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MUF0022 FINANCIAL ACCOUNTING

Review Double Entry Accounting

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1.1 Learning Outcomes

Describe the accounting process

Record financial data and prepare basic Financial Statements from prior learning

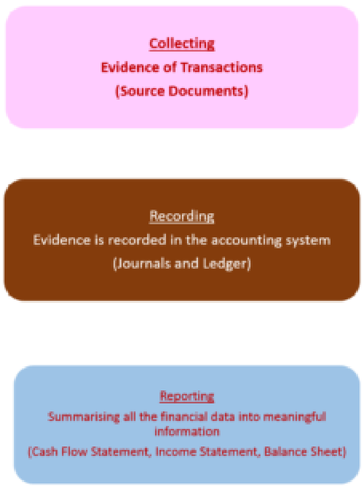
Explain why financial reports are kept and prepared

Link Accounting Principles & Qualitative Characteristics to relevant recording and reporting processes

1.2 Key Terms & Concepts

- Accounting
- Accounting Principles
- Qualitative Characteristics
- Double entry recording process
- General Purpose Financial Statements

Accounting can be described as the process of collecting and recording financial data, so that it can be summarised and reported as financial information. The key stages may be expressed as:

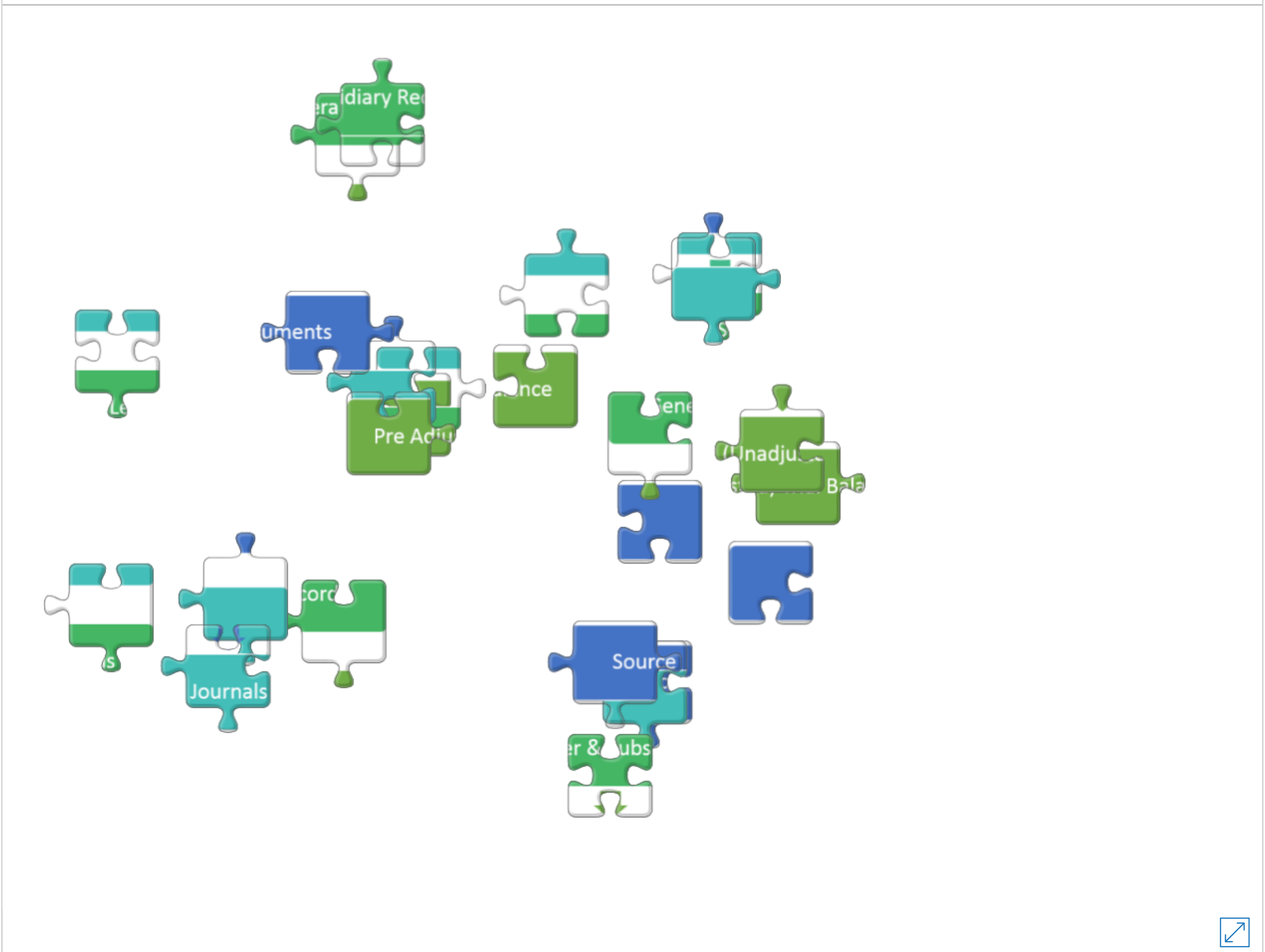


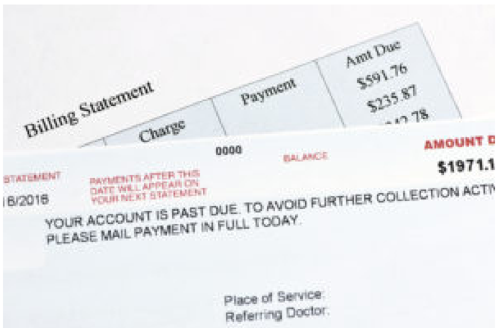
The purpose of this process is to ensure that the owners, and other stakeholders, are provided with the ***financial information*** that will support them in decision making. For the owners, the financial information is an important tool to help evaluate the ongoing performance of the business, to identify corrective action that may be needed, and to improve the likely performance in the future.

From our work in ***Unit 1 Accounting (MUF0021)*** we also know the details of the recording process from source documents to trial balance.

The *jigsaw puzzle* below is a summary of this recording process. Using your prior knowledge try to solve the puzzle now:

Jigsaw Puzzle





The ***recording process*** begins with the day to day transactions of the business. These transactions need to be evidenced by source documents.

A ***source document*** is the original document containing the details to substantiate a transaction in an accounting system. The source document provides evidence that a transaction occurred, and is seen to be free of bias. This makes the source document a reliable input for the accounting process. Every transaction generates a source document, and these source documents are collected and sorted for recording.

The source documents we will use in this course are:

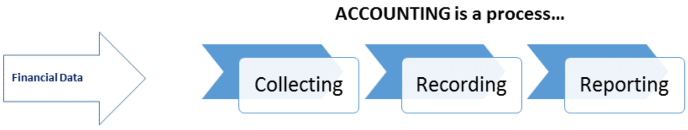
- Cash Receipt
- Cheque Butt
- Invoice
- Credit Note
- Bank Statement
- Statement of Account
- Memorandum

Why do we need to prove that transactions have occurred? Why can't we record a transaction if an employee tells us something has happened?

We know that Accounting is a process, and because there are many accountants across a range of businesses and around the world, we try and follow a similar approach. In other words, we aim to apply the same way of thinking about and dealing with the raw financial data presented to us. This shared way of thinking is the ***Conceptual Framework*** for Accounting.

The framework was put in place by the Australian Accounting Standards Board (AASB), which reflects the work of the International Accounting Standards Board (IASB). A conceptual framework provides an understanding of the key concepts that applies in a given situation so that all parties involved apply a similar approach. The Accounting Conceptual Framework provides all accountants with the following:

- Agreed definitions of the accounting elements
- Principles for the recording of accounting data
- Qualitative characteristics and guidelines for the preparation of the General Purpose Financial Statements.

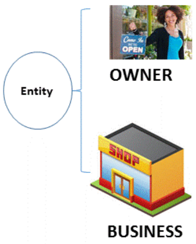


Connect & Reflect:

1. What are the accounting elements?
2. Define each accounting element and classify them as appropriate.
3. Describe the Accounting Equation.
4. How is the Accounting Equation related to the Financial Statements?
5. List and define the Accounting Principles.
6. List and define the Qualitative Characteristics.
7. Use all your answers from Questions 1-6 to create a concept map of Accounting from your prior learning in Unit 1.

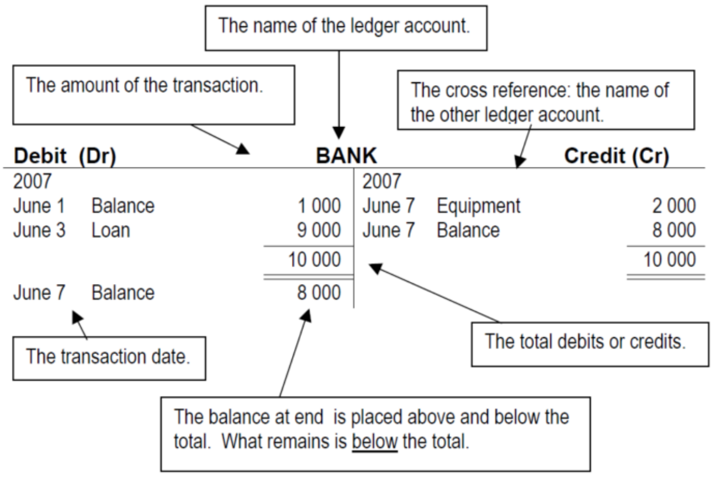
So the conceptual framework provides the rules and guidelines for accountants to follow. The ***Accounting Principles*** and ***Qualitative Characteristics*** form the basis of the Accounting standards that are followed by the profession.

Use the diagram below to review your prior knowledge of Accounting Principles:



The ***Accounting Equation*** is the underlying concept of the twofold effect of transactions. These effects are recorded using the rules of double entry accounting in the General Ledger.

The ***General Ledger*** is the collective record of transactions in a '***double entry system***'. It is the collection of accounts. The left hand side of any ledger account is called Debit and the right hand side is called Credit. This is shown in the example of the Bank ledger account below:



(Source: Collyer, Foundation Year Accounting, 2009)

Information recorded in the General Ledger can be presented via a ***Trial Balance*** before we prepare our ***Financial Statements***:

Business Name
Balance Sheet as at 31 December 2017

	$	$		$	$
CURRENT ASSETS			CURRENT LIABILITIES		
Debtors Control	46 500		Creditors Control	37 000	
Bank	3 500		Loan	24 000	61 000
Stock Control	56 000	106 000			
			NON-CURRENT LIABILITIES		
NON-CURRENT ASSETS			Loan	21 000	
Buildings	220 000		Mortgage	125 000	146 000
Equipment	40 000				207 000
Shop Fittings	24 000	284 000			
			OWNER'S EQUITY		
			Capital	180 000	
			Add Profit	27 000	
			Less Drawings	(24 000)	183 000
TOTAL ASSETS		390 000	TOTAL EQUITIES		390 000

Business Name
Income Statement for the period ending 31 December 2017

REVENUE	**$**	**$**	**$**
Cash Sales	158 000		
Credit Sales	95 000	253 000	
Less Sales Returns		3 000	
Net Sales			250 000
Less Cost of Goods Sold			
Cost of Sales		126 500	
Customs Duty		10 000	136 500
Gross Profit			113 500
Add Other Revenue			
Discount Revenue			6 400
			120 800
Less Expenses			
Rent		1 200	
Insurance		6 021	
Discount Expense		2 100	
Wage Expense		46 900	
Advertising		8 900	
Office Expenses		9 800	74 921
Net Profit			45 879

Business Name
Cash flow Statement for the period ending 31 December 2017

Cash Flows from Operating Activities			
Inflows			
Cash Sales	300 000		
Receipts from Debtors	540 000	840 000	
Outflows			
Payments to Creditors	(128000)		
Stock Control	(340000)		
Rent Expense	(14 000)		
Wages	(97 000)		
Advertising	(20 000)		
Interest Expense	(7 000)	(606 000)	
Net cash from Operating Activities			234 000
Cash Flows from Investing Activities			
Inflows			
Proceeds from Sale of Vehicle		10 000	
Outflows			
Purchase of Vehicle		(30000)	
Net cash from Investing Activities			(20000)
Cash Flows from Financing Activities			
Inflows			
Loan - AB Ltd	10 000		
Capital contribution	10 000	20 000	
Outflows			
Loan repayment	(20 000)		
Drawings	(80 000)	(100 000)	
Net cash from Financing Activities			(80000)
Change in cash held			134 000
Cash at 1/1/15			15 000
Cash at 31/12/15			149 000

Connect and Reflect:

1. Identify the special journals.
2. Explain the difference between the special journals and the general journal.
3. How is information from the journals recorded in the General Ledger?
4. What are the rules of double entry recording?
5. How is the General Ledger different from the subsidiary ledgers?
6. What is the purpose of Control Accounts?
7. What is the purpose of a Stock Card?
8. Why do we prepare a Trial Balance?
9. Explain what makes each Financial Statement different from the others.
10. Identify the relationship between each Financial Statement and the others.

Updated 26 October 2017