# BUSS1030 Accounting for Decision Making

UNIVERSITY OF SYDNEY · BUSINESS SCHOOL

**EXAM REVISION SHEET**
**SIDE 1 OF 2** · In-Semester Test
closed book · CVP & budgeting

**SIDE 1/2 · IST** Modules 1–5 · Ch 1–3 · the MANAGEMENT half · Decision lens · Cost behaviour · CVP · Budgeting **IST · CLOSED BOOK · 60 MIN** Compiled by **AskSia** · mapped to the BUSS1030 syllabus · asksia.ai/cheatsheet/usyd-buss1030

## 0 · Exam Blueprint READ FIRST

★ Two **closed-book** sit-downs. **This side = the In-Semester Test** (25%, 60 min, Modules 1–5 / Ch 1–3) — the management / decision-making half: CVP + budgeting + the intro. MCQ + short answer.

**Flip over** = the Final (50%, 120 min, Modules 6–13) — the financial half. The final is a MANDATORY 45% hurdle: score <45% on it and you FAIL the unit even if your aggregate is ≥50% (transcript caps at 49).

Both tests are **closed book** — this is a from-memory revision tool, not a bring-in. Marks come from setting the calculation up right: recognise the type, grab the formula, lay out the schedule.

**SIA →** *The IST rewards speed of recognition. Drill CVP & the budget schedules until the layout is automatic; confirm current rules in your unit outline.*

## 1 · What Accounting Is M1–2 · CH1

*Accounting* = identifying, measuring, recording & communicating economic information so users can make informed decisions — "the language of business."

### FINANCIAL VS MANAGEMENT

| | FINANCIAL | MANAGEMENT |
|---|---|---|
| Users | **external** | **internal** |
| Rules | standards, audited | none, flexible |
| Focus | past / historical | future / plans |
| Output | the statements | CVP, budgets |

CVP & budgeting (this side) are MANAGEMENT accounting; the three statements (flip side) are FINANCIAL. Students mislabel because BUSS1030 teaches them in the reverse of the usual order — management first, financial second.

## 1b · Structures & Concepts CH1

| FORM | LIABILITY | LEGAL ENTITY? |
|---|---|---|
| Sole trader | **unlimited** | no |
| Partnership | unlimited, joint | no |
| Company | limited | **yes** |

Pick on liability, capital access, control, continuity, tax. A sole trader is a separate ACCOUNTING entity but NOT a separate legal entity — entity concept ≠ legal separation.

**Five core concepts:** *entity* (business separate from owner) · *transaction* (exchange, from a source document — invoice, receipt, EFT) · *monetary unit* (recorded in $) · *historical cost* (record at the amount exchanged when it occurred). **Trap:** land bought for $100k stays at $100k even if now worth $130k — cost is verifiable, market value isn't.

**Business types:** service (sells time) · merchandising (buys & resells goods, holds inventory) · manufacturing (converts raw materials). The structure choice and business type set which budgets and statements apply.

## 2 · Ethics & the Plan M2–3 · CH1–2

AU bodies (CAANZ, CPA, IPA) adopt **APES 110**. **Five fundamental principles:** Integrity · Objectivity · Professional competence & due care · Confidentiality · Professional behaviour. Apply the framework: spot *threats*, use the reasonable & informed third-party test.

### THE BUSINESS PLAN

**3 purposes:** (1) organise the business; (2) be a benchmark for actual performance; (3) help obtain funding.

**5 parts:** description · marketing plan · operating plan · environmental-management plan · financial plan.

**Trap:** examiners separate the **3 purposes** from the **5 parts** — don't conflate them. A short-answer "discuss each" wants a definition plus how it contributes to success.

## 3 · Cost Behaviour M3 · CH2 · CVP INPUT

| COST | IN TOTAL | PER UNIT |
|---|---|---|
| **Variable** | changes w/ volume | **constant** |
| **Fixed** | **constant** | falls as vol ↑ |
| Mixed | has both a fixed & a variable part | |

*Relevant range* · the activity band where these behaviour assumptions hold.

**Trap:** the word "constant" flips — variable is constant PER UNIT (varies in total); fixed is constant IN TOTAL (varies per unit). Never unitise a fixed cost for a decision. (BUSS1030 does NOT examine high-low or cost-estimation methods.)

## 4 · CVP Analysis M3 · CH2 · HEAVY

A planning tool: how **volume, price, variable cost & fixed cost** drive **profit**. Everything hangs off the *contribution margin* — what each unit gives towards fixed costs first, then profit.

### CORE CVP FORMULAS

```
CM/unit = Price - VC/unit (P - V)
CM ratio = CM/unit ÷ Price
Profit = CM/unit × units - Fixed costs
BE units = Fixed costs ÷ CM/unit
BE $ = Fixed costs ÷ CM ratio (or BE units × P)
Target units = (Fixed + target profit) ÷ CM/unit
Target $ = (Fixed + target profit) ÷ CM ratio
MoS = actual sales - break-even sales
MoS % = MoS ÷ actual sales
```

At break-even, total CM exactly = total fixed costs, so profit = 0. Below it = loss; above it, every extra unit adds *one CM* to profit.

**SIA →** *A CVP question is solved the instant you isolate CM/unit. Compute it first – then BE, target & MoS are each one division away.*

## 4b · CVP Worked AUTHOR'S NUMBERS

**Set-up:** *Harbour Candles* sells a boxed candle for **$40**; variable cost **$24**/box; fixed costs **$240,000**/yr.

- (a) CM/unit = 40 − 24 = $16
- (b) CM ratio = 16 ÷ 40 = **0.40** (40%)
- (c) BE units = 240,000 ÷ 16 = 15,000 boxes
- (d) BE $ = 240,000 ÷ 0.40 = $600,000 (= 15,000 × $40 ✓)
- (e) Profit at 20,000 boxes = 16×20,000 − 240,000 = **$80,000**
- (f) Units for $100,000 profit = (240,000+100,000) ÷ 16 = 21,250 boxes
- (g) MoS at 20,000 = 20,000 − 15,000 = 5,000 boxes (25%)

### CM INCOME STATEMENT

| | |
|---|---|
| Sales (20,000×$40) | 800,000 |
| − Variable (20,000×$24) | (480,000) |
| **Contribution margin** | **320,000** |
| − Fixed costs | (240,000) |
| **Net income** | **80,000** |

The contribution-margin format groups by behaviour (variable then fixed), not by function — it's the management view that feeds CVP. Every box past break-even adds its full $16 CM to profit: at 21,250 boxes profit is exactly the $100k target; at 20,000 it is $80k.

**After-tax targets (if asked):** gross up first — required pre-tax profit = after-tax ÷ (1 − tax rate), then use the normal target-units formula. Want $70k after 30% tax ⇒ pre-tax = 70,000 / 0.70 = $100,000 ⇒ units = (240,000+100,000)/16 = 21,250 boxes. The tax sits outside the core CVP machinery — gross up, then plug in as usual.

## 4c · Sensitivity Rules CLASSIC SHORT-ANSWER

Change ONE parameter, hold the rest — state the direction of (a) profit and (b) break-even. Break-even moves *opposite* to CM.

| CHANGE | CM/UNIT | PROFIT | BE |
|---|---|---|---|
| VC/unit ↑ | ↓ | ↓ | ↑ |
| Price ↑ | ↑ | ↑ | ↓ |
| Fixed ↑ | — | ↓ | ↑ |
| Volume ↑ | — | ↑ | — |

**Worked:** if Harbour's VC rises $24→$26, CM falls 16→14 ⇒ BE rises 15,000 → 240,000/14 = 17,143 boxes and profit at 20,000 drops to 14×20,000−240,000 = $40,000. A fixed-cost change moves BE but leaves CM untouched.

**Trap:** answer BOTH halves — students give profit but forget BE moves the opposite way; and a fixed-cost change does NOT affect CM/unit.

**SIA →** *CVP assumes one product (or constant mix), clean fixed/variable split, linearity in the relevant range. Qualitative effects still matter – necessary, not sufficient.*

## 5 · Budgeting M4 · CH3 · EXAMINED

A *budget* = a quantitative, forward-looking plan expressing the business plan in $. Why: plan · coordinate · communicate · motivate · **control** (the benchmark for actual results).

### MASTER-BUDGET SEQUENCE

**THE CHAIN (START WITH SALES)**

```
Sales budget
→ Purchases budget (with desired ending inventory)
→ Cash-collection schedule
→ Cash budget
→ Projected income statement
```

**KEY IDENTITIES**

```
Sales $ = units × selling price
Purchases = sales + desired end inv - beg inv
Cash in month = Σ(sales × that month's collect %)
Closing cash = opening + receipts - payments
```

**Trap — cash ≠ revenue.** Revenue is recognised when *earned* (accrual); cash only when *received*. Credit sales hit revenue now but cash later. Bad-debt % is lost cash — never add it back.

## 5b · Sales & Purchases AUTHOR'S NUMBERS

**Set-up:** *Ridgeway Bikes* expects unit sales of **500** (Apr), **600** (May), **700** (Jun) at **$300**; ending inventory = **20% of next month's sales**; opening April inventory 100 units.

### SALES BUDGET

Apr 500×$300 = $150,000; May $180,000; Jun $210,000 ⇒ quarter $540,000. This is revenue earned/billed — NOT cash received.

### PURCHASES (UNITS)

```
Purchases = sales + desired end inv - beg inv
```

| | APR | MAY |
|---|---|---|
| Sales units | 500 | 600 |
| + End inv (20% next) | 120 | 140 |
| − Beg inv | (100) | (120) |
| **= Purchases** | **520** | **620** |

**Trap:** ending inventory uses *next* month's sales; subtract (don't add) beginning inventory. End inv of one month = beg inv of the next.

**Rearranged inventory identity:** Beginning + Purchases = Sales + Ending. The purchases budget just solves it for purchases — buy enough to cover this month's sales AND restock to the desired ending level. A merchandiser buys finished goods; a service business has no purchases budget at all.

For June: sales 700 + end inv (20% of July, say 20% × 800 = 160) − beg inv 140 = **720 units**. Multiply purchase units by cost/unit for the dollar purchases budget that feeds the cash-payments schedule.

## 5c · Cash Collections AUTHOR'S NUMBERS

Converts *credit sales* into **cash actually received** by applying the collection pattern with a lag. Sum every inflow that LANDS in the target month.

**CASH IN MONTH M**

```
= cash% × Sales(M)
  + Σ over each lag k: credit% × Sales(M-k) × collect%(k)
```

**Set-up:** Ridgeway sales $150k (Apr), $180k (May), $210k (Jun); all on credit; collected 60% in the month of sale, 30% next month, 8% third month, 2% bad debt.

| COLLECTED IN | FROM | $ |
|---|---|---|
| Jun · 60% Jun | 0.60×210k | 126,000 |
| Jun · 30% May | 0.30×180k | 54,000 |
| Jun · 8% Apr | 0.08×150k | 12,000 |
| **= June cash** | | **192,000** |

The 2% never arrives — it's bad debt, not carried forward. June cash ($192k) ≠ June sales ($210k): the gap is the receivables build-up.

**#1 error:** mis-lagging — putting "month after sale" collections in the wrong column; or collecting 100% and ignoring the bad-debt remainder; or forgetting the immediate cash-sales portion when some sales are for cash.

**Mixed cash & credit:** if sales are, say, 50% cash / 50% credit, the cash half is collected in full in the month of sale and only the credit half is lagged. Build the schedule one source-month at a time, then sum down each *collection* column.

## 5d · Projected Income ACCRUAL BASIS

The **performance** benchmark (the cash budget is the **liquidity** benchmark). Built on *accrual* sales (from the sales budget), NOT the cash-collection figures.

| | |
|---|---|
| Budgeted sales | 540,000 |
| − Budgeted COGS | (324,000) |
| **Gross profit** | **216,000** |
| − Operating expenses | (150,000) |
| **Budgeted net income** | **66,000** |

**Trap:** never feed the cash-collection numbers into the projected income statement — use accrual sales revenue. Actual vs budget = the variance you investigate (BUSS1030 stays at "compare & explain", no formal variance formulas).

The projected income statement is accrual: revenue when earned, expenses when incurred — so depreciation appears here but not in the cash budget, and credit sales appear in full even though the cash arrives later. Pair it with the cash budget to see both performance and liquidity before the period starts.

**SIA →** *Hold the two budgets apart: the projected income statement uses earned sales; the cash budget uses collected cash. Mixing them is the most-penalised budgeting mistake.*

## 5e · Cash Budget LIQUIDITY BENCHMARK

**CASH BUDGET IDENTITY**

```
Opening cash
+ Total receipts (from the collection schedule)
- Total payments
= Closing cash
```

**Worked (June):** opening $40,000 + collections $192,000 − payments $200,000 = closing $32,000.

If closing falls below the minimum the budget flags a shortfall → **delay payments, accelerate collections, cut spending, draw on finance, or inject owner capital.** A surplus ⇒ repay or invest. The cash budget is what tells the owner *when* they can pay a bill — something the income statement hides.

Then compare actual results to this budget benchmark, investigate the differences, and revise the plan — the planning loop the whole master budget exists to serve.

## 5f · Budget Traps DON'T LOSE MARKS

- **Cash ≠ revenue** — accrual sales now, cash collected later
- Ending-inventory % uses **next** month's sales; subtract beginning inventory
- Bad-debt % is lost cash — **don't carry it forward**
- Line the collection lags up to the right month
- Projected income statement uses **earned** sales, never collections
- Depreciation is NOT a cash payment in the cash budget

## IST Formula Belt MEMORISE

```
CM/unit = P - V · CM ratio = CM ÷ P
Profit = CM/unit × units - Fixed
BE units = Fixed ÷ CM/unit
BE $ = Fixed ÷ CM ratio
Target units = (Fixed + profit) ÷ CM/unit
Target $ = (Fixed + profit) ÷ CM ratio
MoS = actual sales - BE sales
MoS % = MoS ÷ actual sales
Sales $ = units × price
Purchases = sales + end inv - beg inv
Cash(M) = Σ(sales × collect %)
Closing cash = open + receipts - payments
```

## Direction Card MCQ REFLEXES

- VC/unit ↑ ⇒ CM ↓ ⇒ profit ↓, **BE ↑**
- Price ↑ ⇒ CM ↑ ⇒ profit ↑, BE ↓
- Fixed ↑ ⇒ CM same, profit ↓, BE ↑
- Higher CM ratio ⇒ fewer sales $ to break even
- Variable cost = constant per unit; fixed = constant in total

**SIA →** *Set the schedule labels & formula first, then plug numbers. A clean layout earns method marks even if one figure slips.*

# BUSS1030 Accounting for Decision Making

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**EXAM REVISION SHEET**
**SIDE 2 OF 2** · Final Exam
closed book · 50% · 45% hurdle

**SIDE 2/2 · FINAL** Modules 6–13 · Ch 4,6–9 · the FINANCIAL half · A=L+OE worksheet · 3 statements · cash flow · ratios · governance

**FINAL · CLOSED BOOK · 45% HURDLE**

Compiled by **AskSia** · mapped to the BUSS1030 syllabus · asksia.ai/cheatsheet/usyd-buss1030

## 6 · The Equation M6–7 · CH4

**BASIC EQUATION**

```
Assets = Liabilities + Owner's Equity
Owner's equity = Assets - Liabilities = Net assets
```

- **Assets** — resources controlled, future benefit (cash, receivables, inventory, PPE)
- **Liabilities** — obligations owed to creditors (payables, loans, unearned revenue)
- **Owner's equity** — the owner's *residual* claim (creditors rank first)

**EXPANDED EQUATION**

```
A = L + Capital + Revenues - Expenses - Drawings
```

↑ equity: owner capital, revenues. ↓ equity: expenses, losses, drawings. (Company: drawings→dividends, capital→share capital.)

**This unit uses a WORKSHEET, not debits/credits** — record each transaction's dual effect in account columns so A = L + OE stays balanced on every line. (Normal-balance Dr/Cr theory is background only; no journals, ledgers or trial balance examined.)

## 6b · Worksheet Recording DUAL EFFECT

**Method:** (1) identify the two accounts affected; (2) classify each A / L / OE; (3) record the +/− so the equation balances; (4) apply entity, monetary-unit, historical-cost & accrual; (5) total each column → feeds the statements.

**WORKED · AUTHOR'S TRANSACTIONS**

| TRANSACTION | A | = L | + OE |
|---|---|---|---|
| Owner invests $50k cash | +50k | | +50k cap |
| Buy van $20k on credit | +20k | +20k | |
| Service for cash $8k | +8k | | +8k rev |
| Pay rent $3k | −3k | | −3k exp |
| Owner draws $2k | −2k | | −2k draw |

**Traps:** recording only one side (breaks the equation); treating drawings as an expense (they're equity, not P&L); revaluing an asset above historical cost.

**Check the run above:** assets +50 +20 +8 −3 −2 = **+73k**; liabilities +20k; equity +50 (cap) +8 (rev) −3 (exp) −2 (draw) = +53k ⇒ 20 + 53 = 73k = total assets ✓. The worksheet IS the records the statements are built from — column totals feed straight into the income statement (revenue/expense rows) and balance sheet (A / L / OE rows).

**RECOGNITION**

An **asset** is recognised when it is a present economic resource controlled from a past event, expected to give future benefit, measurable. A **liability** when there is a present obligation from a past event needing an outflow. Historical cost makes the figures objective and verifiable.

## 7 · Adjusting Entries M7 · CH4 · ACCRUAL

**Why:** match revenues *earned* with expenses *incurred* in the right period, regardless of cash. Accrual: revenue when earned, expense when incurred — BUSS1030's reporting basis. Each adjustment keeps A = L + OE balanced (done in the worksheet, not as journals).

| TYPE | EFFECT |
|---|---|
| Accrued expense (incurred, unpaid) | ↑ Exp, ↑ Liab |
| Accrued revenue (earned, unreceived) | ↑ Asset, ↑ Rev |
| Prepaid expense (deferral, used up) | ↑ Exp, ↓ Asset |
| Unearned revenue (deferral, earned) | ↓ Liab, ↑ Rev |
| Depreciation | ↑ Dep Exp, ↑ Accum dep |

**Deferrals:** cash moved first, recognition later — a prepaid is an *asset* until used; unearned revenue is a *liability* until earned. **Accruals:** recognition first, cash later. Net income ≠ cash flow precisely because of these timing gaps.

## 7b · Depreciation CONTRA-ASSET

*Depreciation* = systematic **allocation** of a non-current asset's cost over its useful life — NOT a valuation and NOT a cash set-aside.

**STRAIGHT-LINE (THE DEFAULT)**

```
Dep/yr = (Cost - Residual) ÷ Useful life
Book value = Cost - Accumulated depreciation
```

**Worked:** van cost $20,000, residual $2,000, 6-yr life ⇒ dep = (20,000−2,000)/6 = $3,000/yr. After 2 yrs accum dep $6,000 ⇒ book value $14,000.

**Traps:** depreciation is a **non-cash** expense (never on the cash flow statement); accumulated depreciation is a *contra-asset* shown in brackets under the asset — NOT a liability; book value is cost-based, not market value.

## 7c · Recognition & Quality FRAMEWORK

**Revenue** = inflows that increase equity, other than owner contributions. **Expense** = outflows that decrease equity, other than drawings. **Income vs gain:** income is from ordinary operations; a *gain* is peripheral (e.g. selling a non-current asset above book value).

**Qualitative characteristics:** Relevance (makes a difference — predictive/confirmatory, materiality) & Faithful representation (complete, neutral, error-free). Enhancing: comparability, verifiability, timeliness, understandability. Historical cost is more *reliable*; market value would be more *relevant* — the trade-off behind the cost concept.

## 8 · Income Statement M9 · CH7

Reports **performance** (profitability) *over a period* — revenues earned − expenses incurred. Accrual / matching basis.

**STRUCTURE (MERCHANDISING)**

```
Net sales - COGS = Gross profit
Gross profit - Operating expenses = Net income
```

**Temporary (nominal)** accounts = revenues & expenses — used one period, then *closed* to zero; net income transfers to owner's equity. **Permanent (real)** accounts = assets, liabilities, equity — carry forward. You must know the theory of closing but don't perform closing entries in this unit — understand that temporary accounts restart at zero while permanent accounts carry over.

## 8b · Changes in Equity THE LINK

Reconciles opening to closing owner's equity and links the income statement to the balance sheet.

**STATEMENT OF CHANGES IN OWNER'S EQUITY**

```
Closing capital
= Opening capital
 + Additional investment
 + Net income (from the income statement)
 - Drawings
```

**Worked:** opening $50,000 + net income $30,000 − drawings $8,000 = closing capital $72,000 (carried to the balance sheet). An additional owner investment during the period would add in too.

**Trap:** don't double-count net income — it's already inside closing equity; and drawings reduce equity here, they are NOT an expense in the income statement.

## 8c · How They Articulate THE FLOW

**THE THREE STATEMENTS LINK**

```
Income statement → Net income
 → Statement of changes in equity → Closing capital
 → Balance sheet (owner's equity line)
Cash flow statement → Closing cash
 → Balance sheet (cash line)
```

Net income flows into equity; closing capital and closing cash both land on the balance sheet. The statements articulate — they're one connected system, not four separate reports. The balance sheet is the snapshot that ties them together at the period end; the income statement and cash flow statement each span the *period* between two balance sheets.

**SIA →** *In the closed-book final you must reproduce this flow from memory. Draw the arrows first: net income → equity → balance sheet; cash → balance sheet. The articulation is itself an exam favourite.*

## 9 · Balance Sheet M10 · CH8

Summarises **financial position** — assets, liabilities, owner's equity — *at a point in time*. Follows A = L + OE; built from the final worksheet balances.

**CLASSIFIED FORMAT**

| SECTION | EXAMPLES |
|---|---|
| Current assets | cash, receivables, inventory, prepaid |
| Non-current assets | PPE *at cost − accum dep* |
| Current liabilities | payables, accruals, unearned rev |
| Non-current liab. | long-term loans |
| Owner's equity | closing capital |

**Current** = realised/settled within one year (or the operating cycle). PPE shown *net*: cost less accumulated depreciation (bracketed contra) = book value. Verify Total assets = Total liabilities + Owner's equity.

**Traps:** mis-classifying current vs non-current; showing PPE at cost without subtracting accumulated depreciation; treating accumulated depreciation as a liability.

## 9b · Working Capital M8 · CH6

```
Working capital = Current assets - Current liabilities
```

Managing it = enough liquidity to pay debts as they fall due without tying up idle cash. **Accounts receivable** = amounts owed by credit customers (current asset); selling on credit risks **bad/doubtful debts**.

**Internal control** over receivables/payables/cash: segregation of duties, authorisation, reconciliation, safeguarding — to prevent error & fraud. (BUSS1030 keeps inventory at the conceptual/turnover level — no FIFO / weighted-average cost-flow.)

**Bad/doubtful debts (concept):** selling on credit means some customers won't pay. The allowance approach estimates doubtful debts, raising an *allowance for doubtful debts* (a contra-asset) and a *bad-debt expense*; net receivable = gross receivable − allowance. In this unit it surfaces mainly as the uncollected % in a cash-collection schedule.

## 9c · Classified Worked AUTHOR'S NUMBERS

*Ridgeway Bikes* at 30 Jun:

| | |
|---|---|
| Cash | 32,000 |
| Accounts receivable | 48,000 |
| Inventory | 40,000 |
| **Current assets** | **120,000** |
| Van (cost 20,000 − accum dep 6,000) | 14,000 |
| **Total assets** | **134,000** |
| Accounts payable | 26,000 |
| Loan (non-current) | 36,000 |
| Owner's equity (closing capital) | 72,000 |
| **Total L + OE** | **134,000** |

Both sides total $134,000 — the equation holds. The van sits net of its bracketed contra-asset; the loan splits current vs non-current by when it falls due.

## 10 · Cash Flow · Direct M11 · CH9

Reports cash **inflows & outflows** over a period — shows whether the business can stay *solvent*, something accrual statements can hide. BUSS1030 uses the DIRECT METHOD only (ignore the indirect reconciliation).

| ACTIVITY | CASH FLOWS |
|---|---|
| **Operating** | from customers; to suppliers & employees |
| **Investing** | buy/sell non-current assets |
| **Financing** | owner capital/drawings; loans |

**DIRECT-METHOD OPERATING**

```
Cash from customers = Sales - ↑ in receivables
- Cash to suppliers & employees (adj for payables/prepaid)
= Net operating cash flow
Net change in cash + opening = closing cash
```

**Worked:** sales $300k; receivables rose $40k ⇒ cash from customers = $260k. Buy a van = investing; take/repay a loan or owner drawings = financing.

## 10b · Cash Flow Traps NET INCOME ≠ CASH

- Depreciation appears NOWHERE on the cash flow statement (non-cash; the "add-back" is the excluded indirect method)
- ↑ accounts receivable ⇒ cash collected was **less** than credit sales
- Buy PPE = investing; loan/owner capital/drawings = financing; only trading flows = operating
- **Net income ≠ cash from operations** — revenue can be earned with no cash (receivable), expenses incurred with no cash (payable)

Net income is accrual-based and includes non-operating items; operating cash is purely cash from buying/selling/delivering goods & services.

## 11 · Governance & Ethics M12

*Corporate governance* (ASX) = the framework of rules, relationships, systems & processes to exercise authority & control — so no single group has unchecked power (balance of power, mutual accountability).

**Who decides:** shareholders (provide capital, elect directors) · board (strategy, monitors execs) · executives (run operations) · external auditors (assurance the info is reliable). Accounting is the **information base**; auditors test for a "true and fair view" — independence lets them question objectively. Underpinned by **APES 110** (the 5 principles from Module 2). Failures: Qantas (2023–24), PwC Australia (2023). Governance answers want a STRUCTURED response — identify stakeholders, apply the framework/principles, weigh consequences, link to disclosure & accountability — never a one-line opinion.

## 12 · Ratio Analysis M9–11 · EXAMINABLE

Pulled from the income statement & balance sheet. Use **average** balances ((beg+end)/2) for turnover ratios. A ratio is only meaningful when compared — over time, to peers, to budget.

**LIQUIDITY**

```
Current = Current assets ÷ Current liabilities
Quick = (CA - inventory - prepaid) ÷ CL
```

**OPERATING CAPABILITY (ACTIVITY)**

```
Inventory turnover = COGS ÷ avg inventory
AR turnover = net credit sales ÷ avg receivables
```

**PROFITABILITY**

```
Gross profit ratio = Gross profit ÷ Net sales
Profit margin = Net income ÷ Net sales
ROA = Net income ÷ avg total assets
ROE = Net income ÷ avg owner's equity
Op cash flow margin = Op cash flow ÷ Net sales
```

**FINANCIAL FLEXIBILITY**

```
Debt-to-equity = Total liabilities ÷ Owner's equity
```

## 12b · Reading Ratios INTERPRET, DON'T JUST STATE

- Higher current/quick ⇒ more liquid (short-run)
- Higher turnover ⇒ more efficient — sells/collects faster, less cash tied up
- Higher AR turnover is GOOD (not bad) — collecting faster, fewer non-payers
- Higher op cash flow margin ⇒ more cash per sales $

**Trap:** the current ratio is SHORT-RUN liquidity, NOT long-term capability — a classic false-statement MCQ. Quick ratio strips inventory & prepayments (least-liquid). Worked: CA $120k, inventory $30k, prepaid $5k, CL $60k ⇒ current = 2.0; quick = (120−30−5)/60 = 1.42.

## Final Formula Belt MEMORISE

```
A = L + Cap + Rev - Exp - Draw
Book value = Cost - Accum dep
SL dep = (Cost - Residual) ÷ Life
Closing cap = Open + Invest + NI - Draw
Cash from customers = Sales - ↑receivables
Current = CA ÷ CL · Quick = (CA-inv-prepaid)÷CL
Inv turnover = COGS ÷ avg inv
AR turnover = credit sales ÷ avg AR
Profit margin = NI ÷ Sales · ROA = NI ÷ avg assets
Op cash flow margin = Op CF ÷ Sales
```

**SIA →** *The final is the 45% hurdle – closed book, from memory. Reproduce the equation, the three-statement articulation & these ratios cold and you clear it.*