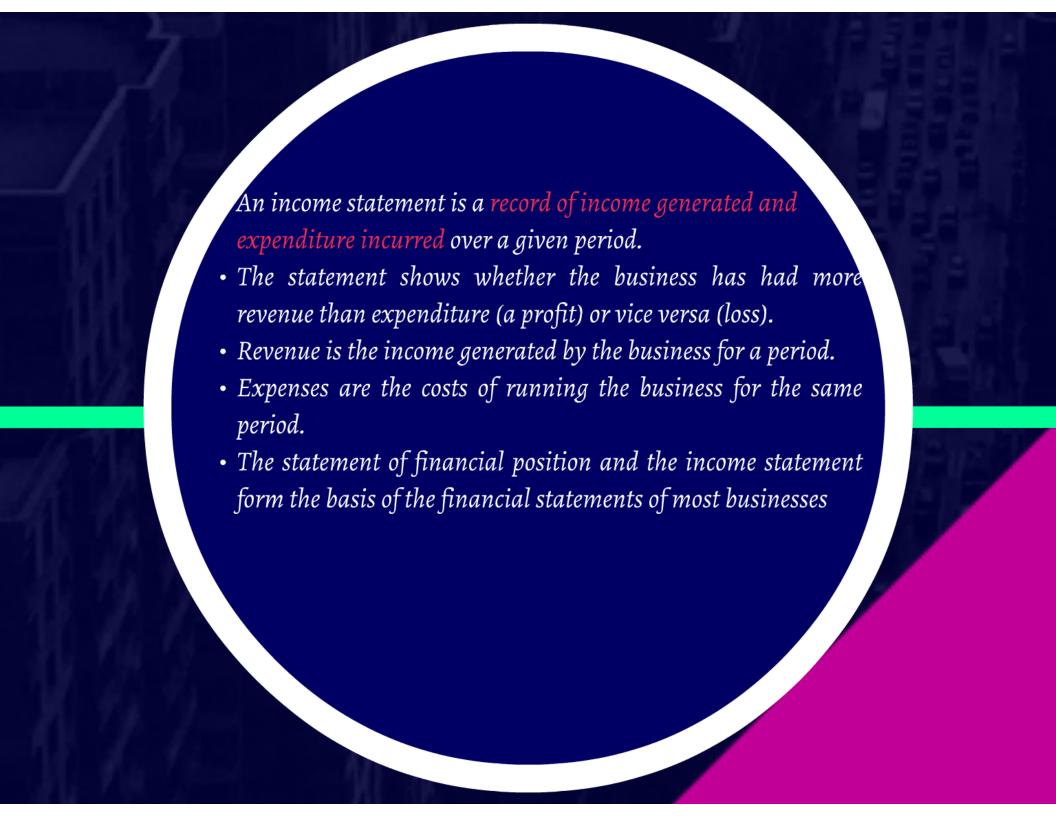


Elements of Financial Statements

- The principal financial statements of a business are the statement of financial position and the income statement.
- 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
- An asset is something valuable which a business owns or can use. Can you think of examples of assets?
- What is the difference between current and non-current assets?
- A liability is 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.
- Can you think of examples of liabilities?

• amounts invested in a business by the owner are amounts that the business owes to the owner. This is a special kind of liability, called capital. In a limited liability company, capital usually takes form of share capital, or equity.



Postulates of Accounting

These are the fundamental ideas upon which the whole accounting discipline rests:

- Business entity
- Measurability
- Periodicity
- Dual aspect

• Business entity - a business entity is distinct and separate from its owners and managers. The entity consisits of assets and liabilities. The difference between the money values of assets and of liabilities is known as capital. Thus, the fundamental accounting equation can be summed up as follows:

•
$$A - L = C$$

• Measurability - accounting involves measurement of value.

Accounts will only deal with those items to which a monetary value can be attributed and thus the items which cannot be measured in monetary terms may not form part of the accounts.

- Periodicity it is assumed that the continuous lifetime of the entity can be broken down into specific time periods known as the financial year of the entity and usually 12 months.
- Dual aspect For every change in one of the three elements (assets, liabilities or capital) there must be a numerically equal but opposite change in another element or the other two elements put together. This introduces the fundamental rule of bookkeeping that every debit is followed by a corresponding credit entry.