

Common Elements of Financial Statements

Financial Reporting Scheme (Prototype, work in progress)

The common elements of financial statements financial reporting scheme is a small working prototype financial reporting scheme that is used for testing and education. Common elements is grounded in the accounting equation and SFAC elements of financial statements.

Accounting Equation Components

The accounting equation (a.k.a. the fundamental accounting equation, the balance sheet equation, is the cornerstone of financial accounting. There are three components to the accounting equation: assets, liabilities, and equity. These components also tend to be used to identify the major account groups within a chart of accounts. The accounting equation is a de facto industry standard.

Assets:

Assets (#common:Assets) in are resources that an economic entity owns and uses to generate income and future economic benefits. Examples of assets are equipment, vehicles, trade accounts receivable (A/R), prepaid insurance, inventories, and office supplies. Assets can be classified as operating or nonoperating, tangible or intangible, and current or noncurrent.

Liabilities:

Liabilities (#common:Liabilities) are amounts owed to other third-party entities as a result of a past event and involve a future settlement using cash, goods, or services. Customers and vendors can be sources of liabilities for operations. Liabilities can be current or noncurrent.

Equity:

Equity (#common:Equity) is the residual amount of assets exceed liabilities.

Rules:

The relation between assets, liabilities, and equity is known as the accounting equation which is:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

Assets, liabilities, and equity are part of the balance sheet (#disclosures:BalanceSheet). A balance sheet is used to provide the financial status of a reporting economic entity.

SFAC Elements of Financial Statements

The FASB defines ten elements of financial statements in its *Conceptual Framework for Financial Reporting*¹; Chapter 4, Elements of Financial Statements, which are:

1. Assets
2. Liabilities
3. Equity (net assets)
4. Investments by owners
5. Distributions to owners
6. Comprehensive income
7. Revenues
8. Expenses
9. Gains
10. Losses.

Four Basic Statements Model

The accounting equation defines three financial concepts. The FASB expands on those three basic concepts to define seven more concepts for a total of ten.

But those ten concepts only enable the creation of three financial statements. But there are actually four statements²:

1. Balance sheet (#disclosures:BalanceSheetClassified, #disclosures:BalanceSheetOrderOfLiquidity)
2. Income statement (#disclosures:IncomeStatement, disclosures:IncomeStatementAlternative),
3. Statement of changes in equity (#disclosures:ChangesInEquity), and
4. Cash Flow Statement (#disclosures:CashFlowStatement).

As such, the common elements of financial statements financial reporting scheme defines the additional elements that enable the creation of a cash flow statement.

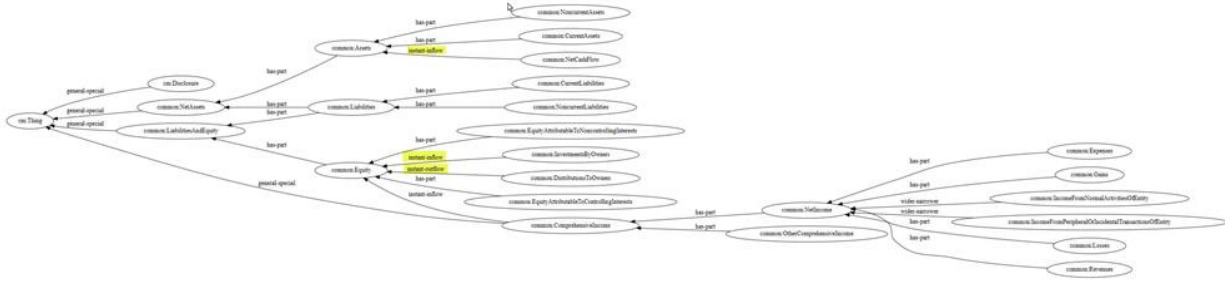
1. Net Cash Flow Operating Activities (#common:NetCashFlowOperatingActivities)
2. Net Cash Flow Investing Activities (#common:NetCashFlowInvestingActivities)
3. Net Cash Flow Financing Activities (#common:NetCashFlowFinancingActivities)
4. Net Cash Flow (#common:NetCashFlow)

In addition, more financial report elements are defined in order to provide for additional financial reporting styles.

¹ FASB, *Conceptual Framework for Financial Reporting, Chapter 4, Elements of Financial Statements*, http://www.xbrlsite.com/seattlemethod/platinum/sfac8/Concepts_Statement_8-Chapter_4-Elements.pdf

² Finance Hire, *The Four Basic Financial Statements*, <https://financehire.net/four-basic-financial-statements/>

Relations between Common Elements



Additional Information:

Wikipedia: https://en.wikipedia.org/wiki/Accounting_equation