ACF5950 Introduction to Financial Accounting

DEPARTMENT OF ACCOUNTING · MONASH UNIVERSITY · POSTGRADUATE

Full guide + ask Sia about ACF5950

SIDE 1/2 · WHAT THE FINAL REWARDS · DEFINITIONS → METHODS → CHECKS · EXAM REVISION SHEET · S2 2026 · Examination 50% · threshold hurdle

01 · Exam map

COURSE DATA

12	Project 38%	Examination 50%

Quiz / Test 12% · Project 38% · Examination 50%.

The examination is a threshold hurdle. Prioritise recording, adjustment, statement preparation and interpretation.

Permitted materials: not confirmed for this offering in the course materials we hold – check the exam instructions on the LMS.

02 · Recognition gates

T1 · CF CH 4–5

DEFINITION right kind? → **RECOGNITION** useful report? → **REPORT** classify

Asset: resource · control · past event

Liability: obligation · transfer · past event

Recognition: relevance + faithful representation

Source figure redrawn: clear both gates before recognition and classification.

ELEMENT	EXAM DEFINITION
Asset	Present economic resource controlled because of past events.
Liability	Present obligation to transfer an economic resource from past events.
Equity	Residual: assets less liabilities.
Income	↑ assets or ↓ liabilities that ↑ equity; excludes owner contributions.
Expense	↓ assets or ↑ liabilities that ↓ equity; excludes owner distributions.

Definition ≠ recognition. A candidate can be the right kind of item yet fail reporting because relevance or faithful representation is not achieved.

FRAMEWORK ANCHORS

RULE	WHAT TO SAY
Status	The Conceptual Framework guides reporting and policy choices; it is not a Standard and does not override one.
Going concern	Assume continued operation for the foreseeable future unless liquidation/cessation is intended or necessary.
Accrual	Record effects in the period they occur, not merely when cash moves.
Cost constraint	Benefits of information must justify the cost of providing it.

DECISION-USEFUL INFORMATION

FUNDAMENTAL	ENHANCING
Relevance: predictive/confirmatory value; materiality is entity-specific.	Comparability · verifiability
Faithful representation: complete, neutral, free from error.	Timeliness · understandability

FOUR STATEMENTS

03 · Equation & duality

T2

IDENTITY AFTER EVERY TRANSACTION

```
A = L + OE
OE = A - L
A = L + (Capital + Income - Expenses - Drawings)
```

Opening capital + Contrib. + profit − Drawings + loss

= CLOSING CAPITAL

feeds the balance sheet

Source figure redrawn: profit and owner transactions meet in equity.

EVENT	DUAL EFFECT
Owner invests cash	Cash ↑; Capital ↑
Buy asset for cash	One asset ↑; Cash ↓; totals unchanged
Buy on credit	Asset ↑; Payable ↑
Earn on credit	Receivable ↑; Income ↑ → OE ↑
Pay expense	Cash ↓; Expense ↑ → OE ↓
Drawings	Cash ↓; OE ↓; not expense

TRANSACTION-ANALYSIS ALGORITHM

1. Is it a business economic event?
2. Name the accounts and their element.
3. Set each direction and amount.
4. Check both effects and prove A = L + OE.

EXPANDED-EQUATION EFFECTS

TRANSACTION	A	L	OE ROUTE
Investment	↑ cash	—	↑ capital
Cash revenue	↑ cash	—	↑ income
Credit revenue	↑ A/R	—	↑ income
Expense incurred	—	↑ payable	↓ via expense
Pay payable	↓ cash	↓ payable	—
Loan principal repaid	↓ cash	↓ loan	—

WORKSHEET DISCIPLINE

Give each account its own column; enter the signed change for every event; total each account; group assets, liabilities and equity; then prove the equality after *each* row, not only at the end. A one-sided change signals a missing effect.

BOUNDARY	CORRECT TREATMENT
Owner pays a personal bill	Exclude from business records unless treated as drawings.
Business pays owner personally	Drawings: equity decrease, not operating expense.
Owner injects an asset	Asset increase + Capital increase; not revenue.
Profit earned	Income − expenses increases equity; cash may differ.

PROFIT IS NOT CASH

04 · Debit / credit, TB

T3

DEBIT · LEFT	CREDIT · RIGHT
INCREASE Assets Expenses Drawings	**INCREASE** Liabilities Equity Income

Every entry: total Dr = total Cr

Source figure redrawn: the normal-balance map to recall before journalising.

JOURNAL FORM

```
Date · Dr Account amount
       Cr Account amount
Narration · total Dr = total Cr
```

STAGE	WHAT TO DO / CHECK
Journal	Analyse; debit first; credit indented; narrate.
Ledger	Post each side to its account; balance accounts.
Trial balance	List every ledger balance; prove total Dr = total Cr.

WHAT A BALANCED TB MISSES

Omitted whole entries; equal debit and credit posted to wrong accounts; compensating errors; an incorrect amount recorded equally on both sides. Arithmetic equality is necessary, not proof of correctness.

FAST ENTRY CHOOSER

IF ACCOUNT…	INCREASE	DECREASE
Asset / expense / drawings	Dr	Cr
Liability / equity / income	Cr	Dr

POSTING WITHOUT LOSING THE TRAIL

1. Record transactions chronologically in the general journal.
2. Post each debit and credit separately to the named ledger account.
3. Cross-reference journal and ledger; total both sides; calculate the account balance on its normal side.
4. Transfer each final balance once to the unadjusted trial balance.

ERROR SYMPTOM	DIAGNOSTIC
TB difference equals an amount	Search for a one-sided posting of that amount.
TB balances but profit odd	Look for omission, wrong account or wrong classification.
Asset has credit balance	Check whether it is a contra-asset; otherwise trace posting.

ENTRY LOGIC BY SOURCE

EVIDENCE	LIKELY ENTRY
Invoice to customer	Dr A/R · Cr Revenue
Supplier invoice	Dr Asset/Expense · Cr A/P
Customer settlement	Dr Cash · Cr A/R
Supplier settlement	Dr A/P · Cr Cash
Owner withdrawal	Dr Drawings · Cr Cash

05 · Accrual adjustments

T4

Accrual basis: revenue when earned and expense when incurred, regardless of cash. Every adjustment touches one performance account + one position account; never Cash.

CASH FIRST · DEFER	EVENT → ACCRUE
PREPAID EXPENSE Dr Expense Cr Prepaid asset	**ACCRUED EXPENSE** Dr Expense Cr Payable
UNEARNED REVENUE Dr Unearned liability Cr Revenue	**ACCRUED REVENUE** Dr Receivable Cr Revenue

Source figure redrawn: cash-first deferrals unwind; event-first accruals create.

CLUE	CALCULATION
Prepayment used	Cost ÷ total periods × periods expired
Advance earned	Receipt × work completed proportion
Accrued item	Amount earned/incurred but unrecorded

DEPRECIATION ADJUSTMENT

```
Dr Depreciation expense
Cr Accumulated depreciation
Carrying amount = Cost - Accumulated depreciation
```

CASH BASIS VERSUS ACCRUAL

QUESTION	CASH BASIS	ACCRUAL BASIS
Revenue?	When cash received	When earned / obligation satisfied
Expense?	When cash paid	When resource consumed/incurred
Main read	Liquidity movement	Period performance and position

FIVE ADJUSTMENT PATTERNS

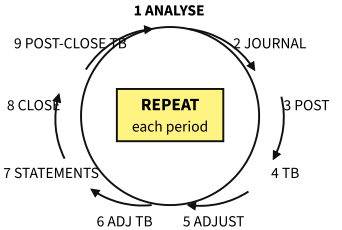
BEFORE ADJUSTMENT	MISSING EFFECT	ENTRY RESULT
Prepaid asset too high	Expense understated	Expense ↑; asset ↓
Unearned liability too high	Revenue understated	Liability ↓; revenue ↑
Unbilled work earned	A/R and revenue understated	Asset ↑; revenue ↑
Cost incurred unpaid	Expense and payable understated	Expense ↑; liability ↑
Asset used	Expense/contra-asset understated	Expense ↑; accum. dep. ↑

PERIOD-END SEQUENCE

1. Read dates and identify elapsed/remaining service.
2. Compute the amount belonging to the current period.
3. Compare required ending balance with the ledger balance.
4. Record only the difference; post; prepare adjusted TB.

06 · Complete the cycle

T5



Source figure redrawn: the nine-step accounting cycle.

TEMPORARY → ZERO	PERMANENT → CARRY
Revenue, expenses, drawings	Assets, liabilities, capital

FOUR CLOSING ENTRIES

1. Dr each Revenue / Cr P&L Summary.
2. Dr P&L Summary / Cr each Expense.
3. Profit: Dr Summary / Cr Capital. Loss reverses.
4. Dr Capital / Cr Drawings.

NET CAPITAL MOVEMENT

```
Profit - Drawings (+ contributions outside closing)
Post-closing TB = permanent accounts only; Dr = Cr
```

WHY CLOSE?

Temporary accounts measure one reporting period. Closing transfers profit or loss and drawings into permanent Capital, then resets revenue, expense and drawings balances to zero so the next period begins cleanly. Assets, liabilities and capital carry forward.

SUMMARY BALANCE	MEANING	CLOSE TO CAPITAL
Credit	Revenue > expenses → profit	Dr Summary · Cr Capital
Debit	Expenses > revenue → loss	Dr Capital · Cr Summary

WORKSHEET → CLOSING CONTROLS

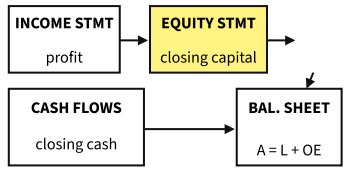
1. Enter unadjusted balances and adjustments in separate columns.
2. Extend adjusted balances to income-statement or balance-sheet columns.
3. Difference in income columns is profit/loss; carry it to the balance-sheet side so both pairs total.
4. Prepare formal statements from adjusted balances, then close.

AFTER CLOSING, EXPECT…	INVESTIGATE IF…
Revenue = 0; each expense = 0; Drawings = 0	Any temporary balance remains.
Capital includes profit/loss and drawings effect	Drawings passed through Summary.
Post-closing TB contains permanent accounts only	Revenue/expense appears or totals disagree.

CYCLE CHECKPOINTS

07 · Statements articulate

T6



Three hand-offs must tie exactly

Source figure redrawn: profit → equity; capital and cash → balance sheet.

PREPARATION ORDER

1. **Income statement:** Revenue − Expenses = Profit.
2. **Changes in equity:** Opening + contributions + profit − drawings = Closing.
3. **Classified balance sheet:** current/non-current A, L; closing OE; prove balance.

CLASSIFICATION	RULE
Current	Realised/settled within one year.
Non-current	Beyond one year.
Contra-asset	Deduct from related asset; never a liability.

STATEMENT CHECKS

```
Gross profit = Net sales - COGS
Profit = Revenue - Expenses
Total assets = Total liabilities + Closing equity
```

Never guess downstream figures. Profit must come from the income statement and closing capital from the equity statement.

COMPACT STATEMENT TEMPLATES

STATEMENT	LINE ORDER
Income	Revenue; less expenses by class; profit/loss.
Equity	Opening capital; + contributions; + profit/− loss; − drawings; closing capital.
Balance sheet	Current A; non-current A net of contra-assets; total A; current L; non-current L; closing OE.

CLASSIFICATION CUES

ITEM	PRESENTATION
Cash, A/R, inventory, prepayments	Usually current assets.
PPE	Non-current at cost less accumulated depreciation.
A/P, accrued costs, unearned revenue	Current liabilities when settled within one year.
Long loan	Split current portion from balance due beyond one year.

ARTICULATION AUDIT

1. Adjusted-TB revenue and expense balances feed the income statement.
2. Profit appears unchanged in the equity roll-forward.
3. Closing capital appears unchanged in owner's equity on the balance sheet.

ACF5950 Worked drills · judgement cards · classic traps

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SIDE 2/2 · SELF-TEST: COVER THE ANSWER, SHOW THE PATH, THEN CHECK THE TRAP · EXAM REVISION SHEET · 5 worked mini-examples · method chooser · exam-morning plan

08 · Drill 1: adjust T4 WORKED

Cove Advisory: prepaid insurance $2,400 for 12 months; 3 months used. Wages owing $1,500. $9,000 received for 3 jobs; 1 completed. Equipment $24,000, residual $0, life 8 years; one full year.

ITEM	WORKING → ENTRY
Insurance	2,400÷12×3 = 600 → Dr Expense 600 / Cr Prepaid 600
Wages	Incurred, unpaid → Dr Expense 1,500 / Cr Payable 1,500
Advance	9,000÷3 = 3,000 earned → Dr Unearned 3,000 / Cr Revenue 3,000
Depreciation	24,000÷8 = 3,000 → Dr Expense / Cr Accum. dep.

ANSWER CHECK

```
Carrying amount = 24,000 - 3,000 = 21,000.
All entries: one P&L + one B/S account; no Cash.
```

CASH already? → **EARNED /** incurred? → **ADJUST** difference

Cash first → deferral; event first → accrual.

Depreciation → allocate cost; never value.

Final check: adjusted trial balance Dr = Cr.

Source-based judgement path: timing determines the adjustment class.

COVER-AND-RECALL CARDS

IF YOU SEE...	SAY, THEN RECORD...
Service earned, invoice later	Accrued revenue → Dr A/R / Cr Revenue.
Wages used, payday later	Accrued expense → Dr Wages expense / Cr Wages payable.
Rent paid for future months	Prepayment → Dr Rent expense / Cr Prepaid rent as time expires.
Customer pays before work	Unearned revenue → Dr liability / Cr Revenue as work is done.

OMISSION DIRECTION TEST

OMIT...	PROFIT	ASSETS / LIABILITIES
Accrued revenue	Under	A under
Accrued expense	Over	L under
Prepaid expense use	Over	A over
Unearned revenue earned	Under	L over
Depreciation	Over	A over

ANSWER PATH

1. Draw the timeline: total term, elapsed, remaining.
2. Compute the ending asset/liability or current-period revenue/expense.
3. Compare with the unadjusted ledger balance.
4. Journalise only the adjustment; show Dr = Cr.
5. State the post-adjustment balance and any carrying amount.

09 · Drill 2: statements T6 WORKED

Meridian Consulting: Cash 30,000; A/R 10,000; Equipment 48,000; Accum. dep. 5,000; A/P 8,000; four-year loan 26,000; opening Capital 20,000; Drawings 16,000; Revenue 95,000; Wages 34,000; Rent 11,000; Dep. expense 5,000.

1 · INCOME STATEMENT

```
Profit = 95,000 - (34,000 + 11,000 + 5,000)
= 95,000 - 50,000 = 45,000
```

2 · CHANGES IN EQUITY

```
Closing capital = 20,000 + 45,000 - 16,000
= 49,000
```

3 · BALANCE SHEET

```
Current A = 30,000 + 10,000 = 40,000
Non-current A = 48,000 - 5,000 = 43,000
Total A = 83,000
L = 8,000 + 26,000 = 34,000
L + OE = 34,000 + 49,000 = 83,000
```

PROFIT **45,000** → CAPITAL **49,000** →

B/S CHECK **83,000 = 34,000 + 49,000**

Source figure redrawn with the worked hand-offs: each number feeds the next.

MARK-EARNING PRESENTATION

WORKING	WHAT THE MARKER CAN CHECK
95,000 − 50,000	All expenses included once; profit sign correct.
20,000 + 45,000 − 16,000	Profit flows to equity; drawings bypass profit.
48,000 − 5,000	PPE presented at 43,000 carrying amount.
8,000 + 26,000	Current A/P separated from non-current loan.
83,000 = 34,000 + 49,000	Final accounting-equation tie-out.

STATEMENT-ORDER CARDS

IF YOU NEED...	PREPARE FIRST...
Profit	Income statement from adjusted revenue/expenses.
Closing capital	Income statement, then changes in equity.
Balance sheet	Both earlier statements, because it needs closing equity.

ERROR HUNT

- Leaving Drawings in expenses would produce profit 29,000, not 45,000.
- Adding accumulated depreciation as an asset would overstate assets by 10,000 versus the correct net presentation.
- Using opening Capital 20,000 on the balance sheet would miss current profit and drawings.
- Classifying the four-year loan as current ignores its settlement horizon.

10 · Drill 3: inventory T8 WORKED

Parkside Retail: opening 100 units @ $20; buy 300 @ $26; sell 340 @ $45. Periodic system. Find COGS and gross profit under FIFO and weighted-average.

COMMON SETUP

```
Goods available = 100×20 + 300×26 = 9,800
Units available 400; sold 340; closing 60
Sales = 340×45 = 15,300
```

METHOD	CLOSING	COGS	GP
FIFO	60×26 = 1,560	9,800−1,560 = 8,240	15,300−8,240 = 7,060
W.avg	60×24.50 = 1,470	340×24.50 = 8,330	6,970

WEIGHTED COST

```
9,800 ÷ 400 = 24.50 per unit
COGS + closing inventory = goods available
```

RISING COSTS: $20 → $26

FIFO older, cheaper costs → COGS lower COGS · higher GP

WEIGHTED pool ÷ units smooths costs higher COGS · lower GP

LIFO is not permitted under AASB/IFRS.

Source figure redrawn: which cost leaves inventory when prices rise.

SYSTEM JUDGEMENT

PERPETUAL	PERIODIC
Each sale: revenue entry + Dr COGS / Cr Inventory.	No COGS per sale; physical count fixes closing; derive COGS.

RETAIL FORMULA STACK

```
Net purchases = Purchases + freight-in - returns - discounts
Goods available = Opening inventory + Net purchases
COGS = Goods available - Closing inventory
Gross profit = Net sales - COGS
Profit = Gross profit - Operating expenses
```

EVENT	PERPETUAL ENTRY LOGIC
Buy inventory	Dr Inventory; Cr Cash/A/P.
Sell inventory	Dr Cash/A/R; Cr Sales *and* Dr COGS; Cr Inventory.
Customer return	Reverse sales effect and restore inventory/COGS where appropriate.
Period-end count	Compare physical stock with ledger; investigate shrinkage.

MEASUREMENT & TAX CARDS

- **Lower of cost and NRV:** do not carry inventory above the amount expected to be realised.
- **GST on sales:** liability collected for the ATO; not sales revenue.
- **GST on purchases:** recoverable amount; not inventory cost where recoverable.

11 · Drill 4: depreciation T9 WORKED

Delta Logistics: machine cost $50,000; residual $5,000; useful life 5 years; reducing-balance rate 40%. After two years, sell for $20,000.

STRAIGHT-LINE

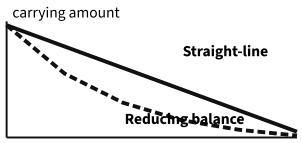
```
(50,000 - 5,000) ÷ 5 = 9,000 p.a.
After 2 years: accum. dep. = 18,000
Carrying amount = 50,000 - 18,000 = 32,000
```

REDUCING BALANCE

```
Y1 = 40%×50,000 = 20,000 → CA 30,000
Y2 = 40%×30,000 = 12,000 → CA 18,000
```

DISPOSAL UNDER STRAIGHT-LINE

```
Gain/(loss) = proceeds - CA
= 20,000 - 32,000 = -12,000 → 12,000 loss
```



Source figure redrawn: equal allocation versus declining charges.

IF YOU SEE...	DO...
Costs to location/condition	Capitalise in PPE cost.
Routine maintenance	Expense as revenue expenditure.
Reducing balance	Rate × opening CA; do not deduct residual first.
Disposal	Update depreciation; proceeds − CA.

PPE COST BOUNDARY

CAPITALISE	EXPENSE
Purchase price and costs necessary to bring the asset to its location and condition for use.	Routine repairs, maintenance and ordinary operating costs that do not create future benefits beyond the period.

DISPOSAL ENTRY PATH

1. Record depreciation up to disposal date.
2. Find accumulated depreciation and carrying amount.
3. Remove cost: Cr PPE.
4. Remove contra-asset: Dr Accumulated depreciation.
5. Record proceeds: Dr Cash.
6. Balance to gain (Cr) or loss (Dr).

DELTA DISPOSAL AMOUNTS

```
Dr Cash 20,000
Dr Accum. depreciation 18,000
Dr Loss on disposal 12,000
Cr Machine 50,000
```

METHOD	PATTERN / USE
Straight-line	Equal annual allocation where benefits are even.
Reducing balance	Higher early charges; rate applies to opening carrying amount.

12 · Drill 5: receivables T10 WORKED

Fairwater Supplies: A/R $80,000; estimate 5% uncollectible; Allowance already has $1,200 credit. Later write off a specific $900 debt.

TARGET, THEN TOP-UP

```
Required allowance = 5%×80,000 = 4,000 Cr
Adjustment = 4,000 - 1,200 = 2,800
Dr Bad debts expense 2,800 / Cr Allowance 2,800
```

NET REALISABLE VALUE

```
NRV = A/R - Allowance = 80,000 - 4,000 = 76,000
```

SPECIFIC WRITE-OFF

```
Dr Allowance 900 / Cr A/R 900
NRV = 79,100 - 3,100 = 76,000 unchanged
```

CREDIT SALE **A/R** → ESTIMATE **allowance** → REPORT **NRV**

Write-off reduces A/R and allowance equally

therefore NRV does not change

Source figure redrawn: estimate first; a later write-off uses the allowance.

ESTIMATE BASIS	MEANING
% of sales	Income-statement approach: estimate expense.
Ageing / % A/R	Balance-sheet approach: estimate target allowance.

ALLOWANCE ROLL-FORWARD

```
Opening allowance + current estimate - write-offs ± recoveries = Closing allowance
NRV = Gross A/R - Closing allowance
```

EVENT	EXPENSE?	NRV EFFECT
Estimate/top-up	Yes: Dr Bad debts expense	Falls as allowance rises
Specific write-off	No: Dr Allowance	None; both gross A/R and allowance fall
Direct write-off	Expense when debt fails	Poor matching; can overstate A/R before failure

LIABILITY JUDGEMENT CARDS

IF YOU SEE...	TREATMENT
Supplier invoice unpaid	Accounts payable: present current obligation.
Employee service received unpaid	Accrued expense + payable.
Customer pays before service	Cash + unearned revenue liability.
Long debt due partly next year	Split current portion from non-current balance.
Present obligation, probable measurable outflow	Recognise provision.

PROVISION OR CONTINGENCY?

13 · Judgement cards T7 · T11 · T12

BANK SIDE
Statement balance
+ deposits in transit
− unpresented cheques
± bank error

BOOK SIDE
Ledger balance
+ EFT / interest
− charges / dishonour
± book error

Both = true cash; journalise book side only

Source figure redrawn: reconcile timing differences and unrecorded book items.

BANK-RECONCILIATION DRILL

Ledger 12,400; bank 14,180; deposit in transit 2,300; unpresented cheques 3,600; charges 120; EFT receipt 600.

```
Bank: 14,180 + 2,300 - 3,600 = 12,880
Books: 12,400 + 600 - 120 = 12,880
Entries: Dr Cash 600 / Cr A/R 600; Dr Bank charges 120 / Cr Cash 120.
```

OPERATING customers · suppliers · staff

INVESTING buy / sell non-current A

FINANCING loans · capital drawings

ΔCash = O + I + F

Closing cash = Opening + ΔCash

Source figure redrawn: classify by nature, then reconcile opening to closing cash.

RATIO CHOOSER

QUESTION	FORMULA
Short-term cover	Current A ÷ Current L
Strict liquidity	(Current A − inventory − prepayments) ÷ Current L
Profit per sales $	Profit ÷ Net sales
Owner return	Profit ÷ Average equity
Debt funding	Total L ÷ Total A

CASH-FLOW DRILL

Opening cash 18,000; customers 210,000; suppliers (120,000); employees (45,000); interest (5,000); equipment (40,000); vehicle sale 8,000; loan 30,000; drawings (20,000).

```
O = 210,000 - 120,000 - 45,000 - 5,000 = +40,000
I = -40,000 + 8,000 = -32,000
F = +30,000 - 20,000 = +10,000
ΔCash = +18,000; closing = 18,000 + 18,000 = 36,000
```

Limitations: compare with prior periods, budgets and industry; consider policy choices, historical cost, seasonality, one-off items and qualitative factors. A number alone is not an evaluation.