Achievable

ACCA FINANCIAL ACCOUNTING DUMP SHEET

Financial reporting fundamentals

Business entities

Entity type	Liability	Legal separation	Key feature
Sole proprietorship	Unlimited	None	Single owner; simplest form
Partnership	Unlimited (joint and several)	None	Governed by a partnership deed
Limited company	Limited to investment	Separate legal entity	Shareholders ≠ directors

The five financial statements

Statement	Purpose	Elements used
Statement of financial position (SOFP)	Snapshot of financial health at a point in time	Assets, liabilities, equity
Statement of profit or loss (SPL)	Financial performance over a period	Income, expenses
Statement of changes in equity (SOCIE)	Changes in ownership interest	Equity components
Statement of cash flows (SCF)	Cash movements (operating, investing, financing)	Cash receipts and cash payments
Notes to the financial statements	Additional detail and accounting policies	All elements

Elements of financial statements

Element	Definition	Normal balance
Asset	A present economic resource controlled by the entity as a result of past events	Debit
Liability	A present obligation to transfer an economic resource as a result of past events	Credit
Equity	Residual interest in the assets after deducting liabilities (assets − liabilities)	Credit
Income	Increases in assets or decreases in liabilities that increase equity (excluding capital contributions)	Credit
Expense	Decreases in assets or increases in liabilities that decrease equity (excluding distributions)	Debit

The accounting equation

- **Accounting equation:** $\text{Assets} = \text{equity} + \text{liabilities}$; $\text{net assets} = \text{equity}$; $\text{equity} = \text{assets} - \text{liabilities}$
- **Net asset movement:** $\text{Closing NA} = \text{opening NA} + \text{profit} + \text{additional capital} - \text{drawings}$
- **Profit:** $\text{Profit} = \text{closing NA} - \text{opening NA} - \text{additional capital} + \text{drawings}$

Current vs non-current classification

- **Current assets:** expected to be realised or sold within 12 months or within the normal operating cycle
- **Current liabilities:** payable within 12 months
- **Non-current assets:** provide economic benefits beyond one year
- **Non-current liabilities:** payable beyond 12 months