

CHAPTER 1 INTRODUCTION TO CORPORATE ENTITIES

QUESTION 1.1

Business	Reporting Entity Characteristics			Reporting Entity Status
	Separation of Ownership	Political or Economic Influence	Significant Financial	
(a)	No	No	No	No
(b)	Yes	Yes	No	Yes
(c)	No	Yes	No	Yes
(d)	Yes	Yes	Yes	Yes

QUESTION 1.2

The Corporations Act distinguishes between a reporting entity and non-reporting by requiring Public companies and Large Proprietary companies to prepare general purpose financial reports in accordance with the accounting standards, whereas Small proprietary companies have reduced financial reporting requirements.

QUESTION 1.3

The Corporations Act distinguishes between small and large proprietary companies to ensure that large proprietary companies comply with the same reporting requirements as public companies, whereas small proprietary companies have reduced reporting requirements.

QUESTION 1.4

- (a) Trigger and Sharon in a partnership faced 'Unlimited (personal) Liability' for the business debts, however, in a company their personal liability for company debts is limited to the amount they have paid (or have yet to pay) on the shares they have acquired.
- (b) Trigger and Sharon will need to appoint company directors to manage and control the company.

QUESTION 1.5

Brief report to identify and explain the following issues:

- 1 Register the business, which includes the selection of a business name
- 2 Adopt the replaceable rules or prepare a constitution
- 3 Allot shares to founding members
- 4 Appoint directors and company secretary
- 5 Complete and lodge the application form
- 6 Commence business on the granting of the certificate of registration.

QUESTION 1.6

(a)

General journal of Castaway Ltd			
General journal			
Date	Details	Debit	Credit
1 July	Subscribers Share capital - Ordinary shares <i>Issued 1000 \$2.00 ordinary shares to each of 5 subscribers as per Application for Registration</i>	\$ 10 000	\$ 10 000
31 July	Bank Subscribers <i>Received money paid by subscribers</i>	10 000	10 000

(b)

Castaway Ltd	
Statement of financial position	
As at 31 July	
Shareholders' equity	\$
Share capital	
Ordinary shares (5000 @ \$2.00 each)	10 000
Total shareholders' equity	10 000
Assets	
Bank	10 000
Total assets	10 000

QUESTION 1.7

(a)

General journal of Weffacol Suppliers Ltd			
General journal			
Date	Details	Debit	Credit
31 Jan	Subscribers Share capital - Ordinary shares Share capital - Preference shares <i>Issued 100 000 \$0.50 ordinary shares and 20 000 \$5.00 preference shares to each of 4 subscribers as per Application for Registration</i>	\$ 600 000	\$ 200 000 400 000
28 Feb	Bank Subscribers <i>Received money paid by subscribers</i>	600 000	600 000

(b)

Weffacol Suppliers Ltd	
Statement of financial position	
As at 28 Feb	
Shareholders' equity	\$
<i>Share capital</i>	
Ordinary shares (400 000 @ \$0.50 each)	200 000
Preference shares (80 000 @ \$5.00 each)	400 000
Total shareholders' equity	600 000
Assets	
Bank	600 000
Total assets	600 000

QUESTION 1.8

General journal of Harris Pty Ltd			
General journal			
Date	Details	Debit	Credit
		\$	\$
18 May	Subscribers Share capital - Ordinary shares <i>Issued 100 000 \$1.00 ordinary shares to each of 5 subscribers as per Application for Registration</i>	100 000	100 000
	Costs of establishment	1 800	
	GST paid	180	
	Bank		1 980
	<i>Paid establishment costs</i>		
25 May	Bank Subscribers <i>Banked money paid by subscribers</i>	100 000	100 000

QUESTION 1.9

As directors of a large proprietary company they will need to ensure that the company complies with:

- The Australian Securities and Investments Commission (ASIC) which requires the company to maintain minutes of meetings of members and directors, and keep and lodge with ASIC written financial records that correctly record and explain its transactions and enable the preparation of financial statements that provide a true and fair view.
- The Australian Accounting Standards Board (AASB) which requires reporting entities to comply with accounting standards.

QUESTION 1.10

Directors of companies which are reporting entities are required by law to ensure that the company adheres to the accounting standards issued by the Australian Accounting Standards Board (AASB).

Accounting Standard AASB 101 - Presentation of Financial Statements, requires corporate reporting entities to prepare:

- (a) a statement of financial position
- (b) a statement of comprehensive income
- (c) a statement of changes in equity
- (d) a statement of cash flows, and
- (e) notes, comprising a summary of significant accounting policies and other explanatory information.

Consequently the directors will need to ensure that the company has an accounting system that is capable of providing accurate and timely information that will enable it to comply with the law and the accounting standards.