



SYLLABUS SUPPORT MATERIALS

ACCOUNTING AND FINANCE
GENERAL YEAR 12

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Background

Changes in Australian Accounting Standards and the *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*), which superseded the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) on January 1, 2020 require changes to existing teaching practices for the Accounting and Finance General Year 12 course.

Key changes are:

- the qualitative characteristics of financial information
- the treatment of discount allowed and discount received
- the classification of financial expenses.

Details of these changes are outlined below.

Qualitative characteristics of financial information

The *Conceptual Framework* outlines the concepts that underpin the preparation and presentation of financial statements for external users. The *Conceptual Framework* also outlines and defines the fundamental and enhancing characteristics of useful financial information. These characteristics, while not specific content in the Accounting and Finance General syllabus, apply to all financial information produced in financial reports.

Current qualitative characteristics	Former qualitative characteristics
Fundamental qualitative characteristics <ul style="list-style-type: none"> • relevance <ul style="list-style-type: none"> ▪ materiality • faithful representation Enhancing qualitative characteristics <ul style="list-style-type: none"> • comparability • verifiability • timeliness • understandability 	Principal qualitative characteristics <ul style="list-style-type: none"> • relevance • reliability • comparability • understandability

Treatment of discounts allowed and received

The following extracts from Australian Accounting Standards specify how discounts should be treated.

AASB118 Revenue, paragraph 10

'The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.'

AASB102 Inventories, paragraph 11

'The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.'

The Australian Accounting Standards require discounts to form part of the calculation of net sales and cost of sales and hence the calculation of gross profit, as follows:

- Net sales = sales – sales returns – discount allowed
- Total cost of sales = cost of sales + import duties + cartage/freight inwards – discount received

This impacts on the preparation of an income statement and the profit, gross profit and expense ratios. There is no change required for the recording of discounts in the general ledger or the general journal.

Financial expenses

For the purposes of Accounting and Finance General Year 12, Financial Expenses will include only borrowing costs. The Australian Accounting Standards defines borrowing costs as:

AASB123 Borrowing Costs, paragraph 5

'Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.'

The impacts on the classification of bad debts in the income statement which should now be treated as a selling expense.

The example on pages 3–7 shows:

- an income statement (using both the new report layout and the former report layout)
- a balance sheet (showing that there is no change to the report as a result of these changes)
- the profitability ratios affected by these changes, i.e. profit ratio, gross profit ratio and expense ratio (calculation of these ratios is not required in this course, only interpretation of the ratios).

Example

This example demonstrates the:

- preparation of an income statement for the year ended 30 June, 2017
- preparation of a balance sheet as at 30 June, 2017
- profitability ratios as at 30 June, 2017.

Urban Garden Traders		
Trial Balance		
As at 30 June, 2017		
	Debit (\$)	Credit (\$)
Insurance	15,000	
Freight Outwards	12,200	
Internet Charges	750	
Interest Expense	650	
Mortgage (due 2025)		650,000
Bank Fees and Charges on Loan	55	
Capital		395,375
Drawings	11,200	
Bank Loan (due 2017)		15,900
Inventory	35,200	
Wages – Sales Staff	92,800	
Salaries – Office Staff	59,000	
Cash at bank	134,000	
Accounts Receivable	32,000	
Accounts Payable		26,000
Interest Income		900
Cost of Sales	492,500	
Sales		790,000
Discount Allowed	2,140	
Discount Received		2,500
Sales Returns	3,900	
Furniture	97,000	
Accumulated Depreciation – Furniture		52,300
Bad Debts	1,370	
Land and Premises	900,000	
Freight Inwards	16,500	
Depreciation – Furniture	3,750	
Customs Duty	960	
Advertising	22,000	
	1,932,975	1,932,975

Additional information as at 30 June, 2016

- Total assets amounted to \$1,210,000

Suggested solution – Income Statement

New report layout (reflecting changes to discounts and financial expenses)

Urban Garden Traders			
Income Statement			
For the year ended 30 June, 2017			
	\$	\$	\$
Sales		790,000	
Less Sales Returns		3,900	
Discount Allowed		2,140	
Net Sales			783,960
Less Cost of Sales	492,500		
Freight Inwards	16,500		
Customs Duty	960	509,960	
Less Discount Received		2,500	
Total Cost of Sales			507,460
Gross Profit			276,500
Add Other Income			
Interest Income		900	900
			277,400
Less Other Expenses			
Selling and Distribution			
Bad Debts	1,370		
Advertising	22,000		
Freight Outwards	12,200		
Wages – Sales Staff	92,800	128,370	
General and Administrative			
Depreciation – Furniture	3,750		
Insurance	15,000		
Internet Charges	750		
Salaries – Office Staff	59,000	78,500	
Financial			
Interest Expense	650		
Bank Fees and Charges on Loan	55	705	207,575
Profit for the period			<u>69,825</u>

Suggested solution – Income Statement

Former report layout (prior to changes to discounts and financial expenses)

Urban Garden Traders Income Statement For the year ended 30 June, 2017			
	\$	\$	\$
Sales		790,000	
Less Sales Returns		3,900	
Net Sales			786,100
Less Cost of Sales		492,500	
Freight Inwards		16,500	
Customs Duty		960	
Total Cost of Sales			509,960
Gross Profit			276,140
Add Other Income			
Discount Received		2,500	
Interest Income		900	3,400
			279,540
Less Other Expenses			
Selling and Distribution			
Advertising	22,000		
Freight Outwards	12,200		
Wages – Sales Staff	92,800	127,000	
General and Administrative			
Depreciation – Furniture	3,750		
Insurance	15,000		
Internet Charges	750		
Salaries – Office Staff	59,000	78,500	
Financial			
Interest Expense	650		
Discount Allowed	2,140		
Bad Debts	1,370		
Bank Fees and Charges on Loan	55	4,215	209,715
Profit for the period			69,825

Suggested solution – Balance Sheet

Urban Garden Traders			
Balance Sheet			
As at 30 June, 2017			
	\$	\$	\$
Current Assets			
Cash at Bank		134,000	
Accounts Receivable		32,000	
Inventory		35,200	
Total Current Assets			201,200
Non-Current Assets			
Furniture	97,000		
Less Accumulated Depreciation – Furniture	52,300	44,700	
Land and Premises		900,000	
Total Non-Current Assets			944,700
Total Assets			1,145,900
Current Liabilities			
Accounts Payable		26,000	
Bank Loan		15,900	
Total Current Liabilities			41,900
Non-Current Liabilities			
Mortgage		650,000	
Total Non-Current Liabilities			650,000
Total Liabilities			691,900
Net Assets			454,000
Equity			
Capital		395,375	
Add Profit for the period		69,825	
		465,200	
Less Drawings		11,200	
Total Equity			454,000

Note: these changes to the Australian Accounting Standards have no impact on the balance sheet.

Profitability ratios

Profitability ratio	Calculations (reflecting changes to discounts and financial expenses)	Calculations (prior to changes to discounts and financial expenses)
Profit $\frac{\text{profit}}{\text{net sales}}$	$= \frac{69,825}{783,960} \times 100$ = 8.91%	$= \frac{69,825}{786,100} \times 100$ = 8.88%
Gross profit $\frac{\text{gross profit}}{\text{net sales}}$	$= \frac{276,500}{783,960} \times 100$ = 35.27%	$= \frac{276,140}{786,100} \times 100$ = 35.13%
Expense $\frac{\text{operating expenses}}{\text{net sales}}$	$= \frac{207,575}{783,960} \times 100$ = 26.48%	$= \frac{209,715}{786,100} \times 100$ = 26.68%
Rate of return on assets $\frac{\text{profit}}{\text{average total assets}}$	No change	Average assets = $(1,210,000 + 1,145,900) / 2$ = 1,177,950 Rate of return on assets = $\frac{69,825}{1,177,950} \times 100$ = 5.93%