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Reducing production costs

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indispensable. Government control and supervision, particularly as exercised through the Bureau of Internal Revenue in relation to income and profits taxes, have allowed scarcely any business concern to neglect attention to accounting.

So the public accountant who is alive to the affairs of his day and time finds himself concerned with a great variety of engagements. These embrace periodical audits of all kinds of business organization, examinations of financial and kindred institutions as well as concerns where the substantiation of financial condition only is required, investigations into fiduciary integrity or some special phase of a concern's operations, activities, or relations,

preparation of tax returns or the accumulation of data for the prosecution of tax claims, consultations, devising and installing of accounting or of cost systems, preparation of budgets, making financial or accounting surveys and statistical studies, and giving court testimony.

Yet notwithstanding the growth and amplification which accountancy practice in this country has experienced, it appears that the surface has been scarcely more than scratched; that business concerns generally have failed to take advantage of a means which would contribute to a more scientific and successful conduct of their affairs. The class of the great unaudited bears witness to the fact.

Reducing Production Costs

C**O****S**T figures serve a variety of purposes. Primarily, perhaps, they constitute a basis for determining what the selling price should be in order to yield a satisfactory profit. Incidentally, they furnish a measurement of effective operation and information which may lead to the checking of waste. Their greatest value probably consists in making past performance serve as a basis for future guidance.

Just now there is much talk of reducing costs. British industry finds it the chief problem, we are told. But there is no reason why it should be the chief problem of Great Britain more than any other country largely engaged in manufacturing.

Prices are high the world over. The great capital destroying event which began in August, 1914, may be indicted as the cause. It is inconceivable that the whole world should aid and abet, whether willingly or otherwise, the casting of billions of dollars worth of the world's resources into a seething caldron of destruction without the resulting rise of prices.

There were many fortunes made on the way up to the peak. Costs, less so than in

normal times, except as they became the basis for government contracts, were frequently ignored without damaging effect because free competition was put out of business by the abnormal conditions which prevailed. If ever the rule of "charge what the traffic will bear" enjoyed complete operation it was during the upward pull to February, 1920.

But the inevitable has occurred. The peak has apparently been passed. The camel's back has been broken. The long-suffering public has refused longer to be a party to the rampage of high prices. A buyer's strike has decreed that prices shall come down.

The first step has taken place. Manufacturers, wholesalers, and retailers have courageously taken their losses. The workers, either through force of conditions or voluntarily, are arranging to stand their share, and education of the workers in at least one instance is responsible for a sane view of that group which led the members thereof to suggest a reduction in wages.

But the end is not yet. Even though wholesale commodity prices have fallen

from 25 to 35 per cent., there is still a long stretch to the level of pre-war prices. Whether or not this level will again be reached is of course in question. The public hopes the decline will continue. Economists think that it will. It is, therefore, generally admitted that industry is heading into a period where costs will be more vital than ever before. The competitive basis is being rapidly restored. Cost reduction will be an economic necessity rather than the result of an economic incentive.

Many associations of manufacturers are giving attention to uniform cost systems. Not long since, the International Association of Garment Manufacturers arranged through its Cost Committee to prepare and promulgate the instructions for installing a uniform cost system for the use of its members. The association has wisely laid out a program of education the purpose of which is to build up within the organizations of the various members a competent staff which will facilitate the introduction and operation of the system. A Central Cost Council directed by a permanent

salaried head, the creation of Regional Cost Councils, and the advisory assistance of a professional firm are all contemplated in the plan.

The value of this sort of thing is apparent. The printing industry bears evidence of the fact. It was among the pioneers in the movement. No one who has occasion to pay printers' bills doubts the service which the cost system has rendered to the printing trade. Printers' prices may be high, but when the printers are forced to stand a reduction they will know where and how much they can afford to allow without suffering an ultimate loss.

While the present tendency of manufacturers is toward association, and uniform systems of one kind or another are the natural consequence, the individual organization, whether in or out of an association, must give increasing thought to the matter of costs and their reduction. The present economic situation demands it as a matter of successful economic existence. The executive without accurate cost information is like a mariner without a compass.

Relation of Maintenance to Depreciation

GREAT difficulty seems to be experienced by the average person in deriving a true conception of depreciation, even from the most lucid definitions and explanations, because of the element of maintenance. It is difficult for him to understand, why, if a unit of equipment is maintained in a maximum state of operating service and efficiency, through repair and replacement of parts, provision should be made for depreciation. Such is the explanation frequently offered as to why no charge is made.

Depreciation has received probably more attention at the hands of authors than any other subject of accounting discussion. It

has been defined and redefined; explained, elucidated, and illustrated. Court cases have been cited and discussed. But apparently we are scarcely nearer to a clear conception than before.

Depreciation has been substantially defined as "the decrease in the value of an asset due to deterioration through lapse of time, wear and tear, obsolescence, or change of ownership." No reference, it will be noted, is made to maintenance. Neither deterioration, obsolescence, nor change of ownership may be construed as such. But unfortunately many persons associate wear and tear with the defections in operation which are corrected by repairs