

UNIVERSITY OF NATIONAL AND WORLD ECONOMY

Michael Musov

MANAGEMENT ACCOUNTING

Integrating Basic Concepts and Meaning

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MANAGEMENT ACCOUNTING:
Integrating Basic Concepts and Meaning

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To my loving wife, Ralitsa, who has always been my biggest support and my richest inspiration.

About the Author



Michael Musov

is an Associate Professor of Accounting at the University of National and World Economy (UNWE) – Sofia. In 2010 he earned a PhD in management accounting from the “Accounting and Analysis” department at the same university.

Musov teaches principles of accounting and management accounting in the BSc and MSc programs at the UNWE. He also teaches advanced management accounting in the Joint MSc Program between the UNWE and the Nottingham Trent University, UK. Since 2015 Musov is the coordinator of the Partner-in-Learning agreement signed between the UNWE and the Institute of Chartered Accountants in England and Wales (ICAEW), UK. Since 2016 he is a Scientific Secretary of the “Accounting and Analysis” department at the UNWE.

Musov’s research has been published by many leading journals in Bulgaria and also appeared in conference proceedings of selected papers published abroad (USA included). For his research on management accounting and accounting education in 2015 and in 2017 Musov was listed on SSRN’s Top Ten download lists for all papers first announced in the Social Science Research Network (SSRN) in the last 60 days. At the beginning of 2018 he was included in the top 10% of Authors on SSRN by total new downloads.

In advancing the practice of management accounting Musov has developed and/or financially managed more than 100 investment projects totaling more than EUR 100M. Many of the projects have given him the first-prize edge.

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Preface

The business environment has dramatically changed over the past two decades. The accountant is not more a bookkeeper but a business partner in creating sustainable organizational value. Being grounded in operational reality and employing leading edge methods needed for the organizational success, management accounting is at the heart of accounting profession today. This book is your guide through the challenges in understanding this fascinating field of accounting and this profession.

Assumptions About This Book's Audience

Management Accounting: Integrating Basic Concepts and Meaning is intended primarily for the undergraduate (BSc) core course in management accounting. It could be used in MSc programs, for students whose undergraduate work did not include a management accounting course. It also could be used by students who are preparing for the management accounting examinations of the professional accountancy bodies at the foundation professional level. A course in financial accounting is a desirable but not obligatory preparation.

My aim is to provide an understanding of the basic concepts of management accounting in a clear, understandable, and integrative fashion. A balance of readability and factual soundness is pursued following Einstein's "make it as simple as possible, but not simpler". Since these concepts are inseparably interrelated as well as related to other areas of accounting and finance, I emphasize such interrelationships throughout. Great care is exercised to spell out the logic of each model or method and walk the student through realistic illustrative examples emphasizing the practical relevance of theory to management accounting practice.

Book Philosophy and Structure

The purpose of this book is to provide an integrated framework of the basic management accounting concepts. This intent makes the text helpful in understanding the models and methods involved in decision making and performance evaluation at the foundation professional level.

This book is organized into four sections. The chapters are grouped as follows:

- Part One, Chapters 1 to 3, aims to provide an *introduction to management accounting*. You shall see that the knowledge gained in this part is crucial for the other three parts of the book where I consider the main functions of management accountants – costing, decision making, and performance management.
- Part Two, Chapters 4 to 7, aims to provide a consistent overview of the *major types of costing systems* used by today's organizations. It provides the intuition behind the costing systems needed for managing costs and making decisions, not just for reporting costs.
- Part Three, Chapters 8 and 9, aims to explore the development and use of financial information for *making managerial decisions* that increase the value of the organization. It discusses two different forms of managerial decisions.

- Part Four, Chapters 10 to 12, aims to consider the development and use of information for aligning the goals of the decision makers (i.e., the managers) with those of the organization (i.e., the shareholders). It deals with *performance management systems* that integrate planning and management control in today's organizations.

The object of study in this book is the basic management accounting concepts, basic being the concepts that are the fundamental building blocks of the theory of management accounting. The subject of study is the interrelationships existing among the concepts, the relationships between these concepts and concepts of other areas of accounting and finance, as well as their application in basic models and methods involved in decision making and performance evaluation.

Key Features

The author of this book uses as a starting point the framework established by some of the leading texts in management accounting around the globe. These include, but are not limited to, (in alphabetical order) the U.K. editions by Drury and the U.S. editions by Garrison, Noreen, and Brewer; Horngren, Datar, and Rajan; Lanen, Anderson, and Maher, among others. Although I rely on this framework, I have developed a text that distinctly reflects the Bulgarian educational settings. While some sections still require higher intellectual efforts than others, I believe that in comparison to the extant literature in management accounting, users will find this book shorter, clearer, and easier to understand. The strongest pedagogical features of each chapter include:

1. **Management Accounting in Action boxes.** Each chapter includes one opening and two in-chapter boxes demonstrating the application and importance of management accounting in a variety of real world settings. I believe that once students understand the useful applications of each topic they will have the motivation to learn the concepts, models, and methods discussed.
2. **An original common structure.** All chapters (with few exceptions) share a common structure to facilitate student's learning. This structure includes: (i) an introduction to the problem; (ii) discussion of the basic concept(s) involved; (iii) presentation of the general model that should be applied; and (iv) description of important ethical issues.
3. **Many examples.** Each concept, model, or analytical methods are immediately followed by one or more examples. These examples are visually marked with the following symbol • to visually guide eye movements.
4. **Many illustrations.** Many illustrations are used to clarify the topics discussed. Most of them are originally designed.
5. **An unconventional chapter summary.** Each chapter closes with a single-page summary. This summary visually emphasizes all key concepts, models, and methods contained in the chapter, so the student can self-check understanding.
6. **Valuable appendixes.** Each chapter includes one or more appendixes. They are intended to challenge students who have a more extensive background in accounting and related fields.

Note to the Student

Students should keep in mind that just reading the text will not be enough to understand management accounting concepts. These concepts should be studied with the text in one hand and a pencil in the other. Only by carefully following the examples, you might be sure that you master the concepts. As you shall see, management accounting is relevant to almost all managers and relates to all activities of an organization. I truly believe that your understanding of these concepts will contribute to your education, career, and life, more generally.

Acknowledgements

I am indebted to Prof. Dr. Trifon Trifonov who was the first to inspire me to work in the field of management accounting. Prof. Trifonov's notable research laid the foundations of management accounting in Bulgaria. His contributions to management accounting cannot be overestimated. I am honored that Prof. Trifonov highly appreciated the manuscript.

I am also grateful to Assoc. Prof. Dr. Boyka Brezoeva, CPA and Assoc. Prof. Dr. Nikolay Oresharov, CPA who were the reviewers of the manuscript. They have indirectly contributed to this text by sharing their experience with me. However, any errors, mistakes, and misconceptions are my own and should not tarnish the reputations of these esteemed professionals.

Appreciation also goes to my colleagues at the UNWE who have supported me in this endeavor: Prof. D. Sc.(Econ.) Mikhail Dinev, CPA; Prof. D. Sc.(Econ.) Velcho Stoyanov; Prof. Dr. Stoyan Stoyanov, CPA; Prof. Dr. Snejana Bacheva, CPA; Prof. Dr. Emiliya Milanova, CPA, and Prof. Dr. Romyana Pojarevska, among others. It always has been and always will be a pleasure to work with them on the problems of accounting theory, practice, and education.

I am grateful for the permission to use materials from numerous organizations around the globe. In particular, I would like to thank Tim Nicholls – Intellectual Property Manager at Harvard Business Publishing. Without his valuable and kind assistance in granting me the permission to use a number of materials copyrighted by Harvard Business Publishing, this book would never be the same.

However, special thanks go to my students. They continue to inspire and motivate me to improve.

M. Musov