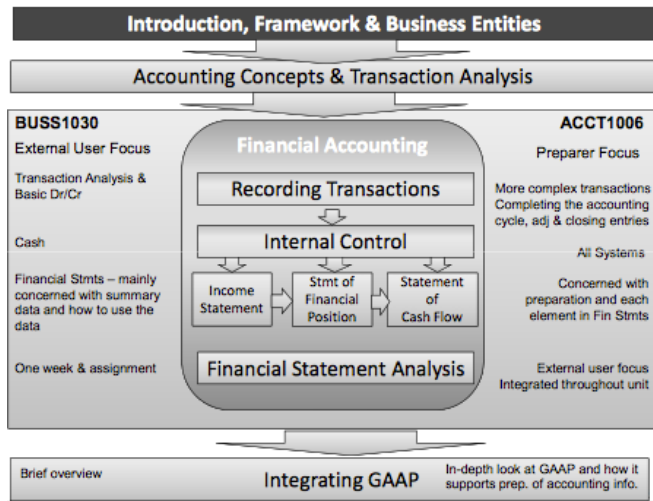


Lecture 1: Introduction

Introduction and revision



Statements

- Statement of financial performance (Income)
 - Reports income = revenue less expense for period of time
 - Report success and failure of entity's for period of time
 - Income (revenue and gains) – expense (expense and loss)
- Statement of financial position (balance sheet)
 - Reports assets and liabilities on those assets in period of time
 - Assets = liabilities + equity
- Statement of changes in equity
 - Comprehensive income for period – equity change
 - Profit, retained earning, dividends, capital contributions, reserves
- Statement of cash flow
 - Net cash provided/used during period
 - Cash receipts and payments

Concepts and principles

- Monetary principle
- Accounting entity concept
- Accounting period concept
- Going concern principle
- Cost principle
- Full disclosure principle

Debits & credits, journals, posting to ledger and trial balance

- Assets = liabilities + equity is affected
 - An account is accounting record of increase and decrease in specific A/L/E
- Steps
 - Analyse each transaction in terms of effect on accounts
 - Enter transaction into journal
 - Credit into ledger
 - Balance ledger accounts
 - Prepare trial balance
- Closing balance – to balance things not correct account balance (on the opposite side) – e.g. 15200

Transaction

1 October, C.R. Hill invests \$10 000 cash in a business, The Pioneer Advertising Agency.

Basic Analysis

The asset Cash is increased \$10 000, and owner's equity, C. R. Hill, Capital is increased \$10 000.

Debit-Credit Analysis

Debits increase assets: debit Cash \$10 000.
Credits increase owner's equity: credit C.R. Hill, Capital \$10 000.

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Debits increase assets: debit Cash \$10 000.
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Journal Entry

Oct 1	Cash	101	10 000	10 000
	C.R. Hill, capital (Owner's investment of cash in business)	301		

Posting

Cash	101	C.R. Hill, capital	301
Oct 1 10 000		Oct 1 10 000	

Debit	Title of Account		Credit
	Left or debit side	Right or credit side	
	Debit balance	Credit balance	

Basic accounting equation	Assets		=	Liabilities		+	Equity													
Expanded basic accounting equation	Assets		=	Liabilities		+	Share Capital		+	Beginning Retained Earnings		-	Dividends		+	Revenues		-	Expenses	
Debit/credit rules	Dr +	Cr -		Dr -	Cr +		Dr -	Cr +		Dr -	Cr +		Dr +	Cr -		Dr -	Cr +		Dr +	Cr -

Cash				No. 100			
Oct. 1	Share Capital	10 000		Oct. 2	Office Equipment	5 000	
1	Bank Loan	5 000		3	Rent Expense	900	
2	Revenue Received in Advance	1 200		4	Prepaid Insurance	600	
3	Service Revenue	10 000		20	Dividends	500	
				26	Salaries Expense	4 000	

- Trial balance
 - List of all the accounts and their balances at a given time listed in order as they appear in general ledger
 - Steps: 1.List account numbers, titles and balances 2.Total debit and credit columns 3.Verify equality of debit and credit columns

Ratio analysis for evaluating an entity's profitability, liquidity and solvency

- Ratio analyses
 - Highlighting relationships: between items in statements expressed as percentage, ratio, proportion
 - Insights into underlying condition/evaluations: not apparent from viewing statements only
 - Other info – e.g. industry averages, economic conditions
 - Main analyses – profitability, liquidity, solvency
- Profit margin
 - Measures percentage each sales dollar that results in profit
 - Profit / Net sales
- Liquidity
 - Short-term ability to meet current obligations
 - E.g. Current ratio – current assets/liabilities
- Solvency
 - Ability to survive long-term period
 - E.g. debt to total assets ratio – Total liabilities / assets

Conceptual framework

- Set of concepts defining the nature, purpose and content of general purpose of financial reporting
- Used by preparers and standard setters

GAAP Objectives

- Provide financial information about reporting entity to existing and potential equity investors, lenders, and other creditors for making decisions about providing resources to entity
- Reporting entity: Entity which its reasonable to expect existence of users who depend on general purpose financial reports to make economic decisions

Qualitative characteristics

- Fundamental or enhancing

Qualitative Characteristics	Fundame
Relevance	F
Comparability	E
Verifiability	E
Understandability	E
Timeliness	E
Faithful Representation	F