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Diploma Thesis

Assessment of the Reported Information in the Financial Statements Prepared Under the French Accounting Standards and the International Accounting Standards IFRS

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DIPLOMA THESIS ASSIGNMENT

Agathe Ribaut

Economics and Management
Economics and Management

Thesis title

Assessment of the Reported Information in the Financial Statements Prepared Under the French Accounting Standards and the International Accounting Standards IAS/IFRS

Objectives of thesis

The aim of this diploma thesis is to assess the information reported in the financial statements of a chosen company which prepares its financial statements in accordance with the French accounting standards and also in accordance with the international accounting standards IAS/IFRS, to identify the significant differences, assess the quality of the information reported for external users about the financial position and performance of the company based on the qualitative characteristics of accounting information and to specify the advantages and disadvantages of applying these standards for financial reporting.

Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The practical part of the thesis will be based on the information gained from the published annual reports of the chosen company. Vertical and horizontal analysis and ratio analysis of the financial statements will be used to assess the financial position and performance of the company and to prepare the practical part of the thesis. The assessment of the reported information will be based on the qualitative characteristics of the accounting information. The methods of analysis, synthesis, comparison and deduction will be used to formulate the conclusions of the thesis.

The proposed extent of the thesis

60-80

Keywords

French accounting system, International Financial Reporting Standards IFRS, financial statements, financial position, financial performance, profit, qualitative characteristics of accounting information, relevance, faithful representation, comparability

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Declaration

I declare that I have worked on my diploma thesis titled " Assessment of the Reported Information in the Financial Statements Prepared Under the French Accounting Standards and the International Accounting Standards IFRS" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31/03/2021 ____________________________

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Assessment of the Reported Information in the Financial Statements Prepared Under the French Accounting Standards and the International Accounting Standards IFRS

Abstract

In France, the IAS/IFRS framework adopted by the European Commission is mandatory in the consolidated financial statements of listed companies for financial years beginning on or after 1 January 2005. For the individual financial statements of listed companies, only French accounting standards are applicable.

This final thesis provides an overview of French accounting and compares it with the use of IFRS in France. For this purpose, we will compare the accounts under French standards with the international accounting standards IAS/IFRS of a French listed company. The subject of the final thesis is focused on the advantages and disadvantages of French accounting compared to IFRS.

The theoretical part will detail the French accounting model and its differences with IFRS. The practical part will focus on the accounting principles and financial statements of a company listed on the French stock exchange by studying its French accounts and then IFRS.

The results of this diploma thesis focus on the comparison of the legal framework of accounting, the form and content of the financial statements and discuses similarities and differences between France accounting and IFRS. With our research, we will be able to know if the change of reference frame requires accounting manipulations by the company.

Keywords: Accounting standardisation, French accounting, IFRS, Income statement, Balance sheet

Posouzení vykazovaných informací v účetní závěrce sestavené podle francouzských účetních standardů a mezinárodních účetních standardů IFRS

Abstrakt

Ve Francii je rámec IAS / IFRS přijatý Evropskou komisí povinný v konsolidované účetní závěrce kótovaných společností za účetní roky začínající 1. ledna 2005 nebo později. Pro jednotlivé účetní závěrky kótovaných společností jsou použitelné pouze francouzské účetní standardy.

Tato závěrečná práce poskytuje přehled francouzského účetnictví a porovnává jej s využitím IFRS ve Francii. Za tímto účelem porovnáme účty podle francouzských standardů s mezinárodními účetními standardy IAS / IFRS francouzské společnosti kótované na burze. Předmět diplomové práce je rozdělen na dvě otázky, jaké jsou výhody a nevýhody francouzského účetnictví ve srovnání s IFRS a je změna účetních standardů zdrojem větší manipulace s účetnictvím?

V teoretické části bude podrobně popsán francouzský účetní model a jeho rozdíly s IFRS. Praktická část se zaměří na účetní principy a finanční výkazy společnosti kótované na francouzské burze cenných papírů studiem jejích francouzských účtů a poté IFRS.

Výsledky této diplomové práce se zaměřují na srovnání právního rámce účetnictví, formy a obsahu účetní závěrky a diskutují podobnosti a rozdíly mezi účetnictvím ve Francii a IFRS. S naším výzkumem budeme schopni zjistit, zda změna referenčního rámce vyžaduje účetní manipulace společností.

Klíčová slova: Standardizace účetnictví, francouzské účetnictví, IFRS, manipulace s účtem, výkaz zisku a ztráty, rozvaha

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List of abbreviations

IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
PCG	Plan Comptable Général
ANC	Autorité des Normes Comptables
FEC	Ficher des Ecritures Comptables
VAT	Value Added Tax
IS	Income tax
P&L	Profit and Loss statement
LVMH	Louis Vuitton Moët Hennessy
SWOT	Strengths, Weaknesses, Opportunities, and Threats analysis
ROA	Return on Assets
ROE	Return of Equity
COS	Cost of sales
EAT	Net Income

1 Introduction

Accounting is the basis of financial communication. It is a subject that is constantly evolving. Since ancient times, it has been used to trace financial transactions and has been constantly transformed to adapt to new economic constraints. It was only in the 21st century that we saw the desire to homogenise the rules to facilitate the comparison of entities' annual accounts.

This concern for homogenisation is not only found in national accounts but also at the international level due to the globalisation of trade. Within the same accounting framework, it is possible to find financial statements prepared in different ways depending on the options chosen, which suggests the degree of difference between financial statements prepared under different accounting standards, each country having its own accounting framework.

If we take the case of France, the law is written and codified. The same applies to accounting, the principles of which are set out in the accounting framework known as the General Chart of Accounts. In the case of the United States, where the law is customary, accounting follows the same logic of custom and the standards for drawing up financial statements are generally accepted principles called US-GAAP.

As accounting cultures differ from one country to another, we logically find differences in the methods of valuation and recognition of financial statements. In addition to the differences identified between users in the same country, there are also differences between regions of the world, making comparability of financial statements even more difficult.

Accounting must advise users of financial statements in the most neutral manner possible so as to provide objective information. Accounting principles must achieve this objective of neutrality.

However, the data produced by accounting have numerous impacts on the mechanisms for financing, investment and remuneration of equity or management. This latitude could lead the designers of financial information to look among the accounting options available to them for elements enabling them to provide information that is legal but advantageous for the objectives they have set themselves. Although legal, accounting manipulation is nonetheless a problem insofar as it makes the financial statements less transparent and prevents their comparability.

IFRS are commonly presented as the international accounting standards that can be implemented everywhere, harmonising accounting systems and ensuring greater uniformity in the presentation of accounting information in the face of the increasing internationalisation of financial markets. They have been mandatory in France for the consolidated financial statements of listed companies since the financial years beginning on 1 January 2005 but are not mandatory for non-consolidated financial statements.

2 Objectives and Methodology

2.1 Objectives

The aim of this diploma thesis is to assess the information reported in the financial statements of a chosen company which prepares its financial statements in accordance with the French accounting standards and also in accordance with the international accounting standards IAS/IFRS, to identify the significant differences, assess the quality of the information reported for assessing the financial position and performance of the company for external users and to specify the advantages and disadvantages of applying these standards for financial reporting.

Regarding to the purpose of the diploma thesis, the research questions are:

- What are the characteristics on financial statements in French accounting systems?
- What are the main differences between French accounting system, and international accounting standards IAS/IFRS?
- What are the advantages and disadvantages of French accounting system in comparison with IAS/IFRS?

2.2 Methodology

Methodology for the literature overview is based on data collection from the relevant legal framework, specialized publications and other written or online sources. The methods of analysis, synthesis, comparison and deduction will be used to prepare the practical part and to formulate the conclusions of the thesis.

The diploma thesis structure includes two main parts: the first one is the theoretical part with literature review about French accounting system (PCG) and IFRS framework; the second one is the practical part with the case study analysis of French listed company financial statements in French framework and IFRS framework. This part contains a short introduction of the company, its accounting policy, and the financial analysis of both financial statements (French & IFRS). Then, there will be the discussion and conclusion based on previous parts.

3 Literature Review

3.1 Overview of French accounting system

All individuals and legal entities that carry out an economic activity are required to file accounts. The final accounts of the year under review must be filed at the Commercial court registry. Foreign companies which have branches in France are also required to file accounts.

3.1.1 Legal obligation of French accounting system

3.1.1.1 Reference texts:

French accounting principles derive from the Code de Commerce and the Plan Comptable Général, which are amended and updated periodically by the Conseil National de la Comptabilité, as well as from the Code Général Des Impôts. It involves a host of complex rules that must be observed.

French accounting principles are defined in Regulation 2014-03 of June 5, 2014. Moreover, accounting principles are based on the opinions and interpretations of France's accounting standards authority ("ANC") and on recommendations made by various professional organizations. Fundamental accounting concepts, such as prudence, going concern, accruals and consistency, have a legal basis in France.[1]

3.1.1.2 Accounting obligations for companies:

Commercial companies must keep qualitative accounts and notably:

- It's a legal requirement that accounting records be in French,
- Chronologically record the entries affecting the financial holdings of the company,
- Control, at least once a year, with an inventory, the existence and valuation of the assets and liabilities of the company,
- Prepare annual financial statements based on accounting entries and on the annual inventory.

In order to comply with these 3 fundamental accounting obligations, commercial companies must follow certain rules[2]:

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[1] Autorité des Normes Comptables (2020), *Compendium of French accounting standards - annual accounts*, Livre I, Chapitre II

[2] Obert. R (2016), The General Chart of Accounts from 1947 to the present day, Revue Française de Comptabilité

- Regarding the form of the balance sheet and income statement and of the matters to be included in the notes to the financial statements,
- The annual financial statements must be honest and truthful and ensure fair representation of the assets, financial position and results of the undertaking,
- Need to prepare a document describing the applicable policies and accounting organization if necessary, for an understanding of the accounting system,
- Compliance with the chart of accounts defined in the general chart of accounts established nationally.

Companies whose head office is located on French territory must express their documents in euro and draft them in the French language. Accounting documents and supporting documentation must be kept for ten years.

3.1.1.3 Numbering business accounts

The principles specify not only the names, but also the method of numbering for business accounts. Although this can be a nuisance, it simplifies many of the tax reporting requirements, as the instructions refer to the number of a particular account, making it easy to identify.

The initial digit of an account number indicates the type of account, as follows:

Table 1: List of French acounts in PCG

Balance Sheet	**1**	Capital accounts (shareholder equity)
	2	Fixed assets (property, plant and equipment)
	3	Stock
	4	'Third party accounts' (comptes tiers), which include all outside parties
	5	Bank and other treasury accounts
Income statement	**6**	Expenses
	7	Sales and other income

Source: Own processing based on Plan comptable general[3]

[3] C.DISLER, (2020*), Plan comptable général 2020/2021 - Liste intégrale des comptes*, DUNOD

3.1.1.4 Mandatory documents

There are three legally required journals: the general journal (le livre-journal), the inventory journal (le livre d'inventaire) and the general ledger (le grand livre). The first one keeps a record of every movement, the second one is a list of all assets owned by the entity and a valuation of these assets and the third one is a synthetic presentation of the general ledger.[4]

The general ledger is not a mandatory document according to the accounting rules but, for companies for which a statutory auditor is mandatory, it is a means of control that they must have at their disposal. All commercial companies must abide by their rules, whatever their tax status and whatever their accounting system. From a tax standpoint, the French Tax Code states that tax agents are allowed to request these documents.

For companies whose books are recorded using software, the Tax Code imposes to certain additional requirements including the Account Booking File ("Fichier des Ecritures Comptables" – FEC).

3.1.1.5 Form and content of financial statements

The form and content of financial statements are defined in the PCG. The basic financial statements included in the annual reports to shareholders are:

- A balance sheet, where headings are classified by function rather than by liquidity,
- An income statement, where revenues and expenses are classified by origin, and are systematically presented under four categories:
    - Operating revenues and expenses,
    - Financial revenues and expenses,
    - Exceptional revenues and expenses,
    - Explanatory notes.

Consolidated statements are required for groups of companies who have met, during two consecutive years, two of the three following criteria:

- Over 250 employees,
- 48 million of euros of turnover
- 24 million of euros of total balance sheet value

[4] Autorité des Normes Comptables (1st Juanary of 2020), REGLEMENT ANC N° 2014- 03 - Relatif au plan comptable général,

Also, subsidiaries under the control of the holding company in which it has significant influence (at least 20% of the shares) must be consolidated.

Simplified financial statements apply for very small companies:

- **Micro-companies**: entities meeting two of the following criteria during the last fiscal year:
  - turnover less than 700 000 €,
  - total balance sheet value < 350 000 €,
  - less than 10 employees

Those entities are exempted from explanatory notes and can ask not to deposit their financial statement at the company registry.

- **Small companies:** entities meeting two of the following criteria during the last fiscal year:
  - total assets less than 4 million €,
  - turnover less than 8 million €,
  - less than 50 employees.

These entities can establish simplified financial statements.

3.1.1.6 Key principles of French accounting

Accounts must give a regular, sincere and faithful picture of the business's financial position. Those three criteria are key principles of French accounting rules. [5]

The first one refers to the regularity principle. It means that accounts must meet the different rules and proceedings enforceable at the time of their establishment. If no specific rules are in force, general agreed principles must be applied.

The second one refers to the sincerity principle. It means that the person in charge of keeping the accounts must express in those accounts the relative importance of the different information registered. The sincerity implies a correct valuation of the different debts, risks and depreciations registered. It could be described as the reality of the business 's accountant.

The third one refers to the faithful principle. This third criteria implies a subjective approach. The faithful principle is used to bring shades of meaning when the first two principles cannot bring a real picture of the situation described. Once the different rules have been applied,

[5] J.Richard, C.Collette (2008), General accounting: French system and ifrs standards 8ème édition, DUNOD

the faithful principle implies that the application of the rules does not distort reality and does not misinform the user of the accounts.

3.1.1.7 Financial audit

French companies are required to submit their financial statements for a financial audit. Audits are conducted by professionals (legal auditors – "commissaires aux comptes") duly registered. Legal auditors are appointed by the shareholders for a period of six financial years. The legal auditor issues two formal annual reports to shareholders: the audit report and the special report.

In France, the functions of auditor and advisor are separated: a professional cannot be the auditor and the advisor accountant for a same client (or group of clients).
In order to guarantee audit independence, some functions are prohibited by law to the auditor for any client of which he is the legal auditor, for example:

- All services that would make the auditor express an opinion about a position,
- Bookkeeping, preparing financial statements or financial communication,
- Merger or contribution audit services,
- Implementation of internal control measures,
- Assessment, out of the scope of his legal mission, of elements which included in the accounts,
- Tax, legal, financial advices,
- All services which could imperil his impartiality and independence.

The **audit report** must include a justified opinion on the financial statements and on legal compliance with accounting principles.If consolidated statements are required, the legal auditors must issue a report on the consolidated financial statements. This report must be signed by two joint legal auditors.

The **special report** contains disclosures of those transactions between a company and its directors that either lie outside the normal course of business of the company or are not at arm's length; transactions between companies having a common manager or directors are also concerned.

3.1.1.8 Consolidated financial statements

Listed companies have the obligation to present their consolidated financial statements in accordance with IFRSs. The legal auditor's opinion and the directors' report must also be included in the annual report. The financial statements, the report of legal auditors and the report of directors have to been filed and are available for inspection by the public.[6]

Also, listed companies have to write a report on internal controls. This report presents the observations of the legal auditors on the report of the directors concerning the internal control procedures regarding accounting and financial data processing. The purpose of the legal auditors is to verify that the information contained in the report is presented sincerely, relevant and not likely to be interpreted wrongly.

Moreover, the application of IFRS is mandatory for the consolidated accounts of Euronext listed companies. For all other companies the application of IFRS is optional but the presentation of financial statements under IFRS cannot replace financial statements under French GAAP. Since January 2005, convergence of French accounting towards IFRS has been made in different areas such as assets or mergers and acquisitions.

Even if the convergence process of the French rules towards IFRS has applied for a number of years, there are still many differences between the French rules and IFRS. This is mainly due to a different approach in the two frameworks and to the vision that the financial statements of a company must provide.[7]

3.1.2 French accounting

3.1.2.1 General framework of balance sheet[8]

Within the framework of its general activity and in compliance with regulations, the company acquires means of production, uses them for the elaboration of goods and services that it makes available to its customers. For a given period of time, the revenue generated by the goods or services offered to customers, compared to the expenses necessary for their production shows the company's results. Any acquisition of means of production must be accompanied by financing made available to the company.

[6] J.Richard, C.Collette (2008), General accounting: French system and ifrs standards 8ème édition, DUNOD
[7] Capron, M. (2007), The challenges of the globalization of accounting standards. L'Économie politique 36(4)
[8] Francis Lefebvre, Momento Pratique Comptable 2020, Edition Francis Lefebvre

There are three kinds of **resources** in French accounting:

- resources provided by the operator, partners or shareholders and which are normally left permanently in the business,
- resources left in the company on a temporary basis (credits granted by suppliers, creditors, bankers, etc.). These resources constitute long, medium or short-term debts to third parties,
- profits made by the company.

All of these resources are called **Liabilities**; it is broken down into equity (contributions from partners or the sole proprietor) and **Debts** (debts of the company to third parties).

The uses of these resources form the **Assets** of the company. A distinction is made between permanent uses (fixed assets: land, buildings, equity interests, patents, etc.) and temporary uses (current assets: receivables, marketable securities, cash and cash equivalents).

The balance sheet is a representation of the resources and uses available to an accounting entity. This representation is made in the form of an equality that reflects the balance of uses and resources and describes the company's assets and liabilities.

Under the old chart of accounts (1957), the classification used for the balance sheet presented resources and their uses in order of increasing liquidity and due dates. Then it was considered, within the framework of the PCG, that the classification of resources and resources'' utilisations should be done in the first analysis according to their destination or origin (their function in the process of economic activity), so the liquidity and eligibility criterion becoming secondary,

Hence the following presentation:

Table 2: Balance Sheet presentation

Asset	Liabilities
Non-current asset	Equity
Current asset	Provisions
Regulations	Debts

Source: Own processing based on Plan Comptable Générale 2005[9]

[9] Autorité des Normes Comptables (2020), Compendium of French accounting standards - annual accounts,

3.1.2.2 Analyse of results in Income Statement [10]

The balance sheet shows the company's profit or loss but does not show the operations that made it possible to create it; to obtain them, the accounting department uses another statement that summarizes the operations that have influenced the final result: the income statement. [11]

A distinction must be made between the operations carried out by a company:

1- Operations that do not affect the income, but change the structure of asset and liabilities for example:
   - The recognition of a receivable from a customer: decrease of receivable and increase in cash and cash equivalents,
   - The acceptance of a draft which replaces a debt with another debt of the same amount but of a different nature,
   - The settlement of a debt to a supplier: reduction of a debt and reduction of a claim on the bank by the same amount.
2- Transactions that affect income: the company provides goods and services (products) and, in order to provide them, it consumes other goods and services (expenses). The monetary translation of these transactions gives rise to a balance which constitutes the result.

INCOME - EXPENSES = RESULT

The result of a financial year is made up of :

- operations arising from the normal activity of the company,
- exceptional operations not directly related to the normal course of business,
- favourable or unfavourable items of prior origin affecting earnings.

For management purposes, the accountants have to, on the one hand, determine the result of normal activity and, on the other hand, the other elements that have influenced the overall result.

A distinction was thus made between the general operating account comprising the income and expenses for the year in question and the profit and loss account comprising the operating result, extraordinary results (extraordinary profits and losses) and profits and losses from previous

[10] Francis Lefebvre, Momento Pratique Comptable 2020, Edition Francis Lefebvre

[11] PWC France (2015), Modèle d’états financiers : comptes sociaux et consolidés - Règles françaises - Clôture 31 décembre 2015, Excerpts from the PWC Occasional Paper to FRC 3/16 published by Editions Francis Lefebvre

years. According to the PCG, a single income statement distinguishes between operating, financial and exceptional operations.

3.1.2.3 Relationship between the balance sheet and the income statement

The "Profit and Loss" account is a balance sheet shows the resources for the year from the company's activities. The income statement accounts are only subdivisions of the balance sheet account "Income statement", created for the purpose of providing information on the components of the income statement.

The result for the year is equal to:

- in the balance sheet to the change in the company's equity arising from its activity,
- in the income statement, the difference between income and expenses.

The amount obtained is identical:

Equity variation of the financial year = Profit = Income - Expenses

This relationship and this double equality are clearly shown in the balance of accounts drawn up at the close of each financial year.

3.1.2.4 Accounting registration procedures

The company's activity involves exchanges and transactions with other entities. The accounting system records the facts that modify the composition or distribution of an asset base. These movements in value, called flows, may concern material goods or monetary values. In the first case, it is a "real flow" and in the second case a "monetary flow" or "financial flow".

All the operations of the firm constitute a set of flows:

- Cash purchase of goods: actual flow (goods receipt) and cash flow (cash outflow),
- Sale of goods: actual flow (goods issue) and other actual flow (receivable receipt).

Operations that put the company in contact with other entities correspond to external flows, but movements of values within the company itself are internal flows (wear and tear on goods, transformations, etc.). The accounting system thus records all the flows that concern an accounting entity.

In order to track in detail, the changes and transactions affecting assets, liabilities, expenses, income, profits and losses, a functional classification instrument called an "account" is used. The account makes it possible to monitor the evolution of a particular asset or business item.

The number of accounts is not fixed and depends on the degree of detail desired. For example, you may want to track changes in the fixed assets account, but you may also want to record transportation equipment separately or go into even more detail by distinguishing trucks from automobiles. As far as expenses are concerned, you may want to track them by function (for example, Sales Department Expenses) or by nature (for example, Purchases) or you may want to obtain more details and use the Purchases of Goods, Purchases of Raw Materials, etc. accounts.

The account gives a numerical representation of the increases or decreases translated into monetary values that have either affected an asset or contributed to the result. All transactions are reflected in the accounts. Instead of using arithmetic signs, increases are recorded in one column and decreases in the other. By convention, the left-hand side is called debit and the right-hand side credit.

Table 3: Division of French account

Source: Own processing based on Plan comptable general

The terms debit and credit originally meant debts (debit) and receivables (credit); but in accounting they have lost this meaning.

In order for the accounts to be balanced, it is necessary that, for each transaction, one of the accounts be debited and the other credited, according to a mechanism called "double-dipping".

From the analysis of the resources and uses of the firm and its operations, an equality Emerges:

Assets – Debts = Result = Income - Expenses

Assets + Expenses = Debts + Income

This fundamental equality helps to explain the technique of double-entry accounting, used for general bookkeeping. In order for it to be constantly respected, it is necessary that the accounts of goods and expenses function in the same way and that the accounts of income and debts also function in an identical but inverse manner to the previous one. For this purpose, the following convention has been adopted:

- the goods and expenses accounts increase on the debit side and decrease on the credit side,
- the accounts of debts and income increase on the credit side and decrease on the debit side.

According to the double-entry principle, any business transaction with a financial impact is reflected in an entry affecting at least two accounts, one of which is debited and the other credited with an identical amount:

- the asset accounts (goods and receivables) are moved to debit (left) to recognize increases and to credit (right) to recognize decreases,
- Liability accounts (equity and liabilities) are credited to recognize increases and debited to recognize decreases,
- Expense accounts are debited for increases and, exceptionally, decreases are credited,
- Revenue accounts are credited to recognize increases and, exceptionally, debited to recognize decreases in revenues.

When an accounting transaction is recorded, the total of the amounts debited to the accounts and the total of the amounts credited to the accounts shall be equal.

Journal (ledger)

Accounting entries are recorded in a document called a "Journal". The accountant mentions in it, in chronological order, the date and circumstances of each fact recorded, as well as the debit and credit amounts.

Table 4: Exemple of ledger entries

Account	Wording	Debit	Credit
601	Buy raw materials from Durand	1 000	
4456	Deductible VAT	170	
401	à Suppliers (Durand)		1 170

401 Suppliers		4456 VAT deductible		601 Purchasing subjects	
	1170	170		1 000	

Date	Amount debited	Credit amount
Debit account X	x	
with credited account Y		x
with credited account Z		x
(according to part no. ...)		

Source: Own processing based on French accounting courses

In the following developments, the entries are schematized by presenting the accounts in a T-shape, with the right-hand side corresponding to the credit and the left-hand side to the debit.

Balance

Table 5: Presentation of Balance

Account (name)	Movements		Sales	
	Debits	Credits	Accounts receivable	Accounts payable
Totals	A = A*		B = B	

Source: Own processing based on French accounting courses

All the accounts, classified according to a conventional plan, can be presented in a document showing, for each of them, the total amounts of debits and credits and the balance, which can be either debit or credit. This document is called the "balance":

The balance has simple arithmetic properties. The sum of the debits equals the sum of the credits and the total of the debit balances equals the total of the credit balances. Thus, it is a control instrument that ensures that any recorded debit corresponds to a credit of the same amount. In addition, it makes it possible to obtain the cumulative amounts of each account at a given date and to draw up the balance sheet and the income statement. The balances on the balance sheet show the link between the "Profit for the year" and the balance sheet and the profit and loss accounts (called "management accounts"), as well as the equality:

Variation of shareholders' equity = result = product – expenses

Journal and ledger

In this system, all the entries are initially recorded in a single journal, indicating the date of the operation, the wording, the debited account, the credited account and the amounts of the operation.

Table 6:Example of Ledger

Date	Wording	Account	Amount	
			D	C
1/1	Buying in Dupont	601	1 000	
1/1	Invoice Dupont n° 32	401		1 000
2/1	Payment to Dupont	401	1 000	
2/1	Bank check n° 013	512		1 000

Date	Wording	Account	Amount	
			D	C
3/1	Shopping in Durand	601	1 500	
3/1	Durand Invoice No. 10	401		1 500

Source: Own processing based on French accounting courses

Table 7:Exemple of General Ledger

Date	Wording	Amount		Totals		Balance	
		D	C	D	C	D	C
1/1	Invoice Dupont n° 32		1 000		1 000		1 000
2/1	Payment to Dupont cheque 013	1 000		1 000	1 000	-	-
3/1	Durand Invoice No. 10		1 500	1 000	2 500	-	1 500

Source: Own processing based on French accounting courses

To conclude, general accounting is mandatory and useful. It is governed by principles and rules, based on techniques and methods, addressing several entities and persons with different motivations, and thus occupies a central position in any information system. But beyond the financial, fiscal and social aspects that impose it and its informational importance, it also bears witness to the history of an organization and serves to envisage what tomorrow will bring.

3.2 Impact of IFRS on the presentation of financial statements

3.2.1 Presentation of IFRS

In response to the globalisation of economic exchanges, international accounting standards have been developed to provide harmonised financial statements regardless of the country in which they are designed. The IFRS are issued by the IASB for companies. The objective is a global harmonisation of accounting.

The set of standards consists of three parts:[12]

- **The framework**: The IFRS framework forms the theoretical basis for the regulations. It describes the objectives and assumptions of international guidelines and qualitative requirements. In addition, the framework provides definitions of key concepts such as assets, liabilities, income and expenses.
- **Standards (IFRS/IAS):** The actual accounting and financial measurement requirements are available in the form of individual standards. These include the IFRS of the IASB and IAS (International Accounting Standards) and the previous IASC (Accounting Standards Committee) administration.
- **Interpretation:** In order to harmonise the interpretation of international standards, the third part of the regulation contains official interpretations of international standards published by the Financial Commitee (IFRIC).

For the application of IFRS and in case of conflict, the interpretation of IFRS is more binding than the general information in the framework. The framework itself has no status by default.
Since 2005, the European Union has required all listed companies to prepare financial statements in accordance with IFRS. The EU remains the main user of these accounting standards.[13]

In March 2018, the International Accounting Standards Board revised the Conceptual Framework for financial reporting. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the board in developing IFRS Standards. It helps to

[12] Demaria.S, Rigot.S, (2018), International Financial Reporting Standards (IFRS) , La Découverte
[13] IFRS Foundation (2018), Use of IFRS Standards around the world

ensure that the standards are consistent and that similar transactions are treated the same way for investors, lenders and other creditors. It also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.
The 2018 revised Conceptual Framework sets out:[14]

- The objective of general-purpose financial reporting,
- The qualitative characteristics of useful financial information,
- A description of the reporting entity and its boundary,
- Definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions
- Criteria for including assets and liabilities in financial statements and guidance on when to remove them
- Measurement bases and guidance on when to use them,
- Concepts and guidance on presentation and disclosure,
- Concepts relating to capital and capital maintenance

3.2.2 IFRS standards and consolidated financial statements in France

Accounting is the economic system that makes it possible to know what the company owns and what it owes (it is the company's balance sheet), as well as the level of its economic performance (it is the profit and loss account). This system, oriented towards external partners, is highly codified, in France, by the texts forming the general chart of accounts.

All French companies must publish their individual accounts in accordance with the rules of the PCG. The so-called "individual" accounts are a company's financial statements (balance sheet, income statement and notes).
When a company has subsidiaries, the group must then present the accounts of the whole, including the parent company and its subsidiaries, as if the whole were a single economic entity. Consolidation is an accounting technique that makes it possible to produce financial statements giving the financial view of the parent company and its subsidiaries as a single economic entity. The first step consists of adding up the accounts of the entities. The second step consists of eliminating transactions between intra-group entities.

[14] IFRS (2018), Conceptual Framework for Financial Reporting – Main changes, page 4

In France, consolidated financial statements must be presented when two of the following three criteria are met:

- balance sheet total ≥15 000 000€;
- net turnover ≥ 30 000 000€;
- number of permanent employees ≥ 250.

Thus, some enterprises must have two sets of accounts:[15]

- **French accounting** presented according to the principles of the PCG for the publication of their individual accounts, filed each year with the Registry of the Commercial Court and with the tax authorities.
- **IFRS accounting** for the publication of their consolidated financial statements, i.e. presenting the sum of the accounts of the parent company and the subsidiaries.

In practice, companies generally prepare their accounts in accordance with IFRS and switch to French accounting at the end of the year for the calculation of corporate income tax (IS) and employee profit-sharing. Indeed, groups tend to favour monthly reporting under IFRS, as IFRS rules give a view closer to the real market value.

3.2.3 Impact of IFRS on the presentation of financial statements

3.2.3.1 Differences between IFRS and PCG principles

IFRS standards do not impose a fixed framework or account numbering. However, they do indicate the headings that must be included in the financial statements.
Companies are encouraged to present a management report, including an analysis of the environment, as well as a statement of the group's projected risks and opportunities.

The main differences between IFRS and the PCG principles are as follows:[16]

- the elimination of almost all exceptional items (reintegrated into operating profit)
- the classification of the balance sheet into non-current and current items
- the fundamental importance of the cash flow statement.

[15] J.Richard, C.Collette (2008), General accounting: French system and ifrs standards 8ème édition, DUNO
[16] KPMG (2019), Overview of IFRS: what are the differences with French standards? KPMG Publication

3.2.3.2 Presentation of financial statements under IFRS

In IFRS framework, a financial statement form should present true and fair picture of the business affairs of an organization. Since these statements are used by different constituents of the society, they are required to present the true view of financial position of the organization.[17]

The main characteristics required in its main financial statement forms include:

- Understandability
- Relevance
- Reliability
- Comparability

The individual (or consolidated) financial statements of the entities include:

- a balance sheet
- a profit and loss account
- a statement of changes in equity
- a cash flow statement
- accounting policies and notes.

These individual and consolidated financial statements are called financial statements.

Presentation of the balance sheet

The balance sheet can be presented as a list or a table.

Assets and liabilities must be presented in current and non-current items.

- An asset is considered as current if it is sold or consumed in the normal operating cycle of the company or if it is a cash asset.
- A liability is considered current if the enterprise expects to be able to settle it as part of its normal operating cycle or if the enterprise expects to settle it within 12 months following the closing of the financial statements.

[17] PWC (2018), Illustrative IFRS consolidated financial statements, VALUE IFRS Plc : Reference for 3.2.3.2

Presentation of the income statement

The income statement is also called the profit and loss statement (P&L) in Anglo-Saxon countries and in international IFRS standards.

The mandatory items to be mentioned in the profit and loss statement are :

- income from ordinary activities (net of accounts);
- financial expenses;
- the share of profit or loss of associates;
- profit before tax from discontinued operations;
- comprehensive income;
- Minority interests' share of profit;
- net profit attributable to equity holders of the parent;
- earnings per share.

The income statement must be presented in a list and not in the table (loads on the left, products on the right).

The charges can be presented :

- by function (production expenses, commercial charges, administrative charges)
- by nature (purchases, staff costs, depreciation allowance, etc.).

The company no longer has to disassociate extraordinary income and expenses: the results of disposals of fixed assets are therefore included in operating income.

The IFRS income statement no longer allows the reconstitution of Intermediate Management Balances, which is penalizing for financial analysts.

Two categories of expenses have disappeared from the list of mandatory items included in the French rules:

- personnel expenses
- depreciation, amortisation and provisions.

In addition, the offsetting of certain expenses and income does not make it possible to make comparisons between income statements from one period to another as easily.

Presentation of the statement of changes in equity

Under IFRS, the statement of changes in shareholders' equity and the cash flow statement are summary financial documents in their own right, whereas under French rules they are components of the notes to the financial statements.

An entity's statement of changes in equity between two balance sheet dates reflects the decrease or increase in the entity's net assets during the period.

The statement of changes in equity must show :

- the profit or loss for the period,
- income and expenses recognised directly in equity in shareholders' equity,
- the cumulative effects of changes in methods and corrections of fundamental errors
- the balance of accumulated undistributed earnings at the beginning of the year

and at the end of the financial year,

- a reconciliation between the value at the beginning and end for the capital, share premiums, share premium, dividends, reserves.

In addition, information on the number of shares, the nominal value of the shares and the earnings per share must be disclosed either in the financial statements or in the notes to the financial statements.

Presentation of the cash flow statement

All entities that prepare financial statements in conformity with IFRSs are required to present a statement of cash flows. The cash flow statement is of fundamental importance as it meets the requirements of operational staff for information on the company's ability to generate cash and its need to use that cash. Eliminating purely accounting flows, the cash flow statement enhances comparability between different groups. The cash flow statement must present the inflows and outflows of cash and cash equivalents (investments less than 3 months old, easily convertible into cash and subject to negligible risks of change in value).

Cash flows should be presented by type of activity:

- operating or business activities: these activities include all transactions arising from the normal activity of the company (customers, suppliers, staff, taxes, etc.);
- investment activities, such as acquisitions and disposals of fixed assets,
- financing activities, such as the increase of capital, the payment of dividends, reimbursements, loans,...

A company can use direct or indirect methods to establish the cash flow statement:

- The direct method shows each major class of gross cash receipts and gross cash payments. The operating cash flows section of the statement of cash flows under the direct method would appear something like this:

Cash receipts from customers	XX,XX €
Cash paid to suppliers	XX,XX €
Cash paid to employees	XX,XX €
Cash paid for other operating expenses	XX,XX €
Interest paid	XX,XX €
Income taxes paid	XX,XX €
Net cash from operation activities	**XX,XX €**

- The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions. The operating cash flows section of the statement of cash flows under the indirect method would appear something like this:

Profit before interest and income taxes		XX,XX €
Add back depreciation		XX,XX €
Add back impairment of assets		XX,XX €
Increase in receivables	XX,XX €	
Decrease in inventories		XX,XX €
Increase in trade payables		XX,XX €
Interest expense	XX,XX €	
Less interest accrued but not yet paid	XX,XX €	
Interest paid		XX,XX €
Income taxes paid		XX,XX €
Net cash from operating activities		**XX,XX €**

In conclusion, all the players in the financial economy agree that the application of these new rules provides a more realistic view of the value of companies and their results thanks to greater transparency in the valuation of capital, commitments and financial flows.

In fact, the IAS/IFRS accounting standards are both a source of constraints and a source of opportunities.

A source of constraints, because they are measures that have been imposed, without some companies having asked for them. But they also represent a tremendous source of opportunity for improving the quality of financial information. IAS/IFRS do not impose a standardised reporting format, but they are still evolving and will continue to evolve and are by no means considered to be fixed today.

Thus, with a view to transmitting accounting information that is more transparent and closer to economic reality, IFRS has introduced many changes compared to the local standards that companies previously followed. [18]

[18] Capron, M., Chiapello, E., Colasse, B., Mangenot, M., and Richard, J. (2005), Les normes comptables internationales, instruments du capitalisme financier. La Découverte.

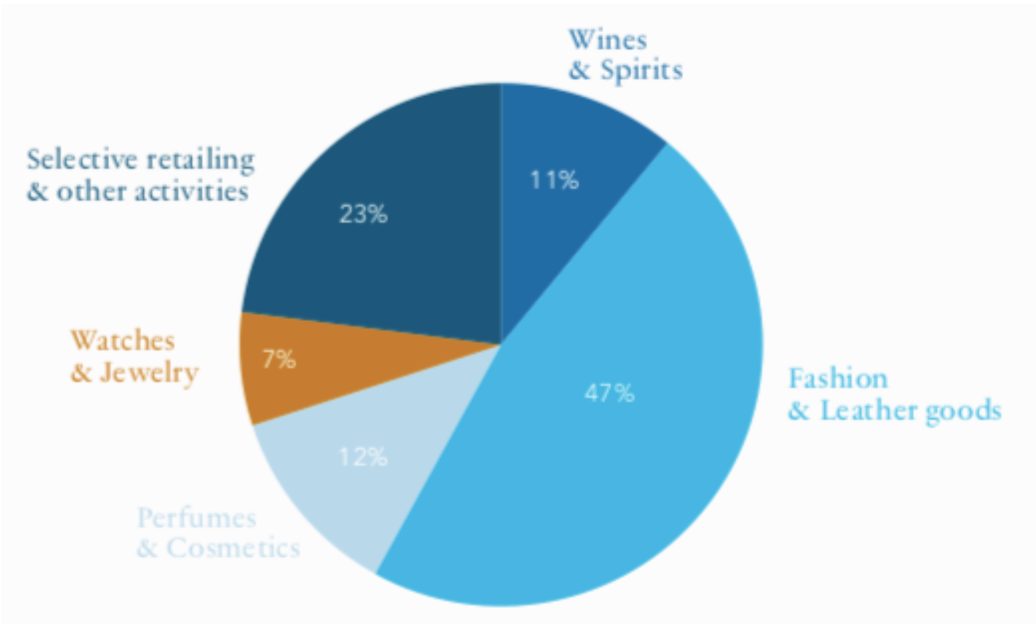
4 Practical Part

4.1 Company presentation: LVMH

LVMH Moet Hennessy Louis Vuitton SA, more commonly known as the LVMH Group, is a French luxury goods conglomerate. The company is mainly known for its fashion house, known simply as Louis Vuitton, named after its founder. The conglomerate has a worldwide presence and sells luxury leather goods, handbags, ready-to-wear and other fashion accessories. Since 1989, the company has been managed by Frenchman Bernard Arnault, following the merger of the luxury goods producer with champagne producer Moët & Chandon and cognac producer Hennessy.

Today, LVMH is the world leader in luxury goods and is therefore "an ambassador of the most refined Western art of living". The group is the only player to be present simultaneously in five major areas of luxury: fashion leather goods (Louis Vuitton, Fendi, Dior, Givenchy...), selective distribution (Sephora, Le Bon Marché...), perfumes and cosmetics (Guerlain, Kenzo), wines and spirits (Moët et Chandon, Hennessy...) and finally watches and jewellery (Chaumet). It has more than 163,000 employees worldwide and in 2020 achieved sales of 44.7 billion euros.

Figure 1:Revenue share of the LVMH Group worldwide in 2019



Source: LVMH[19]

[19] LVMH Group (2020), LVMH Group presentation

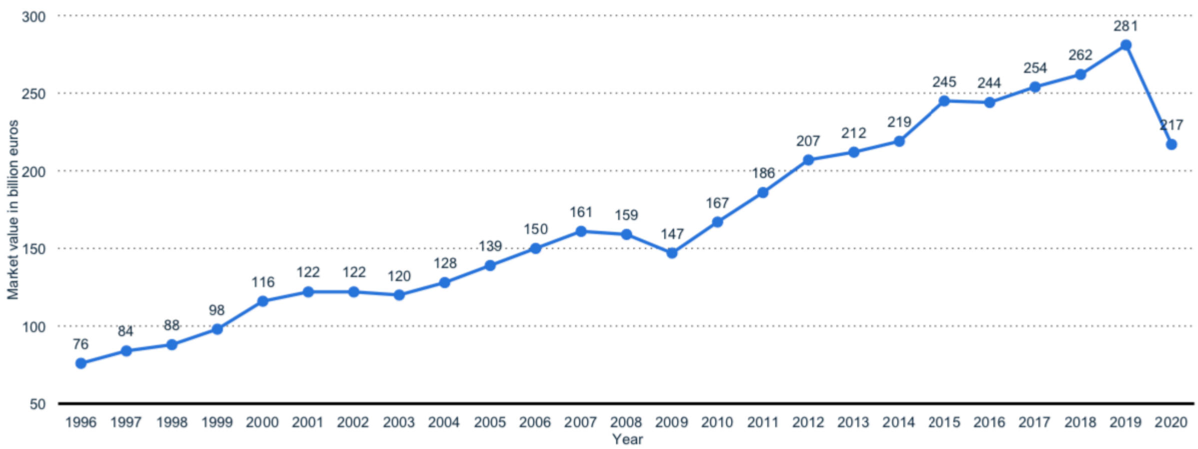
On the world luxury market, 3 major global players predominate: LVMH (Louis Vuitton - Moët Hennessy) which is the leader, Richemont (which owns among others the Cartier, Dunhill and Montblanc brands) and in third place Gucci-PPR.

4.1.1 Luxury Goods Industry

The luxury sector represents a global market estimated at 150 billion euros, growing three times faster than the economy of each continent on which it is present. In addition to the traditional luxury markets of Japan, the United States and Europe, new territories such as China and Russia have been added. The global growth of the highest incomes, the expansion of product ranges and the democratisation of certain segments are the main elements that are boosting the luxury sector.

The luxury market is therefore growing strongly. According to some studies, luxury today reaches beyond its traditional clientele, an occasional clientele of around 200 million people. Another study indicates that 60% or more of European, Japanese or North American populations have had access to a luxury product at least once. The United States has long been the largest regional market for luxury goods and it is estimated that it will continue to be the leading market for personal luxury goods in 2018, with a value of 71 billion euros.

Figure 2:Value of the personal luxury goods market worldwide from 1996 to 2020



Source: Bain & Company; Fondazione Altagamma[20]

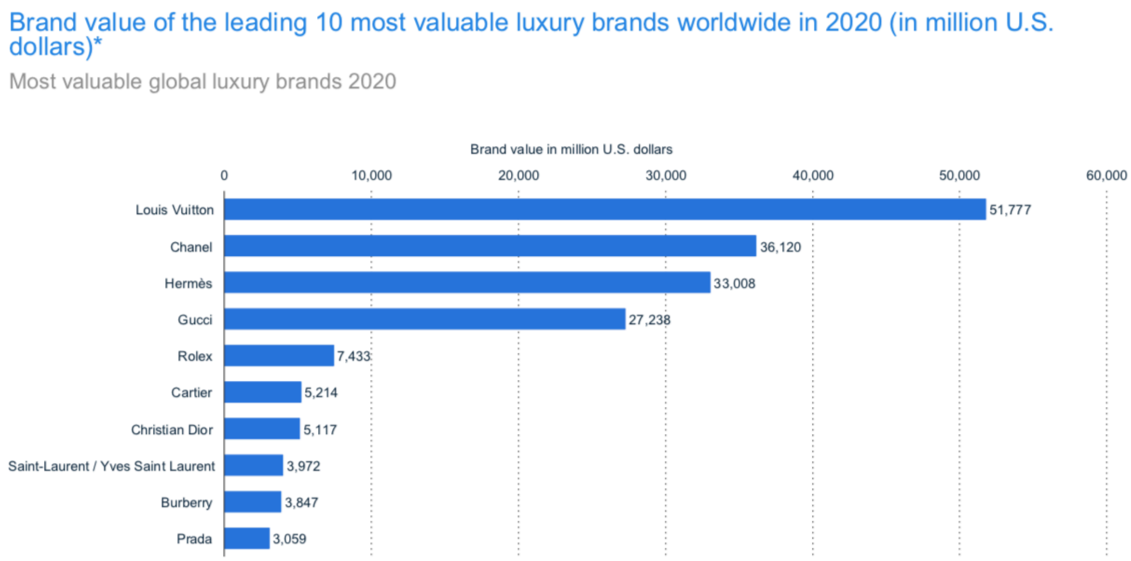
Over the past decade or so, the luxury sector has experienced significant growth. This growth is largely linked to the density of tourist flows, particularly from Asian customers. Due

[20] Statista (2020), Moët Hennessy Louis Vuitton (LVMH Group) - Statistics & Facts, Statista Research Department

to the high price of luxury products in Asia (around 30% higher than in Western countries), and especially in Japan, Asian consumers have become important luxury customers outside Asia.

The emergence of a new clientele with high purchasing power is also a determining factor in the growth of this sector. In the future, it will enable sales to be boosted. One of the challenges for luxury companies is to maintain brand capital and cultivate customer relationships. As luxury expands into other industries, a more mature segmented market is to be expected. As a result, consumers should also become more rational.

Figure 3:Most valuable global luxury brands 2020



Source: Kantar; BrandZ; Bloomberg[21]

4.1.2 SWOT analysis

LVMH produces and markets luxury goods under various product categories and brands. Strong brand portfolio, diversified business, and high inventory turnover ratio are the company's major strengths, whereas decline in liquidity position remains a cause for concern. Positive outlook for global fragrances market, positive outlook for global luxury goods market, and growth in global spirits market are likely to offer growth opportunities for the company. However, increase in organized retail crime, cybersecurity risks, and competitive environment could affect its business operations.

[21] Statista (2020), Moët Hennessy Louis Vuitton (LVMH Group) - Statistics & Facts, Statista Research Department

Figure 4:SWOT LVMH

Strength	Weakness
▪ Strong brand portfolio ▪ Diversified business in terms of business segments and geographic presence ▪ High inventory turnover ratio	▪ Decline in liquidity position
Opportunity	**Threat**
▪ Positive outlook for global luxury goods market Growth in global spirits market ▪ Positive outlook for global fragrances market	▪ Cybersecurity risks ▪ Intense competition ▪ Increase in organized retail crime

Source: Own processing based on LVMH analysis[22]

[22] Garin.N, Cesard,A (2020), LVMH, Xerfi

4.2 Study of LVMH SA and LVMH financial statements

4.2.1 Individual financial statements of LVMH SA in French framework

Apart from the portfolio activities related to its status as a holding company, LVMH Moët Hennessy - Louis Vuitton SE (LVMH SA) manages and coordinates the operational activities of all its subsidiaries and provides them with various assistance services for which they are invoiced, in particular in legal, financial, tax and insurance matters.

LVMH SA financial performance from 2018 to 2019 is analyzed and explain in the following tables. We did a Vertical and Horizontal analyses and then, we analyzed the financial performances of LVMH SA.

4.2.1.1 Vertical Analysis

Figure 5: Income statement of LVMH SA (2017-2019) in Millions EUR

	2019		2018	
Income/expense (EUR millions)				
Financial income from subsidiaries and investmen	**4252,7**	***100%***	**3550,5**	***100%***
Investment portfolio: impairment and provisions	-169,1	*-4%*	-133	*-4%*
gains and losses on disposal -	0		0	
Income from managing subsidiaries and investme	**4083,6**	***96%***	**3417,5**	***96%***
Cost of net financial debt	-29,5		-30,4	
Foreign exchange gains and losses	-36,4		-33,4	
Other financial income and expenses	-22		-8,9	
FINANCIAL INCOME/(EXPENSE)	**3995,7**	***94%***	**3344,8**	***94%***
Services provided and other income	378,8		316	
Personnel costs	-252,7		-181,1	
Other net management charges	-430,7		-326,4	
OPERATING PROFIT/(LOSS)	-304,6		-191,5	
RECURRING PROFIT BEFORE TAX	3691,1	*87%*	3153,3	*89%*
EXCEPTIONAL INCOME/(EXPENSE)	-110		0	
Income tax income/(expense)	130,4		230,8	
NET PROFIT	**3711,5**	***87%***	**3384,1**	***95%***

Source: Own processing based on LVMH SA financial statement

Figure 6: Balance Sheet of LVMH SA (2017-2019) in Millions EUR

	2019		2018	
ASSETS (EUR millions)				
Intangible assets	3,4	*4%*	1,5	*2%*
Vineyard land	45,2	*51%*	45,2	*49%*
Other property, plant and equipment	39,2	*45%*	46,4	*50%*
Intangible assets and property, plant and equipment	**87,8**	*0%*	**93,1**	*0%*
Equity investments	26284,7	*99%*	25453,8	*99%*
LVMH treasury shares	94,1	*0%*	94,6	*0%*
Other non-current financial assets	134,6	*1%*	132	*1%*
Non-current financial assets	**26513,4**	*97%*	**25680,4**	*96%*
NON-CURRENT ASSETS	**26601,2**		**25773,5**	
Receivables	294,9	*46%*	594,3	*62%*
LVMH treasury shares	308,9	*48%*	326,6	*34%*
Cash and cash equivalents	34,6	*5%*	30,6	*3%*
CURRENT ASSETS	**638,4**	*2%*	**951,5**	*4%*
Prepayments and accrued income	15,9		25,2	
TOTAL ASSETS	**27255,5**		**26750,2**	

Source: Own processing based on LVMH SA financial statement.

4.2.1.2 Horizontal Analysis

Figure 7:Income statement of LVMH SA (2017-2019) in Millions EUR

	2019		2018
Income/expense (EUR millions)			
Financial income from subsidiaries and investments	4252,7	20%	3550,5
Investment portfolio: impairment and provisions	-169,1	27%	-133
gains and losses on disposal -	0	0%	0
Income from managing subsidiaries and investme	**4083,6**	**19%**	**3417,5**
Cost of net financial debt	-29,5	-3%	-30,4
Foreign exchange gains and losses	-36,4	9%	-33,4
Other financial income and expenses	-22	147%	-8,9
FINANCIAL INCOME/(EXPENSE)	**3995,7**	**19%**	**3344,8**
Services provided and other income	378,8	20%	316
Personnel costs	-252,7	40%	-181,1
Other net management charges	-430,7	32%	-326,4
OPERATING PROFIT/(LOSS)	-304,6	59%	-191,5
RECURRING PROFIT BEFORE TAX	3691,1	17%	3153,3
EXCEPTIONAL INCOME/(EXPENSE)	-110		0
Income tax income/(expense)	130,4	-44%	230,8
NET PROFIT	**3711,5**	**10%**	**3384,1**

Source: Own processing based on LVMH SA financial statement.

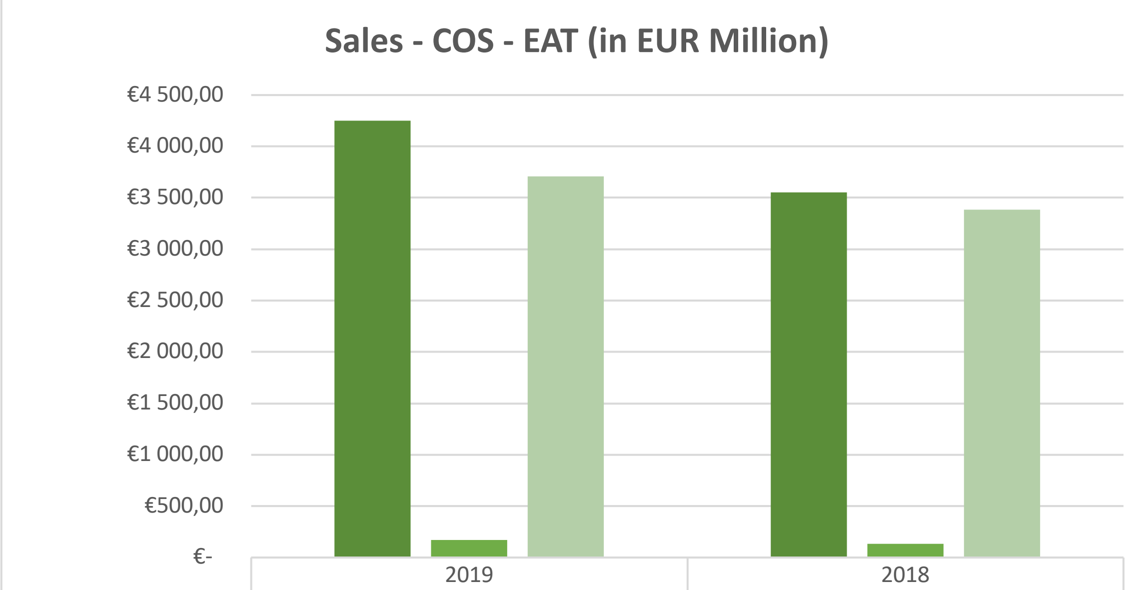
Figure 8: Balance Sheet of LVMH SA (2017-2019) in Millions EUR

	2019		2018
ASSETS (EUR millions)			
Intangible assets	3,4	*127%*	1,5
Vineyard land	45,2	*0%*	45,2
Other property, plant and equipment	39,2	*-16%*	46,4
Intangible assets and property, plant and equipment	**87,8**	*-6%*	**93,1**
Equity investments	26284,7	*3%*	25453,8
LVMH treasury shares	94,1	*-1%*	94,6
Other non-current financial assets	134,6	*2%*	132
Non-current financial assets	**26513,4**	*3%*	**25680,4**
NON-CURRENT ASSETS	**26601,2**	*3%*	**25773,5**
Receivables	294,9	*-50%*	594,3
LVMH treasury shares	308,9	*-5%*	326,6
Cash and cash equivalents	34,6	*13%*	30,6
CURRENT ASSETS	**638,4**	*-33%*	**951,5**
Prepayments and accrued income	15,9	*-37%*	25,2
TOTAL ASSETS	**27255,5**	*2%*	**26750,2**
LIABILITIES AND EQUITY(EUR millions)			
Share capital (fully paid up)	151,6	*0%*	151,5
Share premium account	2318,8	*1%*	2298,5
Reserves and revaluation adjustments	388	*0%*	388
Retained earnings	11131,3	*3%*	10764,7
Interim dividend	-1108	*10%*	-1005,7
Net profit for the fiscal year	3711,5	*10%*	3384,1
Regulated provisions	0,1	*0%*	0,1
EQUITY	**16593,3**	*4%*	**15981,2**
PROVISIONS FOR CONTINGENCIES AND LOSSES	**727,4**	*5%*	**692,3**
Bonds	6647	*1%*	6604
Other financial debt	2805,9	*-10%*	3102,4
Other debt	469,2	*32%*	356,7
OTHER LIABILITIES	**9922,1**	*-1%*	**10063,1**
Accruals and deferred income	12,7	*-7%*	13,6
TOTAL LIABILITIES AND EQUITY	**27255,5**	*2%*	**26750,2**

Source: Own processing based on LVMH SA financial statement.

4.2.1.3 Financial Analysis in French Accounting system

Figure 9: Main financial results of LVMH SA (2017-2019) in EUR Millions



	2019	2018
Total sales	€4 252,70	€3 550,50
Cost of sales	€169,10	€133,00
Net income (EAT)	€3 711,50	€3 384,10

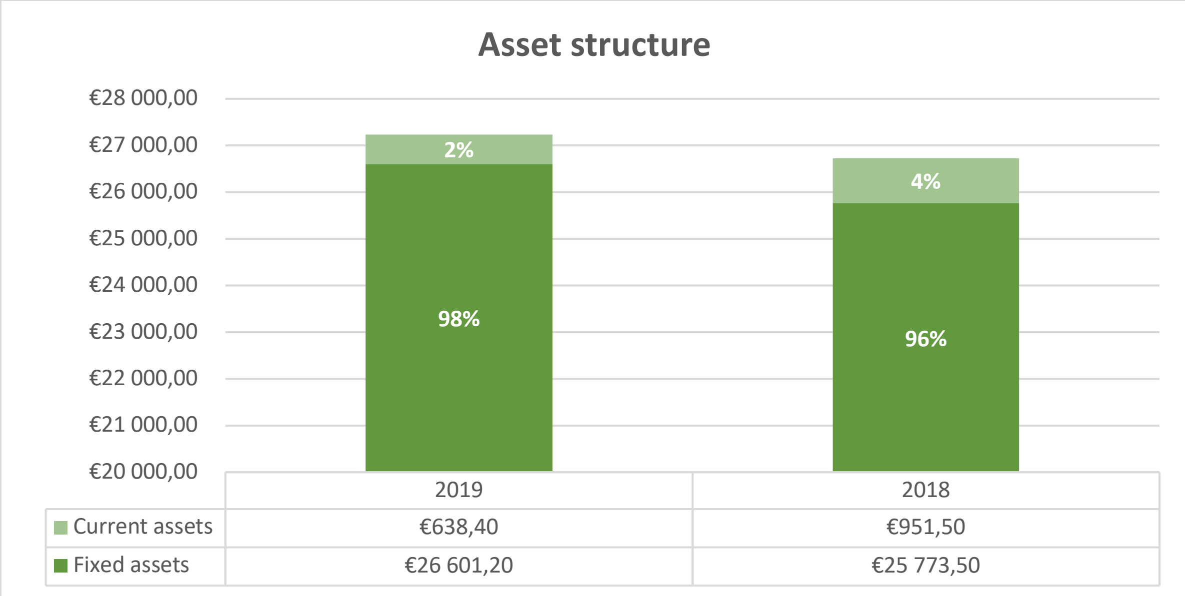
Source: Own processing based on LVMH SA financial statement.

In the French company financial statements, the income statement must be presented by nature. The concept of "comprehensive income" and "other comprehensive income" does not exist, only the income statement is presented. A distinction is required between income from ordinary activities (including operating income and financial income) and extraordinary income. The content of exceptional income according to the GCP is not limited to unusual, abnormal and infrequent items.

Income is recognised when it is realised (certain in principle and amount) and earned during the financial year. When the receivable is certain in principle, but recovery is not probable, income is recognised and, where applicable, a write-down is recorded.

The net income on 2019 increased by 10% compares with 2018. The total sales increased by 20%. Indeed, the financial income increased mostly because, on November 24, 2019, LVMH and Tiffany & Co entered into a definitive agreement for the acquisition of Tiffany by the LVMH Group at a price of $135 per share in cash. The transaction values Tiffany at approximately US$16.2 billion.

Figure 10: LVMH's Asset structure (2017-2019)



Source: Own processing based on LVMH SA financial statement.

In the PCG, there is no distinction between current and non-current items on the balance sheet. The classification of liabilities as current or non-current is generally disclosed in the notes to the financial statements in the form of a schedule of receivables and payables. In addition, the offsetting of financial assets and liabilities is prohibited except when required by specific provisions, which may differ from IFRS.

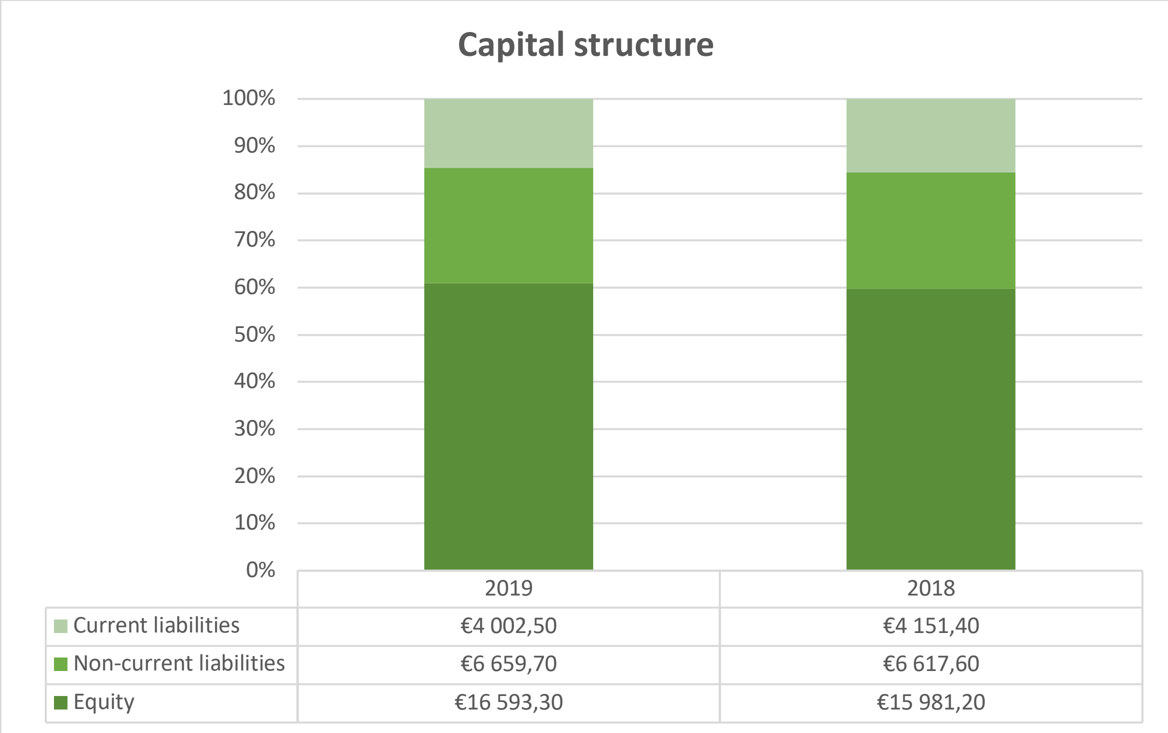
In the corporate financial statements, the acquisition costs of fixed assets can either be included in the acquisition cost, which is the reference method, or recognized as an expense. The cost of the fixed asset is not affected if payment is deferred. Borrowing costs may either be expensed for the period or included in the cost of the asset concerned (no preferential treatment is given in the absence of a reference method).

In the company financial statements, excess depreciation may be recorded for the difference between the useful life and the depreciation period allowed for tax purposes.

The date of sale is generally the date of transfer of ownership.

We can see that LVMH's asset size has not increased significantly between 2018 and 2019. Total assets grew by only 2%. The asset structure has not change either. The assets are mostly composed by Fixed assets. 99% of this fixed asset are equity investments in 2018 and 2019. The current assets have decreased by 33% due to the reduction of 299,4 million of euros of LVMH's receivables.

Figure 11:LVMH's Capital structure (2017-2019)



Source: Own processing based on LVMH SA financial statement.

At 31 December 2019, the Company's share capital amounted to 151,629,385.50 euros divided into 505,431,285 fully paid-up shares with a par value of 0.30 euros each. During the year, 403,946 shares were issued as a result of the exercise of stock options; in addition, 2,156 shares were cancelled. Therefore, the LVMH's capital structure did not really changed between 2018 and 2019. The equity is mostly composed by 67% of retained earnings and the non-current liabilities by 99% of bonds.

In the company financial statements, the concept of equity is legal. There is an intermediate heading "other equity" between debt and equity, in which certain financial instruments are classified (bonds redeemable in shares, participating loans, etc.).

Compound financial instruments are fully recognized either as liabilities or as "other equity", and are not separated into two components.

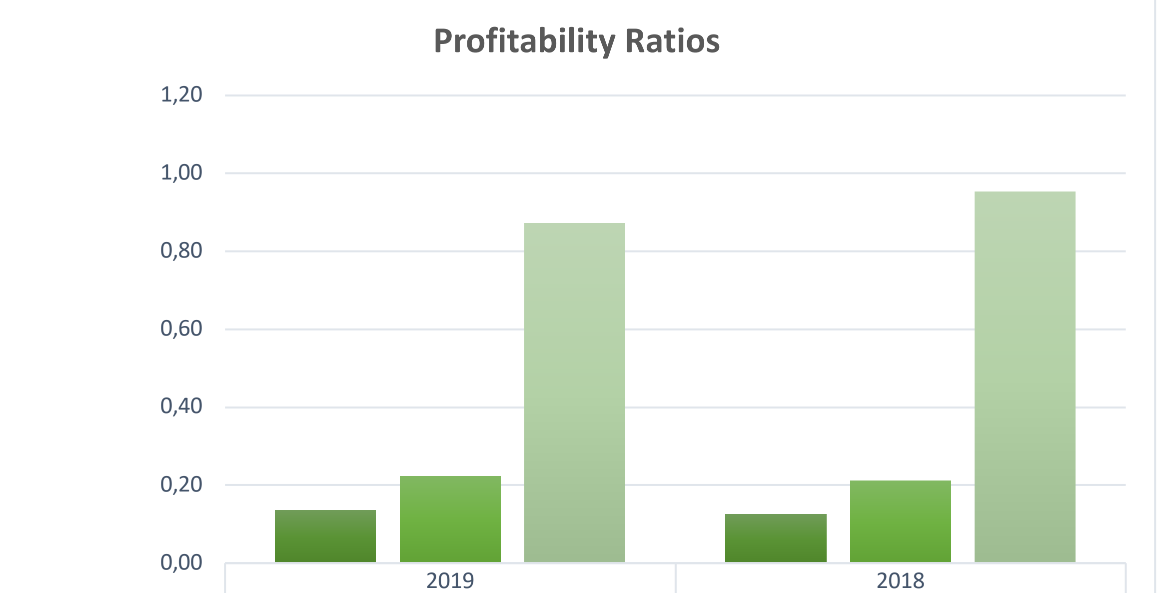
In the corporate financial statements, the costs of capital increases, mergers, spin-offs or contributions may be:

- charged to share and merger premiums, with the surplus recognised as an expense in the event of a shortfall,
- recognised as an expense for the period,

▪ ecorded as assets.

In the company financial statements, treasury shares held are recorded either as fixed assets or as marketable securities, depending on the purpose of the share buyback.
The treatment of treasury shares depends on their classification in the parent company financial statements. Treasury shares classified as long-term investments in the parent company financial statements are deducted from shareholders' equity in the consolidated financial statements and those classified as marketable securities in the parent company financial statements are maintained under this item in the consolidated financial statements.

Figure 12 : Profitability ratio of LVMH SA (2019-2018)



	2019	2018
ROA	0,14	0,13
ROE	0,22	0,21
Net profit margin	0,87	0,95

Source: Own processing based on LVMH SA financial statement

LVMH SA's profitability ratio are almost the same in 2018 and 2019. The return on assets ratios (ROA) is average at 14% which means the Company can generate 14 EUR from 100 EUR of asset. ROA is an indicator of how well a company utilizes its assets, by determining how profitable a company is relative to its total assets.

The return on equity ratios (ROE) is also stable with 22% in 2019 and 21% in 2018. ROE measures how the profitability of a corporation in relation to stockholders' equity. Therefore, the high LVMH 's rate permits to attract investors.

Nonetheless, LVMH's net profit margin decreased from 95% to 87%. This rate shows that LVMH's net profit represents 95% of its total revenue in 2018 and 87% in 2019. This change is explained by the rise of personnel costs and of other net management charges.

4.2.2 Consolidated financial statements of LVMH Group in IFRS framework

LVMH group turned in an exceptional performance, driven by the excellent momentum of all its businesses. LVMH's consolidated balance sheet total at the end of 2019 amounted to 96,5 billion of euros, up 22,2 billion of euros compared to the end of 2018, of which 12,0 billion of euros related to the application of IFRS 16.

LVMH Group financial performance from 2017 to 2019 is analyzed and explain in the following tables. We realized a vertical and horizontal analyses and then, we analyzed more specifically the financial performance of LVMH Group.

4.2.2.1 Vertical Analysis

Figure 13:Consolidated Income Statement LVMH Group (2017-2019) in Millions EUR

	2019		2018		2017	
Revenue	**53670**	***100%***	**46826**	***100%***	**42636**	***100%***
Cost of sales	-18123		-15625		-14783	
Gross margin	35547	*66%*	31201	*67%*	27853	*65%*
Marketing and selling expenses	-20207		-17755		-16395	
General and administrative expenses	-3864		-3466		-3162	
Income/(loss) from joint ventures and associates	28		23		-3	
Profit from recurring operations	11504	*21%*	10003	*21%*	8293	*19%*
Other operating income and expenses	-231		-126		-180	
Operating profit	**11273**	***21%***	**9877**	***21%***	**8113**	***19%***
Cost of net financial debt	-107		-117		-137	
Interest on lease liabilities	-290		0		0	
Other financial income and expenses	-162		-271		78	
Net financial income/(expense)	-559		-388		-59	
Income taxes	-2932		-2499		-2214	
Net profit before minority interests	7782	*14%*	6990	*15%*	5840	*14%*
Minority interests	-611		-636		-475	
Net profit, Group share	**7171**	***13%***	**6354**	***14%***	**5365**	***13%***
Basic Group share of net earnings per share *(EUR)*	14,25		12,64		10,68	
Number of shares on which the calculation is based	503218851		502825461		502412694	
Diluted Group share of net earnings per share *(EUR)*	14,23		12,61		10,64	
Number of shares on which the calculation is based	503839542		503918140		504010291	

Source: Own processing based on LVMH Group financial statement

Figure 14:Consolidated Balance Sheet LVMH Group (2017-2019) in Millions EUR

	2019		2018		2017	
ASSETS (EUR millions)						
Brands and other intangible assets	17212	*25%*	17254	*34%*	16957	*35%*
Goodwill	16034	*23%*	13727	*27%*	13837	*28%*
Property, plant and equipment	18533	*26%*	15112	*30%*	13862	*28%*
Right-of-use assets	12409	*18%*	0	*0%*	0	*0%*
Investments in joint ventures and associates	1074	*2%*	638	*1%*	639	*1%*
Non-current available for sale financial assets	915	*1%*	1100	*2%*	789	*2%*
Other non-current assets	1546	*2%*	986	*2%*	869	*2%*
Deferred tax	2274	*3%*	1932	*4%*	1741	*4%*
Non-current assets	**69997**	*73%*	**50749**	*68%*	**48694**	*70%*
Inventories and work in progress	13717	*52%*	12485	*53%*	10888	*52%*
Trade accounts receivable	3450	*13%*	3222	*14%*	2736	*13%*
Income taxes	406	*2%*	366	*2%*	780	*4%*
Other current assets	3264	*12%*	2868	*12%*	2919	*14%*
Cash and cash equivalents	5673	*21%*	4610	*20%*	3738	*18%*
Current assets	**26510**	*27%*	**23551**	*32%*	**21061**	*30%*
Total assets	96507		**74300**		**69755**	
LIABILITIES AND EQUITY *(EUR millions)*						
Equity, Group share	36586	*95%*	32293	*95%*	28969	*95%*
Minority interests	1779	*5%*	1664	*5%*	1408	*5%*
Equity	**38365**	*40%*	**33957**	*46%*	**30377**	*44%*
Long-term borrowings	5101	*14%*	6005	*26%*	7046	*29%*
Non-current lease liabilities	10373	*29%*	0	*0%*	0	*0%*
Non-current provisions and other liabilities	3812	*11%*	3188	*14%*	3177	*13%*
Deferred tax	5498	*15%*	5036	*21%*	4989	*20%*
Purchase commitments for minority interests' shar	10735	*30%*	9281	*39%*	9177	*38%*
Non-current liabilities	35519	*37%*	23510	*32%*	**24389**	*35%*
Short-term borrowings	7610	*34%*	5027	*30%*	4530	*30%*
Current lease liabilities	2172	*10%*	0	*0%*	0	*0%*
Trade accounts payable	5814	*26%*	5314	*32%*	4539	*30%*
Income taxes	722	*3%*	538	*3%*	763	*5%*
Current provisions and other liabilities	6305	*28%*	5954	*35%*	5157	*34%*
Current liabilities	22623	*23%*	16833	*23%*	**14989**	*21%*
Total liabilities and equity	**96507**		74300		**69755**	

Source: Own processing based on LVMH Group financial statement.

4.2.2.2 Horizontal Analysis

Figure 15:Consolidated Income Statement LVMH Group (2017-2019) in Millions EUR

	2019		2018		2017
Revenue	**53670**	*15%*	**46826**	*10%*	**42636**
Cost of sales	-18123	*16%*	-15625	*6%*	-14783
Gross margin	35547	*14%*	31201	*12%*	27853
Marketing and selling expenses	-20207	*14%*	-17755	*8%*	-16395
General and administrative expenses	-3864	*11%*	-3466	*10%*	-3162
Income/(loss) from joint ventures and associates	28	*22%*	23	*-867%*	-3
Profit from recurring operations	11504	*15%*	10003	*21%*	8293
Other operating income and expenses	-231	*83%*	-126	*-30%*	-180
Operating profit	**11273**	*14%*	**9877**	*22%*	**8113**
Cost of net financial debt	-107	*-9%*	-117	*-15%*	-137
Interest on lease liabilities	-290		0		0
Other financial income and expenses	-162	*-40%*	-271	*-447%*	78
Net financial income/(expense)	-559	*44%*	-388	*558%*	-59
Income taxes	-2932	*17%*	-2499	*13%*	-2214
Net profit before minority interests	**7782**	*11%*	**6990**	*20%*	**5840**
Minority interests	-611	*-4%*	-636	*34%*	-475
Net profit, Group share	**7171**	*13%*	**6354**	*18%*	**5365**
Basic Group share of net earnings per share *(EUR)*	14,25	*13%*	12,64	*18%*	10,68
Number of shares on which the calculation is based	503218851	*0%*	502825461	*0%*	502412694
Diluted Group share of net earnings per share *(EUR)*	14,23	*13%*	12,61	*19%*	10,64
Number of shares on which the calculation is based	503839542	*0%*	503918140	*0%*	504010291

Source: Own processing based on LVMH Group financial statement

Figure 16: Consolidated Balance Sheet LVMH Group (2017-2019) in Millions EUR

	2019		2018		2017
ASSETS *(EUR millions)*					
Brands and other intangible assets	17212	*0%*	17254	*2%*	16957
Goodwill	16034	*17%*	13727	*-1%*	13837
Property, plant and equipment	18533	*23%*	15112	*9%*	13862
Right-of-use assets	12409	*100%*	0	*0%*	0
Investments in joint ventures and associates	1074	*68%*	638	*0%*	639
Non-current available for sale financial assets	915	*-17%*	1100	*39%*	789
Other non-current assets	1546	*57%*	986	*13%*	869
Deferred tax	2274	*18%*	1932	*11%*	1741
Non-current assets	**69997**	*38%*	**50749**	*4%*	**48694**
Inventories and work in progress	13717	*10%*	12485	*15%*	10888
Trade accounts receivable	3450	*7%*	3222	*18%*	2736
Income taxes	406	*11%*	366	*-53%*	780
Other current assets	3264	*14%*	2868	*-2%*	2919
Cash and cash equivalents	5673	*23%*	4610	*23%*	3738
Current assets	**26510**	*13%*	**23551**	*12%*	**21061**
Total assets	96507	*30%*	**74300**	*7%*	**69755**
LIABILITIES AND EQUITY *(EUR millions)*					
Equity, Group share	36586	*13%*	32293	*11%*	28969
Minority interests	1779	*7%*	1664	*18%*	1408
Equity	**38365**	*13%*	**33957**	*12%*	**30377**
Long-term borrowings	5101	*-15%*	6005	*-15%*	7046
Non-current lease liabilities	10373	*1%*	0	*0%*	0
Non-current provisions and other liabilities	3812	*20%*	3188	*0%*	3177
Deferred tax	5498	*9%*	5036	*1%*	4989
Purchase commitments for minority interests' shar	10735	*16%*	9281	*1%*	9177
Non-current liabilities	35519	*51%*	23510	*-4%*	**24389**
Short-term borrowings	7610	*51%*	5027	*11%*	4530
Current lease liabilities	2172	*1%*	0	*0%*	0
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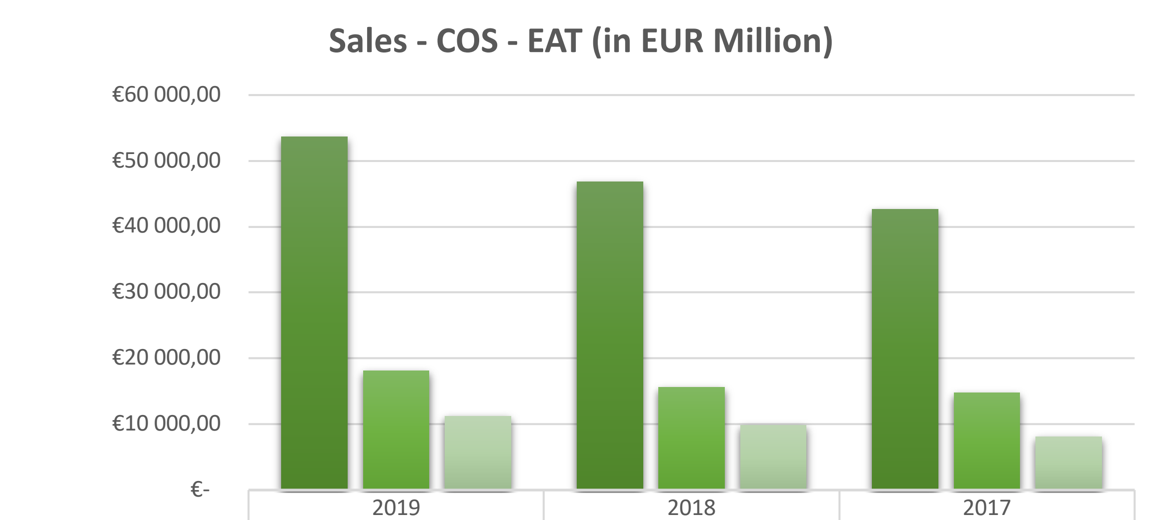
Income taxes	722	*34%*	538	*-29%*	763
Current provisions and other liabilities	6305	*6%*	5954	*15%*	5157
Current liabilities	22623	*34%*	16833	*12%*	**14989**
Total liabilities and equity	**96507**	*30%*	74300	*7%*	**69755**

Source: Own processing based on LVMH Group financial report.

4.3

4.3.1.1 Financial analysis

Figure 17: Main financial results of LVMH Group (2017-2019) in EUR Millions



	2019	2018	2017
Total sales	€53 670,00	€46 826,00	€42 636,00
Cost of sales	€18 123,00	€15 625,00	€14 783,00
Net income (EAT)	€11 273,00	€9 877,00	€8 113,00

Source: Own processing based on LVMH Group financial report.

Under IFRS, the components of net income and other comprehensive income can be presented:

- in a single statement, but separating the net income from the other components of comprehensive income,
- in two statements: firstly, the income statement presenting the components of net income, followed by the statement of other comprehensive income.

IFRS requires the presentation of certain items in the statement of net income and other comprehensive income, without any particular format.

Expenses may be presented according to their nature (personnel expenses, depreciation, amortisation and impairment) or according to their function (cost of sales, distribution costs, administrative costs).

A sub-total "operating income" is not mandatory, and the concept is not defined in IFRS. If an "operating profit" sub-total is presented, it must include all activities that can be considered by the entity as operating activities.

LVMH's sales for the 2019 financial year amounted to 53,670 millions of euros, an increase of 15% over 2018 and of 26% over 2017. This change is mostly explained by the increase of the invoice currencies against the euro, particularly the 5% rise in the US dollar.

Morever, the other main change is related to the full consolidation of the Belmond hotel group.

According to LVMH's activity report, the Fashion and Leather Goods sector increased by 2 points (41%) while Selective Retailing fell by 1 point to 28%. The weight of Watches and Jewelry and Wines and Spirits declined by 1 point each to 8% and 10%, while the weight of Perfumes and Cosmetics remained stable at 13%.

Other expenses for the 2019 financial year include in particular -100 million euros in pledges for the reconstruction of Notre-Dame de Paris, -57 million euros in reorganisation costs, -45 million euros in acquisition costs of consolidated companies and -26 million euros in depreciation, amortisation and impairment of brands, goodwill and property assets.

Therefore, LVMH’s net profit is about 11,273 millions of euros, up 14% compared to fiscal year 2018 and 39% over 2017.

Figure 18: Profitability Ratios of LVMH Group (2017-2019)

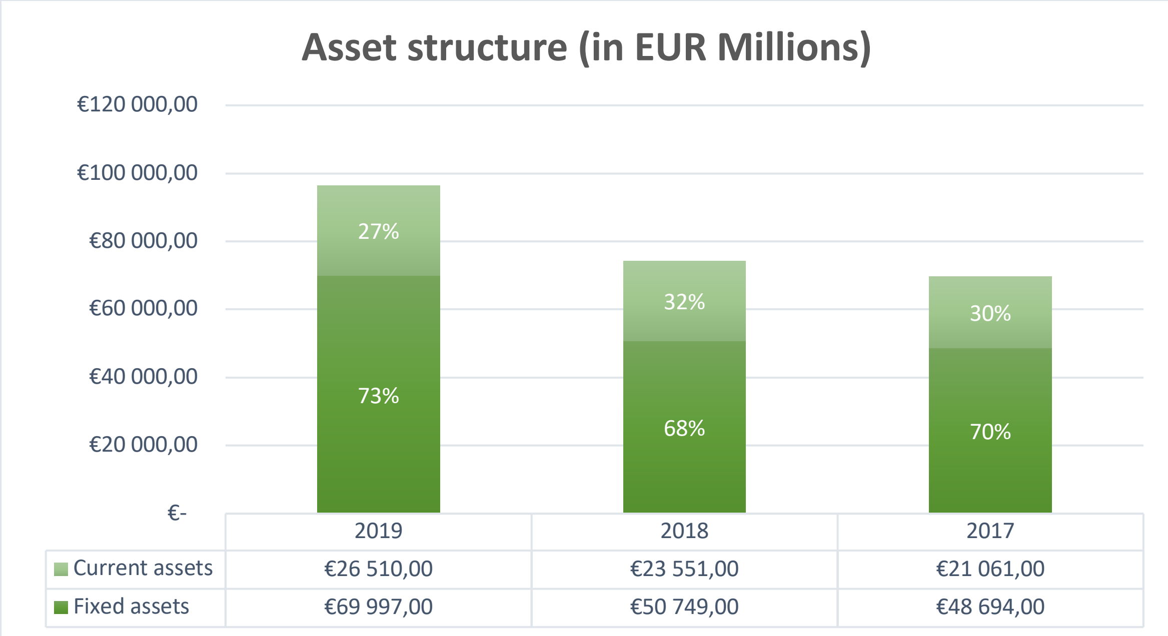
Source: Own processing based on LVMH Group financial report.

LVMH’s ROA did not change significantly between 2019, 2018 and 2017. ROA is average at 8% which means the Company can generate 8 EUR from 100 EUR of asset.

Moreover, the LVMH's ROE is also stable with 20% in 2019 and 2018, and 19% in 2017. This high rate is a good indicator for attracting new investors.

Finally, LVMH’s net profit margin is in the same scenario. It is around 13% during the tree past years. This rate shows that LVMH’s net profit represents 13% of its total revenue.

Figure 19: LVMH's Asset structure (2017-2019)



Source: Own processing based on LVMH Group financial report.

Under IFRS, an entity's statement of financial position presents assets and liabilities by distinguishing between current and non-current items. However, an entity may present its assets and liabilities in order of liquidity if this provides reliable and more relevant information.

An asset is classified as a current asset if it is expected to be realized in the normal operating cycle or within 12 months after the balance sheet date, if it is held for trading or if it is cash or cash equivalents.

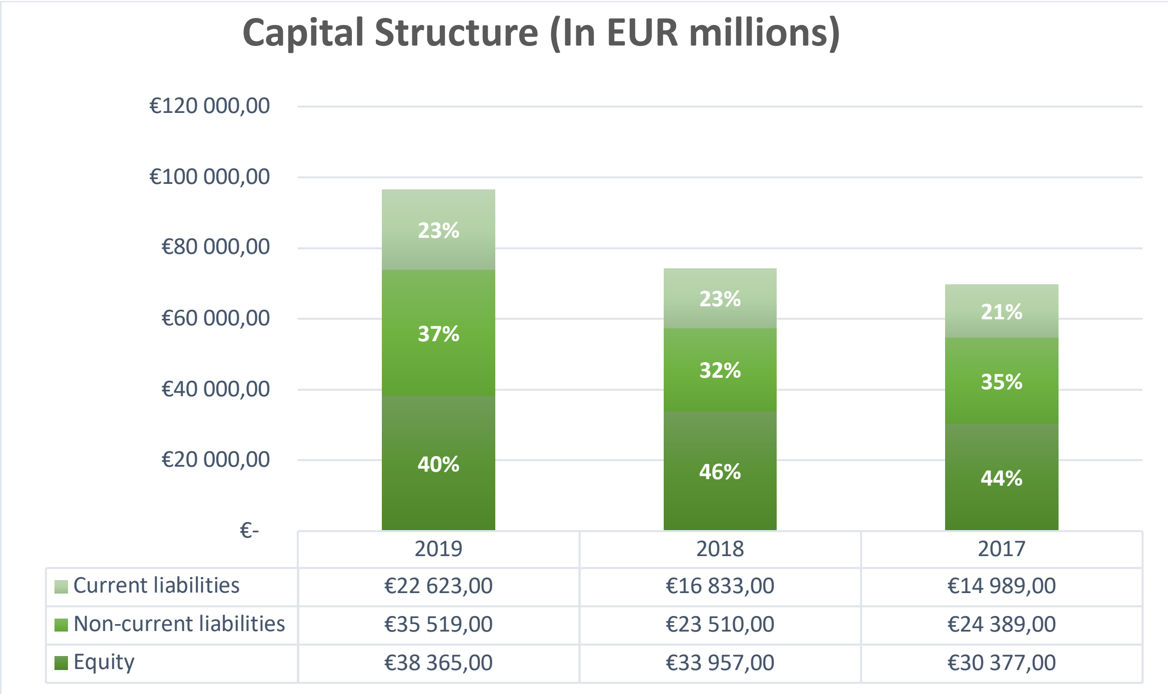
A liability is classified as a current liability if it is expected to be settled in the normal operating cycle or within 12 months after the balance sheet date, or if there is no unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

LVMH’s fixed asset increased by 38% (19,2 billion) and represents in 2019 73% of the balance sheet total, compared with 68% at the end of 2018. This increase is mainly due to the recognition of right-of-use as assets following the application of IFRS 16. The right of use represents €12.4 billion at the end of 2019. Shop leases account for the bulk of the rights of use, amounting to €9.9 billion.

Moreover, the rise of intangible and tangible assets respectively by 2,3 and 3,4 billion € is mainly related to the consolidation of Belmond, according to the LVMH’s annual report.

LVMH’s current assets increased by almost 3 billion, mainly due to the 1,1 billion increase in cash and cash equivalents and the 0,5 billion increase in operating receivables, in line with the growth in the Group's business activities. Also, inventories rose by 1,2 billion, an increase linked to the development of the Group's activities.

Figure 20: LMVH Group's Capital structure (2017-2019)



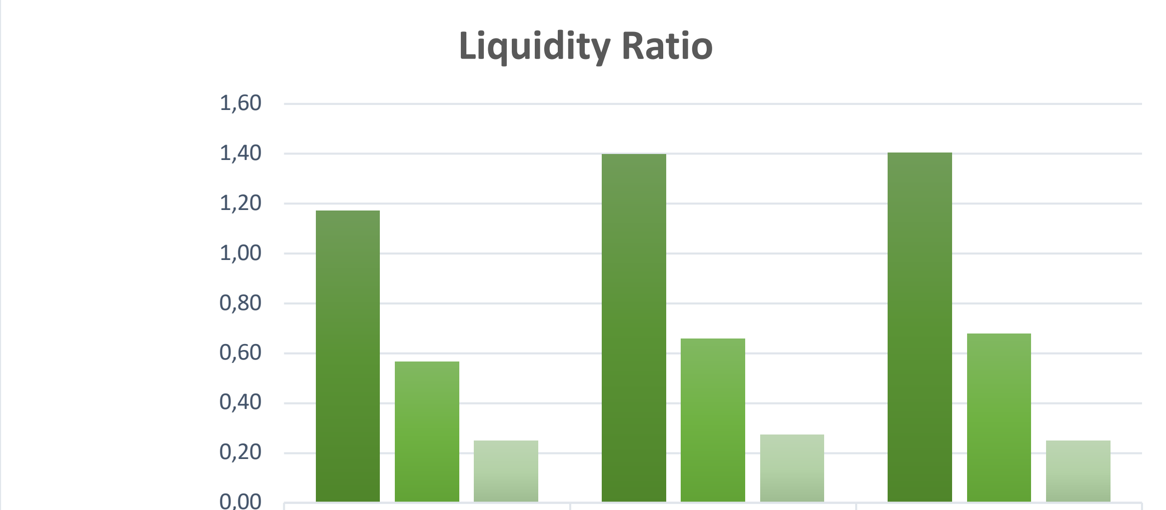
	2019	2018	2017
Current liabilities	€22 623,00	€16 833,00	€14 989,00
Non-current liabilities	€35 519,00	€23 510,00	€24 389,00
Equity	€38 365,00	€33 957,00	€30 377,00

`Source: Own processing based on LVMH Group financial report.

The 51% increase in non-current liabilities is explained by the application of IFRS 16. The application of IFRS 16 resulted in the recognition of rental liabilities totalling 12.5 billion, of which 10.4 billion due in more than one year and 2.2 billion due in less than one year (current liabilities), in return for rights of use recorded in assets. Other current liabilities increased by 21% to settle in 20,4 billion. This change is mainly due to the increase in trade payables.

Finally, LVMH’s equity amounted to 38,4 billion of euros at the end of 2019, up 4,4 billion compared with the end of 2018. Profit for the year, net of dividend distributions, contributed €4.2 billion to this increase. At the end of 2019, total shareholders' equity represented 40% of the balance sheet total, compared with 46% at the end of 2018.

Figure 21: Liquidity Ratio of LVMH Group (2017-2019)



	2019	2018	2017
Working capital ratio	1,17	1,40	1,41
Quick ratio	0,57	0,66	0,68
Cash ratio	0,25	0,27	0,25

Source: Own processing based on LVMH Group financial report.

Liquidity ratio analysis is the use of several ratios to determine the ability of an organization to pay its bills in a timely manner. This analysis is important for lenders and creditors, who want to gain some idea of the financial situation of a borrower or customer before granting them credit.

LVMH's working capital ratio, called also current ratio, decreased in 2019 after two consecutive high performance in 2017 and 2018. However, it stays still quite high in 2019 with 1,17. This means that LVMH Group can meet its current short-term debt obligations 1.17 times over, so the company deteriorated his liquidity. This ratio compares all current assets to all current liabilities. This ratio includes inventory, which is not especially liquid, and which can therefore mis-represent the liquidity of a business.

Moreover, the company's quick ratio decreased by 0,1 point over 2018 and it is at 0,57. This means that the firm cannot meet its current short-term debt obligations without selling inventory because the quick ratio is 0.57, which is less than 1 point. In order to stay solvent and pay its short-term debt without selling inventory, the quick ratio must be at least 1, which it is not.

Finally, these past tree years, LVMH's cash ratio is stable around 0,25. With cash ratio, we compare the amount of cash and investments to short-term liabilities. This ratio excludes any assets that might not be immediately convertible into cash, especially inventory. Many creditors take carefully take a look at this ratio because they want to see if the Company can maintain cash balance adequately to pay off their current debts when they come to due.

5 Results and Discussion

5.1 Main differences between French accounting system, and international accounting standards IAS/IFRS

5.1.1 Comparison of the information reported according to the quantitative characteristics

The PCG remains the main accounting standard for the annual financial statements of all French companies, both for consolidated financial statements (for groups) and for the financial statements of many small and medium-sized enterprises.

However, groups and companies focused on the financial markets and listed on the stock exchange must also comply with the international IFRS requirements under the IAS framework adopted by the European Commission. For other companies, the option of allowing (and therefore not requiring) has been retained by France. Article 1 of Ordinance 2004-1382 of 20 December 2004 amends the Commercial Code in this sense: "When they use the international accounting standards adopted by regulation of the European Commission, commercial companies that draw up and publish consolidated accounts within the meaning of Article L. 233-16 are exempted from complying with the accounting rules set out in Articles L. 233-18 to L. 233-23 for the preparation and publication of their consolidated accounts. Thus, as of 2005, unlisted companies can opt out of the application of the French accounting framework (PCG) and instead apply the IASB framework: IFRS.

Accounting is above all an information system that presents the activity of a company and highlights its relations with various partners. The accounting frameworks aim to provide information for investors and lenders as well as for the Directorate General of Public Finances. An important difference between GAAP and IFRS is precisely the objective or purpose of this accounting presentation. IFRS is more focused on the needs of investors or lenders and therefore has a shareholder orientation as the comparative table between GAAP and IFRS below reveals:

Table 1:Differences between PCG and IFRS standards

Comparison items	*French GAAP*	*IFRS*
Reporting currency	Only in euros (€)	Entities can present financial statement in different currencies
Reference framework	Two reference systems: • consolidated accounts • company accounts	A single reference framework for all economic actors.
Standard-setting authority	State and regalian approach to accounting and derives directly from the French public authorities.	Derives from private bodies and rather independent of public authorities: IASB (private institute) but recognition by the European Commission.
Orientation	• Orientation towards the company's stakeholders. • More partnership-oriented	For investors with a more shareholder-oriented view of corporate governance.
Components of financial statements	• Balance sheet; • Income statement; • Notes to financial statement;	• Balance sheet • Income statement • Statement of changes in equity • Cash flow statement • Notes to financial statement • Any additional document useful for a good understanding of the accounts

Balance sheet format	• The presentation is done either in table or list form and is broken down into headings and items. • Each of the items includes the figure relating to the corresponding item in the previous year. • Current/non-current distinction for asset and liabilities • On the liabilities , trade and financial payables are separated	• Current/non-current distinction for asset and liabilities • Separate line item for employee benefit obligations • Separate line items for financial assets/liabilities and contract assets/liabilities • Does not prescribe detail order or format.
Income statement format	• The presentation is done either in table or list form and is broken down into headings and items. • Each of the items includes the figure relating to the corresponding item in the previous year.	• Items that must be presented: -revenue -gains and losses -finance costs -gains or losses associated with the reclassification of financial assets -tax expense -a single amount for the total of discontinued items • Expenses should be analysed by nature or by function. By function, then additional information on the nature of expenses must be disclosed.

Statement of changes in equity	• Not mandatory unless there is a significant change in equity that prevents a comparison with the previous year • Presented as a note • No imposed model but in practice the AMF model is used	• Must be presented as a primary statement • The statement of changes in equity shall include: - total comprehensive income for the period, - for each component of equity, the effects of retrospective application - for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period,
Statement of cash flows	• Not mandatory but can be added as an annex • Only use direct or indirect method.	• Use direct or indirect method • Mandatory disclosures: - non-cash financing and investing transactions - components of cash and cash equivalents a - unavailable cash balances with comments.

Notes to financial statement	The law provides for several annexes which supplement and comment on the information given in the balance sheet and the income statement: • the characteristic facts of the financial year, • the accounting rules and methods used by the company, • the table of receivables and debts with the due dates, • the table of related companies, • the statement of fixed assets and depreciation • etc ...	• Mandatory in financial statement • Financial statement notes refer to the additional notes included in the financial statements • Used to make important disclosures that explain the assumptions used to prepare the financial statements • Common notes include accounting policies, depreciation of assets, inventory valuation, subsequent events, etc.
Changes in accounting policies	• A change in accounting policy is only allowed : -if there is a choice between several methods and if the change leads to better financial information. -changes in regulations that are imposed on the company -adoption of a preferential method recommended by the PCG • Changes must be described and justified in the annex. The effects of the change on the results and equity of previous years should also be disclosed.	• Changes are allowed only if it is required by a Standard or Interpretation or changes make the presentation more reliable. • Where an entity has changed its hedge accounting policies, it should also disclose the impact on the current period • Change are applied retrospectively if it is not impossible to determine the effects of the change related to the period

Events after the balance sheet date	The financial statements are not adjusted for a post balance sheet event that indicates that the going concern principle is no longer appropriate.	The financial statements are adjusted if a post balance sheet event indicates that the going concern basis is not appropriate.
Inventory valuation	In France, only 2 methods are allowed: • CUMP (Weighted average cost) • FIFO (first in first out)	In IFRS, a company can use: • FIFO • Standard cost • Retail methods • Weighted average • Specific cost LIFO is prohibited
Fixed assets	• Fixed assets are recorded at their acquisition cost or production cost. • Acquisition costs are expensed directly. • Current repair and maintenance costs are expensed in the year in which they are incurred. • Depreciation is calculated on the basis of the rate of consumption of the economic benefits expected from the asset. The straight-line method is generally used. • Special depreciation is recorded in the balance sheet under "Regulated provisions" whenever the periods allowed for tax purposes are shorter than the useful lives.	• Recording in the balance sheet and then charge to expenses through depreciation expenses. • Depreciation should be started when the assets are ready for use • Depreciation charge for each period is recognised in income statement unless it is included in the carrying amount of another asset.

Intangible assets	• Intangible assets mainly include: -software recorded at acquisition cost or production cost -purchased goodwill, -development costs • Expenditure on research activities is expensed in the year in which it is incurred. • Depreciation: the straight-line method is generally used. • Commercial funds and assets under construction are not amortized. • Special depreciation is recorded in the balance sheet under "Regulated provisions" whenever the periods allowed for tax purposes are shorter than the useful lives.	Intangible asset shall respect the following conditions: • The cost must be computed reliably and measured initially at cost • The future economic benefits of the assets will bring profits for the company
Lease	• Expense recognition of amounts due during the lease • Recognition as an asset of the asset when the purchase option is exercised	• The leased asset is shown on the asset side of the balance sheet as a receivable in an amount equal to the net investment in the lease. • The finance charge must be spread over the different periods covered by the lease contract

Provision	3 types of provisions: • Provisions for depreciation, • Provisions for risks and charges • Regulated provisions (provisions for fixed assets and inventories and accelerated depreciation).	Provisions are recognized only when a past event has created a constructive obligation; resource’s outflow is probable and obligation's amount can be estimated reliably
Goodwill	• Existence of a foreseeable time limit • Straight-line depreciation over this period or over 10 years if no reliable evaluation is possible • Impairment test in the event of an indication of loss of value	• Goodwill can not be amortizabled • The residual goodwill is recognized as an intangible asset with an indefinite life • Mandatory impairment testing at each balance sheet date and whenever there is an indication of impairment • Reversal of impairments is prohibited

As shown in the table above. International Financial Reporting Standards (IFRS) are therefore oriented towards the shareholder world. Indeed, these standards are mainly influenced by the Anglo-Saxon liberal economy. Like US-GAAP, IFRS are capital market oriented. As a result of globalisation, many French companies cover their financial resource needs mainly through foreign capital (often in the form of loans), or on the stock market. The recipients of international financial statements are therefore generally shareholders. The IFRS standards therefore respond to this situation and allow investors, particularly foreign investors, to have all the information they need to make decisions. This informative function therefore comes to the fore and replaces the valuation function, which remains central to GAAP.

Unlike IFRS financial statements, GAAP financial statements are more the basis and framework for calculating corporate taxation. Accounting standards are also useful for states to regulate and assess taxation and thus act as an authority in this area. In France, taxation (in particular the IS which is the corporate income tax) is mainly the taxation of a company's profits made on the national territory. Thus the tax balance sheet is a direct result of the trade balance.

Moreover, PCG and IFRS standards have a different definition of revenue. Whereas PCG standards arebased on a legal vision, where the transfer of ownership conditions the recognition of a product, IFRS standards favour the notion of control. There are therefore significant differences between the two standards, regardless of the category of revenue considered.

Table 8: Differences between PCG and IFRS standards for revenue recognition

	IFRS	*PCG*
Accounting principles	Accounting upon transfer of substantially all risks and rewards	Accounting on transfer of ownership
Sales under resolutory conditions	• If the risks related to the resolution of the sale are negligible (negligible uncertainty and low probability of return): revenue • If the risks and rewards are considered to be retained by the seller: the transaction is not treated as a sale.	• If the risks associated with the resolution of the sale are negligible: product fully taken into account. • If the risks related to the resolution of the sale are low: the sale is recorded with a provision for risks. • If there is no transfer of the essential risks and benefits inherent to ownership: act of financing generating ordinary business income.
Sales to be delivered	Recognition if: delivery is probable, or delivery is postponed if agreed between the parties, or if payment terms are customary.	Accounting if the products are manufactured and identified .
Sales with limited return clauses	If the probability of return is low, there is no need to wait until the return	Waiting for the return period to expire before recognising the revenue: certain future benefits .

	period has expired: it is sufficient that future benefits are probable.	
Recovery-oriented accounting	If recovery is probable, recognition of the income.	Revenue recognition if the transaction is certain and can be reliably measured.
Trade in goods	. No income is recognised for goods of a similar nature and value.	. Revenue recognition .
Deferred collection	Updating is mandatory and its effect is significant.	No update
Economic advantages with suppliers	Recorded as a decrease in turnover.	Recorded in operating expenses.
Financial discounts granted	Recorded as a decrease in turnover.	Recorded as financial expenses.
Service provision	Accounting according to the degree of completion, with the existence of a contract, budgetary monitoring and physical or financial monitoring of the various stages.	Revenue is recognised on the basis of the stage of completion or on completion of the services, at the client's option.

5.1.2 Comparison of the information reported according to the qualitative characteristics

In financial statement, the quality of reported information is important for helping the external users to understand better the financial situation of a company. The qualitative characteristics can be :

- **Reliability**: Reliable information are important to form judgements about the earning potential and financial position of a business firm. Even if the French accounting is more conservative than the IFRS one, it may not reflect enough the reality. Some items of information presented in annual reports may be more reliable, like for example the risk assessment.
- **Relevance**: IFRS framework has a strengthening relevance of financial reporting. Indeed, IFRS finds a way to help investors better understand the financial impact of aspects of business performance that cannot be adequately captured in the financial statements. In LVMH Group financial statements, the notes are more detailed than in LVMH SA. The information explained in the notes helps the external user to make a decision by helping him to form predictions about the outcomes of past, present and future events or to confirm or correct expectations. Therefore, relevant information reduces the uncertainty of the external user's decision on future actions.
- **Understandability**: Presentation of information should not only facilitate understanding but also avoid wrong interpretation of financial statements. Therefore, accounting information should not be limited to the interests of ordinary investors or experienced users but should be oriented for a wider range of users. In LVMG Group financial statement in IFRS, the information is more oriented for investor than for all the external users. However, not all shareholders have the same financial knowledge, so it can be misinterpreted by some external users.
- **Comparability**: Financial or economic decisions require making choices among different possible actions. When making a decision, the decision maker will compare the different options. Therefore, detailed financial information and the presentation of previous years' results will facilitate this choice. LVMH's French financial statements were detailed over 2 years, while those under IFRS were detailed over 3 years. It is therefore easier to compare financial information under IFRS than under French accounting

5.2 Advantages and disadvantages of French accounting system in comparison with IAS/IFRS

5.2.1 Advantages of French accounting system

Compared to IFRS, French GAAP is based on a very hierarchical accounting system that allows

- to aggregate very easily sets of homogeneous operations, for example to know the balance of all the bank accounts, it is enough to consult the balance of the corresponding account,
- to multiply the subdivisions without difficulty. Some accounts contain 10-digit accounts,

Indeed, a simple knowledge of certain coding rules makes it possible to find the desired account number quite easily.A knowledge of the abbreviated system is sufficient to find an account easily.

For auditors or any other person responsible for examining or giving an opinion on the accounts, this system of chart of accounts, which is imposed by law and for all the country's accounting units, saves a considerable amount of time, since it avoids having to discover and analyse the chart of accounts created ad hoc in accordance with accounting principles and having to check its compatibility with the laws and standards in force.

5.2.2 Disadvantages of French accounting system

The first most important disadvantages is that the French system is relatively strict. The hierarchy of account can be an advantage but also a disadvantage. It doesn’t let enough liberty to companies.

Certain cases such as Enron and Vivendi have brought to light more or less legal practices in accounting texts. These cases have highlighted the need to review accounting. Indeed, a system of rules was previously applicable to accounting and the disadvantage of a rule is that it authorizes what it does not prohibit. Therefore, French accounting is now outdated, too strict and does not evolve to suit the business. Companies need to use it to reflect their financial state, today they are more likely to manipulate the accounts to fit the archaic and strict PCG standards.

Moreover, in Europe or in the world, there is a lack of standardization. Therefore, when a company has to consolidate the accounts of its subsidiaries, it is necessary to create an account-to-account correspondence table, or even to create a special analysis account, because the French chart of accounts is similar, for example, to the Chart of Accounts: For other accounting legislation, it is never ideal to determine the correspondence between subjects. In this respect, it is better to let each company establish its own chart of accounts. The task is the "Anglo-Saxon" system, because in this case the multinational can let all its subsidiaries adopt the chart of accounts. Unit of account, regardless of the country/region of establishment. In order to overcome the lack of standardization of accounting data and to improve the readability of consolidated accounts, Europe has adopted the international accounting standard IAS / IFRS. However, this is not an obligation for the moment which prevent a full harmonization.

Finally, as we can see from the LVMH financial statements, the French statements are less understandable than those under IFRS. Indeed, IFRS are more focused on equity for investors. Investors are not always financially literate and need detailed and concrete explanations. Therefore, it is easier to find information in IFRS statements as an external user because the notes are more detailed.

5.2.3 Limitations of IFRS Framework

Although IFRS have a positive impact on the quality of accounting information, they also have certain limitations.

5.2.3.1 The first adoption of IFRS

Firstly, the results regarding the improvement of the quality of information through the introduction of IFRS differ depending on whether they are the result of voluntary or mandatory transition. Although studies are rather unanimous on the improvement in the quality of information when companies voluntarily adopt IFRS, the results are more controversial when it comes to mandatory adoption in 2005.
However, studies of voluntary adoptions of IFRS suffer from a bias. Indeed, companies do not adopt new accounting standards prematurely unless they have a strong incentive to do so or if they do not expect to benefit from them, especially since IFRS are cumbersome and costly to implement.

Secondly, it should be noted that some European groups decided to voluntarily implement certain elements of IFRS a few years before they were required to do so. Some companies had, for example, provided for pension liabilities or capitalized development expenses in the years before the mandatory changeover in 2005. The full effects of IFRS are therefore sometimes difficult to distinguish as they are spread over several years. This has the consequence of minimizing the impact on the accounts published in the first year following mandatory adoption, impacting the analyses carried out on these accounts.

Finally, a clearer improvement in future cash flow forecasts has been observed for groups that adopted IFRS earlier than for more recent transitions. These results can be explained by the time needed to familiarize themselves with the new system.

This can be explained by the time it takes for companies and financial analysts to become familiar with the new framework. It takes some time for them to learn how to interpret the new financial statements

5.2.3.2 Information environment

Some studies conclude that it is difficult to analyze the impact of IFRS on information content since the latter is influenced by certain institutional factors (Boulerne & Sahut, 2010). Indeed, the improvement of the information content of financial statements after the transition to IFRS would depend on the prior environment of the country of residence and thus on the accounting framework that was to be applied. The added value of IFRS would be lower for companies operating in a previously rich information environment, as investors already have a lot of information before the financial statements are disclosed For example, since French accounting standards are considered to be among the most divergent from IFRS, the changeover in 2005 had more consequences for companies that had previously prepared their accounts under French standards.

The transition to international accounting standards is therefore not in itself a sufficient condition to guarantee an improvement in information content. The environmental context in which these standards are implemented will also have an impact on the quality of the information. It should also be noted that it is difficult to distinguish the impact of IFRS from the legal and institutional changes associated with this changeover during analyses.

5.2.3.3 Differences in accounting practices

The implementation of IFRS has reduced divergences in accounting practices but these difference have not been completely eliminated. Indeed, IFRS have reduced accounting choices in some cases, but some practices still leave some room for manoeuvre for company managers. One example is the recording of expenses as fixed assets. Under IFRS, companies are obliged to capitalize expenses when they meet certain criteria. However, this lesser freedom is generally accompanied by more judgements and assessments on the part of the companies that make certain assumptions.

Impairment tests performed on goodwill are not free of discretionary choices either. In contrast to amortization, impairment testing leaves room for greater subjectivity and discretion in assessing impairment. For example, company managers have a choice regarding the impairment index. This situation may therefore affect the relevance of accounting disclosures.

5.2.3.4 Volatility

The fair value method has led to an increase in the volatility of the company's book values and in particular of the result. Although volatility is generally a source of relevant information for external parties, the volatility created by the fair value method is artificial. This makes it difficult for financial analysts to distinguish between the result generated by the company's decisions and that generated by market fluctuations. Fair value valuations therefore do not always reflect real changes in the company's internal economic events, which can therefore distort financial analysts' assessment of the financial situation.

6 Conclusion

In conclusion, the transition to IFRS is not only a change of accounting framework, but also the adoption of a completely different system of performance measurement and communication with the markets.

Most companies will gain transparency through, for example, segment reporting and the recognition of derivatives at fair value in the balance sheet. More generally, companies will have to provide consistent, more detailed and better-quality information. In addition, the application of these standards will lead to greater transparency in terms of ratings since they will allow for much better comparability.

It is up to each manager to judge whether the adoption of IFRS can be interesting for his company. Furthermore, since 2005, unlisted companies that prepare consolidated accounts can also apply IFRS if they so wish. All of this could mean that the application of IFRS to other unlisted companies like LVMH SA could become a reality in the relatively near future. IFRS may prove to be a really interesting opportunity for unlisted companies of a certain size that think and operate in an international context.

However, even if the Financial Security Act and the concepts of internal auditing try to eliminate the problems of so-called "creative accounting" and other manipulations, questions can still be raised about the validity and reliability of the information provided. In the near future, however, thanks to new management technologies and corporate governance, these risks should be reduced. The development of social and environmental criteria, which are non-financial in nature, raises the question of how these criteria will evolve for the market and shareholders. The question remains open and only the future and the concrete application of the reference framework will allow us to form an accurate idea on this subject.

Finally, the Covid-19 pandemic has affected the main countries of the world with considerable social, economic and financial impacts that have weakened many companies. It is certain that the consequences of the epidemic on the accounts of the financial years ending in 2020 will be relatively important and that it will be interesting to study how they will be treated in the French and international accounting.

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Appendix

Appendix 1:Ratios used for LVMH SA and LVMH group analysis

Ratio	Calcul
Liquidity ratio	▪ Current ratio = $\frac{Current\ assets}{Current\ liabilities}$ ▪ Quick ratio = $\frac{Current\ assets - Inventories}{Current\ liabilities}$ ▪ Cash ratio= $\frac{Cash}{Current\ Liabilities}$
Activity ratio	▪ Total asset turnover = $\frac{Total\ sales}{Total\ asset}$ ▪ Fixed asset turnover = $\frac{Total\ sales}{Fixed\ assets}$
Profitability ratio	• ROA =$\frac{Net\ profit}{Total\ income}$ • ROE = $\frac{Net\ profit}{Equity}$ • Net profit margin = $\frac{Net\ profit}{Total\ sales}$

Appendix 2:Consolidated Balance Sheet LVMH Group (2017-2019)

CONSOLIDATED BALANCE SHEET

ASSETS *(EUR millions)*	Notes	2019	2018[a]	2017[a]
Brands and other intangible assets	3	17,212	17,254	16,957
Goodwill	4	16,034	13,727	13,837
Property, plant and equipment	6	18,533	15,112	13,862
Right-of-use assets	7	12,409	-	-
Investments in joint ventures and associates	8	1,074	638	639
Non-current available for sale financial assets	9	915	1,100	789
Other non-current assets	10	1,546	986	869
Deferred tax	28	2,274	1,932	1,741
Non-current assets		**69,997**	**50,749**	**48,694**
Inventories and work in progress	11	13,717	12,485	10,888
Trade accounts receivable	12	3,450	3,222	2,736
Income taxes		406	366	780
Other current assets	13	3,264	2,868	2,919
Cash and cash equivalents	15	5,673	4,610	3,738
Current assets		**26,510**	**23,551**	**21,061**
Total assets		**96,507**	**74,300**	**69,755**

LIABILITIES AND EQUITY *(EUR millions)*	Notes	2019	2018[a]	2017[a]
Equity, Group share	16	36,586	32,293	28,969
Minority interests	18	1,779	1,664	1,408
Equity		**38,365**	**33,957**	**30,377**
Long-term borrowings	19	5,101	6,005	7,046
Non-current lease liabilities	7	10,373	-	-
Non-current provisions and other liabilities	20	3,812	3,188	3,177
Deferred tax	28	5,498	5,036	4,989
Purchase commitments for minority interests' shares	21	10,735	9,281	9,177
Non-current liabilities		**35,519**	**23,510**	**24,389**
Short-term borrowings	19	7,610	5,027	4,530
Current lease liabilities	7	2,172	-	-
Trade accounts payable	22	5,814	5,314	4,539
Income taxes		722	538	763
Current provisions and other liabilities	22	6,305	5,954	5,157
Current liabilities		**22,623**	**16,833**	**14,989**
Total liabilities and equity		**96,507**	**74,300**	**69,755**

(a) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Appendix 3:Consolidated Income Statement LVMH Group (2017-2019)

CONSOLIDATED INCOME STATEMENT

(EUR millions, except for earnings per share)	Notes	2019	2018[a]	2017[a]
Revenue	24-25	**53,670**	**46,826**	**42,636**
Cost of sales		(18,123)	(15,625)	(14,783)
Gross margin		**35,547**	**31,201**	**27,853**
Marketing and selling expenses		(20,207)	(17,755)	(16,395)
General and administrative expenses		(3,864)	(3,466)	(3,162)
Income/(loss) from joint ventures and associates	8	28	23	(3)
Profit from recurring operations	24-25	**11,504**	**10,003**	**8,293**
Other operating income and expenses	26	(231)	(126)	(180)
Operating profit		**11,273**	**9,877**	**8,113**
Cost of net financial debt		(107)	(117)	(137)
Interest on lease liabilities		(290)	-	-
Other financial income and expenses		(162)	(271)	78
Net financial income/(expense)	27	**(559)**	**(388)**	**(59)**
Income taxes	28	(2,932)	(2,499)	(2,214)
Net profit before minority interests		**7,782**	**6,990**	**5,840**
Minority interests	18	(611)	(636)	(475)
Net profit, Group share		**7,171**	**6,354**	**5,365**
Basic Group share of net earnings per share *(EUR)*	29	**14.25**	**12.64**	**10.68**
Number of shares on which the calculation is based		503,218,851	502,825,461	502,412,694
Diluted Group share of net earnings per share *(EUR)*	29	**14.23**	**12.61**	**10.64**
Number of shares on which the calculation is based		503,839,542	503,918,140	504,010,291

(a) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

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Appendix 4:Consolidated Statement of change of Equity LVMH Group (2017-2019)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR millions)	Number of shares	Share capital	Share premium account	Treasury shares	Cumulative translation adjustment	Revaluation reserves: Available for sale financial assets	Revaluation reserves: Hedges of future foreign currency cash flows and cost of hedging	Revaluation reserves: Vineyard land	Revaluation reserves: Employee benefit commit-ments	Net profit and other reserves	Total equity: Group share	Total equity: Minority interests	Total equity: Total
Notes		16.1	16.1	16.3	16.5							18	
As of December 31, 2016	**507,126,088**	**152**	**2,601**	**(520)**	**1,165**	**-**	**(115)**	**1,078**	**(163)**	**22,190**	**26,388**	**1,510**	**27,898**
Gains and losses recognized in equity					(811)		245	36	30	-	(500)	(134)	(634)
Net profit										5,365	5,365	475	5,840
Comprehensive income		**-**	**-**	**-**	**(811)**	**-**	**245**	**36**	**30**	**5,365**	**4,865**	**341**	**5,206**
Stock option plan-related expenses										55	55	7	62
(Acquisition)/disposal of treasury shares				(50)						(11)	(61)	-	(61)
Exercise of LVMH share subscription options	708,485		53								53	-	53
Retirement of LVMH shares	(791,977)		(40)	40							-	-	-
Capital increase in subsidiaries											-	44	44
Interim and final dividends paid										(2,110)	(2,110)	(261)	(2,371)
Changes in control of consolidated entities										(6)	(6)	114	108
Acquisition and disposal of minority interests' shares										(86)	(86)	(56)	(142)
Purchase commitments for minority interests' shares										(129)	(129)	(291)	(420)
As of December 31, 2017	**507,042,596**	**152**	**2,614**	**(530)**	**354**	**-**	**130**	**1,114**	**(133)**	**25,268**	**28,969**	**1,408**	**30,377**
Gains and losses recognized in equity					219		(259)	3	20	-	(17)	45	28
Net profit										6,354	6,354	636	6,990
Comprehensive income		**-**	**-**	**-**	**219**	**-**	**(259)**	**3**	**20**	**6,354**	**6,337**	**681**	**7,018**
Stock option plan-related expenses										78	78	4	82
(Acquisition)/disposal of treasury shares				(256)						(26)	(282)	-	(282)
Exercise of LVMH share subscription options	762,851		49								49	-	49
Retirement of LVMH shares	(2,775,952)		(365)	365							-	-	-
Capital increase in subsidiaries											-	50	50
Interim and final dividends paid										(2,715)	(2,715)	(345)	(3,060)
Changes in control of consolidated entities										(9)	(9)	41	32
Acquisition and disposal of minority interests' shares										(22)	(22)	(19)	(41)
Purchase commitments for minority interests' shares										(112)	(112)	(156)	(268)
As of December 31, 2018	**505,029,495**	**152**	**2,298**	**(421)**	**573**	**-**	**(129)**	**1,117**	**(113)**	**28,816**	**32,293**	**1,664**	**33,957**
Impact of changes in accounting standards[a]										(29)	(29)	-	(29)
As of January 1, 2019	**505,029,495**	**152**	**2,298**	**(421)**	**573**	**-**	**(129)**	**1,117**	**(113)**	**28,787**	**32,264**	**1,664**	**33,928**
Gains and losses recognized in equity					289		22	22	(107)		226	17	242
Net profit										7,171	7,171	611	7,783
Comprehensive income		**-**	**-**	**-**	**289**	**-**	**22**	**22**	**(107)**	**7,171**	**7,397**	**628**	**8,025**
Stock option plan-related expenses										69	69	3	72
(Acquisition)/disposal of treasury shares				18						(44)	(26)	-	(26)
Exercise of LVMH share subscription options	403,946	-	21	-							21	-	21
Retirement of LVMH shares	(2,156)										-	-	-
Capital increase in subsidiaries											-	95	95
Interim and final dividends paid										(3,119)	(3,119)	(433)	(3,552)
Changes in control of consolidated entities										2	2	25	27
Acquisition and disposal of minority interests' shares										(17)	(17)	-	(17)
Purchase commitments for minority interests' shares										(5)	(5)	(203)	(208)
As of December 31, 2019	**505,431,285**	**152**	**2,319**	**(403)**	**862**	**-**	**(107)**	**1,139**	**(220)**	**32,844**	**36,586**	**1,779**	**38,365**

(a) The impact of changes in accounting standards arose from the application of IFRS 16 Leases as of January 1, 2019. See Note 1.2 regarding the impact of the application of IFRS 16.

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Appendix 5:Consolidated Cash Flow Statement LVMH Group (2017-2019)

CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	Notes	2019	2018[a]	2017[a]
I. OPERATING ACTIVITIES				
Operating profit		11,273	9,877	8,113
(Income)/loss and dividends received from joint ventures and associates	8	(10)	5	25
Net increase in depreciation, amortization and provisions		2,700	2,302	2,376
Depreciation of right-of-use assets	7.1	2,408	-	-
Other adjustments and computed expenses		(266)	(219)	(109)
Cash from operations before changes in working capital		**16,105**	**11,965**	**10,405**
Cost of net financial debt: interest paid		(124)	(113)	(129)
Lease liabilities: interest paid		(239)	-	-
Tax paid		(2,940)	(2,275)	(2,790)
Change in working capital	15.2	(1,154)	(1,087)	(514)
Net cash from operating activities		**11,648**	**8,490**	**6,972**
II. INVESTING ACTIVITIES				
Operating investments	15.3	(3,294)	(3,038)	(2,276)
Purchase and proceeds from sale of consolidated investments	2.4	(2,478)	(17)	(6,306)
Dividends received		8	18	13
Tax paid related to non-current available for sale financial assets and consolidated investments		(1)	(2)	-
Purchase and proceeds from sale of non-current available for sale financial assets	9	(104)	(400)	(38)
Net cash from/(used in) investing activities		**(5,869)**	**(3,439)**	**(8,607)**
III. FINANCING ACTIVITIES				
Interim and final dividends paid	15.4	(3,678)	(3,090)	(1,982)
Purchase and proceeds from sale of minority interests	2.4	(21)	(236)	(153)
Other equity-related transactions	15.4	54	(205)	30
Proceeds from borrowings	19	2,837	1,529	5,931
Repayment of borrowings	19	(1,810)	(2,174)	(1,760)
Repayment of lease liabilities	7.2	(2,187)	-	-
Purchase and proceeds from sale of current available for sale financial assets	14	71	(147)	92
Net cash from/(used in) financing activities		**(4,734)**	**(4,323)**	**2,158**
IV. EFFECT OF EXCHANGE RATE CHANGES		**39**	**67**	**(242)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**1,084**	**795**	**281**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15.1	**4,413**	**3,618**	**3,337**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	15.1	**5,497**	**4,413**	**3,618**
TOTAL TAX PAID		**(3,070)**	**(2,314)**	**(2,402)**

(a) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Alternative performance measure

The following table presents the reconciliation between "Net cash from operating activities" and "Operating free cash flow" for the fiscal years presented:

(EUR millions)	2019	2018	2017
Net cash from operating activities	11,648	8,490	6,972
Operating investments	(3,294)	(3,038)	(2,276)
Repayment of lease liabilities	(2,187)	-	-
Operating free cash flow[a]	**6,167**	**5,452**	**4,696**

(a) Under IFRS 16, fixed lease payments are treated partly as interest payments and partly as principal repayments. For its own operational management purposes, the Group treats all lease payments as components of its "Operating free cash flow", whether the lease payments made are fixed or variable. In addition, for its own operational management purposes, the Group treats operating investments as components of its "Operating free cash flow".

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Appendix 6:Summary of the Note to the Consolidated financial statement LVMH Group (2017-2019)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Appendix 7:Balance Sheet LVMH SA (2018-2019)

BALANCE SHEET

ASSETS (EUR millions)	Notes	2019 Gross	2019 Depreciation, amortization and impairment	2019 Net	2018 Net
Intangible assets		11.8	(8.4)	3.4	1.5
Vineyard land		45.2	-	45.2	45.2
Other property, plant and equipment		41.3	(2.1)	39.2	46.4
Intangible assets and property, plant and equipment	10	**98.3**	**(10.5)**	**87.8**	**93.1**
Equity investments	11	28,170.2	(1,885.5)	26,284.7	25,453.8
LVMH treasury shares	12	94.1	-	94.1	94.6
Other non-current financial assets	13	134.6	-	134.6	132.0
Non-current financial assets		**28,398.9**	**(1,885.5)**	**26,513.4**	**25,680.4**
NON-CURRENT ASSETS		**28,497.2**	**(1,896.0)**	**26,601.2**	**25,773.5**
Receivables	14	294.9	-	294.9	594.3
LVMH treasury shares	12	308.9	-	308.9	326.6
Cash and cash equivalents		34.6	-	34.6	30.6
CURRENT ASSETS		**638.4**	**-**	**638.4**	**951.5**
Prepayments and accrued income	15	15.9	-	15.9	25.2
TOTAL ASSETS		**29,151.5**	**(1,896.0)**	**27,255.5**	**26,750.2**

LIABILITIES AND EQUITY (EUR millions)	Notes	2019 Before appropriation	2018 Before appropriation
Share capital (fully paid up)	16.1	151.6	151.5
Share premium account	16.2	2,318.8	2,298.5
Reserves and revaluation adjustments	17	388.0	388.0
Retained earnings		11,131.3	10,764.7
Interim dividend		(1,108.0)	(1,005.7)
Net profit for the fiscal year		3,711.5	3,384.1
Regulated provisions		0.1	0.1
EQUITY	16.2	**16,593.3**	**15,981.2**
PROVISIONS FOR CONTINGENCIES AND LOSSES	18	**727.4**	**692.3**
Bonds	19	6,647.0	6,604.0
Other financial debt	19	2,805.9	3,102.4
Other debt	20	469.2	356.7
OTHER LIABILITIES		**9,922.1**	**10,063.1**
Accruals and deferred income	21	12.7	13.6
TOTAL LIABILITIES AND EQUITY		**27,255.5**	**26,750.2**

Appendix 8:Income Statement LVMH SA (2018-2019)

FINANCIAL STATEMENTS

Parent company financial statements: LVMH Moët Hennessy - Louis Vuitton

INCOME STATEMENT

Income/(Expense) *(EUR millions)*	Notes	2019	2018
Financial income from subsidiaries and investments		4,252.7	3,550.5
Investment portfolio: impairment and provisions		(169.1)	(133.0)
gains and losses on disposal		-	-
Income from managing subsidiaries and investments	4.1	**4,083.6**	**3,417.5**
Cost of net financial debt	4.2	(29.5)	(30.4)
Foreign exchange gains and losses	4.3	(36.4)	(33.4)
Other financial income and expenses	4.4	(22.0)	(8.9)
FINANCIAL INCOME/(EXPENSE)	4	**3,995.7**	**3,344.8**
Services provided and other income	5	378.8	316.0
Personnel costs	6	(252.7)	(181.1)
Other net management charges	7	(430.7)	(326.4)
OPERATING PROFIT/(LOSS)		**(304.6)**	**(191.5)**
RECURRING PROFIT BEFORE TAX		**3,691.1**	**3,153.3**
EXCEPTIONAL INCOME/(EXPENSE)	8	**(110.0)**	-
Income tax income/(expense)	9	130.4	230.8
NET PROFIT		**3,711.5**	**3,384.1**

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Appendix 9:Cash Flow Statement LVMH SA (2018-2019)

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CASH FLOW STATEMENT

(EUR millions)	2019	2018
OPERATING ACTIVITIES		
Net profit	3,711.5	3,384.1
Depreciation, amortization and impairment of fixed assets	170.0	134.5
Change in other provisions	35.0	45.3
Gains or losses on sales of assets	81.5	37.6
CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL	**3,998.0**	**3,601.5**
Change in intra-Group current accounts	41.3	1,207.4
Change in other receivables and payables	126.2	416.4
NET CASH FROM OPERATING ACTIVITIES	**4,165.5**	**5,225.3**
INVESTING ACTIVITIES		
(Acquisition)/Disposal of intangible assets and property, plant and equipment	(10.5)	(18.1)
Acquisition of equity investments	-	-
Disposal of equity investments and similar transactions	-	-
Subscription to capital increases carried out by subsidiaries	(1,000.0)	(500.0)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**(1,010.5)**	**(518.1)**
FINANCING ACTIVITIES		
Capital increase	20.6	49.0
Acquisitions and disposals of LVMH treasury shares	(48.6)	(293.7)
Interim and final dividends paid during the fiscal year	(3,119.9)	(2,714.3)
Proceeds from borrowings	1,000.0	-
Repayments of borrowings	(1,003.7)	(1,750.0)
(Acquisition)/Disposal of available for sale financial assets	-	-
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	**(3,151.6)**	**(4,709.0)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**3.4**	**(1.8)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	**30.6**	**32.4**
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	**34.0**	**30.6**

Appendix 10:Summary of Note to the financial statement LVMH SA (2018-2019)

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS