the *Saturday Evening Post,* 1911.

rate, less only the cash discount for prompt payment. The agreement provided that in the event an agency quoted space in the Curtis publications for less than the published rate, such a quotation would be considered a violation of the contract. The contract provided that upon a second violation, the agent would be dropped from the approved list of advertising agencies.

Gradually, all publishers and other media fell in line with the commission system which stabilized advertising rates and the income of the advertising agencies. Magazine publishers increased the commission basis first from ten to thirteen percent. In 1918, the American Association of Advertising Agencies sought to increase the commission basis of magazines from thirteen to fifteen percent, with an additional two percent cash discount for prompt payment. Today, the fifteen percent agency commission is standard with only inconsequential exceptions.

On various occasions from 1890 to the present time, publishers and advertisers have questioned both the commission system itself and the rate of commission paid; but since 1925, it has been more or less standard practice for the advertising agencies to receive a fifteen percent commission allowed by the publishers and other advertising media.*

THE DEVELOPMENT OF THE MODERN AGENCY

The space buyer

The first service performed by the twentieth-century advertising agency was that of selecting the publications for the advertiser. Before the days of the open contract, there was considerable doubt whether this job was done to the best advantage of the advertiser; but certainly after the introduction of the open contract basis, it proved to be a valuable service to advertisers. The selection of advertising media, still a difficult job, was much more difficult around 1900. Before relatively recent times, there was not the information available concerning circulation, type of readers and geographical distribution which is published now.

* For an exception see Part II, Chapter 6.

In addition to the difficulty in selecting media, the early advertising agencies were faced with the question of the "best buy." Today, rates for advertising space are standardized and published. With the exception of a few small weekly papers and highly specialized publications, such as yearbooks and religious papers, the advertiser must pay the quoted price. There is no bargaining. The prices of printed advertising media today are based chiefly on the circulation of the media, so that in determining the best buy, the agency is mainly concerned with the type of readers as it relates to the advertisers' products. Even as late as the 1920's the space buyer was a key man in nearly every advertising agency. If he was a sharp buyer he secured some space at bargain prices. He studied markets and types of circulation. He had an intimate acquaintance with many of the publications and he could point out the advantages and disadvantages of most of them. Space buying, then, was a legitimate and important element of service in the early advertising agency, and still is, for proper selection can save substantial sums for the advertiser.

The copywriter

Long before 1900, advertising agencies began to feel the need for the proper preparation and wording of advertisements. So long as advertising was confined to local announcements and classified ads, there was little importance attached to the preparation of advertising copy. It was not long before the agencies began to find that the advertising message could be something more than an announcement. Agencies recognized the importance of selling copy. About 1880, a few agencies announced that they would prepare advertisements for their clients. The preparation of copy began merely as an added service.

Not much importance was placed on it at the start. But with the rapid expansion of industry, manufacturers began to feel the need for wider distribution of their products, and advertising became an important tool for such added distribution. Ad-

vertising agencies quickly expanded and found themselves serving all sorts of businesses. Advertising copy took on great importance and the work of the copywriter soon began to vie with that of the space buyer in the importance of the services rendered by the agency to its clients. As an example of this, as early as 1905, Albert D. Lasker of Lord & Thomas employed John E. Kennedy as a copywriter, paying him $28,000 a year, and publicized this fact.

The art director

Art work played some part in ancient as well as in early modern advertising. The Roman signs we have mentioned often contained pictures. The tavern, for example, was represented by a suspended shield. Indeed, the rate of literacy was then so low that the picture communicated more readily than the word.

Care in lay-out, too, appeared in the earliest modern advertisements. One published in 1878 advertises compound oxygen as a new treatment for the cure of chronic diseases by the true process of revitalization. In this advertisement, Drs. Starkee and Palen claim that this treatment cures consumption, asthma, catarrh, bronchitis, dyspepsia, headache, rheumatism, neuralgia, etc. There was no picture in the advertisement of this elixir, but it did contain bold headlines and subheads.

In 1888, in an advertisement published by Ferris Bros., a number of drawings appear illustrating the use of corded corset waists. It was common in these early days of advertising to publish a picture of the founder of or some important personality in the business. An examination of these early lay-outs causes one to doubt whether the illustrations could really be called art work. However, the Uneeda Biscuit advertisement, published by the National Biscuit Company in 1899, clearly illustrates the function of planned art work in a printed advertising message.

As the use of art work became more extensive in advertising, agencies developed certain methods and techniques to coordinate art work and advertising copy. Many advertising agencies in the early 1900's set up art departments or at least employed

one or more persons whose job was to secure or produce the needed art work for the advertisements placed by the agency.

It was soon determined that no one agency could contain among its personnel a sufficient number of artists to produce the varied types of art work required in the advertisements produced for the different clients of the agency. For that reason, it has become more or less general practice for the agency itself to make the lay-out for the advertisement and perhaps to produce a very rough sketch of the art work required. After this has been done, the art director of the agency selects the artist who he feels can do the best job in producing the type of art work required. The art work is then purchased on the outside.

In certain specialized types of advertising agencies, it was necessary to expand the art service rendered; for this reason, some agencies actually employed artists to prepare the finished drawing or painting. Because it became a generally accepted fact that the illustration in an advertisement may be equally as important as the printed message, the art department of an advertising agency has become one of the important parts of the organization.[1]

Research

In the very early days of the advertising agency, perhaps even before 1880, some agencies realized the importance of research. In the days before the open contract, when agencies were most interested in selling the space in the papers they represented, it became important to convince an advertiser that certain advertising media had greater value than others. For this reason, it was necessary to determine such things as circulation figures and the type of persons who read particular publications.

In an effort to sell the space they had available, some of the agencies actually studied these things so as to convince the advertiser that he should place his advertisements in certain media. With the advent of modern types of outdoor advertising and car card advertising, it became necessary to determine the value of these new advertising media. This required statistics,

which in turn required research. Consequently, many studies were made by newspapers, magazines and outdoor plants. While some research work was attempted by agencies before this century, it is doubtful if much really extensive research work, such as market analysis as we understand it today, was performed by agencies until about 1930.

By that time advertising had become recognized as a powerful and essential tool to modern business. Nearly every large manufacturer realized the need of distributing his products over a wide area. Millions of dollars were being spent to acquaint the public with the products available and the relative merits of each. The Federal Food, Drug and Cosmetic Act had done much to clean up the fantastic claims made by manufacturers of patent medicines.

As the science of marketing and merchandising developed, many questions presented themselves to advertisers, such as: What size package will sell best? Will the consumer prefer a liquid or a powder? What type of retail outlet can best distribute a certain product? Should a manufacturer push a low-priced, middle-priced or high-priced product? What is the best geographical area for the distribution of certain products?

Many advertisers came to their agents for the answers to these questions. It was logical, then, that the advertising agency began to feel the need to conduct studies in an effort to find the answers to the questions posed by the advertisers. Some agencies employed one or more persons to spend their full time conducting research studies for their clients. Others believed that they should consider their clients' problems and secure specialists on the outside to study the questions and resolve the answers. The quantity and quality of research work has varied, and still varies, between one agency and another. A fuller discussion of the problems of research will be found in a later chapter.

Another measurement of growth

It is not practicable to discuss the history of each of the other departments of an agency at this point. One additional subject

however is interesting and indicative of the quick growth of the agency. How has the volume of the advertising agency business grown? Unfortunately, there is no reliable source from which to secure accurate figures to indicate the volume of advertising in the early years of the business. There are statistics which tend to indicate that the largest of the very early agencies prior to 1875 conducted a volume of business of from $5,000 to approximately $100,000 a year. By 1890 some of these agencies were doing a volume of nearly $1,000,000 a year and by 1900 a few were doing as much as double this. After the first World War the largest were doing a volume of about $10,000,000 a year. Today, there are two or three agencies that transact a business having an annual volume in excess of $50,000,000. Like any personal service business, most of the agencies deliver such a highly personalized service that their size is restricted. Out of about two thousand agencies today, approximately fifteen hundred handle a yearly volume of less than $500,000 each.

RECAPITULATION

We have found that although advertising is as old as civilization, the advertising agency is a product of modern times. It has gone through four stages:

1. *Infancy:* Before 1900, there were few in the business who even knew how they wanted to conduct the business, or whether they represented the advertiser or the publisher. Late in the nineteenth century, most agencies were space brokers, who bought space at wholesale and sold it at retail.

2. *Adolescence:* From 1900 to 1918 agencies were developing their organizations to become a positive force in business. A standard commission from publications was received by all recognized agencies, and the development of service departments was beginning. The techniques of media selection, copywriting and art work were being refined.

3. *Early maturity:* There was still considerable mystery in the business before 1930; thereafter the business settled down. Most of the functions to be performed by the advertising agency had

been determined and competition between one agency and another was purely on the basis of who could best serve the client. The agency in its mature form has become, in some aspects, a profession.

4. Professional concept: The professional elements of the agency business are those related to the personal service offered to clients by the agency in connection with idea development, product analysis, the development of marketing techniques, the personal attention to writing, lay-out, art work, etc. In addition, there are the commercial elements of the business, those related to the purchase of advertising space and materials, the use of capital and routine functions such as checking copy, measuring ads, buying printing, billing, paying and accounting.

2. Functions of the Agency and Planning the Campaign

THE advertising agency business, having passed the period of adolescence, is now mature and in certain aspects it is achieving a professional level. In the earlier stages of agency development, the functions performed and the services rendered varied widely between one agency and another. Now, most agencies offer many of the same types of service.

The modern agency, of course, still buys and sells advertising media as did the early agencies, but in addition it offers professional services in planning, developing and executing advertising campaigns.

GENERAL OUTLINE OF FUNCTIONS

The following outline of some of the principal functions of the modern agency indicates both the maturity of the business and its claim to professional status.

1. CAMPAIGNS

It plans the actual advertising campaigns, and outlines many related activities to be carried on both within the agency and in the company whose product or service it is advertsing, carefully integrating both.

2. COPY PREPARATION

It studies the product and the need for the product, and then determines selling points and makes the appeal.

3. COPY TESTING

It endeavors to determine in advance, in so far as possible, how well comparative appeals will pull.

4. SPACE OR TIME BUYING

It selects various advertising media and analyzes media according to coverage, costs and effectiveness. It orders, specifies and buys the advertising space or time planned for the campaign. It checks advertising as it appears, then audits quantity and quality and handles claims for shortages and substandard quality.

5. RESEARCH AND COUNSEL

It conducts research regarding markets, copy, products, appeals, uses, etc.

6. RADIO

It may have an entire department devoted to radio advertising, including programs and research.

7. PRODUCTION

It specifies and purchases the production materials required for the campaign.

8. PUBLICITY

It occasionally conducts or directs publicity campaigns in behalf of its client.

9. DEALER HELPS

It may plan dealer helps, including displays.

10. SALES HELPS

It prepares sales portfolios and manuals.

11. DESIGN

It prepares packages and labels.

12. RETAIL PROMOTION

It plans retail promotion, including sales helps for retail clerks, local advertising tie-ins, etc.

13. MISCELLANEOUS

It performs numerous services of a miscellaneous nature related to the following:

Sales and consumer films.
Direct mail.
Contests.
Sales training.
Exhibits.
Premiums.
Instruction and recipe books.
Catalog planning.
House organ planning.
Planning sales policies.
Product design.
Sales meetings.
New product development.
Public relations.
Distribution channels.
Annual reports.
Working with salesmen in the field.

14. BILLING

It bills advertising space and materials, and radio time, talent and mechanics, and furnishes the advertiser with statistics in relation to these.

In order to understand each of these functions, it is necessary to go into some detail to define what the usual practice and procedures are.

PLANNING THE CAMPAIGN

This is one of the creative services performed by advertising agencies. It includes such activities as:

1. PRODUCT

Selecting the products to be advertised.

2. MARKETS

Determining where the advertising should appear.

3. MEDIA

Deciding what general class of media should be used.

4. COPY

Conceiving and developing the "copy idea."

5. VISUALIZATION

Visualizing the advertising.

6. INTEGRATION

Cooperating with the manufacturer's advertising department on such matters as follow-through, dealer helps and the like.

It is not the purpose of this book to describe how an advertising campaign is conceived and developed. These services, which are acknowledged to be highly important in the agency business, are not directly connected with the subject of financial management except as the cost of performing these services affects finances. Usually owners of smaller agencies, and contact men in larger agencies, perform the important functions included in conceiving and developing the advertising campaign. In the larger agency, certain separate elements of work are delegated to departments or individuals within the agency. These would embrace copywriting and art work, including visualization.

It is customary for the contact men in the larger agency or the owner in the smaller agency to develop the advertising campaign and discuss it rather extensively with the advertiser. Much of this work is called "client contact," and the contact man in an agency for this reason is an important factor in the success or failure of an advertising campaign. The contact man, therefore, has a great effect on the cost of performing all of the work for advertisers. If the contact man understands his job and issues

careful instructions and orders to agency employees based on the actual needs of the advertiser, considerable waste will be eliminated. It is also important that a contact man have the courage of his convictions so that if a piece of work is completed satisfactorily he will avoid continual changes which are unnecessary and costly.

Many books have been written on the subject of copywriting and others on the subject of advertising art. As stated previously, it is not the purpose of this volume to discuss the creative elements of the agency business.

3. Research

THE research activities of the agency are currently the subject of much controversy and questioning. The main stream of belief is that where large sums of money are expended for advertising it pays handsome dividends to know as much about the product, the market and competition as it is possible to learn. This indicates rather extensive research activities. The question is whether the agency or the advertiser should initiate the research and, if the agency does, whether it should receive a special fee.

Few agencies are equipped to conduct extensive research operations, consequently there is considerable merit to the position that outside specialists should conduct them. However, at the outset it is necessary for the agency to know a good deal about the product it is going to advertise and the market in which the product is to be advertised. The implication is that in any event the agency must perform a certain amount of research.

When an agency first secures an account, it is standard practice to study the products to be advertised, the market for the products, and the competition, including advertising campaigns conducted in connection with the distribution and sale of competing products. Upon receiving a new account, the agency will often find that it has employees who have had experience with products similar to that of their new client. If not, provided that the size of the account warrants it, the agency often employs a person or persons with previous experience in advertising similar products.

RESEARCH BY AGENCIES

It is difficult to generalize on the subject of research activities that are conducted as a preliminary to advertising, because

the type and extent of research activities are largely dependent on the particular product to be advertised. Market and product analyses are specialties which would require a substantial number of highly trained and experienced persons in order to answer the questions that arise from time to time concerning the varied products with which an average agency is involved. The research activities generally conducted by an agency at its own expense are confined to a superficial analysis of:

1. The product to be advertised.
2. The market for the product.
3. The competition with other products.

RESEARCH BY OUTSIDE ORGANIZATIONS

Often an agency recommends market analyses and other research activities. In such cases, the agency may suggest the research organization that is best equipped to make the studies. In all cases, the agency certainly should be furnished with a copy of any market studies or product analyses that are available. The U. S. Department of Commerce publishes numerous analytical reports that furnish considerable revealing information on products and markets. These statistics are available to the public and they are generally used by advertising agencies in planning advertising campaigns. In addition, the various advertising media have made intensive market studies which are made available to advertising agencies. These reports are constantly referred to by agencies in their study and preparation for advertising campaigns.

Certain organizations have specialized in rating the effectiveness of advertising messages. Advertising agencies frequently contract for the services of these organizations to determine the effectiveness of their campaigns and of the campaigns conducted by other agencies for clients in competition with theirs.

Research work as it affects advertising and regardless of who does it may be broadly divided into two classifications: product analysis and market analysis.

PRODUCT ANALYSIS

Product analysis can involve many different subjects. Among these the most significant are:

1. Investigation of the company, including its capacity for production and for growth, and its sales set-up.
2. Engineering analysis to determine the quality of the product and its merit in relation to competing products.
3. Study to determine the kind of product needed in relation to its usefulness and some existing or potential need. This must be generally correlated to engineering analysis and market analysis.
4. Research to determine price and production scale. This too should be correlated with market analysis.
5. Analysis to determine methods of packaging, selling and distributing.

Generally, the product analyses are undertaken by advertisers rather than by advertising agencies. Of course, this type of research can have an important bearing on the effectiveness of the advertising campaign. Consequently the agency is always interested in these analyses and should always be consulted about them. Often the agency itself suggests a product analysis.

This type of research is usually paid for by the advertiser. If the study is initiated by the agency, then the agency arranges for a fee on a cost plus basis or on a flat fee basis. Rarely does the agency undertake a product analysis without securing a special fee for the work.

MARKET ANALYSIS

Market analysis may be undertaken to determine:

1. Size of the market or quantity of goods that the market can be expected to absorb.
2. Geographic location of the market.
3. Type of individual or company that is the logical prospective buyer of the product.

4. Seasonable factors which affect the sale of the goods.
5. Price level at which the product can be sold most effectively to produce a profitable result.
6. Most efficient methods of distribution.

Market analyses, like product analyses, vary considerably. Some analyses can be made through questionnaires sent to dealers or distributors to determine the best policies for the marketing of a product. Often the agencies themselves undertake this kind of study. In such cases, it is usual for the agency to charge a fee for conducting the study.

DEALER AND CONSUMER SURVEYS

Occasionally an agency undertakes to make a dealer survey at its own expense but this is the exception rather than the rule.

Consumer surveys are usually more costly than dealer surveys because to conduct a study among customers it is necessary to reach a large number of people. Consumer surveys are made in four principal ways:

1. Personal interviews.
2. Questionnaires mailed or otherwise distributed.
3. Telephone interviews.
4. Consumer panels.

Before making a consumer survey, it is necessary to determine what information is needed and how it can be used. When this has been established, if the survey is to be made by method "1," "2," or "3," a questionnaire is generally prepared so that simple yes or no answers can be secured to a question or series of questions. The answers to the questions are secured and the results are tabulated. After interpreting these results, the advertiser or agency draws conclusions upon which future policies are based.

CONSUMER PANELS

This fourth type of consumer research is an intricate procedure which may operate after the following pattern:

1. A number of typical consumers are selected in the geographical areas from which information is required.
2. These persons are furnished with daily, weekly or monthly questionnaires which when answered will indicate:
   a. Each of the items that the consumer purchased during a period of time.
   b. Who in the family made the purchase.
   c. What influenced the purchase.

The questionnaires used are often lengthy and sometimes require detailed answers to one hundred or more questions. Through a tabulation of the answers, the research organization can determine just what each person or family has purchased during the entire period covered. Several research companies operate research panels and at least one large advertising agency operates a panel. The tabulations made as a result of the questionnaires furnish statistics on many different articles and in many different geographic and economic areas. This has a much broader use than the tabulations made from a survey which is conducted for one specific purpose. A sample questionnaire used by a research company in conducting a consumer panel is shown as Figure 4.

Since the consumer study is far more costly than the distributor or dealer study, it is rare for an agency to undertake a consumer research study at its own cost. Often consumer research is conducted by the advertiser himself or through a research organization employed by the advertiser. As consumer research studies can have an important bearing on the advertising campaign, agencies prefer to have at least a part in supervising the studies.

WHO PAYS THE BILLS?

If any generalization can be made as to whether the agency or the advertiser pays the cost of research activities, it is this: Where the study is performed specifically in connection with the development of an advertising campaign, the cost is paid by the

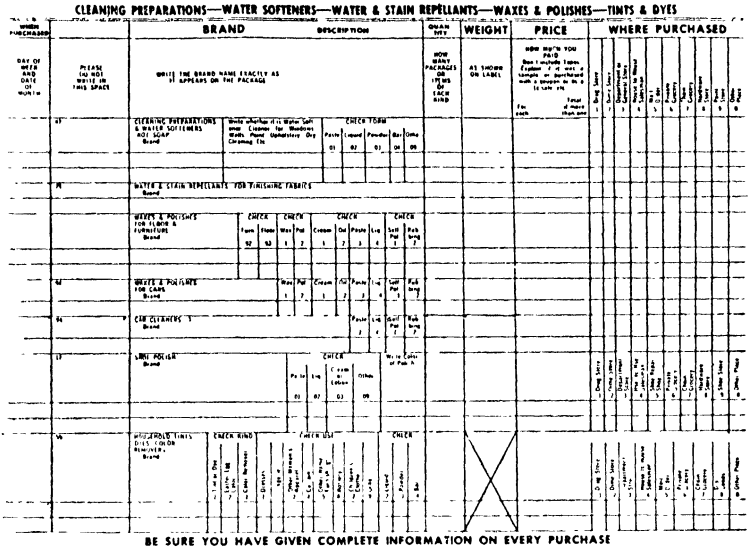


FIG. 4. Page from Consumers' Panel Questionnaire; one of several forms used by Industrial Surveys Company, New York.

agency. Where the study is made for the general benefit of the advertiser, the cost is paid by the advertiser.

It is impossible to make satisfactory generalizations as to what research activities the advertiser should expect to receive from the agency. The advertising agency should not be expected to conduct market analyses and product research; rather, it should avail itself of existing information that will assist it in the preparation of the advertising campaign.

The agency executives, in addition, should help determine what additional facts are needed to develop the most effective advertising campaign. They should recommend that the advertiser secure that information by employing outside specialists to make the studies required, and should point out that where the agency directs the research activities, it is necessary for the agency to charge a special fee to cover the cost of such direction.

Certainly research studies, including product and market analyses, can be extremely important factors in the development of an advertising campaign. Such research activities are not an integral part of an advertising campaign any more than product engineering (which has an important bearing on sales) is a direct or integral part of an advertising campaign. For this reason, the agency can be expected only to express its opinion concerning the need for research; this in contrast to the job of actually performing the study.

DISTRIBUTION AND SALES

Since an advertising message is generally intended to reach the ultimate purchaser of a product, it is wasteful to advertise to persons who are not prospective customers; that is, to persons who cannot conveniently purchase the advertised article. A businessman would not advertise coal in an area which he did not serve; rather, he would concentrate his advertising in the area in which he distributed his product.

The manner of distribution or type of retail outlet also becomes an important element to be considered in connection with the development of an advertising campaign. Often the manufacturer has a choice of the type of outlet through which he can distribute his product. For example, some manufacturers of phonograph records distribute records through jobbers, each jobber having the exclusive rights in a specific geographical area. Other manufacturers of phonograph records distribute their products directly to the retail stores.

The advertising agency should be in a position to advise the advertiser concerning the various available methods of distribution. One method of distribution may provide a much greater rate of gross profit than another. Obviously, where the profit margin is larger, there are more funds available for advertising. On the other hand, it can be assumed that a method of distribution which provides a smaller profit rate presupposes the need for less sales expense and probably smaller advertising appropriations. The advertising agency can be expected to be of

valuable assistance in determining the most efficient method of distribution, but it cannot be expected to be of actual assistance in distributing the goods. This is a job for the advertiser and his salesmen.

In any event, the method of distribution must be determined before the advertising campaign can be successfully planned. The agency should be taken into the advertiser's confidence and should be fully informed of the distribution methods used by the advertiser and of any contemplated changes in the methods. The agency should be informed of the current sales rate in each territory and through each type of distributor, dealer or jobber. Such facts are helpful to the agency and will indicate where the advertising is successful and where it is not.

4. Media Selection

IT IS pointed out in Chapter 1 how the early advertising agencies performed the single function of buying advertising space and selling it to the advertiser. This phase of the agency business has continued to be one of its important functions, and this chapter, therefore, deals with the problems and methods of selecting advertising media. This is a complex process which calls for wide knowledge and acute judgment.

TYPES OF MEDIA

The types of media from which selection must be made according to their appropriateness for advertising a particular product are:

1. Daily newspapers; Sunday newspapers; weekly newspapers; farm papers; national magazines; trade papers and magazines; and various specialized or restricted publications.
2. Radio and television, including sponsored programs or spot announcements, either local or network.
3. Outdoor advertising, including posted outdoor displays, painted outdoor display signs and spectaculars, and car cards as they appear in streetcars, busses, subways, elevated trains and other forms of commuter transportation.
4. Direct-mail materials, dealer displays, catalogs, etc.
5. Special advertising, including commercial moving picture productions, sky-writing, sales-convention materials, etc.

PROCEDURE FOLLOWED

The agency executive in meetings with the advertiser develops a general plan for the campaign. When the plan has devel-

oped to a point that will permit a determination of the kinds of advertising media to be used, it is necessary to determine which publications, which radio stations and what outdoor locations or car cards are to be used.

The space buyer in an advertising agency and the space-buying department until recent years specialized in analyzing, selecting and buying printed media, i.e., newspaper and magazine space. With the advent and popularity of radio advertising, it became necessary for the agencies to provide a means of analyzing the effectiveness of the various radio networks and independent stations in order to determine which stations and chains were best suited for each advertising problem. Today the selection of printed media is quite separate and apart from the selection of radio advertising media.

The selection of outdoor advertising space is a relatively simple matter; consequently an established media department is usually assigned the task of selecting this medium. The National Outdoor Advertising Bureau compiles statistics relative to the effectiveness of various outdoor advertising locations. In addition, each outdoor advertising plant has many available statistics showing the effectiveness of each of its various locations.

When the agency and the client have tentatively determined the types of media to be used and the approximate advertising budget for each type, the problem of actual selection of the specific media is at hand.

THE CONTACT MAN

Usually, the contact man or account executive * has a general idea of the type of coverage that would serve the advertiser best. He may suggest, for example, that morning newspapers be used in preference to evening papers, or that Sunday editions be used exclusively. He may suggest that the product be advertised only in cities having a population in excess of a

* The terms "contact man" and "account executive" are synonymous. Hereafter this text will use "contact man."

certain minimum; or, conversely, that the product be advertised only in small weekly papers.

If the problem concerns magazine choice, he may recommend those magazines appealing to the quality buyer; or, conversely, those appealing to the larger group of popular-price brand buyers. The contact man may have a well-defined opinion concerning the type of radio network or independent station that should be used, or he may suggest at what time of day the program would be most effective.

In any case, the contact man, with or without the media-selection department, will develop a general idea of the time or space to be used. The media-selection department will then analyze the available publications, radio stations, outdoor locations, etc. This analysis will consist of a detailed study of population, circulation, type of circulation, comparative costs of equal quantities of space and comparative costs of getting the advertising message before each reader or listener.

For example, one radio station may charge one hundred dollars for a two-minute announcement, another may charge only fifty dollars. However, the importance is not only in the length of time the message is on the air; it includes also the number of people who will hear the message. But the question is further complicated: It is also necessary to determine how many actual prospects may listen to the message. If an advertiser is selling dog food, it is important to know how many listeners own dogs and therefore would be prospective purchasers of dog food.

A similar type of analysis is necessary in connection with printed advertising appearing in magazines, newspapers, yearbooks, theater programs, classified telephone directories, etc. It is necessary for the media-selection department to determine the cost per unit of space, the comparative cost of reaching each reader, and the comparative cost of reaching each prospective buyer.

WHERE TO GET THE FACTS

Nearly every newspaper, magazine, radio station and outdoor plant has compiled statistics from which the media-selection

department can secure many facts to assist in the selection of the proper media for each campaign. In addition, there are other sources for obtaining statistical information, such as *Standard Rate & Data,* a service of directories which lists each advertising medium with its advertising rates, circulation, population and like data. Ayer's *Directory of Newspapers and Periodicals,* published annually, furnishes considerable information on nearly every publication in the United States. This book, along with *Standard Rate & Data,* will be found in every agency's media department.

The media recommendation

Upon completing the study to determine where the advertiser's product can be advertised most effectively, a media recommendation is prepared which consists of the following:

1. List of various advertising media to be used.
2. Dates and quantities of space to be used on each date.
3. Total quantity of space to be used during the advertising period.
4. Cost of each advertisement.
5. Total cost of the advertising in each medium.

The media recommendation is discussed in detail with the contact man, who may suggest revisions. When the recommendation is in its final form, the contact man presents it to the advertiser and discusses the merits of the recommendation in whatever detail is pertinent. It should be noted that the entire advertising appropriation cannot be spent for advertising space, since a substantial sum must be reserved for the cost of the various advertising materials required to produce the advertising. This refers mainly to printed advertising in newspapers and magazines. Here art work in the form of lay-outs and finished art, engravings, typesetting, electros, mats, photostats, etc., are required. In an advertising campaign running in newspapers or magazines, from eight to fifteen percent of the total advertising budget may be spent for advertising materials.

The selection of radio advertising presents problems different from those connected with printed advertising. In radio advertising, it is necessary not only to select the network station and the time of day for the advertising, but it is also imperative that the type of show or announcement fit the product. Obviously, the soap operas which are currently popular would not be in keeping for an advertisement of Cadillac cars or Steinway pianos. Conversely, a symphony orchestra program would not be suitable for advertising, say, bubble gum. In radio advertising, the selection of one station over another, or one network over another is often not so important as the selection of the program or type of program.

The spot announcement or chain break is a form of advertisement that has paid nice dividends. This presents an additional problem for the agency. It is necessary to determine if the program is to take the form of spot announcements and chain breaks or if it is to be a sponsored program. After this determination has been made, if the decision is for the spot announcement or chain break, the procedure follows a pattern similar to that of printed advertising. A radio media recommendation would contain a list of the stations to be used, the hours during each date on which the program would be broadcast, the cost of each broadcast, and the total cost of advertising on each station.

When the sponsored program is decided upon, the agency encounters a more difficult job. Here it is necessary to determine first what type of program is to be used; second, what kind of talent is available; and third, what radio time is available on each station or network. Sometimes the agency can buy a "package show," which means that one lump sum is paid for the talent and the radio time. In other cases, the agency secures the talent, which is paid for separately from the radio time.

The sponsored-program form of radio advertising usually involves substantial expenditures. Generally, not only the media-selection department, but also the executives of the agency will give serious consideration to all of the elements involved in

selecting a sponsored program for an advertiser. In presenting its recommendation to the advertiser, the agency will submit statistics showing the approximate audience for each program suggested. There are various independent organizations which rate radio shows and indicate the approximate number of listeners. The services of these organizations are often purchased by agencies in an effort to determine the effectiveness and circulation of the program.

Media selection, whether it is in connection with printed advertising, radio advertising or outdoor advertising, is an established service of the advertising agency. The function of media selection never ceases; and even though an adverstising campaign has been completely decided upon, the agency continually reviews the various media being used by a client in order to determine the comparative effectiveness of the advertising. This is a service which the advertising agency renders to its clients in consideration of the commissions received from the newspapers, magazines, radio stations, etc. No additional charge is customary for media-selection service.

5. Space Buying

AFTER the media recommendation has been approved, it is necessary to make arrangements for purchasing the publication space, radio time or outdoor displays. In small agencies, it is not practicable to have a separate department to carry out this function, in which case the space is purchased by one of the principals of the firm. In larger agencies, the space-buying job is assigned to a department consisting of one or more space buyers and the necessary assistants.

Prior to the actual purchasing of space, a media recommendation may have been made as described in the preceding chapter. Where no formal media recommendation has been prepared in advance of the space-buying operation, there is always at least an informal media recommendation.

Space in newspapers and magazines is generally contracted for in advance for a period of a year. The contracts with newspapers sometimes call for "space as required." Radio time is purchased in terms of weeks of broadcasting, thirteen weeks generally being the minimum contract period. Frequently, radio time is contracted for longer periods, contracts being commonly issued for twenty-six, thirty-nine, or fifty-two weeks.

THE SPACE BUYER

With the media recommendation at hand, the space buyer refers to various statistical records such as *Standard Rate & Data* to secure the terms and conditions for purchasing space from each source. Sometimes when it is not possible to secure sufficient information from the published data, the buyer must contact representatives of the radio station, periodical or outdoor plant.

SPACE REPRESENTATIVES

Most of the printed advertising media (newspapers and magazines) have either their own direct salesmen or a special representative located in each of the principal cities of the country. The appointed representatives are usually companies that make a business of representing newspapers or magazines. They are commonly called "space reps." The function of the space representative is much the same as was that of the advertising agency itself in the early days of the business. The space representative has a contract with each of a number of newspapers or other publications. He solicits business from the agencies and acts very much like a direct salesman for the paper. Often the space representative forwards the copy to the paper and collects from the advertising agency, in which case he furnishes bills for the space and proof of its insertion.

CONTRACTS AND RATES

After the space buyer has secured the necessary facts regarding the advertising media, he prepares and issues contracts. Each contract covers the space to be used by one client only. Although the advertising agency may use space in the same periodical or radio station for many clients, the space is contracted for each client separately.

It may be that the rate charged for the advertising space varies from one client to another. Such rate differences occur because of different total quantities of space contracted for and different times of placing contracts. It is important to note here that newspapers, magazines and radio stations offer different rates for advertising space depending on the conditions under which they serve the advertiser. The rate for a black-and-white advertisement is usually less than for a two-color one; likewise, a two-color advertisement is cheaper than a four-color one.

Special positions take special charges; for example, an advertisement on the financial page or on the sports page will take a higher rate than one which can be inserted anywhere in the

paper; likewise, magazines charge more for the inside front or back cover than for space elsewhere in the publication.

In addition to these variances in rate, many newspapers offer combination rates for combination advertisements that are run both evening and morning, or that are run both daily and on Sunday. As a general rule, all newspapers charge higher rates for space in Sunday editions than in daily editions. Some newspapers offer "sliding-scale" rates; that is, the rate per line is set on a minimum amount of space, and if the advertiser uses more space, the rate is reduced. For example, a paper might offer a rate of thirty cents a line for the first two thousand lines, after which the rate is reduced to twenty-five cents a line until the total amount of space during the year has equaled five thousand lines, at which time the rate will be reduced to perhaps twenty cents. Often these rate reductions of sliding-scale papers are retroactive to the beginning of the contract year.

There are many small weekly newspapers published throughout the country. These weekly newspapers are excellent advertising media for certain advertisers, but buying space in these papers is more difficult than carrying on business with the larger daily papers. For this reason, several associations have been formed to represent groups of weekly papers. These associations offer space in a large number of weekly papers. Space contracts sometimes can be let for a group of papers through such associations. The associations then assume the responsibility for billing and for furnishing copies of the papers in which the advertising appears.

Contracts for advertising space in newspapers, whether small or large, and for all kinds of magazines will ordinarily include the following information:

1. The name of the advertising agency contracting for space.
2. The name of the client on whose account space is purchased.
3. The product to be advertised.
4. The kind of space purchased—whether daily, Sunday,

combination daily and Sunday, combination morning and evening, etc.

5. The rates at which space is purchased.
6. The frequency of insertions (in reference to magazines).
7. The position requested (run-of-paper, back cover, front cover, financial page, etc.).
8. The period covered by the contract (this is usually one year).

The above list includes the major items; however, the contract often includes further specifications, such as to whom tear pages or proofs of insertion are to be sent, where bills for advertising are to be sent, how many copies of such bills are required, and the general terms and conditions of the contract.

STANDARD CONTRACTS

Standard conditions governing advertising contracts and orders were adopted in 1920 and revised in 1933 by the American Newspaper Publishers Association, Periodical Publishers Association, Agricultural Publishers Association, and the Associated Business Papers, in cooperation with the American Association of Advertising Agencies. Agencies that are members of the American Association of Advertising Agencies or that are "recognized" by one of the publishers' associations listed,* usually print these terms and conditions on the reverse side of each contract. (See Figure 5.) If the standard conditions are changed in any way, there is a possibility that such a change could affect the liability of the agency and any change in these conditions could result in confusion and delay. For conditions, see page 44.

Contracts for radio time and outdoor advertising usually take a form that is different from contracts for newspaper and magazine space. When network radio shows are purchased, special contracts are drawn up to cover each situation. Spot radio broadcast contracts are much simpler in form and follow a pattern similar to the contract for printed advertising space in newspapers and magazines.

* See Appendix, page 286

STANDARD CONDITIONS

Governing Advertising Contracts and Orders Adopted 1920 and Revised 1933 by American Newspaper Publishers Association Periodical Publishers' Association of America Agricultural Publishers Association, and The Associated Business Papers, Inc. In cooperation with American Association of Advertising Agencies

I. TERMS OF PAYMENT

(a). The Agency agrees to pay and the publisher agrees to hold the agency solely liable for payment for the advertising covered by this contract.

The agency personally agrees to pay for advertising covered by this contract at the office of the publisher or his authorized representative on or before the last day of the month following that in which the advertising is published unless otherwise stipulated on publisher's rate card on which this contract was based, or when cash discount is deducted but payment date not specified on the publisher's rate card, on the 15th of the month following.

Bills must be rendered not less often than monthly but failure to do so shall not constitute breach of contract.

(b). The agency agrees to pay in the manner specified in paragraph (a) for all drawings, composition, cuts or mats if furnished by the publisher at the request of the agency provided it is the practice of the publisher to charge for such service.

(c). Cuts and mats shall be sent to the publisher prepaid. If they are not, the publisher may accept them, and pay transportation and import charges and the agency shall promptly reimburse the publisher.

(d). If at the end of the advertising period named in the contract or upon prior termination of the contract for any cause, the agency has not used the full amount of advertising contracted for, the agency shall pay to the publisher such additional sum on all advertising so published as shall be equal to the difference, if any, between the amount due at the rate named in the contract and the amount due at the rate applicable to the quantity of space used, according to that schedule of advertising rates of the publisher on which the contract was based, and upon such expiration or termination said additional sum shall become immediately due and payable. Short rate bills must be rendered within sixty days after the expiration of the contract period, otherwise the publisher agrees to a settlement at the rate named in the original contract. Unless other-

FIG. 5.—Standard Conditions Governing Advertising Contracts and Orders.

wise expressed on the face hereof, this contract may be cancelled by the agency, or less space used, in accordance with the provisions of this paragraph.

(e). Any bill rendered to the agency by the publisher shall be conclusive as to the correctness of the items therein set forth and shall constitute an account stated unless written objection is made thereto by the publisher or the agency within sixty days from the rendering thereof.

(f). The publisher reserves the right to cancel the contract at any time upon default by the agency in the payment of bills, or other breach, or in the event of any material violation on the part of the agency of any of the conditions herein named; and upon such cancellation all advertising done hereunder, including short rates or other charges under this contract, and unpaid, shall become immediately due and payable. In case of delinquency in payment or impaired credit of the agency the publisher shall have the right at any time to change the requirements as to the terms of payment for further advertising under this contract as he may see fit.

(g). In all cases where date of payment is material, unless otherwise stipulated the postmark date on the envelope properly addressed to the publisher or to his representative shall be considered the date when payment was made.

2. RATES

(a). All rates shall be published. There shall be no secret rates, rebates, or agreements affecting rates. All rates shall be furnished agencies if requested.

(b). "Publisher's rate card" shall be understood to mean that schedule of advertising rates of the publisher upon which this contract is based.

(c). The rate stated in the contract is the minimum rate at which an equal or less amount of space, for the same class of advertising, to be published in a like position, under the same conditions, within the same period of time, can be secured.

(d). If additional space is used within the period covered by the contract where the publisher has a schedule of graduated rates, any lower rate shall be given if earned, according to the publisher's rate card on which this contract is based.

3. ADVERTISING MATERIAL

(a). The subject matter, form, size, wording, illustration and typography of the advertising shall be subject to the approval of the publisher but unless otherwise authorized in advance no change shall be made without the consent of the agency.

(b). If the publisher is unable to set any advertisement in the type or style requested, he may set such advertisement in such other type or style as in his opinion most nearly corresponds thereto, and the advertisement may be inserted

FIG. 5 (contd.)

without submission of proof unless proof before insertion is requested on the face of the order.

(c). Where cuts, electrotypes, or material furnished by the agency occupy more space than specified in the contract or insertion order, publisher should immediately communicate with the agency for definite instructions. If the publisher is unable to secure definite instructions from the agency, the advertising shall be omitted.

(d). If agency has contracted for a series of insertions in a publication, and before closing date insertion order and copy for next issue have not been received by publisher, publisher shall notify agency and follow agency's instructions.

(e). Advertisements ordered set in "space as required" shall be measured from office ad. rule to office ad. rule.

4. PROOF OF INSERTION

(a). The page containing the advertising or, at the request of the agency a copy of each issue in which the advertising appears, shall be mailed or otherwise supplied to the agency, which shall be deemed to have received such copy or page unless the publisher is notified in writing of the non-receipt thereof within thirty days after the date of publication. The publisher may mail or otherwise supply an affidavit of publication in lieu of a second copy or page containing the advertisement. Failure to forward or furnish such copy, page or affidavit shall not constitute a breach of the contract.

5. CIRCULATION

(a). Unless the publisher is a member of the Audit Bureau of Circulations, the agency shall be entitled, upon request, to a statement of net paid circulation verified by a certified public accountant, or in lieu thereof to the right to examine the publisher's circulation books.

6. OMISSION OF ADVERTISING

(a). Failure by the publisher to insert in any particular issue or issues invalidates the order for insertion in the missed issue but shall not constitute a breach of contract.

In newspapers the advertising must appear in all regular editions issued on the date for which the advertising is ordered. Advertisements omitted from any particular edition or editions must be reported to the agency and if received in time and omitted through fault of publisher must be made up or adjusted unless otherwise instructed.

Unless otherwise stipulated, the publisher shall have the right to omit any advertisement when the space allotted to advertising in the issue for which such ad-

FIG. 5 (contd.)

vertisement is ordered has all been taken, and also to limit the amount of space an advertiser may use in any one issue.

7. GENERAL

(a). The agency agrees that it will not rebate to its client any part of the commission allowed by the publisher.

(b). In dealing with agencies, the publisher shall follow a uniform policy to avoid discrimination.

(c) Unless later date is specified in publisher's rate card, advertising in newspapers shall begin within thirty days from the date of this contract, or contract becomes null and void.

(d) A waiver by the publisher of any default or breach by the agency shall not be considered as a waiver of any subsequent default or breach of the same or any other provisions hereof.

FIG. 5 (contd.)

INSERTION ORDERS

After the space contracts have been issued and prior to the insertion of each advertisement in the printed media, it is necessary to issue what is commonly called an insertion order. The space contract has simply reserved the space and established the terms and conditions under which the purchase is to be made. The insertion order is a detailed description of the space to be used for each advertisement. When the agency has prepared an advertisement, the insertion order is issued by the space-buying department. The insertion order is often sent with copy instructions, mats, plates, etc. The insertion order should contain the following:

1. The name of the advertising agency.
2. The name of the advertiser.
3. The name of the product to be advertised.
4. The date for the insertion of the advertising. (This includes the edition, or editions if the publication has more than one edition.)
5. The amount of space to be occupied by the advertisement.

6. The position requested in the publication.
7. The number of colors to be used in printing the advertisement.

In addition, the agency often includes other information on the insertion order, such as to whom tear pages or copies of the publication are to be sent as proof of insertion; the number of copies of invoices requested and to whom they are to be sent; and special instructions regarding the printing of the advertisement. This usually refers to position and may include a statement that the advertisement is not to be printed next to competing copy, etc.

After the space-buying department has issued the insertion order, it has completed its function in connection with space buying with only one exception. It is the responsibility of the space-buying department to see that the agency fulfils its contract requirements with each vendor of advertising media.

It is important to note that an advertising agency ordinarily does not act as an agent in the accepted legal sense. The advertising agency is itself financially responsible for carrying out its commitments. It is financially liable to pay for the space it buys. Whether or not the client pays is of no legal importance in the transaction between the agency and the publisher, radio station, etc.

Many newspapers, magazines, radio stations and outdoor advertising plants offer cash discounts in consideration of prompt payment of invoices. To secure this additional revenue, the agency must pay its bills in accordance with the vendors' terms. Therefore, it becomes important to set up a means by which the agency can collect from the advertiser before the cash discount payment date offered by the vendor. This subject will be discussed in a later chapter, but it should be emphasized here that the term "advertising agency" is misleading. The advertising agency, in the legal sense, is not an agent. It is responsible for whatever commitments for advertising space it makes.

6. Checking Advertising

THE purchaser of an article wants to be sure he receives it and wants to verify the quantity and quality before he pays for it. Printed advertising is purchased in accordance with definite terms and conditions as to quantity, quality and time of publication. Before the agency makes payment to the publisher, it is desirable to check the advertising to determine whether it meets the specifications in accordance with the contract and order. In most agencies one or more persons are assigned the job of checking the advertising. This is a routine job and usually follows a more or less standard pattern.

NEWSPAPERS

A copy of each newspaper insertion order is sent to the checking department. Newspaper orders are filed by state and city in which the paper is published. Upon receipt of publications, agencies usually sort them in the same manner in which insertion orders are filed. Then, by referring to the insertion order bearing the same name as the publication, the checker is able to determine what advertising to look for.

For example, if the checking department receives a copy of the Chicago *Sun,* the checker then looks in the file under "Illinois, Chicago, *Sun.*" A copy of the insertion order covering the advertising should be filed there. If the title discloses an insertion order for "Illinois, Chicago, *Sun*" covering an insertion in a particular edition on a specified date, the checker then looks at the order further to find the name of the advertiser and the product, after which he runs through the paper to locate the advertisement.

When this is located, the checker examines it for quality and

correctness. Assuming that the correct advertisement has been published and that the quality of printing is acceptable, the checker then measures the advertisement to determine the amount of space occupied by it. Newspaper space is usually sold in lines or inches. Daily papers usually sell space by lines; the small papers and weekly papers usually sell it by inches. An inch represents fourteen lines of "agate" type. The insertion order indicates whether the space is purchased by lines or inches. The checker is furnished with a rule calibrated in both. A line of space is the depth measure, a column is the width measure.

In other words, if an advertisement occupies three columns in width and ten lines in depth, the space measurement would be thirty lines. The same rule holds true when the unit is inches instead of lines; that is, if an advertisement is three columns wide and three inches deep, the measurement would be nine inches.*

Some agencies have established the practice of rating the various positions in which advertising appears in newspapers. The purpose of such a rating system is to determine whether or not a particular newspaper is giving the advertiser reasonably good positions in the paper. Generally, advertising which appears on the first few pages of a newspaper is considered to be more effec-

* It has been standard practice for a number of years to pay for newspaper space occupied by the advertisement from the top rule to the bottom rule, allowing the paper nothing for white space appearing either above or below the advertisement. Advertisements are designed to occupy a known quantity of space, but because the advertising agency furnishes the newspaper with mats instead of electrotypes, the space actually occupied by the advertisement is usually from one to two percent less than the space that the advertisement was designed for. This shrinkage occurs because the printers pour hot lead into the mat. When the lead cools, there is a certain amount of contraction and the cold lead is used to print the advertisement. The agency pays only for the actual space occupied by the advertisement, not the space ordered. For example, if the space ordered is three columns wide and fifty lines deep, it is quite likely that the advertisement will only occupy a space three columns wide and forty-nine lines deep. The measurement of the ad should in this case be three columns times forty-nine lines, or 147 lines. The advertising agency wants to pay the paper for 147 lines, not for 150 lines. It is evident that in a large advertising campaign, this one to two percent shrinkage can be a substantial amount.

tive than that appearing far back in the paper. Advertising appearing in the upper right-hand corner of a page generally may be considered more effective than advertising appearing on the left bottom corner, etc.

After advertisement positions are rated, position reports are prepared to show the number of advertisements that secured the best position, the number that secured the second best position, etc. With these reports, the space buyer is in a position to determine which papers have been giving the advertiser reasonably good advertising positions and which have not. He can then call the representative of the paper that is not giving the advertiser reasonably good advertising positions and can demand greater consideration in the future.

Where the agency rates the positions of advertising, the key or code for such positions is noted on the insertion order at the time the checker examines and measures the advertisement. The position indication would be as follows:

Date of Insertion	*Ad Number*	*Space Ordered*	*Space Used*	*Position*
10/20	1234	180 lines	178 lines	A

MAGAZINES AND TRADE PAPERS

Checking magazine and trade-paper space is considerably simpler than checking newspaper space. Space in magazines is usually purchased in units of pages or fractions thereof, although occasionally magazines and trade papers sell space by columns or inches. The usual magazine advertisement occupying a page, half-page, quarter-page, etc. is not subject to shrinkage. This is because electrotypes and half-tones are used instead of mats. These are built to occupy the exact amount of space ordered. The checker, then, needs to inspect a magazine advertisement only for quality of print and position.

Some agencies, in addition to checking the appearance of advertising for quality and quantity, wish to determine the posi-

tion secured in either a paper or a magazine. There are different methods of rating the comparative position of advertisements, but among the most important factors to be considered are:

1. The page number on which the advertisement appears.
2. The section in which the advertisement appears (such as buyer's guide, society section, financial section, etc.).
3. The position on the page.
4. Whether or not the advertisement appears adjacent to competitive copy.

Where the agency is interested in rating the position of the advertising, the checker usually is furnished with a code for this purpose. The code is entered on an accounting record from which the agency can prepare a report showing the various positions secured from the different publications.

RADIO

The checking of radio advertising is, obviously, a different matter from checking printed advertising. Usually the broadcasting station sends the agency an affidavit certifying the fact that each message or program was actually broadcast. Such affidavits are required by agencies before bills for broadcasting are paid. At times, advertising agencies have attempted to listen to each broadcast to check the message or program, but this practice was never general. Most agencies rely on the honesty of the broadcasting stations and on other reports secured from the advertiser or his distributors in each town where a program is broadcast. These distributors, of course, are acquainted with the facts concerning the advertiser's program. Since the advertising is important to the distributor, it may be expected that the distributor would report any omissions or other defects in the radio advertising campaign.

In addition, there is a radio checking service available on both the East and West Coasts. Clients are furnished with actual recordings of what is said on the air waves on a particular pro-

gram, product or topic, or, occasionally, with program scripts.

There is available, also, a spot-checking service, with listeners or monitors in several hundred cities. Agencies and advertisers are advised whether the spots were actually used at the time they were scheduled; what the adjacencies were; the caliber of the presentation; and other pertinent data bearing on the effectiveness of the spot message.

OTHER MEDIA

It is not a general practice for agencies to check the appearance of outdoor advertising and car cards. Lithographs or other material are sent to the outdoor advertising plants, which certify the actual placing and appearance of the advertising. It would be extremely difficult for an agency to check the posting date and the quality of the posting of each outdoor sign. The cost of such checking would not be warranted. For this reason, agencies do little or no checking of outdoor advertising space.

The National Outdoor Advertising Bureau does render a valuable service in this regard. In addition to checking the appearance of outdoor advertising, the Bureau furnishes other services.*

One agency checked every outdoor location to determine the date on which each billboard was posted and the quality of the posting. In addition, for several years, this agency made intensive studies to determine the comparative value of the locations used. This practice was discontinued by the agency after a few years when it was found that the outdoor plants billed correctly for the space used and that the statistics furnished by the plant owners were reliable. This, they concluded, made independent checking and study of little value.

Checking the appearance of advertising in the manner discussed is a service that the agency renders to the advertiser in consideration of the commissions received from the advertising media. No special or extra charge is made for such service.

* See Appendix, page 328

7. Advertising Materials, Publicity and Miscellaneous

CERTAIN materials are necessary to produce a printed advertisement. These are called mechanical production or advertising materials. They include art work, photography, typography, engravings, half-tones, electrotypes, mats, stereos, photostats, etc.

WHY AGENCY SHOULD SPECIFY ADVERTISING MATERIALS

It is highly desirable and almost essential for the agency to specify and purchase these materials, for only in this way can it control the final result or appearance of the advertising. Production work starts almost as soon as the contact man and the client have agreed on an advertising campaign, at which time it becomes necessary to visualize, at least roughly, the various advertisements as they are to appear.

To do this, the agency prepares rough sketches of each advertisement. Sometimes these sketches merely take the form of rough lay-outs that are quickly penciled up by the agency's art department. In other cases, the visuals become more comprehensive and include an explanation of the final art work and a paste-up of the whole advertisement including the type, etc.

In any event, when the kind of advertisement has finally been approved by the client, the agency sets about procuring the necessary materials for printing it. The agency at the outset prepares a timetable showing on what dates each item of material is required, because it is necessary to secure the art work before plates can be made, etc., and all materials, including the

final mats or half-tones, must be complete in time to send them to the publisher for printing the advertisement.

PRODUCTION ORDERS

Orders are issued in the production department of an advertising agency for each of the materials as it is required; and, as the materials are received with bills from suppliers, all of the production elements for the advertisement are gathered together until the final piece of material is received.

The engraving, electrotype, mat or stereo is forwarded to the publication and the cost of all of the items is invoiced to the client. In some agencies, the art work required for the production of advertising is segregated from the other materials. In such cases, the securing of the needed art work becomes the function of the art director or art department and the securing of the other materials is delegated to the production manager or production department.

There is no standard of procedure in the operation of production and art departments of advertising agencies but there is some uniformity of operation among agencies in regard to certain parts of the art and production work. Most agencies prepare rough lay-outs and nearly all agencies undertake to secure the final art work required, either by creating the art work in their own department or by purchasing it on the outside. Nearly all agencies undertake to secure the other materials required, such as type, electros, half-tones and mats. The difference in the operation of production departments among agencies comes in the charges made for performing the functions. This subject will be discussed in the chapter "Basis of the Agency's Compensation."

Some agencies operate production departments in which the entire responsibility for securing all required mechanical elements rests within the department. This includes the scheduling of materials so that they are received when they are required. It also includes the responsibility of getting the final plates or mats to the publisher before a closing date. In other agen-

cies, the production department is charged merely with the responsibility of purchasing the advertising materials required; the scheduling and expediting duties are delegated to a separate traffic department.

PUBLICITY

Publicity, in the sense it is used here, may be defined as the dissemination of information regarding products or industries without the overt purpose of selling. It takes the form of news stories and feature articles in the press, in national magazines, in trade papers and in farm papers. Some publicity is also accomplished through the radio in connection with news and other programs. There is a growing feeling among agencies that publicity campaigns can be best conducted by publicity or public relations firms which specialize in this work. This feeling is emphasized by the attitude among publishers that advertising agencies, in attempting to secure publicity, are actually endeavoring to divert what should be paid advertising into free publicity.

Nevertheless there are a number of agencies that have completely organized publicity departments. These agencies plan, create, develop and place publicity as an extra service to certain clients. Unless the advertiser's account is very large and highly profitable, the agency cannot afford to provide a publicity service without arranging for a special fee to cover the cost of the work.

On the other hand, most agencies do counsel and advise with their clients concerning publicity. They further assist the clients by cooperating with the publicity firms which handle that phase of service for the client.

MISCELLANEOUS FUNCTIONS

In addition to the principal services which have been discussed, agencies perform many diverse and incidental services, dependent on the need of the advertiser and the skill and elasticity of the agency. Some of these miscellaneous services are:

1. Making a study of competitive advertising.
2. Assisting the client in his own sales work in order to insure the greatest effectiveness from the advertising. (This type of service often includes the attendance at sales conventions, and the preparation of material to be used for dealers' and distributors' conventions.)
3. Testing copy—an innovation in the agency service.*
4. Preparing house organs, catalogs, and the like.
5. Testing recipes for making food products.
6. Securing personnel for the client's advertising department.
7. Preparing booklets to be distributed to dealers and jobbers.
8. Preparing sales manuals, etc.
9. Preparing exhibits for conventions and industry shows.
10. Supervising the production of commercial films.

Usually all of these special services involve expenditures on the part of the agency; therefore, since the average advertising account does not provide a sufficient margin of profit to allow for such expenditures, the agency usually arranges for a special fee for doing such work. These fees are generally on a cost-plus basis, but such jobs are sometimes undertaken on a flat fee basis as well.

* Certain methods have been developed for pretesting the effectiveness of advertising copy. These methods include checking the results of test campaigns via coupons or retail sales; checking the results from keyed copy through consumer juries; and mailing questionnaires to consumers to secure their opinions. There are several organizations which specialize in rating advertising copy and radio broadcasts. The services of these specialist organizations are often purchased by agencies.

8. Billing the Advertising

THE mechanical details involved in billing the advertiser for the advertising will be discussed in detail in Part II of this book. This chapter outlines some of the principles relative to the subject and the functions that are performed by the agency in this respect.

The advertising agency is semiprofessional, offering a combination of commercial and professional services. The agency attempts only to assist the advertiser by selecting the media to be used, by conceiving the advertising campaign and by developing it into the final advertising message. Today agencies do not compete with one another by offering different payment terms or by claiming that they can buy space below published rates.

AGENCY SHOULD NOT ACT AS A BANKER

The agency should not act as the banker for the advertiser. In fact, the average advertising agency has a smaller capital than most of its clients. The agency serves a useful professional function through the special skills of its employees. It renders inconsequential service to the advertiser in its financial dealings with media vendors.

For these reasons it is a cardinal principle of the advertising-agency business that all advertising space and radio time should be billed to the client sufficiently in advance to provide for payment to the agency prior to the date upon which the agency is obligated to pay the media.

Invoices for magazine and trade-paper space are usually prepared and sent to clients fifteen days before the date on which the agency is required to pay the publication. If the advertiser

wishes to earn the cash discount, he must pay the agency prior to the date on which the agency must pay the publication. In practice, no well-run agency will continue to serve the advertiser who does not discount his bills. Magazines and trade papers have various payment terms, so no general rule can be established concerning the time of the month in which magazine and trade-paper advertising is billed. The billing time varies according to the terms of the publication.

LIABILITY MAY BE SUBSTANTIAL

It is very important to note that the agency's liability for magazine advertising may be much more substantial than is often realized. Frequently, the advertising agency takes a greater financial risk than any other creditor of the advertiser. This is because magazines often go to press months in advance of publication. After the magazine is once on the press, the agency's liability has been fixed. Thus it will be seen that an agency can be and often is liable to magazines for advertisements for a cumulative period covering two or three months. Magazines have established "closing dates" and "cancellation dates." The cancellation date is the last day upon which the advertiser can cancel the advertising. The closing date is the date on which the publication goes to press. Unless the advertising agency has convincing proof that the advertiser is fully capable of meeting its obligations, it is desirable to invoice advertising space so as to collect from the advertiser on or before the cancellation date for each magazine. After this date the liability of the agency is fixed regardless of whether the advertiser can pay the agency.

Newspaper advertising space, of course, can appear throughout an entire calendar month. Newspapers usually bill on a monthly basis, although some weeklies bill after each issue. Advertising agencies usually invoice newspaper space on a monthly basis. Since, as has been noted under the subject of checking newspaper advertising, newspaper space ordered is subject to shrinkage, it is impossible to complete accurate billing on a

space-used basis until after all the newspaper advertising for the month has been measured.

It is common for advertisers to use newspapers that are published hundreds and thousands of miles distant from the place of business of the advertising agency. For this reason, copies of newspapers frequently reach the agency from five days to a week after the issuance of the paper. This means that checking of a month's newspaper advertising frequently cannot be completed until about the tenth of the subsequent month. If an agency were to defer billing until newspaper advertising for a calendar month was checked, frequently the bill could not be sent to the advertiser until after the tenth of the subsequent month. The standard payment terms of most newspapers call for payment by the agency to the newspaper on either the tenth, fifteenth, twentieth or twenty-fifth of the month subsequent to the advertising.

From this it is evident that final accurate billing for newspaper space cannot be accomplished early enough to permit the receipt of the funds by the agency before the date on which the agency must pay the newspaper. It is necessary for agencies to find a method by which they can secure payment from the advertiser in advance of the date upon which they must make payment to the newspapers.

Two different methods of billing for newspaper space have been developed to accomplish the desired result.

BILLING ON A SPACE-ORDERED BASIS

One method is to bill all space ordered during a month on the basis of space ordered. Where this method is used, the agency sends its invoice to the client by the first or second day of each month to cover the advertising space ordered for the previous month. After all the advertising space has been checked, the agency sends the client a credit memo to cover omissions and shrinkage. This method, which is sometimes called "billing on a space-ordered basis," has the disadvantage of involving double work. First, a detailed invoice on a space-ordered basis must be prepared; second, a credit memo covering omissions and shrink-

age is prepared. The method has the same disadvantages for the advertiser in that he must audit both the original bill and the credit memo.

BILLING ON A PREBILL BASIS

The more desirable method for billing newspaper space so that the agency secures payment before it must pay the publishers is to "prebill." A prebill is simply a commitment billing. It consists of an invoice, sent on the first of the month following advertising and containing one line only, something like this:

Newspaper space for the month of June—$92,000

The amount of the monthly prebill can be secured by reference to the media recommendation, which is sometimes later refined and called an "estimate." On the twentieth or twenty-fifth of the month following advertising, the agency prepares a complete detailed invoice on a space-checked basis.

The advertiser's first reaction to the prebill method is, often, that he is paying the agency a large sum of money without any proof of the actual debt. This is without basis because: First, the advertiser knows what his advertising program calls for and receives copies of the newspapers containing the advertising almost currently with its appearance; and second, by the time the advertiser pays the agency (the tenth of the month following insertion) the agency has already committed itself in substantial amounts for advertising that will appear prior to the payment of the previous month's invoice.

Many of the largest advertisers in the country are paying their agencies on a prebill basis which has the distinct advantage of avoiding duplicate work, since only one detailed invoice is prepared by the agency and audited by the advertiser.

Radio time is often invoiced on a weekly basis, invoices being issued immediately following each week's broadcasting. It is a simple matter for the agency to prepare an invoice covering radio time. Such bills are mailed to advertisers either on the first day of each week covering the prior week's broadcasting,

or on the first or second day of each month covering the broadcasting of the previous month.

Radio talent is usually invoiced on a weekly basis, invoices being prepared by the agency and sent to advertisers on the first day of each week covering the talent costs of the prior week. Sometimes agencies prefer to invoice for radio talent on a monthly basis in which case the agency must meet current weekly payments and collect from the advertiser after the close of each month. Agencies usually add either 15 or 17.65 percent to the cost of radio talent. When the 15 percent is added, the commission is only 13 percent; whereas when 17.65 percent is added, the commission is the standard 15 percent which agencies also earn on printed space.*

Outdoor space is billed monthly and invoices cover posting for the current month. All bills are due ten days from the date of issuance.

BILLING ADVERTISING MATERIALS

Advertising materials purchased by the agency for the advertiser include such items as art work, typography, engravings, electros, half-tones, mats, stereos, photostats, radio transcriptions and lithography used for outdoor advertising.

It is more or less standard practice for the agency to group all of the advertising materials purchased for a particular advertisement and to bill them on one invoice. There are two methods: (1) billing monthly for all items purchased during the month, and (2) billing jobs for all materials for one advertisement when they have been secured.

* Where agencies buy space, as in the case of publications, and radio time, 15 percent is deducted from the quoted rate and is retained by the agency as commission. Adding 17.65 percent to cost to determine selling price is the equivalent of deducting 15 percent from selling price to determine cost. For example:

Cost	$ 85.00	Selling price	$100.00
Add 17.65% of $85.00	15.00	Less 15% of $100.00	15.00
Selling price	$100.00	Cost	$ 85.00

There is no standard method for fixing the price of the advertising materials billed by the agency to its clients. Perhaps the most common current method is for the agency to add 15 or 17.65 percent to the cost of the items purchased. Many agencies add 17.65 percent so that the selling price provides for a 15 percent commission. The subject of the agency's fee in connection with the purchase of advertising materials will be discussed in more detail later.

The same rule is not always followed in connection with the creation and preparation of catalogs, house organs, dealer helps and direct-mail advertising. Agencies usually provide for a special fee in connection with the preparation of these items which require the time and effort of the creative personnel of the advertising agency, since any commission based on a percentage of the cost of these items could not possibly compensate the agency for creative work. This creative work when it is used in connection with regular advertising media is compensated for by the commission received on the space used.

9. Basis of the Agency's Compensation

THE service that an advertising agency performs for a client is always tailored to fit the particular client's requirements. No two agencies deliver exactly the same services, and no one agency delivers exactly the same service to any two of its clients. The answer to the question of what an agency should charge its client for the work performed must of necessity be based on the quantity and quality of the work.

The commission system of compensation is a historical part of the agency business. Although attempts have been made to get away from the commission form of compensation for personal service in this business, such efforts have not been successful. Under the commission system, the agency's compensation (a commission paid by the advertising media to the agency based on a percentage of the advertising space or time purchased) is figured on the volume of advertising space and materials purchased rather than on the amount or quality of work required.

To determine what services can be performed for the commission to be received from the advertising media, the agency must weigh the commission revenue against the estimated cost of performing the service. When this is done, it is found that many extensive services can be performed for one client, where only limited service can be performed for another.

THREE TYPES OF AGENCIES

It is necessary, then, to survey the several types of advertising agencies and the several types of advertising accounts before the elements of service performed and the basis of the agency's compensation for performing them can be discussed. For convenience, agencies may be classified as follows:

1. General advertising. In this category may be placed agencies whose accounts consist of those in which the client's product is advertised to the general public through the customary advertising media, including newspapers, magazines, trade papers, farm papers, radio, outdoor displays and car cards.

2. Industrial agencies. In this category may be included the advertising agencies that specialize in industrial accounts which advertise machinery, electrical devices, tools, equipment and other articles to the industrial consumer and not to the general public. In exceptional cases, articles that the agency is trying to sell to industrial consumers are actually advertised to the general public in order to secure a public demand for a product. An example of this type of advertising is the advertising of thermostatic controls which eventually become a part of heating systems.

3. Agency specialists. In this group may be placed agencies not included in groups one and two, such as, for instance, those specializing in foreign, retail store, financial, classified, fashion or theatrical advertising.

The differentiating factor in classifying the agencies into the three types has been the type of account handled. Each of the three types can be subdivided further according to the general character of services rendered. The agency whose most powerful selling appeal is created through art work may be typed as the art agency; the agency whose principal selling appeal is the advertising copy may be typed as the copy agency; the agency whose principal strength is in the field of radio advertising may be termed the radio agency, etc.

EFFECT OF SIZE OF ACCOUNT

Before the basis of the agency's compensation can be intelligently discussed, it is necessary to classify advertising accounts by size of advertising appropriation. An account whose annual advertising appropriation is $50,000 or less may be considered a small account; one whose annual advertising appropriation is from $50,000 to $150,000 may be considered a medium-sized

account; an account whose annual advertising appropriation is from $150,000 to $500,000 represents a large advertiser; an account whose annual advertising expenditure exceeds $500,000 is a very large account.

General advertising agencies in fixing the basis of their compensation on large or very large accounts usually find that they can perform all of the services listed in the chapter "Functions Performed by the Modern Advertising Agency" in consideration for the commissions received from the sale of advertising space and materials. The only exception would be research studies and publicity.

SERVICES RENDERED

General advertising agencies in determining the basis of their compensation in connection with handling medium-size accounts as a rule find that they are able to deliver the following services in consideration of the commissions received:

1. Developing the advertising campaign.
2. Writing the copy.
3. Selecting the art work and supervising its preparation.
4. Analyzing and selecting media.
5. Buying the advertising media.
6. Buying the production materials.
7. Checking the advertising.
8. Billing the advertising.

General agencies handling medium-size accounts bill production materials at cost, plus 17.65 or 15 percent. General agencies in fixing the fees for handling small accounts usually find that they cannot afford to perform the services required by the advertiser without securing a fee in addition to the commissions received. The cost of planning the campaign, writing the copy, etc., when added to the contact cost and the general overhead of the agency can, and does in many cases, exceed the commissions that an agency receives from the advertising.

When this condition occurs, the agency must arrange for a service fee or minimum charge per month or year. This fee is fixed by the agency after it determines the cost of the services required by the advertiser. Agencies make special arrangements with each client where service fees are required.

The annual appropriations of industrial advertisers, by and large, are much smaller than are those of general advertisers. The cost of space in trade papers is relatively low and consequently the industrial agency's commission income per page of advertising is much less than that of the general agency whose clients advertise in national magazines or in large papers.

In addition, the industrial agency advertises specialized and technical products which require special skills and experiences to handle. Furthermore, the industrial account usually requires many collateral or miscellaneous services in connection with point-of-sale material, salesmen's manuals, descriptive folders, convention or business-show materials, etc. Because of these factors, it follows that the commission income from most industrial advertising accounts is insufficient to pay the cost of doing the needed work. The industrial account usually calls for a service fee or some other basis of compensation that will augment the commission received.

Agencies falling in the third, or specialists, classification differ so widely from one another that no generalization as to basis of compensation can be made. Each case will depend on the particulars. The agency often requires experience with an account before it can fix its compensation properly.

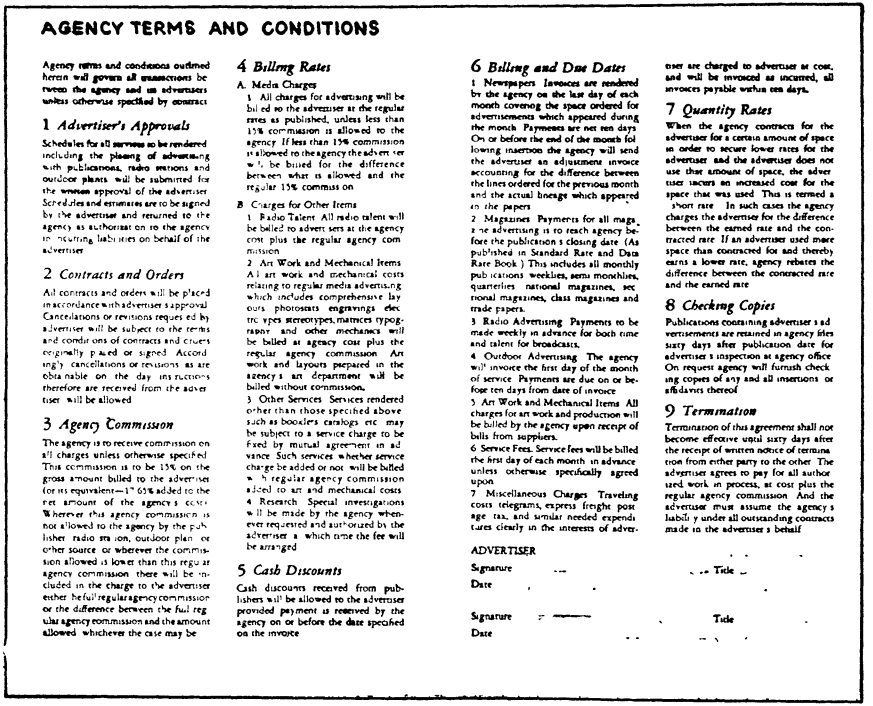
All agencies have difficulty in determining the basis of compensation for research studies, but by far the larger number of agencies charge a special fee for conducting any but the most cursory investigation of markets or products. A few very large agencies maintain research departments and they offer certain services free to some larger clients. Because of the historic commission basis of compensation, an advertiser spending two or three million dollars a year in large costly space provides the

agency with a large commission income allowing a sufficient margin for many "extras." Such accounts are rare. Research studies which have a direct bearing on advertising should be initiated and supervised by the agency. In most cases, these studies are billed to clients at cost plus a commission to cover the supervisory service.

Consultations with the advertiser concerning advertising, merchandising, selling and development of the advertising campaign are nearly always a part of the service the agency renders to its client for the media commissions and service fees received. It is in this area that the agency performs its most vital and costly service. In the larger agency, one or more executives are assigned to an account. They are called contact men. These men are usually graduates from other departments, top men in the agency, and they carry the responsibility for planning and developing the campaign and coordinating the various services performed. In a small agency, the owners take on the responsibility for counseling and for planning and developing the campaign. This service is a free service in nearly every case.

The production activity of the agency, which includes the securing of the art work and advertising materials for the production of advertising, is one of the early functions of advertising agencies. Under the first open-contract arrangement, agencies purchased advertising space and materials for advertisers at cost plus a commission. Later, instead of adding a commission to the cost of the space, the various media allowed a commission to the agency. As long as advertising materials have been purchased by agencies, they have added a commission to compensate them for this service.

Different agencies use different commission rates in fixing the billing price of advertising materials. Many industrial and specialized agencies add 17.65 percent to the cost of advertising materials. Agencies dealing in low-cost space and agencies handling small accounts often add a higher percentage. Some general agencies handling medium-size and even large accounts



AGENCY TERMS AND CONDITIONS

Agency terms and conditions outlined herein will govern all transactions between the agency and its advertisers unless otherwise specified by contract

1 *Advertiser's Approvals*

Schedules for all services to be rendered including the placing of advertising with publications, radio stations and outdoor plants will be submitted for the written approval of the advertiser. Schedules and estimates are to be signed by the advertiser and returned to the agency as authorization to the agency to incur such liabilities on behalf of the advertiser

2 *Contracts and Orders*

All contracts and orders will be placed in accordance with advertiser's approval. Cancellations or revisions requested by advertiser will be subject to the terms and conditions of contracts and orders originally placed or signed. Accordingly cancellations or revisions as are obtainable on the day instructions therefore are received from the advertiser will be allowed

3 *Agency Commission*

The agency is to receive commission on all charges unless otherwise specified. This commission is to be 15% on the gross amount billed to the advertiser (or its equivalent—17.65% added to the net amount of the agency's cost). Wherever this agency commission is not allowed to the agency by the publisher, radio station, outdoor plant or other source or wherever the commission allowed is lower than this regular agency commission, there will be included in the charge to the advertiser either the full regular agency commission or the difference between the full regular agency commission and the amount allowed, whichever the case may be.

4 *Billing Rates*

A. Media Charges

1. All charges for advertising will be billed to the advertiser at the regular rates as published, unless less than 15% commission is allowed to the agency. If less than 15% commission is allowed to the agency the advertiser will be billed for the difference between what is allowed and the regular 15% commission.

B. Charges for Other Items

1. Radio Talent. All radio talent will be billed to advertisers at the agency cost plus the regular agency commission.
2. Art Work and Mechanical Items. All art work and mechanical costs relating to regular media advertising, which includes comprehensive layouts, photostats, engravings, electrotypes, stereotypes, matrices, typography and other mechanics will be billed at agency cost plus the regular agency commission. Art work and layouts prepared in the agency's art department will be billed without commission.
3. Other Services. Services rendered other than those specified above such as booklets, catalogs, etc. may be subject to a service charge to be fixed by mutual agreement in advance. Such services whether service charge be added or not, will be billed with regular agency commission added to art and mechanical costs.
4. Research. Special investigations will be made by the agency whenever requested and authorized by the advertiser, at which time the fee will be arranged.

5 *Cash Discounts*

Cash discounts received from publishers will be allowed to the advertiser provided payment is received by the agency on or before the date specified on the invoice

6 *Billing and Due Dates*

1. Newspapers. Invoices are rendered by the agency on the last day of each month covering the space ordered for advertisements which appeared during the month. Payments are net ten days. On or before the end of the month following insertion the agency will send the advertiser an adjustment invoice accounting for the difference between the lines ordered for the previous month and the actual lineage which appeared in the papers.
2. Magazines. Payments for all magazine advertising is to reach agency before the publication's closing date. (As published in Standard Rate and Data Rate Book.) This includes all monthly publications, weeklies, semi-monthlies, quarterlies, national magazines, sectional magazines, class magazines and trade papers.
3. Radio Advertising. Payments to be made weekly in advance for both time and talent for broadcasts.
4. Outdoor Advertising. The agency will invoice the first day of the month of service. Payments are due on or before ten days from date of invoice.
5. Art Work and Mechanical Items. All charges for art work and production will be billed by the agency upon receipt of bills from suppliers.
6. Service Fees. Service fees will be billed the first day of each month in advance unless otherwise specifically agreed upon.
7. Miscellaneous Charges. Traveling costs, telegrams, express, freight, postage, tax, and similar needed expenditures clearly in the interests of advertiser are charged to advertiser at cost, and will be invoiced as incurred, all invoices payable within ten days.

7 *Quantity Rates*

When the agency contracts for the advertiser for a certain amount of space in order to secure lower rates for the advertiser and the advertiser does not use that amount of space, the advertiser incurs an increased cost for the space that was used. This is termed a short rate. In such cases the agency charges the advertiser for the difference between the earned rate and the contracted rate. If an advertiser used more space than contracted for and thereby earns a lower rate, agency rebates the difference between the contracted rate and the earned rate

8 *Checking Copies*

Publications containing advertiser's advertisements are retained in agency files sixty days after publication date for advertiser's inspection at agency office. On request agency will furnish checking copies of any and all insertions or affidavits thereof

9 *Termination*

Termination of this agreement shall not become effective until sixty days after the receipt of written notice of termination from either party to the other. The advertiser agrees to pay for all authorized work in process, at cost plus the regular agency commission. And the advertiser must assume the agency's liability under all outstanding contracts made in the advertiser's behalf

ADVERTISER

Signature _____ Title _____

Date _____

Signature _____ Title _____

Date _____

FIG. 6. Agency Terms and Conditions.

add 17.65 per cent, but many of the general agencies add 15 percent to the cost of advertising materials.

This practice of adding a fifteen percent commission to the cost of advertising materials nets the agency only thirteen percent. Actual cost studies show that production departments cannot operate on a thirteen percent margin. Perhaps ten or fifteen years ago there was a sufficient margin of profit from space commissions to make up for a loss incurred in handling the advertising materials. This is not the case today. With the advertiser clamoring for more and more service, and the increasing cost of experienced personnel, the agency is facing the difficult job of making both ends meet. There is considerable current opinion that production departments must meet expenses. This has caused many agencies to add 17.65 percent to the cost of advertising materials purchased.

AGENCY TERMS AND CONDITIONS

Many agencies carefully define the services that they offer for the fees that they charge. The functions performed, fees charged and other conditions are often incorporated by agencies into a booklet or other outline carrying a title such as "Standard Terms and Conditions." A sample of one such document is shown in Figure 6.

In the final analysis, what an agency has to sell is the accumulated experience of its personnel. The fees it receives from clients must be based on the amount and cost of services performed for them. In other professions, the services are first performed and then the fee is fixed based on the amount and cost of such service. In the agency, because of the "commission system," the fee is fixed first, after which the amount and quality of service must be determined. If the cost of the service exceeds the commission income, either the cost of the service must be reduced or an extra fee charged.

In the early days of the agency business, few services were performed and then the profit margin was large. But as each year passed, clients demanded additional services. Now an

agency must analyze its business in order to determine the cost of performing the tailor-made service on each account. It must be in a position to tell the client what services can be performed for the commissions received and what must be compensated for by an extra charge.

10. Credits and Collections

ADVERTISING agencies commit themselves to purchase advertising space, radio time and advertising materials that are to be used exclusively in connection with client's advertising. Regardless of whether the client discharges its debt to the agency, the agency, ethically and legally, is responsible for its commitments. An agency cannot hide behind a client's skirts.

CREDIT ANGLES

Magazine space is purchased many months in advance of publication. Magazines, trade papers and farm papers go to press weeks and months prior to distribution dates. Each publication fixes the date on which the agency's liability is fixed and non-cancellable.

Radio time is generally purchased in multiples of thirteen weeks of broadcasting. Non-cancellable contracts are entered into between the agency and the radio station or network. Expensive talent purchased for radio shows is contracted for long periods of time.

Contracts for outdoor advertising are often non-cancellable and cover periods of time up to a year.

Newspaper advertising space cannot be billed until the last day of the month of advertising, at which time the agency is obligated to pay the newspapers for the advertising space used during the entire month. In addition, the advertising to run for the next few days probably could not be cancelled prior to the publication date. Art work and advertising materials are purchased and paid for in many cases weeks or months prior to the time the items are invoiced to the advertiser.

The agency, many times, is irrevocably committed to media and to suppliers of advertising materials for the payment of sums which will aggregate from one sixth to one third of the client's annual advertising appropriation. In other words, the credit extended to a client by an agency will equal from two to four months' billings. Manufacturers and distributors of cosmetics, pharmaceuticals, cigarettes and similar items frequently spend a large proportion of their total sales volume for advertising and it is possible for the agency's commitments in such cases to equal as much as the total capital of the client.

To approach the matter of credits from another angle, let us consider the credit risk in proportion to the profit received from handling an account; for after all, business risks to be sound must be in proportion to the possible gain. Advertising agencies these days do well to net from one and one-half to three percent of their total sales volume. From this, it will be seen that the agency's profit from handling the account of a client spending $100,000 would average between $1,500 and $3,000 a year. When it is realized that the agency risks as much as $30,000 or $40,000 to secure a net profit of perhaps $2,000, it will be seen that little further financial risk can be prudently accepted.

The usual credit terms of an agency provide that the client must pay the agency a few days prior to the date on which the agency must pay the media. For all non-media items, usual terms provide for payment ten days from the date of the agency's invoice. Unless the financial position and integrity of the advertiser are beyond question, these usual terms cannot be granted because the possible gain just isn't worth the risk.

Of course, one of the first considerations in connection with the solicitation or handling of agency business is the question of the credit of the prospect or client. To determine the volume of credit to be allowed to a client, it is necessary to study each case individually. Unfortunately, there are no hard and fast rules that can be applied in order to measure a credit risk.

CREDIT GUIDEPOSTS

A few generalities may be stated, however, to serve as guideposts in this difficult matter of investigating the credit of prospects and clients for the purpose of determining whether a credit risk should be accepted:

1. The client or prospect should have a credit rating which justifies the extension of the credit sought. For this rating, one refers to the commercial rating companies such as Dun & Bradstreet.*

2. The prospect or client should willingly give factual information upon which credit is to be based.

3. The client or prospect should have an undisputed record in connection with meeting its obligations and discounting its bills.

4. The agency should be convinced that the advertising campaign is in line with the advertiser's ability to produce and finance. The amount of credit extended by the agency (the amount of the agency's maximum commitment at any one time, plus the amount currently due for bills rendered) represents the credit risk. This should not exceed the largest line of credit granted to the client by other creditors. The advertiser's financial statement should clearly indicate his ability to pay advertising bills. That is, cash on hand at any one time should be sufficient to pay the agency's invoices.

5. When the agency has any question concerning the credit risk, it might be advisable for the agency first to determine the largest amount for which it is liable at any one time on account of purchases made for the advertiser. If a bank would not be willing to make an unsecured loan to the advertiser for this amount, it could be assumed that the credit risk is a bad one. The best rule for granting credit in the agency business is: If there is a question, the risk isn't worth taking.

* See Appendix, page 320

HOW TO REDUCE CREDIT RISKS

There are many ways of reducing an agency's credit risks. Some methods used to accomplish this are:

1. *Billing.* Changing the agency's terms so as to bill for all media in time to secure payment prior to the date on which the agency is finally committed to the purchase of the space. In the case of national magazine advertising, this would require that the advertiser pay the agency before the magazine's cancellation date. If the advertiser fails to make payment on such date, the agency could still cancel the advertising. In connection with newspaper advertising, this would require that the advertiser pay for each month's advertising on the first day of the month. The amount to be paid would be based on the space ordered for the coming thirty-day period. It is more difficult for the agency to protect itself from credit loss in connection with radio time and talent. This would require an advance payment from the client. The same applies to outdoor advertising and advertising materials.

2. *Guarantee.* Another method used for minimizing credit risks is for the agency to secure a guarantee where the client has a financial sponsor or parent company whose credit is unquestionable. Occasionally, the media may be willing to accept a credit risk where the agency would not do so. In such cases, it is possible to arrange for the client to be responsible to the media, thereby relieving the agency of this liability.

3. *Insurance.* Certain insurance companies have developed credit insurance policies to protect agencies from financial loss. For a description and discussion of advertising agency credit insurance, see Appendix, page 304.

Credit insurance should be considered only as an additional safeguard, as a guide to the agency in connection with accepting credit risks and as an aid in the collection of accounts. A credit risk should not be accepted simply because the agency carries credit insurance to cover the risk. On the other hand, no agency can afford to accept a credit risk that a credit insur-

ance company would not insure. The fact that a credit insurance company is willing to accept a credit risk may be taken as a favorable factor. It must be remembered that even with credit insurance, the agency could suffer substantial financial loss as the result of failure to collect from the advertiser. (See coinsurance, normal loss, collection charge and coverage features described in Appendix, page 304.

COLLECTIONS

Usual billing terms provide for payment within ten days from the date of the agency's invoice. Cash discounts allowed by media are passed on to the advertiser as an inducement for prompt payment. Agencies do not allow the same rate of cash discount as is allowed to them by the media. They pass along or allow the same amount of cash discount as they receive. This means that where a publication allows a two percent cash discount to the agency, the two percent applies to the agency's cost which is eighty-five percent of the amount charged to the advertiser (on the fifteen percent media). On an item billed to a client for $100, the cash discount would be two percent of $85 or $1.70. This cash discount of $1.70 is allowed the client if the agency's bill is paid within ten days.

Not all advertising media allow cash discounts. There is never any cash discount allowed on radio talent and seldom on art work or advertising materials. Nevertheless, these items are payable ten days from the date of the agency's invoice.

No agency can afford to do business with a client who does not pay his bills on time. Consider for a moment that the average agency's capital is not more than one tenth of its annual sales volume. From this capital, the agency must provide for fixtures and equipment, for the payment of salaries, services and overhead items and for materials purchased in connection with client's advertising campaigns. When an agency bills advertising materials only upon the completion of a production job, substantial funds may be tied up in unbilled advertising materials.

SECURING PROMPT PAYMENT

No agency can afford to finance a client. It is a cardinal principle in the agency business that clients must pay their bills on time. Perhaps the reader will begin to wonder why such extreme caution in connection with credits and collections is urged. It is because the advertising agency is virtually the only professional business that becomes financially liable for huge commitments from which only the client can benefit.

The agency that transacts an annual volume of a million dollars actually should be compared to the architect, accountant or lawyer who does an annual volume of $150,000. In one situation in which a small agency was serving a very large manufacturer, the agency's bill covering one month's advertising amounted to nearly $100,000. The funds were not received on the due date. The contact man urged that the advertiser not be contacted since its financial reputation was above question. The bill was two days past due, and the agency was dealing with an out-of-town client. A telegram was promptly dispatched, requesting immediate payment of the outstanding account. The telegram brought a telephone response and the invoice was paid, but it was discovered that the client was holding up the bill because of one or two small items that he could not check. Not only did the procedure result in the prompt payment of the invoice, but it straightened out the client's auditing procedure and cleared the way for the prompt payment of all future invoices.

No responsible client will object when the agency calls its attention to a past-due item. Good business dictates the prompt payment of obligations and good businessmen like to keep their record clean. They appreciate it when a creditor calls their attention to an oversight or faulty procedure that holds up payment.

Because agency invoices involve substantial sums, it becomes necessary to follow collections closely. Some systematic method for doing this should be used. One method is to have a three-

by-five card prepared from each invoice sent to a client. These cards show the name of the client, the due date and amount of the invoice. They are filed in a simple box file in due-date order. As clients' checks are received, the cards representing the invoices which are covered by the remittance are taken from the file and destroyed. The remaining cards represent unpaid invoices. The treasurer or other executive of the agency needs only to refer to this file to determine what invoices are outstanding or past due.

Agency's terms should provide that where one item on an invoice is questioned, the amount of that item should be deducted by the client and the balance of the invoice paid promptly.

The responsibility of following collections should be delegated, without reservation, to one individual in each agency. Where that individual is not given sufficient authority to take the steps outlined in a collection policy, past-due accounts should be reported to whomever in the agency has the necessary authority.

In the event of a substantial delay without good cause, where payment cannot be secured by the agency even after communicating with the client, the agency is justified in cancelling future advertising space. When this is necessary, the agency should notify the client of its intention. After such notification, the agency should have no hesitation in going through with the cancellations.

Usually, magazines and other advertising media will protect the agency in that they will refuse to accept advertising from an advertiser who has not paid past-due bills. But to secure such protection, it is necessary for the agency to report such past-due payments. In such a case, if the advertiser attempts to place advertising space through another agency, it could be difficult for him to do so without paying his past-due obligations.

11. Budgets

THE function of a budget or forecast is to present management with the estimated results from future operations. To be useful to management on a policy-making level, it is necessary for the budget to present factual information from which operating policies can be determined. No budget, operating statement or balance sheet is of value unless it can be used by management for the good of the business.

GENERAL CONSIDERATIONS

An agency, to serve well, can afford to deliver only the service that each client pays for. In actual practice, many agency services are performed for the commission received from the sale of advertising space and materials. Agencies which have no method by which to determine the cost of serving each account are likely to "rob Peter to pay Paul." In such cases, the policy-making executives see only an operating statement which indicates that the agency made or lost money. Such operating statements do not show what it has cost to serve each account or what the income from each account has been.

A budget which simply forecasts the total revenue by classes and the total costs and expenses by type is of little use in advertising agency management. Such a budget could be compared with the budget of a manufacturing concern that does not segregate the income from various products or the costs applying to the manufacture and sale of each product. There are those who suggest that the advertising agency budget be segregated so as to show departmental costs; however, departmental costs are of little importance compared with the cost of serving each client. In some businesses, the steps in the manufacturing processes

can be segregated within the departments of the manufacturer's plant. Departmental costs become of value in such cases. In the advertising agency business, there is no standard for grouping costs within departments.

For example, the copy cost could be large on one account; on another, the art cost could exceed copy cost; and on a third, contact cost could easily be the largest element. There is no scientific method for allocating gross revenue to the various departments within the agency, but it is relatively simple to determine each element of cost entering into serving one particular client.

It is impossible to prepare accurate budgets without first having established a cost-accounting system. No forecast of future operations can be accurately drawn without a knowledge of past operations in connection with similar types of transactions. Budgeting and cost accounting, therefore, are inseparable partners and must be used together.

A properly established cost-accounting system will furnish periodic statements showing separately the results of the agency's operations with each client. Such cost-accounting statements will show each of the sources of income, including, for example, commission received from newspaper space, magazine and trade-paper space, outdoor advertising, radio time, radio talent, advertising materials, service fees and miscellaneous items. The statement will show the various costs incurred in serving each client.

These costs are broadly divided into direct and indirect costs. Included among the direct expenses are creative and other direct salaries. These salaries include the cost of the time devoted to the account by creative people and others who spend time directly on clients' accounts, performing such services as contacting, planning, copy preparation, art direction, research, media selection and buying, production and publicity.

Other direct expenses comprise those expenses that are incurred directly in connection with serving a particular client's account. They include such items as traveling, research, enter-

taining and advertising materials purchased to serve a particular client which cannot be billed to the client. In this last category might appear such an item as resetting type because of an error made by the agency.

Included among the indirect expenses are indirect salaries. These include salaries paid to agency employees who do not work directly on any one account. Work performed in the following categories is generally included in this classification: stenography, typing, ordering, billing, accounting and administrative work. Other indirect expenses include all of the expenses of the agency that are incurred in its general operation, but which are not specifically incurred in connection with servicing particular clients. This classification includes such items as rent, light, local telephone, general travel, general entertaining, dues and subscriptions, stationery and supplies and the like.

The proper cost-accounting system will enable the agency to segregate its costs and expenses by clients and to segregate the costs and expenses on each account in accordance with the preceding formula. Because the advertising agency business lends itself particularly well to cost accounting, costs and expenses can be segregated properly with a minimum of effort, provided that the accounting and cost-accounting system is designed with this in mind.

The form of the cost-accounting statements, to be of greatest use, must be in exactly the same form as the budget. There is no one ideal form. The type of statement to be used will depend somewhat on the requirements of the people who are going to work with the statements. The statements should be in such form that management can clearly understand the figures. The budget and the cost-accounting statements are intended to accomplish two principal objectives:

1. To show management how its policies are expected to work out.
2. To indicate to management how well the organization is carrying out its policies.

In other words, the budget is intended to show what will happen if the organization does what management directs, and the cost-accounting statement is intended to show whether the organization was able to do these things.

No agency should attempt to prepare a budget or forecast until it has first established an adequate cost-accounting system. A forecast is not simply a schedule showing what business an agency can expect to do in the future; rather, it is a detailed report showing not only what business the agency is expected to do for a period of time, but showing as well the cost of transacting that business.

The means for preparing an agency budget are well established. Following is an analysis of them.

FORECASTING MEDIA COSTS AND COMMISSIONS

It is not difficult to forecast the advertising space and materials that will be used during the budget period if each individual client is considered separately. Advertisers must determine their advertising expenditures for a period well in advance so that the agency can plan and develop the advertising and reserve the advertising space.

After a client's appropriations have been established, it is customary for agencies to plan the advertising campaign and then to allocate the advertising expenditure by determining the amount to be spent for each advertisement in each publication. These break-downs of advertisers' expenditures frequently take the form of schedules or estimates. Schedules or estimates may be formal documents submitted by the agency to the advertiser for his approval and signature.

Where estimates or schedules are used, it is obvious that these should be used in establishing the forecast of the client's billing. Frequently, there are no schedules or estimates that can be used for establishing billing forecasts. Even where the formal estimate or schedule system is used, clients may have the habit of frequently revising schedules, or they may sign schedules cov-

ering only certain parts of the advertising campaign, leaving other items open for future consideration.

It is not infrequent for advertisers to change plans without much advance notice. The agency, the client, or both may unexpectedly consider the purchase of a radio show; or they may decide to market a new product; or they may alter advertising expenditures, depending on seasonable factors, competition, etc. The agency executive who is in contact with his client will always have a reasonably accurate knowledge of the client's advertising plans for the coming few months, at least.

The first step in budgeting sales is to prepare a separate schedule for each client, showing in detail the advertising space and materials which that client is expected to use for the budget period. This schedule should list the name of each advertising medium, the date of each advertisement and the billing price and cost of each advertisement. The schedule should contain an estimate of the advertising materials required in connection with each advertisement and a list of special services to be rendered that are to be billed to the client, including the estimated price and cost of each item. The schedule should be prepared to show the total billing and cost figures for each month in the period.

In listing each item on the schedule, a notation should be made to indicate whether the item was scheduled on the basis of a signed estimate, on the basis of a contract already issued to the medium or on other information. These schedules are usually prepared by contact men who refer to media recommendations, estimates and other data.

Properly completed billing schedules for each client will show the expected billings and costs by months and classification of media. In the larger agency, these individual client billing and cost schedules are reviewed by the administrative department. The accuracy of a billing forecast depends on who gathers the material and on the source of the figures. Obviously, such figures as are based on signed estimates or completed contracts with media are reasonably accurate, subject only to cancella-

tions caused by unexpected events. Those items which are estimated on the basis of a contact man's guess cannot be so accurate. The degree of accuracy in such instances depends on the estimator.

To check the accuracy of the billing forecast, the agency administrative executive must familiarize himself with facts. This can often be done by an examination of past activities on each account and by conferences with contact men and heads of space and production departments. Billing estimates should be in such form as to permit revisions. Additional copies of estimates should be held for such purposes. Since budgets are usually prepared for periods upwards of a month or two, it is necessary to revise these estimates as clients change their advertising plans.

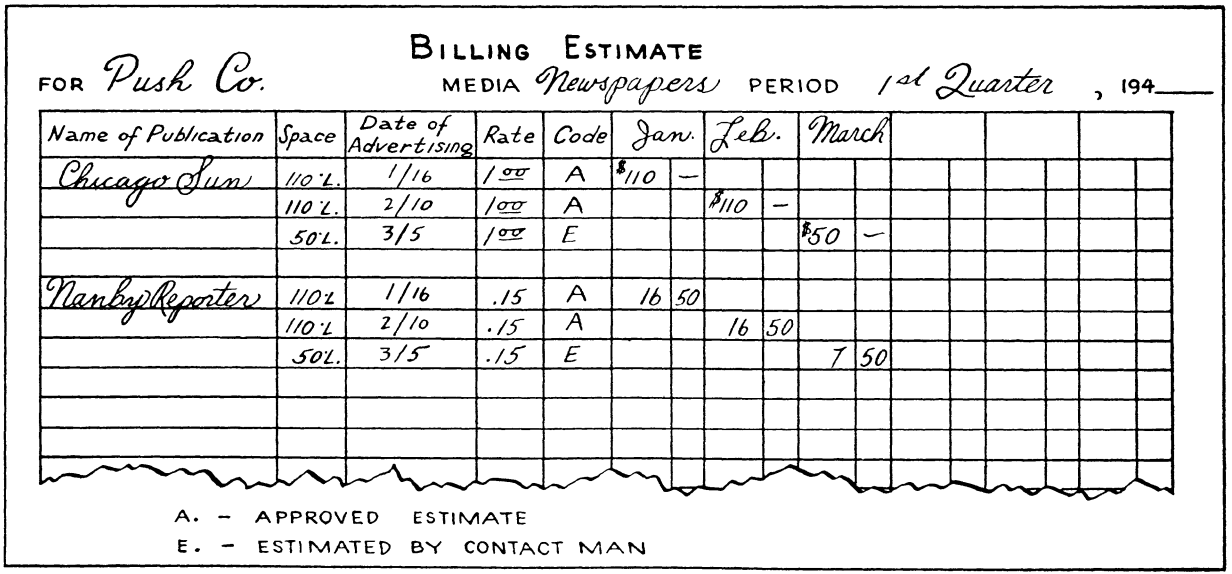
See Figure 7 for suggested billing estimate forms.

FORECASTING DIRECT-SALARY COSTS

Direct-salary costs designate costs for the time devoted to clients' accounts by people who work directly on them. Often many people work on one client's advertising account. The number working on one account depends on the size and type of the account and the manner in which the agency is operated.

It is common in large agencies to have a departmental organization which includes the following departments: contact men, copy, media selection and buying, art, production, research, radio, accounting, billing, checking and administrative. Some of the larger agencies have found that the departmental set-up in itself does not provide the necessary concentration of individual effort on individual accounts. They have further subdivided their activities by what is often called the "group system," so that a certain group of people in each department works on one account, or on a series of accounts.

Even where the group system is not well defined, agencies have found it necessary to assign the various elements of work on one account to individuals within departments. Where an agency has had past experience in handling an advertiser's account, the individuals working on that account have formed a



BILLING ESTIMATE

FOR Push Co. MEDIA Newspapers PERIOD 1st Quarter , 194____

Name of Publication	Space	Date of Advertising	Rate	Code	Jan.		Feb.		March							
Chicago Sun	110 L.	1/16	1 00	A	$110	—										
	110 L.	2/10	1 00	A			$110	—								
	50 L.	3/5	1 00	E					$50	—						
Nanby Reporter	110 L	1/16	.15	A	16	50										
	110 L	2/10	.15	A			16	50								
	50 L.	3/5	.15	E					7	50						

A. – APPROVED ESTIMATE

E. – ESTIMATED BY CONTACT MAN

FIG. 7. Billing Estimate.

rather accurate idea of what service the account requires and how much time it will take them to perform that service.

Where an agency has operated a cost-accounting system, the cost-accounting records will indicate who has devoted time to each account and the amount of time that has been required of each individual. Some agencies have gone further than just to record the amount of time required by each employee to serve a particular account. First, they have evaluated advertisements so as to put them into several classes; then, they have rated each class of advertisement. For example, they decide that a four-color full-page advertisement of a certain type falls into Class 1, which requires the greatest amount of time to develop; then other types of advertisements they rate as Class 2, Class 3, Class 4, etc., with the rating depending on the skill required and time involved to develop the advertising. The same types of classifications have been established by some agencies for radio programs and outdoor displays. While this is an organized method for estimating the time required to prepare an advertisement, it is usually unnecessary to go into such detail to prepare an estimate of the direct cost of serving a client's account.

To prepare the estimate of the direct-salary cost involved in servicing each client's account, the first step is the preparation of a separate schedule for each client. The name of each employee who works on the account is listed. Each employee is then requested to furnish an estimate of the amount of time that he will spend on the account for each month in the budget period. At the time of requesting this information, it may be helpful to give each employee a statement showing the time he devoted to each particular account during a similar prior period. In addition, it may be helpful to furnish each such employee with a schedule showing the advertising space to be used for the client during the budget period. In large agencies where the departmental or departmental and group system is used, each employee's time estimates should be submitted to the group head and to the department head for review.

NAME John Roe — TIME ESTIMATE — FROM Jan 1 TO March 31 19

ACCOUNT	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE		TOTALS	
	Hrs.	Amt.	Hrs.	Amt.	Hrs.	Amt.	Hrs.	Amt.	Hrs.	Amt	Hrs.	Amt.	Hrs.	Amt.
N. Fields and Co.	12	120 00	10	100 00	5	54 50							27	274 50
No Name Radio	40	400 00	20	20 00	30	327 00							90	927 00
Branch Ranch	40	400 00	60	600 00	10	109 00							110	1109 00
Dogs Inc.	8	80 00	10	100 00	50	546 00							68	726 00
Lemon Liver	20	200 00	20	200 00	15	163 50							55	563 50
General														
TOTAL	120	1200 00	120	1200 00	110	1200 00							350	3600 00

Cost Clerk's note
Salary 1200 00 per mo
Hourly rate
Jan. — 10 00
Feb — 10 90
Mar. — 10 90

FIG. 8. Time Estimate.

A simple device for obtaining time estimates is to furnish each employee with a time sheet similar to the one shown as Figure 8. On this time sheet the names of the various accounts handled are listed on the left-hand margin of the sheet from top to bottom. The months in the budget period are represented by columns running vertically and covering the space from the left- to the right-hand side of the sheet. The individual employee notes the amount of time he estimates will be required of him during each month in the budget period opposite each account he is to work on. By adding each column, the total time to be devoted by the individual employee for each month is secured. Sometimes, in order to assist the employee, a second time sheet exactly like the one described is furnished; but, in this case, the cost-accounting department has inserted figures to indicate the time devoted by the individual to each account during the prior year. This second time sheet showing the actual time devoted to the accounts by the employee for the prior year is used as a guide to estimate the time required during the budget period.

When individual employees have made their estimates showing the time required of them in connection with each account for the budget period, these estimates, like billing estimates, are reviewed by an agency administrative executive. Such a review may require conferences with individual employees, department heads and contact men. When the time estimates have been reviewed, the estimated time must be converted into dollars of cost. The best procedure for converting time estimates to cost estimates involves the accumulation first of the time estimates for each employee. After the time estimates have been refined so far as possible, the number of working hours accounted for is divided into the compensation of the employee. This produces an hourly rate. For example, if the budget period is one month, and an individual employee receives one thousand dollars compensation, and the total hours he has estimated he will spend on all accounts for the period is one hundred, then obviously his rate is ten dollars per hour. Having estab-

lished the hourly rate for each employee, the time estimates are converted to cost estimates. In making this conversion, no allowance is to be made for lost or idle time. By the method described, each account is charged proportionately for each employee's idle time.

FORECASTING DIRECT EXPENSES

Direct expenses consist of those items of expense that are incurred specifically through handling a client's account. Past experience is usually a valuable guide in determining what direct expenses may be incurred in the future. The proper cost-accounting system will provide management with the amount of the direct expenses that have been incurred in serving each account during prior periods. It will also give the nature and detail of each item. An examination of these items will serve management well and, as stated, will be of great assistance in forecasting future costs.

In larger agencies where contact men are more or less responsible for incurring expenditures for such items as traveling and entertaining, these men should be held responsible for budgeting anticipated direct expenses and for keeping actual costs in line with the budgets. Adhering to this principle, to secure forecasts of such direct expenses it is advisable to take contact men into consideration.

To estimate these expenses for the budget period in a small agency, where one of the principals contacts each account, it is necessary only to examine past direct expenses and to speculate on what items of expense may be recurring. Such things as client sales conventions, new types of advertising campaigns and the distance of the client's office from the agency's place of business must be taken into consideration.

Agencies operate differently: Some follow a policy of liberal entertaining and traveling; others restrict these expenses. Much, of course, is dependent on the type of account and the type of agency. In the larger agency, to secure accurate estimates, it is

best to apprise the contact man on each account of figures and details of direct expenses for past periods. With the past experience as a guide, and the contact man's knowledge of present and future operations, he should be able to furnish management with a reliable estimate of future costs. These estimates, like billing and time estimates, are to be reviewed by an administrative executive and then incorporated in the budget. No specific form need be used to secure the figures from the various contact men.

FORECASTING INDIRECT SALARIES AND EXPENSES

Indirect expenses include (a) salaries of people who do not work directly on clients' advertising and (b) all other expenses except those that are incurred specifically because of handling one or more clients' accounts. Both indirect salaries and other indirect expenses are sometimes referred to as overhead expenses.

It is necessary to do some research work within the agency to determine what part of indirect expenses should be allocated to each client's account. The first step in making the allocation of indirect expenses is to prepare a schedule to determine the total cost within each classification of work, such as bookkeeping department billing clerks, stenographers, file clerks, production department employees, etc. After the total salary costs in each classification have been determined, it is necessary to find a way to allocate these costs to the several clients served.

No one method of doing this may be applied to all classifications. For example, it may be practical to allocate billing clerks' time on the basis of the number of items billed. It may be possible to allocate production department employees' time on the basis of the number of items purchased. Each classification requires a separate investigation. The following are some of the methods that have been successfully used to determine how much indirect-expense cost should be allocated to each client:

1. *Income Method.* When allocating according to the income method, the ratio of income from each client to total income of

the agency is established, and then the allocation is made by using the established ratio.

Example: If the commission and fee income of the agency is $100,000 and the income received from one particular client is $5,000, then the ratio of the income from the one client to total income of the agency is five percent. When this method is used, five percent of the item to be allocated is charged to the particular account.

2. *Direct-Salary Method.* Costs and expenses are allocated on the basis of the direct time devoted to accounts, on the theory that indirect salaries and indirect expenses pertaining to an account are proportionate to the direct time devoted to the account. To allocate on this method, it is first necessary to determine the total direct time charged to all accounts. Next, the direct time applicable to each separate account is determined. Then the percentage of the total direct time that was used on each account is calculated. This percentage when established is used for allocating expenses.

Example: Total direct time charged to all accounts, one thousand hours; time devoted to Account A, one hundred hours; the ratio is ten percent. Then ten percent of the item to be allocated is charged Client A.

3. *Insertion-Order Basis.* Certain indirect salaries and indirect expenses in an advertising agency may be allocated on the basis of the number of insertion orders issued to magazines, newspapers, trade papers, etc. This method is used in connection with those classifications of indirect salaries and indirect expenses where the work performed or the expense incurred results from the issuance of orders. This would be true in the checking department, the forwarding department (departments in which orders are issued and released), space-billing department, etc.

To make an allocation under this method, first the total number of insertion orders issued by the agency is established. Next, the number of insertion orders issued on account of each client is established. The percentage of orders issued for each client

to total orders issued by the agency is established. An allocation is made on this basis.

Example: One thousand insertion orders issued; five hundred orders issued in connection with Client A. The allocation is made on the basis of fifty percent to Client A.

4. Purchase-Order Method. Certain work performed in agencies results from the issuance of purchase orders, particularly those issued in connection with the purchase of advertising materials. Indirect employees whose time could be allocated on the basis of the purchases of advertising materials might include those working in the production department and might also include those employees whose work consists of billing and accounting for advertising materials. This type of allocation is made in the same way that the insertion-order allocation is made, but the number of purchase orders is used in place of the number of insertion orders.

5. Contract Basis. A few indirect employees and some indirect expenses may be allocated on the basis of contracts issued to radio stations, magazines, newspapers, etc. The type of employee whose time could be allocated on this basis would include employees in the media-selection and media-buying departments. It would also include the time of clerks who devote their time to the preparation of space contracts. The allocation is made in the same manner that the insertion-order allocation is made except, of course, the number of contracts issued is used in place of the number of insertion orders.

These are some of the methods that have been successfully used to allocate indirect salaries and indirect expenses. Other methods may be found for allocating particular types of salaries and expense items. It is important to note that no one method of allocation can be applied to all items. A study must be made to determine the basis for allocating each class of item. When the methods to be used have been established, proration should be based on these methods, and the methods used should not be disturbed for a period of at least six months. After this, the allocating methods should be restudied to determine whether they

are still correct or if there is room for refinement or improvement.

A work sheet should be prepared to list each classification of indirect salaries and indirect expenses together with an explanation of how the allocation of the item is to be made to the various client's accounts. This work sheet will serve as a basis for making the allocation from month to month as the budget is revised. When the work sheet is completed, two schedules should be prepared: A schedule listing the indirect-salary classifications and a second schedule listing the other indirect expenses by class.

The schedule of indirect salaries should contain headings for each classification. Under each heading, the name of each employee falling in the classification should be listed together with the employee's salary for the period. Each classification total should then be allocated to the various clients' accounts. A fourteen-column work sheet is suggested. The classification headings and the names of the employees may be listed on the left-hand side of this sheet with each individual's salary listed in a column next to his name. The remainder of the columns may be used for distributing the salaries to the several accounts.

The same type of work sheet may be used as a schedule of other indirect expenses or overhead. In this case, the classifications of expense are listed on the left-hand side of the sheet from top to bottom, the estimated amount of expense is listed in the column directly to the right of the name of the classification of expenses, and the remaining columns from left to right are used for distributing each class of expense to the several clients' accounts.

GROSS PROFIT

The gross profit is the commissions and fees less the direct costs. Gross profit is the most significant figure in the advertising agency budget or cost-accounting statement. It is a true figure. The income received from an account must be sufficient to produce a gross profit that is large enough to allow for the pay-

ment of indirect costs (indirect salaries and overhead expenses) and still leave a reasonable margin of profit.

It is not unusual for an agency upon an analysis of budgets and cost-accounting statements to find that the revenue from one or several accounts is insufficient even to pay for the direct salary costs. When this condition occurs, the gross-profit figure is a negative amount, and this is a clear indication that the account is unprofitable.

The gross-profit margin must be sufficient to provide for indirect costs. It is important to know not only what the gross profit is on each account, but also what the rate of gross profit should be on the average. If the ratio of the total of the two items (indirect expenses and profit) to total commissions and fees earned is determined, this ratio would represent the average rate of gross profit required.

Example:

Total commissions and fees	$100,000.00
Profit requirement	20,000.00
Indirect expenses (salaries and overhead)	25,000.00
Total	$ 45,000.00

Forty-five thousand dollars is forty-five percent of the total commissions ($100,000). Therefore, the average gross-profit requirement in the example cited is forty-five percent. To secure the figures from which to determine the average rate of gross-profit requirement, two schedules should be prepared. One is a schedule of indirect-salary costs and the other a schedule of the other indirect expenses.

The schedule of indirect-salary costs consists of a list of all of the employees who do not keep time reports and who do not work specifically in connection with serving one or several accounts. The schedule consists merely of a list of these employees and their salaries. The total of the schedule represents the total salaries paid to employees who fall under the classification "indirect salaries."

The schedule of other indirect expenses or overhead can be prepared merely by listing the classifications of expense with the estimated expenditure that will be made for such class of expense for the year or budget period. A total taken from this schedule represents the agency's indirect expenses or overhead for the period.

After the two schedules have been prepared, the totals that appear on these schedules may be compared with the total expected commissions and fees of the agency as previously established through the preparation of schedules of billings, media costs and commissions. Thus a ratio is determined.

When the ratio, or percentage, of the indirect costs to income has been determined, such a ratio provides management with a means of measuring the adequacy of the gross-profit figure as shown by the individual client operating forecasts.

Because the accounts served by an agency differ widely, it may be possible that one account which produces a relatively small gross profit could still be a profitable account; whereas another that produces a relatively large gross profit could be unprofitable. This emphasizes the fact that in addition to the gross-profit factor, it is necessary to determine what indirect costs are incurred in connection with handling each account.

Example: An advertiser who uses four-color, full-page advertisements in national magazines presents quite a different problem for the agency from the advertiser who uses small space in hundreds or thousands of weekly newspapers. The magazine account requires the issuance of only a few contracts, a few insertion orders, the preparation of several invoices and the payment of several bills to magazines. Checking the quantity and quality of the space used in the advertisements is a relatively simple task. On the other hand, the mechanics involved in the newspaper account require the completion of a substantial amount of detail work. Where newspaper advertisements appear weekly, it is sometimes necessary to issue separate insertion orders for each advertisement. For an advertiser who uses several hundred daily or weekly newspapers, it is necessary first to

issue several hundred contracts, then as many as four times that number of insertion orders each month. Each advertisement must be checked and measured. Each advertisement must be billed and paid for. Because newspaper advertisements generally appear in less space than that ordered, it is necessary to go into quite some detail in order to bill the client properly.

These two examples are given merely to show that there can be a good deal more indirect cost in handling one account than in handling another. The very terms "direct cost" and "direct salary" indicate that these classifications of cost, as they apply to a particular account, can be determined with accuracy; but "indirect costs" do not lend themselves to so accurate or specific an allocation. It is not an easy matter to determine what part of a stenographer's time is devoted to work in connection with the handling of one account, and it is not simple to determine what part of the rent expense is incurred because the agency serves a particular advertiser.

THE MASTER BUDGET

The procedure for budgeting each item of income, cost and expense has been explained. In discussing billings, media costs, direct salaries and direct expenses, it has been suggested that separate schedules be prepared for each client's account. It is now necessary to consolidate the figures in order to prepare a budget for the agency as a whole. The individual schedules showing the billings and media costs by clients may be consolidated by the preparation of a schedule listing the names of the several clients on the left-hand side of the sheet, the total billings in a column directly to the right of the client's name, the total media costs in the next column and the resulting commissions in the third column. Service fees may be shown in the column to the right of the commissions with the total commission and fee income being developed by adding the sum of the commissions and the service fees for each account.

A master schedule of direct salaries is now prepared by listing the names of all the employees in this classification with their

total salaries. The schedules of direct salaries which were prepared to show the amount of direct salaries applying to each client's account are to be summarized to produce an over-all or master schedule.

The schedules of direct expenses for each individual account are consolidated by listing clients' accounts on the left side of a work sheet and providing a column for each class of expense. The total amount of expense in each class applying to each client is then inserted on the work sheet. This develops the total direct expenses for each client and the total of all the direct expenses for the agency by class of expense. These totals by class of direct expense for the agency as a whole should be compared with the expenses in each classification for a similar prior period. The budget for the agency as a whole is now prepared by reference to the schedules which have been described.

The advertising agency business may be less stable than some other types of business. The addition or loss of one account may have an important effect on the operations. Because the total volume of transactions may be affected by events beyond the control of the agency, it may be impossible to prepare an accurate budget for a period of time in excess of a few months. The first budget should be prepared for a period of one year; this budget should then be subdivided into periods of three months each so that, when completed, there will actually be five budgets —one for the entire year and a separate budget for each three-month period. At the end of the first three-month period, the budgets for the remaining three periods should be reviewed and an additional budget should be prepared for the three months following the year-period of the original budget.

By this method, the agency always has a budget for a period of one full year, because as each three-month budget period has been completed, an additional budget for three months is prepared. A quarterly review of budgets insures reasonably accurate budgeting for the immediate ensuing three-month period. It provides a yearly budget from which management can make decisions with a knowledge of expected operations.

The quarterly review of budgets may seem like a big job, but it is not nearly so difficult as it would first appear. A review of each of the schedules is all that is required. An examination of the direct-salary schedule for each client together with a knowledge of direct-salary costs for the past three-month period, and other information relative to changes in the client's advertising plans, will indicate what corrections are required. An examination of indirect-salary costs and indirect expenses for the past three months will indicate whether these expenses as budgeted are accurate in total, or whether revision is required. The cost-accounting reports for the past three months will indicate whether the allocation of the expenses in the budget is in line with the actual costs.

Part II

Accounting Procedures

Preface to Part II

THE purpose of recording the transactions of a business may be partitioned as follows:

1. To collect and compile facts and statistics which will clearly show the results of management's policies.
2. To compile a historic account of the transactions of the business for the purpose of supplying future information.
3. To record transactions chronologically and systematically for the purpose of billing customers and paying suppliers.

Just as the nature of businesses varies, so do their accounting and bookkeeping requirements. The operations of a grocery store are quite different from those conducted in a law office and one would expect that these differences would make it desirable and perhaps necessary for different bookkeeping methods to be used. While the profession of accounting is relatively new, much has been done to organize, perfect and simplify the methods for recording the transactions of a business.

The advertising agency business is a different kind of business from any other and just as special methods have been developed for properly and efficiently recording the transactions of other specialized businesses, particular and individual accounting methods have been developed for recording the transactions of an advertising agency business.

Before detailed bookkeeping and accounting methods can be adequately developed, it is necessary to determine what end results are sought. In other words, what facts and figures does an advertising executive require to determine the results from the policies the agency has followed? To develop an accounting system for any business, and the agency is no exception, it is

first necessary to lay out the statements that management can best use. Then, working backwards from these statements, it is possible to develop an accounting system through the operation of which the statements will be secured.

One of the most important principles in the financial management of an advertising agency is the fact that all advertising space and materials which the agency purchases are specifically bought in behalf of a client or clients and that each item so purchased should be billed. Vice versa, each item billed to a client must be paid for, having been purchased from a supplier.

In other businesses, this principle is only partly true. Of course, it may be argued that everything that a business buys is for the purpose of manufacturing, distributing or selling articles or service, but in other businesses, the items purchased cannot always be traced directly to their use in the final product as delivered to a customer. Certainly the automobile manufacturer buys steel and paint, but those raw materials are purchased only for the manufacture of products and not necessarily for the manufacture of products sold to a specific customer. Even in the jobbing business, finished products may be purchased but the jobber at the time of the purchase has not always, and in fact usually does not have, the finished goods allocated to specific customers at the time of the purchase.

In the properly managed advertising agency, no advertising space or advertising materials are purchased until they are needed in connection with a specific client's advertising campaign. If a comparison can be made with any other business, it could best be made to the business of the tailor to the trade who takes his customer's measure, selects a style, develops a pattern, decides on a particular cloth and buys the cloth specifically to manufacture the particular garment for the particular customer. Yes, the advertising agency business is a made-to-measure business where each job is an individual job tailored to meet the specific requirements of the customer.

Since the advertising agency must transact $6.67 in business to receive $1.00 in commission, a large number of transactions must be handled in even a moderate-sized agency.*

To record the transactions in the customary Purchase Journals, Accounts Receivable and Accounts Payable Ledgers, following orthodox accounting methods used by manufacturing and jobbing businesses requires an enormous amount of clerical work that is not necessary. The methods that are described here make use of the peculiarities of the advertising business to simplify the recording methods. For example, since every media purchase is made for a specific client, the total cost of the items billed must be paid and nothing except these items should be paid. Therefore, the payments that the agency makes can be controlled by checking them against the cost of the items billed.

It is a principle in agency finance that clients must discount the agency's invoices. For this reason, no detailed Accounts Receivable Ledger need be kept and this cumbersome set of records is therefore eliminated. Still, a means is provided to check the payments received against the amounts due. These principles and others peculiar to the agency business are opportunities for developing methods for control and for simplification, and these have been used wherever possible for that purpose.

When the agency issues an order for advertising space, that space is to be resold to a definite client. For this reason, the order form itself can be used as a basis for the proper billing and paying of the item. Such a procedure could not be used in a manufacturing concern where materials are bought for stock.

One of the duties of the public accountant is to survey the methods of internal control and the system of accounting. If the methods and system are truly adequate, much of the auditing work can be eliminated. The valuable services of the public accountant can then be reserved for the more important work

* Agencies receive commissions at the rate of fifteen percent. Fifteen percent of $6.67 is $1.00.

of interpreting the figures, and for developing and analyzing financial policies and operating methods.

It is not possible here to explain and exhibit every detail in an accounting system, but a complete outline of the methods and principles is given.

1. Cost Accounting

THE agency primarily serves the advertiser by conceiving, developing and placing advertising, but the publisher pays the advertising agency for its work. It is true that the advertising agency is of great benefit to the publication, the radio station and the outdoor plant because, if it were not for the agency, publishers might have the tremendous job of trying to conceive and develop advertising campaigns. It would be difficult to correlate the advertising appearing in the various media.

If there were no advertising agencies, publications would have to collect from thousands of advertisers instead of from hundreds of agencies. Advertisers would have to be educated concerning the various technical requirements of the media. Yes, the advertising agency is of tremendous service to the publisher, and the publisher can well afford to pay for this service, not the least of which is the policing of advertising messages, for the agency has a responsibility for the kind of message it conceives.

The selling price of most services and products is in the final analysis based on the cost of producing them. If an advertising agency is to stay in business, it must make a profit from its operations. To do this, it must measure costs against selling prices. The selling price of the agency's service is represented by the commission received from publications and other media, plus service fees and special charges collected from clients. The cost of the service includes the salaries of agency employees and all other expenses incurred in the operation of the business. The total commissions and fees received by an agency, less the total salaries and expenses paid, produce a figure that represents the profit from operations. To be sure, this one figure (net profit)

is the final result of all of the transactions that have been performed, but the prudent and progressive executive needs more information than this. He wants to know which operations were profitable and which were not, and why. Consequently, it is necessary to find a method of presenting facts so that they will express the result of management's policies and methods.

In a manufacturing business, it is common practice today to keep records that will show the cost of performing each important function in the business. The giant enterprises of the country could never have been built without such factual information from which management could determine the wisdom and profitableness of what they had done. In the agency business, service is rendered to clients and income is received as the result of that service. The way in which one account is served determines the profitableness of that operation. For this reason, it is of prime importance for the agency's management to know the income and costs that result from serving each client.

More than one type of service is performed for a client. In the well-organized advertising agency, budgets are prepared to show the anticipated costs of the agency's operations segregated by clients' accounts handled and types of services performed for each. These budgets express management's policies and enable the agency to plan for an operation that will produce a reasonable profit. The cost-accounting records of an agency should show the result of carrying out the policies and methods expressed in the budget.

It is necessary to segregate the income and costs so that each item can be compared with the budget. Before designing a cost-accounting system or, for that matter, any accounting system, it is necessary to determine exactly what end result is sought—what kind of cost-accounting statements can the management use best? To some extent, this depends on the previous experience of the people in the agency that are going to work with the figures. No one cost-accounting report could serve for all agencies.

The general accounting records described here provide for

OPERATING STATEMENT

CLIENT WHITEHALL SOAP COMPANY

DETAIL	MONTH OF MARCH, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET* UNDER	THREE MONTHS ENDED MARCH 31, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET* UNDER
BILLINGS										
NEWSPAPERS	21,831.00	100.0	20,000.00	100.0	1,831.00	70,289.00	100.0	65,000.00	100.0	4,711.00
MAGAZINES	21,374.00	100.0	18,000.00	100.0	3,374.00	63,853.00	100.0	70,000.00	100.0	7,147.00
RADIO TIME	21,857.00	100.0	8,000.00	100.0	13,857.00	63,957.00	100.0	60,000.00	100.0	3,957.00
RADIO TALENT & PRODUCTION										
OUTDOOR	15,326.00	100.0	15,000.00	100.0	326.00	44,283.00	100.0	45,000.00	100.0	717.00
PRODUCTION	9,874.00	100.0	10,000.00	100.0	126.00	39,954.00	100.0	40,000.00	100.0	254.00
SERVICE FEES										
NON-COMMISSIONABLE	925.00	100.0	500.00	100.0	425.00	2,875.00	100.0	1,000.00	100.0	1,875.00
TOTAL BILLINGS	91,187.00	100.0	87,500.00	100.0	3,687.00	284,211.00	100.0	281,000.00	100.0	3,211.00
COSTS										
NEWSPAPERS	18,569.00	85.0	17,000.00	85.0	1,569.00	59,796.00	85.0	55,250.00	85.0	4,004.00
MAGAZINES	18,168.00	85.0	15,300.00	85.0	2,868.00	54,278.00	85.0	48,503.00	85.0	5,775.00
RADIO TIME	18,578.00	85.0	17,000.00	85.0	1,578.00	54,085.00	85.0	51,000.00	85.0	3,085.00
RADIO TALENT & PRODUCTION										
OUTDOOR	13,289.00	86.7	13,005.00	86.7	284.00	38,390.00	86.7	38,315.00	86.7	622.00
PRODUCTION	8,442.00	85.5	8,500.00	85.0	58.00	25,807.00	85.3	25,500.00	85.0	307.00
NON-COMMISSIONABLE	925.00	100.0	500.00	100.0	425.00	2,875.00	100.0	1,000.00	100.0	1,875.00
TOTAL COSTS	78,003.00	85.6	74,505.00	85.3	3,498.00	234,959.00	85.6	239,768.00	85.3	4,836.00
COMMISSIONS AND FEES										
NEWSPAPERS	3,275.00	15.0	3,750.00	15.0	475.00	10,543.00	15.0	11,250.00	15.0	707.00
MAGAZINES	3,206.00	15.0	2,750.00	15.0	456.00	9,428.00	15.0	10,500.00	15.0	1,072.00
RADIO TIME	3,213.00	14.7	3,000.00	15.0	213.00	9,294.00	14.5	9,000.00	15.0	294.00
RADIO TALENT & PRODUCTION										
OUTDOOR	2,037.00	13.3	1,995.00	13.3	42.00	5,890.00	13.	5,985.00	13.3	95.00
PRODUCTION	1,432.00	14.5	1,500.00	15.0	68.00	4,447.00	14.7	4,500.00	15.0	53.00
SERVICE FEES										
TOTAL COMMISSIONS AND FEES	13,164.00	14.4	12,995.00	14.7	169.00	39,602.00	14.4	42,235.00	14.7	1,593.00
DIRECT EXPENSES										
EXECUTIVE SALARIES	2,064.00	2.3	2,000.00	2.1	64.00	6,700.00	2.4	6,000.00	2.1	700.00
ACCT EXEC SALARIES	952.00	1.0	1,000.00	1.1	48.00	3,000.00	1.4	3,000.00	1.1	900.00
SECRETARIES SALARIES										
COPY SALARIES	2,351.00	2.6	2,000.00	2.1	351.00	7,000.00	2.6	6,000.00	2.1	1,000.00
ART SALARIES										
PRODUCTION SALARIES	1,067.00	1.2	1,000.00	1.1	67.00	3,400.00	1.2	3,000.00	1.1	400.00
MEDIA SALARIES										
RADIO SALARIES										
OTHER DIRECT SALARIES	-	-	200.00	.2	200.00	-	-	600.00	.2	600.00
TRAVEL										
ENTERTAINMENT	1,150.00	1.2	800.00	.8	350.00	2,845.00	1.0	2,500.00	.9	345.00
UNBILLABLE COSTS	609.00	.7	395.00	.4	214.00	1,393.00	.5	1,235.00	.4	138.00
TOTAL DIRECT EXPENSES	8,193.00	9.0	7,395.00	7.8	798.00	25,338.00	8.9	22,335.00	7.9	3,003.00
GROSS PROFIT	6,868.00	7.4	6,700.00	6.9	1,422.00	20,742.00	8.3	24,000.00	8.5	4,736.00
SHARE OF GEN. & ADM. EXPENSE	5,448.00	5.9	5,500.00	5.8	52.00	15,321.00	5.2	14,694.00	5.2	627.00
NET OPERATING PROFIT	1,420.00	1.5	1,200.00	1.1	1,474.00	5,421.00	1.9	9,306.00	3.3	3,885.00

FIG. 9. Individual Client Operating Statement.

the accumulation of all cost-accounting information with the exception of the allocation of salary costs, which are also discussed in this chapter. The sources from which the cost-accounting information is secured are:

1. Each client's sales and costs of sales are secured from the Sales and Cost Journal where a separate page is used for recording each client's transactions.
2. The commissions and fees are secured by subtracting the costs from the billings.
3. Direct expenses:
   a. Salary costs applicable to each client's account are secured from Time Reports.
   b. Other direct expenses applying to each client's account are secured from the Expense Voucher Register.
4. Indirect expenses are allocated to clients' accounts by methods described in this chapter.

THE COST-ACCOUNTING STATEMENTS

The cost-accounting statements illustrated in this chapter are intended as guides. They show the general formats of reports that have been successfully used by modern advertising agencies.

The individual client operating statement shown in Figure 9 is a statement form on which the agency operations with one client are summarized.*

The amount of billings, costs and commissions for each type of advertising medium is shown, and the total of each class of direct expense is recorded. The gross profit from the operations is the difference between the commissions and fees on the one hand, and the direct expense on the other. This is the most significant figure on the statement form and will be discussed further. Next, the statement shows the share of the general and

* A separate sheet is to be used for each client of the agency except where an agency has large numbers of very small clients. In such cases, the operations of several clients are consolidated and shown on one individual client operating statement. The consolidation, of course, must be made on some logical basis so that the result will be meaningful.

administrative expense prorated to the client which, when deducted from the gross profit, produces the net profit resulting from the transactions with the particular client.

The figures shown on the individual client operating statement include the actual figures resulting from the operations and the budget figures. The figures are shown for the current month and for the cumulative period ended on the last day of the current month. This individual client operating statement gives the agency's management a clear and concise picture of what has happened as the result of doing business with each of the agency's clients.

The over-all operating or profit-and-loss statement for the agency as a whole shows what has happened, and the individual client operating statement shows why it has happened.

Since the individual client operating statement summarizes the result of the transactions with each client, it is necessary to support the statement with more detailed figures to show the content of the summarized figures. The media billings and costs are self-explanatory and generally need no further analysis; however, when the actual figures for the period are at considerable variance with the budget or forecast, the detail of the actual figures can be secured by an examination of the Sales and Cost Journal. A separate page in the Sales and Cost Journal records the billings and costs from each client's business. The sheets contain separate columns for each medium so that the total billings or costs for any particular medium can be analyzed quickly by reference to the Sales and Cost Journal.

TIME RECORDS

The direct expenses include two classifications: salaries and expenses. The individual client operating statement shows the total cost of the time of each class of employee (executives, contact men, secretaries, copy, art, production, media selection, radio and other direct salaries). To secure these figures, it is necessary to know how much of each employee's time was devoted to each client's work. No estimate allocating time be-

tween the various accounts served is reliable; and unless reliable figures are developed, the whole purpose of cost accounting vanishes.

It is necessary for each creative employee in an agency to keep reasonably accurate time records, so that an accurate allocation of time costs can be made. It is not practical for every employee of the agency to keep a time record to show how many hours were devoted daily to each client. Some employees perform tasks that cannot be directly attributed to any one client's business. Others devote a few minutes at a time to each of several client's affairs.

A cost-accounting system should not be so burdensome that it consumes substantial amounts of time of valuable employees. For this reason, it is not desirable for an employee who does not devote at least a half-hour at a time to a client's account to keep time records.

Employees who can keep reasonably accurate time records include contact men, research employees, copywriters, radio continuity writers, radio script writers, art directors and artists. Employees who may or may not be able to keep accurate time records without excessive effort include production-department employees, space buyers and checking-department employees.

Time records may be kept either on a daily, weekly or semimonthly basis. The shorter the interval, the more accurate the record is likely to be; for when weekly or semimonthly recording forms are used, the employee is likely to wait until the last day of the period before he fills out the record. The semimonthly form is usually the most convenient for accumulating the hours devoted to each client's account. If a daily or weekly form is used, it is suggested that the daily or weekly time reports be summarized onto a monthly schedule similar in form to the semimonthly time report shown in Figure 10.

This semimonthly time report, it will be noted, contains clients' names from top to bottom along the left-hand margin of the sheet. It provides columns for each day in the semimonthly period. Where this form is used, the names of all the clients

JONES & SMITH

SEMI MONTHLY TIME REPORT

NAME John Kelly MONTH March 19 FROM 3/16/ TO 3/31/

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		TOTAL HOURS	TOTAL HRS 1st HALF	GRND TOTAL HOURS	%	AMT
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31					
Whitehall Soap Co.			3		7		4				3		5	1			18	44	62	38	1164 00
S & S Tobacco Co.																		18	18	11	339 00
XYZ Mfg. Co.																		3	3	1	57 00
Hale & Towne							3				1	3	7	3			17		17	7	228 00
Eclipse Finance			7		5						2	4		1			14		14	8	261 00
Avery & Blood																					
Lawrence Terminal				3		3											6		6	3	111 00
Krause Automatic Valve			1	5		4								1			10		10	6	186 00
Gabler Power Co.																					
Halperin Glass Co.			7							7	1		1	6			15		15	9	285 00
Sykes Refining Co.																					
Baum Beer Co.																		13	13	8	247 00
General Office Time										1		1					2	4	7	4	133 00
TOTALS			8	7	9	7	7			8	7	8	8	10			78	82	160	100	3000 00

FIG. 10. Semimonthly Time Report.

of the agency are mimeographed and the forms are distributed to all agency employees who keep these time records. At the end of each day, the employee records the amount of time devoted to each client's account.

A daily allocation in hours and half-hours is thought to produce sufficiently accurate time records. For the purpose of discussing the recording of agency employees' time and the allocating of this time to the various accounts served, employees are first divided into two classes called direct and indirect. Direct employees consist of those who work directly on clients' accounts. Indirect employees are those whose time only indirectly benefits the agency's clients. People in this latter class include bookkeepers and clerks, stenographers, receptionists, sometimes production employees, space buyers, etc.

Usually the people in the first class keep time records allocating their time to the several accounts served, while the people in the second class usually do not. Direct employees sometimes devote part of their time to administrative work or to other duties that do not directly concern a particular client's business. In reporting the time devoted during the day, two methods are used.

One method is to record only the hours devoted to clients' accounts, making no entry on the time sheet for the time devoted to work of a general or indirect character. When this method is followed, the total time reported by the employee, divided into the employee's compensation, produces a cost rate per hour. The costs applying to each client's account are then computed by multiplying the hourly cost rate by the number of hours reported as having been spent on each client's account.

Since under this method the individuals make no report on administrative or general time, the only time reported is that devoted directly to clients' business. By charging each client on this basis, the cost of unallocated time is automatically absorbed by charges to clients, the absorption being proportionate to the portion of time devoted to each client.

Example: If an employee reports one hundred hours for a monthly period divided as follows:

Client A	40
B	50
C	10

and if the employee's monthly salary is $1,000, the hourly rate would be $10. Client A would be charged with $400, client B with $500 and client C with $100. Since the total of these allocated costs equals the employee's compensation, the time that the employee devoted to administrative or other classifications of work has automatically been allocated to clients in the proration shown.

The other method used is to provide for showing on the time report the time devoted to indirect work. When this is done, the employee indicates the type of work performed and notes the number of hours devoted to each class of work such as administrative, accounting, sales promotion. When an individual's time reports include time devoted to general classifications of work not directly involving clients, the salary costs of the individual are prorated both to each client and to other classifications. The costs in the other classifications are charged to overhead and the overhead expenses are then prorated to the clients' accounts as described later.

Agency employees who have not been in the habit of keeping time records usually are reluctant to do so, feeling that they should not be subject to this menial work or to such detailed scrutiny of their efforts. In this connection, it is interesting to note that physicians, surgeons, dentists, attorneys, architects and accountants keep accurate records of the time devoted and services rendered to each client. Agency employees will find that the keeping of time records is of great help in eliminating waste and inefficiency. Time records are essential to the success of any advertising agency cost-accounting system. To keep these records requires only a few minutes a day on the part of each employee. The high-priced executive sometimes can assign this duty to his

secretary, but in any event, the recording of time should be daily.

SCHEDULE OF DIRECT SALARIES

On the individual client operating statement, the total of each class of direct salaries is shown as it applies to each client's account. Obviously, if the cost of a particular class of direct salaries greatly exceeds the budgeted cost, management will want to know why. For this and other reasons, it is necessary that the total of each salary classification be broken down to show the items making up the total. A separate schedule supporting the individual client operating statement is used for this purpose; it is called "Schedule of Direct Salaries." (See Figure 11.)

This schedule shows the cost of each employee's salary that applies to the particular account. The items are arranged so as to group employees by classes of work. This grouping automatically provides for securing the total cost of each class of direct salaries, which total is shown on the individual client operating statement. The Schedule of Direct Salaries includes both the actual salary costs as they apply to each client, and the budgeted cost.

For this reason, the schedule form provides columns for reporting the current month's costs, the budgeted amount for the current month, the year-to-date actual cost and the budgeted amount for the year to date. The cost figures shown on the Schedule of Direct Salaries are the costs computed on the basis of the time devoted to each account as they are found from an examination of time records.

SCHEDULE OF DIRECT EXPENSES

The individual client operating statement shows the total of each class of direct expenses incurred in handling the client's account. When the actual figures vary in any important degree from the anticipated costs as shown by the budget figures, alert management will want to know the reason for the difference.

SCHEDULE OF DIRECT SALARIES

DETAIL	MONTH OF MARCH, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET*	THREE MONTHS ENDED MARCH 31, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET*
EXECUTIVE SALARIES:										
Jones	5,500.00		5,000.00		* 500.00	15,500.00		15,000.00		* 500.00
Smith	5,000.00		5,000.00			15,500.00		15,000.00		* 500.00
Kelly	3,000.00		3,000.00			9,000.00		9,000.00		-
Thomas	3,000.00		3,000.00			9,000.00		9,000.00		-
Berlin	2,000.00		2,000.00			7,000.00		6,000.00		* 1,000.00
Total Executive Salaries	18,500.00	1.4	18,000.00	1.4	* 500.00	56,000.00	1.5	54,000.00	1.5	* 2,000.00
ACC'T. EXECUTIVE SALARIES:										
Carlson	6,500.00		6,000.00		* 500.00	19,000.00		18,000.00		* 1,000.00
Field	6,000.00		6,000.00			18,000.00		18,000.00		-
Wold	5,500.00		5,000.00		* 500.00	16,000.00		15,000.00		* 1,000.00
Lawrence	5,000.00		5,000.00			15,000.00		15,000.00		
Jackson	5,000.00		5,000.00			15,000.00		15,000.00		
Appleman	2,000.00		4,000.00		2,000.00	10,000.00		12,000.00		2,000.00
Moran	4,000.00		4,000.00			12,000.00		12,000.00		
Total Account Executive Salaries	34,000.00	2.7	35,000.00	2.8	1,000.00	105,000.00	2.8	105,000.00	2.8	-
COPY SALARIES:										
Jenkins	5,500.00		5,000.00		* 500.00	16,000.00		15,000.00		* 1,000.00
MacAllister	5,000.00		5,000.00			15,000.00		15,000.00		
Julian	5,000.00		5,000.00			15,000.00		15,000.00		
Rubens	4,000.00		4,000.00			12,000.00		12,000.00		
Stevens	4,000.00		4,000.00			12,000.00		12,000.00		
Ames	4,000.00		4,000.00			10,000.00		10,000.00		
Others	9,000.00		10,000.00		1,000.00	28,000.00		31,000.00		3,000.00
Total Copy Salaries	36,500.00	2.8	37,000.00	2.9	500.00	108,000.00	2.9	110,000.00	2.9	2,000.00
PRODUCTION SALARIES:										
Williams	4,000.00		4,000.00			12,000.00		12,000.00		
Black	3,500.00		3,000.00		* 500.00	11,000.00		9,000.00		* 2,000.00
Sorenson	3,000.00		3,000.00			8,000.00		8,000.00		
Levy	2,000.00		2,000.00			7,000.00		6,000.00		* 1,000.00
Sanger	2,500.00		2,000.00		* 500.00	5,000.00		5,000.00		
James	1,000.00		1,000.00			3,000.00		3,000.00		
Samuels	-		1,000.00		1,000.00	1,000.00		2,000.00		1,000.00
Total Production Salaries	16,000.00	1.3	16,000.00	1.3	-	47,000.00	1.2	45,000.00	1.3	* 2,000.00
OTHER DIRECT SALARIES:										
O'Malley	4,000.00		4,000.00		-	10,000.00		10,000.00		
Total Other Salaries	4,000.00	.3	4,000.00	.3	-	10,000.00	.3	10,000.00	.3	-

FIG. 11. Schedule of Direct Salaries.

The cost-accounting system that is described here has been developed so that all needed figures can be secured with a minimum of effort.

The agency's expenses are recorded in a voucher register which is described in the chapter "General Books and Chart of Accounts."

The Expense Voucher Register provides for recording expenses in such a manner that those items incurred directly because of one client's account are segregated. A recap of these items provides the detailed information for preparing the schedule of direct expenses. This schedule may include as much detail as management requires. Usually, it is set up in the manner shown in Figure 12, which provides for a heading covering each classification of expense, followed by a listing of the important items of expense incurred during the period, with the total of the expenses in each class. This total agrees with the amount reported for the item on the individual client operating statement. Where a classification of direct expense varies materially from the budget allowance for such items, management will examine the schedule of direct expenses.

Sometimes even the schedule is not in sufficient detail to provide the necessary information; in such cases, the data supporting the Expense Voucher Register of the agency are gathered together and submitted to management so as to show all of the details in connection with the particular item under scrutiny.

ALLOCATION OF INDIRECT EXPENSES

The overhead expenses of an advertising agency include the costs and expenses that do not directly result from the handling of one client's business. These expenses include indirect salaries.

The indirect salaries include administrative, executive, accounting, secretaries, typists, bookkeepers, clerks. They may include production employees, media-department employees and part of the time of contact men or other creative people.

SCHEDULE OF DIRECT EXPENSES

Whitehall Soap Company

DETAIL	MONTH OF March, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET UNDER " (RED)	Three MONTHS ENDED March 31, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET UNDER " (RED)
Travel										
Trips to New York	$1,000.00		$ 600.00		$ 400.00	$2,000.00		$1,700.00		$ 300.00
Cleveland	100.00		100.00		-	200.00		200.00		-
Detroit	52.00		100.00		(48.00)	200.00		100.00		100.00
Entertainment	-0-		-0-		-	345.00		400.00		55.00
Total Travel & Ent.	$1,152.00	1.2	$ 800.00	.8	$ 352.00	$2,745.00	.	$2,400.00	.9	$ 345.00
Unbillable Costs										
Art Work on Cat Meal Soap	$ 109.00		$ 100.00		$ 9.00	$ 373.00		$ 235.00		$ 138.00
Research on "Beauty Buddy Boy"	500.00		295.00		205.00	1,000.00		1,000.00		-0-
Total Unbillable	$ 609.00	.7	$ 395.00	.4	$ 214.00	$1,373.00	.5	$1,235.00	.4	$ 138.00

FIG. 12. Schedule of Direct Expenses.

Expense in this classification includes such items as rent, light, local telephone, stationery, dues and subscriptions, insurance, legal, auditing, etc. Various means have been employed to allocate general and administrative expenses as properly applying to the cost of serving each client.

In the cost-accounting system described, it is desirable to make an allocation of general and administrative expenses to the individual client operating statements, but it is not entirely essential. The choice of allocating or not allocating expenses in connection with the preparation of individual client operating statements must be management's choice and must be dependent on how management can best understand and interpret the figures.

Where no allocation is made, the individual client operating statement ends with the gross-profit figure. In thinking of this figure, management must allow for both general and administrative expense and profit.

Where the expenses are allocated, the amount of such expense applying to each client is shown on the individual client operating statement, being deducted from the gross profit to produce the net operating profit resulting from handling each client's account. However, if an allocation of general and administrative expense is to be made, it is necessary to provide a basis for making such an allocation. In determining the basis for such allocation, the first question that must be answered is how scientific should the basis for allocation be? Ideally no one basis for allocation could apply to all items.

Example: The cost of preparing bills to clients and checks to publishers could be distributed on the basis of the number of transactions rather than on the relative dollar volume of the billing or payments. On the other hand, rent might be distributed in the same ratio as a distribution of salary costs of direct employees.

A discussion of the various methods for distributing overhead or general and administrative expenses could fill a volume in

itself. Here it will be limited merely to listing the various methods that have been used by agencies. These have been discussed in greater detail in the chapter on budgets.

1. Distribution of items on the basis of direct salaries.
2. Volume. (This distribution is made by first determining what part of the agency's commissions and fees was earned as the result of handling each individual client's business. The expenses are then allocated, using these ratios.)
3. Insertion orders. (Expenses may be allocated on the basis of the number of insertion orders issued.)
4. Purchase-order basis. (Expenses may be distributed on the basis of the number of purchase orders issued.)

WHAT THE COST-ACCOUNTING REPORTS MEAN

One of the peculiarities of the agency business grows out of the fact that the income for work performed is usually recorded on the books months after the completion of the work. This is because clients must be contacted and advertising plans conceived and developed long before they can appear in magazines and newspapers, as outdoor posters or as radio shows.

Perhaps the greatest lag between the time of doing the work and the time of recording the income is in connection with foreign advertising.* Sometimes this lag is more than one year, but there is always a considerable time lapse between doing the work and recording the income; for this reason, cost-accounting statements must be interpreted with care.

* It is standard practice for agencies to record the commission income earned in the month during which the client is billed. So it is important wherever practicable that the agency's invoice be issued on the proper date to record the income, as nearly as possible, in the month earned. This is why certain newspaper invoices are to be entered as of the last day of the month of advertising even though issued during the subsequent month. Unfortunately, it is not practicable to record every commission in the month earned. Perhaps an agency earns commission on media when its work on the advertisement is completed; certain agency contracts with clients provide for this. In other cases, the commission is not earned until the agency is irretrievably committed for the advertising space, radio time, etc.

Obviously, the cost of serving a new client would not be covered by the income received during the first few months. Costs applying to new clients' accounts are always likely to be distorted in proportion to the income shown on the cost-accounting statement. One month's cost-accounting figures are always likely to be misleading in themselves. Therefore, the accumulative figures for the year to date are much more important than the figures for the current month. No conclusions should be made based on one or two months' operations; so where a few months' figures indicate the need for action it is generally best to adopt a "wait and see" attitude until longer experience can prove or disprove the tentative conclusions.

The gross-profit figure on the individual client operating statement is perhaps the most significant one on the report. The gross profit is the difference between the commissions and fees and the direct expenses. If the records are accurately kept there can be little or no question as to the accuracy of the gross-profit figure. Agencies should expect to realize a net profit (before Federal tax) of about three percent of gross billings or twenty percent of the commissions and fees. The gross-profit figure must be sufficiently large to provide for general and administrative expenses and profit. If the three-percent profit on gross billings (twenty percent of commissions and fees) is accepted as a reasonable figure, then after deducting this amount from the gross profit there must still remain an allowance sufficiently large to pay the agency's general and administrative expenses.

While it is difficult to generalize about advertising-agency costs and expenses because agencies differ so widely from one another in size and type of service performed, perhaps a rough guide can be given. General and administrative expenses in an advertising agency could vary from a low of ten percent of commissions and fees to a high of thirty percent of commissions and fees.

For the purpose of discussing methods of interpreting individ-

ual client operating statements, the following ratios are given as an example:

Commissions and Fees	100%
Direct Expenses	55
Gross Profit	45%
Indirect Expenses	25
Net Profit	20%

In the case of this example, a minimum gross profit of twenty-five percent is needed to meet indirect expenses alone, while forty-five percent is needed to meet indirect expenses and provide for a profit of twenty percent of commissions and fees.

Cost accounting in the agency business furnishes management with facts on which intelligent decisions can be based. Just how each person uses these facts varies considerably. A few suggestions can be made, however.

After one determines which accounts are profitable and which are not, both the unusually profitable account and the unusually unprofitable account should be investigated; for if an account is unusually profitable, it could be that the agency is not performing all the services that it should. If an account is not a profitable one, this does not necessarily mean that the agency should resign the business; rather, the facts should be studied to determine what, if anything, can be done to turn the loss into a profit.

The first investigation should be directed to determining whether or not the agency is spending too much money in consideration of the services to be performed. Sometimes high-priced personnel is assigned to small accounts that cannot economically justify the assignment. In such cases, different employees could be assigned.

In other cases, it may be that the employees assigned to certain accounts are devoting too much time to them. This can be determined by a study of the work performed in comparison with that on other accounts. It may be that the client is receiving

services that he does not require, and perhaps whole areas of work can be eliminated.

If a careful investigation discloses that the cost on an account cannot be reduced, then it is time to determine whether or not the operation for the period under study is a typical operation with the particular client. Perhaps some unusual work was performed; or it could be that the income for the particular period was less than average. If it is determined that the period under study is typical, and that, based on past operations, a continued loss could be expected as a result of the operations with the particular client, then if there is no feasible way of reducing the cost of performing the service, it is entirely practicable to request a service fee from the client to augment the commission income.

Perhaps the most significant facts which can be secured from an examination of the cost-accounting statements are found by comparing the budget figures with the actual figures for the period.

Usually, where a budget is carefully prepared, the difference between the two figures is caused by the fact that the operations took a different turn from that anticipated. Such differences continually occurring indicate the lack of control over the operations of the business. Adequate steps should be taken to set up controls that will work. Many agencies provide incentive systems offering bonuses or other incentives to key men, department heads, contact men, etc. They then hold these department heads, contact men and others responsible for operating an account within the budget figures.

In the routine preparation of cost-accounting statements, the agency's accounting department should compare the budget figures with the actual figures. Where important differences exist between the two figures, an analysis should be made to find the cause, and an explanation of each difference should be submitted to management along with the statements.

The above are a few of the ways in which the facts secured from a cost-accounting system can be profitably used, but each

individual will develop his own techniques for interpreting and using these facts.

There are no hard and fast rules that can be applied to determine the cost ratios for such items as contact cost, copy cost, art cost, etc. Neither are there established ratios which one can use to compare an agency's costs in connection with indirect expenses for items such as rent, supplies, dues and subscriptions, etc., because agencies' operations differ widely from one another just as the character of the agencies differs. The cost to service one account will vary widely from the costs incurred to service another.

A few surveys have been made of the agency business in an effort to establish general over-all ratios, and some figures are available from these surveys. The American Association of Advertising Agencies makes an annual survey of agency costs and operations, but the survey is limited to a study of the operations of some of the Association's members, and the results of the study are made available only to members of the American Association of Advertising Agencies.

Printers' Ink recently inaugurated a study of agency operations and costs. The figures are available and may serve as general guides and ratios. In comparing the figures of a particular agency with general operating ratios, caution must be used, for it is difficult to find an agency that is "average."

2. Newspapers: Billing, Paying and Accounting

THE principles of accounting discussed in this chapter are used also in connection with other media. The differences of methods are in the detail rather than in the principles. Here, the matters of principle are discussed at some length. These principles were established with the following objectives in mind:

1. To achieve complete internal control for protection against errors and defalcations.
2. To function with the greatest simplicity and efficiency possible.
3. To gain promptness in completing operations.

The methods discussed have been carefully developed and tested over long periods of time. They have provided the ultimate in flexibility and ease of operation and at the same time have provided adequate controls to assure the greatest accuracy.

One of the cardinal principles used throughout these procedures is that once a document has been prepared, it is not to be copied or recopied. Instead, the original document is used for various purposes by filing either the original or carbon copies and adding information to the document to complete a transaction.

In the chapters "Media Selection" and "Space Buying," the form and detail of media recommendations and schedules have been described. It is sufficient here to repeat that when an advertising campaign is developed, a detailed list is prepared to show the space to be used in each newspaper, the dates for each ad, the size of each ad, the rate per line or inch, and the cost of

each ad. The media recommendation, or a more formal schedule sometimes referred to as an estimate, is presented to the client for approval since the agency wants the client to be responsible to the agency before it makes commitments with papers.

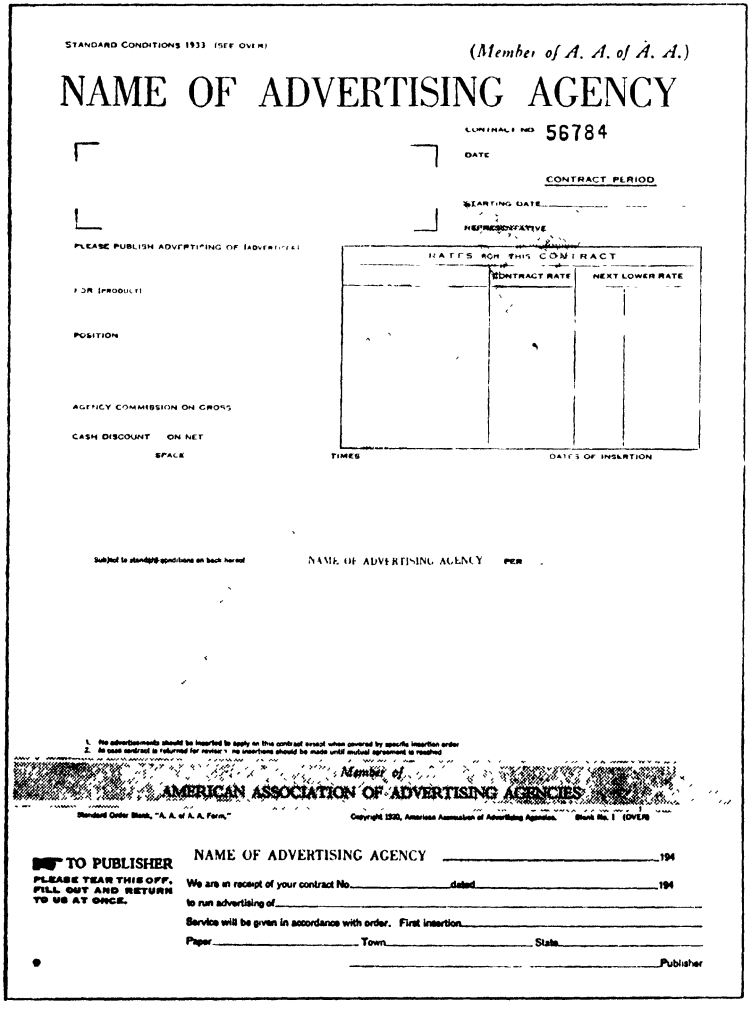
After clients have approved schedules or media recommendations, they are referred to as approved schedules or approved estimates. The approved estimate, schedule or media recommendation—depending on the form used by the agency—is sent to the media department so that contracts can be issued to the various papers.

CONTRACTS

It is customary for agencies to protect their clients by issuing contracts to papers so as to assure the advertiser the best rates available. Usually, contracts with newspapers cover a period of one year. When a space-buying department receives a copy of an approved schedule or estimate, the first job of the department is to check the files to see if a contract has already been issued to each of the publications listed. Bear in mind that to protect a client, the agency must issue a specific contract with each publication in behalf of the specific client. Publishers do not recognize blanket contracts. Figure 13 is a recommended form of space contract. It can be noted from Figure 5 (shown on page 44), which is the reverse side of the first page of the contract, that here the standard conditions governing advertising contracts and orders are imprinted. These conditions set up the terms under which the agency buys the space. The recommended contract form provides for mailing in window envelopes and for the insertion of all the pertinent information in convenient order for later reference.

The contract should include: The name of the publisher, the name of the client for whom the space is being contracted, the name of the client's product that is to be advertised in the publication, the contract period, the position requested in the publication such as financial page, sports page, etc., the rate

of agency commission, the rate of cash discount, the quantity of space ordered and, if known at the time the contract is issued, the dates on which insertions are to appear.



STANDARD CONDITIONS 1933 (SEE OVER)

(Member of A. A. of A. A.)

NAME OF ADVERTISING AGENCY

CONTRACT NO 56784

DATE

CONTRACT PERIOD

STARTING DATE

REPRESENTATIVE

PLEASE PUBLISH ADVERTISING OF (ADVERTISER)

FOR (PRODUCT)

POSITION

AGENCY COMMISSION ON GROSS

CASH DISCOUNT ON NET

SPACE

RATES FOR THIS CONTRACT

	CONTRACT RATE	NEXT LOWER RATE

TIMES

DATES OF INSERTION

Subject to standard conditions on back hereof

NAME OF ADVERTISING AGENCY PER

1. No advertisements should be inserted to apply on this contract except when covered by specific insertion order
2. In case contract is returned for revision no insertions should be made until mutual agreement is reached

Member of

AMERICAN ASSOCIATION OF ADVERTISING AGENCIES

Standard Order Blank, "A. A. of A. A. Form,"

Copyright 1920, American Association of Advertising Agencies. Blank No. 1 (OVER)

TO PUBLISHER

PLEASE TEAR THIS OFF, FILL OUT AND RETURN TO US AT ONCE.

NAME OF ADVERTISING AGENCY _____ 194

We are in receipt of your contract No. _____ dated _____ 194

to run advertising of _____

Service will be given in accordance with order. First insertion _____

Paper _____ Town _____ State _____

_____ Publisher

FIG. 13. Space Contract.

Usually, a contract for newspaper space calls for space as required for a period of one year. In some cases, a minimum quantity of space may be specified, such as five thousand lines. This practice is followed where the paper has a sliding-scale rate structure so that it becomes necessary to contract for a minimum quantity of space in order to secure a desired per-line rate. For example, where a client is to use more than five thousand lines of space, and the paper has one rate for less than five thousand lines and a lower rate for more, the contract would be issued for "five thousand lines or more."

There is a box on the upper right-hand portion of the contract headed "Rates for This Contract." There is considerable space provided in three vertical columns. The one on the extreme left has no heading. The second one has a heading "Contract Rate," and the third has the heading "Next Lower Rate."

This entire box with its three columns is used to show the various rates for different kinds of space. It is not uncommon for a newspaper to have five or six different rates. Papers always have different daily and Sunday rates. Some publishers publish both morning and evening papers and offer a combination rate where both the morning and evening editions are used. An additional combination rate may be offered for morning, evening and Sunday combinations. There may be still another rate for special positions, such as financial page, sports page, etc. If a client contemplates using different types of space which call for different rates, this information is noted in the box headed "Rates for This Contract." It would be set up in a fashion somewhat as follows:

RATES FOR THIS CONTRACT

	Contract Rate	*Next Lower Rate*
Run of paper	55¢ a line	5,000 lines 50¢
Financial page	65¢ a line	5,000 lines 60¢
Morning and evening editions combination	80¢ a line	5,000 lines 75¢

From a further inspection of Figure 13, the reader will notice that the bottom portion of the first page of the contract is an acknowledgment form that the publisher is to fill in, tear off and return to the agency.

This acknowledgment when filled in and returned by the publication amounts to an acceptance of the contract and all of its terms. Usually the acknowledgment when received is pasted or clipped to one of the copies of the contract that is retained by the agency. The usual thing is to make at least four copies of the contract, although additional copies may be required depending on the client's requirements and the organization of the agency.

Sometimes clients request copies of all contracts issued by the agency. In this case, a copy of the contract of course must be made for the client. The space-buying department of the agency needs to retain one copy of each contract, and the accounting department of the agency requires one copy of the contract. These three carbon copies are in addition to the original copy that is sent to the publisher.

The question of rates demands special consideration. It has been stated that many publications offer special rates where large quantities of space are used. This type of rate structure is called a sliding-scale rate structure. A newspaper may offer one rate for space used up to five thousand lines during a contract year. A lower rate may be offered for five to ten thousand lines and still a lower rate for ten to twenty thousand lines, with the lowest rate being offered for space used in excess of twenty thousand lines in a contract year.

There are both advantages and disadvantages in using the lower rates. When it is known that a client is going to earn a rate lower than the highest rate offered by the paper, and if the contract is issued for the total quantity of space that the client is expected to use during the contract year, the publisher will sometimes bill the space at the lower rate.

Example: If a paper offers, say, a twenty-five-cents-per-line rate

for space up to five thousand lines and a twenty-cent rate for space in excess of five thousand lines used in one year, then if a contract is issued for five thousand or more lines to be used during the contract year, the publication in many cases will bill the agency at the twenty-cent rate. If the contract were issued for space as required during the contract year without specifying a minimum of five thousand lines, then the publication would undoubtedly bill the agency at the twenty-five cents-per-line rate.

The advantage in using the low rate is that if the paper bills the agency at the low rate, the agency then bills the client at this rate, and if the client uses the space anticipated, no adjustment need be made.

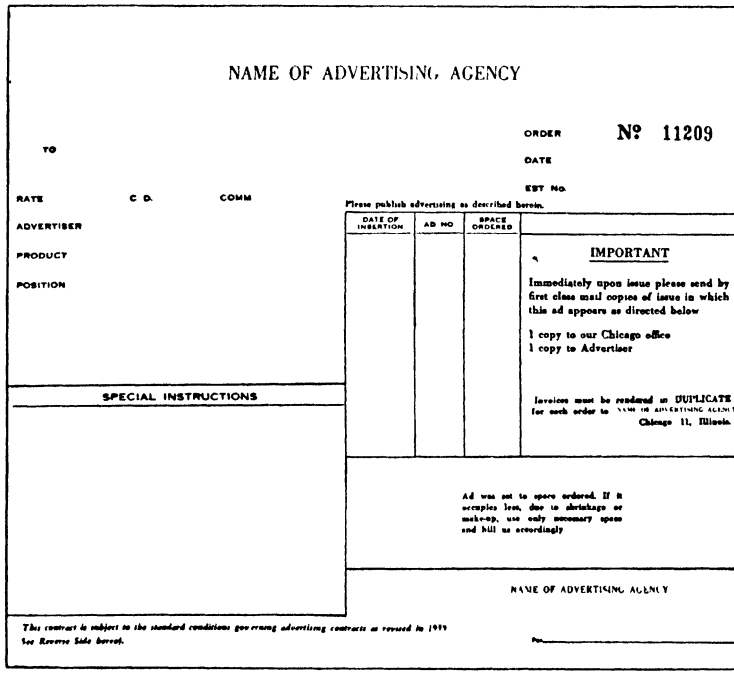
On the other hand, a disadvantage is involved if the client fails to use enough space to justify the low rate (five thousand lines or more in the example cited), in which case the paper will bill the agency for the additional five cents per line on all space used during the contract year. The agency must then bill the client for this additional charge. This additional charge may be difficult to explain to the client and may lead to disputes and difficulties that would never have arisen if the client had been billed for the high rate initially and then, if he qualified for it, had received a credit for the next lower rate.

INSERTION ORDERS

Prior to the date upon which an advertisement is to appear, an insertion order is issued to the newspaper to inform the newspaper of the details concerning the particular advertisement which is ordered. The contract that was issued to the paper merely reserves space in the publication and protects the client from the standpoint of rates and terms. Before any advertisement can appear, the agency must issue a specific order calling for the publication of that advertisement. Sometimes one order calls for the publication of several advertisements, but, in any event, an order must be issued before any advertisement is published.

These orders are always referred to as insertion orders. Figure 14 is the copy of the insertion order that is sent to the publication.

On the reverse side of the original or first copy of the insertion order, the standard conditions governing the advertising contracts and orders are usually printed. In addition to the inser-


NAME OF ADVERTISING AGENCY

ORDER Nº 11209

TO

DATE

EST NO.

RATE C D COMM

Please publish advertising as described herein.

ADVERTISER

PRODUCT

POSITION

DATE OF INSERTION	AD NO	SPACE ORDERED

IMPORTANT

Immediately upon issue please send by first class mail copies of issue in which this ad appears as directed below

1 copy to our Chicago office
1 copy to Advertiser

Invoices must be rendered in DUPLICATE for each order to NAME OF ADVERTISING AGENCY
Chicago 11, Illinois

SPECIAL INSTRUCTIONS

Ad was set to space ordered. If it occupies less, due to shrinkage or make-up, use only necessary space and bill us accordingly

NAME OF ADVERTISING AGENCY

This contract is subject to the standard conditions governing advertising contracts as revised in 1919
See Reverse Side hereof.

By

FIG. 14. Insertion Order.

tion order that is sent to the publication, at least one carbon copy of the order is made for the agency's file; sometimes two or three carbons are made, depending on the organization of the agency and its requirements, but, in any case, at least one copy is required for billing and paying purposes which will be discussed later.

An examination of the first copy of the insertion order, Figure 14, will indicate that the order is so set up that it may be mailed in window envelopes. In addition to the order number and the date, space is provided for the name of the publication, the address, the rate per line, the cash-discount rate, the commission rate, the name of the advertiser, the name of the product and a description of the position requested. Even if the run-of-paper rate is used, often some specification is made as to position. For example, a special request such as the following is frequently used:

> "Do not publish next to competing advertising. Second, third or fourth page urgently requested."

An indication is given if the copy is enclosed or forwarded separately; the same is true with regard to "cuts." The date of each insertion, the advertisement number and the space ordered for each date are shown under the appropriate column headings. If a series of advertisements is ordered on one insertion order, the information to identify each advertisement would read as follows:

Date of Insertion	*Ad Number*	*Space Ordered*
10/10	1345	120 lines
10/20	1479	160 lines
10/28	1571	180 lines

Considerable space is provided under the heading "Special Instructions," and under this heading agencies frequently insert particular instructions concerning the advertisements to be published. Often agencies give the publication optional dates on which the advertisement can be issued. Sometimes in connection with clothing advertising or other style material, instructions are issued indicating that the advertisement is not to be published unless the temperature on the preceding day is equal to seventy degrees, etc. Such instructions could be issued in connection with straw-hat advertising, for example.

While there is no guarantee that the publication will accept such an order, this is an example of the conditions that agencies

often attempt to impose upon publications in the interest of their clients.

Each insertion order should cover one month's advertising only. This is because the insertion order is used as a basis for paying the publisher and billing the advertiser which is done monthly. Often advertisers advertise in the same papers month in and month out. When this is done, it is advisable to prepare the insertion orders by using addressograph plates rather than by typing each order individually.

The insertion order illustrated in Figure 14 has been designed for use with addressograph plates. The addressograph plates insert the name and address of the paper, the line rate, the cash discount terms, the commission percentage, the name of the advertiser and the name of the product. The balance of the order is filled in by multigraph, mimeograph, hectograph duplicating process or spirit duplicator. The checking and bookkeeping-department copy of the insertion order is illustrated in Figure 15. Reference to this figure will quickly indicate that this copy of the insertion order (a carbon copy) provides a column for indicating the "Space Used" and a column for "Position."

CHECKING NEWSPAPER SPACE

Where any considerable volume of newspaper advertising is transacted, the agency operates a checking department, or at least one or two persons are assigned to the job of checking the newspaper advertising. The checking of this advertising consists of three operations:

1. Examining the advertisement to determine that it meets the quality requirements specified on the order.
2. Measuring the advertisement to determine the quantity of space occupied.
3. Determining the position of the advertisement as it appears in the paper.

The checking operation is usually performed in the following manner: Copies of insertion orders are filed alphabetically by

state, city and newspaper name. These orders are either filed in a binder, a ledger tray, a vertical file or some visible filing device. The contract that is sent to the publication and the insertion order that is sent to the publisher both specify that copies of the advertisement are to be sent to the advertiser and to the

NAME OF ADVERTISING AGENCY
INCORPORATED
Advertising

ORDER **P** 6233

TO

DATE

Please publish advertising as described herein.

RATE

COMM.
C. D.

ADVERTISER

PRODUCT

POSITION

DATE OF INSERTION	AD No	SPACE ORDERED	SPACE USED	POSITION

COPY | CUTS

SPECIAL INSTRUCTIONS

TOTAL LINEAGE			
GROSS			INVOICE NO
NET			CHECK NO
CASH DISCOUNT			
NET COST			

CHECKING AND BOOKKEEPING COPY

FIG. 15. Insertion Order—Bookkeeping Copy.

agency. It is customary for the publication to send the agency (purchaser) one or two copies of the page in which the advertising appears, or of the entire publication itself.* Upon receipt of these, the agency's checking department files the tear sheets

* A service has recently been provided by the Advertising Checking Bureau. Certain newspapers employ the Advertising Checking Bureau to forward tear sheets (a copy of a page on which the advertising appears) to each advertising agency as proof of the insertion of the advertising.

alphabetically by state of issue, city and name of publication.

The first job of the checker is to locate the insertion order covering the advertising. When this is done, the checker determines what the advertising specifications were. If the agency is paying a premium for insertion on the financial page or the sports page, it is important to determine that the advertisement actually appeared on such a page in the paper. If the agency has specified that the advertising must not be inserted next to competitive copy, then it is important that the checker determine whether or not this qualification has been met. The checker must also examine the advertising to determine that the correct copy has been inserted.

It is not infrequent for agencies to run daily or weekly advertisements in the same paper for the same client. In such cases, the agency may forward the copy for three or four advertisements to the publication at one time. Newspapers have been known to repeat the same advertisement, or to change the order of the advertising. Usually, a copy of each advertisement that is currently appearing is furnished to the checking department so that it can refer to the correct copy when examining the tear sheets received from the paper. The checker must also note the quality of the printing. After the checker has examined the advertisement to determine that it meets the specifications established by the insertion order, the next job is to measure the advertising to determine the amount of space occupied.

It is general practice for advertising agencies to pay only for the space occupied by the advertisement, and not to include any white space allowed above or below it. This kind of measurement is called "type to type" measurement.

Checking-department employees are furnished with rules calibrated in both lines and inches. This type of rule expedites the measuring job. The checker measures the advertisement and notes the measurement on the copy of the insertion order opposite the date of the insertion:

Date of Insertion	*Ad Number*	*Space Ordered*	*Space Used*
10/20	1234	180 lines	178 lines

If for any reason the advertising does not meet the specifications contained on the insertion order, the checker notes such discrepancies on the insertion order before forwarding it to the bookkeeping department.

BILLING THE ADVERTISING

Before the agency can accurately bill its client for newspaper advertising space, each advertisement must be checked and measured to determine that it was properly inserted to meet the specifications set up, and to determine the number of lines or inches used by the advertisement and therefore to be billed. In addition, it is an established practice for agencies to pay the newspaper and bill the client for the lesser of the amount of space computed, whether it be that measured by the agency's checking department or that billed the agency by the paper. It is not infrequent for the newspaper to measure the advertisement as one line more or less in depth than the measurement computed by the agency. Because the agency wishes to give its client the benefit of the doubt where two people measure differently, it is necessary to compare the linage billed by the newspaper with that measured by the agency.

It is a cardinal principle in agency finance that the advertiser must pay the agency for advertising space prior to the date upon which the agency is required to pay the publisher. Newspaper publishers require payment for advertising space on the tenth, fifteenth, twentieth or twenty-fifth of the month following the advertising. A large portion of the publishers require payment on the tenth or fifteenth of the month following publication.

In any sizable newspaper advertising campaign, advertisements will appear in newspapers that are published hundreds of miles distant from the agency's place of business. Where advertisements appear during the last few days of a month, the tear pages or checking copies of publications, which are frequently sent second- or third-class mail, may not be received for from five to fifteen days after the date of publication.

Newspapers send bills to agencies once a month. They usually

submit a separate bill to cover the advertising of each client (although a few papers send one bill to cover all the advertising purchased by the agency). Newspapers usually require a few days after the first of the month in which to complete their invoicing. The reader will see that, because of this procedure, agencies cannot receive bills from newspapers before the third, fourth or fifth of the month following advertising. In some cases invoices are not received until after the tenth of the following month.

Because it is impossible for agencies to send accurate invoices for newspaper advertising in time to secure payment from clients before the agency must pay the publication, it is necessary to develop some procedure through the operation of which the agency can collect substantially all the money due for the newspaper advertising before it has to pay the papers.

Obviously, to accomplish this, it is necessary for the agency to get an invoice of some kind to the advertiser on or about the first day of the month following the month of advertising. In other words, on June first an agency should send invoices to its clients covering all of the newspaper advertising for the month of May. This invoice cannot represent the exact amount due for space used since the space has not yet been checked and audited with bills from newspapers. Several methods are commonly used to secure payment from the advertiser so that the money is received before the agency must pay the publication. They are:

1. Billing on a space-ordered basis.
2. Billing checked space as checked, and unchecked space as ordered.
3. Prebilling on an estimated basis.

1. Billing on a space-ordered basis

Where this method of billing is used, all of the insertion orders are secured from the checking department, and the total linage ordered is multiplied by the rate in order to compute the billing price, which is noted on the insertion order. An in

voice is then typed by reference to the insertion orders. The detailed invoice will appear as shown in Figure 16. Insertion orders are returned to the checking department, and after they

NAME OF ADVERTISING AGENCY

INVOICE NUMBER
2341
DATE
July 31, 19

Whitehall Soap Company
15 East Street
Tulsa, Texas

Newspaper Space Ordered for the Month of July

		Space	RATE	AMOUNT	CASH DISCOUNT	
Pueblo Star Telegram						
	7/10	200 L				
	7/15	300 L				
	7/20	200 L				
	7/28	300 L				
	Total	1,000 L	.55	$550.00	$ 9.35	$467.50
Tulsa News						
	7/10	200 L				
	7/15	300 L				
	7/20	200 L				
	7/28	300 L				
	Total	1,000 L	.20	200.00	3.40	176.00
	GRAND TOTAL			$750.00	$12.75	$643.50

CLIENT COPY

OFFICE COPY

FIG. 16. Newspaper Invoice—Space Ordered Basis.

have been completely checked, they are routed to the accounting department for auditing against publishers' bills. When this procedure is completed, the difference between the linage ordered and the linage to be paid for (the linage measured by the

agency or the linage billed by the publisher according to which is the lesser figure) is noted on the order, and a credit memo is prepared by reference to the insertion orders. Such credit memos

NAME OF ADVERTISING AGENCY

CREDIT MEMO
INVOICE NUMBER
2431

DATE
August 25, 19

Whitehall Soap Company
15 East Street
Tulsa, Texas

CREDIT MEMO: To Adjust to Space Used for July

	Date	Space Ordered	Used	Difference	RATE	AMOUNT	CASH DISCOUNT	
Pueblo Star Telegram								
	7/10	200 L	198 L	2 L				
	7/15	300 L	296 L	4 L				
	7/20	200 L	197 L	3 L				
	7/28	300 L	297 L	3 L				
	Total	1,000 L	988 L	12 L	.55	$6.60	$ .11	$5.61
Tulsa News								
	7/10	200 L	198 L	2 L				
	7/15	300 L	296 L	4 L				
	7/20	200 L	197 L	3 L				
	7/28	300 L	297 L	3 L				
	Total	1,000 L	988 L	12 L	.20	2.40	.04	2.08
	GRAND TOTAL					$9.00	$ .15	$7.69

CLIENT COPY

OFFICE COPY

FIG. 17. Newspaper Credit Memo.

are issued once a month and usually appear in a form similar to that shown in Figure 17.

It can be noted by examination of Figure 17 that the credit memo shows for each paper the linage originally billed, the

linage which should have been billed on a checked and audited basis, and the difference between these, which comprises the credit to which the client is entitled. While this method of billing provides a basis for securing payment from the client in time for the agency to pay the papers, it is a cumbersome procedure causing considerable duplicated work for the advertiser as well as for the agency, because, when the first invoice is prepared, all computations must be made to compute the billing price of the space ordered in each paper.

If the advertiser uses precaution in checking invoices, he will want to check all the computations appearing on the invoice. The credit memo that will be issued later to show the amount of credit due to the advertiser will again require a series of calculations and a complete new typing job. Because of the method used by newspapers to print advertising, the great majority of advertisements will appear in less space than that ordered, and consequently there will be a credit due to the advertiser for almost every paper used in the advertising campaign during the month.

This means that the original invoice on a space-ordered basis will show the details of the advertising ordered in each paper and that the credit memo which is issued later will again show the details of the advertising ordered in each paper, as well as the amount of space that actually was used and the credit to which the advertiser is entitled. For the client to determine the net cost of the advertising in each paper, he must deduct the credit issued from the original billing for the same paper, and this is a cumbersome procedure.

2. Billing checked space as checked, and unchecked space as ordered

To accomplish this manner of billing, it is necessary for the accounting department to secure all of the previous month's insertion orders on about the first or second day of the month following the advertising. These insertion orders are taken from

the checking department where advertisements have been checked with tear sheets as the tear sheets have been received.

Obviously, on the first or second day of the month following the advertising, all of the advertisements ordered for the previous month will not have been checked by the checking department; but where tear sheets have been received, the checkers will have checked the advertisements and measured the space used.

Based on the information contained on the insertion orders, a detailed invoice is now made up by the accounting department by billing the space that has been checked and measured on the basis of the number of lines measured by the checking department. Advertisements that have not yet been checked or measured are billed on the basis of the space ordered. Obviously, this form of hybrid billing is usually unsatisfactory to both the agency and the advertiser because, following such billing, it is necessary to review all of the work in order to issue credits or additional charges to adjust the final billing for the amount of space to be paid for.

To accomplish this final billing, it is necessary to return all of the insertion orders to the checking department where there are one or more items on an order that had not been previously checked. These orders must remain in the checking department until the tear sheets are received and the advertisements measured. They are then taken from the checking department and reviewed by the billing department to determine the difference between the space billed on the ordered basis and the space actually used (after auditing with publisher's bill).

When such differences are isolated and computed, an additional invoice or credit memo must be prepared to account for the differences. This operation is more complicated than it sounds, for it often occurs that two or more different advertisements are ordered for one client to appear within one month. At the time of the first billing, some of the advertisements will have been checked and measured, but others will not have been measured. In making up the bill to the client, the agency should

indicate which of them have been measured and checked in, and which have not. Also, after paying the invoice, the client should hold the invoice aside and later verify the adjustment for the items that had not been measured and checked at the time the invoice was prepared. This type of billing—that is, billing some items on the basis of space ordered and others on a checked basis—is highly unsatisfactory. Newspaper billing should be performed on an estimated basis, which is next explained.

3. Prebilling on an estimated basis

The properly operated advertising agency secures an approved or signed estimate covering the newspaper space to be ordered before insertion orders are issued to papers. If, before the advertising appears, changes are made, each such change should be represented by an approved estimate revision.

Unless some form of authorization is received by the agency from its client, the agency may be in an embarrassing position. Since agencies make huge commitments at the special request and for the benefit of clients, it is important for both advertiser and agency that such expenditures are approved in writing. This point cannot be overemphasized, and such written approvals have served to eliminate many misunderstandings. Approved estimates form the basis for determining the amount of an advertiser's commitments for a period. If, in preparing such estimates, each estimate is limited to one type of advertising medium and one month of advertising, there will be a separate estimate to cover each month's newspaper advertising. These estimates will show the total commitment of each client. Prebilling is accomplished simply by preparing a one-line invoice which usually reads as follows:

Newspaper advertising for the month of May, 1948, as per estimate #567	$90,000.00
Less 10% tentative allowance for shrinkage and omissions	9,000.00
Amount now due	$81,000.00

An invoice similar to this is sent to the client on the first day of each month to cover the advertising of the prior month. The reader will note the arbitrary tentative allowance for shrinkage and omissions. By way of explanation, it should be noted that some shrinkage (about one and one-half percent) between the linage ordered and the linage used is expected. In addition, while it is expected that all the advertising ordered will appear, the agency should not ask the client for payment equal to one hundred percent of the expected advertising, since it is entirely possible that some papers may fail to publish.

Bear in mind that this billing on an estimated basis is merely so that the agency secures payment prior to the time it is necessary for it to pay the publishers. This prebill is not intended as an accurate invoice, but the client is asked to pay the prebill and is told that as soon as possible after the space is checked and the publishers' bills audited, a complete detailed invoice will be sent.

After the preliminary bill is sent to the client, the newspaper tear sheets are checked against insertion orders, and the newspaper bills are audited against the linage checked in by the agency's checking department. As soon as the publishers have been paid, the agency prepares a complete detailed invoice to each client. Such an invoice usually is in a form similar to that shown in Figure 18.

This figure shows that each newspaper used in the advertising campaign is listed, and that after the newspaper name there are the details of the space used, including the total linage used during the month in each paper and, finally, there is the billing price of the space. After this detailed invoice is completed, it is totaled; and from the total of the invoice, the amount of the prebill or commitment invoice is deducted, the balance representing the amount due to the agency. This method of first sending a prebill on an estimated basis, followed by a detailed invoice on the basis of checked and audited space, is by far the simplest method that can be used to accomplish the desired objectives.

The client has a copy of the estimates which were previousl approved. These estimates show the amount of the client's com mitments for newspaper space. The estimates can be readil checked against the prebill sent by the agency on the first o the month to cover advertising ordered to appear in the prio

JONES & SMITH
ADVERTISING
500 NORTH MICHIGAN AVE
CHICAGO 1, ILL

FINAL INVOICE No 2231
DATE August 25, 19

Whitehall Soap Company
15 East Street
Tulsa, Texas

Newspaper Advertising For The Month of July

PUBLICATION AND DATES		SPACE	RATE	AMOUNT	CASH DISCOUNT	COST
Pueblo Star Telegram						
	7/10	198				
	7/15	296				
	7/20	197				
	7/28	297				
	Total	988	.55	$543.40	$ 9.24	$461.89
Tulsa News						
	7/10	198				
	7/15	296				
	7/20	197				
	7/28	297				
	Total	988	.20	197.60	3.36	167.96
				$741.00	$12.60	$629.85
Less--Our Preliminary Invoice No.		1101		745.00		633.25
Credit Due				$ 4.00		$ 3.40

CLIENTS' COPY

FIG. 18. Newspaper—Detailed Invoice—Space Audited Basis.

month. The detailed invoice, which is later prepared and sent to the client by the agency, shows the actual amount of space used in each paper for the month, thus eliminating the necessity of making any calculations to determine just how much space was used in a certain paper for a certain period of time.

It is only necessary for the client to audit one document, the final invoice, since this is the only document that contains any detail. By the time the final detailed invoice is received by the advertiser, the advertiser should have received tear sheets covering each advertisement, and these tear sheets may be checked against the agency's invoice in order to prove that the advertiser is paying only for the advertising that he had actually secured.

PAYMENTS TO PUBLICATIONS

The detail of the procedure to be followed to prepare the check for the publisher is given below on the assumption that first the agency prepares an estimated invoice as explained previously, and that later the detailed invoice is prepared after all of the space has been checked with tear sheets and the linage audited against that billed to the agency by the newspaper.

The steps in the procedure are numbered in the order of their normal sequence:

1. Copies of insertion orders are taken from the checking department as bills are received from newspapers. (It is assumed that advertisements have been measured and linage used noted on the insertion orders.)

2. Bills from newspapers are audited with copies of insertion orders, at which time the following is verified:

Rate charged per line or inch.
Agency commission rate allowed.
Cash discount rate allowed.
Number of lines charged for on each insertion date.

(If the newspaper charges for a lesser number of lines than that measured by the agency, the insertion order is corrected to show the linage charged for by the paper.)

If the rate per line or inch as charged by the paper is different from that shown on the insertion order, the proper or correct rate is ascertained and is used in making further computations.

JONES & SMITH
ADVERTISING
500 NORTH MICHIGAN AVE
CHICAGO 3 ILL

ORDER No 9729

DATE June 28, 19

To The Star Telegram
40 Third Street
Pueblo, Texas

RATE $.55
CASH DISC 2% COMM 15%
ADVERTISER Whitehall Soap Company

SPECIAL INSTRUCTIONS

Best Position Possible
Near Editorial Page

DATES OF INSERTION	SO NO	SPACE ORDERED	SPACE USED	PAGE NO	DESCRIPTION
7/10	401	200	198	5	Book
7/15	405	300	296	4	Jam
7/20	420	200	197	5	Book
7/28	450	300	297	6	Book
TOTAL SPACE			988		
GROSS			543 40		
NET			461 89		
CASH DISC			9 24		
DUE PUBLISHER			452 65		

DATE BILLED 8/25/
DATE PAID 8/20/

BOOKKEEPING & CHECKING COPY

FIG. 19. Bookkeeping Copy—Insertion Order.

3. The total linage used is computed by adding the lines used on each date. This is multiplied by the rate per line to determine the gross billing price. The agency's cost, the cash discount and the net payable are then computed, all as shown in Figure 19.

4. After the computations (listed in 3 preceding) have been made, all the insertion orders for one paper are gathered to-

gether and an adding-machine tape is taken of the net amount payable, to determine the amount of the check to be issued to the newspaper. When this has been completed, the adding-machine tape is clipped to the copies of the insertion orders for each paper, and they are sent to a disbursing clerk together with the bills from the paper.

Previously it has been stated that newspapers send separate bills for each client's advertising and, further, that they forward two copies of each bill to the agency. Even though these requests are made, occasionally a newspaper will fail to meet the agency's requirements.

In such case, it is advisable to prepare separate dummy bills for each client by reference to the one bill sent to the agency by the paper, which bill covers the charges on account of all clients of the agency. In addition, if the paper fails to send bills in duplicate, a duplicate copy of the newspaper's bill should be made to be used in the procedure which is explained in the following.

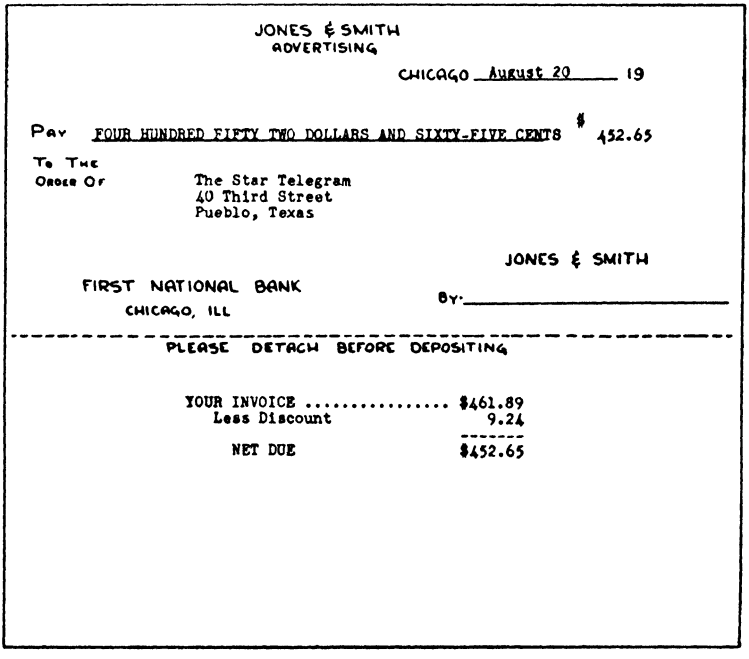
5. When the disbursing clerk receives the copies of insertion orders with adding-machine tapes attached, representing the totals due to each paper, he receives also copies of bills from publications.

Here it should be noted that where the agency's payment is going to differ from the publisher's bills, the difference should be noted on both copies of the publisher's bill. Such differences occur frequently because of different linage or different rates, and, as stated before, the differences should be shown on both copies of the publisher's bill, and the total of the publisher's bill should be corrected to agree with the computations as shown on the insertion orders.

6. A check is now typed in triplicate.* The original copy is sent to the publisher together with one copy of the publisher's

* In some cases, the check is prepared in quadruplicate. The cash disbursement procedure described in the chapter "General Books and Chart of Accounts" requires one carbon of the checks to be filed for bank reconciliation purposes and computing bank balances. It requires an additional carbon

bills. Figure 20 is one type of check that is successfully used in payment of newspaper advertising. Note that this check is designed for use in window envelopes. Under certain conditions, a different check is desirable. An example of such a voucher


JONES & SMITH
ADVERTISING

CHICAGO August 20 19

Pay FOUR HUNDRED FIFTY TWO DOLLARS AND SIXTY-FIVE CENTS $ 452.65

To The Order Of The Star Telegram
40 Third Street
Pueblo, Texas

JONES & SMITH

FIRST NATIONAL BANK
CHICAGO, ILL

By: _____

PLEASE DETACH BEFORE DEPOSITING

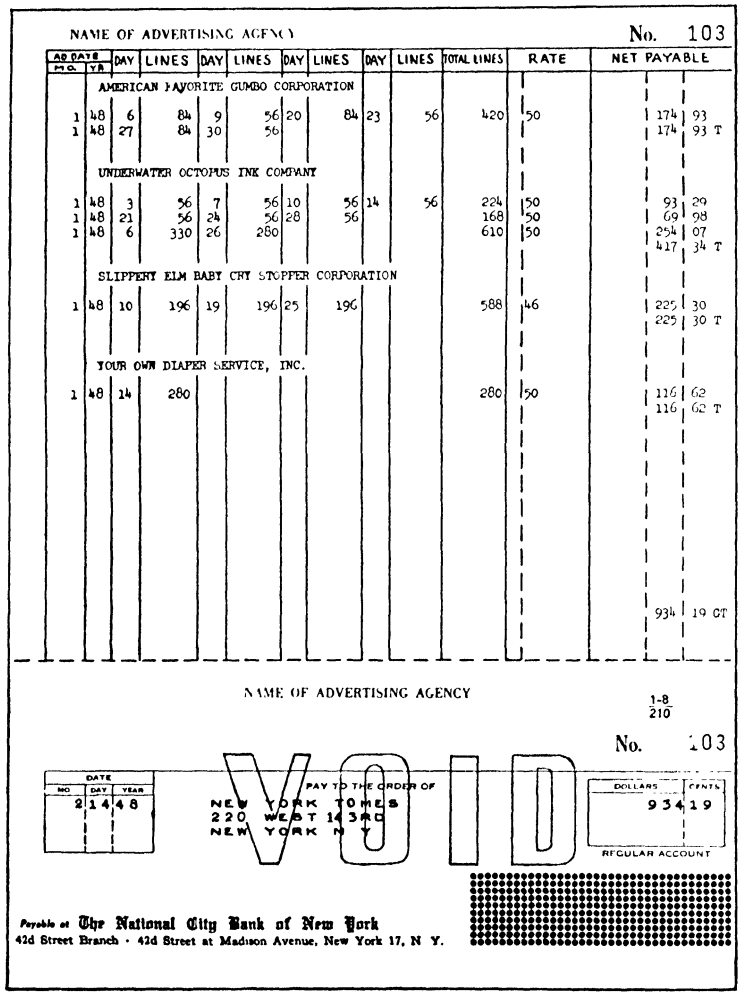
YOUR INVOICE	$461.89
Less Discount	9.24
NET DUE	$452.65

FIG. 20. Check Used for Paying Newspapers.

check is shown in Figure 21. This type of voucher check is used in some large agencies where automatic-tabulating accounting machines are installed.

of the check to be filed separately by type of medium for accumulating the total payments made to each medium. Still another carbon of the check is required for attaching to the publisher's invoice. This final carbon of the check which is attached to the newspaper's bill may be dispensed with and, instead, the newspaper's bill may be marked with a rubber stamp: "Paid, ..., 19....."

7. Immediately after the preparation of the check, the paid insertion orders are stamped with a rubber stamp to indicate the date on which each item was paid. One copy of the check (see


NAME OF ADVERTISING AGENCY No. 103

AD DATE MO.	AD DATE YR.	DAY	LINES	DAY	LINES	DAY	LINES	DAY	LINES	TOTAL LINES	RATE	NET PAYABLE	
			AMERICAN FAVORITE GUMBO CORPORATION										
1	48	6	84	9	56	20	84	23	56	420	50	174	93
1	48	27	84	30	56							174	93 T
			UNDERWATER OCTOPUS INK COMPANY										
1	48	3	56	7	56	10	56	14	56	224	50	93	29
1	48	21	56	24	56	28	56			168	50	69	98
1	48	6	330	26	280					610	50	254	07
												417	34 T
			SLIPPERY ELM BABY CRY STOPPER CORPORATION										
1	48	10	196	19	196	25	196			588	46	225	30
												225	30 T
			YOUR OWN DIAPER SERVICE, INC.										
1	48	14	280							280	50	116	62
												116	62 T
												934	19 CT

NAME OF ADVERTISING AGENCY

1-8
210

No. 103

DATE: NO 2 | DAY 14 | YEAR 48

PAY TO THE ORDER OF
NEW YORK TIMES
220 WEST 14 3RD
NEW YORK N Y

VOID

DOLLARS 934 | CENTS 19

REGULAR ACCOUNT

Payable at The National City Bank of New York
42d Street Branch · 42d Street at Madison Avenue, New York 17, N Y.

FIG. 21. Voucher Check—Tabulating.

Figure 22) is stapled to the copies of the publisher's bills, and the check and publisher's bills are filed alphabetically for future reference. The other copy of the check is filed in numerical sequence and constitutes the cash disbursement record of the agency. The third carbon is filed by medium.

8. Insertion orders that have now been paid are filed, awaiting the preparation of the final detailed client invoice. All inser-

No. 5255

August 20 46

FOUR HUNDRED FIFTY-TWO DOLLARS AND SIXTY-FIVE CENTS 452.65

The Star Telegram
40 Third Street
Pueblo, Texas

YOUR INVOICE.	$461.89
Less Discount	9.24
NET DUE	$452.65

FIG. 22. Carbon of Check.

tion orders which have been paid, but which have not yet been billed, are lodged in one file.

DETAILS OF BILLING PROCEDURE

As soon as the payments for the month have been completed, all paid and unbilled insertion orders are taken from the file for the purpose of preparing the client invoice. Insertion orders are now sorted so as to gather all of the orders pertaining to one client. These stacks of orders are then re-sorted so as to bring the

orders into alphabetical sequence by the name of the state, the city and the publication. The information contained on the insertion orders for the client is transcribed by the typist to the client invoice, which, when completed, appears in Figure 18, on page 143.

It is important to note that the copies of the client's invoice which are retained by the agency are wider than the copies which are sent to the client. These office copies, or carbon copies, of the invoice show the agency cost of each item, as well as the gross billing price. This information is needed for the bookkeeping entries which will be discussed later.

Clients usually require two copies of each invoice. A third copy is needed for the agency's own records. Sometimes a copy of each invoice is made and it is filed by the treasurer in a tickler file under the date on which payment should be received by the agency.

After the invoices have been typed and totaled, the original copies are mailed to clients in window envelopes and the office copies are filed.

The invoice number is now noted on each insertion order that has been billed, and the insertion orders are filed in a completed file containing paid and billed insertion orders. These files are usually segregated by clients and further segregated alphabetically by state, city and paper name. At the beginning of the description of these detailed billing and paying procedures, it was explained that the assumption was made that a preliminary or estimated bill had been sent to the client. Based on this assumption, the payments are usually made to the papers before the detailed invoice is prepared. Occasionally, for one reason or another, a paper is not paid prior to the time of preparing the detailed client invoice (approximately the twenty-fifth of the month following the advertising).

In exceptional cases payments to papers could be held up because of missing tear sheets, a dispute in rates, a question as to the quality of the printing or for various other reasons. Sometimes clients wish to have all of their billing for a month com-

pleted, so they request the agency to include charges for all advertising which has appeared, even though the agency has not yet finally satisfied itself as to the correctness of the charges.

As stated previously, in such cases, the agency would not have paid for the item at the time the detailed invoice was prepared for transmission to the client. When this occurs, the insertion orders would have been taken from the checking department file, but at the time of payment they would have been held up because of the questioned items.

Such insertion orders would then be used in preparing the client invoice even though payment had not been made to papers. These insertion orders, which contain no indication of payment, cannot be placed in a paid-and-billed file after the client invoice has been prepared, but must be filed in a billed-but-unpaid file. Thus there usually are four files of insertion orders:

1. The unpaid and unbilled orders which are kept in the checking department and then sent to the accounting department to be audited against publishers' bills.
2. The paid but unbilled insertion orders which are filed in the accounting department directly following the payment of publishers' bills.
3. The billed but unpaid insertion orders consisting of those items which have been invoiced to clients, but which have not been paid.
4. The paid and billed orders.

ACCOUNTING AND BOOKKEEPING ENTRIES

The bookkeeping and accounting entries that are required are limited to those listed below. No others are needed. The customary accounts-payable and accounts-receivable ledgers are eliminated entirely where the procedures outlined are followed.

The preliminary invoice which is prepared on the first or second day following the month of advertising shows the estimated billing price of the newspaper space for the prior month.

At the outset, it is known that this is not an accurate invoice. It is sent to the client for the primary purpose of collecting the monies due with a minimum of effort on behalf of the agency and the client.

In addition to serving this function, the preliminary invoice serves as a basis for entering the sales of space and the cost thereof. As a matter of accounting principle, the client is indebted to the agency as soon as the advertising appears, and certainly the agency is indebted to the publisher at such time. Therefore, for proper accounting, newspaper-space billing should be entered on the agency's books on or before the last day of the month in which the advertising was published.

Usually, it is not feasible for an agency to send the preliminary estimated bill to its client until the first or second day of the month following the advertising because it is desirable that all advertising ordered during the month be included. There is no objection to giving this invoice the date of the last day of the month of advertising, even though it is actually prepared on the first or second day of the following month.

By dating the preliminary estimated invoice as of the last day of the month of advertising, it can be properly entered in the agency's books and records as of the month of advertising. The estimated invoices are usually prepared from approved estimates, media recommendations or signed schedules, since such records form a basis for securing the needed information without the necessity of again calculating the billing price of the space ordered in each newspaper.

These figures were already developed in preparing the estimate, schedule or media recommendation. To determine the cost of the space billed to the client on the preliminary estimated invoice, it is usual to multiply the billing price by eighty-five percent, since by far the majority of newspapers allow a fifteen percent agency commission. A cost figure which equals eighty-five percent of the billing price as shown on the estimated invoice is sufficiently accurate for recording this invoice and the cost of the space billed.

A Sales and Cost Journal is one of the principal books of original entry of an advertising agency. All invoices sent to clients are entered in this record. A preliminary invoice would be entered in a Sales and Cost Journal in the manner shown in Figure 23. Note that the sale is recorded under newspaper billings, and the cost of the space is recorded under newspaper costs.

The final accounting entries will be made from totals taken from this Sales and Cost Journal at the end of each month and they will be discussed later. When the final detailed invoice is prepared, after all space has been measured and the insertion orders audited against publishers' bills, the totals as shown on this final invoice are entered in the Sales and Cost Journal.

In Figure 18, there is shown a final detailed invoice. Note that from the gross totals on this invoice there has been subtracted the amount of the preliminary invoice, leaving a balance in both the billing-price column and the cost column.

The balance in the billing-price column represents the amount still due to the agency by the client, and the balance in the cost column represents the adjustment of the estimated cost as originally shown on the preliminary invoice.

These two figures are now entered in the Sales and Cost Journal as shown in Figure 23. At the end of the month, each column in the Sales and Cost Journal is totaled, and the total of the column headed "costs, newspapers" represents a charge to "cost of newspaper sales" and a credit to "accounts payable" control account. The total of the column "sales, newspapers" represents a charge to "accounts receivable" control and a credit to "newspaper sales."

In examining these accounting entries, it is important to note that "accounts payable" control account is never credited until the client is billed. The "accounts payable" control account is supported in detail by the files of insertion orders and the preliminary invoices which have not been finally billed. In other words, the total cost of the space as billed on preliminary in-

SALES AND COST JOURNAL

CLIENT Whitehall Soap Co MONTH OF August 19

COLLECTION DATA						SALES								COST OF SALES					
DATE	BALANCE IF ANY	DATE	INVOICE NUMBER	ACCTS RECEIVABLE	EXCHANGE ITEMS	NEWS PAPER	MAG-AZINES	OUT-DOOR	RADIO TIME	RADIO TAL & PROD	SOC SEC. TAXES BILL	ADVTG. MATERIALS	SERVICE FEES	NEWS-PAPERS	MAG.-AZINES	OUT-DOOR	RADIO TIME	RADIO TALI PROD	ADVTG MATERIALS
		8/1	1101	74500		74500								63325					
		8/25	2231	* 400		* 400								* 340					
			TOTAL	741-		741-								62985					
			*	DENOTES	CREDIT														

FIG. 23. Sales and Cost Journal.

voices for which no final billing has been completed, plus all insertion orders which have been billed but have not been paid, minus all insertion orders which have been paid but which have not been billed, represents the detail of the control account "accounts payable, space."

3. Magazines and Trade Papers: Billing, Paying and Accounting

THE methods used to bill, pay and account for magazine space are similar to those used for performing the same functions in connection with newspaper space. For that reason, only the differences in the two procedures will be discussed in this chapter.

CONTRACTS

Contracts for magazine space specify the amount of space to be used and in many cases specify the dates on which advertisements are to appear. They specify the type of space contracted for, such as inside front or back cover, the number of colors in which the advertisement is to be printed, etc. This is because magazines go to press so far in advance of publication date that they require this information in order to make up the magazine properly and reserve the required space for the advertiser. The contract issued to cover magazine space then, unlike the contract for newspaper space, completely describes the space contracted for, and for many purposes could be considered as a definite order.

INSERTION ORDERS

An insertion order is issued by the agency to cover each month's advertising in a magazine. The magazine insertion orders are similar to the newspaper insertion orders except that it is unnecessary to provide for recording the amount of space used to publish the advertisement, since magazine advertise-

ments are printed from plates and the advertisements always require the entire amount of space ordered by the agency.

CHECKING THE SPACE

Many magazines' terms provide that the agency make payment for the space prior to the publication date. For this reason, it is not possible to verify the appearance of the advertising before paying the magazine's bill; and since the agency collects from its clients on or before the date that it is required to pay the publisher, the client must be billed before the advertising has actually appeared.

Two carbon copies of magazine insertion orders are required in the bookkeeping process. One copy is sent to the checking department where it remains until after the magazine has been received and the advertisement checked. The bookkeeping copy of the insertion order is sent to the accounting department immediately after it is issued.

This copy of the insertion order is filed in a tickler file under the date on which the client should be billed (about fifteen days prior to the date on which the agency must pay the publisher). After the advertisement has been billed to the client and perhaps after the agency has paid the publisher, a copy of the magazine is received in the checking department and the advertisement is checked. The checking copy of the insertion order is then initialed by the checker to indicate that the advertisement appeared in proper form in the magazine, after which it is sent to the accounting department.

BILLING THE ADVERTISING

Weekly magazines usually require payment from the agency on the tenth, fifteenth or thirtieth of the month of issue. Some monthly magazines require payment during the month preceding issue; others require payment during the month of issue.

On the billing date, the bookkeeping copy of the insertion order is taken from the tickler file and an invoice is typed by reference to the insertion order which contains all the particu-

lars required for billing. The date on which the invoice was prepared is noted on the insertion order and it is filed in a billed-and-unpaid file. No adjustment of the original billing is required in connection with magazine space for, unlike newspaper space, the advertisements in magazines always require the amount of space ordered by the agency.

PAYMENTS TO PUBLICATIONS

When the bills are received from magazine publishers, the insertion orders covering the space are located in the billed-and-unpaid file. The publisher's bill is audited against the insertion order and the check is prepared. The date of the payment is entered on the insertion order which is then filed in a paid-and-billed file.

In some instances, agencies pay magazine publishers before they bill clients. This condition occurs where the agency does not have sufficient credit with the publisher. The publisher may require in such cases that the agency pay for space on closing date (the date that the magazine goes to press).

Since under normal terms the agency cannot bill its client until ten or fifteen days prior to the date on which the magazine would normally require the agency to pay for the space, it becomes imprudent for the agency to bill the client in time to receive the money to make the payment to the magazine publisher on closing date.

When this condition occurs, the copy of the insertion order is taken from the unpaid-and-unbilled file, the payment is made and the date of the payment is indicated on the insertion order, which is then filed in a paid-but-unbilled file under the proper billing date.

On the proper billing date the invoice is prepared and sent to the client. The billing date is noted on the insertion order which is then filed in the billed-and-paid file.

4. Radio Time: Billing, Paying and Accounting

RADIO advertising requires "time on the air," radio performers and, in some cases, scripts, sound effects, recording, etc. Time on the air is purchased from either independent stations or networks, that is, groups of stations such as the National Broadcasting Company, American Broadcasting Company, Mutual Broadcasting System or Columbia Broadcasting System.

Advertising agencies, in some cases, purchase only the time on the air from the radio station or network; and they purchase the talent, sound effects and other required items separately. In other instances, the advertising agency purchases time on the air, the required talent, sound effects and production materials directly from the radio station or network. When this is done, it is called a "package," and the broadcast is referred to as a "package show."

The advertising agency receives a fifteen percent commmission from the radio station on all charges for time on the air. Where package shows are purchased, or in other cases where either talent or production materials are purchased by advertising agencies from radio stations or networks, the radio station or network allows no commission to the agency on either talent or production materials; but it is usual for the agency to add 17.65 or 15 percent to the cost of talent and production materials purchased from networks or stations when computing the billing price of these items. (When 17.65 percent is added to

the cost, the commission realized on the selling price—117.65 percent of the cost—is fifteen percent of the selling price.)

CONTRACTS

Contracts for radio time or for package shows are prepared by the radio station or network that is selling the time to the agency. Note the difference between this and the procedure followed in publication advertising where the contract is prepared by the agency and sent to the publication.

Radio time and radio package shows are sold in units of weeks of broadcasting and regularly cover thirteen-week periods, or multiples thereof. In many cases, the cost of the "time on the air" is reduced as the volume of time used increases; thus, the rate for each week's broadcasting is less per broadcast when twenty-six weeks' time is contracted for than when only thirteen weeks' time is used.

Usually, where better rates are offered for longer periods of time, contracts between stations and agencies provide that, if the contract period is extended, then the rate per broadcast will be retroactively adjusted. If, for example, the station has better rates for a twenty-six-week period than for a thirteen-week period, and only a thirteen-week commitment is entered into originally, and the contract is renewed for an additional thirteen weeks, then there will be a retroactive rate adjustment to the first thirteen weeks of broadcasting, and the next thirteen weeks of broadcasting will be at the twenty-six-week rate.

Where talent is purchased separately by the agency, of course a separate contract is entered into between the agency and the talent.

The contract for live talent, when it is made separately, must cover a period running concurrently with that covering the radio time on the air; for obviously the talent is useless without the time on the air. Just as obviously, time on the air is planned with specific talent which is purchased for a particular program.

The contract between the station or network and the agency will be specific even as to small detail. It will cover the time that the radio show will be broadcast each day, on what day or days of the week the show will be broadcast, and all of the contingencies that could be anticipated, such as interruptions in the program, omissions of broadcasts, etc.

Often the contracts between radio stations or networks and advertising agencies are non-cancellable contracts. This suggests the enormous contingent liability or commitment that an agency can have in connection with a radio show covered by a fifty-two-week contract. Before an agency signs a contract with a radio station or network, it is of course necessary that the agency have a firm commitment from its client.

It is suggested that the client be required to sign a contract with the agency containing exactly the same terms and conditions as the contract that the agency is required to sign with the radio station or network. This is for the station's benefit as much as for the agency's. It also benefits the client, since it is certainly desirable that the client understand just what his commitment is—particularly in the case of radio advertising where the non-cancellable commitments can run into vast sums even in short periods of time.

In certain types of radio advertising, the agency is required to furnish the station or network with scripts, recordings or other materials for the show. Where this is the case, the agency is obligated to secure the needed items and furnish them to the radio station or network in advance of the broadcast date.

Usually, agencies have separate departments for the production of radio advertising, including scriptwriters and copywriters. The difference between the two titles is that scriptwriters write stories and copywriters write advertising copy. Some radio advertising of course requires no scriptwriting, sound effects, or other services or materials.

In the early days of radio advertising, advertisers and agencies

attempted to verify the programs broadcast by each station by appointing individuals in each city to listen to the broadcast of the station located in that city and to file a report on the quality of broadcast, the content of the broadcast and the elapsed time required. This type of verification proved to be expensive and cumbersome. Some agencies and advertisers still check radio broadcasts through the advertisers' dealers or through separate third-party organizations of one type or another. But most advertisers and agencies rely on the honesty of the broadcasting station which furnishes affidavits certifying the fact that each broadcast charged for was actually performed.

BILLING WORK SHEETS

After the agency has entered into a contract with a radio station or network, the essential information required for accounting purposes should be extracted from the contract so that it will be readily available from week to week and month to month as it becomes necessary to refer to such data for bookkeeping and accounting purposes. It is best to compile this information in an orderly fashion so that it can be more efficiently used by the agency's bookkeepers and clerks. A billing work sheet such as that shown in Figure 24 is a convenient form for extracting the needed information from radio contracts. Billing work sheets should clearly set forth all of the following information:

Client name.
Station name.
Station address.
Name of the program.
Term of the contract.
Commission rate.
Cash discount terms.
Times and days of the broadcasts.
Rate per broadcast.

RADIO TIME WORK SHEET

CLIENT Whitehall Soap Co
PRODUCT Beauty Soap
CONTRACT PERIOD 7-1- TO 9-30-

RADIO STATION WMAQ
STATE Illinois
CITY Chicago

DISC. — COMM. 15%

PROGRAM	DAYS OF WEEK M	T	W	T	F	S	S	LENGTH OF BROADCAST	TIME OF DAY	RATE	MONTH OF July TIMES	BILL	COST	MONTH OF Aug. TIMES	BILL	COST	MONTH OF Sept. TIMES	BILL	COST
Newscast	x		x		x			5 min.	9:00 AM	10.00	17	170.-	102.-	13	130.-	110.50	13	130.-	110.50
Chainbreak	x	x	x	x	x	x		8 words	12:00 M	5.00	25	125.-	106.25	27	135.-	114.75	25	125.-	106.25
Min. Announcement						x	x	1 min.	8:00 PM	6.00	10	60.-	51.-	9	54.-	46.%	9	54.-	46.%
TOTALS												305.-	259.25		319.-	271.15		309.-	263.65

FIG. 24. Radio Billing Work Sheet.

The billing work sheet should provide ample space for computing the amount due the station and the amount to be billed to the client for each week or month of the contract period. Some radio stations bill agencies on a weekly basis, others on a monthly one.

Where the agency is billed on a weekly basis, it sends invoices to clients each week; where it is billed on a monthly basis, it bills its client on the same basis. If weekly bills are sent, the computations and invoices are prepared on the last day of the week; monthly invoices are prepared on the last day of each month.

When the agency prepares the invoice to its client to cover either a week's or a month's broadcasting, those invoices are prepared on the basis of full performance, since on the last day of the week or month of broadcasting, the billing clerks have not yet received bills from radio stations and therefore cannot account for interruptions and omissions. The procedure for handling such omissions and interruptions will be described later. Billing work sheets should be arranged alphabetically by client, with each client's billing work sheets arranged alphabetically by station call letters.

INVOICES TO CLIENTS

As was stated previously, invoices for clients are prepared by reference to the file of radio-billing work sheets. Invoices could be prepared by referring directly to contracts with radio stations, but these contracts are legalistic in form. Therefore, to excerpt the needed information would require considerable time.

It is for this reason that the billing work sheet is prepared as soon as the contract has been completed, so that then this work sheet can be referred to month in and month out until the contract has expired. A separate invoice should be prepared for each program. This means that there could be two or more invoices covering broadcasting from the same radio station,

since one client may purchase several programs from one station and each program could be covered by a separate contract. See Figure 25 for a typical invoice covering radio time.

At least three copies of each radio-time invoice should be prepared by the advertising agency. The original is to be sent to the client; the file and bookkeeping copies are to be retained by the advertising agency. After the invoices have been prepared, all radio-time invoices for one client should be grouped

RADIO TIME INVOICE

JONES & SMITH
ADVERTISING
500 N. MICHIGAN AVE
CHICAGO 1, ILL

CLIENT WHITEHALL SOAP COMPANY No 7697

PRODUCT Beauteen Soap DATE July 31, 19

STATION W M A Q

CITY Chicago STATE Illinois

RADIO TIME CHARGES FOR MONTH OF July

DATES	LENGTH OF BROADCAST	TIME OF DAY	NO OF TIMES	RATE	AMOUNT	COST
M. Wed. Fri. July 3,5,7,10,12,14,17, 19,21,24,26, 28	5 Min.	9:00 AM	12	$ 10.00	$ 120.00	$ 112.00
Daily Except Sunday Announcements July 1,3,4,5,6,7,8,10,11, 12,13,14,15,17,18,19, 20,21,22,24,25,26,27, 28,29	8 Words	12:00 M	25	5.00	125.00	106.25
Min. Announcements-Sat-Sun July 1,2,8,9,15,16,22,23, 29,30	1 Min.	8:00 PM	10	6.00	60.00	51.00
TOTALS					$ 305.00	$ 269.25

CLIENT COPY
OFFICE COPY

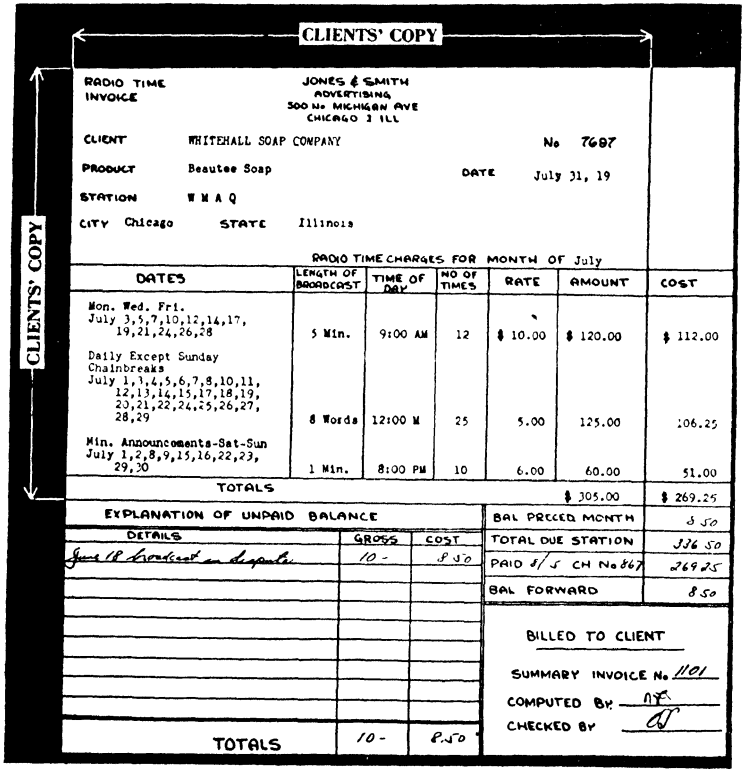
FIG. 25. Invoice for Radio Time.

together and attached to a summary invoice. The summary invoice usually contains wording such as the following:

Radio-time charges for the month of January.
See attached detail invoices (one for each station and program).....$10,000.00

Reference to Figure 26 will illustrate the fact that the bookkeeping copy of each radio-time invoice contains not only the

billing amount but the cost amount as well. In addition, space is provided on the bookkeeping copy of each invoice to record adjustments to the original invoice and payments to radio stations.



CLIENTS' COPY

CLIENTS' COPY

RADIO TIME INVOICE

JONES & SMITH ADVERTISING
500 No MICHIGAN AVE
CHICAGO 3 ILL

CLIENT WHITEHALL SOAP COMPANY No 7687

PRODUCT Beautee Soap DATE July 31, 19

STATION W M A Q

CITY Chicago STATE Illinois

RADIO TIME CHARGES FOR MONTH OF July

DATES	LENGTH OF BROADCAST	TIME OF DAY	NO OF TIMES	RATE	AMOUNT	COST
Mon. Wed. Fri. July 3,5,7,10,12,14,17, 19,21,24,26,28	5 Min.	9:00 AM	12	$ 10.00	$ 120.00	$ 112.00
Daily Except Sunday Chainbreaks July 1,3,4,5,6,7,8,10,11, 12,13,14,15,17,18,19, 20,21,22,24,25,26,27, 28,29	8 Words	12:00 M	25	5.00	125.00	106.25
Min. Announcements-Sat-Sun July 1,2,8,9,15,16,22,23, 29,30	1 Min.	8:00 PM	10	6.00	60.00	51.00
TOTALS					$ 305.00	$ 269.25

EXPLANATION OF UNPAID BALANCE

DETAILS	GROSS	COST
June 18 broadcast on dispute	10 -	8 50
TOTALS	10 -	8.50

BAL PRCED MONTH	5 50
TOTAL DUE STATION	336 50
PAID 8/5 CH No 867	269 25
BAL FORWARD	8 50

BILLED TO CLIENT

SUMMARY INVOICE No. 1101

COMPUTED BY NK

CHECKED BY CD

FIG. 26. Invoice for Radio Time—Bookkeeping Copy.

PAYMENTS TO RADIO STATIONS

When the agency first prepares the invoice that it sends to its client for the radio-time charges, that invoice is prepared on the basis of the number of broadcasts contracted for; at this

time no adjustment is made for interruptions, omissions, etc. The bookkeeping copy of the client's invoice is designed to act in the same manner as a payment voucher.

In other words, it is used as the authorization for the payment to the radio station. This is because the agency, having billed its client for the radio time, can authorize payment in an amount not exceeding the legitimate cost of the items so billed. Of course it is necessary for the agency to verify the cost of these items by comparing the figures shown on the bookkeeping copy of the invoice with those shown on the radio station's bill to the agency. It is also necessary to examine the affidavit from the station to determine that all broadcasts scheduled actually were performed.

Bookkeeping copies of radio-time invoices to clients are filed by the agency in a file called "Billed but Unpaid Items." It is important to note that when an invoice is prepared, that invoice is entered in the Sales and Cost Journal and the cost of the radio time is thereby credited to accounts payable. Accounts-payable radio time is never credited until a client is billed, since this credit originates from entering clients' bills to the Sales and Cost Journal, as will be seen in greater detail by examination of the chapter "Chart of Accounts and Accounting Records." No radio station should be paid without a client's having been billed, as will be seen in the following:

When a bill is received from a radio station, affidavits verifying the broadcasts should accompany such bills. The bills from the radio stations are then audited against bookkeeping copies of invoices sent to clients (found in the "Billed-but-Unpaid" files). If no bill has been sent to a client for the item billed by the radio station, an invoice should be prepared before the radio station's bill is passed for payment. If the station's bill allows credits for interruptions or omissions, etc., then that information should be posted on the bookkeeping copy of the agency's invoice. The check number and the amount paid to the radio station is to be noted on the bookkeeping copy of the client

invoice, and the check is sent to the radio station. Figure 27 is a typical check issued by an agency in payment of radio time charges. Duplicate copies of checks issued to radio stations are filed and the total of such duplicates at the end of the month is charged to "accounts payable, radio time." The bookkeeping copies of the original radio-time invoices sent to clients are now examined to determine if any billing adjustment is required.

JONES & SMITH
ADVERTISING

CHICAGO August 15 19__

Pay TWO HUNDRED SIXTY NINE DOLLARS AND TWENTY FIVE CENTS $269.25

To The Order Of W M A Q

Chicago, Illinois

JONES & SMITH

FIRST NATIONAL BANK
CHICAGO, ILL

By:_____

PLEASE DETACH BEFORE DEPOSITING

Per your Invoice Attached

FIG. 27. Check Paying for Radio Time.

ADJUSTMENTS TO ORIGINAL BILLING

After the radio stations have been paid, the bookkeeping copies of the original invoices sent to clients are used to prepare adjustment invoices. Usually these adjustment invoices are the equivalent of credit memos, for it is rare that a client would

be billed for more time than that contracted for (the original billing being based on the information shown on the billing data sheets which were in turn prepared by examination of the contracts between the agency and the radio station).

However, it is not unusual for radio stations to omit parts or all of some broadcasts; and the station's bill then allows credit for the time that was not used so that the adjustment invoices

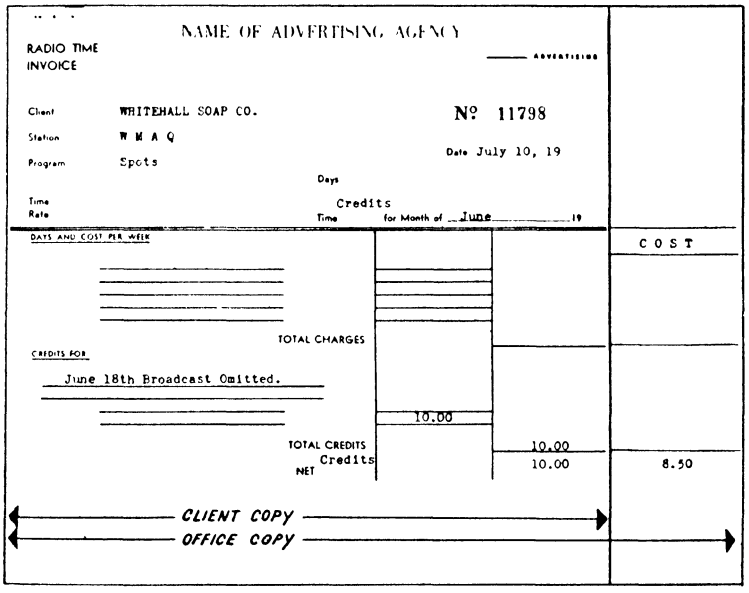


FIG. 28. Credit Memo—Radio Time.

to the agency's clients are generally credits. These credit memos are prepared in much the same fashion as original invoices are prepared. (See Figure 28.)

When adjustment invoices are prepared, the carbon copies are attached to the carbon copies of the original invoices so that the bookkeeping copy of the invoice originally prepared and the bookkeeping copy of the adjustment invoice relating to the original invoice are both finally attached together.

ACCOUNTS-PAYABLE DETAIL

The sales of radio time are entered in the Sales and Cost Journal by posting the sales price in the column headed "Radio Time." This procedure is described in greater detail in the chapter "General Books and Chart of Accounts."

The total cost of each invoice is also entered in this record and from there is credited to the accounts-payable account in the General Ledger. As a result, "accounts payable, radio time" is credited with the cost of all items billed. If an original invoice is adjusted by a secondary invoice or credit memo, this adjustment invoice or credit memo is also recorded in the Sales and Cost Journal and thereby acts as an adjustment to the accounts-payable account.

The total entered in that account represents the actual cost of the radio time as it is finally billed to clients. The cost of radio time must be paid by the agency to radio stations and networks. When the stations and networks are paid, the total of the checks issued is charged to "accounts payable, radio time," so that the balance in that account represents the unpaid items.

In this chapter under the heading "Payments to Radio Stations," it has been stated that the payments to radio stations were made after auditing the radio station's bill with the bookkeeping copy of the invoice the agency sent to its client. At this time the check number and date of payment are recorded on this copy. The bookkeeping copies of invoices which have not yet been used for payment are filed in a file called "Billed but Unpaid Items." As soon as payments are made to radio stations and networks, these bookkeeping copies are removed from the file "Billed but Unpaid Items" and are placed in a file called "Billed and Paid Items."

Consequently, all of the bookkeeping copies in the file called "Billed but Unpaid Items" when added together should equal the balance in the General Ledger account called "accounts payable, radio time."

5. Radio Talent and Production: Billing, Paying and Accounting

IN DISCUSSING the methods used for billing, paying and accounting for radio time, it has been stated that various types of arrangements are made between the advertising agency and the radio station or network. In some cases, the radio station furnishes all the required items including the talent, the writers, directors, recordings, sound effects, etc. In others, the agency merely buys the time on the air from the radio station and then secures the talent, recordings, sound effects, etc., elsewhere.

Where the radio station furnishes the required items, the costs are billed to the agency with the time cost. Where the advertising agency employs the talent or purchases other items such as recordings, sound effects, scripts, etc., it is necessary to provide for accumulating these costs for use in preparing invoices to clients and for paying the talent and suppliers of materials and services.

The methods used are similar to those described for billing, paying and accounting for advertising materials. In the preparation of the printed advertisement, it is necessary for the agency to purchase advertising materials from outside suppliers. Likewise, to complete a radio broadcast, the agency must purchase the talent and supplies to be used for each radio program. The costs of the services and materials purchased in connection with the production of a radio program are billed to clients at the agency's accumulated cost plus a commission of either 17.65 of 15 percent which is added to the cost of the services and materials.

RADIO PRODUCTION ORDER

It is desirable that costs relating to each separate program be accumulated and billed separately. Therefore, a separate production order should be prepared to cover each job repre-

RADIO PRODUCTION ORDER

ADVERTISER — NO. 1234
PROGRAM — DATE
BROADCAST ☐ — RADIO STATION
RECORDING ☐ — TIME OF BROADCAST
AUDITION ☐ — ESTIMATE NO.
OTHER ☐

INSTRUCTIONS

COST RECORD

DESCRIPTION	SUPPLIER	COST	DATE PAID
Talent	See Talent Voucher		
Writers			
Sound Effects			
Studio Time			
Masters and Safeties			
Acetate Dues			
Pressings			
Air Checks			
Other			
TOTAL COST			
	Commission on $		
	Billing Amount		

BILLED TO CLIENT ON INVOICE NO._____ DATE_____

FIG. 29. Production Order—Radio.

senting one radio program. (See Figure 29.) It is suggested that the radio production orders be prenumbered at the time of printing. The numbers of these orders will be referred to as job numbers.

Each radio production order should contain the following references:

Advertiser's name.
Name of the program.
Broadcast time.
Indication of the type of job, viz., live broadcast, recording, audition or miscellaneous.

In the body of the radio production order, the various items of cost such as talent, writers, musical arrangements, sound effects, studio time for recording, masters, safeties, pressings, etc., should be stated.

One copy of each production order should be forwarded to the accounting department as soon as it is prepared. The actual amount of each item shown on the production order should be recorded by the accounting department from the talent vouchers and suppliers' bills.

RADIO TALENT VOUCHER

In addition to preparing radio production orders, separate radio talent vouchers must be prepared by the radio department for each job number. (See Figure 30.) The name and address of each person employed and the amount to be paid are indicated. The accounting department is to receive one copy of each talent voucher. The computations of the social security tax deductions and the amount of income tax to be withheld will be made in the accounting department for the purpose of preparing pay checks.

ACCOUNTING DEPARTMENT FILE OF RADIO JOBS

The accounting department will maintain a file containing folders for each job number. Each file folder will contain a copy

of the radio production order, a copy of the radio talent voucher or vouchers, and copies of all bills received from suppliers. In this manner, the original information concerning the costs accumulated for each job is maintained without the necessity of copying or recopying any figures.

It is necessary that all bills received from suppliers be first approved for payment by the radio department. The copies of radio production orders are filed as soon as they are received in the accounting department; however, the copies of the radio talent vouchers must first be computed for social security and withheld tax deductions, and the payments to be made for these. The check numbers covering the payments to the talent should be recorded on the radio talent voucher forms.

PAYMENT OF RADIO TALENT COSTS

There has always been a question as to whether the agency or the client is the employer of the talent. If the agency is the employer, it is required to pay the regular social security and withheld taxes to the Government. It has been more generally accepted that the client is the employer and is responsible for the payment of social security and withheld taxes.

In either event, it is necessary to maintain individual earning records for each person paid. If the agency considers itself the employer of talent, it will use these earnings record cards to prepare quarterly social security and withholding tax returns. If the client is considered the employer, the agency will prepare a regular report to the client showing the accumulated earnings of each performer. At the same time the agency will issue a credit memo or pay the client to cover the total amount of taxes withheld from the talent paid by the agency, since the regular invoice to the client included the cost of radio talent at the gross amount.

On the other hand, if the agency is considered the employer, the invoice to the client will show the gross cost of the talent plus the agency's cost of social security taxes.

RADIO TALENT VOUCHER

ADVERTISER :
PROGRAM
BROADCAST ☐
RECORDING ☐
AUDITION ☐
OTHER ☐

NO 1431
DATE
RADIO STATION
TIME OF BROADCAST
ESTIMATE NO.
RADIO PRODUCTION ORDER NO.
AUTHORIZED BY _____

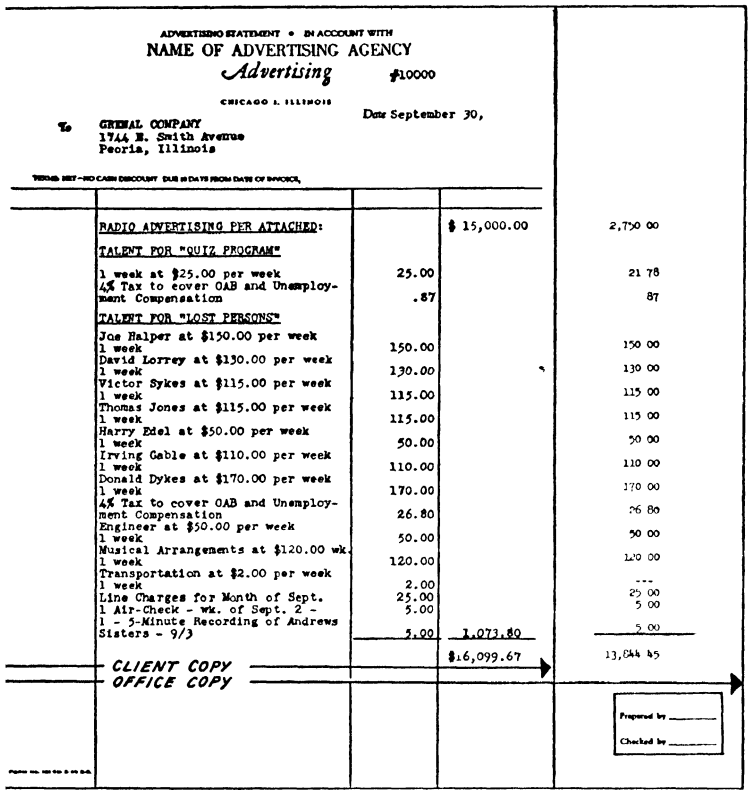
CHECK NO.	NET PAY	U.C. INS.	F.O.A.B. TAX	WITHHELD INC. TAX	NAME	GROSS	SOC. SEC TAX COST IF APPLICABLE
					TOTALS		
					ADD. SOC SEC TAX COST IF AGENCY IS EMPLOYER		
					TOTAL COST		

FIG. 30. Radio Talent Voucher.

INVOICES TO CLIENTS

If the talent and production costs for a radio broadcast are paid on a weekly basis, invoices are prepared and forwarded to client on a weekly basis. In other cases, invoices are issued only

n a monthly basis to cover the talent and production costs of ach radio program for the month. The invoices are prepared y referring to the file containing the radio production order,



ADVERTISING STATEMENT • IN ACCOUNT WITH

NAME OF ADVERTISING AGENCY

Advertising #10000

CHICAGO 1, ILLINOIS

Date September 30,

To GRIMAL COMPANY
1744 N. Smith Avenue
Peoria, Illinois

TERMS: NET—NO CASH DISCOUNT DUE IN DAYS FROM DATE OF INVOICE.

RADIO ADVERTISING PER ATTACHED:		$ 15,000.00	2,750 00
TALENT FOR "QUIZ PROGRAM"			
1 week at $25.00 per week	25.00		21 78
4% Tax to cover OAB and Unemployment Compensation	.87		87
TALENT FOR "LOST PERSONS"			
Joe Halper at $150.00 per week 1 week	150.00		150 00
David Lorrey at $130.00 per week 1 week	130.00		130 00
Victor Sykes at $115.00 per week 1 week	115.00		115 00
Thomas Jones at $115.00 per week 1 week	115.00		115 00
Harry Edel at $50.00 per week 1 week	50.00		50 00
Irving Gable at $110.00 per week 1 week	110.00		110 00
Donald Dykes at $170.00 per week 1 week	170.00		170 00
4% Tax to cover OAB and Unemployment Compensation	26.80		26 80
Engineer at $50.00 per week 1 week	50.00		50 00
Musical Arrangements at $120.00 wk. 1 week	120.00		120 00
Transportation at $2.00 per week 1 week	2.00		---
Line Charges for Month of Sept.	25.00		25 00
1 Air-Check - Wk. of Sept. 2 -	5.00		5 00
1 - 5-Minute Recording of Andrews Sisters - 9/3	5.00	1,073.80	5 00
		$16,099.67	13,844 45

CLIENT COPY

OFFICE COPY

Prepared by _____

Checked by _____

FIG. 31. Invoice—Radio Talent.

ıe talent voucher and suppliers' bills. Each of the items of ɔsts is listed on the invoice and to the total a commission is dded. (See Figure 31.)

It is not altogether necessary that separate invoices be prepared covering the talent and production costs of radio shows.

It will be remembered that in billing the time costs it was recommended that a separate invoice be prepared to cover each program appearing on each radio station. A summary invoice was then to be prepared showing the one-line information as follows:

Radio Station Charges for the
Month of ..... $.....

On this summary invoice the talent costs may be shown immediately below the time costs. Where there are many radio station broadcasts which include reasonably large talent and production costs, such a summary invoice might be too lengthy. If so, it is possible to prepare more than one summary invoice by grouping only three, four or five radio stations on each summary invoice with the details of the talent and production costs added.

When the invoices are entered in the Sales and Cost Journal, the billing amounts and costs are distributed in the proper columns. Separate columns are provided for radio-time billing, radio-time costs, radio talent and production billing, radio talent and production costs, and for social security tax charges. Through the regular monthly entry in the Sales and Cost Journal summary, the radio-time accounts-payable control account, the radio talent and production accounts-payable control account, and the accrued social security taxes for radio talent are credited. If the agency's clients are all considered the employers of the talent, there will be no need for the social security tax column since there will be no social security tax charges added to the invoices covering talent costs. The social security tax charges referred to are those charges paid by the employer.

PAYMENTS TO RADIO SUPPLIERS AND TALENT: PRODUCTION ACCOUNTS-PAYABLE DETAIL

As payments are made to radio production suppliers, the date or check number is recorded on the radio production order form in the column provided for that purpose.

The monthly total of checks issued to radio production suppliers and radio talent will be charged to the radio production and talent accounts payable. The monthly standard entry for the total of the checks above mentioned will be as follows:

Debit—Radio Talent and Production Accounts Payable
Credit—Cash in Bank
—Social Security Tax Accruals, Radio Talent
—Withholding Tax, Radio Talent

The control account, accounts-payable radio talent and production, is credited with the cost of the items billed, and charged with the payments to talent and production suppliers. The balance in the radio talent and production accounts payable represents the cost of items that have been billed to clients but not yet paid.

The detail of the accounts-payable control account is listed from the file of radio talent and production items by reviewing the radio production orders included therein. The items to be listed will be those included on billed radio production orders that have not been paid, and those paid but not billed. The latter are prepayments. Costs for each radio production order which have not been billed to clients and have not been paid for are listed.

A Standard Journal entry should then be made each month for this amount, charging to unbilled radio talent and production costs (inventory) and crediting to radio talent and production accounts-payable control account. This entry should be reversed at the first of the following month.

Through the methods described in this chapter it will be noted that proper internal control is provided so that all paid items are billed and, conversely, that all billed items are paid.

DESCRIPTION OF PROCEDURES THAT SHOULD BE ADOPTED BY AGENCIES WITH SUBSTANTIAL BILLING

A more complete record can be maintained by adopting the same procedures as outlined in the chapter "Advertising Mate-

rials: Billing, Paying and Accounting." The regular Inventory Control Journal is adopted for maintaining the accumulated costs by job number. A Voucher Register provides for accumulating costs due the suppliers and talent. In most cases, the procedures outlined in this chapter will suffice and thereby eliminate the necessity for maintaining the Inventory Control Journal and the Voucher Register.

6. Outdoor Advertising: Billing, Paying and Accounting

OUTDOOR advertising includes spectacular, painted and posted displays, the latter being printed or lithographed on large sheets of paper and pasted onto billboards.

Companies in various cities own outdoor-advertising locations and rent these locations to advertisers through advertising agencies. The companies owning outdoor-advertising display space are referred to as outdoor plants. Outdoor plants offer outdoor-advertising display space in units, sometimes consisting of a number of locations in one city or in several. The outdoor plants have, for the most part, gathered statistics to show the number of people who pass each outdoor location. These figures and statistics are available to the advertising agency and to the advertiser.

The National Outdoor Advertising Bureau is an organization owned by advertising agencies and operating for their exclusive benefit. This bureau will arrange for outdoor-advertising space in one or more cities and will accumulate the space required to meet an advertiser's specific need. Some advertisers are limited to advertising in certain states. This applies to liquors, beer and wine. Other advertisers have distribution only in certain states or cities and must therefore limit their advertising to the locations in which the product is available. So the National Outdoor Advertising Bureau can help the advertiser and the agency to select the most desirable locations for advertising a particular product.

The Bureau will also contract with the outdoor plants, issue the orders for the posting, check the appearance of the advertising and bill the agency. When an agency operates through

the National Outdoor Advertising Bureau, the Bureau actually performs nearly all the clerical work and relieves the agency of these details; but of course the Bureau makes a charge for this service, the charge equaling three and two-third percent of the cost of the outdoor space.

In discussing the billing and paying procedures, no differentiation will be made as to whether the agency deals directly with the outdoor plant or through the National Outdoor Advertising Bureau. If the agency deals through the Bureau, the Bureau may be looked upon as one outdoor plant. Then the agency issues one order to the Bureau, makes one payment to the Bureau, prepares one invoice to the client covering the charges made by the Bureau for all outdoor-advertising locations. If an agency deals with separate outdoor plants, the functions will be duplicated as many times as there are plants to deal with.

CONTRACTS

A separate poster contract is issued by the agency to each outdoor plant from which space is purchased. (See Figure 32.) The example of the poster contract shown is for regular poster space. It is not intended to be used to cover spectacular or painted displays. Usually each spectacular display or painted outdoor-advertising location requires a special contract embodying the terms and conditions applying. The outdoor-poster contract is to be typed in quadruplicate, the copies to be used as follows:

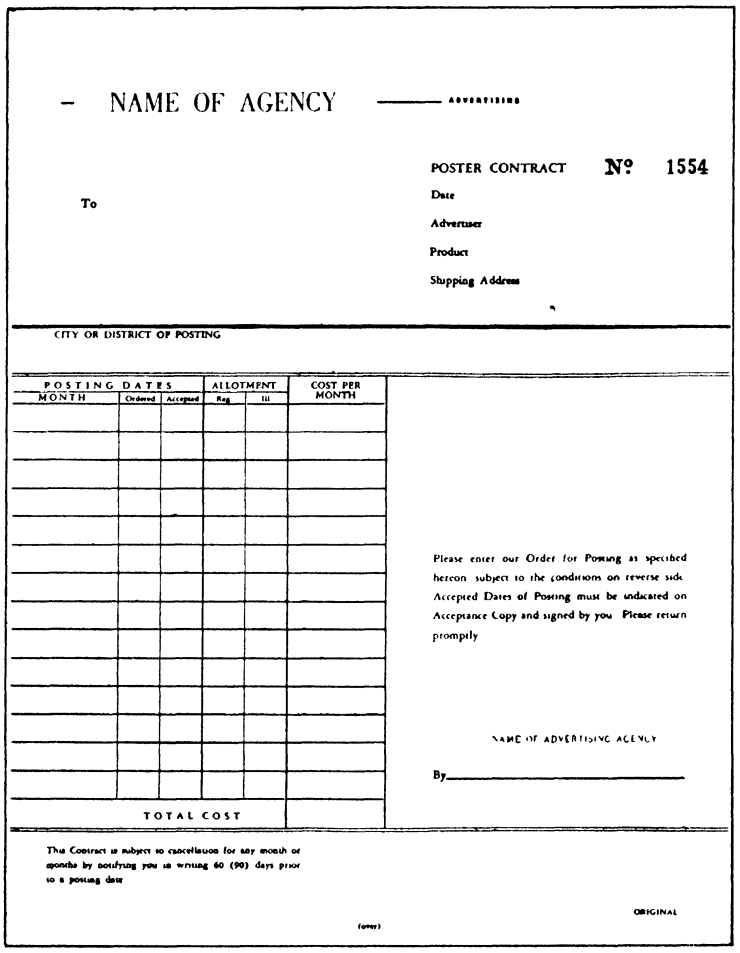
Original—sent to outdoor plant.

Duplicate—sent to outdoor plant to be returned with plant owner's signature signifying his acceptance of the contract.

Triplicate—to be filed in the accounting department for use as described later.

Quadruplicate—to be filed in the outdoor department of the advertising agency; or, if the agency has no such department, then all these quadruplicates are filed together by the space buyer to be used for reference.

Contracts generally cover a period of one year, but are also issued for shorter periods. The contract form provides space for showing the number of billboards to be used each month in the contract period, and the name of each month is to be listed in the left-hand column under the heading "Posting



— NAME OF AGENCY ——— ADVERTISING

POSTER CONTRACT No? 1554

To

Date

Advertiser

Product

Shipping Address

CITY OR DISTRICT OF POSTING

POSTING DATES MONTH	Ordered	Accepted	ALLOTMENT Reg	Ill	COST PER MONTH
TOTAL COST					

Please enter our Order for Posting as specified hereon subject to the conditions on reverse side. Accepted Dates of Posting must be indicated on Acceptance Copy and signed by you. Please return promptly

NAME OF ADVERTISING AGENCY

By_____

This Contract is subject to cancellation for any month or months by notifying you in writing 60 (90) days prior to a posting date

ORIGINAL

(over)

FIG. 32. Poster Contract.

Dates." The heading "Allotment" under which there appear the subheads "Reg." and "Ill." is to be used to show the allotment of regular and illuminated display boards for each month in the contract period. The monthly cost (to the advertiser) is

NAME OF ADVERTISING AGENCY

POSTER CONTRACT No. 1554

To

Date

Advertiser

Product

Shipping Address

CITY OR DISTRICT OF POSTING

POSTING DATES			ALLOTMENT		COST PER MONTH	NET	BILLED		PAID	
MONTH	Ordered	Accepted	Reg.	Ill.			DATE	INV. NO.	DATE	CHECK NO.
TOTAL COST										

This Contract is subject to cancellation for any month or months by notifying you in writing 60 (90) days prior to a posting date

BOOKKEEPING COPY

FIG. 33. Poster Contract—Bookkeeping Copy.

shown opposite each month's heading. No copies of the contract are to be distributed to the agency's accounting department until the outdoor plant has returned the acceptance copy indicating that the contract is in force.

When the plant owner returns the acceptance copy of the contract, the space buyer or outdoor department head should ascertain whether the outdoor plant has accepted the contract in its entirety or, if not, what changes have been made. Where changes are made in the number or cost of outdoor displays, corrected figures must be noted on all copies of the contract. One copy of the contract is forwarded to the accounting department to be used for billing and paying the advertising. The bookkeeping copy of the outdoor-poster contract is displayed in Figure 33. Note that this copy of the contract provides space for entering information relative to billing and paying.

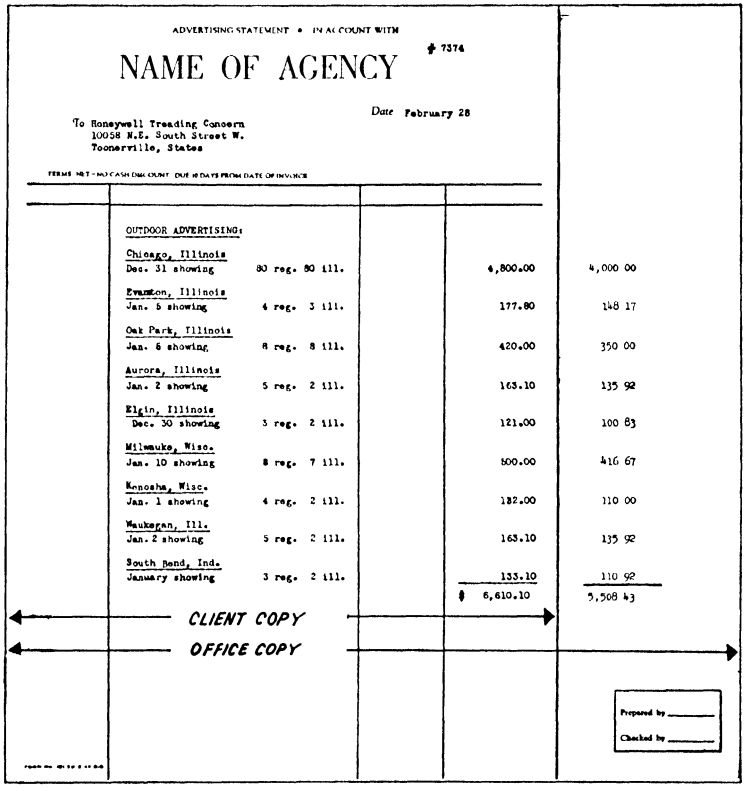
INVOICES TO CLIENTS

Each month the bookkeeping department is to examine the file of bookkeeping copies of poster contracts. All displays that are posted during the current month should be billed within that month and the billing should be sufficiently in advance of the close of the month to permit time for the client to pay the bill to the agency before the last day of the month. The agency does not pay the outdoor plant until after the last day of the month of posting. Consequently, the first payment to be made by the agency to an outdoor plant will be in the month subsequent to that in which the agency sent the invoice to the client, and all payments from the client will have been received by the agency before it makes payment to the outdoor plant.

Before typing the invoice to the client, it is necessary to compute the cost to the agency of each month's outdoor advertising and to enter this figure on the accounting department copy of the contract. The figure should be entered opposite the proper month heading, in the column headed "Net." The invoice is typed by reference to the poster contracts. The typist merely lists the name of each city in which posting appears, the billing

price of the month's posting in each such city, and the date on which the advertising was posted. (See Figure 34.)

The office copy of the invoice is made about an inch wider than the copies which are sent to the advertiser. On the right-



ADVERTISING STATEMENT • IN ACCOUNT WITH

NAME OF AGENCY

7374

Date February 28

To Honeywell Treading Concern
10058 N.E. South Street W.
Toonerville, States

TERMS NET—NO CASH DISCOUNT DUE 10 DAYS FROM DATE OF INVOICE

OUTDOOR ADVERTISING:			
Chicago, Illinois Dec. 31 showing	80 reg. 80 ill.	4,800.00	4,000 00
Evanston, Illinois Jan. 5 showing	4 reg. 3 ill.	177.80	148 17
Oak Park, Illinois Jan. 6 showing	8 reg. 8 ill.	420.00	350 00
Aurora, Illinois Jan. 2 showing	5 reg. 2 ill.	163.10	135 92
Elgin, Illinois Dec. 30 showing	3 reg. 2 ill.	121.00	100 83
Milwauke, Wisc. Jan. 10 showing	8 reg. 7 ill.	500.00	416 67
Kenosha, Wisc. Jan. 1 showing	4 reg. 2 ill.	132.00	110 00
Waukegan, Ill. Jan. 2 showing	5 reg. 2 ill.	163.10	135 92
South Bend, Ind. January showing	3 reg. 2 ill.	133.10	110 92
		$ 6,610.10	5,508 43

CLIENT COPY

OFFICE COPY

Prepared by _____

Checked by _____

FIG. 34. Invoice—Outdoor.

hand margin of the office copy of the invoice, the agency's cost of the advertising space in each city is typed. Where clients require a complete listing showing the location of each outdoor display, the agency can attach a copy of the bills received from

outdoor plants, since these bills, which can be secured in duplicate, show the address at which each outdoor display sign is located. When the invoice has been typed, the date and the invoice number are entered on the bookkeeping copy of the contract in the space provided for this information.

PAYMENTS TO OUTDOOR PLANTS

When bills are received from outdoor plants, they are to be audited against bookkeeping copies of poster contracts. The billing price and the agency's net cost must agree with the figures for these items as shown on the poster contract. After this verification has been made, checks are prepared for payment of outdoor bills. The check numbers and dates are recorded on the bookkeeping copies of poster contracts in the space provided for that purpose.

ACCOUNTING ENTRIES

The office copies of the agency's invoices for outdoor space show the total billing price and the agency's net cost. These sales and costs are entered in the Sales and Cost Journal in the same manner as newspaper, magazine or radio invoices are entered, that is, both the billing price and the cost of each invoice are entered. From this Journal the following entries are carried to the General Ledger:

Charge—Accounts Receivable.
    Credit—Outdoor Sales (with the total sales price of all outdoor advertising invoiced to clients).
Charge—Cost of Outdoor Advertising.
    Credit—Accounts Payable, Outdoor (with the total cost of outdoor space billed).

When checks are issued in payment of outdoor space, the total of such payments is charged to the General Ledger control account "accounts payable, outdoor." The balance in the accounts-payable control account represents the unpaid items. A list of billed-but-unpaid items as taken from the poster contracts is prepared by examining these contracts and listing the

items which are noted to have been billed but which have not been paid. By using the method described, outdoor accounts-payable account is credited only after a client has been billed.

This system of internal control assures the billing of all items paid and the paying of all items billed. The accounts-payable control account is credited with the cost of items billed and is charged with the payments made to outdoor plants. The balance in the account must represent the billed and unpaid items less the paid and unbilled items. The detailed list of unpaid-and-unbilled items as taken from bookkeeping copies of poster contracts must equal the total in the General Ledger control account "accounts payable, outdoor."

If the detailed list as taken from the outdoor contracts includes any item that has been paid for but has not been billed to a client, such an item should be disposed of through proper billing to the client. Likewise, the financial management of an agency will want to determine the reason for withholding payment of billed items where the list discloses unpaid items of long standing.

7. Advertising Materials: Billing, Paying and Accounting

LESS than ten percent of the cost of publication advertising is normally expended for advertising materials (art work, photography, engravings, electros, typography, stereos, mats, photostats, etc.). The job of specifying and buying these advertising materials is a historic function of the advertising agency. While this function in terms of revenue is one of the smallest of the agency operations, there is none other that causes so much difficulty and friction between the agency and the advertiser.

Advertising space is sold at established rates and there can be no dispute as to whether an advertisement occupies a page, a half-page or ten lines. On the other hand, whether it is necessary to employ a specific artist to make a painting, whether it is necessary to buy the services of the "best" photographer, whether a set of four-color engravings registers, whether it is necessary to reset the type, are often questions of judgment.

Suppliers of advertising materials such as these mentioned have no fixed prices for each specific job since such jobs are made to measure.

The magazine or newspaper advertisement is specified to appear on a certain date, and since the paper is published on that date, the advertisement either appears on that date or it doesn't appear at all. There can be no quarrel as to whether or not the advertisement was published on the right date. But advertising materials are needed to meet certain deadlines, and the date on which each piece of material is required depends on when other materials are received. Each is a link in a chain. The whole must

be completed before the final needed plates or other materials can be forwarded to the publication.

It should be remembered that to print one advertisement, it may be necessary to buy ten or fifteen different advertising materials, each from a different supplier. This gives one some idea of the immense mass of detail that must be handled by the agency before the final plates can be sent off to the publisher.

SYSTEM REQUISITES

A system for handling the ordering, billing and paying for advertising materials must be much more than an accounting system that simply produces invoices to clients, checks to suppliers, and bookkeeping entries. It must be a system that will:

1. Assure the receipt of the necessary advertising materials on the dates required.
2. Produce a perpetual record to show at all times the materials that have been purchased for each specific job and for each specific client.
3. Expedite the prompt preparation of invoices to advertisers (clients) in such a manner that all materials purchased in connection with the preparation of one advertisement may be grouped together so that the advertiser can know exactly what he is paying for.
4. Control the transactions completely so that every item purchased in connection with the preparation of an advertisement is finally billed to a client.

Advertising materials are purchased specifically for the preparation of a client's advertisement. These materials are always to be billed to clients. The agency purchases the advertising materials piecemeal and usually does not invoice the client until all the materials for one job have been received and that job has been completed. From this it will be seen that often the agency expends its own funds purchasing materials to be used for clients' advertising and that these sums are not recovered until an invoice has been prepared after each job is completed.

In some cases, this requires as long as three, four or five months.

Some agencies erroneously charge the cost of advertising materials to an account called "Purchases." This purchase account is then considered to represent the cost of the advertising materials sold; but in truth it does not, since it represents the cost of all items purchased, only some of which have been billed to clients. It is important that all advertising materials purchased be charged to an account that should be called "Unbilled Advertising Materials."

As items are invoiced to clients, the cost of the items invoiced is credited to this account so that the balance in the account always represents only the unbilled items. This figure tells management how much the agency has invested in materials which have not yet been billed to clients. The system of charging these purchases to an inventory account (Unbilled Advertising Materials) also allows the agency to have full control over the transactions, as will be developed later. Usually, an agency that bills advertising materials only upon completion of jobs will carry an inventory of "unbilled advertising materials" approximating one twelfth to one fourth of its annual sales of advertising materials.

In the course of the development of the advertising-agency business, a number of different accounting systems have been developed by agencies and accountants in an attempt to provide for the handling of the purchasing and billing of advertising materials.

These systems usually are extremely cumbersome in operation because every such system attempts to record the separate purchases in some formal book such as a Purchase Register. Every such system that has been developed, with the exception of the one that will be described here, provides for accumulating the bills from suppliers in job envelopes or other files and provides for the actual taking of an inventory each month or period in order to secure a list of the unbilled items that have been purchased by the agency.

Most of the systems do not provide for properly supporting

invoices to clients, who should be furnished with evidence to support each charge. The advertiser receives a copy of every advertisement that appears in a newspaper or magazine, but he receives no copy of the type that was set by the typesetter; he receives no copy of the four-color engraving; he may never see the photostats or the art work; consequently, it is important to support the charges for such materials by evidence that will clearly indicate that the agency's charge is proper.

The contact man in conference with the advertiser develops an idea for an advertisement or campaign. This idea may be illustrated by rough sketches and a copy theme. But when the advertiser formally approves the production of advertising, the contact man issues a production order specifying the details of the advertisement and the name of the publications in which it is to appear.

The job of securing the advertising materials is, in most advertising agencies, delegated to the production manager and the art director. The art director is responsible for purchasing art and photography, and the production manager is responsible for securing the other materials.

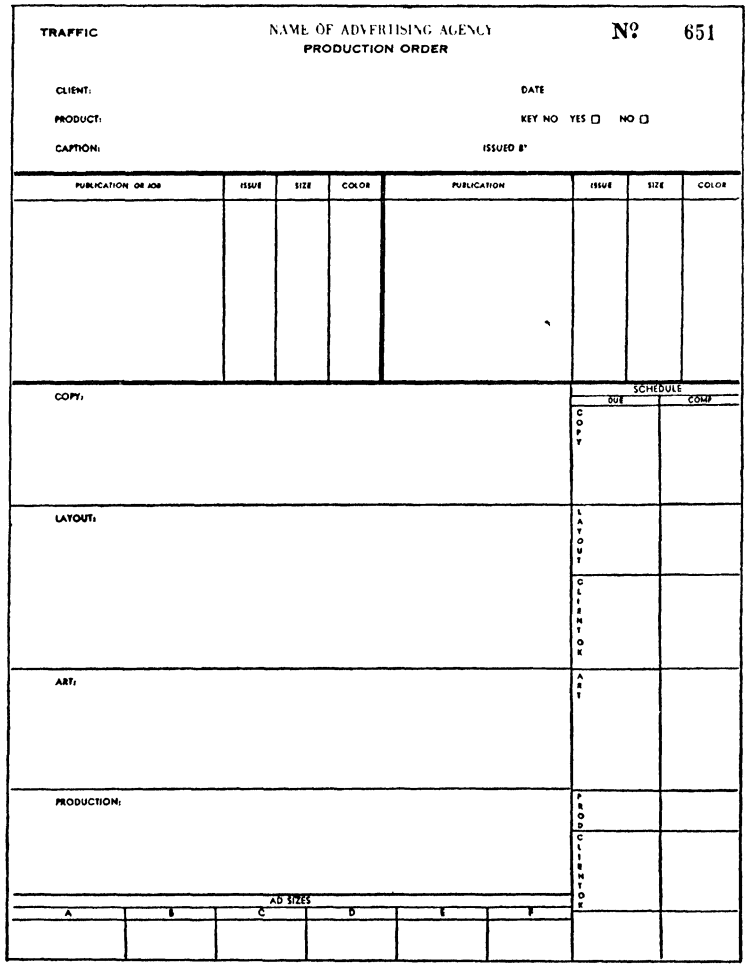
PRODUCTION ORDERS

A production order is a formalized memo which describes the advertisement to be produced. It should list the advertising materials that are required and the essential dates on which each material or service is to be completed. (See Figure 35.) It is important to stress the fact that a little time used to prepare properly a production order will often save much time later on.

If the production order covers the preparation of an advertisement which is to appear in a magazine or newspaper, the order should not only describe the advertisement and list the materials and services required, but should also state the date on which the final materials must be in the hands of the publishers.

The form and content of production orders depend somewhat on the size and organization of the particular advertising

agency. The larger the agency, the more detailed and complete the order needs to be, since in smaller agencies the various department heads and executives are likely to have much more frequent and intimate contact with one another than they do in


TRAFFIC

NAME OF ADVERTISING AGENCY
PRODUCTION ORDER

No. 651

CLIENT:

DATE

PRODUCT:

KEY NO YES ☐ NO ☐

CAPTION:

ISSUED BY

PUBLICATION OR JOB	ISSUE	SIZE	COLOR	PUBLICATION	ISSUE	SIZE	COLOR

COPY:

LAYOUT:

ART:

PRODUCTION:

SCHEDULE

	DUE	COMP
COPY		
LAYOUT		
CLIENT OK		
ART		
PROD		
CLIENT OK		

AD SIZES

A	B	C	D	E	F

FIG. 35. Production Order—Advertising Materials.

larger agencies. At the time that the production order is prepared, it is often necessary for contact men to consult with art directors and production department managers in order to ascertain just what materials are required and when they can be secured.

In some of the larger advertising agencies, production orders are prepared by traffic departments. In this situation, contact men prepare memos which are sent to the traffic department, which department then prepares production orders. It is customary practice for an agency to send one copy of each production order to each department of the agency that is involved. This usually includes the following: art department, copy department, production department, contact department, and control desk or traffic department.

As soon as a department receives a production order, the head of the department files the order in a binder. These binders are usually subdivided so that all orders pertaining to one client are filed together. The work of carrying out the instructions contained on the production order is assigned to one individual within the department and proceeds from that point to completion. When the work of a department is completed, the department's copy of the production order, with the completed material, is returned to the control desk or traffic department. Notations are made on the traffic department copy of the production order and the work is forwarded to the proper department.

At regular intervals, not more than a week apart, the control desk or traffic department examines its files of production orders to determine what work or service was due to be completed that has not yet been finished. Tardy work reports (see Figure 36) are prepared to cover these cases. One copy of each tardy work report is forwarded to the proper authority within the agency; a second copy is forwarded to the department responsible for the delay.

Instead of reviewing the control desk or traffic department copies of production orders periodically, some agencies file the

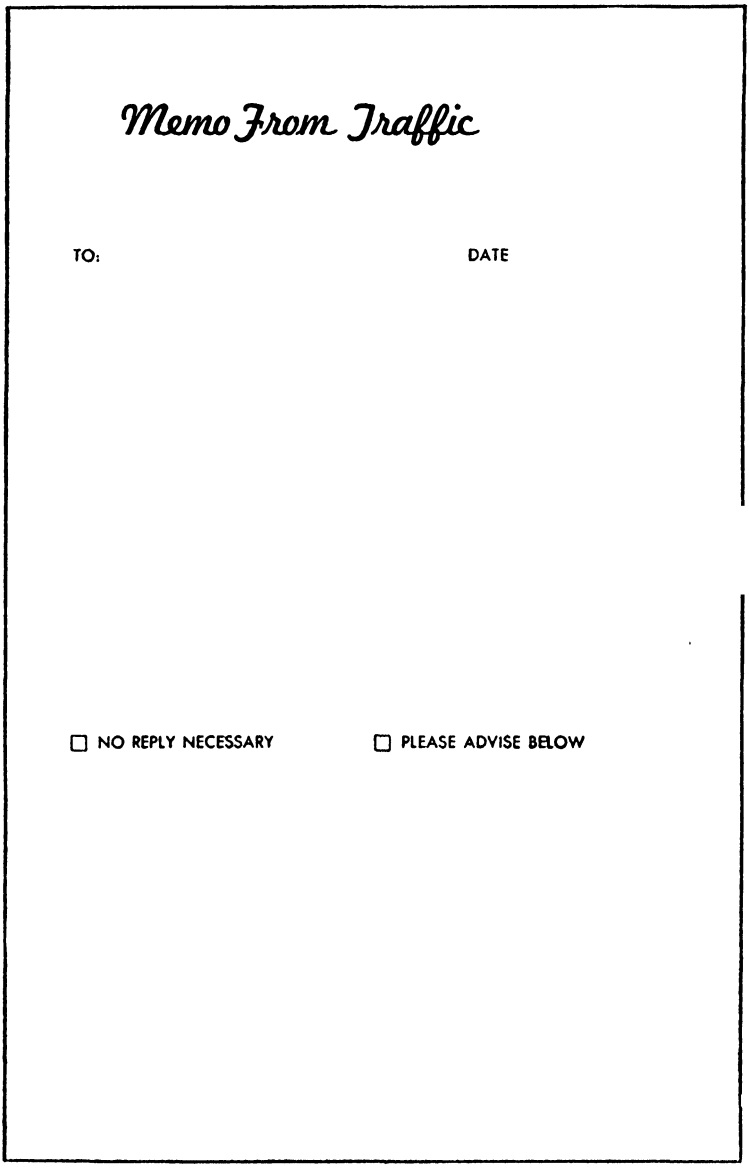


Fig. 36. Tardy Work Report.

orders in a tickler file under the date on which the first material or service is due to be completed. These orders are then taken from the file on the proper date and the department whose work is due is followed up appropriately. If the work is completed before the completion date, the order is found in the file under the date on which the work is due. It is removed to a later date representing the date on which the next service or material on the particular order is due to be completed.

When the production department or manager receives a production order, it is necessary for the department to prepare a time schedule of its own, since the production department must usually purchase many different materials. The dates for receiving each one of these materials are not specified independently on the production order, but rather the date on which the final engravings, zinc or half-tone, are required is scheduled as the essential date for completing the work.

The production department manager of course will know what separate materials are required before the final four-color engravings or other finished plates or mats can be made. After examining the production order, the production department manager will determine from whom each of the items should be purchased and he will issue purchase orders to cover each of the materials. While a production order is a description of the materials and services that are required to complete one advertisement, that advertisement may have to appear also in several publications not all of which have the same page size.

Therefore, in their final form, the plates or mats from which the advertisements are to be printed must be secured in several sizes. It is customary to give a number to each different size advertisement that is to be used. While several different sizes of the same advertisement may be covered by one production order, the production order should specify the various sizes in which the finished plates are to be made and to what magazines or papers those plates are to be sent.

The advertisement in each of its sizes would carry a separate ad number. Sometimes agencies suffix or prefix a designation

to the production-order number to indicate different sizes of the same advertisement. For example, ad #101A may represent an advertisement in one size; ad #101B may represent the same advertisement in another size.

PURCHASE ORDERS

When the production or art departments wish to order materials or services from outside suppliers, they issue purchase orders to the suppliers. Some agencies have separate purchase order forms for each type of material such as art, engravings, type, printing and the like. Two types of purchase orders will suffice for most agencies—one to cover the purchase of advertising materials exclusive of art, and the other to cover purchases of art. (See Figures 37 and 38.)

PRODUCTION PURCHASE ORDER

NAME OF ADVERTISING AGENCY

TO

№ 3351 P

DATE

P O AD NO

CLIENT

TERMS

DELIVER TO

1.

2.

3.

4.

5

6.

ORIGINAL

IMPORTANT—All invoices must be billed in Triplicate and sent to us promptly
Our order number must appear on all invoices, papers and packages.

Please Enter Our Order For Time Wanted

ELECTROS—MOUNTED

ELECTROS—UNMOUNTED

SCREEN MORTISE

PATTERN PLATES

NAME OF ADVERTISING AGENCY BY

FIG. 37. Purchase Order—Advertising Materials.

It is important that each purchase order contain reference to the production-order number against which the purchase order is issued. Sometimes production-order number is called job number. At least three copies of each purchase order, an original and two carbons, are required. The original is forwarded to the supplier, the duplicate is retained by the production department for reference and is attached later to the supplier's bill, and the triplicate is forwarded to the accounting department so that the accounting department may be apprised of the commitments which the agency has made. Usually, purchase orders specify that all bills from suppliers are to be submitted in triplicate and that each bill must carry the production-order number of the job as shown on the purchase order; that,

ART DEPT ORDER

NAME OF ADVERTISING AGENCY

TO

№ 3879 A

DATE

P O AD NO

CLIENT

TERMS

IMPORTANT—All invoices must be billed in Triplicate and sent to us promptly Our order number must appear on all invoices, papers, and packages.

Please enter our order for.

Time wanted

ORIGINAL

NAME OF ADVERTISING AGENCY BY

FIG. 38. Purchase Order—Art.

in addition, each supplier's bill must contain the caption of the advertisement and sufficient description to identify completely the materials or services covered by the bill.

BILLING FILE—PAYING FILE

Two sets of files are established—one called "Billing File" and the other called "Paying File." The "Billing File" consists of file folders arranged by client and job number. The "Paying File" consists of a set of file folders arranged by supplier name. All of the various documents relating to billing, paying and accounting for advertising materials find their way into these two sets of files which are maintained in the accounting department.

BILLS FROM SUPPLIERS

Suppliers' bills are to be furnished to the agency in triplicate. Incidentally, there is no great difficulty in securing triplicate copies of bills if suppliers are notified that this is a rigid requirement of the agency. When the three copies of the suppliers' bills are received they are to be stamped with a rubber stamp for each copy. The first copy is to be labeled "Billing File Copy," the second copy "Paying File Copy" and the third copy "Job Envelope Copy." After the invoices are approved for receipt and quality of merchandise, the billing and paying copies are forwarded to the accounting department, and the job envelope copy is placed in the job envelope that is maintained in the production department.

The billing copy is filed in the accounting department Billing File under the proper job number. The paying copy is filed in the accounting department Paying File in the folder bearing the supplier's name. If a supplier furnished only one or two copies of a bill instead of three copies, which are required to maintain the accounting system described, a dummy copy or copies must be prepared (see Figure 39), and the supplier must be notified that in the future three copies of each bill are to be furnished, since the preparation of dummy copies of invoices

is an emergency method and is not recommended for repeated use.

AGENCY'S OWN ART CHARGES

Some agencies produce art work, which is billed to clients, maintaining an artist or perhaps an entire art studio that is operated to produce finished art work or comprehensive layouts that are to be billed to clients. Where an agency charges clients for art work produced within the agency, it is necessary

SUPPLIER'S DUMMY BILL

Supplier's Name _____

P. O. # _____

Date _____

Amt. _____

Inv. _____

Client _____

FIG. 39. Dummy Bill—Advertising Materials.

to set up methods which will account for the transactions in the art department to show management how profitable the department is. In addition, it is necessary to build up records from which the art work can be billed.

The detail of the art department accounting records and methods is described in a separate chapter. It suffices here to say that some method must be used to record the cost or billing price of the completed art work as a part of the cost of all of the advertising materials entering into a job. In the system described in the chapter "Accounting for Art Work Performed

by the Agency," the art department prepares an invoice when any piece of art work is completed. Where this system is operated, the invoice is to be handled exactly the same as a supplier's bill. It is to be furnished in triplicate and the three copies are to be filed in the same manner described for filing suppliers' bills.

EXPENSE BILLING AUTHORIZATIONS

Transactions relating to the securing of advertising materials and services are not all covered by purchases which are made directly in connection with the preparation of an advertisement or campaign. Accounting for production materials involves not only bills from suppliers, but also must include certain other transactions that eventually become part of the production picture.

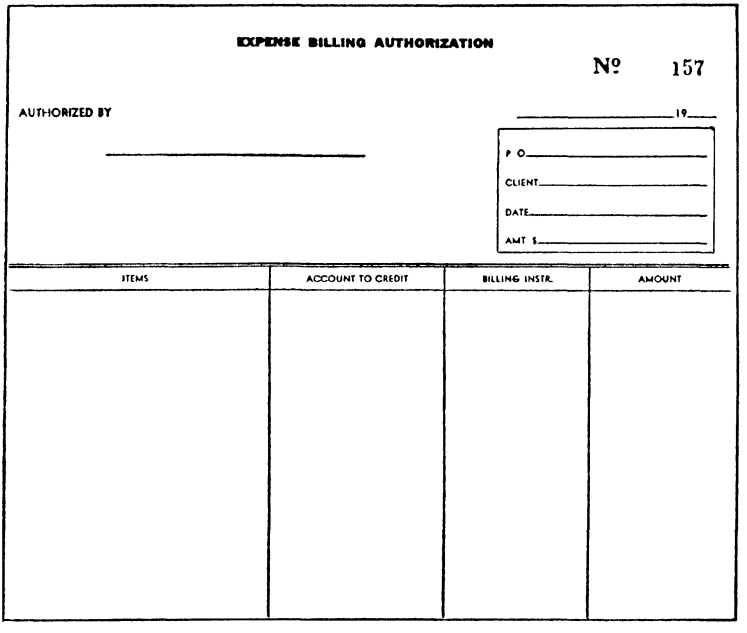
One such transaction is in connection with items which are originally purchased for the agency's own use, but later become associated with the production of an advertisement. Such items include postage, express, long distance telephone charges, stationery and traveling costs.

It is not infrequent for an agency to prepay parcel post and express charges in connection with the transmission of advertising materials to advertisers and publishers. It is not uncommon for agencies to discuss matters relating to advertisements with advertisers and suppliers in which the time element demands the use of telegraph or long distance telephone services. It is not uncommon for certain of the agency's personnel to travel in connection with the production of advertising.

Such items as these are properly part of the production expense, and the costs must eventually find their way into the production accounting system. The simplest manner of handling this type of situation is by the preparation of an expense-billing authorization. (See Figure 40.)

Expense-billing authorizations are prepared whenever the agency has expended funds in connection with the development of an advertisement of a client where such expenditures nor-

mally would be charged to the agency's own overhead accounts. The expense-billing authorization form should be made in triplicate and must fully describe the materials or services that have been used in connection with the production of the advertising for the advertiser. It must also specify the date the item was purchased, the name of the supplier and the sum expended.



EXPENSE BILLING AUTHORIZATION

Nº 157

AUTHORIZED BY _____ 19____

P O _____

CLIENT _____

DATE _____

AMT $ _____

ITEMS	ACCOUNT TO CREDIT	BILLING INSTR.	AMOUNT

FIG. 40. Expense Billing Authorization.

The expense to be billed must be approved by an authorized employee of the agency. It should contain sufficient information for the advertiser to understand the basis of the charge and its authenticity in relation to the production of the particular advertisement involved. The expense-billing authorization must always indicate the production-order number against which the item is to be charged.

When the three approved copies of expense-billing authorizations are received by the accounting department, one copy is sent to the production department and filed in the proper job envelope and kept there. One copy is inserted in the billing-file folder, that is, the file folder bearing the production-order number corresponding to that shown on the expense-billing authorization. The third copy of the expense-billing authorization is handled in the same manner as the paying copies of suppliers' bills; that is, all paying copies of expense-billing authorizations are filed in one file folder labeled "Expense Billing Authorizations" in the paying file, just as though the expense-billing authorizations represented one supplier.

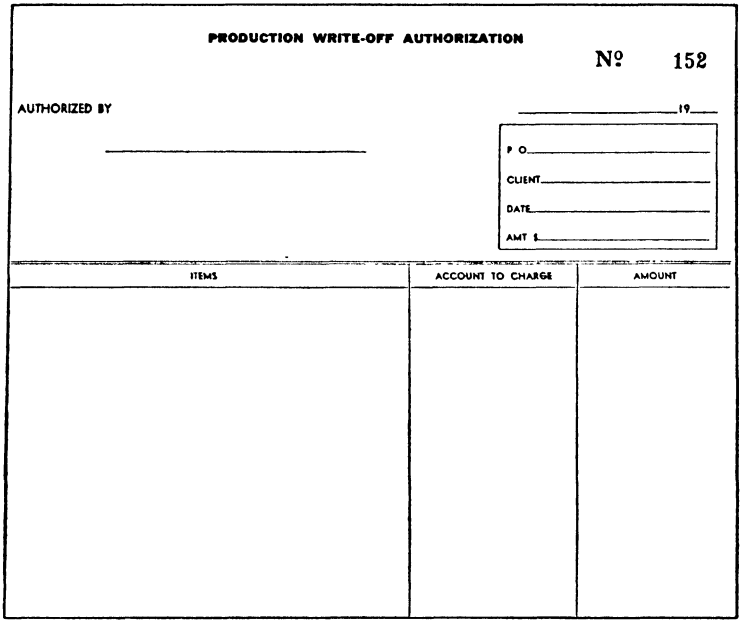
When one wants to determine what items of expense have been charged to clients in connection with the production of advertising, such charges are to be found in the paying-file folder indexed as "Expense Billing Authorizations." If one wishes to determine what expenses the agency has included as chargeable against the production of a particular advertisement, one will find such expense charges contained in the billing-file folder bearing the proper production-order number.

PRODUCTION WRITE-OFF AUTHORIZATIONS

Frequently, advertising materials which are purchased in connection with the production of a particular client's advertising cannot, for one reason or another, be billed to that client. Such a circumstance could exist in connection with errors made within the agency involving incorrect specifications or the improper purchase of materials.

When this condition occurs, the agency has already purchased the service or material and has received or will receive a bill from the supplier to cover the cost. The supplier will have to be paid for the item regardless of the fact that it cannot be billed to the agency's client. Consequently, one copy of the bill will find its way into the billing-file folder containing the production-order number involved. The other copy of the bill (paying copy) will find its way into the proper supplier's paying file.

It then becomes necessary to delete from or credit to the particular job number that cost which is to be absorbed by the agency. The simplest manner for accomplishing this is through the preparation of a write-off authorization form. (See Figure 41.) Three copies of each write-off authorization are made.


PRODUCTION WRITE-OFF AUTHORIZATION

No. 152

AUTHORIZED BY _____

_____ 19____

P. O. _____

CLIENT _____

DATE _____

AMT $ _____

ITEMS	ACCOUNT TO CHARGE	AMOUNT

FIG. 41. Write-off Authorization.

One is called "billing copy," another "paying copy," and the third copy is filed in the production department job envelope.

Needless to say, the write-off authorization must specify the production-order number, the client's name, the date and the amount. It must be authorized and must contain a description of the item and the name of the agency's overhead expense account to be charged. Two copies of the write-off authorization are forwarded to the accounting department. The two copies are handled exactly in the same manner as the expense-billing au-

thorizations are handled, namely, the billing copy of the form is filed in the billing-file folder bearing the corresponding production-order number; the paying copy is filed in the paying files in a file folder called "Production Write-off Authorizations."

If one wishes to determine what advertising materials or services were purchased in connection with the production of client's advertising and were later absorbed by the agency as its own expense, a complete history of such transactions will be found in the paying-file folder called "Production Write-off Authorizations."

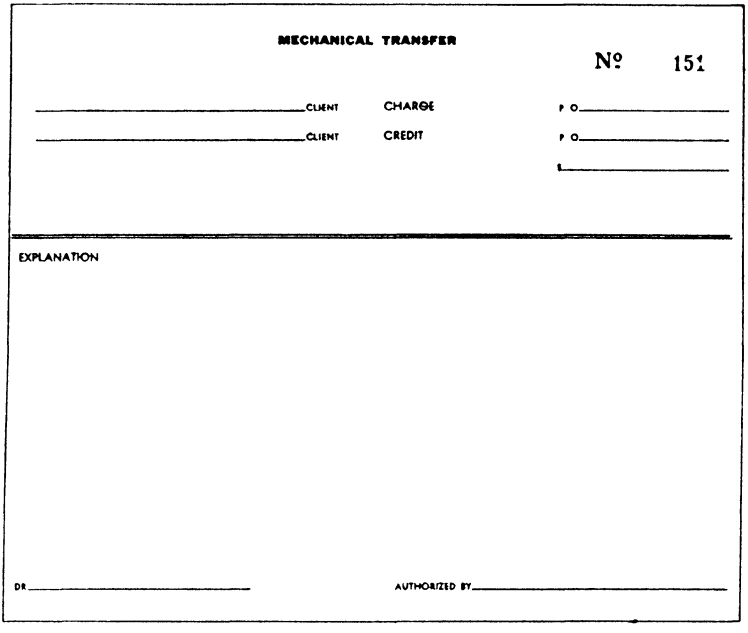
If one wishes to determine what items were purchased for a specific job, but have been absorbed by the agency as its own expense instead of being billed to the client, one will find such absorptions by looking in the proper billing-file folder (the one bearing the production-order number which the person is interested in) and by examining the write-off authorizations that are contained in that file folder.

JOB TRANSFERS

Occasionally materials or services when purchased are intended to be used in connection with the production of a specified advertisement, but later it may be discovered that the material or service was not used for the job as originally designated, but rather for a different job or advertisement. Sometimes a part of the material may be used for one job and the balance for another. When this condition occurs, it becomes necessary to transfer part or all of the cost of the material or service from one job or production-order number to another. The simplest manner of transferring the cost from one production-order number to another is to issue a transfer authorization referred to as "mechanical transfer." (See Figure 42.)

Three copies of the form are made. The transfer form must be approved by someone in authority to whom such responsibility has been delegated. On the transfer form, the production-order number to be charged and the name of the client to be

charged, the number of the production order to be credited and the name of the client to be credited are written. The amount of money involved in the transfer is shown and the form should contain a complete explanation for the transfer.


MECHANICAL TRANSFER

Nº 151

_____ CLIENT CHARGE P O _____

_____ CLIENT CREDIT P O _____

$ _____

EXPLANATION

DR _____ AUTHORIZED BY _____

FIG. 42. Mechanical Transfer.

It is quite possible that an item of cost may be transferred from one production-order number to a different production-order number involving the same client. The explanations given on these job transfers are particularly important when only part of an item of cost is transferred from one job to another. The reason for this will be seen when the method of billing the client is discussed. The three copies of the mechanical transfer are sent to the accounting department.

One copy is filed in the billing file bearing the production-order number of the job to be charged (the job to which the

charge is transferred). The second copy is filed in the billing-file folder bearing the production-order number of the job to be credited (the job from which the cost is transferred). The third copy of the mechanical transfer is filed in a memo folder used for verification only. If there is any question as to whether a charge has been transferred from one job to another, the answer may be found by examining the memo file.

ACCUMULATING JOB COSTS

For the purposes of financial control, it is necessary to know the total of the unbilled accumulated costs of advertising materials and services purchased by the agency in connection with each client's advertising. It is also necessary to know what the total unbilled advertising materials and services consist of.

Since it is desirable to accumulate the costs of advertising materials and services purchased in connection with the production of each advertisement (particularly for billing purposes), production orders are issued to cover each such advertisement. All purchases made for each production order are then accumulated under that production-order number. The billing file previously described is maintained for this purpose. Each file folder represents a production-order number and contains the following:

1. A copy of each bill received from a supplier (including bills for art work produced by the agency) which refers to the particular production-order number involved.
2. A copy of each expense-billing authorization pertaining to the production-order number.
3. A copy of each production write-off authorization affecting the particular production-order number.
4. A copy of each mechanical transfer affecting the production-order number.

In other words, the billing-file folder for each production order contains original documents (bills, expense-billing authorizations, write-off authorizations and mechanical transfers)

completely explaining the transactions that have taken place in connection with the securing of materials and services for the particular job.

At the end of each month, the documents in the billing folders are listed and totaled on an adding machine. The adding-machine tape listing the costs of all of the items in one folder is stapled to the documents contained in the folder. When this process has been completed, each billing folder will include an adding-machine tape stapled to all of the documents contained in the folder. A grand total is now taken by listing the totals as shown on the adding-machine tapes contained in each of the separate folders. This grand total represents the sum of the purchases made for the month, plus the expense-billing authorizations, less the write-off authorizations.

The paying files are now referred to. It will be remembered that one file folder was set up for each supplier and that, in addition, file folders are required for agency's own art charges, expense-billing authorizations and write-off authorizations. The copies of bills contained in each supplier's folder are listed on an adding machine and the adding-machine tape is stapled to the invoices contained in each such folder. Similar adding-machine tapes are made from the material contained in the Expense Billing Authorization folder and the Write-off Authorization folder. The totals contained on the tapes in the suppliers' folders are now added and this total (the sum of the amounts due to each supplier, plus the expense-billing authorizations and less the write-off authorizations) must balance with the grand total which was taken from the billing folders.

The material contained in the billing folders will be identical with that contained in the paying files, since carbon copies of the same documents are used to make both sets of files. The difference between the two files is simply that the billing file is arranged according to client and production-order number, and the paying file is arranged alphabetically by supplier. In the event that the two sets of files are out of balance with each other, it is a simple matter to find the difference since the ma-

terial in the paying files may easily be re-sorted into client and production-order number sequence, after which it may be compared with the material contained in the billing files.

INVENTORY CONTROL

The Inventory Control Journal is the one record book that is used to accumulate the job costs and to record the perpetual inventory of unbilled advertising materials. In addition, the figures developed in this record prove the accuracy of the amounts due to suppliers as recorded in the Voucher Register, the cost of the items billed to clients as recorded in the Sales and Cost Journal, and the cost of the unbilled advertising materials purchased by the agency for each job. This last figure is represented by the billing file containing suppliers' bills, expense-billing authorizations, write-off authorizations and job transfers. This all-important record book, when properly used, furnishes the following information without need for analysis, reclassification, accumulation of figures, etc.:

1. For each job, the total purchases, the total cost of the items billed and the unbilled balance, arranged so as to show the total cost accumulated in each prior month.
2. For each client, the total purchases of advertising materials incurred each month, the total cost of the items billed each month and the unbilled balance.
3. For the agency as a whole, the total purchases of advertising materials, the total cost of the billing and the unbilled balance for each month.

A separate page is to be provided for recording the items pertaining to each client served. In addition, one page is used to summarize the transactions by accumulating the totals contained on each client's sheet.

RECORDING THE COSTS

Entries made to the Inventory Control Journal consist of monthly totals representing the cost accumulated for a month

in connection with a particular job. The Inventory Control Journal sheet for a particular client provides for listing job numbers on the left-hand side of the sheet. Opposite each such job number and under the proper month heading in the "Cost" column, the grand total of the accumulated costs incurred in connection with each such job is posted by reference to the billing-file folders containing the detailed material and an adding-machine tape listing each item and showing the grand total accumulated cost for the month. When such costs have been entered, they will appear as follows:

	January			*February*		
Job No.	*Cost*	*Billed*	*Inv.*	*Cost*	*Billed*	*Inv.*
862	$115.00	.....	.....	.....	.....	.....
863	20.00	.....	.....	.....	.....	.....
864	5.00	.....	.....	.....	.....	.....

After the costs in connection with each job have been accumulated and entered, the billing folders are returned to the file. Copies of bills for the succeeding month are inserted in the same file folders. Adding-machine tapes are taken at the end of the next month of all of the loose material contained in the file (the previous month's documents were stapled together to adding-machine tapes). The tapes from the billing folders are balanced with the tapes from the paying folders as described previously. The second month's purchases are entered in the Inventory Control Journal as follows:

	(First Month)			(Second Month)		
	January			*February*		
Job No.	*Cost*	*Billed*	*Inv.*	*Cost*	*Billed*	*Inv.*
862	$115.00	.....	$115.00	$ 10.00	.....	$125.00
863	20.00	.....	20.00	100.00	.....	120.00
864	5.00	.....	5.00	200.00	.....	205.00

It will be noted from the example just given that the costs of each job accumulate from month to month and that the accumulated costs are extended into the inventory column.

RECORDING THE BILLING

To prepare an invoice for a client, the billing clerk procures the billing-file folder containing the job number to be billed. The current month's documents contained in the folder (copies of suppliers' bills, expense-billing authorizations, write-off authorizations and job transfers) must first be totaled and entered in the Inventory Control Journal. This total added to the total of the previous month's costs must equal the grand total of all of the material contained in the folder. The invoice for the client is typed and the total cost of the items billed is entered in the Inventory Control Journal opposite the proper job number in the "Billed" column under the proper month heading. An example of these entries is shown below:

	January			*February*			*March*		
Job No.	*Cost*	*Billed*	*Inv.*	*Cost*	*Billed*	*Inv.*	*Cost*	*Billed*	*Inv.*
862	$115.00	.....	$115.00	$ 10.00	.....	$125.00	$15.00	$140.00	$—0—
863	20.00	.....	20.00	100.00	.....	120.00	5.00	125.00	—0—
864	5.00	.....	5.00	200.00	.....	205.00	20.00	—0—	225.00

One will note from the above that, where a job is billed and the cost of the billing is entered, the balance or inventory is zero. Consequently, the inventory column for the current month always shows the unbilled accumulated costs for each job so that, for the sheet representing one client's advertising materials, the total of the inventory column shows the amount expended by the agency for the client which is yet to be billed.

VOUCHER REGISTER

The Voucher Register, illustrated in Figure 43, is used to summarize the purchases made from each supplier, to record the amount due to that supplier, the amount paid to the supplier

and the balance due, if any. When the proper entries are made in this account book, the following monthly information is produced:

1. For each supplier, the total purchases, payments and balance due.
2. For the agency, the total purchases, payments and balance due.

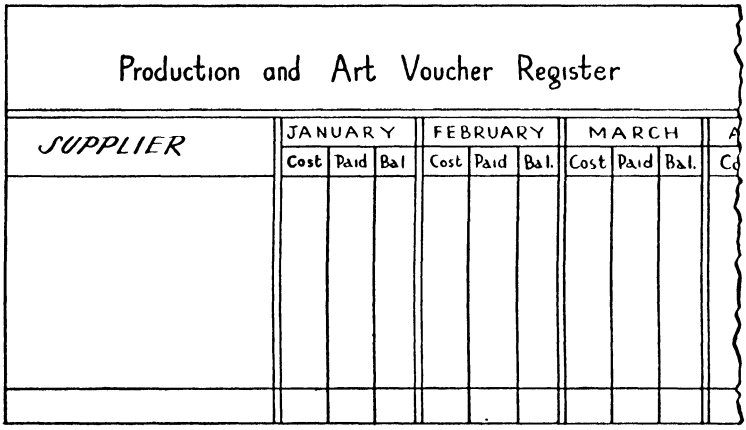


FIG. 43. Voucher Register.

At the end of each month, the bills from suppliers found in the paying files are totaled and the total purchases from each supplier are then entered in the Voucher Register simply by posting the total purchases made from a supplier opposite that supplier's name shown on a page in the Voucher Register; the total of course is entered in the "Cost" column under the proper month heading.

When payments are made to suppliers, the total of each payment is entered opposite the supplier's name in the Voucher Register in the "Paid" column under the month in which the payment is made. By deducting the payments made from the total purchases, the balance due any one supplier is developed and is extended into the column headed "Balance." The total

of this column represents the sum total of the accounts payable due to suppliers of advertising materials. This total must balance with the General Ledger total carried in the accounts-payable control account.

In addition to the names of the various suppliers listed in the Voucher Register, Figure 43, there will appear the following three items not representing actual outside suppliers:

1. Agency's own art charges.
2. Expense-billing authorizations.
3. Production write-offs.

In a previous section of this chapter, it was mentioned that file folders are required in the paying file for the above listed three types of items. Adding-machine tape totals of the costs included in the folders for the agency's own art charges, expense-billing authorizations, and production write-offs are entered in the cost column of the Voucher Register in the same manner as the total of supplier's monthly charges. Accordingly, the total monthly amounts for the agency's own art charges will be entered in the cost column opposite the wording "Agency's Own Art Charges," the total of the expense-billing authorizations for each month will be entered opposite the wording "Expense Billing Authorizations," and the total of the production write-offs will be entered in the cost column opposite the wording "Production Write-offs." The amount entered for production write-offs will be recorded in red since this total represents a charge to accounts payable and a corresponding credit to unbilled advertising materials.

The total of the cost column in the Voucher Register must equal the total of the cost column in the Inventory Control Journal. The total of the costs incurred each month as represented by the total in the Voucher Register is charged to unbilled advertising materials and credited to accounts payable, advertising materials.

The accounts-payable control account for advertising materials will include a credit for the agency's own art charges and

expense-billing authorizations, and a charge for production write-offs. Therefore, it is necessary to adjust the accounts-payable account with regard to the previously mentioned three items. The expense-billing authorizations (representing a charge to inventory) contained in the paying file must be analyzed each month in order to determine the various expense accounts to be credited. Likewise, the production write-off authorizations (representing a credit to inventory) contained in the paying file must be analyzed to determine the expense accounts to be charged:

A monthly standard Journal entry to be made for the purpose of adjusting the accounts payable follows:

Debit: Accounts payable for the total of the agency's art charges, plus the total of the expense-billing authorizations and less the total of the write-off authorizations.

Debit: Various expense accounts, for the total of the write-offs (individual expense accounts to be charged as per analysis of production write-offs).

Credit: Art income, for the total of the charges for the agency's own art work.

Credit: Various expense accounts for the total of the expense-billing authorizations (individual expense accounts to be credited as per analysis of expense-billing authorizations).

The total amount of each month's expense-billing authorizations, production write-offs and agency's art charges should be recorded in the Voucher Register in the column headed "Paid" representing the adjusting entry to the accounts-payable control account explained above. The total of the production write-offs should of course be recorded in red as it represents the offset to the items originally entered in red in the cost column. As a result, there will be no balance to be carried forward in the balance column for any of the three mentioned items.

PREPARING THE INVOICE FOR THE ADVERTISER

There is no one standard practice that is universally followed by agencies in billing advertising materials to their clients. Some

agencies send out bills for advertising materials only after a particular job has been completed. A job covers one specific advertisement and includes all of the items that are needed to complete the production of that advertisement, such as art work or photography, typography, plates, mats, photostats, proofs, etc. Other agencies send bills to clients at the end of each month, billing all of the materials that they have bought for the client since the end of the last monthly period.

Billing on a completed-job basis has the apparent advantage of producing one invoice for each job. This facilitates matters for the advertiser because it allows him to see from one invoice what the total cost of advertising materials has been in connection with the production of one advertisement.

There are, however, a number of disadvantages in this method of billing. If billing is delayed until a complete job is finished, the invoice in many cases cannot be prepared for three or four months after the first item has been purchased and received by the agency. It is not unusual for the agency to order and receive art work or photography months prior to the completion of the final plates for the printing of the advertisement. In the meantime much work has been performed such as setting type, hand lettering, assembling the various elements of the advertising materials, and the like.

When the final item is secured and the job is billed to the client, both agency and client may have forgotten some of the details that originated while the advertisement was in preparation. It may have been necessary to change or reset the type because of some new idea that occurred to the advertiser. This correction, at an additional cost, may have been no fault of the agency or the supplier, and the advertiser may have frankly agreed that he should pay for the cost of making the correction. But three or four months later, both agency and advertiser may have forgotten why the type was reset and this may give rise to difficulties. Another disadvantage from the standpoint of the advertiser is the fact that it is very difficult for him to check the items of advertising materials that were actually used

in the completion of the advertising when invoices for such items are received months later.

A disadvantage to the advertising agency of billing on a completed-job basis is the fact that the agency must pay suppliers months before it collects from the advertiser. In some cases, clients insist on receiving cash discounts (the same discounts the agency received from the supplier) for prompt payment. In these cases, the advertiser argues that he is perfectly willing to pay the bill as soon as it is received. Therefore, why shouldn't he have the benefit of the cash discount for prompt payment? The reason is that the agency financed the transaction and paid the money to the supplier weeks or months prior to receiving reimbursement from the advertiser.

Where all materials that have been purchased during a month are billed at the end of the month, an advertiser may receive two, three or four invoices for materials purchased in connection with the same advertisement, since the art work may be purchased during one month, the typography in a second month and other items in the third and fourth months.

Where an agency follows the plan of billing clients monthly for all advertising materials purchased during the month, it is important that the invoices prepared by the agency be arranged so as to show the total cost of materials purchased for each job.

This can be done in either of two ways: A separate invoice may be prepared at the end of each month for materials purchased for each particular job number or one invoice may be prepared to cover all the advertising materials purchased for the particular client. In this case, the items on the invoice should be grouped by job number and subtotals should be developed to show the total cost and the billing price of the items relating to each job number. The preparation of a separate invoice each month for each job number is preferable since, when this method is followed, the invoices may be filed from month to month and all of the invoices pertaining to one job number (presumably there would be not more than three or four) can be gathered

together to secure the total cost and the detail of all of the items billed for one particular job.

Where all items purchased during the month are billed at the end of the month regardless of whether the jobs are completed or not, the invoice to the client is prepared at the end of each month by reference to the production department's file containing third copies of suppliers' bills. If detailed billing is performed these items are described on the invoice. The suppliers' bills are then returned to the file and held in the production department until the job is completed, at which time they are filed away in a storage file.

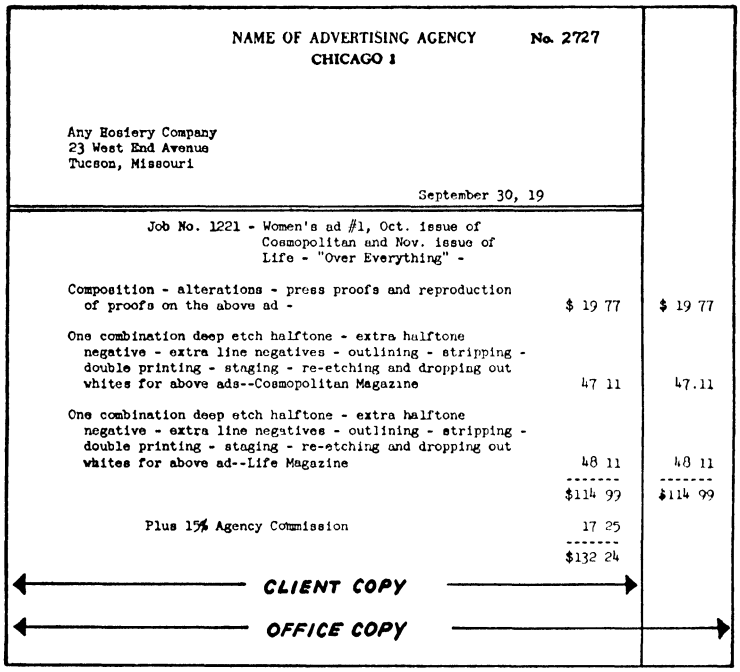
Where abbreviated billing is performed, the copies of suppliers' bills contained in the production department's file folder are taken from the folder and attached to the abbreviated bill which is sent to the client. The folder is returned to the production department and bills are accumulated for the next month, etc.

When the job is completed, the production department marks "Completed" on the file folder and sends it to the accounting department for final billing. In some cases where the agency or the client wishes to accumulate the total cost of the materials purchased to complete one particular job, the monthly billing amount is noted on the production department's file folder, and when the final invoice is prepared, the total cost of all of the items that have been billed at that point is noted on a memo which is attached to the final invoice to the client.

Where the completed-job basis of billing is used, the production department, upon completion of a job, forwards its file folder for this job to the accounting department with any special instructions that it has in connection with the billing. (Special instructions are required only where detailed billing is performed.) The accounting department now refers to the billing-file folders, selects the folder representing the particular job being billed, and verifies the fact that the material contained in the billing-file folder (suppliers' bills, expense-billing authorizations, production write-offs and job transfers) is identical

with the material contained in the production department's job envelopes. The sum total of these documents represents the total cost of all of the items purchased for the particular job and must agree with the accumulated costs as entered in the Inventory Control Journal opposite the proper job number.

When the above verifications have been made, the bill is typed.



NAME OF ADVERTISING AGENCY
CHICAGO 1

No. 2727

Any Hosiery Company
23 West End Avenue
Tucson, Missouri

September 30, 19

Job No. 1221 - Women's ad #1, Oct. issue of Cosmopolitan and Nov. issue of Life - "Over Everything" -		
Composition - alterations - press proofs and reproduction of proofs on the above ad -	$ 19 77	$ 19 77
One combination deep etch halftone - extra halftone negative - extra line negatives - outlining - stripping - double printing - staging - re-etching and dropping out whites for above ads--Cosmopolitan Magazine	47 11	47.11
One combination deep etch halftone - extra halftone negative - extra line negatives - outlining - stripping - double printing - staging - re-etching and dropping out whites for above ad--Life Magazine	48 11	48 11
	$114 99	$114 99
Plus 15% Agency Commission	17 25	
	$132 24	

CLIENT COPY

OFFICE COPY

FIG. 44. Detailed Billing.

DETAILED BILLING

If detailed billing is performed, each item is described on the typed invoice. (See Figure 44.) The invoice form may contain three columns as follows:

Commissionable Items	Non-Commissionable Items	Total

The non-commissionable items include postage, express, sales tax, etc. The agency's cost for each item is typed in the proper column. The columns "Commissionable Items" and "Non-Commissionable Items" are totaled. The sum of the totals of the two columns is extended into the "Total" column. To the total cost of all items (commissionable and non-commissionable) the agency's commission (representing a percentage of the total cost of commissionable items) is added to produce the total billing price of the invoice.

After the bill is typed, the production job envelope including suppliers' bills, expense-billing authorizations, production write-offs and job transfers, is transferred to a closed file. The data in the billing-file folder are transferred to a closed file after the invoice has been prepared.

ABBREVIATED BILLING

Where abbreviated billing is performed, the procedure as outlined for detailed billing is followed except that no description is given on the invoice; and in place of such description, the date of each supplier's bill and the name of the supplier is typed. (See Figure 45.) The data contained in the production job envelope (suppliers' bills, expense-billing authorizations, production write-offs and job transfers) are attached to the agency's invoice and sent to the client.*

* It may not always be desirable to attach expense-billing authorizations, production write-offs and job transfers. In some cases, it is not necessary to attach invoices from the agency's own art department. Where these documents are not to be attached, the art department charges are described on the invoice. The suppliers' bills covering the items that are absorbed by the agency as expense through the production write-offs are eliminated and not listed on the invoice at all. Neither is the supplier's bill attached. In place of expense-billing authorizations, the description of the item can be typed on the invoice or an appropriate memo can be used to support the item instead of sending the expense-billing authorization which is designed to be used as an internal form.

SUMMARY

To summarize, the procedures are listed as follows:

1. A production order is issued. This contains a complete description of the advertisement and the materials required. Copies of production orders are sent to each department concerned.
2. Department heads, upon receiving copies of production orders, assign the work outlined. A traffic department or

JONES & SMITH
ADVERTISING
500 No MICHIGAN AVENUE
CHICAGO 1, ILL

PRODUCTION INVOICE No 101

To Whitehall Soap Company
15 East Street
Tulsa, Texas

DATE July 25, 19 ____

P.O. 1101 ____ SO No 101

CAPTION Boy Goes Fishing

DATE	SUPPLIER	FOR	COMM	NON COMM	TOTAL	COST
6/20	Inside Art Work	Layout and art work		250.00	250.00	150.00
6/25	Express Charges			20.00	20.00	20.00
6/28	J. M. Bundsho	Lineotype	62.40	.29	62.69	62.69
7/2	The Faithorn Corp.	Plates	117.32		117.32	117.32
7/15	Partridge & Anderson Co.	Electros	27.83	3.42	31.25	31.25
			$207.55	$273.71	$481.26	$331.26
	Add--Agency Commission	17.65% of $207.55			36.63	
	Totals				$517.89	

CLIENTS' COPY

FIG. 45. Abbreviated Billing.

control desk checks on essential dates to make sure that the materials are received as required.

3. The production and art departments, upon receipt of production orders, confer with contact men and issue purchase orders to suppliers.
4. Bills are received from suppliers in triplicate. Two copies of each bill are forwarded to the accounting department. The third copy is filed in the job envelope kept in the production department.
5. The accounting department establishes two files called "Billing File" and "Paying File." The Billing File contains a separate file folder for each production-order number. One copy of each supplier's bill is filed in the proper file folder. The Paying File consists of a separate file folder for each supplier. One copy of each supplier's bill is put in the folder bearing his name.
6. At the end of the month, the material contained in each billing-file folder is listed on an adding-machine tape. The total is recorded in the Inventory Control Journal. Each paying-file folder is listed on an adding-machine tape. The total of each folder is entered in the Voucher Register.
7. Agencies bill advertising materials to clients either monthly to cover all purchases made during the month, or after each particular job is completed. Invoices for clients may be prepared in two ways:
   a. Detailed billing.
   b. Abbreviated billing.
8. The total cost of all of the items billed on one invoice is entered in the Inventory Control Journal under the proper month heading, in the column headed "Billed" and opposite the particular job number.
9. A general ledger account called "Unbilled Advertising Materials" is charged with the cost of all of the purchases of advertising materials and is credited with the cost of all of the items billed to the agency's clients.

10. A general ledger account called "Accounts Payable, Advertising Materials" is credited with the cost of purchases and charged with payments and adjusting entries.
11. To charge a client for materials or services originally purchased by the agency for its own use, an expense-billing authorization form is prepared which is treated exactly as though it were a purchase from a supplier.
12. When the agency has already charged a client's production order with materials or services purchased in connection with that job, but it is desired to have the agency absorb the expense, a "production write-off" form is prepared.
13. When an item has been charged to one production-order number and it is desired that the charge be transferred to another production-order number, a job transfer is prepared.

It is recommended that advertising materials purchased for a client be billed monthly regardless of whether jobs are completed or not and that abbreviated billing as previously described be performed in place of detailed billing. The abbreviated billing is considerably more simple, requires less clerical help and there is less chance for error. When suppliers' bills are attached to the agency's invoice and sent to the client, the client has the same information regarding the charges as the agency has and there can be no doubt as to the correctness of the agency's charges. Billing is accomplished promptly, while both agency and client recollect the details of the transaction.

8. Accounting for Art Work Performed by the Agency

SOME advertising agencies operate their own art studios and produce art work that is used in connection with their clients' advertising. Where such departments are operated, it is necessary for the agency to bill the advertiser for the art work produced. Agencies bill such art work either on the basis of its estimated value or on the basis of the time devoted to it by the artists. No generalization can be made about which method is preferable for either agency or advertiser, for it depends on many conditions that vary between one situation and another. Just as independent art studios have different methods of billing, so agencies do also.

KEEPING COST RECORDS

In any event, however, it is desirable for the agency to have some way of determining the result from the operations of its own art studio. To do this, it is necessary to keep a record that will show the total amount of art work billed and the total cost of producing that work. A record of the total cost of producing art work is compiled by segregating the cost of operating the art studio from the cost of other agency operations. The cost of operating such a studio would include the salaries or other compensation paid to artists, the rental for the floor space occupied by the studio, the prorated cost of telephone, light, stationery and the like, the cost of art supplies, and other incidental costs pertaining to the operation of the studio.

Usually, agencies prepare rough lay-outs and buy finished art work for clients without charging a special fee. In other words,

rough lay-outs and art direction are part of the service that the agency performs in consideration of the commissions received from the sale of advertising space.

Comprehensive lay-outs and finished art work, on the other hand, are usually billed to the advertiser whether the item is purchased on the outside or produced by the agency's own art studio. Where rough lay-outs and art direction are furnished "free," and comprehensives and finished art work are billed, some segregation of the cost of the art studio must be made, for it would be unfair to charge all of the cost of operating the department against the income received from just the art work that is billed. Some of the cost of operating the art department or studio must be considered as applying against the commission income from advertising space sold.

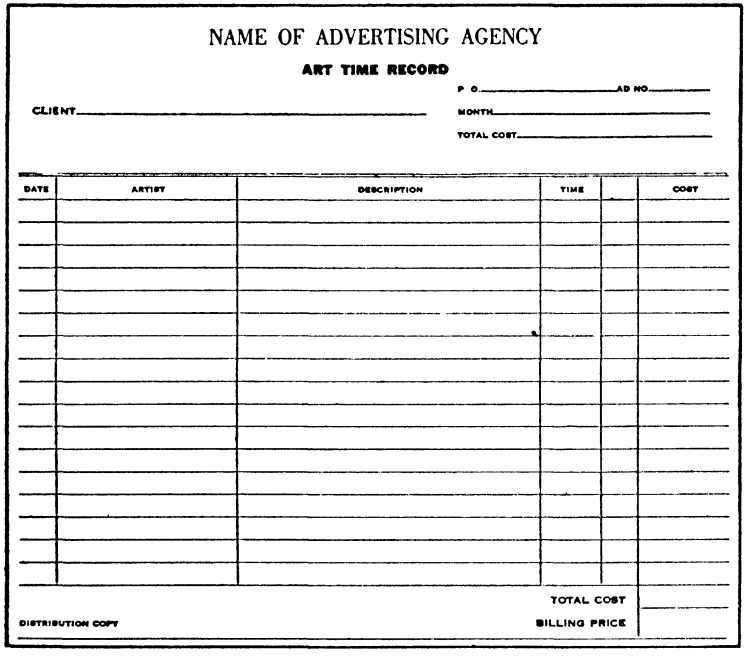
ALLOCATION OF EXPENSE

Usually, it is not difficult to make a reasonably accurate segregation of the art department cost. The art director devotes a portion of his time to performing the "free work" and the balance of his time to supervising the activities of the other artists whose work is to be billed.

Part of the overhead expense of the department, including such items as rent, telephone and supplies, is incurred in connection with art direction. The balance of the overhead expense is incurred in producing the art work that is billed. To segregate the two classes of expense (that applying to the normal agency operation and that applying to the operation of an art studio) the segregation of employees' costs is made on the basis of time records and the segregation of indirect expenses including overhead is made through estimates and allocations. (See chapter on "Cost Accounting" for detailed procedures.)

In order to segregate the cost of each particular job in the art studio, it is necessary to keep time records. The simplest form of record that will furnish the necessary information is an art time record on which all of the time devoted to the production

of one particular job is accumulated. (See Figure 46.) This time record sheet is attached to the work; and as the work is passed from one artist to another, each artist posts the time he devoted to the job on this record until the work is completed.



NAME OF ADVERTISING AGENCY

ART TIME RECORD

P. O. _____ AD NO. _____

CLIENT _____ MONTH _____

TOTAL COST _____

DATE	ARTIST	DESCRIPTION	TIME		COST

the artist's salary, but also an amount to provide for overhead expense and profit. For example, where an artist's pay rate is two dollars an hour, it may be necessary to charge five dollars an hour to cover overhead and profit. Where the work is billed on the basis of intrinsic worth, the art director, by examination of the work, fixes the price.

In either event, after the price is fixed, an invoice is prepared. The art department's charges in some cases are billed as non-commissionable items but in other cases the agency adds a commission to the charges made by its own art department. It seems peculiar for an agency to fix a price for a service and then add a commission to that fixed price. For this reason, the bill for art work produced by the agency should be considered a non-commissionable item and sufficient profit should be added in figuring the cost of the art work to provide the gross margin required.

Where the agency follows the method of billing advertising materials by preparing an abbreviated invoice* the invoice from the agency's own art studio will be attached to the invoice covering advertising materials, since the art work is only one of the materials required to complete a job. In this case, the invoice should be complete in order that the client can have a full description of the work performed.

The invoice bears the name of the agency and usually carries the inscription "Art Studio" so that the normal form of the agency's own art studio's invoice would be:

ABC Advertising Agency Art Studio

To—
Progressive Corporation
Anywhere, U.S.A.

For—one black and white illustration
of man with run-down heel..... $50.00

Invoices are made in quadruplicate; the art department retains one copy and forwards the other three to the accounting department.

* See chapter "Advertising Materials: Billing, Paying and Accounting."

When the accounting department receives three copies of art invoices from the art department, these invoices are handled by them in exactly the same manner as the bills of an outside supplier of advertising materials.

In other words, one copy of the invoice is filed in the billing files, one copy in the paying files and one copy in the production job envelope. The copy that is filed in the paying files is placed in a manila folder bearing the name "Art Department Charges."

At the end of each month when the accounting department balances and posts its records in connection with advertising materials, the total of the art department bills found in the paying folder is posted to the Voucher Register by writing the name "Art Department" in the column of the Voucher Register normally used to show the supplier's name. The art department's bills in the billing-file folders remain there until all of the advertising materials in connection with the particular job are to be billed to the client. They are billed along with the other suppliers' charges as described in the chapter on "Advertising Materials: Billing, Paying and Accounting."

DETERMINING PROFIT AND LOSS

It will be seen from all this that, by the procedures outlined, the accounting records are developed to show the total amount of the art studio's billing and the total cost of operating the studio, and that the difference between the two shows as the profit or loss from the operation. It should be noted that the methods described provide for billing the art work only when each piece of work is completed. Because of this procedure, at the close of any one month the art studio may have some accumulated costs of uncompleted work that is not yet billed. Consequently, the accounting records are not an entirely accurate record of each month's profit or loss.

The methods described form the simplest basis for compiling the records and it is believed that the monthly overlap of unbilled work in the art department or studio is relatively unimportant so far as interim reports are concerned.

If an agency wishes to have completely accurate monthly reports showing the exact operations of the art department, it will be necessary to supplement the method previously described by taking a monthly inventory of the uncompleted work, evaluating this inventory and adjusting the figures. Where art departments perform services in connection with the advertising of clients which cannot be billed to the clients and are to be absorbed as agency expense, it is still advisable for the art studio to prepare memo bills to cover such items so that these bills may be considered in the operation of the agency's own cost-accounting system. The cost of producing art work used by a particular client, where such items of cost are to be absorbed by the agency, must be considered in computing the profit or loss that the agency makes through the transactions it handles for each client.

9. General Books and Chart of Accounts

IN PREVIOUS chapters, the detailed methods for billing and paying are described, and the forms used in completing these transactions are exhibited. It is necessary to accumulate information concerning current transactions in order to provide a lucid picture of what has transpired. To accumulate this information concerning the business, the transactions must be entered in accounting records.

Before accounting records can be developed, it is necessary to know what information is to be gathered. One type of record will develop one end result, and another type of record will develop an entirely different result, so that before determining what accounting records should be used in an advertising agency, it is necessary to know what information is to be furnished to management from the books of account.

In a previous chapter on "Budgets" it was shown that a proper budget can be set up to show in advance which accounts will be profitable, which will not be, and why. The budgeting procedure enables management to look into the crystal ball and thereby secure a fairly accurate idea of what is likely to happen in the future. The accounting records of an agency should be set up in such a manner that the figures and facts that are accumulated will show how well the agency's employees have followed the policies laid down by management. Consequently, these records will show where the operations differed from the forecast and they will provide an analysis of the reason for the differences between the budget and the actual operations.

The accounting records should provide a means for measuring costs. To measure such actual costs, it is necessary to know the operations that resulted from the transaction of business with each client separately. The accounting records that will be described have been developed to accomplish the purpose just outlined. It is not intended that the accounting records described herein be adopted by every advertising agency. They are given merely as examples of the type of records that will develop the facts that most agency executives ordinarily can use successfully.

The books of account, the forms and methods to be used by an advertising agency must be "made to measure" and the "cloth must be cut to fit" the particular requirements of the agency. In developing any accounting records, the wisest procedure is to determine first what end results are sought and then, with these end results in mind, the methods, forms and books of account can be developed so that, when the transactions are completed, the end results will be produced without the necessity of reworking the figures.

The books of account to be discussed in this chapter are based on the assumption that management should know the results of the operations of the agency, not only as a whole, but also according to the transaction of business with each particular client. It has been found that the operating facts and figures concerning each client's business can be secured with very little if any additional work when the books and records are set up with this in mind.

The cost-accounting methods and the cost-accounting reports including the individual client operating statement have been described in the chapter "Cost Accounting." The general accounting records and books that are used to record the transactions that are discussed in this chapter are intended to develop the facts and figures required for the cost-accounting reports. In addition, they form the basis for securing the information for the agency's General Operating Statement and balance sheet.

JONES & SMITH

GENERAL OPERATING STATEMENT

DETAIL	MONTH OF MARCH, 19 — ACTUAL AMOUNT	ACTUAL %	BUDGET AMOUNT	BUDGET %	OVER BUDGET *	THREE MONTHS ENDED MARCH 31, 19 — ACTUAL AMOUNT	ACTUAL %	BUDGET AMOUNT	BUDGET %	OVER BUDGET *
BILLINGS										
NEWSPAPERS	373,987.00	100.0	350,000.00	100.0	*23,987.00	1,037,867.00	100.0	950,000.00	100.0	*87,867.00
MAGAZINES	287,346.00	100.0	250,000.00	100.0	*37,346.00	687,293.00	100.0	600,000.00	100.0	*87,293.00
RADIO TIME	447,690.00	100.0	500,000.00	100.0	52,310.00	1,388,350.00	100.0	1,650,500.00	100.0	312,150.00
RADIO TALENT & PRODUCTION										
OUTDOOR	102,175.00	100.0	90,000.00	100.0	*12,175.00	367,494.00	100.0	300,500.00	100.0	*66,994.00
PRODUCTION	57,283.00	100.0	55,000.00	100.0	* 2,283.00	218,035.00	100.0	175,000.00	100.0	*43,035.00
SERVICE FEES	18,000.00	100.0	18,000.00	100.0		50,000.00	100.0	50,000.00	100.0	
NON COMMISSIONABLE	1,264.00	100.0	1,000.00	100.0	* 264.00	3,340.00	100.0	5,000.00	100.0	1,660.00
TOTAL BILLINGS	1,287,745.00	100.0	1,264,000.00	100.0	*23,745.00	3,702,379.00	100.0	3,731,000.00	100.0	28,621.00
COSTS										
NEWSPAPERS	317,889.00	85.0	297,500.00	85.0	*20,389.00	882,187.00	85.0	807,500.00	85.0	*74,687.00
MAGAZINES	244,244.00	85.0	212,500.00	85.0	*31,744.00	584,198.00	85.0	510,000.00	85.0	*74,198.00
RADIO TIME	381,880.00	85.3	425,000.00	85.0	43,120.00	1,140,274.00	85.2	1,402,925.00	85.0	262,651.00
RADIO TALENT & PRODUCTION										
OUTDOOR	88,586.00	86.7	78,030.00	86.7	*10,556.00	318,617.00	86.7	260,400.00	86.7	*58,217.00
PRODUCTION	48,691.00	85.5	46,750.00	85.0	* 1,941.00	186,202.00	85.4	148,750.00	85.0	*37,452.00
NON COMMISSIONABLE	1,264.00	100.0	1,000.00	100.0	* 264.00	3,340.00	100.0	5,000.00	100.0	1,660.00
TOTAL COSTS	1,082,554.00	84.1	1,060,780.00	83.9	*21,774.00	3,114,818.00	84.1	3,134,575.00	84.0	19,757.00
COMMISSIONS AND FEES										
NEWSPAPERS	56,098.00	15.0	52,500.00	15.0	* 3,598.00	155,680.00	15.0	142,500.00	15.0	*13,180.00
MAGAZINES	43,102.00	15.0	37,500.00	15.0	* 5,602.00	103,095.00	15.0	90,000.00	15.0	*13,095.00
RADIO - TIME	65,810.00	14.7	75,000.00	15.0	9,190.00	198,076.00	14.8	247,575.00	15.0	49,499.00
RADIO TALENT & PRODUCTION										
OUTDOOR	13,589.00	13.3	11,970.00	13.3	* 1,619.00	48,877.00	13.3	40,100.00	13.3	* 8,777.00
PRODUCTION	8,592.00	14.5	8,250.00	15.0	* 342.00	31,833.00	14.6	26,250.00	15.0	* 5,583.00
SERVICE FEES	18,000.00	100.0	18,000.00	100.0		50,000.00	100.0	50,000.00	100.0	
TOTAL COMMISSIONS AND FEES	205,191.00	15.9	203,220.00	16.1	* 1,971.00	587,561.00	15.9	596,425.00	16.0	8,864.00

DIRECT EXPENSES										
EXECUTIVE SALARIES	18,500.00	1.4	18,000.00	1.4	* 500.00	* 56,000.00	1.5	54,000.00	1.5	* 2,000.00
ACCT EXEC. SALARIES	34,000.00	2.7	35,000.00	2.8	1,000.00	105,000.00	2.8	105,000.00	2.8	
SECRETARIES SALARIES										
COPY SALARIES	36,500.00	2.8	37,000.00	2.9	500.00	108,000.00	2.9	110,000.00	2.9	2,000.00
ART SALARIES										
PRODUCTION SALARIES	16,000.00	1.3	16,000.00	1.3	-	47,000.00	1.3	45,000.00	1.2	* 2,000.00
MEDIA SALARIES										
RADIO SALARIES										
OTHER DIRECT SALARIES	4,000.00	.3	4,000.00	.3		10,000.00	.3	10,000.00	.3	
ENTERTAINMENT	8,279.00	.6	8,000.00	.6	* 279.00	23,279.00	.6	21,000.00	.6	* 2,279.00
TRAVEL										
UNBILLABLE COSTS	5,387.00	.4	4,220.00	.4	* 1,167.00	14,134.00	.4	11,425.00	.3	* 2,709.00
TOTAL DIRECT EXPENSES	122,666.00	9.5	122,220.00	9.7	* 446.00	363,413.00	9.8	356,425.00	9.6	* 6,988.00
GROSS PROFIT	82,525.00	6.4	81,000.00	6.4	* 1,525.00	224,148.00	6.1	240,000.00	6.4	15,852.00
GENERAL AND ADMIN. EXPENSE	42,764.00	3.3	40,000.00	3.2	* 2,764.00	123,289.00	3.3	120,000.00	3.2	* 3,289.00
NET OPERATING PROFIT	39,761.00	3.1	41,000.00	3.2	* 1,239.00	100,859.00	2.8	120,000.00	3.2	19,141.00
ADD—OTHER INCOME										
DISCOUNTS EARNED (net)	2,583.00	.2	2,000.00	.1	* 583.00	4,837.00	.1	5,000.00	.1	163.00
MISCELLANEOUS										
TOTAL OTHER INCOME	2,583.00	.2	2,000.00	.1	583.00	4,837.00	.1	5,000.00	.1	163.00
DEDUCT—OTHER EXPENSE										
Interest Expense	175.00	-	-	-	* 175.00	175.00	-	-	-	* 175.00
NEW BUSINESS	4,867.00	.4	6,000.00	.4	1,133.00	12,334.00	.4	15,000.00	.4	2,616.00
MISCELLANEOUS										
TOTAL OTHER EXPENSE	5,042.00	.4	6,000.00	.4	958.00	12,509.00	.4	15,000.00	.4	2,441.00
NET PROFIT	37,302.00	2.9	37,000.00	2.9	* 302.00	93,137.00	2.5	110,000.00	2.9	16,863.00
PROVISION FOR TAXES										
NET PROFIT TO SURPLUS										

FIG. 47. General Operating Statement.

JONES & SMITH

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSE

DETAIL	MONTH OF MARCH, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET UNDER - (RED)	THREE MONTHS ENDED MARCH 31, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET UNDER - (RED)
EXPENSES										
RENT	5,500.00	.43	5,500.00	.43	-	16,000.00	.43	16,000.00	.43	-
LIGHT	628.00	.05	700.00	.06	72.00	2,087.00	.06	2,200.00	.06	113.00
TELEPHONE & TELEGRAPH	1,487.00	.12	1,500.00	.12	13.00	4,842.00	.13	5,500.00	.15	658.00
STATIONERY & SUPPLIES	1,836.00	.14	2,000.00	.16	164.00	6,279.00	.17	6,000.00	.16	* 279.00
POSTAGE & EXPRESS	533.00	.04	400.00	.03	* 133.00	967.00	.03	1,200.00	.03	233.00
ART SUPPLIES										
TRAVEL										
LOCAL TRAVEL										
AUTO EXPENSE										
ENTERTAINMENT										
LEGAL	600.00	.05	400.00	.03	* 200.00	1,200.00	.03	1,000.00	.03	* 200.00
AUDITING	900.00	.07	1,000.00	.08	100.00	2,900.00	.08	3,000.00	.08	100.00
CONTRIBUTIONS										
DUES & SUBSCRIPTIONS	1,738.00	.13	1,800.00	.14	62.00	5,200.00	.14	5,000.00	.14	* 200.00
INSURANCE	2,230.00	.17	2,000.00	.16	* 230.00	6,285.00	.17	6,000.00	.16	* 285.00
GROUP INSURANCE										
LIFE INSURANCE										
DEPRECIATION										
LEASEHOLD AMORTIZATION										
MISC. TAXES										
SOCIAL SECURITY TAXES	1,505.00	.12	1,500.00	.12	* 5.00	4,487.00	.12	4,500.00	.12	13.00
REPAIRS										
MISCELLANEOUS	2,187.00	.17	2,200.00	.17	13.00	6,258.00	.17	6,600.00	.18	342.00
TOTAL EXPENSES	19,144.00	1.49	19,000.00	1.50	* 144.00	56,505.00	1.53	57,000.00	1.54	495.00
INDIRECT SALARIES										
EXECUTIVE	4,120.00	.32	4,000.00	.32	120.00	10,730.00	.29	11,000.00	.29	270.00
ACCOUNT EXECUTIVES	3,463.00	.27	3,500.00	.28	37.00	8,244.00	.22	7,500.00	.20	* 744.00
SECRETARIES	1,878.00	.14	1,600.00	.13	* 278.00	5,320.00	.14	5,000.00	.13	* 320.00
COPY										
ART	2,522.00	.20	2,000.00	.16	* 522.00	7,163.00	.19	7,000.00	.19	* 163.00
PRODUCTION	2,787.00	.22	2,100.00	.17	* 687.00	8,721.00	.24	8,500.00	.23	* 221.00
MEDIA	1,623.00	.13	1,500.00	.12	* 123.00	4,798.00	.13	4,000.00	.11	* 798.00
RADIO										
STENOS	2,122.00	.16	2,200.00	.17	78.00	6,271.00	.17	5,500.00	.15	* 771.00
CHECKING	1,673.00	.13	1,300.00	.10	* 373.00	4,919.00	.13	4,500.00	.12	* 419.00
BOOKKEEPING	2,452.00	.18	2,000.00	.16	* 452.00	7,455.00	.20	7,000.00	.18	* 455.00
MAILING										
RECEPTIONIST & SWITCHBOARD										
GENERAL	1,023.00	.08	800.00	.06	* 223.00	3,163.00	.09	3,000.00	.08	* 163.00
TOTAL INDIRECT SALARIES	23,620.00	1.83	21,000.00	1.67	* 2,620.00	66,784.00	1.80	63,000.00	1.68	* 3,784.00
TOTAL GEN. AND ADM. EXPENSES	42,764.00	3.32	40,000.00	3.17	* 2,764.00	123,289.00	3.33	120,000.00	3.22	* 3,289.00

FIG. 48. Schedule of General and Administrative Expense.

JONES & SMITH

SCHEDULE OF DIRECT SALARIES

DETAIL	MONTH OF March, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET* UNDER *	Three MONTHS ENDED March 31, 19 — ACTUAL AMOUNT	%	BUDGET AMOUNT	%	OVER BUDGET* UNDER *
EXECUTIVE SALARIES:										
Kelly	1,164.00		1,000.00		* 164.00	4,700.00		4,000.00		* 700.00
Thomas	900.00		1,000.00		100.00	2,000.00		2,000.00		-
TOTAL EXECUTIVE SALARIES	2,064.00	2.3	2,000.00	2.1	* 64.00	6,700.00	2.4	6,000.00	2.1	* 700.00
ACC'T. EXECUTIVE SALARIES										
Appleman	953.00		1,000.00		47.00	3,900.00		3,000.00		* 900.00
TOTAL ACC'T. EXECUTIVE SALARIES	953.00	1.0	1,000.00	1.1	47.00	3,900.00	1.4	3,000.00	1.1	* 900.00
COPY SALARIES:										
MacAllister	1,200.00		1,000.00		* 200.00	3,500.00		3,000.00		* 500.00
Ames	600.00		500.00		* 100.00	1,500.00		1,500.00		-
Stevens	551.00		500.00		* 51.00	2,000.00		1,500.00		* 500.00
TOTAL COPY SALARIES	2,351.00	2.6	2,000.00	2.1	* 351.00	7,000.00	2.6	6,000.00	2.1	* 1,000.00
PRODUCTION SALARIES:										
Sorrenson	800.00		800.00		-	2,100.00		2,000.00		* 100.00
Levy	267.00		200.00		* 67.00	1,300.00		1,000.00		* 300.00
TOTAL PRODUCTION SALARIES	1,067.00	1.2	1,000.00	1.1	* 67.00	3,400.00	1.2	3,000.00	1.1	* 400.00
OTHER:										
O'Malley	-		200.00		200.00	-		600.00		600.00
TOTAL OTHER	-		200.00	.2	200.00	-		600.00	.2	600.00

FIG. 49. Schedule of Direct Salaries.

GENERAL OPERATING STATEMENT

The General Operating Statement shown in Figure 47 is designed so as to compare actual figures with budgeted figures. Also, it is designed to show figures both for the current month and for the year to date. The billings are reported by classification of media as are the media costs and commissions. Expenses are divided into the two main classifications of direct expense and of general and administrative expenses. Each classification of direct salary is shown on the statement as is each general class of direct expense. General and administrative expense is reported on the statement in one figure only.

The General Operating Statement is supported by two schedules. The schedule of General and Administrative Expense (Figure 48) shows the amount of each type of expense divided into the two main classifications "Expenses" and "Indirect Salaries." The schedule of Direct Salaries (Figure 49) merely lists each classification of salary, the names of the individual employees in each such classification, and the amount of compensation paid to each. Subtotals on this report show the total direct salaries for each classification, which totals are shown on the General Operating Statement.

BALANCE SHEET

The balance sheet shown in Figure 50 is designed to present the necessary figures to indicate the financial condition of an agency. The advertising agency has no need for anything but the conventional type of balance sheet and the one shown in Figure 50 provides for the usual items that are to appear. It is designed for use in connection with the operating statement that has been discussed.

GENERAL LEDGER

The General Ledger as used by an advertising agency is much the same as the orthodox form of General Ledger. There are a number of accounts, however, that can be subdivided, such as

sales, cost of sales, accounts payable, etc. Such a division of accounts also is important where an agency has a number of branches in different cities; then the figures in connection with the operation of each branch should be developed and recorded

ANY ADVERTISING AGENCY
BALANCE SHEET
AS AT JANUARY 31, ____

A S S E T S

CURRENT ASSETS:			
Cash in Banks		$128,194.00	
Accounts Receivable	$247,626.00		
Less--Reserve for Bad Debts	500.00	247,126.00	
Miscellaneous Receivables and Advances		1,768.00	
Unbilled Media and Production Costs		8,981.00	
Total Current Assets			$386,069.00
PREPAID EXPENSES AND DEFERRED CHARGES:			
Unexpired Insurance		$ 517.00	
Leasehold Improvements		2,952.00	
Organization Expense		435.00	
Total Prepaid Expenses and Deferred Charges			3,904.00
FIXED ASSETS:			
Furniture and Fixtures		$ 23,770.00	
Less--Reserve for Depreciation		8,612.00	
Book Value			15,158.00
TOTAL ASSETS			$405,131.00

LIABILITIES AND NET WORTH

CURRENT LIABILITIES:			
Accounts Payable		$206,390.00	
Due to Officers and Employees		47,850.00	
Accrued Commissions		6,253.00	
Reserve for Federal Income Taxes		9,496.00	
Accrued Social Security Taxes		998.00	
Withheld Income Taxes Payable		5,034.00	
Client's Prepayment		2,500.00	
Total Current Liabilities			$278,521.00
RESERVE FOR FUTURE CREDIT LOSSES			4,036.00
NET WORTH:			
Capital Stock, $100.00 Par Value Authorized 2,000 Shares, Issued 1,000 Shares		$100,000.00	
Surplus--			
Net Profit for Year Ended January 31, 19		22,574.00	
Total Net Worth			122,574.00
TOTAL LIABILITIES AND NET WORTH			$405,131.00

FIG. 50. Balance Sheet.

GENERAL AND ADMINISTRATIVE EXPENSE

	Date		Total	Rent	Light	Telephone & Telegraph	Stationery & Supplies	Postage & Express	Art Supplies	Travel	Local Travel	Auto Expense	Entertainment	Legal
1														
2														
3														
4														
5														
6														

			Auditing	Contributions	Dues & Subscriptions	Insurance	Group Insurance	Life Insurance	Depreciation	Leasehold Amortization	Misc. Taxes	Repairs	Miscellaneous	Social Security Taxes
1														
2														
3														
4														
5														
6														

FIG. 51. Columnar Ledger Sheet.

separately. When these conditions occur, it is suggested that a columnar General-Ledger sheet be used. (See Figure 51.) The typical accounts carried in the General Ledger of an advertising agency are:

CHART OF ACCOUNTS: REAL ACCOUNTS

Assets

Current Assets:

Cash in Bank
Petty Cash Fund
Notes Receivable
Accounts Receivable
Unbilled Advertising Materials (Inventory)
(At Cost)
Due from Officers and Employees

Investments:

Cash Surrender Value of Business Life Insurance
(Officers and Employees)
Marketable Securities
Unlisted Securities

Prepaid Expenses and Deferred Charges:

Unexpired Insurance
Prepaid Dues and Subscriptions
Inventory of Supplies
Organization Expense
Leasehold Improvements (Unamortized)

Fixed Assets:

Furniture and Fixtures
Office Equipment
Reserve for Depreciation—
Furniture and Fixtures
Reserve for Depreciation—
Office Equipment

Intangibles:

Good-will

Liabilities

Current Liabilities:

Notes Payable—Banks
—Others

Accounts Payable—Space
—Radio
—Outdoor
—Advertising Materials
—Expense
Accrued Sales and Commissions
Accrued Social Security Taxes
Accrued Miscellaneous Taxes
Reserve for Federal Taxes on Income
Employees' Savings Bond Deduction
Pension and Profit-Sharing Fund

Long Term Liabilities:

Notes or Accounts Due after One Year

Net Worth

Capital Stock or Partners' Capital Accounts
Paid-in Surplus
Earned Surplus

CHART OF ACCOUNTS: NOMINAL ACCOUNTS

Billings:

Newspapers
Magazines
Radio—Time
Radio—Talent and Production
Outdoor
Advertising Materials
Service Fees

Cost of Billings:

Newspapers
Magazines
Radio—Time
Radio—Talent
Outdoor
Advertising Materials

Direct Expenses:

Executive Salaries
Contact Salaries

Secretaries' Salaries
Copy Salaries
Art Salaries
Production Salaries
Media Salaries
Radio Salaries
Other Direct Salaries
Entertainment
Travel
Unbillable Costs

General and Administrative Expenses:

Indirect Salaries:
Executive
Contact Men
Secretaries
Copy
Art
Production
Media
Radio
Stenographers
Checking
Bookkeeping
Mailing
Receptionist and Switchboard
General

Expenses:
Rent
Light
Telephone and Telegraph
Stationery and Supplies
Postage and Express
Art Supplies
Travel
Local Travel
Auto Expense
Entertainment
Legal
Auditing
Contributions

Dues and Subscriptions
Insurance
Depreciation
Leasehold Amortization
Miscellaneous Taxes
Social Security Taxes
Repairs
Miscellaneous

Other Income:

Discounts Earned
Interest Earned
Dividends Received
Miscellaneous

Other Expenses:

Discounts Allowed
Interest Paid
New Business or Promotional Expense
Miscellaneous

REQUIRED RECORDS AND FILES

The following is a complete list of the books of record or files required in maintaining the modern advertising agency accounting system outlined in this book:

Name of Record or File	*Information Included*
1. Sales and Cost Journal	a. Individual client pages are provided for the entry of the billing amount and the cost of each client invoice. b. The monthly billings and costs for each client, classified by type of medium, are totaled. c. The date of collection and the balance due, if any, is noted for each invoice entered in this record. In this manner, the detail of accounts receivable is maintained. d. Monthly totals of billings and costs for the agency as a whole are obtained by recording the client totals on a recapitulation page.

Name of Record or File	*Information Included*
2. Inventory Control Journal (for advertising materials)	a. Individual client pages are provided containing columns for recording the total of costs incurred, billed and unbilled for each job, each month of the year.
	b. Monthly totals of costs incurred, billed and unbilled for the agency as a whole, are obtained by recording the client totals on a recapitulation page.
3. Billing File (file of suppliers' bills, etc., covering advertising materials arranged in client and job number order)	a. Copies of suppliers' bills, expense-billing authorizations, production write-offs, and job transfers are filed. The accumulated monthly costs for each job are entered in the Inventory Control Journal.
	b. The folders for jobs billed are removed and placed in a completed file.
4. Voucher Register (for advertising materials)	a. The pages contain columns for each month of the year in which the monthly totals of costs incurred, and paid, and balances due are recorded for each supplier.
	b. Monthly totals of costs incurred must agree with those in the Inventory Control Journal. The monthly totals of payments and balances due are verified with other records.
5. Paying File (file of suppliers' bills, etc., covering advertising materials arranged in the order of supplier)	a. Copies of suppliers' bills, expense-billing authorizations, production write-offs, and job transfers are filed. The accumulated monthly costs for each supplier are entered in the Voucher Register.
	b. The bills and other data after payment or other disposition are placed in a closed file.

Name of Record or File	*Information Included*
6. Expense Voucher Register	a. Individual suppliers' bills are entered and distributed in the following columns: (1) Direct Expenses (Client's name and type of item are noted for each entry) (2) New Business Expenses (Prospect's name and type of item are noted for each entry) (3) General and Administrative Expenses (Account to be charged is noted for each entry) (4) Miscellaneous (Account to be charged is noted for each entry) b. Payment dates are recorded for each bill entered. In this manner, the detail of Expense Accounts Payable is maintained.
7. Cash Receipts Journal	All receipts are entered and properly distributed.
8. Standard Journal	All recurring monthly adjustments are recorded.
9. General Journal	All non-recurring adjustments are recorded.
10. File copies of checks issued	a. Duplicate copies are filed in numerical order. Adding-machine tape totals represent monthly disbursements for the agency as a whole. b. Triplicate copies are filed separately for: (1) Payments to publishers (2) Payments to radio stations (3) Payments to radio talent, etc. (4) Payments to outdoor plants (5) Payments to advertising materterial suppliers (6) Payments to other suppliers (7) Payroll payments

Name of Record or File	*Information Included*
	Monthly totals of each of the above groups represent charges to the corresponding accounts-payable control accounts. The grand total of all the groups must agree with the total of the duplicate copies.
11. Payroll Summary and Employees' Earnings Records	Salaries paid and related payroll deductions are recorded.
12. Space Insertion Order Files	a. Copies of insertion orders are kept in the following files. These files are arranged by client, state, city and publication. (1) Unbilled and Unpaid (2) Billed and Unpaid (3) Paid and Unbilled (4) Billed and Paid b. Each order is to contain the gross, net and cash discount amounts. Dates of invoices issued to clients and payments to publications are to be noted. c. The Billed and Unpaid, and Paid and Unbilled orders will show the net amounts due or prepaid.
13. Radio Time Invoices Files	a. Copies of the detailed invoices covering programs on each radio station are placed in the order of Radio Station Call Letters in the following files: (1) Billed and Unpaid (2) Billed and Paid b. Each invoice will show the gross and net amounts of the radio station's charges. The dates and amounts of the payments to the radio station are to be noted. c. The invoices contained in the Billed and Unpaid file will show the net amounts due to each radio station.

Name of Record or File	*Information Included*
	The total will agree with the Radio Time Accounts-Payable Control Account.
14. Radio Production Order Files	a. Copies of radio production orders are filed in the order of client and job number. After each order is billed and all items of cost are paid for, it is placed in a closed file. b. Each order will show the various items of cost, the date of billing, and the dates of payments. c. The unpaid items on each order will represent the amounts due each supplier. The total of these items will agree with the Accounts-Payable Control Account for Radio Talent and Production.
15. Outdoor Contract Files	a. Copies of outdoor contracts are filed in the order of client, state and city. After each contract is completely billed and paid, it is placed in a closed file. b. Each contract will indicate the gross and net amounts for each month. Dates of invoices issued to clients and payments to outdoor plants will be noted. c. The net amounts of the items billed but not paid will represent the liabilities to each outdoor plant. The total of these items will agree with the Accounts-Payable Control Account for Outdoor.

Sales and Cost Journal

This is a book of original entry. The billing price and cost of every invoice sent to a client of the agency is to be entered in this Journal. (See Figure 23, shown on page 154.) The record is designed to:

1. Accumulate automatically the billings and cost of billings for each client separately.
2. Segregate the billings and cost of billings to each client so that the totals for a month or other period will show the volume of each type of transaction (newspapers, magazines, radio time, advertising materials, etc.) handled for each client.
3. Accumulate the total billings and cost of billings for the agency as a whole and classify them by types of transactions.
4. Provide a record of charges to each client and collections therefor, showing the unpaid items (accounts receivable detail).
5. Form the basis for accumulating figures through which internal controls can be established to assure the billing of all items paid and the paying of all items billed.

It is intended that the Sales and Cost Journal be used essentially as a monthly record, that is, that the record be totaled and posted to the General Ledger at the end of each month. A separate page is to be used for each client except where an agency has only a few transactions with a client, in which case a half- or quarter-page will suffice. Office copies of invoices are entered in this record.

Entries are made simply by locating the page for the particular client and then entering the date of the invoice and the invoice number. The gross billing price is first entered in the column headed "Accounts Receivable" and is again entered in the column headed by the media which the bill covers. In other words, if the invoice being entered is for magazine space, the gross billing price of the magazine space is entered first in the column headed "Accounts Receivable" and then again in the column headed "Magazines." The total cost of the items on the invoice as shown by the office copy of the invoice is entered in the section of the journal headed "Cost of Sales," and in the column under this heading bearing the name of the medium represented by the invoice. Again, if the invoice is for magazine

space, the cost of the space is posted in the "Magazines" column in the "Cost of Sales" section of the Sales and Cost Journal. At the end of each month, each page of the Sales and Cost Journal is totaled. This develops a total for each column on each page.

The totals in the "Sales" section on each page represent the total sales of each of the types of media for the client represented by the particular sheet. Figure 23 on page 154, shows a completely entered sheet, totaled and ready for recapitulating.

It is important to emphasize the fact that by properly entering the invoices to the Sales and Cost Journal sheets, a record has been developed which, when totaled, provides the total sales of each class of medium and the total cost of those sales for each particular client's account handled. To secure the grand total sales and cost of sales for the agency as a whole, it is necessary to recap the totals as shown on each client's page. This is accomplished by preparing an additional sheet in the Journal that is especially ruled for the purpose. This recap sheet provides for entering the name of each client and the monthly totals of the sales and cost of sales covering the items billed to each client. Figure 52 is a recap sheet that has been entirely completed. Notice how the totals from the individual client sheet in the Journal (Figure 23) have been carried over and posted to the summary sheet (Figure 52).

SALES AND COST JOURNAL
RECAPITULATION

MONTH OF August 19

CLIENT	ACCTS RECEIVABLE	EXCHANGE ITEMS	SALES: NEWSPAPERS	SALES: MAGAZINES	SALES: OUT DOOR	SALES: RADIO TIME	SALES: RADIO TALENT PROD	SALES: SOC SEC TAXES BILL	SALES: ADVTG MATERIALS	SALES: SERVICE FEES	COST OF SALES: NEWSPAPERS	COST OF SALES: MAGAZINES	COST OF SALES: OUT DOOR	COST OF SALES: RADIO TIME	COST OF SALES: RADIO TALENT PROD	COST OF SALES: ADVTG MATERIALS
Whitehall Soap Co	74100		74100								62985					
Blop Dye Inc	100000			100000								85000				
Blop Toys	500000				50000								433333			
York Hose Coal Inc	100000					10000								8500		
" " "	100000						100000								85000	
Sun Frost Detectives	100000								100000							85000
TOTAL	1374100		74100	100000	50000	10000	100000	— 0 —	100000	— 0 —	62985	850 -	433333	85000	85000	85000

FIG. 52. Sales and Cost Journal—Recap Sheet.

The Sales and Cost Journal is designed to act in place of an accounts-receivable detail ledger as well as to serve as a medium for recording and recapping sales and costs. After the invoices have been entered in the Sales and Cost Journal, as described, it is necessary to post the collections in order to complete the record, so as to show which items have been collected and which are outstanding. The left-hand column of the Sales and Cost Journal sheets is headed "Collection Data." This column is divided as follows:

Date *Balance if Any*

When a client pays an invoice, the collection is first recorded in the Cash Receipts Journal which will be described elsewhere. The cash received is also recorded in the Sales and Cost Journal in the columns headed "Collection Data." This is done by simply posting the data of the collection, provided that the client has paid an invoice in full. If the client does not pay in full, both the date of the collection and the balance due should be entered. The balance due is the difference between the total billing price of the invoice and the amount paid by the client. After such a posting is made, the columns in the Sales and Cost Journal would appear as follows:

Collection Data				
Date	*Balance if Any*	*Date*	*Invoice Number*	*Accounts Receivable*
1-17-48	$50.00	1-7-48	1234	$500.00

In preparing the preceding example, it was assumed that the client paid $450.00 on account of the $500.00 invoice recorded.

Since the totals shown on the Sales and Cost Journal monthly recapitulations represent the total monthly sales and cost of the sales, the total charges to clients, and the total cost of the items purchased (and therefore payable to the several media), the following entries are made from the Sales and Cost Journal to the General Ledger accounts:

1. *Charge:* Accounts Receivable
   Credit: Sales

with the total of all invoices entered in the Sales and Cost Journal for the month as shown by the recap sheet.

2. *Charge:* Cost of Sales
   Credit: Accounts Payable

with the total of the cost of all items billed except advertising materials. The figures for these totals are secured from the monthly recap sheet.

3. *Charge:* Cost of Sales, Advertising Materials
   Credit: Unbilled Advertising Materials

with the total cost of advertising materials billed during the month as shown by the recap sheet of the Sales and Cost Journal.

Where it is desired to segregate the sales and cost of sales so that the sales and cost of sales of each particular medium are shown separately in the General Ledger, instead of crediting sales with the grand total of all of the sales for the month, separate General Ledger accounts or separate columns in the one sales account in the General Ledger may be credited with the sales for each medium.

Where this is done, a similar segregation will be made for cost of sales. It is desirable in most cases to segregate the credit to accounts payable so that, in the event that the records do not balance, the difference can be isolated and thereby more easily corrected. To segregate the credit to accounts payable, it is only necessary to secure the total cost of sales for each medium and to post the cost of each medium to the credit of separate accounts-payable control accounts. Examination of the entries just described indicates that the cost of advertising materials is credited to the account called "Unbilled Advertising Materials" instead of to "Accounts Payable" as the other media are credited.

By referring to the chapter "Advertising Materials: Billing, Paying and Accounting," it will be noted that the total cost of all advertising materials purchased during a month is posted from the Voucher Register to the General Ledger by debiting

"Unbilled Advertising Materials" and crediting "Accounts Payable, Advertising Materials." When advertising materials are billed, the cost of each invoice is recorded in the Sales and Cost Journal, and the total cost of all such items billed is credited to the General Ledger account "Unbilled Advertising Materials," leaving a balance in that General Ledger account which represents the cost of the items purchased but not yet billed.

A study of the entries to the Sales and Cost Journal and of the entries from that Journal to the General Ledger accounts will disclose that as soon as any item (except advertising materials) is billed, the cost of that item is entered in the Sales and Cost Journal and from there is credited to an accounts-payable account so that a liability is established for the cost of each item billed.

The accounts-payable account in the General Ledger is supported by various original documents as explained in detail in the chapters describing the methods for billing and paying each type of advertising medium. Thus, if an item is once billed, in order to clear the records it must be paid or otherwise adjusted. Correspondingly, if an item is paid to a publisher or a radio station, it will be seen that since the payment is charged to an accounts-payable account, the payment either offsets a credit previously set up or produces a prepaid item which must be billed or otherwise adjusted in order to secure an offsetting credit to clear the accounts-payable account.

At the end of each month, each accounts-payable account (newspapers, magazines, outdoor, radio time, etc.) shows the balance in that account. This balance must agree with the detail supporting the account and showing the amount due to each publisher, each radio station, etc.

The supporting detail in the case of newspapers and magazines consists of bookkeeping copies of insertion orders that are either paid and unbilled or billed and unpaid. The detail of the outdoor accounts payable is supported by bookkeeping copies of outdoor contracts. The total of radio time accounts

payable is supported by bookkeeping copies of invoices sent to clients. The total of the radio talent and production accounts-payable account is supported by production orders.

The above procedure provides an airtight control, making it necessary to bill every item that has been paid and to pay every item that has been billed, for, if this is not done, the unpaid or unbilled items remain open and are disclosed each month until disposed of.

The entries to the Inventory Control Journal and the Voucher Register have been explained in some detail in the chapter "Advertising Materials: Billing, Paying and Accounting." It is sufficient to repeat here that the purposes of these two records are as follows:

Inventory Control Journal

For each job number, each client, and for the agency as a whole, monthly totals are accumulated for:

1. Costs incurred.
2. Costs of jobs billed.
3. Costs of jobs unbilled.

The Inventory Control Journal contains separate pages for each client and one recapitulation page. (See Figures 53 and 54.)

PRODUCTION AND ART INVENTORY CONTROL JOURNAL

CLIENT _____

JOB NO.	JANUARY			FEBRUARY			MARCH			A
	COST	BILLED	INV	COST	BILLED	INV.	COST	BILLED	INV	Cl
TOTALS										

FIG. 53. Inventory Control Journal.

Columns are provided for each month of the year showing the accumulated costs incurred, billed and remaining unbilled for each job and each client. This record contains only the information relative to monthly job cost totals, not individual bills. Each client's monthly totals of costs incurred, billed and unbilled are recorded on the recapitulation page so as to arrive at the total for the agency.

PRODUCTION AND ART INVENTORY CONTROL JOURNAL
RECAPITULATION

CLIENT	JANUARY			FEBRUARY			MARCH			A
	COST	BILLED	INV	COST	BILLED	INV	COST	BILLED	INV.	CC
TOTALS										

FIG. 54. Inventory Control Journal—Recap Sheet.

The grand totals shown on the recapitulation page for each month are verified in the following manner:

1. The total of the cost column must agree with the total of the cost column in the Voucher Register.
2. The total of the billed column must agree with the total of the cost of advertising materials billed, as shown in the Sales and Cost Journal (the recapitulation page of the Sales and Cost Journal will contain the grand total of the cost of advertising materials billed each month).
3. The total of the inventory column must agree with the balance in the General Ledger control account for unbilled advertising materials (inventory).

In effect, the totals of the three columns represent the debits, credits and balance in the General Ledger control account "Unbilled Advertising Materials."

If differences occur in verifying any one of the three monthly totals discussed above, they can be located by the following steps:

1. Total of cost column verified with the total cost column in the Voucher Register.

The job costs entered in the Inventory Control Journal represent totals of suppliers' bills, etc., arranged in job number order contained in the billing file. The entries in the Voucher Register represent totals of suppliers' bills arranged in supplier order contained in the paying file. The billing and paying files contain exactly the same information; one arranged by job number, the other by supplier name.

To locate the difference between the total costs entered in the Inventory Control Journal and those entered in the Voucher Register, it is necessary to obtain the various folders contained in the paying file and to sort the suppliers' bills and other data in the order of client. Client totals should now be obtained and checked with the client totals as entered in the Inventory Control Journal. In this manner, the difference will be isolated to one or more clients.

The material relative to the clients for which differences exist should be sorted in the order of job number. Totals for each job number are obtained and checked with the entries in the Inventory Control Journal, thereby isolating the differences to one or more particular jobs.

It is now only necessary to check the contents of the job folders in the billing file with the material for each such job obtained from the paying file. In this manner, errors will be located and corrected.

2. The total of the billed column of the Inventory Control Journal verified with the total of the cost of advertising materials billed as shown in the Sales and Cost Journal.

The entries in the Inventory Control Journal for items billed represent the cost of invoices issued to client. The same invoices

are entered in the Sales and Cost Journal. The cost of advertising materials billed to clients as entered in the two records should be in agreement. If a difference exists, the difference should be located in the following manner:

The various client totals of the cost of advertising materials billed as shown in the Sales and Cost Journal should be checked with the client totals in the Inventory Control Journal. In this manner, the differences will be isolated to one or more of the several clients.

Next, the copies of invoices entered in the Sales and Cost Journal should be obtained and the cost of billing on each job compared with entries in the billed column of the Inventory Control Journal. Each invoice of course will show the job number that is billed, simplifying the verification. In the process of this verification, errors in recording the cost of items billed will be located and investigated for correction.

3. The total of the inventory column in the Inventory Control Journal verified with the balance in the General Ledger control account "Unbilled Advertising Materials."

The charge to the General Ledger control account "Unbilled Advertising Materials" is posted from the total of the cost column of the Voucher Register. Prior to this posting, the total cost of advertising materials purchased as shown by the Voucher Register was verified with the total costs as recorded in the Inventory Control Journal.

The credit to the General Ledger control account is posted from the total cost of advertising materials billed as found in the Sales and Cost Journal—recapitulation page.

Before the posting is made, the total cost of advertising materials billed as shown by the Sales and Cost Journal is verified with the total cost of materials billed as shown by the "Billed" column in the Inventory Control Journal. Since the total of the inventory column in the Inventory Control Journal is computed by adding the current month's purchases to the previous

month's inventory and deducting the cost of items billed, the figures used to build up the balance in the General Ledger control account should be identical with those used to compute the total in the inventory column of the Journal.

It is possible, however, that the inventory amount for any one job could be computed incorrectly in the Journal. If this were done (and because of such an error), the total of the inventory column would also be in error. To verify the fact that the total of the inventory column in the Journal is correct, the purchases for the month should be added to the prior month's inventory and the cost of billing should be deducted.

The resulting figure should balance with the total of the inventory column of the Journal. If it does not, then a computation should be made to verify the total inventory carried for each client so as to isolate the error. When the error is isolated to one client or to several, the inventory figure for each job for such clients must be verified.

If, after this verification is made, the total of the inventory column in the Journal is still out of balance with the General Ledger account, the error must represent either an incorrect posting to the account or the entry of some item into that account that has not been adjusted in the Inventory Control Journal.

The entries to the General Ledger account are to be verified with the sources from which the entries were made and the differences in this way are located.

Voucher Register

The Voucher Register, Figure 43, shown on page 211, contains columns for each month of the year. Suppliers' names are listed in the left-hand column only once a year. The monthly purchases from, payments to, and balance due each supplier are entered in this record. In addition, the monthly totals of the agency's own art department charges, expense-billing authorizations and write-off authorizations are recorded. The monthly totals of the "Cost," "Paid" and "Balance" columns

represent the debits, credits and balance in the General Ledger accounts-payable control account for advertising materials. The total of the cost column for each month represents the amount charged to Unbilled Advertising Materials and credited to Accounts Payable, advertising materials. The three totals obtained from this record each month are to be verified as follows:

1. The total of the cost column must agree with the total of the cost column in the Inventory Control Journal.
2. The total of the paid column must equal the total of checks issued to suppliers, plus the net amount of the Journal entry adjusting for the agency's own art charges, expense-billing authorizations and write-off authorizations.
3. The total of the balance column must agree with the balance shown in the General Ledger accounts payable for advertising materials. Differences if any should be located as follows:
   a. Total of the cost column verified with the total of the cost in the Inventory Control Journal.

      The method for locating any differences in verifying this total has been described in the previous section covering the Inventory Control Journal.
   b. Total of the paid column verified with the total of the checks, etc.

      Copies of checks issued to suppliers must be checked in detail with the entries in the paid column of the Voucher Register. Next, the total of the Journal entry adjusting the net amount of agency's art charges, expense-billing authorizations and production write-offs should be verified with the amounts entered in the paid column of the Voucher Register. In the process of this verification, differences will be isolated to a particular check or checks or to the adjusting entry referred to above.
   c. Total of the balance column verified with the balance

in the General Ledger accounts-payable control account, advertising materials.

If a difference exists between the balance in the General Ledger control account and the total in the balance column in the Voucher Register, the credits and charges in the General Ledger control account should be compared with the total of the cost and paid columns of the Voucher Register. The credit to the General Ledger control account is entered from the total in the cost column of the Voucher Register and therefore must be in agreement with it.

It has been explained that the total of the paid column must be in agreement with the checks issued to suppliers, plus the adjusting entry for the agency's own art charges, expense-billing authorizations, and write-offs.

Therefore, the charges to the accounts-payable control account for the checks issued plus the adjusting Journal entry referred to must be in agreement with the paid column in the Voucher Register. If a difference exists between the balance in the General Ledger accounts-payable account and the total of the balance column in the Voucher Register, the errors must be due to incorrect posting to the General Ledger accounts-payable control account.

Expense Voucher Register

All agency expenditures other than billable media and advertising materials will be entered in an Expense Voucher Register (Figure 55). This book of original entry is provided for the following purposes:

1. To accumulate the total of agency expenses and capital expenditures in the month in which they are incurred.
2. To distribute all items entered to the proper account.
3. To maintain the detail of balances due suppliers.

The recommended form of Expense Voucher Register contains columns from left to right, for the following major classifications:

EXPENSE VOUCHER REGISTER

	Payment Data					Direct Expenses			New Business Expense		
	Date Pd	Bal If any	Date	Voucher No	Amount	Client	For	Amount	Prospect	For	Amount
1											
2											
3											
4											
5											
6											

	General and Administrative						
	Stat'y & Supplies	Dues & Subscrip	Local Misc Travel	Other		General Ledger	
				Account	Amount	Account	Amount
1							
2							
3							
4							
5							
6							

FIG. 55. Expense Voucher Register.

1. Direct Client Expenses

   These are expenses such as traveling, entertainment, research, etc., clearly allocable to each of the several clients. Space is provided for recording the client's name, the type of expenditure and the amount.

2. General and Administrative Expenses

   Columns are provided under this heading for recording the regular items of expense not directly allocable to the separate clients. Examples are rent, light, telephone, dues and subscriptions, legal, and audit.

3. New Business or Sales Expense

   Expenses incurred such as traveling, entertainment, gifts, etc., for the purpose of obtaining new clients should be distributed within this classification. Columns are provided for prospect's name, type of expense and amount.

4. General Ledger or Miscellaneous
   Columns for description and amounts of expenditures not properly distributable within any of these three classifications are entered here. Items ordinarily entered under this heading are purchases of furniture, office equipment, Government bonds, other securities, etc.

Payments to creditors should be noted in the payment date columns provided opposite the items paid. At the end of each month a list of the unpaid items will represent the detail of the expense accounts-payable control account.

The information available for the preparation of separate client monthly operating statements (described in the chapter on cost accounting) and the General Ledger accounts to be charged are now discussed.

DIRECT CLIENT EXPENSES

A monthly summary of the items distributed to this classification will show the totals chargeable to each direct expense account such as entertainment, travel and other unbillable costs. The summary will show the totals of the above items separately for each client. The over-all totals of the direct expense accounts to be charged will be posted to the proper General Ledger accounts. The direct expense items applying to each client will be available from the summary.

GENERAL AND ADMINISTRATIVE EXPENSES

A summary of the monthly charges to each of the general and administrative expense accounts will be prepared from the items distributed to this classification, and the totals will be posted to the proper General Ledger accounts.

NEW BUSINESS OR SALES EXPENSES

A summary of the items distributed to this classification will be made monthly showing the totals chargeable to new business expenses such as entertainment, travel and other unbillable

costs. The summary should show the amount of expense incurred on account of each prospect. The totals of the new business expenses will be charged to the proper General Ledger accounts.

MISCELLANEOUS ITEMS

The entries of expenditures distributed to this classification will indicate the proper General Ledger accounts to be charged. The postings to the General Ledger can be made directly from the individual items contained under this heading.

Cash Receipts Journal

A simple orthodox form of Cash Receipts Journal is recommended wherein the detailed collections from clients and other receipts deposited in bank accounts are recorded. (See Figure 56.) Columns are provided for the total amount of each deposit

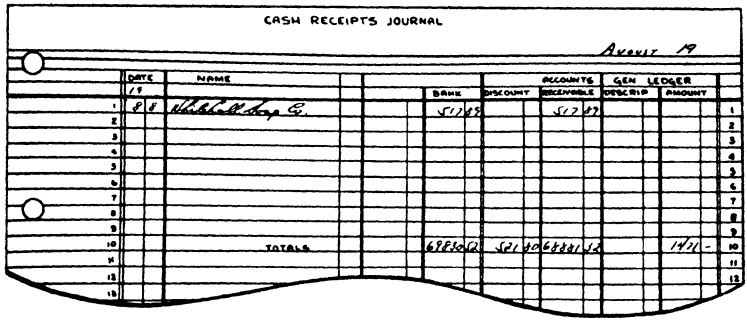


FIG. 56. Cash Receipts Journal.

in the bank, the gross amount of the credit to accounts receivable, cash discounts and all other collections.

Standard Journal

Each month, recurring types of entries are required. Included in this classification are entries representing the total of the

checks issued, the amortization of leasehold improvements, depreciation of fixed assets, the accrual of Social Security taxes, etc. Because entries of this type recur every month, a Standard Journal (Figure 57) is recommended. Debit and credit columns are provided for each month of the year. The advantages of using a Standard Journal are:

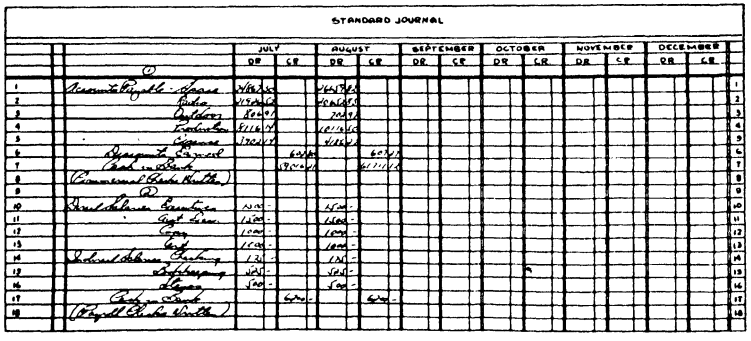


FIG. 57. Standard Journal.

1. It serves as a reminder for each recurring type of entry required each month, thereby assuring greater accuracy in the maintenance of the books and records of the agency.
2. The details and description of each entry are written once for a period of twelve months.
3. The standardized journal entry number facilitates the auditing of the accounts of the company because entries from the Standard Journal are readily understood when examining General Ledger accounts.

General Journal

The orthodox form of General Journal is used only for unusual adjusting entries that are required from time to time. Because regular month-end journal entries will be included in the Standard Journal, entries in the General Journal will be reduced to a minimum.

Cash disbursements

Under the procedures recommended, all items payable by an advertising agency exclusive of payroll are to be accumulated and credited to one of the following accounts-payable control accounts:

1. Publication space, radio time, radio talent and production, and outdoor advertising costs will be credited to the space, radio time, radio talent and production, and outdoor accounts-payable control accounts directly from monthly totals shown in the Sales and Costs Journal recapitulation.
2. The total monthly purchases of advertising materials will be credited to the accounts-payable control account from the totals in the advertising materials Voucher Register.
3. The total of all unbillable agency expenditures as shown in the Expense Voucher Register will be credited to the expense accounts-payable control account.

   Payments chargeable to the proper accounts-payable control accounts are obtained directly from adding-machine tapes of file copies of checks. This eliminates the need for a Cash Disbursements Journal. Checks should be typed in triplicate, and two copies should be filed as follows:

   1. Duplicate—file in numerical sequence for the purpose of bank reconciliation.
   2. Triplicate—file in numerical sequence separately for space, advertising materials, radio time, radio talent, production, outdoor and expense.

Adding-machine tapes of each of the groups of triplicate copies will represent the charges to the proper accounts-payable control accounts.

Summary of salaries paid

A summary showing the salaries paid to each employee and distributed by departments within the classifications of direct and indirect salaries respectively for each month is shown as

Figure 58. This summary is required in order to obtain departmental salary totals for each of the two classifications of direct and indirect salaries so that the payroll can be properly recorded in the General Ledger.

PAYROLL SUMMARY
MONTH OF

DEPARTMENT AND EMPLOYEE	DIRECT SALARIES	INDIRECT SALARIES	NEW BUSINESS SALARIES	BILLABLE (at cost)	TOTAL PAYROLL
EXECUTIVES					
J R SMITH					
P M HAWLEY					
M J LAWRENCE					
Total Executives					
ACCOUNT EXECUTIVES					
John Jones					
William Bones					
Harry Richberg					
Steven Halperin					
Total Account Executives					
SECRETARIES					
Elizabeth Leith					
Charlotte Sharp					
Jerry Jervis					
Benita Berlioz					
Marjorie Mason					
Total Secretaries					
COPY					
Tom Tally					
Mary Christen					
Betty Singe					
Nancy Junior					
Total Copy					
ART					
Toni Carter					
Maurice Rousseau					
Don King					
Lucinda Leigh					
Gael Gardner					
Total Art					
PRODUCTION					
Robert Hartford					
John R Davids					
Wm Humph					
Susan Leftman					
Total Production					
MEDIA					
Bill Grant					
Joanne Hall					
Marie Service					
Harriet Cole					
Total Media					

FIG. 58A. Payroll Summary.

The distribution of direct salaries by departments is prepared from time reports maintained by key employees. The time reports are provided for the purpose of obtaining time devoted to each client's work by each employee. The time re-

PAYROLL SUMMARY
MONTH OF

DEPARTMENT AND EMPLOYEE	DIRECT SALARIES	INDIRECT SALARIES	NEW BUSINESS SALARIES	BILLABLE at cost	TOTAL PAYROLL
RADIO					
Johnson Harley					
Lois Morna					
Beverly Janis					
Jane Reynolds					
Total Radio					
STENOG					
Barbara Plains					
Josephine Lebur					
Geraldine Hampton					
Helen Woksiw					
Eleanor Crebgah					
Mary Ann Sweeney					
Total Stenos					
CHECKING					
Peter Laity					
Constance Nagrom					
June Harvest					
Anne Legan					
Bertha Schoen					
Total Checking					
BOOKKEEPING					
Mary Brown					
Shirley Harris					
Lillian Sanford					
Bradley Burns					
Total Bookkeeping					
MAILING					
Bob Crowell					
Jack Carner					
Joe Thomason					
Total Mailing					
RECEPTIONISTS & SWITCHBOARD					
Mary Lynn Johnson					
Eleanor Holly					
Total Recept & Switchboard					
MISCELLANEOUS					
Georgia Graham					
Joseph Washington					
Harry Stein					
Claire Hardin					
Total Miscellaneous					
GRAND TOTAL					

FIG. 58B. Payroll Summary (continued).

port form can be devised to cover a semimonthly period and should be received from employees on salary payment dates. A sample time report form is shown as Figure 10 on page 111.

Space is provided on each time report for computing the portion of compensation of each employee attributable to each client's work. The time of key employees devoted to new business or administrative work may also be recorded on these time reports. Accordingly, a portion of certain salaries may be allocated to prospects and the total charged to new business expense. Administrative time may be charged to Indirect Salary accounts.

The allocation of compensation is based on the percentage that the hours devoted to each client, new prospect, or administrative work bears to the total hours reported. The computation covering the allocation of compensation for each employee should be made only once a month. Where the semimonthly time report is used, the computation is made on the report for the month-end. Space is provided on this form for recording the hours reported on the report for the first half of the month so that the total hours for one month are accumulated on the time report covering the last half of the month.

The total of the compensation allocated to the various clients' work for each employee is considered a direct salary and will be shown on the monthly summary under "Direct Salaries" in the proper departmental column. The amount of compensation computed for time devoted to new business will be recorded on the summary under the heading of "New Business"; likewise, the portion of compensation computed for the time devoted to administrative duties will be recorded on the summary under the heading of "Indirect Salaries" in the proper departmental columns.

The direct salaries allocable to each client will be recorded by departments on the individual monthly client operating statement directly from the time reports. The total of the direct salaries for each department for all clients will of course equal the total direct salaries by departments recorded in the General Ledger from the monthly summary.

Salaries of employees not maintaining time reports may be considered as indirect in their entirety. Accordingly, the monthly summary will include all salaries paid each month. A Standard Journal entry will be recorded to represent the distribution by departments within the classifications of direct salaries, indirect salaries, or new business expense.

Payroll records

No particular form of payroll register, earning records or payroll checks is recommended to be used specifically for advertising agencies. Since the advent of unemployment compensation insurance, old-age pensions and withholding taxes, it has been necessary for all employers to develop payroll records that provide for accumulating the necessary information concerning these matters.

Stationers and others have developed payroll systems for this purpose and they will serve the advertising agency's needs well. The type of payroll system to be used of course depends on the particular conditions in each agency, the most important consideration being the number of people on the payroll, since obviously a system designed to use automatic equipment such as addressograph machines, bookkeeping machines, etc., would not be economical for an agency with only a few people on the payroll.

Systems have been developed which provide the means for writing the payroll check and recording the payroll information at the same time. Such systems are usually efficient and some of them require no special equipment so that they admirably fit the needs of many advertising agencies.

10. Punched-Card Accounting

VARIOUS office machines have been developed for use in connection with billing, paying, bookkeeping and accounting. Many of these devices are made primarily for posting transactions to ledger accounts or for distributing income costs or expenses for the purpose of accumulating totals by classification.

GENERAL CONSIDERATIONS

If an accounting system takes advantage of the controls available in the advertising agency business, some of the more important of which have to do with buying only items which are to be billed to specific clients, little posting is required, since Accounts Payable and Accounts Receivable Ledgers are not needed. When the records are properly designed, much of the classification and analysis of income and costs can be accomplished by the proper recording of the transactions as is explained in connection with the description of the Sales and Cost Journal (see Chapter 9).

The largest volume of transactions in the agency business is in connection with billing and paying the media. It is in this area that some large advertising agencies can make use of office machines. The most efficient equipment for handling large volumes of transactions in connection with billing and paying is the so-called tabulating machines operating with punched cards. At present, only two manufacturers in the United States supply this type of equipment and only one of these sells the equipment. Both companies offer the equipment for use on a rental basis.

The machines are considerably more economical on a purchase basis at today's prices. Where the volume warrants its use,

the equipment can well justify itself even on a rental basis. The tabulating machines using the punched-card accounting method are operating satisfactorily for agencies transacting annual volumes in excess of $15,000,000 a year.

FUNCTIONS PERFORMED BY MACHINES

The equipment may be used to perform the following work:

1. Billing, paying and accounting for newspaper space.
2. Billing, paying and accounting for magazine and trade-paper space.
3. Billing, paying and accounting for spot radio time.
4. Billing and accounting for advertising materials.
5. Payroll preparation and accounting including Government reports.
6. Analysis of expenses and preparation of Expense Voucher Register.
7. Analysis of time reports and compilation of time costs used in the preparation of cost accounting reports.

Since only a few of the large advertising agencies transact a sufficient volume to warrant the use of punched-card accounting machines, and because the needs of each large agency differ, it is not necessary to discuss punched-card accounting in great detail. The manner in which this equipment can be used in connection with billing, paying and accounting for newspaper space is merely outlined for purposes of illustration.

Those agencies wishing further information on punched-card accounting can secure it by discussing the matter with system engineers.

PUNCHED-CARD PROCEDURE—BILLING, PAYING AND ACCOUNTING FOR NEWSPAPER SPACE

Where the punched-card method is used, it is necessary to designate by code numbers. Therefore, in billing and paying for newspaper space each paper is designated by number instead of by name. The first step in the procedure is to develop

a code list showing the name of each paper and the code number assigned. To do this the papers are listed alphabetically by state, city and paper name. Numbers are then assigned to the papers so that the assigned numbers are in strict alphabetic order.

Next, each of the agency's clients is given a code number; usually this coding is performed by listing the clients in alphabetic order and then numbering them accordingly. The steps listed below are followed:

1. When contracts are issued to papers, the code number of the paper and the code number of the client are noted on the contracts. A tabulating card like the one shown in Figure 59 is prepared to show the permanent informa-

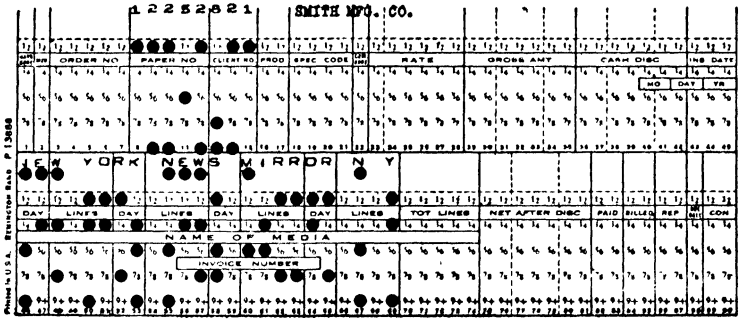


FIG. 59. Tabulating Card—Master from Contract.

tion relative to the contract, that is, the client number and name, and paper number and name. These cards are placed in a permanent file arranged alphabetically by clients and are held until needed in connection with billing and paying.

2. When insertion orders are issued, the code number of the paper and the code number of the client are noted on the order, together with all the other information that is usually shown on an insertion order. After the advertis-

ing has been checked in the checking department and the insertion orders have been audited against publishers' bills, a tabulating card like the one shown in Figure 60 is punched from each insertion order. The information punched into this tabulating card includes, among other things, the paper code number, the client code number, the date of each insertion and the lines used on each date, the total lines for all of the insertions on the

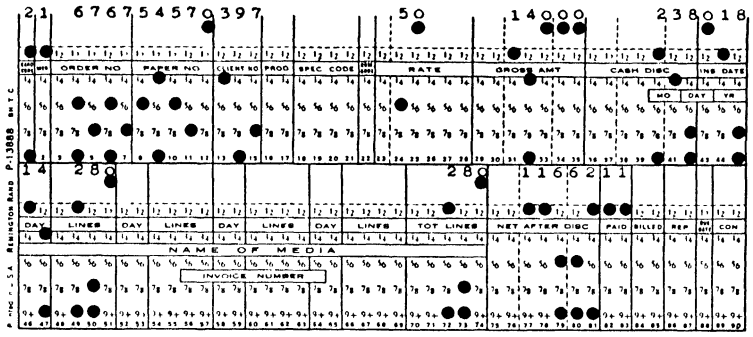


FIG. 60. Tabulating Card—Bill and Pay Card.

order, the rate per line, the agency's commission and cash discount rates.

3. The multiplications required are made on the automatic multiplication machine so that the gross billing price, the net cost and cash discount figures are developed and automatically punched into the cards.
4. The cards are now ready for use in connection with preparing checks to publishers and invoices to clients. Assuming that the prebilling method is used, the prebill may have been prepared originally by reference to estimates, approved schedules or media recommendations. In some cases where it is not practical to prepare prebills in this way, a separate tabulating card may be punched from the insertion orders as they are issued. In

this case, the cards will be punched on the basis of the space ordered and the prebill to the client will be prepared from these cards which later may be used for purposes other than billing, paying and accounting.

Assuming that the prebill was sent to the client on about the thirtieth of the month of advertising, the cards that were punched from the checked and audited insertion orders are first used for paying publishers. In very large advertising agencies, there is little time to perform all the work required prior to the cash discount due-date so that it would be almost impossible to use the cards for billing clients before the publishers' checks were prepared.

The punched cards are sorted on the automatic sorting machine so as to bring all cards for one publisher together. Heading cards, as punched from contracts, are included to print the paper name and other alphabetic information on the voucher check.

Checks are prepared by running the cards through the alphabetic tabulating machine, where a voucher check similar to the one shown in Figure 21 on page 148, is produced.

5. The cards that were used to prepare checks for publishers are punched with the payment date to avoid the possibility of using them a second time in the payment process.
6. The cards are now held in a file of paid and unbilled items until the proper time for invoicing the client. At this time the cards are taken from the file and sorted so as to segregate the cards applying to each client. Each client's cards are further sorted so as to bring them into the order required on the client invoice (usually alphabetic order by state, city and publication name).
7. Punched cards are now inserted in the alphabetic tabulating machine with heading cards that were prepared

from client contracts. The tabulating machine completely prepares the client invoice that is shown in Figure 61.

8. After the invoice is completed, the cards are punched with the invoice date so that they cannot be used a second time in the invoicing process.

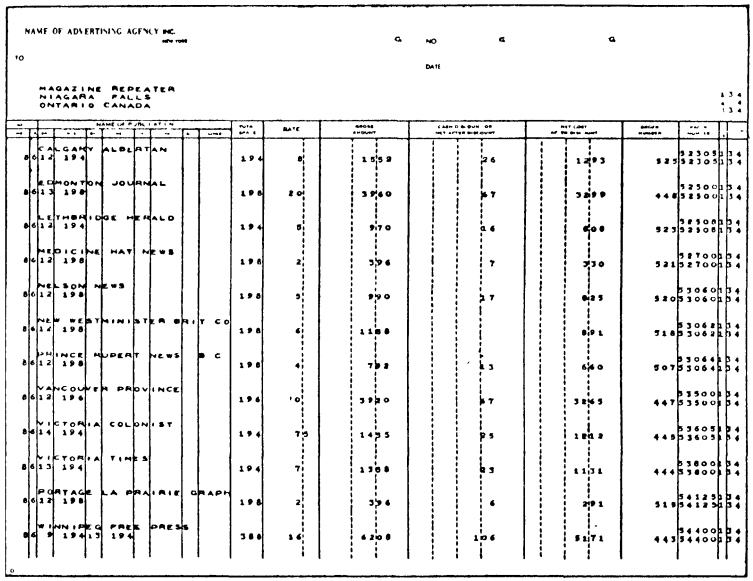


FIG. 61. Invoice—Tabulating.

9. Simultaneously with the preparation of checks for publishers, the tabulating machine automatically punches a summary card containing the identification of the payee, the date and the amount paid. These cards are listed to produce a Check Register.
10. Simultaneously with the invoicing operation, the tabulating machine automatically prepares a summary card containing the client identification, the classification of the medium, the billing price, the agency's cost and the

cash discount. These cards are used to prepare a Sales and Cost Journal.

11. The total cost of items billed as entered from client invoices to the Sales and Cost Journal is credited to accounts payable and charged to cost of sales. The total amount of checks issued to publishers is charged to the accounts-payable account. The balance in the account represents a combination of:
    a. The billed and unpaid items.
    b. The paid and unbilled items.

    This amount is supported by punched cards that are billed and unpaid, or paid and unbilled. These cards are secured from the files and are listed to support the balance in the control account.
12. After the cards have served their purposes in connection with billing, paying and accounting, they are used to produce statistical reports including linage reports showing the total volume of linage used in each paper by each client, etc. The cards may also be used to prepare position reports showing the comparative advertising positions secured by clients in various newspapers.

The above is a brief outline of the principles used to bill, pay and account for newspaper space using the punched-card method.

Individual methods must be developed to use the tabulating machines successfully to fill the individual requirements of each advertising agency. Sometimes different methods must be used for separate clients within the agency. This occurs where clients demand that the agency submit invoices or prepare checks for publishers in accordance with certain specifications rather than in the usual manner adopted by the agency.

The punched-card methods for billing, paying and accounting for magazine and trade-paper space and those for radio time parallel in principle those just outlined. Of course, there are differences in the detail. Punched-card accounting is used suc-

cessfully to bill and account for advertising materials, but it usually is not economical to use the equipment to prepare checks to suppliers since, even in the largest agencies, not more than two or three hundred checks are prepared for suppliers of advertising materials at any one time.

Punched-card accounting is widely used in connection with payroll and expense accounting and, in addition, it is ideally suited to analysis work required in connection with research studies.

Appendix

American Association of Advertising Agencies

PERHAPS the best description of the American Association of Advertising Agencies and certainly the most authentic one is found in a pamphlet published by the Association which is quoted in full:

QUALIFICATIONS FOR MEMBERSHIP
IN THE
American Association of Advertising Agencies *

THE AMERICAN ASSOCIATION OF ADVERTISING AGENCIES was formed in 1917 by the amalgamation of the New England, New York, Philadelphia, Southern and Western Advertising Agency Associations—to promote the interests and raise the standards of advertising and of the advertising agency business.

It welcomes to membership any advertising agency qualified to aid in this purpose by reason of its ability to serve the cause of advertising, its financial soundness and its demonstrated desire to adhere to sound and ethical business practices.

As prescribed in the Constitution and By-laws, an agency desiring membership "shall be required to make application to the Executive Board, which shall in turn refer the application to the sectional Council covering the territory in which the applicant resides. This sectional Council shall investigate the professional and moral reputation of applicant and shall report its findings on said applicant favorably or unfavorably to the Executive Board. Applicants reported on favorably by local Council shall be voted upon by the full membership of the Executive Board. . . . Applicants reported on unfavorably by local Council shall be subject to review by the Executive Board and to action according to its discretion. It shall require six negative votes to reject any applicant."

Election to membership is thus democratic. The local Council to

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which the applicant belongs acts as a committee of the whole, the entire membership being polled. Inasmuch as the sectional Councils vary in number of members, there is a variation in the number of negative votes required for an unfavorable report to the Executive Board, as follows: New York, 7 votes; Central Council, 7 votes; New England Council, 3 votes; Atlantic Council, 3 votes; Pacific Council, 3 votes.

Any committee called upon to consider an application has no power beyond that of recommendation. But the facts on which such recommendation is based are thoroughly investigated. Hence the full consideration of an applicant frequently requires time. It is well therefore for an applicant to bear in mind that what may seem like undue delay in action is attributable to the method of election and to the fact that the process of investigation depends upon the voluntary work of members and committees, often widely scattered.

That there may be a known uniformity in judging applicant agencies, the Qualifications for Membership printed below have been adopted by the Executive Board of the Association, and should be carefully considered by agencies before sending the applications to Headquarters.

In considering these Qualifications, as well as the Agency Service Standards and the Standards of Practice, it should be understood that the Association does not seek to govern its members by dictatorial rules; rather, it seeks to help them govern themselves with a viewpoint of sound ethics and good business for advertising as a whole.

The Association does not desire to dictate to its members how they shall conduct their business, provided it is fair, capable and honest, or to enforce through punitive measures adherence to the policies and practices which it deems to be in the best interest of advertising. But it does expect its members loyally to support such principles and to use good sportsmanship and sound business sense in competing with one another. In case of habitual or flagrant misconduct, membership may be forfeited by vote of the Executive Board, in accordance with the Constitution and By-laws.

1. *Method of Application.* Each applicant shall be required to fill out completely the printed form known as "Application for Membership." No application can be referred to a Council for investigation or election unless this form has been properly filled out with all supplementary information and approved as complete by Headquarters.

2. *Size of Agency.* The size or volume of business of any applicant shall not be a factor in determining qualification for membership, excepting that agencies inadequately equipped, financially or otherwise, shall not be considered eligible.

3. Location of Agency. The geographical location of the applicant agency shall have no bearing upon its admission, but shall only determine the Council in which the application shall be voted upon. The applicant must have its principal place of business within the United States.

4. Age of Agency. No agency shall be considered for election unless its principal owners have been doing business as an advertising agency for a sufficient length of time to have demonstrated adequate experience and ability to insure a stable operation.

5. Ownership. (a) No applicant agency shall be deemed worthy of election whose owners or executives are interested in or connected with any advertising medium or any printing, engraving or other business supplying material to its clients, in any way or to any degree which might disqualify the agency from giving unbiased advice and service to advertisers.

(b) No applicant shall be deemed worthy of election where evidence indicates the agency has been established or is being maintained by one or more advertisers having direct or indirect financial interest in it. Such ownership would indicate a so-called house agency, organized for the purpose of obtaining agency commissions for the advertiser.

(c) It is important that the principal owners of the applicant's business be active in the work of the agency. Where there is any considerable proportion of inactive owners, the applicant's case may be prejudiced.

6. Experience. (a) In order to protect advertisers against inexperienced advertising agency service, it is the duty of the Association to elect to membership only such agencies as are qualified by experience to study the advertiser's business and products, to analyze his market, to form sound judgments, to give constructive advice, and to render an adequate quantity and quality of service.

(b) The applicant agency must be able to furnish reliable references as to both its business and advertising record.

7. Character. (a) This comprehends, and investigation will be so directed as to determine, the applicant agency's business record, its policies and principles, its ethical practices, and its reputation for honesty, integrity and sincerity of purpose.

(b) Inasmuch as the Association aims to bring agency operations into accord with the best ethical standards of business, it can receive into membership only those who give reasonable assurance of readiness and ability to uphold such standards.

8. Ability. (a) Advertising ability varies with individual talent and need; it is difficult to standardize. Nevertheless, sound judgment re-

garding the applicant agency's ability can and should be formed by a proper study of:

1. Its staff and facilities
2. Its methods of doing business
3. Its past service and work produced for clients.

(b) The applicant agency is required to furnish a complete list of its present clients, indicating the nature of the advertising handled for them, how long it has held each account, and the agency which previously handled it; also a list of all clients lost within the preceding two years, indicating the nature of the advertising handled for them, how long it had held each account, and the agency handling it at present.

9. Financial Responsibility. (a) It is a paramount aim of the Association to protect media owners against sustaining credit losses through members, and also to protect the advertiser in this connection. Therefore, credit responsibility, indicated by a properly prepared and analyzed balance sheet, is important in determining the applicant's qualification. Such statement should either be verified by a Certified Public Accountant, or if this is not available, sworn to by applicant before a Notary.

(b) Each applicant is required not only to fill out the balance sheet accompanying the application blank, but also to give such other evidence of its financial condition as may be required by the Finance Committee.

(c) The applicant shall be required to furnish as financial references, its banking connections, three media owners and three suppliers (printer, engraver, electrotyper, typographer, etc.) with whom it has done business.

(d) No applicant agency shall be admitted to membership until its financial condition has been approved by the Finance Committee, in accordance with sound banking and accounting standards; except that an applicant whose financial condition does not fully meet the Finance Committee's requirements may, in event of unusual merit or desirability in other respects, be admitted by the Executive Board.

(e) In no case shall an applicant agency be admitted to membership if morally or financially unsafe, regardless of qualifications in any other respect.

10. Recognition. Although it is not essential that the applicant shall have obtained agency recognition or recommendation from all of the leading organizations which recognize or recommend agencies, such recognitions or recommendations are extremely desirable and any lack of them must be satisfactorily explained.

11. Basis of Remuneration. (a) The Association is opposed to the dishonorable and illegal practice of rebating commissions and hence admits to membership only agencies which retain the full amount of compensation granted by media owners to recognized agencies, without direct or indirect rebating.

(b) It shall be considered as rebating to supply materials for advertising on any basis that can be considered as direct, indirect or secret rebating. It shall also be considered as rebating to place men in the employ of the advertiser at the agency's expense, or to assume all or part of the salary of any employee of the advertiser, or to pay any fee or compensation to anyone connected directly or indirectly with the advertiser, for obtaining or holding an account; any connection with an advertiser or group of advertisers which seems to suggest indirect rebating, must be satisfactorily explained.

12. Scope of Agency Service. Ability to render complete agency service in reasonable conformity to the Agency Service Standards adopted by the Association in general convention, October 9, 1918, shall be a consideration in determining fitness for membership, and the applicant shall be required to present with the application blank a statement of its experience, ability and facilities, under each of these seven agency service requirements, printed herein. . . .

13. Ethical and Business Standards. While it is not important to know the applicant agency's form of organization in all of its details, or all of its operations, it is essential to know how it operates in relation to certain practices, declared by the Association to be unfair practices in the light of the obligation agencies have not only to their clients but to the media they employ, to the public, and to each other. These practices are stated herein . . . under the head of "Standards of Practice of the American Association of Advertising Agencies."

Each applicant agency elected to membership shall accept the revised Standards of Practice adopted at the Twentieth Annual Meeting of the Association, held at White Sulphur Springs, West Virginia, April 29, 1937

AGENCY SERVICE STANDARDS

ADOPTED BY THE

American Association of Advertising Agencies

AT SECOND ANNUAL CONVENTION, NEW YORK, OCTOBER 9, 1918

Agency Service consists of interpreting to the public, or to that part of it which it is desired to reach, the advantages of a product or service.

INTERPRETING to the public the advantages of a product or service is based upon:

1. A study of the product or service in order to determine the advantages and disadvantages inherent in the product itself, and in its relation to competition.
2. An analysis of the present and potential market for which the product or service is adapted:
   - As to location
   - As to extent of possible sale
   - As to season
   - As to trade and economic conditions
   - As to nature and amount of competition
3. A knowledge of the factors of distribution and sales and their methods of operation.
4. A knowledge of all the available media and means which can profitably be used to carry the interpretation of the product or service to consumer, wholesaler, dealer, contractor, or other factor. This knowledge covers:
   - Character
   - Influence
   - Circulation..... { Quantity / Quality / Location }
   - Physical Requirements
   - Costs

Acting on the study, analysis and knowledge as explained in the preceding paragraphs, recommendations are made and the following procedure ensues:

5. Formulation of a definite plan.
6. Execution of this plan:
   - (*a*) Writing, designing, illustrating of advertisements, or other appropriate forms of the message.
   - (*b*) Contracting for the space or other means of advertising.
   - (*c*) The proper incorporation of the message in mechanical form and forwarding it with proper instructions for the fulfillment of the contract.
   - (*d*) Checking and verifying of insertions, display or other means used.
   - (*e*) The auditing, billing and paying for the service, space and preparation.
7. Co-operation with the sales work, to insure the greatest effect from advertising.

THE ABOVE OUTLINE of agency service has been made by the Association to more clearly define what it is, so that advertisers and publishers may know what to demand and agencies may know what may be expected of them in dealing with the problems of advertising. Sometimes agencies fail in their obligations to advertisers and publishers and to advertising itself by promising or undertaking more than can be expected of them in the best interest of all concerned, and sometimes they fail by not recognizing the full scope of the service basically required to make advertising pay.

For this reason, the above delineation of the fundamentals may serve a useful purpose and should be complied with by applicants for membership in the Association. The more clearly agency service is understood by those who offer it and by those who receive it, the sooner will inadequate and unintelligent service by incompetent agencies be eliminated, and those equipped to render a complete and effective service be encouraged in doing so.

STANDARDS OF PRACTICE
OF THE
American Association of Advertising Agencies

REVISED STATEMENT ADOPTED AT THE TWENTIETH ANNUAL MEETING, WHITE SULPHUR SPRINGS, W. VA., APRIL 29, 1937

WE HOLD THAT advertising agencies have an obligation not only to their clients but to the media they employ, to the public, and to each other.

This obligation arises from mutuality of interest.

The principles which govern the discharge of this obligation are various in application; some are rooted in a standard of honor which we all acknowledge, and others are based on the requirements of good business. What is unfair in agency practice is explicitly stated in this, our Standards of Practice.

Advertising is a business, and it must therefore operate within the framework of competition. It is not the intention to limit the vigor of competition. Rather, we hold that it is necessary for the health of advertising.

Certain competitive methods are condemned in this code. They are condemned not because they are competitive, but because, if universally used, they would tend to destroy the business of advertising.

Professional Practice

Advertising Copy. It is unsound and unprofessional for the advertising agency to prepare or handle any advertising of an untruthful or indecent character, as exemplified by the following copy practices disapproved in a code jointly adopted by the American Association of Advertising Agencies and the Association of National Advertisers, and also by the Advertising Federation of America:

1. False statements or misleading exaggerations.
2. Indirect misrepresentation of a product, or service, through distortion of details, or of their true perspective, either editorially or pictorially.
3. Statements or suggestions offensive to public decency.
4. Statements which tend to undermine an industry by attributing to its products, generally, faults and weaknesses true only of a few.
5. Price claims that are misleading.
6. Pseudoscientific advertising, including claims insufficiently supported by accepted authority, or that distort the true meaning or practicable application of a statement made by professional or scientific authority.
7. Testimonials which do not reflect the real choice of a competent witness.

Compensation

Rebating. The advertising agency should retain the full amount of compensation granted by media owners without direct or indirect rebating.

It shall be considered as rebating to supply materials for advertising on any basis that can be considered as direct, indirect or secret rebating. It shall also be considered as rebating to place men in the service of the advertiser at the agency's expense, or to assume all or part of the salary of any employee of the advertiser, or to pay any fee or compensation to any one connected directly or indirectly with the advertiser, for obtaining or holding an account. It shall also be considered as rebating to agree to allow cash discounts not earned.

Extra Compensation. The advertising agency should not take from any third party a profit, discount or commission other than the regular agency compensation allowed by media owners, unless disclosed to the client.

Competition

Speculative Materials. In view of its obligation to provide adequate service to clients, as well as the sound business principle of making a

reasonable profit on its effort, the advertising agency should refrain from practices that dissipate its income in any unsound or uneconomic solicitation for new business.

It is recognized as unsound, uneconomic and unprofessional to submit speculative material in competitive solicitation.

Offering Credit Extension. It is unsound and uneconomic to offer extension of credit or banking service as an inducement in solicitation.

Unfair Tactics. The advertising agency should compete on merit and not by depreciating a competitor or his work directly or inferentially, or by circulating harmful rumors about him, or by making unwarranted claims of scientific skill in judging or prejudging advertising copy, or by seeking to obtain an account by hiring a key employee away from the agency in charge.

These Standards of Practice of the American Association of Advertising Agencies are based on the belief that sound practice is good business, that confidence and respect are indispensable to success in a business embracing the many intangibles of agency service and involving relationships so dependent upon good faith. They express ideals which are based on a broad experience of what has been found to be the best advertising practice. They are feasible and practical, involving no restrictions which advertising agencies should not voluntarily adopt.

The Associations and the Recognition Process

THE principal source of the advertising agency's revenue is from the commissions paid them from the advertising media. Legitimate advertising agencies perform services that benefit the publishers, radio stations and other advertising media even though these functions are performed in discharging the agency's direct responsibility to the advertiser. The services that the agency performs that are of value to the advertising media include the following:

1. The creation and development of the advertising message.
2. The preparation, assembly and delivery of advertising materials to the publisher.
3. The verification of the advertising message as published.
4. The payment of the advertising space on or before the date due as set by the media.

It is in exchange for these services that the media pay a commission to the agency. The newspapers, magazines, radio stations and outdoor plants in consideration of the services listed agree not to sell space to any advertiser except at the gross rate, which means that the agency buys the space at eighty-five per cent of what it would cost the advertiser if he were to purchase direct from the media.

The newspapers and magazines, because they do pay this commission to the legitimate advertising agency, want to be sure that they are paying the commission only to the agencies that serve them properly. Advertisers have made attempts to buy advertising space below the published rates by organizing

advertising agencies that really were set up only to serve the particular advertiser. These agencies are known as house agencies. Other attempts to buy advertising space at less than the established rates have taken the form of rebated commissions on the part of advertising agencies. Some agencies that apparently were hungry for business have agreed to handle advertising and rebate a part of the fifteen percent commission to the advertiser. Both the house agency and the rebating practice, of course, are against the interests of the publishers, and it is for this reason that the publishers have established a process for selecting those agencies to whom they will pay the fifteen percent agency commission.

Publishers have formed associations for this purpose. These associations perform two functions. First, they determine which agencies are legitimate agencies and are therefore entitled to recognition entitling them to receive the fifteen percent agency commission. Second, they investigate the financial condition of each agency and determine what amount of credit the agency should be entitled to. After making investigations of agencies for the purposes discussed, the associations make their recommendations to the publisher members. No publisher member is bound to accept the recommendation of the association, although it is usual for him to do so.

For the purpose of securing the information needed in the recognition and credit investigation process, each association has developed forms and questionnaires which may be secured by agencies for the asking. It is entirely possible for an advertiser to place advertising directly in the advertising media. But in such case, the advertiser must pay the full price, and is not entitled to the fifteen percent agency commission. Any advertising agency can place advertising, but unless the agency is "recognized" it is not entitled to receive fifteen percent agency commission.

An agency that is recognized and therefore entitled to receive the fifteen percent agency commission may or may not be en-

titled to credit. When the agency is not entitled to credit, it is necessary to pay the publisher in advance. In the case of magazines, this would be before the date that the magazine goes to press. A brief description of the requirements of some of the publishers' associations follows:

Agricultural Publishers Association
American Newspaper Publishers Association
Associated Business Papers
Periodical Publishers Association
Southern Newspaper Publishers Association

AGRICULTURAL PUBLISHERS ASSOCIATION

The following publishers are members of the Agricultural Publishers Association:

American Agriculturist	Ithaca, N. Y.
American Poultry Journal	Chicago, Ill.
Arizona Farmer	Phoenix, Ariz.
Arkansas Farmer	Little Rock, Ark.
Breeder's Gazette	Spencer, Ind.
California Cultivator	Los Angeles, Calif.
Capper's Farmer	Topeka, Kans.
The Dakota Farmer	Aberdeen, S. D.
Everybody's Poultry Magazine	Hanover, Pa.
Farm and Ranch	Dallas, Tex.
The Farmer	St. Paul, Minn.
The Farmer-Stockman	Oklahoma City, Okla.
Hoard's Dairyman	Fort Atkinson, Wis.
Idaho Farmer	Boise, Idaho
Kansas Farmer	Topeka, Kans.
Michigan Farmer	Detroit, Mich.
Missouri Ruralist	Topeka, Kans.
Montana Farmer	Great Falls, Mont.
Nebraska Farmer	Lincoln, Nebr.
New England Homestead	Springfield, Mass.

Ohio Farmer	Cleveland, Ohio
Oregon Farmer	Portland, Ore.
Pacific Rural Press	San Francisco, Calif.
Pennsylvania Farmer	Harrisburg, Pa.
Poultry Tribune	Mount Morris, Ill.
The Prairie Farmer	Chicago, Ill.
Progressive Farmer	Birmingham, Ala.
Southern Agriculturist	Nashville, Tenn.
Southern Planter	Richmond, Va.
Successful Farming	Des Moines, Iowa
Utah Farmer	Salt Lake City, Utah
Wallace's Farmer and Iowa Homestead	Des Moines, Iowa
Washington Farmer	Spokane, Wash.
Western Farm Life	Denver, Colo.
Wisconsin Agriculturist and Farmer	Racine, Wis.

An agency wishing to place space with publishers who are members of the Agricultural Publishers Association is requested to submit financial and other information to Agricultural Publishers Association as a basis for granting recognition and credit. The financial information form and the application for recognition forms are shown as Figures 62 and 63. The Agricultural Publishers Association states that three principles are suggested as a guide to their actions in recommending agencies. They are:

1. The desire to build the business of agricultural publications.
2. Protection of the accepted standards of advertising.
3. The necessity for looking out for the general interests of publishers' relations with agencies.

Before recommending an agency, the Association believes that the agency must be a going business with a properly

equipped office and staff, preferably handling three or more active accounts, at least one of which is using space in farm publications. The Association also states that recommended agencies must be engaged primarily in the advertising agency business with no improper financial interest in the business it places. The Association publishes a list of the agencies it recommends and maintains a file of financial information on each agency, which data are available to the member publishers. The following rating system is used by this Association:

A — $100,000 or over
B — 50,000 to $100,000
C — 25,000 to 50,000
D — 10,000 to 25,000
E — 5,000 to 10,000
F — Under $5,000
G — Cash with order

1 — Prompt
2 — Slow—30 to 60 days
3 — Slow—more than 60 days

AMERICAN NEWSPAPER PUBLISHERS ASSOCIATION

This Association represents more than eight hundred newspaper publishers. It makes recommendations to these publishers in connection with the recognition of advertising agencies. Principles followed are similar to those given in the case of other associations. Recommendations for recognition will be granted by the American Newspaper Publishers Association to bona-fide agencies properly serving advertisers using space in a fair number of member publications. Advertising agencies who place newspaper advertising primarily in a local or regional area are not considered to need American Newspaper Publishers Association listing.

Agencies requiring recommendations from the American Newspaper Publishers Association should secure an application form from this Association. Recognition by the American News-

paper Publishers Association consists of a national listing of those agencies which qualify financially for a credit rating. When the American Newspaper Publishers Association receives an application for recognition, a thorough investigation is made to verify placing of advertising. Then a statement of facts is submitted by mail for a vote from the twenty-four members of

Date of Filing by Agency (ORIGINAL — RETURN TO AGRIC. PUB. ASSN.) Date Received by A. P. A.

AGRICULTURAL PUBLISHERS ASSOCIATION

333 N. Michigan Ave., Chicago 1, Illinois

Statement, on which to base recommendation concerning recognition and credit

(1) Name of Applicant ..... Street .....

City ..... State .....

When Established .....

Corporation ☐

Partnership ☐

Individual Ownership ☐

(2) OWNERS OF BUSINESS ACTIVE IN THE WORK OF AGENCY

Attach a statement giving previous advertising and general business experience of each person listed.

Name	Position or Title	Name	Position or Title

(3) OWNERS OF BUSINESS NOT ACTIVE IN THE WORK OF AGENCY

Name	Position or Title	Present Business Connection and Address

(4) Is the agency or any of its owners directly or indirectly connected with any concern interested in the sale of advertising or its mechanics? If the answer is "yes" please explain

(5) Are any of your commissions directly or indirectly rebated to the advertiser? If answer is "yes" please explain.

(Page 1)

FIG. 62A. Agricultural Publishers Association—Application.

(6) *See 6-a on Page 5*

FINANCIAL STATEMENT AS OF____ . . .194.

(Page 2)

	ASSETS			LIABILITIES		
	Current Assets			*Current Liabilities*		
1	Cash in Bank $			27 Accounts Payable—Media		
2	Office Cash Fund			28 Accounts Payable—Others		
3	Time Cash Deposits			29 Notes Payable—Banks		
4	Accounts Receivable (*Schedule A*)			30 Notes Payable—Media		
	A—Discount date within next 30 days	XXXXXX	XX	31 Notes Payable—Others		
	B— 1-15 days past discount date	XXXXXX	XX	32 Other Borrowed Money		
	C—15-30 days past discount date	XXXXXX	XX	33 Accrued Taxes		
	D—Over 30 days	XXXXXX	XX	34 Reserve for Short Rates		
	TOTAL ACCOUNTS RECEIVABLE	XXXXXX	XX	35 Dividends Declared But Not Paid		
	Less Reserve (explain how arrived at)			36 Reserve for Contingencies (attach explanation)		
5	U. S. Government Securities (not hypothecated)			37 Accrued Salaries, Commissions and Bonuses		
6	Listed Securities—*Market Value* (not hypothecated), (*Schedule B*)			38 Notes Receivable Discounted		
7	Unlisted Readily Marketable Bonds (not hypothecated), (*Schedule B*) (must be accompanied by evidence of ready marketability)			39		
8	Cash Value Life Insurance (agency beneficiary) $	XXXXXX	XX	40 TOTAL LIABILITIES		
	Less Loan			*Capital Liabilities*		
9	Current Billables Pending (Expense incurred at client's authorization, to be billed and collected within next 30 days.)			41 General Surplus $	XXXXXX	XX
10				42 Undivided Profits		
11				43 Capital Stock Authorized	XXXXXX	XX
12	TOTAL CURRENT ASSETS			44 Less Capital Stock Unissued		
	Invested Assets			45		
13	Notes Receivable—Customers (*Schedule C*)			46		
14	Notes Receivable—Others (*Schedule C*)	XXXXXX	XX	47 TOTAL CAPITAL LIABILITIES		
15	Hypothecated Securities $					
	Less Loans			**Our Fiscal Year Ends . . . . . 19 . . . .**		
16	Securities (not listed in 5, 6, 7 or 15)					
17	Real Estate—Appraised Value	XXXXXX	XX	*Are any of your assets, other than securities so indicated, pledged? If so, explain fully*		
18	Buildings—Appraised Value	XXXXXX	XX			
	TOTAL	XXXXXX	XX			
	Less Mortgages or Encumbrances	XXXXXX	XX			
19	Furniture, Fixtures, etc.					
	Less Depreciation Reserve					
20	TOTAL INVESTED ASSETS					
21	GROSS TANGIBLE ASSETS					
	Nominal Assets					
22	Personal Accounts and Notes Receivable (From owners or employees.)					
23	Deferred Charges					
24	Deferred Billables Pending					
25	TOTAL NOMINAL ASSETS					
26	TOTAL ASSETS			48 TOTAL LIABILITIES		

FIG. 69B. Agricultural Publishers Association—Application (continued).

the Committee on Advertising Agencies. The Committee consists of newspaper men from all parts of the country all of whom are members of the Association.

As a general rule, the Association's financial requirement is that agencies situated in small towns must maintain a minimum

(7) FINANCIAL REFERENCES

Give names of concerns with whom you have done business. Three should be publishers.

NAME	STREET ADDRESS	CITY
Banking Connection		

(8) Number of owners and employees now devoting entire time to work of the Agency._____

(9)

SPECIFIC FARM PUBLICATION DATA

Enter in the space below any farm publications in which you have placed advertising during the past twelve months. If no publications are entered it will be assumed that none has been used.

CREDIT EXTENDED	NAME OF PUBLICATION

Agricultural Publishers Association

(Page 3)

FIG. 62C. Agricultural Publishers Association—Application (continued).

liquid capital of five thousand dollars, that agencies in cities having a population of approximately five hundred thousand or more must have a minimum liquid capital of ten thousand dollars, except that for agencies in the City of New York the minimum financial requirement is twenty thousand dollars.

(10) PRESENT LIST OF CLIENTS

NAME AND ADDRESS OF CLIENT	PRODUCT ADVERTISED	Approximate Amount Will Invest Annually in Advertising	Check If Using Farm Publications

(6-a) *See 6 on Page 2*

SCHEDULE A — ACCOUNTS RECEIVABLE (Over 15 Days Past Discount Date)

NAME	ADDRESS	AMOUNT	DATE DUE

SCHEDULE B — SCHEDULE OF SECURITIES AND INVESTMENTS (Details of Items 6, 7, 15 and 16)

DESCRIPTION OF SECURITIES	NO OF BONDS AND SHARES	MARKET VALUE	AMOUNT PLEDGED	WHERE LISTED

SCHEDULE C — NOTES RECEIVABLE (Details of Items 13, 14 and 22)

NAME	ADDRESS	AMOUNT	DATE OF NOTE	WHEN DUE

(Page 5)

FIG. 62E. Agricultural Publishers Association—Application (continued).

Like the other associations, the American Newspaper Publishers Association makes recommendations in connection with the credit of agencies. Such recommendations will be based on the financial information sent to the Association by the agency. The financial statement which agencies are requested to prepare in connection with credit recommendations from the American

(11)

Have you recognition from

American Newspaper Publishers Association

Periodical Publishers Association

Southern Newspaper Publishers Association

Associated Business Papers, Inc.

(12) Enclose a copy of your space order blank used with publications

(13)

INFORMATION, COMMENT, OR EXPLANATION

(14)

The undersigned hereby declares the information contained on each page of this six page form is an accurate statement of facts given for the purpose of securing credit from your members. Should material changes occur before a new report is requested by you, we shall promptly inform you

Date legal name of your agency

Signature and title of officer or principal

19

Signature of person who prepared statement

Title

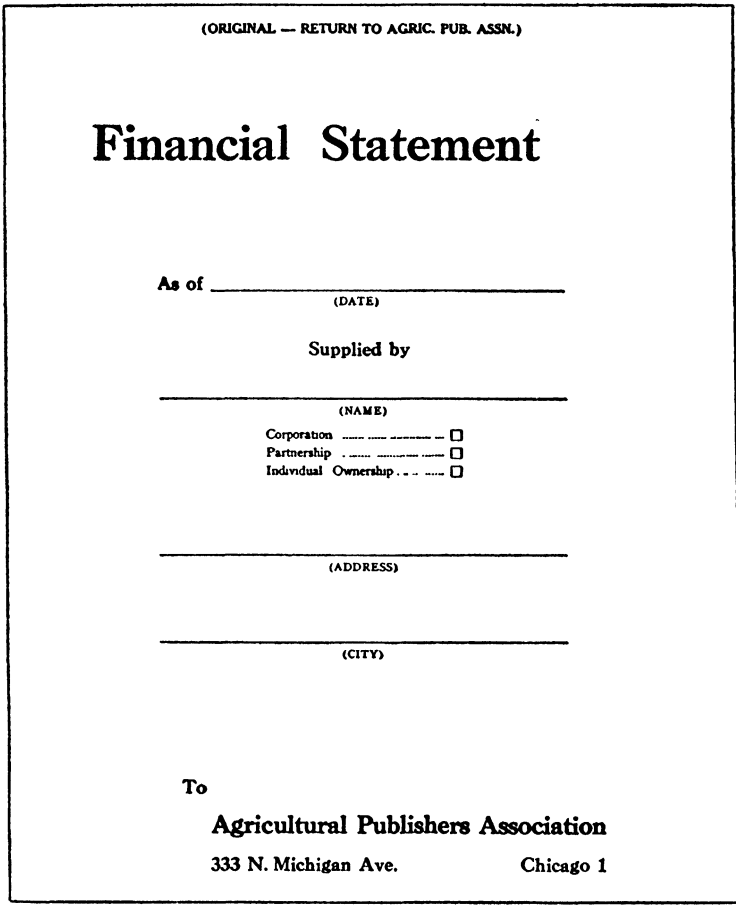
(Page 6)

FIG. 62F. Agricultural Publishers Association—Application (continued).

Newspaper Publishers Association is similar to that required by other associations.

ASSOCIATED BUSINESS PAPERS

The Associated Business Papers is a trade association of industrial, institutional, merchandising and professional business



(ORIGINAL — RETURN TO AGRIC. PUB. ASSN.)

Financial Statement

As of _____
(DATE)

Supplied by

_____
(NAME)

Corporation ☐
Partnership ☐
Individual Ownership ☐

_____
(ADDRESS)

_____
(CITY)

To

Agricultural Publishers Association

333 N. Michigan Ave. Chicago 1

FIG. 63A. Agricultural Publishers Association—Financial Statement.

FINANCIAL STATEMENT AS OF.....194.....

ASSETS		
Current Assets		
1 Cash in Bank $		
2 Office Cash Fund		
3 Time Cash Deposits		
4 Accounts Receivable (*Schedule A*)		
A—Discount date within next 30 days	XXXXXX	XX
B— 1-15 days past discount date	XXXXXX	XX
C—15-30 days past discount date	XXXXXX	XX
D—Over 30 days	XXXXXX	XX
TOTAL ACCOUNTS RECEIVABLE	XXXXXX	XX
Less Reserve (explain how arrived at)		
5 U. S. Government Securities (not hypothecated)		
6 Listed Securities—*Market Value* (not hypothecated), (*Schedule B*)		
7 Unlisted Readily Marketable Bonds (not hypothecated), (*Schedule B*) (must be accompanied by evidence of ready marketability)		
8 Cash Value Life Insurance (agency beneficiary) $	XXXXXX	XX
Less Loan		
9 Current Billables Pending (Expenses incurred at client's authorization, to be billed and collected within next 30 days.)		
10		
11		
12 TOTAL CURRENT ASSETS		
Invested Assets		
13 Notes Receivable—Customers (*Schedule C*)		
14 Notes Receivable—Others (*Schedule C*)		
15 Hypothecated Securities $	XXXXXX	XX
Less Loans		
16 Securities (not listed in 5, 6, 7 or 15)		
17 Real Estate—Appraised Value	XXXXXX	XX
18 Buildings—Appraised Value	XXXXXX	XX
TOTAL	XXXXXX	XX
Less Mortgages or Encumbrances		
19 Furniture, Fixtures, etc.	XXXXXX	XX
Less Depreciation Reserve		
20 TOTAL INVESTED ASSETS		
21 GROSS TANGIBLE ASSETS		
Nominal Assets		
22 Personal Accounts and Notes Receivable (From owners or employees.)		
23 Deferred Charges		
24 Deferred Billables Pending		
25 TOTAL NOMINAL ASSETS		
26 TOTAL ASSETS		

LIABILITIES		
Current Liabilities		
27 Accounts Payable—Media		
28 Accounts Payable—Others		
29 Notes Payable—Banks		
30 Notes Payable—Media		
31 Notes Payable—Others		
32 Other Borrowed Money		
33 Accrued Taxes		
34 Reserve for Short Rates		
35 Dividends Declared But Not Paid		
36 Reserve for Contingencies (attach explanation)		
37 Accrued Salaries, Commissions and Bonuses		
38 Notes Receivable Discounted		
39		
40 TOTAL LIABILITIES		
Capital Liabilities		
41 General Surplus $	XXXXXX	XX
42 Undivided Profits		
43 Capital Stock Authorized	XXXXXX	XX
44 Less Capital Stock Unissued		
45		
46		
47 TOTAL CAPITAL LIABILITIES		

Our Fiscal Year Ends .. .. **19**.. ..

Are any of your assets, other than securities so indicated, pledged? If so, explain fully

48 TOTAL LIABILITIES

FIG. 63B. Agricultural Publishers Association—Financial Statement (continued).

publications. There are 134 member publishers. The Association recommends to its members those advertising agencies which apply for recommendation and meet the requirements. The factors considered by the Association in recommending advertising agencies are:

1. The current financial statement of the agency seeking credit.

PRESENT LIST OF CLIENTS

NAME AND ADDRESS OF CLIENT	PRODUCT ADVERTISED	Approximate Amount Will Invest Annually in Advertising	Check if Using Farm Publications

SCHEDULE A — ACCOUNTS RECEIVABLE (Over 15 Days Past Discount Date)

NAME	ADDRESS	AMOUNT	DATE DUE

SCHEDULE B — SCHEDULE OF SECURITIES AND INVESTMENTS (Details of Items 6, 7, 15 and 16)

DESCRIPTION OF SECURITIES	NO OF BONDS AND SHARES	MARKET VALUE	BOOK VALUE	AMOUNT PLEDGED	WHERE LISTED

SCHEDULE C — NOTES RECEIVABLE (Details of Items 13, 14 and 22)

NAME	ADDRESS	AMOUNT	DATE OF NOTE	WHEN DUE

All information contained in this statement is, to the best of my knowledge and belief, a true and accurate representation of fact

Signature of Person Preparing the Statement

Signed..... (Chief, Executive Applicant Agency)

Title.....

For. ..... (Official Name of Agency)

FIG. 63D. Agricultural Publishers Association—Financial Statement (continued).

2. The number and kind of accounts being currently handled. Like the Agricultural Association, Associated Business Papers requires an agency to be serving a minimum of three accounts, at least one of which must be placing space in business papers.
3. Representation that the applicant is a bona-fide agency completely autonomous in its operation and free from control by either an advertiser or the owner, publisher or operator of an advertising medium.
4. Reasonable evidence that the agency applicant is qualified by the past experience of its principals to render bona-fide agency service and that it is currently rendering such service satisfactorily.

PERIODICAL PUBLISHERS ASSOCIATION

The Periodical Publishers Association, which was founded about forty years ago as the Quoin Club, was the first publishers' organization that dealt with matters of agency credit and recognition. As a matter of fact, it was this association which established the present system of agency compensation and, except for slight adjustments with time and conditions, the principles of agency recognition that were laid down at that time still prevail.

The members of the Periodical Publishers Association are:

Crowell-Collier Publishing Co.
Curtis Publishing Co.
Hearst Magazines, Inc.
McCall Corporation

Before the process of recognition is begun, it is first necessary for the agent to place business with one of the members. He is then sent forms which when filled out and returned to the Association office form the basis for recommendation to the member publishers who are involved. The Periodical Publishers Association office does not extend recognition—that is up to the individual publisher.

The financial stability of the applicant, his ability to handle and develop national advertising, the experience of the agency principals, plus the fact that they are not connected with another medium and can sign a statement that they collect and retain the full fifteen percent, are some of the factors that enter into the matter of recommendation.

As a basis for determining credit, Periodical Publishers Association requests agencies to fill in a financial statement form. In computing the working capital of an agency, an important element in determining credit recommendations, Periodical Publishers Association uses the following rules:

1. Deducts ten percent from current accounts.
2. Provides a reserve of twenty-five percent below market value on listed securities.
3. Provides a reserve of ten percent on unbilled advertising materials.

A superficial examination of the activities of the Periodical Publishers Association office might suggest to some that its principal activities revolve around matters of credit. As a matter of fact, a large percentage of the time at headquarters is devoted to service to agents with respect to the conduct of their operations on a business basis. Various facts which are disclosed in agency reports which indicate a drift toward unsound business practices or are in themselves dangerous tendencies are under constant check, with the result that a large part of Periodical Publishers Association service to its members represents service to advertising agencies.

SOUTHERN NEWSPAPER PUBLISHERS ASSOCIATION

The Southern Newspaper Publishers Association is a newspaper trade association similar to the American Newspaper Publishers Association. It makes recommendations for recognition and credit to its member publishers based on an application blank and financial statement on forms to be submitted.

In connection with its recommendations, the Association re-

quires that for an agency to be entitled to recognition and credit, it must be a bona-fide and not a "house" agency; that it must have at least two national accounts and a minimum of $3,000 in liquid assets in excess of liabilities. In addition, the Association gives consideration to the character of the principals and their previous experience.

The associations described here are only some of the better-known ones. In addition, there are several associations whose members consist largely of publishers of weekly papers and, in addition, there are associations whose member publishers are confined to those within certain geographical areas.

Credit Insurance

CREDIT insurance protects against loss due to the insolvency of debtors. At least two large insurance companies issue credit insurance policies. When these policies are issued to advertising agencies the coverage should be based on the credit exposure in connection with each account handled by the agency. Credit insurance policies usually are written to cover accounts by groups according to their Dun & Bradstreet ratings. For example, a policy could cover a face amount of one hundred thousand dollars on accounts rated AAA 1, fifty thousand dollars on accounts rated AA 1, etc. It is also possible to cover non-rated accounts. In such case, information is submitted to the underwriters who, after investigation, may agree on specific coverage for such non-rated companies.

The credit insurance policies are written subject to normal loss. The normal loss is a figure representing average losses in the agency field over a period of years. The normal loss provision in any policy will be based on the individual circumstances surrounding the issuance of the policies, including the insured's past experience, the volume of sales and other factors.

In any event, before the insurance company is liable to the insured under the policy, the agency must first have had losses equal to the "normal loss" which was provided for in the policy. The annual amount of normal losses as provided for by credit insurance policies usually represents a very small figure in proportion to the credit risks. It is an amount which an agency could readily bear and in fact for which a reserve for bad debts is maintained. Losses in excess of the normal loss amount which is provided for in the policies are covered by the insurance.

Each policy has a face value which is the total amount recov-

erable from the insurance company. The face value of a policy is determined by the amount of the coverage needed and should at least equal the maximum credit exposure which the agency assumes at any one time on account of one client.

Credit insurance policies usually provide that the insurance company is to pay the insured only ninety percent of the covered losses sustained. Credit insurance policies primarily cover losses incurred through insolvency of debtors. The insurance does not cover losses incurred in connection with disputed accounts, but some policies provide that if claims are filed with the insurance company within ninety days after an account becomes past due, the insurance company must collect from the debtor or remit to the insured within sixty days from the date on which the claim was filed by the insured.

Credit insurance policies usually provide that the insured may file claims with the insurance company, after which it becomes the burden of the insurance company to make collection from the debtor.

Some policies provide that, where collection is made by the insurance company within fifteen days, the insurance company can make no charge for the service. After the fifteen-day period, the insurance company is to receive collection fees in accordance with the Commercial Law League rates. Policies written for commercial concerns normally provide insurance on accounts resulting from the shipment of merchandise; but one important insurance company issuing policies to advertising agencies provides through an "Advertising Rider" that the coverage includes all commitments made and work started as the result of an advertiser's order, even though the actual billing may not be done until a later date.

The cost of insuring accounts receivable is contingent on many factors some of which are:

Sales volume.
Amount and quality of accounts covered.
Face value of policy.

In considering credit insurance, the agency executive should realize that this insurance should be used to cover risks that are beyond those that the agency is able to withstand. Over the average of all cases, the premiums paid for any type of insurance far exceed the claims paid by insurance companies. This is necessarily so because out of the premium income, in addition to providing for claims, the insurance company must provide for sales expense, administrative expense, legal expense, litigation costs and profits. It is only economical to insure against risks that cannot be withstood, and it is not sound business to insure against risks that a company can afford to take.

The credit exposure of an agency can and often does exceed its total capital. Many times an agency has a credit exposure on one client's account that is in excess of the total net worth of the agency. These are the kind of risks that are worth insuring. Under the normal terms of credit insurance policies, the very small risk cannot be insured since the credit insurance policy provides that the agency must sustain a normal annual loss before claims will be paid under the credit insurance policy.

To figure the amount of credit insurance coverage that is required, the following steps should be taken:

1. Each account handled by the agency should be listed showing the maximum amount of credit exposure incurred at any one time on each account.
2. The Dun & Bradstreet rating for each account should be secured and noted opposite the name of each such client.
3. The greatest credit exposure for each rating group should be determined by finding the client within the credit rating group that produces the largest single exposure. For example, if there are three clients all within a rating of B plus 1, if the credit exposure on one client is ten thousand dollars and on each of the other two is twenty thousand dollars, then the highest single exposure within the B plus 1 group is twenty thousand dollars.
4. The face value of the policy is the grand total of the

amount that can be collected from the insurance company. The face of the policy must at least equal the highest credit exposure on any one account as computed in the preceding paragraph, but the face of the policy usually is set at a figure greater than this. The amount of coverage must be determined individually in each case after taking all of the circumstances into consideration.

In addition to the protection that an agency secures through the purchase of credit insurance, the following factors should be considered:

1. If an account although not insolvent becomes slow pay, the amount due can be collected from the insurance company if the insured files the account with the insurance company after it is due but before it becomes ninety days past due. In such event, the insurance company must remit to the insured within sixty days from the date on which the insured filed his claim. The account may eventually pay in full, but if the agency did not have the credit insurance coverage and had to wait for months to collect from the client, the working capital of the agency could be entirely consumed in paying the media costs since this would be necessary in any event in order for the agency to maintain its credit standing.
2. Where credit insurance is carried, it is possible for the agency to determine whether the credit insurance company considers its clients or prospects good risks. If the insurance company is willing to cover an account for the highest amount of credit exposure that the agency assumes, this may be taken as a favorable factor. If the insurance company will not insure an account for the amount of the agency's exposure, the refusal of the insurance company would indicate that the risk is unsafe for the agency. Credit insurance companies will insure unrated accounts, and agencies who carry credit insurance should submit the names of clients and prospects to the insurance company

to secure protection even though the accounts are not rated. The insurance company in such cases will advise the agency what amount of coverage they will accept on such accounts.

3. The credit insurance policies provide that the insurance company will undertake to make collections from past-due accounts. The collection charges are nominal. This may have two advantages for the insured agency: First, it takes the matter of collection out of the hands of the agency and puts the responsibility on the insurance company which has trained personnel and all the facilities required. Second, it allows the agency to tell its clients that it must effect collections or file delinquent accounts with the insurance company. When a client requests special terms, they cannot be extended because, if they were, the insurance might be jeopardized.

The insuring clause of a credit insurance policy issued by one of the larger companies is quoted below:

LONDON GUARANTEE AND ACCIDENT COMPANY, LIMITED.

(HEREINAFTER CALLED THE COMPANY)

IN CONSIDERATION of the representations and warranties made in the application for this or any other Policy of Credit Insurance issued to the Insured by the Company, which are hereby made a part of this Policy, and of the payment of the premium as hereinafter provided, and subject to the Conditions and Stipulations set forth on the within pages, which are also hereby made a part of this Policy.

HEREBY INSURES_____of_____, hereinafter called the Insured, engaged in the business of_____, against loss to an amount not exceeding_____Dollars ($_____), which shall be the amount of this Policy, due to insolvency, only as hereinafter defined, of debtors, which insolvency shall have occurred within the Policy term beginning the_____day of _____19_____, and ending the_____day of_____ _____19_____, and which loss shall consist of the unpaid purchase price of the Insured's bona fide sales of_____shipped during said term and actually delivered in the usual course of business to individuals, firms, co-partnerships or corporations, in the United

States of America, the Territories thereof, the Dominion of Canada, or Colony of Newfoundland; and which loss shall have been covered, filed and proven as hereinafter stipulated. From the aggregate amount of the net losses ascertained as hereinafter provided, there shall be deducted Ten per cent (10%) thereof as co-insurance, and from the remainder a Normal Loss to be borne by the Insured, calculated at the rate of_____per cent upon the total gross sales so made during said term, less (a) all allowances actually made on said sales during the said term and (b) the invoiced price of any of said sales returned and accepted by the Insured during said term; but such Normal Loss so to be deducted shall be not less than $_____; and the remainder, not exceeding the amount of this Policy, less any amount owing to the Company, shall be the amount payable by the Company.

This Policy shall not cover any loss occurring prior to the payment of the Premium, although the Policy may have been delivered, nor any loss occurring after the Policy term, nor any loss that is not a valid and legally sustainable indebtedness or has not been allowed against the debtor or the debtor's estate.

IN WITNESS WHEREOF the LONDON GUARANTEE AND ACCIDENT COMPANY, LIMITED, has caused this Policy to be signed by its authorized United States Manager, acting under power of attorney, but the same shall not be binding upon the Company unless countersigned by its New York Resident Manager of its Credit Insurance Department in the City of NEW YORK, this_____ day of_____19_____.

The conditions and stipulations of this policy are:

CONDITIONS AND STIPULATIONS

1—PREMIUM—A premium of_____Dollars ($_____) shall be paid to the Company when application be made for this Policy.

2—GOVERNING RATING AND COVERAGE—The governing rating of a debtor is hereby defined and understood to mean the rating of said debtor by the_____Mercantile Agency, hereinafter termed Agency, on date of shipment.

The latest published rating book of said Agency shall be used to determine a debtor's governing rating for coverage on shipments made from the first day of the month named by said book to the first day of the month named by the next subsequent book, except that when said Agency change a rating by written report, compiled and

issued to the Insured during the currency of the said latest published book or within sixty (60) days prior to the date thereof, the latest such report, of which the Insured shall have received a copy from said Agency, or written notice thereof from the Company, shall be used to determine said debtor's governing rating for coverage on shipments made after receipt by the Insured of such written report from the said Agency, or written notice thereof from the Company.

No loss shall be covered by this Policy unless the debtor to whom the goods were shipped and delivered shall have had, at the date of shipment, a governing rating for which coverage is specified in the subjoined "Table of Ratings and Coverage"; nor shall any loss be covered on any account sold on terms longer than_____days, including dating; nor any loss on any account sold under any "style name" not mentioned in this Policy.

No loss shall be covered by this Policy if the Insured shall have made any agreement with respect to the account of a debtor which would, at the date of filing with the Company or subsequent thereto, prevent or delay any action thereon, or which would interfere with the exercise of the Company's judgment upon any proposal made by said debtor to his creditors, without first having received the Company's consent thereto in writing.

The gross amount covered on the total indebtedness of any one debtor shall not exceed the total amount owing to the Insured by said debtor at the date of insolvency, nor exceed the amount set opposite the governing rating of said debtor in the subjoined "Table of Ratings and Coverage".

If the indebtedness of a debtor at the date of insolvency be for shipments made under different governing ratings, the gross amount covered on the total of such indebtedness shall not exceed the largest amount set opposite any one of said debtor's governing ratings in the above "Table of Ratings and Coverage"; if a change of rating reduces the limit of coverage applicable to a debtor, shipments made thereafter, and while said debtor owes the Insured a gross covered amount equal to or in excess of the amount set opposite the latest rating, shall not be covered; provided, however, that if shipments be made under said latest rating while said debtor owes the Insured less than said amount, the gross amount covered on the total of such indebtedness shall not exceed the amount set opposite said latest rating.

(NAMES NOT IN BOOK)—A shipment to a debtor whose name, at the date of shipment, does not appear in the said latest published book shall be governed by the rating in the latest report of the said Agency on said debtor compiled within four months prior to the

shipment, and if no such report shall have been compiled within four months prior to the shipment, then by the rating in the first report of said Agency on said debtor compiled within four months after the shipment.

3—INSOLVENCY DEFINED—The Insolvency of a debtor for the purposes of this Policy shall be deemed to have occurred when:

(1) A debtor shall have absconded;
(2) A sole debtor shall have died;
(3) A sole debtor shall have been adjudged insane;
(4) A receiver shall have been appointed for a debtor;
(5) A debtor shall have transferred or sold his stock in trade in bulk;
(6) A writ of attachment or execution shall have been levied on a debtor's stock in trade and said stock sold thereunder, or the writ returned unsatisfied;
(7) A debtor shall have made a general offer of compromise to his creditors for less than his indebtedness;
(8) There shall have been a recording of or taking possession under a chattel mortgage given by a debtor on his stock in trade;
(9) A debtor's business shall have been assigned to or taken over by a committee, appointed by a majority in number and amount of his creditors;
(10) There shall have been a recording of or taking possession under an assignment or a deed of trust made by a debtor for the benefit of his creditors;
(11) A voluntary or involuntary proceeding shall have been instituted to adjudge a debtor bankrupt;
(12) A proceeding for the relief of a debtor shall have been instituted in a court of bankruptcy.

4—PAST DUE ACCOUNTS—When the Insured, during the term of this Policy, shall have filed with the Company for collection, an account against a debtor not insolvent as defined in Condition 3, at the time the account was so filed, then so much of such account as was due and payable at the date of filing, but not more than ninety (90) days past due under the original terms of sale, shall be treated under this Policy as though the debtor were insolvent as defined therein. Every such account, so filed, shall include all indebtedness then due and payable, and shall be accompanied with a Notification of Claim on the form prescribed in Condition 5.

5—NOTIFICATION AND FILING OF CLAIMS—The Insured shall, within twenty (20) days after acquiring knowledge of a debtor's

insolvency as defined in Condition 3, and within the term of this Policy, file Notification of Claim with the Company, on the form prescribed and furnished by the Company and forthwith place the entire account against such debtor with the Company for attention and collection; if information of a debtor's insolvency as defined in Condition 3 shall be received by the Insured too late to notify the Company during the term of this Policy, then such Notification of Claim may be filed with the Company within, but not later than, twenty (20) days after the Policy term.

Every Notification of Claim filed hereunder or under Condition 4 shall be accompanied with an itemized statement in duplicate, showing fully the dates of shipment, terms of sale, and the true condition of the account, together with all notes or other papers evidencing the same, and any guarantees, securities, or other documents relating thereto; and the Insured shall, upon request, promptly furnish all proofs, or any information necessary for the proper handling of any account in any proceeding.

All Notifications of Claim must be received by the Company within the time above specified, in its office at_____ and shall be handled upon the terms as provided in Condition 6. No claim withdrawn by the Insured may be refiled as a claim under this or any other Policy.

The receipt, retention or handling by the Company of any claim filed by the Insured under this Policy shall not constitute a waiver of any of the terms, conditions or stipulations of this Policy, nor an acceptance of such claim as covered by this or any other Policy.

6—COLLECTION OF CLAIMS AND SCHEDULE OF SERVICE CHARGES—The Company assumes responsibility for all money collected by its Agents and Correspondents and will promptly remit all amounts due the Insured as collections are effected.

When a claim is disputed, in whole or in part, or when the Company deems it necessary for the purpose of enforcing collection from a debtor, guarantor, surety or endorser, or of participating in any proceeding involving the estate of a debtor, guarantor, surety or endorser, the Insured shall authorize suit or other proceedings and shall promptly advance and pay suit fees, costs and expense required in connection therewith; failure so to do shall be deemed a withdrawal of said claim by the Insured.

When any return of merchandise or direct payment be made to the Insured, or when a claim be withdrawn by the Insured, the costs and charges as hereinafter provided shall be paid to the Company by the Insured the same as if collection had been effected through the Company.

When, in the handling of a claim filed under this Policy, the Company deems it necessary or expedient to endorse notes, checks or drafts on behalf and in the name of the Insured, and to deposit said notes, checks or drafts, or the proceeds of collection thereof, in the account or to the credit of the Company, in any of its depository banks, the Company shall have the right so to do.

Except as otherwise provided herein, the Insured shall pay to the Company the following charges on collections effected on each claim filed:

(1) FREE SERVICE:

No charge shall be made on any collection effected within fifteen (15) days after receipt of claim by the Company, but at the expiration of such fifteen (15) day period, if any balance remains unpaid, the Company will continue to handle the account subject to the charges hereinafter specified; nor shall any charge be made on any collection effected on any undisputed or unlitigated claim, insofar as covered, provided the debtor is, at the date of filing, insolvent as defined under Subdivisions (4), (11), or (12) of Condition 3.

(2) Whenever the Company effects collection without the services of an attorney:

Seven and one-half per cent (7½%) on the first Five Hundred Dollars ($500.00);

Five per cent (5%) on the excess over Five Hundred Dollars ($500.00);

Minimum charge Three Dollars and Seventy-Five Cents ($3.75), except on collections under Seven Dollars and Fifty Cents ($7.50), charge to be Fifty per cent (50%);

(3) Whenever the Company effects collection through the services of an attorney:

Fifteen per cent (15%) on the first Five Hundred Dollars ($500.00);

Ten per cent (10%) on the excess over Five Hundred Dollars ($500.00);

Minimum charge Seven Dollars and Fifty Cents ($7.50), except on collections under Fifteen Dollars ($15.00), charge to be Fifty per cent (50%).

In localities where collection charges are established by law or by Bar rules, such law or Bar rules shall govern.

When litigation or unusual proceedings shall have been authorized by the Insured, a reasonable non-contingent attorney's fee (minimum

Seven Dollars and Fifty Cents — $7.50) shall be paid by the Insured. When collection charges apply such attorney's fee shall be in addition thereto, but the whole shall not exceed Fifty per cent (50%) of the amount collected.

The remittance to the Insured, with or without charge, of amounts collected on claims filed, and acceptance thereof by the Insured, shall not be construed as a final determination of allowable loss, nor as a waiver either by the Company or the Insured of any of the terms, conditions or stipulations of this Policy.

7—FINAL STATEMENT OF CLAIM—If any claim for excess loss be made under this Policy, a Final Statement of Claim, duly sworn to, shall be made by the Insured after the Policy term, upon blank forms which will be furnished by the Company upon application. Such Final Statement of Claim must be received by the Company at its Executive Offices in New York, N. Y., within thirty (30) days after the policy term. No claim for loss may be made nor shall any claim for loss be allowed under this Policy unless it shall have been set forth in such Final Statement of Claim.

8—TIME FOR AND METHOD OF ADJUSTMENT—The adjustment shall be made within a period not to exceed sixty (60) days after the receipt by the Company of the Final Statement of Claim and the amount then ascertained to be due the Insured under this Policy shall at once become payable.

To ascertain the net loss in any adjustment under this Policy, there shall be deducted from each gross loss covered, filed and proven hereunder:

(1) All amounts collected from the debtor or obtained from any other source;
(2) The invoiced price of goods returned, reclaimed or replevined, when such goods are in the undisputed possession of the Insured;
(3) Any discount to which the debtor would be entitled at the time of adjustment;
(4) Any amount mutually agreed upon as thereafter obtainable;
(5) Any legally sustainable set-off that the debtor may have against the Insured.

If no mutually satisfactory agreement be reached as to the amount thereafter obtainable on any loss, the Company will allow the unpaid part of such loss, so far as covered. If the entire indebtedness of every kind of a debtor to the Insured at the date of insolvency be in excess of the gross amount covered by this Policy, then the above deductions shall be made pro rata, viz: in the ratio which the gross amount cov-

ered bears to the whole of such indebtedness. Having made the foregoing deductions from each gross loss covered, filed and proven under this Policy, the remainder shall be the net loss.

From the aggregate amount of the net covered, filed and proven losses thus ascertained, there shall be deducted Ten per cent (10%) thereof as co-insurance; then from the balance, the Normal Loss; the remainder, (not exceeding the amount of this Policy), less any amount owing to the Company, shall be the amount payable to the Insured.

If any covered and filed claim of the Insured against a debtor be disputed, in whole or in part, the same shall not be allowed in any adjustment under this Policy until such disputed claim shall have been finally determined to be a valid and legally sustainable indebtedness against the debtor or the debtor's estate, at which time such claim, so far as covered under this Policy, shall be adjusted and the amount due the Insured shall then be paid.

The Insured shall assign to the Company all claims allowed in adjustment together with all securities and guarantees relating thereto, except those claims upon which the amount thereafter obtainable shall have been mutually agreed upon, and shall warrant the legal validity of the indebtedness for the amount of such claims, and shall upon demand reimburse the Company for any amount paid by the Company to the Insured on any indebtedness which shall not have been allowed against the debtor or the debtor's estate, together with the expense of any action thereon. Any claim assigned to the Company which shall not have been covered in full by this Policy shall be handled by the Company for the joint benefit of the Insured and the Company.

9—DISPOSAL OF SALVAGE—The Company will, after deduction of collection charges and expenses, retain the net amount realized on any claim assigned to it in adjustment, or a pro rata part thereof as provided in Condition 8, remitting any balance to the Insured. The Company will also remit to the Insured a portion of the net amounts realized on accounts assigned to it equal to the percentage of co-insurance thereon borne by the Insured.

Any payments applied to interest by the debtor or his estate and any amounts realized as interest or dividends on securities assigned to or acquired by the Company shall be allotted to the Company and the Insured as above provided. If the net amounts realized or retained by the Company, exclusive of such payments of interest or dividends, on the claims assigned to it in adjustment shall in the aggregate exceed the total amount paid to the Insured under this Policy the Company shall reassign such claims and refund such excess to the Insured.

10—COLLATERAL BENEFITS—This Policy is not assignable, but

the Company will provide, upon written request from the Insured, that any excess loss ascertained to be payable as provided in Condition 8 shall be paid to any Bank, Trust Company or other payee designated by, and for the account of, the Insured.

11—TERMINATION—If, during the term of this Policy, the Insured shall become insolvent, as defined in any of the Subdivisions of Condition 3, or shall cease to continue the business described in this Policy, as heretofore carried on, or shall go into liquidation, or shall seek a general extension from his creditors, or being a partnership shall be dissolved, then this Policy shall thereupon terminate as to coverage on shipments made thereafter, and no past due account may be filed thereafter under the provisions of Condition 4 of this Policy. If any claim for excess loss is made, the Final Statement of Claim shall be filed by the Insured as provided in Condition 7 of this Policy.

Temporary interruption by fire or by strike, or by the death or withdrawal or admission of a member of a partnership composed of more than two members, shall not so terminate this Policy.

12—GENERAL PROVISIONS—The premium for this Policy shall be paid by check to the order only of the LONDON GUARANTEE AND ACCIDENT COMPANY, LIMITED.

The Company will acknowledge the receipt of all Notifications of Claim and the Final Statement of Claim, but neither the acknowledgment nor the retention thereof by the Company nor its failure to acknowledge receipt thereof, shall be deemed an admission of liability or a waiver by the Company of any of the terms, conditions or stipulations of this Policy.

The representations and warranties made by the Insured in the application for this or any other Policy of Credit Insurance issued to the Insured by the Company are the basis for this Policy and a part thereof. False warranty, misrepresentation, concealment or fraud in obtaining this or any other Policy of Credit Insurance issued by the Company to the Insured, or in any Notification of Claim or Statement of Claim filed under this or any other Policy, or in the proof or adjustment of any claim for loss under this or any other Policy, shall void this Policy from its beginning and the premium paid shall be forfeited to the Company. The Insured shall permit the Company at any reasonable time to examine and take extracts from the books, securities and papers of the Insured bearing upon any matter involved in any Notification of Claim or Statement of Claim filed under this Policy, or in any adjustment under this Policy, or in any representation or warranty made in the application for this or any other Policy of Credit Insurance issued by the Company to the Insured, or in any claim made either by the Insured or by the Company under this Policy,

and in that connection the Insured shall give such assistance and information as the Company shall require, but no such examination, investigation or proceeding shall be deemed an admission of liability or waiver of any of the terms, conditions or stipulations of this Policy.

The rendering of any estimate or statement or the making of any settlement shall not bar the examination herein provided for, nor the Company's right to unpaid service charges, nor to a refund of any amount overpaid the Insured in any adjustment by the Company, nor bar the right of the Insured to a refund of any amount overpaid the Company.

No agent shall be authorized to make any alteration in, or addition to, this Policy, nor to waive any of its terms, conditions or stipulations; and no addition to, nor alteration in, nor waiver of, any of the terms, conditions or stipulations of this Policy shall be valid unless expressed in writing and signed by the United States Manager of the Company; nor shall notice to, or knowledge of, any agent or any other person be held to effect a waiver or change in any part hereof.

No suit or action on this Policy shall be brought or be sustainable until after the full compliance by the Insured with the terms, conditions and stipulations of this Policy, nor unless commenced within twelve (12) months after its termination. If the said limitation of time for the commencement of suit be prohibited by any specific statutory provision in relation thereto, in force in the State named in this Policy as the address of the Insured, the said limitation shall be hereby amended to agree with the minimum period of limitation permitted by said statutory provision.

All terms, conditions and stipulations of this Policy shall be deemed conditions precedent to any claim by the Insured.

The credit insurance Interim Adjustment Rider issued by one company to provide for payment within sixty days of filing a claim follows:

RIDER NO.

INTERIM ADJUSTMENT RIDER-B

LONDON GUARANTEE & ACCIDENT CO., L'T'D.

CREDIT INSURANCE DEPARTMENT

BY THIS RIDER attached to and made part of Policy No. _____, issued to _____ of _____. It is hereby understood and agreed that for the purpose of enabling the Insured

to receive adjustments from time to time under this Policy, and prior to the final adjustment, the Insured shall be privileged, at any time prior to the time fixed in this Policy for the filing of the Final Statement of Claim, to file with the Company, at its Executive Offices in New York, N. Y., Preliminary Statements of Claim for excess loss, upon blank forms which shall be furnished by the Company upon application, and the Company within sixty (60) days after the receipt of any such Statement of Claim shall adjust all accounts mentioned therein, in accordance with the provisions of Condition 8 of this Policy, that were filed within the time provided by, and which come within the terms, conditions and stipulations of, this Policy, and immediately pay to the Insured the amount of excess loss, if any, then found due.

In no event shall the total net amount payable by the Company in all adjustments made under this Policy exceed the amount of this Policy, nor shall the amount of Normal Loss deducted in all adjustments under this Policy exceed in the aggregate the amount of the agreed Normal Loss as ascertained in the Final Adjustment.

If the Company has paid to the Insured, in all interim adjustments under this Policy, prior to ascertaining the actual amount of the aforesaid agreed Normal Loss any amount in excess of the amount which would have been paid if the amount of such actual Normal Loss had been ascertainable at the time of such payment, the Insured shall refund such excess to the Company.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions or stipulations of this Policy, other than as above stated.

_____

United States Manager.

Countersigned:

_____

Resident Manager Credit Insurance Department.

The Advertising Rider that is of the greatest importance in connection with credit insurance issued to advertising agencies follows. The effect of this rider is to insure the agency against losses from insolvency on advertising space that the agency is committed for even though the space has not yet been billed to

the agency. This covers such items as non-cancellable magazine space, radio time, talent, outdoor space, etc.

ADVERTISING RIDER

BY THIS RIDER attached to and made part of Policy No. _____ issued by the LONDON GUARANTEE AND ACCIDENT COMPANY, LIMITED, to _____ of _____. It is hereby understood and agreed that all amounts owing to the Insured by debtors in connection with advertising business between the Insured and such debtors, shall be deemed as arising from shipments of merchandise, and the governing ratings of such debtors shall be determined as follows:

On advertising business, for which orders are accepted by the Insured during the term of this Policy the rating assigned to the debtor by the governing mercantile agency, at the date of the acceptance of the order, shall govern.

On advertising business for which orders were accepted by the Insured prior to the beginning of this Policy the rating assigned to the debtor at the beginning of the Policy shall govern; provided, however, that no part of any account owing to the Insured, which was past due at the beginning of this Policy, whether billed by the Insured or not, shall be covered by this Policy.

For the purposes of this Policy the date of shipment shall be construed to be the date upon which the debtor becomes obligated to the Insured for the payment of the account, and the Insured shall render invoices in due course to cover such obligations.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions or stipulations of this Policy other than as above stated.

_____

Manager for the United States.

Countersigned:

_____

Resident Manager Credit Insurance Department.

Analyzing Dun & Bradstreet Reports and Financial Statements

FOR information concerning financial responsibility, business men refer to published facts issued by reporting services such as Dun & Bradstreet.

DUN & BRADSTREET REPORTS

Dun & Bradstreet issues five classes of reports:

1. The Synopsis Report
2. The Analytical Report
3. The Specialized Report
4. Foreign Report
5. Municipal Report

The first three classes of reports have the same basic characteristics but each type of report is developed to fit the general credit requirements of Dun & Bradstreet subscribers.

The Synopsis Report is furnished for the majority of companies usually covering smaller enterprises. The Analytical Report is usually issued on larger companies and contains more detailed information than the Synopsis Report. The Specialized Report is usually issued to cover wholesalers and large retailers who are important from a credit viewpoint, but where the business structure is less complicated than that of manufacturers for whom the Analytical Report is issued. The Specialized Report generally contains more detailed information than a Synopsis Report and probably less than the Analytical Report.

The Foreign Reports cover foreign companies and contain

the same type of information as that furnished on domestic concerns. Municipal Reports cover municipalities and their finances and of necessity take a different form from that of the reports on business concerns.

Dun & Bradstreet issues reference books listing about two and one-half million names, and each name is rated by a code which consists of two elements: A letter is used to rate financial ability, and a numeral is used to indicate payment record and general character. Thus a rating in a Dun & Bradstreet report might appear as "F2½." Following is a code list showing the meaning of each of the rating symbols issued by Dun & Bradstreet:

	Estimated Financial Strength			*Composite Credit Appraisal*			
				High	*Good*	*Fair*	*Limited*
*1	Aa	Over	$1,000,000	A1	1	1½	2
	A+	Over	750,000	A1	1	1½	2
	A	$500,000 to	750,000	A1	1	1½	2
	B+	300,000 to	500,000	1	1½	2	2½
	B	200,000 to	300,000	1	1½	2	2½
	C+	125,000 to	200,000	1	1½	2	2½
*2	C	75,000 to	125,000	1½	2	2½	3
	D+	50,000 to	75,000	1½	2	2½	3
	D	35,000 to	50,000	1½	2	2½	3
	E	20,000 to	35,000	2	2½	3	3½
*3	F	10,000 to	20,000	2½	3	3½	4
	G	5,000 to	10,000		3	3½	4
	H	3,000 to	5,000		3	3½	4
	J	2,000 to	3,000		3	3½	4
*4	K	1,000 to	2,000		3	3½	4
	L	500 to	1,000			3½	4
	M	Up to	500			3½	4

* When a numeral ONLY (1, 2, 3 or 4) appears it is an indication that the financial strength, while not definitely classified is considered within the range of the ($) figures in the corresponding bracket and that a condition is believed to exist which warrants credit in keeping with that assumption.

All of the Dun & Bradstreet reports have the same general characteristics, including the name of the company, the address, the rating code letters and numerals, a synopsis of the business summarizing the important facts and containing an outline of the information needed to determine the financial ability of the company reported.

The reports contain a history of the business, a section on the method of operation describing what the company does, the type of merchandise manufactured or sold, the price range covered, the type of customers, the credit terms usually extended, an analysis of the types of transactions—that is, cash, charge account, budget, etc., the size and type of plant and equipment owned, etc. The reports contain a brief description of the fire hazard and then a "statement." The statement gives the most important facts concerning the financial ability and integrity of a business. The purpose of this section of the report is to show the amount of capital in use, how it is used and how much if any of the capital is borrowed.

Usually, reports contain a balance sheet, but where concerns refuse to furnish this information, other figures are secured by Dun & Bradstreet from interviews with the "trade," banks and other sources. In addition to balance-sheet figures, reports often contain operating statements and other important figures. Sometimes figures are included to show the sales and profit trend for the past few years. In addition to the statement section of the report, it usually contains a section called Trade Reports. The purpose of this section of the report is based on interviews and other research, and shows:

1. The highest credit granted.
2. The amount now owing.
3. The amount past due.
4. The terms of sale and manner of payments.

Where the survey reveals any special information, this special information is reported under a heading called "Remarks." This

section of the report is extremely valuable to advertising agencies since it shows the highest amount of credit granted by any of the concerns surveyed. When an agency is called on to report this information regarding a client, it should be remembered that the credit granted an agency's client is really the highest credit exposure that the agency takes, including not only the amount owing at any one time, but also the non-cancellable items for which the agency is committed on behalf of the client.

Many concerns cannot be rated by Dun & Bradstreet or other reporting agencies. If a concern is listed but not rated, this is not necessarily unfavorable, but does indicate that for one reason or another the financial ability and integrity cannot be indicated by the code method. Companies such as professional services that do not seek credit cannot be rated because they usually do not furnish the information upon which a rating may be based. Ratings are not permanent and it is wise for the agency occasionally to review the credit rating of its clients and prospects.

Where an agency carries credit insurance, it is extremely important to watch the ratings of insured accounts since usually the policies cover each rating group rather than each individual account. If the rating of a client changes, it is important for the agency to check the credit insurance policy to be sure that the insurance covers the rating group to which the client or prospect has moved.

ANALYZING FINANCIAL STATEMENTS

The Dun & Bradstreet reports that have been discussed merely furnish the information from which the businessman must determine the financial ability of his client or prospect. It is necessary to analyze and consider the information to determine the advisability of accepting credit risks. Many volumes have been written on the subject of analyzing financial statements. The discussion here will be limited to a statement of a few principles that should be followed. Those who are interested

in learning more about analyzing financial statements are referred to the many published texts on the subject.*

Four indexes that may be used to determine the financial ability of a company are:

1. The ratio of current assets to current liabilities.
2. The ratio of inventories to net working capital.
3. The ratio of fixed assets to total capital.
4. The ratio of working capital to sales.

These ratios as they pertain to an agency's client are extremely important, perhaps more so than they are to other creditors of the same company. This is because of the large commitment that the agency makes in behalf of its client. Before an agency can afford to accept the credit risk that is incurred by doing business with an advertiser, the agency must have convincing, indisputable proof that the advertiser will be able to pay for the advertising campaign. A brief discussion of the principles follows:

1. The ratio of current assets to current liabilities.

   This ratio is probably the oldest one used by businessmen to help them determine the financial strength of a company.

   For many years it was considered that if a company had a two to one ratio (current assets of double the amount of current liabilities) it was in healthy financial condition. We have learned recently that, while a two to one or two and one-half to one current asset to current liability ratio may indicate financial strength, it is necessary to inquire further into the facts to be sure that the tentative conclusion of financial strength is correct.

   Frequently, the ratio of current assets to current liabilities, if taken by itself, is misleading. During the war, companies with large earnings also were liable for the payment

* One of the most recent of these is *Analysis of Financial Statements* by Kroll, published in 1948, by Funk & Wagnalls.

of substantial taxes. These tax liabilities in themselves distorted the ratios of current assets to current liabilities. We have learned that even though current assets may equal two or three times the current liabilities, a company can still be pitifully weak financially. This is particularly true where inventories are large. Therefore, it is necessary to consider facts other than the ratio of current assets to current liabilities; the ratio of inventories to net working capital is of next importance for consideration.

2. The ratio of inventories to net working capital.

Inventories should never exceed one hundred percent of net working capital. Net working capital is the difference between the current assets and the current liabilities. Inventories are included among current assets and where the inventories exceed one hundred percent of the net working capital (current assets less current liabilities), the other current assets, which generally consist of cash and accounts receivable, will always amount to less than the current liabilities. When this is true, there will not be sufficient cash and accounts receivable to pay the current liabilities. It may be argued by some that inventories are valuable and that by liquidating inventories cash may be realized to pay a company's debts. While this is true in the normal course of events, there are many times when it is not true.

If inventories cannot be quickly liquidated, a company could be in an embarrassing financial position in the event that inventories exceeded one hundred percent of the net working capital, for then the accounts receivable and cash would not be sufficient to pay the company's debts.

3. The ratio of fixed assets to total capital.

The ratio of fixed assets to total capital may become excessive through rapid plant expansion or through purchases of land or equipment. While there is no average figure that can be given (since the amount of capital in-

vested in fixed assets varies with the kind of operation), it is an empirical truth that the amount invested in fixed assets should not be so large as to leave insufficient working capital. Fixed assets cannot be used to pay debts. They only have substantial values to the going concern.

If it becomes necessary to liquidate fixed assets to pay debts, the business is left without the necessary tools to operate. As a rule, a forced liquidation of fixed assets leads to bankruptcy.

Some types of business require large investments in fixed assets. These are often financed by mortgages, long-term securities or public financing through stock issues.

Companies requiring substantial capital investments include public utilities, transportation systems, hotels and apartment hotels, etc. Companies requiring a minimum capital investment for plant and equipment include service organizations, wholesalers, jobbers, manufacturers of pharmaceuticals, cosmetics and certain needle trades.

Because of the wide variations in ratios between one kind of organization and another, there may be no common ratio that could be applied to determine whether a company has invested too large a part of its funds in fixed assets. As a general guide, it can be stated that when more than twenty or thirty percent of the tangible net worth of a company is invested in fixed assets, further investigation should be made.

4. The ratio of working capital to sales.

To meet its obligations, a company must have sufficient cash at all times to pay obligations as they mature. When a company's sales expand there should be a corresponding increase in working capital. If this is not the case, the company may be unable to pay its obligations as they mature. Different kinds of industries require different operating ratios. A retail furniture store turns its inventory much more slowly than a department store and hence re-

quires a larger ratio of working capital to sales. In by far the larger number of industries the working capital should be turned five or six times a year. This means that the average annual sales are five or six times the company's working capital.

In the advertising agency business itself, this ratio does not apply, the reason being that the advertising agency business is at least partially a profession or personal service business and because of those aspects, a smaller working capital to sales ratio is required. Often advertising agencies turn their working capital ten to twenty times a year. In the average commercial business, the turnover usually is not greater than six or seven times a year. Where a company's annual sales exceed six or eight times its working capital, it will be well to make a careful investigation to determine whether or not the company is adequately financed.

The principles outlined here are intended merely as guides to be used in establishing the financial responsibility of advertisers. Each individual problem should be studied in the light of the facts peculiar to that problem. The principles stated may then be used to test the conclusions that are made based on the particular facts surrounding each situation.

National Outdoor Advertising Bureau

THE National Outdoor Advertising Bureau, Inc., is operated by advertising agencies to provide the following services for them:

1. Maintenance of statistics covering all markets in the United States and Canada in which posting service and painted display are offered.
2. Preparation of preliminary and final estimates for national and regional campaigns.
3. Preparation of contracts for both posting and painted display, with current knowledge of national, state and local laws affecting the use of outdoor advertising and its use for particular products.
4. Negotiation with plant operators for space wanted and time schedules preferred by advertisers.
5. Preparation of poster shipping orders and shipping labels for lithographers, after the agency has created designs, selected the lithographer and bought the paper.
6. Transmitting detailed instructions to plant operators. In poster advertising campaigns, the instructions explain campaign objectives and give monthly directions for posting. In painted display, the Bureau issues copy reproductions, blueprints scaled to fit the variations in space available, color specifications and art reproductions.
7. Payment to plant operators and billing the agency. Before payment the Bureau checks location lists and invoices with contract terms and adjusts for credits and discounts. The Bureau combines plant owners' invoices for all accounts and makes composite payment every fifteen days, eliminating multiple accounting records for agencies.

8. Verification in the field of execution of members' contracts for posting and painted display. In a recent year the Bureau's field staff of sixteen men traveled 488,939 miles and inspected 248,803 poster panels, comprising 51,727 poster showings. In addition, the field staff inspected 9,632 painted displays.
9. Offering of free consulting service to all media men and contact men of advertising agencies in the preliminary planning of outdoor advertising campaigns.

Membership in the Bureau is open to any advertising agency by making application when it desires to place posting through the Bureau.

The Bureau serves all agency departments concerned with planning, placing and servicing outdoor advertising by reducing the cost and the burden of detail to the individual agency.

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