MEASUREMENT OF DIVISIONAL PERFORMANCES IN MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD., JAPAN

Osamu Nishizawa*

I FUNDAMENTAL CHARACTERISTICS OF MATSUSHITA'S DIVISIONAL ORGANIZATION

1. BACKGROUND OF ESTABLISHMENT OF DIVISIONAL ORGANIZATION AND ITS ACHIEVEMENT

1) Background of divisional organization

It was in 1927 that Matsushita Electric Industrial Co., Ltd. first conceived of a divisional system and it was officially adopted in 1933 as divisional organization. In 1960, the Industrial Structural Council, the Ministry of International Trade and Industry, filed a report titled “Profit Management under Divisional Organization” and the conceptual introduction of divisional system into Japan is due to this report.

Prof. P. F. Drucker called a divisional organization Federal Decentralization and pointed out in his book that it was only after 1946 that the organization has come to be referred to as a management organization theory, although some leading U.S. enterprises such as du Pont, General Motors, Sears, and General Electric had adopted it before the

---

* Osamu Nishizawa is Professor of Accounting, School of Commerce, Waseda University, Japan. He holds Ph. D degree at Waseda University. This paper is translated from his article, “The Divisional System Accounting in Matsushita Electric” in Diamond Harvard Business (Japanese edition of Harvard Business Review, Harvard University, U.S.A.), March-April and May-June, 1981, Diamond Publisher, Tokyo. Financial highlights of Matsushita Electric in 1981 & 1982 are shown in Table 1 [MEI, 1982, p. 1].
### Table 1: Financial highlights of Matsushita Electric in 1981 & 1982

<table>
<thead>
<tr>
<th></th>
<th>1982</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In millions of yen and thousands of U.S. dollars (except per share information)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>¥3,649,571</td>
<td>$14,036,811</td>
</tr>
<tr>
<td>Percentage of previous year</td>
<td>105.7%</td>
<td>118.4%</td>
</tr>
<tr>
<td>Net income</td>
<td>¥157,121</td>
<td>$604,312</td>
</tr>
<tr>
<td>Percentage of sales</td>
<td>4.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Percentage of previous year</td>
<td>100.3%</td>
<td>125.8%</td>
</tr>
<tr>
<td>Per share of common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assuming no dilution</td>
<td>¥100.79</td>
<td>$.39</td>
</tr>
<tr>
<td>Assuming full dilution</td>
<td>¥97.92</td>
<td>$.38</td>
</tr>
<tr>
<td>Per American depositary share,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>each representing 10 shares of common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assuming no dilution</td>
<td>¥1,008</td>
<td>$3.88</td>
</tr>
<tr>
<td>Assuming full dilution</td>
<td>¥979</td>
<td>$3.77</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥3,173,720</td>
<td>$12,206,615</td>
</tr>
<tr>
<td>Stockholders' equity</td>
<td>¥1,435,313</td>
<td>$5,520,435</td>
</tr>
<tr>
<td>Cash dividends:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per share of common stock</td>
<td>¥10.00</td>
<td>$.038</td>
</tr>
<tr>
<td>Per American depositary share</td>
<td>¥100.00</td>
<td>$.385</td>
</tr>
<tr>
<td>Employees (at end of year)</td>
<td>121,254</td>
<td>117,888</td>
</tr>
</tbody>
</table>

**Notes:**

1. See note 1(i) to the consolidated financial statements in respect of the calculation of income and dividend per share amounts. Dividends per share and American depositary share are those declared with respect to the income for each fiscal year and dividends charged to retained earnings are those actually paid.
2. U.S. dollar amounts are translated from yen at the rate of ¥260=U.S. $1, the approximate rate on the Tokyo Foreign Exchange Market on November 20, 1982. In the 1981 annual report the rate of ¥221=U.S. $1 was used, and the amounts for 1981 have therefore been restated using the 1982 rate.
Great Panic in 1929 [Drucker, 1954, p. 211].

Viewed in this light, Matsushita's adoption of the divisional organization is regarded to have preceded the world and is best characterized by the fact that it originated in the business philosophy of Mr. Konosuke Matsushita, the founder. He reminisces in the book, "Short History of Matsushita Electric for 50 Years," how the system was conceived.

"When my company was small, I could thoroughly control it. As it launched into a variety of new business areas, however, it was impossible for me to grasp the whole situation by myself. So, I decided to entrust an area of business with one of my staffers, and render him the top executive of the area. However small-sized the business might be, he has invested with full power to manage it. Such was the beginning of the divisional organization of Matsushita" [MEI, 1968, pp. 112–113].

2) Achievements in early years

In contrast with companies which imported a divisional system, it was conceived quite naturally in Matsushita's case. The establishment of the such divisional system has led to the following achievements [MEI, 1968, pp. 113–114]. "Under divisional organization, each divisional manager gave full scope to his creativity and ability, and thereby, Matsushita Electric, which remained a small-to-medium-sized private enterprise then, was able to achieve favourable results in a variety of new business areas. At the same time, an excessive expansion of business was restricted owing to self-supporting management, and active business strategies were endorsed with sound profitability. Also by restricting product lines and directly linking production and marketing, each division was able to operate flexibly in response to market trends, which is one of the advantages of a small-sized enterprise. Thus, Matsushita paved the way to become one of the largest enterprises in Japan, retaining such advantage of a small en-
Matsushita's divisional organization finds its prototype in the way the founder, launching the enterprise, assigned even newcomers the duties of confidential nature so as to grow business, and grow people. In those days such practice was born out of necessity, though, it later developed into divisional organization, as the practice was carried out deliberately." The aforementioned report by MITI gave five advantages of divisional system, which Matsushita is known to have already made the most of them [MITI, 1960, chap. 1].

2. FORMATION AND DEVELOPMENT OF DIVISIONAL ORGANIZATION

As shown in Table 2, Matsushita Electric Manufacturing Co., was dissolved into Matsushita Electric Industrial Co., Ltd. in 1935 and adopted Independent Corporation System, setting up subsidiary companies for each division. With the outbreak of the China Incident in 1937 and that of the Pacific War in 1941, the company entered into munitions production and in 1945 it returned to civilian goods production with the end of war.

The postwar period was a hard time for the company, with an order of production suspension by Occupation authorities, designation as restricted company and Zaibatsu, and purge from public offices, etc.

In 1950, the company adopted a self-support system for factories and successfully restored its long-standing divisional organization. With regard to marketing, the company took the plunge on an epochal Marketing Corporation System, so as to coexist with agencies which had been suffering from depression and fierce competition.

Concerning divisional organization accounting system, the company adopted Intracompany Capital System in 1954, establishing intracompany capital in each division and office to impose cash responsibility as well as profit responsibility on it. With the establishment of the system,
<table>
<thead>
<tr>
<th>Year</th>
<th>Development of Divisional Organization and Accounting System</th>
<th>Corporate Transition of Matsushita Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1927</td>
<td>The original idea of divisional organization was conceived.</td>
<td>1894 Mr. Konosuke Matsushita, the founder was born.</td>
</tr>
<tr>
<td>1933</td>
<td>The divisional organization was officially put into practice.</td>
<td>1918 Matsushita Electric Factory was founded.</td>
</tr>
<tr>
<td>1935</td>
<td><strong>Independent Corporation System</strong> was adopted.</td>
<td>1929 The company changed its name to Matsushita Electric Manufacturing Co.</td>
</tr>
<tr>
<td>1940</td>
<td><strong>Accountants' Department System</strong> was inaugurated.</td>
<td>1932 The first year of <em>New Pioneer Spirit Age</em>.</td>
</tr>
<tr>
<td>1950</td>
<td>Divisional organization was reinstalled after the interruption during the war.</td>
<td>1932 The Overseas Trade Dept. was set up.</td>
</tr>
<tr>
<td>1950</td>
<td><strong>Marketing Corporation System</strong> was adopted.</td>
<td>1933 The <em>Five Spirits of Matsushita</em> were set down. (Two more were added in 1937.)</td>
</tr>
<tr>
<td>1952</td>
<td><strong>Business Planning System</strong> was established.</td>
<td>1933 Construction of a new Head Office and plant in the Osaka suburb of Kadoma was completed.</td>
</tr>
<tr>
<td>1954</td>
<td><strong>Intracompany Capital System</strong> was adopted.</td>
<td>1935 Matsushita Electric Manufacturing Co. was reorganized to Matsushita Electric Industrial Co., Ltd.</td>
</tr>
<tr>
<td>1956</td>
<td><strong>Divisional Organization by Products</strong> was adopted.</td>
<td>1940 Annual Announcement of Business Policy was started.</td>
</tr>
<tr>
<td>1957</td>
<td><strong>Budget System</strong> was introduced.</td>
<td>1952 The company concluded technical tie-up with Philips, Holland.</td>
</tr>
<tr>
<td>1960</td>
<td>The Accounting Headquarters was set up.</td>
<td>1956 The first five-year plan was announced.</td>
</tr>
<tr>
<td>1965</td>
<td><strong>Month-end Cash Settlement Rule</strong> was established.</td>
<td>1960 The goal was achieved well beyond the projection.</td>
</tr>
<tr>
<td>1970</td>
<td>Disclosure of consolidated financial statement of Matsushita Group was started.</td>
<td>1965 A new sales system was launched.</td>
</tr>
<tr>
<td>1978</td>
<td>The Accounting Headquarters was abolished.</td>
<td>1977 Mr. Toshihiko Yamashita was inaugurated as President.</td>
</tr>
<tr>
<td>1978</td>
<td><strong>Prompt Report of Monthly Settlement System</strong> was introduced.</td>
<td></td>
</tr>
</tbody>
</table>
divisions and offices were entitled to self-supporting management, literally as *companies within a company*. Because of their nature as independent corporations, divisions and offices alike have accounting departments and sections respectively, where balance sheets and income statements are prepared, contributing a great deal to their financial management. On the other hand, *The Accounting Headquarters* was set up in 1960 to have an across-the-board view of the accounting of the whole Matsushita Group.

Following the discontinuance of the Supervisory Headquarters, however, five headquarters including the Accounting Headquarters were abolished in 1978, with a view to streamlining the organization. In connection with divisional accounting system, *Month-end Cash Settlement Rule* and *Prompt Report of Monthly Settlement System* were introduced in 1965 and 1967 respectively. Among the company's present organizations that have undergone several changes, those that are directly related to divisional accounting system are shown in Fig. 1.

3. **FOUR FUNDAMENTAL IDEAS OF DIVISIONAL ORGANIZATION**

Concerning fundamental ideas that constitute the organization, Mr. Masaya Sano, General Controller, emphasizes to me the following four points.

1) **Self-support**

Each division is being operated on a self-supporting basis. Complete decentralization has been put into practice for cash management as well as for profit management. This explains the reason the company uses the term *self-supporting management*, rather than *divisional profit management*. 

148
Fig. 1 Matsushita Federal Organization relevant to divisional system accounting
2) **Specialty**

Each division is engaged in manufacture and marketing of one product only. Divisional system by product has been employed in line with this idea. Even a composite product is put in charge of a single division. Each division is devoting itself to manufacture specialty as specialized manufacturer.

3) **Public Service**

Divisions are operated with the aim of serving society through marketing of goods. Divisions are wholly responsible for production and marketing of their products.

4) **Education of People**

The company considers the divisional organization as a place for educating executives and staffers. Managers of divisions are entrusted with maximum authority by the Head Office which restrains its intervention into management of divisions as much as possible. Managers are operating as presidents of independent companies, which contributes a great deal to the education of successors to top executives at the Head Office.

To fully realize those four ideas, the divisional organization has been adopted. Some well-qualified divisions have been separated to become subsidiaries. For example, Parts Division was dissolved into Matsushita Electronic Components Co., Ltd. in 1976 and Batteries Division into Matsushita Battery Industrial Co., Ltd. in 1979. Apart from being incorporated, they are carrying out exactly the same function as divisions in terms of business management.

There are, of course, drawbacks in divisional organization and independent corporation system, such as falling divisions into sectionalism, overlapping of organizations or personnel functions. Above all, the largest drawback is that intentions of top executives are difficult to reach the tip system. Because of these drawbacks divisional or-
ganization which rapidly gained ground over a couple of decades beginning in 1955, was abandoned by some companies in the aftermath of Oil Shock in 1973. Nowadays, when decelerated economy has given way to stable economic growth, a number of companies are restoring or newly adopting the system in order to convert their business strategies from defensive to offensive ones.

4. PHILOSOPHY OF ACCOUNTING AND ACCOUNTANTS’ DEPARTMENT SYSTEM

Matsushita has its philosophy of accounting. Some of the mottoes briefing the philosophy are:

- *Accounting* (経理) is nothing else than business management (経営管理).
- Disorder in accounting leads to disorder in management.
- Accounting serves as a compass for management.
- Business strategies should not be planned by accountants.
- Behind accounting figures exist people, goods, and thoughts.
- Profits are not an aim but a result.

As will be stated afterwards, accounting means management itself for Matsushita, so disordered accounting results in mismanagement. Although accounting is thought to be a compass of management, controller’s department does not steer the company’s direction, just as a compass is in no position to determine which way a ship goes to. Business planning should be in the hands of divisions concerned. Neither plans nor results are mere enumeration of figures: they are representation of the company activities and thoughts of Matsushita people themselves.

1) ‘Accountants’ Department System’—Its Role

Accountants are engaged in putting Matsushita’s philosophy of accounting into practice. The company has a unique accounting organi-
ization called Accountants' Department System. Accountants total about 1,500, among whom, those belonging to General Controller's Dept. at the Central Office number only 100, and the remaining 1,400 accountants are assigned to Divisional Controller's Dept. at the divisions, branch offices and affiliated companies. Chiefs of these Controller's departments and sections (called divisional controllers), are placed in the Central Office, divisions, branch offices, and independent corporations. They conduct monthly, semiannual, and annual settlements, and prepare income statements and balance sheets.

In 1978, Prompt Report of Monthly Settlement System was introduced in which results up to 20th of each month, settling day, are reported to the Central Office on the day, and a report of the financial results of the whole company are submitted to president on the following day. Accountants and controllers are primarily under control of executives of the Central Office in charge of accounting, and they file financial reports directly to General Controller of Corporate Controller's Department at the Central Office. At the same time, divisional accountants are under control of divisional managers. Thus, this matrix type administrative organization has been formed, as shown in Fig. 1 to make it possible for the company to operate as an organic whole. So fully decentralized divisions have been vertically connected to the Central Office owing to this accounting system.

2) Roles of the Controller's Department in divisional organization

The annual business plan is started with announcement of president's annual policy. And it is basic responsibilities of the Controller's Dept. to have president's or division managers' policies penetrate through to all the company members, to arrange a schedule for making business plans, to provide necessary data, to coordinate divisional plans, and to unite them. Furthermore, the Controller's Dept. provides the following services for divisions to make their business plans.

Production plan: The Department examines efficiency, man-hours,
quality, installation, products, costs, etc. to see whether production and marketing in their plans are well balanced.

**Marketing plan**: The Department examines market trends, share, sales promotion, advertisement, transportation, etc. to see whether their plans have reasonably accurate foresight, and whether sales growth rate or sales prices are appropriate.

**Cash plan**: The Department examines efficiency, man-hours, possibility of cost reduction and elimination of loss and waste. etc, to see whether reasonable profits (ratio of profit to sales should be 10% and above) are secured, and whether costs are sufficiently reduced.

**Collection and inventory plan**: The Department examines whether high target is set for collection, and whether stock is held down to reasonable level. Overstock is closely checked.

**Fund plan**: The Department examines divisions’ debit entries closely to see whether the principle of relying first on net worth (principle of self-generation of funds) is maintained firmly and whether operation without loan payable is possible.

In short, principal ideas in the business planning boil down to self-supporting management, creation of a high target, and participation of entire personnel. In settlements, prompt and sound settlement, serious treatment of balance sheets, and the principle of goods first are principal ideas to be valued.

To put it more concretely, attainment of reasonable profit, setting of a high target, and cost reduction (on divisional and product basis) are upheld as accounting thoughts in the area of cost management. And in fund management, self-generation of fund is a principle to be observed, and the idea ‘basic duties prop the whole operation’ (close contact with job sites) is upheld in handling everyday business.

What is particularly important here is that business plans are to be made by divisions or departments on their own initiative and not by the Controller’s Department. With assistance or advice for divisions,
the Controller’s Dept. aims at enhancing motivation effect upon divisions through self-control. In settlements of account, the Department makes it a principle to grasp how business results or finances stand, to clarify the corporate’ business policies, and to make constructive suggestions for administrative improvement.

II MANAGEMENT ACCOUNTING SYSTEM UNDER DIVISIONAL ORGANIZATION

1. OUTLINE OF MATSUSHITA’S MANAGEMENT SYSTEM

Matsushita considers the Japanese word 経理 (accounting) as an abbreviation of 経営管理 (management). For the company, accounting is more than financial accounting: it is something more comprehensive including management accounting. The importance of such accounting as a tool of business management is emphasized. Fig. 2 shows a basic model of Matsushita’s management system in comparison with that in general. Management consists of two major functions, planning and control. When business plans are made, a clear-cut business policy must lie at the basis of those plans. This business policy is classified into an overall policy and a departmental policy.

According to a report “Profit Planning for Policy Making,” 1956 filed by MITI, an overall policy formulates a company’s way of thinking or provides a guideline for proceeding with business activities, expressing the company’s attitudes towards a profit target, promotion of welfare of employees, service for customers, social responsibilities, etc. A departmental policy is determined by each department to carry out its business activities in line with an overall policy. Overall and departmental policies serve as a target or guideline for a corporate, and a business plan is the embodiment of such policy in a form of figures or procedures to be implemented in reality [MITI, 1956, chap. 1].

154
Fig. 2 Matsushita Electric's Management System
As shown in Table 3, Matsushita Electric has formulated the company's creed, principle, and seven spirits as the representation of its overall policy. With its overall policy stated specifically, Matsushita is reputed to have philosophy and so-called Matsushitaism penetrates to the end of the company.

It was not until the afore-mentioned report was filed in 1956 that the importance of manifestation of business policy was emphasized [MITI, 1956, chap. 1], while Matsushita formulated the following creed as early as in 1929 to specify its social responsibility: "With consideration for harmony of profit and social justice, we strive to foster national industry in order to improve and advance the welfare of society" [MEI, 1968, p. 73]. At the same time, the following principle was made public: "There will be neither improvement nor development where harmony and cooperation among members are absent. So, each one, abandoning self-centeredness and with respect for others, should unite efforts with each other and carry out his duty sincerely."

With official inauguration of the divisional organization in 1933, morning and evening meetings were started and a company song was composed. Also in the same year, five spirits that all company members should observe were formulated, that is, ① Spirit of service through industry, ② Spirit of fairness, ③ Spirit of harmony and cooperation, ④ Spirit of struggle for the sake of progress, and ⑤ Spirit of courtesy and humility. Undergoing several changes, these five spirits have now been expanded into seven spirits as shown in Table 3.

An event that accounts for the essence of Matsushita's business policy took place on the fifth day of May, 1932. All the employees were gathered on the day, the day of traditional Boys' Festival, and Mr. Konosuke Matsushita, the founder, described as follows to his audience his vision for the true mission of Matsushita Electric.

"Let's join hands to make our goods as widely available at lowest possible cost as water from the tap. Poverty is eliminated only when that is achieved. It is only when spiritual tranquility combined with
Table 3  Matsushita Electric's ** Creed, Principle, and Seven Spirits **

<table>
<thead>
<tr>
<th><strong>Creed</strong></th>
<th>Through our industrial activities, we strive to foster progress, to promote the general welfare of society and to devote ourselves to furthering the development of world culture.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principle</strong></td>
<td>There will be no development where harmony and cooperation of each member is absent. Each one, therefore, abandoning self-centeredness and with respect for others, should unite efforts with each other and carry out his duty.</td>
</tr>
<tr>
<td><strong>Seven Spirits</strong></td>
<td>① Spirit of service through industry,  ② Spirit of fairness,  ③ Spirit of harmony and cooperation,  ④ Spirit of struggle for the sake of progress,  ⑤ Spirit of courtesy and humility,  ⑥ Spirit of assimilation,  ⑦ Spirit of gratitude.</td>
</tr>
</tbody>
</table>

Table 4  A sample of **Divisional Master Plan (The Charter)**

<table>
<thead>
<tr>
<th>Mr. × × ×</th>
<th>Divisional Manager</th>
<th>Toshihiko Yamashita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>President</td>
</tr>
</tbody>
</table>

The Master Plan for your division is as follows. I expect that self-supporting management based on this Master Plan of your division will obtain excellent results.

- **responsible sales amount for this year** ..........¥××××million
- **divisional profits for this year** ................. ¥×××million
- **profit ratio to sales for this year** ............... 10%
- **payment to the Central Office** ................... 3% of sales
- **intra-company capital for this year** .............. ¥×billion

Comment from President
Concerning your ××× project, I approve the personnel increase you have requested. I expect you to attain the desired profit by the execution of the project.
material abundance is attained that happiness of mankind becomes solid. What I have realized as the true mission of Matsushita Electric is to make our goods inexhaustibly by full operation to bring about the paradise on earth.”

This has come to be known as the Water Philosophy of Matsushita. The year 1932 was named The first year of New Pioneer Spirit Age and since then, May 5th has been celebrated as the company’s foundation day.

2. LONG-TERM PLAN AND BUDGET SYSTEM

A business plan is an embodiment of a business policy, which is classified into a long, medium and short-term plan according to the period over which it is carried out. Matsushita makes now a 5-year plan as a long-term plan, and a 3-year plan as a medium-term plan. In 1956, Mr. Konosuke Matsushita announced the first 5-year plan, putting an end to the ten year long hardship during the postwar period. The company was then prepared to enter into a full-scale operation. According to the plan, the sales volume was to be raised from ¥ 22 billion to ¥ 80 billion; the number of employees would be increased from then 11,000 to 18,000; capital was to be raised from ¥ 3 billion to ¥ 10 billion by 1960 [MEI, 1968, pp. 257-258].

The Government published the first 5-Year Plan for Economic Independence in 1956, but it was in the early 60's that formulation of long term business plans gained ground among private companies. It was very rare, therefore, for a private enterprise to announce such a plan in those days. The sales goal was achieved in 1959 and the company's sales volume exceeded ¥ 100 billion in the following year.

The excellent results shown by Matsushita stimulated other companies into striving for expansion of their business by means of long-term plans. More than that, this newly adopted attitudes of companies made a great contribution to the expansion of Japanese economy as a
whole, getting the era of long-term planning started.

Touching up its 3-year plan annually, Matsushita Electric has planned its business invariably for three years to come. 3-year plans are made on what is called rolling base, while, at present, 5-year plans are made only when necessary.

What is most worthy of mention is a short-term business plan which the company terms the Annual Business Plan. Based on this business plan, budgeting is carried out. Annual budgets and standard costs are determined by the Standard Cost & Budgeting System, or Budget System in short, and are put into practice. The Budget System organically combines budgeting and costing systems. The departmental budget is set by the former and standard costs by the latter. Financial Results are summed up into monthly, annual, and consolidated financial statements, and then actuals are compared with budgets and their budget variances are put to analysis. Bases on the analysis, necessary improvement measures are indicated to divisions and offices.

Not only for profit management, decentralization has been promoted also for fund management. The Standard Balance Sheet is prepared as the application of Standard Cost & Budgeting System to fund or capital. Based on the Standard Balance Sheet, intracompany capital is set up, which constitutes one of the most distinguished characteristics of Matsushita's divisional system accounting.

3. MAKING DIVISIONAL BUSINESS PLANS

The focus of business planning lies in the corporate's and divisional business plans. Fig. 3 shows how they are made. Making annual business plans starts with the announcement of annual business policy which is disclosed in the general meeting at the beginning of the year. Matsushita started the meeting in 1940, fifteen years before the first 5-year plan.
Fig. 3 Procedure of making Annual Business Plans

1. Announcement of annual business policy
2. Presentation of President's annual policy
3. Framing of corporate business plans
4. Fixing of corporate business plans
5. Indication of Divisional Master Plans
6. Indication of division manager's policy
7. Framing of divisional business plans
8. Fixing of divisional business plans
9. Fixing of branch office business plans
10. Fixing of affiliated companies' business plans
11. Fixing of divisional budgets
12. Fixing of departmental budgets

The chart: cf. Table 4
Following the governmental control of materials, price controls through officially fixed price system started in full scale in the same year to get a great blow in private production. In order to tide over the difficulty, Matsushita held the first of that meeting to announce its policy to sustain with utmost efforts the production of electric appliances for sales agents and sales companies in the country. The meeting has evolved into a New Year function, where more than ten thousand Matsushita people are present, such as top executives of Matsushita Electric, presidents of the companies belonging to Matsushita Group, executives of overseas companies, and leading members of the labor union.

In 1978, Mr. Toshihiko Yamashita, who had been selected president at a jump in the previous year, addressed the customary New Year meeting, saying, “It’s high time we reconsidered management, with this year falling on sixtieth anniversary of the foundation. It’s a good opportunity to look back on the time our business started.”

He gave an address of instructions at the meeting of 1979, saying, “The first-rate management will come true where each member of the company thinks his job as an important part of his life, as directly connected to what he lives for, and hopes that his job is of service to society.” Here, he emphasized the necessity of creating places of work where contribution to society has a direct bearing on what each member values most.

Annual business policy is then conveyed in writing to division managers, branch office managers, and presidents of affiliated companies. The policy is no more than a management slogan about basic attitudes and details are indicated in the President’s Annual Policy. Two months before the beginning of a business year (November 21), guidelines such as sales increase rate, for making a business plan are conveyed as President’s Annual Policy to division managers.

The objects of making a business plan are embodiment of president’s policy, indication of guiding principles of business activities, clarification
Fig. 4 Procedures of preparing X Division's Standard Balance Sheet and of computing its intracompany capital

Table I. Standard Working Capital

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>titles of accounts</td>
<td>no.</td>
</tr>
<tr>
<td>notes receivable</td>
<td>①</td>
</tr>
<tr>
<td>accounts receivable</td>
<td>②</td>
</tr>
<tr>
<td>finished goods</td>
<td>③</td>
</tr>
<tr>
<td>works in process</td>
<td>④</td>
</tr>
<tr>
<td>materials</td>
<td>⑤</td>
</tr>
<tr>
<td>other current assets</td>
<td>⑥</td>
</tr>
<tr>
<td>total</td>
<td>⑦</td>
</tr>
</tbody>
</table>

Table II. Standard Balance Sheet

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>titles of accounts</td>
<td>no.</td>
</tr>
<tr>
<td>net working capital</td>
<td>⑬</td>
</tr>
<tr>
<td>fixed assets</td>
<td></td>
</tr>
<tr>
<td>existing facilities</td>
<td>⑯</td>
</tr>
<tr>
<td>new facilities</td>
<td>⑰</td>
</tr>
<tr>
<td>total</td>
<td>⑱</td>
</tr>
<tr>
<td>deposit in the central office</td>
<td>⑳</td>
</tr>
<tr>
<td>total assets</td>
<td>㉒</td>
</tr>
</tbody>
</table>

foot-notes:

1. ¥ 10 billion (monthly sales) × 30% (note collection ratio) × \( \frac{90}{30} \) (number of days payable of notes) = ¥ 9 billion
2. ¥ 10 billion (monthly sales) × \( \frac{30}{30} \) (number of days outstanding) = ¥ 10 billion
3. ¥ 10 billion (monthly sales) × 70% (ratio of cost of goods sold to sales) × \( \frac{30}{30} \) (number of days goods are in storage) = ¥ 7 billion
4. ¥ 10 billion (monthly sales) × 70% (manufacturing cost to sales ratio) × \( \frac{3}{30} \) (number of days goods are in storage) = ¥ 0.7 billion
5. ¥ 10 billion (monthly sales) × 50% (material cost to sales) × \( \frac{15}{30} \) (number of days goods are in storage) = ¥ 2.5 billion
6. ¥ 10 billion (monthly sales) × 3% (standard ratio) = ¥ 0.3 billion
7. \( 1 + 2 + 3 + 4 + 5 + 6 \) = ¥ 29.5 billion
8. ¥ 10 billion (monthly sales) × 50% (material cost to sales ratio) × 10% (ratio of note payment) × \( \frac{90}{30} \) (number of days payable of notes) = ¥ 1.5 billion
9. ¥ 10 billion (monthly sales) × 50% (material cost to sales ratio) × \( \frac{35}{30} \) (number of days outstanding) = ¥ 6 billion
10. ¥ 10 billion (monthly sales) × 35% (standard ratio) = ¥ 3.5 billion
11. \( 5 + 9 + 10 \) = ¥ 11 billion
12. \( 7 - 11 \) = ¥ 18.5 billion
13. initial exclusive facilities = ¥ 57.5 billion
14. facilities to be provided during the year = ¥ 20 billion
15. \( 13 + 14 \) = ¥ 77.5 billion
16. from divisional business plan = ¥ 4 billion
17. \( 12 + 15 + 16 \) = ¥ 100 billion
18. initial amount on hand + fluctuation during the year = ¥ 15 billion
19. initial amount on hand + fluctuation during the year = ¥ 31 billion
20. \( 18 + 19 \) = ¥ 46 billion
21. \( 12 + 15 + 16 - 20 - 22 \) = ¥ 10 billion
22. from Division's Income Statement = ¥ 44 billion
23. \( 20 + 22 \) = ¥ 100 billion
of transferred authority and responsibility, penetration of president’s policy, establishment of divisions’ operational policies, and improvement of efficiency. In line with president’s policy, division managers instruct their policies concerning the following items to departments in their charge: production, marketing, market share, inventory, collection of bills, payment, profit, development of new products, prices of goods, target of cost reduction, facilities, personnel, subsidy for affiliates, and others of high priority.

Each department makes its plan in accordance with manager’s policy and the main points to be considered are as follows:

*Technical Dept.*......development of new products, improvement of quality, costing, etc.

*Purchasing Dept.*......cost reduction of materials, choice of material suppliers, etc.

*Manufacturing Dept.*......improvement of production efficiency, improvement of yield, reduction of man-hours, improvement of quality and technology, etc.

*Marketing Dept.*......sales volume, market enlargement, market finding, advertising, streamlining of transportation, improved collection of bills, etc.

*Administrative Dept.*......appropriate assignment of personnel, educational training, welfare facilities, improved efficiency of fund operation, streamlining of clerical work, housing, etc.

*Personnel Dept.*......employment, rating personnel expenses, improvement of productivity, etc.

*Investment Plan*......modernization, automation, economic study of equipment investment, etc.

Departmental plans are the core of an annual business plan, and departments start mapping out their plans three months before the business year starts and finalize them after repeated examination. A departmental plan boils down to profit planning and fund planning. Combined with other departmental plans into a divisional plan, it is
filed to the Head Office. Receiving the plan, directors in charge inspect it closely, while the Corporate Controller's Dept. spends a month examining its details. Plans submitted by major divisions are put to inspection by president and directors to see whether president's policy has been fully implemented in it. When divisional plans are approved, they are united as a corporate business plan, brought under deliberation of a board of directors and finally approved by president. With this, the corporate and divisional business plans are determined. The divisional plans are then conveyed to each division.

4. DELIVERY OF DIVISIONAL MASTER PLAN

What is noteworthy here is that a gist of the finalized divisional plan is summarized as the Divisional Master Plan and is handed to each division manager by president in person. This custom best symbolizes Matsushita's divisional management system. A special meeting for this practice is held, and based on this plan, a division manager is vested with authority to run his division and at the same time he is charged with responsibility for accomplishing the plan. Table 4 shows a standard form of the Divisional Master Plan, which the company commonly calls the Charter. In the Master Plan a division's responsible sales amount, divisional profits, and intracompany capital for the year are specified as projected results of its business plan, while profit rate to sales and the ratio of payment to the Head Office are common to all divisions.

Enumerating projected achievement of a division, or more specifically, divisional profit and fund plans, the Master Plan practically amounts to instructions from the Head Office. The Head Office's policy of decentralizing authority, however, encourages a division manager to carry out his plan independently and he is compelled to accomplishing it by whatever measure he chooses, as long as he attains the goals specified in the Master Plan. This constitutes the essential difference
between Matsushita's divisional organization and that of other companies.

III PREPARATION OF DIVISIONAL BALANCE SHEETS

1. ADOPTION OF INTRACOMPANY CAPITAL SYSTEM

The significant feature of Matsushita's divisional system accounting is the adoption of Intracompany Capital System. Mr. Shoji Hino, vice president, says, "Our divisional organization, which has a long history since its establishment in 1933, has almost reached perfection with the adoption of the Intracompany Capital System in 1954" [Kato, 1980, p. 48].

In the summer of 1953, corporate bankruptcies followed one after another due to recession that ensued the truce of the Korean war and the end of its special procurements. In July when Matsushita's rehabilitation plan was in full swing, president delivered the following address: [MEI, 1968, pp. 243–244]. "Looking back upon the record of 1950, we know that capital totaled ¥120 million, sales were ¥234 million, borrowings were ¥510 million, notes discounted were ¥67 million, while three years later, in 1953, capital increased to ¥550 million, sales to ¥1,134 million, borrowings to ¥1,734 million, bond was ¥300 million, and notes discounted were ¥999 million. Although business has expanded during the past three years, quality of management has hardly improved with debts that have increased five and a half times during the period. It is presumably because appropriation of funds has been improper, with a tendency to looseness."

Here it was pointed out that although sales increased five times, debt also showed an increase of five and a half times. In response to president's request for more efficient use of funds, intracompany capital system was introduced in each division and branch office.
They were reorganized into self-supporting management bodies similar to independent companies, though they would not issue stocks. Meanwhile, the Head Office entered into a bank-like operation and the Treasury Department of the Central Office has come to be called *Matsushita Bank*.

2. **HOW TO PREPARE DIVISIONAL BALANCE SHEETS**

Now *X Division* is taken as an example to illustrate a general idea of how to prepare its balance sheet and to work out its intracompany capital. As the first step to prepare a divisional balance sheet, the *Standard Working Capital Statement* as shown in Table I of Fig. 4 is prepared. The net working capital is calculated by deducting standard amount of current liabilities on hand from standard amount of current assets on hand. Standard amounts of current assets and current liabilities on hand are planned by the following steps. (①, ②, ③, …… correspond to those in Fig. 4)

1) **Planning a standard amount of current assets on hand**

① *Notes receivable*……..As the sales contract determines conditions for collection of bills, the amount of notes to be collected works out by multiplying accounts receivable (or monthly sales amount) by a ratio of note collection. By multiplying the result by the number of months payable of notes, the standard amount of notes receivable on hand is calculated. In the example of Fig. 4, when monthly sales are ¥ 10 billion, the ratio of collection of notes is 30%, and the number of days payable of notes is 90, the standard amount of notes receivable on hand will be:

\[ ¥ 10 \text{ billion} \times 30\% \times \frac{90}{30} = ¥ 9 \text{ billion} \]

② *Accounts receivable*……..All accounts receivable are closed on the 20th of each month and collected thoroughly by the end of the
month. Therefore, on 20th, accounts receivable which correspond to the month’s sales amount remain to be settled by the end of the month. Although some accounts such as those for goods in transit, are not settled by then, they are of neglectable amount and also there occurs no considerable monthly fluctuation. So, in principle, monthly sales amount remains as the month’s accounts receivable.

3) **Finished goods**—Concerning production costs, *Budget System* has been fully practiced and determines standard costs. Standard sales costs are readily calculated from monthly sales amount. Month-end amount of products on hand can be worked out by replacing the result with the standard number of days of storage of finished goods which is calculated from standard turnover rate of finished goods. For example, if the standard ratio of cost of goods to sales is 70%, standard number of days of storage of finished goods is 30, the standard finished good’s stock can be worked out from the following equation:

\[ ¥ 10 \text{ billion} \times 70\% \times \frac{30}{30} = ¥ 7 \text{ billion} \]

4) **Works in process and Materials**—They are calculated in the same way as in 3) Finished goods.

5) **Other current assets**—Other current assets than 1) and 5) are calculated individually, but as for those of small amount and those that are customary, they are often estimated roughly by using a constant ratio (e.g. 3%) to monthly sales amount and summed up.

2) **Planning standard amount of current liabilities on hand**

6) **Notes payable**—A purchasing contract determines and specifies payment conditions. The amount of notes payable is calculated by multiplying the closing balance of accounts payable with ratio of payment by note. The standard amount of notes payable on hand is worked out by multiplying the result with a number of month payable of notes. If the ratio of payment by note is assumed to be
10%, the number of days payable of notes is 90, and the ratio of material cost to monthly sales is 50% as determined by the budget system, the amount of notes payable on hand is calculated by the following equation:

$$¥ 10 \text{ billion} \times 50\% \times 10\% \times \frac{90}{30} = ¥ 1.5 \text{ billion}$$

⑨ Accounts payable......Because of Month-end Cash Settlement Rule there is no accounts payable at the end of the month. The closing date is uniformly on the 15th of each month. The ratio of material cost to monthly sales is 50%, and if a standard number of days outstanding is 35, the standard amount of accounts payable on hand for a month with normal stock is calculated as:

$$¥ 10 \text{ billion} \times 50\% \times \frac{35}{30} = ¥ 6 \text{ billion}$$

⑩ Other current liabilities......They are calculated according to ⑥ Other current assets.

3) Planning standard amount of net working capital on hand
⑪ Net working capital......This is calculated by deducting ⑦ Total current liabilities from ⑩ Total current assets.

$$¥ 29.5 \text{ billion} - ¥ 11 \text{ billion} = ¥ 18.5 \text{ billion}$$

The result is recognized as X Division's standard working capital.

4) Calculating Intracompany Capital

As shown in Table II of Fig. 4, intracompany capital is calculated by adding X Division’s fixed assets and its deposit in the Central Office to its net working capital and deducting reserve and ending surplus from it. With this, the standard balance sheet of X Division is completed. Fixed assets consist of existing facilities brought forward from the preceding year and the facilities scheduled to be equipped for the current year. New investment into facilities within the limit of accumulated depreciation costs is left at division manager’s
disposal. As for investments exceeding the limit, increase of intra-company capital is allowed after due consultation with the Central Office.

Meanwhile, reserves are restricted to those for retirement allowance and accumulated depreciation. Outstanding bonuses are included in current liabilities as accrued expenses, and reserve for doubtful accounts and special reserves, such as those for price fluctuation and for loss from overseas investment, are added up in current assets deduction or in special reserve in the corporate balance sheet.

Reserves for retirement allowances and depreciation are provided by individual estimate of personnel and assets respectively. If the fixed assets are ¥77.5 billion and reserves are ¥46 billion, the intra-company capital is determined as follows:

\[ ¥18.5 \text{ billion} + ¥77.5 \text{ billion} + ¥4 \text{ billion} - ¥46 \text{ billion} - ¥44 \text{ billion} = ¥10 \text{ billion} \]

3. **THE FINANCIAL FUNCTION OF TREASURY DEPARTMENT, MATSUSHITA BANK**

In the case surplus can be earned as a result of a division’s current year operation, they are retained as an ending surplus which the division is able to use at its own discretion. It is compulsory, however, to deposit the whole amount in the Central Office. In some highly profitable divisions, this ending surplus expands extraordinarily, causing their intracompany capital to stand at zero or show a negative balance. Such divisions are requested to make further deposit (*special deposit*) to strike a balance between other divisions.

As long as current assets and current liabilities of a division are in accordance with the standard, intracompany capital will cover necessary funds. Otherwise, the division has to ask the Treasury Dept. (*Matsushita Bank*) for a intracompany loan payable. It possesses a total of ¥216.3 billion, consisting of ¥104.5 billion cash on hand and
deposit, and ¥111.8 billion long-term deposit. Including bank deben-
tures, its financial assets total ¥470.9 billion. It has practically no
loan payable. Including those of affiliated companies, it possesses
¥374.6 billion cash and deposits, ¥264.8 billion surplus fund, and
total financial assets of as much as ¥749.9 billion against short-term
loans payable of ¥109.8 billion. (as of Nov. 20, 1979). The Treasury
Dept. compares favorably with small-to-medium-sized commercial banks
in the amount of funds.

Instead of automatically loaning out on request from divisions, the
Treasury Dept. extends loans at interest after carefully examining
loan applications into reasons and repayment plans. It will under no
circumstances furnish funds for such a purpose as hoarding up of land.
Matsushita alone didn’t allow itself to be involved in land-buying
during the so-called land boom. It was only natural when one thinks
of the financial system adopted by the company.

Just a look at the Treasury Department’s receipts and disburse-
ments is enough to grasp divisions’ performances, and hence, complete
management of them is possible. Divisions receive intracompany
interest corresponding to commercial bank interest on their deposits,
and also pay interest on their loans payable from the Department.
The interest on special deposits from highly profitable divisions has
been lowered in order to correct unbalance between divisions.

VI PREPARATION OF DIVISIONAL INCOME STATEMENTS

1. THE FORM OF THE DIVISIONAL INCOME STATEMENT

Fig. 5 illustrates the basic structure and standards of a income
statement which is the nucleus of divisional system accounting. In
the following the gists of preparation are given, taking ¥ Division with
total capital of ¥100 billion and intracompany capital of ¥10 billion
as an example. Number ①, ②, ③, ...... correspond to those in Fig. 5.

2. HOW TO PLANN THE DIVISIONAL PROFIT

The following items, a., b. and c., come into focus in planning divisional profit.

a. ratio of profit to sales......The ratio of divisional profit to sales is uniformly fixed at 10% by Divisional Master Plan, which can be altered under no circumstances. The objective sales amount is readily worked out as long as fixed cost and ratio of variable cost to sales have been obtained by a cost analysis into fixed and variable costs.

  ○ 1—ratio of variable cost to sales=ratio of marginal income to sales.
  ○ Ratio of marginal income to sales=ratio of objective profit to sales=ratio of fixed cost to sales.
  ○ Fixed cost÷ratio of fixed cost to sales=objective sales amount.

① sales amount

If the ratio of variable cost is 70% and fixed cost is ¥30 billion, sales amount will be:

¥30 billion÷(1−70%−10%)=¥150 billion

or, total capital of ¥100 billion x turnover rate of total capital, 1.5=¥150 billion

⑤ divisional profit

¥150 billion x 10%=¥15 billion

A transfer price employs a unit price which has been standardized in the transfer of finished goods from divisions to branch offices. The transaction at standard transfer price is journalized as follows:

<table>
<thead>
<tr>
<th>division</th>
<th>intracompany account receivable</th>
<th>intracompany sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>branch office</td>
<td>intracompany purchases</td>
<td>intracompany account payable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>debit</th>
<th>credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>x x x</td>
<td>x x</td>
</tr>
</tbody>
</table>

172
On the contrary, intracompany expenses are journalized as:

\[
\begin{array}{c|c|c}
\text{division} & \text{division expenses} & \times \times \\
\text{branch office} & \text{intracompany account} & \times \times \\
& \text{payable} & \text{receivable} \\
& & \times \times \\
\end{array}
\]

b. *marginal profit*—Each division makes its profit plan according to marginal profit analysis. Ratio of variable cost to sales and fixed cost being determined, the following are readily worked out:

6. *actual marginal income*

\[6. 150\ \text{billion} \times (1-70\%) = 45\ \text{billion}\]

2. \(\text{+3=variable cost}\)

\[150\ \text{billion} \times 70\% = 105\ \text{billion}\]

7. \(\text{+8=fixed cost}\)

\[45\ \text{billion} - 15\ \text{billion} = 30\ \text{billion}\]

c. *standard cost*—Matsushita has adopted *Standard Cost & Budgeting System (Budget System)* in which standard or budgeted cost of manufacturing cost and marketing cost has been set up. If the standard ratio of variable cost to sales is 69.33\%, the following works out accordingly.

2. \(\text{+3=standard variable cost}\)

\[150\ \text{billion} \times 69.33\% = 104\ \text{billion}\]

4. *standard marginal income*

\[150\ \text{billion} - 104\ \text{billion} = 46\ \text{billion}\]

5. *cost variance*

\[46\ \text{billion} - 45\ \text{billion} = 1\ \text{billion}\]

3. **HOW TO PLAN THE TRANSACTIONS WITH THE CENTRAL OFFICE**

The most outstanding feature of Matsushita’s divisional income statement lies in treatment of the transactions with the Central Office,
Fig. 5  The Procedures of Preparing Y Division's Income Statement

(unit: billion yen)

<table>
<thead>
<tr>
<th>no.</th>
<th>titles of accounts</th>
<th>amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>①</td>
<td>sales</td>
<td>150</td>
</tr>
<tr>
<td>②</td>
<td>standard variable manufacturing cost</td>
<td>100</td>
</tr>
<tr>
<td>③</td>
<td>standard variable marketing cost</td>
<td>4</td>
</tr>
<tr>
<td>④</td>
<td>standard marginal income</td>
<td>46</td>
</tr>
<tr>
<td>⑤</td>
<td>cost variance</td>
<td>1</td>
</tr>
<tr>
<td>⑥</td>
<td>actual marginal income</td>
<td>45</td>
</tr>
<tr>
<td>⑦</td>
<td>fixed manufacturing cost</td>
<td>11</td>
</tr>
<tr>
<td>⑧</td>
<td>fixed marketing cost</td>
<td></td>
</tr>
<tr>
<td>⑨</td>
<td>central expenses</td>
<td>4.5</td>
</tr>
<tr>
<td>⑩</td>
<td>others</td>
<td>15.5</td>
</tr>
<tr>
<td>⑪</td>
<td>operating income</td>
<td>14</td>
</tr>
<tr>
<td>⑫</td>
<td>non-operating profit and loss</td>
<td></td>
</tr>
<tr>
<td>⑬</td>
<td>interest on deposit in the central office</td>
<td>1</td>
</tr>
<tr>
<td>⑭</td>
<td>interest on loan from the central office</td>
<td>0</td>
</tr>
<tr>
<td>⑮</td>
<td>divisional profit</td>
<td>15</td>
</tr>
<tr>
<td>⑯</td>
<td>capital interest</td>
<td>1</td>
</tr>
<tr>
<td>⑰</td>
<td>payment to the central office</td>
<td>9</td>
</tr>
<tr>
<td>⑱</td>
<td>divisional surplus</td>
<td>5</td>
</tr>
<tr>
<td>⑲</td>
<td>beginning surplus</td>
<td>39</td>
</tr>
<tr>
<td>⑳</td>
<td>ending surplus</td>
<td>44</td>
</tr>
</tbody>
</table>

foot-notes:

① ¥ 30 billion (fixed cost) ÷ 20% (fixed cost ratio) = ¥ 150 billion (amount)
③ ¥ 150 billion (annual sales amount) × 69% (variable cost ratio) = ¥ 104 billion
④ ① − ② − ③
⑤ ④ − ⑥
⑥ ¥ 150 billion (annual sales amount) × 30% (ratio of marginal income to sales) = ¥ 45 billion
⑦ ¥ 10 billion (preceding year's result) × 110% (increase ratio) = ¥ 11 billion
⑧ ⑨ + ⑩
⑨ ¥ 150 billion (annual sales amount) × 3% (ratio of central expenses) = ¥ 4.5 billion
10  ¥ 13.6 billion (preceding year's result) × 114% (increase ratio)  
    = ¥ 15.5 billion
11  6 - 7 - 9 - 10
12  13 - 14
13  ¥ 4 billion (deposit) × 10% (interest rate) + ¥ 0.6 billion (others)  
    = ¥ 1 billion
14  no loan payable from the Central Office
15  ¥ 150 billion (annual sales amount) × 10% (net profit to sales ratio)  
    = ¥ 15 billion
16  ¥ 10 billion (intracompany capital) × 10% (interest rate) = ¥ 1 billion
17  ¥ 15 billion (divisional profit) × 60% (ratio of payment to the central  
    office) = ¥ 9 billion
18  15 - 16 - 17
19  the preceding year's ending surplus
20  18 + 19
where the following management systems have been established (Names have been given by the author.).

a. **Central expenses sharing system**

In order to make divisions to share the central expenses, the company has adopted this system in which each division pays 3% of its sales volume to the Central Office. These expenses are regarded as a part of its fixed costs.

b. **Intracompany interest system**

Divisions receive interest on their deposits in the Central Office and pay interest on their loans or intracompany notes discounted.

c. **Intracompany dividend system**

Divisions pay 10% of their intracompany capital to the Central Office as capital interest. The capital interest is treated as an appropriation of divisional profits.

d. **Intracompany dues system**

Divisions pay 60% of their divisional profit to the Central Office, which constitutes the financial source for the Central Office to pay in lump the income and state taxes, and dividend. The 60% payment presumably breaks down to 50% for taxes and 10% for annual dividend.

e. **Intracompany deposit system**

Divisions deposit money equivalent to $\text{\circled{9}}$ in Table II of Fig. 4 to the Central Office and retain working fund only as current deposit for payment.

Accordingly, the following are planned:

- $\text{\circled{9}}$ **Central Office expenses**
  
  ¥ 150 billion $\times$ 3% = ¥ 4.5 billion

- $\text{\circled{10}}$ **Capital interest**
  
  ¥ 10 billion $\times$ 10% = ¥ 1 billion

- $\text{\circled{11}}$ **Payment to the Central Office**
  
  ¥ 15 billion $\times$ 60% = ¥ 9 billion

- $\text{\circled{12}}$ **Ending surplus**
¥ 5 billion + ¥ 39 billion = ¥ 44 billion

V THE 'STANDARD COST & BUDGETING SYSTEM'

1. THE MEANING AND CHARACTERISTICS OF BUDGET SYSTEM

Matsushita introduced Budget System from Philips' Gloeilam-pen-fabrieken, Holland, in 1956. Since 1952 Matsushita has had a technical and capital tie-up with the company and they invested to establish jointly Matsushita Electronic Industrial Co. Until then the company only had an estimated cost accounting system. The introduction of this system enabled the company to indicate in figures the action plans of even the smallest unit of divisions and sections. Budget System is defined by the company as the system which indicates concretely the company's management policy in figures so that the policy penetrate down to the smallest unit.

It is also a mechanism of management to control divisional activities by having their achievements toward responsible targets indicated in Fig. 6. In other words, this system is a management instrument devised not only to measure economic efficiency of enterprise activities by several standards but also to further management efficiency. This budget system is a combination of standard costing system and budgeting system, and such an organic combination of management figures and account system characterizes the company's settlement system.

2. THE STANDARD COSTING SYSTEM (COSTING)

The company's standard costs are the attainable actual standard costs, which are modified every year into current standard costs. As mentioned before, the company has adopted standard direct costing, and so, standard costs are set up as follows:
Fig. 6 Functional diagram of Standard Cost & Budgeting System
standard direct material cost = standard unit price × standard consumption volume
standard direct labor cost = standard wage rate × standard hours
standard variable overhead cost = standard rate × standard hours
standard fixed cost = fixed manufacturing cost budget ± selling and general administrative expenses budget

As foreknowledge of production and sales conditions is prerequisite in setting up standard cost, physical standard is planned based on production, marketing, inventory plans, forecast of man-power, working hours, spoiled goods ratio, and usable facilities and areas. At the same time, forecast of material purchase price and personnel expenses rate, etc. is carried out. The standard cost is monthly compared with actual cost and put to the following variance analyses:

a. direct material cost variance = efficiency variance + price variance
   efficiency variance = standard unit price × (standard consumption volume − actual consumption volume)
   price variance = (standard unit price − actual unit price) × actual consumption volume

b. direct labor expense variance = efficiency variance + price variance
   efficiency variance = standard wage rate × (standard hours − actual hours)
   price variance = (standard wage rate − actual wage rate) × actual hours

c. standard variable overhead cost variance = efficiency variance + volume variance + price variance
   efficiency variance = standard rate × (standard hours − actual hours)
   volume variance = (standard rate − variable rate) × actual hours
   price variance = (variable rate − actual rate) × actual hours
3. THE BUDGETARY CONTROL SYSTEM (BUDGETING)

The divisional business plan and standard balance sheet make it easy to compile a fund budget and such profit and loss budgets as sales volume budget, sales cost budget, selling and general administrative expenses budget, etc. Each division conducts accounting and prepares its income statement and balance sheet independently, which makes comparison of divisional budget and actual results convenient.

At present, Prompt Report of Monthly Settlement System has been systematized, thereby, divisional performances up to the 20th of each month, closing date, is reported to the Central Office on the day and total corporate performances are submitted to top executives on the following day. As several variances occur between the monthly settlements which are conducted with a view to accounting control and the year-end settlements which are carried out in accordance with accounting regulations, some adjustments are made to monthly settlements. For example the depreciation expenses (called 'B' account which stands for Budget) by straight line method used in the former are being replaced with the depreciation expenses (called 'A' account which stands for Actual) by declining balance method for use in the latter.

References