University of Miskolc
Institute of Finance and Accounting
Department of Accountancy

Füredi-Fülöp Judit
associate professor
stfjudit@uni-miskolc.hu

1

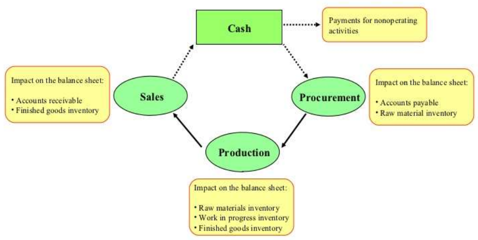
Financial statements

2

INCOME STATEMENT

3

The Firm‘s Operating Cycle and Its Impact on the Firm‘s Balance Sheet



http://www.drawpack.com
your visual business knowledge

business diagrams, management models, business graphics, powerpoint templates, business slides, free downloads, business presentations, management glossary

4

4

INCOME STATEMENT

- The **income statement** measures the performance of an organization by matching
  - its accomplishments (revenue from customers, which is usually called sales) and
  - its efforts (cost of goods sold and other expenses).

5

5

CHANGES IN CORPORATE RESOURCES

- During the changes
  - Companies consume their resources (we have a decrease in the value of the resources)
    - We call them: **Expenses** (E)
  - Companies create new resources (we have an increase in the value of the resources)
    - We call them: **Income** (I)

Results (Net income, Profit) = Income – Expenses

NI = I - E

6

6

INCOMES/ REVENUES AND EXPENSES

- **Incomes /Revenues** are increases in ownership
  - claims arising from the delivery of goods or services.
  - Revenues must be earned
  - Revenues must be realized
- **Expenses** are decreases in ownership
  - claims arising from delivering goods or services or using up assets.

7

7

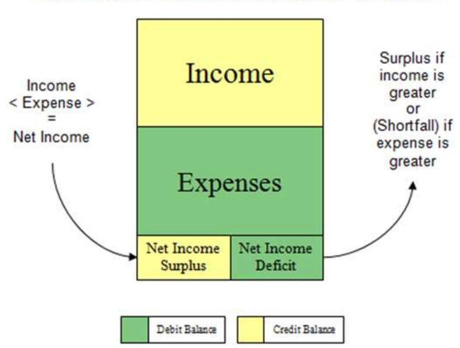
ACCRUAL BASIS AND THE CASH BASIS OF ACCOUNTING

accrual basis	cash basis
recognize revenue and expense	
when they occur	when cash is received and disbursed

8

8

STATEMENT OF FINANCIAL ACTIVITIES - DIAGRAM



9

9

INCOME STATEMENT

Expenses	Income
A. Operating expenses I. Cost of raw materials and energy consumed II. Cost of goods sold III. Wages & social contributions IV. Depreciation & impairment V. Others (taxes, charges) B. Financial expenses I. Interests paid II. Impairment of financial assets	A. Operating income I. Sales (turnover) II. Change in internally generated inventories III. Capitalized value of assets IV. Others B. Financial income I. Dividends received II. Income from sale of shares III. Interests received
Net income (profit or loss for the financial year)	

10

10

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Concepts of profit or loss and comprehensive income

- **Profit or loss** is defined as
  - the total of income less expenses, excluding the components of other comprehensive income".
- **Other comprehensive income** is defined as
  - comprising "items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs".
- **Total comprehensive income** is defined as
  - "the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners".

Comprehensive income for the period	=	Profit or loss	+	Other comprehensive income

11

11

PROFIT OR LOSS SECTION OF STATEMENT

Minimum line items must be presented in the profit or loss section:

- revenue
- gains and losses from the derecognition of financial assets measured at amortised cost
- finance costs
- share of the profit or loss of associates and joint ventures accounted for using the equity method
- certain gains or losses associated with the reclassification of financial assets
- tax expense
- a single amount for the total of discontinued items

Expenses recognised in profit or loss should be analysed either

- by **nature** (raw materials, staffing costs, depreciation, etc.) or
- by **function** (cost of sales, selling, administrative, etc).

Items cannot be presented as 'extraordinary items' in the financial statements or in the notes.

12

12

OTHER COMPREHENSIVE INCOME SECTION

The other comprehensive income section is required to present line items which are classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods.

13

13

The balance sheet equation can highlight the link between the income statement and balance sheet.

ASSETS = LIABILITIES + EQUITY

RETAINED EARNINGS + SHARE CAPITAL = EQUITY

RETAINED EARNINGS = OPENING RETAINED EARNINGS + NET INCOME - DIVIDENDS

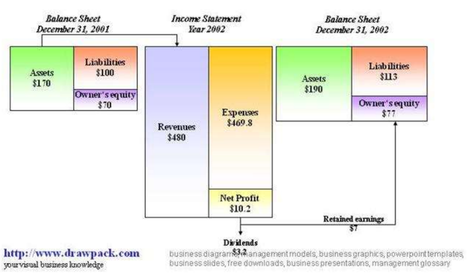
REVENUES – EXPENSES = NET INCOME

- Dividends are a distribution of the after-tax profits of a business to the shareholders (owners)
- Dividends reduce the equity in the business

14

14

The Link Between the Balance Sheets and the Income Statement



15

15

EXAMPLE 4

- We sell commodities for 1.000€ in cash.
- The value of these commodities sold on purchase price is 650€.
  - We have an increase in cash of 1.000€.
  - We have an increase in Income of 1.000€.
  - We have a decrease in the inventory of commodities of 650€.
  - We have an increase in expenses of 650€.

16

16

BALANCE SHEET 4

Assets	Owners' equity / Liabilities
A. Non-current assets	**Owners' equity**
I. Intangible assets	A. Owners' equity
II. Tangible assets	I. Share capital
III. Financial assets	II. Share premiums
B. Current assets	III. Reserves
I. Inventories	IV. Retained earnings (Net income) + 1 000 € -650 €
a. Commodities -650 €	**Liabilities**
II. Receivables	B. Long term liabilities
III. Securities	I. Long term bank loans
IV. Cash + 1 000 €	II. Debentures
C. Prepayments	C. Short term liabilities
	I. Trade payables
	II. Salaries
	III. Taxes

17

17

INCOME STATEMENT 4

Expenses	Income
A. Operating expenses	A. Operating income
I. Cost of raw materials and energy consumed	I. Sales (turnover) + 1 000 €
II. Cost of goods sold +650 €	II. Change in internally generated inventories
III. Wages & social contributions	III. Capitalized value of assets
IV. Depreciation & impairment	B. Financial income
V. Others (taxes, charges)	I. Dividends received
B. Financial expenses	II. Income from sale of shares
I. Interests paid	III. Interests received
II. Impairment of financial assets	

Net income (profit or loss for the financial year)
+350 € profit

18

18

STATEMENT OF CASH FLOWS

- IAS 7 *Statement of Cash Flows*.
- The objective: the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the period according to
  1. operating,
  2. investing, and
  3. financing activities.
- The statement of cash flows analyses changes in cash and cash equivalents during a period.
- Cash and cash equivalents comprise
  - cash on hand and
  - demand deposits, together with
  - short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.

19

19

STATEMENT OF CHANGES IN EQUITY

The statement must show:

- total comprehensive income for the period, showing separately amounts attributable
  - to owners of the parent and
  - to non-controlling interests
- the effects of any retrospective application of accounting policies or restatements made, separately for each component of other comprehensive income
- reconciliations between the carrying amounts at the beginning and the end of the period for each component of equity, separately disclosing:
  - profit or loss
  - other comprehensive income
  - transactions with 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.

20

20

Example: Statement of Changes in Equity
(with changes in accounting policy)

	Share Capital ($000)	*Retained earnings ($000)*	*Cash flow hedges ($000)*	*Re-valuation surplus ($000)*	*Total ($000)*
Balance at 1/01/2011	xxx	xxx	xxx	–	xxx
Changes in accounting policy	–	xxx	–	–	xxx
Restated balance	xxx	xxx	xxx	–	xxx
Changes in equity for 2011					
Dividends	–	(xxx)	–	–	(xxx)
Total comprehensive Income for the year	–	xxx	(xxx)	xxx	xxx
Balance at 31 December 2011	xxx	xxx	(xxx)	xxx	xxx
Changes in equity for 2012					
Issue of share capital	xxx	–	–	–	xxx
Dividends	–	(xxx)	–	–	(xxx)
Total comprehensive income for the year	–	xxx	(xxx)	xxx	xxx
Transfer to retained earnings	–	xxx	–	(xxx)	–
Balance at 31 December 2012	xxx	xxx	(xxx)	xxx	xxx

21

NOTES TO THE FINANCIAL STATEMENTS

The notes must:

- present information about the basis of preparation of the financial statements and the specific accounting policies used
- disclose any information required by IFRSs that is not presented elsewhere in the financial statements and
- provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them

Notes are presented in a systematic manner and cross-referenced from the face of the financial statements to the relevant note.

22

22

NOTES TO THE FINANCIAL STATEMENTS

IAS 1. suggests that the notes should normally be presented in the following order:

- a statement of compliance with IFRSs
- a summary of significant accounting policies applied, including:
  - the measurement basis (or bases) used in preparing the financial statements
  - the other accounting policies used that are relevant to an understanding of the financial statements
- supporting information for items presented on the face of the statement of financial position (balance sheet), statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows, in the order in which each statement and each line item is presented
- other disclosures, including:
  - contingent liabilities and unrecognised contractual commitments
  - non-financial disclosures, such as the entity's financial risk management objectives and policies.

23

23

THANK YOU FOR YOUR ATTENTION!

24

24