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What People Are Writing About

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BOOKS

Concepts for Management Accounting by WALTER B. MCFARLAND, National Association of Accountants, New York, 1966, 166 pages, $4.95.

This little volume is an attempt to build a theoretical framework to guide the practice of management accounting. Although some may quarrel with some of its premises, particularly when applied to public reporting, it is worthy of every accountant's attention.

Unlike most of NAA's research studies, which merely report on existing practices, this book is intended to be prescriptive rather than descriptive. The author, the association's research director, has sought to unify the findings of previous research studies into "statements of what constitutes good practice."

Good practice is defined as "practice which yields information which is relevant, valid, and consequently reliable for its intended uses." In order to be useful, Mr. McFarland asserts, accounting data must be relevant to the purposes of its recipients. Thus, it is the principal thesis of his book that relevance to intended purpose is the fundamental test for appraising accounting theories and techniques. Such standards as fairness, rationality, conservatism, and nondistortion, he argues, are merely matters of opinion.

Utility to management is a reasonable criterion for internal financial reporting. Some eyebrows may be raised when Mr. McFarland goes on to apply it to external reporting, as he does. (He defines management accounting as encompassing the entire range of economic information needed by those who manage a business enterprise and by those who provide its capital.)

The last part of the book, in which the author discusses income statements and balance sheets from the standpoint of relevance to their intended uses rather than from that of generally accepted accounting principles and procedures, may be controversial. The first part, in which he outlines management's information needs for profit planning and measuring performance by projects, by products and markets, and by management responsibilities, is not.

The focus is on the kinds of financial information accountants should present rather than on the ways of measuring and reporting this information. Thus, specific techniques are described only briefly.

The result is a tightly written, somewhat abstract set of generalizations. As a complete theory of management accounting, this book may not be the last word. But it does provide a theoretical framework that is worth developing further.

Zero Defects by James F. Halpin, McGraw-Hill Book Company, New York, 1966, 228 pages, $10.50.

The latest fad in quality assurance programs, Zero Defects, is described here by the man who originated it.

Zero Defects, a management program aimed at the reduction of errors and defects through prevention ("do it right the first time"), has been widely copied in American industry since it was developed by the Orlando, Florida, division of Martin Company some five years ago. An article in Management Services ("Zero Defects and You" by Robert Smith, January-February, 1966, p. 35) described its application at General Motor's Allison Division.

Now Martin-Orlando's quality director has produced a how-to-do-it manual for establishing a ZD program. He tells how to organize the project; how to motivate management, employees, and suppliers; how to measure performance of production, clerical, administrative, and professional workers; and how to maintain momentum.

This book is not unbiased. The author has a vested interest in his technique. The carping of skeptics, who note that Zero Defects is basically a propaganda effort and thus vulnerable to the vagaries of shifting psychological forces, is largely ignored. But for those who have already decided they want to attempt a Zero Defects program, this is probably the definitive work.

MAGAZINES

Are CPA Firms Taking Over Management Consulting? *Forbes*, October 1, 1966.

This article reviews the growth of management services practice in the CPA firms and forecasts more of the same.

As others have noted before, management services is playing an increasingly important role within the CPA firm, and CPAs now occupy an increasingly important place in the world of management consulting.

Forbes attributes the "booming" consulting practice of the CPA firms to the computer, which has forced them into electronic data processing, not only by threatening to eliminate low-level accounting work but by presenting them with the opportunity to combine computer knowhow with understanding of information systems. The big firms, the magazine reports, are expanding rapidly into the field of general management consulting. (Most of the CPA firm partners interviewed pooh-poohed the problem of potential loss of audit independence.) The small firms are computerizing their write-up work, often with the help of service centers, and adding management services to retain their audit clients. The small industrial engineering consulting firms and the small CPA firms that haven't kept up with the computer are the two groups most squeezed by the competition, according to *Forbes*.

Some of the magazine's conclusions may be questionable—for example, its prediction of mergers between general management consulting firms and CPA firms—but its report on the new look in public accounting is timely, lively, and reasonably accurate.

Some Cost Accounting Problems in PERT/Cost, by Laurence S. Hill, *The Journal of Industrial Engineering*, February, 1966.

The focus of this article is on a general category of cost accumulation problems affecting the operation of the PERT/Cost system. These cost accounting considerations are based on findings derived from field investigation in several companies during early attempts to implement the system.

After opening with a brief discussion of the essence of PERT/Cost, Mr. Hill is quick to point out that some of the difficulties discussed are inherent in more traditional cost accumulation systems as well as in the PERT/Cost system. Basically, it appears that the major costing problems discussed are occasioned by the "work package" concepts of PERT/Cost.

The principal problems of cost planning, determination, and control of direct labor stem from the greater number and definition of work orders (or counterparts) required for PERT/Cost than is usually necessary with other systems. Lack of full cooperation of employees in charging to correct work orders is one problem. A second problem is that certain discrepancies exist between levels and categories for application of labor rates in traditional accounting methods and PERT/Cost.

The work package, as originally

conceived, presents a somewhat different problem for material accounting. It calls for an allocation of materials costs to various work packages and has a tendency to so scatter the materials charges throughout various accounts that proper control and analysis of price and quantity variances are difficult. The author suggests that separate work packages for materials may be more appropriate than present concepts. In addition, the timing of charges to the project can be important in predicting material variances far enough in advance to allow adequate corrective action to be taken.

Overhead is reported as a single line item in PERT/Cost, and overhead activities are usually not included in the network. Better control might be attained by expanding overhead into its basic categories, such as indirect labor, operating supplies, and so on. Also, the fixed and variable elements of burden cost should be defined for better control.

Finally the author points out the possible necessity of including general and administrative expenses, that is, corporate-level burden, if PERT/Cost is to be most effective. The problems presented, as well as others, may well be solved as experience is gained with PERT/Cost. Mr. Hill indicates that solutions may consist of modifications and redefinition of certain PERT/Cost concepts as now conceived plus some extension of the analysis and reporting functions.

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