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Book Review

On Management Accounting and its Application

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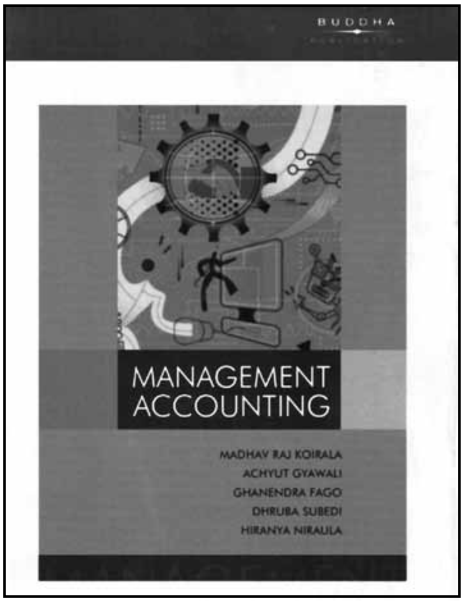

Management Accounting; By Prof. Dr. Madhav Raj Koirala, Achyut Gyawali, Ghanendra Fago, Dhruba Subedi and Hiranya Niraula; Published by: Buddha Academic Publishers and Distributors Pvt. Ltd., Kathmandu; First Edition 2010; ISBN: 978-9937-30-111-4; Pages: 612+20; Price: NRs. 595/-

It is a well-known fact that information is main key to success in the modern day competitive business world characterised by its ever increasing importance in the entire process of making management decisions. It enables the managers to make the best use of their financial and other organisational resources, as well as also to respond most appropriately to the dynamics of business environment while formulating the organisation's mission, objectives, policy, strategies and programmes. Then financial information as an asset is necessary to obtain better results from making decision.

The managers – working to build such an 'invaluable asset' – must have an understanding of the accounting concept, dissemination of accounting information and effective practices. It requires books that would offer practical approaches and insights into the subject matter in a more comprehensive way, instead of being the one largely based on computational aspect along.

It is to the satisfaction of accounting professionals and students that the market has seen a new book they need.

The history of accounting is as old as civilization, key to important phases of

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history, among the most important professions in economics and business. In those days, accountants participated in the development of cities, trade, and the concepts of wealth and numbers. During the Industrial Revolution, firms required accountants to provide the information necessary to avoid bankruptcy and their role developed into a profession. Big business required capital markets that depended on accurate and useful information. This was supplied by what became an accounting profession. On the other hand, accounting has been a leader of the Information Revolution. Today, a global real-time integrated information system is a reality, suggesting new accounting paradigms. Understanding history is needed to develop the linkages to predict this future.

From the time of Luca Pacioli, the Father of Accounting, who accredited for the double entry book-keeping system back in 1494 AD, accounting theories and practices have come a long way. In the process of rising from basic book-keeping works up to the level of using the accounting information for the financial planning and other top-level management decisions making, innumerable approaches and principles have evolved.

The book under review not only provides such requisite theoretical concepts to the readers, but also let students practise the conceptual knowledge in different exercises. It could help students in developing their computational capabilities.

The book consists 13 chapters. Chapter one deals with the conceptual framework and changing role of management accounting as key issues. Admittedly it has derived the five basic objectives of Managerial Accounting activity from Hilton's (2004) book, but it is disheartening to note here that authors have not accredited the resources to Hilton.

The second chapter contains a couple of components concerned with Cost Accounting, namely those cost estimation and classification, which has, however been dealt with from the management accounting view-point. That is, its approach caters to the need for making management decisions from cost related inputs. It features, among others, the technique of using goodness of fit of a regression equation assuming linear function.

The basic computation and presentation of inventory valuation as well as income recognition, measurement and reporting are presented in chapter three. But there is lacking of the information regarding statutory regulation relating to inventory valuation in the context of Nepal. According to Nepal Accounting Standard (NAS) – 04, it is mandatory to value inventory using absorption costing technique for external reporting. In the same line of NAS, the book argued that all manufacturing costs must be assigned to units of product, in the context of the use of absorption costing for external reporting (page 61). It remains far from being sufficient. Dangol and Dangol (2010) had presented statutory regulations enforced for valuing inventories in the UK, India and Nepal that enable the readers to make comparisons.

There are also adequate illustrations on Cost-Volume-Profit Analysis as they have covered the way to address dual Break-Even points (BEP) that would result in the case of changes in fixed and variable costs. Similarly, it also deals with the BEP varying product-mix conditions (page 119). Computing the BEP under condition of uncertainty (page

133) and application of linear programming model (page 124) to resources management for minimisation of cost or maximisation of profit are other general properties of the chapter.

Chapter 5 contains a brief explanation of zero-base budgeting as well as profit planning; it explores the major issues regarding preparation of master budget including budgeted balance sheet, income statement, and cash flows. It considers not only the volume of rupees but also that of units (quantity).

The chapter on Standard Costing has touched upon possible causes and responsibilities of material price variance (page 224) and material usage variance (page 225). Another inconsistency has come to the fore as the book has not covered the possible causes and responsibilities of direct labour rate and efficiency variances. Although the book has covered computation and explanation of probabilities of standard costing under conditions of uncertainty, it has not elaborated the major criticisms of standard costing variance analysis as advocated by Drury (1995) and its limitations (Williamson, 1998).

An enumeration of management accountant's role and six steps in the decision-making process is another property of the book. It also provided qualitative and quantitative (page 282) approaches to decision-making and illustrating eight decision models.

Pricing for external and internal transfer under the condition of decentralised organisations is considering with a view to maximising the benefit to the company as a whole dealt in the pricing decision chapter.

In regard to the investment analysis, one of the most crucial decisions facing managers, foreign investment decisions including effect of inflation have come up as an emerging one in the globalised business context and have opened up avenues for 'borderless investments'. It's something that the book has adequately encompassed. On the contrary, there is a conceptual error in dealing with the alternative project selection decision, in case of project life disparity (page 402). The main issue is: which alternative project should be selected, when there is a life disparity? According to the available literature, one of the most practised approaches is to compare the alternatives on the basis of their equivalent annual benefit (EAB) and select the alternative with the highest EAB (Chandra, 1997). The book has lacked coverage of such conceptual explanations, even though there are a couple of exercises demanding them in the book.

The book is also an attempt to make measurement of organizational performance on the basis of value added statement analysis, ratio analysis, return on investment (ROI) and residual analysis, and cash flow statement analysis.

A great deal of the conceptual material and decision-making techniques used in accountancy rely on probabilistic phenomena. The probabilistic concepts discussed by Jaedicek and Robichek (1964), and applied to break-even analysis, usually represented a good introduction to risk analysis. Whenever decision-makers recognise that actual outcomes may deviate from expectations or forecasts, the analysis logically turns to specifications not only of expected outcomes but also to explicit statements about deviations from expectations. In this case, the authors had made adaptation of a probabilistic methodology in the three different chapters, namely, CVP Analysis, Standard Costing and Capital Budgeting.

In each chapter, illustrations have been linked with problem/exercise questions, so that it effectively encourages the students and learners for 'self-study.' However, the book deals only with the traditional concepts and techniques of management accounting for managerial decision-making as the authors have acknowledged in the Preface.

Since there is the involvement of Dr. Koirala, one of the senior most professors at the university, readers' expectations naturally go higher. It could have fulfilled their expectations if the book had made some substantial contributions to this branch of knowledge and learning techniques.

Likewise, there is some room to improve print quality of graphic presentation, paper quality as well as font size; it could rob the book of a decent and reader-friendly look.

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