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A. J. Koenig
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POOLING OF VARIANCES - AROCLOR

J. L. Corder
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As you know, our strategy of maximizing WGK Aroclor production with Anniston essentially down has created a distortion in cost of 1221 and the blends made from it, since the large unscheduled capacity variance flows against very few pounds. The result has been that the 6000 series blends have shown a loss on the No. 6 report when they are actually profitable.

We had considered pooling the Unscheduled Capacity variance between WGK and Anniston. However, this would have created a distortion in the opposite direction because of conversion variances which partially offset the Unscheduled Capacity. Therefore, accounting has implemented a new system, effective YTD on the May No. 6, which all variances are pooled between WGK and Anniston liquid Aroclor. This is done as an adjustment to the input to the No. 6 Report and is not reflected in the Production Cost Reports. Aroclor 1221 and the 6000 series now show Gross Profits ranging from 30 to 40% which is about right.

In an effort to accomplish a partial correction in this same direction, we have been transferring Toxicological Expense from Amiston to WGK, on the basis that we were protecting WGK production, rather than Anniston, to some degree. This has had the disadvantage that the quarterback who pays the bill is not able to examine the validity of the charges. Now that variances are being pooled, the need for this transfer of charges is gone while the disadvantage remains. Therefore, this practice should be stopped and a correction made to the June Cost Report to pull back the YTD transfers, the latter because each month's No. 6 is a new YTD calculation.

As a corollary, I want you to become familiar enough with the Toxicological Expense situation to confirm that the rest of the year will be on budget.

J. R. Savage

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