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306-103 Accounting 1A – Summary Notes

Topics:

- The nature and purpose of accounting and accounting reports
- The role of accounting information in decisions of external users
- Understanding basic accounting concepts and conventions
- Process of capturing information in the accounting system
- Use of journals, ledgers and control accounts
- Summarising and reporting of accounting information:
- Basic accounting reports
- Accounting for partnerships

Sources:

- Undergraduate Studies Handbook 2002
- Horngren. and Harrison., ***Accounting 3***, Pearson Education, Australia, 2001.
- Accounting 1A Lecture Materials

Contents

Chapter 1 – Accounting Environment

Accounting:

- **Financial Accounting**: External users, Historical reporting, Formal/ Summary data
- **Managerial Accounting** Internal users, Forward focused, Informal/detailed data

Types:

- **Proprietorship**
- **Partnership**
- **Company**: Separate LEGAL entity, Limited liability of owners, Unlimited life of business, Easy transferability of ownership

Accounting Concepts:

1. **The Entity Concept**: The business is kept separate from owners and managers
2. **The Going Concern Principle**: The business will last forever
3. **The Time Period Concept**: Break the life of the business up into small units of time for reporting purposes.
4. **Conservatism Principle**
5. Profit Recognition Principle
6. Cost Principle
7. Matching Principle

Chapter 2 - Entries

- **Chart of Accounts:** List of Account Names used by a Business with their Corresponding Account Numbers
- **Trial Balance:** List all accounts with balances – Debit or Credit → **Total** (Asset, Liabilities, Owner's Equity)
- **Net Profit**: List Revenue and Expenses → Net Profit (Loss)
- **Preparation of Adjusted Trial Balance**: List 3 columns (Trial Balance, Adjustments, Adjusted Trial Balance)

- **Profit and Loss Statement** (Revenue/ Expenses)
  → **Statement of Owner's Equity** (Beginning Capital + Net profit – Drawing = Ending Capital)
  → **Balance Sheet** (Assets → Total Asset / Liabilities, Owner's Equity → Total liabilities and OE)

- **Accounting Work Sheets** (**Columns**: Trial Balance / Adjustments / Adjusted Trial Balance / Profit and Loss Statement /Balance Sheet)

- **Reporting Entity**
  - Has many thousands of shareholder and other interested parties
  - They depend on the information in financial reports to help them make decisions.
  - Should prepare general purpose financial reports, available to everyone
  - (eg. BHP / Large business)

Chapter 3 – Measuring Business Profit - Adjusting

- **Cash Basis**: Record revenue/expense when you receive cash, regardless of when the services performed / expense incurred. (eg. Unearned Revenues/ Prepaid Expense)
- **Accrual basis**: Record revenue/ expense when make a sale or perform a service/uses goods or service. (eg. Accrued Revenues, Accrued Expense)

- **Accumulated Depreciation:**
  - Contra asset → Credit Balance
  - Contra account (1. companion account. 2 normal balance opposite of companion account)

- **Carrying amount** (book value)
  = Non-current asset Cost (or **Historical Cost**) – Accumulated depreciation

- **Adjusting Entries, Essential:**
  - The matching rule
  - Accrual accounting
  - A proper determination ofnet profit

Chapter 4 Complete Cycle

Adjusting Entries			
Apr. 30	Salary Expense	950	
	Salary Payable		950
Reversing Entries			
May. 1	Salary Payable	950	
	Salary Expense		950
May 5	Salary Expense	1 050	
	Cash at Bank		1 050

Salary Payable			
May 1 Rev.	950	Apr. 30 Bal.	950

Salary Expense			
Apr.30 Bal.	1 900	Apr. 30 Clo.	1 900
May 5 CP	1 050	May 1 Rev.	950
May 5 Bal.	100		

Chapter 5 Inventory

Formulas

Sales
- Return
Net Sales
- COGS (Inventory Expense)
Gross Profit
- Operating Expense (eg. Depreciation Expense – Proftit on sale of Equipment)
Net Profit
- Leftover Credit Inventory
Bottom-line Profit

Current Ratio – Measure business' ability to pay current liabilities (Liquidity)
= Total Current Assets / Total Current Liabilities

Debt Ratio – Measures % of business that is financed with debit
= Total Liabilities / Total Assets

Liquid assets – **Non-liquid assets** = to see how much a company can pay if needed

Acid – test ration
= (Cash + Short-term investments + Net current receivables) / Total current liabilities
= [(Cash + Short-term investments + (Receivables – Provision for bad debts)] / Total current liabilities

Days' sale in average accounts receivable
= Average net accounts receivable / One day's sales
= [(Beginning net receivables + Ending net receivables) / 2] / (net sales / 365 days)

Amount of Interest = Principal (Original Amount) X Interest Rate X Time (n/365)

- Net Sales = Sales Revenue – any Sales Return – Sales Allowances
- Gross Profit = Sales (Net Sales) – Cost of Sales (Cost of Goods Sold)
- Net Profit (Net earnings) = Gross Profit – Expenses
  = Total revenues and gains – Total expenses and losses
- Gross Profit Percentage = Gross Profit / Net Sales
- Inventory Turnover = Cost of Goods Sold / Average Inventory
  = Cost of Goods Sold / [(Beginning Inventory + Ending Inventory) / 2]

Perpetual Inventory System	Periodic Inventory System
• Keeps a running record of all goods bought and sold	• Does not keep a running record
• Inventory counted once a year	• Inventory counted at least once a year
• Used for all types of goods (especially expensive) • Cannot control inventory by visual inspection	• Used for inexpensive goods • Cannot control inventory by visual inspection
• Purchase, Sales return and allowance, freight cost **NOT** record in separate account (only debit/credit inventory account)	• Purchase, Sales return and allowance, freight cost record in separate account from Inventory (appears in P/L statement, Trial balance, Work sheet)

Perpetual Inventory

- **GST Clearing** – Debit amount if purchase (debit) inventory; Credit amount if sell (credit) inventory
- **Credit Terms** – 3/15, n/30 = Deduct 3% if paid in15 days, full amount paid in 30 days

- **Freight bill** – Add to your inventory account (Debit), Credit GST Clearing and Cash

	FOB Delivery Point	FOB Destination
When does title pass to buyer?	Delivery	Destination
Paying transport cost	Buyer	Seller

- **Adjustment for Recording Error for Shortfall**: Debit COGS, Credit Inventory
- **Shortfall arise from losses due to theft or damage**: Debit Inventory losses and Credit Inventory

Retailing Business

Profit and loss Statement	
Multi-step format	Single step format

• Sales revenue
    ○ Less: Sales returns and allowances
• = Net sales revenue
    ○ (Minus) Cost of Goods Sold
• = Gross profit
    ○ (minus) all the operating expenses
• + Other revenues
• = Net Profit
	Revenues
	• Sale revenue
	• Other revenue
	• Total revenue
	Expenses
	• Cost of Goods Sold
	• Operating Expenses
	• Total Expenses
	Net profit

Service Business

Service revenue
- Operating expense
= Net Profit

- If there's a difference between actual cash receipts and day's record of cash received, debit **Cash Short and Over account**
- If a customer fails to pay account receivable within customary 30 to 60 days, he becomes acceptor of bill → **Debit Bill Receivable (Hence there is Interest); Credit Accounts Receivable**

Examples

Purchase on Credit within the discount period

May 27	Inventory	642.73	
	GST Clearing	64.27	
	Accounts Payable		707
	Purchased inventory on credit		
June 10	Accounts Payable	707	
	Cash at Bank ($707 X 0.97)		685.79
	Discount Received ($707 X 0.03 X 10/11)		19.28
	GST Clearing ($707 X 0.03 X 1/11)		1.93

Purchase Return

June 30	Accounts Payable	70	
	Inventory		63.64
	GST Clearing		6.36
	Returned inventory to seller and consequent adjustment		

Purchase Allowance – Damage is minor, decides to keep inventory in exchange for $10 allowance

June 4	Accounts Payable	10	
	Inventory		9.09
	GST Clearing		0.91
	Received a purchase allowance with consequent adjustment		

Selling inventory at a price of 3000 include GST, the cost of inventory is 1 900 net of GST

Jan 9	Cash at Bank	3 000	
	Sales Revenue		2 727
	GST Clearing		273
	Cash Sale		
Jan 9	Cost of goods Sold (Expense)	1 900	
	Inventory		1 900
	Recorded the cost of goods sold		

Sales Returns and Allowances and Discounts Allowed

1. On 7 July, HVC sell stereo to Albury for $7 200 on credit terms of 2/10, n/30. Goods cost HVC $ 4 700 net of GST.
2. On 12 July, Albury returns goods (May be good or bad) that sold for $600 gross of GST. HVC decrease COGS (goods cost HVC $ 400)
3. On 15 July, HVC grants Albury$100 sales allowance for damaged goods(not the goods before).
4. On 17 July, last day of discount period, HVC collects $ 4 000of receivable.
5. On 28 July, HVC collects remainder $ 2 500.

July 7	Accounts Receivable	7 200	
	Sales Revenue		6 545
	GST Clearing		655
	Sale on credit		
	Cost of Goods Sold	4 700	
	Inventory		4 700
	Recorded the cost of goods sold		
July 12	Sales Returns and Allowances	545	
	GST Clearing	55	
	Accounts Receivable		600
	Received returned goods		
	Inventory	400	
	Cost of Goods Sold		400
July 15	Sales Returns and Allowances	91	
	GST Clearing	9	
	Accounts Receivable		100
July 17	Cash at Bank	3 920	
	Discounts allowed (expense)	73	
	GST Clearing	7	
	Accounts Receivable		4 000
	Cash collection within the discount period		
		2 500	
July 28	Cash at Bank		2 500
	Accounts Receivable		
	Cash collection outside the discount period		

Accounts Receivable			
July 7	7 200	July 12 15	600 100
Bal.	6 500		

Chapter 6 - Special Journals

Sales Journal – for sales that paid by credit

Date	Invoice No.	Account Debited	Post Reference	Accounts Receivable Dr.; Sales Revenue Cr.; GST Clearing CR.			Cost of Goods Sold Dr. Inventory Cr.
20X2				**Net**	**GST**	**Gross**	**Net**
Nov. 2	422	Maria Galway		850	85	935	505
13	423	Brent Harmon		631	63	694	361
30		Total		1 481	148	1 629	866

- Individual Accounts receivable (eg. Maria Galway) are posted to individual **Subsidiary ledgers** daily
- Totals (Net/GST/Accounts Receivable/ COGS) can be posted at the end of the month

Cash Receipts Journal

Date	Debits		Credits			Cost of Goods
	Cash	Discount	Accounts	Sales Revenue	Other Accounts	

	at Bank	Allowed		Receivable				Account Title	Post Ref.	Amount	Sold Dr. Inventory Cr.
20X2		GST	Net		Detail	GST	Net				
	1 000							Bill Payable	221	1 000	
	300							Interest Revenue	460	762	
	900	3	32	935							
	517					47	470				290

Purchases Journal – pay by credit

Date				Credit	Debit					
	Account Credited	Terms	Post Ref.	Accounts Payable	Inventory	Supplies	Other Accounts			GST
							Account Title	Post Ref.	Amount	
20X2										
Nov.2	Panasonic	3/15 n/30		700	636					64
9	City Office Supply	2/10 n/30		440			Fixtures	191	400	40

- Accounts Payable posts to individual subsidiary ledger

Cash Payment Journal

Date	Account Debited	Debits			Credits		
		Other Accounts		Accounts Payable	Discount Received		Cash at Bank
		GST	Net		GST	Net	
Feb. 3	Marquis Industries			392	1	8	383
6	Inventory	115	1 267				1 382
11	Supplies						

Chapter 7.1 – Bank Statement / Bank Reconciliation / Cash Budget

Bank Statement
Beginning Balance
Deposits:
Cheques (total per day):
Other items;
- Service charge → Minus
- Dishonoured cheque → Minus
- Bank collection of bill receivable for the business → Add
- Monthly rent expense → Minus
- Interest on account Balance → Add

Ending balance

Bank Reconciliation	
Bank balance, 30 September, from bank statement	$ 441
Add:	
1. Deposit of 30 September in transit	1 800
2. Correction of bank error – overstated amount of cheque no.624	10
	$ 2 251
Less.	

3. Outstanding cheques	
No. 627 issued on 28 September	(275)
Adjusted bank balance	$ 1 976

Sprint Telecommunications Firm **Cash Budget** *For the year ended 31 December, 20X4*			
		(In millions)	
(1)	Cash balance, 1 January 20X4		$ 126
	Estimated cash receipts:		
(2)	Collections from customers	$ 11 813	
(3)	Sale of Older assets	116	11 929
			12 055
	Estimated cash payments:		
(4)	Payments of services and products	(6 166)	
(5)	Purchases of New Equipment	(1 826)	
(5)	Operating Expense	(2 744)	
(6)	Expansions of existing stores (Firm's cellular division)	(275)	
(7)	Payment of debt	(597)	
(8)	Payment of owners of the business	(338)	(11 946)
(9)	Cash available (needed) before new financing		109
(10)	Budgeted cash balance, 31 January 20X2		(125)
(11)	Cash available for additional investments, or (New financing needed)		$ (16)

Summary of Adjustments to Cash at Bank

Cash at Bank:
Balance, 28 February 20X3 from ledger account
Add: Bank collection of bill receivable, including interest of $120
Interest earned on bank balance

Less: Service charge
Dishonoured cheque
EFT – Rent Expense
Adjusted Cash at Bank account balance, 28 February 20X3.

Chapter 7.2 - Petty Cash

Feb. 28	Petty Cash	200	
	Cash at Bank		200
	To open petty cash fund		
Mar. 31	Office Supplies	23	
	Delivery Expense	17	
	Miscellaneous Selling Expense	42	
	Cash at Bank		82
	To replenish the petty cash fund		

Chapter 8 Accounts/Bill Receivable

Doubtful Debts / Bad Debts

1. Provision Method

- No Bad Debts
- Fulfil Matching Principle

- On 30 September, SaveTime Delivery Service had a $ 28000 debit balance in Accounts Receivable.
- During October, the firm had sales of $137 000, which included $90 000 in credit sales.
- October collections were $9 100, and write-offs of bad debts totalled $1 070.
- 30 September credit balance in Provision for Doubtful Debts, $1 600
- Bad debts expense, estimated as 2% of credit sales.

Date	Items	Debit	Credit
Oct	Cash at Bank	47 000	
	Accounts Receivable	90 000	
	Sales		137 000
Oct	Doubtful Debts Expense	1 800	
	Provision for Doubtful Debts (90 000 X 0.02)		1 800
Oct 31	Provision for Bad Debts	1 070	
	Accounts Receivable		1 070

Provision for Doubtful Debts			
Accounts Receivable	1 070	30 Sept Bal.	1 600
Bal.	2 330	Doubtful Debts Expense	1 800

Accounts Receivable			
30 Sept Bal.	28 000	Cash at Bank	91 000
Sales	90 000	Provision for Doubtful Debts	1 070
		Bal.	25 930

Balance Sheet
Current Asset 25 930
Debtors (2 330)
23 600

2. Direct Write-off Method

Date	Items	Debit	Credit
Oct	Cash	47 000	
	Accounts Receivable	90 000	
	Sales		137 000
Oct	Bad Debts Expense	1 070	
	Accounts Receivable		1 070

Accounts Receivable			
30 Sept Bal.	28 000	Cash at Bank	91 000
Sales	90 000	Provision for Doubtful Debts	1 070
		Bank	25 930

Bank not expect to receive $25 930, but still record problems → overstated Accounts Receivable and therefore not satisfying the Matching Principle

Chapter 9 Accounting for Inventory

FIFO/LIFO/Specific Unit Cost/ Weighted-average – See Extra Sheet

Specific unit cost	FIFO	LIFO	Weighted-average
Unique inventory items (eg. cars)	Most current cost of ending inventory Maximise reported profit when costs are rising	Maximise reported profit when costs are declining	Middle-of-the-road approach for reported profit

Estimating cost of Ending Inventory

Gross Profit Method

Beginning Inventory (Acc Record)
<u>+ **Purchases** (Acc Record)</u>
= **COG** available for sale
- COGS:
Sales revenue
Less: (Estimated Gross profit % X Net Sales)
<u>**= Estimated COGS**</u>
= **Ending Inventory**

Gross Profit % = Gross Profit / Net Sales
Net Sales = Sales Revenue – Return/Allowance

Retail Inventory Method

	At Cost	At Retail
Beginning Inventory	$ 24 000	$40 000
+ Net purchases	<u>144 000</u>	<u>240 000</u>
= Goods available for sale	<u>168 000</u>	280 000
Cost ratio: $168 000/280 000 = 0.60		
Less: **Net sales revenue**		<u>(230 000)</u>
Ending inventory, at retail		<u>$50 000</u>
Ending inventory, at cost ($50 000 X 0.60)	<u>$ 30 000</u>	

Effects of Inventory Errors

Inventory Error	Period 1			Period 2		
	COGS	Gross Profit and Net Profit	Ending Owner's Equity	COGS	Gross Profit and Net Profit	Ending Owner's Equity
Period 1 Ending inventory overstated	Under stated	Overstated	Overstated	Over stated	Understated	Correct
Period 1 Ending inventory understated	Over stated	Understated	Understated	Under stated	Overstated	Correct

CHAPTER 10 – Non-Current Assets, Intangible Assets

- **Tangible Asset**: Physical form, using Depreciation Expense (eg. Buildings)
- **Intangible Asset**: Special right carried (eg. Patents, copyrights, trademark)

ASSET	RELATED EXPENSE
Land (purchase, agent's commission, clearing land)	None
Building, Equipments, Land improvements (fencing)	Depreciation
Intangibles	Amortisation

Lump-sum purchase

1. Calculate **Percentage** of Land asset and Building asset by dividing up **Market** (**Fair**) **Value** over **Total Market Value**
2. Calculate **Allocated Cost** of Land asset and Building asset by multiplying **Total Purchase Price** and **Percentage**

Capital Expenditure	Revenue Expenditure
• Debit Asset Account • Expenditure increase asset's capacity/efficiency • Provide future benefit • Eg. Overhaul that extends taxi's useful life	• Debit Expense account • Expense merely maintain asset to work order • Provide no future benefit • Eg. Repainting taxi, replacing tyres

- If there's any doubt that where an item is asset or expense, we assume that it is expense, since:
  1. Expenditure small amount → Company require to debit expense
  2. Immediate tax deduction → Lower tax payment

- If there's an error that we put in Revenue expenditure instead of Capital expenditure

→ **Expense** – Overstated / **Net profit** – Understated / **Non-current asset** – Understated / **OE** – Understated

- **Obsolete** – asset where another asset can do the job better. **Ie. Useful life < Physical life** (eg. Computer)
- **Estimated residual value:** expected cash value of asset at the end of useful life
  - **Eg.** Machine expected to work 7 years. After 7 years → sell as metal and receive a residual value
- **Depreciable amount (estimation)** = Asset's cost – Estimated residual value

Depreciation Method

Straight Line Method	Units-of-Production	Reducing-Balance (Accelerated method)
Straight line Depreciation $= \frac{\text{(Cost – Residual Value)}}{\text{Useful Life (years)}}$	**Units of production Depreciation** $= \frac{\text{(Cost – Residual Value)}}{\text{Useful Life (units of production)}}$	**Rate** = 1 – N √ (Residual Value/ Cost) **Reducing-balance Depreciation** = Remaining Cost X Rate
• For non-current asset generate revenue evenly over time	• For assets wear out because of physical use	• For asset generate greater revenue early in useful lives • Decrease immediate tax payment
• Financial reporting: Use method that best matches depreciation expense against revenue produced by asset • Income tax: Use method that produces fastest tax deductions. May use different depreciation methods		

Dispose

- **Debit** Accumulated Depreciation
- **Credit** Asset
- If Asset (Remain) > Accumulated Depreciation → Loss (Debit) → Decrease Net Profit

Accounting for Intangible Assets and Amortisation

- **Patents** – government grants giving a holder exclusive right to produce and sell invention

Firm pays $170 000 on 1 January
Expected useful life = 5 years
Amortisation expense therefore = $34 000

Date	Items	Debit	Credit
Jan 1	Patents	170 000	
	Cash at Bank		170 000
	- To acquire a patent		
Dec 31	Amortisation Expense – Patents	34 000	
	Accumulated Amortisation – Patents		34 000
	- To amortise the cost of a patent		

Other Intangible Assets

- **Copyrights** – exclusive rights to reproduce and sell
- **Trademarks** (Brand names) – distinctive identifications of products
- **Franchise/ licences** – privileges granted by private business to sell product with specified conditions
- **Leasehold** – prepayment of rent that renter makes to secure use of an asset from landlord

Goodwill

Goodwill = Cost of acquisition – Fair value of net identifiable assets acquired

- Goodwill is recorded, at its cost, only when it is purchased in the acquisition of another business. (others like: favourable location, superior product never be record as goodwill)
- Under accounting standard, goodwill is amortised over period not exceed 20 years.

Eg.

Purchase price paid for a store		$100 000
Fair value of a store's assets	$ 90 000	
Less: store's liabilities	$ 10 000	
Fair value of store's net assets		$ 80 000
Excess is called **goodwill**		$ 20 000

When a Company buy this store:

Items	Debit	Credit
Assets (Cash at Bank, Receivables, Inventory, other Non-current assets including any identifiable intangibles)	90 000	
Goodwill	20 000	
Liabilities		10 000
Cash at Bank		100 000

Chapter 11 – Liabilities/ Payroll Accounting

3 Types of Liabilities

- **Known Liabilities** – Existence and amount are known (eg. GST, Clearing Bill Payable)

(A) Loan is made for $7 300. Principal and interest at 15% is due in 90 DAYS

Interest = 7 300 X 0.15 X (90/365) = $270
Total paid after 90 days = 7 300 + 270 = $7 570

(B) A loan is made for $7 300 payable in 90 days at 15%

Total paid after 90 days = $7 300
= Original Amount borrowed + Interest
= z + (z X 0.15 X (90/365))
= z + 0.03699z
z = Original amount borrowed = **$6 420**

- **Estimated Liabilities** – Existence is known but amount is not

Product sold in 2001 = 10 000
Estimate 14% of product will be return for repairs
Estimate average cost of warranty repairs $11/defective product

Items	Debit	Credit
Warranty Expense	15 400	
Estimated Warranty Payable		15 400

- **Contingent Liabilities** – Neither existence nor amount of liability are known; **Potential liability**

Payroll Liabilities

Net pay = Amount that employee actually takes home
Net pay = Gross pay – (Tax + Deductions)

Eg. 1

- Employer Bet Dennis employ person Alan Kingsley
- Ordinary-time salary = $360 / week
- In excess of 40 hours per week = 1.5 X ordinary-time salary
- Beth Dennis - withholds income tax (**18%**) from Kingsley's pay
  - Contribute to superannuation plan = 10% of Kingsley's gross pay
  - Payroll tax of **7%**
- Kinsley work 48 hours

Goss Pay:	Ordinary-time ay for 40 hours		$ 360.00	
	Overtime pay:			
	Rate per hour ($350/40 X 1.5)	$ 13.50		
	Hours (48-40)	X 8	108.00	
			$ 468.00	
Net Pay:	Gross Pay			$ 468.00
	Less: Withheld income tax ($468X0.18)			84.24
				$ 383.76

Payroll Tax is pay by employer, hence does not affect the amount for salary

Items	Debit	Credit
Sales Salary Expense	468.00	
Employee Income Tax Payable		84.24
Salary Payable to Employee		383.76
Payroll Tax Expense	**32.76**	
Payroll Tax Payable ($468 X 0.07)		**32.76**
Superannuation Expense ($468 X 0.10)	46.80	
Employee Benefits Payable		46.80
Salary Payable to Employee	383.76	
Cash at Bank		383.76
Employee Income Tax Payable	84.24	
Payroll Tax Payable	32.76	
Cash at Bank		117.00
Employee Benefits Payable	46.80	
Cash at Bank		46.80

Eg. 2

John Pifko's regular hourly rate is $15/hr for 40 hours per week.
Normal overtime – paid 1.5 X regular
Weekend overtime – paid double

Last week John worked 60 hours, 8 of which are weekend overtime
Each week, $30 deduct for medical insurance, $15 for charitable contribution
John pays income at rate of 30%

Items		**Debit**	**Credit**
Wages Expense	$ (40 X 15 + 12 X 22.5 + 8 X 30)	1 110	
Income Tax Payable	$ (1 110 X 30%)		333
Medical Insurance			30
Charitable Contribution			15
Wages Payable	$ (1110 – (333+30+15))		732

Chapter 12 – Accounting Framework

- The 1st Note to the Financial Statements outlines the significant accounting policies used in preparing the Financial Statements.
- Changes in Accounting Principles (methods) and changes in Accounting Estimates are disclosed in the Notes.

Accounting Concepts and Principles	
Accounting Entity Concept	An organisation stands apart from other organisations and individuals as a separate economic unit
Accounting Period Concept	The concept that defines the period of time for which accounting data is collected.
Cost Principle	States that accounting measures are based upon transaction costs; goods and services acquired are recorded at their actual cost (historical cost)
Matching Principle	Relates inputs and outputs of goods and services to one another. The costs of inputs used to produce output are treated as expenses and subtracted from ('matched' with) the revenues associated with those outputs in calculating profit for a period.
Profit Recognition Principle	Provides that profit should be recognised when the revenues relating to the relevant activity are earned.
Conservatism Principle	Constraint that underlies presenting less, rather than more, optimistic figures in the financial statements.
Going Concern Principle	Accountants' assumption that the business will continue operating for the foreseeable future.
General Principles of Reporting	
Relevance Principle	• All and only relevant information should be included in financial reports. • Information is relevant if it assists readers in making decisions.
Reliability Principle	Requires that accounting information be dependable (free from error and bias)
Comparability Principle	• Accounting information must be comparable from business to business. • A single business's financial statements must be comparable (consistent) from one period to the next.
Understandability Principle	Information should always be presented in a form which is as easily understandable as possible.
Materiality Principle	• A business must perform strictly proper accounting **only** for (**material**) items and transactions that are significant to the business's financial

	statements and affect user's decision. • The inclusion of immaterial items will not affect user's decision.
Timeliness Principle	Information should be reported without undue delay
Costs versus benefits Principle	Involves comparing the costs and the benefits involved when deciding whether or not to collect and report information

Chapter 13 – Accounting for Partnership

Partnership	
Advantages	**Disadvantages**
• Raise more capital • Bring together expertise of more than one person • No taxation of partnership income, only taxed to the partners as individual • Voluntary situation (do not have to be partner with a person if do not wish to) • Easy and cheap to form • No prospectus or other legal constraints • Sharing workload	• **Unlimited Liability** – each partner is personally liable for all the debts of partnership. Creditors can seek payment from personal assets of each partner • **Mutual agency** – each partner can bind the business to a contract within the scope of the partnership's regular business operations • **Limited Life** – Each time a new partner is admitted, withdraws, bankrupt or retire, business needs a new partnership agreement • **Co-ownership of property** – does not matter how much individual put in

- Without drawn up an agreement, then partners must share profit and losses equally.
- Agreement specifies a method for sharing profits but not losses then losses are shared in same proportion as profits (eg. a partner receiving 75% of profits would absorb 75% loss)
- Balance sheet is the same as individual except the owner's equity section contains all individuals' capital account

Employ worker instead of forming a partnership	
Advantages	**Disadvantages**
• Profit belong to the employer • No need to bear the liability caused by the employee	• Need to pay wage • Expense not shared

Current account is used to separate individual's Capital and profit + loss. Hence it is easy to trace back how much each individual put in the company.

Types of Sharing

Sharing Based on a Stated Fraction
- Eg. 2/3 Profit (or Loss) account to Cadman, 1/3 Profit (or Loss) account to Dean

Sharing Based on Capital Contributions
- Eg. Individual Capital / Total Capital X Profit (or Loss)

Sharing Based on Capital Contributions and on Service
- Eg. first $50 000 of partnership profits to be allocated on basis of partners' capital
- Net $60 000 is to be allocated on the basis of service
- Any remaining amount is allocated equally

Sharing Based on Salaries and on Interest
- Eg. First $80 000 share on their service
- Then share the interest on capital balance
- Then share equally