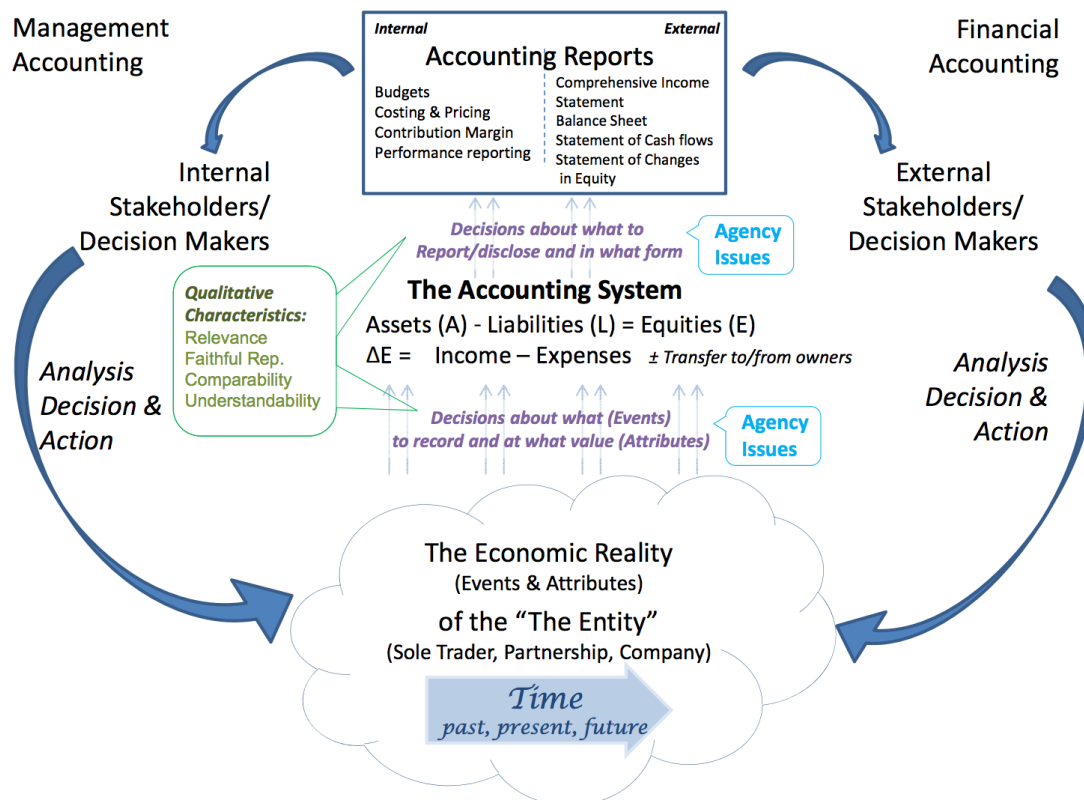


TABLE OF CONTENTS

The Nature & Purpose of Accounting: Regulatory & Conceptual Frameworks	4
Business Structures	4
Accounting Reporting	5
CA2001 Declaration of Companies	5
Reporting standards	5
Types of Users	6
The general Purpose Financial Report	6
Reporting requirements	6
Elements of financial Statements: The Accounting Equation	7
Definition	7
Recognition	8
Transaction Analysis & Financial Statements	8
Classifications in Financial Statements	8
The Balance Sheet	8
Assets	9
Liabilities	11
Equity	12
Debt Vs. Equity: Leverage	13
Weighted Average Cost of Capital (WACC)	13
Limitations of a Balance Sheet	14
Statement of Comprehensive Income	14
Statement of Profit Or Loss	14
Net vs. Gross Profit	14
Statement of Other Comprehensive Income	14
Statement of Changes in Equity	15
Statement of Cash Flows	15
Operating Activities	15
Investing Activities	16
Financing Activities	16
SPECIAL CASE: Interest and Dividends	16
SPECIAL CASE: Tax on Income	16
SPECIAL CASE: No Cash Transactions	16
Summary of Analysis	16
Agency Theory	17
Earnings Management	17
Financial Statement Analysis	18
Vertical Analysis	18
Horizontal Analysis	18

Trend Analysis	18
Ratio Analysis	18
Profitability Ratios.....	19
Efficiency Ratios	21
Liquidity Ratios.....	22
Capital Structure Ratios	23
Market Performance Ratios	24
Link Between Profitability & Efficiency Ratios	25
Budgeting.....	25
Planning.....	26
Budgets (Implementation)	26
Analysis of the Cash Budget.....	28
Variance Reports (Evaluation).....	28
Review	28
CVP Analysis.....	28
Sales & Marketing Decisions	28
Types of Costs & Relevant Range	28
CVP Analysis Tools	29
CVP Assumptions	30
Operating Leverage.....	30
Sustainability	30
Sustainability Reporting.....	30
Challenges of Sustainability	31
Implementation of Sustainability	31
Value Chain Analysis	31
The Balanced Scorecard (BSC).....	32



THE NATURE & PURPOSE OF ACCOUNTING: REGULATORY & CONCEPTUAL FRAMEWORKS

BUSINESS STRUCTURES

	Sole Trader	Partnership	Company
Set Up & Administration	Simple	Simple	Complex
Life of entity	Limited to life or desire of owner	Limited to life or desire of individual partners. Will be automatically dissolved under the death of a partner unless prior agreement is written	Indefinite
Legal status relative to owners	Not separate	Not separate	<u>Separate Entity</u> (in terms of reporting)

Extent of owners' liability	Unlimited	Unlimited	Limited (with some exceptions)
Tax implications	Owner declares share of profit as income.	Partner declares share of profit as income.	Entity taxed on profit, shareholders declare dividends as income.

Limited Liability – if a company goes bankrupt with outstanding debt, the individual shareholder is only responsible for liabilities up until the unpaid amount of any shares they hold.

ACCOUNTING REPORTING

CA2001 DECLARATION OF COMPANIES

Clause: “All public and large proprietary companies must disclose a full financial report in accordance to reporting requirements”

Companies are classified as:

- **Public Companies**
 - No restrictions on raising capital from public, no restrictions on transfer of ownership
 - Limited liability to unpaid amounts on issued shares
 - Must disclose a full financial report
- **Private Companies (PTY)**
 - Otherwise known as proprietary companies (PTY) - <51 non-employee shareholders
 - Small if <2 of below, large if >2 below:
 - Gross operating revenue >\$25 million for FY
 - Gross assets of \$12.5 million at EOFY
 - 50 EFT employees at EOFY
 - **Small PTY companies**
 - **Large PTY companies** must disclose a **full financial report**

REPORTING STANDARDS

- **Australian Accounting Standards (AASB)** – rules and guidelines to preparers about how to disclose the effect of transactions and events in financial statements (in line with IFRS since 1 Jan 2005)
- **IFRS** – global accounting standards to provide consistency in reporting

- **Generally Accepted Accounting Principles (GAAP)** - a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements [\[LINK GPFR\]](#)

TYPES OF USERS

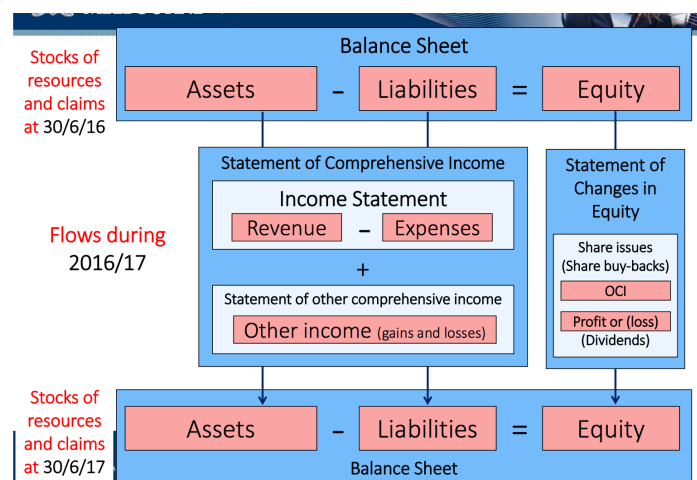
All users have different informational requirements of reports

- **Internal users** – stakeholders inside the entity. They are users of **management accounting**. They will derive the following information
 - Suppliers – ability to pay debt*
 - Employees – ability to provide benefits, ongoing employment*
- **External users** – stakeholders outside the entity. They are users of **financial accounting** [\[LINK General Purpose Financial Report\]](#).
 - Investors – risk & return, ability to pay dividends (growth)*
 - Lenders – ability to repay debt (performance), pay interest*
 - Customers – fair and reasonable prices, ongoing supply*
 - Regulatory bodies – compliance with reporting regulations (CA2001)*

THE GENERAL PURPOSE FINANCIAL REPORT

Objective: “to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity”

- Provides information regarding changes in economic resources and claims. Includes:
 - Income Statement
 - Balance Sheet
 - Cash Flow Statement
 - Statement of Changes in Equity
 - Notes – [\[LINK to Verifiability\]](#)
- It is based on **estimations** and **judgements**.
- According to the CA2001 information must be of **true** and **fair view**.
- Must comply with the **GAAP**



REPORTING REQUIREMENTS

Accounting reporting has estimations, choices, and judgements