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# Cooperation and Cost control

John W. Robinson

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**NATIONAL ASSOCIATION  
of  
COST ACCOUNTANTS**



**Official Publications**

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**Vol. II**

**MAY, 1921**

**No. 12**

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**Coöperation and Cost  
Control**

**BUSH TERMINAL BUILDING  
130 WEST 42nd STREET, NEW YORK**

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Coöperation and Cost Control

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BUSH TERMINAL BUILDING  
130 WEST 42ND STREET, NEW YORK CITY

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# National Association of Cost Accountants

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## COÖPERATION AND COST CONTROL\*

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I do not know who introduced the term Control Accounts into our accounting vocabulary, but I think that it has been the source of quite a little misunderstanding between accountants and operating men. Operating men—managers, superintendents and foremen, are likely to resent anything that has the appearance of an attempted exercise of authority over them by accountants, and too many cost accountants, through thoughtlessness or lack of judgment, have invited the hostility of their operating associates in business.

In this paper I wish to emphasize what seems to me the most important aspect of cost control—the human side. It is absolutely essential that there be constant coöperation between the cost department and the operating departments if the important business of obtaining dependable cost figures is to be carried on effectively. What is *control* of cost accounting? Cost accounts are not under control when the cost figures obtained are merely balanced, or matched, in their money totals, with the control, or aggregate accounts in the main books of account. The figures must also be based upon accurate records of production, of the labor spent on each separate lot of product, of the use of equipment and supplies, and upon such other information, regarding the performance of the work done in the factory, as may be necessary in order to record and fully explain the production costs. To say that cost accounts are under control merely because the wages charged to jobs or processes agree in money total with the factory payroll, because the total value of material and supplies drawn from the stock rooms appears to have been charged out to the various jobs or processes going on, and because all other productive expenditures have been somewhere charged into the manufacturing accounts, is as absurd as it would be to consider an adding machine list of balances in a ledger as a satisfactory and complete trial balance.

When we speak of *control* of cost accounting, what we really mean is knowledge of the cost situation, not only knowledge that all expenditures have been accounted for, but that they have been

\*This article is based upon a paper read before the New York Chapter.

properly and correctly accounted for. When the central office does not have this complete knowledge, it does not have control of cost accounting although its control accounts may balance to perfection.

Inasmuch as full cost control cannot be exercised through control accounts, but must be based upon coöperation between cost accountants and the operating men, the necessity for a working understanding between these departments is too obvious to call for comment.

What happens where such coöperation does not exist? Suppose, for example, that the cost accountant is one who believes that cost accounts are kept solely for the benefit of the president and perhaps one or two other officials of the company. He takes infinite pains to prepare elaborate cost reports, well-arranged, beautifully typed, and strictly in balance with the books of account, which he places at regular intervals on the president's desk marked "confidential." The president may take these figures and use them as the basis for criticising the work of the manufacturing manager or the superintendent, although neither of them has any previous knowledge of the figures upon which his conclusions are based. As a matter of fact, the figures in such a case were probably compiled without even consulting the men whose work was most closely affected by them. Meeting criticisms of his superior officer, based on figures prepared by a secretive cost accountant, is not likely to fill the operating man's heart with a great love for the cost man, and—the war is on!

The correctness of cost accounts depends to the largest extent upon the dependability of the original sources of cost information. The accountant must usually depend on someone in the factory, or someone out on the construction job, to supply him promptly and accurately with the figures which constitute the basis of his accounts. The records of materials and supplies used come from the stock room, which, usually, is in the factory. The records of time spent by individual workers on the various jobs or processes must be made where the work is performed. While the records of some overhead expenses, such as rent, salaries, insurance, etc., originate in the office, many other expenses are incurred in the factory and the proper distribution is known only to those in charge of the manufacturing operations. All of this important information must come from individuals in the factory.

Obviously the cost accountant cannot control all of these men, though he may, through the backing of the president or other officials of the company, be able to compel them to supply him with figures of some kind. He may require the operating men to file daily or weekly reports, supposedly showing what part of the payroll should be charged to each job or process. He

may obtain control of the stock room and require a form of material ticket or requisition to be filled out and signed every time material is drawn from stock. Foremen may be ordered to report progress on work being done. The cost accountant may even have his own factory clerks, supplying him with daily reports of work done, work spoiled, time spent on jobs or processes, and so forth. But, when all of this has been effected; when the cost accountant has a steady stream of material tickets coming into his office which without doubt represent the amount of materials and supplies used; when he has obtained labor reports, time tickets, or whatever they may be called, which, when figured out and totalled, agree with the total wages paid and, when he has, from various sources, obtained details of overhead expense, and has satisfactorily distributed this expense by his own favorite method to the cost of work done, what result has he attained?

He has some figures which he may work up to show unit costs in labor, material and overhead expense, on various products.

Are these figures correct? The cost accountant knows what materials were used, what wages were paid, what expenses were incurred, but for information as to where, when, and why these materials were used, and on what jobs or processes the workmen put in their time, he has had to rely, in the main, on reports made out by foremen or by workmen.

Were these reports correct?

The cost accountant can compare one month's figures with another, but does he know that the figures were correct in the month which he is using as a basis for comparison?

Suppose a comparison shows that current costs differ in the factor of material used from those in some previous period, or suppose they differ in labor cost per unit—then the cost accountant is thrown back upon the operating men for an explanation. In the first place he depends upon these men for his original information, then he must depend upon them again for explanation of the results which his assembled figures indicate.

Apparently the operating men have quite as much *control* over the cost situation as has the cost accountant.

I think the trouble lies in that word *control*. It is a word that smacks of Prussianism. The central office, or the cost accountant, can get *cost figures* by controlling the cost situation from start to finish, but if real, reliable, informative *costs* are to be obtained, there must be not *control* but *coöperation*—not control of operating men, in any phase of their activities, by accountants, but mutual helpfulness between the office and the factory.

The cost accountant must sell his cost accounting to the factory men. He must show them its uses, and explain the methods



by which he arrives at his results. He should keep his figures up to date, so that he may be in a position to inform the operating men promptly of any significant fluctuations, in order that corrective steps may be taken without delay when anything is going wrong.

A cost accountant may have absolute control of the stock rooms; he may have everything under lock and key and in charge of stock clerks reporting directly to him; he may have control of payrolls and he may have control of production or shop clerks but if he has not the sympathy and coöperation of the operating management, he and his clerks will be strangers in a hostile country, so far as the factory is concerned, and the operating men will give him as little information as possible.

The cost accountant is largely dependent upon the manufacturing men for explanations of cost fluctuations, and what kind of a cost accountant is he who cannot fully explain his figures?

For instance it happens in a certain factory that atmospheric conditions have a sensible effect on manufacturing costs. When there is much moisture in the air certain chemicals are used in very different proportions from those used in dry weather. The cost accountant in this case is acquainted with these conditions, because he is in close touch with the factory management, and as a result he is able to give intelligent explanations of fluctuations in costs. A cost accountant out of sympathy with the works manager, under such conditions might have to confess that he was merely a sort of human bookkeeping machine, automatically and unintelligently producing masses of figures the significance of which he did not understand himself.

It is unfortunately true that some corporation presidents and higher officials also have the idea that cost figures are useful only as a means of gauging the general efficiency of operating men, as a means of arriving at profits on sales, or as a basis for estimating costs on future business. They believe that it is necessary or unwise to give any detailed information regarding manufacturing costs to their operating managers or foremen.

To my mind paying a factory manager or a superintendent to take charge of manufacturing, and then refusing to provide him with the details of his manufacturing costs, is like calling in a doctor and then refusing to let him take your temperature, feel your pulse or look at your tongue.

In such case the cost accountant has another selling job on his hands—that of selling the higher official the idea of giving his operating men a chance to make good by knowing regularly, through cost figures, the relative efficiency of different processes and methods, different machines, different materials, and different operators. The cost accountant should first sell his services to the manufacturing man, and then sell them to the higher officials.

Too many cost accountants sell themselves to the president, or comptroller, or auditor, and entirely neglect to sell themselves and their cost accounting to the manufacturing men. Once the interest and coöperation of the factory men, the superintendents, and the foremen have been secured the rest is mainly a matter of bookkeeping. But if the cost man neglects to enlist that coöperation, and arouses their antagonism, his cost accounts will soon become dead and mechanical things, not likely to be of much practical value to the business, or to reflect much credit on the cost accountant who has compiled them.

So far I have considered only the small plant with its central accounts kept at or near the factory. With the large modern combinations of businesses concerned in the manufacture or distribution of products of the same general nature, the question of centralization or decentralization of accounting has become quite an important one. Often the general or financial accounts of one of these large combinations are kept in some central office, perhaps in New York. Sometimes even the cost accounts are compiled in the central office for factories situated in distant states.

Possibly there are some advantages in keeping the manufacturing cost accounts of a Michigan plant in an office in New York City, but I can think of only two reasons, both bad ones, for doing business that way. It may be that the proprietors of the business do not want the manager or the superintendent of the distant plant to know all the details of his manufacturing costs, in which case they are depriving their operating man of information which might enable him to carry on his manufacturing more efficiently, or it may be that the central office plans to load its manufacturing costs with general charges in order to make them appear high and then to use these high cost figures, so-called, as a lash to goad the operating man to further efforts. The latter plan always fails in the end. The operating man soon suspects what is being done and then either quits his job, sulks, or begins to practice deception.

While the accounts of a concern having a number of scattered plants must, of course, be brought together finally in some central office, the cost accounts should be kept at the individual plant offices and there worked up into the final manufacturing cost figures. The figures are most quickly available at their source, that is at the factory itself, and that coöperation between the cost department and the factory which is so essential to the success of any cost system, can only be obtained by a plant cost accountant who is familiar with his own manufacturing conditions and who knows intimately his sources of information. More important still, cost figures are chiefly valuable to the factory men, in enabling them to effect economies, to check losses and wastes, and to better their own efficiency and usefulness to their em-

ployers. The value of such figures to the officials at a distant central office, in enabling them to make comparisons between one factory and another, and between costs in different periods, while not to be ignored, is not so direct nor so potent.

It is not difficult to arrange the accounting of a large concern with a number of branch factories, in such a way as to make each factory a self-contained unit in so far as its cost accounting is concerned, with control accounts of Materials and Supplies, Work in Process, and Finished Stock, carried in the central office.

One of the largest manufacturing concerns in the country, having a number of scattered plants, has gone even further than this, with most successful results. In this case each branch factory is given a certain amount of capital, in the form of plant, equipment, materials and working capital. The branch factory opens its own set of books, keeps all of the necessary cost accounts, and renders monthly financial and cost statements.

Under this plan the factory manager feels that he has direct responsibility for everything in his own plant, including the keeping of correct and up-to-date accounts and cost figures. He has access to his own cost figures day by day. He knows how they are compiled and he knows the men who make them up. The plant cost accountants are intimately acquainted with the manufacturing operations and processes in their own plants and therefore fully understand the significance of the cost figures which they obtain. Complete coöperation is here established with most beneficial results to the company.

At the same time an efficient control of the situation is maintained by the central office, through the establishment of standard rules of accounting which, while leaving the branch factories free to handle their detailed accounts in the manner best suited to each individual business, insure the following of correct accounting principles in such important matters as the division of expenditures between capital and operating accounts, the provision of adequate depreciation reserves, and so forth. Further insurance against improper accounting is provided by the close examination of branch financial and cost statements at the central office, and by the regular inspection of branch accounts by experienced traveling auditors.

The branch financial statements are combined monthly in the central office. This system of decentralization of accounting, without sacrifice of effective centralized control, has been in use for several years. It has satisfied every need of the central office, inspired branch managers with faith in their cost figures, and has substituted coöperation for the almost traditional antagonism between cost accountants and operating men.

Coöperation is the life of cost accounting.

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