

ACCOUNTING FOR NON-ACCOUNTING STUDENTS

Eighth Edition

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**Financial Times
Prentice Hall**
is an imprint of

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Supporting resources

Visit www.pearsoned.co.uk/dyson to find valuable online resources:

Companion Website for students

- Multiple choice questions to help test your learning
- Extra question material
- Links to relevant sites on the web
- Glossary explaining key terms mentioned in the book

For instructors

- Complete, downloadable Lecturer's Guide
- PowerPoint slides that can be downloaded and used for presentations
- Answers to extra question material in the Companion Website
- Extra case studies and guidelines on using them with students

Also: The Companion Website provides the following features:

- Search tool to help locate specific items of content
- E-mail results and profile tools to send results of quizzes to instructors
- Online help and support to assist with website usage and troubleshooting

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Preface

Why study accounting?

This book provides a solid introduction to accounting for those students who are required to study it as part of a non-accounting course. It is also of benefit to those managers in business, government or industry whose work involves them in dealing with accounting information.

Non-accountants are often puzzled why they are required to take a course in accounting, and even more so when they have to take a demanding examination at the end of it. The fact is that these days, no matter what your job, you need to have some knowledge of accounting matters. The main reason for this is that for different specialists to talk to each other they have to speak in a language that everyone understands. In business (in its widest sense) that language is money and that happens to be the accountants' language. The use of a common language enables all the various activities that take place within a business to be translated into monetary terms and for all reports to be prepared on the same basis. So if you need to know what is going on in other departments (as you almost certainly will) you will find it much easier if you speak the language of accounting.

The book's purpose

The problem with many accounting textbooks is that they are written primarily for accounting students. As a result they go way beyond what a non-accountant needs. This book is different. The subject is not covered superficially but it avoids going into the technical detail that is of relevance only to accountants. Nevertheless, by the time you get to the end of the book you will have gained a perfectly adequate knowledge and understanding of accounting that will enable you to talk to accountants with great confidence and which will help you to do your job much more effectively.

Some guidance for lecturers

The book is divided into four parts. Part 1 introduces students to the world of accounting, Part 2 deals with financial accounting, Part 3 with financial reporting and Part 4 with management accounting.

As you will probably be aware, many further and higher education institutions now operate a modular structure for the delivery of their courses. This book is particularly useful if your own institution does the same. Some accounting syllabi for non-accounting students combine both financial accounting and management accounting in one module while others split them between separate modules. The book is designed so that it can easily be adapted irrespective of whether you combine them or split them.

It is highly unlikely, of course, that the contents of the book will match precisely the syllabus requirements of your own course. There are bound to be topics to which you give more or less emphasis and there will be others that are not covered at all in the book. Nevertheless, the book has now been widely used throughout the UK and in many

overseas countries for over 25 years. From the feedback that has been received the contents appear to continue to meet the main requirements of most introductory accounting courses for non-accounting students.

There is one topic, however, that splits opinion right down the middle: double-entry book-keeping. Some lecturers are absolutely convinced that non-accounting students need to have a grounding in this topic if they are to understand where the information comes from, what problems there are with it and how it can be used. Other lecturers are adamant that it is totally unnecessary for non-accounting students.

As opinion is so evenly divided on this subject we have decided to retain double-entry book-keeping in the main part of the book. If you do not include the topic in your syllabus it can be easily left out by skipping the whole of Chapter 3 (Recording data) and possibly parts of Chapter 4 (Sole trader accounts). You could then pick up the thread of the book in Chapter 5 (Company accounts) provided you are sure that your students know something about a trial balance, a profit and loss account, and a balance sheet.

In this edition we have taken the opportunity to revise and update the seventh edition. Two structural changes have been made to this edition:

- 1 The old Chapter 9 (Information disclosure) has been merged with the old Chapter 2 (Accounting rules) to become a new, largely rewritten Chapter 2 (Accounting rules and regulations).
- 2 The old Chapters 4 and 5 (Sole trader accounts and Last minute adjustments) have been combined to form a single chapter (the new Chapter 4 with the same title as the old one).

By their nature substantial additions and revisions have had to be made to two other chapters: the old Chapter 13 (Contemporary issues), and the old Chapter 22 (Emerging issues). It has not been too difficult to select contemporary financial issues for the new Chapter 11 because the various accounting bodies have a clearly established development programme.

It has proved much more difficult to select emerging management accounting issues for the new Chapter 20. Management accounting is not as fast moving as financial accounting and, as yet, there is no such body as a 'management accounting standards board' driving the discipline forward. The main source comes from accountants pursuing academic research in universities but as yet there is no consensus on what changes are needed. When preparing this chapter, therefore, we examined the syllabi of several accounting bodies and also took note of various suggestions made by reviewers. These two sources enabled us to select some likely emerging management issues over the next few years.

A new feature has been introduced into this edition: news clips. News clips are brief extracts or summaries of recent newspaper articles that are of relevance to the particular chapters in which they are placed. They are intended to demonstrate that the accounting matters discussed in the various chapters are not theoretical but that they are of practical importance and relevance in the real world.

The news stories introduced into an earlier edition at the beginning of each chapter have been replaced with more recent ones. As before, broad questions on each of these stories may then be found towards the end of the chapter. Students are strongly encouraged to have a go at answering these questions even though some of the issues covered may sometimes appear to be somewhat beyond non-accountants. However, it would be surprising if this were to be the case since most of them were first published in newspapers intended for a general audience.

As publicly traded companies in the European Union (EU) are now required to prepare their financial statements in accordance with International Accounting Standards (IASs) various amendments have had to be made throughout the text. This has caused a problem for a book aimed at non-accountants as financial statements have become more and more difficult to understand. However, strenuous attempts have been made to keep the text as simple and as relevant as possible.

An additional complexity is that non-listed companies in the UK can adopt UK accounting standards while listed companies must adopt international ones. A similar problem may arise in other EU countries if non-listed companies are allowed to adopt their own accounting standards.

This problem was particularly acute when preparing the cash flow chapter. So what we have done is to show how a simple cash flow statement may be prepared using both UK standards and IASs. As far as published accounts are concerned we have limited our discussion to IAS-prepared statements as these are of relevance to *all* EU-based students as well as to students based in other non-EU countries.

Some guidance for college and university students

If you are using this book as part of a formal course, your lecturer should have provided you with a work scheme. The work scheme will outline just how much of the book you are expected to cover each week. In addition to the work done in your lecture you will probably have to read each chapter at least twice.

As you work through a chapter you will come across a number of ‘activities’. Most of them require you to do something or to find something out. The idea of these activities is to encourage you to stop your reading of the text at various points and to think about what you have just read.

There are few right and wrong answers in accounting so we want you to gain some experience in deciding for yourself what you would do if you were faced with the type of issues covered in the activities.

You are also recommended to attempt as many of the questions that follow each chapter as you can. The more questions that you do, the more confident you will be that you really do understand the subject matter. However, avoid looking at the answers (there are some at the back of the book) until you are absolutely certain that you do not know how to do the question. If the answer is not at the back of the book, ask your lecturer to download it for you from the *Lecturer’s Guide*.

Some guidance for students studying on their own

If you are studying accounting without having the opportunity of having face-to-face tuition, we suggest that you adopt the following study plan.

- 1 Organize your private study so that you have covered every topic in your syllabus at least two weeks before your examination. A proven method is to divide the number of weeks (or perhaps days!) you have available by the number of topics. This gives you the *average* time that you should spend on each topic. Allow for some topics requiring more time than others but don’t rush though a topic just because you are behind your timetable. Instead, try to put in a few extra hours that week.
- 2 Read each chapter slowly. Be careful to do each activity and to work through each example. Don’t worry if you do not understand each point immediately. Read on to the end of the chapter.

- 3 Read the chapter again, this time making sure that you understand each point. If necessary, go back and re-read and repeat until you do understand the point.
- 4 Attempt as many questions at the end of each chapter as you can, but do not look at the answers until you have completed the question or you are certain that you cannot do it. The questions are generally graded so the more difficult ones come towards the end. If you can do them all without too much difficulty then you can move on to the next chapter with great confidence. However, before you do it is not a bad idea to re-read the chapter again.

More guidance for all students

At this early stage of your accounting career we want to emphasize that accounting involves much more than being good at doing simple arithmetic (contrary to popular opinion it is not highly mathematical). The solution to many accounting problems often calls for a considerable amount of personal judgement and this means that there is bound to be an element of subjectivity in whatever you decide to do.

The simplified examples used in this book illustrate some complicated issues and problems in the real world that are not easily solved. You should, therefore, treat the suggested answers with caution and use them as an opportunity to question the methodology adopted. This will mean that when you are presented with some accounting information in your job, you will automatically subject it (rightly) to a great deal of questioning. That is as it should be because, as you will shortly discover, if you were an accountant and you happened to be asked ‘*What do 2 + 2 make?*’ you might well reply by asking another question: ‘*What do you want it to make?*’

Puzzled? Intrigued? Then read on – and good luck with your studies.

An explanation

In order to avoid tedious repetition and tortuous circumlocution, the masculine pronoun has generally been adopted throughout this book. No offence is intended to anyone, most of all to our female readers, and we hope that none will be taken.