WILEY

The Costing Problem by Edward T. Elborne

Review by: H. W. M.

Journal of the Royal Statistical Society, Vol. 83, No. 1 (Jan., 1920), pp. 154-156

Published by: [Wiley](#) for the [Royal Statistical Society](#)

Stable URL: <http://www.jstor.org/stable/2340889>

Accessed: 18/12/2014 22:54

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at
<http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Wiley and Royal Statistical Society are collaborating with JSTOR to digitize, preserve and extend access to *Journal of the Royal Statistical Society*.

<http://www.jstor.org>

“on the other hand, Great Britain’s peculiar geographical and industrial position and her reaction towards the vicissitudes of a long war would probably have persuaded her to adopt the more energetic measures. In temperament Great Britain would be the more hesitant; yet circumstances would have conspired to induce her to more radical action.” F.W.

10.—*The Costing Problem*. By Edward T. Elborne, Consulting Engineer. ix + 138 pp. The Library Press, Ltd. Price 4s. 6d. net.

Mr. Elborne, who is well-known for his large book on Factory Administration and Accounts has brought together in this little book an article on “all-in costs” and two lectures on “the functions of factory accounts” and “approximation in factory accounting,” prefaced them by a chapter on “the necessity for costing,” and added appendices containing extracts from the Federation Printers’ cost-finding scheme, extracts from the report of the Committee on Commercial efficiency appointed by the Federation of British Industries, and a lecture by Lieut.-Colonel O’Meara on “The Functions of the Engineer: his Education and Training.”

“Factory costing” he defines as “essentially the allocation of factory expenditure requisite for obtaining production cost per unit of product, or unit of sales, in terms of money.” The uses of the resulting figures are four-fold. First, industrial, “for discussing wage-rates and establishing industrial co-ordination.” This is a new aspect but “it is a belated recognition that Labour is a partner in industry with Capital and with Management, and if it is to carry the responsibilities and receive the rewards of partnership it must be informed of the results of its collective efforts, and their relations to trading results.” The Pottery Trades Industrial Council have set an example in the frank discussion of costs with labour. The technical use of costing for establishing production efficiency and the elimination of waste has been much neglected in this country compared with America and Germany, where concentration on special lines of product has gone so far as to make every means of increasing efficiency valuable. Thirdly, the commercial use of costing in establishing a basis for selling prices is evident in preference to the usual haphazard methods of estimating costs. Finally, costs can be utilised for financial purposes, in the record of stock and work in progress. The factory accountant must, consequently, be a good deal more than a costs clerk; he is in a sense the factory trustee, for his records form the check on the whole enterprise and afford the sole basis on which prices of goods and wages of labour can be fairly calculated. He must not interfere in administration, but he should take a living interest in the administration of the factory and particularly in the methods for compiling the records of work and materials which are the basis of his accounts. The engineer, on the other hand, should understand enough of the commercial side of his business to appreciate the value of factory accounts and co-operate

with the accountant in the accurate ascertainment of cost of production.

Mr. Elborne sketches very lucidly the principles on which the proper apportionment of costs to unit of product can be made. The prime costs—material and direct labour—are relatively easy to deal with, and secondary wages (supervision, inspection, &c.) can often be allocated directly to a job or to a group of workers. More trouble arises with “on costs,” or “shop charges,” or “overhead expenses,” between which and “prime costs” there is no clear dividing line. The allocation of these so as to bring out the true cost of a unit of product may be of great importance, for in an engineering machine shop they may amount to as much as 150 per cent. of the direct wages. The ordinary method of applying the total expenses as a flat percentage charge on the manufacturing wages expenditure is sound enough when all the operations are on the same class of work at similar rates of wages; otherwise it may plainly lead to grievous error, and Mr. Elborne’s suggestion that the time during which each producing unit is at work should be taken as the basis of allocation is obviously preferable. A useful table is given showing a provisional basis for the apportionment of all overhead charges among the various departments of a manufacturing business.

It is impossible here to criticise in detail, but a little may be said on some points. Mr. Elborne urges that interest on capital should be included in production costs in order to establish the right of Capital to a minimum remuneration apart from the awards of Management. This at once introduces great difficulties, especially if these costs are to be shown to and form the basis of discussion with Labour. Disputes will certainly arise as to what is the capital of the business, the basis of its valuation, and whether part of the nominal capital has been lost though not written off. The rate of interest to be allowed is also disputable—the Printers’ Federation stipulate for “at least 6 per cent.” as a factory “cost,” and claims will be raised that only debenture interest should be included or only the Government loan rate allowed. And if a minimum rate is guaranteed to pure and unconditioned capital, the employees of a limited liability company will raise violent objections to the “idle” shareholder taking all the surplus profits under the head of “risk.” Scarcely in this way lies the path to “industrial peace”! More difficulty arises with the manager-employer—the moderate-sized business owned by an individual or partnership. The Committee on Scientific Management and Reduction of Costs appointed by the Industrial Council for the Building Industry (of which an excellent account has been published by the Garton Foundation) recommended in an interim report that such an employer should declare his own salary, his estimation being subsequently reviewed by the trade. Thus, adequate wages to labour, a fair salary to management, and a regular (but not defined) rate of interest for the hire of capital were put on an equal footing, but then the surplus earnings of the industry were to be pooled and applied to common services. A solution does not

appear, but enough has been said to show that more than technical considerations are involved in the accountancy treatment of capital. Mr. Elborne unfortunately does not give any guidance in the treatment of by-products, one of the most difficult of problems. The meat-packing industry places the returns from hides and "offal" (calculated on an empiric basis in advance of actual receipts) to the credit of the meat account, just as the engineer treats the value of his "swarf" as a rebate on the cost of material, but this method would hardly be applicable in the chemical industry where many products from the same producing unit may have to be treated as inseparably linked in equal importance, and overhead charges may have to be divided on an arbitrary basis.

To the public administrator private cost accounts will be of importance not only in relation to wages—which are becoming every day more of a public interest—but also in relation to the total costs of production, if the State by Profiteering Acts or otherwise is going to exercise any supervision over prices. To the statistician and to the statesman, factory accounts will appear as the raw material on which censuses of production (both as at present limited and still more if their content is extended) will be built up and wage-costs under different methods of payment or in different combinations of labour and machinery can be tested. It is not possible for anyone not actively engaged in factory administration to go into all the minutiae of the subject, but the elements should at least be studied, and nowhere better than in this little book by Mr. Elborne, which is in every way to be highly recommended. H.W.M.

11.—*Australia: Problems and Prospects*. By the Hon. Sir Charles Wade. 111 pp., 8vo. Oxford: The Clarendon Press, 1919.

In an eulogistic "foreword" Sir Charles Lucas describes this book as an "excellent complement" to the "longer work" by Sir Timothy Coghlan—the "exhaustive" "standard history of the island "continent" as he justly calls that treatise—which was recently reviewed in this *Journal*. He, like the author himself, refers appropriately to the illumination cast on the dark problems of the people of the British Isles in the present trying period of "reconstruction" by the experience of Australians, as our "democratic kinsmen overseas" have approached, "sometimes with success," but also, we observe, he adds, "sometimes not," "social and "industrial questions," "State utilities," "land settlement and so forth." Sir Charles Wade, once Premier of New South Wales, and the successor of Sir Timothy Coghlan as Agent-General in London, has expanded into this essay, the size of which is, of course, modest compared with the *magnum opus* noticed previously, some lectures delivered a "short time ago" at University College. He deals successively with the "climate and resources" of Australia, with "industrial and social problems," with "State undertakings "and finance," with the "constitution," with "land settlement,"