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Preparation of Financial Statements

Introduction

This publication is a complimentary resource provided by Accurri Pty Limited and its related entities and is intended to assist those who have responsibility for, or oversight of, the preparation of statutory financial statements.

We are pleased to share some of the things that we have learned over many years of preparing financial statements. By doing so we hope that it will assist others to prepare financial statements more efficiently.

We acknowledge that Accurri resources are prepared from our point of view, and that our view is just one of many.

If you would like comment on, add to, or even challenge anything in this booklet, please email us at support@accurri.com.

The term used to describe the process of compiling the statutory financial statements can vary from country to country e.g. in the UK & Ireland it is called 'accounts production', in Australia, New Zealand and Singapore it is 'accounts preparation' and sometimes 'compilation'. For convenience we will use the term 'preparation' throughout this booklet.

If you are reading a printed version of this publication, please visit accurri.com/resources to make certain that it is the most up-to-date version.

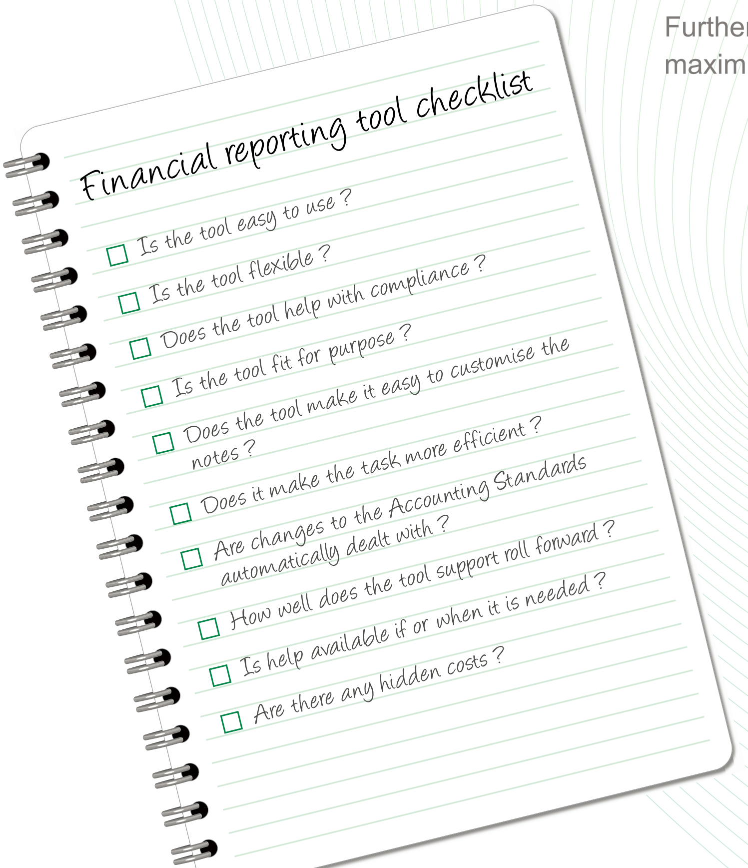
Contents

Assessing the tools

Before the preparation process begins, we recommend that preparers assess the tools they plan to use. The tools used will have a direct impact on the efficiency of the process and the quality of the outcome.

The tools used for preparing statutory financial statements fall into three broad categories as follows:

- Category A - Smart software (such as Accurri), that uses artificial intelligence to do away with templates. Software that combines process, artificial intelligence and content that ensures efficient compliance and financial statements that will meet even the most rigorous audit requirements.
- Category B - Template software, which as the name suggests is software that is focused on using templates and while it may be one step up from dumb templates it still suffers from all of the common template issues.
- Category C - Dumb templates. These are by far the most common tools and also the least efficient. Usually created in Word or Excel they invariably require manual updating and management. Users are often required to 'force' content into templates that don't quite meet the users' specific requirements.



We understand that not every set of financial statements needs to be prepared using category A tools. In many instances category C tools combined with a rigorous process are the right tools.

However, we see many instances where category B and C tools are used simply because 'that's how it is done', preparers are familiar with Word and Excel or they are cheaper (if you ignore the cost of inefficiency) than the alternatives.

The preparation of statutory financial statements is a specialist task that, in our opinion, warrants specialist tools. We strongly advise all preparers to assess (at least annually) whether or not the tools they are using are helping or hindering the efficient preparation of the financial statements.

Further, the best tools for the job need a process that maximises the benefits of the tools.

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Example or model financial statements

Example or model financial statements have a role in the financial statements preparation process, but they are not the be all and end all. Such examples are just guides to what could be, rather than what should be.

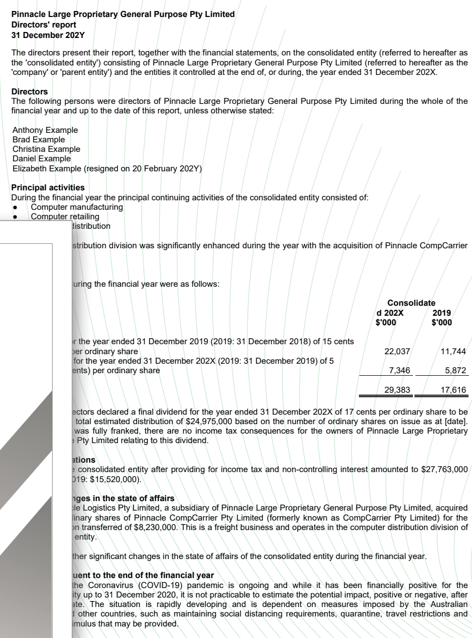
Example financial statements can be very helpful, but they are not, and should not be cited as, the authority on disclosure. It is the Accounting Standards, legislation and regulations that are the authority and example financial statements are merely one person's or one firm's interpretation.

Example financial statements are usually developed according to generic scenarios, meaning they have limited application in specific cases.

The examples can also be a like a map that shows you the destination but doesn't provide any directions or guidance on how to get there.

It is the last point that this booklet seeks to address. We aim to provide some insight into the process of preparing financial statements.

If you would like to see the complimentary example financial statements prepared with Accurri, they can be found here accurri.com/examples.



Pinnacle Large Proprietary General Purpose Pty Limited
Directors' report
31 December 202Y

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Pinnacle Large Proprietary General Purpose Pty Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 202X.

Directors
The following persons were directors of Pinnacle Large Proprietary General Purpose Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Anthony Example
Brad Example
Christina Example
Daniel Example
Elizabeth Example (resigned on 20 February 202Y)

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of:
- Computer manufacturing
- Computer retailing
- distribution

stribution division was significantly enhanced during the year with the acquisition of Pinnacle CompCarrier

uring the financial year were as follows:

	Consolidated 202X $'000	2019 $'000
r the year ended 31 December 2019 (2019: 31 December 2018) of 15 cents per ordinary share	22,037	11,744
for the year ended 31 December 202X (2019: 31 December 2019) of 5 ents) per ordinary share	7,346	5,872
	29,383	17,616

ectors declared a final dividend for the year ended 31 December 202X of 17 cents per ordinary share to be total estimated distribution of $24,975,000 based on the number of ordinary shares on issue as at [date]. was fully franked, there are no income tax consequences for the owners of Pinnacle Large Proprietary Pty Limited relating to this dividend.

ations
consolidated entity after providing for income tax and non-controlling interest amounted to $27,763,000 019: $15,520,000).

nges in the state of affairs
le Logistics Pty Limited, a subsidiary of Pinnacle Large Proprietary General Purpose Pty Limited, acquired linary shares of Pinnacle CompCarrier Pty Limited (formerly known as CompCarrier Pty Limited) for the on transferred of $8,230,000. This is a freight business and operates in the computer distribution division of entity.

ther significant changes in the state of affairs of the consolidated entity during the financial year.

uent to the end of the financial year
the Coronavirus (COVID-19) pandemic is ongoing and while it has been financially positive for the ity up to 31 December 2020, it is not practicable to estimate the potential impact, positive or negative, after ate. The situation is rapidly developing and is dependent on measures imposed by the Australian other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and imulus that may be provided.

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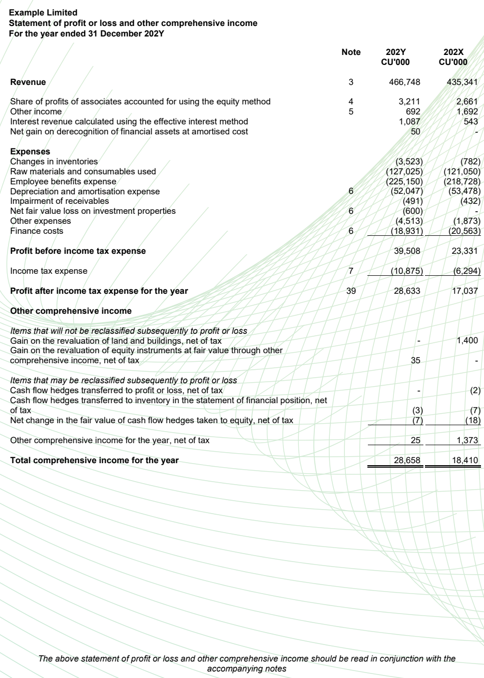


Example Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 202Y

	Note	202Y CU'000	202X CU'000
Revenue	3	466,748	435,341
Share of profits of associates accounted for using the equity method	4	3,211	2,661
Other income	5	692	1,692
Interest revenue calculated using the effective interest method		1,087	543
Net gain on derecognition of financial assets at amortised cost		50	-
Expenses			
Changes in inventories		(3,523)	(782)
Raw materials and consumables used		(127,025)	(121,050)
Employee benefits expense		(225,150)	(218,728)
Depreciation and amortisation expense	6	(52,047)	(53,478)
Impairment of receivables		(491)	(432)
Net fair value loss on investment properties	6	(600)	-
Other expenses		(4,513)	(1,873)
Finance costs	6	(18,931)	(20,563)
Profit before income tax expense		39,508	23,331
Income tax expense	7	(10,875)	(6,294)
Profit after income tax expense for the year	39	28,633	17,037
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		-	1,400
Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax		35	-
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		-	(2)
Cash flow hedges transferred to inventory in the statement of financial position, net of tax		(3)	(7)
Net change in the fair value of cash flow hedges taken to equity, net of tax		(7)	(18)
Other comprehensive income for the year, net of tax		25	1,373
Total comprehensive income for the year		28,658	18,410

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Have a plan

While it may seem obvious, the need for a plan is often overlooked or ignored. The preparation of financial statements always involves a lot of moving parts and often involves a number of people. Knowing who is doing what and by when is crucial.

The following steps describe a predominantly manual process. If the financial statements are being prepared using financial reporting software, many of the steps will (or should) be performed automatically.

Step 1. Understand your timeline:
- When do the financial statements need to be lodged?
- How long will the audit take?
- When will all the source documents be available?
- How long will drafts take to prepare?
- How quickly can drafts be reviewed?

Step 2. Assess your tools:
- Are the tools being used fit for purpose?
- Do the tools support efficiency?
- Consider alternate tools?

Step 3. Document the process:
- Identify and document all key tasks.
- Plan the number of drafts/versions.

Step 4. Consider environmental changes:
- Any changes to relevant Accounting Standards?
- Any changes to other reporting requirements?
- Any changes to entity structure or status?

Step 5. Consider any specific questions:
- Can prior year financial statements be rolled forward?
- Are prior report notes still relevant?
- Are new or additional notes required?
- Is terminology consistent and appropriate?

Step 6. Gather the required source documents:
- Prior year financial statements.
- Trial Balances.
- Consolidation spreadsheet (if applicable).
- Registers and schedules.
- Is terminology consistent and appropriate?

Step 7. Specify an optimum number of drafts:
- Set a target to avoid pointless changes or rework.
- Set the target as low as practically possible.
- Too many drafts is indicative of a process issue.

Step 8. Begin preparing the first draft:
- With the groundwork done, begin preparing.
- The first draft should be completed before the commencement of the audit.

Financial statements and the audit

The first draft of the financial statements should be the starting point of the audit. A well prepared first draft will aid a better audit experience.

All too often the financial statements take a back seat to the audit. We have witnessed numerous situations where the audit field work was completed before the financial statements were prepared. Not only does this not make sense, it is - in our opinion - simply wrong.

After all, it's the financial statements that are being audited, so at the very least there should be a first draft.

Preparers should also be aware of style preferences. Some audit firms have preferences that are stylistic and have nothing to do with compliance. If left unchallenged, meeting such preferences can waste a lot of time. Always remember, the financial statements are the preparers' statements not the auditors.

A well prepared first draft will ensure that any compliance, style or preference issues can be identified and addressed very early in the process. This will make the audit more efficient and should contribute to a more positive audit experience for those being audited and for those conducting the audit.

A well prepared first draft can result in the entire process being completed in as few as four versions:

- Version 1 - Pre-audit draft (first draft)
- Version 2 - Post-audit draft (second draft)
- Version 3 - Post-tax draft (third draft)
- Version 4 - Completed financial statements

The preparation process

The preparation process is rarely linear and it will require a number of drafts before the financial statements are ready for signing. The keys to an efficient process are avoiding unnecessary rework and keeping the number of drafts to a minimum.

Step 1. Review prior period final financial statements:
- Are there any external or internal changes that will affect the current period financial statements?
- Is there any clutter that can be removed?

Step 2. Address the preliminary questions:
- If there are changes that will affect the current period consider what they are and how they need to be addressed.

Step 3. Gather and collate source documents:
- Gather all the information that will be needed.
- If some material is not yet available understand and agree on who will provide it and when.

Step 4. Roll forward and update:
- Roll forward values to prior period.
- Update disclosures and headers and footers as required.

Step 5. Calculate the first drafts of the:
- Current period primary statements.
- Specific disclosures required for the current period.

Step 6. Enter current period data.

Step 7. Validate data:
- Sense and cross check data.
- Validate back to source documents.

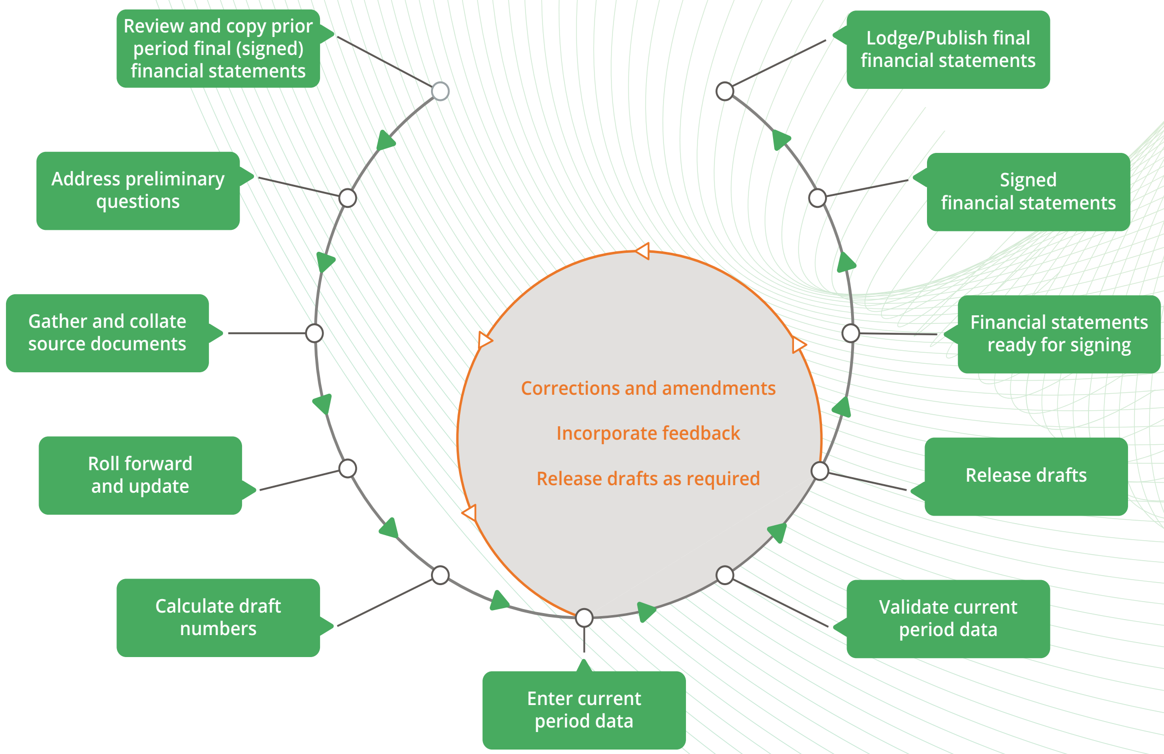
Step 8. Release drafts as necessary:
- First draft completed prior to the audit commencing.
- Subsequent draft incorporating feedback, corrections or amendments.

Step 9. Complete financial statements for signing.

Step 10. Financial statements signed off.

Step 11. Lodge/Publish signed financial statements.

Note: steps 6 through 8 are iterative and may be repeated as new or revised information becomes available. The release of drafts should be kept to a minimum.



Source documentation - Trial Balance(s)

The source documents are the foundations upon which the financial statements are prepared and it is essential that all are in place and all can be relied on.

Categories

Source documents can be divided into two broad categories:
- Trial Balances
- Disclosures

Typically, Disclosures will include, but not necessarily be limited to:
- Capital commitments schedule
- Fixed asset register
- Minutes and resolutions
- Regulatory authority records
- Securities exchange information
- Tax returns and workings

Integrity

It is vital that source documents retain their integrity if the auditors are to trust and rely on them. A failure to preserve the integrity of source documents may result in countless wasted hours of unnecessary revision and rework.

Source documents can be easily tainted unless there is due rigour and process as can be seen in the following example:

> Editing a Trial Balance in a spreadsheet after it has been exported from the General Ledger. This may break the audit trail and cause the integrity of at least three sources (the General Ledger, exported Trial Balance and Spreadsheet) to be questioned. This will lead to delays and maybe frustration as sources are examined and re-examined.

Once doubts about one document arise, those doubts are often transferred to all documents.

Trial Balance(s)

Extract the Trial Balance(s) from the General Ledger(s).

We recommend that Trial Balance(s) be formatted into four columns as follows:
- Account number
- Account name
- Current period
- Prior period

Consolidation spreadsheet (if applicable)

Where a consolidation is required, a consolidation spreadsheet will be needed and there are a number of ways to create the consolidation spreadsheet.

For those using financial reporting software, the consolidation spreadsheet can be created by the software. Simply import the Trial Balance(s) and let the software compile the consolidation spreadsheet. Any eliminations or adjustments that are required should also be made within the software. We recommend this approach as it is generally much quicker, the integrity of the data can be more easily protected and the audit trails (in most cases) are clearer and easier to follow.

An alternative approach is to use a consolidation spreadsheet generated by the entity's Enterprise Resource Planning or Finance System. The risk in this approach can be adjustments or eliminations created outside the system as these can, if not managed closely, weaken the audit trail.

The final approach is to create the consolidation spreadsheet manually. The challenge with the manual approach is the inefficiency and risk of error is directly proportionate to the complexity of the consolidation. As such, investments in financial reporting software can sometimes be justified by the benefits of the consolidation features alone.

The approach described above is also relevant for a single entity with only one Trial Balance, as the numbers need to be 'aggregated' for the classifications and sub-classifications within the financial statements.

Source documentation - Disclosures

Before collecting and collating the Disclosure source documents, we recommend creating a Disclosure folder to assist with document management and control.

Disclosures

The Disclosures folder can serve as a resource for, among other things, identifying:

- Which documents are required
- Who is responsible for providing/creating them
- When they will be provided/available
- Whether they have been validated

Subject to the way it is created, the Disclosures file may also act as a repository for source information and one from which information can be copied and pasted into the financial statements as required.

For those using financial reporting software, a Disclosures capture tool should form part of the application. Capture tools generally take the form of a file or files that can be sent to others. Once the information has been completed, the capture file is imported thus avoiding the need to ‘cut and paste’.

The following are Disclosures that are commonly required.

Entity historical extract

Obtain a copy of the entity’s historical extract from the relevant regulator. The extract will include such things as registration number, entity type, registered and principal addresses, ownership and directors’ details. Remember to check that the record is up-to-date.

Fixed Asset Register

This needs to be checked to ensure the cost and accumulated depreciation tie back to the Trial Balance(s) values. The register should also be reviewed to identify assets that should be written off, in particular those with a written down value of zero.

Capital commitments schedule

The capital commitments schedule is most often prepared as a spreadsheet and provides the details of the commitments in the coming financial periods.

Prior year’s tax return(s) and workings

Prior year’s tax return(s) and workings are required to perform a ‘true-up’, which confirms the opening tax balances and any required adjustment.

Minutes and resolutions during the period

A review of the minutes and resolutions will assist in confirming i) any significant changes and ii) details of dividends paid.

Securities Exchange announcements (public entities listed on a Securities Exchange only)

Review all Securities Exchange announcements for the period. This will assist in confirming any significant changes and also ensure that the financial statements are consistent with the announcements.

The Securities Exchange announcements will also include the details of any changes to the holding of any substantial shareholders.

The Directors' report

Directors

Use the entity's historical extract (see source documentation) to identify directors during the period and their respective appointment or termination dates.

Principal activities

Does the statement on principal activities still correctly reflect what the entity does? Have there been any acquisitions or discontinued operations that should be disclosed?

Review of operations (if applicable)

Always ensure that commentary in the review of operations is newly written.

Significant changes in the state of affairs

A good starting point is the 'matters subsequent to the end of the financial year' in the prior periods report. Such matters are often included here, albeit presented in a different way.

Include any other significant changes that occurred in the period, such as:

- Commencement of operations
- Discontinued operations
- Business combinations
- Purchase or sale of core assets
- Change in financing arrangements
- Breach of financing covenants
- Issue of shares
- Change of entity name
- Change of immediate parent entity
- Change of ultimate parent entity

Matters subsequent to the end of the period

If these matters are disclosed in the directors' report, the wording should be identical to that used in the 'Events after the reporting period' note.

Likely developments and expected results of operations

The report need not disclose any information about likely developments or expected results if, in the opinion of the directors, the Disclosure would be seriously prejudicial to the interests of the entity.

Environmental regulation

Is the entity subject to environmental regulation? If the answer is no, then a statement to the effect of 'The entity is not subject to any significant environmental regulation' would suffice. If the answer is yes, then a more detailed response will be required.

Information on directors

Public entities must disclose information on their directors. Ensure that names, titles and qualifications are correct and that names are spelled correctly. Check if there are special responsibilities e.g. Chair or member of a committee etc. Confirm that meetings of directors agree with any special responsibilities held.

Meetings of directors

Meetings of directors must be disclosed by public entities. Make sure the correct committees are shown and that the number of, and attendance at, meetings are correct.

The Directors' report

Continued...

Company (entity) secretary or secretaries

Public entities must disclose their secretary. Check for any changes of secretary within the period.

Remuneration report

The remuneration report must form part of the Disclosures of listed public entities.

The principals used to determine the nature and amount of remuneration should be clearly stated, relevant and consistent with the rest of the remuneration report. Matters to be considered would include: executive reward framework, options and other long-term incentives, links between entity performance and individual remuneration and the reaction to the prior period remuneration report.

Details of remuneration

Make sure the remuneration tables for current and prior periods sub-classifications are consistent.

Confirm that the percentages of 'fixed' versus 'at risk' remuneration are correct and that relevant values are correct.

Service agreements

Ensure the service agreements identify the name, title, commencement, term (if not 'ongoing'), base remuneration and scope of the agreement.

If an agreement includes a bonus provision, the circumstances under which it would be paid, how it would be calculated and (if discretionary) by whom it will be determined should all be disclosed.

Other matters that might typically be disclosed would be termination provisions, non-solicitation and non-compete clauses.

Share-based compensation

During the period were there any share-based payment arrangements? If yes, these must be disclosed.

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31 December 202Y

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Directors
The following persons were directors of Pinnacle Large Proprietary General Purpose Pty Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Anthony Example
Brad Example
Christina Example
Daniel Example
Elizabeth Example (resigned on 20 February 202Y)

Primary statements

Statement of profit or loss and other comprehensive income

Expenses may be disclosed by either 'nature' (raw materials and consumables used, depreciation and amortisation, employee benefits, etc) or 'function' (cost of sales, distribution, marketing, administration, etc).

In recent years there has been an increased incidence of 'hybrid' classification which is i) technically not allowed and ii) problematic as it creates classification challenges and introduces scope for dispute. We recommend that 'hybrid' classifications should be reclassified to 'nature'.

Do expense classifications and fluctuations pass the 'reasonable test' given the type, operations and circumstances of the entity?

What is the level of confidence that revenue and expenses are 'paired' and 'classified' on a consistent basis between the current and prior periods? If there are differences, is there a clear audit trail?

Are other expenses less than 10% of total expenses? (they should be)

Where expenses in the Statement of profit or loss are disclosed by 'function', the depreciation, amortisation, impairment and employee benefits expenses must be disclosed in the notes.

Example Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 202Y

	Note	202Y CU'000	202X CU'000
Revenue	3	466,748	435,341
Share of profits of associates accounted for using the equity method	4	3,211	2,661
Other income	5	692	1,692
Interest revenue calculated using the effective interest method		1,087	543
Net gain on derecognition of financial assets at amortised cost		50	-
Expenses			
Changes in inventories		(3,523)	(782)
Raw materials and consumables used		(127,025)	(121,050)
Employee benefits expense		(225,150)	(218,728)
Depreciation and amortisation expense	6	(52,047)	(53,478)
Impairment of receivables		(491)	(432)
Net fair value loss on investment properties	6	(600)	-
Other expenses		(4,513)	(1,873)
Finance costs	6	(18,931)	(20,563)
Profit before income tax expense		39,508	23,331
Income tax expense	7	(10,875)	(6,294)
Profit after income tax expense for the year	39	28,633	17,037
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax		-	1,400
Gain on the revaluation of equity instruments at fair value through other comprehensive income, net of tax		35	-
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax		-	(2)
Cash flow hedges transferred to inventory in the statement of financial position, net of tax		(3)	(7)
Net change in the fair value of cash flow hedges taken to equity, net of tax		(7)	(18)
Other comprehensive income for the year, net of tax		25	1,373
Total comprehensive income for the year		28,658	18,410

Primary statements

Statement of financial position

As per the Statement of profit or loss, what is the level of confidence that assets, liabilities and equity are 'paired' and 'classified' on a consistent basis between the current and prior periods? If there are differences, is there a clear audit trail?

Are there any assets that should be classified as current assets under either 'Non-current assets classified as held for sale' or 'Assets of disposal groups classified as held for sale'? Likewise, are there any related liabilities that should be classified as current liabilities under 'Liabilities directly associated with assets classified as held for sale'?

It may seem obvious, but check that assets are debits and all liabilities are credits. For example, if 'income tax' is a debit balance it should be disclosed under assets as 'income tax refund due'.

Check that fluctuations meet the 'reasonable test'. As a 'rule of thumb', any classification that has a variation of +/- 20% should be investigated.

Confirm that 'Net assets' matches 'Total equity'.

In a consolidation, if the net assets of the parent entity exceed those of the consolidated entity, review the impairment of intercompany receivables or investments in subsidiaries.

Example Limited
Statement of financial position
As at 31 December 202Y

	Note	202Y CU'000	202X CU'000
Assets			
Cash and cash equivalents	8	28,563	6,036
Trade and other receivables	9	13,494	12,499
Contract assets	10	2,617	2,144
Inventories	11	39,525	43,048
Other	12	6,243	5,849
Financial assets at fair value through profit or loss	13	360	-
Financial assets at fair value through other comprehensive income	14	170	-
Investments accounted for using the equity method	15	34,192	30,981
Investment properties	16	46,900	47,500
Property, plant and equipment	17	123,139	128,883
Right-of-use assets	18	305,485	332,116
Intangibles	19	1,741	2,116
Deferred tax	20	15,574	12,561
Total assets		618,003	623,733
Liabilities			
Trade and other payables	21	20,004	17,306
Contract liabilities	22	2,269	2,135
Income tax	23	6,701	2,351
Borrowings	24	27,500	22,273
Derivative financial instruments	25	122	107
Employee benefits	26	19,501	18,997
Provisions	27	4,969	3,907
Other	28	2,130	1,869
Lease liabilities	29	323,787	343,650
Deferred tax	30	4,665	4,333
Total liabilities		411,648	416,928
Net assets		206,355	206,805
Equity			
Issued capital	31	182,953	182,678
Reserves	32	4,500	4,475
Retained profits	33	18,902	19,652
Total equity		206,355	206,805

Primary statements

Statement of changes in equity

Confirm the headers and closing balances in the Statement of changes in equity and the Statement of financial position agree.

The following items should be disclosed separately:

- Restatement of prior period opening balances (if any)
- Profit/loss after income tax
- Other comprehensive income
- Total comprehensive income
- Contributions of equity (if any)
- Share-based payments (if any)
- Dividends (if any)

Example Limited
Statement of changes in equity
For the year ended 31 December 202Y

Consolidated	**Issued capital CU'000**	**Reserves CU'000**	**Retained profits CU'000**	**Non-controlling interest CU'000**	**Total equity CU'000**
Balance at 1 January 202X	88,922	2,787	19,694	16,852	128,255
Profit after income tax expense for the year	-	-	16,808	229	17,037
Other comprehensive income for the year, net of tax	-	1,233	-	140	1,373
Total comprehensive income for the year	-	1,233	16,808	369	18,410
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 36)	77,756	-	-	-	77,756
Dividends paid (note 40)	-	-	(17,616)	-	(17,616)
Balance at 31 December 202X	166,678	4,020	18,886	17,221	206,805

Consolidated	**Issued capital CU'000**	**Reserves CU'000**	**Retained profits CU'000**	**Non-controlling interest CU'000**	**Total equity CU'000**
Balance at 1 January 202Y	166,678	4,020	18,886	17,221	206,805
Profit after income tax expense for the year	-	-	28,491	142	28,633
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	28,491	142	28,633
Transactions with owners in their capacity as owners:					
Dividends paid (note 40)	-	-	(29,383)	-	(29,383)
Balance at 31 December 202Y	166,678	4,020	17,994	17,363	206,055

Primary statements

Statement of cash flows

In order to prepare the Statement of cash flows, the following items need to be completed:

- Statement of profit or loss and supporting notes
- Statement of financial position and supporting notes, including relevant reconciliations
- Business combinations note
- Non-cash investing and financing activities note

The following additional information will also be required:

- Net income taxes refunded or paid so that income tax movements can be validated
- Proceeds from the sale of property, plant and equipment to validate disposals plus profit less loss
- Proceeds from borrowings in order to gross-up borrowings received and repaid
- Non-cash interest revenue and expenses accrued during the year in order to accurately reduce 'interest received' and 'interest paid' to the cash basis

Once the Statement of cash flows is completed, consider the following:

- Does the net operating inflow or outflow make sense relative to the profit or loss?
- Does the 'Interest and other finance costs paid' exclude any non-cash expenses e.g. intercompany or accrued interest?
- Does the 'Income tax paid' match the movements in the income tax balances?
- Are investing activities correct? Has the purchase or sale of plant and equipment been correctly accounted for (check the PPE reconciliation)?
- Are financing activities correct? Were there any proceeds from issue of shares? Have the borrowings been 'grossed-up' for borrowings received and repaid, rather than a net figure? Was there a dividend paid?
- Are there any material opening foreign currency cash balances that need to be reconverted to the current year rate as 'Effects of exchange rate changes on cash'?
- Confirm the closing cash balances match the cash balances on the face of the Statement of financial position (net of any bank overdraft).

Example Limited
Statement of cash flows
For the year ended 31 December 202Y

	Note	202Y CU'000	202X CU'000
Cash flows from operating activities			
Receipts from customers		507,218	474,832
Payments to suppliers and employees		(401,373)	(385,997)
		105,845	88,835
Interest received		1,084	540
Other revenue		3,964	3,358
Interest and other finance costs paid		(18,846)	(20,501)
Income taxes paid		(9,216)	(8,461)
Net cash from operating activities		82,831	63,771
Cash flows from investing activities			
Payments for investments		(510)	-
Payments for property, plant and equipment		(12,275)	(3,048)
Proceeds from disposal of investments		80	-
Proceeds from disposal of property, plant and equipment		1,511	250
Proceeds from release of security deposits		155	-
Net cash used in investing activities		(11,039)	(2,798)
Cash flows from financing activities			
Proceeds from issue of shares	37	275	78,750
Proceeds from borrowings		12,000	-
Share issue transaction costs		-	(1,420)
Dividends paid	40	(29,383)	(17,616)
Repayment of borrowings		(5,500)	(94,000)
Repayment of lease liabilities		(25,384)	(26,797)
Net cash used in financing activities		(47,992)	(61,083)
Net increase/(decrease) in cash and cash equivalents		23,800	(110)
Cash and cash equivalents at the beginning of the financial year		4,763	4,873
Cash and cash equivalents at the end of the financial year	8	28,563	4,763

Notes to the financial statements

The 'Notes to the financial statements' presented in the following pages are some of the more common notes found in the financial statements and it is not intended to be an exhaustive list. For convenience, the 'Notes' are presented alphabetical order.

Auditor remuneration

In addition to the lead auditor, are there other firms that have undertaken audit work during the financial period and whose fees should be disclosed?

Are there fees for other assurance (such as due diligence) and non-audit services (such as tax), performed by these same audit firms or their related firms, that should be disclosed?

Borrowings

Is the current and non-current classification correct? Ensure that the principal due in the next 12 months matches the current portion. Are the financing facilities due to expire in the next 12 months? If so, the related borrowings should be current.

Consider the following questions:
- Are there any secured liabilities and are the related assets pledged as security disclosed?
- Are the financing arrangements correctly disclosed?
- Has the finance facility changed or expired?
- Were there any breaches of financing covenants?

Business combinations (if applicable)

Were any business combinations (businesses or subsidiaries) acquired and do the values of those combinations agree with the Statement of financial position? Are these values preliminary or final?

Commitments

Are there capital commitments that should be included? e.g. if a new lease was signed close to the reporting date, is there an associated fit-out contract also signed before the end of the reporting period?

Contingent liabilities

Are there any contingent liabilities? Some of the more common ones might include:
- Bank guarantees (which will appear on the bank confirmation letter)
- Legal claims (if noted in the directors' report proceedings on behalf of the entity and if not already a provision)
- Guarantees of the debts of others (including a single entity that is party to a deed)

Critical accounting judgements, estimates and assumptions

Are the critical accounting judgements, estimates and assumptions relevant? There is little point including 'Provision for impairment of inventories' if there is no inventory. Conversely a 'warranty provision' should be disclosed where it is significant.

Notes to the financial statements

Continued...

Deferred tax assets and liabilities

Confirm the tax effect of straightforward items such as:
- Allowance for expected credit losses
- Provision for impairment of inventories
- Employee benefits
- Lease make good
- Warranties

Even though it may be a little harder, it is advisable to confirm the tax effect of other less straightforward items including:
- Contract assets and liabilities
- Prepayments
- Plant and equipment
- Accrued expenses

Discontinued operations

Were there any discontinued operations? This does not have to be an entity - it could be a significant product line. Also, it does not have to be a disposal (sale); it could also be a cessation (closure or shutdown).

Dividends

Check the entity's minutes and resolutions (see source documentation) for any dividends paid. If this is not shown in the report, check if it is incorrectly recorded in expenses? Perhaps the dividends were issued in shares as part of a dividend reinvestment plan?

Earnings per share (listed public entities only)

Does the number of shares, on a weighted average basis, correlate to the issued capital note?

Is there any dilution due to options or rights?

Are both the basic and diluted earnings per share quoted on the face of the Statement of profit or loss?

Events after the reporting period

This note covers the significant events that occurred between the reporting date and signing date.

Has a significant event occurred after the reporting date that affects, or is likely to affect, the consolidated entity's state of affairs in future financial years?

Events might include, but are not limited to:
- The acquisition of a business combination
- A newly discontinued operation
- The purchase or sale of a core asset
- An event (fire, flood, pandemic, etc) that has impacted operations
- Major litigation
- A change in financing arrangements
- Breach of financing covenants

Has a dividend been paid, recommended or declared after the reporting date?

Financial instruments (if applicable)

Does the Statement of financial position include derivative financial instruments, e.g. forward foreign exchange contracts or interest rate swap contracts, that need to be disclosed in greater detail?

Are there any foreign currency denominated financial assets and financial liabilities (especially foreign subsidiaries)?

Is there any receivables risk or concentration with major customers?

Are the interest rates fixed or floating? Do the interest rates seem reasonable in relation to market rates? Do the interest rates multiplied by the average borrowings for the period tie back in an approximate way to the actual finance cost in the Statement of profit or loss?

Notes to the financial statements

Continued...

General information

Use the entity's historical extract (see source documentation) to check the type of entity and the addresses.

Check the entity's constitution just to 'make sure' the directors have the power to amend and re-issue financial reports.

Income tax expense

Was there a 'true-up' to the prior year's lodged tax return, which confirms the opening tax balances and any required adjustment?

Confirm the tax effect of the non-deductible permanent difference items such as entertainment, legal fees, impairment of goodwill and share-based payments.

Intangibles

Have the intangibles been subjected to impairment testing and are they carried at fair value?

Have the intangibles with finite lives been amortised for the period and does this amortisation match the period quoted in the accounting policy?

Inventories

Are inventories stated at the lower of cost and net realisable value? Do the classifications reflect the types of inventory one would expect for the industry or entity?

Typically, there are three inventory sub-classifications:
- Raw materials
- Work in progress
- Finished goods

Investments in associates (if applicable)

Are the associates' name, principal activity and percentage interest correct? Does the share of profit match the Statement of profit or loss?

Issued capital

Use the entity's historical extract (see source documentation) to confirm the number and classes of shares.

If there is any increase (share issue) or decrease (share buy-back) in issued capital, a reconciliation should be disclosed.

Where applicable, confirm that the capital risk management wording is accurate and reflects the actual practice.

Non-cash investing and financing activities (if applicable)

The cash flow workings will highlight any non-cash investing or financing activities, typically shown as adjustments.

Any increase in right-of-use assets and lease liabilities, unless related to a business combination, will be 'Additions to the right-of-use assets'.

Any increase in lease make good provision, unless related to a business combination, will be 'Leasehold improvements - lease make good'.

If there is a business combination and this was partially or wholly financed by a share issue, this is 'Shares issued in relation to business combinations'.

If there is an active dividend reinvestment plan, this is 'Shares issued under dividend reinvestment plan'.

Notes to the financial statements

Continued...

Non-controlling interest (if applicable)

If the subsidiaries note indicates there is a subsidiary with less than 100% ownership, there is a non-controlling interest.

There are three parts to a non-controlling interest:
- Issued capital (what was paid for the shares in the subsidiary)
- Reserves (the share of the subsidiary reserves, if any)
- Retained profits (or Accumulated losses) (the accumulated share of profits or losses, the movement of which should tie into the Statement of profit or loss).

Operating segments (listed public entities only)

When disclosing operating segments the following should be considered:
- Do the operating segments align with the directors' report principal activities?
- Do the operating segments align with the management reports?
- Are there any geographical segments?
- Do financial instruments disclose any receivables risk or concentration with major customers and are the related percentage of sales disclosed?

Parent entities (if applicable)

Use the entity's historical extract (see source documentation) to confirm the immediate parent entity and ultimate parent entity.

Property, plant and equipment

The Trial Balance provides the cost and accumulated depreciation of the various classes of property, plant and equipment; but are these values stated correctly?

Have all of the assets that have a zero written down value or no longer in the entity's possession been written off? A clean and concise Fixed Asset Register (see source documentation) will make for a happy auditor.

Is there land and buildings that were revalued more than 5 years (the maximum period) ago?

Provision for income tax and income tax refund due

Confirm the balance of either the provision for income tax or the income tax refund due (if operating in multiple jurisdictions there may be both). Does this align with the tax workings and does it pass the reasonable test? e.g. If the refund due exceeds tax paid is it due to an R&D or some other credit?

Provisions

Is the current and non-current classification correct? Consider any current provisions that have been carried for years without change, such as lease make good, and consider reclassifying to non-current.

Likewise, are there any non-current provisions that should be classified as current?

Related party transactions (if applicable)

Were there any related party transactions? Sales or revenues will normally result in a receivable, while purchases or expenses will normally result in a payable, as at the reporting date.

As well as intercompany sales, key management personnel related transactions, such as purchases from director-related entities need to be disclosed.

Notes to the financial statements

Continued...

Reserves

Consider the following:

- Revaluation surplus reserve: has the entity revalued assets, such as land and buildings?
- Foreign currency reserve: does the entity have foreign subsidiaries?
- Hedging reserve - cash flow hedges: does the entity have derivative financial instruments assets and liabilities where the movement should be recognised through reserves?
- Share-based payments reserve: does the entity have equity-settled share-based payments?

Restatement of comparatives

There are only three circumstances that can result in a restatement of comparatives and they are:

- The correction of an error
- A change in accounting policy
- A reclassification

Retained earnings (retained profits or accumulated losses)

For retained earnings (retained profits or accumulated losses), does the prior closing balance match the current opening balance?

Revenue/income

The three classes of revenue/income are:

- Revenue
- Share of profits of associates accounted for using the equity method
- Other income

Does the description of revenue/income correspond to both the principal activities and accounting policy? e.g. an entity providing consulting services would likely describe revenue as ‘Fees’ or ‘Services’ rather than ‘Sale of goods’.

Share of profits of associates accounted for using the equity method. Are there associates or does the Statement of financial position show any investment in associates? If yes, ensure that share of profit is correctly classified.

Some of the more common revenue/income items that would be classified as other income might be:

- Insurance recoveries: Did the entity receive an insurance claim payment?
- Net foreign exchange gain: Does the entity transact in foreign currencies?
- Net gain on disposal of assets: Were there any sales of assets?
- Subsidies and grants: Did the entity receive any Government grants or subsidies?

Share-based payments (if applicable)

Were there any options, rights or shares issued as share-based payments (this is usually directors and employees, but may be to others such as suppliers)?

Notes to the financial statements

Continued...

Significant accounting policies

Are the significant accounting policies correct and relevant?

Significant accounting polices should always be reviewed when the financial statements are being prepared.

When new or amended Accounting Standards are adopted, only list those that are relevant.

The trigger points for a going concern are:
- ‘Current liabilities’ exceeding ‘current assets’ (net current asset deficiency)
- ‘Total liabilities’ exceeding ‘total assets’ (net asset deficiency)
- Cash flow forecasts for future periods
- To a lesser extent a current period loss, especially weighed up next to cash and other current assets

If there is a going concern, consider the following Disclosures:
- A statement of facts as to why the entity is a going concern
- Separate identifiable liabilities that are unlikely to be called e.g. related party loan
- A letter of support from a controlling entity
- Management’s future intentions, which might include capital raising, divesting assets or discontinuing specific operations, etc.

Where the prior or current accounting periods are not full years, include an accounting policy.

Ensure the basis of preparation correctly states which Accounting Standards and legislation the financial statements comply with.

Consider the relevance of the wording and if no assets are held at fair value, state ‘The financial statements have been prepared under the historical cost convention’.

Trade and other receivables, check the number of days when generally due for settlement and number of days overdue for expected credit losses.

Confirm whether inventories are ‘first in first out’, ‘weighted average’ or ‘specific identification’. Note ‘last in first out’ is not permitted.

Ensure the sub-classes listed in the following accounting policies match those of the relevant note:
- Revenue recognition
- Inventories
- Property, plant and equipment
- Intangibles

Check the number of days when trade and other payables are usually paid.

New Accounting Standards not yet adopted should only be listed if they are relevant. If management is yet to assess the impact of each, consider a general statement rather than listing specific standards.

Subsidiaries

Perform a search (via the regulator or even using the entity’s corporate website) and confirm the names of the subsidiaries. Have there been any changes of name or deregistrations in the period?

Notes to the financial statements

Continued...

Trade and other payables

Is there a significant balance in other payables and if so, what is it?

Trade and other receivables

Is the current and non-current classification correct? Consider any current receivables that have been carried for years without interest or payment - should these be impaired or reclassified to non-current?

Are there any receivables that are overdue that should be impaired?

Is there a significant balance in other receivables and if so, what is it?

If applicable, does the banding of the expected credit losses make sense and are the units of measurement (days, months, etc.) appropriate?

Example Limited
Notes to the financial statements
31 December 202Y

Note 10. Current assets - trade and other receivables

	Consolidated 202Y CU'000	Consolidated 202X CU '000
Trade receivables	14,344	13,181
Less: Allowance for expected credit losses	(1,062)	(874)
	13,282	12,307
Other receivables	60	43
Interest receivable	7	4
	13,349	12,354

Allowance for expected credit losses
The consolidated entity has recognised a loss of CU491,000 in profit or loss in respect of the expected credit losses for the year ended 31 December 202Y.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate 202Y %	Expected credit loss rate 202X %	Carrying amount 202Y CU '000	Carrying amount 202X CU '000	Allowance for expected credit losses 202Y CU '000	Allowance for expected credit losses 202X CU '000
Not overdue	2%	1%	7,334	6,793	147	68
0 to 3 months overdue	7%	5%	5,128	3,951	359	198
3 to 6 months overdue	14%	10%	1,353	1,762	189	176
Over 6 months overdue	50%	50%	734	863	367	432
			14,549	13,369	1,062	874

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay. As a result, the calculation of expected credit losses has been revised as at 31 December 202Y and rates have increased in each category up to 6 months overdue.

Movements in the allowance for expected credit losses are as follows:

	Consolidated 202Y CU'000	Consolidated 202X CU'000
Opening balance	874	659
Additional provisions recognised	491	432
Receivables written off during the year as uncollectable	(287)	(209)
Unused amounts reversed	(16)	(8)
Closing balance	1,062	874

First draft review

Having considered all of the questions and completed each of the steps summarised in this booklet, it is likely that the first draft of the financial statements is prepared. The next step is a thorough review of the first draft.

Review

No doubt there is still work to be done, but a well prepared first draft is the foundation that ensures the rest of the process can be completed as efficiently as possible.

The next key step is to review the financial statements from cover to cover. If reporting software is being used it is also a good time to take a look at any exception or review reports that may be available.

It can be challenging to review one's own work but it is not impossible and it is always better to find (and correct) things before someone else does.

Some things to consider when reviewing:

- Check spelling and grammar. Ensure that the notes and comments are easily understood and portray an accurate picture.
- Is the information in the financial statements consistent with what is known about the entity and does it pass the 'reasonable test'?
- Information in financial statements should be 'objective', 'relevant', 'material' and 'complete', is this the case?
- If reporting software has not been used, or the software doesn't adds check or validate, do the numbers add and tie up correctly?
- Are there detailed audit trails and explanations that can be provided in support of the draft?

The Audit

The audit process is crucial in ensuring that financial statements fulfil their function of providing a true and fair view of the entity's financial position and performance.

We believe the keys to an efficient, pain free audit are:

- A structured preparation process
- A well prepared first draft
- Good source documentation
- Complete and reliable audit trails

Draft management

As the audit progresses and as more people begin to review the financial statements, there will be changes.

It is important that the number of drafts are managed and kept to a minimum practical number. Having 20 or 30 drafts of the financial statements doesn't help anyone.

Where possible group the changes that need to be made and only issue a new draft where there have been significant or material changes.

Use the track change features available in Word and Adobe PDF to ensure that all required changes have been made.

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