ACCOUNTING A.

1. FINANCIAL ACCOUNTING:

ASSUMPTIONS:

1. Economic entity
2. Time period
3. Monetary unit
4. Going concern

STATEMENT OF COMPREHENSIVE INCOME:

Single step – total revenue less total expenses to give total profit/ loss

- Reports profitability
- **Revenue recognition principle** = reported when earned not cash received
- **Matching principle** = expense recorded in period that resources are used to generate revenue

REVENUE – EXPENSES = PROFIT/ LOSS

Multi-step – calculates income by grouping certain revenues and expenses together and calculating several subtotals of income

SALES REVENUE – COST OF SALES = GROSS PROFIT

PROFITS BEFORE TAX = GROSS PROFIT – OPERATING EXPENSES

STATEMENT OF FINANCIAL POSITION:

- Reports on liabilities, assets and equity of a business
- Balance sheet
- Liability = an obligation
- Asset = an economic resource that is objectively measurable – will provide future economic benefit

Current Asset: Any asset that is reasonably expected to be converted to cash or consumed within one year of the statement of financial position.

- Listed in order of their liquidity

Non-current assets: The resources that are used in a company's operations for more than one year and are not intended for resale

Intangible assets: A resource that is used in operation for more than one year, is not intended for resale and has no physical substance

Current Liabilities: An obligation that is reasonably expected to be satisfied within one year

Non-current liabilities: An obligation that is not expected to be satisfied within one year.

ASSETS = LIABILITIES + EQUITY

HORIZONTAL AND VERTICAL ANALYSIS:

Horizontal – method of analysing a company's account balances over time by calculating absolute and % changes in each

$ CHANGE = CURRENT YEAR– PRIOR YEAR

% CHANGE = DOLLAR CHANGE / PRIOR YEAR

Vertical – method of comparing a company's account balanced within one year

(FOR STATEMENT OF FINANCIAL POSITION) = ACCOUNT BALANCE / TOTAL ASSETS

(FOR COMPREHENSIVE INCOME) = ACCOUNT BALANCE / NET SALES OR REVENUE

STATEMENT OF CHANGES IN EQUITY:

- Links income and financial position statements

RETAINED EARNINGS
+/- PROFT/LOSS
- DIVIDENDS
= ENDING BALANCE

CASH FLOW STATEMENT:

- Reports sources and uses of cash
- Inflows and outflows from:
  - Operating – purchase of supplies, salaries, sale of goods
  - Financing – generating and repaying cash from investors and creditors
  - Investing – buying and selling of assets

OPERATING ACTIVITIES
+/- INVESTING
+/- FINANCING
= NET INCREASE/ DECREASE IN CASH

QUALITATIVE CHARACTERISTICS:

1. **Understandability** – comprehensible to those with reasonable understanding of business and who are willing to study the info. with reasonable diligence

2. **Relevance** – make difference in decision making

3. **Reliability –** accurate and truthful

4. **Comparability** – determine similarities/ differences with other businesses

5. **Consistency** – to compare from year to year in same entity

6. **Materiality** – threshold at which financial item begins to affect decision making

7. **Conservatism** – way accountants deal with uncertainty = present least optimistic outcome

2. FINANCIAL STATEMENTS:

BUSINESS FORMS:

1. **Sole proprietorship**
    - Business owned by 1 person
    - Business NOT separated from owner – income from business is reported on owner's tax return
    - Major diff. between partnership = equity section on SFP

2. **Partnership**
    - Formed when 2 or more proprietors join together to own a business
    - Written or oral

3. **Company**
    - Separate legal entity that is established by registering with ASIC
    - Taxed separately from owners
    - Public or private

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:

- GAAP
- Standards, rules, principles that comprise authoritative practice for financial accounting

INFORMATION BEYOND FINANCIAL STATEMENTS:

Auditor's report:

- Independent
- Prepared by a registered company
- States whether information has been presented fairly and in conformity with AAS

Notes to financial statements:

- Disclose method used to gain info
- Provide additional explanation for account balances

Management's discussion and analysis:

- Analysis of financial activities by management staff

3. RECORDING TRANSACTIONS:

THE DUAL-ENTRY SYSTEM:

Summary:

ASSET increases = recorded in debit column
EXPENSE increases = recorded in the debit column
DIVIDEND increases = recorded in the debit column

LIABILITY increases = recorded in the credit column
EQUITY increases = recorded in the credit column
REVENUE increases = recorded in the credit column

4. ADJUSTING ENTRIES:

CASH AND ACCRUAL ACCOUNTING:

Cash accounting:

- Records revenue when cash is received