Section IX. Relation of planning and dispatching to cost accounting.

Section X. How far is it proper for a trade association to distribute cost information to its members?

The section on labor cost pertains to the accounting treatment of wages under bonus and differential piece-rate systems. Prof. T. H. Sanders gives the result of his inquiry into methods of wage accounting among concerns in different lines of business with various sorts of wage plans. The respective merits of the wage payment plans themselves are not discussed; only the accounting treatment. Prof. Sanders' paper is followed by descriptions of the labor cost methods of the American Rolling Mills Co., Burroughs Adding Machine Co., and Westinghouse Electric and Manufacturing Company.

G. N. Pelton contributes an excellent paper on the furnishing of cost data to operating chiefs. The subject is a live one, and Mr. Pelton's analysis of it is able and thorough.

The section on budgets comprises a description of the uses of operating budgets in a mail order house, a machine shop, and a shipbuilding plant.

The section on material costs brings out the importance of accounting separately for the profits arising from (1) manufacturing operation, and (2) buying and selling material. Few concerns make such a separation in their books and, as a consequence, financial statements throw little light on the effectiveness of management. If profits are large, management will assume credit for it. If losses are large, "Inventory Adjustment" and "Loss on Forward Commitments" will be placed "below the line" of management responsibility, and in the alibi section of the income statement. Many manufacturers must, under present trade conditions, be merchants as well as converters. Frequently they must commit themselves to definite purchases months before they know what quantities their customers will demand, and what prices they will pay. As merchants they will depend for profit as much (often more) upon shrewd buying as upon economical manufacture and distribution. It is, therefore, essential that the profits of such enterprises be divided between trading profits and operating profits. It must be admitted that there are accounting difficulties involved in realizing this end. But they are not insuperable. No general statement of the measures to be adopted would be worth much, because of varying conditions. However, unless adequate accounting measures are adopted, the books will tell only a jumbled history.

Carl G. Jensen discusses the question of depreciating plant on the basis of original cost, as against depreciation on replacement value. On the face of it this is a technical subject. But in practice the policy of writing up plant values is usually determined by administrative officials as a matter of expediency and without reference to accounting theory, or to the views of accountants. Obviously, when plant accounts are written up, they must be depreciated on the basis of the new value. (I say "written up" because plant accounts are not often written down by appraisal). The question is really one of financial policy, not of accounting. Plant values are not playthings, and those who so handle them should be prepared for the resulting suspicion of bankers and of others who form judgments from accounting data. I do not mean that no accounting expression need be given to increases in the replacement values of old plants. That would be folly. Such expression does not, however, require an adjustment of plant accounts. Surplus reserves for the excess of prospective replacement costs over original expenditures, may be established without any violation of sound principles. In fact, conservative practice favors such reserves.

Two sections of the Year Book are given to organization problems; one to the centralization of routine cost work; another to the coordination of planning and cost accounting functions. In his paper on the latter subject A. F. Stock makes the following statement, which may interest Taylor Society members: "We should hold the foreman responsible for getting cost information, but I also believe we should give that foreman clerical assistance. I did believe at one time, but not now, that we should make the clerical force under the foreman responsible to some one other than the foreman. I think we should work through the foreman if we are ever going to get that correlated interest of the foreman in our cost work and make the assistants we give him part of his organization and not part of the office organization." He also stresses the importance of combining cost and production records.

In the last section R. S. Kellogg, of the News Print Service Bureau, and Grafton Whiting, of the National Container Association, explain in detail how they gather cost and statistical data for distribution among the members of their associations. It is surprising how far a trade association can go without, apparently, running counter to the anti-trust laws.

The last paper is one by C. R. Stevenson on the present trend of trade association activities. He argues for unrestricted dissemination of cost, price, and production data, and advocates a change in the law to permit it. This proposal is practically equivalent to permitting trade competitors, through associations, to agree upon selling prices. Would the public really reap the benefit of such complete publicity, as Mr. Stevenson claims? Also, if such unrestricted exchange of data were permitted, would it not result, as a matter of course, in greater participation (interference, if you like) by government in private enterprise? Is such participation desirable? These are big questions of economics and government, which, it is safe to say, will not be appreciably affected by resolutions of cost accountants in convention.

OTTO F. TAYLOR.[1]

[1] Taylor & Varay, Certified Public Accountants, New York.

Richard Wellington Husband
Director of Personnel Research
Dartmouth College
1869-1924

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AS the world's open spaces close up—forcing upon us not only stiffer competition but a firmer credit structure and easier capital—will not managerial ability rather than capital be the scarce commodity?—Page 110.

Engineering Societies Building
29 W. Thirty-Ninth St.
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