

ACCOUNTING SKILLS FOR MANAGERS

Accounting Foundation = (Assets = Liabilities + Owners Equity)

LECTURE 1:

Introduction to Business and Accounting

- Accounting
 - a financial representation of the operations of the firm.
 - A systematic process of recording in monetary terms the many activities currently undertaken by the firm.
 - The process of identifying, measuring and communicating information to permit informed judgements and decisions by users of the information
 - Purpose/Objective → influence the decisions of those who use the information produced / Enhance wealth of owners
 - Assets: Something a business owns eg. Cash, car, land, equipment, accounts receivable
 - Liabilities: Something a business owes eg. Accounts Payables, loans
 - Equity: The share of the business which represents the owners interest eg. Money invested by owners (capital/ shares outstanding)
 - Risk: the likelihood and extent that what is projected to occur will not actually occur
 - Return: The gain that results from a particular event of occurrence
- Accounting as a service function
- Relevance: accounting information must be able to influence decisions. To be relevant accounting information must cross a threshold of materiality (something which has the potential to alter the decisions that users make)
 - Faithful representation: should represent what it is supposed to represent. It should be complete, neutral and free from error.
 - Accounting information must satisfy both fundamental qualities of relevance and reliability if it is to be useful
 - Other qualities
 - *Comparability*: helps users identify similarities and differences between items of information
 - *Verifiability*: something that can be checked and verified
 - *Timeliness*: Being available early enough to be of use to users
 - *Understandability*: clearly set out to facilitate understanding
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- Characteristics that influence the usefulness of accounting information

2 fundamental qualities determine the usefulness of accounting information. In addition 4 qualities enhance the usefulness of accounting information. The benefits of providing this information should outweigh the costs

Needs to be **relevant** (make decisions about future, should say what has happened the past in order to predict future) **Reliable** (faithful representation) **Comparability** (previous year), **Timely** (yearly, quartley, interim 'half year')

Should be common sense. Verify number by keeping receipts and understandable to everyone.

The Accounting Information System



- The four stages include:
1. Recognition of a business activity and measuring in monetary terms
 2. Recording the information collected in a systematic manner
 3. Analysing and interpreting the information collected
 4. Reporting the information in a manner that suits the needs of users

Statement of Financial Position (Balance Sheet)

- A statement that shows the assets of a business and the claim on those assets at a point in time
- How does the business look right now
- List all Assets (things you own, they are good, eg. Car, computer)
- List all Liabilities (things you owe, claims from external parties, don't want too much liability, not very good)
- Equity: What you owe to the owners

$$A = L + OE$$

Statement of Financial Performance (Income

Statement)

- measures and reports how much profit has been generated in a period

Sales – COGS = Gross Profit

Earnings before interest and Tax = EBIT

Profit for the period = Net Profit

$$\text{Revenue} - \text{Expenses} = \text{Profit}$$

	Note	2014 52 weeks \$m	2013 53 weeks \$m
Continuing Operations			
Revenue from the sale of goods	2a	60,772.8	58,516.4
Other operating revenue	2a	179.4	157.7
Total revenue from continuing operations		60,952.2	58,674.1
Cost of sales		(44,474.6)	(42,912.6)
Gross profit from continuing operations		16,477.6	15,761.5
Other revenue	2b	242.7	247.6
Branch expenses		(10,176.0)	(9,799.8)
Administration expenses		(2,769.1)	(2,614.7)
Earnings from continuing operations before interest and tax		3,775.2	3,594.6
Financial expense	3	(277.8)	(410.1)
Financial income	3	17.7	30.3
Net financing costs from continuing operations		(260.1)	(379.8)
Profit from continuing operations before income tax expense		3,515.1	3,214.8
Income tax expense relating to continuing operations	5a	(1,056.7)	(959.9)
Profit from continuing operations after income tax expense		2,458.4	2,254.9
Discontinued Operations			
Profit from discontinued operations	34	-	9.7
Profit for the period		2,458.4	2,264.6
Profit attributable to:			
Equity holders of the parent entity		2,451.7	2,259.4
Non-controlling interests		6.7	5.2
Profit for the period		2,458.4	2,264.6
Profit attributable to equity holders of the parent entity relates to:			
Profit from continuing operations		2,451.7	2,249.7
Profit from discontinued operations		-	9.7
Profit attributable to equity holders of the parent entity		2,451.7	2,259.4
Earnings Per Share (EPS) from continuing and discontinued operations			
Basic EPS (cents per share)	21	196.5	182.6
Diluted EPS (cents per share)	21	195.6	181.8
Weighted average number of shares used in the calculation of Basic EPS (million)	21	1,248.0	1,237.4
Earnings Per Share (EPS) from continuing operations			
Basic EPS (cents per share)	21	196.5	181.8
Diluted EPS (cents per share)	21	195.6	181.0

Financial and Management Accounting

- Financial accounting
 - Provides general purpose financial information for a variety of users, with the information being of a general purpose nature
 - is historical and reports on the results of operations for a “prior” period of time. The major reports generated by the financial accounting information system are the Statement of Financial Position, Income Statement and Cash Flow Statement.
 - Annual reports
 - Information you give to external users (info you can access on the internet)
 - Have to comply with accounting standards
- Management Accounting
 - An approach which aims to provide managers with the information they require to run the organisation

- provides management with information that is useful for decision making.
- Futuristic in nature. Utilises the past (including financial accounting information) to predict the future
- not information or everyone to see
- information you prepare internally to make internal decisions for your business eg. How much to buy, who to outsource to

	Nature	Level of Detail	Restrictions	Reporting Interval	Time Horizon	Range of Info
Financial	General purpose	Provide users with broad overview of position, detail often lost	Subject to legal and accounting regulations	Produced on annual basis. Large companies may produce half yearly reports or quarterly	Reflect the performance and position of business to date. They are backwards looking	Concentrate on info that can be quantified into monetary terms
Management	Specific purpose	Provide managers with large detail to help them with a decision	No restrictions	Managers are provided with weekly or monthly reports to allow them to check progress on regular basis	Provide info on expected future performances as well as past performances.	More likely to provide additional reports on non financial matters eg. Inventory and output

Strategic Management

- An approach which seeks to provide a business with a clear sense of purpose (development of revenue streams) to ensure that appropriate action occurs to achieve that purpose. How to run a business successfully