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## **TYPES OF FINANCIAL STATEMENTS, QUESTIONS OF THEIR SUBMISSION AND COMPARATIVE ANALYSIS ACCORDING TO THE IFRS**

### **Abstract:**

In conditions of globalization there is increased significance of financial statements increased, the qualitative characteristics of information of which define its usefulness for user of information. Information is useful when it helps the information user to make economical decision. For making of economical decisions users need different statements, rules of preparation and submission of which are regulated by International Financial Reporting Standards (IFRS). These statements are of general purpose, individual, consolidated, combined, pro forma. International Accounting Standards Board (IASB) constantly works on improvement of submission of information from such statements, and as result there were made so many changes in the corresponding IFRS during the last years (2011-2016).

These changes are expressed in explanation of doctrines, parameters of consolidation, methods of estimation of statements indexes, explanatory notes etc. For all this we need to think from the beginning about what purpose and contents has any kind of financial statement, how do they differ from each other, in which case which statement shall be submitted, which statement does the user need.

### **Keywords:**

Purpose of financial statement; conception of enterprise, conception of owner; standards of small and average enterprises; financial statement of general purpose; individual financial statement; consolidated financial statement; combined financial statement; pro forma financial statement

**JEL Classification:** M41, M41

## Introduction

Financial statement, IFRS 1 – according to explanation of “submission of financial statement”, is structured submission of financial condition and financial results of the company [5,9]. IFRS of small and average companies (IFRS SAC) explains with a little more details according to which financial statement is structured submission of cash flow, results of the activity and financial condition of the company [9, 216]. Purpose of financial statement is delivery of such information about financial condition, financial results of activity and cash flow of the company which would be useful for wide sections of users in making of economical decisions. [7,9].

I.e. from explanation of the statement the object of business accounting and statement is the economical unit. Registration information about all structures, subdivisions of economical unit is aggregated in one financial statement. Such financial statement together with other concepts is prepared by conception of the company, according to which the business is isolated from its owners and investors. It is possible to prepare the statement on the basis of conception of investor.

Despite of the used conception the economical unit is always the company. According to the purposes of the statement the economical unit can be presented differently. Object of statement **prepared by company's conception** is one company or several companies connected to each other economically or legally, i.e. one economical unit is presented by legally connected with each other companies. Object of the statement **prepared by conception of owners** is companies existed under one control, i.e. one economical unit is presented by companies which are connected only by owners.

**Business as a whole**, as economical unit, is the object of the statement and its financial statement can be statement of one legal economical unit or one controller. Its true that IFRS does not examines, but in practice we know modeled statement, the economical unit of which is presented by companies selected according to the purposes and tasks of the management, which may be are not connected legally to each other and do not have one owner.

Therefore we think that we can group the statements in following way according to the conceptions of presentation:

- Statement prepared by conception of the company – statement of general purpose, individual statement, consolidated statement;
- Statement prepared by conception of the owner- combined statement;
- For management purposes – pro forma statement

## **Financial statement of general purpose and individual statement**

First thing that we meet in IFRS is a doctrine “financial statement of general purpose”. According to conceptual bases of financial statement if there is not mentioned otherwise the general term “financial statement” is the same as the term “financial statement of general purpose” [4, OB2]. The aim of submission of financial statement of general purpose is to deliver such information about accountable company to the potential investor which will be useful for them in making of decision about provision of the given company with resources. Therefore, financial statement of general purpose by conceptual basis gives information about financial condition of accountable company, i.e. information about economical resources of accountable company and demands existed toward such company, besides, financial statements include information about results of such operations and other events which cause changes of economical resources and requirements of accountable company. [4,OB12]

In IFRS 1 “Submission of financial statement” it is stated that financial statement of general purpose, i.e. the same as “financial statement” is a statement which is intended for satisfaction of demands of those users who do not have an ability to receive such statement which would be specially prepared for satisfaction of their special informational requirements. [5.7].

By IFRS of the SAC the term “financial statement” includes financial statement of general purpose, and also financial statements of other types. Other financial statement includes information which will not be reflected in the financial statement and helps the user in interpretation of full package of financial statement, or improves abilities of the user to make effective economical decisions [9, 5].

Financial statement of general purpose is aimed for wide sections of users, for example for satisfaction of general informational requirements of shareholders, creditors, cooperators and company as a whole. The aim of financial statement is to deliver such information about financial condition of the company, results of its activity and cash flow to above mentioned users which will be useful for them in making of economical decisions. [9, 7].

IFRS of SAC explains financial statement of general purpose – this is a statement which is intended for satisfaction of demands on financial information of general character of the wide section of users, who are not authorized to request from the Company preparation of statement suitable for their specific informational needs. Financial statement of the general purpose includes those statements which can be submitted separately, or together with other official public document, such as, for example, annual statement or prospect [9, 8]. And also, by IFRS of SAC financial statements of general purpose for outer users are submitted by companies which do not have public accountability [9, 1.2].

In the IFRS we find the doctrine of **individual financial statement**. We have to note that in 2014-2015, by changes made in the IFRS the Board has made the contents and purpose of statement significantly clear. Particularly, IFRS does not request submission of individual financial statement and IFRS of SAC examines it as the second set of financial statement, which is additionally presented together with any following statements:

- a) Together with consolidated financial statement prepared by one of the main companies;
- b) Together with consolidated financial statement prepared by the main company acquitted from submission of consolidated financial statement;
- c) Together with financial statement prepared by such subject which is not main company, but is investor in associated company or is lawful participator of jointly controlled company [9, 9.25].

After changes made in IASB 27 "Individual financial statement", it explains individual financial statement in following way: **individual financial statement** is a statement, in submission of which requirements of standard are met – investments in affiliate, allied and joint companies shall be registered by prime cost, or according to IFRS 9 "Financial Instruments", or with the use of capital-method, which is described in the IASB 28 "Investments in allied and joint companies" [7,4; 1,4] . I.e., in comparison to the previous version of this standard there was added the right of use of capital-method. Change is basically connected to the fact that in several countries it was the only difference between individual financial statement prepared by IFRS and statement prepared by local rules [16, 1.22 ].

Hence, according to the IFRS of SAC individual financial statement was defined as following: this is such statement submitted by companies in which the companies can choose the following methods for registration of investments in their affiliate, allied and jointly controlled companies: prime cost, decreased devaluation; reflection of real cost in profit-loss; or capital-method [2, 72]. And also, in the IFRS of SAC there is indicated that individual statement is a statement submission of which is realized in form of addition of consolidated financial statement, or in form of addition of financial statement of the investor who does not have investments in affiliate company, but has investments in allied or joint companies, where investments except of special exemptions shall be registered by capital-method. [7.6; 1,6].

We think that according to the IASB 27 financial statement of the company which does not have affiliate and allied companies and is not participator of joint company and joint activity, is not individual statement. [7,7; 1,7]. This clause of the standard made the doctrine of individual financial statement seriously clear-this is statement of investors.

## Consolidated and Combined financial statements

When the company is the parent company, except of special exemption it is required to submit consolidated statement. **Consolidated statement** is statement of a group, in which assets, liabilities, own capital, income, expenses and monetary flows of the head company and its affiliate companies are presented as statement of one economical subject, group [6,13; 7,4]. Consolidated statement is aggregated statement of independent economical subjects - parent company and affiliate companies. Each subject independently draws its own financial statement and manages its business. Because affiliate companies form one economical unit, it is needed to estimate the whole group, for which there is drawn up statement of the group (consolidated statement), in which there will be included only companies belonged to the parent company.

In order to realize concrete purposes the company can create the company of special purpose (CSP). For example, in order to realize leasing operations, research and trial-constructional works and to securitize financial assets. Such companies are created in form of corporation, trust or association. Often CSP is created on the basis of such legal agreement which establishes strict requirements on the activity of economical subject of special purpose. IFRS requests to include in the consolidated financial statement as the company itself, so all companies of special purpose controlled by it. [9,9.10].

Companies which according to IFRS 10 “Consolidated financial statement” are exempted from submission of consolidated financial statement or according to IASB 28 from the use of capital-method “Investments in allied and joint companies”, submit only individual financial statement as the only one statement.

IFRS of SAC uses the term “combined financial statement” which are not in other standards. In 2015 the Board made changes in the doctrine of “combined financial statement” where the definitive fact became existence under one control and not existence in the ownership of one investor [2, 9]. As result, this doctrine was defined so – combined financial statement is one set of financial statements of two or more companies existed under one control. [9. 9,28] This is joint statement of those companies which are not legally connected to each other (so called “non-formal holding”), but have one owner (or owners), i.e. they are under one control. Otherwise, this is a statement of persons who do not exist as “joint economical subject”.

In the combined financial statement there are reflected financial results of different affiliate companies, as statement of one head company, in which the controller itself – investor is not aggregated [12,7]. In this joint statement (set) the statement of independent companies are presented separately, and thus allows separate evaluating of results of each of them. When in consolidated statement there are aggregated financial results of the head company in its own statement and of its affiliate companies. This

allows evaluation of financial condition of the whole group, and not of separate companies.

Companies submit this statement according to the necessity, for example, until the deal on consolidation of the companies for prior evaluation of their consolidated statement, or for evaluation of effectiveness of the group of the owner as a whole. There should be noted that combined financial statement is not consolidated statement of the group by the meaning described in the IFRS 10 “Consolidated financial statement”, because of which it could not meet demands of the exchange.

Owner can decide for himself which companies shall be combined (consolidated) under joint control of the investor and which not; i.e. the owner establishes parameters of consolidation for himself. When the company has complicated and not so transparent structure, essential reflection of its results can be better realized by combined financial statement than by consolidated statement. This is due to the fact that inclusion of special companies of the group in consolidated statement is impossible because some of them belong not to the group but to its owner, as natural person. Such companies could not be included in the consolidated financial statement, and this significantly decreases and does not give full image about financial results and condition of the group.

IFRS of SAC does not request mandatory submission of combined financial statement, but includes basic principles of consolidation of this statement. During drawing of the combined financial statement clauses of assets, liabilities and capital of companies included in the parameters of consolidation are summarized, and inter-settlements and operations existed between them are eliminated. Clauses of capital and investment are not eliminated as at the time of consolidated financial statement, because between companies included in consolidation head-affiliate relationships do not exist and they are unified by being in the ownership of one natural person, or groups of persons.

Therefore, if consolidated financial statement is prepared when there is one head company – legal entity which controls other companies of the group; combined statement is prepared when such joint head company does not exist and the group does not have a structure of traditional holding. It is considered that **basic difference** between consolidated financial statement and combined statement is that consolidated statement reflects only capital of the head company, and combined statement – sum of capitals of companies participating in combination.

## **Pro forma financial statements**

For evaluation of perspectives and proper forecasting of the business (for example, during amalgamation or restructuring of business) it is needed to analyze events expected in the future. With this purpose the companies draw pro forma statement. **Pro**

**forma statement is conditional statement- modeled forecasting financial statement for the special moment of time** [13,1]. For example the corporation needs to evaluate the effect of three different variants, for this it projects financial statement [14]. This statement basically serves as to the internal aims of the company – owners and management for planning and control, and also to outer users – potential investors, creditors, and investment analytics.

Forecasting financial statement is based on special proposals and assumptive conditions which were in the past or will be in the future and received information reflects what will be financial condition of the firm, if existed tendencies are maintained and some thoughts are correct. Therefore, pro forma statement is used for evaluation of scenarios “what if”, business plans, financing and developing of proposals requirements of monetary means. [14].

Indexes reflected in pro forma statement are based on assumptions and forecasts of business conditions of the management which can be essentially differed from factual conditions and be inaccurate in retrospective review [17]. It is confessed that in pro forma companies try to reflect business more successfully than it is in real. Therefore, information reflected in pro forma statement may be incompliant with requirements of standards of financial statement (IFRS, GAAP), when information users need authentic, objective and reliable information. Because of this fact AICPA and SEC requests to submit pro forma statements in standard format, for which new requirements /rules of correction of statement were established, in order to avoid danger of misleading of the user because of information, and also issuer is required to submit maximally comparative information which will be based on generally recognized principles of accounting (GAAP) [15].

## Conclusion

- According to the conception of submission it is possible to group financial statements as following: statement prepared by conception of the company – statement of general purpose, individual statement. consolidated statement; statement prepared by conception of the owner-combined statement; for management purposes – pro forma statement.
- According to the contents and aims of statements of general purpose defined by IFRS of SAC it is possible to simplify definition of this doctrine in following way- financial statement of general purpose is the statement of those companies which do not have public accountability and which are intended for wide sections of users.

- Doctrine “individual statement” is financial statement of investor and concerns only those companies which have investments in the allied company or is lawful participator of jointly controlled company.
- Combined statement is statement of non-formal group – unified statement existed under one control.
- In perspective it is wishful for the Board of IFRS to develop separate frameworks of regulation of pro forma statement, in order to avoid the abilities of misleading of the user because of information.

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