

Essential Insight – Course Guide

Accounting and Finance Year 11 ATAR

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<p>Resource Hub Link: https://www.eibooks.com.au/acf</p> <ul style="list-style-type: none"> • Worked solutions to all questions. • Learning and Teaching Resources that align with book chapters. • SCSA Syllabus categorised to align with book chapters. • Current Sponsorship Opportunities • Community Partnership Opportunities • + Much more 	
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Accounting and Finance has components which are theoretically focused, and others which are primarily practically focused with some supporting theory. The table below breaks down what each textbook includes and how these can be used.

Textbook	This textbook includes:	This textbook is useful for:
Course Guide	<ul style="list-style-type: none"> • Theory for the theory-focused chapters of the course. • Student review questions for the theory focused chapters to assist student mastery of theory and useful for revision prior to assessments. • Key summary information from the practically focused chapters. <p>Note: Elaborated step-by-step explanation of practical chapters with practical review questions are included in the Practical Guide.</p>	<ul style="list-style-type: none"> • Student learning and teaching of theory chapters with practice questions. • Revising both theory and practical chapters when completing practice questions or revising prior to assessments. <p>Note: This textbook is similar in nature to a revision guide for the entire course, but it is also adequate for the learning and teaching of the theory chapters.</p>
Practical Guide	<ul style="list-style-type: none"> • All practical and theory for practical-focused chapters. • Step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level. <p>Note: Chapters which are primarily theory-focused are included in the Course Guide.</p>	<ul style="list-style-type: none"> • Student learning and teaching of practical content-adjacent to relevant theory. • Student practice of practical chapters.
Exam Guide	<ul style="list-style-type: none"> • SCSA Year 12 exams categorised to match the chapters of the course and practical guides. 	<ul style="list-style-type: none"> • Student practice of exam questions at the end of all chapters of the textbook and prior to assessments.

These textbooks have been written succinctly whilst also covering all necessary content and skills required from initial concept attainment to exam level. The thorough nature of this book provides confidence that this resource contains all skills and content needed to achieve top ATAR results. The succinct nature of these textbooks is designed to assist with reducing barriers for all students. This succinct nature should also allow students to spend less time taking notes and more time applying higher order skills to gain mastery.

There are several research tasks throughout the textbooks that allow students to develop research skills and the ability to decipher paragraphs of text to apply relevant skills. These can also be adapted to be used as assessment project tasks.

A PDF copy of the textbook is available for teachers for use of projecting the textbook during class. If interested, please contact the email address on the Resource Hub linked on this cover page.

Chapters	
Unit 1	Unit 2
1. Small Business Structures	11. Inventory Costing Methods
2. Bankruptcy and Sources of Finance	12. Professional Associations and Code of Conduct
3. Accounting Introduction	13. Depreciation and Sale of Asset
4. Accounting Principles	14. Balance Day Adjustments
5. Goods and Services Tax	15. Classified Financial Statements with Balance Day Adjustments
6. AASB Conceptual Framework and Financial Statements	16. Ratios
7. General Journal and General Ledger Introduction	17. Electronic Processing
8. Inventory Systems – Perpetual and Periodic Methods	18. Accounting Software (Resources for this chapter are on the Resource Hub)
9. Internal Control	
10. Corporate Social Responsibility	

Chapters highlighted in blue are theory-focused chapters. Chapters highlighted in green are practical-focused chapters.

Foreword from Chartered Accountants Australia & New Zealand To Essential Insight Accounting and Finance Students

What does it mean to be an accountant?

If you're reading this, you already have an aptitude or interest in numbers and problem solving, but accounting careers are about so much more than that.

While the subjects you choose during high school will help you shape your futures, the beauty of accounting is that its relevant to any career you choose.

Accountants are woven throughout the global economy. A career in accounting opens doors in just about every corner of the world, across sectors, industries and businesses of every size.

Indeed, we'd like to tell you that accounting offers you a pathway to turn your passions into a career because it's hard to think of an industry or sector that doesn't have an accountant helping guide the big decisions.

Behind every athlete, every business big or small, every brand you love, every game you lose yourself in, there are financial experts making epic things possible. As an accountant, you're the go-to problem solver, using your money smarts and business skills to help your company or clients reach their goals.

And for the foreseeable future, there's huge demand for accountants. If you're seeking job security, global experiences, excellent earning potential, a dynamic lifestyle, influence, and you thrive on challenges, accounting could be your pathway to a fulfilling, impactful and epic career.

If you're interested in learning more about careers in accounting, we've teamed up with Year 13 to show you there's more to accounting than meets the eye. Visit year13.com.au/academy/business-class to learn more and consider joining our student membership program at cacanz.com/epic-future.

Until we see you in the accounting profession, continue to be passionate about your studies and dream big!

Samantha Wilson FCA
General Manager, CA Program



Why a career in accounting is the ultimate flex



You're at the heart of every business

Behind every athlete, every business big or small, every brand you love, and every game you lose yourself in, there is a financial expert making epic things possible.

As an accountant, you're the go-to problem solver, using your money smarts and business skills to help your company or clients reach their goals. It's about putting together clues to create a plan for the business, looking at the big picture, and coming up with a clever strategy for success.

You can be whatever you want

Accounting can open the door to just about any industry your heart desires. Imagine being the mastermind behind the next big social media sensation, the genius orchestrating live events and music festivals, or a change-maker in a not-for-profit organisation.

Explore exciting fields like sports, entertainment, gaming and tech. You could even roll with big names like Disney, Nike, and YouTube.

The top 10 perks of accounting

- 1. Job security:** You'll always be hot property.
- 2. Awesome earning opportunities:** Live the good life earning the big bucks.
- 3. Travel the world:** With skills as your passport, the world's your oyster.
- 4. Work in any industry:** Pursue your passions.
- 5. Fresh opportunities:** New gigs are always popping up.
- 6. Varied roles:** On the roles buffet, pick your fave flavour.
- 7. Climb high:** Follow the footsteps of big-shot CEOs.
- 8. Earn respect:** This career's got major street cred.
- 9. Transferable skills:** Pack up your skills and take them to any industry you fancy.
- 10. Life-work balance:** Live your best life while enjoying an awesome career.



Unlock a world of opportunities and skills



Accounting is your ticket to freedom

In Australia and New Zealand, accounting is one of the largest professions and is where the cash is at. Grads pull in an average annual salary* of \$60,000. But CA-certified pros? They're cashing in up to \$175,000 (oh yeah!).** The best part? You can work anywhere in the world – in your dream industry.

Less number crunching, more epic

AI's got your back. It's transforming the way modern accountants work. Now you can focus on the exciting stuff – you're a data wizard, insights detective, and strategic mastermind!

Skills that can take you anywhere!

Do you dream of growing a side hustle, becoming an entrepreneur, or a champion for social justice? Accounting skills can make it happen.

- Be a problem-solving pro
- Hone your decision making game
- Polish your people skills
- Level up on logic and fairness
- Be money wise in business and life

* Indicative average only – exact salary will depend on location, industry, and role. Hays Salary Guide FY23/24 Accounting and Finance.

** Data obtained for senior qualified accountants in managerial roles in Queensland, Australia. Hays Salary Guide FY23/24 Accounting and Finance.

TIP: Accounting skills like *problem-solving, negotiation, and analytical thinking, can help you get ahead both in your career and your life.*

Real accountants (CAs) making epic things happen



Meet Amanda Gore CA

Crime Fighter

Founder and Director of The Centre for Global Advancement (C4GA).

- She's a real-life crime fighter based in Kenya.
- Combats wildlife and environmental crime by following money trails.
- Travels globally training authorities to detect and investigate financial crimes.
- Is passionate about helping the planet.



Meet Rishabh Tandon CA

Business Trailblazer

Music Licensing Expert at YouTube.

- He's Aussie-born, and now lives and works in New York City.
- Collaborates with music artists, songwriters, and creators.
- Ensures musicians get rewarded for their creativity.
- Has turned his passion for music and travel into a career.



Meet Rebecca Glover CA

Community Empowerer

Senior Finance Director at World Vision.

- She works for the world's biggest humanitarian organisation.
- Ensures World Vision's resources are put to their best use.
- Finds working in a not-for-profit to be incredibly fulfilling.
- Is driven by her passion to create a brighter, better world.

What's next? Uncover the steps for an epic future

1

Get a head start

There are no prerequisites you need to study in high school. But diving into subjects like business, enterprise studies, accounting, agriculture, maths, technology, economics, and science, can help you get ahead of the game!

2

Explore your interests

Discover the ins and outs of the businesses, brands and causes you're passionate about.

3

Gain practical experience

Ask to do some interning at a local business. Some places take high school students as 'cadets', so you could kick-start your career right from high school.

4

Complete high school

Do your HSC (AU) or NCEA (NZ).

Study accounting

Apply for and complete an undergraduate qualification, such as a Bachelor of Accounting, Bachelor of Business or Commerce with a major in accounting. Or consider an accounting or business diploma from a Polytech or TAFE, or other government-registered higher education provider.

5

6

Start your career

Make epic things happen in an industry you love.

Boost your career

In today's fast-paced world, professionals need an edge, and the CA Program's globally recognised qualification provides exactly that.

7

TIP: Look into programs like the Year13's Virtual Work Experiences to get a taste of the business world and the skills that'll help you succeed.

Top tips from accounting students



Mitchell

"It's remarkable how many CEOs and directors of large companies are Chartered Accountants. Studying accounting can lead you to incredible opportunities."

Bachelor of Business and Accounting student at Monash University, Australia.

"I understand the pressure of making a career choice in high school. Gather as much information as possible to make an informed decision. Attend information nights or networking events. Now's the best time to explore all your options."

Bachelor of Commerce (Accounting and Finance) student at the University of Auckland, New Zealand.



Kjirsti



Benjamin

"With accounting skills you could work in London in a big corporate firm, or stay local and support small businesses. Clarify your goals, dreams and ambitions, then pursue your degree and work hard. When you look up, you'll find you have all you want and more."

Bachelor of Commerce (Accounting and Taxation) student at the University of Canterbury, New Zealand.



TIP: Have questions? Ask us anything or request a school visit from our awesome speaker squad (CAs and accounting students) to share their real-world stories and insights.

How to become Financially Independent and Retire Early (FIRE) for Essential Insight Accounting and Finance Students



Dave Gow, author of Strong Money Australia.

Who am I?

Hi, my name is Dave Gow from Perth, Western Australia. I became financially independent and retired at the age of 28. My partner and I achieved financial independence whilst working regular jobs with yearly incomes of around \$75,000 and without going to university. What allowed us to achieve FIRE was the application of strong, tried and tested, financial principles. Now that I'm financially independent I have the freedom to pursue my passions such as environmental volunteering and helping others learn about how to use their money to create freedom. I do this through my book, blogs and podcasts, and articles written for leading investment platforms.

Tim Coveney, the author of the ACF ATAR book you are reading, told me that many ACF ATAR students are interested in the idea of becoming financially independent and possibly having the option to retire early. Whilst the ACF ATAR course doesn't specifically teach financial independence, studying financial independence will help build your financial literacy skills and be useful personally and professionally. I have created a range of resources to share with you on the following links which will help bridge the gap between what you learn while studying ACF ATAR and FIRE.

Resource links

The below resources are designed to help you start your journey learning about FIRE. You may enjoy discussing these concepts with your teachers, parents and friends.

	Beginner's Guide to FIRE	Strong Money Australia Book
QR Code		
Link	https://strongmoneyaustralia.com/beginners/	https://strongmoneyaustralia.com/book/
Description	Here you'll find everything you need to know about how to start working towards financial independence. Articles, podcasts, Q&A, and free eBooks.	Dave's book shares the complete roadmap to reaching financial independence in Australia. Available in paperback, eBook, and audiobook.

How can learning about FIRE help high school Accounting and Finance ATAR students?

There are many reasons why Accounting and Finance students should prioritise learning about financial independence. Achieving financial independence is not just about earning, it is about managing resources wisely and creating a sustainable financial future. Financial independence is essentially the ability to cover your living expenses without relying on a regular paycheck. By understanding the principles of financial independence students can develop a roadmap to achieve their own financial goals, such as buying a home, starting a business, and maybe even early retirement. This knowledge empowers you to take control of your financial future and make thoughtful decisions that give you more control over your life.

As accounting and finance students, the skillset you develop uniquely positions you to navigate the complexities of personal finance with precision and essential insight.

We all have to navigate the complexities of finance, such as loans, investments, superannuation, and money management. Learning about financial independence and wealth creation equips you with the mental and practical skills to make better financial decisions that align with your goals and avoid costly mistakes.

Understanding personal finance puts you way ahead of the game. You're able to move forward with confidence, and make informed decisions based on the knowledge you've gained. And as you build that strong foundation, you ensure a bright future in an area that most people struggle with. You can spot opportunities, overcome financial hurdles, and move through life with greater certainty.

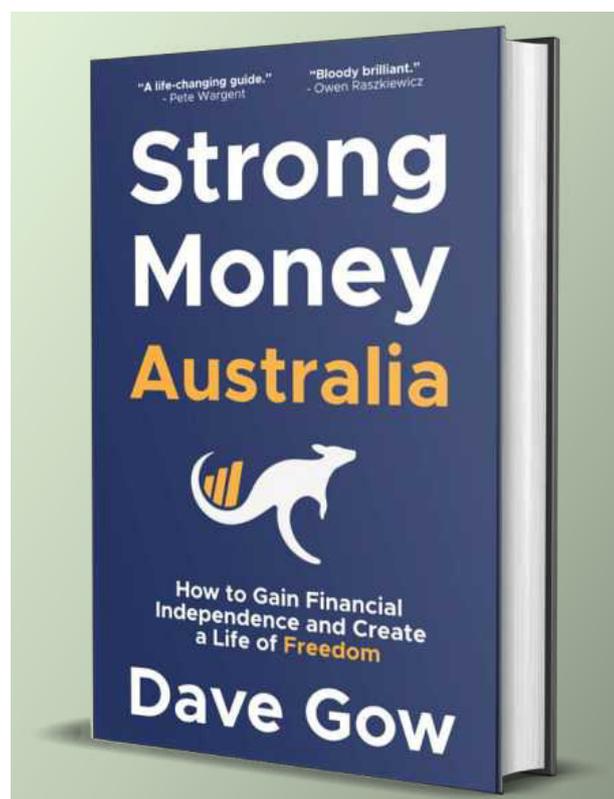
As future professionals in finance, you may be entrusted to advise others on similar matters. Acquiring expertise in the growing field of financial independence equips you to provide valuable guidance to clients, colleagues, or businesses.

But more than that, pursuing financial independence on a personal level gives you a profound sense of security, enabling you to pursue professional and personal goals with confidence. In essence, Integrating financial independence education into your studies benefits you personally, and also prepares you to be a well-rounded and capable financial professional.

Embrace the journey toward financial independence and let your financial acumen serve as a cornerstone for a secure and fulfilling future.

Wishing you all the best for your future studies,

Dave Gow
Strong Money Australia



Strong Money Australia by Dave Gow.
A book on How to Gain Financial Independence and Create a Life of Freedom.



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Syllabus – Unit 1

Syllabus – Unit 1	
Small Business Structures	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • advantages and disadvantages of the main types of small business ownership • characteristics of the main types of small business ownership: sole trader, partnership and small proprietary company, including: <ul style="list-style-type: none"> ▪ number of owners ▪ liability of owners ▪ ability to raise capital or borrow funds ▪ distribution of profits ▪ transfer of ownership ▪ separate accounting or legal entity ▪ continuity of existence • different types and characteristics of business undertakings, including: <ul style="list-style-type: none"> ▪ manufacturing ▪ trading/retailing ▪ service providing <p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • legislation relating to the formation of sole traders and partnership, including: <ul style="list-style-type: none"> ▪ <i>Business Names Registration Act 2011 (Cth)</i> ▪ <i>Partnership Act 1895 (WA)</i>
Bankruptcy and Sources of Finance	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • the concept of bankruptcy as defined by the <i>Bankruptcy Act 1966 (WA)</i> <p>Financial institutions</p> <ul style="list-style-type: none"> • sources of finance, other than equity, available to small businesses • advantages and disadvantages of these sources of finance • factors considered by financial institutions when approving finance <ul style="list-style-type: none"> ▪ risk <ul style="list-style-type: none"> ○ collateral ○ liquidity ○ history ○ guarantors ▪ return <ul style="list-style-type: none"> ○ interest rate ○ future business
Accounting Introduction	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ the accounting cycle: documents, journals, ledger, adjusting entries, closing entries and financial statements
Accounting Principles	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • accepted accounting principles and conventions, including: <ul style="list-style-type: none"> ▪ accounting entity ▪ monetary ▪ historical cost ▪ materiality ▪ accounting period ▪ going concern
Goods and Services Tax	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • legislation relating to the formation of sole traders and partnership, including: <ul style="list-style-type: none"> ▪ <i>GST Act 1999 (WA)</i> • the impact of GST legal requirements on small businesses, including: <ul style="list-style-type: none"> ▪ registering for GST ▪ Australian Business Number (ABN) <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • principles and features of the GST, including: <ul style="list-style-type: none"> ▪ taxable supplies, GST-free supplies and input taxed supplies ▪ accounting and reporting for the GST, including the business activity statement (BAS) <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • calculation of the GST receivable or payable

Syllabus – Unit 1

AASB Conceptual Framework and Financial Statements	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ the accounting equation • simple definition of the elements of financial statements <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ equity ▪ income ▪ expenses • purpose of financial statements, including: <ul style="list-style-type: none"> ▪ performance ▪ financial position ▪ liquidity <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of simple classified financial statements for a sole trader excluding balance day adjustments <ul style="list-style-type: none"> ▪ income statements ▪ balance sheet (statement of financial position) for a trading/merchandising/service business <p><i>Note: The below syllabus points are in Unit 2 but are included in this section as these are relevant for this chapter.</i></p> <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • accrual basis of accounting as per the <i>Conceptual Framework for Financial Reporting</i> (the <i>Conceptual Framework</i>) • the distinction between cash and accrual methods of accounting • definition, as per the <i>Conceptual Framework</i>, of: <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ equity ▪ income ▪ expenses • recognition criteria, as per the <i>Conceptual Framework</i>, for: <ul style="list-style-type: none"> ▪ assets ▪ liabilities ▪ income ▪ expenses • classification of income, expenses, assets and liabilities by nature and function
General Ledger and General Journal Introduction	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ double entry accounting • purpose of trial balance <ul style="list-style-type: none"> ▪ errors disclosed by the trial balance ▪ errors not disclosed by the trial balance <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ entries to commence business ▪ cash and credit transactions to include cash receipts, cash payments ▪ purchase of non-current assets ▪ withdrawal of inventory or cash by the proprietor ▪ correction of errors ▪ closing entries • manual preparation of trial balance
Inventory Systems – Periodic and Perpetual Methods	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ principles of the perpetual inventory system • perpetual versus periodic inventory methods <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ cash and credit transactions to include cash receipts, cash payments, sales, purchases, sales returns, purchases returns, discount allowed, discount received ▪ perpetual inventory system given the cost of sales (NOTE: No requirement to teach inventory costing systems, such as Last-in First-out, First-in First-out and weighted average) ▪ write-off bad debts
Internal Control	<p>Evaluating financial information for planning, coordinating, controlling and investing</p> <ul style="list-style-type: none"> • principles of internal control • application of the principles of internal control over cash, inventory, accounts receivable, accounts payable and non-current assets • limitations of internal control
Corporate Social Responsibility	<p>The influence of social, environmental and ethical factors</p> <ul style="list-style-type: none"> • costs and benefits for small business of engaging in socially, environmentally and ethically responsible behaviour, including: <ul style="list-style-type: none"> ▪ sponsorship ▪ resource conservation ▪ taxation responsibility

Syllabus – Unit 2

Syllabus – Unit 2	
Inventory Costing Methods	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • concept of inventory costing methods <ul style="list-style-type: none"> ▪ weighted average ▪ First-in First-out
Professional Associations and Code of Conduct	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • the role of the professional accounting and financial associations, including: <ul style="list-style-type: none"> ▪ CPA Australia ▪ Chartered Accountants Australia and New Zealand ▪ The Institute of Public Accountants ▪ Financial Planning Association of Australia Limited <p>The influence of social, environmental and ethical factors</p> <ul style="list-style-type: none"> • the nature and purpose of the professional codes of conduct for members of professional accounting service providers associations
Depreciation and Sale of Asset	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • nature of depreciable non-current assets • nature of depreciation expense • determining the cost of a depreciable non-current asset • identification of the more appropriate method of depreciation to apply <ul style="list-style-type: none"> ▪ straight line ▪ reducing/diminishing balance • identification of over or under depreciation on sale of non-current asset <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of general journal and general ledger entries for recording of depreciation and disposal of a single depreciable asset, including cost of a depreciable non-current asset, depreciation expense, disposal of depreciable asset using the sale of asset method • manual preparation of closing general journal entries
Balance Day Adjustments	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • purpose and nature of the following balance day adjustments: <ul style="list-style-type: none"> ▪ accrued expenses ▪ prepaid expenses ▪ stock of supplies ▪ accrued income ▪ income in advance ▪ doubtful debts ▪ depreciation <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of general journal and ledger entries for balance day adjustments (asset and liability method only) to prepare financial reports (GST not included) • manual preparation of closing general journal entries
Classified Financial Statements with Balance Day Adjustments	<p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of trial balance • manual preparation of classified financial statements for a sole trader, including balance day adjustments <ul style="list-style-type: none"> ▪ income statements ▪ statement of financial position for a trading/merchandising/service business
Ratios	<p>Recording, processing and communicating financial information / Evaluating financial information for planning, coordinating, controlling and investing</p> <ul style="list-style-type: none"> • preparation and interpretation of the following ratios to evaluate the profitability and stability of a business: <ul style="list-style-type: none"> ▪ profitability ratios <ul style="list-style-type: none"> ○ profit ○ gross profit ○ expense ○ rate of return on assets ▪ liquidity ratios: <ul style="list-style-type: none"> ○ working capital formula ○ quick asset formula ▪ leverage ratio: <ul style="list-style-type: none"> ○ debt to equity formula
Electronic Processing	<p>Financial institutions</p> <ul style="list-style-type: none"> • nature, benefits and risks to small business of the following types of electronic processing: <ul style="list-style-type: none"> ▪ EFTPOS ▪ bill payments – electronic payment system ▪ credit cards ▪ online banking ▪ direct debits
Accounting Software	<p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • using an established chart of accounts and the perpetual inventory system, apply double entry principles using accounting software such as Mind Your Own Business (MYOB) or QuickBooks® to electronically record financial data and produce financial reports <p><i>Note: Step-by-step accounting software activities are provided on the resource hub.</i></p>

School Curriculum and Standards Authority, (2020). Accounting and Finance ATAR course Year 11 syllabus. The School Curriculum and Standards Authority does not endorse this publication or product.

1. Small Business Structures



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Would you rather start a business on your own or with a friend? Why?</p>	
<p>What do you see as the pros and cons of starting a business on your own compared to with a friend?</p>	
<p>Why do you think people form large business structures such as a proprietary company?</p>	

Small Business Structures – Syllabus

Unit 1	
Small Business Structures	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • advantages and disadvantages of the main types of small business ownership • characteristics of the main types of small business ownership: sole trader, partnership and small proprietary company, including: <ul style="list-style-type: none"> ▪ number of owners ▪ liability of owners ▪ ability to raise capital or borrow funds ▪ distribution of profits ▪ transfer of ownership ▪ separate accounting or legal entity ▪ continuity of existence • different types and characteristics of business undertakings, including: <ul style="list-style-type: none"> ▪ manufacturing ▪ trading/retailing ▪ service providing <p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • legislation relating to the formation of sole traders and partnership, including: <ul style="list-style-type: none"> ▪ <i>Business Names Registration Act 2011 (Cth)</i> ▪ <i>Partnership Act 1895 (WA)</i>

Small Business Structures – Introduction

Anyone who intends to start a business will choose:

- A type of business activity to undertake; and
- A business ownership structure.

Each choice will have different advantages and disadvantages.

There are a number of options for the business ownership structure, each has its own characteristics with varied advantages and disadvantages. By understanding the implications of these characteristics, business owners can choose a business structure which best suits their needs. Some of the legislation relevant to small business ownership structures is also covered in this chapter.

Types of business undertakings

Business undertaking	Characteristics	Examples
Manufacturing	A business that assembles and sells products from raw materials or parts using human labour, machinery, and tools.	Car manufacturers, bakeries, tailors.
Trading / retailing	A business that purchases goods and then sells these.	Buying and selling clothing, jewellery, homewares.
Service providing	A business that performs tasks for customers.	Law firms, school, electricians, airlines.

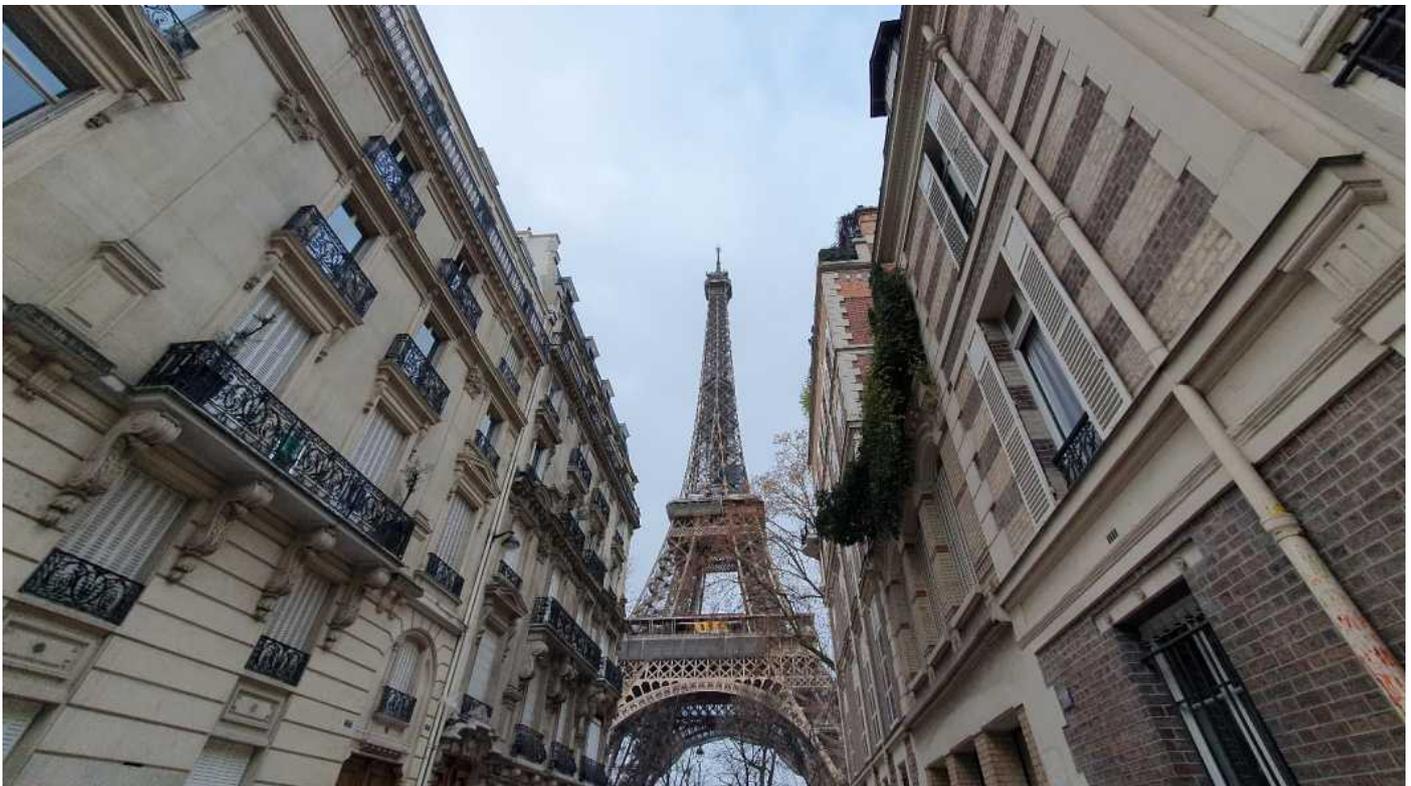
Small Business Structures – Description of Characteristics

Characteristic	Description
Number of Owners	How many people own the business.
Liability of owners	Whether the owners of a business are liable for the businesses debts or lawsuits. This is linked to the separate legal entity characteristic.
Ability to raise capital	The ability of a business to raise money without using external sources of finance such as a bank loan. Capital comes from owner(s) investment in the business.
Ability to borrow funds	The ability to obtain a loan from a financial institution such as a bank.
Distribution of profits	Distribution between the owners of income after expenses are subtracted.
Transfer of ownership	Whether it is possible for the business to change one or more owners.
Continuity of existence	Whether the business is able to continue to operate following the death or departure of one or more owners.
Separate accounting entity	Whether the business accounting records and owners records are kept separate from the owner's personal records.
Separate legal entity	Whether the owner(s) are legally liable for the actions of the business.

Small Business Structures – Concise Comparison Table

Characteristic	Sole Trader	Partnership	Small Proprietary Company
Number of owners	1.	2-20.	1-50 non-employee shareholders.
Liability of owners	Unlimited.	Unlimited.	Limited.
Ability to raise capital	Investment from owner.	Investment from partners.	Investment from people known to the company.
Ability to borrow funds	Usually based on: <ul style="list-style-type: none"> • Assets of business which can be offered as loan security. • Previous business performance. • See 'Sources of Finance' chapter: Factors considered by financial institutions when approving finance. 		
Distribution of profits	To owner.	To partners based on Agreement.	To shareholders based on number of shares.
Transfer of ownership	Not possible to transfer sole trader ownership.	Possible if Agreement allows.	Possible through share transfer if allowed in Constitution.
Continuity of existence	Business terminates upon owner death or departure.	Business terminates upon partner death or departure unless covered in Agreement.	Possible through share transfer if allowed in Constitution.
Separate accounting entity	Yes.	Yes.	Yes.
Separate legal entity	No.	No.	Yes.

Note: This table is elaborated on the following page. This concise table is useful for revision purposes.



Eiffel Tower, Rue de l'Université, Paris.

Small Business Structures – Elaborated Comparison Table

	Sole Trader	Partnership	Small Proprietary Company
Number of Owners	One owner.	Between two and twenty owners.	Between one and fifty non-employee shareholders.
Liability of Owners	Unlimited. <ul style="list-style-type: none"> • Business owner has full liability for business debts. • If the business cannot pay its debts, personal property of owner is sold to pay debts. 	Unlimited. <ul style="list-style-type: none"> • Business owners share full liability for business debts. • If the business cannot pay its debts, all partners personal property can be sold to pay debts. 	Limited. <ul style="list-style-type: none"> • Shareholders are only liable for any amount not paid on shares owned.
Ability to raise capital	Investment from owner.	Investment from partners.	Investment from: <ul style="list-style-type: none"> • Existing shareholders or employees. • General public if fund raising does not require a disclosure document. Capital raising limits: <ul style="list-style-type: none"> • Consolidated revenue under \$50 million. • Assets under \$25 million. • Less than 100 employees.
Ability to borrow funds	Usually based on: <ul style="list-style-type: none"> • Assets of business which can be offered as loan security. • Previous business performance. • See 'Sources of Finance' chapter: Factors considered by financial institutions when approving finance. 		
Distribution of Profits	<ul style="list-style-type: none"> • Owner receives all profits. • Owner withdraws profits as 'drawings.' 	<ul style="list-style-type: none"> • Partnership Agreement defines share of profits by each partner. • Partners withdraw profits as 'drawings.' 	<ul style="list-style-type: none"> • Company directors often approve dividends to shareholders to distribute profits.
Transfer of Ownership	<ul style="list-style-type: none"> • Not possible to transfer sole trader ownership. • Options are to either sell business assets or change business structure. 	<ul style="list-style-type: none"> • Possible if transfer ownership if Agreement allows. 	<ul style="list-style-type: none"> • Possible to transfer ownership through share transfer if allowed in the company's Constitution.
Continuity of Existence	<ul style="list-style-type: none"> • Business terminates upon owner death or departure. 	<ul style="list-style-type: none"> • Business terminates upon partner death or departure unless covered in Agreement. 	<ul style="list-style-type: none"> • Possible through share transfer if allowed in Constitution.
Separate accounting entity	<ul style="list-style-type: none"> • Is a separate accounting entity from the owner. • The business accounting records are kept separate from the owner's personal records. 		
Separate legal entity	<ul style="list-style-type: none"> • A sole trader is not a separate legal entity. • The owner is legally liable for the actions of the business. 	<ul style="list-style-type: none"> • A partnership is not a separate legal entity. • The partners are legally liable for the actions of the business. 	<ul style="list-style-type: none"> • A small proprietary company is a separate legal entity. • Shareholders are not legally liable for the actions of the business. • The company can be used to enter contracts, own property and process legal matters.

Small Business Structures – Advantages and Disadvantages

	Sole Trader	Partnership	Small proprietary company
Advantages	<ul style="list-style-type: none"> • Easy and low cost to setup. • Owner keeps all profits. • Owner makes all decisions. • Owner can set own hours. • Less regulation than a company. 	<ul style="list-style-type: none"> • Lower cost than a company to setup. • Able to access capital from partners. • Each partner contributes to workload. • Higher borrowing capacity. • Risks and losses are shared. • Each partner contributes different skills. • Less regulation than a company. • Easier for partners to take sick leave or holidays. 	<ul style="list-style-type: none"> • Limited liability • Separate legal entity from owners. • Increased ability to raise capital from more shareholders. • Simple transfer of ownership through share transfer. • Financial statements not audited like large proprietary companies – unless required by ASIC or shareholders. • Company tax rate may be lower than the owners personal tax rate.
Disadvantages	<ul style="list-style-type: none"> • Unlimited legal liability. • Owner takes on all risk and losses. • Owner has responsibility to make all decisions. • Ability to raise capital limited to owner. • Difficult to take sick leave or holidays. • Business has limited life. 	<ul style="list-style-type: none"> • Unlimited legal liability • Ability to raise capital is limited to partners. • Profits shared among partners. • Decision making shared by partners. • Conflict may occur between partners. • Business potentially has a limited life unless outlined by Partnership Agreement. 	<ul style="list-style-type: none"> • Higher setup and ongoing admin costs. • Increased legal obligations from Corporations Law. • Increased record keeping and reporting requirements. • Can be difficult to dissolve company.

Partnership Agreement

A partnership agreement is a contract between business partners that outlines business terms. The Partnership Act governs partnership conduct if there is no partnership agreement present or if a partnership agreement does not cover aspects of the act. Partnership Agreements often cover terms such as:

- Partner capital contributions.
- Partner profit and loss sharing.
- Partner duties and responsibilities.
- Processes for the addition of new partners and departure of existing partners.

Small Business Structures - Legislation

Legislation	Nature
Business Names Registration Act 2011 (Cth)	<p>This is commonwealth law that governs business name registration, renewal and cancellation.</p> <p>Businesses names:</p> <ul style="list-style-type: none"> • Cost a fee to be registered. • Are registered for three years and then must be renewed. • Cannot be identical or similar to existing businesses. • Must be registered with Australian Securities and Investment Commission (ASIC). • Are displayed on business correspondence e.g., quotes, invoices and receipts. • If a business in Australia operates in a name other than the owner's name(s), it must apply for a business name. Examples are demonstrated in the next table. <p>Proprietary companies must have "Proprietary Limited" or "Pty Ltd" in their business name.</p> <ul style="list-style-type: none"> • Proprietary refers to the company structure. • Limited refers to the limited liability of the company. • Proprietary companies can trade under a simplified version of its own name. E.g., '7-Eleven' for '7-Eleven Stores Pty Ltd' or 'Coles Express' for 'Coles Supermarkets Australia Pty Ltd.'
Partnership Act 1895 (WA)	This is Western Australian law that governs partnership conduct if there is no partnership agreement present or if a partnership agreement does not cover aspects of the act.
Corporations Act 2001 (Cth)	Australian federal and state legislation for company operation.

Note: Other legislation, such as GST Act, covered throughout book. The Corporations Act is relevant for small proprietary company legislation but is only covered in year 12 syllabus.

Examples of Business Names that need to be registered

Business Structure	Owners Name(s)	Examples of business names that do not need to be registered	Examples of business names that need to be registered
Sole Trader	John Smith.	'John Smith' or 'J Smith.'	Any other business name. E.g., 'John Smith Electrical' or 'Smith's Electrical' "Rapid Sparks"
Partnership	Daisy Lane and Mary June.	'Daisy Lane and Mary June' or 'D Lane and M June.'	Any other business name. E.g., 'Lane and June Legal,' 'Righteous Legal'
Small Proprietary Company	Roger Grey.	'Roger Grey Pty Ltd,' 'R Grey Pty Ltd', 'Roger Grey Proprietary Limited' or 'R Grey Proprietary Limited'.	Any other business name. E.g., 'Greys Pty Ltd' or 'Roger's Grocer Pty Ltd.'

Practice Questions

Questions 1-13: Small Business Structures.

Question 1

Which of the following is an advantage of the sole trader business structure?

- a. Unlimited liability.
- b. Ability to raise capital.
- c. Less regulation.
- d. Limited life of business.

Question 2

Which of the following is a disadvantage of small proprietary companies?

- a. Transfer of ownership through share transfer.
- b. Risks and losses are shared.
- c. Profits shared among partners.
- d. Each partner contributes different skills.

Question 3

Which of the following is not a characteristic of a partnership business structure?

- a. Unlimited liability.
- b. Owner receives all profit.
- c. May have 12 owners.
- d. Not a separate legal entity.

Question 4

A business purchases raw wood. This raw wood is assembled into chairs and tables for sale. What is this business best classified as?

- a. Service providing business.
- b. Trading business.
- c. Retailing business.
- d. Manufacturing.

Question 5

Which of the following business names would not need to be registered?

- i. Smith Dentistry.
 - ii. John Smith.
 - iii. John Smith's Dentistry.
 - iv. Smith J. Dentistry.
-
- a. i and iv.
 - b. ii and iii.
 - c. ii.
 - d. iii and iv.

Question 6

Which business characteristics refers to "Whether it is possible for the business to change one or more owners".

- a. Separate legal entity.
- b. Separate accounting entity.
- c. Transfer of ownership.
- d. Continuity of existence.

Question 7

Two lifelong friends are considering starting a business together. Upon speaking to an accountant, they are recommended to make a partnership agreement.

- a. Describe what is meant by a 'partnership agreement.'
- b. List two things that a partnership agreement may include.

Question 8

Outline two advantages and two disadvantages of a sole trader business structure.

Question 9

State two advantages and disadvantages of a small proprietary company.



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2. Bankruptcy and Sources of Finance



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>What would happen if you took out several loans and could no longer pay them back and they were a year overdue?</p>	
<p>If you were a bank would you give a loan to anyone who asked? What factors would you consider before giving out a loan?</p>	
<p>Are bank loans the only way a business can finance operations? What other sources might provide finance to a business?</p>	

Bankruptcy and Sources of Finance – Syllabus

Syllabus – Unit 1	
Bankruptcy and Sources of Finance	The role and influence of governments and other bodies <ul style="list-style-type: none">• the concept of bankruptcy as defined by the <i>Bankruptcy Act 1966</i> (WA) Financial institutions <ul style="list-style-type: none">• sources of finance, other than equity, available to small businesses• advantages and disadvantages of these sources of finance• factors considered by financial institutions when approving finance<ul style="list-style-type: none">▪ risk<ul style="list-style-type: none">○ collateral○ liquidity○ history○ guarantors▪ return<ul style="list-style-type: none">○ interest rate○ future business

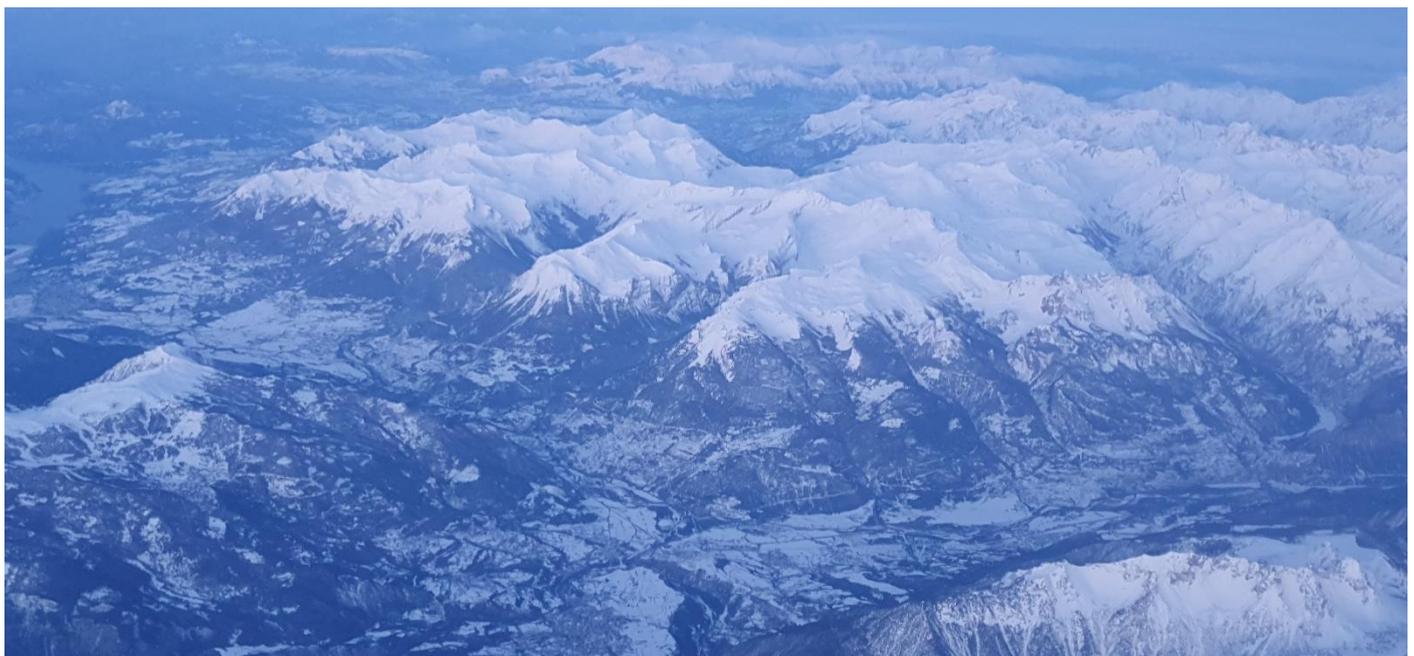
Bankruptcy and Sources of Finance – Introduction

Money is required to finance (fund) business activities. Some business owners may be able to provide these funds themselves. If a business owner does not have the funds required or does not wish to use their personal money or resources to fund business activities, finance must be sourced from parties which are external to the business.

There are a range of different sources of finance available to businesses. Each source of finance has a different set of advantages and disadvantages. How the funds are to be used in the business and any specific business requirements will help determine which source of finance will be most appropriate.

If a business is unable to pay its debts (the finance received) as they fall due, then they may experience bankruptcy. The term bankruptcy and insolvency are often used interchangeably. However, there is a subtle difference between the two terms. A person or business who cannot pay their debts as they fall due is known as insolvent (or experiencing insolvency). Bankruptcy is the term used to describe the legal procedure for a person or business who is insolvent. There are a range of possible outcomes of bankruptcy which are explored briefly in the Year 11 course and in more detail during the Year 12 course.

Lenders of finance, such as banks, review several factors prior to providing finance to businesses. These factors are reviewed to reduce their risk of losing the debt of money owed to the lender of finance should the business experience bankruptcy and be unable to pay back the debt.



Flight from Nice to Geneva.

Bankruptcy – Summary Table

		Bankruptcy
Nature	<p>A business experiences bankruptcy if they are unable to pay debts as they fall due.</p> <p>Bankruptcy is the term used to describe the legal procedure for a person or business who are insolvent.</p> <p>A person or business who cannot pay their debts as they fall due is known as insolvent (or experiencing insolvency).</p>	
Legislation	Bankruptcy Act (WA) 1966.	
Process	Instigated by	<p>Either:</p> <ul style="list-style-type: none"> • A business who cannot pay its debts volunteering to become bankrupt. • A creditor can force a person to become bankrupt if they have debts of more than \$5,000 and the court has made a judgement in favour of the creditor.
	Process	<ul style="list-style-type: none"> • Once a person is bankrupt, a trustee is appointed to administer the bankruptcy process. • The business and person's assets are sold to pay the debts.
	Outcome	<ul style="list-style-type: none"> • After the sale of assets, available funds are distributed to creditors according to the Bankruptcy Act. • If all assets are sold and debt still remains, the debt is cleared. • Any remaining funds after assets have been sold and debts have been paid are returned to the debtor.

Note: Bankruptcy is covered in more detail in the year 12 course.

Risk and Return

Element	Nature
Risk	Risk refers to the degree of uncertainty that the future outcome of a business's investment (providing a loan) will vary from an expected outcome. Risk refers to the chance of losing some or all of an original investment.
Return	Return is the future outcome of an investment. Positive investment returns are profit (money made), whilst negative returns are losses (money lost) time. Return is usually a percentage of the original value of the investment.

Factors considered by financial institutions when approving finance

Element	Factor	Define	Example
Risk	Collateral / Security	An asset which is seized if a debt cannot be repaid.	If a vehicle is security for a vehicle loan and the loan cannot be repaid, the car will be seized by the creditor.
	Liquidity	The ability to pay debts as they fall due.	A creditor will review a business's cash inflows and outflows to evaluate if the debt can be repaid.
	History	A record of a business's ability to pay debt.	A business would be high risk if it has a history of taking on many loans and delaying repayments.
	Guarantors	A person who agrees to pay a debt if the debtor defaults.	A family member may agree to be a guarantor to help another family member have access to better loan terms.
Return	Interest rate	The price charged to borrow money. This is usually a percentage of the loan principal.	Higher interest rates increase return for the creditor, but also increase risk due to increased costs for the debtor.
	Future business	The predicted future financial performance of a business will impact the ability to repay (return) debt.	If a business has records of strong sales and is growing this is a good indicator the business will be able to repay debt.

Sources of Finance – Duration

	Duration	Purpose
Short term finance	Repaid within one year.	Financing day to day trading and cash flow of the business.
Medium term finance	Repaid between one to five years.	Financing the purchase of lower cost that assets used for more than one year e.g., vehicles, machinery, equipment.
Long term finance	Repaid after five or more years.	Financing the purchase of higher cost assets that are used for more than five years e.g., land, buildings, vehicles, machinery, equipment.

Sources of Finance – Summary Table

Duration	Source of finance	Define	Advantages	Disadvantages
Short	Short term loan	A loan for less than one year. Principal is repaid plus interest.	<ul style="list-style-type: none"> • Easy to obtain. • Fast to obtain. 	<ul style="list-style-type: none"> • Repaid with interest.
Short	Bank Overdraft	A line of credit allowing a business to use more money than what is available in their bank account.	<ul style="list-style-type: none"> • Quick to organize. • Flexible to borrow only what is needed. 	<ul style="list-style-type: none"> • Repaid with interest if not repaid within no fee period.
Short	Short term assets	Selling inventory or collecting accounts receivable.	<ul style="list-style-type: none"> • No interest. 	<ul style="list-style-type: none"> • Can be difficult to sell or collect.
Short	Credit from suppliers	The purchase of inventory from a supplier with payment occurring at a later date.	<ul style="list-style-type: none"> • Delayed cash outflow. • May receive discount for prompt payment. 	<ul style="list-style-type: none"> • If not paid on time, could lose access to trade credit in future. • Late payment fees.
Short	Hire purchase	A business hires an asset and owns the asset once all payments are made.	<ul style="list-style-type: none"> • Able to use an asset before it is owned. • Asset is owned at end of loan. 	<ul style="list-style-type: none"> • Expensive compared to upfront purchase.
Short	Retained profits	Profits withheld by a business rather than being paid to the owner.	<ul style="list-style-type: none"> • No interest. • Readily available. • Increase investor confidence. 	<ul style="list-style-type: none"> • Shareholders may be dissatisfied at not receiving more dividends.
Short / Medium	Family or friends	Money borrowed from people known to the owner.	<ul style="list-style-type: none"> • Potentially flexible duration and fees. 	<ul style="list-style-type: none"> • May damage relationships.
Short / Medium	Lease	A business pays to use an asset which is returned at the end of the period e.g., lease of office space, equipment, vehicle	<ul style="list-style-type: none"> • Less cash required than asset purchase. • Flexibility to use a different asset at end of lease. • Is usually tax deductible. 	<ul style="list-style-type: none"> • Asset is not owned at the end of lease.
Medium	Medium term loan	A loan for between one to five years. Principal is repaid plus interest.	<ul style="list-style-type: none"> • Repayment spread over longer period. 	<ul style="list-style-type: none"> • Repaid with interest.
Medium / Long	Mortgage	Money borrowed to purchase property. Principal is repaid plus interest.	<ul style="list-style-type: none"> • Repayments spread over a longer period. • Low interest. 	<ul style="list-style-type: none"> • More is paid back than it borrowed due to interest. • Long term repayments.
Medium / Long	Government loan	A loan provided by the government for specific purposes e.g., technology research, disaster relief.	<ul style="list-style-type: none"> • Low interest. 	<ul style="list-style-type: none"> • Specific requirements for loan use.

Note: Only some advantages and disadvantages have been listed. A class task may be to research more of these as well as elaborated descriptions of these advantages and disadvantages. This is a research task at the end of this chapter.

Practice Questions

Questions 1-14: Bankruptcy and Sources of Finance.

Question 1

Which of the following would be the most appropriate source of finance to purchase land?

- a. Bank overdraft.
- b. Lease.
- c. Mortgage.
- d. Credit from suppliers.

Question 2

Bankruptcy is:

- a. A process you can initiate if you feel like starting fresh.
- b. The inability to pay debts as they fall due.
- c. A suitable way to increase profits.
- d. A process that allows a company to continue to acquire new debt to pay older debts.

Question 3

During bankruptcy, which of the following takes place:

- a. The government gives the bankrupt business free money.
- b. Creditors choose which items they would like to take from the business owners house.
- c. The owner of the bankrupt business spends a period of time in jail.
- d. The assets of the bankrupt business are sold to pay outstanding debts.

Question 4

A creditor is able to force a person to become bankrupt through a court application if the debtor owes more than:

- a. \$50,000.
- b. \$5,000.
- c. \$10,000.
- d. \$500.

Question 5

On occasion, a business is having issues having enough cash to pay its staff wages. Which length of finance would be most appropriate?

- a. Medium term finance.
- b. Long term finance.
- c. Short term finance.
- d. Delayed finance.

Question 6

Which of the following is not a risk factor considered by financial institutions when approving finance?

- a. Collateral.
- b. Liquidity.
- c. History.
- d. Relationship.

Question 7

Which of the following is an appropriate source of finance to obtain a machine with a useful life of 3 years?

- a. Short term loan.
- b. Lease.
- c. Bank overdraft.
- d. Mortgage.

Question 8

A business is considering getting a loan and is not sure why multiply banks have not offered them a loan.

- a. List and describe two risk factors considered by banks.
- b. List and describe two return factors considered by banks.

Question 9

A business is considering acquiring a loan to finance short term cash flow issues. List and define three short term sources of finance. For each source of finance describe one advantage and one disadvantage.

Question 10

Outline the duration and purpose of long term finance.



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3. Accounting Introduction



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Which internal employees of a business should read the financial reports of a business? Why?</p>	
<p>Which external users would be interested to read the financial reports of a business? Why?</p>	
<p>Where would the information required to prepare financial reports come from?</p>	

Accounting Introduction – Syllabus

Syllabus – Unit 1	
Accounting Introduction	Financial systems and fundamental principles <ul style="list-style-type: none">• fundamental concepts and conventions of financial accounting, including:<ul style="list-style-type: none">▪ the accounting cycle: documents, journals, ledger, adjusting entries, closing entries and financial statements

Accounting Cycle – Introduction

Accounting is the process of recording, summarising and managing a business's finances. The accounting cycle includes the following stages:

1. Source documents:
 - Invoices, Receipts etc.
2. Recording events:
 - General journal entries
3. Processing events:
 - General ledger entries.
 - Adjusting entries.
 - Closing entries.
4. Reporting to users:
 - Preparation of financial statements to report to users.



Source documents

Source documents detail financial events, known as transactions, for a business. Examples of documents that detail business transactions include invoices, receipts, bank statements and purchase orders. These documents will provide details of how much money has been transferred to or from the business and the reason for these transactions.

Recording events

Transactions are recorded in the general journal. The general journal records the accounts that specific amounts of money have been transferred to and from. These transactions are recorded in order of date. The general journal is covered in more detail in future chapters.

Processing events

Recorded transactions from the general journal are processed in the general ledger. A specific general ledger exists for each account that money has been transferred to or from. At the end of a reporting period each general ledger account is closed with a final figure that reflects the total amount in each account. Balance day adjustments also occur at the end of a reporting period to ensure these final figures are accurate. Balance day adjustments are covered during unit 2. General ledger entries are covered in more detail in future chapters.

Reporting to users

The final balance calculated for each general ledger account at the end of a reporting period is used to prepare financial statements. Financials statements are used by both internal and external users to make informed decisions regarding a business. For example, a bank may review a business's financial statements when deciding whether to provide the business with a loan. Examples of internal users are managers, employees and department heads. Examples of external users are banks, investors and government bodies.

Practice Questions

Questions 1-5: Accounting Introduction.

Question 1

Which of the following is the correct order the accounting cycle?

- a. Sources documents, Reporting to users, Processing events, Recording events.
- b. Recording events, Source documents, Processing events, Reporting to users.
- c. Source documents, Recording events, Processing events, Reporting to users.
- d. Recording events, Processing events, Source documents, Reporting to users.

Question 2

Which of the following is not an example of a source document?

- a. Invoice.
- b. General Ledger.
- c. Receipt.
- d. Bank Statement.

Question 3

Which stage of the accounting cycle involves the general journal?

- a. Recording events.
- b. Reporting to users.
- c. Source documents.
- d. Processing events.

Question 4

A business owner is unsure why they must retain records of source documents.

- a. Describe the information from source documents that is used during the accounting cycle.
- b. Provide two examples of source documents.

Question 5

- a. State two examples of external users of financial reports.
- b. State two examples of internal users of financial reports.

4. Accounting Principles



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Should a sole trader include the cost of personal groceries for their family in the business accounting records? Why?</p>	
<p>A business has a great staff culture, should this positive staff culture be recorded on financial statements? Why?</p>	
<p>Would it be more useful for accounting periods to be prepared at regular intervals (e.g. every 3 months or a year) or irregular intervals (e.g. one prepared for two weeks, then the next prepared for seven weeks)? Why?</p>	

Accounting Principles – Syllabus

Syllabus – Unit 1	
Accounting Principles	Financial systems and fundamental principles <ul style="list-style-type: none">• accepted accounting principles and conventions, including:<ul style="list-style-type: none">▪ accounting entity▪ monetary▪ historical cost▪ materiality▪ accounting period▪ going concern

Accounting Principles – Introduction

Accounting principles refer to various rules that govern how a business prepares its financial statements. This chapter is not an exhaustive list of all accounting principles. This chapter covers the accounting principles that are relevant to the Year 11 syllabus. There are several different accounting principles that exist. Accounting principles help ensure that the financial statements prepared by a business are complete and comparable and over time and with other entities. For example, the confidence of investors or banks to make decisions about a business based on the information in financial statements is supported by these accounting principles.

Accounting Principles

Accounting Principle	Definition	Example
Accounting Entity Assumption	Financial records of an entity (business) are kept separate to the owner's personal financial records.	The personal transactions of a sole trader are not recorded in the business records.
Monetary	Transactions are only recorded if they can be expressed in terms of currency. Non-quantifiable items are not recorded on financial statements.	A business's transactions are recorded in Australian dollars. A company cannot record employee skills or business strategy on financial statements.
Historical Cost	Assets and liabilities are recorded at the historical cost (purchase price plus once-off setup costs).	The value of an asset in financial statements does not change across financial statements over time.
Materiality	If the lack of accurate information about an item could influence decisions of users then it is material. All items that may impact decisions of users of financial statements must be recorded and reported accurately.	An entity must accurately record and report all relevant business transactions.
Accounting Period	Business activities are recorded and reported over standard time periods.	A business prepares financial reports at set intervals such as monthly, quarterly or yearly.
Going Concern	An entity is considered a 'going concern' if financial reports indicate the business is: <ul style="list-style-type: none">• Able to continue operating in the future.• Not facing upcoming liquidation.	A business that cannot pay its debts and will need to liquidate in the next few months is not considered a 'going concern.'

Practice Questions

Questions 1-10: Accounting Principles.

Question 1

The historical cost principle states that assets and liabilities are recorded:

- a. At the value of the purchase price.
- b. At the value of the purchase price less setup costs.
- c. At the value of setup costs less purchase price.
- d. At the value of the purchase price plus setup costs.

Question 2

The principle of going concern states that financial statements are prepared on the basis that a business will.

- a. Pay the correct amount of tax.
- b. Face liquidation in the next 12 months.
- c. Continue to operate in the future.
- d. Pay profits to owners.

Question 3

Which accounting principle states that a business owners finances are kept separate from the business.

- a. Monetary.
- b. Accounting Entity.
- c. Accounting Period.
- d. Going Concern.

Question 4

An example of the accounting period assumption is:

- a. The business will continue operating in the future.
- b. Financial statements are prepared at regular intervals.
- c. An asset is recorded in the period it was purchased.
- d. An asset is recorded for the price it was purchased.

Question 5

An accountant decides not to record or report on an item in a financial statement because the item will not impact the decisions of users of financial statements. Which accounting principle is this an example of?

- a. Historical cost.
- b. Monetary.
- c. Going concern.
- d. Materiality.

Question 6

A motor vehicle is purchased for \$20,000. Three years later the motor vehicle has depreciated in value by \$4,000. However, the motor vehicle is still listed in financial statements as \$20,000. Which accounting principle does this demonstrate?

- a. Historical cost.
- b. Going concern.
- c. Monetary.
- d. Accounting entity.

Question 7

Define and provide an example of the accounting period principle.

Question 8

Define and provide an example of the going concern principle.

Question 9

A business owner has highly specialised staff and believes that the skills of these staff should be included on the financial statements of the business. To help the business owner, answer the following question.

- a. Define and provide an example of the monetary cost principle.

Question 10

John runs a handy man business as a sole trader. John has been using the same bank account for his personal finances as well as his businesses. An accountant advises it would be useful to open a separate bank account for his business. List and define which accounting principle the advice from the accountant reflects.

5. Goods and Services Tax

Goods and Services Tax – Syllabus

Syllabus – Unit 1	
Goods and Services Tax	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none">• legislation relating to the formation of sole traders and partnership, including:<ul style="list-style-type: none">▪ <i>GST Act 1999 (WA)</i>• the impact of GST legal requirements on small businesses, including:<ul style="list-style-type: none">▪ registering for GST▪ Australian Business Number (ABN) <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• principles and features of the GST, including:<ul style="list-style-type: none">▪ taxable supplies, GST-free supplies and input taxed supplies▪ accounting and reporting for the GST, including the business activity statement (BAS) <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none">• calculation of the GST receivable or payable

Goods and Services Tax – Introduction

The GST is a broad-based consumption tax of 10% on most goods and services sold or consumed in Australia. There are several legal requirements for small business regarding GST which include registration for GST, reporting of GST, preparation of tax invoices and the different types of GST supplies.

A business will collect GST credits when purchasing goods and services and pay GST payable when selling goods and services. At the end of a given period of time the difference between the GST credits and GST payable is calculated and the business will either receive a GST refund or owe the government a GST debt. This chapter will demonstrate the calculation of GST refund or debt. The recording and processing of GST is covered in other chapters of this book.



Ogimachijoato, Shirakawa-Go.

Goods and Services Tax (GST) – Legal requirements for small businesses

	GST Legal requirements
Legislation	GST Act 1999 (WA).
GST Nature	A broad-based consumption tax of 10% on most goods and services sold or consumed in Australia. <ul style="list-style-type: none"> • GST is charged at all stages of the supply chain (supplier, manufacturer, distributor, retailer). • The tax is ultimately passed on to the consumer.
GST Registration	<ul style="list-style-type: none"> • A business must register for GST if it has a GST turnover (gross income minus GST) of \$75,000 or more. • A business can voluntarily register for GST if GST turnover is less than \$75,000. • To register for GST a business must have an Australian Business Number (ABN).
Reporting GST	A business reports GST by lodging a Business Activity Statement (BAS) to the Australian Taxation Office (ATO). <ul style="list-style-type: none"> • BAS is completed and lodged monthly, quarterly or annually. The BAS can only be completed annually by businesses with GST turnover under \$75,000 which are voluntarily registered for GST. • Includes details of GST credits and GST payable (among other details). • Details the net GST refund or debt.
Tax Invoices	Businesses must provide invoices to customers for transactions within 28 days unless it is for a sale worth \$82.50 (including GST) or less. Information included on a tax invoice includes: <p><i>Note: Below numbers are demonstrated on the following tax invoice example.</i></p> <ol style="list-style-type: none"> 1. The document is intended to be a tax invoice. 2. The seller's identity. 3. The seller's Australian business number (ABN). 4. The date the invoice was issued. 5. A brief description of items sold, including quantity and price. 6. The GST amount. This can be shown: <ul style="list-style-type: none"> ○ Separately or ○ As a statement which says total price includes GST (this is only an option if the total sale is less than \$1000). 7. The extent that each sale on the invoice is a taxable sale. A sale is identified as taxable with the words: 'Total price includes GST.' 8. The buyer's identity (only required on sales of \$1000 or more).

Tax Invoice Example

Tax Invoice [1]				
Connor's Computer Supplies [2] ABN: 32 111 111 111 [3]			Address: 1 Smith Street, South Perth WA 6151	
Date: 1/1/2042 [4]				
To: Buyer Name Here [8]				
Quantity [5]	Description	Unit price	GST [6]	Total
1	Computer keyboard	\$100	\$10	\$110
5	Computer mouse	\$10	\$1	\$55
Total price includes GST [6 + 7]				\$165

Note: Numbers in [brackets] refer to the relevant tax invoice summary in the above Legislation requirements summary table.

Calculation of GST Receivable or GST Payable

	Nature
GST payable	GST collected/included during sales.
GST credits	GST paid by the business to suppliers.
GST receivable / refund	When GST credits is greater than GST payable. The business receives the difference as a refund from the ATO.
GST payable / debt	When GST payable is greater than GST credits. The business must pay the difference to the ATO.

GST and Accrual Accounting

GST payable or receivable is reported to the ATO every month or quarter via a Business Activity Statement (BAS). Most businesses use the accrual method of accounting. Accrual accounting is covered in more detail throughout Unit 1 and Unit 2.

Financial Statements	Cash Accounting	Accrual Accounting
GST credits recognized / recorded	GST credits recognised when the cash is received.	GST credits recognised when the transaction occurs (income earned). The cash may or may not have been received yet.
GST payable recognized / recorded	GST payable recognised when the cash is paid.	GST payable recognised when the transaction occurs (expense incurred). The cash may or may not have been paid yet.

Types of GST Supplies

Type of Supply	Principle	Examples	Features	
			Can the business collect GST Payable?	Can the business collect GST Credits?
Taxable supply	A GST registered business makes a taxable sale when the sale is: <ul style="list-style-type: none"> • For payment of some kind. • Made during business operations. • Connected with Australia. 	In Australia a GST registered business sells: <ul style="list-style-type: none"> • Inventory. • Land. • Vehicles. 	Yes	Taxable
GST-free supply	<ul style="list-style-type: none"> • GST is not included in the sale price of a product or service. • GST credits can be claimed for the GST included in purchases used to make GST-free sales. 	<ul style="list-style-type: none"> • Most basic food. • Some education courses. • Some medical services and medicines. • Exports. 	No	GST-free
Input-taxed supply	Sales that do not include GST in the selling price. GST credits cannot be claimed for the GST included in the price of inputs.	Financial supplies: <ul style="list-style-type: none"> • Lending of money. • Providing credit for a fee. Residential premises: <ul style="list-style-type: none"> ▪ Rent. • Sale. 	No	Input-taxed

Tip	<p><u>Practical Guide</u></p> <p>You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.</p>
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Taxation

Number Ninja

Make epic things happen working in taxation. You'll ensure businesses stay on the right side of the law, and be their tax-savvy sidekick, providing guidance on strategic business choices, asset acquisitions and operational matters.

Is it a good match for me?

If you are a master of both people and numbers, an excellent listener, and possess an eagle-eyed attention to detail, then you're a seamless fit.

Where could I work?

Accounting firms of every size, whether they are big players, small teams, or even if you are the mastermind behind your very own business.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas

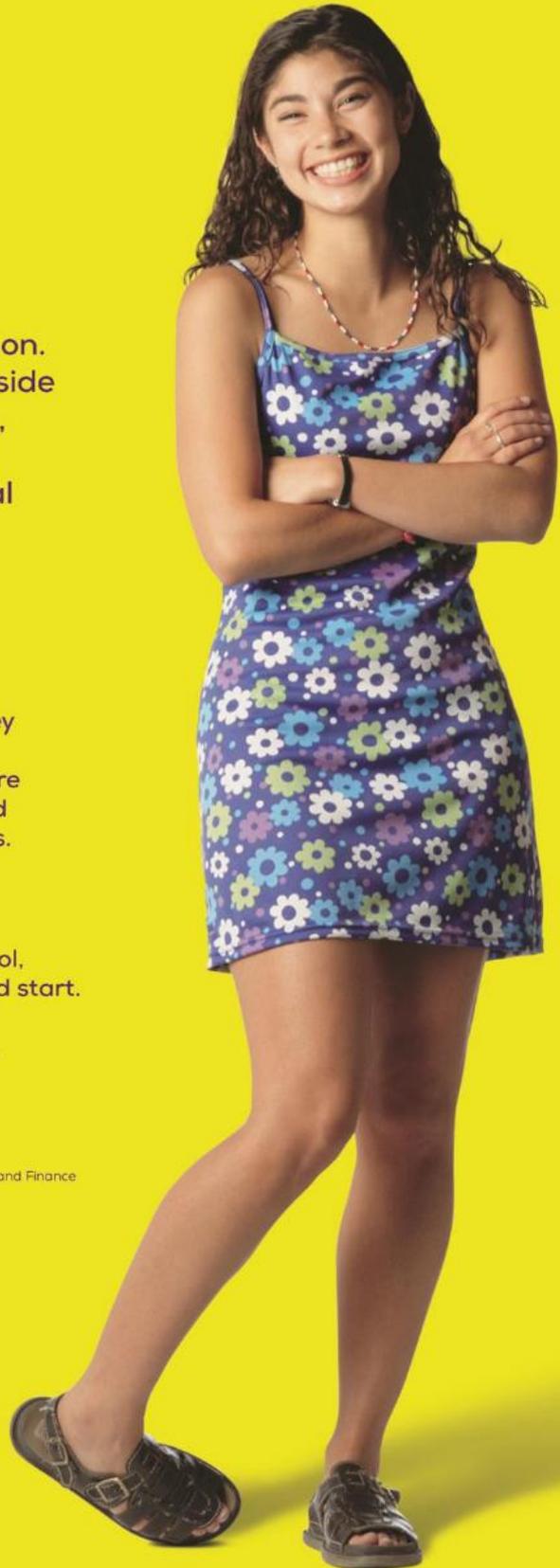


Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance

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Is it a good match for me?

If you're a common good fighter, a curious and impartial explorer, a team collaborator with a strong moral compass, and a master communicator, negotiator, and problem solver, then you're a perfect fit.

Where could I work?

At all levels of government – federal, state, and local and at numerous departments such as education, health and human services, agriculture, transport, defence. Or at the United Nations managing funds for international humanitarian and development projects.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance

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make epic things happen



6. AASB Conceptual Framework and Financial Statements

AASB Conceptual Framework and Financial Statements – Syllabus

Syllabus – Unit 1	
AASB Conceptual Framework and Financial Statements	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• fundamental concepts and conventions of financial accounting, including:<ul style="list-style-type: none">▪ the accounting equation• simple definition of the elements of financial statements<ul style="list-style-type: none">▪ assets▪ liabilities▪ equity▪ income▪ expenses• purpose of financial statements, including:<ul style="list-style-type: none">▪ performance▪ financial position▪ liquidity <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none">• manual preparation of simple classified financial statements for a sole trader excluding balance day adjustments<ul style="list-style-type: none">▪ income statements▪ balance sheet (statement of financial position) for a trading/merchandising/service business <p><i>Note: The below syllabus points are in Unit 2 but are included in this section as these are relevant for this chapter.</i></p> <p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• accrual basis of accounting as per the <i>Conceptual Framework for Financial Reporting</i> (the <i>Conceptual Framework</i>)• the distinction between cash and accrual methods of accounting• definition, as per the <i>Conceptual Framework</i>, of:<ul style="list-style-type: none">▪ assets▪ liabilities▪ equity▪ income▪ expenses• recognition criteria, as per the <i>Conceptual Framework</i>, for:<ul style="list-style-type: none">▪ assets▪ liabilities▪ income▪ expenses▪ classification of income, expenses, assets and liabilities by nature and function

AASB Conceptual Framework and Financial Statements – Introduction

The Australian Accounting Standards Board (AASB) Conceptual Framework provides guidance and structure for accountants to prepare financial statements. This chapter will introduce two types of financial statements and the elements of these statements:

- The balance sheet that presents information about a business's:
 - Assets.
 - Liabilities.
 - Equity.
- The income statement and its elements that presents information about a business's:
 - Income.
 - Expenses.

Conceptual Framework – Elements

- Provide definitions for key terms such as assets, liabilities, equity, income and expenses.
- Outlines Qualitative Characteristics of financial statements.
- Objective of financial statements.

Conceptual Framework – Purpose

Purpose	Describe <i>(Assists 'X' to...)</i>
Assist AASB	• Develop Australian Accounting Standards based on consistent concepts.
Assist preparers of financial statements	• Develop consistent accounting processes when: <ul style="list-style-type: none"> ○ No standard applies to a given event, or ○ A standard allows choice.
Assist users of financial statements	• Increase confidence and transparency. • Understand standards which guide the preparation of financial statements.
Assist auditors	• Determine whether financial statements align with AAS.

AASB stands for: Australian Accounting Standards Board. AAS stands for: Australian Accounting Standards.

Financial statements – Purpose

Purpose / Provide information about entity's	Discuss <i>(Information about the entities...)</i>	This information is found in
Financial position	• Assets, liabilities, and equity (economic resources).	Balance sheet
Financial performance	• Ability to use economic resources to generate profit.	Income statement
Liquidity / cash flows	• Ability to pay debts as they fall due i.e., liquidity and solvency. • Ability to generate future new cash inflows.	Balance sheet



Arashiyama Park Observation Deck, Kyoto.

Elements of Financial Statements – Summary Table

	Asset	Liability	Equity	Income	Expense
Simple Definition	An item that provides benefit to a business.	Money owing by a business.	Owner contributions to a business.	Cash received by a business by selling goods or services.	Cash spent during business operations.
Examples	<ul style="list-style-type: none"> • Cash at Bank. • Accounts Receivable. • Inventory. • GST Credits. • Office Furniture. • Motor Vehicle. 	<ul style="list-style-type: none"> • Accounts Payable. • Loan from Bank. • Mortgage. • GST Payable. 	<ul style="list-style-type: none"> • Capital. • Drawings. • Profit. 	<ul style="list-style-type: none"> • Sales or Fees. • Discount received. • Interest income. • Gain on Sale of Investments. 	<ul style="list-style-type: none"> • Cost of Sales. • Discount allowed. • Rent. • Wages.
Conceptual Framework Definition	<p>A present economic resource controlled by the entity as a result of past events.</p> <p>An economic resource is a right that has the potential to produce economic benefits.</p>	<p>A present obligation of the entity to transfer an economic resource as a result of past events.</p>	<p>The residual interest in the assets after deducting all its liabilities.</p>	<p>Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.</p>	<p>Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.</p>
Aspects of definition	<ul style="list-style-type: none"> • Right. • Potential to produce economic benefits. • Control. 	<ul style="list-style-type: none"> • Obligation. • Entity to transfer an economic resource. • Result of past events. 	N/A		
Recognition Criteria	<p>An element is only recognized in financial statements if it:</p> <ul style="list-style-type: none"> • Meets aspects of the definition. • Provides users of financial statements with information that is useful, i.e., with: <ul style="list-style-type: none"> ○ Relevant information. ○ Faithful representation. 				

Fundamental Qualitative Characteristics of Financial Information

Fundamental	Definition
Relevance	<p>Adapted from 2.6: Information that can make a difference in the decisions made by users. Information could make a difference if it has:</p> <ul style="list-style-type: none"> • Predictive value: information can be used to predict future outcomes. • Confirmatory value: information provides feedback about (confirms or changes) previous evaluations.
Faithful Representation	<p>Adapted from 2.12-2.18: To be perfectly faithful, information is complete, neutral, and free from error.</p> <ul style="list-style-type: none"> • Complete: includes all information necessary for a user to understand events depicted, including all necessary descriptions and explanations. • Neutral: no bias in financial information selection or presentation. • Free from error: no errors or omissions in the description of the events, and the process used to produce the reported information has been selected and applied with no errors in the process. <p>Perfection is rarely (if ever) achievable. Above qualities should be maximized as much as possible.</p>

Aspects of the Conceptual Framework Definitions

	Aspect of definition	Description of aspect	Examples
Asset	Right	Rights that have the potential to produce economic benefits.	Rights that correspond to an obligation of another party: <ul style="list-style-type: none"> • Rights to receive cash. • Rights to receive goods or services. Rights that do not correspond to an obligation of another party: <ul style="list-style-type: none"> • Rights over physical objects, such as property, plant and equipment or inventories. • Rights to use intellectual property.
	Potential to produce economic benefits	An economic resource is a right that has the potential to produce economic benefits.	<ul style="list-style-type: none"> • Receive cash or other economic resources by selling the economic resource. • Produce goods or provide services. • Using the economic resource to enhance the value of other economic resources.
	Control	Control links an economic resource to an entity.	An entity controls an economic resource if it has the present ability to: <ul style="list-style-type: none"> • Direct the use of the economic resource and • Obtain the economic benefits that may flow from it.
Liability	Obligation	An obligation is a duty or responsibility that an entity has no practical ability to avoid.	<ul style="list-style-type: none"> • Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed.
	Entity to transfer an economic resource	The obligation must have the potential to require the entity to transfer an economic resource to another party (or parties).	<ul style="list-style-type: none"> • Obligations to pay cash. • Obligations to deliver goods or provide services.
	Result of past events	A present obligation exists as a result of past events only if: <ul style="list-style-type: none"> • The entity has already obtained economic benefits; and • As a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer. 	<ul style="list-style-type: none"> • The economic benefits obtained could include, for example, goods or services. • The economic resources the entity would have to transfer includes cash or goods and services.

Accounting Equation

- Simple accounting equation:
 - **Assets = Liability + Equity**
- Expanded accounting equation:
 - **Assets + Expenses = Liability + Equity + Income**

Current and Non-Current Assets and Liabilities

	Nature	Examples
Current Assets	Short term assets that are used in less than 12 months. Can be sold quickly to be used for short term cash needs.	<ul style="list-style-type: none"> • Cash at Bank. • Inventory. • Accounts Receivable. • GST Credits. • Prepaid expenses (e.g., prepaid rent, prepaid insurance etc.)
Non-Current Assets	Longer term assets have a useful life of more than 12 months. Are more difficult to sell quickly to be used for short term cash needs.	<ul style="list-style-type: none"> • Motor Vehicle. • Machinery. • Office Equipment.
Current Liabilities	Liabilities due for payment in less than 12 months.	<ul style="list-style-type: none"> • Accounts Payable. • GST Payable. • Accrued expenses (e.g., accrued wages, accrued electricity etc.)
Non-Current Liabilities	Liabilities due for payment in more than 12 months.	<ul style="list-style-type: none"> • Mortgage. • Loan from Bank.

Tip	<u>Practical Guide</u>
	You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.

Balance Sheet / Statement of Financial Position – Horizontal Statement Preparation

Key:	<ul style="list-style-type: none"> • Green = assets. • Red = liabilities. • Blue = equity.
-------------	---

Business Name Balance Sheet as at 30 June 20XX			
Current Assets		Current Liabilities	
Cash at Bank	X	Accounts Payable	X
GST Credits	X	GST Payable	X
Accounts Receivable	X	Non-Current Liabilities	
Non-Current Assets		Loan from Bank	X
Office Furniture	X	Equity	
Motor Vehicle	X	Capital	X
	\$TOTAL		\$TOTAL

Balance Sheet / Statement of Financial Position – Vertical Statement Preparation

This balance sheet example does not include balance day adjustments which are covered in Unit 2.

Key:	<ul style="list-style-type: none"> • Green = assets. • Red = liabilities. • Blue = equity.
-------------	---

Business Name Balance Sheet / Statement of Financial Position as at 30 June 20XX	
Current Assets	
Cash at Bank	X
Inventory	X
Stock of Supplies	X
Accrued Income	X
Prepaid expense (e.g., rent, insurance, advertising)	X
GST Credits	X
Accounts Receivable	X
Total Current Assets	X
Non-Current Assets	
Office Furniture	X
Motor Vehicle	X
Total Non-Current Assets	X
Total Assets	X
Current Liabilities	
Accounts Payable	X
GST Payable	X
Accrued expense (e.g., accrued wages, electricity)	X
Total Current Liabilities	X
Non-Current Liabilities	
Mortgage	X
Loan from Bank	X
Total Non-Current Liabilities	X
Total Liabilities	X
Net Assets	X
Equity	
Capital	X
Add Profit	X
	X (C+AP)
Less Drawings	x
Total Equity	X

Tips	<ul style="list-style-type: none"> • Each Non-Current Asset and associated accumulated depreciation is a separate entry. Accumulated depreciation is not covered until unit 2 and has not been included in this example statement.
-------------	---

Cash and Accrual Accounting – Summary Table

Financial Statements	Cash Accounting	Accrual Accounting
Income recognized / recorded	Income recognized when the cash is received.	Income recognised when the transaction occurs (income earned). The cash may or may not have been received yet.
Expenses recognized / recorded	Expenses recognised when the cash is paid.	Expenses recognised when the transaction occurs (expense incurred). The cash may or may not have been paid yet.

Key:	<ul style="list-style-type: none"> • Green = positive figure. • Red = negative figure. • Blue = Total sum.
-------------	---

Business Name Income Statement for the year ended 30 June 20XX			
Sales or Fees			X
Less Sales Returns			X
Less Discount Allowed			X
Net Sales			X
Less Cost of Sales	X		
Freight (or cartage) Inwards	X		
Customs Duty	X	X	
Less Discount Received		X	X
Gross Profit			X
Add Other Income			
Gain on Sale of Land		X	
Gain on Sale of Investments		X	
Interest (income)		X	X
Total Income			X
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising	X		
Freight Outwards	X		
Distribution vehicle service costs	X		
Petrol & oil	X		
Salaries of salespeople	X	SD TOTAL	
General & Administration Expenses			
Office supplies	X		
Rent	X		
Telephone	X		
Insurance	X		
Salaries of office staff	X	GA TOTAL	
Financial Expenses			
Bank fees	X		
Interest (e.g., on Loan/Mortgage)	X	FE TOTAL	SD+GA+FE
Net Profit			TI – OE

Tips	<ul style="list-style-type: none"> • Each time a calculation is required the values are entered in a column one to the left. • If there is only one type of 'Other Income', no calculation is required and this sole value would be entered in the far right column. • This example income statement features expense categories for a trading business. • The expense categories for a services business will be different based on specific nature of the service business. Service businesses often use the term 'Fees' rather than 'Sales.' • When reading questions, it is helpful to label each item with either GP, gross profit, OI, other income, SD, selling and distribution expenses, GA, general and administration expenses, FE, financial expenses. This will help with preparing the different sections of the income statement. You may also find it helpful to keep track of the items which have a negative impact on gross profit by placing the GP notation in brackets for these e.g., cost of sales, sales returns etc.
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Audit

Financial Sleuth

As an auditor, you're not just a number-cruncher, you're a truth-seeker on a mission to uphold accuracy. You'll make epic things happen as a true number detective dedicated to unraveling financial mysteries.

Is it a good match for me?

If you're naturally curious, teamwork is your second nature, and excel at both communication and finding creative solutions, then you're a perfect match.

Where could I work?

Any accounting firm or most large corporates like banks, or multinational consumer companies like Xbox, YouTube, Coca-Cola, L'Oreal. Or even in a charity like Children International.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas

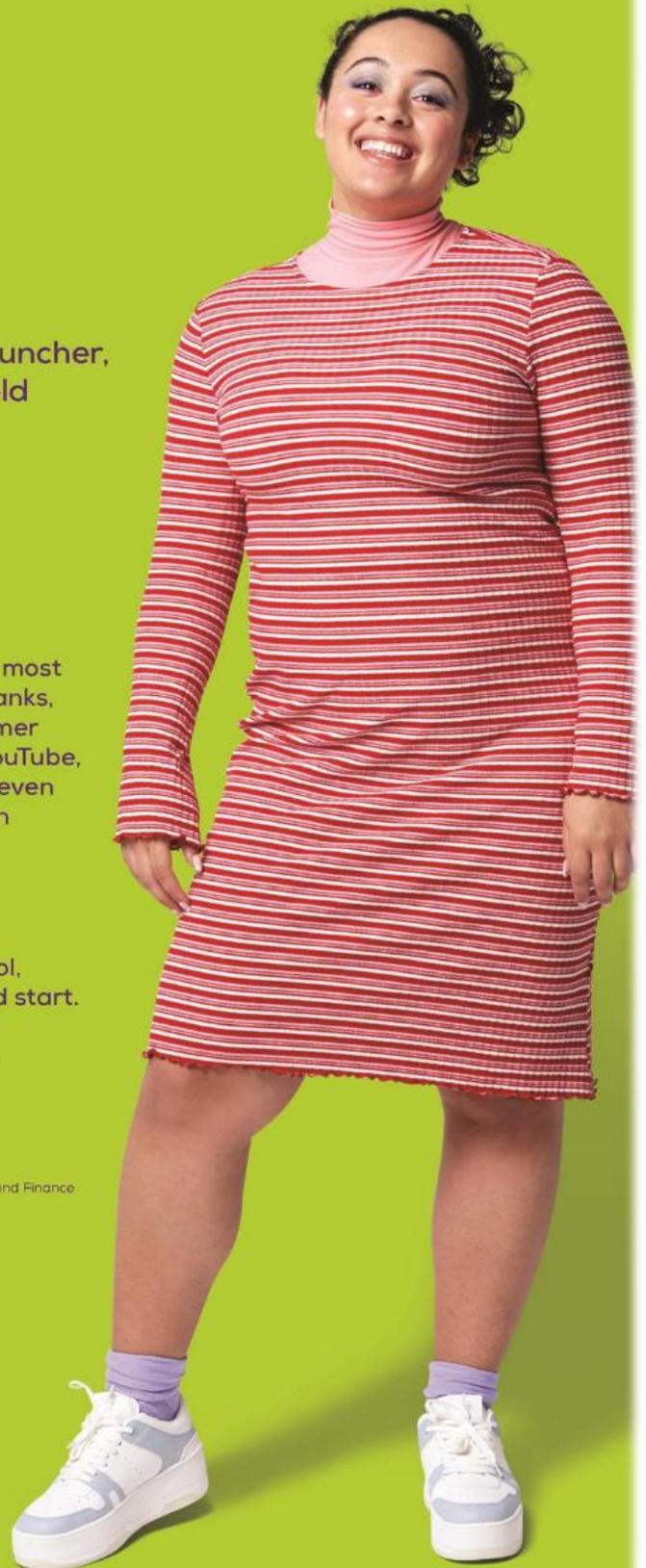


Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance

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7. General Journal and General Ledger Introduction

General Journal and General Ledger Introduction – Syllabus

Syllabus – Unit 1	
General Ledger and General Journal Introduction	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none">• fundamental concepts and conventions of financial accounting, including:<ul style="list-style-type: none">▪ double entry accounting• purpose of trial balance<ul style="list-style-type: none">▪ errors disclosed by the trial balance▪ errors not disclosed by the trial balance <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none">• manual preparation of the general journal and general ledger (including GST) to include:<ul style="list-style-type: none">▪ entries to commence business▪ cash and credit transactions to include cash receipts, cash payments▪ purchase of non-current assets▪ withdrawal of inventory or cash by the proprietor▪ correction of errors▪ closing entries▪ manual preparation of trial balance

General Journal and General Ledger – Introduction

This chapter will introduce the practical use of the general ledger and general journal in accounting. This chapter will cover:

- Recording and processing a range of transactions in the general ledger and general journal.
- Preparation of a trial balance.



Palais de l'Île, Annecy, France.

General Journal Introduction

Transactions are recorded in the general journal before being posted to the general ledger. The information for these transactions comes from source documents such as invoices, receipts and bank statements. An example layout of general journal is provided below.

Date	Details	Debit	Credit
1 Jan 2050	Account A Account B Description of transaction	\$100	\$100

Each transaction in the general journal will feature a date, the names of two or more accounts associated with the transaction, a description of the description beneath the names of the associated accounts and a debit and credit value for each account. There will always be a debit component and credit component to each transaction and the total of the debits and credits for each transaction will be equal. This is the double entry accounting principle.

General Ledger Introduction

A business will have a general ledger account for each of the business's assets, liabilities, equity, income and expenses. The entries in the general ledger reflect the transactions recorded in the general journal. An example general ledger layout is provided below.

General Ledger Account					
Date	Description	\$	Date	Description	\$
	Debit side			Credit side	

There are two sides to a ledger account, the debit and credit side. For each of these sides the date of a transaction is recorded as well as its value. Each debit entry has a corresponding credit entry to a different ledger account and the values of each side are equal. This is the double entry accounting principle in practice. For any transaction on either side the following is recorded: the date of the transaction, the corresponding account that has been debited or credited during the transaction and the value of the transaction. The final value of each ledger at the end of an accounting period is used to prepare financial statements.

Assets and Expense ledgers						Liability, Equity and Income ledgers					
Increase on the left (debit) side and decrease on the right (credit) side.						Increase on the right (debit) side and decrease on the left (debit) side.					
Asset and Expense Accounts						Liability, Equity and Income Accounts					
A + E = L + Eq + I						A + E = L + Eq + I					
Date	Description	\$	Date	Description	\$	Date	Description	\$	Date	Description	\$
	↑			↓			↓			↑	
	Increase on the debit side			Decrease on the credit side			Decrease on the debit side			Increase on the credit side	

Double entry accounting principle

This principle states that each financial transaction will be recorded in two or more accounts. The total value of the debits and credits for each transaction are opposite and equal.

Tip	<p><u>Practical Guide</u> You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.</p>
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General Ledger and General Journal Entries Introduction

This section demonstrates the following transactions being recorded and processed in the general journal and general ledger:

- Entry to commence business
- Purchase of Non-Current Assets
- Withdrawal of cash or inventory by the owner
- Income for a service business (The sale of inventory for a trading business are covered in a separate chapter).
- Expenses (with and without GST)
- Error Correction
- GST Control (GST Debt or Refund)
- Closing entries and preparation of a trial balance

Entry to Commence Business – Example 1

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
3 Jan 2027	Cash at Bank	8,000		Date	Description	\$	Date	Description	\$
	Capital		8,000	3 Jan 2027	Capital	8,000			
	Business commencement with owner investment			Capital					
				Date	Description	\$	Date	Description	\$
							3 Jan 2027	Cash at Bank	8,000

Entry to Commence Business – Example 2

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
10 Oct 2033	Cash at Bank	10,000		Date	Description	\$	Date	Description	\$
	Machinery	5,000		10 Oct 2033	Capital / Loan	10,000			
	Loan		3,000	Machinery					
	Capital		12,000	Date	Description	\$	Date	Description	\$
	Business commencement with owner investment and bank loan			10 Oct 2033	Capital	5,000			
				Loan					
				Date	Description	\$	Date	Description	\$
							10 Oct 2033	Cash at Bank	3,000
				Capital					
				Date	Description	\$	Date	Description	\$
							10 Oct 2033	Cash at Bank / Machinery	12,000

Cash purchase of Non-Current Assets

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Motor Vehicle					
17 Sep 2029	Motor Vehicle	20,000		Date	Description	\$	Date	Description	\$
	GST Credits	2,000		17 Sep 2029	Cash at Bank	20,000			
	Cash at Bank		22,000	GST Credits					
	Cash Purchase of Motor Vehicle			Date	Description	\$	Date	Description	\$
				17 Sep 2029	Cash at Bank	2,000			
				Cash at Bank					
				Date	Description	\$	Date	Description	\$
							17 Sep 2029	Motor Vehicle / GST Credits	22,000

Credit purchase of Non-Current Assets

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Fixtures and Fittings					
5 Nov 2032	Fixtures and Fittings	8,000		Date	Description	\$	Date	Description	\$
	GST Credits	800		5 Nov 2032	Accounts Payable	8,000			
	Accounts Payable		8,800	GST Credits					
	Credit Purchase of Fixture and Fittings			Date	Description	\$	Date	Description	\$
				5 Nov 2032	Accounts Payable	800			
				Accounts Payable					
				Date	Description	\$	Date	Description	\$
							5 Nov 2032	Fixtures and Fittings / GST Credits	8,800

Withdrawal of cash by the owner

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Drawings					
14 Mar 2031	Drawings	750		Date	Description	\$	Date	Description	\$
	Cash		750	14 Mar 2031	Cash at Bank	750			
	Cash drawings			Cash at Bank					
				Date	Description	\$	Date	Description	\$
				1 Mar 2031	Balance b/d	5,000	14 Mar 2031	Drawings	750

Withdrawal of inventory by the owner

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Drawings					
8 Apr 2038	Drawings	550		Date	Description	\$	Date	Description	\$
	Inventory		500	8 Apr 2038	Inventory	550			
	GST Credits		50	Inventory					
	Inventory drawings			Date	Description	\$	Date	Description	\$
				1 Apr 2038	Balance b/d	8,000	8 Apr 2038	Drawings	500
				GST Credits					
				Date	Description	\$	Date	Description	\$
							8 Apr 2038	Drawings	50

Note: In a real-world example there would normally be a debit entry in the GST Credits ledger account which represents the GST credits previously recorded. The credit entry in the GST Credits account represents the reversal of the GST Credits that was previously recorded.

Income

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
19 Jul 2026	Cash at Bank	330		Date	Description	\$	Date	Description	\$
	GST Payable		30	19 Jul 2026	Fees / GST Payable	330			
	Fees		300	GST Payable					
	Fees received			Date	Description	\$	Date	Description	\$
							19 Jul 2026	Cash at Bank	30
				Fees					
				Date	Description	\$	Date	Description	\$
							19 Jul 2026	Cash at Bank	300

Expenses – Wages expense (No GST)

General Journal Entry				General Ledger Entry						
Date	Details		Debit	Credit	Wages					
3 Nov 2041	Wages		1,200		Date	Description	\$	Date	Description	\$
	Cash at Bank			1,200	3 Nov 2041	Cash at Bank	1,200			
	Wages payment				Cash at Bank					
					Date	Description	\$	Date	Description	\$
								3 Nov 2041	Wages	1,200

Expenses – with GST

General Journal Entry				General Ledger Entry						
Date	Details		Debit	Credit	Advertising					
10 Feb 2039	Advertising		900		Date	Description	\$	Date	Description	\$
	GST Credits		90		10 Feb 2039	Cash at Bank	900			
	Cash at Bank			990	GST Credits					
	Advertising payment				Date	Description	\$	Date	Description	\$
					10 Feb 2039	Cash at Bank	90			
					Cash at Bank					
					Date	Description	\$	Date	Description	\$
								10 Feb 2039	Advertising / GST Credits	990

Error Correction

Errors are corrected by a with an entry in the correct account and an opposite entry in the account where the incorrect entry was made. Below is an example of a payment of electricity was made but was incorrectly recorded as rent payment.

General Journal Entry				General Ledger Entry						
Date	Details		Debit	Credit	Electricity					
	Electricity		X		Date	Description	\$	Date	Description	\$
	Rent			X		Rent	X			
	Error correction				Rent					
					Date	Description	\$	Date	Description	\$
						Cash at Bank	X		Electricity	X

Note: The italicized ledger entry is the original incorrect entry.

GST Debt or Refund

The GST debt or refund is calculated by transferring GST payable and GST credits to the GST control account. If Cash at Bank figure in GST Control account is on the

- Debit side = GST debt
- Credit side = GST refund

General Journal Entry				General Ledger Entry						
Date	Details		Debit	Credit	GST Control					
	GST Control		X		Date	Description	\$	Date	Description	\$
	GST Credits			X		GST Credits	X		GST Payable	X
	Balance transfer					Cash at Bank	X			
							X			X
					GST Credits					
					Date	Description	\$	Date	Description	\$
						Balance	X		GST Control	X
					GST Payable					
					Date	Description	\$	Date	Description	\$
						GST Control	X		Balance	X
					Cash at Bank					
					Date	Description	\$	Date	Description	\$
									GST Control	X

Note: The above is an example of GST debt. A GST refund would occur on the opposite sides of the GST control and cash at bank account. The description of the last general journal entry would be GST refund from ATO.

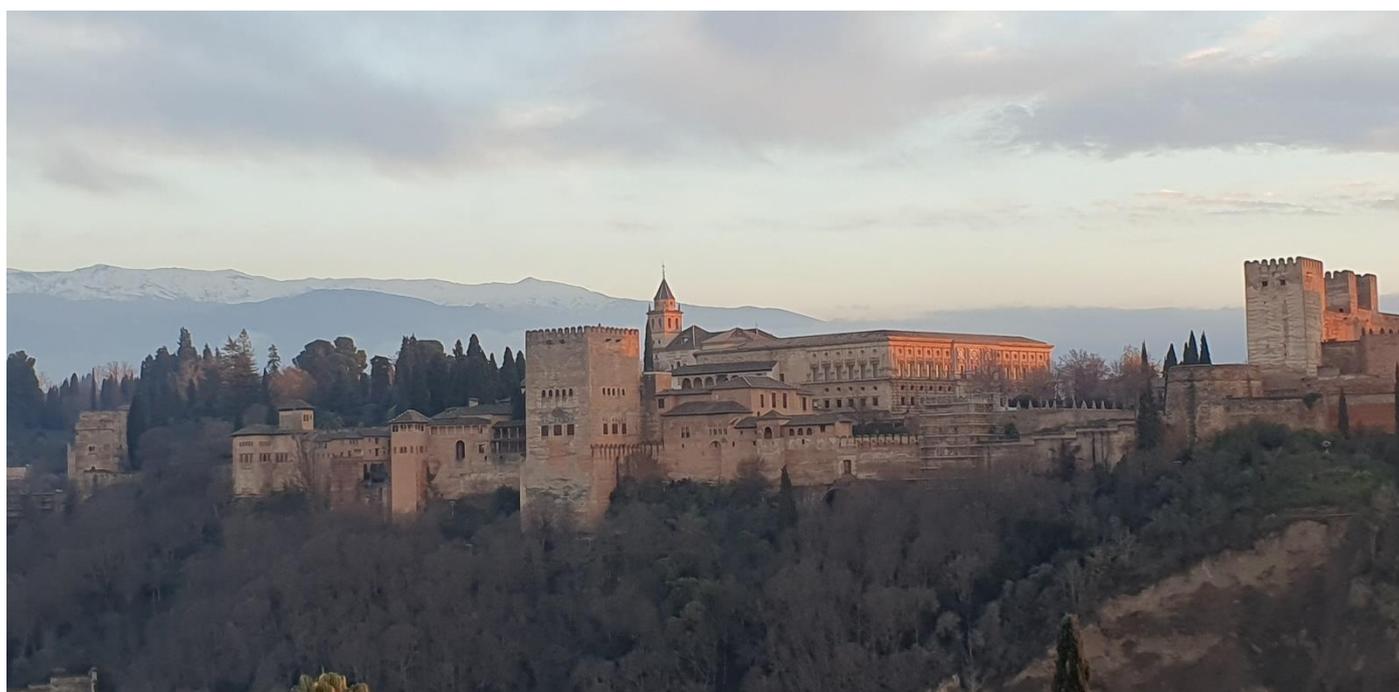
Trial Balance – Summary Table

Trial Balance	
Purpose	A financial report that lists the debit and credit balance of all accounts. The trial balance allows: <ul style="list-style-type: none"> • An indication that financial statements use correct information. • Convenient preparation of the balance sheet and other financial statements.
Errors disclosed by the trial balance	<ul style="list-style-type: none"> • Incomplete double entry i.e., recording only one entry. • Incorrect balancing of an account. • Incorrect totalling of an account. • Not transferring an account to the trial balance. • Recording an amount on the wrong side of the trial balance. • Recording the same transaction on one ledger twice. • A correct account balance being incorrectly recorded in the trial balance.
Errors not disclosed by the trial balance	<ul style="list-style-type: none"> • Transactions that were not recorded at all. • Similar errors that cancel each other out. • Recording a transaction in the wrong account but the correct side. • Recording a transaction in the correct account but the incorrect amount.

Trial Balance – Statement Preparation

Business Name Trial Balance as at X Month 20XX		
Ledger Account	Debit	Credit
Asset accounts	X	
Expense accounts	X	
Liability accounts		X
Equity accounts		X
Income accounts		X
	TOTAL	TOTAL

Tips	<ul style="list-style-type: none"> • The total debit and credit figures must match to be in balance. • If the cash at bank account is in credit, this is a bank overdraft which is a liability.
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Alhambra, Granada.



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*Hays Salary Guide FY23/24 Accounting and Finance

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8. Inventory Systems – Perpetual and Periodic Methods

Inventory Systems – Syllabus

Syllabus – Unit 1	
Inventory Systems – Periodic and Perpetual Methods	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • fundamental concepts and conventions of financial accounting, including: <ul style="list-style-type: none"> ▪ principles of the perpetual inventory system • perpetual versus periodic inventory methods <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of the general journal and general ledger (including GST) to include: <ul style="list-style-type: none"> ▪ cash and credit transactions to include cash receipts, cash payments, sales, purchases, sales returns, purchases returns, discount allowed, discount received ▪ perpetual inventory system given the cost of sales (NOTE: No requirement to teach inventory costing systems, such as Last-in First-out, First-in First-out and weighted average) ▪ write-off bad debts

Inventory Systems – Introduction

A trading business purchases inventory from suppliers and then sells this inventory to customers. Businesses will use either the periodic or perpetual inventory method. The theory for both systems is relevant to the syllabus and covered in this chapter. Only the practical for the perpetual system is relevant to the syllabus and covered in this chapter. Each of these methods has a different nature and their own advantages and disadvantages.

Inventory Systems – Summary Table

	Perpetual Inventory System	Periodic Inventory System
Nature	<p>Inventory and cost of sales are recorded constantly. Requires the use of software.</p> <p>The sale price and cost of each item sold is recorded.</p>	<p>Inventory and cost of sales are recorded with manual stock takes throughout the year, not constantly. Does not require software.</p> <p>The sale price of each item sold is recorded. The cost of each item sold is not recorded.</p>
Advantages	<ul style="list-style-type: none"> • Stock level updates in real time with software. • Income sheet and balance sheet are more easily prepared at regular intervals with software. • Identification of fast and slow moving stock to assist business planning through software. • Assists management to keep stock levels within upper and lower limits through automatic software alerts/ordering i.e., avoid overstocking or understocking. 	<ul style="list-style-type: none"> • Cheaper to set up and use as no complex software systems required. • Simple to set up and use. • Ideal for smaller businesses.
Disadvantages	<ul style="list-style-type: none"> • Software can be expensive to setup and update. • Requires stock check to identify broken, missing or stolen items as these are not identified by software. 	<ul style="list-style-type: none"> • Stock levels can only be found through regular stock checks. • Labour intensive to regularly stock check. • Stock checks can be expensive. • Difficult to identify fast and slow moving stock as these must be calculated manually without software. • Difficult to keep stock within lower and upper limits due to need for regular stock checks.

Perpetual Inventory System – General Journal and General Ledger Entries

During this section the following transactions will be demonstrated within the perpetual inventory system:

- Cash and Credit Purchase of Inventory, Payment of Accounts Payable and Discount Received.
- Purchases Returns.
- Cash Sales, Credit Sales, Collection of Accounts Receivable and Discount Allowed.
- Sales returns.
- Write-off of Bad debts.

Cash Purchase of Inventory

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Inventory					
	Inventory	X		Date	Description	\$	Date	Description	\$
	GST Credits	X			Cash at Bank	X			
	Cash at Bank		X	GST Credits					
	Inventory purchased with cash			Date	Description	\$	Date	Description	\$
					Cash at Bank	X			
				Cash at Bank					
				Date	Description	\$	Date	Description	\$
								Inventory / GST Credits	X

Credit Purchase of Inventory

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Inventory					
	Inventory	X		Date	Description	\$	Date	Description	\$
	GST Credits	X			Accounts Payable	X			
	Accounts Payable		X	GST Credits					
	Inventory purchased on credit			Date	Description	\$	Date	Description	\$
					Accounts Payable	X			
				Accounts Payable					
				Date	Description	\$	Date	Description	\$
								Inventory / GST Credits	X

Payment of Accounts Payable and Discount Received

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accounts Payable					
	Accounts Payable	X		Date	Description	\$	Date	Description	\$
	Cash at Bank		X		Cash at Bank / Discount Received	X		Inventory / GST Credits	X
	Discount Received		X	Cash at Bank					
	Payment of Accounts Payable			Date	Description	\$	Date	Description	\$
								Accounts Payable	X
				Discount Received					
				Date	Description	\$	Date	Description	\$
								Accounts Payable	X

Note: The italicised entry in accounts payable represents the original purchase of inventory.

Discount received = Original cost x Discount Rate

Accounts payable paid = Original cost – Discount Received

GST Credits Adjustment for Discount Received

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Discount Received					
	Discount Received	X		Date	Description	\$	Date	Description	\$
	GST Credits		X		GST Credits	X		Accounts Payable	X
	GST Credits Adjustment			GST Credits					
				Date	Description	\$	Date	Description	\$
					Accounts Payable	X		Discount Received	X

Note: The italicised entries represent the original purchase in GST Credits and the discount prior to the GST reduction in the Discount Received account.

$GST\ Credit\ Adjustment = Original\ GST\ Credits \times Discount\ Rate$

Purchase Returns

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accounts Payable					
	Accounts Payable	X		Date	Description	\$	Date	Description	\$
	Inventory	X			Inventory / GST Credits	X		Inventory	X
	GST Credits		X	Inventory					
	Return of inventory			Date	Description	\$	Date	Description	\$
					Accounts Payable	X		Accounts Payable	X
				GST Credits					
				Date	Description	\$	Date	Description	\$
					GST Credits	X		Accounts Payable	X

Note: The italicised ledger entries represent the original purchase.

Cash Sale of Inventory

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
	Cash at Bank	X		Date	Description	\$	Date	Description	\$
	Sales		X		Sales / GST Payable	X			
	GST Payable		X	Sales					
	Cash sale of inventory			Date	Description	\$	Date	Description	\$
								Cash at Bank	X
				GST Payable					
				Date	Description	\$	Date	Description	\$
								Cash at Bank	X

Note: the corresponding cost of inventory sold entry must also be recorded.

Cost of Inventory Sold

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cost of Sales					
	Cost of Sales	X		Date	Description	\$	Date	Description	\$
	Inventory		X		Inventory	X			
	Cost of inventory sold			Inventory					
				Date	Description	\$	Date	Description	\$
								Cost of Sales	X

Credit Sale

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accounts Receivable					
	Accounts Receivable	X		Date	Description	\$	Date	Description	\$
	Sales		X		Sales / GST	X			
	GST Payable		X		Payable				
	Credit sale of inventory			Sales					
				Date	Description	\$	Date	Description	\$
								Accounts Receivable	X
				GST Payable					
				Date	Description	\$	Date	Description	\$
								Accounts Receivable	X

Note: the corresponding cost of inventory sold entry must also be recorded.

Collection of Accounts Receivable and Discount Allowed

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
	Cash at Bank	X		Date	Description	\$	Date	Description	\$
	Discount Allowed	X			Accounts Receivable	X			
	Accounts Receivable		X	Discount Allowed					
	Collection from debtor			Date	Description	\$	Date	Description	\$
					Accounts Receivable	X			
				Accounts Receivable					
				Date	Description	\$	Date	Description	\$
					Sales / GST Payable	X	15 Oct 2039	Cash at Bank / Discount Allowed	X

Note: The italicised ledger entry in Accounts Receivable represents the original purchase of inventory.

Discount allowed = Original cost x Discount Rate

Accounts receivable received = Original cost – Discount Allowed

GST Payable Adjustment for Discount Allowed

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	GST Payable					
15 Oct 2039	GST Payable	X		Date	Description	\$	Date	Description	\$
	Discount Allowed		X	15 Oct 2039	Discount Allowed	X	15 Oct 2039	Accounts Receivable	X
	GST Payable Adjustment			Discount Allowed					
				Date	Description	\$	Date	Description	\$
				15 Oct 2039	Accounts Receivable	X	15 Oct 2039	GST Payable	X

Note: The italicised ledger entry in GST Payable represents the GST payable on the original purchase. The italicised ledger entry in Discount allowed represents the discount allowed prior to the GST adjustment.

GST adjustment = Original GST Payable x Discount Rate

Sales Returns – Return of Inventory Sold

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Sales Returns					
	Sales Returns	X		Date	Description	\$	Date	Description	\$
	GST Payable	X			Accounts Receivable	X			
	Accounts Receivable		X	GST Payable					
	Return of inventory sold			Date	Description	\$	Date	Description	\$
					Accounts Receivable	X		Accounts Receivable	X
				Accounts Receivable					
				Date	Description	\$	Date	Description	\$
					Sales / GST Payable	X		Sales Returns / GST Payable	X

Note: The italicized entries represent the original purchase.

Sales Returns – Cost of Inventory Sold

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Inventory					
	Inventory	X		Date	Description	\$	Date	Description	\$
	Cost of Sales		X		Cost of Sales	X			
	Cost of inventory returned			Cost of Sales					
				Date	Description	\$	Date	Description	\$
								Inventory	X

Write-off of bad debts

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Bad Debts					
	Bad Debts	X		Date	Description	\$	Date	Description	\$
	GST Payable	X			Accounts Receivable	X			
	Accounts Receivable		X	GST Payable					
	Write-off of bad debts			Date	Description	\$	Date	Description	\$
					Accounts Receivable	X		Accounts Receivable	X
				Accounts Receivable					
				Date	Description	\$	Date	Description	\$
					Sales / GST Payable	X		Bad Debts / GST Payable	X

Note: ledger transactions that are italicised represent the original purchase.

Profit and Loss Account Preparation

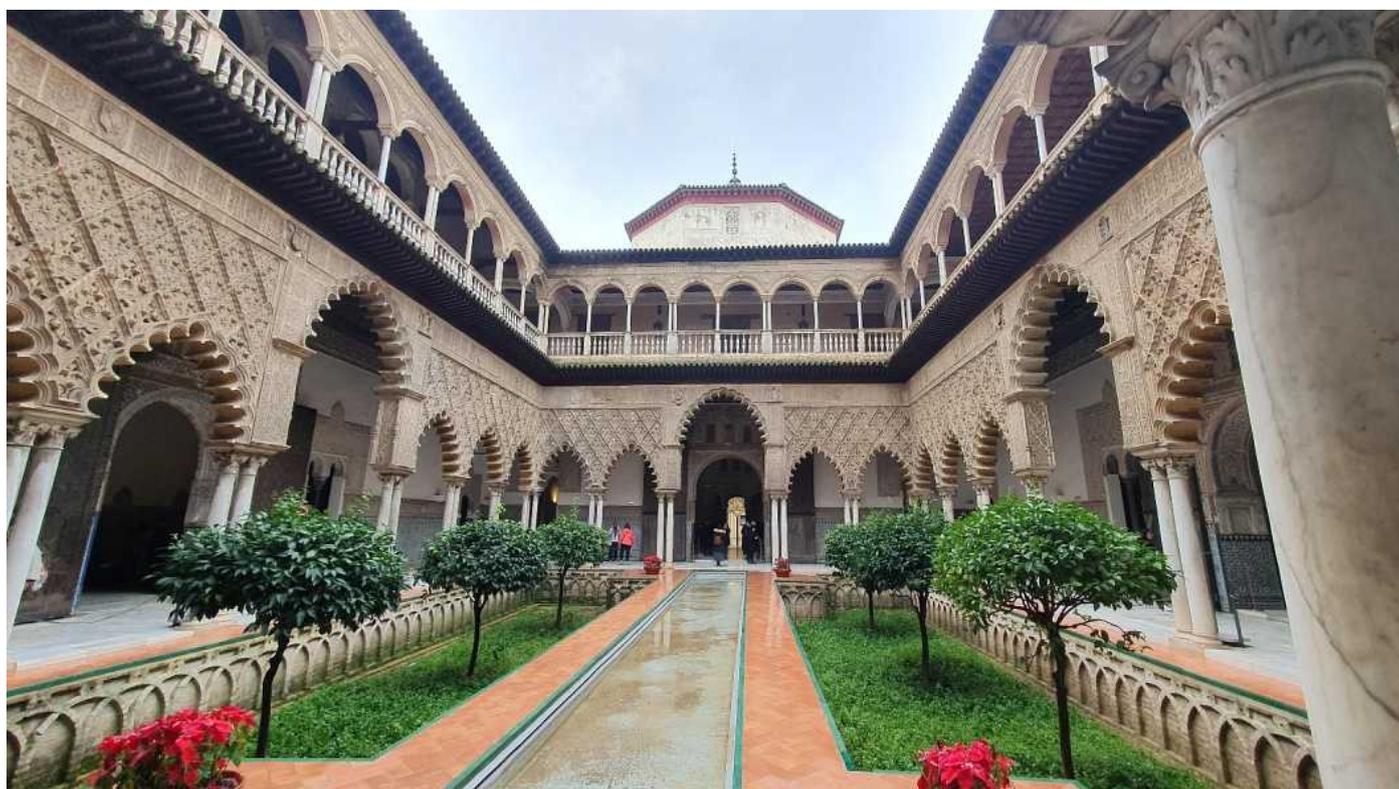
General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Profit and Loss					
	Sales	X		Date	Description	\$	Date	Description	\$
	Discount Received	X			Cost of Sales	X		Sales	X
	Profit and Loss		X		Discount Allowed	X		Discount Received	X
	Income transferred				Wages	X			
	Profit and Loss	X			Rent	X			
	Cost of Sales		X		Sales Returns	X			
	Discount Allowed		X		Capital (Profit)	X			
	Wages		X			X			X
	Rent		X						
	Expense transferred								
	Profit and Loss	X		Capital					
	Sales Returns		X	Date	Description	\$	Date	Description	\$
	Contra income transferred				Drawings	X		Balance	X
	Profit and Loss	X			Balance c/d	X		Profit and Loss	X
	Capital		X			X			X
	Transfer of profit							Balance b/d	X
	Capital	X		Drawings					
	Drawings		X	Date	Description	\$	Date	Description	\$
	Withdrawal of cash by owner						30 Jun 2042	Capital	X

Note: There are ledger entries in the corresponding income and expense accounts listed in the profit and loss account. A loss would occur if the capital entry was on the opposite side of the profit and loss and capital account.

Practical Guide

Tip

You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.



Patio de las Doncellas, Real Alcázar, Seville.

9. Internal Control



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>How might a business prevent an employee stealing from that business?</p>	
<p>Would it be discrimination if a business did not allow all potential customers to purchase inventory on credit? Why?</p>	
<p>What consequences may arise from forgetting to pay suppliers? How could these be avoided?</p>	

Internal Control – Syllabus

Syllabus – Unit 1	
Internal Control	Evaluating financial information for planning, coordinating, controlling and investing <ul style="list-style-type: none">• principles of internal control• application of the principles of internal control over cash, inventory, accounts receivable, accounts payable and non-current assets<ul style="list-style-type: none">▪ limitations of internal control

Internal Control – Introduction

Internal control refers to processes to enhance the efficiency and reliability of accounting records and safeguard assets. While internal control processes can be implemented by business, there are limitations of internal control.

Internal Control – Nature and Principles

Internal control	
Nature	Processes to enhance the efficiency and reliability of accounting records and safeguard assets.
Principles	<ul style="list-style-type: none">• Ensure accounting information is reliable.• Safeguard resources against inefficiency, fraud and wastage.• Compliance with government regulation and business policy.

Limitations of Internal Control

List	Describe
Collusion	Two or more employees may work together to bypass internal control measures.
Human Error	Humans make mistakes which may make internal control measures ineffective.
Costs	Internal control measures may be costly to implement.
Low staff numbers	It may be difficult to effectively segregate duties with low numbers of staff.
Requires Review	It is necessary to regularly review internal control procedures to ensure effectiveness.



Castelo dos Mouros, Sintra.

Internal Control – Summary Table

Internal control area	Internal control area purpose	Internal Control Strategies <i>Know any three for each</i>
Non-current assets	Ensure NCAs are safeguarded and used in an efficient and effective manner.	<ul style="list-style-type: none"> • Security cameras/guards to prevent theft. • Record keeping of NCAs. • Maintenance of NCAs. • Training of staff to use NCAs correctly. • Process to approve the purchase of new NCAs. • Insurance of NCAs.
Cash	Ensure cash is safeguarded from theft (intentional) or loss (accidental).	<ul style="list-style-type: none"> • Secure cash storage. • Secure cash movement from registers to safe. • Duty separation between cash processing e.g., different person at cash register and putting money in the safe. • Transaction records. • Regularly deposit cash to bank.
Inventory	Ensure inventory is safeguarded and efficiently managed.	<ul style="list-style-type: none"> • Inventory levels kept appropriate. • Automated stock purchase when inventory below a certain level • Security of inventory – e.g., cameras, guards. • Appropriate storage e.g., cold storage. • Wastage minimisation. • Competitive prices. • Prioritising sale of old stock.
Accounts receivable	Ensure credit sale customers (debtors) are reliable and debts are collected.	<ul style="list-style-type: none"> • Issue invoices to debtors in a timely manner. • Automate payment reminders to debtors. • Offer payment plans to debtors. • Offer discounts to debtors for prompt payment. • Credit checks on debtors prior to credit sales. • Credit limits on customers.
Accounts payable	Ensure payment of creditors and maintain positive supplier relationships.	<ul style="list-style-type: none"> • Negotiate prices and payment. • Ask for a payment plan from suppliers / creditors. • Ask for prompt payment discounts from suppliers / creditors. • Automate supplier/ creditor payment reminders. • Develop positive relationship with suppliers / creditors. • Transparently communicate any issues paying suppliers / creditors.

Note:

- You can be creative to think of internal control strategies. Be careful when being creative to not provide example strategies that are too similar to each other and miss out on marks.
- Internal control strategies have only been listed, not described. Make sure you can describe how any three strategies support the internal control for each area. This is a research task in the practice questions.



Summer Palace, Beijing.

Practice Questions

Questions 1-10: Internal Control.

Question 1

Which of the following is not an internal control strategy for cash?

- a. Keeping cash in a safe.
- b. Separation of duties.
- c. Depositing cash to a bank.
- d. Paying employees more.

Question 2

Which of the following is an internal control strategy for accounts receivable?

- a. Offering creditors payment plans.
- b. Offering debtors payment plans.
- c. Avoiding debtors.
- d. Asking creditors for discounts.

Question 3

Which of the following is not a limitation of internal control?

- a. Relationships.
- b. Human error.
- c. Cost.
- d. Review requirements.

Question 4

Which of the following is not a principle of internal control?

- a. Safeguard resources against inefficiency, fraud and wastage.
- b. Ensure accounting information is reliable.
- c. Reflect upon business practices.
- d. Compliance with government regulation and business policy.

Question 5

A strategy to implement internal control for machinery would not include:

- a. Accurate record keeping of the machinery.
- b. Training of staff to use the machine correctly.
- c. Insurance of the machinery.
- d. Develop positive relationship with suppliers.

Question 6

Describe the nature and principles of internal control.

10. Corporate Social Responsibility



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>What is the primary purpose for a business to exist?</p>	
<p>When trying to achieve this primary purpose, should a business ignore any potential negative impacts of their business practice?</p>	
<p>What can businesses do to have a positive impact on people and the environment?</p>	

Corporate Social Responsibility – Syllabus

Syllabus – Unit 1	
Corporate Social Responsibility	<p>The influence of social, environmental and ethical factors</p> <ul style="list-style-type: none"> • costs and benefits for small business of engaging in socially, environmentally and ethically responsible behaviour, including: <ul style="list-style-type: none"> ▪ sponsorship ▪ resource conservation ▪ taxation responsibility

Corporate Social Responsibility (CSR) – Introduction

CSR is the responsibility of a business to have a positive impact on people and the planet, not just profits (triple bottom line). To engage in CSR activities there are costs and potential benefits to a business. A business is further incentivised to engage in CSR activities as there may be negative consequences for the business if they do not engage in CSR activities. When making CSR decisions a business should consider both non-financial (qualitative) factors and financial factors.

Related to CSR in this chapter, are ethical issues that may be encountered in financial dealings between business owners/managers and their employees, clients and investors.

CSR – Summary Table

	CSR
CSR Nature/ Purpose	<ul style="list-style-type: none"> • The responsibility of a business to have a positive impact on people and the planet, not just profits (triple bottom line). • Involves a business aligning business activities to: <ul style="list-style-type: none"> ○ Support the welfare of employees and communities. ○ Support positive environmental outcomes.
CSR costs	<ul style="list-style-type: none"> • Staff training in CSR methods. • Staff recruitment – especially for staff with specialist CSR skills. • Supply costs – cost of purchasing environmentally friendly items. • Purchase and installation costs e.g., electric car fleet, charging stations, solar panels. • Maintenance costs – cost of maintaining environmentally friendly assets. • Investment trade off – money spent on CSR could have been spent on alternative investment projects. • Cost of donations and sponsorships. • Distraction – may divert resources from cash inflow activities.
CSR benefits	<ul style="list-style-type: none"> • Reduce some costs e.g., resource use, waste. • Enhance entity reputation. • Favourable reputation may lead to: <ul style="list-style-type: none"> ○ Increased customer acquisition and sales. ○ Improved customer loyalty and sales. ○ Positive media coverage. ○ Improved staff morale. ○ Attract employees. ○ Retain employees. ○ Attract investors who value CSR and ethical behaviour. ○ Increase competitive advantage. ○ New promotional opportunities i.e., advertising campaigns.
CSR – consequences of not displaying CSR	<p><i>Note: the consequences will mostly be the opposite of the benefits. Some examples are below.</i></p> <ul style="list-style-type: none"> • Lack of investor interest, reducing market price of shares. • Loss of customers and sales. • Lawsuits from public e.g., for habitat destruction, pollution.
CSR - Examples	<p><i>Note: CSR examples could be any activity that positively influences humans or the environment. You can be creative when thinking of this. It may be advantageous in an exam case study to refer to examples of CSR from the case study. Some CSR examples are given in the 'Examples of CSR' section.</i></p>

Examples of CSR

		Describe	Examples
Environmental CSR Examples	Resource Conservation	Using minimal amounts of resources sustainability.	<ul style="list-style-type: none"> Not using plastic packaging. Turning off lights when not in rooms. Use energy efficiency appliances.
	Greenhouse Gas minimisation	Reducing the amount of greenhouse gases emitted during business operations.	<ul style="list-style-type: none"> Using renewable energy. Installing solar panels. Planting trees.
Social CSR Examples	Taxation Responsibility	Providing complete and accurate tax information.	Not avoiding tax e.g., by: <ul style="list-style-type: none"> Accounting for cash transactions. Not hiding profits overseas.
	Sponsorship	Providing funding for community events and projects. Business receives marketing material in return.	<ul style="list-style-type: none"> Helping build a new park named after the business. Sponsoring a local sport team with business advertising around the field.
	Charity donations	A gift of cash or assets to a non-profit organisation. The business receives nothing in return for the gift.	<ul style="list-style-type: none"> Donating money to a cancer research charity. Donating blankets to a homeless shelter.
	Employee wellbeing	Ensuring employees are safe and treated fairly in the workplace.	<ul style="list-style-type: none"> Allowing workers to take breaks. Paying workers fair wages.

Note: there are many possible CSR behaviours, these are just some examples. A research task may include reading a business's annual report to find examples of CSR or researching examples of companies who have/have not exhibited CSR.

CSR non-financial (qualitative) considerations

	List	Example
CSR non-financial (qualitative) considerations	Customers	Customers can react negatively to decisions made by businesses that have negative impacts on people or the environment. This can result in boycotting or protests outside business premises.
	Employees	Relocating factory operations to a different country and making staff redundant could reduce employee morale for employees who are required to move, lose their job, or lose colleagues who do not relocate.
	Investors	There is a growing trend for investors to factor a business's CSR record when making investment decisions. A company displaying poor CSR behaviour may find it difficult to attract future investors.
	Suppliers	Choosing to swap to a cheaper supplier from overseas may have impacts on the previously used local supplier. This supplier may experience a decrease in profits, be forced to reduce the number of employees etc. There may also be a negative perception amongst other groups if a supplier is used which has a bad record of human rights abuses or environmental damage.
	Government regulation	A business behaves in a way that is not currently against the law but has a negative impact on people or the environment. This may cause the government to create and enforce strict regulation regarding business conduct in the future.
	Community	Prior to property development it may be important to consult with local first nations groups. Failure to liaise with these groups may cause negative backlash from first nations people and the wider community.
	Environment	When choosing whether to conduct mining operations, the impact to the environment may be considered. I.e. the impact to habitats, animals, plants, wildlife, greenhouse gas emissions etc.
	Competitors	By shutting down a non-profitable store in a specific region this may open the possibility of a competitor opening a shop in this area.

Note: The list above are brief hypothetical examples. You may be required to research or respond to questions more elaborately regarding a specific case study. When answering these questions make sure to explain your response relative to the case study. Often any given case study may impact more than one of the groups listed.

Ethical Behaviour – Define

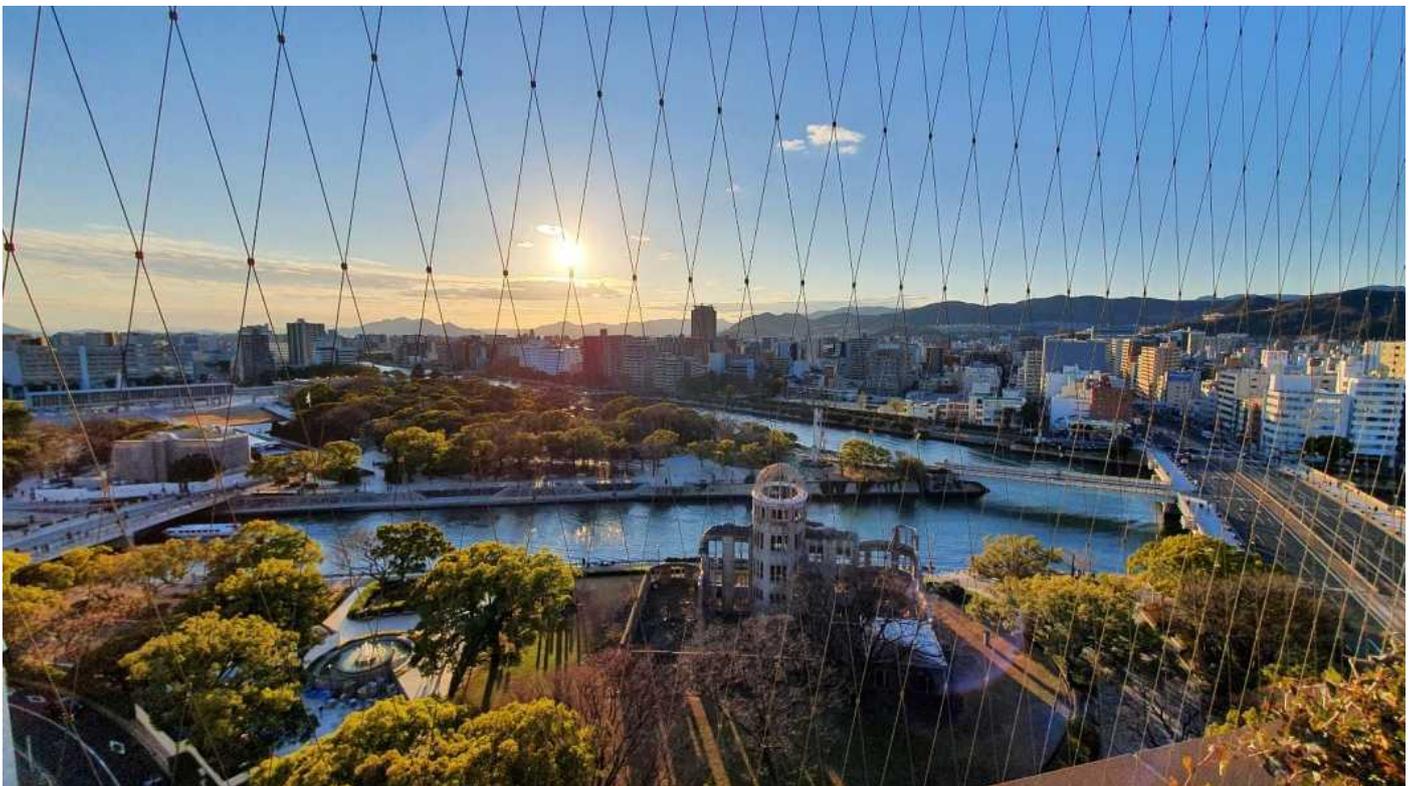
Ethical behaviour is:

- When decisions are made to align with guiding moral standards and principles.
- Outlined in an entities Code of Conduct.

Ethical Issues – Examples

Ethical issue / Unethical practice	Description	Examples
Tax evasion schemes	<ul style="list-style-type: none"> • Accounting practices may be used to avoid tax legislation resulting in low or no tax paid. 	<ul style="list-style-type: none"> • Offshore business processes may be used to hide business profits in a country with a low company tax rate.
Cash sales	<ul style="list-style-type: none"> • Sales made in cash may not be recorded by a business to prevent taxation. 	<ul style="list-style-type: none"> • A job is completed and the cash payment received is kept in a safe and not reported to the tax office.
Price fixing	<ul style="list-style-type: none"> • Competitors within an industry agree on raising or lowering prices rather than competing. 	<ul style="list-style-type: none"> • A large government contract has come up and multiple potential competitors secretly agree to offer inflated quotes.
Insider trading / Confidentiality breach	<ul style="list-style-type: none"> • Internal users may have access to information the general public does not. • This information could be used for personal advantage. 	<ul style="list-style-type: none"> • A manager is aware a positive business performance announcement will be made and invests in the company prior to the announcement.
Employee exploitation	<ul style="list-style-type: none"> • Businesses treating employees poorly. 	<ul style="list-style-type: none"> • Unsafe working conditions. • Unpaid staff overtime.
Exploitation of overseas workers	<ul style="list-style-type: none"> • A business uses offshore supply chain processes where workers have little welfare support. 	Overseas workers who experience: <ul style="list-style-type: none"> • Low wages. • Unsafe working conditions.

Note: Know any three ethical issues and how to describe them with examples. You can be creative here in thinking of behaviour which may be unethical. You may be asked to refer to a specific case study when identifying ethical issues that have or could occur.



View of Hiroshima Peace Park from Orizuru Tower, Hiroshima.

Practice Questions

Questions 1-14: Corporate Social Responsibility.

Question 1

Which of the following is not a cost of engaging in corporate social responsibility?

- a. Staff recruitment costs.
- b. Costs of purchasing environmentally friendly assets.
- c. Attraction of investors.
- d. Maintenance costs of environmentally friendly assets.

Question 2

Which of the following is an example of a benefit of engaging in corporate social responsibility?

- a. Diversion of resources from main business activities.
- b. Attracting employees.
- c. Attracting lawsuits.
- d. Protests from far right extremists.

Question 3

Which of the following is an example of unethical practice?

- a. Supporting local charities for advertising opportunities.
- b. Insider trading.
- c. Providing great conditions for employees so they never want to quit.
- d. Paying full company tax rates.

Question 4

An example of an ethical issue is:

- a. Employing overseas workers and paying them a fair wage with good working conditions.
- b. Hiring an accountant to make sure the business is not paying too much tax.
- c. Negotiating with suppliers to get the cheapest possible price.
- d. Meeting with competitors to agree to raise prices for customers.

Question 5

Which of the following would not be a benefit of engaging in corporate social responsibility?

- a. A positive news article enhancing the businesses reputation.
- b. Attract employees who value CSR.
- c. Potentially to attract investors.
- d. Decreased competitive advantage.

Question 6

Qualitative factors that should be considered when making CSR decisions do not include:

- a. Customer perception of the business.
- b. Impact to the environment.
- c. Loss of revenue due to customers shopping elsewhere.
- d. Competitors gaining a competitive advantage.

Question 7

A large tech company purchases a fleet of electric buses to provide free transport to staff around its business campus. Which of the following is a cost of engaging in this CSR behaviour?

- a. Investment trade off.
- b. Increased staff morale.
- c. Less pollution compared to diesel powered buses.
- d. Bus tax evasion costs.

Question 8

A small town in regional Western Australia only has two electricians. Both of these electricians meet regularly to discuss the prices they will charge to customers to ensure they maintain healthy profits. List and describe the ethical issue that has taken place.

Question 9

Describe the nature and purpose of corporate social responsibility.

Question 10

Outline four potential costs of a business engaging in corporate social responsibility.



Environmental Accounting

Climate Change Warrior

Embrace your inner financial eco-warrior, armed with the power of data collection and number-crunching. Your mission? Uncover the environmental impact of business decisions, share your findings, and make epic things happen for our planet.

Is it a good match for me?

If you are passionate about the environment, are on a mission to rescue our planet, or you're head over heels for science and maths, while rocking stellar communication and problem-solving skills, then you're a match.

Where could I work?

Any company who report on their environmental impact, from engineering and manufacturing firms to large corporates or government departments who manage a nation's natural resources.

How do I get there?

You don't need to study anything specific in high school, but business and science-related subjects can help you get a head start.

Ability to work overseas



Graduate salary*



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11. Inventory Costing Methods

Inventory Costing Methods – Syllabus

Syllabus – Unit 2	
Inventory Costing Methods	Financial systems and fundamental principles <ul style="list-style-type: none"> • concept of inventory costing methods <ul style="list-style-type: none"> ▪ weighted average ▪ First-in First-out

Inventory Costing Methods – Introduction

Businesses record the prices paid to purchase inventory and the sale of this inventory at a later date. Inventory is purchased at different prices over time and therefore, the calculation of cost of sales can be calculated using one of many methods. Each inventory costing method has its different advantages and disadvantages. The inventory costing methods covered in this course are the 'First-In-First-Out Method' and the 'Weighted Average Method.'

Inventory Costing Methods – Summary Table

	First-In First-Out Method (FIFO)	Weighted Average Method
Nature	<p>The first inventory purchased is the first inventory sold.</p> <p>Inventory remaining after sales is recorded as the value of latest inventory purchased.</p> <p>Often used when inventory is easily counted and may have expiration dates e.g., fresh produce, manufactured products.</p>	<p>Inventory cost is the average cost of goods available for sale during a given period.</p> <p>Inventory cost calculated changes based on each inventory purchase in a period.</p> <p>Often used when inventory items are so similar or closely linked that it is difficult to assign a cost to a specific unit. E.g., fuel companies, large scale agriculture.</p>
Calculation	<p>Cost of sales for a given number of units = Adding together the cost of units of inventory purchased first</p> <p>Inventory closing balance is the recorded as the value of remaining latest inventory purchased.</p>	<p style="text-align: center;"> $\text{Weighted average cost per unit} = \frac{\text{Total cost of goods available for sale}}{\text{Total units in inventory}}$ </p> <p>The process for calculating closing inventory value per unit and cost of sales per unit is the same.</p>
Advantages	<ul style="list-style-type: none"> • Closing inventory value reflects current market value. • Higher profits during times when prices increase. 	<ul style="list-style-type: none"> • Simple to calculate. • Reduces impact of fluctuating prices on cost of sales and closing inventory. • Can save time in setting prices if prices are based on cost of goods sold.
Disadvantages	<ul style="list-style-type: none"> • Not accurate if inventory cost has fluctuating price patterns. • During times of inflation, this results in higher profits and thus higher taxes. • During times when prices fall, cost of production may be higher. 	<ul style="list-style-type: none"> • Quotes may not reflect current market prices if prices fluctuate widely. • If costs have increased recently, goods may be sold at a loss. • The cost allocated to a specific sale is not the actual cost of that sale.

Note: General ledger and general ledger entries for inventory costing methods are not in the syllabus.

Tip	<p><u>Practical Guide</u></p> <p>You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.</p>
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Agricultural Accounting

Financial Harvester

Make epic things happen in the farming world. You'll be the financial captain, steering through the financial landscape and offering strategic advice to harvest growth and prosperity for agricultural businesses.

Is it a good match for me?

If your heart belongs to agriculture, your mind thrives on business, and you have a thing for numbers, then agricultural accounting is the perfect puzzle piece that completes your career match.

Where could I work?

Any agricultural business like a dairy farm, organic farm, horticulture, beekeepers or fruit producer, as well as commercial banks and consultancy agencies.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



Graduate salary*



*Hays Salary Guide FY23/24 Accounting and Finance

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12. Professional Associations and Code of Conduct



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Once you become an accountant do you think you would ever need to engage in further professional development? Why?</p>	
<p>Do you think accountants should be able to influence the accounting standards? If yes, how could they do this?</p>	
<p>What moral values would be important to guide the actions of accountants?</p>	

Professional Associations and Code of Conduct – Syllabus

Syllabus – Unit 2	
Professional Associations and Code of Conduct	<p>The role and influence of governments and other bodies</p> <ul style="list-style-type: none"> • the role of the professional accounting and financial associations, including: <ul style="list-style-type: none"> ▪ CPA Australia ▪ Chartered Accountants Australia and New Zealand ▪ The Institute of Public Accountants ▪ Financial Planning Association of Australia Limited <p>The influence of social, environmental and ethical factors</p> <ul style="list-style-type: none"> • the nature and purpose of the professional codes of conduct for members of professional accounting service providers associations

Professional Associations and Code of Conduct – Introduction

Professional associations are groups that act as a unified body of professionals working in the same or similar fields. There are several professional associations available for accounting and finance professionals to join. There are several roles of these accounting associations explored in this chapter. These professional accounting and finance associations also provide a range of activities to help ensure the maintenance of standards for accounting and finance professionals.

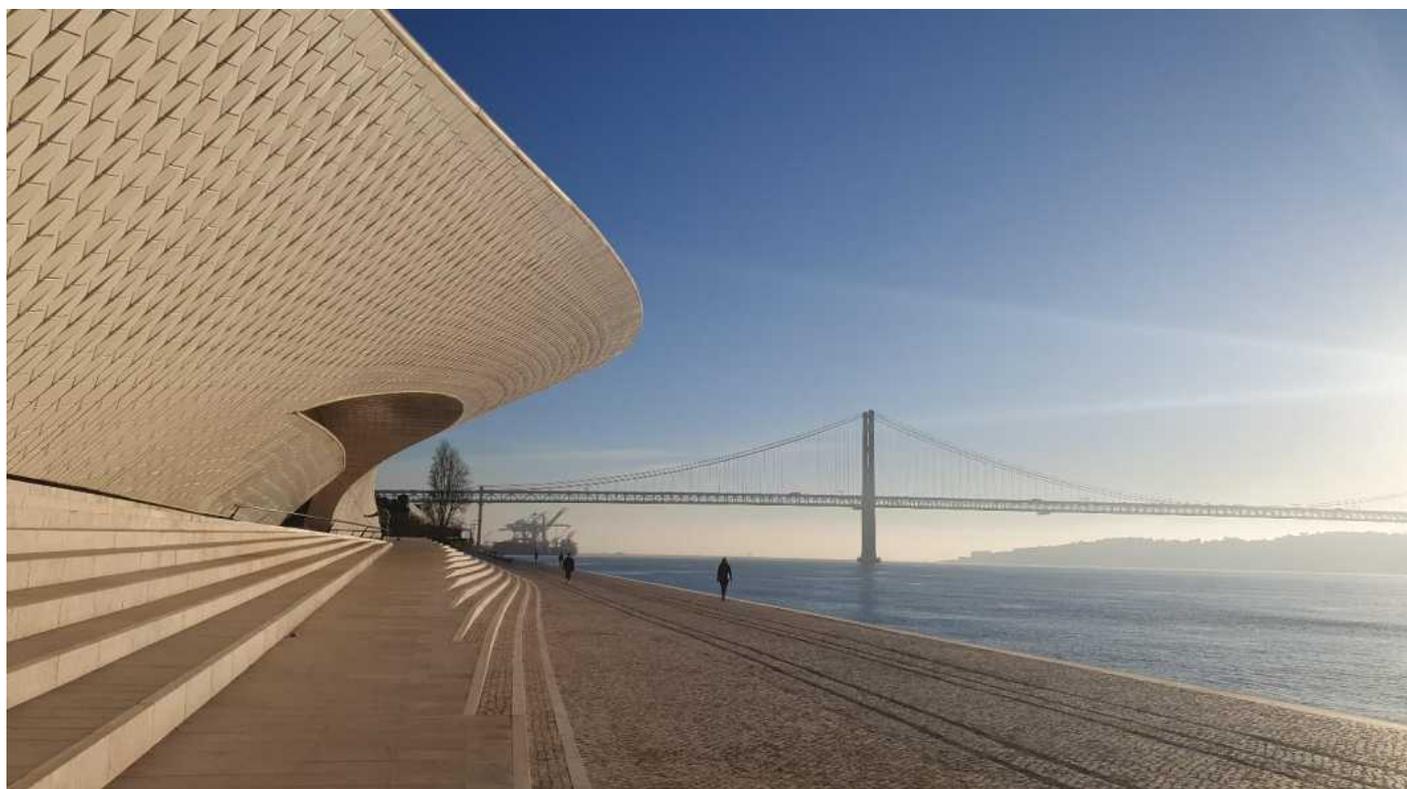
A code of conduct is a set of defined principles which guide and regulate the ethical behaviour and actions of individuals in specific industries. Many professional accounting and finance associations use the “APES 110 Code of Ethics for Professional Accountants (2018) – effective 1 January 2020.” to guide their own code of conduct / code of ethics. APES stands for the Accounting Professional & Ethical Standards Board. The name of this board and the name of this specific Code of Ethics quoted is not required for the syllabus but has been included for extension. The syllabus requires an understanding of the nature, fundamental principles and purpose of the code of conduct / code of ethics for accountants.

Professional Accounting and Financial Associations – Summary Table

Professional Accounting and Financial Associations	
Examples of professional accounting associations	<ul style="list-style-type: none"> • Certified Practising Accountant (CPA) Australia. • Chartered Accountants Australia and New Zealand (CA ANZ). • The Institute of Public Accountants (IPA). • Financial Planning Association (FPA) of Australia Limited.
Primary roles of professional accounting associations	<ul style="list-style-type: none"> • Community promotion of the accounting profession. • Development and maintenance of ethical standards. • Development and maintenance of best practice. • Represent members during decision making e.g., during the development of accounting standards.
Professional accounting association activities	<p>A range of activities are provided by professional associations to ensure the maintenance of standards:</p> <ul style="list-style-type: none"> • Creating opportunities for career support and professional networking. • Creating opportunities for professional development to improve current skills and knowledge e.g., seminars, newsletters, journals. • Requiring members participate in ongoing professional learning. • Collaborating with international accounting organisations. • Technical support for members, government and regulatory authorities.

Code of Conduct – Summary Table

		Code of Conduct
Guiding Code of Ethics		APES 110 Code of Ethics for Professional Accountants (2018) – effective 1 January 2020. <ul style="list-style-type: none"> This is based on the International Code of Ethics for Professional Accountants. Many accounting associations use this document to guide their own code of conduct / code of ethics.
Nature		The professional responsibilities and ethical requirements for members of the accounting profession based on fundamental principles.
Fundamental Principles	Integrity	Honesty and straightforwardness in professional and business relationships.
	Objectivity	Avoid bias judgement or decision making or allow undue influence on others or yourself.
	Professional competence and duty of care	Maintain professional knowledge and skills. This includes keeping up to date with trends and standards.
	Confidentiality	Keep personal the details and information of clients and employer private and secure.
	Professional behaviour	Comply with relevant laws and regulations and do not behave in a way that discredits the profession.
Purpose	Sets out fundamental principles	These principles reflect the professions responsibility to public interest. Principles reflect expected member behaviour.
	Address threats to fundamental principles	The code provides a conceptual framework for members to apply to identify, evaluate and address threats to compliance with the fundamental principles.
	Sets out Independence Standards	In the case of audits, reviews and other assurance engagements, the code sets out independence standards, established by the application of the conceptual framework to threats to independence in relation to these engagements.



Museum of Art, Architecture and Technology, Lisbon.

Practice Questions

Questions 1-11: Professional Associations and Code of Conduct.

Question 1

Which of the following is not a fundamental principle of the code of ethics?

- a. Integrity.
- b. Accuracy.
- c. Confidentiality.
- d. Professional Behaviour.

Question 2

Which of the following is an example of a professional accounting association?

- a. University of Western Australia.
- b. South Perth Accountants.
- c. Law Society of Western Australia.
- d. The Institute of Public Accountants.

Question 3

An accountant was given a series of demands from a client which are unrealistic. The accountant explained to the client calmly why these requests are unrealistic. This led to the client to send rude emails to the accountant and leave them poor reviews online. The accountant decides to retaliate by emailing the client with a rude response. Which professional standard has been breached by the accountant?

- a. Confidentiality.
- b. Professional behaviour.
- c. Objectivity.
- d. Integrity.

Question 4

Professional accounting associations take place in a range of activities. Identify which of the following is not an example of an activity that professional associations take place in to ensure the maintenance of standards

- a. Collaborating with international accounting organisations.
- b. Creating opportunities for professional development to improve current skills and knowledge.
- c. Creating opportunities for career support and professional networking.
- d. Issuing legal penalties to accountants who breach the code of conduct.

Question 5

A primary role of professional accounting associations includes:

- a. Development and maintenance of accounting laws.
- b. Requiring members participate in continuing professional learning.
- c. Development and maintenance of best practice.
- d. Creating opportunities for career support and professional networking.

Question 6

List three roles of professional accounting associations such as Chartered Accountants Australia and New Zealand.

Question 7

Adam is studying to be an accountant and does not understand why the code of ethics exists. To help Adam grasp this concept, list and describe two purposes of the code of ethics.

Question 8

An accountant is performing financial services for a business which is in competition with a family members business. The accountant deliberately makes mistakes and performs a lesser quality of service so as to try and help his family members business who competes with the accountants current client. List and describe a fundamental principle that has been broken.

Question 9

An accountant has a brother who is looking to make an investment. The accountants brother asks the accountant to provide information about companies he works for that has not been made public yet. The accountant refuses to agree to the brothers request. List and describe a fundamental principle which the accountant has followed.



Indigenous Tax and Advisory

Community Empowerer

Tell the story behind the numbers and drive transformation within the local community, supporting Aboriginal and Torres Strait Islander as well as Māori enterprises and local neighbourhoods. Make epic things happen, empowering the expansion of businesses, communities, and cultural richness.

Is it a good match for me?

If you're passionate about building family connections, creating a positive impact in your community, and have a knack for using your analytical and storytelling talents to support the growth of small businesses, this role offers an exciting chance to make a difference.

Where could I work?

Your own accounting firm, start-ups, community centres, government departments, banks supporting local communities, and not-for-profit organisations.

How do I get there?

You don't need to study anything specific in high school, but business-related subjects can help you get a head start.

Ability to work overseas



Graduate salary*



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make epic things happen



13. Depreciation and Sale of Asset

Depreciation and Sale of Asset – Syllabus

Syllabus – Unit 2	
Depreciation and Sale of Asset	<p>Financial systems and fundamental principles</p> <ul style="list-style-type: none"> • nature of depreciable non-current assets • nature of depreciation expense • determining the cost of a depreciable non-current asset • identification of the more appropriate method of depreciation to apply <ul style="list-style-type: none"> ▪ straight line ▪ reducing/diminishing balance • identification of over or under depreciation on sale of non-current asset <p>Recording, processing and communicating financial information</p> <ul style="list-style-type: none"> • manual preparation of general journal and general ledger entries for recording of depreciation and disposal of a single depreciable asset, including cost of a depreciable non-current asset, depreciation expense, disposal of depreciable asset using the sale of asset method <ul style="list-style-type: none"> ▪ manual preparation of closing general journal entries

Depreciation and Sale of Asset – Introduction

All non-current assets lose value over time for a variety of reasons including wear-and-tear and obsolescence. Eventually these non-current assets must be sold or written off. Depreciation is the process of allocating the cost of an asset over its useful life. There are several depreciation methods, but the two methods detailed in this course are the straight line method and the reducing balance method. Each type of depreciation will be more or less appropriate for different types of non-current assets.

Depreciation – Key Definitions

	Nature
Legislation	AASB 116 Property, Plant and Equipment.
Depreciable Non-Current Assets	<p>Are tangible items that are:</p> <ul style="list-style-type: none"> • Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. • Expected to be used during more than one period. <p>A tangible asset:</p> <ul style="list-style-type: none"> • Is a physical object. • Can be touched.
Depreciable amount	The cost of an asset less residual value.
Depreciation Expense	The systematic allocation of the depreciable amount of an asset over its useful life.
Residual value / Market value	The estimated market value when an asset is sold at the end of its useful life. This is estimated at the start of an asset's life. It is difficult to know the exact value until an asset is sold.
Carrying value / Carrying amount	<p>The historical cost less accumulated depreciation at any given time.</p> <ul style="list-style-type: none"> • Carrying Value = Historical Cost – Accumulated Depreciation

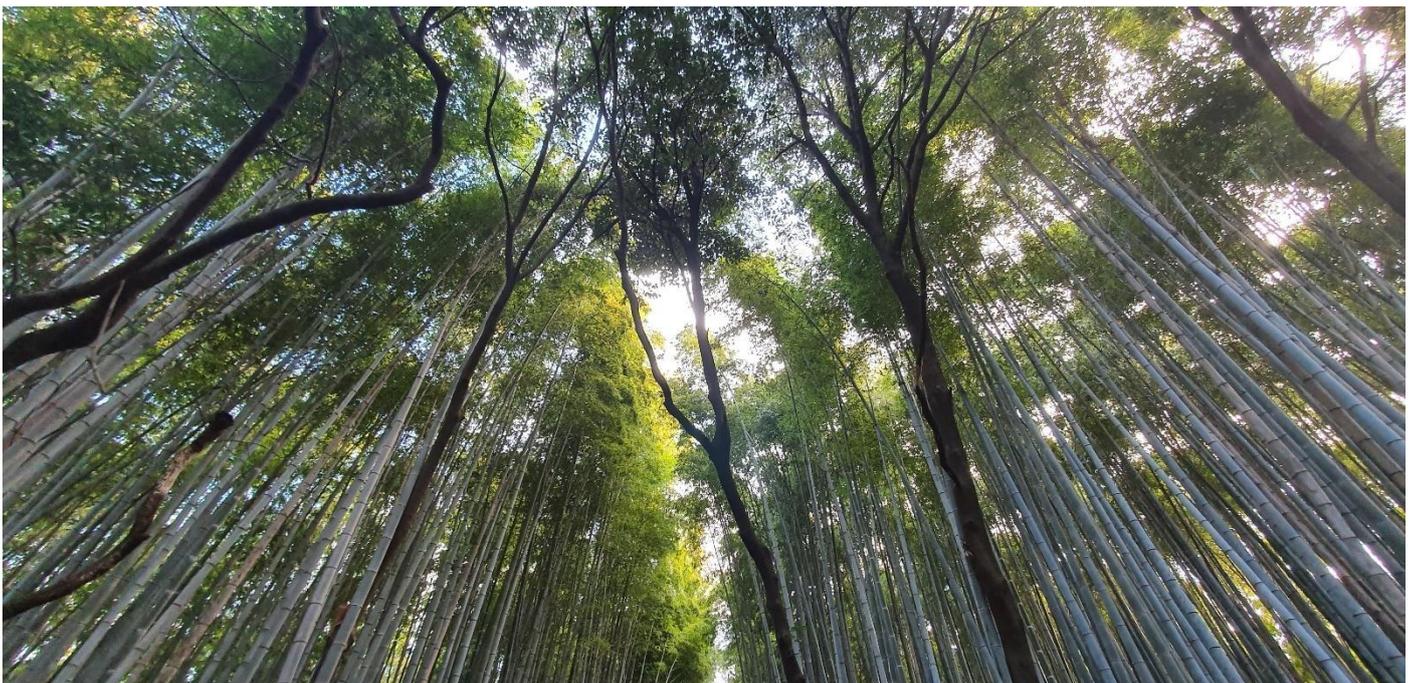
Historical Cost – Summary Table

	Historical Cost
Nature	The determined original cost of a depreciable non-current asset in accounting records.
Formulated by	<ul style="list-style-type: none"> • Purchase price: <ul style="list-style-type: none"> ◦ Selling price, Import taxes, legal fees. • Costs that increase the assets useful life: <ul style="list-style-type: none"> ◦ Modifications, refurbishment, remodelling. • Costs that increase ability of asset to generate revenue: <ul style="list-style-type: none"> ◦ Upgrades, Advertising on the asset such as logos. • Costs that relocate the asset for use or prepare the asset for use: <ul style="list-style-type: none"> ◦ Transport, transport insurance, assembly, installation.
Not formulated by	<ul style="list-style-type: none"> • GST payments. • Yearly registration. • Yearly insurance. • Ongoing repairs and maintenance.

Causes of Depreciation

Cause of depreciation	Description	Example
Wear and Tear	Usage of an asset over time gradually reduces the efficiency of the asset.	A cake making machine has a useful life of 12 years. Over time parts need to be replaced. Eventually the asset can no longer be repaired and must be disposed. As a result, the value decreases over time.
Technical Obsolescence	New technology results in an asset no longer being wanted or needed and losing value.	Smart phones stop receiving updates after approximately 4 years. As a result, these older models lose value.
Commercial Obsolescence	Demand decreases for goods or services that an asset produces, resulting in the asset losing value.	Demand for older computer parts decreases over time. As a result, The machinery used to make these computer parts loses value.

Tip	<p><u>Practical Guide</u></p> <p>You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.</p>
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Arashiyama Bamboo Grove, Kyoto.

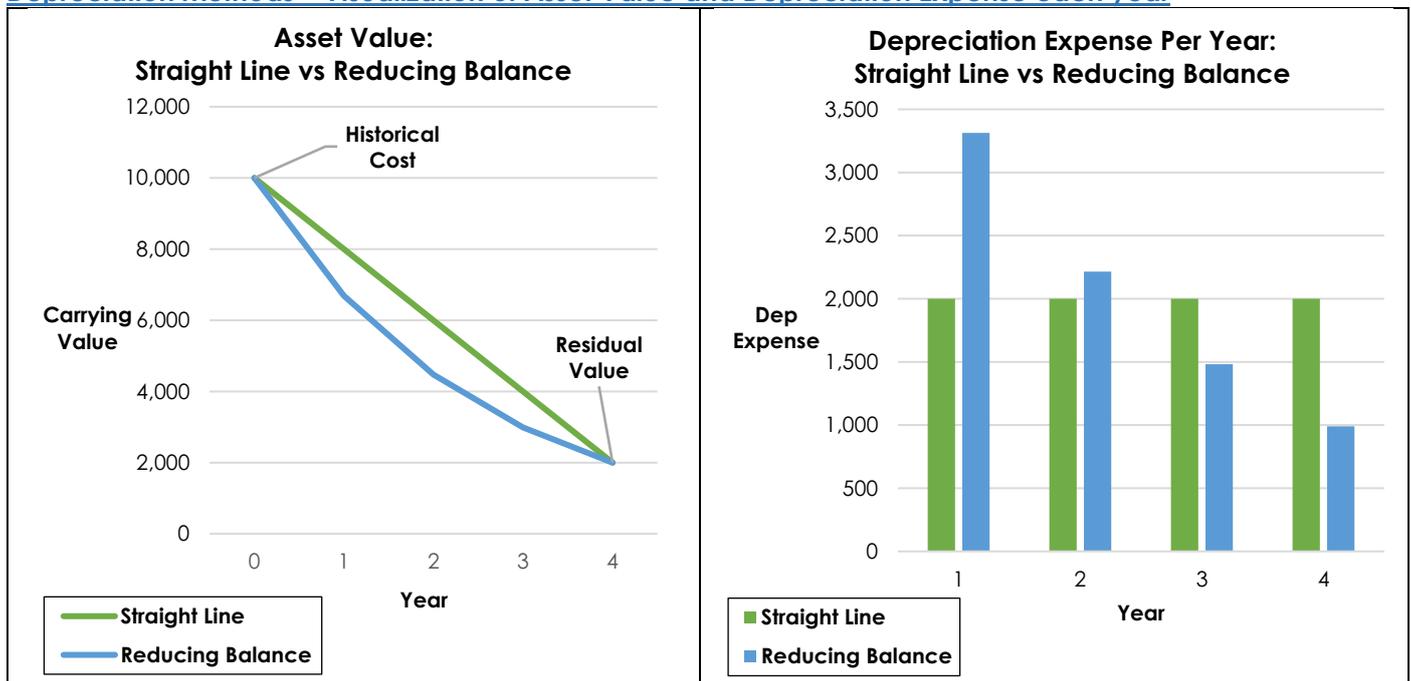
Depreciation Methods - Introduction

At the end of each period, the depreciation of an asset that has occurred is calculated and recorded as an expense in the general ledger, general journal and appears in financial statements. The methods of estimating depreciation expense covered in this course are straight line and reducing balance method.

Depreciation Methods – Summary table

	Straight Line Method	Reducing Balance Method
Calculation	$\text{Depreciation expense} = \frac{\text{Original Cost} - \text{Residual Value}}{\text{Useful Life}}$ <ul style="list-style-type: none"> Original Cost: Historical cost. Residual value: The estimated market value when an asset is sold. Useful life: The time period an asset is estimated to be able to be used by a business. 	<p>Depreciation expense = Carrying value x Depreciation Rate</p> <p>Carrying value = Historical cost – Accumulated Depreciation</p> $\text{Dep rate} = \left[1 - \sqrt[n]{\frac{\text{Residual Value}}{\text{Original Cost}}} \right] \times 100$ <p>n = Useful life</p> <p>Note: RBM Depreciation rate formula is not required in syllabus.</p>
Depreciation expense	Equal each year.	Higher in early years.
Use method when	<ul style="list-style-type: none"> Income generated by asset evenly over useful life. Cause of depreciation is even over useful life. 	<ul style="list-style-type: none"> Income generated by asset is higher in earlier years of useful life. Cause of depreciation is higher in earlier years of useful life.
Examples	<ul style="list-style-type: none"> Furniture. Buildings. Fixtures and fittings. 	<ul style="list-style-type: none"> Machinery. Motor vehicles. Computers.

Depreciation Methods – Visualization of Asset Value and Depreciation Expense each year



Note: Carrying Value = Historical Cost – Accumulated Depreciation.

Over/Under Depreciation

Over or under depreciation nature: At the time a depreciable asset is sold, the carrying value is compared to the proceeds of sale. This identifies the difference between:

- Estimated market value (residual value)
- Actual market value

	Gain on sale	Loss on sale	No gain or loss on sale (rarely happens but here for theory extension)
Proceeds of Sale vs. Carrying Value	Proceeds of sale is more than carrying value. OR Carrying value is less than proceeds of sale.	Proceeds of sale is less than carrying value. OR Carrying value greater than proceeds of sale.	Proceeds of sale is equal to carrying value.
Over/under depreciation	Over depreciation.	Under depreciation.	N/A.
This means	Too much depreciation (over depreciation) has been subtracted from income whilst the business has owned the asset.	Too little depreciation (under depreciation) has been subtracted from income while the business has owned the asset.	The right amount of depreciation (under depreciation) has been subtracted from income while the business has owned the asset.

Depreciation – General Journal and General Ledger Entries

Depreciation Expense: Step 1 – Depreciation Expense and Accumulated Depreciation

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Depreciation of Machinery					
	Depreciation of Machinery	X		Date	Description	\$	Date	Description	\$
	Accumulated Depreciation of Machinery		X		Accumulated Depreciation of Machinery	X			
	Depreciation expense			Accumulated Depreciation of Machinery					
				Date	Description	\$	Date	Description	\$
					Balance c/d	X		Depreciation of Machinery	X
						X			X
								Balance b/d	X

Depreciation Expense: Step 2 – Depreciation Expense to Profit and Loss Account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Profit and Loss					
	Profit and Loss	X		Date	Description	\$	Date	Description	\$
	Depreciation of Machinery		X		Depreciation of Machinery	X			
	Transfer of expense			Depreciation of Machinery					
				Date	Description	\$	Date	Description	\$
				30 Jun 2031	<i>Accumulated Depreciation of Machinery</i>	X	30 Jun 2031	Profit and Loss	X

Note: The italicized entry in the depreciation ledger account is from the original recording of depreciation for the year.

Sale of Depreciable Asset: Entry 1 – Final (part) Year's Depreciation Expense

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Depreciation of Motor Vehicle					
	Depreciation of MV	X		Date	Description	\$	Date	Description	\$
	Accumulated Depreciation of MV		X	31 Oct 2038	Accumulated Depreciation of MV	X			
	Depreciation Expense			Accumulated Depreciation of Motor Vehicle					
				Date	Description	\$	Date	Description	\$
							1 Jul 2037	Balance b/d	X
							31 Oct 2038	Depreciation of MV	X

Sale of Depreciable Asset: Entry 2 – Transfer of Historical Cost of NCA to Sale of Asset account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Sale of Asset					
	Sale of Asset	X		Date	Description	\$	Date	Description	\$
	Motor Vehicle		X		Motor Vehicle	X			
	Sale of Motor Vehicle			Motor Vehicle					
				Date	Description	\$	Date	Description	\$
					Cash at Bank	X		Sale of Asset	X

Note: The italicized entry in the motor vehicle ledger account represents the original cash paid to purchase the motor vehicle.

Sale of Depreciable Asset: Entry 3 – Transfer of Accumulated Depreciation to Sale of Asset account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accumulated Depreciation of Motor Vehicle					
	Accumulated Depreciation of MV	X		Date	Description	\$	Date	Description	\$
	Sale of Asset		X		Sale of Asset	X		Balance b/d	X
	Accumulated Depreciation at sale of office equipment							Depreciation of MV	X
						X			X
				Sale of Asset					
				Date	Description	\$	Date	Description	\$
					Motor Vehicle	X		Acc Dep of MV	X

Sale of Depreciable Asset: Entry 4 – Proceeds of Sale of Asset

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
	Cash at Bank	X		Date	Description	\$	Date	Description	\$
	Sale of Asset		X		Sale of Asset / GST Payable	X			
	GST Payable		X	Sale of Asset					
	Proceeds of sale of asset			Date	Description	\$	Date	Description	\$
					Motor Vehicle	X		Acc Dep of MV	X
								Cash at Bank	X
				GST Payable					
				Date	Description	\$	Date	Description	\$
								Cash at Bank	X

Sale of Depreciable Asset: Entry 5 – Gain or Loss on Sale of Asset

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Sale of Asset					
	Sale of Asset	X		Date	Description	\$	Date	Description	\$
	Gain on Sale of Asset		X		Office Equipment	X	31 Oct 2038	Acc Dep of MV	X
	Gain on sale of asset				Gain on Sale of Asset	X	31 Oct 2038	Cash at Bank	X
<i>Note: For a loss on sale the account would be called 'Loss on Sale of Asset' and the debit and credit entries would swap.</i>						X			X
				Gain on Sale of Asset					
Date	Description	\$	Date	Description	\$				
				Sale of Asset	X				

Sale of Depreciable Asset: Entry 6 – Gain or Loss on Sale of Asset to the Profit and Loss Account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Gain on Sale of Asset					
	Gain on Sale of Asset	X		Date	Description	\$	Date	Description	\$
	Profit and Loss		X		Profit and Loss	X		Sale of Asset	X
	Income transferred			Profit and Loss					
<i>Note: For a loss on sale the account would be called 'Loss on Sale of Asset' and the debit and credit entries would swap.</i>				Date	Description	\$	Date	Description	\$
								Gain on Sale of Asset	X



El Retiro Park, Madrid.

14. Balance Day Adjustments

Balance Day Adjustments – Syllabus

Syllabus – Unit 2	
Balance Day Adjustments	Financial systems and fundamental principles <ul style="list-style-type: none">• purpose and nature of the following balance day adjustments:<ul style="list-style-type: none">▪ accrued expenses▪ prepaid expenses▪ stock of supplies▪ accrued income▪ income in advance▪ doubtful debts▪ depreciation Recording, processing and communicating financial information <ul style="list-style-type: none">• manual preparation of general journal and ledger entries for balance day adjustments (asset and liability method only) to prepare financial reports (GST not included)<ul style="list-style-type: none">▪ manual preparation of closing general journal entries

Balance Day Adjustments – Introduction

The accrual accounting system records income and expenses when transactions occur, regardless of when the cash is transferred. Balance day adjustments are carried out on the last day of an accounting period to allocate the correct profit and loss to the relevant accounting period. Balance day adjustments correct the figures in the balance sheet and income statement. This process will require entries in the general journal and general ledger.

Balance Day Adjustments for this course include:

- Prepaid Expenses.
- Stock of Supplies.
- Accrued Expense.
- Unearned Income / Income Received in Advance.
- Accrued Income.
- Depreciation.
- Doubtful Debts.

This chapter focuses on the calculation, recording and processing of balance day adjustments. The next chapter focuses on the preparation of financial statements with balance day adjustments.

Tip	<u>Practical Guide</u> You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.
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Balance Day Adjustments – Practical Summary

Adjustment	Account to adjust	What to do	Workings	Account	Where adjustment goes						
Prepaid Expense or Stock of Supplies	Prepaid Expense or Stock of Supplies Current Asset ↓ Expense	Reduce the amount of prepaid expense that was used.	C Bal = O Bal – Total Expense OR Total Expense = O Bal + Expense Paid – C Bal OR Expense Paid = C Bal + Total Expense – O Bal	<table border="1"> <tr><th colspan="2">Prepaid Expense</th></tr> <tr><td>O Bal</td><td>Total Expense</td></tr> <tr><td>Expense paid (CAB)</td><td>Closing Prepaid</td></tr> </table>	Prepaid Expense		O Bal	Total Expense	Expense paid (CAB)	Closing Prepaid	Closing Balance • Balance Sheet, Total Expense • Income statement. Expense Paid • Cash budget. • Statement of Cash Flows.
Prepaid Expense											
O Bal	Total Expense										
Expense paid (CAB)	Closing Prepaid										
Accrued Expense	Expense Account Current Liability ↓ Expense	Add expense owing to expense account.	Total Expense = Expense Paid + C Bal OR Total Expense = Expense Paid + C Bal – Opening Accrued OR Expense Paid = Total Expense – C Bal OR Expense Paid = Opening Accrued + Total Expense – C Bal	<table border="1"> <tr><th colspan="2">Accrued Expense</th></tr> <tr><td>Expense Paid (CAB)</td><td>O Bal</td></tr> <tr><td>C Bal</td><td>Total Expense</td></tr> </table>	Accrued Expense		Expense Paid (CAB)	O Bal	C Bal	Total Expense	Closing Balance • Balance Sheet. Total Expense: • Income statement. Expense Paid: • Cash budget. • Statement of Cash Flows.
Accrued Expense											
Expense Paid (CAB)	O Bal										
C Bal	Total Expense										
Unearned Income / Income Received in Advance	Income Received in Advance Current Liability ↓ Income	Reduce the Income Received in Advance by the amount earned.	C Bal = O Bal – Total Income OR Total Income = O Bal + Income Received – C Bal OR Income Received = C Bal + Total Income – O Bal	<table border="1"> <tr><th colspan="2">Income Received in Advance</th></tr> <tr><td>Total Income</td><td>O Bal</td></tr> <tr><td>C Bal</td><td>Income Received (CAB)</td></tr> </table>	Income Received in Advance		Total Income	O Bal	C Bal	Income Received (CAB)	Closing Balance • Balance Sheet. Total Income • Income statement. Income Received: • Cash budget. • Statement of Cash Flows.
Income Received in Advance											
Total Income	O Bal										
C Bal	Income Received (CAB)										
Accrued Income	Income Account Current Asset ↓ Income	Add income earned but not yet received to income account.	Total Income = Income Received + C Bal OR Total Income = Income received + C Bal – O Bal OR Income Received = Total Income – C Bal OR Income Received = O Bal + Total Income – C Bal	<table border="1"> <tr><th colspan="2">Accrued Income</th></tr> <tr><td>O Bal</td><td>Income Received (CAB)</td></tr> <tr><td>Total Income</td><td>C Bal</td></tr> </table>	Accrued Income		O Bal	Income Received (CAB)	Total Income	C Bal	Closing Balance • Balance Sheet. Total Income: • Income statement. Income Received: • Cash budget. • Statement of Cash Flows.
Accrued Income											
O Bal	Income Received (CAB)										
Total Income	C Bal										
Depreciation	Acc Dep Acc Dep ↓ Expense	Add this year's depreciation expense to Accumulated Depreciation.	C Bal Acc Dep = O Bal + Depreciation OR Depreciation = Sale of Asset + C Bal – O Bal <u>Straight-line method:</u> Depreciation Per Annum = (Historical Cost – Residual Value) / Estimated Life <u>Reducing Balance method:</u> Depreciation Per Annum = Carrying Value x Depreciation Rate	<table border="1"> <tr><th colspan="2">Accumulated Depreciation</th></tr> <tr><td>Sale of Asset</td><td>O Bal</td></tr> <tr><td>C Bal</td><td>Depreciation</td></tr> </table>	Accumulated Depreciation		Sale of Asset	O Bal	C Bal	Depreciation	Closing Balance Balance Sheet. Depreciation • Income statement.
Accumulated Depreciation											
Sale of Asset	O Bal										
C Bal	Depreciation										
Doubtful Debts	Allowance for D.D. A.D.D. ↓ Expense	Transfer doubtful debts that have become bad debts. Adjust doubtful debts and bad debts.	Doubtful debts = Bad debts + C Bal – O Bal Bad debts = O Bal + Doubtful Debts – C Bal = Bad Debts	<table border="1"> <tr><th colspan="2">Allowance for Doubtful Debts</th></tr> <tr><td>Bad Debts</td><td>O Bal</td></tr> <tr><td>C Bal</td><td>Doubtful Debts</td></tr> </table>	Allowance for Doubtful Debts		Bad Debts	O Bal	C Bal	Doubtful Debts	Closing Balance • Balance Sheet. Doubtful debts / Bad Debts • Income statement.
Allowance for Doubtful Debts											
Bad Debts	O Bal										
C Bal	Doubtful Debts										

Balance Day Adjustments – Theory Summary

Theory		Prepaid expenses / Stock of Supplies	Accrued expenses	Unearned Income / Income Received in Advance	Accrued income (Income earned but not received)	Depreciation	Doubtful debts
Nature	Conceptual Framework category of original account	Current Asset.	Current Liability.	Current Liability.	Current Asset.	Expense.	Expense.
	<p>How this account meets the conceptual framework definition?</p> <p><i>Note: in exam write the conceptual framework definition and then explain how each aspect of the definition is met.</i></p>	<p>“A present economic resource, controlled by the entity as a result of past events.”</p> <p>Right: The business has the right to use the prepaid expense.</p> <p>Economic resource: The use of this prepaid expense / supplies will generate economic benefit e.g., increase sales, provide electricity etc.</p> <p>Control: The use of the prepaid expense is only by the business.</p>	<p>“A present obligation of the entity to transfer an economic resource as a result of past events.”</p> <p>Obligation: The business has an obligation to pay for the expense.</p> <p>Entity to transfer an economic resource: The business must transfer money to pay for the expense.</p> <p>Result of past events: The expense incurred as a result of past events.</p>	<p>“A present obligation of the entity to transfer an economic resource as a result of past events.”</p> <p>Obligation: The business has an obligation to provide the good or service to the customer to earn income received.</p> <p>Entity to transfer an economic resource: The business must provide the economic resource to the customer.</p> <p>Result of past events: Income received in advance.</p>	<p>“A present economic resource, controlled by the entity as a result of past events.”</p> <p>Right: The business has the right to receive the income in the future.</p> <p>Economic resource: The business will receive income in the future.</p> <p>Control: The accrued income is earned by the business.</p>	<p>“Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.”</p> <p>Derecognition of asset: Asset’s historical cost is derecognised due to usage, wear & tear and obsolescence.</p> <p>Depreciation reduces the carrying value of assets and equity and does not increase liabilities.</p>	<p>“Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.”</p> <p>Derecognition of asset: An asset is derecognised due to customers identified as being at risk of becoming bad debtors.</p>
Accounts Created	Accounts created	Expense.	Expense.	Income.	Income.	Expense.	Expense.
	Recognition process that creates the account	Derecognition of current asset.	Recognition of current liability.	Derecognition of current liability.	Recognition of current asset.	Derecognition of depreciable non-current asset.	Derecognition of current asset (accounts receivable).
Purpose (of the adjusting entry)	Purpose overview	To record expenses consumed at balance date.	To record expenses incurred but not yet paid as at balance date	To record income earned at balance date.	To record income earned but not yet received at balance date.	To record the decline in the future economic benefit of asset.	To record debtors who are unlikely to pay their accounts.
	Effect on Balance Sheet	•Current assets decreased.	•Current liabilities increased.	•Current liabilities decreased.	•Current assets increased.	•Non-current assets decreased.	•Current asset decreased.
	Effect on Income Statement	•Expenses increased. •Profit decreased.	•Expenses increased. •Profit decreased.	•Income increased. •Profit increased.	•Income increased. •Profit increased.	•Expenses increased. •Profit decreased.	•Expenses increased. •Profit decreased.
	Effect on balance sheet if not accounted for	•Current assets overstated.	•Current liabilities understated.	•Current liabilities overstated.	•Current assets understated.	•Non-current assets overstated.	•Current assets (debtors) over-estimated.
	Effect on income statement if not adjusted on balance day	•Expense understated. •Profit overstated.	•Expenses understated. •Profit overstated.	•Income understated. •Profits understated.	•Income understated. •Profit understated.	•Expenses understated. •Profits overstated.	•Expenses under-estimated. •Profit over-estimated.

Balance Day Adjustments – General Journal and General Ledger Entries

Notes:

- The syllabus does not require GST for balance day adjustments.
- At the end of each accounting period the income or expense account created is transferred the profit and loss. The transfer of income or expenses to the profit or loss account has not been demonstrated below.

Prepaid Expenses and Stock of Supplies

Purchase of Prepaid Expense or Stock of Supplies

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Prepaid Advertising					
1 Mar 2042	Prepaid Advertising	3,600		Date	Description	\$	Date	Description	\$
	GST Credits	360		1 Mar 2042	Cash at Bank	3,600			
	Cash at Bank		3,960	GST Credits					
	Payment for prepaid advertising			Date	Description	\$	Date	Description	\$
				1 Mar 2042	Cash at Bank	360			
				Cash at Bank					
				Date	Description	\$	Date	Description	\$
								Prepaid Advertising / GST Credits	3,960

Note: If ignoring GST there would be not GST Credit entry and the credit value of Cash at Bank would be 3,600.

Prepaid Expense or Stock of Supplies Adjustment

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Advertising (Expense)					
30 Jun 2042	Advertising	2,400		Date	Description	\$	Date	Description	\$
	Prepaid Advertising		2,400	30 Jun 2042	Prepaid Advertising	2,400			
	Prepaid advertising adjustment			Prepaid Advertising					
				Date	Description	\$	Date	Description	\$
				1 Mar 2042	Cash at Bank	3,600	30 Jun 2042	Advertising	2,400
							30 Jun 2042	Balance c/d	1,200
						3,600			3,600
				1 Jul 2042	Balance b/d	1,200			

Note: the entry that is not bolded in the Prepaid Expense account represents the cash paid for the Prepaid Expense during the accounting period.

Accrued Expenses

Accrued Expense Adjustment

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Wages					
30 Jun 2042	Wages	300		Date	Description	\$	Date	Description	\$
	Accrued Wages		300	23 Jun 2042	Balance	15,300			
	Accrued wages adjustment			30 Jun 2042	Accrued Wages	300			
				Accrued Wages (Liability)					
				Date	Description	\$	Date	Description	\$
							30 Jun 2042	Wages	300

Note: the entry that is not bolded entry in the Wages Expense account represents the previous balance of wages paid during the period prior to accounting for the accrued expense adjustment.

Payment of Accrued Expense in the next accounting period

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accrued Wages (Liability)					
21 Jul 2042	Accrued Wages	300		Date	Description	\$	Date	Description	\$
	Wages	900		21 Jul 2042	Cash at Bank	300	30 Jun 2042	Wages	300
	Cash at Bank		1,200	Wages					
	Wages payment			Date	Description	\$	Date	Description	\$
				21 Jul 2042	Cash at Bank	900			
				Cash at Bank					
				Date	Description	\$	Date	Description	\$
							21 Jul 2042	Accrued Wages / Wages	1,200

Notes:

- The entry that is not bolded in the Accrued Expense account represents the accrued expense from the previous accounting period.
- If the payment of an accrued expense in the next accounting period occurs before any new expense is incurred then there would be no entry to the expense account. I.e., if no new expense has taken place during the next period, only the accrued expense from the previous period would need to be paid for.
- If accounting for GST there would be a separate debit entry for GST Credits of 10% of the value of the Cash at Bank debit figure. The Cash at Bank credit value would also be 10% higher.

Unearned Income

Cash received for unearned income

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
12 Apr 2045	Cash at Bank	15,400		Date	Description	\$	Date	Description	\$
	GST Payable		1,400	12 Apr 2045	Unearned Income / GST Payable	15,400			
	Unearned Income		14,000	GST Payable					
	Unearned income received			Date	Description	\$	Date	Description	\$
							12 Apr 2045	Cash at Bank	1,400
				Unearned Income					
				Date	Description	\$	Date	Description	\$
							12 Apr 2045	Cash at Bank	14,000

Note: If ignoring GST, there would be no GST Payable credit entry and the debit value of Cash at Bank would be \$14,000.

Unearned Income Adjustment.

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Unearned Income					
30 Jun 2045	Unearned Income	9,000		Date	Description	\$	Date	Description	\$
	Fees		9,000	30 Jun 2045	Fees	9,000	12 Apr 2045	Cash at Bank	14,000
	Unearned income adjustment			30 Jun 2045	Balance c/d	5,000			
						14,000			14,000
							1 Jul 2045	Balance b/d	5,000
				Fees					
				Date	Description	\$	Date	Description	\$
							30 Jun 2045	Unearned Income	9,000

Note: the entry that is not bolded in the Unearned Income account represents the cash received for unearned income in the previous step.

Accrued Income

Accrued Income Adjustment

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Accrued Interest Income					
30 Jun 2042	Accrued Interest Income Interest Income Accrued income adjustment	250	250	Date	Description	\$	Date	Description	\$
				30 Jun 2042	Interest Income	250			
				Interest Income					
				Date	Description	\$	Date	Description	\$
							30 Jun 2042	Accrued Interest Income	250

Accrued Income Received in the Next Accounting Period

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Cash at Bank					
1 Nov 2042	Cash at Bank Accrued Interest Income Interest income received	750	250 500	Date	Description	\$	Date	Description	\$
				1 Nov 2042	Interest Income / Accrued Interest Income	750			
				Accrued Interest Income					
				Date	Description	\$	Date	Description	\$
				30 Jun 2042	Interest Income	250	1 Nov 2042	Cash at Bank	250
				Interest Income					
				Date	Description	\$	Date	Description	\$
							1 Nov 2042	Cash at Bank	500

Note: the entry that is not bolded in the accrued interest income account represents the accrued interest income from the previous period.

Doubtful Debts – Allowance for Doubtful Debts – Creation

A.D.D. Creation – Step 1 – Doubtful Debts Adjustment

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Doubtful Debts					
30 Jun 2042	Doubtful Debts Allowance for Doubtful Debts Allowance for doubtful debts creation	6,000	6,000	Date	Description	\$	Date	Description	\$
				30 Jun 2042	Allowance for Doubtful Debts	6,000			
				Allowance for Doubtful Debts					
				Date	Description	\$	Date	Description	\$
							30 Jun 2042	Doubtful Debts	6,000

A.D.D. Creation – Step 2 – Doubtful Debts to Profit and Loss Account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Profit and Loss					
30 Jun 2042	Profit and Loss Doubtful Debts Expense transferred	6,000	6,000	Date	Description	\$	Date	Description	\$
				30 Jun 2042	Doubtful Debts	6,000			
				Doubtful Debts					
				Date	Description	\$	Date	Description	\$
				30 Jun 2042	Allowance for Doubtful Debts	6,000	30 Jun 2042	Profit and Loss	6,000

Doubtful Debts – Allowance for Doubtful Debts – Adjustment

A.D.D. – Adjustment – Step 1 – Write-off of Bad Debts

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Bad Debts					
25 Jun 2042	Bad Debts	150		Date	Description	\$	Date	Description	\$
	Accounts Receivable		150	25 Jun 2042	Accounts Receivable	150			
	Write-off of bad debts			Accounts Receivable					
				Date	Description	\$	Date	Description	\$
				25 Jun 2042	Balance	60,000	25 Jun 2042	Bad Debts	150

Notes:

- In this example \$150 of bad debts is written off.
- Some questions may ask you to write off additional bad debts. When writing off additional bad debts often the question has an opening balance of bad debts that has come from accounts receivable, the additional bad debts are then written off using the same process in this step.

A.D.D. – Adjustment – Step 2 – Bad Debts Expense to Allowance for Doubtful Debts Account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Allowance for Doubtful Debts					
30 Jun 2042	Allowance for Doubtful Debts	150		Date	Description	\$	Date	Description	\$
	Bad Debts		150	30 Jun 2042	Bad Debts	150	30 Jun 2041	Doubtful Debts	400
	Bad debts transferred			Bad Debts					
				Date	Description	\$	Date	Description	\$
				20 Jun 2042	Accounts Receivable	150	30 Jun 2042	Allowance for Doubtful Debts	150

Note: The entry that is not bolded of doubtful debts for \$400 is the opening balance of the A.D.D. account.

A.D.D. – Adjustment – Step 3 – Allowance for Doubtful Debts Adjustment

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Doubtful Debts					
30 Jun 2042	Doubtful Debts	350		Date	Description	\$	Date	Description	\$
	Allowance for Doubtful Debts		350	30 Jun 2042	Allowance for Doubtful Debts	350			
	Allowance for doubtful debts adjusted to \$600.			Allowance for Doubtful Debts					
				Date	Description	\$	Date	Description	\$
				30 Jun 2042	Bad Debts	150	30 Jun 2041	Doubtful Debts	400
					Balance c/d	600	30 Jun 2042	Doubtful Debts	350
						750			750
								Balance b/d	600

Note: In this example, the question stated that the A.D.D. needed to be adjusted to \$600. The balance c/d is the amount that A.D.D. needs to be adjusted to. Both accounts are then totalled. The doubtful debts entry in the A.D.D. account calculated.

A.D.D. – Adjustment – Step 4 – Doubtful Debts to Profit and Loss Account

General Journal Entry				General Ledger Entry					
Date	Details	Debit	Credit	Profit and Loss					
30 Jun 2042	Profit and Loss	350		Date	Description	\$	Date	Description	\$
	Doubtful Debts		350	30 Jun 2042	Doubtful Debts	350			
	Expense transferred			Doubtful Debts					
				Date	Description	\$	Date	Description	\$
				30 Jun 2042	Allowance for Doubtful Debts	350	30 Jun 2042	Profit and Loss	350

15. Classified Financial Statements with Balance Day Adjustments

Classified Financial Statements with Balance Day Adjustments – Syllabus

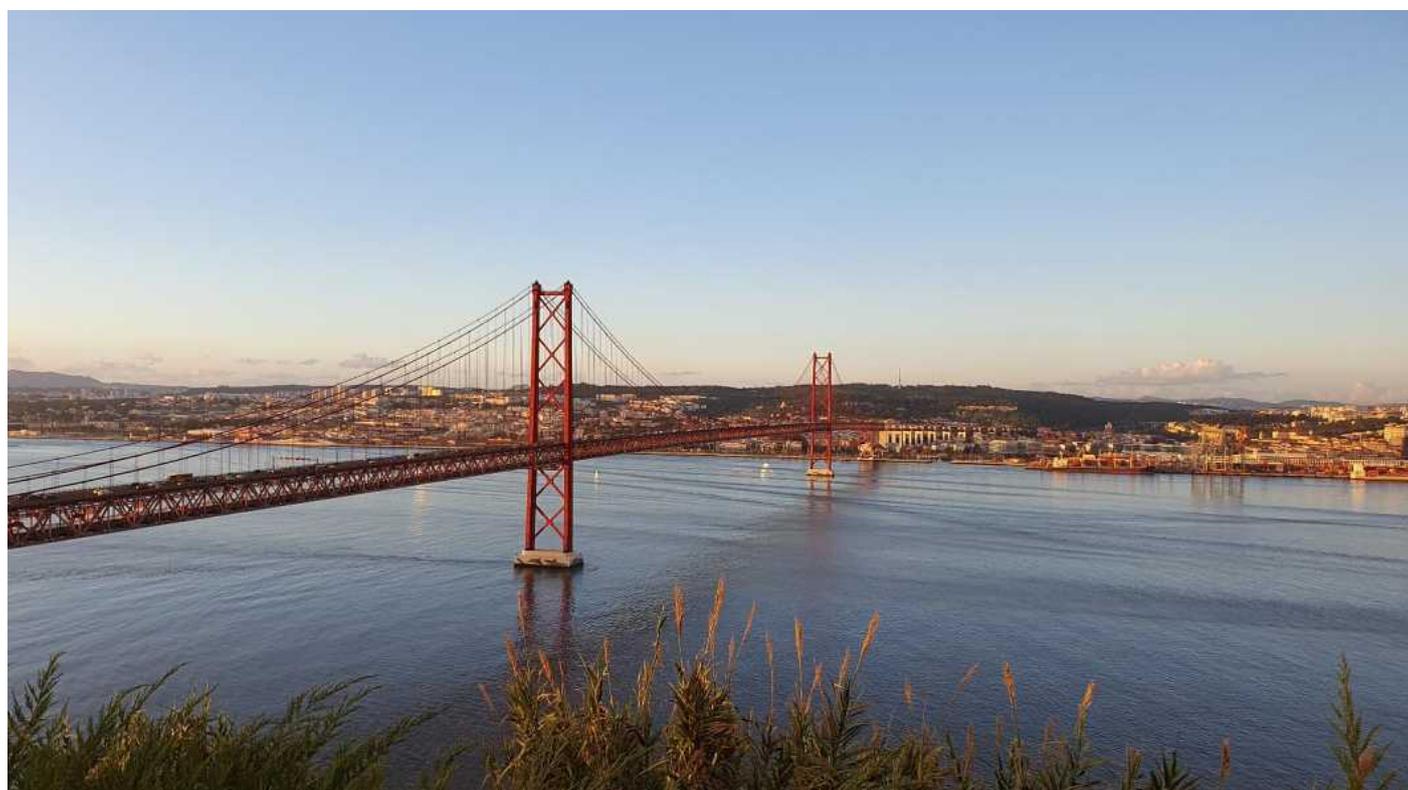
Syllabus – Unit 2	
Classified Financial Statements with Balance Day Adjustments	Recording, processing and communicating financial information <ul style="list-style-type: none">• manual preparation of trial balance• manual preparation of classified financial statements for a sole trader, including balance day adjustments<ul style="list-style-type: none">▪ income statements▪ statement of financial position for a trading/merchandising/service business

Classified Financial Statements with Balance Day Adjustments – Introduction

This chapter will cover the preparation of the following classified financial statements with balance day adjustments:

- Income Statement.
- Balance Sheet.

Tip	<u>Practical Guide</u> You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.
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View from Sanctuary of Christ the King-Portugal, Lisbon.

Balance Sheet / Statement of Financial Position – Statement Preparation

This balance sheet includes balance day adjustments whereas the example in Unit 1 did not.

Key:	<ul style="list-style-type: none"> • Green = assets. • Red = liabilities. • Blue = equity.
-------------	---

Business Name Balance Sheet / Statement of Financial Position As at 30 June 20XX		
Current Assets		
Cash at Bank		X
Inventory		X
Stock of Supplies		X
Accrued Income		X
Prepaid expense (e.g., rent, advertising, insurance)		X
GST Credits		X
Accounts Receivable	X	
Allowance for Doubtful Debts	X	X
Total Current Assets		X
Non-Current Assets		
Office Furniture	X	
Accumulated Depreciation of OF	X	X
Motor Vehicle	X	
Accumulated Depreciation of MV	X	X
Total Non-Current Assets		X
Total Assets		X
Current Liabilities		
Accounts Payable		
Unearned Income		X
GST Payable		X
Accrued expense (e.g., wages, electricity)		X
Total Current Liabilities		X
Non-Current Liabilities		
Mortgage		X
Loan from Bank		X
Total Non-Current Liabilities		X
Total Liabilities		X
Net Assets		X
Equity		
Capital		X
Add Profit		X
		X (C+AP)
Less Drawings		x
Total Equity		X

Tip Each Non-Current Asset and associated accumulated depreciation is a separate entry.

Income Statement – Statement Preparation

Key:	<ul style="list-style-type: none"> • Green = positive figure. • Red = negative figure. • Blue = Total sum.
-------------	---

Business Name Income Statement for the year ended 30 June 20XX			
Sales or Fees			X
Less Sales Returns			X
Less Discount Allowed			X
Net Sales			X
Less Cost of Sales	X		
Freight (or cartage) Inwards	X		
Customs Duty	X	X	
Less Discount Received		X	X
Gross Profit			X
Add Other Income			
Gain on Sale of Land			X
Gain on Sale of Investments			X
Interest (income)			X
Total Income			X
<i>Less Other Expenses</i>			
Selling and Distribution Expenses			
Advertising	X		
Freight Outwards	X		
Distribution vehicle service costs	X		
Petrol & oil	X		
Depreciation of vehicles	X		
Salaries of salespeople	X		
Doubtful debts	X	SD TOTAL	
General & Administration Expenses			
Office supplies	X		
Rent	X		
Telephone	X		
Insurance	X		
Depreciation of fixtures & fittings	X		
Salaries of office staff	X	GA TOTAL	
Financial Expenses			
Bank Fees	X		
Interest (e.g., on Loan/Mortgage)	X	FE TOTAL	SD+GA+FE
Net Profit			TI – OE

- | | |
|------------|---|
| Tip | <ul style="list-style-type: none"> • This example income statement features expense categories for a trading business. • The expense categories for a services business will be different based on specific nature of the service business. Service businesses often use the term 'Fees' rather than 'Sales.' |
|------------|---|

16. Ratios

Ratios – Syllabus

Syllabus – Unit 2	
Ratios	Recording, processing and communicating financial information / Evaluating financial information for planning, coordinating, controlling and investing <ul style="list-style-type: none">• preparation and interpretation of the following ratios to evaluate the profitability and stability of a business:<ul style="list-style-type: none">▪ profitability ratios<ul style="list-style-type: none">○ profit○ gross profit○ expense○ rate of return on assets▪ liquidity ratios:<ul style="list-style-type: none">○ working capital formula○ quick asset formula▪ leverage ratio:<ul style="list-style-type: none">○ debt to equity formula

Ratios – Introduction

Ratios analyse various areas of a business to assess the performance of a company. Different ratios will measure different areas of performance. Once ratios have been calculated they can be compared with other ratios such as, budgeted results, the results of previous years, industry averages or other businesses. This chapter also discusses some possible limitations in assessing performance from ratios and traditional financial accounting.

Tip	Practical Guide <p>You may find it useful for the practical chapters to work through the Essential Insight Practical Guide textbooks. The Course Guide textbook only contains key summary information from the practically focused chapters. The Essential Insight Practical Guide textbooks contain step-by-step worked examples and practice questions to scaffold students from initial concept attainment to exam level for practically focused chapters. The Practical Guides can be found by navigating to the Resource Hub link on the front page.</p>
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Historical village of Hokkaido, Sapporo.

Ratios – Summary Table

Area	Area Definition	Ratio	Ratio definition	Calculation	Interpretation – increasing	Interpretation – decreasing
Gearing / Leverage / Stability	Ability of a business to survive long term - comparison of internal debt (equity) with the external debt (liabilities).	Debt to Equity Ratio	Ability of a business to survive long term.	Total Liabilities	<ul style="list-style-type: none"> • Over 100% or 1.0:1.0 not ideal as this indicates high external finance reliance relative to owner's equity. • Increased liabilities. • Decreased owner's equity. • Concern that high interest rates increase debt repayments. 	<ul style="list-style-type: none"> • 100% or 1.0:1.0 or less ideal as this indicates not too much external finance reliance relative to owner's equity. • Decreased liabilities. • Increased owner's equity. • Less concern of high interest rates due to debt repayment implications.
				Equity (End)		
Liquidity	Ability of a business to pay due debts.	Working Capital Ratio / Current Ratio	Ability to pay short-term debts.	Current Assets	<ul style="list-style-type: none"> • Between 100-200% or 1.0-2.0:1.0 ideal – Indicates capacity to pay short term debts. • Current assets increasing relative to current liabilities. • Decreased creditors or current liabilities. • Cash may be idle that could be invested. • Slower debtor receipts. 	<ul style="list-style-type: none"> • Less than 100% or 1.0:1.0 not ideal – Indicates possible short term debt repayment issues. • Decreasing current assets relative to current liabilities. • Increased creditors or current liabilities. • Cash has been invested rather than sitting idle. • Fast debtor receipts
				Current Liabilities		
		Quick Asset Ratio / Acid Test Ratio	Ability to use highly liquid assets to pay urgent short term debts.	Current Assets (excluding inventory and prepayments)	<ul style="list-style-type: none"> • Ideally above 100% or 1.0:1.0 implies short term debt is payable. • Increasing current assets such as cash. • Increasing debtors. • Decreasing creditors. 	<ul style="list-style-type: none"> • Below 100% or 1.0:1.0 implies short term debt might not be payable. • Decreasing current assets such as cash. • Decreasing debtors. • Increasing creditors.
				Current Liabilities (except for Bank Overdraft)		

Note for ratio interpretations: Increasing/decreasing columns on far right list a range of possible **potential** interpretations.

Note: 'Ratios – Summary Table' continues on the next page.

Area	Area Definition	Ratio	Ratio definition	Calculation	Interpretation – increasing	Interpretation – decreasing
Profitability	Ability to create profits from investment in assets or equity.	Profit Ratio	Profit percentage within each sale.	Profit	<ul style="list-style-type: none"> • Increasing profit relative to sales/fees • Decreasing expenses. • Sale of more high profit stock relative to low profit stock. • Less depreciation of NCAs due to less capital investment. • More accrued income received. 	<ul style="list-style-type: none"> • Decreasing profit relative to sales/fees. • Increasing expenses. • Sale of less high profit stock relative to low profit stock. • More depreciation of NCAs via recent capital investment. • Less accrued income received.
				Net Sales (or Total Revenue or Fees)		
		Gross Profit	Gross profit percentage within each sale.	Gross Profit	<ul style="list-style-type: none"> • Increasing gross profit relative to sales. • Lower cost of sales relative to gross profit. • Increasing profit margin. • Increasing higher profit margin sales relative to lower profit margin sales. 	<ul style="list-style-type: none"> • Decreasing gross profit relative to sales. • Higher cost of sales relative to gross profit. • Decreasing profit margin. • Increasing lower profit margin sales relative to higher profit margin sales.
				Net Sales (or Total Revenue or Fees)		
		Expense Ratio	Expenses, except cost of sales, compared to sales.	Operating Expenses	<ul style="list-style-type: none"> • Increasing expenses compared to sales. • Decreasing sales relative expenses. 	<ul style="list-style-type: none"> • Decreasing expenses compared to net sales. • Increasing sales relative to expenses.
				Net Sales (or Total Revenue or Fees)		
		Rate of Return on Assets Ratio	The efficiency of using assets to generate profit.	Profit	<ul style="list-style-type: none"> • Increasing profit relative to assets. • More efficient asset use to generate higher returns. 	<ul style="list-style-type: none"> • Decreasing profit relative to assets. • Less efficient asset use to generate returns.
				Average total assets		

Note for ratio interpretations: Increasing/decreasing columns on far right list a range of possible ***potential*** interpretations.

Ratio comparisons

Ratios may be calculated and then compared with:

- Budgeted / predicted results.
- Previous year's results.
- Industry averages.
- Other businesses.

Limitations in assessing performance from ratios and traditional financial accounting

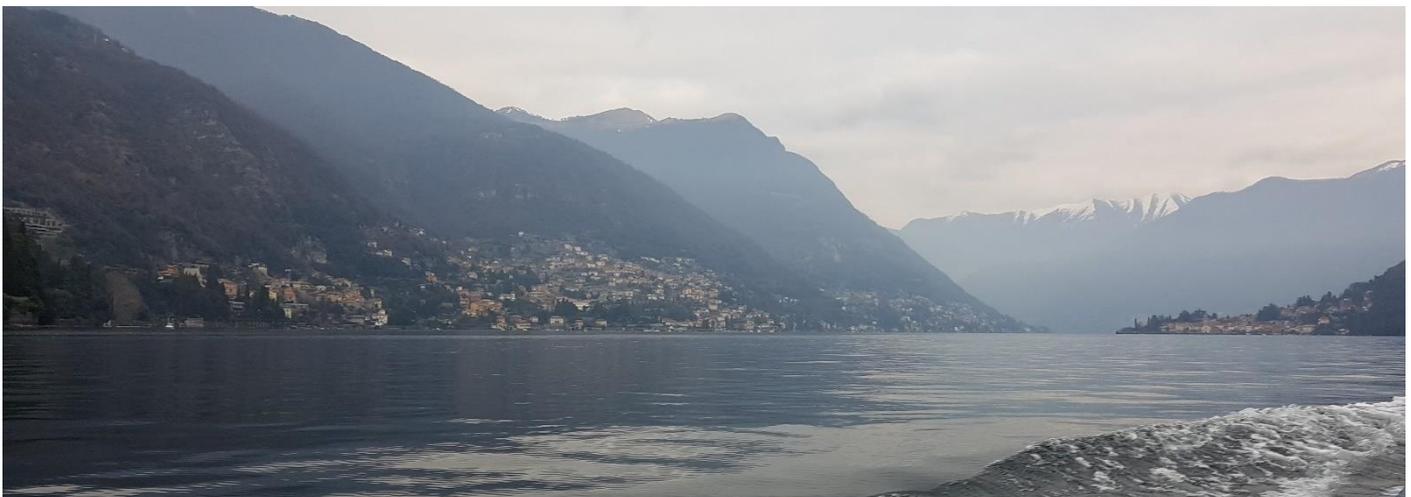
List	Describe
Historic focus not future focus	Ratios reflect historic performance and do not predict future performance.
Need for comparison	Ratios need to be compared with other information to be most useful. See Ratio comparisons section above.
Timeliness	Financial reports are produced after a financial period and company position will have changed by the time financial reports are able to be analysed.
Historical figures ignore inflation	Data used to calculate ratios uses historical figures which are not adjusted for inflation (present value).
Accounting methods between entities	Different businesses use varied methods to apply accounting standards. Especially for qualitative information. This makes comparability between entities difficult.
Lack of disclosure	Full disclosure is impossible. Confidentiality required to retain confidential company trade secrets which generate competitive advantage.
Data manipulation	Data could be manipulated to make data appear more desirable. This will impact ratio calculation and comparisons.
Only a guide, not a reason	Ratios may highlight positive and or negative areas but will not identify causes. Especially qualitative causes e.g., non-financial key performance indicators such as culture, high staff turnover etc. do not appear on financial reports or ratios.

Note: Know any three.

How it is possible to have high profitability but poor liquidity

- Possible because income can be earned with customers paying on credit rather than cash.
- Internal control over accounts receivable required to collect cash from debtors quickly / efficiently.
- Poor internal control negatively impacts cash flow.

Note: Provide definitions of profitability and liquidity before describing above dot points.



Lake Como, Italy.



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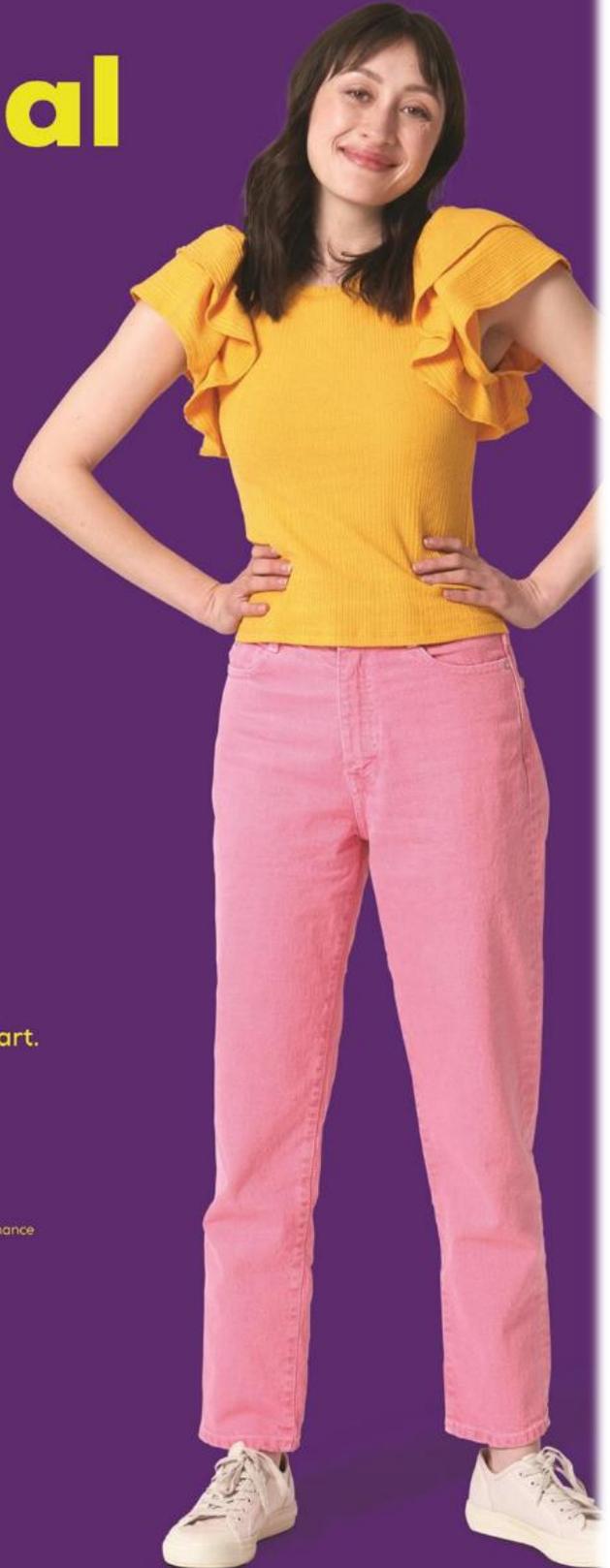


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*Hays Salary Guide FY23/24 Accounting and Finance

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17. Electronic Processing



Activate Prior Knowledge

Respond to the following questions. Discuss your answers with a peer or the class.

<p>Often businesses or customers pay a transaction fee to make a digital payment. Why wouldn't they just use cash?</p>	
<p>What kinds of payments might a business or individual want to automate? How would this help the business or individual?</p>	
<p>What risks may arise from the use of electronic transaction methods?</p>	

Syllabus – Unit 2	
Electronic Processing	Financial institutions <ul style="list-style-type: none">• nature, benefits and risks to small business of the following types of electronic processing:<ul style="list-style-type: none">▪ EFTPOS▪ bill payments – electronic payment system▪ credit cards▪ online banking▪ direct debits

Electronic Processing Methods – Introduction

Electronic processing (of financial transactions) refers to the automated handling and execution of monetary tasks, including payments, transfers, and various financial operations by electronic systems. There are several electronic processing methods, each with a unique nature and varied benefits and risks which must be understood by business owners.



Annecy, France.

Electronic Processing – Summary Table

Type	Nature	Benefits	Risks
Electronic Funds Transfer at Point of Sale (EFTPOS)	<p>A machine used by businesses to accept payments from customer debit cards and credit cards.</p> <p>A debit card uses money in a customer's bank account.</p>	<ul style="list-style-type: none"> • Fast transactions. • Reduces the amount of cash on premises which reduces theft risk. • Increased convenience for customers through multiple payment options which may increase sales. • Ability to process transactions globally. • Ability for payment in different currencies. • Less chance of transaction errors. • Encryption security. 	<ul style="list-style-type: none"> • Power outages disable usability. • Internet outages disable usability. • Fraud can occur if debit or credit card details stolen. • Cost of setup. • Ongoing transaction fees.
Credit Cards	<p>A card issued by a bank that allows the owner to make credit purchases.</p>	<ul style="list-style-type: none"> • Increased ability to sell to customers who want to pay on credit. • Fast transactions. • Reduces the amount of cash on premises which reduces theft risk. • Ability to process transactions globally. • Ability for payment in different currencies. • Encryption security. 	<ul style="list-style-type: none"> • Power outages disable usability. • Internet outages disable usability. • Fraud can occur if debit or credit card details stolen. • Cost of setup. • Ongoing transaction fees.
Bill Payments – Electronic Banking System	<p>The use of the internet by a business to collect payment from customers for goods and services.</p> <p>E.g., allowing customers to pay for bills via the business's website.</p>	<ul style="list-style-type: none"> • Fast transactions. • Reduces the amount of cash on premises which reduces theft risk. • Increased convenience for customers through multiple payment options may increase sales. • Ability to process transactions globally. • Ability for payment in different currencies. • Digital record of bill payment. • 24/7 availability increases accessibility. • Fast processing of transactions. • Encryption security. 	<ul style="list-style-type: none"> • Power outages disable usability. • Internet outages disable usability. • Fraud can occur if debit or credit card details stolen.
Online Banking	<p>The completion of a business's banking over the internet. The business can log onto an online bank account. This allows a business to manage savings and make payments.</p>	<ul style="list-style-type: none"> • Fast transactions. • Ability to process transactions globally. • Ability for payment in different currencies. • Digital record of bill payment. • 24/7 availability increases accessibility. • Encryption security. 	<ul style="list-style-type: none"> • Power outages disable usability. • Internet outages disable usability. • Fraud can occur if banking login details stolen.
Direct Debits	<p>A customer authorises bills charged by a business to be paid automatically from the customer's bank account.</p>	<ul style="list-style-type: none"> • Fast transactions. • Automatic nature improves cash flow. • Automatic nature saves admin time. • Digital record of bill payment. • Reduced chance of missed payments. • Businesses may offer discounts for direct debit payment. 	<ul style="list-style-type: none"> • Payment is not processed if there are insufficient funds in the customer's account. • Fees may be charged if there are insufficient funds available in the customer's account. • Potentially difficult to change or cancel the direct debit. • The customer is responsible for checking if the incorrect amount has been direct debited.

Note: The benefits and risks have only been listed, not described. A research task in the practice questions requires you to describe in detail some risks and benefits.

Practice Questions

Questions 1-10: Electronic Processing.

Question 1

Which of the following is not an advantage of using EFTPOS?

- a. Fast transactions.
- b. Encryption security.
- c. Increased convenience for customers.
- d. No transaction fees.

Question 2

Which of the following is an advantage of accepting customer credit card payments?

- a. Relies on internet.
- b. Less cash kept on premises.
- c. No risk of fraud.
- d. No setup costs.

Question 3

What of the following is the greatest disadvantage of EFTPOS?

- a. Payments can be received in multiple currencies.
- b. Less cash kept on premises.
- c. Relies on internet.
- d. Increased risk of theft.

Question 4

Identify the negative aspect of businesses using Bill Payments.

- a. Lack of encryption security.
- b. Not affected by power outages.
- c. Fraud can occur if debit or credit card details stolen.
- d. Decreased convenience for customers.

Question 5

Which of the following is a benefit of online banking.

- a. Increased ability to sell to customers who want to pay on credit.
- b. Internet outages disable usability.
- c. Businesses may offer discounts.
- d. Ability for payment in different currencies.

Question 6

An electronic processing method has the following nature.

'A customer authorises bills charged by a business to be paid automatically from their bank account.'

Which electronic processing method is this?

- a. Online Banking.
- b. Direct debits.
- c. Credit Cards.
- d. EFTPOS.

Question 7

Sally runs a small business as a sole trader and one of her suppliers has recently offered her the option to pay with direct debit and receive a discount.

- a. Describe the nature of direct debits.
- b. List and describe two advantages and two disadvantages of direct debits.

Question 8

A business that was previously only accepting cash payments has recently started paying for internet access. The business is considering using the following electronic processing methods. For each of following methods identify one risk and one benefit.

- Online Banking.
- Bill Payments – Electronic Banking System.
- EFTPOS.

Question 9

Outline the nature of credit cards. List one advantage and one disadvantage of this electronic processing method.



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Ability to work overseas



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