Lecture 1

- Examine the regulatory framework for external financial reporting
- Review the relevant components of the Corporations Act (CA) 2001 and the Conceptual Framework as they affect the reporting obligations of companies
- Examine the economic reasons for a differential level of demand for information across different types of economic entities
- Distinguish between different types of entities and explain the relevant reporting responsibilities of each type of entity
- Explain the basis for differential reporting as it applies in Australia and examine the issues relating to implementing differential reporting.

Larger, more important entities, report more information.
Company submit reports to ASIC. (Cooperate act)
Sole trade, partnership and others do not. (State, territory legislation)

Characteristics of a company:

1. Separate legal entity
2. Continuous life and transferability of ownership
3. No mutual agency (all owners act as an agent for the business)
4. Limited shareholders liability
5. Separation of ownership and management
6. Company taxation
7. Government regulation

Advantages:

- Can raise more money than proprietary ship or partnership
- Continuous life
- Easy transfer of ownership
- No mutual agency to shareholders
- Limited liability of the shareholders

Disadvantages:

- Separation of ownership and management
- Company taxation
- Government regulation

Company is either

- **Public**, listed or unlisted, no liability companies
    - Minimum 1 shareholder
    - Most limited having share capital (Ltd)
    - Ability to invite the public to subscribe for shares
    - No restriction of raising funds from public
    - May be listed on ASX
- **Proprietary**, small or large. (deliberate decision to be one)
    - No greater than 50 non-employee shareholders, one director must live in Australia
    - Pty in its name
    - Cannot raise funds from the public
    - A secretary can be appointed but must be 18 years old
    - One person may simultaneously hold the position of co-director and secretary
    - Classified as small or large
        - Gross asset $12.5m
        - Gross operating revenue $25m
        - 50 EFT(equivalent full time) employees

Small or large? Cost vs benefit. Less cost, less reporting obligation, lower bottom line.

Disclosing entity, under CA 2001

- Listed on ASX, or
- Securities are issued, via a disclosure document, to more than 100 holders, or
- It is a borrowing corporation with debenture issues requiring appointment of a trustee.

Reporting entity: defined in the accounting framework SAX1
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.

- Separation of management from economic interest
- Economic or political importance / influence of entity
- Significant financial characteristics of entity. (the two of three threshold for large proprietary)

It shall prepare **general purpose financial reports (GPFR)** in accordance with SACs and AASBs.
GPFS: financial statements that comply with Conceptual Framework requirements and accounting standards and meet the information needs common to users who are unable to command the preparation of financial statements tailored specifically to satisfy their information needs.

If a large proprietary is not RE, prepare **special purpose financial report (SPFR)**

Why should there be differential reporting?

- Differential levels of **information asymmetry** between managers and providers of capital create a differential need for external reports.
- Proprietary companies are more likely to communicate privately.
- Large public companies face almost unlimited number of actual and potential shareholders and other stakeholders
- Information asymmetry can only be efficiently resolves through external reports.

Two tiers of reporting requirements for preparation of GPFS, identified by AASB
Tier 1: all Australian accounting standards, comply with International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB)
Tier 2: reduced disclosure requirements
This is distinguished by **public accountability**:

- Accountability to those existing and potential resource providers and other external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.
- Has or is in the process of issuing, debt or equity instruments traded in a public market.

• An entity’s reporting obligations depend on the type of entity it is

Reporting obligations / Type of entity	Obligations under *CA 2001*	Reporting entity (RE or NRE)	AASB 1053 Public account’y (PA or No PA)
Disclosing entity Listed public	Annual & HY reports	RE – GPFR	PA – Tier 1
Unlisted public Large Pty Reg Schemes	Annual	RE – GPFR NRE – SPFR	PA – Tier 1 No PA – Tier 2
Small Pty	Less reporting	Typically N/A But can be GPFR	N/A *

Financial Reporting Council (FRC):