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Reviews - Writings in Accounting

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REVIEWS—Writings in Accounting



PHYLLIS E. PETERS, CPA, Editor
Touche, Ross, Bailey & Smart
Detroit, Michigan

"DECISION MAKING APPLICATIONS OF DIRECT COST INFORMATION," John R. Patterson, *Management Accounting*, Volume XLIX, Number 5, January 1968, National Association of Accountants.

Mr. Patterson states that his purpose is to show how direct cost information was used to make major decisions affecting the future of his company, Berkshire International Corporation, the world's largest producer of full-fashioned hosiery. About ten years ago the company had just completed its biggest year in terms of sales volume, and also had the largest operating loss in its history. Some of the reasons for the position at that time were that production of full-fashioned hosiery had caught up with demand and prices began to slide, and also that consumer preference had changed to seamless hosiery.

After considering several alternatives, the company decided to invest heavily in seamless knitting equipment, but at the same time to sell as much full-fashioned hosiery as possible at "reasonable" prices. The absorption cost system showed that the company was losing money on most full-fashioned styles. Because of a desire to separate the fixed costs from the variable or direct costs for emphasis on the financial statements and for control purposes, it was decided to use the direct cost approach to management decisions.

Mr. Patterson gives a rather detailed analysis of the company's experience with direct costing and includes three sample income statements based on 25%, 50%, and 75% production of seamless hose. Statements of net contribution by product division aided in making decisions as to the type of goods the company should manufacture and sell. Sales management also desired and obtained financial statements showing the profitability of the various sales divisions. These statements, which show net contribution by brand or sales division, are the basis for all sales planning and marketing decisions.

The company applies direct costing to new product lines and also makes other applications of cost in sales management decisions.

Still other applications of cost information in decision making are made. In order to get

the departmental supervisors, foremen, and general supervisors to understand the theory of direct costing so that they would be able to apply it to everyday decision making, a series of supervisors' seminars were held with members of top management participating.

Mr. Patterson concludes by saying that the basis for the whole accounting, budget, and cost control system is simplicity and ease of understanding. The company feels that the net contribution principle provides the best basis for management decisions because it groups together all income, direct cost, and identifiable fixed costs related to the particular area under consideration.

This article is a well written account of one company's experience with direct costing and should prove helpful to anyone considering using direct costing in his business.

Mary E. Burnet, CPA
Rochester Institute of Technology

Editor's note: One can only wish that Mr. Patterson's article had gone on to indicate whether their direct costing approach was helpful in making marketing decisions regarding the tremendous popularity in the past year or so of panty hose and patterned stockings.

"NOTES ON THE EVOLUTION OF THE STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS," Karl Käfer and V. K. Zimmerman, *The International Journal of Accounting*, Volume 2, No. 2, Spring 1967.

This is a delightful article on what is becoming the "third statement" in annual reports in the United States. Karl Käfer is Professor of Business Economics and Accountancy at the University of Zürich; V. K. Zimmerman, of the University of Illinois, recently served as Visiting Professor at the Hechschule für Welthandel, Vienna, Austria.

The article traces early development of the funds statement in the United States. The development began in a textbook on corporate finance published in 1897. The authors trace the name changes of the statement from "Summary of Changes in the Position of the Company" through "Where get, Where gone," through CPA examination questions of 1919,

1921, 1922 (all of which used different title designations) to the present "Statement of sources and applications of funds."

Results of various studies of annual reports are cited, indicating that the funds statement is becoming much more popular. According to *Accounting Trends and Techniques*, which analyzes 600 annual reports each year, in 1950, 19% of the 600 companies included the statement; in 1951, 21%; in 1958, 31%; in 1960, 35%; and in 1965, 76%.

While the authors note that "only a relatively small number of these are examined by the auditors and included in the certification," a footnote indicates that in 1965, 207 of the 458 funds statement were so covered. Certainly the increase in number covered by the auditor's report over those covered in 1960 indicates that the trend is away from the "small number."

The conclusions of the authors are that the funds statement is not entirely satisfactory, and that much more research must be done to give the statement a theoretical foundation. They attribute the large number of suggestions "to change, to redesign, and to rename the statement" directly to these conclusions. However, despite its present shortcomings, the statement is considered by them to be essential and necessary to make "clear the real nature of a business enterprise and the economic results of enterprise management."

Dr. Marie E. Dubke, CPA
Memphis State University

"NEW TECHNIQUES FOR BUSINESS PLANNING, SYSTEMS AND CONTROL," American Institute of Certified Public Accountants, New York, 1967, approx. 125 pages, \$2.50.

Formula: Start with the 1964 through 1967 issues of *Management Services*. Next, select from these issues the twelve articles which are the most outstanding. Then, compile these into one volume.

Result: "New Techniques for Business Planning, Systems and Control," an important series of articles reflecting some of the newer approaches in management science of which today's accountant should be aware.

A variety of topics is included; among them, mathematical programming for coordination of sales and production, automated meshing of inventory levels and production, implications of operations research for the accountant, new dimensions for cash flow analysis, and the application of accounting measurements to areas until now untouched.

In her article, "Distribution Cost Analysis," Dr. Dora Herring, member of the American Society of Women Accountants, points out that distribution costs comprise 50 to 60 per cent of the cost of consumer goods yet they have never received the management attention given to production costs. She reviews some of the reasons why and suggests some directions that distribution cost analysis might take. As an example of the effect on managerial decisions of distribution cost analysis, she cites the instance of several companies who find that warehouse expenses, inventory costs, and handling and storage costs can be greatly reduced by shipping by air, a significant departure from the more usual approach to choice of carrier—selection of the cheapest.

Co-authors Neil C. Churchill and Andrew C. Stedry focus their attention on "Extending the Dimensions of Accounting Measurement," while Harold W. Jasper discusses the "Future Role of the Accountant." In both articles, the view of the horizons of accounting extends far beyond the traditional measurement of matters that can be expressed in terms of money. The view is of a "total information system," fully integrated and made possible through computer technology, that will provide management with increased knowledge of the firm—in all areas.

Whether you are interested in the theoretical or the practical, in today or in the future, there is something for you in this paperback publication. It is particularly noteworthy in identifying the numerous ways in which accountants can provide management with information vital to decision making, information which they have not considered traditionally to be within their province.

Dr. Bernadine Meyer
Duquesne University

**ANNUAL MEETING
AMERICAN SOCIETY OF WOMEN ACCOUNTANTS**

In accordance with ARTICLE XI, Section 1, of the National Bylaws of the American Society of Women Accountants, notice is hereby provided that the 28th Annual Meeting of the Society will be held in conjunction with that of the American Woman's Society of Certified Public Accountants at the Washington Hilton Hotel, Washington, D. C., October 9-12, 1968. The Annual Business Meeting of the American Society of Women Accountants has been called for 9:00 a.m., Friday, October 11, 1968.

Ruth M. McClellan, CPA
National Secretary, 1967-1968