

UPV/EHU

# OCW “Companies Accounting”

---

LECTURE MATERIAL: Topic V

Irene Barainca Vicinay, Antonio Cardona Rodríguez, Valeriano Sánchez-Famoso

2015

**OCW**  
OpenCourseWare

**FINANCIAL STATEMENTS**

---



TOPIC V

---

1. ISSUING AND CONTENT OF THE FINANCIAL STATEMENTS.....	2
2. BALANCE SHEET.....	5
3. INCOME STATEMENT .....	9
4. THE STATEMENT OF CASHFLOW .....	13
5. STATEMENT OF CHANGES IN EQUITY .....	17

---

 TOPIC IV
 

---

**Purpose of the Chapter:**

- Define the Financial Statements corporations must prepare in order to follow the legal requirements.
- Deep in the content of each of the statements in its standard format<sup>1</sup>.

***Title VII. Corporations Enterprises Act.******3rd Point Structure of the Spanish Accounting Plan*****1. ISSUING AND CONTENT OF THE FINANCIAL STATEMENTS<sup>2</sup>**

The Spanish Accounting Plan presents the following structure:

1. Accounting Framework
2. Recognition and measurement standards
3. *Annual accounts*
4. Chart of accounts
5. Definitions and accounting entries

In its third part, dedicated to the Annual Accounts it describes the details to be followed when reporting these statements.

According to the Corporations Enterprises Act, article 253.2: *“Within three months of the end of the financial year, the company’s directors shall issue the financial statements, the management report and the proposed distribution of earnings, and, as appropriate, the consolidated financial statements and management report The financial statements and management report must be signed by all the directors”*

Contents of the financial statements (art.254)

- The financial statements shall comprise the balance sheet, income statement, statement of the changes in the net worth for the financial year, cash flow statement and the respective notes.
- These documents, which form a whole, must be drafted clearly and present a true and fair view of the company’s net worth, financial position and net income, in accordance with this act and the provisions of the Commercial Code.
- The structure and contents of the documents that form the financial statements shall conform to the statutorily approved models.

**Abbreviated Financial Statements**

- **Balance sheet and statement of changes Equity**

---

<sup>1</sup> We will work on the standard statements to get more complete information.

<sup>2</sup> We will obtain the financial statements of different publicly traded companies to work over them and discuss about the topics studied in this subject contemplated in them.

Abbreviated balance sheets and statements of changes in net worth may be prepared by companies to which at least two of the circumstances listed below apply on the closing date of two consecutive financial years:

- Their assets do not total over four million euros.
- Their net yearly turnover is not in excess of eight million euros.
- Their average headcount during the year is not over fifty persons.

Eligibility for this privilege shall be forfeited when fewer than two of the aforementioned circumstances are in place for two consecutive years.

In the first year after their formation, conversion or merger, companies may issue an abridged balance sheet and statement of changes in net worth if at the end of the financial year at least two of the three circumstances listed in the preceding paragraph are applicable thereto.

Companies entitled to issue an abridged balance sheet and statement of changes in net worth shall not be bound to issue a cash flow statement (art.257).

- **Income statement**

Abbreviated income statements may be prepared by companies to which at least two of the circumstances listed below apply on the closing date of two consecutive financial years:

- Their assets do not total over eleven million four hundred thousand euros.
- Their net yearly turnover is not in excess of twenty-two million eight hundred thousand euros.
- Their average headcount during the year is not over two hundred fifty.

In the first year after their formation, conversion or merger, companies may issue an abridged income statement if at the end of the financial year at least two of the three circumstances listed in the preceding paragraph are applicable thereto(art.258).

	ABBREVIATED*		STANDARD	
	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Changes in Equity (<i>only B) Second Part</i>)</li> <li>• Notes</li> </ul>	<ul style="list-style-type: none"> <li>• Income Statement</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Changes in equity</li> <li>• Notes</li> <li>• Statement of Cash-flow Management Report.</li> </ul>	<ul style="list-style-type: none"> <li>• Income Statement</li> </ul>
<b>CONDITIONS</b>				
Assets	≤ 2,850,000€	≤ 11,400,000€	Rest	Rest
Yearly Turnover	≤ 5,700,000€	≤ 22,800,000€	Rest	Rest
Average Headcount	≤ 50 persons	≤ 250 persons	Rest	Rest

*\*Eligibility for this privilege shall be forfeited when fewer than two of the aforementioned circumstances are in place for two consecutive years.*

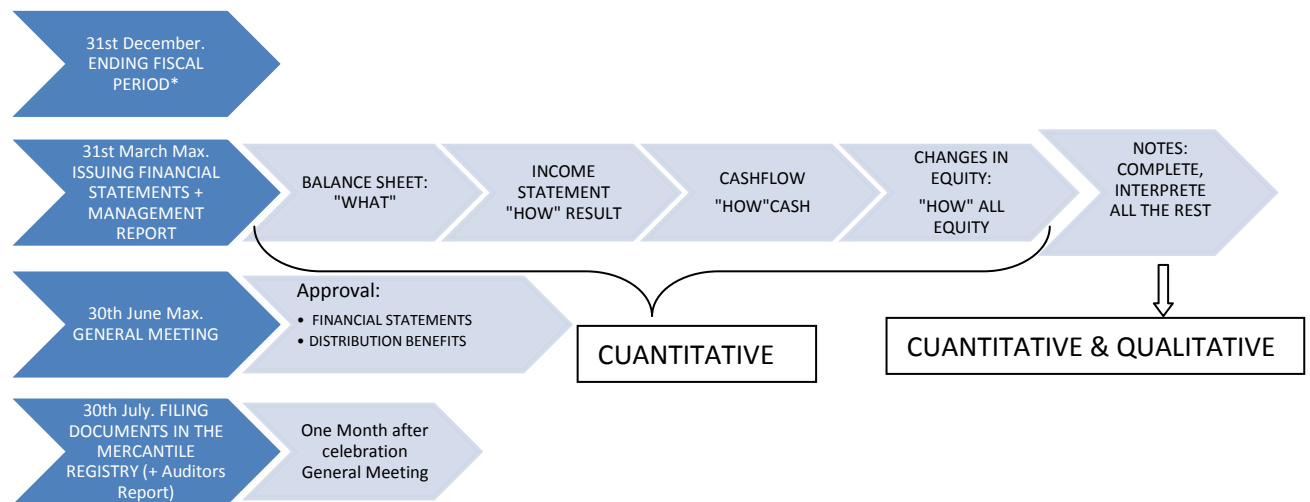
Those corporations that present standard Balance Sheet must present the Management Report, that includes information that show the company’s financial trends and other aspects such as environmental and employee related items.

Also companies that shall have their statements audited must present the auditor’s report, except for those released from this obligation (when at least two of the following listed circumstances apply on the closing date of two consecutive financial years):

Assets	≤ 2,850,000€
Yearly Turnover	≤ 5,700,000€
Average Headcount	≤ 50 persons

These financial statements, together with the management report and the auditor’s report as appropriate, shall be approved by the general meeting (art.272) together with the distribution of earnings and filed by the director of the company within a month of the approval in the Mercantile Registry, justifying the circumstances when filing abbreviated statements.

The chronology in preparing and filing the financial reports is shown in the next figure:



*\*Deadline dates.*

## 2. BALANCE SHEET

When speaking about the Balance Sheet we refer to the situation of a company’s Equity at a particular moment. The WHAT, the “photograph” of what a company *owns* at the same time as what it *owes* to third parties on a particular date that will always be indicated in the heading. This is the statement of financial position.

In the first part of the Spanish Accounting Plan, the Accounting Framework, the following items of the Balance Sheet are recognized and described:

- **Balance Sheet Items**

- **Assets:** goods, rights and other resources controlled by the company, acquired through transactions consequence of past events and from which future economic benefits are expected to flow to the company.

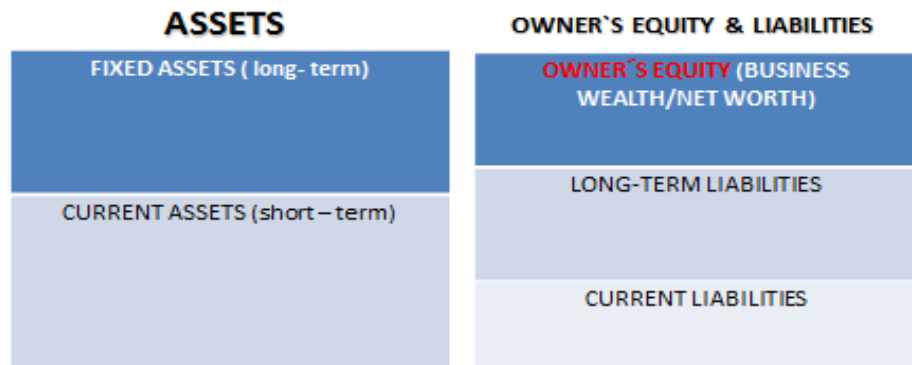
**Classification:**

- Current Assets: are those associated with the company’s normal operating cycle which is considered to be the time between the acquisition of assets for inclusion in the production process and the realization of the finished product into cash or cash equivalents. When the normal operating cycle is not clearly identifiable, its duration shall be assumed to be one year. (6<sup>th</sup>. *Standard for the preparation of annual accounts. Spanish Accounting Plan*)
- Non-Current Assets. Those not classified in the previous part of the Balance Sheet.
- **Liabilities:** present obligations of the company arising from past events, the settlement of which is expected to result in an outflow of resources from the company embodying future economic benefits. Liabilities shall include

provisions. Liabilities are usually classified as Assets in Non-Current and Current.

- **Equity:** the residual interest in the assets of the company after deducting all its liabilities. Equity includes contributions made by equity holders or owners upon incorporation of the company or subsequently that are not considered as liabilities, as well as retained earnings and cumulative losses or other related variations. If the company’s form is a sole proprietorship we speak about "Owner's Equity" If it is a corporation, we speak about “Stockholders' Equity”.

## BALANCE SHEET



ECONOMIC STRUCTURE = FINANCIAL STRUCTURE

20

Standard Format of a Balance Sheet: BALANCE SHEET AT XX XXXX 200X\*

<u>ASSETS</u>	<u>NOTES</u>	<u>200X</u>	<u>200X-1</u>	<u>EQUITY &amp; LIABILITIES</u>	<u>NOTES</u>	<u>200X</u>	<u>200X-1</u>
<p><b>A) NON-CURRENT ASSETS</b></p> <p><b>I. Intangible assets**</b></p> <ol style="list-style-type: none"> <li>1. Development</li> <li>2. Concessions</li> <li>3. Patents, licenses, trademarks and similar rights</li> <li>4. Goodwill</li> <li>5. Computer software</li> <li>6. Other intangible assets</li> </ol> <p><b>II. Property, plant and equipment</b></p> <ol style="list-style-type: none"> <li>1. Land and buildings</li> <li>2. Technical installations and other items</li> <li>3. Under construction and advances</li> </ol> <p><b>III. Investment property</b></p> <ol style="list-style-type: none"> <li>1. Land</li> <li>2. Buildings</li> </ol> <p><b>IV. Non-current invest. group comp. and associates</b></p> <ol style="list-style-type: none"> <li>1. Equity instruments</li> <li>2. Loans to companies</li> <li>3. Debt securities</li> <li>4. Derivatives</li> <li>5. Other financial assets</li> </ol> <p><b>V. Non-current investments</b></p> <ol style="list-style-type: none"> <li>1. Equity instruments</li> <li>2. Loans to third parties</li> <li>3. Debt securities</li> <li>4. Derivatives</li> <li>5. Other financial assets</li> </ol> <p><b>VI. Deferred tax assets</b></p>				<p><b>A) EQUITY</b></p> <p><i>A-1) Capital and reserves without valuation</i></p> <p><b>I. Capital</b></p> <ol style="list-style-type: none"> <li>1. Registered capital</li> <li>2. (Uncalled capital)</li> </ol> <p><b>II. Share premium</b></p> <p><b>III. Reserves</b></p> <ol style="list-style-type: none"> <li>1. Legal and statutory reserves</li> <li>2. Other reserves</li> </ol> <p><b>IV. (Own shares and equity holdings)</b></p> <p><b>V. Prior periods' profit and loss</b></p> <ol style="list-style-type: none"> <li>1. Retained earnings</li> <li>2. (Prior periods' losses)</li> </ol> <p><b>VI. Other equity holder contributions</b></p> <p><b>VII. Profit/(loss) for the period</b></p> <p><b>VIII. (Interim dividend)</b></p> <p><b>IX. Other equity instruments</b></p> <p><i>A-2) Valuation adjustments</i></p> <p><b>I. Available-for-sale financial assets</b></p> <p><b>II. Hedging transactions</b></p> <p><i>A-3) Grants, donations and bequests received</i></p> <p><b>B) NON CURRENT LIABILITIES</b></p> <p><b>I. Non-current provisions</b></p> <ol style="list-style-type: none"> <li>1. Long-term employee benefits</li> <li>2. Environmental actions</li> <li>3. Restructuring costs</li> </ol> <p><b>II. Non-current payables</b></p> <ol style="list-style-type: none"> <li>1. Bonds and other marketable securities</li> <li>2. Debt with financial institutions</li> <li>3. Finance lease payables</li> <li>4. Derivatives</li> <li>5. Other financial liabilities</li> </ol> <p><b>III. Group companies and associates, non-current</b></p> <p><b>IV. Deferred tax liabilities</b></p> <p><b>V. Non-current accruals</b></p>			
<p><b>B) CURRENT ASSETS</b></p> <p><b>I. Non-current assets held for sale</b></p> <p><b>II. Inventories</b></p> <ol style="list-style-type: none"> <li>1. Goods for resale</li> <li>2. Raw materials and other supplies</li> <li>3. Work in progress</li> <li>4. Finished goods</li> <li>5. By-products, waste and recovered materials</li> <li>6. Advances to suppliers</li> </ol> <p><b>III. Trade and other Receivables</b></p> <ol style="list-style-type: none"> <li>1. Trade receivables</li> <li>2. Trade receivables from group companies and associates</li> <li>3. Other receivables</li> <li>4. Personnel</li> <li>5. Current tax assets</li> <li>6. Public entities, other</li> <li>7. Receivable on called-up capital</li> </ol> <p><b>IV. Current investm group companies and associates</b></p> <ol style="list-style-type: none"> <li>1. Equity instruments</li> <li>2. Loans to companies</li> <li>3. Debt securities</li> <li>4. Derivatives</li> <li>5. Other financial assets</li> </ol> <p><b>V. Current investments</b></p> <ol style="list-style-type: none"> <li>1. Equity instruments</li> <li>2. Loans to companies</li> <li>3. Debt securities</li> <li>4. Derivatives</li> <li>5. Other financial assets</li> </ol> <p><b>VI. Prepayments for current assets</b></p> <p><b>VII. Cash and cash equivalents</b></p> <ol style="list-style-type: none"> <li>1. Cash</li> <li>2. Cash equivalents</li> </ol>				<p><b>C) CURRENT LIABILITIES</b></p> <p><b>I. Liabilities associated with non-current assets held for sale</b></p> <p><b>II. Current provisions</b></p> <p><b>III. Current payables</b></p> <ol style="list-style-type: none"> <li>1. Bonds and other marketable securities</li> <li>2. Debt with financial institutions</li> <li>3. Finance lease payables</li> <li>4. Derivatives</li> <li>5. Other financial liabilities</li> </ol> <p><b>IV. Group companies and associates, current</b></p> <p><b>V. Trade and other payables</b></p> <ol style="list-style-type: none"> <li>1. Suppliers</li> <li>2. Suppliers, group companies and associates</li> <li>3. Other payables</li> <li>4. Personnel (salaries payable)</li> <li>5. Current tax liabilities</li> <li>6. Public entities, other</li> <li>7. Advances from customers</li> </ol> <p><b>VI. Current accruals</b></p>			
<p><b>TOTAL ASSETS (A + B)</b>.....</p>				<p><b>TOTAL EQUITY AND LIABILITIES (A + B + C)</b></p>			

\*Amounts in euros for period 200X; 200X-1 and Notes to Balance Sheet.

\*\*Abbreviated Balance Sheet only highlighted items



### 3. INCOME STATEMENT

The Income Statement presents the ability of a company, during the time interval specified in its heading, to be profitable (revenues>expenses) or not (revenues<expenses). It shows the “HOW” we get from the beginning of the period’s Equity to the ending’s Equity. The way the company generates a particular result by using owned or borrowed funds increasing or decreasing its Equity during the studied period.

- **Income statement and Statement of Changes in Equity’s items**
  - **Income:** increases in the company’s equity during the reporting period in the form of inflows or enhancements of assets or decreases in liabilities, other than those relating to monetary or non-monetary contributions from equity holders or owners.
  - **Expenses:** decreases in equity during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities, other than those relating to monetary or non-monetary distributions to equity holders or owners.

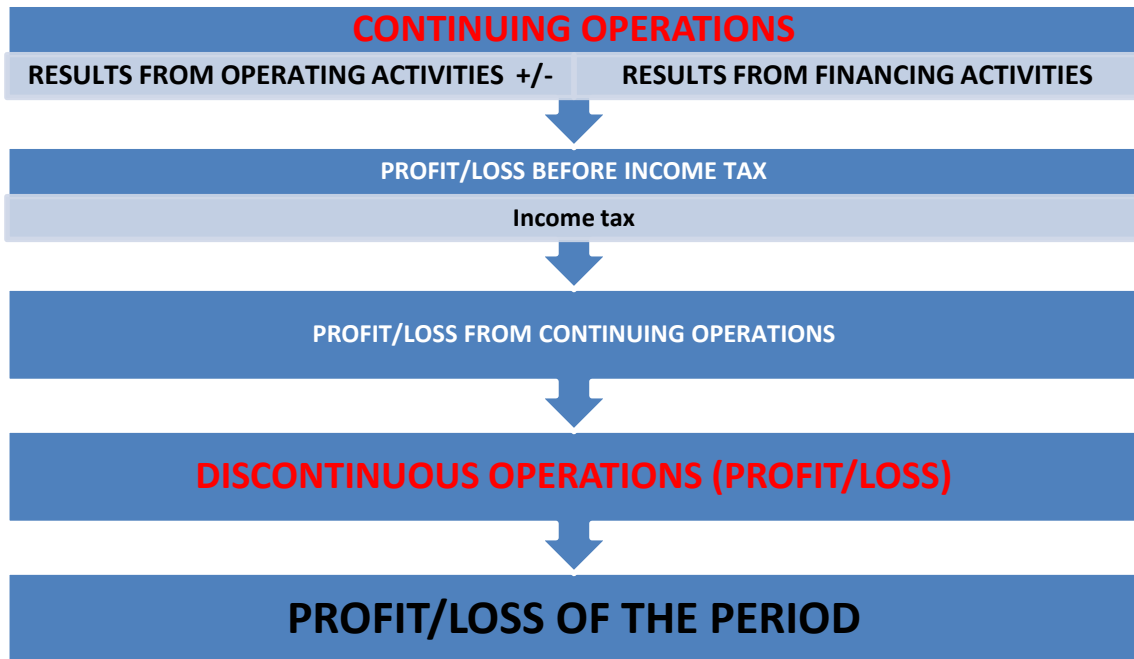
Income and expenses for the reporting period shall be recognized in the income statement and included in profit or loss, except where they must be recognized directly in equity, in which case they shall be accounted for in the Statement of Changes in Equity (Part 4. Accounting Framework Spanish Accounting Plan).

These items are classified between Operating and Non-operating activities depending on the purpose of the company

- For retailers, manufacturers, wholesalers, and distributors the operating activities are those having to do with their sales:
  - Retailers’ purchase (expense) and sell (revenues) merchandises.
  - Manufacturers’ produce (expense) and sell (revenue) goods.
- For companies that provide services, the operating activities are those having to do with the services rendered.

Amounts earned outside these activities described, are considered Non-operative (such as the earning of lent cash, the leasing of property, the gains when disposing non-current assets...etc.. when these are not the main purpose of the business).

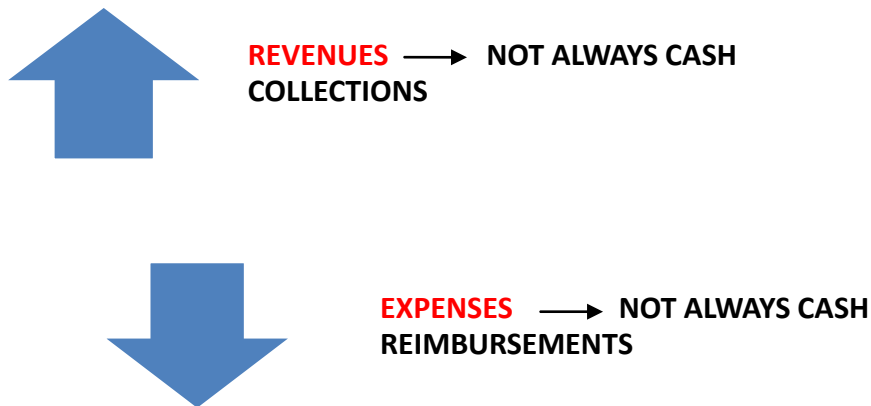
Standard Income Statement contemplates the difference between continuous and discontinuous operations, which are not considered in the abbreviated form. “A discontinued operation is any component of a company that has been sold or disposed of ...A component of a company comprises operations and/or cash flows that are separate and independent and can therefore be clearly distinguished from the rest of the entity operationally and for financial reporting purposes, such as a subsidiary, a business segment or a geographical segment”. (Part three. Annual Accounts I. Standards for the preparation of annual accounts, 7thStandard.11)



*Standard Format of an Income Statement: **INCOME STATEMENT FOR THE PERIOD ENDED XX XXXXX 200X***

	NOTES	(Debit)Credit 200X	(Debit)Credit 200X-1
<p><b>A) CONTINUING OPERATIONS</b></p> <p><b>1. Revenues</b></p> <p>a) Sales</p> <p>b) Services rendered</p> <p><b>2. Changes in inventories of finished goods and work in progress</b></p> <p><b>3. Work carried out by the company for assets</b></p> <p><b>4. Supplies</b></p> <p>a) Merchandise used</p> <p>b) Raw materials and other consumables used</p> <p>c) Subcontracted work</p> <p>d) Impairment of merchandise, raw materials and other supplies</p> <p><b>5. Other operating income</b></p> <p>a) Non-trading and other operating income</p> <p>b) Operating grants taken to income</p> <p><b>6. Personnel expenses</b></p> <p>a) Salaries and wages</p> <p>b) Employee benefits expense</p> <p>c) Provisions</p> <p><b>7. Other operating expenses</b></p> <p>a) External services</p> <p>b) Taxes</p> <p>c) Losses, impairment and changes in trade provisions</p> <p>d) Other operating expenses</p> <p><b>8. Amortization and depreciation</b></p> <p><b>9. Non-financial and other capital grants</b></p> <p><b>10. Provision surpluses</b></p> <p><b>11. Impairment and gains/(losses) on disposal of fixed assets</b></p> <p>a) Impairment and losses</p> <p>b) Gains/(losses) on disposal and other</p> <p><b>A.1) RESULTS FROM OPERATING ACTIVITIES</b> <b>(1+2+3+4+5+6+7+8+9+10+11)</b></p> <p><b>12. Finance income</b></p> <p>a) Dividends</p> <p>a1) Group companies and associates</p> <p>a2) Other</p> <p>b) Marketable securities and other financial instruments</p> <p>b1) Group companies and associates</p> <p>b2) Other</p> <p><b>13. Finance expenses</b></p> <p><b>14. Change in fair value of</b></p> <p>a) Group companies and associates</p> <p>b) Other</p> <p>c) Provision adjustments financial</p> <p>a) Trading portfolio and other</p> <p>b) Proceeds from available-for-sale financial assets</p> <p><b>15. Exchange gains/(losses)</b></p> <p><b>16. Impairment and gains/(losses) on disposal of financial instruments</b></p> <p>a) Impairment and losses</p> <p>b) Gains/(losses) on disposal and other</p> <p><b>A.2) NET FINANCE INCOME/(EXPENSE) (12+13+14+15+16)</b></p> <p><b>A.3) PROFIT/(LOSS) BEFORE INCOME TAX (A.1+A.2)</b></p> <p><b>17. Income tax expense</b></p> <p><b>A.4) PROFIT/(LOSS) FROM CONTINUING OPERATIONS (A.3+17)</b></p> <p><b>B) DISCONTINUED OPERATIONS</b></p> <p><b>18. Profit/(loss) discontinued operations, net of income tax</b></p> <p><b>A.5) PROFIT/(LOSS) FOR THE PERIOD (A.4+18)</b></p>			

The Income Statement is affected by the accrual basis of accounting. Its direct consequence is that expenses and revenues do not necessarily imply direct reimbursements and cash collections.



This makes it necessary to convert the accrued result into cash, which is the main purpose of the next statement described below.

#### 4. THE STATEMENT OF CASHFLOW

The statement of cash flows discloses the origin (cash inflow) and use (cash outflow) of monetary assets representing cash and cash equivalents. It provides information to users about the ability to generate cash from the business activities, classified in a particular way:

- Operating activities: cash flows involved with the usual activities the company performs, such as manufacturing and selling, purchasing and selling and rendering services, depending on the main purpose of the company as we studied in the previous part (Income Statement). The first item to be considered is the net income (that must be adjusted and turned from accrual to cash) and the changes in the current assets and current liabilities.
- Adjustments to convert accrual basis income into cash. Net Income includes non-cash revenues and non-cash expenses that must be adjusted to get to the real cash generated by the net income.
  - Amortization and depreciation, impairment losses, gains or losses due to fair value measurement and changes in provisions.
  - Transactions that must be classified as investing or financing activities, such as profit or loss from disposal of fixed assets or financial instruments.
  - Changes in operating assets and liabilities arising from a timing difference between delivery and receipt of goods and services and payment or receipt of cash or its equivalent.
- Investing activities: Reports cash flows involved with the acquiring and disposing

of on-current assets.

- Financing activities: Reports cash flows involved with the borrowing and settlement of loans, contributions from stockholders and repayments of their investments.

<b>THE STATEMENT OF CASHFLOW</b>
<b>OPERATING ACTIVITIES.</b>
P/L Period (7)-(6)
+/- Adjustments (Due to accrual basis of accounting)
<i>The economic result of the period is converted into real cash generated.</i>
<b>INVESTING ACTIVITIES</b>
+ Proceedings from disposal of investments
-Payments from investments
<i>Cash paid or obtained from acquiring &amp; selling with PP&amp;E adjusted by deferred payments and collections.</i>
<b>FINANCING ACTIVITIES</b>
+ Proceeds from equity and liability instruments
-Payments from equity and liability instruments
<b>OPERATING ACTIVITIES + INVESTING ACTIVITIES+ FINANCING ACTIVITIES = TOTAL CASH-FLOW</b>

*Standard Format of Statement of Cash-Flow (Next Page)*

	NOTES	20XX	20X-1
<p><b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b></p> <p><b>1. Profit/(loss) for the period before tax</b></p> <p><b>2. Adjustments for:</b></p> <ul style="list-style-type: none"> <li>a) Amortization and depreciation (+)</li> <li>b) Valuation allowances for impairment losses (+/-)</li> <li>c) Change in provisions (+/-)</li> <li>d) Grants recognized in the income statement (-)</li> <li>e) Proceeds from disposals of fixed assets (+/-)</li> <li>f) Proceeds from disposals of financial instruments (+/-)</li> <li>g) Finance income (-)</li> <li>h) Finance expenses (+)</li> <li>i) Exchange gains/losses</li> <li>j) Change in fair value of financial instruments</li> <li>k) Other income and expenses (-/+)</li> </ul> <p><b>3. Changes in operating assets and liabilities</b></p> <ul style="list-style-type: none"> <li>a) Inventories (+/-)</li> <li>b) Trade and other receivables (+/-)</li> <li>c) Other current assets (+/-)</li> <li>d) Trade and other payables (+/-)</li> <li>e) Other current liabilities (+/-)</li> <li>f) Other non-current assets and liabilities (+/-)</li> </ul> <p><b>4. Other cash flows from operating activities</b></p> <ul style="list-style-type: none"> <li>a) Interest paid (-)</li> <li>b) Dividends received (+)</li> <li>c) Interest received (+)</li> <li>d) Income tax received (paid) (+/-)</li> <li>e) Other amounts paid (received) (-/+)</li> </ul> <p><b>5. Cash flows from/used in operating activities (+/-1+/-2+/-3+/-4)</b></p>			
<p><b>B) CASH FLOWS FROM INVESTING ACTIVITIES</b></p> <p><b>6. Payments for investments (-)</b></p> <ul style="list-style-type: none"> <li>a) Group companies and associates</li> <li>b) Intangible assets</li> <li>c) Property, plant and equipment</li> <li>d) Investment property</li> <li>e) Other financial assets</li> <li>f) Non-current assets held for sale</li> <li>g) Other assets</li> </ul> <p><b>7. Proceeds from sale of investments (+)</b></p> <ul style="list-style-type: none"> <li>a) Group companies and associates</li> <li>b) Intangible assets</li> <li>c) Property, plant and equipment</li> <li>d) Investment property</li> <li>e) Other financial assets</li> <li>f) Non-current assets held for sale</li> <li>g) Other assets</li> </ul> <p><b>8. Cash flows from/used in investing activities (7-6)</b></p>			
<p><b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b></p> <p><b>9. Proceeds from and payments for equity instruments</b></p> <ul style="list-style-type: none"> <li>a) Issue of equity instruments (+)</li> <li>b) Redemption of equity instruments (-)</li> <li>c) Acquisition of own equity instruments (-)</li> <li>d) Disposal of own equity instruments (+)</li> <li>e) Grants, donations and bequests received (+)</li> </ul> <p><b>10. Proceeds from and payments for financial liability instruments</b></p> <p><b>a) Issue</b></p> <ul style="list-style-type: none"> <li>1. Bonds and other marketable securities (+)</li> <li>2. Debt with financial institutions (+)</li> <li>3. Group companies and associates (+)</li> </ul>			

<p>4. Other payables (+)</p> <p><b>b) Redemption and repayment of</b></p> <p>1. Bonds and other marketable securities (-)</p> <p>2. Debt with financial institutions (-)</p> <p>3. Group companies and associates (-)</p> <p>4. Other payables (-)</p> <p><b>11. Dividends and interest on other equity instruments paid</b></p> <p>a) Dividends (-)</p> <p>b) Interest on other equity instruments (-)</p> <p><b>12. Cash flows from/used in financing activities (+/-9+/-10-11)</b></p> <p><b>D) EFFECT OF EXCHANGE RATE FLUCTUATIONS</b></p> <p><b>E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5+/8+/-12+/- D)</b></p> <hr/> <p>Cash and cash equivalents at beginning of period</p> <p>Cash and cash equivalents at end of period</p>			
---	--	--	--

**5. STATEMENT OF CHANGES IN EQUITY**

It reports all changes in Equity during the studied period, containing two different parts:

- **The first part**, “Statement of recognized income and expense” (A), reflects changes in equity due to the following:
  - Profit or loss for the reporting period recognized in the income statement. (Group 7-Group 6)
  - Income and expenses that, as required by the recognition and measurement standards, must be recognized directly in the company’s equity. (Group 9-Group 8)
  - Amounts *transferred to the income statement* in accordance with this General Accounting Plan.

<b>A)“STATEMENT OF RECOGNIZED INCOME AND EXPENSE”</b>
<b>PROFIT/LOSS OF THE PERIOD (revenues-expenses generated )(7-6)</b>
<b>PROFIT/LOSS OF THE PERIOD (revenues-expenses recognized directly in equity)(9-8)</b>
<b>AMOUNTS TRANSFERRED TO THE INCOME STATEMENT</b>

- **The second part**, “Statement of total changes in equity”(B), reflects all changes in equity due to the following:
  - Total recognized income and expense. (A)
  - Changes in equity due to transactions with equity holders or owners of the company when acting as such.
  - All other changes in equity.
  - Adjustments to equity in light of changes in accounting policies and corrections of errors.

<b>B)“STATEMENT OF TOTAL CHANGES IN EQUITY”</b>
<b>TOTAL RECOGNIZED INCOME AND EXPENSE (A)</b>
<b>CHANGES IN EQUITY DUE TO TRANSACTIONS WITH EQUITY HOLDERS</b>
<b>ALL OTHER CHANGES IN EQUITY</b>
<b>ADJUSTMENTS TO EQUITY IN LIGHT OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF ERRORS.</b>



*Standard Format of Statement of Changes in Equity:*

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 200X**  
**A) STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE PERIOD ENDED 200X**

	X	X-1
<b>A) Profit/(loss) for the period</b>		
<b>Income and expense recognized directly in equity</b>		
I. Measurement of financial instruments		
1. Available-for-sale financial assets		
2. Other incomes/expenses		
I. Cash flow hedges		
III. Grants, donations and bequests received		
IV. Actuarial gains and losses and other adjustments		
V. Tax effect		
<b>B) Total income and expense recognized directly in equity (I+II+III+IV+V)</b>		
<b>Amounts transferred to the income statement</b>		
I. Measurement of financial instruments		
1. Available-for-sale financial assets		
2. Other income/expenses		
II. Cash flow hedges		
III. Grants, donations and bequests received		
IV. Actuarial gains and losses and other adjustments		
<b>C) Total amounts transferred to the income statement</b>		

**B) TOTAL STATEMENT OF EQUITY (Next Page)**

	Share Capital		Share Premium	Legal Reserve	Other Reserves	Contributions shareholders	P/L Period	(Interim dividend)	Grants	TOTAL
	Total	Uncalled								
<b>A. BALANCE AT END X-2</b>		-				-			-	
I.Adj. for changes in criteria 200X-2 and prior period										-
II.Adj.errors 200X-2 and prior periods										
<b>B. ADJUSTED BALANCE AT BEGINNING 200X-1</b>		-				-			-	
I. Total recognized income and expense										
II. Transactions with equity holders or owners										-
1. Capital increases										-
2. ( - ) Capital reductions										-
3. Convers. of financial liabilities into equity ( bonds, pardoning of debts)										-
4. ( - ) Distribution of dividends										-
5. Transac. with own shares and equity holdings (net)										-
6. Increase (decrease) in equity business combination										-
7. Other transactions with equity holders or owners										-
III. Other changes in equity										-
<b>C. BALANCE AT END 200X-1</b>		-				-				
I.Adjustments for changes in 200X-1 criteria										-
II. Adjustments for 200X-1 errors										-
<b>D. D. ADJUSTED BALANCE AT BEGINNING 200X</b>		-				-				
I. Total recognized income and expense										
II. Transactions with equity holders or owners										-
1. Capital increases										-
2. ( - ) Capital reductions										-
3. Conversion of financial liabilities into equity										-
4. ( - ) Distribution of dividends										-
5. Transactions with own shares and equity holdings										-
6. Increase (decrease) in equity business combination										-
7. Other transactions with equity holders or owners										-
<b>E. BALANCE END 200X</b>		-				-				

**6. NOTES TO THE FINANCIAL STATEMENTS**

The notes to the balance sheet and to the other financial statements are considered to be part of the financial statements. They inform the readers about such things as significant accounting policies, commitments made by the company, and potential liabilities and losses. They contain information that is critical to properly understanding and analyzing a company's financial statements.

The notes complement and expand upon the information provided in the other documents comprising the annual accounts.

Information comprised in the Notes:

STANDARD FORMAT	ABBREVIATED FORMAT
<ul style="list-style-type: none"> <li>● Activity of the Company</li> <li>● <b>Basis of presentation of the annual accounts</b></li> <li>● <b>Distribution of profit/application of losses</b></li> <li>● Recognition and measurement standards</li> <li>● Property, Plant and Equipment</li> <li>● Investment Property</li> <li>● Intangible assets</li> <li>● Leases and similar transactions</li> <li>● Financial instruments</li> <li>● Inventories</li> <li>● Foreign currency</li> <li>● <b>Taxation</b></li> <li>● Income and expenses</li> <li>● Provisions and contingencies.</li> <li>● Environmental information</li> <li>● Long-term employee benefits</li> <li>● Share-based payment transactions</li> <li>● Grants, donations and bequests</li> <li>● Business combinations</li> <li>● Joint ventures</li> <li>● Non-current assets held for sale and discontinued operations</li> <li>● Events after the balance sheet date</li> <li>● Related-party transactions</li> <li>● Other information</li> <li>● Segment information</li> </ul>	<ul style="list-style-type: none"> <li>● Activity of the Company</li> <li>● Basis of presentation of the annual accounts</li> <li>● Distribution of profit/application of losses</li> <li>● Recognition and measurement standards</li> <li>● Property, Plant and Equipment</li> <li>● Investment Property</li> <li>● Intangible assets</li> <li>● Financial instruments</li> <li>● Taxation</li> <li>● Income and expenses</li> <li>● Grants, donations and bequests</li> <li>● Related-party transactions</li> <li>● Other information</li> </ul>

*\*Example of presentation highlighted items:*

**Basis of presentation of the annual accounts**

1. Fair presentation
2. Non-mandatory accounting principles applied
3. Critical issues regarding the measurement and estimation of uncertainties
4. Comparative information
5. Aggregation of items
6. Items disclosed under several line items
7. Changes in accounting policies
8. Correction of errors

Basis of distribution	Amount
P/L Period	
Retained earnings	
Voluntary Reserves	
Other unrestricted reserves	
<b>Total Basis of distribution = Total Distribution</b>	
Distribution	Amount
Legal Reserve	
Goodwill reserve	
Special Reserves	
Voluntary Reserves	
Dividends	
Offset prior period's losses	
<b>Total distribution = Total Basis of distribution</b>	

RECONCILIATION OF NET INCOME AND EXPENSES FOR THE PERIOD WITH THE TAXABLE INCOME/(TAX LOSS)				
	Income statement		Income and expense recognized directly in equity	
	Increase	Decrease	Increase	Decrease
Income and expense for the period				
<ul style="list-style-type: none"> <li>• Income tax</li> <li>• Permanent differences</li> <li>• Temporary differences:                             <ul style="list-style-type: none"> <li>- originating in current period</li> <li>- originating in prior periods</li> </ul> </li> <li>• Offset of tax loss</li> <li>• carryforwards Taxable income/(tax loss)</li> </ul>				