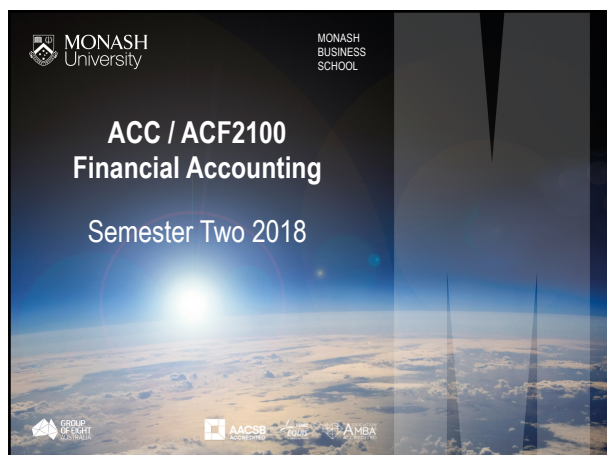




Unit Introduction and Overview

- Unit Guide
- Teaching approach
- Textbook
- Assessments
 - Note this unit has a hurdle requirement... you must pass the final exam, and obtain at least 50% overall, to pass the unit

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Before you start...

- We are building on your knowledge from first year accounting
- You may need to revise...
 - Elements of the financial statements
 - Dr and Cr rules
 - Balance day adjustments

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Topic 1:
Regulation & Financing
Company Operations
(Leo et al. Chapters 1, 2, 3)

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Learning Objectives

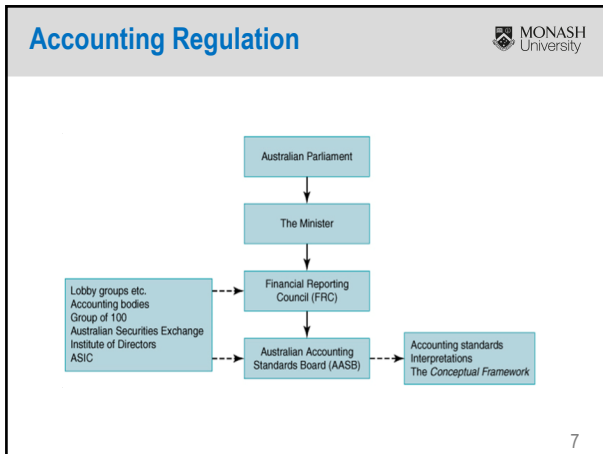
1. Describe the current arrangements for establishing accounting standards in Australia, subject to global influences in the standard-setting process
2. Analyse the concepts of general purpose financial reporting and the reporting entity
3. Account for the issue of shares fully subscribed, undersubscribed, and oversubscribed
4. Account for underwriting and other share issue costs and formation costs
5. Account for the subsequent issues of shares
6. Account for the issue and exercise of share options
7. Account for the redemption of redeemable preference shares
8. Explain the nature of dividends and how to account for the declaration and payment of dividends, including bonus share issues

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Financial Accounting

- This unit focuses on **company accounting**
- Why are companies so important?
 - Companies dominate the capital and product markets
 - Companies operate within a complex web of government and professional regulation
 - Issuing financial statements/reports is part of the communication process
- A company has its own **separate legal existence**
 - Subject to requirements of corporations law
 - Distinguishing feature is **limited liability**

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Which companies need to prepare financial statements?

- **Reporting entities**
 - An entity where it is reasonable to expect the existence of users who rely on General Purpose Financial Reports (GPFR) for information useful for decision making (SAC 1)
 - Examples include public companies, large proprietary companies, and some small proprietary companies

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What is the objective of financial statements?

- The objective of general purpose financial reporting is to provide information to users to enable them to make decisions about the allocation of resources (AASB Framework)

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Annual reports



- Financial statements
- Notes to the financial statements
- Director's declaration about the financial statements and notes
- Directors' report
- Auditor's report

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Financial reports



- Reporting entities are required to prepare GPFRs in accordance with **Australian Accounting Standards**
- In this unit, we cover...
 - Statement of comprehensive income
 - Statement of changes in equity
 - Statement of financial position
 - Statement of cash flows

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Financing company operations



- Public companies can raise funds by issuing securities to the public
 - Ordinary shares (equity)
 - Preference shares (equity or liability)
 - Debentures (liability)
- Disclosure document (prospectus) is issued
- Accounting treatment begins when money is received from applicants

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Issues of securities can be...



- Fully subscribed
- Oversubscribed
 - Excess money can be refunded or held to offset future amounts payable (as per constitution)
- Undersubscribed
 - Company may enter into an agreement with an underwriter to purchase excess shares
 - Avoids having to refund monies due to under-subscription
- Costs of underwriting and issuing shares are treated as a reduction in equity (share capital)

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Issues of shares



- Which accounts do we use?
 - Cash
 - Cash trust
 - Application
 - Allotment (2 or more instalments)
 - Call (3 or more instalments)

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Accounting for dividends



- Dividends represent a **distribution of profits to the shareholders** of the company
- Dividends can only be paid from profits
- Power to declare dividends at any time rests with directors
- Dividends may be in the form of cash, bonus shares or assets

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Interim dividends



- Declared and paid part way during the financial year
- Not a legal debt
- Journal entry...

Dr Retained earnings (Dividend paid)	XX
Cr Cash	XX
- You can use 'RE' for retained earnings

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Final dividends



- Liability recorded when declared **and** when not subject to further approval
- Journal entries...

Dr RE (Dividend declared)	XX
Cr Dividend payable	XX

 (Declaration of final dividend)

Dr Dividend payable	XX
Cr Cash	XX

 (Payment of final dividend)

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Subsequent issues of shares



- Rights issue
 - Existing shareholders have the right to buy additional shares in proportion to their current shareholding... eg 1 for 5
 - Issue price is usually < current market price
 - Can be renounceable or non-renounceable
 - renounceable rights issue: Shareholder can take up the rights issue, let it lapse or sell it
 - non-renounceable rights issue: shareholder cannot sell the rights
 - When issued: Dr Cash Cr Share Capital
- Bonus issue
 - Issue of shares to existing shareholders in proportion to current shareholding at no cost to shareholders
- Private placements
 - Issue of shares to institutional investors

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Share options



- Gives the holder the right to buy or sell a certain number of shares by a specified date at a stipulated price
- We are concerned with **company-issued share options**
- Issued at no cost to the recipient, or at a specified price
- **'Share Options'** account is used when issued at a price

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Redeemable preference shares



- Preference shares can be classified as equity, liability, or both
 - Depends on whether liability definition is satisfied
 - Consider whether redeemable, cumulative, participating
- Redeemable preference shares can be redeemed out of profits, or from proceeds of a new issue of shares
 - Can be redeemed at a premium
 - 'Shareholders' redemption' account is used

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See lecture handout...

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Next week...
Accounting for Income Tax:
Current Tax Issues
