

1 Accounting in Business & FS Overview

1.1 International Accounting Standards Board (IASB)

1.1.1

- Qualitative Characteristics: Relevance, Faithful Representation, Comparability, Verifiability, Timeliness, Understandability
- IASB -> IFRS -> FRS (Singapore)
- Overall ethical conduct

1.1.2 Auditors & External Audit

- Independent certified public accountant (CPA) perform external audits.
- Provides public with assurance that FSs are not misleading.

1.2 The Accounting Equation

- Assets = Liabilities + Equity
- = Liabilities + Share Capital + Retained Earnings
- = Liabilities + Share Capital + Revenue - Expenses - Dividends

1.2.1 Asset

- A **present resource**
- Due to a **past event**
- That will **result in future benefits**

1.2.2 Liability

- An **obligation**
- Due to a **past event**
- That will **result in future outflow** of resources upon **settlement**

1.2.3 Equity

- Owner's claim on the residual interest after deducting all Liabilities
- net assets (total assets - total liabilities)

1.2.4 Claims

- Share Capital / Capital Stock: contributed by owners
- Retained earnings: equity earned by company

1.3 IASB Definitions

- Income: inflow/enhancement of assets (OR decrease in liabilities -> equity up). During accounting period, not by contributions from owners.
- Expense: outflow/depletions of assets (OR incurrence of liability -> equity down). During accounting period.
- Capital Maintenance Adjustments: Revaluation of assets/liabilities. **not included in income statement**. Treated as Other Comprehensive Income (OCI)

1.4 The Financial Statements

1.4.1 Statement of Financial Position AKA Balance Sheet (SF-P/BS)

- A = L + E
- A snapshot of company's economic resources and obligations
- Limitation: Assets recorded at cost, not market value. Usually book v < market v

1.4.2 Statement of Comprehensive Income (SCI)

- Rev - Exp = Net Income (NI)
- NI + OCI = Comprehensive Income
- Revenues: Operation earnings, Net Income: NI = Rev - Exp, Other Comprehensive Income: investments etc.
- Shows economic performance over time.
- Either Income statement & SCI together or not. OCI can be separate (IAS1)

1.4.3 Statement of Changes in Equity (SCE)

- Beginning Equity + Net change in Capital + Net Income - Dividends + OCI = End Equity

1.4.4 Statement of Cash Flows (SCF)

- CFO + CFI + CFF (operating, Investing, financing)
- CFO: revenue, etc. CFI: buying equipment, land, etc. CFF: investors investing, paying dividends etc.

1.5 Relationships among the 4 FSs

Income Statement

NI is a component to determine ending RE

NET INCOME

Statement of Changes in Equity

Beg Equity + share capital changes

+ Net Income - Dividends

+ OCI = Ending Equity

Statement of Cash Flow (SCF)

Reports changes in cash

→ CASH (End balance)

Statement of Financial Position

Assets (Cash)

Liabilities

Shareholders' Equity (ending equity, including RE)

Ending RE = Beg RE + Net Income - Dividends

Ending Cash is reported on the SFP's Assets. SCF provides greater details on how cash changes

1.6 Fundamental Concepts & Assumptions of Accounting

- Separate entity concept: Activity of a bz is separate from its owners
- Time-period assumption: bz's activities can be divided into time periods (monthly,quarterly,etc)

- Assumption of arm's-length transactions
- Cost Principle
- Fair value Principle
- Monetary measurement concept
- Going concern assumption

2 Mechanics of Accounting

2.1 Credit/Debit

- Depends on Type of account.
- Normal Debit/Normal Credit

Assets		=	Liabilities		+	Equity	
↑ Debit +	↓ Credit -		↓ Debit -	↑ Credit +		↓ Debit -	↑ Credit +
Normal Balance			Normal Balance			Normal Balance	

depends on where the account lies on the AE.

2.1.1 Subsubheading 2.1.1

- Point 1
- Point 2

3 Heading 3

- Point 1
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- Point 3

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3.1 Heading 4

- Point 1
- Point 2

3.1.1 Heading 4.1

- Point 1
- Point 2

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}
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