Table of Contents

Topic 1: The Accounting Environment

Accounting is an information system that identifies, records, and communicates the economic events of an organization to the interested users.

It helps in:

1. *Personal Finance Decisions*
2. *Investments*
3. *Donations, Charity*
4. *Understanding the business and economic news, etc.*

The role of accounting is to provide useful financial ***information*** *to facilitate good* ***decision making*** *with regards to money and business issues and build a prosperous society with better resources allocation and social justice.*

Accounting Process

The steps involved in Accounting process are:

1. *Identification of business transactions*
2. *Recording of it*
3. *Communication*

Who uses the accounting information?

Internal Users

Managers *who plan, organise, and run the business*

e.g., marketing managers, production supervisors, chief financial officers (CFO), other employees.

Management accounting provides internal reports for managers and other insiders

External Users

Investors *to make decisions to buy, hold or sell shares.*

Creditors *to evaluate risks of giving credit and lending money. e.g. suppliers, bankers*

Government *and regulatory bodies. e.g., Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC)*

Financial accounting offers the financial statements to external users

Calculation

- **Profits** = Total Revenue – Total Variable Costs – Total Fixed Costs
- **Total Contribution Margin ($)** = Total Revenue – Total Variable Costs

'Contributions" means the contribution to covering total fixed costs and to making profits

- **Contribution Margin per Unit ($)** = Selling Price per Unit – Variable Cost per Unit

the "contribution" of selling one unit

- **Contribution Margin Ratio (%)** = $\frac{\text{Contribution Margin per Unit}}{\text{Selling Price per Unit}}$

the "contribution" of each sales dollar

Break Even Point

*The **break-even point** is the level at which total revenues equal total costs.*

Break-even point can be defined in terms of sales units by the formula:

Fixed costs	÷	Contribution margin per unit	=	Break-even point <u>in units</u>

Break-even point can be defined in terms of sales dollars by the formula:

Fixed costs	÷	Contribution margin ratio	=	Break-even point <u>in dollars</u>