

# Accounting 1

## Seminotes Sample

### Balance Sheets for Small Business



The **key knowledge**: the accounting elements; assets, liabilities, owner's equity, revenue and expenses. Current and non-current assets and current and non-current liabilities

The **key skills**: being able to distinguish between current and non-current assets, and current and non-current liabilities. Describing the use of accounting information presented in written reports to make judgement on the success or failure of a business

#### *Learning Intention*

- To explore the accounting elements and their association with the Balance Sheet. Classifications of both assets and liabilities into current and non-current items and the two-fold effect on the accounting equation when transaction occur

#### *Success Criteria*

- To be able to identify the elements and have a sound understanding of the accounting equation, being able to create a classified balance sheet report.

### The Accounting Elements

Assets

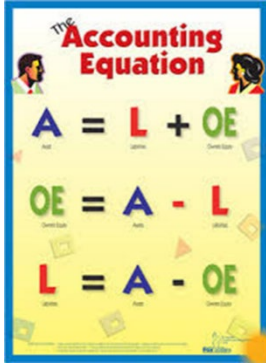
Liabilities

Owner's Equity

Revenue

Expenses

## The Accounting Equation



**Assets = Liabilities + Owner's Equity**

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## Assets

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Examples of Assets include:

- Accounts receivable (the customers that purchase inventory on credit)
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- Vehicle
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- Fittings and furniture
- Machinery
- Computer

## Liabilities

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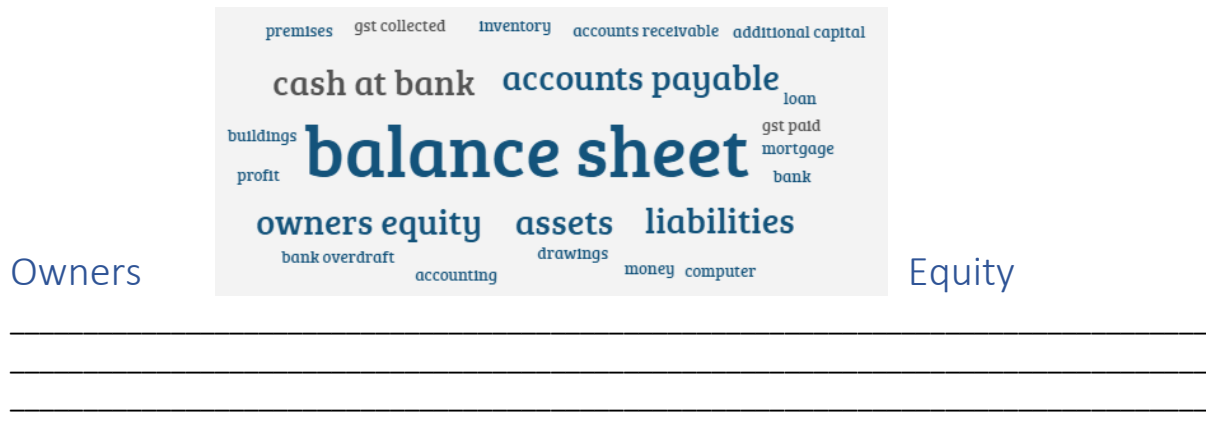
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Examples of Liabilities include:

- Accounts payable (suppliers who provide inventory to a business on credit)
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- Mortgage
- Accrued expenses (owed and not yet paid)
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- Capital (net worth of the business and it is carried forward each period)
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- Drawings – (of cash or stock)
- 
- Loss

$$\text{Equities} = L + OE$$

Equities are:

- consisting of both liabilities and owner's equity

Classified items    Current or non-current = 12 month rule

Current assets are cash and other types of assets held primarily for the purpose of sale or trading, or are reasonably **expected to be converted to cash**, sold or consumed by a business **within 12 months** after the end of the reporting period.

### **Whereas**

Non-current assets are

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Classify the following assets into current assets or non-current assets

Accounts receivable	
Cash at bank	
Vehicle	
Building/Premises	
Furniture and fittings	
GST paid (on purchases)	
Computer	
Inventory	
Cash on hand	
Machinery	

## Current and non-current liabilities

**Current liabilities** are obligations of the entity that are reasonably

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after the end of the reporting period.

**Non-current liabilities** are obligations of the entity that are not required to be settled within 12 months after the end of the reporting period.

### **Example:**

Loan \$5000 to be paid back over a five-year period

Current liability amount                      \$

Non-current liability amount                      \$

Classify the following current and non-current liabilities including amounts where applicable:

Accounts payable	
GST collected	
Loan \$8000 paid over 2 years	
Mortgage \$80000 paid at \$1000 per month	
Bank overdraft	
Accrued expenses	

Classification is important because it helps satisfy the demands of the Qualitative Characteristic of

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***A classified report is easier to read and shows sub-totals for all classifications within the report***

## Balance Sheet

*A Balance Sheet report that details the business's assets, liabilities and owner's equity at a particular point in time.....therefore the date is reflected as at a particular date and it is a continual report.*

### Setting up a Balance Sheet report

- 1.
- 2.
- 3.

There is a number of ways a balance sheet can be set up and this is the most common way used in VCE. It is called a T form balance sheet as the information is produced in the shape of a T. With assets on one side of the of the T and Liabilities and Owners Equity on the other side of the T.

**FIGURE 3.3 Classified balance sheet**

Assets	\$	\$	Liabilities	\$	\$
<i>Current assets</i>			<i>Current liabilities</i>		
Cash at bank	4 000		Accounts payable	3 000	
Accounts receivable	5 200		Bank loan*	10 000	13 000
Inventory	30 000	39 200	<i>Non-current liabilities</i>		
			Bank loan*		10 000
<i>Non-current assets</i>					
Shop fittings	18 000		Owner's equity		
Knitting machine	2 800	20 800	Capital		37 000
<b>Total assets</b>		<b>60 000</b>	<b>Total equities</b>		<b>60 000</b>