Instructor's Manual

Accounting and Finance for Non-Specialists

Ninth edition

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Authors’ note to tutors

Using the text

The text is designed to provide readers with a sound introduction to accounting and finance. It assumes no previous knowledge of these subjects and recognises that students using the text may come from a wide variety of backgrounds. The text, therefore, tries to avoid technical jargon and does not assume that students have a high level of numerical ability. The text has been class tested by students on various courses and we have modified and refined the material to take account of their comments. We have also taken account of the comments made by lecturers who used the first eight editions of the text.

The text aims to encourage an active approach to learning by providing activities and self-assessment questions at appropriate points in the text. This is designed to stimulate thought concerning particular issues and to give the reader the opportunity to test his or her understanding of the principles covered.

The text is supplemented by a password-controlled lecturers’ website and a student website available to all readers.

The structure of the text allows the tutor to deliver the subject in a number of ways. It can be used as recommended reading for a traditional course based on lectures and tutorials. There are review questions and exercises at the end of each chapter that can be used as the basis for tutorials. It could also provide the basis for a distance learning approach for part-time or off-campus students. For these students, the interactive nature of the text may be extremely useful where access to a tutor is restricted. The text can also be used as the basis for an open-learning approach for full-time campus-based students. We successfully used it in this way at the University of Plymouth Business School. Accounting ‘Surgeries’ were provided to give students the opportunity for one-to-one help with any problems they face.

The text is appropriate for modules that are designed to be covered in 150–200 hours of study. For full-time students, this will often be covered in one academic year. For students who are only studying a one-semester course in accounting and finance it will be necessary to adopt a selective approach to the chapters to be studied. The first six chapters deal with the nature and role of financial accounting and give a good grounding in the major financial statements. This will, however, take up much of the time available. It should, nevertheless, be possible to select further chapters for study from the remaining chapters in the text.

PowerPoint slides

The diagrams in the text, along with other diagrams and materials (including the new ‘bullet point’ chapter summaries), are available as PowerPoint slides. These should help in delivering lectures and tutorials. They can be downloaded from the lecturers’ website.

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International financial reporting standards

For accounting periods starting on or after 1 January 2005, Stock-Exchange listed companies in EU countries (including the UK) have had to prepare their published consolidated financial statements in line with International Financial Reporting Standards (IFRSs), formulated by the International Accounting Standards Board (IASB). This represented a major change for UK listed companies because IFRSs not only superseded UK financial reporting standards, but much of UK company law as well.

IFRSs tend to use terminology that was not in widespread use in the UK. They also tend to be less prescriptive about formats of the financial statements than was the case under UK company law. During the early stages of the transition to IFRSs, it was not clear whether UK listed companies would adopt the IASB terminology and whether they would stay with the old companies' acts formats. By the time of writing this new edition, however, practice had the opportunity to show itself as most listed companies had published at least one annual report. It seems that, although listed companies are not following a uniform approach, a clear majority is taking a similar approach, which we have followed in this book.

Non-listed companies have not needed to make the change to the IASB. They seem likely to follow the same approach as their listed counterparts, however.

This edition, like its recent predecessors, fully reflects the changes caused by the advent of the IASB rules, which can be summarised as follows:

Changes in terminology

Traditional UK term	***IASB term***
Profit and loss account	Income statement
Balance sheet	Statement of financial position
Cash flow statement	Statement of cash flows
Fixed asset	Non-current asset
Tangible fixed asset	Property, plant and equipment
Creditors: amounts falling due within one year	Current liabilities
Creditors: amounts falling due after more than one year	Non-current liabilities
Debtors	Receivables
Trade debtors	Trade receivables
Creditors	Payables
Trade creditors	Trade payables

For listed companies, the published annual reports show that the IASB terms have become the norm. We have, therefore, used IASB terms throughout but refer to their traditional UK equivalents from time to time.

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Formats

Though the IASB does not require that particular formats be used for the statement of financial position and income statement, a key standard does provide illustrative formats. These formats seem to be widely followed for listed companies and have been adopted in the book. It has been pointed out, however, that other approaches to layout are permitted and do exist.

No doubt the traditional terminology and formats will linger, particularly with smaller companies and unincorporated businesses, but we believe that the financial statement that students are likely to encounter (that is, those of larger, mainly listed, companies) will be consistent with the approach taken in this book.

Ordering of material

The order in which topics are dealt with is clearly a matter of opinion. Our broad approach is to try to build up students' knowledge and understanding and to try to avoid situations where reference needs to be made to material appearing later in the text. We have taken the view that financial accounting is a good place to start, partly because students probably know of this aspect of accounting and finance from their background. It tends to be discussed in the news media etc. Also we feel that this aspect is easier to deal with without knowledge of management accounting and finance. Within financial accounting, we have dealt with the statement of financial position and income statement, then with company accounting, then the statement of cash flows and on to financial accounting ratios. When dealing with the statement of financial position and income statement (in Chapters 2 and 3), we have made no real distinction between companies and unincorporated businesses. This is because we see no great difference between these, except when there is the need to go into detail about the restrictions on withdrawals of equity and this is covered in Chapter 4 on company accounting. We have left statements of cash flows until after introducing companies, because these statements usually relate to companies and the problem areas often relate to aspects like dividends and taxation.

Double-entry bookkeeping

The text does not cover double-entry bookkeeping, in the sense of 'T' accounts. We have taken the view that students can gain a sufficient grasp of both the principles and practice of transaction recording, and their ultimate effect on the statement of financial position and income statement, by dealing with them on a 'plus and minus' basis. We feel that, for the target readership, the recording process is of limited importance and that the key issues relate to the effect of transactions on the business overall. It may be the case that students' understanding of this would be enhanced by a closer look at the recording process, through 'T' accounts, but this will take time, which we believe could be better devoted to other topics.

We are aware that not all of our colleagues agree with us on this and so an appendix – 'Recording financial transactions' – is available for tutors to download. This can be slotted into the students' studies, perhaps immediately after dealing with the contents of Chapters 2 and 3. This supplement is self contained. It includes a number of activities and three Exercises.

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Practice/assessment material

The **activities**, which have solutions immediately follow them, and **self-assessment questions**, which have solutions are at the end of the text, form an integral part of the text. In addition there are various other practice/assessment materials. At the end of each chapter there are four **review questions**. These are short, narrative questions involving recall, explanation and brief discussion. The solutions to these are at the end of the text. At the end of all chapters, except Chapter 1, there are five **Exercises**. These are questions, many involving calculations, which are similar in nature to exam-style questions. The solutions to three of these are given at the end of the text and are, therefore, accessible to students. Solutions to the other two are in the following pages of this manual and are not accessible to students.

On the lecturers' website, there are:

- **PowerPoint slides**, as mentioned above.

- **Supplementary questions**, with solutions. These questions are similar to the end-of-chapter Exercises.

- **Two progress tests,** with solutions. Each of these contains ten multiple choice questions, ten missing word questions and either two or three Exercise-style questions.

- **Four seminar/discussion question**, for each chapter, with outline solutions.

- The **double-entry bookkeeping appendix**, referred to above.

None of the material on the lecturers' website is accessible to students.

On the student website, there are three types of material:

- A set of **revision questions**, similar in style to the end-of-chapter Exercises, with solutions.

- A set of **multiple-choice questions (MCQs)**. Typically, there are ten such questions for each chapter. These are intended to be tackled online, where they will be automatically graded.

- A set of **missing word questions (MWQs)**, typically ten for each chapter. These too can be attempted and graded online.

Both the MCQs and MWQs are intended to provide students with a quick assessment of their mastery of the material of each chapter.

The solutions to all of this material, except to the multiple-choice and missing-word questions, are fully annotated in order to give the necessary feedback to students.

We intend to expand the number and scope of the practice/assessment materials on a continuing basis.

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We hope that you and your students will find the text both accessible and interesting. We should much appreciate any suggestions you may have on how the text and supplementary material may be improved.

Peter Atrill

Eddie McLaney

23 October 2014

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Solutions to exercises

Solution to Exercise 2.3

Joe Conday

Statement of financial position as at 1 March

	£
ASSETS	
Bank	20,000
EQUITY AND LIABILITIES	
Equity	20,000

Statement of financial position as at 2 March

	£
ASSETS	
Bank (20,000 − 6,000)	14,000
Fixtures and fittings	6,000
Inventories	8,000
Total assets	28,000
EQUITY AND LIABILITIES	
Equity	20,000
Trade payables	8,000
Total equity and liabilities	28,000

Statement of financial position as at 3 March

	£
ASSETS	
Bank (14,000 + 5,000)	19,000
Fixtures and fittings	6,000
Inventories	8,000
Total assets	33,000
EQUITY AND LIABILITIES	
Equity	20,000
Trade payables	8,000
Borrowings	5,000
Total equity and liabilities	33,000

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Statement of financial position as at 4 March

	£
ASSETS	
Bank (19,000 – 7,000 – 200)	11,800
Fixtures and fittings	6,000
Inventories	8,000
Motor car	7,000
Total assets	32,800
EQUITY AND LIABILITIES	
Equity (20,000 – 200)	19,800
Trade payables	8,000
Borrowings	5,000
Total equity and liabilities	32,800

Statement of financial position as at 5 March

	£
ASSETS	
Bank (11,800 − 2,500)	9,300
Fixtures and fittings	6,000
Inventories	8,000
Motor car	9,000
Total assets	32,300
EQUITY AND LIABILITIES	
Equity (19,800 − 500)	19,300
Trade payables	8,000
Borrowings	5,000
Total equity and liabilities	32,300

Statement of financial position as at 6 March

	£
ASSETS	
Bank (9,300 + 2,000 − 1,000)	10,300
Fixtures and fittings	6,000
Inventories	8,000
Motor car	9,000
Total assets	33,300

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EQUITY AND LIABILITIES	
Equity (19,300 + 2,000)	21,300
Trade payables	8,000
Borrowings (5,000 − 1,000)	4,000
Total equity and liabilities	33,300

Solution to Exercise 2.5

Statement of financial position as at the end of the week

ASSETS	**£**
Property	145,000
Furniture and fittings	63,000
Motor van	10,000
Inventories (28,000 − 8,000 − 17,000 + 14,000)	17,000
Trade receivables (33,000 + 23,000 − 18,000)	38,000
Total assets	273,000
EQUITY AND LIABILITIES	
Equity (203,000 + 11,000 − 8,000 + 23,000 − 17,000 + 1,00,000 + 10,000)	322,000
Borrowings (Bank overdraft) (43,000 − 11,000 − 18,000 − 100,000 + 13,000)	(73,000)
Trade payables (23,000 + 14,000 − 13,000)	24,000
Total equity and liabilities	273,000

Since the bank balance is now positive, we can rewrite this statement of financial position as:

Statement of financial position as at the end of the week

ASSETS	**£**
Property	145,000
Furniture and fittings	63,000
Motor van	10,000
Inventories	17,000
Trade receivables	38,000
Cash at bank	73,000
Total assets	346,000
EQUITY AND LIABILITIES	
Equity	322,000
Trade payables	24,000
Total equity and liabilities	346,000

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Solution to Exercise 3.2 Singh Enterprises

Income statement (extract) for the year ended 31 December 2011

	£
Depreciation − machinery	2,000

Statement of financial position as at 31 December 2011

	£
Machinery at cost	10,000
Accumulated depreciation	(2,000)
	8,000

Income statement (extract) for the year ended 31 December 2012

	£
Depreciation − machinery (2,000 + 2,500)	4,500

Statement of financial position as at 31 December 2012

	£
Machinery at cost	25,000
Accumulated depreciation (4,000 + 2,500)	(6,500)
	18,500

Income statement (extract) for the year ended 31 December 2013

	£
Depreciation − machinery	4,500
Loss on sale of machine (10,000 − 6,000 − 3000)	1,000

Statement of financial position as at 31 December 2013

	£
Machinery at cost	15,000
Accumulated depreciation (2 × 2,500)	(5,000)
	10,000

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Solution to Exercise 3.4 TT and Co

Statement of financial position as at 31 December 2013

ASSETS	£
Delivery van (+9,500 + 13,000 − 5,000)	17,500
Inventories (+65,000 + 67,000 + 8,000 − 89,000 − 25,000)	26,000
Trade receivables (+19,600 + 179,000 − 178,000)	20,600
Cash at bank (+750 − 20,000 − 15,000 − 1,300 − 13,000 − 36,700 − 1,820 − 8,000 + 54,000 + 178,000 − 71,000 − 16,200)	49,730
Prepaid expenses (325)	325
Total assets	114,155
EQUITY AND LIABILITIES	£
Equity (+76,900 − 20,000 + 37,705)	94,605
Trade payables (+22,000 + 67,000 − 71,000)	18,000
Accrued expenses (+860 + 690)	1,550
Total equity and liabilities	114,155

Income statement for the year ended 31 December 2013

	£
Sales revenue (+179,000 + 54,000)	233,000
Cost of goods sold (+89,000 + 25,000)	(114,000)
Gross profit	119,000
Rent (5,000 + 15,000)	(20,000)
Rates (300 + 975)	(1,275)
Wages (−630 + 36,700 + 860)	(36,930)
Electricity (−620 + 1,820 + 690)	(1,890)
Van depreciation (2,500 + 2,500)	(5,000)
Van expenses (16,200)	(16,200)
Profit for the year	37,705

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The statement of financial position could now be rewritten in a more stylish form as follows:

Statement of financial position as at 31 December 2013

	£
ASSETS	
Non-current assets	
Property, plant and equipment	
Motor van at cost	25,000
Accumulated depreciation	(7,500)
	17,500
Current assets	
Inventories	26,000
Trade receivables	20,600
Prepaid expenses	325
Cash	49,730
	96,655
Total assets	114,155
EQUITY AND LIABILITIES	
Equity (owner's capital)	
Closing balance	94,605
Current liabilities	
Trade payables	18,000
Accrued expenses	1,550
	19,550
Total equity and liabilities	114,155

Solution to Exercise 4.2

(a) A **dividend** is a drawing of equity made by shareholders. It is usually, but not necessarily, in the form of cash. It often reflects the level of profit made during the year to which it relates, but it is perfectly legal to pay a dividend out of past retained earnings. Broadly, that part of the owners' claim that can be reduced through payment of a dividend (or by share repurchase) is limited to that which arose from normal realised trading profits and realised gains from disposals of non-current assets.

(b) An **audit fee** is an amount paid to an independent firm of auditors. The auditors are paid to undertake an examination of the financial statements and underlying records to form and state an opinion as to whether the financial statements provide a true and fair view of financial performance and position.

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