The Financial Statements

Lecture of Corporate Finance

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Ing. Tomáš Heryán, Ph.D.
Mgr. Tetiana Konieva, Ph.D

Corporate Finance
FIU/BAFIK

Outline of the lecture

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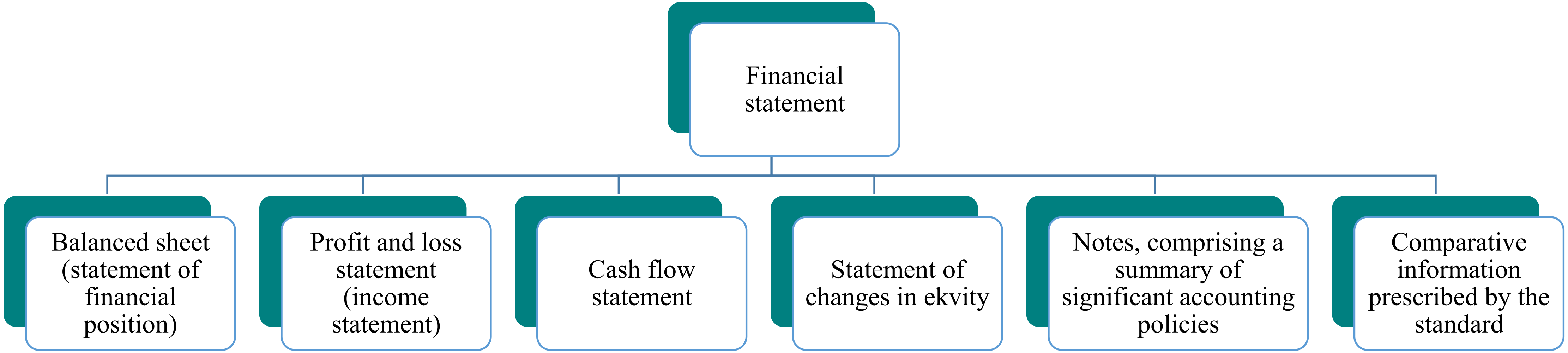
- Financial statements: forms
- Balance Sheet
- Income Statement
- Income Statement: Accrual Basis of Accounting
- Cost of production manufactured
- Types of costs
- Types of profits
- Cash Flow Statement
- Cash Flow Statement: types of activities
- Objective and main reasons for preparing of financial statement
- Financial statement – consolidated, individual and separate
- Qualitative characteristics of financial statement
- Limitations of the financial statements

Financial statements: forms

Financial Statements represent a formal record of the financial activities of an entity.

These are written reports that quantify the financial strength, performance and liquidity of a company. Financial Statements reflect the financial effects of business transactions and events on the entity.



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

Balance Sheet:

Fundamental accounting equation :

Equity (Net Assets) = Assets – Liabilities **Or** Assets = Equity + Liabilities

Balance Sheet (Assets) of XIAOMI CORPORATION:

	Note	As of December 31, 2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Property and equipment	15	6,964,621	6,305,657
Intangible assets	16	5,579,159	4,265,619
Investments accounted for using the equity method	12(b)	10,230,751	12,781,995
Long-term investments measured at fair value through profit or loss	20	50,113,702	35,215,319
Deferred income tax assets	35	1,661,947	2,011,072
Long-term bank deposits	25(c)	16,195,419	9,608,677
Long-term investments measured at amortized cost	20	351,362	232,798
Other non-current assets	18	15,943,508	6,975,851
		107,040,469	77,396,988
Current assets			
Inventories	24	52,397,946	41,670,719
Trade receivables	22	17,985,503	10,161,019
Loan receivables	21	5,109,034	8,919,088
Prepayments and other receivables	23	19,851,884	16,181,520
Bills receivables measured at fair value through other comprehensive income		14,033	200,000
Short-term investments measured at fair value through other comprehensive income	20	710,865	797,456
Short-term investments measured at amortized cost	20	1,597,919	—
Short-term investments measured at fair value through profit or loss	20	29,311,848	22,376,387
Short-term bank deposits	25(c)	31,041,129	17,598,946
Restricted cash	25(b)	4,319,661	3,625,257
Cash and cash equivalents	25(a)	23,511,579	54,752,443
		185,851,401	176,282,835
Total assets		292,891,870	253,679,823

Balance Sheet:

Fundamental accounting equation :

Equity (Net Assets) = Assets – Liabilities **Or** Assets = Equity + Liabilities

Balance Sheet (Equity and Liabilities) of XIAOMI CORPORATION:

	Note	As of December 31, 2021 RMB'000	2020 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26	407	409
Reserves		137,212,499	123,691,287
		137,212,906	123,691,696
Non-controlling interests		219,590	321,819
Total equity		137,432,496	124,013,515
Liabilities			
Non-current liabilities			
Borrowings	34	20,719,790	10,634,806
Deferred income tax liabilities	35	1,202,717	300,556
Warranty provision		895,747	802,590
Other non-current liabilities	30	16,913,649	10,001,428
		39,731,903	21,739,380
Current liabilities			
Trade payables	31	74,643,005	72,198,856
Other payables and accruals	32	20,224,499	13,619,655
Advance from customers	33	9,289,177	11,999,086
Borrowings	34	5,527,050	6,961,937
Income tax liabilities		2,335,124	674,298
Warranty provision		3,708,616	2,473,096
		115,727,471	107,926,928
Total liabilities		155,459,374	129,666,308
Total equity and liabilities		292,891,870	253,679,823

Balance Sheet: Equity

Equity (own capital; owner's capital; net assets = assets – liabilities; net worth)
The registered capital; share capital; Common stock capital (the amount of contributions of the enterprise's owners, recorded in the founding documents – money, property, property rights, securities, intellectual property); in a joint-stock company, stocks are provided instead of a contribution, in other types of enterprises, a share is determined)
Capital from fixed assets revaluation
Additional paid-in capital (additional contributions of owners; non-current assets received for free; the difference between the sale price of a stock and its face value in the market – issue income)
Reserve capital (part of the net profit set aside for repayment of debts, losses, dividends on preferred shares, unexpected events)
Retained earnings (accumulated deficit; uncovered loss): Incomes – Expenses = Profit Tax profit Net profit Retained earnings Dividends Reserve capital Registered capital
Unpaid capital (debts of the enterprise's owners for contributions; negative item of equity)
Treasury stock; Treasury shares (the cost of repurchased stocks and shares from the owners of the enterprise, done by this enterprise; negative item of equity)
Total equity

Balance Sheet: Long-term liabilities (International Accounting Standard IAS 1 – Presentation of Financial Statements)

Long-term liabilities and provisions – not expected to be settled within 12 months or 1 normal operating cycle of the enterprise: Deferred tax liabilities (from tax profit)
Long-term bank credits
Other long-term liabilities (issued bonds, debentures, financial leasing, promissory notes)
Long-term provisions (provisions for future losses and payments; fund of guaranteed payments; funds of the corporate pension fund)
Targeted funding (from budget)
Total long-term liabilities and provisions

Balance Sheet: Current liabilities

Current liabilities and provisions – due to be settled within 12 months or 1 normal operating cycle of the enterprise: Short-term bank credit
Current payables by long-term debt
Accounts payable; Trade payables (the company's debt to suppliers; commercial credit)
Accounts payable by the budget
Accounts payable by the profit tax (Current income tax liabilities)
Accounts payable by insurance
Accounts payable by wages
Current provisions (provisions for future losses and payments)
Accruals and deferred income (received payment in advance for tickets, periodicals, rent)
Other current liabilities
Total current liabilities and provisions
Liabilities directly associated with assets held for sale

Balance Sheet: Current assets (non-fixed assets)

Non-fixed assets (Current assets) – expected to be realized in the normal operating cycle or within 12 months after the reporting period; held primary for the purpose of trading; cash and cash equivalents **Operating cycle - the time period from the moment of purchasing of raw materials to receiving money from the sale of finished products made from these raw materials** Inventories (production inventories (raw materials and components); incomplete production (work in process); finished product; goods, commodities)
Current biological assets (young animals - calves, foals, lambs; poultry; fish; rabbits; plant seedlings)
Accounts receivable; Trade receivables
Prepayments and accrued income
Accounts receivable from the budget
Accounts receivable from the tax profit
Other current receivables
Short-term financial investments (stocks, bonds of other enterprises, states; deposits for a term of less than 1 year)
Cash and marketable securities; Cash and cash equivalents (financial investments for up to 3 months)
Prepayments and deferred costs (made prepayment for tickets, periodicals, rent)
Other current assets
Total current assets
Fixed assets held for sale

Balance Sheet: Fixed assets (non-current assets)

Fixed assets (Non-current assets) – those, which are not current assets: Intangible assets – an identifiable non-monetary asset without physical substance (patented technology, computer software, databases and trade secrets; trademarks, internet domains; video and audiovisual material; franchise agreements; marketing rights (International Accounting Standard IAS 38 — Intangible Assets):
original value
accumulated depreciation
Incomplete capital investment (unactuated equipment, equipment that is not put into operation, unfinished building)
Tangible assets; Property, equipment, buildings, vehicles
original value (price of purchase excluding VAT + transportation + insurance + cost of installation + customs fees.)
accumulated depreciation

Balance Sheet: Fixed assets (non-current assets)

Investment property – is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both (International Accounting Standard IAS 40 — Investment Property): land held for long-term capital appreciation land held for a currently undetermined future use building leased out under an operating lease vacant building held to be leased out under an operating lease property that is being constructed or developed for future use as investment property
Long-term biological assets (adult, working, productive livestock - cattle, goats, pigs, horses; gardens, vineyards)
Long-term financial investments: calculated by the equity method in other enterprises (Investments in associates and joint ventures in amount more, than 20% of their capital)
Other financial investments (stocks, bonds of other enterprises, states; deposits for a term of more than 1 year)
Long-term accounts receivable; Long-term trade and other receivables
Deferred tax assets
Other fixed assets
Total fixed assets

Double accounting

- Double entry (double accounting) - a fundamental concept underlying present-day bookkeeping and accounting, states that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the fundamental accounting equation :

Assets = Equity + Liabilities

- In the double-entry system, transactions are recorded in terms of debits and credits. Since a debit in one account offsets a credit in another, the sum of all debits must equal the sum of all credits.

- There are seven different types of accounts that all business transactions can be classified:

1. Assets (normal balance on Debit)
2. Liabilities (normal balance on Credit)
3. Equities (normal balance on Credit)
4. Revenue (normal balance on Credit)
5. Expenses (normal balance on Debit)
6. Gains (normal balance on Credit)
7. Losses (normal balance on Debit)

Double accounting (continuation)

Types of the transactions:

1. **Assets +, Assets –**
Example: payment 2000 from buyers for the delivered production to the banking account

Assets	Equity + Liabilities
+ Banking account 2000	
- Accounts receivable (debt of the buyers for delivered production) 2000	

2. **(Equity/Liabilities) +, (Equity/Liabilities) –**
Example: direction of reserved capital 3000 to uncovered losses in amount 3000

Assets	Equity + Liabilities
	- Reserved capital 3000
	+ Uncovered losses 3000

Double accounting (continuation)

Types of the transactions:

3. Assets +, (Equity/Liabilities) +
Example: Receiving of bank credit 10000

Assets	Equity + Liabilities
+ Banking account 2000	+ Bank credit 10000

4. **Assets – , (Equity/Liabilities) –**
Example: Repayment of trade payable to the suppliers 15000

Assets	Equity + Liabilities
- Banking account 15000	- Trade payable 15000

Income Statement

Income Statement of XIAOMI CORPORATION :

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Revenue	6	328,309,145	245,865,633
Cost of sales	9	(270,048,204)	(209,113,771)
Gross profit		58,260,941	36,751,862
Research and development expenses	9	(13,167,088)	(9,256,139)
Selling and marketing expenses	9	(20,980,765)	(14,539,400)
Administrative expenses	9	(4,738,919)	(3,746,449)
Fair value changes on investments measured at fair value through profit or loss	20(vii)	8,132,133	13,173,479
Share of net profits of investments accounted for using the equity method	12(b)	275,013	1,380,904
Other income	7	826,856	642,930
Other losses, net	8	(2,579,507)	(372,458)
Operating profit		26,028,664	24,034,729
Finance income	11	1,229,826	963,555
Finance costs	11	(2,841,457)	(3,364,852)
Profit before income tax		24,417,033	21,633,432
Income tax expenses	13	(5,133,798)	(1,320,722)
Profit for the year		19,283,235	20,312,710

Income Statement: Accrual Basis of Accounting

Income (Revenue) – growing of economic benefits in the form of assets increasing or liabilities decreasing, that leads to increasing in equity, other than increasing relating to contributions from owners

Expenses (costs, expenditures) – reducing of economic benefits in the form of assets decreasing or liabilities increasing, that leads to decreasing in equity, other than decreasing because of repurchasing stocks or reducing the quantity of owners

Profit = Incomes – Costs
Loss = Incomes – Costs (in case Costs > incomes)

Accrual basis of accounting:
Under the accrual basis of accounting, revenues are reported on the income statement when they are earned. When the revenues are earned but cash is not received, the asset accounts receivable will be recorded.
Recognition of revenue (International Accounting Standard 18 – Revenue):

- the seller has transferred to the buyer the significant risks and rewards of ownership
- the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the seller, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Expenses are reported on the income statement when they match up with the revenues being reported, or when a cost has no future benefit that can be measured. When an expense occurs and cash has not yet been paid, a liability account will also be recorded.

Accrual Basis of Accounting (continuation)

Transaction	Revenue, income	Cash inflow
1. Delivered production to buyers and received cash from them 20000	20000	20000
2. Delivered production to buyers with payment delay 20000	20000	-
3. Received prepayment 20000 from the buyers for production, that have not been delivered yet	-	20000
4. Received bank credit 30000	-	30000
5. Company issued shares and sold them at exchange market 15000	-	15000
6. Company received cash dividends from financial investments on the declaration date 1400	1400	1400
7. Company is declared cash dividends 1400 from financial investments in September, that will be paid in October	1400 (September) - (October)	- 1400 (October)

Accrual Basis of Accounting (continuation)

Transaction	Expenses	Cash outflow
1. Company paid in advance for inventories 23000	- (the price of bought inventories will be expenses after the manufacturing the production from them and its selling)	23000
2. Returning bank credit 30000	-	30000
3. Salary is calculated for September 42000, it will be paid at the beginning of October	42000	- 42000 (in October)
4. Made prepayment for annual rent 56000	- (56000/12 – will be cost at the end of every month of the year)	56000
5. Company paid dividend for owners 4000	- (dividends are not expenses, because they are paid from net profit after all expenses)	4000
6. Company calculated depreciation of equipment 1200	1200	-

Income Statement

Net revenue from sales of production (goods, works, services) = (Price per unit * Quantity of units of production sold) – Value Added Tax – Excise – Custom Duty
Cost of production (goods, works, services) sold = Finished production at the beginning of the reported period + Finished production, manufactured during the reported period - Finished production at the end of the reported period
Gross: profit = Net revenue – Cost of production sold
loss
Other operating income (income from rent, from the sale of raw materials, equipment, from exchange rate differences)
Administrative expenses (salary of the director, financial services departments, HR department, supply department, depreciation of the administrative fixed assets, representative expenses, audit, etc.)
Sales expenses (packaging, advertising, transportation of products, depreciation of refrigerators, storage of finished products, salary of sales department)
Other operating expenses (doubtful debts from buyers for shipped products, cost of sold raw materials, equipment, losses from exchange rate differences)

Income Statement

The financial result from the operational activity: profit = gross profit (loss) + Other operating income – Administrative expenses – Sales expenses – Other operating expenses
loss
Income from investments in other enterprises equity
Other financial income (received interest from financial investments (bonds, deposits), received dividends from shares)
Other income (income from the sale of shares, bonds of other enterprises)
Financial costs (interest rate on a credit, interest rate on issued bonds)
Loss from investments in other enterprises equity
Other costs (cost of sold shares, bonds of other enterprises)
The financial result before taxation: profit = The financial result from the operational activity (profit/loss) + Income from investments in other enterprises equity + Other financial income + Other income - Financial costs - Loss from investments in other enterprises equity - Other costs
loss
Expenses (income) from tax profit
Income (loss) from discontinued operations after taxation
Net financial result: profit = The financial result before taxation (profit) - tax profit
loss

Cost of production manufactured:

- direct material costs (materials, energy, gas, water, spent

for the manufacturing of the production) +

- direct labor costs (salary of employees, that manufacture the production) +
- Cost of spoiled production +
- depreciation of equipment, that takes part in manufacturing process +
- general production costs (for maintaining the workshop, where production manufactured; salary of the workshop director, workshop cleaners; heating and lightening of the workshop)

Types of costs

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Fixed costs

- Costs independent of the quantity produced

Variable costs

- Costs dependent on the quantity produced

Indirect costs

- Costs that can not be assigned directly to a particular performance
- It is necessary to budget them in a certain way

Marginal costs

- The cost of the last produced unit
- An increase in the total cost of producing one extra product

Opportunity costs

- The cost of sacrificing opportunities

Types of profits:

- **Gross profit** = net revenue – cost of production sold
- **Operating profit (The financial result from the operational activity) =** gross profit (loss) + Other operating income – Administrative expenses – Sales expenses – Other operating expenses
- **Profit from the investing activity =** Income from investments in other enterprises equity + Other financial income +Other income - Loss from investments in other enterprises equity- Other costs
- **Loss from the financing activity =** Financial costs (financing activity does not bring any incomes)
- **EBITDA** (earning before depreciation and amortization, interest rate and tax profit) = **EBT +** interest rate (financial costs) + depreciation of tangible assets + amortization of intangible assets
- **EBIT** (earning before interest rate and tax profit) = **EBT +** interest rate (financial costs)
- **EBT** (earning before taxation (tax profit)) = The financial result from the operational activity (profit/loss) + Income from investments in other enterprises equity + Other financial income + Other income - Financial costs - Loss from investments in other enterprises equity - Other costs
- **Net profit (**profit after all expenses and taxation) = **EBT –** tax profit
- **Retained earning** – net profit after dividends, contributions to reserve capital and registered capital

Cash Flow Statement

Cash Flow Statement (operating activity) of XIAOMI CORPORATION:

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	12,227,783	23,831,802
Income tax paid		(2,442,495)	(1,953,302)
Net cash generated from operating activities		9,785,288	21,878,500

Cash Flow Statement (continuation)

Cash Flow Statement (investing activity) of XIAOMI CORPORATION:

Cash flows from investing activities			
Capital expenditures		(7,169,313)	(3,025,523)
Proceeds from disposal of property and equipment	36(b)	35,365	63,088
Placement of short-term bank deposits		(67,310,919)	(37,650,395)
Withdrawal of short-term bank deposits		53,409,119	41,212,622
Placement of long-term bank deposits		(8,808,779)	(9,018,520)
Proceeds from maturity of long-term bank deposits		431,993	—
Purchase of short-term investments measured at fair value through profit or loss		(169,186,373)	(195,282,061)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		162,808,867	189,410,595
Purchase of short-term investments measured at fair value through other comprehensive income		(1,167,454)	(1,544,640)
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income		1,232,523	742,090
Purchase of investments measured at amortized cost		(4,672,448)	(570,394)
Proceeds from maturity of investments measured at amortized cost		2,905,762	341,527
Interest income received		1,228,830	1,052,389
Investment income received		687,736	637,901
Purchase of long-term investments measured at fair value through profit or loss		(12,882,628)	(7,534,492)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		1,857,274	4,632,047
Purchase of investments accounted for using the equity method		(215,847)	(1,309,560)
Proceeds from disposal of investments accounted for using the equity method		2,665,212	6,345
Acquisition of subsidiaries, net of cash acquired	39	(1,086,477)	38,517
Dividends received		229,612	119,612
Net cash used in investing activities		(45,007,945)	(17,678,852)

Cash Flow Statement (continuation)

Cash Flow Statement (financing activity) of XIAOMI CORPORATION:

Cash flows from financing activities			
Proceeds from borrowings		22,528,578	30,582,175
Repayment of borrowings		(13,301,236)	(32,586,382)
Finance expenses paid		(659,987)	(499,711)
Placement of restricted cash		—	(531,369)
Withdrawal of restricted cash		500,000	807,192
Contribution from fund investors		3,471,000	3,398,000
Net proceeds from exercise of share options		83,014	254,476
Payments for shares repurchase		(7,006,824)	(454,872)
Payment of lease liabilities		(1,115,859)	(493,899)
Capital contribution from non-controlling interests		—	31,000
Issuance of convertible bonds, net of issuance costs		—	5,801,022
Issuance of shares upon placement		—	19,907,936
Net cash generated from financing activities		4,498,686	26,215,568
Net (decrease)/increase in cash and cash equivalents		(30,723,971)	30,415,216
Cash and cash equivalents at the beginning of the year	25(a)	54,752,443	25,919,861
Effects of exchange rate changes on cash and cash equivalents		(516,893)	(1,582,634)
Cash and cash equivalents at the end of the year	25(a)	23,511,579	54,752,443

Cash Flow Statement: types of activities

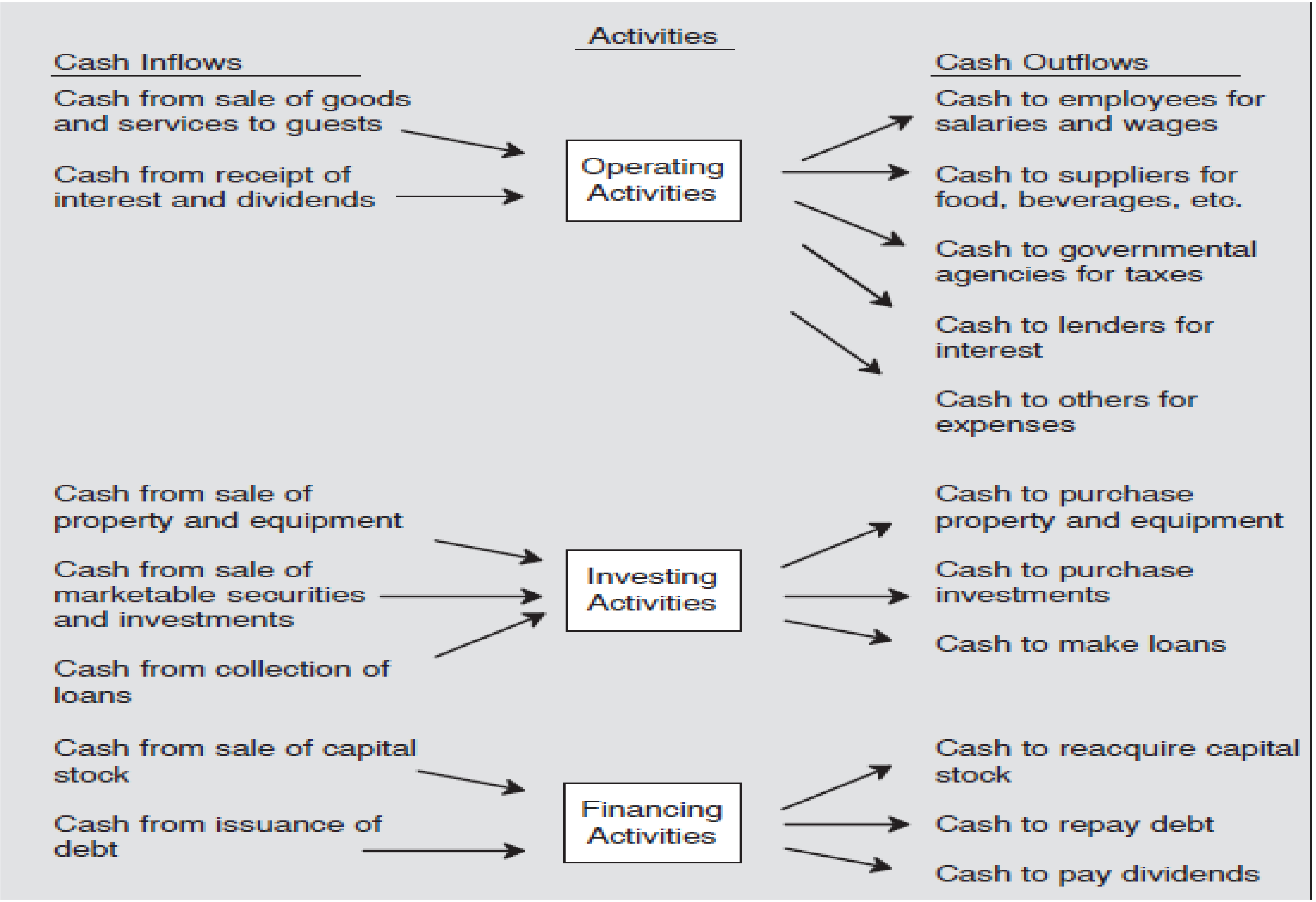
International Accounting Standard 7 — Statement of Cash Flows:

•**operating activities** are the main revenue-producing activities of the entity that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers, employees, taxes. Cash flow from operating activities allows to determine to what extent profit from ordinary activities to truly earned money and how money influenced the production of changes in working capital and its components.

•**investing activities** are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents. Examples of investing activities are cash outflow for the purchase of fixed assets and financial investments, securities issued by other entities; cash inflow from the sale of the fixed assets, financial investments, received dividends, interest rate

•**financing activities** are activities that alter the equity capital and borrowing structure of the entity. Examples are: cash inflows (the sale of company shares, bonds, getting loans) and cash outflows (the repurchase of shares, bonds, returning the credit, interest rate and dividend payments).

Cash Flow Statement: types of activities



Cash Flow Statement: Operating cash flow (direct method)

Operating cash flow Cash inflow from: sales of production (goods, works, services)
Return of taxes and charges
including value added tax
Targeted funding
Other cash inflow
Cash outflow for payment: Goods (works, services)
Labor
Deductions for social events
Taxes and charges liabilities
Other cash outflow
Net operating cash flow

Cash Flow Statement: Operating cash flow (indirect method)

Item	For the reporting period	
	Inflow	Outflow
1	3	4
Operating cash flow The financial result before taxation (profit(loss))		
Adjustments for: fixed assets depreciation		X
increase (decrease) of provisions		
loss (profit) from unsold translation reserve		
loss (profit) from non-operating activity and other noncash operations		
Decrease (increase) of current assets		
Increase (decrease) of current liabilities		
Operating cash flow		
Income tax paid	X	
Net operating cash flow		

Cash Flow Statement: Operating cash flow (direct and indirect method)

Operating Activities

Direct Method

Cash Flows from Operating Activities:		
Cash Receipts from Sales		$ XXX
Interest and Dividends Received		XXX
Total		XXX
Cash Disbursements for:		
Payroll	$ XXX	
Purchases of Inventory	XXX	
Other Expenses	XXX	
Interest Expense	XXX	
Income Taxes	XXX	XXX
Net Cash Flows from Operating Activities		$ XXX

Indirect Method

Cash Flows from Operating Activities:		
Net Income		$ XXX
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	$ XXX	
Gain on Sale of Property	(XXX)	
Loss on Sale of Investments	XXX	
Increase in Accounts Receivable	(XXX)	
Decrease in Inventories	XXX	
•		
•		
•		
Increase in Accrued Payroll	XXX	XXX
Net Cash Flows from Operating Activities		$ XXX

Cash Flow Statement: Cash Flows from investing and financing activities

Net operating cash flow	
II. Cash flow from investing activities	
Cash inflow from sales of: financial investments	
fixed assets	
Cash inflow from received: percent	
dividends	
Cash inflow from derivatives	
Other cash inflow	
Cash outflow for purchase of: financial investments	
fixed assets	
Cash outflow by derivatives	
Other cash outflow	
Net cash flow from investing activities	
III. Cash flow from financing activities	
Cash inflow from: Equity	
Getting loans	
Other cash inflow	
Cash outflow for: Purchase of treasury shares	
Repayment of loans	
Payment of dividends	
Other cash outflow	
Net cash flow from financing activities	
Net cash flow for the reporting period	
Cash and cash equivalents at beginning of year	
Influence of currency retranslations	
Cash and cash equivalents at end of year	

Objective and main reasons for preparing of financial statement

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- **The objective** of the financial statements is to provide information on the financial position, performance and changes in the financial position of the entity that are useful to a wide range of users in making economic decisions.

- **The main reasons** for the preparation of the financial statements are:
  - The liability to prepare the financial statements imposes legislation on the entity.
  - Presentation of the financial statements is a condition of the exchange in the issue of securities of the company.
  - An enterprise shall present its financial statements in public, in particular to shareholders / investors.

- Entities that are issuers of securities registered in a regulated securities market in the Member States of the European Union shall use the accounting and financial statements for the entity and the consolidated IFRS financial statements.

Financial statement – consolidated, individual and separate

- **Consolidated financial statements** are the financial statements of a group of enterprises that combine the assets and liabilities and the results of the parent's holding with its interest in other entities that control or have a significant influence or controlling interest within the meaning of the Commercial Code, has significant or decisive influence.

  The objective of the consolidated financial statements is to provide the shareholders of the parent and the professional public with comprehensive information on the total assets, liabilities, equity, costs and revenues of the economic and economic groupings of the enterprises that are linked to the capital.

- **Individual (unconsolidated) financial statements** are compiled by enterprises that do not have subsidiaries to be consolidated.

- **Separate financial statements** are prepared by an enterprise at the request of an institution (for example, a country's accounting regulator) or by its own will.

Qualitative characteristics of financial statement

The **four principal qualitative characteristics** are:

- *Understandability* - it is essential that the information provided in financial statements is readily understandable by users. Users are assumed to have a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence. Information on complex matters should not be omitted from financial statements merely on the grounds that some users may find it difficult to understand.
- *Relevance* - information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. Information has a predictive role in helping users to look to the future. Predictive value does not necessarily require a forecast.
- *Reliability* - Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent.
- *Comparability* - means that users must be able to compare the financial statements of an enterprise over time to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises to evaluate their relative financial position, performance and changes in financial position. Financial statements should show corresponding information for the previous period.

Limitations of the financial statements:

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- **Indifferent to Market Values;** heavy reliance on historical costs makes the financial statement less reliable and more misleading
- Financial statements do not consider the effects of **inflation** on the assets and liabilities shown in the balance sheet
- does not work with the **time value of money**; it does not affect exactly the present value of assets and liabilities
- **Specific Time Period;** could be misleading because of seasonal impact on businesses, economic ups and downs, daily changes
- **Not Comparable;** financial statement just gives an indication and does not facilitate true comparison between the two or more companies
- **Only some intangible assets are presented** in the balance sheet, despite the real costs, spent on them
- Does not reflect human resource investments
- Possibility of financial statement **manipulation**
- Environmental, sociological, political factors, competitive position, contribution towards local communities etc are **ignored** in the financial statements
- **UnAudited** Financial Statements
- There is no express indication by the financial statements about the **future**.
- Financial statements highly focus on **quantitative** data and thus misses out on qualitative information
- Represents **absolute** values

Thank you for your attention!