

**5.4 | Money measurement concept**

- Money measurement concept
- Application of the concept in preparing financial statements

**Money measurement concept**

- In a business, there are transactions and events that can and cannot be measured in monetary terms and they must be identified as such.
- Only the transactions that can be measured in monetary terms are included in the financial statements. However, it is important to note that transactions that are not measurable in monetary terms are also necessary for management decision making.
- Transactions are measured in terms of a currency unit of a particular country.

**Application of the concept in preparing financial statements****Measurable in monetary terms**

- Owner introduces capital of Rs. 100 000
- Sales income of Rs. 65 000
- Purchase of stock for Rs. 20 000

**Not measurable in monetary terms**

- Customer behaviour patterns
- Setup in environmental friendly manner
- Business has recruited more staff

