AN EVALUATION OF THE IFRS TAXONOMY FROM AN EUROPEAN PERSPECTIVE.

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CURRENT SITUATION.

- Globalization of the economy.
- How can we get a unique framework for financial information? ⟶ U.E.

  ↘ I.A.S.B.: IFRS.
- European Comission requires all European Union companies listed on a regulated market to prepare consolidated accounts in accordance with IFRS (2005).
- IFRS: basic information.

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THE ROLE OF XBRL.

- XBRL is a data description language, based on XML, that enables the exchange of understandable, uniform business information.
- XBRL plays a very important role: extension of IFRS.
- IFRS Taxonomy ⚔ generates business and financial reporting for commercial and industrial entities according to IFRS.

¿IS THIS TAXONOMY SUITABLE FOR
EUROPEAN COMPANIES?

OBJECTIVE OF THIS WORK.

To evaluate the fitting between IFRS Taxonomy and reporting practices of european companies that prepare their financial statements in accordance with IFRS.

⬇

¿Is it necessary to extend the taxonomy with new elements?

METHODOLOGY (I).

- European companies using IFRS ⚔ IASB website; 105 companies (December 2003).
- Stratified random sample of 78 companies
- Proportional representation of every country.
- 1: How to find the financial statements of selected companies? ⚔ Google search engine.
- 2: To check if these financial statements have been prepared in accordance with IFRS.

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¿DO THE SELECTED COMPANIES PREPARE THEIR FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS?

- 4 companies show in their notes that they prepare their financial statements in accordance with another standards (different from IFRS).

- Insurance companies: provisions are accounted for and valued in accordance with US GAAP ⚔ industry extensions are necessary.

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METHODOLOGY (II).

- We identify differences between financial statements and IFRS taxonomy. Variables:
  - Special Attention Items (SAIi).
  - PROPi = SAIi / total number of line items in a sample firm´s financial statements ⋏Proportion of line items that do not map to the taxonomy.
- Descriptive statistics.
- Study of SAIi.
- Tests.

STUDY OF THE SAIi.

- Items that show when a company does not comply with IFRS.
- Disaggregated items.
- Aggregated items.
- Potential new items.
- Sector-specific items.

HYPOTHESES.

- H1: PROP is independent of the country.
- H2: PROP is independent of the sector.
- H3: PROP is independent of financial statement.
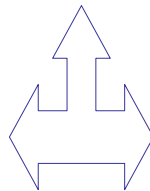- H4: PROP is independent of company size. (size ⋏ equity).

CONCLUSIONS ABOUT BALANCE SHEET ITEMS.

- Items that show when a company does not comply with IFRS.

Capitalization of costs

IASB: capitalization of costs is forbidden (exceptions)

3 companies (4%) capitalize different kinds of costs.
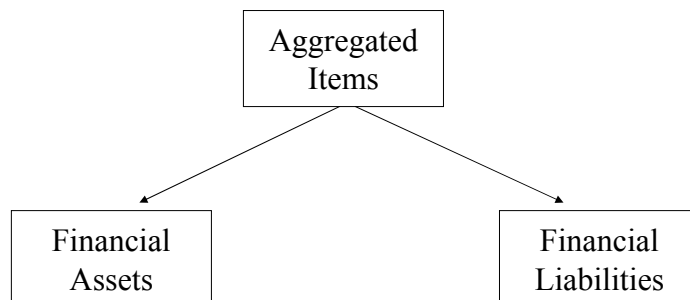
CONCLUSIONS ABOUT BALANCE SHEET ITEMS.

- Disaggregated items:
    - Intangible Assets.
    - Inventories.
    - Equity.
    - Receivables and payables.
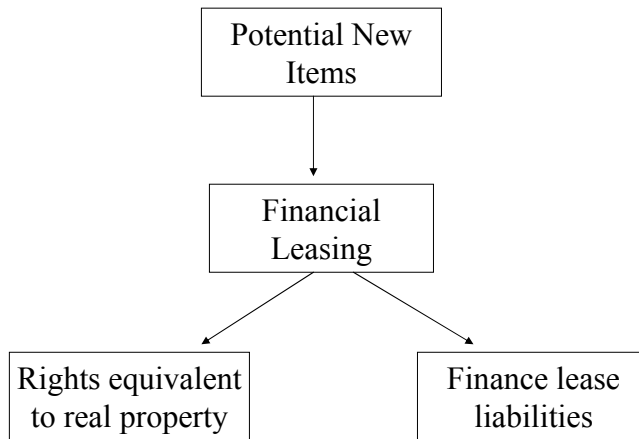   - Financial Assets/ financial liabilities.

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CONCLUSIONS ABOUT BALANCE SHEET ITEMS.

Aggregated Items

Financial Assets

Financial Liabilities

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CONCLUSIONS ABOUT BALANCE SHEET ITEMS.

```
        Potential New
           Items
              |
              v
          Financial
           Leasing
          /        \
         v          v
Rights equivalent   Finance lease
 to real property    liabilities
```

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CONCLUSIONS ABOUT BALANCE SHEET ITEMS.

```
        Sector-Specific
            Items
           /       \
          v         v
     Insurance      Bank
      Sector       Sector
```
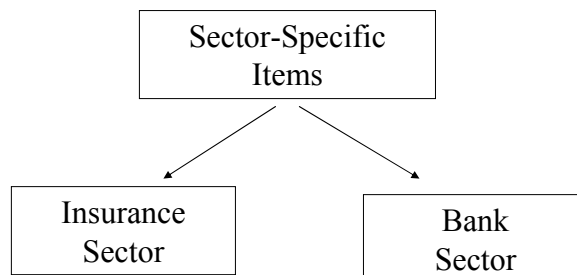
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CONCLUSIONS ABOUT INCOME STATEMENT ITEMS.

- Expenses can be classified by nature or by function.

- Enterprises classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.

CONCLUSIONS ABOUT INCOME STATEMENT ITEMS.

- Items that show when a company does not comply with IFRS.
  - Companies classifying their expenses by function and by nature (14%).

Earnings per share (EPS)

IAS 33:
Enterprises should present both basic EPS and diluted EPS on the face of the Income Statement.
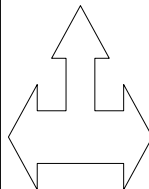
- 10% of companies do not disclose information about EPS.
- 33% of companies do not distinguish between basic and diluted EPS.

CONCLUSIONS ABOUT INCOME STATEMENT ITEMS.

- Disaggregated Items:
    - Employee expenses.
    - Taxes.
    - Amortisation.
    - Operating expenses (cost of purchased services).
    - Earnings per share (earnings per common share/ earnings per preference share).

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CONCLUSIONS ABOUT INCOME STATEMENT ITEMS.

```
              Aggregated
                Items
            /              \
   Exchange          Financial
   Gain/ losses       Income
```

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Potential new items:

- Income Statement (by function):
  - Employee expenses.
  - Amortisation.
- Distributable profit and dividends per share.
- Work performed by the enterprise and capitalised.
- Continued/ discontinued operations.
- E.B.I.T.D.A. (Earnings Before Interest, Taxes, Depreciation and Amortisation).
- E.B.I.T.A. (Earnings Before Interest, Taxes and Amortisation)

Sector-Specific Items

Insurance Sector

Bank Sector
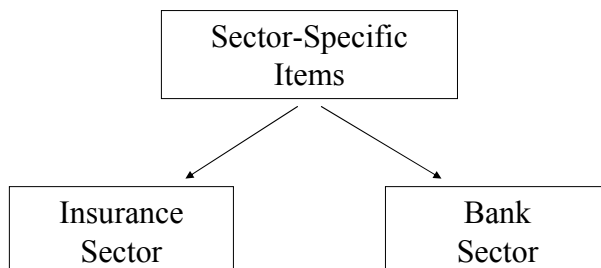
CASH FLOW STATEMENT: DIRECT VS. INDIRECT METHOD.

- The operating cash flows can be presented under the direct or the indirect method.

- IASB: prefers the direct method.

- 99% of the sample use indirect (reconciliation) method, primarily because it is easier to prepare (net income (loss)).

CASH FLOW STATEMENT: DIRECT VS. INDIRECT METHOD.

- IFRS Taxonomy: Earnings after tax and minority interests.

- Companies use different kinds of results:
    - 27%: Earnings after tax and minority interests.
    - 23%: Earnings after tax (before minority interests).
        - 25%: Earnings before taxes.
        - 16%: Profit (loss) from operations.
        - 4%: E.B.I.T.D.A.

CONCLUSIONS ABOUT CASH FLOW STATEMENT ITEMS.

- Items that show when a company does not comply with IFRS.

CF from Taxes on Income. CF from Interest. CF from Dividends	⟺	12% of companies do not comply with IAS 7 (they show this information in a separate paragraph)
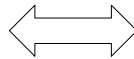
CONCLUSIONS ABOUT CASH FLOW STATEMENT ITEMS.

- Disaggregated items:
  - Amortisation.
  - Provisions.
  - CF from financial liabilities.
  - Capital increases.

CONCLUSIONS ABOUT CASH FLOW STATEMENT ITEMS.

```
                    ┌─────────────┐
                    │ Aggregated  │
                    │   items     │
                    └─────────────┘
                     ╱            ╲
```

Changes in current assets/ current liabilities	• Payments to acquire investments/financial assets. • Proceeds from disposal of investments/financial Assets.
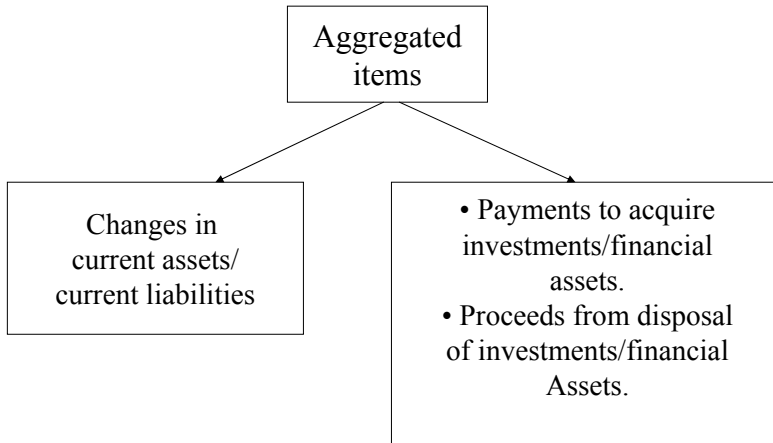
CONCLUSIONS ABOUT CASH FLOW STATEMENT ITEMS.

Potential new items:

- Changes in other balance sheet items (different from current assets and liabilities).
- Taxes:
    - They are only included in Operating CF (they should be included in investing and financing CF).
    - Other taxes.
- Composition of cash and cash equivalents.
- Changes in cash and cash equivalents due to changes in scope consolidation.
- Bonds (Proceeds from issue of bonds/ Redemption of bonds).
- Continued/ discontinued operations.

CONCLUSIONS ABOUT CASH FLOW STATEMENT ITEMS.

```
            ┌──────────────────┐
            │ Sector-Specific  │
            │     Items        │
            └──────────────────┘
              ↙              ↘
┌──────────────────┐    ┌──────────────────┐
│    Insurance     │    │      Bank        │
│     Sector       │    │     Sector       │
└──────────────────┘    └──────────────────┘
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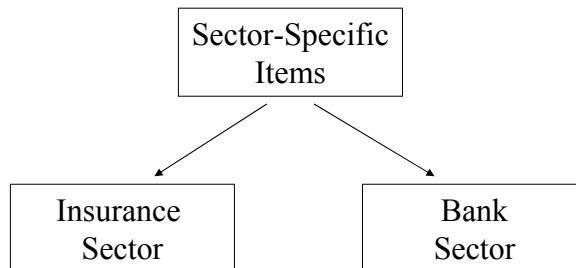
STATEMENT OF CHANGES IN EQUITY.

- IFRS require, as a primary financial statement, a statement of changes in equity.

- 8% of companies: a note to the financial statement.

- Comparative information:
  - 8%: do not disclose comparative information.
  - 3%: comparative information (incomplete).

CONCLUSIONS ABOUT THE STATEMENT OF CHANGES IN EQUITY.

- Disaggregated items.

RESERVES	Legal reserves	5%
	Statutory reserves	
	Special Reserves	
REVALUATION RESERVES	Revaluation Reserves for financial instruments	18%
TREASURY SHARES	Distribution of own shares to employees	7%

CONCLUSIONS ABOUT THE STATEMENT OF CHANGES IN EQUITY.

Aggregated Items

Share Capital

Share Premium
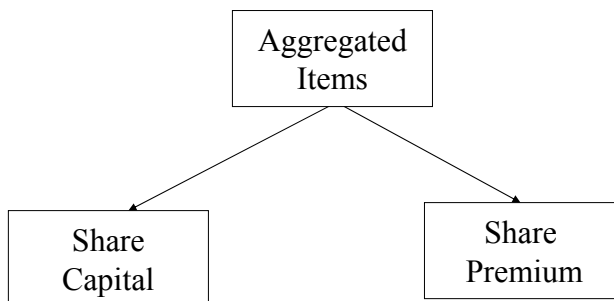
CONCLUSIONS ABOUT THE
STATEMENT OF CHANGES IN EQUITY.

- Potential new items:
  - Minority Interests.
  - Number of shares.
  - Convertible bonds.

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CONCLUSIONS ABOUT THE
STATEMENT OF CHANGES IN EQUITY.

Sector-Specific Items

Insurance Sector

Bank Sector

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DESCRIPTIVE STATISTICS FOR PROPi PER COUNTRY.

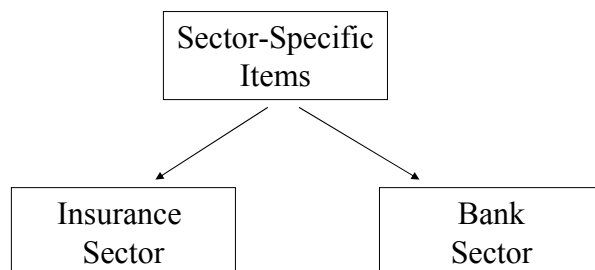| COUNTRY	Mean	Std.Dev.	Min.	Max.
Germany	0,285	0,149	0,038	0,717
Austria	0,278	0,124	0,061	0,511
Belgium	0,245	0,154	0,098	0,462
Denmark	0,285	0,161	0,059	0,718
Spain	0,228	0,148	0,048	0,400
Finland	0,256	0,102	0,100	0,371
France	0,239	0,064	0,188	0,325
Greece	0,419	0,160	0,320	0,658
Netherlands	0,202	0,145	0,032	0,435
Sweden	0,346	0,324	0,063	0,813
Total	0,281	0,149	0,032	0,813

TABLE 1

DESCRIPTIVE STATISTICS FOR PROPi PER SECTOR.

SECTOR	Mean	Std.Dev.	Min.	Max.
EG 1: Resources, Basic Industries & General Industrials.	0,257	0,158	0,032	0,718
EG 2: Cyclical/ Non Cyclical Consumer Goods and Services.	0,266	0,144	0,038	0,645
EG 3: Utilities - Electricity & Water.	0,281	0,174	0,094	0,717
EG 4: Financials & Insurance.	0,382	0,113	0,188	0,667
EG 5: Information Technology.	0,259	0,142	0,038	0,813
Total	0,281	0,149	0,032	0,813

TABLE 2

DESCRIPTIVE STATISTICS FOR PROPi PER FINANCIAL STATEMENT.

FINANCIAL STATEMENTS	Mean	Std.Dev.	Min.	Max.
Income Statement	0,203	0,107	0,043	0,500
Balance Sheet	0,236	0,107	0,032	0,500
Cash Flows Statement	0,225	0,090	0,038	0,511
Statement of Changes in Equity	0,457	0,126	0,200	0,813
Total	0,280	0,149	0,032	0,813

TABLE 3

DESCRIPTIVE STATISTICS FOR PROPi PER TYPE OF COMPANY.

TYPE OF COMPANY	Mean	Std.Dev.	Min.	Max.
1	0,276	0,139	0,053	0,586
2	0,262	0,148	0,038	0,645
3	0,282	0,158	0,048	0,718
4	0,274	0,145	0,038	0,673
5	0,315	0,155	0,032	0,813
Total	0,281	0,149	0,032	0,813

TABLE 4

H1: PROP IS INDEPENDENT OF THE COUNTRY.

Test Statistics	PROP
Chi-square	7,721
Df	9
Asymp.Sig.	**0,562**

Kruskal-Wallis Test
Grouping Variable: Country

		Sum of squares	Df	Mean Square	F	Sig.
ANOVA (Country)	Between groups	0,201	9	0,022	1,007	0,435
	Within groups	6,244	282	0,022		
	Total	6,445	291			

H2: PROP IS INDEPENDENT OF THE SECTOR.

Test Statistics	PROP
Chi-square	31,433
Df	4
Asymp.Sig.	**0,000**

Kruskal-Wallis Test
Grouping Variable: Sector

		Sum of squares	Df	Mean Square	F	Sig.
ANOVA (Sector)	Between groups	0,541	4	0,135	6,580	0,000
	Within groups	5,903	287	0,021		
	Total	6,445	291			

H3: PROP IS INDEPENDENT OF FINANCIAL STATEMENTS.

Test Statistics	PROP
Chi-square	123,854
Df	3
Asymp.Sig.	**0,000**

Kruskal-Wallis Test
Grouping Variable: Financial Statement

		Sum of squares	Df	Mean Square	F	Sig.
ANOVA (Financial Statement)	Between groups	3,082	3	1,027	87,99	0,000
	Within groups	3,363	288	0,012		
	Total	6,445	291			

H4: PROP IS INDEPENDENT OF COMPANY SIZE.

Test Statistics	PROP
Chi-square	7,525
Df	3
Asymp.Sig.	**0,057**

Kruskal-Wallis Test
Grouping Variable: Size

		Sum of squares	Df	Mean Square	F	Sig.
ANOVA (Size)	Between groups	0,118	3	0,039	1,796	0,148
	Within groups	6,326	288	0,022		
	Total	6,445	291			

MULTIPLE REGRESSION ANALYSIS.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,222	,007		30,283	,000
St.Changes Equity	,236	,015	,687	16,098	,000
2 (Constant)	,204	,007		28,415	,000
St.Changes Equity	,236	,013	,687	17,499	,000
EG4	,119	,016	,288	7,328	,000
3 (Constant)	,207	,007		28,471	,000
St.Changes Equity	,236	,013	,687	17,612	,000
EG4	,116	,016	,280	7,158	,000
Netherlands	-,064	,029	-,085	-2,173	,031

Dependent variable: PROP

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CONCLUSIONS.

- There is no a significant association between the proportion of SAI and the country.

- There is a significant association between the proportion of SAI and the sector.

- There is a significant association between the dependent variable and the financial statement.

- Company size doesn´t explain the proportion of SAI.

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LIMITATIONS

- IASB website: the list of companies that use IFRS is not, nor does it claim to be, complete.

- We have not analysed the Notes to the Financial Statements.

THANKS FOR YOUR ATTENTION.