**Task 6 Theory Questions**

1. Explain what ‘cash accounting’ is.

Cash accounting is when;

-income is recorded and included in the income statement in the accounting period when cash is received, and

-expenses are recorded and included in the income statement in the accounting period when cash is paid.

1. Explain what ‘accrual accounting’ is.

Accrual accounting is when;

-income is recorded and included in the income statement in the accounting period when a service is provided or sale is made, and

- expenses are recorded and included in the income statement in the accounting period when the expense is generated.

1. Explain what a bad debt is.

A bad debt is an expense. It is money owed for a sale or service that will definitely not be received from the customer. The bad debt will need to written off to accounts receivable as a reasonable period or time has passed and/or it is certain the debt will not be paid.

1. Explain what a doubtful debt is:

A doubtful debt is an expenses. It is money owed for a sale or service that will most likely not be received from the customer, but there is a possibility it will be paid. The doubtful debt is debited and an allowance for doubtful debts is credited that reduces the net accounts receivable.

1. Write the definitions of the following:

Asset

A present economic resource controlled by the entity as a result of past events.

Liability

A present obligation of the entity to transfer an economic resource as a result of past events.

Income

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

Expense

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Equity

The residual interest in the assets of the entity after deducting all its liabilities.

1. "A right that has the potential to produce economic benefits” is the definition of:

An economic resource.

1. What are the three aspects of the definition of an asset?

Right, control and potential to produce economic benefits

1. What are the three criteria that must exist for a liability to exist?

The entity has an obligation, the obligation is to transfer an economic resource, and the obligation is a present obligation that exists as a result of past events.

1. What must an asset or liability be, to be shown in the financial statements? useful
2. According to the *Conceptual Framework* to ‘useful’ an asset or liability must be what?
3. relevance, and b) faithful representation
4. According to the *Conceptual Framework,* to be relevant and asset or liability must be:
5. Certain it exists , and b) the probability of an inflow or outflow of economic benefits is NOT low.
6. According to the *Conceptual Framework,* to have faithful representation it must have which three characteristics?

complete, neutral and free from error