

The Interim Financial Statements: The Case of Greece

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Abstract

The following paper refers to the accounting and auditing issues which emerge in the preparation of the interim financial statements of the companies:

Firstly, the interim financial statements are defined as being the financial statements that provide useful information about the financial position and the financial results of a company which are realized and accrued during the fiscal year. The interim financial statements can be prepared on a monthly basis, on a quarterly basis or covering any other time period of the fiscal year. Subsequently, the various problems and difficulties that are faced in the preparation of the interim financial statements are analyzed such as seasonality issues, accruals etc.

Moreover, the provisions of the Opinion No 28 of the APB are thoroughly analysed concerning the relevant accounting issues emerging in the preparation of the interim financial statements. Furthermore, the paper deals with the auditing of the interim financial statements according to the provisions of the Standard No 9 of the FEE coupled with a thorough analysis of the respective auditing practices applied in Greece. Finally, detailed suggestions are put forward aiming at the improvement of the content of the interim financial statements which are prepared by the Greek companies, in order to upgrade the reliability of the information conveyed to the users of the financial statements.

1. Introduction

1.1. The Concept and the importance of the interim financial statements

The annual financial statements of the companies, are prepared and are published a few months after the year and with the upper time limit of five months and ten days from the balance sheet date. As a result, the financial content of the financial statements refer to the past and in some cases are quite misleading, while the users of the financial statements, of the companies need the most timely and contemporary information about the financial position and the developments path of the company. To satisfy these requirements the international practice has accepted and subsequently the law has established the preparation and publication of the Interim Financial Statements.

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The interim financial statements convey information about the financial position and about the financial results of the company resulting during the fiscal year. The IFS can be prepared on a monthly, or quarterly basis or on any other basis in a full or summarised form. It is a common practice to provide comparative figures for the respective fiscal periods.

The difference between the interim financial statements and the year end financial statements is that the IFS provide focus on specific information and are extensively based on accruals. In the interim financial statements there is absence of the detailed information.

Which reflect the total financial status of the company and the reasoning of more complete issues.¹

The aim of the interim financial statements is the periodic supply of current information about significant financial elements, of an enterprise and specifically about its development of sales and financial results.

1.2. Difficulties in the preparation of the interim financial statements

The preparation of the interim financial statements for a period shorter than a year has certain inherent difficulties. In particular the revenues of some enterprises are liable to significant seasonal variations during the fiscal year, while in some other cases the fixed expenses are not evenly spread in the year. The annual cost of operations is not normally distributed in the year and should be spread evenly in order to avoid distortion of the results of the interim financial periods.

According to the provisions of the Auditing Standards No 9, the determination of the operational results of the interim financial periods has certain difficulties especially in companies that:

- experience seasonal fluctuations in their business transactions
- have significant fixed expenses in one fiscal year which affect subsequent fiscal years as well
- undertake disbursements and expenses concerning the entire fiscal year while they are not normally distributed in the year
- have entered in significant long term contracts.

As a result, the presentation of unbiased financial information of an interim financial period is sometimes difficult.

1.3. Aspects on the role of the interim financial statement

The following two views of consideration have been developed in relation with the nature of the interim financial statements:

(a) It is asserted that every interim financial period is a separate accounting period, in other words a fiscal period, and as a result it is believed that the finan-

¹ Refer to Auditing Standard No 9 § 22.

cial results of the interim financial periods should be calculated using the same methodology applied in the calculation of the annual financial results.

According to the aforementioned view the occurrence of the revenues and expenses, the conveyance of the revenues and expenses in the next period and the accruals at the end of the fiscal period should follow the same principles and judgments which are applied in the preparation of the annual financial statements.

(b) Alternatively, it is believed that an interim fiscal period is a part of the annual fiscal period. According to that consideration the insurance of the revenues and expenses, their transfer to the next fiscal periods and the estimations at end of every interim fiscal period are influenced by the estimations made by the middle of the interim fiscal period as well as in the determination of the annual financial results. For instance, an expense which covers the entire accounting period should be allocated between the interim fiscal periods applying appropriate criteria such as the time, the sales volume, the production activity etc. The aforementioned view is adopted by the APB.

2. Interim Financial Statements that are issued from the Greek corporations.

2.1. Which companies are obligated to publish interim financial statements.

The issuance of interim financial statements in Greece has been established by law according to the 82/121 direction of the EU. The corporations whose stocks are traded in the Greek Stock Market are obligated to issue interim financial statements (reports as they are called).

The above corporations «are obligated to publish in Greek semiannual report for their operations and activities, that will be referred in the first 6-month period of each fiscal year» .

From this obligation the Bank of Greece and the Mutual Funds companies are excluded.

2.2. General principles that guide the preparation of the interim reports.

The aforementioned direction of the EU, specifies that the interim financial statements must be prepared in accordance with the following accounting principles:

The periodic statements (reports) that are issued by the corporations must include:

- A brief Balance sheet
- A brief Income Statement and
- Additional data referring to the operations and results of the company

The periodic reports are issued semiannually and so are issued twice a year.

The semiannually reports must have a minimum content which is regulated by law, which is analyzed in the following paragraph 4.3, and which must come out from the company's accounting records.

Revenues and expenses must be organized in such a way that the semiannually results are real. That means that revenues and expenses are disclosed on the

statements after the necessary timing adjustments, that means in the way they will be formed:

- (a) after the elimination of the prepaid expenses and of the unearned revenues and
- (b) after the addition of the accrual expenses and the recognized and collected revenues of the 6-month period

Opposite of every numerical financial item the relative numerical-financial item of the same 6-month period of the previous fiscal year must be reported.

At the end of the table of the numerical-financial data the following must be reported:

The size of the investments into fixed assets that occurred in the 6-month period

The various items that are related with the fixed assets at the end of the 6-month period

The basic accounting principles that were followed for the preparation of the table with the arithmetic-financial data.

2.3. Content of the semiannual reports

The semiannual report includes:

Arithmetic-Financial data and

Comments on the operations and profitability results of the company during the 6-month period this report is referring to

2.4. Comments on the operations and results of the corporations

Every important financial item must be included in the comment, so that the investors, might be able to know the exact situation, and adequately estimate the development on the operations and the results of the company, as well as every special factor that influenced the operations and results during the under examination 6-month period and to permit comparison with the same 6-month period of the previous fiscal year. It must also mention as far as this is possible the forecasted growth of the corporation in the current fiscal year.

2.5. Completion of the company's semiannual report.

If the SEC, considers that the semiannual report the company published has omitted important information, can mandate the publishing of additional information that was not included in the initial published report.

2.6. Audit of the semiannual reports

According to the article of the special regulation (P.D. 360/1985), «if the accounting books and documents have been audited from the legal auditor of the company, the latter's audit report and his possible reservations, are to be published in total with the semiannual report».

From the clauses of this article the following are derived:

- (a) The audit of the semiannual reports is not mandatory for the corporations. Only if they wish they have the opportunity to audit these reports.

- (b) The auditor of the semiannual reports must be the legal auditor of the company, that means the permanent auditor who has been appointed by the company's regular general meeting.
- (c) The audit report must be published in total with the semiannual report. The audit confirmation for the accounting records that are included in the semiannual reports must necessarily be accompanied by the auditor's possible reservations.

2.7. Publication of the semiannual reports

The semiannual report is published within 4 months from the expiration of the 6-month period that is referring to, in one or more daily newspapers with national or high circulation.

In special cases of force majeure, unusual and infrequent events, e.t.c. that can be explained accordingly, the Securities Exchange Commission, after request of the interested company has the ability to extend the publication deadline.

In any case, the company is obligated to deposit at the Greek Stock Market the copy of the report that is going to publish, two days before its publication at the latest. In case that the company has entered its shares in the stock market of another country of the EU, it must simultaneously submit the semiannual report to the authorities of this country.

2.8. Limitation of the businesses obligations

When some of the business obligations that are anticipated in the article of the p.d. 370/1985 are difficult to be implemented in relation to the company's operation and situation, the minister of Commerce, after the suggestion of the Stock Exchange Commission, with his decision, is responsible for making the appropriate adjustments to those obligations.

2.9. Criminal penalties

In the case that the company, the shares of which have entered the stock market, does not proceed in the above mentioned publication, according to the above legal article, or does not follow the regulations of the present, concerning the preparation and the content of the report or does not publish, the additional information, as is established by law, the Minister of Commerce can impose fine proposed by the Administration Committee of the stock market and the Stock Exchange Commission.

3. Criticism and Suggestions for the improvement of the interim financial statements that are prepared in Greece.

3.1. Criticism and suggestions of the interim Financial Statements that are prepared in Greece.

It is globally known that even the annual financial statements that are prepared and published by the corporations in Greece, do not fulfill their proper mission, basically because of the:

- (a) fraud that occurs on the accounting results because of the inflation, that makes the financial statements cemeteries of numbers, that stifle the truth and confuse instead of enlighten the business analysts and
- (b) the intervention of the tax law which changes the accounting principles with a series of regulations and turns the economic situations into tax situations.

So the financial statements in Greece do not constitute the mirror of the corporation that enlightens those concerned for the economic power and its weaknesses, but they only serve the Tax authorities so that they may carry out its audits and enforce the Income Tax.

Since the annual financial statements in Greece do not fulfill their important mission for our economy, to a great extent the semiannual financial statements, in the manner in which they are constructed, and published, are not in anyway useful but on the contrary in most cases they mislead and are harmful. The construction of those statements constitutes a fatigue-duty for the companies and their preparation is mandated by the EU direction. The most important reasons that lead to this deplorable conclusion are the following:

- (a) Detailed accounting principles that rule the construction of the interim financial statements, like those that the APB established and were developed in chapter 3 of the present project, have not been established.
- (b) Semi-annually they are constructed and are published within 4-months after the end of the 6-month period. Therefore, the situation of the second 6-month period almost coincides, with the publishing of the annual financial statements of the company that, despite their inefficiencies, are more complete than the semiannual statements.
- (c) The semiannual statements are not subjected to an audit. So this arbitration and inconsistency that exists in the accounting offices of our country as well, finds suitable ground for development...
- (d) The ministry of commerce, the Stock Market and the Stock Exchange Commission do not pay the appropriate attention to the «semiannual financial reports» of the corporations, since even for the annual reports they pay very little attention.

3.2. What is the solution for the interim financial statements to fulfill in our country our main role.

In order the interim financial statements to achieve their real role in our country as well, which we described above in paragraph 1.1 in our opinion the following measures must be taken:

- (a) It must be established that the construction and publication of the quarterly interim financial statements, should be published within 2 months after the expiration of the quarter they are referring to. Provided that the interim financial statements continue to cover a 6-month period must be published within 2 months after the end of the 6-month period.
- (b) After the mandatory implementation of the General and the Branch Accounting charters in Greece, relative accounting directions that will define the accounts (code numbers) from which every financial item that is reported on the semiannual reports must be published by the National Ac-

- counting Council (E.S.Y.L.). More specifically, the content of the semi-annual bank reports must be revised and adapted according to the Branch Accounting Chart of the Banks that was constructed and was put in obligatory practice (since 1.1.1994), that means on a much later date than the date that Greece was adapted in the 82/121 direction of the EU.
- (c) The National Accounting Council, in cooperation with the scientific council of the Certified Public Accountants, must prepare accounting principles similar to the accounting principles that have been established by the accounting authorities of the developed countries, like those that were established by the APB Opinion 4 and were explained in paragraph 3.2 of the present research and which govern the construction of the interim financial statements that all the corporations that trade their stocks in the stock market must construct.
 - (d) Although even in the developed countries the audit of the interim financial statements, is not mandatory by law, as we will describe in paragraph 4, we think that in Greece where accountancy undergoes influences by the Tax and Commercial Legal regulation the audit and the confirmation of those reports from the Certified Public Accountants that audit the company is necessary, in order for those statements to be unified and trustworthy.

3.2.1. Accounting principles ruling the preparation of the interim financial statements

The APB Opinion No. 28 accepts that the financial results of every period should be based on the accounting principles and practices which are applied by the company in the preparation of the last annual financial statement, unless these accounting principles and practices have been subject to change in the current fiscal period.

However, the APB accepts that it is possible that certain accounting principles and practices applied in the last fiscal year need to be amended in order to ensure the compatibility of the published interim financial results with the annual financial results. The aforementioned amendments are presented below:

3.2.2. Revenues of the interim fiscal period

The cost of sales of the products or the services should be recognised in the interim fiscal period on the same basis with that of the entire annual fiscal year. For instance the revenues from long term construction contracts which are accounted based on the completion percentage method should be consistently determined using that method both in the preparation of the annual and interim financial statements. The accrued losses on these contracts should be fully recognised in the interim fiscal period during which the existence of such losses becomes obvious.

3.2.3. Cost and Expenses of the interim fiscal period

The costs and expenses which are computed in the preparation of the interim financial statements can be classified in the following two categories: *(a)* Costs which are related to revenues and *(b)* costs which are not related to revenues.

3.2.3.1. Cost which are related to revenues

The cost and expenses which are directly related or which are allocated to the sold products or to rendered services in the annual financial statements (e.g. cost of consumed materials, personnel expenses, industrial expenses) should be treated correspondingly in the preparation of the interim financial statements.

However, it is recognised that the methods of calculating the cost of inventories vary. For instance, the production cost could be the historical cost or the standard cost and can be calculated using the weighted average method, FIFO method or LIFO method, etc. Although the companies should apply the same accounting principles and methods in the preparation both for the annual financial statements and the interim financial statements, the following exceptions are accepted in the preparation of the interim financial statements:

- (a)* Certain companies calculate the cost of goods sold using the gross profit margin method or using other methods different from those used in the preparation of time annual financial statements. These companies should disclose the accounting methods used in the preparation of the interim financial statements as well as any significant adjustment made based on the results of the physical inventory count.
- (b)* The companies which apply the LIFO method may reduce their inventories at the date of the interim financial statements, which are expected to increase until the end of the fiscal year. In such cases as presented in the No 1 FD the inventories should not be valued using the LIFO method and the calculation cost should be based on the expected replacement cost.
- (c)* The losses on inventories which are due to price decrease should not be transferred but should be recognized in the interim financial period during which they incurred. The reversal of these losses due to the price increase of the inventories in subsequent interim financial periods of the same fiscal year should be recognized as profits of these subsequent interim financial periods. These profits should not exceed the losses which were recognized during the former interim financial periods.

However, it is accepted that the down turn of the current prices of inventories, which are reasonably expected to recover during the same fiscal year and as a result are considered as temporary, are not necessarily transferred to the income statement of the interim financial period.

- (d)* The companies that use the standard costing for the calculation of the cost of the inventories and the cost of sales are to follow the same procedures applied at the year - end. The differences in purchase prices, in quantities and in the production cost which are expected to recover up to the end of the fiscal period should normally be transferred to the following interim financial periods.

3.2.3.2. Expenses which are not directly related with income generation

The cost and expenses which are not directly related with the sold products or services are charged to the income statements of the interim financial period, provided that they have been incurred and realised during that period or their benefits have been enjoyed or they are related with other activities of the interim financial period.² Specifically:

(a) The procedures which are applied for the computation of the operating cost and of the expenses of an interim financial period should be consistent with the respective principles applied in the preparation of the financial statement of the year.

However, in cases that an expense matches with income of more than one interim financial period such an expense can be allocated between these interim financial periods.

(b) The expenses which occurred in an interim financial period and are not easily linked with forthcoming benefits or with the activities of other interim financial periods should be charged to the period during which they took place. It is required that the amount and nature of these expenses should be disclosed unless expenses of a similar nature are included in the respective interim financial period of the last fiscal year.

(c) The arbitrary charge of an interim financial period with the aforementioned expenses should be avoided.

(d) The profits and losses which ensued from an interim period and are similar to those which are not transferred to the next fiscal year should not be transferred to later interim periods of the same fiscal year.

3.2.4. Adjustment of the expenses at the end of the interim fiscal period

The amounts of certain disbursements and expenses are often adjusted at the end of the fiscal year, although the interim financial statements have been reasonably charged with them.

As far as it is possible, such adjustments should be estimated and the estimated amounts should be recorded in the interim fiscal periods, so that the interim fiscal period to be charged with a reasonable proportion of the expected annual cost. Examples of such amounts are the devaluation of the inventories, the provision for bad debts, the provisions for quantitative discounts and the bonuses paid at year end.

3.2.5. Seasonal Income and Expenses

The income of certain companies is liable to significant seasonal variations. To avoid the possible interpretation of the interim financial results with substantial seasonal differentiation as indicative result of the expected annual financial results, such companies are to report the seasonality of their activities.

² The matching principle aims at the precise calculation of the financial result of the fiscal period. The same principle, according to our opinion, should rule the preparation of the interim financial statements.

Furthermore, in preparation of the interim state the companies with seasonal activities should consider the supply of information of a twelve month fiscal period ending at the closing date of the interim fiscal period of the current year and of the previous years.

3.2.6. Provision for income taxes

The income tax concerning the interim fiscal period should be calculated according to the procedure followed for the calculation of the annual income taxes.

Adapting the provisions of the Board in the Greek Taxation System, we must accept that the accounting differences of the period and a proportion of the annual tax-free reserves which are expected to build up should be taken into account in the calculation of the income tax of the interim fiscal period.

3.2.7. Extraordinary income and expenses Spin-offs

Any extraordinary items (income, expenses, gains, losses) should be individually disclosed and should be included in the financial results of the interim fiscal period during which they occurred, provided that they are significant in relation with the respective annual items.

The consequences of a spin-off and of unusual transactions and events, which have a significant financial result in comparison with the operational results of the company, should be disclosed individually.

Moreover, such issues as unusual seasonal results, business combinations which are accounted as joint ventures and any business acquisition should be disclosed in order to provide the necessary information for the full understanding of the interim financial statements.

The extraordinary items, gains or losses, resulting from a spin off of a business segment and the unusual realized items should not be allocated proportionally during the fiscal year. In other words, such items should be recognized in the interim fiscal period in which they occurred.

3.2.8. Contingencies

Any contingency, which is expected to affect the correct preparation of the interim financial statements, should be disclosed in the same way that is required in the annual financial statements. Such disclosures should be repeated in the interim audit and the annual financial statements until these contingencies cease to exist, are resolved or are insignificant.

3.2.9. Changes in the applied accounting policies

Any change in the applied accounting principles and practices should be disclosed in the interim financial statements.

The changes in accounting practices should be considered in relation with those applied:

- (a) in the respective interim fiscal period of the previous year
- (b) in the previous interim fiscal periods of the current year and

(c) in the preparation of the annual financial statements of the previous fiscal year. The Statement that follows refers to the treatment of the changes in the accounting principles, the accounting estimations and the accounting errors as well as to the related statements of the APB concerning the treatment of such issues on an annual basis.

4. Audit of The Interim Financial Statements According to The International Auditing Standards

4.1. Introduction

In most countries it is not mandatory to audit the interim financial statements, with which the independent auditors are not dealing with .

It is observed however, an increased trend of calling the independent auditors to perform a kind of audit work to these financial statements. For that reason the F.E.E. issued the audit standard 9 « the brief audit of the interim financial statements from an independent auditor», the objective of which is « the description of cases in which the independent auditor can implement methods of a brief audit, in order to express an opinion for the interim financial statements that are going to be issued»

4.2. Extent of the Audit of the interim financial statements

The audit of the interim financial statements is carried out, as a general rule, by the internal auditor of the corporation. The audit is brief and is satisfied with a quick confirmation of the information that is included in these statements.

During this brief audit, more attention is given to the material financial items of the interim financial statements, as well as to several questions like the following:

- If the composition of these financial items, was carried out carefully enough.
- If the accounting treatments are similar to past audit statements.
- If the solutions that were given in difficult accounting issues, seem logical.
- If the financial items that resulted are reasonable in relation with the growth of operations and with the transactions of the current fiscal year, and
- If there is proper reporting

The end result of the brief audit is referring to specialized issues like the ones mentioned above.

4.3. Basis of the brief audit

In case of lack of local legal regulations, the brief audit is usually based on agreement between the auditor and the corporation. Before they end up on an agreement, the auditor who will perform this audit, and the corporation, must take into consideration some important factors for the effective implementation of the procedures of the brief audit of the interim financial statements.

Those are:

The brief audit has usually efficient result for all interested parties, only when the internal operating systems of the corporation have developed properly and are under control. If the auditor, either before the beginning of such an audit, or during its execution, finds out that the management and accounting systems he is interested in are inadequate, he should examine whether it would be beneficial for himself or for the corporation to proceed with the brief audit.

The auditor, who undertakes the brief audit, should have adequate knowledge of the corporation and the assignor-client. He must have audited the latest annual financial statements or he must have the available outcome of the previous auditor, that resulted from the audit of the information systems and the internal control. In addition the auditor should also have audited and be aware of additional issues that are related to the preparation of the interim financial statements.

Before the beginning of the brief audit, the auditor must agree with the top management of the corporation on the following issues, which will be included in a letter of acceptance for the audit:

Framework of the audit:

Timetable: The auditor must have adequate time for the execution of a suitable work schedule (with the possibility to be extended in several cases), as well as for the presentation of the audit result before the publication of the financial statements.

Documentation: He must have access to full data that support the interim financial statements, so that his audit is not continued to the examination of individual financial items, as if they were self-contained and independent from each other.

4.4. Procedures of the brief audit

The kind of procedures that must be followed by the auditor during a brief audit varies, and depends on his personal evaluation of what is important from the point of view of operations and accounting systems of the corporation in relation with the interim financial statements. If brief audit is to be carried out effectively the aforementioned evaluation and selection of the suitable procedures are very important factors.

The following procedures must, normally, be considered as the minimum that the auditor must execute during the brief audit, while an additional investigation must be conducted whenever this is considered necessary:

- Evaluation of the issuance procedures of the interim financial statements for the confirmation that these procedures are suitable for the compilation of fundamental financial information of interim nature.
- Confirmation that the reported financial items of the interim financial statements result from the accounting records
- Critical review of the interim financial statements and the financial data on which these statements are based. This review includes comparisons with similar financial items of previous fiscal years, as well as, with other published data, and also with internal financial data (e.g. budgets and provisions for the remaining fiscal year). During this critical review the financial

ratios, that result from the interim financial statements, as well as other relevant data and issues that were under accounting corrections of prior fiscal years are examined.

- Reading of the minutes that are written during the normal meetings of the shareholders, the directors, e.t.c., in order to discover actions or developments that could affect the preparation of the interim financial statements.
- Examination of the interim financial statements and the supporting items for the confirmation that the information that will be presented is based on the generally accepted accounting principles and that these principles are similar to the lately audited financial or accounting statements.
- Investigation with questions to the company's executive employees and receipt of confirmation letters from the management for topics such as, the implementation of standard and generally accepted accounting principles for the preparation of the interim financial statements, changes in business operations, alterations in the internal control system and financial events that took place after the formal date that the interim financial statements are finally issued.
- Execution of the above procedures in business operating areas that the auditor considers as necessary, including the receipt of audit reports from the auditors of other business departments.

4.5. Audit report

The auditor that performs the brief audit, after discussing his findings with the administration, should submit his audit report in written form to the Board of Directors, in which he should mention the frameworks of the audit and his results, as well as any corrections that he considers as necessary before the issuance of the interim financial statements.

He must also declare that he has not performed a full audit and, for this reason, he is not in the position to certify the interim financial statements overall. The suggested type of the audit result is disclosed, in general, in the attached annex.

In order to avoid any probable confusion of the audit report of the brief audit with the standard audit report, the report of the brief audit is preferably not to be published. In these cases the auditor who performed the brief audit must not permit the involvement of his name with the published interim financial statements. However, in case the report of the brief audit is published, it should also be secured that for the users of the interim financial statements that these statements have not been audited in full and that the attached brief audit report is not the standard audit report.

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