

Budgetary Slack

Topic: Budgeting/Standard Setting

Characters: Jennifer, a cost accountant working in a manufacturing division of a large corporation
Ron, the budgeting and standards supervisor and Jennifer's superior in the accounting department

Jennifer has been working on next year's budgets for some of the division's products. After Ron looked over her work, he called her into his office.

Ron: "Jennifer, the budgets look pretty good, except that your estimates of materials costs seem too low."

Jennifer: "I checked with production and engineering people, and they told me they expect materials costs to be down. They are trying some new procedures which are almost certain to reduce materials waste and damage significantly."

Ron: "It's too soon to know how much materials costs will drop, or even if they will be lower. I want you to redo the budget with materials costs about where they have been for this year. Then if materials costs are lower next year, the division will beat the budget and look good. There may be some good bonuses next year."

Jennifer: "Using the current materials quantities puts slack into the budget for next year."

Ron: "Most managers try to get some slack into budgets. There's nothing wrong with that. Since the new procedures are still experimental, they haven't been reported to corporate headquarters. This is a perfect opportunity to get an easy budget. I know that's what the division controller expects and wants. Get the revisions to me as soon as you can."