1.1 Who issues International Financial Reporting Standards?

The International Accounting Standards Board

1.2 Which groups of people are most likely to be interested in the financial statements of a sole trader?

The business's bank manager, The tax authorities

1.5 Which of the following best describes corporate governance?

Corporate governance is the system by which companies and other entities are directed and controlled.

1.10 The following statements are true?

1 Directors of companies have a duty of care to show reasonable competence in their management of the affairs of a company.

2 Directors of companies must act honestly in what they consider to be the best interest of the company.

3 A Director's main aim should be to create wealth for the shareholders of the company.

1.11 Which of the following statements is/are true?

1 The IFRS advisory council is a forum for the IASB to consult with the outside world.

2 The IASB Foundation produces IFRSs. The IFRS Foundation is overseen by the IASB.

3 One of the objectives of the IFRS Foundation is to bring about convergence of national accounting standards and IFRSs

1.14 describes how International Financial Reporting Standards (IFRSs) should be used?

To provide examples of best financial reporting practice for national bodies who develop their own requirements

2.1 Which accounting concept should be considered if the owner of a business takes goods from inventory for their own personal use?

The business entity concept

2.2 Sales revenue should be recognised when goods and services have been supplied; costs are incurred when goods and services have been received. Which accounting concept governs the above?

The accruals concept

2.3 Which accounting concept states that omitting or misstating this information could influence users of the financial statements?

The materiality concept

3.11 Which of the following are books of prime entry?

1 Sales day book

2 Cash book

3 Journal

3.18 Which one of the following statements about an imprest system of petty cash is correct?

An imprest system for petty cash helps with management of small cash expenditures and reduces the risk of fraud.

3.19 Which one of the following provides evidence that an item of expenditure on petty cash has been approved or authorised?

Petty cash voucher

4.17 Which of the following statements does describe a way in which an effective accounting system facilitates the provision of useful accounting information?

A By requiring authorisation in line with organisational policies

B By processing and recording transactions in accordance with accounting rules

C By preventing transactions from being processed inaccurately

D By enabling transactions to be recorded as necessary to permit preparation of financial statements

4.18 Which of the following statements is/are correct?

1 Cash purchases are recorded in the cash book.

2 The sales day books is used to sent to customer

• Carriage inwards is included in the cost of purchases. Carriage outwards is a selling expense.

• Capital expenditure is expenditure which forms part of the cost of non-current assets. Revenue expenditure is expenditure incurred for the purpose of the trade or to maintain non current assets.

• Development costs must be capitalised as an intangible asset if the criteria in IAS 38 are satisfied

• According to IAS 37, a provision should be recognised when:

– An entity has a present obligation

– It is probable that a transfer of economic benefits will be required to settle it

– A reliable estimate can be made of its amount

• According to IAS 37, a contingent liability must not be recognised as a liability in the financial statements. Instead it should be disclosed in the notes to the financial statements.

6.7 In preparing its financial statements for the current year, a company's closing inventory was understated by $300,000. What will be the effect of this error if it remains uncorrected?

The current year's profit will be understated and next year's profit will be overstated.

cls↑ cos↓ profit↓

6.9 Which of the following statements about IAS 2 Inventories is correct?

Production overheads should be included in cost on the basis of a company's normal level of activity in the period.

In determining the cost of inventories, trade discounts received must be deducted and selling costs must can added.

In arriving at the cost of inventories, FIFO and weighted average cost formulas are acceptable.

6.17 Which one of the following statements about the use of a continuous inventory system is correct?

A In a retail organisation, a continuous inventory system can be used to keep track of the quantity of each stock item available in its distribution centres.

B Under continuous inventory, the cost of each receipt of inventory and the cost of each issue from inventory is recorded individually.

C A continuous inventory system removes the need for physical inventory counts.

D Both the FIFO and average cost (AVCO) methods of pricing inventory may be used within a continuous inventory system.

7.18 Which of the following should be disclosed for tangible non-current assets according to IAS 16 Property, Plant and Equipment?

1 Depreciation methods used and the total depreciation allocated for the period

2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period

3 For revalued assets, whether an independent valuer was involved in the valuation

4 For revalued assets, the effective date of the revaluation

9.1

Research expenditure, other than capital expenditure on research facilities, should be recognised as an expense as incurred.

In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.

9.2 According to IAS 38 Intangible Assets, which of the following statements about research and development expenditure are correct?

1 If certain conditions are met, an entity must decide to capitalise development expenditure.

2 Research expenditure, other than capital expenditure on research facilities, must be written off as incurred.

4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.

9.8 Which of the following conditions would preclude any part of the development expenditure to which it relates from being capitalised?

2 The benefits flowing from the completed development are expected to be less than its cost

3 Funds are unlikely to be available to complete the development

11.9 A company has been notified that a customer has been declared bankrupt. The company had previously made an allowance for this debt. Which of the following is the correct double entry to account for this new information?

DEBIT / CREDIT

Allowance for receivables / Receivables

11.14 Which TWO of the following statements are correct?

A An aged receivables analysis shows how long invoices for each customer have been outstanding.

C Receivables are included in the statement of financial position net of the receivables allowance.

11.16 Which one of the following statements is a benefit of offering credit facilities to customers? A Improved convenience for the customer

B The separation of product and service delivery from payment

C Provides time for appropriate payment approval procedures

12.1

A company should disclose details of the change in carrying amount of a provision from the beginning to the end of the year.

Contingent liabilities must be treated as actual liabilities and provided for if it is probable that they will arise.

12.2 Which of the following statements about contingent assets and contingent liabilities are correct? 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.

4 No disclosure is required for either a contingent liability or a contingent asset if the likelihood of a payment or receipt is remote.

12.4

Create a provision: The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.

Disclose by note only: The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.

12.5 Which of the following statements about the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets are correct?

1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.

2 No disclosure of a contingent liability is required if the possibility of a transfer of economic benefits arising is remote.

3 Contingent assets must not be recognised in financial statements unless an inflow of economic benefits is virtually certain to arise.

12.8 Which of the following best describes a provision according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets?

A provision is a liability of uncertain timing or amount.

13.6

Dividends paid on ordinary shares are included in the statement of changes in equity, not the statement of profit or loss and other comprehensive income.

Dividends paid on redeemable preference shares are treated like interest on loans and are shown in the statement of profit or loss and other comprehensive income as a finance charge.

The statement of profit or loss and other comprehensive income shows the gain on revaluation of non-current assets for the period.

Differences between the cash book and the bank statement arise for three reasons:

– Errors: usually in the cash book

– Omissions: such as bank charges not posted in the cash book

– Timing differences: such as unpresented cheques

Cash (or settlement) discounts received are included as other income of the period in the statement of profit or loss.

Trade discounts received are deducted from the cost of purchases

Trade discounts allowed are deducted from the gross sales price, and this amount is invoiced to the customer.

17.5 Which one of the following is an error of principle?

B Plant and machinery purchased was debited to the purchases account.

B An error where one side of a transaction has been recorded in the wrong account, and that account is of a different class to the correct account

17.6 What is an error of commission?

C An error where one side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account

17.7 Where a transaction is entered into the correct ledger accounts, but the wrong amount is used, what is the error known as?

B An error of original entry

17.13 Two types of common errors in bookkeeping are errors of principle and errors of transposition. Which of the following correctly states whether or not these errors will be revealed by extracting a trial balance?

Errors of principle / Errors of transposition

Will not be revealed / Will be revealed

18.4 A trial balance extracted from a sole trader's records failed to agree, and a suspense account was opened for the difference. Which of the following errors would require an entry in the suspense account in correcting them?

1 Sales returns were mistakenly debited to the purchases returns account.

2 Cash received from the sale of a non-current asset was correctly entered in the cash book but was debited to the disposal account.

3 The balance on the rent account was omitted from the trial balance.

4 Goods taken from inventory by the proprietor had been recorded by crediting drawings account and debiting purchases account.

20.6 A sole trader fixes her prices by adding 50 per cent to the cost of all goods purchased.

Sales 150%

Cos 100%

21.4 Which of the following items are required to be disclosed by a limited liability company, either on the face of their main financial statements or in the notes, according to International Financial Reporting Standards?

1 Share capital 2 Dividends proposed 3 Depreciation and amortisation

21.5

In preparing a statement of cash flows, either the direct or the indirect method may be used. Both lead to the same figure for net cash from operating activities.

Loan notes can be classified as current or non-current liabilities.

Financial statements must disclose a company's total expense for depreciation, if material.

21.9 Which of the following statements about limited liability companies' accounting is/are correct? 1 A revaluation surplus arises when a non-current asset is revalued.

2 The authorised share capital of a company is the maximum nominal value of share.

3 IAS 10 Events After the Reporting Period requires all non-adjusting events to be disclosed in the notes to the financial statements.

22.2 For which class or classes of assets should a company disclose in the notes to the financial statements a reconciliation of the opening carrying amount to the closing carrying amount, showing the movements in the period?

2 Intangible assets 3 Tangible non-current assets

22.3 Which of the following should be disclosed in the note to the financial statements for inventories?

2 The amount of inventories carried at net realisable value

3 The accounting policies adopted in measuring inventories

IAS 2 requires disclosure of the accounting policies adopted in measuring inventories, including the cost formula used, the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity and the carrying amount of inventories carried at net realisable value.

22.4 Which of the following should be disclosed in the note to the financial statements for intangible assets?

1 The method of amortisation used

2 A reconciliation of the carrying amount at the beginning and end of the period

3 The useful life of the assets

IAS 38 does not require the net realisable value of deferred development costs to be disclosed.

22.5 Which of the following statements is/are correct?

1 IAS 37 requires disclosure in the notes to the financial statements of the uncertainties affecting the outcome of a provision

2 IAS 10 requires disclosure of the nature and financial effect of a non-adjusting event after the reporting period in the notes to the financial statements

22.6 A certain IFRS requires that the following disclosure is made in a note to the financial statements:

(i) A brief description of its nature

(ii) Where practicable an estimate of the financial effect

(iii) An indication of the uncertainties relating to the amount or timing of any outflow

(iv) The possibility of any reimbursement

22.7 Which of the following should be disclosed in the note to the financial statements for tangible non current assets?

2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period

3 For revalued assets, the methods and significant assumptions applied in estimating the fair value 4 For revalued assets, the carrying amount of each class of assets that would have been included in the financial statements had the assets been carried at cost less depreciation

IAS 16 does not require disclosure of the market value of all tangible non-current assets

22.8 Which of the following are required as disclosures by IAS 2 Inventories?

1 The amount of write-downs of inventories in the period that have been recognised as an expense 2 Inventories must be valued at the lower of cost and net realisable value.

3 The carrying amount of inventories classified by type (for example, raw materials, work in progress)

and the cost of inventories recognised as an expense in the period.

22.9 Which one of the following is a disclosure about non-adjusting events required by IAS 10 Events After the Reporting Period?

An estimate of the financial effect of the event, unless a reasonable estimate cannot be made

23.3 In finalising the financial statements of a company for the year ended 30 June 20X4, which of the following material matters should be adjusted for?

1 A customer who owed $180,000 at the end of the reporting period went bankrupt in July 20X4. 2 The sale in August 20X4 for $400,000 of some inventory items valued in the statement of financial position at $500,000.

These affect valuation of receivables and inventory at the end of the reporting period.

23.4 IAS 10 Events After the Reporting Period regulates the extent to which events after the reporting period should be reflected in financial statements. Which one of the following lists of such events consists only of items that, according to IAS 10, should normally be classified as non-adjusting?

B Issue of shares or loan notes, changes in foreign exchange rates, major purchases of non-current assets

23.5 Which of the following events occurring after the reporting period are classified as adjusting, if material?

2 A valuation of land and buildings providing evidence of an impairment in value at the year end

4 The insolvency of a customer with a balance outstanding at the year end

23.6 The financial statements of Overexposure Co for the year ended 31 December 20X1 are to be approved on 31 March 20X2. Before they are approved, the following events take place.

Disclose

1 On 14 February 20X2 the directors took the strategic decision to sell their investment in Quebec Co despite the fact that this investment generated material revenues.

2 On 15 March 20X2, a fire occurred in the eastern branch factory which destroyed a material amount of inventory. It is estimated that it will cost $505,000 to repair the significant damage done to the factory.

Adjust

3 On 17 March 20X2, a customer of Overexposure Co went into liquidation. Overexposure has been advised that it is unlikely to receive payment for any of the outstanding balances owed by the customer at the year end.

23.9 If a material event occurs after the reporting date but before the financial statements are authorised for issue outside the organisation, and this event does NOT require adjustment, what information should be disclosed in the financial statements?

A The nature of the event and an estimate of the financial effect (or a statement that such an estimate cannot be made)

24.6 Which of the following assertions about statements of cash flows is/are correct?

1 A statement of cash flows prepared using the direct method produces a correct figure for operating cash flow from that produced if the indirect method is used.

2 Rights issues of shares do feature in statements of cash flows.

3 A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows.

24.20 Which one of the following statements correctly identifies a valid disadvantage to users of financial statements of the statement of cash flows?

B There is an opportunity to reclassify some cash outflows that might have been reported in the operating section as investing cash outflows. For example, questionable capitalisation of expenses.

• Consolidation means presenting the results, assets and liabilities of a group of companies as if they were one company.

• A subsidiary is an entity controlled by another entity.

• An associate is an entity over which another entity exerts significant influence.

• Associates are accounted for in the consolidated statements of a group using the equity method.

• Intra-group sales and purchases are eliminated from the consolidated statement of profit or loss. • If a subsidiary is acquired during the year, only the post-acquisition element of statement of profit or loss balances are included on consolidation

25.2

Task2

The dividend due to parent from subsidiary will be eliminated on consolidation.

The dividend payable by parent will be included in consolidated current liabilities.

25.3

Task3

A parent-subsidiary relationship is based on control.

Ownership of more than 50% of equity shares.

Power to appoint or remove the majority of board members.

26.8 Evergreen Co owns 35% of the ordinary shares of Deciduous. What is the correct accounting treatment of the revenues and costs of Deciduous for reporting period in the consolidated statement of profit or loss of the Evergreen group?

B 35% of the profit after tax of Deciduous should be added to Evergreen's consolidated profit before tax.

26.13 Clementine Co has owned 21% of the ordinary shares of Tangerine Co for several years. Clementine Co does not have any investments in any other companies, and chooses to account for the investment at cost. How should the investment in Tangerine Co be reflected in the financial statements of Clementine Co?

C An amount is shown in the statement of financial position under 'investments' being the original cost paid for the investment, this amount does not change. Dividends received from Tangerine are recognised in the statement of profit or loss of Clementine Co.

26.14 Which of the following statements relating to parent companies and subsidiaries are correct? 1 A parent company could consolidate a company in which it holds less than 50% of the ordinary share capital in certain circumstances.

A parent may hold less than 50% of the share capital but more than 50% of the voting rights.

2 Goodwill on consolidation will appear as an item in the parent company's consolidated statement of financial position.

3 Consolidated financial statements ignore the legal form of the relationship between parents and subsidiaries and present the results and position of the group as if it was a single entity.

Consolidated financial statements present the substance of the relationship between parent and subsidiaries, rather than the legal form.

28.11 B Analysis of financial statements is carried out so that the significance of the financial statements can be better understood. Comparisons through time and with other companies help to show how well the company is doing.

29.3 Which of the following statements apply when producing a consolidated statement of financial position?

(1) All intra-group balances should be eliminated.

(2) Intra-group profit in year-end inventory should be eliminated.

29.10 Which of the following statements are correct?

(i) A liability is a present obligation of the entity to transfer an economic resource as a result of past events.

(ii) An uncertain liability may be called a provision.

(iii) A contingent liability should be disclosed in the notes to the financial statements.

29.13 Which of the following material events that took place after the reporting date, but before the financial statements were approved, are non-adjusting when applying IAS 10 Events After the Reporting Period?

(ii) Capital raised by issuing shares at a premium.

(iii) A company reorganisation which results in discontinuing a line of activity producing 25% of its profit.

(i) Inventory held at the reporting date was sold for less than cost.

(iv) The settlement of a claim for compensation from a former employee wrongly dismissed just before the reporting date.

(i) and (iv) provide information about conditions which existed at the reporting date and are therefore adjusting.

30.2 Which of the following are correct?

2 The valuation of finished goods inventory must include production overheads.

3 Production overheads included in valuing inventory should be calculated by reference to the company's normal level of production during the period.

4 In assessing net realisable value, inventory items must be considered separately, or in groups of similar items, not by taking the inventory value as a whole.

30.8 Which of the above items would require an entry to the suspense account in correcting them?

(3) One of the directors of the company paid $800 due to a supplier in the company's payables ledger by a personal cheque. The bookkeeper recorded a debit in the supplier's ledger account but did not complete the double entry for the transaction. (The company does not maintain a payables ledger control account).

(4) The payments side of the cash book had been understated by $10,000.

30.16 Which of the following statements are correct?

2 If property accounted for in accordance with IAS 16 Property, Plant and Equipment is revalued, the gain on revaluation is shown in the statement of profit or loss and other comprehensive income.

3 If a tangible non-current asset is revalued, all tangible assets of the same class should be revalued. 4 In a company's published statement of financial position, tangible assets and intangible assets must be shown separately.

31.6 Which TWO of the following statements about inventory valuation for statement of financial position purposes are correct?

A According to IAS 2 Inventories, average cost and FIFO (first in, first out) are both acceptable methods of arriving at the cost of inventories.

D It may be acceptable for inventories to be valued at selling price less estimated profit margin.

31.11 Which of the following statements about bank reconciliations are correct?

1 In preparing a bank reconciliation, unpresented cheques must be deducted from a balance of cash at bank shown in the bank statement.

4 An overdraft is a debit balance in the bank statement.

A Dishonoured cheque is credited to the cash book and bank errors do not go through the cash book at all.

31.14 Which of the following errors would cause a trial balance not to balance?

1 An error in the addition in the cash book.

Which of the following errors would not affect double entry system.

2 Failure to record a transaction at all.

3 Cost of a motor vehicle debited to motor expenses account. The cash entry was correctly made. 4 Goods taken by the proprietor of a business recorded by debiting purchases and crediting drawings account.

32.5 IAS 37 Provisions, Contingent Liabilities and Contingent Assets deals with accounting for contingencies. What is the correct accounting treatment for the following?

1 A probable loss (a constructive obligation exists, for which the amount can be reliably estimated) 2 A probable gain

Probable loss: Accrued / Probable gain: Disclosed

32.9 Which of the following statements about the treatment of inventory and work in progress in financial statements are correct?

2 In valuing work in progress, materials costs, labour costs and variable and fixed production overheads must be included.

3 Inventory items can be valued using either first in, first out (FIFO) or weighted average cost.

4 A company's financial statements must disclose the accounting policies used in measuring inventories

32.11 The trial balance of a company did not balance, and a suspense account was opened for the difference. Which TWO of the following errors would require an entry to the suspense account in correcting them?

B The debit side of the wages account had been undercast.

C Sales returns had been credited to the purchases returns account.

Items A and D involve completed double entry and so do not go through the suspense account.

A A cash payment to purchase a motor van had been correctly entered in the cash book but had been debited to the motor expenses account.

D A cash refund to a customer had been recorded by debiting the cash book and crediting the customer's account.

33.2 Which of the following provides advice to the International Accounting Standards Board (IASB) as well as informing the IASB of the implications of proposed standards for users and preparers of financial statements?

A The IFRS Advisory Council

33.4 Which of the following errors should be identified by performing a receivables control account reconciliation?

D The total of the sales daybook was miscast by $200.

33.8 Steven's receivables ledger control account does not agree with the total of the receivables ledger. He discovered the following errors:

2 The receivables column of the cash received day book has been undercast by $600.

3 A contra of $400 against the purchase ledger has only been entered in the control account. Which of the above errors would cause a difference between the receivables control account and the total of the receivables ledger?

A transposition error in the sales day book will not cause a difference between the SLCA and the receivables ledger as the total of the SDB is posted to the SLCA and the individual balances in the SDB to the receivables ledger, therefore the same error will be posted to both the SLCA and the receivables ledger

35.15 Which of the following statements are correct?

1 If company A has an investment in company B that gives it control over the company B, then company B is classified as a subsidiary in the consolidated financial statements of company A.

2 If a company has associates, but not subsidiaries, it will not prepare consolidated financial statements.

3 If a company has a 21% investment in the voting equity of another company, it will account for its investment using the equity method in the consolidated financial statements.

Mock Test1

2 Which of the following explains the imprest system of operating petty cash?

B The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.

3 Which of the following statements are TRUE of limited liability companies?

2 Financial statements must be produced.

3 A company continues to exist regardless of the identity of its owners.

8 Xena has the following working

capital ratios: 20X9 20X8

Current ratio 1.2:1 1.5:1

Receivables days 75 days 50 days ↑

Payables days 30 days 45 days ↓

Inventory turnover 42 days 35 days ↑

14 Which TWO of the following items must be disclosed in the note to the financial statements for intangible assets?

1 The useful lives of intangible assets capitalised in the financial statements

4 Impairment losses written off intangible assets during the period

32

A valuation of property providing evidence of impairment in value at the reporting date

36

Task2

1. 50% of all shares and debt being held by an investor No

2. Greater than 50% of the preference shares being held by an investor No

3. Control Yes

4. Greater than 50% of the equity shares being held by an investor Yes

5. 100% of the equity shares being held by an investor Yes

6. Significant influence No

7. Non-controlling interest Yes

8. Greater than 50% of preference shares and debt being held by an investor Yes No

Mock Test1

1 In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which of the following criteria must be present in order for a company to recognise a provision?

1 There is a present obligation as a result of past events.

2 It is probable that a transfer of economic benefits will be required to settle the obligation.

3 A reliable estimate of the obligation can be made.

2

The existence of a transposition error should always be revealed by a trial balance.

Errors of omission and commission may or may not be revealed, depending on the nature of the error and whether the error has resulted fin a mismatch between debt and credit entries in the nominal ledger accounts.

An error of omission is never revealed, because there have been no entries in the nominal ledger for the omitted item.

An error of principle is never revealed when a trial balance is extracted

14 A particular source of finance has the following characteristics: fixed payments, a fixed repayment date, it is secured on the assets of the company and the payments are classified as an expense. Which of the following best describes this source of finance?

C A loan note

An overdraft does not have a fixed return or a fixed repayment date and is not secured.

17 Financial analysts calculate ratios from the published financial statements of large companies. Which one of the following reasons is highly LIKELY to be a reason why they calculate and analyse financial ratios?

A Ratios can reduce lengthy or complex financial statements into a fairly small number of more easily-understood indicators.

B Ratios can predict a company's future performance.

C Ratios can help with comparisons between businesses in the same industry.

D Ratios can indicate changes in the financial performance and financial position of a business over time.

20

error of original entry

A The purchase of goods for resale using cash was debited to the purchases account and credited to the cash book using the incorrect amount in both cases.

errors of principle

B The purchase of goods for resale using cash was debited to the motor vehicles account and credited to the cash book using the correct amount in both cases.

error of omission.

C The purchase of goods for resale using cash was debited to the purchases account and credited to the sales day book using the correct amount in both cases. D The purchase of goods for resale using cash was debited to the purchases account but no credit entry was made

26 Which of the following statements is correct?

1 AZ owns 25% of the ordinary (voting) share capital of BX, which means that BX is an associate of AZ. (20% ~ 50% classified as an associate)

2 CW has a 10% shareholding in DY and can appoint 4 out of 6 directors to the board of DY, so DY is classified as a subsidiary of CW.

3 ES has significant influence over FT, which means that FT is an associate of ES.

4 GR owns 55% of the share capital of HU, but by agreement with the minority shareholder, does not have control or significant influence over the financial and operating policies of HU, so HU is a simple investment of GR

1 Asset – A present economic resource controlled by the entity as a result of past events (para 4.3). For example, a building that is owned and controlled by a business and that is being used to house its operations and generate revenues would be classed as an asset.

2 Liability – A present obligation of the entity to transfer an economic resource as a result of past events (para 4.26). For example, an unpaid tax obligation or a bank loan is a liability

3 Equity – This is the 'residual interest' in the assets of the entity after deducting all liabilities. It is effectively what is paid back to the owners (shareholders) when the business ceases to trade.

4 Income – This consists of the increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. This can be achieved, for example, by earning sales revenue or through the increase in the value of an asset.

5 Expense – This consists of the decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims. This can be achieved, for example, by purchasing goods or services off another entity or through the reduction in value of an asset.

Note: economic resource – A right that has the potential to produce economic benefits (para 4.4).