
ACCG101 Summary Notes

❑ Role of Accounting & Relationship to Governance

- Providing **financial / non-financial information** to influence the **users of information** in decision making towards the organisation
 - **Financial Accounting** : **External Stakeholders**(Shareholders, Creditors..), highly regulated, **historical**, standardised
 - **Management Accounting** : **Internal Stakeholders**(Managers, CEO..), flexible and variable, **future oriented**
- **Corporate Governance** : **Providing overall direction**, policies, procedures, **ensuring accountability**
 - **Accountability** : Behaving in appropriate way, **being answerable**
 - **Stewardship** : 'How one is **accountable in utilising the organisational resources**?'
- Governance is closely related to Accounting as..
 - To prevent **organisational frauds and ensuring accountability** of any accounting practices
 - Accounting as an '**instrument**' for governance, for **influencing decision making** and resource utilisation
 - Accounting provides **close insight to the financial performances/aspects** of the business

❑ Revision of Accounting 100

- **Asset = Liabilities+Equity**
- **Normal Balance** = 'Which one is **debit** / Which one is **Credit**?' → Asset's NB is debit
- **Adjusting entries** are required under accrual basis, **to ensure correct recognition of income**
- **Closing Entries** are to **terminate temporary accounts** and merging them at the end of the period
 - **Permanent accounts** : **Assets, Liabilities, Owner's Equity**
 - **Temporary accounts** : **Revenue, Expenses, Drawings, P&L Summary**
 - **P&L Summary** is implied as different → Capital(**Sole**), Capital/Retained(**Partnership**), Retained(**Company**)

❑ Principles of internal control

- **Processes** for staffs and managers to **ensure efficient/effective operation** of the organisation
 - **Preventing** Employee robberies/thefts
 - Assuring **reliable recording** and presentation of **accounting information**
 - **Administrative control** : Whether the operations are **adhering to the internal policies**
 - **Accounting control** : Are the **records** **being made correct**?
- **5 Principles** of internal Control
 - **Establishment of responsibility** : Creating **differing duties/tasks** for people with different qualifications
 - **Segregation of Duty** : **Different individuals** handling tasks that are **related to each other**
 - **Documentation procedures** : Verifying of transactions → **Signatures, Stamps, Invoices...**
 - **Independent internal verification** : Cash-handling tasks that are subjective to theft **requires additional verifying**
 - **Physical/electronic/mechanical controls** : Use of **additional security equip.** → Vaults, safebox, alarm machines..
- **Limitations** of internal Controlling methods
 - **Cost efficiency** of controlling / considering the **business structure and size**
 - **Human imperfection** / Assuring the **external controlling factors** first

Fundamental	Enhancing
Relevance (Materiality) - Information <i>should influence DM economically</i>	Comparability : Compare to similar/different business? Verifiability : Different knowledge but SAME info
Faithful Representation - Complete / Neutral / Free of Error	Timeliness : 'Capable' of influencing DM? Understandability : Can it be understood?

※ Cost versus benefit (Constraint) → The *benefit of reporting should compensate the cost being put for the process*

4) Elements in Financial reports

= **Asset** : Resources that the entity has in '**CONTROL**' that is '**EXPECTED**' to bring '**FUTURE BENEFITS**'

= **Liability** : '**PRESENT OBLIGATION**' as a result of '**PAST ACTIVITIES**'

= **Equity** : '**RESIDUAL INTERESTS**' in Asset by deducting the liabilities, which reflects the owners' claim

= **Income / Expense** : Inflow / Outflow of **Economic Benefits**

※ 2 Recognition Criteria of Elements → (1) **Probability (Likelihood > 50%)** (2) **Reliable Measurement**

□ Accounting for Partnerships

- **Partnerships** : Relationship between **two or more individuals of carrying a business** to view profit
 - Justified relationship as in **written/verbal agreements** between two or more legally competent individuals
 - Operate to **carry a business and view profits**
 - **Members must be co-owners** of the business

· Characteristics of a partnership

- **Association of individuals** : Must consist of **more than two persons**
- **Mutual Agency** : Every partner can act as an agent with '**legal bindings on behalf**'
- **Co-ownership of Property** : **Any asset** belongs to the partnership can be **shared between partners**
- **Unlimited Liability** : Partnership entity is **not a separate legal entity**
- **Limited Life** : When one of the **partner is gone, the partnership is over** (Cannot be restored)

· Advantages and Disadvantages of a Partnership

Advantages	Disadvantages
<ul style="list-style-type: none"> - Pooling of resources / skills (More people, more stuff) - Ease of formation (compared to company) - Subject to less regulation - May have tax advantages - Easier decision making 	<ul style="list-style-type: none"> - 'Mutual' Agency – they'll also come to you on behalf - Unlimited liability - Distribution of profits - Relationship between partners maybe fragile