# BOOK NOTES

**The Principles and Practice of Farm Management Accounting,** C. A. Mallyon. Sydney: Law Book Co. of A/sia Pty. Ltd., 1961. Pp. viii, 363, 63s.

This book aims at "showing the primary producer what he should expect from his accounts and how they will assist him in making profitable decisions" and at "providing a blueprint to accountants, agricultural economists, extension workers and all others actively engaged in planning or interpreting accounts for the farmer or grazier". In attempting to fulfil these aims one might expect it to fall between two stools—and it does. In this reviewer's opinion, much of the book would make too difficult reading for most practical agriculturalists and the emphasis on double-entry bookkeeping would discourage many from considering the installation of a management accounting system. On the other hand, agricultural economists and other professional people with a training in economic principles will fundamentally disagree with many of the statements in this book and will hardly want to accept it as a "blueprint". Evidence for this opinion will be given later.

The book is divided into seven parts. In Part I the first chapter introduces us to management accounting and tells us that it should be used for "financial management" and "operating management". Financial management records show a person "what he owns and what he owes" and assists him to control and improve on his capital position. Operating management relates to the level of inputs and outputs, the control of operations and assists a farmer to improve his technical and economic efficiency. Chapter 2 introduces us to Single and Double-entry Bookkeeping, Chapter 3 to the Inventory, and Chapter 4 to Valuations and the different methods used in valuation. The remaining three chapters in Part 1 and the first three chapters in Part 2 are devoted to a description of the installation and operation of a double-entry accounting system and the use of the journal, ledger and the various types of cash books. Chapter 11 is concerned with "physical" records such as land use, labour, crop, livestock and feed records. Chapter 12 includes a brief discussion of methods of calculating depreciation, and Part 2 ends with a three-page chapter on Single Entry Bookkeeping.

Part 3 shows the preparation of a Balance Sheet and Profit and Loss Statement for a hypothetical farm and a final chapter gives a brief description of taxation accounts, showing that they can be prepared from the same material that is needed for management accounting, differing only in the treatment of livestock valuations, depreciation, etc. Part 4 is devoted to a description of the analysis of a farm's financial structure, annual income and expenditure and "technical factors" and the comparison of the results with the average for similar farms in the district with the object of detecting the weaknesses and strengths of the farm business.

In Part 5 the first chapter is concerned with budgeting and the underlying economic concepts including diminishing returns and fixed and variable costs. The next two chapters describe how crop and livestock programmes

are built up, labour, machinery and feed requirements estimated and how whole-farm, partial and cash (capital) budgets may be used to help decide on the profitability of alternative plans and to control current operations. The last chapter in Part 5 introduces the reader to Linear Programming, an innovation in a book of this type. Its advantages over budgeting are discussed and a simple problem is solved using the short-cut method described by Waugh and Burrows.

Part 6 is devoted to Project Accounting, which is really Cost Accounting in another guise, i.e., the determination of the "cost of production" for each project (enterprise). Part 7 comprises two unrelated chapters, the first being a short discussion of the merits of the various forms of ownership—sole proprietorships, partnerships, private and public companies, trusts —and the related accounting aspects. In the other chapter, the final one, the author pleads for more standard data for comparative analysis and briefly looks at the possible ways, e.g., "farm management laboratories", farm clubs, etc., in which this data could be obtained in the future. There follows a useful bibliography and a not-so-useful index.

The structure of the book shows the emphasis placed on the double-entry form of accounts which, in this reviewer's opinion, is not justified and is likely to deter many farmers and graziers from taking up management accounting. Apart from this, however, the explanation of many of the procedures is cursory ; for example, in Chapter 2, page 19, we are told "to balance the account" without being told why it is necessary to do so. The multiplicity of terms used, e.g., Gross Profit, Net Income, Net Farm Income, Net Farm Profit, etc., often without previous definitions, is likely to confuse the practical man, especially when in Chapter 26 on budgeting the latter two terms are obviously being used synonymously. The $Aij$ notation is unnecessarily complicated in explaining the logic and technique of linear programming ; and the incursion in a chapter on budgeting into the determination of future product prices by regression analysis of time series is just blinding the farmers with science.

The most serious criticism, however, is over the old perennial argument of "real costs *v.* accounting costs". The economist usually conceives of costs being fixed or variable according to the time period being considered and whether costs have already been incurred or not. The author includes depreciation of machinery as invariably a fixed cost and labour as a variable cost. On page 304 there is this statement: "A producer might find that with a sudden upsurge in costs, the costs of production on his crop are likely to exceed his returns. With an accurate record of costs so far incurred, and with a reasonable estimate of harvesting costs, he might possibly find it better to put sheep on the paddocks for fattening rather than harvest the crop." To an economist the costs "so far incurred" are irrelevant to the issue. Together with such statements as "In regard to these general expenses, there is no real basis of distribution, and perhaps the most equitable means is to distribute them as the projects can bear them" (p. 305), one is left in no doubt that the author, though recognizably attempting to incorporate economic principles into his book, is still hide-bound by accountancy conventions. This is not just an academic quibble because, unfortunately, it has far-reaching practical repercussions, too. A decision based on a forward looking real or opportunity costs approach is usually a lot different from one based on a backward looking accounting cost approach.

Of minor errors, mention might be made of the fact that the principle of diminishing returns refers to the variation of output with input *when one or more inputs are fixed* (this critical phrase is omitted in the definition on p. 240) and that the vertical line going through the point where Marginal Product is zero should coincide with the point of maximum product and not some distance to its right (graph on p. 241).

## ERRATA

In the article "A Reconsideration of Net Profit as a Measure of Financial Success in Farming" by George Mason, which was published in the September, 1961, issue of this journal, several errors appeared in Table 2 on page 155. The table should have read as follows:

TABLE 2

*Revised Balance Sheet for Calculation of True Net Profit*

| | £ | £ |
|---|---|---|
| Liabilities at beginning | | 1,561 |
| Assets at end * | | 29,611 |
| Adjustments: | | |
| (1) Non-farm expenditure and that not related to the period | | 650 |
| (2) Personal drawings, rent, interest and other payments included for purposes of comparison | | 13,369 |
| | | 45,191 |
| *Less* | | |
| Assets at beginning * | 19,787 | |
| Liabilities at end | 1,566 | |
| Adjustments: | | |
| (1) Non-farm income and introduction of Capital | 2,431 | |
| (2) Unpaid factors (a) Wages of management | 4,123 | |
| (b) 5½% on total farm capital | 6,475 | 34,382 |
| True net profit—Total for 5 years | | 10,809 |
| Annual average | | 2,162 |
| Net profit (with usual adjustments, see page 154) | | 1,747 |

* The assets at beginning and end have been revalued. Government valuation has been taken for the value of land and improvement. Livestock have been valued at prevailing market rates. Plant and machinery has been taken at book values adjusted for special and initial depreciation.

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