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The Reporting Entity Concept in Australia:

An Exploration of the Impact and Comparison to International Standards

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Abstract

This thesis discusses the reporting entity concept as the basis of the differential reporting method in Australia. The aim of this research is to discuss in depth the issues surrounding the reporting entity concept and the impact of these on financial reporting, practitioners and users. To ensure a thorough analysis there are a number of key aspects to this exploration.

Firstly, the background of the reporting entity concept and the reasoning behind its initial introduction is introduced. As the basis of differential reporting, entities are required to self-classify as “reporting entities” or “non-reporting entities”. Those that classify as “reporting entities” are required to present General Purpose Financial Reports (GPFRs). “Non-reporting entities” are not required to report financial information this way and can report Special Purpose Financial Reports (SPFRs) which have significantly lower reporting requirements than GPFRs. The debate over the application of the reporting entity concept is introduced, as is the theoretical basis of the concept the principles based reporting method.

Secondly, the evolution of the legislation behind the reporting entity concept was introduced to understand how the legislation has developed. The Australian Accounting Standards Board and the Australian Securities and Investments Commission are the related governing bodies which are discussed. The key legislation of the reporting entity concept are the four Statement of Accounting Concepts. These concepts were added on to and amended through regulation such as APS 1 Conformity with Statements of Accounting Concepts and Accounting Standards and AASB 1053 Application of Tiers of Australian Accounting Standards.

The main issues that have been presented by practitioners and academics are subjectivity, quality, compliance, and the impact on users. These have been presented as the most significant issues due to the research that states these have the largest impact on financial reporting and overall usefulness. The objective of financial reporting is to meet users and stakeholders needs to aid their economic decision making. These issues have been outlined to detrimentally impact upon this ability. The research surrounding these issues will be presented and explored in depth to better understand how the reporting entity is effecting financial reporting

The comparison of the reporting entity concept to international standards such as the FASB and the IFRS/IASB indicates the impact of financial reporting in international economies. This gives insight into how international practitioners and governing bodies react to criticism, concern and issues within their financial reporting methods. It also sheds light on the use of the rules based approach to differential reporting such as in the US with the FASB.

Finally, the implications of this research and comparison is therefore considered and recommendations for future regulation and policy are presented. The current projects undertaken by the AASB, the relevant standard setting body, are also presented to explore the current direction of research and policy. Furthermore, the necessary future research to provide a basis for the update in policy is outlined.

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Chapter 1: Introduction

1.1 The Reporting Entity Concept

The reporting entity concept in Australia has been widely debated over the past two decades since the standard was brought in in 1990 (Peirson, 1992). As the basis of differential reporting in Australia, it has created concern from academics and industry professionals alike.

The foundation of this concept is that "reporting entities" are required to produce full International Financial Reporting Standard (IFRS) compliant reports or otherwise known as "general purpose" financial reports (GPFR) (Carey, Potter & Tanewski, 2014). However, those entities not considered reporting entities are not required to present the full GPFR, and are able to produce shorter and less complex "special purpose" financial reports (SPFR) (Carey, Potter & Tanewski, 2014). Therefore, greater levels of disclosure are required from entities that are more economically, socially and politically significant (Potter, 2013).

The debate of the reporting entity concept does not actually surround the intuition behind the concept, but in the implementation of its differential reporting. The application of the reporting entity concept requires entities to disclose more or less depending on characteristics (Potter, 2013). There is an obvious obligation for entities to comply with the appropriate standards to meet the needs of stakeholders, however financial reporting is also very costly and timely (Potter, 2013). There is also a level of subjectivity to the differential reporting standard, which presents the question as to whether entities are reporting correctly to ensure that the information that is presented is useful to its users and decision makers (Potter, 2013, Carey, Potter, Tanewski, 2014). The issue surrounds the

discrepancies in determining a reporting entity and a non-reporting entity and the subsequent impact on reported financial statements.

As indicated in the continued growth of research in this area, this study is currently significant. This is in consideration of the substantial debate surrounding the implications of utilising a principles based approach to the reporting entity concept and the potential consequences. This topic has been debated for over two decades as evidenced by recent works such as Carey, Potter and Tanewski (2014a), Potter, Ravlic and Wright (2013) and Meade (2012) back to Holmes, Kent and Downey (1991) and Picker (1992). This study is motivated by this continued debate which aims to further understand the impact of this financial reporting standard on small and medium sized enterprises (Schipper, 2010), the quality of reporting (Psaros, 2007) and towards a development of a common conceptual framework with a clear guideline for differential reporting by entities (Carey, Potter & Tanewski, 2014a, Pounder, 2010). These issues have also been addressed by the International Accounting Standards Board (IASB), which in conjunction with the Financial Accounting Standards Board (FASB) issued an Exposure Draft on the differential reporting debate, the concept of the reporting entity and the principles related (Carey, Potter & Tanewski, 2014a).

Furthermore, with the European Union's decision to move to IFRS in 2005 the debate has been reignited and comparison with the European Union's new direction could shed light on the issue in current times. As shown by numerous studies, the switch to the IFRS accounting regime has created some concerns and resistance to the transition (Jarvis & Collis, 2003, Chand, Patel & White, 2015, Evans et al 2011, Daske & Gebhardt, 2006). These concerns surround the quality of financial statements as well as other implications from the switch

(Daske & Gebhardt, 2006). This therefore indicates the necessity for further discussion of the implications of the differential reporting debate in Australia and how this can be compared to other standards internationally.

Also, the potential discrepancies in reporting that have been previously discussed have not been rectified fully, and therefore the impact of these should be continued to be assessed until further clarification can be reached.

Previous research in this area has explored the consequences of the reporting entity concept in Australia. There are two key recent studies that will be explored in depth as they are important in this particular research area. The first is by Carey, Potter and Tanewski (2014a, 2014b) who have recently studied the reporting entity concept in Australia, through analysing 1,546 companies which lodged financial statements and is a key body of research in the field. Another study to be thoroughly considered is by Walker (2007) due to the fact it also brings into the exploration the U.S differential reporting concept. Walker conducts a very critical analysis of the reporting entity concept in Australia and outlines “failures” in the application of this method. There has been considerable debate on the reporting entity concept which has led to many papers presenting varying opinions as to the way forward, the strength of the implications and even the issue itself.

In consideration of previous research there are a number of areas that will be discussed further in this study.

Firstly, a key issue is the subjectivity of the reporting entity concept, and the judgement involved in determining an entities status as either a reporting entity or a non-reporting entity. This therefore involves issues in the decision making by individuals. This has been the focus, or at least covered in almost all previous research in this area (Carey, Potter &

Tanewski, 2014a, Potter, Ravlic & Wright, 2013, Psaros, 2007, Picker, 1992). These researchers state that there is a subjectivity issue in the basis of the reporting entity concept. One cause of this concern is in to the surprising number of entities reporting SPFRs, when it could be considered more accurate to report GPFRs as a "reporting entity". Alternatively, research by Psaros (2007) and Psaros and Trotman (2004) indicates that there is no significant cause for concern due to their findings as practitioners act objectively and genuinely. Thus, the discussion of the issue is necessary to explore the impact of the reporting entity and its subjectivity.

Secondly, the quality of the financial reports may be affected by the use of differential reporting methods as discussed in a number of the previous studies (Loftus, 2003, Walker, 2007, Challen & Jeffery, 2005). The basis for this is that entities that report the full GPFRs are producing higher quality reports (Carey, Potter & Tanewski, 2014a). Therefore, if there are discrepancies in reporting, the quality is not as high as required by governmental bodies. Also included in this is the ability to compare financial reports internationally. This is a key aspect of global business and the method of differential reporting may impact this (Walker, 2007, CPA Australia, 2017a, Maines, 2007).

Thirdly, the level of compliance by practitioners is of concern as well. Previous research in this area has shown conflicting results on the level of compliance. Many academics have shown concern over the current compliance level of practitioners under the reporting entity concept. This is indicated by Walker (2007) whose research presents that there are minimal incentives for complete compliance for all preparers of financial statements. This is also indicated in Picker's (1992) work which outlines the issues with the reporting entity concept and the burden of compliance.

Finally, as a result of these issues there may be an impact on the quality of information provided to stakeholders and users. This has been previously explored in a wide variety of previous research as it is a key concern of the debate (Carey, Potter & Tanewski, 2014a, Potter, 2013, Challen & Jeffery, 2005). One of the main objectives of financial reporting in Australia is to communicate relevant, reliable and comparable information about entities to stakeholders. If this is impacted due to the quality and subjectivity of the reporting it could dramatically affect decision making capabilities by users (Challen & Jeffery, 2005).

Building on this analysis will be an exploration of the relevant international financial standards. This will increase insight into the global impact of the use of differential reporting. Other key research in this area has also focused on other countries who also utilise a differential reporting method such as United Kingdom (Collis, 2003), Estonia (Talpas, 2016) and United States of America (Schipper, 2003).

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are frequently compared (Grant Thornton, 2013, Benston, Bromwich & Wagenhofer, 2006, van Beest, Braam, Boelens, 2009, Barth, 2008) but the Australian standard and implementation is not regularly presented in comparison to other international standards. This study will focus on the FASB in the United States and the IFRS with particular focus on the European Market.

Furthermore, the research in this area has presented ideas relating to possible modification of the reporting entity concept to remedy some of these problems through further regulation, education or clarification of the concept. From this, further regulation and opportunities for modification and adaption of the reporting entity concepts use in Australia will be discussed. Furthermore, the current projects undertaken by the AASB, the relevant

standard setting body, are also presented to explore the current direction of research and policy. This outline of the potential future research and current policy modifications up for debate will aid future researchers in a positive direction regarding the reporting entity concept.

Chapter 2: Background

2.1 Background

As a major building block of the conceptual framework for financial reporting within Australia, the reporting entity concept will be explored to fully understand the underlying objectives and aspects.

The reporting entity concept was introduced in 1990 by the Australian Society of Certified Practising Accountants, The Institute of Chartered Accountants in Australia, and the Australian Standards Review Board (ASRB) (Peirson, 1992). The objective of this introduction of the reporting entity concept in Australia, was to provide a way to avoid the burden imposed by financial reporting overload (Peirson, 1992, Carey, Potter & Tanewski, 2014b, Brailsford & Ramsey, 1993). The concept relies on entities self-determining whether they are a reporting entity or a non-reporting entity (Carey, Potter & Tanewski, 2014a).

In Australia, four Statements of Accounting Concepts (SACs) have been issued and together provide a set of criteria for addressing stakeholders and user's information needs (Loftus, 2003). Specifically, the conceptual framework was introduced through the Statement of Accounting Concept 1 "*SAC 1 Definition of the Reporting Entity*" (Peirson, 1992). These Statements are the basis for the application for the reporting entity concept in Australia and will explored further in later chapters. They describe the concepts which are to be followed during the preparation of GPFRs, and only entities which are described as "reporting entities" are to comply with all SACs and subsequent related standards (Brailsford & Ramsay, 1993). They have been amended since 1990 and additional relevant legislation has been created and applied.

Previous research in this area has indicated concern toward the implementation of the broad principles of the reporting entity concept (Walker, 2007, Carey, Potter & Tanewski, 2014a). For example, entities have the responsibility to report accurately to decision makers, however, this disclosure of further information can be costly and timely. Therefore, entities are facing complex incentives in determining the format and the content within their financial statement reporting (Carey, Potter & Tanewski, 2014a, Walker, 2007).

In response to these concerns, Exposure Draft ED 192- *Revised Differential Reporting Framework* was released in February 2010 (Carey, Potter & Tanewski, 2014b). This exposure draft proposed a revised reporting framework and following feedback the AASB then issued AASB 1053- *Application of Tiers of Australian Accounting Standards*. This introduced a second tier of reporting requirements, which involved reduced disclosures for some of the entities, who were at that time, producing GPFRs (Carey, Potter & Tanewski, 2014b). It is evident with the introduction of AASB 1053 that there has been a focus shift and it could be seen that certain issues are not as of high significance as they once were. However, the actual basis of the differential reporting in Australia is still the reporting entity concept (Carey, Potter & Tanewski, 2014b). Due to the contrasting views on the reporting entity concept it was agreed to defer the decision to withdraw it. Which therefore shows that the introduction of this standard did not directly address the reporting entity issue (Carey, Potter & Tanewski, 2014a).

Furthermore, from 2005, all Australian entities that were preparing financial statements under *Corporations Act 2001,* were required to follow the recognition and measurement requirements of the IFRS (Walker, 2007).

Concern, on a number of different aspects of the reporting entity concept has continued, even after the attempted clarification of the framework. The aspects of this concern will be explored deeply throughout later chapters.

2.2 Differential Reporting

Differential reporting is the idea that some entities should be allowed to avoid specific requirements of certain accounting standards whilst preparing their financial statements (Holmes, Kent & Downey, 1991). This therefore implies that these entities are legally and professionally given approval to adhere to minimised or modified reporting requirements (Holmes, Kent & Downey, 1991). These categories can include, for example, large or small entities, and private or public.

The initial reason as to the introduction of differential reporting was due to accounting standards overload, which has been widely recognised and discussed internationally (Brailsford & Ramsay, 1993). Accounting standards overload is the claim that there is an excessive number of accounting standards that are unnecessarily complex. This can result in the costs of producing and reporting the required information to users outweighing the benefits (McCahey & Ramsey, 1989). Therefore the most frequently used approach by regulators worldwide is to adopt a differential reporting method. This is indicated in the principles based differential reporting method that is frequently applied by IFRS countries.

The central concepts of the differential reporting method have been addressed internationally with the U.S's Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issuing a joint Exposure Draft (ED) on the concept of the reporting entity and related principles in March 2010 (FASB/IASB, 2010, Carey, Potter & Tanewski, 2014a). This is also indicated as the reporting entity concept has occurred on the agenda of the Australian Accounting Standard Board numerous times (AASB) (AASB, 2010a, 2010b, 2010c, 2010d). It is noted that in the continued discussion of

differential reporting that accounting standard setters globally have implemented varying approaches (Hoogervorst, 2012)

2.3 Principles-Based versus Rules-Based Differential Reporting

Financial standards are all generally based on principles, however they can differ considerably in the extent to which they outline rules for preparation of financial reports (Maines, 2007). Therefore, the implementation of the differential reporting method can be conducted in two ways.

First, is a rules based approach, in which there is a list of specific rules to which compliance is required when preparing financial statements. The US tends to operate on this rules based system, in which the expected standards are very clear and detailed. This has an advantage of clear requirements which can be understood easily and therefore removes errors associated with judgement (CPA Australia, 2017a).

The second of which, is a principles based approach, in which there is a set of objectives that are outlined to ensure quality reporting. Although there are still some key aspects that are required, overall it is a set of fundamental guidelines, which are not always applicable to every situation (Ozlanski, 2013, Bennet, Bradbury & Prangnell, 2006). This system requires practitioners to utilise judgement in order to effectively implement the required financial standards (CPA Australia, 2017a, Maines, 2007).

An excellent example of the difference between the two is outlined by CPA Australia (2017a):

> *"An extreme rules-based approach would set out precise requirements for each type of asset, for example:*

> *'Plant and equipment should be depreciated on the straight line basis over a period not exceeding four years.'*
>
> *A principles based approach would contain more general requirements, for example:*
>
> *'The depreciable amount of an asset shall be allocated on a systematic basis over its useful life…The depreciation method used shall reflect the pattern in which the assets future economic benefits are expected to be consumed by the entity'"* (Page 49).

The depiction of a financial reporting method as specifically principles or rules based would be misinformed, as it is common that all reporting standards have some form of rules and some form of principles (Maines, 2007). Many standard setting bodies have adopted standards in which both principles based and rules based approaches are conducted (CPA Australia, 2017a). However, it can be seen that the Australian reporting entity concept tends to utilise a more principles based method regarding implementation (Walker, 2007, CPA Australia, 2017a).

As previously mentioned, prior research in this area has indicated a significant debate, as to the benefits and consequences of utilising either of these particular methods. This is indicated in Walker (2007) who is against the principles based approach and states that the reporting entity concept is a clear case of the failure of principles based regulation. His research indicates that Australian accounting professionals tend to adopt a variety of different interpretations in the application of the principles included in the reporting entity concept (Walker, 2007, Carey, Potter & Tanewski, 2014a). Further issue with the reporting entity concept is clear in Carey, Potter and Tanewski (2014a & 2014b), Peirson (1992), Holmes, Kent and Downey (1991), and Brailsford and Ramsay (1993).

The basis of this argument against reporting entity concept is heavily contested by a number of other academics including Hoffman and Patton (2002) who concluded from their research that there was no significant difference in reporting outcomes from a principles-based approach to a rules-based approach. This is supported by Psaros and Trotman (2004), who found that there was more aggressive reporting occurring under a rules-based approach than a principles-based approach. The argument that commonly occurs is that it is an arguably more flexible system that can therefore continue to adapt to changing business environments (CPA Australia, 2017a). Furthermore, due to the increased focus on the conceptual framework within the principles based approach, it can be argued that users understanding of the financial reporting can be enhanced (Maines, 2007).

This is just a brief insight in to the significantly large debate that has been occurring over the past few decades within Australia. The understanding of the underlying aspects of the reporting entity concept is necessary to fully grasp the implications of this debate. The study of the principles versus rules based approach is not only occurring within Australia, but also internationally as this issue affects standard setting boards worldwide.

Chapter 3: Governing Bodies and the Current Legislature

This chapter will explore the governing bodies and legislature related to the reporting entity concept and its application in Australia. This exploration is important to understand the development of the reporting entity concept and financial reporting systems in Australia.

3.1 Governing Bodies

3.1.1 Australian Accounting Standards Board

The Australian Accounting Standards Board (AASB) is an Australian Government Agency aiming to "*develop, issue and maintain principle-based external reporting standards for Australia that meet user needs, maintain investor confidence in the Australian economy and contribute to the development of international external reporting standards*" (AASB, 2017a). The AASB's functions and powers are set out in the *Australian Securities and Investments Commission Act 2001* (AASB, 2017a). The AASB utilises a conceptual framework to develop and evaluate accounting standards (AASB, 2017a).

The key priorities outlined in the 2017-2018 portfolio budget include:

- "*Use International Financial Reporting Standards (IFRS)… as a starting point for developing, issuing and maintaining Australian Accounting Standards…*
- *Take a leadership role in shaping the Australian Reporting Framework, including improving the differential reporting framework… and assisting regulators to*

objectively identify entities that should prepare and lodge general purpose financial reports" (AASB, 2017a)

Australia has issued International Financial Reporting Standards (IFRS) equivalent standards, in other words, Australia adopts the content of IFRS with minimal or minor changes to adapt to the Australian legislative environment. Therefore the audit report of an organisations financial statements outlines they have been prepared in compliance with IFRS (CPA Australia, 2017a).

As indicated, the differential reporting issue is still of significant concern to the AASB and is a key priority of the Board in recent times.

3.1.2 Australian Securities and Investments Commission

The Australian Securities and Investments Commission (ASIC) is an independent Australian Government body that acts as Australia's corporate regulator (ASIC, 2017). It is Australia's corporate, markets and financial services regulator, and like the AASB they are set up under the *Australian Securities and Investments Commission Act 2001* (ASIC, 2017)

As stated on the ASIC website the role of this governing body is to:

- *"maintain, facilitate and improve the performance of the financial system and entities in it*
- *promote confident and informed participation by investors and consumers in the financial system*
- *administer the law effectively and with minimal procedural requirements*
- *enforce and give effect to the law*
- *receive, process and store, efficiently and quickly, information that is given to us*

- *Make information about companies and other bodies available to the public as soon as practicable." (ASIC, 2017)*

This is achieved under the Detect → Understand → Achieve approach utilising tools such as education, guidance, surveillance, enforcement and policy advice which is laid out by ASIC in their corporate plan 2016-2020 (ASIC, 2016).

3.2 Legislature

3.2.1 Statements of Accounting Concepts (SACs)

As previously stated, four Statements of Accounting Concepts (SACs) have been issued in Australia. They provide the basic set of ideals and general criteria that aim to service user's information needs (Loftus, 2003). Despite the fact that SAC 1 is the most relevant in this particular discussion, SAC 2, 3 and 4 will also briefly be discussed to further increase understanding of the basis of financial reporting in Australia.

3.2.1.1: SAC 1 Definition of the Reporting Entity (See Appendix 1)

The purpose of the first Statement of Accounting Concepts is to define the concepts related to a reporting entity (AASB, 1990a). Furthermore, it aims to establish and outline the required financial reporting benchmarks for minimum quality for entities (AASB, 1990a).

Broad principles based criteria are described in SAC 1 to assist in identifying reporting entities (Carey, Potter & Tanewski, 2014a). As shown in SAC 1

> "T*he greater the separation of management from economic interest, and the more economically, politically and financially significant an entity, the more likely there will be dependant users relying on the financial statements as their primary information source, suggesting classification as a reporting entity"* (Carey, Potter & Tanewski, 2014a).

Furthermore, SAC 1 also outlines categories of entities that are generally reporting entities including: listed corporation, borrowing corporation, and companies that are not subsidiaries of a holding companies incorporated in Australia (Loftus, 2003). This may be an

application of the definition of the reporting entity. SAC 1 does acknowledge that there is judgement involved in applying this reporting entity concept and states a number of indicative factors that may assist practitioners in determining whether there are dependant users of their GPFRs (Carey, Potter & Tanewski, 2014b)

1. ***"Separation of management from economic interest*** *– According to SAC 1 (paragraph 20), entities that demonstrate a greater separation of ownership and management are more likely to have users who are dependent on GPFSs;*

2. ***Economic or political importance/influence*** *– According to SAC 1 (paragraph 21), reporting entities are also more likely to have a greater impact on the welfare of external parties. Examples of such entities include organisations with dominant positions in their respective market place, employer/employee associations and public sector entities that have regulatory power; and*

3. ***Financial characteristics*** *– SAC 1 (paragraph 22) also identifies financial characteristics such as size (e.g., value of sales or assets, or number of employees or customers) and the entity's relative level of indebtedness to external parties. "* (Carey, Potter & Tanewski, 2014b, AASB, 1990a).

SAC 1 emphasizes the existence of external users who may be dependent on the financial reports of entities for their decision making (Brailsford & Ramsey, 1993). However, the criteria remain as an indication only. Therefore the decision remains generally "principles based" (Carey, Potter & Tanewski, 2014a, Walker, 2007).

3.2.1.2 SAC 2 Objective of General Purpose Financial Reporting

SAC 2 outlines two main functions of general purpose financial reports:

"*a) to present information useful to users for making and evaluating decisions about the allocation of scarce resources.*

*b) to provide a mechanism to enable managers and governing bodies to discharge their accountability (*Loftus, 2003)

The purpose of this Statement is to outline the general objectives of public and private sectors in their financial reporting. The statement contains no presentation of the necessary qualities of information to meet these objectives (AASB, 1990b).

3.2.1.3 SAC 3 Qualitative Characteristics of Financial Information

SAC 3 states the qualitative characteristics of the information that should be contained in a general purpose financial report (Loftus, 2003). The aim of this Statement is to "*provide assistance when choices have to be made between reporting policies… and be indicative of the qualities that users can expect of the financial information provided to them*." (AASB, 1990c). SAC 3 outlines the definitions of: comparability, materiality test, relevance, reliability and understandability. It also states that relevance and reliability are the key qualitative characteristics in which financial information should possess for general purpose financial reporting, however it does not rank one above the other.

Reliability and relevance are defined as:

"***Relevance*****:** *means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by: a) helping them form predictions about the outcomes of past, present or future events and/or b) confirming*

*or correcting their past evaluations; and which enables users to assess the rendering of accountability by preparers" (*SAC3, 1990c*)*

***"Reliability:** means that quality of financial information which exists when that information can be depended upon to represent faithfully and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent" (*AASB, 1990c)

3.2.1.4 SAC 4 Definition and Recognition of the Elements of Financial Statements

This statement outlines the definitions for the elements of financial statements, also specifying necessary criteria to meet the objective of general purpose financial reporting, which were set out in SAC 2 (AASB 1990d). The elements of financial statements that are defined identify the essential characteristics and the recognition criteria of these elements (AASB, 1990d).

3.2.2 APS 1- Conformity with Statements of Accounting Concepts and Accounting Standards

The APS 1 (1995) objective is to outline the responsibilities of practitioners regarding the compliance of financial reporting standards (paragraph 3). It aimed to increase harmonisation between regulations, accounting standards and procedures for the presentation of financial reports (APS, 1995). Also, to assist auditors in their understanding of what statements conform to Australian accounting standards.

Under APS 1 some guidance towards what was to be always classified as 'reporting entities' are:

- *"Companies whose securities are publicly listed.*
- *Government controlled business undertakings*
- *Federal, State and Territorial Governments and*
- *Local Governments" (*APS1, 1995)

Also in the APS is a guideline towards companies that do not generally exhibit the qualities of a reporting entity, and therefore would not be required to prepare general purpose financial reports:

- "*Exempt proprietary companies*
- *Family trusts*
- *Partnerships*
- *Sole traders*
- *Wholly owned subsidiaries of Australian reporting entities" (APS, 1995).*

3.2.3 Invitation to comment (ITC) 12- Request for Comment on a Proposed Revised Differential Reporting Regime for Australia

ITC 12 was released in May 2012 for the AASB sought feedback on the original proposals for the revised framework outlined in the ITC (Potter, Ravlic & Wright, 2013). Under this proposed framework, application of standards would not depend on whether they were "reporting entities" or not but based on "public accountability" (Potter, Ravlic & Wright,

2013). This was a very significant change to the differential reporting standards currently in use. Size thresholds were proposed for profit private, public sector and non-for-profit private entities:

"For-profit entities:

- *Consolidated Revenue for the financial year of the entity and the entities it controls (if any) $500m; and*
- *Consolidated Assets at financial year end of the entity and the entities it controls (if any) $250m.*

Not-for-profit private sector entities:

- *Consolidated Revenue for the financial year of the entity and the entities it controls (if any) $25m; and*
- *Consolidated Assets at the end of the financial year of the entity and the entities it controls (if any) $12.5 m.*

Public sector entities:

- *Consolidated Revenue for the financial year of the entity and the entities it controls (if any) $25m; and*
- *Consolidated Assets at the end of the financial year of the entity and the entities it controls (if any) $12.5 m." (Potter, Ravlic & Wright, 2013).*

ITC 12 was presented as a solution to the debate of differential reporting and accounting overload. It aimed to lower the reporting requirements for certain entities to reduce reporting costs under the burden of full IFRS. AASB received considerable feedback on ITC

12 and subsequently further discussions and proposals were established based on these comments.

3.2.4 Exposure Draft (ED) 192- Revised Differential Reporting Framework

The result of the deliberations of ITC 12 were shown in 2010. In ED 192 AASB moved away from the reporting entity concept to a focus on a differential reporting solution around the basis of the reports rather than the entity that is reporting them (Potter, Ravlic & Wright, 2013, Carey, Potter & Tanewski, 2014). This exposure draft proposed two tiers of reporting requirements for preparing GPFRs:

"Tier 1: Full IFRS as adopted in Australia; and

Tier 2: A reduced disclosure regime" (AASB, 2010)

The basis of it moves towards an emphasis on public accountability. AASB also modified the type of entities that were required to produce GPFRS, therefore removing the burden of reporting for certain entities (Potter, Ravlic & Wright, 2013).

3.2.5 AASB 1053- Application of Tiers of Australian Accounting Standards

Following feedback to both ED 192 and ITC 12 the AASB issued AASB 1053 (Carey, Potter & Tanewski, 2014). It was released in June 2010 and began applicable for annual reporting on or after 1 July 2013. It is incredibly consistent with the basis of the ED 192 that allows non-

publicly accountable entities a lower level of disclosure in the preparation of financial statements (Potter, Ravlic & Wright, 2013).

It utilises the concept of public accountability in changing limits to the reporting framework by introducing a two-tier system (Carey, Potter & Tanewski, 2014, Potter, Ravlic & Wright, 2013).

As stated previously, that tier 1 entities must present financial reports that adhere to full IFRS as adopted in Australia, and tier 2 has reduced disclosure requirements. The application of these tiers are stated below:

"Tier 1 reporting requirements shall apply to the general purpose financial statements of the following types of entities:

a) *for-profit private sector entities that have public accountability; and*
b) *the Australian Government and State, Territory and Local Governments.*

The following types of entities shall, as a minimum, apply Tier 2 reporting requirements in preparing general purpose financial statements:

a) *for-profit private sector entities that do not have public accountability;*
b) *not-for-profit private sector entities; and*
c) *public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.*

These types of entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements." (AASB, 2010).

However, it did not address the reporting entity issue, rather the AASB commissioned researchers to investigate current reporting practices by entities in Australia in an aim to

impact and inform future regulatory policies (Carey, Potter & Tanewski, 2014, Potter, Ravlic & Wright, 2013).

Chapter 4: Implications of the Reporting Entity Concept

There are four key issues that have been outlined within the previous research as concerns for the reporting entity concept in Australia: subjectivity, quality, compliance and the impact on users of reports. These issues have been drawn from the body of research and the subsequent discussion of the reporting entity concept.

The approach in Australia to use the reporting entity concept as the basis for differential reporting is not the main issue for practitioners and academics. It is the method in which this concept is applied. This therefore has led to a number of studies on the topic which will be discussed throughout this chapter. The concern is over whether this application of differential reporting is accurately meeting the primary goal of financial reporting, to provide useful information to aid decision making. From the research the most significant concerns are subjectivity involved in the application, quality of the output, compliance of practitioners and the impact on the users of these reports (Potter, 2013, Carey, Potter & Tanewski, 2014a, 2014b, Potter, Ravlic & Wright, 2013, Loftus, 2003, Picker, 1992, Walker, 2007, Challen & Jeffery, 2005, Brailsford & Ramsey, 1993, Psaros, 2007, Holmes, Kent & Downey, 1991, Pierson, 1991, Meade, 2012).

4.1 Subjectivity

Central to this debate over the reporting entity concept is the level of subjectivity currently involved in the application (Potter, 2013). One of the main issues of subjectivity is due to the differential reporting method that Australia utilises, in which, practitioners can classify their organisation as a reporting entity or a non-reporting entity. This degree of subjectivity in the application of the reporting entity brings to question whether financial reporting through this method is delivering the necessary information at the required standard. The research surrounding this subjectivity will be explored throughout this section to better understand the potential impact it may have.

With the introduction of AASB 1053 there was a shift from a focus on the reporting entity to general purpose financial statements, and to clarify the definition of these statements in Australia. As previously stated, even with the introduction of AASB 1053, the reporting entity concept is still kept today as the basis of differential reporting. Many constituents have stated concern of the use of the reporting entity method as it involves "a high degree of subjectivity and the term is open to differing interpretations" (AASB, 2010). This therefore indicates the uncertainty surrounding the reporting entity concept. However, there was not a consensus that there were issues with the concept and adapting it may impact its effectiveness, these opinions will be explored below.

The legislation of the reporting entity concept does outline the subjectivity of this method. It is particularly stated in SAC 1 as it identifies indicative factors to determine the existence of users who might depend on GPFRs:

1. *"The spread of ownership/membership of the entity"*

2. *The economic or political importance of the entity and the potential for its activities to significantly impact the welfare of external parties*
3. *The financial characteristics of the entity such as size (e.g value of sales or assets or number of employees or customers) and its relative level of indebtedness to external parties*" (AASB, 1990a Carey, Potter & Tanewski, 2014a).

Under this study of subjectivity, Carey, Potter and Tanewski (2014a & 2014b) discuss the issue of why a surprisingly large number of organisations would choose to lodge Special Purpose Financial Reports (SPFRs) when it would be more appropriate to lodge General Purpose Financial Reports (GPFRs). Their research explores whether these choices are made on the basis of the potential costs, sensitivity of disclosures or risk avoidance (Carey, Potter & Tanewski, 2014b). With their study of 1,546 companies between 2008 and 2010 who lodge financial statements with ASIC (see appendix 3) they have concluded that:

"*results indicate that whether an entity classifies itself as a reporting entity is largely driven by factors other than those identified in SAC 1"* (Carey, Potter & Tanewski, 2014a).

In their results, it is shown that many of the large private companies studied were not classifying themselves as "reporting entities" and were reporting SPFRs. Under the Corporations Act 2001 these companies are classified as 'large' and therefore subject to more significant and greater governance and compliance accountabilities. This follows if they fulfil two of the following tests: Trading revenue, total assets and number of employees (Carey, Potter & Tanewski, 2014a). In their research 71% had a trading revenue of more than 25 million. 84.3% had total assets that exceeded 12.5 million and 76.1% have more than 50 employees. Based on their trading revenue, total assets and number of employees it

is difficult to see how many of these companies were not "reporting entities" (Carey, Potter & Tanewski, 2014b).

Further research conducted on this sample by Carey, Potter and Tanewski (2014b) also discusses the basis of the decision-making process of the reporting entity concept. With large proprietary companies, the results propose that the "*lodgements of GPFRs is not dependent on size and creditors, but there is a statistical relationship with the proxy for separation of management from economic interest and total liabilities"* (Carey, Potter & Tanewski, 2014b). With this, around 20% of their sample of large proprietary companies classified themselves as reporting entities. This is also indicated in the statistical analysis on unlisted public companies, which showed that the choices surrounding the lodging of GPFRs was not related to size, nor indebtedness (Carey, Potter & Tanewski, 2014b). All of the types of entities they studied indicated a variation in the application of the reporting entity concept and the decision making surrounding this (See Apendices 2)

This issue, they state, is due to the basis of the reporting entity concept as a principles-based method of differential reporting. Previous research also has shown that

"*there is a variation in the interpretations made by practitioners of principles based regulations and guidelines such as the reporting entity concept, which can result in variation in the reporting practices of companies lodging annual financial statements*" (Carey, Potter & Tanewski, 2014a, 2014b, ASIC, 2005, ICAA, 2004, Walker, 2007).

Overall, their analysis indicates that there were high levels of inconsistency in the application of the reporting entity concept by practitioners (Carey, Potter & Tanewski, 2014a). It is noted that the factors that were outlined in SAC 1 were indicative only and

were not able to explain the decision making of organisations. Which leads to obvious concerns regarding decision making and subjectivity surrounding financial reporting.

Walker (2007) also researches the impact of incentives on decision making for practitioners. They state that there is no incentive to comply fully with the requirements of the reporting entity concept. Walker states that these issues associated with reporting are due to the failure of the principles based approach that the reporting entity concept utilises. They show that the principles based approach relies on auditors to make decisions appropriately. Moreover, there is a possibility that confusion could arise over the interpretation and implications of making reporting decisions.

They conclude from analysing four different case studies that the reporting entity concept has not be appropriately applied as intended by policy makers, which will be explored further in the compliance section (Walker, 2007, Carey, Potter & Tanewski, 2014a).

The effect of the principles based accounting standards are further studied by Psaros in the Australian context. Their study utilises a "*between-subjects design experiment whereby 120 senior accountants from Australian listed companies made three related accounting consolidation judgements based on AASB 1024 Consolidated Accounts*" (Psaros, 2007). AASB 1024 required practitioners to provide consolidation judgements on basis of one entity's capacity to control another entity. The approach that was taken in this study was to assess the similarity of the interpretations placed on the capacity to control by getting accountants convert the phrase to a numeric equivalent (Psaros, 2007).

The basis for this research is surrounding the hypothesis that accountants that are given an incentive to make an aggressive reporting recommendation are more likely to do so than those without an incentive (Psaros, 2007). Psaros cites previous research into incentives and

judgements, and states that previous studies provide evidence that managers and auditors are flexible in making disclosures that are favoured by their incentives (Psaros, 2007)

Results indicated that an incentive did not provide a statistically significant impact on the consolidation recommendation (see appendices 9). This result could be interpreted as that accountants make genuinely objective assessments of accounting standards and are applied consistently (Psaros, 2007). Also found, was that the participating accountants indicated consensus with their numeric assessment of AASB 1024. These results indicate that there is a possibility that principles based accounting standards do not necessarily lead to biased financial reporting (Psaros, 2007). Psaros does state however that this research may be specific to this situation; and that further research should be undertaken because conclusions cannot be drawn. This research indicates that the subjectivity issue is rather complex and further research should be undertaken.

This is further stated by Carey, Potter and Tanewski (2014b) that more research is necessary in this area to figure out the choices made by practitioners to lodge SPFRs over GPFRs. In particular, whether these choices are made "*on the basis of costs to be incurred, the sensitivity of disclosures or risk avoidance"* (Carey, Potter & Tanewski, 2014b)

4.2 Quality

In relation to this issue of subjectivity of the reporting entity concept, the quality of financial reports in Australia are also of concern to practitioners and legislators (Carey, Potter & Tanewski, 2014a, 2014b, Kieso et al, 2013). With higher levels of subjectivity and the general issues surrounding the method of differential reporting, it is clear why the quality of the financial reports are being questioned. There are obvious risks in financial reporting that is not of high quality to organisations and their stakeholders. Quality can be represented by relevance and faithful representation (Kieso et al, 2013).

For accounting information to be relevant it must be able to make a difference in decisions by stakeholders. This information is capable of making this difference when it has either predictive value, confirmatory value, or both (Kieso et al, 2013). Confirmatory value helps users either confirm or deny previous expectations. There is predictive value of financial information if has input to the predictive processes to form stakeholder's expectations about the future (Kieso et al, 2013).

The other fundamental aspect that makes financial information of high quality, is faithful representation. This means that the financial information is reflective of the truth and factual. The characteristics of this are completeness, neutrality and free from error. Further characteristics that enhance the quality of financial information is comparability, verifiability, timeliness, and understandability (Kieso et al, 2013)

These aspects of quality are also previously outlined under the Statement of Accounting Concepts (SAC) 3- *Qualitative Characteristics of Financial Accounting* (AASB, 1990c). They are presented in this statement as relevance and reliability (faithful representation).

This SAC is discussed by Loftus (2003) and outlines how in the application of the SACs in preparation of financial reports, practitioners may have to balance relevance and reliability on certain issues. Due to the principles based nature of the reporting entity concept the choices that are made are key in the reporting of financial information. In some instances this may mean that choices that are made to increase relevance may actually reduce reliability; and highly reliable information may not be relevant to users (Loftus, 2003). SAC 3 also provides no guidance on how best to achieve this balance. Except that for information to be both relevant and reliable the principle of substance over form must be adopted (Loftus, 2003). Further stated in SAC 3 are the quality aspects of comparability and understandability. Preparers are required to be flexible in the balancing of relevance and reliability and choose different trade-offs.

Loftus (2003) discusses how these issues could impact the quality of the financial information presented. For instance, comparability can be dramatically reduced with the introduction of choice in a principles based method (Loftus, 2003). This lack of comparability may be seen between entities as well as in an entity over time, making it difficult to effectively measure performance. Moreover, the disclosure of selected accounting policies is an essential aspect of financial reporting, but may not sufficiently fulfil the understandability aspect of quality financial information. This is due to the fact that for information to be understandable it must also be meaningful. But with certain aspects of accounting standards this condition is not met (Loftus, 2003). This indicates that accounting standards have introduced choice and tolerance into accounting method selection, but at the expense of comparability, understandability, and therefore overall quality (Loftus, 2003).

Chalmers and Godfrey (2000) also research the quality of financial disclosures in Australia, and their research indicates that the quality is less than satisfactory. In particular they study entities disclosure of derivative accounting policies related to the introduction of AASB 1033 "*Presentation and Disclosure of Financial Instruments*". Again, this is based on the lack of clear and complete disclosure standards.

With a sample of 500 large firms Australia-wide they studied 150 sets of available financial data. Results showed that the disclosure requirements of AASB 1033 were too general to accurately convey useful and comparable financial information (Chalmers & Godfrey, 2000). Furthermore, their results show that overall the reported disclosures were brief, vague, and not always easy to find. Therefore effecting the overall consistency, comparability and understandability of financial information. This may just be one specific example of legislation that may not accurately report quality financial information. But it does show that there is considerable concern over the potential quality of financial reporting as a result of choices made by practitioners.

Quality is also studied by Challen and Jeffery (2005) as they state that quality impacts the usefulness of financial information to users. It has been shown that accountability within the public sector differs and is broader than the for-profit sector. The researchers mention that for users to have confidence in financial reports they should be consistent over time and be comparable to other entities (Challen & Jeffery, 2005). Their research indicates that there is a lack of comprehensive and comparable financial information being reported on government activities, as per the requirements of SAC 3. To remedy this low quality reporting they suggest a movement from principles based reporting method to a more

detailed and rules based method to improve guidance and consistency in accounting standards (Challen & Jeffery, 2005).

ASIC has also indicated concern in the past over quality of financial reporting. In Regulatory Guide 85 published by ASIC (2005) they review the statements by accounting professionals who stated concern about current standards of financial reporting. They also identified a number of standards that were not being appropriately applied by a number of organisations, therefore impacting overall quality.

Due to these concerns ASIC and the AASB began research to clarify these issues and ensure that "*financial statements are of the quality that can be relied upon for economic decision making*" (AASB, 2014). The research report that was conducted later in 2014 was completed by Carey, Potter and Tanewski (2014b) and the findings were expected to have future implications and impact on policy for the AASB and other regulators.

This study conducted by Carey, Potter and Tanewski (2014b) utilised a sample of 1,546 of Australian organisations to research the reporting entity concept. The information provided by these organisations are studied to gauge the quality of the SPFRs. This is also used to further understand the quality differences between companies who lodge GPFRs and those lodging SPFRs. The subjectivity issues that are previously stated in Carey, Potter and Tanewski's research are directly related to these quality levels. In their discussion of quality they state "*those entities for which there is a greater demand for financial information for external monitoring of performance and accountability will make different reporting choices and produce higher quality reports*" (Carey, Potter & Tanewski, 2014b). Therefore those entities that classify as "reporting entities" tend to provide higher quality financial information.

Their research shows that companies that are reporting SPFRs provide lower quality accruals in comparison to those companies that lodged GPFRs (Carey, Potter & Tanewski, 2014b). In consideration of the high levels of SPFRs reported in their sample this indicates that there is reason for concern over the level of quality of reports (see appendices 4, 5, 6, 7, 8).

A number of these practitioners state that further research is necessary to confirm the degree to which the quality of financial reports can be affected by the reporting entity concept (Chalmers & Godfrey, 2000, Brailsford &Ramsey, 1993, Carey, Potter & Tanewski, 2014b, Walker, 2007, ASIC, 2005, AASB 2015, Loftus, 2003).

4.3 Compliance

Compliance is another issue which has been researched in depth regarding the reporting entity concept. Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA) are the governing bodies that regulate compliance for financial reporting and auditing for entities under the Corporations Act 2001 (ASIC, 2016). They aim to contribute directly to increase market integrity and investor confidence (ASIC, 2016).

The application of the reporting entity concept is endorsed by the Accounting Professional and Ethical Standard APES 205 *Conformity with Accounting Standards.* As stated in APES 205 organisations regarded as "reporting entities" are required to comply with all SACs and Accounting Standards in producing GPFRs (Carey, Potter & Tanewski, 2014b). APES 205 states that "*Members in Australia shall follow the mandatory requirements of APES 205 when they prepare, present, audit, review or compile Financial Statements"* (APES, 2007). It also outlines that members who are responsible for the preparation or presentation of financial reports should take all reasonable steps to apply the principles and guidance of the Statements of Accounting Concepts and the Framework in their reporting (APES, 2007).

Previous research in this area indicates concern over the level of compliance with the application of the reporting entity concept in Australia.

Research into the area of compliance under the reporting entity concept began shortly after its introduction. An example of this is Picker's work (1992) which discusses the legislation of the reporting entity concept, as well as the "burden of compliance". They discuss the requirement under the Corporations Law to prepare accounts with a "true and fair view". As

stated in APS 1 a true and fair view states that all the SACs and accounting standards must be "*applied consistently in their preparation and presentation"* (Picker, 1992). Which means that all entities which reporting under the Corporations Law must comply fully with all applicable accounting standards.

Picker (1992) states that "*this outcome appears to defeat the purpose of the creation of the reporting entity concept, which was to free small businesses from the burden of compliance with accounting standards*". This however was modified under the AASB 1053 in 2010 which reduced this burden of compliance on certain entities with the introduction of the two-tier system. This research outlines initial concerns on the effect of the reporting entity concept on compliance (Picker, 1992).

In 2005, an internal review was conducted by ASIC into a sample of reports and identified many inconsistent application of the reporting entity concept with the Regulatory Guide 85 (ASIC 2005). It discusses the obligations of practitioners to carefully consider the decision to define an organisation as a reporting entity or non-reporting entity (ASIC, 2005). It was found that several organisations were self-classifying as non-reporting entities when they should have been classified as reporting entities (ASIC, 2005). It was shown that these companies had a significant number of potential users of financial reports including creditors and employees. It is reasonable to expect that they could be dependent on general purpose financial reports (ASIC, 2005).

Furthermore, the reviews revealed that recognition and measurement requirements of the applicable accounting standards were not fully complied with by multiple companies. Examples include: "*relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurement of inventories, and recognition and measurement of*

liabilities relating to employee entitlements" (ASIC, 2005). ASIC reported concerns about the quality and compliance of financial reports. ASIC also stated that it will look closely over these entities claims to be a non-reporting entity.

Walker (2007) also conducted research into the effect of the principles based reporting entity concept in Australia. They explore the extent to which reliance is placed on practitioners to apply the reporting entity concept consistently (Walker, 2007). Their research covers four case studies and how the reporting entity rule has been applied in practice. These case studies are on: Trustees of superannuation funds, operators of residential aged care facilities, manager of registered investment schemes and charities.

As stated by Walker (2007) the success of the principles-based reporting entity concept requires practitioners to comply fully, as well as regulators having the ability to ensure compliance. Furthermore, it also requires that regulators are able to not only monitor levels of compliances, but to enforce action when the rules have been disregarded or ignored.

An example given within the research, is under responsible entities of managed investment schemes. These schemes must prepare financial statements, and the 'responsible entities' of these schemes must be public companies (Walker, 2007). Therefore, these financial statements must comply with certain accounting standards, but they may not be regarded as 'reporting entities'. These responsible entities may not provide all the necessary information for investors to actually make effective decisions about the financial viability of the scheme (Walker, 2007). Instances were shown in which these managed investment schemes have failed due to managers who were unable to provide services after the company disbursed a considerable sum to directors and staff (Walker, 2007). This could

have been avoided with higher level of disclosure through warning the investors earlier and initiating appropriate actions to fix these issues.

Their research indicates that the "*above four examples reflect a failure of accounting professionals to ensure appropriate observance of the reporting entity rule"* (Walker, 2007). These four case studies show the concern about the principles based reporting entity concept as there are very little incentives for practitioners to fully comply and observe all the necessary aspects of financial reporting. This is because the reliance is placed upon these practitioners to ensure this compliance (Walker, 2007). These are very specific examples of the effect of the reporting entity, but it does indicate that there are flaws within the application of the concept.

More recent research of Carey, Potter and Tanewski (2014a) also supports the studies by Walker (2007) and ASIC (2005). Carey, Potter and Tanewski (2014a) reference these previous studies in their research, which discusses the reporting practices of 1,546 Australian companies.

The results of the distribution of entities producing GPFRs and SPFRs shows which organisations are classifying themselves as reporting entities and which are not. Which shows that large private (79.9%), foreign-owned (84.4%) and small private companies (75.8%) lodge SPFRs. Whereas, unlisted public companies (69.7%) and public companies limited by guarantee (66%) produce GPFRS (Carey, Potter & Tanewski, 2014a).

Their research regarding compliance finds that "*approximately one third of public companies prepared SPFRs is somewhat surprising, particularly since public companies, by definition, have potentially dependent users"* (Carey, Potter & Tanewski, 2014a). It is therefore reasonable to expect that under the reporting entity concept we should see a higher

number of firms producing GPFRs than what was observed. Which, they state, supports Walker's opinion that principles based regulations may not create consistent reporting methods by practitioners (Carey, Potter & Tanewski, 2014a). Further findings state that 20.1% of large foreign-owned entities prepare GPFRs, which is surprisingly low, especially given the size of certain companies in their sample.

An anecdote of the diverse application of the reporting entity concept is under an unlisted public iron-ore and copper-gold mining company. It had revenues of almost $2 billion and asset values of around $3 billion for both 2007 and 2008 and self-classified as a non-reporting entity and lodged SPFRs (Carey, Potter & Tanewski, 2014a, 2014b). It is stated by Carey, Potter & Tanewski (2014b) after studying this company that it would be reasonable to assume that they should have been presenting financial statements as a reporting entity.

Their results of the study of the reporting entity concept shows that there should be significant concern over the level of compliance by organisations. This is due to the rate of companies reporting GPFRs is lower than it probably should be.

This previous research shows that compliance issues surrounding reporting entity are of concern to academics, governing bodies and practitioners. Whether that concern is that compliance is not high enough among practitioners as indicated in Walker and ASICs research; or that the burden of compliance is too high and negates the reporting entity concept as shown in Picker's work.

4.4 Impact on Users of Financial Reports

Finally, the impact of these previous issues of subjectivity, quality and compliance all indicate that there should be concern over the possible impact on the users of financial reports. Accounting standards are created to ensure that the needs of stakeholders are met. The users of these financial reports are unable to demand the required information for their economic decision making. Entities with these users, or even with the potential for these users, are "reporting entities", and therefore subject to accounting standards (Carey, Potter & Tanewski, 2014b).

The AASB has stated that there may have previously been some misunderstandings regarding the need to consider both current and potential stakeholders and the full range of users, rather than just a specific category (e.g. shareholders) (Carey, Potter & Tanewski, 2014b). Certain accounting professionals are divided as to whether reporting entities are those that do have dependant users or those in which it is reasonable to expect users may exist. Therefore, AASB indicate they are willing to reconsider the clarity of this guidance for those classifying as reporting entities (Carey, Potter & Tanewski, 2014b).

Comparability is key for users of financial reports, which has been supported by a range of studies that have identified economic benefit from increased comparability (Carey, Potter & Tanewski, 2014b, Botosan, 1997, Bradshaw et al, 2004, Hail et al, 2010). The economic benefit can stem from increased ability for financial analysis and investing, and for better understanding and prediction of economic events. It is unsure from previous research as to whether the needs of these users are being met by those organisations that prepare SPFRs (Carey, Potter & Tanewski, 2014b).

Another important aspect for users of financial reports is transparency as it is fundamental to decision making and effective corporate governance (Carey, Potter & Tanewski, 2014b). Without transparency financial information is unable to be successfully used by stakeholders to monitor performance of entities and their management. There is a greater demand for transparency for entities with multiple shareholders or users, due to the potential for agency conflict (Carey, Potter & Tanewski, 2014b). Agency conflict refers to the potential difference between owners and managers goals, referring to the fact that managers may act in their own self-interest rather than those of the owners (Jensen & Meckling, 1976, Carey, Potter & Tanewski, 2014b).

Timeliness of the information has also been shown to impact the value of the financial information to users. With previous research indicating that there is a significant statistical association between the timeliness of information in financial reports and the quality and relevance (Carey, Potter & Tanewski, 2014b, Ball et al, 2008, Givoly, 1982, Abd-Elsalam & Street, 2007). Furthermore, stronger debt and equity markets and stronger corporate governance have been related with timelier financial reporting. In Australia, companies that are required to submit financial reports are to do so within 4 months of the annual reporting period. Research by Carey, Potter and Tanewski (2014b) indicates that 47% of large proprietary companies reporting GFRSs lodged after 4 months after year end, and 48% reporting SPFRs lodged late.

There is a significant body of research that looks at the impact of the reporting entity concept on users. There is conflicting research on the effect, and then the strength of this effect. For instance, as to whether the impact is significant enough to justify modifying the concept.

Carey, Potter and Tanewski (2014b) in their research look at the potential impact of non-application of recognition and measurement in accordance with Australian accounting standards. As highlighted in RG 85 there was some non-application by companies who lodge SPFRs and the results indicated in their research supports these findings. This, they state, therefore leads to a reduction in the overall quality and transparency of information. Also increases information asymmetry between entities and users of these financial statements (Carey, Potter & Tanewski, 2014b). They question the ability of SPFRs to effectively and efficiently meet the needs of users.

Further discussion of issues surrounding users commissioned by the AASB conducted by Hamidi-Ravari (2014) analysed the role of the reporting entity concept in Australia. They explore the current state of the concept as well as outlining the potential for the future modifications to the regulation. They state that a number of the issues for the reporting entity concept stem from the different interpretations about the relationship between users and financial statements (Hamidi-Ravari, 2014). This is due to the difference between "expectation of the existence of users" compared to just "existence of users", as this can dramatically impact the definition and application of the concept. In SAC 1, AASB 101 and AASB 1053 are very clear about this definition with the "expectation of the existence of users" to determine whether an entity is a reporting entity. They state that further research in this area can indicate if the implementation of AASB 1053 is appropriately meeting the needs of users and increased the consistency of reporting methods (Hamidi-Ravari, 2014).

As previously discussed in the research of Walker (2007) it is also evident that there is cause for concern of the usefulness and reliability of reporting under the application of the reporting entity concept. They look at the impact of the principles based reporting method

that is utilised in Australia on four case studies. Their criticism of the concept is that in theory principles based reporting method is an excellent idea. They want to ensure that practitioners and users are aware and are critical of the possible shortcomings and inconsistences in the Australian regulatory arrangements (Walker, 2007). Through the discussion of their four industry specific case studies they highlight a number of issues and then potential modifications to the policies to remedy these issues. Walker (2007) wants both governing bodies and practitioners to recognise the potential of the approach to improve in both clarity and capacity for application. This would therefore increase overall usefulness and awareness of users of these financial reports.

However more recent discussion has indicated a more positive direction for regulation surrounding financial reporting. A paper by Potter, Ravlic and Wright (2013), indicates this in their discussion of the evolution of the reporting entity concept. They outline the changes made in recent years with the introduction of AASB 1053 and how the impact of this regulation should be closely followed. They do state that users may be unaffected by these changes as in ED 192 reduced disclosure requirements may not be as relevant for these users. Which is indicated in the following passage:

"*Users, including analysts who represent them, will be faced with a substantially reduced volume of information. This may mean that the GPFS prepared under the RDR are less useful. However, on the basis that the RDR has been designed to meet the particular needs of users of GPFS of such entities, the information that would no longer be provided is regarded as being less relevant, and therefore, of less value to those users. For the same reason, the financial statements may be more understandable and, therefore, more useful to users*" (Potter, Ravlic & Wright, 2013).

The basis of differential reporting is still the reporting entity concept and therefore brings its own issues. But the continued discussion and research of these issues indicates that this project and the AASB has "*a more consultative and potentially responsive standard-setting body*" (Potter, Ravlic & Wright, 2013).

These factors and research, along with the previously discussed quality, subjectivity, and compliance, all show the significant requirements for practitioners to ensure that information is meeting user's needs. The objective of financial reporting is to ensure this, and if there are aspects that may affect this information, it is cause for concern.

4.5 Concluding Comments on Chapter 4

This chapter has outlined the key issues related to the reporting entity concept and the subsequent research on these topics. These issues are all highly interrelated and impact the Australian environment in different ways, which have been discussed above.

A great deal of the previously mentioned research in regards to the issues of quality, subjectivity and compliance tend to outline that these issues can be detrimental in the decision making abilities of users. It has shown that the application of the reporting entity concept has been inconsistent, and quality has been subsequently affected.

As shown through the discussion of the use of the reporting entity concept over just four key issues, it can be seen that not only does further research need to be conducted; but also that accounting policies need to continue to develop and improve from this research. With this we can hope to provide more relevant and useful information for stakeholders.

Chapter 5: Comparison of Australian Accounting Standards to International Standards

This chapter will explore the current international standards of differential reporting in comparison to the Australian standards. This will give insight into the varying methods of differential reporting or reporting regulations internationally. With the comparison to Australian standards we can understand how each system impacts the financial reporting of that region/country. The analysis of these reporting methods can assist in the development of current regulation.

The two markets of the European Union and the United States are chosen as they are key trading partners for Australia and currently have strong economic and political relationships. The information provided on the standards in these regions will be a brief overview as to keep relevant to the comparison to Australian standards.

5.1 International Financial Reporting Standards (IFRS)

5.1.1 European Union Market

Implemented in 2005, the European Union adopted the International Financial Reporting Standards (IFRS). It was implemented to ensure greater comparability and transparency in financial reporting (Daske & Gebhardt, 2006). This was introduced in all European Union states and is mandatory.

Under these EU rules, listed companies must prepare their statements in accordance with IFRS. There are other requirements that apply to non-listed companies and other small businesses (European Commission, 2017). The European Commission outlines that companies with limited liability have to report financial statements that at a minimum have to include: the balance sheet, the profit and loss account and a certain number of notes to the financial statements (European Commission, 2017).

The IFRS's conceptual approach is principles-based. However the IFRS does include guidance and positions which are more considered as rules than a set of principles (IFRS, 2017).

The IFRS are developed by an independent body- the International Accounting Standards Board (IASB). When a new standard is introduced into the IFRS by the IASB, the EU needs to first endorse it before it can be implemented. The endorsement process is as follows:

1. *"The IASB adopts a new standard, an amendment to an existing standard or an interpretation of a standard*
2. *The European Financial Reporting Advisory Group provides its advice to the Commission on endorsement*

3. *If the Commission decides to endorse the new standard, interpretation or amendment, it prepares a draft regulation and submit it to the ARC*
4. *If the Accounting Regulatory Committee's opinion is positive, the Commission submits the draft regulation to the European Parliament and the Council for a 3-month scrutiny period*
5. *If there are no objections from the European Parliament or the Council, the Commission adopts the endorsing regulation*" (European Commission, 2017).

Due to the necessity to be approached by the Accounting Regulatory Committee (ARC) through the above process, IFRS may be applied differently from elsewhere.

The requirements of IFRS and the financial statements are:

- Statement of Financial Position
- Statement of Comprehensive Income
- A Statement of Changes in Equity
- A Cash flow Statement
- Notes, including a summary of the significant accounting policies (IFRS, 2017).

There has also been a significant discussion in Europe to the impact of the move to IFRS, with a particular focus on the effect on small and medium sized enterprises (SMEs). There is a considerable body of research that studies the impact of this move to IFRS (Soderstrom & Sun, 2007, Pope & McLeay, 2011, Bruggemann et al, 2012)

An example of this body of research is a study by Palea (2013) which discusses the effect of the introduction of IFRS in the EU. In particular it focuses on the impact on the quality of financial reporting. They analyse the empirical evidence that has focus on the European

experience of introducing IFRS. Their literature review found two key findings. One, that there has been some "*beneficial effects from the mandatory adoption"* (Palea, 2013). Two, is that "*these effects differ according to the institutional setting of firms adopting IFRS*" (Palea, 2013). From this it is indicated that there is still cross-country differences in accounting methods. The author states that despite the research being quite compelling surrounding the impact of IFRS implementation that caution should be taken in drawing conclusions. They state that academics and practitioners should be critical of generalised research and should instead begin studying more specific aspects of this financial reporting (Palea, 2013).

There are a number of studies that outline negative results from the move to IFRS. For example, Callao et al (2007) found that the value-relevance of reporting did not improve under IFRS for a sample of Spanish firms. Similar results were found in a sample of Portuguese firms which indicated a negative impact of IFRS adoption (Morais & Curto, 2008). These results were also shown for German firms (Paananen & Lin, 2009) and Finnish firms (Jarva & Lantto, 2012). These results indicated that there was no evidence that mandatory IFRS adoption had indicated an improvement in accounting quality.

Alternatively, there has also been significant research which indicates a benefit from moving to IFRS which is shown in Palea's work (2013). For example, is the case study on the level of accounting quality in a sample of Austrian, German and Swiss firms during the switch to IFRS (Daske & Gebhardt, 2006). Their study indicated that there was an increase in accounting quality in this sample. This is also supported by research conducted by Bartov et al (2005), in which, results indicated an increase in value-relevance earnings for the German firms who adopted IFRS. These studies all refer to firms who were voluntarily adopting IFRS, which therefore may be related to corporate incentives to increase this transparency and overall

quality. Barth et al (2012) showed that there was a greater comparability between US GAAP and EU IFRS, and has increased over time. The effects of this implementation have been greatly studied. Some results show that the effects of the mandatory IFRS adoption can depend on a number of variables, particularly preparer incentives and local enforcement (Palea, 2013, Soderstrom & Sun, 2007, Pope & McLeay, 2011).

These examples give insight into the discussion surrounding the accounting standards that are currently in place in the EU. It is shown that it is a contentious debate in a similar way to the discussion surrounding the reporting entity concept in Australia.

5.1.2 Key Legislature and Governing Bodies

EC Regulation No 1606/2002

The date of entry into force of this regulation was 14th September 2002 and the date that these rules applied were 1st January 2005. The legislation requires that all EU-listed entities from 2005 onwards, were to prepare their accounts in accordance with International Accounting Standards (IAS) (European Parliament, 2002).

The aim of this regulation includes:

"By requiring all EU-listed companies to prepare their accounts in accordance with international accounting standards (IAS) International financial reporting standards (IFRS), the transparency and comparability of company accounts is enhanced. This in turn increases market efficiency, reduces the cost of raising capital for companies, thus improving competitiveness and boosting growth in the EU." (European Parliament, 2002)

The legislation is assessed and overseen by the International Accounting Standards Board (IASB) in order to give them legal approval for the use within the EU.

The regulation also outlines the setting up of two bodies to assist in the process of adopting IFRS standards. These bodies are the Accounting Regulatory Committee (ARC), which decides whether to endorse these standards on the basis of commission proposals (European Parliament, 2002). And the European Financial Reporting Advisory Group (EFRAG) which provides support to the commission in this assessment of the IAS (European Parliament, 2002).

Directive 2013/34/EU

The rules that companies have to follow in the preparation of their financial statements are laid out in this directive, which is otherwise known as the 'accounting directive' (European Commission, 2017). The aim is to increase harmonisation of national requirements regarding:

- '*presentation and content of annual or consolidated financial statements*
- *presentation and content of management reports*
- *the measurement basis companies use to prepare their financial statements*
- *audit of financial statements*
- *publication of financial statements*
- *the responsibility of management with regards to all above' (*European Commission, 2017)

It also aims to reduce the administrative costs and burden for small organisations. This is done through a simplified reporting regime for SMEs. Within the directive there is a definition of micro, small, medium and large companies and the relating thresholds. These thresholds are updated to ensure it is able to keep pace with inflation (European Commission, 2017).

International Accounting Standards Board

The board is an independent body of experts with expansive experience in practical, setting accounting standards, preparing, auditing and using financial reports. They are responsible for the development and publication of IFRS standards (IFRS, 2017). They are also required

to approve interpretations of these IFRS standards. It was founded on April 1st 2001, and is the successor to the International Accounting Standards Committee (IASC) (IFRS, 2017).

It has 14 members and its objective is to provide timely guidance on any issues that may arise in application (IFRS, 2017).

5.1.3 Comparison to Australian Standards

In comparing the standards utilised in the European Union, it is clear that the utilisation of the IFRS is similar in both. The strength of implementation of the IFRS in the EU is significantly stronger than in Australia, with certain key countries within the EU incorporating different aspects of IFRS.

IFRS in Australia and EU wide utilises "IFRS Standards are required for domestic public companies" and "IFRS Standards are required or permitted for listings by foreign companies" (IFRS, 2017). However a few of the countries in the EU also have stated "The IFRS for SMEs Standard is required or permitted". These countries are United Kingdom, Ireland and Switzerland, and it is also under consideration in Norway (IFRS, 2017). As previously stated, the national application of the IFRS can differ on aspects not relating to the mandatory use for listed organisations.

The adoption in Australia, was somewhat different to the adoption by the EU. Both the EU and Australia were seen as early adopters with the accounting principles coming into effect on or after January 1st 2005 (AASB, 2017a). AASB has issued the 'Australian Equivalent to IFRS (A-IFRS)', which numbers the IFRS standards as AASB 1-8 and IAS standards as AASB 101-141. The AASB has made amendments to certain IASB pronouncements in the development of A-IFRS, however this tends to have the effect of introducing additional disclosures of requirements (AASB, 2017a).

In Australia, with the introduction of AASB 1053 in 2010, the Tier 1 requirements of reporting entities include incorporations by IFRS, which include interpretations issued by IASB. There a number of standards by the IFRS which have been adopted by Australia. For

example, AASB 101 Presentation of Financial Statements incorporates IAS 1 Presentation of Financial Statements, IAS 2 Inventories.

The IFRS that is implemented in the EU is also principles based in a similar way to Australia. This is through the fact that the accounting requirements are majority principles based, but both have aspects that could be seen as rules based reporting methods.

Overall there are a number of significant similarities in the accounting policies of the EU and Australia, due to the implementation of IFRS, the main difference occurring in application.

5.2 Generally Accepted Accounting Principles (GAAP)

5.2.1 United States

The Generally Accepted Accounting Principles in the United States are the accounting regulations that are used to present and report financial statements.

GAAP is a series of accounting standards which were created and are maintained by the Financial Accounting Standards Board (FASB). They were established in 1973, and the US Securities and Exchange Commission (SEC) have adopted them as the official standards of financial accounting (Lohrey, 2017). The aim is to increase consistency in financial reporting through reliable and understandable information (Lohrey, 2017). The aim was to standardise financial reporting through providing a uniform set of rules to enable analysis by investors and creditors. The conceptual framework that is utilised is predominately rules based.

GAAP is required for publicly traded companies in the US to increase uniformity in financial reporting nation-wide. Private companies are not required to report under GAAP, however many do (Accounting. Com, 2017).

The objectives of the GAAP and the necessary standard of information provided within financial reports as stated by FASB are as follows:

1. Information Useful in Investment and Credit Decisions
2. Information Useful in Assessing Cash Flow Prospects
3. Information about Enterprise Resources, claims to those resources and changes in them

4. Economic Resources, Obligations and Owners Equity
5. Enterprise Performance and Earning
6. Liquidity, Solvency and Funds Flow
7. Management Stewardship and Performance
8. Management Explanations and Interpretations (FASB, 1978)

In regards to the reporting entity aspect of US GAAP the description of the reporting entity concept is stated by FASB (2010):

> *"A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders, and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether management and the governing board of that entity have made efficient and effective use of the resources provided…*
>
> *A reporting entity has three features:*
>
> *a. Economic activities of an entity are being conducted, have been conducted, or will be conducted*
>
> *b. Those economic activities can be objectively distinguished from those of other entities and from the economic environment in which the entity exists*
>
> *c. Financial information about the economic activities of that entity has the potential to be useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board have made efficient and effective use of the resources provided"* (FASB, 2010).

It is shown that these features are necessary, but not always sufficient to determine a reporting entity (FASB, 2010)

Companies which report under GAAP are required to use accrual accounting, which differs from cash accounting. This is through that related revenues and expenses are reported together at the time of transaction, rather than when cash is exchanged (Accounting.com, 2017). This is just one example of how reporting earnings can differ between GAAP and non-GAAP reporting.

Currently there is discussion between the FASB and the IASB to develop a common conceptual framework to increase international comparability (Ernst & Young, 2011). The aim is to build a framework with standards that are objective, internally consistent and internationally comparable. Currently, the FASB has the Statement of Financial Accounting Concepts No. 8 'Conceptual Framework for Financial Reporting' which is implemented in the US (FASB, 2017). This convergence of standards is of high importance to both bodies. Despite this level of importance, there is still significant debate over the standards, this is to make sure that the level of quality of reporting is placed in higher regard than the actual convergence (Ernst & Young, 2011). As stated by international accounting firm Ernst and Young

"*We believe that the success of a uniform set of global accounting standards also will depend on the willingness of national regulators and industry groups to cooperate. Local interpretations of IFRS and guidance that provides exceptions to IFRS principles would threaten the achievement of international harmonization. Consistency in interpretation, application and regulation of IFRS is crucial to achieving a single set of high-quality global standards."* (Ernst & Young, 2011).

This indicates the importance that the international community is placing on the introduction of high quality worldwide standards.

5.2.2 Key Legislature and Governing Bodies

5.2.2.1 Financial Accounting Standards Board (FASB)

The Financial Accounting Standards Board (FASB) was created in 1973 as an independent board to take over GAAP determinations and updates (Accounting. Com, 2017). It is made up of seven full time impartial members to ensure it is working in the interest of the public. There is also a 30 person Financial Accounting Standards Advisory Council (FASAC).

The standard setting process conducted by the FASB is as detailed below:

1. "*Identify current investor issues*
2. *Draft issue agenda and hold public meetings*
3. *Public exposure draft for investor commentary*
4. *Propose new standards and invite business feedback*
5. *Weigh all public responses and revise accordingly*
6. *Announce final revisions to the ASC*" (Accounting.com, 2017).

They have four major types of publications

5.2.2.1.1 Statements of Financial Accounting Standards-

Authoritative GAAP setting publications, with 168 standards are currently issued.

5.2.2.1.2 Statements of Financial Accounting Concepts

Statements of Financial Accounting Concepts- There are 8 concepts published to date, they set fundamental objectives and concepts that can be used to develop future standards (FASB, 2017).

These statements are as follows:

- Concepts Statement 1 – Objectives of Financial Reporting by Business Enterprises
- Concepts Statement 2- Qualitative Characteristics of Accounting Information
- Concepts Statement 3- Elements of Financial Statements of Business Enterprises
- Concepts Statement 4- Objectives of Financial Reporting by Non-business Organisations
- Concepts Statement 5- Recognition and Measurement in Financial Statements of Business Enterprises
- Concepts Statement 6- Elements of Financial Statements- a replacement of FASB Concepts Statements No.3
- Concepts Statement 7- Using Cash Flow Information and Present Value in Accounting Measurements
- Concepts Statement 8- Conceptual Framework for Financial Reporting- Chapter 1- a replacement of FASB concept Statements No.1 and No.2 (FASB, 2017).

As indicated above the statements are amended and updated. Also shown is the focus of the conceptual statements which indicate the Boards commitment to developing accounting principles that are quality and uphold their values (FASB, 2017).

5.2.2.1.3 Interpretations

Interpretations- used to modify or extend the existing standards, with 50 published at the moment.

5.2.2.1.4 Technical Bulletins

Technical Bulletins- guidelines on how to apply the current standards, interpretations and opinions. (FASB, 2017).

5.2.2.2 Governmental Accounting Standards Board (GASB)

Created in 1984 the Governmental Accounting Standards Board was developed to create GAAP for state and local government organisations (Accounting.com, 2017). The main priority of the GASB is to increase fairness and transparency, this is evident in the fact that their processes and communications are available to the public (Accounting.com, 2017).

5.2.2.3 United States Securities and Exchange Commission (SEC)

The United States Securities and Exchange Commission is an independent agency that has a significant role in enforcing the federal securities laws and proposing securities laws. SEC was developed through the Securities Act 1933, which required uniform disclosure of financial information. The agency was created in 1934 under the Securities Exchange Act (SEC, 2017). They have three main aspects to their mission: *"protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust*." (SEC, 2017).

They oversee the key participants in the securities world from securities exchanges, investment advisors to securities brokers and dealers. The SEC enforces the requirement that public companies must submit financial reports. This is crucial for investors and stakeholders to make sound investments and economic decisions (SEC, 2017).

5.2.2.4 The American Institute of Certified Public Accounts (AICPA)

The American Institute of Certified Public Accountants was founded in 1887 is the national organisation of Certified Public Accountants (CPAs) for the US. Within the AICPA has more

than 418,000 members in 143 countries (AICPA, 2017). They represent a number of areas of practice which include: business, public practice, government, education, and consulting (AICPA, 2017). They set a number of ethical standards for the accounting profession.

Their mission is to: "*Powering the success of global business, CPAs, CGMAs and specialty credentials by providing the most relevant knowledge, resources and advocacy, and protecting the evolving public interest"* (AICPA, 2017). They aim to increase and maintain high professional standards with a strict code of professional ethics.

5.2.3 Comparison to Australian Standards

As Australia utilises the IFRS approach to accounting regulation the differences from the US GAAP is to the IFRS approach. There are obviously a considerable number of differences between the two approaches, however this section shall just cover the most significant.

The largest difference is in the conceptual approach to accounting standards, as the US GAAP is rules based and the IFRS that is utilised in Australia is principles based (IFRS, 2017). This ignites the debate regarding the benefit of rules versus principles based accounting frameworks.

This is indicated in the significant body of research in this area. Benston, Bromwich and Wagenhofer (2006) state that a rules based approach or a mix of a rules based and principles based approach is superior due to their case study on the UK. They argue that a standard is dependent on the contents of what it regulates and applying a principles based approach may increase inconsistency, due to necessary guidance and judgement required. They also state that the principles approach is not enough to deal with inconsistencies in the application (Benston, Bromwich & Wagenhofer, 2006).

Maines et al (2003) of the AAA Financial Accounting Standards Committee offered an alternative viewing stating that "*We believe that the economic substance, not the form, of any given transaction should guide financial reporting and standards setting, and that concepts-based standards represent the best approach for achieving this objective*" (Maines et al, 2003). They outline that the rules based approach does not allow for flexibility in reporting to best represent the true economic structure. They do concede however that there is necessary guidance that must be provided to ensure that interpretation of a principles based approach is consistent (Maines et al, 2003).

Further research was also conducted by Psaros (2004), Agoglia et al (2011), Niemeir (2008), Ozlanski (2013), Nelson (2003), Schipper (2010), Guerreiro, Rodregigues and Craig (2014), Collins, Pasewark and Riley (2012) and many more in this area with support for both sides occurring. Most significantly the utilisation of both rules and principles based approaches was mentioned frequently.

As stated by the IFRS these are some of the most noticeable differences between IFRS and US GAAP:

- *"**Consolidation**— IFRS favours a control model whereas U.S. GAAP prefers a risks-and-rewards model. Some entities consolidated in accordance with FIN 46(R) may have to be shown separately under IFRS.*
- ***Statement of Income**— Under IFRS, extraordinary items are not segregated in the income statement, while, under US GAAP, they are shown below the net income.*
- ***Inventory**— Under IFRS, LIFO (a historical method of recording the value of inventory, a firm records the last units purchased as the first units sold) cannot be used while under U.S. GAAP, companies have the choice between LIFO and FIFO (is a common method for recording the value of inventory).*
- ***Earning-per-Share**- Under IFRS, the earning-per-share calculation does not average the individual interim period calculations, whereas under U.S. GAAP the computation averages the individual interim period incremental shares.*
- ***Development costs**- These costs can be capitalized under IFRS if certain criteria are met, while it is considered as "expenses" under U.S. GAAP." (IFRS, 2017)*

These differences may lead to issues regarding comparability and transparency for international financial reporting. The process of comparing between countries can be long

and complex, but the ability to analyse the experiences between these countries is incredibly useful.

As previously mentioned, there have been recent discussions on the move towards introducing IFRS into the US, or at a minimum increasing harmonisation of financial reporting standards. This began in 2002 with the Norwalk Memorandum of a long term convergence project with the IASB (Bogopolsky, 2015). The aim is to address many of the common concerns with the differing standards (Ernst & Young, 2011). This project was divided into two parts. Firstly, to address the recognition and presentation of changes. Secondly, improving the measurement of defined benefit plans and contribution based plans (Ernst & Young, 2011).

As stated on the FASB website they are actively participating in the development of IFRS. This is done through the contribution of views in consideration of past experience or through the FASB's due process (FASB, 2017).

The increase in comparable standards have the potential to reduce costs for both users and preparers of financial statements and increase overall efficiency. The move towards a cooperation over international standards will not be easy as different countries have different business cultures, different regulatory environments and different financial reporting objectives. This therefore makes agreeing upon international standards incredibly difficult (FASB, 2017).

Despite the previous discussions and support for this convergence, it has been noted that this has become a lower priority. This is indicated in SECs statement "*Investors do not believe that high-quality standards should be compromised for the sake of uniformity*"

(Bogopolsky, 2015). In light of the position of the SEC and the FASB it seems that the introduction of IFRS in the US has a long way to go.

5.3 Concluding Comments on Chapter 5

This chapter was utilised to better understand the role of conceptual frameworks in international contexts. As the reporting entity concept is the basis of our differential reporting of our conceptual framework, it is important to understand how it is applied. It is also important to grow and develop our economy on an international scale to understand how our financial reporting works alongside other nations.

An exploration of the principles and rules based approaches to this conceptual framework has been presented. This comparison can aid decision making for future research and potential policy modifications, as we note how the differences can be modified to increase international reporting quality.

The comparison of the reporting entity concept to international standards such as the FASB and the IFRS/IASB indicates the impact of financial reporting in international economies. This gives insight into how international practitioners and governing bodies react to criticism, concern and issues within their financial reporting methods. It also sheds light on the use of the rules based approach to differential reporting such as in the US with the FASB.

The most notable aspect of this chapter is the movement towards an internationally cohesive framework. This is evident in the discussion of IFRS adoption, not only in Australia and the EU, but worldwide. This convergence could lead to a more stabilised and effective world economy and will solve many of the world's financial reporting issues.

In consideration of the increasingly global economy, the need for internationally recognised accounting standards is increased (Fosbre, Kraft & Fosbre, 2009). The decision to move

towards international accounting standards by a number of nations has shown support for this. This is also indicated by the United States and the IASB's discussions on converging GAAP and IFRS.

As noted in the analysis it can be seen that the Australian Accounting regulations are incredibly similar to the application of IFRS in Europe, with a few modifications in the standard implementation and acceptance aspects. However, in comparing IFRS and GAAP it can be seen that there are a number of differences and issues that may need to be remedied to increase overall comparability with our key trading partner of the US.

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Chapter 6: Current Projects and Potential Future Research and Regulation

The current legislature of the reporting entity concept has been explored in depth in this study. From this exploration and comparison to international standards, areas that need modification and updating can be noted.

As shown, previous research on the reporting entity concept has been helpful in the development of further regulation and the direction that future research should take. However, just like the debate between principles and rules based method, the focus that future regulation should take is heavily conflicted. It can be an incredibly difficult task to conduct research and change policy on this level, and can also take a considerable amount of time. Nonetheless, with commitment from the accounting community it can be done.

Attention is continuing to be paid to international standards by the International Accounting Standards Board (CPA, 2017b). The future of financial reporting in Australia and the global stage is of great importance to practitioners. In particular, alternatives to current financial reporting is of importance to researchers. These important issues will be explored in this chapter.

This chapter will show the most widely accepted modifications and research that should occur. Also, conclusions drawn from this study will indicate support for certain projects and updates to be made. This chapter will also explore the current projects and research conducted by standard setters to better understand the direction that it is taking. The research outlined in this study leads to the following potential research paths.

Future Research

First of the potential future research is to increase understanding of the decision making regarding the decision to lodge SPFRS or GPFRS. This has been discussed previously, but inconclusive results have been shown (Psaros, 2007, Psaros and Trotman, 2004, Carey, Potter &Tanewski, 2014a). Even with this previous research, with the addition of AASB 1053, reporting choices and the aspects that impact them may have changed. This is due to the previously mentioned focus shift to an emphasis on General Purpose Financial Reports (GPFRs). This potential research could also be built on by studying the implications of these reporting choices made by entities. Previous research in this area could also be built on due to the addition of AASB 1053(Carey, Potter & Tanewski, 2014b, Psaros, 2007). These implications may be the determinants of the quality of the financial reports of these entities.

Secondly, further research could explore the costs and benefits associated with producing GPFRs or full GAAP for entities (Carey, Potter & Tanewski, 2014a, Schipper, 2010) This may shed light on the decision making techniques for firms, as the more expensive a GPFRs is to produce, the less likely a firm may want to indicate they are a reporting entity. This is particularly evident with the introduction of tier 1 and tier 2 entities under AASB 1053. This is as self-classified tier 1 entities must report full compliance with IFRS standards which would increase costs and time necessary to report financial statements. A cost-benefit analysis of reporting certain types of financial reports in Australia could be a useful tool to understanding decision making and inform future regulation (Schipper, 2010). This could assist in considering whether a standard will improve financial reporting at a reasonable cost.

Thirdly, it was be incredibly useful to understand and reassess user needs for financial reporting. This research could consider measures that might bring out greater consistency of financial statements. For instance who the users are and what are their financial information needs. This could assist in the production of policy to better meet financial objectives of informing users (Brailsford & Ramsey, 1992, Carey, Potter & Tanewski, 2014b). As user needs may change and develop over time with the movement towards international accounting standards user needs need to be monitored and understood. This research would complement the existing research in this area and support the financial accounting objectives outlined by standard setters (Pawsey, 2016)

Also, in a similar method to this current study the Financial Reporting Task Force (2014) recommends that requirements from Australia should be benchmarked to other international standards. In particular, New Zealand, Singapore, the USA and Canada. This will aid in determining reporting requirements for non-listed entities and to further inform future recommendations and modifications to standards (Financial Reporting Task Force, 2014)

Finally, continual monitoring to better understand the impact of the adoption of IFRS in Australia could be useful. So far results indicate a positive impact on comparability and quality. Further research could study the impact on specific groups of users as to whether the move to IFRS is meeting their needs. This will also aid current research and provide more useful information in regards to understanding user needs and IFRS impact. This could lead standard-setters on how best to incorporate IFRS into the Australian Reporting framework in the future (Pawsey, 2016).

These are just some of the many potential research paths that could be taken by the Australian and International community to increase understanding. As stated by the AASB when introducing AASB 1053, the discussion regarding the reporting entity concept has been tabled until further research has been conducted and analysed. Many of these research paths could aid in the modification, removal, or even not altering the reporting entity concept. Research that studies these issues would enhance the current understanding of the reporting entity concept and the reporting practices of Australian and International entities.

It is important that even with this additional research that the AASB should continue to conduct regular research and consultation with stakeholders and practitioners to ensure that quality reporting standards are maintained. This, in conjunction with education sessions addressing relevant topics on reporting requirements will ensure reporting quality.

Current Projects

This section will explore the current projects undertaken by standard setters such as the AASB and the potential policy updates that could occur.

Monitoring the conceptual framework to amend and update key aspects is important to ensure high quality reporting. As previously mentioned this is conducted by a number of governing bodies and involves a number of complex steps. The standard setting process is outlined in appendix 10, and involves identifying and researching issues, which can be done through consultation with stakeholders (AASB, 2017b). Consultation with stakeholders has been shown in the introduction of AASB 1053 with exposure drafts, invitations to comment and discussion papers. The AASB then may implement and monitor these standards and interpretations in Australia (AASB, 2017b).

The process and application of AASB 1053 is a step in the right direction for effective regulation development. Continuing in this direction would undoubtedly begin to reduce the impact of the current issues. With the previously mentioned research and regulation modifications there is obviously a lot of work to be done in this sector to increase overall financial reporting efficiency and effectiveness. But as shown, it is entirely possible to develop and change in the necessary manner.

The following policy changes and current projects are potential adaptions that could be made to improve on the reporting entity concept and other financial reporting standards. There are a number of current hot topics for the AASB which are explored in their commissioned research and guidance papers.

An example of this is through improving disclosures in financial reporting. This is through the disclosure initiative project, conducted by the AASB and IASB. As stated by AASB:

"*The key is removing unnecessary information from financial statements and allowing an entity to simply tell their story. This requires an entity to use judgement to determine whether a specified disclosure is necessary"* (AASB, 2017d)

They have disclosed changes to Australian Accounting Standards with amendments to AASB 101. This is mainly conducted through clarification regarding the disclosure requirements. This is to address some of the concerns expressed about existing presentation and to ensure that entities are able to use reasonable judgement during application of a standard (AASB, 2015b)

Even with these amendments they are still working towards further exploration of how these disclosures can be improved. This current project is of high priority to the AASB and the current state of the project is outlined in their summary:

'*Implementation Projects*

- *Materiality*

Research Projects

- *Principles of Disclosure*
- *Standards level review of disclosure*

Completed Projects

- *Amendments to AASB 101*
- *Amendments to AASB 107' (AASB, 2016)*

This project is a perfect example of how the AASB is working towards effective reporting standards and potential amendments to the reporting entity concept.

Further work in progress by the AASB is involving incorporating IFRS standards into Australian Accounting Standards. The AASB is requesting comments (Invitation to Comment 35- ITC 35) regarding the proposals from the International Accounting Standards Board (IASB). Also, they are requesting further discussion on regulatory issues or other issues in the Australian reporting environment.

The goal, in conjunction with the IASB, is to increase clarity and effectiveness of disclosures for primary users. This would be done through identifying the current disclosure issues and how best to remedy these (AASB, 2017c). It is acknowledged that this is a very broad project, yet it is incredibly important to increase understanding of the impact of updating regulation and to maintain communication with the community (AASB, 2017c).

If the suggestions in the discussion paper are implemented it might create a new disclosure standard to replace part of IAS 1. IAS 1 provides requirements for the presentation of financial statements including the structure and minimum requirements (AASB, 2017c). An outline of the sections of the discussion paper can be seen in appendix 11.

This relates to the reporting entity concept and the conceptual framework as the adaption of IFRS standards into Australian standards modifies this conceptual framework and may affect the application of financial reporting (AASB, 2017c). As stated in the ITC 35 this project is related to the AASB 1053 project as the outcome of this discussion paper will inform future work in respect to Tier 2 entities, non-for-profits or Australian additional disclosures (AASB, 2017c). The discussion of general disclosure standards is key to keep up to date expectations of the role and objectives of financial statements.

As indicated by these current projects and the subsequent policy modifications, there is a desire and necessity to update the current financial reporting framework (Carey, Potter & Tanewski, 2014b). As the reporting entity concept is still a part of the conceptual framework conclusions need to be made regarding the necessity and effectiveness of the concept. As stated by Carey, Potter and Tanewski (2014b):

"*The findings also suggest that if the reporting entity concept were to be retained as a key feature of the differential reporting regime in Australia, future actions may need to be taken to help ensure the concept is applied in a more consistent manner".*

Studies like those conducted by Carey, Potter and Tanewski (2014b) and Walker (2007) indicate that changes need to be made to improve overall consistency and quality of financial reporting. The projects discussed above indicate the commitment of the community to work towards meeting these goals.

This chapter indicates that there is definitely further research and work needed to improve our financial reporting framework. This includes a dedication to coming to a conclusion regarding the reporting entity concepts role and necessity in Australia. As shown by the current projects undertaken by the AASB there is a commitment to improving overall financial reporting and implementing IFRS effectively. However, by the extensive potential future research there is still a long way to go to increase necessary understanding of the issues that affect the Australian community.

Chapter 7: Discussion

This study has analysed the role of reporting entity concept in Australia's financial reporting through the analysis of previous research and international standards. Review of the previous literature has shown that the reporting entity concept is flawed and steps should be taken to modify the concept to become more effective and efficient. It shows evidence from relevant published research to assess the impact of the reporting entity concept on financial reporting. From this the aim is to inform and improve future decision making.

The necessity of this study lies in it building on the current body of research that has been discussed in depth throughout. In consideration of the introduction of new legislation and the continued discussion in this area, this research is key to assist in informing the community. The motivation of this study is to aid the discussion and development of policy to improve the overall financial reporting standards in Australia.

The first two chapters outline the importance of the issue and the basis of the current debate surrounding the reporting entity concept. The third chapter outlines all the related legislature and governing bodies to the Australian reporting entity concept and financial reporting issues. The analysis of these standards and the factors that have effected them have been outlined to deepen the overall understanding of the concept. From this we can see the development of the reporting entity concept from the early nineties until now. It has been shown that the AASB is modifying their approach to be shaped by the view held by the community and key stakeholder groups.

Following this introduction of the legislature and governing bodies, is the fourth chapter which is key in the analysis of the reporting entity concept. In light of the relevant literature,

the issues outlined are quality, compliance, subjectivity, impact on users. This chapter can be used to better understand how users of financial reports are impacted by the reporting entity concept through their decision making capabilities. It is incredibly relevant to standard setters to develop differential reporting in Australia.

The analysis shows that the principles based reporting entity concept is not providing the consistent output initially intended. Which previous research indicates may impact the ability for stakeholders to effectively make economic decisions based on these financial reports.

The debate over these issues and the reporting entity concept is still continuing strongly by practitioners, standard setters and the entire community. Therefore, future research and discussion of the concept is necessary to understand the reporting decisions of the relevant entities.

Chapter 5 discusses the related international standards in comparison to Australian standards. This chapter is key in the current debate as there is a move towards global international financial reporting standards with the introduction of IFRS in Australia and the EU in 2005.

From the research related to the international standards the understanding of the global economy has been increased, and therefore the associated financial reporting standards. It is key to understand the role of international financial reporting to effectively modify our standards to increase comparability not only nationally, but also internationally.

The sixth chapter outlines the potential future research that can be recommended in relation to the previous research that has been analysed. This is directly related to the

previous issues that were discussed in chapter 4 and from what has been noted as the current direction of interest.

Also discussed in this chapter is the current projects that the AASB are undertaking. These are associated to the reporting entity concept and general financial reporting. The impact of these projects can change the nature of the financial reporting in Australia and impact the entire community. Therefore, the process of the development and introduction of standards is extensive and long term.

In essence this study has used in-depth analysis to understand the reporting entity concept, related issues and how best we can improve financial reporting on a national and international scale.

In regards to the underlying conceptual framework that is principles based, it has been noted that a great deal of the international debate has been surrounding the impact of principles vs rules based method. From the research, it seems that principles approach has been linked to a number of the key issues that surround the reporting entity concept.

However, even though there are issues with the principles based approach, it does encompass the objectives of international reporting more than a rules based approach. As previously outlined by Maines et al (2003) of the AAA Financial Accounting Standards Committee the principles based approach utilised by IFRS provides higher economic substance to best guide financial reporting. The higher levels of flexibility are preferable in consideration of the requirements of financial reporting and varying nature of business.

Despite this, modifying standards to improve the outlined issues related to the concept is important. Standardisation and clarification of the standards and guidelines is necessary to

minimise the negative impact of judgement on reporting. Monitoring compliance of the concept has also shown to be incredibly difficult and steps should be taken to develop an effective regulatory solution to ensure and monitor compliance (Carey, Potter & Tanewski, 2014a). Furthermore, as the effectiveness of the reporting entity concept is being questioned, the overall necessity of the concept should be considered.

The AASB has shown that they are acknowledging these issues and working towards improving them .The future of Australian Accounting Standards is very promising with the AASB's interactive and responsive manner. This is shown in the development of AASB 1053. This is supported by a number of practitioners as indicated by Potter, Ravlic and Wright (2013):

"*The AASB has engaged with relevant stakeholders through the process of developing this regulation, drawing out debate and conflict between various interest groups, responding to feedback, and calling for research into the topic prior to its eventual full implementation. The regulator has listened to the diverse viewpoints of stakeholders, and has amended its reporting model in response.*"

The engaging manner in which this regulation was developed through ITC 12 and ED 192 indicates that they are evolving into a more active and receptive regulator. From this study and its exploration of the current projects and potential research regarding the reporting entity and financial reporting in Australia it has implication for future policy by standard setters. It has been shown in the past that research and community contribution has informed and impacted policy. From studies such as this one, future policy can be improved and financial reporting quality can be increased.

Overall, differential reporting in Australia, although with its faults, is the best option in consideration of current economic climate. The biggest issue is the implementation of the reporting entity concept. As shown throughout this study, the reporting entity concept has multiple flaws, and this study, among many others discuss how these could be remedied and its general necessity analysed. Whether it be through the introduction of further rules based guidelines to increase understanding, or to increase more guidance, assistance and compliance monitors to the Australian community. In summary, there are many ways forward that will improve our current financial reporting climate, and with moves towards global reporting standards, effective, reliable and efficient reporting can be developed.

Appendices

Appendix 1- AASB, (1990a)

STATEMENT OF ACCOUNTING CONCEPTS

SAC 1 "DEFINITION OF THE REPORTING ENTITY"

Citation

1 This Statement may be cited as Statement of Accounting Concepts SAC 1 "Definition of the Reporting Entity".

Application and Operative Date

2 This Statement applies to each reporting entity in relation to its first reporting period that ends on or after 31 August 1990, and in relation to subsequent reporting periods.

INTRODUCTION

3 The purpose of this Statement is to define and e xplain the concept of a reporting entity and to establish a benchmark for the minimum required quality of financial reporting for such an entity. [1] This Statement outlines the circumstances in which an entity or economic entity should be identified as a reporting entity. It also outlines the criterion for determining, for financial reporting purposes, the boundaries of a reporting entity.

4 In relation to the benchmark for the minimum required quality of financial reporting, this Statement specifies that reporting entities shall prepare general purpose financial reports and that these are reports which comply with Statements of Accounting Concepts and Accounting Standards.

5 This Statement does not consider techniques of accounting for and the method of presentation of financial information about a reporting entity. Such considerations are included in Accounting Standards.

Appendix 2- Carey, Potter & Tanewski, (2014b)

Table 24. Comparison of Companies Lodging SPFSs by Proxies for Size-Thresholds and Indebtedness-Thresholds [Table 24 updated on 30 June 2014 to correct errors]

	Large Proprietary		Foreign-Controlled		Unlisted Public		Limited by Guarantee	
Level Trading Revenue	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
<= $5m	10.6	10.6	47.0	47.0	70.3	70.3	100.0	100.0
> $5m & <= $10m	4.1	14.7	19.5	66.5	2.7	73.0		
> $10m & <= $25m	14.3	29.0	21.6	88.1	6.7	79.7		
> $25m & <= $50m	27.5	56.5	5.4	93.5	2.7	82.4		
> $50m & <= $100m	18.0	74.5	4.3	97.8	5.4	87.8		
> $100m & <= $200m	13.7	88.2	2.2	100.0	12.2	100.0		
> $200m & <= $300m	4.1	92.3						
> $300m	7.7	100.0						
	100.0		**100.0**		**100.0**		**100.0**	
Level Total Assets	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
<= $12.5m	15.7	15.7	72.1	72.1	67.6	67.6	95.9	95.9
> $12.5m & <= $25m	20.3	36.0	10.8	82.9	6.7	74.3	2.5	98.4
> $25m & <= $50m	25.4	61.4	6.6	89.5	3.8	78.1	1.6	100.0
> $50m & <= $100m	16.2	77.6	3.9	93.4	6.7	84.8		
> $100m & <= $250m	11.3	88.9	4.2	97.6	4.7	89.5		
> $250m	11.1	100.0	2.4	100.0	10.5	100.0		
	100.0		**100.0**		**100.0**		**100.0**	
Level Total Employees	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
0	11.5	11.5	-		-		-	
> 0 & <= 50	12.4	23.9	-		-		-	
> 50 & <= 100	18.5	42.4	-		-		-	
> 100 & <= 500	34.4	76.7	-		-		-	
> 500	23.3	100.0	-		-		-	
	100.0		**NA**		**NA**		**NA**	
Level Creditors	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
<= $5m	35.6	35.6	80.3	80.3	69.0	69.0	97.1	97.1
> $5m & <= $10m	19.4	55.0	7.8	88.1	5.8	74.8	1.9	99.0
> $10m & <= $25m	21.4	76.4	6.6	94.7	16.1	90.9	1.0	100.0
> $25m & <= $50m	21.7	98.1	5.3	100.0	6.8	97.7		
> $50m	1.9	100.0			2.3	100.0		
	100.0		**100.0**		**100.0**		**100.0**	
Level Bank Debt	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
<= $5m	52.9	52.9	86.6	86.6	73.0	73.0	100.0	100.0
> $5m & <= $10m	9.7	62.6	3.6	90.2	6.7	81.7		
> $10m & <= $25m	15.6	78.2	4.6	94.8	7.7	89.4		
> $25m & <= $50m	18.0	96.2	2.4	97.2	1.0	90.4		
> $50m	3.8	100.0	2.8	100.0	9.6	100.0		
	100.0		**100.0**		**100.0**		**100.0**	
Level Total Liabilities	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**	**%**	**Cum%**
<= $12.5m	36.8	36.8	83.3	83.3	76.9	76.9	96.8	96.8
> $12.5m & <= $25m	19.0	55.8	6.6	89.9	3.9	80.8	1.6	98.4
> $25m & <= $50m	17.0	72.8	5.2	95.1	7.7	88.5	0.8	99.2
> $50m & <= $100m	11.5	84.3	4.9	100.0	2.9	91.4	0.8	100.0
> $100m & <= $250m	8.6	92.9			8.6	100.0		
> $250m	7.1	100.0						
	100.0		**100.0**		**100.0**		**100.0**	

Note: From the data, it is not possible to compute employee levels among foreign-controlled, unlisted public and limited-by-guarantee companies as these companies are not required to disclose the number of employees on Form 388 lodged with ASIC.

In analysing the data in this Table, it is useful to have regard to the current tests specified in the Corporations Act that determine the financial statements lodgement requirements applicable to:

(a) large proprietary companies: proprietary companies (unless grandfathered) satisfying at least two of the following three size tests must lodge audited financial statements (and a directors' report): (i) the

Appendix 3- Carey, Potter & Tanewski (2014b)

Table 1: Companies that are the subject of this Report that lodged Financial Statements with ASIC in 2010-11 and 2008-9

Type of Company	Population 2010-11	Population 2008-09	Sample 2008-09
Large proprietary companies (non-disclosing entities)	6,339	5,097	394[a]
Small proprietary companies controlled by a foreign company	2,797	2,237	340
Small proprietary companies – financial statements requested by the ASIC or shareholders	186	131	95
Unlisted public companies other than those limited by guarantee	3,985	3,884	347
Public companies limited by guarantee	8,404	9,673	370
Total:	**21,711**	**21,022**	**1,546**

[a] *The initial sample for the large proprietary companies group was 357 companies. Due to additional data provided by the ASIC to overcome errors, the sample was increased by 37 companies.*

Appendix 4- Carey, Potter & Tanewski (2014b)

Table 2: Frequency of Type of Financial Statements in the Sample – Large Proprietary Companies

	Frequency	%
GPFSs	79	20.1
SPFSs	315	79.9
Total:	**394**	**100.0**

Appendix 5- Carey, Potter & Tanewski (2014b)

Table 8: Frequency of Type of Financial Statements in the Sample – Foreign-Controlled Companies

	Frequency	%
GPFSs	53	15.6
SPFSs	287	84.4
Total:	**340**	**100.0**

Appendix 6- Carey, Potter & Tanewski (2014b)

Table 12: Frequency of Type of Financial Statements in the Sample – Small Proprietary Companies

	Frequency	%
GPFSs	23	24.2
SPFSs	72	75.8
Total:	**95**	**100.0**

Appendix 7- Carey, Potter & Tanewski (2014b)

Table 16: Frequency of Type of Financial Statements in the Sample – Unlisted Public Companies

	Frequency	%
GPFSs	242	69.7
SPFSs	105	30.3
Total:	**347**	**100.0**

Appendix 8- Carey, Potter & Tanewski (2014b)

Table 20: Frequency of Type of Financial Statements in the Sample – Public Companies Limited by Guarantee

	Frequency	%
GPFSs	239	65.5
SPFSs	123	33.7
Unable to Determine	3	0.8
Total:	**365**	**100.0**

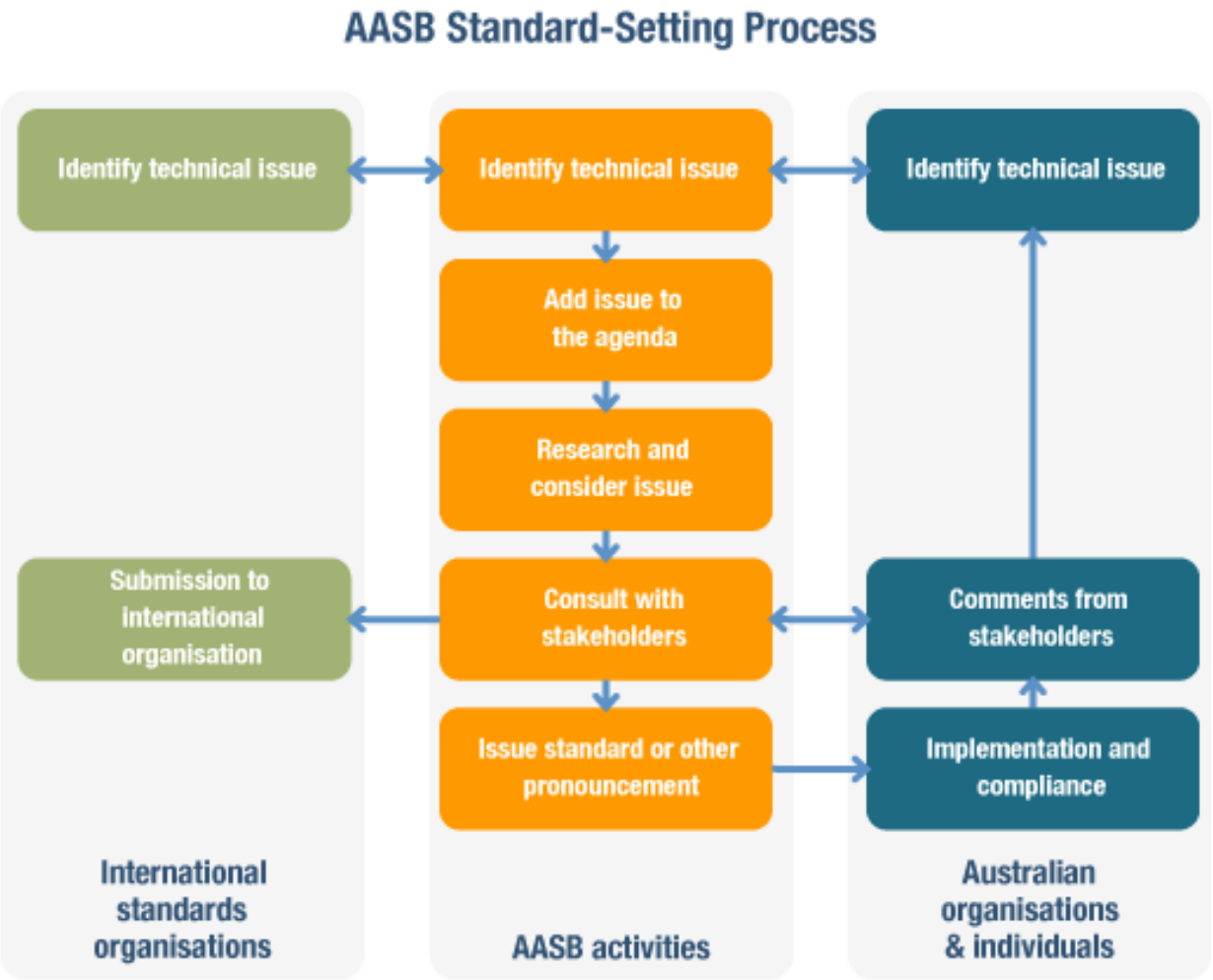
Appendix 9- Psaros (2007)

Table 3
Reporting recommendations: by incentive

	Total[a]		Recommend consolidation		Not recommend consolidation		χ^2 significance level
Participants	Number	%	Number	%	Number	%	p
All	117	100	70	59.8	47	40.2	
Incentive	58	49.6	33	56.9	25	43.1	0.521
No-incentive	59	50.4	37	62.7	22	37.3	

[a] There were 120 participants. However, 3 participants did not complete this part of the instrument.

Appendix 10- AASB (2017b)



Appendix 11- AASB (2017c)

What does this Discussion Paper cover?

Sections in this Discussion Paper

No.	Title	Summary
1	Overview of the 'disclosure problem' and the objective of this project	Summarises the main concerns that the Board has identified (collectively referred to as the 'disclosure problem'), sets out the background and objective of this project, and explains how this project interacts with the Board's other projects, including other parts of the Disclosure Initiative.
2	Principles of effective communication	Discusses principles of effective communication that entities should apply in preparing financial statements.
3	Roles of the primary financial statements and the notes	Discusses the roles of the different components of the financial statements and how those roles help to meet the objective of the financial statements.
4	Location of information	Discusses: • when an entity can provide information that is necessary to comply with IFRS Standards outside the financial statements; and • when an entity can provide information that is identified as 'non-IFRS information', or by a similar labelling, within the financial statements.
5	Use of performance measures in the financial statements	Discusses fair presentation of performance measures in the financial statements.
6	Disclosure of accounting policies	Discusses ways to improve how entities disclose their accounting policies.
7	Centralised disclosure objectives	Discusses the development of centralised disclosure objectives and how the Board could use them as a basis to develop and organise disclosure objectives and requirements in IFRS Standards. Section 7 discusses two methods—Methods A and B—of developing centralised disclosure objectives.
8	New Zealand Accounting Standards Board staff's approach to drafting disclosure requirements in IFRS Standards	Describes an approach that has been developed by the staff of the New Zealand Accounting Standards Board (NZASB staff) for drafting disclosure objectives and requirements in IFRS Standards.

List of Abbreviations

AASB	Australian Accounting Standards Board
AICPA	American Institute of Certified Public Accountants
APES	Accounting Professional and Ethical Standards
ASIC	Australian Securities and Information Commission
CPA	Certified Public Accountants
ED	Exposure Draft
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFR	General Purpose Financial Report
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ITC	Invitation to Comment
SAC	Statement of Accounting Concepts
SEC	United States Securities and Exchange Commission
SPFR	Special Purpose Financial Report

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