



Australian Government

Registered Organisations Commission

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Fact Sheet

Common accounting concepts and principles

Going concern

In preparing financial statements, the Committee of Management must make an assessment of the organisation's/branch's ability to continue as a going concern, that is, the organisation/branch is expected to continue and can continue to operate for the foreseeable future. It is assumed that there is no intention or necessity to liquidate the entity or to cease its operations.

When the Committee of Management is aware, in making its assessment, of material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the organisation/branch must disclose those uncertainties.

Financial reporting period

All organisations divide the life of their operations into time periods i.e. financial reporting periods. Financial reports are prepared to measure financial performance during that period and to show the financial position at the end of the same period. For the purpose of reporting to members, registered organisations adopt annual financial reporting periods.

Accrual accounting

One of the basic principles of accounting is that, in order to properly determine the level of profit or loss for a period, all income earned in the period should be matched against the expenses incurred in earning that income.

If expenditure relates entirely to the current period, then it is treated as an expense and matched against revenue in the Statement of Comprehensive Income to determine the profit or loss for that period. This approach applies regardless of when the payment is made.

The accrual method of accounting relates to the recognition of revenue and expenses. Whereas cash accounting records as revenue and expenses all cash receipts and cash payments, accrual accounting records revenue in the period that it is earned and records expenses when they are incurred. In other words revenues and expenses are recorded when an activity takes place, regardless of when cash changes hands.

Accrual accounting ensures that income and expenses are matched in the appropriate accounting period.

Example

An invoice has been received from a supplier for goods or services delivered. As the expense has been incurred, it is recorded immediately in the Statement of Comprehensive Income. The amount owed to the supplier is recorded in the Statement of Financial Position as a payable (liability) and remains there until payment is made, at which time it is recorded as a cash payment.

Materiality

Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial statement. Materiality is entity-specific and is based on the nature or magnitude, or both, of the items to which the information relates in the context of the entity's financial report. The Committee of Management cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Monetary unit

Money is used as a unit of measurement to allow items to be assessed in order to measure and report performance. Common currency must be used throughout all the financial statements, e.g. Australian dollars.

Historical cost

Financial statements are generally prepared on the historical cost basis, i.e. the amounts included in the financial statements reflect what was received or paid at the time a transaction occurred. An exception to this is where non-current assets (e.g. land and buildings) are revalued to show their estimated current worth.

Realisation

This principle prescribes that income can be recognised only when goods or services have been provided. It is a principle that underpins the concept of accrual accounting, i.e. income is recognised when it is earned.

Consistency

Accounting policies and practices adopted in producing financial statements must be consistent across accounting periods. Readers may wish to compare results and outcomes from one period to another and those comparisons must not be distorted because of changes in accounting policies.

Disclosure

Users of financial statements, regardless of their interests or perspectives, have a right to know all the significant information on which those statements are based. The key financial statements provide a concise view of an organisation's financial performance and health. These must be supported by notes that disclose all relevant information that users may need to understand the full picture.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and subsidiaries are presented as those of a single entity.

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This fact sheet is not intended to be comprehensive. It is designed to assist in gaining an understanding of the financial statements that registered organisations are required to prepare and lodge with the Registered Organisations Commission. The Registered Organisations Commission does not provide legal advice.