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APPLICATION OF THE REPORTING ENTITY CONCEPT IN AUSTRALIA

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ABSTRACT

Our aim is to document empirically the financial reporting choices, more specifically the application of the reporting entity concept, by for-profit private and not-for-profit entities in Australia. For decades, the reporting entity concept has been the foundation of differential reporting in Australia – a primary factor determining whether particular organisations across Australia should produce full GAAP-based financial reports. In recent years, the application of the concept, as originally set out in Statement of Accounting Concepts (SAC) 1, has come under increasing criticism on several grounds – most notably, that it does not yield the reporting outcomes originally intended by regulators. Our results show that the factors identified in SAC 1 as being indicative of the existence of a reporting entity, do not systematically explain its application. This suggests that factors in SAC 1, which also proxy for demand for financial information, do not explain the reporting practices of these entities. Our findings have relevance for researchers seeking to gain a better understanding of the factors affecting the accounting and reporting choices of these entities and for regulators interested in the means by which these choices might be more effectively regulated in future.

Keywords: Reporting entity, differential reporting, SAC 1, for-profit private companies, not-for-profit entities