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Robert Atkins

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SUPPLEMENTING THE WORK OF COST SYSTEM INSTALLATION

By ROBERT ATKINS

R. G. Rankin & Co., New York City

With increased knowledge on the subject of cost finding, there can be no doubt that the necessity of devising and installing cost systems will measure up to higher standards. This condition will tend towards the more profitable and efficient conduct of business, and the better realization of its knowledge on the subject of cost finding. The most notable of the many achievements in this regard is the dissemination of the principles of cost finding throughout the business world, the earlier its benefits will be obtained. Nowadays, converts to scientific methods of cost finding are not infrequently made of entire branches of industry and the advantages of a uniform system to all the manufacturers in a certain line of industry are at once apparent. In order that a general system shall prove of greatest value to all concerned, the supervision of its operation subsequent to its installation is a matter of prime consideration, and it is to an extension of this important phase of cost work that this article invites attention.

At this point it is sometimes encountered the first obstacle in the way of a mutually satisfactory termination of the engagement, viz., the non-inclusion in the agreement entered into of a clause whereby the system, once installed, is to be supervised for such a period of time as will insure its meeting the demands made upon it, however exacting these demands may be.

It is mutually in the interest of the firm having the system installed, an employee of the firm, and the author of the system to provide for a service supplementing the work of installation, and under no circumstances should work of this sort be undertaken without a provision being made therefor. Unless such supervisory or consulting service is embodied in the original agreement with the installation of the new system, the writer's experience is that the system installation is but half sold.

It is probable that readers of this article who have knowledge of the cost systems installed by some of the pioneers in this field, have seen cases in which the original systems have been entirely discarded because of a lack of knowledge on the part of those in charge of their operation, rather than because of any structural or basic faults in the system as originally designed and installed.

The failure of a cost system to properly function at some future time does not necessarily mean that it was either faultily designed or improperly installed. Modifications in manufacturing conditions, with no corresponding changes in the methods of cost ascertainment, have been known to cause a cost system to fail of its objective.

It should, therefore, always be the rule that any pronounced changes are made in the layout of plant, be it manufacturing, of cost of finding, recourse should be had to the firm which installed the system for an opinion as to whether or not any modifications should be made therein, in order that it may continue to produce the best results. It often occurs in such cases, that someone in the client's employ endeavors to change or revise the cost system without comprehending or understanding the particular system. The results are usually most unsatisfactory. The cost of this consulting service would ordinarily be comparatively small when compared with the experience that continued good results could be expected, either as then existing or as subsequently modified, would certainly more than warrant the cost.

There would also be an advantage in having this consulting service at such a time as it would frequently be found that the actual man's experience since installing the system now to be investigated, had qualified him to further extend its usefulness to the business, and, perhaps, reduce the amount of clerical help needed to satisfactorily operate it.

Recently, in making an investigation of the cost records of a long established manufacturing firm whose cost system as originally planned and installed, appeared to fully meet its requirements, it was found that notwithstanding the fact that Manuals of instruction had been issued for the guidance of the Cost and Other Departments, and the work of such departments had been subsequently reviewed and a supplemental report made thereon, that data relating to one of the main divisions of cost were incomplete in essential particulars.

In this case the lack of informative data was a distinct hardship, inasmuch as negotiations for additional capital were under way and the question of costs and profits were important factors to be considered before reaching a decision regarding the proposed financing.

At a recent meeting of the New York Chapter, one of the speakers very appropriately emphasized the fact that it is not enough to sell the system to the executives of the business, but that in getting the selling reached downward throughout the entire organization, in just that proportion would the greatest benefits be derived from its use.

Aptly put, the part of the workmen of the value of the Cost System to them as individuals, as well
as its value to the firm, as such, will
direct their attention to the need of
accuracy in the compilation of ori-
ginal data and meet with hearty re-
response, whereas if the same workmen
are not "sold" on the cost system they
will never display the same interest in
it, and the results will never approxi-
mate those obtained under the more
nearly ideal conditions.

The statistical data which may be
obtained from a well devised and
properly kept cost system is costs in
the points to be carefully worked out.
Too great stress cannot be laid upon
the value of properly prepared and
instructed data of this sort.

It is difficult to decide which of
the three main objects of a cost system,
viz: cost finding, reduction in costs
and increased efficiency is most
advanced through the medium of reli-
able statistics, but no cost account­
ant who values his reputation will
leave a well devised and properly
implemented system, even in skillful
hands, until he has prepared
therefrom such statistical data as he
thinks will be of assistance to the
executives in the profitable direction
of the business.

Where the plant is a large one, the
confidence of the workmen in the cost
system can be gained, and then further
interest in the system will be stimulated by the use of comparative statistics brought
three objects of a cost system which
contribute most to the failures
of the desirability of legislation of
cost systems.

There is a certain analogy between
a new cost system and a new machine
which has an obvious advantage in that
work has been in progress for some time
and the cost system has only minimum
possibilities at the same time. This
fact should not be overlooked and
the cost system, hereinbefore
considered, would have been known, and probably
will continue to give satisfactory
results.

In many plants the diversity of
product is well nigh appalling from a
cost standpoint and it requires both an
intensive and extensive study of all
phases of the manufacturing opera-
tions, and of the financial operations
as well, in order to decide upon the
most effective operation of the new
machine and no obstacle should be permitted to retard the operation of the cost system and least of all was that the installation had not been entirely
successful for a system expert to devise and
put in operation a general system
adapted to the individual cases, but unless such work was sub-
sequently and periodically reviewed, there could be no assurance that it
would continue to give satisfactory
results.

When an audit is made.

Having once installed a cost
system in such a case should properly be considered
as on the way of the efficient operation
of money on something unless it is
to be properly cared for so that its
efficiency is at least maintained.

There is another analogy which
seems even more appropriate and that
is the one between credit data and
cost data. Neither can serve to the
extent which it should unless it is
kept up to date. Only to the extent
that they reflect the latest facts per-
taining to their respective subjects are
they to be relied upon, and a periodi-
cal investigation and revision is the
surest way to insure this condition.

The writer was privileged to occupy
a vantage point in connection with a
plant which has an obvious advantage in that
work has been in progress for some time
and the cost system has only minimum
possibilities at the same time. This
fact should not be overlooked and
the cost system, hereinbefore
considered, would have been known, and probably
will continue to give satisfactory
results. A annual audit of their accounts. This
practice is growing and it is not im-
probable that it will some day be
made compulsory.

A brief experience in bankruptcy
cases will convince the most skeptical
of the desirability of legislation of
this sort.

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cases will convince the most skeptical
of the desirability of legislation of
this sort.

In many cases, however, the causes
which contribute most to the failures
will be found to have been a lack of
knowledge regarding costs, or a reli-
ance upon imperfectly designed or
carelessly operated cost and account-
ing systems.

Lack of system is not always the
reason for failure, but, other things
being equal, the firm whose cost
system in operation is better off
than one not so equipped.

Having once installed a cost
system, it should be investigated at
regular periods in the same manner as
the accounting system is examined
when an audit is made.

How frequently this should be done
will necessarily be a matter of opinion,
but it is suggested that once each
year, at the period of least activity in
the business department, a survey by an
outside cost accountant with a written
report thereon, would prove of in-
estimable value to any progressive
manufacturing concern.

Bankers will be found to view such
reports with special favor, and their
submission, along with audit reports
in application for credit, would greatly
further the action thereto. A survey by an
outside cost accountant with a written
report thereon, would prove of in-
estimable value to any progressive
manufacturing concern.

In order to meet changed manufac-
turing conditions, appropriate changes
must be made in the form of plans and
records which relate to the determina-
tion of costs.

Finally, to borrow an idea from a
celebrated Roman statesman, it should
be remembered that an adequate, ac-
curate and properly supervised cost
system is the corner-stone of an ef-
fective manufacturing organization.