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## Book Review of: Aman U Sayed - Management Accounting for Financial Services

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## BOOK REVIEW

**Aman U. Sayed**

**Management Accounting for Financial Services**

**The Institute of Bankers Pakistan**

**PP x 258, Tables, Evaluation Questions and Answers**

The accounting profession has come a long way to be counted as one of the most important management disciplines. In our present day competitive environment, management cannot ignore the most elementary aspect of measuring the profitability of the business. All the various branches of accounting, e.g., Financial Accounting, Management Accounting, Tax Accounting and the newly emerging Forensic Accounting (the field of accounting to detect white collar crimes such as money laundering and embezzlements) play their roles in helping the managers conduct their businesses effectively and efficiently.

Management accounting has emerged as a separate discipline from the traditional cost accounting. As more and more production processes are automated and outsourced, managers need comparative information not about costs but about the nature of activity to determine the profitability of an operation. The very emergence of Activity Based Costing traces its origin to this phenomenon. This approach towards activity rather than cost structure is more pronounced in the service industry. This is the subject of the book.

“Management Accounting for Financial Services” is an expression of the desire to apply the knowledge acquired in the discipline of management accounting for decision-making in banks and other financial institutions. The author brings twenty years of his experience of working overseas in the field of accounting profession, especially the management accounting, to bear upon his writing of the book. This is the first compilation of its kind in Pakistan that directs the principles and methodologies of management accounting specifically towards banking and financial industry.

The book comprises of 22 chapters. The first 17 chapters cover management accounting in theory and practice. They are roughly subdivided into cost concepts, management planning in performance evaluation and management accounting for decision-making. The remaining five chapters exclusively deal with using management accounting for decision making in financial service industry. Management today relies heavily on accounting information - reliable and fast – to make decisions. Today, majority of decisions are made on the basis of accounting information pertaining to costs that are of short and mid term duration. The book, therefore, starts with describing the nature of costs, their behavior and their business framework. Costing carries a special meaning in the business environment and the book shows its importance as a decision making tool. Recording and reporting costs i.e., job order costing and process costing are the two common methods of collecting costs. Both these methods are fully discussed in the first part of the book.

Planning, controlling and organizing – the three most essential aspects of management function – are also discussed and sufficiently examined. In the second section of the book the role of budgets, development of standard costs used in budget making, comparison of actual results with the budgets and responsibility accounting are discussed. With flexible organizations and de-layering of organization levels, responsibility accounting is taking on more and more importance. The last chapter of this section deals particularly with responsibility accounting and its role in performance evaluation is thoroughly examined.

The third section of the book uses the knowledge gained and the techniques learned in the two earlier chapters to use management accounting for decision-making. It addresses the question: at what point would it be profitable to sell just one product or a product mix to maximize profitability and at what point the business will actually become profitable? This aspect of decision-making is addressed by cost-volume-profit analysis or break-even analysis for short.

Decisions such as whether or not to add or drop a product, buy or manufacture parts or the whole product, use the same process to make one or more products and their cost distribution whether or not to accept or reject special production orders are problems frequently encountered by managers. A quantitative analysis of such problems provides management the comfort to make decisions. The book shows that problems such as these are solved by differential analysis. This management accounting techniques is thoroughly discussed and explained in this section of the book.

Although most long-term decisions are beyond the scope of management accounting, management accountants do get involved in decisions pertaining to capital budgeting or project financing. As the time horizon of the project gets wider the inherent risks involved get more pronounced. A thorough analysis of risks and returns must therefore be made before committing resources to long-term projects. This requires comparing return on investments that leads to measuring the time value of money. This concept is introduced and its application in various methods to evaluate risk and return is sufficiently explained in the book.

The last section (section iv) of the book exclusively deals with management accounting for financial services. The author believes that Pakistani business cannot expand or even survive in this global economy without being competitive. Competition, the author maintains, requires businesses to be cost conscious and cost consciousness, he explains, cannot be achieved without understanding management accounting and implementing a good management accounting system. It is, therefore, not surprising that in Pakistan financial sector in business is taking management accounting seriously and the banking business is at the forefront of this movement.

The author has very educational views regarding the banking culture in Pakistan. Banks, being one of the largest providers of services, need financial information accumulated and sorted out in accordance with their needs. Until recently, accounting for banking industry was geared towards regulatory reporting. Banks operated in a

very limited sphere of business operation, namely raising funds and loaning them out to the borrowers. With the entry of mutual funds, guaranteed investment contracts by insurance companies, real estate investment trusts, and leasing companies in the financial marketplace, banks have begun to feel stiff competition from outside their industry. This has led the bankers to give a critical look at their overall financial information needs and to have an internal accounting system that not only meets the regulatory requirements but also provides verifiable and reliable information for internal decision making.

Due to nationalization, banks in Pakistan did not have exposure to the kind of competition faced by foreign banks. This put Pakistani banks at a disadvantage. Their ways of doing business were primitive and their approach to banking was heavily mandated by government regulations. They also had to face very strong pressure from the trade unions and the politicians to act in a certain manner. Very aptly the last section of the book discusses costing of banking operations. The last two chapters explain the methodology to evaluate performance of banking operations.

Index and glossary, definition of technical terms and referencing could have substantially added to the normal expectation of the reader. However, the book is an attempt worthy of the merit it deserves. We recommend it highly to both students and teachers in the field of Management Accounting for Financial Services.

Courtesy  
**Business Review**

*However penetrating a piece of writing may be, it is not a good review if it leaves the reader wondering what the book itself is like as a whole or if it is concerned with only some aspects of the book's quality. **Joseph Wood Krutch: What is a Good Review? From *The Nation*, April 17, 1937***