Accounting 1b course notes flashcard

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Financial Reporting Principles and Account Standards Lecture Notes – Generally Accepted Accounting Principles: the rules, standards and usual practices that companies are expected to follow when preparing their financial statements The GAAP is made up of the: Framework for the Preparation and Presentation of Financial Statements Accounting Standards (AASB) – Harmonisation is the process by which Australian accounting standards have become similar to international accounting standards in order to increase comparability of financial statements on a global basis – The Framework: Provides the: Objective of financial reports Assumptions underlying financial reports Qualitative characteristics that determine the usefulness of financial reports The definition, recognition and measurement of the elements from which financial statements are constructed " The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions" Useful information allows the users of financial statements to evaluate the ability of an entity to generate cash and cash equivalents Examples of users include: Investors: information concerned with risk helps them to determine whether to buy or sell Employees: information on stability and profitability, anything that will affect employment opportunities and remuneration etc. Lenders: information on ability to repay debts – Assumptions: Accrual basis: revenue and expenses are recognised when they occur Going concern: assumption that the entity will continue in operation for the foreseeable future Accounting entity: the accounting entity is separate and distinguishable from its owners Accounting period: the life of a business needs to be divided into discrete periods Monetary: accounting transactions need to be measured under a

common denominator Historical costs: assets are initially recorded at cost – Conventions: Understandability: information needs to be readily understandable by users, users are assumed to have prior knowledge but does not mean we exclude something just because it is complex Relevance: information that influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluation Materiality: information is material if its omission or misstatement could influence the economic decisions Reliability: information is reliable if it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonable be expected to represent Faithful Representation Substance over form Neutrality Prudence/conservatism Completeness Comparability: users must be able to compare financial statements in order to identify trends in its financial position and performance Additional The value of cash is relevant as it is the current value and it is reliable because it can be determined by checking accurate and unbiased bank statements – The carrying value of land and building is relevant because it provides users with information on the remaining benefits embodied in the land and building and is reliable because both values are calculated based off historical cost -Creating a contra account for accounts receivable allows us to recognize the expense at the time the revenue is earned, done by estimating the amount of uncollectible – Creating a contra account for accounts receivable will decrease the valuation of accounts receivable and ensure assets are not overstated – Problem 6. 6 might be worth taking a look at Week 2- Assets: General Principles Lecture – Essential characteristics of assets: Future economic benefits – the potential to contribute, directly or

ndirectly, to the flow of cash and cash equivalents to the entity Control – an entity controls the asset if it controls the benefits expected to flow to the entity Past Event – must be a result of a past transaction or other past events – An asset is recognised when and only when: It is probable that any future economic benefit associated with the item will flow to the entitiy The item has a cost or value that can be measured with reliability – Current vs non-current assets: Current assets is expected to be realized within twelve months or is being held primarily for the purposes of being traded Current assets include; cash and cash equivalents, short-term investments, accounts receivables, inventories and prepaid expenses Non-current assets include; long-term investments, plant, property and equipment, intangible asset and indefinite life assets – Internally generated intangibles/R&D