

Chapter 1

1. Define types of accounting

- Financial accounting
 - Info for external decision makers- investors/lenders
- Managerial accounting
 - Info for internal decision makers- business managers

2. Describe how decision makers use accounting info

- Individuals
 - Manage accounts
- Businesses
 - Set goals for business
- Investors
 - Analyse how investment performing
- Creditors
 - If they are likely to be repaid
- Government
 - When deciding to investigate organisations
- Tax authorities
 - Tax calculated using accounting info
- Non-profit organisations
 - Manage accounts

3. Describe professional career opportunities in accounting

- May be members of:
 - Institute of Chartered Accountants in Australia (ICAA)
 - CPA Australia (CPAA)
 - Institute of Public Accountants (IPA)
 - Chartered Institute of Management Accountants (CIMA)
 - Australian Taxation Office (ATO)
- Auditing
 - Independent examination that assures reliability of accounting reports
 - CAs and CPAs examine business financial statements
- Tax accounting
 - Complying with tax laws
 - Minimising taxes paid
- Management consulting
 - Advice public accountants provide to help managers run a business
- Insolvency
 - Liquidators appointed to manage business in financial distress

4. Describe how accounting is regulated in Australia

- Australian Accounting Standards Board (AASB)
 - Formulates accounting standards
- Financial Reporting Council (FRC)
 - Oversees AASB
- International Financial Reporting Standards (IFRSs)
 - Australia has adopted

5. Explain the role of ethics and sustainability in accounting

- CPAA and ICAA, etc have codes of professional conduct
 - Integrity
 - Objectivity
 - Professional competence and due care
 - Confidentiality
 - Professional behaviour

6. Identify 3 main types of business organisations

- 1) Proprietorship
 - 1 owner
 - Unlimited liability
- 2) Partnership
 - 2+ owners
 - Unlimited liability
- 3) Company
 - Many owners
 - Limited liability

7. Describe the basic accounting principles and applications in business

- Generally Accepted Accounting Principles (GAAP)
 - Specific rules and standards governing accountants
- The entity concept
 - Business activities and personal affairs of owner are separate
- The accounting period concept
 - Unit of time accounting data collected and financial statements are prepared
 - E.g. 1 financial year 1 July – 30 June
- The cost principle
 - Goods and services acquired are recorded at actual cost
 - AKA historical cost
- The matching principle
 - Relates inputs and outputs of goods and services
 - Cost of inputs to produce outputs are expenses and subtracted from revenues of outputs for profit
- The profit recognition principle
 - Profit should be recognised when revenues relating to activity are earned
 - AKA income/revenue recognition principle
- The conservatism principle
 - Financial reports should err on the side of caution
 - Anticipating losses but only recognising profits when realised
- The going concern assumption
 - That the business will continue operating for the foreseeable future

8. Recall accounting equation and its function

- $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
- $\text{Owners' Equity} = \text{Revenue} + \text{Capital} - \text{Drawings} - \text{Expenses}$

9. Apply the accounting equation to analyse transactions

- REFER QUESTIONS

10. List the different financial statements and demonstrate how they are prepared and used

- Statement of Comprehensive Income
 - Summary of income, expenses and changes in equity
 - AKA income statement
- Statement of Changes in Equity
 - Changes in OE
- Statement of Financial Position
 - Lists all entity's assets, liabilities and owners' equity
 - AKA balance sheet
- Statement of Cash Flows
 - Cash coming in and out
 - AKA cash flow statement

11. Use financial statements to evaluate business performance and make decisions

- REFER QUESTIONS

Chapter 2

1. Explain accounts, journals and ledgers as they relate to recording transactions and describe common accounts

- Record transactions in journal – Post to ledger – prepare the trial balance
- Account
 - Detailed record of changes in A, L, OE
- Journal
 - Chronological record of transactions
- Ledger
 - Record holding of all accounts
- Trial balance
 - List of all accounts with balances
- Chart of Accounts
 - Lists all accounts they use and account numbers

2. Define debits, credits and normal account balance and use double-entry accounting and T-accounts

- Double-entry system
 - Records dual effects of business transaction
- T-accounts
 - Debits left/Credits right
- Normal balance
 - Debit- Asset, expenses, drawings
 - Credit- liabilities, revenue, capital

3. List steps of transaction recording process

- 1) Identify transaction from source documents
- 2) Specify each account affected by transaction
- 3) Determine whether account increased/decreased
- 4) Enter transaction in journal with narration

4. Post transactions from the journal to the ledger

- Posting
 - Copying amounts from journal to accounts in ledger

5. Prepare the trial balance from the T-accounts

- Correcting trial balance errors
 - Missing account
 - $\text{Dr bal} - \text{Cr bal} = \text{missing value}$
 - Amount on wrong side
 - $(\text{Dr bal} - \text{Cr bal})/2 = \text{amount on wrong side}$
 - Not made transposition error
 - $(\text{Dr bal} - \text{Cr bal})/9 = \text{whole number}$
- Journal
 - Date
 - Account title and explanation
 - Posting reference- account number after posted
 - Debit
 - Credit
- Ledger
 - Date
 - Item
 - Journal reference- GJ1
 - Debit
 - Credit

