OFFICE OF THE ASSISTANT TO THE PRESIDENT
601 CANAL ROAD, N. W., CLEVELAND, OHIO

JAN 8 1920

FOR Executive OFFICE DATE January 8th, 1920

MR. R W Levenhagen SUBJECT: Review of Martin Varnish Co. Statements.

ANSWERING LETTER OF DICTATED BY

RETURN TO
R. W. L.

As requested, I have thoroughly studied the various statements representing charge by the Martin Varnish Co. to the Martin-Senour Co. for manufactured varnishes.

COMPARATIVE TRADING STATEMENT

It is evident from this report that the Martin-Senour Co. has been charged a generally higher price on all manufactured varnishes than the Martin Varnish Co. has charged to the trade. The items sold to the M-S Co. of Ill. for resale gave them 9.46% greater profit and such items as were sold to the Martin-Senour Co. of Neb. for resale gave them 8.27% greater profit. This amounted to $4,321.53 overcharge to the Martin-Senour Co., if we assume that these items charged for resale should have been invoiced out of the Martin Varnish Co. account at the same price as those sold direct to the trade. You will also note particularly that last year M-S Co. of Ill. and M-S Co. of Neb. resale items gave to the M V Co. only 31.42% profit as against 35.73% for direct sale.

OPERATING STATEMENT

This statement shows a surplus of $24,454.58 on a value of output of $294,996.19, or 8.3%. I do not think this correctly represents the situation for the reason that there has been deducted the item of loss and gain general, $9,538.92, which I feel does not belong in the manufacturing account. The total cost to manufacture all products is really only $338,089.75 instead of $347,618.67 as indicated, and compared with the total credit of the account shows a surplus in cost figuring of $33,993.50, or 11.5% on the value of the production,- $294,996.19.

Raw Material Surplus - $19[illegible],447.91, indicates a bad condition. The comments in the statement cover this quite fully but it is inexcusable for the manufacturing reports to be incomplete. There should be no difficulty in reporting ingredients exactly as used and I believe that at least for awhile it would be advisable to keep a perpetual book inventory of both quantity and value of raw material. The cost per unit of raw material can be easily checked against purchases.

Monthly

Package Addition Surplus - $6,765.45. This is a bad showing,- a surplus of 15% against an expenditure of $43,609.03. I think the revised package additions submitted will overcome this condition in the current year as they are considerably lower than the figures used during 1919. They are, however, lower than the Cleveland factory 1920 additions and I fear they may be too low. They should, therefore, be kept under constant observance and revised if at the close of the quarter it appears that they are not covering all of the expenditures.

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Raw Material Fuel Deficit - $155.84, is not particularly serious.

Productive Labor Deficit - $165.18, is not particularly serious.

Department Burden Surplus - $2,433.67. This indicates bad cost figuring as the rate used was almost twice what it should have been. This condition should have been detected from the analysis of formula record during the year and the rate reduced. The suggested 1920 rate, 40%, seems satisfactory.

General Burden Surplus - $5,617.49, is bad. The rate used was much too high and should have been noticed and adjusted. The suggested 1920 rate of 70% seems satisfactory.

SPECIAL AUDIT UNDER ADJUSTMENT OF ACCOUNTS

The overcharge of $17,200.76 may be not far off, but the basis of .089 per gallon for 193,267 gallons is not sound. I think the adjustment should be made on the basis of the per cent to the value of this over-figuring, which I calculate is 11.5%. The chief error in the cost figuring is in raw materials. I cannot locate the source of the figure $27,226.05 shown as the surplus on bulk goods, which is divided by the total gallons manufactured to get the net overcharge per gallon - .089. I think that the overcharge to M-S Co. should be determined by taking the figure of correct billing, $156,712.98, and deducting from it 11.05% to cover the surplus over figured. This amounts to $18,021.99. Also, because these items were charged at figured cost plus 5%, this 5% should be considered in this overcharge, an addition $901.10. Thus the total overcharge on bulk goods I make $18,923.09 as compared with $17,200.76. Further, if M-S Co. of Ill. and Neb. were overcharged that .089 per gallon or 11.5%, so was the S-W Co., who bought 19,368 gallons. If figured at .089 per gallon this is $1,723.75, or, considered on the value of $11.080.58 at 11.5%, this overcharge is $1,274.27.

Incidentally, the costs of resale goods shown on the trading statement are excessive because of this over-figuring. Considered on the basis of .089 per gallon, M-S Co. of Ill. resale is charged $1,731.05 too much and on the basis of 11.5% on the value, the excessive charge is $2,562.96. M-S Co. of Neb. resale on the basis of .089 per gallon shows an excessive charge of $325.75, or on the basis of 11.5% this overcharge is $860.85.

Also the manufactured merchandise charged against Trade and M S D sales of $67,074.01 was figured 11.5 too high, or $7,713.51 which should be added to the gross trading profit, making this $37,721.72, or 34.9% instead of 27.69%.

The general summary in this special audit also covers an overcharge for quantity - $2,395.64; erroneous billing - $181.10; charges for barrels returned - $381.00, all of which figures I am unable to check. I calculate that the amount $21,958.60 shown as net due M-S Co. is not sufficient. It should be $23,581.93 - this for the reason that the overcharge on bulk goods was $18,923.09 instead of $17,200.76 and there is also due to the S-W Co. for overcharge $1,274.27.

SPECIAL REPORT OF AUDIT OF BILLINGS

I am unable to check the figure of $1,105.61 for refund on bulk goods determined by a unit basis, and, as explained before, I think the only basis to be considered is the percentage on the value. As mentioned before, the refund on billing, $3237.32, checks up correctly. I am unable to locate the source of figures - erroneous billing $181.10 or returned barrels $381. The amounts due M.V. Co. for drums, $2,361.41 and for barrels, $1,537.22, seem satisfactory. The net due M-S Co., $10,006.40, as mentioned before, I do not think is correct.

AUDIT OF M S D SALES

This shows sales of $11,605.46 as compared with cost $9,904.41,- a profit of $1,701.05 or 14.66%. The over-figuring of the cost should be taken into consideration and, as the general ~~per cent~~ figure was 11.5 too high, it makes the real cost of this material $1,139.01 lower, or $8,765.40. This makes the profit on M S D sales $2,840.06 or 24.7%. I note the remark that unlisted items are sold to the M-S Co. on a theoretical price basis. I fail to see why, if listed varnishes are charged at 30% below the net price, unlisted varnishes should not be charged to the M-S Co. at 30% less than the price at which they were sold. Evidently also H S B Co. are sold at prices lower than the M-S Co.

Further, I fail to understand why in the analysis the gross profit on Trade Sales should be assumed to be 37%. This gross profit can be readily determined by deducting the cost of M S D from the total sales shown as $78,344.45 on the trading statement.

I trust I have properly understood these statements and that the conclusions I express are correct.

Yours very truly,

W. R. Sieplein
Gen. Supt. of Costs.

WRS:E