

FOUNDATIONS SERIES · IFRS EDITION

Baratelli Foundations: Accounting Reference — IFRS Edition

Five essential references for reading, recording, and reviewing your books — in the language of IFRS.

Double-entry accounting is the same the world over — debits equal credits, every transaction has two sides. What differs across borders are the *names* of the statements and accounts and a handful of recognition rules. This reference teaches the mechanics in the language of **IFRS Standards**, the reporting framework used across the European Union, the United Kingdom, Canada, Australia, and most of Asia, Africa, the Middle East, and Latin America. Five references in one: the chart of accounts, how to read the four IFRS statements, the accounting cycle end to end, the common bookkeeping mistakes and their fixes, and a debits-and-credits cheat sheet. Read in order, or jump to the one you need.

For: small-business owners, bookkeepers, accounting students, and early-career finance professionals working under IFRS.

Reference	What you'll learn
1 · Chart of Accounts	The five elements of the IASB Conceptual Framework, normal balances, IFRS account names, numbering
2 · Reading the Statements	The four IFRS statements plus the notes — what each one tells you
3 · The Accounting Cycle	All eight steps from transaction to closing, with IFRS adjusting entries
4 · Common Mistakes & Fixes	Fifteen frequent errors — including the IFRS-specific ones — and how to correct them
5 · Debits & Credits Cheat Sheet	Quick reference for every account type, with a GAAP-vs-IFRS note

Pair this with *Baratelli Foundations: Journal Entries Reference* for the worked entries behind every concept, and the *Financial Statement Analysis — IFRS Edition* for the deep read of each statement.

1 The Chart of Accounts (IFRS)

The master list of every account your business uses. The IASB Conceptual Framework defines five elements; every account is one of them.

1.1 The five elements

Element	Normal balance	What it captures
Assets	Debit	Resources controlled by the entity from which future economic benefits are expected
Liabilities	Credit	Present obligations arising from past events
Equity	Credit	The residual interest in the assets after deducting liabilities
Income	Credit	Increases in economic benefits (revenue and gains)
Expenses	Debit	Decreases in economic benefits (costs and losses)

1.2 The numbering convention

Group accounts by element so the statements build themselves. A typical four-digit scheme reserves a band per element, then orders within each band by the IFRS presentation sequence — **non-current before current** for the statement of financial position:

Band	Element	Ordered within the band by...
1000–1999	Assets	Non-current assets first, then current assets
2000–2999	Liabilities	Non-current liabilities first, then current liabilities
3000–3999	Equity	Contributed capital, then retained earnings, then reserves, then NCI
4000–4999	Income	Revenue first, then other income and finance income
5000–5999	Expenses	By function or by nature, then finance costs and tax last

Note the IFRS vocabulary — “trade receivables” not “accounts receivable,” “inventories” not “inventory,” “contract liabilities” for deferred income, “provisions” for estimated obligations, and “reserves” for the accumulated other comprehensive income inside equity. **Contra accounts** (accumulated depreciation, loss allowances) sit directly beneath the asset they reduce and carry the opposite normal balance.

1.3 Sample chart of accounts — IFRS naming

A practitioner-ready starting chart. Copy it, delete what you don't use, and keep the naming — it is what makes the statements assemble cleanly.

Assets · 1000–1999

Code	Account (IFRS name)	Group · standard
1000	Property, plant and equipment	Non-current · IAS 16
1010	Accumulated depreciation — PP&E	Non-current · contra-asset
1100	Right-of-use assets	Non-current · IFRS 16
1110	Accumulated depreciation — right-of-use assets	Non-current · contra-asset

Code	Account (IFRS name)	Group · standard
1200	Intangible assets	Non-current · IAS 38
1210	Accumulated amortisation — intangibles	Non-current · contra-asset
1250	Goodwill	Non-current · IFRS 3 (not amortised)
1300	Investment property	Non-current · IAS 40
1350	Investments in associates & joint ventures	Non-current · IAS 28
1400	Deferred tax assets	Non-current · IAS 12
1500	Inventories	Current · IAS 2
1600	Trade receivables	Current · IFRS 9
1610	Loss allowance (expected credit losses)	Current · contra-asset
1650	Contract assets	Current · IFRS 15
1700	Prepayments	Current
1900	Cash and cash equivalents	Current · IAS 7

Liabilities · 2000–2999

Code	Account (IFRS name)	Group · standard
2000	Borrowings — non-current	Non-current · IFRS 9
2050	Lease liabilities — non-current	Non-current · IFRS 16
2100	Deferred tax liabilities	Non-current · IAS 12
2150	Provisions — non-current	Non-current · IAS 37
2200	Employee benefit obligations	Non-current · IAS 19
2500	Trade payables	Current
2550	Borrowings — current	Current · IFRS 9
2560	Lease liabilities — current	Current · IFRS 16
2600	Contract liabilities (deferred income)	Current · IFRS 15
2650	Current tax payable	Current · IAS 12
2700	Accruals	Current
2750	Provisions — current	Current · IAS 37

Equity · 3000–3999

Code	Account (IFRS name)	Note
3000	Share capital	Par/nominal value of shares issued
3100	Share premium	Proceeds in excess of par
3200	Retained earnings	Accumulated profit less distributions
3300	Revaluation surplus	Reserve · IAS 16 (OCI)
3350	Foreign currency translation reserve	Reserve · IAS 21 (OCI)
3400	Hedging reserve	Reserve · IFRS 9 (OCI)
3500	Non-controlling interests	Consolidated only · IFRS 10

Income · 4000–4999

Code	Account (IFRS name)	Note
4000	Revenue	IFRS 15
4100	Other income	Outside ordinary activities
4200	Finance income	Interest and dividends received
4300	Share of profit of associates & JVs	IAS 28 (equity method)
4400	Fair-value gains	IFRS 9 / IAS 40

Expenses · 5000–5999

Code	Account (IFRS name)	Presentation · standard
5000	Cost of sales	By function
5100	Distribution costs	By function
5200	Administrative expenses	By function
5300	Changes in inventories of finished goods & WIP	By nature (alternative)
5310	Raw materials and consumables used	By nature
5400	Employee benefits expense	By nature · IAS 19
5500	Depreciation and amortisation	By nature
5600	Impairment losses	IAS 36 / IFRS 9
5700	Other expenses	By nature
5800	Finance costs	Interest on borrowings & leases
5900	Income tax expense	IAS 12 · last line

Tip: pick *by function* (cost of sales / distribution / administrative) *or by nature* (materials / employee benefits / depreciation) for the profit-or-loss — not both. Keep finance costs and income tax out of the operating expense lines; they sit below operating profit.

2 Reading the IFRS Financial Statements

2.1 The statements at a glance

A complete set of IFRS statements has four primary statements plus the notes. Here is what each one tells you.

Statement	Question it answers	Key lines
Statement of profit or loss & OCI	What did we earn this period?	Revenue, cost of sales, operating profit, finance costs, profit for the period, other comprehensive income
Statement of financial position	What do we own and owe?	Non-current and current assets, equity, non-current and current liabilities
Statement of cash flows	What cash actually moved?	Operating, investing, financing; effect of exchange-rate changes on cash
Statement of changes in equity	How did owners' capital move?	Opening to closing for share capital, retained earnings, each reserve, NCI
The notes	The detail behind every line	Accounting policies, judgments, disaggregation, maturities

$$\text{Assets} = \text{Liabilities} + \text{Equity} \quad \cdot \quad \text{Income} - \text{Expenses} = \text{Profit or loss}$$

2.2 Worked example — the four statements, tied together

One small company, “Meridian Trading Ltd,” in IFRS format (amounts in ‘000). Follow the highlighted ties: profit flows into equity; equity and cash land on the balance sheet; the cash walk explains the cash line. Negative amounts are shown in parentheses.

A · Statement of profit or loss and other comprehensive income — for the year ended 31 December

Line	‘000
Revenue	1,000
Cost of sales	(600)
Gross profit	400
Distribution costs	(90)
Administrative expenses	(120)
Operating profit	190

Line	‘000
Finance income	5
Finance costs	(25)
Profit before tax	170
Income tax expense	(40)
Profit for the period	130
OCI — revaluation surplus (not reclassified)	20
OCI — translation differences (may be reclassified)	10
Total comprehensive income	160

B · Statement of financial position — as at 31 December

Line	‘000
Property, plant and equipment	700
Right-of-use assets	80
Intangible assets	60
Goodwill	40
Deferred tax asset	10
Total non-current assets	890
Inventories	120
Trade receivables	150
Cash and cash equivalents	90
Total current assets	360
Total assets	1,250
Share capital	200
Share premium	100
Other reserves (revaluation + translation)	30
Retained earnings	360
Total equity	690
Borrowings & lease liabilities (non-current)	310

Line	‘000
Deferred tax liabilities	20
Trade payables, current borrowings & tax	230
Total liabilities	560
Total equity and liabilities	1,250

C · Statement of changes in equity — for the year ended 31 December

Movement	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance at 1 January	200	100	–	260	560
Profit for the period	–	–	–	130	130
Other comprehensive income	–	–	30	–	30
Dividends	–	–	–	(30)	(30)
Balance at 31 December	200	100	30	360	690

D · Statement of cash flows (indirect method) — for the year ended 31 December

Line	‘000
Profit before tax	170
Depreciation and amortisation	70
Finance costs (net of finance income)	20
Increase in inventories	(20)
Increase in trade receivables	(30)
Increase in trade payables	15
Interest paid	(25)
Income taxes paid	(35)
Net cash from operating activities	165
Purchase of property, plant and equipment	(120)
Interest received	5
Net cash used in investing activities	(115)
Proceeds from borrowings	30

Line	‘000
Repayment of lease liabilities	(20)
Dividends paid	(30)
Net cash used in financing activities	(20)
Net increase in cash before exchange differences	30
Effect of exchange-rate changes on cash (IAS 7.28)	5
Cash and cash equivalents at 1 January	55
Cash and cash equivalents at 31 December	90

How they tie: profit for the period (130, statement A) flows into retained earnings (statement C), which lands at 360 on the balance sheet (B). Total comprehensive income (160) drives the equity movement to 690. The cash flow statement (D) ends at 90 — the exact cash line on the balance sheet. If any of these ties fails, the books are not yet complete.

Go deeper → *Baratelli Foundations: Financial Statement Analysis — IFRS Edition* reads all four statements line by line, with the ratios and a five-minute annual-report scan.

3 The Accounting Cycle — Step by Step

The same eight steps turn a transaction into a set of statements, every period. IFRS changes the adjusting entries, not the cycle.

Step	What happens
1 · Identify transactions	A source document (invoice, receipt, bank record) evidences an economic event
2 · Journalise	Record the dual-entry: debits = credits
3 · Post to the ledger	Move each entry to its account in the general ledger
4 · Unadjusted trial balance	List all account balances; confirm total debits = total credits
5 · Adjusting entries	Apply accrual accounting at period end (see below)
6 · Adjusted trial balance	Re-prove the balances after adjustments
7 · Prepare the statements	Build the four IFRS statements and the notes
8 · Close the books	Close income and expense accounts to retained earnings; reset for the next period

The IFRS adjusting entries (step 5) — posted as journal entries

Accrual accounting at period end is where IFRS shows up. Each adjusting entry below is shown the way you would post it — **debit first, credit indented** — with illustrative amounts in ‘000.

1 · Depreciation of property, plant and equipment (IAS 16)

Account	Debit (Dr)	Credit (Cr)
Depreciation expense	54	
Accumulated depreciation — PP&E		54

Allocate the asset’s cost over its useful life. IFRS requires *component depreciation* — significant parts with different useful lives are depreciated separately.

2 · Amortisation of intangible assets (IAS 38)

Account	Debit (Dr)	Credit (Cr)
Amortisation expense	10	
Accumulated amortisation — intangibles		10

The same idea applied to finite-life intangibles. Goodwill is *not* amortised — it is impairment-tested instead (IAS 36).

3 · Depreciation of the right-of-use asset (IFRS 16)

Account	Debit (Dr)	Credit (Cr)
Depreciation expense	16	
Accumulated depreciation — right-of-use assets		16

Under IFRS 16 a lessee depreciates the right-of-use asset, usually over the lease term.

4 · Interest on the lease liability (IFRS 16)

Account	Debit (Dr)	Credit (Cr)
Finance costs	3	
Lease liabilities		3

The lease liability accretes interest each period (the unwinding of the discount). The cash lease payment then reduces the liability separately.

5 · Expected credit losses on receivables (IFRS 9)

Account	Debit (Dr)	Credit (Cr)
Impairment loss on trade receivables	8	
Loss allowance (ECL)		8

IFRS 9 requires a *forward-looking* allowance — you book expected losses before any default, not just losses already incurred. The allowance is a contra-asset that reduces net receivables.

6 · Accrued expense (accrual basis, IAS 1)

Account	Debit (Dr)	Credit (Cr)
Administrative expenses	12	
Accruals		12

Recognise an expense incurred but not yet invoiced or paid (utilities used, wages owed), so the cost lands in the period that benefited.

7 · Prepaid expense expiring (prepayments)

Account	Debit (Dr)	Credit (Cr)
Insurance expense	4	
Prepayments		4

Cash paid in advance was first recorded as an asset (Dr Prepayments / Cr Cash). At period end, move the expired portion into expense.

8 · Revenue earned from a contract liability (IFRS 15)

Account	Debit (Dr)	Credit (Cr)
Contract liabilities (deferred income)	15	
Revenue		15

Cash received in advance sat as a contract liability (Dr Cash / Cr Contract liabilities). As each performance obligation is satisfied, recognise the earned portion as revenue.

9 · Provision recognised (IAS 37)

Account	Debit (Dr)	Credit (Cr)
Warranty expense	6	
Provisions		6

Recognise an obligation of uncertain timing or amount when there is a present obligation, a probable outflow, and a reliable estimate. Lesser items are disclosed as contingent liabilities, not booked.

Tip: every adjusting entry touches one statement of financial position account and one profit-or-loss account. If an adjustment hits two balance-sheet accounts or two P&L accounts, check it — something is off.

4 Common Bookkeeping Mistakes & Fixes

The errors that most often distort the books — the universal ones first, then the IFRS-specific traps.

Mistake	The fix
Mixing owner and business funds	Keep separate bank accounts; post owner items through equity (drawings / capital), never to expense
Recording revenue when cash arrives	Recognise revenue when control transfers (IFRS 15); advance receipts are contract liabilities
Not reconciling the bank monthly	Reconcile every account to the statement each month; chase unexplained differences immediately
Forgetting depreciation	Run depreciation each period; apply component depreciation to significant parts (IAS 16)
No expected-credit-loss allowance	Book a forward-looking ECL on receivables (IFRS 9); don't wait for a default
Expensing capital items	Capitalise assets with future benefit; expense only what is consumed in the period
Using LIFO for inventory	LIFO is prohibited under IFRS — use FIFO or weighted average (IAS 2)
Expensing all development costs	Capitalise development costs once the IAS 38 criteria are met (research is still expensed)
Keeping leases off balance sheet	Recognise a right-of-use asset and lease liability for almost all leases (IFRS 16)
Ignoring the FX on foreign cash	Show the effect of exchange-rate changes on cash as a separate line (IAS 7.28)
Netting assets against liabilities	Present gross unless IFRS specifically permits offset
Misclassifying current vs non-current	Split by the twelve-month / operating-cycle test (IAS 1)
Booking dividends as an expense	Dividends are a distribution of equity, not an expense — post through retained earnings
Confusing functional and presentation currency	Keep the books in the functional currency; translate to presentation currency only on reporting (IAS 21)
Never reviewing for impairment	Test assets and goodwill for impairment when indicators arise; goodwill at least annually (IAS 36)

5 Debits & Credits Cheat Sheet

The whole of double-entry, expanded. To increase an account, post to its normal-balance side; to decrease it, post to the other side.

5.1 The core rule and the normal balances

Every transaction: total debits = total credits · Assets = Liabilities + Equity

Account type	Increase with	Decrease with	Normal balance
Assets	Debit	Credit	Debit
Liabilities	Credit	Debit	Credit
Equity	Credit	Debit	Credit
Income	Credit	Debit	Credit
Expenses	Debit	Credit	Debit

5.2 The mnemonic — DEAD CLIC

A memory aid for which side *increases* an account:

DEAD — increase with a Debit	CLIC — increase with a Credit
Drawings / Dividends	Capital (equity)
Expenses	Liabilities
Assets	Income
(Debits)	Credits

5.3 How each element behaves — with a worked entry

One typical transaction per element, posted debit-first, credit indented. Amounts illustrative.

Assets — increase with a debit. Buy equipment for cash:

Account	Debit (Dr)	Credit (Cr)
Property, plant and equipment	50	
Cash and cash equivalents		50

Liabilities — increase with a credit. Buy inventory on credit:

Account	Debit (Dr)	Credit (Cr)
Inventories	30	
Trade payables		30

Equity — increase with a credit. Issue shares for cash:

Account	Debit (Dr)	Credit (Cr)
Cash and cash equivalents	100	
Share capital		100

Income — increase with a credit. Make a sale on credit:

Account	Debit (Dr)	Credit (Cr)
Trade receivables	40	
Revenue		40

Expenses — increase with a debit. Pay wages in cash:

Account	Debit (Dr)	Credit (Cr)
Employee benefits expense	25	
Cash and cash equivalents		25

5.4 Contra accounts — the ones that run backwards

A contra account sits against another account and carries the *opposite* normal balance, reducing the net carrying amount.

Contra account	Sits against	Normal balance	Effect
Accumulated depreciation	Property, plant and equipment	Credit	Reduces the carrying amount of PP&E
Accumulated amortisation	Intangible assets	Credit	Reduces the carrying amount of intangibles
Loss allowance (ECL)	Trade receivables	Credit	Reduces net receivables (IFRS 9)
Treasury shares	Equity	Debit	Reduces total equity

5.5 What is the same, and what differs, vs US GAAP

Topic	US GAAP	IFRS
Double-entry & the equation	Identical	Identical
Statement names	Balance sheet, income statement	Statement of financial position, statement of profit or loss & OCI
Inventory cost flow	FIFO, LIFO, weighted average	FIFO, weighted average (no LIFO)
Development costs	Generally expensed	Capitalised when criteria met (IAS 38)
PP&E after recognition	Cost model only	Cost or revaluation model (IAS 16)
Receivable allowances	Current expected credit loss (CECL)	Expected credit loss (IFRS 9)

→ Where to Go Next

When you need...	Go to
The deep read of each IFRS statement, ratios, and quality of earnings	Foundations: Financial Statement Analysis — IFRS Edition
The cash flow statement built hands-on (IAS 7 election, FX line, net debt, direct method, consolidation)	Free tool: Cash Flow Calculation Schedule — IFRS edition
Worked journal entries behind every concept	Foundations: Journal Entries Reference
Inventory count, cost-flow, valuation & reserves	Foundations: Inventory & COGS Reference
Controller-level close, controls, and reporting	CFO & Controller's Guide

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