WEEK 1

Lecture

Info needs: - Financial

- ➔ Market (EPS, ASX)
- ➔ Profitability
- ➔ Efficiency (cash flow)
- ➔ Liquidity (meeting short-term debts)
- ➔ Gearing (structure)

- Non-financial

  - ➔ Corporate governance
  - ➔ CSR

Business structures

1. Individual
2. Partnership (when one dies, it dissolves)
3. Trust
4. Company (limited liability, separate legal + reporting entity, dividends are shareholders' income, must report full financial report every 6 months if public or large pty)
   - Public (Ltd.)
     - ➔ Min. 51 shareholders
     - ➔ No restrictions on raising capital from public (might do via ASX)
     - ➔ No restrictions on transfer of ownership
     - ➔ Types might include: limited by guarantee (liability is limited to amount guaranteed; charities, clubs), no liability (very risky; mining companies) and unlimited (liabilities may extend to personal assets; investment firms)
   - Private/proprietary (Pty Ltd)
     - ➔ Max 50 non-employee shareholders
     - ➔ Restrictions on ++ capital and transfer of ownership
       Example: 4 shareholders. 1 wants to quit. Needs approval from the other 3 on who to give its share to
     - ➔ Types: small and large (assets $12.5M, revenue $25M and 50 employees)

Conceptual framework: fundamental principles + concepts

Objective: provide financial info for <u>potential and existing</u> investors, lenders, creditors

GPFR (General Purpose Financial Reports)

- Based on estimates, judgments and models
- Management report card
- For external shareholders (who can't command info directly from entity)

Stakeholders v shareholders

All shareholders are stakeholders BUT NOT VICE VERSA. Stakeholders are: employee, management, shareholders.

Info in GPFR

- Economic resources and claims → Financial position → Balance sheet
- Changes: $ performance (accrual accounting, past cash flows → Income statement) and not from $ performance

Accrual accounting measures economic phenomena and exchange of goods and services even if not including cash, credit, depreciation

Characteristics of useful $ info:

1. Relevance (predictive + confirmatory value, capable of making a difference of decision)
2. Faithful representation (complete, neutral, no incentive, free from error—not trying to mislead anyone)
3. Comparability (consistent application, comparable with other entities)
4. Timelessness (available to stakeholders in time; within 3 months of the end of $ period)
5. Materiality (if omitting the info could influence decisions)
6. Verifiability (>1 observers could reach a consensus)
7. Understandability (clear, concise)

TRUE AND FAIR

Fundamental qualitative characteristics: relevance and faithful representation

Cost constraint on financial reporting

- On providers
- On users: reduced returns, analyzing and interpreting info, additional info if needed
- Quality info → confidence → efficient capital markets (- - capital cost and ++ returns)

Elements of FS

1. Asset (controlled resource, monetary value, arise from past events, future benefit)
   Recognition: monetary value, externally generated, reliably measured
2. Liability (present obligation, past events, settlement = outflow of $)
   Recognition: reliably measured, probable
3. Equity (contributed or retained → profits)
4. Income (indirect increase in equity, earned)
5. Expense (indirect decrease in equity, used resource)

Processes in accounting: identification, recognition, measured

Note: item may be identified but not recognized. If item can't be reliably measured, it will not be put into BS.

Limits on FS:

- Time lag
- Historical data (past events)
- Subjectivity (estimations, judgments)
- Cost of providing info
- Competitive confidentiality, eg disclosure of types of revenue gives competitors an insight of the most cost-effective segments

- GPFS will not satisfy every need for every user
- AASBs may provide guidance but not on the scope of judgments, choice, discretions

Textbook

Chapter 1 (LO 1 – 9)

Latin: ad and computend → to reckon together/calculate

Accounting: process of ID, measure (analysis, classification), communicate info (reports) about an entity to users for decision-making

Business transactions: affects financial position, can be measured + recorded

Ex: wage, withdrawals, purchase, interest, loan, revenue

Types of users:

1. Internal (operative decisions, evaluations)
2. External (shareholders, banks, employees, suppliers, consumers, Gov't and ATO)
   → Primary users are resource providers, eg shareholders, banks, suppliers

Financial accounting: prep + present financial info to enable all users to make economic decisions

Consists of: changes in equity statement, BS, IS (or PLS), cash flow statement and notes

Management accounting: to provide info for internal users

Ex: plans, budgets

Financial	Management
Bound by GAAP (Generally Accepted Accounting Principles)	Less formal
Historical picture	Both historical + projection
Quantitative nature (whole picture)	Detailed
All users	Internal users

IFRS (International Financial Reporting Standards)

- Except USA
- In Aussie, since 1 January 2005
- Promotes intl investment and improves efficiency
- AASBs (Aussie Acct Std Boards) is consistent with this

Company regulations:

- Corporations Act 2001, enforced via ASIC (Aussie Securities and Investment Commission)
  Dictates: 2 types of companies (pty ltd and ltd), financial statements, notes (show true, fair view and comply with Acct stds), director declarations
  Disclosing entities must apply Aussie Acct Stds
  Note: disclosing entities are those who issue securities quoted on the stock market or made available to public
- ASX (Aussie Securities Exchange)
  Market rule (for all involved) and listing rule (disclosure for listed corporations)