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# COST ACCOUNTING—1957 A. D.

By LEE ELLA COSTELLO, C.P.A., Tulsa Chapter, ASWA\*

At the turn of the 20th Century, Cost Accounting was purely an embryo, and, like every great idea and newly conceived theory, had a long, hard struggle for recognition. The principles of cost accounting, as understood today, are not inherent in the general concept of record keeping but are developed and adapted to suit the peculiar needs of each individual business.

Business is supported and operated by the use of assets. Management must know in advance what the approximate cost is going to be in the use of assets, and it is the knowledge and the tools of the cost accountant which give management such vital information. Jordan and Harris in their *Cost Accounting-Principles and Practice*, state: "The first object of cost accounting is to provide data for the control of business." This is the principle, and practice has proven its truth.

Therefore, the Cost Accountant is first an accountant, then a specialist. He is fitted by education, industry and experience to analyze, analyze and then analyze. He also is able to view his problems as he would panoramic scenery; he sees the forest as well as the trees. He knows that he must choose alternatives and must not allow various interpretations to attach themselves like leeches to his particular system. He uses all available information as an artist uses his brushes, or as an attorney uses evidence, to make his picture exact and to arrive at the truth. He can then be critic, judge and jury upon whom management at all levels can depend absolutely. He is a man or woman who keeps himself up to date and is constantly alert to changing times and fluctuating prices. He will change his mind when he proves to himself that his conclusions are fallacious. He knows instantly, for example, the effect of general wage increases not only in his own plant, but also in the plants of his suppliers and competitors.

But more than this is demanded of the cost accountant. He must have the personality, self-confidence, integrity and gift of leadership to persuade businessmen that he knows what he is talking about.

Until taxes become a cost to be reckoned with (after World War I), there was little exchange of ideas on matters of accounting principles. Banks and other gran-

tors of credit relied upon the liquidity or availability of the debtor's assets. They were not concerned with whether a business had been making money or was going to make money.

As business grew, it became necessary for credit to be extended in many cases on prospects and the availability of funds to pay indebtedness when due as well as on actual tangibles and intangibles. This situation gave Cost Accounting its growth into adolescence. The cost accountant began to project his figures into the future, devise budgets and estimate the utilization and ultimate cost of equipment and other capital investments.

The various systems were born, such as process, standard, estimated, etc., not forgetting one often employed even today—the "guess at it" system. Good guesses were the inspiration for many proven theories. The analytical accountant, wanting to know how and why the practical business man could make such good guesses, proceeded to reduce guesses to a provable process and science.

Contributing to the adolescence of Cost Accounting was the fast growing investment public. Few corporate securities were owned by the general public prior to World War I. Estimates of sales could be made, but it took the public little time to discover the difference between estimates of sales and estimates of profits out of which dividends could be paid.

Cost Accounting reached adulthood when the buying demands of the public became the mother of mass production. It became necessary for the cost department to be not only a source of information called for by management, but also the initiator of statistics, the need for which management could not foresee. The techniques you employ today were conceived, norms were discovered and the mechanics were devised to compute ultimate unit cost with reasonable accuracy and to set sales prices with assurance of a profit.

Cost Accounting grew up and the Cost Accountant became a professional man. It reached a new height with the advent of World War II. War brought a tremendous acceleration of production, increased profits and the stupendous tax structure, still with us, which passes its headaches around from

the janitor to the president. With the uncertainty of taxes (the final amount, that is) and its resultant terrific impact on business, the cost accountant gets headaches, writer's cramp, backache, ulcers, and other assorted ailments.

The challenge had to be met. The cost accountant made a completely new evaluation of his theories and practices and came up with the answers upon which business, large and small can rely without fear of material error. It makes no difference whether the cost accounts are an integral part of the accounting records or are maintained separately. You have projected your function beyond accounting for manufacturing and job costs and have shown management that you have the tools and the "know how" to apply and distribute every manner of expense by equitable methods. All cost departments do not carry their work so far that the sales department can say, "This article cost us 90¢—let's try to sell it for a dollar and come up with a net profit of 10%." But those that don't, know how to do it, and, if they don't know how, they jolly well know how to learn how.

Use of cost accounting goes beyond giving information to supervisors, superintendents, controllers, sales managers, buyers and heads of business. Good cost records, well documented and correctly maintained, are one of the best proofs of the correctness of computed taxable income. My friends in the Internal Revenue Service put a great deal of reliance upon and have a wholesome respect for good records.

Too, the cost accountant is more apt to be right than wrong in estimates of costs. May I relate a personal experience? In an audit some time ago, we found considerable variance between certain job costs as recorded in the general records and those in the cost ledger. In this particular job, a portable plant was set up and a ramp covered with gravel and asphalt had to be constructed. The general ledger included the cost of this ramp with that of purchasing and placing on the ground the necessary portable plant. But the cost accountant charged the ramp to the over-all cost of the job. Needless to say, we sided with the cost department. The tax saving was in two years rather than over the twenty-year life of the portable plant.

The ideal cost department is seldom economically advisable as yet because of the still limited understanding of management and the impatience business men often have with statistics. Your goal is to prepare and present all information that is

valuable, and, as year follows year, more and more information becomes useful. Those following in your professional footsteps may receive in education a completely new accounting concept based upon the spade and brick work you have done to perfect methods and systems required by the myriad sorts of business in existence today.

The industrialization of all parts of our nation and of the world is placing an overwhelming demand upon the profession of accounting. We all know that the first question asked by the tycoons of business is, "What is it going to cost us?" Your answer will be based on the maxim and theory which you know and use every day. Break costs finely, but be sure your break-downs pay—devise equations and norms whereby you can arrive at the goal you are seeking—test your formulae often—and be sure your department is the economical tool you intend it to be. You will thus safeguard the prospect of profits and have all pertinent data on hand ready for use at a moment's notice.

I have not meant to eulogize you or your profession. That you do not need and would disdain. My intent is to remind you of the challenge you have given yourself and to say that I dare to believe the day is dawning when the cost department will be the governing factor in every accounting set-up. Your own "A Re-Examination of Cost Accounting Objectives and Methods" shows you the way and points up the strides you have made toward the goal you may be unconsciously achieving—to be the manager of management.

*\* Portions of address presented to the Tulsa Chapters of the National Association of Cost Accountants & the American Society of Women Accountants.*

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## ASWA GROWS

WELCOME, Chapter 53. On April 1, 1957 we were proud to welcome Tacoma Chapter to ASWA.

WELCOME, Chapter 54. At the All-Michigan Day on May 4, 1957, in Muskegon, Flint received Charter 54.

We extend to both Tacoma and Flint Chapter our greetings and best wishes for your growth and development.