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Macmillan Business Masters

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# Company Accounts

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Third Edition

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*Company Accounts* Roger Oldcorn

*Management* Roger Oldcorn

*Marketing* Geoff Lancaster and Paul Reynolds

*Operations Management* Howard Barnett

*Personnel Management* Margaret Attwood and Stuart Dimmock

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Roger Oldcorn





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First edition (*Understanding Company Accounts*, Pan Books) 1984

Second edition (*Company Accounts*, Macmillan) 1989

Third edition 1996

Published by  
MACMILLAN PRESS LTD  
Houndmills, Basingstoke, Hampshire RG21 6XS  
and London  
Companies and representatives  
throughout the world

ISBN 978-0-333-66265-6 ISBN 978-1-349-14092-3 (eBook)  
DOI 10.1007/978-1-349-14092-3

A catalogue record for this book is available  
from the British Library.

10 9 8 7 6 5 4 3  
05 04 03 02 01 00 99 98

Typeset in Great Britain by  
Aarontype Limited  
Easton, Bristol

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# Acknowledgement

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The author and publishers wish to thank Tesco plc for giving permission to reproduce much of the Company's annual report and accounts.

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# Introduction

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This book has been written for anyone who needs to understand and use company accounts, especially those who do not want (or have any desire) to become accountants. Its purpose is to explain accounting statements to the layman – to translate the language of finance – and to show the reader how to study the accounts for clues about the organization, its efficiency and its effectiveness.

Accounting statements have improved out of all recognition during the last twenty years and, as far as published company accounts are concerned, now contain a great deal of useful information. Similarly, there has been a tremendous upsurge in the number of people who ‘need to know’ about companies in greater depth and more objectively than is provided by a few short paragraphs in the financial newspapers. The list of types of people who have a more than passing interest in companies is quite lengthy: it is not just the owners or shareholders who need to know, but employees (and prospective employees), bankers, other lenders, customers, suppliers and all others who feel that, at least if you understand it, you will know better how to behave towards it. Most of these people are not accountants, yet the bulk of ‘hard’ information about a company comes in the form of accounting statements. Is it any wonder that companies are misunderstood, that well-run firms do not always receive the recognition due to them, and that poor companies can get away with their inefficiencies for a long time? Also, is it surprising that so many small firms go out of business after trading for only a year or two? All the warning signs will have been there in the accounts; lack of understanding in these circumstances is fatal.

In this book I have concentrated on the accounting information that is usually made available to the public (‘published accounts’). If you are inside the business, more information is available to you and, if you have a special interest in a firm (like a bank manager), you will need more information than the accounts themselves provide. Even so, the published accounts are an excellent starting point for anyone who wants to understand.

## **How to Use This Book**

The chapters in this book follow on from each other in a logical fashion and ideas in any particular chapter may have been introduced in earlier chapters. It is not very easy therefore to dip in and out of the book at random; treat it more like one long novel than a series of short stories.

You should have a notebook and pencil to hand, for jotting down interesting points or questions and for somewhere to work out the puzzles that appear from time to time. You will need either to have a calculator or to be able to add, subtract, multiply, divide and work out percentages without too much bother. There is no involved mathematics.

Throughout the book you will find questions which you should try to answer before reading on; they are designed to test your understanding of what has just been discussed, or to introduce a new topic.

Part I describes the different accounting documents in some detail, explaining technical words as they occur. Generally, however, technical explanations have been avoided – for example, there is no detailed explanation of either corporation tax or how tax on dividends works. The reading list at the end of the book directs you to detailed texts on technical topics. Part II shows how accounts can be evaluated and, generally, I have only referred to information that is shown in the published accounts. The exception is the discussion of ratios that use stock market prices. This is for completeness and because the information is easily available. The whole world of the interpretation of ‘management accounts’ is outside the scope of the book.