The author states that Chapter 6, *Timely Reporting: Recognizing Future Bad News Early*, is a distinctive aspect of the text. In this regard, the topics covered in Chapter 6 include the concept of economic income; accounting for bad debts; lower of cost or market asset impairments; restructuring charges; contingent liabilities; warranties; and discontinued operations. The author asserts that such accounting practices are evidence of conservatism. While this assertion may be accepted as accurate in a general sense, the question arises whether the concept of conservatism is as important or significant a concept, either in U.S. GAAP or in the financial reporting practices of other countries, as Chapter 6 would imply. In recent years, both the SEC and the FASB have de-emphasized conservatism as a fundamental principle, replacing it instead with fair-value measurements, which are deemed to be more relevant for decision makers. There is, of course, a certain correspondence between accounting practices which are said to be conservative and fair-value measurements. For example, reducing tangible fixed assets to their impaired values is congruent with a fair-value measurement approach. Even though there is no comparable ability to remeasure upwards in U.S. GAAP, one could nevertheless argue that revaluation downward due to a perceived asset impairment is a form of fair-value measurement and not necessarily a hallmark of conservatism in accounting practice.

This text has many good aspects. The writing is clear and the graphics are good. The chapter-end questions and exercises are well conceived and the support materials appear to be abundant. The primary question in the mind of this reviewer is whether this text offers much that is new or different to instructors of accounting in countries outside North America. The forthcoming requirement that all member states of the European Union adopt standards promulgated by the International Accounting Standards Board as of January 2005 makes this question even more pertinent. The text does not discuss or integrate IASB standards, thus presenting a lacuna which would caution against adoption of this text by most European and Austral–Asian instructors, other than in a course focusing primarily on U.S. GAAP financing reporting. Given the increasingly rapid evolution and convergence of financial accounting standards setting, one wonders whether a focus on U.S. GAAP will in the future be considered appropriate even in textbooks intended primarily for the domestic American market.

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Colin Drury, Management and cost accounting, 6th edition, Thomson Learning, London, 2004 (xxxii+1280 pp.).

Colin Drury's *Management and Cost Accounting*, now in its sixth edition, is one of many in the overcrowded field of management accounting textbooks. The topics that comprise management accounting are more or less standard throughout the world, which makes the choice for a specific textbook one of didactic considerations (as it

should with textbooks) and a matter of personal taste—where one student is enlightened by a term like "peanut butter costing," others will feel more at ease with "plant-wide rate." Next to the quality of exposition, there are several other issues which determine the quality of a textbook, such as the structure (ordering of chapters), the number and quality of the exercises, and the availability of (web) support.

1. Outline of the book

The book has six parts which are divided into 26 chapters. As the author indicates in his preface, the book's structure is based on the premise that there are three main applications of management accounting information: profit measurement and inventory valuation using full costs, decision making using relevant costs, and management control.

Part 1, the introduction, consists of two chapters—one on the nature of management accounting and one on basic cost categorizations (fixed vs. variable, direct vs. indirect). Part 2 discusses "Cost accumulation for inventory valuation and profit measurement" in five chapters. Chapter 3, titled "Cost assignment," discusses traditional and activity-based costing systems. Both approaches are presented as variants on the same principle of "two-stage allocations": in the first stage, costs are grouped into pools, or centers. In the second stage, the costs of the pools or centers are allocated to the cost objects. Thus, rather than pitching activity-based costing as something completely different, it is presented as an extension of the traditional methods that use main (production) departments and support (service) departments: "ABC systems tend to establish separate cost driver rates for support centers, and assign the cost of support activities directly to cost objects without any reallocation to production centers" (p. 72). Also, it is recognized that the "traditional vs. ABC" dichotomy is partly a question of terminology: "To emphasize the point that ABC systems use cause-and-effect second stage allocations the term cost driver tends to be used instead of allocation base" (p. 74). In our experience, teaching ABC as "simply" another variant of cost assignment helps students understand it better than presenting it as a completely novel costing method. Chapter 4, which focuses on accounting entries for a job-costing system, can be skipped in management accounting courses. Chapters 5, on process costing, and 6, on joint costing, show that it is problematic to distinguish between the use of management accounting information for full-costing purposes and for other purposes: process costing is difficult (and interesting) when deviations of normal operations occur (e.g. treatment of abnormal losses), and in discussing joint costing the notion of relevant costs is essential. Finally, Chapter 7 deals with absorption versus variable costing.

Part 3, 'Information for decision-making', starts with a separate chapter (8) on break even analysis (which is a lot of attention for such a simple concept). Chapter 9 discusses relevant cost decisions in five settings: special orders, bottleneck calculations, replacement decisions, make-or-buy decisions, and discontinuation decisions. This chapter thus provides for a concise discussion of the nature of relevant costing issues:

simply look for those costs that change. Chapter 10, on ABC, seems a bit out of place: there is an overlap with Chapter 3 that may be confusing for students and while activity-based costing is discussed in the Part 3, "Information for decision-making," its relation to decision making is limited to a discussion on activity hierarchies (unit-level, batch-level, product-sustaining, and facility-sustaining activities). The chapter further discusses more advanced issues related to ABC, such as resource consumption versus resource supply. Pricing policies and customer-profitability analysis are discussed in Chapter 11, which is—like the chapter on break-even analysis—a bit low in content. After Chapter 12, on decision making under uncertainty, Chapters 13 and 14 deal with capital-investment decisions. The techniques are adequately discussed, although students will not understand annuities after reading Chapter 14, since this requires more attention than simply referring to an annuity table. Later in this review we will discuss Part 3 a little more.

In Part 4, "Information for planning, control and performance measurement," the first three chapters (15 to 17) provide a largely qualitative discussion of management-control issues. Topics such as control types (action vs. personnel vs. results controls), responsibility centers, the motivational quality of budgets, and the budgeting process are discussed adequately at an introductory level. The discussion on "contingency theory and organizational and social aspects of management accounting" is perhaps too in-depth; it falls out of pace with the rest of the book. Chapters 18 and 19 discuss variance analysis. The notation in these chapters does not help one understand the similarities between materials and labor variances. Also, the level of detail in the analysis is sometimes too much. We have yet to encounter an example of the usefulness of calculating variable overhead expenditure variance, or of the volume- efficiency variance of fixed overheads. Chapter 19 has some good qualitative discussions on different types of variances, and on the pros and cons of standard costing. Chapter 20, on divisional performance measures, deals with return on investment and residual income. Finally, Chapter 21 is about transfer pricing. The exposition of transfer-pricing issues uses economic reasoning (i.e. declining sales with increasing price), which is not the most optimal approach in a management accounting course. In our experience, the essence of transfer-pricing problems is better explained using relevant-cost decisions such as special orders.

Having presented the three main applications of management accounting in Parts 2 to 4, attention is directed at "new" techniques in management accounting in Part 5, "Cost management and strategic management accounting." Chapter 22 briefly discusses a variety of cost-management techniques such as life-cycle costing and target costing. It is difficult to get across the possibilities and difficulties of target costing in two pages or less, and the chapter does not succeed in this. Chapter 23 mainly deals with the balanced scorecard, its advantages and limitations. It lacks a discussion of what makes measures suitable (are they specific, measurable, accurate, etc.) and why non-financial measures are popular in the first place.

Finally, Part 6, "The application of quantitative methods to management accounting," discusses techniques such as regression analysis, economic order quantity, and linear programming in three chapters.

2. Discussion

The back cover plugs the book as "Europe's market leading management accounting textbook." We have to take the book's word for it, but if this is really the case, where would this come from? What makes it stand out relative to its competitors? In this field, there is no escaping *Cost accounting, a managerial emphasis* (2003) by Horngren, Datar, and Foster (hereafter HDF), so let us take this book as a typical textbook. The one thing that immediately stands out is the logical structure of Drury's book. By taking the main applications of management-accounting information as the basis for structuring, a logical grouping of topics results. For example, the basics of cost allocation are discussed in one chapter (3), instead of the four chapters scattered throughout HDF. Overall, the individual chapters cover topics that are logically grouped together. Since each instructor has his or her own preference in presenting the topics throughout a course, reference can be made to complete chapters rather than having to take bits and pieces out of different chapters.

Compared with the previous (fifth) edition, the number and order of the chapters have not changed; in fact, textual differences are rather limited. This brings us to the second strong point of the book compared to HDF: it chooses to present all concepts by using simple settings, with simple numbers presented separately in boxes, and not in running examples throughout the main text. Thus, the book explains each concept directly rather than in a complicated setting with many realistic embellishments. This presentation allows instructors to refer to the book while still using their own favorite examples and settings in class.

The major changes in the sixth edition are to be found in new material to support the main text. First, a number of "real-world view" boxes are introduced, to illustrate the use of accounting techniques in practice. In general, these are somewhat detached from the text itself, and do not always provide interesting examples. Second, each chapter concludes with a two-page summary that follows the learning objectives of the chapter. The summaries are very good in their length and depth. Third, the book provides fully worked answers to some 20 large exercises per chapter. Also, some 15 review questions per chapter are asked about the concepts and definitions discussed in the chapter, indicating the pages where the answers can be found. This is an excellent way of helping students study the theory as well as the techniques of management and cost accounting. Finally, all case studies have been moved to the web site accompanying the book, which allows the author to provide a greater number of case studies. The web support of the sixth edition offers teaching notes to all cases, as well as an abundance of extra questions and answers. These are not very helpful, however, given the large number already available in the book. Somewhat more interesting are the interactive multiple-choice questions with direct feedback. Powerpoint slides were not available yet at the time of writing this review.

There are two detailed issues that we would like to discuss, related to Chapter 3 and to Part 3. As we discussed above, in Chapter 3 Drury presents activity-based costing as an extension and improvement compared to traditional costing systems, rather than as a separate category of costing systems. We would suggest that this idea could be taken further by Drury and that accurate costing systems could be presented as a *continuum*. Chapter 3 could then talk first about general guidelines for improving cost-accounting

systems (such as more direct cost tracing, more homogeneous cost pools, cause-and-effect cost-allocation bases, going from averages to metered costs, and maybe even reciprocal cost allocations). In fact, HDF discuss such guidelines in a brief section (on page 140, 141) that is, however, not used as a main theme in their text. After that, Chapter 3 could position activity-based costing as being the kind of costing systems that incorporate "many" of such guidelines. Drury seems to implicitly consider activity-based costing as a gradual development, and we suggest making this an explicit and central leitmotif for treating costing systems.

A second detailed point is the connection between the Chapters in Part 3 "Information for decision-making." This connection is explained very clearly at the beginning of Chapter 9, where it is emphasized that "a decision relevant approach adopts whichever planning time horizon the decision maker considers appropriate for a given situation" (page 314). The chapter on capital-investment decisions (13) is introduced as being about the time value of cash flows. For *any* decision (not just for capital-investment decisions), the analysis should be about "future cash flows, which will differ between the various alternatives being considered" (page 314). We would suggest taking this approach one step further in terms of consistently discussing all decisions as applications of the differential cash-flow concept, whereby timing differences are covered through discounting. We would suggest discussing the examples in Chapter 9 such that the cash flows at different points in time are described with an explicit time horizon. For example, on page 322 and further, the decision on the replacement of equipment could be described in terms of the cash flows (for each alternative) in years 1, 2, and 3, and the three alternatives could be compared based on the net present value or other criteria discussed in Chapter 13. The examples in Chapter 9 do not explicitly talk about the timing of cash flows and the project horizon, and such differences hide the basic similarities between all decisions (as emphasized in the introduction to Part 3). In the same way, we would like to see a more explicit connection between the chapter on activity based costing (10) and the differential cash flow concept.

Some weak points of the book remain. Next to the content issues discussed in the outline and above, a major issue is the quality of the exercises. Many of the exercises require a good deal of number crunching before the actual concepts can be applied. Also, complex descriptions in the exercise aim to introduce real life complexity, but often lead to ambiguous problems, again deterring students from trying to understand the real issues. At over 1300 pages, it is quite voluminous (the fifth edition was called "the telephone book" by our students, and that had 100 fewer pages).

Ultimately, Drury's book is about the techniques of management accounting. As such, it is limited in its attention to new concepts (you won't find "key performance indicator" or "non financial measures" in the index, although the concepts are discussed) or specific types of organizations. If the student understands a concept such as cost allocation, he/she can apply it anywhere, whether it is a manufacturing, service, internet, or government organization. Since the explanation of the concepts is done very well, in a logical structure, the book is very well suited for introductory management accounting courses at the both the undergraduate and the graduate level. We expect to keep using it for a considerable time.

Reference

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