

# ANNUAL REPORTS OF UNLISTED AUSTRALIAN FOR-PROFIT ENTITIES: ARE THEY USED WHEN MAKING DECISIONS?

Professor Christine Jubb, Dr Janine Muir, Dr Nandana Pathirana & Dr Mark Shying

---

ISBN: 978-0-6487512-6-7

#### COPYRIGHT NOTICE

©CPA Australia Ltd (ABN 64 008 392 452), 2020. All rights reserved. The reproduction, adaptation, communication or sale of these materials ('the Materials') is strictly prohibited unless expressly permitted under Division 3 of the Copyright Act 1968 (Cth). For permission to reproduce any part of these materials, please contact the CPA Australia Legal Business Unit - [legal@cpaaustralia.com.au](mailto:legal@cpaaustralia.com.au).

#### DISCLAIMER

CPA Australia Ltd has used reasonable care and skill in compiling the content of this material. However, CPA Australia Ltd makes no warranty as to the accuracy or completeness of any information in these materials. The publishers, authors, editors and facilitators are not responsible for the results of any actions on the basis of information in this work, nor for any errors or omissions. They expressly disclaim all and any liability to any person in respect of anything and the consequences of anything, done or omitted to be done by any such person in reliance, in whole or part, on the contents of this publication. The views expressed in this work are for reference purposes only and are not intended, in part or full, to constitute legal or professional advice. Further, as laws change frequently, all practitioners, readers, viewers and users are advised to undertake their own research or to seek professional advice to keep abreast of any reforms and developments in the law.

# TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
TERMS & DEFINITIONS	5
1. INTRODUCTION	7
2. RESEARCH METHOD	7
3. RESPONDENTS	9
4. ANALYSIS	12
5. CONCLUSION & RECOMMENDATIONS	26
APPENDIX 1	28
REFERENCES	49
AUTHORS	50
ENDNOTES	51

## EXECUTIVE SUMMARY

CPA Australia is a leading voice on accounting and auditing standards, legislation and related regulation relevant to external reporting and audit and assurance.

One issue identified by CPA Australia was the lack of literature about which particular pieces of information in the annual reports of unlisted Australian for-profit entities are used by different users/user groups when making decisions.<sup>1</sup>

This report addresses that deficiency in the literature.

The data used to produce this report were gathered through a questionnaire survey. Questions were designed to:

- show the level of importance users attach to the different pieces of information in the annual report when making decisions; and
- test for the influence of two different accounting standards frameworks on the usefulness of financial information when making decisions (Australian Accounting Standards – Reduced Disclosure Regime and the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)).

The report finds that:

1. the five most important decisions made when using annual reports of unlisted for-profit entities are:
  - a. analysing the annual report to provide recommendations (29%);
  - b. equity investment decisions (15%);
  - c. monitoring and assessing the performance of those charged with governance (14%);
  - d. monitoring and assessing the performance of management (14%); and
  - e. regulatory compliance decisions (10%).
2. the financial report is the most important component of the annual report when making important decisions. Users consider the financial report to be very important to their most important decision. In contrast, information from outside of the annual report is moderately important;
3. the current year financial statements are the most important piece of information in the annual report when users make those most important decisions;

4. importantly, there is no statistically significant difference in the usefulness of the information provided in financial statements when prepared using either of two different accounting standards frameworks (being, the Australian Accounting Standards – Reduced Disclosure Regime and the IFRS for SMEs); and
5. users somewhat agree with the statement that the auditor’s report is capable of making a difference to their most important decision.

The findings will be of interest to regulators, standard setters and researchers – the annual reports of unlisted for-profit entities are being used for making decisions after they are produced.

The fourth reported finding is particularly relevant to projects of the International Accounting Standards Board (IASB), principally;

- the project Disclosure Initiative – Subsidiaries that are small and medium-sized entities (SMEs); specifically, whether the scope of the IASB project remains only subsidiaries that are SMEs, be extended to all SMEs, or somewhere between the two; and
- the project that is the second comprehensive review of the IFRS for SMEs Standard.

It is recommended:

- that as a matter of policy, regulators and standard setters connect better with users to more effectively understand their information needs as a prerequisite to determining the reporting requirements for unlisted for-profit entities; and
- that the IASB:
  - o broaden the scope of its project Disclosure Initiative – Subsidiaries that are SMEs to all SMEs; and
  - o focus on the interaction of that project and the comprehensive review of the IFRS for SMEs Standard project.

## TERMS & DEFINITIONS

<b>Annual report</b>	Information found in the annual reports of unlisted Australian for-profit entities may include material framed by the Corporations Act 2001 including the directors' report, the financial report, the notes to the primary financial statements, and the auditor's report to the financial report (unless the <b>Australian Securities and Investments Commission (ASIC)</b> grants relief from audit).
<b>Auditor's report</b>	The auditor's report to the financial report contains the auditor's opinion about whether the financial report complies with the relevant legislation, the applicable accounting framework and gives a true and fair view of the reported financial performance, financial position and cash flows of the entity for the period. The auditor's report identifies the responsibilities of those charged with the governance of the entity and the responsibilities of the auditor.
<b>AASB</b>	Australian Accounting Standards Board.
<b>Australian for-profit entities</b>	Australian for-profit entities include unincorporated and incorporated entities. For-profit partnerships are an example of Australian unincorporated for-profit entities. Proprietary limited companies and public companies limited by shares electing not to have those shares listed on a securities exchange are examples of Australian incorporated for-profit entities.
<b>Directors' report</b>	The directors' report contains a review of operations and results; details of significant changes in the entity's state of affairs; a statement of the entity's principal activities and any significant changes in the nature of those activities; details of matters since the end of the year that may significantly affect the entity's future operations, results or state of affairs; reference to likely developments in the entity's future operations and expected results in those operations (unless their inclusion would be unreasonably prejudicial); details of the entity's performance in relation to any particular and significant environmental regulation; the names of the directors and officers of the entity; additional information included to give a true and fair view of financial position and performance; and information about how those directing the business have been compensated, such as through options including share options, executive options, indemnity and insurance.
<b>Faithful representation (representational faithfulness)</b>	To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent.

<b>Financial report</b>	The financial report consists of the primary financial statements for the current financial period and the comparative previous financial period, the notes to the primary financial statements and the Directors' Declaration. The primary financial statements are the Statement of Financial Performance and Other Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, and Statement of Changes in Equity. A full set of financial statements consists of the primary financial statements and the notes to the primary financial statements.
<b>IASB</b>	International Accounting Standards Board.
<b>IFRS for SMEs Standard</b>	International Financial Reporting Standard for Small and Medium-sized Entities.
<b>Mean</b>	Mean is the average value of the data set.
<b>RDR Standard</b>	Australian Accounting Standards – Reduced Disclosure Regime.
<b>Relevance</b>	Relevant financial information is capable of making a difference in the decisions made by users.
<b>SD</b>	SD is the standard deviation of the mean.
<b>SMSFs</b>	Self-managed superannuation funds.
<b>SMEs</b>	Small and Medium-sized Entities.
<b>Useful financial information</b>	Financial information that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the reporting entity. To be useful, financial information must be relevant and faithfully represent what it purports to represent.

# 1. INTRODUCTION

The purpose of this report is to examine which pieces of information in the annual report are used by different users when making decisions. Specifically, the examination uses evidence collected from users of the annual reports of unlisted Australian for-profit entities (SMEs is the term used by the IASB to describe entities of this type).

The next section of the report presents the research design and method. Section 3 describes the respondents to the survey questionnaire, followed by the results in Section 4. Finally, the report concludes with a summary of the findings and recommendations.

# 2. RESEARCH METHOD

This study adopts the questionnaire survey method to collect the data to address the research question - *which pieces of information in the annual reports of unlisted Australian for-profit entities are used when making decisions?* The survey was conducted using online survey software Qualtrics. Qualtrics has an experiment function which enabled the research team to build a simple case study with two versions that could be randomly assigned. While alert to the limitations of the survey method in establishing relationships (de Vaus 1995), it was considered the appropriate research method for this project.

The survey design was of two parts. Part A questions were designed to show the level of importance users attach to the different pieces of information in the annual report when making decisions. Some Part B questions were designed to test for the influence of two different accounting standards frameworks (the RDR Standard and the IFRS for SMEs Standard) on the usefulness of financial information when making decisions. A few of the Part B questions were designed to:

- add to the understanding of the important pieces of information from sources outside of the annual report sought by users?
- show users' assessment of whether the auditor's report can make a difference to their decision.

The design of each question was determined by the data collection requirements. When designing questions, a combination of approaches was used. Questions used in other questionnaires were adapted to be used along with original questions.

The questionnaire included a combination of open-ended and close-ended questions. Open-ended questions allow respondents to give answers in their own way. Category, list, quantity and scale close-ended questions were also developed (Youngman 1986). Consideration was given to the wording of each question to ensure response validity. The checklist for question-wording developed by Saunders, Lewis and Thornhill (1997) was referred to for this purpose. Before collecting the data, the draft questionnaire was subjected to pre-testing. Comments received included both technical and practical suggestions. As a result of feedback from pre-testing, for some questions, minor alterations were made to wording and their order and flow, and the questionnaire's layout. Appendix 1 includes the two versions of the simple case study and the questions posed in Parts A and B of the survey.

The project plan was that half of the expected respondents received the version of the case study that complied with the RDR Standard issued by the Australian Accounting Standards Board (AASB). Collectively, the report refers to these respondents as Group 1 users. The remaining participants (collectively, the Group 2 users) received the version of the case that complied with the IFRS for SMEs Standard issued by the IASB. The Qualtrics software randomly allocated the two versions of the cases to respondents.

After reading the case, each user was asked to evaluate the usefulness of the financial information for relevance and representational faithfulness by answering open-ended and close-ended questions. The case itself contained some information about the entity including its principal activities; the Directors' Declaration which identified that in their opinion the presented financial statements give a true and fair view; the financial statements and selected notes; and information about the auditor and the auditor's report.

It is important to emphasise that the two versions of the case study contained the same information except that:

- the Directors' Declaration and Note 1 Basis of preparation and accounting policies reference to accounting standards were different.
  - o The financial report provided to Group 1 users contained a reference to the RDR Standard.
  - o The financial report provided to Group 2 respondents contained a reference to the IFRS for SMEs Standard;
- Group 2 users received one Statement of Comprehensive Income and Changes in Equity instead of two separate statements – a Statement of Comprehensive Income and a Statement of Changes in Equity. Group 1 users received the two separate statements; and
- the accounting policy – Note 1.2 Revenue was different as was Note 1.3(a) Goodwill. The financial statements and their notes received by Group 2 users reflected the recognition and measurement outcomes of the directors' estimate that goodwill had a useful life of up to 10 years.

The case entity was audited by a leading audit firm, and the auditor's report was an unmodified auditor's report. This information was introduced to help focus the reader's attention on financial reporting matters.

Critical to the success of this project was connecting with people who use the annual reports of unlisted Australian for-profit entities when making decisions. The identification of suitable participants was challenging as there is no clear line of sight between unlisted entities and users of their annual reports. The prospect of people spending 30 minutes of their time responding to the questionnaire was also a potential issue.

Connections of the research team considered suitable candidates/respondents were invited to participate by an emailed invitation. Also, invitations were published on the university Facebook and LinkedIn sites. All invitations included a link to the survey and asked invitees to share the invitation with colleagues they thought might be suitable for research to help increase participation. Reminders were sent to encourage participation. Thus, primarily, the snowball sampling method was used. Notwithstanding the potential for sampling bias, the snowball sampling method was considered the best way of connecting with the appropriate people.

### 3. RESPONDENTS

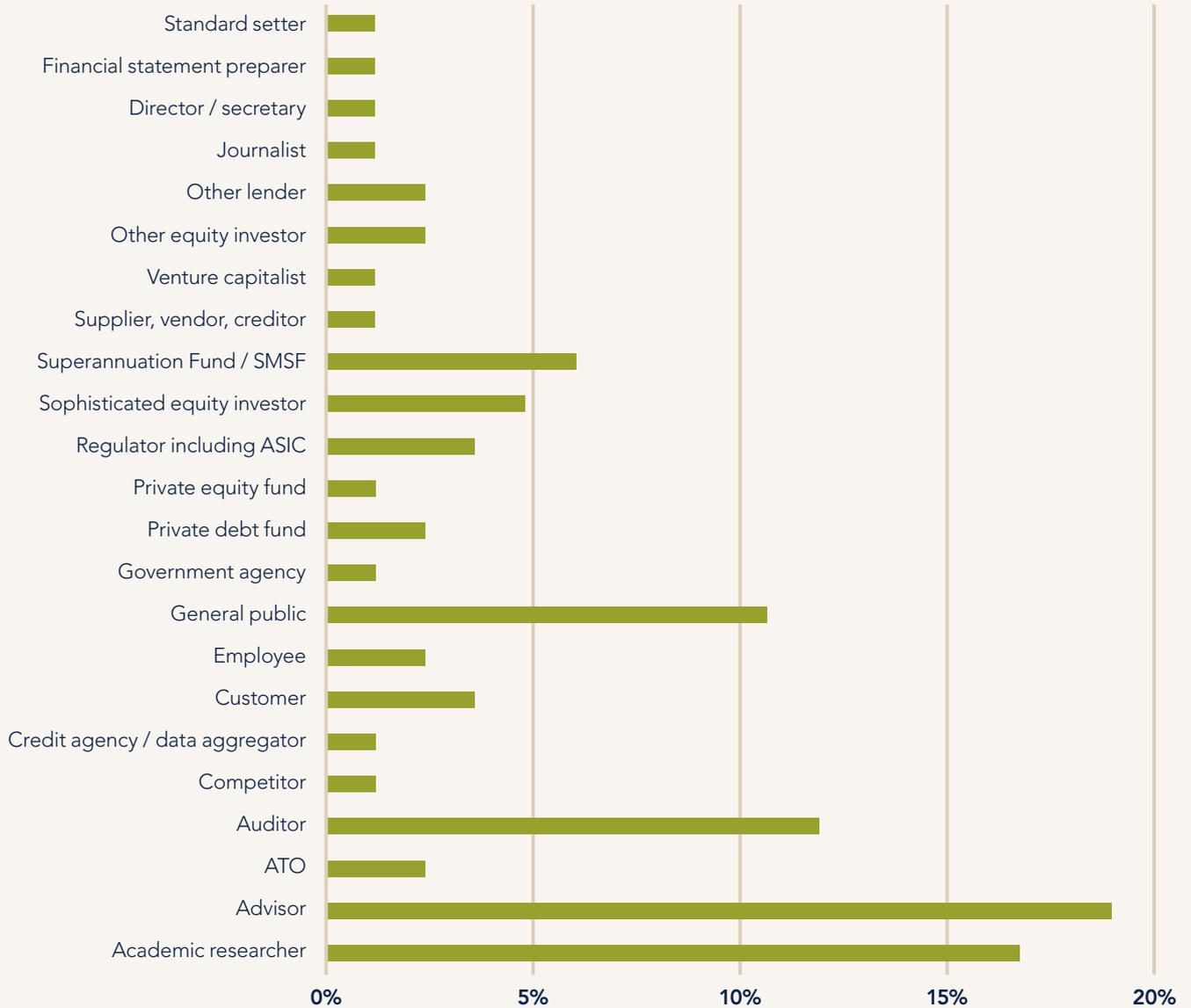
A total of 60 people responded to at least one question asked in Part A of the survey.

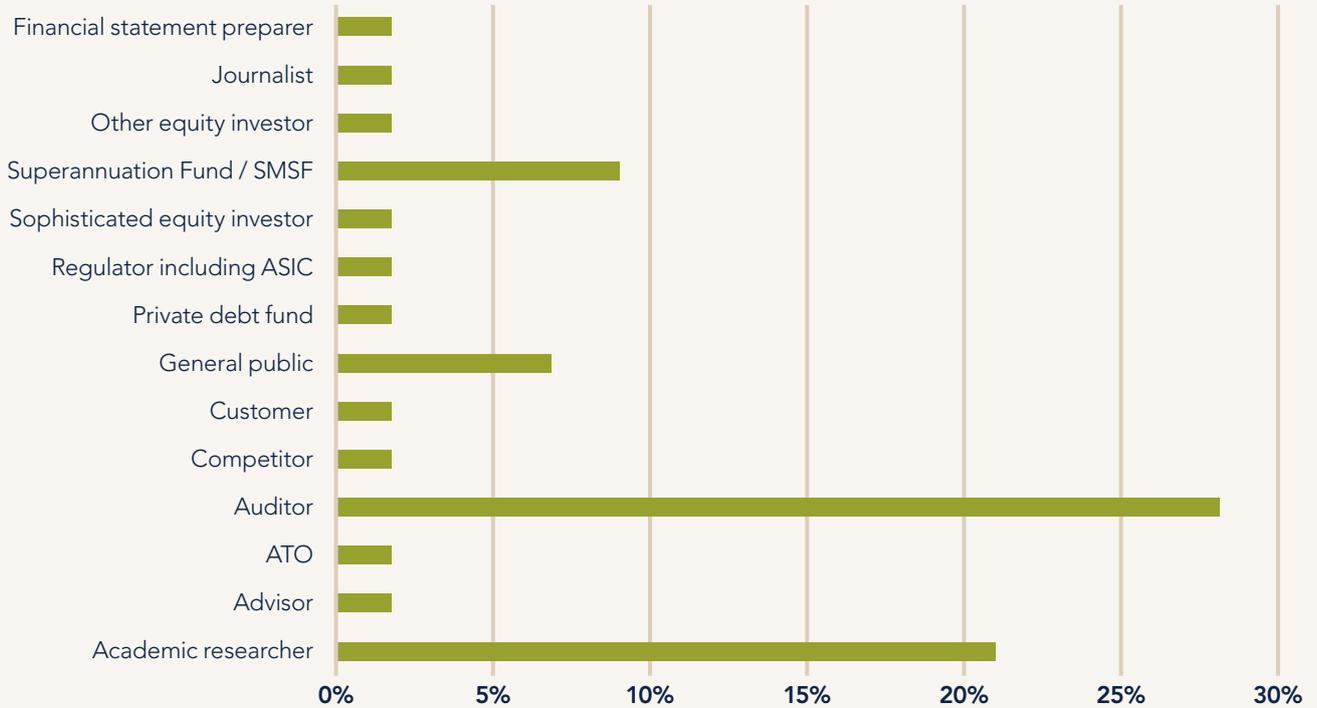
Respondents were asked to 'think about' unlisted Australian for-profit entities when answering.

Five respondents who indicated they do not use the annual report of unlisted Australian for-profit entities when making decisions were excluded from the study.

Thirty-one of the remaining 55 participants also responded to the Part B questions.

The 55 respondents using the report to make decisions were asked to identify themselves by user type and to allocate 100% to/between the user type(s) they identified with to indicate the importance of each. For example, a respondent may identify as an academic researcher and as a person involved with an SMSF. Table 1 shows by percent the results of their assessment. The top 4 user types identified are advisor (19%), academic researcher (17%), auditor (12%) and members of the public (11%).

**Table 1 – Users by user type**

**Table 2 – User by principal user type**

Some users identified with more than one user type. In such situations, the research team examined the allocation of 100% between user types to identify the user type that had been attributed to the largest percentage. Table 2 shows by percent the users by principal user type. The top 4 principal user types identified are advisor (28%), academic researcher (21%), auditor (17%) and superannuation fund/SMSF manager (9%).

Answers to demographic questions show the majority of user respondents to the survey questionnaire were male (75%), aged 55 years or older with 20 years or more experience in making decisions using the annual reports of unlisted Australian for-profit entities.

## 4. ANALYSIS

The survey questionnaire asked user respondents to 'think about' unlisted Australian for-profit entities when answering. The survey design was of two parts – Part A questions and Part B questions. The paragraphs that follow summarise the actual responses received as well as providing analysis.

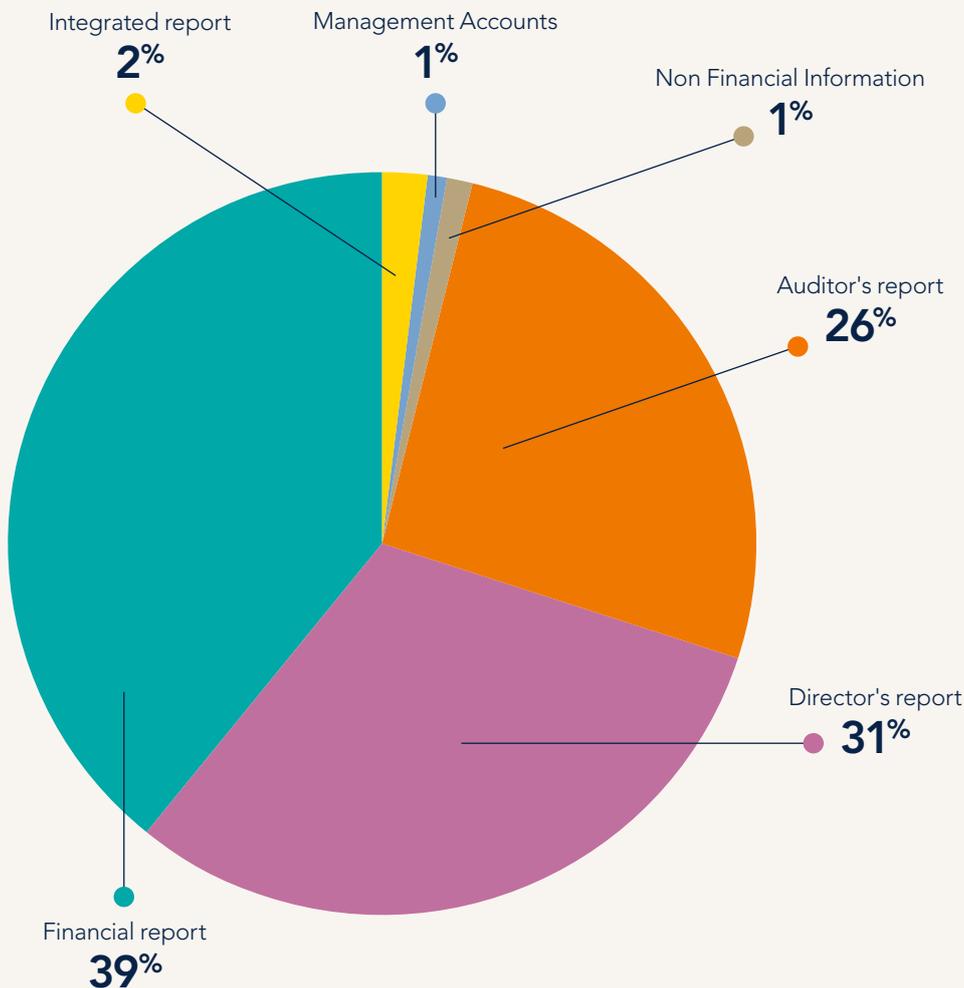
### 4.1 PART A OF THE SURVEY QUESTIONNAIRE

Part A questions focused on obtaining evidence from users about the level of importance attached to the different components of the annual report (refer Appendix 1).

### 4.1.1 USAGE OF THE ANNUAL REPORT

Users were asked to indicate the component(s) of the annual report they use as a source of information about the entity. They were also asked to allocate 100% to/between the piece(s) of information used to indicate the importance of each. Figure 1 shows by per cent the components of the annual report of unlisted Australian for-profit entities used. The top 3 pieces of information used are the financial report (39%), directors' report (31%) and auditor's report (26%).

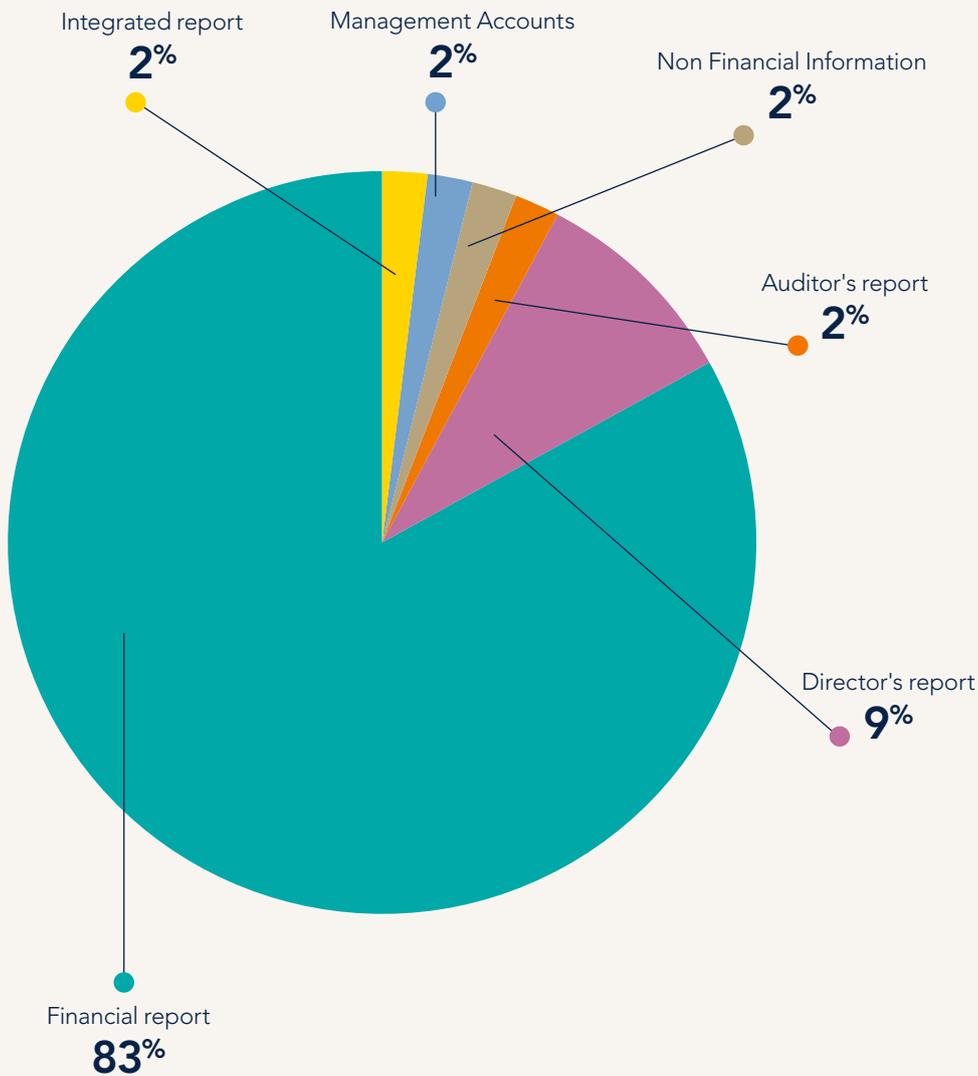
**Figure 1 – Components of the annual report used as a source of information about unlisted Australian for-profit entities:**



Some users indicated the use of more than one piece of information from the annual report. In such situations, the research team examined the allocation of the 100% between the information types to identify the information type attributed

the largest percentage. Figure 2 shows by per cent the information in the annual report identified as most important to understanding the entity. Users indicated that the financial report is the most important (83%).

**Figure 2 – Information in the annual report identified as most important to understanding unlisted Australian for-profit entities:**

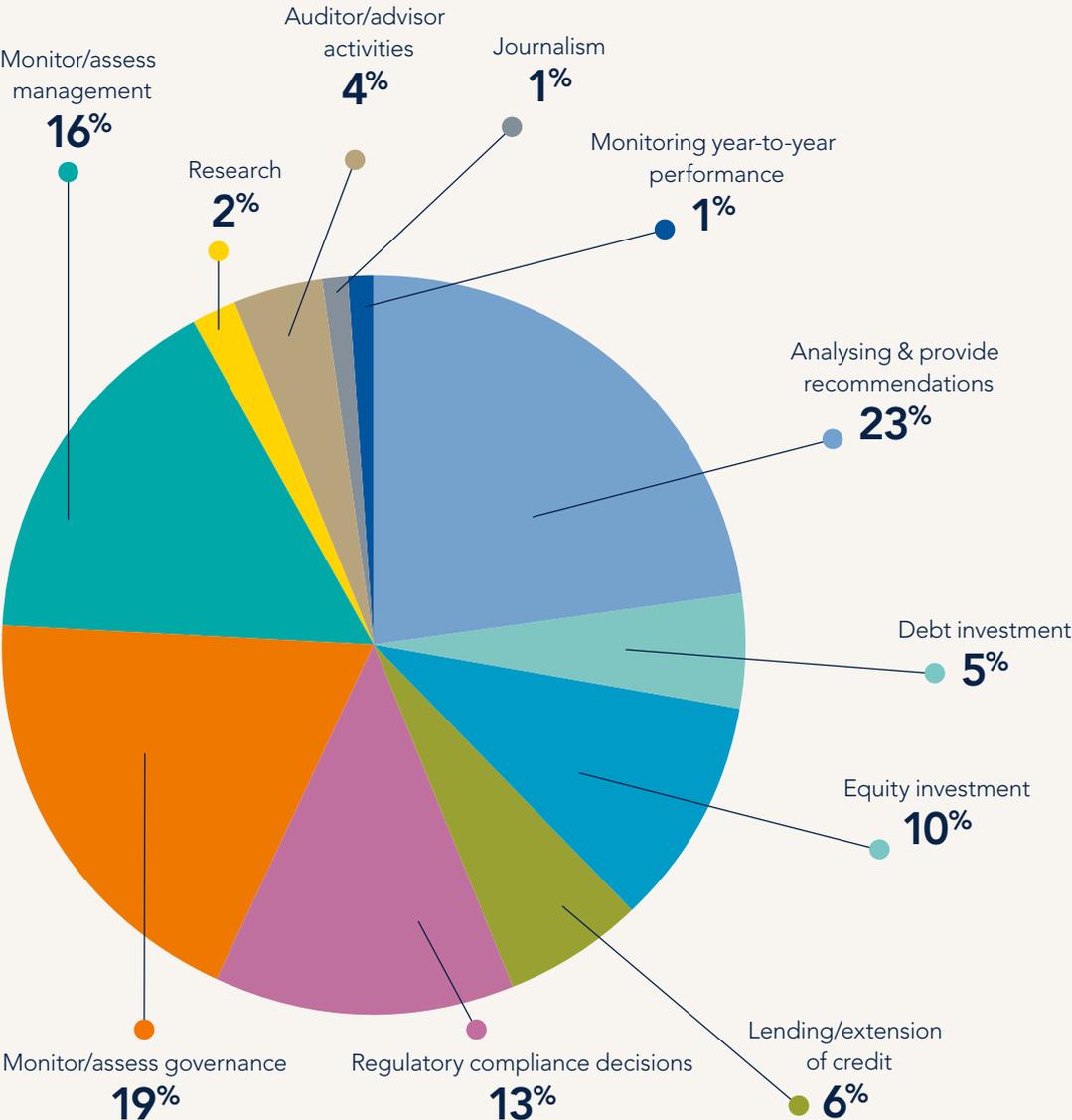


4.1.2 DECISIONS

Users were asked to indicate the type(s) of decision(s) made using the annual report and to allocate 100% to/between the type(s) of decision(s) made to indicate the importance of each. Figure 3 shows by per cent the decisions made using the annual report of unlisted Australian for-profit entities.

The top 5 decisions are analysing and providing recommendations (23%), monitoring/assessing entity governance (19%), monitoring/assessing entity management (16%), regulatory compliance decisions (13%) and equity investment decisions (10%).

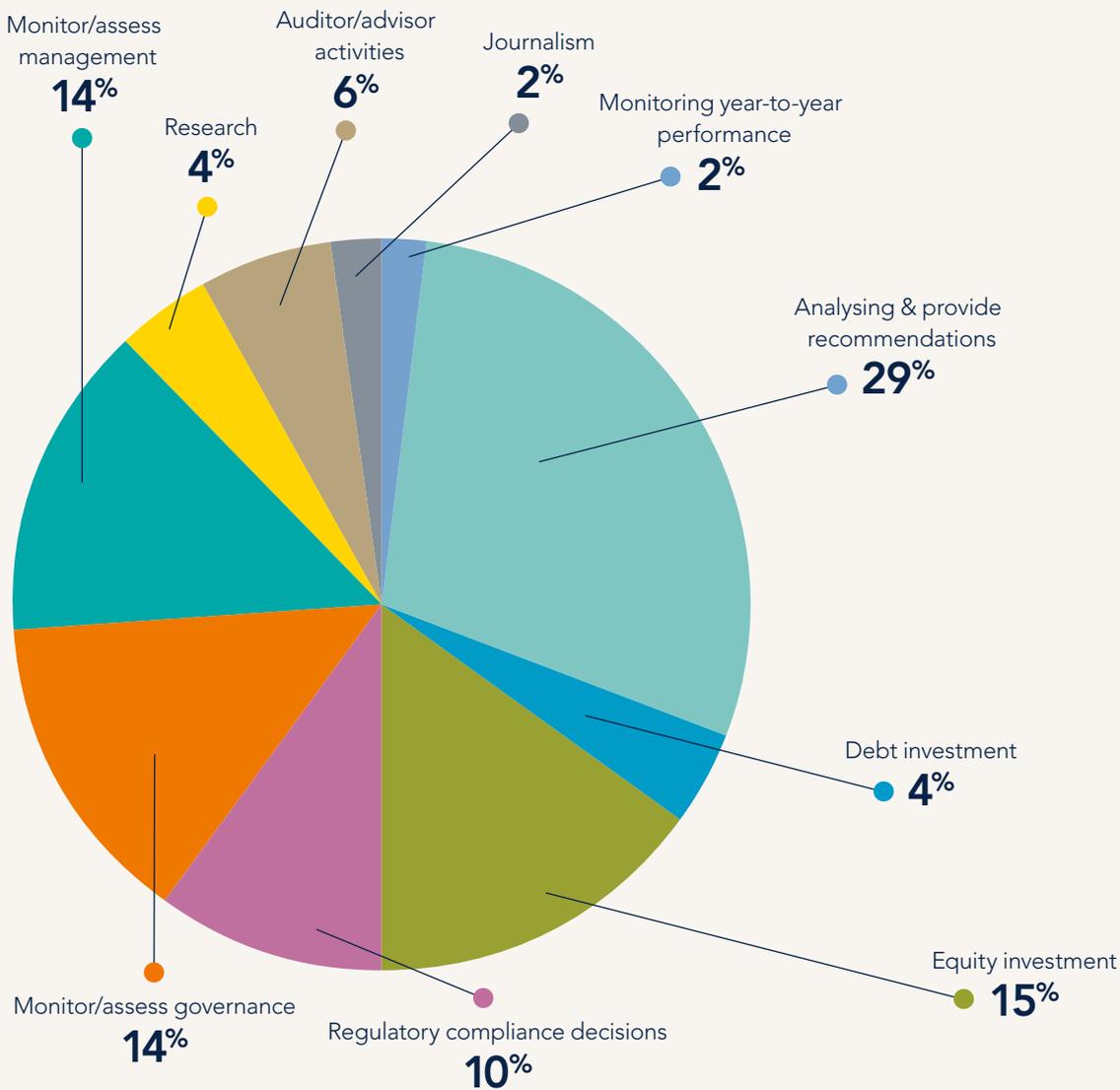
Figure 3 – Types of decisions made using the annual report of unlisted Australian for-profit entities:



Some users indicated making more than one type of decision. In such situations, the research team examined the allocation of the 100% between the decision tasks to identify the decision task attributed the largest percentage.

Figure 4 shows by per cent the decisions identified as most important. Users indicated the most important decisions are analysing and providing recommendations (29%), equity investment decisions (15%), monitoring/assessing entity governance (14%), monitoring/assessing entity management (14%) and regulatory compliance decisions (10%).

**Figure 4 – Most important decisions made based information in the annual report of unlisted Australian for-profit entities:**

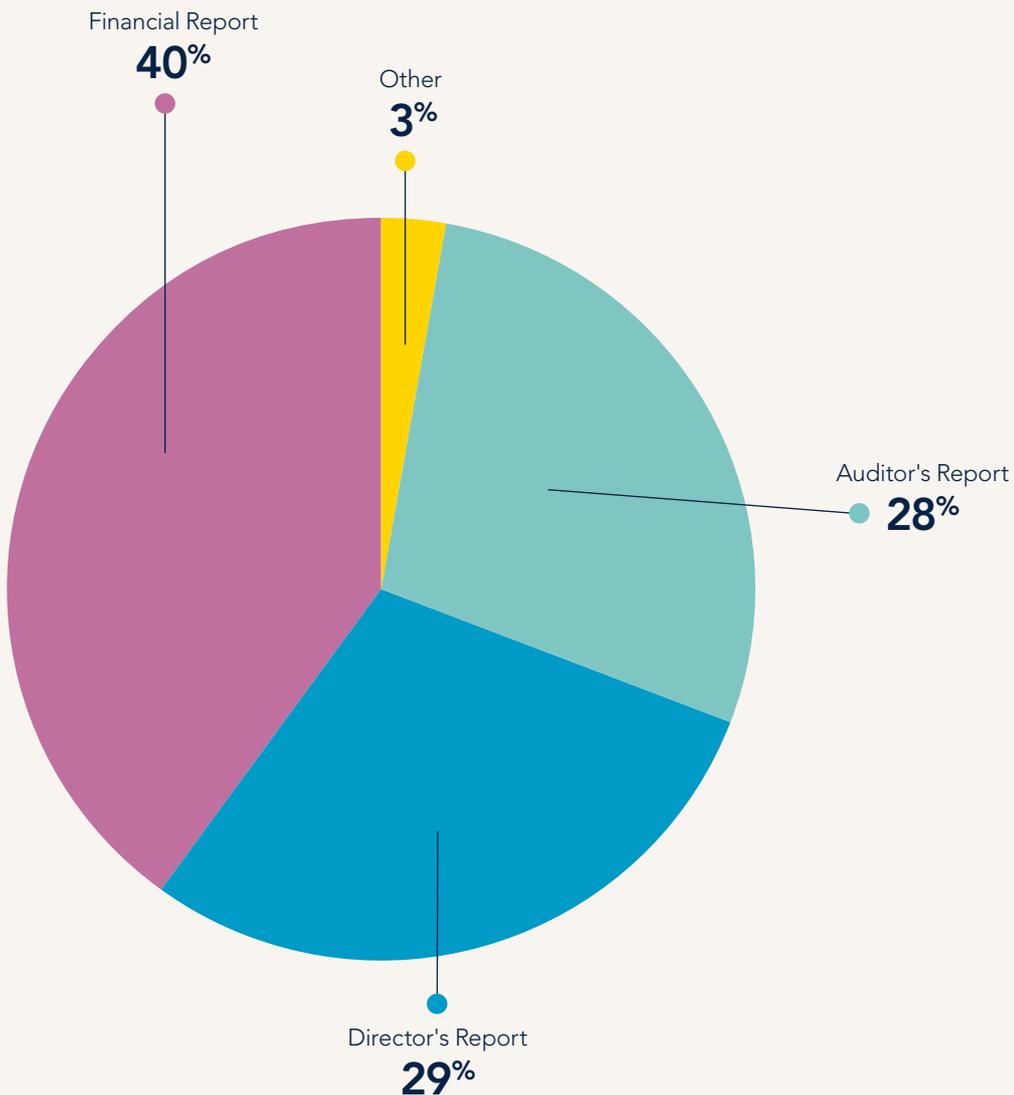


#### 4.1.3 ANNUAL REPORT AND MOST IMPORTANT DECISION

Users were asked to indicate the component(s) of the annual report used when making their most important decision and to allocate 100% to/ between the component(s) of the annual report to indicate the importance of each.

Figure 5 shows by per cent the components of the annual report of unlisted Australian for-profit entities used when making their most important decision. The top 3 pieces of information used are the financial report (40%), directors' report (29%) and auditor's report (28%).

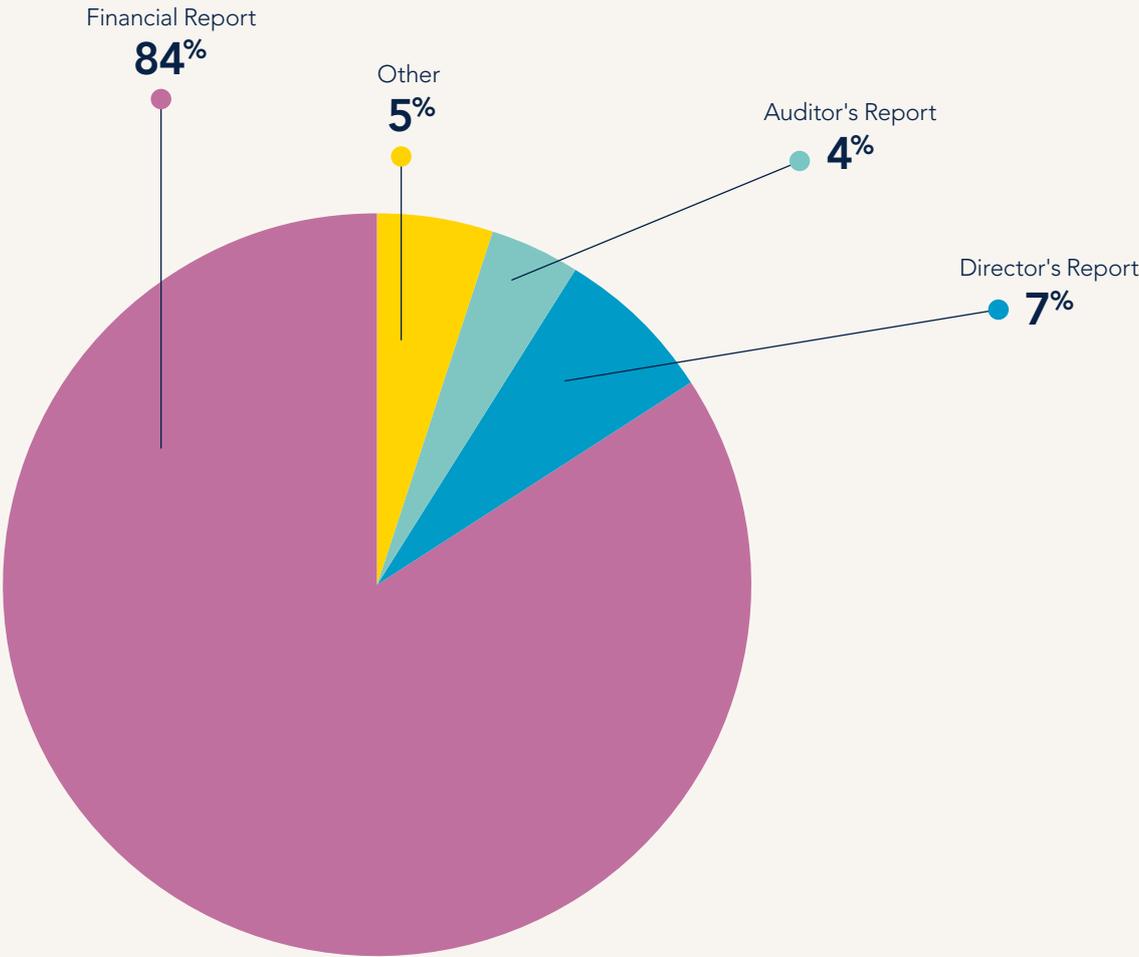
**Figure 5 – Components of the annual report used when making the most important decision:**



Some users indicated using more than one component of the annual report when making their most important decision. In such situations, the research team examined the allocation of the 100% between the components of the annual report to identify the component of the annual report attributed the largest percentage.

Each user response was examined to identify the component of the annual report indicated as the most important. Figure 6 shows by per cent the component of the annual report identified as most important. Users indicated that the financial report is the most important (84%).

Figure 6 – Component of the annual report identified as most important:



#### 4.1.4 THE FINANCIAL REPORT, INFORMATION FROM SOURCES OUTSIDE OF THE ANNUAL REPORT AND THE MOST IMPORTANT DECISION

Users indicated the financial report was the most important component of the annual report when making their most important or principal decision. Users were also asked to indicate the importance of the financial report and information from sources outside the annual report when making their most important decision, using a scale of 1 to 5, where 5 is extremely important, and 1 is not important. Table 3 reports the mean and standard deviation (SD) of the assessed decision usefulness of the financial report and information from sources outside of the annual report.<sup>4</sup>

Table 3 shows that users consider the financial report to be very important to their most important decision, with an average value of 4.18 and low SD of 1.010.<sup>5</sup>

Information sourced from outside the annual report includes information from the entity website, media and management accounts and information about the corporate outlook, customers and suppliers, industry, non-financial metrics and other investment advice available from advisors.

**Table 3 – Importance of the financial report and information from sources outside the annual report for the most important decision:**

	Mean	SD
Financial report	4.18	1.010
Information from outside the annual report	3.58	1.083

Overall, the evidence reported in Table 3 suggests that users assess the financial report as more important to their most important decision than information from sources outside the annual report.

#### 4.1.5 INFORMATION IN THE FINANCIAL REPORT AND MOST IMPORTANT DECISION

Users were asked to indicate the importance of the pieces of information that make up the financial report when making their most important decision, using a scale of 1 to 5, where 5 is extremely important, and 1 is not important. Table 4 reports the mean and SD of the assessed decision usefulness of the information that makes up the financial report. Table 4 shows users consider the current year financial statements to be very important to their most important decision, with an average rating of 4.3 and low SD of 0.966.

**Table 4 – Decision usefulness of the information in the financial report for the most important decision:**

	Mean	SD
<b>Financial statements (current year)</b>	4.300	0.966
<b>Notes to the financial statements</b>	4.050	1.061
<b>Financial statements (comparative year)</b>	3.825	1.107
<b>Directors' declaration</b>	2.750	0.927

Overall, the evidence reported in Table 4 suggests that users assess the financial statements for the current and comparative years and the notes to the financial statements as more important to their most important decision than the Directors' Declaration.

#### 4.2 PART B OF THE SURVEY QUESTIONNAIRE

Some Part B questions were designed to test for the influence of two different accounting standards frameworks (the RDR Standard and the IFRS for SMEs Standard) on the usefulness of financial information when making decisions. Other Part B questions included questions designed to:

- add to our understanding of the important pieces of information from sources outside of the annual report sought by users.
- show users' assessment of whether the auditor's report can make a difference to their decision.

Thirty-one users responded to Part B questions. Seventeen users (55%) received the version of the case study that complied with the RDR Standard. Collectively, we refer to these respondents as Group 1 users. Fourteen users (45%) received the version of the case that complied with the IFRS for SMEs Standard (collectively, the Group 2 users). After reading the case, each user was asked to evaluate the usefulness of the financial information for relevance and representational faithfulness by answering open-ended and closed-ended questions.

The case itself (refer Appendix 1) contained some information about the entity including its principal activities; the Directors' Declaration which identified that in their opinion the presented financial statements give a true and fair view; the financial statements and selected notes; and information about the auditor and the auditor's report.

A leading audit firm audited the case entity, and the auditor's report was an unmodified auditors report. This information was introduced to help focus the reader's attention on financial reporting matters.

A private debt fund manager user commented: "This isn't a hypothetical question, we employ analysts...and they are expected to dig around and figure out who we are lending the money to, how they do business, what's wrong/right with their industry, what their competitors think of them, etc."

#### 4.2.1 THE ITEMS IN THE FINANCIAL REPORT – RELEVANCE AND FAITHFUL REPRESENTATION

Users were asked to first, think about their most important decision, second, read the provided financial report and third, assess the relevance and representational faithfulness of eight items of financial information to their decision. These items were i) revenue, ii) gross profit, iii) profit before income tax, iv) profit and total comprehensive income for the year, v) intangible assets, vi) tangible non-current assets, vii) net cash from operating activities, and viii) goodwill).

Users indicated their assessment on a scale of 1 to 5, where 5 is strongly agree, and 1 is strongly disagree.<sup>6</sup> Table 5 reports the means and SDs of those assessments. Group 1 users generally awarded higher relevance and representational faithfulness assessment scores compared to those awarded by users from Group 2.

**Table 5 – Items in the financial report – relevance and faithful representation:**

Accounting standard framework	Group 1 users RDR Standard (n=17)				Group 2 users IFRS for SMEs Standard (n=14)			
	Relevance		Faithful representation		Relevance		Faithful representation	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
<b>Revenue</b>	4.235	0.562	4.000	0.612	4.214	1.122	4.357	1.082
<b>Gross profit</b>	4.235	0.562	3.824	0.809	3.929	1.141	3.929	1.385
<b>Profit before income tax</b>	4.000	0.791	3.824	0.883	4.000	1.177	3.786	1.369
<b>Profit and total comprehensive income for the year</b>	4.177	0.636	3.706	0.849	3.714	1.069	3.643	1.336
<b>Intangible assets</b>	3.765	0.903	3.118	0.993	3.500	1.019	2.929	1.685
<b>Tangible non-current assets</b>	3.647	0.606	3.4118	0.870	3.643	1.008	3.786	1.477
<b>Net cash from operating activities</b>	4.353	0.862	3.824	0.636	4.143	1.167	4.000	1.414
<b>Goodwill</b>	3.588	0.939	3.118	0.993	3.286	1.139	2.786	1.578

Statistical tests show no significant difference between Group 1 and 2 users at the 0.05 level.

For the attributes of relevance and faithful representation, it appears users assess each of the 8 items as equals regardless of which one of the two accounting standards frameworks is adopted.

That is, the differences in the two accounting standards frameworks do not influence the usefulness of the financial information to users when making decisions.

#### 4.2.2 THE FINANCIAL REPORT – RELEVANCE AND FAITHFUL REPRESENTATION

Users were asked to assess the relevance and representational faithfulness of the financial report overall. Users indicated their assessment on a scale of 1 to 5, where 5 is strongly agree, and 1 is strongly disagree. Table 6 reports the means and SDs of those assessments. Users of the financial report that used the Australian Accounting Standards – RDR awarded higher relevance and representational faithfulness assessment scores compared to those awarded by users of the financial report that used the IFRS for SMEs Standard.

**Table 6 – Financial report – relevance and faithful representation:**

Accounting standards framework	Relevance		Faithful representation	
	Mean	SD	Mean	SD
<b>Group 1 users - RDR Standard (n=17)</b>	4.118	0.485	3.824	0.636
<b>Group 2 users - IFRS for SMEs Standard (n=14)</b>	4.000	1.109	3.429	1.222

Statistical tests show no significant difference between Group 1 and 2 users at the 0.05 level.

Concerning the attributes of relevance and faithful representation, it appears that users assess each of the two accounting standards frameworks as equals.

Consequently, the differences in the two accounting standards frameworks do not influence the usefulness of the financial information to users when making decisions.

#### 4.2.3 INFORMATION FROM SOURCES OUTSIDE OF THE ANNUAL REPORT SOUGHT BY USERS

Section 4.1.4 notes information sourced from outside the annual report includes information from the entity website, media and management accounts and information about the corporate outlook, customers and suppliers, industry, non-financial metrics and other investment advice available from advisors.

The use of information from sources outside of the annual report was investigated further.

Users were asked to identify the three most important pieces of information from sources

outside of the annual report they would like to obtain. Further, users were asked to allocate a budget of 100,000 AUD to obtain information on the three items.

Nine (29%) users indicated they would not pay for further information.<sup>7</sup> Four of the nine (44%) users did not require additional information.

The other five users did indicate a requirement for additional information. The fact they would not pay for the information suggests it is of low usefulness for their decisions. Table 7 reports the responses of the nine users.

**Table 7 – Responses of users who would not pay for further information:**

Accounting standards framework	Information from sources outside of the annual report	Budget allocation 100,000AUD %	Information from sources outside of the annual report	Budget allocation 100,000AUD %	Information from sources outside of the annual report	Budget allocation 100,000AUD %
<b>Group 1 users</b> <b>RDR Standard</b>	None	0	None	0	None	0
	Commentary on movements and general performance over the two periods	0	None	0	None	0
	Goodwill calculations	0	None	0	None	0
	None	0	None	0	None	0
<b>Group 2 users</b> <b>IFRS for SMEs Standard</b>	None	0	None	0	None	0
	All needs to be validated <sup>8</sup>	0	None	0	None	0
	None	0	None	0	None	0
	None	0	None	0	None	0
	What are the types of customers they are selling to (government, small business, etc.)	.00001	What assets they are using to support the services provided	.00001	What are the terms of the payments	.00001

The other 22 (71%) users indicated they would pay for further information.<sup>9</sup> Table 8 reports the responses. Fifteen (68%) responses indicated 50% or more of the budget of 100,000 AUD would be allocated to a particular type of information.

The responses suggest the required information would be useful for their decisions.

Table 8 – Responses of users who would not pay for further information:

Accounting standards framework	Information from sources outside of the annual report	Budget allocation 100,000AUD %	Information from sources outside of the annual report	Budget allocation 100,000AUD %	Information from sources outside of the annual report	Budget allocation 100,000AUD %
<b>Group 1 users RDR Standard</b>	Competitors and market share	50	Product Demand	35	General economic conditions	15
	Future projects contributing to revenue generation	70	Buy/sell recommendations	30	None	0
	Future performance	70	Future pay out	30	None	0
	Sustainability	40	Risk	40	Future plans	20
	Market product research	60	Competitor research	20	Labor market research	20
	Industry comparisons	40	Customer base	30	Remuneration data	30
	Forecast profitability	45	Forecast cash flow projections	45	Credit rating	10
	% revenue from each of top 10 customers	50	Client turnover	30	Contract terms with customers - risk of losing	20
	Analyst report	40	None	0	None	0
	Risk	30	Environment	30	Stakeholders	10
	Financial reports publicly available for comparable companies	70	Press articles	20	Company website	10
	Management accounts and forecast by division	45	Interview CEO	45	Industry report	10
	Existing contracts with clients	40	Related party transactions	40	Budgets	20
	<b>Group 2 Users IFRS for SMEs Standard</b>	Value of IP	50	Future committed revenue	50	None
Media coverage		60	Details of strategy and operations	30	Online references	10
Forecast		100	None	0	None	0
Views of a financial advisor familiar with the entity or its competitors		60	Information about the entity's markets	40	None	0
Outlook		60	Explanation of results	40	None	0
Marketing		40	Competition	40	Industry outlook	20
Management team		35	Industry trends	30	Competitors	35
Earnings projections		60	Competitor performance	20	Economic climate	20
Tax return		50	General ledger	25	Detailed P&L	25

Six (40%) users gave their highest budget allocation to future-orientated information. An advisor noted that “Budgets and forecasts are usually much more important than historical results to investment or funding decisions or comparable analysis. But they are usually not provided in the annual reports or made public. Only insiders get this information.

In a sense I think this is the flaw in historical reporting. Directors ought to have a view on the prospects of the company and state why they have this view (beyond being a going concern). But arguments against this are 1) commercial competitiveness and 2) litigation for misleading claims. But think we are too risk adverse...”

#### 4.2.4 THE AUDITOR’S REPORT AND DECISIONS

Section 4.1.3 notes users indicated the most important component of the annual report used when making their most important decision. A small number of users (4%) indicated the auditor’s report is the most important.

The use of auditor’s report was investigated further.

Users were asked to first, think about their most important decision, second, read the audit information in the provided financial report and third, assess whether the auditor’s report is capable of making a difference to their decision. Users indicated their assessment on a scale of 1 to 5, where 5 is strongly agree, and 1 is strongly disagree. Table 9 reports on those assessments. The low SDs indicate a large concentration around the reported averages. Table 9 shows users somewhat agree with the statement that the auditor’s report is capable of making a difference to their most important decision.

**Table 9 – Auditor’s report – influence on decisions under different frameworks**

Accounting standards framework	Mean	SD
Group 1 users RDR Standard (n=17)	3.647	1.169
Group 2 users IFRS for SMEs Standard (n=14)	3.286	1.267

The statistical test shows no significant difference between Group 1 and 2 users at the 0.05 level. It appears the differences in the two accounting standards frameworks do not influence the importance of the auditor’s report to users’ when making decisions.

## 5. CONCLUSION & RECOMMENDATIONS

This report presents the key findings of a study into which specific information in the annual reports of unlisted Australian for-profit entities is used for making decisions.

A questionnaire survey was built in the online survey software Qualtrics to collect the data used to produce this report.

Some questions were designed to show the level of importance users attach to the different pieces of information in the annual report and components of the annual report when making decisions.

Other questions were designed to test for the influence of two different accounting standards frameworks (the RDR Standard and the IFRS for SMEs Standard) on the usefulness of financial information when making decisions. A simple case study with two versions was developed to accompany those questions.

Additional questions were included to:

- add to an understanding of the important pieces of information from sources outside of the annual report sought by users.
- show users' assessment of whether the auditor's report can make a difference to their decision.

### FINDINGS

Part A questions focused on obtaining evidence from users about the level of importance attached to the different components of the annual report (refer Appendix 1).

The evidence collected strongly indicates the financial report as the most important component of the annual report when making important decisions. Users place less importance on the directors' report and the auditor's report. Further, users consider the financial report to be very important to their most important decision. In contrast, information from outside of the annual report is assessed as moderately important. This finding indicates two key aspects; i) the importance of the financial report and ii) that the financial report is not used in isolation of other information in and outside of the annual report.

For the financial report, the data show the current year financial statements are the most important piece of information in the financial report (and the annual report) when users make their most important decision. Along with the current year financial statements, the notes to the financial statements and financial statements for the comparative year and the notes to the financial statements are assessed by users as more important to their most important decision than the Directors' Declaration.

A key finding is that the evidence collected shows no statistically significant difference in the usefulness of the information provided in financial statements when prepared using either of two different accounting standards frameworks. It appears that users assess each of the two accounting standards frameworks as equals. Consequently, the differences in the two accounting standards frameworks do not influence the usefulness of the financial information to users when making decisions. This reported finding is particularly relevant to projects of the IASB, principally:

- the project Disclosure Initiative – Subsidiaries that are small and medium-sized entities (SMEs); specifically, whether the scope of the IASB project remain subsidiaries that are SMEs, be extended to all SMEs, or somewhere between the two; and
- the project that is the second comprehensive review of the IFRS for SMEs Standard.

The data collected on the importance of the auditor's report to user decisions indicates the auditor's report is of some importance as users somewhat agree with the statement that the auditor's report is capable of making a difference to their most important decision.

The findings will be of interest to regulators, standard setters and researchers – the annual reports of unlisted for-profit entities are being used for making decisions after they are produced.

## RECOMMENDATIONS

The two recommendations arising from the report are:

1. that as a matter of policy, regulators and standard setters connect better with users to more effectively understand their information needs as a prerequisite to determining the reporting requirements for unlisted for-profit entities; and
2. that the IASB:
  - a. broaden the scope of its project Disclosure Initiative – Subsidiaries that are SMEs project to all SMEs; and
  - b. focus on the interaction of that project and the comprehensive review of the IFRS for SMEs Standard project.

# APPENDIX 1

## PART A

### PURPOSE OF SURVEY

The purpose of this survey instrument is the gathering of information from users of the information found in the annual reports of unlisted Australian for-profit entities. This is an important opportunity for you to have your say on what constitutes useful and relevant information. You are asked to answer a number of questions that focus on what parts of the annual report and information from outside the annual report you use in your different decision-making tasks. The survey instrument includes the financial report of a hypothetical proprietary limited company (simplified with selected notes) and some audit information. You are asked to answer a number of questions related to the financial report and audit information. In addition, you are asked some questions concerning demographic details.

There are no 'trick' questions, and there are no right or wrong answers to the questions asked. Some questions include bold text. If you hover your mouse over the bold text you will access a comment bubble that contains a further description of the bold text.

### IDENTIFICATION AS A USER OF THE ANNUAL REPORT

Thinking about **unlisted Australian for-profit entities**, how do you identify as a user of information found in the annual report of unlisted Australian for-profit entities?

The information found in the annual report may include material framed by the requirements of the Corporations Act 2001 including: the **directors' report**, the **financial report**, and the **auditor's report**.

Please allocate 100% across the user option(s) to indicate relative importance. Total must sum to 100%.

Academic researcher:	(1)	Insurer:	(14)
Advisor - including business valuation, forensic accountant, tax:	(2)	Private debt fund:	(15)
Angel investor:	(3)	Private equity fund:	(16)
Australian Taxation Office (ATO):	(4)	Regulator including Australian Securities and Investment Commission (ASIC):	(17)
Auditor:	(5)	Sophisticated (high net worth) equity investor:	(18)
Business Journalist:	(6)	Superannuation fund/Self Managed Superannuation Fund (SMSF):	(19)
Competitor:	(7)	Supplier, vendor, creditor:	(20)
Credit agency, data aggregator:	(8)	Union:	(21)
Customer:	(9)	Venture capitalist:	(22)
Employee:	(10)	Other equity investor:	(23)
Franchisee:	(11)	Other lender:	(24)
General public:	(12)	Other (please type):	(25)
Government agency (not ATO or Regulator including ASIC):	(13)	I do not identify as a user of information found in the annual report of unlisted Australian for-profit entities:	(26)
<b>Total:</b>			

### PARTS OF THE ANNUAL REPORT USED

Thinking about unlisted Australian for-profit entities, what part(s) of the **annual report** do you use as a source of information about the entity?

Please allocate 100% across the option(s) used to indicate relative importance. Total must sum to 100%.

Auditor's report to the financial report :	(1)	Other (please type) :	(4)
Directors' report :	(2)	I do not use the annual report as a source of information about unlisted Australian for-profit entities :	(5)
Financial report :	(3)		
<b>Total:</b>			

### DECISIONS USING THE ANNUAL REPORT

Thinking about unlisted Australian for-profit entities, what decision(s) do you make when using the **annual report** (hereafter, your decision-making task(s))?

Please allocate 100% across your decision-making task(s) to indicate relative importance. Total must sum to 100%.

Analysing and providing recommendations:	(1)	Regulatory compliance decisions :	(6)
Debt investment :	(2)	To monitor/assess performance of those responsible for governance of the entity :	(7)
Equity investment :	(3)	To monitor/assess performance of those responsible for managing the entity :	(8)
Lending or extension of credit :	(4)	Other (please type) :	(9)
Auditor:	(5)	I do not use the annual report of unlisted Australian for-profit entities for decision making :	(10)
<b>Total:</b>			

### PARTS OF THE ANNUAL REPORT USED FOR DECISION-MAKING

Thinking about unlisted Australian for-profit entities, what part(s) of the **annual report**, if any, do you use in your most important decision-making task (hereafter, your principal decision-making task)?

Please allocate 100% across the option(s) used in your principal decision-making task to indicate relative importance. Total must sum to 100%.

Auditor's report to the financial report :	(1)	Other (please type) :	(4)
Directors' report :	(2)	I do not use any part of the annual report for my principal decision-making task :	(5)
Financial report :	(3)		
<b>Total:</b>			
<b>SCR Did you allocate a percentage option when answering the question above?</b>			
		<input type="checkbox"/> Yes	<input type="checkbox"/> No

### IMPORTANCE OF PARTS OF FINANCIAL REPORT USED FOR DECISION-MAKING

Thinking about your answer to **The Financial Report** option in the question above, how important for your principal decision-making task is:

	Not at all important (1)	Slightly important (2)	Moderately important (3)	Very important (4)	Extremely important (5)
The Primary Financial Statements for the current year? (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Primary Financial Statements for the comparative year? (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Notes to the Primary Financial Statements? (3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Directors' Declaration? (4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### IMPORTANCE OF PARTS OF THE FINANCIAL REPORT AND OTHER INFORMATION FOR DECISION-MAKING

Thinking about your principal decision-making task, along with the **financial report** and the **annual report**, how important a source of information is:

	Not at all important (1)	Slightly important (2)	Moderately important (3)	Very important (4)	Extremely important (5)
The Financial Report? (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information from sources OUTSIDE the Annual Report? (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### IMPORTANCE OF OTHER INFORMATION FOR DECISION-MAKING

Thinking about your principal decision-making task and your response to the question above, please indicate any particular information sourced from OUTSIDE the annual report and importance to your task (up to five items of information).

	Not at all important (1)	Slightly important (2)	Moderately important (3)	Very important (4)	Extremely important (5)
First item (please type) (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Second item (please type) (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Third item (please type) (3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fourth item (please type) (4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fifth item (please type) (5)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## INTRODUCTION OF CASES

### Case Study 1: Wellard Pty Ltd

Wellard Pty Ltd is a hypothetical private company domiciled in Australia. The company has 200 employees. The principal activities of the company and its subsidiaries (collectively, the Wellard Group) during the year were the provision of customer back office processing and compliance solutions, and resourcing and consulting activities in the areas of governance, risk and compliance.

### Directors' Declaration

The Directors' Declaration notes in the opinion of the directors of Wellard Pty Ltd, the company is not publicly accountable, the financial statements of Wellard Pty Ltd for the financial year ended 30 June 2019 give a true and fair view and comply with the Australian Accounting Standards – Reduced Disclosure Regime issued by the Australian Accounting Standards Board.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 June 2019 (\$000)	30 June 2018 (\$000)
Revenue		<b>221,366</b>	211,868
Cost of sales	3	<b>(168,527)</b>	(160,114)
<b>Gross Profit</b>		<b>52,839</b>	51,754
Other Income	6	<b>56</b>	44
Administrative expenses	7	<b>(24,579)</b>	(25,861)
Finance costs	7	<b>(56)</b>	(34)
<b>Profit before income tax</b>		<b>28,260</b>	25,903
Income tax expense	9	<b>(8,265)</b>	(7,967)
<b>Profit and total comprehensive income for the year</b>		<b>19,995</b>	17,936

All recognised gains and losses in the current and prior year are included in the statement of comprehensive income, accordingly, no separate statement of other comprehensive income has been prepared.

## CONSOLIDATED BALANCE SHEET AT 30 JUNE 2019

	Notes	30 June 2019 (\$000)	30 June 2018 (\$000)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		2,360	-
Debtors	11	24,282	38,613
<b>Total current assets</b>		<b>26,642</b>	<b>38,613</b>
<b>Non-current assets</b>			
Intangible assets	12	2,461	2,461
Tangible non-current assets	13	2,895	2,994
<b>Total non-current assets</b>		<b>5,356</b>	<b>5,455</b>
<b>Total assets</b>		<b>31,998</b>	<b>44,068</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank Overdraft		-	10,745
Creditors	14	25,058	27,105
<b>Total current liabilities</b>		<b>25,058</b>	<b>37,850</b>
<b>Non-current liabilities</b>			
Provision for liabilities and charges	15	660	-
<b>Total non-current liabilities</b>		<b>660</b>	<b>-</b>
<b>Total liabilities</b>		<b>25,718</b>	<b>37,850</b>
<b>Equity</b>			
Share Capital	16	39	39
Reserves		36	36
Accumulated Profit & Loss		6,205	6,143
<b>Total equity</b>		<b>6,280</b>	<b>6,218</b>
<b>Total liabilities and equity</b>		<b>31,998</b>	<b>44,068</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE CURRENT YEAR ENDED 30 JUNE 2019**

	Issued Capital (\$000)	General Reserve (\$000)	Accumulated Profit & Loss (\$000)	Total Equity (\$000)
<b>Balance 1 July 2018</b>	<b>39</b>	<b>36</b>	<b>6,143</b>	<b>6,218</b>
<b>Comprehensive income for the year</b>				
Profit for the year			19,995	19,995
<b>Total comprehensive income for the year</b>			<b>19,995</b>	<b>19,995</b>

<b>Contributions by and distributions to owners</b>				
Dividends (note 19)			(19,933)	(19,933)
<b>Total contributions by and distributions to owners</b>			<b>(19,933)</b>	<b>(19,933)</b>
<b>Balance 30 June 2019</b>	<b>39</b>	<b>36</b>	<b>6,205</b>	<b>6,280</b>

<b>Balance 1 July 2017</b>	<b>39</b>	<b>36</b>	<b>6,914</b>	<b>6,989</b>
<b>Comprehensive income for the year</b>				
Profit for the year			17,936	17,936
<b>Total comprehensive income for the year</b>			<b>17,936</b>	<b>17,936</b>

<b>Contributions by and distributions to owners</b>				
Dividends (note 10)			(18,707)	(18,707)
<b>Total contributions by and distributions to owners</b>			<b>(18,707)</b>	<b>(18,707)</b>
<b>Balance 30 June 2018</b>	<b>39</b>	<b>36</b>	<b>6,143</b>	<b>6,218</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	30 June 2019 \$000)	30 June 2018 (\$000)
<b>Cash flows from operating activities</b>		<b>19,995</b>	<b>17,936</b>
<b>Adjustments for:</b>			
Depreciation, impairment & amortisation of non-current assets	12,13	1,753	2,160
Net interest payable (receivable)	7,8	(2)	(18)
Income tax expense		8,265	7,967
Decrease in trade and other debtors		14,383	91
Decrease in trade and other creditors		(2,083)	(3,210)
Increase in provisions		660	-
Loss on disposal of non-current assets	6	2	8
<b>Cash from operations</b>		<b>42,973</b>	<b>24,934</b>
Interest paid	8	(56)	(34)
Income tax paid		(8,245)	(9,825)
<b>Net cash from operating activities</b>		<b>34,672</b>	<b>15,075</b>

<b>Cash flows for investing activities</b>			
Purchase of tangible non-current assets	12	(1,693)	(790)
Purchase of intangible assets	13	-	(442)
Interest received	7	59	52
<b>Net cash from investing activities</b>		<b>(1,634)</b>	<b>(1,180)</b>

<b>Cash flows from financing activities</b>			
Equity dividends paid	10	(19,933)	(18,707)
<b>Net cash used in financing activities</b>		<b>(19,933)</b>	<b>(18,707)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>13,105</b>	<b>(4,812)</b>

Cash and cash equivalents at beginning of year		(10,745)	(5,933)
Cash and cash equivalents at end of year	17	2,360	(10,745)

Wellard Pty Ltd is a private company domiciled in Australia. These financial statements are consolidated financial statements for the Group consisting of Wellard Pty Ltd and its subsidiaries for the year ended 30 June 2019. A list of major subsidiaries is included in Note 16. The financial statements are presented in Australian dollar (\$). The financial statements were authorised in accordance with a resolution of the directors.

## **Selected Notes are provided**

### *1 Basis of preparation and accounting policies*

The financial report is a general purpose financial report, which has been prepared in accordance with the Australian Accounting Standards – Reduced Disclosure Regime issued by the Australian Accounting Standards Board. The financial report has been prepared on the historical cost basis.

#### **1.1 Basis of consolidation**

The consolidated financial statements as at and for the year 30 June 2019 consolidate Wellard Pty Ltd and its subsidiaries. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposal of in the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

#### **1.2 Revenue**

Revenue is recognised over time as the company performs on its performance obligations because of continuous transfer of control to the customer. The customer controls the work in process as evidenced either by contractual termination clauses or by our rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternative use to the company.

#### **1.3 Intangible assets**

##### **1.3(a) Goodwill**

Goodwill arising on acquisition is capitalised and tested for impairment on an annual basis.

##### **1.3(b) Computer software**

Costs which are directly attributable to the development of computer software are capitalised assets only when the technical feasibility of the project is demonstrated, the Group has an intention and ability to use the software and the costs can be measured reliably.

#### **1.4 Tangible non-current assets**

Tangible non-current assets are stated at cost less accumulated depreciation and accumulated impairment losses. The carrying value of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### **1.5 Depreciation**

Depreciation is provided to write off the cost, less estimated residual values, in equal annual instalments over the estimated lives of the assets. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

#### **1.6 Impairment of assets**

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash generating unit [CGU] to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use.

### *2 Judgements in applying accounting policies and key sources of estimation uncertainty*

In preparing these financial statements, the directors determine whether there are indicators of impairment of the Group's tangible and intangible assets, including goodwill. Judgements have been made as to when in the stage of development of software assets, all the criteria required for the recognition of internally generated intangibles have been met, in accordance with AASB 138 Intangible Assets issued by the Australian Accounting Standards Board.

### *3 Revenue*

Revenue is wholly derived within Australia through the provision of customer back office processing and compliance solutions, and recruitment and consultancy solutions in the areas of governance, risk and compliance.

**12 Intangible assets**

	Software (\$000)
At 1 July 2018	442
Additions	-
At 30 June 2019	442
<b>Accumulated amortisation &amp; impairment</b>	
At 1 July 2018	-
Charge for the year	-
At 30 June 2019	-
<b>Net book value</b>	
At 30 June 2019	442
At 30 June 2018	442

	Goodwill (\$000)
At 1 July 2018	2,019
Additions	-
At 30 June 2019	2,019
<b>Accumulated impairment</b>	
At 1 July 2018	-
Charge for the year	-
At 30 June 2019	-
<b>Net book value</b>	
At 30 June 2019	2,019
At 30 June 2018	2,019

Goodwill has been allocated to the group's cash generating unit (CGU). The recoverable amount of this CGU was based on a fair value estimate using discounted cash flows. No impairment has been provided, as the estimate of the recoverable amount provided sufficient headroom over the carrying value.

### 16 Interests in other entities

The group's principal subsidiaries at 31 December 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/country of incorporation	Ownership interest held by the group	Principal activities
Shannon Pty Ltd	Australia	100%	Consulting

### 17 Cash and cash equivalents

	2019 (\$000)	2018 (\$000)
Cash at bank	2,360	-
Bank overdraft	-	(10,745)

### Auditing

Wellard Pty Ltd is audited by a leading audit firm. The auditor's report of the consolidated general purpose financial statements was an unmodified auditor's report (which effectively states the auditor believes the financial statements present

a true and fair view, and are in accordance with accounting standards and relevant legislation. This is sometimes called an "unqualified" or "clean" audit opinion).

## Case Study 2: Malop Pty Ltd

Malop Pty Ltd is a hypothetical private company domiciled in Australia. The company has 200 employees. The principal activities of the company and its subsidiaries (collectively, the Malop Group) during the year were the provision of customer back office processing and compliance solutions, and resourcing and consulting activities in the areas of governance, risk and compliance.

## Directors' Declaration

The Directors' Declaration notes in the opinion of the directors of Malop Pty Ltd, the company is not publicly accountable, the financial statements of Malop Pty Ltd for the financial year ended 30 June 2019 give a true and fair view and comply with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 June 2019 (\$000)	30 June 2018 (\$000)
Revenue	3	<b>221,366</b>	211,868
Cost of sales		<b>(168,527)</b>	(160,114)
<b>Gross Profit</b>		<b>52,839</b>	51,754
Other Income	6	<b>56</b>	44
Administrative expenses	7	<b>(24,781)</b>	(26,063)
Finance costs	8	<b>(56)</b>	(34)
<b>Profit before income tax</b>		<b>28,058</b>	25,701
Income tax expense	9	<b>(8,265)</b>	(7,967)
<b>Profit and total comprehensive income for the year</b>		<b>19,793</b>	17,734

<b>Accumulated Profit &amp; Loss at start of year</b>		<b>4,540</b>	5,513
<b>Dividends</b>	10	<b>(19,933)</b>	(18,707)
<b>Accumulated Profit &amp; Loss at end of year</b>		<b>4,400</b>	4,540

All recognised gains and losses in the current and prior year are included in the statement of comprehensive income, accordingly, no separate statement of other comprehensive income has been prepared. As the only changes to the Malop Group's equity during the year arose from profit or loss and payment of dividends, it has elected

to use the option in the International Financial Reporting Standard for Small and Medium-sized Entities to present a single statement of comprehensive income and retained earnings in place of two separate statements – a statement of comprehensive income and a statement of changes in equity.

**CONSOLIDATED BALANCE SHEET  
AT 30 JUNE 2019**

	Notes	30 June 2019 (\$000)	30 June 2018 (\$000)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		2,360	-
Debtors	11	24,282	38,613
<b>Total current assets</b>		<b>26,642</b>	<b>38,613</b>
<b>Non-current assets</b>			
Intangible assets	12	656	858
Tangible non-current assets	13	2,895	2,994
<b>Total non-current assets</b>		<b>3,551</b>	<b>3,852</b>
<b>Total assets</b>		<b>30,193</b>	<b>42,465</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Bank Overdraft		-	10,745
Creditors	14	25,058	27,105
<b>Total current liabilities</b>		<b>25,058</b>	<b>37,850</b>
<b>Non-current liabilities</b>			
Provision for liabilities and charges	15	660	-
<b>Total non-current liabilities</b>		<b>660</b>	<b>-</b>
<b>Total liabilities</b>		<b>25,718</b>	<b>37,850</b>
<b>Equity</b>			
Share Capital	16	39	39
Reserves		36	36
Accumulated Profit & Loss		4,400	4,540
<b>Total equity</b>		<b>4,475</b>	<b>4,615</b>
<b>Total liabilities and equity</b>		<b>30,193</b>	<b>42,465</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	30 June 2019 \$'000)	30 June 2018 (\$'000)
<b>Cash flows from operating activities</b>		<b>19,793</b>	<b>17,734</b>
<b>Adjustments for:</b>			
Depreciation, impairment and amortisation of non-current assets	12,13	1,955	2,362
Net interest payable (receivable)	7,8	(2)	(18)
Income tax expense		8,265	7,967
Decrease in trade and other debtors		14,383	91
Decrease in trade and other creditors		(2,083)	(3,210)
Increase in provisions		660	-
Loss on disposal of non-current assets	6	2	8
<b>Cash from operations</b>		<b>42,973</b>	<b>24,934</b>
Interest paid	8	(56)	(34)
Income tax paid		(8,245)	(9,825)
<b>Net cash from operating activities</b>		<b>34,672</b>	<b>15,075</b>

<b>Cash flows included in investing activities</b>			
Purchase of tangible non-current assets	12	(1,693)	(790)
Purchase of intangible assets	13	-	(442)
Interest received	7	59	52
<b>Net cash from investing activities</b>		<b>(1,634)</b>	<b>(1,180)</b>

<b>Cash flows from financing activities</b>			
Equity dividends paid	10	(19,933)	(18,707)
<b>Net cash used in financing activities</b>		<b>(19,933)</b>	<b>(18,707)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>13,105</b>	<b>(4,812)</b>

Cash and cash equivalents at beginning of year		(10,745)	(5,933)
Cash and cash equivalents at end of year	17	2,360	(10,745)

Malop Pty Ltd is a private company domiciled in Australia. These financial statements are consolidated financial statements for the Group consisting of Malop Pty Ltd and its wholly owned subsidiary Shannon Pty Ltd for the year ended 30 June 2019. The financial statements are presented in Australian dollar (\$). The financial statements were authorised in accordance with a resolution of the directors.

## **Selected Notes are provided**

### *1 Basis of preparation and accounting policies*

The financial report is a general purpose financial report, which has been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board. The financial report has been prepared on the historical cost basis.

#### **1.1 Basis of consolidation**

The consolidated financial statements as at and for the year 30 June 2019 consolidate Malop Pty Ltd and its subsidiaries. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposal of in the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

#### **1.2 Revenue**

Revenue is accounted for on the majority of our contracts to a day rate (typically a time and material basis), which is recognised at the point when the service is provided to the end customer. In the case of contracts which are in progress at the year end and where billing is rendered on account, revenue is recognised based on the estimated stage of completion of the contract. To the extent that revenue recognised is in excess of billings on account, this is included in accrued income. Where billings are made in advance of work done this is included in deferred income.

### **1.3 Intangible assets**

#### **1.3(a) Goodwill**

Goodwill arising on acquisition is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life of up to 10 years. Impairment testing on the carrying value of goodwill is undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstance indicate the carrying value may not be recoverable.

#### **1.3(b) Computer software**

Costs which are directly attributable to the development of computer software are capitalised assets only when the technical feasibility of the project is demonstrated, the Group has an intention and ability to use the software and the costs can be measured reliably.

### **1.4 Tangible non-current assets**

Tangible non-current assets are stated at cost less accumulated depreciation and accumulated impairment losses. The carrying value of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### **1.5 Depreciation**

Depreciation is provided to write off the cost, less estimated residual values, in equal annual instalments over the estimated lives of the assets. The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

### **1.6 Impairment of assets**

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash generating unit [CGU] to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use.

## 2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors determine whether there are indicators of impairment of the Group's tangible and intangible assets, including goodwill.

Judgements have been made as to when in the stage of development of software assets, all the criteria required for the recognition of internally generated intangibles have been met, in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board.

## 3 Revenue

Revenue is wholly derived within Australia through the provision of customer back office processing and compliance solutions, and recruitment and consultancy solutions in the areas of governance, risk and compliance.

## 12 Intangible assets

	Goodwill (\$000)	Software (\$000)	Total (\$000)
At 1 July 2018	2,019	442	<b>2,461</b>
Additions	-		-
At 30 June 2019	2,019	442	<b>2,461</b>
<b>Accumulated amortisation &amp; impairment</b>			
At 1 July 2018	1,603	-	<b>1,603</b>
Charge for the year	202	-	<b>202</b>
At 30 June 2019	1,805	-	<b>1,805</b>
<b>Net book value</b>			
At 30 June 2019	214	442	<b>656</b>
At 30 June 2018	416	442	<b>858</b>

Goodwill has been allocated to the group's cash generating unit (CGU). The recoverable amount of this CGU was based on a fair value estimate using discounted cash flows. No impairment has been provided, as the estimate of the recoverable amount provided sufficient headroom over the carrying value.

### 17 Cash and cash equivalents

	2019 (\$000)	2018 (\$000)
Cash at bank	2,360	-
Bank overdraft	-	(10,745)

### Auditing

Malop Pty Ltd is audited by a leading audit firm. The auditor's report of the consolidated general purpose financial statements was an unmodified auditor's report (which effectively states the auditor believes the financial statements present a true and fair view, and are in accordance with accounting standards and relevant legislation. This is sometimes also called an "unqualified" or a "clean" audit opinion).

**PART B****RELEVANT INFORMATION**

Thinking about my principal decision-making task and after reading the financial report above, I assess each of the following items in the financial report capable of making a difference to the decision made:

	Strongly disagree (1)	Somewhat disagree (2)	Neither agree nor disagree (3)	Somewhat agree (4)	Strongly agree (5)
Revenue (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gross Profit (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit before income tax (3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit and total comprehensive income for the year (4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Intangible assets (5)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tangible non-current assets (6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Net cash from operating activities (7)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Goodwill (see Notes 1.3(a) and 12) (8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**FINANCIAL REPORT INFORMATION**

Thinking about my principal decision-making task and after reading the financial report above, I assess each of the following items in the financial report a faithful representation of the economic phenomenon it purports to represent:

	Strongly disagree (1)	Somewhat disagree (2)	Neither agree nor disagree (3)	Somewhat agree (4)	Strongly agree (5)
Revenue (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gross Profit (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit before income tax (3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Profit and total comprehensive income for the year (4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Intangible assets (5)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tangible non-current assets (6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Net cash from operating activities (7)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Goodwill (see Notes 1.3(a) and 12) (8)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**OVERALL RELATIVE INFORMATION IN FINANCIAL REPORT**

Thinking about my principal decision-making task and after reading the financial report above, overall, I assess the information in the financial report:

	Strongly disagree (1)	Somewhat disagree (2)	Neither agree nor disagree (3)	Somewhat agree (4)	Strongly agree (5)
Capable of making a difference to the decision made (1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A faithful representation of the economic phenomenon it purports to represent (2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**ADDITIONAL INFORMATION**

Thinking about my principal decision-making task and after reading the financial report above, the three most important pieces of information from sources OUTSIDE the annual report I would like to obtain are...?

Please type the details of the three most important pieces of information below.

**PURCHASE OF ADDITIONAL INFORMATION**

Thinking about your response to the question above, if you had \$100,000 (i.e., \$100K) to allocate to obtain the three pieces of information from sources OUTSIDE the annual report please indicate how you would assign the money (e.g., if you chose to assign \$70K to information 1 you would enter 70).

Information 1 (please type the details of the piece of information) :

(1)

Information 2 (please type the details of the piece of information) :

(2)

Information 3 (please type the details of the piece of information) :

(3)

**Total :**

**AUDIT REPORT**

Thinking about my principal decision-making task  
and after reading the audit information above:

	Strongly disagree (1)	Somewhat disagree (2)	Neither agree nor disagree (3)	Somewhat agree (4)	Strongly agree (5)
<b>The auditor's report is capable of making a difference to the decision made (1)</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**ANYTHING ELSE? (OPEN-ENDED)**

Is there anything else you would like to add?

## REFERENCES

Conseil National de la Comptabilité (CNC) and European Financial Reporting Advisory Group (EFRAG) 2009, The needs of users of financial information <<http://old.efrag.org/files/News%20related%20documents/PAaInE%20Paper%20-%20The%20Needs%20of%20Users%20of%20Financial%20Information%20-%20May%202009.pdf>> viewed 12 July 2020

Institute of Chartered Accountants of Scotland (ICAS) and EFRAG 2016, Professional investors and the decision usefulness of financial reporting <<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FsiteAssets%2FProfessional%2520investors%2520and%2520the%2520decision%2520usefulness%2520of%2520financial%2520reporting.pdf>> viewed 12 July 2020

External Reporting Board (XRB) 2017, Information and assurance needs of the users of Tier 2 for-profit entity financial reports. <<https://www.xrb.govt.nz/information-hub/publications/>> viewed 12 July 2020

de Vaus, D 1995, Surveys in social research, Allen and Unwin, Sydney.

International Accounting Standards Board [IASB] 2015, IFRS for SMEs Standard, London, viewed 14 June 2019, <http://www.ifrs.org>

Qualtrics 2020, Qualtrics, Qualtrics, Provo.

Saunders, M, Lewis, P, and Thornhill, A 1997, Research methods for business students, Pitman, London.

Youngman, M 1986, Analysing questionnaires, University of Nottingham, Nottingham.

## AUTHORS

### Professor Christine Jubb FCPA

Christine is a professor in the Swinburne Business School. Christine was previously Research Fellow and Director of the Australian National Centre for Audit and Assurance Research at the Australian National University. She was appointed, by the Financial Reporting Council, to the Auditing and Assurance Standards Board in 2005 and reappointed for a second, three-year term to the Board which ended in December 2010. She was seconded part-time to the Australian Accounting Research Foundation in 2001 and 2002, the then Secretariat to the previous Auditing and Assurance Standards Board. Christine has taught research methodology, auditing, accounting theory and financial reporting at undergraduate and postgraduate levels. She has supervised auditing-related research at Honours, Master and PhD levels and published refereed articles and textbooks on Auditing and Assurance. She was the co-recipient of Australian Research Council Discovery Grants in 2004 and 2005 and in 2010, a Linkage Grant. She is Chair of the CPA Australia Exam Policy Advisory Committee.

### Dr Janine Muir CPA

Janine is a Lecturer in Accounting in the Swinburne Business School, specialising in Auditing and Forensic Accounting. She has 15 years industry experience encompassing transport and logistics and publishing. Throughout her academic career Janine has been involved in curriculum development and delivery of undergraduate and post-graduate units both domestically and internationally. She designed and developed two new Swinburne units; one incorporating blended delivery and the other an online unit. Janine's research interests include accounting education, financial reporting, accounting regulation and compliance. Janine's PhD examined volunteer accounting in an unregulated environment and considered the accounting and assurance functions pertaining to small incorporated associations in Victoria. Janine has worked on a number of collaborative research projects including one looking at the development of judgement skills in undergraduate accounting students, and another looking at the concept and application of professional skepticism.

### Dr Nandana Pathirana

Nandana is a lecturer in Accounting and Finance in the Swinburne Business School, having several years teaching experience in Australia and abroad. He completed PhD degree requirements under 3 years from Swinburne University of Technology in the area of International Financial Reporting Standards (IFRS) and accounting information quality. He published several peer-reviewed articles in international conferences and journals.

### Dr Mark Shying

Mark is an Industry Fellow in the Swinburne Business School. A key focus of Mark's position is industry engagement. Teaching and teaching related responsibilities include reviewing and redesigning curriculum to ensure it is equipping graduates with the required skillset to succeed in their chosen business discipline(s), and preparing and delivering industry relevant learning experiences. Research related activities include translating academic research for a practitioner audience, pursuing applied research scholarship and forging industry partnerships for research and teaching endeavours.

### Acknowledgements

The authors would like to thank CPA Australia and Ram Subramanian – Policy Advisor – Reporting at CPA Australia for their contribution to this research project and this report.

## ENDNOTES

1. The International Accounting Standards Board (IASB) uses the term 'small and medium-sized entities' to describe unlisted for-profit entities.
2. Information sourced from outside the annual report includes information from the entity website, media and management accounts and information about corporate outlook, customers and suppliers, industry, non-financial metrics and other investment advice available from advisors.
3. For example, Conseil National de la Comptabilité (CNC) and European Financial Reporting Advisory Group (EFRAG) 2009, The needs of users of financial information; Institute of Chartered Accountants of Scotland (ICAS) and EFRAG 2016, Professional investors and the decision usefulness of financial reporting; External Reporting Board (XRB) 2017, Information and assurance needs of the users of Tier 2 for-profit entity financial reports.
4. Mean is the average value of the data set. SD is the standard deviation of the mean. When SD is large, it includes a large dispersion of the values in the data set around the mean. When SD is small, it indicates a large concentration around the mean.
5. The SD and mean were used to estimate the coefficient of variation ( $CV=SD/mean$ ). As a rule of thumb, a  $CV \geq 1$  indicates a relative high variation, while a  $CV < 1$  can be considered low. The unreported CV for the Table 3 SD and mean of the financial report data set is 0.24188571.
6. The total number of assessments indicated by users was 489 of a possible 496 values. The missing values for a variable were replaced by the most frequent value for that same variable (i.e, the mode value).
7. The nine users include one user who allocated 3 AUD from their budget to obtain information on three items.
8. Numbers can be fashioned. The numbers are only important in so far as they can inform you of the primary levers of the enterprise. If I am lending money to a private company the last thing I should be doing is relying on "their word", I am failing in my fiduciary capacity in these cases. A lot of the time companies lie without realising it. Cognitive dissonance is a massive issue, companies miss the creation of large contingent liabilities or inefficiencies in their process, not because they are cheats, but human nature tends to fog the view.
9. Typically, columns 3 and 4 of Table 8 provide this information. However, on two occasions the research team referred to columns 3, 4, 5 and 6. Risk 30% & Environment 30%, and Forecast profitability 45% & Forecast cash flow projections 45% are the two occasions.

