

ACCT1011
ACCOUNTING FOR BUSINESS

Welcome
&
Week 1

Organisations and the Accounting Process

Objectives

- Introduction to accounting
- types & forms of organisations
- the financial accounting process
- three major financial reports
- accounting assumptions
- accounting equation & simple financial reports
- Introduction to the conceptual framework

1. What is Accounting?

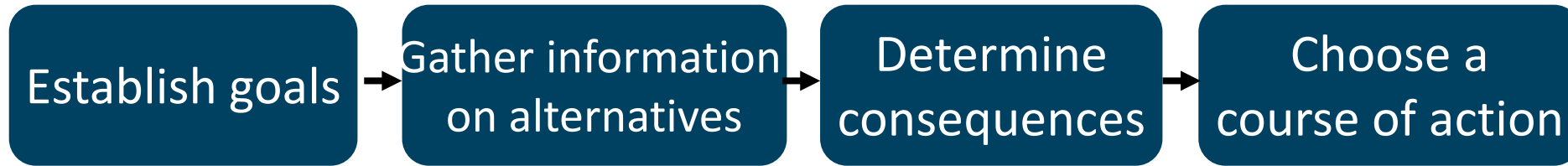
- Accounting is the “language of business”
- If you don’t understand the language, you’re not in the conversation!

1. Accounting Defined

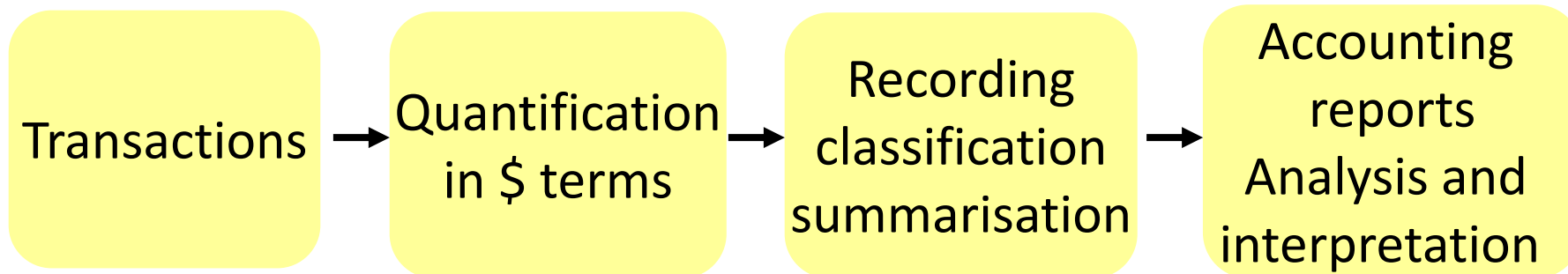
*Accounting has been defined as the process of identifying, measuring, recording and communicating economic information to permit informed judgements and economic **decisions** by the users of the information.*

(Hoggett 2018, p8)

Other Information, e.g. economic, marketing, etc..



Accounting Information





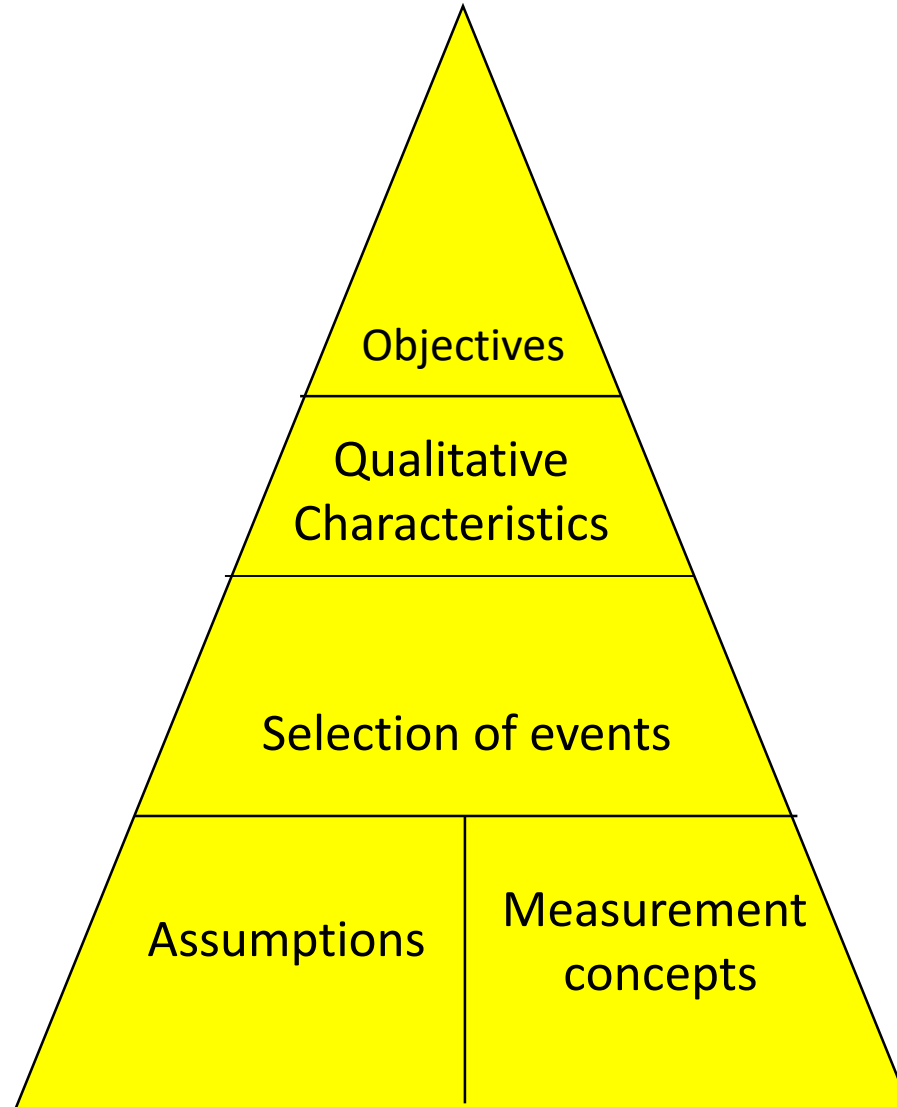
3. Types of Organisations

- By Purpose
 - Commercial / “for profit”
 - BHP Billiton
 - NAB
 - local supermarket
 - Non-commercial / “non-profit”
 - charities
 - sporting clubs
 - government departments

Types of organisations

- By Purpose
 - Sole trader (AFB)
 - Partnership (FA1)
 - Company (mostly FA2/FA3)
 - Separate “legal” entity

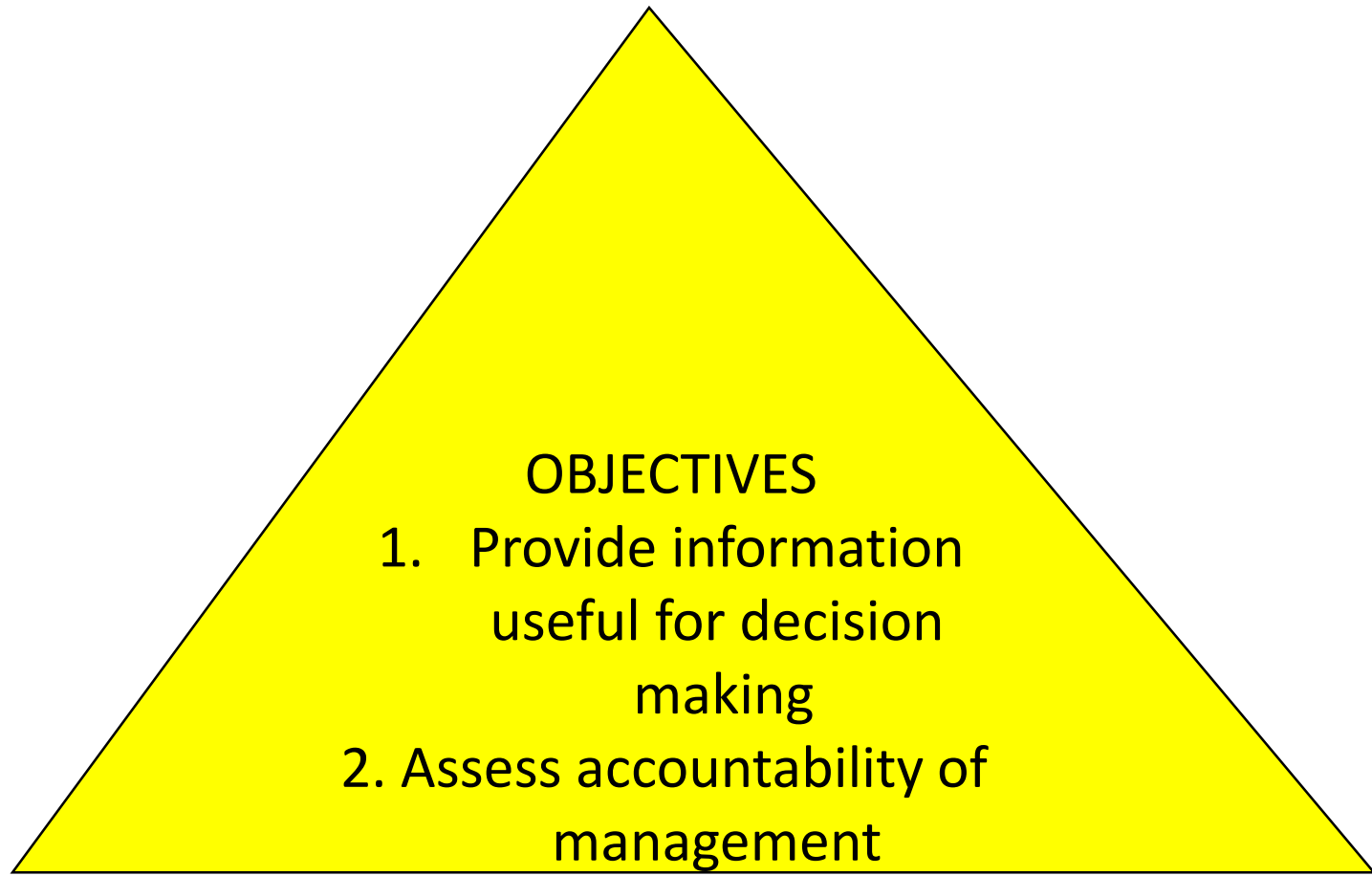
4. Simplified Conceptual Framework





4. What is the Conceptual Framework?

- The framework is a guide
- Helps regulators develop accounting standards that are consistent and logical
- Provides guidance to accountants in areas where no standards exist in order to prepare financial statements and reports.



Decision Making

- to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Accountability

- Financial reports also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it.

Now.....

- Balance Sheet
- Income Statement
- Statement of Changes in Equity

Later.....

- Cash Flow Statement (Topic 6)

5.1 The Balance Sheet



DON'S AUTO REPAIRS
Balance Sheet
as at 30 June 2018

ASSETS

Cash at Bank	\$ 50 340
Accounts receivable	17 790
Repair supplies	14 610
Repair equipment	110 700
Land	60 000
Building	<u>255 000</u>
	<u>\$508 440</u>

LIABILITIES

Accounts payable	\$ 20 760
Mortgage payable	<u>201 000</u>
	221 760

EQUITY

Don Brady, Capital	<u>286 680</u>
	<u>\$508 440</u>

Assets = Liabilities + Equity

Assets = Liabilities + Equity

$$A = L + Eq$$

$$A - L = L + Eq - L$$

$$A - L = \cancel{L} + Eq - \cancel{L}$$

$$A - L = Eq$$

Assets - Liabilities = Equity

DON'S AUTO REPAIRS

Balance Sheet

as at 30 June 2018

ASSETS

Cash at Bank	\$ 50 340
Accounts receivable	17 790
Repair supplies	14 610
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Land	60 000
Building	<u>255 000</u>
TOTAL ASSETS	<u>508 440</u>

LIABILITIES

Accounts payable	20 760
Mortgage payable	<u>201 000</u>
TOTAL LIABILITIES	<u>221 760</u>

NET ASSETS

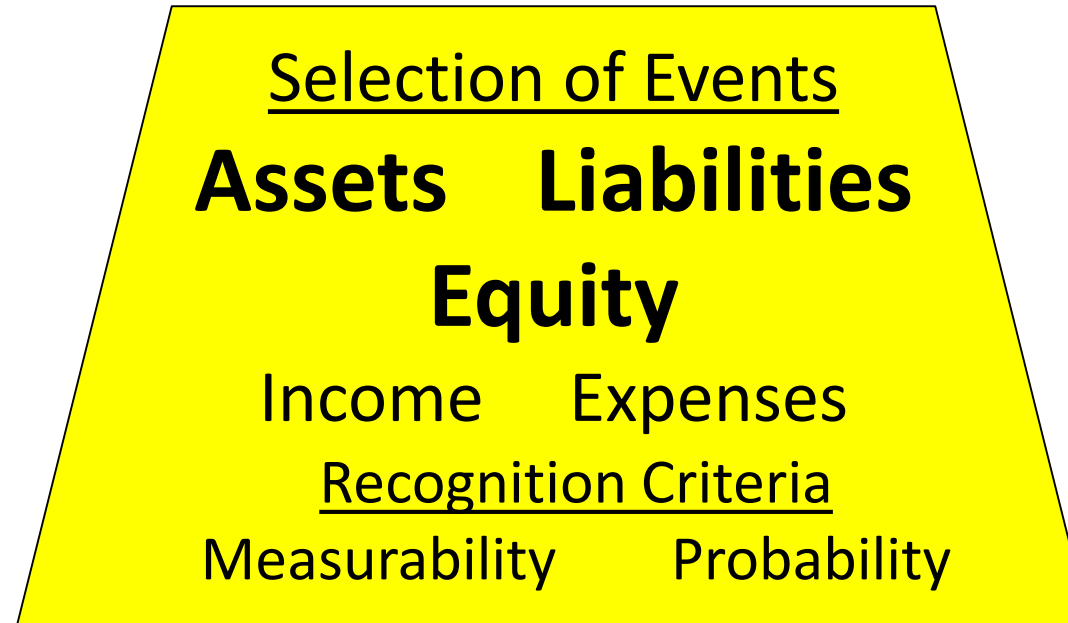
\$ 286 680

EQUITY

Don Brady, Capital	<u>286 680</u>
TOTAL EQUITY	<u>\$ 286 680</u>

Assets – Liabilities = Equity

Selection of Events



For an item to be recorded in the financial reports it must satisfy a definition of an element of the Financial Statements as well as being measurable (\$ value) and probable



The Accounting Elements

- Assets
 - 1. Future economic benefits
 - 2. controlled by the entity
 - 3. as the result of a past event
- Liabilities
 - 1. Present obligation
 - 2. to make a future economic sacrifice
 - 3. as a result of a past event

The Accounting Elements

- Equity
 - The residual interest of the owner/s in the assets (less liabilities) of the entity

$$\text{Assets} - \text{Liabilities} = \text{Equity}$$

or

$$\text{Net Assets} = \text{Equity}$$

5.2 The Income Statement



DON'S AUTO REPAIRS
Income Statement
for the year ended 30 June 2018

INCOME

Repair revenue \$442 500

EXPENSES

Advertising expense \$ 20 250

Repair supplies expense 91 710

Salaries and wages expense 127 800

Rent expense 40 260

Telephone expense 20 190

Light and Power expense 47 940

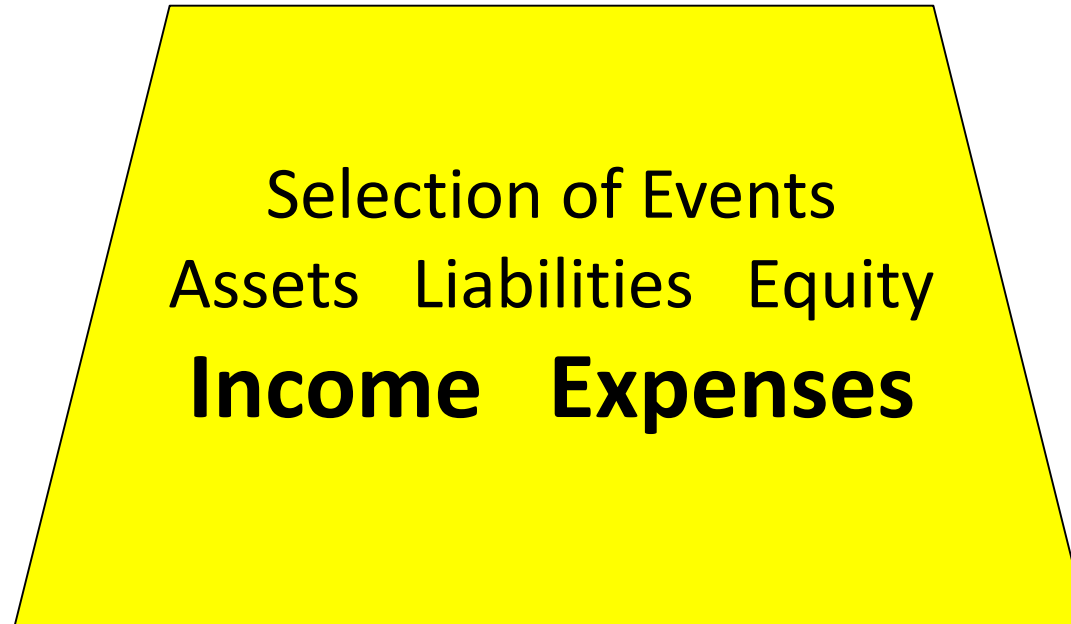
348 150

PROFIT

\$ 94 350



Selection of Events



Item to be recorded must satisfy definitions of elements of Financial Statements.

- Income
 - 1. An increase in equity
 - 2. that results in ▲ assets or ▼ liabilities
 - 3. other than a capital contribution by owners

- Expense
 - 1. A decrease in equity
 - 2. that results in ▼ assets or ▲ liabilities
 - 3. other than a distribution to the owners, i.e. drawings or dividends



- Profit
 - The change in the equity in an entity during a period from all events other than direct contributions of capital, or withdrawals of capital by owners. (Rivett & Jones)
- Loss
 - The excess of expenses over incomes.

5.3 Statement of Changes in Equity

DON'S AUTO REPAIRS
Statement of Changes in Equity
for the year ended 30 June 2018

Don Brady, Capital - 1 July 2017	\$ 237 330
Profit for the year	<u>94 350</u>
	331 680
Less: Drawings	<u>45 000</u>
Don Brady, Capital - 30 June 2018	\$ <u>286 680</u>

Equity

- Increased by
 - income
 - contributions of capital
- Decreased by
 - expenses
 - withdrawals of capital
- Profit
 - = change in equity other than contributions & distributions
 - = Income - Expenses
 - = increases Equity
- Loss
 - = opposite



6. The Financial Accounting Process

- 6.1 Identification
 - select transactions/economic events which have consequences for the entity
- 6.2 Measurement
 - measure the quantitative effect of the event
- 6.3 Recording
 - classify consequences of the event in terms of the affect on specific items
 - for all events at least TWO items are affected
- 6.4 Communication



6.1 Identification

- The accountant must select those events which have consequences for the entity
- If an event will affect any of the elements within the financial statements, then it will be selected for recording.

6.2 Measurement

- determine the quantitative effect of the event

Think about:

If your University education is an asset,
how would you measure its value?

6.3 Recording

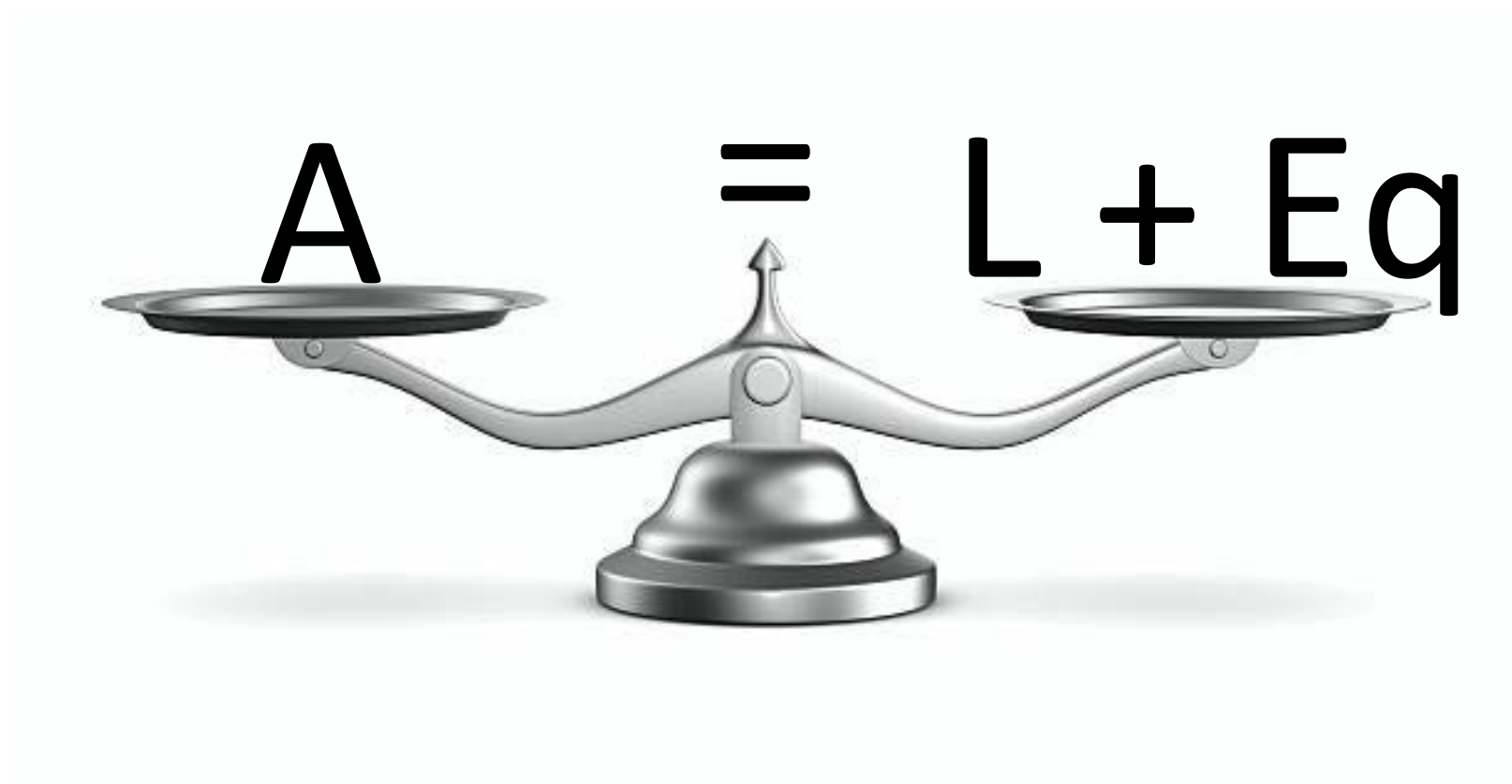
- classify consequences of that event in terms of its affect on specific items
 - e.g. purchase a car using a loan
- for all events at least **TWO** items are affected
 - Asset - Motor Vehicle
 - increases
 - Liability - Loans
 - increases



- Income Statement
- Statement of Changes in Equity
- Balance Sheet
- *Cash Flow Statement*



7. The Accounting Equation





8. Transaction Analysis

- 8.1 Example 1: Weekly Whisper



For each event we will need to answer 3 questions:

- which items are affected (*always at least 2*)?
- amount of the effect on each item?
- has the amount/item increased or decreased?

Weekly Whisper Event Analysis Table

Assets		=	Liabilities +	Equity	
Cash	Other Assets			Increases	Decreases
				Cont. Capital	Income Expenses Drawings
1. 18,000				18,000	
2. (1,000)	5,000 Off Equip		4,000 EZ Chair		
3. (10,000)	10,000 Van				
<hr/>					
7,000	15,000		4,000	18,000	

Balance Sheet: Event 3

The Weekly Whisper
Balance Sheet
at end of event 3

ASSETS

Cash	\$ 7 000
Equipment	5 000
Van	10 000

\$22 000**LIABILITIES**

EZ Chair	\$ 4 000
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EQUITY

J A List	<u>18 000</u>
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\$22 000

Weekly Whisper Event Analysis Table

Assets		=	Liabilities +		Equity		
Cash	Other Assets			Increases	Decreases		
				Cont. Capital	Income	Expenses	Drawings
1. 18,000				18,000			
2. (1,000)	5,000 Off Equip		4,000 EZ Chair				
3. (10,000)	10,000 Van						
4. (400)						(400) Wages	
5. 250					250 Sales		
6.	600 A/C's Rec				600 Sales		
<hr/>							
6,850	15,600		4,000	18,000	850	(400)	

Income Statement: Event 6

The Weekly Whisper
Income Statement
for the period ended with event 6

Income

Sales Revenue

\$850

Less: Expenses

Wages

400

PROFIT

\$ 450

Balance Sheet: Event 6

The Weekly Whisper
Balance Sheet
at end of event 6

ASSETS

Cash	\$ 6 850
A/C's Receivable	600
Equipment	5 000
Van	10 000

\$22 450**LIABILITIES**

EZ Chair	\$ 4 000
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EQUITY

J A List	18 450
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\$22 450

Weekly Whisper Event Analysis Table

Assets		=	Liabilities +		Equity		
Cash	Other Assets			Increases		Decreases	
				Cont. Capital	Income	Expenses	Drawings
1. 18,000				18,000			
2. (1,000)	5,000 Off Equip		4,000 EZ Chair				
3. (10,000)	10,000 Van						
4. (400)						(400) Wages	
5. 250					250 Sales		
6.	600 A/C's Rec				600 Sales		
7. (100)						Drawings (100)	
8. 200	(200) A/C's Rec						
6,950	15,400		4,000	18,000	850	(400)	(100)

Balance Sheet: Event 8

The Weekly Whisper
Balance Sheet
at end of event 8

ASSETS		LIABILITIES	
Cash	\$ 6 950	EZ Chair	\$ 4000
A/C's Receivable	400		
Equipment	5 000		
Van	10 000	EQUITY	
		J A List	18 350
	<hr/>		<hr/>
	\$22 350		\$22 350

Statement of Changes in Equity

The Weekly Whisper
Statement of Changes in Equity
for the period ended with event 8

J A List Capital - beginning	\$ 0
+ Capital Contributed	18 000
+ Profit for the period	<u>450</u>
	18 450
- Drawings	<u>100</u>
J A List Capital – after event 8	\$ <u>18 350</u>

BALANCE SHEET
(as of beginning
of year)
 $A_1 - L_1 = Eq_1$

INCOME STATEMENT
for the period
 $I - Ex = \text{PROFIT}$

BALANCE SHEET
(as at end of year)
 $A_2 - L_2 = Eq_2$

**STATEMENT
OF CHANGES IN EQUITY**
for the period
 $Eq_1 + \text{Profit} - \text{Drawings} = Eq_2$

← **Period of time, e.g. 1 year** →

End of Week 1

Next week – Week 2

Recording Accounting Data