INTRODUCTION TO BASIC ACCOUNTING

Financial Statements

Assets

Liabilities

What are Financial Statements?

There are five main components of financial statements which are used by various stakeholders:

1. Statement of Financial Position (Balance Sheet)
2. Statement of profit or loss (Income statement)
3. Statement of changes in equity
4. Cash flow statement
5. Notes to the financial statements

The two most commonly used are the statement of financial position and statement of profit or loss.

Statement of Financial Position (Balance Sheet)

The statement of financial position is simply a list of all the **assets** owned and all the **liabilities** owed by a business as at a particular date.

What is an Asset?

An asset is a resource **controlled** by an entity as a result of **past events** and from which **future economic benefits** are expected to flow to the entity.

- Controlled – Owned by a company
- Past events- This means an asset was purchased earlier
- Future economic benefit- Meaning the asset could bring income to the company by renting it out, by producing items in a manufacturing company, by selling it later to earn profit and so on.

Examples of assets:

- A building or Land
- A machine to produce items in a factory
- Computers used in an office
- Inventory that are bought and sold later
- Cash in hand and at the bank

Asset Types: Non-current Vs Current

There are two types of assets which are categorised in the statement of financial position:

Non -current assets (fixed assets):

- These are long terms assets which are used in the business for a long term to generate cash flow.
- They are not sold immediately. Usually, they are maintained in the business for more than one year.
- Examples of such assets: Land, building, machine, computers, furniture.
- These assets are usually depreciated over certain period of time to reflect the loss of value of the asset through wear and tear. Different assets are depreciated over different periods. Therefore every year, the asset loses value until it reaches a value of zero.
- Depreciation and its accounting treatment will be discussed later in detail.

Current Assets

Current assets:

- These are short term assets where they do not stay in the business for a long time. They keep on rotating in the business.
- Examples include: inventory (stock), cash in hand and at the bank and receivables (debtors).
- What are receivables?

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Liabilities

What is a Liability?

- A liability is something which is owed to somebody else. It simply means debts of a business.
- A liability is defined as, "a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits."

Examples of Liabilities:

- Bank Loan or overdraft
- Trade payables- Amount you have to pay to a supplier for goods bought on credit
- Tax payable to the Income Tax Authorities
- Accruals- Will discuss this in detail later