

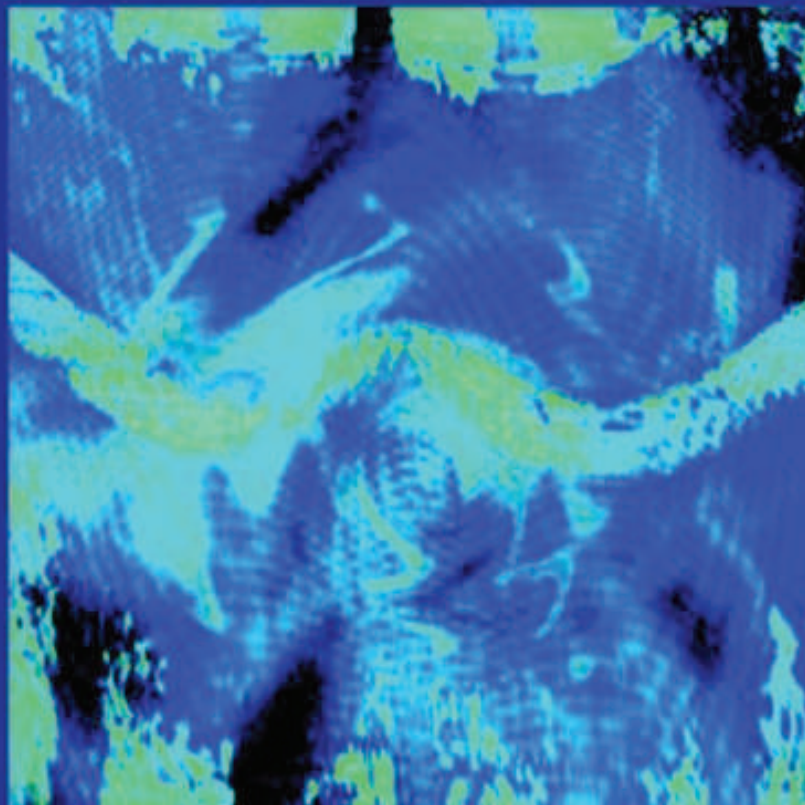


**Paul M. Collier**

# ACCOUNTING *FOR* MANAGERS



**Interpreting  
accounting  
information for  
decision-making**



# Accounting for Managers: Interpreting accounting information for decision-making

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**Paul M. Collier**

Aston Business School, Aston University



**WILEY**



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*For Loredana and Alexis*





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# Preface

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## Rationale for the book

This book was motivated by the author's experience in teaching accounting at postgraduate level (MBA and MSc) at Aston Business School and in-house training provided for non-financial managers in many organizations to introduce them to the use of financial tools and techniques.

My own education as an accountant was aimed at achieving professional recognition and emphasized an uncritical acceptance of the tools and techniques that I was taught. It was only after moving from financial to a general management position in industry that I began to see the limitations and questionable assumptions that underlay these tools and techniques. When I returned to study later in my career, I was exposed for the first time to alternative paradigms from which to view accounting. This book is therefore as much a result of my practical experience as a producer and user of accounting information as it is a result of my teaching and training experience.

As accounting increasingly becomes decentred from the accounting department in organizations, line managers in all functional areas of business are expected to be able to prepare budgets, develop business cases for capital investment, and exercise cost control to ensure that profit targets are achieved. Managers are also expected to be able to analyse and interpret accounting information so that marketing, operations and human resource decisions are made in the light of an understanding of the financial implications of those decisions.

I was disappointed by the books available to support teaching and training because most books on accounting have a similar format that is *accounting-centric*: chapters typically cover accounting techniques rather than the types of decisions made by non-financial managers. The emphasis in those books, many of which are designed for people whose career aspirations are to become accountants, is on *doing* accounting rather than *using* accounting. This book has been written for the vast majority of postgraduate students and practising managers who do not want to become professional accountants. The book therefore has a *practitioner-manager orientation*.

The title of the book, *Accounting for Managers: Interpreting Financial Information for Decision-Making*, emphasizes the focus on accounting to meet the needs of



managers. The material contained in the book stresses the interpretation (rather than the construction) of accounting information as well as a critical (rather than unthinking) acceptance of the underlying assumptions behind accounting. It is suitable for postgraduate and undergraduate students who are undertaking courses in accounting that do not lead to professional accreditation, and to practising non-financial managers who need a better understanding of the role of accounting in their organizations.

There is a focus in most accounting books on manufacturing organizations, perhaps because many of those books have been issued as revised editions for many years and have not adequately reflected the changing nature of the economies in the developed world. The growth of service businesses and the knowledge economy is not sufficiently explored in most accounting texts. This book uses examples, case studies and questions that are more equally balanced between the needs of organizations in manufacturing, retail and services.

In most accounting books there is also insufficient attention to theory, particularly for postgraduate students who should have a *wider theoretical underpinning* of accounting as it is used in organizations. Theory should encourage the reader to enquire more deeply into the alternative theoretical positions underlying accounting as well as its social and behavioural consequences, both within their own organizations and in the wider society. This book therefore introduces the reader to some of the journal literature that is either fundamental to the role of accounting or is 'path breaking'. The book is not intended to be deeply theoretical, but rather provides, through the ample references in each chapter, an accessible route for those who want to reach into the wider literature.

Accounting books are often inaccessible to those from non-English-speaking backgrounds, because of the complexity of the language used. Many of the examples and questions in typical accounting books rely on a strong knowledge of the nuances of the English language to interpret what the question is asking, before students can make any attempt to answer them. This book adopts a more plain English style that *addresses the needs of European and Asian students*.

Finally, the examples in most accounting books focus on the calculations that accountants perform to construct accounting reports, rather than on the *interpretive needs* of managers who use those reports. While some calculation questions are needed to ensure that readers understand how information is produced, the emphasis for the non-financial manager should be on *critical understanding and questioning* of the accounting numbers and of the underlying assumptions behind those numbers, and on the need to supplement accounting reports with non-financial performance measures and broader perspectives than satisfying shareholder wealth alone.

## Outline of the book

The book is arranged in four parts. The first part describes the context and role of accounting in business. Some theoretical frameworks are provided. It is hoped that this will provide a foundation for readers' understanding that accounting

is more than a technical subject but is grounded in competing theories. These theories are themselves rooted in historical, political, economic and social causes. The theoretical framework should help to make the subject more meaningful to students and practitioners alike. Although the reader is encouraged to read Part I, the arrangement of the book is such that the reader can commence in Part II, where the analysis and interpretation of accounting begin.

For example, those readers with a good business understanding may omit Chapters 1 and 2. Those who understand the basics of accounting can omit Chapter 3. These first three chapters are provided for those students who are coming to a business studies course for the first time, although even the experienced reader will find some value in them. Readers may not want to read the theoretical Chapters 4 and 5 until they are further into Part II; however, the theory in each of the chapters in Part II will be more understandable after reading Chapters 4 and 5. Those readers who have undertaken a course in financial accounting may have already covered much of the material in Chapters 6 and 7. Again, this book is intended to be a complete coverage of the subject for students and readers with no prior experience of accounting and Chapters 6 and 7 provide an important basis for understanding management accounting.

The second part of the book shows the reader how accounting information is used in decision-making, planning and control. In this second part the accounting tools and techniques are explained, illustrated by straightforward examples. Case studies, drawn mainly from real business examples, help draw out the concepts. Theory is integrated with the tools and techniques and the use of quotations from original sources should encourage the reader to access the academic accounting literature. A critical approach to the assumptions underlying financial information is presented, building on the theoretical framework provided in Chapters 4 and 5.

The third part provides a wealth of supporting material. Chapter 16 suggests an approach to research in accounting.

Chapter 17 introduces four readings from the accounting literature. These cover the spectrum of the literature and support the most important concepts in the book. They present four different yet complementary perspectives on accounting in organizations. Each reading has several questions that the reader should think about and try to answer in order to help understand the concepts.

The third part ends with an extensive glossary of accounting terms. The use of bold in the text highlights that the meaning of the term is outlined in the glossary.

The fourth part of the book contains an appendix of questions and case studies to enable readers to test their understanding of the concepts described in the book.

The questions in Appendix 1 cover each chapter and rely on knowledge gained from reading that and preceding chapters. Consequently, there is a greater level of detail involved in questions about the later chapters. Attempting these questions will help the reader to understand how accountants produce information needed by non-accounting managers. An understanding of accounting tools and techniques is important in using the results of these tools and techniques for decision-making. Appendix 2 contains answers for all the questions.

The case studies in Appendix 3 help in developing the ability to interpret and analyse financial information produced by an accountant for use by non-accounting managers in decision-making. Each is identified with the chapters that will aid understanding, interpretation and critical analysis of the case. Appendix 4 contains a suggested answer for each case, although the nature of such cases is that there is rarely a single correct answer, as different approaches to the problem can highlight different aspects of the case and a range of possible solutions.

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# About the Author

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Dr Paul Collier Ph.D. (Warwick), B.Bus. (NSWIT), M.Comm. (NSW), Grad. Dip. Ed. (UTS), CPA (Aust.) is a lecturer in management accounting at Aston University's Business School in Birmingham. Paul has worked in senior financial and general management roles in the UK and Australia. He was financial controller/company secretary and subsequently general manager (operations) for one of Australia's largest printing companies before moving to the UK in 1993. The book uses material developed by the author based on his experience as a practitioner, in his teaching at Aston and elsewhere, and in delivering financial training to non-financial managers in diverse industries over many years. Paul's research interests are in the use of management accounting information in decision-making and the behavioural aspects of management accounting. He has published several articles in academic journals.