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Annual Report and Other Sources of Incredibly Valuable Information

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ABSTRACT

The annual report is a comprehensive document that provides a wealth of valuable information about a company's financial performance, operations, and strategic outlook. This abstract explores the significance of annual reports and highlights other sources of incredibly valuable information for stakeholders. It discusses the key components of an annual report, such as financial statements, management's discussion and analysis, and notes to the financial statements. Additionally, it emphasizes the importance of utilizing other sources, such as regulatory filings, industry reports, and company presentations, to gain a holistic understanding of a company's performance and prospects. The annual report serves as a primary source of information for investors, analysts, and other stakeholders. It typically includes financial statements, such as the balance sheet, income statement, and cash flow statement, which provide insights into a company's financial position, profitability, and cash flow generation. These financial statements are prepared in accordance with accounting standards, ensuring consistency and comparability across companies.

KEYWORDS

Board of Directors, Competitive Analysis, Corporate Governance, Financial Statements, Industry Reports, Key Performance Indicators (KPIs).

I. INTRODUCTION

Act known as Sarbanes-Oxley

The United States Congress approved this piece of legislation in 2002. Government authorities and the accounting profession have recently reexamined how accounting is done, the idea of the audit process, and corporate governance as a result of a series of accounting scandals, most notably the one involving the notorious Enron. The legislation was given the names of its sponsors, Ohio congressman Michael Oxley and Maryland senator Paul Sarbanes. Since 2002, corporate governance has seen significant advances. Some were expressly called for by Sarbanes-Oxley, while others mirrored the goals of the law. These enhancements include:

The company's chief executive officer and chief financial officer must attest in writing that the information in the annual report is accurate and that they accept full responsibility for it. The yearly report includes this letter. Additionally, they must attest to the effectiveness of the company's internal controls in assuring the veracity of the information in the annual report and the accuracy of the financial statements. For those in charge, ignorance of dishonesty is no longer an option. The excuse of "I didn't know" is no longer accepted in any legal or regulatory context [1]–[3]. Transparency as a notion has grown in significance. The corporation must provide more information about the company and its financial situation to the annual report's readers. In particular, it is necessary to acknowledge and talk about off-balance sheet funding. The board of directors' administration has been strengthened. The board's audit committee is in charge of supervising the outside accounting firm's activities. A certified public accountant must be at least one of the committee's members. Now, this seems so clear. When none of the committee members have experience in the CPA industry, how can they give informed supervision of the company?

It has long been customary for the shareholders, not the board of directors or senior management, to choose the audit firm. A notification of the annual meeting and the chance to cast a ballot for the election or reelection of board of director members are sent to stockholders. The option to support or oppose the outside audit firm is also included in this package, which is known as a "proxy statement." Although there isn't a choice between the potential options, there is at least the chance to vote against the current company if enough stockholders are dissatisfied with their performance. Recognize that changing CPA companies is highly disruptive and costly. But businesses have been replaced in recent years.

Only external, independent directors may sit on the board of directors' remuneration committee. There can be no workers on this committee. In the past, it has sometimes happened for subordinates to approve their boss's pay and bonus packages or for two employees to jointly agree on salary. The fact that the board members did not truly pay close enough attention to the administration of the firm has been, and to some degree still is, one of the fundamental complaints of boards of directors. They were too busy with their primary occupations or their work on several other boards, or they were friends of the chairman and didn't want to be critical. Some businesspeople serve on seven or more boards as a professional choice. It has been evident that certain board members are unable to adequately attend to all of their tasks as a result of several boards that were not doing their duties. Many board members are being compelled to retire or are not being nominated for reelection and are thus permitted to gracefully depart from the scene as a consequence of various Sarbanes-Oxley regulations and shareholder agitation [4]–[6].

II. DISCUSSION

Safe Harbor Provision

The Private Securities Litigation Reform Act of 1995 is the legal name for this. This law shields the CEO and the company from legal responsibility for public comments that turn out to be false provided they were made in good faith and in light of the information available at the time. Many publicly traded corporations host or take part in open forums with investors and security experts. These forums often take the form of conference calls every three months, and thousands of participants and listeners may "attend" them over the phone. Each shareholder of the corporation may file a lawsuit. The CEO will make statements about the company's future during this meeting, including "guidance," or an estimate of the projected increase in sales and net income. According to this law, if the CEO forecasts a 15% profit rise and the actual amount is 10% or 20%, the CEO cannot be charged of lying provided the prediction was made in good faith and based on the information available at the time it was delivered. If the CEO's projections turn out to be unreliable, this does not prevent the possibility that many shareholders may sell their shares [7]–[9].

In many annual reports, the following sentence—or something similar—appear. This specific claim is taken directly from the Walt Disney Company's 2014 annual report on the subject: We may sometimes make "forward-looking" written or spoken comments, including those in this report, other filings with the SEC, and communications to our shareholders. Such statements, for instance, indicate predictions or forecasts regarding potential future action we may take, such as strategic initiatives or restructuring, or about events beyond of our control, such as changes in regional or global economic circumstances. We make no commitment to update these statements, which are based on management's opinions and presumptions at the time of the statement's creation. However, there is no guarantee that our hopes will be realized in the exact way we anticipate. Disney continues by outlining each potential risk that can unfavorably impact their business and its performance. In essence, it says, "We do the best we can, but we cannot completely predict the future or any extraneous events, and we take no responsibility to do so."

Fair Value Measurement

The 2008–2012 period's economic and financial turbulence and crisis has been beyond the comprehension and expectations of the majority of entrepreneurs, governmental regulators, and the general public. Damage from the uncertainty, economic disruption, and financial loss is estimated to be in the billions of dollars. The true worth of the assets shown on a company's records was one of these areas of financial ambiguity. The emphasis was on bank assets, especially market securities. A fair assessment of these assets was necessary for many banks and maybe the whole financial system to remain solvent. Every analyst and business professional should be well familiar with the data that is accessible and used for a number of reasons in the public domain.

1. The sources that will be covered here include:
2. The yearly report
3. The Securities and Exchange Commission's 10K report
4. Journal of Commerce
5. websites for Forbes and Fortune magazines
6. The Annual Report Service for The Public Register

7. Everyone should be aware of the wealth of useful information that is readily accessible. On the Internet, most of it is free and easily available.
8. This year's report
9. The annual report should be read for the wealth of insightful information it offers.
10. The accounting procedure and the idea of widely recognized accounting standards are beautifully reviewed.
11. The annual report of your own business may teach you a lot about it. This includes how it views itself strategically, morally, and in terms of how it interacts with the outside world.
12. The material in your rivals' annual reports gives you useful details about their performance, financial situation, and business plans.

A public corporation is any business that allows its shares to be freely exchanged by shareholders. Any firm having at least 500 shareholders who may vote their own shares freely is deemed public and is subject to the rules and regulations of the Securities and Exchange Commission, according to the many securities laws approved by Congress in the 1930s and updated several times subsequently. Through a 401(k) or other similar plan, many private corporations provide shares to their workers. However, the corporation retains its private identity since it is the company that votes the shares, not the employees who are "owners" of them. Only businesses with shares that are registered and traded publicly are covered by SEC regulation. Here, company size is not a concern. While some very tiny businesses have publicly listed shares, other very big businesses are privately held.

In the yearly report, there are three key topics. It combines a legal duty, a vehicle for public relations, and what we'll call the middle ground: a steadfast tradition. Many businesses add data in their annual reports that is not strictly necessary. However, as it has previously been provided each year, it is now anticipated, and its removal would be cause for concern. All images and presentations that portray the company's public image, its standing as a good corporate citizen, and product marketing are included in the annual report's pure public relations. The front cover is where the corporate self-promotion campaign starts. Here are some examples of recent analytical report statements: Images from the company's stunning construction projects that it has accomplished, the individuals whose health has been improved or whose lives have been saved, or images of the cutting-edge items it has offered are included in each of these stories.

These are notifications to:

1. The people. The fields of science, engineering, and human assistance promote a favorable image.

2. The personnel of the firm. Their business is a leading example of a "knowledge" corporation. This highlights how valuable they are to the business.

3. Security experts. Investors find science-related businesses to be particularly appealing. A large portion of production is now outsourced by businesses that formerly conducted R&D before manufacturing their goods. Manufacturing is significantly less appealing to the investing community than high-margin, fast-growing scientific research and development. If security analysts and investors are aware of and support the company's repositioning plan, the stock of a former manufacturer will perform better. Engineering and science will enhance the company's reputation with investors, who will value its shares at a better price/earnings ratio. Security analysts like a high-margin, rapidly expanding firm with niche goods that are recession-resistant. The firm becomes a takeover candidate if it is a tiny one. Companies in the biotech industry that contract out "mundane" production offer their products at substantially higher price/earnings ratios than those in the "old pharma" industry.

Highlights are provided on the inside cover. Many businesses essentially rehash tired themes like science, rapid expansion, helping others, and other clichés. Other businesses take their business more seriously and provide financial summaries from the income statement and balance sheet as well as stock market statistics, such as earnings per share and stock prices. For instance, DuPont invests more than $1 billion year in research and development and spends, on average, more than $5 billion annually on capital projects and acquisitions of rival businesses. It is a cutting-edge company that operates effectively and is devoted to information.

Letter from the CEO to Shareholders

The chief executive officer must address shareholders in a letter. In this letter, all business developments from the previous year that significantly affected the company's performance and state are described and analyzed. It also provides extensive analysis on the company's future outlook. The audit process includes a review of this letter. It must fairly and impartially present all problems. For the reader to gain knowledge, both positive and negative occurrences must be conveyed logically and coherently. In order to convey the beneficial remedial efforts that are already underway, bad news is often delivered early in this letter. The business wants to project the impression that management is in control and aware of what has to be done. The integrity of the management is at risk.

Jeffrey Immelt, the CEO of GE, was frank, open, and even personal in a famous letter he sent a few years ago. Immelt's personal net worth decreased significantly as a consequence of the 2008–2009 stock market meltdown, falling by many millions of dollars. It opens, "Dear Fellow Owners," as opposed to the then-standard "Dear Stockholder." The wealth of every GE shareholder also increased. During this time, when the price had dropped by 50%, Immelt increased his share purchase as a sign of confidence. He lost a lot of money on that specific investment until the market turned around in March 2009. Immelt said in his letter, "In the past, I assumed that our diverse portfolio would safeguard us in all types of economic cycles. However, we did not expect the collapse of the global financial system and the ensuing economic effects." The price of GE shares has increased by more than 400% since that time. By significantly decreasing the activities of GE Capital, which at its height was one of the biggest financial institutions in the nation, GE significantly lowered its exposure to financial assets. Sadly, GE has replaced part of that investment in energy-related items, which are now having trouble due to the high price of oil and the European crisis.

GE is one of the most prosperous companies over the last 30 years despite these cycles. Its claimed approach is conventional:

1. Be worldly.
2. Encourage creativity.
3. Build connections.
4. Utilize your talents.

GE is one of the few remaining real conglomerates; its product line encompasses appliances, energy items, and aviation engines. The TV stations have been sold. Its business approach is to compete to be the top or second firm in each industry, or to shut down. GE Capital has been drastically reduced in size and will eventually make up a very tiny portion of the whole company. This internal team, assisted by outside consultants, is in charge of all aspects of GE's relationship with its investors and other parties interested in its financial performance, including the annual report presentation, shareholders' meetings, security analysts' meetings, and general communications. These letters to the shareholders are typically written by a team whose profession is described as "financial public relations" or "investor relations." The companies outside CPA firm audits the letter to ensure its correctness, fairness, and conformity with GAAP.

Public Affairs

GE, Verizon, and Johnson & Johnson are examples of large organizations with many interconnected constituents. The board of directors, which in turn appoints the officials in charge of regulatory matters, including taxes, corporate governance, and relationships with governmental organizations like the Food and Drug Administration and the Environmental Protection Agency, is elected by the stockholders, who frequently include employees and their pension funds. The corporation presents its annual report to its clients, some of whom may also be stockholders. Government agencies may also be among these clients. GE and other businesses aim to affect how the world perceives them. To do this, they provide each of their enterprises a thorough explanation in their annual report, which takes up a large amount of the document. For instance, the Johnson & Johnson annual report offers a highly effective presentation of the company's operations, including financial information, simple-to-understand charts, and images of happy individuals, such as patients whose health is improving, contented employees, and so on. The images aim to demonstrate to the public that the staff members are "simply people," increasing shareholder value by assisting "other people." The selection of photographs is driven by public relations concerns and supports the image and message that the firm is promoting. We examine the CEO letter in Disney's 1999 annual report as an example of a letter that was well written in the past. This letter offers some compelling viewpoints. Employees of all Disney theme parks are referred to as "cast members," and the letter is addressed to "Disney Owners and Fellow Cast Members." This letter demonstrates how much these firm values those cast members. Some extremely incisive ideas are presented in a very clear way.

1. revitalize regions that are underperforming. The letter begins by using cliches to describe a problem before stating what the criticism is going to be about. Disney wants us to know that it is concentrating on a few crucial problems and that it is aware of their importance. Also note that the bad news is delivered first, followed by a thorough description of corrective measures that are already being taken.

2. increase the profitability of current assets. The letter discusses the need for increased productivity and makes it clear that the firm is not required to continue operating in all of its existing operations indefinitely. More price and

service cooperation from suppliers that want to keep serving the organization is a result of its strategic sourcing initiative.

3. steps to improve capital efficiency to promote long-term growth. Disney has external partners in many of its endeavors and, in some ways, is transitioning into a management business for theme parks. This allows for more emphasis on and income from its core strengths. This is especially true of its Disneyland in Paris and the even more recent theme park in China. Disney collaborates with regional businesses to assist it in bridging political and cultural divides.

4. product development that never stops. Disney is an entertainment firm that excels at using many brands together. The majority of its theme parks, cruises, movies, TV shows, cable channels, and consumer goods bear the Disney name and cross-sell one another. According to an analysis of Disney's annual reports over the previous ten years, the firm is still emphasizing the same themes.

It acquired Marvel Entertainment, which holds almost 5,000 trademarked cartoon characters, in the 2009–2010-time frame. This expanded the Disney distribution network's access to these characters' material. Before that, it acquired Steve Jobs' Pixar Studios. Jobs was Disney's biggest stakeholder outside of the Walt Disney family at the time of his death. Additionally, it has acquired the Star Wars brand, and in 2015 it will start to promote the "package." The "package" is likely to include movies, merchandise, and theme park activities.

Discussion and analysis of management

This of the annual report often offers a thorough, if fairly complex, analysis of the previous year. The corporation discloses its financial s in great detail in paragraph style. For instance, DuPont provides a lot of details regarding the performance of each of its business segments. Segment reporting is what is used to describe this. In his appraisal of the state of the economy and the performance of practically every firm in its portfolio, Warren Buffett's letter in the Berkshire Hathaway annual report is a classic. On each executive's performance, he goes into considerable depth. Be aware that BH owns Heinz, Geico, and several more recognizable businesses.

In the past, when corporations expanded into industries that were relatively unrelated to one another, it became difficult for analysts to compare these operations to those of their rivals. The end consequence was a requirement that a corporation disclose financial data for each of its business areas in its annual report. Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, is the accounting document that expressly required this information. Companies' reluctance to provide this information was a consequence of their desire to keep rivals from learning vital information. Companies are particularly cautious when defining each of their segments due to the information that they must supply about each. Despite simply offering summary data, segment reporting nevertheless offers competitively relevant information. Disney is among the most prosperous businesses between 2012 and 2016. Revenues are increasing by more than 8% yearly, and the stock price has almost quadrupled. Each of its segments' revenue and operating profit are reported. These consist of:

1. Networks of Media
2. Resorts and Parks
3. Entertainment Studios
4. Items for consumers

Interactive

Over the years, DuPont has fundamentally reinvented both its divisions and its identity. Following the reporting of its segments, we can see that DuPont has divested itself of commodity business and sold off its less significant sectors, such as pharmaceuticals, in which it was a minor player. It used to be known as "DuPont Chemical Company," but it has now become crisp, brisk, in-your-face-modern "Dupont." All of its existing companies produce high-value, scientifically based goods.

Information on segment reporting may be tucked away in the report's footnotes or in the annual report's Management Discussion and Analysis. It typically includes data on revenues, operating income, assets, and capital expenditures for each segment, regardless of where in the annual report it is included. There is a lot of geographic breakdowns in this data. A financial projection may also be included in the appraisal of future company strategies that many organizations provide. Very few, if any, would disclose the risk-adjusted hurdle rate they employ to assess capital investments. This's importance is explored. There are some extremely good applications for this knowledge. Obtain the yearly reports of rivals of yours. These businesses will outline some of their aspirations for the future as well as identify, list, and discuss certain active initiatives and strategic relationships in their annual reports. Their sector financials provide for excellent benchmark data. Any changes in the segment definitions from year to year may reflect shifting strategy trajectories your vendors. These businesses' reports could provide information on how their management perceives upcoming sales. One of their clients is your business. They are thus identifying what you are likely to purchase in terms of numbers, technology, and maybe location. The quantity of new aircraft anticipated by the airline sector serves as a benchmark for GE's potential engine sales, Alcoa's potential aluminum sales, and Honeywell's potential cockpit electronics sales. Your clients. Your projections and strategy direction may be influenced by their strategic direction and forecasts. New product generations might be defined by technological advancements. Take the "Intel Inside" of the Dell Computer or the growth of the Internet as a factor in the selling of mobile phones [10]–[12].

III. CONCLUSION

In conclusion, Stakeholders should use several sources in addition to the annual report to have a thorough picture of a company's current and future prospects. Regulatory documents, sector studies, and firm presentations provide further background and perspectives. Stakeholders may analyze a company's financial health and possible hazards, make educated investment choices, and get a comprehensive picture of its performance and prognosis by integrating information from several many sources. Investor presentations, analyst briefings, and earnings calls are a few examples of company presentations that provide timely updates on current events, strategic goals, and management's viewpoints. Through these presentations, stakeholders may ask questions, obtain a better knowledge of the company's plans, and have direct access to management's perspectives.

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