Accounting Skills for Managers Notes

(Week 1)

Business performance is dependent on the relationship between profits and sales revenue (Expenses – profit – contributed capital).

Balance sheets must always balance since owners take on all the risk and profit. (i.e. regardless of repaying loans, owners make up all the difference).

(Week 2)

Asset: a present **economic resource controlled by the entity** as a result of **past events**, which are expected to yield **future economic benefits** to the entity.

- Past event: Some transfer occurred to ensure the entity has ownership
- Control is not always equivalent to ownership (e.g. contractual control)
- Must be measurable and definitely existent to be recognised (assets may exist and not be able to be recorded)

Liability: a **present obligation** of the entity to **transfer an economic resource** as a result of **past events**, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

- Your liability is an asset to the person you owe it to.
- Past event ensures that it is the entity's obligation to repay
- Classes of liability: Trade (Accounts payable: objects paid for on credit), borrowings (loans: variable amount based on interest rate), provisions (liabilities that are uncertain in time e.g. worker's leave pay), tax, secured debts (e.g. mortgage)

Depreciation: The systematic allocation of the cost of a tangible asset over its useful life. Amortisation is the same but for intangible assets (e.g. depreciated value of patent). They don't involve cash flows, nor do they change the value of the asset itself.

- ⇒ In terms of recording, the value of the asset is constant, but instead there is an increase in accumulated depreciation which is a separate, negative asset.
- ⇒ You require 4 things to record depreciation:
    1. Initial cost of purchase
    2. Expected residual value (an estimate)
    3. Expected life span (an estimate)
    4. Pattern of use (we assume linear but not always; an estimate)

Accounting is the process of identifying, measuring and communicating economic information about an entity to a variety of users for decision making purposes.

In order to give timely measurements of financial statements, we must sacrifice accuracy by taking estimates of how value changes over time (e.g. if a $200 truck is estimated to last 20 years, assets are devalued by $10 a year).

Contingent liability is the estimate of possible future financial events (e.g. being sued)

A business transaction is a measurable external exchange between 2 or more entities. It affects assets, liabilities and equity.

The share trading price of an organisation only effects the owners and external shareholders. The internal ones should theoretically not be affected since they have the same assets, cash flow, inventory, etc.

Financial accounting: the preparation and presentation of broad financial statements primarily for use by external stakeholders to give an overview of financial position

Management accounting: Reporting of economic information specifically for internal usage (mainly by managers and owners). Some aspects of it are contained in financial accounting, but often includes more details to help accurate budgeting and future planning decisions. This can also include the monitoring function of how individuals and branches are performing (e.g. Starbucks on Lygon St Melb was underperforming; would be reported internally but not externally).