Tips for Teaching Year 12 ACF

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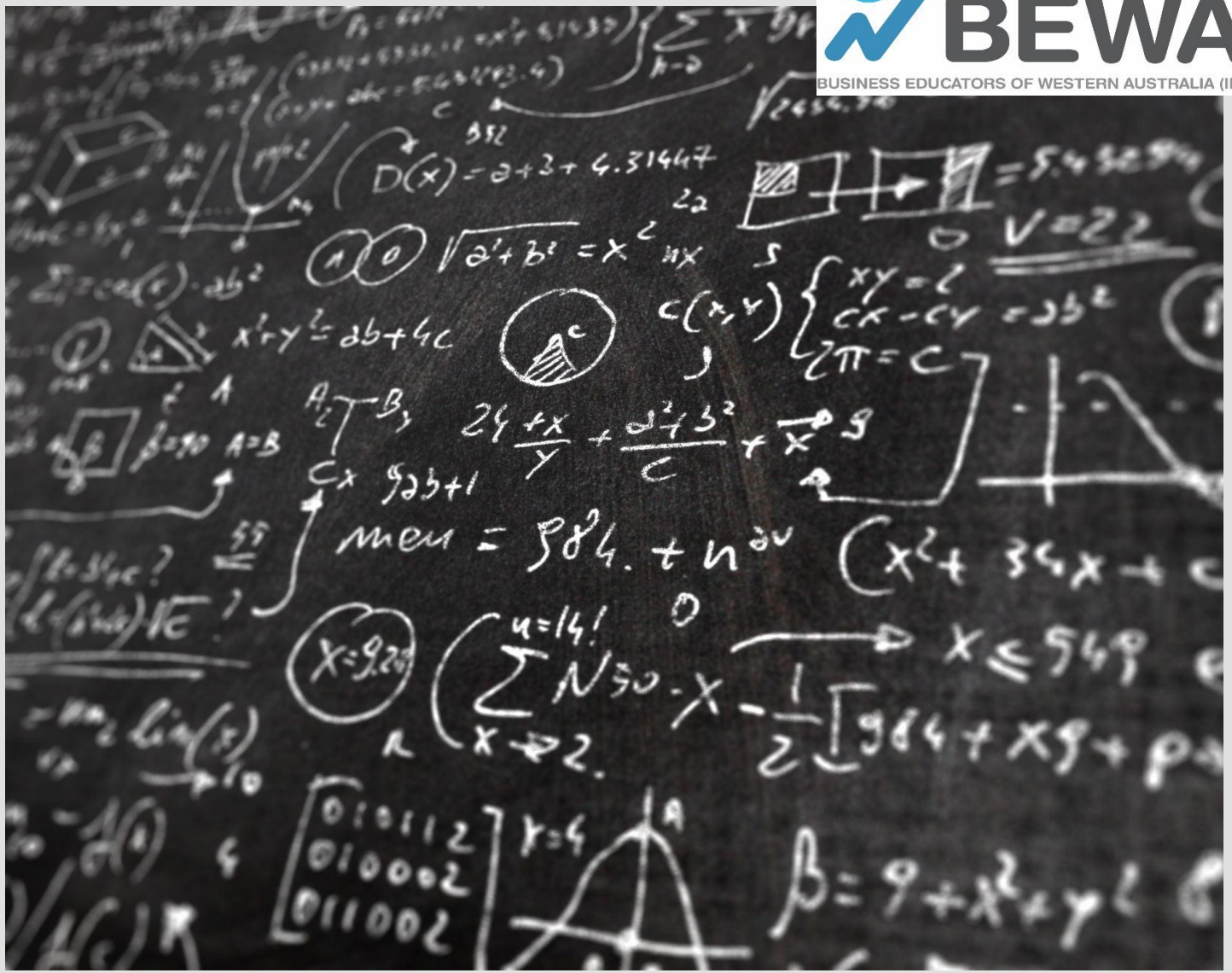
Hale School

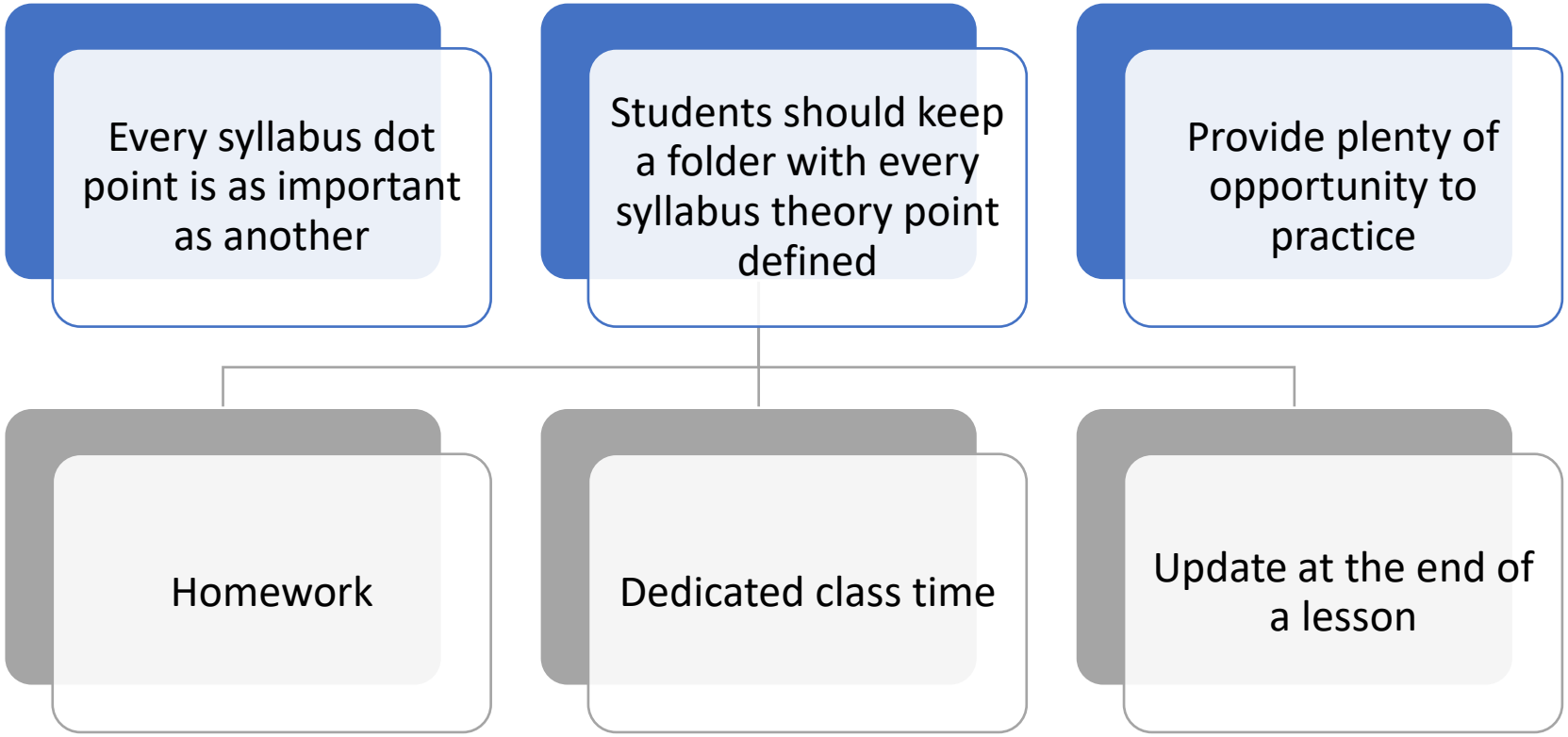


BEWA
BUSINESS EDUCATORS OF WESTERN AUSTRALIA (INC)

In the Beginning

- Relevance to life and occupations
  - CEO CFO
  - Small Business Manager/Owner
  - Small business failure
- Analyse an annual report
  - Sustainability
  - KPI’s
  - Corporate Governance
  - Financials

Theory


Every syllabus dot point is as important as another
Students should keep a folder with every syllabus theory point defined
Provide plenty of opportunity to practice
Homework
Dedicated class time
Update at the end of a lesson

Year 12 Accounting & Finance

Cash Flow Statement Theory

Name: _____

Identify FOUR benefits of preparing a cash flow statement. (4 marks)

Year 12 Accounting & Finance

Cash Flow Statement Theory

SOLUTION

Identify FOUR benefits of preparing a cash flow statement.

Statements of Cash flows is useful to users in evaluating the following

- Changes in the net assets
- Changes in the financial structure
- Amounts and timing of cash flows
- Ability to generate cash into the future
- Past performance in managing cash flows

Glossary of key words in the formulation of questions

Note – definitions in the glossary are generic and applicable across all courses. Teachers must note that some terms have a more course specific meaning that derives directly from the content and the language of the course.

Account	Account for: state reasons for, report on. Give an account of: narrate a series of events or transactions
Advise	Recommend or inform
Analyse	Identify components and the relationship between them; draw out and relate implications
Apply	Use, utilise, employ in a particular situation
Argue	Make a case, based on appropriate evidence, for and/or against some given point of view
Assess	Make a judgement of value, quality, outcomes, results or size
Calculate	Ascertain/determine from given facts, figures or information
Choose (multiple-choice)	Decide or select the most suitable from a number of different options
Clarify	Make clear or plain
Classify	Arrange or include in classes/categories
Comment on	Make reference to and expand upon
Compare	Show how things are similar and different
Complete	Finish an outlined task
Consider	Reflect on and make a judgement/evaluation
Construct	Make; build; put together items or arguments
Contrast	Show how things are different or opposite
Correlate	Demonstrate a mutual or complementary relationship
Create	Make, invent something
Critically (analyse/evaluate)	Add a degree or level of accuracy depth, knowledge and understanding, logic, questioning, reflection and quality to analyse/evaluate
Debate	Develop a logical (sometimes persuasive) argument, giving differing views in response to a topic
Deduce	Draw conclusions
Define	State meaning and identify essential qualities
Demonstrate	Show by example
Describe	Provide characteristics and features

Practical

- Provide templates
  - Keep up to date with SCSA changes
- Start with easy examples
- Model initial questions with your students
- Each time another layer of difficulty is added, demonstrate
- Provide well formatted solutions
- Do a practice test prior to assessments to test student understanding

Model/Demonstrate

c)

120000 + 50000

2600 + 4500 + 55500 − 1110

Sherbet-Howzat Ltd
Statement of Financial Position
As at 30 June 2010

	Notes	$
Current Assets		
Cash and cash equivalents		170000
Inventories		71000
Trade receivables, Owing to us		61490
Other current assets Prepayments		4000
Total Current Assets		306490
Non-current Assets		
Property plant & equipment	1	1836500
Investments Shares		90000
Goodwill		0
Other intangibles		0
Total Non-current Assets		1926500
TOTAL ASSETS		2232990

Well formatted solutions

c)

Sherbet-Howzat Ltd
Statement of Financial Position
As at 30 June 2010

	Notes	$
Current Assets		
Inventories		71 000
Trade Receivables (2 600 + 4 500 + 55 500 - 1 110)		61 490
Other current assets (4 000)		4 000
Cash and Cash Equivalents (120 000 + 50 000)		170 000
Total Current Assets		**306 490**
Non-Current Assets		
Property, Plant and Equipment		1 836 500
Investments		90 000
Total Non-Current Assets		**1 926 500**
Total Assets		**2 232 990**
Current Liabilities		
Trade and other payables (1 900 + 40 000)		41 900
Current tax payable		104 262
Other Current Liabilities (6 000)		6 000

Government of **Western Australia**
School Curriculum and Standards Authority

SYLLABUS SUPPORT MATERIALS

CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

ACCOUNTING AND FINANCE
ATAR YEAR 11 AND YEAR 12

Conceptual Framework Changes (Jan 2020)

Conceptual Framework Elements

Asset Definition

An asset is a present economic resource controlled by the entity as a result of past events.

An economic resource is defined as a right that has the potential to produce economic benefits.

The three aspects of the definition of an asset are:

- right
- potential to produce economic benefits
- control

Liability Definition

A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

The three criteria that must exist for a liability to exist are:

- the entity has an obligation
- the obligation is to transfer an economic resource
- the obligation is a present obligation that exists as a result of past events.

Conceptual Framework Elements

Income Definition

Income

- increases in assets, or decreases in liabilities
- that result in increases in equity
- other than those relating to contributions from holders of equity claims

Expense Definition

Expenses

- decreases in assets, or increases in liabilities
- that result in decreases in equity
- other than those relating to distributions to holders of equity claims

Conceptual Framework

Recognition Criteria

- Not all items that meet the Conceptual Framework definition of asset, liability, equity income and expense are recognised on the statement of financial position or statement of financial performance.
- Recognised elements must be considered useful, that is, they must be
- Relevant
  - Existence certainty
  - High probability of inflow or outflow of economic benefits
- Faithful representation
  - Measurement certainty

Conceptual Framework

- There is a difference between an element definition question and a recognition question.
  - One is asking if an item meets the Framework definition
  - The other is asking if that item should be recognised on the Financial Statements

Conceptual Framework

Qualitative Characteristics

Fundamental Characteristics

If financial information is to be useful, it must be relevant (material), and faithfully represent what it purports to represent

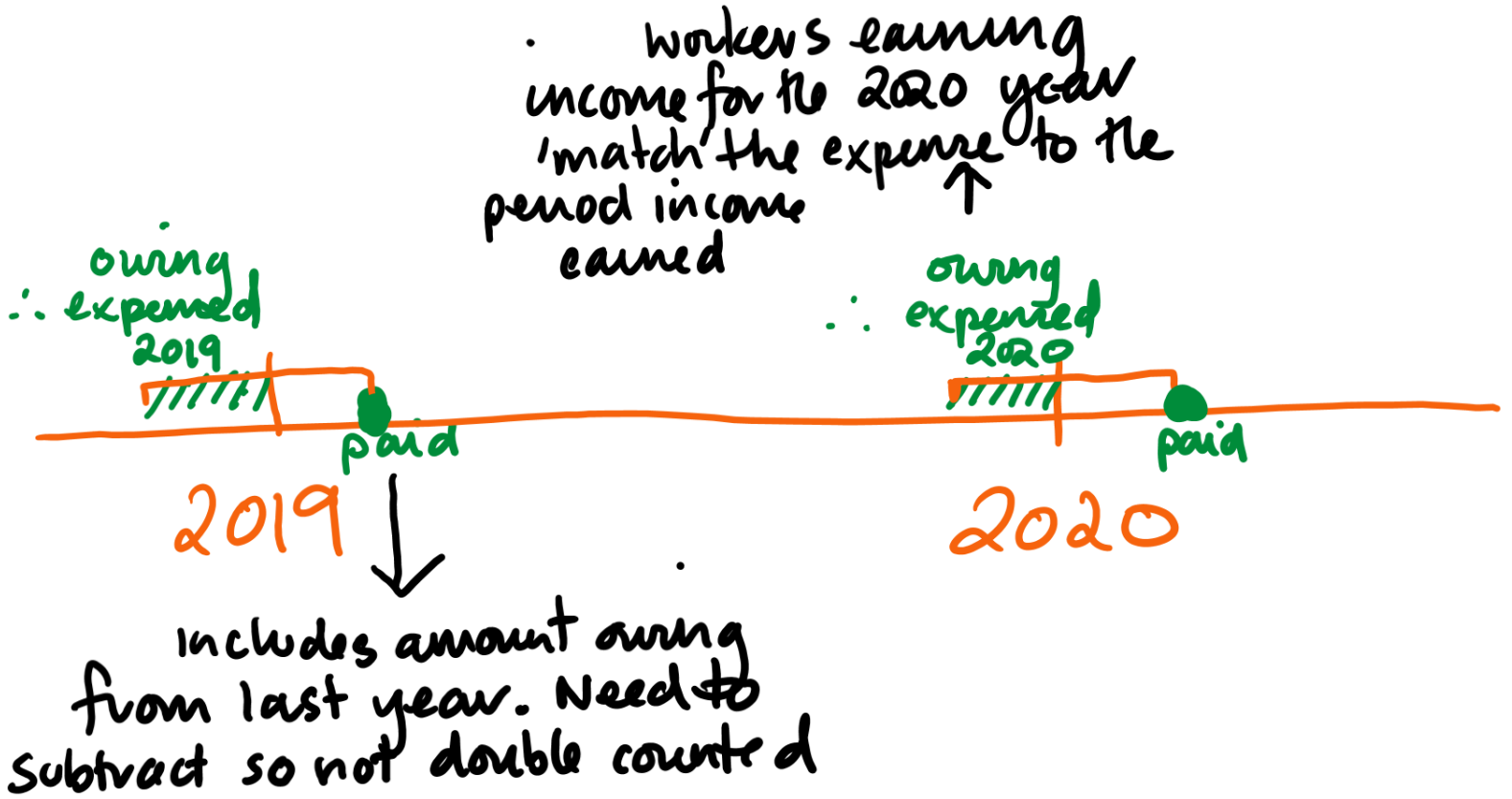
Enhancing Characteristics

The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Balance Day Adjustments

- Use the same process every time
- Introduce the adjustments one at a time
  - Use a time line
  - Use a sum
  - Use a ledger reconstruction
- ‘change one add one’
- ‘balance sheet effect income statement effect’
- Use clear workings
- Understanding important in Year 12

Accrual time line



Accrual sum

Paid + owing this year = expense

Paid + owing this year – owing last year = expense

Accrual reconstruction

Salaries/Accrued Salaries

DATE	DETAILS	AMOUNT $	DATE	DETAILS	AMOUNT $
	CAB			P&L	
	Accrued Salaries (owing this year/closing balance)			Accrued Salaries (owing last year/opening balance)	

Cash at bank

DATE	DETAILS	AMOUNT $	DATE	DETAILS	AMOUNT $
				Salaries Paid	

Profit and Loss

DATE	DETAILS	AMOUNT $	DATE	DETAILS	AMOUNT $
	Salaries Expense				

Specifications Booklet in Year 12

USE DURING CLASS

STUDENTS TO WRITE NOTES ON WHEN STARTING A TOPIC

HELPS WITH THEORY AND PRACTICAL

Management Accounting

- Students should make notes on the specification book for revision purposes
- Working are really important
- Labels are really important
- Theory is really important (35% - 40%)
- Use real life examples to keep content relevant

Importance

So here it goes, a principle that's been drilled into me so deeply I'll never forget it: "You didn't go into business to be an accountant, but you'll end up being one anyway."

https://www.inc.com/levi-king/why-thinking-like-an-accountant-no-matter-your-industry-is-secret-to-succeeding-as-a-business-owner.html?cid=sf01002

Baking bread and cakes is one thing; being an employer who can rise every morning well before sunrise and begin the thankless task of calculating exactly how much money you'll need to pay for rent and supplies without going under is another.

https://www.inc.com/levi-king/why-thinking-like-an-accountant-no-matter-your-industry-is-secret-to-succeeding-as-a-business-owner.html?cid=sf01002

- I pondered the question myself, and something clicked. All of my employer's other costs were fixed. Rent for the building we laboured in, the price of equipment and tools-all the stuff, in other words, that kept the business humming-had been calculated well in advance.
- It was only us production people that were being paid overtime. The salaried folks clocked in and out predictably every day. Why hire a bunch of new employees, pay them full-time wages, and deal with the hassles of paperwork and training, when you could simply pay the guys you knew and trusted $15 an hour instead of $10?
- My employer wasn't losing money paying us all that overtime; he was saving it. He was thinking like an accountant without actually being one.

https://www.inc.com/levi-king/why-thinking-like-an-accountant-no-matter-your-industry-is-secret-to-succeeding-as-a-business-owner.html?cid=sf01002

Cost Accounting

- SPECIFICATION Booklet
- Costing manufacturing/factory costs ie product costs
- DM + DL + OH for the job
- OH calculation based on totals for the factory for the period
- OH then allocated to each job using the cost driver
- Mark-up covers profit and period costs

Cost Accounting

- Product costs are treated as assets - inventory (manufacturing)
  - Raw materials
  - Work in progress
  - Finished goods
- Then expensed when they are sold
  - Cost of sales
  - ‘top of the income statement’
- Period costs are directly expensed (non-manufacturing)
  - Selling and distribution
  - General and administration
  - Financial
  - ‘bottom of the income statement’

Cost accounting and variance analysis

Standard cost per unit	=	Standard input quantity allowed per output unit × Standard price per input unit
Predetermined overhead recovery rate	=	$\frac{\text{Total estimated manufacturing overheads}}{\text{Total estimated allocation base}}$
Cost of production/service	=	Direct materials + Direct labour + Overheads
Selling/quotation price	=	Cost + (Mark-up % × Cost)

Cost Accounting - Variances

- Comparing standard cost estimates to actual costs
- Follow the formula
- Watch for ‘actual output’
- May need to use expanded formula
- U = ‘Unfavourable’
- F = ‘Favourable’

Cost Accounting - Variances

- Must be able to analyse
  - Training
  - Skilled v unskilled labour
  - Quality of input
  - Poor estimates/standards
  - Time and motion studies
    - https://www.youtube.com/watch?v=F-7cjdtrQ9Y

Direct material variances

Price variance	=	(AP – SP) × AQP i.e. (Actual price of input – Standard price of input) × Actual quantity of input purchased
Usage variance	=	(AQI – SQA) × SP i.e. (Actual quantity of input Issued – Standard quantity of input allowed for actual output) × Standard price of input
where SQA	=	SQ × AO i.e. Standard quantity per unit × Actual output in units produced

Direct labour variances

Rate variance	=	(AR – SR) × ADLH i.e. (Actual rate per direct labour hour worked – Standard rate per direct labour hour worked) × Actual direct labour hours worked
Efficiency variance	=	(ADLH – SDLHA) × SR i.e. (Actual direct labour hours worked – Standard direct labour hours allowed for actual output) × Standard rate per direct labour hour
where SDLHA	=	SDLH × AO i.e. Standard direct labour hours allowed per unit × Actual output in units produced

Cost accounting

Questions?

CVP

- SPECIFICATION BOOK
- Dealing with all costs (fixed and variable)
- Contribution margin central to concepts (SP-VC)
- Multi product firms use weighted average contribution margin
- Dropping a line reallocating fixed costs
- Make or buy in a simple table
- Special order in specification book

Single Products

Basic cost profit concepts

$$\text{Profit} = \text{TR} - \text{TC}$$

$$\text{Profit} = (\text{SP} \times \text{QS}) - [(\text{VC} \times \text{QS}) + \text{TFC}]$$

$$\text{TC} = \text{TVC} + \text{TFC}$$

$$\text{Unit cost} = \frac{\text{TC}}{\text{Number of units}}$$

Calculation of contribution margin

Contribution margin per unit = SP per unit – VC per unit

or

Total contribution margin = TR – TVC

or

$$\text{Contribution margin ratio} = \frac{\text{Contribution margin per unit}}{\text{SP per unit}}$$

Break-even point for a single product firm

$$\text{Break-even point (in units)} = \frac{\text{TFC}}{\text{Contribution margin per unit}}$$

or

$$\text{Break-even point (in sales dollars)} = \frac{\text{TFC}}{\text{Contribution margin ratio}}$$

Multiple Products

Weighted average contribution margin

$$\text{Weighted average contribution margin per unit} = \sum (\text{Contribution margin per unit} \times \text{Sales mix \%})$$

where $\sum$ **means** the sum of a set of numbers

$$\text{Sales mix \%} = \frac{\text{number of units sold of a given product}}{\text{total units sold of all products}} \times 100$$

Break-even point in total units in multi-product firm

$$\text{Break-even point (in units)} = \frac{\text{TFC}}{\text{Weighted average contribution margin per unit}}$$

Margin of safety

$$\text{Margin of safety} = \text{Actual or budgeted sales} - \text{break-even sales}$$

$$\text{Margin of safety \%} = \frac{\text{Margin of safety in dollars}}{\text{Total actual/budgeted sales}} \times 100$$

Make or Buy

	Cost to Make	Cost to Buy
Sales		
-VC		
-FC		
Profit		
	Compare	

Dropping a Line

Contribution margin

Remaining fixed costs of line/product/store/branch/department need to be reallocated to remaining departments

Is the business better or worse off?

Special Order

Special order

Gain/Loss	=	(SP x QS) – (VC x QS) – new FC – OC i.e. Special order income – Special order variable costs – New or additional fixed costs – Opportunity costs
where OC	=	Units forgone in usual production × Usual contribution margin

Non Financial/Qualitative Factors

Always consider qualitative factors in cost volume profit analysis

- Competition and market share
- Quality
- Employee morale
- The effect on existing customers
- Environmental impact

CVP

Questions?

Capital Budgeting

- Specification Booklet
- A component of the master budget
- Strategic decision
- Long term impact
- Use relevant examples
- Shown in years and months (no decimals)
- Non-financial factors

Payback Period Constant Cash Flows

Payback period

Where annual net cash flows are constant:

$$\text{Payback period} = \frac{\text{Initial cost of investment}}{\text{Annual net cash flow}}$$

Results from calculations are to be presented in years and months.

Payback period uneven cash flows

Long hand calculation required

Formula not in specification book

Net Present Value (NPV) Uneven NCF

- Longhand calculation
- Used to calculate the present value of future cash flows
- Initial purchase costs that occur on payment outside of Year 0 also need to be discounted

Net present value (NPV) method (time value of money)

Present value of $1 at the end of future periods

Periods	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	16%
1	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8621
2	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.7972	0.7695	0.7432
3	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7118	0.6750	0.6407
4	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6355	0.5921	0.5523
5	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5674	0.5194	0.4761
6	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5066	0.4556	0.4104
7	0.8706	0.8131	0.7599	0.7107	0.6651	0.6227	0.5835	0.5470	0.5132	0.4523	0.3996	0.3538
8	0.8535	0.7894	0.7307	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4039	0.3506	0.3050
9	0.8368	0.7664	0.7026	0.6446	0.5919	0.5439	0.5002	0.4604	0.4241	0.3606	0.3075	0.2630
10	0.8203	0.7441	0.6756	0.6139	0.5584	0.5083	0.4632	0.4224	0.3855	0.3220	0.2697	0.2267
11	0.8043	0.7224	0.6496	0.5847	0.5268	0.4751	0.4289	0.3875	0.3505	0.2875	0.2366	0.1954
12	0.7885	0.7014	0.6246	0.5568	0.4970	0.4440	0.3971	0.3555	0.3186	0.2567	0.2076	0.1685
13	0.7730	0.6810	0.6006	0.5303	0.4688	0.4150	0.3677	0.3262	0.2897	0.2292	0.1821	0.1452
14	0.7579	0.6611	0.5775	0.5051	0.4423	0.3878	0.3405	0.2992	0.2633	0.2046	0.1597	0.1252
15	0.7430	0.6419	0.5553	0.4810	0.4173	0.3624	0.3152	0.2745	0.2394	0.1827	0.1401	0.1079
16	0.7284	0.6232	0.5339	0.4581	0.3936	0.3387	0.2919	0.2519	0.2176	0.1631	0.1229	0.0930
17	0.7142	0.6050	0.5134	0.4363	0.3714	0.3166	0.2703	0.2311	0.1978	0.1456	0.1078	0.0802
18	0.7002	0.5874	0.4936	0.4155	0.3503	0.2959	0.2502	0.2120	0.1799	0.1300	0.0946	0.0691
19	0.6864	0.5703	0.4746	0.3957	0.3305	0.2765	0.2317	0.1945	0.1635	0.1161	0.0829	0.0596
20	0.6730	0.5537	0.4564	0.3769	0.3118	0.2584	0.2145	0.1784	0.1486	0.1037	0.0728	0.0514
21	0.6598	0.5375	0.4388	0.3589	0.2942	0.2415	0.1987	0.1637	0.1351	0.0926	0.0638	0.0443
22	0.6468	0.5219	0.4220	0.3418	0.2775	0.2257	0.1839	0.1502	0.1228	0.0826	0.0560	0.0382
23	0.6342	0.5067	0.4057	0.3256	0.2618	0.2109	0.1703	0.1378	0.1117	0.0738	0.0491	0.0329
24	0.6217	0.4919	0.3901	0.3101	0.2470	0.1971	0.1577	0.1264	0.1015	0.0659	0.0431	0.0284
25	0.6095	0.4776	0.3751	0.2953	0.2330	0.1842	0.1460	0.1160	0.0923	0.0588	0.0378	0.0245

Net Present Value (NPV) Even NCF

- Shortcut calculation
- Can be used from Year 1

Present value of an ordinary annuity of $1 at the end of future periods

Periods	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	16%
1	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.8929	0.8772	0.8621
2	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.6901	1.6467	1.6052
3	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4018	2.3216	2.2459
4	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.0373	2.9137	2.7982
5	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6048	3.4331	3.2743
6	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.1114	3.8887	3.6847
7	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.5638	4.2883	4.0386
8	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	4.9676	4.6389	4.3436
9	8.1622	7.7861	7.4353	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.3282	4.9464	4.6065
10	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.6502	5.2161	4.8332
11	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	5.9377	5.4527	5.0286
12	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.1944	5.6603	5.1971
13	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.4235	5.8424	5.3423
14	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.6282	6.0021	5.4675
15	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6061	6.8109	6.1422	5.5755
16	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	6.9740	6.2651	5.6685
17	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.1196	6.3729	5.7487
18	14.9920	13.7535	12.6593	11.6896	10.8276	10.0591	9.3719	8.7556	8.2014	7.2497	6.4674	5.8178
19	15.6785	14.3238	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.3658	6.5504	5.8775
20	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.4694	6.6231	5.9288
21	17.0112	15.4150	14.0292	12.8212	11.7641	10.8355	10.0168	9.2922	8.6487	7.5620	6.6870	5.9731
22	17.6580	15.9369	14.4511	13.1630	12.0416	11.0612	10.2007	9.4424	8.7715	7.6446	6.7429	6.0113
23	18.2922	16.4436	14.8568	13.4886	12.3034	11.2722	10.3711	9.5802	8.8832	7.7184	6.7921	6.0442
24	18.9139	16.9355	15.2470	13.7986	12.5504	11.4693	10.5288	9.7066	8.9847	7.7843	6.8351	6.0726
25	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	7.8431	6.8729	6.0971

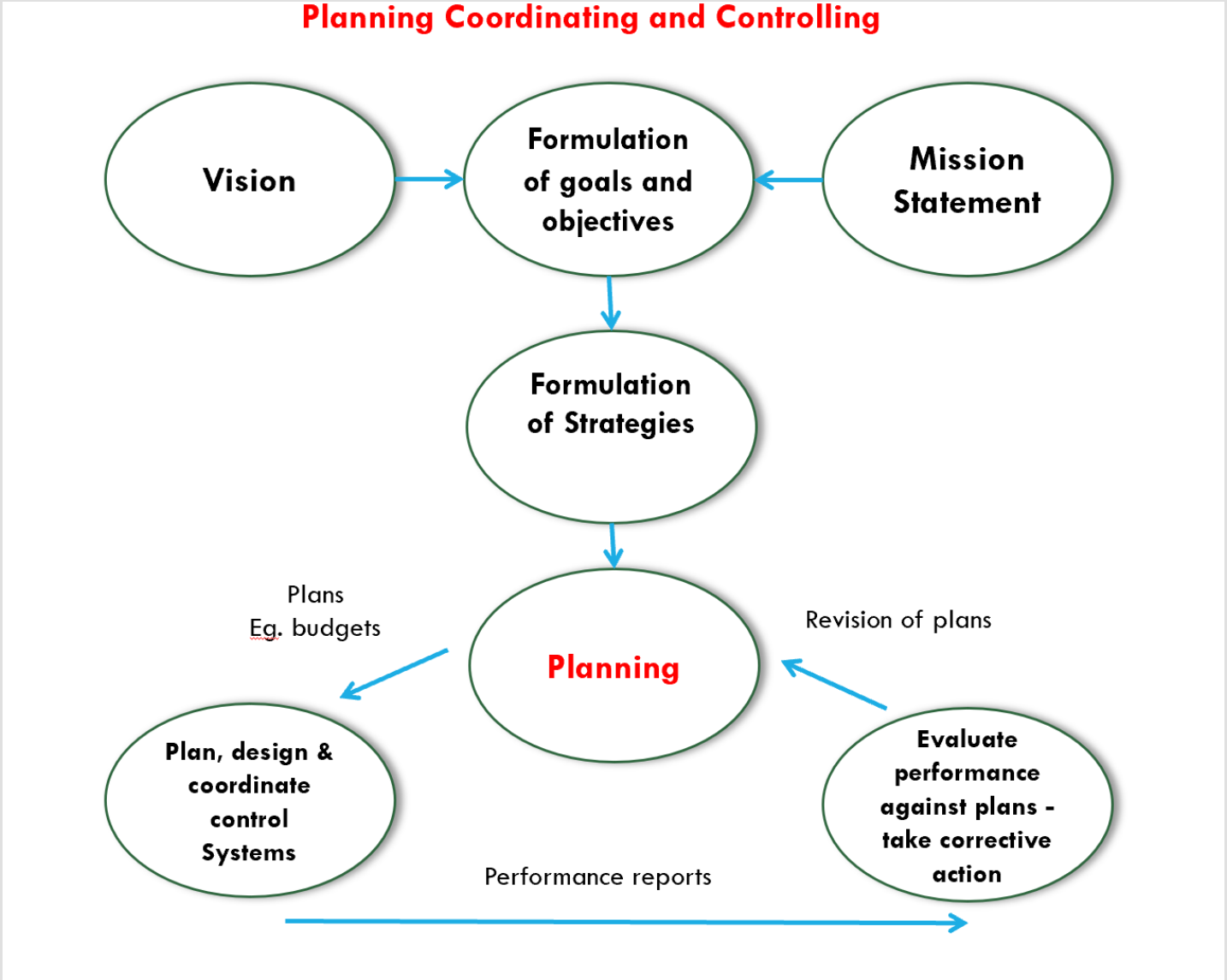
Calculation of NCF

- Increasingly required in WACE paper
- Workings vital
- **Recording, using and evaluating financial information: Recording, processing and communicating financial information**
- capital investment/budgeting techniques for capital expenditure, limited to calculations for cash flows using straight-line depreciation method only and net of taxation
- No need to do a pre and post tax calculation

Capital budgeting

Questions?

Budgeting


Planning Coordinating and Controlling
Vision
Formulation of goals and objectives
Mission Statement
Formulation of Strategies
Plans
Eg. budgets
Planning
Revision of plans
Plan, design & coordinate control Systems
Evaluate performance against plans - take corrective action
Performance reports

The Master Budget

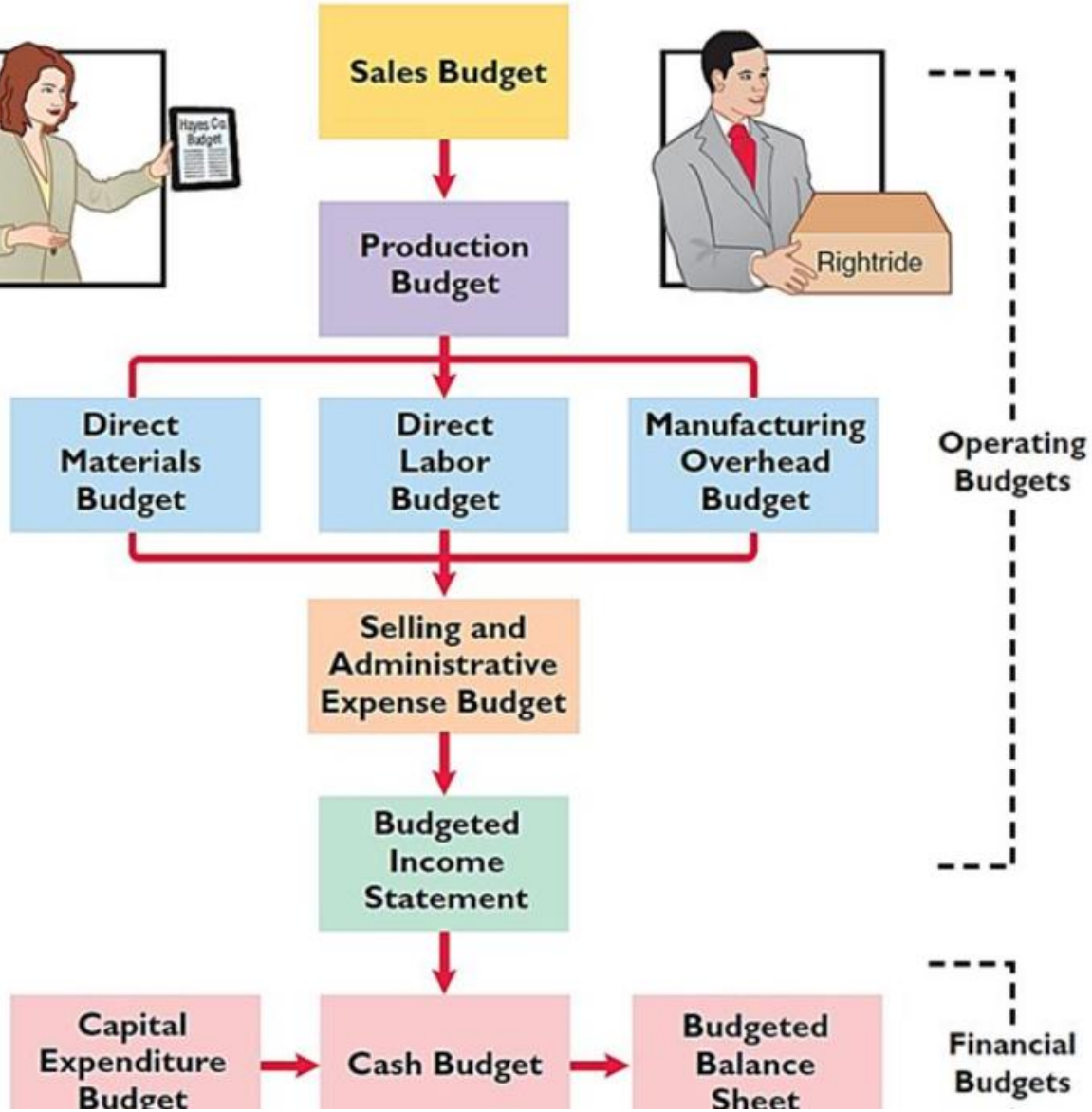


Illustration 9-2
Components of the master budget

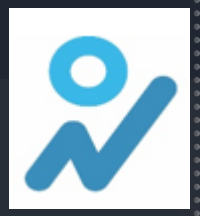
Cash Budgets

Receipts (cash in)

- Schedule of collections from debtors + cash sales
- Interest received
- Proceeds on sale
- Loan proceeds/funds
- Share issues

Payments (cash out)

- Payments to creditors
- Cash purchase of assets
- Dividends paid
- Bills paid
- Prepayments
- Loan repayments



Budgeted Income Statement

Sales (Cash + Credit)
Less Sales returns
Less Discount allowed
Less Cost of sales
Gross Profit
Add Other Income *(LIST SEPARATELY)*
Interest income
Dividends income
Gain on sale of assets
All other income (rent/commission….)
Less Expenses *(LIST SEPARATELY)*
Depreciation expense
Loss on sale of asset
Wages expense (including accrual)
Interest expense
Rent/Insurance/Adv expense (used up prepayment)
Doubtful debts
Electricity expense
All other expenses (utilities/rates/stationery……)
Profit before tax
Income tax
Profit after tax

Budgeting

- Cash and accrual accounting
- Semester 1 keep the reconstructions simple
- Semester 2 full reconstructions
- Be aware of terminology
  - *Not accounts payable but payments to creditors*
- Show full workings

Budgeting

Purpose important

- Decision making
- Cash viability
- Expected profitability

Business planning theory important

- Internal audit
- Internal control
- Strategic planning
  - Goals and objectives
  - Differentiation and cost leadership
- Internal management
- Management accounting

Budgeting

Questions?

Financial Accounting

HIGHLY SUMMARISED AND REGULATED

WORKINGS ARE REALLY IMPORTANT

FORMAT IS REALLY IMPORTANT

THEORY IS REALLY IMPORTANT (35% - 40%)

CONTEXT RELEVANT

Corporations

- Teach theory in context
  - Share issues
    - Prospectus (view online)
    - Shareholders (annual report)
    - Directors (annual report)
    - Dividends
  - View the Replaceable Rules in the Corporations Act
  - Corporate Governance and ethics (annual report)
  - Regulatory Framework
    - ASX, AASB, IASB (view online)

Comprehensive Income Statement

Single statement	
Summarised	Provide templates
Specification booklet	Net Sales COS
Brackets	
Balance day adjustments	
Gain on revaluations	

Comprehensive Income Statement

Revenue (Sales – sales less sales returns – discount allowed OR Fees)	XXX
Cost of sales (COS + customs duty + freight in – discount received)	(XXX)
Gross profit	XXX
Other income	XXX
*Operating expenses	(XXX)
Finance costs (Interest)	(XXX)
Profit (loss) before income tax	XXX
Income tax expense (on profit)	(XXX)
Profit (loss) for the period	XXX
Other comprehensive income	
Gains on asset revaluations (Land)	XXX

Statement of Financial Position

Summarised

No brackets

Extracts common

Current Asset Investments

Over 12 months not NCA

Over 3 months not CCEq

Statement of Financial Position

Current assets		
Cash and cash equivalents *(cash on hand, cash at bank, deposits at call, cash management trust, short term money markets < 90 days)*		XXX
Trade receivables *(accounts receivable – allowance for doubtful debts, accrued income, GST credits)*		XXX
Inventories		XXX
Other current assets *(prepayments)*		XXX
Total current assets		XXX
Non-current assets		
Property, plant and equipment *(Net - workings in the notes)*	1	XXX
Goodwill		XXX
Other intangible assets *(patents, mastheads, trademarks)*		XXX
Investments		XXX
Total non-current assets		XXX
Total assets		XXX
Current liabilities		
Trade and other payables *(accounts payable, accrued expenses, GST Payable)*		XXX
Short-term borrowings *(bank overdraft)*		XXX
Current tax payable		XXX
Other current liabilities *(unearned income)*		XXX
Total current liabilities		XXX
Non-current liabilities		
Long-term borrowings *(mortgage, loan, debentures)*		XXX
Total non-current liabilities		XXX
Total liabilities		XXX
Net assets		XXX
Equity		
*Share capital	2	XXX
*Retained earnings		XXX
*Reserves	3	XXX

Demonstration

9.19 Patterson Matilda Ltd

A + E = L + EQ + I

Accumulated depreciation on shop equipment – PPEq		256000
Shop equipment PPEq	1200000	
Utilities expense OE	11900	
Other general and administration expenses OE	129000	
Receivables TR	169000	
Overdraft STB		73000 O/D
Cost of sales COS	1278000	
General reserve Req		580000
Retained earnings RE		126000
Prepaid rent other	26000	– 6000
Rent expense OE	16400	+ 6000
Other selling and distribution expenses OE	95000	
Commission revenue OI		16000
Inventory Inv	384000	
Interest expense Fin	31000	+1000
Other financial expenses Fin ??	13500	
Sales Rev		2105000
Accounts payable TP		76000
Unsecured notes (due 2017) LTB		206000
Allowance for doubtful debts – TR		1800
Unearned service fees revenue OL		67000
Service fees revenue Rev		45000
Machinery PPEq	2408000	
Accumulated depreciation on machinery – PPEq		207000
Proceeds on sale of machinery CASH – Sale of Asset		3000
Share capital (2000000 ordinary $1 shares fully paid) CAP		2000000

Accrued Interest 1000

- Interest on borrowings owing 1000
- Rent expensed 6000

Notes

1 Property, plant and equipment (show carrying amount)

Land at cost	XXX
Add: Revaluation	XXX
	XXX
Buildings	XXX
Less: Accumulated depreciation	XXX
	XXX
Plant and equipment	XXX
Less: Accumulated depreciation	XXX
	XXX
Total Property, plant and equipment *(always write in full)*	*XXX

Notes

2 Share capital

X million ordinary shares issued at X cents, fully paid less share issue costs	XXX
X million ordinary shares issued at X.xx cents, fully paid less share issue costs	XXX
	**XXX

***Reconciles to total on the balance sheet and statement of changes in equity*

3 Reserves (Other components of equity)

General reserve	XXX
Asset revaluation reserve	XXX
	***XXX

****Reconciles to total on the balance sheet and statement of changes in equity*

Notes

4 Dividends

The following dividends were paid during the year ended 30 June 20XX:

Ordinary shares, XX cents per share	XXX
	****XXX

****Reconciles to amount included in statement of changes in equity*

The directors have recommended final dividends for the year ended 30 June 20XX:

Ordinary shares, XX cents per share	XXX
	XXX

Statement of Changes in Equity

- Use table format
- Equity section of balance sheet
- Mirrors the ledger reconstruction
- Use template

Statement of Changes in Equity

XYZ Group
Statement of Changes in Equity
for the year ended 31 December 20xx

	Share capital $'000	**Retained earnings $'000**	**Revaluation reserve $'000**	**General reserve $'000**	**Total equity $'000**
Balance at 30 June 20XX	XXX	XXX	XXX	XXX	XXX
Changes in equity for the year:					
Issue of share capital *(issued this year)*	XXX				XXX
Share issue costs *(relating to this years issue)*	(XXX)				(XXX)
Bonus Share Issue *(issued from a reserve)*	XXX		(XXX)		
Dividends *(paid this year)*		(XXX)			(XXX)
Total comprehensive income for the year		XXX *(profit after tax)*	XXX *(gain on revaluation)*		XXX *(Reconciles to comprehensive income statement)*
Transfer to/from general reserve		(XXX)		XXX	
Balance at 30 June 20XX *(Reconciles to balance sheet)*	XXX	XXX	XXX	XXX	XXX

Statement of Cash Flow

- Use template
- Reconstructions vital
- Cash and cash equivalents
- Extract common
- Be aware of non cash items
  - Depreciation
  - Revaluations
  - Bonus issues
  - Transfers to and from reserves

Direct Method Statement of Cash Flows (paragraph 18(a))

	20X2
Cash flows from operating activities	
Cash receipts from customers	30,150
Cash paid to suppliers and employees***	(27,600)
Cash generated from operations	2,550
Interest paid	(270)
Income taxes paid	(900)
Net cash from operating activities	***1,380***
Cash flows from investing activities	
Purchase of property, plant and equipment	(900)
Proceeds from sale of property plant and equipment	20
Interest received	200
Dividends received	200
Net cash used in investing activities	***(480)***
Cash flows from financing activities	
Proceeds from issue of share capital	250
Proceeds from long-term borrowings	250
Loan repayment	(90)
Dividends paid	(1,200)
Net cash used in financing activities	***(790)***
Net increase in cash and cash equivalents*	***110****
Cash and cash equivalents* at beginning of period	120
Cash and cash equivalents* at end of period	**230**

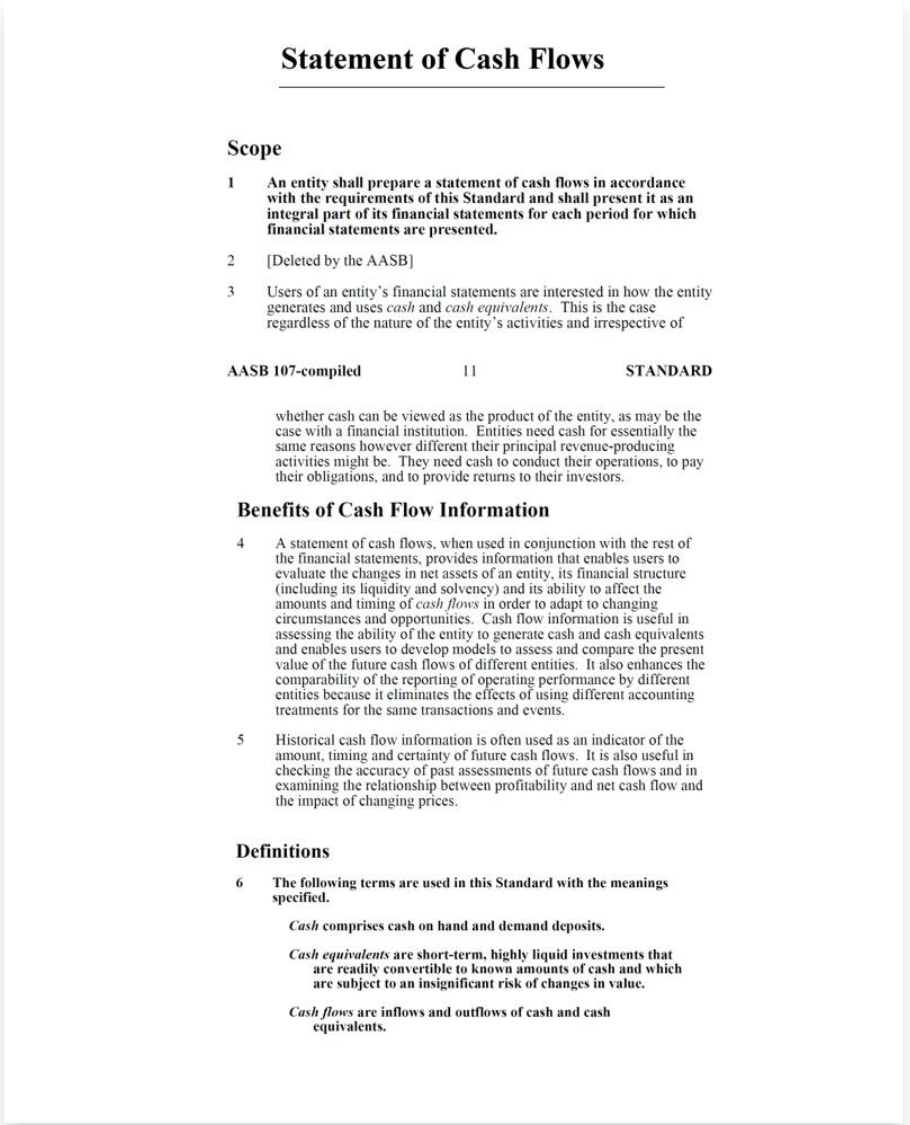
***Cash and cash equivalents** consist of cash on hand and balances with banks, and investments in money market instruments. It includes bank overdraft, as the bank balance often fluctuates from being positive to overdrawn.

** The ***Net increase in cash and cash equivalents*** is equal to the total cash inflows and outflows over the period. It is a total of the net cash from operating activities plus the net cash used in investing activities plus the net cash used in financing activities. This figure **should** reconcile back to the change in the cash and cash equivalents at the beginning and end of the period.

*** **Cash paid to suppliers and employees** is a summary of all cash paid to suppliers, such as creditors, electricity, telephone, employees and is shown as working in a schedule of cash paid to suppliers and employees.

Statement of Cash Flow

Accounting Standards



Statement of Cash Flows

Scope

1 **An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.**

2 [Deleted by the AASB]

3 Users of an entity's financial statements are interested in how the entity generates and uses *cash* and *cash equivalents*. This is the case regardless of the nature of the entity's activities and irrespective of

whether cash can be viewed as the product of the entity, as may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors.

Benefits of Cash Flow Information

4 A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of *cash flows* in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities. It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events.

5 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Definitions

6 **The following terms are used in this Standard with the meanings specified.**

Cash **comprises cash on hand and demand deposits.**

Cash equivalents **are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.**

Cash flows **are inflows and outflows of cash and cash equivalents.**

GPFR’s

Questions?

Ratios

SPECIFICATION BOOK

CALCULATE

ANALYSE

2 DECIMAL PLACES

SCSA Resources