CHAPTER SEVEN

Financial Reporting

Annual Report of a Company

For legal and necessity reasons, companies publish a formal report at the end of each financial year. This annual document has three broad sections: directors report, financial statements and audit report.

There are three main parts of financial report as stated above

Directors' Report

Director's report has further three parts

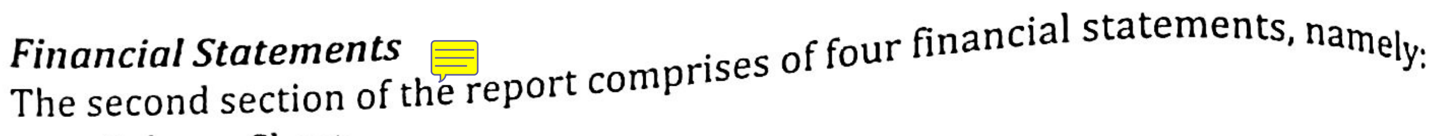
The first section of the annual report, called Directors' Report, is a narrative, often in the form of a letter from the company's chairman to its shareholders giving three important pieces of information:

- Firstly, a comment on the performance of the company during the year to which the report relates. This part is often referred to as OFR, i.e. operational and financial review.

First part is about the near past of the company, 2nd part is about the immediate future and third part is how to achive in future mean policies

- Secondly, an assessment of what lies in the immediate future and
- Thirdly, a statement about the company's policies, principles and strategies developed to meet the challenges of the future.

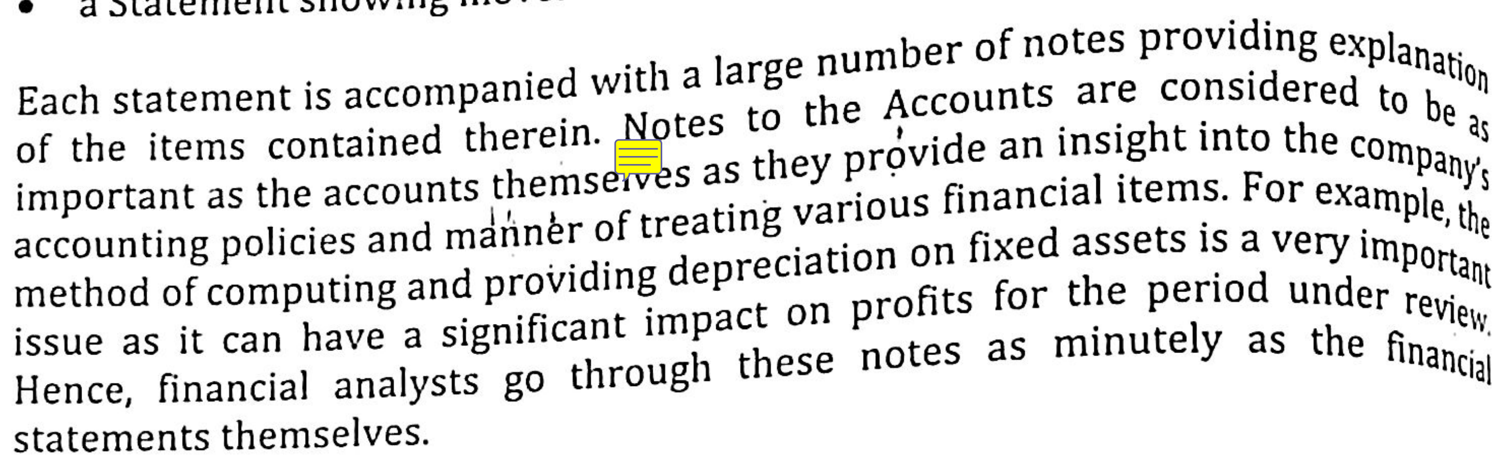
The narratives part of the annual report is prepared with great care. Quite often, professional writers and designers are hired to touch it up to ensure its acceptability and appeal to the shareholders. A number of graphs, charts and photographs are inserted. Careful use is made of selected positive data and ratios to send across the desired message. Only those issues are talked about which the management feels will be of interest of – and appreciated by – the shareholders. Sadly, for this reason alone, over the recent past this report has come to lose a considerable part of its credibility as more and more investors tend to look at it as a public relations exercise rather than a serious attempt to give meaningful information to shareholders.



Financial Statements

The second section of the report comprises of four financial statements, namely:

- a Balance Sheet.
- an Income Statement,
- a Funds Flow Statement, and
- a Statement showing movement in Equity



Each statement is accompanied with a large number of notes providing explanation of the items contained therein. Notes to the Accounts are considered to be as important as the accounts themselves as they provide an insight into the company's accounting policies and manner of treating various financial items. For example, the method of computing and providing depreciation on fixed assets is a very important issue as it can have a significant impact on profits for the period under review. Hence, financial analysts go through these notes as minutely as the financial statements themselves.

This part actually provides the reliability of report stated by auditor of the company

Audit Report

The third section of the annual report contains a report from the external auditors which essentially gives his opinion on the financial statements. More is said about this report later in this chapter.

The Need for Publishing Financial Statements

Financial statements published by a company at the end of every financial year (or more frequently) serve three main purposes: they inform, they help control and they help plan.

There is no need to go in much detail but simply keep in mind in your own words that it provides information to all stakeholders and control the management and help board of directors to make policies for the future.

The Information Function

A large number of people have an interest in the affairs of a company. These persons are called stakeholders and include shareholders, lenders, suppliers, customers, managers, employees, prospective investors, relevant governmental departments and the public at large. Except for the managers and employees, other stakeholders have no access to the detailed records maintained by the company. Their only source of information about the financial performance and health of the company is the annual report (containing the financial statements) published by the company. These statements therefore serve to provide vital information to all those who have an interest in the well being of the company. Since these statements are audited by external auditors, they are considered fairly reliable. In turn, this enables the existing and prospective investors to evaluate the performance of the company on the basis of these statements with a degree of confidence.

The Control Function

On the basis of information contained in the financial statements, shareholders (who have the voting rights) can control the conduct of directors who manage the company. Shareholders can use the information provided by annual accounts to make such important decisions as how much dividend to declare, what portion of the profits to reinvest in the business, what major investments to make, what operations to expand or shrink, etc. These financial statements when compared with others from similar companies (in the same or similar industries) can also help the investors set important benchmarks for measuring the efficiency of the managers. Similarly comparison of one year's statements with previous years' statements helps the managers and investors recognize important business trends, making it possible to control negative trends and improve the positive ones.

The Planning Function

Financial statements of one year provide a basis on which to plan or budget for the next one or next few years. Detailed analysis of financial statements helps to set targets and make attainable plans in light of already achieved standards.

Now let us consider each financial statement in some detail.

The Balance Sheet

This statement shows the assets and liabilities of the company at the end of the financial year. It is customary in Pakistan to first show the Liabilities side and then the assets side. The liabilities side shows the equity and long-term liabilities. The Assets side shows the total of fixed assets, intangible assets, investments and working capital. Hence, each side of the balance sheet shows the total of capital employed.

Capital Employed:

= Equity + Long Term Liabilities

= (Fixed Assets + Intangible Assets + Investments) + Working Capital

= Noncurrent Assets + Working Capital

Equity

This is shown on the Liabilities side of the Balance Sheet. The total of equity of a company comprises of it's paid up share capital, reserves and un-appropriated profits. It is a legal requirement for companies to show their authorized share capital, even if it is not fully issued or subscribed, within the body of the balance sheet. This figure is double underlined to ensure that it is not totaled with other items of the balance sheet.

un-appropriated profit, these are fully disclosed in the relevant section of the Income Statement. A summary of that part of the Income Statement is included in the Statement of Movement in Equity as well.

Juhi Textile Mills Ltd.
Statement of Changes in Equity for the year ended 31 December 2010

	Share Capital Rs.'000	*Share Premium Rs.'000*	*General Reserves Rs.'000*	*Retained Profit Rs.'000*	*Total Equity Rs'000.*
Bal. as on 31 Dec. 2009	5,500	80	1,740	2,459	9,779
Shares issued in 2009	4,000	1,000			5,000
Net profit for the year				3,050	3,050
Trans'd from P&L A/c			2,500	(2,500)	-
Dividend – final				(1,500)	(1,500)
Bal. as on 31 Dec. 2010	9,500	1,080	4,240	1,509	16,329

Notes to the Financial Statements

Notes accompanying the set of financial statements published by a company provide the following additional information:

What type of information notes provide is given below, it is in very simple language you are required to read all these by your own and ask questions in chat box

1. *An explanation of accounting methods or policies used.* For example, companies are generally free to choose the method of computing depreciation on their fixed assets. While Ali Ltd. may calculate depreciation on its plant and machinery using the straight-line method, Bakr Ltd. may well opt to write down its plant and machinery using the diminishing balance method. Similarly, one company may value its stock in trade at cost using the First In First Out method while another company may find Last in First Out method of valuing stock more appropriate to its needs. As companies do have latitude in choosing accounting methods, it is important that notes to the financial statements clearly state the method that has been used so that analysts can draw correct conclusions.

2. *Greater details regarding certain figures in the financial statements.* Most figures given in the financial statements are totals or aggregate figures. Frequently, it is necessary to provide the details of these aggregate figures. For example, in Income Statement only one figure of Cost of Goods Sold is given. Details of the various figures making up the cost of goods sold during the year are given in Notes to the Accounts. Similarly, balance sheet shows only the net book value of fixed assets. Itemized details of cost of the various fixed assets, amount of depreciation provided during the year, accumulated depreciation at the end of the year for each fixed asset, are all shown in the notes to the accounts.

3. *Statutory Disclosures.* The law requires companies to disclose certain information in their annual accounts, which may not find place in the main body of any financial statements. For example, details of remuneration paid to directors and senior managers must be disclosed. Another example of disclosure is break up of share ownership of the company. All such disclosures are made in the notes to the accounts.

4. *Changes in accounting policies, methods or nature of business during the year.* If a company changes any of its accounting policies (or methods), or starts a new line of business, or abandons a part of its operations, or if there is any other significant change in the manner in which company conducts its business, information about such changes must be given in the Notes to the accounts so that persons using the financial statements are correctly informed.

5. *Details of off-balance sheet items.* Certain information may be important for the users of the financial statements but it may not have a rightful place within the body of any particular financial statement. Let us take an example. Bala Ltd. has been sued by an external party but the case has not yet been decided. In this case, the company has no legal liability (till the case is decided against it); hence Bala Ltd. may not show this amount as a liability in its balance sheet. However, such information can have great importance for the users of the financial statements and must therefore be given in the notes to the accounts.

Limitation of Financial Statements

Financial statements are a very useful source of information to all those people who have an interest, or stake, in the company. Companies take great care in preparation of these statements. Law also prescribes certain disclosure requirements, making sure that these statements convey all the requisite information to satisfy the various stakeholders. Again, there is a legal requirement that all public limited companies must get their books of accounts and financial statements audited by a duly authorized external auditor. All these factors greatly assist in ensuring that the information contained in the financial statements is both accurate and reliable. However, financial statements suffer from some inherent defects. These are briefly discussed below, along with some advice on how to minimize the impact of these problems.

1. Most balance sheets show values of assets, in particular the fixed assets, at cost less accumulated depreciation. These values may be vastly different from the prevailing market value of these items. For example, if a company buys a piece of land for say Rs 100,000 in 1990, it is likely to be shown at this value in the

company's balance sheet at end of 2007. Now, it is quite possible that by the end of 2007 the market value of this piece of land may have risen to well over Rs.1,000,000. Again, depreciation rates used by a company may differ from the others. This has an impact on the net book value shown in the balance sheet. It is therefore necessary for any person looking at the balance sheet to determine the current market value of company's various assets.

2. Accounting policies of companies differ even within an industry. For example, one company may not treat a sale as a sale till the goods are paid for by the customer, while another company may book a sale as soon as items are delivered to the customer. Such items have a great impact on income measurement. People analyzing the financial statements must therefore carefully read the notes to accounts to get an understanding of accounting policies used by the company.

3. Financial statements contain absolute figures. For the purpose of evaluating financial performance or position, it is often necessary to compare one company's figures with those of other companies, or the average of the industry. This comparison is difficult if the analyst has only absolute figures to go by. For example, if Ali Ltd shows a net profit of Rs. 450 million and Bakr Ltd. shows a net profit of Rs. 128 million, it may not be wise to conclude that Ali Ltd is a better investment, or more efficiently managed company. It would be more appropriate to translate absolute figures into ratios and then to compare ratios. Now, if it is found that Ali Ltd. is showing a return on equity (i.e. net profit as percentage of equity) of 18% while Bakr Ltd's return on equity is 21%, the comparison would become not only easier but also more meaningful. Companies often include a number of ratios within their annual report. However, an analyst must compute all the relevant ratios himself to ensure that the conclusions to be drawn from the analysis are meaningful and appropriate. The next chapter of this book deals with ratios.

4. Certain assets and/or liabilities may not be shown in the financial statements. For example, contingent liabilities are often shown only in notes to the accounts. Similarly, a company may opt not to show a disputed receivable amount in its balance sheet till it is actually received. Analysts and potential investors must read the notes to accounts carefully and also seek additional information from the company if they have reason to believe that assets and/or liabilities not included in the financial statements are of significant quantum.

Stakeholders interest in financial statements

Financial reports are perhaps the most important communication from the board/management of the company with its stakeholders. All the classes of stakeholders require these financial statements for a variety of reasons, for example:

a. Shareholders use them for deciding how they should vote at the various issues put up for voting at the annual general meeting. These include approval of dividends, approval of directors' remuneration, approval of future expansion programs, etc.
b. Investors use them for making investment decisions like should they continue to hold the shares of this company, should they sell them off, or buy more of them. Again, these statements also have a serious effect on the share price.
c. Investment Analysts use them for rating the company as well its instrument like shares and bonds.
d. Major investors use them for making acquisitions, mergers or de-merger decisions.
e. Creditors, particularly the long term lenders, use them for assessing the credit-worthiness or risk-weight of the company.
f. Management uses them as a basis of planning for the future. All short term plans, budgets and strategic plans are generally constructed on the foundation provided by the actual financial statements.
g. Employees use them for negotiating better terms of employment with the company.
h. Government, particularly its various tax departments, use them for computing the company's tax liability for income tax, capital gains tax, sales tax, etc.

Qualities of financial statements

A good set of financial statements should have the following qualities:

a. Each statement should be clear and understandable. The users of these statements come from a diverse set; many of these persons are not capable to comprehend technically complicated statements. If an intended user cannot understand the statement, he cannot use it effectively.
b. The statements should be reliable. As stated earlier, these statements are used for a number of purposes by different stakeholders. Now if the financial statements are not reliable or accurate, any decision made on the basis of such statements would be erroneous. Hence, it is extremely important that

directors should ensure that financial statements have the degree of integrity that is needed by all their intended users. For this purpose, the audit committee and external auditors have to play very important roles.

c. The statements should be honest. There should be no fudging of figures or window dressing to bring the figures to the levels required by lenders, State Bank or other regulators. For example, often companies re-classify assets moving them from current to fixed assets just to correct their current ratio and bring it in line of the level desired by their lenders or SBP. Similarly, often bogus credit sales are booked in the last few days of the financial year to show improved profits. The audit committee and external auditors need to be particularly vigilant on this aspect of the financial reporting.

d. The statements should contain all the disclosures required by the various regulatory bodies. In addition, they should also be compliant with applicant standards and laws. Both the audit committee and external auditor must comment on this aspect in their respect reports.

Responsibility for the health of financial statements

The parties related to and sharing responsibility for financial statements are:

a. The Management, who keeps the books, chooses the accounting policies, maintains the books of accounts, prepares the financial statements and facilitates the external auditor. Management includes internal auditor who ensures that internal control are working adequately and that the financial statements are free of errors.
b. The Board who oversee the preparation of accounts, prepare the directors' report, ensure that all due legal disclosures are made, present the financial statements to the shareholders, and file them with KSE and SECP
c. Audit committee who liaises with the internal and external auditors and recommends the financial statement to the Board.
d. External auditor who examines the accounting and related records as well as the financial statements and gives a formal opinion on them.

The Companies Act says that the ultimate responsibility for the health and integrity of the company's financial statement lies with its board of directors. Yet, in reality the various stages of preparing these financial statements and parties related to each stage are as shown in the following chart.

Action	Responsible Person/body
Choosing the accounting policies to be used and principles to be followed.	Management
Ensuring that correct accounting policies are selected, and all applicable accounting standards are applied /complied with.	Internal auditor Audit Committee
Maintaining books of accounts, recording transactions in the books, maintaining all supporting documents, instituting internal controls.	Management
Ensuring that the books of accounts and supporting documents are in order and internal controls are working effectively.	Internal auditor & Audit Committee
Preparing financial statement on the basis of accounting records and books	Management
Ensuring that the financial statement are correct and in accordance with accounting records	Internal auditor Audit Committee
Giving an opinion on financial statements	External Auditors
Consideration and approval of financial statements as well as directors' report.	Shareholders

Fig. 7.1: *Responsibilities related to integrity of financial statements*

If we look at the above chart carefully, we will see that the Board of Directors does not carry out any particular activity itself. It is involved only in overseeing the various stages, mainly through its Audit Committee – and one or two of its executive directors. Yet the law places the entire responsibility for the accuracy of the financial statements (including the directors' report) squarely on the Board. Quite often executive directors, whose loyalties are with the controlling shareholders rather than the company, mislead the rest of the board or do not provide them with all the necessary information. This results in the Board recommending the (less than satisfactory) accounts to shareholders for approval and thereby incurring the liability for their integrity. Audit committees of such companies are generally ineffective, comprising of either incompetent persons, or people representing only the controlling shareholders. This situation creates a lot of strain for truly independent non-executive directors who often find themselves accused by regulators of negligence when they do not have the means of verifying the truth or reliability of information being presented to them by the executive directors. Thus

the entire board, and in particular the non-executive directors are made to face the full brunt of the law when the blame belongs only to the executive directors.

Audit Committee's Role

The audit committee is a part of the board of directors. It is assigned the specific responsibility by the board to ensure that financial statements produced by the management and audited by the external auditors are worthy of board's recommendation for approval by the shareholders. In order to achieve this objective, the audit committee takes the following steps:

a. It reviews the internal control processes of the company. It approves all of the company's procedure manuals which provides them the opportunity to understand how the company carries out its various activities.

b. It reviews the reports of the internal auditor. In this way, the committee is able to understand and evaluate the efficiency of company's accounting systems and policies.

c. It plays the pivotal role in selection of the external auditor, carrying out the vetting process, and negotiating their terms and conditions.

d. It maintains liaison with the external auditor and reviews all his communication with the company. In this way, the audit committee is able to ensure that external auditor is able to maintain his independence and is not unduly influenced by the management.

e. It can go direct to the chairman or the shareholders if it feels that executive directors are in any way impeding its work.

However, an audit committee is not an executive arm of the board. It does not carry out audit, internal or external, nor does it operate the internal control systems. Nonetheless it can play a very important role in ensuring the integrity of company's financial statements if it is sufficiently independent and free from the undue influence of controlling shareholders or executive directors.

Misleading Financial Statements

Statements are said to be misleading if:

a. They are not consistent with the accounting records on which they are purportedly based.

b. They are not based on correct accounting policies.
c. They do not comply with applicable accounting standards and generally accepted accounting principles.
d. They do not disclose the true profit or loss made by the company, meaning they do not include all the expenses and incomes, or state them at incorrect amounts.
e. They do not value the assets and liabilities of the company correctly, or in accordance with generally accepted accounting principles.
f. They do not include all the assets and liabilities in the balance sheet.
g. They do not provide adequate information or disclosure (by way of notes or directors' report) to help a user understand or evaluate them meaningfully.

Now the above shortcomings may be due to incompetence of accounting/audit staff, lack of knowledge, honest unintentional error, or deliberate intentional misrepresentation. It is important to note that the only difference between an error and a fraud is that of intention. An error is unintentional mistake while a fraud is an intentional misrepresentation with a dishonest motive.

Consequences of unreliable financial statements

As stated earlier in this chapter, a lot of people related with the company make a number of their decisions on the basis of its financial statements. For example, investors decide about buying more shares, or selling off their present holding in light of the information contained in the financial statement. Shareholders approve the dividends or expansion program according to what the financial statements say. Creditors make decisions about extending more terms or calling back their existing loans on the strength of the financial statements. Management draws their future plans and employees make their long term decisions under the influence of financial results. All these decisions would prove wrong if the financial statements (on which they are based) are not reliable, accurate or honest. It is therefore important that the financial statements have the highest degree of integrity. The law and regulators therefore attach great importance to this aspect, prescribing strict measures for ensuring it.

Why may a company deliberately prepare misleading financial statements?

There are several reasons why a company's management may deliberately doctor its financial statements. There are essentially three aspects of misstatements:

Over-statement of Profits

A company may opt to over-state a particular year's profits for any of the following reasons:

a. To meet the expectation of general public or investors. If the actual profit of a company in a particular year is less than the profits the stock exchange is expecting, the company may make some adjustments to bring their book profits higher. For example, it may defer making provisions for unpaid expenses, or treat some normal expenditure as an asset, thereby reducing the expenses and increasing the profit.
b. To maintain the share price. A decline in profits often leads to reduction in share price at the stock exchange. If the company feels that future profits will be higher, they may deliberately over-state current year profits to avoid the share price hit.
c. To meet contractual obligations with creditors. Some lenders lay down very strict conditions in the loan agreements. Such conditions may include, for example, that if the profits fall below a 2:1 ratio of interest cover, the lender may increase the interest rate or recall the loan. To avoid such a situation, the management may fudge some figures or change the basis of accounting for certain items to overstate the profits.
d. To maintain its image of rising profits. If a company has regularly shown rising profits over the past, but suddenly experiences a fall in profits, it may choose to over-state the current year's profits purely to sustain its public image in the market. In all such cases, the management hopes that future profits will be higher and they will be able to reverse in the future whatever entries they are now making.
e. To prepare the company for a higher price if a merger or sale of the company is in the offing.

Under-statement of Profits

A company may opt to under-state a particular year's profits for any of the following reasons:

a. To save corporation tax.
b. To avoid having to pay dividends. This is particularly true of companies controlled by families who are able to meet their own cash-flow needs from the company's coffers but are not willing to pay any dividends to other shareholders.
c. To smoothen the earnings trend. If a company has been showing a certain level of profits over a period, and it suddenly has a very good year, it is often considered wise not to show a very high profit as it may set a new bench mark which the investors will expect the company to achieve in each succeeding year. Hence, the company may under-state its profits by creating unnecessary provisions, or writing off some non-tangible assets.

Misstatement of Financial Position

This means stating assets and/or liabilities at incorrect values. The idea generally is to give an impression that company's financial position (mainly excess of its assets over total liabilities) is healthy. Assets may be over-stated in the balance sheet through provision of inadequate depreciation, stocks may be over-valued, insufficient provisions for doubtful debts may be made to overstate the trade debtors, etc. Some assets may be deliberately misclassified, i.e. a fixed asset may be shown as current asset or vice versa. Similarly, some liabilities may be understated or not shown in the balance sheet at all. One of the reasons for 'balance sheet doctoring' is meet the various accounting ratios which either the regulators or investors are likely to calculate and judge the company by. For example, SBP advises all banks not to lend funds to a company whose current ratio is less than 1, i.e. if its current assets are less than its current liabilities. If a company finds itself in such a position, it may resort to over-stating its current assets (through over-valuation, or classifying certain fixed as current assets) or under-state its current liabilities (through not booking certain current payables at all, or showing some current liabilities as long term liabilities).

Creative Accounting

It is defined as *"a systematic and intention misrepresentation of the true income and financial position of an entity to achieve certain objectives."* This involves using such accounting policies and techniques that assist in misstating the financial statements. For example, companies are generally free to choose the basis of valuing their stock in trade; a company could therefore deliberately select or change the basis of stock-valuation with the simple intention of over-stating its stocks at a particular time. Similarly, a company may change the policy about when to recognize revenue or expenditure, or how to treat a particular expense as a normal expense or a fixed asset, etc. A detailed study of creative accounting techniques is outside the scope of this introductory text on corporate governance.

The Role of External Auditor

The law requires all public limited companies to get their financial statements audited by duly licensed external auditors who should be appointed by the shareholders. The reason for this requirement is quite obvious – it is one of the strongest tools in the hands of shareholders to ensure that what they are being told by the company's management is essentially correct. The purpose of audit is to provide the shareholders and other stakeholders an independent opinion about the state of financial statements. Stakeholders attach a lot of importance to external auditor's report because:

1. External auditor is appointed by shareholders, not management.
2. He is independent, not a part of the company's management.
3. He is competent to examine the accounts and financial statements and give an opinion there-on. Only professionally qualified persons can get a license to act as external auditors to a company.
4. He is believed to have a high degree of integrity as he belongs to a profession that is strictly regulated by a professional body

The Audit Report

This report is given by the external auditors after they have examined the accounting records, supporting evidence and financial statements prepared on the basis of such records at the end of the year. It essentially gives the auditor's opinion on the financial statements, generally covering the following areas:

a. Steps taken by the external auditor to form his opinion on the financial statements;

b. Auditor's opinion on whether or not:
    - the books of accounts have been properly kept and are complete in all necessary aspects;
    - the financial statements are in accordance with the accounting records;
    - the financial statement give a true and fair view of company's profit for the year ended and its financial position at the end of the year.
    - the financial statements provide all the disclosures required by relevant laws.

An external auditor's task is only to give an opinion; not to ensure the accuracy of financial statements. He is not expected to advise management on how to get the accounts in order. His responsibility is to say in his report whatever is revealed by his examination of accounting records and financial statements. If everything is fine, he say so. If anything is not in order, he simply indicates so. He is however responsible for the correctness of his report. A lot of people depend on his report and if he gives an inaccurate report, he can in certain circumstances be held liable for damages, as indeed happened in the case of Enron when their external auditors were heavily fined and made to pay damages to affected parties.

Types of Audit Reports

If the external auditor is fully satisfied with the state of affairs, he gives a *clean or unqualified report* which indicates that the financial statements are by and large very much in order.

If the external auditor finds some minor irregularities in the accounts or the financial statements which do not materially affect the year's profit or financial position at the year end, he may give a *qualified report*, indicating areas about which he is dissatisfied.

If the external auditor finds too many errors and misstatements in the accounts, or if the accounts have not been properly kept, and the financial statements give materially incorrect profit and financial position, he may give an *adverse report* which indicates that the financial statements are not reliable.

If the external auditor finds that the books of accounts or supporting documents are inadequate for the purpose of preparing meaningful financial statements, he may give a *disclaimer*, which indicates that he was not able to form any opinion on the accounting records and/or financial statements due to inadequate records and evidence.

Independence of External Auditor

As stated earlier, financial statements are used by various stakeholders for making a number of decisions. These decisions would not prove to be correct if the financial statements are not accurate. Perhaps the strongest means of knowing the level of reliability of financial statements is the audit report. It is often said that financial statements are of little or no value if they are not accompanied by a substantially unqualified audit report. With that much importance being attached to the audit report, it is essential that the external auditor must be independent and allowed to do his work independently.

The following are some of the means used to ensure the independence of external auditors:

1. The firm performing the external audit should not be given any other professional work. If an audit firm earns a large percentage of its total revenue from a particular company through fees for audit, accounting, tax, procedure consultancy, financial advisory services, etc. it is likely that its independence may be impaired.

2. Auditors should be rotated frequently so that familiarity does not lead to loss of independence.

3. There should be no relationship between the partners of an audit firm and company's directors.

All the external auditors are members of Pakistan Institute of chartered accountants (ICAP). This body strictly regulates the conduct of its members, providing them with comprehensive code of conduct and monitoring their work. In addition, SECP also monitors the conduct of audit firms in Pakistan. There are also several international professional bodies which issue standards/guidelines for accounting and auditing practices. ICAP is a member of most of these international professional bodies and makes it compulsory for its own members to follow the internationally recognized standards and guidelines. Some of these international bodies/standards are:

- Accounting Standards from IFAC
- Ethical Standards from ESB
- Audit Standards from APB (UK)
- Accounting and Audit Review Board (UK)
- Public Company Accounting Oversight Board (Sarbanes-Oxley Act) in USA

QUESTIONS

1. Discuss the uses and limitation of financial statements published by companies every year.
2. What are the contents and importance of Directors Report?
3. In what ways does a Directors Report differ from Notes to the Accounts?
4. Why are Notes to the Accounts useful for analysts?
5. How does income statement differ from cashflow statement?
6. What are (a) fixed assets (b) non-tangible assets (c) investments?
7. What is the relationship between current assets and current liabilities?
8. Why is cash flow statement prepared? How does it differ from an Income Statement?