

Financial Analysis for Officers and Directors

Course outline

Acknowledgements

Written and designed by:

Mark McCoy, Managing Director, McCoy & Associates Pty Limited

Revised by:

Jeffrey Hanlon FGIA, Director, Neuronics Pty Ltd

Copyright

Copyright strictly reserved. No part of these course materials covered by copyright should be reproduced or copied in any form or by any means without the written permission of Governance Institute of Australia.

© Governance Institute of Australia Ltd 2023

Course Outline

All directors (and officers) require a reasonable understanding of a company's financial statements in order to effectively undertake their respective roles and meet their statutory and common law duties.

The decision of the Federal Court of Australia in *ASIC v Healey* [2011] FCA 717 (the Centro case) reinforced the courts' view that directors of listed companies have a statutory duty to maintain a reasonable level of financial literacy, in order to understand and present the true financial position of the company or group. They are expected to ask relevant questions, to ascertain further information, when necessary. The Centro case is of critical importance to officers and directors of all types of organisations, not just public listed ones.

For more detailed commentary regarding the Centro case, please refer to Reading 4.

This course focuses on the following areas:

- reviewing a company's financial statements within the context of the International Financial Reporting Standards (IFRS)
- preparing questions to obtain any additional information required by a director or officer
- fulfilling the supervisory role required by a board member.

Note:

An important role of directors is to make judgments in relation to an organisation's solvency and how its funds have been managed, but these specific aspects are not covered in detail in this course.

The **aim** of this course is to show how to analyse the performance of a company using its three financial statements.

The **key** objectives are to:

- outline the accounting concepts and principles upon which the preparation of financial statements are based
- recognise how accounting standards create some limitations in the preparation of financial statements
- understand links between the financial statements
- help you assess the financial capacity of a company
- form and express an opinion on the financial capacity of a company, arising from your assessment of the financial statements.

For the purposes of this course, you are to imagine being a director of Cochlear Limited, a large listed Australian company which manufactures devices to help transform the way people understand and treat hearing loss. You are to examine its financial statements and form your own opinion of the financial capacity of the company.

Course content

1 Introduction

- 1.1 Scope and context of this course
- 1.2 Aim and objectives of this course

2 Key concepts

- 2.1 What is accounting?
- 2.2 Users and uses of financial information
- 2.3 Standardised financial statements
- 2.4 Accounting standards
- 2.5 Accounting policies
- 2.6 Key accounting concepts

3 Financial records

- 3.1 Financial record keeping
- 3.2 Simple accounting flow
- 3.3 Accounting terminology

4 Financial statements

- 4.1 Financial statements
- 4.2 Financial statements terminology

5 Statement of [Profit or Loss and other] Comprehensive Income

- 5.1 Statement of Comprehensive Income ("SOI")
- 5.2 SOI structure for manufacturers
- 5.3 Earnings measures
- 5.4 Example SOI: Cochlear Limited

6 Statement of Changes in Equity

7 Balance Sheet or Statement of Financial Position

- 7.1 Current assets
- 7.2 Non-current assets
- 7.3 Current liabilities
- 7.4 Non-current liabilities
- 7.5 Equity

8 Statement of Cash Flows

- 8.1 Statement of Cash Flows ("SOCF")

8.2 Cash flow warning signals

9 Other note disclosures

10 Conclusion

11 Resources

11.1 Legislation and regulators

11.2 Standards and guidelines

11.3 Governance Institute resources

11.4 Reference books

11.5 Reports and journal articles

11.6 Other resources

12 Appendices

13 Readings