Contents in brief

Preface to the fourth edition xx
Guided tour of the book xxvi

FINANCIAL ACCOUNTING

Part 1  A conceptual framework: setting the scene 3
1  Who needs accounting? 4
2  A systematic approach to financial reporting:
   the accounting equation 26
3  Financial statements from the accounting equation 50
4  Ensuring the quality of financial statements 73

Part 2  Reporting the transactions of a business 101
5  Accounting information for service businesses 102
6  Accounting information for trading businesses 131

Part 3  Recognition in financial statements 157
7  Published financial statements 158
8  Non-current (fixed) assets 196
9  Current assets 234
10  Current liabilities 263
11  Provisions and non-current (long-term) liabilities 282
12  Ownership interest 304

Part 4  Analysis and issues in reporting 333
13  Ratio analysis 334
14  Reporting corporate performance 361
15  Reporting cash flows 393

MANAGEMENT ACCOUNTING

Part 5  Setting the scene and defining the basic tools of management accounting 421
16  Functions of management accounting 422
17  Classification of costs 447
18  Product costs: materials, labour and overheads 469
Part 6  Product costs and stock valuation  505
19  Job costing  506

Part 7  Decision making  529
20  Breakeven analysis and short-term decision making  530

Part 8  Planning and control  559
21  Preparing a budget  560
22  Standard costs  598
23  Performance evaluation and feedback reporting  628

Part 9  Capital investment appraisal and business strategy  651
24  Capital investment appraisal  652
25  Business strategy and management accounting  682

Financial accounting terms defined  G1
Management accounting terms defined  G11

Appendices
I  Information extracted from annual report of Safe and Sure plc, used throughout Financial Accounting  A1
II  Solutions to numerical and technical questions in Financial Accounting  A15
III  Solutions to numerical and technical questions in Management Accounting  A39

Index  I1
Contents

Preface to the fourth edition xx
Guided tour of the book xxvi
Publisher’s acknowledgements xxviii

FINANCIAL ACCOUNTING

Part 1 A conceptual framework: setting the scene

Chapter 1 Who needs accounting? 4
Real World Case 4
Learning outcomes 5
1.1 Introduction 5
1.2 The development of a conceptual framework 7
1.3 Framework for the preparation and presentation of financial statements 8
1.4 Types of business entity 8
1.5 Users and their information needs 12
1.6 General purpose or specific purpose financial statements? 17
1.7 Stewards and agents 17
1.8 Who needs financial statements? 18
1.9 Summary 19
Further reading 20
Questions 20
A Test your understanding 20
B Application 21
C Problem solving and evaluation 21
Activities for study groups 22
Notes and references 22
Supplement: Introduction to the terminology of business transactions 24
Test your understanding 25

Chapter 2 A systematic approach to financial reporting: the accounting equation 26
Real World Case 26
Learning outcomes 27
2.1 Introduction 28
2.2 The accounting equation 28
2.3 Defining assets 29
2.4 Examples of assets 31
2.5 Recognition of assets 33
2.6 Defining liabilities 35
2.7 Examples of liabilities 36
2.8 Recognition of liabilities 37
2.9 Defining the ownership interest 39
2.10 Recognition 39
2.11 Changes in the ownership interest 39
2.12 Assurance for users of financial statements 41
2.13 Summary 42

Further reading 44

Questions 44
A Test your understanding 44
B Application 45
C Problem solving and evaluation 45
Activities for study groups 46
Notes and references 46

Supplement: Debit and credit bookkeeping 47
Test your understanding 49

Chapter 3 Financial statements from the accounting equation 50
Real World Case 50
Learning outcomes 51

3.1 Introduction 51
3.2 Who is in charge of the accounting rules? 52
3.3 The accounting period 52
3.4 The balance sheet 53
3.5 The income statement (profit and loss account) 57
3.6 The cash flow statement 59
3.7 Usefulness of financial statements 62
3.8 Summary 63

Questions 63
A Test your understanding 63
B Application 64
Activities for study groups 65

Supplement: Using the accounting equation to analyse transactions 66
Test your understanding 72

Chapter 4 Ensuring the quality of financial statements 73
Real World Case 73
Learning outcomes 74

4.1 Introduction 75
4.2 Qualitative characteristics of financial statements 75
4.3 Measurement in financial statements 79
4.4 Views on prudence 82
### Part 2 Reporting the transactions of a business

#### Chapter 5 Accounting information for service businesses
- Learning outcomes 103
  - Introduction 103
  - Analysing transactions using the accounting equation 104
  - Illustration of accounting for a service business 107
  - A process for summarising the transactions: a spreadsheet 111
  - Financial statements as a means of communication 113
  - Summary 116
- Questions 116
  - Test your understanding 116
  - Application 117

**Supplement:** Recording transactions in ledger accounts – a service business 118
- Test your understanding 130

#### Chapter 6 Accounting information for trading businesses
- Learning outcomes 132
  - Introduction 133
  - Goods purchased for resale 133
  - Manufacturing goods for resale 135
  - Illustration of accounting for a trading business 138
  - A process for summarising the transactions: a spreadsheet 142
  - Financial statements of M. Carter, wholesaler 144
  - Summary 146
- Questions 147
  - Test your understanding 147
  - Application 148

**Supplement:** Recording transactions in ledger accounts: a trading business 149
- Test your understanding 156
Part 3 Recognition in financial statements

Chapter 7 Published financial statements

Real World Case 158
Learning outcomes 160
7.1 Introduction 160
7.2 International influences 161
7.3 Accounting framework 162
7.4 Balance sheet 166
7.5 Income statement (profit and loss account) 171
7.6 Cash flow statement 173
7.7 Group structure of companies 177
7.8 Group financial statements 179
7.9 Beyond the annual report 182
7.10 Summary 186
Further reading 187
Useful websites 187
Questions 187
A Test your understanding 187
B Application 187
C Problem solving and evaluation 189
Activities for study groups 189
Notes and references 190

Supplement 7.1: Information to be presented on the face of the Balance Sheet, as required by IAS 1 191
Supplement 7.2: Balance sheet format 1, as prescribed by the Companies Act 1985 192
Supplement 7.3: Information to be presented on the face of the Income Statement as required by IAS 1 194
Supplement 7.4: UK Companies Act: Profit and loss account format 1 – list of contents 195

Chapter 8 Non-current (fixed) assets

Real World Case 196
Learning outcomes 197
8.1 Introduction 198
8.2 Definitions 198
8.3 Recognition 200
8.4 Users’ needs for information 202
8.5 Information provided in the financial statements 203
8.6 Usefulness of published information 205
8.7 Depreciation: an explanation of its nature 206
8.8 Reporting non-current (fixed) assets and depreciation in financial statements 211
8.9 Summary 219
Chapter 11 Provisions and non-current (long-term) liabilities

11.1 Introduction 284
11.2 Users’ needs for information 285
11.3 Information provided in the financial statements 285
11.4 Provisions 288
11.5 Deferred income 291
11.6 Non-current (long-term) liabilities 292
11.7 Summary 298

Chapter 12 Ownership interest

12.1 Introduction 306
12.2 Definition and recognition 306
12.3 Presentation of ownership interest 307
12.4 Additional primary financial statements 314
12.5 Users’ needs for information 315
12.6 Information provided in the financial statements 315
12.7 Dividends 319
12.8 Issue of further shares on the Stock Exchange 320
12.9 Summary 323

Supplement: Bookkeeping entries for accruals 279
Test your understanding 281
Contents

15.6 Interpretation of cash flow information 408
15.7 Illustration 408
15.8 Summary 413
Further reading 413
Questions 413
A Test your understanding 414
B Application 414
C Problem solving and evaluation 415
Notes and references 417

MANAGEMENT ACCOUNTING

Part 5 Setting the scene and defining the basic tools of management accounting

Chapter 16 Functions of management accounting 422
Real World Case 422
Learning outcomes 423
16.1 Introduction 424
16.2 Meeting the needs of internal users 426
16.3 Management functions 427
16.4 Role of management accounting 432
16.5 Judgements and decisions: case study illustrations 435
16.6 The language of management accounting 440
16.7 Summary 441
Further reading 441
Questions 441
A Test your understanding 441
B Application 442
C Problem solving and evaluation 443
Cases for study groups 446
Notes and references 446

Chapter 17 Classification of costs 447
Real World Case 447
Learning outcomes 448
17.1 Definition of a cost 448
17.2 The need for cost classification 449
17.3 The meaning of ‘activity’ and ‘output’ 449
17.4 Variable costs and fixed costs 450
17.5 Direct costs and indirect costs 454
17.6 Product costs and period costs 456
17.7 Cost classification for planning, decision making and control 458
17.8 Cost coding 461
17.9 Cost selection and reporting 462
17.10 Summary 463
Further reading 464
Part 6 Job costs and stock valuation

Chapter 19 Job costing

Real World Case
Learning outcomes

19.1 Introduction
19.2 Job cost records: an illustration
19.3 Job costing: applying the accounting equation to transactions
19.4 Absorption costing and marginal costing
19.5 Moving forward
19.6 Summary

Questions
A Test your understanding
B Application
C Problem solving and evaluation
Cases for study groups
Notes and references

Part 7 Decision making

Chapter 20 Breakeven analysis and short-term decision making

Real World Case
Learning outcomes
# Contents

20.1 Introduction 532
20.2 Cost behaviour: fixed and variable costs 532
20.3 Breakeven analysis 537
20.4 Using breakeven analysis 540
20.5 Limitations of breakeven analysis 543
20.6 Applications of cost-volume-profit analysis 543
20.7 Cases in short-term decision making 545
20.8 Pricing decisions 550
20.9 Summary 552

Questions 553
A Test your understanding 553
B Application 554
C Problem solving and evaluation 555
Cases for study groups 556

## Part 8 Planning and control

### Chapter 21 Preparing a budget 560

Real World Case 560

Learning outcomes 561

21.1 Introduction 562
21.2 Purpose and nature of a budget system 562
21.3 Administration of the budgetary process 565
21.4 The benefits of budgeting 569
21.5 Behavioural aspects of budgeting 572
21.6 Approaches to budgeting 575
21.7 Practical example – development of a budget 577
21.8 Shorter budget periods 587
21.9 Summary 590

Questions 591
A Test your understanding 591
B Application 592
C Problem solving and evaluation 594
Cases for study groups 597

### Chapter 22 Standard costs 598

Real World Case 598

Learning outcomes 599

22.1 Introduction 600
22.2 Purpose of using standard costs 600
22.3 The level of output to be used in setting standards 601
22.4 The control process 602
22.5 Direct materials cost variance 603
22.6 Direct labour cost variance 605
22.7 Variable overhead cost variance 606
22.8 Fixed overhead expenditure variance 607
22.9 Case study: Allerdale Ltd 607
Chapter 25 Business strategy and management accounting

Real World Case
Learning outcomes
25.1 Introduction
25.2 Strategic management accounting
25.3 The just-in-time approach
25.4 Value chain analysis
25.5 Total quality management and cost of quality
25.6 Business process re-engineering
25.7 E-business and e-commerce
25.8 Summary
Further reading

Questions
A Test your understanding
B Application
C Problem solving and evaluation
Cases for study groups

Financial accounting terms defined
Management accounting terms defined

Appendices
I Information extracted from annual report of Safe and Sure Group plc, used throughout Financial Accounting
II Solutions to numerical and technical questions in Financial Accounting
III Solutions to numerical and technical questions in Management Accounting

Index