

ACC3100

ADVANCED FINANCIAL ACCOUNTING

Semester 2, 2019

* These notes are to be used for reference only. It is advised that they not be relied solely for revision in ACC3100. In the case of any discrepancies, always follow your lecturer or chief examiner, as there may be change in the Framework/Standards/Law.

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* These are linked, so feel free to skip to a section!

Topic 1 - The Australian Accounting Environment

Financial accounting is a process involving the collection and processing of financial information to meet the decision-making needs of external parties (opposite to management accounting)

It is heavily regulated, and continually evolving and changing.

General Purpose/Special Purpose Financial Statements

- General: Complies with Framework and Standards; to meet the information needs common to users (different people have different purpose) who are unable to command the preparation of reports tailored to satisfy all their information needs (ie. Balance sheet/Income Statement)
- Special: Designed to meet the needs of a specific group to satisfy a specific purpose (ie. Budget, Projected Cash Flow)

Sources of Financial Reporting Regulation

1. Australian Securities and Investments 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 and financial statement preparation, lodgment and distribution.

Requires preparation of **'true and fair' financial statements...**

- Need to provide a director's declaration that it complies with AASB standards and that it gives a true and fair view by doing so.
- The 4 general purpose financial statements- statement of financial performance & comprehensive income; financial position; changes of owner's equity; cash flows.
- Has to be done by directors of public companies, **large proprietary companies** (if it meets any 2 of the following criteria: assets > 25m; income > 50m; number of employees > 100), organisations with securities listed on the ASX, and some small proprietary companies (when they are a reporting entity, will need to)

2. Australian Accounting Standards Board (AASB)

Accounting standards are made and issued by the AASB with power under the CA s 334. These standards have a force of law (unlike the conceptual framework)

Purpose is to provide information to report users for making and reviewing resource allocation decisions to ensure high quality financial reporting. It is also to regulate the way in which financial transactions are accounted for and how they are presented/disclosed-financial reporting.

These standards are **principles-based** (based on professional judgement), like the international ones, as opposed to **rules-based** (which are detailed rules to follow)

- Adv (Principle): simpler, board guidelines, allow for professional judgement
- DisAdv (Principle): may select treatments that don't reflect economic substance, comparability reduced, allow for creative accounting (choosing policy, timing of transactions, even disclosure)

- Adv (Rules): easier to compare statements, and easier for compliance- less interpretation and subjectivity
- DisAdv (Rules): complex, incomplete and obsolete, manipulation

Other functions (under *ASIC Act* s 227) are to develop a conceptual framework, making accounting standards under *CA* s 334 also for non-government, public companies etc. ones not covered by the *Corporations Act* which only covers private companies.

In creating standards, there may be conflicts of interest, and lobbying is used as a mechanism through which regulators are informed about policy issues (ie. G100, ASX, major banks, large accounting firms)

3. Financial Reporting Council (FRC)

AASB reports to the FRC, which oversees activities of AASB (ie. appoints members of the AASB, approves and monitors AASB and gives directions/advise on general policy matters) but does not have power to amend, approve or reject AASB standards (that power is with Parliament)

Decided that Australia would adopt international accounting standards from 2005. This gives benefits of international comparability, reduced cost of capital, reduced conflicting reporting requirements; but causes issues with various methods of implementation, high costs/complexities.

4. Australian Securities Exchange (ASX)

When companies are listed on the ASX, they have to follow their listing rules. One of them is continuous disclosure (3.1), where if an entity becomes aware of any information concerning it that a reasonable person would expect to have a **material effect** (greater than 10% is material unless the nature of the transaction is not; but less than 5% but nature of transaction is it is material) on the price or value of the entity's securities, the entity must immediately disclose that information to the ASX. But there are exceptions: it would be a breach of law, it is a trade secret, or concerns an incomplete proposal or negotiation.

Note also ASX Corporate Governance Council released a document called *Corporate Governance Principles and Recommendations*- where ASX-listed companies have to disclose in their annual reports the extent to which they have followed the guidelines during the reporting period.

Advantages of regulation: increase efficiency in allocating capital, cheaper production, public confidence, standardization.

Disadvantages of regulation: difficult to achieve efficiency and equity, hard to reverse, communication is restricted, lobbying.