

# ACCT2101- Financial Reporting- Notes

## Lecture 1

A complete Set of Financial Statements (AASB 101) Includes:

1. A statement of comprehensive income (including the income statement)
  2. A statement of financial position (balance sheet)
  3. A statement of changes in equity
  4. A statement of cash flows
  5. Notes to the financial statements
  6. A comparative statement of financial position for retrospective restatement or application of accounting policy.
- Accrual accounting records income and expenses at the time they occur, not necessarily when cash is received or paid.
    - o Profit = Income – Expenses
  - Cash accounting records income and expenses at the time cash is received or paid.
    - o Cash Profit = Cash inflows – Cash outflows

Types of Accounts:

1. Asset
  2. Liability
  3. Equity
  4. Income (Revenues and Gains)
  5. Expenses (includes Losses)
- Assets = Liabilities + Owners' equity AKA BALANCE SHEET
  - Expanded:
    - $A = L + E + (\text{Income} - \text{Expenses}) - \text{Dividends}$

To recognise an item in the records, two conditions must be met:

1. Definition; and
  - (i) A resource controlled by an entity
  - (ii) Future economic benefits
  - (iii) The event giving rise to control has occurred
2. Recognition
  - (i) It is **probable** that any future economic benefit associated with the item will flow to the entity; and
  - (ii) The item has a cost or value that can be **measured with reliability**.

## Assets

- resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity
  - A resource controlled by an entity
  - Future economic benefits
  - The event giving rise to control has occurred
- Recognition:
  - It is **probable** that any future economic benefit associated with the item will flow to the entity; and
  - The item has a cost or value that can be **measured with reliability**.

### Liabilities

- Present obligation
- Outflows of economic benefits
- The event giving rise to the obligation has occurred
  - Recognition
    - It is **probable** that any future economic benefit associated with the item will flow from the entity; and
    - The item has a cost or value that can be **measured with reliability**.

### Equity

- Residual interest in assets less liabilities
  - Funds contributed by shareholders
  - Retained profits
  - Reserves

### Income Statement

- **Profit (loss) = Income - Expenses**

### Income

*Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants*

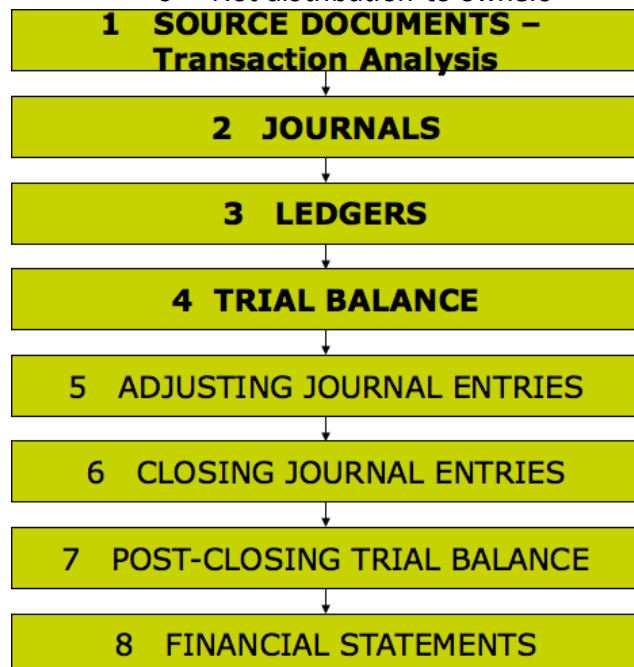
Includes:

- Revenues:
  - Gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity
  - 4 elements:
    - Inflow of economic benefit.
    - Increase in assets/decrease in liabilities.
    - Increase in equity.
    - Not contribution by owners (i.e. not capital).
- Gains
  - Other items that meet the definition of income
- Recognition of Income:
  - An increase in future economic benefit ... has arisen, and
  - The increase can be measured reliably.

### Expenses

- From ordinary activities

- Losses
- Elements:
  - Consumption of economic benefits.
  - Decrease in assets or increase in liabilities.
  - Decrease in equity ( $E = A - L$ ).
  - Not distribution to owners



REMEMBER:

- Equity = Capital + **Retained profits** + Reserves
- Equity = Capital + (**Beginning retained profits + Income – Expenses – Dividends**) + Reserves
- Therefore, Assets = Liabilities + (Capital + Beginning retained profits + Income – Expenses – Dividends + Reserves)