

# Regulatory framework essay sample

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Regulatory framework is a system of regulations and the means used to enforce them. They are usually established by the government to regulate the specific activities. These rules have a structured way of being supported and enclosed in a safe place. Most of them are recognized by the law. A conceptual framework is important to the understanding of the many principles and concepts that underpin International Financial Reporting Standards (IFRS) and is an often-neglected part of candidates' studies.

Malaysian Legal & Regulatory Authorities

MASB (Malaysian Accounting Standard Board)

IASB (International Accounting Standard Board)

Securities Commission

MACPA (Malaysian Association Chartered of Public Accountants)

Legislative Acts

Company Act

An Act of Parliament which regulates the workings of companies, stating the legal limits within which companies may do their business

Financial Reporting Act

Financial report is a formal record of the financial activities of a business, person, or other entity. Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis

Note to the Financial Statements

Basis of Preparation

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The financial statements of the group are prepared under the historical cost convention and in compliance with the Financial Reporting Standards (FRS) and Companies Act 1965 in Malaysia.

#### Malaysian Legal & Regulatory Authorities

##### MASB:

To issue high quality, clear and enforceable new accounting standards as approved accounting standards To review, revise or adapt as approved accounting standards existing accounting standards To issues statements of principles for financial reporting

To sponsor or undertake development of possible accounting standards To conduct such public consultation as may be necessary in order to determine the contents of accounting concepts, principles and standards. IASB:

Formulating and publishing accounting standards

Promoting worldwide acceptance and observance of its standards Develop a single set of global accounting standards of high quality, untestable and enforceable that require transparent and comparable information in general purpose financial statement.

##### Securities Commission:

Encourage and promote the development of the capital market in Malaysia by regulating all matters relating to the securities industry.

#### Legislative Acts

The Framework deals with:

the objective of financial statements;

the qualitative characteristics that determine the usefulness of information provided in financial statements; definition, recognition and measurement of the elements from which financial statements are constructed; and concepts of capital and capital maintenance

The management of an enterprise has the responsibility for the and presentation of the financial statements of the enterprise. Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information that helps it carry out its planning, decision-making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs. The reporting of such information, however, is beyond the scope of this Framework, The preparers of financial statements have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of receivables, the probable useful life of plant and machinery, and the warranty claims that may occur.

Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses, because the financial

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statements would then not be neutral and, therefore, not have the quality of reliability.

An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements, any changes in those policies and the effects of such changes. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same enterprise from period to period and by different enterprises. Compliance with Accounting Standards, including the disclosure of the accounting policies used by the enterprise, helps to achieve comparability. “ Framework (issued 2000)”

## Conclusion

In conclusion, legal & Legislative Act holds the influence of each authority/act on the preparation and presentation of financial statements by enterprises.

## Introduction

### Legal & Regulatory Framework

Regulation refers to rule-making activity by governments and the courts. Constitutions, parliamentary laws, subordinate legislation, decrees, orders, norms, licenses, plans, codes, and even some forms of administrative guidance can all be considered “ regulation”. For markets to function efficiently some regulations, such as framework or market organizing regulations are necessary. The regulatory framework is a set of the rules within which individual actors operate and includes contract, tort

and property law, competition law, bankruptcy law, securities law and intellectual property law and regulatory reform refers to changes that improve regulatory quality, that is, enhance the performance, cost-effectiveness, or legal quality of regulations and related government formalities.

#### Implication toward Financial Statement's users

The different aspects of legal and regulatory framework have significant implication for users of financial statements. Some of the users of financial statements have complained that some of the regulations add unimportant complexities. The basis behind their argument is that there are some rules which are extremely detailed, with standards extending to more than hundred pages. Others have argued that these rules provide loopholes for financial engineering and fail to provide a 'true and fair' image of the business. It has also been noted that sometimes these rules fail to capture the details of targeted cases. Another negative phase of these rules is that they fail to provide solutions in the event of 'gaps' (Kotas, 1999).

Management can also choose to observe all those accounting treatments that favor their interests and avoid those that will define real position of the business. However, it is worth to acknowledge the fact that these rules play a major role in ensuring a fair competition of international businesses which operate in more than one national market. However, it is fairer to say that observance of these legal and regulatory frameworks significantly contribute to preparation of statements which portray a company's real performance. The different legal and regulatory frameworks should be flexible enough to

accommodate new situations in the business. A relevant and reliable makes it easier for users of financial information to analyse those statements.

Business owners can use accounting information to conduct a financial analysis of their companies & right single quote operations. Accounting information often has quantitative and qualitative characteristics.

Quantitative characteristics refer to the calculation of financial transactions. Qualitative characteristics include the business owner & right single quotes perceived importance of financial information. Business owners often require financial information when making business decisions. Incorrect or inappropriate information can hamper decision-making or cause business owners to make incorrect assessments about their companies, which characteristic is:

Understandable Accounting information must be understandable. This is an important qualitative characteristic for small business owners. Many small business owners do not have a strong accounting background. Financial information that is too technical or cannot be understood by a layperson can be ineffective for business owners. Small business owners often use professional accountants to complete various accounting functions. Business owners should choose an accountant who can prepare information in an easily understandable manner.

Useful

Business owners need accounting information that is applicable to the business decision at hand. They can request financial statements, accounting schedules, reconciliations or cost-benefit analysis. For example,

cost allocation reports may not provide sufficient information for business owners who must make a decision on hiring employees. Cost allocation usually refers to applying business costs to goods or services produced by the company, which has very little to do with human resources. Business owners should carefully request and review accounting information to ensure it provides the most useful information for the decision-making process.

Relevant Accounting information should relate to a specific time period or contain information regarding individual business functions. Business owners often conduct a trend analysis when reviewing financial information. The trend analysis compares historical financial information to the company & right single quotes current accounting period information. Irrelevant historical information can severely distort the trend analysis process. For example, reviewing the production process for widgets requires relevant information on the cost of materials for widgets. Cost information on the materials to produce cogs would be irrelevant. Reliability

Accounting information must be reliable, so that business owners can be reasonably assured that accounting information presents an accurate picture of the company & right single quotes financial health. Business owners often use accounting information to secure external financing for their business. Information that is not reliable or accurate may cause lenders and investors to question the business owner & right single quotes management ability. Business owners may also struggle to secure external financing with poor accounting information.



## Comparable

Comparability allows business owners to review their companies' accounting information against that of a competitor. Business owners use comparison to gauge how well their companies operate under certain market conditions. Owners often use the leading company of an industry for the comparison process. These companies usually have the most efficient and effective business operations. Non-comparable accounting information can make this a difficult process. For example, business owners should consider preparing financial statements according to standard accounting principles. The statements can then be compared to other company & right single quotes financial standard prepared in a similar manner. Consistent

Consistency refers to how business owners and accountants record financial information in a company & right single quotes general ledger. Business owners need to ensure financial transactions are handled the same way. Inventory purchases should be recorded the same way as yesterday, today and tomorrow. This helps companies create accurate historical records and limit the amount of financial accounts or journal entries included in their general ledgers. Conclusion

In conclusion, legal and regulatory frameworks are necessary for organization and assess its implications for users of the financial statements.

## Introduction

Accounting Concepts and Principles are a set of broad conventions that have been devised to provide a basic framework for financial reporting. As financial reporting involves significant professional judgments by

accountants, these concepts and principles ensure that the users of financial information are not misled by the adoption of accounting policies and practices that go against the spirit of the accountancy profession.

Accountants must therefore actively consider whether the accounting treatments adopted are consistent with the accounting concepts and principles.

Financial statement items must be presented in accordance with generally accepted accounting principles. In the balance sheet, assets and liabilities must be classified based on expected usefulness or maturity current or long-term. For instance, current assets such as cash or inventories must be grouped separately from long-term or fixed assets such as land and equipment. Similarly, debts due within a year will be shown current; over one year, they will be considered long-term. The statement of income must separate regular operating revenues and expenses from non-recurring items. These items might include a gain on a sale of a business segment.

Accounting Entity

Accounting Period

Going Concern

Money Measurement

Historical Cost

Consistence

Prudence

Accrual Concept

### Accounting Entity

All the financial information relating to the business is recorded and reported separately from the owner's personal information. For example, Malayan Flour Mills' Income Statement does not record any owner's personal use into the business book, but on the other hand, transactions related to the business like buying equipment for office use will be recorded in the business accounts for the benefit of the company rather than the person who owns the company.

**Going Concern**  
The business entity will continue to operate indefinitely. For example, Malayan Flour Mills' factory is in cash flow problems but the government of the country provided a guarantee to the factory to help it out with all payments, so the factory is a going concern despite its poor financial position.

### Accounting Period

Accounting Period is the life of a business divided into specified periods of time for the purpose of preparing financial statements. The period may be for a month, half-year, one year, or longer than one year, depending on the volume and nature of the business. For example, Malayan Flour Mills' firms prepare financial statements for publication and tax reporting annually from 1st January to 31st December based on an accounting period.

### Measurement

**Money Measurement Concept** in accounting, also known as the **Measurability Concept**, means that only transactions and events that are capable of being measured in monetary terms are recognized in the financial statements. For example, Malayan Flour Mills' high levels of customer support will likely lead to increased customer retention and a higher propensity to buy from the

company again, which therefore impacts revenues and if employee working conditions are poor then this leads to greater employee turnover, which increases labour-related expenses, thus bring impact to MFM revenues.

### Historical Cost

All transaction of a business entity are recorded at the original cost to the company. The cost value will be recorded in the Balance Sheet where Market Price is not included in the Financial Statement. For example, say the main headquarters of Malayan Flour Mills' company, which includes the land and building, was bought for RM113, 764 in 2011, and its expected market value today is RM500, 000. The asset is still recorded on the balance sheet at RM113, 764. Consistence

Accounting period for preparation of Financial Statement cannot be change from period to period a comparison of the results of one period with the next can be made if the same accounting period method has been used in both periods. For example, Malayan Flours Mills' Company, a flours industry, has historically used FIFO for valuing its inventory. In the last few years, Malayan Flours Mill's has become quite profitable and the company's accountant suggests that the organization switch to the LIFO inventory system to minimize taxable income. According to the consistency principle, Malayan Flours Mills; Company can change accounting methods for a justifiable reason. Whether minimizing taxes is a justifiable reason is debatable.

### Prudence

Prudence is observed when reporting all accounting information. Accounting practices are observed so that assets or revenues are not overstated, same

goes for liabilities and expenses prudence is important to explain why closing stock is always valued at the lower cost or market value so that profits are not overstated during the current period. For example, Malayan Flours Mills need to recognize how to stop liability and expense plus periodic evaluations of assets by reducing its carrying amount. This concept usually applies to the question of when a company should recognize profit.

#### Accrual Concept

Revenue is recognized when it is earned and expenses is recognized when they are incurred revenue whether already received or already earned but not received must be accounted under accrual concept. Same goes for expenses, owed expenses are termed accrued expenses and are added to expenses that have been paid to give the total expenses incurred for the period under the consideration. For example, Malayan Flours Mills' sells its new flours product days or even weeks before the due date on advertisement is made, but it does not record the payments as revenue because the due date, the event on which the revenue is based has not occurred yet. Conclusion

In conclusion, financial statements are prepared and presented in accordance with appropriate regulations and standards where different term of laws or regulations are dealt within an organizations' financial statements.

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