

Segment: Financial Reporting

Topic: Financial Report

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Introduction

The financial report is a comprehensive document that includes a great deal of information about the company and its financial performance during a period. Not all businesses are legally required to produce a financial report. Regulators in each country decide on

- the type of businesses that are required to produce a financial report
- how often a business is to produce a financial report per year.

In some countries, companies are required to produce an annual report as well as quarterly reports. In other countries, companies are required to produce an annual report as well as a biannual report. Typically, periodic reports are not as detailed and comprehensive as annual reports.

Regulators also set deadlines for companies to produce their financial reports. Companies generally produce their annual reports within four to six weeks after the end of the financial period. However, many companies announce their profit figures for the period within two to three weeks after the end of the financial period.



Learning Objectives

At the end of this topic, you will be able to:

- state the purpose of the financial report
- describe the eight components in the financial report.

1. Components

The amount of information disclosed in a financial report has increased significantly in recent years. This increase has, for the most part, been influenced by greater demand for transparency by many users. In addition, many companies tend to disclose other relevant information voluntarily when it is in their best interest to do so.



Fig.1: Components of a Financial Report

Typically, a financial report includes the following sections:

Corporate review information

This section tends to provide information about the business activities of the company, its overall performance, and its prospects. It may also include a review of the company strategy, human resources policy and how the company is responding or contributing to public safety and community welfare. The impact of unusual or external events, and how the company is responding to changes in market conditions, can also be included.

Operations review information

This section provides qualitative and quantitative information about the activities of the various segments, products and services of the company. Large or multinational companies also provide such details on a geographical basis.

Financial review information

The financial review section provides narrative discussion and analysis of the financial position of the company at the end of the reporting period, and of its financial performance.

Financial statements

The financial statements provide summary information about a company's financial position, profitability and cash-generating ability.

Notes to the financial statements

The footnotes to the financial statements are an integral part of the financial statements. They provide information about the accounting policies, methods and procedures used by a company in the preparation of its financial statements.

External auditor's report

The auditor's report provides the users of financial statements with a reasonable assurance that the financial statements are prepared in accordance with generally accepted accounting principles, are fairly presented, and are free from material misstatement.

Selected unaudited financial data

The provision of this data tends to vary in nature and in depth across companies. For example, oil and gas companies may provide information about reserves, such as quantity, value and sources, in reserve quantity and value figures. Quarterly financial information is another example.

Stock market data

Most listed companies provide summary information about share price fluctuation during the reporting period, dividends declared, and brokers details.

Financial Report

For an example of a financial report, visit the General Electric website (<https://www.ge.com/>) and follow the steps below:

- A. Go to Investors
- B. Select the latest annual report
- C. Click on the “Download 2019 10-K”

2. Summary

Here is a quick recap of what we have learnt so far:

- The financial report provides information about the performance of the company during a period, and its financial position and cash generating ability.
- The aim of the financial report is to help users make informed decisions about the company.
- The production of the financial report relies on generally accepted accounting principles.