Unit 3

Recording and Reporting for a Trading Business
1. Recording Financial Data - 50%
2. Balance Day Adjustments and Reporting and Interpreting Accounting Information – 50%
At least 30% must be allocated to ICT-based assessment.
Unit 4

Control and analysis of business performance:-
1. Extension of recording and reporting
2. Financial planning and decision making

At least 30% must be allocated to ICT-based assessment.
End of Year Exam

The end of year exam is externally set by a VCAA panel and will be completed under the following conditions:

- Duration – Two Hours plus 15 minutes reading time
- Will be marked by the VCAA assessors
Accounting Principles

• Entity – the business must be a separate accounting entity from its owner and from other entities. It is important to identify for whom the preparation of financial reports is being conducted. A common illustration of the entity principle is seen in the way in which the business will have separate records from the owner.
The ongoing life of a business is broken into regular intervals of time for the preparation of financial reports. Under accrual accounting, profit is revenue earned less expenses incurred in that period.
Conservatism

• It is acknowledged that gains will not be recognised until earned and losses will be recognised as soon as they are likely to occur. This principle is followed so as not to overstate assets and revenues and not understate liabilities and expenses.
Historical Cost

• All transactions are recorded at their original value. Therefore, items are shown at their historical (original) price.
Going Concern

- It is assumed that the business will be ongoing, i.e. the business will have an indefinite life. The purpose of this rule is so that a distinction can be made between assets, which will provide benefit to future reporting periods, and expenses that are totally consumed within one reporting period.
Consistency

• The accounting methods used by the business should be applied consistently from one reporting period to another. This allows valid comparisons of performance to be made.
Monetary Unit

• To understand the meaning of the reported information it is necessary to use a common unit of measurement – Australian dollars are used as this measure.
Qualitative Characteristics

• Relevance – to be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluation. The relevance of information is affected by its nature and materiality.
• Reliability – to be useful, information must also be reliable. Information has the quality of reliability when 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 reasonably be expected to represent.
• Comparability – users must be able to compare the financial reports of an entity through time to identify trends in the entity’s financial position and performance. Users must also be able to compare the financial reports of different entities to evaluate their relative financial position, financial performance and cash flows.
• Understandability – An essential quality of the information provided in financial reports is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business, economic activities and accounting, and a willingness to study the information with reasonable diligence.
Elements of Financial Statements

- **Assets** – are resources controlled by an entity, as a result of past events, from which future economic benefits are expected to flow to the entity refer text pp 13 – 14.

- **Liabilities** – are a present obligation of the entity as a result of past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits refer to text p 14.
• Owner’s equity – is the residual interest in the assets of the entity after the deduction of its liabilities

• Revenue – is an inflow of economic benefits (or saving in outflows) in the form of an increase in assets (or decrease in liabilities) that increases owner’s equity, except for capital contributions by owner
• Expenses – are an outflow or consumption of economic benefits (or reduction in inflows) in the form of a decrease in assets (or increase in liabilities) that reduces owner’s equity, except for drawings by the owner.