COMM1140: Financial Management

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Contents

1 Assessment Structure

- **Assessment 1: Tutorial Participation (15%)** - Class participation (assessed in tutorials from topic 2)
  - Homework Submission (5 marks)
  - Quality and Impact of Contributions (5 marks)
  - Frequency of Participation (5 marks)
- **Assessment 2: Group Assignment (25%)** - Assignment based on the content in topics 1-5 (**Video Submission in Week 9**)
  - Released to students **Monday of Week 5**
  - Groups of 4-5
  - 20 minute group recording
- **Assessment 3: Final Examination (60%)** - A mix of MCQs and case study/short-answer questions on all topics.
  - A new section will appear on Moodle in Week 8 to help students prepare
  - All sample questions will be provided by Week 9
- **Formal Requirements** - Passing mark of at least 50/100 throughout all assessments

Accounting

2 Introduction to Financial Management

Learning Objectives

- Differentiate between accounting, finance, and tax
- Understand the different forms of accounting information
- Differentiate between revenues and expenses
- Explain the concepts of accrual accounting, cash accounting, and accounting profit

2.1 What is financial management?

- Financial management is the process of planning, organising, controlling, and monitoring financial resources to achieve company goals and objectives → how we use information to make informed business decisions
- The *primary objective* of financial management is to maximise shareholder value through appropriate utilisation and decision making

2.2 Why is financial management important to study

- Financial management is a key life skill
- Entrepreneurship and roles within a company
- Implications on all aspects of business operations (such as Marketing, Management, Tax, Information Systems, Actuary)
- Eg. Budgeting within a business
- Measuring performance of a business, eg. profit

Accounting is how you understand and run a successful business
Signs of business health include

- Profitability
- Cash flow
- Short and long term sustainability
- Business value

Accounting powers every business decision, categorised as long-term (strategic), short-term (operational), commercial (evaluation of business deals). Ultimately, accounting enables career success, as an advisor, entrepreneur, or a leader. Accounting is a good pathway into a career, as a way of entering a company.

Finance helps you value a business and make good investment decisions using accounting information.

2.3 Accounting vs. Finance

2.4 Accounting and Tax

2.5 Accounting Information

2.5.1 Who uses accounting information?

- A wide range of stakeholders use accounting information daily
- These users often have different needs that accounting information can satisfy

2.5.2 What are the different types of information in accounting

- Financial accounting → Information given to people outside of the enterprise
- Management accounting → Information given to users within the enterprise to assist in operational planning and controlling decisions
- Audit and internal control → An audit confirms the accuracy of financial statements and internal control involves implementing policies and procedures that safeguard assets and ensure reliable financial information
- Social and environmental accounting (accounting for sustainability) → Provision of non-financial information to users external to the enterprise

2.5.3 Financial accounting information and decision-making

- **Financial accounting** primarily serves external stakeholders, such as investors/shareholders, creditors, regulatory bodies and the general public
- It provides an overview of a company's financial health
- Analysing financial statements allows managers to evaluate profitability, liquidity, and solvency
- Investors rely on financial statements to inform their investment decisions

2.5.4 Management accounting information and decision-making

- **Management accounting** is designed for internal stakeholders, including managers and executives
- It provides detailed financial information to aid in strategic planning, budgeting, performance evaluation, and internal decision-making
- Cost accounting, a subset of management accounting, allows managers to optimise pricing and cost efficiency

2.5.5 Audit and internal control information and decision-making

- **Audits and internal control systems** ensure the reliability and integrity of financial inform, instilling confidence in decision-makers
- Audits and internal control systems can also benefit internal stakeholders by safeguarding assets and promoting operational efficiency
- Investors trust audited financial statements

2.5.6 Social and environmental accounting information and decision-making

- Social and environmental accounting caters to both internal and external stakeholders
- Internally, it helps management assess the company's impact on environmental and societal sustainability
- Externally, it informs socially conscious investors, customers, and regulatory bodies about the company's commitment to social and environmental responsibility

2.6 Revenue and Expenses

2.6.1 Revenue

- Revenue represents an increase in company wealth
- Wealth increases because customers:
  - Pay cash for goods or services
  - Promise to pay cash (accounts receivable)
- Types of revenue include:
  - Sales revenue → Generated by selling goods and/or services in the ordinary course of business
  - Other revenue may consist of items such as:
    - Interest income on bank accounts or investments
    - Dividends received from investments in other companies

2.6.2 Expenses

- Expenses represent decreases in company wealth
- Expenses must be incurred in order to earn revenue
- These **do not** include the payment of dividends

2.7 Cash Accounting

- Cash accounting involves recording revenues and expenses **at the time the cash is received or paid**
- This is reasonably precise given that the accountant knows whether cash has been paid or received, and the amount is easily determined

2.7.1 Limitations of cash accounting

- The complexity of business means that the financial health of a company is affected by transactions and cash flows in both the past and future
- Events where the **timing** of cash flows differs from the **substance** of the transaction include:
  - Sale of goods or services on credit
  - Services that will be paid in a later period (eg. electricity, water, gas, hotel accommodations)
  - Companies receiving cash in advance for services provided (eg. magazine subscriptions, airline tickets, concert tickets)

2.8 Accrual Accounting

- To cope with these complexities, most businesses use accrual accounting
- Accrual accounting involves recording revenues and expenses **at the time they occur**, not when the cash is received or paid
- The key test for revenue recognition is whether the goods and services have been **rendered** (ie. delivery to a customer or provision of a service)
- **Receipt of cash is not required for revenue to be recognised**

	Cash basis	Accrual basis
Record revenues when:	Cash is received	Revenues are earned
Record expenses when:	Cash is paid	Expenses are incurred
In Australia, the ATO says that:	Businesses with a turnover of less than $10 million can use cash accounting	Businesses with a turnover of more than $10 million must use accrual accounting
Benefits:	Simple and effective in managing the cash flow position of a business	More accurate and clear view of the financial health of the business