

FINANCIAL STATEMENTS



What do we *already* know about financial statements (FS)?

- ▣ FS are intended for external users.
- ▣ FS contain summarised information.
 - ▣ FS reflect the company's past.
- ▣ FS are prepared on a regular basis.
 - ▣ FS are required by law.
- ▣ FS are prepared in accordance with GAAP.

The **objective** of general purpose FS is to provide information about

the **financial position,**
financial performance,
and **cash flows** of an entity

that is useful to a wide range of users in making economic decisions.

Set of financial statements

- ★ 1) a statement of financial position (balance sheet)**
- ★ 2) a statement of comprehensive income (income statement / profit and loss account)**
- ★ 3) a statement of cash flows**
- 4) a statement of changes in equity**
- 5) explanatory notes**

Assumptions

Accruals basis. The effects of transactions and other events are recognised when they occur (and not when cash is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Going concern. The entity is normally viewed as continuing its operation for the foreseeable future: the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.

Qualitative characteristics

Fundamental characteristics

Relevance. Information influences the economic decisions of users and has predicative and confirmatory value.

Faithful presentation. Information must be complete, neutral and free from error.

Other characteristics

Comparability

Understandability

Timeliness



The Balance Sheet

The Statement of Financial Position
(SOFP)

218	
527	
14.11	✓
99.77	✓
89.44	✓
1,500.00	✓
11.50	✓

The Balance Sheet



ASS

The fundamental accounting equation:

Assets = Liabilities + Equity (Owners' capital)

What is an asset?

something that we own



cash



furniture



vehicles



inventory



equipment



land

Definition of an asset (IAS)

“A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity”.

The definition has three important characteristics:

- Future economic benefits
- Control (ownership)
- Transaction to acquire has taken place

ASSETS

Non-current

(NOT expected to become cash within the next year)

- Intangible assets (licenses, patents)
- Property, plant and equipment / Fixed assets
- Long-term investments

LESS liquid

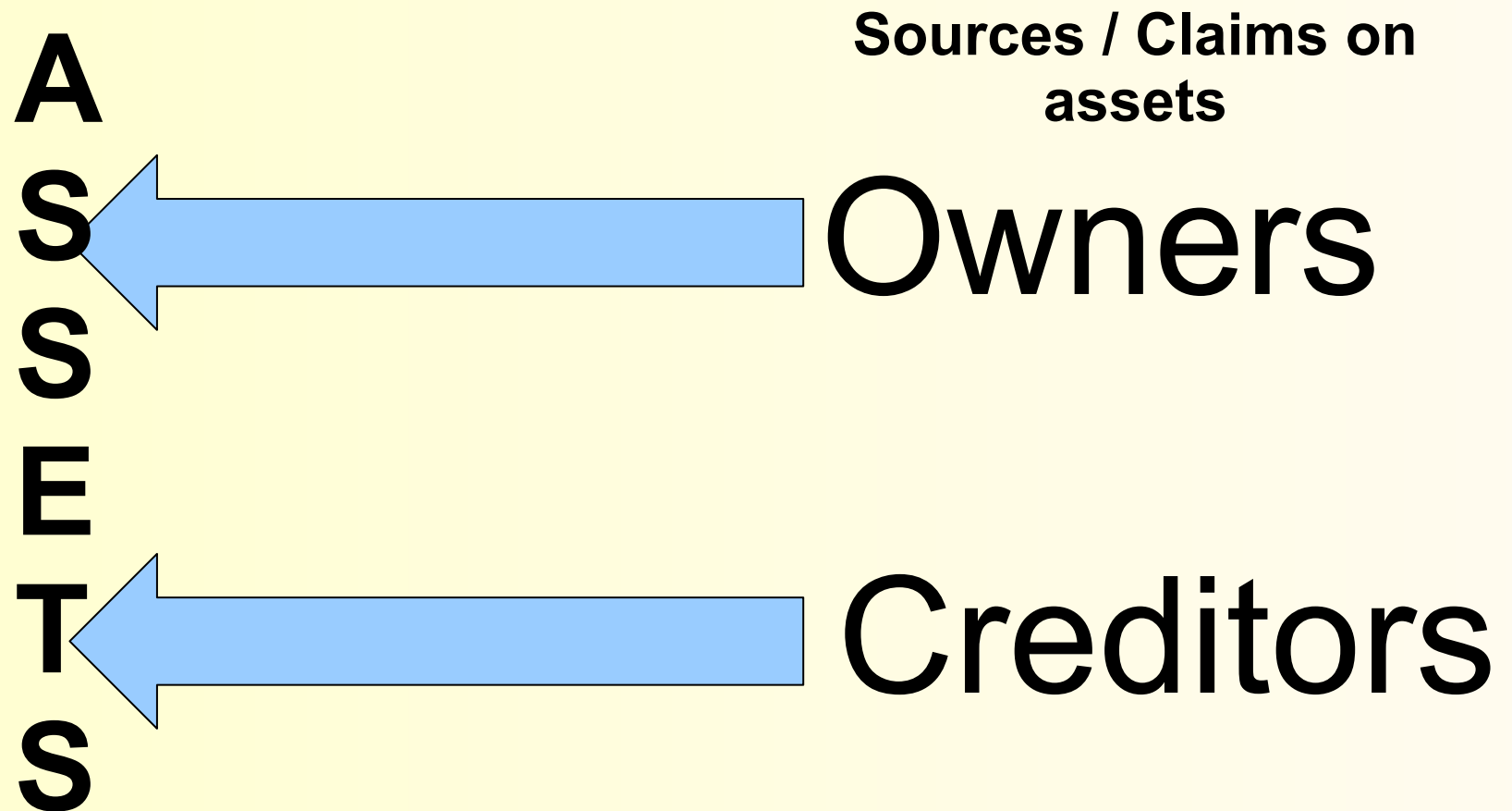
Current

(Expected to become cash within the next year)

- Inventory (raw materials, work-in-progress, finished goods)
- Accounts receivable
- Cash and cash equivalents

MORE liquid

Assets are NOT manna from heaven!



A company's assets can be financed through borrowing (liabilities) or by paying the owners' money (equity)

What is a liability?

something that we owe



to banks



to staff



to the government



to suppliers

The definition of a liability (IAS)

“An obligation of an entity to transfer economic benefits as a result of past transactions and events”.

The definition has three important characteristics:

1. Obligation (something that we cannot avoid)
2. Transfer of economic benefits
3. Result of past transactions and events

LIABILITIES

Long-term

(NOT to be settled within the next 12 months)

- Bonds issued
- Long-term loans

Short-term (current)

(to be settled within the next 12 months)

- Short-term loans
- Accounts payable
- Salaries payable
- Taxes payable

OWNERS' CAPITAL (EQUITY)

something that belongs to the entity's owners

It includes:

- contributed capital (share capital)
- retained profits (earnings)

Bringing it all together...

THE BALANCE SHEET

LIQUIDITY

ASSETS

Non-current assets

- Intangible assets
- Property, plant and equipment
- Long-term investments

Current assets

- Inventory
- Trade receivables
- Cash and cash equivalents

CAPITAL

- Share capital
- Retained profits

LIABILITIES

Long-term liabilities

- Bonds
- Loans

Short-term liabilities

- Trade payables
- Due to employees
- Taxes

ASSETS = CAPITAL + LIABILITIES

*This balance sheet is prepared in an **INCREASING** order of liquidity.*

Bringing it all together...

THE BALANCE SHEET

LIQUIDITY

ASSETS

- Current assets**
 - Cash and cash equivalents
 - Trade receivables
 - Inventory
- Non-current assets**
 - Long-term investments
 - Property, plant and equipment
 - Intangible assets

LIABILITIES

Short-term liabilities

- Trade payables
- Due to employees
- Taxes

Long-term liabilities

- Bonds
- Loans

CAPITAL

- Share capital
- Retained profits

ASSETS

= LIABILITIES + CAPITAL

*This balance sheet is prepared in a **DECREASING** order of liquidity.*

A balance sheet is a **snapshot** of a company at a moment in time .



It shows the company's **financial position** (assets, liabilities and equity) as of a **particular (reporting) date.**

Mechel's balance sheet (prepared under the RAS)

ACCOUNTING BALANCE SHEET as of December 31, 2007

Organization: **Mechel OAO**
 Taxpayer Identification Number
 commercial operations and management consultations,
 investments in securities
 Line of business
 Legal status: **Open Joint Stock Company** Type of ownership: **Private**
 Measurement unit: **RUR thous.**
 Location (address): **1 Krasnoarmeyskaya St, 125888, Moscow**

Form No. 1 per OKUD	0710001		
Date (year, month, day)	2008	03	26
per OKPO	14 682 388		
INN	7703370008/887660001		
per OKVED	74.14.86.23.1		
per OKOPF/OKFS	47	34	
per OKEI	384		

Date of approval: _____
 Date of dispatch/receipt: _____

ASSETS	Item code	Reporting year beginning	Reporting year end
1	2	3	4
I. Fixed Assets			
Intangible assets	110	47 370	32 248
Plant and equipment	120	10 342	641
Construction in progress	130	265	-
Income-bearing investments in tangible assets	135	-	-
Long-term investments	140	54 986 254	84 437 431
Deferred tax assets	145	93 622	290 892
Other fixed and non-current assets	150	15	1 753
Subtotal for Section I	190	66 117 868	84 752 963
II. Working Assets			
Reserves	210	58 183	40 534
raw materials, materials and other similar items of material value	211	127	2
livestock in breeding and fattening	212	-	-
costs of work in progress	213	2 762	2 575
finished products and goods for re-sale	214	-	-
goods shipped	215	-	-
prepaid expenses	216	55 294	37 957
other reserves and expenses	217	-	-
Input value-added tax	220	880	17 921
Accounts receivable (maturing in over 12 months after the reporting date)	230	198	221
including:			
purchasers and contractors 62	231	-	-
advance payments, account 60	232	198	221
Accounts receivable (maturing within 12 months after the reporting date)	240	122 355	3 372 848
including purchasers and contractors 62	241	34 638	95 144
sundry debtors and creditors, account 76	242	727	3 227 888
advance payments, account 60, 76	243	61 546	26 268
taxes and collections, account 68	244	24 903	22 232
social insurance expenses, account 69	245	-	322
other debtors, account 71, 73, 75	246	541	1 194
Short-term investments	250	-	-
Cash	260	5 975	3 365
Including:			
cash in hand	261	404	21
accounts in RUR (account 51)	262	4 791	2 024
accounts in foreign currency (account 52)	263	8	6
Transfers in transit (account 57)	264	-	-
Special bank accounts	265	774	1 314
Other working assets	270	-	-
Subtotal for Section II	290	187 591	3 434 889
BALANCE	300	85 305 459	88 187 852

Auditor

LIABILITIES	Item code	Reporting year beginning	Reporting year end
1	2	3	4
III. Capital and Reserves			
Charter capital	410	4 162 707	4 162 707
Treasury stock	411	-	-
Surplus capital	420	6 023 340	6 023 340
Reserve capital	430	208 135	208 135
Including:			
statutory reserves required by law	431	-	-
reserves required by constitutive documents	432	208 135	208 135
Retained profit of reporting year (uncovered loss)	470	30 808 578	55 996 232
Subtotal for Section III	490	41 202 760	66 390 414
IV. Long-Term Liabilities			
Loans and credits	510	13 541 398	8 784 865
Deferred tax liabilities	515	1 219	2 024
Other long-term liabilities	520	-	-
Subtotal for Section IV	590	13 542 617	8 786 889
V. Short-Term Liabilities			
Loans and credits	610	514 546	12 943 880
Accounts payable	620	45 536	85 564
Including:			
suppliers and contractors	621	18 694	54 911
employees	622	14 607	7 652
state-run extra budgetary funds	623	515	117
taxes and collections payable	624	8 113	307
trade account advance payments received, account 62	625	104	158
sundry debtors and creditors (account 76)	626	3 217	2 420
other creditors 71, 73, 75, 55	627	488	96
Accrued income due to partners (founders)	630	-	1 305
Unearned income	640	-	-
Provisions for anticipated payments	650	-	-
Other short-term liabilities	660	-	-
Subtotal for Section V	690	560 862	13 010 549
BALANCE	700	55 305 459	88 187 852

STATEMENT OF ASSETS RECORDED ON OFF BALANCE SHEET ACCOUNTS

Item	Item code	Reporting year beginning	Reporting year end
1	2	3	4
Leased assets	910	-	77 094
including under leasing arrangements	911	-	-
Inventories in custody	920	-	-
Goods on commission	930	-	-
Bad debt written off to loss	940	-	-
Received security of obligations and payments	950	-	-
Granted security of obligations and payments	960	1 137 211	48 376 998
Housing stock depreciation	970	-	-
Depreciation of on-site improvements and other similar facilities	980	-	-
Received intangible assets in use	990	-	-

Head <signed> Stanislav A. Ploshchenko Chief Accountant <signed> Tatyana A. Kalyadina
 (signature) (name) (signature) (name)

March 25, 2008 <Affixed is the corporate stamp of Mechel OAO>

Auditor
 S. P. Rudakov

Consolidated balance sheets for L'oreal (prepared under the IFRS)

€ millions	Notes	06.30.2012	06.30.2011	12.31.2011
ASSETS				
Non-current assets		19,996.0	17,945.8	19,135.0
Goodwill	8	6,439.5	5,705.9	6,204.6
Other intangible assets	8	2,500.8	2,232.0	2,477.3
Property, plant and equipment	9	2,987.9	2,672.0	2,880.8
Non-current financial assets	10	7,254.8	6,729.0	6,900.9
Deferred tax assets		813.0	606.9	671.4
Current assets		8,233.5	7,230.2	7,722.6
<i>Current assets excluding assets held for sale</i>		<i>8,202.5</i>	<i>7,230.2</i>	<i>7,722.6</i>
Inventories		2,109.5	1,896.0	2,052.1
Trade accounts receivable		3,494.2	3,049.9	2,996.2
Other current assets		1,056.2	969.9	904.1
Current tax assets		74.0	60.0	118.0
Cash and cash equivalents	11	1,468.6	1,254.4	1,652.2
<i>Assets held for sale</i>	2.1	<i>31.0</i>	-	-
Total		28,229.5	25,176.0	26,857.6

€ millions	Notes	06.30.2012	06.30.2011	12.31.2011
EQUITY & LIABILITIES				
Equity		18,683.2	16,118.3	17,637.5
Share capital		121.2	120.5	120.6
Additional paid-in capital		1,475.4	1,251.2	1,271.4
Other reserves		13,647.7	12,322.5	12,368.8
Items recognised directly in equity		2,133.4	2,095.6	2,054.7
Cumulative translation adjustments		123.5	-449.1	24.9
Treasury stock		-445.8	-691.3	-644.4
Net profit attributable to owners of the company		1,625.2	1,466.6	2,438.4
Equity attributable to owners of the company		18,680.6	16,116.0	17,634.4
Non-controlling interests		2.6	2.3	3.1
Non-current liabilities		2,369.8	1,854.5	2,090.2
Provisions for employee retirement obligations and related benefits	12.4	1,472.3	1,012.0	1,128.9
Provisions for liabilities and charges	13	169.5	172.6	226.1
Deferred tax liabilities		673.9	506.1	677.7
Non-current borrowings and debt	14	54.1	163.8	57.5
Current liabilities		7,176.5	7,203.2	7,129.9
Trade accounts payable		3,210.8	2,997.3	3,247.7
Provisions for liabilities and charges	13	552.9	517.0	500.7
Other current liabilities		2,022.5	1,905.8	2,066.7
Income tax		210.1	166.4	224.0
Current borrowings and debt	14	1,180.2	1,616.7	1,090.8
Total		28,229.5	25,176.0	26,857.6

**No matter what transactions a
company enters into
the equation**

$$*assets = liabilities + capital*$$

is ALWAYS true!

Explain how the transactions will affect the balance sheet:

Transaction 1

Costas has decided to set up in business selling football shirts from a stall in a market place. He begins by putting \$3,000 in a bank account for the business.

ASSETS		CAPITAL	
Non-current assets		<i>Capital contributed</i>	3,000
Current assets		LIABILITIES	
<i>Cash</i>	3,000	Long-term liabilities	
		Short-term liabilities	
TOTAL ASSETS	3,000	TOTAL CAPITAL + LIABILITIES	3,000

Transaction 2

Costas then obtains a 5-year loan of \$4,000 from his brother.

ASSETS		CAPITAL	
Non-current assets		Capital contributed	3,000
Current assets		LIABILITIES	
Cash	3,000 + 4,000	Long-term liabilities	
		<i>Loan</i>	4,000
		Short-term liabilities	
TOTAL	3,000 + 4,000	TOTAL	3,000 + 4,000

Transaction 3

Costas then purchases a market stall and pays \$2,000 in cash.

ASSETS		CAPITAL	
Non-current assets		Capital contributed	3,000
<i>Fixed assets</i>	2,000		
Current assets		LIABILITIES	
Cash	7,000 -2,000	Long-term liabilities	
		Loan	4,000
		Short-term liabilities	
TOTAL	7,000	TOTAL	7,000

Transaction 4

Costas now buys some football shirts for \$1,800 on credit.

ASSETS		CAPITAL	
Non-current assets		Capital contributed	3,000
Fixed assets	2,000		
Current assets		LIABILITIES	
Cash	5,000	Long-term liabilities	
<i>Inventory</i>	<i>1,800</i>	Loan	4,000
		Short-term liabilities	
		<i>Accounts payable</i>	<i>1,800</i>
TOTAL	7,000 + <i>1,800</i>	TOTAL	7,000 + <i>1,800</i>

Transaction 5

Costas now sells 50% of its shirts (cost \$900) for \$1,200 in cash.

ASSETS		CAPITAL	
Non-current assets		Capital contributed	3,000
Fixed assets	2,000	<i>Profit</i>	<i>300</i>
Current assets		LIABILITIES	
Cash	5,000 + <i>1,200</i>	Long-term liabilities	
Inventory	1,800 - <i>900</i>	Loan	4,000
		Short-term liabilities	
		Accounts payable	1,800
TOTAL	8,800 + <i>300</i>	TOTAL	8,800 + <i>300</i>

Things to remember...

- ✓ Internally generated intangibles (expertise of the staff, the reputation of the business) are NOT normally recognised as assets in the balance sheet.
- ✓ Net assets of a company (total assets — total liabilities) can be different from the value placed by the company's buyers.



THANK YOU!

218.7
527.1
14.11
99.77
89.44
1,500.00
11.50