

## INTRODUCTION FINANCIAL REPORTING

### Ratio Analysis

Express the relationship between two financial statement data in mathematical equation (in %, rates or proportions). Observe the change in numerator/denominator

### The Objectives of Financial Reporting

Provide financial information about the entity that is useful to an existing and potential investors, lenders and other creditors in making decisions about providing resources to an entity

### Users of The Financial Reporting

#### Internal Users

- Managers who plan, organise, and run the business
- Have more information than the public

#### External Users

- Resource Providers
- Recipients of Goods and Services
- Parties performing an insight to the company

### General Purpose Financial Reporting (GPFR)

- Used to estimate the value of reporting entity
- Based on estimates

### AASB 101

Gives a guide how a financial statement should be structured

### Financial Statement Presentation

- Statement of Financial Position (Balance Sheet)
- Statement of Profits or Loss (Income Statement)
- Statement of Changes in Equity
- Statement of Cash Flows

### Current & Non – Current Classifications

When it is not settled/received for more than 12 months, it is classified as non-current, and vice versa.

### Objective of IAS 1

Prescribe the basis for presentation of GPFR  
Ensure comparability of the GPFR  
Ensure the usefulness of the GPFR

### Fundamental Characteristics

#### Relevance

Information can change the user's decision

### Qualitative

#### Faithful Representation

Free from error

#### Materiality

Essential, if omitted can influence decision making

#### Comparability

Can be compared with other year/entities

#### Verifiability

The data can be produced by independent accountant and still have the same value

#### Understandable

People with no accounting basis could read the reports

#### Timeliness

Time could affect the data and decision making of the users

### Concepts and Principles

#### Monetary Principle

All accounting records must be able to be presented in dollar value

#### Accounting Entity Concept

Entity must be separated from the owner's personal life

#### Accounting Period Concept

Life of a business entity can be separated into several artificial periods

#### Going Concern Principle

Business will remain in operation even in bankruptcy

#### Cost Principle

All assets gained is valued from the price it needs to acquire it. Revaluation is a deviation of this principle, but is needed to give a faithful representation

#### Full Disclosure Principle

All things that can affect decision-making process should be disclosed in the financial statements

### Types of Economics Entities

- Company
- Sole Trader
- Partnerships
- Others

## **Company**

### *Public Company*

- Have a minimum of 1 shareholder, with no maximum
- Have Ltd as part of their name (mostly), Ltd stands for Limited
- Ability to invite the public to subscribe for shares
- No restrictions on raising funds

### *Proprietary*

- <51 non-employee shareholders
- Pty in its name (stands for proprietary)
- Cannot raise funds from the public

Small and large classifications, classified by the following thresholds, when fall above the thresholds is large Pty and vice versa;

- Gross Assets \$12.5m at end of Financial Year (FY)
- Gross Operating Revenue \$25m at end of FY
- 50 Equivalent full time employees at end of FY

## **Differential Reporting**

Reports from external sources, important because there exists information asymmetry between managers and providers of capital.

### **AASB 1053**

Identifies 2 Tiers of Reporting Requirements:

*Tier 1* All accounting standards

*Tier 2* Reduced disclosure requirements

## **Distinguishing the Tiers**

Distinguishable by its notion of public accountability

## **Disclosing Entities**

Need to comply with strict accounting and information disclosure obligations

- Provide half-yearly and yearly reports
- Continuous disclosure regime

Criteria to be a disclosing entity (either one)

- Securities are listed on a licensed market
- Securities are listed via a disclosure document to more than 100 holders
- A borrowing corporation with debenture issues

## **Key Bodies within Australia's Financial Reporting**

### *Financial Reporting Council*

Provides oversight function and advisory role in accounting

### *Australia Accounting Standard Boards*

Reports to financial reporting council, while develops the conceptual framework and constructs accounting standards

### *AASB Interpretation Advisory Panels*

Provides AASB with alternative views on an issue

### *Australian Securities Exchange*

Operates Australia's share market

### *Australian Securities & Investments Commission (ASIC)*

Enforces and regulates all corporate activity

### *Corporations Act 2001 (CA2001)*

Some of its act deal with financial reporting and auditing issues

### *Accounting Professional and Ethical Standard Board (APESB)*

Independent body that sets the code of ethics and professional standards

## DOUBLE-ENTRY SYSTEM

### Some Terminology

#### Transactions

External exchanges of something of value between two or more entities

#### Events

Price increases in assets or allocation of cost of depreciation

#### Journal

Chronological record of all transactions

GENERAL JOURNAL				
Date	Account titles and explanations	Post ref.	Debit	Credit
2010				
Oct 1	Cash	100	10 000	
	Share Capital (Issued shares for cash)	300		10 000
1	Cash	100	5 000	
	Bank Loan (Borrowed money from a bank)	230		5 000
2	Office Equipment	130	5 000	
	Cash (Purchased office equipment for cash)	100		5 000

#### Posting

Procedure of transferring journal entries to ledger accounts

### Transaction analysis

Process of identifying specific effects of transactions and events on the accounting equation

$$A = L + E$$

### Equity

#### Share Capital

the original share holding

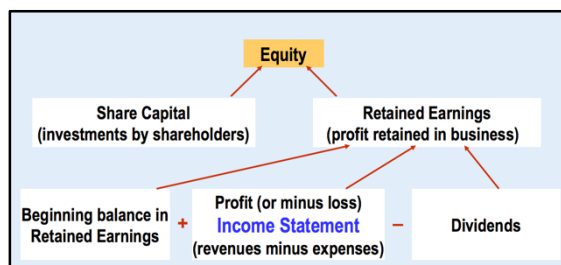
#### Retained Earnings

Excess of revenue and expenses

- Revenue, earnings of the firm
- Expenses, costs of Earnings

#### Reserves

Amounts held in reserve



### Account

Individual accounting record of increase and decreases in specific assets/liability/equity item

### Debit and Credits

Increase in	Debit	Credit
Assets	↑	↓
Liabilities	↓	↑
Revenue	↓	↑
Expenses	↑	↓
Equity	↓	↑

### Trial Balance

List of all the accounts and their balances at a given time listed in order as they appear in general ledger to check for an error

*Errors that are not detected in a trial balances;*

- A transaction is not journalised
- Journal entry posted twice
- Incorrect amounts recorded
- Incorrect accounts used
- Debits and Credits are reversed in the correct account
- Two recording errors that counteract one another, that the end results are in balance

### Double-Entry System

called that way due to when the the system records a transaction, it records the dual effects of the transactions