



• ATRILL'S •

7TH EDITION

ACCOUNTING

FOR NON-SPECIALISTS

ATRILL • McLANEY • HARVEY

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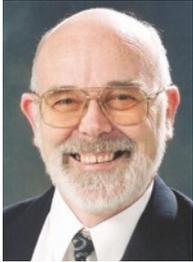
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ABOUT THE AUSTRALIAN AUTHOR



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

The Why?

This text is the seventh Australian edition of a UK book. It provides a broad-based, non-specialist introduction to accounting and finance for those who wish, or need, to acquire an understanding of the main concepts and their practical application in decision-making, but who do not require in-depth theoretical or technical detail. It is aimed primarily at students who are studying a single unit in accounting and finance as part of a university undergraduate or MBA course, including courses in business studies, economics, engineering and a range of other non-specialist accounting courses. Given the content and style of the text it is suitable for students studying at a distance, and for those who are studying independently, perhaps with no formal qualification in mind.

In writing the text we have been particularly mindful that most of its readers will not have studied accounting and finance before. We have, therefore, tried to write in an accessible style, avoiding technical jargon. Throughout, we have endeavoured to ensure that basic concepts are thoroughly explained. Underpinning the text's coverage is an 'open learning' approach—that is to say, it involves the reader in a way that is not traditionally found in textbooks, delivering topics much as a good lecturer would do and encouraging readers to interact with the text. This approach distinguishes itself through a variety of integrated and end-of-chapter assessment material, which has been largely updated for this edition and is outlined below.

Hallmark features

The following features focus on developing an understanding of key accounting principles through the use of relevant and engaging examples.

- ▶ **Accounting and You:** These important and unique sections 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.
 - ▶ **Real World Examples:** Each chapter typically includes three or four examples, which aim to provide a link between theory and current practice. These have been updated to reflect what has occurred since the last edition of the book.
 - ▶ **End-of-chapter Case Study:** Some of these are simply more complicated problems, but in the main they are questions based on contemporary news media articles. Their aim is to encourage students to think in a broader manner than usual, and to develop a wider approach to dealing with issues that are real and current.
- To further develop understanding, the following features apply the concepts through a number of practice activities:
- ▶ **In-chapter Activities:** Interspersed throughout each chapter are numerous activities, with 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.
 - ▶ **Self-Assessment Questions:** Towards the end of the chapters, 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 both of the breadth and 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.
 - ▶ **Application Exercises:** These are also positioned at the end of most chapters, and 40% of these exercises have been updated from the last edition. They are categorised as easy, intermediate or challenging. Typically, they are of a numerical type, and are designed to enable readers to further apply and consolidate their understanding of topics.

- ▶ **Discussion Questions:** Featured 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.

Throughout the text we have been conscious of the need to develop generic skills where possible, as well as the more traditional accounting skills. Generic skills targeted include communication, teamwork, critical thinking, problem-based learning, ethics, self-management, planning and organisation. It is impossible to do this extensively in a single book, but we believe that this book should facilitate a curriculum-wide approach to development of these kinds of skills.

Specific areas to note include the following:

- ▶ The content provides an opportunity to use the discussion questions and cases to develop oral and presentational skills and to develop teamwork.
- ▶ The whole book is problem-based, so problem-solving skills should be enhanced.
- ▶ Self-management and organisation skills development should be facilitated by the open learning approach and use of activities.
- ▶ Reference to ethics and governance, particularly in Chapters 1, 5 and 7, provide a focus for ethics and 'green' issues.
- ▶ Critical thinking is encouraged by the use of appropriate cases and questions, together with current Real World examples and the Accounting and You feature. By way of illustration, Chapters 5 and 7, in particular, raise major issues relating to governance and sustainability that need to be approached critically.

It is perhaps worth noting that all three authors are qualified accountants. However, their career paths and interests are rather different. The main areas of interest include financial accounting, management accounting, finance and corporate strategy. Specific areas of expertise include behavioural aspects of accounting, and the links

between finance theory and corporate strategy. All have experience of curriculum development ranging from thorough to comprehensive. One has extensive experience internationally. The net result is a writing team of considerable diversity of experience which is aware of the need to try to balance the accounting skills requirement with the need to develop more broadly based skills.

New to this edition

The seventh edition introduces a number of new or extended features that support student-centred active learning, as outlined below.

Concepts in Action

- ▶ At the end of each learning objective section we include two or three concept check questions. These are short questions which aim to provide the student with a means of ensuring that they have a sound understanding of the basic concepts introduced in the section. They are generally in the form of multiple-choice questions.
- ▶ The number of Real World examples has been increased, and in many cases content has been expanded so as to provide a clearer linkage between what is taught and what actually happens in practice. These examples provide considerable material for classroom discussion. Many illustrate clearly how the theory is applied in practice. Others aim to provide some illustration of the need to integrate the various topics taught. Still others aim to open up the complexity of business decision-making by illustrating linkages (and breakdowns) between business, social and environmental considerations. Ultimately, the aim of the Real World examples is to make the subject of accounting altogether more alive and relevant to the student.
- ▶ The Accounting and You sections have been updated and aim to reinforce the relevance of the study of accounting, by bringing the subject back to issues that may affect the student in his or her everyday life.



Active Learning Facilitation Guide

The Active Learning Facilitation Guide supports learning within an active workshop session, commonly associated with the flipped classroom format. The Active Learning Facilitation Guide offers teachers a resource that contains suggested activities which encourage critical thinking and decision making, and also active collaboration and team work among students. This will help teachers to assist their students in developing softer skills that are often overlooked but are increasingly important to graduate employers.

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 non-specialists; therefore, the emphasis is on the application and interpretation of information for decision-making, and the underlying concepts, rather than on the collection of data and the preparation of statements and reports.

When we examined the order and level of content for the sixth edition, we realised that, as business and accounting were becoming more complicated, so it was also becoming more difficult to cover these issues in a reasonably straightforward way, using the structure of earlier editions. So, in the sixth edition we introduced (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. This enabled 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) were understood, we could then complicate it by adding (Chapters 4 and 5) on companies and their regulatory framework. The seventh edition continues with the approach developed in the sixth edition, reflecting a clear focus on the non-specialist market. The main differences are to be found in an expansion of the number of Real World examples, the introduction of concept checks, and an increase in the number of end-of-chapter application exercises. These exercises include

rather more challenging exercises than those in the sixth edition, in line with comments made by reviewers.

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 1–8 can be said to be broadly financial accounting oriented, Chapters 9–11 focus on what are clearly management accounting areas, and Chapters 12–14 focus on what is generally regarded as financial management. Having said this, much of the first eight chapters underpin the later chapters and students should not get too hung up on which area is which.

Chapter 1 provides a general introduction to the scope, purpose and interrelationships of the text's core coverage—financial accounting, management accounting and financial management—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 ethics and ethical behaviour in business than the sixth edition.

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 not to 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.

Chapter 4 introduces limited companies in some detail, including the main financial statements. Chapter 5 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 and explains the concept of a group of companies and the need for a set of consolidated accounts.

Chapter 6 focuses on the statement of cash flows and the importance of cash to any business. It also introduces the idea of using the financial statements framework for planning and budgeting purposes.

Chapter 7 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 continuing issues including climate change, a range of other environmental issues, peak oil, world poverty, child labour abuse, and human rights and responsibilities generally.

Chapter 8 deals with the analysis and interpretation of the main financial statements.

Our formal coverage of management accounting begins in Chapter 9 with a discussion of the interrelationships between costs, volume and profit in decision-making. Chapter 10 covers full costing and activity-based costing. Chapter 11 focuses on short-term planning and control and deals with various aspects of budgeting. The chapter also now includes a section on Beyond Budgeting.

Chapter 12 is the first chapter that relates to what is generally termed financial management. It deals with capital budgeting and the decision to invest in medium and long-term assets, and considers how businesses appraise such projects. Chapter 13 deals with the management of short-term assets and liabilities. Chapter 14 covers the main sources of finance available to a business when making an investment.

Peter Atrill
Eddie McLaney
David Harvey

ACKNOWLEDGEMENTS

The dedicated contributions of many individuals helped make this book a reality and contributed to refinements and improvements in this and previous editions. An impressive cast of reviewers provided in-depth chapter feedback as well as many helpful suggestions, constructive criticisms and enthusiasm for the organisation and content of the text. Both the author and publisher are grateful to each of them. They include:

SEVENTH EDITION REVIEWERS

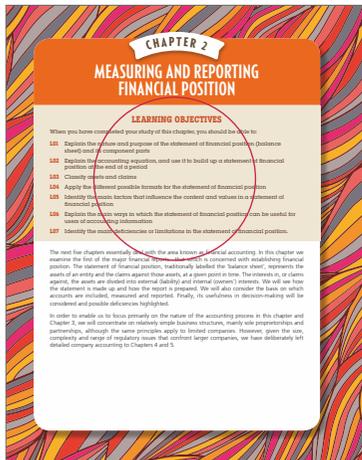
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FOR STUDENTS: HOW DO I USE THIS BOOK?

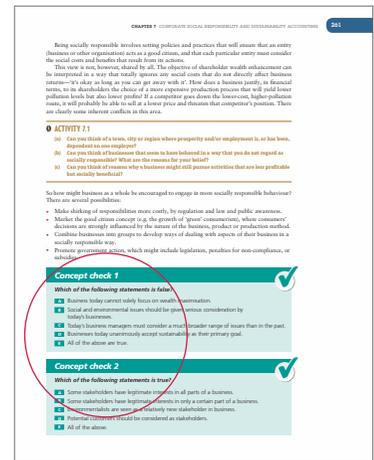


◀ Learning objectives

These are listed at the beginning of each chapter and explain the key concepts that you should understand after studying the chapter. They are restated in the chapter, so you know where these objectives are covered. End-of-chapter questions are also keyed to the objectives.

▶ Concept check questions

These are short multiple-choice questions which aim to provide you with a quick check of your understanding of each learning objective.

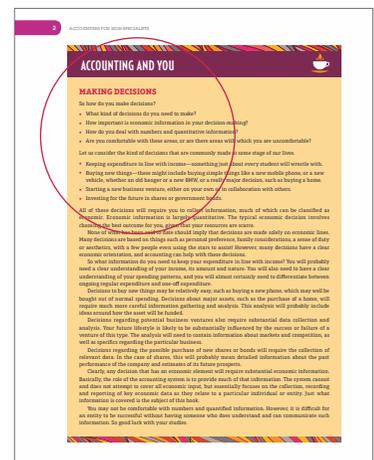


◀ Key term definitions

To help you understand key accounting terminology and concepts, definitions are presented in the margin. All of these terms are also in the glossary at the end of the book for easy reference.

▶ Accounting and You boxes

This feature appears in each chapter to help you see the relevance of accounting concepts to your everyday life.



◀ In-chapter activities

These are designed to test your comprehension of the material you have just read, as well as to make links to topics already covered or still to be covered. Answers to the activities are provided at the end of each chapter.

▶ Real World examples

Integrated throughout the text, these illustrative examples highlight the practical application of accounting concepts and techniques by real businesses, including extracts from published financial reports, articles from the media, survey data and other interesting insights from business.



RESOURCES FOR STUDENTS AND EDUCATORS

MyLab Accounting for Atrill/McLaney/Harvey
Accounting for Non-Specialists, 7th edition

A guided tour for students and educators

Auto-generated tests and assignments

Each MyLab™ comes with pre-loaded assignments, all of which are automatically graded and include selected end-of-chapter questions and problems from the textbook.

Unlimited practice

Many Study Plan and Instructor-assigned exercises contain algorithms to ensure students get as much practice as they need. As students work through Study Plan or Homework exercises, instant feedback and tutorial resources guide them towards understanding.



MyLab Accounting www.pearsonmylabandmastering.com

Exercise 11.5-14
0 correct | 0 of 91 complete

Caravans Ltd is a company that is deciding between two vehicle purchasing alternatives: Alternative E which would require a first payment of \$65 000 followed by five annual instalments, or Alternative F that would require a first payment of \$80 000 followed by four annual instalments.

Video: Positive Cashflow

POSITIVE CASHFLOW

The chosen alternative under Alternative E is...
The discount rate is...
Assuming that all...
The discounted cash flows are:

Year	First payment	Discount factor	Present value
1		0.909	
2		0.826	
3		0.751	
4			

Enter any number in the edit fields, then click Check Answer.

2 parts remaining

Clear All Check Answer Close

Help Me Solve This
eText Pages
Calculator
Print

Learning resources

To further reinforce understanding, Study Plan and Homework problems link to additional learning resources.

- ▶ Step-by-step guided solutions
- ▶ Graphing tool
- ▶ eText linked to sections for all Study Plan questions.

Study Plan

Recommendations Progress All Chapters

Practice the sections, then take a Quiz Me to prove mastery and earn mastery points (MP).

Recommended sections

- 1.1 Nature and role of accounting [Practice] [Quiz Me]
- 1.2 Users of accounting [Practice] [Quiz Me]
- 1.3 Financial and management accounting [Practice] [Quiz Me]
- 1.4 What is the financial objective of a business? [Practice] [Quiz Me]
- 1.5 The main financial reports—an overview [Practice] [Quiz Me]

Study plan

A Study Plan is generated from each student's results on quizzes and tests. Students can clearly see which topics they have mastered and, more importantly, which they need to work on.



Students

These additional resources are available on MyLab Accounting:

- ▶ **Workbook:** Use this as an excellent revision and study tool designed to match the structure and content of the textbook. This workbook gives you a wide variety of questions (e.g. multiple choice, true/false, matching, fill in the blanks, classification and practical questions), as well as a list of the textbook's chapter objectives and a chapter overview. Solutions to all the question material are provided at the end of each chapter.
- ▶ Solutions to the self-assessment questions (also available on www.pearson.com.au/9781488612589).

Educator

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.