| Cash accounting | Cash flow statement reports *cash inflows + outflows* | Only accounts for revenues + expenses when cash is *paid or received* |

| Accural accounting | An income statement reports *revenues + expenses* | Includes the impact of transactions on the financial statements in the time periods where revenues + expenses occur, rather then when cash is receieved or paid |

QUALITATIVE CHARACTERISTICS:

FUNDAMENTAL:

- Relevance → useful info. for decision-making
- Faithful representation → free from bias

ENHANCING:

- Comparability → can be compared with similar info. from another organisation, and also comparable overtime within same organisation
- Verifiability → numbers can be verified (looking at documents, direct observation, checking inputs and outputs to a model formula)
- Timeliness → providing info. in time for the user to incorporate the info. in their decisions
- Understandability → info. is more useful if it is understandable to informed decision-makers

Materiality:

- A piece of info. is MATERIAL if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statement
- The amount of errors an auditor would accept without changing the figures and redoing the financial statement
- Not possible for statements to be 100% accurate

FINANCIAL STATEMENT ASSUMPTIONS:

1. **Accrual basis:**
   - Revenues + expenses are recognised *at the time they occur* rather than when the cash is received or paid
2. **Accounting entity assumption:**
   - The entity for which financial statements are prepared (activities of the entity are separate from those of its owners/members)
   - Separation b/w owners + company itself

Ledger Accounts:

- Summaries of the recorded transactions for each individual account refers to in the Chart of Accounts (like a filing system) → clearer and more accurate
- PURPOSE = To accumulate journal entries related to each account and thus provide a summary of all transactions impacting a particular account (Eg: Cash, inventory, accounts payable)
- Transactions in journals are not grouped together
- Need ledger accounts to determine how much cash or inventory you have from the journal
- The General ledger = The complete set of all the accounts (assets, liabilities, equity accounts, revenues, and expenses) that lie behind the financial statements

ASSETS	LIABILITIES + EQUITY
- Cash in bank - Accounts receivable - Inventory - Factory/Equipment	- Bank loan - Accounts payable - Taxes payable
	- Share capital - Retained earnings

Cash sale of service = Dr Cash

                       Cr   Sales Revenue

Credit sale of a service = Dr Accounts receivable

                       Cr   Sales revenue

Accounts:

- Used to classify transactions
- Stores information for similar transactions