Not-for-profit Organisation: An organisation whose main aim is not to make a profit, but to achieve some other clear goal, usually of a social nature.

WEEK 3 Key Concepts

Understanding of Assets, Liabilities and Owners' Equity

The Accounting Equation

The Relationship between the Statement of Financial Performance and the Statement of Financial Position

CHAPTER 2 – Measuring and Reporting Financial Position

Asset: A resource held by a business which has certain characteristics

Characteristics of an Asset

- **A probable future economic benefit –** Expected to have some future monetary value
- **The business has an exclusive right to control the benefit**
- **The benefit must arise from some past transaction or event**
- **The asset must be capable of reliable measurement in monetary terms**

Tangible Assets: Those assets that have a physical substance (e.g. plant and machinery, motor vehicles).

Intangible Assets: Assets which, while providing expected future benefits, have no physical substance (e.g. copyrights, patents, etc.).

Claim: An obligation on the part of the business to provide cash or some other benefit to an outside party.

Liabilities: Claims of individuals and organisations, apart from the owner(s), that have arisen from past transactions or events, such as supplying goods or lending money to the business.

Owners' Equity: The claim of the owner(s) on the assets of the business.

Equity/ Capital: The share of the business which represents the owners' interests.

Provisions: An estimated liability for which there is greater uncertainty regarding the amount or timing of the amount than for a normal liability.

Contingent Liability: A potential liability that might arise in the event of a particular event occurring. It will become a liability contingent on that event happening.

The Accounting Equation

$$\boldsymbol{ASSETS = OWNERS'EQUITY + LIABILITIES}$$

SEE NOTEBOOK FOR EXAMPLES

- It provides insights into the liquidity of the business
- It can provide a basis for assessing the value of the business
- It provides insights into the 'mix' of assets held by the business
- Performance can be assessed

Deficiencies in the Statement of Financial Position

- The assumption that money is a stable unit of measurement that is not subject to fluctuations in value. (Stable Monetary Unit Convention)
- Conflict between the relevance and reliability accounting doctrines
- Management individuals are afforded considerable discretion when it comes to recording transactions

CHAPTER 3 – Measuring and Reporting Financial Performance

Income: Increases in economic benefits for the accounting period in the form of inflows of assets or decreases in liabilities that result in increases in equity, other than those relating to ownership contributions.

Revenues: Increases in owners' claim as a result of operations.

Other Gains: Gains from non-operating activities.

Expense: A measure of the outflow of assets (or increase in liabilities) incurred as a result of generating revenues.

$$Profit(loss) for\ the\ period = Total\ Income\ (I) - Total\ Expenses\ (E) incurred\ in\ generating\ the\ income$$

Reporting Period: The particular period for which the accounting information is prepared. (Accounting period/ financial period).

$$A_{beg} = OE_{beg} + L_{beg}$$

Where: A (beg) = assets at the beginning of the period
OE (beg) = Owners' Equity at the beginning of the period
L (beg) = Liabilities at the beginning of the period

Ending Financial Performance: $Profit(Loss) = I_{period} - E_{period}$

Where: I (period) = the income for the period
E (period) = the expenses for the period

$$Assets_{end} = OE_{beg} + Profit\ (or - Loss) \pm Other\ OE_{adj} + Liabilities_{end}$$

Where: Assets (end) = the assets at the end of the period
Other OE (adj) = other adjustments to equity (i.e. injections and drawings or distributions)
Liabilities (end) = the liabilities at the end of the period

$$Assets_{end} = OE_{beg} + (income - expenses) \pm Other\ OE_{adj} + Liabilities_{end}$$