ACCOUNTING FOR BUSINESS DECISIONS A

LECTURE 1 – INTRODUCING THE FINANCIAL STATEMENTS

ACCOUNTING ASSUMPTIONS

ECONOMIC ENTITY (YOU ARE THE ECONOMIC ENTITY)
- Separate from the owner
- Need to determine the performance of the business
- **Woolworths** → should separate from the masters entity to see the problem

TIME PERIOD
- Measure the performance of the business every so often
- Is the business strategy working?
- Business should measure its performance at least every year (report externally once a year)
- Listed on stock exchange → report twice a year
- Not performing well → could be a daily or weekly basis
- Allocating revenues and expenses to a particular period of time is not easy

MONETARY UNIT
- The dollar amount
- If cannot put a dollar value by it you don't use it

GOING CONCERN
- Not the basis that the business is going to continue
- Apprival value
- Not interested in what someone else will pay for them but what they're worth to the entity
- Does not mean there is only one number we can use → subjective
- Not necessarily only one dollar amount

GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)
- Covers the standards and general body of rules accountants understand and observe

INCOME STATEMENT (AKA PROFIT AND LOSS STATEMENT)
- Report of expenses and revenues
- Matching principle
  - Match the cost of the item we're selling to the price we get for it
- Revenue recognition principle (threshold concept)
  - Recognise revenue when we earn the money, not necessarily when we receive it
  - Selling or providing services on credit or accrual → recognise revenue when they are incurred
  - Interested in when you earn revenue not cash flow
- Comprehensive income → not used
- Multistep → more comprehensive way of showing the information

BALANCE SHEET
- Teachers → not an asset, they provide services and get paid for those services
- Cost principle → not what the asset is worth but what is paid for them
- Liabilities → obligations payable to people outside who are not the owner
- Everything you own is made of money that is borrowed or money that is yours

HORIZONTAL ANALYSIS
- How has it changed?
- Should include more than 2 years of data
- Trend analysis
- 5 year analysis

VERTICAL ANALYSIS
- Allows us to compare things vastly different in size
- Look at percentage of total assets

BANK RECONCILIATION EXAMPLE

- Must reconcile the bank to our cash balance
- Company records to ledger account to actual cash balance
- Error by chapman → more complicated
- Only way you know they've occurred is through the transaction records
- Only know you know the moneys come through is from the records
- References → check where it comes from

SECRET TO BANK RECONCILIATIONS

- Fix up the bank's records
- Fix up the business' records
- In doing so we treat each item that explains the difference
- If the only reason the bank's records and our records were different is because there is a direct deposit into the bank we have no recorded
    - Add to the 'cash at bank' ledger account

PETTY CASH FUND

- Amount of cash kept on hand to pay for minor expenditure
- Three activities
    - Establish the fund
    - Making payments from the fund
    - Replenishing the fund
- Making payments from the fund
    - Don't record journal entries
    - Only recorded when the fund is established
    - Add up the amount in there → account for the items bought with the fund
    - Has receipts for the cash that has been paid out → the cash in there and the receipts should add up to the amount in the fund
- Debit each of the expenses
- Credits cash
- Cash short → not too concerned, if constantly out it

REPORT CASH

- Current asset → cash and cash equivalents
- Cash → most liquid of assets

ANALYSING CASH

- Horizontal analysis
    - Compared across periods
    - Dollar change in account balance = current year balance – prior year balance
    - Percentage change in account balance = dollar change / prior year balance
- Vertical
    - Compared within the financial statement
    - Percentage = cash / total assets
- **Woolworths**
    - Continually paying cash and getting cash out
    - Inflation → on average, things cost slightly more than the previous year

FREE CASH FLOW

- Needs enough cash to pay its bills, generate enough cash to maintain expenses

TUTORIAL 3

- Equity → umbrella term for
    - Retained earnings
    - Contributed capital
    - Ordinary shares

LECTURE 7 – INTRODUCTION TO MANAGEMENT ACCOUNTING

CONTEMPORARY VIEW

- Prioritising resource allocation around the focus of the firm
- Non-financial factors → important for particular brands that help them deliver value to their customers
- Key drivers → drive financial performance in the longer term
    - Quality
    - Warranty
    - Percentage of defects etc
- What are the inputs required to achieve financial success in the longer term?

MANAGERIAL ACCOUNTING VS FINANCIAL ACCOUNTING

- Financial
    - External users → shareholders, potential investors, creditors, suppliers
- Managerial
    - Internal users → employees, teams, departments, top management
    - Provide set of tools used to make better, more optimal decisions for business so it is more successful
    - Key interest → relevance – is the information useful for decision making?
    - Accounting standards / principles not really considered → only whether the information is relevant

TYPES OF INFORMATION NEEDED BY INTERNAL USERS

- Planning
    - Long and short term
- Operating
    - Day to day / week to week
- Controlling
    - Trying to control the employees
    - Commission → Intention to motivate direct staff to achieve plans

LONG TERM PLANNING ACTIVITIES

- Looking at what the strategy is
- Decisions about committing long term capital
    - NCA are required to support that strategy

SHORT TERM PLANNING

- Maximise returns from long term
- Adapt operations over time → change stock depending on season etc

OPERATING ACTIVITIES

- Should we accept the special order?
- Should we advertise?
- Should we make or buy parts? → outsource or internal
- What price should be charge? → modify price – decrease to expect greater profitability

CONTROLLING ACTIVITIES

- Relates to sales revenue generated
- Non-financial performance measures
- Also interested in customer satisfaction
- Good commission for higher prices → also can be changed depending on customer satisfaction

DECISION MAKING

- What are relevant factors?
    - Information that differs between two alternatives → if not different = not relevant
    - Sunk costs → costs that cannot be changed
        - Eg. phone screen cracked → cannot change expenses for smashed screen