

17th
EDITION



MANAGEMENT ACCOUNTING AND FINANCIAL CONTROL



DR. S.N MAHESHWARI
DR. SUNEEL K. MAHESHWARI CA SHARAD K. MAHESHWARI

Sultan Chand & Sons

Management Accounting
&
Financial Control

*Dedicated to the Everlasting Memory of
MRS. RUKMANI MAHESHWARI*



[20th Sept. 1944 – 22nd May 2019]

Beloved wife of Dr. S.N. Maheshwari

Loving Mother of

Dr. Suneel & CA Sharad Maheshwari

A Gracious Kind-hearted & Pious Lady

Affectionately Remembered & Revered by

All Family Members & Friends

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Preface



Preface to the Seventeenth Edition

We indeed feel pleased and privileged to place before the esteemed readers extensively revised and updated Seventeenth Edition of our book Management Accounting & Financial Control. The continued heart-warming response given by the readers to each new edition of the book is really a matter of great satisfaction and privilege for us. The Seventeenth edition besides maintaining the *PLUS* features of the Sixteenth Edition of the book, *viz.*, lucid presentation, tailor made approach, comprehensive text with plenty of illustrative material, etc. has several additional welcome features. These include the following:

- ◆ The book covers all the more comprehensively the course-content requirements of the students preparing for M.Com., MBA, CA, CS, CMA and other professional examinations.
- ◆ The subject matter in almost all the chapters has been considerably strengthened and updated as given below:
 - ✍ The latest position regarding IFRS, IAS, AS and IFRS Convergence in India has been explained in Section A, Chapter 2: Accounting Principles & Standards.
 - ✍ The provisions of the Companies Act 2013 relating to meaning, types and proformas of the financial statements have been incorporated in Section B, Chapter 1: Financial Statements: Analysis & Interpretation.
 - ✍ As required by Schedule III to the Companies Act 2013, the term Fixed Assets has been replaced by term Property, Plant & Equipment, wherever required.
 - ✍ The working of the Financial Institutions has been updated in Section D, Chapter 4 Sources of Finance. The details of the two new financial institutions: Soft Bank India and Invest India and amended Guidelines/Provisions relating to Commercial Paper have also been incorporated in the same Chapter.
 - ✍ The topic "Efficient and Optimal Portfolio Management" has been added in Section E, Chapter 5: Investment Portfolio Management.
 - ✍ The topic Tax Concessions has been updated keeping in view the new Provisions of the Income Tax Act 1961 as amended by the Finance Act, 2023.
 - ✍ The legal provisions as to payment of dividends have been updated in section D, Chapter 10: Dividends, Bonus and Rights.
 - ✍ Important questions and problems - from latest professional examinations have been incorporated at proper places in the book.
- ◆ All efforts have been made to see that the book is without any misprint.
- ◆ The examination-oriented approach of the book has been further sharpened and enhanced.

Systematic gradation of different level headings under a topic & its summary in 48 pages in exhaustive contents facilitate quick revision of chapters/book.

We are confident that with all these changes, additions and adaptations, the students will find the revised edition of the book all the more useful and rewarding for them.

Constructive and helpful suggestions for improvement in the book will be gratefully acknowledged.

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TWO IN ONE

**Here is a Fine Value for Your Money.
Opinions Expressed go Highly in Favour of
Management Accounting & Financial Control**

by

DR. S.N. MAHESHWARI

1. '.... Here is a book written by an Indian author for Indian students with illustrations from Indian companies. Written for the students appearing for examinations in management accounting, the book bears the personality of the author who enjoys simplifying difficult ideas and concepts.

The chapter on accounting ratios is extremely interesting. While the importance of these ratios is underlined the author also warns that complete reliance on them in decision-making is suicidal. In other words, the ratios are no more than tools which will need robust common sense in application."

— *Facts for You, Jan.-Feb., 1983*

2. The author has taken great pains to elaborate all the ideas and concepts related to accounting and has made the book particularly useful to the students by posing model questions at the end of each section. The book has been written in a simple style which makes a complex thing easy to understand."

— *Capital, p. 3, October 3, 1983*

3. "This has proved to be a unique hand-book on Financial Management and Management Accounting especially when in western countries professionals are trying to combine Management Accounting with Financial Management. The book conforms to the latest practice of the subject of Management Accounting and Financial Management.

"The author has put forward advanced solved and unsolved problems for grooming the readers with latest examination problems and solutions. This book would also act as a Standard Handbook for practitioners and professionals in the field."

— *The Management Accountant, December, 1983*

4. "This book may be said to be a hand-book of Management Accounting and Financial Management which conforms to the latest practice of the subjects concerned.

..... The author has incorporated in his treatise, SSAP Draft-16 regarding Inflation Accounting Policies. This would give the readers some idea on inflation accounting exposures.

It must be said to the credit of the book that it has put forward numerous advanced solved and unsolved problems on almost all the topics for the students with the latest examination problems and solutions. It would serve as a comprehensive text in Financial Management and Management Accounting to the students appearing at various academic and professional examinations more particularly to the M.Com., MBA, ICWA and CA students."

— *Indian Journal of Accounting, Vol. XIV, June and December 1984*



Snapshot of the Book



<i>Sl. No.</i>	<i>Chapter Name</i>	<i>Pages</i>	<i>Illustration</i>	<i>Example</i>	<i>Figure</i>	<i>Key Term</i>	<i>Objective</i>	<i>Essay</i>	<i>Practical Problems</i>
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2	Financial Accounting Principles	18	—	—	1	5	3	16	—
3	Basic Cost Concepts	28	5	1	2	12	3	30	3
4	Activity-Based Costing	20	6	—	—	6	3	9	3
SECTION B - FINANCIAL ANALYSIS		2	—	—	—	—	—	—	—
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3	Funds Flow Analysis	44	15	3	2	5	3	9	14
4	Cash Flow Analysis	46	14	9	—	8	3	8	13
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List of Abbreviations

<i>A</i>	Total Assets
<i>B</i>	Market Value of Debt/Total Debt Amount of Debt
<i>b</i>	Premium for Business Risk
<i>C</i>	Outflow in the Period Concerned
<i>d</i>	Dividend Payout Ratio
<i>D</i>	Dividend per share / Market Value of Debt
<i>D/P Ratio</i>	Dividend payment ratio/Target payout ratio
<i>D₀</i>	Dividend per share for the previous year
<i>D₁</i>	Dividend per share for the current year / Dividend to be received at the end of period one
<i>DFL</i>	Degree of Financial Leverage
<i>D_p</i>	Fixed Preference Dividend
<i>DPS</i>	Dividend per Share
<i>E</i>	Earning per share/Earnings of the firm during the period Market Value of Equity
<i>EAS</i>	Earnings Available for Equity Shareholders
<i>EBIT</i>	Earnings before the payment of interest and tax
<i>EBT</i>	Earning before Tax
<i>EFR</i>	External Funds Requirement
<i>EPS</i>	Earning per Share
<i>EPS₁</i>	Earning per Share
<i>f</i>	Premium for Finance Risk
<i>FCD</i>	Fully Convertible Debenture
<i>g</i>	Growth in Expected Dividend
<i>I</i>	Amount of investment required
<i>I₀</i>	Net Amounts of funds Received by the Firm at Time Zero
<i>I₁</i>	Interest under Alternative 1
<i>I₂</i>	Interest under Alternative 2
<i>IRR</i>	Internal Rate of Return
<i>K</i>	Cost of Capital/Explicit Cost of Capital / Overall Cost of Capital
<i>k</i>	Overall cost of Capital

<i>kd</i>	Cost of Debt
<i>Ke</i>	Cost of Equity Capital / Equity Capitalisation Rate
<i>Kp</i>	Cost of Preference Share Capital
<i>L</i>	Payables and Provisions/Debt
<i>M</i>	Cum-right market price of share / Market price
<i>m</i>	Number of new shares to be issued / Profit margin
<i>MM</i>	Modigliani-Miller
<i>MP</i>	Market Price
<i>Mp</i>	Net Proceeds of Preference Shares
<i>n</i>	Duration for which the Funds are Provided
<i>N</i>	No. of old shares to purchase one new share
${}_nD_1$	Total Dividends paid during the Period
<i>NI</i>	Net Income / Earnings available for equity shareholders
<i>NOI</i>	Net Operating Income
<i>NPV</i>	Net Present Value
<i>NR</i>	Net Proceeds per Share
<i>O</i>	Expected Operating Income
<i>OP</i>	Operating Profit
<i>P</i>	Market Price of Equity/Theoretical Market Value of Share ex-right
<i>P/E Ratio</i>	Price Equity Ratio
P_0	Prevailing Market Price of a Share
P_1	Market Price of a Share at the end of period one
P_1	Market Price of a Share at the end of Period I
<i>PAT</i>	Profit After Tax
<i>PBT</i>	Profit before Tax but after Interest
<i>PCD</i>	Partially Convertible Debenture
<i>PD</i>	Preference Dividend
<i>r</i>	Discount Rate applicable to the Firm Belongs
<i>r</i>	Internal rate of Return / Return on Retained Earnings
<i>R</i>	Value of one Right / Right Share Offer
R_0	Return at Zero Risk Level
<i>ra</i>	Expected Return on Assets
<i>ROI</i>	Return on Investment
<i>S</i>	Previous Sales / Market Value of Equity / Rate of Speed of Adjustment / Subscription Right for a New Share
S_1	Number of Equity Shares (or amount of equity share capital) under alternative 1
s_1	Projected Sales for the next year
Δs	Expected Increase in Sales <i>PVAF</i>
<i>T</i>	Tax Rate <i>t</i>
<i>UEPS</i>	Uncommitted Earnings per Share
<i>V</i>	Market Value of the firm / Value of Firm / Total Value of Firm / Market Value of Firm
V_i	Value of Levered Firm
V_u	Value of Unlevered Firm
<i>WN</i>	Working Note
<i>X</i>	Total net profit of the firm during the period

About the Book

The Seventeenth Edition of Management Accounting and Financial Control builds upon the strong foundation of the Sixteenth Edition, retaining key features such as a lucid presentation, a tailored approach, and comprehensive text enriched with abundant illustrative material. In addition to these core elements, several new enhancements have been made, including a more comprehensive coverage of the course content for students preparing for M.Com., MBA, CA, CS, CMA, and other professional examinations.

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