Lynas Corporation (LYC)

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# Introduction

Lynas Corporation Ltd is a mining company that is listed in the Australian Stock Exchange. It is among the S&P/ASX 2000 company (Lynas Corporation Limited 2018). Its main areas of operations are the mining section and a concentration plant. It also has a refining plant that is located in Kuantan Malaysia. The organization came into inception in 1983 with its headquarters at Yilgangi Gold NL. The entity was founded by Nicholas Kurtis. The entity presented its annual reports to stakeholders in 2018. The focus of this study is on the analyses of the accounting concepts and framework used by the entity in its financial reporting. The measurement concept as employed in the annual reports is assed and the qualitative characteristics of the financial statements presented y the entity in its 2018 financial results. Preparing financial statements in line with objective accounting concepts and frameworks enhance the accuracy of accounting data presented, its relevance and the extent to which it meets the expectations of the stakeholders.

# Accounting Concepts Used In the Financial Reports

The accounting concepts employed by the entity in the preparation of the financial statements are diverse. For instance, the entity has made use of the concept of fair value in presentation of its products. Fair value presentation ensures that the financial data in the financial statements are based on the current prices (Poon 2014). For instance, the available for sale assets held by the accounting entity has been presented through the use of the fair value model. The fair value amounts presented by the entity are determined at arm’s length. For instance, the interest income on the cash and cash equivalents has been presented at $1.178 million which is its fair values (Lynas Corporation Limited 2018).

According to AASB 166, an accounting entity is expected to engage in recognition of impairments and depreciation charges (AASB 2019). In the determination of depreciation, the useful lives of an asset are assessed. In the organization, the useful life of the lease hold land is 30-99 years while that of plant and equipment is 2 to 30 years (Lynas Corporation Limited 2018). The buildings have an estimated useful life of 5 to 30 years while the motor vehicles have estimated useful lives of eight years. The amounts presented in the income statements are less of the depreciation expense.

According to AASB 15, guidelines on revenue recognition are presented. An accounting entity that records its transactions on accrual bases, the revenues are recognized when the sales contract is complete and the transfer of ownership is complete (AASB 2019). While some sales may be made in cash and others in credit, both are recognized in the balance sheet under the accrual bases of revenue recognition as outlined in AASB 2018. In other cases where the sale or performance may be in form of a contract, the revenues are recognized on the part of the contract already executed as opposed to the entire contract. In 2018, the entity reported a total of $ 374.105 million in revenues a significant increase from the previous period (Lynas Corporation Limited 2018). There are five stages that are followed in revenue recognition. The first stage involves the identification of the period in which the entity made the sale contract with the consumer since the sales revenues recognized in the current period are those for the period (Okpala 2013). The next step involves the assessment of the obligations entailing sales were performed. Such obligations may have been performed in part or in full. The transaction type is then determined and the allocation of the transaction price assessed. The revenue recognized is for the transaction, in part or in full that is already done. Under cash accounting, only the sales that are made in cash that are recognized. On the other hand, in accrual accounting, the sales made in cash and those made in credit are recognized for the period.

According to AASB 115, accounting entities are expected to make disclosures on the level of employee benefits issued in the financial statements. The remuneration of employees is made in diverse forms. For instance, some employees receive cash wages and salaries (AASB 2019). Others are issued with share based compensation. All these forms of employee compensation should be disclosed. In 2018, Lynas allowed the employees to exercise their share compensation rights. For the AG series, the value per right was $0.29 at the time of the issue while for AH series the value is $0.390 series during the rime it was issued (Lynas Corporation Limited 2018). Many other series were issued by the organization.

AASB 107 has provided guidelines on how accounting entities are to recognize their cash flows. The cash flows generated by the accounting entities are to be categorized in terms of the cash from operations, cash from investing activities and cash from operating activities. The cash from operations entails the differences in cash generated in revenues and the cash spent in operating expenses such as payment of salaries, marketing costs and the general expenses. The cash from investing activities involves the differences in cash generated from purchase of securities and the cash used in the purchase of such securities (Okafor & Ogiedu 2013). The cash used in the purchase of non-current assets as well as cash generated as a result of selling them is also recognized as cash from operations. The cash from financing activities refers to the level of cash generated from issuance of loans and shares by an accounting entity according to AASB 107 requirements. In 2018 accounting period, Lynas generated a total of $ 118.48 million in cash from operations, $-54.667 million in cash from investing activities and $-85.623 million in cash from financing activities (Lynas Corporation Limited 2018). Firms rely on cash, rather than profits in making liquid purchases.

# Conceptual Framework and The Use Of Measurement

The conceptual framework adopted by Lynas in preparation of its financial statements is the one provided by the Australian Accounting Standards Board (AASB). The standard has been harmonized with that of the International Accounting Standards Board (IASB). According to the conceptual framework the financial statements need to be prepared in a manner that meets the needs of then stakeholders (Barth &Clinch. 2013). They are also to be presented in a manner where they can be compared with financial statements from other publicly held accounting entities within Australia.

Lynas has made use of both fair value measurements and historical value measurements in its financial reports. In measurement of the costs of property, plant and equipment, the costs reported include those that are directly attributable to these assets. Many of the entries in the financial results are based on historical costing. Nevertheless, 6the performance rights are assessed and reported at their value in the accounting entities. The assets, liabilities and equity is also measured at fair value. For instance, the entity reported a total of $ 434.478 million equity attributable to the shareholders in 2018. The fair value of long term debt as reported by the entity for the 2018 accounting period is $292.138 million (Lynas Corporation Limited 2018). The presentation of the liabilities and the equity in terms of the fair value amounts ensures that the amounts presented are objective and presents then true financial position of the accounting entity at the time the information was reported by the entity (Ashford 2014).

The AASB 13 provides guidelines on the fair value measurement, just as outlined in the IFRS 13. Fair value measurement is market based as compared to historical costing. Historical costing is based on past values (AASB 2019). This approach to costing has been replaced by fair value costing. For liabilities and assets, the price is based on the price of other similar products in the market (Briciu, Căpuşneanu, Rof, &Topor 2014). AASB 136 provides guidelines on assets whose fair value is the current value less any cost of disposal. In such scenarios, the current prices are not the only consideration in valuation of such assets. When it is not easy to identify corresponding assets and liabilities in the market the claimants amount on liabilities should be considered or the inputs used in acquisition of the asset.

AASB 138 has provided guidelines on how intangible assets are to be presented in the financial statements of the publicly held accounting entities within Australia. In order for an asset to be recognized as an intangible asset, it needs to have arisen in the course of the organization’s business (AASB 2019). Equally it may have emanated from external acquisitions an acquisition should be supported with a legal document. In order for an asset to be recognized as an intangible asset, it should not have a physical existence. All intangible assets are initially measured at cost but can be later measured under the revaluation models or remain accounted for at cost. In 2018, Lynas did not disclose any intangible asset although it had disclosed $17000 in intangible assets in 2017 (Lynas Corporation Limited 2018). The elimination of the intangible assets from the 2018 a balance sheet is that the asset had been amortized. The main intangible assets is the high technology software that the entity utilizes in its operations

# Fundamental Qualitative Characteristics-Understanding of Relevance and Representational Faithfulness

There are elements of qualitative characteristics of financial statements which are understandability, reliability, relevance, comparability and faithful presentation. In terms of relevance, the financial statements should present all information whose misstatement or omission would affect decision making processes among the stakeholders (Capseananu et al. 2013). In this case, and in line with AASB 101 on financial statement presentation, Lynas Corporation (LYC) has presented all of the relevant information in the financial statements. Beside the financial statements, it has also presented notes to financial statements. Such notes enhance proper understanding of the information presented in the income statement and the balance sheet among other disclosures (Leo, Knapp, McGowan, & Sweeting 2015). For instance, the entity has disclosed an error in previous loan calculations and disclosures in note 6 of its financial statements, an error that has been collected. Such a disclosure enable the investor and other stakeholders ton have better understanding on the adjustments for loans during this period. It also implies that the previous disclosures that were based on the wrong loan obligation computations were not faithfully presented as they comprised of information that was misleading (Donelson, Jennings, & McInnis. 2015)

The financial statements presented by Lynas Corporation (LYC) were of the right quality. The data presented was faithfully presented and its relevance was high. The relevance of accounting information is attained when the data meets the stakeholders’ expectations and is important in their decision making processes (Issa 2018). Relevant accounting information is presented in the currencies and the language that the stakeholders understand. For instance, the financial statements and the entire annual report presented by Lynas Corporation (LYC)

 In 2018 were presented, a language that is well understood by the stakeholders within Australia. The annual reports are also presented in Australian dollars, the commonly used currency within Australia. Faithful presentation of information presented by an accounting entity requires that such accounting information be free of error or bias (Jones, & Smith. 2015). This requirement has been met in the financial statements presented by Lynas Corporation (LYC) in 2018. Once the statements were lodged with the ASIC, there was no indication from the commission that the financial statements were erroneous in any way. At the same time, there have been no complaints from stakeholders that the financial statements do not present the true financial position and performance of the accounting entity.

The financial statements presented by Lynas Corporation (LYC) were audited by earnest & Young. The CPA firm audited all of the entity’s four key financial statements which are the income statement, the cash flow statement, the balance sheet as well as the statement of the shareholders equity. The CPA fire indicates that the statements were developed in line with the Corporations Act of 2001. They represented the true and fair view of Lynas Corporation (LYC) financial performance and position. They also presented an accurate and relevant count of the accounting entity’s cash flows and statement of equity. These conclusions by the audit firm were based on through investigations of the entity ascertaining that the finanacial statements are well prepared (Gopal & Jing 2019). The audit firm assessed the entity’s measurement and re-measurement of assets and liabilities and ascertained that they comprised of accurate figures. The audit firm also assessed the restatement from the previous year’s disclosures and found them to be objective. In the presentation of the financial statements, the accounting entity developed the statements in line with the provisions of AASB 101 which requires that the accounting entities makes full disclosure in al of its four key financial statements aforementioned (AASB 2019). For instance, the entity accurately disclosed the level of total revenues for the 2018 accounting period at $ 374.105 million (Lynas Corporation Limited 2018). The gross profit generated by the entity amounted to $ 121.104 million while the overall comprehensive income amounted to $53.119 million (Lynas Corporation Limited 2018). These figures were verified by the CPA firm and noted to represent the true financial performance of then entity. Same confirmation on relevance and truthful presentation of financial statements were done on the balance sheet by Earnest & Young the CPA Company that audited the firm’s financial statements. The level of assets reported by the entity in 2018 was $ 764.631 million while the total liabilities amounted to $ 330.153 million (Lynas Corporation Limited 2018). Faithful presentation of this financial statement enhances their value to the stakeholders.

# Conclusion

Based on the above financial statement assessment, it is clear that Laynas has presented its financial statements according to the requirements of the Australian accounting standards, which have been harmonized with the international accounting standards. The entity has made objective presentation of the financial data. The data is relevant and has been faithfully presented evident from the opinion of the external audit company that audited the organization during the year. From the analyses of the presented financial information, it is clear that revenue and expenditures are recognized under the accrual bases of financial statement preparation. The financial statements are prepared well and they are easily comparable with other financial statements prepared within Australia under the same standards enhancing their relevance to the stakeholders.

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