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Note to Teachers

Thank you for purchasing the Stage 1 Accounting Workbook for use with your students. This Workbook provides content and activities in line with the revised SACE Stage 1 Accounting course. Stage 1 Accounting can be completed as a semester course or as a whole year course. The content covered in this Workbook is presented in a logical sequence based on the **accounting process** and not in the sequence a teacher would necessarily teach this content.

This allows the teacher flexibility to choose which sections of the Accounting course to cover each semester, or, if only offered as a semester course at your school, in one semester.

Additionally, this Workbook is not designed to be the sole resource teachers use in the teaching of this subject. Teachers are encouraged to use this Workbook to tailor the delivery of content to their students with the assistance of their own, and other, resources.

As a guide for new teachers, the following structure is suggested if your school offers Stage 1 Accounting over two semesters:

Semester 1

- Chapter 1 – Understanding Accounting (Sections 1.1-1.3)
- Chapter 2 – Accounting Principles and Practice
- Chapter 4 – Financial Reports
- Chapter 5 – Ratios and Decision-making.

Semester 2

- Chapter 1 – Understanding Accounting (Sections 1.1, 1.3 and 1.4)
- Chapter 2 – Accounting Principles and Practice (Section 2.3)
- Chapter 3 – Double-entry Accounting
- Chapter 4 – Financial Reports (use part of this chapter as revision)
- Chapter 5 – Ratios and Decision-making (use part of this chapter as revision).

A significant part of the new SACE Stage 1 Accounting course is the section, Accounting Advice. This Workbook attempts to introduce students to the concept of giving accounting advice throughout the book, in incremental stages by interpreting data and explaining how this impacts a business. Students initially can find this aspect of the course challenging so this Workbook has been designed with simple advice activities in the early chapters and then building to the case study at the end of Chapter 5, where more complex advice is sought.

I hope you will find this Workbook a useful resource for you and your Stage 1 Accounting students in 2022.

Chapter 1 – Understanding Accounting

Glossary of Terms

Accounting	Management	Quantitative data
Business/firm/organisation/ entity/company	Suppliers/creditors	Qualitative information
Stakeholders	Expenses	Internal user
Shareholders	Profit	External user
Customers	Financial statements/reports	Budgeting/forecasting
	Government	governance

1.1 What is Accounting?

Accounting affects our personal lives daily even though we may not always be aware of it. Every day we **make decisions** about how we will spend our money; we calculate how much we have earned from working or what we have saved, and we determine what we need to spend to cover our everyday expenses such as food, metro-card, petrol, gym membership and so on.

Most people need some simple form of accounting to deal with their personal finances. For example, knowing how to budget, how much tax to pay or whether they can afford a personal loan.

Similarly, businesses need an accounting system to enable them to operate efficiently. For example, they need to record the sales they make every day and what expenses they must pay, to ensure they can meet those financial commitments. **Accounting provides business owners with a process to keep accurate financial records for their business.**

Keeping accurate records of business transactions is vital for the success of any business. If a business owner does not keep adequate records, then there is a real risk that their business will fail. In fact, data from the Australian Bureau of Statistics (ABS) consistently shows that approximately 32% of small businesses in Australia will fail in the first 5 years, predominantly due to not managing their finances properly. (ABS, 2015) https://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Count

Governments also need accounting systems to keep account of the very large amounts of money they receive and spend. If you think about it, every person who has a job pays personal tax to the Australian Tax Office on their earnings. The Government collects this tax (known as income for the Government) and this money is spent on many things including community needs and wants. For example, to build more public schools and improve infrastructure like roads. Every 12 months, the Federal Government releases their budget so we can see where they have decided to spend the money they have received.

As you can see, accounting is important for individuals, for businesses and for governments. For the purposes of this course, however, we are mainly concerned with the use of accounting by businesses.



Figure 1.1.1: The Federal Budget is released each year in May.

Activity



Helpful online resources

Watch this video called “**Three Unexpected Benefits of Learning Accounting**” which explains the benefits of learning Accounting:

<https://tinyurl.com/3j8vawjy>



Definition of Accounting

For a business to be successful, owners need to have more than a detailed knowledge of their product or service. They also need to know how to **manage** – people, customers, stock, suppliers, and, importantly, **cash**. To do this, they need up-to-date, accurate information to make decisions. This is why accounting is important – it provides business owners with information to help them make decisions about their business, with a view to improving performance, and their business’ long-term success.

One useful definition of accounting is:

Accounting is a system used for recording and processing financial information and producing reports for interested parties so they can make informed decisions about the future of the business.



Accounting involves the **collection of information**. This information is classified as either **quantitative data** or **qualitative information**.

When making decisions, a business owner will consider **both** of these.

Quantitative Data:

This is information expressed in **numerical** form and which is **measurable**. It is referred to as **objective** information meaning it **can be proven and verified**.

Qualitative Information:

This is all **other** information which is considered **subjective** information because it is biased, opinion-based or personal. It is guessing why something has occurred. This **cannot be measured or given a value**.

Objectives of Accounting

The main aim of accounting is to assist in the **governance** of a business. Accounting communicates business and economic information to various interested parties. These interested parties who wish to use accounting information can be classified into two groups:

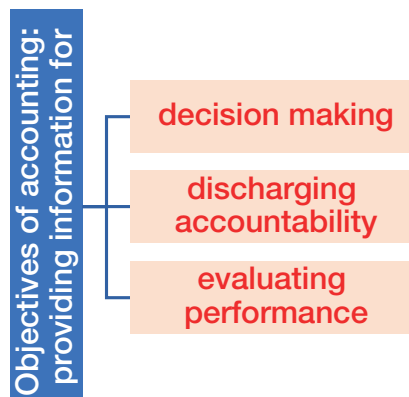
Internal users: all levels of management and employees of a business

External users: investors, government (Tax Office), suppliers, society.

Accounting plays an important role in the legal obligations of businesses. For example, businesses have a legal obligation to ensure that their financial records are accurate so that they pay the appropriate tax to the Government. Therefore, **an important objective of accounting is the accurate governance of a business**. Accounting communicates business and economic information to various interested parties. This information is used to make informed decisions about the business, such as whether to expand/grow the business in the future. Therefore, **an important objective of accounting is to provide interested parties with accurate and reliable information**.

There are three key reasons why accountants must provide accurate and reliable information, as shown in the following graph.

Each objective is essential to the accurate governance of a business for the following reasons:



Information for decision making

Decisions concerning the **sustainability** of a business are usually determined by the information an accountant provides to a business owner. It is important that information is provided at regular intervals so that the business owner can make **timely decisions**. Relevant, reliable, cost-efficient and timely information will allow better decisions to be made at the time they need to be made.

For example, a business may have a small window of opportunity to purchase a building to expand their business. To do this, the business owner will rely on the accountant to assess whether this is an appropriate financial decision.



Discharging accountability

Accountability in general means being **held responsible** to another (usually higher) authority for actions carried out. For accountants, this means they have a **responsibility** to provide information to enable users to make **informed judgements** about the performance, financial position, investment activities and compliance of the reporting (business) entity.

Evaluating performance

General purpose reports are prepared by an accountant on a regular basis, usually every 6-12 months. These reports include the Balance Sheet, the Income Statement and the Statement of Cashflows. The information from these reports enable business owners to **evaluate the performance** of their business during a given period (e.g. in a financial year). This allows the business owner to make decisions about **how to use resources** more effectively, **earn more profits** or achieve **financially stability**.



Management and Financial Accounting

Accounting information is used in two ways in business. Firstly, to provide financial information to managers/business owners so they can make decisions and secondly, to provide financial information to external users (such as banks) to help them make informed decisions about the financial position of the entity.

Management accounting is therefore defined as the area of accounting concerned with providing financial and other information to managers/business owners to assist them in their planning, controlling and decision-making responsibilities. For example, an accountant will use financial information to give advice on budget forecasts. Accountants who provide this information are referred to as management accountants.

Financial accounting is concerned with reporting information to users outside the entity in order to help them make economic decisions about the entity's performance and financial position. The financial accountant is involved in ensuring the entity is complying with requirements of the law, and that their financial reports are accurate. A financial accountant must make sure that they discharge their responsibilities, so they do not break any laws.

Activity

Can You See It?

Look at the two accounting reports below. At this stage you do not need to have an understanding of accounting to complete this task. You are simply required to read and extract information from the reports provided and answer the questions that follow.

Annie's Trading Store
Income Statement
for the period ending 31 December 2020

Revenue	\$	\$	\$	\$
Sales				
- Homewares			37,000	
- Gifts			31,000	
- Bathroom accessories			15,000	83,000
Less Cost of Goods Sold				
Opening Stock		35,000		
Purchases	18,500			
Less Purchase Returns	(600)	17,900	52,900	
Less Closing Stock			(18,000)	34,900
GROSS PROFIT				48,100
Less Expenses				
Wages			43,000	
Electricity			1,400	
Petrol			1,700	
Delivery			3,800	49,900
PROFIT/LOSS				(1,800)

Annie's Trading Store
Balance Sheet
as at 31 December 2020

ASSETS	\$	\$	EQUITIES	\$	\$
Current Assets			Current Liabilities		
Cash	22,000		Creditors	33,000	
Debtors	11,000		Loan to Bank (due 31.3.21)	3,000	36,000
Stock	18,000	51,000			
Non-current Assets			Non-current Liabilities		
Vehicles	53,000		Loan to Bank (due 2023)	21,600	
Office Equipment	68,000		Mortgage	110,000	131,600
Land	70,000				
Buildings	102,000	293,000	Owner's Equity		
			Capital (A Valley)	183,200	
			Less Drawings	5,000	
				178,200	
			Less Net Loss	(1,800)	176,400
TOTAL ASSETS		344,000	TOTAL EQUITIES		344,000

1. What is the name of the business?

.....

2. Who owns the business?

.....

3. What are the titles of the two reports?

.....

4. What are the dates of the two reports?

.....

5. How does the information in the Income Statement differ from that in the Balance Sheet? Provide at least two examples in your response.

.....

.....

.....

6. What does the business sell?

.....

7. List 3 items in the Balance Sheet that represent **items of value** to the business.

.....

.....

8. What do you think the term **expenses** means?

.....

.....

9. (a) Who might be interested in the two financial reports?

.....

.....

.....

(b) Why would they be interested?

.....

.....

.....

(c) What **two** items appear in both the Income Statement and in the Balance Sheet?

.....

(d) Which words in these two statements are unfamiliar to you?

.....

.....

Users of Information in a Business

Who uses accounting information?

Accounting information is usually prepared for the benefit of the business owner. There are, however, other parties that are interested in the financial information that is generated as well. These interested parties may be classified as either *internal* or *external* users of this information:



Internal users: management and employees of a business



External users: investors, customers, government (e.g. Australian Taxation Office), suppliers, society.

These groups are also commonly known as **stakeholders**. Stakeholders will be discussed in more detail in Chapter 1.2. They are defined below:

Internal users:

include all levels of management and other governing bodies of an organisation e.g. owners and managers, executives and board of directors. Internal stakeholders make decisions on various aspects of the operation of the organisation, such as financing, personnel, production and marketing.

External users:

- (a) **Investors** – These are people who have invested financially in a business. They are concerned with the level of risk in investing in a particular business and whether they will receive a return on their investment. They need information to help them determine whether they should buy, hold, or sell. Shareholders are also interested in information which enables them to assess the ability of the entity to pay dividends.
- (b) **Suppliers/creditors**—Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due.
- (c) **Customers**—Customers have an interest in information about the continuance of an entity, especially when they have a long-term involvement with, or are dependent on, the entity.
- (d) **Employees and trade unions**—Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.
- (e) **Public**—Entities affect members of the public in a variety of ways. For example, entities may make a substantial contribution to the local economy such as by employing people and using local suppliers.
- (f) **Governments and their agencies**—Governments and their agencies are interested in the allocation of resources and, therefore, the activities of entities. They also require information to regulate the activities of entities to determine the appropriate taxation payable.
- (h) **Lenders**—Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.

Examples of **users** and the information they require to make decisions can be seen below:

Stakeholders	Examples of decisions
INTERNAL STAKEHOLDERS	
Shareholders/potential investors	To buy, sell or hold shares. To decide whether to invest in an organisation.
Managers	To change pricing policies, to control customers' accounts, to determine expansion policies, to borrow, to repay loans.
EXTERNAL STAKEHOLDERS	
Lenders/creditors	To be satisfied that the business can afford to pay their outstanding debts
Employees	To claim salary increases or to be satisfied that their job is secure
Government	To raise tax, or to be satisfied that businesses are paying the necessary tax
Customers	To remain loyal to businesses and to buy products
General public	To assess the economic and social impact of an organisation and whether to continue to support these businesses.

The type of communication that will take place will depend on the information that is needed and the user of the information.

Internal users may receive emails, informal reports, dashboards or more formal reports such as Income Statements and Balance Sheets. External users usually receive formal accounting reports, typically in the form of Income Statements, Balance Sheets and Statements of Cash Flow. These are referred to as **general purpose financial reports**.

Most accounting reports are comprised of monetary figures and equations organised in columns. However, accountants now usually add written sections, to help explain the information in the reports to the end user. **Interpreting reports requires knowledge of accounting and business** and this is a key role of today's accountant.

The information accountants provide aim to:

- Provide information for decision making
- To assist in discharging responsibility
- Help evaluate the business' performance
- Make judgements on the efficient acquisition and allocation of economic resources
- Help forecast the business' position in the near future
- Recommendations on how to grow/expand the business
- Help the business' compliance with legislation and government regulations.

The Accounting Process

The **Accounting Process** refers to the steps taken at different stages of the accounting period. It begins with the recording of transactions and ends with the production of the financial reports. The steps in the accounting process include: **Recording, Reporting, Interpreting and Analysing and Budgeting/Forecasting**.

Each step is explained in detail below:

RECORDING



This first step of the accounting process involves the collection of raw data from business transactions. The **raw data** is evidence that a transaction has occurred. Raw data is also known as **source documents**. Some examples include:

- Receipts
- Invoices
- Purchase orders
- Cheque butts.

The raw data is then **summarised** and **processed** into **useable information** in an accurate and systematic manner. This information is generally kept in:

- Journals
- Ledgers.

REPORTING



This step involves reporting the financial information (from the recording process) to interested parties (stakeholders – internal and external users) on the financial state of the business.

Reporting helps to evaluate the performance of the business in an accounting period, through the preparation of financial reports/statements. These include:

- Balance Sheet
- Statement of Changes in Owner's Equity
- Income Statement
- Statement of Cash Flows.

INTERPRETING & ANALYSING



This step involves the interpretation and analysis of the business' transactions and financial reports to help the owners, management and other interested parties make decisions. The types of questions they may consider are:

- *Should we employ more people?*
- *Is this the right time to expand/grow the business?*
- *How can we improve profit and return on investment for shareholders?*
- *How do we improve sales?*

BUDGETING/FORECASTING

Budgetary control involves management setting targets for the future of the business and supervising these targets in an effort to ensure that they are met. Some examples of budgetary control are:

- Cash Budgets
- Forecasts.



Helpful online resources

This video, titled "Accounting Basics: A Guide to Almost Everything" explains the steps involved in the Accounting Process:

<https://youtu.be/yYX4bvQSqbo>



Activity

The Accounting Process

Complete the table below. In the spaces provided, provide an example of the type of data/information used at each step.

Accounting Process	Type of data/information used
RECORDING	
REPORTING	
INTERPRETING & ANALYSING	
BUDGETING	

Review Questions

1. Define Accounting.
.....
.....
2. How is accounting relevant to our everyday lives?
.....
.....
3. What is one example of an accounting process that occurs in business?
.....
4. Give an example of an external stakeholder and a decision he/she would need to make.
.....
.....
5. Give an example of an internal stakeholder and a decision he/she would need to make.
.....
.....
6. Why are managers considered to be internal stakeholders?
.....
.....

7. Why is it important for accountants to prepare accurate and reliable financial information?
8. Write your own paragraph describing the role of a bookkeeper and comparing them to an accountant.
9. Complete the following Find-a-Word.

Accounting Basics

D E L B A I L E R Z R E X K M Y A B H H O N H V L
C S Y V K H N B Z W B R E N W O Z L D M B R Y N I
P O Q R N D G O W Z Q E H A Y G I C H N K A R O R
A P X Y U L C O A N C X Z J N O D R N I P G M K F
D C U Z W R X K V P U T K X D K K E T A R U C C A
U E S X I X Z K R E T E V Y B X Z R W E N E S X G
Q Z W L K H H E R W R R U J W W O U C D S B R T U
T M C E S V O E G A L N N Q Q Q T J H C F K Y B I
V Y H N R W I P I S E A M K E K S Q K Y D N A O L
S J V Q L L I E C X E L H E E Y O L P M E D O P F
H H F D P D V R A A C C O U N T A B I L I T Y H X
I V S P W K A U K F C J P E U T X Z L K S C Y K K
K I U B X Q Z K H G L E J Y L P J K I E Y H A S E
T S K I J M A N A G E R X X E E Q S D U W C Q P R
C P W G C X O Z O F O B I L X R R F C N C X Y X X
E P G F X I J H Y E H P D P N F I L T O Q D K E P
E B J K T R L L K Q Y X T Z L O J A U Y C I U K Y
T T G A R E D L O H E K A T S R Z N E V T Z U G Z
L C X K Z S Z R Z X T P G X E M T R Y Z P P H J L
J A X M N U J D C X M C H R L A J E H M S C H W R
T S E Z S H V M T M Y Q T H N N F T F H G I I L A
I F E V B T T G I K U I I T X C I N R S P E F H H
E Q Q E B K S Z C R M H J K H E S I R J D H V Q Q
B D Y J N Z P F R E C H Z E O V N E E W O W J I Y
S G G N X W W S G A C C O U N T I N G J X W Z M B

ACCOUNTING
ACCOUNTANT
OWNER
EMPLOYEE

TAXATION
PERFORMANCE
RELIABLE
SUPPLIER

BOOKKEEPER
INTERNAL
ACCURATE
GOVERNMENT

USER
STAKEHOLDER
ACCOUNTABILITY
EXTERNAL

MANAGER

10. Fill in the missing words:

Today's accountant is more of a partner than a Business rely on an accountant to provide them with and financial information. Accountants financial data from reports such as the and the to determine whether the business is financially They then provide accounting to assist the business owners to make decisions about the of their business. For example, they might decide to or more staff.

*owners advice expand accurate sustainable bookkeeper employ Income Statement
usiness interpret reliable Balance Sheet future*



OPTIONAL – Clickview

Watch "Day to Day Business in a Café" on:

<https://online.clickview.com.au/playlists/27393560/videos/3715469>

and complete the worksheet attached. Share with the class:

- what you learnt that you did not know about operating a business, and
- whether you think this business will be successful in the long-term and why.

