

VALUE OF THE COST SYSTEM

Now Being Adapted to Small Business, and Bankers Should Encourage its Use

IN the fifth of a series of articles on the problems of manufacturers, the "Teller," issued by the Sterling Bank, urges branch managers to advocate the use of cost accounting. The article says:—

"Cost systems are an essential part of modern scientific business management. For the capital invested in a business proves just as efficient as are the brains employed to handle it; and the best guide for brains is analysis. That is the function of a cost system—to give the manufacturer a detailed knowledge of his business—and to give him this detailed information regularly and automatically. Through efficient cost systems, concerns which have been operating at a loss or finding it hard to break even, have been placed on a sound profit-producing basis.

"Business men are therefore becoming awake to the value and need of a cost system. In the small town, manufacturers are now beginning to learn more about cost systems and to adopt them. Soon the concern will be rare which does not use a cost system of some kind or other. This has special interest for bank managers. For the small-town business man is as a rule a production man, a man who has developed his business from small beginnings largely through his own work. He is a good craftsman rather than a good business man—a manufacturer rather than a manager. What more natural than that he should go to the banker for information when he thinks of installing a cost system—or than that he should give careful hearing to a banker's suggestion that he should adopt a cost system?

"Again, what better qualification can a manufacturer offer when asking for a loan than that he uses a cost system which gives him a complete control of his business—which details every item of cost from raw material and labor to overhead or selling expenses?

"In view of these two facts, it is surprising that bank managers have taken so little interest in the matter of systematic cost-keeping. Very few of the men in charge of branch banks anywhere can talk intelligently and helpfully on cost systems. Yet such knowledge is one of the best means he has at his command for getting and keeping business. He can use the cost system idea not only in interesting the manufacturer, but the farmer, the merchant or the wholesale house.

"As you go into this question of a cost system with manufacturers, you will find that some, no doubt, have long intended to keep costs, but have never found the time or had the required knowledge and expert help to get started on a working basis. Others, perhaps, have been afraid of the expense entailed by extra clerks, etc. But it has been amply proven that complete records of the use of material, labor and expense, can be gathered without any great expenditure for clerical help and the economy affected has been very great.

How the Bank Benefits

"Remember this point: \$1,000 invested in improvements or analysis that creates a saving of \$3,000 in five years pays a dividend of 60 per cent. per annum. And that is but a reasonable estimate of the saving effected by a cost system. Too much attention cannot be paid to the manner in which the data obtained from the cost sheets is presented in the form of reports. Failure to have the resultant facts clearly presented and the consequent inability of executives to interpret and act on the information given, is the chief reason for curtailment in benefits resulting.

"Many plants have found on analysing the report after the starting of cost keeping, that some of the products, instead of being a source of revenue, are actually showing a loss; and if the selling price cannot be raised, it is better to stop their manufacture and concentrate on products which show the best net result.

"Besides the direct results obtained by keeping systematic records, there is an indirect benefit of no small value in the responsibility felt immediately by the foreman for

supplies, repairs, etc., charged to his department, an excess in which might show to his detriment in the office. Even the operators will greatly improve the quantity and quality of their work, once they learn that the result of each job is a matter of record.

"Cost reports should show a complete detailed picture of the whole business. They should show how much money is tied up in fixed assets, inventories and accounts receivable. In this way, they will show whether the inventory carried is too much as compared with the turnover—will show whether all the possible capital is working.

"The cost of material, labor and selling should all be known to the executive. With a cost system a close account can at all times be kept. If one becomes in proportionately large, it is at once noticed and the reason ascertained, the fault remedied. All overhead cost, too, is included with a cost system and this is an item that no executive can afford to overlook. Selling costs are looked after by a cost system, not only in general, but in every way. The cost of selling so much of a certain product in any locality is always available.

"The bank manager who is really ambitious, who wants to get new business and to get it on the right basis—of confidence and service—will do well to give some study to cost-keeping methods. He can learn much from talks with clients who already use a cost system. He can learn a lot from business magazines. He can learn a lot from his personal examination of his customers' problems."

EMPLOYMENT CONDITIONS IN CANADA

Weekly reports from employers to the Dominion headquarters of the Employment Service of Canada, Department of Labor, indicate that, apart from unemployment due to strikes, there was an appreciable increase in the volume of employment during the week ended September 6th. Returns have been tabulated from a greater number of firms than hitherto and the number of persons on payroll of the firms reporting is now well over the half-million mark.

Returns for the week ended September 6th show that 3,874 regular firms—firms which had reported for that and the preceding week—reported to the Employment Service of the Department of Labor as compared with 3,595 for the preceding week and 3,623 for the week ended August 23rd, the greatest number previously tabulated. Of those reporting, 296 were in the Maritime Provinces, 1,966 in Ontario, 815 in Quebec, 484 in the Prairie Provinces, and 313 in British Columbia. The number of persons employed by these firms on September 6th was 530,848, as compared with 526,318 by the same firms during the preceding week, an increase of 4,530 persons, or .86 per cent. A further increase of 3,218 persons or .6 per cent. was anticipated for the week ending September 13th.

The plus industries—those that registered net increases in the number of persons employed—were: Commercial and mercantile, which registered an increase of .89 per cent.; clay, glass and stone products, 1.6 per cent.; food, drink and tobacco, .41 per cent.; metals, .89 per cent.; textiles, .75 per cent.; vehicles, 2.5 per cent.; quarrying and mining, .38 per cent. and railway operation 2.9 per cent. With the exception of the vehicles and commercial and mercantile groups, all the plus industries anticipated further appreciable gains during the week ending September 13th. Textiles expecting an increase of 1.95 per cent.; railway operation, 1.1 per cent.; food, drink and tobacco, .71 per cent.; metals, .33 per cent.; clay, glass and stone products, 2.9 per cent. and quarrying and mining, .39 per cent. Vehicles anticipated a decrease of 1.1 per cent.

The minus industries—those that registered net decreases in the number of persons employed—were: Building and construction with a decrease of .53 per cent.; lumbering, .25 per cent.; chemicals, .9 per cent.; leather and leather products, .37 per cent.; pulp, paper and printing, .07 per cent.; wood-working, .52 per cent.; railway construction, .79 per cent.; and miscellaneous, .64 per cent. Compensating increases in all groups were anticipated for the week ending September 13th, lumbering expecting the greatest gain of 2.12 per cent.