

ADM Summary Notes

Week One

- Role of accounting is to provide financial information for decision making that is reliable and relevant
- Accounting is the process of identifying, measuring, recording and communicating the economic transactions and events of business operations
- Transactions are economic activities relevant to a particular business
 - Identifying, measuring, recording and communicating
- Diverse roles of accountants
 - Commercial accountants
 - Public accountants
 - Government accountants
 - Non-for-profit accountants
- Various forms of business organisations
 - Sole proprietorship
 - Own your own business, business debts are your debts
 - Partnership
 - Firms, contractual relationship, debts are your debts per percentage
 - Corporation
 - Separate legal entity, owned by the shareholders, liability only to the amount that you invest
 - Other forms
 - Trust, relationship or association b/t 2 or more parties whereby one party holds property on trust for the other
 - Cooperative- member owned, controlled and used and must consist of 5 or more people
 - Associations
 - Formed by small, non-profit, community based groups, may be incorporated
 - Government
 - Organisations are owned by government; federal, state or local
 - Departments or segments are operate as business enterprises
- Conceptual framework
 - The theoretical foundation for reporting, set of concepts to be followed by preparers of financial statements and standard setters
 - Outlines the objective of general purpose reporting
 - To provide financial information about the reporting entity to the resource provides that is useful in making decisions about providing resources to the entity
 - IASB – section
 - Indications or a reporting entity
 - If it is managed by indiv who are not the owners of the entity
 - If the entity is politically or economically important
 - If the entity if considered large in sales, assets, borrowing, customers and employees
 - Implications
 - Fill financial statements, audited
 - Considerable cost
- Primary users of financial reports
 - Accounting information system
 - External decision makes
 - Regulators
 - Customers
 - Suppliers
 - Investors
 - Lenders
 - Internal decision makers
 - Managers
- Gen purpose finanacial reports
 - Published financial statement of an entity prepared in accordance with the applicable accounting standards

- External users have an interest in 3 main types of activities
 - Financing
 - Outside sources of funds
 - Borrowing from banks or investors by debt securities
 - Selling shares to investors
 - Eg, likelihood of repayment
 - Demonstrating that you don't need the money
 - How you have used other funds
 - Lending/borrowing has more risk
 - Investing
 - Acquisition or sale of resources/assets needed to operate the business
 - Eg, purchase or sale of property plant/equipment, purchase of investments
 - Operation
 - Results from operational activities undertaken to earn income
 - Revenue (sale of goods, provision of services, return from investments)
 - LESS
 - Expenses (cost of resources/assets consumed or services used)
 - Sustainability reporting increasingly crucial for companies
 - Meeting social, economic and environmental needs of our community
 - Helpful for future gen's
 - Concerns 3 main areas
 - Economic
 - Environmental
 - Social
 - Is there a tradeoff b/t social impact and financial return
- Financial statements
 - Income statement/ Profit-Loss Statement
 - Reports revenues less expenses for a particular period of time
 - Statement of changes in equity
 - Reports total comprehensive income for the period and other changes in equity
 - Statement of financial position/Balance Sheet
 - Reports assets and claims to those assets at a particular point in time
 - Statement of cash flows
 - Reports information regarding cash receipts and cash payments for a particular period of time – where it goes to/from
- The cash flow statement is one of the linkages between the beginning and ending Statement of Financial position
 - Inter-relationship of the principle of financial statements
 - Role and how do we bring them together to make a whole
 - Need a comprehensive income statement to understand
- Income statement
 - Purpose is to report success for failure of the entity's operations for a period of time
 - Managers are interested in the bottom line because they allocate resources based on their beliefs about an entity's future performance
 - How do we understand if it's a good result? Compare LY, LM, budget
 - WONG PTY LTD, Statement of Profit or loss, for the month ended 31, OCT 16
- Statement of changes in equity
 - Reports total comprehensive income for period and other changes in equity such as adjustments to retained earnings for
 - Changes in accounting standards
 - Changes in accounting policies