

ACCT1501 Summary Notes

1 Introduction to Financial Accounting

Accounting is the process of identifying, measuring, recording and communicating economic information to assist users to make decisions.

Accounting is the language of business.

- Business and communication!
- Grammar e.g. accounting principle, assumptions
- Vocabulary e.g. accounts receivable, prepayment, debit/credit, balance sheet, income statement etc.
- Practice e.g. accounting cycle

Financial accounting will be the focus of this course. Financial accounting focuses on the provision of information to users external to the enterprise. The focus is on reporting financial position and financial performance.

Management accounting will be the focus of later part of this courses. Management accounting focuses on the provision of information to users within the enterprise (to aid in operational planning and control decisions).

1.1 Key Financial Statements

- Balance sheet
 - Financial position of an enterprise at a particular point in time. Sometimes referred to as the Statement of Financial Position
 - Financial position: Enterprises set of financial resources and obligations at a point in time
 - What are the entity's resources and how were they financed?
- Income statement

- Financial performance of an enterprise over a period of time.
 - Financial performance: Generating new resources from operations over a period of time
 - Has the entity used its resources efficiently and effectively? Sometimes referred to as the Profit and Loss Statement (P&L)
- Cash flow statement: Cash inflows and outflows over a period of time.
 - Notes to the financial statements (additional detail)

1.2 Financial Statement Assumptions

1.2.1 Accrual Basis

Revenues and expenses are recognised at the time they occur rather than when the cash is received or paid.

1.2.2 Accounting Entity

The entity for which financial statements are prepared. Activities of the entity are separate from those of its owners/members. This includes, but not limited to, legal entities (e.g. consolidated entity) and economic entities a group of entities where the goals of the controlling entity are pursued - e.g. companies, partnerships

1.2.3 Accounting Period

The life of business is divided into discrete time periods of equal length to determine financial performance and position. This allows for the production of regular, comparable financial statements.

1.2.4 Monetary

All statements are in a universally accepted medium of exchange (\$). Therefore economic activity can be measured by a common denominator

1.2.5 Historical Cost

Transactions are initially recorded at their original cost. This treats assets in terms of their use rather than for resale.

Example: Land purchased in 2000 at cost of \$50,000 and still owned by the buyer will be reported on the buyer's balance sheet at its historical cost of \$50,000 even though its market value of \$500,000.