

## **Lessons (theoretical) n. 1 and 2**

# **Chapter1**

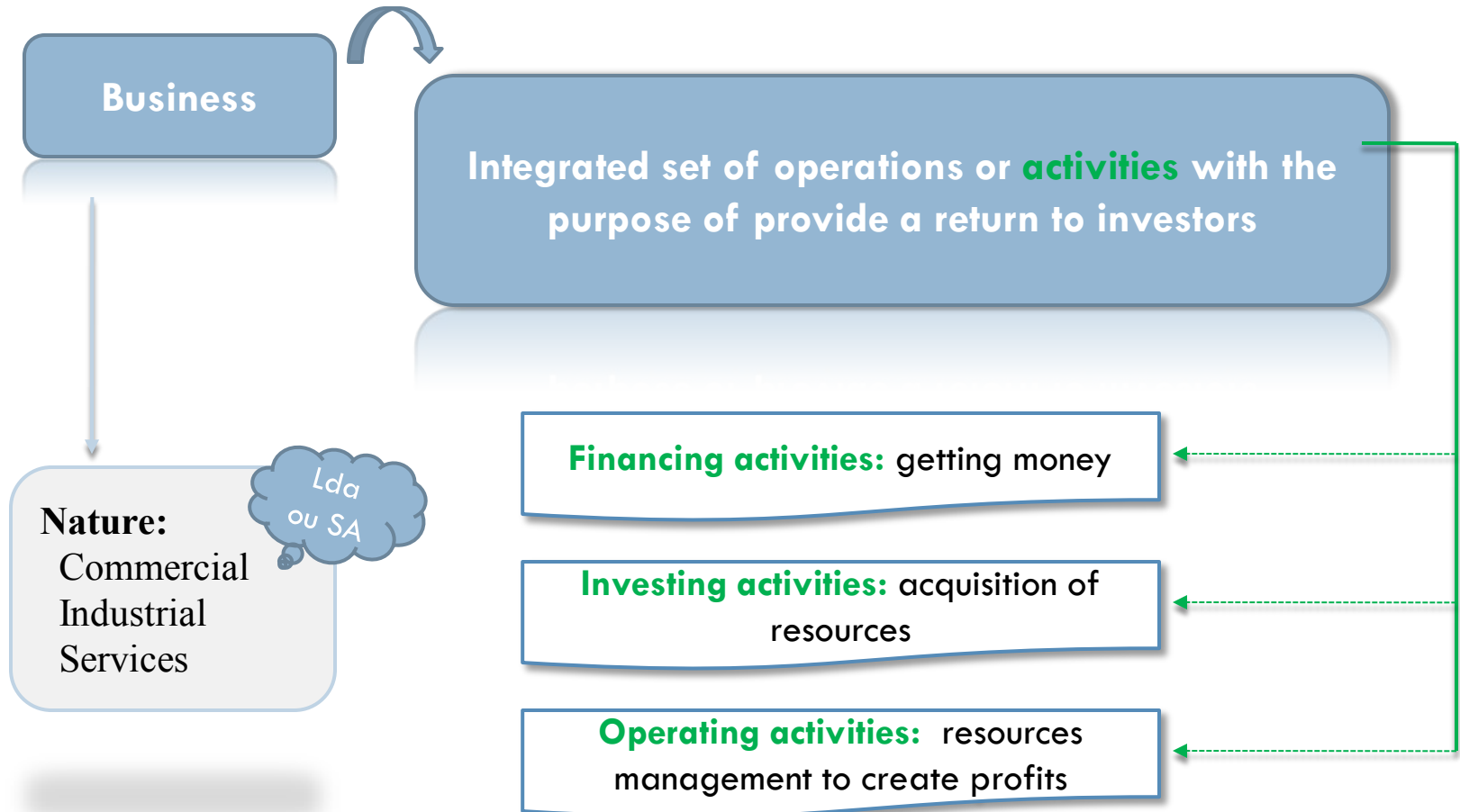
## **Financial Statements and Business Decisions**

In the end of this chapter you should...

- ✓ Understand the relation between accounting and business (page 39-41);
- ✓ Identify the information presented on each financial statement (page. 42-54);
- ✓ Identify the role of accounting standards in determining the content of financial statements;
- ✓ Distinguish the role between managers and auditors in the process of communication of accounting information ((page 56).

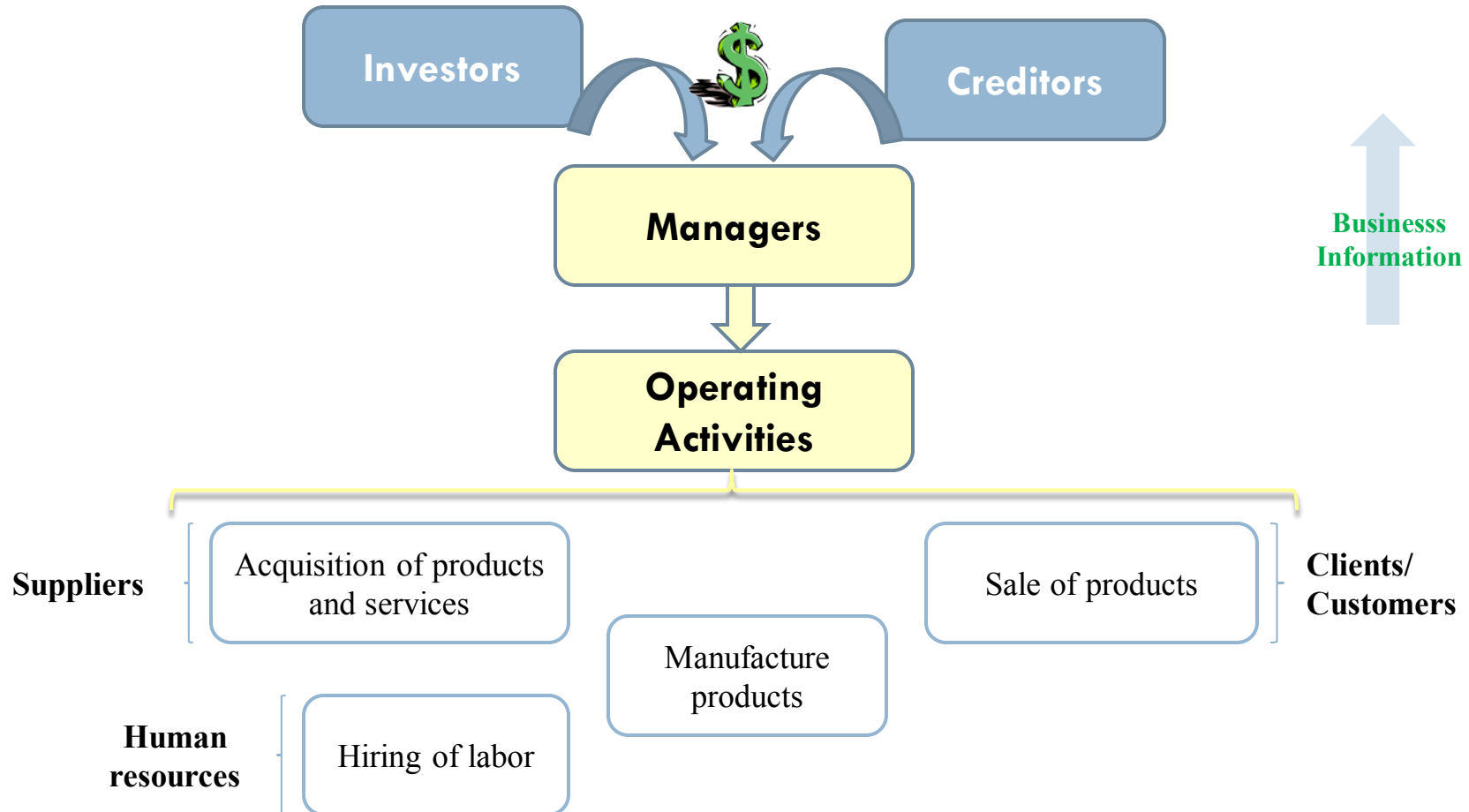
# Introduction

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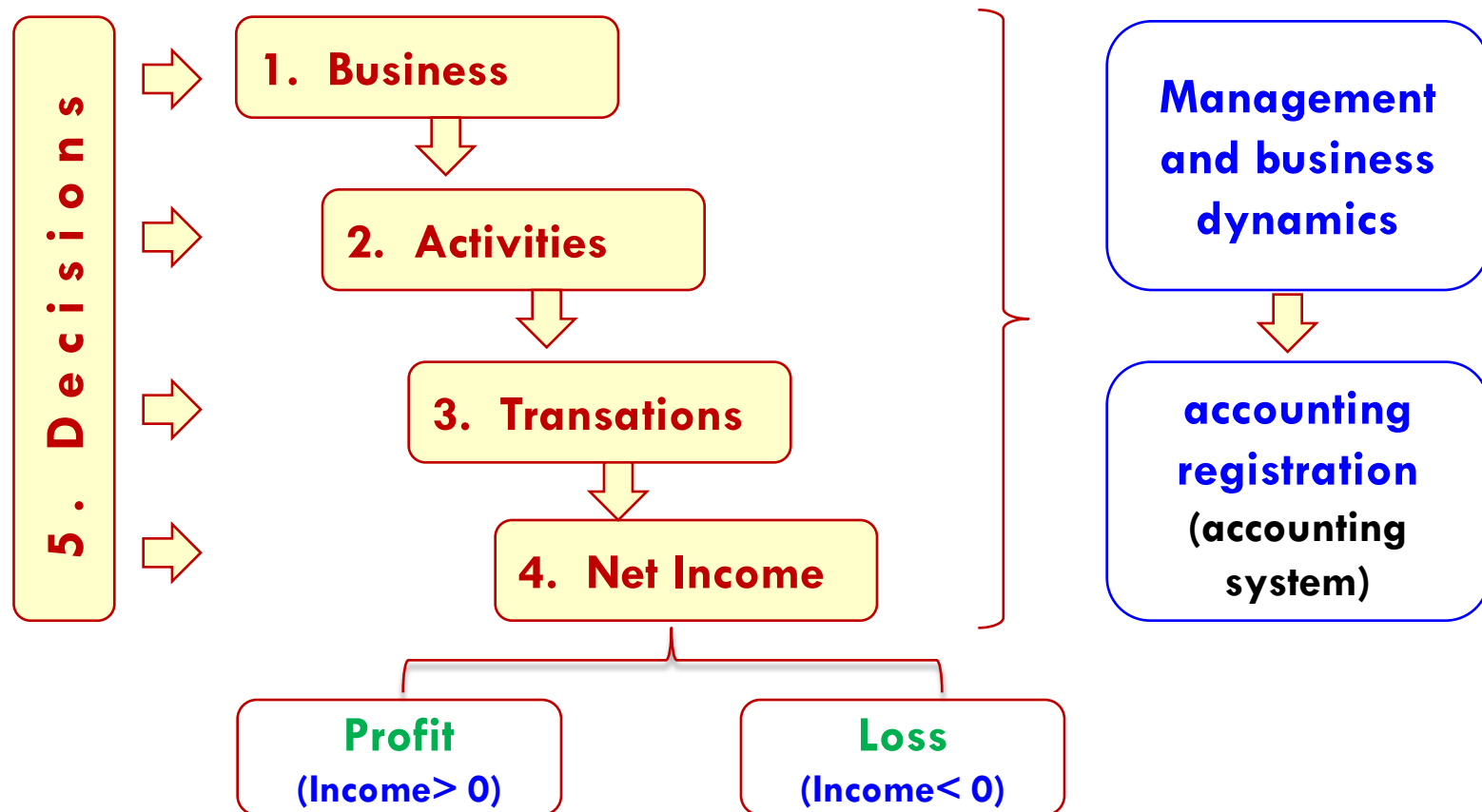


# Introduction

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## Five key words and their articulation



## Introduction

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**Accounting system:** a system that *collect*, *process* and *report* financial information about the firm to decision makers



Managers

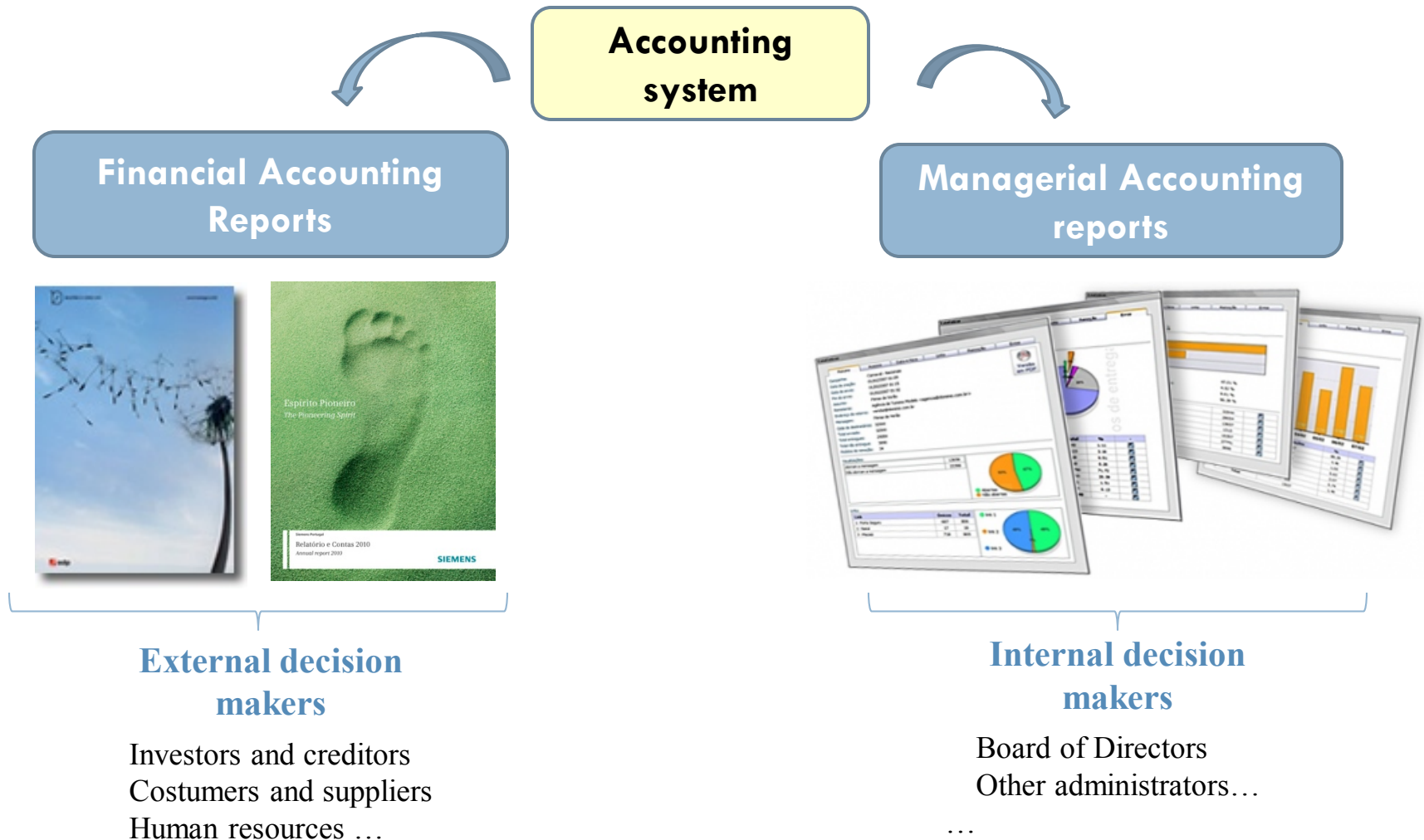
Investors

Creditors



# Introduction

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# Accounting Standards

8



## Financial Accounting Reports



Rules

...

Local (national) standards?

SNC

International standards?

IFRS



# Financial Statements

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**Balance Sheet**

**SNC**

**Income Statement**

**Statement of changes in  
equity**

**Statement of Cash-flows**

**Notes**

# Financial Statements

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**Statement of  
Financial Position**

**Comprehensive  
Income Statement**

**Statement of changes in  
equity**

**Statement of Cash-flows**

**Notes**

IFRS

## Financial Statements

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### Balance Sheet

Reports the financial position (amount of *assets*, *liabilities*, and *stockholders' equity*) of an accounting entity at a point in time.

### Income statement

Reports the income (*revenues* less the *expenses*) of the accounting period.



## Financial Statements

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### Statement of changes in equity

Reports the changes on the stockholders' equity (*comprehensive income and operations with owners*) of the accounting period.

### Cash-flow statement

Reports cash-flows (*inflows* and *outflows* of cash) during the accounting.



## Financial Statements

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### Notes

Reports supplemental information to the Balance sheet, Income statement, Statements of changes in equity and Statement of cash-flows. This additional information shall be relevant to a better comprehension of the other financial statements.



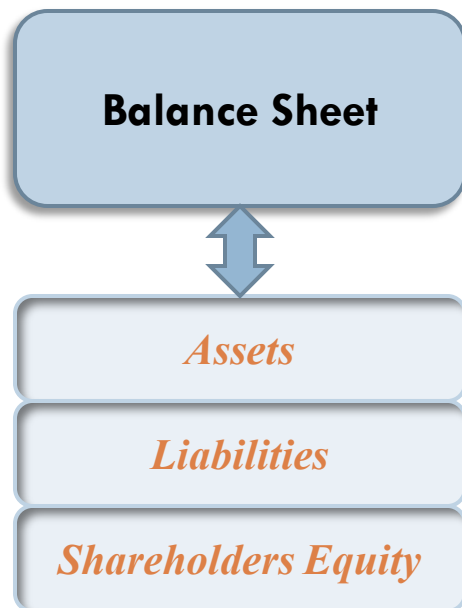
## Financial Statements

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Financial Statement	Perspective	Focus	Elements	Time
Balance Sheet	Financial	Financial Position	Assets Liabilities Shareholders Equity	At the moment
Income Statements	Economic	Performance Income	Revenue Expenses Income	For the period
Statement of changes in shareholders Equity	Economic	Performance Operations with shareholders	Comprehensive Income Operations with capital owners	For the period
Statement of cash flows	Monetary	Changes in financial position Cash in/out	Receipts Payments	For the period
Notes	The three perspectives	Detail Explanation	Complementary and Additional information	For the period

## Financial Statements

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Entity: xxxxxxxxxxxx		
Balance Sheet for the year ended December		
31, N	Euros	
	31/12/N	31/12/N-1
<b>ASSETS</b>		
Fixed Tangible Assets		
Intangible Assets		
Inventories		
Accounts receivable (Customers,...)		
Cash and bank deposits		
.....		
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Contributed equity		
Retained earnings		
.....		
Net income		
<b>LIABILITIES</b>		
Notes payable (Debts, ...)		
Accounts payable (Suppliers,...)		
State and other public entities		
.....		

## Financial Statements

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**Assets:** resources controlled by the entity from which future economic benefits are expected to flow to the entity.





# Financial Statements

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**Liabilities:** obligations of the entity



## Financial Statements

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**Shareholders' equity:** financing provided by the owners of the firm + retained earnings



## The Accounting Equation

**Assets**

=

**Shareholders' equity**

+

**Liabilities**

Economic  
resources

Funding sources of the economic  
resources

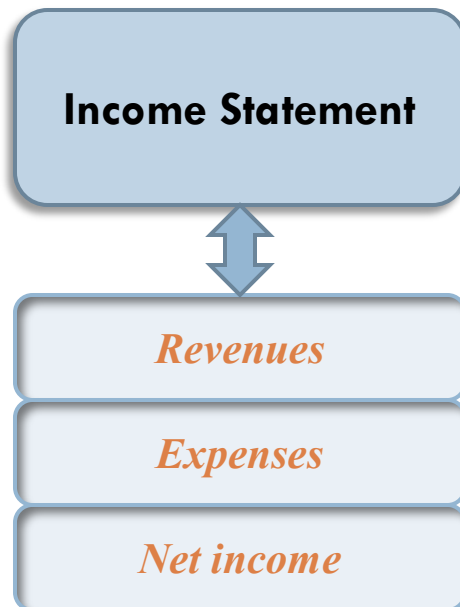
## Financial Statements

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Entity	A	B	C	D
<b>Balance Sheet</b>				
<b>Assets</b>				
Tangible Fixed Assets	17.615	389.293	109.563	2.085.191
Intangible Assets	83.294	61.075	497.664	97.083
Financial Investments	0	47.807	0	125.692
Inventories	0	132.967	326.297	79.058
Customers	40.997	214.462	251.886	122.055
Cash and bank deposits	786	41.416	147.627	423.987
Other assets	24.119	70.476	163.056	205.309
<i>Total Assets</i>	<b>166.811</b>	<b>957.496</b>	<b>1.496.093</b>	<b>3.138.375</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Contributed equity	75.000	286.300	506.830	792.472
Retained earnings and other changes in equity	(51.969)	(181.569)	234.657	224.372
net income	(34.856)	(6.910)	47.254	38.116
<i>Total Shareholders' equity</i>	<b>(11.825)</b>	97.821	788.741	1.054.960
<b>Liabilities</b>				
Debts to banks	107.404	572.885	243.682	1.445.116
Suppliers	27.000	198.360	314.922	157.477
Other liabilities	44.232	88.430	148.748	480.822
<i>Total Liabilities</i>	178.636	859.675	707.352	2.083.415
<i>Total Shareholders' equity and Liabilities</i>	<b>166.811</b>	<b>957.496</b>	<b>1.496.093</b>	<b>3.138.375</b>

# Financial Statements

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Entity: xxxxxxxxxxxx		
Income statement for the period ended 31 December, N		Euros
	N	N-1
Sales and services (revenues from...)		
Cost of sales		
External Suppliers and services		
Employement costs		
Impairment of inventories		
Impairment of receivables		
.....		
Other revenues and gains		
Other cost and losses		
Costs of Amortizations and depreciations		
.....		
Earnings before Interests and Taxes (EBIT)		
Financial Income		
Financial Costs		
	Earnings before taxes	
Income taxes		
	Net Income/Profit or Loss	

## Financial Statements

**Revenues:** income from the cost of sales and services + other revenues





## Financial Statements

**Expenses:** use of resources by the entity to generate their income.



## Financial Statements

**Net Income:** Revenues - Expenses.





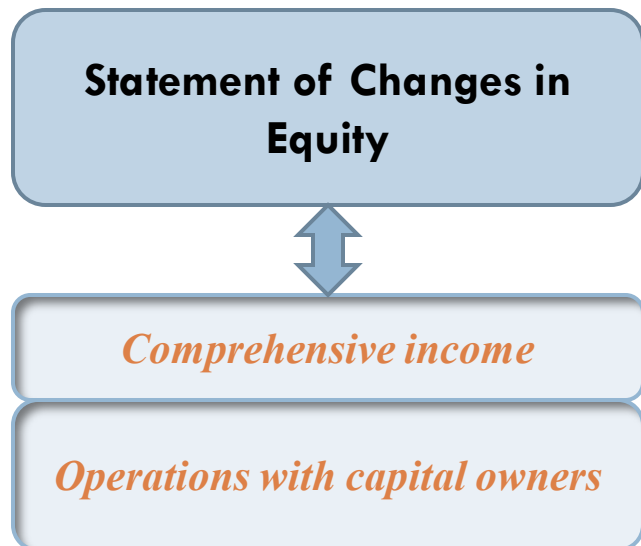
## Financial Statements

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Entidade	A	B	C	D
<b>DR</b>				
Sales and services (revenues from...)	40.749	873.553	2.062.849	1.148.653
Cost of sales	0	(649.664)	(1.142.076)	0
External Suppliers and services	(17.693)	(83.674)	(231.644)	(217.372)
Employement costs	(37.129)	(48.936)	(538.238)	(390.768)
Impairment of inventories	0	0	0	0
Impairment of receivables	0	0	0	0
Other revenues and gains	6.131	25.095	0	0
Other cost and losses	(5.095)	(24.533)	(1.926)	(338.421)
	(13.037)	91.841	148.965	202.088
Costs of Amortizations and depreciations	(22.344)	(48.390)	(9.446)	(96.928)
Impairment of tangible and intangible assets	5.471	0	0	0
<b>Earnings before Interests and Taxes (EBIT)</b>	<b>(29.910)</b>	<b>43.451</b>	<b>139.519</b>	<b>105.160</b>
Financial Income	1.019	35.693	3.120	27.773
Financial Costs	(5.902)	(92.117)	(29.519)	(84.419)
<b>Earnings before taxes</b>	<b>(34.793)</b>	<b>(12.973)</b>	<b>113.120</b>	<b>48.514</b>
Income taxes	(63)	6.063	(65.866)	(10.398)
<b>Net Income/Profit or Loss</b>	<b>(34.856)</b>	<b>(6.910)</b>	<b>47.254</b>	<b>38.116</b>

## Financial Statements

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Entity: xxxxxxxxxxxx	
SCE for the period ended 31 December, N	Euros
<b>Balance as of beginning of the period (1)</b>	
<b>Changes in the period (2.1)</b>	
Changes in accounting policies	
Translation reserves of foreign financial statments	
Revaluation Surplus	
.....	
<b>Net Income (2.2)</b>	
<b>Comphreensive income (2=2.1+2.2)</b>	
<b>Operations with equity's owners (3)</b>	
Capital contributions	
Dividends distributed	
.....	
<b>balance as of the end of the period(1+2+3)</b>	

# Financial Statements

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## Statement of cash-flows



*Cash inflows*

*Cash outflows*

*Activities*

*Operating  
Investing  
Financing*

Entity: xxxxxxxxxxxx

SCF for the period ended at December 31, N

Euros

N

N-1

### Net cash flow from operating activities (1)

Cash collected from costumers

Cash paid to suppliers

Cash paid to employees

Other receipts/payments

### Net cash flow from investing activities (2)

#### Cash payments related to:

Tangible fixed assets

Intangible assets

#### Cash receipts related to:

Tangible fixed assets

### Net cash flow from financing activities (3)

#### Cash receipts related to:

Loans...

#### Cash payments related to:

Loans...

### Net increase/decrease in Cash (1+2+3)

Cash at beginning of year

Cash at end of year

## Financial Statements

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### Net cash flow from operating activities :

Cash flows directly related with the main activities that generate/provide revenues to the entity



Cash paid to suppliers

Cash collected from  
costumers

## Financial Statements

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### Net cash flow from investing activities :

Cash flows directly related with the acquisition and disposal of assets that usually stay in the entity for a long time.



Cash receipts from fixed  
tangible assets

Cash payments from  
fixed tangible assets

## Financial Statements

**Net cash flow from financing activities :**  
Cash flows directly related with the financing activities



Cash receipt from a bank  
loan

Cash payment due to a  
bank loan

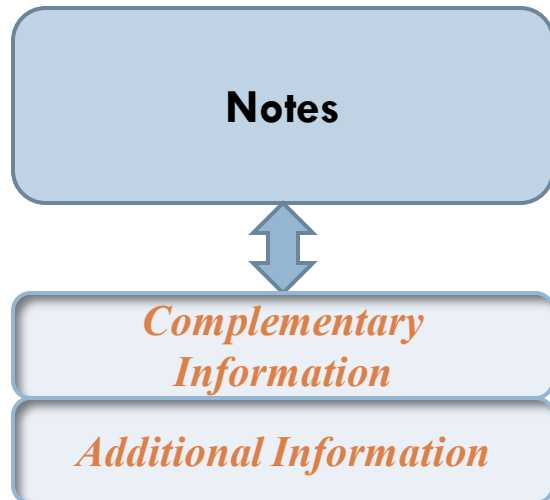
## Financial Statements

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Entidade	A	B	C	D
DFC				
<b>Net cash flow from operating activities (1)</b>				
Cash collected from costumers	31.985	716.194	2.056.304	1.590.561
Cash paid to suppliers	(13.981)	(709.749)	(1.262.113)	(1.111.544)
Cash paid to employees	(33.250)	(45.697)	(535.256)	(392.450)
Other receipts/payments	(2.306)	121.661	(133.048)	(1.601)
	<b>(17.552)</b>	<b>82.409</b>	<b>125.887</b>	<b>84.966</b>
<b>Net cash flow from investing activities (2)</b>				
<i>Cash payments related to:</i>				
Tangible fixed assets	(1.621)	(108.692)	(42.314)	(99.883)
Intangible assets	(37.603)	0	(26.727)	0
<i>Cash receipts related to:</i>				
Tangible fixed assets	0	132.406	24.778	129.649
Intangible assets	13.144	0	0	0
	<b>(26.080)</b>	<b>23.714</b>	<b>(44.263)</b>	<b>29.766</b>
<b>Net cash flow from financing activities (3)</b>				
<i>Cash receipts related to:</i>				
Debt to banks (Loans)	85.178	911.271	57.259	65.493
Shareholders	0	0	0	65.321
<i>Cash payments related to:</i>				
Debt to banks (Loans)	(36.014)	(918.814)	(153.485)	(6.410)
Shareholders	0	(74.983)	(20.532)	(11.262)
<b>Revenues and Costt interests</b>	<b>(5.155)</b>	<b>(54.705)</b>	<b>(3.934)</b>	<b>(58.225)</b>
	<b>44.009</b>	<b>(137.231)</b>	<b>(120.692)</b>	<b>54.917</b>
<b>Net increase/decrease in Cash (1+2+3)</b>	<b>377</b>	<b>(31.108)</b>	<b>(39.068)</b>	<b>167.469</b>
<b>Cash at beginning of year</b>	<b>409</b>	<b>58.086</b>	<b>186.695</b>	<b>256.518</b>
<b>Cash at end of year</b>	<b>786</b>	<b>26.978</b>	<b>147.627</b>	<b>423.987</b>

## Financial Statements

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Entity:xxxxxxxxxxx
Notes for the period ended at December 31, N
Name of the entity
Accounting standards used
Accounting policies
Cash flows
.....
Intangible assets
Fixed Tangible assets
Inventories
.....
Revenues
.....
Other informations



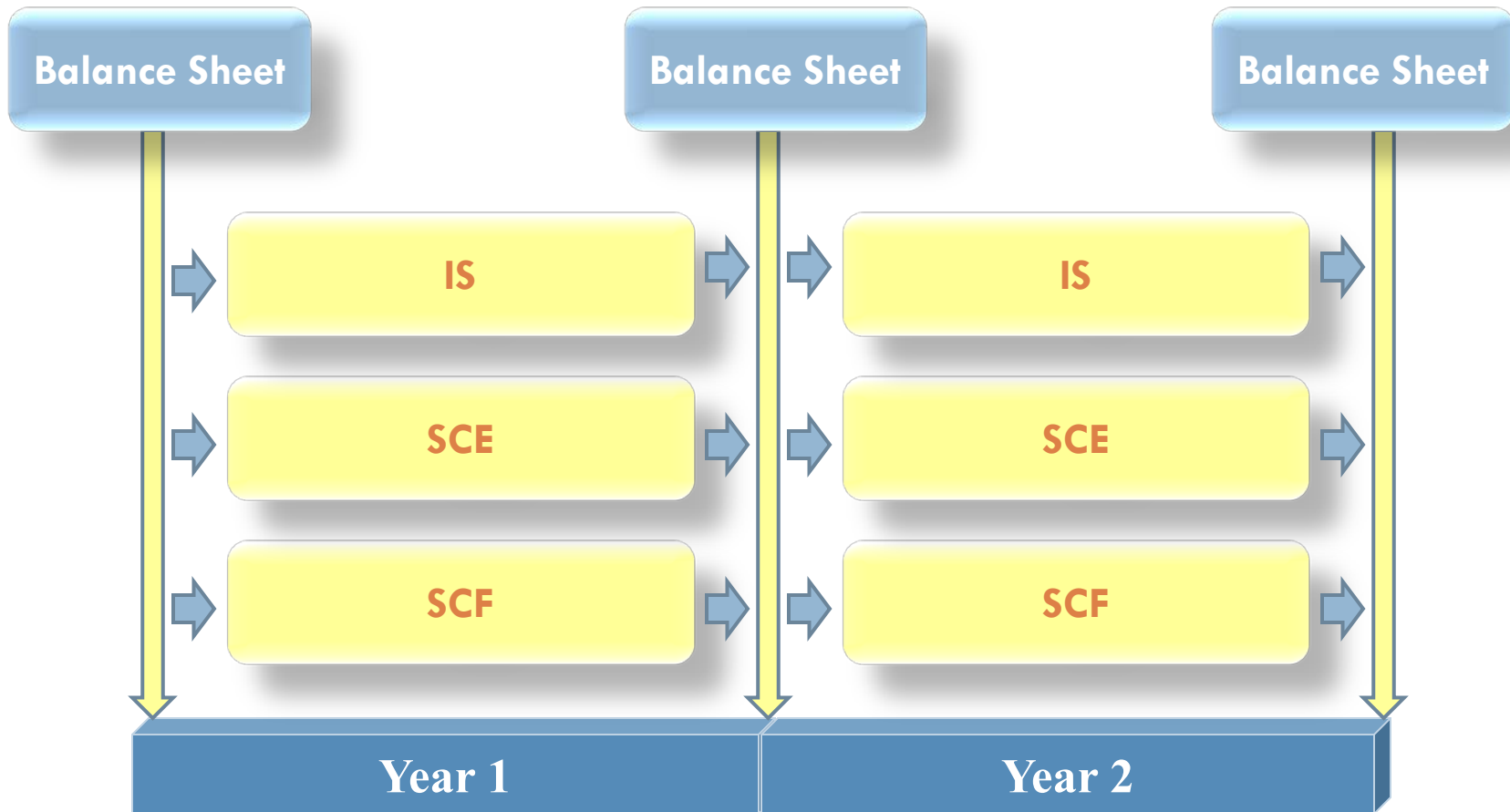
## Financial Statements

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Financial Statement	Purpose	Structure	Exemples of contend
Balance Sheet	Reports the financial position (economic resources and sources of financing) of an accounting entity at a point of time.	$\begin{array}{c} \text{Assets} \\ = \\ \text{SE} + \text{Liabilities} \end{array}$	Fixed tangible assets, costumers, cash, suppliers, equity
Income Statement	Reports accountant's primary measure of economic performance for the accounting period.	$\begin{array}{c} \text{Revenues} \\ - \text{Expenses} \\ \hline \text{Net income} \end{array}$	Sales revenue, cost of sales or cost of goods sold, interests expense, employees expenses,
Statement of Changes to Shareholders Equity	Reports the changes in shareholders equity for the accounting period. determinado período.	$\begin{array}{c} \text{SE beginning} \\ +/- \text{ Comprh. Income} \\ +/- \text{ Oper with owners} \\ \hline \text{SE end} \end{array}$	Revaluation surplus, net income, dividends that are distributed to shareholders
Statement of Cash Flow	Reports inflows (receipts) and outflows (payments) of cash for the accounting period in the categories operating, investing and financing.	$\begin{array}{c} +/- \text{ CF operating} \\ +/- \text{ CF investing} \\ +/- \text{ CF financing} \\ \hline \text{Increase or decrease CF} \end{array}$	Cash collected from costumers, cash paid to suppliers, cash paid to purchase equipment, cash borrowed from banks

## Financial Statements

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## Financial Statements

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### Income Statement

Revenues	6.000.000
Expenses	(5.300.000)
<b>Net income</b>	<b>700.000</b>

### Statement of Change in Equity

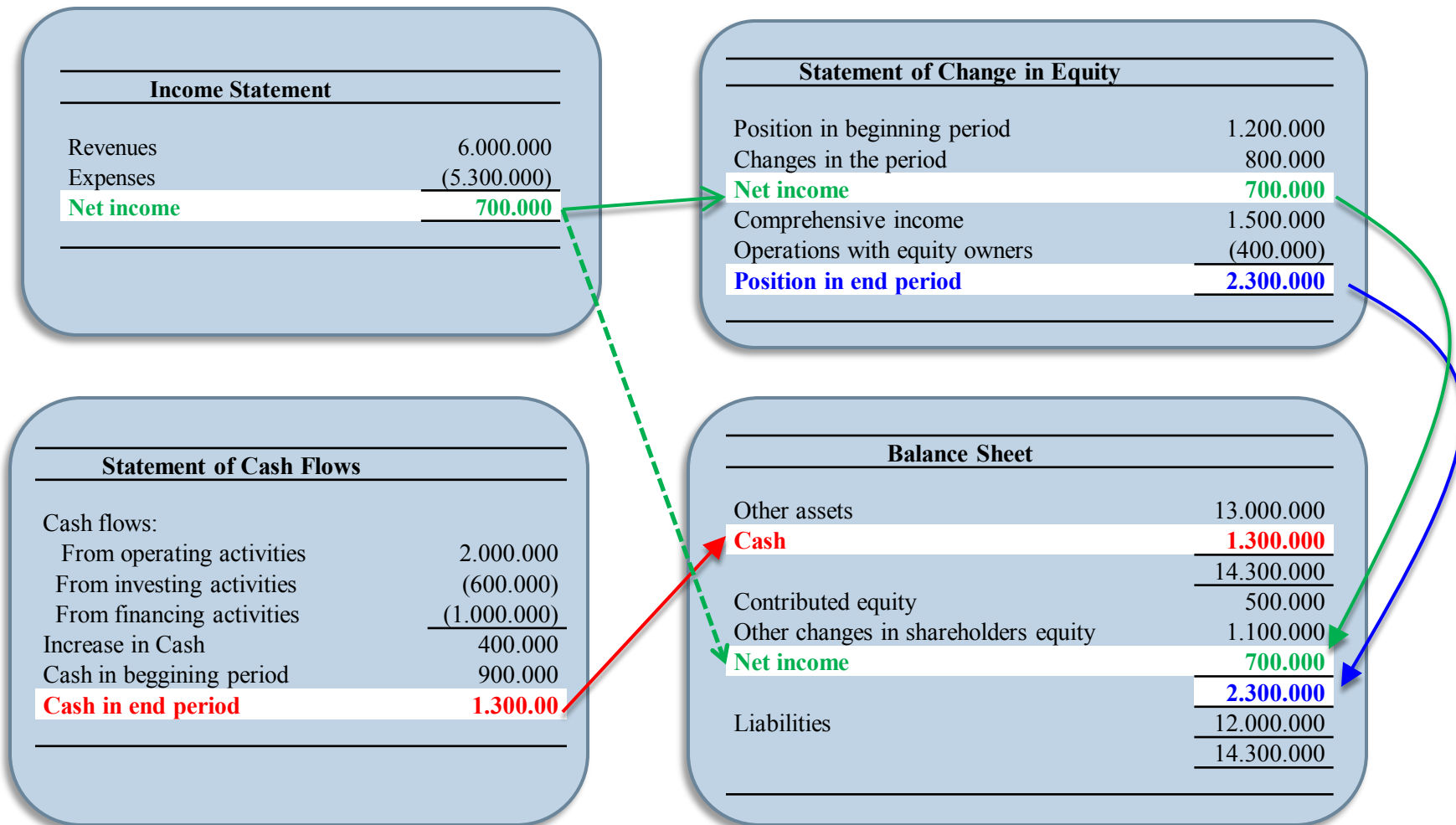
Position in beginning period	1.200.000
Changes in the period	800.000
<b>Net income</b>	<b>700.000</b>
Comprehensive income	1.500.000
Operations with equity owners	(400.000)
<b>Position in end period</b>	<b>2.300.000</b>

### Statement of Cash Flows

Cash flows:	
From operating activities	2.000.000
From investing activities	(600.000)
From financing activities	(1.000.000)
Increase in Cash	400.000
Cash in beggining period	900.000
<b>Cash in end period</b>	<b>1.300.00</b>

### Balance Sheet

Other assets	13.000.000
<b>Cash</b>	<b>1.300.000</b>
	14.300.000
Contributed equity	500.000
Other changes in shareholders equity	1.100.000
<b>Net income</b>	<b>700.000</b>
	<b>2.300.000</b>
Liabilities	12.000.000
	14.300.000



# Accounting standards

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Rules

...

National standards?

International standards?

## Accounting standards

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**ExxonMobil**



**Google**

**WAL★MART**



**Global  
players**

DAIMLERBENZ



Mercedes-Benz



Accounting standards  
**Germany**

Net income  
**602 DM millions**

Accounting standards  
**USA**

Net income  
**(1.839) DM millions**

## Normas contabilísticas

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### International Accounting Standards Board (IASB)



An independent, not-for-profit private sector organisation working in the public interest and with an international scope, founded in 1973 (London)

*Objectiv:* to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) based in general accounting accepted policies

*Standards:* was issued 41 International Accounting Standards (IAS) e 15 International Financial Reporting Standards (**IFRS**)

## Accounting standards

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### IFRS why?

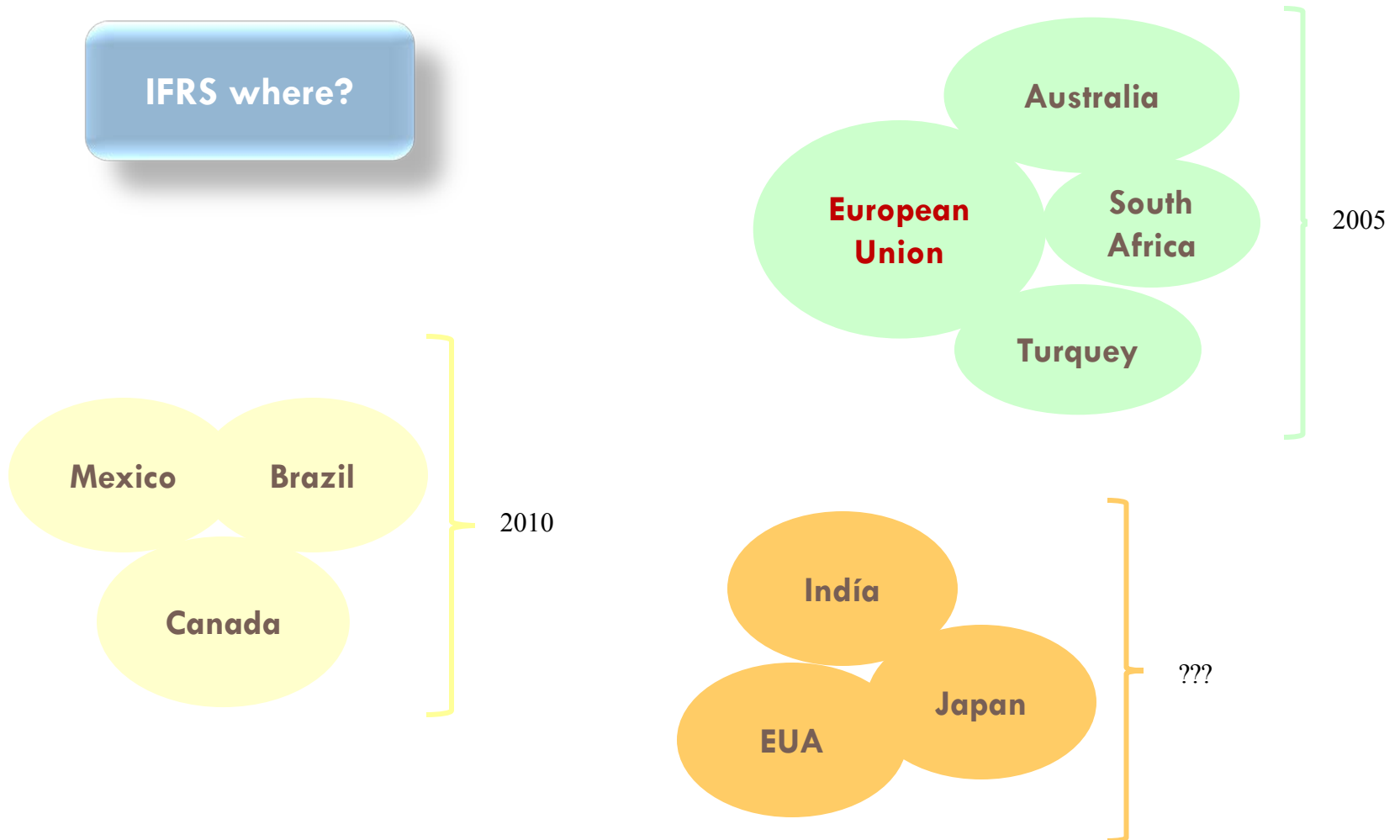
- ✓ Greater transparency of financial information
- ✓ Greater relevance of financial statements
- ✓ Greater comparability of financial statements
- ✓ Lower cost of capital and improved access to external funding sources



## Accounting standards

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IFRS where?



# Accounting standards

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## IFRS in European Union



At 2005: the IFRS are required for all firms listed in a stock exchange located in any european union country



## Accounting standards

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### IFRS in Portugal



At 2005: the IFRS are required for all portuguese firms listed in a portuguese stock exchange

At 2005: the IFRS are optional for some of portuguese firms that are not listed in a stock exchange

At 2010: the Sistema de Normalização Contabilístico (SNC) is required for all the other firms

IAS - IFRS



## Advantages with the application of IFRS



- ✓ **Companies:** ease of access to sources of financing
- ✓ **Users:** more sustained economic decisions
- ✓ **Professionals:** greater mobility and recognition of the profession

## Roles of managers and auditors

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Can we trust in information presented in financial statements?

Boar of directors

Control systems of information;

Independent external auditors to the firms;

Internal body that reviews the previous two mechanisms.



## Roles of managers and auditors

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### Independent external auditors

They examine the financial statements presented by managers.

They ensure that the financial statements present fairly, in all material respects, the financial position, results of operations, changes in equity and cash flows of the entity.



KPMG

ERNST & YOUNG

Deloitte.

pwc

**End of chapter1**