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THE "FOURTH ELEMENT"

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Accounting instructors usually have taught that there are three elements of standard manufacturing costs: material, labor, and burden. Experience has created a fourth element—just what is it? For the corporation featuring high quality plastic moldings, decorated for special effects, it is scrap, or spoilage.

"Beauty and Precision" has been our motto. This motto has increased the beauty, eye-catching expectations which our decorative molded parts provide to the automotive, refrigeration and, radio and television industry, as well as packaging items. Our customers, using the parts for either esthetic appeal, or to provide features (calibration, lettering, and the like) needed for functioning, have a right to be most critical of appearance. For these reasons spoilage is our fourth element of cost.

In cost accounting, standards of material, labor, and burden serve only as a guide to actual manufacturing operations. The degree of variance determines the efficiency of plant operations, as well as the accuracy of judgment of the personnel deciding on the standard. Our fourth standard is spoilage, or scrap. The standard spoilage allowance on a new manufactured part is determined at the time of initial production. The process engineer, the production manager, and the cost accountant pool their knowledge of past experiences and actual operations to determine the percentage of estimate scrap in relation to number of produced parts. Being a custom molder, we have many different finished products. Since each part is only similar, not exactly like another part, the spoilage percentages used vary according to the number and types of finishing operations.

As we know, human judgment can err. On this assumption the allowance percentage sometimes is adjusted after a limited production. Constantly changing the allowance percentage would destroy the incentive to control scrap by cooperation of management and plant employees.

Actual scrap is costed out at the standard cost of material, spoilage, labor, and burden at the process in manufacturing where the spoilage is discovered. Since spoilage is an important element of our cost, we maintain daily reports, and have daily meetings with rep-

resentatives of the sales, engineering, production, and cost accounting departments. This method of handling spoilage gives better control because it provides a measuring stick to serve as a challenge to production.

Spoilage is frequently considered an account in the burden standard. A manufacturing corporation which makes products with a large number of rejects will gain by having spoilage set out instead of buried in the burden accounts.

Having standards for spoilage, by parts and process, makes it much simpler, and more accurate to allocate and control individual performance for manufactured parts.

Although some accountants might feel we are altering the basic rudiments of standard costs, the end results, and control appear to outweigh the means. In our plant, scrap control and actual performance have improved immensely over the years because usable tools and guides, such as standards, were available.

In summary, all controls are only as effective as the use to which they are applied. Top management, and all plant employees must work to one common goal—that being, a reasonable profit. If not, the business enterprise will not be able to continue operations over an extended period.

ANNUAL MEETING AMERICAN SOCIETY OF WOMEN ACCOUNTANTS

In accordance with ARTICLE X, Section 1, of the National By-Laws of the American Society of Women Accountants, notice is hereby provided that the 22nd Annual Meeting of the Society will be held in conjunction with that of the American Woman's Society of Certified Public Accountants at The Waldorf-Astoria, New York, New York, September 18-21, 1962. The Annual Business Meeting of the American Society of Women Accountants has been called for 2:30 p.m. on Wednesday, September 19, 1962.

Phyllis E. Peters
National Secretary, 1961-62