

BUSINESS BUDGETS
AND
BUDGETARY CONTROL

A. W. WILLSMORE

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TO
L. M. A.

PREFACE

THE broad idea of budget control in so far as it affords an outlook into the future is not new. No business can be operated without some sort of estimation of the future, even though the forecast be nothing better than a few half-formed ideas at the back of the manager's mind. But budget control entails more than a mere forecast of the future. It involves a concerted plan of action based on a careful consideration of all relevant tendencies and factors, and it is, in itself, a complete system for controlling costs and preventing waste.

If industrial management has learned anything from the recent trade depression it is that systematic forward planning is needed in large-scale industry to ensure co-ordination of production, purchasing and finance with probable future sales. It is gradually being appreciated that the very existence of any individual concern may well depend as much on the efficiency of its forecasting system as upon the efficiency of its production methods; and, as a result, many companies have turned to the application of budgetary-control principles as a means of planning their operations with an eye to the future. It is felt that this is a logical development that can be expected to take a permanent place in the mechanism of business administration.

Up to the present, the business man who is interested in the details and principles of budget control has been obliged to make use of American textbooks on the subject. It is believed that this is the first book on the practical application of budget control to business to be produced in this country.

The approach to the subject follows very closely the lines of a series of six articles published in *The Times Trade and Engineering Supplement* between 5th December,

1931, and 6th February, 1932. The book is, in fact, largely the outcome of the collection of the necessary material for this series of articles.

The author has drawn widely from his actual experiences in the application and administration of budget control in manufacturing industry, but no attempt has been made to present a ready-made budget plan that can be adopted without modification for any individual company. A comprehensive view is taken of the entire problem with the idea of establishing the basic principles that should guide the introduction and administration of the budget system, not only in manufacturing industry, but in any branch of activity involving cash outlay and cash receipts.

Grateful acknowledgment is due to the proprietors of *The Times* for permission to reproduce the substance of the series of articles on "Business Budgets" already mentioned. The author has embodied a large portion of several articles on management topics originally written for the *Electrical Review*, and would like to record his thanks to the proprietors of that journal for allowing him the use of their copyright in this material. Appreciation is also due to the editor of the *Manchester Guardian Commercial* for the privilege of including references from series of articles on Production Control and on Market Research.

Thanks are due to Mr. G. P. Fox, B.Com., for his assistance in reading the proofs.

A. W. WILLSMORE.

August, 1932

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BUDGET MANUAL

It has been suggested that where an involved budget technique is implied by the peculiar needs of particular firms, a budget manual may with advantage be prepared to ensure a proper understanding of budget aims and effective co-ordination of activities.

Such a budget manual would cover the objects behind the introduction of the system, the practical arrangements for its installation, and the dates by which the various estimates are to be prepared, and would fix the responsibility for the preparation and administration of these estimates. In effect, it would represent a programme for the detailed application of the principles already discussed to the particular needs of the firm in question.

A graphic outline of budget procedure is given in the accompanying illustration (Fig. 21). The figure indicates quite clearly the extent to which the various estimates interlock, one forming the basis for the other, and so on. The production budget, for instance, cannot be prepared until the sales budget has been completed, while the financial analysis cannot be made until after the preparation of all of the various operating budgets. The principal object of the budget manual is to ensure that all the various estimates are prepared at the proper time, so that the procedure runs along evenly to the completion of the entire programme, sufficiently far in advance of the period covered to enable proposed plans and policies to be introduced effectively.

By reason of the wide differences in individual practice, it is felt that no practical purpose would be served by the inclusion of a detailed budget manual. It may, however,

be advisable to indicate the framework on which such a manual might be prepared—

1. Aims and objects.

2. Organization.

(a) Budget committee—members, duties, meetings.

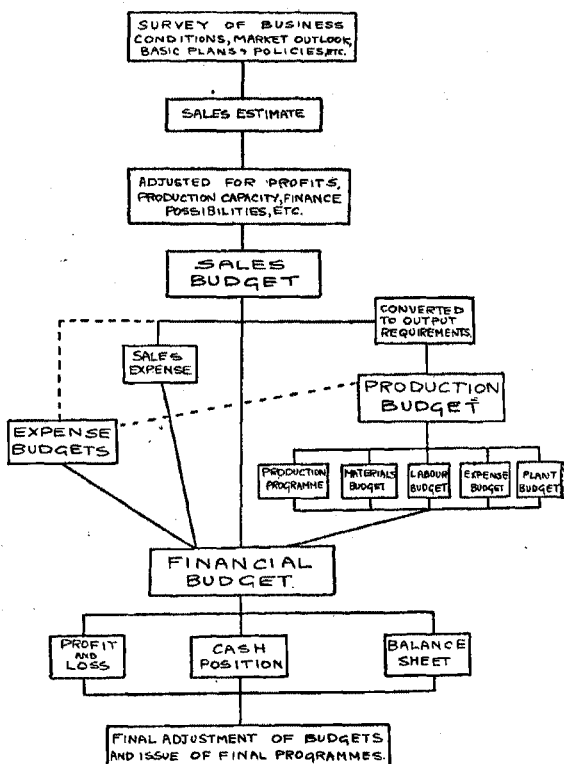


FIG. 21. OUTLINE OF BUDGET PROCEDURE

- (b) Budget officer—duties.
- (c) Responsibility for estimates and reports.
- 3. Sales budget.
Preparation—forms—date due—circulation of copies.
- 4. Production budget.
Preparation—forms—date due—circulation of copies.
- 5. Expense budgets.
Preparation—forms—date due—circulation of copies.
- 6. Financial budgets.
Preparation—forms—date due—circulation of copies.

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