FSTM

Conceptual and Regulatory Framework

This is assessed in Task 3 of the exam (10 marks).

There are 2 classes of limited liability companies

- Private
- Public

1. Limited liability

Separate legal entity- means that shareholders are liable to the amount of their original investment.

1.1. Advantages

- Easier to raise finance
- The company looks bigger
- Easier to transfer shares and hence ownership
- Lower tax rates

1.2. Disadvantages

- Require an audit
- Must prepare accounts in accordance with IFRS and IAS
- Must publish accounts
- Comply with Companies Act 2006

2. Accounting Standards.

Accounting standards are statements of how transactions and events should be reflected in the financial statements to present a true and fair view.

- UK accounting standards issued by the Accounting Standards Board (ASB). Known as Financial Reporting Standards (FRSs) or Statements of Standard Accounting Practice (SSAPs)
- International Accounting Standards (IASs) or International Financial Reporting Standards (IFRSs)(post 2001) issued by the International Accounting Standards Board (IASB).

3. International Accounting Standards Board (IASB) P40-42

http://www.ifrs.org/The-organisation/Documents/2015/Who-We-Are-January-2015.pdf

IASB Objectives are:

- To develop a set of globally accepted financial reporting standards
- To promote the use of these standards
- To account for the needs of a range of entities in different economies
- To increase adoption of IFRSs by other countries.

4. Framework

The IASB produced the CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING upon which all IASs are based.

It sets out principles and concepts that the IASB believe underpin the preparation and presentation of financial statements.

4.1. The purposes of the framework are

- Assist in development of future IFRSs
- Assist in promoting harmonisation of regulations, accounting standards and procedures
- Assist national standard setters in developing their own standards
- Assist preparers of financial statements in applying IFRSs and topics not covered.
- Assist auditors in assessing compliance with IFRSs
- Assist users of financial statements in interpreting information
- Provide information about the approach of the IASB to interested parties.

4.2. Financial Statements required are:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Cash Flow
- Statement of Changes in Equity
- Notes to the accounts.

4.3. The framework deals with:

- The objectives of financial reporting (see below)
- Qualitative characteristics of financial information (see below)
- Definition, recognition and measurement of the elements in the financial statements (see below)

4.4. Objective of financial statements is:

The objective of general purpose financial reporting is 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.
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4.5. The users of Financial Statements are in 2 groups:

- Existing and Potential investors
- Existing and potential lenders and other creditors

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4.6. The Elements:

- Assets: are a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity.
- Liabilities: are a present obligation of the entity arising from past events, settlement of which will result in an outflow of economic benefit.
- Equity: owners' residual interest in assets of the business after deducting liabilities.

Equity = Assets - Liabilities

- Income is the increase in economic benefit during the accounting period arising from income other than contributions from owners.
- Expenses are the decrease in equity in the business other than distributions to owners.

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4.7. Recognition:

items should be recognised if:

PROBABLE: probable that future economic benefit will flow to the entity.

RELIABLE MEASUREMENT: costs and revenues can be measured reliably.

Refer to IAS 16, 37, 38

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4.8. Underlying assumptions

Accruals

Going Concern

4.9. Qualitative characteristics of useful financial information

- Fundamental qualitative characteristics of useful financial information
  - Relevance (incorporates materiality)
  - Faithful representation (incorporates substance over form)

- Enhancing qualitative characteristics of useful financial information

Comparable

Verifiable

Timely

Understandable

4.10. Measurement bases

The Framework describes some measurement bases

Historic cost

Current cost

Realisable value

Present value