Topic 1

Define the nature and purpose of accounting

- Identify transactions, measure, communicate (provide description of economic activity in relation to resources) to help stakeholders make decisions.
- Internal/external users make decisions e.g. management (generation of profits), investors (proper asset use).

Critically discuss the qualitative characteristics of financial statements and the inherent tensions amongst them

- Conceptual framework
- Fundamental: relevance, faithful representation (complete, neutral, free from error)
- Enhancing: timeliness, comparability (consistently measured), verifiability, understandability
- Sometimes compromise is needed (e.g. historical cost vs fair value)

Critically discuss the role of judgment in accounting (including reference to the impacts of agency theory on judgment)

- Judgment on what/how to report (subjectivity) – e.g. profits exceeding target to achieve bonus
- Judgment influenced by agency theory
- Will all those involved act in interests of all stakeholders?
- Self-interest (e.g. manipulate numbers, budget slack, time horizons – e.g. CEO vs temp)
- Therefore there is regulation

Briefly discuss the role of regulation in accounting

- Protect stakeholders (e.g. from misleading info)
- Promote a strong, vibrant economy
- Corporations Act (enforced through ASIC) main source of regulation

Topic 2

Compare and contrast the focus on economic benefits versus cash in the context of accrual accounting

- Accrual accounting records at time of transactions of economic resources and claims instead of just cash
- Economic benefits – long-term, more complete (faithful representation), more relevant to some stakeholders such as creditors, involves more judgment
- Cash – short-term, more neutral as it requires less judgment (faithful representation), more relevant to some stakeholders such as liquidators

Critically evaluate the appropriate classification and recognition of a range of economic events in terms of the elements of accounting: assets, liabilities, equity, income, and expenses

- Assets
    - Definition: past events, controlled, future economic benefits.
    - Recognition: reliably measured, probable
- Liabilities
    - Definition: present obligations, outflow of economic benefits.

    - Recognition: reliably measured, probable
- Equity – residual interest
- Income – includes revenue (from operating activities)
    - Definition: increases in economic benefits from increases in assets or decreases in liabilities, excluding contributed equity.
    - Recognition: reliably measured, increase in future economic benefits, earned via income generating economic activity (e.g. goods sold) to ensure probability
- Expenses
    - Definition: decreases in economic benefits from decreases in assets or increases in liabilities, excluding equity distributions
    - Recognition: reliably measured, decrease in future economic benefits
    - usually matching income with corresponding change in assets or liabilities (e.g. selling inventory decreases assets and increases expenses cost of sales)
    - classified by nature (employee benefits, depreciation, cost of sales = opening less closing inventory)/function (administrative, occupancy)

Briefly explain the concept of duality

- dual effect (at least 2) of economic exchanges and events (business transactions) on the accounting equation to keep it in balance

<u>**Topic 3**</u>

Explain the nature and purpose of the balance sheet

- Details assets, liabilities, equity at a point in time
- Shows how management makes investing(assets) and financing (liabilities, equity) decisions
- Helps users to preliminarily assess entity's financial position (solvency/stability)

Outline and discuss the different major classes of assets (including intangibles) and explain the relevance of asset classification

- Cash and cash equivalents (held to meet short-term cash commitments rather than investments; must be readily convertible and little risk of changes in value)
- Trade and other receivables – amounts owed by customers → risks? Probable? Faithful representation?
- Inventory – goods sold
- Property plant and equipment – used in operation of business, not for sale
- Intangibles – cannot be internally valued, only if purchased (e.g. goodwill – unidentified, purchase price less fair value of net assets)
- Relevance: liquidity, marketability, purpose

Discuss the principles of measurement and valuation applied to different asset classes

- Recorded as book values
- Fair value – amount for which asset could be exchanged or liability settled between two willing parties at time of reporting period; a.k.a. market value
- If no market: current (replacement) cost or present value of future cash flows discounted to today's value
- Non-current assets – depreciable (e.g. property plant and equipment) → limited useful lives → fair value or historical cost less accumulated depreciation