

NATIONAL ASSOCIATION OF COST ACCOUNTANTS

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YEAR BOOK

1945



NATIONAL ASSOCIATION  
OF  
COST ACCOUNTANTS  
YEAR BOOK  
1945

CONFERENCE-BY-MAIL  
REPLACING THE  
TWENTY-SIXTH INTERNATIONAL COST CONFERENCE

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OF  
COST ACCOUNTANTS  
1945

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## PREFACE

This twenty-sixth Year Book of the Association is the first which does not consist of papers presented at the annual International Cost Conference. Yet it owes its origin to planning for a Conference which finally was cancelled in order to cooperate with government efforts to reduce wartime travel. The Technical Program Committee for the projected 1945 International Cost Conference was appointed and began work in fall of 1944. The Committee, consisting of Richard S. Foster, Howard C. Greer, Mason Smith, and Maurice E. Peloubet, *Chairman*, selected as the general theme for the annual program, "The Postwar Problems of the Industrial Accountant," and proceeded to develop a detailed conference program. When the Conference was cancelled the Committee adapted the program for a conference-by-mail, and obtained outstanding authorities to prepare papers on the topics included in the program outline. This Year Book is the result.

Building a program directly for the Year Book has made possible some features not previously included and has resulted in some changes from the familiar pattern of prior Year Books. The number of papers has been freed from the limitations of a set number of sessions. More aspects of the principal divisions of the program have been covered in a large number of papers of varied lengths. The outline is complete and closely knit. The usual discussion periods are missing for obvious reasons, but the Committee has managed to retain somewhat the same effect by arranging for expressions of differing opinion on several topics. Thus, the debate between Dr. Nourse and Mr. James, and the differing viewpoints expressed by Mr. Stans and Dr. Atkinson should provide the same sort of stimulating reading previously provided by discussion periods.

The Committee has divided its main theme into four parts, each of which is treated in a separate section: I, The Job Ahead; II, The Pricing Job; III, The Control Job; IV, The Public Relations Job. The seventeen papers making up the book treat the several aspects of the problem in a practical manner and include constructive ideas of value to every one of our members.

The end of the war with Japan came while the Year Book was in process and after the papers had been written. In spite of this the forward-looking planning of Mr. Peloubet's Committee has assured a Year Book of vital and practical value at the time of issue. Indeed, with the outline developed around postwar problems, timeliness is increased by the turn of events, which we all hoped for, but could not count on.

Mr. Peloubet, the members of his Committee, and the authors of the papers in this Year Book richly deserve the thanks of the Association for a job well done. The Year Book they have made possible can take its place with its twenty-five predecessors as a truly substantial contribution to industrial accounting literature.

MARTIN A. MOORE

*President*

## TABLE OF CONTENTS

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### SECTION I

	PAGE
THE JOB AHEAD . . . . .	1
THE EFFECT OF WARTIME PRESSURES ON INDUSTRIAL ACCOUNTING	
C. Oliver Wellington . . . . .	3
TRANSITION PROBLEMS FOR THE ACCOUNTANT	
Harry A. Bullis . . . . .	8
RECONVERTING INDUSTRIAL ACCOUNTING	
Mason Smith . . . . .	18

### SECTION II

THE PRICING JOB . . . . .	25
COST FINDING AND PRICE DETERMINATION	
Edwin G. Nourse . . . . .	27
CAPACITY, COSTS, AND PRICES	
Charles C. James . . . . .	39
PRACTICAL CAPACITY VS. NORMAL CAPACITY	
Edwin G. Nourse . . . . .	48
PRICE CUTTING IS NOT THE WAY OUT	
Charles C. James . . . . .	54

	PAGE
RECOVERY IN PRICE OF PLANT COSTS	
—FINANCIAL ACCOUNTING APPROACH	
Maurice H. Stans . . . . .	55
—INDUSTRIAL ACCOUNTING APPROACH	
Sterling K. Atkinson . . . . .	67
COST DATA FOR DAY-TO-DAY PRICING	
Clinton W. Bennett . . . . .	77
PRACTICAL PROBLEMS IN PRICING THE NEW LINE AND NEW ORDER	
William F. Burke . . . . .	87
WHAT COSTS FOR PRICE CONTROL?	
Robert R. Hertzler . . . . .	97

## SECTION III

THE CONTROL JOB . . . . .	103
COST CONTROL—THE HUMAN FACTOR	
M. M. Olander and C. C. Gibbons . . . . .	105
STANDARDS FOR COST CONTROL	
Clinton W. Bennett . . . . .	118
POSTWAR REPORTS FOR EXECUTIVES	
Martin A. Moore . . . . .	128
NEW PROBLEMS IN CONTROL OF DISTRIBUTION COSTS	
Robert N. Wallis . . . . .	155

## SECTION IV

THE PUBLIC RELATIONS JOB . . . . .	167
IMPROVED PUBLIC RELATIONS THROUGH IMPROVED PUB- LIC REPORTS	
William H. Franklin . . . . .	169

# SECTION I

## THE JOB AHEAD

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THE EFFECTS OF WARTIME PRESSURES ON INDUSTRIAL ACCOUNTING

TRANSITION PROBLEMS FOR THE ACCOUNTANT

RECONVERTING INDUSTRIAL ACCOUNTING

### PROGRAM COMMITTEE

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The reconversion of industrial accounting from war to peace will be most effective if it is based on an accurate assessment of the influences of wartime pressures on industrial accounting practices as they existed before the war, a review of the lessons learned during the war period, and an appraisal of the types of industrial accounting services which will make the greatest contributions to industry and the nation in the highly competitive period ahead. This is the objective of this Section.

The effects of wartime pressures on industrial accounting are reviewed by C. Oliver Wellington, Partner of Scovell, Wellington & Co., who is well known for his many contributions as a speaker and writer in both the industrial and public accounting fields. Mr. Wellington also discusses some of the lessons learned during the war period and the need for improved distribution accounting and cost control through standards.

In the second article in this Section, Harry A. Bullis, President of General Mills, Inc., and a Past President of the National Association of Cost Accountants, discusses the accountant's job in the postwar period from the viewpoint of an industrial executive who has attained his position of leadership by way of the accounting department. In so doing he provides an appraisal of the needs for accounting services which will exist once industry turns to peacetime pursuits and outlines both the responsibilities and opportunities with which industrial accountants will be faced as we enter this period.

Having in mind the lessons learned during wartime and the basic objectives of the postwar period, Mason Smith, Partner of McKinsey, Kearney & Company of Chicago and Vice President of N. A. C. A., outlines in the third paper of this Section the steps necessary in reconverting industrial accounting for greatest postwar usefulness. He discusses item by item the principal steps necessary in regaining the ground lost during the war period and in preparing for the further advance that will be needed if the industrial accountant is to make his maximum contribution to postwar progress.

## THE EFFECTS OF WARTIME PRESSURES ON INDUSTRIAL ACCOUNTING

C. OLIVER WELLINGTON

Partner, Scovell, Wellington & Company,  
New York, N. Y.

THE EFFECTS of wartime pressures on industrial accounting have been bad. There is no practical value in attempting to assess the blame, but undoubtedly it is worth while to review the extent of the damage and the causes therefor, and consider the steps necessary to remove such causes as promptly and effectively as possible.

The most serious effect of wartime pressures on industrial accounting has been to minimize, and in many cases to remove entirely, the impartial and objective approach that industrial accountants normally follow in considering accounting problems. In normal peacetime operations they strive to "call the plays as they see them" and handle the accounting in such a way that the records disclose the essential operating facts without unfair burden or favor to any one department or operation, product, or customer's order.

However, pressures during wartime have been such that a fair and impartial attitude has been difficult, if not impossible, to maintain. Industrial accounting has been influenced by rates of taxes on income of 80 per cent, by questions whether expenditures would or would not be allowable as costs for government contracts, and by the immense sums taken away in so-called "renegotiation" of war contracts. The management and stockholders of the average company have been left with such a minute share of the total income that the accounting for their interests, which normally is paramount, has become relatively unimportant.

### *Influence of War Contracts and Renegotiation*

Before the war, industrial accounting for the more efficient plants was developed and operated for purposes of control and as an aid in the reduction of costs. However, the war pressures have tended to minimize, if not entirely eliminate, this most important peacetime purpose. Experiences of war contractors with auditors from the armed services soon demonstrated that it was more important to have

the records of an expenditure presented in a certain way so that it might be approved than it was to take steps to reduce such an expenditure.

Experiences of war contractors with renegotiation demonstrated that, while those in charge of renegotiation talked about giving credit to individual contractors for better than average efficiency, and, on the other hand, penalizing those that were inefficient, in actual practice they failed to carry out these ideas and left most contractors with a remaining profit in relation to sales which varied only slightly between the inefficient and the efficient plants. While great criticism has been expressed of the "cost-plus" contracts used in connection with procurement for the World War I, the practical result for the current war, after renegotiation, has been to leave those with high costs a profit above such high costs, which is very similar to the old "cost-plus" contracts. The word "renegotiation" conveys the idea that there has been "negotiation" between two parties, when in practice the contractor is merely told what amount he must refund, and no argument or discussion changes that figure. Broadly speaking the most efficient contractor is required to make the largest refund.

### *Decline of Cost Control*

Under the foregoing circumstances there has been little pressure from outside any business to keep down its costs. As a natural result the type of industrial accounting which was designed principally to aid in keeping down costs has received less and less attention and in many cases has been discarded entirely during the war period.

The tendency caused by these outside conditions already mentioned has been made worse by losses of trained accounting personnel to the armed services and otherwise and by the difficulties of employing and training people to produce satisfactory records. As a result, many features which were an integral part of a well-organized standard cost control procedure have had to be discontinued. Many of the internal controls have been dropped altogether, and those which have been maintained have not been carried out with reasonable accuracy so that cost accounting data have not been reliable. It has been difficult to keep records of stores and production within reasonable agreement with the physical stocks.

Standards determined by time study departments have been developed hurriedly and without sufficient studies. The average skill of productive workers has dropped due to lack of experience and

training. Therefore, the standards that have been set are not truly representative of what can be accomplished.

The fact that any good industrial accounting has been maintained during the war period can be attributed in part to inertia—the continuation without change of something previously started—and in part to the determination of a few industrial executives not to let go completely the controls through industrial accounting that they had used so effectively prior to the war.

The industrial accountants themselves have had great difficulty in cooperating with the executives to maintain some control. The experienced men, during the war period, have been too busy with other matters which seemed relatively more important, such as plans that would help production, necessary conferences with representatives of various government agencies, and preparation of government reports. With the expansion of volume the experienced men have had very little time to train those with less experience, and very few of the latter have been able through study to progress far beyond the mere routine of their daily tasks. Fortunately, there will be increasing opportunities from now on for those who have ideas and the energy to apply them to help to undo the effects of the war and improve industrial accounting.

### *Some Helpful Influences*

While, as already stated, the general effect of the war on industrial accounting has been bad, some of the wartime pressures may be helpful. The war has demonstrated the effect of volume on costs and the savings possible from simplification of lines of product and improvement in product design, and has eliminated some deadwood in the form of records and statements found to be unnecessary. There has been some encouragement of the spirit of questioning old-accepted theories and practices and increased knowledge of the uses of mechanical equipment. Many companies, because of wartime pressures, have found it necessary to call in outside professional assistance on particular problems, and the demonstrated value of such assistance should influence the use of similar professional help in solving the problems of converting most effectively to peacetime activities.

Even tax problems may have produced an incidental benefit. The various possibilities for relief from excess profits tax under Section 722 of the Internal Revenue Code are dependent largely upon records

of past performance of the taxpayer and his industry. The preparation of applications for relief has shown many corporation executives the value of maintaining proper records, has led them to delve more deeply into available statistics of their own business and industry, and has undoubtedly stimulated a desire for more records of the type that can be useful in effective operation of the business.

The most important features of good industrial accounting used by the more efficient companies prior to the war, that have been discontinued or curtailed during the war and will be reinstated as soon as possible, deal with distribution costs and with standard costs as applied to manufacturing and in some cases also to distribution.

We can only have so-called "full employment" after the war if a far better selling job is done than ever before. Broadly speaking, goods will not be produced unless they can be sold. There are many different methods of distributing products from the mill or factory to the ultimate consumer, and it is the responsibility of the industrial accountant to develop the necessary records to show which method of distribution is most effective in each individual case.

### *Revived Use of Standards*

Many companies, before the war, maintained effective control over manufacturing costs and in some cases over selling and distribution costs by the use of standards—first determining carefully what a product or service *ought to* cost and then comparing currently the actual results with such standards. While during the war many companies have been forced to omit the determination of new standards and the revision of old ones, this kind of industrial accounting, which demonstrated its great value before the war, will be restored as soon as possible. It is hardly necessary to emphasize that the new standards must be based on present and expected conditions, which will give effect to improvements in method of manufacturing as well as to the increased amounts payable for labor, materials, and many operating expenses.

### *Daily Reports*

While, under some standard cost systems in use prior to the war, the comparison between actual results and standards was made only monthly and primarily for purposes of profit and loss accounting, a better tool for managerial control will be needed to meet the kind of competition that will develop after this war. When the comparison

between actual costs and standards is made merely after the close of each month, by the time such reports reach executives a waste which might and should have been discovered and stopped has been taking a toll of profits for anywhere from a few days to several weeks. The remedy is to have *daily* reports of any costs which exceed normal.

This does not mean that there must be a daily closing of the books or a daily profit and loss statement. The daily reports must disclose what has happened in each department or production center in comparison with standards. Such comparison will be of the production made with that expected; of the direct labor expended with that which should be expended for the production made; of the indirect labor in relation to the direct labor and to production; and, in some special cases, of one or more large items of operating expenses with the expenses required for the production.

No attempt should be made to prepare daily reports in great detail as the object of such reports is to insure prompt executive action toward those matters that need correction. However, the records should be developed so that further detailed information can be produced if needed by the management. Where daily controls such as outlined have not been maintained during this period of wartime pressures, they should be put into effect as soon as the necessary industrial accounting organization can be restored.

### *The Period Ahead*

Lest what is said herein may sound unduly critical, we must all bear in mind that war is necessarily wasteful. While the management of certain features directly and indirectly connected with the war could undoubtedly have been improved, the emphasis has been, and rightly so, on production of the things necessary for winning the war, and costs and expense were secondary and, in their over-all relation to production requirements, insignificant. It is only now, when we can begin to take stock of the present situation, review the recent past, and look forward to the immediate future, that we appreciate how bad the situation has been and what strenuous efforts will be needed to bring industrial accounting back merely to the position in which it was prior to this war, to say nothing of still further improvements that will be essential for management to have in guiding businesses through the period of intense competition that lies ahead.

**TRANSITION PROBLEMS FOR THE ACCOUNTANT****HARRY A. BULLIS**

President, General Mills, Inc.,  
Minneapolis, Minn.

SINCE Pearl Harbor, every action and policy of government and business have been directed toward the effective prosecution of the war. Individual desires and individual initiative have been necessarily subordinated to plans for the common good. Coordination of such plans has entailed regulation after regulation. Accountants have found it necessary to keep abreast of these regulations and interpretations thereof and have sought information through every channel open to them. The accountants and particularly the industrial accountants represented in the National Association of Cost Accountants have furnished leadership in the development, application, and interpretation of these myriad regulations. The value of this leadership is evidenced by the unprecedented growth of this organization. However, as wartime operations and controls give way to peacetime competitive conditions following the ultimate victory over Japan, accountants will face entirely different problems. Their work will no longer be so circumscribed by prescribed regulations, but will demand greater imagination in the development of new methods, practices, and procedures to help management during and after reconversion.

The present status of industry under wartime controls is different in many ways from industry under peacetime conditions. Now the smaller part of industrial production is for civilian use and the greater part is for the Government for use either in the war effort or lend-lease. Conditions have changed almost completely from a highly competitive economy to an economy where there is little or no competition among products; from an economy where there was a surplus of labor to an economy where there is a shortage of labor; from an economy of plenty to an economy of scarcity. The effects of all of these changes are evident from the accounting records and reports of almost every industrial concern. We see reflected there large profits with the greater part going to the Government in the form of taxes; we see greatly increased factory activity with huge quantities of goods in process and inventories; we see greatly increased costs

because of increased wage rates and overtime and the increased cost of administrative overhead; and we see the restricted output of civilian goods.

### *Wartime Changes*

There necessarily has been an increasing number of reports to the Government and an increasing volume of records maintained to comply with government regulations. Some of the accounting and statistical controls which we once considered important have lost much of their significance and have been greatly curtailed or discontinued. Cost accounting has been changed to comply with government requirements and to support the company's position when it comes to renegotiation. Budgeting, where not discontinued entirely, has become a medium for allocating probable production of civilian goods. Distribution costs no longer are indicative of sales effort but merely reflect the expense of maintaining the framework of a sales organization. A dangerous philosophy of spending is a product of high tax rates. There is little or no evidence of the rigid economies which were prevalent during prewar years. In short, since Pearl Harbor there have been so many changes in our general economy and in our methods of doing business that it has been difficult for the accountant to keep abreast of the problems which have developed. It probably would not be fair to say that our accounting systems have broken down, but undoubtedly many have been bent badly out of shape. By and large, however, accountants everywhere have done a wonderful job in supplying essential information as best they could and with a minimum of trained personnel.

### *The Transition Period*

With the war in Europe already ended, we approach the time when all of these conditions will again change rapidly. We can expect some reconversion and resumption of peacetime operation before the end of the war with Japan. But whatever is done prior to V-J Day will be under government control and subject to government regulation. While we are now entering a transition period, the changes will come slowly until the war with Japan is won. Although we should not be overoptimistic, we should have plans ready to enable us to go forward without confusion in the event of an early peace.

As we attempt to visualize general conditions following the end of the war, we know that there are huge civilian needs to be satisfied



and that we will undoubtedly enter a period of high production not only of old products but of new products to fill old needs. There will also be many new products designed for new purposes. Technological advances have given us new materials, new methods, and new practices. The war has caused many large shifts in population. It has necessitated changes in the usage of products and material which may have changed the habits of many people. Some of these changes may be permanent and may affect distribution. We should visualize the postwar period in terms of intense competition for the dollars which are ready to be spent.

When we view the immense feats of production which have been performed by industry, and when we consider the very minor role played by salesmanship in disposing of this huge production, we realize that the principal problems of the period after the war will be those of distribution rather than production. Distributive organizations must be rehabilitated and trained to take part in a competitive economy. During such a period of rapid change, management will need accurate information on which to base its decisions. Much of this information must come from accounting records interpreted in the light of then existing conditions. It is essential that accountants gear their efforts to follow changes in organization and to accommodate themselves to reconversion, termination of government control, and return to competitive selling. Now is the time for accountants to work out new concepts of their part in business management and in the control of the productive and distributive factors which can be reflected through accounting and statistical records.

### *Planning and Budgeting*

Almost every concern has been engaged to a greater or less degree in postwar planning. For the most part, postwar plans are long-range plans, but the postwar period will soon be upon us and the postwar plans must be translated into action and plans for the immediate future. The accountant who knows the postwar plans of his company undoubtedly has already determined his course of action when these plans become operative. He must assist management to visualize the effect of putting these plans into operation by constructing estimated operating budgets based upon management's conception of many unknown factors. The only way to reduce the unknown factors to a semblance of reality so that they can be examined is to express them in statistical and accounting terms. Foresighted management will