

Accounting for Financial and Managerial Decisions and Control

▶ MBS 3RD SEMESTER

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B U D D H A



P U B L I C A T I O N S

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Edition 2018

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Publishers: **Buddha Publications Pvt. Ltd.**
Anamnagar (Buddha Complex)
Kathmandu - 32, Nepal
Tel. 00977-1- 4269165, 4259210, 4218077
e-mail: buddha@wlink.com.np
info@buddhapublication.com
www.buddhapublication.com

Design by: **Dipendra Shrestha**
Rajani Shrestha

Price: **Rs.695.00**

ISBN: 978-9937-30-325-5

Printed in Nepal

PREFACE

Today's organizations face more turbulent environment and intense competition than the organizations of the past due to increasing information explosion, rapidly changing technology, globalization, demographic changes, growing regulatory measures, and so on. In such a situation, they not only try hard for growth, but even for survival. Therefore, it is essential for the managers of these organizations to effectively and efficiently plan activities, organize resources, direct people and control operations to attain organizational goals and objectives. For all this, what is required them is the relevant information which is not fully provided by only traditional financial and cost accounting. Managers not only need information generated from financial and cost statements, but also information from forecasts, surveys, expert opinions, and so on. As a result, Accounting for Financial and Managerial Decisions and Control evolved as a branch of accounting which provides information specially tailored to managers for effectively and efficiently performing their functions. Recently, however, managers' tasks are becoming more strategic in nature due to changing environment and intensifying competition. Therefore, a transformation is visible from the traditional financial accounting to innovative Accounting for Financial and Managerial Decisions and Control which is sometimes also termed as strategic Accounting for Financial and Managerial Decisions and Control.

The present book deals only with the traditional concepts and techniques of financial accounting that are covered in the MBS 3rd Semester syllabus of Tribhuvan University. It, therefore, presents the basic concept of financial statements, effect of accounting policies in financial information, decision making and control, accounting control of accounts receivables and cash, cash flow statement and its analysis, ratio analysis, decision regarding alternative choices, pricing decision and capital budgeting/investment analysis.

Since this textbook is primarily written to cater to the needs of MBS and MBA students, we, therefore, hope that they will find the book worth reading and satisfying to learn the basics and advanced concepts and techniques of Accounting for Financial and Managerial Decisions and Control. We by no means claim, however, that the book is free from any error, but accept the fact that despite our meticulous and sincere efforts some errors might be inadvertently left. We promise to rectify them in the forthcoming editions. We, therefore, look forward to receiving the feedback from our valued students.

Authors

ACKNOWLEDGEMENT

This book is an outcome of a long inspiration and moral support of many people. We are always grateful to all of them. It is hardly possible to list the names of all our well-wishers here but we sincerely acknowledge the precious encouragement they offered us. We take this opportunity to express our sincerest gratitude to all those who have inspired to write this book.

We are indebted to all those authors whose works have directly or indirectly influenced in this textbook. We have also taken a number of references, which have been listed, at the end of the text. We sincerely acknowledge the references used in this book.

We are proud to acknowledge Prof. Dr. Madhav Raj Koirala, Yadav Raj Koirala, Kamal Dip Dhakal, Jitendra Upadhyay Prof. Bijaya Prakash Shrestha, Shiva Prasad Munakarmi, Associate Professors: Ramesh Pandey, Yamesh Man Singh who encouraged and provided us moral support to write the book.

We would like to acknowledge the input of all our students who have enriched our experience and knowledge in the subject through their cooperation, feedback, participation, curious queries, and attention.

We would like to acknowledge Mr. Nabaraj Bajgain, Managing Director of Buddha Publications Pvt. Ltd. for their constant support in every way of writing and publishing the book.

We are equally grateful to Mr. Dipendra Shrestha and Ms. Rajani Shrestha for taking a good care during computer typing, setting the matters and other issues.

Authors

SYLLABUS

Accounting for Financial and Managerial Decisions and Control

Credits: 3

Lecture Hours: 48

COURSE CONTENT:

Unit 1: Introduction **LH 3**

Need for financial information; scope and sources of financial information; operating, investing and financial activities of business; need for financial reporting and disclosures; accounting information, annual reports and their basic contents.

Unit 2: Basic Financial Statements **LH 5**

An overview of the balance sheet, the income statement, the statement of cash flow, and the statement of retained earnings; the accounting cycle and the process of preparing financial statements; overview of accounting standards, policies and methods, and their effects in the financial statements.

Unit 3: Effect of Accounting Policies in Financial Information, Decision Making and Control **LH 8**

Measurement and recognition of incomes; accrual and cash basis of revenue recognition; revenue recognition and the matching principle.

Methods of inventory valuation, cost of goods sold and the gross income; inventory valuation- cost vs. market value; inventory valuation under LIFO and FIFO methods; inventory valuation under variable and full costing; effect of inventory valuation in current ratio, profitability and tax liabilities; inventory control systems.

Defining capital vs. revenues expenditures; management decisions process and control of acquisition of properties, plant and equipment; effect of different methods of depreciation (straight line vs. diminishing balance methods).

Unit 4: Accounting Control of Accounts Receivables and Cash **LH 4**

Valuation and reporting of account receivables; direct write off and allowance methods of accounting for doubtful debts; effect of credit policies in profitability; control of accounts receivables.

Effective management of cash; checking bank statements, bank reconciliation statement and need for adjustment; management control of cash.

Unit 5: Cash Flow Statement and Its Analysis **LH 4**

Classification of cash flow by operating, investing and financing activities; computation of operating, investing and financing cash flows; preparing the statement of cash flows; difference between the cash budget and statement of cash flows; analysis of cash flow performance; use of cash flow information for decision making and control.

Unit 6: Analysis of Financial Statements **LH 5**

Need of financial analysis from different perspectives management, investors, lenders, suppliers, employees, and customers); techniques of financial analysis; vertical analysis and common size statements; horizontal analysis; overview of ratio analysis, using information of financial statement analyses for decision making and control.

Unit 7: Alternative Courses of Actions for Business Operations and Decision Making **LH 10**

Relevant information for decision making; decisions to make or outsourcing; decision to accept or reject special offers; decisions to drop or continue of product lines; decisions to sell or further processing; leasing or buying of property, plant and equipments; pricing decisions for external market; transfer pricing and goal congruence.

Unit 8: Business Development Plans and Capital Budgeting **LH 6**

Need for preparing business development plans; basic components of business development plans (organizational, making, operation, and financial plan); financial planning through capital budgeting techniques; capital budgeting process and steps; estimation of total investment; estimation of annual net cash flows; estimation of terminal cash flows; payback period; net present value; internal rate of return; financial feasibility of the project; capital budgeting under conditions of uncertainties and risk; capital budgeting under foreign investments.

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Kaplan, R. S. & Atkinson, A. A., .Advanced Management Accounting. New Delhi: prentice Hall.

Horngren, C.T.; Sundem, G.L. and Stratton, W.O., .Introduction to Management Accounting. New Delhi: Pearson Education.

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International Financial Reporting System (IFRS).

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