



Business School

BSB110 – ACCOUNTING EXAM PREPARATION

These are notes compiled from each lecture that are necessary to the exam.

ABSTRACT

Prepared for BSB110 -
Accounting

Josh Harris

CONTENTS

1	Week 1 – Introduction to Accounting.....	4
2	Week 2 – Regulation.....	5
2.1	The business context and the need for decision making:	5
2.2	The characteristics of the main forms of business organisation.....	5
2.3	Conceptual Framework.....	6
2.4	Identifying the users of financial reports and describe user information needs	6
2.5	The elements of each of the four main financial statements	7
2.6	Accounting concepts, principles, qualitative characteristics and constraints underlying financial statements.....	9
3	Week 3 – Financial Statement Analysis and Decision Making	Error! Bookmark not defined.
3.1	The need for comparative analysis and identify the tools of financial statement analysis: .	Error! Bookmark not defined.
3.2	Horizontal analysis:	Error! Bookmark not defined.
3.3	Vertical analysis:.....	Error! Bookmark not defined.
3.4	Ratios:	Error! Bookmark not defined.
3.5	Discuss the limitations of financial statement analysis:.....	Error! Bookmark not defined.
3.6	Discuss the limitations of ratio analysis:.....	Error! Bookmark not defined.
4	Week 4 – The Recording Process	Error! Bookmark not defined.
4.1	The Effect of Accounting Transactions and Events:.....	Error! Bookmark not defined.
4.2	Accounts:	Error! Bookmark not defined.
4.3	Debits and Credits:.....	Error! Bookmark not defined.
4.4	Rules for DR and CR.	Error! Bookmark not defined.
4.5	Basic steps of the recording process:	Error! Bookmark not defined.
4.6	Journals:	Error! Bookmark not defined.
4.7	General Ledgers:	Error! Bookmark not defined.
4.8	Posting:	Error! Bookmark not defined.
4.9	Trial Balance:.....	Error! Bookmark not defined.
5	Week 6 – Inventories	Error! Bookmark not defined.
5.1	Explain the recording of purchases under a perpetual inventory system...	Error! Bookmark not defined.
5.2	Explain the recording of sales revenues under a perpetual inventory system...	Error! Bookmark not defined.
5.3	Explain the recording of purchases and sales of an inventory under a periodic inventory system	Error! Bookmark not defined.

- 5.4 Determine cost of sales under a periodic inventory system **Error! Bookmark not defined.**
- 5.5 Explain the basis of accounting for inventories and apply the inventory cost flow methods under a periodic inventory system **Error! Bookmark not defined.**
- 5.6 Explain the lower of cost and not realisable value basis of accounting for inventories.....**Error! Bookmark not defined.**
- 5.7 Understand the basic process and main features of the goods and services tax (GST)**Error! Bookmark not defined.**
- 6 Week 7 – Accounting Information Systems **Error! Bookmark not defined.**
 - 6.1 Identifying the basic principles of accounting information systems:.....**Error! Bookmark not defined.**
 - 6.2 Internal control:..... **Error! Bookmark not defined.**
 - 6.3 Principles and limitations of internal control:..... **Error! Bookmark not defined.**
 - 6.4 Nature and purpose of control accounts and subsidiary ledgers: **Error! Bookmark not defined.**
 - 6.5 Explain how special journals are used in recording transactions:**Error! Bookmark not defined.**
 - 6.6 Record transactions for sales, purchases, cash receipts, and cash payments in special journals and post ledgers:..... **Error! Bookmark not defined.**
- 7 Week 8 & 9 – Cash **Error! Bookmark not defined.**
 - 7.1 Identifying the effects of business transactions on cash: **Error! Bookmark not defined.**
 - 7.2 Electronic banking processes:..... **Error! Bookmark not defined.**
 - 7.3 Internal control and handling cash: **Error! Bookmark not defined.**
 - 7.4 Bank reconciliations: **Error! Bookmark not defined.**
 - 7.5 Basic principles of cash management: **Error! Bookmark not defined.**
 - 7.6 Different types of receivables: **Error! Bookmark not defined.**
 - 7.7 Valuing receivables:..... **Error! Bookmark not defined.**
 - 7.8 Analysing and managing receivables:..... **Error! Bookmark not defined.**
 - 7.9 Cash Budget **Error! Bookmark not defined.**
 - 7.10 Main Purpose of the Cash Flow Statement..... **Error! Bookmark not defined.**
 - 7.11 Operating, Investing, and Financing Activities..... **Error! Bookmark not defined.**
 - 7.12 Statement of Cash Flow **Error! Bookmark not defined.**
- 8 Week 10 – Non-current Assets **Error! Bookmark not defined.**
 - 8.1 What are non-current assets? **Error! Bookmark not defined.**
 - 8.2 The cost principle and property, plants, and equipment **Error! Bookmark not defined.**
 - 8.3 Depreciation..... **Error! Bookmark not defined.**
 - 8.3.1 Various methods of depreciation **Error! Bookmark not defined.**
 - 8.4 Account for subsequent expenditures **Error! Bookmark not defined.**
 - 8.5 Reporting intangible assets **Error! Bookmark not defined.**

8.6	Other types of non-current assets.....	Error! Bookmark not defined.
9	Week 11 – Management Accounting.....	Error! Bookmark not defined.
9.1	Financial Account & Management Accounting.....	Error! Bookmark not defined.
9.2	The Role of Management.....	Error! Bookmark not defined.
9.3	Budgeting.....	Error! Bookmark not defined.
9.4	Performance Reports.....	Error! Bookmark not defined.
9.5	Cost-Volume-Profit Analysis (CVP)	Error! Bookmark not defined.
9.6	Contribution Margin Approach.....	Error! Bookmark not defined.
9.7	Assumptions of CVP.....	Error! Bookmark not defined.
10	Exam Information:	Error! Bookmark not defined.

1 WEEK 1 – INTRODUCTION TO ACCOUNTING

Accounting measures business activity, processes data, and communicates the results to decision makers.

Accounting is divided into two main groups:

- ❖ Financial accounting (Provides information for people outside the business)
- ❖ Managerial accounting (Provides information for people inside the business)

Corporate social responsibility (CSR) is the businesses actions in relation to society's benefits and disadvantages.

- ❖ The economic view: Companies are allowed unlimited profit as long as they follow the rules
- ❖ The stakeholder view: The companies' actions reflect on the broader community, and are not solely financially motivated.

Some companies with provide a voluntary disclosure of their actions. This can be done to act ethically, and become transparent with current and potential stakeholders.

Also known as Corporate Legitimacy. If a corporation is involved in actions that do not align with societal values, the corporate legitimacy of the company may be questioned.

Stakeholder management is the stakeholder pressure on a company to help the company align with societal values.

Sustainability index.

There is no binding overarching set of rules that every company must follow for reporting their environmental impact, they are strictly voluntary. Societal values however, are pushing companies in this direction.

2 WEEK 2 – REGULATION

2.1 THE BUSINESS CONTEXT AND THE NEED FOR DECISION MAKING:

Primary function of accounting is to provide financial information for decision making. Accounting is the communication of information. Accounting information contains industry specific terms/professional terminology.

The accounting process is focused on identifying, measuring, recording, and communicating the economic transactions and events of the business operations.

The first three steps:

- ❖ *Identifying*
- ❖ *Measuring*
- ❖ *Recording*

Are usually considered bookkeeping. Once the bookkeeping has been completed, the higher level step is communicating. This includes interpreting, understanding, and making changes to a business based on these reports.

Commercial accountants:

- Work in industry and commerce, undertaking management and financial accounting

Government accountants:

- Employed by local councils, state government and federal government. These accountants undertake roles such as financial accounting and auditing.

Not-for-profit accountants:

- Engage in planning, decision making, preparing financial and management reports for both internal and external users. These accountants belong to not-for-profit foundations, charities, etc.

2.2 THE CHARACTERISTICS OF THE MAIN FORMS OF BUSINESS ORGANISATION

Sole Proprietorship (Sole trader)

- ❖ Owned by a single person
 - (Restaurants, dentist, panel beaters)

Partnership

- ❖ Owned by more than one individual
 - (Accountants, solicitors, doctors)

Company

- ❖ A separate legal entity that is owned by the shareholders
 - (BHP, Westpac, RM Williams)
- ❖ The shareholders in the company will not owe any money, only have the potential to lose their invested capital. (Limited Liability)

A Trust

- ❖ A type of business that owns property on behalf of their stakeholders.
 - Superannuation trust

Not-for-profit Organisations:

- ❖ Generally formed by small, non-profit, community based groups. May be incorporated (Inc.)

2.3 CONCEPTUAL FRAMEWORK

There are 4 sections of the conceptual framework.

- ❖ *Objective of general purpose financial reports (GPFR)*
 - This fits the needs of the general population, such as existing and potential shareholders, lenders, and other creditors. Very broad, often annual reports.
 - The objective of a GPFR is to provide information for the cash flow forecast, future borrowing needs, likely successes, and investing/financing in operations.
- ❖ *The Reporting Entity*
 - The reporting entity is defined as someone who requires information from the GPFR to make economic decisions. E.g. Potential or existing stakeholders.
- ❖ *Definition of elements of Financial Statements*
- ❖ *Concepts, Principles, and Qualitative Characteristics*

2.4 IDENTIFYING THE USERS OF FINANCIAL REPORTS AND DESCRIBE USER INFORMATION NEEDS

Users and uses of financial information

- ❖ The primary users of a financial report are;
 - *Equity investors* (contributing resources for a return)
 - *Lenders* (Banks)
 - *Other Creditors* (suppliers, employees)
 - *Customers*
 - *Parties performing reviews or oversight functions* (Auditors)

2.5 THE ELEMENTS OF EACH OF THE FOUR MAIN FINANCIAL STATEMENTS

Statement of Profit or Loss	Statement of Changes in Equity	Statement of Financial Position	Statement of Cash Flows
Reports revenues less expenses for a particular period of time.	Reports total comprehensive income for the period and other changes in equity.	Reports assets, liabilities and equity at a particular point in time.	Reports information regarding cash receipts and cash payments for a particular period of time.

❖ *Statement of profit or loss:*

- The purpose of this report is to give an idea of profit or loss over a period of time (Revenue less expenses)
 - The statement of profit or loss can give insight into how effective the business is at generating wealth.
 - How the profit was derived, how many sales were made, the ratio and portion of expenses for the business.
 - Compares the revenue of employees vs their experience (KPI's)
 - Compare net profit to revenue

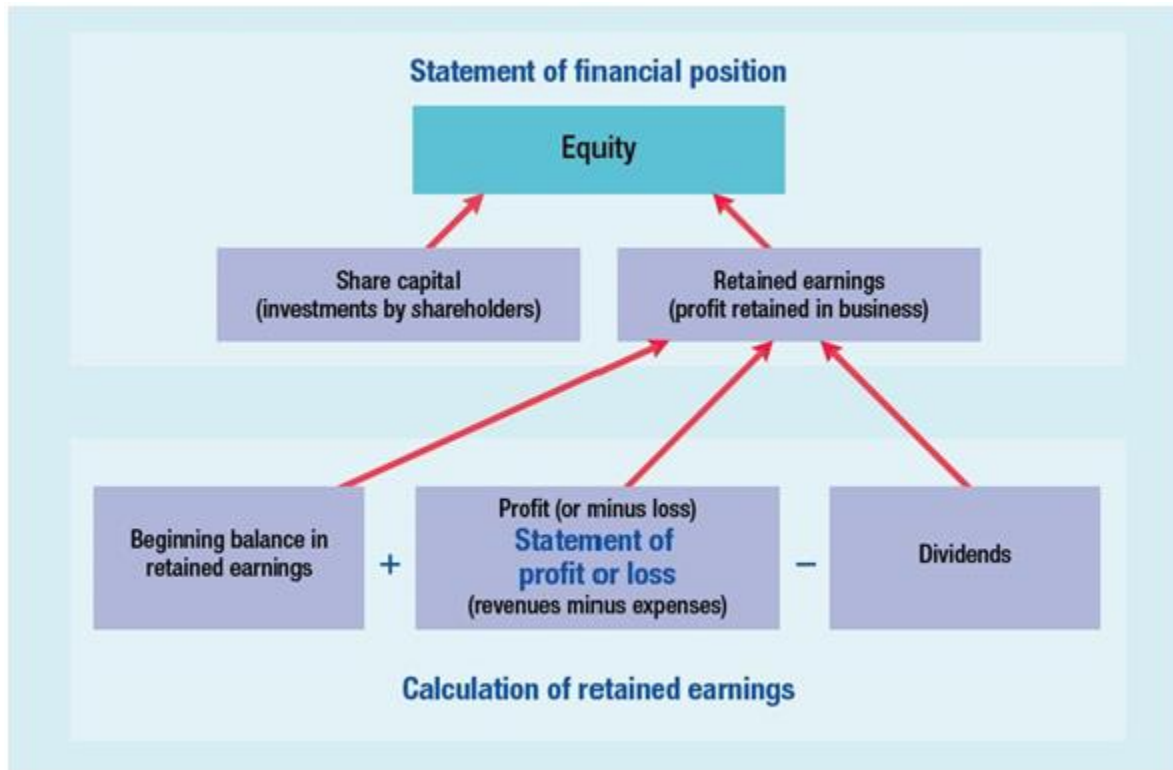
❖ *Statement of changes in equity*

- Compares retained earnings in the business from different times in the business

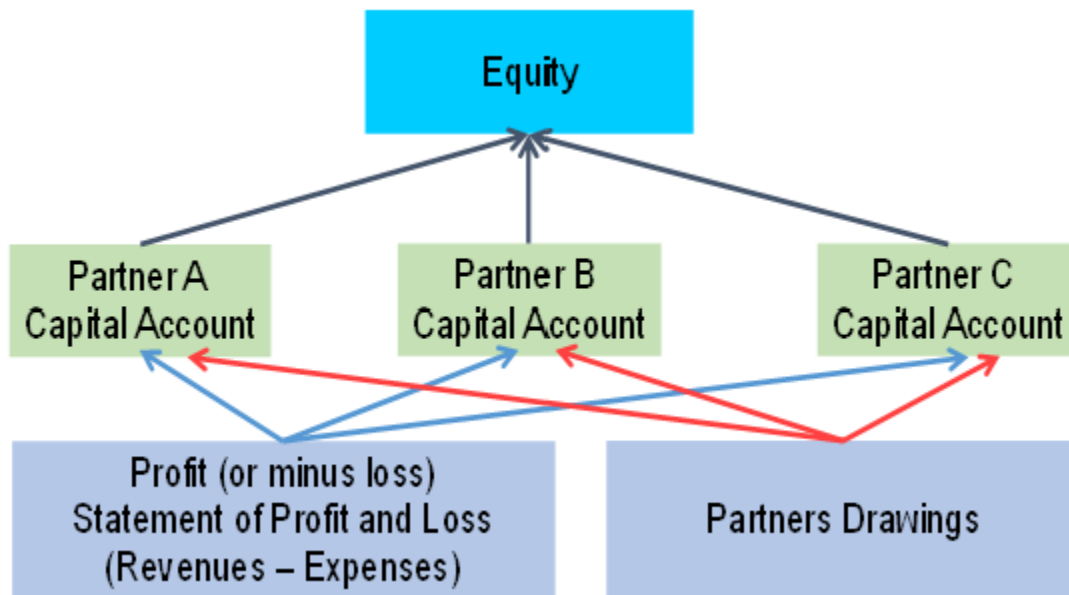
❖ *Statement of Financial Position*

- Reports assets and claims those assets at a specific point in time using the financial equation:
 - $\text{Assets} = \text{Liabilities} + \text{Equity}$
 - An asset is a possession that are things of value that the company controls that has future economic benefit. These can also be money owing to the business (e.g. Accounts receivable).
 - *Tangible assets (Physical)*
 - *Intangible (Non-physical) e.g. Patents, goodwill*
 - A liability is a possession that are things that the company does not control that are future sacrifices of economic benefits.
 - Equity is the residual interest of the owner from the company (profit that can be withdrawn as dividends from the company). (Shareholder investment/share capital, and retained earnings).

Equity in a Company



Equity Relationships in a Partnership



❖ *Statement of Cash Flow*

- This is a statement for a business that shows the flow of cash in and cash out transactions
- ❖ Interrelationships between the statements
 - All the statements are related. They each flow into the next stage of the bookkeeping process. Profit must be calculated before loss.

2.6 ACCOUNTING CONCEPTS, PRINCIPLES, QUALITATIVE CHARACTERISTICS AND CONSTRAINTS UNDERLYING FINANCIAL STATEMENTS

❖ Concepts and Principles

- *Monetary principle:* Items in accounting records that can only be expressed in monetary terms (e.g. \$)
- *Accounting entity concept:* This concept separates the business from the owners of the business for accounting purposes.
- *Accounting period concept:* The period of which accounting reports are made.
- *Going concern principle:* Business will remain in operation for the foreseeable future.
- *Cost Principle:* All assets are recorded at their purchase price as soon as the transaction is made. This is used extensively in accounting reports.
- *Full Disclosure Principle:* All transactions, decisions, and events must be included in accounting reports to make accurate decisions in a business context.