1. Entities and Financial Reporting Statements

R1.1 Typical Contents of an Annual Report of a PLC

Ryanair's Annual Report contents are as follows:
2 Financial Highlights
4 Chairman's Report
5 Chief Executive's Report
9 Summary Operating and Financial Overview
11 Directors' Report
14 Corporate Governance Report
26 Report of the Remuneration Committee on Directors' Remuneration
27 Statement of Directors' Responsibilities
29 Independent Auditor's Report
31 Presentation of Financial and Certain Other Information
33 Detailed Index*
35 Key Information
41 Principle Risks and Uncertainties
53 Information on the Company
75 Operating and Financial Review
78 Critical Accounting Policies
93 Directors, Senior Management and Employees
101 Major Shareholders and Related Party Transactions
102 Financial Information
110 Additional Information
119 Quantitative and Qualitative Disclosures About Market Risk
124 Controls and Procedures
127 Consolidated Financial Statements
184 Company Financial Statements
190 Appendix
Source: Ryanair Annual Report 2011

R1.2 Differences in the financial statements of sole traders and partnerships

Both have a statement of profit and loss and a statement of financial position. However, partnerships have an additional account, the 'appropriation account' which is typically disclosed after the statement of profit and loss account. In this account, the profit or loss for the period is apportioned between the partners. This disclosure is unique to partnerships.

In addition, partnership equity is typically more detailed than sole trader equity. All sole trader equity transactions (drawings, capital introduced and profits/losses added/deducted) are included in one account called the capital account. In partnerships equity transactions are split into two accounts, a current account (which deals with profit allocations and drawings of those profits) and a capital account (which deals with the permanent investment of capital by each partner in the business). In addition to this these two accounts are separately analysed for each partner.

In all other respects the financial statements are the same.

R1.3 Differences in the financial statements of sole traders and limited companies.

Presentation within the two main statements (the statement of profit and loss and the statement of financial position) in sole traders provides more detail to that provided in limited companies. In addition the format is less standardized, this is particularly notable in the statement of profit and loss.

There is much aggregation in the financial statements of limited companies. For example, in a sole trader's statement of profit and loss every expense is provided (unless very small). This is because the tax authorities require this for the yearly self-assessment tax return that a sole trader has to complete. In a limited company expenditure is classified into predefined headings (as established by legislation – the Companies Act 2006): cost of sales, administration expenses, selling and distribution. Only when items are of exceptional size or are significant for some other reason should they be separately disclosed.

In a sole trader's financial statements the taxation on the business profits is deemed to be an expense of the sole trader, not the business, so it never enters the financial statements, whereas the taxation on a company's profits is the responsibility of the company so a company's financial statements will have profit before tax, tax and profit after tax headings. In addition, the taxation liability for the year will be included in the statement of financial position of a company.

In a company all the non-current asset information is provided in a note, with only a single figure representing 'property, plant and equipment' being included on the statement of financial position. In a sole trader's statement of financial position the cost and accumulated depreciation will be provided for each class of asset (motor vehicles, fixtures and fittings etc.)

In a sole trader's accounts the owner's equity is the capital account and full detail of this (opening balance, movement and closing balance) is given in the statement of financial position, in a limited company the owners' equity is typically share capital and revenue reserves (built up profits from earlier years). Details of movements in these accounts are provided in the notes to the financial statements. Each shareholder is an owner in a limited company.

Legally the financial statements of a limited company must provide detailed notes for certain items such as tangible non-current assets, equity capital, accounting policies used, etc. No such legal requirement is enshrined in law for sole trader financial statements.

There are several other items that could be discussed such as sources of debt and how this is disclosed, detail on returns and their disclosure, other income (types and disclosure) etc. The above solution is not comprehensive.

E1.5 Reasons for preparing financial reporting statements

The answer should include reference to the following points:

To communicate relevant information to the stakeholders of an entity so that they can make informed decisions in respect of the entity being reported on.

The financial statements provide guidance on the financial performance (income statement), the financial position (statement of financial position) and financial adaptability (statement of cash flows) of an entity that is useful to a wide range of users (stakeholders).

The financial statement is a vehicle through which management can communicate how they are fulfilling their stewardship function (safeguarding and utilizing the entities assets efficiently and profitability for the benefit of the owners).

To fulfill legal requirements - companies have to prepare financial statements under the Companies Act 2006. These are:

To meet the requirements of HM Revenue and Customs – the tax authorities require accounting records to be maintained which support the completion of tax returns. The information required can be easily extracted from the financial statements.

To facilitate the efficient allocation of resources - viewing the function of financial accounting at a more general abstract level, its ultimate raison d'être is usually described as being to facilitate the efficient and effective allocation of resources. This is generally given a macroeconomic interpretation as providing information to investors so that capital is directed towards more efficient firms. By viewing financial statements investors can determine the companies that are efficient in the utilisation of resources and which entities are not. Investors will channel their investment monies into the more efficient firms, who will expand. Hence, they will provide benefits for the economy and the population as a whole.

E1.6 Objective of financial statements

The fundamental objective of financial statements is defined by the International Accounting Standards Board (IASB) in its *Framework for the Preparation and Presentation of Financial Statements*, as:

'..to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users for making economic decisions.'

The objective can usually be met by focusing exclusively on the information needs of present and potential investors, the defining class of user. Present and potential investors need information about the reporting entity's financial performance and financial position that is useful to them in evaluating the entity's ability to generate cash (including the timing and certainty of its generation) and in assessing the entity's financial adaptability. The financial statements should also show information to enable users to assess the stewardship of management, or the accountability of management for the resources entrusted to them.

E1.7 Stakeholders of financial statements

The users of annual reports identified in the *Framework* are described below.

- Investors
- Employees
- Lenders
- Suppliers and other creditors
- Customers
- Governments and their agencies
- The public

