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is possible. And where estimates of the future must be made, such estimate should be based upon known facts as to present conditions, and as to the results of past efforts.

For some the lesson will not have been sufficiently plain and the old "rule of thumb" methods will continue. That persons will be able to build credits into the

millions of dollars without presenting certified statements, however, is hardly to be looked for again. Such credits will be established not upon one's estimate of what he has, nor upon a certification of what his books say, but upon impartial competent opinion expressed after careful investigation, and substantiated by figures verified and presented.

Analyzing Cost of Manufacture and Cost of Goods Sold

THE following article is from a contributor who prefers to remain anonymous. Modesty or a desire to dodge responsibility are the motives which usually prompt an author to hide behind the cloak of anonymity. In the present case we are sure it is modesty. The essay bears too well the ear-marks of an accountant who has suffered. It sounds the plaintive note of one who has been the victim of working papers found wanting in the day of judgment. It suggests not only more careful attention to the matter in practice but some hard study on the part of every accountant who doesn't know the "cost of goods sold" section of the income statement forwards, backwards, and up-side-down.

"One of the requirements of engagements involving the preparation of federal tax returns for manufacturing companies is an analysis of cost of goods sold to show materials purchased or consumed, labor, manufacturing expense—in reasonable detail, and inventories at the beginning and end.

"Judging from the incompleteness of the working papers, the importance of this analysis is underestimated by many accountants while others become confused in their efforts to obtain the desired information.

"It is not uncommon for accountants to report that this information cannot be

obtained because costs are kept by units or classes of production. In other instances where the books show estimated costs, sub-divided as between material, labor and expense, these estimated figures are reported. And we have known accountants to sub-divide the total cost of goods sold into the three elements on a percentage basis ascertained from cost reports. Some accountants who are not familiar with the tax forms, have reported that cost of goods sold could not be analyzed to show material, labor and expense, because these elements could not be segregated in the inventories at the beginning and end.

"An audit of a manufacturing company which does not embrace an examination of cost of manufacture, and cost of goods sold, whether required for tax purposes or not, overlooks what is usually one of the most important, if not the most important, items in an audit.

"It is obviously inconsistent to analyze selling and administrative expenses in great detail but to neglect to analyze much larger expenditures representing the cost of manufacture and cost of goods sold.

"The government's purpose in requiring the information called for by the tax returns is to ascertain whether the charges to cost of manufacture and cost of goods sold, are proper from a tax standpoint. It should hardly be necessary to say that

the accountant should be equally anxious to verify the legitimacy of these charges from an accounting and auditing standpoint.

"Usually when the accountant reports cost of goods sold without giving any supporting detail, it will be found that the client has a cost system and the trial balance at the end of any period, as far as manufacturing costs are concerned, shows only inventories and cost of goods sold. In such cases, the best procedure usually is to analyze the cost of goods sold account first and then work back from this analysis through finished goods, work in process,

and as many other accounts as may be necessary. Finally, the various analyses should be consolidated and contra items eliminated, the final column showing the details of cost of goods sold.

"The method of obtaining the desired information will of course vary with the methods of accounting, but in all cases the working papers should include an analysis of cost of manufacture in reasonable detail as to material, labor, and expense, and the relation between cost of manufacture, cost of goods sold, and inventory of manufactured goods should be established."

Commissaires Des Comptes

PARIS, May 10, 1921.

EXECUTIVE OFFICES:

From time to time we have received communications from our practice offices which would indicate that their understanding of the functions of "Commissaires des Comptes" of a company in France is that they correspond to those of auditors in America.

We believe that an explanation of their functions might be of interest and possible value to both you and our clients.

"Commissaires des Comptes" are appointed by a company at the constitutive general meeting, and thereafter at the yearly general meetings.

They can be of French or foreign nationality and may be shareholders in the company or not.

Their duties are to make a report to the shareholders for the yearly general meeting on the financial situation of the company, submitting a balance sheet, income, and profit and loss account. They are responsible to both shareholders and creditors when their reports have not been genuine.

The above shows the functions and re-

sponsibility of the "Commissaires des Comptes" as provided by the law. However, in reality the examinations made by "Commissaires des Comptes," as a rule, are perfunctory and do not include the analyses of the accounts made in an ordinary audit. It is our understanding that Commissaires, unless it is especially provided for, have the right to examine the books only during the quarter prior to the time fixed in the articles of association for the yearly meeting.

While the intention of the law is good, the actual examinations made by the "Commissaires des Comptes" are, as stated above, perfunctory and do not in any way replace an audit. The fees paid are very small and only one or two days are required, as a rule, for the examination, in which time you will realize that a great amount of work cannot be accomplished.

It has been our experience to be requested by French branches of American companies to sign their balance sheets after making examination such as is usually made by "Commissaires des Comptes"; and they were surprised when we informed them that we could not furnish a certificate