Defining the Elements

Name_________________

Assets
- Resource controlled by entity
- Result of past events
- Future economic benefits

Liabilities
- Present obligation
- Arising from past events
- Outflow of economic benefits

Owner’s Equity
- Residual interest (A-L)

Revenues
- Inflows or savings of outflows of economic benefits
- \(\uparrow A \text{ or } \downarrow L \text{ that } \uparrow OE\)
- Except capital contributions

Expenses
- Outflows of economic benefits or reduction in inflows
- \(\downarrow A \text{ or } \uparrow L \text{ that } \downarrow OE\)
- Except Drawings

When answering theory questions, try to give the ‘I D L’ (ideal) answer:
I: Identify principle/characteristic or element
D: Give the correct components from the definition
L: Link to the question being asked eg if it is about stock, talk specifically about how stock fits with the definition

1. State two characteristics/factors that should be present before an item is reported as an Asset.

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2. Explain why Debtors are a current asset

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3. Explain why instalment loans need to be classified as both current and non-current liabilities.

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4. Explain with reference to the definition of an expense, why stock loss should be treated as an expense. (2004)
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5. Explain why stock on hand should NOT be treated as an expense. (2005)
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6. Explain why discount received is treated as revenue. (2005)
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7. Explain why loan repayment is NOT an expense.
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