<u>Week 1 Lecture: Introduction to Accounting</u>

- Accounting is the language of business. It communicates information about a business and plays a key role in the provision of financial information for decision-making.
- Accounting is a process:
  - Identifying - Considering all economic transactions (inputs) which affect business entity
  - Measuring - Quantifying in monetary terms
  - Recording - Systematic recording statistics and summarising transactions
  - Communication - Prepare the accounting reports; analysing and interpreting. Communicating with internal and external shareholders

Stakeholders

- Shareholders - care about performance and money
- Suppliers/creditors - whether they should extend the credit period
- Bankers - whether they should increase the ability of the business to repay the loans
- Employees - interested in the financial performance of the company to assure their security of their jobs
- Society - interested in what the business does
- Environment - impact on the environment from the businesses
- Government - Regulations and monitoring the business if they pay tax
- Customers - they pay for the products and services

Branches of Accounting

- Financial accounting - preparation of presentation of financial reports for external users and making decisions of allocation of resources
- Management accounting - provides information for internal decision-makers of a business
- Auditing - independent examination of the accounting data presented by an entity
- Tax accounting - preparing of tax returns and tax payment

Financial Accounting

- For external decision-makers (shareholders, investors, creditors, bankers), interested in the business performance and position and whether they should invest
- Shows if the business is legally compliant and whether it is highly regulated

Management Accounting

- For business managers to know how much the business earns and decides whether the business should expand
- Cost behaviour and break-even analysis
- Not regulated

Forms of business organisations

- Sole proprietorship (sole trader) - Owned by one person, no separate legal existence, the owner has an unlimited liability

- Partnership - Owned by two or more people, shared control, the owner has an unlimited liability
- Company - Owned by shareholders, it is a separate legal entity, the owners have limited liability, easy to transfer ownership

Week 2 Lecture: Ethics

"Ethics in its broader sense that deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion"

Ethics vs Morals

	Ethics	Morals
What are they?	Principles of right conduct	Principles with respect to right or wrong conduct
Where do they come from?	Social system – External	Individual – Internal
Why we do it?	Because society says it is the right thing to do	Because we believe in something being right or wrong

- Ethics are the expectations from the society
- Morals are imposed by society and tell us what is right and wrong

Ethical theories

- They are a system of ideas to show the general framework of principles or rules for determining right and wrong
- The beliefs about how people "should" behave
- Principles and methods are used as a guide for avoiding and resolving ethical issues
- Focuses on:
    - Teleological or Consequential Ethics (the outcome of an action):
        - The consequences of a decision or action are the sole determinant of what is right from wrong
        - A morally correct action occurs when benefits outweigh costs
        - Getting to the result is less important than the outcome itself (eg. telling a lie is ok if people benefit at the end of the day
        - The <u>limitation</u> is that it tends to be a selfish approach to ethics. Emphasis is placed on the individual or majority which may be unfair to the minority or may abuse individual rights
    - Deontology or Non-Consequential Ethics (the intention of an action):
        - Consequences are not important
        - The intention to do the right thing is more important than the final result

Week 9 Lecture: Financial accounting for business - Interpreting financial statements

Why do we need to analyse financial statements

- Dollars are important, but they tend to be of limited usefulness when viewed in isolation
- Profits must be compared to something (eg. last year or competitors)
- Relationships between items in the financial statements are important
- Ratio analysis
    - A ratio is the mathematical relationship between two different quantities
    - Can be used to show relationships among items or financial statement data
    - Expressed in terms of percentages, rates or proportions

Ratio analysis:

- Profitability ratios - Measures operating success of an entity for a given time period (12 month)
    - Return on assets - Indicates amount of net profit generated by each dollar invested in assets

      $$Return\ on\ assets = \frac{Profit}{Average\ total\ assets}$$ Higher number (%) is better.

        - Profit from (statement of financial performance)
        - Average total assets from (statement of financial position)

    - Profit margin - Indicates amount of net profit generated by each dollar of sales

      $$Profit\ margin = \frac{Profit}{Net\ sales}$$ Higher number (%) is better.

        - Profit and net sales from (statement of performance)

- Liquidity ratios - Measures short-term ability to entity to pay its maturing obligations and to meet unexpected needs for cash
    - Current ratio - Indicates how much current assets exceed current liabilities on a dollar-for-dollar basis (rule of thumb is normally 1.5:1)

      $$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$ Higher number (ratio) is better

        - Current assets and current liabilities from (balance sheet)

- Solvency ratios - Measures ability of entity to survive over a long period of time
    - Debt to total assets ratio - Measures percentage of assets financed by creditors rather than shareholders

      $$Debt\ to\ total\ assets\ ratio = \frac{Total\ liabilities}{Total\ assets}$$ The higher the ratio, the greater the risk that entity may be unable to pay its debts as they become due

- Total liabilities and total assets from (balance sheet)

Assets and liabilities

Total assets		**Total liabilities**	
Current assets	**Non - Current assets**	**Current liabilities**	**Non - Current liabilities**
• Suppliers • Prepaid rent • Cash at bank • Accounts receivable	• Machinery • Equipment • Factory	• Accounts payable • Salaries payable • Expense payable • Interest payable • Unearned service revenue	• Loan payable • Mortgage payable

<u>Week 10 Lecture: Management accounting</u>

- Management accounting refers to the processes and techniques that focus on effective and efficient use of organisational resources to support managers in their tasks of enhancing both customer value and shareholder value.

- Resources - can be financial or non-financial, including: information, work processes, employees, loyal customers and committed suppliers

Management vs Financial accounting

Management accounting	Financial accounting

• Internal focus
  ○ Planning
  ○ Controlling
  ○ Decision-making
• Cost behavior/ break-even
• Budgeting
• Strategy
	• External focus
	• Reporting information
	  ○ Performance
	  ○ Position
	• Financial and investing
	• Legal compliance
	• Highly regulated