

# A GUIDE TO UNDERSTANDING ANNUAL REPORTS:

## MALAYSIAN LISTED COMPANIES

Acknowledging the contribution of  
MALAYSIAN INSTITUTE OF ACCOUNTANTS



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

BE HEARD.  
BE RECOGNISED.



CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 150,000 members of the financial, accounting and business profession in 121 countries.

ISBN: 978-1-921742-60-6

For information about CPA Australia, visit our website [cpaaustralia.com.au](http://cpaaustralia.com.au)

First published 2014

CPA Australia Ltd  
ACN 008 392 452  
Level 20, 28 Freshwater Place  
Southbank Vic 3006  
Australia

Copyright © CPA Australia Ltd 2014. CPA Australia owns all copyright in these materials or uses it under licence or applicable law. For permission to reproduce any material, a request in writing is to be made to the Legal Business Unit, CPA Australia Ltd, Level 20, 28 Freshwater Place, Southbank, Victoria 3006.

DISCLAIMER: CPA Australia Ltd has used reasonable care and skill in compiling the content of these materials. However, CPA Australia Ltd makes no warranty that the materials are accurate and up to date. These materials do not constitute the provision of professional advice whether legal or otherwise. Users should seek their own independent advice prior to relying on or entering into any commitment based on the materials. The materials are purely published for reference purposes alone. CPA Australia, their employees, agents, contributors (including the MIA) and consultants exclude completely all liability to any person for loss or damage of any kind including but not limited to legal costs, indirect, special or consequential loss or damage (however caused, including by negligence) arising from or relating in any way to the materials and/or any use of the materials. Where any law prohibits the exclusion of such liability, then to the maximum extent permitted by law, CPA Australia's liability for breach of the warranty will, at CPA Australia's option, be limited to the supply of the materials again, or the payment of the cost of having them supplied again.

# CONTENTS

---

Contributors	4
Foreword	5
What is an annual report?	6
What is a directors' report?	6
What is a statement on risk management and internal control?	7
What is a corporate governance report?	8
What is a financial report?	10
What is the independent auditor's report?	11
What do the four primary financial statements show?	12
Why is the statement of comprehensive income different from the statement of cash flows?	13
Why are the figures in a financial statement sometimes subject to disputes and disagreements?	14
Features of the financial statements	15
An approach to reading financial statements	17
When are financial reports prepared?	19
Where are financial reports published?	20
Opportunity for shareholders	20
Sample financial statements	21
Statement of comprehensive income	22
Statement of financial position	23
Statement of changes in equity	24
Statement of cash flows	25
Notes to the financial statements	26
Glossary	27

# CONTRIBUTORS

---

CPA Australia acknowledges the work of the External Reporting Centre of Excellence and the MIA Professional Standards and Practices Division:

## EXTERNAL REPORTING CENTRE OF EXCELLENCE

<b>David Hardidge FCPA (Aust.)</b>	Chairman
<b>Indra Abeysekera CPA (Aust.)</b>	
<b>Tong-Gunn Chew FCPA (Aust.)</b>	
<b>Ric De Santi FCPA (Aust.)</b>	
<b>Thomas Egan FCPA (Aust.)</b>	
<b>Amir Ghandar CPA (Aust.)</b>	Technical Support
<b>Piotr Jakubicki CPA (Aust.)</b>	
<b>Alan Lee CPA (Aust.)</b>	
<b>Jeffrey Luckins CPA (Aust.)</b>	
<b>Carmen Ridley</b>	
<b>Julie Sinclair FCPA (Aust.)</b>	
<b>Mark Shying CPA (Aust.)</b>	Technical Support
<b>Ram Subramanian CPA (Aust.)</b>	Technical Support

## MIA PROFESSIONAL STANDARDS AND PRACTICES DIVISION

<b>Eddie Wong Koon Wai CPA (Aust.), C.A. (M)</b>	Director
<b>Ang Lai Fern CPA (M), C.A. (M)</b>	Manager

## FOREWORD

---

Existing and prospective shareholders are entitled to information about the financial performance and state of affairs of the listed company in which they have invested or may invest. The company annual report is one important source of that information. Analysts and media commentaries are others. However, the annual report is only useful to those who can understand and interpret the messages conveyed.

A Guide to Understanding Annual Reports: Malaysian 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 the annual report of a listed company. The Guide should assist shareholders and other providers of capital who are not literate in accounting standards and the Companies Act 1965 to interpret financial statements and therefore to be able to make better use of them.

The Guide is an initiative of the External Reporting Centre of Excellence of CPA Australia and I congratulate them on their contribution to a CPA Australia publication that has an important role to play in the promotion of improved financial literacy.

**Alex Malley FCPA**

Chief Executive  
CPA Australia Ltd

The Malaysian Institute of Accountants (MIA) is pleased to support A Guide to Understanding Annual Reports: Malaysian Listed Companies, which is an initiative of the External Reporting Centre of Excellence of CPA Australia and has been customized to suit the Malaysian environment by the MIA Professional Standards and Practices Division.

For some time MIA has recognized the need to educate shareholders and other providers of capital who are not literate in financial reporting standards and the Companies Act 1965 to interpret financial statements. This Guide has been written in plain language to assist shareholders and other providers of capital without expertise in accounting to further their understanding of the annual report of a listed company. The Guide will also allow shareholders and other providers to make better use of the annual reports.

We would like to express our gratitude and appreciation to CPA Australia for their initiative in the publication of this Guide. We hope this Guide will increase the knowledge and enhance financial literacy among existing and prospective shareholders.

**Ho Foong Moi**

Chief Executive Officer  
Malaysian Institute of Accountants

## WHAT IS AN ANNUAL REPORT?

The annual report comprises information about the company, and some commentators believe that it is the primary source of information about a company's activities and strategies. The primary purpose of the annual report is accountability, particularly to shareholders.

Information found in the annual report includes material framed by statutory and regulatory requirements articulated in the Companies Act 1965 and **Bursa Malaysia Securities Berhad** (Bursa Malaysia) **listing requirements** including:

- the directors' report
- the corporate governance report
- the financial report
- the auditor's report on the financial report

Additional non-compulsory reporting which supports good corporate governance is normally reflected in reports from the chairman and the chief executive of the company.

The emergence of **corporate social responsibility** and **sustainability reports** are further examples of the non-compulsory reporting which companies are choosing to provide shareholders with to enhance market knowledge and understanding of their strategies and performance operating the business.

## WHAT IS A DIRECTOR'S REPORT?

The directors' report of a **listed company** is required to contain information that shareholders of the company would reasonably require to make an informed assessment of:

- the operations of the company reported on
- the financial results of that company

This information is complemented by:

- a statement of the company's principal activities and any significant changes in the nature of those activities
- details of material transfers to or from **reserves** or provisions during the year
- details of items, transactions or events of a material and unusual nature that affects the results of the operations of the company

The report by the directors will identify the names of the directors of the company and disclose their benefits and interest in the company and its related corporations.

The directors' report is also required to disclose other statutory information required by Section 169 of the Companies Act 1965. Examples of information required are whether the directors are aware of any circumstances which have arisen which would render adherence to the existing method of valuation of **assets** or **liabilities** of the company misleading or inappropriate and whether the directors are aware of any circumstances not otherwise dealt with in the directors' report or financial statements of the company which would render any amount stated in the financial statements misleading.

## WHAT IS A STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL?

---

A listed issuer/corporation is required to include a statement about the state of internal control (Statement on Risk Management and Internal Control) in their annual report pursuant to the paragraph/rule 15.26(b) of the Bursa Malaysia listing requirements (cross reference to Practice Note 9 and Guidance Note 11).

The statement should include sufficient and meaningful information as needed by shareholders to make an informed assessment of the main features and adequacy of the company's risk management and internal control system.

In preparing the Statement on Risk Management and Internal Control, a listed issuer/corporation should be guided by the "Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers" which was issued by the Task Force on Internal Control in December 2012 with the support and endorsement of the Bursa Malaysia.

Pursuant to paragraph/rule 15.23 of the Bursa Malaysia listing requirements, a listed issuer/corporation must ensure that the external auditors review a statement made by the board of directors of a listed issuer/corporation pursuant to subparagraph/subrule 15.26(b) of the Bursa Malaysia listing requirements, with regard to the state of internal control of the listed issuer/corporation and report the results thereof to the board of directors of the listed issuer/corporation.

The Malaysian Institute of Accountants has issued Recommended Practice Guide 5 (Revised) to provide guidance for auditors in the performance of a limited assurance engagement to report on the Statement on Risk Management and Internal Control included in the annual report.

# WHAT IS A CORPORATE GOVERNANCE REPORT?

---

The Malaysian Code on Corporate Governance 2012 (MCCG 2012) is specifically targeted at companies listed on Bursa Malaysia.

The recommendations are standards that companies are expected to adopt as part of their governance structure and processes. Listed companies should explain in their annual reports how they have complied with the recommendations. As there is no 'one-size-fits-all' approach to corporate governance, companies are given the flexibility to determine the best approach to adopting the principles within the MCCG 2012. Where there is non-observance of a recommendation, companies should also explain the reasons.

The following are the 8 principles and their corresponding 26 recommendations. The principles and recommendations focus on, amongst others, laying a strong foundation for the board and its committees to carry out their roles effectively, promote timely and balanced disclosure, safeguard the integrity of financial reporting, emphasise the importance of risk management and internal controls and encourage shareholder participation in general meetings.

## PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

### Recommendation 1.1

The board should establish clear functions reserved for the board and those delegated to management.

### Recommendation 1.2

The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions.

### Recommendation 1.3

The board should formalise ethical standards through a code of conduct and ensure its compliance.

### Recommendation 1.4

The board should ensure that the company's strategies promote sustainability.

### Recommendation 1.5

The board should have procedures to allow its members access to information and advice.

### Recommendation 1.6

The board should ensure it is supported by a suitably qualified and competent company secretary.

### Recommendation 1.7

The board should formalise, periodically review and make public its board charter.

## PRINCIPLE 2 – STRENGTHEN COMPOSITION

### Recommendation 2.1

The board should establish a nominating committee which should comprise exclusively of non-executive directors, a majority of whom must be independent.

### Recommendation 2.2

The nominating committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors.

### Recommendation 2.3

The board should establish formal and transparent remuneration policies and procedures to attract and retain directors.

## PRINCIPLE 3 – REINFORCE INDEPENDENCE

### Recommendation 3.1

The board should undertake an assessment of its independent directors annually.

### Recommendation 3.2

The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director.

### Recommendation 3.3

The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years.

### Recommendation 3.4

The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board.

### Recommendation 3.5

The board must comprise a majority of independent directors where the chairman of the board is not an independent director.

---

## PRINCIPLE 4 – FOSTER COMMITMENT

### Recommendation 4.1

The board should set out expectations on time commitment for its members and protocols for accepting new directorships.

### Recommendation 4.2

The board should ensure its members have access to appropriate continuing education programmes.

## PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

### Recommendation 5.1

The Audit Committee should ensure financial statements comply with applicable financial reporting standards.

### Recommendation 5.2

The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors.

## PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

### Recommendation 6.1

The board should establish a sound framework to manage risks.

### Recommendation 6.2

The board should establish an internal audit function which reports directly to the Audit Committee.

## PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

### Recommendation 7.1

The board should ensure the company has appropriate corporate disclosure policies and procedures.

### Recommendation 7.2

The board should encourage the company to leverage on information technology for effective dissemination of information.

## PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

### Recommendation 8.1

The board should take reasonable steps to encourage shareholder participation at general meetings.

### Recommendation 8.2

The board should encourage poll voting.

### Recommendation 8.3

The board should promote effective communication and proactive engagements with shareholders.

## WHAT IS A FINANCIAL REPORT?

---

The financial report provides people who are interested in a company – such as shareholders, lenders, analysts and employees – 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 previous financial period, the notes to the financial statements, the directors' statement and statutory declaration.

The four primary financial statements are:

- a statement of comprehensive income
- a statement of financial position
- a statement of changes in **equity**
- a statement of cash flows

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

The notes in the financial report explain the accounting policies used in its preparation, and provide additional information on many of the amounts.

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

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 Malaysian listed iron ore mining company, ABC Berhad.

The directors' statement is a statement from the directors that:

- the financial statements and the notes comply with accounting standards
- the financial statements and notes give a true and fair view

A statutory declaration is a statement by a director or a person who primarily responsible for the financial management of the company on the correctness of the financial statements and is required by the Companies Act 1965.

## WHAT IS THE INDEPENDENT AUDITOR'S REPORT?

---

The approved company auditor provides an independent opinion on the financial statements of the company. The auditor's report is addressed to the shareholders of the company but it can also be read by other interested parties such as bankers who use the information in the financial statements. The opinion paragraph of the auditor's report shall contain a clear expression of opinion unless the auditor is unable to do so. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements give a true and fair view of the reported financial position of the company and of its financial performance and cash flows in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. Other reporting responsibilities in addition to expressing an opinion on the financial statements arise mainly from statutory or regulatory requirements. For example, the auditor is required to express an opinion whether the accounting and other records and the registers required by the Companies Act 1965 in Malaysia to be kept by the company have been properly kept in accordance with the provisions of the Act.

The auditor's report enhances the degree of confidence of the reader in the financial statements, but it does not guarantee the accuracy of the financial information, or the continued viability of the company. Further, the auditing framework is designed to enable auditors to make an assessment that is based on a number of factors, including materiality.

The auditor will issue a **modified opinion** when the auditor concludes that the financial statements do not give a true and fair view, of the reported financial position of the company and of its financial performance and cash flows in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia. When the auditor modifies the opinion on the financial statements, the auditor includes a paragraph in the auditor's report that provides a description of the matter giving rise to the modification.

## WHAT DO THE FOUR PRIMARY FINANCIAL STATEMENTS SHOW?

---

The primary purpose of financial statements is to aid current and prospective shareholders and other providers of capital in their resource-allocation decisions.

The statement of comprehensive income provides a complete picture of company 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.

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 one 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. The cash flow statement shows the historical cash inflows and outflows for the financial period from operating, investing and financing activities. The content of the four statements is supported by notes.

Financial statements are prepared in accordance with the Malaysian Financial Reporting Standards and IC Interpretations issued by the Malaysian Accounting Standards Board (MASB). The standards and interpretations provide the principles to follow when accounting for and disclosing transactions and events.

# WHY IS THE STATEMENT OF COMPREHENSIVE INCOME DIFFERENT FROM THE STATEMENT OF CASH FLOWS?

---

Companies prepare their financial statements using the accrual 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. For example, our fictitious mining company ABC Berhad 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, the risks and rewards are transferred to the customer and there is a valid sales 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 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 next year.

## WHY ARE THE FIGURES IN A FINANCIAL STATEMENT SOMETIMES SUBJECT TO DISPUTES AND DISAGREEMENTS?

---

Financial statements portray the financial effects of what are often complex commercial transactions, and judgement 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 accounting rules are not written to cover all situations. Therefore, professional judgement may be needed when interpreting and applying an accounting standard.

Returning to the ABC Berhad example, the monetary amount shown as exploration expenditure in the statement of financial position is the cost that directors estimate will be recovered in future financial years. The application of accounting standards means the effect of the directors' estimate is also seen in the statement of comprehensive income as an impairment expense. Judgement is frequently required in determining those monetary amounts and directors will often make use of an external valuation expert.

Directors are also 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.

## FEATURES OF THE FINANCIAL STATEMENTS

---

The performance report of ABC Berhad uses the single statement format of the statement of comprehensive income, and will always start with revenue.

Note 3 in the statement of comprehensive income identifies the types of revenue earned by ABC Berhad. Accounting standards require that the **expenses** present finance costs and tax expense separately, and 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 comprehensive income or in the notes to the financial statements.

The statement of financial position does not purport to be a valuation of the company, rather it is the outcome of applying accounting standards. Therefore, it would be incorrect to conclude that the current monetary value of ABC Berhad is RM 266,358,000. Some of the assets of ABC Berhad are shown at a current valuation (such as trade and other receivable), 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 ABC Berhad 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. Although ABC Berhad 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.

ABC Berhad 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 ABC Berhad statement of financial position includes capital invested by shareholders and **accumulated profits** retained from previous years not yet paid out as dividends. For companies that adopt accounting policies different from those used by ABC Berhad the equity section might include reserves that result from the accounting standards requirements for **asset revaluations**, the designation of financial assets as available for sale, cash flow hedges and foreign currency translations (the example does not include reserves). Some reserves are available for distribution to shareholders.

Listed companies will sometimes control other companies, while ABC Berhad 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 the non-controlling interest.

---

<sup>1</sup> 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.

---

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

- the total amount of income and expenses, including gains and losses, generated by the company's activities during that period
- the total amount of other comprehensive income recognised during that period
- the effects of retrospective application or retrospective restatement recognised in accordance with MFRS 108
- the changes resulting from transactions with owners acting in their capacity as owners and associated costs. In the current financial year, ABC Berhad activities with its owners are the issue of new shares at RM 336,000 and the payment of dividends of RM 35,912,000

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 ABC Berhad 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, fund its activities and generate positive cash flows in the future.

# 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. Also, 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 need. Analysts' reports, the financial press, and the Bursa Malaysia website are other sources of information to assist decision-making.

A final warning – 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 others stakeholders in estimating that value.

## STEP 1

The importance of preparation should not be underestimated as you settle down to analyse 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 Malaysian listed iron ore mining company example, the current and prospective shareholders of ABC Berhad 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's 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 read. Readers should be mindful that statements from the chairman or CEO may highlight the positive side of the company's operations and that except for the remuneration report section of the directors' report none of this information is subject to the opinion of the auditor.

## STEP 2

Read the audit report to see if the audit 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.

### STEP 3

Next, have a look to the statement of comprehensive income and the statement of financial position and assess the size of the company and its profitability. ABC Berhad generated **profit** after income tax for the current period of RM 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 ABC Berhad financial statements to benchmark the current year performance (profit after income tax RM 40,674,000 compared to the previous year figure of RM 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 ABC Berhad 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 compares 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, ABC Berhad has current period **current assets** of RM 117,387,000 and RM 57,623,000 in **current liabilities**, 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. You can use the web to increase your understanding of how to use these tools.

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 comprehensive income. For companies of other sectors, it is more likely current and prospective shareholders will be interested in the statement of comprehensive income. This is because they 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.

### STEP 4

Turn to the notes to the financial statements. For example, Note 2 to the financial statements of ABC Berhad states the basis of preparation for the financial statements are 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. 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 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 FINANCIAL REPORTS PREPARED?

---

Listed companies are required to prepare and issue to shareholders a financial report and directors' report annually. They must also include the auditors' report on the financial reports. These reports should be issued to shareholders at least 21 days prior to the annual general meeting.

The period of the financial report is referred to as the financial year. Listed companies are required to issue the annual audited financial statements, and lodge the same to the Bursa Malaysia within four months of the end of the financial year. Bursa Malaysia had in early 2014, made amendments to Listing Requirements in relation to the timeframe for issuance of annual reports and other enhancements.

In order to provide listed issuers with a sufficient grace period for compliance, the timeframe for issuance of the annual reports is phased in the following manner:

- issuance of the annual reports within 5 months from the close of the financial year – this is applicable for annual reports issued for financial years ending on or after 31 December 2014 (“Phased 1 Amendments”) [paragraph/Rule 9.23 of the Listing Requirements]
- issuance of the annual reports within 4 months from the close of the financial year and dispensation with the separate requirement for announcement of annual audited financial statements within 4 months from the close of the financial year (as the annual report issued within 4 months would already include the annual audited financial statements, directors' and auditors' report) – this is applicable for annual reports issued for financial years ending on or after 31 December 2015 (“Phrase 2 Amendments”) [paragraph/Rule 9.23 of the Listing Requirements]

# WHERE ARE FINANCIAL REPORTS PUBLISHED? OPPORTUNITIES FOR SHAREHOLDERS

---

All listed companies publish their financial statements and reports on their website and through announcements via Bursa Malaysia website notifying shareholders of its action. Quarterly results are published no later than two months after the end of the immediate past quarter.

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

At the AGM, resolutions requiring shareholders' approval include, but are not limited to:

- reappointment of those directors subject to retirement and who have offered themselves for re-election
- directors' remuneration
- reappointment of auditors
- power to directors to issue shares not more than 10% of the existing issued and paid up share capital of the company
- power to directors to buy back the company's share through the open market not more than 10% of the existing issued and paid up share capital of the company

# SAMPLE FINANCIAL STATEMENTS

ABC Berhad is a fictitious Malaysian listed iron ore mining company with primary operations in Malaysia and secondary operations in Brazil. These sample financial statements of ABC Berhad show the way in which many listed companies present yearly financial statements. The figures are simplified to assist you in reading the statements. A subset of the notes to the financial statements is provided for illustrative purposes.

## ABC BERHAD

### STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 20XC

	NOTE	20XC	20XB
		RM'000	RM'000
Revenue	3	643,066	539,189
Corporate expenditure		(300,105)	(206,844)
Depreciation		(29,367)	(44,461)
Employee benefits expense		(114,986)	(105,909)
Exploration expenses written off		–	(10,660)
Finance expenditure		(18,779)	(19,408)
Impairment of exploration expenditure		(114,251)	(103,422)
Other expenses	4	(7,498)	(10,174)
<b>Profit before income tax expense</b>		<b>58,080</b>	<b>38,311</b>
Income tax expense	5	(17,406)	(11,606)
<b>Profit after income tax for the period</b>	24	<b>40,674</b>	<b>26,705</b>
<b>Other comprehensive income</b>			
(Loss) / gain on translation of foreign operations		31	1,678
Other comprehensive income for the period, net of tax		31	1,678
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO ABC BERHAD</b>		<b>40,705</b>	<b>28,383</b>
Earnings per share for profit from comprehensive income		<b>sen</b>	<b>sen</b>
Basic earnings per share	27	20.62	15.19
Diluted earnings per share	27	20.62	15.19

The statement of comprehensive income should be read in conjunction with the accompanying notes.

**ABC BERHAD**

## STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 20XC

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

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

**ABC BERHAD**

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 20XC

	SHARE CAPITAL	OTHER RESERVES	RETAINED PROFITS	TOTAL EQUITY
	RM'000	RM'000	RM'000	RM'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
<i>Transactions with owners in their capacity as owners</i>				
Shares issued, net of costs	95,036	–	–	95,036
Dividends paid	–	–	(21,532)	(21,532)
<b>Balance at 30 June 20XB</b>	<b>223,274</b>	<b>5,469</b>	<b>32,486</b>	<b>261,229</b>
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
<i>Transactions with owners in their capacity as owners</i>				
Shares issued, net of costs	336	–	–	336
Dividends paid	–	–	(35,912)	(35,912)
<b>Balance at 30 June 20XC</b>	<b>223,610</b>	<b>5,500</b>	<b>37,248</b>	<b>266,358</b>

**ABC BERHAD**

## STATEMENT OF CASH FLOWS

For the year ended 30 June 20XC

	NOTE	20XC RM'000	20XB RM'000
<b>Cash flows from operating activities</b>			
Receipts from customers		619,933	579,800
Payments to suppliers and employees		(529,674)	(501,952)
Interest received		1,325	660
Interest paid		(2,633)	(4,142)
Income taxes paid		(11,264)	(10,341)
<b>Net cash flows from operating activities</b>	26	<b>77,687</b>	<b>64,025</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		–	7,776
Payments for exploration		(13,402)	(11,386)
Environmental bonds refunded		–	190
<b>Net cash flows used in investing activities</b>		<b>(13,402)</b>	<b>(3,420)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	22	336	95,036
Repayment of borrowings		(24,802)	–
Dividends paid	25	(35,912)	(21,532)
<b>Net cash flows (used in)/from financing activities</b>		<b>(60,378)</b>	<b>73,504</b>
Net increase in cash and cash equivalents		3,907	134,109
Cash and cash equivalents at beginning of the year		98,879	(35,240)
Effect of exchange rate changes on cash		15	10
<b>Cash and cash equivalents at end the year</b>	8	<b>102,801</b>	<b>98,879</b>

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 amended Malaysian Financial Reporting Standards (MFRS) and IC Interpretations adopted.

The company has adopted all of the new, revised or amended MFRS and IC Interpretations issued by the MASB that are relevant to the operations and mandatory in the current reporting period.

Any new, revised or amended MFRS and IC 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 Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM '000) unless otherwise stated.

#### (b) Statement of compliance

The financial statements are general purpose financial statements and have been prepared in accordance with MFRS, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

#### (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
	RM'000	RM'000
<b>Sales revenue</b>		
Sales of iron ore	629,249	536,661
Sales of other metal	12,492	1,868
	641,741	538,529
Other revenue		
Interest	1,325	660
	643,066	539,189

## NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	20XC	20XB
	RM'000	RM'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 profits not paid in dividends. Sometimes referred to as retained profits. In contrast, losses from previous years not absorbed by past years profits are accumulated losses.
Asset revaluation	The application of an accounting policy choice, whereby the monetary measure of the asset is the fair value of the asset.
Assets	Items of value which the company can trade or use in its business.
Bursa Malaysia Securities Berhad listing requirements	The rules governing the listing of securities and regulation of listed issuer on the Main Market and ACE Market in Malaysia.
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.
Equity	Total assets less total liabilities; includes share capital, reserves and accumulated profits.
Expenses	The costs of deriving revenue.
Goodwill	An asset representing the future economic benefits 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 ease with which assets and liabilities may be converted into cash.
Listed company	A company which is publicly listed on a securities exchange.
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 over expenses.
Reserves	Surpluses arising from (for example) revaluations of certain assets.
Revenue	Earnings arising in the ordinary activities of the company. Interest, fees from the rendering of services are examples of revenue, and sale of goods.
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.

CPAH1107\_09.14

---

[mia.org.my](http://mia.org.my)

[cpaaustralia.com.au](http://cpaaustralia.com.au)