

The same result may be obtained by plotting the cost against the reciprocal of the production on a reversed arithmetic scale (Reciprocal Scale)

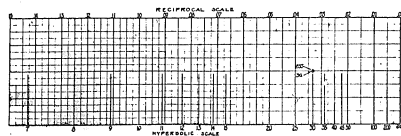


Figure 5

advocates of budgetary control stated that the accounting department was best equipped to give the facts as to the relationship between actual and budgeted expenditures. However, most of these writers stated that the reports of the cost department were too slow to be of any use and it was ordinarily recommended that the budget committee obtain their information from other sources. However, we shall find in the more recent literature on budgets that the accounting department is playing a predominant part in the reporting of performance as measured by budgets. This change of attitude is due to the improved methods used by modern factory accountants.

With the development of standard costs and the utilization of the exception method of accounting, it is possible for costs to be arrived at much more quickly than formerly. When such standards are used, the regular operations are grouped and costed almost automatically. It is only necessary to give attention to the exceptions to the rule. Such exceptions usually give rise to entries in variance

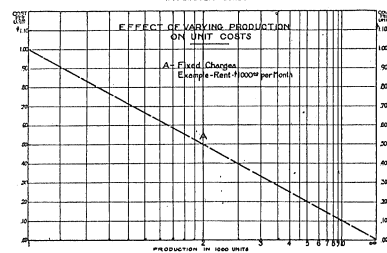
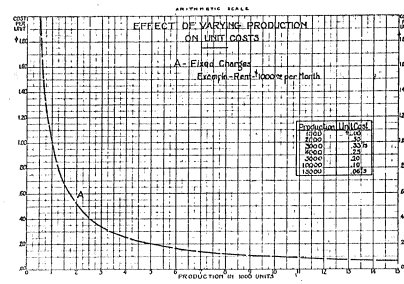


Figure 6

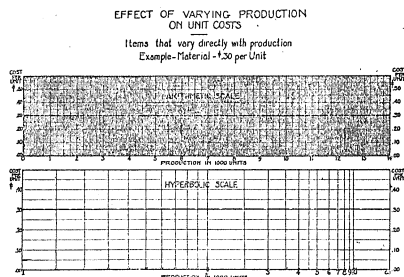


Figure 7

accounts and show up on the periodic statements as variances from the budget. Such methods require much less clerical work than former methods and consequently statements may be issued much more promptly than formerly.

Besides improved accounting technique, modern offices are equipped with many mechanical devices

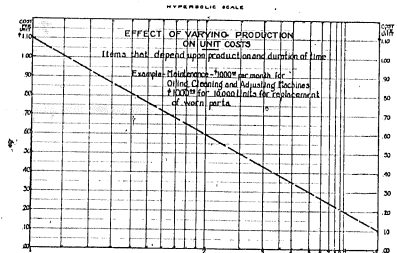
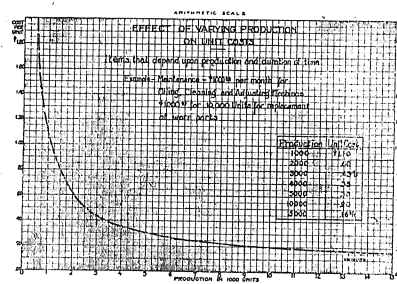


Figure 8

which make it possible for the accountant to make more prompt reports on past performance.

The common practice is to issue periodic reports which show the actual cost, standard cost and the variance, together with such explanation for these variances as is necessary. Here, again, there are many types of techniques and usually the technique is governed by the methods employed in making the budget in the first place. I wish to refer again to our exhibit on which we have tried to show some of the ways in which modern businesses have been showing the actual and standard costs or the budgeted expenses with the actual expenses and variances to date.

In these few minutes, I have tried to point out that the cost accountant has a very real role to play in the program of budgetary control in American business. In the present era of keen competition, we find that our progressive accountants have risen to the occasion. We find more and more co-ordination between accounting departments, standards departments, planning departments, and bud-

get committees. Such co-ordination results in useful interchange of information and viewpoints. This results in unified action and the development, on the part of all departments, of methods that can be co-ordinated into thorough-going systems of budgetary control of revenue and expenditures. In the accountant's literature we find more and more reference to budgetary control and discussion of how it may be best carried on. These are all steps in the right direction and I wish to appeal to the accounting profession, now, for a continuance of this effort in order that the future common practices of factory accounting may provide for full and complete systems of budgetary control.

Discussion

John Balch.² In our opinion Mr. Hovey's second definition is one of the best on budgetary control. It is comprehensive and concise and goes to the heart of the question.

Mr. Hovey has covered the subject very ably from the point of view of a large manufacturing concern. There are, however, thousands of small concerns which are sadly in need of the help that budgetary control can give them. Many assume that the introduction of budgetary methods involves increased overhead costs which they hesitate to take on. This is a deeply rooted idea which needs to be disposed of. It is our experience that in almost every organization there is some individual who can go ahead with budgetary plans if he is given the proper direction and authority.

As Mr. Hovey says, however, it is absolutely necessary that the responsible head of a business be vitally interested in budget records. It seems paradoxical to suggest that the head of a business may not know all there is to know of his own business, but the average chief executive is blind to his own limitations. An outstanding example of the opposite is the successful Mr. Henry Ford, who has so ably supplemented his own ability with the advice of experts. We do not find many Fords in business today.

We must educate our executives. Once they realize the value of comparative records in reasonable detail, with fixed responsibility for results, they are usually glad to use their authority to install budgetary methods. It is not necessary to have

²Certified Public Accountant, Balch, Funk & Company, Philadelphia. Paper presented by Mr. W. H. Funk.