

# how to use this book

## Throughout the book, many features illustrate the

### LEARNING OBJECTIVES

Upon completing this chapter readers should:

- ▶ understand the scope of regulation relating to Australian external financial reporting;
- ▶ be able to explain the general functions of the Australian Securities and Investments Commission, the Australian Accounting Standards Board, the Financial Reporting Council, the Urgent Issues Group, the Australian Stock Exchange, and the Australian Accounting Research Foundation;
- ▶ be able to explain the general functions of the International Accounting Standards Board and its direct relevance to Australian accounting standard setting;

### LEARNING OBJECTIVES

Each chapter starts with a list of learning objectives. These flag what you should know when you have worked through the chapter. Make these the foundation for your exam revision by using them to test yourself (e.g. p.3).

### CHAPTER INTRODUCTION

These sections provide an excellent overview of the material to be covered, and also show a bigger picture -- how topics in various chapters inter-relate.



### Determination of 'useful life'

Assume that a business has an item of plant with the following characteristics:

- ▶ The plant should continue to produce output in its current manner for the next 10 years.
- ▶ Demand for the output of the plant is expected to be maintained for the next 10 years after which time the demand will fall to such a low level that it will not be worth producing goods.
- ▶ A more technically advanced machine will probably be available in five years after which time it will need to switch to the new plant in order to remain competitive.

#### REQUIRED

Determine the period of time that should be used in the depreciation calculation.

#### Solution

Given the above information, the firm would use a period of depreciation of 10 years.

### WORKED EXAMPLES

A wide range of detailed scenarios and solutions, some fairly straightforward and some comprehensive, are provided throughout the text and are a great learning aid, helping to reinforce how the theory is applied in practice (e.g. p.182).

### Some classes of assets and their associated measurement rules

Asset	Measurement rule
Cash	Face value
Debtors	Face value less a provision for doubtful debts
Inventories	Lower of cost and net realisable value
Goodwill	At cost of acquisition—internally generated goodwill is not recognised
Land and buildings	At cost, recoverable amount, or revalued amount if revaluations are undertaken, the revaluations are based on 'fair value'
Marketable securities held by general insurers, life insurers and by superannuation funds	Net market value
Marketable securities held by entities other than superannuation funds, life insurers and general insurers	At cost or market value. Cost is frequently used where market value is not available

### TABLES

Tables provide useful checklists (e.g. p.147).

### Lease commitment note appearing in the 2004 annual report of BHP Billiton

	BHP Group	
	2004 (US\$m)	2003 (US\$m)
<b>Note 40. Commitments</b>		
<b>Lease expenditure commitments</b>		
<i>Finance leases (a)</i>		
Due not later than one year	10	3
Due later than one year and not later than five years	42	2
Due later than five years	54	6
Total commitments under finance leases	106	11
deduct Future financing charges	30	1

### EXHIBITS

These features contain extracts from actual company reports or documents, or provide a commonly used format for accounting. They highlight the relevance of the chapter content to the practice of accounting (e.g. p.399).

# relevance and practical application of the theory

## FIGURES

Figures provide a graphical representation of how events and action link (e.g. p.775).

## FINANCIAL ACCOUNTING IN THE NEWS

Accounting is often a major and controversial part of news items that hit the headlines. Excerpts from the media put various aspects of accounting under the spotlight, emphasising how integral it is to business life. They also help students to gain a wider grasp of accounting by presenting opposing viewpoints in relation to hot topics. Some show accounting in a historical context; others relate to contemporary issues (e.g. p.192).

## CHAPTER SUMMARY

Key points of the chapter are summarised in this section. Check through it carefully to make sure you have understood topics covered before moving on.

## END-OF-CHAPTER EXERCISE

A comprehensive exercise and worked solution is provided at the end of each chapter. These are a great revision aid; work through them before tackling the more challenging questions to ensure you are on the right track.

## KEY TERMS

Key terms are listed at the end of each chapter. They are bolded in the text the first time they are used, and defined in the margin at that point, and also in the glossary at the end of the book.

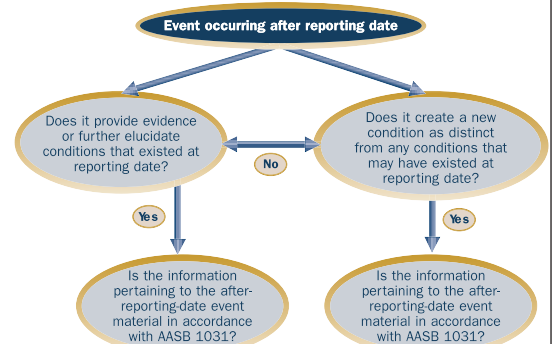
## REVIEW QUESTIONS

These questions ask you to reflect on key topics within the chapter, and help cement your learning (e.g. p.66).

## CHALLENGING QUESTIONS

These integrate issues from preceding chapters. They require a detailed problem analysis and help build problem-solving and critical thinking skills.

### Determining the treatment of an event occurring



*The Australian Financial Review*  
Friday 19 December 2003, p. 23  
By Roger Montgomery, Director of Clime Asset Management

### 4.1 AIRLINE LOSSES MASKED AS PROFITS

I am about to impart a warning to share investors—a warning that has been by millions of small investors to their financial detriment.

Just one year before the successful listing in Australia of Virgin Blue, Chapter 11 protection from creditors in part because the company was d backing for new loans. The contrast could not be starker and yet the two b same industry. So is the contrast due to management ability or is there a airlines that destroys rather than creates true owners' wealth?

When accounting standards and methods which can be regarded as in economic performance allow capital-intensive businesses to depreciate the equipment based on a historical cost basis, reported 'accounting profits' be 'economic losses'.

Unfortunately, while the investor uses accounting to determine wher economic performance of the business that will determine whether the decis

An aircraft purchased today and maintained with services and parts considerably more than an aircraft purchased two decades ago and mainta Yet accounting standards allow historical cost depreciation to provid

### REVIEW QUESTIONS

- 1 Describe the roles of ASIC, the AASB, the UIG, the ASX and the FRC and the relationships between these regulatory bodies.
- 2 What is the IASB and how does it affect financial reporting regulation in Australia?
- 3 What is the role of the independent auditor, and why would the manager or the users of financial statements be prepared to pay for the auditor's services?
- 4 What is a conceptual framework of accounting?
- 5 Do we need a conceptual framework in Australia? Why?
- 6 Define the elements of financial statements as per the 'Framework for the Preparation and Presentation of Financial Statements' (or the AASB Framework).
- 7 Define 'relevance' and 'reliability'. Is there a trade-off between the two?



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