From facts to financial statements

MODULE 1 / DECISION MAP

1. **Identify the facts**
   What happened, when, and to which reporting entity?

2. **Find the governing requirement**
   Use the specific standard before the general Framework.

3. **Identify the element**
   Which present resource or obligation arose from past events?

4. **Assess recognition**
   Apply the standard; consider uncertainty and useful information.

5. **Measure and record**
   Choose the required basis; calculate and balance the journal.

6. **Present and explain**
   Show the amount, policy, assumptions and material uncertainty.

Five elements, one connected model

Element	Question
Asset	What right does the entity control that can produce benefits?
Liability	What present obligation requires transfer of resources?
Equity	What remains after recognised liabilities are deducted from assets?
Income	What increased equity other than owner contributions?
Expense	What decreased equity other than owner distributions?

A definition alone does not settle recognition. Apply the relevant standard, and do not use a note to replace a required recognised amount.

Source: AASB Conceptual Framework (December 2021), chapters 2, 4-7. Guide: Module 1, printed pp. 16-38. Original wording and design. standards.aasb.gov.au/conceptual-framework-dec-2021

Useful information: a two-stage check

MODULE 1 / QUALITIES & CONNECTIONS

First: relevance and faithful representation

Could this affect a user decision? Does it give a complete, neutral and appropriately supported account? An estimate can be useful without being perfectly certain.

Then enhance it	Ask
Comparability	Can users compare like items and distinguish unlike items?
Verifiability	Can informed independent observers broadly agree?
Timeliness	Is the information available while it can matter?
Understandability	Are complexity, assumptions and uncertainty explained clearly?

Link the statements

Assets - liabilities = equity. Closing equity reflects opening equity, comprehensive income and owner transactions, together with any required prior-period adjustments.

Transaction	Why cash is not profit
Borrow $18,000	Cash and borrowing rise together; no income on receipt.
Receive $4,000 before service	Cash and a contract liability rise; revenue follows satisfaction of the obligation.
Pay a dividend	Cash and equity fall; this is not operating expense.

Materiality depends on nature, size and circumstances. A small director-related transaction can matter. Enhancing qualities cannot repair an irrelevant or misleading amount.

Source: AASB Conceptual Framework (December 2021), chapters 2, 4-7. Guide: Module 1, printed pp. 16-38. Original wording and design. standards.aasb.gov.au/conceptual-framework-dec-2021