

<p>Distinguish between 'accounting entities' and 'legal' entities (Business Entity Convention)</p>	<p>Accounting entities: business is separate from the owner(s). e.g the finances of the owner are separate from the business e.g sole proprietorship, partner or company business structure.</p> <p>Legal entity: no distinction between the business and the owners of the business (except for limited companies)</p>												
<p>What are the possible reasons to start a business</p>	<p>to experience freedom and independence, to enhance the wealth of its owners and to follow your passion, WEALTH IS MOST IMPORTANCE</p>												
<p>Describe two advantages for each type of business organisation-</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Sole Proprietorship</th> </tr> <tr> <th style="width: 50%; text-align: center;"><i>Advantages</i></th> <th style="width: 50%; text-align: center;"><i>Disadvantages</i></th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> - Minimum reporting regulations - Simple and inexpensive to establish and operate. - Ownership and management are normally combined - Financial rewards flow directly to the owner. - Timely-decision making is possible. </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> - Limited Life - Unlimited Liability - Limited access to funds - Access to non-ownership funds is limited. </td> </tr> <tr> <th colspan="2" style="text-align: center;">Partnership</th> </tr> <tr> <th style="text-align: center;"><i>Advantages</i></th> <th style="text-align: center;"><i>Disadvantages</i></th> </tr> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> - Normally greater access to capital - Partners bring different skills to the partnership - Tax sharing advantages - Greater management flexibility. - </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> - Higher level of regulation - Giving up profit to share to other owners - Reduced decision-making authority (shared management) - Limited life may affect long-term planning - Unlimited liability creates greater risk for ownership investment - Absence of specialist management - Mutual agency responses extra responsibility - Access to external debt is limited. </td> </tr> </tbody> </table>	Sole Proprietorship		<i>Advantages</i>	<i>Disadvantages</i>	<ul style="list-style-type: none"> - Minimum reporting regulations - Simple and inexpensive to establish and operate. - Ownership and management are normally combined - Financial rewards flow directly to the owner. - Timely-decision making is possible. 	<ul style="list-style-type: none"> - Limited Life - Unlimited Liability - Limited access to funds - Access to non-ownership funds is limited. 	Partnership		<i>Advantages</i>	<i>Disadvantages</i>	<ul style="list-style-type: none"> - Normally greater access to capital - Partners bring different skills to the partnership - Tax sharing advantages - Greater management flexibility. - 	<ul style="list-style-type: none"> - Higher level of regulation - Giving up profit to share to other owners - Reduced decision-making authority (shared management) - Limited life may affect long-term planning - Unlimited liability creates greater risk for ownership investment - Absence of specialist management - Mutual agency responses extra responsibility - Access to external debt is limited.
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Limited Company

<i>Advantages</i>	<i>Disadvantages</i>
- Limited liability	- Stricter regulations

What is the accounting equation

Assets = Liabilities + Owner's Equity

- Capital contributions and revenues increase owner's equity
- Drawings and expenses decrease owner's equity

Owner's Equity: + Capital – Drawings + Revenue – Expenses

Normal Balance:

- Asset = Debit
- Liability = Credit
- OE = Credit

What are the main characteristics of assets.

- Business will receive a *probable future* economic benefit.
 - Business has control over the economic benefits
 - Asset results from a past transaction or event
 - Asset must be able to be measured in monetary terms.
- ➔ Not consistent with a non-accounting definition because all of the assets must apply
- AASB Framework definition:

Examples of Assets:

Account	Current	Non-Current
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Cash at Bank	Yes	
Accounts Receivable	Yes	
Accumulated Depreciation	Yes	
Prepaid Insurance	Yes	
Fixtures and Fittings		Yes
Motor Vehicles		Yes

- Current assets: **change to cash within 12 months**
- Non-current assets: more than 12 months to change to change.

What are the main characteristics of liabilities.

- Claims of individuals and organisations, apart from those of the owner(s) which have arisen from past transactions or events.
- Most liabilities represent legal claims by external parties against the entity for satisfaction in cash or the provision of goods and services
- This *is* consistent with a non-accounting definition.