Contents

Preface to the fifth edition xi
Guided tour of the book xxi
Publisher's acknowledgements xxiv

FinanciaL aCcoUntinG

Part 1  A conceptual framework: setting the scene

Chapter 1  Who needs accounting? 4
Real World Case 4
Learning outcomes 5
1.1 Introduction 5
1.2 The development of a conceptual framework 6
1.3 Framework for the preparation and presentation of financial statements 7
1.4 Types of business entity 8
1.5 Users and their information needs 9
1.6 General purpose or specific purpose financial statements? 12
1.7 Stewards and agents 17
1.8 Who needs financial statements? 17
1.9 Summary 18
Further reading 19
Questions 20
A Test your understanding 20
B Application 20
C Problem solving and evaluation 21
Activities for study groups 21
Notes and references 22
Supplement: introduction to the terminology of business transactions 24
Test your understanding 25

Chapter 2  A systematic approach to financial reporting: the accounting equation 26
Real World Case 26
Learning outcomes 27
2.1 Introduction 28
2.2 The accounting equation 28
<table>
<thead>
<tr>
<th>Chapter 3</th>
<th>Financial statements from the accounting equation</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real World Case</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Learning outcomes</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>3.2 Who is in charge of the accounting system?</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>3.3 The accounting period</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>3.4 The statement of financial position (balance sheet)</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>3.5 The income statement (profit and loss account)</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>3.6 The statement of cash flows</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>3.7 Usefulness of financial statements</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>3.8 Summary</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>A Test your understanding</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>B Application</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>Activities for study groups</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Supplement: using the accounting equation to analyse transactions</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Test your understanding</td>
<td>72</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 4</th>
<th>Ensuring the quality of financial statements</th>
<th>73</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real World Case</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Learning outcomes</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>4.2 Qualitative characteristics of financial statements</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>4.3 Measurement in financial statements</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>4.4 Views on prudence</td>
<td>82</td>
<td></td>
</tr>
</tbody>
</table>
Part 2 Reporting the transactions of a business

Chapter 5 Accounting information for service businesses

Real World Case

Learning outcomes

5.1 Introduction
5.2 Analysing transactions using the accounting equation
5.3 Illustration of accounting for a service business
5.4 A process for summarising the transactions: a spreadsheet
5.5 Financial statements as a means of communication
5.6 Summary

Questions

A Test your understanding
B Application

Supplement: recording transactions in ledger accounts – a service business

Test your understanding

Chapter 6 Accounting information for trading businesses

Real World Case

Learning outcomes

6.1 Introduction
6.2 Goods purchased for resale
6.3 Manufacturing goods for resale
6.4 Illustration of accounting for a trading business
6.5 A process for summarising the transactions: a spreadsheet
6.6 Financial statements of M. Carter, wholesaler
6.7 Summary

Questions

A Test your understanding
B Application

Supplement: recording transactions in ledger accounts: a trading business

Test your understanding
Part 3 Recognition in financial statements

Chapter 7 Published financial statements

Real World Case
Learning outcomes
7.1 Introduction
7.2 International influences
7.3 Accounting framework
7.4 Statement of financial position (balance sheet)
7.5 Income statement (profit and loss account)
7.6 Statement of cash flows
7.7 Group structure of companies
7.8 Group financial statements
7.9 Small and medium-sized entities (SMEs)
7.10 Beyond the annual report
7.11 Summary
Further reading
Useful websites
Questions
A Test your understanding
B Application
C Problem solving and evaluation
Activities for study groups
Notes and references
Supplement 7.1: information to be presented on the face of the balance sheet, as required by IAS 1
Supplement 7.2: balance sheet format 1, as prescribed by the Companies Act 2006
Supplement 7.3: information to be presented on the face of the Income Statement as required by IAS 1
Supplement 7.4: UK Companies Act profit and loss account format 1 – list of contents

Chapter 8 Non-current (fixed) assets

Real World Case
Learning outcomes
8.1 Introduction
8.2 Definitions
8.3 Recognition
8.4 Users’ needs for information
8.5 Information provided in the financial statements
8.6 Usefulness of published information
8.7 Depreciation: an explanation of its nature
8.8 Reporting non-current (fixed) assets and depreciation in financial statements
8.9 Summary
Chapter 9  Current assets

Real World Case

Learning outcomes

9.1  Introduction

9.2  Definitions

9.3  The working capital cycle

9.4  Recognition

9.5  Users' needs for information

9.6  Information provided in the financial statements

9.7  Measurement and recording

9.8  Inventories (stocks) of raw materials and finished goods

9.9  Receivables (debtors)

9.10  Prepayments

9.11  Revenue recognition

9.12  Summary

Questions

A  Test your understanding

B  Application

C  Problem solving and evaluation

Activities for study groups

Notes and references

Supplement: recording non-current (fixed) assets and depreciation

Test your understanding

Chapter 10  Current liabilities

Real World Case

Learning outcomes

10.1  Introduction

10.2  Definitions

10.3  Recognition

10.4  Users' needs for information

10.5  Information provided in the financial statements

10.6  Measurement and recording

10.7  Accruals and the matching concept

10.8  Liabilities for taxation

10.9  Summary
Chapter 11 Provisions and non-current (long-term) liabilities
Real World Case
Learning outcomes
11.1 Introduction
11.2 Users' needs for information
11.3 Information provided in the financial statements
11.4 Provisions
11.5 Deferred income
11.6 Non-current (long-term) liabilities
11.7 Summary
Questions
A Test your understanding
B Application
C Problem solving and evaluation
Activities for study groups
Notes and references
Supplement: bookkeeping entries for provisions and deferred income
Test your understanding

Chapter 12 Ownership interest
Real World Case
Learning outcomes
12.1 Introduction
12.2 Definition and recognition
12.3 Presentation of ownership interest
12.4 Statement of changes in equity
12.5 Users' needs for information
12.6 Information provided in the financial statements
12.7 Dividends
12.8 Issue of further shares on the Stock Exchange
12.9 Summary
Questions
A Test your understanding
B Application
C Problem solving and evaluation
Activities for study groups
Notes and references
Supplement: a spreadsheet for adjustment to a trial balance at the end of the accounting period
Test your understanding
# Part 4 Analysis and issues in reporting

## Chapter 13 Ratio analysis

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real World Case</td>
<td>340</td>
</tr>
<tr>
<td>Learning outcomes</td>
<td>341</td>
</tr>
<tr>
<td>13.1 Introduction</td>
<td>341</td>
</tr>
<tr>
<td>13.2 A note on terminology</td>
<td>342</td>
</tr>
<tr>
<td>13.3 Systematic approach to ratio analysis</td>
<td>342</td>
</tr>
<tr>
<td>13.4 Investors' views on risk and return</td>
<td>350</td>
</tr>
<tr>
<td>13.5 Pyramid of ratios</td>
<td>352</td>
</tr>
<tr>
<td>13.6 Use and limitations of ratio analysis</td>
<td>353</td>
</tr>
<tr>
<td>13.7 Worked example of ratio analysis</td>
<td>354</td>
</tr>
<tr>
<td>13.8 Linking ratios to the statement of cash flows</td>
<td>360</td>
</tr>
<tr>
<td>13.9 Summary</td>
<td>363</td>
</tr>
<tr>
<td>Questions</td>
<td></td>
</tr>
<tr>
<td>A Test your understanding</td>
<td>364</td>
</tr>
<tr>
<td>B Application</td>
<td>364</td>
</tr>
<tr>
<td>C Problem solving and evaluation</td>
<td>366</td>
</tr>
</tbody>
</table>

## Chapter 14 Reporting corporate performance

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real World Case</td>
<td>367</td>
</tr>
<tr>
<td>Learning outcomes</td>
<td>369</td>
</tr>
<tr>
<td>14.1 Introduction</td>
<td>369</td>
</tr>
<tr>
<td>14.2 Operating and financial review (OFR) and business review</td>
<td>369</td>
</tr>
<tr>
<td>14.3 Other guidance in analysis</td>
<td>373</td>
</tr>
<tr>
<td>14.4 Segmental information</td>
<td>377</td>
</tr>
<tr>
<td>14.5 Off-balance-sheet finance</td>
<td>381</td>
</tr>
<tr>
<td>14.6 Corporate social responsibility</td>
<td>383</td>
</tr>
<tr>
<td>14.7 Corporate governance</td>
<td>385</td>
</tr>
<tr>
<td>14.8 Developing issues: ‘present fairly’ and ‘true and fair view’</td>
<td>387</td>
</tr>
<tr>
<td>14.9 Measurement of value</td>
<td>389</td>
</tr>
<tr>
<td>14.10 Developing issues: how valid is the stakeholder model?</td>
<td>392</td>
</tr>
<tr>
<td>14.11 Summary</td>
<td>393</td>
</tr>
<tr>
<td>Further reading</td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td></td>
</tr>
<tr>
<td>A Test your understanding</td>
<td>395</td>
</tr>
<tr>
<td>B Application</td>
<td>396</td>
</tr>
<tr>
<td>C Problem solving and evaluation</td>
<td>396</td>
</tr>
<tr>
<td>Activities for study groups</td>
<td></td>
</tr>
<tr>
<td>Notes and references</td>
<td></td>
</tr>
</tbody>
</table>

## Chapter 15 Reporting cash flows

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real World Case</td>
<td>399</td>
</tr>
<tr>
<td>Learning outcomes</td>
<td>400</td>
</tr>
<tr>
<td>15.1 Introduction</td>
<td>401</td>
</tr>
<tr>
<td>15.2 Cash and cash equivalents</td>
<td>401</td>
</tr>
<tr>
<td>15.3 The direct method and the indirect method</td>
<td>401</td>
</tr>
<tr>
<td>15.4 Preparing a statement of cash flows: the indirect method</td>
<td>405</td>
</tr>
<tr>
<td>15.5 Preparing a statement of cash flows: the direct method</td>
<td>413</td>
</tr>
</tbody>
</table>
Supporting resources
Visit www.pearsoned.co.uk/weetman to find valuable online resources.

**Companion Website for students**
- Multiple choice questions to test your learning
- Extensive links to valuable resources on the web
- An online glossary to explain key terms

**For instructors**
- Complete Instructor’s Manual
- PowerPoint slides that can be downloaded and used for presentations

**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

For more information please contact your local Pearson Education sales representative or visit www.pearsoned.co.uk/weetman.