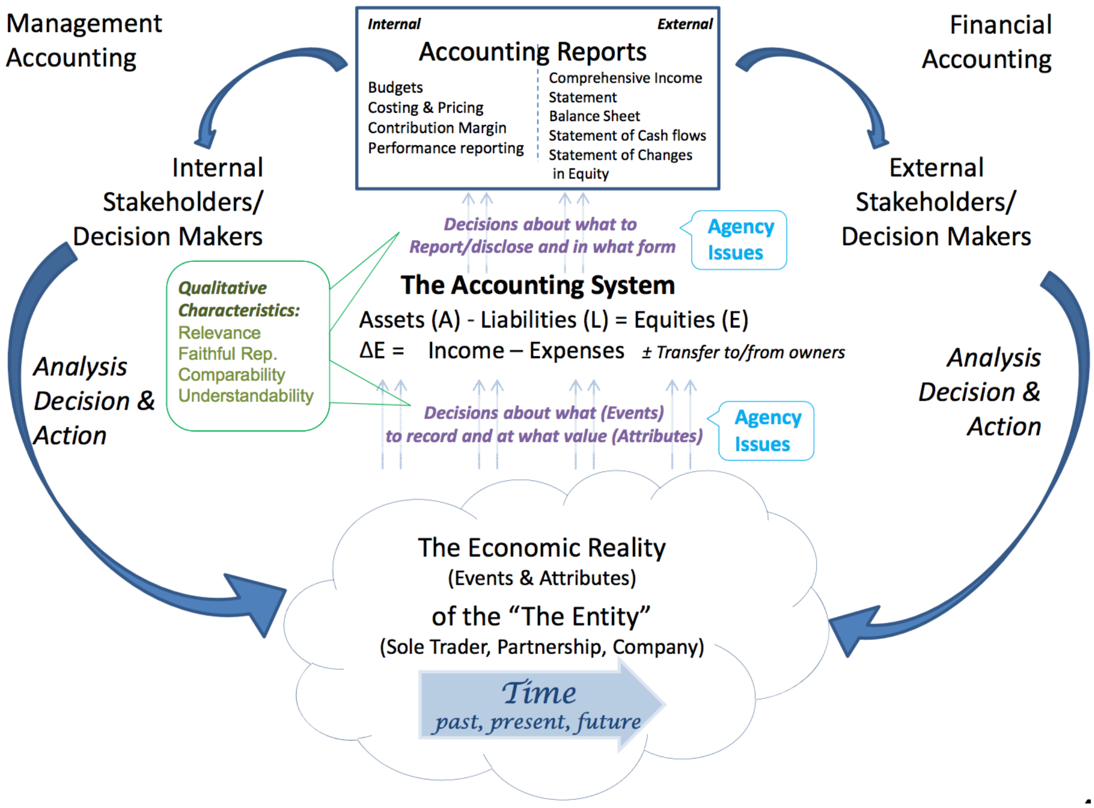
TABLE OF CONTENTS



THE NATURE & PURPOSE OF ACCOUNTING: REGULATORY & CONCEPTUAL FRAMEWORKS

BUSINESS STRUCTURES

	Sole Trader	**Partnership**	**Company**
Set Up & Administration	Simple	Simple	Complex
Life of entity	Limited to life or desire of owner	Limited to life or desire of individual partners. Will be automatically dissolved under the death of a partner unless prior agreement is written	Indefinite
Legal status relative to owners	Not separate	Not separate	Separate Entity (in terms of reporting)

Extent of owners' liability	Unlimited	Unlimited	Limited (with some exceptions)
Tax implications	Owner declares share of profit as income.	Partner declares share of profit as income.	Entity taxed on profit, shareholders declare dividends as income.

Limited Liability – if a company goes bankrupt with outstanding debt, the individual shareholder is only responsible for liabilities up until the unpaid amount of any shares they hold.

ACCOUNTING REPORTING

CA2001 DECLARATION OF COMPANIES

Clause: *"All public and large proprietary companies must disclose a full financial report in accordance to reporting requirements"*

Companies are classified as:

- **Public Companies**
  - No restrictions on raising capital from public, no restrictions on transfer of ownership
  - Limited liability to unpaid amounts on issued shares
  - Must disclose a full financial report
- **Private Companies (PTY)**
  - Otherwise known as proprietary companies (PTY) - <51 non-employee shareholders
  - Small if <2 of below, large if >2 below:
    - Gross operating revenue >$25 million for FY
    - Gross assets of $12.5 million at EOFY
    - 50 EFT employees at EOFY
  - **Small PTY companies**
  - **Large PTY companies** must disclose a **full financial report**

REPORTING STANDARDS

- **Australian Accounting Standards (AASB)** – rules and guidelines to preparers about how to disclose the effect of transactions and events in financial statements (in line with IFRS since 1 Jan 2005)
- **IFRS** – global accounting standards to provide consistency in reporting

- **Generally Accepted Accounting Principles (GAAP)** - a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements [LINK GPFR]

TYPES OF USERS

All users have different informational requirements of reports

- **Internal users** – stakeholders inside the entity. They are users of **management accounting**. They will derive the following information

  Suppliers – ability to pay debt

  Employees – ability to provide benefits, ongoing employment

- **External users** – stakeholders outsider the entity. They are users of **financial accounting** [LINK General Purpose Financial Report].

  Investors – risk & return, ability to pay dividends (growth)

  Lenders – ability to repay debt (performance), pay interest

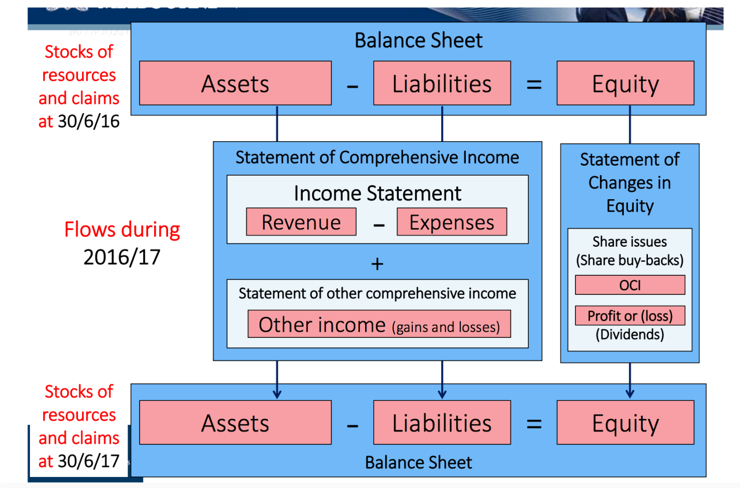
  Customers – fair and reasonable prices, ongoing supply

  Regulatory bodies – compliance with reporting regulations (CA2001)

THE GENERAL PURPOSE FINANCIAL REPORT

Objective: *"to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity"*

- Provides information regarding changes in economic resources and claims. Includes:
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
  - Statement of Changes in Equity
  - Notes – [LINK to Verifiability]
  - It is based on **estimations** and **judgements**.
  - According to the CA2001 information must be of **true** and **fair view**.
- Must comply with the **GAAP**



REPORTING REQUIREMENTS

Accounting reporting has estimations, choices, and judgements