

Corporate Reporting

Lecture 2

Company Reports and Disclosure I Financial Statements



1

Objectives

- Which entities must report
- What kinds of reports must be produced
- The minimum contents of the reports



2

Which Entities must report

- All reporting entities: include:
 - All disclosing entities (pp.16-17)
 - Listed public companies
 - Most unlisted public companies (e.g. it has 100 holders of securities that were issued used a regulated offer).
 - Other unlisted public companies
 - All large proprietary companies
 - Some small proprietary companies if required by ASIC
 - and other entities required by *Corporations Act*
 - ...



3

Reports that are required

- Annual Reports (AASB 101, AASB 108, AASB 107, AASB 110....)
 - Concise Reports (AASB 1039...)
- Half-year Financial Reports (AASB 101, AASB 134..)
 - Required mainly for disclosing entities



4

Annual Report

1. The annual financial report, comprising:
 - the financial statements, namely;
 - A statement of Financial Position;
 - A Comprehensive Income Statement;
 - A Statement of Cash Flows;
 - A Statement of Changes in Equity
 - Consolidated set of FS(if required by an accounting standard)
 - notes to the financial statements;
 - a director's declaration (endorsement)
2. An annual auditor's report
3. An annual directors' report



5

Director's Declaration

- Part of annual financial report
- Must declare:
 - Financial statements & notes comply with Accounting standards
 - give a 'true & fair' view
 - able to pay debts
 - comply with the law



6

General features of financial statements

- Per AASB 101, the following considerations must be followed in the presentation of a financial report:
 - Fair presentation and compliance with International Financial Reporting standards (IFRSs)
 - Going concern
 - Accrual basis of accounting
 - Materiality and aggregation
 - Offsetting
 - Frequency of reporting
 - Comparative information
 - Consistency of presentation

7

General features of financial statements

Fair presentation & compliance with IFRSs

- A set of financial statements are required to present fairly an entity's financial performance, financial position and cash flows
- Applying IFRSs (with additional disclosures where necessary) is presumed to result in a fair presentation
- Entities must explicitly state their compliance with AASB and IFRS accounting standards in a note to the financial statements

8

General features of financial statements

Going concern

- There is an assumption that all entities adopt the going concern basis of accounting
- Exception applies where management intends to liquidate or cease trading
- In such cases a liquidity basis is adopted

Accrual basis of accounting

- Except for cash flow information, the financial statements are required to be presented using the accruals basis of accounting

9

General features of financial statements

Materiality and aggregation

- Each material class of similar items must be presented separately in FS.
- Financial information needs to be aggregated and classified into similar classes in FS as line items unless those line items are immaterial

Offsetting

- Assets and liabilities, income and expenses are not be offset unless required or permitted by an AASB
 - e.g. gains and losses on the disposal of a non-current asset.
 - Deferred tax assts (DTA) can be offset by deferred tax liabilities (DTL)

10

General features of financial statements

Frequency of reporting

- Annual report (12 months)
- Half-year report (6 months)

Reporting lag

- The time within which those reports must be finalized
 - <4 months of end of year or <21 days before AGM
 - e.g. financial year ended on 30th June 2005 the AGM is due on 30th September 2005, the annual report should be ready by 9th September 2005.

11

General features of financial statements

Comparative information

- Comparative information for the immediately preceding reporting period must be disclosed for all amounts (including narrative discussion)

Consistency of presentation

- Financial information must be consistently presented from one period to the next unless:
 - There has been a significant change in the entity's operations
 - A change in presentation or classification will provide more relevant information
 - A change in presentation or classification is required by another accounting standard

12

Identification of the financial statements

- AASB 101 requires the following information to be disclosed separately in the financial report
 - name of the entity
 - reporting period
 - presentation currency
 - rounding used



13

Recognise versus Disclose

- Recognised: including on the face of financial statements
- Disclosed: including on the face of financial statements or in notes



14

Statement of Comprehensive Income

- A prime source of information about an entity's performance
- Income, expenses and other comprehensive income are included.
- Can be presented either in
 - A single statement of comprehensive income
 - Two statements – an income statement followed by a statement of comprehensive income.
- Total comprehensive income has two components:
 1. Profit or loss
 2. Other comprehensive income



15

Statement of Comprehensive Income (Cont.)

Profit or loss

- AASB101 adopts an “all-inclusive” approach to the determination of a company’s profit or loss
- All items of income and expense recognised into period must be included in the company’s profit or loss. The only exclusions relate to
 - Corrections of errors and the effects of changes in accounting policies
 - Provisions within other AASBs that require or permit components of other comprehensive income to be excluded from profit or loss.

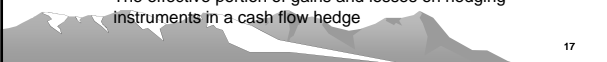


16

Statement of Comprehensive Income (Cont)

Other Comprehensive Income (OCI)

- OCI comprises items of income and expense that are not recognised in profit or loss.
- Components of OCI comprise
 - Changes in a revaluation surplus
 - Actuarial gains and losses on defined benefit plans
 - Gains and losses arising from the translation of financial statements of foreign operations
 - Gains and losses on remeasuring available-for-sale financial assets
 - The effective portion of gains and losses on hedging instruments in a cash flow hedge



17

Statement of Comprehensive Income (Cont.)

- Income tax relating to each component of OCI is required to be disclosed.
- These disclosures may be either in the statement of comprehensive income or in the notes.
- Reclassification adjustments relating to components of OCI are also required to be disclosed.
- Reclassification adjustments are amounts that were recognised in OCI in previous years but are reclassified (or “recycled”) to the current period profit or loss when the relevant item is derecognised.
- Reclassification adjustments do not arise on changes in a revaluation surplus.



18

Statement of Comprehensive Income

Reclassification adjustments

- Available for sale financial assets
 - Initially measured at fair value
 - Subsequently measured at fair value with unrealised gains or losses in equity
 - On derecognition (e.g.. sale) the balance in equity is removed from equity and reclassified (or recycled) to profit and loss.



19

Statement of Comprehensive Income (Cont.)

AASB 101 prescribes line items to appear in the statement of comprehensive income, but not the overall format. Minimum line items required on face of statement are as follows:



20

Statement of Comprehensive Income (Cont.)

- Additional items, headings and totals can be included in the income statement of comprehensive income if considered relevant to understanding (based on materiality and nature/function of items)
- Income comprises
 - Revenue – inflows from ordinary activities, e.g. sale of goods, provisions of services
 - Gains – inflows from activities outside ordinary trading, e.g. sale of non-current assets
 - Where material, revenue and gains may require separate disclosure



21

Statement of Comprehensive Income (Cont.)

- Although expenses (except financial costs) are not prescribed line items need to be presented in the statement of comprehensive income
- However, entities are required to present expenses, classified by nature or function, whichever provides the more relevant and reliable information, in the face or in the notes(para.99)

22

Analysis of expenses

- An entity shall present an analysis of expenses using a classification based either the nature of expenses or their function with in the entity, whichever provides information that is reliable and more relevant;
- Encourage to present the analysis on the face of the income statement;
- Can be disclosed in notes

23

Analysis by Nature

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before income tax		X

24

Analysis by Function

Revenue		X
Cost of sales		(X)
Gross profit		X
Other income		X
Distribution costs		(X)
Administrative expenses		(X)
Other expenses		(X)
Profit before income tax		X



25

- Entities classify expenses by function shall disclose additional information on the nature of expenses, including
 - Depreciation and amortization expense
 - Employee benefits expense



26

Statement of Comprehensive Income (Cont.)

- To enhance understandability of the statement of comprehensive income AASB 101 requires separate disclosure of the nature and amount of certain material income and expense items (Non-recurring items) including:
 - Inventory and PPE write-downs
 - Cost of restructuring
 - Disposals of PPE & other investments
 - Profit/(losses) re discontinuing operations
 - Litigation settlements
 - Reversals of provisions
- Such disclosures can be made either in the statement of comprehensive income or in the notes



27

Statement of Financial Position

- Called “Balance Sheet” before
- Change back to “A Statement of Financial Position” in 2009
- Two basic approaches :
 - 1.Current/Non-current presentation
 - 2.Liquidity presentation



28

Statement of Financial Position (Cont.)

- Current and non-current assets and current and non-current liabilities are to be presented separately, except:
 - when presentation in order of liquidity provides information that is reliable and more relevant
- In which case all assets and liabilities to be presented broadly in order of liquidity.



29

Statement of Financial Position (Cont.)

AASB 101:

- Does not prescribe a single format
- Commentary (pars 53 and 54):
 - If goods and services supplied within clearly identifiable operating cycle, classification into current/non-current deemed useful for decision making.
 - If financial institution—a decreasing order of liquidity format more suitable, i.e. more relevant for decision makers



30

Statement of Financial Position (Cont.)

AASB 101:

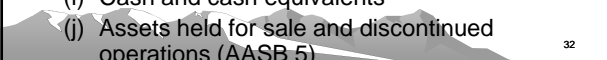
- Requires specific disclosures in relation to the duration of an operating cycle
- If current vs non-current method adopted and entity has a single, clearly identifiable operating cycle greater than 12 months, the length of the operating cycle must be disclosed



31

Minimum items to be disclosed on the face of the statement of financial position

- Property, plant and equipment
- Investment property
- Intangible assets
- Financial assets
- Investments accounted for using equity method
- Biological assets – e.g. living stock, forestry
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Assets held for sale and discontinued operations (AASB 5)



32

Minimum items to be disclosed on the face of the statement of financial position

- Trade and other payables
- Provisions – e.g. provision for warranty
- Financial liabilities
- Liabilities and assets for current tax (AASB 112)
- Deferred tax liabilities and assets (AASB 112)
- Liabilities in disposal group (AASB 5)
- Non -controlling interest (presented within equity)
- Issued capital and reserves (attributable to equity holders of parent)



33

The Statement of Financial Position (Con.)

- Additional lines can be presented, taking into account:
 - The nature and liquidity of assets
 - The function of assets within the entity
 - The amounts, nature and timing of liabilities
- Entities may elect to provide subtotals, e.g.:
 - Total assets less total liabilities equals net assets/equity; or
 - Total assets equals total liabilities plus total equity.



34

The Statement of Financial Position (Con.)

- Further sub-classifications needed for some items
 - Inventories must be broken down into appropriate classifications
 - PP&E must be disaggregated into classes
 - Further sub-classifications may also be required due to the size, nature and function of the amounts involved – e.g. splitting out provisions
- Specific share capital disclosures are also prescribed by AASB 101
 - e.g. number of shares authorised
 - Number of shares issued and fully paid; and issued but not fully paid
- May be disclosed either in the statement of financial position or in the notes.



35

Statement of Changes in Equity

- The role of the statement of changes in equity is to provide a reconciliation of opening and closing equity, and also to provide details of the various equity accounts that are impacted on by the period's total comprehensive income
- It also provides information about the effects of transactions with owners in their capacity as owners (distributions and capital contributions)



36

Statement of Changes in Equity

- The following is disclosed on the statement of changes in equity:
 - Total comprehensive income for the period attributable to:
 - Equity holders of parent; and
 - Non controlling interests
 - For each component of equity
 - Changes in accounting policies; and
 - Corrections of errors required by AASB 108
 - For each component of equity a reconciliation between opening and closing balances showing changes resulting from
 - Profit/(Loss)
 - Other comprehensive income
 - Transactions with equity holders, showing separately distributions to equity holders



37
