

E-Workbook: Accounting for Decision Making

Part 1: Financial accounting

Introduction to accounting

- The role of accounting
- Users of accounting information
- Regulatory environment

Business Structures

- Sole traders
- Partnerships
- Companies
- Advantages and disadvantages of each business structure
- Financial statements of each business structure

Introduction to financial statements

- Defining assets, liabilities, equity, income, expenses and profit
- Classifying accounts as assets, liabilities, equity, income or expenses
- Assets = Liabilities + Equity
- Characteristics of financial statements
- Introduction to the balance sheet
- Introduction to the income statement

Transaction analysis

- The principle of duality
- Recording transactions to start up a business
- Recording income and expense transactions
- Recording transactions that affect inventory
- Multiple transaction analysis

Balance sheet

- The definition and recognition criteria of assets, liabilities and equity
- Applying the definition and recognition criteria
- Current and non-current classifications
- Transactions affecting the balance sheet
- Format, presentation and limitations of the balance sheet

Income statement

- The definition and recognition criteria of income and expenses
- Applying the definition and recognition criteria
- Cash vs accrual accounting
- Transactions affecting the income statement
- Determining gross and net profit
- Format and presentation of the income statement

Cash flow statement

- Purpose and format of the cash flow statement
- Operating, investing and financing cash flows
- Direct method of preparing the cash flow statement
- Indirect method of preparing the cash flow statement
- Interpretation and analysis of cash flows

Financial statement analysis

- Horizontal and vertical analysis
- Calculating ratios
- Interpreting ratios
- Using financial statement analysis in decision making

Ratios covered include:

- | | |
|--|---|
| - Current ratio | - Debt to equity ratio |
| - Quick ratio | - Debt ratio |
| - Cash flow from operations ratio | - EPS |
| - Return on equity | - P/E |
| - Return on assets | - Asset turnover |
| - Net profit margin | - Average inventory turnover period/Inventory turnover (days) |
| - Gross profit margin | - Average debtors settlement (debtors turnover (days)) |
| - Interest cover / times interest earned | |

Part 2: Management accounting

Costing

- Direct and indirect costs
- Product and period costs
- Job costing and process costing
- Allocating overhead to a single product or service
- Determining costs in multi-product (multi-service) firms
- Using cost information to determine selling price and profit
- Using cost information to determine the value of inventory

CVP analysis

- Cost behaviour: variable, fixed and mixed
- CVP graph
- Break-even analysis
- Target profit and CVP analysis
- Using CVP analysis in decision making

Budgeting

- The budgeting process and the master budget
- Preparation of the sales, production and purchases budgets
- Preparation of the cash budget
- Preparation of the budgeted financial statements
- Flexible budgets
- Budget variance analysis

Capital investment decisions

- The nature of capital investment decisions
- Time value of money
- Accounting rate of return/Return on average investment
- Payback period
- Net present value
- Internal rate of return
- Using capital investment techniques in decision making, including multiple and mutually exclusive projects

Relevant costs and decision making

- Relevant costs and opportunity costs
- Incremental/differential analysis
- Special pricing/special order decisions
- Make or buy decisions
- Product mix decisions with resource constraints
- Add, retain or eliminate business segments or products
- Qualitative factors to consider in decision making