

IFRS Help Notes

International Financial Reporting Standards

Overview

Companies within the UK now have to report their financial accounts in accordance with the new International Reporting Standard, called International Financial Reporting Standards (IFRS). The changes were brought into effect on 1st January 2005 and as of 1st January 2007 all AIM companies have to also comply with the standard.

For most companies they will follow the new IFRS standard, however there will be some that will continue to report under the Generally Accepted Accounting Principles (GAAP) standards.

Please note within the Hemscott product range, companies that have reported their financial accounts in IFRS standard have been labelled as 'Figures from 2005 in accordance with IFRS'. These changes will have been made to the financial accounts for the previous and present year.

Fundamental change

Discontinued businesses will no longer be shown in the financial report. In taking this out it will provide a more accurate picture of the present and continuing financial position of the company.

Why?

So that the financial data and ratios a company reports is accurately reflected in its present and continuing financial position. If a company has discontinued a loss making part of the business then you would expect its financial position to improve. Under IFRS it would not report the loss making part of the business, and therefore its financial figures would reflect this improvement.

Example

If a company sells part of its business or stops production of a product then the contribution of the discontinued item is ignored. Equally under IFRS the company will not need to report the contribution of the product, if it stops production of a product that contributes a significant amount to its revenue. In doing this, the financial figures you see will reflect the fact that the item is no longer contributing to the company's capital.

How has this affected Hemscott financial data?

There has been no impact on the data we supply. The changes that have been made are to our data systems to account for the new reporting standard. The changes that you will see are as follows.

Income Statement (Profit & Loss)

- Profit & Loss statement has now changed name to 'Income Statement'.
- Only operating costs and profits for continuing operations will be shown, except for Profit for the Year, Retained Profit, which give the total profit.
- Dividends are charged directly to reserves. This is now based on the dividends paid during the year, rather than based on the profits attained during the year.

Balance Sheet

- Fixed Assets have changed to Non-Current Assets

Cash Flow

- Net Cash from Operating Activities previously related to Operating Profit but can now relate to Pre-Tax Profit. A new row has been added to reflect this change.

What Are The Key Changes To The Structure Of An Annual Report?

Income Statement (Profit & Loss)

- Profit & Loss statement is now called 'Income Statement'.
- Only operating costs and profits for continuing operations will be shown, and any discontinued items will be combined for discontinued activities in Profit After Tax. Previously, operating costs were split between continuing and discontinued operations.
- Net Profit now shows the amount it is attributable to Minority Interests and shareholders of the company.
- Dividends are charged directly to reserves.
- Earnings Per Share for both Continuing Operations and Continuing plus Discontinued Operations will be shown.

Balance Sheet

- Total Assets will now additionally include Finance Lease Receivables, Deferred Tax assets, Available for Sale Investments. This will be shown under the heading Non-Current Assets.

Cash Flow

- Cash Flow statement is now split into three main headings,
 - Net Cash from Operating Activities
 - Net Cash used in Investing Activities
 - Net Cash used in Financing Activities
- Net Cash from Operating Activities previously related to Operating Profit but now relates to Profit After Interest and Tax (Investment Income and Interest Payable was previously included under the heading Returns on Investments and Servicing of Finance).
- Capital Expenditure and Acquisitions & Disposals are now shown as Net Cash from Investing Activities.