Key sources of regulation of financial reporting in Australia
- When reporting to stakeholders, the accounting information must be relevant to their decision making.
  - The major sources of financial reporting regulation in Australia are:
  - As accountants, we need to answer the two following questions:
    o Is the entity required to prepare a financial report? Corporations Act 2001
    o If so, does it need to comply with Australia Accounting Standards? It needs to comply if it is a reporting entity.

  - Australian companies must comply with the requirements of the Corporations Act.
  - The Corporations Act requires the preparation of financial reports for all:
    o Disclosing entities – with few exceptions, entities whose securities are listed on a securities exchange are disclosing entities.
    o Large proprietary companies
    o Public companies – any company other than a proprietary company
    o Registered schemes – managed investment scheme that is registered under section 601EB of the Corporation’s Act
  - Proprietary company is a company whose shares may not be offered to the public for sale (private company). It usually consists of shareholders that are known by the owners and could either classified into small or large with no more than 50 non-employee shareholders.
    o Does not offer securities for which disclosure to investors is required
    o Limited by shares – where shareholders are afforded more protection when it comes to the level of liability they face for company debts.
    o Unlimited company with share capital – where the members’ or shareholders’ liability is not limited (owner’s personal belongings are at risk)
  - Small propriety company satisfies at least two of the follow criteria:
    o The consolidated revenue for the financial year of the company and the entities it controls is less than $25 million
    o The value of the consolidated gross assets at the end of the financial year of the company and the entities it controls is less than $12.5 million.
    o The company and the entities it controls have fewer than 50 employees at the end of the financial year.
  - Large proprietary companies are those that do not satisfy the definition of a small proprietary.
  - All non-proprietary companies are public companies.

The Reporting Entity (Under conceptual framework)
- In Australia, the statement of accounting concepts (SAC1) defines reporting entity as: “Entity in which it is reasonable to expect existence of users who depend on”
  o General-purpose financial reports – The objective of GPFR is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions about providing resources to the entity.
  o Indicators of users’ existence – as they are dependent on general purpose financial reports for information for making and evaluating resource allocation decisions.
Separation of management from economic interest – A management body responsible to run the business. The owner isn’t involved in the running of the business.

Economic or political importance/influence – relating to the ability of an entity to make a significant impact on the welfare of external parties (easier for users to evaluate and make decisions).

Financial characteristics – that should be considered include the size (for example value of sales or assets, or number of employees or customers) or indebtedness of an entity.

- The reporting entity concept is used to determine whether entities are required to present GPFRs.
- The critical factor in identifying whether an entity is a reporting entity is the existence of users who depend on GPFSs to make resource allocation decisions.
- A business needs to make sure that their financial reports consists of qualitative characteristics of:
  - Comparability – users can compare aspects of an entity over time and between entities.
  - Verifiability – different knowledgeable and independent users could reach consensus that a particular piece of information is a faithful representation
  - Timeliness – reports before all aspects of the transaction are known or too late for decision making
  - Understandability – users need to be able to conduct a diligent review and analysis of the information.

Establishes concepts/ideas that underlie the preparation and presentation of general purpose financial reports (GPFR);

**Answers the following questions:**

- What is the **objective** of financial reporting?
- Who are financial reports prepared for? (Users)
- What are the **assumptions** to be made when preparing financial reports?
- What **qualitative characteristics** should financial information have in order to be useful?
- What type of information should be included? (Elements)
- When should the elements of financial statements be included? (Recognition criteria)
- At which amount should the elements be included? (Measurement)

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**[2] The Conceptual Framework**

- A conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards.
- It is also an attempt to provide a structured theory of accounting that prescribes practise.
- When talking about accounting reporting/standards, we need a guidance to make sure that our accounting standards/rules are making sense & are relevant. (Therefore we need a conceptual framework)
- The purpose is to provide a coherent set of principles (or guideline):
  - Assists with standard consistency
  - Assist preparers deal with issues not addressed by a standard
  - Assists auditors in forming an opinion on compliance
  - Assist users to interpret statements
- IASB’s Conceptual framework is the broad guideline to accounting. Whereas IASB is the specific detailed guideline to accounting.
- IASB focuses on the profit entities whereas AASB focuses on all entities.

• [3] ASX Listing Rules
  - Companies listing on the ASX need to comply with the ASX Listing Rules. These rules include requirements for continuous disclosure and periodic reporting.
  - Primary focus on disclosure.

  - AASB is the organisation that sets up the Australian accounting standards.
  - All entities required to prepare financial statements in accordance with the Corporations Act must apply the following standards:
    o AASB101 – Presentation of Financial statements
    o AASB107 – Statements of Cash flows
    o AASB108 – Accounting policies, changes in accounting estimates and errors
    o AASB1048 – Interpretation of standards

• Who are involved in regulating accounting?
  - Financial Reporting Council (FRC)
    o FRC main objective is to monitor the work of Australian accounting standards board and also auditing the whole process of Australian accounting development.
    o Ensuring AASB standards are at least in harmony with international standards.
      (appoints members to AASB)
  - Australian Accounting Standards Board (AASB)
    o Develop accounting standards and conceptual framework to make sure Australia’s standards imply with international standards.
  - Australian Securities & Investment Commission (ASIC)
    o Monitors implementation of the Act and investigates and prosecutes companies for breaches of the Act
    o ASIC regulates compliance with the financial reporting and auditing requirements for reporting
    o Promotes confidence in the financial system by protecting investors.
  - Australian Prudential Regulation Authority (APRA)
    o Prudential regulator of the Australian financial services industry includes banks, credit unions, insurance companies and superannuation industries.
    o Aims to promote financial stability by requiring institutions to manage risk prudently so as to minimise the likelihood of financial losses to depositors, policy holders and superannuation fund members.
  - Australian Securities Exchange (ASX)
    o Deals with leasing rules for Australian companies with stock exchange and shares etc. (Administers listing rules)
  - International Accounting Standards Board (IASB)
    o Main objective is to develop a single set of high quality, enforceable global accounting standards.
    o IFRS is the new name of the standard. (Before 2005, it was called IAS by IASC).
    o Transform IFRS/IAS to suit the Australian environment. (This is why Australian can’t just ONLY use IASB)
  - International Financial Reporting Standards Interpretations Committee (IFRSIC)
    o These committees help to provide additional guidance to the different stakeholders in the international accounting standard board.