

# Analysis of myer holdings limited essay sample

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The purpose of this research report is to understand of two important concepts from the Conceptual Framework for Financial Reporting—the objective of general purpose financial reporting and qualitative characteristics of useful financial information. In this report, Myer Holdings Ltd is as an example to describe these two concepts. This report includes the analysis on whether the disclosure of PPE from Myer Holdings Ltd meets the requirements of AASB 116, especially the requirements of objective of general purpose financial reporting and qualitative characteristics of useful financial information.

### Introduction

For provide guidelines and instructions for reporting entities to prepare proper and useful financial reports for external users, the International Accounting Standard Board (IASB) has issued the Conceptual Framework for Financial Reporting. (IASB 2010) This research report will use the two important concepts—the objective of general purpose financial reporting and qualitative characteristics of useful financial information to analyze the disclosure of PPE from Myer Holdings Ltd's 2013 annual report.

### Objective of General Purpose Financial Reporting

The objective of general purpose financial reporting forms the foundation of the Conceptual Framework. According to the Conceptual Framework for Financial Reporting OB1-OB21, the objective of general purpose financial reporting is to provide the reporting entity's financial information that is useful to present and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing

or settling loans and other forms of credit. This can help those stakeholders to have a better understanding of the entity`s financial situation, thus making a proper decision in allocating their resources and capacity. (IASB 2010)

However, most of existing and potential investors, lenders and other creditors Unable to get information directly from reporting entities, so they must rely on general purpose financial reports for the financial information that they need. Consequently, they become to the main users of general purpose financial reports. But, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. They need to acquire the information from other sources.

The purpose of General purpose financial reports are not to describe the value of a reporting entity; but for provide information to help existing and potential investors, lenders and other creditors to measure the value of the reporting entity.

#### Qualitative Characteristics of Useful Financial Information

According to the Conceptual Framework for Financial Reporting QC1-QC39, the qualitative characteristics are divided into two types, fundamental qualitative characteristics and enhancing qualitative characteristics. These characteristics are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report.

The fundamental qualitative characteristics include two parts, relevance and faithful representation. Obviously, in the process of decision, the information must be relevant to the decision. In the context of financial reporting, relevance means that the information must possess predictive value confirmation of investor expectations about future cash-generating ability. Faithful representation means the financial information displayed should be complete, neutral and free from error. The financial information should represent all economic conditions in the reports faithfully.

The enhancing qualitative characteristics include three parts, comparability, verifiability timeless and understandability. These characteristics can enhance relevant and faithfully represented financial information.

Comparability can help users find similarities and differences among events and conditions. Verifiability implies a consensus among different measurers. Timeliness is very important, if information is timely, it can help users to make a decision as soon as possible. Understandability is used to measure whether the financial information is categorized and presented in a clarified and concise way for users to understand easily. (IASB 2010)

#### Disclosures on PPE and AASB 116

The objective of AASB 116 is to stipulate the accounting treatment for property, plant and equipment, make user can understand information about an entity's investment in its property, plant and equipment, and the changes in entity's investment. The main issue for property, plant and equipment in accounting are the recognition of relationship between assets, the determination of their carrying amounts, the depreciation charges and impairment losses. AASB 116 required the entity disclose it's information of <https://assignbuster.com/analysis-of-myer-holdings-limited-essay-sample/>

gross carrying amount, depreciation method, depreciation rate, useful lives of PPE, accumulated depreciation and reconciliation of carrying amount at beginning of the reporting period and at end of the reporting period.

Myer Holdings Ltd is one of the ASX 200 companies and it is fully comply with the AASB 116. Myer Holdings Ltd recorded the value of PPE as \$ in the statement of financial positions. In it's financial statements, Freehold Land, Freehold Buildings, Fixtures and fittings, Plant and equipment, Capital works in progress were recorded respectively. The gross carrying amount is calculated by cost minus accumulated depreciation and impairment, and the depreciation is determined by straight-line method. The statements also showed the balance of gross carrying amount for both 2012 and 2013. And from the statement, the value at the end at 2011 is the beginning balance of the year 2012, the value at the end at 2012 is the beginning balance of the year 2013. The value at the end at 2013 is the balance at the end of period. This is completely meet the requirement for disclosure by AASB 116. (Myer Holdings Ltd's 2013 annual report, p89)

Furthermore, AASB 116 required the entity disclose it's information of asset revaluations. The entity have to disclose the date of revaluation, the methods, the assumptions, the way to determine fair value, carrying amount of each revalued class and revaluation surplus.(AASB 2009) But Myer Holdings Ltd didn't disclose the revaluation item of PPE in it's 2013 annual report. This may be because there was no revalued PPE in financial year of 2012 and 2013, or Myer Holdings Ltd didn't disclose these information in a appropriate ways.

Except the revaluation issue, the disclosure of financial statements of Myer Holdings Ltd are fully complying with the requirements of AASB 116.

Disclosures on PPE and Fundamental and Enhancing Qualitative Characteristics Myer Holdings Ltd's disclosure on PPE should be relevance and faithfully represented, that is the requirements of fundamental qualitative characteristics. Users make a different decisions based on the confirmatory value and predictive value of PPE, It makes them very important. The predictive value of PPE means the users can use the information provided by the financial report to predict the future trends of the entity. They can use the depreciation method and expected useful lives provided on page 75 of Myer Holdings Ltd's financial statements to estimate the future value of PPE. The confirmatory value means the confirming value of past predictions at the financial year's end. (IASB 2010) In Myer Holdings Ltd's 2013 annual report, Land is not depreciated, the depreciation method (straight line method) and estimated useful lives for other assets are specified. (Myer Holdings Ltd's 2013 annual report, p75)

Therefore, it can be confirmed that the disclosure of PPE from Myer Holdings Ltd's 2013 annual report is definitely complying with the requirement of the relevance characteristic. Another important characteristic of fundamental qualitative characteristics is faithfully represented. (IASB 2010) On the Corporate Governance Statement, Myer Holdings Ltd promise its policy is to strictly comply with its obligations under the Corporations Act and the ASX Listing Rules to keep the market fully informed of information which may have a material effect on the price or value of the Company's securities. Myer Holdings Ltd discharges these obligations by releasing information in <https://assignbuster.com/analysis-of-myer-holdings-limited-essay-sample/>

ASX announcements and by disclosure of other relevant documents to the ASX and to shareholders. (Myer Holdings Ltd's 2013 annual report, p34) Thus it can be seen that the disclosure of PPE from Myer Holdings Ltd's 2013 annual report is definitely complying with the requirement of the faithfully represented characteristic.

However, we must pay attention to some factors can cause negative effects to faithfully represented. Myer Holdings Ltd's annual report focuses on positive information and promising opportunities of the company while ignoring some facts like omission of negative information. That could impact the completeness, neutrality and free from error characteristics as faithful representation required. (IASB 2010) One of important characteristics of enhancing qualitative characteristics is comparability which can help users find similarities and differences among events and conditions. In Myer Holdings Ltd's 2013 annual report, the data of 2012 and the data of 2013 has been provided. The users can use these data to compare PPE in different periods of the reporting entity. Use depreciation method, users also can compare PPEs with most of other entities. Therefore the disclosure of PPE from Myer Holdings Ltd's 2013 annual report is definitely complying with the comparability characteristic.

Disclosures on PPE and Objective of General Purpose Financial Reporting  
Usually, the disclosures on PPE are complying with the requirements of conceptual framework. The users can use the effectively financial information to help them to make a decision to using their resources. For present and potential investors, lenders and other creditors, they can analyze the quality of PPE. For example, distinguishes the PPE with value-  
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added potential (land, building) and the PPE with no appreciation potential (old car, machine), To provide some reference for their short-term or long-term investments. And should be noted that the accumulated depreciation of the PPE, only on behalf of the value of PPE has transferred to the other assets or expenses, but does not represent a real depreciation of the PPE.

Therefore, the comparison between the cost value of PPE and the net value of PPE also does not reflect the condition of PPE, and does not reflect the use effectiveness of the PPE. Because the financial information of PPE is a very important part for annual report, and significant influence to the users' decision. The disclosures on PPE have to complying with the Fundamental and Enhancing Qualitative Characteristics, especially complying with the relevance and faithfully represented. But because the entity prefer to disclose positive information, which leads to the negative information are easy to be missed. But good management and the institution can avoid the happening of this kind of situation. Therefore, The disclosures on PPE still has high quality, can be used by the users.

### Conclusion and Recommendations

As discussed above, the objective of general purpose financial report is to help the users to get the financial information and to understand the reporting entity and make their own decision. Users can identify the useful information according to the Fundamental and Enhancing Qualitative Characteristics. In this research report, Myer Holdings Ltd's 2013 annual report is definitely complying with the requirements of AASB 116 , the Objective of General Purpose Financial Reporting, relevance and comparability. But if there were some revaluation information were not

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disclosed, Myer Holdings Ltd needs to further improve on the faithfully represented.

#### References

AASB. 2009, " AASB 116 Property, Plant and Equipment", Complied AASB Standard, viewed 22 April 2014,

IASB. 2010, " The Conceptual Framework for Financial Reporting" IFRS, pp. A21- A38, viewed 23 April 2014,

Myer Holdings Ltd's 2013 annual report, 2013, Myer Holdings Limited, viewed 23 April 2014, < <http://investor.myer.com.au/Reports/>>

#### Appendix

1. Corporate Governance Statement (Myer Holdings Ltd's 2013 annual report, p34)
2. Notes to the consolidated financial statements (Myer Holdings Ltd's 2013 annual report, p75)
3. Financial report, 12, Plant and Equipment (Myer Holdings Ltd's 2013 annual report, p89)