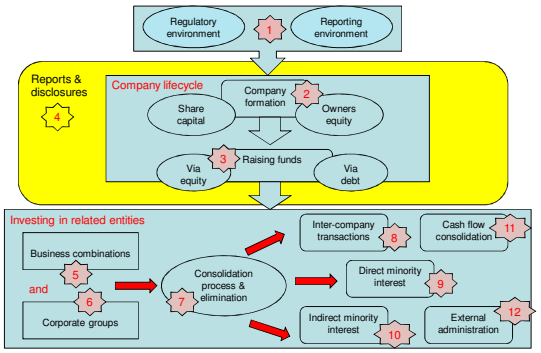
HA2032
Corporate Accounting

Topic 4
Reports and Disclosures

Studying Corporate Accounting



Introduction

- Company disclosure:
  - companies make financial and other information available to external parties that is considered to be useful
- Three principal sources of authority:
  1. Legislative requirements
  2. Accounting standards requirements
  3. Stock exchange requirements.

Legislative requirements

- Entities required to adhere financial reporting requirements under the *Corporations Act* (Part 2M) include:
  - all disclosing entities
  - all public companies
  - all large proprietary companies
  - all managed investment schemes
  - some small proprietary companies.

Content of the annual report

- Distributed to members before AGM for public companies
- Annual report contains:
  - The financial report:
    - The financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement, consolidated statements if required)
    - notes to financial statement
    - Directors' declaration
    - CEO and CFO declarations for listed entities
  - Auditor's report
  - Directors' report.

Classification of entities

- Small propriety companies:
  - do not have to prepare financial reports unless shareholders or ASIC requests them
  - must produce annual report if it is controlled by a foreign company.

Classification of entities (contd)

- Large proprietary companies and public companies that are **not disclosing entities**
  - Are required to prepare annual financial reports
  - If these companies meet the definition of reporting entity, financial reports must be prepared using AASB standards. However, if these companies are not reporting entities, financial reports only need to comply with the core AASB standards.

Classification of entities (contd)

- Large proprietary companies and public companies that **are disclosing entities**
  - ***In addition*** to preparing annual financial reports, these companies must also prepare half-yearly financial reports.

Timing of reports

- Public companies and disclosing entities
  - Must distribute their reports the earlier of 21 days before the AGM or four months after the end of the financial year.
- Registered schemes
  - Within three months of then of financial year.

Timing of reports (contd)

- Small proprietary companies
  - If a small proprietary company is required to prepare reports, they must be distributed within two months after the date of the direction or four months after the end of the financial year.
- Other proprietary companies:
  - must distribute their reports within four months of the end of the financial year.

Lodgment with ASIC

- Annual reports, half-year reports and concise financial reports required to be prepared under the Act must be lodged with ASIC:
  - within three months for disclosing entities
  - within four months for other entities.

ASX requirements

- Listed companies must supply:
  - an additional half-yearly report, which meets the exchanges requirements
  - a preliminary final report must also be supplied to the ASX by all listed companies
  - additional information with their final annual reports.

Content of the annual financial report

- Core accounting standards
  - AASB 101 *Presentation of Financial Statements*
  - AASB 107 *Cash Flow Statements*
  - AASB 108 *Accounting Policies*
  - AASB 1031 *Materiality*
  - AASB 1048 *Interpretation and Application of Standards.*

Content of the annual financial report

- Scope of core accounting standards
  - Apply to all types of entities required to prepare financial statements under part 2M.3 of the *Corporations Act.*
- Recognised versus disclosed
  - Item is 'recognised' → an event or transaction is included in the amounts appearing in line items of financial statement
  - Item is 'disclosed' → can be reported in either in financial statements or disclose in the notes to financial statements.

Content of the annual financial report

- Role of notes
  - They are used to provide detail that cannot conveniently be reported in the statements themselves or would result in their containing excessive detail
  - Each item presented on the face of a financial statement must be cross referenced to any note that contains information directly related to that item.

Content of the annual financial report

- AASB 101 specifies the general requirements for financial report presentation and disclosures
  - The financial reports to be clearly identified and distinguished from other information
  - Reports to be presented in English
  - The entities name and reporting date to be identified.
  - Comparative information must be prepared.
- The standards also specify that presentation currency must be used in the financial report

Other standards of disclosure

- AASB 1031: Materiality
  - Materiality is used in deciding if compliance with an accounting standard means that an item must be measured or disclosed
  - Both the nature and amount of each item must be considered
  - The use of quantitative guidelines is subject to a need to the nature of the item and its relationship with other items

Other standards of disclosure

- Some quantitative techniques are:
  - An amount which is, equal to or, greater than 10% of the appropriate base amount may be presumed to be material unless there is evidence or a convincing argument to the contrary
  - An amount that is, equal to or, less than 5% of the appropriate base amount may be presumed not to be material unless there is evidence, or a convincing argument to the contrary
  - Flexibility of judgment required.

Other standards of disclosure

- AASB 108: Accounting policies, changes in accounting estimates and errors
  - A summary of accounting policies must be presented in the initial section of the notes in the financial report.
  - If the accounting policies that have been used have changed, additional disclosures are necessary to ensure that users of the financial report are not misled.

Other standards of disclosure

- AASB 110: Events occurring after reporting date
  - Certain events may occur between balance date and distribution.
  - AASB 110 compels companies to alter the report or provide addition information if certain events take place.
- Post-reporting date events that must be reflected are of two kinds:
  1. those that relate to conditions existing at the reporting date
  2. those that arose subsequent to the reporting date.

Other components of financial report

- CEO and CFO declarations (listed entities)
  - Required since July 2004
  - If financial records have been properly maintained
  - Financial statements and notes comply with accounting standards
  - They give true and fair view.
- Directors' declaration (all entities)
  - Entity able to pay debts
  - Financial statements and notes comply with comply with the Act, accounting standards, true and fair view.

Annual directors' report

- Content
  - General information
  - Specific information
  - Special rules for:
    - public companies
    - listed companies and schemes
    - registered schemes.

Auditors' report

- Audit and the annual report
  - Annual financial report must be audited under the *Corporations Act.*
- Auditor is unable to form the required opinion on the audit report, if company fails to:
  - Act in accordance with the Act and AASBs
  - Provide all necessary information
  - Keep financial records properly
  - Keep records required by the Act

Non-reporting entities

- Preparation of annual report (other than small proprietary companies)
  - financial report
  - directors' report and declaration.
- Copies of annual report sent to members
- AGM for public companies
- Annual report lodged with ASIC.

Financial statement disclosure

- Under SAC 2, GPFR must 'disclose information relevant to the assessment of performance, financial position, and financing and investing' (para. 45).
- Financial statements that are relevant to produce this information:
  - income statement
  - balance sheet
  - statement of changes in equity
  - cash flow statement.

The income statement

- AASB 101 requires that all items of income and expense recognised in a period be included in measuring the profit and loss unless an accounting standard requires otherwise (para. 78)
- Exception include changes in accounting policy, correction of errors
- 'All-inclusive' approach is taken to profit measurement, i.e. items of income and expense can be recognised by direct debit or direct credit to equity.

The income statement (contd)

- AASB 101 prescribes that at a minimum, the face of income statement should include:
  - *revenue*
  - *finance costs*
  - *share of profit or loss of associate and joint ventures*
  - *tax expense*
  - *profit or loss from discontinued operations*
  - *profit or loss*
  - *profit or loss attributable to minority interests, and*
  - *profit or loss attributable to equity holders of the parent.*

The income statement (contd)

- Note that items of income or expense must not be presented as *extraordinary items*, they have been prohibited since 1 January 2005
- AASB 101 permits two alternative presentation formats based on how expenses are classified:
  1. classification by their nature e.g. depreciation, employee benefits
  2. classification by their function within the entity e.g. cost of sales, selling and distribution costs.

The balance sheet

- For balance sheet, AASB 101 prescribes:
  (a) basis for presentation of assets and liabilities
  (b) basis for classification of assets, liabilities and owners' equity
  (c) presentation and disclosure requirements for recognised assets, liabilities and owners' equity items.

The balance sheet (contd)

- Classification of assets, liabilities and owners' equity
  - Assets classified by nature or function
  - Liabilities and owners' equity classified by nature only
- Companies are allowed to present their balance sheets in two ways:
  - using the current / non-current format, or
  - using the liquidity format.

The balance sheet (contd)

- Owners' equity disclosures
  - Detailed disclosure is required
  - Number of fully paid and partly paid shares
  - Par value
  - Participation in dividends and capital
  - Reconciliation of shares outstanding.

Statement of changes in equity

- It reconciles opening and closing amounts of owners' equity for the period
- It shows changes due to:
  - profit or loss for the reporting period
  - owners contributions and distribution of profits.

Statement of changes in equity (contd)

- The following are disclosed in either the statement or the notes:
  - amounts of transaction with equity holders, separately showing distributions
  - amount of retained earnings at the beginning of the reporting period and at the reporting date, and changes during period
  - for each class of contributed equity and for each reserve, a reconciliation of the beginning and reporting date carrying amount.

Cash flow statement

- It is governed by AASB 107
- It helps report users in assessing the entity's ability to:
  - generate cash flows
  - meets its financial commitments as they fall due
  - finance changes in scope and or nature of its activities
  - obtain external finance.

Cash flow statement (contd)

- Shows the inflow and outflow of cash resources during the reporting period, classifying inflows and outflows as either – operating, investing or financing activities.
- Under AASB 101, cash includes both:
  - Cash: cash on hand (i.e. notes and coins) and demand deposits (that is cash that is in a bank account that can be accessed immediately), and
  - Cash equivalents: are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

Earnings per share

- A performance indicator
- Regulated by AASB 133
- An entity must disclose earnings per share on the face of the income statement, even if the amounts are negative.
- Two EPS calculations are required:
  1. basic EPS
  2. diluted EPS.
- *EPS only required of listed entities or entities in the process of listing*

Earnings per share (contd)

- Basic earnings per share
  - Dividing ‘earnings’ for the reporting period by weighted average number of ordinary shares on issue during the reporting period.

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