

# A86045 Accounting and Financial Reporting (2015/2016)

Session 1

Financial reporting under IFRS

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# Session 1 Overview

	Mins
Introductions	30
Course overview	15
What are IASs/IFRSs and who are the users of these?	15
Understanding financial statements	15
Recap of students' understanding of basic bookkeeping	45
Required reading and research assignment	10
Summary and validation, overview of session 2	5
	135

# INTRODUCTIONS

# Introductions

- Briefly introduce yourself (Max 2 minutes)
  - Name
  - Where you are from
  - Where you live
  - Interests/hobbies
  - What you want to do after LIUC
  - Experiences of using financial statements
  - Any special requests/needs
  - What you hope to get out of this course

# COURSE OVERVIEW

# Course Objectives

*At the end of this course students will be able to:*

- ***Read and perform a high level interpretation*** of the financial statements of companies applying international accounting standards
- ***Identify and evaluate*** the impact on a company's accounts of alternative accounting methods
- ***Carry out a high level assessment*** of the economic-financial position of a company reporting under IAS/IFRS.

# Course Overview

- |   |                                    |
|---|------------------------------------|
| 1. Financial reporting under IFRS           | 15. Inventories                    |
| 2. Financial analysis and ratios            | 16. Review                         |
| 3. Financial analysis and ratios - cont'd   | 17. Accounts receivable            |
| 4. Review                                   | 18. Group accounts                 |
| 5. Revenues                                 | 19. Taxation (direct and indirect) |
| 6. Costs and expenses                       | 20. Non-financial liabilities      |
| 7. Non-current financial assets/liabilities | 21. Review                         |
| 8. Non-current assets - Tangible assets     | 22. Review                         |
| 9. Financial leases                         | 23. Cash Flow Statement            |
| 10. Review                                  | 24. Review                         |
| 11. Non-current assets - Intangible assets  | 25. Review                         |
| 12. Impairment of assets                    | 26. Business combinations          |
| 13 Review                                   | 27. Final test                     |
| 14. Mid term test                           |                                    |

# Reference materials

Required

A L A N M E L V I L L E

Fifth Edition

**INTERNATIONAL FINANCIAL REPORTING**

A Practical Guide



E-book £34.19

Strongly recommended



Part A  
Standards (IFRS/IAS)  
Interpretations (IFRIC/SIC)  
£70 (before student discount)

2014

Technical Summary

## IFRS 1 *First-time Adoption of International Financial Reporting Standards*

as issued at 1 January 2014. Includes IFRSs with an effective date after 1 January 2014 but not the IFRSs they will replace.

*This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.*

The objective of this IFRS is to ensure that an entity's *first IFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:

- (a) is transparent for users and comparable over all periods presented;
- (b) provides a suitable starting point for accounting in accordance with *International Financial Reporting Standards (IFRSs)*; and
- (c) can be generated at a cost that does not exceed the benefits.

An entity shall prepare and present an *opening IFRS statement of financial position at the date of transition to IFRSs*. This is the starting point for its accounting in accordance with IFRSs.

An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its *first IFRS reporting period*.

In particular, the IFRS requires an entity to do the following in the opening IFRS statement of financial position that it prepares as a starting point for its accounting under IFRSs:

- (a) recognise all assets and liabilities whose recognition is required by IFRSs;
- (b) not recognise items as assets or liabilities if IFRSs do not permit such recognition;
- (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with IFRSs; and
- (d) apply IFRSs in measuring all recognised assets and liabilities.



[www.ifrs.org](http://www.ifrs.org)

40% student discount



# Other reference materials



**IFRS Learning Resources**  
**Prepared by Paul Pacter**  
**Former Board Member, IASB: [ppacter@ifrs.org](mailto:ppacter@ifrs.org)**  
**Updated March 2013**

This is a list of some English language IFRS resources available to accounting academicians, students, and others. Most of the Internet resources are available without charge (purchased access is indicated).

This list is not copyrighted and may be freely reproduced and distributed (without alteration). The latest version may be downloaded here:

<http://www.ifrs.org/Use-around-the-world/Education/Pages/Learning-Resources.aspx>

**Important:** This information in this list is provided for your convenience only. Neither the IASB nor the IFRS Foundation has reviewed or approved the contents of any of the information sources cited. It is the responsibility of the user to evaluate the content and usefulness of information.

## BDO

<http://www.bdointernational.com/Services/Audit/IFRS/Pages/default.aspx>

Includes links to a range of downloadable IFRS publications including:

- IFRS at a Glance
- Need to Know
- IFRS in Practice
- IFR Bulletins
- Illustrative financial statements

## DELOITTE TOUCHE TOHMATSU

### Comprehensive IFRS publications

#### *iGAAP 2012 – International Set*

Published by Lexis-Nexis, 3 volumes: Volume A is A Guide to IFRS. Volume B is IFRS 9 and related financial instruments standards. Volume C is IAS 39 and related financial instruments standards. ISBN 9780754544531. "This practical book provides guidance and worked examples in a principles-based approach." Purchase from [www.lexisnexis.co.uk/deloitte](http://www.lexisnexis.co.uk/deloitte).

Also available is a set tailored for the UK financial reporting environment.

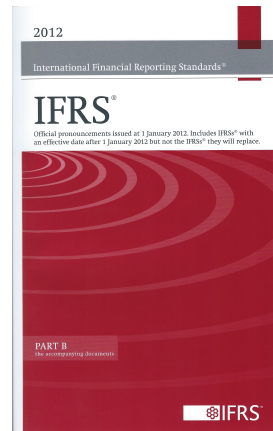
### Deloitte IFRS website

<http://www.iasplus.com>

- Free

IFRS Resources Feb 2013

1



Part B  
 Basis for conclusions (BC)  
 Illustrative examples (IE)  
 Implementation guidance (IG)

## Good Group Illustrative IFRS Financial Statements



# Teaching methods

- Pre-reading
- Research
- Lecture
- Discussion
- Exercises
- Assignments
- Q&A
- Mid-term and final tests
- Office hour each week

## Ground Rules

1. Be on time and don't leave early
2. Mobiles and laptops off
3. Don't come and go
4. Hand in assignments on time



Document

Memo - Rules



*Please text or e-mail for an appointment beforehand*

# WHAT ARE IAS/IFRS?

# Objectives of Session 1

*At the end of this session students will be able to:*

- **Understand** why there is a need for consistent international financial reporting
- Be able to **identify** the international accounting standards currently in force
- **Know** what the 5 components of financials statements required by IAS1 are, the alternate presentations available and, understand the purpose of each of these
- **Understand** how the 4 financial statements interlink with each other.

# The development of accounting standards– a response to the evolution of business

- Cash accounting
- Accruals accounting
- Mergers and acquisitions/Joint ventures
- International trade
- International stakeholders
- Inflation/hyperinflation
- Foreign investments/Operations
- Investment incentives
- Venture capital/Private Equity
- Diversification/Conglomerates
- Leasing/Corporate Finance/Global Capital Markets
- Pensions and OPEBS
- Stock options
- Corporate failures/restructurings
- Financial instruments/Risk Management
- Multiple elements
- Governments' need for tax revenues
- **Accounting scandals**

*Growing need for consistency and comparability for the various stakeholders:*  
*Performance*  
*Financial Position*  
*Cash Flows*

# Accounting Scandals

Session 1 SM 6 Accounting Fraud and Scandals

Year	Company	Country	Estimated Amount \$ billion	Nature of fraud or scandal
2001	Enron	USA	74.0	Hid debt in SPVs
2008	Bernie Madoff	USA	64.8	Ponzi scheme
2008	Lehman Brothers	USA	50.0	Loans disguised as sales
2008	Anglo Irish Bank	Ireland	15.0	Impairment losses
2003	Parmalat	Italy	10.6	Falsification of earnings, assets and debts
2012	Autonomy	USA	8.8	HP acquisition Software sales accounting
2003	Freddi Mac	USA	5.0	Misstaed earnings
2005	AIG	USA	3.9	Recorded loans as revenues,
2011	Sino-Forest	Canada/China	3.0	Fraudulent inflation of assets and earnings
2002	Worldcom	USA	3.0	Capitalized expenses
2000	Xerox	USA	2.0	Equipment sales revenues on leased copiers
2004	Chiquita Brands	USA	1.7	Illegal payments to paramilitary groups
1998	Waste Management	USA	1.7	Increased useful life of assets
2009	Saytam	India	1.5	Falsified revenues, margins and cash.
2003	Healthsouth	USA	1.4	Staff ordered to make up transactions
2011	Olympus	Japan	1.0	Takeover fees used to hide losses
2003	Nortel	Canada	0.5	Release of reserves to boost earnings
2002	Royal Ahold	Netherlands	0.5	Accelerated recognition of vendor rebates
2002	Tyco	USA	0.5	Capitalized costs and officer loans
2014	Tesco	UK	0.3	Overstated supplier rebates

# Users of IFRS - Stakeholder needs

Stakeholder	Needs
Shareholders	Stewardship of management, Returns
Creditors	Safe to sell to?
Banks	Safe to lend to? Need to recall loan?
Customers	Safe source of supply?
Tax authorities	Share of profits, Sales taxes
Employees	Profit sharing, job stability
Management	Bonus calculation
Sales force	Commissions
Credit rating agencies	Assign rating
Potential investors	Future prospects

*How do you think that you might need to use published financial statements in the future?*

# Motives of Preparers

	Sole Trader	Partnership	Private Limited Company	Public Limited Company
	Owner Manager	2 or more Owner Managers	Family Owned & Managed	Publicly Owned
				Board of Directors
				Managers
Tax	✓	✓	✓	✓
Income/ Dividends		✓	✓	✓
Stewardship			✓	✓
Share Price				✓



# What is GAAP?

**G**      **Generally**  
**A**      **Accepted**  
**A**      **Accounting**  
**P**      **Principles**

US GAAP

UK GAAP

Italian GAAP

International GAAP

Any Jurisdiction GAAP

Standard setters

- Legislators/Governments
  - Company Law
  - EU
- Accounting bodies
  - IASB
  - OIC
  - FASB
- Stock Exchanges
  - CONSOB
  - SEC

IFRS Required for all Public Interest Entities in the EU since 01.01.2005.  
IFRS Allowed for Foreign Private Issuers in the US.

# The Current List of IAS and IFRS

Standard	Date Issued	Effective Date
IFRS 1	Nov 2008	From July 1 2009
IFRS 2	Feb 2004	From January 1 2005
IFRS 3	Jan 2008	From July 1 2009
IFRS 4	Dec 2005	From January 1 2005
IFRS 5	Mar 2004	From January 1 2005
IFRS 6	Dec 2004	From January 1 2006
IFRS 7	Aug 2005	From January 1 2007
IFRS 8	Nov 2006	From January 1 2009
IFRS 9	Oct 2010	From January 1 2015
IFRS 9	July 2014	From January 1 2018
IFRS 10	May 2011	From January 1 2013
IFRS 11	May 2011	From January 1 2013
IFRS 12	May 2011	From January 1 2013
IFRS 13	May 2011	From January 1 2013
IFRS 14	Jan 2014	From January 1 2016
IFRS 15	May 2014	From January 1 2018
IFRS 16	Jan 2016	From January 1 2019
IAS 1	Sep 2007	From January 1 2009
IAS 2	Dec 2003	From January 1 2005
IAS 3		<i>Consolidated Financial Statements (Superseded by IAS 27 and 28)</i>
IAS 4		<i>Depreciation Accounting (Replaced by IAS 16, 22 and 38)</i>
IAS 5		<i>Information to be disclosed in Financial Statements (Replaced by IAS 1)</i>
IAS 6		<i>Accounting Responses to Changing Prices (Superseded by IAS 15)</i>
IAS 7		<i>Statement of Cash Flows</i>
IAS 8	Apr 2001	From January 1 1994
IAS 8	Dec 2003	From January 1 2005
IAS 9		<i>Accounting for Research and Development Activities (Superseded by IAS 38)</i>
IAS 10	Dec 2003	From January 1 2005
IAS 11	Apr 2001	From January 1 1995
IAS 12	Apr 2001	From January 1 1998
IAS 13		<i>Presentation of Current Assets and Liabilities (Superseded by IAS 1)</i>
IAS 14		<i>Segment Reporting (Superseded by IFRS 8)</i>
IAS 15		<i>Information Reflecting the Effects of Changing Prices (Withdrawn in December 2003)</i>
IAS 16	Dec 2003	From January 1 2005
IAS 17	Dec 2003	From January 1 2005
IAS 18	Apr 2001	From January 1 1995
IAS 19	Jun 2011	From January 1 2013
IAS 20		<i>Accounting for Government grants and Disclosure of Government Assistance</i>
IAS 21	Dec 2003	From January 1 2005
IAS 22		<i>Business Combinations (Replaced by IFRS 3)</i>
IAS 23	Mar 2007	From January 1 2009
IAS 24	Nov 2009	From January 1 2011
IAS 25		<i>Accounting for Investments (Superseded by IAS 39 and 40)</i>
IAS 26	Apr 2001	From January 1 1988
IAS 27	May 2011	From January 1 2013
IAS 28	Dec 2003	From January 1 2013
IAS 29	Apr 2001	From January 1 1990
IAS 30		<i>Disclosures in Financial Statements of Banks and Similar Financial Institutions (Superseded by IFRS 7)</i>
IAS 31	Dec 2003	From January 1 2005
IAS 32	Dec 2003	From January 1 2005
IAS 33	Dec 2003	From January 1 2005
IAS 34	Apr 2001	From January 1 1999
IAS 35		<i>Discontinued Operations (Replaced by IFRS 5)</i>
IAS 36	Mar 2004	From March 31 2004
IAS 37	Apr 2001	From July 1 1999
IAS 38	Mar 2004	From March 31 2004
IAS 39	Dec 2003	From January 1 2005
IAS 40	Dec 2003	From January 1 2005
IAS 41	Dec 2003	From January 1 2003
		<i>Replaced or superseded</i>
		<i>Under revision</i>
		<i>Early adoption possible</i>

**Warning! Not all IASs and IFRSs have been endorsed by the EU. Latest position can be found at [www.efrag.org](http://www.efrag.org)**

# Evolution of Accounting

	1970s	1980s	1990s	2000	2010
US	FAS 1	FAS 16		FAS 168 Codification	
UK	SSAP 1	SSAP 13	SSAP 25 FRS 1		
IASC	IAS 1			IAS 41 IFRS 1	IFRS 16
EU		IV & VII Directives		IFRS Endorsed	

Self-regulated  
professions.  
Mainly national  
standards

High inflation  
Growth in  
capital markets

Hi-tech, Dotcom  
boom  
Private equity  
Globalization  
Internet

Financial  
engineering  
Financial Crash  
Regulation

Governments  
search for  
revenues

# Link Between IFRS and Course Sessions

Session	Day	Date	Time	Hours	Session	Teacher	Melville Chapter	Primary IAS/IFRS	Additional relevant IASs/IFRSs								
									IFRS 5	IFRS 8	IAS 8	IAS 10	IAS 20	IAS 21	IAS 24	IAS 33	IAS 34
1	Monday	22 February	09.00- 12.00	3	Financial reporting under IFRS	Paul Smith	1,2,3,4, 21,23	IAS 1	IFRS 5	IFRS 8	IAS 8	IAS 10	IAS 20	IAS 21	IAS 24	IAS 33	IAS 34
2	Thursday	25 February	09.00 - 11.00	2	Financial analysis and ratios	Paul Smith	22,24										
3	Monday	29 February	09.00- 12.00	3	Financial analysis and ratios cont'd	Paul Smith	22,24										
4	Thursday	3 March	09.00 - 11.00	2	Review session	Paul Smith											
5	Monday	7 March	09.00- 12.00	3	Revenues	Paul Smith	13	IAS 18/IFRS 15	IFRS 13	IAS 11							
6	Thursday	10 March	09.00 - 11.00	2	Costs and expenses	Paul Smith	14		IFRS 13	IFRS 2	IAS 19						
7	Monday	14 March	09.00- 12.00	3	Non-current Financial Assets/Liabilities	Paul Smith	11	IFRS 9	IFRS 13	IFRS 7	IAS 32	IAS 39					
8	Thursday	17 March	09.00 - 11.00	2	Non-current assets -Tangible assets	Elena Montani	5	IAS 16	IFRS 13	IAS 23	IAS 40						
9	Monday	21 March	09.00- 12.00	3	Financial leases	Elena Montani	9	IAS 17/IFRS 16	IFRS 13								
10	Thursday	31 March	09.00 - 11.00	2	Review session	Elena Montani											
11	Monday	4 April	09.00- 12.00	3	Non-current assets - Intangible assets	Elena Montani	6	IAS 38	IFRS 13	IFRS 6							
12	Thursday	7 April	09.00 - 11.00	2	Impairment of assets	Patrizia Tettamanzi	7	IAS 36	IFRS 13								
13	Monday	11 April	09.00-12.00	2	Review session	Elena Montani											
14	Thursday	14 April			Mid-term test	Paul Smith											
15	Monday	18 April	09.00- 12.00	3	Current assets - Inventories	Elena Montani	10	IAS 2	IFRS 13	IAS 11							
16	Tuesday	19 April	09.00 - 11.00	2	Review session	Paul Smith											
17	Thursday	21 April	09.00 - 11.00	2	Current assets - Accounts receivable	Paul Smith											
18	Tuesday	26 April	09.00- 12.00	2	Group accounts	Patrizia Tettamanzi	17,18,19,20	IFRS 10	IFRS 13	IFRS 11	IFRS 12	IAS 27	IAS 28	IAS 29			
19	Thursday	28 April	09.00- 12.00	2	Taxation - Direct & Indirect	Elena Montani	15	IAS 12									
20	Monday	2 May	09.00 - 11.00	3	Non-Financial liabilities	Paul Smith	12	IAS 37	IFRS 13	IAS 19							
21	Tuesday	3 May	09.00- 12.00	2	Review session	Patrizia Tettamanzi											
22	Thursday	5 May	09.00 - 11.00	2	Review session	Patrizia Tettamanzi											
23	Monday	9 May	09.00- 12.00	3	Cash flow statement	Elena Montani	16	IAS 7									
24	Thursday	12 May	09.00 - 11.00	2	Review session	Patrizia Tettamanzi											
25	Monday	16 May	09.00 - 11.00	3	Review session	Patrizia Tettamanzi											
26	Thursday	19 May	09.00-11.00	2	Business combinations	Paul Smith	6	IFRS 3	IFRS 13								
27	Thursday	26-May			Final test												

60

**IASs and IFRSs not addressed**

First time adoption  
 Insurance contracts  
 Regulatory deferral accounts  
 Retirement benefit plans  
 Agriculture

IFRS 1  
 IFRS 4  
 IFRS 14  
 IAS 26  
 IAS 41

# What the ISAs and IFRSs Contain

- Objective
- Scope (What's in/not in)
- Definitions
- Recognition, measurement, and subsequent accounting
- Disclosures
- Effective date
- Transition provisions

# UNDERSTANDING THE FINANCIAL STATEMENTS REQUIRED BY IAS 1

# General Requirements for Financial statements – IAS 1

- Fair presentation and compliance with IFRSs
- Going concern basis
- Accrual basis of accounting
- Materiality and aggregation
- Offsetting
- Frequency of reporting
- Comparative information
- Consistency of presentation

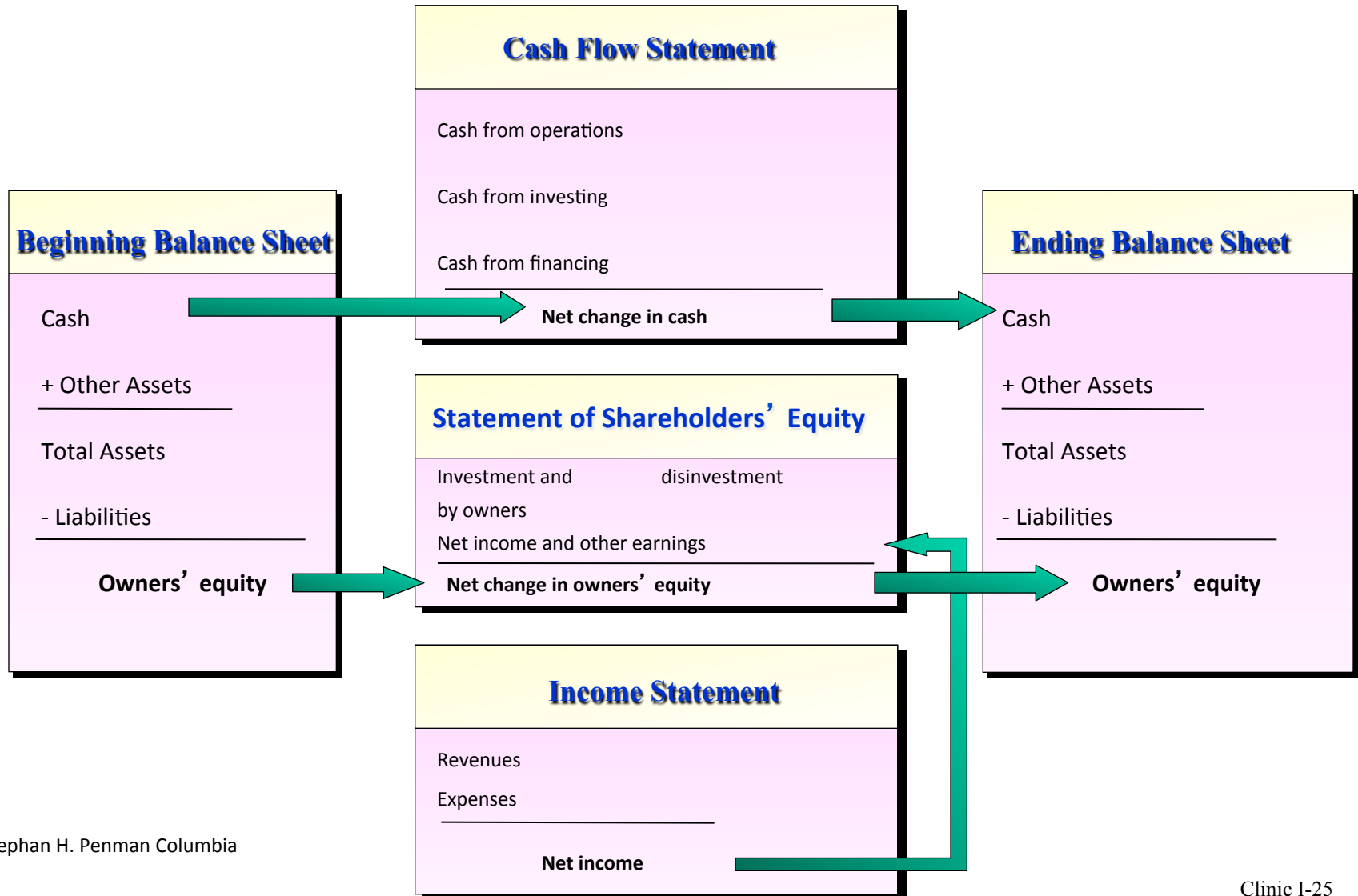
# Understanding the Financial Statements Required by IAS 1

- Statement of profit or loss and other comprehensive income
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements

Together with comparative financial information



# The Articulation of the Financial Statements



# The Statement of Profit or Loss and Other Comprehensive Income

## Appendix 1 - Consolidated statement of profit or loss and other comprehensive income (example of a single statement)

for the year ended 31 December 2013

IAS 1.49

### Commentary

The Group presents the statement of profit or loss in two separate statements. For illustrative purposes, the statement of profit or loss is presented as a single statement of comprehensive income in this appendix.

Notes	2013	2012	
	€000	Restated* €000	
			IAS 1.100(d) IAS 1.51(c) IAS 8.28 IAS 1.51(d)(e)
<b>Continuing operations</b>			
Sale of goods	161,927	144,551	IAS 18.350(x)
Rendering of services	17,131	16,537	IAS 18.350(x)(i)
Rental income	1,404	1,377	IAS 18.350(x)(i)
<b>Revenue</b>	<b>180,462</b>	<b>162,465</b>	IAS 1.82(a)
Cost of sales	(136,448)	(128,533)	IAS 1.103
<b>Gross profit</b>	<b>44,014</b>	<b>33,932</b>	IAS 1.85
Other operating income	12.1 1,585	2,548	IAS 1.103
Selling and distribution expenses	(14,001)	(12,964)	IAS 1.103
Administrative expenses	(18,428)	(12,156)	IAS 1.103
Other operating expenses	12.2 (1,153)	(706)	IAS 1.103
<b>Operating profit</b>	<b>12,017</b>	<b>10,654</b>	IAS 1.85
Finance costs	12.3 (2,766)	(1,123)	IAS 1.85-56 IAS 1.83(b)
Finance income	12.4 1,186	211	IAS 1.82(a) IFRS 7.20
Share of profit of an associate and a joint venture	9.10 671	638	IAS 1.82(c)
<b>Profit before tax from continuing operations</b>	<b>11,108</b>	<b>10,380</b>	IAS 1.85
Income tax expense	14 (3,098)	(2,683)	IAS 1.82(d) IAS 12.77
<b>Profit for the year from continuing operations</b>	<b>8,010</b>	<b>7,697</b>	IAS 1.85
<b>Discontinued operations</b>			
Profit/(loss) after tax for the year from discontinued operations	13 220	(188)	IAS 1.83(ea) IFRS 5.33(a)
<b>Profit for the year</b>	<b>8,230</b>	<b>7,509</b>	IAS 1.81(a)(c)
<b>Other comprehensive income</b>			IAS 1.81(b)(d) IAS 1.82A
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net gain on hedge of net investment	278	-	IAS 39.102(a)
Exchange differences on translation of foreign operations	(246)	(117)	IAS 21.32
Net movement of cash flow hedges	12.8 (732)	33	IFRS 7.23(c)
Net (losses)/gains on available-for-sale financial assets	12.8 (58)	3	
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gains/(losses) on defined benefit plans	29 369	(389)	IAS 19.120(c)
Revaluation of land and buildings	16 846	-	
Income tax relating to the components of OCI	14 (211)	106	IAS 1.90
<b>Other comprehensive income for the year, net of tax</b>	<b>246</b>	<b>(364)</b>	IAS 1.81(a)(d)
<b>Total comprehensive income for the year, net of tax</b>	<b>8,476</b>	<b>7,145</b>	IAS 1.81(a)(c)

\* Certain numbers shown here do not correspond to those in the 2012 financial statements and reflect adjustments made as detailed in Note 2.4.

Profit or loss  
+  
Other comprehensive income  
=  
Comprehensive income

Companies can choose to present either a single statement or two separate statements

# The Profit and Loss Account

## Two alternative presentations

### By Destination

Consolidated statement of profit or loss  
for the year ended 31 December 2013

Notes	2013		2012		IAS 1.49 IAS 1.100 IAS 1.104 IAS 1.51(c) IAS 8.20
	€000	€000	Restated*	Restated*	
<b>Continuing operations</b>					IAS 1.51(d)(iv)
Sale of goods	161,927	144,551	144,551	144,551	IAS 1.81A
Rendering of services	17,131	16,537	16,537	16,537	IAS 1.8.35(d)(i)
Rental income	1,404	1,377	1,377	1,377	IAS 1.8.35(d)(i)
<b>Revenue</b>	<b>180,462</b>	<b>162,465</b>	<b>162,465</b>	<b>162,465</b>	IAS 1.80(a)
Cost of sales	(136,448)	(128,533)	(128,533)	(128,533)	IAS 1.103
<b>Gross profit</b>	<b>44,014</b>	<b>33,932</b>	<b>33,932</b>	<b>33,932</b>	IAS 1.85, IAS 1.103
Other operating income	1,585	2,548	2,548	2,548	IAS 1.103
Selling and distribution expenses	(14,001)	(12,964)	(12,964)	(12,964)	IAS 1.103
Administrative expenses	(18,428)	(12,156)	(12,156)	(12,156)	IAS 1.103
Other operating expenses	(1,153)	(706)	(706)	(706)	IAS 1.103
<b>Operating profit</b>	<b>12,017</b>	<b>10,654</b>	<b>10,654</b>	<b>10,654</b>	IAS 1.85, IAS 1.8C55-56
Finance costs	(2,766)	(1,123)	(1,123)	(1,123)	IAS 1.80(b), IFRS 7.20
Finance income	1,186	211	211	211	IAS 1.80(a)
Share of profit of an associate and a joint venture	671	638	638	638	IAS 1.80(c)
<b>Profit before tax from continuing operations</b>	<b>11,108</b>	<b>10,380</b>	<b>10,380</b>	<b>10,380</b>	IAS 1.85
Income tax expense	(3,098)	(2,683)	(2,683)	(2,683)	IAS 1.80(g), IAS 12.77
<b>Profit for the year from continuing operations</b>	<b>8,010</b>	<b>7,697</b>	<b>7,697</b>	<b>7,697</b>	IAS 1.85
<b>Discontinued operations</b>					
Profit/(loss) after tax for the year from discontinued operations	220	(188)	(188)	(188)	IAS 1.82 (ex), IFRS 5.33(a)
<b>Profit for the year</b>	<b>8,230</b>	<b>7,509</b>	<b>7,509</b>	<b>7,509</b>	IAS 1.81A (a)
Attributable to:					
Equity holders of the parent	7,942	7,270	7,270	7,270	IAS 1.81B (a)(i)
Non-controlling interests	288	239	239	239	IAS 1.81B (a)(ii)
	<b>8,230</b>	<b>7,509</b>	<b>7,509</b>	<b>7,509</b>	
Earnings per share					IAS 33.66
► Basic, profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.38	€0.38	€0.38	
► Diluted, profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.37	€0.37	€0.37	
Earnings per share for continuing operations					
► Basic, profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.39	€0.39	€0.39	
► Diluted, profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.38	€0.38	€0.38	

\* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 2.4.

### By Nature

Appendix 2 - Consolidated statement of profit or loss  
(example of expenses disclosed by nature)

for the year ended 31 December 2013

IAS 1.100  
IAS 1.51(c)

#### Commentary

The Group presents the statement of profit or loss disclosing expenses by function. For illustrative purposes, the statement of profit or loss disclosing expenses by nature is presented in this appendix.

Notes	2013		2012		IAS 1.51(d)(iv)
	€000	€000	Restated*	Restated*	
<b>Continuing operations</b>					
Sale of goods	161,927	144,551	144,551	144,551	IAS 1.8.35(d)(i)
Rendering of services	17,131	16,537	16,537	16,537	IAS 1.8.35(d)(i)
Rental income	1,404	1,377	1,377	1,377	IAS 1.8.35(d)(i)
<b>Revenue</b>	<b>180,462</b>	<b>162,465</b>	<b>162,465</b>	<b>162,465</b>	IAS 1.80(a)
Other operating income	1,585	2,548	2,548	2,548	IAS 1.102
Changes in inventories of finished goods and work in progress	(1,133)	(3,842)	(3,842)	(3,842)	IAS 1.102
Raw materials and consumables used	(127,739)	(111,051)	(111,051)	(111,051)	IAS 1.102
Employee benefits expense	(35,880)	(35,153)	(35,153)	(35,153)	IAS 1.102
Depreciation and amortisation	(3,523)	(3,306)	(3,306)	(3,306)	IAS 1.102
Impairment of non-current assets	(200)	(301)	(301)	(301)	IAS 1.102
Other expenses	(1,153)	(706)	(706)	(706)	IAS 1.102
Finance costs	(2,766)	(1,123)	(1,123)	(1,123)	IAS 1.80(b)
Finance income	1,186	211	211	211	IAS 1.80(a)
Share of profit of an associate and a joint venture	671	638	638	638	IAS 1.80(c)
<b>Profit before tax from continuing operations</b>	<b>11,108</b>	<b>10,380</b>	<b>10,380</b>	<b>10,380</b>	IAS 1.85
Income tax expense	(3,098)	(2,683)	(2,683)	(2,683)	IAS 12.77
<b>Profit for the year from continuing operations</b>	<b>8,010</b>	<b>7,697</b>	<b>7,697</b>	<b>7,697</b>	IAS 1.85
<b>Discontinued operations</b>					
Profit/(loss) after tax for the year from discontinued operations	220	(188)	(188)	(188)	IAS 1.82(a) IFRS 5.33(a)
<b>Profit for the year</b>	<b>8,230</b>	<b>7,509</b>	<b>7,509</b>	<b>7,509</b>	IAS 1.81A(a)
Attributable to:					
Equity holders of the parent	7,942	7,270	7,270	7,270	IAS 1.81B (a)(i)
Non-controlling interests	288	239	239	239	IAS 1.81B (a)(ii)
	<b>8,230</b>	<b>7,509</b>	<b>7,509</b>	<b>7,509</b>	
Earnings per share					IAS 33.66
► Basic profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.38	€0.38	€0.38	
► Diluted profit for the year attributable to ordinary equity holders of the parent	€0.38	€0.37	€0.37	€0.37	
Earnings per share for continuing operations					
► Basic profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.39	€0.39	€0.39	
► Diluted profit from continuing operations attributable to ordinary equity holders of the parent	€0.37	€0.38	€0.38	€0.38	

\* Certain numbers shown here do not correspond to those in the 2012 financial statements and reflect adjustments made as detailed in Note 2.4.

# Profit & Loss Account by Nature and by destination

Session 1 SM3 Profit and Loss Account by Nature and by Destination

	Revenues	Cost of sales	Gross profit	Other operating income	Selling and distribution expenses	Administrative expenses	Other operating expenses	Operating profit	Finance costs	Finance income	Share of profit of associate and JV	Profit before tax cont operations	Income tax expense	Profit for the year from cont operations	Profit after tax from discont operations	Profit for the year
<b>Continuing operations</b>																
Revenues	180.462	180.462														
Other operating income	1.584			1.584												
Changes in inventories	(1.134)	(1.134)														
Raw materials and consumables	(127.739)	(127.739)														
Employee benefits expense	(35.880)	(3.451)			(14.001)	(18.428)										
Depreciation and amortization	(3.922)	(3.922)														
impairment on non-current assets	(200)	(200)														
Other expenses	(1.153)	(2)														
Finance costs	(2.766)						(1.151)		(2.766)							
Finance income	1.186									1.186						
Share of profit of associate and JV	671										671					
Profit before tax from continuing operations	11.109							12.018								
Income tax expense	(3.098)											(3.098)				
<b>Profit for the year from continuing operations</b>	<b>8.011</b>															
<b>Discontinued operations</b>																
Profit after tax from discontinued operations	220															
<b>Profit for the year</b>	<b>8.231</b>															
	180.462	(136.448)	44.014	1.584	(14.001)	(18.428)	(1.151)	12.018	(2.766)	1.186	671	11.109	(3.098)	8.011	220	8.231

# Other Comprehensive Income

## Consolidated statement of other comprehensive income for the year ended 31 December 2013

Notes	2013	2012	
	€000	Restated* €000	
			IAS 1.51(f) IAS 1.81A
			IAS 1.100(b) IAS 8.28
			IAS 1.51(f)(e) IAS 1.90 IAS 12.61A
<b>Profit for the year</b>	<b>8,230</b>	<b>7,509</b>	IAS 1.81A (a)
<b>Other comprehensive income</b>			IAS 1.82A IAS 1.82A
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net gain on hedge of a net investment	278	–	IAS 39.102(a)
Income tax effect	(83)	–	
	195	–	
Exchange differences on translation of foreign operations	(246)	(117)	IAS 21.32 IAS 21.52
Income tax effect	–	–	
	(246)	(117)	
Net movement on cash flow hedges	12.8 (732)	33	IFRS 7.23(c)
Income tax effect	220	(9)	
	(512)	24	
Net (loss)/gain on available-for-sale financial assets	12.8 (58)	3	IFRS 7.20(a)(ii)
Income tax effect	18	(1)	
	(40)	2	
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>(603)</b>	<b>(91)</b>	IAS 1.82A
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
			IAS 1.90
Re-measurement gains (losses) on defined benefit plans	29 369	(389)	IAS 19.120(c) IAS 19.122
Income tax effect	(112)	116	
	257	(273)	
Revaluation of land and buildings	16 846	–	IAS 16.39
Income tax effect	(254)	–	
	592	–	
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>849</b>	<b>(273)</b>	IAS 1.82A
<b>Other comprehensive income for the year, net of tax</b>	<b>246</b>	<b>(364)</b>	IAS 1.81A(d)
<b>Total comprehensive income for the year, net of tax</b>	<b>8,476</b>	<b>7,145</b>	IAS 1.81A (c)
Attributable to:			
Equity holders of the parent	8,188	6,906	IAS 1.81B (b)(i)
Non-controlling interests	288	239	IAS 1.81B (b)(ii)
	<b>8,476</b>	<b>7,145</b>	

\* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 2.4.

- Items not included in profit and loss such as:
  - Changes in **revaluation surplus** relating to property, plant and equipment and intangible assets
  - **Actuarial profits and losses** on defined benefit plans
  - Gains and losses arising from **translating the financial statements** of a foreign operation
  - Gains and losses on re-measuring **available-for sale financial assets**
  - The effective portion of gains and losses on **hedging instruments in a cash flow hedge**

Categorized according to whether they will subsequently be reclassified to P&L

# The Statement of Financial Position

## Current/Non-Current Distinction

Consolidated statement of financial position

as at 31 December 2013

Notes	2013		2012		As at 1 January 2012		IAS 1.10(a) IAS 1.10(f) IAS 1.51(c) IAS 8.28 IAS 1.51(d),(e)
	€000	€000	Restated*	Restated*	€000	€000	
<b>Assets</b>							
<b>Non-current assets</b>							
Property, plant and equipment	16	32,979	24,329	18,940	IAS 1.60, IAS 1.40B IAS 1.54(a)		
Investment properties	17	8,893	7,983	7,091	IAS 1.54(b)		
Intangible assets	18	6,019	2,461	2,114	IAS 1.54(c)		
Investment in an associate and a joint venture	9,10	3,187	2,516	1,878	IAS 1.54(d), IAS 28, 38		
Non-current financial assets	20	6,425	3,491	3,269	IAS 1.54(e), IFRS 7.8		
Deferred tax assets	14	383	365	321	IAS 1.54(f), IAS 1.56		
		57,886	41,145	33,613			
<b>Current assets</b>							
Inventories	21	23,262	24,085	26,063	IAS 1.60 IAS 1.54(g)		
Trade and other receivables	22	27,672	24,290	25,537	IAS 1.54(h)		
Prepayments	20	244	165	226	IAS 1.55		
Other current financial assets	23	551	153	137	IAS 1.54(i), IFRS 7.8		
Cash and short-term deposits	23	17,112	14,916	11,066	IAS 1.54(j)		
Assets classified as held for distribution	13	68,841	63,609	63,029			
		13,554	-	-	IAS 1.54(j), IFRS 5.38		
		82,395	63,609	63,029			
<b>Total assets</b>		<b>140,281</b>	<b>104,754</b>	<b>96,642</b>			
<b>Equity and liabilities</b>							
<b>Equity</b>							
Issued capital	24	21,888	19,388	19,388	IAS 1.54(r)		
Share premium	24	4,780	80	-	IAS 1.54(r), IAS 1.78(e)		
Treasury shares	24	(508)	(654)	(774)	IAS 1.54(r), IAS 1.78(e)		
Other capital reserves	24	1,171	864	566	IAS 1.54(s), IAS 1.78(e)		
Retained earnings		35,052	28,935	23,538	IAS 1.54(r), IAS 1.78(e)		
Other components of equity		(649)	(512)	(421)	IAS 1.54(r), IAS 1.78(e)		
Non-cash distribution liability	25	(410)	-	-			
Reserves of a disposal group classified as held for distribution	13	46	-	-			
<b>Equity attributable to equity holders of the parent</b>		<b>61,370</b>	<b>48,101</b>	<b>42,297</b>			
Non-controlling interests		2,410	740	208	IAS 1.54(q)		
<b>Total equity</b>		<b>63,780</b>	<b>48,841</b>	<b>42,505</b>			
<b>Non-current liabilities</b>							
Interest-bearing loans and borrowings	20	20,346	21,703	19,574	IAS 1.60 IAS 1.54(m)		
Other non-current financial liabilities	20	806	-	-	IAS 1.54(m), IFRS 7.8		
Provisions	26	1,950	77	60	IAS 1.54(n)		
Government grants	27	3,300	1,400	795	IAS 20.24		
Deferred revenue	28	196	165	174	IAS 1.55		
Net employee defined benefit liabilities	29	3,050	2,977	2,526	IAS 1.55, IAS 1.78(d)		
Other liabilities	29	263	232	212	IAS 1.55		
Deferred tax liabilities	14	2,931	1,089	1,083	IAS 1.54(o), IAS 1.56		
		32,842	27,643	24,424			
<b>Current liabilities</b>							
Trade and other payables	31	19,444	20,730	19,850	IAS 1.60, IAS 1.69 IAS 1.54(k)		
Interest-bearing loans and borrowings	20	2,460	2,775	4,555	IAS 1.54(m), IFRS 7.8(f)		
Other current financial liabilities	20	3,040	303	303	IAS 1.54(m), IFRS 7.8		
Government grants	27	149	151	150	IAS 1.55, IAS 20.24		
Deferred revenue	28	220	200	190	IAS 1.55		
Income tax payable	28	3,961	4,013	4,625	IAS 1.54(n)		
Provisions	26	850	98	40	IAS 1.54(o)		
Non-cash distribution liability	25	410	-	-			
Liabilities directly associated with the assets classified as held for distribution	13	30,534	28,270	29,713			
		13,125	-	-	IAS 1.54(p), IFRS 5.38		
		43,659	28,270	29,713			
<b>Total liabilities</b>		<b>76,501</b>	<b>55,913</b>	<b>54,137</b>			
<b>Total equity and liabilities</b>		<b>140,281</b>	<b>104,754</b>	<b>96,642</b>			

\* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Notes 2.4 and 7.

## Exceptionally, in order of liquidity

HSBC HOLDINGS PLC

### Financial Statements (continued)

Consolidated balance sheet / Consolidated statement of cash flows

### Consolidated balance sheet at 31 December 2012

Notes	2012		2011	
	US\$m	US\$m	US\$m	US\$m
<b>Assets</b>				
Cash and balances at central banks		141,532		129,902
Items in the course of collection from other banks		7,383		8,208
Hong Kong Government certificates of indebtedness		22,743		20,922
Trading assets	14	488,811		330,451
Financial assets designated at fair value	18	33,582		30,856
Derivatives	19	357,450		346,379
Loans and advances to banks		152,546		180,987
Loans and advances to customers		997,623		940,429
Financial investments	20	421,101		400,944
Assets held for sale	26	19,309		39,558
Other assets	26	54,716		48,699
Current tax assets		515		1,061
Prepayments and accrued income		9,502		10,659
Interests in associates and joint ventures	22	17,834		20,399
Goodwill and intangible assets	23	29,853		29,034
Property, plant and equipment	24	10,588		10,865
Deferred tax assets	9	7,570		7,726
<b>Total assets</b>		<b>2,692,538</b>		<b>2,555,579</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Hong Kong currency notes in circulation		22,742		20,922
Deposits by banks		107,429		112,822
Customer accounts		1,340,014		1,253,925
Items in the course of transmission to other banks		7,138		8,745
Trading liabilities	27	384,563		265,192
Financial liabilities designated at fair value	28	87,720		85,724
Derivatives	19	358,886		345,380
Debt securities in issue	29	119,461		131,013
Liabilities of disposal groups held for sale	30	5,818		22,200
Other liabilities	30	33,862		27,967
Current tax liabilities		1,452		2,117
Liabilities under insurance contracts	31	68,195		61,259
Accruals and deferred income		13,184		13,196
Provisions	32	5,592		3,324
Deferred tax liabilities	9	1,109		1,518
Retirement benefit liabilities	7	3,905		3,666
Subordinated liabilities	33	29,479		30,606
<b>Total liabilities</b>		<b>2,509,409</b>		<b>2,389,486</b>
<b>Equity</b>				
Called up share capital	38	9,238		8,934
Share premium account		10,084		8,457
Other equity instruments		5,851		5,851
Other reserves		29,722		23,615
Retained earnings		120,347		111,868
<b>Total shareholders' equity</b>		<b>175,242</b>		<b>158,725</b>
Non-controlling interests	37	7,887		7,368
<b>Total equity</b>		<b>183,129</b>		<b>166,093</b>
<b>Total equity and liabilities</b>		<b>2,692,538</b>		<b>2,555,579</b>

The accompanying notes on pages 383 to 515 form an integral part of these financial statements<sup>1</sup>.

For footnote, see page 382.



D J Flint, Group Chairman

# Currents Assets

- When an **asset** satisfies **any** of the following criteria:
  1. It expects to realize the asset or intends to sell it or consume it in the entity's normal operating cycle
  2. It holds the asset primarily for the purposes of trading
  3. It expects to realize the asset within twelve months after the end of the reporting period
  4. The asset is cash or a cash equivalent (unless it is restricted for at least 12 months after the reporting period).

# Current Liabilities

- When a **liability** satisfies **any** of the following criteria:
  1. It is expected to be settled in the entity's normal operating cycle
  2. It is held primarily for the purposes of trading
  3. It is due to be settled within twelve months after the end of the reporting period
  4. The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period



# Statement of Changes in Equity

## Consolidated statement of changes in equity

for the year ended 31 December 2013

	Attributable to the equity holders of the parent												Non-controlling interests	Total equity	IAS 1.10(c) IAS 1.51(c) IAS 1.106(c)	
	Issued capital (Note 24)	Share premium (Note 24)	Treasury shares (Note 24)	Other capital reserves (Note 24)	Retained earnings	Cash flow hedge reserve	Available-for-sale reserve	Foreign currency translation reserve	Asset revaluation reserve	Discontinued operations	Total					
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	IAS 1.51(d),(e)
<b>As at 1 January 2013</b>	<b>19,388</b>	<b>80</b>	<b>(654)</b>	<b>864</b>	<b>28,935</b>	<b>(70)</b>	<b>2</b>	<b>(444)</b>	<b>-</b>	<b>-</b>	<b>48,101</b>	<b>740</b>	<b>48,841</b>			
Profit for the period	-	-	-	-	7,942	-	-	-	-	-	7,942	288	8,230	IAS 1.106(d)(i)		
Other comprehensive income (Note 24)	-	-	-	-	257	(512)	(40)	(51)	592	-	246	-	246	IAS 1.106(d)(ii)		
Total comprehensive income	-	-	-	-	8,199	(512)	(40)	(51)	592	-	8,188	288	8,476	IAS 1.106(a)		
Depreciation transfer for land and buildings	-	-	-	-	80	-	-	-	(80)	-	-	-	-	IAS 1.96		
Discontinued operations (Note 13)	-	-	-	-	-	-	(46)	-	-	46	-	-	-	IFRS 5.38		
Issue of share capital (Note 24)	2,500	4,703	-	-	-	-	-	-	-	-	7,203	-	7,203	IAS 1.106(d)(iii)		
Exercise of options (Note 24)	-	29	146	-	-	-	-	-	-	-	175	-	175	IAS 1.106(d)(iii)		
Share-based payments (Note 30)	-	-	-	307	-	-	-	-	-	-	307	-	307	IAS 1.106(d)(iii)		
Transaction costs (Note 7)	-	-	(32)	-	-	-	-	-	-	-	(32)	-	(32)	IFRS 2.50 IAS 32.39, IAS 1.109		
Cash dividends (Note 25)	-	-	-	-	(1,972)	-	-	-	-	-	(1,972)	(30)	(2,002)	IAS 1.107		
Non-cash distributions to owners (Note 25)	-	-	-	-	(410)	-	-	-	-	-	(410)	-	(410)			
Acquisition of a subsidiary (Note 7)	-	-	-	-	-	-	-	-	-	-	-	1,547	1,547	IAS 1.106(d)(iii)		
Acquisition of non-controlling interests (Note 7)	-	-	-	-	(190)	-	-	-	-	-	(190)	(135)	(325)	IAS 1.106(d)(iii)		
<b>At 31 December 2013</b>	<b>21,888</b>	<b>4,780</b>	<b>(508)</b>	<b>1,171</b>	<b>34,642</b>	<b>(582)</b>	<b>(84)</b>	<b>(495)</b>	<b>512</b>	<b>46</b>	<b>61,370</b>	<b>2,410</b>	<b>63,780</b>			

Shows the changes in net assets between two balance sheet dates and reconciles each component.

Profit or loss

Other comprehensive income

Transactions with owners (equity contributions, dividends, purchase of own shares)

# Statement of Cash Flows

## Indirect Method

### Consolidated statement of cash flows

for the year ended 31 December 2013

Notes	2013		2012	
	€000	€000	Restated*	€000
<b>Operating activities</b>				
Profit before tax from continuing operations	11,108	10,390		
Profit/(loss) before tax from discontinued operations	213	(193)		
Profit before tax	11,321	10,187		
Adjustments to reconcile profit before tax to net cash flows:				
Depreciation and impairment of property, plant and equipment	16	3,907	3,383	
Amortisation and impairment of intangible assets	18	325	174	
Contribution of property, plant and equipment by customers	16	(190)	(150)	
Share-based payment expense	30	412	492	
Decrease in investment properties	17	306	300	
Gain on disposal of property, plant and equipment	12.1	(532)	(2,007)	
Fair value adjustment of a contingent consideration	7	358	-	
Finance income	12.4	(1,186)	(211)	
Finance costs	12.3	2,766	1,123	
Share of profit of an associate and a joint venture	9.10	(671)	(638)	
Movements in provisions, pensions and government grants		(732)	202	
Working capital adjustments:				
Increase in trade and other receivables and prepayments		(9,265)	(3,240)	
Decrease in inventories		4,192	2,405	
Increase in trade and other payables		4,095	4,246	
		15,106	16,266	
Interest received		336	211	
Interest paid		(484)	(1,026)	
Income tax paid		(3,131)	(3,200)	
<b>Net cash flows from operating activities</b>		<b>11,827</b>	<b>12,251</b>	
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment	16	1,990	2,319	
Purchase of property, plant and equipment	16	(10,162)	(7,672)	
Purchase of investment properties	17	(1,216)	(1,192)	
Purchase of financial instruments	17	(3,054)	(225)	
Proceeds from sale of financial instruments		-	145	
Development expenditures	18	(587)	(390)	
Acquisition of a subsidiary, net of cash acquired	7	230	(1,450)	
Receipt of government grants	27	2,951	642	
<b>Net cash flows used in investing activities</b>		<b>(9,848)</b>	<b>(7,823)</b>	
<b>Financing activities</b>				
Proceeds from exercise of share options		175	200	
Acquisition of non-controlling interests	7	(325)	-	
Transaction costs on issue of shares	24	(32)	-	
Payment of finance lease liabilities		(51)	(76)	
Proceeds from borrowings		5,577	2,645	
Repayment of borrowings		(122)	(1,684)	
Dividends paid to equity holders of the parent	25	(1,972)	(1,600)	
Dividends paid to non-controlling interests		(30)	(49)	
<b>Net cash flows from/(used in) financing activities</b>		<b>3,220</b>	<b>(564)</b>	
Net increase in cash and cash equivalents		5,199	3,864	
Net foreign exchange difference		(25)	86	
Cash and cash equivalents at 1 January	23	12,266	8,316	
<b>Cash and cash equivalents at 31 December</b>	23	<b>17,440</b>	<b>12,266</b>	

\* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments, refer Note 2.4.

## Direct Method

### Appendix 3 - Consolidated statement of cash flows - direct method

for the year ended 31 December 2013

#### Commentary

IAS 7.18 allows entities to report cash flows from operating activities using either the direct or indirect methods. The Group presents cash flows using the indirect method. However, the statement of cash flows prepared using the direct method for operating activities is presented in this appendix for illustrative purposes.

Notes	2013		2012	
	€000	€000	€000	€000
<b>Operating activities</b>				
Receipts from customers		227,113	235,778	
Payments to suppliers		(176,193)	(184,463)	
Payments to employees		(35,815)	(35,048)	
Interest received		336	211	
Interest paid		(484)	(1,025)	
Income tax paid		(3,130)	(3,200)	
<b>Net cash flows from operating activities</b>		<b>11,827</b>	<b>12,251</b>	
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment		1,990	2,319	
Purchase of property, plant and equipment	16	(10,162)	(7,672)	
Purchase of investment properties	17	(1,216)	(1,192)	
Purchase of financial instruments		(3,054)	(225)	
Proceeds from available-for-sale investments		-	145	
Purchase of intangible assets	18	(587)	(390)	
Acquisition of a subsidiary, net of cash acquired	7	230	(1,450)	
Receipt of government grants	27	2,951	642	
<b>Net cash flows used in investing activities</b>		<b>(9,848)</b>	<b>(7,823)</b>	
<b>Financing activities</b>				
Proceeds from exercise of share options	30	175	200	
Acquisition of non-controlling interests	7	(325)	-	
Transaction costs on issue of shares	24	(32)	-	
Payment of finance lease liabilities		(51)	(76)	
Proceeds from borrowings		5,577	2,645	
Repayment of borrowings		(122)	(1,684)	
Dividends paid to equity holders of the parent	25	(1,972)	(1,600)	
Dividends paid to non-controlling interests		(30)	(49)	
<b>Net cash flows from/(used in) financing activities</b>		<b>3,220</b>	<b>(564)</b>	
Net increase in cash and cash equivalents		5,199	3,864	
Net foreign exchange difference		(25)	86	
Cash and cash equivalents at 1 January	23	12,266	8,316	
<b>Cash and cash equivalents at 31 December</b>	23	<b>17,440</b>	<b>12,266</b>	

#### Commentary

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received and paid as cash flows from operating activities.



# The Linkages among the 4 Financial Statements

Consolidated statement of profit or loss	
<b>Continuing Operations</b>	
Revenues	180,462
Cost of sales	<u>(136,448)</u>
Gross profit	44,014
Other operating income	1,585
Selling and distribution expenses	<u>(14,001)</u>
Administrative expenses	<u>(18,428)</u>
Other operating expenses	<u>(1,153)</u>
Operating profit	12,017
Finance costs	<u>(2,766)</u>
Finance income	1,186
Share of profit of associates and JVs	<u>674</u>
Profit before tax continuing operations	11,108
Income tax expense	<u>(3,098)</u>
Profit from continuing operations	8,010
<b>Discontinued operations</b>	
Profit after tax from discontinued operations	<u>220</u>
Profit for the year	<u>8,230</u>
Attributable to:	
Equity holders of the parent	7,942
Non-controlling interests	<u>288</u>
	<u>8,230</u>

Consolidated statement of other comprehensive income	
Profit for the year	8,230
Other comprehensive income (Net of tax)	
To be reclassified to profit or loss in subsequent periods	
Net gain on hedge of a net investment	195
Exchange difference on translation of foreign operations	<u>(246)</u>
Net movement on cash flow hedges	<u>(512)</u>
Net loss on available for sale financial assets	<u>(40)</u>
	<u>(603)</u>
Not to be reclassified to profit or loss in subsequent periods	
Re-measurement gains on defined benefit plans	257
Revaluation of land & buildings	<u>592</u>
	<u>849</u>
Other comprehensive income for the year (net of tax)	
Total Comprehensive income for the year (net of tax)	<u>8,476</u>
Attributable to:	
Equity holders of the parent	8,188
Non-controlling interests	<u>288</u>
	<u>8,476</u>

Consolidated statement of financial position	
<b>Assets</b>	
<b>Non-current assets</b>	
Property, plant & equipment	32,979
Investment properties	8,893
Intangible assets	6,019
Investment in an associate and a joint venture	3,187
Non-current financial assets	6,425
Deferred tax assets	<u>57,886</u>
	<u>115,388</u>
<b>Current Assets</b>	
Inventories	27,262
Trade and other receivables	27,672
Prepayments	244
Other current financial assets	551
Cash and short-term deposits	<u>17,112</u>
	<u>68,841</u>
Assets classified as held for distribution	<u>13,554</u>
	<u>82,395</u>
Total assets	<u>140,281</u>
<b>Equity and liabilities</b>	
<b>Equity</b>	
Issued capital	21,888
Share premium	4,780
Treasury shares	<u>(508)</u>
Other capital reserves	1,171
Retained earnings	35,052
Other components of equity	<u>(649)</u>
Non-cash distribution liability	<u>(410)</u>
	<u>61,370</u>
Reserves of a disposal group classified as held for distribution	<u>46</u>
Equity attributable to equity holders of the parent	61,370
Non-controlling interest	<u>2,410</u>
Total equity	<u>63,780</u>
<b>Non-current liabilities</b>	
Interest-bearing loans and borrowings	20,346
Other non-current financial liabilities	806
Provisions	1,950
Government grants	3,300
Deferred revenue	196
Net employee defined benefit liabilities	3,050
Other liabilities	<u>263</u>
Deferred tax liabilities	<u>2,931</u>
	<u>32,842</u>
<b>Current liabilities</b>	
Trade and other payables	19,444
Interest bearing loans and borrowings	2,460
Other current financial liabilities	3,040
Government grants	149
Deferred revenue	220
Income tax payable	3,961
Provisions	850
Non-cash distribution liability	<u>410</u>
	<u>30,534</u>
Liabilities associated with the assets classified as held for distribution	<u>13,125</u>
	<u>43,659</u>
Total liabilities	<u>76,501</u>
Total equity and liabilities	<u>140,281</u>

Consolidated statement of cash flows												
<b>Operating activities</b>												
Profit before tax from continuing operations	11,108											
Profit/(loss) before tax from discontinued operations	<u>213</u>											
Profit before tax	11,321											
Depreciation and impairment of property, plant & equipment	3,907											
Amortization and impairment of intangible assets	325											
Contribution of property, plant & equipment by customers	(190)											
Share-based payment expense	412											
Decrease in investment properties	306											
Gain on disposal of property, plant & equipment	(512)											
Fair value adjustment of a contingent consideration	358											
Finance income	(1,186)											
Finance costs	2,766											
Share of profit of an associate and a joint venture	(671)											
Movements in provisions, pensions and government grants	(732)											
<b>Working capital adjustments:</b>												
Increase in trade and other receivables	(9,265)											
Increase in inventories	4,152											
Increase in trade and other payables	<u>4,095</u>											
	15,106											
Interest received	336											
Interest paid	<u>(484)</u>											
Income tax paid	<u>(3,131)</u>											
	<u>11,827</u>											
<b>Investing activities</b>												
Proceeds from sale of property, plant & equipment	1,990											
Purchase of property, plant & equipment	<u>(10,162)</u>											
Purchase of investment properties	<u>(1,216)</u>											
Purchase of financial instruments	<u>(1,054)</u>											
	<u>(9,442)</u>											
Proceeds from sale of financial instruments	0											
Development expenditures	<u>(587)</u>											
	<u>(9,442)</u>											
Acquisition of a subsidiary, net cash acquired	230											
Receipt of government grants	<u>2,951</u>											
	<u>2,721</u>											
Net cash flows used in investing activities	<u>(6,858)</u>											
<b>Financing activities</b>												
Proceeds from exercise of share options	175											
Acquisition of non-controlling interests	<u>(925)</u>											
Transaction costs on issue of shares	(21)											
Payment of finance lease liabilities	<u>(51)</u>											
Proceeds from borrowings	5,577											
Repayment of borrowings	<u>(122)</u>											
	<u>5,454</u>											
Dividends paid to equity holders of the parent	<u>(192)</u>											
Dividends paid to non-controlling interests	<u>(322)</u>											
	<u>(514)</u>											
Net increase in cash and cash equivalents	5,199											
Net foreign exchange differences	<u>(25)</u>											
	<u>5,174</u>											
Cash and cash equivalents at beginning of year	<u>12,266</u>											
Cash and cash equivalents at end of year	<u>17,440</u>											
<b>Consolidated statement of changes in equity</b>												
	Share	Treasury	Other	Cash Flow Available	Currency	Asset	Translation	Revaluati	Discontinued	Non-		
	Capital	Premium	Capital	Hedge	for sale	Reserve	on	on	Operation	Control	Total	
		Shares	Reserves	Earnings	Reserve	Reserve	%	%	Total	Interests	Equity	
As at beginning of the year	19,388	80	(508)	864	28,933	(70)	2	(444)		48,101	740	48,841
Profit for the period				7,942						7,942	288	8,230
Other comprehensive income				246						246		246
Total comprehensive income				8,188						8,188	288	8,476
Depreciation transfer for land and buildings				0	0	0	0	0	0	0	0	0
Discontinued operations												
Issue of share capital	2,500	4,703										
Exercise of options		29	146									
Share based payments				307								
Transaction costs		(32)										
Cash dividends												
Non-cash distributions to owners												
Acquisition of a subsidiary												
Acquisition of non-controlling interests												
At end of the year	21,888	4,780	(508)	1,171	34,642	(582)	(84)	(495)	512	61,370	2,410	63,780

Note 23 Reconciliation	
Cash	11,316
ST Deposits	5,796
	17,112
Disposal group	1,294
Overdrafts	<u>(966)</u>
	17,440

# Comparison of IAS 1 Presentation Options by European Companies

Session 1 SM 5 Comparison of IAS 1 Presentation Options

	Comprehensive income							Cash Flow		Balance Sheet			
	Profit and Loss		Gross	Operating			EBITDA	EBIT	EBT	Direct	Indirect	Classified	Unclassified
	Separate	Combined	Margin	Profit									
AB Inbev	°		°	°						°		°	
BASF	°		°	°						°		°	
BAT	°		P&L	°						°		°	
Bayer	°		°			°		°		°		°	
BP	°		Note 28			°		°		°		°	
Diageo	°		°	°				°		°		°	
ENI	°		Note 36	°				°		°		°	
GSK	°		°	°				°		°		°	
HSBC	°		°	°				°		°		°	
Inditex	°		°		°	°		°		°		°	
L'Oreal	°		°	°				°		°		°	
LVMH	°		°	°				°		°		°	
Nestlé	°		P&L	°				°		°		°	
Novartis	°		°	°				°		°		°	
Novo Nordisk	°		°	°				°		°		°	
Rio Tinto	°		Note 4	°		°		°		°		°	
Roche	°		P&L	°				°		°		°	
SAB-Miller	°		Note 3	°				°		°		°	
Sanofi	°		°	°				°		°		°	
Santander	°		°	°				°		°		°	
SAP	°		°	°				°		°		°	
Shell	°		Note 3					°		°		°	
Siemens	°		°	°				°		°		°	
Statoli	°		P&L	°				°		°		°	
Total	°		P&L					°		°		°	
Unilever	°		Note 3	°				°		°		°	
Vodafone	°		°	°				°		°		°	
VW	°		°	°				°		°		°	

# Notes to the Financial Statements

- Accounting policies
- Sources of estimation uncertainty – nature and carrying amount
- Capital – objectives, policies and processes
- Risk management
- Other disclosures required by IFRSs
- Other information relevant to understanding the financial statements

# RECAP OF BASIC BOOKKEEPING

# Bookkeeping Recap

1. Credit sale of goods which cost €30,000 for €50,000
2. Cash sale of goods which cost €20,000 for €25,000
3. Credit purchase of goods for €30,000
4. Cash purchase of goods for €30,000
5. Credit purchase of advertising for €15,000
6. Cash purchase of postage stamps for €25

# Bookkeeping Recap

7. Depreciation of an industrial building with a useful life of 20 years which cost €100,000
8. Payment of a dividend in cash for €25,000
9. Capital increase in cash for 50,000
10. Rent payment in cash of €12,000 made on 1.4.2014 in a company with a calendar year end
11. Legal fees incurred but not yet invoiced at year end amounting to €5,000
12. During the year end close a physical inventory count reveals a shortage of inventory for €15,000



# **REQUIRED READING AND RESEARCH ASSIGNMENT**

# Required Reading and research assignment

- Reading
  - Melville
    - Chapter 1 – The Regulatory Framework (14 pages)
    - Chapter 2 – The IASB Conceptual Framework (19 pages)
    - **Chapter 3 – Presentation of Financial Statements (30 pages)**
    - Chapter 4 – Accounting policies, accounting estimates and errors (5 pages)
    - Chapter 21 – Related Parties and Changes in foreign exchange rates (7 pages)
    - Chapter 23 – Earnings Per Share (11 pages)
  - IFRS
    - **IAS 1 Presentation of Financial Statements (38 pages)**
- Exercises
  - Melville 3.1 – 3.6 Plus on-line multiple choice for above chapters
  - EX 1 Financial Statements
- Research
  - European companies in the Top Global 100 companies using IFRS

# Optional additional reading

IASB <b>Technical summaries</b>	Topic
IAS 8	Accounting policies, changes in accounting estimates and errors (2 pages)
IFRS 5	Non-current assets held for sale and discontinued operations (2 pages)
IFRS 8	Segment reporting (2 pages)
IAS 10	Events after the reporting period (1 page)
IAS 20	Accounting for government grants and disclosure of government assistance (2 pages)
IAS 21	The effects of changes in foreign exchange rates (4 pages)
IAS 24	Related party disclosures (3 pages)
IAS 33	Earning per share (2 pages)
IAS 34	Interim financial reporting (2 pages)

# Research Assignment

- Choose a company from the list of Europe's Top Companies
- Obtain the 2014 Annual Report and/or Form 20F (for US SEC Registrants)
- Locate the Consolidated Financial Statements prepared under IFRS
- Complete the template for the profit and loss account and statement of financial position

# Europe's Top 50 Companies in 2015

Sector	Companies
1. Pharmaceutical and Biotech (6)	Roche, Novartis, Sanofi, GlaxoSmithKline, Novo Nordisk, Astrazeneca
2. Food (2)	Nestlé, Unilever
3. Oil & Gas (8)	Shell, Total, BP, Gazprom, ENI, Statoil, <del>Rosneft, BG Group</del>
4. Financial services (13)	HSBC, Santander, BNP Paribas, Lloyds, UBS, Allianz, BBVA, Barclays, Axa, Prudential, IntesaSanpaolo, ING, Zurich Financial Services
5. Beverages (3)	Anheuser-Busch inBev, SabMiller, Diageo
6. Automobile (3)	Volkswagen, Daimler, BMW
7. Industrial (1)	Siemens
8. Chemicals (2)	Bayer, BASF
9. Tobacco (1)	BAT
10. Software (1)	SAP
11. Personal Goods (2)	L'Oreal, LVMH
12. Telecommunications (4)	Vodafone, Deutsche Telekom, Telefonica, BT Group
13. Retail (2)	Inditex, Hennes & Mauritz
15. Mining (2)	Rio Tinto, Glencore Xstrata, <del>BHP Billiton</del>
16. Utilities (0)	<del>EDF, GDF Suez</del>
17. Household Goods(1)	Reckitt Benckiser
18. Aerospace & Defence (1)	Airbus

# Understanding the business model and the accounting implications

- Extractive industries (Mining and minerals, oil and gas)
- Financial services (Commercial and investment banks and insurance)
- Health care (Life sciences, pharmaceutical, biotechnology)
- Industrials (engineering, construction, automotive)
- Retail and consumer products (Food and beverage, household goods, apparel, fashion, personal products)
- Technology and telecommunications (Software, social media, mobile and fixed line phone, computers)
- Media and entertainment (Publishing, music, film, TV)
- Real Estate and construction (Investment companies)
- Venture capital

# Understanding the business model

Business aspects	Factors to consider
How does the business generate revenues?	Goods, services, cash or credit, local, global, B2B, B2C
What costs and expenses does the business need to incur?	Make or buy, employees or sub-contractors,
What assets are needed?	Asset intensive, lease or buy
How will the business be financed?	Equity or debt or a mix
What risks need to be managed?	Currency, exchange rate, liquidity

Accounting rules have generally evolved in response to business issues or accounting scandals in an attempt to harmonize differing accounting treatments or abuse e.g. ENRON and use of SPVs, Leasing, Convertible debt

# Assignment Template

Research assignment template

Company	% Change On PY	2014	% Change On PY	2013	2010
		€ millions		€ millions	€ millions
<b>Income Statement</b>					
Net sales	#DIV/0!		#DIV/0!		
Other revenues	#DIV/0!		#DIV/0!		
<i>Total revenues</i>	#DIV/0!	0	#DIV/0!	0	0
Cost of sales	#DIV/0!		#DIV/0!		
<i>Gross profit</i>	#DIV/0!	0	#DIV/0!	0	0
Operating expenses	#DIV/0!		#DIV/0!		
Research & development	#DIV/0!		#DIV/0!		
Selling, general and administrative expenses	#DIV/0!		#DIV/0!		
Depreciation, amortization and provisions	#DIV/0!		#DIV/0!		
Other income (expense)	#DIV/0!		#DIV/0!		
<i>Operating profit</i>	#DIV/0!	0	#DIV/0!	0	0
Finance income (expense)	#DIV/0!		#DIV/0!		
Share of result of associated companies	#DIV/0!		#DIV/0!		
<i>Pre-tax profit</i>	#DIV/0!	0	#DIV/0!	0	0
Income tax	#DIV/0!		#DIV/0!		
<i>Net profit continuing operations</i>	#DIV/0!	0	#DIV/0!	0	0
Discontinued operations	#DIV/0!		#DIV/0!		
<i>Net profit</i>	#DIV/0!	0	#DIV/0!	0	0

## RA1 Research assignment template

If the company classifies expenses by nature put all expenses into operating expenses

	% Change On PY	2014	2013
		€ millions	€ millions
<b>Statement of financial position</b>			
<b>Non-current assets</b>			
Goodwill	#DIV/0!		
Intangible assets	#DIV/0!		
Property, plant & equipment	#DIV/0!		
Investments	#DIV/0!		
Loans and advances to customers	#DIV/0!		
Deferred taxes	#DIV/0!		
Other	#DIV/0!	0	0
<b>Current assets</b>			
Inventories/Long-term contracts	#DIV/0!		
Trade receivables	#DIV/0!		
Loans and advances to customers	#DIV/0!		
Other current assets	#DIV/0!		
Short-term investments	#DIV/0!		
Cash	#DIV/0!		
Assets held for disposal	#DIV/0!		
	#DIV/0!	0	0
<b>Total assets</b>	#DIV/0!	0	0
<b>Current liabilities</b>			
Short-term Borrowings	#DIV/0!		
Trade payables	#DIV/0!		
Consumer credit finance	#DIV/0!		
Income taxes	#DIV/0!		
Provisions	#DIV/0!		
Other current liabilities	#DIV/0!		
Liabilities held for disposal	#DIV/0!		
	#DIV/0!	0	0
<b>Non-current liabilities</b>			
Long-term Borrowings	#DIV/0!		
Provisions	#DIV/0!		
Consumer credit finance	#DIV/0!		
Pensions and employee benefits	#DIV/0!		
Other	#DIV/0!		
	#DIV/0!	0	0
Shareholders' equity	#DIV/0!		
<b>Total equity and liabilities</b>	#DIV/0!	0	0
Number of shares outstanding	#DIV/0!		
Share price	#DIV/0!		
Market capitalization	#DIV/0!	0	0
Dividend per share	#DIV/0!		



# **SESSION SUMMARY AND VALIDATION, OVERVIEW SESSION 2**

# Session summary

- Introductions
- Course objectives, overview, reference materials, teaching methods
- Evolution of accounting, stakeholders, IASs and IFRSs
- The 5 components of Financial statements and linkages between the statements
- Basic bookkeeping recap
- Reading, research and assignment for next session

# Session Validation

- Name the 5 components of financial statements required by IAS 1
- How are assets and liabilities normally classified in the statement of financial position and how is this distinction made?
- What are the two components of comprehensive income?
- Financial statements should be prepared on a going concern basis. What does this mean?
- What are the alternative presentation formats allowed for each of the following: Statement of financial position, Statement of profit and loss; Statement of cash flows

# Overview of Session 2

- Financial analysis
- How to read financial statements
- Ratio analysis
- Hands on application using companies researched
- Industry comparison