

a comptroller, an assistant to the president or a special budget officer. An assistant treasurer, a bookkeeper, a cost accountant or a senior clerk can be made responsible. It is indeed a lean organization which does not have some material that can be trained to take over the responsibility for a budget.

Since the budget deals with figures it is primarily an accounting record. Personally, we do not hold with those who wish to subdivide accounting responsibility. We realize that this is necessary in huge organizations, but we are limiting our discussion to the average-sized business. In this class we are discussing the problems of thousands of men. Therefore we say that the budget is part of the department of accounts, part of the book- or record-keeping of the office, and we place the cost work in the same category. It has been our experience that someone with cost training who is sensitive to cost problems is generally able to do more valuable work in connection with the budget. We heartily agree with Mr. Hovey that the cost accountant, if one exists in an organization, is the proper one to do the major work on the budget. With the diminution of a large amount of the old-fashioned historical cost work, with its endless distributions and redistributions, the cost accountant is gradually learning to handle his work with celerity. He is overcoming his one-time reputation for delay; it is now actually unnecessary for reports to be delayed, as they too frequently have been.

Budget records are not necessarily intricate. In some cases they may be very simple but very valuable. The work of making periodic comparisons may therefore be done with the average office material. This is particularly true of jobbing and wholesale houses where the classification of accounts is not large nor the departments numerous. If one installation where a nationally advertised brand was being distributed over a wide territory, we found that much unnecessary work was being done in the office. A very comprehensive budget was put into operation under the direction of a bookkeeper and without the addition of a single clerk. The executives were amazed to find that their own organization, without working any harder or receiving any more pay, was able to give them information they had never thought it possible to obtain. Yet they had been in business more than twenty years.

Budgetary comparisons often point to interesting problems, the consideration of which pays for the work of comparison many times over. Last year we set up a budget for a manufacturer of five distinct lines, with some thirty or forty departments, operating in several different cities. The best minds of the offices and plants enabled us to set up a good budget. In spite of dull business the net profits at the end of the year exceeded expectations by approximately 5 per cent. In the opinion of the president one thing was responsible for this result. Every department head was on his toes because he had committed himself to a certain budget and was trying to beat it. The results or lack of them were brought to his attention each month. Here was a case of failure to realize the budgeted sales or income while the budgeted net profit was realized. It goes without saying that expenses were well below the budgeted figure.

This illustrates the wisdom of making the budget flexible and at the same time shows what can be done. The comptroller was responsible for this plan and had to handle it without additional expense because his department was on a budget also.

We agree with Mr. Hovey that there must be fixed responsibility with respect to the various items of the budget. We have not always found it wise to set up a separate account for each item or class of items. Certain charges, however, should always be grouped in such a way that some foreman or department head is responsible for results. Manifestly no charges for which that foreman or department head cannot be held responsible should be included.

It always seems the part of wisdom in installing work of this kind to make as few radical changes as possible. As long as basic principles are observed and no misinformation developed we believe that the way the result is obtained is quite secondary.

There is one very important part of budget preparation which we should like to emphasize in closing. There must be real co-operation with the actual department heads who are to be held responsible. Figures should be submitted for their criticism and suggestion *before* the final budget figures are set up. If this is not done the purpose of the budget will be nullified at the start; it can have no value unless used. This means periodic comparisons and conferences with those responsible for results. You must be sure that the theoretically

responsible person is also the actually responsible person, and that he or she has fully accepted this responsibility, or you will not get the valuable results that your efforts warrant.

Arthur W. Marshall.\* I feel impelled to supplement many of Mr. Hovey's remarks with which I am in hearty general agreement. I should like especially to carry on his appeal and have every representative here go out and start a budget in his particular firm, no matter whether the company is a large or a small one.

For example, if we start with the advertising department in either the large or the small firm, it is quite simple to classify expenses according to periodicals, cost of cuts, printing, etc., and to adhere to that classification. I have seen these expenses controlled and held within limits for years and years. After budgeting the advertising department suppose we move on to the capital expenditures budget in the manufacturing concern. It is very simple to hold these expenses within certain definite limits, and the same is true as to plant repairs and plant expenses. So we could go on from department to department. The keystone of these budgets, and the most difficult to set up, is the sales budget.

In small companies, however, there is little need for the setting up of so many budgets. The owners and those in charge know the details but do not always have them under control. Mr. Hovey's charts should be suggestive for these companies. It will only be necessary to set up a standard sales volume and break down the estimated costs into the various items of expense in the light of past experience. Labor will make up a certain percentage, raw materials another, and so on. The total plant expenses may equal about 60 per cent of the sales volume. If the expense of selling and administration makes up another 30 per cent of this sales-volume standard, we have a 10 per cent estimated profit.

The gain is that we know something a year in advance. We have a picture of our expectations. What is a forecast we intend to make a reality. A budget is something which we prepare to arrive eventually at actual profits.

Mr. Hovey said that the cost accountant's field

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is the classification of accounts. I should go a step farther. The classification of accounts in itself is not of much value; what we must do is to control the operations that represent these accounts. Our accounts must be so set up that they are practically standard. I am not now advocating standard costs but the use of standards in accounting. What do I mean by standards? A company has about four hundred tank cars moving all over the country and serving several different departments. In order to control this expense it is necessary to set up a unit rate. It may be so much service per gallon—whatever standard is decided upon. When it is set up and the actual items of expense and cost per gallon compared with it we have control over that account. If costs are over standard we make an investigation to find out why. The more you break down your accounts into individual operating units the more uniform are your accounts and the more easily handled and understood.

I would venture to say that less than one per cent of the concerns in this country use co-ordinated budgets. Yet we must come to the use of the co-ordinated budget.

There has been much discussion of control by the co-ordinated budget. You have all heard of the five-year budgetary plan, especially in the utility companies where services are more or less fixed and it is fairly easy to determine in advance what you expect to do. I personally am in favor of budgeting for a year in advance for the ordinary company and correcting the budget in accordance with actuality at definite periods. At the end of April we should have four months of actuality and eight months of estimate. As we move closer to the end of the year we should have closer control.

I should like to caution you about the use of charts. They usually have a fascination for one but there are few who know how to use them fully. Graphs of actual sales as compared with budgeted sales may have a valuable place in any organization but I take exception to any general use of charts instead of statements. Their use may be valuable in operations such as mines, where there is only one unit of production. Where there are different units, however, each carrying different percentages of profit, it might take a draftsman's complete time to draw the charts for each department and commodity. They may be used in particular cases but not in all.