

Prices Policy
Accounting Methodology and
Corporate Financial Viability

M. SHAMSUL HAQUE

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An Empirical Study

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INSTITUTE OF BUSINESS ADMINISTRATION
UNIVERSITY OF DHAKA

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*To My Grand Mother (Late)
and Mother for Their Loving
Care and Inspiration for
Higher Education*

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Among other things dissemination of knowledge through publication has to be put in high priority by academics and educational institutions aiming to become more relevant to society. This is of particular importance in countries such as Bangladesh which along with many other things are dependent on foreign publications. It is therefore, a matter of great pleasure for me to introduce this book which is the outcome of the authors' Ph.D. dissertation and some works done thereafter. Since research works at that level are designed to extend the boundaries of knowledge I am sure this publication will make valuable contribution specially in the field of accounting, finance and public policies affecting the growth and operation of business enterprises.

Until recently financial side of economic activities did not receive adequate attention from policy makers, particularly in developing countries. Scarcity of resources and our dependence on outside assistance has been directing the attention of our planners and decision makers in a manner that left many interrelated matters such as inflation, accounting, taxes and financing relatively unnoticed. The result has been that distorting measure of performance is used leading to misallocation of resources, jeopardising the financial viability of enterprises, particularly of those in the public sector in Bangladesh. This has been demonstrated by the author in using earnings measured on a cashflow basis as the most important, relevant and valid criteria of financial viability in a regime of rising relative prices, conventional accounting, taxes and price control.

Although the use of 'cash flows' is correctly emphasised in investment decision making even in countries like Bangladesh, surpri-

singly no attempt is made to relate the same in expost measurement of performance. Dr. Haque's book contains analyses and evidences as to how managers in developed countries have learnt their lessons under conditions of explosive inflationary environment in the seventies and has learnt to place emphasis on the use of economic (real) income rather than accounting profit in measuring performances.

I congratulate the author for bringing out this publication which I hope will satisfy the need for financial decision makers in Bangladesh and elsewhere.

Muzaffer Ahmad

Professor & Director

PREFACE

In modern times specialisation has led to increased efficiency and sophistication in many fields of human endeavour including many areas of academic disciplines. Advantage of such developments are also known to be counterbalanced to some extent by reduced communication and understanding between the areas of specialisation. This book deals with something like the above situation arising out of the operation of a Prices Policy using Conventional Accounting Methodology in order to attain certain socio-economic objectives in the U.K. The book is primarily based on my Ph.D. thesis and covers problems, analyses and evidences that cross the boundaries of economics, accounting, finance and public policy.

Inflation, conventional accounting and public intervention in economic activities specially in the industry sector are also commonplace things in developing countries. The book also contains about one and a half chapter on Bangladesh to demonstrate the universality of the problem and the tools of analysis with special reference to public sector enterprises. Lessons of the study presented in this book are that unless important interconnections between relevant variables are correctly appreciated objectives of policy prescriptions cannot be achieved. It is hoped that the book will make some contribution in emphasising the need for multi-disciplinary approach as well as providing materials for facilitating such understanding by policy makers at both micro and macro-levels.

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M. Shamsul Haque

June 1, 1983

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