ACC1001 Accounting Fundamentals

MONASH UNIVERSITY · SEMESTER 2, 2026 · FIRST YEAR

CLOSED-BOOK MEMORY SHEET
Side 1 · recite + check

Full guide + ask Sia about ACC1001

SIDE 1 / 2 · CARRY IT IN YOUR HEAD

Interpretation first · definitions → drivers → judgement → recommendation

RECITE → APPLY → EXPLAIN

1 · Exam map

COURSE DATA + BRIEF

INDIVIDUAL 30	GROUP 30	FINAL 40

Individual Exercise (in-class engagement) 30% · Group Project (Presentation + Peer Evaluation) 30% · Final Examination 40%

"Please note that the final exam is closed book."

ACC1001 2026 Moodle Wrap-up page (snapshot appears S1 2026: intro info S1 2026, quiz closed Mar 2026); Topic 13 exam-info file is S1 2025 – Semester 1 2026 offering; confirm this semester's rule on the LMS (MD_Wrap_up_md.md)

DESCRIBE number → **EXPLAIN** driver → **JUDGE** F / U → **ADVISE** action

USE A BENCHMARK + CAVEAT
numbers alone do not decide

Guide strategy — the reusable four-move interpretation answer.

2 · Framework gates

CH 1

ASSET | **LIAB.** | **EQUITY** | **INCOME** | **EXP.**

RECOGNISE ONLY IF BOTH GATES PASS

1 · DEFINITION element test met? — **2 · USEFUL** relevant + faithful

enhance: comparable · verifiable
timely · understandable

Redrawn from Introduction to Accounting, Fig 1 — definition is necessary, not sufficient.

ELEMENT	RECITE THE DECIDING TEST
Asset	Present economic resource controlled from a past event.
Liability	Present obligation to transfer a resource from a past event.
Equity	Residual: E = A − L.
Income	Increases equity, excluding owner capital.
Expense	Decreases equity, excluding drawings.

USEFUL-INFORMATION TEST

Relevance means predictive or confirmatory value, including materiality. **Faithful representation** is complete, neutral and free from error. Both fundamental qualities are required. Comparability, verifiability, timeliness and understandability only enhance information that is already useful; they cannot rescue a failed fundamental quality.

3 · Branches + users

CH 1

DIMENSION	FINANCIAL	MANAGEMENT
Users	External + internal	Internal only
Timing	Periodic	Ad hoc
Focus	Past	Present/future
Content	Financial	Financial + non-financial
Format	Prescribed; public	No prescribed form; confidential

Scenario move: name the user and decision, then the branch. Investor/lender/regulator deciding from standard reports → financial. Manager planning, controlling or choosing → management. Same data; different decision user.

4 · Structure chooser

CH 2

SOLE 1 owner unlimited — **PARTNER** 2+ owners joint unlimited — **COMPANY** shareholders limited

capital + life + regulation →
only company = separate legal person
all three = separate accounting entity

Redrawn from Business Structures, Fig 1 — protection rises with cost and regulation.

DRIVER IN SCENARIO	RULE / TRADE-OFF
Cheap, simple, one owner	Sole trader; limited capital/life, personal assets exposed.
Pool skills and capital	Partnership; agreement flexibility, disputes and joint liability.
Outside capital, continuity, protection	Company; limited liability/perpetual life, but more cost, regulation and two tax layers.

Advise in four beats: name structure → match liability/capital/life driver → reject nearest alternative → state accepted trade-off. Separate legal entity is not the entity concept.

5 · Accrual timing

CH 3

EARN FIRST accr. income → asset | **INCUR FIRST** accr. exp. → liab.
PAY FIRST prepaid exp. → asset | **RECEIVE FIRST** income adv. → liab.

accrual: earn/incur · cash: receive/pay

Redrawn from Business Transactions, Fig 1 — timing creates the asset or liability.

TIMING TRAP *Cash first does not mean expense or income now. Keep an asset until the prepaid benefit is consumed; keep a liability until advance receipts are earned by delivering the service.*

6 · Record? Then balance

CH 3

ITEM	RECORD?	WHY
Business transaction	Yes	Exchange with owner/external party.
Business event	Not yet	No recordable transaction yet.
Personal dealing	No	Entity concept excludes it.

ASSETS = **LIABILITIES** + **EQUITY**

△ **always level**

E = capital + income − expenses − drawings

Redrawn from Accounting Equation, Fig 2 — every transaction has a dual effect.

THREE QUESTIONS ON EVERY LINE

```
Which elements/accounts? · ↑ or ↓? ·
does A = L + OE + Income - Expenses
still balance?
```

Direction reflex: income increases equity; expenses and drawings reduce it. Owner capital is equity, not income. A part-cash/part-loan asset purchase changes three accounts but still has equal net effects.

7 · Statements that articulate

CH 4–6

INCOME STMT income − expense — profit — **CHANGES IN EQ.** roll equity forward

equity

CASH FLOWS closing cash — cash — **BALANCE SHEET** position at date

Redrawn from Income Statements, Fig 1 — profit and cash land in the balance sheet.

```
Profit = Income - Expenses
Gross profit = Sales - Cost of sales
(trader only)
Closing equity = Opening equity +
Profit + Capital - Drawings
A = L + OE · current = within 12 months
/ operating cycle
```

Snapshot vs flow: balance sheet is at one date; the other three cover a period. Service entity: no cost of sales/gross-profit line. Depreciate buildings, plant and equipment — not land.

RECONCILE *Profit flows through the SOCE into closing equity; net cash flow moves opening cash to closing cash. Both closing figures must agree with the balance sheet at the reporting date.*

8 · Cash: classify then read

CH 6

OPERATING customers suppliers/wages interest + tax | **INVESTING** buy/sell non-current assets | **FINANCING** capital/loans repayments drawings/divs

O + I + F = net cash flow

opening cash + net flow = closing cash

Redrawn from Statements of Cash Flows, Fig 1 — direct-method cash has three buckets.

Read sections together: positive total cash can hide negative operating cash funded by loans or asset sales. A large investing outflow may signal expansion; it becomes risky if operations keep draining cash. Profit ≠ cash because accrual recognises before/after money moves.

IF CASH IS TIGHT	SPECIFIC RESPONSE
Receivables slow	Collect faster / tighten terms.
Stock tying up cash	Hold less inventory.
Near-term gap	Arrange finance; defer outflows.
Idle assets	Sell non-current assets.

9 · Ratio family chooser

CH 7

LIQUIDITY pay soon? | **CAPITAL** debt risk?
PROFITABILITY turn resources to profit? | **EFFICIENCY** turn assets fast?
MARKET owner return?

Redrawn from Ratio Analysis, Fig 1 — title, driver, verdict and benchmark earn marks.

SIGNAL	INTERPRETIVE MOVE
Current ↑; quick ↓	Inventory build-up may mask weaker liquidity.
Debt / D:E ↑	More leverage and risk; check interest cover.
ROE ↑	Could be performance or leverage; pair with debt ratios.
Inventory/debtor days ↑	Slower conversion/collection; usually U.

REFERENCE ONLY — INTERPRET, DO NOT DRILL ARITHMETIC

```
Current = Current assets ÷ Current
liabilities
Quick = (Current assets - Inventory) ÷
Current liabilities
Debt ratio = Total liabilities ÷ Total
assets · D:E = Liabilities ÷ Equity
ROE = Profit ÷ Equity · ROA = Profit ÷
Total assets
Days debtors = Receivables ÷ (Sales ÷
365)
```

10 · Plan → balanced measures

CH 8

```
Mission → Goals → Strategies → short-
term Budgets
Then measure actual performance against
plan.
```

FINANCIAL owners? profit · cash · return | **CUSTOMER** see us? satisfy · retain
VISION / STRATEGY
INTERNAL excel at? time · defects · quality | **LEARNING** keep improving? skills · innovation

Redrawn from Balanced Scorecard, Fig 1 — four perspectives, objectives and KPIs.

Placement test: financial return → Financial; customer experience → Customer; process speed/quality → Internal; skill/capability/innovation → Learning & growth. Financial measures are backward-looking; the other three are leading drivers.

Planning judgement: direction, coordination and evaluation help; rigidity, cost and false precision can hurt. Authoritative budgets are fast/consistent but may lower morale. Participative budgets build ownership but risk budgetary slack.

11 · Measure only control

CH 9

COST cost | **REVENUE** sales | **PROFIT** I − C | **INVEST.** return

manager control increases →

judge only what the manager controls

Redrawn from Performance Measurement, Fig 1 — match yardstick to responsibility.

```
ROI = Profit ÷ Divisional investment
(ratio; compare scale)
RI = Profit - (Required return ×
Investment) (absolute surplus)
```

MEASURE	STRENGTH	BEHAVIOURAL TRAP
Profit	Simple dollars	Ignores division size.
ROI	Return per $; comparable	Rejects good project if average % falls.
RI	Charges for capital; value added	Absolute amount favours scale.

12 · Contribution before profit

CH 9

LINE	MEANING
Income − own costs = contribution	What the division adds before shared allocations.
Contribution − common costs = profit	Reported result; not automatically the closure effect.

13 · Budget + cost decisions

CH 10

```
Closing cash = Opening cash + Receipts -
Payments
Variance = Actual - Budget
F: income above OR expense below · U:
reverse
```

	PRODUCT	PERIOD
DIRECT	materials labour	rare direct period
INDIRECT	factory rent supervisor	admin marketing · IT

Redrawn from Budgeting & Costing, Fig 1 — traceability and timing are separate tests.

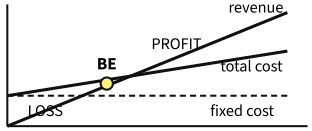
Product costs are manufacturing costs held in inventory until sale; **period costs** are non-manufacturing and expensed now. Direct costs trace economically to the cost object; indirect overhead must be allocated. Misclassification distorts inventory, profit, product cost and price.

Cash-budget response: a projected deficit means arrange finance or change receipts/payments before the month; a surplus can be invested. The value is advance warning, not merely the closing arithmetic.

PRICING	USE / LIMIT
Cost-based	Cost + mark-up; covers cost but may ignore demand.
Market-based	What customers will pay; cost still must be covered.

14 · CVP memory block

CH 11



Redrawn from CVP Analysis, Fig 1 — revenue crossing total cost means zero profit.

```
CM/unit = Selling price - Variable
cost/unit
Break-even units = Fixed costs ÷ CM/unit
round up
Target units = (Fixed costs + Target
profit) ÷ CM/unit
```

Direction: price ↑ or unit variable cost ↓ → CM ↑ → break-even ↓. Fixed cost ↑ → break-even and operating risk ↑. Fixed stays constant in total but falls per unit; variable rises in total but stays constant per unit.

Assumptions: linear cost/revenue inside relevant range; constant price and unit costs; constant sales mix; all output sold. CVP supports feasibility, pricing, outsourcing and special orders; add capacity and non-financial factors.

ACC1001 Worked drills, judgement cards & exam-morning plan

ACCOUNTING FUNDAMENTALS · MONASH UNIVERSITY

SELF-TEST SIDE
Hide the answer path first

Full guide + ask Sia about ACC1001

SIDE 2 / 2 · FIVE DRILLS

Blank page first · rule → working → interpretation → recommendation

COVER ANSWERS · RECALL ALOUD

15 · Drill 1 – Mia's equation

CH 3 WORKED EXAMPLE

Given: Mia contributes $8,000 cash; buys $3,000 equipment using $1,000 cash + $2,000 loan; earns $600 cash; pays $150 advertising. Analyse A / L / OE / Income / Expenses and prove the equation.

1 · cash +8,000 ↔ capital +8,000

2 · equip +3,000 · cash −1,000 ↔ loan +2,000

3 · cash +600 ↔ income +600

4 · cash −150 ↔ expense +150

Source numbers: Business Transactions worked example — name both effects every time.

#	ASSETS	L	OE	I	E
1	+8,000	—	+8,000	—	—
2	+2,000 net	+2,000	—	—	—
3	+600	—	—	+600	—
4	−150	—	—	—	+150

```
Assets = 8,000 + 2,000 + 600 - 150 =
10,450
RHS = 2,000 + 8,000 + 600 - 150 =
10,450
```

Balance-sheet check: cash 7,450 + equipment 3,000 = assets 10,450; loan 2,000 + equity 8,450 = 10,450. Equity contains capital 8,000 + profit 450.

WRONG MOVE	CORRECTION
Call capital income	Owner contribution is equity.
Expense equipment	It is an asset until benefits consumed.
Ignore loan in split purchase	Show all three account effects.
Balance only at end	Check after every transaction.

Recognition flash cards

CH 1–3

Personal phone? Not recorded: entity concept. **Job finished, cash later?** Income + receivable now.

Insurance paid ahead? Asset now, expense as used. **Cash received before service?** Liability until earned.

SAY WHY *A label without the element or timing test leaves the reasoning mark exposed.*

21 · Classic traps

GUIDE FAQS

TEMPTING CLAIM	REPAIR
"Profit means cash is healthy."	Accrual timing breaks the link.
"A sole trader is not separate."	Not legally; separate for accounting.
"Higher ratio is always better."	Driver and context decide.
"U variance is bad."	Investigate cause and linked income.

16 · Drill 2 – Verde cash

CH 6 WORKED EXAMPLE

Given: Operating −$14,000; Investing −$60,000 (glasshouse); Financing +$90,000 (loan + owner capital); opening cash $20,000. Find closing cash, interpret and recommend.

OPERATING **−14** | INVESTING **−60** | FINANCING **+90**

NET = −14 − 60 + 90 = +16

20 opening + 16 = $36 closing

Source numbers: Statements of Cash Flows worked example — the funding source changes the verdict.

1. **Describe:** closing cash rose $16,000 to $36,000.
2. **Explain:** financing +$90,000, not operations, funded both the $14,000 operating drain and $60,000 glasshouse.
3. **Judge:** expansion may explain investing outflow, but negative operating cash is a warning and continued borrowing is unsustainable.
4. **Recommend:** speed receivables, reduce inventory or lift cash sales so operations service the new loan.

IF YOU SEE X	→ DO Y
Profit positive; operating cash negative	Flag accrual/timing; inspect receivables and stock.
Total cash positive from financing	Do not call the core business healthy.
Asset purchase	Investing, not operating expense.
Depreciation/unpaid invoice	Exclude: no cash moved.

Statement link recall

CH 4–6

```
Income stmt profit → changes in equity
→ BS equity
Cash-flow closing cash → BS cash
Current/non-current → 12 months or
operating cycle
```

Trading: Sales − COGS = gross profit − operating expenses = profit. **Service:** Income − expenses = profit; no gross-profit line.

Classification check: customer receipts and supplier/wage payments are Operating; buying or selling a glasshouse, vehicle or equipment is Investing; owner capital, loans, repayments, drawings and dividends are Financing. Interest and tax sit in Operating in the guide's direct-method treatment.

17 · Drill 3 – read the ratios

CH 7 WORKED EXAMPLE

Given: a retailer's current year versus prior year ratios. Interpret liquidity and efficiency; finish with a recommendation.

RATIO	PRIOR	CURRENT	MOVE
Current	1.4	2.6	↑
Quick	1.1	0.6	↓
Inventory days	41	62	↑
Debtor days	30	33	↑

HEADLINE

current ratio 1.4 → 2.6 looks F

LOOK BEHIND IT

quick 1.1 → .6 liquid cover ↓

inventory 41 → 62 stock slower

inventory build-up masks weaker liquidity

Source numbers: Ratio Analysis worked example — reconcile related ratios before judging.

1. **Describe:** current ratio improved, apparently stronger short-term cover.
2. **Explain:** quick ratio fell while inventory days rose; more current assets are tied in slower stock.
3. **Judge:** headline improvement is misleading; underlying liquidity may be worse. Debtor days 30→33 add a smaller unfavourable collection signal.
4. **Recommend:** reduce slow stock and tighten collection before taking comfort from 2.6.

CLAIM	NEEDED CONTROL
"Ratio rose, therefore good"	Name driver and context.
"2.6 is high"	Need prior/competitor/industry benchmark.
"ROE rose from performance"	Check debt/leverage and profit margin.
"One ratio proves health"	Use related families together.

Scorecard placement sprint

CH 8 WORKED EXAMPLE

Net profit margin	Financial
Customer satisfaction	Customer
Order-to-serve time	Internal process
Staff completing training	Learning & growth

Justify: financial results are lagging; customer, process and capability measures are the future drivers.

Ratio direction bank

CH 7

FAMILY	FAVOURABLE SIGNAL	QUESTION BEFORE VERDICT
Liquidity	Current/quick cover strengthens	Is stock inflating current assets?

18 · Drill 4 – keep breakfast?

CH 9 WORKED EXAMPLE

Bayside Café ($000): Breakfast revenue/cost 30/22; Lunch 70/46; Dinner 95/70. Common costs $30 split $10 each. Breakfast reports a $2 loss. Should it close?

$000	B'FAST	LUNCH	DINNER	TOTAL
Revenue	30	70	95	195
Own costs	(22)	(46)	(70)	(138)
Contribution	8	24	25	57
Common	(10)	(10)	(10)	(30)
Profit/(loss)	(2)	14	15	27

KEEP contribution +8 **profit 27**

CLOSE lose +8 **profit 19**

COMMON COSTS STAY AT 30
the (2) loss is an allocation trap

Source numbers: Performance Measurement worked example — close only on avoidable economics.

1. Contribution: 8 + 24 + 25 = **57**; after common 30, profit = **27**.
2. The breakfast (2) appears only after allocating common 10.
3. Closing loses its positive 8 while the same 30 common costs persist: **27 − 8 = 19**.
4. Keep breakfast, then assess foot traffic, goodwill, staffing and whether any own costs are actually avoidable.

TRAP	CORRECT QUESTION
Division shows loss	Is contribution positive?
Allocated cost shown	Will it disappear on closure?
One financial result	What happens to customers, staff and cross-sales?

ROI / RI interpretation card

CH 9

Northwind: Logistics ROI 20%, RI $24,000; Retail ROI 25%, RI $20,800. Retail earns more per dollar; Logistics creates more dollars above its capital charge. The rankings conflict by design: percentage vs absolute value. Use both and note scale.

Responsibility chooser

CH 9

MANAGER CONTROLS	CENTRE	JUDGE ON
Costs only; no income	Cost	Cost control
Sales, not costs	Revenue	Target revenue
Income and own costs	Profit	Profit/contribution
Profit plus invested assets	Investment	ROI and RI

19 · Drill 5 – Lumen CVP

CH 11 WORKED EXAMPLE

Given: price $20/unit; variable cost $8; fixed costs $54,000; target profit $30,000. Find CM, break-even, target volume and effect of price rising to $22. Use the arithmetic to explain the rationale.

CM = 20 − 8 = $12 per candle

BREAK-EVEN 54,000 ÷ 12 **4,500 units**

TARGET 84,000 ÷ 12 **7,000 units**

price 22 → CM 14 → BE 3,858 ↓

Source numbers: CVP worked example — contribution is the engine of every answer.

1. CM/unit = 20 − 8 = **$12**.
2. Break-even = 54,000 ÷ 12 = **4,500 units** (= $90,000 sales).
3. Target units = (54,000 + 30,000) ÷ 12 = **7,000 units**.
4. At $22: CM = 14; 54,000 ÷ 14 = 3,857.1 → 3,858 units.
5. **Interpret:** higher price raises CM, so fewer units cover fixed costs. Round up because a part-unit cannot be sold.

IF YOU SEE X	→ DO Y
Price ↑ / VC ↓	CM ↑; break-even ↓.
Fixed cost ↑	Break-even and risk ↑.
Fractional units	Round up.
Outside expected volume	Flag relevant-range failure.
Changing product mix	CVP assumption broken.

Variance + costing sprint

CH 10

Sprout: fees 92,000−80,000 = +12,000 **F**; wages 38,000−34,000 = +4,000 **U**; materials 9,000−11,000 = −2,000 **F**. Direction alone is not judgement: extra wages may win the work that lifted fees.

COST	D/I	PRODUCT/PERIOD
Timber in tables	Direct	Product
Carpenter wages	Direct	Product
Factory rent	Indirect	Product
Sales manager	Indirect	Period
Showroom ad	Indirect	Period

Pricing consequence: wrong classification gives the wrong product cost, distorting both cost-plus price and the judgement of whether a market-led price covers cost. Product cost waits in inventory; period cost hits profit now.

Variance answer shape: compute Actual − Budget, identify income or expense, label F/U, then investigate the operational cause and any linked variance before recommending action.

20 · Judgement cards

CH 1–11

IF YOU SEE X	→ DO Y
Meets asset definition	Still test relevance + faithful representation.
Owner's private item	Exclude under entity concept.
Cash before service	Liability until earned.
Trading business	Show COGS and gross profit.
Land	Do not depreciate.
Loan due within 12 months	Current despite its label.
Positive cash; OCF negative	Find financing/asset-sale support.
Current ↑; quick ↓	Test inventory build-up.
Ratio with no comparator	Demand a benchmark.
Financial KPI only	Add customer, process, learning drivers.
ROI and RI disagree	Explain ratio vs absolute scale.
Division loss after common costs	Decide on contribution.
Expense above budget	U; investigate cause before condemning.
Product cost	Inventory until sold.
High fixed-cost mix	Higher operating leverage and risk.

22 · Exam-morning plan

GUIDE STRATEGY

WRITE **rules** → SAY **contrasts** → DO **one drill** → STOP **input**

five elements · A=L+E · O/I/F · ratios

BSC · ROI/RI · F/U · costs · CVP

sleep + retrieval > more rereading

Final check: reconstruct, explain and stop — this page does not enter the exam.

1. **Write:** reconstruct definitions and formulas from memory; compare with Side 1.
2. **Contrast:** cash/accrual; legal/accounting entity; trader/service; current/quick; ROI/RI; contribution/profit; direct/indirect; product/period.
3. **Apply:** cover one drill and produce the full answer path.
4. **Explain:** say the interpretation loop and classic traps aloud.
5. **Then stop:** check timetable and materials instructions on your current LMS; rest.

Self-check: can you produce the rule before the example, identify the driver behind a movement, and finish with a justified action? If not, revisit only that weak link; do not restart the whole subject.