

Understanding Components

Financial Report Semantics and
Dynamics Theory

Overview

- Understanding components
 - Components are sets of facts which go together for some purpose
 - Example of component
 - Every fact exists within a component
 - Facts can exist in more than one component
 - Components have integrity
 - Integrity exists between components
 - Characteristics give components “shape”

Components are Sets of Facts which go Together for Some Purpose

- **Component**

- Balance sheet
- Income statement
- Maturities of long term debt
- Significant accounting policies
- Inventory policies
- Details of property, plant and equipment
- Subsequent events
- Nonmonetary transactions

Components are sets of facts which **go together for some purpose**. Components are a handy way to refer to a portion of a financial report. Components are logical, they “make sense”, again they exist for a purpose (i.e. they are not random).

These are some examples of what a component is, clearly there are other components.

Example of Component

Balance sheet component (fragment):

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000
ABC Company	Consolidated entity	Dec 31, 2011	Receivables	3,000
ABC Company	Consolidated entity	Dec 31, 2011	Inventory	2,000
ABC Company	Consolidated entity	Dec 31, 2011	Prepaid expenses	500
ABC Company	Consolidated entity	Dec 31, 2011	Current assets	6,500

Above is an example of a fragment of a component, perhaps a balance sheet. (Imagine that the component continues on, we are showing only some of the facts which make up the balance sheet component.)

Note the following about the component. All the facts have the same characteristics as is shown by each fact, shown in the rows, has the same number of characteristics, shown in the columns.

Every Fact Exists Within a Component

- Facts exist within components
- Which means, facts don't exist on their own, independently of a component
- Components may have only one fact

Facts can Exist in More than One Component

- Facts can exist in more than one components
- Facts can have different characteristics within different components

Components Have Integrity

Balance sheet component (fragment):

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000
ABC Company	Consolidated entity	Dec 31, 2011	Receivables	3,000
ABC Company	Consolidated entity	Dec 31, 2011	Inventory	2,000
ABC Company	Consolidated entity	Dec 31, 2011	Prepaid expenses	500
ABC Company	Consolidated entity	Dec 31, 2011	Current assets	6,500

Components have **integrity**. Integrity means the component is “sound”, it is “complete”, it stands on its own, it is unbroken. The facts within a component “fit together” correctly in all possible ways.

For example, the circumstance that “cash and cash equivalents” plus “receivables” plus “inventory” plus “prepaid expenses” equals “current assets” is the proper state for a balance sheet; things add up correctly. This is one aspect of integrity.

Components Have Integrity

Details of cash and cash equivalents disclosure component:

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash on hand	250
ABC Company	Consolidated entity	Dec 31, 2011	Petty cash	100
ABC Company	Consolidated entity	Dec 31, 2011	Cash equivalents	650
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000

Above is another component, a **different component**. The previous component showed a portion of a balance sheet. This component shows the details of cash and cash equivalents.

Note that the fact “Cash and cash equivalents” also exists within this component which details cash and cash equivalents. And note that this component likewise foots properly; “Cash on hand” plus “Petty cash” plus “Cash equivalents” equals “Cash and cash equivalents”.

Integrity Exists between Components

Balance sheet component (fragment):

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000
ABC Company	Consolidated entity	Dec 31, 2011	Receivables	3,000
ABC Company	Consolidated entity	Dec 31, 2011	Inventory	2,000
ABC Company	Consolidated entity	Dec 31, 2011	Prepaid expenses	500
ABC Company	Consolidated entity	Dec 31, 2011	Current assets	6,500

Details of cash and cash equivalents **disclosure** component:

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash on hand	250
ABC Company	Consolidated entity	Dec 31, 2011	Petty cash	100
ABC Company	Consolidated entity	Dec 31, 2011	Cash equivalents	650
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000

Integrity or soundness exists **between components**. Financial reports have integrity if each component has integrity and if integrity exists between components.

For example, “Cash and cash equivalents” on the balance sheet and in the details of cash and cash equivalents disclosure is the same fact (same reporting entity, same legal entity, same period).

Characteristics Give Components “Shape”

Balance sheet component (fragment):

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000
ABC Company	Consolidated entity	Dec 31, 2011	Receivables	3,000
ABC Company	Consolidated entity	Dec 31, 2011	Inventory	2,000
ABC Company	Consolidated entity	Dec 31, 2011	Prepaid expenses	500
ABC Company	Consolidated entity	Dec 31, 2011	Current assets	6,500

Details of cash and cash equivalents disclosure component:

Reporting entity	Legal entity	Period	Concept	Value
ABC Company	Consolidated entity	Dec 31, 2011	Cash on hand	250
ABC Company	Consolidated entity	Dec 31, 2011	Petty cash	100
ABC Company	Consolidated entity	Dec 31, 2011	Cash equivalents	650
ABC Company	Consolidated entity	Dec 31, 2011	Cash and cash equivalents	1,000

Characteristics give components a “**shape**”. Notice how the balance sheet component (fragment) and the details of cash and cash equivalents disclosure have the same shape; the same characteristics.

The tables which show the information for the component look similar because the columns are the same.

Summary

- Understanding components
 - Components are sets of facts which go together for some purpose
 - Example of component
 - Every fact exists within a component
 - Facts can exist in more than one component
 - Components have integrity
 - Integrity exists between components
 - Characteristics give components “shape”