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UNIT 1 - FINANCIAL REPORTING

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1 Purpose of financial reporting.

General Purpose Financial Reporting

- Objective of GPFR to aid in decision-making for existing and potential investors, lenders and other creditors.
- By providing financial information about the entity - financial position, performance and changes in financial position and performance of an entity.

Conceptual Framework

- Serves as a guide to AASB in developing and interpreting Accounting Standards, ensuring that Standards are as consistent as possible.
- Assists the AASB in harmonising Accounting Standards and procedures relating to the presentation of financial statements by reducing the number of alternative accounting treatments permitted by Accounting Standards.
- Serves as a point of reference for preparers and auditors of financial statements in resolving accounting issues in the absence of a Standard or Interpretation that specifically addresses the issue.

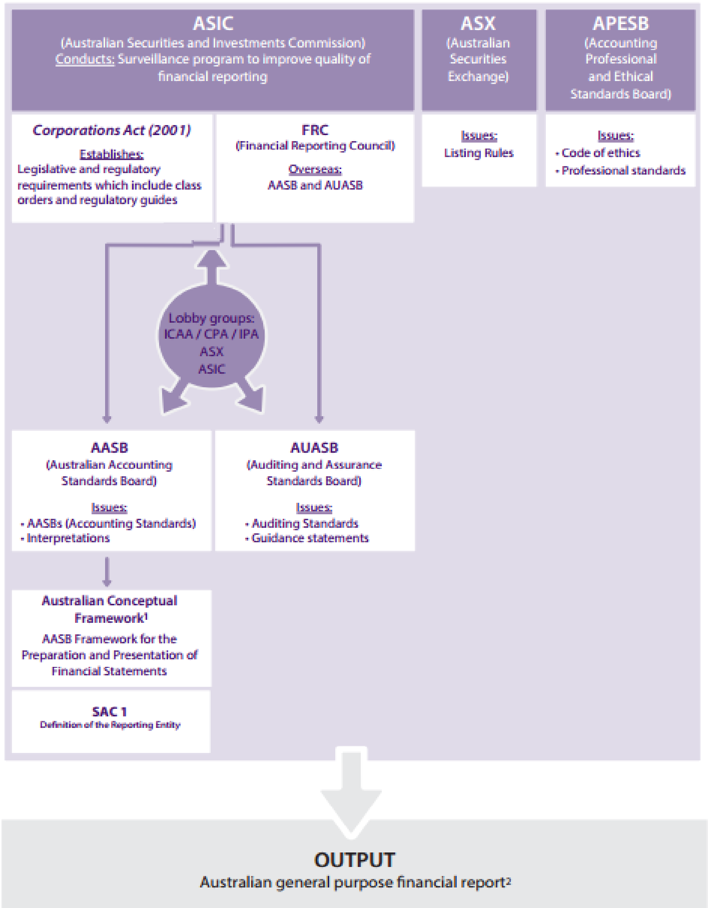
Qualitative Characteristics of Useful Information (para. QC4)

- Fundamental characteristics of useful information:
  - Relevance.
  - Faithful representation i.e. free from error, complete, neutral.
- Financial information is enhanced if it is:
  - Comparable.
  - Verifiable.
  - Timely.
  - Understandable.

Elements of financial statements – definitions and recognition criteria

Item	Definition	Recognised in	When recognised
Asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (para. 4.4(a))	The statement of financial position	It is probable that the future economic benefits will flow to the entity, and that the asset has a cost or value that can be measured reliably (para. 4.44)
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (para. 4.4(b))	The statement of financial position	It is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation, and the amount at which the settlement will take place can be measured reliably (para. 4.46)
Equity	The residual interest in the assets of the entity after deducting all its liabilities (para. 4.4(c))	The statement of financial position	Because equity is the arithmetic difference between assets and liabilities, a separate recognition criteria for equity is not needed
Income	Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (para. 4.25(a))	The statement of profit or loss and other comprehensive income	When an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably (para. 4.47)
Expense	Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants (para. 4.25(b))	The statement of profit or loss and other comprehensive income	When a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably (para. 4.49)

2 The regulatory framework and reporting entity concept.



The Corporations Act 2001

- Power to make Accounting and Auditing Standards.
- For annual financial reports - Chapter 2M, s.286, Part 2M.3 (financial reporting), and 2M.3.01 (Corporations Regulation).
- Half-year reports - Part1.2A (disclosing entities), ss 302-306 and s.320.

Entities required to prepare annual financial reports (Corps Act - Section 292)

- Disclosing entities.
- Public companies.
- Large proprietary companies.
- Registered schemes.
- Small proprietary companies (in limited circumstances only).
- ASIC can give exemptions from financial reporting requirements of the Corporations Act (class orders).

Proprietary Companies Thresholds (Corps Act - Section 45(A))

- If a company falls below the threshold in 2 or more of the tests = small.
- Small pty companies required to prepare financial report:
  - Shareholders with at least 5% of votes instruct in writing to do so.
  - ASIC requires to do so.
  - Controlled by a foreign company.

Classification of proprietary limited companies – criteria

Test	Threshold
1. Consolidated revenue for the year	$25 million
2. Consolidated gross assets at the end of the financial year	$12.5 million
3. Employees at the end of the financial year	50 employees (full-time equivalent)

2 The regulatory framework and reporting entity concept.

Entities required to prepare annual financial reports (other legislation)

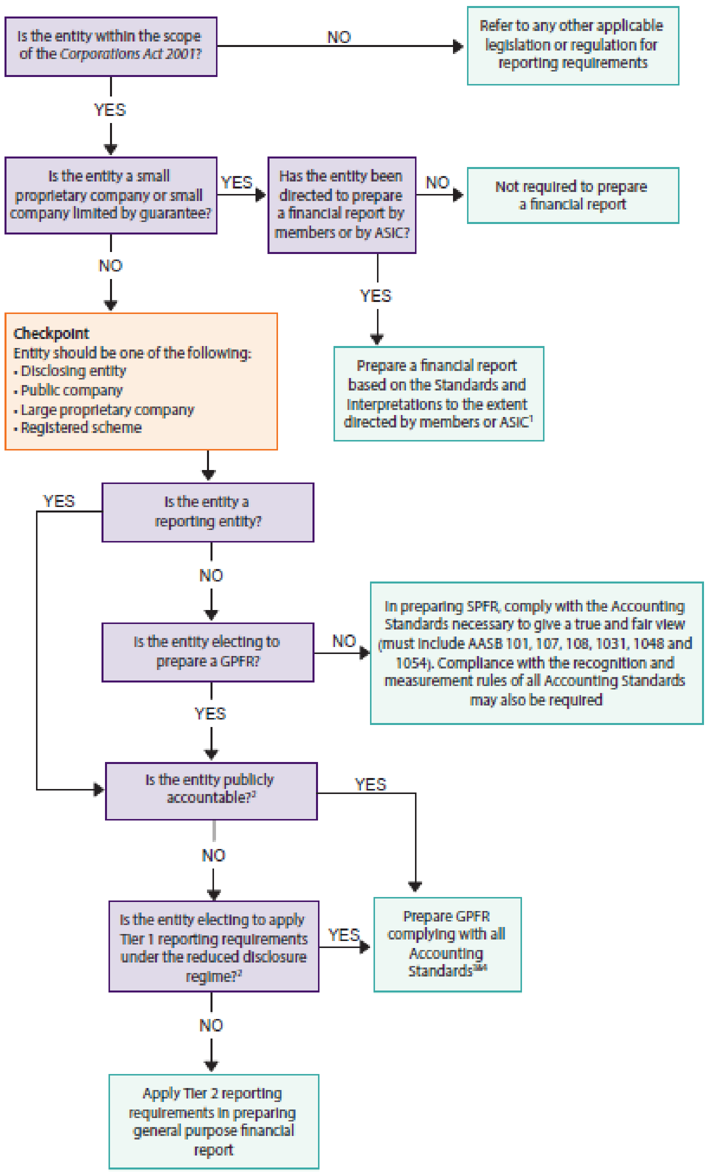
- Registered schemes.
- Superannuation entities.
- Registered charities.
- Public sector entities.

Definition of a Reporting Entity (SAC1)

Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

Summary of annual reporting requirements

The requirements for annual financial reporting in Australia are summarised in the following flowchart:



3 IFRS vs. National Accounting Standards

IFRS vs. AASB

- The Australian framework defines the 'reporting entity' (SAC 1 Definition of the Reporting Entity).
- AU requirements inserted into IFRS-equivalent standards.
- Australian Standards added that have no IFRS equivalent.
- Differential reporting requirements under SAC1 and Corps Act.
- Non-adoption of IFRS for SMEs in Australia and Reduced Disclosure Regime (RDR).

Application of Tiers of Australian Accounting Standards (AASB1053)

- Introduced to reduce disclosure requirements for entities which find the disclosures under full IFRSs as adopted in Australia burdensome.
- It establishes a full second tier of Accounting Standards titled 'Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements'

4 Ethical requirements relating to financial reporting.

Code of Ethics for Prof. Accountants - Fundamental Principles (IESBA - Part A)

- Integrity - to be straightforward and honest in all professional & business relationships.
- Objectivity - to not allow bias, conflict of interest or undue influence of others to override professional or business judgement.
- Professional competence and due care - to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- Confidentiality - to respect the confidentiality of information acquired as a result of professional and business relationships and not disclose to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- Professional behaviour - to comply with relevant laws and regulations and avoid any action that discredits the profession.

Australian Ethical Requirements

- **APES 110** Code of Ethics for Professional Accountants - replicates IESBA Code of Ethics.
- **APES 205** Conformity with Accounting Standards - obligations on members to follow accounting standards when preparing financial statements.
- **APES 315** Compilation of Financial Information - preparing financial statements in public practice.
- Should a CA be disciplined for failure to comply with an ethical principle, such a breach is taken by the Chartered Accountants ANZ as a breach of APES 110 rather than a breach of IESBA Code.

5 Contemporary issues affecting financial reporting.

IASBs disclosure initiative

- Significant movement to improve 'information overload'.
- Current research projects focused on:
  - Materiality - guidance on application.
  - Disclosures - reviewing the general disclosure requirements in three standards, and considering how they can be revised (IAS1 - Presentation of Financial Statements, IAS7 - Statement of Cash Flows, IAS8 - Accounting Policies, Changes in Accounting Estimates and Errors).

Sustainability Reporting

- The Global Reporting Initiative (GRI) - promotes the use of sustainable reporting as a way for entities to become more sustainable and contribute to sustainable development.
- Sustainability issues - climate change, human rights, corruption.

Integrated Reporting

- The International Integrated Reporting Committee (IIRC) - global coalition of regulators, investors, companies, standard setters, the accounting profession, and non-government organisations.
- Formed to increase integrated business reporting.