

Advanced corporate reporting



A reporting entity is required to prepare its financial report based on IASB framework and it is so useful for different types of users to evaluate the financial performance of the reporting entity and make suitable decisions. In this essay, the usefulness of conceptual framework in preparing of financial report will be discussed. And also, 2011 annual report of CLP Holdings Limited will be reviewed to further discuss how its qualitative characteristics of the information are useful for shareholders.

Finally, one of its qualitative characteristics will be selected to be the most important and a conclusion will be made at the end of this essay. Usefulness of conceptual framework The IASB Framework sets out the definitions and recognition criteria for the elements of financial statements. Before the framework was set, companies might use different definitions and recognition criteria to recognize their transactions, even it is the same nature of transactions. For example, non-current assets can be recognized in cost model or revaluation model.

If there was no framework, a company might use cost model to recognize its machinery while revaluation model was used to recognize property. However, the entity is required to be consistent to adopt cost model or revaluation model for a long period under the framework. As a result, the framework is useful for consistent accounting treatments. Because of the consistency, it is easier to compare the entities' performance over time, even performance between different entities in the same industry.

Also, it is easier for the reporting entity to prepare financial statements, especially in preparing consolidated financial statements for multinational entities. Most countries adopt IFRS nowadays. This is an international

framework and they can use the same definition and recognition criteria when considering how to treat different transactions such as sales, purchases and valuation of stock. It will reduce the time for arguing the accounting treatment of different transactions. Qualitative characteristics of financial report

As a shareholder, the financial statements should have four major qualitative characteristics and these characteristics will be discussed as follow: 1. Relevance A relevant financial statement should be predictable and have confirmatory value. It should be able to predict the future of the enterprise and shareholders can make a suitable decision based on the statement. In 2011 annual report of CLP Holdings Limited (CLP), there is a risk management report which is relevant to shareholders. All entities will probably have different types of risk.

Nevertheless, CLP set a risk management framework which consists of risk governance structure and risk management process. The risk governance structure states that who will be responsible for dealing with risks and the risk management process diagram shows how to manage its risks. Additionally, CLP assessed its top tier risks and future challenges so that shareholders can predict how risky if they invest in this company. Another example of relevance is the trend of earnings and dividends per share in the past ten years. The trend can help existing and potential shareholders predict the future performance of CLP.

Since 2002, Earnings and dividends per share are increasing except 2009; shareholders then may predict they can still get an increasing earnings and dividends per share in the coming years and they may be willing to invest

more in the enterprise. Last but not least, financial statement of CLP has confirmatory value because of its 5-year summary statement. The figures of the past five years has already confirmed in the past annual reports. For example, total revenue sharply increased in 2011 and the main reason is the rising revenue from energy business in Australia.

Shareholders may predict that CLP is expanding its business to Australia and the revenue from this segment will continuously rise in the coming few years. Besides the increasing revenue, dividends declared of CLP are very steady and shareholders do not worry if they cannot receive the dividend. Hence, shareholders will evaluate that CLP is worth to invest. 2. Faithful representation A reliable financial statement should be prepared in a true and fair view. That means it should be neutral, free from material errors, complete and prudence.

From the point of auditors' view, the financial statement of CLP is prepared in a true and fair view and it complies with Hong Kong Financial Reporting Standards (HKFRS) and Hong Kong Companies Ordinance. As the auditors' report is clean, it reflects that the financial statement is free from material errors and the major transactions are completely recorded during 2011. On the other hand, CLP has an audit committee which comprises with five members; all of them are Independent Non-executive Directors (INED) while three of them are members of Hong Kong Institute of Certified Public Accountants (HKICPA).

INED do not participate in any operation and decision making of the company and do not have any relationship to the shareholders, so they are not influenced by shareholders and can be no bias in selection of information

putting in the financial report. In addition, the financial report is audited by the third party and the opinion can be formed neutrally. Furthermore, the financial report should be prepared in a prudent manner which means assets or revenue cannot be overstated whilst liabilities and expenses cannot be underestimated.

For CLP, its inventory is stated at a lower cost or net realizable value. Prudence concept is applied when the company prepare its financial statement. 3. Comparability A qualitative financial statement should be comparable, no matter internal or external. Shareholders must be able to compare the financial performance between different years of the reporting entity and at the same time, they also are able to compare the financial performance between different companies in the same industry. The financial statement of CLP can fulfil this qualitative characteristic.

Besides its statement shows the figures of two years (2010 and 2011), it shows the increasing or decreasing percentage of its revenue, expenses, assets and liabilities in 5-min annual report and economic value section. It gives a clear picture to shareholders to compare between two years. Moreover, the financial report is prepared based on HKFRS, the accounting policy is consistent and because of this, it is easier for shareholders to compare the financial performance between different years.

Financial statement of CLP can also be compared with Power Assets Holdings Limited (HKEL), which is the major competitor of CLP. In 2011, revenue of CLP is about nine times of HKEL and the operating profit is a double of HKEL. However, profit before taxation of CLP is only \$1, 000 million more than that of HKEL. Shareholders may query why there is only a small difference

between profit of both companies and what is happening on the operation of CLP. Therefore, they can make a correct decision through the comparison. 4.

Understandability

Besides the above three qualitative characteristics, understandability is important for shareholders too. There are many explanations at the bottom of the financial statement such as a quick guide of its classification of different entities and explanation of indefinite useful life. These further explanations can also help shareholders understand the financial performance of CLP more. As not all shareholders have enough accounting knowledge, some of them may not know how to evaluate the performance through income statement and financial position.

Thus, statement of cash flow can help them understand the performance easier because this statement is prepared in cash basis; it clearly reflects the net cash inflows and outflows from different activities. The liquidity and the going concern of CLP can be understood even if shareholders are lack of accounting knowledge. The items of an understandable financial statement should also be aggregated and classified. Revenue in Consolidated Income Statement is aggregated at a lump-sum figure and the analysis of the revenue only revealed in the Notes to the Financial Statements.

Another example is bank loans and other borrowings. An analysis of this item is also revealed in the notes. Bank loans and other borrowings is not only aggregated at a lump-sum figure, but also is classified as a current liabilities with other short-term liability. In my opinion, faithful representation is the most important qualitative characteristic. Users of financial report are not

only shareholders, but also lenders, government, suppliers, employees, customers and the public.

A financial report is prepared on the basis of true and fair which means that financial report is reliable and can be used under different circumstances. For instance, the entity wants to borrow loan from bank, the bank can rely on the financial report and estimate the risk of this loan according to accounting ratios and cash flow. For suppliers, when they consider giving credit terms to the company, they can rely on the statement of cash flow and some short-term items like current assets and current liabilities.

Furthermore, the financial report must be audited. If the report is not prepared in true and fair view, the annual report will be qualified. As a result, this qualitative characteristic is the most important. Conclusion To sum up, the financial report must be prepared on the basis of the conceptual framework because the framework provides general theories and recognition criteria in preparing financial report. Additionally, a qualitative report should be relevant, reliable, comparable and understandable.

Shareholders can predict the future financial performance based on the past events and the forecast of the company. Also, the report can be compared internally and externally and be understood so that shareholders can decide how to invest their money. On the other hand, the most important characteristic is faithful representation. Financial report must be prepared in a true and fair view so that the report can be unqualified and be used appropriately by the community. (Word: 1598)

Reference

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