Chapter 1

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Types of business

- Trading business: buy goods from supplier to sell to customers
  - E.g, Bookshops, Supermarkets
- Service Business: provides service to customers
  - E.g, Medical services, Cleaning services, Banking services

Forms of business ownership

Sole proprietorship (SP), Limited liability company (LLP), Private limites company (PLC)

Features

- Ownership
- Access to funds
- Risk
- Level of Control
- Lifespan
- Transferability of ownership
- Formalities and procedures

Stakeholders

→ groups of people who will make use of information about the business to make decisions

- Owners & shareholders: Contribute capital ans expect profit distribution in return
  - E.g, whether to continue to invest in the business
- Managers: Work for business, Devise strategic plans to run business effectively
  - E.g, consider ways to improve performance of business
- Employees: Work for business, Perform executive duties
  - consider working at the business
- Lenders: Make monet available to business, Expect it to be fully repaid with interest
  - E.g, whether to grant loas to the business
- Suppliers: Supply goods and/or services to business
  - E.g, whether to sell to business on credit
- Customers: Buy goods and/or services from business
  - E.g, whether to buy from business
- Government: Enforce tax regulations
  - E.g, decides the amount of tax to collect
- Competitors: sell similar goods and/or services as the business
  - E.g, whether they are comparable to collect from business

→ Stakeholders rely on both accounting information (e.g, cost of inventory) and non-accounting information (e.g, consumer preference)

Roles of accounting

Accounting is an information system that provides accounting information for stakeholders to make informed decisions regarding the management of resources and performance of business.

Roles of accountants

Accountants prepare and provide accounting information for decision-making. They set up an accounting information system (AIS) and become stewards of the business.

Professional ethics

- ➔ Integrity
  - ◆ To have integrity is to be straightforward and honest in all professional relationships
- ➔ Being objective
  - ◆ To not let bias, conflict of interest or the undue influence of others override their professional judgement

Chapter 2

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Transactions

1. Cash transactions
    a. Payment is made at the same time or immediately during a cash sale or purchase
2. Credit transactions
    a. Payment is delayed or postponed to a later date during a credit sale or purchase (Payable)

Accounting Entity Theory – The activities of a business are separate from the actions of the owner. All business transactions are recorded from the point of view of the business
Monetary Theory – Only business transactions that can be measured in monetary terms are recorded

Accounting cycle

1. Identify and record
    a. Source documents → journal & ledgers
2. Adjust
    a. Ledger's ending balance → trial balance
    b. Adjusting entries recorded → journal & ledger
    c. Accounts are adjusted at least once a year
3. Report
    a. Trial balance → financial statements
    b. Financial statements are prepared at least once in a financial year
4. Close
    a. Income, expenses, income summary, drawings and dividends → closed
    b. Accounts are closed once at the end of the financial year

Accounting Information System

Business uses AIS to collect, store and process accounting data

Source documents → Journals → Ledgers → Trial balance → Financial statements

Source documents

→ provides evidence to capture the occurrence of a transaction
→ contains the details of a business transaction that are needed for recording

Types

- Reciept
    - Acknowledges payment received from customers immediately after the business has sold goods / provided services
- Remittance advice
    - Informs credit supplier that payment by cheque has been made for a specific invoice
- Invoice
    - Informs credit customer of the amount owed after the business has sold goods / provided services
- Credit note
    - Reduces the amount owed by credit customers
        - Who were previously overrcharged
        - After goods were returned
- Debit note
    - Increases the amount owed by credit customers
        - Who were previously undercharged
- Payment voucher (reciept)
    - Process payment to credit suppliers
        - Must be approved by authorised personnel
        - Must be reported by original supplier's invoice
- Bank statment
    - Checks and tallies against the business records of its cash at bank

Historical Cost Theory – Transactions should be recorded at their original cost
Objectivity Theory – Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and bias

Chapter 3

Elements of Financial Statements

Assets
- Office Equipment
- Motor Vehicle
- Fixtures & Fittings
- Trade Receivable
- Inventory
- Cash at bank

Liabilities
- Mortgage loan
- Trade payable
- Bank overdraft (Credited amount of CAB)
- "_____" Payable

Equity
- Sole proprietorship

→ Capital
→ Drawings (contra-equity)
→ Profit / Loss

- Private limited company

→ Share Capital
→ Retained earnings
→ Dividends

Income
- Revenue

→ Sales revenue
→ Service fee revenue

- Other

→ Rent income
→ Discount recieved

Expenses
- Trade business

→ Cost of sales

- Other

→ "____" Expense
→ Discount allowed

Basic Accounting Equation

Assets = Liabilities + Equity

→ Expanded equation

a) Sole proprietorship
   i) Assets = Liabilities + Capital + (Income - Expense) - Drawings
b) Private limited company
   i) Assets = Liabilities + Share capital + (Income - Expense) - Dividends

- Each business transaction will have at least TWO effects on the accounting equation
- After each transaction is recorded, the accounting equation must remain balanced

Explain how the accounting entity theory is applied to account for capital and drawings.

– The accounting entity theory states that the activities of a business are separate from the actions of the owner, all business transactions are recorded in the point of view of the business

– Capital is the contribution by owners to the business and drawings are withdrawals made by the owner for personal use

Chapter 4

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Rules of double-entry recording system

1. Each business transactions will affect at least TWO accounts
2. At least one account will be debited
3. At least one account will be credited

Accounting Element	Debit	Credit
Assets	+ Increase	- Decrease
Liabilities	- Decrease	+ Increase
Equity – Drawings	- Decrease + Increase	+ Increase - Decrease
Income	- Decrease	+ Increase
Expense	+ Increase	- Decrease

Journal Entries

Format:

Journal			
Date	Particulars	Debit	Credit
YYYY		$	$
MMM DD	Debited Account	XX	
	Credited Account		XX
	Narration to describe transaction		

Ledger Entries

Format:

Name of Account				
Date	Particulars	Debit	Credit	Balance
YYYY		$	$	$
MMM DD	Balance b/d			XX Dr
MMM DD		XX		XX Dr
MMM DD			XX	XX Dr
MMM DD	Balance b/d			XX Dr

Discounts

Trade Discount

→ a reduction to the list price

→ Invoice price = List price - TD

- Encourages customer to buy in bulk
- Encourages patronage and loyalty

Cash Discount

→ a reduction to the invoiced price

→ Amount = Invoice price - CD

→ Recorded as 'discount allowed' or 'discount received'

- Encourages credit customer to pay early

Discount Allowed (Expense) → given to credit customers who pay early → Decreases profit
Discount Received (Income) → received when business pays early → Increases profit