



MANAGEMENT ACCOUNTING AND FINANCIAL CONTROL

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Progression generally witnesses three basic veracities, viz., its imperativeness over time, possibility across all industries and its perilous nature. New challenges are encountered by companies on a daily basis, but at the same time new opportunities are cropping up as well. Moreover, the intensifying competition has led to an undeniable need to step up strategies and methods to be a leader in the league. The consequential growth reinforces companies' drive to deliver to shareholders, builds advantages of scale and scope, attracts talent and delivers funds for reinvestment. However, for growth to be present and business to be successful, effective financial planning and control are the principal foundations. In consequence, the prerequisite to keep oneself abreast of the various techniques of financial planning and control besides a sound knowledge of the concepts of management accounting for the purpose of effective decision making have become imperious.

In cognizance with the above said significance, the author has made available the sixteenth edition of the book titled "Management Accounting and Financial Control" for the benefit of avid readers, academicians, students and practitioners. The book under review has been systematically divided into seven sections, each having a distinct focus. These sections, with their respective sub-divisions make it expedient for the readers to be able to grasp the various concepts and analyse their comprehension with the help of the test questions given at the end of each chapter.

Section A – *Fundamentals* has been divided into four chapters each of which caters to the elucidation of nature and scope of management accounting, accounting principles and standards, rudimentary cost concepts and activity based costing respectively.

The global business milieu is portrayed by intense competition from domestic as well as multinational players, emphasizing the need for articulation of right strategy to establish competitive advantage. The world is now becoming a global business hub leading to

increased competition, advancement of technology and pressure to get information almost on real time basis, thus, widening the role of management accounting. Although, management accounting continues to focus on value creation through effective use of resources, the management accountant, as a strategist, is critically involved in deciding and negotiating appropriate strategic moves and also helping managers determine their most important customers, competitors, substitute products in the market, core competence, adequacy of resources to support a strategy and the like. Realizing the importance of the subject, the author, in the first chapter, has acquainted the readers with the nature, scope, utility, and limitations of management accounting, in addition to the difference between cost, financial and management accounting.

Notions of internationalization have now been superseded by that of globalisation. However, there have been resistances and their impact on accounting is evident. The financial statements are rendered incomprehensible because of the different accounting practices being followed by different companies in various countries. In India, Indian Accounting Standards (Ind-AS) converged with corresponding International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) have been formulated by The Institute of Chartered Accountants of India and notified by Ministry of Corporate Affairs. The second chapter provides the roadmap for application of the converged accounting standards in India.

While it may sound trivial, knowing how much it costs to make a product is extremely important for all business houses. This makes it even more important to be aware of the various components of cost along with their classification. The knowledge of methods, techniques and systems of costing is also essential. In addition, the business manager should be able to control and reduce the costs to be able to gain competitive advantage. The next chapter familiarizes the readers with the basic concepts of cost to facilitate reliable reporting of actual costs, accurate estimation of projected

costs and the appropriate integration of such costs in managerial decisions.

However, a number of companies consider the use of traditional cost accounting as incomplete and unprocessed, with the opinion that the raw data reported does not reflect a clear view of the relationship between the cost and the cost object. Traditional cost accounting assigns costs to products and services based on direct materials direct labour and overheads. In today's business environment, where labor inputs have been dramatically reduced, traditional cost accounting does not adequately reflect the true cost of a product or service. Managers find themselves compounding their problems because of faulty information provided by their simplistic cost systems. Activity based costing was developed as a practical solution to these problems, as it makes cost accounting comprehensible and rational. The objective of Activity Based Costing is to create a system that effectively captures, allocates, and distributes costs by area of responsibility, allowing building an environment where people are encouraged to take up the challenge of responsibility accounting, improving the profitability of the firm. This is achieved through goal-setting of expected improvements in cost reductions that are realistic and obtainable. Thus Activity Based Costing goes hand-in-hand with all of the modern management paradigms. The fourth chapter delves upon the importance of Activity Based Costing in addition to the steps involved and the associated problems.

Proper analysis and interpretation of information is crucial to evaluate a company's economic prospects and risks, which can be done with the application of analytical tools and techniques to general-purpose financial statements and related data to derive estimates and inferences useful in business analysis. Financial statement analysis reduces reliance on hunches, guesses, and intuition for business decisions. Section B – *Financial Analysis* elucidates upon the various tools of financial analysis aimed at formulating a diagnosis and a prognosis relative to the situation and the financial performance of the company. With the help of these techniques of financial analysis, an analyst will better understand and interpret both qualitative and quantitative financial information so that reliable inferences can be drawn and financially sustainable actions can be taken.

The section has been divided into four chapters, of which the first, *Financial Statements: Analysis and Interpretation*, gives a theoretical framework deliberating upon the types of financial analysis including steps involved in the analysis. The techniques of financial analysis in addition to the limitations have also been discussed. The second chapter describes a tool to present accounting variables in a simple, concise, intelligible and understandable form, *Ratio Analysis*. The use of accounting ratios is a time-tested method of analyzing a business and bringing out the inter-relationship which exists between various segments of business. Ratios are more of a diagnostic tool that helps to identify problem areas and opportunities within a company. The next two chapters delve upon the other two most commonly used techniques of

financial analysis, *Funds Flow Analysis and Cash Flow Analysis*. Numerous illustrations have been used by the author to help readers better comprehend these techniques and their practical implications.

Planning involves envisioning the results the organization wants to achieve, and determining the steps necessary to arrive at the intended destination--success, whether that is measured in financial terms, or goals that include being the highest-rated organization in customer satisfaction, while control guides the management in achieving pre-determined goals and ensures the efficiency of various functions. The third section, Section C - *Planning and Control* has been meticulously divided into nine chapters, each of which delves upon a different planning and control modus operandi, viz. budgetary control, standard costing, variance analysis, marginal costing, pricing, capital budgeting and management reporting.

Control is crucial for ensuring the effective realization of the plans as it puts into effect corrective measures where deviation is identified. Budget provides a realistic financial plan and budgetary control facilitate the achievement of the same, both at management and the operational level. The first chapter "*Budgetary Control*" emphasizes the need for installing a budgetary control system in the organization. Also, the classification of budgets has been explained systematically along with elucidation of concepts like sensitivity analysis, control ratios, responsibility accounting and zero based budgeting. The explanation in the chapter is comprehensive and facilitates understanding in a very clear and logical manner.

However, a budget is usually considered to be just an estimate which does not facilitate an apposite analysis thus, leading to impractical decision-making. Institution of standards and benchmarks is critical for controlling to be effective. Variances are not culminations in themselves but springboards for further analysis and action. This exploration of inconsistencies, known as variance analysis, helps management to improve operations, correct errors and deploy resources more effectually to reduce costs. For the ease of readers, the author has deliberated upon standard costing and variance analysis in two separate chapters along with copious practical illustrations.

The competition is increased manifold with e-retail gaining prominence, thus, providing exposure and awareness to customers in addition to easy availability of larger variety of merchandise. This has further led to demand for high quality products at lower prices, consequently dwindling profits. Therefore, marginal costing technique and its use in effective manner have become indispensable. With the help of marginal costing technique, break-even point, point of margin of safety, effect of change in prices on net profit, effect of change in selling price on profits can be analyzed which will facilitate business managers in taking important decisions regarding how much to produce, what to produce, how to produce, when to produce, at what cost to produce, how to maximize the

profits and minimize the costs.

The author has provided great attention to detail by isolating the basics from the practical applications, by dividing it into two chapters. The first of which, *Marginal Costing and Profit Planning*, differentiates marginal costing from absorption, direct and differential costing. It explains the essentials of cost volume profit analysis, break even analysis, margin of safety, product pricing methods and their related concepts. The second chapter, *Decisions Involving Alternative Choices*, discusses about the practical applications of marginal costing and elucidates the same using plentiful illustrations of various decisions viz. determination of sales mix, exploring new markets, make or buy, discontinuance of a product line. The systematic presentation and self-explanatory solution of the examples with proper working notes help the readers to effortlessly comprehend the implications of the concept of key factor and differential costs in various decisions involving alternative choices.

Capital budgeting in addition to risk analysis in capital budgeting have been discussed at length in two separate chapters, thus, making it expedient for the readers to grasp the various theories, appraisal methods and their applications incorporating risk factor. Net terminal value method has been explained along with the different appraisal methods. Also, the capital budgeting practices in India as brought out by various research studies have been pondered upon.

The last chapter of this section, *Management Reporting*, elucidates upon the various modes of reporting, requisites of a good report and the various kinds of reports. The author has also provided the readers with specimen forms of management reports which have been detailed upon with the help of some cases.

It is imperative for the companies to manage funds effectively for the success of their business operations. The next section, Section D – *Funds Management* has been divided into thirteen chapters which cover all aspects of finance starting from planning, acquisition, management and disbursement to portfolio management and international financial management. The author has explained the various sources of finance wherein in addition to the traditional classification, financial institutions and instruments, contemporary concepts like financial engineering, re-engineering and financial intermediation have been elaborated upon. The different levels of debt and equity along with the factors determining capital structure and capital structure practices in India have been discussed in the third chapter, *Capital Structure*. Separate chapters have been allocated to cost of capital, leverages, dividends, lease financing and working capital, wherein solved illustrations help the readers cognize the concepts and practical problems help to assess their knowledge. Also, the concepts of financial distress, financial insolvency and Stone Model have been detailed.

A separate Section-E titled "*Miscellaneous*" has been incorporated which includes topics like inventory valuation,

fixed assets and depreciation accounting, accounting concept of income, computer and data processing, business risks and insurance coverage, tax implications and financial planning allocating separate chapters to each of them. Diversified areas relating to finance have been stressed upon. Also, the relevant amendments in the legal and regulatory framework have been integrated to provide up-to-date information to the readers. The recent developments in the Insurance sector have been appended for ready reference of the readers. Contemporary topics such as inflation and financial management, corporate restructuring, human resource accounting, social cost benefit analysis have also been dealt with in detail for easy comprehension.

Section F – *Advanced Solved Problems* encompasses revisionary problems on important topics along with their solutions which provide complete guidance to the students in preparation of their examinations. Solved illustrations along with the working notes make the book self-explanatory to the readers. Section G – *Advanced Unsolved Problems* and Appendices provide the readers with plentiful questions to have a hands-on know-how and to assess their comprehension of the concepts. The appendices provide the present value and compounded value tables along with a detailed explanation of Accounting Standard 20 dealing with Earnings Per Share.

The book under review is an excellent reference resource for students preparing for post graduate examinations like M. Com and MBA conducted by various universities and examinations conducted by professional bodies like Institute of Chartered Accountants of India, Institute of Company Secretaries of India and Institute of Cost Accountants of India, besides academicians, professionals and practitioners. This new edition has been extensively updated through-out. The concepts are clearly explicated in a lucid manner, incorporating all pertinent topics, both theoretical and practical, that are applicable in the industry. The author has illustrated the concepts remarkably by applying them to realistic situations. Adequate illustrations and well worked-out examples while remaining coherent and judicious in terms of its structure make it a must-have.

The "Chapter Objectives" at the beginning of each chapter provide the students with the learning objectives which should be clearly understood by the end of the chapter. A concise glossary "Key Terms" has been provided for the purpose of recapitulation, "Test Questions" comprising of objective type questions, essay type questions and practice exercises under the heading "Practical Problems" enable the readers to assess and evaluate their knowledge. The book draws its strength from its simplified and direct approach, which makes the text easy to read and comprehend, without sacrificing any of its scope or substance. It is an indispensable asset for all interested in getting acquainted with and having sound knowledge of the different aspects of management accounting, financial planning and analysis in addition to funds management.