Book Review

Cost Accounting – An Essential Guide

David Russell, Ashok Patel and Gregory Wilkinson-Riddle
Pearson Education, 2002
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184 pages

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This book does exactly what its says in its title – it provides an essential guide to cost accounting. It should be noted that this title clearly separates it from the conceptually different market sector of a title which had included the term management accounting. This distinction is important to the structure of the text, its content and to the approach adopted. The authors are two principal lecturers at De Montfort University and a senior manager at Ernst and Young and these backgrounds are reflected in the construction of the text in terms of the ease with which it reads and, the practical examples it contains.

As stated the text sets out to provide the reader with a concise and clear introduction to the core principles of cost accounting and to make these core principles accessible to those with no, or limited, prior knowledge. The aim of this approach is to make the text easily accessible to students who are approaching the subject for the first time. In addition a wider interpretation of the term 'student' would see the text as being as including practicing managers in industry, commerce and the public sector. This last category might surprise some but, as the public sector moves increasingly to private sector principles of management and control, then a grounding in costing is increasingly critical to these managers. It is also frequently surprising what many managers, from whatever sector of the economy they come, have as an understanding of even basic accounting.

The text begins by outlining what cost accounting is about and gives essential terminology to provide the foundations for the remainder of the text. As would then be expected in this type of book it goes on to examine the components of cost, cost behaviour, distinguishes between absorption costing, activity based costing and marginal costing before turning to budgeting and budgetary control. Finally, the text explores the issue of capital investment appraisal. It achieves all this in a relatively concise and attractively short 184 pages. Examples used in the text are broken down into individual components with clear exposition of the workings to each element to clarify understanding. The book also contains a variety of self-assessment questions on each topic covered and provides easy to follow solutions to these at the end of the text. The book thus very much sticks to its task of providing essential material to allow the student to gain the comprehensive understanding of the basics and enable him/her to progress to more advanced texts and studies. This subsequent progression is thus based on a firm foundation.

The text is very clearly written and easy to follow. In reviewing it one must remember that the desire of students at the level envisaged (i.e. a first text in cost accounting) is to gain an understanding of the fundamentals of the subject. Frequently this type of student has had no exposure to industry and practice and as such needs the building blocks before going further. This can be a fault with larger scale management accounting texts that skip the basics of costing as almost being 'below the salt' to introduce conceptual issues before the student has even grasped the fundamental issue of how to actually cost something. This book cannot be accused of this practice, to its credit, and the manner in which it does this through its user friendly approach is also one of its key strengths.

In conclusion the book achieves what it sets out to do and will be attractive through its writing style and content to provide an introduction to costing on a wide range of business and accounting modules. Prejudice that it is titled 'cost accounting an essential guide' should not preclude it acting as a primer for higher-level modules, as might first be thought. It will provide a constant source of reference material to students who progress to higher-level material, as frequently there can be a need to go back to basics to confirm that topics are firmly understood before tackling conceptual issues.

Financial Modelling (3rd Edition)

Ian Beaman, Janek Ratnatunga, Peter Krueger, Nihal Mudalige
Quill Press, 2001
ISBN 0 958679 2 1
548 pages

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When this book was first published in 1997, it was an important and timely contribution to the ongoing quest for new forms of corporate modelling which integrate financial, marketing, operations research and finance. Now in its third edition, the authors continue to make a valuable contribution to the corporate sector's gradual adoption of financial modelling systems. It was originally written in order to provide the only comprehensive and state-of-the-art textbook on financial modelling from an accounting perspective that is available on the market. Most other financial modelling texts approach the subject from a finance and efficient market perspective.

The authors state that the rapid developments in spreadsheeting software necessitated a second edition by 1998. Since then, there have been further enhancements to Excel, and this along with a desire to include additional chapters specifically written for MBA students on the accounting cycle, working capital management and product costing have combined to necessitate a third edition.

The authors claim that the book and accompanying diskette will help students learn how to build and use financial models over a wide range of both financial and managerial accounting applications. As a reviewer, I set out to test this claim. I was impressed. I regard this text as a key resource, within which an extraordinary range of accounting issues are covered. Thus the book as a whole will handsomely repay study both by business people and by the growing range of individuals, organisations and institutions that rely on decision information and the sensitivity analyses as the environmental variables change. I suspect that this text will soon be among the best-thumbed books in my own collection.

The goals of the book are to discuss and illustrate contemporary conceptual approaches to financial modelling; to make readers aware of crucial and controversial topics; and to offer practical examples of how the concepts can be applied by using contemporary case studies. The models are built using the Excel spreadsheet package, but most of the concepts are generic and could be used with other spreadsheet packages. The book assumes no knowledge of accounting, and as such it is suitable for undergraduates studying any of the branches of business e.g. marketing, management, banking etc., and specifically graduates studying the core accounting unit in the MBA programs of most international Business Schools. It is also suitable for practising model builders in the corporate world, many of whom may have long forgotten their university days, as each model is preceded by a lengthy discussion of the theory and concepts behind the formulas involved. This may be seen as a negative by some more familier with the theory and want to get straight into model building, but as a practitioner, I found this invaluable.

The approach adopted in this book is novel. Most business students, at both the undergraduate and graduate areas, would be expected to use Excel simply as a tool for solving problems in a wide range of subjects in their degree. This book brings together the most common of these problems, taken from the disciplines of financial accounting, managerial accounting, finance, statistics, econometrics etc., and shows how to model the cause-effect relationships that underlie the tools that are used to solve these problems. Business students can use it, either as an additional textbook to assist in building models required in a range of subjects, or as the sole textbook if their degree has a subject specifically set aside for learning about accounting in a business context using financial models.

In addition to those chapters which describe such applications as the accounting cycle, capital budgeting, cash budgeting, product costing, cost-volume-profit analysis, time series analysis, sensitivity analysis, optimisation etc., there are a number of chapters at the beginning of the book which cover such topics as: the history of financial modelling, spreadsheet model design, spreadsheet decision logic and types of model structures. The emphasis all the way through the book is on good spreadsheet design. The authors state that the proliferation of powerful spreadsheets since the 1990's, and their use by non-computer trained business people often leads to spreadsheets being built with little or no regard to good design. They demonstrate that this often mean that spreadsheets are built and used which have many invalid assumptions and errors of logic, most of which could have been avoided by adopting the principles of good spreadsheet design.

All the chapters, each of which describe a business application are structured the same way. Firstly, the theory and concepts behind the application are described in detail with worked examples (both as a clerical exercise and as an Excel worksheet with formulas). This is followed by either: review questions, a tutorial exercise which requires the reader to retrieve an Excel template from the disk provided and then to build the formulas into the template which would produce the figures as printed in the chapter. Some chapters also require graphs to be produced.

It is thus a very practical book for those who wish to go straight to the models. But for those who need background theory, there is also enough to make the book a valuable reference for any business graduate or practising model builder. It is suitable for undergraduate and graduate students and their teachers, professional accountants, and corporate and organisational managers. Although no prior knowledge of financial modelling is necessary to understand the critical issues at stake, academic accountants will also find that the book provides a useful in-depth coverage of the topic.

Better information flows are essential for supporting companies' pricing, costing, capital budgeting and financial reporting initiatives. This book contains extensive discussions of the possibilities for boosting such initiatives through financial modelling. Readers will come away with a much better understanding of the myriad of issues and opportunities that lie in improving the flow of financial and managerial information in firms.

Research Methods in Accounting

Malcolm Smith
Sage Publishing, 2002
ISBN 0761 9714 67
200 pages

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This book provides a useful insight into the research process and the difficulties often faced by accounting researchers in the choices they have to make between alternative research methods. The book is written by a single author respected for his appreciation of the problems that research students face in developing positivist research in accounting. The author is an accomplished researcher and writer having published numerous textbooks and research papers in accounting and finance.

The absence of the word finance in the title is significant, as the book does not attempt to address capital markets research, issues of finance, or accounting research on the fringes of finance.

The contents of the book are logically ordered and may be read piecemeal or sequentially, although the latter will provide greater meaning and understanding for the novice researcher. The writing style is clear and concise. The book benefits from a consistency of approach achieved from having a single author.

Each chapter is introduced with an explanation of its relevance to research and linkage, where appropriate to earlier and later chapters. The book has an abundance of straightforward and unambiguous numerical examples and successfully avoids the intricacies of complex quantitative methods, which all to often elude the research novice. The book benefits from several good pedagogical practices. The use of headings, sub-headings, bullet points and small paragraphs interspersed with illustrative tables result in a text which is easy to read and make use of.

The book is divided into eleven chapters. The first three chapters provide the reader with an insight into how research ideas may develop and evolve into a research topic and the significance that theory and literature have in research ideas becoming a testable hypothesis.

Chapter four is concerned with the collection and analysis of qualitative and quantitative data, for use in the subsequent methods described in Chapters six (experimental), seven (surveys), eight (fieldwork) and nine (archival). Chapter five broadens the lens, by considering research ethics in accounting. The chapter covers ethical guidelines and informed consent, but remains rather brief. Although the significance of interpretive research is acknowledged earlier in the book, for the development of new theory, the emphasis is on quantitative methods throughout and the text falls well within the 'positivist' domain.

The reviewer is generally very supportive of this book, however there was some surprise regarding the treatment of mail surveys in chapter seven. The author may have over emphasised the work of Young (1996, p.55) in highlighting the decline of mail survey methods in management accounting, after a period in excess of twenty-five years during which it had been the pre-eminent research method in use in the discipline.

Mail survey methods are still a popular method for research students. As a consequence this is a chapter that students may pay particular attention to. The chapter commendably introduces a number of fundamental questions to be addressed at the design stage. However, it does perhaps appear a little negative in places concentrating on the potential deficiencies of surveys without perhaps giving significant recognition to the contribution they can make to accounting research.

The final chapters on supervision and the examination process (chapter 10) and turning research into publications (chapter 11) are both well written and comprehensive and are likely to prove particularly beneficial, (but not exclusively) for doctoral students, and post doctoral researchers.

It is the readability of the book, which differentiates it from other quantitative research methods texts. The author has endeavoured to avoid the use of jargon. Where he has found it necessary to use technical language he has offered sufficient clarification.

Overall, the book is an extremely useful resource for accounting researchers interested in testable explanation though the application of positivist research methods. The discussion throughout the book is intellectually stimulating. Moreover, the book is not intimidating. The author has successfully produced a text that deals with relatively complex quantitative matters in an undemanding way. The usability of the book is its greatest strength. It is likely to prove invaluable to those who are about to embark on their first major piece of accounting research work, or for more accomplished researchers wishing to pursue a significant piece of quantitative research for the first time.