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Problems in the Re-classification of the Balance Sheet as Part of an Integrated Information System

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Abstract: The integrated information system is an IT and information structure that includes financial reporting and management control analysis. This system requires that each accounting item is linked to every other object. In the integrated information system, it is also necessary that each item has a unique meaning. Therefore, it is impossible to have several implications or several accounting items with special meanings.

The reclassification of the balance sheet in an integrated information system requires the adoption of an extraordinarily complete and exhaustive scheme. All this is indispensable for implementing a balance sheet/budget analysis that can be useful to company management for the implementation of a decision-making process that maximises management and decision-making efficiency and effectiveness.

The correct reclassification of all balance sheet and financial items sometimes requires reasoning that does not always appear linear and straightforward. For this reason, in the following pages, we will analyse the balance sheet items that, in general, are the precursors of reclassification errors that can invalidate the entire analysis of the balance sheet and the balance sheet budget.

What steps to take to perfectly reclassify a balance sheet

To reclassify a balance sheet perfectly, without errors, must go through three precise steps:

1) Identify the most appropriate reclassification structure to provide information to the financial reporting analyst. The form must be structured so that the sub-aggregates are highly significant and helpful for the financial, equity and earnings analysis to be carried out. For the analysis to be carried out correctly, the financial reporting, the cash flow statement, the management control, the ratios analysis, the flow analysis on both actual and planned data must form an integrated information system. That is, all accounting data must be linked to each other, each value must have a unique meaning, and several deals can't have the same title;

2) Provide a very detailed explanation of the potential content of each sub-aggregate. Failure to identify this content can render the reclassification meaningless as it can lead to fatal errors in the re-grouping and reclassification of the accounting values;

3) Identification of financial reporting items that could easily be misplaced while providing the correct location.

STEP 1°: The reclassification of the balance sheet from an integrated information system perspective.

From the point of view of an integrated information system, the reclassification scheme of the balance sheet and the balance sheet budget must be very structured and complete to guarantee an in-depth examination of the company's balance sheet and financial situation, and simplified structures do not allow. Generally, the forms proposed by academics are simplified to facilitate the analyst's work. This is not acceptable because such simplification makes a complete, exhaustive and, above all, reliable analysis of financial reporting impossible.

The reclassification scheme of the balance sheet and the balance sheet budget of the integrated information system must be structured as follows:

RECLASSIFICATION SCHEME BALANCE SHEET/BUDGET BALANCE SHEET IMPLEMENTED AS PART OF AN INTEGRATED INFORMATION SYSTEM.

ASSETS	31/12/N	LIABILITIES AND EQUITY	31/12/N
SHORT-TERM ASSETS		**SHORT-TERM LIABILITIES**	
1. Immediate liquidity 2. Deferred liquidity * Trade receivables * Financial liquidity * Tax-deferred income * Non-characteristic deferred income 3. **Availability (**inventories) 4. **Short-term assets non-characeristic** 5. **Advances to trade suppliers**		**1. Short-term financial liabilities** **2. Short-term tax liabilities** **3. Short-term non-financial liabilies**	
LONG-TERM ASSETS		**LONG-TERM LIABILITIES**	
1. Long-term tangible assets **2. Long-term intangible assets** **3. Long-term credit assets** **** Trade accounts receivable*** **** Financial assets*** **** Tax assets*** **** Non-typical accounts receivable*** **4. Long-term assets non characteristic**		**1. Long-term financia liabilities** **2. Long-term tax liabilities** **3. Long-term non financial liabilities** **EQUITY**	
Stand-alone items		**Stand-alone items**	
NET ASSETS		**BALANCE TOTAL**	

STEP 2°: Identificazione del corretto significato di ogni sub-aggregato e individuazione del potenziale suo contenuto

As shown in this structure, we have not used the term "fixed assets" but rather "long-term assets". As already pointed out in the previous pages, the choice is not accidental because the concept of fixed assets differs substantially from that of long-term assets. The fixed asset is the value that is used on a long-term basis in the company's economy. However, this does not preclude that, at a given moment of its life, the value itself, although fixed, is a short-term item (e.g. financial receivables with a ten-year maturity in the last year of the receivable life).

To clarify the exact meaning of the micro-aggregates mentioned above, the contents of the individual aggregates are listed below.:

- immediate liquidity includes everything that is already cash and cash equivalents;

- by definition, deferred cash includes only and exclusively short-term receivables. The subdivision of this aggregate into four micro-aggregates (commercial, financial, tax and non-characteristic) is necessary to determine a series of income and financial ratios: deferred commercial liquidity substantially includes all short-term trade receivables net of the allowance for doubtful accounts; deferred financial liquidity includes all short-term financial receivables; tax-deferred liquidity includes all short-term tax and social security/assistance receivables; non-characteristic deferred liquidity consists of all future revenues (realisable within 12 months), not already included in previous aggregates, which have the characteristic of not being considered part of the company's typical operations. This is the case, for example, of receivables related to the sale of long-term assets. It is evident that this receivable cannot be included in the typical business activity (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;
- short-term assets non-characteristic comprise all accounting items held for capital purposes such as securities/shares had with a view to their sale within the next financial year;

-Availability equivalents are the total inventories of the enterprise;

- tangible long-term assets comprise everything that will provide the company, through the start-up of the production process, with income in the long term and that, at the same time, is endowed with physicality;

- Intangible long-term assets, on the other hand, consist of everything that will provide the company with long-term income through the start of the production process, but which, at the same time, is not physical;

-long-term credit assets include only and exclusively long-term loans. The subdivision of this aggregate into four micro-aggregates (commercial, financial, tax and non-characteristic by definition) is necessary to determine a series of income and financial ratios: the long-term commercial credit asset includes all long-term trade receivables net of the allowance for doubtful accounts; the long-term financial credit asset includes all long-term financial receivables; the long-term tax credit asset includes all long-term tax and social security/welfare receivables; the long-term non-characteristic credit asset by definition consists of all future revenues (realisable beyond 12 months), not already included in previous aggregates, which have the characteristic of not being able to be considered as belonging to the company's typical operations. This is the case, for example, of receivables related to the sale of long-term assets. It is evident that, by theoretical definition, this receivable cannot be included in the typical business activity (otherwise, the receivable would be from customers). For this reason, it can be included in this sub-aggregate;

- long-term assets comprise long-term items that identify capital investments. Examples of such things may be civil buildings and securities and participations held not for speculative purposes but as a long-term investment in the company;

- stand-alone items It should be noted that it is only in the context of the integrated information system that an element is highlighted that is, in fact, fundamental for the implementation of a correct balance sheet analysis and whose failure to be taken into account may lead to the determination of aggregates without financial significance. In addition to the aggregates indicated above, it is desirable to include a further category of items in the capital employed and in the total sources, defined as "stand-alone items", which identifies a set of items which, although they must be recognised in the reclassification for accounting balancing reasons, in reality, will not be transformed into future income or expenditure. An example of such an item is the amount of a provision for future expenses or tax provision that, following specific elements (e.g. court decisions, tax commission decisions, etc.). However, it cannot be eliminated from the accounts due to the principles of prudence and accrual; it can be reasonably assumed that, in the following financial year, it will be transformed, for accounting purposes, into an extraordinary item and not

into a future expense or income (separate item in the assets). An example of an item that should be recognised in different entities in debt is the amount of the tax advance that exceeds the tax liability that can be offset and will be offset in the future. This amount does not identify a lower expense recognised in the financial statements (the debt has not yet been created), nor is it considered future income. For this reason, it should be recognised as a separate item in the reclassified balance sheet, an aggregate that, as noted above, is part of the concept of the net asset or net capital employed (i.e. the reclassified total assets).

-short-term financial liabilities include all financial liabilities that will result in a cash outflow within one year; short-term tax liabilities include all tax and social security/social security liabilities that will result in a cash outflow within one year; short-term non-financial liabilities include all non-tax and non-financial liabilities that will result in a cash outflow within one year;

-long-term financial liabilities include all debts of a financial nature that will result in monetary outlays beyond one year; long-term tax liabilities include all debts of a tax and social security/social security nature that will result in monetary outlays beyond one year; long-term non-financial liabilities include all debts of a non-tax and non-financial nature that will result in monetary outlays beyond one year;

-shareholders' equity is interpreted as the company's wealth that will essentially result in the company's final exit. It is only when the company is put into liquidation that equity will become a future output;

-stand-alone items: see the considerations made about stand-alone items above. Naturally, items under liabilities are found in assets: an example of such an item is the amount of advances from customers received in connection with a contract that is about to be terminated and for which no reimbursement is expected. This item will become a contingent asset the following year, and, therefore, there is and will be no monetary movement. For this reason, the item must be recognised in a separate aggregate, separate from the items that will undoubtedly become cash outflows or receipts in the future.

STEP 3°: Balance sheet and financial items with high reclassification issues

In the face of this structure, there are items in the financial statements that can mislead even the most experienced analyst. In the following pages, we will identify such items and highlight the correct placement of the items that cause such potential misunderstandings.

It is crucial to analyse these balance sheet items to avoid errors that could distort the entire financial reporting analysis.

RECEIVABLES FROM SHAREHOLDERS FOR CAPITAL SUBSCRIBED BUT NOT YET PAID UP

At a superficial analysis, it might seem appropriate and correct to include the receivable from shareholders for payments still due in the micro-aggregates within which financial and trade receivables are included. However, such a reclassification suffers from a fundamental error caused by the lack of knowledge of the integrated system of analysis proposed in this work.

In fact, the receivable from shareholders for capital subscribed but no yet paid up must be included in the shareholders' equity, as a deduction of the items that make up this aggregate. The main reason for this recognition, which, at first sight, may appear excessively prudential - as the deduction in equity could be interpreted as the recognition of substantial illiquidity of the receivable - is related to the dual role played by the balance sheet in the analysis of the financial statements. In fact, balance sheet values represent the data on which the company's income analysis is also based.

To correctly understand the reasons why should deduct the receivables we are interested in should be deducted from the shareholders' equity, consider the following hypothesis:

Shareholders Capital 5,000

profit 3,500

receivables from shareholders for payments still due 3,500

Based on these values, if the analyst adheres to the thesis that considers it correct to recognise the credit as an asset (short or long term), the determination of ROE (net income/net equity) would lead to a result 3,500/8,500= 41.17%.

However, this profitability appears to be heavily compromised by a fundamental theoretical error: the concept of profitability requires that income be related to the capital that produced that profit in actual terms.

In the above calculation, the denominator of 8,500 includes the payment made by the partners (1,500) and a "virtual" sum that the partners have only "promised" to pay and that has not yet been used in the business.
This circumstance means that the remaining sum of 3,500 (value of shareholders capital net of payments = receivables from shareholders .) represents unpaid contributions about which the calculation of profitability appears misleading.
The correct positioning of the item would prevent such a technical error. If the shareholder receivables are deducted from the shareholders' equity, the ROE will rise to 70% (3,500/5,000), which would show the actual return on the shareholders' contributions.
It should note that both the IAS/IFRS and the US GAAP have identified this solution as the best in the field of internal communication to managers and corporate accounting information implemented externally through public financial statements.
The solution proposed here "sacrifices", to a small extent, the need to have a "perfect" picture of the static financial situation. If it is inevitable, for example, that the shareholders will pay the credits within two months from the closing of the accounts, the inclusion of this item in the net assets (as a deduction) underestimates the amount of the short-term assets. If, on the one hand, this is true, on the other hand, it should be noted that financial ratios, in reality, represent only a tiny (and deficient) part of the financial analysis tools. As will be seen in the chapter dedicated to this problem, while the income ratios can give a complete view of the company's situation, the so-called financial indicators, necessarily, must be completed by the determination of flows which, as will be shown in the following pages, have, in the field of financial analysis, a much higher informative relevance. This circumstance is because financial indicators are characterised by intrinsic shortcomings that can overcome only and exclusively through the complementary interpretation of liquidity flows (or, to a lesser extent, of working capital).
Based on these reasons, it is deemed correct, with specific regard to the item in question, to "sacrifice" the purely financial aspect to avoid calculating financial ratios that are significant in themselves but intrinsically lacking and income ratios tainted by a fundamental error that makes them unusable to carry out a proper study of the company's economic situation.
It is evident that if the only objective of the reclassification of the balance sheet is to determine the financial indicators, it is possible to accept the inclusion of receivable from shareholders for capital subscribed but no yet paid up in the short-term assets or the long-term assets. In any other case, however, for the reasons set out above, such a re-grouping is not acceptable, as it would invalidate the entire income ratios (the only instrument of economic analysis).

CORRECT PLACEMENT OF ACCOUNTING ITEM

the receivable from shareholders for capital subscribed but no yet paid up : deduction of equity

CLAIMS WITH A DEFERRAL PERIOD OF LESS OR MORE THAN ONE YEAR

It is often noted that deferral is considered an essential factor in the proper classification of loans. There has been a tendency to include loans with a maturity of less than one year in deferred cash and loans with a maturity of more than 360 days in long-term financial assets in the field.
The reclassification of loans based on the duration of the loan may, however, lead to the determination of insignificant aggregates. Accounts receivable should be allocated based on the maturity of the loans and not based on their extension.
Assume, for example, that a receivable is due in 900 days and that the financial statements being analysed relate to 2009. The misinterpretation of the concept of deferment frequently leads to the reclassification of this item under long-term assets (financial or commercial, depending on the type of receivable). Such a classification could be profoundly mistaken if the receivable, in the re-grouped financial statements, is due within 12 months.
Correct reclassification requires knowledge of the period in which the receivable arose. If, for example, the receivable arose as a result of a negotiation concluded on 3 January 2009, the receivable, having a long-term maturity (after 31/12/2010), should be included under long-term assets.
If the receivable arose on 3 July 2007, even though it has a deferred maturity of 900 days, it should be recognised in deferred cash since the collection is expected three days after the closing of the balance sheet under analysis.
This simple case shows how the knowledge of the mere deferral is not helpful for reclassification purposes. This value, necessarily, must be supplemented by the information of the due date or the identification of the day on which the account was created. In the absence of such disclosure, it is not possible to correctly reclassify this item.

Therefore, the deferral can never be used for reclassification purposes unless it is less than one year.

In this case, the receivable, having a short-term deferral, can only be due within the next financial year, regardless of the date on which it arose. In the case of a shorter period of grace, therefore, it is possible to omit information about the time the receivable arose and focus solely on the length of the period of grace granted to the debtor.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Trade receivables due in less than 12 months: deferred liquidity, trade deferred ;
Financial receivables due in less than 12 months: deferred financial liquidity;
Miscellaneous receivables with less than 12 months' deferral: non-characteristic deferred liquidity by definition;
Financial receivables with a delay of fewer than 12 months: deferred financial liquidity; Miscellaneous receivables with a delay of fewer than 12 months: non-characteristic deferred liquidity
Financial receivables due in over 12 months: deferred financial liquidity if due within 12 months, long-term financial assets in other cases;
Financial receivables with a grace period of more than 12 months: non-characteristic deferred cash if due within 12 months, long-term financial assets in other cases;

PROVISION FOR UNCOLLECTIBLES

The provision for uncollectibles is a typical adjustment to asset values. Its recognition in the non-reclassified balance sheet in the assets section is exclusively due to the accounting consequences of applying the double-entry method. The circumstance that it represents a "passive" item does not imply that, against the provision, there is a debt, but rather that this account is recorded as an asset only because it indirectly adjusts an item recorded in debit (trade receivables).
For this reason, it is easy to understand why the provision for uncollectibles should be recognised as a deduction for trade receivables. Since these receivables may be part of trade deferred cash or long-term trade receivables, it is clear that the provision should be deducted from these aggregates depending on the type of receivable for which the provision was created.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Provision for uncollectibles: as a deduction from trade deferred and/or long-term trade credit assets

ADVANCES FROM CUSTOMERS

One of the most frequent mistakes made by inexperienced analysts is to place advances from customers as a deduction in the item customer receivables.
This is due to a misinterpretation of the item. Advances do not represent, as the provision for uncollectibles does, an adjustment to receivables already recorded in the accounts, but rather an item that, in the event of successful contracts, will result in a reduction of future receipts (compared to the value shown on the invoice) deriving from the sale of products or services.
The inherent error in recognising advances as a deduction from customers is easily understood by considering this example:
1/10 collection of advances from customers for 100 + VAT: recognition of advances in Co.ge. for a value of 100
20/10 sales invoice issued in connection with the previous advance for 1,000 + VAT: recognition, in Co.ge., of revenue for 1,000 with the closure of the advance account and simultaneous recognition of the receivable from customers for an amount equal to revenue (1,000) + VAT (180 or 20% of 900) - advances (100). The receivable from customers is credited in the amount of 1,080.
From this simple example, it is clear that the presence of an advance from customers in credit is incompatible with recognising the related trade receivable in debit. If the advance exists, the receivable from customers cannot have been opened yet while, on the contrary, the existence of the trade receivable implies that the advance account has been closed. For this reason, advances from customers cannot relate to trade receivables recognised on the debit side and, consequently, can never be deducted from deferred trade cash or long term trade receivables.
From an analysis of financial statements reclassified for analytical purposes, it can be seen that another persistent error is the recognition of advances from customers in either short-term liabilities or long-term liabilities.
This is not always the case. Advances from customers represent an item whose reclassification requires an analysis of the contracts linked to the advance.

For the reclassification to lead to the determination of significant aggregates, it is necessary to distinguish advances according to whether the contract to which they refer is assumed to be successful or, on the contrary, is subject to potential termination and cancellation. Secondly, it is necessary to consider certain peculiarities of individual cases. If the advance relates to contracts that are due to expire, a distinction must be made between the point of passages about tangible goods and those relating to services. If, on the other hand, the advance was paid by customers whose contracts are supposed to be terminated, it is necessary to subdivide the advances according to whether there is an obligation to repay the amount paid by the debtor.
This subdivision of advances is necessary because each type of advance corresponds to a specific reclassification. In particular:

A 1) Advances from customers in connection with contracts subject to hypothetical future termination or cancellation with a right to repayment of the amount paid must be reported under short-term non-financial liabilities if repayment to the customer is expected within the next financial year or under long-term non-financial liabilities if repayment is expected beyond the following year.

A 2) However, advances from customers in connection with contracts that are subject to hypothetical future termination or cancellation without a right to repayment of the amount paid cannot be included in short-term or long-term liabilities as these advances will not become future expenditure precisely because of the absence of the customer's right to repayment.
Since the retained advance will be transformed into contingent assets, whose monetary income has already occurred previously (at the time of recognition of the advance itself), the item in question is characterised by the absence of future impact on the cash/bank. Therefore, the advances from customers being analysed will result neither in future income nor in future expenditure. For this reason, to avoid that the reclassification leads to the determination of non-significant aggregates, it is deemed appropriate to record this item under sources, taking care, however, not to include it in any of the aggregates making up the liabilities side of the balance sheet. Therefore, even though these advances are part of the sources, they are not included in the short-term liabilities, long-term liabilities or shareholders' equity. They, therefore, constitute a separate item, the recognition of which in the reclassified balance sheet is necessary to reconcile needs and sources.

B 1) Advances from customers related to contracts that are not subject to hypothetical future termination and cancellation concerning the supply of goods with materiality cannot be included in the short or long term liabilities as they will not result in future expenditure.
Nor can this item be recognised, with a negative sign, in the accounts receivable from customers. When the sale of the products is recorded, the payable item "advances from customers" is eliminated, without giving rise to any disbursement, to show in the accounts the residual receivable from customers and therefore net of what has already been paid.
Advances from customers related to contracts that are not subject to hypothetical future termination and cancellation, on the other hand, must be deducted from liquid assets.
In this regard, it should be noted that inventories are included in short-term assets because it is believed that the sale of the inventories will generate income at least equal to the balance sheet valuation of the inventories. However, suppose the customer has already made a down payment. In that case, the cash inflow from the sale of inventory will be at least equal to the carrying amount of inventory, less the customer's down payment.
The situation may be more problematic if the amount of the down payments exceeds the value attributed to the stock (which is particularly unusual). If this is the case, the amount of the down payments up to the value of the stock itself must be deducted from the stock. For the excess, the same considerations as above apply as regards advance payments from customers in connection with contracts subject to hypothetical future termination or cancellation without the right to a refund of the amount paid. Also in this case, due to the impossibility of recording the item within the assets and liabilities aggregates described above, the item should be recorded within the sources, taking care not to include it in any of the aggregates making up the liabilities side of the balance sheet. Therefore, even if these advances are included in the sources, they will not be included in the short-term liabilities, long-term liabilities or shareholders' equity. Therefore, they will constitute a separate item, the recognition of which in the reclassified balance sheet is necessary to reconcile needs and sources.
B 2) Advances from customers related to contracts that are not subject to hypothetical future termination and cancellation for the supply of services cannot be included in short-term or long-term liabilities as they do not represent future expenditure.
The fact that the services to which the advances refer cannot be recognised as assets makes it impossible to deduct them as inventories.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Advances from customers related to forward contracts where the product on the account is a physical good: deduction from inventories;
Customer advances related to forward contracts where the product paid on account is a service: separate item in the reclassified balance sheet;
Customer advances related to contracts with a potential for cancellation/termination where there is no obligation to repay: separate item on the asset side of the reclassified balance sheet;
Advances from customers related to contracts that are potentially subject to termination/rescission in connection with which there is an obligation to repay: short-term non-financial liability if repayment is due within 12 months, long-term non-financial liability in other cases.

PROVISION FOR VOUCHERS AND PREMIUM COMPETITIONS

The location of this item varies depending on whether:
1) the premium consists of the supply of goods produced by the company;
2) the vouchers does not consist of the supply of goods produced within the company, and it can be assumed that customers/third parties will request the prizes
3) it can be assumed that the premium, the value of which has been set aside for this purpose, will not be claimed.

Suppose the object of the premium is goods produced by the company itself, for the same reasons as those given for the advance payment from customers related to goods with materiality. In that case, the provision must be deducted from the closing stock and, therefore, must be deducted from the availability.

If, on the other hand, the premium does not consist in the supply of goods produced by the company, it is necessary to reclassify the provision taking into account the period in which the monetary outlay deriving from the purchase of the goods/services in question is expected. In this case, the portion that is expected to be paid within the next financial year should be reclassified as a short-term liability. At the same time, the remainder of the provision should be classified as a long-term liability.

Finally, it is possible that it can be reasonably assumed that the premiums for which the provision has been set aside will not be claimed by customers or hypothetical third party recipients of the gift. In this case, the provision would become a contingent asset in the future. This round-trip would have no impact on the company's receipts or payments. For this reason, if it is assumed that the fund is not to be used, it is necessary to recognise the item (or part of it) as a separate item on the asset side of the reclassified balance sheet.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Deduction of inventories if the award consists of goods produced by the company;
Non-financial short-term liability if the premium is of another kind and is to be delivered shortly;
Non-financial long-term liability if the premium is of another kind and is to be delivered in the long term;
Separate item if it is assumed that customers/third parties will not claim the premiums.

PRODUCT WARRANTY PROVISION

The location of this item varies depending on whether:
1) the replacement/warranty item is in inventories;
2) the replacement/warranty item is not in stock and is expected to be purchased within or beyond the next 12 months:
3) it can be assumed that, at least in part, the hypothetical replacements subject to a particular provision will not be requested.

Suppose the replacement/guaranteed goods are held in inventories, for the same reasons as those given for advance payments from customers in respect of tangible goods. In that case, the provision must be deducted from closing stock and, therefore, must be removed from liquid assets.

Suppose the replacement/warranty item is not in inventory and is expected to be purchased within or beyond 12 months. In that case, the allowance should be reclassified to reflect the period over which the cash outlay for the replacement parts is expected. In this case, the portion of the provision that is expected to be paid within the next financial year should be reclassified to short-term liabilities. In contrast, the remainder of the provision should be placed under long-term liabilities.
Finally, it is possible that it can be reasonably assumed that, at least in part, the assumed replacements subject to a specific provision will not be requested by customers. In this case, the provision would become a contingent asset in the future. This reversal would have no impact on the company's receipts or payments. For this reason, if it is assumed that the provision is not to be used, the item (or part of it) should be recognised as a separate item in the reclassified balance sheet.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Deduction of availability (i.e.inventories) if the replacement/warranty is in stock;
Non-financial short-term liability if the replacement item is not in inventory and is expected to be purchased within the next 12 months;
Non-financial long-term liability if the replacement good is not in stock and is expected to be purchased within the next 12 months;
Non-financial long-term liability if the replacement item is not in stock and is expected to be purchased within the next 12 months;
- Separate item if it is assumed that all or part of the product warranty provision will not be used.

PROVISIONS FOR RISKS AND CHARGES (OTHER THAN PRODUCT WARRANTY PROVISIONS AND PROVISIONS FOR VOUCHERS AND COMPETITIONS)

Provisions for risks and charges are increasingly common in medium-sized companies. Consider, for example, the provision for pending litigation, which, from an almost unknown item in the past, has become a very present item in the financial statements of companies that, directly or indirectly, have relations with consumers and other protected parties. While, therefore, in the past, the relevance of these accounting items was reduced. Today, it can say that the provisions for risks and charges identify prevalent items in the Italian business reality. Therefore, their correct positioning appears to be an essential operation for the results of the analysis to be significant and valid. Provisions for risks and charges are often automatically included in long-term liabilities in the mistaken belief that the future outflow must occur in the long term. This is not always correct. First of all, it should be remembered that provisions for risks and charges represent potential liabilities that identify situations that already exist but have a pending outcome because they will be resolved.
Accounting principles identify a "contingency" as a situation, condition or event existing at the date of the financial statements, characterised by a state of uncertainty, which, if one or more future events occur or fail to occur, may result in a loss (or in a gain if the contingency is active) confirming the creation of a liability or a partial or total loss of an asset, or the acquisition of an asset or the reduction of a liability. Provisions for future expenses, on the other hand, identify a potential future outflow that has been recognised as a liability in the accounts to comply with the accrual basis of accounting.
Also, for these items, the general principle applies that in cases of a disbursement within 12 months, the provision created must be indicated in the non-financial short-term liabilities. In other cases, must recognise the item in the non-financial long-term liabilities.
Suppose at the end of the reporting period; it can reasonably assume that the risk or expense covered by the provision will not materialise, resulting in a future reversal of the provision. In that case, the liability should be recognised as a separate item on the liability side of the balance sheet.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Provisions for risks and charges: short-term non-financial liabilities for the portion of the presumed outlay expected to occur within 12 months, long-term non-financial liabilities for the remainder of the amount involved.
The provision for risks and charges: non-financial short-term liabilities for the portion presumed to be paid out within 12 months, non-financial long-term liabilities for the remainder of the amount involved.
The item should be recognised as a separate item under liabilities if a future reversal of the provision can be assumed as contingent assets.

MUTUO E BONDS PLURIENNALI

Since the financial reclassification of the balance sheet assumes the recognition of debts based on collectability, the multi-year loan and the bonds must, necessarily, be split into two tranches:

1) portion of repayment to be made in the following year: it must recognise this part of the debt under short-term financial liabilities;

2) residual debt: the residual debt must instead place under long-term financial liabilities.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Mutuo plruiennale and bonds pluriennali: quota oggetto di rimborso entro 12 mesi nel passivo a breve finanziario, il rimanente del passivo a lungo finanziario.

DEBITI CON DILAZIONE INFERIORE O SUPERIORE ALL'ANNO

It is often the case that deferment is considered an essential element in the correct classification of debts.
Classification of debts. Research in the field has shown a tendency to include obligations with a payment period of less than one year in short-term liabilities and debts with more than 360 days in long-term liabilities.
The reclassification of payables based on the loan duration may, however, lead to the determination of insignificant aggregates.
The allocation of accounting items must be made based on the maturity of the debts and not on their deferment.
In addition, in some cases, receivables are reclassified based on their average duration.
This behaviour is even more misleading than the previous one because it considers an irrelevant element (the duration of the receivable rather than its maturity) but focuses attention on a duration that derives from the calculation of an arithmetic average of the extensions of the extensions of the the individual receivables.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Trade payables due in less than 12 months: short-term non-financial liabilities;
Financial payables due in less than 12 months: short-term financial liabilities;
Miscellaneous payables due in less than 12 months: short-term non-financial liabilities;
Trade payables due in more than 12 months: short-term non-financial liabilities if due within 12 months, long-term non-financial liabilities in other cases;
Financial payables due in more than 12 months: short-term financial liabilities if due within 12 months, long-term financial liabilities in other cases;
Miscellaneous payables due in more than 12 months: non-financial long-term liabilities due within 12 months, non-financial long-term liabilities in other cases.

FINANCING FROM SHAREHOLDERS

The correct reclassification of loans from shareholders requires a preliminary analysis of the actual nature of the item.
The actual nature of this item may be similar to that of share capital.
If the shareholders' loans do not represent, at a substantial level, a debt but a capital contribution, this item must be included in the shareholders' equity.
If, on the other hand, the loans are not only legal but also "economic-management" debts, the reclassification must take into account the maturity of the repayments: the part collectable by the shareholder within one year must be placed under short-term financial liabilities; the remainder must be placed under long-term financial liabilities.

CORRECT PLACEMENT OF ACCOUNTING ITEM

If the shareholder loan constitutes equity in substance, the item shall include in equity. In all other cases, the portion to be repaid within 12 months must be included in short-term financial liabilities and the remainder in long-term financial liabilities.

DEBITI TRIBUTARI

Tax liabilities are normally due in less than 12 months. For this reason, this item should generally be included in short-term tax liabilities. If, however, by agreement with the government or as a result of legal requirements, the payment of taxes can be deferred into the period after the short term, the liability should be recognised as a long-term tax liability.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Tax payables due within 12 months: short-term tax liabilities
Tax payables due after 12 months: long-term tax liabilities

ADVANCE TAX PAYMENTS

This item is often mistakenly reported under deferred tax assets or long tax assets. Such a reclassification is not always acceptable and leads to the determination of non-significant aggregates since the advance payment of taxes will not be transformed (except in the hypothesis that we will analyse later) into an income of money but will be translated into a lesser expenditure of cash compared to what is shown by the item "tax payables".
For this reason, the advance payment of taxes must be recognised, as a deduction of the tax debt, within the short-term tax liabilities with a negative sign. If non-tax liabilities are offset, the advance payment should be deducted from the non-financial liability.
If the advance payment exceeds the total tax liability, the reclassification should be carried out differently. Since the tax legislator has decreed the "liquid ability" of any excess of the credit over the tax debt, if the taxpayer decides to have the credit refunded, the quantity of the advance payment over the debt should be included in deferred tax assets if it is assumed that the collection can take place in the following financial year, or long-term tax assets in other cases. If, on the other hand, the taxpayer opts for a subsequent set-off of the receivable against debts arising in the following year, the excess will become a separate asset since it represents neither a future receipt (and therefore cannot be included in the long-term or short-term assets) nor a reduction of a present expense. The debt with which the offsetting will occur is not yet current on the balance sheet when closing the accounts. For this reason, it is not possible to offset it at 31 net assets..

CORRECT PLACEMENT OF ACCOUNTING ITEM

The tax advance is to be deducted from short-term tax liabilities (or non-financial liabilities if one opts for offsetting with non-tax liabilities). If the advance payment exceeds the compensable debt, the difference is entered in deferred tax assets or in long-term tax assets if the taxpayer requests a refund. If, on the other hand, future offsetting is chosen, the figure should be reported as a separate item in the reclassified balance sheet.

PROVISION FOR TAXES

As suggested by accounting standards, this item should be broken down into:
1)provision for deferred taxes;
2)provision for disputed taxes
As is well known, the deferred tax provision is created when there is a temporal deferral of the payment of taxes about the financial year and is, on the contrary, "used" in the period in which there is the payment of taxes about previous financial years.
The provision for disputed taxes, on the other hand, is set aside for taxes in dispute with the tax authorities. The provision for disputed taxes must be allocated at the time when the probability that the adverse event under consideration may occur is realised, while its utilisation occurs when the company is obliged to pay the amount indicated in the provision.
The correct reclassification of the provision for deferred taxes and the disputed tax provision, therefore, requires a time analysis of the collectability of the items.
The portion of the two provisions concerning expenditures that are expected to occur within the next financial year must be placed within the short-term tax liabilities.

On the other hand, the portion that identifies payments to be made in a subsequent period must be placed under long-term tax liabilities.
Suppose the tax provision identifies an amount of taxes in dispute that we expect not to pay (due to the probable winner of the litigation). In that case, the item should be recorded as a separate item within the reclassified liabilities.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Passivo a breve tributario o passivo a lungo tributario a seconda che si prevede l'esborso monetario entro 12 mesi o dopo l'anno. Qualora si preveda di non dover versare le imposte oggetto del fondo (causa probabile vincita della causa in contenzioso), la voce va iscritta nel passivo come voce a sé stante.

EMPLOYMENT BENEFITS

As is well known, this entry varies from country to country. In some countries, there is no such item. In others, the law requires a provision for employees whose payment is deferred until the end of their employment contract. In countries where this accounting item exists, a rather gross mistake is often made: the item is often recognised entirely under non-financial long-term liabilities.
However, since this item represents a future outflow, it should appear in the short-term non-financial liability for the part in respect of which a flow is expected in the following year and the long-term non-financial liability for the amount that will be paid to the employees in the long term.
The split between the current portion and the long-term portion cannot be made "objectively". To determine the part to be included in the short term, it is necessary to assume about:
(a) resignations;
(b) retirements;
(c) redundancies;
(d) deaths.
It is clear that items b and, to a limited extent, can only be determined uncertainly.
The portion relating to resignations and deaths, on the other hand, must be estimated based on experience and events that are expected to occur in the future.
However, the fact that reclassification has to be performed on the basis of future assumptions, which, by their nature, are uncertain and subjective, should not lead to the conclusion that reclassification, due to the lack of total objectivity, is an operation that tends to lead to unreliable results.
The fact that the values being analysed are not entirely objective is a characteristic of the accounting items in the financial statements. Consequently, those who reclassify and analyse financial statements cannot ignore this subjectivity and must ensure that the reclassification reflects, as realistically as possible, the situation that is expected to occur in the short and long term.
Suppose in the preparation of financial statements, prudence is embodied in the inclusion of realised revenues and the recognition of even only probable expenses. In that case, this principle transforms the context of reclassification.
According to the principle of prudence relevant to the financial restatement of balance sheet items, if the allocation of items cannot be made objectively, the reclassification must be made in such a way as to exclude the presence of a more favourable financial situation than can realistically be expected in the future.
Attention must be focused above all on the correct determination of the part concerning the events that are expected to take place within the next financial year because the short term represents, at a temporal level, the "section" of the "company's future" on which must focus on the analysis.
In the long term, any tensions of a financial nature can be the subject of rebalancing actions studied and implemented over time. If, on the other hand, the unforeseen financial imbalances concern the short term, rather than the long term, the period needed to study and implement financial recovery actions may be too long compared to the pressing needs that the company suddenly finds itself having to manage.
Therefore, the determination of subjective values to be included in short-term liabilities must be subject to the principle that we might call the "principle of reclassification prudence".

CORRECT PLACEMENT OF ACCOUNTING ITEM

The recognition of employee benefits shall be made in the non-financial current liability for the portion expected to be paid to employees within 12 months and in the non-financial long-term liability in other cases.

ADVANCE PAYMENTS TO SUPPLIERS

From the analysis of the financial statements reclassified for analytical purposes, it can see that advances to suppliers are often placed in the context of deferred cash or long-term assets.

This is not always the case, as advances to suppliers and advances from customers represent an item whose reclassification requires an analysis of the contracts related to the advance.

For the reclassification to lead to the determination of significant aggregates, it is necessary to distinguish advances related to contracts that will be successful from advances that, on the contrary, concern contracts that could potentially be subject to termination or cancellation.

It is also necessary to subdivide advances into two other micro-aggregates. In particular: advances linked to short-term contracts must be subdivided according to whether they relate to commercial or non-commercial relationships. On the other hand, advances linked to contracts that are potentially subject to termination or cancellation must be subdivided according to the existence of a right to repayment of the amount involved.

This subdivision of advances is necessary because each type of advance corresponds to a specific reclassification. In particular:

A 1) Advances to suppliers related to contracts subject to hypothetical future termination or cancellation with the right to repayment of the amount paid must be included in non-characteristic cash and cash equivalents by definition, if repayment by the supplier is expected to take place within the following year, or in non-characteristic long-term credit assets, if the collection is expected to take place beyond the following year.

A 2) Advances to suppliers in connection with contracts that are subject to hypothetical future termination or cancellation without a right to repayment of the amount paid cannot be included in the short-term or long-term assets because such advances will not be transformed into future income precisely because of the absence of the right to repayment. Since, in the lack of reimbursement, the advance will be transformed into contingent liabilities, whose monetary outflow has already occurred previously (at the time of recognition of the advance itself), this item is characterised by the absence of future impact on the cash/bank. Therefore, this item will not result in either future income or future expenditure.

For this reason, to avoid that the reclassification leads to the determination of non-significant aggregates, it is deemed appropriate to recognise this item as part of invested capital, taking care, however, not to include it in any of the aggregates making up the assets side of the balance sheet. Therefore, although these advances are part of invested capital, they will not be included in either short-term or long-term assets. Consequently, they will constitute a separate item, recognising which in the reclassified balance sheet is necessary to ensure the reconciliation of assets and liabilities.

B 1) Advances to suppliers related to contracts that are not subject to hypothetical future termination or cancellation relating to the supply of inventory or services shall be reclassified bearing in mind that such advances, on the one hand, fall within the concept of current assets and, on the other, identify an item with less liquidity than inventory. When an advance is paid to a supplier, the asset's sale has not yet taken place. For this reason, the goods subject to the advance have not yet become part of the liquid assets. Therefore, advances to suppliers of a commercial nature are considered to be included in current assets but cannot be reclassified within the micro-aggregates discussed above (immediate cash, deferred cash, cash equivalents and current assets). Therefore, advances to trade suppliers are, in substance, an additional aggregate of short-term assets. Such recognition may also be made when the advance relates to the provision of services. In this case, the lack of a future receipt of a tangible asset may make the recommended recognition appear a stretch. However, it is believed that this position, even though the recommended method is discretionary, is consistent with the reclassification logic of the financial criterion. It should also be noted that, when an enterprise produces goods of a material nature, services of a productive nature are, to all intents and purposes, included in the measurement of inventories of finished goods (in part, if the cost is indirect or in full, if the cost is direct). In this specific case, similarities are found with the situation described above for advances related to inventory supplies. In this case, the advance is an item affecting the value of inventory that has not yet been created (because the service has yet to be rendered by the supplier). Therefore, this advance payment also has a lower degree of liquidity than the availability. For this reason, it is considered that advances to service providers can also be included in this other aggregate of short-term assets, which must therefore be named in full ('advances to stock and service providers').

B 2) Advances to suppliers related to contracts that are not subject to hypothetical future termination or cancellation relating not to advances of a commercial nature but instead made in connection with the purchase of goods over several years. If the criteria for reclassifying long-term items were similar to those applied in the reclassification of short-term assets, the advances in question would have to be recognised as part of a fourth item indicated to complete the three "traditional" micro-aggregates making up long-term assets (tangible, intangible and capital long-term assets). In reality, however, the analytical nature of the

study of the financial impact of short-term items is contrasted by a less refined analysis of long-term items. This is because the short term is the object of privileged attention as its temporal proximity to closing the accounts analyses the events expected to occur in the 12 months particularly delicate. For this reason, it is acceptable to include advances to suppliers of deferred costs in the reference aggregate in which, at the time of purchase, the deferred cost subject to the passage will be included. Thus, if the down payment relates to, for example, buildings, land, plant, etc., the related advance should be included within the long-term tangible assets. On the other hand, if the advance was given, for example, to a supplier of patents, the item should be included under long-term intangible assets. If, finally, the advance relates to civil buildings, the item should be included in the balance sheet assets (short-term or long-term depending on when the construction is expected to be sold).

CORRECT PLACEMENT OF ACCOUNTING ITEM

Advances to suppliers related to commercial goodwill contracts: short-term asset item five.

Advances to suppliers related to non-commercial goodwill contracts: tangible long-term assets, intangible long-term assets, capital long-term assets, capital short-term assets.

Advances to suppliers related to contracts potentially subject to cancellation/rescission in connection with which there is no obligation to repay: separate item in debit in the reclassified balance sheet.

Advances to suppliers related to contracts that are potentially subject to termination/rescission in connection with which there is an obligation to repay: deferred cash that is uncharacteristic if repayment is to be made within 12 months, uncharacteristic credit assets by definition in other cases.

OWN BONDS

The account "own bonds" identifies the amount of bonds that an enterprise has previously issued and purchased on the market in a subsequent period. The correct reclassification of own bonds requires a preliminary analysis of the objective of the acquiring company in owning the bonds.

By GAAP, own bonds purchased for speculative purposes should be reported either as short-term assets or as long-term assets, depending on when the sale of the securities is expected to occur.

If, however, the company decides to hold the own bonds until maturity or to cancel them, the inclusion of the securities in the assets leads to misleading aggregates because values are shown in the assets which, in reality, will not be transformed into future income and, in the liabilities, an entry (bonds) is made which, given the objective of the purchase of the own bonds, will not result in future expenditure. As a result of such incorrect recognition, both assets and liabilities are overstated.

The correct reclassification of own bonds held for the purpose of cancellation or retention until natural maturity requires that the item be deducted from the liability item bonds. In this way, the assets are not artificially inflated, and the liabilities show the actual future cash outflow associated with the bond. Since the bonds issued are present both in short-term liabilities (for the portion redeemable within the next 12 months) and in long-term liabilities, the question arises in which aggregate should recognise future cancellation. The answer is composite:

(a) if the own bonds are part of the securities to be redeemed in the short term, the item must be deducted from the short term liabilities.

b) if, on the other hand, the purchased securities are not redeemed within the following 12 months, they must record the item under long-term financial liabilities. For reasons of reclassification prudence, the latter classification is advisable even if the analyst does not have information on the serial number of the bonds subject to redemption.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Own bonds acquired for speculative purposes (with subsequent sale): short-term or long-term assets depending on the period between the balance sheet date and the potential sale. Own bonds acquired for speculative purposes (with subsequent sale): Short-term or long-term assets, depending on the period between the balance sheet date and the potential deal.

Own bonds held to maturity or cancelled immediately: deducted from the corresponding liability item of the bonds. Immediate: as a deduction from the related liability item of the bonds (long-term or short-term financial liabilities).

TANGIBLE/INTANGIBLE MULTIANNUAL ASSETS, INTERNAL CONSTRUCTION, ACCUMULETED DEPRECIATION

Tangible deferred assets (including packaging for multi-year use) are generally included in tangible long-term assets. Intangible deferred costs, on the other hand, must be included in the long-term intangible assets.

This placement is the result of a reclassification logic based on conventionality elements that, even if to a limited extent, affects the significance of the aggregates "short-term assets" and "long-term assets". This is because the inclusion of an item in long-term assets is based on the assumption that from that accounting item, an incoming flow should arise from the 366th day after the closing of the accounts. If this is not the case, the item should enter under short-term assets.

However, this implies that, if one wishes to apply the financial logic correctly in the reclassification, assets that are used over several years must be shown partly under short-term assets and partly under long-term assets because a portion of the depreciation will be realised in the next financial year.

According to this logic, the asset should be considered a short-term value in the following situations:

1) asset intended for sale;
2) asset in its last year of use.

Therefore, applying a pure financial logic, free from elements of conventionality, in these cases, the value indicated in the balance sheet should be indicated within deferred cash. In any other situation, a correct reclassification of the item would require a subdivision of the cash inflow: the part that will be realised in the short term should be placed in deferred cash, the remainder should be entered in the long term tangible or intangible assets depending on whether the asset has materiality or not. However, this method of recognising long-lived assets is not widely used since scholars and operators agree that the logic of liquidity/expendability should, in fact, be applied only partially as a result of the general acceptance of conventional elements that, although affecting the reclassification logic of a financial nature, lead to the determination of significant aggregates. For this reason, in most reclassifications, tangible and intangible assets with a multi-year use are recognised, respectively, under tangible long-term assets and long-term intangible assets.

No reclassification problem arises concerning completed internal constructions because when the contract is completed, the account takes the name of the long-term constructed cost.

The value corresponding to the completed internal construction must therefore be placed under the long-term tangible or intangible assets, depending on whether the investment is tangible or not.

Even if the internal construction is a work in progress and the balance sheet shows the specific accounting item concerning the uncompleted internal structure, the reclassification must be made according to nature (tangible or intangible) of the fixed asset in progress.

Accumulated depreciation, whether it relates to tangible assets or to intangible costs, must always be deducted from the item it is intended to adjust indirectly. Therefore, accumulated depreciation must be recognised, with a negative sign, in the long term assets, tangible or intangible, depending on whether the asset to which it refers falls into one or the other category of values.

CORRECT PLACEMENT OF ACCOUNTING ITEM

Beni pluriennali materiali (compresi gli imballaggi pluriennali e costruzioni interne di beni materiali): attivo a lungo materiale;
Costi pluriennali immateriali (compreso capitalizzazione interne di costi pluriennali immateriali): attivo a lungo immateriale;
Accumuleted depreciation beni materiali: attivo a lungo materiale, con segno negativo;
Accumuleted depreciation costo immateriali: attivo a lungo immateriale, con segno negativo.

CONCLUSIONS

At the end of this in-depth illustration of the correct positioning of items in a reclassification of the balance sheet implemented according to the financial criterion within an integrated information system, it is worth emphasising that even a single re-grouping error can invalidate the analysis carried out through ratios based on the incorrect reclassification structure. Consider, for example, if shareholder receivables for VAD were misplaced and, instead of being deducted from shareholders' equity, were included in some short-term or long-term asset item. This would lead to the incorrect calculation of ROE, i.e. the profitability of shareholders'

equity. As a result, all the economic and financial indicators would be wrong, with obvious consequences on the analysis results. The reclassification, therefore, represents the fundamental element on which, then, to continue with the financial and income analysis of the company. The underestimation of this operation can lead to results tainted by errors that, not understood, make the analyst and the interlocutors believe in the existence of a financial or income situation that, in reality, does not exist.

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