

The important thing is the direction of performance and control under the budget. I have repeatedly heard it said that sales expectancy could not possibly be realized and yet under expert direction and the use of budgets the salesmen have more than realized their quotas.

**Eugene Y. Allen.**<sup>4</sup> In working out an operating budget for a manufacturing concern it is important that the man who has to meet that budget be kept informed of his costs. If the budget is on a monthly basis in an industry where labor and materials costs vary widely, I should like to ask Mr. Hovey how often he thinks the man should be advised of his costs. I know that it is fairly easy to report on sales from day to day, but costs are a different matter. In the railroads, for example, varying rates are paid for labor and preparation of daily costs might be very difficult.

**Floyd F. Hovey.** The more often information is made available and compared with budget figures the more desirable it is, of course. The companies I have mentioned prepare weekly statements of expense which give actual expenses in the form of percentages of the budget figures for direct labor, materials, etc. In this way the man responsible is acquainted with his own figures and immediately acts if they do not accord with the figures given in the budget.

The other day I received a letter from a Cleveland industrial engineer who was trying to set up a daily budget. He said his firm had a monthly budget which he did not find adequate to his purposes.

I know a large manufacturing company that sends to each of its executives a daily report of sales. This gives them an indication of the actual condition of the factory, shows the relationship of each department to the day's sales and has been found very valuable.

**George M. Arisman.**<sup>5</sup> It should be borne in mind that cost and price fixing are important elements in the economic application of budgets. Prices are fixed by the economics bearing on each individual in industry and on industry as a whole, and are

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therefore taken out of the realm of the control of individuals.

The cost of raw materials and the wages of labor are fixed because of the economics of today. Material utilization and labor efficiency may well be controlled and measured through standard costs, which are one part of budgets. Expense budgets, through proper analysis, application and control, may also be used advantageously in predetermining the costs of a product, or products, in order to attain a reasonable profit on the basis of the prices as fixed by competition or other elements in our economic situation.

A budget of expense to be practical should not only be used for controlling expense but should be a means of showing, through analysis and application, whether the planned burden of costs is excessive in relation to a fair margin of profit. If this analysis of expense in the budget shows an excessive or misapplied burden, then ways and means should be employed to reduce the excess burden per unit and principally the fixed burden. The variable burden will take care of itself under budgetary control, in the same manner as material and labor, which are variable and controlled by standard costs when these are known, are taken care of. Through the addition of product volume, by increasing sales of present products or adding new ones without increasing the fixed burden, unit costs will be lowered as well as fixed burden reduced as a result of expense budgets and their analysis. Thus the individual may be able to lower his costs on all commodities before operating in order to attain a volume sufficient to produce the desired margin of profit on the business as a whole or on each product individually.

Further, by this analysis of predetermined burden, he may be able to add to his line products which are not in themselves profitable. Because of the fact that he has economically absorbed his burden, however, they will enable him to make more profit on the business as a whole and on the employed capital, which will not have been greatly increased because fixed expenses were held constant.

In summarizing, through intelligent expense budgets set up according to fixed and variable expenses, it is possible to establish practical costs, which will allow a business to attain greater volume and thereby greater profits through decreased unit costs of its products.

**George G. Berger.**<sup>6</sup> In these days of dynamic business conditions the necessity for growing standards is quite obvious. The budget based on last year's cost of production is generally out of line with current sales policies. Many executives have, in fact, consigned the budget to a warm place and are going out for business on rule-of-thumb methods, hoping at the end of the year to show profits.

My scheme is to give the executive a sort of current budget by acquainting him with recent costs of production. Necessarily, an accounting technique is required in which (1) costs of production are accurate and therefore related to the single competitive line only; (2) cost data are promptly obtained, and (3) the profit and loss statement is prepared without delay.

I have been concerned with securing a weekly profit and loss statement, incorporating these requirements, for a stamping plant. The conditions were as follows:

1. Fifteen thousand items were manufactured, some for stock and others on job orders.
2. About one hundred different types of raw materials were used.
3. The orders per item ranged from one hundred to one hundred thousand.
4. The nature of the trade made the lines very

<sup>6</sup>Industrial Engineer, New York, N. Y.

competitive; price lists were continually being revised.

In setting up the profit and loss statement by the week for the main competitive line the following classifications of costs were noted:

1. Certain items, such as sales, credits, labor charges, dirt removal, etc., are as accurately obtainable for the weekly period as for any other period and there are advantages in securing weekly statements on certain items, such as labor charges. There is no need then for the thirteen-month calendar or any necessity for pro-rating labor charges when the last day of the month comes in the middle of the week. The volume of accounting work is also substantially reduced, and there is closer control over accounting conditions.

2. Certain items, such as wrapping-materials expense, depreciation, etc., which must be predetermined for the monthly statement, are as easily set up for the weekly statement.

3. Items such as telephone expense, power, etc., which are accurately obtainable after the period for the monthly statement, may be forecast with sufficient accuracy for the weekly period. In fact, it may simply be shown that any inaccuracy due to such forecasts does not seriously affect the net profit and the sales policy. At the end of the fiscal year these forecasts are replaced by the actual charges.

FOR its own purpose, therefore, industry has come to demand of operating departments more and better standards. An effective budget must start with reasonably accurate forecasts of the probable activity of business in general, of the particular business, and of the sales of the items which it produces—in as predetermined quantities and prices as is possible. It must then be built up with reasonably accurate forecasts of all production costs involving predetermined requirements and costs of materials, machines, tools, labor and overhead. This is one reason for the rapid and widespread increase of time study during the past decade, and for the development of such mechanisms as standard costs.

The experience of scientific management in general administration has brought out an important

fact, . . . that the development of a technique of general administrative research, standardization and control indicates that there may be no limit to the manageable size of enterprises; that, if we learn our lessons of experience and develop our technique accordingly, probably whole industries and the grouped industries of national and international areas may be made subject to a manageable control. There are now in the United States and Europe consolidations of enterprises, diverse as to the nature of their products and geographically widely scattered, which are managed more effectively than even small enterprises were managed a decade ago. (H. S. Person, *Scientific Management as a Philosophy and Technique of Progressive Industrial Stabilization*, to be delivered before the International Industrial Relations Association Congress, Amsterdam.)