

**ΟΙΚΟΝΟΜΙΚΟ
ΠΑΝΕΠΙΣΤΗΜΙΟ
ΑΘΗΝΩΝ**



**ATHENS UNIVERSITY
OF ECONOMICS
AND BUSINESS**



Financial and Management Accounting Basic Concepts & Financial Statements

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MSc in

**International Shipping,
Finance and
Management**



Objectives

- ✓ To provide a strong foundational understanding of financial accounting concepts, methods, and uses, with an emphasis on critically analyzing, interpreting, and evaluating “real world” corporate financial statements and related disclosures
- ✓ To develop a thorough understanding of how accountants aggregate and prepare corporate financial accounting information for public dissemination
- ✓ To enhance our understanding of the underlying economics of the transactions and events that are depicted in financial statements



Index

Definition of Accounting

- What is accounting
- Difference between Financial and Management Accounting
- Users of financial information

Financial Statements

- Purpose of financial reports
- Accounting process
- Basic financial statements
- Business transactions
- Accrual versus cash accounting

Regulation

- Accounting standards
- Conceptual framework



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DEFINITION OF ACCOUNTING



Definition of Accounting



<http://mycustomerisveryimportant.com/>



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What is Accounting?



Accounting has been defined as:

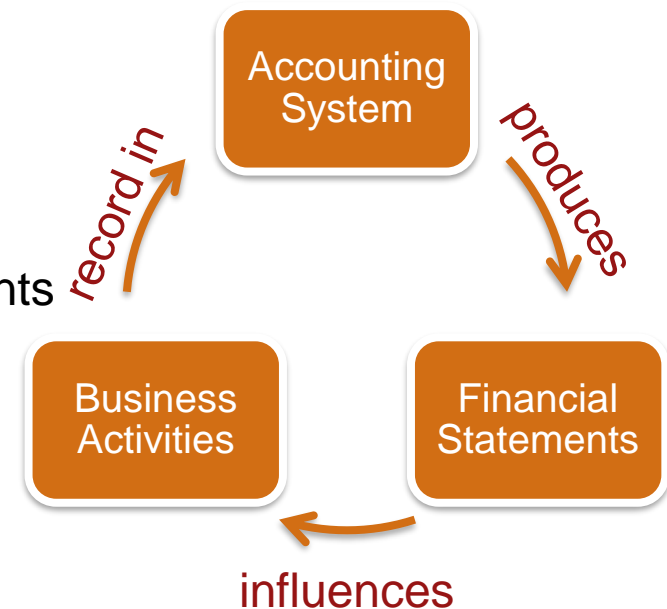
The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof.

AICPA®

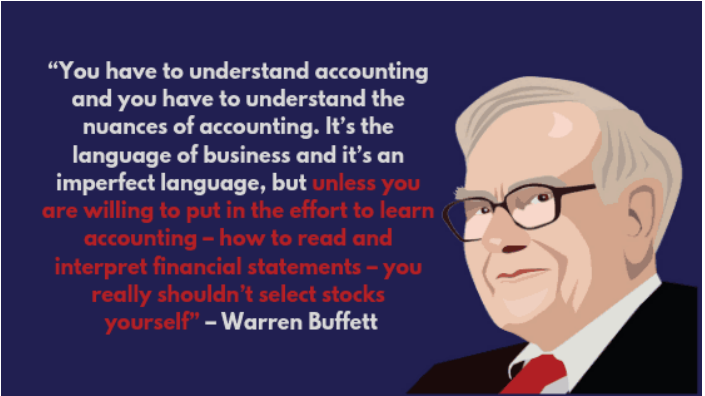
American Institute of CPAs

Accounting is an information system that :

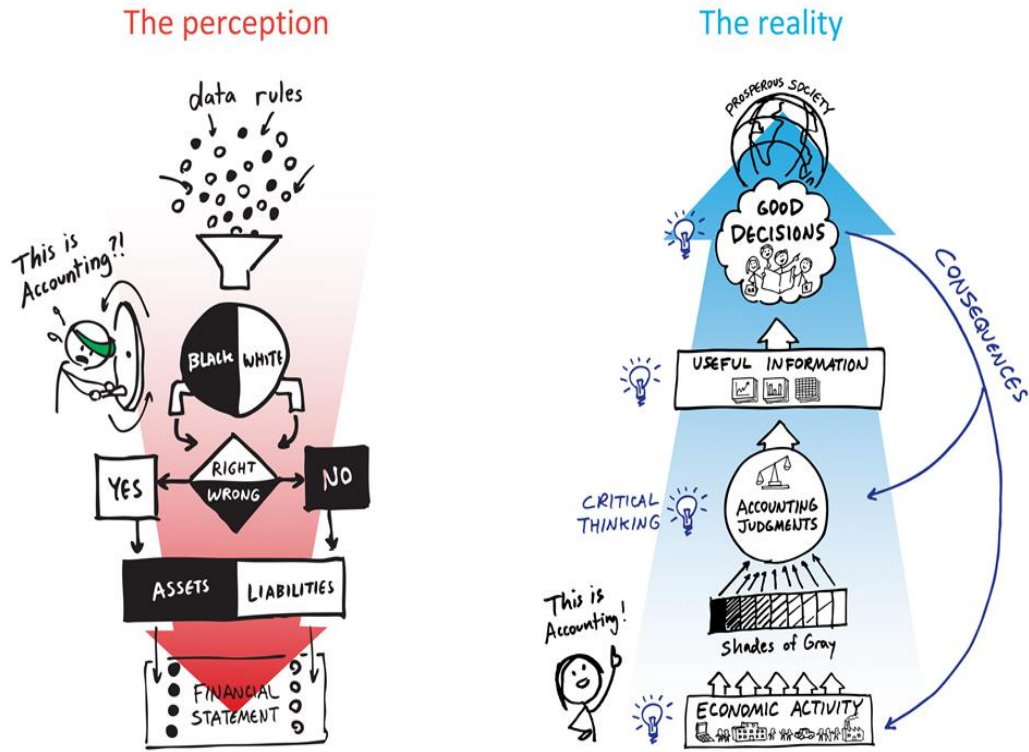
- Measures business activities
- Processes data into reports & financial statements
- Communicates results to decision makers



What is Accounting?



What is Accounting?



Accounting is «the language of business»

Accounting is **NOT** bookkeeping



Bookkeeping is the mechanical part of accounting





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FINANCIAL VS MANAGEMENT ACCOUNTING



Financial Vs Management Accounting



Financial
Accounting

Management
Accounting



Financial Vs. Management Accounting

| | Financial Accounting | Management Accounting |
|---------------------------------|---|---|
| Purpose | Communicate <i>General information for investment and credit decisions</i> | Decision making <i>Information specific to a project: Information detailed and include estimates</i> |
| Users | External users <i>Make financial decisions</i> | Internal managers <i>Plans and controls</i> |
| Focus | Historical perspective <i>Past-oriented</i> | Forward-looking <i>Future-oriented</i> |
| Preparation | GAAP <i>Rigid</i> | None required <i>Flexible</i> |
| Frequency of preparation | Annually (and quarterly) <i>Rigid</i> | As needed <i>Flexible</i> |
| Audit | Auditor's opinion | None required |



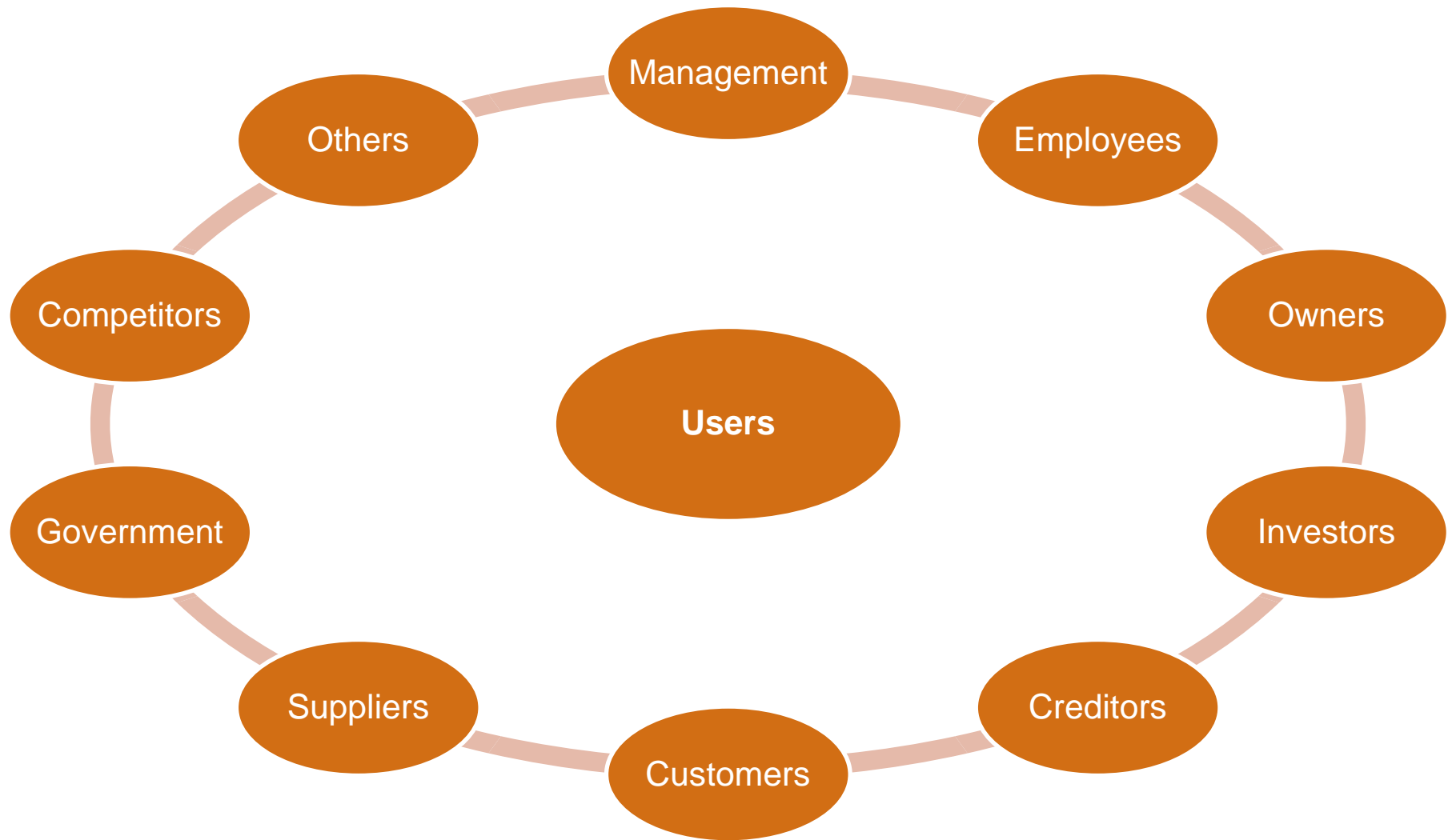
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USERS OF FINANCIAL INFORMATION



Users of Financial Information





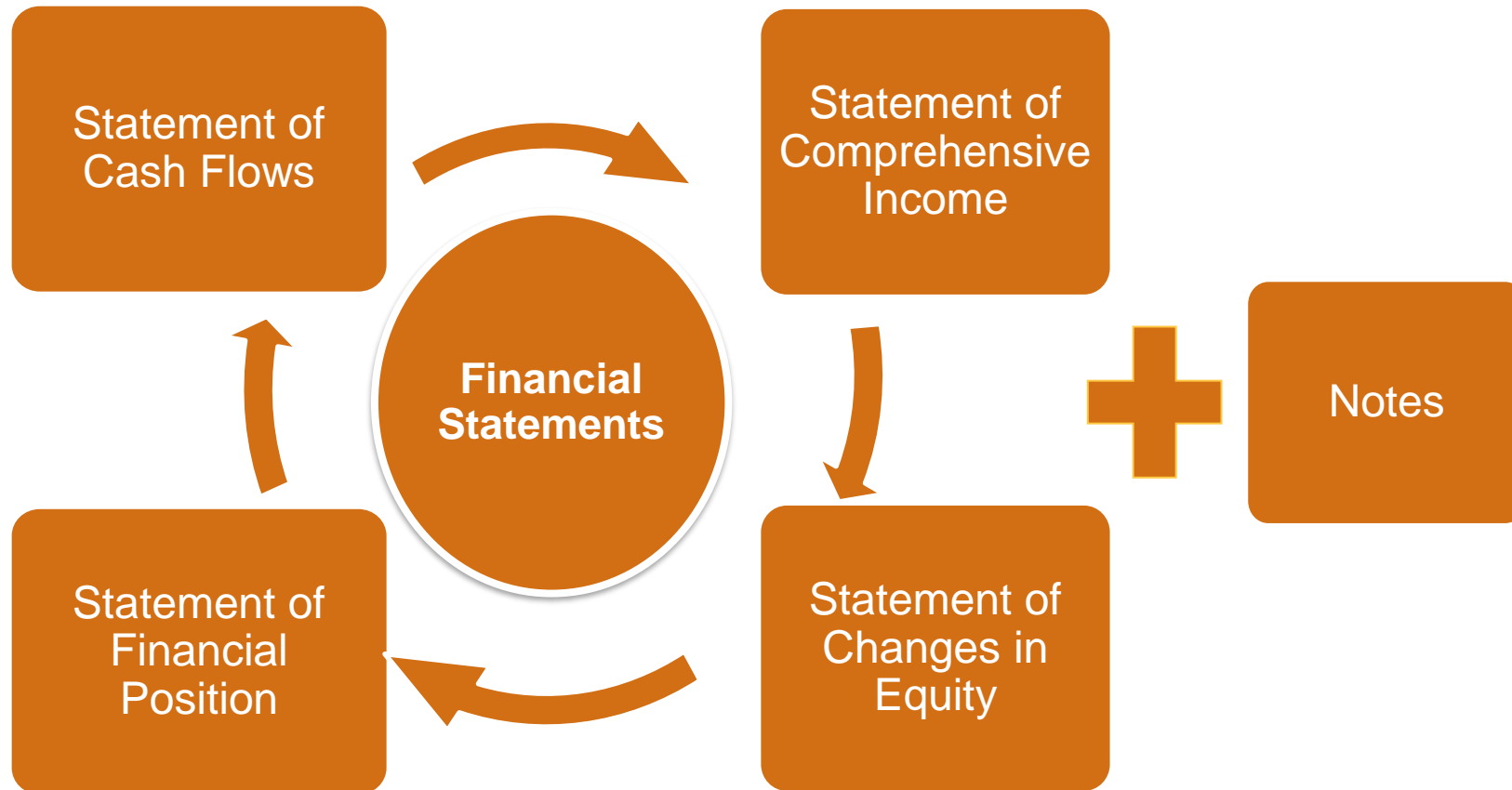
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FINANCIAL STATEMENTS

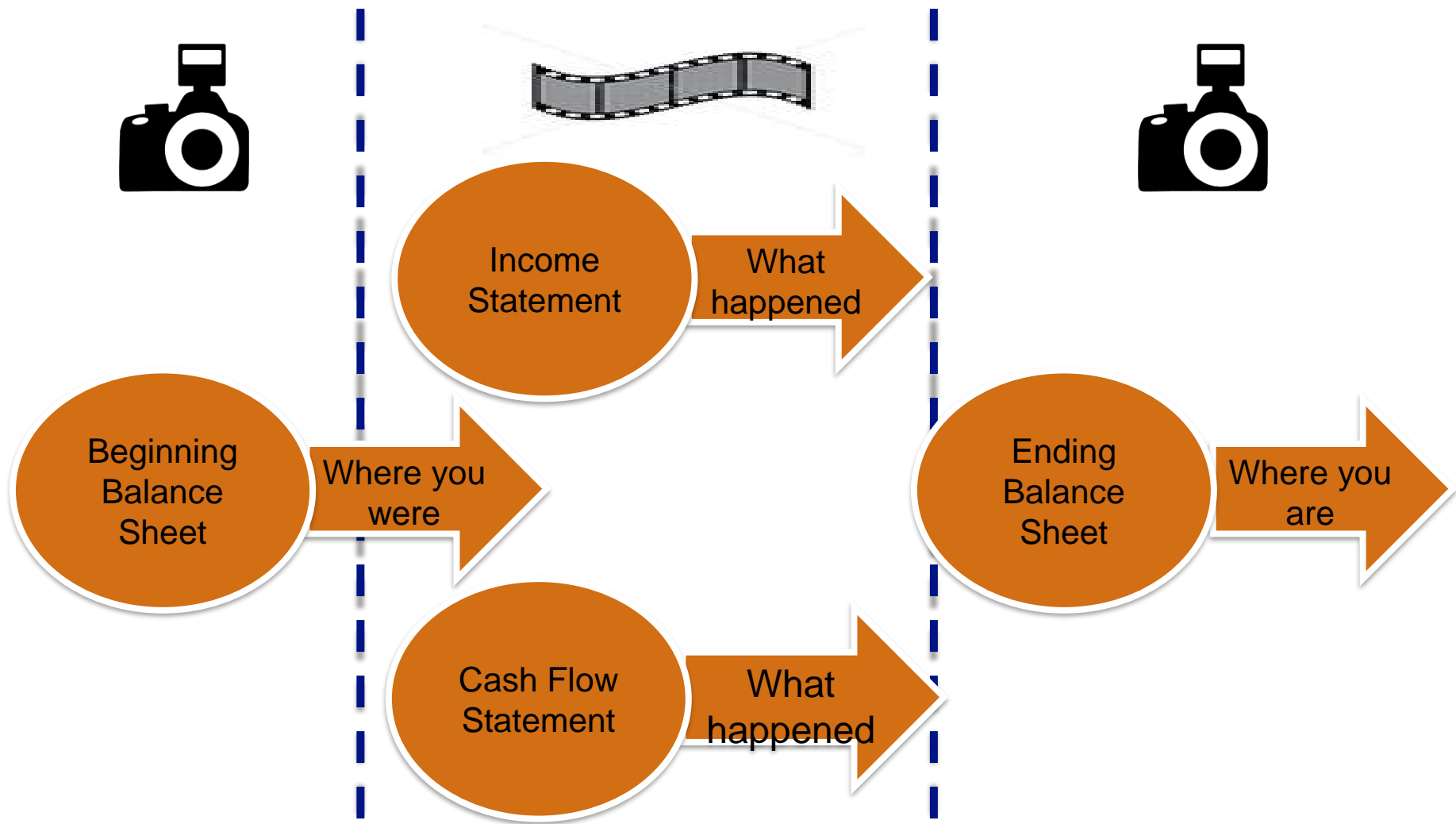


Financial Statements





Relationships Among the Financial Statements





Purpose of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. (*IASB Framework*)



The examination of performance can include an assessment of a:

- Company's **profitability** (the ability to earn a profit from delivering goods and services) and
- Its ability to generate **positive cash flows** (cash receipts in excess of cash disbursements)



Profit recognition is independent from when cash is received or paid



Financial Statements

Complete set of Financial Statements:

- Statement of comprehensive income (Income Statement)
 - Demonstrates profitability
- Statement of financial position (Balance sheet)
 - Demonstrates economic resources (Assets) as well as debts the company owes (Liabilities) and the equity (Equity)
- Statement of changes in equity
 - Shows changes in total equity
- Statement of cash flows
 - Demonstrates the sources and the uses of cash
- Notes & supplementary schedule
 - Provide complementary information



Accounting Process

Recognition

*When an item should be recognized
in the basic FS ?*

Measurement

*At what amount should we
recognize a transaction ?*

Reporting

How should FS be reported ?

Disclosure

*Should we provide
additional information
in the notes ?*

Accounting Process: Recognition

Recognition is the process of incorporating in the balance sheet or income statement an item that:

Meets the **definition** of an **element**

- Asset - Liability - Equity
- Income - Expenses



Satisfies the **criteria for recognition**

- Probable economic benefit

It is probable that any future economic benefit will flow to or from the enterprise.

- Measured reliably

The item has a cost or value that can be measured with reliability.





Accounting Process: Measurement

Measurement is the process of determining the **monetary amounts** at which the elements (e.g. asset, liability, equity, income, and expenses) of the financial statements are to be recognised and carried in the balance sheet and income statement.

It involves the selection of the particular **basis of measurement**:

- a) Historical cost
- b) Current cost
- c) Realizable (settlement) value
- d) Present value
- e) Fair Value





Accounting Process: Reporting

Financial reporting (process of producing the reports) includes the following:

The financial statements

- Balance sheet
- Income statement
- Statement of cash flows
- Statement of stockholders' equity



The notes to the financial statements

Press releases and conference calls regarding quarterly earnings and related information

Quarterly and annual **reports to stockholders**





Accounting Process: Disclosure

The notes are important disclosures that explain numbers on the financial statements → **Complete needs of the external users**

The notes are the only flexible part of the financial statements but it generally **includes the following:**

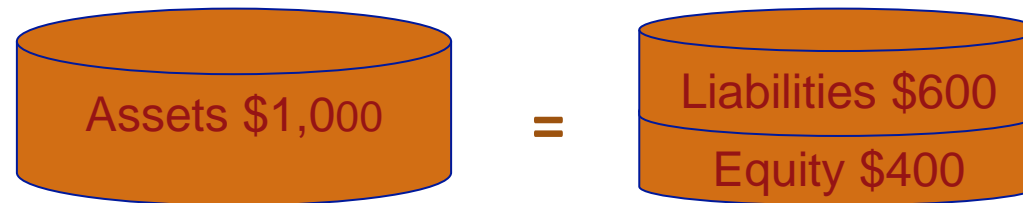
- Basis for presentation
- Significant accounting policies
- Depreciating assets / Valuing inventory / Explain intangibles / Reporting debt
- Reveal contingencies
- Disclose subsequent events





Balance Sheet

The **Balance Sheet** reports what resources a company controls and what it owes at a specific point in time:

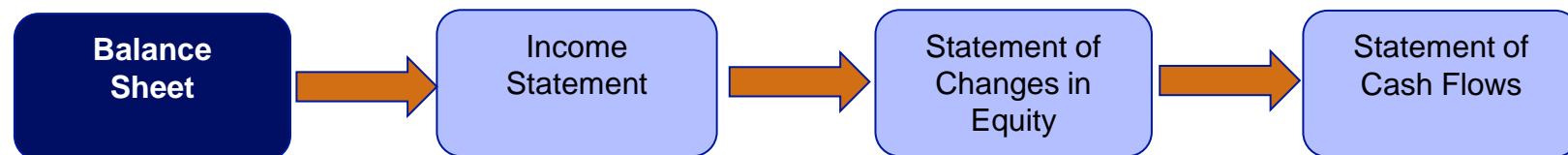


Assets:

Economic resources controlled by the company which are expected to produce future economic benefits

Ex: cash, account receivables, inventory, equipment and properties,...

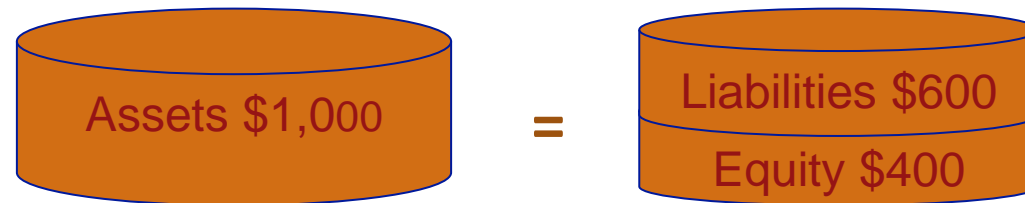
Asset: Economic resource controlled by a company that is used to produce revenue and that is expected to provide future economic benefits





Balance Sheet

The **Balance Sheet** reports what resources a company controls and what it owes at a specific point in time:

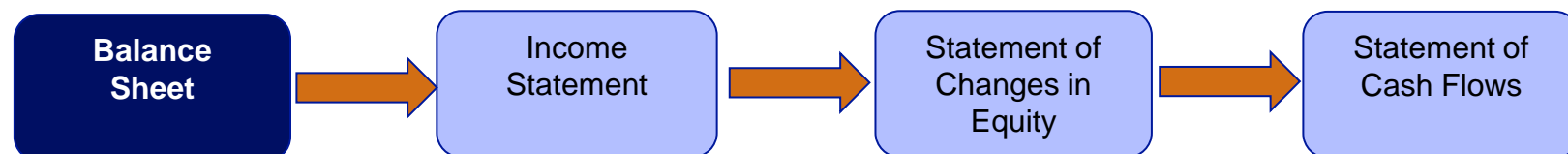


Liabilities:

Present obligations of the company which are expected to result in an outflow of economic benefits

Ex: accounts payable, bank loans, other obligations,...

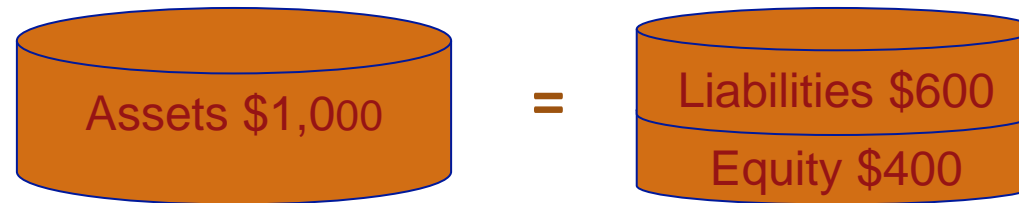
Liability: Present obligation of a business to relinquish assets, provide services, or accept other obligations





Balance Sheet

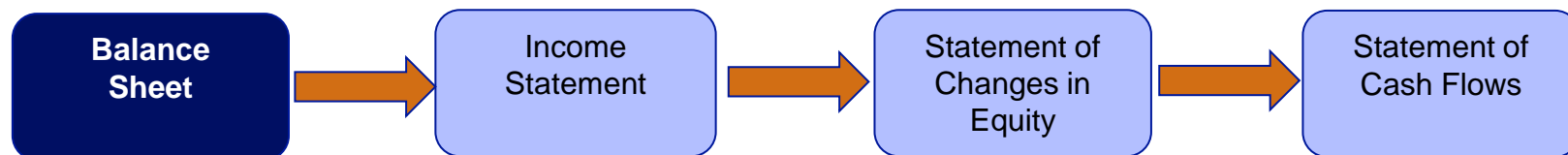
The **Balance Sheet** reports what resources a company controls and what it owes at a specific point in time:



Equity (Owners' Equity): Residual interest in the assets after deducting liabilities

Equity is composed of two major parts : Share Capital and Retained Earnings

- Share Capital is the amount shareholders have invested in the entity
- Retained Earnings is the amount earned by the company and kept for use in the business (i.e., not distributed as a dividend)





Balance Sheet

| | |
|---|---------------------------------------|
| | Non-Current Assets |
| + | Current Assets |
| | Total Assets |
| + | Equity |
| + | Non-Current Liabilities |
| + | Current Liabilities |
| | Total Liabilities & Equity |

Position of an asset on the balance sheet depends on how long the company plans to keep the asset or how long it takes to be transformed to cash

Equity as the difference between assets and liabilities

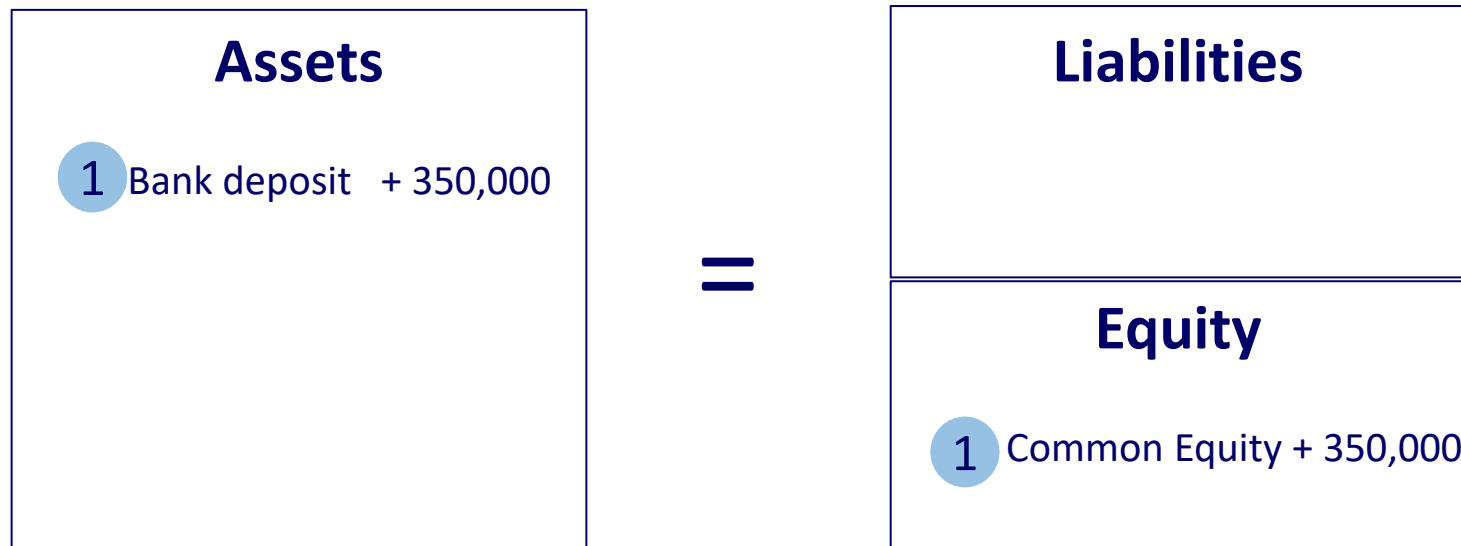
Position of a liability on the balance sheet depends on the duration of the liability



Business Transactions

1 Transaction

The owners contributed 350,000 of capital, which was paid into a bank account opened in the name of the business.





Business Transactions

2 Transaction

The company receives a loan of 600,000 from UBS.

| Assets | |
|---------------|----------------|
| 2 | Cash + 600,000 |

=

| Liabilities | |
|--------------------|----------------------------|
| 2 | UBS Loan payable + 600,000 |

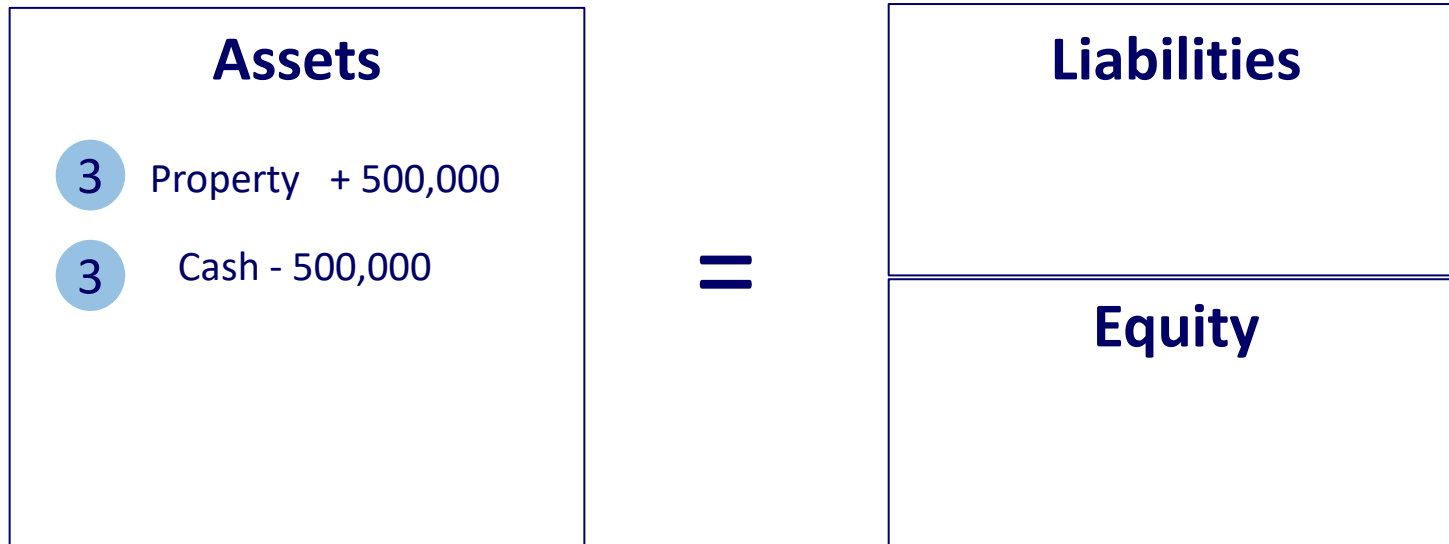
| Equity | |
|---------------|--|
|---------------|--|



Business Transactions

3 Transaction

The company buys a property for 500,000, paying the purchase price in cash.



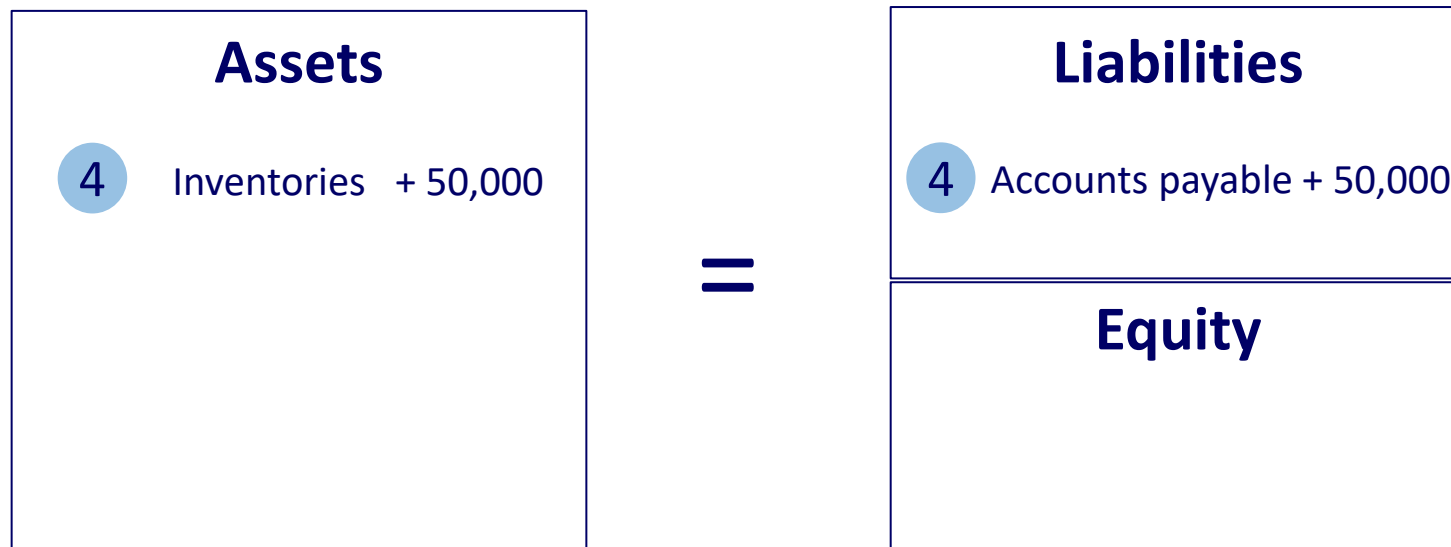


Business Transactions

4

Transaction

The company buys inventories of 50,000 on account.



Balance Sheet

Preparing the Balance Sheet

| Assets | |
|---------------|---------|
| Property | 500,000 |
| Inventories | 50,000 |
| Bank deposit | 350,000 |
| Cash | 100,000 |

Total Assets 1,000,000

=

| Equity | |
|---------------|---------|
| Common Equity | 350,000 |

| Liabilities | |
|--------------------|---------|
| UBS Loan payable | 600,000 |
| Accounts payable | 50,000 |

Total Liabilities & Equity 1,000,000

AMAZON.COM, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

| | December 31, | |
|---|-------------------|-------------------|
| | 2021 | 2022 |
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 36,220 | \$ 53,888 |
| Marketable securities | 59,829 | 16,138 |
| Inventories | 32,640 | 34,405 |
| Accounts receivable, net and other | 32,891 | 42,360 |
| Total current assets | 161,580 | 146,791 |
| Property and equipment, net | 160,281 | 186,715 |
| Operating leases | 56,082 | 66,123 |
| Goodwill | 15,371 | 20,288 |
| Other assets | 27,235 | 42,758 |
| Total assets | <u>\$ 420,549</u> | <u>\$ 462,675</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 78,664 | \$ 79,600 |
| Accrued expenses and other | 51,775 | 62,566 |
| Unearned revenue | 11,827 | 13,227 |
| Total current liabilities | 142,266 | 155,393 |
| Long-term lease liabilities | 67,651 | 72,968 |
| Long-term debt | 48,744 | 67,150 |
| Other long-term liabilities | 23,643 | 21,121 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock (\$0.01 par value; 500 shares authorized; no shares issued or outstanding) | — | — |
| Common stock (\$0.01 par value; 100,000 shares authorized; 10,644 and 10,757 shares issued; 10,175 and 10,242 shares outstanding) | 106 | 108 |
| Treasury stock, at cost | (1,837) | (7,837) |
| Additional paid-in capital | 55,437 | 75,066 |
| Accumulated other comprehensive income (loss) | (1,376) | (4,487) |
| Retained earnings | 85,915 | 83,193 |
| Total stockholders' equity | 138,245 | 146,043 |
| Total liabilities and stockholders' equity | <u>\$ 420,549</u> | <u>\$ 462,675</u> |

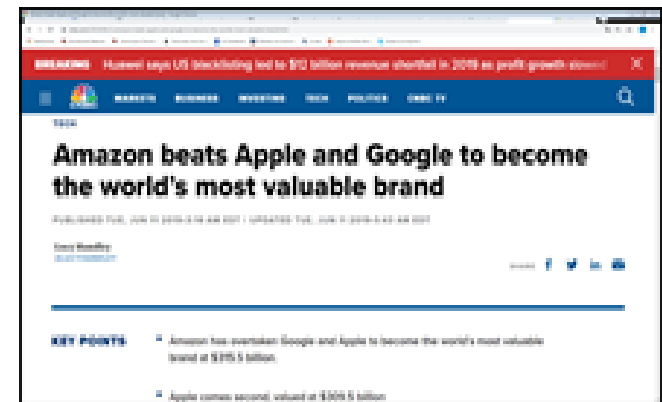
See accompanying notes to consolidated financial statements.




**Classification (i.e., ordering)?
Valuation basis?**

What is Amazon's most valuable asset?

Where does it show up on their balance sheet?



1 min



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

adidas AG Consolidated Statement of Financial Position (IFRS) € in millions

| | Note | Dec. 31, 2019 | Dec. 31, 2018 ¹ |
|------------------------------------|------|---------------|----------------------------|
| Assets | | | |
| Cash and cash equivalents | 05 | 2,220 | 2,629 |
| Short-term financial assets | 06 | 292 | 6 |
| Accounts receivable | 07 | 2,625 | 2,418 |
| Other current financial assets | 08 | 544 | 542 |
| Inventories | 09 | 4,085 | 3,445 |
| Income tax receivables | 36 | 94 | 48 |
| Other current assets | 10 | 1,076 | 725 |
| Total current assets | | 10,934 | 9,813 |
| Property, plant and equipment | 11 | 2,380 | 2,237 |
| Right-of-use assets | 12 | 2,931 | - |
| Goodwill | 13 | 1,257 | 1,245 |
| Trademarks | 14 | 859 | 844 |
| Other intangible assets | 14 | 305 | 196 |
| Long-term financial assets | 15 | 367 | 276 |
| Other non-current financial assets | 16 | 450 | 256 |
| Deferred tax assets | 36 | 1,093 | 651 |
| Other non-current assets | 17 | 103 | 94 |
| Total non-current assets | | 9,746 | 5,799 |
| Total assets | | 20,680 | 15,612 |

¹ First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
The accompanying Notes are an integral part of these consolidated financial statements.



| | Note | Dec. 31, 2019 | Dec. 31, 2018 ¹ |
|---|------|---------------|----------------------------|
| Liabilities and equity | | | |
| Short-term borrowings | 18 | 43 | 66 |
| Accounts payable | | 2,703 | 2,300 |
| Current lease liabilities | 21 | 733 | - |
| Other current financial liabilities | 19 | 235 | 186 |
| Income taxes | 36 | 618 | 268 |
| Other current provisions | 20 | 1,446 | 1,232 |
| Current accrued liabilities | 21 | 2,437 | 2,305 |
| Other current liabilities | 23 | 538 | 477 |
| Total current liabilities | | 8,754 | 6,834 |
| Long-term borrowings | 18 | 1,595 | 1,609 |
| Non-current lease liabilities | 21 | 2,399 | - |
| Other non-current financial liabilities | 24 | 92 | 103 |
| Pensions and similar obligations | 25 | 229 | 246 |
| Deferred tax liabilities | 36 | 280 | 241 |
| Other non-current provisions | 20 | 257 | 128 |
| Non-current accrued liabilities | 21 | 9 | 19 |
| Other non-current liabilities | 26 | 7 | 68 |
| Total non-current liabilities | | 4,868 | 2,414 |
| Share capital | | 196 | 199 |
| Reserves | | 45 | 123 |
| Retained earnings | | 6,555 | 6,054 |
| Shareholders' equity | 27 | 6,796 | 6,377 |
| Non-controlling interests | 29 | 261 | (13) |
| Total equity | | 7,058 | 6,364 |
| Total liabilities and equity | | 20,680 | 15,612 |

- Primarily financed by? Comparison with Amazon?



- ✓ Probable future economic benefits
- ✓ Control
- ✓ Reliable measurement



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Is it an Asset? Explain your reasoning!

- ✓ € 1,000 owing to the business by a customer who is unable to pay.
- ✓ The purchase of a patent (€ 300,000) from an inventor that gives the business the right to produce a new product. Production of the new product is expected to increase profits over the period during which the patent is held.
- ✓ A valuable customer list that the business has developed over the last 20 years of continuing operations. The management estimates its value to be € 100,000.
- ✓ The company has just completed a large advertising campaign of € 50,000.



5 min



Financial Statements: Income Statement

The **Income Statement** reports the company's financial performance in terms of net profit or loss over a specified period:

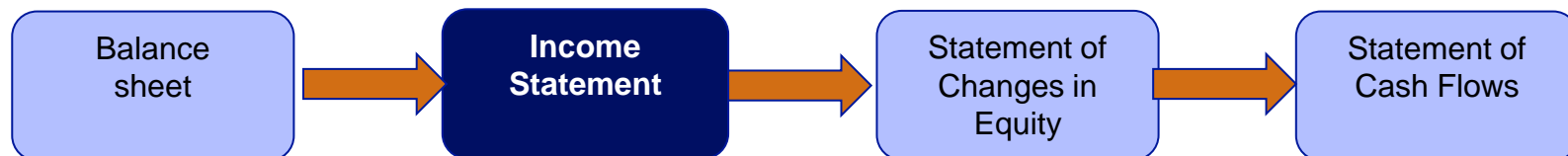


Revenues:

The amount of income generated by a company from its operations (business activities) over a period

Ex: Sale of goods, financial services, franchise fees, ...

Revenue: An economic benefit (an increase in assets or a decrease in liabilities) gained by providing goods or services to customers





Financial Statements: Income Statement

The **Income Statement** reports the company's financial performance in terms of net profit or loss over a specified period:

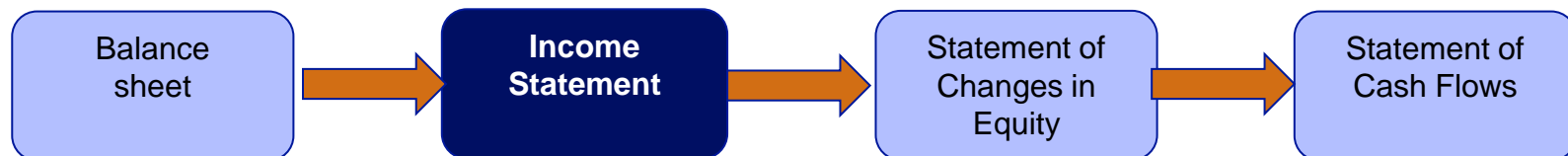


Expenses:

The amount of costs incurred in an company to generate revenues over a period

Ex: COGS, wages, administrative expenses, depreciation, interest costs, tax expense,...

Expense: An economic sacrifice (a decrease in assets or an increase in liabilities) resulting from operating activities undertaken to generate revenues





Income Statement

| | | |
|---|---------------------------|--|
| | Revenue | Sales to customers |
| — | Cost of Goods Sold (CoGS) | Cost of the goods that generate revenue |
| | Gross profit | Known also as gross margin |
| — | Operating Expenses | Other expenses less directly associated with CoGS, like administration or marketing expenses |
| | Operating profit | Known also as EBIT: Earnings before interest and taxes. |
| — | Interest Expenses | Net cost of financing activities |
| — | Income Tax Expenses | Amount to be paid for income taxes |
| | Net Income | Final profit figure |



Business Transactions

5 Transaction

The company sells the inventories for 70,000 in cash. The inventories cost 50,000.

| | | | | |
|--|---|--|---|---|
| <p style="text-align: center;">Revenues</p> <p>5 Sales 70,000</p> | - | <p style="text-align: center;">Expenses</p> <p>5 Cost of Good Sold 50,000</p> | = | <p style="text-align: center;">Profit</p> <p>5 Profit 20,000</p> |
|--|---|--|---|---|

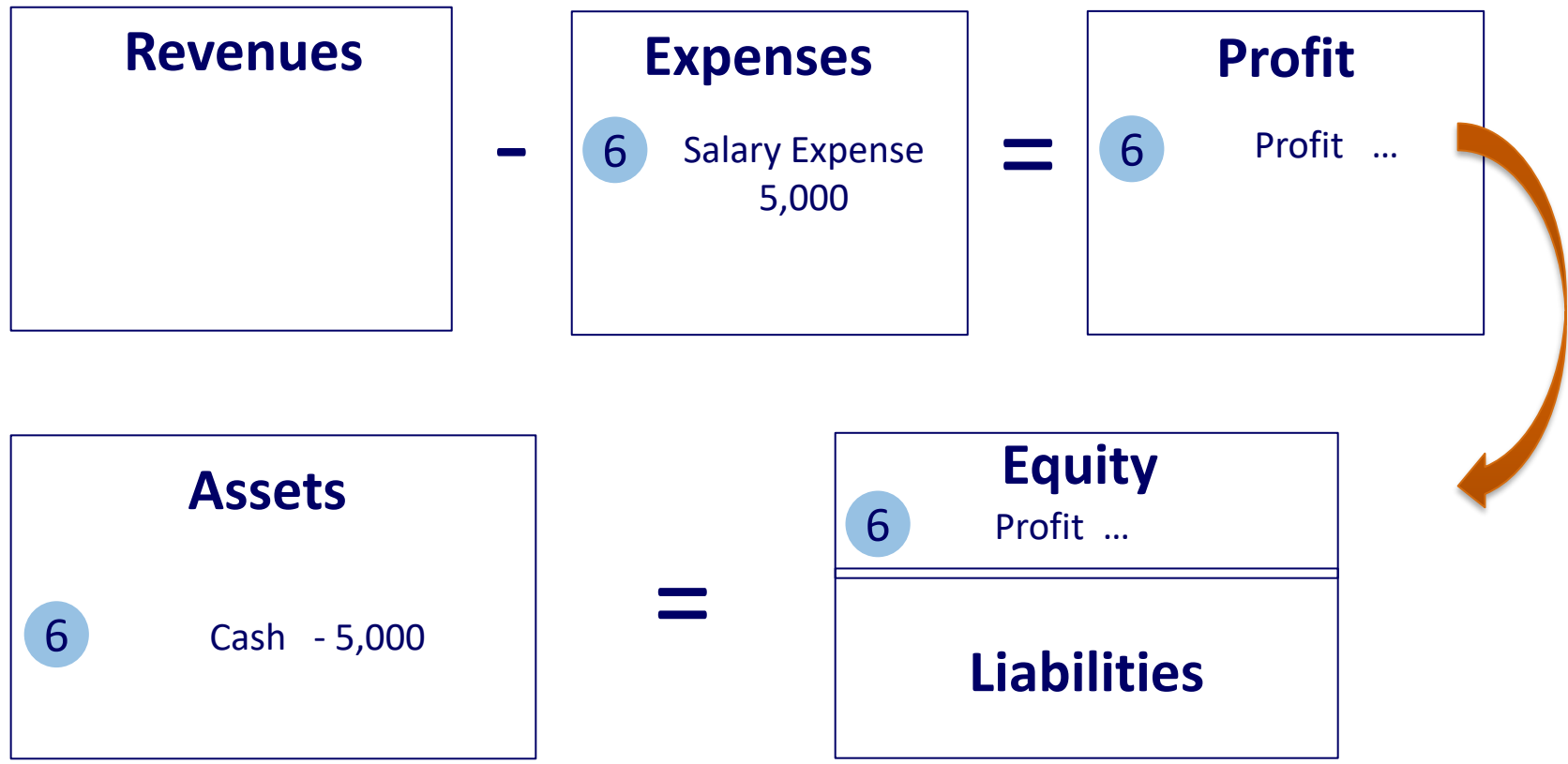
| | | | | | |
|--|---|---|---------------|-----------------|--------------------|
| <p style="text-align: center;">Assets</p> <p>5 Inventories - 50,000 Cash + 70,000</p> | = | <table border="1" style="width: 100%;"><tr><td style="text-align: center;">Equity</td></tr><tr><td>5 Profit 20,000</td></tr><tr><td style="text-align: center;">Liabilities</td></tr></table> | Equity | 5 Profit 20,000 | Liabilities |
| Equity | | | | | |
| 5 Profit 20,000 | | | | | |
| Liabilities | | | | | |



Business Transactions

6 Transaction

The company pays the monthly salary of 5,000.





➤ CONSOLIDATED INCOME STATEMENT

| (in millions of euros, except for per share data) | Note | 2014 | 2013 | 2012 |
|---|------|----------------|----------------|----------------|
| Revenues | 3.1 | 39,445 | 40,981 | 43,515 |
| External purchases | 4.1 | (17,251) | (17,965) | (19,100) |
| Other operating income | 3.2 | 674 | 687 | 900 |
| Other operating expense | 4.2 | (856) | (508) | (721) |
| Labour expenses | 5.1 | (9,066) | (9,019) | (10,363) |
| Operating taxes and levies | 8.1 | (1,795) | (1,717) | (1,857) |
| Gains (losses) on disposal | 2 | 430 | 119 | 158 |
| Restructuring costs and similar items | 4.3 | (469) | (343) | (37) |
| Depreciation and amortization | 7.1 | (6,038) | (6,052) | (6,329) |
| Impairment of goodwill | 6.1 | (229) | (512) | (1,732) |
| Impairment of fixed assets | 7.2 | (59) | (124) | (109) |
| Share of profits (losses) of associates and joint ventures ⁽¹⁾ | 9 | (215) | (214) | (145) |
| Operating income ⁽¹⁾ | | 4,571 | 5,333 | 4,180 |
| Cost of gross financial debt | 10.1 | (1,653) | (1,746) | (1,769) |
| Gains (losses) on assets contributing to net financial debt | 10.1 | 62 | 59 | 101 |
| Foreign exchange gains (losses) | 10.1 | 22 | (18) | (28) |
| Other net financial expenses | 10.1 | (69) | (45) | (32) |
| Finance costs, net | | (1,638) | (1,750) | (1,728) |
| Income tax | 12.1 | (1,573) | (1,405) | (1,231) |
| Consolidated net income after tax of continuing operations ⁽¹⁾ | | 1,360 | 2,178 | 1,221 |
| Consolidated net income after tax of discontinued operations (EE) ⁽¹⁾ | 2.2 | (135) | (45) | (117) |
| Consolidated net income after tax | | 1,225 | 2,133 | 1,104 |
| Net income attributable to owners of the parent | | 925 | 1,873 | 820 |
| Non-controlling interests | | 300 | 260 | 284 |
| Earnings per share (in euros) attributable to owners of the parent | | | | |
| Net income of continuing operations | | | | |
| • basic | | 0.36 | 0.73 | 0.36 |
| • diluted | | 0.36 | 0.73 | 0.35 |
| Net income of discontinued operations | | | | |
| • basic | | (0.05) | (0.02) | (0.05) |
| • diluted | | (0.05) | (0.02) | (0.04) |
| Net income | | | | |
| • basic | | 0.31 | 0.71 | 0.31 |
| • diluted | | 0.31 | 0.71 | 0.31 |



| € millions | Notes | 2019 | 2018 | 2017 ⁽¹⁾ |
|--|-------|-----------------|-----------------|---------------------|
| Net sales | 3.1 | 29,873.6 | 26,937.4 | 26,023.7 |
| Cost of sales | | -8,064.7 | -7,331.6 | -7,359.2 |
| Gross profit | | 21,808.9 | 19,605.8 | 18,664.5 |
| Research and innovation expenses | | -985.3 | -914.4 | -877.1 |
| Advertising and promotion expenses | | -9,207.8 | -8,144.7 | -7,650.6 |
| Selling, general and administrative expenses | | -6,068.3 | -5,624.7 | -5,460.5 |
| Operating profit | 3.1 | 5,547.5 | 4,922.0 | 4,676.3 |
| Other income and expenses | 4 | -436.5 | -94.7 | -276.3 |
| Operational profit | | 5,111.0 | 4,827.3 | 4,400.0 |
| Finance costs on gross debt | | -75.4 | -34.8 | -35.5 |
| Finance income on cash and cash equivalents | | 28.7 | 47.9 | 38.5 |
| Finance costs, net | | -46.7 | 13.1 | 3.1 |
| Other financial income and expenses | 9.4 | -16.0 | -15.0 | -26.0 |
| Sanofi dividends | | 363.0 | 358.3 | 350.0 |
| Profit before tax and associates | | 5,411.4 | 5,183.7 | 4,727.0 |
| Income tax | 6 | -1,657.2 | -1,284.3 | -901.3 |
| Share of profit in associates | | 1.0 | 0.1 | -0.1 |
| Net profit from continuing operations | | 3,755.2 | 3,899.5 | 3,825.6 |
| Net profit from discontinued operations | 2.3 | - | - | -240.1 |
| Net profit | | 3,755.2 | 3,899.5 | 3,585.5 |
| Attributable to: | | | | |
| • owners of the company | | 3,750.0 | 3,895.4 | 3,581.4 |
| • non-controlling interests | | 5.2 | 4.1 | 4.1 |

- Difference in the I/S structure between Orange and L'Oréal?
- Net Profit Margin comparison?



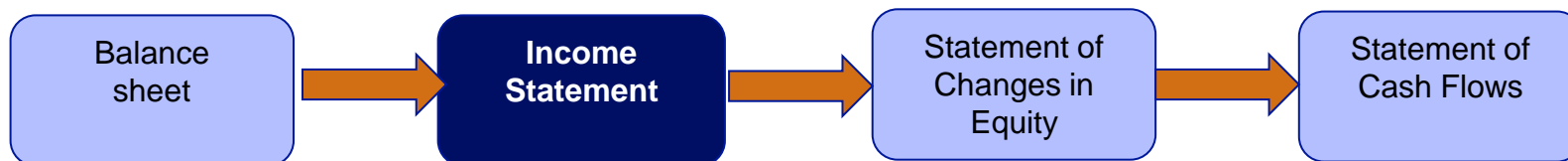
1 min



Financial Statements: Statement of Comprehensive Income

Types of items generally treated as Other Comprehensive Income (OCI):

- Foreign currency translation adjustments (e.g. effects of translating subsidiaries' assets and liabilities)
- Unrealized holding gains and losses on available-for-sale securities.
- Unrealized gains or losses on derivatives contracts accounted for as hedges.
- Certain costs of a company's defined benefit post-retirement plans that are not recognized in the current period.
- Changes in the value of long-lived assets measured under the revaluation model rather than the cost model (IFRS only).



Financial Statements: Statement of Comprehensive Income



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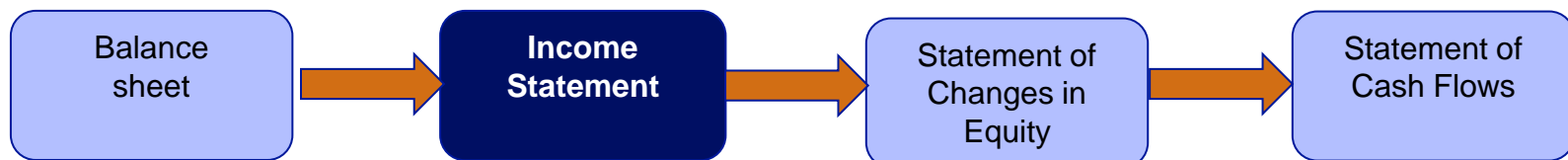


For the Period
1 Jan. to 31 Dec., 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (in millions of euros) | Note | 2014 | 2013 | 2012 |
|--|------------|--------------|--------------|--------------|
| Consolidated net income after tax | | 1,225 | 2,133 | 1,104 |
| Actuarial gains and losses on post-employment benefits | 5.2 | (150) | 23 | (83) |
| Income tax relating to items that will not be reclassified | 12.2 | 29 | (4) | 29 |
| Share of other comprehensive income in associates and joint ventures that will not be reclassified | 9 | 2 | (6) | (22) |
| Items that will not be reclassified to profit or loss (a) | | (119) | 13 | (76) |
| Assets available for sale | 10.6 | (26) | 8 | 7 |
| Cash flow hedges | 10.8 | (273) | (298) | (394) |
| Net investment hedges | 10.10 | (85) | 41 | 99 |
| Exchange differences on translating foreign operations | 13.6 | 285 | (314) | 104 |
| Income tax relating to items that may be reclassified | 12.2 | 122 | 88 | 96 |
| Items that may be reclassified subsequently to profit or loss (b) | | 23 | (475) | (88) |
| Other comprehensive income for the year of continuing operations (a) + (b) | | (96) | (462) | (164) |
| Share of other comprehensive income in associates and joint ventures that will not be reclassified | | (29) | (26) | (20) |
| Exchange differences on translating foreign operations | | 387 | (139) | 160 |
| Share of other comprehensive income in associates and joint ventures that may be reclassified | | 1 | (11) | 22 |
| Other comprehensive income for the year of discontinued operations (EE) (c) | 2.2 | 359 | (176) | 162 |
| Other comprehensive income (a) + (b) + (c) | | 263 | (638) | (2) |
| Total consolidated comprehensive income | | 1,488 | 1,495 | 1,102 |
| Total comprehensive income attributable to owners of the parent | | 1,162 | 1,255 | 748 |
| Total comprehensive income attributable to non-controlling interests | | 326 | 240 | 354 |

Under IFRS, total comprehensive income is the change in equity during a period resulting from transaction and other events, other than those changes resulting from transactions with owners in their capacity as owners.





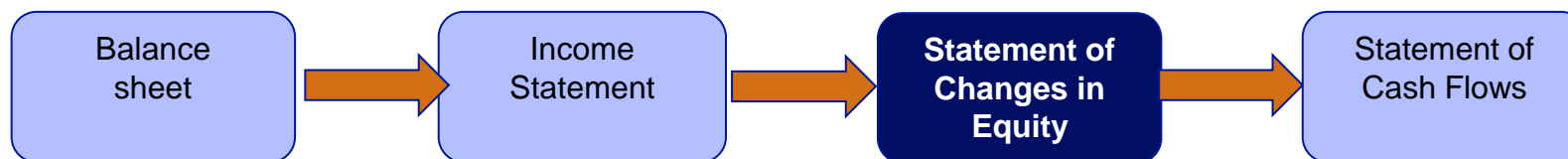
Financial Statements: Statement of Changes in Equity

Recall:

The equity is the owners' residual interest in the company after deducting liabilities

Changes in Equity refers to movement in shareholders' equity over an accounting period

- Net profit or loss during the accounting period attributable to shareholders
- Increase or decrease in share capital reserves
- Dividend payments to shareholders
- Gains and losses recognized directly in equity
- Effect of changes in accounting policies
- Effect of correction of prior period error



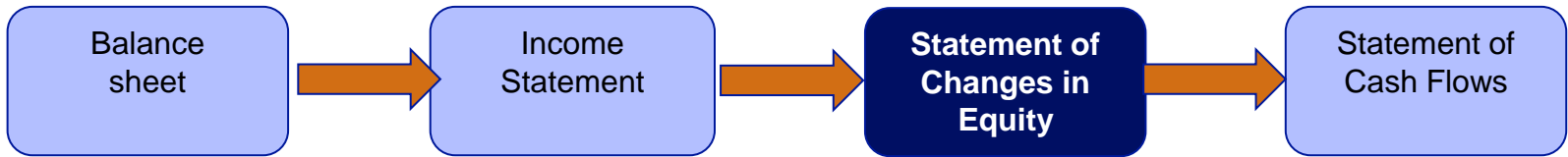
Financial Statements: Statement of Changes in Equity



➤ CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (In millions of euros) | Note | Attributable to owners of the parent | | | | | Attributable to non-controlling interests | | | Total Equity | |
|---|--------------|--------------------------------------|---------------|--|----------------|----------------------------|---|----------------------------|-------------|--------------|---------------|
| | | Number of issued shares | Share capital | Additional paid-in capital and statutory reserve | Reserves | Other comprehensive income | Reserves | Other comprehensive income | Total | | |
| Balance at January 1, 2012 | | 2,648,885,383 | 10,596 | 16,790 | (676) | 863 | 27,573 | 1,847 | 172 | 2,019 | 29,592 |
| Consolidated comprehensive income | | - | - | - | 820 | (72) | 748 | 284 | 70 | 354 | 1,102 |
| Share-based compensation | 5.3 | - | - | - | (11) | - | (11) | 4 | - | 4 | (7) |
| Purchase of treasury shares | 13.2 | - | - | - | (49) | - | (49) | - | - | - | (49) |
| Dividends | 13.3 13.6 | - | - | - | (3,632) | - | (3,632) | (579) | - | (579) | (4,211) |
| Changes in ownership interests with no gain / loss of control | 2- 13.6 | - | - | - | (281) | - | (281) | 284 | - | 284 | 3 |
| Other movements | | - | - | - | (42) | - | (42) | (4) | - | (4) | (46) |
| Balance at December 31, 2012 | | 2,648,885,383 | 10,596 | 16,790 | (3,871) | 791 | 24,306 | 1,836 | 242 | 2,078 | 26,384 |
| Consolidated comprehensive income | | - | - | - | 1,873 | (618) | 1,255 | 260 | (20) | 240 | 1,495 |
| Share-based compensation | 5.3 | - | - | - | 2 | - | 2 | 4 | - | 4 | 6 |
| Purchase of treasury shares | 13.2 | - | - | - | (25) | - | (25) | - | - | - | (25) |
| Dividends | 13.3 13.6 | - | - | - | (1,314) | - | (1,314) | (359) | - | (359) | (1,673) |
| Changes in ownership interests with no gain / loss of control | 2 | - | - | - | 2 | - | 2 | 4 | - | 4 | 6 |
| Other movements | | - | - | - | 123 | - | 123 | 18 | - | 18 | 141 |
| Balance at December 31, 2013 | | 2,648,885,383 | 10,596 | 16,790 | (3,210) | 173 | 24,349 | 1,763 | 222 | 1,985 | 26,334 |
| Consolidated comprehensive income | | - | - | - | 925 | 237 | 1,162 | 300 | 26 | 326 | 1,488 |
| Share-based compensation | 5.3 | - | - | - | 170 | - | 170 | 3 | - | 3 | 173 |
| Purchase of treasury shares | 13.2 | - | - | - | 109 | - | 109 | - | - | - | 109 |
| Dividends | 13.3 13.6 | - | - | - | (1,846) | - | (1,846) | (294) | - | (294) | (2,140) |
| Subordinated notes | 13.4 | - | - | - | 5,749 | - | 5,749 | - | - | - | 5,749 |
| Changes in ownership interest with no gain / loss of control | 2 | - | - | - | (59) | - | (59) | 44 | - | 44 | (15) |
| Changes in ownership interests with gain / loss of control | 2 | - | - | - | (64) | - | (64) | 72 | - | 72 | 8 |
| Other movements | | - | - | - | (11) | - | (11) | 6 | - | 6 | (5) |
| Balance at December 31, 2014 | | 2,648,885,383 | 10,596 | 16,790 | 1,763 | 410 | 29,559 | 1,894 | 248 | 2,142 | 31,701 |

For the Period
1 Jan. to 31 Dec., 2014





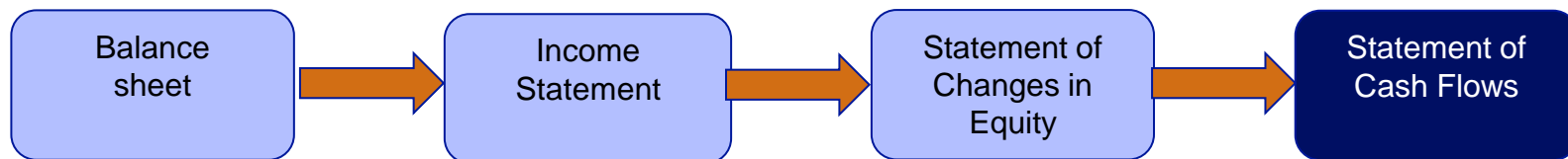
Financial Statements: Statement of Cash Flows

Statement of Cash Flows presents the movement in cash and cash equivalents over the period

As income statement and balance sheet are prepared under the **accruals basis** of accounting, it is necessary to **adjust** the amounts extracted from these financial statements in order to present only the movement in cash inflows and outflows during a period.

All cash flows are classified into three categories:

- Operating activities,
- Investing activities,
- Financing activities





Financial Statements: Statement of Cash Flows

Operating Activities:

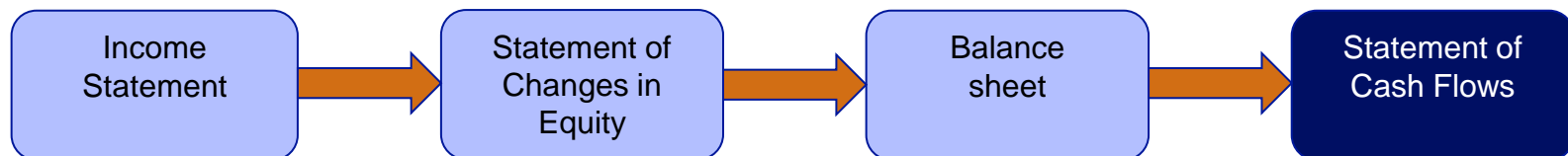
- The movement in cash during an accounting period from the primary revenue generating activities of the entity
- Profit before tax as presented in the income statement could be used as a starting point to calculate the cash flows from operating activities (Indirect method)
- Adjustments are required to be made to the profit before tax to arrive at the cash flow from operations

Investing Activities:

- The movement in cash flow as a result of the purchase and sale of long term assets (Other than those which the entity primarily trades)

Financing Activities:

- The movement in cash flow as a result of cost of finance and share capital





Financial Statements: Notes & Supplementary Schedule

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
- Describe the accounting policies
- Provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them
- Explains uncertainties and contingencies and clarifies information in financial statements



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Small Case: *Monty Inc FINANCIAL STATEMENTS*



10 min



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Small Case: *William Inc* Balance Sheet



10 min



Mountain Corporation: Accrual Vs. Cash Income

During 2022 *Mountain Corporation* made sales of 4,800 (assume initially all on account) and collected cash of 3,900 from customers. Mountain had a cash balance of 1,500 at the beginning of the year 2022. Interest revenue of 800 accrued during the year, but 200 are still not received yet. Operating expenses totaled 1,100, all paid in cash. Salary expenses totaled 1,200, with a related payment of 1,100. The prepaid advertising account had a beginning balance of 3,800. During the year, the company prepaid additional 500 to the advertising company. The prepaid advertising account an ending balance of 2,600. All prices are in millions Euros.

- How much was Mountain's net income for 2022?
- How much was Mountain's cash balance at the end of 2022?

**5 min**

Effect on Profit or on Cash?



| | Effect | |
|---|-----------|---------|
| | on Profit | on Cash |
| Repayment of a loan | | |
| Making a sale on credit | | |
| Paying last year's income taxes | | |
| Buying a non-current asset for cash | | |
| Paying in advance next year's insurance expense | | |
| Receiving cash from a trade receivable (debtor) | | |
| Depreciating a non-current asset | | |
| Buying inventories for cash | | |
| Making a share issue for cash | | |
| Making a sale in cash | | |
| Buying a non-current asset on account | | |



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ACCOUNTING STANDARDS



Accounting standards

Users of financial information rely on **credible, transparent and comparable** financial information

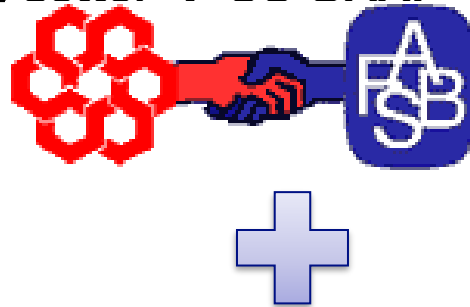
Accounting standards:

- Contain the **detailed rules** that govern the accounting treatment of transactions and other items shown in financial statements.
- Provide **principles** for preparing financial reports.
- Determine the **types** and **amounts** of **information** that must be provided to users of financial statements so that they may make informed decisions.
- To facilitate comparisons across companies (cross sectional analysis) and over time for a single company (time series analysis), it is important that accounting methods are **comparable** and **consistently** applied.
- Accounting standards must be **flexible** enough to recognize that differences exist in the underlying economics between businesses.

Accounting Standards

IASB: Global standard setter → International Financial Reporting Standard (IFRS)

FASB: US standard setter → US GAAP



National private standard setter → Swiss FER



European Union → Directives, regulations, implementing measures



National legislator → Ex: National law such as the code of obligations (Swiss)





Accounting Standards

The international harmonization of accounting standards has been undertaken since 2002.

Objectives:

- **Comparability** of financial statements: reduce the information - generating costs
- **Integration of capital markets** across countries: improve the operational efficiency of international capital markets

Approaches:

- Adoption of one single set of accounting standards
- Progressive convergence between accounting standards



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QUESTIONS

