A GUIDE TO UNDERSTANDING ANNUAL REPORTS:

AUSTRALIAN LISTED COMPANIES

NOVEMBER 2019

HLB MANN JUDD
ADVISORY AND ACCOUNTING

CPA AUSTRALIA

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ISBN: 978-0-6482919-1-6

First published 1995
Second edition 2012
Third edition 2013
Fourth edition 2014
Fifth edition 2019

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FOREWORD

For more than a century now, annual reports that incorporate financial reports have been regarded as the primary source of trustworthy, independently verified information provided by listed companies to their investors and other stakeholders. Evolving business practices, increasingly sophisticated business models and the myriad of information sources all pose challenges to annual reporting and its role as a meaningful, timely and relevant source of information on company performance.

There is an argument that the proliferation of near real-time information in the digital era has led to a decrease in relevance of financial reports that are published on a once-a-year basis. Analyst recommendations, media releases and even information snippets provided on social media platforms can all have an impact on investor behaviour and share price. Whilst there is no doubt we live in an era where there is a significant amount of information available at any given point in time, the credibility attributable to financial reports from the existence of a well-established reporting, legal and auditing framework underpinning their preparation is something that other information sources cannot provide.

Financial reports are effectively a dashboard view into company performance and reflect complex economic transactions and business models as accurately as possible. A Guide to Understanding Annual Reports: Australian Listed Companies has been written to assist existing and prospective shareholders and other providers of capital without expertise in accounting to further their understanding of listed company annual reports. The guide aims to assist shareholders and other providers of capital who are not well-versed in accounting standards and the Corporations Act 2001 to interpret financial statements and make better use of the information contained within these documents.

I would like to thank the members of CPA Australia who have contributed their time and effort in reviewing this fifth edition of the guide. I also wish to thank HLB Mann Judd and others who have contributed to this revised version of the guide.

Peter Wilson AM FCPA
President

WHAT IS AN ANNUAL REPORT?

The annual report comprises information about a company and, where applicable, entities it controlled during the **reporting period**. The annual report is a primary document through which companies communicate details of their activities, financial results and strategies to shareholders and other stakeholders.

Information found in the annual report includes material required by statutory and regulatory requirements articulated in the **Corporations Act 2001 and Australian Securities Exchange (ASX) Listing Rules,** including:

- **the directors' report** (which includes the remuneration report)
- the corporate governance statement (or the URL of the homepage on the company's website where the statement is located)
- the financial report
- the auditor's report on the financial and remuneration reports

Additional non-compulsory reporting which supports good corporate governance is normally reflected in reports from the chairman and the chief executive of the company. These are typically located towards the beginning of the annual report prior to the audited financial report and remuneration report.

The emergence of environmental, **corporate social responsibility ("CSR report")**, integrated and **sustainability reports** are further examples of the non-compulsory reporting which companies are choosing to provide to shareholders. In June 2017, the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) released its final report, providing a framework for a set of voluntary, consistent climate-related financial disclosures for use by investors, lenders and the market generally in assessing and pricing climate-related risks and opportunities. Whilst such reporting is not yet mandatory, there appears to be an increasing awareness of the importance of disclosures about climate related risk.

This is becoming increasingly evident as the Australian Securities and Investments Commission (ASIC) has been clear in its message to directors of listed companies that they should carefully consider the requirements relating to the Operating and Financial Review (OFR) disclosures under s299A(1)(a)(c) of the Corporations Act 2001. In Regulatory Guide 247 (RG 247), ASIC recommends that directors should consider the systemic risk arising from climate change, which could have a material impact on the future financial position, performance or prospects of a company.

WHAT IS A DIRECTORS' REPORT?

The directors' report of a listed company has an important role in meeting the information needs of shareholders. While a company's financial report provides useful information about financial position and performance, it will rarely provide all the information required to ascertain the underlying reasons for a company's financial results. It will also provide little, if any, information about business strategies and prospects relevant to future financial performance.

The directors' report contains information that shareholders of the company would reasonably require to make an informed assessment of:

- the operations of the company reported on,
- the financial position of that company, and
- the business strategies of that company and its prospects for future financial years (unless their inclusion would be unreasonably prejudicial).

This information is complemented by:

- a review of operations and other information required in the OFR,
- details of significant changes in the company's state of affairs,
- a statement of the company'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 company's future operations, results or state of affairs,
- reference to likely developments in the company's future operations and expected results of those operations (unless their inclusion would be unreasonably prejudicial), and
- details of the company's performance in relation to any particularly significant environmental regulation.

The report by the directors will identify the names of the directors and officers of the company, and is required to contain information about options including **share options**, executive options, indemnity and insurance directors'. It also includes information on directors membership of other committees (such as audit committees, remuneration committees, etc.) and discloses attendance of directors at board and other committee meetings.

The directors' report includes a remuneration report that must include a discussion of the board's policy on remuneration and its relationship to **company performance**.

The **remuneration report** includes information about the cost to the company of providing its directors and **key management personnel** with short-term **employee benefits**, post-employment benefits, other long-term employee benefits, termination benefits and **share-based payment arrangements**.

WHAT IS A CORPORATE GOVERNANCE STATEMENT?

The answer to the question "What is a corporate governance statement?" will depend on how one defines corporate governance. The **ASX listing rules** do not provide a definition, but they require listed companies to disclose in their corporate governance statement the extent to which they have followed the non-mandatory guidelines of the ASX Corporate Governance Council's (ASX CGC) Corporate Governance Principles and Recommendations or explain why they have not done so ("if not, why not?" reporting). The corporate governance statement may be included in the annual report or, alternatively, companies can include a URL link to the location of the statement on their website. The corporate governance statement needs to be dated and approved by the board of the listed company.

The ASX CGC principles (4th edition), which is applicable for financial years commencing on or after 1 January 2020, include 8 central principles and associated recommendations. The corporate governance statement must disclose the extent to which the company has followed the recommendations made under the 8 central principles:

Principle 1 – Lay solid foundations for management and oversight

A listed entity should clearly delineate the respective roles and responsibilities of its board and management and regularly review their performance.

Principle 2 – Structure the board to be effective and add value

The board of a listed entity should be of an appropriate size and collectively have the skills, commitment and knowledge of the entity and the industry in which it operates, to enable it to discharge its duties effectively and to add value.

Principle 3 – Instil a culture of acting lawfully, ethically and responsibly

A listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly.

Principle 4 – Safeguard the integrity of corporate reports

A listed entity should have appropriate processes to verify the integrity of its corporate reports.

Principle 5 – Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Principle 6 – Respect the rights of security holders

A listed entity should provide its security holders with appropriate information and facilities to allow them to exercise their rights as security holders effectively.

Principle 7 – Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

Principle 8 – Remunerate fairly and responsibly

A listed entity should pay director **remuneration** sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives and to align their interests with the creation of value for security holders and with the entity's values and risk appetite.

WHAT IS A FINANCIAL REPORT?

The financial report provides people who are interested in a company – such as shareholders, lenders, analysts, employees and other stakeholders – with information about the financial performance and financial position of the company. It is one means by which directors of the company advise shareholders on how the business has performed during the year. The financial report also provides information to shareholders on how the directors have discharged their responsibilities.

Financial reports consist of four primary financial statements for the current financial period and the comparative prior financial period, the notes to the financial statements and the directors' declaration.

The four primary financial statements are:

- the statement of profit or loss and other comprehensive income (sometimes referred to as a profit and loss statement),
- the statement of financial position (sometimes referred to as a balance sheet,)
- the statement of changes in equity, and
- the statement of cash flows.

Financial statements present information relevant to the current financial period and comparative figures for the previous period to illustrate how the financial performance and position of the company have changed.

The notes to the financial statements explain the accounting policies used in preparation, and provide additional information about particular amounts. In recent times, there has been a movement towards the use of "streamlined financial reporting", whereby the needs of investors and stakeholders are put first, by providing them with the information they need in a format and language that is easier to understand, whilst continuing to comply with the underlying requirements.

The notes also provide financial information which is not contained in the primary financial statements, such as information about uncertainties facing the company that meet the definition of **contingent liabilities.**

Later in this Guide we illustrate the possible form and content of the four financial statements and some notes by providing the partial financial report of a fictitious Australian listed iron ore mining company, CPA Australian Resources Ltd.

The directors' declaration comprises statements from the directors that:

- the financial statements and the notes are in accordance with the Corporations Act 2001 and comply with applicable accounting standards,
- the financial statements and notes give a true and fair view of the financial position and performance of the company, and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is required by the *Corporations Act 2001.*

WHAT IS AN AUDITOR'S REPORT?

Auditors are independent accounting practitioners appointed by the directors and confirmed at the AGM to provide an opinion on the financial report and the **remuneration** report prepared by the directors.[1] The auditor's report comprises several key components, the content or applicability of which will depend on the outcome of the audit.

Opinion

The auditor's opinion is presented first, about whether the financial report gives a true and fair view of the reported financial position and performance of the company and complies with the Corporations Act 2001, Australian Accounting Standards and the Corporations Regulations 2001 (and if not, the auditor modifies their report).

Basis for Opinion

In the "basis for opinion" section, the auditor explains that the audit was performed in accordance with Australian Auditing Standards and confirms compliance with applicable independence and ethical requirements. If the auditor's report has been modified, this section will also include an explanation of the reason(s) why the opinion has been modified.

Key Audit Matters

For listed companies, the auditor's report includes a section in respect of Key Audit Matters (KAM). KAM are those matters that, in the auditor's professional judgment, were of most significance in performing the audit. In simple terms, such matters will generally represent those that required greater audit attention. The number of KAMs the auditor identifies is not fixed and is therefore a matter of judgment. For each KAM identified, the auditor's report will include a description of the KAM and details of how the auditor addressed it. It is possible, although not particularly common, that the auditor might not identify any KAMs. In such cases the KAM section of the auditor's report must include a statement to that effect.

[1]The other information that forms the directors' report along with the directors' report itself are not subjected to a report from the auditor.

Emphasis of Matter, Other Matter or Material Uncertainty Relating to Going Concern Paragraphs

If applicable, the auditor's report brings to the attention of users a matter fundamental to the understanding of the KAMs financial report but not included in KAM. This is either an emphasis of matter paragraph if the matter has been appropriately disclosed by the entity or an "other matter" paragraph if the matter is not something disclosed in the financial report. If there exists a material uncertainty as to whether the company will continue as a going concern:

- it may lead the auditor to conclude that the going concern basis of preparation of the financial statements is not appropriate; or
- the auditor's report will include a "material uncertainty relating to going concern" paragraph drawing attention to this and referring to the associated disclosure by the company of a going concern uncertainty within the financial report.

Other Information

Opinion on the Remuneration Report

The **auditor's report** also includes an opinion on the remuneration report. The auditor expresses an opinion as to whether the remuneration report complies with Section 300A of the *Corporations Act 2001*.

Modifications to the Auditor's Report

The auditor will issue a **modified opinion** if the financial report contains (a) material misstatement(s), as a qualified or adverse opinion, or if the auditor cannot obtain sufficient appropriate audit evidence, as a qualified opinion or disclaimer. Where an auditor's report is modified, this will be stated in the opinion section of the report and further explained in the basis for opinion section. A modified opinion will also be issued if the auditor is of the opinion that the remuneration report is not in accordance with the applicable requirements of the Corporations Act 2001.

Limitations

Whilst the auditor's report provides the reader with confidence in the information contained in the financial report, it does not guarantee the accuracy of the financial information, or the continued viability of the company. This is explained in the section on the auditor's responsibilities. The auditing framework is designed to enable auditors to make an assessment that is based on a number of factors, including materiality.

The CPA Australia publication ***A Guide to Understanding Auditing and Assurance: Australian Listed Companies*** explains the value and purpose of the auditor's report in plain language.

WHAT DO THE FOUR PRIMARY FINANCIAL STATEMENTS SHOW?

The primary purpose of financial statements is to aid current and prospective shareholders and stakeholders in making resource-allocation decisions.

The statement of profit or loss and other comprehensive income provides an overall picture of a company's performance by reporting the total monetary measure of all events that have changed the value of an owner's interest in the company, other than those events with owners when acting in their capacity as owners. In simple terms, this statement shows the income and **expenses** of the company during the **reporting period**.

The statement of financial position shows the monetary measure of all the resources controlled by a company and all the obligations due by the company at a particular point in time, classified as current or non-current or in order of **liquidity**.

The statement of changes in equity reports all changes to **equity** during the financial period, including transactions with owners in their capacity as owners.

The statement of cash flows shows the cash inflows and outflows for the financial period, split between operating, investing and financing activities.

The content of the four primary statements is supported by notes. The notes include items such as the accounting policies applied, further information on balances within the primary statements and other disclosures not directly related to the primary statements.

Financial statements are prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB). The standards and interpretations provide the principles to follow when accounting for and disclosing transactions and events. A **listed company** complying with Australian Accounting Standards will also be in compliance with International Financial Reporting Standards (IFRS).

WHY IS THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DIFFERENT FROM THE STATEMENT OF CASH FLOWS?

Companies prepare their financial statements, with the exception of the statement of cash flows using the accruals basis of accounting. This means the financial effect of a transaction is recorded in the financial statements when the transaction occurs. This may be different from when the cash relating to the transaction is received or paid.

In simple terms, the cash flow statement will show an inflow when cash is received (e.g. through the sale of goods/services, receipt of funds from borrowings, etc.) and an outflow when cash is paid (e.g. when purchasing an **asset**, paying for services, etc.).

For example, our fictitious mining company CPA Australian Resources Ltd may have entered into a contract to sell iron ore, and will recognise the sale proceeds as **revenue** when the customer has taken delivery of the ore, being the point at which it has satisfied its performance obligations under the contract. However, the cash may not be received until later, which may be after the end of the financial year. Thus, the sale will be included in the statement of profit or loss and other comprehensive income for the year and a receivable recognised in the statement of financial position. However, as no cash has changed hands, the proceeds will not be reflected in the statement of cash flows until the following year.

In addition, some transactions that are recognised in the statement of profit or loss and other comprehensive income are non-cash in nature. For example, items of property, plant and equipment are subject to **depreciation** which appears as an expense in the statement of profit or loss and other comprehensive income. However, depreciation represents an accounting entry only and does not result in an outflow of cash. As such, a depreciation expense appears in the statement of profit or loss and other comprehensive income but not the statement of cash flows.

WHY ARE THE FIGURES IN A FINANCIAL STATEMENT SUBJECT TO JUDGEMENT AND INTERPRETATION?

Financial statements portray the financial effects of what are often complex commercial transactions, and judgment may be required to determine how some transactions and events are to be represented. Accounting standards play an important part in ensuring that similar transactions are treated in a similar manner.

However, a principles-based approach to setting accounting standards means that explicit rules are not written to cover all situations. Therefore, professional judgement may be needed when interpreting and applying an accounting standard.

Directors are required to use judgement to decide how long an **asset** will remain useful and the resulting effect on **depreciation** of property, plant and equipment assets.

Clear and concise disclosure of the significant judgements and estimates made by the directors in preparing the financial report is paramount to assisting the readers to better understand the financial report. In many cases, it is often these matters which are commented on in the KAMs section of the auditor's report.

FEATURES OF THE FINANCIAL STATEMENTS

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

The financial performance report of CPA Australian Resources Ltd uses the single statement format of the statement of profit or loss and other comprehensive income, and starts with **revenue**.[2]

Note 3 in the statement of profit or loss and other comprehensive income identifies the types of revenue earned by CPA Australian Resources Ltd. Accounting standards require that the **expenses** present finance costs and tax expense separately. The notes would contain further information on some items of expense. For some expenses, the accounting standards allow the company to choose between presenting the information in the statement of profit or loss and other comprehensive income or in the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION

The statement of financial position does not purport to be a valuation of the company, rather it is the outcome of applying accounting standards in valuing the **assets** and **liabilities** of the company. Therefore, it would be incorrect to conclude that the current monetary value of CPA Australian Resources Ltd is $266,358,000 (see the Statement of Financial Position on page 21). Some of the assets of CPA Australian Resources Ltd are shown at a current valuation (such as trade and other receivables), while other assets, for example property, plant and equipment, are presented at their cost of purchase less **accumulated depreciation.** Notes 2(a) and (e) provide some further information about the approach taken by CPA Australian Resources Ltd in the preparation of the financial statements. The accounting standards only allow the recognition of purchased **goodwill**, whereas the goodwill a company builds up during its years of operation is not recognised on the statement of financial position.

For example, a company may generate goodwill in respect of areas such as its reputation, customer base, brand exposure, etc. but cannot recognise an asset for such internally generated goodwill under accounting standards.

Although CPA Australian Resources Ltd is profitable and has operated for a number of years, its statement of financial position does not include goodwill as it has not purchased other businesses.

CPA Australian Resources Ltd classifies its assets and **liabilities** presented in the statement of financial position as current or non-current. The distinction is based on an assessment of the expected timing of recovering or settling the amounts.

An item will be classified as "current" when its amount is expected to be recovered or settled no more than 12 months after the date of the report, otherwise its classification is as "non-current".

Some companies may choose to classify their assets and liabilities only in order of **liquidity** and not separately presented as current or non- current, while others may use a combination of liquidity and current or non-current classifications.

The **equity** section of the CPA Australian Resources Ltd statement of financial position includes capital invested by shareholders and **accumulated profits** retained from previous years. For companies that adopt accounting policies different from those used by CPA Australian Resources Ltd, the equity section might include **reserves** that result from the accounting standards requirements for **asset revaluations**, the classification of financial assets as fair value through other comprehensive income, cash flow hedges and/or foreign currency translations (the example does not include reserves).

[2]Some listed companies use the following two statements to present information about performance:
- a profit or loss statement
- a statement displaying components of other comprehensive income

Whatever the format used, the minimum information presented is that specified by the accounting standard.

Listed companies will sometimes control other companies, while CPA Australian Resources Ltd does not. In those situations, the financial statements of the controlling company show information for the consolidated group. The **equity** section of the statement of financial position would separately present equity attributed to the shareholders of the controlling company, and any non-controlling interests.

STATEMENT OF CHANGES IN EQUITY

The statement of changes in equity shows the overall change in equity during a period which represents:

- **profit** or loss and other comprehensive income during that period
- the changes resulting from transactions with owners acting in their capacity as owners and associated costs. In the current financial year, CPA Australian Resources Ltd activities with its owners are the issue of new shares at $336,000 and the payment of dividends of $35,912,000 (see the example Statement of Changes in Equity on **page 23**).

STATEMENT OF CASH FLOWS

The statement of cash flows shows movements of cash (cash on hand and demand deposits) and cash equivalents (short-term, highly liquid investments that are readily convertible to cash). It highlights the sources and uses of cash and cash equivalents, and analyses the areas of CPA Australian Resources Ltd activity as follows:

- operating activities
- investing activities
- financing activities

The information in a statement of cash flows about cash and cash equivalents including their source can be used to assess the company's ability to meet its financial commitments and fund its activities (see the example Statement of Cash Flows on **page 23**).

AN APPROACH TO READING FINANCIAL STATEMENTS

Financial statement reporting by listed companies is all about communicating monetary measures and supporting information to current and prospective shareholders and other providers of capital. Other stakeholders, including analysts and employees, may also be interested. Some parts of the story might be of interest to all, while other parts will be of interest to a particular group. Those readers planning to use the financial statements to make decisions need to be aware that a listed company's financial statements do not and cannot provide all the information they may need. Analysts' reports, the financial press, and the ASX website are other sources of information to assist decision-making.

A final word of caution – financial statements are not designed to show the market value of the company, but they do provide information to assist shareholders, other providers of capital and other stakeholders in estimating that value.

STEP 1

The importance of preparation should not be underestimated when analysing the financial statements of a listed company. Making yourself knowledgeable about the environment in which the company operates in now and its direction in the future, for example getting information about local, national or global macro and micro economic conditions and the risk profile of the company's business(es) is a good and necessary start. Returning again to our fictitious Australian listed iron ore mining company example, the current and prospective shareholders of CPA Australian Resources Ltd are likely to be interested in the projected international demand for iron ore. Most readers gain an overview of the company, an understanding of the business it is in and the risks the business is facing from reading other parts of the annual report. The statements from the Chairman and the Chief executive officer (CEO) that put the company's performance highlights into context against strategies and the directors' report are often important to read as well.

Readers should be mindful that statements from the Chairman or CEO, except for the **remuneration** report section of the directors' report, are not subject to audit in the same way as the financial report and the remuneration report. However, although the audit does not cover such other information contained in the annual report beyond the financial report and remuneration report, the auditor is required to read the other information and report on whether it is materially inconsistent with the financial report, or knowledge gained through the audit, or appears to be materially misstated.

STEP 2

Read the auditor's report to see if the auditor's opinion has been modified or contains some other communication by the auditor. If so, read carefully why the auditor has issued a **modified opinion** or included another communication such as an **emphasis of matter** paragraph. Read the details of any KAM communicated by the auditor to gain an understanding of the areas of greatest audit effort.

STEP 3

Next, have a look to the statement of profit or loss and other comprehensive income and the statement of financial position to assess the size of the company and its profitability. CPA Australian Resources Ltd generated profit after income tax for the current period of $40,674,000. But this figure means little unless we compare it to another time period or another company to give it context. Horizontal or trend analysis can be used for intracompany comparative analysis. For example, you might decide to evaluate performance by using the comparative information in the CPA Australian Resources Ltd financial statements to benchmark the current year performance (profit after income tax $40,674,000 compared to the previous year figure of $26,705,000). Vertical analysis can be used for intracompany and intercompany comparative analysis.

A base amount is established and the monetary measure in the current period financial statement of CPA Australian Resources Ltd would be expressed as a percentage of this base amount. For example, you might be interested in the relationship of cash and cash equivalents to total assets and how it compares to the previous year. For the current financial year, the relationship expressed as a percentage is 26.8 per cent (and the comparative financial year 25.6 per cent). Ratio analyses compare the relationships of financial statement information, and are worked out by dividing one monetary measure by another and can be used for intracompany and intercompany comparative analysis.

For example, CPA Australian Resources Ltd has current period **current assets** of $117,387,000 and $57,623,000 in current **liabilities**, which results in a current ratio of 2.04:1. You can use the outcomes from performing horizontal, vertical and ratio analysis to compare the results for the previous year, the industry sector or competitors.

Now consider the statement of cash flows and the information this provides on the company's cash and cash equivalents transactions and position.

For the listed companies of some sectors such as property, banking and insurance, the current and prospective shareholder is likely to pay particular attention to the statement of financial position, while retaining a focus on the statement of profit or loss and other comprehensive income. For companies of other sectors, it is possible that current and prospective shareholders will be interested in the statement of profit or loss and other comprehensive income. This is because they may reason that an understanding and assessment of the economic productivity of the company is all important to estimating performance which in turn will determine their actions of buy, sell or hold.

The level of focus stakeholders place on the different primary statements will depend on the nature of the business. For example, in sectors where the asset base of the company is very important (such as banking, property, funds management, etc.) the statement of financial position may receive greater attention. However, in a company where **revenue**, **profit** or dividend payments are important to stakeholders, the statement of profit or loss and other comprehensive income may receive greater attention.

STEP 4

Turn to the notes to the financial statements. For example, Note 2 to the financial statements of CPA Australian Resources Ltd states the basis of preparation for the financial statements is on an accruals basis and is based on historical costs which do not take into account changing monetary values. Cost is based on the fair value of the consideration given in exchange for assets. Further, the accounting policies have been consistently applied, unless otherwise stated.

Read the accounting policies which are used for any items which have attracted your attention in the financial statements. Look for accounting policies which have changed during the year, the reasons for the change and the effect of the change on the financial statements. Companies are required to provide information on changes to accounting policies in the notes.

STEP 5

The remaining notes to the financial statements contain detailed financial information, including information on the areas in which the company operates, specific items of revenue and expense, and an explanation of the tax expense. Again, look for the notes which elaborate on any amounts which have come to your attention in the financial statements.

WHEN ARE ANNUAL FINANCIAL REPORTS PREPARED?

Listed companies are required to prepare and issue to shareholders a financial report and directors' report annually including the auditor's report on the financial and **remuneration** reports. Alternatively a company may issue a concise report to shareholders. A concise financial report provides shareholders with information relevant to evaluating the business, without providing full detailed accounting disclosures. These reports should be issued to shareholders within four months of the end of the financial year.

They are also required to prepare a half-yearly financial report which can either be audited or reviewed and issued to the shareholders within 2 months of the end of the half-yearly **reporting period** (or 75 days for certain exploration companies within the mining sector).

The period of the financial report is referred to as the reporting period and is typically for a period of one year. Companies are required to lodge the annual financial report with the Australian Securities and Investment Commission (ASIC) and the ASX within three months of the end of the financial year.

WHEN ARE THE FINANCIAL REPORTS PUBLISHED?

Unless a member specifically requests not to receive the financial report, **listed companies** must prepare and send a copy of their financial accounts to all members at least 21 days before the AGM and within four months of the end of the financial year.

Most listed companies publish their financial statements and reports on their website and notify shareholders of their action. Alternatively, a company may elect to send shareholders a hard copy of the full report or a concise report. A shareholder has the right to receive a hard copy, but must specifically request the printed version. There are provisions for shareholders to specifically request to receive an electronic copy as an alternative.

Copies are lodged with ASIC and the ASX and are available for inspection online.

OPPORTUNITIES FOR SHAREHOLDERS

Shareholders are sent a notice of the AGM, which is an opportunity for shareholders to ask questions of the auditor about their report, of the directors on any aspect of the company's operations and performance and of the annual accounts tabled at the AGM.

SAMPLE FINANCIAL STATEMENTS

CPA Australian Resources Ltd is a fictitious Australian listed iron ore mining company with primary operations in Australia and secondary operations in Brazil. These sample financial statements of CPA Australian Resources Ltd show the way in which many **listed companies** present yearly financial statements.

The figures are simplified to assist you in reading the statements. A selection of the notes to the financial statements is provided for illustrative purposes.

CPA AUSTRALIAN RESOURCES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 20XC

	NOTE	20XC	20XB
		$'000	$'000
Revenue	3	643,066	539,189
Raw materials and consumables	4	(123,142)	(98,342)
Depreciation		(29,367)	(44,461)
Employee benefits expense		(248,623)	(189,151)
Exploration expenses written off		(28,322)	(18,342)
Finance expenditure		(22,789)	(19,408)
Impairment of exploration expenditure	11	(114,251)	(121,000)
Other expenses	4	(18,492)	(10,174)
Profit before income tax expense		58,080	38,311
Income tax expense	5	(17,406)	(11,606)
Profit after income tax for the period	24	40,674	26,705
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
(Loss) / gain on translation of foreign operations		31	1,678
Other comprehensive income for the period, net of tax		31	1,678
Total comprehensive income for the period attributable to CPA Australian Resources Limited		40,705	28,383
Earnings per share for profit from comprehensive income		**cents**	**cents**
Basic earnings per share	27	20.62	15.19
Diluted earnings per share	27	20.62	15.19

The statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CPA AUSTRALIAN RESOURCES LIMITED

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 20XC

	NOTE	20XC	20XB
		$'000	$'000
Current assets			
Cash and cash equivalents	6	102,801	98,879
Trade and other receivables	7	8,945	5,474
Inventories	8	5,641	7,131
Total current assets		117,387	111,484
Non-current assets			
Trade and other receivables	9	42,323	23,021
Property, plant and equipment	10	27,370	40,142
Exploration expenditure	11	184,540	201,135
Deferred tax	12	11,353	10,345
Total non-current assets		265,586	386,127
TOTAL ASSETS		382,973	386,127
Current liabilities			
Trade and other payables	13	29,054	4,689
Provisions	14	6,875	37,303
Income tax	15	11,266	4,268
Employee benefits	16	10,428	9,953
Borrowings	17	-	**5,700**
TOTAL CURRENT LIABILITIES		57,623	61,913
Non-current liabilities			
Provisions	18	22,911	8,326
Borrowings	19	18,374	37,476
Deferred tax	20	4,081	3,917
Employee benefits	21	13,626	13,266
TOTAL NON-CURRENT LIABILITIES		58,992	62,985
TOTAL LIABILITIES		116,615	124,898
Net assets		266,358	261,229
Equity			
Contributed equity	22	223,610	223,274
Reserves	23	5,500	5,469
Retained profits	24	37,248	32,486
TOTAL EQUITY		**266,358**	**261,229**

The statement of financial position should be read in conjunction with the accompanying notes.

CPA AUSTRALIAN RESOURCES LIMITED

STATEMENT OF CHANGES IN CHANGES IN EQUITY

For the year ended 30 June 20XC

	ISSUED CAPITAL	RESERVES	RETAINED PROFITS	TOTAL EQUITY
	$'000	$'000	$'000	$'000
Balance at 1 July 20XA	128,238	3,791	27,313	159,342
Profit after income tax for the period			26,705	26,705
Other comprehensive income for the period		1,678		1,678
Total comprehensive profit for the period		**1,678**	**26,705**	**28,383**
Transactions with owners in their capacity as owners				
Shares issued, net of costs	95,036			95,036
Dividends paid			(21,532)	(21,532)
Balance at 30 June 20XB	**223,274**	**5,469**	**32,486**	**261,229**
Balance at 1 July 20XB	223,274	5,469		261,229
Profit after income tax for the period			40,674	40,674
Other comprehensive income for the period		31		31
Total comprehensive profit for the period		**31**	**40,674**	**40,705**
Transactions with owners in their capacity as owners				
Shares issued, net of costs	336			**336**
Dividends paid			(35,912)	(35,912)
Balance at 30 June 20XC	**3,791**	**5,500**	**37,248**	**266,358**

CPA AUSTRALIAN RESOURCES LIMITED

STATEMENT OF CASH FLOWS

For the year ended 30 June 20XC

	NOTE	20XC	20XB
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		686,141	278,342
Payments to suppliers and employees		(292,348)	(215,474)
Interest received		24	9
Net cash generated by operating activities	28	393,817	62,877
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		10,321	879
Proceeds from disposal of exploration assets		632	2,783
Purchase of property, plant and equipment		(365,272)	(1,370)
Net cash (used in)/generated by investing activities		(354,319)	2,292
Cash flows from financing activities			
Proceeds from issue of shares		336	24,322
Dividends paid		(35,912)	(21,532)
Net cash provided by/(used in) financing activities		(35,576)	2,790
Net increase in cash and cash equivalents		3,922	67,959
Cash and cash equivalents at the beginning of the financial year		98,879	30,920
Cash and cash equivalents at the end of the financial year	29	**102,801**	**98,879**

The statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS (EXTRACT)

NOTE 1: ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted.

The company has adopted all of the new, revised or amending Australian Accounting Standards and Interpretations issues by the AASB that are relevant to the operations and mandatory in the current **reporting period**.

Any new, revised or amending Australian Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTE 2: SUMMARY SIGNIFICANT ACCOUNTING POLICIES (EXTRACT)

(a) Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values. Cost is based on the fair value of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($000) or in certain cases to the nearest dollar, in accordance with ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191.

(b) Statement of compliance

The financial statements are general purpose financial statements and have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Corporations Act 2001, as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

(c) Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, **liabilities**, **contingent liabilities**, **revenue** and **expenses**. Management bases these assumptions on experience and on other factors such as expected future events it believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(d) Estimation of useful lives of assets

The company determines the estimated useful lives and related **depreciation** charges for its property, plant and equipment and deferred exploration expenditure. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or will be written off or written down.

NOTE 3: REVENUE

	20XC	20XB
	$'000	$'000
Revenue from Contracts with Customers		
Sales of iron ore	629,249	278,342
Sales of other metal	12,492	1,868
	641,741	538,529
Other sources of revenue		
Interest	1,325	660
	643,066	539,189

NOTE 6: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	20XC	20XB
	$'000	$'000
Cash on hand	95	103
Cash at bank	45,706	51,776
Cash on deposit	57,000	47,000
	102,801	98,879

GLOSSARY

Accumulated depreciation	The cumulative depreciation of an asset to the date of the current financial year.
Accumulated profits	The amount of past years profit not paid in dividends. Sometimes referred to as retained profit. In contrast, losses from previous years not absorbed by past years profit are accumulated losses.
Asset revaluation	The application of an accounting policy choice, whereby the monetary measure of the asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arms-length transaction.
Assets	Items of value which the company can trade or use in its business.
ASX listing rules	Listing rules govern the admission of companies to the official list of listed companies, quotation of their shares, suspension of those shares from quotation and removal of companies from the official list. The listing rules also govern disclosure and some aspects of a listed company's conduct.
Contingent liabilities	A potential liability dependent on uncertain future events which are beyond the control of the company.
Corporate social responsibility report	A report on how the company manages its business processes to produce an overall positive impact on society.
Current assets	Cash and cash equivalents and assets which are expected to be turned into cash in the next year.
Current liabilities	Amounts which the company is obliged to pay to others in the next year.
Depreciation	The systematic allocation of the cost of the asset over its useful life.
Emphasis of matter	A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
Employee benefits	Represent benefits offered to employees of the company and can include short-term (e.g. salaries and wages), long-term (e.g. long service leave), post-employment benefits (retirement benefits) and termination benefits.
Equity	Total assets less total liabilities; includes share capital, reserves and accumulated profit
Expenses	The costs of deriving revenue.
Goodwill	An asset representing the future economic benefit arising from other assets acquired by a company when gaining control of one or more other businesses that are not individually identified and separately recognised.
Liabilities	Amounts which the company is obliged to pay to others.
Liquidity	The case with which assets and liabilities may be converted into cash.
Listed company	A company which is publicly listed on a securities exchange like the ASX.
Key management personnel	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that company.
Modified opinion	The auditor may issue a modified opinion, being a qualified opinion, an adverse opinion or a disclaimer of opinion.
Profit	Surplus of revenues and other income over expenses.
Remuneration	Remuneration of directors or executives will typically include all or some of cash salary, shares or share options, superannuation, annual and long service leave.
Reporting period	The period that the financial statements cover. This will typically be one year (e.g. the year ended 30 June 20XX) but can be shorter or longer in certain circumstances.
Reserves	Surpluses arising from (for example) revaluations of certain assets.
Revenue	Earnings arising in the ordinary activities of the company. Fees from the rendering of services are examples of revenue, as is revenue from the sale of goods.
Share option	A contract that gives the holder of the option the right, but not the obligation, to subscribe to the company's shares at a fixed or determinable price for a specified period of time.
Share-based payment arrangement	An arrangement between the company and another party (including an employee) that entitles the other party, on satisfying any conditions specific to the arrangement, to shares or share options of the company, or cash or other assets of the company that are based on the price of those shares or share options.
Sustainability report	A report that provides information about the company's performance towards the goal of sustainable development.

*A glossary of key technical words used in this Guide has been provided to aid understanding. Bold font is used on the first appearance of the term.