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Lecture 1

→ You can be profitable and still have no cash
→ End of Financial year sales are because the business want to increase credit revenue
  - "Interest free" programmes promote this
→ Grades in BUSS1030
  - HD (>85) → 3%-5%
  - D (75-84) → 15%
  - C (65-74) → 50%
  - P (45-64) → 15%
  - F (<44) → 15%
→ To maximise marks in Assessments
  - Tutorials:
    ↳ Turn up, do questions, discuss questions = 5%
    ↳ Twice a semester homework is collected = 5%
  - Assignment:
    ↳ My Accounting Lab → do the questions = 10%
    ↳ Presentation = 5%
  - Mid-Sem Exam:
    ↳ Likely to be first USYD exam
    ↳ Average mark = 13/25
    ↳ Top mark in 2016 = 25/25
  - Final Exam:
    ↳ 100 marks, scaled to a mark out of 50
    ↳ 2 hours with 10 minutes reading time
    ↳ Short answer questions
    ↳ Go to revision Lectures before exam
→ You MUST do reflection questions every week for MYOB
  - Can put on resume
→ Financial Accounting (wk.1-9) deals with 'external users' eg. banks, shareholders etc.
  - 'External users' are separate from company → not privilege to internal information
  - **Income statement, balance sheet and cash flow statement** are fundamental
    ↳ Collectively called **"General Purpose Financial Reports"** → provided to public
    ↳ Use these to value a company and judge its success → benchmarking
→ Management Accounting (wk. 10-13) deals with 'internal users' eg. managers
  - Planning and Budgets, Costs, Pricing

→ Conceptual Framework: a set of concepts that define the nature, purpose and content of **general-purpose financial reporting**

→ The Reporting Entity: Any entity that is required to produce information

→ Main elements of financial statements:
- Assets
- Liabilities
- Owners' Equity

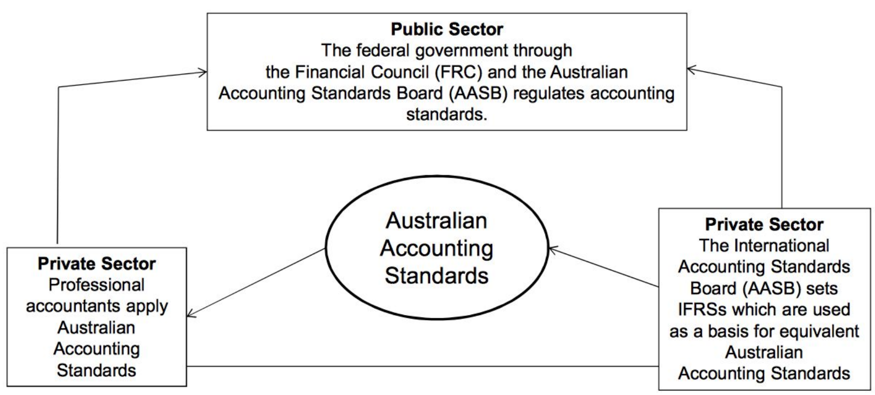
→ Internal Users = Primary Users, External Users = Secondary Users

→ Enron → in 2000 was biggest company in the world, began to 'cook their books' now the company has collapsed → "Unethical"

→ CPA (Certified Public Accountant) and IPA (Institute of Public Accounts) are organisations to enforce ethical behaviour in the business world

→ AASB (Australian Accounting Standards Board), ASIC (Australian Securities Investment Commission), APRA (Australian Prudential Regulation Authority), ACCC, Reserve Bank, ATO, all impact accounting

→ Australian Accounting Standards Board (AASB) govern measurement rules and level of disclosure → responsible for technical accounting standards



Sole Proprietorship	Partnership	Company
	What are some advantages?	
total undivided authority	pooling in different resources of partners	separate legal existence
no restrictions on type of business – must be legal	more brain power, but consultation with partners Required	limited liability of Shareholders
easy to setup	simple to form	transferability of ownership relatively easy
	What are some disadvantages?	
unlimited liability	unlimited personal liability for general partners	separation of ownership and control
limitation on size – fundraising power	partnership agreement highly recommended to overcome possible future problems	extensive governmental regulation

- → Financial reporting is done to provide information for investment and lending decisions
- → **The Entity Concept:** the business activities and personal affairs of the owner are separate
    - Eg. if person has 2 businesses (1 made $100 profit, 1 made $50 loss), he did not make $50, rather one business made $100 while the other lost $50
- → Accounting time period in Australia is July 1 to June 30 following year
- → 2 types of qualitative characteristics:
    - Fundamental: **relevance** (should have predictive value or confirmatory value) and **faithful representation** (complete, neutral -free from bias, free from frequent error)
    - Enhancing: **comparability** (between periods and reporting entities), **verifiability** (independent parties can reach consensus about faithful representation), **timeliness** (information is released in good time → older information is less useful), **understandability** (clear and concise)
    - Constraints: cost of getting info vs. benefits of it
- → **Profit:** The difference between income and expenses produced by business activities when income is greater than expenses
- → **Revenues:** Income that arises in the course of ordinary activities
- → **Expenses:** The costs of inputs used up to produce outputs that are completed and sold
- → **Equity:** The residual interest in the assets of the entity after deducting all of its liabilities
- → **Income Statement:** Report of an entity's revenues, expenses and profit/loss for the period
- → **Balance Sheet:** Report of an entity's assets, liabilities and equity as of a specific date
- → **Cash Flow Statement:** Report of cash receipts and cash payments during a period
- → **Statement of Changes in Equity:** Report that shows the changes in capital for a period
- → **Accounting Equation:** >>> Equity = Assets - Liabilities <<<
- → **Proprietorship:** A business with a sole owner
- → A financial accountant is responsible for:
    - Budgets, plans and internal reports
    - Income tax planning and preparation
    - Preparation of financial statements for a business
    - Tax returns for a business
    - Auditing
- → 3 organisations help define how financial statements are prepared. They are:
    - The Financial Reporting Council
    - The Australian Accounting Standards Board
    - The International Accounting Standards Board
- → The business structure to best attract outside investors is the form of a "company"
- → The "cost principle" is based on the belief that accountants should record transactions at amounts that can be verified

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<u>Lecture 2</u>

- → Primary users are resource providers, non-primary users have other aims
- → Some businesses are “partnership incorporated” (between partnership and company)
    - This involves many partners → eg. KPMG
- → Questions (Quick Recap)
    - Entity principle → business accounted for as separate from the owner
    - Revenue recognition principle and expense recognition principle → All revenues are reconciled with appropriate expenses
    - Revenue recognition → revenue should only be earned when the G/S are provided
    - Cost principle (historical cost) → best objective system to record costs of goods
        - ↳ Fair value principle estimates the value of a good at a moment in time
    - Company → has limited liability
        - ↳ Public company - listed on securities exchange
        - ↳ Private company - generally family owned
    - Qualitative characteristics:
        - ↳ Faithful representation
        - ↳ Comparability
        - ↳ Reliability
        - ↳ Timeliness
- → Accounting equation: >>> Assets = Liabilities + Owners’ Equity <<< (A=L+OE)
    - Assets are economic resources
    - Liabilities and owners’ equity are claims to economic resources
- → **Asset:** something a company <u>owns/controls</u> that has future economic value
    - Can be tangible (eg. cash, land) or intangible (eg. goodwill)
    - Eg. cash, land, equipment, accounts receivable, bills receivable, goodwill
    - When you buy a company you often also ‘buy’ the customers (this is goodwill)
    - Accounts receivable is fixed → often has a defined date to ‘pay’ by
    - Bills receivable is variable → arises from negotiations with the company
    - Prepaid expenses → paid for expenses before they are used, eg. prepaid insurance
    - An asset becomes an expense once you have finished enjoying the benefits
        - ↳ Eg. fuel is an asset until you empty tank then it becomes an expense
        - ↳ When buy fuel: asset (fuel) increases, but asset (cash) decreases
        - ↳ When use fuel: asset (fuel) decreases, so owners equity decreases (expense)
- → **Liability:** something a company owes
    - Eg. accounts payable, bills payable, loan payable, accrued liabilities
    - Accrued liabilities are for expenses incurred but NOT paid (eg. electricity bill)

- 'Current liabilities' must be repaid in less than 12 months
- 'Non-current liabilities' can be repaid over 12 months (eg. mortgage)

→ **Owners' Equity:** the leftover assets after all liabilities have been deducted
- OE = + revenues - expenses - drawings + capital (- dividends + share-capital for co.)
- **Revenue:** amounts received or to be received from customers for the sale of G/S
    - ↳ Unearned revenue (revenue received in advance) is a Liability (eg. tickets)
- **Expenses:** amounts that have been paid or will be paid for costs that have been incurred to earn revenue
    - ↳ When you purchase supplies it becomes an asset, but as you use the supplies, they become expenses (A decrease and OE decrease)

→ **Principle of duality:** All debits must equal all credits
- OE is considered a credit as the business must pay it back to the owner

→ When asset goes up it is a debit, when it goes down it is a credit

→ When L + OE goes up it is a credit, when it goes down it is a debit

→ T Accounting: for each of A, L nd OE a 'T-table' is created with debits and credits
- When you make a purchase (eg. for supplies), cash goes down and supplies go up
    - ↳ Therefore, the ↓ in cash is a credit and the ↑ in supplies is a debit

→ To pay "on account" means to pay off a loan with cash

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Tutorial 2

→ Accounts receivable = trade debtors

→ **Patent:** an intellectual property asset

→ Accounts payable = trade creditors → money owed to suppliers

→ Mortgages are secured by property, whereas debentures are secured by a company's assets

→ Profits do not carry forward into the next financial year, unlike assets and liabilities

→ **Cash flow statement:** report of cash receipts and cash payments during a period

→ Benefits of Proprietorship:
- No need to split profits / meet shareholders expectations
- Easy to set up

→ Negatives of Proprietorship:
- Limited lifespan of owner's life
- **Unlimited liability:** owners are personally liable for the liabilities of the business
- Limited access to funds, tough to raise capital → tough to expand