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**Unit 13 Financial Reporting**

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# Diploma in Business

## Assignment Brief

Student Name/ID Number	
<b>Unit Number and Title</b>	<b>13 Financial Reporting</b>
Academic Year	
Unit Tutor	
<b>Assignment Title</b>	<b>International Financial Reporting</b>
<b>Issue Date</b>	
Submission Date	
IV Name & Date	
<b><i>NAME OF CONTRIBUTORS</i></b> <b><i>Authenticity Of Own Work</i></b> By affixing my name, I hereby confirm that this is my own work and all information included were credited to the source. No part of this work is plagiarised.	

### Submission Format

This assignment has four papers. Learning Outcomes 1, 3 and 4 are individual assignments. Learning Outcome 2 is group work. You may self-form. Each team may consist of 2 or 3 members.

Each paper has a separate submission deadline. The submission is in the form of written report. This should be written in a concise, formal business style using single spacing and font size 11.

You are required to make use of headings, paragraphs and subsections as appropriate, and all work must be supported with research and referenced using the Harvard referencing system.

Please also provide a bibliography using the Harvard referencing system.

Each 'P' Task is approximately 500 Words. Each of the M & D tasks for higher grade is approximately 350 words. You may exceed the total word limit by 10%.

Save your work in PDF before submitting.

## Unit Learning Outcomes

**LO1** Analyse the context and purpose of financial reporting.

**LO2** Interpret financial statements.

**LO3** Evaluate financial reporting standards and theoretical models and concepts.

**LO4** Evaluate international differences in financial reporting.

## Assignment Brief

### Scenario

You have recently joined a large accountancy firm as a Junior Accountant and your line manager has asked you to prepare a business report for presentation to a group of international business investors who are concerned about the proliferation of accounting scandals relating to international firms which have been in the news. Members of the group are anxious to understand the background and framework for international financial reporting, as well as the benefits and methods of ensuring compliance and accountability.

## PAPER 1. Learning Outcome 1

### COMPULSORY TASKS

**P1.** Analyse the context of financial reporting including regulatory frameworks and governance of financial reporting.

- ❖ *You should examine the conceptual and regulatory framework, why they are required, and the purpose and key principles.*

**P2.** Analyse the purpose of financial reporting for meeting organisational objectives, development, and growth.

- ❖ You should outline the context and purpose of financial reporting; examine the value of financial reporting for meeting organizational objectives and growth.

### OPTIONAL TASKS FOR HIGHER GRADE

**M1.** Assess how the context and purpose of financial reporting meets stakeholder needs and expectations.

- ❖ *You should identify the main stakeholders of an organization and how they benefit from financial information.*

**D1.** Critically analyze the different regulatory frameworks and governance of financial reporting for specific stakeholders.

- ❖ *use supporting arguments and evidence from P1, P2 and M1 to evaluate how the different regulatory frameworks and governance of financial reporting apply to each of the stakeholder groups.*

## LO 2. PAPER 2

In small teams of **2-3 members**, carry out the following activities

### COMPULSORY TASK:

P3. Interpret profit and loss, cash flow, and balance statements.

Geofost, a limited liability company is preparing its cashflow statement for the year ended 31 October 2007. You have been presented with the following information.

#### Geofost

#### Income statement for the year ended 31 October 2007

	\$000
Profit from operations	15,730
Finance cost	(730)
Profit before tax	15,000
Taxation	(4,350)
Profit for the period	<u>10,650</u>

#### Balance sheets as at 31 October

	2007	2006
	\$000	\$000
<b>Assets</b>		
Non-current assets	44,282	26,574
<i>Current assets</i>		
Inventory	3,560	9,635
Trade receivables	6,405	4,542
Cash	559	1,063
Total assets	<u>54,806</u>	<u>41,814</u>
<b>Equity and liabilities</b>		
<i>Capital and reserves</i>		
Ordinary share capital	16,000	15,000
Share premium account	3,365	2,496
Retained earnings	15,629	6,465
	<u>34,994</u>	<u>23,961</u>
<i>Non-current liabilities</i>		
9% loan notes	8,000	10,300
<i>Current liabilities</i>		
Bank overdraft	1,230	429
Trade payables	7,442	4,264
Interest payable	120	100
Taxation	3,020	2,760
Total equity and liabilities	<u>54,806</u>	<u>41,814</u>

Prepared in accordance with IAS 7

Geofost

Cash flow statement for the year ended 31 October 2007

	\$000	\$000
<b>Cash flows from operating activities</b>		
Net profit before tax	15,000	
Adjustments for:		
Depreciation	4,658	
Finance cost	730	
Profit on disposal of non-current assets	(720)	
Operating profit before working capital changes	19,668	
Decrease in inventory	6,075	
Increase in receivables	(1,863)	
Increase in payables	3,178	
Cash generated from operations	27,058	
Interest paid	(710)	
Tax paid	(4,090)	
Net cash from operating activities		22,258
<b>Cash flows from investing activities</b>		
Payments to acquire property, plant & equipment	(24,340)	
Proceeds from sale of property, plant & equipment	2,694	
Net cash used in investing activities		(21,646)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	1,869	
Repayment of long term borrowing	(2,300)	
Dividend paid	(1,486)	
Net cash used in financing activities		(1,917)
Net increase (decrease) in cash and cash equivalents		(1,305)
Cash and cash equivalents at the beginning of period		634
Cash and cash equivalents at end of period		<u>(671)</u>

You have been given the following information relating to H Marathon, a limited liability company. The company is preparing its cash flow statement for the year ended 31 October 2006

**H Marathon**

**Income statement for the year ended 31 October 2006**

	\$000
Revenue	54,577
Cost of sales	<u>(27,128)</u>
Gross profit	27,449
Distribution costs	(9,146)
Administrative expenses	<u>(5,766)</u>
Profit from operations	12,537
Interest received	101
Finance cost	<u>(1,749)</u>
Profit before tax	10,889
Taxation	<u>(2,570)</u>
Profit for the period	<u><u>8,319</u></u>

**Balance sheets as at 31 October**

	2006	2005
	\$000	\$000
<b>Assets</b>		
<i>Non-current assets</i>		
Cost	133,152	124,252
Accumulated depreciation	<u>(30,978)</u>	<u>(25,629)</u>
	<u>102,174</u>	<u>98,623</u>
<i>Current assets</i>		
Inventory	26,350	29,365
Trade receivables	13,412	16,446
Bank	2,955	3,036
	<u>42,717</u>	<u>48,847</u>
Total assets	<u><u>144,891</u></u>	<u><u>147,470</u></u>
<b>Equity and liabilities</b>		
<i>Capital and reserves</i>		
Ordinary share capital	23,576	21,082
Share premium	11,982	10,245
Revaluation reserve	12,554	6,029
Retained earnings	<u>58,532</u>	<u>53,910</u>
	<u>106,644</u>	<u>91,266</u>
<i>Non-current liabilities</i>		
7% loan notes	<u>5,743</u>	<u>22,632</u>
<i>Current liabilities</i>		
Bank overdraft	6,869	7,842
Trade payables	23,534	23,804
Taxation	2,101	1,926
	<u>32,504</u>	<u>33,572</u>
Total equity and liabilities	<u><u>144,891</u></u>	<u><u>147,470</u></u>

H Marathon

Cash flow statement for the year ended 31 October 2006

	\$000	\$000
Cash flows from operating activities		
Net profit before tax	10,889	
Adjustments for		
Depreciation	6,784	
Interest received	(101)	
Interest paid	1,749	
Profit on equipment disposal	(1,806)	
Operating profit before working capital changes	<u>17,515</u>	
Decrease in inventory	3,015	
Decrease in receivables	3,034	
Decrease in payables	(270)	
Cash generated from operations	<u>23,294</u>	
Interest received	101	
Interest paid	(1,749)	
Tax paid (W4)	<u>(2,395)</u>	
Net cash from operating activities		19,251
Cash flows from investing activities		
Purchase of property, plant and equipment (W1 to W3)	(7,671)	
Proceeds from sale of equipment	5,667	
Dividends paid	<u>(3,697)</u>	
Net cash used in investing activities		<u>(5,701)</u>
Cash flows from financing activities		
Proceeds from issues of share capital	4,231	
Repayment of long term borrowing	<u>(16,889)</u>	
Net cash used in financing activities		<u>(12,658)</u>
Net increase in cash and cash equivalents		892
Cash and cash equivalents at the beginning of the period		<u>(4,806)</u>
Cash and cash equivalents at the end of the period		<u><u>(3,914)</u></u>

In small teams of **2-3 members**, carry out the following activities

**COMPULSORY TASK:**

**P4. Calculate and present financial ratios for organisational performance and investment**

You have been given the following summarised financial information for Beech:

**Income statements for years ended 31 October**

	2009	2008	2007
	\$000	\$000	\$000
Revenue	245	155	110
Cost of sales	(150)	(80)	(40)
Gross profit	95	75	70
Distribution & administrative expenses	(32)	(15)	(11)
Profit before taxation	63	60	59
Income tax expense	(8)	(5)	(4)
Profit for the year	55	55	55

**Statements of financial position as at 31 October**

	2009	2008	2007
	\$000	\$000	\$000
<i>Non-current assets</i>			
Tangible assets	330	255	190
<i>Current assets</i>			
Inventory	50	20	10
Receivables	30	40	45
Cash and cash equivalents	5	75	130
	85	135	185
Total assets	415	390	375
<i>Capital and reserves</i>			
\$1 Ordinary shares	350	350	350
Retained earnings	20	15	10
	370	365	360
<i>Current liabilities</i>			
Payables	45	25	15
Total equity and liabilities	415	390	375
<b>Note</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Dividends	\$000	\$000	\$000
	50	50	50

**Additional information:**

	2007	2008	2009
Market value of Equity	15,500,000.00	16,500,000.00	20,500,000.00
Market Value of Debt	14,500,000.00	13,000,000.00	12,500,000.00
Cost of Equity	3%	4%	6%
Cost of Debt	2%	5%	3%
Tax Rate	35%	35%	35%



**Required:**

A. Calculate the following ratios for Beech for the three financial year ended October 31. Clearly state the formula used for each ratio:

1. Liquidity Ratio

Quick Ratio

Acid Test Ratio

2. Profitability Ratio

Return on Investments (ROI)

3. Efficiency ratio

Debtor Period

4. Investors Ratios:

Earnings per share

Dividend cover

5. In addition to the ratios above calculate the WACC for 2007-2009 using market value.

## **INDIVIDUAL ASSIGNMENT**

**OPTIONAL For higher Grade:**

**M2** Interpret results of financial ratios of performance and financial status, and investor ratios for users of financial statements to inform decision-making. You should: Present the main financial statements and explain how they are used to interpret and communicate the financial position of an organisation.

**D2** Using appropriate theories and models suggest how organisations can effectively respond to existing and potential financial problems.

## **PAPER 3. LEARNING OUTCOME 3**

### **COMPULSORY TASKS: INDIVIDUAL ASSIGNMENT**

- ❖ P5 Explain the benefits of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).
- ❖ P6 Evaluate the models of financial reporting and auditing.

### **OPTIONAL TASKS: INDIVIDUAL ASSIGNMENT**

- ❖ M3 Critically evaluate financial reporting and auditing through the coherent application of theories and models to support judgements and conclusions.

## **PAPER 4. LEARNING OUTCOME 4**

### **COMPULSORY TASKS: INDIVIDUAL ASSIGNMENT**

- ❖ P7 Evaluate the differences and importance of financial reporting across different countries.

### **OPTIONAL TASKS: INDIVIDUAL ASSIGNMENT**

- ❖ M4 Critically evaluate the factors that influence international differences in financial reporting.
- ❖ D3 Critically evaluate the application of IFRS in application to specific countries and differences in financial reporting based on models and theories.

**THE END. Below is the course content and useful reading assignment**

# Essential Content

## LO1 Analyse the context and purpose of financial reporting

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### **Context of financial reporting:**

- ❖ Complying with regulatory frameworks.
- ❖ The governance of financial reporting including duties and responsibilities of responsible officers.
- ❖ Unincorporated or incorporated organisations.

### **Purpose of financial reporting:**

- ❖ Meeting user expectations and legislation.
- ❖ Ensuring all organisations comply with the same rules and standards. Seeking funding/investment.
- ❖ Predicting future financial positions and cash flow.

## LO2 Interpret financial statements

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### **Importance and purpose of analysing financial statements:**

Using financial statements to communicate financial positions with stakeholders.

### **Ratio analysis:**

These would include, but not limited to, the use of liquidity ratios, ROI, WACC and debtor periods to determine financial positions.

### **Cash flow, profit and loss and balance sheets:**

- ❖ Considering how to use cash flow statements to monitor inflows and outflows of cash.
- ❖ Using the profit and loss account to summarise the financial performance of an organisation in a given time period.
- ❖ Using a balance sheet as a snapshot of an organisation's position regarding assets and liabilities.

## LO3 Evaluate financial reporting standards and theoretical models and concepts

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Financial reporting standards:

- ❖ As a common global language.
- ❖ How does it facilitate understanding of financial matters across international boundaries?
- ❖ Differences between International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS).

### **Role and use of IFRS:**

- ❖ Benefits to organisations, governments, investors and other key stakeholders.
- ❖ Consider the nations which adopt the IFRS and how this is advantageous and/or disadvantageous.

### **Theories, models and concepts:**

- ❖ Equity theory.
- ❖ Legitimacy theory.
- ❖ Models of reporting and models for auditing.

## LO4 Evaluate international differences in financial reporting

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### *International differences:*

- ❖ Different financial reporting principles in relation to international companies.
- ❖ The international differences before the IFRS and how countries have responded to the IFRS.
- ❖ International differences in external financial reporting and factors that influence differences.

## **RECOMMENDED RESOURCES FOR THE ASSIGNMENT**

The following Reading Assignments are for lead discussion at the group meetings and to assist with carrying out the assignments:

### ARTICLES

- ❖ The Conceptual Framework
- ❖ LINK: <http://kfknowledgebank.kaplan.co.uk/KFKB/Wiki%20Pages/The%20Elements%20of%20the%20Financial%20Statements.aspx>
- ❖ Accounting & Reporting Requirements - Jamaica Stock Exchange
- ❖ LINKS: [https://www.jamstockex.com/wp-content/uploads/2015/05/jse\\_junior\\_market\\_accounting.pdf](https://www.jamstockex.com/wp-content/uploads/2015/05/jse_junior_market_accounting.pdf)
- ❖ VIDEO: Lecture 1 - 1.1.1: Financial Reporting Overview
- ❖ LINK: <https://www.wildapricot.com/articles/how-to-plan-an-event>

### TEXTBOOKS

- ❖ ATRILL, P. and McLANEY, E. (2012) Accounting and Finance for Non-Accounting Specialists. 8th Ed. Harlow: Pearson. ELLIOT, B. and ELLIOT, J. (2013)
- ❖ Financial Accounting and Reporting. 16th Ed. Harlow: Pearson.
- ❖ GRUENING, H. V., SCOTT, D. and TERBLANCHE, S. (2011) International Financial Reporting Standards: A Practical Guide. 6th Ed. Washington: The World Bank.
- ❖ MELVILLE, A. (2011). International Financial Reporting: A Practical Guide. 4th Ed. Harlow: Pearson.
- ❖ WEYGANDT, J. et al (2013) Financial Accounting, IFRS edition. 2nd Ed. Oxford: Wiley.

### JOURNALS

- ❖ Journal of Business Finance and Accounting
- ❖ Review of Finance and Accounting

**The recommended / main textbook is available on iTutor**