



Objective of Financial Statements

- the objective of financial statements is to provide information to users to help them in their economic decisions
- the financial statements are expected to provide information about the future cash flows of an entity, its financial structure, profitability and liquidity, and its financial position and changes in financial position
- financial statements provide information about assets, liabilities, revenues, expenses and cash flows

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Financial Statements

- All financial statements are interrelated because each statement provides information about a different aspect of the same entity
- financial statements :
 - balance sheet
 - income statement
 - the cash flow statement
 - statement of changes in equity
- Notes to the financial statements: accounting policies and explanatory notes about various items

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Financial Statements

- balance sheet provides information about the financial position or the resources available and the claims on these resources
- income statement provides information about how well these resources are used to generate income in a given period
- cash flow statement provides information about the movement in the cash and cash equivalents in a given period
- both the income statement and the balance sheet are prepared on accrual basis
- the cash flow statement is prepared on cash basis of accounting
- in order to meet the objective of financial statements, certain assumptions and qualitative characteristics are defined in the framework by IASB

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Underlying Assumptions of Financial Statements

- **Accrual Basis of Accounting**
- **Continuity or Going Concern Assumption**
- **Periodicity or the Time Period Assumption**
- **Monetary Value or Unit-of-Measure Assumption**

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Underlying Concepts

- **Understandability**
- **Relevance**
- **Materiality**
- **Reliability**
- **Faithful Representation**
- **Substance over Form**
- **Neutrality (Objectivity)**
- **Prudence (Conservatism)**
- **Completeness**
- **Comparability**

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Constraints on Relevant and Reliable Information

- **Timeliness**
- **Benefit and Cost**

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Underlying Principles

- **Cost Concept**
- **Revenue**
- **Matching**
- **Full Disclosure**

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Information Disclosed in Financial Statements

- IAS No. 1 prescribes the guidelines for general-purpose financial statements
- according to IAS No.1, general-purpose financial statements include:
 - Balance sheet
 - Income statement
 - Statement of changes in equity;
 - Cash flow statements, and
 - Accounting policies and explanatory notes
- companies are encouraged to present a “management report” stating the plans and expectations of the management that also covers the financial aspects

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Balance Sheet

- The main objective -to fairly disclose the financial position of a company at a certain date
- a balance sheet is made up of assets, liabilities and owners' equity sections
- IAS No.1 requires that the balance sheets should give the name of the company, the date it is prepared for, and the monetary unit and the level of precision adopted e.g. stated in thousands of TL.

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Assets

Current Assets:

- Expected to be converted into cash within the normal operating cycle or held for resale purposes
- Assets that are kept on hand for a short period and are expected to be converted into cash within the twelve months following the balance sheet date
- Assets that are held primarily for the purpose of being traded, and
- Unrestricted cash and cash equivalents

Long-term assets:

- assets that the entity expects to use longer than one year or the operating cycle; purpose of providing resources for the operations of an entity in the future

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Assets

Current Assets	
Cash	
Notes Receivable	
Accounts Receivables	
Trading Securities	
Inventories	
Prepaid Expenses	
Long-Term Assets	
Investments	
Property, Plant And Equipment	
Less: Accumulated Depreciation	
Intangible Assets, net	
Natural Resources, net	
Total Assets	

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Liabilities

- Any liability for which the amount can reasonably be estimated and with known payment date should be disclosed in the liabilities section of the balance sheet
- Any liability with uncertain payment dates and amounts should be disclosed in the notes to the financial statements
- Liabilities to various entities or groups such as the creditors, employees and customers should be clearly labeled and disclosed
- Classified as short and long-term-
 - Current liabilities include amounts with determinable amounts and payment dates that are within the next year
 - Long-term liabilities are usually debts incurred by the entity for the purpose of financing the operations and investments

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Liabilities

LIABILITIES
Current Liabilities
Short-term Bank Loans
Accounts Payable
Notes Payable
Customer Advances
Taxes Payable
Salaries and Wages Payable
Rent Payable
Long-term Liabilities
Consumer Loans
Bonds Payable
Long-term Loans
Lease Obligations
Total Liabilities

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Shareholders' Equity

- includes the amounts invested in the business by the founding owners or investors,
- the earnings (losses) that are retained in the business from previous years' income (losses)
- current year income or loss *either separately or within retained earnings

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Shareholders' Equity

SHAREHOLDERS' EQUITY	
Common Stock (Share capital)	
Additional Paid-in Capital	
Revaluation Fund	
Reserves	
Legal Reserves	
Extraordinary Reserves (Retained Earnings)	
Period Income (Loss)	
Previous Years' Losses (Accumulated Loss)	
Total Shareholders' Equity	

TULIPS A.Ş. BALANCE SHEET 31 December 2007

ASSETS		LIABILITIES AND SHAREHOLDERS' EQUITY	
I. CURRENT ASSETS		I. CURRENT LIABILITIES	
A. Cash and Cash Equivalents	TL 55	A. Financial Liabilities	TL 1.450
B. Trading Securities	1.390	B. Trade Payables	2.800
C. Trade Receivables	2.122	C. Other Liabilities	722
1. Discount on Notes Receivable (-)	(8)	D. Customer Advances	320
2. Allowance for Doubtful Accounts (-)	(100)	E. Accrued Expenses	282
D. Other Receivables	2.100		
E. Inventories	3.125		
F. Other Current Assets	580		
TOTAL CURRENT ASSETS	9.264	TOTAL CURRENT LIABILITIES	5.574
II. LONG-TERM ASSETS		II. LONG-TERM LIABILITIES	
A. Trade Receivables	40	A. Financial Liabilities	1.450
B. Investments	29	B. Trade Payables	1.000
C. Property, Plant, and Equipment	3.540	E. Accrued Expenses	4
Accumulated Depreciation (-)	(240)	TOTAL LONG-TERM LIABILITIES	2.454
D. Intangible Assets	56	III. SHAREHOLDERS' EQUITY	
E. Other Long-term Assets	311	A. Paid-in Capital	2.300
		B. Additional Paid-in Capital	830
		C. Reserves	
		1. Legal Reserves	82
		2. Retained Earnings	1.760
		TOTAL SHAREHOLDERS' EQUITY	4.972
TOTAL LONG-TERM ASSETS	3.736	TOTAL LIABILITIES and SHAREHOLDERS' EQUITY	TL 13.000

Income Statement

- flow statement reflecting the performance of a company in terms of utilizing the resources in a given period
- provides information about the revenues and the related expenses in a given period, as well as the losses incurred in the same period
- The bottom line figure of the income statement is the **profit** or **income** of the period

Revenue Generation

- IAS 18 states that revenue is generated when the following criteria are met:
 - Substantial amount of risks and rewards regarding the ownership of the good has been transferred to the buyer,
 - Seller no longer express control over the goods,
 - Amount of revenue can be estimated with reasonable certainty,
 - It is probable that the economic benefits of the transaction will flow to the seller, and
 - Amount of expenses that relate to the transaction can be determined.

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Sections of Income Statement

- Revenues from ordinary activities of an entity and the related expenses are reported in accordance with the matching principle
 - classified according to the function, such as cost of goods sold; or according to the nature of the expense
 - reported in a separate section that reports the results of the ordinary activities.
- The presentation and disclosure of **discontinued operations**- the post-tax income or loss of the segment until disposition and the post-tax gain or loss of disposing the segment is presented in the income statement as separate line items

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Estimates, Policies and Errors

- new **accounting policy** the effects of changes in accounting policies should be applied retrospectively and these effects are to be disclosed as comprehensive income in shareholders' equity- e.g. selection of inventory flow method and depreciation method
- a change in an **accounting estimate** affects the current and future periods' income. It is not adjusted retrospectively-e.g. change in useful life estimation of assets, or change in uncollectible account estimates
- **fundamental error** correction depends whether the error affects only the current period income or whether it affects the prior period incomes as well
 - If the error only affects the current period, then the adjustment is made to current period income
 - If the error affects prior period incomes as well, then the beginning balance of retained earnings is adjusted for the cumulative effect of the error, again net of taxes

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Statement of Changes in Equity

- shows the amounts invested by the owners in a given period, as well as the movements in the shareholders' equity accounts
- main purpose of the statement is to present all the changes that affected the shareholders' equity in a period
- movements in the reserve accounts are based on the profit appropriation of the prior period
- retained earnings column in the statement reflects the net of prior period income and losses

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TULIPS A.Ş. Statement of Changes in Equity For The Year 2007

	Paid-in Capital	Additional Paid-in Capital	Legal Reserves	Retained Earnings	Total Equity
Beginning Balance	TL 1.500	TL 600	TL 70	TL 1.382	TL 3.552
Changes in Equity:					
Increase in paid-in capital	800				800
Increase in addl. paid-in capital		230			230
Increase in equity due Income recognized:					
Net Income for the year				540	540
Profit distribution:					
Dividends				(150)	(150)
Reserves			12	(12)	-
Ending Balance	TL 2.300	TL 830	TL 82	TL 1.760	TL 4.972

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Ethics in Accounting

- moral principles that an individual bases his/her behavior on
- For example, what will you do if you notice that there is an arithmetic error and your grade is lower than it should be ? What if it is higher ?
- should the project manager give away bribes if the competitors are also bribing?
- if an accountant knows that a product is environmentally hazardous although it is not illegal, should she or he report it to the authorities even if s/he knows that she might lose her job?
- the ethics committee is working on the professional rules of conduct

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**What is helpful for the decision maker is right for the company.
Or vice versa?**
