



Master in Management

FINANCIAL AND ESG REPORTING

Class 5

Fall, 2026



Lisbon School
of Economics
& Management
Universidade de Lisboa

Objectives:

1. Introduction to financial reporting
2. Main international financial reporting standards-IFRS
3. Conceptual framework for financial reporting

What Is Financial Reporting?

- Formal records that provide in-depth insights into financial information.
- Financial results of an organization that are released to stakeholders and the public.
- Key function of the controller, who may be assisted by the investor relations officer if an organization is publicly held.



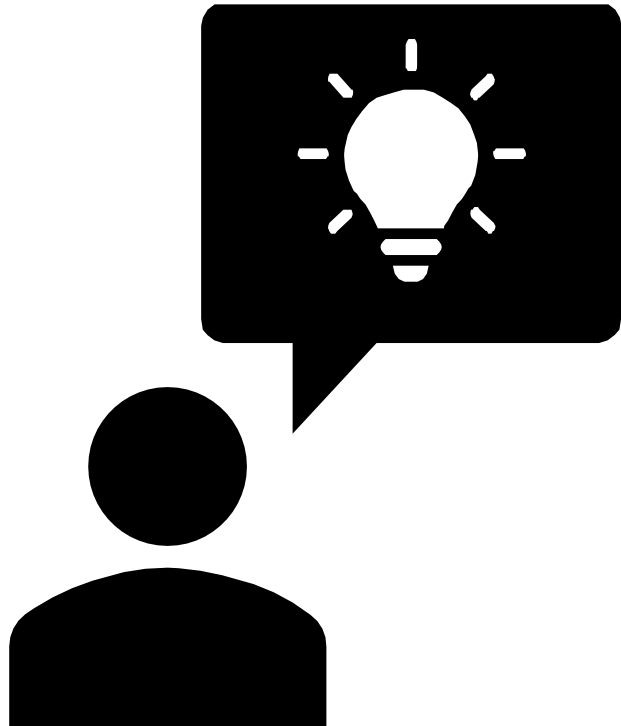
Why Is Financial Reporting Important?

- 1st - It is legally required for tax purposes.
- 2nd - Give investors, creditors and other businesses an idea of the financial integrity and creditworthiness of your company.
- 3rd - Provides a comprehensive snapshot for stakeholders to make better informed business decisions (internal and external).
- 4th - Serve as the 'bedrock' for other reports that CAN and SHOULD be used to make decisions.

The Benefits of Financial Reporting

- **Raise and manage funds** (more accurately)
- **Improved debt management** (gauge liquidity)
- **Trend identification** (tackle potential weaknesses)
- **Real-time tracking** (avoiding any potential roadblocks)
- **Liabilities** (test for credit capacity)
- **Progress and compliance** (improve efficiency and compliance)
- **Improved internal vision** (reflect upon strategy)
- **Communication** (sharing critical financial information throughout your organization)

4 Use-Cases For Financial Reporting



1. Is purchasing this stock a good idea?

- If you're considering investing in as an individual or on behalf of your current organization, financial reporting analysis can give you some data that will help you make your decision.
- This is also one way you can gain insight into whether a company is potentially under- or overpriced in the stock market.

4 Use-Cases For Financial Reporting

2. Are we profitable? Will we be in the future?

- This is crucial information.

3. How much cash 'runway' do we currently possess?

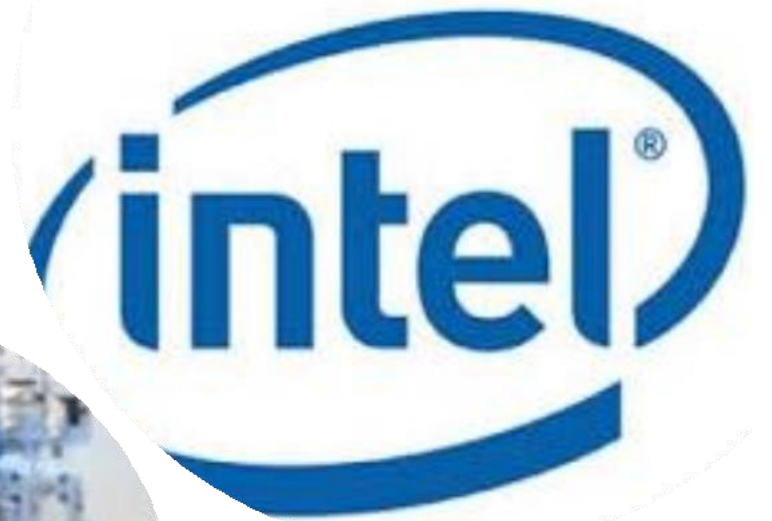
- Cash is oxygen to a business
- Some companies, [like Apple](#), like to sit on colossal amounts of cash.



4 Use-Cases For Financial Reporting

4. Do we have the capital to invest in new lines of business?

- Other companies prefer to invest their money, sometimes in a long-term basis. For instance, Intel upgrade their factories and equipment on a regular basis.





Enron's collapse

About Enron:

<https://www.youtube.com/watch?v=SMT5v5zT5KQ>

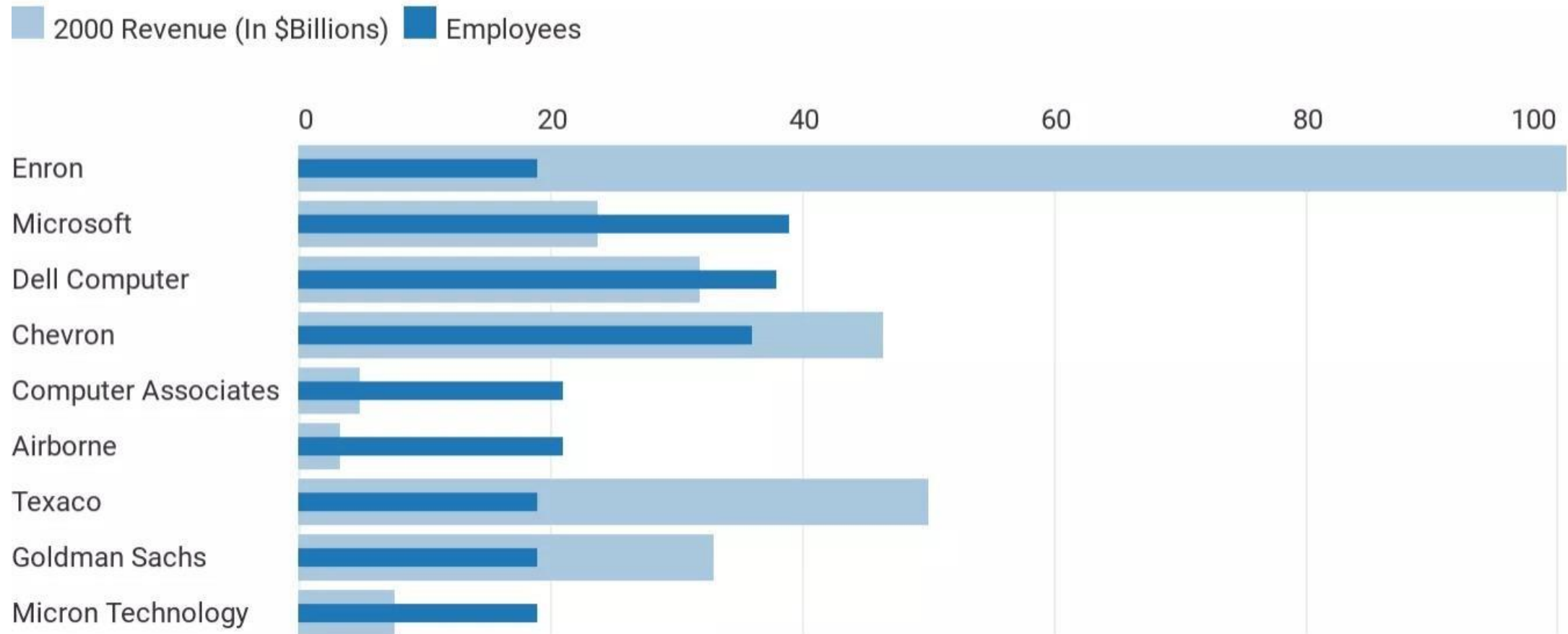
<https://youtu.be/CH0p2ST8H5E>

About other accounting scandals:

<https://corporatefinanceinstitute.com/resources/knowledge/other/top-accounting-scandals/>

Enron's financial reporting

Too good to be true?



Enron's collapse

Enron Share Price, Jan 2000-Dec 2002



Is It Always Good to Have Transparent Financial Reporting?

A single set of high quality, global accounting standards

“

The World Bank has been a long-term supporter of work to develop a single set of high-quality global accounting standards.

World Bank, 2017

“

[The FSB] reiterated its support for...a single set of high quality global accounting standards.

FSB declaration, 2015

“

We support continuing work to achieve convergence to a single set of high quality accounting standards.

G20 leaders' declaration, 2012

WHY?



A single set of
high quality,
global accounting
standards – why?

- Modern economies rely on cross-border transactions.
- More than a third of all financial transactions occur across borders.
- Investors seek investment opportunities across the world
- Companies raise capital, undertake transactions or have international operations in multiple countries.

<https://www.youtube.com/watch?v=gcqMq0BEDW0>



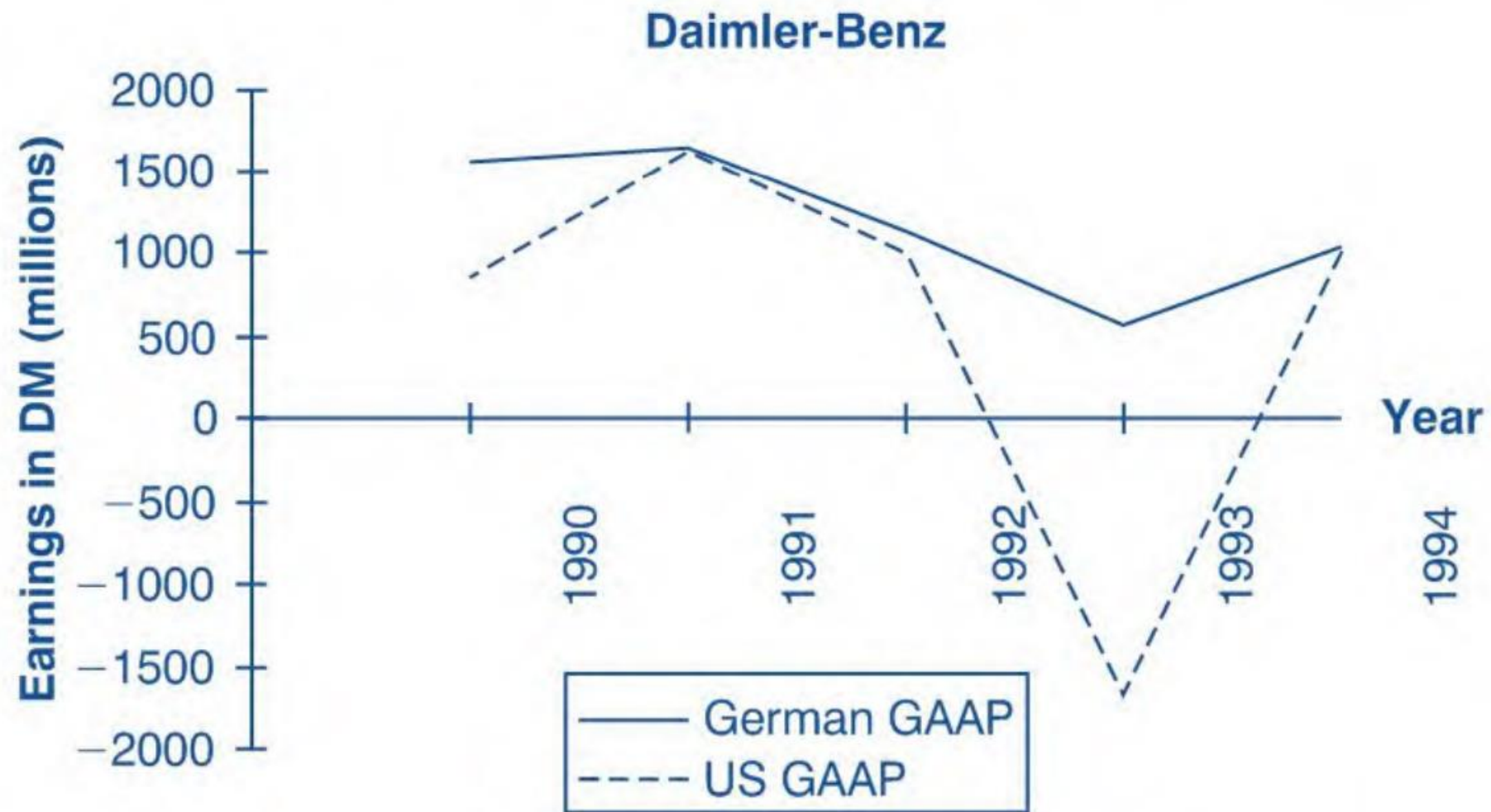
A single set of
high quality,
global accounting
standards – why?

- Different countries will have different:
 - Political philosophies and objectives.
 - Levels of economic growth and development.
 - Economic systems.
 - Legal systems.
 - Codified or civil law.
 - Common law.
 - Culture
- All of which will influence accounting practice.



A single set of
high quality,
global accounting
standards – why?

- Worldwide accounting diversity creates challenges for international business operations and investment.
- It is costly for multinational enterprises to restate their accounts to meet the requirements of every jurisdiction in which they report.
- Investors also incur costs in comparing results of companies when their financial reports are prepared using different rules.



Frameworks for financial reporting

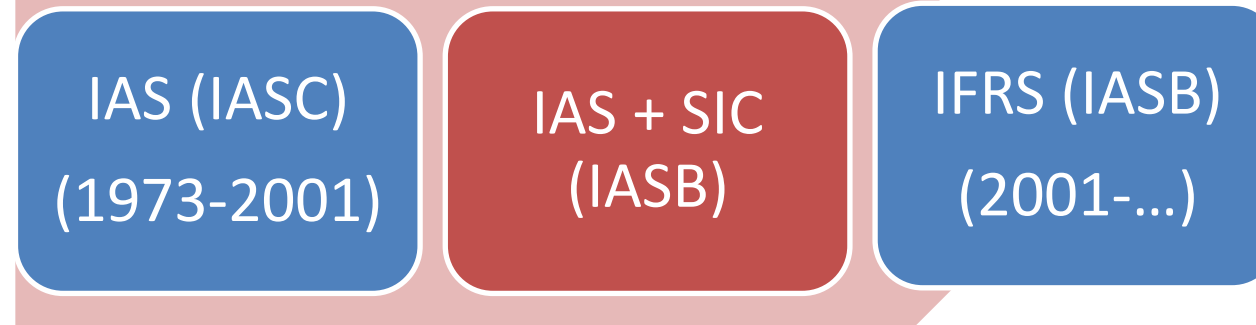
Two main ways that financial reports are standardized:

- 1)** The **GAAP** (Generally Accepted Accounting Principles). This is the system used by the United States.
- 2)** The **IFRS** (International Financial Reporting Standards). This system is utilized by several countries around the world, including Canada, Australia, and India.

The framework for financial reporting: IFRS

- The IFRS began as an attempt to harmonize accounting across the European Union, but the value of harmonization quickly made the concept attractive around the world.
- They are progressively replacing the many different national accounting standards - it's the most common global set of standards.
- The IFRS is particularly important for companies that have dealings in several countries.

Harmonize accounting across the EU



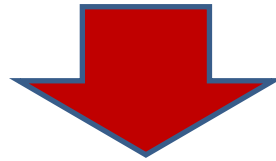
...
**Synchronizing
accounting standards
across the globe is an
ongoing process**

IFRS Foundation structure





Set of guidelines to determine how transactions and other accounting events are required to be reported in financial statements. IFRS are used in at least 120 countries, as of 2020, including those in the EU and many in Asia and South America.



Navigator: <https://www.ifrs.org/issued-standards/list-of-standards>

IFRS Standards around the world: where are they required for domestic companies?



Explore it!!

Whether companies in your country adopt IFRS?

Filter

All

Filter



<https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/>

Who must adopt IFRS?

Under EU rules, listed companies (those whose securities are traded on an EU regulated market) must prepare their consolidated financial statements in accordance with a single set of international standards called international financial reporting standards (IFRS accounting standards).

What is included?

For publicly held corporations, financial reporting can be very detailed and complex. It typically encompasses:

- Financial statements
 - Primary statements: balance sheet, income statement, and cash flow statement
 - Notes providing details about each material item on the balance sheet, income statement, and cash flow statement, including insights into the accounting methods used

May also include:

Management's discussion and analysis (MD&A), independent auditor's report, segment information...

A single set of high quality, global accounting standards

Benefits of IFRS Standards:

- Financial statements are consistent, reliable, transparent and comparable across all companies, market sectors and countries;
- Trust and confidence for investors;
- Common accounting language;
- Accuracy, consistency, and comparability in financial results.

A single set of high quality, global accounting standards

Benefits of IFRS Standards:

- bring **transparency** by enhancing the international comparability and quality of financial information;
- strengthen **accountability** by reducing the information gap;
- contribute to economic **efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation.

Any downside of IFRS adoption?

A single set of high quality, global accounting standards

Limitations of IFRS adoption

- The adoption of IFRS may have limitations primarily concerning differences in business, financial and accounting culture from one country to another.
- Certain standards and requirements may not reflect local situations.
For example:
 - consolidation standards
 - fair value rules

A single set of high quality, global accounting standards

Limitations of IFRS adoption

- IFRS is not universally adopted: IASB (IFRS) vs FASB (US GAAP))
 - The key issue is about underlying 'philosophies'
 - IASB standards are 'principles-based'
 - FASB standards are 'rules-based'
 - Since 2002 efforts have been made to harmonise IFRS and FASB standards.

Conceptual Framework for Financial Reporting

What is it?

- A **conceptual framework** is a group of ideas or principles used to plan or decide something.
 - Not only found in accounting, used in many areas to establish guidelines, make decisions or solve problems
 - Often include broad principles, which can apply across a wide range of situations or circumstances

Conceptual Framework for Financial Reporting

What is it?

- **Accounting conceptual framework:**
 - A normative theory (states what should happen).
 - It prescribes the basic principles that are to be followed in preparing financial statements.
 - It is a coherent system of concepts, which are guidelines to the accounting standards used for financial reporting.
 - guidelines to the accounting standards used for financial reporting.

Conceptual Framework for Financial Reporting

What is it?

Chapter 1	The objective of financial reporting
Chapter 2	Qualitative characteristics
Chapter 3	Financial statements and the reporting entity
Chapter 4	Elements (including asset, liability, equity, income and expenses
Chapter 5	Recognition and derecognition
Chapter 6	Measurement
Chapter 7	Presentation and disclosure
Chapter 8	Concepts of capital and capital maintenance

Conceptual Framework for Financial Reporting

Why do we prepare financial reports?

#1 – The objective of general purpose financial reporting

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to **existing and potential investors, lenders and other creditors** in making decisions relating to providing resources to the entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit;

Or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

Conceptual Framework for Financial Reporting

What makes financial information useful?

#2 - Qualitative characteristics:

Fundamental characteristics

- Relevance / Materiality
- Faithful representation

Enhancing characteristics

- Comparability
- Verifiability
- Timeliness
- Understandability

Conceptual Framework for Financial Reporting

Faithful representation

- Complete
- Neutral
- Free from error

Conceptual Framework for Financial Reporting

#3 - Financial statements: objectives and scope

What information should financial statements provide, and whose information should they report?

- **Financial position:** assets, liabilities and equity.
- **Financial performance:** income and expenses.
- Information useful for assessing future cash flows and management's stewardship.

Going concern assumption

- reports on a company's assets, liabilities and owners' equity at a given point in time.

Statement of financial position



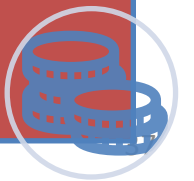
- reports on a company's income, expenses, and profits/losses over a period of time.

Statement of profit or loss



- reports on a company's cash flow activities, including its operating, investing and financing activities.

Statement of cash flows



Conceptual Framework for Financial Reporting

#3 - Financial statements: objectives and scope

What information should financial statements provide, and whose information should they report?

- A reporting entity is an entity that is required, or chooses, to prepare financial statements.
- A reporting entity is **not necessarily** a single legal entity.
- It may be a **single entity, a portion of an entity, or more than one entity.**
- **Consolidated financial statements** present the parent and its subsidiaries as a single reporting entity.
- The reporting entity's boundary determines which
 - ✓ **economic resources (e.g., assets),**
 - ✓ **claims (e.g., liabilities and equity),**
 - ✓ **income and expenses (e.g., revenue, expenses)** are included.

Conceptual Framework for Financial Reporting

Item discussed in Chapter 1	Element	Definition or description
Economic resource	Asset	A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.
Claim	Liability	A present obligation of the entity to transfer an economic resource as a result of past events.
	Equity	The residual interest in the assets of the entity after deducting all its liabilities.
Changes in economic resources and claims, reflecting financial performance	Income	Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.
	Expenses	Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
Other changes in economic resources and claims	—	Contributions from holders of equity claims, and distributions to them.
	—	Exchanges of assets or liabilities that do not result in increases or decreases in equity.

#4 - Elements of financial statements

What are the building blocks of financial statements?

Financial position

Financial performance

Sunny cafe



Owner invests €6,000

→ Equity



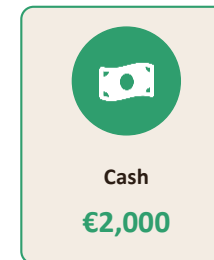
Bank lends €4,000

→ Liability

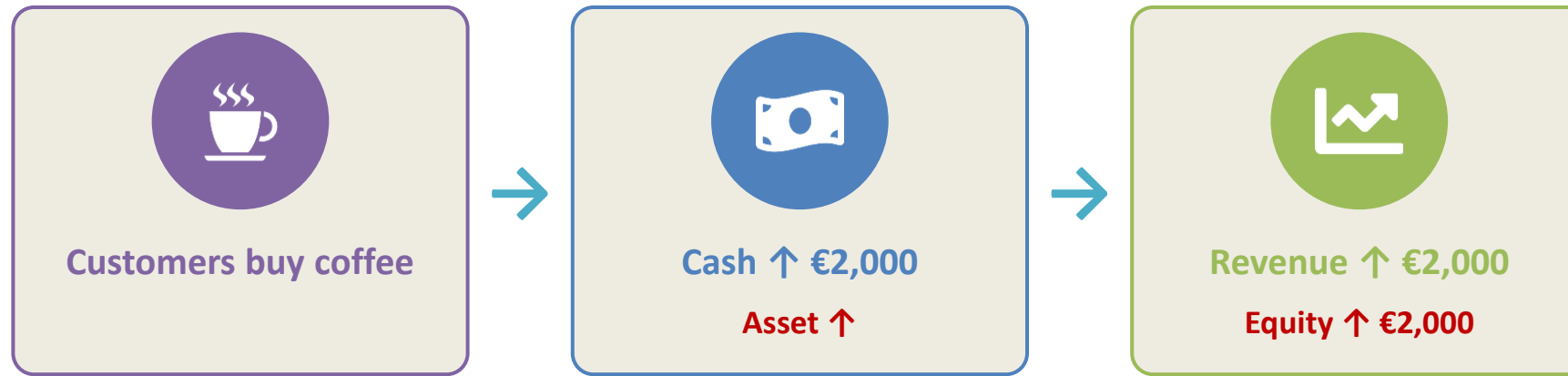


Total cash €10,000

→ Assets



$$\text{Assets} = \text{Liabilities} + \text{Equity}$$
$$€10,000 = €4,000 + €6,000$$



$$\text{Assets} = \text{Liabilities} + \text{Equity}$$
$$€12,000 = €4,000 + €8,000$$



$$\text{Assets} = \text{Liabilities} + \text{Equity}$$
$$€11,000 = €4,000 + €7,000$$

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$€10,000 = €4,000 + €6,000$$



$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$€11,000 = €4,000 + €7,000$$

€1,000

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

$$€2,000 - €1,000 = €1,000$$

Profit increases Equity by €1,000

Sunny Café — Statement of financial position

ASSETS	€	EQUITY AND LIABILITIES	€
Cash	3,000	Owner's capital	6,000
Coffee machine	5,000	Profit for the period	1,000
Coffee beans	1,000	Total equity	7,000
Tables and chairs	2,000	Bank loan (liability)	4,000
Total assets	11,000	Total equity and liabilities	11,000

Sunny Café — Income statement	€
Revenue	
Coffee sales	2,000
Expenses	
Electricity	(200)
Rent	(500)
Wages	(300)
Total expenses	(1,000)
Profit for the period	1,000

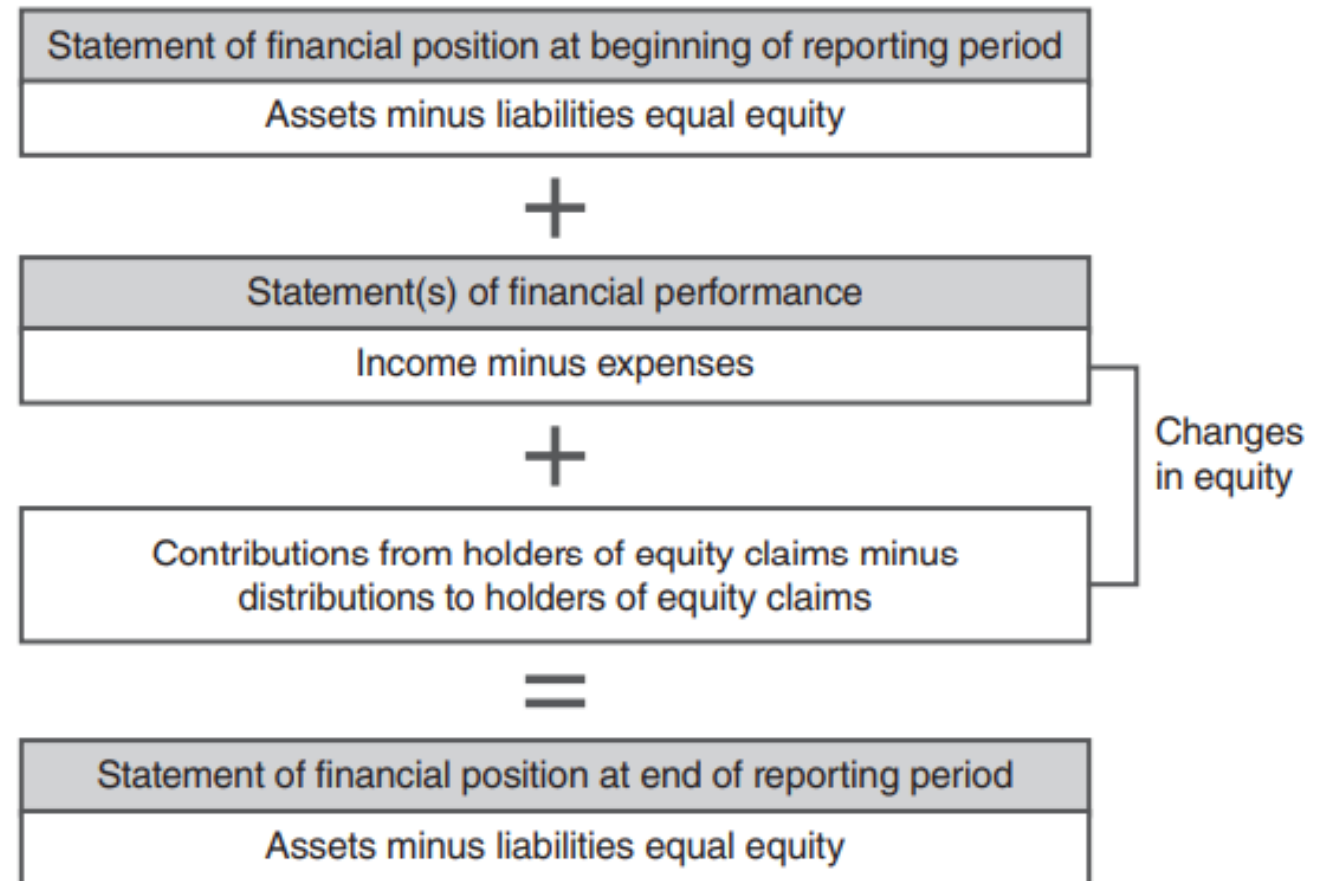
Conceptual Framework for Financial Reporting

When should an item appear in the financial statements?

#5 – Recognition and derecognition

Recognition: Including an item in the statement of financial position or statement(s) of financial performance when it meets the definition of an element.

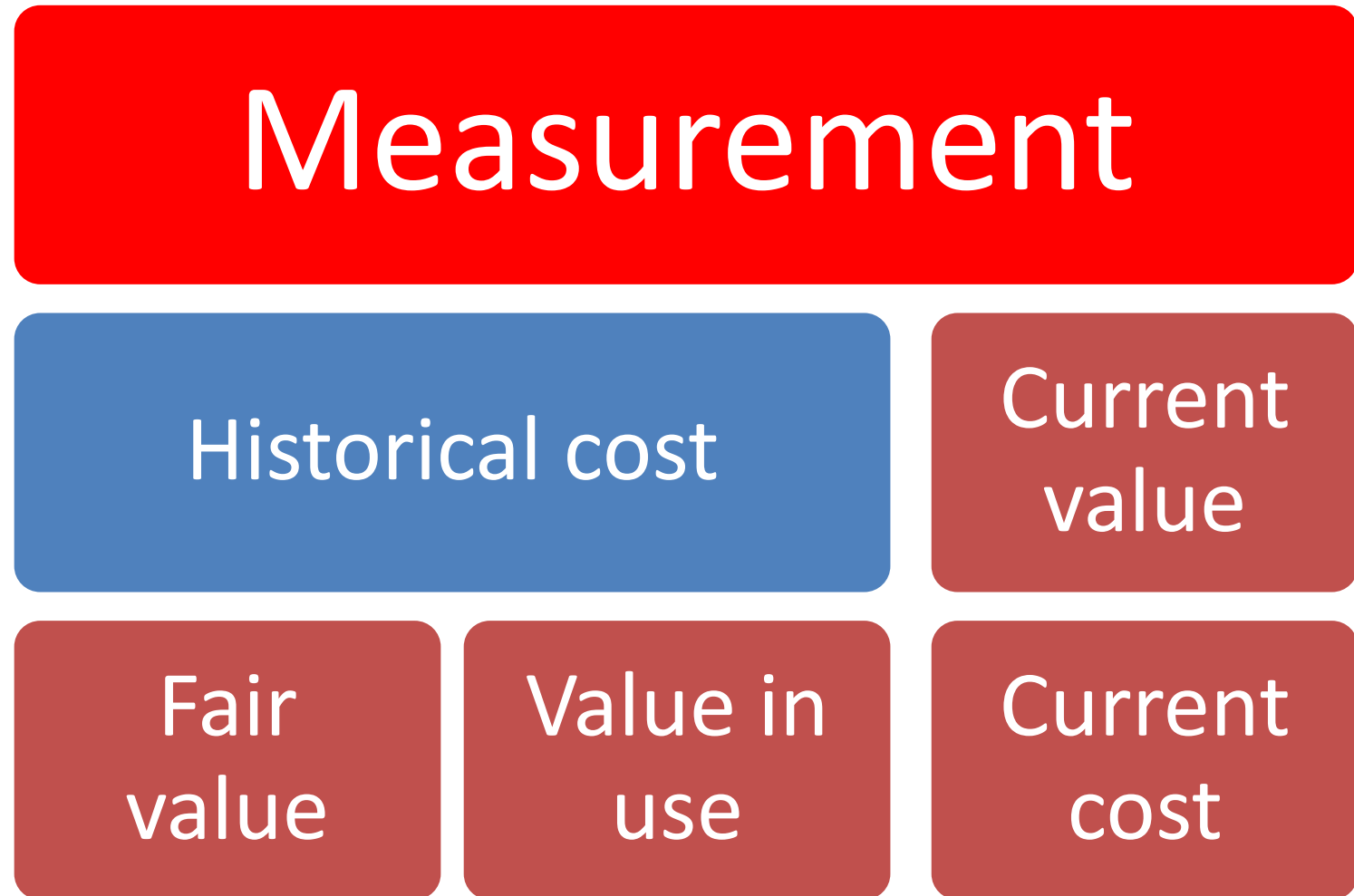
Derecognition is the removal of all or part of a recognised asset or liability from an entity's statement of financial position.



Conceptual Framework for Financial Reporting

At what amount should an item be reported?

#6 – Measurement



Conceptual Framework for Financial Reporting

How should financial information be communicated?

#7 – Presentation and Disclosure

- Financial information should be communicated **effectively**.
- **Classification:** sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics
- **Offsetting:** an entity recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position
- **Aggregation:** adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification

Problems with and criticisms of the Conceptual Framework?

Problems with and criticisms of the Conceptual Framework

- It is ambiguous:
 - the principles are too vague
 - too much room for alternative interpretations.
- It is descriptive not prescriptive:
 - the Conceptual Framework simply describes current accounting practise
- The concept of faithful representation is inappropriate.

Problems with and criticisms of the Conceptual Framework

- There may be inconsistencies between the Conceptual Framework and accounting standards:
 - delays in revising the Conceptual Framework
 - standards may be issued prior to Conceptual Framework
 - standard-setting is a political process
 - use of the cost constraint can be restrictive.
- There may be inconsistencies between the Conceptual Framework and the real world.

Summary:

1. Introduction to financial reporting
2. Main international financial reporting standards-IFRS
3. Conceptual framework for financial reporting