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## **Accounting Project**

GlaxoSmithKline is a pharmaceutical company in UK. This paper will seek to explore the financial statement and evaluation of this company. Specifically, the financial statements under consideration relate to the year 2014.

Considering that the financial statements are prepared in accordance with international financial reporting standards, it means that the current liabilities are also recorded by the accounting policies that are provided by the IFRS. Moreover, there are two categories of liabilities as required by the IFRS. First, there are current ones that indicate the liabilities that are to be repaid within one year. Under this category, the first item is the short-term borrowing, which is amount borrowed from the bank as an overdraft and should be repaid during one calendar year. In the year 2014, the short-term borrowings increased from \$2,789 to \$2,943, which means that the company repaid its 2013 debt, and then borrowed additional loan in the following year to financially support its operations. It may also mean that the part of the loan was repaid but more money was borrowed from the banks.

In turn, trade and payables decreased from \$8,317 in the year 2013, to \$7,958 in the year 2014, meaning that the company repaid its payables during one year, consequently, credit purchases reduced in the following

year, and the net effect was a decline in the trade and payables in the year 2014.

The derivative instruments in the year 2013 amounted to \$127, but increased to \$404 in the year 2014. These variables indicated that the company made an additional contract in the year 2014 in the derivative market, and that is why the derivative cost that the company expects to repay for the year 2014 increased.

Current tax payable in the year 2014 reduced to \$945 from the previous value amounting to \$1,452. In fact, these numbers denote that the company repaid its current tax payable in the year 2014, and during the next financial year it is expected to pay less as compared to the tax incurred in the previous year. It tells that the company has incurred a prepaid tax which reduces the tax to be paid in the future to the current value.

Short-term provisions increased from \$992 to \$1,045 in the year 2014. Apparently, it means that the company expects to spend more cash on contingent activities that cannot be predicted accurately. The contingent expenditure is expected to increase in the year 2015 as compared to what was spent in 2014.

The total current liabilities decreased in the year 2014, meaning that the company had repaid some of its liabilities in the year, and the future projections are less than the previous year such that the net effect is a decline in the total current liabilities.

The other category of liabilities is the long-term liabilities, and the first item in this category is the long-term borrowings which are loans that take more than year to be paid. The statements indicate that the long-term borrowings

increased from \$15,456 to \$15,841 meaning that while the company repaid its debt in the year 2014, it borrowed additional loan such that the net effect is an increase in the longer-term loan.

Deferred tax liabilities decreased in the year 2014 from \$693 to \$445 which shows that the company expects to pay less tax in the future, and this is why it has reduced the provision for tax payments in the year 2015.

Pensions and other employment benefits increased in the year 2014 from \$2,189 to \$3,179 by increasing benefits to its existing employees, or more employees retired in the year, or the more employees were hired in 2014 leading to an increase in the total benefits to the employees. All the three scenarios could also have contributed to the rise of the benefits.

To continue, other provisions decreased from \$552 to \$545, showing that the company expects that the unpredicted expenditures in the future will reduce; hence, less provision for the same.

Derivative instruments that will not be paid within one year increased from \$3 to \$9. This means that the company has entered into new derivative agreements that in the long-term will cost the company more as compared to the estimates in the previous year.

Other noncurrent liabilities increased from \$20,597 in the year 2013 to \$22,420 in the year 2014 presupposing that borrowed more noncurrent liabilities of various types in the year 2014, which will be paid over a long time and not within a year.

Current and noncurrent liabilities are reported in accordance with GAAPS, and the accounting principles used include the historical cost which shows

the actual costs borrowed, as well as a fair value which is on the category of estimates that are made in areas such as provisions for the future payments for the company.

## EQUITY

The total equity of a company shows the capital that the shareholders have contributed to the company. There are various items under this category, as discussed in the part that follows.

The first item is the share capital which increased slightly from \$1,336 in the year 2014, to \$1,339 in the year 2014. The increase in share capital shows that the company sold additional shares in the year.

The company share premium changed from \$2,595 to \$2,759 in the year 2014. Apparently, this means that the share capital that was sold in 2014, at a price that is above the nominal price of the company share price, leading to the increase in share premium.

Retained earnings in the year 2014 decreased from \$913 to -\$2,074 which presupposes that the company made a loss in the year 2014 or issued dividends to the share holders in the year leading to the decline in the retained earnings in the year.

There was an increase of "other reserves" in the company from \$2,153 to \$2,239. Precisely, the increase in reserves means that the company set aside more reserves to invest in specific projects in forthcoming future.

The non-controlling interests, on the other hand, decreased from \$815 to

\$673. The decrease in profits could have led to the decline in the non-controlling interests. It is also possible that the company bought more shares in its subsidiaries leading to the decline in the non-controlling interests.

The total effects of these components of equity were that the total equity decreased from \$7,812 to \$4,936 which can mainly be attributed to the decline in the retained earnings for the company. This was the item that changed quite significantly and affected the total equity.