

accounting for decision making

Week 1

What is Accounting?

Definition: Accounting is an information system that identifies, records and communicates the economic events of an organisation to interested users, enabling informed decision making. Accounting is often referred to as the language of business.

Purpose of Accounting

Accounting helps users:

- Make informed economic decisions.
- Assess financial performance and position.
- Allocate resources efficiently.
- Reduce uncertainty.

Why is Accounting Important?

- Accounting information is used in everyday life to:
- Manage personal finances.
- Buy or sell shares.
- Apply for loans.
- Assess businesses before purchasing goods or services.
- Evaluate charities before donating.

The Accounting Process

Accounting follows four main steps:

Step	Description
1. Identify	Recognise economic transactions.
2. Record	Enter transactions into the accounting system.
3. Communicate	Prepare financial reports.
4. Interpret	Analyse reports to support decision making.

Examples of transactions

- Selling goods
- Paying wages
- Purchasing equipment
- Receiving cash
- Paying suppliers

Accounting's Role in Society

Accounting is essential because it:

- Supports business decision making.
- Provides transparency and accountability.
- Helps investors assess companies.
- Assists banks when approving loans.
- Enables governments to collect tax.
- Builds public confidence in organisations.

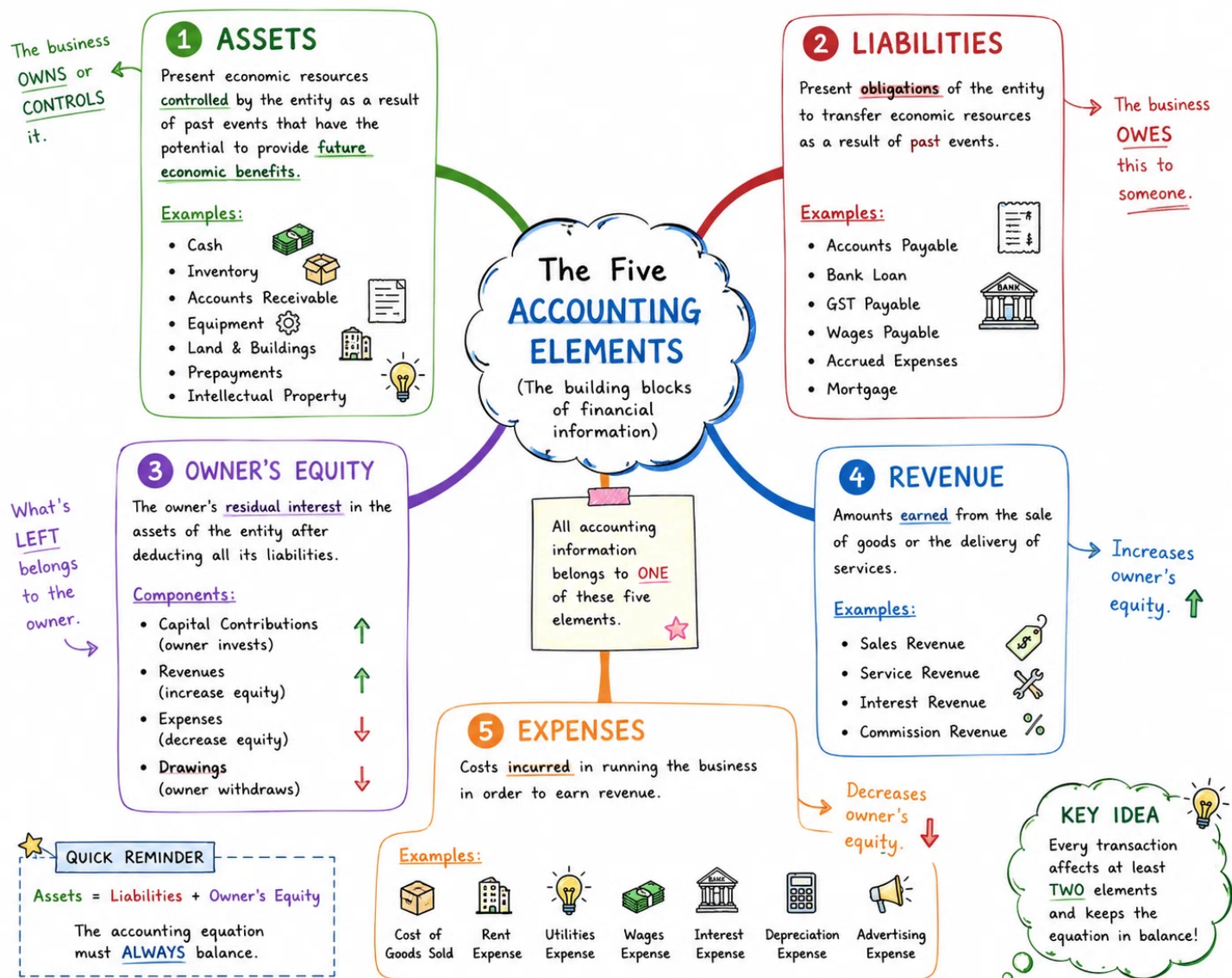
Week 2

The Five Accounting Elements

Everything recorded in accounting belongs to one of five accounting elements.

Accounting Element	Meaning
Asset	Something the business owns or controls that provides future economic benefits.
Liability	An obligation the business owes to another party.
Equity	The owner's remaining interest after liabilities are deducted from assets.
Revenue (Income)	Money earned from selling goods or providing services.
Expenses	Costs incurred while earning revenue.

Remember - Every account you see throughout this unit will belong to one of these five categories.



Assets

An asset is: A present economic resource controlled by the entity as a result of past events that has the potential to produce future economic benefits.

Week 4

The accounting recording process

- Source documents provide evidence of economic events.
- Analyse each transaction and identify the accounts affected.
- Journalise the transaction in the General Journal.
- Post each entry to the relevant General Ledger accounts.
- Balance the ledger accounts and prepare an unadjusted trial balance.

Debits and credits

- Debit (Dr) always means the left side of an account.
- Credit (Cr) always means the right side of an account.

Debit does not automatically mean increase, and credit does not automatically mean decrease. The effect depends on the account type.

Every transaction affects at least two accounts, and total debits must always equal total credits.

DEBITS & CREDITS			
Normal balances and the side used for increases			
ACCOUNT TYPE	NORMAL BALANCE	INCREASE	DECREASE
Assets	Debit	Dr	Cr
Drawings	Debit	Dr	Cr
Expenses	Debit	Dr	Cr
Liabilities	Credit	Cr	Dr
Capital	Credit	Cr	Dr
Revenue	Credit	Cr	Dr

MEMORY TIP: ADE increases with a DEBIT | LCR increases with a CREDIT

Memory aid: ADE increases on the debit side: Assets, Drawings and Expenses. LCR increases on the credit side: Liabilities, Capital and Revenue.

General Journal

The General Journal is the chronological record of business transactions.

Each entry includes the date, accounts affected, debit and credit amounts, and a brief narration.

Four steps to journalise a transaction

- Identify the accounting elements affected.
- Identify the specific accounts affected.
- Decide whether each account increases or decreases and by how much.
- Apply the debit and credit rules; check total Dr = total Cr.

Worked examples

Owner contributes \$15,000 cash

Cash (asset) increases; Capital increases.

Dr Cash \$15,000

Cr Capital \$15,000

Buy \$1,600 supplies on credit

Supplies increase; Accounts Payable increases.

Dr Supplies \$1,600

- 6. Profit margin is 8%, asset turnover is 1.5 times and the equity multiplier is 2.0 times. Calculate ROE and identify the three drivers.

Answers: 1) 120%; 20% increase. 2) 36%; 9%. 3) 2.10 times; 1.40 times. 4) 6 times; about 60.8 days. 5) 6 times; EBIT covers interest six times. 6) 24%; margin, asset efficiency and leverage.

MAA103 WEEK 10 – FINANCIAL STATEMENT ANALYSIS

