

Week 1: The accounting environment (P.g.1-38 Ch.1)

Business – An enterprise that provides products or services desired by customers

Private enterprise - refers to an economic system in which individuals, rather than government, own and operate businesses e.g. services, merchandising and manufacturing businesses

Entrepreneurship and sources of capital:

- **Entrepreneur** – An individual who is willing to invest their time, money and talent into a business not knowing whether customers will buy the product in return for profit.
- **Capital** – The funds a business needs to operate or to expand operations e.g owners investment, loan from a bank

Different forms of business/ownership structures:

- **Sole proprietorship/sole trader** – A business owned by one person who is the sole investor of capital into the business
 - Unlimited liability – If a business cannot pay its debts, businesses creditors may force owner to use their personal assets to pay them
- **Partnership** – Is a business owned by two or more people who each invest capital into the company
 - Operated by 2-20 people
 - Partners liable for entities debts
 - Joint ownership – all assets are jointly owned by partners
 - Unlimited liability
- **Company/corporation** – Is a separate legal entity that is independent of its owners and is run by a board of directors
 - Limited liability
 - Owners called shareholders
 - Shareholders not liable for company debts
 - Propriety company max 50 shareholders

Types of company:

- Public
- Propriety
- NL (no liability)
- Guarantee – If company is liquidated, they must provide shareholders with compensation

Factors affecting business environment:

- Globalisation
- Technological advances
- Information explosion
- Evolving forms of business
- More complex business activities
- Increased regulations

Accounting – Is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information

The accounting system:

- **Management accounting information**
 - Provides vital information about a business to internal users
 - Internal users include – employees, departmental supervisors, divisional/regional managers, top management
 - Management accountant provides information to business allowing them to plan, operate and evaluate
 - Managers are operating their business in a changing environment and therefore need information in order to deal with changing times

Management accounting reports:

- **Budgets** - Is the process of quantifying managers plans and showing the impact of these plans on the businesses operating activities and financial positions
- **Cost analysis** – Is the process of determining and evaluating the costs of specific products or activities within a business

- **Financial accounting information**
 - Gives information about a business to external users
 - External users include – Individual investors, stockbrokers, financial analysts, consultants, bankers, suppliers
 - External users evaluate financial reports as a source of useful information.
 - For users to be able to view reports businesses reporting must follow rules, Generally accepted accounting principles (GAAP)
 - GAAP are a set of assumptions, standards, rules, practices and procedures that are recognized as a general guide for financial reporting.

Management activities:

- Managers play a vital role in business success by setting goals, making decisions, using resources and achieving the goals
 - Planning – Establishes the businesses goals and the means of achieving these goals
 - Operating – Refers to the set of activities that the business engages in to conduct its business according to its plan
 - Evaluating – Is the management activity that measures actual operation and progress against standards and benchmarks

Financial statements:

- Are accounting reports used to summaries and communication financial information about a business
 - **Income statement** – Summarizes the results of its operating activities for a specific time period and shows the business profits for the period.
 - **Revenues**
 - **Expenses**
 - **Net income**
 - **Balance sheet/ Statement of financial position** – Summarizes its financial position on a given date (usually last day of the time period covered by the income statement)
 - Assets
 - Liabilities
 - Owners equity
 - $\text{Asset} - \text{liabilities} = \text{Owners equity}$
 - Statement in changes in owners equity sometimes provided to explain amount shown in owners equity section in balance sheet
 - **Cash flow statement** – Summaries its cash receipts, cash payment and net changes in cash for a specific time period
 - $\text{Cash receipts} - \text{Cash payments} = \text{change in cash}$

Professional organisations code of ethics:

- The international federation of accountants (IFAC) has developed a code of ethics of accountants in each country to use as a basis for founding their own code of ethics.
- IFAC expects accountants in other countries to add their own national ethical standards to the code to reflect their national difference

Ethics at the business level:

- Range of benefits included for being ethical including, improved business reputation, reducing costs and strengthening communities in which they operate improved profitability
- Investors now place high value on enviro resp and many people are now willing to pay more for G&S that are 'green'

Skills required by accountants of the 21st century:

- Must have knowledge about accounting and economic environment and be able to apply skills
- Communication and teamwork skills
- Self-management skills

The four stages of critical thinking:

1. Recognize problem
2. Identify alternatives
3. Evaluate alternative
4. Make decisions
5. Critical thinking

Regulatory environment:

- Australian Securities and investment commission (ASIC) – Form companies whose shares are traded publically in Australia
- International Accounting Standards Board (IASB)
- ASX – listing rules
- ACCC – Competition and consumer Act 2010

Week 2 – Business planning and cost concepts for management decisions (Pg. 48-74 Ch.2)

Planning in a new business:

- **Business plan** – Is an evolving report that describes a business's goals and its current plans for achieving those goals
- **Three main purposes of a business plan:**
 - It helps an entrepreneur to visualise and organise the business and its operations
 - A business plan serves as a 'benchmark' or standard against which the entrepreneur can later measure the actual performance of a business
 - A business plan helps an entrepreneur obtain the financing that new and growing companies often need
- **A business plan typically includes:**
 - A description of the business
 - Proposed products and or services
 - Markets
 - Location
 - Potential customers
 - Organisation and personnel (who will do what)
 - Individuals responsible for starting the business
 - Significant investors
 - Influential employees
 - Owners and financiers
 - A marketing plan
 - Predicted market size and market share
 - Projected demand for the products and/or services
 - Predicted growth in demand over time
 - The details of the four Ps of marketing – product, price, place, and promotion
 - Major competitors
 - Regulatory environment
 - An operations plan
 - Selection of suppliers, purchasing, receiving, store layout, storage, re-ordering etc.