

****Sample of pages 1-3**

BUSS1030: Accounting

Quick definition

- **Accounting equations:** the basic tool of accounting, stated as $\text{Assets} = \text{Liabilities} + \text{Equity}$
- **Assets:** An economic resource that is expected to be of benefit in the future
- **Liability:** An economic obligation (debt) payable to an individual or an organisation outside the business
- **Balance sheet:** Report of an entity's assets, liabilities, and equity as of a specific date
- **Expenses:** Decrease in equity that occurs from using asset or increasing liabilities in the course of delivering goods or services to customer
- **Income statement:** Report of an entity's revenues, expenses and profit/loss for the period
- **Net profit:** Excess total revenue over total expenses
- **Net loss:** Excess total expenses over revenue
- **Revenue:** Amount earned by delivering goods and services to customer
- **Cash flow statement:** Report of cash receipts and cash payment during a period
- **Statement of changes in equity:** report that shows changes in capital for a period of time

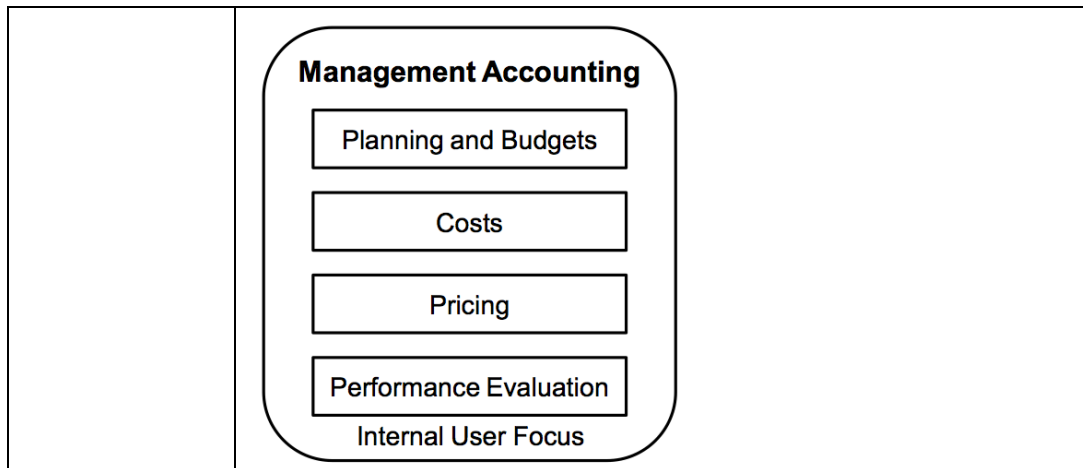
LECT 1: Introduction to Accounting

Textbook: Chapter 1 pg 1-20

CH1 LO1: Define the main types of accounting

- Accounting: information system that communicates financial information
- 2 types of accounting;

Financial accounting	<p>For external decision makers (i.e. shareholders)</p>
Managerial accounting	<p>For internal decision makers (i.e. managers)</p>



CH1 L02: Describe how decision makers use accounting information

- Provide useful information for making investment and lending decisions **(based on the financial report)**
 - i.e. Investors – review financial statements to analyse how their investment is performing
 - i.e. tax authorities – business determine their goods and services tax from accounting records

CH1 L03: Describe professional career opportunities in accounting

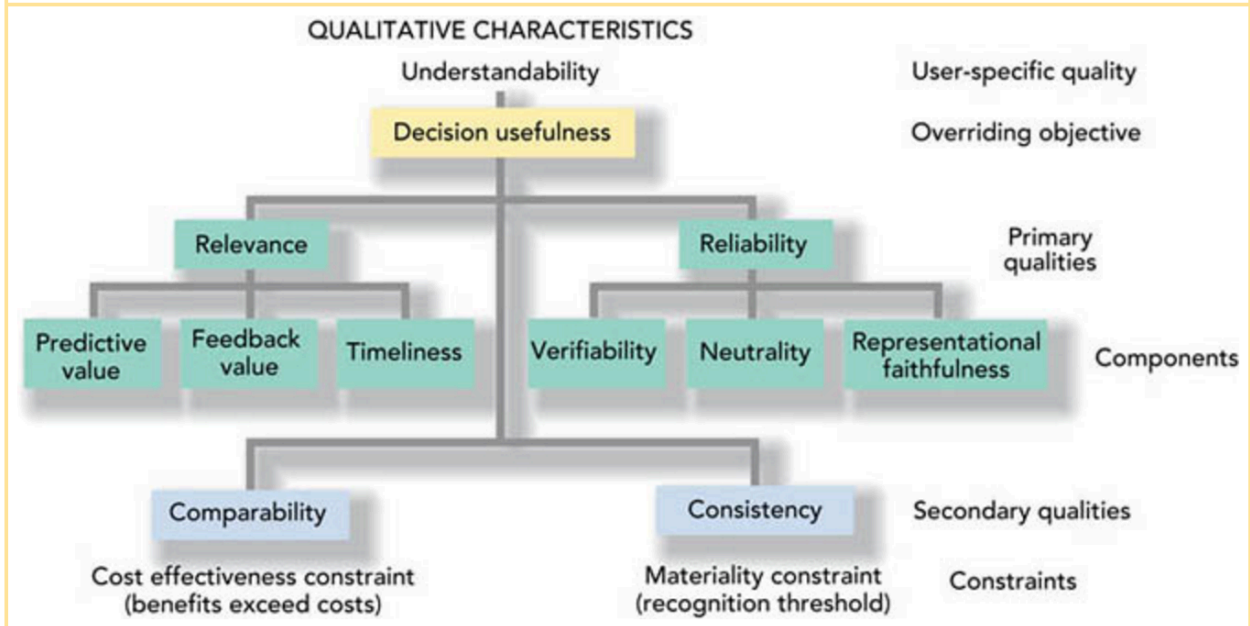
- To become a professionally qualified account;
 - Become members of the Institute of Chartered Accountant in Australia (ICAA), CPA Australia (CPAA) or the Institute of Public Accountant (IPA)
- The Chartered Institute of Management Accountant (CIMA): professional organisation of managerial accountants
 - Qualifications awarded by these bodies are internationally recognised
- Two main type of work:
 - Work for a single business i.e. a firm or a government body [their work involve preparing financial statements for the business, budget, tax returns etc..]
 - Work in a public practise [work include auditing, income tax planning etc...]
- Accounting services;
 - **Audit:** independent examination that assures the reliability of accounting reports that management prepares
 - **Tax accounting:** complying with tax laws and minimising tax to be paid
 - **Management consulting:** advice public accountant provide to help managers run a business
 - **Insolvency:** to ensure that businesses that are in financial distress is properly restructured or that the proceeds from the sale of the firms are distributed to the firms' creditors appropriately

CH1 L04: Describe how accounting is regulated in Australia

- Accounting standards are formulated by the **Australian Accounting Standards Board (AASB)**
 - *The AASB is overseen by the Financial Reporting Council (FRC)*
 - Relevance = information must have predictive or confirmatory value
 - Faithful representation/reliability = free from error

GRAPHIC 1-7

Hierarchy of Desirable Characteristics of Accounting Information



- **International harmonisation**

CH1 L05: Explain the role of ethics and sustainability in accounting

- **Ethics:** standard of moral behaviour expected of accountants i.e. Codes of Professional conduct
- ICAA and CPAA’s Joint **Code of Professional Conduct**
 - Integrity (to be honest, fair and sincere)
 - Objectivity (to avoid conflicts of self interest and bias)
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour (compliance with the law)
- **Sustainability:**
 - *Writ small sustainability:* whether business can continue to be profitable in the future as well as in the present
 - *Writ large sustainability:* the society and environment we all live in (meets the needs of the present without compromising the ability of future generations to meet their own needs)

CH1 L06: Identify the three main types of business organisations

	Advantages	Disadvantages
Sole proprietors (single	<ul style="list-style-type: none"> ➤ Total undivided authority ➤ No restriction on 	<ul style="list-style-type: none"> ➤ Unlimited liability ➤ Limitation on size – fundraising power

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LECT 7: Statement of Financial performance

CH7L01: Purpose of a statement of financial performance

- **Purpose:** to measure and report how much profit (wealth) the business has generated over a period
- **Profit (or loss):** the difference between the increase in owners' equity (capital), known as **income** or other **gains**, and the decreases in owners' equity known as **expenses**
 - Income: measure of **the total inflow of asset** (i.e. cash or amounts owned to a business by accounts receivable) or the **reduction in liabilities** that arise from operating, trading or other activities. It is made up of:
 - **Revenue** (from operating activities)
 - **Gains** (usually from non-operating activities, eg gain on sale of non-current assets)
 - Revenues: gross **inflows** of future economic benefits gained by the different categories of operating activities (e.g. cash from sales).
 - Expenses are **outflows** of assets (or increase in liabilities) incurred in the process of carrying on a business by generating income

$\text{Profit/(loss) for the period} = \text{total income} - \text{total expenses}$

CH7L02: Relationship between the statements of financial performance and position

- The statement of financial performance can be viewed as linking the statement of financial position at the start of a period with that at the end of the period
 - *Statement of financial position (balance sheet):* report at a single point in time and is effectively a 'snapshot' of the stock of wealth held by the business
 - *Statement of financial performance and loss (income statement):* concerned with the generation of wealth over a period of time
- The accounting equation can thus be extended as:
 - **Assets_{end} = Liabilities_{end} + OE_{beg} + Profit (or - Loss) + Contributions - Drawings or Dividends**

CH7L03: Format of a statement of financial performance

- For **external reporting**, the reporting cycle is normally one year
- For internal functions, it is common for profit figures to be prepared on a monthly basis
- **Format #1:** Simple listing of accounts (small organisation) or for internal purposes for other organisation
 - Listing of income and expenses in alphabetical or financial magnitude order

Paul's Guitar Shop, Inc.
Income Statement
For the Year Ended December 31, 2015

Revenues

Merchandise Sales	\$ 24,800	
Music Lesson Income	<u>3,000</u>	
Total Revenues:		\$ 27,800

Expenses

Cost of Goods Sold	10,200	
Depreciation expense	2,000	
Wage expense	750	
Rent expense	500	
Interest expense	500	
Supplies expense	500	
Utilities expense	<u>400</u>	
Total Expenses:		<u>14,850</u>

Net Income

\$ 12,950

- ***Format #2:** Classified report (larger organisations) or for internal purposes
 - Income and expenses are grouped into meaningful categories to provide more relevant information
 - Income: (revenue in particular) is broken down to reflect the nature of the business and the relative significance of each item
 - sales (cash, credit)
 - 'other revenues' (i.e. interest revenue, commission, rent, dividends)
 - Expenses (4 categories)
 - Cost of sales
 - Selling and distribution
 - Administration and general
 - Financial

Company		
Income statement for the year ended D M Y		
	\$	\$
Sales		x
Less cost of sales		<u>x</u>
Gross profit		x
Other revenue		
Interest from investments	x	
Rent from properties	<u>x</u>	<u>X</u>
		X
Less expenses		
Selling and distribution		

Advertising	X	
Commission	X	
Delivery	X	
Display	X	
Salary and wages (i.e. sales staff)	X	X
Administration and general		
Sales and wages (i.e. admin staff)	X	
Rates	X	
Telephone and postage	X	
Insurance	X	
Repairs and maintenance	X	
Depreciation of buildings	X	X
Financial		
Interest	X	
Bad debts	X	X
Total expenses		<u>X</u>
Net profit		<u>X</u>

- **Format #3: Regulatory presentation (companies)**
 - AASB 101 'Presentation of Financial Statements' requires that the income statement should classify expenses according to their nature or function (see paragraph 82 for a list of requirements)
 - Revenue
 - Finance costs
 - Share of profits or losses of associates/joint ventures
 - Tax
 - Discontinued operations

CH7L04/5: Definition, recognition, classification and measurement of income and expenses

- *It is possible to recognise income at different points in the production/selling cycle at the particular point*
- **Profit measurement and recognition of expenses**

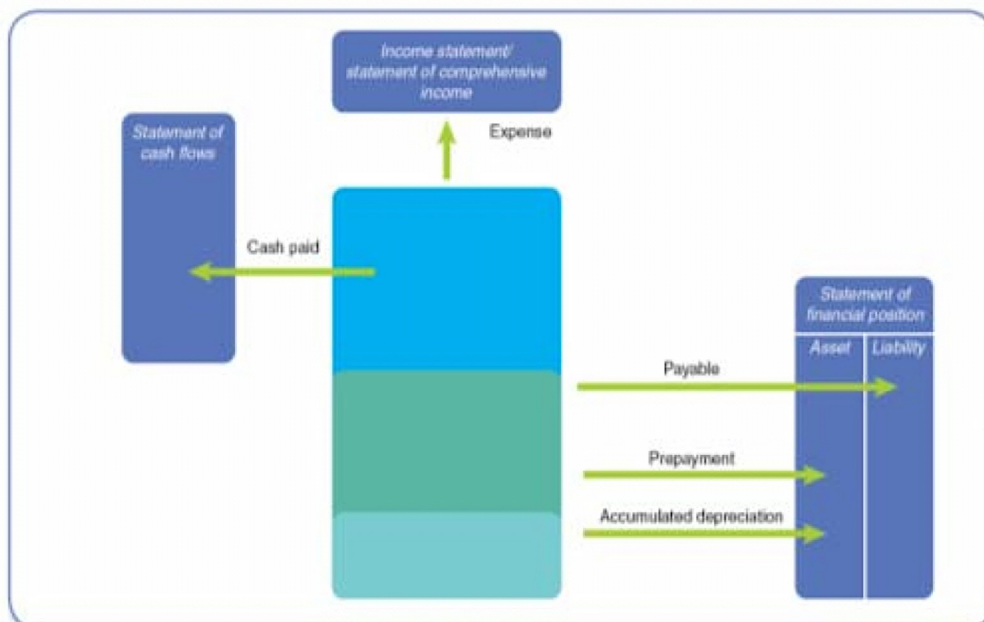


Figure 4.4 Accounting for expenses