



• ATRILL'S •

# ACCOUNTING

FOR BUSINESS  
STUDENTS

ATRILL • McLANEY • HARVEY

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# ABOUT THE AUSTRALIAN AUTHOR



## **Emeritus Professor David Harvey**

After qualifying as an accountant in the United Kingdom, David began lecturing in 1971 at Portsmouth Polytechnic (now Portsmouth University) with a subsequent move to Plymouth Polytechnic (now the University of Plymouth) in 1977. During his time in the United Kingdom he developed a keen interest in curriculum development and teaching methods and was involved with the writing of several books with an open learning style, many of these in collaboration with Peter Atrill and Eddie McLaney. During this time he also completed a Masters degree in Managerial Financial Controls and a PhD in the areas of investment and financing decisions. This research work covered both traditional investment appraisal and corporate strategy.

In 1991 he moved to Australia to take up the position of Professor of Accounting and Head of the Centre for Accounting and Finance at the University of New England (Northern Rivers), which subsequently became Southern Cross University. In 1992 he became the Dean of the Faculty of Business and Computing, a position he held until 1996, before reverting to his Professorship. In 2000 he took up the position of the Dean of the Faculty of Commerce at the University of Southern Queensland. In 2001 the Faculty of Commerce was merged with the Faculty of Business and David became Dean of the enlarged Faculty of Business. David has had extensive experience in developing and teaching programs internationally. His most recent position was as Pro Vice-Chancellor (International Quality), a position he held from 2004 until his retirement in 2005.



# PREFACE

This new textbook is primarily targeted at undergraduate and postgraduate students of business-oriented programs who want a fairly comprehensive introduction to accounting.

The book aims to provide engaging and relevant content, something which we regard as critical to success for today's learners.

This first-edition textbook is the result of considerable review activity with user groups. The end product is a book which was designed for courses that require learners to be both preparers and users of financial statements. Courses of this nature require a balanced approach that is relevant to both students majoring in accounting and students of business generally. This book therefore aims to provide a comprehensive first course in accounting which will support students who wish to go on to an accounting major, and also those who plan to do other majors, or are studying general business.

A critical part of this is use of a first-principles approach to accounting, from which we can then move on to the actual recording process. This avoids creating the misconception that accounting is a mechanical process; rather it enables us to focus more on the importance of critical thinking and decision making. The inclusion of two chapters on what is essentially record keeping aims to provide students with a deeper understanding of how financial information is collected and communicated, while also identifying its limitations.

The emphasis of the book is clearly decision making. It uses a problem-solving approach and focuses on real-world business situations. A key objective throughout is to assist in the development of generic skills, including communication, teamwork, critical thinking, problem-based learning, ethics, self-management, planning and organisation. The book provides a range of activities which should help in the development of these generic qualities.

## Background

This book has its origins in *Accounting: An Introduction*, which has been through six editions, and which has been regularly reviewed and improved. This book will in future be published as *Accounting for Non-Specialists*. However, after considerable market research, it was agreed that the sixth edition, while more clearly targeting the non-specialist


market, was not satisfying all market needs. As a result, *Accounting for Business* was developed. This book builds on the eighth edition of a second British book by Peter Atrill and Eddie McLaney, namely, *Accounting and Finance: An Introduction*, and uses a considerable part of it.

Quite a lot of the coverage of *Accounting for Business* is common with the non-specialist book. However, it expands the content of most chapters, in order to provide a more comprehensive underpinning for all business students, and specifically for those who want to go on to an accounting major. Also, there has been a significant demand for content relating to the recording system, so two chapters have been added, covering journals and ledger accounts, and internal control and accounting systems in practice. In order to make room for the additional material, two chapters on finance, which are in the non-specialist book, have been omitted from the new textbook. The style of both books is very similar.

It is worth noting that the two British books which underpin this book, namely *Accounting and Finance for Non-Specialists* and *Accounting and Finance: An Introduction*, are in their tenth and eighth editions respectively. These books reflect many years of development in the UK, and share content where appropriate. In *Accounting for Business*, we have tried to ensure that the content reflects Australian needs and conditions, while also adding some new features. We have been working together on our Australian non-specialist book for many years and this is now in its seventh edition. Collaboration of this type has helped with the development of an international perspective on a range of issues which should provide benefit to students.

## Features

- ▶ Interspersed throughout each chapter are numerous activities, with at least one for every learning objective. These are relatively short 'quick-fire' questions of a type a lecturer might pose to students during a lecture or tutorial, and are intended to serve two purposes: to give readers the opportunity to check that they have understood the preceding section, and to encourage them to think beyond the immediate topic and make linkages to topics either previously covered or covered in the next section. An answer to each activity is



provided at the end of the chapter, to which readers should refer only after they have attempted the activity.

- ▶ At the end of each section, which covers a specific learning objective, there are several concept check questions. These are short multiple-choice questions which aim to provide you with a quick check of your understanding of the learning objective/section. The answers are at the end of the chapter.
- ▶ Towards the end of each chapter, but also at an appropriate point in some chapters, there is a self-assessment question or questions. These are much more demanding and comprehensive than the activities, in terms of both the breadth and the depth of the material they cover. As with the activities, it is important to make a thorough attempt at each question before referring to the solution. Solutions to these questions are available online.
- ▶ Discussion questions occur at the end of each chapter. These are relatively short, typically require a descriptive or analytical answer, and are intended to enable readers to assess their recollection and critical evaluation of the main principles in each chapter. They might be used as the basis for tutorial discussion.
- ▶ Application exercises are also positioned at the end of most chapters and these have been categorised as easy, intermediate or challenging. These are usually of a numerical type, and are designed to enable readers to further apply and consolidate their understanding of topics. A single case study can also be found at the end of each chapter. Some of these are simply more complicated problems, but in the main they are questions based on current issues. Their aim is to get students to think in a broader manner than usual, and to develop a wider approach to dealing with issues that are real and current.
- ▶ This new book continues to include what we have called ‘Real World’ examples (typically three or four per chapter), which aim to provide a link between theory and current practice. Following each Real World example is a set of classroom discussion

points, which should facilitate discussion on issues that have occurred in business relatively recently.


- ▶ Each chapter has an ‘Accounting and You’ section, which aims to relate the content of the chapter to the individual student reader. All too often students feel that the content is big-business oriented and has nothing really to do with them. This section illustrates that what they are learning has real relevance to their everyday lives. Each of these also has a series of classroom discussion points for the class to ponder.

### Coverage and structure

Although the topics included are, to some extent, relatively conventional, the coverage and treatment of material is designed to meet the needs of business students. While the emphasis is primarily on underlying concepts, and the application and interpretation of information for decision making, this book also includes sections on data collection and recording, as well as the preparation of statements and reports.

One major difference between this book and many others relates to its early structure. As business and accounting become more complicated it becomes more difficult to cover these issues in a reasonably straightforward way. So, in this book we introduce (in Chapters 2 and 3) two of the major accounting statements in the context of relatively simple business organisations, mainly sole proprietorships and partnerships or very simple companies. We use the balance-sheet approach to enable us to build up a balance sheet from a set of basic transactions, and then extend this approach by explaining the income statement as part of the equity section of the balance sheet. This is all done using a first-principles approach.

The approach used in Chapters 2 and 3 enables us to cover the basic accounting statements without adding the complications of a complex corporate regulatory framework. Once the underlying principles and nature of the statement of financial position (the balance sheet) and the statement of financial performance (the income statement) have been understood, we can then complicate it by adding (Chapters 6 and 7) companies and their regulatory framework.



In Chapters 4 and 5, we show how the two main statements are built up in practice, using a system of ledger accounts and books of original entry (or, as is more likely, by a computerised accounting system using the same basic principles).

We have ordered the chapters and their component topics to reflect what we consider to be a logical sequence. For this reason, we advise readers to work through the text in the order presented, particularly since we have been careful to ensure that earlier chapters do not refer to concepts or terms that are not covered until a later chapter.

Chapters 1–10 can be said to be broadly financial-accounting oriented, while Chapters 11–14 focus on what are clearly management accounting areas. Having said this, much of the financial accounting material effectively underpins the later chapters and students should not get too hung up on which area is which. For example, the financial accounting framework links very closely with the planning section in Chapter 13.

Chapter 1 provides a general introduction to the scope, purpose and interrelationships of the text's core coverage—financial accounting and management accounting—together with a brief overview of the main financial statements. It also examines user groups and their needs; introduces the main types of business organisation, together with the way in which a business is typically organised and managed and identifies ways in which business and accounting have been changing over time. This chapter includes more on stakeholder theory, ethics and ethical behaviour in business, and the Academic Standards Statement for Accounting, than does the non-specialist book.

Chapter 2 explains the nature and purpose of the statement of financial position. This is done in the context of relatively simple organisations, so as to not unnecessarily complicate things. The method in which the statement is built up and its typical format are both covered, followed by the main factors that influence the content and values in the statement. Finally, the main uses and limitations of the statement are examined.

Chapter 3 explains the nature and purpose of a statement of financial performance, usually referred to as an income statement. The way in which the statement is built up and the way in which it is typically presented

are covered comprehensively, for relatively simple organisations. Extra material, compared with the non-specialist book, includes the unit-of-production method of depreciation and more on the perpetual inventory system.


Chapter 4 provides the student with an introduction to double-entry book keeping, including the link with the first-principles approach, ledger accounts, use of trial balance, the closing-down process and a series of period-end adjustments. It also introduces the adjusted trial balance and worksheet, before concluding with a section on the nature and importance of the chart of accounts.

Chapter 5 discusses internal control and the various ways in which accounting transactions are recorded in books of original entry, and then outlines the major elements of computerised accounting systems. Students should have a thorough grounding in the basic recording process as a result. Real-world examples in this chapter aim to prepare the student for a variety of ways in which the basic principles are applied in practice.

Chapters 6 and 7 concentrate on limited companies. Chapter 6 focuses on the main features associated with limited companies. Many users will have dealings with groups of companies so the requirements of group accounts are outlined. Chapter 7 explains the importance of company law, accounting standards, the stock exchange and the importance of good corporate governance. Corporate governance remains an ongoing issue for many businesses. The chapter then identifies the main requirements relating to the published annual report. It contains far more information on accounting standards than does the non-specialist book. It also introduces sections on segment reporting and creative accounting.

Chapter 8 focuses on the statement of cash flows and the importance of cash to any business. The chapter also completes the coverage of the main external reports prepared.

Chapter 9 introduces the areas of corporate social responsibility together with social and environmental accounting and also explains the current state of development of sustainability reporting and integrated reporting. Further work on these areas is likely to be needed over the foreseeable future as the world faces



continued issues including climate change, a range of other environmental issues, peak oil, world poverty, child-labour abuse, and human rights and responsibilities generally.

Chapter 10 deals with the analysis and interpretation of the main financial statements. There is also more detail on ratios and prediction models than is included in the non-specialist book.

Our formal coverage of management accounting begins in Chapter 11 with a discussion of the interrelationships between costs, volume and profit in decision making. Extra material, compared with the non-specialist book, includes more on semi-variable costs, and the use of spreadsheets to develop profit profiles and associated charts.

Chapter 12 covers full costing and activity-based costing. Extra material, over and above that found in the non-specialist book, includes more on the apportionment process for overheads and cost-plus pricing.

Chapter 13 includes a section on planning and forecasting using the basic financial statements. This includes use of spreadsheets and sensitivity analysis. This is seen as an additional feature of planning and budgeting over and above that used in the non-specialist book. The remainder of the chapter focuses on short-term planning and control and deals with various aspects of budgeting. The chapter includes a section on Beyond Budgeting.

Chapter 14 deals with capital budgeting, the decision to invest in medium- and long-term assets, and considers how businesses appraise such projects. There is material on mutually exclusive projects and capital rationing, and more on practical aspects of identifying and dealing with cash flows, and the link with strategic planning.

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## ABOUT THE CONTRIBUTOR

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Dr Maria Tyler is a certified practising accountant (CPA) and an accounting and finance lecturer (currently with CQUniversity's School of Business & Law). She has more than 13 years' tertiary teaching experience at undergraduate and postgraduate levels, and is experienced in curriculum design, development and implementation. Dr Tyler gained her PhD in Accounting from CQUniversity in Mackay, Queensland, and also holds a Bachelor of Business/Bachelor of Information Systems, Bachelor of Business with First Class Honours, MBA, Graduate Certificate in Management, Graduate Diploma in Management, and a Diploma in Financial Services (Conveyancing).

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550 ACCOUNTING FOR BUSINESS STUDENTS

### Concept check 9

Which of the following statements about profit-volume charts are true?

- Profit-volume charts provide more information than break-even charts.
- The slope of the profit line is the same as the slope of the revenue line on the break-even chart.
- The slope of the profit line is the same as the slope of the total cost line on the break-even chart.
- None are true. All are false.

ACTIVITY 11.6

A company has an average monthly sales of \$100,000 and a contribution margin of 33.33%. A new product is introduced as a discontinued product to increase profit to \$100,000. The new product is expected to generate a contribution margin of 40% on sales of \$100,000. The total contribution margin for 12 months is expected to be \$120,000. The total contribution margin for 12 months is expected to be \$120,000.

SELF-ASSESSMENT QUESTION 11.1

The following information concerns a business for the past three months:

Item	Jan	Feb	Mar
Sales (10,000 units @ \$2)	\$20,000	\$20,000	\$20,000
Contribution (10,000 units @ \$1.2)	\$12,000	\$12,000	\$12,000
Fixed costs	\$10,000	\$10,000	\$10,000
Loss	\$2,000	\$2,000	\$2,000

The managers of the business are now considering what to do about this loss. They hope to make a profit of \$30,000 in the next three months, and for the following proposal have been asked:

- Launch an advertising campaign costing \$50,000.
- Increase selling price to \$1.9.
- Increase variable costs by \$1.50 per unit by installing more efficient equipment, which will increase fixed costs by \$40,000.

You have been asked to advise on:

- the level of sales needed to make a profit of \$30,000, assuming that none of the three proposals is adopted
- the level of sales needed to make a profit of \$30,000, assuming that one of the three proposals is adopted
- the level of sales needed to make a profit of \$30,000, assuming that two of the three proposals is adopted
- the impact each proposal will have on the break-even point.

Assume that revenues and costs will remain the same in the next three months, other than those for the three proposals.

CHAPTER 9 MANAGEMENT AND FINANCIAL PERFORMANCE 57

### SUMMARY

In this chapter you have achieved the following objectives in the key areas:

OBJECTIVE	ACHIEVED
1. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	1. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
2. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	2. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
3. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	3. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
4. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	4. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
5. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	5. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
6. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	6. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
7. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	7. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
8. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	8. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
9. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	9. Explain the relationship between the measurement of financial performance and the measurement of financial performance.
10. Explain the relationship between the measurement of financial performance and the measurement of financial performance.	10. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

CHAPTER 8 CASE STUDY

The management of Green Ltd is planning a budget for the next financial year. The following information is available for the year ended 31 March 2017:

Revenue: \$100 million  
 Variable costs: \$60 million  
 Fixed costs: \$20 million  
 Depreciation: \$5 million  
 Interest: \$2 million  
 Tax: \$3 million

Management has decided to increase sales by 10% and to reduce variable costs by 5%. Fixed costs are expected to increase by 2% and depreciation by 10%. Interest is expected to increase by 5% and tax by 10%.

REQUIRED

- Calculate the budgeted profit for the year ended 31 March 2018.
- Calculate the budgeted profit for the year ended 31 March 2018, assuming that the company has decided to increase sales by 10% and to reduce variable costs by 5%.
- Calculate the budgeted profit for the year ended 31 March 2018, assuming that the company has decided to increase sales by 10% and to reduce variable costs by 5% and to increase fixed costs by 2%.
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## In-chapter self-assessment questions

More demanding and comprehensive than the activities, these challenge you to put into practice your understanding of key concepts. The self-assessment question solutions are available online at [www.pearson.com.au/9781488616570](http://www.pearson.com.au/9781488616570).

## Solutions to activities and concept checks

These allow you to check your answers to the in-chapter activities.

## Summary

At the end of every chapter, the summary correlates learning objectives with the method used to achieve them. Use this as a great revision tool.

## End-of-chapter questions and problems

These help reinforce your understanding of chapter content. All questions are keyed to their corresponding learning objectives so you can pick and choose the areas you want to work on. The questions are divided into level of difficulty—easy, intermediate and challenging. They include:

- discussion questions to help you assess your recall of the main principles covered in each chapter
- application exercises to help you apply and consolidate your understanding of accounting in practice.

## Case studies

These give you real-world examples of accounting in practice and encourage you to think critically about accounting issues and controversies.

## Glossary

This quick reference guide at the end of the book helps jog your memory for all those important accounting terms and concepts.

CHAPTER 9 INTRODUCTION TO FINANCIAL STATEMENTS 123

### Concept check answers

CC1 T, CC2 F, CC3 C, CC4 C, CC5 F, CC6 D, CC7 C, CC8 C, CC9 F, CC10 C, CC11 D, CC12 C, CC13 F, CC14 C, CC15 C

### SOLUTIONS TO ACTIVITIES

ACTIVITY 1.1

Business is a very common term used in many contexts. People will usually apply to their own business the three tests of the business definition. If a business is a legal entity, has a separate legal identity, and is a legal entity, then it is a business. If a business is a legal entity, has a separate legal identity, and is a legal entity, then it is a business. If a business is a legal entity, has a separate legal identity, and is a legal entity, then it is a business.

ACTIVITY 1.2

The shareholders may be interested in the actions of the directors and the way in which they use the resources of the company.

ACTIVITY 1.3

The directors may be interested in the actions of the shareholders and the way in which they use the resources of the company.

Item	Value
Share capital (100,000 ordinary shares issued @ \$2 - called to \$1)	\$200,000
Share capital (100,000 ordinary shares issued @ \$2 - called to \$1)	\$200,000
Retained profits	\$100,000
Share capital (100,000 ordinary shares issued @ \$2 - called to \$1)	\$200,000

CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY ACCOUNTING 443

### DISCUSSION QUESTIONS

Q1. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q2. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q3. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q4. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q5. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q6. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q7. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q8. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

Q9. Explain the relationship between the measurement of financial performance and the measurement of financial performance.

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# RESOURCES FOR STUDENTS AND EDUCATORS

## Students

Solutions to the self-assessment questions are available at [www.pearson.com.au/9781488616570](http://www.pearson.com.au/9781488616570).

## Educators

A suite of resources is provided to assist with delivery of the content, as well as to support teaching and learning.

### **Solutions Manual**

The Solutions Manual provides educators with detailed, accuracy-verified solutions to in-chapter and end-of-chapter problems in the book.

### **Test Bank**

The Test Bank provides a wealth of accuracy-verified testing material. Updated for the new edition, each chapter offers a wide variety of question types, arranged by learning objective and tagged by AACSB standards. Questions can be integrated into Blackboard or Moodle Learning Management Systems.

### **Lecture Slides**

A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the course content.

### **Digital Image PowerPoint Slides**

All the diagrams and tables from the course content are available for lecturer use.