BUSS1030 Notes: Accounting for Business Decisions

Semester 2 2025

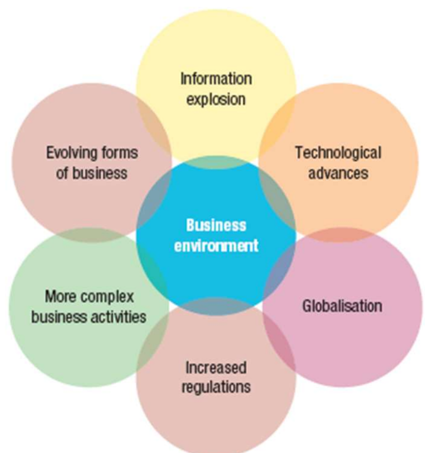
Contents

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

		Assets							= Liabilities			+ Owner's equity
Trans	Date	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				+$1 300			+$ 130	+$1 430			
(5)	20/12/X1	−$ 250				+$1 500		+$ 150		+$1 400		
(6)	22/12/X1					−$ 400	+$440				+$40	
Balances		$11 575	+ $7 200	+ $2 050	+ $1 300	+ $1 100	+ $440	+ $1 205	= $1 430	+ $1 400	+ $40	+ $22 000
		$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.
- $\textbf{cash balance} + \textbf{cash inflows} - \textbf{cash outflows} = \textbf{ending cash balance}$

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?**