FINANCIAL STATEMENTS
INTERIM FINANCIAL REPORTING

Ing. Jana HINKE, Ph.D.
hinke@kfu.zcu.cz

FINANCIAL STATEMENTS

- The Statement of Financial Position (balance sheet)
- The Statement of Comprehensive Income
- The Statement of Cash Flows
- The Statement of Changes in Equity
- Notes

The statement of financial position

- Format of the statement is not given
- Obligatory: name of the statement and name of the company, balance sheet date, presentation currency, rounding accuracy, kind of statement (individual / consolidated)
- For presentation is important **materiality,** and it provides lots of links to notes
- Implementation Guide to IAS 1 provide illustrative examples of balance sheet

Balance sheet

- An entity shall classify an asset as current when:

(a) it expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realize the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from

being exchanged or used to settle a liability for at least twelve months after the reporting

period.

Balance sheet

- Property, Plant and Equipment:

a) brutto, correction, netto

b) only netto, the rest is in notes

- An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

Balance sheet

- Classification of Long-term Liabilities
  - \- long-term liabilities from operating activities,
  - \- specific long-term liabilities – e.g. leases, bonds,
  - \- provisions.
- **Equity =** residual value of assets after deduction liabilities.
- Equity: owners contribution, share premium, revaluation surplus, …

  x social funds, employees funds are not considered to be a part of equity - liability

Balance sheet

- **Contingent assets** = a possible asset that arises from past events and whose existence will only be confirmed by uncertain future events not wholly within the control of the enterprise;

Balance sheet

- Contingent Liability

  = a possible obligation that arises from past events whose outcome is based on uncertain future events or an obligation that is not recognised because it is not probabe or cannot be measured reliably.

Statement of comprehensive income

- An entity shall present all items of income and expense recognised in a period:

  (a) in a single statement of comprehensive income, or

  (b) in two statements: a statement displaying components of profit or loss (separate statement of

- comprehensive income) and a second statement beginning with profit or loss and displaying
- components of other comprehensive income (statement of comprehensive income).

Statement of total comprehensive income

Income:

Revenues

Gains

Expenses:

Expenses

Losses

Statement of total comprehensive income

- **Revenues a Expenses**

- It is not possible to offset them,

- They are connected with the main business activities

Gains a Losses

- It is possible to offset them

- They are result of secondary business activities,

- They are not under control of business,

- gains: revenues from selling long-term asset, non-realised gain from revaluation, ….

- losses: natural disastres, …

Statement of total comprehensive income

Revenues and Expenses are recognised in the statement of comprehensive income X **Gains a Losses can be recognised** in the statement of comprehensive income, or in the balance sheet (equity)

Gains and Losses – reduce fluctuations of profit and loss.

The statement of total comprehensive income

An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

Function expense method:

- cost of sales
- distribution expenses
- administrative expenses

Cash-flow statement

- Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out
- Requirements for the presentation and disclosure of cash flow information.

Cash-flow statement

Cash flow from operating activities:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash payments to suppliers for goods and services;

(c) cash payments to and on behalf of employees;

(d) cash receipts from royalties, fees, commissions and other revenue;

Cash flow from investing activities:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets.

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures

Cash flow from financial activities:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(d) cash repayments of amounts borrowed; and

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease

The statement of cash-flow

An entity shall report cash flows from operating activities using either:

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or

payments, and items of income or expense associated with investing or financing cash flows.

The statement of changes in equity

An entity shall present a statement of changes in equity as required:

(a) total comprehensive income for the period, showing separately the total amounts

attributable to owners of the parent and to non-controlling interest;

(b) for each component of equity, the effects of retrospective application or retrospective

restatement recognised in accordance with IAS 8; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning

and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

notes

The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies

(b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them

An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:

(a) statement of compliance with IFRSs;

(b) summary of significant accounting policies applied;

(c) supporting information for items presented in the statements of financial position and of comprehensive income, in the separate statement of comprehensive income (if presented), and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

(d) other disclosures

Final statements - IFRS for SME

- The same complete set of final statement as IAS/IFRS full version
- In case that changes in equity are only because of contributions and distributions with owners then an entity can prepare one statement of total comprehensive income instead of two of them
- It is not required to present segment information and EPS
- IFRS for SMEs:

1) Section 3 – Presentation of Financial Statements
2) Section 4,5,6,7 set of statements and section 8 notes
3) Section 9 – Consolidate and Individual Financial Statements

Section3 IFRS for SME

- Accounting principle:

a) <u>Fair presentation</u> – implies that the financial statements „present fairly“ or „give a true and fair view“ of the financial position, financial performance and cash flow of entity

b) <u>Conformity IFRS for SMEs</u>

- Final statements must be in conformity with all requirements of IFRS for SMEs

c) <u>Going concern</u>

- When preparing financial statements, management shall make an assessment of an entity’s ability to continue as a going concern.

Section 3 ifrs for SME

<u>d) Frequency of reporting</u>

- at least annualy

<u>e) Consistency</u>

- Information must be given consistently from one period to another, accounting policies must be disclosed

<u>f) Comparability</u>

- Information provided for one period must be comparable with that provided for the previous period.

<u>g) Materiality and aggregation</u>

- An item is deemed materil if its omission or misstatement would influence the economic decisions of a user taken based on the financial statements.

Interim financial reporting

- IAS 34 – Interim financial reporting
- Prescribes the minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statement for an interim period.
- Interim period = a financial reporting period shorter than a full financial year.
- It is not obligatory but usually required by user´s of accounting information

- Benefits – more information, seasonal influences
- **Risks of Interim Financial Reporting:**
- Higher risk of inaccuracies,
- Higher risk of accounting estimates,
- Higher risk because of estimates of income tax, ….
- Contents of an interim report:
  - - a condensed balance sheet
  - - a condensed income statement
  - - a condensed cash flow statement
  - - a condensed statement of changes in equity
  - - selected explanatory notes

Interim financial statement

- **Discreate approach**: interim period is understand as separate accounting period.

- **Integral approach**: interim period is a part of current accounting period.

Interim financial reporting

The condensed information must at least have the same headings and subtotals as were in the latest annual financial statements published.

a) full version of financial statement – IAS 1

b) condensed version of financial statement – IAS 34

Basic and dilluted EPS should be presented in the interim report.

Interim financial reporting – ifrs for sme

- It is not solved by IFRS for SMEs – it is not assumed that financial statements will be prepared for period shorter than 12 months.
- In case of interim financial reporting it is necessary to follow IAS 1

THANK YOU FOR YOUR ATTENTION!