

## FINANCIAL AND MANAGEMENT ACCOUNTING UNIT -2

Financial Statements are the end products of accounting process and are prepared at end of the accounting period to reveal the financial position of the enterprise at a particular date and the result of its business operations preparing an accounting period.

As per Section 2(40) of the Companies Act, 2013 Financial Statements includes:

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Notes to Accounts.
4. Cash Flow Statement.

Balance Sheet: It is a statement of assets, liabilities and equities of a business and it is prepared to show the financial position of the company at particular date.

### Balance sheet

Asset Type	FY-2021	FY-2022
	Prior Year	Current Year
Current Assets	600	600
Fixed Assets	(100)	(85)
Other Assets	0	0
Current Liabilities	500	350
Long-term Liabilities	0	0
Owner Equity	0	350
<b>Total Assets</b>	<b>500</b>	<b>515</b>
<b>Total Liabilities &amp; Stockholder Equity</b>	<b>500</b>	<b>700</b>
<b>Balance</b>	<b>0</b>	<b>(185)</b>

## Form of Balance Sheet

1. **Share capital equity and liabilities**
2. **Shareholders' funds**
  - Reserves and surplus
  - Money received against share warrants

### 1. (1)**b.Reserves and Surplus**

(i) Reserves and Surplus shall be classified as :

(a) Capital Reserves;

(b) Capital Redemption Reserve;

(c) Securities Premium Reserve;

(d) Debenture Redemption Reserve;

(e) Revaluation Reserve;

(f) Share Options Outstanding Account;

(g) Other Reserves – (Specify the nature and purpose of each reserve and the amount in respect thereof such as Tax Reserve);

(h) Surplus i.e. Balance in statement of Profit & Loss.

(i) Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'surplus'. Similarly, the balance of 'Reserves and Surplus', After adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

### **1.3 Non-current liabilities**

A liability shall be classified as non-current if it is not a current liability. The following items shall be disclosed under non-current liabilities.

Long-term borrowings

Deferred tax liabilities (Net)

Other Long term liabilities

Long-term provisions

### **1.3.a. Long-term borrowings :**

**1.3.a. 1.** Long-term borrowings shall be classified as :

(a) Bonds/debentures;

(b) Term loans;

From banks;

From other parties;

(c) Deferred payment liabilities;

(d) Deposits;

(e) Loans and advances from related parties;

(f) Long term maturities of finance lease obligations;

(g) Other loans and advances (Specify nature).

### **1.3.c Other Long-term liabilities**

This should be classified into :

(a) Trade payables; (payable after 12 months from date of Balance sheet or after operating cycle); and

(b) Others.

A payable shall be classified as 'trade payable' if it is in respect of amount due on account of goods purchased or services received in the normal course of business operations.

### **1.3.c. Long-term Provisions**

This amounts shall be classified as :

(a) Provision for employee benefits. Example: Provision for Provident Fund

(b) Other (specify nature). Example: Provision for Warranties.

### **I.4. Current Liabilities**

1. A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle; or

(b) Short-term borrowings

(c) Trade payables

(d) Other Current liabilities

(e) Short-term provisions

### . Short-term borrowings

Short-term borrowings are the borrowings which are payable within 12 months from the date of Balance Sheet or within the period of operating cycle. The following items are included in short term borrowings:

## **Cash flow statement**

Cash flow statement reports a company's major cash flows in the following categories:

### 1. Cash flow from Operating Activities:

The first section in the statement includes regular business activities. Revenue from sale of products or services, dividends received, interest, and other cash receipts, outflows include payroll, overheads, taxes, and payments to suppliers and vendors.

The first entry in this operating activity section is the net income from the income statement for a corresponding period. The below table shows the cash flow from operating activities :

<b>Particulars</b>	<b>Amount (Rs)</b>
<b>Cash flow from operating activities</b>	
Net income	xxx
<b>Additions</b>	
Depreciation and Amortisation	xxx
Increase in current liabilities	xxx
<b>Deductions</b>	
Increase in current assets	xxx
<b>Net cash flow from operating activities</b>	xxx

### 2. Cash flow from Investing Activities:

It is one of the main components of a cash flow statement. Cash flow from investing results from activities related to the purchase or sale of assets or investments made by the company (long term). It can be identified from changes in the fixed assets section of the long-term

assets section of the balance sheet. Examples of cash flow from investing activities:

- Cash outflow from the purchase of an asset (land, building, machinery, etc.).
- Outflow of cash from the acquisition of another company.
- Inflow of cash from the sale of an asset.

Table showing items recorded in this section are:

<b>Particulars</b>	<b>Amount (Rs)</b>
Purchase of fixed assets	(XX)
Purchase of marketable and non-marketable securities	(XX)
Proceeds from sale of fixed assets	XX
Proceeds from sale of marketable and non-marketable securities	XX
Loans advanced	(XX)
Loan repayment realised	XX
Insurance proceeds	XX

### **3. Cash flow from Financing activities:**

These activities related to cash transactions for business. For example borrowing, raising money from debt or stock, repaying, sales of your company's securities and outflows include dividend payments and servicing debt. It also provides stakeholders insight about the company's capital structure, how it is managed, and how far it can sustain with showcased capital.

The components of financing activities are shown in the table below.

<b>Particulars</b>	<b>Amount (Rs)</b>
Proceeds from issuance of short-term borrowings	xxx
Net change in short-term borrowings	(xxx)
Repayments of long-term debt	(xxx)
Stock repurchases	(xxx)
Dividends paid	(xxx)

Dividends paid to non-controlling interest	(xxx)
Other financing activities	(xxx)
<b>Net cash flow from financing activities</b>	

