# Table of contents

1  Introduction to management accounting 13
   1.1 Setting the scene 14
   1.1.1 Information needs – management and external users 14
   1.1.2 Financial accounting and management accounting 15
   1.1.3 Basic principles of accounting 16
   1.1.4 The management accounting process 18
   1.2 Understand the hospitality industry 19
   1.2.1 The nature of the hospitality industry 19
   1.2.1.1 Goods and services offered 20
   1.2.1.2 The distinguishing features 23
   1.2.2 Industry organization and recent developments 24
   1.2.3 Summary of the key characteristics of the hospitality industry 25

Glossary 26
Multiple choice questions 28
Exercises 28

2  The balance sheet 31
   2.1 The components of a balance sheet 32
   2.1.1 Assets 32
   2.1.2 Liabilities 36
   2.1.2.1 Current liabilities 36
   2.1.2.2 Long term liabilities 38
   2.1.3 Owners' equity 39
   2.2 Formats of balance sheets and accounting standards 42
   2.3 Establishing simple balance sheets 43

Glossary 47
Multiple choice questions 49
Exercises 49

3  The profit and loss account statement 51
   3.1 Definition and categories of activities 52
   3.2 Formats and content of the profit and loss account statement 54

Glossary 60
Multiple choice questions 61
Exercises 61

4  Adjustments to the balance sheet and the profit and loss account 65
   4.1 Accounting conventions – accruals and recognition 66
   4.2 Adjusting the accounts 66
   4.2.1 Stock (inventory) 66
   4.2.2 Accounts receivable 68
   4.2.3 Depreciation and amortization 69
   4.2.4 Returns of goods 70
   4.2.5 Discounts 71
   4.2.6 Delivery charges 71

Glossary 72
Multiple choice questions 73
Exercises 73

© Noordhoff Uitgevers bv
The cash flow statement (also called the statement of cash flow) 75
5.1 Cash in the business 76
5.1.1 The importance of cash in the business 76
5.1.2 Differentiating profits from cash 77
5.1.3 The need for cash flow statements 77
5.1.4 The categories of activities 78
5.2 Establishing cash flow statements 80
5.2.1 Determine the net cash flow from operating activities 80
5.2.2 Determine the net cash flow from investing activities 82
5.2.3 Determine the net cash flow from financing activities 83
5.2.4 Collate all the previous 3 net cash flows into the definitive SCF 83
5.3 A worked example in the establishment of the SCF using the indirect method 83
Glossary 89
Multiple choice questions 90
Exercises 90

Analyzing financial statements 93
6.1 Purposes of analyzing statements 94
6.2 Horizontal analysis 99
6.3 Base-year analysis 101
6.4 Vertical analysis 102
Glossary 106
Multiple choice questions 107
Exercises 107

Ratio analysis and types of ratios 111
7.1 Purpose and usefulness of ratio analysis 112
7.2 Classification of ratios 113
7.2.1 Liquidity ratios 114
7.2.2 Solvency ratios 116
7.2.3 Profitability ratios 119
7.2.4 Activity ratios 122
7.2.5 Operating ratios 125
7.3 Performance review process 127
7.4 DuPont analysis 129
Glossary 133
Multiple choice questions 138
Exercises 138

Management of working capital 141
8.1 The importance of working capital management 142
8.2 The working capital cycle 142
Glossary 149
Multiple choice questions 150
Exercises 150

Cost management 153
9.1 The nature of costs and assumptions 154
9.2 Types of costs 154
9.3 Activity-based costing 157
9.4 Allocating indirect (overhead) costs to the operating departments 160
9.4.1 Responsibility accounting 160

© Noordhoff Uitgevers bv
Literature 335

Answers to end of chapter multiple choice questions 335

Appendix Factor tables 337

About the author 350

Index 351