

## COST OF PROCESSING AN ORDER

*B. Hand*  
*this is your only*  
*copy* ①

In examining the costs related to the processing of an order, a certain viewpoint must be established. It involves looking at the problem from the following standpoint -- which costs are directly assignable to the number of orders placed or processed and which costs are dependent upon the size or complexity of the order. This means that certain costs which are definitely part of the processing charges must be ignored, since they are not controlled by the number of orders placed. Certain examples of this include 100 percent inspection, foremen's duties, supervisory responsibility and general overhead.

Therefore, in this analysis we will consider only those charges which are directly assignable to the existence of an individual order. These charges can normally be broken down into four phases:

1. Origination of the order
2. Processing and/or procuring the material
3. Storing and disbursing
4. Recording and paying

As a further sub-division, it will frequently be advisable to break down your orders into the following types:

1. Outside vendor
2. Contributing division
3. Allied plant
4. Internally machined
5. Combinations of the above

Where a problem of ordering both stock and non-stock material exists, you may want to make a further breakdown into these two headings.

On the attached page are listed some of the factors which must be considered in evaluating the cost of processing an order for a specific department.

These are two ways of establishing these detailed costs. The first which might come to your mind is to use some sort of a time study approach whereby you actually examine how much time it takes, as an example, for an order clerk to write one order card, multiply this by his hourly rate and come up with the cost of writing one order. However, it has been found that a second approach seems more realistic. This involves the accumulating of output data from each of the various functions. These output figures, taken over some period of time as, for instance, a month or a year, are then divided into the total amount of money spent for that activity during this

same period. These data are readily available in most departments and benefits are obtained just from the analysis alone. For instance, in Steam Turbine it enabled them to specifically allocate every person's activities to a particular function associated with the processing of an order.

The existence of these data should serve in the following ways. First, as aiding in the decision of an economical order quantity to purchase or manufacture. Second, as a guide to areas of potential cost reduction; and third, as control figures to supervision to enable them to compare their own standings to that of the department as a whole.

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## CHARGES ASSIGNABLE TO AN INDIVIDUAL ORDER

### Outside Vendor

1. Originate
  - a. pull order cards  
from P. L.
  - b. write order, mark PL
  - c. type 3x5 hecto master
  - d. duplicate paperwork
  - e. distribute paperwork
  
2. Process and Procure
  - a. place and expedite order  
by Purchasing
  - b. maintain progress file
  - c. file stockroom P. W.
  - d. maintain Receiving File
  - e. expedite order by  
Production
  - f. Receive
  - g. Inspect and Lab  
Release
  - h. Deliver to stockroom
  
3. Store and Disburse
  - a. Place in location
  - b. Store
  - c. Accumulate
  
4. Record and Pay
  - a. Authorize payment
  - b. Pay (Accounting)
  - c. File (Cost)

### Internally Machined

1. Originate
  - a. pull order cards  
from P. L.
  - b. write order, mark PL
  - c. type 3x5 hecto master
  - d. duplicate paperwork
  - e. distribute paperwork
  
2. Process and Procure
  - a. attach blueprint
  - b. Plan
  - c. type or dupl. vouchers
  - d. maintain progress file
  - e. file stockroom P. W.
  - f. maintain Prod. Index File
  - g. Expedite order by Prod.
  - h. Deliver to factory
  - i. Dispatch
  - j. Move in factory
  - k. Follow Prod. in factory
  - l. Inspect
  - m. Deliver to stockroom
  
3. Store and Disburse
  - a. Place in location
  - b. Store
  - c. Accumulation
  
4. Record and Pay
  - a. Pay (Payroll & Time-  
keeping)
  - b. File (Cost)

Notes:

1. VARIABLE COST ONLY
2. CARRY ONLY UP TO POINT OF LOSS OF  
IDENTITY