Lecture 1: Introduction to Accounting (Chapter 1, pp. 1-20)

LO1- Define the main types of accounting

- Accounting communicates financial information
- Financial accounting→ for external users, eg. Shareholders
    - Transactions, income statement, balance sheet, cash flow statement
- Management accounting → for internal users, eg. Management

LO2- Describe how decision makers use accounting information

LO4- Describe how accounting is regulated in Australia

- Australian accounting standards board (AASB) standards
- Govern measurement rules and level of disclosure
- Responsible for technical accounting standards

LO5- Describe the role of ethics and sustainability in accounting

- Right vs wrong
- Normative rather than factual
- Relates to the standard of moral behaviour expected by accountants
- Large firms have codes of professional conduct
    - Integrity
    - Objectivity
    - Professional competence and due care
    - Confidentiality
    - Professional behaviour

LO6- Identify 3 main types of business organisations

	Benefits	Disadvantages
Sole Trader	• Total authority • No restrictions on type of business • Easy to set up • All profits	• Unlimited liability • Limitation on size/skills • Hard to get initial loan • Longevity → can't keep running if someone dies
Partnership	• Better credit standing-possibility • More brain power • Simple to form • Don't have to report to Shareholders	• Unlimited personal liability • Partnership agreement recommended to overcome future problems • Conflicting views
Corporation/ Company	• Separate legal existence • Limited liability of shareholders • Transferability of ownership relatively easy	• Separation of ownership and control • Extensive government regulation • Double layer of taxation

LO7-describe basic accounting principles and their application in business

- Purpose of financial reporting
    - Provides information useful for making investment and lending decisions
    - Trade offs: relevance, reliability, cost, confidentiality, full disclosure
- The entity concept
    - Business activities (transactions) are accounted for separately from personal activities
    - Keeps business and personal separate

- Cost principle
    - Assets and services acquired should be recorded at their actual cost (reliable and objective data)
    - Eg. A business purchases 1000 L of petrol at $1 per L. the next day the price is $1.20. Cost principle says record at the historical cost of $1.
- Accounting time period concept
    - Unit of time for which accounting data is collected and the financial statements prepared
    - In Australia many companies prepare their statements for the financial year beginning on 1 July
- The going concern principle
    - The entity will continue to operate in the future
- Accrual Accounting
    - NOT cash accounting that records transactions only when cash exchanges hands
    - Recognise revenue when it is 'earned'
    - Match costs with revenues: simultaneous recognition of revenues and expenses that result from the same transactions
- Match costs with revenues
    - Simultaneous recognition of revenues and expenses that result from the same transactions

Lecture 2: Key Accounting Concepts (Chapter 1, pp. 20-29 & Chapter 2, pp. 64-71)

<u>What is accounting?</u>

- See how a business is doing in relation to its competitors
- Uses financial statements to compare companies
- Financial statements we will look at =income statement, balance sheet, cash flow statement
- Language of business
- How we process and identify business information and transactions to form financial statements and reports
- Currently doing FINANCIAL ACCOUNTING → perspective of investors, shareholders, owners, employees → invested interest in the business

<u>LO8-Recall the accounting equation and its function</u>

Assets=Liabilities + Owners Equity

<u>Cash accounting</u>

- Recording revenues and expenses at the time the cash is received or paid
- Cash received-cash paid during the period

<u>Accrual accounting</u>

- Recording revenues and expenses at the time they occur and are earned or incurred
- **Revenues earned** → provided the service, provided the good
- **Expenses are incurred** when you have the liability to make payments → eg phone bill arrives and you have to buy it by a certain date… still an expense even though you haven't paid the bill yet
- Conducted based on credit terms
- Revenue when earned during the period
- Expenses when incurred, in earning hat revenue irrespective of whether cash is received or paid

Assets

- Assets are resources that we **control** from a **past transaction** or event that will provide **future economic benefits**
- MUST FULFIL 3 bolded criteria
- Eg. Land, building, equipment, good will, accounts receivable, bills receivable, pre paid expenses

Liabilities

- What we owe
- They are **present obligations** from **past transactions/events**. The settlement of which will result in a **future sacrifice of resources**
- Eg. Accounts payable, bills payable, accrued liabilities (expenses incurred but not paid), long term liabilities (mortgages), loans payable

Equity

- Has no definition in AASB's
- It is what is left of the assets after liabilities are deducted
- The owners claim on the entity's assets
- Owners' Equity (OE) accounts- capital (owners' interest in the business), drawings, revenues, expenses,. Dividends.
- Owners' equity INCREASES from **revenues & owner investments**
- DECREASES from **owner drawings from the business, expenses and dividends**

Revenues

- Amounts received or to be received from customers for sales of products or services
- Sales
- Performance of services
- Rent received
- Interest received

Expenses

- Amounts that have been paid or will be paid later for costs that have been incurred to earn revenue
- Salaries and wages
- Electricity and gas
- Supplies used
- Advertising

Transaction

- An event that involves at least 2 parties exchanging resources
- The accounting equation A=L+E will always be in the balance after every transaction → ie. Each transaction will affect at least 2 accounts
- **Account:** detailed record of all the changes that have occurred in a particular asset, liability or owner's equity account during the period
- **Journal:** the transactions are recorded in a journal first. Ie. DR insurance expense, CR cash at bank
- **Ledger:** the data for each part of the transaction is then recorded in the ledger. Ie. There would be a ledger for every account name used in the transaction, a ledger for cash at bank, a ledger for accounts payable, accounts receivable etc

- **Trial balance:** a list of all ledger accounts with their balances are then included in a trial balance

Debit and Credit Rules

Summarized Debit and Credit Rules		
Account Type	**To Increase**	**To Decrease**
Asset	Debit	Credit
Liability	Credit	Debit
Equity	Credit	Debit
Revenue	Credit	Debit
Expense	Debit	Credit

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Revenues are inflows obtained through the sale of assets and expenses are outflows recognised through the payment of liabilities. Is this true?

- To some extent
- Revenue doesn't have to come from sold assets → rent, paid interest, services
- Outflows aren't solely from paying liabilities -→ rent, wages