A GUIDE TO UNDERSTANDING ANNUAL REPORTS:

AUSTRALIAN LISTED COMPANIES

OCTOBER 2014

BE HEARD.
BE RECOGNISED.

CPA AUSTRALIA

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.

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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.

The Australian Securities Exchange (ASX) is one of the world's top-10 listed exchange groups measured by market capitalisation with 2,192 listed companies, $A1.6 trillion market capitalisation and total capital raisings of over A$66 billion. The ASX attracts a diverse investor group of Australian and international investors both institutional and retail.

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 the annual report of a listed company. Other stakeholders, including employees, may find it and the companion piece useful. The Guide should assist shareholders and other providers of capital who are not literate in accounting standards and the *Corporations Act 2001* to interpret financial statements and therefore to be able to make better use of them.

This Guide has been produced in the public interest and is an initiative of the External Reporting Centre of Excellence of CPA Australia. I congratulate them on their continued 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

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 peak body of Australia's senior finance executives (the G100) publication *Reporting to Shareholders*

A Good Practice Guide (May 2008) states 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 *Corporations Act 2001* and **Australian Securities Exchange (ASX) listing rules**, including:

- the directors' report (of which the remuneration report is part)
- the corporate governance report
- 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.

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 DIRECTORS' REPORT?

The directors' report of a **listed company** has an important role in meeting the information needs of shareholders. While company's financial report provides useful information about financial position and performance, it will rarely provide all of the information needed to readily assess the company's financial position and to appreciate the underlying reasons for the entity's 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
- 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
- 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)
- details of the company's performance in relation to any particular and 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. 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 REPORT?

The answer to the question "What is a corporate governance report?" 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 annual report 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* (2nd edition) or explain why they have not done so ("if not, why not?" reporting).

The ASX CGC principles (2nd edition) are:

Principle 1 – Lay solid foundations for management and oversight
Companies should establish and disclose the respective roles and responsibilities of board and management.

Principle 2 – Structure the board to add value
Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Principle 3 – Promote ethical and responsible decision-making
Companies should actively promote ethical and responsible decision-making.

Principle 4 – Safeguard integrity in financial reporting
Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Principle 5 – Make timely and balanced disclosure
Companies should promote timely and balanced disclosure of all material matters concerning the company.

Principle 6 – Respect the rights of shareholders
Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Principle 7 – Recognise and manage risk
Companies should establish a solid system of risk oversight and management and internal control.

Principle 8 – Remunerate fairly and responsibly
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

In March 2014 the ASX CGC issued the 3rd edition of its Corporate Governance Principles and Recommendations that take effect for an entity's first full financial year commencing on or after 1 July 2014. Accordingly, entities with a 30 June 2014 balance date will report against the principles described in the 2nd edition of the Corporate Governance Principles and Recommendations unless they elect to early adopt the 3rd edition.

The ASX CGC principles (3rd edition) are:

1. **Lay solid foundations for management and oversight:**
   A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.
2. **Structure the board to add value:**
   A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.
3. **Act ethically and responsibly:**
   A listed entity should act ethically and responsibly.
4. **Safeguard integrity in corporate reporting:**
   A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.
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.

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[1] The guidelines articulate aspirations of best practice for optimising corporate performance and accountability in the interests of shareholders and the broader community as statements of eight core principles with recommendations for implementation.

6. **Respect the rights of security holders:** A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.
7. **Recognise and manage risk:** A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.
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.

A listed company may decide to voluntarily report on more than the eight principles (and the recommendations made to implement the principles). The form, substance and quantity of its voluntary reporting will very much depend on the way the company defines corporate governance and the view taken by directors on for whom they govern. Commentators have noted that a number of definitions of corporate governance refer to it as the system by which companies are directed and controlled. Some commentators consider that good corporate governance should have the maximisation of shareholders' wealth as its objective, while others focus on social responsibility or sustainability.

WHAT IS 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 and the directors' 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 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 comply with accounting standards
- the financial statements and notes give a true and fair view
- there are reasonable grounds to believe that the company is solvent

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

WHAT IS AUDIT REPORT?

Auditors are independent accountants appointed by shareholders to provide an independent opinion on the financial report and the remuneration report prepared by the directors.[2] The audit report to the financial report comprises two parts. The first part of the report is the auditor's opinion about whether the financial report complies with the *Corporations Act 2001* (and if not why not), the Australian Accounting Standards and International Financial Reporting Standards (and if not, the quantitative effect of that non-compliance) and gives a true and fair view of the reported financial performance, financial position and cash flows of the company. The second part of the audit report is the auditor's opinion about whether all information, explanations and assistance necessary for the audit has been given, whether sufficient financial records have been kept to enable the financial report to be prepared and audited, and whether other records and registers as required by the *Corporations Act 2001* have been kept as well as confirming that the audit was conducted in accordance with Australian Auditing Standards.

The audit report provides the reader with added assurance of an independent opinion on the information contained in the financial report, 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 they are of the opinion that the financial report does not present a true and fair view, or is not in accordance with Australian Accounting Standards, International Financial Reporting Standards, Interpretations and corporations legislation and regulation. Another example of an auditor issuing a modified opinion is when they decide that the remuneration report is not in accordance with the *Corporations Act 2001*. Their modified opinions will identify the shortcomings of the relevant report.

In addition, **emphasis of matter** paragraphs relevant to the going concern assumption and other matter paragraphs will be included in the audit report in certain circumstances. The CPA Australia publication *A guide to understanding auditing and assurance*: Listed companies explains the value and purpose of the audit report in plain language and can be accessed at **here**.

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

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 Australian Accounting Standards and Interpretations 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.

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 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, 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 CPA Australian 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 CPA Australian Resources Ltd uses the single statement format of the statement of comprehensive income, and will always starts with revenue.[3]

Note 3 in the statement of comprehensive income identifies the types of revenue earned by CPA Australian. 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 CPA Australian is $266,358,000. Some of the assets of CPA Australian 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 CPA Australian 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 CPA Australian 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 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 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 CPA Australian, 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 CPA Australian 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.

[3] 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 changes resulting from transactions with owners acting in their capacity as owners and associated costs. In the current financial year, CPA Australian activities with its owners are the issue of new shares at $336,000 and the payment of dividends of $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 CPA Australian 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 ASX 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 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'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. CPA Australian 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 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 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, CPA Australian has current period **current assets** of $117,387,000 and $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 CPA Australian 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 issue the auditors' report on the financial and remuneration reports, or they may issue a concise report. These reports should be issued to shareholders within four months of the end of the financial year.

Most company reports are prepared for the period from 1 July to 30 June, but this is not obligatory. The period of the financial report is referred to as the financial year. Companies are required to lodge the issued reports with the Australian Securities and Investment Commission (ASIC) and the ASX within three months of the end of the full financial year. Half-year reports are lodged with ASIC and the ASX within two months of the end of the half-year financial year.

WHERE ARE 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 annual general meeting 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 its action. Alternatively, a company may elect to send shareholders a hard copy or a concise report. A shareholder has the right to receive a hard copy, but must specifically request the printed version.

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

OPPORTUNITIES FOR SHAREHOLDERS

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.

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 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.

CPA AUSTRALIAN RESOURCES LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 20XC

	NOTE	20XC	20XB
		$'000	$'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)
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			
(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 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**

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) unless otherwise stated.

(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
Sales revenue		
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 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 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 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.
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 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 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.
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, 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.