THE

GEORGE WASHINGTON UNIVERSITY

NAVY GRADUATE COMPTROLLERSHIP PROGRAM

ACCOUNTING COMMUNICATION WITH MANAGEMENT

by

Charles H. Walker

Captain, U. S. Marine Corps

for

Dr. A. Rex Johnson

January, 1956

PREFACE

During the conferences and speaker's sessions held at the George Washington University for the 1955-56 Navy Graduate Comptrollership Program, the writer has become acutely aware that there are many misunderstandings that exist between management and the accounting departments of most industrial corporations. It is this writer's contention that a primary cause of these misunderstandings should be attributed to a lack of adequate communication.

The object of this paper is to define accounting and portray major aspects of its current role and its potentiality in any business organization.

It is hoped that the review will be adequate to help communicate a better understanding to the layman, accountant, and operating people in general of Accounting's responsibilities and uses and that it will suggest areas of communication which possibly should receive greater consideration by accountants in order to improve relationships.

The writer is indebted to Mr. John F. Soltis for his valuable ideas, contributions and suggestions in the preparation of this paper, and to Miss Braun for the typing of the final draft.

January, 1956

Charles H. Walker, Captain
U. S. Marine Corps

PREFACE

During the conferences and speaker's sessions held at the George Was ington University for the 1955-56 Navy Graduate Comptrollership Program, th writer has become acutely aware that there are many misunderstandings that exist between management and the accounting departments of most industrial porations. It is this writer's contention that a primary cause of these mi understandings should be attributed to a lack of adequate communication.

The object of this paper is to define accounting and portray major aspects of its current role and its potentiality in any business organizati

It is hoped that the review will be adequate to help communicate a better understanding to the layman, accountant, and operating people in ge of accounting's responsibilities and uses and that it will suggest areas of communication which possibly should receive greater consideration by account ants in order to improve relationships.

The writer is indebted to Mr. John F. Soltis for his valuable ideas contributions and suggestions in the preparation of this paper, and to Miss Braun for the typing of the final draft.

Charles W. Walker, Captain
U. S. Marine Corps

January, 1956

ACCOUNTING COMMUNICATION WITH MANAGEMENT

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS

CHAPTER I

INTRODUCTION

"Accountants, generally speaking, have not been too successful in giving management the kind of informational service it needs and wants."
David R. Anderson[1]

It is significant that a lack of harmony and understanding exists between line management and accountants in most organizations. Few accountants and operating people would hesitate to differ with this supposition. It would be most gratifying if accountants did enjoy the complete confidence of operators, but it is obvious that this is too optimistic a view.

Unfortunately, some misunderstanding does persist despite the fact that accounting, as a profession and as a business aid, has made tremendous strides in a relatively short time. Whereas initially and for many years accounting, or "bookkeeping" as it is now differentiated, merely recorded facts it now can portray the pulse of a living enterprise. It provides material by which a business's economic health at any given time can be judged with reasonable accuracy, and from which educated guesses concerning the future can be made. Accounting can and does make a material contribution to operating efficiency.

This glowing picture of the importance of accounting is supported by an impressive list of literature, much of it emanating from accountants themselves. But plaudits for accounting frequently come from outside the profession. In this respect, Mr. Joseph A. Sherman, Vice-President of a mining corporation, made the following statement, "the financial executive and his organization are

---

[1]David R. Anderson, "The Accounting Executive and Control Through Cooperative Effort", <u>National Association Cost Accountants Bulletin</u>, Volume XXX, No. 20 (June 15, 1949), p. 1173.

CHAPTER I

INTRODUCTION

"Accountants, generally speaking, have not been too successful in g
management the kind of informational service it needs and wants."
David R. Anderson[1]

It is significant that a lack of harmony and understanding exists between line management and accountants in most organizations. Few account and operating people would hesitate to differ with this supposition. It w be most gratifying if accountants did enjoy the complete confidence of ope ators, but it is obvious that this is too optimistic a view.

Unfortunately, some misunderstanding does persist despite the fact accounting, as a profession and as a business aid, has made tremendous str in a relatively short time. Whereas initially and for many years accounti or "bookkeeping" as it is now differentiated, merely recorded facts it now portray the pulse of a living enterprise. It provides material by which business's economic health at any given time can be judged with reasonable accuracy, and from which educated guesses concerning the future can be mad Accounting can and does make a material contribution to operating efficien

This glowing picture of the importance of accounting is supported b impressive list of literature, much of it emanating from accountants thems But plaudits for accounting frequently come from outside the profession. this respect, Mr. Joseph A. Sherman, Vice-President of a mining corporatio made the following statement, "the financial executive and his organizatio

[1] David R. Anderson, "The Accounting Executive and Control Through Cooperative Effort", National Association Cost Accountants Bulletin, Volum XXX, No. 20 (June 15, 1949), p. 1175.

best equipped, because of their responsibilities and opportunities in relation to all parts of the business, to aid top management in coordinating and controlling plans for the harnessing of the special interests which in the aggregate comprise any business."[1]

Another plaudit for accounting was expressed by Mr. Chester F. Lay who wrote, "at the very least operating management is heavily dependent on accountancy--more so than it is generally aware of--for operating facts and a steadying hand."[2]

Of course, accountants are encouraged by such statements and possibly derive considerable satisfaction from them. It can be concluded that they have carved out a well-recognized niche in business. However, it is possible that the very words and phrases often used to describe accounting's place in business may tend to create misunderstanding. This writer has been impressed with the fact that many of the guest speakers before the Navy Graduate Comptrollership Program students have presented and discussed accounting as a vital tool for establishing, coordinating, and controlling operating programs and plans. Without proper explanation as to the extent to which accounting functions in these respects, it is not surprising that these references could incite resentment on the part of operators.

---

[1]Statement by Joseph A. Sherman, personal interview

[2]Chester F. Lay, "The Functional Cycles of Accounting and Management," National Association Cost Accountants Bulletin, (June 15, 1949), p. 1176.

best equipped, because of their responsibilities and opportunities in rela to all parts of the business, to aid top management in coordinating and co trolling plans for the harnessing of the special interests which in the ag gate comprise any business."[1]

Another plaudit for accounting was expressed by Mr. Chester F. Lay who wrote, "at the very least operating management is heavily dependent on accountancy--more so than it is generally aware of--for operating facts an steadying hand."[2]

Of course, accountants are encouraged by such statements and possib derive considerable satisfaction from them. It can be concluded that they have carved out a well-recognized niche in business. However, it is possi that the very words and phrases often used to describe accounting's place business may tend to create misunderstanding. This writer has been impres with the fact that many of the guest speakers before the Navy Graduate Com trollership Program students have presented and discussed accounting as a tool for establishing, coordinating, and controlling operating programs an plans. Without proper explanation as to the extent to which accounting functions in these respects, it is not surprising that these references m incite resentment on the part of operators.

---

[1]Statement by Joseph A. Sherman, personal interview

[2]Chester F. Lay, "The Functional Cycles of Accounting and Manageme National Association Cost Accountants Bulletin, (June 15, 1949), p. 1176.

CHAPTER II

A CRITICAL VIEW OF ACCOUNTING

From this writer's limited experience, it is known that accountants on many occasions have encountered those who interpreted their objectives or uses of accounting to mean that the accountant's sole purpose is to confuse issues, tell them what they cannot do and carry on an espionage service. Perhaps the most severe critic of accounting was the late General George S. Patton, U. S. Army, who said "all goddam auditors should be in the bottom of hell!"[1]

The late Carl F. Braun was another who severely criticized industrial accounts and accounting. He stated in his booklet "Objective Accounting":

> "The people who run an industrial enterprise are enormously dependent for good operation on the guides and checks that only a truly objective accounting department can provide. Yet these people are not getting what they need. A great gulf exists between the accountants and the rest of the organization."[2]

Mr. Braun discussed a number of specific areas in which he felt accountants were deficient but this writer believes that taken all together, these deficiencies or the "gulf" which exists, can be summed up as resulting from a lack of communication, a lack of communication between operating management and accountants in both directions and a failure on behalf of both to encourage communication.

---

[1]George S. Patton, cited by E. C. Mosher, in Program Budgeting: Theory and Practice, (New York: Stratford Press, Inc., 1954), p. 98.

[2]Carl F. Braun, Objective Accounting, Alhambra, Calif., C. F. Braun & Co., 1953), p. iv.

CHAPTER II

A CRITICAL VIEW OF ACCOUNTING

From this writer's limited experience, it is known that accountants
many occasions have encountered those who interpreted their objectives or u
of accounting to mean that the accountant's sole purpose is to confuse issu
tell them what they cannot do and carry on as espionage service. Perhaps t
most severe critic of accounting was the late General George S. Patton, U.
Army, who said "all goddam auditors should be in the bottom of hell!"[1]

The late Carl F. Braun was another who severely criticized industrie
accounts and accounting. He stated in his booklet "Objective Accounting":

> "The people who run an industrial enterprise are enormously depen-
> dent for good operation on the guides and checks that only a truly
> objective accounting department can provide. Yet these people are
> not getting what they need. A great gulf exists between the account-
> ants and the rest of the organization."[2]

Mr. Braun discussed a number of specific areas in which he felt acco
ants were deficient but this writer believes that taken all together, these
deficiencies or the "gulf" which exists, can be summed up as resulting from
lack of communication, a lack of communication between operating management
and accountants in both directions and a failure on behalf of both to encou
communication.

---

[1] George S. Patton, cited by F. C. Mosher, in *Program Budgeting: Theo*
and Practice, (New York: Stratford Press, Inc., 1954), p. 98.

[2] Carl F. Braun, *Objective Accounting*, Alhambra, Calif., C. F. Braun
& Co., 1953), p. iv.

Most accountants have undoubtedly striven to become acquainted with operators and to furnish operating management with helpful information. But the accountants may have furnished information as they have interpreted operating needs and may have failed to develop what operators' needs are as they see them. In all probability, the presumed differences have been further magnified by a need for more clarity of expression and by unnecessary emphasis in many cases, by accountants, on accuracy from an absolute standpoint. Balancing and distributing dollars and pennies has been clothed with an importance unrelated to the actual values or operations concerned. In their preoccupation with the task of keeping abreast with the needs of the times, resulting from increased industrialization and competition, accountants may have failed to convey to all of operating management a reasonable understanding of their administrative responsibilities and of the services they can render.

Accountants are frequently criticized for their failure to provide management with more lucid reports. It is a common failing in many reports that they are too detailed, consequently management takes the accountant to task for obscuring pertinent facts. This condition results from the instinctive nature of the average accountant to put too much emphasis on the details in report writing and possibly from the fact that it is usually considered better to be criticized for too much detail than for a glaring omission. It is claimed by many business leaders that too many of the accountants reports are designed for the use of other accountants, rather than for operating management. Business leaders complain that accountant's reports are not timely enough and that they do not adequately present a clear enough picture of operations on which management can make proper decisions. In an article for

Most accountants have undoubtedly striven to become acquainted with operators and to furnish operating management with helpful information. B the accountants may have furnished information as they have interpreted op-erating needs and may have failed to develop what operators' needs are as th see them. In all probability, the presumed differences have been further magnified by a need for more clarity of expression and by unnecessary emph in many cases, by accountants, on accuracy from an absolute standpoint. B ancing and distributing dollars and pennies has been clothed with an impor unrelated to the actual values of operations concerned. In their preoccup with the task of keeping abreast with the needs of the times, resulting fr increased industrialization and competition, accountants may have failed t convey to all of operating management a reasonable understanding of their administrative responsibilities and of the services they can render.

Accountants are frequently criticized for their failure to provide management with more lucid reports. It is a common feeling in many report that they are too detailed, consequently management takes the accountant t task for obscuring pertinent facts. This condition results from the insti ive nature of the average accountant to put too much emphasis on the detai in report writing and possibly from the fact that it is usually considered better to be criticized for too much detail than for a glaring omission. it claimed by many business leaders that too many of the accountants repor are designed for the use of other accountants, rather than for operating management. Business leaders complain that accountants reports are not ti enough and that they do not adequately present a clear enough picture of operations on which management can make proper decisions. In an article i the Controller magazine by Mr. Elmer L. Lindseth, he summed up management's dissatisfaction with accounting reports by stating:

> "Accounting will have its fullest value in those companies whose accounting executives--in fact, whose full accounting organization, realize and practice the principle of 'account for operators' instead of 'account for accountants'."[1]

---

[1]Elmer Lincoln Lindseth, "Getting Accounting Out of Its Strait-Jacket", The Controller, (New York; September 1951), p. 405.

CHAPTER III

ACCOUNTING DEFINED

Because there is much adverse criticism of accountants and accounting in general, it is believed that accountants should avail themselves of every opportunity to shed light on their specialty and its potential, without prejudice, and to seek light on their deficiencies.

The author proposes to attempt to do this by answering and elaborating briefly on the question: "What is Accounting?"

A great deal of thought has been given this question and it is realized that accounting has been defined on numerous occasions by many persons, groups and institutions. Out of the many definitions, the author prefers the one from a booklet entitled "Dealing in Dollars", which was published by the Humble Oil and Refining Company for the information of its employees:

> "Accounting is one of the services that business management uses to appraise the effectiveness of its policies, to analyze its major financial problems, to fix responsibility for performance, to control operating results, and to protect the properties of the business."[1]

This definition is a particularly good one for several reasons. First, although tersely phrased, it imparts an immediate picture of the responsibilities and objectives of accounting, and indicates that they are constructive in nature. Second, the reference to business management is all-inclusive and covers all levels of management from foreman to top management. Third, and most important in this author's opinion, it states at the outset that account-

---

[1]"Dealing in Dollars", (Humble Oil and Refining Company, Houston, Texas, 1949), p. 1.

ing is a "service function", and is only one of the services used.

This last point cannot be overemphasized. It is the key to a real understanding of accounting. Accounting has absolutely no value other than the extent to which its products "serve" some individual or group in one form or another. Sincere accounting practioneers have only one objective in mind, and that is to devise procedures and gather information which serve a useful purpose, and to do this as economically, simply and promptly as possible.

To present a comprehensive view of how the accounting department serves the company, a typical organization of the accounting departments is shown in Figure 1, page 8. This organization structure is not to be considered to be that of any particular company, but should be viewed as this writer's concept of an average or composite structure of the functional organization required by the chief financial executive.

On page 9, the description of functions is shown. From the foregoing it can be seen that accounting is a major division of organization. Accounting is found and felt at all levels of management. This authority, influence, and capacity of the accounting division to serve management from top to bottom is very evident.

Figure 1

TYPICAL ACCOUNTING DEPARTMENT ORGANIZATION

COMPTROLLER

Factory Acct.		Systems & Budget		Chief Accountant				Internal Auditor	
Costs	Inventory	Systems	Budget					Home Office Aud.	Branch Auditor
Timekeeping	Cost Dist.								
				Payroll	Billing	Accts. Rec.	Accts. Pay.	Purchase & Expense Ledger	General Ledger

For description of the above functions, see page 9

Figure 2

DESCRIPTION OF FUNCTIONS IN THE ACCOUNTING DEPARTMENT

COSTS:	Control by relating all costs to production and measuring results.
INVENTORIES:	Maintenance of perpetual inventory records to hold inventory custodians accountable.
SYSTEMS:	Designs, methods and procedures to provide maximum efficiency and effective internal control.
BUDGET:	Control by comparison of operating results with predetermined budget estimates.
HOME OFFICE AUDITORS:	Audit of those phases of the business not susceptible to automatic internal control or where such control would be too costly.
TIMEKEEPING:	Control over payroll liability by verification of time and earnings.
COST DISTRIBUTION:	Determines or approves accounting disposition of all material, labor and expense charges.
PAYROLL:	Establishes payroll liability on basis of time reports and authorized rates.
BILLING:	Determines billing value of shipments and establishes control over sales.
ACCOUNTS PAYABLE:	Verifies the documents supporting the disbursement voucher and the accounting disposition.
ACCOUNTS RECEIVABLE:	Responsible for keeping individual accounts.
PURCHASE AND EXPENSE LEDGER:	Records and summarizes purchases and expenses for control through reports.
GENERAL LEDGER:	Controls all subsidiary ledger accounts by accumulating totals from independent sources.

Figure 2

DESCRIPTION OF FUNCTIONS IN THE ACCOUNTING DEPARTMENT

COSTS:	Control by relating all costs to production and measuring results.
INVENTORIES:	Maintenance of perpetual inventory records to hold inventory custodians accountable.
SYSTEMS:	Designs, methods and procedures to provide maximum efficiency and effective internal control.
BUDGET:	Control by comparison of operating results with predetermined budget estimates.
HOME OFFICE AUDITORS:	Audit of those phases of the business not susceptible to automatic internal control or where such control would be too costly.
TIMEKEEPING:	Control over payroll liability by verification of time and earnings.
COST DISTRIBUTION:	Determines or approves accounting disposition of all material, labor and expense charges.
PAYROLL:	Establishes payroll liability on basis of time reports and authorized rates.
BILLING:	Determines billing value of shipments and establishes control over sales.
ACCOUNTS PAYABLE:	Verifies the documents supporting the disbursement voucher and the accounting disposition.
ACCOUNTS RECEIVABLE:	Responsible for keeping individual accounts.
PURCHASE AND EXPENSE LEDGER:	Records and summarizes purchases and expenses for control through reports.
GENERAL LEDGER:	Controls all subsidiary ledger accounts by accumulating totals from independent sources.

CHAPTER IV

POLICIES APPRAISED AND PROBLEMS ANALYZED

Whereas the main purpose of this paper is to explore and discuss accounting in relation to operating management, this writer believes that the first two areas of accounting responsibility mentioned in the definition quoted should be covered rather briefly. These accounting services relate primarily, if not solely, to the overall position and results of the business, and accordingly are the concern of top management. Although such influence as accounting may have on policy and finance decisions will ultimately affect operating management, they reflect conditions beyond the specific scope of operating responsibility. Even the accumulation or analysis of accounting records and detail to support these considerations does not place any extra burden on operating personnel. In the main, the information can be considered the end product, or by-product of accounting detail required or gathered for other purposes. Using accounting in connection with overall policy and financial matters is more properly within the controllership function, rather than the industrial accounting function.

Accounting is subservient to the controllership function. This fact is pointedly brought out by Mr. Darrell H. Voorhies in an article for the Corporate Treasurer's and Controller's Handbook, who wrote:

"As an officer of the company and a staff member of management, the controller is charged with advising the president and conducting and furnishing functional guidance to the management and departments on accounting, auditing, income and excise tax matters, forecasting and economic matters, budgets, the preparation and payments of payrolls, the compilation of statistics, and office methods, systems and pro-

CHAPTER IV

POLICIES APPRAISED AND PROBLEMS ANALYZED

Whereas the main purpose of this paper is to explore and discuss ac- counting in relation to operating management, this writer believes that th first two areas of accounting responsibility mentioned in the definition q should be covered rather briefly. These accounting services relate primar if not solely, to the overall position and results of the business, and ac ingly are the concern of top management. Although such influence as accou may have on policy and finance decisions will ultimately affect operating management, they reflect conditions beyond the specific scope of operating responsibility. Even the accumulation or analysis of accounting records a detail to support these considerations does not place any extra burden on ating personnel. In the main, the information can be considered the end p or by-product of accounting detail required or gathered for other purposes Using accounting in connection with overall policy and financial matters i more properly within the controllership function, rather than the industri accounting function.

Accounting is subservient to the controllership function. This fac pointedly brought out by Mr. Darrell H. Voorhies in an article for the Cor Treasurer's and Controller's Handbook, who wrote:

> "As an officer of the company and a staff member of management, the controller is charged with advising the president and conducting and furnishing functional guidance to the management and departments on accounting, auditing, income and excise tax matters, forecasting and economic matters, budgets, the preparation and payments of payrolls, the compilation of statistics, and office methods, systems and pro-

cedures."[1]

From the foregoing it is obvious that accounting is just one of the tools used by the controller which makes it possible for him, working with and as a part of top management to help formulate overall policy and objectives.

The essence of a financial policy was highlighted by David R. Anderson in his book, Practical Controllership, who wrote:

> "A financial policy for any given business is simply a policy or plan for (1) procuring the necessary funds to operate the business and (2) determining how those funds shall be used; it is a plan to answer the two important questions; 'Where is the money coming from?' and "What is the available money to be used for?'[2]

In this connection it is necessary to briefly illustrate the objectives of a financial policy. Mr. Anderson states that the objectives of a dynamic financial policy are;

> "1. The procurement of the capital required for the operations of the business at a minimum cost consistent with the maintenance of a sound financial structure.
> 2. The investment of such capital to the best advantage of the business."[3]

The determination or establishing of any objective or policy which clearly implies continuing or longer-term considerations can involve a great variety of conditions and results, dependent upon and affecting sales and production volumes, prices, taxes, inventories, credit, cash availability, and so forth. These conditions must be appraised in order that the policy or

---

[1]Darrell H. Voorhies, "The Treasurer and The Controller", Corporate Treasurer's and Controller's Handbook, (New York: Prentice-Hall Inc.) p. 41.

[2]David R. Anderson, Practical Controllership, (Chicago: Richard D. Irwin, Inc., 1949), p. 445.

[3]Ibid., p. 445.

cedures."[1]

From the foregoing it is obvious that accounting is just one of the tools used by the controller which makes it possible for him, working with and as a part of top management to help formulate overall policy and objectives.

The essence of a financial policy was highlighted by David R. Anderson in his book, Practical Controllership, who wrote:

> "A financial policy for any given business is simply a policy or plan for (1) procuring the necessary funds to operate the business and (2) determining how these funds shall be used: it is a plan to answer the two important questions: 'Where is the money coming from?' and 'What is the available money to be used for?'"[2]

In this connection it is necessary to briefly illustrate the object of a financial policy. Mr. Anderson states that the objectives of a dynamic financial policy are:

> "1. The procurement of the capital required for the operations of the business at a minimum cost consistent with the maintenance of a sound financial structure.
> 2. The investment of such capital to the best advantage of the business."[3]

The determination or establishing of any objective or policy which clearly implies continuing or longer-term considerations can involve a great variety of conditions and results, expenses upon and affecting sales and production volumes, prices, taxes, inventories, credit, cash availability, and so forth. These conditions must be appraised in order that the policy or

---

[1] Carroll G. Coughlin, "The Treasurer and the Controller", Corporate Treasurer's and Controller's Handbook, (New York: Prentice-Hall Inc.) p. 4

[2] David R. Anderson, Practical Controllership, (Chicago: Richard D. Irwin, Inc., 1949), p. 485.

[3] Ibid., p. 486.

objective established will provide the most effective results. Such an appraisal is usually within the controllership function in the organization. It is within the realm of controllership to answer management's question, 'Where are we going?'. T. F. Bradshaw in his book, Developing Men For Controllership, points out that the controller within the organization is qualified to answer questions which require

> "(a) an appraisal of the future, (b) a knowledge of the past, (c) access to figures throughout the organization, (d) an ability to fit the pieces together in terms of the objectives of the whole community."[1]

Accounting detail provides the means of evaluating known conditions and the stepping stones for estimating alternate or future conditions. Accounting also reflects the results of policies and objectives, and points up possible financial problems.

These are top-level problems and the controller plays an important part in their consideration and solution. But it is not intended to over-emphasize the controllership function. Obviously, the variety of conditions and problems suggested are operating in nature and accordingly accounting information can only be used to evaluate them. It is pertinent to note at this point that "the controller does not control, he simply provides extremely valuable control mechanisms--control itself being a line responsibility."[2]

---

[1] T. F. Bradshaw, Developing Men For Controllership (Boston: Harvard Univ., 1950), p. 9.

[2] Glenn A. Welsh, "The Controllers Function in Top-Level Management", The Journal of Accountancy, Vol. II-c, July, 1954, p. 69.

objective established will provide the most effective results. Such an appraisal is usually within the controllership function in the organizatio It is within the realm of controllership to answer management's question, 'Where are we going?'. T. F. Bradshaw in his book, Developing Men For Controllership, points out that the controller within the organization is ified to answer questions which require

> "(a) an appraisal of the future, (b) a knowledge of the past, (c) access to figures throughout the organization, (d) an ability to fit the pieces together in terms of the objectives of the whole community."[1]

Accounting detail provides the means of evaluating known conditions and the stepping stones for estimating alternate or future conditions. Ac ing also reflects the results of policies and objectives, and points up po financial problems.

These are top-level problems and the controller plays an important part in their consideration and solution. But it is not intended to over-emphasize the controllership function. Obviously, the variety of conditio and problems suggested are operating in nature and accordingly accounting formation can only be used to evaluate them. It is pertinent to note at t point that "the controller does not control, he simply provides extremely valuable control mechanisms--control itself being a line responsibility."[2]

---

[1] T. F. Bradshaw, Developing Men For Controllership (Boston: Harvard Univ., 1950), p. 9.

[2] Glenn A. Welsch, "The Controller's Function in Top-Level Management" The Journal of Accountancy, Vol. II-c, July, 1954, p. 69.

CHAPTER V

TO PROTECT THE PROPERTIES OF THE BUSINESS

The first two of the five spheres of "service" mentioned in the quoted definition of accounting has been covered. The writer will now pass over temporarily the next two and illustrate the last. This relates to accounting as one of the services used "to protect the properties of the business."

It is interesting and characteristic that this function, originally the only function, is mentioned last. In the early days of accounting, or "bookkeeping," the objective was simply to maintain a record of the various assets and to prevent fraud. Mr. David R. Anderson wrote:

> "The 'property protection' function, covers such elementary requirements as keeping accounts with customers, control of cash receipts and expenditures, and proper recording of merchandise inventories and plant assets--in other words, the minimum records necessary to insure against loss to the business through error, carelessness, or fraud. Until comparatively recently this was the major purpose of the record keeping function.[1]

For many years after accounting had grown in stature the prime emphasis was still on the balance sheet. The important question was what was owned and what was owed. Mr. H. A. Finney in his textbook Intermediate Accounting, writes:

> "Accountants have been primarily concerned, in the past, with presenting a conservative picture of the financial condition in the balance sheet. They have regarded the balance sheet as of primary, and the operating statement as of secondary importance."[2]

---

[1] Anderson, op. cit., p. 6.

[2] H. A. Finney, Principles of Accounting, Intermediate (New York: Prentice-Hall, Inc., 1947), p. 192.

CHAPTER V

TO PROTECT THE PROPERTIES OF THE BUSINESS

The first two of the five spheres of "service" mentioned in the qu definition of accounting has been covered. The writer will now pass ove temporarily the next two and illustrate the last. This relates to accoun as one of the services used "to protect the properties of the business."

It is interesting and characteristic that this function, originall the only function, is mentioned last. In the early days of accounting, m "bookkeeping," the objective was simply to maintain a record of the vario assets and to prevent fraud. Mr. David R. Anderson wrote:

> "The 'property protection' function, covers such elementary requirements as keeping accounts with customers, control of cash receipts and expenditures, and proper recording of merchandise inventories and plant assets--in other words, the minimum records necessary to insure against loss to the business through error, carelessness or fraud. Until comparatively recently this was the major purpose of the record keeping function.[1]

For many years after accounting had grown in stature the prime emp was still on the balance sheet. The important question was what was own and what was owed. Mr. H. A. Finney in his textbook Intermediate Account writes:

> "Accountants have been primarily concerned, in the past, with presenting a conservative picture of the financial condition in the balance sheet. They have regarded the balance sheet as of primary, and the operating statement as of secondary importance."[2]

---

[1] Anderson, op. cit., p. 6.

[2] H. A. Finney, Principles of Accounting, Intermediate (New York: Prentice-Hall, Inc., 1947), p. 172.

As aforementioned the profit and loss statement was of secondary significance, but it became mandatory of course, and gained materially in importance with the passage of the income tax amendments to the Constitution. But the growth in usefulness and importance of the profit-and-loss statement, as supported by a great wealth of detail concerning revenues and costs, resulted from and has paced the growth in American industry. This has been brought about because accounting has demonstrated that its greatest value to <u>all</u> management lies in enabling them to keep abreast of development and to control operations under their jurisdiction. The accounting detail relating to all revenues and costs, which provides the material for fixing responsibility for performance and for controlling operating results, grows or diminishes primarily according to the demands of operating management. This will be covered thoroughly in the next chapter.

The use of accounting, consequently, in the "protection of properties" generally is mentioned last in references to the several jobs accounting has to do. Nevertheless, it is still of great importance and might be called the "line" function of accounting. Regardless of the form of business enterprise, there exists the responsibility to account for the investors' capital.

Accounting in relation to protection of properties involves many aspects but here again, it should be emphasized that accounting procedures and requirements to accomplish this responsibility simply conform to management directives.

Except for an accepted absolute minimum, this service is performed to the extent desired. It entails procedures and systems for such things as recording cash, accounts receivable, inventories, properties and other assets

As aforementioned the profit and loss statement was of secondary significance, but it became mandatory of course, and gained materially in importance with the passage of the income tax amendment to the Constitut But the growth in usefulness and importance of the profit-and-loss statem as supported by a great wealth of detail concerning revenues and costs, r sulted from and has paced the growth in American industry. This has been brought about because accounting has demonstrated that its greatest value <u>all</u> management lies in enabling them to keep abreast of developments and t control operations under their jurisdiction. The accounting detail relat to all revenues and costs, which provided the material for fixing respons bility for performance and for controlling operating results, grows or di ishes primarily according to the demands of operating management. This w be covered thoroughly in the next chapter.

The use of accounting, consequently, in the "protection of propert generally is mentioned last in references to the several jobs accounting to do. Nevertheless, it is still of great importance and might be called the "line" function of accounting. Regardless of the form of business en prise, there exists the responsibility to account for the investors' capi

Accounting in relation to protection of properties involves many but here again, it should be emphasized that accounting procedures and r quirements to accomplish this responsibility simply conform to management directives.

Except for an accepted absolute minimum, this service is performed the extent desired. It entails procedures and systems for such things as recording cash, accounts receivable, inventories, properties and other a owned by the business. Other controls make it possible to substantiate, between periodical observations, that these assets are actually in possession. Methods must be established to assure that expenditures from, or dispositions of, assets are properly authorized and accounted for. Other systems assure that amounts receivable for services rendered or products sold are properly invoiced and collections made, and that accounts payable and other liabilities are verified and paid. In these activities, accountants establish control on themselves through a system of internal controls. Normally, it is not permitted by those responsible for billing customers to have a hand in making collections and disbursements. Bradford Cadmus and Arthur J. E. Child amplify this point by writing; "Every document affecting a disbursement must be approved elsewhere, and the approval of the disbursements auditor attests to the fact that all is in order."[1]

Despite constant efforts of accountants to simplify, these systems and procedures necessitate a great mass of detail and paper work. Operators tend to feel that such "paper work" is solely restrictive in nature and tends to place on them an extra burden.

Although the often-expressed reaction or resistance of operators to paper work is not too graciously received by accountants, it is understandable. The production man, for instance, is interested primarily in production and requires certain tools to do his job. The paper work related to the tools has no direct interest for him on the surface. It is probably relatively

[1]Bradford Cadmus and Arthur J. E. Child, Internal Control Against Fraud and Waste: (New York: Prentice-Hall, Inc., 1953), pp. 41-42.

tedious and does take time.

Having acquired the tools, some operators may feel the responsibility to protect them lies elsewhere. This is, of course, wholly incorrect. As stated by Theodore P. Lang, "It is men who control, not figure analysis by the accountant."[1]

Accounting, as stated hereintofore, is only a service function. It plays only one role in protecting assets, which is not necessarily the main role. The prime responsibility is and must be that of the operator. Operating management at one level or another, depending upon degree of delegation of authority has the specific responsibility for the acquiring, utilizing and maintenance of all assets with exception, in most respects, cash in banks. Transactions recorded by the accountant merely reflect actions or decisions of operators and are based upon information and detail forwarded by them. The more transactions which operating management initiate, the more paper work is required.

It is not the accountant's job to relieve operators of these responsibilities, but well-conceived and well-developed accounting systems and controls can materially lighten operators' burdens. Although accounting procedures and controls purposely serve to provide a check on the operator, they tend, nevertheless, to alleviate his personal responsibility and provide relief to him in respect of his responsibility for the actions of his subordinates. There can be little doubt that without these accounting aids, the operators'

[1]Theodore P. Lang, Cost Accountant's Handbook, (New York: The Ronald Press, 1944), p. 10.

time would be severely taxed in "protecting the properties" as compared with time required to complete the necessary forms that are required by the accounting department.

It appears then, that at least on this plane, it should not be too difficult to reach a common understanding of objectives. Possibly the fact that operating management is personally answerable for assets under their jurisdiction has been lost sight of in view of pressures to implement and discharge operating assignments. Mr. John F. Soltis provided a simple illustration which may serve to help keep operators' responsibilities before them:

> "Accountants may physically prepare checks, and the treasurer may determine on which bank they are to be drawn, but it is the operator who 'not actually but effectively', signs the check. The operator to whom authority has been delegated to approve time sheets or material requisitions should realize that every time he signs his name, it is tantamount to writing a check on the business's bank account. The accountant's prime responsibility ends if authorized approval is on the document involved.[1]

This summary concerning protection of assets only skims the surface. The related paper work also serves many other necessary purposes. As pointed out by H. A. Finney, information is needed as to whether purchases, materials and labor costs are for operators and maintenance or for construction; because expenditures for operations and maintenance are expense, and for construction they are new investment. The effect of these different classes of expenditures on earnings and income taxes is materially different. If a new investment is involved, its nature must be clear, not only that it might be properly recorded for future unification, but also because depreciation applicable thereto varies

---

[1]Statement by John F. Soltis, personal interview.

time would be severely taxed in "protecting the properties" as compared with time required to complete the necessary forms that are required by accounting department.

It appears then, that at least on this plane, it should not be t difficult to reach a common understanding of objectives. Possibly the that operating management is personally answerable for assets under the jurisdiction has been lost sight of in view of pressures to implement a discharge operating assignments. Mr. John F. Soltis provided a simple tration which may serve to help keep operators' responsibilities before

> "Accountants may physically prepare checks, and the treasurer may determine on which bank they are to be drawn, but it is the operator who 'not actually but effectively', signs the check. The operator to whom authority has been delegated to approve time sheets or material requisitions should realize that every time he signs his name, it is tantamount to writing a check on the business' bank account. The accountant's prime responsibility ends if authorized approval is on the document involved.[1]

This summary concerning protection of assets only skims the surf The related paper work also serves many other necessary purposes. As out by H. A. Finney, information is needed as to whether purchases, mat and labor costs are for operators and maintenance or for construction; expenditures for operations and maintenance are expense, and for constr they are new investment. The effect of these different classes of expe on earnings and income taxes is materially different. If a new investm involved, its nature must be clear, not only that it might be properly for future unification, but also because depreciation applicable theret

---

[1]Statement by John F. Soltis, personal interview.

according to usage.[1]

Essentially these are accounting or financial problems. But the accuracy of the treatment is largely dependent on the adequacy and correctness of operating information. Misinformation, for one reason or another, can be as serious as insufficient information.

[1]Finney, op. cit., pp. 207-211.

CHAPTER VI

FIXING RESPONSIBILITY FOR PERFORMANCE AND CONTROLLING OPERATING RESULTS

Fixing responsibility for performance means distributing responsibility fairly where it belongs. According to Mr. R. B. Knott:

> "In order to fix responsibility correctly and to assist executives in the activities, accounting reports should reflect the results of specific units of responsibility. They should segregate and classify, to the utmost degree possible, the results of the activities over which the executives and each supervisor has control. By so doing, every individual with authority can be charged solely with responsibility for results and will be furnished with data which will facilitate improvement of the activities under his direction.[1]

In relation to controlling operating results, which is a line responsibility, accounting provides extremely valuable control mechanisms by which the effectiveness or development of overall plans can be gaged and yardsticks of performance can be established.

Perhaps two of the best yardsticks used by accountants in assisting management for fixing responsibility and controlling operating results is through the use of a budget and budgetary control. A budget is merely a collection of figures or estimates which indicate the future in accounting terms.[2] Budgetary control on the other hand involves careful planning and control of

---

[1] R. B. Knott, "Responsibility Accounting", The Controller, (Vol. XIV, 1946), p. 436.

[2] John H. McDonald, Practical Budget Procedure, (New York: Prentice-Hall, Inc., 1939), p. 2.

CHAPTER VI

FIXING RESPONSIBILITY FOR PERFORMANCE AND CONTROLLING OPERATING RESULTS

Fixing responsibility for performance means distributing responsi- fairly where it belongs. According to Mr. R. B. Kent:

> "In order to fix responsibility correctly and to assist executives in the activities, accounting reports should reflect the results of specific units of responsibility. They should segregate and classify, to the utmost degree possible, the results of the activities over which the executives and each supervisor has control. By so doing, every individual with authority can be charged solely with responsibility for results and will be furnished with data which will facilitate improvement of the activities under his direction.[1]

In relation to controlling operating results, which is a line res- bility, accounting provides extremely valuable control mechanisms by wh- effectiveness or development of overall plans can be gauged and yardstick- performance can be established.

Perhaps two of the best yardsticks used by accountants in assisti- management for fixing responsibility and controlling operating results i- through the use of a budget and budgetary control. A budget is merely a- tion of figures or estimates which indicate the future in accounting ter- Budgetary control on the other hand involves careful planning and contro-

---

[1] R. B. Kent, "Responsibility Accounting", The Controller, (Vol. X 1946), p. 135.

[2] John H. McDonald, Practical Budget Procedure, (New York: Prentic- Hall, Inc., 1939), p. 2.

all the functions of the enterprise.[1]

Through proper budgetary control many advantages accrue to operating management. To list just a few of the advantages:

1. It has a marked influence on the most economical use of working capital, since it is planned to make the maximum use of plant facilities and current assets.

2. It plants definitely-just where it belongs-the responsibility for each function of the business.

3. It acts as a safety signal for management since it indicates the variance between estimates and the actual results obtained.

4. It is invaluable to management in determining the effect of sales, production and financial policies.

5. It compels management to study its markets, products, methods, and service, thus disclosing ways and means for strengthening the business.[2]

It is in this area of fixing responsibility for performance and controlling results that accounting has grown greatly in stature. It is in these areas that line operators have the greatest personal interest and should make the most demands for service to help them achieve the objectives established by management.

Actually, despite the complexities of business, income taxes and so forth, the accounting procedures necessary simply to account for operating transactions would be relatively simple. The writer is of the opinion, from his limited experience, that if a segregation could be made of accounting services to satisfy minimum and essential requirements on the one hand, and

[1] Ibid., p. 89.

[2] Ibid., pp. 5-6.

internal demands for control and allied purposes on the other, we should find the former to be the tail on the dog.

An illustration of this is found by looking at sales. On a simplified basis, if accountants are informed of amounts sold, they can check prices, note the decrease in inventory, and identify the customer so that he can be billed and subsequent collection can be made. This is actually all that is needed to meet the minimum requirements.

However, there is a great mass of detail and paper work which surrounds a simple sales transaction relating to sales analysis, realizations by commodity, class of trade, type of delivery or package, sales personnel, et cetera. This is "industrial" accounting as applied to the shop, the field and the plant. It has the basix purpcse to "serve" management so they may check performance and control results.

Pursuing the sales transaction further, properly designed accounting statements can suggest to a sales manager the following:

1. The cost per unit of his sales effort
2. The marginal limit beyond which further effort becomes uneconomical.
3. The areas which he should cover more thoroughly with sales and service personnel.
4. The class of customers on which to concentrate sales effort.
5. Which products to have salesmen push.
6. Effectiveness of current sales efforts as compared to past periods or average.
7. The need to place advertising, and how much.

If the accountant's internal information is supplemented with industry or regional information from outside sources, the district sales manager has further facts on which to base his decisions. How his sales are as a percentage of the industry, and how they move compared to general economic conditions.

internal demands for control and allied purposes on the other, we should

the former to be the tail on the dog.

An illustration of this is found by looking at sales. On a simpli

basis, if accountants are informed of amounts sold, they can check prices

note the decrease in inventory, and identify the customer so that he can

billed and subsequent collection can be made. This is actually all that

needed to meet the minimum requirements.

However, there is a great mass of detail and paper work which surr

a simple sales transaction relating to sales analysis, realizations by c

ity, class of trade, type of delivery or package, sales personnel, et cet

This is "industrial" accounting as applied to the shop, the field and th

plant. It has the basic purpose to "serve" management so they may check

formance and control results.

Pursuing the sales transaction further, properly designed account

statements can suggest to a sales manager the following:

1. The cost per unit of his sales effort.
2. The marginal limit beyond which further effort becomes uneconomical.
3. The areas which he should cover more thoroughly with sales and service personnel.
4. The class of customers on which to concentrate sales effort.
5. Which products to have salesmen push.
6. Effectiveness of current sales efforts as compared to past periods or average.
7. The need to place advertising, and how much.

If the accountant's internal information is supplemented with ind

or regional information from outside sources, the district sales manager

further facts on which to base his decisions. How his sales are as a pe

age of the industry, and how they move compared to general economic tend whether there is a geographic region where his penetration is adequate. The list could be expanded substantially. The important thing here is not to have an all-inclusive listing of information that the accountant can supply to assist operators, but to suggest how information which is readily available can help the line operator to make the right decisions, to do a better job, to achieve better physical production, and to know that his decisions are based soundly on fact. This is reiterated by Mr. Theodore P. Lang who wrote:

> "Workers, foreman, superintendents, and chief operating executives produce goods and spend money. To do their jobs they need facts. Supplying the factual basis for control is a function of accounting."[1]

Like a lathe or a hammer, accounting statements can improve production if they are skillfully used. Like these tools, they must be used by line operators if they are to do any good. The accountant's job is to see that their report presentations are properly conceived in relation to the operators' requirements and problems. Accountants have not always fared too well in this respect, as evidenced by J. Brooks Heckert and James D. Willson who write:

> "It is in this field, perhaps that the accountant has performed less successfully than in others. A great deal of reporting done by him has beenn unsatisfactory. Facts have been poorly presented. There has been a dendency to submit mere tabulations or schedules. Little or no attempt has been made to summarize, to digest, or to interpret the data. The information must be refined and highlighted to provide the basis for executive action."[2]

It is essential for the accountant to keep in mind the fact that every

---

[1]Theodore P. Lang, op. cit., p. 10.

[2]J. Brooks Heckert and James D. Willson, Controllership, The Work of the Accounting Executive: (The Ronald Press Company, New York: 1952), p. 387.

whether there is a geographic region where his penetration is adequate.
list could be expanded substantially. The important thing here is not t
an all-inclusive listing of information that the accountant can supply to
assist operators, but to suggest how information which is readily availa
can help the line operator to make the right decisions, to do a better jo
to achieve better physical production, and to know that his decisions are
soundly on fact. This is reiterated by Mr. Theodore P. Lang who wrote:

> "Workers, foremen, superintendents, and chief operating executives produce goods and spend money. To do their jobs they need facts. Supplying the factual basis for control is a function of accounting."[1]

Like a lathe or a hammer, accounting statements can improve produc
if they are skillfully used. Like these tools, they must be used by line
operators if they are to do any good. The accountant's job is to see th
their report presentations are properly conceived in relation to the ope
requirements and problems. Accountants have not always fared too well i
respect, as evidenced by J. Brooks Heckert and James D. Willson who writ

> "It is in this field, perhaps that the accountant has performed less successfully than in others. A great deal of reporting done by him has been unsatisfactory. Facts have been poorly presented. There has been a tendency to submit mere tabulations or schedules. Little or no attempt has been made to summarize, to digest, or to interpret the data. The information must be refined and highlighted to provide the basis for executive action."[2]

It is essential for the accountant to keep in mind the fact that

---

[1] Theodore P. Lang, *op. cit.*, p. 10.

[2] J. Brooks Heckert and James D. Willson, *Controllership*, *The Work of the Accounting Executive* (The Ronald Press Company, New York: 1952), p. 367.

report should have a purpose and should contain the information needed to serve that purpose. Mr. Wilford Reetz, writing in the Journal of Accountancy, gives five questions that the accountant should ask himself when preparing a report:

1. Is it timely?
2. Is it adequate- does it tell the story and serve the purpose for which it was intended?
3. Can it serve as a basis for action?
4. What is the cost of obtaining it?
5. Can we do without it?[1]

Line management wants and needs accurate, timely, useful information but it is suggested that accountants do not always meet this want, this interest. Why? There are a multitude of reasons, but in this respect only three possibilities will be covered.

First, the accounting profession is relatively new in its broader aspects. It is not far removed from the days of the long-legged stools and the green eye-shades. Accountants have had to create a philosophy and a complex body of techniques from virtually nothing, and consequently, many did not take the time to go outside the profession to find out just what management wanted and expected from them. In what seemed to be the best manner at the time, the problems were attacked in introspective fashion--bookkeeper discussing with statistician, accountant consulting with accountant, and controller conferring with auditor.

Secondly, the natural tendency has been for accountants to use their

---

[1]Wilford Reetz, "Accountants Reports Should be Written With Prime Consideration For Their Use By Management", Journal of Accountancy, Vol. 1952, p. 451.

report should have a purpose and should contain the information needed t
serve that purpose. Mr. Wilford Geetz, writing in the Journal of Accoun
gives five questions that the accountant should ask himself when preparin
report:

1. Is it timely?
2. Is it adequate- does it tell the story and serve the purpose for which it was intended?
3. Can it serve as a basis for action?
4. What is the cost of obtaining it?
5. Can we do without it?[1]

Line management wants and needs accurate, timely, useful informat
but it is suggested that accountants do not always meet this want, this
Why? There are a multitude of reasons, but in this respect only three p
littles will be covered.

First, the accounting profession is relatively new in its broader
It is not far removed from the days of the long-legged stools and the gr
eye-shades. Accountants have had to create a philosophy and a complex b
of techniques from virtually nothing, and consequently, many did not tak
time to go outside the profession to find out just what management wante
expected from them. In what seemed to be the best manner at the time, t
problems were attacked in introspective fashion--bookkeeper discussing w
statistician, accountant consulting with accountant, and controller conf
with auditor.

Secondly, the natural tendency has been for accountants to use th

---

[1] Wilford Geetz, "Accountants Reports Should be Written With Prime Consideration for Their Use By Management", Journal of Accountancy, Vol. 1952, p. 451.

own professional jargon which can be quite vague, difficult to interpret and in some cases actually misleading. This was commented on by Charles R. Hook in an address before a seminar on accounting at Ohio State University:

> "The vast majority of people whether they work solely with their hands or their heads, have neither by education, training, nor experience been able to grasp the real meaning of the words 'capital', 'surplus', 'invested capital', 'gross earnings', 'net earnings', 'overhead', 'depreciation', and innumerable other words descriptive of vital factors entering into present day business."[1]

However, in this particular area accountants can claim considerable progress in recent years. This problem has received a lot of attention and even the more formal reports have been materially improved. This is evidenced by David R. Anderson who wrote

> "For many years the typical corporate annual report was a rather formal document, including only financial statements in the conventional form and a few words of equal conventional comment by the chief executive of the company, but, recently an increasing number of companies have gone to great lengths to make their reports, readable, comprehensive, and informative.[2]

A third fundamental reason for the failure of accounting to give operating people what they want concerns human relations and communications techniques. In common with many businessmen, accountants did not know much about the art of communication. They evidently followed the prevailing thought that, "the accounting system is a one-way channel in which information moves only from the work level upward and never from the top down."[3]

---

[1]Charles R. Hook, "Take the Mystery Out of Business", Proceedings of The Sixteenth Annual Institute on Accounting, (May 21, 1953, Ohio State University), pp. 52-53.

[2]Anderson, op. cit., p. 505.

[3]Burleigh B. Gardner and David G. Moore, Human Relations in Industry, (Chicago: Richard D. Irwin, Inc., 1950), p. 41.

own professional jargon which can be quite vague, difficult to interpret in some cases actually misleading. This was commented on by Charles R. in an address before a seminar on accounting at Ohio State University:

> "The vast majority of people whether they work mainly with their hands or their heads, have neither by education, training, nor experience been able to grasp the real meaning of the words 'capital', 'surplus', 'invested capital', 'gross earnings', 'net earnings', 'overhead', 'depreciation', and innumerable other words descriptive of vital factors entering into present day business."[1]

However, in this particular area accountants can claim considerab progress in recent years. This problem has received a lot of attention even the more formal reports have been materially improved. This is sai by David R. Anderson who wrote

> "For many years the typical corporate annual report was a rather formal document, including only financial statements in the conventional form and a few words of equal conventional comment by the chief executive of the company, but, recently an increasing number of companies have gone to great lengths to make their reports, readable, comprehensive, and informative."[2]

A third fundamental reason for the failure of accounting to give ting people what they want concerns human relations and communications niques. In common with many businessmen, accountants did not know much the art of communication. They evidently followed the prevailing though "the accounting system is a one-way channel in which information moves o from the work level upward and never from the top down."[3]

---

[1] Charles R. Hook, "Take the Mystery Out of Business", Proceedings of The Sixteenth Annual Institute on Accounting, (May 21, 19[illegible], Ohio Sta University), pp. 52-53.

[2] Anderson, op. cit., p. 505.

[3] Burleigh B. Gardner and David G. Moore, Human Relations in Indus (Chicago: Richard D. Irwin, Inc., 1950), p. 41.

Again the accounting system has been viewed by some as one that "lacks the versatility which the line possesses for communicating almost any type of information, for it is limited to certain clearly defined information which is handled in routine fashion."[1]

This is an erroneous assumption and both accountants and operating management need to develop a realization that accounting communication affects all aspects of business relationships, and that industrial accounting is essentially a problem of communication. As Yoder has noted in this connection, most concerns emphasize the necessary two-way nature of communication, in which top management is advised of significant items from lower echelons at the same time that information flows downward and across the managerial structure.[2] Because of the nature of the accounting function, being found and felt at all levels of management, accountants are in a favorable position to keep lines of communication open in all directions. In fact, the two-way communication system conception has been amplified to propose that such communication should be three-way, should include a third dimension in which information is transmitted across the organization as well as up and down.[3] Accountants are favorably disposed to transmit information across the organization if they would but recognize their potential in this respect.

One element of communication, as understood today, is the ability to

---

[1] Gardner and Moore, op. cit., p. 41.

[2] Dale Yoder, Personnel Management and Industrial Relations, (New York: Prentice-Hall, Inc., 1949), p. 479.

[3] Ibid., p. 479.

Again the accounting system has been viewed by some as one that "lacks th versatility which the line possesses for communicating almost any type o information, for it is limited to certain closely defined information wh is handled in routine fashion."[1]

This is an erroneous assumption and both accountants and operating management need to develop a realization that accounting communication a all aspects of business relationships, and that industrial accounting is essentially a problem of communication. As Yoder has noted in this conn most concerns emphasize the necessary two-way nature of communication, i which top management is advised of significant items from lower echelons the same time that information flows downward and across the managerial structure.[2] Because of the nature of the accounting function, being fou felt at all levels of management, accountants are in a favorable position keep lines of communication open in all directions. In fact, the two-way communication systems conception has been amplified to propose that such communication should be three-way, should include a third dimension in wh information is transmitted across the organization as well as up and down Accountants are favorably disposed to transmit information across the org zation if they would but recognize their potential in this respect.

One element of communication, as understood today, is the ability

---

[1] Gardner and Moore, *op. cit.*, p. 41.

[2] Dale Yoder, *Personnel Management and Industrial Relations*, (New Prentice-Hall, Inc., 1959), p. 479.

[3] *Ibid.*, p. 479.

put oneself in the frame of reference of the other person and to consider, with him, his problems and needs. With accountants, this means going to the field or shop manager and inquiring of him how accountants can help him perform his job.

Accountants have communicated with operators in order to learn their problems, and have designed methods and reports they thought would fit. Many have urged the objective viewpoint from their staffs, and have discussed ways and means of training and developing personnel so that they would have a better grasp of operations and could thereby better relate accounting to operations. But they, on numerous occasions, have not communicated their problems and clearly interpreted their function to operators. They have not sought operators'counsel to the end that their methods and reports would fit operators'needs as operators see them.

As an example, there are extraneous debits and credits occasionally appearing in expense accounts, correcting a cumulative misdistribution or adjusting any of a number of other errors. These debits and credits neatly balance the statements with the accounts, but it is seriously doubted that they are needed. The operators are better served if they are immediately advised of important errors of distribution found after reports are issued so that they can note the change currently. Omission of the corrections so reported may be in conflict with accounting routine, but operators are properly informed.

This brings to mind the "Information Theory", a complex theory concerning actual transmission of communication, an engineering problem now being developed by prominent scientists. Basically, the theory is that communication

put oneself in the frame of reference of the other person and to consider
with him, his problems and needs. With accountants, this means going to
field or shop manager and inquiring of him how accountants can help him
form his job.

Accountants have communicated with operators in order to learn th
problems, and have designed methods and reports they thought would fit.
have urged the objective viewpoint from their staffs, and have discussed
and means of training and developing personnel so that they would have a
better grasp of operations and could thereby better relate accounting to
operations. But they, on numerous occasions, have not communicated thei
problems and clearly interpreted their function to operators. They have
sought operators' counsel to the end that their methods and reports would
operators' needs as operators see them.

As an example, there are extraneous debits and credits occasional
appearing in expense accounts, correcting a cumulative misdistribution o
adjusting any of a number of other errors. These debits and credits nee
balance the statements with the accounts, but it is seriously doubted th
they are needed. The operators are better served if they are immediatel
advised of important errors of distribution found after reports are issu
that they can note the change currently. Omission of the corrections re
ported may be in conflict with accounting routine, but operators are pro
informed.

This brings to mind the "Information Theory", a complex theory co
cerning actual transmission of communication, an engineering problem now
developed by prominent scientists. Basically, the theory is that commun

is useful only to the extent that it transmits news. Whatever part of a message can be predicted need not be transmitted. Or, to put it another way, to transmit that which is already known or unimportant at the receiving end, is waste. The perfect communication therefore is one which omits redundancies and transmits only that which is essential.

This principle suggests a significant possibility as applied to industrial accounting. Conservatively estimated, over half the figures in accounting statements today are either unchanged from the previous period, or the changes are of no immediate concern to line operators. Other information, like pennies where only whole dollars are needed, or dollars where hundreds or thousands will do, only clutters up the statement unnecessarily. This is illustrated pointedly by Adolph G. Lurie who writes:

> "It is now common practice in many organizations to eliminate pennies from most statements. Why not go further? For all practical purposes is not the nearest hundred dollars or nearest thousand dollars enough on certain major reports? A review of internal financial statements will quickly indicate the extent that unnecessary digits can be eliminated without reducing the value of data."[1]

The controller of Bethlehem Steel Corporation, Mr. Wayne R. Archerd, proved the value of "whole dollar accounting" or "penniless accounting" by stating that a conservative estimate has shown that this system has saved the company thousands of dollars annually.[2]

This method should be more widely investigated by accountants in general

---

[1]Adolph G. Lurie, "Financial Reports to Plant Operating Executives", The Controller, (Vol. XXI, December, 1953), p. 570.

[2]Wayne R. Archerd, An address before the Navy Graduate Comptrollership students at George Washington University, November 4, 1955.

and line management so that routine information could be omitted from statements which would make them that much more compactly readable. The approach would not be unlike the theory of "Management By Exception," of which much has been accomplished in recent years. Under this theory, briefly stated, management controls by observing exceptions from plans and programs. Fred V. Gardner lists three important advantages of management by exception:

> "1. A complete control of costs is available
> 2. The control is intimate enough to command respect, compact enough to insure interest, and flexible enough to allow constant revision to keep pace with changing conditions.
> 3. Key management can look toward details and is never required to build up from details to answer the questions that are the result of good and efficient management."[1]

To the extent that accounting detail indicates conformance with budgets, standards or even historical averages, it might be omitted from the statements leaving only variations to be reported for scrutiny.

---

[1] Fred V. Gardner, Variable Budget Control, (New York: McGraw-Hill Book Company, Inc., 1940), p. 11

CHAPTER VII

SUMMARY

The writer has endeavored to describe the principal functions of industrial accounting, how accounting can and does help operators, and how operating people in the organization have an important part in supplying the basic material. As to the operators, accountants should earnestly continue to solicit their help. Accounting has its fixed responsibilities, but all accounting is essentially a service function rendered for the benefit of management. Unfortunately, it is not always so regarded by representatives of either group, and as a result, friction, misunderstanding and departmental jealousies exist which are preventable. It is hoped that the author has shown that accounting is designed to be constructive in nature and is not intended to be solely restrictive or for policing purposes.

Industrial accounting is essentially a problem of communication, and is a two-way street. Accountants may have, in fact probably have, used it too much one way. Without unduly patting the accounting profession on its collective back, it is fair to state it has made great accomplishments and improvements in its efforts to serve management. Now, accountants must get traffic to flow in the other direction more than they have before. Instead of accountants telling operators what is best for them, perhaps both could profit by having accountants query operators to tell them what they think is good for them. On the other hand, operators probably could make more of an effort to encourage accountants to counsel with them.

Any "gulf" which now exists between accountants and line operators is

not inherent in our industrial way of life. It is merely a symptom of the growing pains through which American industry is living. With an adequate steady two-way flow of information between shop and office, the accountant will be able to render greater service to the ultimate benefit of operators, by reason that operators will have a better understanding of accounting's responsibilities, capabilities and potentialities.

not inherent in our industrial way of life. It is merely a symptom of th
growing pains through which American industry is living. With an adequat
steady two-way flow of information between shop and office, the accounta
will be able to render greater service to the ultimate benefit of operati
by reason that operators will have a better understanding of accounting's
responsibilities, capabilities and potentialities.

BIBLIOGRAPHY

BIBLIOGRAPHY

Books

Anderson, David R., Practical Controllership. Chicago: Richard D. Irwin, Inc., 1949.

Bradshaw, Thornton F. and Hull, Charles C. (ed). Controllership in Modern Management. Chicago:

Braun, Carl F. Objective Accounting. Alhambra, Calif: C. F. Braun and Co., 1953.

Cadmus, Bradford, and Child, Arthur J. C. Internal Control Against Fraud and Waste. New York: Prentice-Hall, Inc., 1953.

Cost Accountants Handbook. Edited by Theodore P. Lang. New York: The Ronald Press Company, 1944.

Doris, Lillian.Corporate Treasurer's and Controller Handbook. New York: Prentice Hall, 1951.

Finney, Harold A. Principles of Accounting, Intermediate. New York: Prentice Hall, Inc., 1947.

Gardner, Burleigh B. and Moore, David G. Human Relations in Industry. Chicago: Richard D. Irwin, Inc., 1950.

Gardner, Fred V. Variable Budget Control. New York: McGraw Hill Book Company, Inc., 1940

Heckert, J. Brooks and Willson, James D. Controllership, The Work of The Accounting Executive. New York: The Ronald Press Co., 1952.

MacDonald, John H. Practical Budget Procedure. New York: Prentice Hall, Inc., 1939.

Mosher, F. C. Program Budgeting, Theory and Practice. New York: Stratford Press, 1954.

Yoder, Dale. Personnel Management and Industrial Relations, New Y rk: Prentice-Hall, Inc., 1949.

Articles

Knott, R. B. "Responsibility Accounting", The Controller, Vol. XIV, 1946.

Lay, Chester F. "The Functional Cycles of Accounting and Management", National Association Cost Accountants Bulletin, New York: Vol. XXX, June 15, 1949.

Lindseth, Elmer L. "Getting Accounting Out of its Strait-Jacket", The Controller, New York: Vol. XIX, #9, 1951.

Lurie, Adolph G. "Financial Reports to Plant Operating Executives", The Controller, Vol. XXI, 1953.

Reetz, Wilford "Accountants Reports Should be Written Chiefly With Prime Consideration For Their Use By Management", The Journal of Accountancy, Vol , 1952.

Welsch, Glenn A. "The Controllers Function in Top Level Management", The Journal of Accountancy, Vol. 11C, 1954.

Reports

"Dealing in Dollars", Humble Oil and Refining Company, Houston, Texas, 1949.

Hook, Charles R. "Take the Mystery Out of Business", Proceedings of the Sixteenth Annual Institute on Accounting, prepared by Ohio State University, Columbus, Ohio, 1953.

In addition to the bibliography listed above, the writer relied heavily upon class notes and personal interviews taken during the 1955-56 Navy Graduate Comptrollership Program.