(These notes consist mainly of the theory parts of the textbook, refer to self notes and textbook for practical. Some chapters are skipped)

1.1 Introduction to Business

Types of Businesses

Trading Business	**Service Business**
Buys from suppliers and sells goods to customers	Provides service to customers
E.g. Cafes, restaurants	E.g. Salons, web design

> Forms of Business Ownerships

Sole Proprietorship	**Limited Liability Partnership**	**Private Limited Company**
Owned by **one person** who contributes capital	Owned by **two or more partners** where each partner contributes capital	Owned by **50 or less shareholders** where each shareholder buys **shares** and contributes capital
Banks and other lenders are less likely to lend money to an SP due to **lack of personal assets** that can serve as **collaterals**	Banks and other lenders are more likely to lend money to LLP as there are sources of **personal assets** from partners and **business assets** that serve as **collaterals**	Banks and other lenders are more likely to lend money to PLC as there are **business assets** of **high value** that can serve as **collaterals**
When SP incurs debt/loss, the **sole owner is expected to pay** using his/her personal assets	When LLP incurs debt/loss, **partners are not personally liable for them**. However, if it is due to the **wrongful actions of one partner, only that person is responsible** while other partners are not affected.	When PLC incurs debt/loss, **shareholders are not obliged to pay** them using personal assets, but may not receive **dividends**. At most, they will only forfeit their investments.
Owner usually runs the business by themself and has **absolute control**. They may hire	Control over the business is **shared among partners with at least one partner heavily involved.** Partners may hire	Shareholders have **no control** over the business (unless they are part of management team) Company hires professionals

professionals to help manage the business	professionals to help them.	to manage the business on **behalf of the shareholders**
SP exists as long as the owner is alive and desires to continue operation	LLP exists forever until wound up or struck off	Company exists forever until wound up or struck off
Owner can easily update particulars of the new owner to notify the **corporate regulatory authority** of transfer of ownership	**All partners need to agree to addition/withdrawal of partners** before corporate regulatory authority will acknowledge the transfer of ownership	Shareholders pay a **stamp duty** to the tax authority to give their shares to another person or organisation

Stamp duty- tax related to transfer of property, stocks and shares

1.2 Stakeholders and their Decision Needs

Stakeholders	**Interaction with Business**	**Decision to Make**
Owners and Shareholders	Contribute capital to business and expect profit in return	Whether to continue to invest or sell the business depending on the risks and returns related to the business
Managers	Work for business and devise strategies to run it efficiently	Whether to consider ways to improve the business' performance
Employees	Work for business and perform executive duties	Whether to continue working at the business
Lenders	Make money available to business and expect to be fully repaid with interest	Whether to grant loans to the business
Suppliers	Supply goods and/or services	Whether to sell to the business on credit
Customers	Buy goods and/or services	Whether to buy from the business
Government	Enforce tax regulations	Whether business complies with tax regulations and decide the amount of tax to collect

Competitors	Sell similar goods and/or services as the business	Whether they are comparable to the business and how to improve their performance

1.3 Role of Accounting and Accountants

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

>Role of Accountants
Accountants prepare and provide accounting information for decision making, becoming stewards of businesses
Accountants have to: **adapt, solve problems, think critically and provide accounting + non-accounting information for decision making**; and
Provide **timely, relevant and credible information** based on **accounting theories** which are easily and appropriately understood by stakeholders

>Professional Ethics
Integrity: An ethical accountant must be straightforward and honest is all professional relationships
Objective: An accountant will not let bias, conflict of interest or undue influence of others override their professional judgement

Unethical actions:

- Prepare accounting records containing false information
- Accept gifts or preferential treatment
- Get involved in selection of a vendor when their immediate family could benefit financially from the transaction
- Prepare false information due to threat of dismissal

>Accounting Theories*

Accounting Entity	Activities of a business are separate from the actions of the owner. All transactions are recorded from point of view of the business
Accounting Period	The life of a business is divided into regular time intervals
Accrual basis of accounting	Business activities that have occurred, regardless of whether cash is paid or received, must be recorded in the relevant accounting period
Consistency	Once an accounting method is chosen, this method should be applied to all future accounting periods to enable meaningful comparison.
Going concern	A business is assumed to have an indefinite economic life unless there is credible evidence that it may close down
Historical cost	Transactions should be recorded at their original cost
Matching	Expenses incurred must be matched against income earned in that same period to determine the profit for that period
Materiality	A transaction is considered material if it makes a difference in the decision making process
Monetary	Only business transactions that can be measured in monetary terms are recorded
Objectivity	Accounting information recorded must be supported by reliable and verifiable evidence so that financial statements will be free from opinions and biases.
Prudence	The accounting treatment chosen must be one that least overstates assets and profits and least understates liabilities and losses
Revenue Recognition	Revenue is earned when goods and services have been delivered or services have been provided

Chapter 2.1 Types of Business Transactions

Cash Transactions	**Credit transactions**
Payment is made at the same time/immediately during cash sale or purchase	Payment is delayed or postponed during a cash sale or purchase

2.2 Accounting Cycle

Stage 1: Identify and record

Source documents are used to record transactions in the journal and the journal entries are posted to the ledger. Transactions are recorded daily.

Stage 2: Adjust

End balances of ledger accounts are listed in a trial balance. Any adjusting entries are recorded in the journal and posted to the ledger. Accounts are adjusted at least once in a financial year.

Stage 3: Report

Based on the adjusted TB, financial statements are prepared. Reports are prepared at least once in a financial year

Stage 4: Close

After FS are finalised, income, expenses, income summary, drawings and dividends accounts are closed by first passing journal entries before being posted to the ledger. Accounts are closed once at the end of the financial year.

2.3 Accounting Information System

Journal: Daily record of transactions organised by transaction dates

Ledger: A ledger account is a consolidation of all transactions relating to a specific asset/liability/equity/income/expense item

Trial balance: Provides summary of ending balances of each ledger account at a specified date.

Financial statements: Financial performance provides a report on income, expenses, and profit/loss over a period of time. Financial position provides a report on assets, liabilities and equity at a specific date.

Source document: provides proof of transactions

→ Types:

Source Document	**Purpose of Source Document**
Receipt	Acknowledges payment received from customers immediately after goods sold/services provides
Remittance advice	Informs credit supplier that cheque payment has been made for a specific invoice
Invoice	Informs credit customers of amount owed after goods sold/services provided
Credit note	Reduces amount owed by credit customers (previously overcharged; or after goods are returned)
Debit note	Increases amount owed by credit customers (previously undercharged)
Payment voucher	Processes payment to credit suppliers (must be approved by authorised personnel and supported by original supplier's invoice)
Bank statement	Checks and tallies against business records of CAB account

3.1 Elements of Financial Statements

Assets: Resources a business owns or controls that are expected to provide future benefits (beyond one financial year→NCA, within one financial year→CA)
>Example of assets
Non-current assets: Office equipment, motor vehicles
Current assets:
Inventory: Goods bought by the business to sell to customers
Trade receivables: Amounts collectible from credit customers
Cash at bank: Cash deposited with the bank
Cash in hand: Physical cash kept by business

Income receivable: Income earned but not yet received
Prepaid expenses: Expenses not incurred but paid in advance
Liabilities: Obligations owed by business to others that are expected to be settled in the future
>Example of liabilities
Non-current liability:
Loan from X: Money borrowed from X which may be banks and other lenders
Mortgage loan: Money borrowed using collaterals
Current liability:
Trade payables: Amounts owed to credit suppliers
Bank overdraft: Money borrowed when the bank account is overdrawn and the available balance goes below zero
Income received in advance: Income not earned but collected in advance
Expense payable: Expense incurred but not yet paid

Equity: Claim by owner(s) on the net assets of the business
>Examples of Equity
Capital: Resources contributed by owner for business use
Profit or loss for the period: Difference between income earned and expenses incurred within one accounting period
Drawings: Assets taken from business for personal use
Share capital: Cash raised by issuing shares to investors
Retained earnings: Accumulation of profits and losses that has not been distributed to shareholders yet
Dividends: A portion of retained earnings that is distributed to shareholders

Income: Amounts earned from activities of business
> Examples of Revenue/Other Income
Sales revenue: Money earned from selling goods
Service fee revenue: Money earned from providing services
Rent income: Money earned from lending out part of the shop/office space
Discount received: Cash discount received from credit supplier for making early payment

Expenses: Costs incurred to earn income in the same accounting period
>Examples of expenses
Cost of sales: Total cost prices of goods sold
Interest expense: Charges from borrowing money from banks and other lenders

Depreciation of non-current asset: A portion of the original cost of the NCA allocated over its useful life
Discount allowed: Cash discount given to credit customers for early payment

3.2 Accounting Equation

Basic accounting equation:
Assets = Liabilities + Equity
Expanded accounting equation:
Profit/loss for the period = Income - Expenses

Sole proprietorship:
Assets = Liabilities + Owner's Equity (Capital+Profit/-Loss-Drawings)

Private limited company:
Assets = Liabilities + Shareholders' Equity (Share capital+Retained earnings/-Accumulated losses-Dividends)

4.4 Discounts

Trade discount vs Cash Discount

Trade Discount	Cash Discount
A reduction to list price	A reduction to invoiced price
Encourage: customers to buy in bulk; Their patronage; and Their loyalty	Encourage credit customers to pay early within a specified time
Invoiced price = List price - trade discount	Amount paid = Invoiced price - cash discount
Not recorded in ledger acc. as only the invoiced price is recorded.	Recorded in ledger acc. as discount allowed or discount received

8.1 Cash

>Reasons for dishonoured cheque:
Cheque has expired
Cheque is post-dated (written for a future date)
Information on cheque is not consistent (Amt in numbers does not match the amt in words, signature is different)
Information on cheque is not complete (no date; amount to be paid or signature)
Payer's bank account does not have enough money/is closed/frozen

8.3 Purposes of Internal Controls

Internal Control	**Examples of Good Practices**
Segregation of duties	Separate cash handling and cash recording duties among diff employees so that no single person has control over the entire cash process: Businesses ensure diff employees: Receive and deposit cash; authorise invoices for payment and process payment to suppliers; write and authorise cheques
Custody of cash	Secure cash and cheques in a locked storage: Limit access of cash to authorised personnel. Provide combinations, passwords or other access codes to authorised personnel only
Authorisation	Obtain proper approvals for all payments from authorised personnel: Require at least two reasons to review and approve all payments
Bank reconciliation	Compare business records with bank records to identify differences between the ending balances in the business cash at bank account and the bank statement

9.2 Decision: Which Inventory to Buy
Information to consider:

Accounting information:
Cost of inventory
Storage cost
Gross profit margin
Rate of inventory turnover (times)
Days sales in inventory (days)

Non-accounting information:
Nature of product
Types of storage
Customers' preferences
When making decisions, state the choice picked clearly and pick out relevant evidence and explain how evidence supports your decision.

11.2 Decision: Buy or Rent Non-current Assets

Information to consider:
Accounting information:
Business' current financial situation
Cost of ownership versus renting

Non-accounting information:
Advantages and disadvantages of buying or renting

Decision: Which Non-current Assets to Buy

Information to consider:
Accounting information:
Price of non-current assets
Installation cost
Cost of maintaining non-current assets
Related repair costs

Non-accounting information:
Purpose of non-current asset
Features of non-current asset
Customers' reviews of non-current asset
Warranty (Promise by manufacturer to replace/repair an NCA within a specified period, safeguarding the business from possible cost of repairs/breakdowns during stated period)

11.3 Accounting for Non-current Assets

Expenditure related to NCA is classified as either:

Capital expenditure	Costs to buy and bring NCA to their intended use Costs to enhance the non-current assets Provide benefits for more than one year Recorded as non-current assets
Revenue expenditure	Costs to operate, repair and maintain non-current assets in working condition Provide benefits which will be used within one year Recorded as expense

11.4 Accounting for Depreciation

Depreciation is the allocation of cost of NCA over its estimated useful life.

Straight-line	Assumes NCA provides same benefits throughout their estimated useful lives E.g. Fixtures and fittings
Reducing balance	Assumes NCA provides more benefits in the earlier years than in its later years E.g. Motor vehicles

12.2 Decision: Which Supplier to Buy From

Information to consider:

Accounting information:

Cost of inventory/NCA/services

Trade discounts

Credit terms and cash discounts

Delivery charges

Installation costs

Maintenance costs

Non-accounting information:

Local or overseas, online or brick-and-mortar supplier

After-sales service

Return policy

Warranty

Reputation of supplier

13.1 Borrowings

Bank loan vs bank overdraft

Bank loan	Bank overdraft
Business borrows fixed amount and cash is transferred to its CAB account	Business withdraws more than what is has deposited in the CAB account
Business makes regular cash payments in equal instalments over the loan period/one-time lump-sum payment	Business deposits cash into CAB account within the year to reduce the overdraft
Recorded as non-current liability (long-term borrowing)	Recorded as current liability

15.1 Errors not revealed by Trial Balance

Wrong amount recorded
Transaction not recorded at all
Transaction recorded in another account of **different** accounting element
Transaction recorded in another account of **same** accounting element
Transaction recorded on the wrong sides of the accounts involved

Transaction recorded in wrong accountX (too vague, all errors are caused by wrong accounts anyway)

16.1 Financial Statement Analysis
16.2 Profitability
Ability to generate excess income to cover its expenses
>Ways to improve profitability
1. Sell goods at higher selling price
2. Buy goods at lower cost price (e.g. buy in bulk to obtain trade discount or buy from a cheaper supplier without compromising quality)
3. Increase sources of other income (e.g. sublet excess space to earn rent income or pay early to get cash discounts)

4. Reduce operating expenses (e.g. Reduce use of electrical appliances to lower utility expenses; hire freelancers or part-timers on a needs basis; negotiate lower rent; relocate to another premise that charges lower rent)

>Profitability Ratios

Gross profit margin (%)	GP/NS x 100	Measures how much gross profit a business earns for every dollar of net sales revenue (selling goods at a higher/lower selling price or buying at a higher/lower cost price)
Mark-up on cost (%)	GP/COS x 100	Measures how much gross profit a business earns for every dollar of cost of sales
Profit margin (%)	P/NS x 100	Measures how much profit a business earns for every dollar of net sales revenue (Higher PM, more efficient in managing its operating expenses)
Return on equity (%)	P/Avg Equity x 100	Measures how much profit a business earns for every dollar of equity invested by owner or shareholders (higher ROE, more efficient at generating profits for its owner/shareholders)

16.3 Liquidity

Ability to convert current assets into cash to pay current liabilities

>Ways to improve liquidity

1. Increase sources of cash (e.g. obtain capital from owner/shareholders; obtain long-term loans, sell unused NCA for cash)
2. Manage cash outflow (e.g. reduce operating expenses; negotiate for better credit terms from supplier)

>Liquidity Ratios

Current ratio	CA/CL	Measures ability of business to pay short-term debts using its current assets (general benchmark of 2)
Quick ratio	(CA-Inv-Prepaid)/CL	Measures ability of business to pay short-term debts using its quick assets (converted to cash more quickly) (general benchmark of 1)

16.4 Efficiency in Inventory Management

A business manages its inventory at an optimal level to meet customer demand

>Ways to improve efficiency

1. Sell inventory faster (e.g. reduce selling price, provide trade discounts, attract more customers through marketing campaigns)
2. Keep sufficient inventory on hand (e.g. use technological tools to improve accuracy of predictions about customer demand in order to know when and how much inventory to buy)

>Efficiency ratios

Rate of inventory turnover (times)	COS/Avg Inv	Measures no. of times a business has sold and replaced inventory
Days sales in inventory (days)	Avg Inv/COS x 365 days	Measures no. of days a business takes to sell its inventory

16.5 Efficiency in Trade Receivables Management

A business manages its trade receivables by granting appropriate credit terms to promote sales and collecting cash from its credit customers on a timely basis.

>Ways to improve efficiency:

1. Improve credit granting processes (e.g. Monitor collection patterns closely; ensure credit is granting to customers who are financially able)
2. Provide monetary incentives (e.g. offer cash discounts to encourage customers to pay early)
3. Increase debt collection efforts (e.g. send regular reminders to customers who delay/refuse payments; engage in professional agencies to collect payment from financially distressed customers)

>Efficiency ratios

Rate of trade receivable turnover (times)	NS/Avg trade receivables	Measures no. of times a business collects payment
Trade receivable collection period (days)	Avg trade receivables/NS x 365 days	Measures no. of days a business takes to collect payments