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Underlying profits of FTSE 100 exceed IFRS figures

by Richard Crump 19 Feb 2014

NON-FINANCIAL FTSE 100 companies are subjectively reporting exceptional items, which can give investors a misleading impression of the financial health of the company, Standard & Poor's has said.

According to the rating agency's study of non-financial FTSE 100 companies' last four years of financial reporting, underlying earnings have been presented that exceed the equivalent audited and unadjusted figures in almost three-quarters of cases.

The net result is that a company's profitability can appear higher than is the case when reporting under IFRS, S&P said.

"Companies reporting under IFRS frequently separate exceptional items they believe are non-operating or nonrecurring to produce adjusted or underlying earnings information that purports to better reflect business performance," said Standard & Poor's accounting specialist Sam Holland. "Taking underlying earnings without taking into account the nature of the exceptional items that a company has excluded can sometimes give a misleading picture of its earnings and future performance.

"The presentation of underlying earnings can lead users of financial statements to focus on companies' subjective, adjusted profit measures, rather than on the unadjusted, audited figures that the IASB mandates companies to disclose."

S&P added that more prescriptive and specific guidance is required to help auditors scrutinise underlying earnings and exceptional items.

"Where such financial metrics are disclosed, we would prefer them to be incorporated into the financial statements to elevate the level of audit assurance," S&P said.