

BUSS1030 Notes: Accounting for Business

Decisions

Semester 2 2025

Contents

1	Week 1: Introduction to Accounting.....	7
1.1	Understanding of Business Before Trying to Learn About Accounting ...	7
1.2	Factors that cause business environments to change.....	7
1.3	Entrepreneurship and Sources of Capital.....	7
1.3.1	Sources of Capital	7
1.3.2	Characteristics of a Successful Businessperson	8
1.4	Business Enterprise Categories	8
1.5	Business Structures	8
1.5.1	Advantages and Disadvantages of Company/Corporation.....	9
1.6	The Regulatory Environment of Business.....	9
2	Week 2: Introduction to Accounting (cont.)	10
2.1	The Accounting System.....	10
2.2	Management Accounting Information.....	10
2.2.1	Accounting Support for Management Activities.....	10
2.3	Financial Accounting Information.....	11
2.4	Basic Financial Statements.....	11
2.4.1	Income Statement	12
2.4.2	Balance Sheet.....	12
2.4.3	Statement of changes in owner's equity.....	12

2.4.4	Cash Flow Statement	12
2.5	Ethics in Business and Accounting.....	12
2.6	The Accountant in a Changing Society.....	13
3	Week 3: Developing a Business Plan – Cost Volume Profit Analysis	13
3.1	Business Plan.....	13
3.2	Cost Volume Profit (CVP) Analysis	14
3.2.1	Cost Behaviour Patterns.....	14
3.2.2	Profit Calculation.....	14
3.3	Planning.....	15
4	Week 4: Developing a Business Plan – Budgeting	15
4.1	Why Budget?.....	15
4.2	Steps in the Budgeting Process.....	15
4.2.1	Who is Responsible for the Budgeting Process?	16
4.3	Operating Cycles	16
4.4	The Budget as a Framework for Planning	16
4.4.1	Sales Budget	17
4.4.2	Purchase Budget	17
4.4.3	Selling Expenses Budget.....	18
4.4.4	General and Administrative Expenses Budget.....	18
4.4.5	Cash Management and the Cash Budget.....	18
4.4.6	The Projected Income Statement	18
4.4.7	Difference between Cash Budget and Projected Income Statement	18
4.5	Using the Master Budget in Evaluating the Business’s Performance.....	18
5	Week 5: Revision.....	19
6	Week 6: The Accounting System: Concepts and Applications I	19
6.1	Basic Concepts and Terms	19
6.2	The Accounting Equation.....	19

6.2.1	Components and Definitions	19
6.3	The Double-Entry System and Dual Effect of Transactions	20
7	Week 7: The Accounting System: Concepts and Applications II	20
7.1	Analysing transactions using the accounting equation.....	20
7.2	Expanding the Accounting Equation.....	21
7.2.1	Accounting Principles and Concepts Related to Net Income.....	21
8	Week 8: Internal Control – Managing and Reporting Working Capital	22
8.1	Introduction.....	22
8.2	The Importance of Working Capital	22
8.3	Importance of Internal Control Structure.....	22
8.4	Management and Control of Cash.....	22
8.5	Bank Reconciliation.....	23
8.5.1	Preparing a Bank Reconciliation	24
8.6	Internal Control Over Accounts Receivable and Accounts Payable.....	25
8.6.1	Accounts Receivable	25
8.6.2	Accounts Payable.....	26
8.6.3	Inventory	27
8.6.4	Determining the Cost of Ending Inventory	27
9	Week 9: The Income Statement	28
9.1	The Importance of The Income Statement	28
9.1.1	The Uses of a Income Statement.....	28
9.2	Measuring Financial Performance	29
9.2.1	Key Definitions	29
9.2.2	The Classified Income Statement	30
9.3	Defining and Classifying Revenues and Income.....	30
9.3.1	How Sales Policies Affect Income Statement Reporting	31
9.3.2	Revenues from Other Sources.....	32

9.4	Defining and Classifying Expenses	32
9.4.1	Perpetual Inventory System	32
9.4.2	Periodic Inventory System	33
9.5	Cost of Goods Sold and Gross Profit	34
9.6	Operating Expenses	34
9.7	Financial Expenses.....	34
9.8	Depreciation	35
9.8.1	Fours Factors Considered when Calculating Depreciation.....	35
9.9	Preparing an Income Statement.....	36
9.10	Evaluating The Income Statement Using Ratios	37
9.10.1	Stakeholders and Definitions	37
9.10.2	Ratios	37
9.11	Linking Profit to Owner’s Equity and Closing the Accounts.....	37
9.12	Closing Temporary Accounts	38
10	Week 10: The Balance Sheet	38
10.1	Importance of The Balance Sheet	38
10.2	The Accounting Equation and The Balance Sheet.....	39
10.2.1	Assets.....	39
10.2.2	Liabilities	40
10.2.3	Owner’s equity	40
10.3	Using The Balance Sheet for Evaluation (Evaluating Liquidity)	40
10.3.1	Current Ratio	41
10.3.2	Quick Ratio.....	41
10.4	Evaluating Financial Flexibility	41
10.4.1	Debt Ratio	42
10.5	Evaluating Profitability	42
10.5.1	Return on Total Assets	42
10.5.2	Return on Owner’s Equity	43

10.6 Evaluating Operating Capability – Liquidity	43
10.6.1 Inventory Turnover.....	43
10.6.2 Accounts Receivable Turnover	44
10.6.3 Limitations of the balance sheet and income statement	44
11 Week 11: The Cash Flow Statement	45
11.1 Introduction.....	45
11.2 Importance of The Cash Flow Statement	45
11.3 Preparing The Cash Flow Statement	46
11.3.1 Operating Activities	47
11.3.2 Investing Activities	48
11.3.3 Financing Activities	49
11.4 Relating The Cash Flow Statement to Other Financial Reports.....	49
11.5 Analysing the Cash Flow Statement	49
11.5.1 Relationship Between The Cash Flow Statement and The Balance Sheet	50
12 Week 12: Professional Decision-Making & Corporate Governance .	51
12.1 Introduction.....	51
12.1.1 Understanding Professional Decision-Making	51
12.1.2 Defining Corporate Governance Today	52
12.1.3 Accounting and Governance.....	52
12.1.4 Governance and Decision-Making	52
12.1.5 Why Disclosures Matter.....	53
12.1.6 Who Makes the Decisions?.....	53
12.1.7 The Role of Auditors	53
12.2 APES 110: A Standard for Professional Decision-Making in Accounting	
54	
12.2.1 APES 110 and Corporate Governance.....	54
12.2.2 The Principles of Professional Decision-Making in APES 110	54
12.2.3 Recognising Threats to Sound Decision-Making	55

12.2.4	Safeguards to Threats	57
12.3	Profession Decision-Making Framework	58
12.3.1	Step 1: Identify the Issue and Stakeholders	58
12.3.2	Step 2: Consider Professional Principles	59
12.3.3	Step 3: Assess Threats to Decision-Making	59
12.3.4	Step 4: Apply Safeguards	59
12.3.5	Step 5: Make and Justify the Decision	60
12.3.6	Step 6: Review Outcomes	60

1 Week 1: Introduction to Accounting

1.1 Understanding of Business Before Trying to Learn About Accounting

Accounting involves **identifying, measuring, recording, and communicating** economic information about a business for decision making. It focuses on the resources and activities of businesses. Therefore, it is important to understand businesses and the business environment in which they exist before trying to learn how to account for their resources and activities.

1.2 Factors that cause business environments to change



- Information explosion
- Technological advancements
- Globalisation
- Increased regulations
- More complex business activities
- Evolving forms of business

1.3 Entrepreneurship and Sources of Capital

- Capital refers to the funds a business needs to operate or to expand operations.
- Entrepreneur is an individual who is willing to risk this uncertainty in exchange for the reward of earning a profit
- Solvency refers to a business' long-term ability to pay off its debts

1.3.1 Sources of Capital

- One source of capital for a business is the entrepreneur's (or business owner's) investment in the business
- Borrowing from institutions is another source of capital for a business

- The liabilities and owner's equity of an entity are claims on the economic resources of the entity, shown by the accounting equation.
- **Liabilities:** Liabilities are the economic obligations (debts) of a business. The external parties to whom a business owes the debts are referred to as the creditors of the business.
- **Owner's equity:** The owner's equity of a business is the owner's current investment in the assets of the business.
 - The capital invested in the business by the owner, the business's earnings from operations and the owner's withdrawals of capital (drawings or dividends) from the business all affect owner's equity.
 - (A partnership's balance sheet would refer to partners' equity, and a company's balance sheet would call this shareholders' equity)

6.3 The Double-Entry System and Dual Effect of Transactions

- **Dual effect of transactions:** A business must make at least two changes in its assets, liabilities or owner's equity when it records each transaction

7 Week 7: The Accounting System: Concepts and Applications II

7.1 Analysing transactions using the accounting equation

Trans	Date	Assets								=	Liabilities			+	Owner's equity
		Cash	+ Prepaid rent	+ Supplies	+ Inventory	+ Shop equipment	+ Accounts receivable	+ GST paid		=	Accounts payable	+ Loan payable	+ GST collected		E Della, capital
(1)	1/12/X1	+\$22 000													+\$22 000
(2)	1/12/X1	-\$ 7 920	+\$7 200					+\$ 720							
(3)	7/12/X1	-\$ 2 255		+\$2 050				+\$ 205							
(4)	12/12/X1				+\$1 300						+\$1 430				
(5)	20/12/X1	-\$ 250				+\$1 500		+\$ 150				+\$1 400			
(6)	22/12/X1					-\$ 400	+\$440							+\$40	
Balances		<u>\$11 575</u>	<u>+\$ 7 200</u>	<u>+\$2 050</u>	<u>+\$1 300</u>	<u>+\$1 100</u>	<u>+\$440</u>	<u>+\$1 205</u>		=	<u>\$1 430</u>	<u>+\$1 400</u>	<u>+\$40</u>		<u>\$22 000</u>
		\$24 870									\$24 870				

- Each column is called an account that is, a place a business uses to record and retain information about the effect of its transactions on a specific asset, liability or owner's equity item
- Transactions being recorded:
 - Investing cash (1)
 - Prepaying rent (2)
 - Purchasing supplies with cash (3)

11 Week 11: The Cash Flow Statement

11.1 Introduction

- **Cash flow statement (statement of cash flows):** Accounting report that summarises a business's cash receipts, cash payments and net change in cash for a specific time period
 - The statement of cash flows provides clarity to the users of financial reports and to management on the actual cash inflows and outflows of a business
- **Cash inflows** is another way of saying 'transactions that resulted in increases in cash'.
 - Decreases in assets other than cash - i.e. when cash is received in exchange for another asset.
 - Increase in liabilities - i.e. where a business receives cash in exchange for a liability for example a business borrows \$10,000 from a bank. The liability of loan payable increases by \$10,000 and the cash account also increases by \$10,000.
 - Increase in owner's equity - i.e. cash investment by an owner.
- **Cash outflows** is another way of saying 'transactions that resulted in decreases in cash'.
 - Increases in assets other than cash - i.e. when a company pays cash to purchase an asset.
 - Decreases in liabilities - i.e. when a company pays off their loans.
 - Decreases in owner's equity - i.e. owner withdrawals.
- **cash balance + cash inflows – cash outflows = ending cash balance**

11.2 Importance of The Cash Flow Statement

- Analysing the cash flow statement provides answers to the questions
 - How much cash was provided or used by the business's operating activities?
 - How much cash did the business receive or spend in investing or financing activities?
 - **Did the entity's operations produce sufficient cash to meet dividend payments?**
 - **Did the entity issue shares or increase liabilities during the year and what happened to the proceeds?**