

## → Asset Classification

- 1) Balance sheet separates assets into current and non-current.
  - Current: Future benefit is expected to be used up within 12 months.
  - Non-current: Future benefit is expected to be used up after 12 months' time.
- 2) Balance sheet also separates assets into classes.
  - Groups together assets with similar nature and use.
  - Improves understandability for users.
  - Notes may provide more detail.

## → Classes of Assets

### ○ CURRENT ASSETS

*Definition:* Cash and other assets that are expected to be converted to cash or used in the entity within one year or operating cycle (whichever is longer). (FB used in <12 months)

#### ▪ Cash and Cash Equivalents

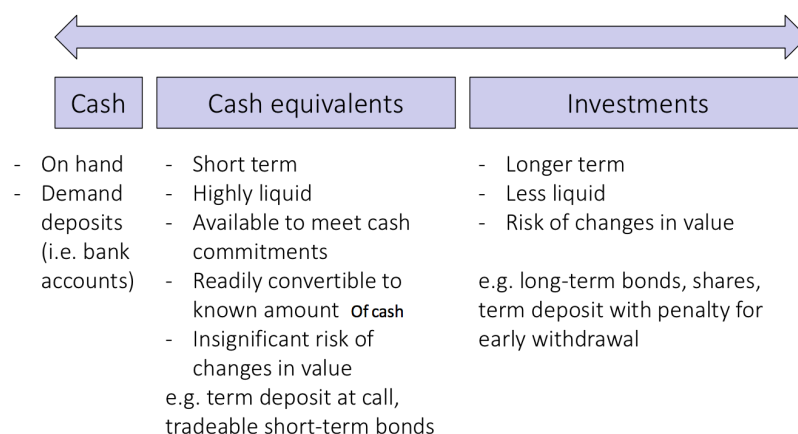
*Definition:* Cash held at bank, on hand and in short term deposits at a particular point in time.

##### **Cash:**

- Cash is in the form of actual 'cash' or money in demand deposit accounts (DDA).
- Generally, the **cash amount isn't substantial** because cash generates low returns relative to productive assets.
- Idle asset, most unproductive.
- 'Too much cash' is possible and is seen as poor management due to being unable to more effectively use the cash. Could be used to pay off debt incurring interest etc.

##### **Cash Equivalents:**

- Cash equivalents are held for the **purpose** of meeting short-term cash commitments rather than for investments or other purposes.
- For an investment to be classified as cash equivalent, it must be readily convertible to a known amount of cash; and have little risk of changes in value. (E.g. term deposit at call or tradeable short term bonds)



*Where is it disclosed?* In the cash and cash equivalents section on the balance sheet. Cash/cash on hand in transaction sheet.

## ▪ Receivables

Definition: Amounts owed to the entity.

- Receivables are often referred to as trade receivables, trade debtors or accounts receivable.
- **Trade Receivables:** Amounts owed by customers to the entity arising from the sale of goods and services.
- **Other Receivables:** Amount owed by receivables who are not customers. (E.g. loans to employees) or an amount recognised under accrual accounting.

Purpose: Companies offer credit to maintain competitive in the market.

Risk: Those who owe the company money won't pay up. However, although there is risk that not everything owed will be collected by the company; until there is formal evidence that someone can't pay, it is still a receivable and hence an asset. This is because it is still probable that someone will pay.

Disclosure Requirements:

- Goes under trade and other receivables on a balance sheet.
- In the balance sheet it must distinguish between trade receivables (from customer) and other.
- The balance sheet must also record an aged analysis of impaired and non-impaired receivables. (as shown below). This shows the doubtful debts.
- The policy for determining the impairment of receivables. (E.g. after how many days will a receivable be impaired, and by how much of the gross amount?)

## ▪ Inventories

Definition: Supplies of raw materials to be used in the production process, work in progress and/or the finished goods the entity has available for sale.

- Assets held for sale in the ordinary course of the business.

Cost of Inventory:

- Purchasing price of inventory, including non-refundable taxes.
- Conversion costs (raw material into finished good) typically related to manufacturing firms
- Other costs incurred to bring inventory to their present location and condition.  
**EXCLUDES** storage costs and selling costs.
- Once a good is ready to be sold, we can't add anymore cost to it.
- Cost of sales = cost of the purchasing price of stock that is LEFT and **NOT SOLD**.

Disclosure Requirements for Inventories:

- Accounting policies adopted in measuring cost/price of inventories (FIFO, specific indications or weighted average).
- Amounts of any write downs during the period
- Carrying amounts of all classifications of inventories (final goods, works in progress, raw materials etc)
- Carrying amounts of all inventories at net realisable value (NRV = selling price – selling cost))
- Aggregated total of the carrying amount.