



A86045 Accounting and Financial Reporting (2018/2019)

Session 4
Review Session

Paul G. Smith B.A., F.C.A.



SESSION 4 OVERVIEW



Session 4 Overview

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Multiple choice questions	40
Ratio analysis, trend analysis, common size analysis	20
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	90

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 companies accounts of alternative accounting methods
- ***Carry out a high level assessment*** of the the economic- financial position of a company reporting under IAS/IFRS.

Course Overview

PGS	1. Financial reporting under IFRS	13. Inventories	PT	
	2. Financial analysis: Ratio analysis	14. Construction contracts		
	3. Financial analysis: Segments and EPS	15. Non-financial liabilities		
	4. Review session	16. Review session		
PT	5. Revenues	17. Mid term test		PGS
	6. Costs and expenses	18. Financial Instruments 1		
	7. Taxation - Direct and Indirect	19. Financial Instruments 2		
	8. Non-current assets - Intangible assets	20. Cash Flow Statement		
	9. Non-current assets - Tangible assets	21. Group accounts/Business comb		
	10. Financial leases	22. Review session		
	11. Impairment of assets	23. Final test		
	12. Review session			



SESSION 3 RECAP AND PRE-WORK



Sessions 3 Summary

- Financial analysis, ratio analysis, trend analysis, common size analysis
- Earnings per share
- Operating Segments
- Importance of industry context and understanding

Session 4 Pre-work

- Reading
 - Melville Chapters 23, 24
 - IAS 33
 - IFRS 8
- Exercises
 - Melville
 - Textbook Chapters 23, 24
 - Website Multiple choice Chapters 23, 24
 - Course exercises EX3

Session 4 Review

- Reading
 - Melville Chapters 1,2,3,4,8,21,22
 - IAS 1
- Exercises
 - Melville
 - Textbook Chapters 3,22
 - Website Multiple choice Chapters 1,2,3,4,21,22
 - Course exercises Ex1,EX2



BOOKKEEPING - RECAP

Bookkeeping - Recap

- 1. Income tax charge for the year of €250,000
- 2. Credit sale of goods for €500,000
- 3. Goods returned by customer for €50,000 and in good condition.
- 4. Legal expenses incurred by a company but not yet billed by its lawyer for €7,500
- 5. Advertising expenses incurred for an advertising campaign that starts the following year
- 6. Payment by cheque of a suppliers invoice for €25,000
- 7. Bank transfer received from customer in payment of its outstanding balance of €50,000
- 8. Purchase of plant & equipment on credit for €100,000



REVISION QUESTIONS SESSIONS 1-3

Melville Multiple Choice

- Ch 1. Regulatory Framework
- Ch 2. IASB Conceptual Framework
- Ch 3. Presentation of Financial Statements
- Ch 4. Accounting Policies, Accounting Estimates and errors
- Ch 21. Related Parties and Changes in Foreign Exchange Rates
- Ch 22. Ratio Analysis
- Ch 23. Earnings Per Share
- Ch 24. Segmental Analysis



FINANCIAL STATEMENTS

Financial Statements

- Statement of profit or loss and other comprehensive income (By nature or by destination)
- Statement of financial position (Current/Non-current distinction or Liquidity)
- Statement of changes in shareholders' equity
- Statement of cash flows (Direct or indirect method)
- Notes to the financial statements

Good Group (International) Limited



- Consolidated statement of profit or loss (expenses by function)
- Consolidated statement of profit or loss (expenses by nature)
- Consolidated statement of other comprehensive income
- Consolidated statement of financial position
- Consolidated statement of changes in equity
- Consolidated statement of cash flows (indirect method)
- Consolidated statement of cash flows (direct method)
- Index to notes to the consolidated financial statements



FINANCIAL ANALYSIS

Ratio analysis SM 1

Research assignment template
Company

	2014
	€ millions
Income Statement	
Net sales	74,097
Other revenues	2,221
	<u>Total revenues 76,318</u>
Cost of sales	(59,270)
	<u>Gross profit 17,048</u>
Operating expenses	
Research & development	
Selling, general and administrative expenses	(13,281)
Depreciation, amortization and provisions	(1,381)
Other income (expense)	149
	<u>Operating profit 2,535</u>
Finance income (expense)	(563)
Share of result of associated companies	37
	<u>Pre-tax profit 2,009</u>
Income tax	(709)
	<u>Net profit continuing operations 1,300</u>
Discontinued operations	67
	<u>Net profit 1,367</u>

Profitability

Gross margin	
Operating margin	
Net profit margin	
Return on equity	
Return on Capital employed (ROCE)	

Liquidity

Current ratio	
Quick ratio	

Efficiency ratios

Asset Turnover	
Inventory holding period (DOI)	
Inventory turnover	
Trade receivables collection period (DSO)	
Trade payable payment period (DPO)	

Investment ratios

Earnings per share (EPS)	
Price Earnings ratio (P/E)	
Dividend cover	
Dividend yield	
Debt/Equity ratio (Gearing)	
Interest cover	

Other

Effective tax rate	
R&D as a % of revenues	
Intangibles as a % of total assets	
Intangibles as a % of equity	
Market Capitalization as a % of Equity	

	2014
	€ millions
Statement of financial position	
Non-current assets	
Goodwill	8,228
Intangible assets	1,315
Property, plant & equipment	12,272
Investments	1,767
Loans and advances to customers	2,560
Deferred taxes	759
Other	1,340
	<u>28,241</u>
Current assets	
Inventories/Long-term contracts	6,213
Trade receivables	2,260
Loans and advances to customers	3,420
Other current assets	2,493
Short-term investments	
Cash	3,113
Assets held for disposal	49
	<u>17,548</u>
	<u>45,789</u>
Total assets	<u>45,789</u>

Current liabilities

Short-term Borrowings	1,757
Trade payables	13,384
Consumer credit finance	3,718
Income taxes	1,172
Provisions	
Other current liabilities	3,022
Liabilities held for disposal	1
	<u>23,054</u>

Non-current liabilities

Long-term Borrowings	6,815
Provisions	3,581
Consumer credit finance	1,589
Pensions and employee benefits	
Other	523
	<u>12,508</u>
Shareholders' equity	10,228
Total equity and liabilities	<u>45,790</u>

Number of shares outstanding	734,913,909
Share price	25.30
Market capitalization	18,593,321,898
Dividend per share	0.68

Trend analysis SM 2

Company	% Change On PY	2014	% Change On PY	2013	2012
Income Statement					
		€ millions		€ millions	€ millions
Net sales	0%	74,097	-1%	74,299	75,021
Other revenues	-6%	2,221	3%	2,375	2,309
	Total revenues	0%	76,318	-1%	76,674
Cost of sales	-1%	(59,270)	-1%	(59,828)	(60,659)
	Gross profit	1%	17,048	1%	16,846
Operating expenses					
Research & development					
Selling, general and administrative expenses	2%	(13,281)	-5%	(13,034)	(13,688)
Depreciation, amortization and provisions	-4%	(1,381)	-6%	(1,432)	(1,518)
Other income (expense)	#DIV/0!	149	#DIV/0!		
	Operating profit	7%	2,535	62%	2,380
Finance income (expense)	-22%	(563)	-18%	(722)	(883)
Share of result of associated companies	23%	37	-58%	30	72
	Pre-tax profit	19%	2,009	158%	1,688
Income tax	12%	(709)	66%	(631)	(380)
	Net profit continuing operations	23%	1,300	286%	1,057
Discontinued operations	-78%	67	-71%	306	1,069
	Net profit	0%	1,367	1%	1,343
Profitability					
Gross margin		23%			
Operating margin		3%			
Net profit margin		2%			
Return on equity		13%			
Return on Capital employed (ROCE)		15%			
Liquidity					
Current ratio		0.8			
Quick ratio		0.5			
Efficiency ratios					
Asset Turnover		2.6			
Inventory holding period (DOI)		38			
Inventory turnover		9.5			
Trade receivables collection period (DSO)		11.1			
Trade payable payment period (DPO)		82.4			
Investment ratios					
Earnings per share (EPS)		1.93			
Price Earnings ratio (P/E)		13.1			
Dividend cover		2.8			
Dividend yield		2.7%			
Debt/Equity ratio (Gearing)		0.7			
Interest cover		4.5			
Other					
Effective tax rate		-35%			
R&D as a % of revenues		0%			
Intangibles as a % of total assets		21%			
Intangibles as a % of equity		93%			

	% Change On PY	2014	2013
Statement of financial position			
		€ millions	€ millions
Non-current assets			
Goodwill	1%	8,228	8,277
Intangible assets	-71%	1,315	767
Property, plant & equipment	-10%	12,272	11,109
Investments	-118%	1,767	809
Loans and advances to customers	-8%	2,560	2,381
Deferred taxes	18%	759	931
Other	-17%	1,340	1,146
		28,241	25,420
Current assets			
Inventories/Long-term contracts	-8%	6,213	5,738
Trade receivables	-2%	2,260	2,213
Loans and advances to customers	-6%	3,420	3,221
Other current assets	-30%	2,493	1,915
Short-term investments		0	0
Cash	35%	3,113	4,757
Assets held for disposal	84%	49	302
		17,548	18,146
Total assets	-5%	45,789	43,566
Current liabilities			
Short-term Borrowings	-4%	1,757	1,683
Trade payables	-4%	13,384	12,854
Consumer credit finance	-18%	3,718	3,145
Income taxes	-12%	1,172	1,045
Provisions		0	0
Other current liabilities	-9%	3,022	2,763
Liabilities held for disposal	96%	1	24
		23,054	21,514
Non-current liabilities			
Long-term Borrowings	10%	6,815	7,550
Provisions	1%	3,581	3,618
Consumer credit finance	10%	1,589	1,765
Pensions and employee benefits			0
Other	0%	523	521
		12,508	13,454
Shareholders' equity	-19%	10,228	8,598
Total equity and liabilities	-5%	45,790	43,566
Number of shares outstanding			
Share price	-2%	707,397,621	694,925,592
Market capitalization	12%	25.30	28.81
Dividend per share	11%	17,897,159,811	20,020,806,306
	-10%	0.68	0.62

Common size analysis SM 3

	Company 1 (Year to December) € millions			Company 2 (Year to February) £ millions			Company 1€ millions			Company 2 £ millions		
	2014	2013	2012	2014	2013	2012	2014	2013	2014	2013	2013	
	% Change	% Change		% Change	% Change		% Change	% Change	% Change	% Change		
Income Statement												
Net sales	74,097	74,299	75,021	62,284	63,557	63,406						
Other revenue	2,221	2,375	2,309									
Total revenue	0%	-1%	77,330	-2%	0%	63,406	-1%	63,557	10%	11,109	24,490	
Cost of Sales	-1%	-1%	(60,659)	-1%	-1%	(47,424)	10%	12,272	-17%	20,440	24,490	
Gross profit/margin	1%	1%	16,671	-6%	5%	15,982	-5%	296	-28%	164	227	
Operating expenses												
Selling, general and admin expenses	2%	-5%	(13,688)	65%	10%	(11,056)	197%	1,471	229%	940	286	
Depreciation, amortization & provisions	-4%	-6%	(1,518)	-22%	-22%	(2,544)			-4%	975	1,015	
Other income (expense)			149									
Operating profit/income	7%	62%	1,465	-320%	10%	2,382	8%	2,560	22%	3,906	3,210	
Finance income (expense)	-22%	-18%	(883)	32%	9%	(397)	-18%	759	604%	514	73	
Shares of results of associates and equity investees	23%	-58%	72	-122%	-17%	72	17%	1,340	3%	1,546	1,496	
Income before taxes	19%	158%	654	-382%	10%	2,057	11%	28,241	-7%	32,256	34,592	
Income taxes	12%	66%	(380)	-289%	-34%	(529)						
Profit from continuing operations	23%	286%	1,057	-399%	25%	1,912	8%	6,213	-17%	2,957	3,576	
Discontinued operations	-78%	-71%	1,069	-95%	-37%	(1,504)	2%	2,260	-3%	2,121	2,190	
Profit for the year	0%	1%	1,343	-694%	3942%	970	6%	3,420	3%	3,814	3,705	
Group	1,249	1,263	1,259	(5,741)	974	28						
Non controlling interests	118	101	83	(25)	(4)	(4)						
	1,367	1,364	1,342	(5,766)	970	24						
Balance sheet/Statement of financial position												
Assets												
Goodwill	-1%								-1%	3,771	3,795	
Other intangible assets												
Property, plant & equipment	10%											
Investment property	-5%											
Investments in JVs and associates	197%											
Other investments												
Loans and advances to customers	8%											
Deferred tax assets	-18%											
Other	17%											
Non-current assets	11%											
Inventories	8%											
Trade receivables	2%											
Loans and advances to customers	6%											
Other current assets	30%											
Short-term investments												
Cash and cash equivalents	-35%											
Assets held for sale	-84%											
Current assets	-3%											
Total assets	5%											
Liabilities and Shareholders' Equity												
Short-term borrowings	4%											
Suppliers and other creditors	4%											
Consumer credit financing	18%											
Income taxes	12%											
Other	9%											
Liabilities held for sale	-96%											
Current liabilities	7%											
Long-term borrowings	-10%											
Provisions	-1%											
Consumer credit financing												
Other	0%											
Non-current liabilities	-7%											
Share capital	1%											
Reserves	22%											
Shareholders equity - Group	17%											
Non-controlling interests	38%											
Shareholders equity	19%											
Total Liabilities & Shareholders Equity	5%											
Number of Shares o/s at Dec 31	2%											
Weighted average number of shares o/s	2%											
Share price Dec 31	-12%											
Dividend per share	10%											
Market capitalization (millions)	-11%											

Good Group Exercise

Research assignment template
Company **Good Group**

Income Statement

	% Change On PY	2016	% Change On PY	2015	2013
		€ millions		€ millions	
Net sales	14%	161,927	#DIV/0!	142,551	
Other revenues	3%	18,535	#DIV/0!	17,914	
Total revenues	12%	180,462	#DIV/0!	160,465	
Cost of sales	6%	(136,549)	#DIV/0!	(128,386)	
Gross profit	37%	43,913	#DIV/0!	32,079	
Operating expenses	#DIV/0!		#DIV/0!		
Research & development	#DIV/0!		#DIV/0!		
Selling, general and administrative expenses	29%	(32,429)	#DIV/0!	(25,120)	
Depreciation, ammortization and provisions	#DIV/0!		#DIV/0!		
Other income (expense)	-105%	(118)	#DIV/0!	2,195	
Operating profit	24%	11,366	#DIV/0!	9,154	
Finance income (expense)	2%	(928)	#DIV/0!	(912)	
Share of result of associated companies	5%	671	#DIV/0!	638	
Pre-tax profit	25%	11,109	#DIV/0!	8,880	
Income tax	39%	(3,098)	#DIV/0!	(2,233)	
Net profit continuing operations	21%	8,011	#DIV/0!	6,647	
Discontinued operations	-217%	220	#DIV/0!	(188)	
Net profit	27%	8,231	#DIV/0!	6,459	

Profitability

Gross margin (Gross profit/Revenues)	%
Operating margin (Operating profit/Revenues)	%
Net profit margin (Net profit/Revenues)	%
Return on equity (Net profit/Shareholders' equity)	%
Return on Capital employed (PBIT/Shareholders' equity + Long-term debt)	%

Liquidity

Current ratio (Current assets/Current liabilities)	Ratio:1
Quick ratio (Current assets - inventory/Current liabilities)	Ratio:1

Efficiency ratios

Asset Turnover (Sales/Non-current assets)	Times
Inventory holding period (DOI) (Cost of sales/inventory x 365)	Days
Inventory turnover (Cost of sales/inventory)	Times
Trade receivables collection period (DSO)	Days
Trade payable payment period (DPO)	Days

Investment ratios

Earnings per share (EPS) (Net income/Weighted average number of shares outstanding)	Currency
Price Earnings ratio (P/E) (Share price/EPS)	Times
Dividend cover (Earnings per share/Dividend per share)	Times
Dividend yield (Dividend per share / Share price)	%
Debt/Equity ratio (Gearing) /Long-term debt/Shareholders' equity)	Ratio
Interest cover (Profit before interest and taxation/Interest expense)	Times

Other

Effective tax rate (Income tax expense/Profit before taxation)*-1	%
R&D as a % of revenues (R&D expenses/Sales)	%
Intangibles as a % of total assets (Goodwill and intangible assets/Total assets)	%
Intangibles as a % of equity (Goodwill and intangible Assets/Shareholders' equity)	%
Market capitalization as a % shareholders' equity	%

Statement of financial position

	% Change On PY	2016	2015
		€ millions	€ millions
Non-current assets			
Goodwill	#DIV/0!		
Intangible assets	145%	6,019	2,461
Property, plant & equipment	36%	32,979	24,329
Investments	27%	3,187	2,516
Investment properties	11%	8,893	7,983
Deferred taxes	5%	383	365
Other	84%	6,425	3,491
	41%	57,886	41,145
Current assets			
Inventories/Long-term contracts	-3%	23,762	24,585
Trade receivables	15%	25,672	22,290
Loans and advances to customers	#DIV/0!		
Other current assets	48%	244	165
Short-term investments	260%	551	153
Cash	15%	17,112	14,916
Assets held for disposal	#DIV/0!	13,554	
	30%	80,895	62,109
Total assets	34%	138,781	103,254
Current liabilities			
Short-term Borrowings	79%	5,500	3,078
Trade payables	-6%	19,444	20,730
Consumer credit finance	#DIV/0!		
Income taxes	-1%	3,511	3,563
Provisions	767%	850	98
Other current liabilities	122%	779	351
Liabilities held for disposal	#DIV/0!	13,125	
	55%	43,209	27,820
Non-current liabilities			
Long-term Borrowings	-3%	21,152	21,703
Provisions	2432%	1,950	77
Consumer credit finance	#DIV/0!		
Pensions and employee benefits	2%	3,050	2,977
Other	132%	6,690	2,886
		32,842	27,643
Shareholders' equity	31%	62,730	47,791
Total equity and liabilities	34%	138,781	103,254
Number of shares outstanding	9%	20,797,000	19,064,000
Share price	25%	10.00	8.00
Market capitalization	36%	207,970,000	152,512,000
Dividend per share	-90%	0.097	1.01
R&D Expenditures	116%	2,235	1,034

SUMMARY, VALIDATION AND PRE- WORK SESSION 5

Validation Sessions 1-3

- Regulatory Framework (Chapter 1)
- IASB Conceptual Framework (Chapter 2)
- Presentation of Financial Statements (Chapter 3)
- Accounting Policies, Accounting Estimates and Errors (Chapter 4)
- Related Parties, Changes in Foreign Currencies (Chapter 21)
- Ratio Analysis (Chapter 22)
- Earnings Per Share (Chapter 23)
- Segmental Analysis (Chapter 24)

Overview of Session 5

- In Session 5 we will look at revenues and the rules relating to when revenue should be recognized
- Revenues are normally the largest number in the income statement and also the most susceptible to fraud and/or manipulation.
- We will use the companies selected by students to understand industry differences

Session 5 Pre-work

- Reading
 - Melville International Financial Reporting - A Practical Guide
 - None
 - International accounting standards
 - None
- Research Assignment
 - RA 3 For your chosen company, prepare a brief presentation summarizing the company's business model i.e. how the company generates revenues and what its accounting policy(ies) for revenue recognition is (are).



RA 3 Template

General Revenue Recognition Accounting Policy (if any)	
Type of revenue	Basis of revenue recognition