REVISED CONCEPTUAL FRAMEWORK.

EQUITY

Old Definition:
Residual interest in the assets of the enterprise after deducting all its liabilities.

The definition of equity under Revised Conceptual Framework is <u>unchanged</u>. It is a residual definition.

It would be the company's book value, which is the difference between liabilities and assets on the balance sheet.

ENTITY THEORY OF ACCOUNTING
(Asset = Liability + Capital)

PROPRIETORY THEORY OF ACCOUNTING
(Capital = Asset - Liability)

INCOME

Increases in assets or decreases in liabilities that results in increases in equity, other than those relating to contributions from equity holders.

Encompasses

REVENUE

Revenue always arises in the ordinary course of the business. (e.g Sales, Fees, Interest, Dividends, Royalties and Rent)

GAIN

Represents other items that meet the definition of income and do not arise in the course of the ordinary business activities.

COMPREHENSIVE INCOME

PROFIT or LOSS

General Rule: an income is part of Profit or Loss unless it will be classified as Other Comprehensive Income.

OTHER COMPREHENSIVE INCOME

1. Unrealized Gain or loss on financial asset measured at Fair value through other comprehensive income.
2. Gain or Loss from translating the financial statements of a foreign operation.
3. Revaluation Surplus during the year.
4. Unrealized gain or loss from derivative contracts designated as cash flow hedge.
5. Remeasurements of defined benefit plan including actuarial gain or loss on defined benefit obligation.

EXPENSE

Decreases in assets or increases in liability that results in decreases in equity, other than those relating to equity, other than those relating to distributions to equity holders.

Encompasses

LOSSES

Expenses arises in the ordinary course of business activities while losses do not arise in the course of ordinary regular activities of business.

MATCHING PRINCIPLE

In accordance with Generally Accepted Accounting Principle (GAAP), requires that any business expenses incurred must be recorded in the same period as related revenues. In other words, Revenue of the period is matched with expenses required to create those revenues.

Cause and Effect relationship

It is also called, "Cause and Effect association".
It means that expense is recognized when the revenue is already recognized. This principle then defines the *Strict Matching Concept*.

Systematic and Rational allocation

It is also called, "Systematic and Rational Allocation".
Some costs are expensed by simply allocating and recognized over the periods they benefit. For example, Depreciation, a piece of machine used in production would be depreciated over its useful life, with portion of its cost recognized as an expense during the year.

Immediate Recognition

The cost incurred is expensed immediately when:

1. An expense produces no future economic benefit.
2. If the cost does not qualify or ceases to qualify as an asset.

For example, Casualty loss, immediately recognized because they are not directly related to specific revenue.