# **Brief contents**

Preface	xiii
Guided tour	xvii
Acknowledgements	xix
Abbreviations	XX
Part 1 INTRODUCTION TO ACCOUNTING	1
1 The accounting world	2
2 Accounting rules and regulations	22
Part 2 FINANCIAL ACCOUNTING	45
3 Recording data	46
4 Sole trader accounts	73
5 Company accounts	103
6 Other entity accounts	126
7 Cash flow statements	145
Case studies	169
Part 3 FINANCIAL REPORTING	177
8 The annual report	178
9 The annual accounts	195
10 Interpretation of accounts	213
11 Contemporary issues	249
Case studies	263
Part 4 MANAGEMENT ACCOUNTING	269
12 Foundations	270
13 Direct costs	284
14 Indirect costs	300
15 Budgeting	324
16 Standard costing	347
17 Contribution analysis	371
18 Decision making	396
19 Capital investment	419
20 Emerging issues	445
Case studies	471
Appendices	477
Index	513

# Contents

xiii
xvii
xix
xx

### Part 1 **INTRODUCTION TO ACCOUNTING**

# 1 The accounting world

About this chapter	3
Learning objectives	3
Why accounting is important	3
Nature and purpose	4
Historical development	5
Branches	7
The accountancy profession	12
Public and private entities	14
Questions you should ask	18
Conclusion	18
Key points	19
Check your learning	20
News story quiz	20
Tutorial auestions	21

# 2 Accounting rules and regulations

About this chapter	22
Learning objectives	23
Why this chapter is important	23
The need for rules	23
Conventional accounting rules	25
Sources of authority	30
Companies Act 2006	31
UK Accounting Standards	33
International Accounting Standards	35
An accounting framework	36
Questions you should ask	39
Conclusion	40
Key points	40
Check your learning	41
News story quiz	41
Tutorial questions	42

#### Part 2 **FINANCIAL ACCOUNTING**

# **3 Recording data**

About this chapter	46
Learning objectives	47
Why this chapter is important	47
The accounting equation	47
Double-entry book-keeping	50
Working with accounts	51
A ledger account example	56
Balancing the accounts	57
The trial balance	59
Trial balance errors	62
Questions you should ask	63
Conclusion	64
Key points	65
Check your learning	65
News story quiz	66
Tutorial questions	66
4 Sole trader accounts	73

About this chapter	73
Learning objectives	74
Why this chapter is important	74
Preparing basic financial statements	74
Year end adjustments	78
Stock	79
Depreciation	80
Accruals and prepayments	82
Bad and doubtful debts	84
A comprehensive example	86
Accounting defects	86
Questions you should ask	91
Conclusion	91
Key points	92
Check your learning	92
News story quiz	93
Tutorial questions	93
5 Company accounts	103

About this chapter	103
Learning objectives	104

Why this chapter is important
Limited liability
Structure and operation
The profit and loss account
The balance sheet
A comprehensive example
Questions you should ask
Conclusion
Key points
Check your learning
News story quiz
Tutorial questions

#### 6 Other entity accounts

About this chapter	126
Learning objectives	127
Why this chapter is important	127
Manufacturing accounts	128
Service entity accounts	132
Not-for-profit entity accounts	136
Government accounts	138
Questions you should ask	140
Conclusion	140
Key points	141
Check your learning	142
News story quiz	142
Tutorial questions	143

### 7 Cash flow statements

About this chapter	145
Learning objectives	146
Why this chapter is important	146
Nature and purpose	146
Preparation	147
FRS 1 presentation	153
IAS 7 format	158
Questions you should ask	161
Conclusion	161
Key points	161
Check your learning	162
News story quiz	163
Tutorial questions	163

# **Case studies**

Preparation of financial statements	169
Accounting policies	171
Cash flow statements	174

#### Part 3 **FINANCIAL REPORTING** 8 The annual report About this chapter Learning objectives Why this chapter is important Overview Introductory material Corporate reporting Shareholder information Questions you should ask Conclusion Key points Check your learning News story quiz Tutorial questions

# 9 The annual accounts 195

About this chapter	195
Learning objectives	196
Why this chapter is important	196
Setting the scene	197
Consolidated income statement	199
Statement of recognized income and expense	201
Consolidated balance sheet	202
Consolidated cash flow statement	204
Notes to the financial statements	205
Independent auditor's report	206
Periodic summary	208
Questions you should ask	209
Conclusion	210
Key points	210
Check your learning	211
News story quiz	211
Tutorial questions	212

# 10 Interpretation of accounts

About this chapter	213
Learning objectives	214
Why this chapter is important	214
Nature and purpose	215
Procedure	217
Ratio analysis	221
Liquidity ratios	222
Profitability ratios	223

324

Efficiency ratios
Investment ratios
An illustrative example
Questions you should ask
Conclusion
Key points
Check your learning
News story quiz
Tutorial questions
Appendix: Summary of the main ratios

249

269

270

# **11 Contemporary issues**

About this chapter	249
Learning objectives	250
Why this chapter is important	250
Overview	251
IASB projects	252
ASB projects	253
A conceptual framework	254
Revenue recognition	256
Auditors	258
Questions you should ask	260
Conclusion	260
Key points	261
Check your learning	261
News story quiz	262
Tutorial questions	262

# **Case studies**

The communication of financial information	263
Interpretation of accounts	266

#### Part 4 MANAGEMENT ACCOUNTING

# **12 Foundations**

About this chapter	270
Learning objectives	271
Why this chapter is important	271
Nature and purpose	271
Historical review	273
Main functions	274
Behavioural considerations	278
Questions you should ask	280
Conclusion	281
Key points	281
Check your learning	282
News story quiz	282
Tutorial questions	283

13 Direct costs	284
About this chapter	284
Learning objectives	285
Why this chapter is important	285
Responsibility accounting	286
Classification of costs	287
Direct materials	288
Direct labour	294
Other direct costs	295
Questions you should ask	295
Conclusion	296
Key points	296
Check your learning	297
News story quiz	297
Tutorial questions	298
14 Indirect costs	300

About this chapter	300
Learning objectives	301
Why this chapter is important	301
Production overhead	301
A comprehensive example	309
Non-production overhead	311
Predetermined absorption rates	312
Activity-based costing	314
Questions you should ask	317
Conclusion	317
Key points	318
Check your learning	319
News story quiz	320
Tutorial questions	320

# **15 Budgeting**

Learning objectives	325
Why this chapter is important	325
Budgeting and budgetary control	325
Procedure	327
A comprehensive example	331
Fixed and flexible budgets	336
Behavioural consequences	338
Questions you should ask	340
Conclusion	340
Key points	341
Check your learning	341
News story quiz	342
Tutorial questions	342

16 Standard costing	347
About this chapter	347
Learning objectives	348

Why this chapter is important
Operation
Performance measures
Cost variances
A comprehensive example
Sales variances
Operating statements
Questions you should ask
Conclusion
Key points
Check your learning
News story quiz
Tutorial questions

# Contribution analysis

About this chapter	371
Learning objectives	372
Why this chapter is important	372
Marginal costing	372
Contribution	374
Assumptions	375
Format	376
Application	377
Charts and graphs	379
Reservations	384
Formulae	385
Limiting factors	388
Questions you should ask	391
Conclusion	391
Key points	392
Check your learning	392
News story quiz	393
Tutorial questions	393

# **18 Decision making**

About this chapter	396
Learning objectives	397
Why this chapter is important	397
Nature and purpose	397
Cost classification	400
Types of decision	402
Questions you should ask	412
Conclusion	413
Key points	413
Check your learning	414
News story quiz	414
Tutorial questions	415
Tutorial questions	415

# **19 Capital investment** 419

About this chapter	419
Learning objectives	420
Why this chapter is important	420
Background	420
Main methods	421
Net cash flow	433
Sources of finance	435
Questions you should ask	438
Conclusion	439
Key points	439
Check your learning	440
News story quiz	440
Tutorial questions	441

# 20 Emerging issues

About this chapter	445
Learning objectives	446
Why this chapter is important	446
The business environment	446
Management accounting changes	448
Selected techniques	449
Questions you should ask	467
Conclusion	467
Key points	468
Check your learning	469
News story quiz	469
Tutorial questions	470

# **Case studies**

Fixed and flexible budgets	471
Standard cost operating statements	473
Pricing	475

# Appendices

1 Further reading	477
2 Discount table	478
3 Answers to activities	479
4 Answers to tutorial questions	483

Index