

The Conceptual Building Blocks

<p>Asset</p>	<p>A present economic resource controlled by the entity as a result of past events.</p> <ul style="list-style-type: none"> Economic Resource <ul style="list-style-type: none"> A right that has the potential to produce future economic benefits. <ul style="list-style-type: none"> Right <ul style="list-style-type: none"> To receive cash To receive goods or services Over physical objects To use intellectual property Economic Benefits <ul style="list-style-type: none"> Receiving cash flows Producing cash inflows or avoiding outflows Receiving cash Extinguishing liabilities Control <ul style="list-style-type: none"> The present ability to direct the use of an economic resource and obtain the economic benefits that may flow from it.
<p>Liability</p>	<p>A present obligation of the entity to transfer an economic resource as a result of past events.</p> <ul style="list-style-type: none"> Obligation <ul style="list-style-type: none"> A duty or responsibility that an entity has no practical ability to avoid. May arise from a contract or legislation Transfer of an Economic Resource <ul style="list-style-type: none"> Paying cash Delivering goods or services Transfer of resource if specified condition occurs (Warranty) Past Events <ul style="list-style-type: none"> Entity has already obtained economic benefits As a consequence, the entity will have to transfer an economic resource
<p>Equity</p>	<p>The residual interest in the assets of the entity after deducting all of its liabilities.</p> <ul style="list-style-type: none"> Capital <ul style="list-style-type: none"> Contributed by owners, to the business Retained Earnings <ul style="list-style-type: none"> Generated by business, for the owners <p style="text-align: right;">$\text{Income} - \text{Expenses} = \text{Profit}$ ↓ Retained Earnings</p>
<p>Income</p>	<p>Increases in assets or decreases in liabilities that result in increases in equity, other than capital contributions</p>
<p>Expense</p>	<p>Decreases in assets or increases in liabilities that result in decreases in equity other than dividend distributions</p> <p>Car Account: + \$50,000 Bank Account: - \$50,000 Net Asset Movement = 0</p>