
Contents

Preface	ix
1 General introduction	1
1.1 Economics, accounting, and management accounting	1
1.2 Profit and non-profit organizations	4
1.3 The role of information in decision making	5
1.4 The management process and accounting	6
1.5 Setting the business goals	10
1.6 The controller, the treasurer and the management accountant	11
1.7 Management and financial accounting	12
1.8 Accounting research	13
1.9 The limits of management accounting	14
1.10 Decision making, types of information systems and automation	15
1.11 Summary	16
Questions and problems	17
2 Financial statements	21
2.1 The uses of financial statements	21
2.2 The balance sheet	22
2.3 The income statement	26
2.4 Other financial statements, reports and notes	28
2.5 Expenses (costs) versus cash expenditure, and revenue versus receipts	39
2.6 Income measurement	44
2.7 Summary	45
Questions and problems	45
3 Preparing financial statements	53
3.1 The accounting spectacular	53

3.2	The trial balance and the accounting books	54
3.3	Financial data collection	58
3.4	International financial accounting	63
3.5	Foreign currency translations	64
3.6	Accounting for changing prices	71
3.7	Summary	73
	Appendix 3A: Preparing consolidated financial statements	74
	Questions and problems	77

4	Costs: definition, concepts, and behaviour	87
4.1	Definition of costs	87
4.2	Cost calculations as management information	90
4.3	Cost classification	92
4.4	Cost classification according to the type of means of production sacrificed	99
4.5	Financial inflows and outflows: overview	106
4.6	Summary	108
	Appendix 4A: Depreciation methods	108
	Questions and problems	114

5	Cost analyses	121
5.1	Introduction	121
5.2	Types of business and cost accounting	122
5.3	Unit cost calculation in trading and service companies	125
5.4	Unit cost calculation for manufacturing businesses	127
5.5	The cost centre method	138
5.6	Activity-based costing (ABC)	147
5.7	Summary	147
	Questions and problems	148

6	Decision-supporting calculations	161
6.1	Introduction	161
6.2	Contracting-out decisions ('make or buy')	162
6.3	Comparing production costs of fixed assets	163
6.4	Break-even analysis	164
6.5	Price differentiation	167
6.6	Absorption costing versus variable costing	168
6.7	Bottleneck calculations	171
6.8	The capacity problem	173
6.9	Determining the economic life of a new fixed asset	176
6.10	Summary	181
	Questions and problems	181

7	Responsibility accounting, management control, and the budgeting process	195
7.1	Introduction	195
7.2	Determining the company's strategy (strategic planning)	196
7.3	Budgeting	200
7.4	Forecasting	203
7.5	Systems of budgeting	209
7.6	Variance analysis	210
7.7	Variance analysis over several periods	216
7.8	Cost calculations and cost budgeting	216
7.9	Unit cost calculation and management control in non-profit and governmental organizations	217
7.10	Non-financial standards of performance	217
7.11	Summary	218
	Questions and problems	219
8	Capital budgeting	229
8.1	Introduction	229
8.2	Determining the investment amount	229
8.3	Investment yield standards	231
8.4	Investment decisions and uncertainty	240
8.5	Comparing alternative projects	242
8.6	Investments in new technologies	243
8.7	Summary	244
	Appendix 8A: Present value calculations	244
	Questions and problems	246
9	The sources of funds: owners' equity and liabilities	253
9.1	Introduction	253
9.2	Owners' equity in a sole proprietorship and partnership	254
9.3	Owners' equity of a corporation	255
9.4	Current liabilities	256
9.5	Long-term liabilities	259
9.6	Summary	266
	Questions and problems	267
10	Analyzing the financial position and performance of a firm	275
10.1	Introduction	275
10.2	Judging liquidity	276
10.3	Judging profitability	283
10.4	Judging the solvency of a firm	288
10.5	Judging the activity of a firm	291

Contents

10.6 The Dupont ratio system	294
10.7 Using financial ratios	295
10.8 Summary	296
Questions and problems	297
Glossary	309
Five-language dictionary	319
Further Reading	329
Index	331