ACCOUNTING KEY TERMINOLOGY

MUF0021 Accounting Unit 1 and MUF0022 Accounting Unit 2

- Approved by MUFY Accounting Examiner 12/04/2013

ACCOUNTING PRINCIPLES

TERMS	DEFINITIONS
Entity	A business is assumed to be separate from the owner. Personal transactions of the owner are kept separate from those of the business so only transactions relevant to that business should be included in assessment of performance.
Going Concern	It is assumed that the life of the business is continuous and indefinite. An indefinite business life allows for the recording of transactions that extend beyond one reporting period.
Reporting Period	As the life of a business is considered continuous, this life is divided into periods of time to allow reports to be prepared and performance assessed. Reporting periods can be monthly, quarterly, six monthly or annually but must not exceed one year. Reports only include transactions that occurred in the current reporting period.
Historical Cost	All transactions are recorded at their original cost which can be verified by checking against a business document.
Consistency	Accounting methods used by the business are applied consistently from one reporting period to the next. This allows for the preparation of consistent information that allows users to make comparisons of business performance from one reporting period to the next.
Conservatism	Accountants are to record losses when they are likely or probable to occur so as not to overstate Assets, understate Liabilities and understate Expenses. They are also to record gains only when they are certain or have actually occurred so as not to understate Liabilities, overstate Assets and overstate Revenues.
Monetary Unit	Transactions should be recorded in the currency of the country in which the reports are prepared, not where the goods are sourced. Therefore, for our purposes, transaction amounts in Australia are measured and reported using Australian Dollars

QUALITATIVE CHARACTERISTICS

TERMS	DEFINITIONS
Relevance	All information included in financial reports is to be timely and useful for decision making. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluation.
Reliability	All information reported to users must be relied upon for accuracy. Information is reliable if it can be verified against a business document, avoids the use of estimates and is free from bias or personal opinion.
Comparability	Users of reports must be able to compare the results of a business over time. Information is comparable if accounting methods are applied consistently from one reporting period to the next. Users must also be able to compare the financial reports of different entities to evaluate their relative financial position, financial performance and cash flows. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time and in a consistent way for different entities.
Understandability	Reports should be prepared in such a way that users with a limited accounting background can understand their meaning. This can be achieved through the use of headings and sub-headings and totals and sub-totals in accounting reports

ACCOUNTING ELEMENTS

TERMS	DEFINITIONS
Assets	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow. **Current Assets** – the economic benefits will flow to the business within the next 12 months. **Non-Current Assets** – the economic benefits will flow to the business over a period greater than 12 months.
Liabilities	A Liability is a present obligation of the business arising from past events which will result in an outflow of resources. **Current Liabilities** – are obligations that must be met within the next 12 months. **Non-Current Liabilities** – are obligations that need not be met until some future reporting period.
Owner's Equity	Owner's Equity is defined as the residual interest in the assets of the business after deducting the liabilities.
Expenses	Expenses are outflows of economic benefits (such as wages paid) or the loss of economic benefits (such as a stock loss) or the reduction in inflows of economic benefits (such as discount expense) or the consumption of economic benefits (such as depreciation) that result in a decrease in assets or increase in liabilities that leads to a decrease in Owner's Equity that is not Drawings (Note: When defining expenses students must use only that part of the definition that is applicable to the scenario provided).
Revenue	**Revenues are** inflows of economic benefits (such as cash sales) or savings in outflows (such as discount revenue) that result in an increase in assets or a decrease in liabilities that leads to an increase in Owner's Equity that is not capital contribution. (Note: When defining revenues students must use only that part of the definition that is applicable to the scenario provided).