



Jihočeská univerzita  
v Českých Budějovicích  
University of South Bohemia  
in České Budějovice

# FINANCIAL STATEMENTS - Study Text



## FINANCIAL STATEMENTS: NOTES (ANNEX, SUPPLEMENT) OF FINANCIAL STATEMENTS

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EVROPSKÁ UNIE  
Evropské strukturální a investiční fondy  
Operační program Výzkum, vývoj a vzdělávání



MINISTERSTVO ŠKOLSTVÍ,  
MLÁDEŽE A TĚLOVÝCHOVY



## 1 DEFINITIONS

Financial statements are intended to be understandable by readers who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently.

The general purpose of the financial statements is to provide information about the results of operations, financial position, and cash flows of an organization. This information is used by the readers of financial statements to make decisions regarding the allocation of resources.

Notes to financial statements (notes) are additional information added to the end of financial statements that help explain specific items in the statements as well as provide a more comprehensive assessment of a company's financial condition. Notes to financial statements can include information on debt, going concern criteria, accounts, contingent liabilities or contextual information explaining the financial numbers (e.g. to indicate a lawsuit).

The notes clarify individual statement line-items. For example, if a company lists a loss on a fixed asset impairment line in their income statement, notes could corroborate the reason for the impairment by describing how the asset became impaired. Notes are also used to explain the accounting methods used to prepare the statements and they support valuations for how particular accounts have been computed.

As a group, the entire set of financial statements can also be assigned several additional purposes, which are, for example:

- Credit decisions. Lenders use the entire set of information in the financials to determine whether they should extend credit to a business, or restrict the amount of credit already extended.
- Investment decisions. Investors use the information to decide whether to invest, and the price per share at which they want to invest. An acquirer uses the information to develop a price at which to offer to buy a business.
- Taxation decisions. Government entities may tax a business based on its assets or income, and can derive this information from the financials.
- Union bargaining decisions. A union can base its bargaining positions on the perceived ability of a business to pay; this information can be gleaned from the financial statements.

In addition, financial statements can be presented for individual subsidiaries or business segments, to determine their results at a more refined level of detail.

### NOTES TO THE FINANCIAL STATEMENTS IS:

- a mandatory part of the financial statements
- serves to assess the overall financial and property situation, especially in time comparability (policy stability)
- task - in general:
  - comment on and distribute the information contained in the balance sheet, profit and loss statement
  - To add significant information not included in the balance sheet, profit and loss statement, as:
- they do not belong to the statement items
- the accounting period ended
- requirements: relevance, usefulness, reliability, neutrality, clarity, comparability - method stability



## 2 CONTENT

- see type of entity → § 3a + §39 Edict of Ministry of Finance No. 500/2002:
- The appendix to the financial statements includes in full information:
  - a) according to §39 and §39b and is made by the accounting entity which is
    - 1. Large Entity; that entity shall also provide the additional information specified in §39c or
    - 2. the middle accounting unit,
  - b) according to §39 and §39a and is made by the accounting entity, which is
    - 1. a small entity that is required to have the financial statements audited by an auditor, or
    - 2. a micro entity that is required to have the financial statements audited by the auditor.
- The Annex to the Financial Statements summarizes the information under §39 and can be compiled by a small entity and a micro entity that is not required to have the financial statements certified by the auditor.
- form: is not specified: tables, descriptive, combinations (most common)

### Content - ranked in general (see Section §39 for type of units):

- **general data on the entity, eg:**
  - date of establishment of the entity, date of commencement of operations, data on natural and legal persons with significant or decisive influence, description of the organizational structure, average number of employees (aggregated data), etc.)
- **information on the application of general accounting principles, accounting methods used, valuation methods and depreciation**
  - information on deviations from methods + variants of operations (see components of assets, liabilities)
  - for example:
    - the method of determining allowances and allowances for property
    - the method used to convert data in foreign currencies into the Czech currency
    - the method of determining the fair value of the respective assets and liabilities,
- **supplementary information for the balance sheet and the profit and loss statement; e.g.:**
  - identification of items accumulated, their breakdown
  - to indicate significant items not arising either directly or indirectly, in particular:
    - deductions of income tax due for prior periods
    - a breakdown of a deferred tax liability or receivable
    - a breakdown of reserves
    - a breakdown of long-term bank loans including interest rates and a description of credit protection
    - payables of social security premiums and contributions to the state employment policy, the amount of payable public health insurance liabilities
    - the amount of tax arrears recorded at the local financial and customs authorities



- the amount of receivables held for trading at fair value
  - subsidies received for investment and operating purposes
  - individual milk reference quantity, individual production quota, individual limit of premium rights and other similar quotas and limits
  - animal species information (long-term assets x stock)
  - pledge rights
  - taking into account the importance of small intangible and tangible assets
  - overdue receivables and payables
  - eventually. changes in equity (if not separately), etc.
- **other important information, eg.:**
- significant events occurring after the balance sheet date up to the date of preparation of the financial statements (eg. natural disasters, lawsuits, etc.)
  - rewards to the statutory auditor or audit firm
  - number and nominal value of issued shares during the accounting period, etc.