

Segment: Financial Reporting

Topic: Footnote Disclosure

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Introduction



The footnotes to the financial statements are an integral part of the financial statements. Users of financial statements must read these footnotes very carefully as they provide information about the accounting policies and the methods and procedures used by a company in the preparation of its financial statements. These policies, methods and procedures form what accountants refer to as Generally Accepted Accounting Principles (GAAP).



Learning Objectives

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

- state the purpose of the footnote disclosure section in a financial report
- describe the information displayed in the footnote disclosure section
- describe the standard for accounting policies, methods and procedures, GAAP.

1. Generally Acceptable Accounting Principles (GAAP)

It should be noted that GAAP is not a unique set of principles. Not only do these principles differ across countries, but even within the same country accounting standard setters do not require companies to apply the same accounting methods or procedures for similar transactions. While the flexibility inherent within GAAP has many advantages, the disadvantages are that it allows companies to make choices in the figures reported in the financial statements. This makes the process of comparing the financial performance across companies quite difficult.

The Footnote Disclosures section of an annual report typically includes the following information:

- Summary of significant accounting policies as they apply to inventories, marketable securities, property, plant and equipment, foreign currency transactions, revenue recognition, advertising costs, stock-based compensation, income taxes, transactions with affiliated companies, and others
- Summary of the financial impact of accounting rules that became effective during the reporting period
- Detailed information associated with the recognition and measurement basis for key assets, liabilities, equity, revenues and expenses recognised in the financial statements
- Detailed information associated with items that may not be recognised in the financial statements such as contingent liabilities, capital commitments and related party transactions.

In general, you will find that footnote disclosures are lengthy and complex. Understanding these footnote disclosures is not an easy task. However, you cannot ignore the information contained in these footnotes if you want to make informed investment or credit decisions. You need to be familiar with many of the accounting standards that determine the methods and procedures that can be used in the preparation of the financial statements. The divergent use of these methods and procedures by different companies may significantly affect the reported figures in the financial statements. You will be introduced to many of these methods and procedures in later segments.

To appreciate the type of information contained in the notes to a financial report, review the footnote disclosures of ExxonMobil by visiting its website (<https://corporate.exxonmobil.com/en>) and follow the steps below:

1. Navigate to “Investors”
2. Click on “Investor relations”
3. Click on “SEC filings”

Footnote Disclosure

4. Download the latest available Form 10-K (e.g., 2019 Form 10-K) for the fiscal year and then scroll down to Notes to Consolidated Financial Statements.

2. Summary

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

- The footnotes to the financial statements form an integral part of these statements
- The footnotes provide:
 - narrative and quantitative details about the accounting methods and procedures used in the preparation of the financial statements
 - information about resources and claims that are not recognised in the financial statements.