# Week 1

**Accounting**: Process of Identifying, measuring, recording, and communicating economic transactions and events of a business operation.

**Identifying**: Taking into consideration all economic transaction which affect a business.

**Measuring**: Quantifying in monetary terms.

**Recording**: Analysing, recording, classifying, and summarising transactions.

**Communicating**: Preparing the accounting reports; analysing and interpreting.

**Stakeholders**:

* Owners / shareholders
* Customer
* Employees
* Environment
* Local community
* Unions
* Creditors (banks)
* Government

**Financial Accounting**: The preparation and presentation of financial reports for **external** users.

**Management Accounting**: Provides information for **internal** decision makers of a business.

**Auditing**: Independent examination of the accounting data presented by an entity.

**Tax** **Accounting**: Preparation of tax returns and tax payments.

Business Structures:

* Sole Proprietorship (sole trader)
* Partnership
* Company (limited liability)
  + Private (Pty Ltd) – Financial data not public, max 50 owners, not listed on exchange
  + Public (Ltd) – Financial data is public, any number of owners (shareholders), listed on exchange to allow for purchase and liquidation of shares

# Week 2

**Ethics**: In a broader sense, deals with human conduct in relation to what is morally good, bad, right, and wrong. It is the application of values to decision making. These values include **honesty, fairness, responsibility, respect, and compassion**. (Ethics are external, Morals are internal (individual)).

**Two classifications**:

* Teleological / Consequential ethics (ends justify the means, consequence based)
* Deontological / Non-Consequential ethics (intention based)

**Ethical Decision-Making Process**:

1. Identify ethical issues
2. Gather information and consider ethical principles
3. Identify and evaluate alternative courses of action
4. Decide a course of action

**Accounting Professional and Ethics Standard Board (APESB)***Code of Ethics*:

* **Integrity** (straightforward and honest)
* **Objectivity** (business judgements without compromise of bias, conflict of interest or undue influence of others)
* **Professional competence and due care** (must attain and maintain professional and technical knowledge for clients or employees (requires diligence, training, and supervision))
* **Confidentiality** (must not disclose information classified confidential or sensitive outside of the firm)
* **Professional behaviour** (comply with relevant laws and regulations, avoid any action or omission which may discredit the image of the profession)

# Week 3

**The Accounting Cycle**:

1. Analyse transactions
2. Journalise transactions
3. Post ledger accounts
4. Prepare trial balance
5. Prepare financial statements

**Transaction**:

* An external exchange of something of value between two or more entities.
* Accounting transactions or events are those occurrences which must be recorded / recognised because they have an effect on **Assets, Liabilities, or Equity**.
* Not all transactions are recorded (E.G., hiring a new employee)
* Evidence of a transaction comes in the form of a **Source Document**.

**Assets**: A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

**Liabilities**: A present obligation of the entity to transfer an economic resource as a result of past events.

**Equity**: The residual interest in the assets of the entity after deducting all its liabilities.

**Income / Revenue**: Amounts received / receivable from selling goods or services. Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to capital share.

**Expenses**: Costs that a business incurs to generate income. Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other that those relating to distributions to shareholders.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Debit** | **Credit** | **Normal Balance** |
| Assets | **+** | **-** | Debit |
| Liabilities | **-** | **+** | Credit |
| Equity | **-** | **+** | Credit |
| Income/Rev | **-** | **+** | Credit |
| Expenses | **+** | **-** | Debit |

**Accounting Concepts and Principles**:

* **Going Concern Principle**: The business will remain in operation for the foreseeable future.
* **The** **Accounting** **Period** **Concept**: The life of a business is divided into artificial periods. Profit is determined for particular periods of time in order to be comparable.
* **Accounting Entity Concept**: Clearly identify the boundaries of the entity being accounted for. (E.G., personal transactions of the owner must be separate from the entity).
* **Accrual Basis Accounting**: The effects of transactions are recognised when they occur, not when the cash is received / paid.
* **Cash-Basis Accounting**: Records transactions and events only at the time of receipt / payment of cash. (I.E., no payables or receivables).
* **Cost Principle**: States that all assets are initially recorded in the accounts at their purchase price or cost.

**Qualitative Characteristics**:

Fundamental Qualitative Characteristics

1. **Relevance** (Information is considered relevant if it is capable of making a difference in the decision made by the users)
2. **Faithful Representation** (Information is a faithful representation of the economic phenomena it purports to represent if it complete, neutral and free from material error.

Enhancing Qualitative Characteristics

1. **Comparability** (Users can identify similarities and difference between two sets of economic data.
2. **Verifiability** (Information is verifiable if it represents the economic phenomena without bias or material error.
3. **Timeliness** (Whether the information is available to users before it ceases to be relevant)
4. **Understandability** (Users who have reasonable knowledge of business and accounting can comprehend its meaning.

# Week 4

**General Journal**:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **General Journal** | | | | |
| **Date** | **Account Name (narration)** | **Ref.** | **Debit** | **Credit** |
| 1/3/21 | Office Supplies (Asset) | 101 | 250 |  |
|  | Cash (Asset) | 100 |  | 250 |
|  | (Bought office supplies with cash) |  |  |  |
|  |  |  |  |  |
| 4/3/21 | Building Supplies (Asset) | 200 | 10000 |  |
|  | Cash (Asset) | 100 |  | 2000 |
|  | Accounts Payable (Liability) | 130 |  | 8000 |
|  | (Bought building supplies with cash and on account) |  |  |  |

# Week 5

**T-Accounts**

Three points:

* Title
* Place for recording increases
* Place for recording decreases

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Cash at Bank** | | | | | |
| **Date (year)** | **Explanation** | **Amount** | **Date (year)** | **Explanation** | **Amount** |
| 3/10 | Chris, Capital | 60 000 | 4/10 | Vehicle | 30000 |
| 15/10 | Income | 6000 | 16/10 | Wages | 5000 |
| 21/10 | Accounts Receivable | 1000 | 20/10 | Accounts Payable | 2000 |
|  |  |  | 25/10 | Chris, Drawing | 1400 |
|  |  |  | Balance c/d (difference) |  | 28600 |
| Balance b/d (normal balance) |  | 28600 |  |  |  |
| **Debit (Dr) Side** | | | **Credit (Cr) Side** | | |

**Normal Balance is on the debit side because we are working with the Cash account (Asset). And the normal balance for Assets is Debit.**

**General Ledger Running Balance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACCOUNT: Cash at Bank** | | | **Account No. 100** | |
| **Date** | **Explanation** | **Debit** | **Credit** | **Balance** |
| 2016 Oct. 3 | Capital, Chris | 60000 |  | 60000 |
| 4 | Vehicle |  | 30000 | 30000 |
| 15 | Income | 6000 |  | 36000 |
| 16 | Wages expense |  | 5000 | 31000 |
| 20 | Accounts Payable |  | 2000 | 29000 |
| 21 | Accounts Receivable | 1000 |  | 30000 |
| 25 | Chris, Drawings |  | 1400 | 28600 |

# Week 6

## Why adjusting entries?

* Arise when accrual-based accounting is adopted
* Occurs when cash was paid or received during a different period of the matching expense and income are recognised
* Adjustment **must be made on the last day** to properly recognise the expense or income

## Classification of adjusting entries

|  |  |  |
| --- | --- | --- |
| **Deferrals (Prepayments)** | **Prepaid Expense**  Costs/expenses paid for before they are consumed (E.G., **prepaid insurance**) | **Unearned revenue**  Revenues that are collected or received but not yet earned (E.G., **subscription revenue**) |
| **Accruals (Unrecorded)** | **Accrued Expense**  Expenses incurred but not yet paid (E.G., **accrued salaries**) | **Accrued Revenue**  Revenue earned by not yet received (E.G., **accounts receivables**) |

## How to record

|  |  |  |
| --- | --- | --- |
| **Deferrals (Prepayments)** | **Prepaid Expense**  ***Initial Entry***  **Dr** – Prepaid expense (asset)  **Cr** – Cash  ***Adjusting Entry***  **Dr** – Expense  **Cr** – Prepaid expense (asset) | **Unearned revenue**  ***Initial Entry***  **Dr** – Cash  **Cr** – Unearned revenue (liability)  ***Adjusting******Entry***  **Dr** – Unearned revenue (liability)  **Cr** – Revenue |
| **Accruals (Unrecorded)** | **Accrued Expense**  ***Adjusting Entry***  **Dr** – Expense  **Cr** – Expense payable (liability) | **Accrued Revenue**  ***Adjusting Entry***  **Dr** – Receivable (asset)  **Cr** – Revenue |

## Depreciation

Depreciation is considered a **contra-asset** and has a Cr normal balance (assets have a Dr normal balance). As this is an accrual (unrecorded), no initial entry is required.

***Adjusting Entry***

**Dr** – Depreciation Expense (non-current asset)

**Cr** – Accumulated Depreciation (non-current asset)

# Week 7

## Closing Entries

* Occurs at the end of a period
* This is the closing of the books
* Needed to make sure income or expenses from a previous accounting period don’t carry over to the current accounting period
* A business must start from zero in order to measure its business performance in the following period
* Closing entries are recorded in the general journal and then posted to the general ledger
* “Effectively ‘close’ all temportary accounts to the permanent equity account (Capital) at the end of the accounting period”
* “A special temporary account, ‘**Profit or(and) Loss Summary**’ account, is created to facilitate the closing period”
* “Income and expense accounts then begin the next accounting period with a zero balance”

## Temporary Accounts

* Relate to only a given accounting period
* Must be ‘closed’ to set the account balance to zero balance at the end of each accounting period
* E.G., revenues, expenses, drawings/dividends

## Permanent (Real) Accounts

* Carried forward to future accounting periods
* E.G., assets, liabilities, equity (capital, retained earnings)

## Closing Entry Steps (4 Steps)

1. **Close all income accounts (🡪 zero balance) to the P&L Summary account:**

**DR** (EACH INDIVIDUAL) INCOME ACCOUNT

**CR** P&L SUMMARY

This is because ‘INCOME’ accounts have a Cr normal balance, we must Dr to move to zero

1. **Close all expense accounts (🡪 zero balance) to the P&L Summary account:**

DR P&L SUMMARY

CR (EACH INDIVIDUAL) EXPENSE ACCOUNT

This is because ‘EXPENSE’ accounts have a Dr normal balance, we must Cr to move to zero

1. **Close P&L Summary account to the Capital account (FOR SOLE TRADER)**
   1. If the P&L Summary account has a Cr balance (i.e., net profit)

**DR** P&L SUMMARY

**CR** CAPITAL

* 1. If the P&L Summary account has a Dr balance (i.e., net loss)

**DR** CAPITAL

**CR** P&L SUMMARY

**We INCREASE Capital account if profit is made, decrease for a loss  
P&L Summary account MUST BE ZERO after this step**

1. **Close P&L Summary account to the Retained Earnings account (FOR COMPANY)**
   1. If the P&L Summary account has a Cr balance (i.e., net profit)

**DR** P&L SUMMARY

**CR** RETAINED EARNINGS

* 1. If the P&L Summary account has a Dr balance (i.e., net loss)

**DR** RETAINED EARNINGS

**CR** P&L SUMMARY

**We INCREASE Retained Earnings account if profit is made, decrease for a loss  
P&L Summary account MUST BE ZERO after this step**

1. **Close Drawings account (🡪 zero balance) to the Capital account (FOR SOLE TRADER)**

**Dr** Capital

**Cr** Drawings

Drawings are also temporary – the balance of drawings MUST EQUAL ZERO after this step

1. **Close Dividends account (🡪 zero balance) to the Retained Earnings account (FOR COMPANY)**

**Dr** Retained Earnings

**Cr** Dividends

Dividends are also temporary – the balance of dividends MUST EQUAL ZERO after this step

## Closing Entries (End Result)

* **ALL** income accounts will have zero balance
* **ALL** expense accounts will have zero balance
* The drawings (dividends) account will have zero balance
* **The Capital (Retained Earnings) accounts has either been increased by the profit, or decreased by the loss and decreased by the drawings (dividends)**

# Week 8

## Information needed by stakeholders

1. **Financial performance**

Information about the ability of the entity to utilise its assets effectively and efficiently (Profitable? High volume of sales?)

1. **Financial position**

Information about the financial resources controlled by the entity information about the entity’s financial structure (What is the total liability?)

1. **Cash movements**

Information about the entity’s ability to generate cash flows (Cash inflows vs Cash outflows)

## Income Statement (Statement of Financial Performance || Profit and Loss Statement)

* Shows **financial performance** for a **specific time period**
* Shows income and expenses
* Income > Expenses = Profit
* Income < Expenses = Loss

## Balance Sheet (Statement of Financial Position)

* Reports **financial position** at a **specific point in time**
* Shows assets, liabilities, and equity
* Represents the accounting equation (Assets = Liabilities + Equities)
* Two alternative presentation formats
  + Narrative format (vertical) **PREFERRED IN ACCG1000**
* Income > Expenses = Profit
  + Account format (horizontal)

## Statement of Changes in Equity

* Reports the changes that took place in equity during the period
* **Shows the opening balance, the movement, and the ending balance of equity**
* Opening balance should match closing balance of previous period
* **Both Balance Sheet and Statement of Financial Position show ending balance of equity**