

# ACC/ACF3100 Advanced Financial Accounting Notes

## Week 1 - The Australian Accounting Environment

### Assets

#### Definition Criteria

Assets are a resource **controlled** by the entity, as **a result of past events** and from which **future economic benefits** are expected to flow to the entity

#### Recognition Criteria

- It is probable that the future economic benefits embodied in the asset will eventuate; AND
- The asset possess a cost or other value that can be measured reliably

### Liabilities

#### Definition Criteria

Liabilities are the **future sacrifices of economic benefits** that the entity is **presently obliged** to make to other entities as a **result of past transactions or events**.

#### Recognition Criteria

- It is probable that the future sacrifice of economic benefits will be required; AND
- The amount of the liability can be measured reliably

### Equity - Definition Criteria

Equity is the residual interest in the assets of the entity after the deduction of it's liabilities

### Revenues / Income

#### Definition Criteria

It is the inflow or other enhancements, or savings in outflows of future economic benefits in the form of increases in assets or reductions in liabilities of the entity; other than those relating to contributions by owners, that result in an increase in equity .

#### Recognition Criteria

- It is probable that the flow or other enhancement or saving in outflows of future economic benefits has occurred; AND
- Thee inflow or other enhancement or saving in outflows of other future economic benefits can be measured reliably

### Expenses

#### Definition Criteria

Expenses are thee consumption or losses of future economic benefits in the form of reduction in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in decrease in equity.

#### Recognition Criteria

- *It is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred; AND*
- *The consumption or loss of future economic benefits can be measured reliably*

## What is financial accounting?

Financial accounting is a process involving the collection and processing of financial information to meet the decision-making needs of external parties. It is heavily regulated, and the regulation is ever changing.

## General Purpose Financial Statements (GPFS) vs. Special Purpose Financial Statements (SPFS)

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| <ul style="list-style-type: none"> <li>• Comply with the Conceptual Framework and accounting standards</li> <li>• Meet the information needs common to users who are unable to command the preparation of reports tailored to satisfy all their information needs</li> <li>• Represent financial statements and supporting notes included within an Annual Report.</li> </ul> | <ul style="list-style-type: none"> <li>• Designed to meet the needs of a specific group or to satisfy a specific purpose</li> <li>• Example: a bank demanding as part of a loan agreement that the borrowing entity provide information about projected cash flows</li> </ul> |
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## Sources of Financial Reporting Regulation

The main bodies of financial reporting regulation are:

1. Australian Securities and Investment Commission (ASIC)
  - Enforces the Corporations Act (2001) which outlines the responsibilities of company directors in relation to various activities, including:
    - The nature of their conduct
    - Financial statement preparation, lodgement and distribution
  - Requires the preparation of 'true and fair' financial statements by directors of public companies, large proprietary companies and organisations with securities listed on the ASX and some small proprietary companies
2. The Australian Accounting Standards Board (AASB)
  - Within Australia, accounting standards by the AASB have power by virtue of the Corporations Act (2001)
  - Functions of the AASB (pursuant to s. 227):
    - Development of a conceptual framework
    - Making accounting standards that have force of law under s. 334
    - Formulating accounting standards for other purposes, for entities not governed by the Act
    - Participating and contributing to the development of a single set of accounting standards for worldwide use
3. The Financial Reporting Council (FRC)
  - AASB reports to the FRC, overseeing the operations of the AASB