Economia Aziendale 2000 Web ©
Online Review

N. 4/2007

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Economia Aziendale 2000 Web ©
International Business Review
Editor in Chief: Piero Mella
ISSN 1826-4719
Reg. Trib. Pavia - n. 495/99 R.S.P.

Pavia, September, 2007
No. 4/2007

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Introduction

Starting from January 1st 2005, all entities with financial instruments listed in the regulated European market, must present consolidated financial statements, according to the International accounting standards (IAS/IFRS)[1].

The necessity of adopting the International accounting standards is strictly connected to the increasing globalization of financial markets and to the development of ICT technologies which have evidenced some problems bound to the non comparability of the very different financial statements among the UE Countries.

Before the IAS/IFRS introduction, in fact, a normal skilled investor had not always the necessary information to buy shares quoted in other European Countries, as he needed to know the principles in force in the different States concerning the financial statements and consolidated financial statements in order to understand the economical and financial position of companies and groups.

It was, obviously, a limit to the free exchange of shares, which by the introduction of IAS/IFRS, is going to be reduced.

The necessity to compare economical-financial information is obviously more important for those companies whose shares are swapped in the regulated markets, but it is any way present for the unlisted companies. As, for example, a company which must start business relations with other UE companies, or a financial holding which must include in its consolidated financial

1 Regulation CE n. 1606/2002, which foresees also a series of options bound to financial statements of the quoted entities, to the consolidated financial statements and financial statements of the unquoted entities and the consolidated financial statements of all the other entities not included in the consolidated financial statements of unquoted entities. Such options have been applied in Italy by the D. Lgs. 38/2005.

statements a foreign company.

In both cases, the necessary information must be understood.

The aim of the financial statements and consolidated financial statements (IAS compliance) is therefore to establish clear rules for the UE market, in order to assure economical and financial information to be comparable and transparent.

The introduction of the International accounting standards into the European Union, means the adoption of a series of rules, which substantially modify the financial statements in all main points: the objective of financial statements, its relevant documents, the definition, recognition and measurement of the assets, liabilities, expenses and incomes[2].

Duly considered all these aspects, the objective of this analysis is one of the documents, part of the consolidated financial statements IAS/IFRS, that is the income statement.

The aim of these paper is to verify if with the adoption of the International accounting standards, the consolidated financial statements IAS/IFRS (with particular reference to the income statement) allows a better comparability of the economical information among the different UE Countries, so that, it allows the investors a comparison and therefore a choice among the different types of investments in the different Countries.

Hereby the different aspects are shown:

- the examined sample;
- the income statement according to the International accounting standards;
- the structure and the content of the income statement according to the International accounting standard: a comparison of the different economical information;
- the presentation of the different items in the income statement according to the International accounting standards: comparison of the schemes.

1 – The examined sample

This study has been carried out on the most important industrial groups quoted in the French, English, Italian, Spanish and German stock exchanges: in particular the first 5 most important

2 In this regard, check:
- M. Allegroni, Concetti di reddito e conseguenze logiche valutative, Giuffrè editor, 2001;
- S. Azzali, Il sistema delle informazioni di bilancio delle aziende di produzione. Il modello dell'International Accounting Standards Committee, Giuffrè editor, 1996;
- A. Lionzo, Il sistema dei valori di bilancio nella prospettiva dei principi contabili internazionali, Franco Angeli, 2005.

groups with the highest stock exchange capitalization for every country on April 30, 2006.

Banks, financial societies and insurance companies have been excluded from this analysis.

The examined industrial groups are shown in table 1[3].

The consolidated financial statements on December 31, 2005 have been the aim of this analysis.

Table 1: Groups belonging to the sample.

	Capitalization
FRANCE[4]	
TOTAL	135.444,04
SANOFI-AVENTIS	101.158,66
EDF	84.457,63
OREAL	48.419,57
FRANCE TELECOM	48.154,91
ENGLAND[5]	
BP	126.248,08
ROYAL DUTCH SHELL	120.014,68
GLAXOSMITHKLINE	86.128,47
VODAFONE GROUP	74.974,16
ASTRAZENECA	44.348,47
ITALY[6]	
ENI	97.009,79
ENEL	42.299,84
TELECOM	29.946,00
AUTOSTRADE	13.892,59
FIAT	12.205,85
GERMANY[7]	
SIEMENS	57.374,52
DT. TELEKOM	36.112,39
BASF	32.819,58
RWE	30.282,18
BAYER	26.642,87
SPAIN[8]	
TELEFONICA	64.368,39
TELEFONICA MOVILES	47.592,75
REPSOL YPF	27.701,39
ENDESA SOCIEDAD ANONIMA	26.638,20
IBERDROLA	23.710,74

3 We have analyzed the only groups which have prepared a consolidated financial statement, according to International accounting standards.
4 Millions of Euro.
5 Millions of Pound Sterling.
6 Millions of Euro.
7 Millions of Euro.
8 Millions of Euro.

Table 2: stock exchange capitalization of the groups under analysis.

	France (M. €)	England (M. £)	Italy (M. €)	Germany (M. €)	Spain (M. €)
Stock exchange capitalization[9]	1.237.841,76	1.315.777,82	519.819,88	442.246,45	368.500,00
Capitalization of the groups belonging to the examined sample	417.634,80	451.713,86	195.354,07	183.231,54	190.011
% relevant to the total stock exchange capitalization	**34%**	**34%**	**38%**	**41%**	**52%**

2 – The income statement according to the International accounting standards.

The income statement according to the International accounting standards, is regulated by IAS 1 – *Presentation of financial statement*, which aims at defining the general standards for the presentation structure and content of income statement, in order to assure the comparison of economical and the financial information in time and space, that is the financial statements in past years and among entities in different Countries in the European Union.

Considering the income statement, IAS 1 is divided into two parts:

1. structure and contents of income statement;
2. standards of classification of items.

In the following paragraphs are evidenced the most important aspects.

2.1 – *The structure and the content of the income statement according to the International accounting standard: a comparison of the different economical information*

The main aspects regarding the comparability of income statements IAS/IFRS, discussed in this paragraphs, are:

- exclusion of income components of income statements;
- minimal content of income statement;
- indication of subtotal;
- elimination of extraordinary area;
- obligatory request of the incomes only.

Considering the *exclusion of some income components from income statement*, IAS 1 requires

9 Banks, financial societies and insurance companies have been excluded from the capitalization.

that all incomes and expenses are included in the income statements, unless other international accounting standards foresee differently[10].

Therefore, there may be incomes and expenses not included in the income statement, bur directly included in the equity of the entity.

Some examples are:

1. the choice for a valuation of the intangible assets (except goodwill) according to the fair value (IAS 38 – Intangible assets): the increasing value of the intangible assets is noticed with the increasing of equity[11];
2. the choice for a valuation of the tangible assets according to the fair value (IAS 16 – Property, plant and equipment): the increasing value of the intangible assets is noticed with the increasing of equity[12];
3. the valuation of the available for sale, financial assets (IAS 39 – Financial instruments: recognition and measurement): the increasing value of such financial assets is noticed with the increasing of equity;
4. the changes in accounting policies (IAS 8 – Accounting policies, changes in accounting estimates and errors): the cumulative effects previous of such a change are directly noticed to equity;
5. the cash flow hedge and the hedge of a net investment in a foreign operation (IAS 39 – Financial instruments: recognition and measurement): the portion of the gain or loss on the hedging instrument[13] or the hedge of a net investment in a foreign operation[14], must be determined directly from equity.

The equity will be therefore composed, besides the capital given by the shareholders of the entity, by profits retained and by capital reserves, also by positive and negative income components directly noticed to the same equity.

For this reason, IAS 1, par. 8, foresees that the complete set of financial statements is equipped with a "new" accounting statement in comparison with those foreseen by the pre-existing EU directives.

10 IAS 1, par. 78-80.

11 This happens if in the previous years a devaluation in income statement has not been made. However the increase shall be recognised in profit or loss in the extent that it reserves a revaluation decrease of the some asset previously recognised in profit or loss.

12 This happens if in the previous years a devaluation in income statement has not been made. However the increase shall be recognised in profit or loss in the extent that it reserves a revaluation decrease of the same asset previously recognised in profit or loss.

13 See: IAS 39, par. 95.

14 See: IAS 39, par. 102.

It is called *statement of changes in equity* and aims at evidencing the composition of the equity of the entity.

This statement must point out:

- profit or loss for the period (a);
- each item of income and expense which, as required by other standards or by other interpretations, are directly noticed by the equity (b);
- total income and expense for the period (calculated as the sum of (a) and (b)) showing separately the total amounts attributable to equity holders of the parent and to minority interest;
- for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with IAS 8[15].

IASB, in order to improve the economical and financial information for the market, has foreseen a modification, even if not definite[16], of IAS 1, with a further financial statement information, with "statement of recognised income and expense".

It must duly consider all incomes and expenses, either shown in the income statement or directly recognised in equity.

According to the *Exposure Draft of Proposed amendments to IAS 1*, the statement must include the following information[17]:

	YEAR N + 1	**YEAR N**
Revenue		
Cost of sales		
Gross profit		
Other income		
Distribution costs		
Administrative expenses		
Other expenses		
Finance costs		
Share of profit of associates		
Profit before tax		
Income tax expense		
Profit for the year from continuing operation		
Loss for the year from discontinued		

15 IAS 1, par. 96.
16 Exposure Draft of Proposed amendments to IAS 1 – Presentation of financial statements: a revised presentation.
17 The destination has been chosen as a standard for costs' classification. Furthermore, the "statement of recognised income and expense" has been presented as a unique statement. The income statement and the statement con be presented separately.

operation		
Profit for the year[18]		
OTHER RECOGNISED INCOME AND EXPENSE:		
Exchange differences on translating foreign operation		
Available for sale financial assets		
Cash flow hedges		
Gains on property revaluation		
Actuarial gains (losses) on defined benefit pension plans		
Share of other recognised income and expense of associated		
Income tax relating to components of other recognised income and expense		
Other recognised income and expense for the years, net of tax[19]		
Total recognised income and expense for the year		

The statement of recognized incomes and expenses aims at giving the stakeholders the global performance generated by entity during the year, including either the net result deriving from expenses and incomes accounted in income statement, or incomes and expenses directly accounted in equity.

This means a total change in the reading of financial statement by the stakeholders in order to get information about a gain possibility by the shareholders.

Not only expenses and incomes accounted in income statement must be necessarily analyzed, but also the income components, directly accounted in equity must be considered.

Thanks to the analysis of the statement of changes in equity, the financial statements' reader can understand the reasons that have brought to a change in equity from one year to the other.

Thus, an analysis has been carried out on the effect that the income components, directly accounted in the equity, have on the valuation of the group performance for the shareholder.

The results are listed shown hereby.

Table 3: Analysis of the total performance of the entities.

Denomination	**Equity (A)**	**Profit for the period (B)**	**ROE (B/A)**	**Revenue/(costs) directly included in the equity (C)**	**Total Performance (D = B+C)**	**Total ROE (D/A)**
FRANCE						

18 The profit or loss must be furtherly divided in equity holders of the parent and minority interest.
19 The other expenses and incomes must be divided in the part of equity holders of the parent and minority interest.

TOTAL	41.482,00	12.643,00	30,48%	3.319,00	15.962,00	38,48%
SANOFI-AVENTIS	46.826,00	2.593,00	5,54%	- 45,00	2.548,00	5,44%
EDF	20.140,00	3.350,00	16,63%	1.041,00	4.391,00	21,80%
OREAL	14.655,70	1.973,20	13,46%	2166,20	4.139,40	28,24%
FRANCE TELECOM	24.860,00	6.360,00	25,58%	1.578,00	7.938,00	31,93%
ENGLAND[20]						
BP	80.765,00	22.632,00	28,02%	- 2.015,00	20.617,00	25,53%
ROYALDUTCH SHELL	97.924,00	26.261,00	26,82%	- 4260,00	22.001,00	22,47%
GLAXOSMITHK LINE	7.570,00	4.816,00	63,62%	- 240,00	4.576,00	60,45%
VODAFONE GROUP	148.383,00	- 37.953,00	- 25,58%	4.031,00	- 33.922,00	- 22,86%
ASTRAZENECA	13.691,00	3.602,00	26,31%	–	3.602,00	26,31%
ITALY						
ENI	39.217,00	9.247,00	23,58%	1.534,00	10.781,00	27,49%
ENEL	19.416,00	4.132,00	21,28%	266,00	4.398,00	22,65%
TELECOM	3.414,00	804,00	23,55%	–	804,00	23,55%
AUTOSTRADE	9.413,00	1.420,00	15,09%	884,00	2.304,00	24,48%
FIAT	26.985,00	3.690,00	13,67%	1.203,00	4.893,00	18,13%
GERMANY						
E. ON.	44.484,00	7.407,00	16,65%	5.063,00	12.470,00	28,03%
SIEMENS	26.583,00	2.248,00	8,46%	919,00	3.167,00	11,91%
SAP	5.782,24	1.496,41	25,88%	- 117,86	1.378,55	23,84%
DAIMLERCHRY SLER	36.449,00	4.253,00	11,67%	–	4.253,00	11,67%
DT. TELEKOM	49.582,00	6.016,00	12,13%	- 952,00	5.064,00	10,21%
SPAIN						
TELEFONICA	16.158,40	7.220,98	44,69%	–	7.220,98	44,69%
TELEFONICA MOVILES	6.246,46	3.079,79	49,30%	–	3.079,79	49,30%
REPSOL YPF	16.790,00	4.333,00	25,81%	–	4.333,00	25,81%
ENDESA SOCIEDAD ANONIMA	16.327,00	3.757,00	23,01%	1.420,00	5.177,00	31,71%
IBERDROLA	9.415,00	1.405,00	14,92%	164,00	1.569,00	16,66%

Table 4: Comparison among entities' performances.

	Number	**%**
Groups presenting a total ROE bigger than the ROE counted considering the only income components in the income statement	19	76%
Groups presenting a total ROE smaller than the ROE counted considering the only income components in the income statement	6	24%
Total	**25**	**100%**

From this analysis (table 3) the ROE counted on the total components of income (either in income statement or equity) is bigger than the ROE counted considering the only income components in an income statement.

In conclusion, except some cases, the positive income components are algebraically bigger than the negative income components, directly noticed in equity of each entity.

In fact, in table 4, only 24% of the sampled groups has a decreasing ROE, including the income components in equity.

Therefore, the introduction of international accounting standards has brought to a remarkable increase of equity in the most groups under examination[21].

The second peculiarity of income statement IAS/IFRS is the request of a *minimal content of income statement*.

This is one of the most important points of the income statement IAS/IFRS for the comparability of economical information, supplied by the groups of entities.

The minimal items required by IAS 1 are[22]:

- revenue;
- finance costs;
- share of the profit or loss of associates and joint ventures accounted for using the equity method;
- tax expense;
- profit/loss (or net result) deriving from assets held for sale and discontinued operation;
- profit or loss.

The entity can integrate the minimal content of the income statement with additional line items, headings and subtotals.

According to IAS 1[23], the modifications to the scheme must be done only if such presentation is relevant to an understanding of the entities' financial performance.

According to the international accounting standards, information has the quality of relevance when it influences the economic decisions of users.

So, an income statement is set up with no rigid content, but a minimum content, by the introduction of this international accounting standard.

20 Data in millions of Pounds.
21 A further study in depth is not given because is not object of this article.
22 IAS 1, par. 81.

A consequence of the minimal content of the income statement are the *subtotals*.

IAS 1, doesn't require the subtotal, but encourages their introduction, thus enabling a better comprehension of the result, and therefore a better understanding of the same financial statement.

As IAS 1 is quite flexible for the indications of the subtotals in the income statement and this is very important for the comparability of economical information among entities' groups in different Countries, a sample has been tested on many groups which have included in their financial statement the operating profit (operating revenue – operating costs).

This operating profit synthesizes in the best way, the result of the main activity of the entity, and for this reason, is particularly relevant.

From the analysis of table 5, only 3 groups do not indicate in the income statement the operating profit, but they just give in their income statement the profit gross (net revenues – cost of sales) and profit before tax.

Table 5: Indication of the operating profit in the income statement.

	No. of groups	**% analyzed groups**
Groups that have indicated the operating profit in the income statement	22	88%
Groups that have not indicated the operating profit in the income statement	3	12%
Total	**25**	**100%**

The stock exchange influences the presence or the absence of the operating profit, as you can see in table 5. Of the 3 groups that have not indicated the operating profit in the income statement, two are German and one is English (table 6).

This result is not surprising: in fact either Germany or England, already before IAS/IFRS introduction, did not foresee in their financial statements a clear indication of their main activity[24].

This choice is therefore influenced by the past.

The operating profit is not the only relevant subtotal.

Even if IAS 1 does not necessarily require the subtotals, their presence has been tested in the income statement.

23 IAS 1, par. 83.
24 See accordingly: M. Campra, il bilancio in Francia, Germania, Regno Unito, Spagna e Italia, Giuffrè editor, Milan, 1998, pag. 730.

Table 6: Countries of the groups that have not indicated the operating profit.

	Groups that have not indicated the operating profit in income statement	**% on the sample**
France	-	-
Germany	2	67%
England	1	33%
Italy	-[25]	-
Spain	-	-
Total	**3**	**100%**

This analysis shows:

Table 7: Number of subtotal indicated by groups in the income statement[26].

	No. of groups	**% on the sample**
1 subtotal	-	-
2 subtotals	11	44%
3 subtotals	9	36%
4 subtotals	5	20%
Total	**25**	**100%**

Table 7 shows that at least all groups indicate 2 subtotals.

This means, that for the groups, the subtotals are relevant indications, apt to increase financial statements' comprehension.

80% of the sample gives 2 or 3 subtotals, while only in few groups, that is 20% of the sample, gives more than 3 subtotals.

Table 8 shows the most important subtotals.

Table 8: Subtotals presented by the groups.

	No. of groups	**% on the sample**
Profit before tax	24	96%
Operating profit (operating revenues – operating costs)	22	88%
Gross profit (revenues – cost of sales)	10	40%
Net margin (gross margin – amortization of tangible assets – depreciation – previsions)	6	24%
Gross margin (contribution margin – personal expenses)	2	8%
Finacial result (finance revenues – finance costs)	2	8%
Ordinary result (Result of the main activity + finance costs)	1	4%
Contribution margin (carried out production – external costs)	1	4%

25 The operating profit of FIAT group has not been considered, because their subtotal is different from those used by the other sampled groups.
26 The results include the operating profit and the profit before tax.

All groups, except one, indicate the profit before tax. This means that it is relevant and must be included in the income statement.

The gross profit indicated by 40% of the sample and the net margin indicated by 24% of the sample, show that they are relevant for the comprehension of the financial statement.

The gross margin (8%), ordinary result (4%) and the contribution margin (4%) are less important.

In conclusion, the profit before tax for 96% and the operating profit for 88% are very relevant, because they allow the comparison among groups in different Countries.

Also in this case, the possible presence of relations between the stock exchange of the group and the bent to supply subtotals (table 9) have been analyzed.

Table 9: Subtotal and stock exchange.

	France	**England**	**Italy**	**Germany**	**Spain**	**Total**
Profit before tax	4	5	5	5	5	**24**
Operating profit	5	4	5	3	5	**22**
Gross profit	2	3	-	4	1	**10**
Net margin	3	-	-	-	3	**6**
Gross margin	1		1			**2**
Financial results	2	-	-	-	-	**2**
Ordinary results	-	-	1	-	-	**1**
Contribution margin	-	-	-	-	1	**1**
Number of supplied subtotals	**17**	**12**	**12**	**12**	**15**	**68**
Number of supplied subtotal in comparison with the subtotals' total	**25%**	**17,65%**	**17,65%**	**17,65%**	**22,05%**	**100%**

This analysis lets emerge the relation, between the number and typology of the supplied subtotals and the stock exchange of the group.

From our research, the French groups are those that, on average, supply the majority of subtotals directly in the income statement, thus assuring a better understandability of the group economical situation.

Excluding the Spanish groups which supply about 22% of the total of the sampled subtotals, all the others are standardized. This means an homogeneity among different Countries to supply subtotals.

The stock exchange influenced also the typology of the supplied results.

For example, the gross profit (revenue – cost of sales) is indicated in 4 groups on 5 in Germany, in 3 groups in England and in no one in Italy.

It's interesting that only the French and the Spanish groups indicate the net margin.

A particular speech is necessary for the financial result.

The minimal content of the income statement requires the indication of financial costs only.

In compliance with what requested by IAS 1, only 2 groups on 25 have considered necessary to indicate the financial result (finance incomes – finance costs) in income statement to increasing the understandability of the consolidated financial statement.

The *elimination of the extraordinary area* is another important element which permits the analysis of the economical balance and the information comparability among the groups in different European Countries.

IAS 1 – par. 85 specifies that: "*an entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes*".

Therefore, the International accounting standard doesn't require the extraordinary area but, on the contrary, it forbids a separate indication.

This is partially justified by two reasons:

1. the introduction of profit and loss into the minimal content of the income statement deriving from assets held for sale and discontinued operation[27];
2. because, in the income statement IAS/IFRS it's infrequent the presence of items which now are classified in the extraordinary area.

From the analyzed sample, it appears that 16 groups on 25, have included among their economical components the presence of this result, as table 10 shows.

Table 10: Indication of the result deriving from assets held for sale and discontinued operation.

	No. of groups	**% group analyzed**
Groups that have supplied the indication of profits/costs deriving from assets held for sale and discontinued operation	16	64%
Groups that have not supplied the indication of profits/costs deriving from assets held for sale and discontinued operation	9	36%
Total	**25**	**100%**

The next step has been to know the reasons why in 9 groups, the information regarding the assets held for sale and discontinued operation, is missing.

The reason is that there are no assets held for sale and discontinued operation noticed in the balance sheet, as IFRS 5 – Non current assets held for sale and discontinued operation, foresees.

27 See IFRS 5 – Non current assets held for sale and discontinued operation.

This is in accordance with the International accounting standards.

In this case, too, as table 11 describes, there's a relation among assets held for sale and discontinued operations and Countries of the groups.

Table 11: Stock exchange in which are present the assets held for sale and discontinued operation.

	Presence of assets held for sale and discontinued operation in balance sheet	**% on the nation**	**% on the sample**
France	2	40%	12%
Germany	3	60%	19%
England	4	80%	25%
Italy	4	80%	25%
Spain	3	60%	19%
Total	**16**		**100%**

Table 11 evidences that the groups quoted in the Italian and English stock exchange are those aimed at having assets held for sale and discontinued operations.

This means a trend to change and to structural innovation.

On the contrary, in the French groups, the assets held for sale and discontinued operations are less frequent (2 cases on 5).

This means a business management more stable in time.

The last analyzed point about comparability of income statement IAS/IFRS has been to verify the indication in statement of the operating costs from groups.

Par. 81 of IAS 1, in fact, requires the *indication of profit only*, but doesn't require the indication of the costs to get such profits.

Par. 84 of IAS 1 evidences indirectly the necessity of indication.

The presence in the income statements of the economical components for the entity' final result, helps the balance reader to understand the present results as well as to foresee the future economical results.

Table 12: Information about the presence of operative costs in income statements.

	No. of groups	**% groups analyzed**
Groups that have supplied information about ordinary costs in income statements	25	100%
Groups that have not supplied information about ordinary costs in income statements	–	0%
Total	**25**	**100%**

The indication of the operative costs, objective of the sample, has been verified because of this apparent discrepancy through the analysis of the consolidated financial statement IAS/IFRS.

From this analysis it appears that all the sampled groups indicate in their income statement their supported ordinary costs, as they are considered, even if not compulsory, necessary to the balance understandability.

Through IAS/IFRS it will be therefore possible to compare the productive efficiency of the European groups directly from the income statement.

2.2 – *The presentation of the different items in the income statement according to International accounting standards: comparison of the schemes.*

Another feature, which strongly affects the comparability of economical information in income statement IAS/IFRS, is the standard according to which the costs in income statement can be classified.

According to the International accounting standards, the costs can be classified in the income statement in two different ways[28]:

the nature of expenses;

the destination.

The standard choice is free and must be based on reliability and relevance, as analyzed in the previous pages.

In the income statement which classified the *nature of expenses*, the entities indicate the carried out production during the fiscal year and not only the revenue of sales.

This to indicate that the first area to be evidenced in the income statement regards the production value. It includes besides the sales of goods but unsold (changes in inventories) or capitalization.

Next area presented the costs supported by this production, classified on the base of the origin of the inputs (amortization, depreciation, employees' salaries and other costs).

In this case the information aim is to communicate to the balance reader the entity's capacity to create wealth after having paid all inputs.

The most important aspect to be considering is, on the contrary, the possibility of classifying

28 IAS 1, par. 88.

the expenses by destination, that for Italy, France and Spain is a real innovation[29].

According to this classification, the costs must be presented according to the functional area which has used the inputs. The balance reader can, in this way, gets information about the efficiency of the different activities in the group.

These are the limits of the classification of the nature of expenses.

If, for example, an entity has employees for the commercial area, others in the administration and others in the research, it will be interesting to know how many resources the commercial area absorbs in comparison with the administration or the research.

These data do not appear in the income statement which classified the nature of expenses, but are generically included under "personal costs".

We have seen that this typology of costs classification (destination of expense) grants more detailed information, but at the same time, it gives a better flexibility and arbitrariness for the entity[30].

How can we demonstrate all this?

IAS 1 demands, the compulsory indication in the balance notes for the composition of the nature of expenses for the costs of sales (amortization, depreciation, electrical energy, etc.). This a limit to the effect of the arbitrary classification and discretion given to administrators to indicate the different economical components.

Therefore the rigid content presents some difficulties together with the different possible interpretations of costs classification.

IAS 1 gives an example[31].

The next analysis has been to check the income statement of the sampled groups in order to verify which classification scheme they have adopted.

Table 13 shows the results.

Table 13: Classification of the costs in income statement.

	No. of groups	**% analyzed groups**
Groups that have classified the nature of expenses	15	60%
Groups that classified the costs for expenses by destination	10	40%
Total	**25**	**100%**

29 Before the application of the International accounting standards these 3 Nations used as unique and possible classification schemes, the nature of expenses.
30 IAS 1, par. 92.
31 IAS 1, par. 92.

This analysis shows a certain equality between the 2 choices.

60% of the cases opts for an income statement which classifies the nature of expenses, while 40% of the case opts for an income statement which classifies the costs for destination.

We have therefore verified if the choice for the classification of the costs could be influenced by the stock exchange.

Table 14: Classification of the costs and quotation market.

	France	**England**	**Italy**	**Germany**	**Spain**	**Total**
Groups that have classified the nature of expenses	3	1	4	2	5	**15**
Groups that classified the costs for expenses by destination	2	4	1	3	-	**10**
Total	**5**	**5**	**5**	**5**	**5**	**25**

The emerging results are interesting.

The choice of classification costs is strongly influenced by the origin Country of the groups: the Groups quoted in the Italian stock exchange, for example, tend to classify the nature of expenses, as well as the Spanish market.

This result must not surprise.

Both Countries, in fact, already before the IAS/IFRS introduction, had adopted as costs classification, the nature of expenses.

They had continued a standard already used before the introduction of International accounting standards.

The opposite is valid for English groups and partially for the German groups, which are more oriented towards an income statement which classifies expenses by function.

This behaviour, too, reflects the post: in fact Germany and England are the unique 2 Countries which have received in their system both schemes of income statement.

Table 14 evidences therefore difficulty to change.

The behaviour of the French groups is remarkable, because though they adopted an income statement which classifies the nature of expenses, by introducing the International accounting standards, they oriented themselves principally towards an income statement which classifies expenses by function.

The reason is that such statement is prepared by most entities for inner informative exigencies. Therefore it is only a question to publish a statement which is already known.

Last paragraph of IAS 1, relevant to income statement, requires further balance information to the reader: *earning per share*[32], which is connected to the Anglo-Saxon matrix of IAS/IFRS.

This information can be supplied by[33]:

- income statement;
- balance notes;
- statement of changes in equity.

Table 15 indicates where the presence of the earning per share is.

Table 15: Presence of the earning per share.

	No. of groups	**% analyzed groups**
Indication of the earning per share in the income statement	25	100%
Indication of the earning per share in the balance notes	-	0%
Indication of the earning per share in the statement of change in equity	-	0%
Total	**25**	**100%**

It is interesting to note that all groups have included the earning per share in the income statement, as requested by IAS 33 – *earning per share*.

3 – Conclusion

From this analysis, it appears that the aim of balance comparability requested by IASB, has been attained, though partially.

Before the IAS/IFRS introduction, in fact, a "normal" skilled investor had not always the necessary information to buy shares quoted in other European Countries, as he needed to know the principles in force in the different States, concerning the financial statements in order to understand the economical and financial position of the companies.

By the introduction of the International accounting standards, as shown by our analysis, a minimal content that allows the comparison among entities of different nationalities, has been guaranteed.

We have seen, in the previous pages (table 8) that 96% of the sampled groups give in their income statement the indication about the profit before tax.

On the contrary, before the introduction of the International accounting standards, the

32 The Anglo-Saxon Countries are oriented towards financial markets. For this reason the main balance user becomes the investor.
33 IAS 1, par. 95.

indication of the profit before tax was compulsory only in Italy and Spain[34].

This is a very important result because the balance reader can get information about the groups' capacity to generate wealth before paying taxed to the State.

This informative capacity is got independently from the entity's area, from the typology of the costs classification used, or from the country of origin.

Finally, concerning the classification of the items in the income statement, the 60% of the groups has opted for the classification for nature of expenses, while 40% for the classification for expenses by function (table 13).

Although these data, the comparability is equally guaranteed by the minimal content of the income statement.

As requested by IAS 1, the minimal content has always been indicated and this guarantees, although with different presentation forms, a comparability among geographically and cultural different entities.

34 See accordingly: M. Campra, Il bilancio in Francia, Germania, Regno Unito, Spagna e Italia, Giuffrè editor, 1998, pag. 730.