

## Table of Contents

<i>Topic 1: The Accounting Environment</i> .....	4
<i>Accounting Process</i> .....	4
<i>Who uses the accounting information?</i> .....	4
<i>Sources of Accounting Regulation</i> .....	5
<i>Accounting Regulation</i> .....	5
<i>Conceptual Framework</i> .....	5
<i>Integrated Reporting</i> .....	5
<i>Five Accounting Elements</i> .....	6
<i>Assets</i> .....	6
<i>Liabilities</i> .....	6
<i>Owner's Equity</i> .....	6
<i>Revenues</i> .....	6
<i>Expenses</i> .....	7
<i>Recognition</i> .....	7
<i>Topic 2: Classification and Analysis of Business Transactions</i> .....	8
<i>Accounting Equation</i> .....	8
<i>Classifying Business Transactions</i> .....	8
<i>Cash accounting</i> .....	8
<i>Accrual accounting</i> .....	9
<i>Transaction Analysis</i> .....	9
<i>Steps involved in Transaction Analysis</i> .....	9
<i>Types of Accounts</i> .....	9
<i>Concept of Duality</i> .....	10
<i>Topic 3: Business Transactions in Journals and Ledgers</i> .....	11
<i>The Accounting Record Process</i> .....	11
<i>Rules of Debit and Credit</i> .....	11
<i>Transactions in the General Journal</i> .....	12
<i>Making a Journal Entry</i> .....	13
<i>Steps in Journalising Transactions</i> .....	13
<i>Posting Transactions to the General Journal</i> .....	13
<i>The general ledger and ledger accounts</i> .....	13
<i>Steps in Posting to Ledgers</i> .....	14
<i>Example of Posting to the General Ledger</i> .....	15
<i>Topic 4: Accounting for the Goods and Service Tax (GST)</i> .....	16

<i>The Goods &amp; Services Tax (GST)</i> .....	16
<i>What is GST?</i> .....	16
<i>GST and ABN registration</i> .....	16
<i>Taxable Supplies and Creditable Acquisitions</i> .....	16
<i>Transactions involving GST</i> .....	17
<i>Payroll and Pay as You Go</i> .....	17
<i>Intro to Payroll</i> .....	17
<i>Transactions</i> .....	18
<i>Business Activity Statement</i> .....	18
<i>What is the BAS</i> .....	18
<i>Topic 5: Trial Balance and Balance Day Adjustments</i> .....	19
<i>Preparing a Trial Balance (unadjusted)</i> .....	19
<i>What is a (unadjusted) Trial Balance?</i> .....	19
<i>Steps to prepare a Trial Balance</i> .....	19
<i>Balance Day Adjustments</i> .....	19
<i>Preparing the Adjusted Trial Balance</i> .....	20
<i>Topic 6: Preparation of classified Financial Accounting reports</i> .....	21
<i>Income Statement</i> .....	21
<i>Steps in Preparing the Income Statement</i> .....	21
<i>Preparation of Statement of Financial Position</i> .....	22
<i>Steps involved in preparing a balance sheet</i> .....	22
<i>Important Terms</i> .....	22
<i>Cash Flow Statement</i> .....	23
<i>Statement of Changes in Equity</i> .....	24
<i>Topic 7: Business Planning: Operations and Financial Budgets</i> .....	25
<i>Budgets and Strategy</i> .....	25
<i>Preparing the Operating Budgets</i> .....	25
<i>Sales Budget</i> .....	26
<i>Purchases Budget</i> .....	26
<i>Cost of Sales Budget</i> .....	27
<i>Preparing the Financial Budget</i> .....	27
<i>Budgeted Income Statement</i> .....	27
<i>Cash Budget</i> .....	27
<i>Schedule of Cash Collections</i> .....	28
<i>Schedule of Payment for Purchases</i> .....	28
<i>Topic 8: Cost Concepts for Management Decisions</i> .....	30

Strategic Management Accounting .....	30
<i>The concept of 'Cost'</i> .....	30
<i>Cost Volume Profile Analysis</i> .....	31
<i>Assumptions of CVP Analysis</i> .....	31
<i>Contribution Margin Statement</i> .....	31
<i>Break Even Point</i> .....	32
<i>Topic 9: Analysis and Interpretation of Financial Statements</i> .....	33
<i>Nature and Purpose of Financial Statement Analysis</i> .....	33
<i>Profitability Ratio</i> .....	35
<i>Gross Profit Margin</i> .....	35
<i>Net Profit Margin</i> .....	35
<i>Return on Assets (ROA)</i> .....	35
<i>Return on Equity (ROE)</i> .....	35
<i>Activity Analysis</i> .....	36
<i>Asset Turnover</i> .....	36
<i>Days Inventory Ratio</i> .....	36
<i>Days Debtors Ratio</i> .....	36
<i>Liquidity Ratios</i> .....	36
<i>Current Ratio</i> .....	36
<i>Quick Ratio</i> .....	36
<i>Solvency Ratio</i> .....	36
<i>Debt to Equity Ratio</i> .....	36
<i>Debt to Total Assets ratio:</i> .....	37
<i>Financial Leverage ratio</i> .....	37
<i>Interest Coverage Ratio</i> .....	37
<i>Advantages of Ratio Analysis</i> .....	37
<i>Limitations of Ratio Analysis</i> .....	37

## 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:**

$$\text{Fixed costs} \div \text{Contribution margin per unit} = \text{Break-even point in units}$$

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

$$\text{Fixed costs} \div \text{Contribution margin ratio} = \text{Break-even point in dollars}$$