

# **COST CONTROL HANDBOOK**

**Second Edition**  
**R M S Wilson**

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**R M S Wilson**

**A Gower Handbook**

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First published 1975 by Gower Press Limited

Second edition published 1983 by Gower Publishing Company Limited, Aldershot, Hants, England

Wilson, R.M.S.

Cost control handbook.—2nd ed.—(A Gower handbook)

1. Cost control—Handbooks, manuals, etc.

I. Title

658.1'552      HD47.5

ISBN 0-566-02250-8

Set in Press Roman by Supreme Litho Typesetting, Ilford, Essex.

Printed and bound in Great Britain by  
Robert Hartnoll Ltd. Bodmin, Cornwall

# Foreword

by  
**William Hyde**  
**President (1980–1981)**  
**The Institute of Cost & Management Accountants**  
**(incorporated by Royal Charter)**

Recent years have shown a marked change in the demands that industry, commerce, and the public service make on both accountants and managers. This change is reflected particularly in the increasing importance of management accounting in which the emphasis is on the effective use of resources and which is exemplified by the demand for more meaningful cost control information.

Cost control has, therefore, become a major focal point in managing organizations. The whole of the organization and its needs should be seen as the context within which cost control takes place. It can no longer be regarded as the peculiar concern — suggested by many text books — of the factory manager and the works accountant. If the accountant can work as a full member of the management team, it is clear that his specialized creative and analytical skills can be put to profitable use. This must be the case wherever there is an increasing realization of the essential part that soundly based systems of cost control play in attaining organizational objectives.

This book takes the reader through the various steps by which an overall perspective of cost control can be established and employed. It shows how, for instance, the manager can use cost information — compiled to his own specifications — in his problem-solving activities so that his decisions may help in securing corporate aims. Major techniques and their application are covered and the overall treatment of the subject should be of great value to practising managers.

This handbook reflects the forward-looking view of the Institute and is in line with its objectives and policies of promoting maximum effectiveness in industrial, commercial and other undertakings. We are indebted to the author, Richard Wilson, for compiling it in such a clear, systematic and integrated way.

# Preface

It is pleasing that the continuing demand for this book (since it initially appeared in both Britain and the United States in 1975) has resulted in the publisher's request for this revised edition.

The book aims to be useful to busy managers who require clear explanations of cost control aims and methods. The changes made for the new edition are designed to contribute to this aim. For instance, a new Introduction has been written to set the book's subject matter into a corporate decision-making context, and there are new Preambles to two of the three main sections of the book: the Preamble to Part Two examines the impacts of uncertainty and inflation on cost control; and the Preamble to Part Three deals with the (behavioural) impacts of implementing systems for controlling costs.

Redundant material has been eliminated and new sections added to various chapters such as in Chapter 6 on performance measurement, in Chapter 7 on output budgeting, in Chapter 10 on non-production standards, in Chapter 11 on variance analysis in physical distribution, in Chapter 16 on energy cost control, and in Chapter 17 on cost-based bid pricing.

Chapter 13 (Management Audit) is new, and Chapter 15 (on Research and Development) has been re-structured to incorporate material on network analysis and project control.

More attention is given in this edition to organizational considerations and to broader matters than one normally envisages in the context of cost control. However, there continues to be in this edition, as in its predecessor, a set of worked examples and illustrations showing how cost control techniques can be developed and used in different situations. (Since these examples are intended to show the ways in which cost control techniques can be applied, the figures used in them – such as wage rates – should not be assumed to be either accurate in a contemporary sense or a matter of historical record. This is not their purpose.)

Finally, throughout the book (whether at the end of individual chapters or at the end of each main part) there are newly-added annotated references to further reading on each major issue covered.

If this revision continues to help managers to see some of their problems in a new light, and to help illuminate their solution, then its purpose will continue to be well-served.

University of Sheffield

Dick Wilson

# Acknowledgements

The following publishers/writers were kind enough to grant me their approval to reproduce copyright material:

David E. Hussey and Pergamon Press Ltd. for Figure 8.2 ('A Generalised Planning Model') from D.E. Hussey, *Introducing Corporate Planning*, Oxford: Pergamon. 1971.

Business Books Ltd. for Figure 16.5 ('Optimum Maintenance Chart') from H.V.M. Steward, *Guide to Effective Maintenance Management*, London: Business Books. 1963.

The British Institute of Management for Figures 9.21–9.24 based on tables in F.C. de Paula, *Accounts for Management*, London: Management Publications Ltd. for B.I.M. 1955 (revised ed. 1965); and for information in Chapter 12 on interfirm comparison extracted from Management Information Sheet number 3, January 1969 (revised 1973).

Gower Publishing Company Ltd. for Figures 14.5(a) and 14.5(b) ('Monthly Analysis of Labour Turnover' and 'Reasons for Leaving') from the Industrial Society's book, *Design of Personnel Systems and Records*, London: Gower, 1969, and for Figure 13.2 ('System Capability Factors') from M.G. Christopher, et al. *Distribution Planning and Control*, Farnborough: Gower, 1977.

R.G. Bassett and *Accountancy* for Figure 18.4 ('Vehicle Control Report') in modified form, plus an argument that generally follows the lines of that contained in R.G. Bassett, 'Costing and Pricing of Fleet Operations', *Accountancy*, Vol.83, No.947, July 1972, pp.22–25.

David M. Scott (of P.E. Consulting Group Ltd.) for Figure 5.2 ('Quality Cost Report') taken from a paper presented by Mr. Scott at a P.E. Seminar entitled 'Profit from the Financial Management of Quality'. (This paper is reprinted in B. Folkertsma (ed.): *Handbook for Managers*. London: Kluwer-Harrap. 1972.)



- The Institute of Cost and Management Accountants for several items from '*The Terminology of Cost Accountancy*', London: I.C.M.A. 1966, (Revised ed., 1974), used in modified form in the Glossary.
- Her Majesty's Stationery Office for several items from H.M. Treasury's booklet, '*Glossary of Management Techniques*', London: H.M.S.O. 1967, used in modified form in the Glossary; and for Figure 17.10 (Form P11D) which is Crown copyright material.
- Sir Isaac Pitman and Sons Ltd. for Figure 15.15 ('Network'), and Figure 15.16 ('Bar Chart') from K.G. Lockyer, '*Factory Management*', London: Pitman, 2nd Edition. 1969.
- Macdonald and Evans (Publications) Ltd. for Figure 8.5 ('Fixed Budget'), Figure 9.13 ('Process Cost Sheet'), and Figure 11.10 ('Direct and Indirect Overhead Cost Summary') from W.W. Bigg, '*Cost Accounts*'. 8th Edition. 1963.
- McGraw-Hill Book Company for Figures 17.1–17.3 from P. Carroll, '*Overhead Cost Control*', New York: McGraw-Hill. 1964 edition.
- Martin S. Downer, ACMA, MCIT, Controller – Management Information Services, Freight Transport Association, and the Editor of *Accountants Weekly* for Figures 18.7–18.9 (with modifications) and an argument based on that contained in Mr. Downer's article, 'Profitable Use of Company Transport', *Accountants Weekly*, 15 December, 1972.
- Prentice-Hall, Inc., for Figures 9.16–9.18, 10.2, 11.6 and 11.9 from C.T. Horn-gren, '*Cost Accounting – a managerial emphasis*'. Englewood Cliffs, N.J.: Prentice-Hall. (1st Edition). 1962.
- The Editor of *Accountancy*, for Figure 15.3 ('Types of R and D and Dist-inguishing Criteria') from Tony Buckland's article, 'Can You Account for R and D?', *Accountancy*, Vol.85, No.968, April 1974.
- Allan Witts (of the School of Economic Studies in the University of Leeds) for the illustration on the pricing of material issues contained in Chapter 9.
- The Financial Executives Institute (U.S.A.) for Figure 4.6 ('Controllorship and Treasurership Functions Defined by F.E.I.') from *The Controller*, May, 1962.
- The American Institute of Certified Public Accountants for Figure 4.7 ('Job Description: Controller') from E.B. Cochran: 'What is a Controller?', *Journal of Accountancy*, July, 1955, (pp.46–53), and for Figures 10.3–10.8 (from L.G. Rayburn: 'Setting Standards for Distribution Costs', *Management Services*, Vol.2, No.2, March-April, 1967. (pp.42–52).
- The Planning Executives Institute (U.S.A.) for Figure 8.16 ('Statement of Duties and Responsibilities of the Budget Director').
- The English Universities Press Ltd. for Figure 4.12 ('Predictability of Behaviour Patterns') from Stafford Beer's *Cybernetics and Management*, London: E.U.P. 2nd ed., 1967. (p.18).
- The Editor of *The Journal of Business Finance & Accounting* for Figure 4.14 ('The Business Organisation as a System') from E.A. Lowe: 'The Finance Director's Role in the Formulation and Implementation of Strategy: A Framework for Financial Strategy', *Journal of Business Finance*, Vol.4, No.4. Winter, 1972. (pp.58–70).

- Elsevier Scientific Publishing Co. for Figures 9.1 ('The system/product/project life cycle') and 9.2 ('Total life cycle cost') from B.S. Blanchard: 'Life Cycle Costing – A Review', *Terotechnology*, Vol.1, No.1. 1979. (pp.9–15).
- Hutchinson Publishing Group for Figures 15.8–15.12 from I. Holden & P.K. McIlroy, *Network Planning in Management Control Systems*, London: Hutchinson Educational, 1970.
- Richard D. Irwin, Inc., for the basis of the discussion of variance analysis for distribution cost control in Chapter 11 contained in L.G. Rayburn: *Principles of Cost Accounting with Managerial Applications*, Homewood, Illinois: Irwin, 1979. (pp.453–6).
- The Macmillan Company (U.S.A.) for Figures 13.3–13.6 based on material contained in B. Berman & J.R. Evans, *Retail Management: A Strategic Approach*, New York: Collier-Macmillan, 1979.
- The Institute of Internal Auditors for the *Statement of Responsibilities of the Internal Auditor* reprinted in Chapter 13.
- The Director of the Centre for Interfirm Comparison for Figure 18.10 ('Road haulage – factors affecting the vehicle operating cost/revenue ratio') which appears in H. Ingham and L.T. Harrington, *Interfirm Comparison*, London: Heinemann, 1980, (p.75), and Figure 18.18 ('Pyramid of main distribution cost ratios') from *Distribution Cost Comparison – Proposals*, C.I.F.C., August, 1980.
- The Editor of *Management Accounting* (published by the National Association of Accountants, New York) for Figures 16.7–16.9 from B. Gold: 'Practical Productivity Analysis for Management Accountants', *Management Accounting* (U.S.A.) Vol.61, No.11, May 1980. (pp.31–5, 38 and 44).

At the University of Sheffield the main burden of preparing the typescript for this edition, in the face of tight time limits, fell on the very capable shoulders of Mrs Marie Boam who coped with her usual enthusiasm and competence. My indebtedness to her is very considerable.

At Gower Publishing Malcolm Stern's guidance and sponsorship has proved invaluable in the development (and appearance) of the revised edition, as has the editorial skill of Ellen Keeling.

As well as expressing my gratitude to all those named above for their generosity and help, I cannot omit reference to the vital role played by my wife, Gillian, in providing the supportive environment that allowed this revision to be written.

R.M.W.

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# Introduction

Whilst the title of this book might suggest that it is intended for an audience composed of accountants in general, or cost accountants in particular, this is far from being the case. It is a book for managers: whether he has a specific responsibility for production, administration, marketing, or some other activity, each manager must have a well-developed awareness of the basic methods of financial control if he is to perform at a high level of effectiveness.

Such an awareness will tend initially to be related to a manager's immediate area of specialism. The argument of the book starts from the premise that cost is synonymous with *sacrifice*, and it is assumed that managers will wish to minimize (in so far as they are able) the sacrifices involved in achieving given outcomes. However, their awareness really needs to extend beyond the area of functional specialism to embrace the interfaces with other specialisms, since minimizing costs in any one area is more than likely to cause an increase in the costs of another area. It is beneficial, therefore, to consider cost control in an overall corporate context so that the impacts of different courses of action on the organization as a whole can be seen.

Let us develop this perspective a little to consider managerial functions within a corporate context. In a typical manufacturing-marketing company one will find the various functions that are considered individually in Part Three of this volume, namely:

- Administration
- Research and development
- Manufacturing
- Marketing (order-getting)
- Distribution (order-filling).

These functions can be categorized in this way as a result of their differentiated roles: i.e. each one does something different. (It is vital to recognize, however,