Accounting is identifying, measuring, communicating economic information of an entity to users for decision making purposes.

Measuring – classifying, recording and analysing the business transactions
Report – via accounting financial reports such as P/L, B/S

Who are the information for?

Users who have financial interest – Lenders, investors, members, customers, taxpayers etc
Users who review and oversee the function – regulatory agencies, advisors, union, media analysts, media, governing bodies etc.

Primary users

Lenders – ability for the biz to repay debt, and pay interest
Investors – the risks and return, ability to pay dividend, potential for capital growth
Employees – ability to provide benefits, whether they're able to continue(employment)
Suppliers – ability to pay debt, whether can continue custom
Customers – fair prices
Government authorities – determine the biz's tax received/paid
Regulatory bodies – whether are complying to the reporting regulations
Analysts and advisors – for analysis

Why do we need the information for?

Financial Purposes
To measure **efficiency** (to generate cash flow**), liquidity**(ability to repay debts) , **gearing** (the financial structure, risks) , **profitability(**to generate returns) **and market performance**

Non-financial purposes
To check Social and environment impact and also corporate governance/compliance

Two types of users
Internal Users
-- details of all transactions and events, it can identify what info a party requires
External Users (General Purpose Financial Statements)
-- to provide information for what they need it for (refer above)

4 types of Business Structures – Individual (sole trader no tax), partnerships, company and trust (it's when a business puts all the shares for another person-trustee to manage)

- Life of an entity
- Set up& Administration
- Legal status relative to owner
- Extent to owner's liability
- Tax Implications
  Companies – taxed on profits, shareholders will declare dividends as income

Businesses can either be for-profit or nfp, and nfp are hospitals, clubs,

Company is when owners own shares
→holders will have voting rights and dividends

CA2001 identifies 2 types of companies
Public and Proprietary

Public Companies	Other Public	Proprietary
‘Limited’ ‘Lty’		‘Pty Ltd’
Min 1 shareholder, unlimited		Less than 51 shareholders
Liability is the unpaid for shares (Assets x affect)	Liability is how much that is guaranteed by members (limited by guarantee)	
No restrictions of asking capital from public	Liability even if shares not paid- a lot of risk in the company (No-liability company)	restrictions of asking capital from public
No restriction on transfer of ownership	Can extend to personal assets (Unlimited company)	restriction on transfer of ownership

Unlimited liability – Liability extend to personal assets

Small Pty Ltd and Large have different reporting requirements, Small has less, large has more

Small Pty Ltd has reduced disclosure requirements, and differential reporting.
Large Pty Ltd and Public companies, Disclosing entities are required to prepare a full financial report(which must be audited)

Conceptual Framework – concepts that are needed for the preparation and presentation of general purpose financial statements that comply to the **accounting standards**

CA 2001 states that financial statements **must show a true and fair view of the financial position**, and complies with accounting standards. Must include notes, financial statements and the director’s declaration about the financial statement and the notes provided.

Accounting standards provide rules and guidance to disclose the effect of transactions in FS.
Accounting standards AASB is consistent with IFRS.

General Purpose Financial Statements are based on estimates, judgements and models rather than exact depictions(studies)
→ GPFS are for people who are unable to command for reports that suit their needs, need to comply with GAAP

GPFS are **not to show the value of the entity, it is just to show info**

But under the CA 2001, all Public and large PTY LTD NEED
an entity that does not have public accountability and
does not need to publish general purpose financial reports for external users’

The information on GPFS, what is it for?

- To check economics resources (A,L,E)
- To provide financial information that reflects accrual accounting

- To xxxx show past cash flows
- The changes in A,L,E that does not result from financial performance

Special Purpose is for people who have specific needs and don't need general info

Financial	Management
	Formulating plans, budgets
Bounded by GAAP, IFRS, ASX and corporations act	Less formal, without many prescribed rules
Info is outdated by the time it reaches the clients	Can be a historical record/ projection – like budgets
More quantitative, has income/expenses etc	Much detailed, has every info(quality and quantity)
General info	Suited for managers/internal users for decision making
Financial accounting is guided by ASX and corporation act	Management will not use this info because they can obtain it internally

IFRS provides a more efficient way, improves the comparability and transparency of the financial statements, reduce cost of preparing the FS.

Accrual Accounting is the effects of a transaction/other events on the entity's resources and claims in which those transactions occur, but the resulting cash receipt/payment will occur in a different accounting period.

Standards are applied, more consistent and can compare, higher quality decisions made.

ASIC (Australian Securities and Investment Commission)
upholds the law effectively/uniformly, make information of companies public to the public, **increase confidence/promote participation by lenders/investors**, improve performance of financial system

Australian Prudential Regulation Authority (APRA) oversees financial institutions in honouring their commitments to their clients (pay back their share)

AASB (Australian Accounting Standard board) significantly influences IFRS, issuing AAS, GPFS are not to show the value of the entity, it is just to show info

Qualitative Characteristics – are the characteristics that should be exhibited from financial statements – information

- Relevance – useful for decision making(can actually make a difference)
  Must have predictive value and confirmatory value to make it relevant
  ➔ Faithful representation – Must be true and fair(does not intend to mislead)
  Complete, Neutral, Free from error (estimations can't be accurate, so just free from error)
- Materiality (could make a difference, an info is material if it can make a diff)

Things to enhance the QC

- Comparability (consistent with policies and can be compared with other accounting periods)
- Verifiability (can be checked, the disclosure of the assumptions can assist users)
- Timeliness (the older the info, the less relevant it is)
- Understandability (clear and concise info, cant avoid complex words but assume users have the knowledge)

Cost constraint on Financial Reporting, must provide quality info so can bring confidence to users to make efficient capital markets decisions. Will be able to generate returns from informed decisions.

Assets
Liabilities
Equity
Income – increase in economic benefits in the form of an Increase in assets, decrease in L that will increase the E
Expense

Recognition of Elements – **probable that can ensure FEB into or out of entity, has a cost/value that can be measured with reliability**

If it is not reliable but it's probably material, should disclose it in notes.

IF FEB is not expected to flow beyond the accounting period, it will be recognised as an expense.

Limitations of Financial Statement

- Time lag
- Historical Data
- Subjectivity (estimation, judgments and choices) – some assets are valued at historical cost/or can be fair value(current value)
- Other factors such as cost of providing the info and also competition

Various measurements of assets
Historical data – the amount that you paid to acquire the asset
Realisable value – the amount that you currently can obtain in by selling the asset
Present value – the value(future net cash inflows) that you expect your asset to generate

Liability are generally carried at settlement value