

MALAYSIAN ACCOUNTING REVIEW

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Accounting



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MALAYSIAN ACCOUNTING REVIEW

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PREFACE FROM VICE CHANCELLOR UiTM

It is such a great honour for me to be given the opportunity to preface the inaugural issue of the Malaysian Accounting Review (MAR), the first international refereed accounting journal in this country. I wish to congratulate the Faculty of Accountancy, UiTM and the Malaysian Institute of Accountants (MIA) for their proactive effort in making this journal a reality. In the words of Zig Ziglar, "... if you have a vision for it, you can accomplish it". This marks a new beginning and a significant milestone for the accounting profession: practitioners and academicians at large.

This pioneering smart partnership between MIA and UiTM is timely and highly commendable. Today, we live in an era where information must be properly managed and strategically used as our competitive tool. To best manage and use the information, we must integrate descriptive and prescriptive applications. Whilst professional journals focus on descriptive and "what is" measures, academic refereed journals provide support to the accounting profession by prescribing the "what should" phenomena through research findings and empirical evidence. Both measures must be embedded and should be in tandem with each other; it is the only way for the accounting profession to stay on the cutting edge. It is without doubt that MAR will act as a catalyst to bridge the gap between theory and practice.

The publication of the MAR is part of UiTM and MIA's mission to make Malaysia a renowned and reputable centre of accounting excellence in this region. Whilst the journal provides an excellent avenue for researchers (both local and foreign) to publish their research findings, it should also serve as a platform for intellectual discourse, for others.

In closing, I wish to congratulate the Faculty of Accountancy, UiTM, for its vision in initiating a smart partnership with MIA. To MIA, I am sure that this partnership is an added value to your role as a regulatory body to the accounting profession in Malaysia.

Datuk Professor Dr Ibrahim Abu Shah
Vice Chancellor
Universiti Teknologi MARA (UiTM)
MALAYSIA

UiTM AT A GLANCE

Universiti Teknologi MARA (UiTM) started as a college known as Kolej RIDA in 1956. Incidentally, accounting programs such as LCCI, Australian Society of Accountants (ASA) and Institute of Cost and Work Accountants (ICWA) were among the pioneer programs offered by the then, School of Accountancy. Kolej RIDA continued to expand and in 1967 it was further upgraded and its name was changed to Institute Teknologi MARA (ITM).

As an Institute, ITM continued to add other accounting programs: Diploma in Accountancy (DIA), Malaysian Association of Certified Public Accountants (MACPA), Association of Certified and Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA) and the Advanced Diploma in Accountancy (ADIA) to its portfolio. What started, as a humble beginning in a small campus in Petaling Jaya was later expanded to other areas throughout the country. In 1996, the ITM Act was amended to allow the institute to offer various programs, viz., first degrees, Masters degrees and PhD programs. To commensurate with the university type of programs that the Institute was offering, ITM was officially conferred the university status in 1999. With effect from 26 August 1999, the Institute was known as Universiti Teknologi MARA or UiTM with 18 faculties and 13 branch campuses to its credit.

Today, being one of the most dynamic faculties in UiTM, the Faculty of Accountancy is also offering other accounting programs such as the Certified Accounting Technicians (CAT-UK), CPA Australia, Institute of Chartered Secretaries and Administration (ICSA-UK), Master of Accountancy and Doctor of Philosophy (PhD Accounting). Within the next year, several new programs such as Accounting Information System (AIS), Taxation, Management Accounting, Internal Auditing, Corporate Governance and Forensic Accounting and the newly known Malaysian Institute of Certified Public Accountants (MICPA) will be offered.

The Faculty's two-tier mission allows it to focus on two important aspects; nurturing of professional accounting graduates as well as becoming a renowned Centre of Excellence in Accounting Research & Consultancy. In tandem with our two-tier mission, the Faculty of Accountancy strives to produce quality graduates and quality research & consultancy.

PRESIDENTIAL MESSAGE

On behalf of the Malaysian Institute of Accountants (MIA), I would like to congratulate Universiti Teknologi Mara (UiTM) for its timely effort in initiating the publication of the 'Malaysian Accounting Review'. The Malaysian Institute of Accountants is indeed pleased to be associated with this publication, which is the first international refereed academic accounting journal in this country. The Malaysian Accounting Review is a vital platform for which various key areas useful to the development of the accountancy profession can be examined, analysed and digested. Indeed, this inaugural publication will serve as a catalyst and act as an important tool for students, researchers, accountants, academicians as well as other relevant parties to enhance their knowledge in these areas.

As the regulatory body for the accountancy profession in this country, MIA recognizes the need to provide continuous support and to be involved in research and development activities relating to the accountancy profession. We believe that this smart partnership between the accounting academicians and the profession will strengthen MIA's position to become a globally recognized and respected business partner committed to nation building. With the continued support and cooperation from all stakeholders and through this publication of the Malaysian Accounting Review, we are confident that the profession will further progress in its commitment towards making the country a center of accounting excellence.

Abdul Samad Haji Alias (Dr)
President
Malaysian Institute of Accountants (MIA)

THE MALAYSIAN INSTITUTE OF ACCOUNTANTS

The Malaysian Institute of Accountants (MIA) is a statutory body set up under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. The functions of MIA are, inter alia:

- To regulate the practise of the accountancy profession in Malaysia
- To promote in any manner it thinks fit, the interests of the accountancy profession in Malaysia;
- To provide for the training and education by the Institute or any other body, of persons practising or intending to practise the profession;
- To determine the qualifications of persons for admission as members; and
- To approve, regulate and supervise the conduct of the Qualifying Examination

Vision of MIA

To be a globally recognised and respected business partner committed to nation-building.

Mission of MIA

To develop, support and monitor quality and expertise, consistent with global best-practises in the accountancy profession in the interests of stakeholders.

MIA regulates its members who are Chartered Accountants in public practice, commerce and industry, the public sector and academia. A qualified person who wishes to hold himself or herself out as a Chartered Accountant or an accountant in Malaysia has to be registered with MIA.

MIA is responsible for promoting and regulating the accountancy profession in Malaysia. The Institute is actively involved in the development and issuance of approved auditing standards and also participates in the development of applicable approved accounting standards by the Malaysian Accounting Standards Board. Additionally, MIA also actively participates in legislative initiatives and developments, spearheaded by the Securities Commission, the Kuala Lumpur Stock Exchange and Bank Negara Malaysia. These initiatives relate to the regulation of the capital and financial markets, corporate governance, and the Companies Commission of Malaysia, in the regulation of companies pursuant to the Companies Act 1965.

MALAYSIAN ACCOUNTANCY RESEARCH AND EDUCATION FOUNDATION

The Malaysian Accountancy Research and Education Foundation (MAREF), a trust for the promotion, encouragement and advancement of accountancy research and education in Malaysia, was set up in 1990 and received its certificate of registration as a corporate body under the Trustees (Incorporation) Act 1952 on 26 July 1993. MAREF is a trust body sponsored by the Malaysian Institute of Accountants (MIA)

The objectives of MAREF inter alia are:

1. To encourage and promote the advancement and development of accountancy in Malaysia.
2. To pay all or part of the fees payable including other expenses incurred and/or incidental to the education, training and/or maintenance in respect of deserving persons who are being educated or wish to be educated or wish to be trained in the accountancy profession in recognised institutions of learning.
3. To carry out such other legally charitable purposes for the advancement of education and training in the accountancy profession.
4. To carry out research in and to promote development of the profession of accountancy in general and in particular the development of accounting and auditing standards.
5. To publish and disseminate literature in advancement of the accountancy profession.

ASIAN ECONOMIC GROWTH AND MANAGEMENT ACCOUNTING

Akira Nishimura
Kyushu Sangyo University

ABSTRACT

This study is intended to investigate Asian management accounting practices in relation to economic growth. In order to clarify the features of management accounting practices in Asian countries, the development of management accounting is divided into four stages which distinguishes the process by drifting management accounting from an integrated process right through the traditional, quantitative and mathematical processes. In particular management accounting systems in Japan, NIES and ASEAN are viewed in the light of the four stages. It is also emphasized that the steady establishment of financial accounting, particularly disclosure systems, play an important role in the progress of management accounting, by referring to a lesson from Japan.

INTRODUCTION

In the middle of 1980s, Japanese management accounting came to attract world attention, as did Japan's bubble economy. Japanese management accounting was considered a traction capacity for the high growth of the economy. Thus, corporations in foreign countries began to introduce the Japanese type of management accounting system in order to actualize the integration of low cost with high quality. At the same time, Japanese corporations started to transfer the management accounting system as well as production plant and technology to foreign countries in order to avoid the losses in exports which the appreciation of the yen brought about.

Some American researchers criticized the Japanese type of management from the viewpoint of strengthened discrimination and intensification of labor (Black & Mendenhall, 1993). However, in Europe some paid attention to the accounting system connected with cooperation type of organizational management and were willing to accept 'Japanization' of their management accounting systems in order to gain an edge in cost and quality in the world markets (Oliver & Wilkinson, 1992). Taking this movement into consideration, Japanese corporations believed that the Asian economy would continue to grow with the support of their management accounting systems, when they were transferred to various Asian countries. Unfortunately, with the devaluation of the Thai baht, enthusiasm for the Japanese management accounting system waned, resulting in a reduction in its transfer overseas. Furthermore, the Asian economic recession turned into a world economic problem. Therefore, some concluded that the transfer overseas of the Japanese management accounting method was no longer meaningful.

Before accepting this conclusion, we need to clarify the actual situation of management accounting in Asia and seriously examine the problems involved in its transfer. Moreover, we should analyze the Asian economy from both long term and short-term perspectives as well as consider the differences in characteristics between the ideas and methods of the Japanese management accounting and the traditional methods. We may then be able to show that the transfer of the accounting system is not a thing of the past, but an important issue to be connected with Asian economic growth in the future. This is especially so when the new ideas and methods are applied in a suitable fashion to Asian management control systems. Thus, the aim of this study is to examine actual situations of Asian management accounting in the context of internationally developed stages of management accounting as well as to consider the implications of the transfer of Japanese management accounting systems for various Asian countries.

DEVELOPMENT OF MANAGEMENT ACCOUNTING AND JAPANESE MANAGEMENT ACCOUNTING

The development of management accounting is generally divided into four stages, as shown in Table 1. In the first stage, an independent calculation system of management accounting was not established, and financial accounting data were used for business management. During this stage, management through accounting had a strong character of drifting (nariyuki) management, since business was managed according to the development of the situation and by using past financial accounts. The financial ratio analysis or comparative business analysis was principally adopted as a method of controlling production and business management.

TABLE 1
Development Stage of Management Accounting

Stage	Management Accounting	Features	Methods
First	Drifting management accounting	Application of financial accounts to management control	Financial ratio analysis, Business comparative study
Second	Traditional management accounting	Efficiency management based on scientific management (control through plan)	Budgetary control, Standard Costing, Break even point analysis, Cost variance analysis
Third	Quantitative information management accounting	Optimum profit management based on management science (control decision-making process)	Inventory management, LP, Information analysis, Behavior science, Profit prediction, Opportunity cost analysis
Fourth	Integrated management accounting	Integration of accounting management and organizational management (proactive and preventive feed forward management)	Cost design, continuous cost improvement

In the beginning of the twentieth century scientific management was advocated by F. Taylor. This philosophy as well as the idea of government budget influenced the formation of the second stage of management accounting. To be exact, this stage is the formative period of management accounting. The methods in this stage were mainly budget control, standard costing, and break-even point analysis. In particular the budget control was used to control corporation production and business wholly, and the standard costing to control jobs partially. The standard cost or the planned profit was thought to be a criterion or a standard that should be realized. Efficiency was measured by the standard value or the criterion. Thus, if actual cost was remote from the standard or the plan, it should be revised toward the standard. Cost variance should be eliminated in the following step. In this case, the standard was true, and variance between the standard and the actual costs was abnormal. Thus, variance control played an important role in this stage of management accounting. This stage may be named "traditional management accounting" since its fundamental contents have still deep influences on today's management accounting systems, even if their forms have changed with the times.

Quantitative and information theory gained more innovative power than the traditional management accounting during the 1970s. In this third stage, management accounting system rested on the philosophy of management science. The optimum profit was pursued in profit management instead of the break-even point, or profitability in the traditional management accounting. Probability, linear programming, economic optimum stock model, and information theory were used broadly for the profit management. At the same time, behavior science and agency theory, relating to this idea, became conspicuous during this stage. The fundamental idea of the stage was to control planning process itself and forecast the future of business precisely according to corporation environments and conditions. That is to say to control abilities and process of managers' planning and make the evaluation of their performance more reliable.

It is further ascertained that the third stage of management accounting depended basically upon two fundamental ideas of control concept: feedback and feed forward. In the process

of shifting from the drifting management to the traditional management accounting, the feedback control exerted a strong influence on accounting system. This control philosophy took a completed form through development from the traditional management accounting to the quantitative and information management accounting. At the same time, the feed forward control thinking was beginning to bud in this process. In particular, Demski (1967) used the idea to develop a new theory to consistently control decision-making process.

According to the feedback control thinking, actual performance was compared with the original plan and standard after completion of an action and the following plan was revised. Variance will also be corrected by various methods. In contrast to such a reflective and reactive activity, the feed forward control is preventive and proactive. Managers, who advocate this control idea, adopt various kinds of method to amend the plan frequently and control planning process incessantly in accordance with changing environments, and to realize an expected performance. Actual performance will be almost the same as that expected. In other words, a difference is interwoven beforehand in the planned value or the standard cost (Bromwich & Bhimani, 1994). Cost design (*genka kikaku*) is based on the feed forward control thinking. This is the preventive and proactive management system on which managers utilize various methods in controlling the planning process to create an actual performance almost equivalent to the planned value. Cost variance analysis and revision activity had an important meaning in the traditional, and the quantitative management accounting systems as it did before. However, in today's management accounting, it is more important to interweave cost variance in the planned value beforehand and to take measures to get rid of variance before actual performance.

Of course, the feed forward management cannot be executed only by an accounting system. The integration of organization management and accounting management is indispensable for the feed forward management. The feed forward management accounting would not fulfill its function without the organizational management. Thus, this is named "integrated management accounting." As a result, although low cost and high quality had been regarded as trade-offs, their relation is now considered to be a well-matched one in the integrated management accounting. –Accordingly, cost design represent the integrated management accounting, since it has the peculiar characteristic of preventive and proactive management in the process of planning and control.

At the same time, the cost design is the market strategic cost management system which was born in order to realize the target profit by forecasting the potential market demands, then digging them up in international markets, and meeting their demands from the viewpoints of high quality, low cost and prompt delivery. It may be said that management accounting has developed from feedback to feed forward control system, and from production to market orientation, when we presume that the integrated management accounting, or the latest management accounting has the two characteristics of market orientation and of feed forward control system. We can describe the development stages of management accounting in accordance with above-mentioned point of view in the following figure.

Judging from the above four stages of management accounting, where does Japanese management accounting fit in? Here, the suggestive research report, carried out during 1993-95 by the Accounting Research Institute of the Faculty of Commercial Science at the Nippon University, is pertinent. First, as Table 2 shows, the management accounting practice of Japanese manufacturing corporations arrives at the fourth stage after completing the second stage, i.e. skips the third stage, because the traditional management accounting such as budget control, standard costing, and variance analysis, as well as cost design,

has its roots deep in managerial and operational management and the quantitative methods have hardly practiced. Because the Japanese tax law demands actual cost for valuation of inventory and 'Cost Accounting Standards' takes a viewpoint near to the tax law, standard cost is calculated at approximately actual cost. Although its diffusion rate falls owing to recent technical development and changing business environments, most Japanese enterprises have practiced standard costing and direct costing.

TABLE 2
Present Situations of Management Accounting in Japanese Manufacturing Firms

Investigated item (no. answered)	No.	%	Investigated item (no. answered)	No.	%
Standard costing (203)	130	64	Variance analysis (203)	123	61
Direct costing (205)	102	49.8	Intra-company transfer price (136)	111	81.6
<u>Appraisal method of economic calculation of equipment funds (203)</u>			<u>Short-term profit goal (255)</u>		
1 Accounting profit (ROL)	72	35.5	1 Sales	46	18
2 Payback period	133	65.5	2 Rate of sales growth	15	5.9
3 Intra-company profit rate	31	15.3	3 Profit	175	68.6
4 Present value method	32	15.8	4 Return on profit	3	1.2
5 Annual cost sum method	33	16.3	5 Return on sales	13	5.1
<u>Responsibility center of division (139)</u>			<u>Method of budget decision</u>		
1 Cost center	5	3.6	191	21	10.9
2 Profit center	104	74.8	1 Top-down	35	18.8
3 Investment center	28	20.1	2 Bottom-up	134	69.8
			3 Combination		
<u>Appraisal standard of division (332)</u>			<u>Method of budgeting (243)</u>		
1 Sales	102	30.7	1 Simulation model	24	9.9
2 Rate of sales growth	49	14.8	2 Zero-base budget	35	14.4
3 Profit	131	39.5	3 Direct costing	38	15.6
4 Return on capital	14	4.2	4 Linear programming	4	1.6
5 Return on sales	31	9.3	5 Break even Point analysis	36	14.8
			37		
<u>Kind of budget (194)</u>			<u>Adoption of cost design (187)</u>		
1 Budgeted profit and loss	168	86.6	1 Systematic execution all over firm	115	61.5
2 Sales budget	175	89.7	59	31.6	
3 Production budget	163	84	2 Execution in divisions	24	12.8
4 Selling expenses budget	174	89.2	3 Temporary execution	32	17.1
5 General administrative expenses budget.	180	92.8	Adoption of activity based costing (191)	22	11.5
6 R & D expenses budget	163	84.1			
7 Capital budget	59	82			
	60				
Cost table (202)	138	68.3	Usage of LP in decision- making (197)	10	5.1

Source: *Constructions of General Data base on Costing Practice, Research of Accounting, Faculty of Commercial Science at the Nippon University, Vol. 8 No. 9, Mac 1996.*

At the same time, the diffusion rate of cost design exceeds 60%, and cost improvement (*genka kaizen*) also has high rank. The cost design and cost improvement are generally utilized in various forms in Japanese enterprises. However, contrary to this, the spread rate of the quantitative and information management accounting is low. Japanese manufacturing corporations have not broadly practiced the quantitative models such as linear programming, present value method, and probability. Management physical information and non-financial information are broadly used in management control. However, they are not tied up with the quantitative management accounting. Although the diffusion rate of the quantitative and information management accounting in American enterprises is higher than that in Japan, this management accounting system is not practiced more extensively than other management accounting systems. Therefore, it should be clear that the third stage was a little logical and academic, and although academic circles discussed with ideas and methods of the quantitative and information management accounting, this management accounting was weak in actual implementation in the U.S. A. and Japan.

It follows from the above that Japanese manufacturing enterprises have connected financial accounts and managerial actual results (payback period, profit, sales, and others) to the traditional and the integrated management accounting systems more preponderantly than to the quantitative management accounting system. They enter the fourth stage on the basis of experiencing the first and the second stages. This relates to the characteristics of the Japanese management accounting that emphasize safety, intelligibility, and simplicity. It also shows that, after the Second World War, the tax law and the commercial code have given a stronger influence to accounting than generally accepted accounting principles, and that the enterprises have been supported sufficiently by government authorities. These conditions were good for rousing cost and profit consciousness, and developing quality improvement movement and mutual cooperation relations within the enterprise and among the affiliates. Let us next turn to a consideration of management accounting in some Asian countries.

THE PRESENT SITUATION AND CHARACTERISTICS OF MANAGEMENT ACCOUNTING IN ASIA

The investigation of Taiwanese accounting by Tsai (1995) suggests that business budget and inventory control spread most widely in Taiwanese manufacturing corporations, and capital budget, the cost efficiency analysis, responsibility accounting, incremental cost analysis, break-even point analysis, and the productivity measurement follow closely behind them in terms of popularity. However, the quantitative management accounting of management science and the integrated management accounting (cost design or activity-based costing) are not practiced in depth (Wu, et.al., 1995). The spread rate of the traditional management accounting (budget control and standard costing) is high in the Republic of Korea. This is shown by the report in which Ahn and Lee (1994) discussed the investigated results of management accounting practices at electronic machinery and machine industry corporations. The payback period method for capital budgeting and the sales profit ratio for performance evaluation of divisions are widely exercised. Surprisingly, the spread rate of target costing, or cost design, is 39.1 %, which is comparatively high in comparison with other Asian countries. This might be related to their investigation method being restricted to the electronic machinery and machine industry (Ahn and Lee, 1994).

TABLE 3
Management Accounting Practices in Taiwan Manufacturing Firms

Items of management accounting	Manufacturing (459)		Total (818)	
	No.	%	No.	%
<u>Traditional costing</u>				
(1) Full costing	202	44.0	273	33.4
(2) Batched costing	195	42.5	271	33.1
(3) Direct (Variable) costing	163	35.5	228	27.9
(4) Standard costing	177	38.6	227	27.8
(5) Processing costing	193	42	213	26.0
			214	
<u>Planning, control, and decision making</u>				
(1) Operating budget	278	82.4	681	83.3
(2) Cost-effective analysis	303	66.0	511	62.5
(3) Capital budget	312	68.0	495	60.5
(4) Responsibility accounting	241	52.5	431	52.7
(5) Incremental cost analysis	275	59.5	384	46.9
(6) Cost-Volume-Profit analysis	235	51.2	361	44.1
(7) Contribution margin analysis	218	47.5	326	39.9
(8) Cost behaviors analysis	206	44.9	305	37.3
(9) Transfer pricing	190	41.4	272	33.3
			273	
<u>Quantitative methods</u>				
(1) Inventory control	351	76.5	477	58.3
(2) Decision tree analysis	62	13.5	97	11.9
(3) Network analysis	36	7.8	63	7.7
(4) Regression analysis	42	9.2	60	7.3
(5) Learning curve	47	10.2	53	7.0
(6) Linear Programming	37	8.1	49	6.0
			50	
<u>Techniques under current manufacturing environment</u>				
(1) Productivity measures	277	49.5	306	37.4
(2) Analysis of the cost of quality	114	24.8	139	17.0
(3) Target costing	80	17.4	118	14.4
(4) Activity costing	61	13.3	92	11.2
(5) Product life-cycle costing	14	3.1	20	2.4

Source: Isai, W. (1995) *An Investigative Study of Management Accounting Education and Practices in Taiwan*.
Wu, F. H., J. Kang, J., et al. (1997). *Financial and Management Accounting Practices in Taiwan* in N. Baydoun, A. Nishimura, and R. Willett, *Accounting in the Asia Pacific Region*, John Wiley & Sons, 1997: 253ff.

TABLE 4
Management Accounting Practices in Korea

Items of investigation	Number of firms adopted the method	Ratio of adopted firm
<u>Cost management technique</u>		
(1) Standard costing	51	44.3
(2) Target costing or Cost design	45	39.1
(3) Budget system	19	16.5
<u>Overhead allocation basis</u>		
(1) Direct labor	43	43.4
(2) Machine hour	6	6.1
(3) Material	10	10.1
(4) Product Unit	12	12.1
(5) Combination	25	25.3
(6) Others	3	3
<u>Basis for pricing</u>		
(1) Variable cost	62	55.0
(2) Absorption cost	50	45.0
(3) Others	3	2.6
<u>Capital budgeting techniques</u>		
(1) Payback period	34	31.5
(2) Internal Rate of Return	27	25.0
(3) Net present value	6	5.6
(4) Accounting rate of return	23	21.3
(5) Subjective judgment	16	14.8
(6) Others	2	1.9
<u>Key division performance measure</u>		
(1) Return on investment	5	4.9
(2) Return on Sales	47	45.6
(3) Profit	9	8.7
(4) Budget vs. Actual	31	30.1
(5) Value added	8	7.8
(6) Others	2	1.9

Source: Ahn, T. S. and C. H. Lee (1994). *Effects of Manufacturing Environment Changes on Cost Management Practices*. Korean Accounting Journal in N. Baydoun, A. Nishimura, and R. Willett, *Accounting in the Asia Pacific Region*. John Wiley & Sons, 1997: 228ff.

In Singapore, business budget, long term planning, capital budget, and cash budget are widely practiced. The spread rate of break-even point analysis, capital return rate, and payback period method is comparatively highly ranked. It is noted that the rate of present value method is 51 %. According to Ghosh's survey (Ghosh & Chan, 1997), local medium-sized enterprises adopt the same advanced methods as Japanese and multi-national ones. In Hong Kong, where management accounting has been profusely discussed during the past decade, the spread rate of cash budget and capital budget is high, and generally performance evaluation management is exercised through the monthly comparison of budget and actual result. The budget control system in Hong Kong is as complicated as in the West. However, linear programming and estimate prediction connected to probability are hardly used (Chan et al., 1997).

TABLE 5
Management Accounting Practices in Singapore

Items of investigation	Execution rate %
Operating budget	95
Long term plan	68
Cash budget	75
Break even point analysis	55
Standard costing	
1 for management control	16
2 for partial usage	32
Return on Capital	64
Capital budget	82
Payback period	69
Present value method	51

Source: MacGreror, A., M. Hossain, et al. (1997). *Accounting in Malaysia and Singapore* in N. Baydoun, *Accounting in the Asia Pacific Region*. John Wiley & Sons, 1997: 108-110.

In these four countries, which belong to NIES, the traditional management accounting (in particular budget control) spreads widely. However, the quantitative and information management accounting and the integrated management accounting have only recently begun to be introduced simultaneously under influence of Western and Japanese multinational enterprises. In other words, on the basis of management accounting at the second development stage, these nations and areas have established the advanced management accounting systems. Their introduction from overseas accompanies the acceptance of direct investment and multinational enterprises from the West and Japan and development of joint ventures during the past twelve years.

In contrast to the development of management accounting in the NIES, management accounting in some countries of ASEAN is still in drifting management, since there are a lot of medium and small-sized businesses and *guanxi* (personal relationship) management is overwhelming. However, multinational enterprises came positively into some ASEAN countries from 1980s to 1990s in the same way we saw in the NIES. Local subsidiary enterprises adopt the traditional management accounting, or the quantitative management accounting, although few. This is owing to the influence of their parent companies.

In Brunei, large foreign multinational enterprises draw up management accounts reports once every quarter of the year, prepare annual budget, production budget, cost budget, and cash budget, and make capital budget in case of expansion of enterprise and new investment. Standard costing and cost variance analysis are used broadly for cost management. In Malaysia, the enterprises under the influence of American multinational enterprises vigorously practice American management accounting. In particular, capital budget is popular, and the payback period method and the present value method are adopted by a few as a method of investment decision making. However, activity-based costing and cost design are hardly practiced (MacGregor et al., 1997).

Philippine management accounting is also influenced by American multinational enterprises. Its popular form is budget, inventory management and standard costing (Diga, 1997). In Thailand, management accounting has not developed fully, since the scale of the domestic enterprises is small, and Buddhism's influence is strong. Recently, the budget system begins to spread under the influence of multinational enterprises (Hossain & Adams, 1997). In Indonesia, the own development of management accounting by multinational enterprises is observed. However, because there are a lot of medium and small-sized businesses and their management idea is conservative, management accounting is not generally advanced (Diga & Yunus, 1997).

In ASEAN countries, the amount disbursed for the research and development of advanced management accounting systems does not match the benefits to the domestic enterprises, particularly the medium and small-sized ones. Therefore, a double form of advanced management accounting and backward one has taken shape between multinational enterprise and domestic firms in some ASEAN.

Finally, we should consider a problem, which has been left untouched: what is the management accounting system now of the countries that used to adopt the planned socialist economics? China has introduced capitalist accounts and advanced management accounting positively with the advance of switch over from planned to market economy.

TABLE 6
Management Accounting Practices in China

Items of investigation	Ratio of adoption %	Item of Investigation	Ratio of adoption %
1 Sales revenue analysis	over 65	10 Cash flow table	11
2 Administrative expenses analysis	over 65	11 Cost rejection method	17
3 Accounts receivable-trade control sheet	over 65 59	12 Activity- Based Costing	7
4 Establishment of limited departmental expense	68	13 Flexible budget	3
5 Individual management of groped expense	67	14 Zero-base budget	9
6 Break even point analysis	58-68	15 Rolling budget	10
7 Cost prospect	58-68	16 Return on Investment	7
8 Market prospect		17 Residual profit	7
9 Basis of Budget control	47	18 Economic leverage	19
(1) Target profit	46	19 Profit sensibility analysis	7
(2) Sales	36	20 Linear programming	14
(3) Production		21 Network chart	17
		22 Decision trees analysis	

Source: Meng, F. L., and Wang, S. C. (1997). *Report on Accounting Role of and Effects on Decision- making and Management Control. Accounting Research (Chinese)*, 11 November: 37.

According to a questionnaire, (Meng & Wang, 1997) Chinese management accounting lies in the stage of the drifting management and the traditional management accounting. A difference in development stages exists between large cities and the provinces: some big enterprises generally adopt the traditional management accounting in the large cities, while small and medium- sized enterprises utilize financial accounts to manage business in the local towns.

In contrast to the Chinese case, Vietnamese firms had been influenced by French chart of accounts (*plan comptable*) before the Second World War, and by a type of standard accounts chart from former Soviet Union which was introduced along with a change in social system after the war. Thus, we find the double structure of the Soviet Union accounting and French chart of accounts. Recently, the Vietnamese government has also encouraged joint ventures with foreign capital and has invited multinational enterprises from the West in the fashion of China when it started shifting to a market economy. As a result, her management accounting is shifting from the regulated uniform accounting to the American type of accounting (Aleonard, 1997). Most old socialist nations, which have introduced the market economy and entered into the international markets, are currently encouraging the adoption of capitalist management accounting.

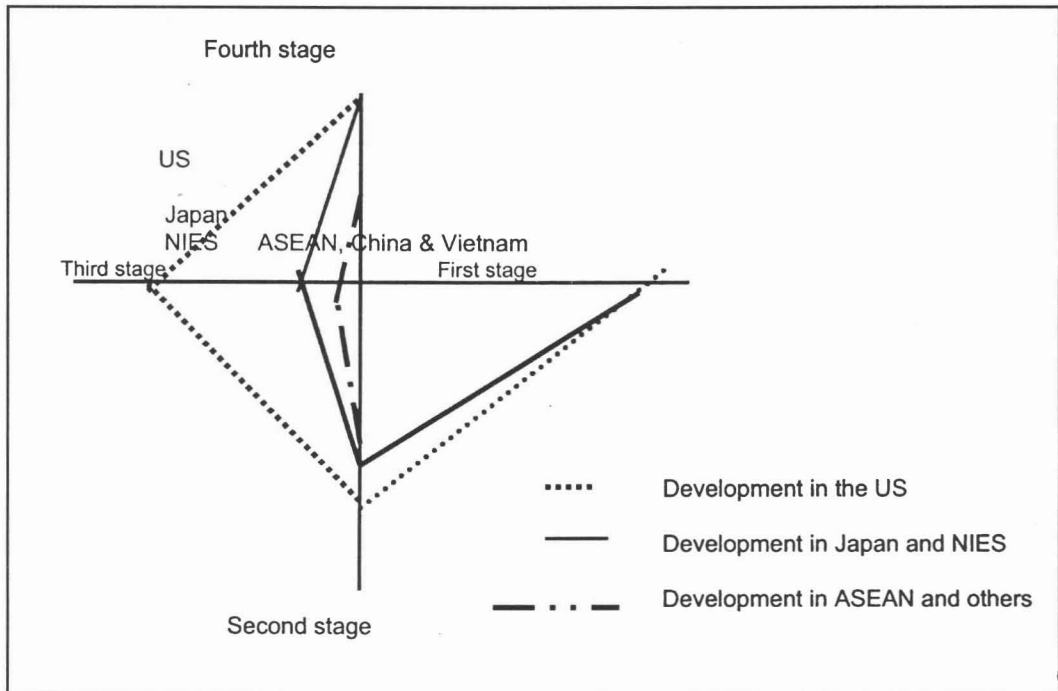
In this section, the present situation of management accounting in some Asian countries was roughly sketched. The following points can be concluded from this sketch. It follows from examining several Asian development of management accounting, that the NIES have followed the Japanese advanced management accounting, and some ASEAN countries. China and Vietnam are continuing to seek the NIES' management accounting. This situation may be termed the 'wild geese flight' accounting model. It is prospective from the above that the transfer of the Japanese management accounting to Asian nations would enhance this model, causing the Asian economy to grow continually. However, Asian international finance began to be upset with the devaluation of the Thai baht, and the stable manufacturing economy which Asian countries had done their best to establish for many years has also begun to be stagnant. Therefore, the debate regarding management accounting being connected directly with the production economy has taken second place behind the finance crisis.

TRANSFER OF JAPANESE TYPE OF MANAGEMENT ACCOUNTING

If we regard American management accounting as the ideal and most advanced form, we can illustrate the accounting development of each Asian country as given by the relevant arrow in Figure 1. This is based on the thinking behind the development of management accounting into the four stages discussed earlier.

It is clear from the previous section that the development of management accounting in Asia reflected the growth of the Asian economy and was also at the same time the lever, which promoted the growth of the Asian economy. Had the Asian countries not faced the currency crisis, the transfer of the Japanese management accounting to Asia would have continued to promote the physical production economy and strengthened its export orientation more positively, but we must pay attention to some problems which they have raised as well as did the model of wild geese flight. In this sense, the depiction of the Japanese management accounting development given in the figure serves as a good example for teaching Asian countries how not to behave.

FIGURE 1



After the Second World War, the Japanese government introduced the disclosure principle from the West and established it in the accounting legal system instead of the past closed type of accounting system. Business Accounting Principles in 1949, the revision of the commercial code and audit standards in the 1950s, and the establishment of public certificated accountant system embodied the principle of disclosure. In the society organized on the basis of this principle, the person who discloses information ought to make accountability clear through the disclosure, and the one who accepts the disclosed information must simultaneously establish self-responsibility through it.

It is anticipated that in a civil society based on the disclosure principle each citizen establishes self-responsibility as an economic unit to solve social problems before entrusting their solution to the state power and law. Many cases of Japanese corporations criticized as dishonest and unfair recently by the international community were contrary to the disclosure principle. It seems reasonable to conclude that the disclosure principle, although it was formed in the legal system after the war, would not yet have taken root in social life. The contradiction between the legal system of disclosure and its practice is found in Japan.

As mentioned above, the Japanese type of management and management accounting were noticed because of its integration of low cost and high quality, and feed forward control and market strategy. This was a result of close cooperation between managers and workers who tied efficiency together with effectiveness. Simultaneously, it brought the fruit of preventive and proactive management control that meant the advance to feed forward from feedback control. This feed forward management system depends not only on the functioning of management accounting itself, but also on the stratified and wide cooperation of managers, engineers, workers and others. Moreover, their ideas and working attitudes have been deep-rooted in the market strategy.

We should return to the main subject: how has this new management accounting (cost design) been related to disclosure in the Japanese economy? In Japan, the establishment of individual responsibility has been weak among company, employer and employee in both the international community and the domestic society, while the rationalization of company went well, thanks to the strong cooperation, profitability rose, and employees could have their share. In other words, there has been built a closed society in which each corporation and individual is not active with self-responsibility in the international society. Thus, the Japanese society was immature in terms of coexisting equally and intelligibly with others in the international markets. Though the disclosure principle was established as a regulated system after the Second World War, Japanese way of cooperation system connected to management accounting has been a little stripped of its materialization in real life. As a result, many international scandals involving disclosure have occurred and Japanese companies have been criticized. This may be related to the fact that the calculation rule of commercial law became more dominant than the business accounting principles from the latter half of 1960s.

It is certain from the Japanese experience that the Japanese type of integrated management accounting may play a role in making the base of open and equal society useless at times where the integrated management accounting is transferred unconditionally to Asian countries in which big enterprises tie more strongly and closely with government. Asian countries may be isolated from a world based on the disclosure principle, and owing to promoting the Asian currency crisis, their closed systems may be criticized by some international economic organs.

In this sense, each Asian country must recognize the close relationship between the economic units' accountability and the advanced management accounting when introducing activity based costing and cost design. How the integrated management accounting is established under the society, in which the accountability of enterprise and its constituents takes root, is a problem awaiting solution in the international society. This is also a problem of restructuring of the Japanese type of management accounting. In other words, it is not good for Japanese enterprises to merely push the Japanese type of cooperation system. Japanese corporations should be aware of the importance of accountability, connect it to the advanced management accounting, and reconstruct an internationally acceptable advanced management accounting. Business management involving management accounting in the Honda Motor Company is a case to which attention should be paid in pointing out the thinking behind such a course.

Another problem relating to Asian characteristics is that Asian countries have participated in the international competition of integration of high quality and low cost by learning the traditional management accounting (budget control and standard costing) as the sole support method. Consequently, they must strengthen cost management and intensify labor productivity in order to guarantee quality to be competitive in international markets. They have done their best to have a price advantage in the international markets by depending only on the traditional management accounting and thorough cost-down methods, while big enterprises in the U.S.A. and Japan have used the activity-based costing and cost design, or target costing to integrate low cost with high quality, and conquer the world markets. In Asian factories, cheaper work force has had priority over the integrated management accounting.

Japanese enterprises have proactively and preventively processed works without defects under the feed forward - cooperative type of management. However, in Asian countries they are repeatedly repaired reactively by using feedback control method (a simple method

to return to a stage of the front with pushing-out system). This way is supported by cheap work forces. A big difference in product superiority occurs between Japan and some Asian countries. – Consequently, most Asian countries have more difficulty than Japan in terms of establishing domestic consumption markets because of low wage and severe cost-down.

As mentioned above, Asian way has continuously reproduced the economic structure depending on export. Moreover, the accumulated wealth was invested in capital goods and real estate, and the asset-inflated economy invited the finance crisis which caused a chain reaction in Asian countries. Thus, we should clarify the characteristics of Japanese type of management accounting in relation to Asian economy and fully recognize the interrelationship among disclosure systems, accountability and management accounting, when we discuss the Japanization of – management accounting in Asia.

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