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Clerical and Accounting Waste in Industry

BY FREDERICK G. LARAMEE

In these days of public works projects that are seemingly calculated to encourage every form of economic waste, it may perhaps be considered anachronistic, if not actually anti-social, to remind the profession of the inestimable service that can be rendered to industry by the elimination of clerical and accounting waste.

I venture to say that at least 20 per cent. of the expense incurred in this nonproductive but essential element of industry is as completely wasted in unnecessary duplications of effort, inappropriate or antiquated methods of procedure and improper forms of organization as though it were incurred in any one of the numerous occupations that have now come to be known as boondoggling. This statement may seem incredible to the accountant of limited experience, but to one who is familiar with the inner workings of industrial organizations which, like Topsy, just grew, or, worse yet, were, as the result of a merger, just thrown together, will doubtless consider my estimate conservative.

I recall particularly a certain nationally known manufacturer of electrical and mechanical devices whose half dozen more or less related products yielded him, over a period of years, a very moderate profit. Although these products passed through essentially the same manufacturing processes, his organization was segregated into six self-contained departments that functioned within a few city blocks of each other. These departments were, in fact, so self-contained that had they each been provided with a board of directors, a set of officers and a charter they could have functioned as separately as though they had been in different parts of the world. In short, each department had not only its own peculiar methods of operation, but also its own manager and superintendent and its own sales, engineering, drafting, production and manufacturing organizations. Also, the operating accounts of the company were so segregated as to reflect, as nearly as possible, the detailed operating results of each department. Some of the departments "sold" their products to the other departments at a "profit," and the company paid a bonus to at least one department manager on these so-called profits.

The cost system, as it was designated, had come down from an

earlier generation. It did not provide for the costing either of individual operations or of specific manufacturing orders, but undertook, merely for estimating purposes, to maintain the current purchase price of certain basic commodities. Monthly departmental profits or losses had been determined at some previous time by the application of a percentage to the departmental sales. For example, if it had been found from the annual profit-and-loss statement that a department's cost of sales for the previous year had been 63 per cent. of its sales, that percentage, modified by "judgment," was used in calculating the department's monthly gross profits or losses during the following year. This method of determining the monthly profits or losses had proved so misleading and had been so ridiculed by the various department managers that, as indicated above, it had previously been abandoned.

As a result of the confusion, friction and economic waste that this accounting scheme and the elaborate organization had created, a firm of public accountants and engineers was engaged to make a careful survey of the company's operations and to submit a report and recommendations on their findings. It would, of course, be too stupendous a task to present here even an outline of that survey and of the consequent recommendations. I shall, therefore, present only the results of the recommendations—results which, though attained, in many cases, long after the accountants and engineers had terminated their engagement, yet may logically be attributed to them.

First, the organization was simplified, which means that the six departments, with their managers, superintendents and respective staffs of engineers, draftsmen, production managers, etc., were replaced by one manager, one superintendent, one chief engineer, one chief draftsman, one production manager, etc., and the various technical and clerical duties that had been performed under the former executives were absorbed by the new organization, the superfluous personnel, including executives, technicians and clerks, being retained, so far as possible, in subordinate positions.

Then the inventories of the various departments were combined, the accounting classifications were revised, a real cost system was installed, classified sales and cost-of-sales statements were obtained mechanically, and accurate monthly profit-and-loss statements were made available.

It is hardly necessary to add that, as a result of these revolutionary changes, the company's profits, even with the same volume of sales, increased enormously.

Let me present another illustration.

Some years ago a large and well-known bakery in an eastern city did an extensive business exclusively in cookies and cakes, but it had no means of determining the individual costs of its numerous varieties of product. In fact, in spite of both the clerical and managerial effort that had been expended in making cost estimates, test runs and occasional cost verifications there had been many discrepancies between the anticipated and the realized profits and not a few disputes between the president and the superintendent of the company as to the margin of profit that certain products ought to yield.

In consequence of these discrepancies and disputes, the accounting and engineering firm on whose staff I was employed was engaged to make a cost installation. Despite the superintendent's ill-concealed opposition, which was of the most officious kind, a simple method of costing by varieties of goods was soon installed; and, much to the discomfiture of the superintendent, its revelations only confirmed the president's worst fears. It showed, for example, that the cost of soda biscuits, a highly competitive staple, exceeded the price at which they could be sold; and this disclosure, according to the president, was entirely logical, because the company's baking ovens were not especially designed to handle this particular product. After the accountant's figures had been carefully verified, the production of soda biscuits was discontinued. For competitive reasons, however, this item could not be dropped from the sales list, so it was purchased for resale from a less informed competitor.

The cost system also revealed that the margin of profit on certain other varieties of goods was so small that many formulas had to be changed, a number of selling prices had to be increased and a few of the less popular lines had to be discontinued.

Two or three years later, the accountant who had installed this cost system was, by special request, assigned the task of modernizing the same client's clerical and general accounting methods, a modernization that had become necessary, by the way, to keep pace with the client's increased volume of business. Upon the accountant's arrival at the bakery, the president greeted him with these words: "Young man, I want you to know that we have

gotten back many times over the money we paid your company for the installation of that cost system.”

But lest it be assumed from this bit of praise that a constructive accountant's life is one round of pleasant assignments, I hasten to add that he not infrequently is assigned the task of revamping the accounting and clerical systems of a company in which the resentment to his presence by a faction of the management is so great that, regardless of his ability or the need of his services, he is lucky, indeed, if his efforts are not doomed to failure from the start.

I have in mind an assignment that vividly illustrates the point.

An accountant was assigned to a certain organization at the instance of an influential director who was doubtful of the efficiency with which the organization was managed and suspicious of the contents of its financial reports. In spite of the accountant's conciliatory attitude he soon found himself in complete disagreement with the management. Practically every recommendation that he made was either ignored or openly approved and secretly thwarted. Nevertheless, with the coöperation of certain employees who welcomed the advent of new ideas, he finally succeeded in introducing a modern accounting classification, centralized accounting and up-to-date methods of billing, stores-keeping and costing. He was also able to improve the accuracy of the financial reports. The savings which resulted from this assignment, although, of course, never appreciated by the recalcitrant client, made possible the handling of a 35 per cent. increase in business with no addition to the clerical and accounting force.

Although I hesitate to burden my readers with the intimate details of a constructive accountant's work, I nevertheless can not refrain from mentioning a few examples of the many little ways in which substantial savings in clerical and accounting expense have been effected.

The posting machine operators in a certain bookkeeping department had been posting invoice numbers for reference purposes for many years. Their routine, briefly, was as follows:

1. Rearrange in alphabetical order the invoices received from the billing department in numerical order.
2. Post the date, serial number, and amount of each invoice.
3. Rearrange the posted invoices numerically and file in that order.

When the accountant asked the head operator why she thought it necessary to post a reference number and then to rearrange thousands of invoices in numerical order before filing each month, and why, in fact, it was not just as satisfactory and much easier to omit the reference number, to use the date for reference purposes, and then to file the invoices alphabetically, he was met with a look that could have been intended only to remind him of the inferior intelligence of the male. Nevertheless, he clung tenaciously to his point, even though he found it necessary in the end to obtain from the local representative of the posting machine in service a signed statement to the effect that the use of a reference number in the case in question was totally unnecessary. And as the months passed without encountering the predicted confusion, this statement proved to be true.

But, as old superstitions linger, so also do antiquated accounting and clerical methods persist long after more efficient ones have been devised and given the stamp of approval. Consequently, the accountant was not at all surprised to find the same penchant for reference numbers in the stores-keeping department. There, day after day, week after week, month after month, and year after year for well nigh thirty years, the clerks had posted such reference numbers as B17*7Y604C-2 in recording the disbursement of items that cost as little as 15 cents a hundred. Nor would they discontinue this useless practice willingly and without a mental struggle. It had become a rite, so to speak, that even ridicule could not stop.

Then, in the cost department the accountant found that the material, labor, burden and total cost of each manufactured part, regardless of how insignificant that part might be, was not only recorded separately, but was separately extended when carried into the cost of the assembled product. For example, he found the cost of a 13-cent manufactured part recorded as material, 3 cents; labor, 5 cents; burden, 5 cents; total, 13 cents; so that when 75 of these parts were drawn from stock to be assembled into a finished article, a clerk was obliged to multiply each of these four cost figures by 75 instead of multiplying only the total figure by that number, as he would do if the part had been purchased. The object of this clerical effort was to maintain, for no practical purpose, a complete segregation of material, labor and burden costs throughout a specification covering a product whose total cost might run as high as \$5,000. Although this method of costing

obviously multiplied the clerical work of the cost department by three and proved so burdensome that the department had practically ceased to function, it was discontinued with many misgivings on the part of the management.

I might mention, as a minor instance of waste elimination, the case of the accountant who saved another large organization \$600 a year merely by reducing the size of its three-part material requisition, the idea having been suggested to him by the reduction in the size of the federal currency. I might also mention that the centralization of the same organization's billing at the home office resulted in the elimination of fourteen billing machines and in greatly improved service to its customers.

Clerical and accounting waste is so common that it escapes the notice even of those whose sole duty it is to combat it. In fact, it seems to mock those most who deny acquaintance with it. But herein lies the opportunity of the certified accountant. Having, admittedly, a thorough knowledge of his profession, which presupposes the ability to visualize every clerical detail that affects a balance-sheet, he needs only, in entering this field, to cultivate his powers of observation, to strive always, in spite of preconceptions, to maintain an open mind, to acquire a felicity of expression that will enable him to present his ideas intelligently and to develop sufficient firmness to overcome the opposition that he is sure to meet. With these qualifications, he, more than any one else, is ideally fitted to attack this ever-present problem. Let him, therefore, miss no opportunity to do so. It will be no easy task, but it will be sure to bring to him the reward that invariably comes to those who render an invaluable service.