

tries and services where the element of skilled and semi-skilled human employment is most important. As business thinkers our attention has not been fixed on them. We hardly consider them. We have difficulty in envisioning and describing them. We should consider them and encourage them for the sake of general business balance and stability.

We must add to our thought of labor saving the thought of labor utilization. If industry applied its labor saving because of a broader demand for labor instead of a mere desire to save in labor costs, the result would help the business man even more than the laborer. If our business research could tell how to turn the scale so that labor rather than employment was at a premium, the increased purchasing power of the masses would create a much higher degree of business stability and prosperity.

Has our business research facts enough and of the right kind to bring about such a result? Probably not yet. But we need them most vitally.

Perhaps the greatest need for newer and better facts and more of them is in the field of the distribution of goods. We know all too little of this field, but serious steps are now being taken to fill this need. The Census of Distribution and many other pieces of research work, both public and private, are creating a vast new fund of useful information which will help the business world toward stability and will, undoubtedly, serve as a basis for much fruitful planning on the scale of whole industries, and even on a nationwide scale.

THE limitation of production, whether in the raw-material or fabrication stage, seems to be a necessity for the health of an industry or trade. Its menace is no longer feared as a means of creating a shortage or of increasing prices, because the economic penalties of a misguided or extreme policy are even greater than are signified by existing legal restraints. These economic penalties, especially of subsequent overproduction or of the encouragement of substitutes or of the loss of consumer good-will, are unfortunately too often

To secure business stability we should have an economically balanced situation between savings for capital and funds available to maintain current consumption. We should also have a balance between labor saving and labor utilization. And we must have more efficient systems for the distribution of goods. We have started to acquire knowledge on the latter, but lack even the basic facts with which to attack the other two problems. We must first get the facts. We must then somehow organize our individualistic society so that we can utilize a knowledge of the facts for effective planning of our economic life without incurring the danger of socialistic experiments, or what would be about as bad, bureaucracy or even a group of business czars.

In conclusion let me suggest that planning on the scale of any single industry needs to have as its basis a greater stability based upon a better balance in our whole economic life. To accomplish such balanced stability we need more facts with a broader basis of analysis. Facts on the scale of a single industry are inadequate. Planning and research on the scale of a single industry are inadequate. We need highly organized business research on the broadest possible basis, both public and private. We need planning and application of the results of research in a highly integrated, but non-socialistic and non-bureaucratic system. There is no call for unemployment for true business planners today.

delayed so long as to give unscrupulous or un-intelligent producers an opportunity temporarily or individually to gain at the expense of the permanent soundness of industry. The hopeful phase of the situation is that such conditions arise more probably as the result of a lack of intelligence rather than from the baser motives. Hence there is an opportunity for the trade intelligently to handle the situation. (Carl F. Taesch, *Policy and Ethics in Business*, McGraw-Hill Book Company, Inc., pages 549-50.)

Cost Accounting and Budget Making¹

The Place of the Cost Accountant in All Phases of Budget Making for Manufacturing Operations

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THE subject of our discussion this afternoon is to be the relation of cost accounting to budget making. Since my experience is limited to manufacturing industries, I will limit my remarks to apply to such industries. In order to clarify our thoughts on the subject, it might be well to consider what a budget is and what its place is in the organization of American business. The dictionary tells us that a budget is "a statement of probable revenue and expenditure and of financial proposals for the ensuing year." A more complete definition of manufacturing budgets is stated in the foreword of a recent publication of the Policyholders Service Bureau of the Metropolitan Life Insurance Company, entitled "Budgeting Manufacturing Operations": "A budget system has been defined as a systematic method of gathering information from the past and present, and of formulating plans for the future on this basis, and of reporting subsequently how these plans have been carried out. The application and use of this method of planning and recording give what is called budgetary control."

It will be noted from these definitions that there are two phases of budgetary control: (1) the preparation of estimated figures and plans for the operation of a business for a future period; and (2) the subsequent checking up on these figures by a comparison of actual with budgeted figures during the period for which the budget applies. We shall discuss the place of the cost accountant in each of these two phases of budgetary control.

What is the scope of budgetary control in a modern business? An examination of the literature on the subject will show that the budget in

¹Paper presented before a meeting of the Taylor Society, Philadelphia, Pa., May 1, 1931.

the modern business pervades the entire organization. Obviously, if we cover the entire field of revenue and expenditures in a modern business, we have completely covered the entire organization. A comprehensive budget will include a sales estimate. From this will be derived a production estimate, a balance-of-stores estimate, and a finished-goods-inventory estimate. On the expense side of the budget we shall have administrative expense, selling expense, factory overhead, material budgets, labor budgets and a budget for capital expenditures. All of these budgets will be combined into the financial budget. From this we shall get a statement of estimated cash receipts and estimated cash expenditures; also, an estimated balance sheet and estimated profit and loss statement. A much more complete classification of budgetary control may be found in any of the books on the subject. In this connection I might mention specifically the book "Budgetary Control" by James O. McKinsey of the University of Chicago.

It can be seen from this summary of the scope of a complete manufacturing budget that its activities involve the whole organization. In some cases, it has been found desirable to put budget making in the hands of a committee representing the various phases of the organization. In some cases, this committee is composed of staff men and, in other cases, it is composed of the line executives at the head of the various divisions of the business. Whether this committee is taken from the staff or the line, it should represent all departments of the business and should carry with it the authority and recognition of the executive head of the business. Oftentimes budget committees are headed by the president himself, usually assisted by staff members to take charge of the routine of budgetary