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PROFILE

Taylor: Jerome Lee Nicholson
JEROME LEE NICHOLSON

by Richard F. Taylor
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Born in 1862, Jerome Lee Nicholson, often called the "father of cost accounting," entered the professional practice of accountancy in New York in 1889, under his own name. The firm name was later changed to J. Lee Nicholson and Company when he took in others as partners. Nicholson's firm specialized in the development of cost systems and procedures for manufacturing organizations.¹ For thirty-five years this firm was his base of operations for the accomplishment of his personal goal in accounting—convincing the business community and the practicing accounting profession that "cost accounting is perhaps the most fundamental proposition in all manufacturing."² Mr. Nicholson firmly believed that no wise manufacturer would attempt to market his product without sufficient cost data. To this proposition he devoted his life-work and in the process had a profound effect on the practice of cost accountancy in this country perhaps more than any other individual.

J. Lee Nicholson after receiving a common-school and business-college education started as an office boy for the Keystone Bridge Company. He was rapidly promoted to the engineering department where one of his responsibilities was to draw up plans for the company foreman and superintendent. It was in this department that Mr. Nicholson developed his interest in cost accounting. It was a fortunate coincidence that Mr. Nicholson, forced to support himself at an early age, found a job in a department that, at that time in the development of shop accounting and management, was responsible for estimating the cost to manufacture.

While employed at the Keystone Bridge Company Mr. Nicholson, in his spare time, studied accountancy. In 1884, he accepted an accounting position with the Pennsylvania Railroad Company where his duties included determining the cost of water used in the tenders of locomotives of the Pennsylvania Railroad system.

In addition to public accounting practice and industrial consulting, J. Lee Nicholson made substantial contributions as: an educator, an author, an active member in and leader of accounting societies, and as an army officer in the Ordnance Department during the First World War.

In the field of education, Mr. Nichol-

son served, in 1911, as a lecturer on cost accounting at New York University and as an instructor and lecturer on cost accounting at Columbia University from 1912-1917. In 1920 he established the J. Lee Nicholson Cost Accounting Institute in Chicago, apparently the only known school in this country, up to that time, that was devoted exclusively to the teaching of cost accounting.

As an author Mr. Nicholson published in the trade journals numerous articles explaining the intricacies of cost accounting. His major written contributions were his three books which were widely used as textbooks in schools and as reference works within the business community. His *Nicholson in Factory Organization and Costs*, published in 1909, presented for the first time a unified treatment of the "estimated cost system." A review of this publication in *The Journal of Accountancy* in 1909 suggests the recognition that was given this work at that time.³

The first American treatise on cost accounting proper, dealing with the subject from an accountant's point of view. The author, though keeping to the front in his treatment of important accounting principles applicable to the subject, has nevertheless written the book in clear and untechnical language.

While it may be questioned whether the author has been successful in preparing a text-book for students, he has undoubtedly accomplished his prime object, that of supplying the manufacturer with a thorough treatise on a subject in which he is vitally interested, and that of giving professional accountants and cost specialists a valuable reference work.

When Nicholson published his second book, *Cost Accounting Theory and Practice*, in 1913, he employed the same methods for determining inventories, cost estimates, and analysis of cost of sales but he varied his verification technique. This book probably shows the results of his teaching experiences at New York and Columbia Universities. It is interesting to note that Mr. Nicholson also recommends, in this book, a method for estimating cost of sales at current prices which foreshadowed LIFO.⁴

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Nicholson's third book published with John F. D. Rohrback, in 1919, reiterates many of Mr. Nicholson's previous cost accounting principles but included some new concepts with respect to estimated costs.

During the war years Mr. Nicholson served first with the Federal Trade Commission and then with the Ordnance Department where he was commissioned a major, a title he was to retain until his death. Because of his extensive knowledge of costs he is credited with helping in clearing up the scrambled cost-plus contracts that were executed during the war.⁵

Major Nicholson was always active in accounting societies. For more than twenty years he was a member of the New York State Society of Certified Public Accountants and served, for several years, as its First Vice-President. He was once a member of the American Association of Public Accountants and was a member of the American Institute of Accountants at the time of his death.

Prior to the First World War, Major Nicholson proposed that an association of individuals interested in cost finding techniques be formed. In 1919 he called a conference for October 13 and 14 in Buffalo for the purpose of considering the feasibility of organizing an independent association of cost accountants. Thirty-six men and one woman attended the conference. In addition to those present 51 applications were made by men who could not be present and who wished to be enrolled as charter members, so that the total number of Charter Members of the Association was 88.⁶ Major Nicholson was chosen temporary chairman of the meeting and was later elected the first president when the National Association

of Cost Accountants was formed. In an address before the meeting, he said, "The speaker is optimistic enough to believe that this organization is going to be one of the largest and most successful organizations of this kind in the country, especially because of the great need for the spreading of cost accounting knowledge." He was more than prophetic. By the first annual convention of the National Association of Cost Accountants held in Atlantic City on September 23-25, 1920, 2,000 applications for membership had been received. This and the subsequent growth of the National Association of Accountants is amply testimony to the ability of Major J. Lee Nicholson, a man of strong convictions, to recognize the need for a national organization to promote cost accounting principles.

Major Nicholson died suddenly on November 2, 1924, in California. Even when ill this determined accounting original promoted management accounting. He had moved to California because of failing health but, instead, opened an industrial engineering consulting firm in Los Angeles and was in the process of opening another in San Francisco when he was fatally stricken.⁷

Today, the National Association of Accountants (the word Cost was dropped in 1957) continues to work, to develop information about management accounting, promote discussion, and exchange of ideas among all members, encourage acquaintanceship and fellowship among members and unite into such fellowship all persons interested in management accounting matters. Major Jerome Lee Nicholson—the Old Roman—as he was sometimes called, did accomplish what he set out to do, convince us all that "cost accounting is perhaps the most fundamental proposition in all manufacturing."

(Footnotes on Page 6)

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ports and gave ample opportunity to the managers to express themselves. Each report had two basic divisions: one for reporting money and money changes, one for reporting quantities and changes in quantities of assets: inventories, buildings, herds, and other assets. Shades of funds flow!

The length of the reports varied. Some department managers were the soul of brevity and their reports fill a page or two; others labored over their explanations and filled page after page.

The basic structure of the cash report was this: the cash balance at the start of the period, a report of receipts, a report of expenditures and the balance on hand at the end of the period. Inasmuch as receivables and payables were also reported, we see a rudimentary cash-accrual basis accounting. Revenues which had to be reported by source were, in reality, usually receipts from all sources: from sales of the departments, from gifts, and from other sources.

"Expenses," expenditures really, were divided into several categories: necessary and unnecessary. Primary operational costs of the department were the expenditures usually listed under "necessary" expenses, although we find that some capital costs—construction of new, or expansion of old, buildings, barns, and dams—are also listed under expenditures.

A second category of expenses, unnecessary expenses, contains many items which we would call "overhead" today. In this latter category we find the monks reporting some odd items which reflect, again, the social and cultural life of the times as well as some of the personal feelings of the monks. For instance, several monks reported as unnecessary expense the amounts paid to the abbot to help him defray his travel costs when he made his occasional visits. The attitude of those monks differs little from many twentieth century religious who feel that too much money and time is wasted on travel by the latter-day counterparts of the thirteenth century abbot. One monk reported as unnecessary what appears to have been a bribe paid to an ecclesiastical court, feeling perhaps, that the monks should have had a greater spirit of faith, a greater trust in God, to pray rather than pay for a favorable decision.

Other items listed as unnecessary were the cost of feeding Lady Eleanor's dogs (Eleanor of Castile who became the Queen of Edward III), entertainment of the king and/or members of the king's court, hospitality extended to peripatetic

clergy, hierarchy and other social dignitaries.
Taylor, Jerome Lee Nicholson

All departmental reports, varying as to quantity of detail, were sent to the abbey where the treasurer, or his surrogate, totaled the reports. Evidently the clerks in the sundry departments were not all equally well versed in arithmetic for their totals do not always equal the sum of the parts. The status of the abbey and its operations were reported to its "general chapter" (a body somewhat analogous to a board of directors in today's corporation) by the Abbey council (a group analogous to our present-day executive committee).

To sum up: the concepts of funds flow, accrual basis accounting, departmental operations, standard costs, a set of accounts, a uniform system, generally dictated (if not necessarily accepted) accounting principles, branch operation, even a crude double-entry system—all these existed, at least germinally, 700 years ago.

If you are gifted with patience, read *The Account Book of Beaulieu Abbey* published by the Royal Historical Society, London. It's tedious and difficult, written as it is in a colloquial Latin, an admixture of classical Latin, latinized Anglo-Saxon and Old French.

Even a rough translation of the book, however, exudes a charm and yields, as well, a touch of humor.

(Editor's Note: This paper was presented at the Southwestern Regional Meeting in Houston but was not included in the Proceedings.)

PROFILE — FOOTNOTES

¹This and many other facts contained herein were obtained from an obituary to Major Jerome Lee Nicholson, *The Pace Student* X, No. 2. (January 1925): 27-8.

²J. Lee Nicholson in his opening address to a conference in Buffalo, in 1919, that he called for the purpose of considering the feasibility of organizing an independent association of cost accountants.

³As quoted in: Sowell, Ellis Mast, *The Evolution of the Theories and Techniques of Standard Costs* (University: The University of Alabama Press, 1973), p. 74. "Review of J. Lee Nicholson's *Factory Organization and Costs*," *The Journal of Accountancy*, VIII (July 1909): 222.

⁴Chatfield, Michael, *A History of Accounting Thought*, Rev. ed., (N.Y.: Robert E. Krieger Publ. Co., 1977): 168.

⁵Major Jerome Lee Nicholson, *The Pace Student*.

⁶National Association of Cost Accountants, *Yearbook 1920*, (N.Y.: J. J. Little and Ives Co., 1921): 6.

⁷Major Jerome Lee Nicholson, *The Pace Student*.