ACCT3321 - Financial Accounting: Theory and Practice

SEM-1 2019

WEEK 1

The major sources of financial reporting regulation in Australia are:

- *the Corporations Act 2001*
- *Australian accounting standards (AASB)*
- *The Conceptual Framework (CF)*

Currently the 'old' CF in Australia consists of the '*Framework for the Preparation and Presentation of Financial Statements' (2014) and 'SAC 1' (Definition of the Reporting Entity).*

The IASB has issued the new *'Conceptual Framework for Financial Reporting' (2018)* which we will be studying.

- *ASX Listing Rules.*

Global Standard Setters

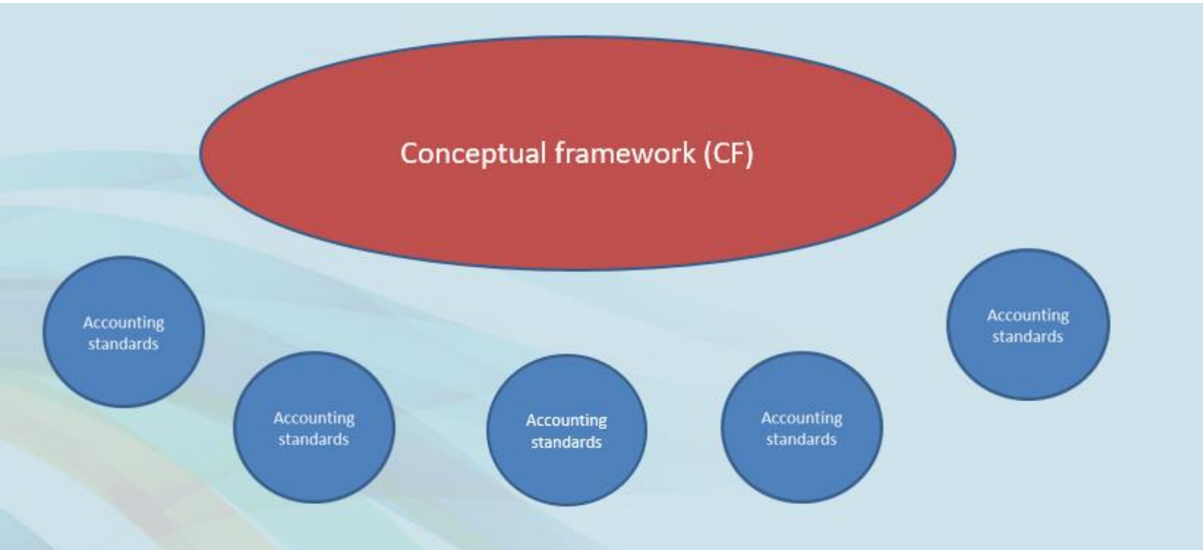
The International Accounting Standards Board (IASB) (IFRSs)

Australia adopted standards issued by IASB (International Financial Reporting Standards (IFRSs)) on or after 1 January 2005.

Versus

Financial Accounting Standards Board (FASB) (GAAP)- America

IFRS Conceptual Framework 'Conceptual Framework for Financial Reporting'



What is the Conceptual Framework?

The CF describes the objective of, and the concepts for, general purpose financial reporting.

The purpose of the Conceptual Framework is to:

(a) assist the International Accounting Standards Board (Board) to develop IFRS Standards (Standards) that are based on consistent concepts;

(b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and

(c) assist all parties to understand and interpret the Standards.

- The Conceptual Framework is not a Standard. Nothing in the Conceptual Framework overrides any Standard or any requirement in a Standard.
- Standards thus override the CF.

The Objective of General Purpose Financial Reports

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is <u>useful</u> to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

THE MISSION OF THE CF IS TO ASSIST THE DEVELOPMENT OF ACCOUNTING STANDARDS (AS) THAT:- SP1.5

(a) contribute to transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.

(b) strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Standards based on the Conceptual Framework provide information needed to hold management to account. As a source of globally comparable information, those Standards are also of vital importance to regulators around the world.

(c) contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language derived from Standards based on the Conceptual Framework lowers the cost of capital and reduces international reporting costs

WHY DO WE NEED A CONCEPTUAL FRAMEWORK?

Accounting has a lot of grey areas, a set of guidelines aides in making better decisions.

LIST THE GENERAL PURPOSE FINANCIAL REPORTS (GPFP'S).

Balance Sheet

Income Statement

Statement of Changes in Equity

Statement of Cash Flows

Qualitative Characteristics of Useful Information

Fundamental qualitative characteristics

- Relevance
- Materiality
- Faithful representation

Enhancing qualitative characteristics

- Comparability
- Verifiability
- Timeliness
- Understandability

RELEVANCE

- Relevant financial information is capable of making a difference in the decisions made by users.
- Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.
- Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.
- Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes.
- Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

MATERIALITY

- Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.