

9-1917

Correspondence: Cost Records and Profits

Robert Atkins

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

Recommended Citation

Atkins, Robert (1917) "Correspondence: Cost Records and Profits," *Journal of Accountancy*. Vol. 24: Iss. 3, Article 10.

Available at: <https://egrove.olemiss.edu/jofa/vol24/iss3/10>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Correspondence

Where a claim is made that an industry should be brought within this concession, the board of inland revenue will be prepared to receive representations and to consider evidence as to the existence of a material body of such practice in the industry and as to the character of the stocks to which it is claimed the method should be applied, with a view to securing the uniform treatment of all members of the industry.

The balance of stock above the minimum quantity in cases falling under this modification of the general principle is to be treated as in (1).

3. Profits derived from sales which reduce stock below the particular minimum or constant quantity adopted for any business are not the less trading profits. Where, however, a raw material is associated with plant in a manufacturing process (e.g., metal kept to a constant level in galvanizing baths), the board of inland revenue will consider claim under section 40 (3) of the finance (No. 2) act, 1915, that it is akin to a capital asset, like plant, which has been exceptionally depreciated (by depletion) or of which the renewal has been postponed.

4. Where in an industry or as respects a class of stock to which the foregoing (2) does not apply, the owner of a business has taken a quantity of stock at a base price, the stock will fall to be valued during the periods of liability at cost or market value, whichever is the lower, but from the final valuation (on that basis) there will be allowed a deduction of a sum (in pounds sterling) equal to the original difference (at the end of the standard period) between the valuation on the base method and a valuation on the cost or market value method. Alternatively the first stock valuation may be revised and put upon the general basis of cost or market value when the modification outlined in (1) will apply.

Correspondence

Cost Records and Profits

Editor, The Journal of Accountancy:

SIR: A recent editorial in the *Saturday Evening Post*, closed with the following statement: "We should say the first step in preparing for after-the-war conditions would be for every American manufacturer and merchant, no matter how big or how little, to instal a really adequate cost-accounting system—if he has not one already—and study it carefully, in order to detect his pile of deadwood."

The wisdom of this conclusion is unquestioned; but the manner in which it can be convincingly presented to those who would profit most by the adoption of correct cost-methods is difficult. The federal trade commission is probably doing more effective work in pointing out the need for better business methods than any other single agency now at work; and its helpfulness in matters of this kind is becoming generally recognized.

Cost-accounting is a term that is used in a restrictive sense, to refer to factory or production costs; and this is the sense in which it is, undoubtedly, most frequently used. In this letter, however, the term is used in its broader sense to apply to all expenditures in connection with a business.

The Journal of Accountancy

The record of failures throughout the country is not a record of the "conquest of the preventable"—so many failures having been avoidable, if a full appreciation of the value of cost-records could have been realized. In the absence of this knowledge, it is impossible to make satisfactory selling prices. If the articles manufactured and sold are approximately of equal quantity and value, it is probably fair to state (if a profit for any fiscal period be assumed) that each class of items contributed its pro rata share. When, on the other hand, there is much disparity in the output of each class, it is unfair to assume that a profit has been realized on each of the classes, let alone that the per cent. of profit on each class has been uniform. To determine the facts, it is necessary that careful records should have been kept showing to what extent the various classes have been profitable, or otherwise. A firm that omits to keep such records may succeed for a time, but in the long run it is doomed to failure.

The selection of a cost expert, fitted to serve a particular business, is not always an easy task. In this field, as in others, there are those who make extravagant claims that they cannot fulfill. Great care, therefore, should be exercised in selecting for this service a man of known ability and character, in order that the results may be entirely satisfactory.

The information supplied by a well-devised and carefully kept cost system furnishes the data for efficiency work of the highest type. Much so-called efficiency work is in reality cost finding of the better sort.

Investors in the stocks of corporations, which are consolidations of companies and have been operated for several years, might well demand information on the very important subject of cost-records. It is now quite generally the practice to state in the prospectus of such corporations that the books will be audited, but the more important matter—that of arriving at the proper cost of production—is ignored.

One of the considerations in granting credit is the fact that the books of the firm are regularly audited by reputable accountants. Here, again, the fact as to whether or not a system of cost-records has been installed and is in constant use should be a matter to be reported as furnishing an additional probability of the successful conduct of the enterprise.

Under the conditions which will confront American business men and financiers after the end of the war, the question of compelling the general adoption of cost-records may well be given serious consideration. Such a requirement would ultimately tend to increase profits and minimize the number of honest failures.

Yours truly,

New York.

ROBERT ATKINS.