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Advantages of Uniform Accounting*

BY ANTHONY B. MANNING

In all fields of activity today we find that persons, firms and corporations in similar trades or industries are banded together in associations for the purpose of a closer trade relationship. Discussions on co-operation, prices, credits, etc., are of particular interest; matters of legislation that are beneficial or detrimental to their particular industry are debated; committees are formed for the purpose of investigating particular phases of various questions that are vital to the health of their trade or industry, but rarely do we find the different members of an association exhibiting statements of their cost of doing business for the benefit of the other members.

In the operation of any business, large or small, the intelligent management and financial success depend not only on shrewd buying of raw commodities but on economical operation as well. If the proceeds of the sales are higher this month than they were last month, and the cost of operating has increased in a larger proportion, even though the cost of raw materials and supplies may be normal, it will naturally be found that the profits have decreased. Then, again, even though the profit and loss statement of a particular business may compare favorably from month to month, it would be of interest to know just how it compares, item for item, with similar reports of other members of the same trade association in that particular locality. But, unfortunately, this data is more or less sacred to the average business man and as a result no comparison is possible.

How is the broad-minded business man to know how his operating costs compare with his competitors'? By a comparison of his statement with a consolidated statement of all the members of his association.

The basis of all comparisons is uniformity of system, without which the comparison of the various elements of operating costs, overheads, etc., would be misleading. In each industry a standard system of accounts should be devised—call it standard practice, standard procedure, classification of accounts or any

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other name if you will—but nevertheless it must be in principle fundamentally adapted to the particular industry and recognized as standard. It must be made plain just what should be contained in each account and should reveal the necessary procedure to follow in clearing the “wash” accounts and setting up the reserves at the end of each accounting period.

As an example, take the telegraph companies and the telephone companies. The government has published in pamphlet form the procedure necessary for these two classes of industry and, elaborate as they are, they embody all the conditions that are apt to come up for treatment. They set out in no uncertain terms what each account should contain, with a system of symbols to designate each account classification, the “wash” accounts and reserve accounts necessary and how to clear them. These two pamphlets are good illustrations of what a standard procedure, briefly stated, should be. The uniform system should be properly installed in all the plants of the same industry by competent accountants, so that the peculiarities of each plant can be taken care of, as they develop, without interfering with the main scheme.

With a uniform system of accounts properly installed, it is advisable for the accountant engaged to make a monthly audit in detail and to prepare statements of operating costs, selling costs, administrative costs, etc., showing the relationship to the whole. A statement like that on page 115 would bring out data for comparison which would be beneficial to the management of any manufacturing business.

While of course the above statement is not complete as to all the elements of expense under each heading, it will illustrate the segregation attempted for comparison. It may be said that this form with a few changes has been used in plants of the same company where a continuous process cost system is in operation.

If each manufacturer would adopt a uniform system specially designed for his industry and a uniform statement of manufacturing, selling and administrative costs compiled and certified every month or every quarter by a competent accountant, and if the association would appoint an auditing committee or engage a certified public accountant as a confidential disinterested party to consolidate the individual statements of each member and have this consolidated statement published in a special pamphlet or in the association's journal, each member could compare the

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MONTHLY STATEMENT OF OPERATING COSTS AND PROFIT

| Elements | Current month | | Last month | | Same month last year | |
|--|---------------|------|------------|------|----------------------|------|
| | Amount | % | Amount | % | Amount | % |
| Manufacturing section: | | | | | | |
| Opening inventory of raw material | | | | | | |
| Purchases | | | | | | |
| Raw material available for use | | | | | | |
| Closing inventory raw material | | | | | | |
| Raw material used | | | | | | |
| Opening inventory process material | | | | | | |
| Productive labor | | | | | | |
| Unproductive labor | | | | | | |
| Rent | | | | | | |
| Power, light and heat | | | | | | |
| Insurance | | | | | | |
| Repairs | | | | | | |
| Renewals | | | | | | |
| Depreciation | | | | | | |
| Etc. | | | | | | |
| Total charges | | | | | | |
| Closing inventory of process material | | | | | | |
| Cost of finished goods | | 100% | | 100% | | 100% |
| <hr/> | | | | | | |
| Merchandise section: | | | | | | |
| Opening inventory finished goods | | | | | | |
| Finished goods produced | | | | | | |
| Finished goods purchased | | | | | | |
| Finished goods available | | | | | | |
| Charges against finished goods, such as insurance, storage, etc. | | | | | | |
| Closing inventory finished goods | | | | | | |
| Cost of sales | | 100% | | 100% | | 100% |
| <hr/> | | | | | | |
| Selling section: | | | | | | |
| Sales | | | | | | |
| Less returns | | | | | | |
| Net sales | | 100% | | 100% | | 100% |
| Cost of sales | | | | | | |
| Charges against sales (itemize) | | | | | | |
| Total | | | | | | |
| Selling profit | | | | | | |
| <hr/> | | | | | | |
| Administrative section: | | | | | | |
| Selling profit | | | | | | |
| Administrative expenses (itemized) | | | | | | |
| Net profit | | | | | | |

percentages of each element of expense in his particular business for the period with the percentages of the consolidated statement, which would be the average of all statements.

In this way he could determine what elements of cost were above the average, investigate the cause, eliminate costly methods and still attain the desired improvement. A comparison of this kind will enable each manufacturer to trace the leaks in his business without knowing the individual competitor's costs. When the comparison is made, he knows that the individual statements used to make up the consolidated statement were taken from systems of accounting similar to his. He knows that what was considered unproductive labor in one plant was considered unproductive labor in his plant and all the other plants of the particular industry. He also knows that if the percentage of any one element of cost as shown in the consolidated statement is lower than the percentage representing a similar element of cost in his statement there must be some other company whose cost must be lower than the average, as the consolidated percentage is an average of all statements combined.

The system in use in most large corporations operating a number of plants and having accounting records kept in each individual plant, controlled by a uniform system from which monthly reports are rendered to the main office for purposes of consolidation, is similar in principle to the method advocated for each industry. Consolidation is simplified, as all statements are built up on the same basis. If the procedure has been followed the basis of comparison is uniform.

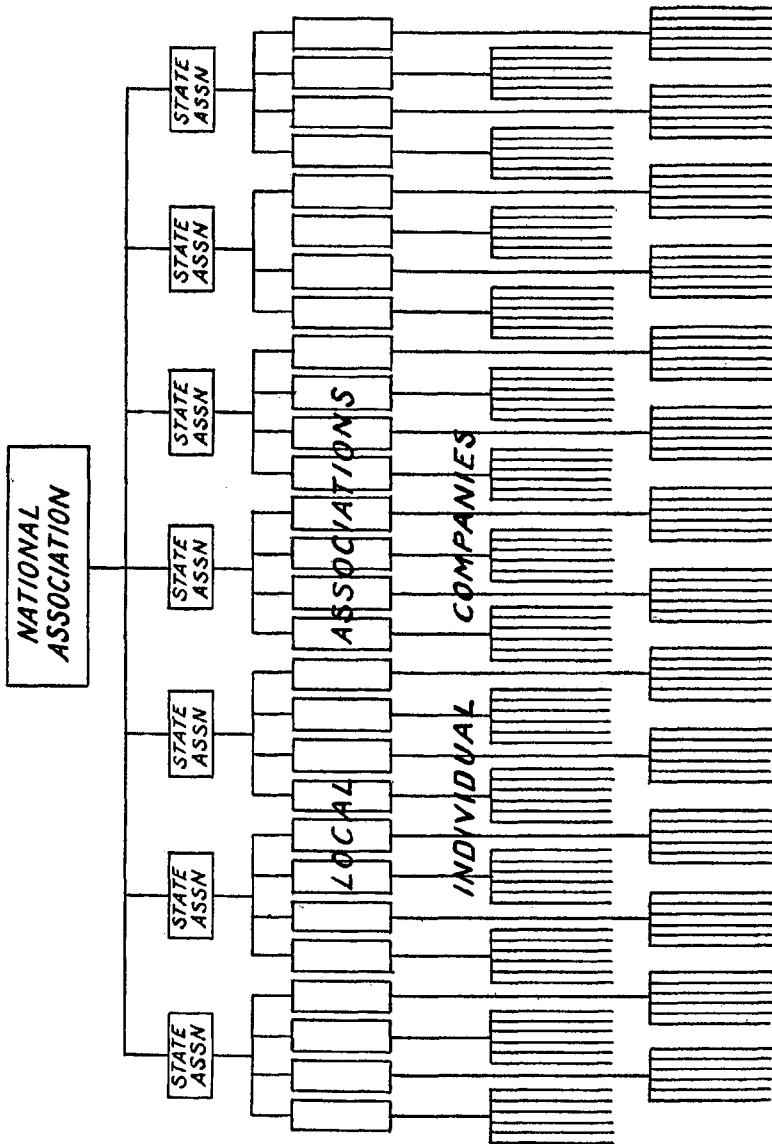
To carry the idea as applied to the industries a step further, everything else being equal, each local organization of the particular industry could forward the local consolidated statement to the state body and each state after consolidating the several local statements could, in turn, forward the consolidated state report to the national association. In chart form this appears on page 117.

So that a statement could be published showing the results of the country by sections, viz:

Statement of Operating Costs and Profits

| | North | South | East | West |
|----------|----------|----------|----------|----------|
| Elements | | | | |
| | Amount % | Amount % | Amount % | Amount % |

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This would show the volume of business for the country by sections and, if published, would afford the individual manufacturer a comparison of his costs not only with the average of his competitors' costs in his immediate locality, but with the averages of the different sections of the country.

Many industries have recognized the benefits of a uniform classification of accounts and have adopted systems whereby the procedure of operation is similar in all the plants. If arrangements were made whereby each individual manufacturer or trader could make comparisons of the results of the activities of his plant with the combined results of his competitors' plants, the result should be intelligent operation and management making for the health of each manufacturer's business and of the industry as a whole.

No corporation of any size would attempt to carry on business today without a monthly comparison of costs and volume of business of each plant, making allowances for local factors of variation. It is considered imperative that this should be done, and rightly so, as in no other way will leaks be disclosed. If it is considered necessary in a large corporation operating several plants, the same holds true in a particular industry. If bad business practices, waste and leaks in general are disclosed through this method in a large corporation, the same benefits will accrue to an industry by the use of similar methods.

Apart from the idea of possible comparison between competing companies of the same industry or plants of the same company, there is also an internal benefit attached to a uniform system of accounting which was illustrated to me in the course of the daily routine in a large plant, where I was engaged on an annual audit.

This plant was operating under a uniform predetermined procedure of accounting and had a competent accountant as plant auditor, who was responsible for carrying out the system according to procedure. I was in conference with the auditor at the time and during a pause in our discourse, occasioned by my inspecting some confidential data, his assistant, turning to him, said: "Do you know that Mr. Blank has worked out an elaborate scheme whereby he saves about two hours of his time each day, which, while it seems good, may have some detrimental effect on our ultimate results?" The auditor immediately sent

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for Mr. Blank, who was a new man anxious to make good, and said to him: "Mr. Blank, I am informed that you have made some improvements in the work at your desk and I am anxious to have you explain them to me." The young man, with a broad smile, happy with the thought that his ability was recognized so quickly and glad of the opportunity to explain his ideas, instead of receiving a "call down" which might be expected by anybody who was called on the "carpet," said he would get the data which would illustrate the changes and the resulting saving of time.

After he explained the improvements he had worked out, the auditor turned to him and said: "Mr. Blank, that is a very good idea and something we had never thought of before. It would be a very helpful suggestion were it not for the fact that it would affect the work of other departments that depend on certain information coming from your desk. There is one thing we all must keep in mind and that is that our system of accounting is the result of an exhaustive study, covering many months, by the best available talent in all the plants of this industry, collaborating with a staff of certified public accountants. We have no choice in the matter, and the procedure must be followed literally in order to supply data compiled each month in every plant of this industry so as to preserve the basis of internal comparison between our own plants and the other companies of this industry. We appreciate the fact that conditions are liable to change, and no doubt we shall be called upon to suggest corresponding changes in our accounting methods. We will depend on such thinking men as yourself to help us out, as you are familiar with the details. There may be a number of different ways, all good, of obtaining the same results, but we cannot change any link to such an extent that it would not fit in the other links or weaken the chain. You have the right idea. Look for improvements—there may be plenty of room for them in working up the details, through short-cuts, etc.—but first get acquainted with the general scheme, learn where your basic data come from, where the results of your efforts go and how they are used. In short, before you make any changes be sure nothing in the general scheme is affected."

There is nothing in public accounting practice so aggravating as to find, when an audit is in progress covering a period of three or more years, that every time a firm changes its chief

accountant invariably comes a change in methods. Each chief accountant has a number of "pet hobbies" he likes to try, or possibly he only understands one way of doing things, and whether these methods are suitable to the business or not they are adopted. His term of employment proving short, he resigns and his system is discontinued. When a new man comes in he introduces another system. In the meantime the basic data of original entry is lost and the public accountant is in difficulty and is forced to take a roundabout course, consuming much time, to satisfy himself as to the correctness of the entries.

With a condition of this kind, the men in the accounting department get discontented and resign, and in a short time none of the employees of the firm is acquainted with the details of past periods, the location of the records or the system in practice. This condition is responsible for the lack of knowledge of detail and is the cause of the oft-repeated answer: "I don't know. That was before my time."

This is a deplorable condition, yet in many plants it prevails today because it has not been recognized that a uniform system of accounting specially designed for the needs is as necessary to business success as shrewd buying and selling. In conclusion, it may be stated that a uniform system of accounting is productive of:

- (a) Keeping the accounting department to a hard and fast rule or procedure and eliminating the adoption of pet theories.
- (b) Affording internal monthly comparisons, compiled on similar lines, between plants of the same company.
- (c) Making possible the periodical comparison of costs between the individual company's report and the consolidated report of all companies in the same industry.
- (d) Affording the internal revenue department data to guide in tracing the tax slacker by comparison of the ratio of cost and net profit to gross revenue of one company with similar ratios of other companies in the same industry, making allowances for local factors of variance.