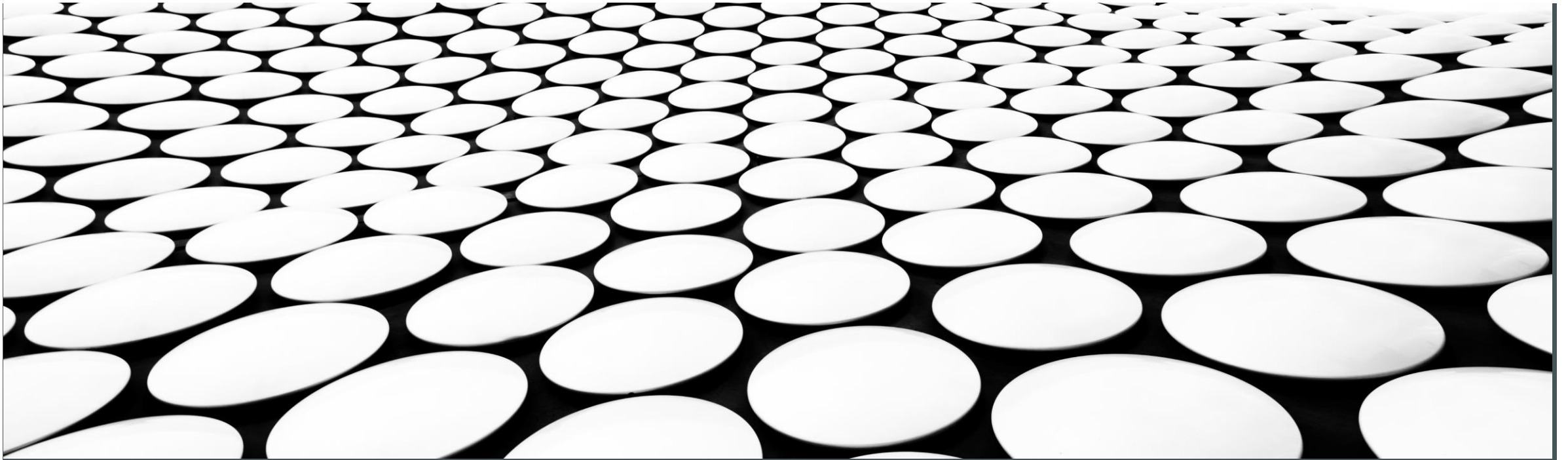

FINANCE FOR NON-FINANCE – MODULE II

UNDERSTANDING FINANCIAL STATEMENTS

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*



FINANCE FOR NON-FINANCE – MODULE II

❑ LEARNING OUTCOMES

- **BOOKS OF ACCOUNTS**
- **FINANCIAL STATEMENTS**
- **ELEMENTS OF FINANCIAL STATEMENTS**
- **FINANCIAL PERFORMANCE**
- **BALANCE SHEET**
- **STATEMENT OF PROFIT AND LOSS**
- **NOTES TO ACCOUNTS**
- **STATEMENT OF CASH FLOWS**
- **GOING CONCERN CRITERIA**

BOOKS OF ACCOUNT

According to section 2(13) of Companies Act 2013, *Books of account* includes records maintained in respect of:

- (i) ***all sums of money received and expended*** by a company and matters in relation to which the receipts and expenditures take place,
- (ii) ***all sales and purchases of goods and services*** by the company,
- (iii) ***the assets and liabilities*** of the company, and
- (iv) ***the items of cost*** as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

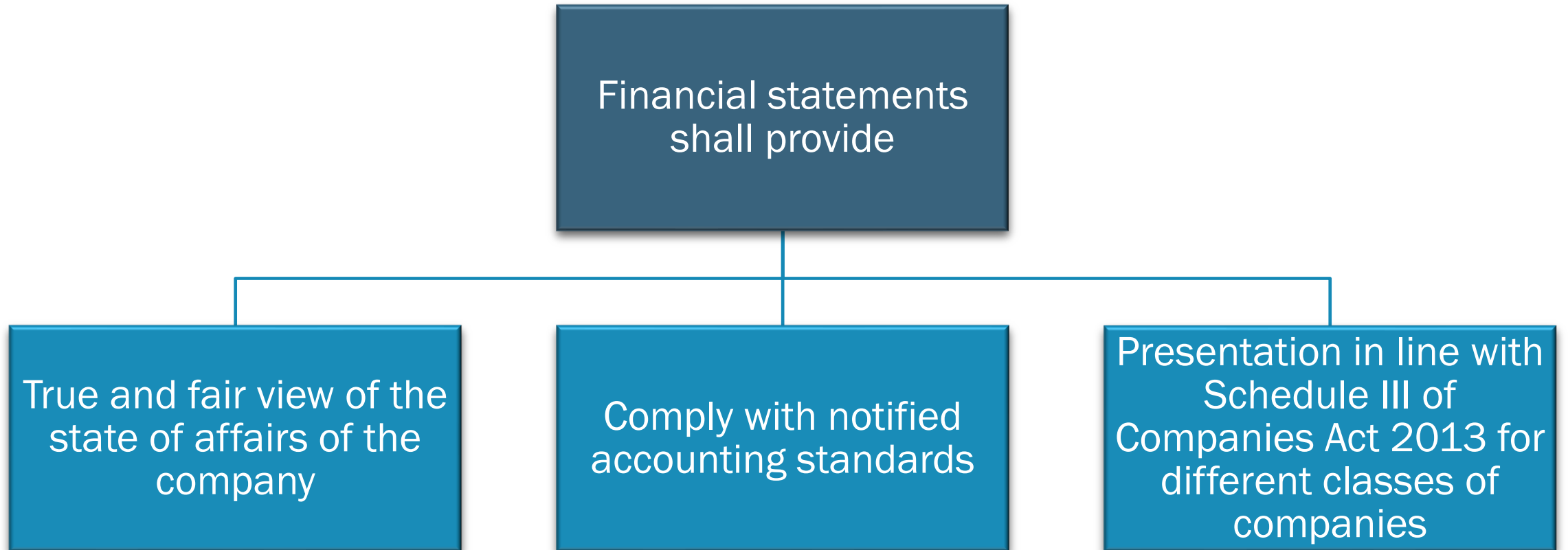
FINANCIAL STATEMENTS

In accordance the Companies Act 2013, every company to prepare and keep at its registered office -

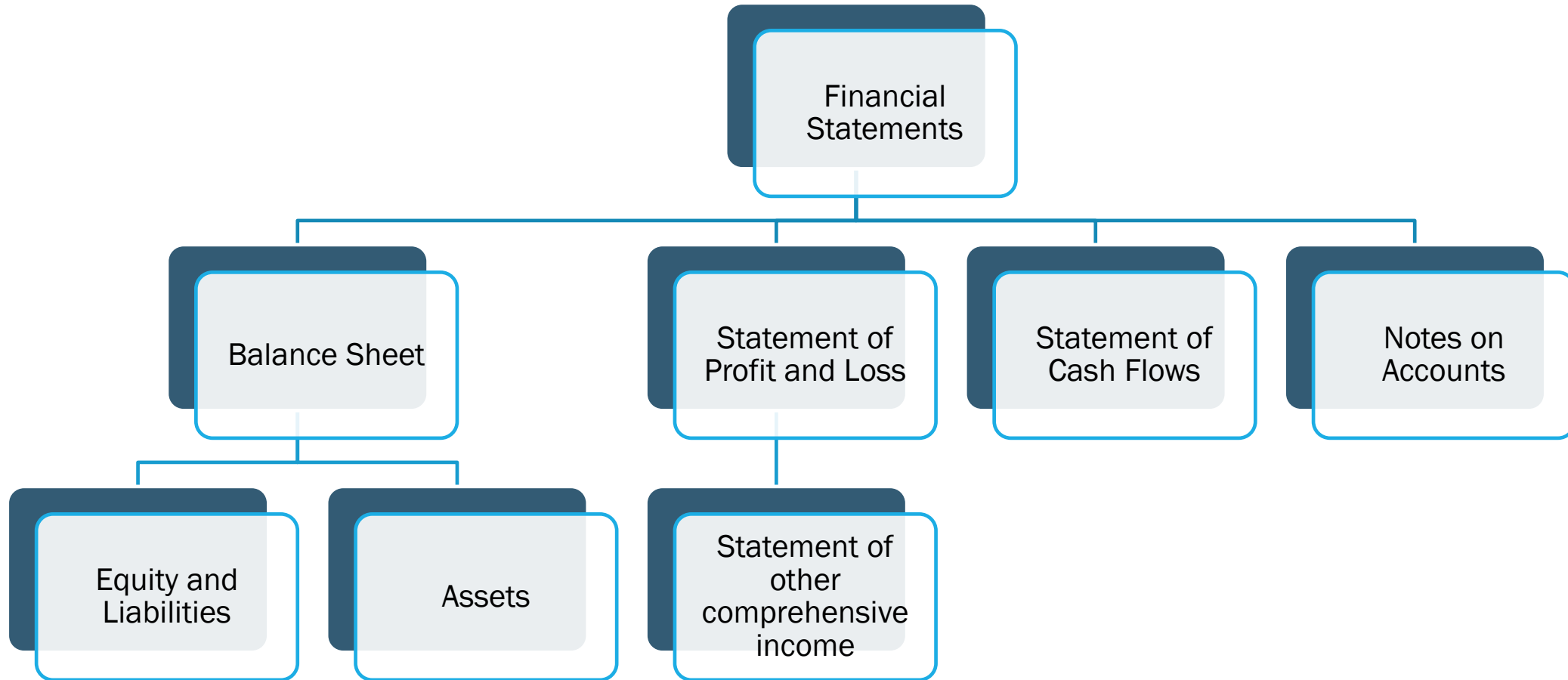
- (a) books of account and
- (b) other relevant books and papers and
- (c) financial statement for every financial year

which give a ***true and fair view*** of the state of affairs of the company including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books are kept on ***accrual basis*** and according to the ***double entry system of accounting***. (Section 128 (1))

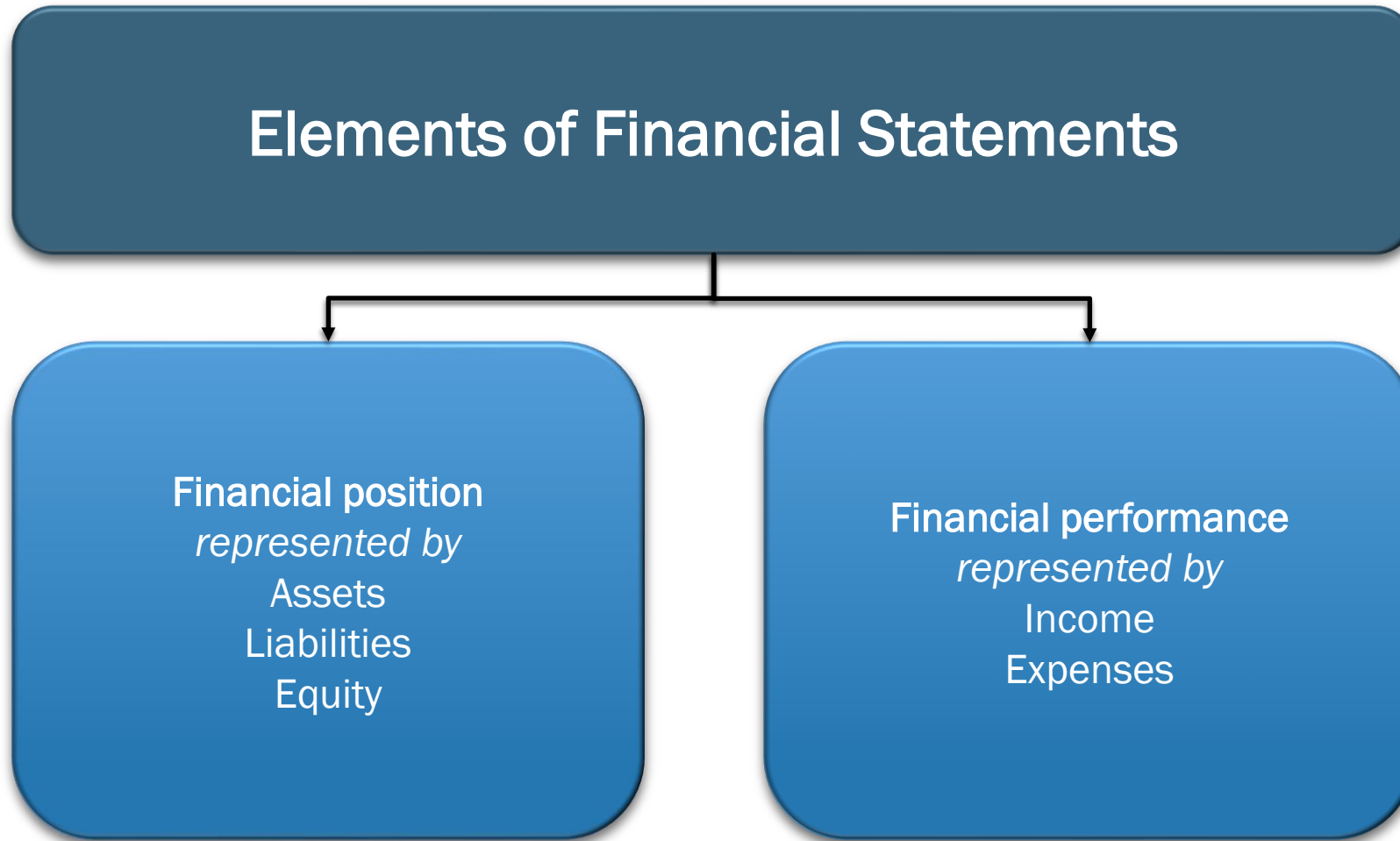
FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

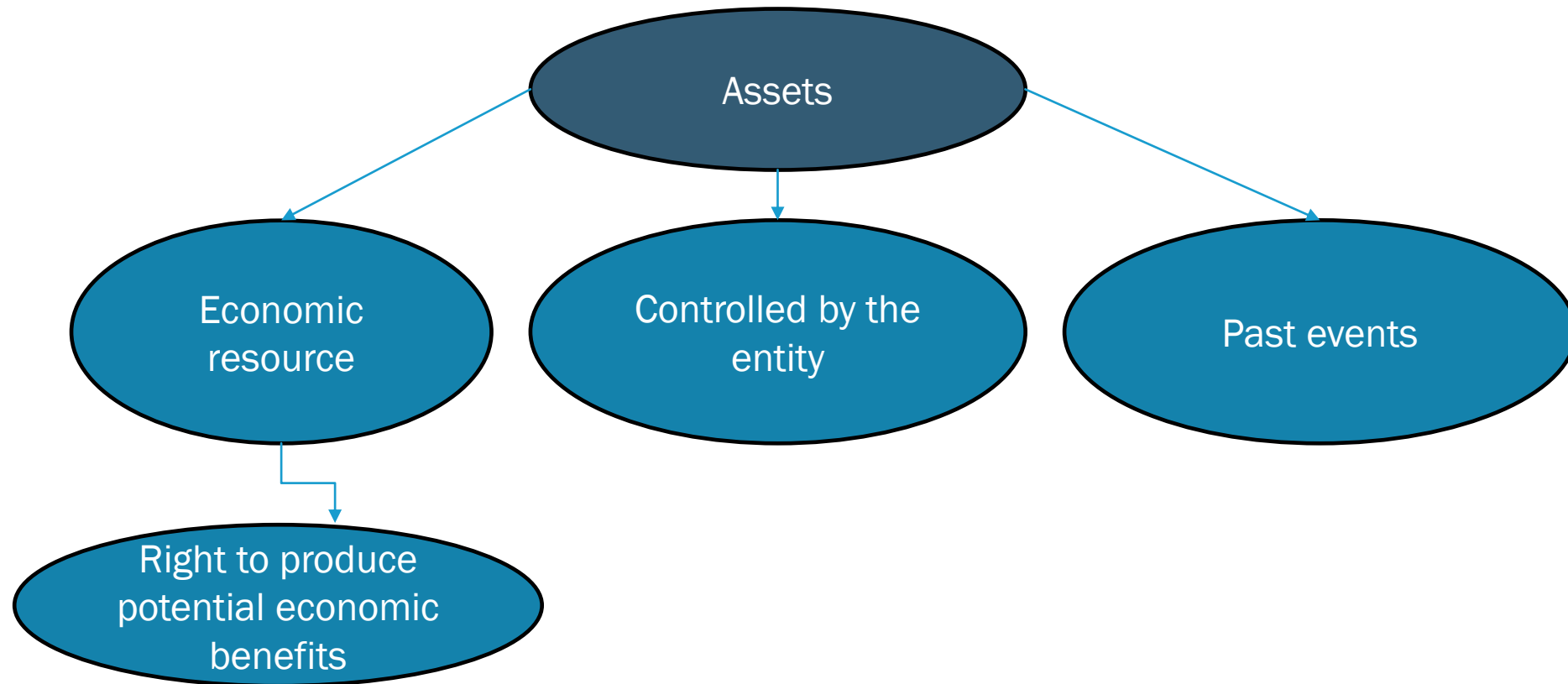


ELEMENTS OF FINANCIAL STATEMENTS



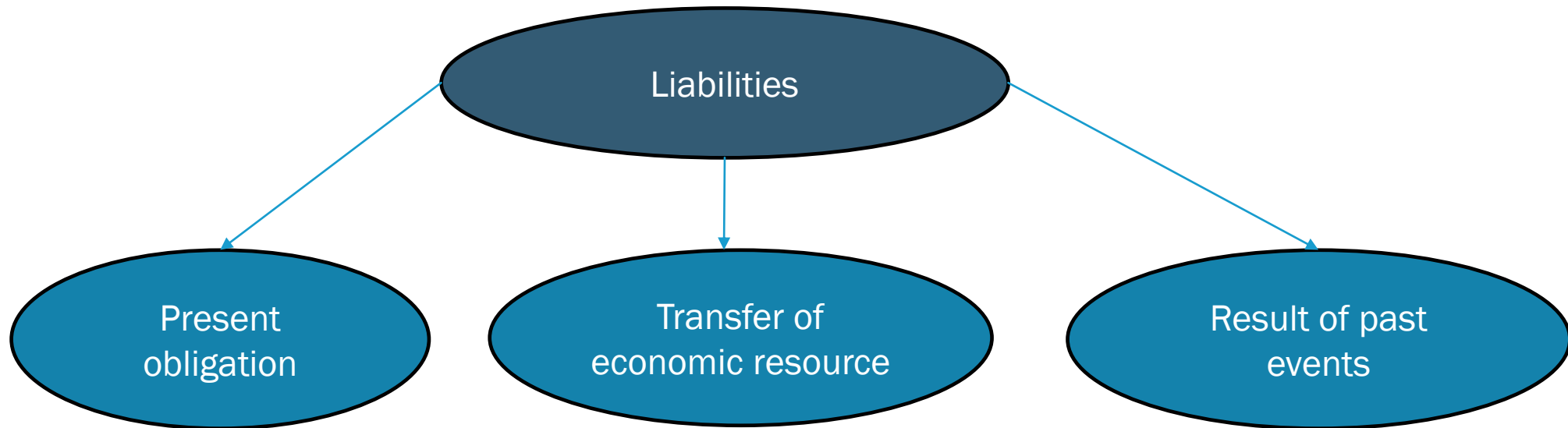
ASSETS

An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits - *Framework*



LIABILITIES

A liability is a present obligation of the entity to transfer an economic resource as a result of past events - *Framework*.

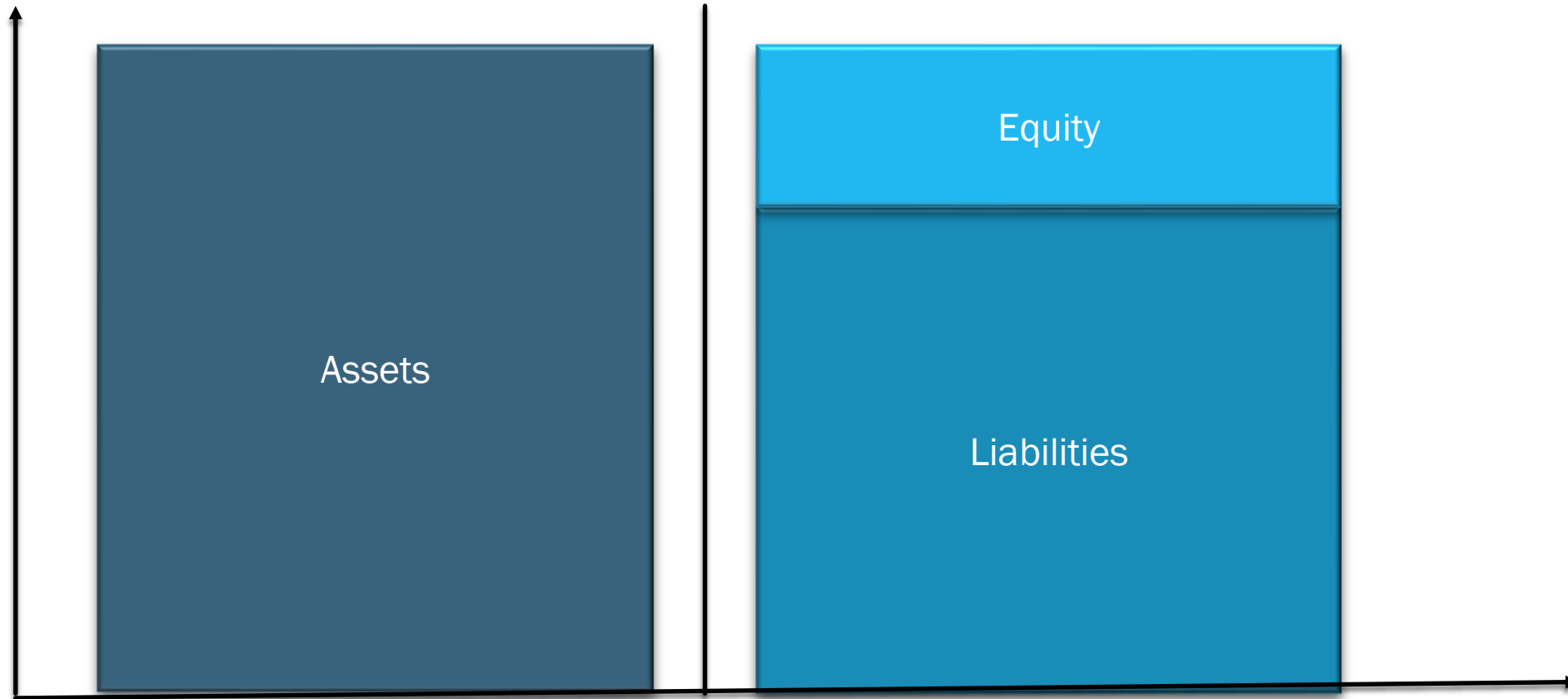


EQUITY

The residual interest in the assets of the enterprise after deducting all its liabilities - *Framework*.



BALANCE SHEET – ACCOUNTING EQUATION



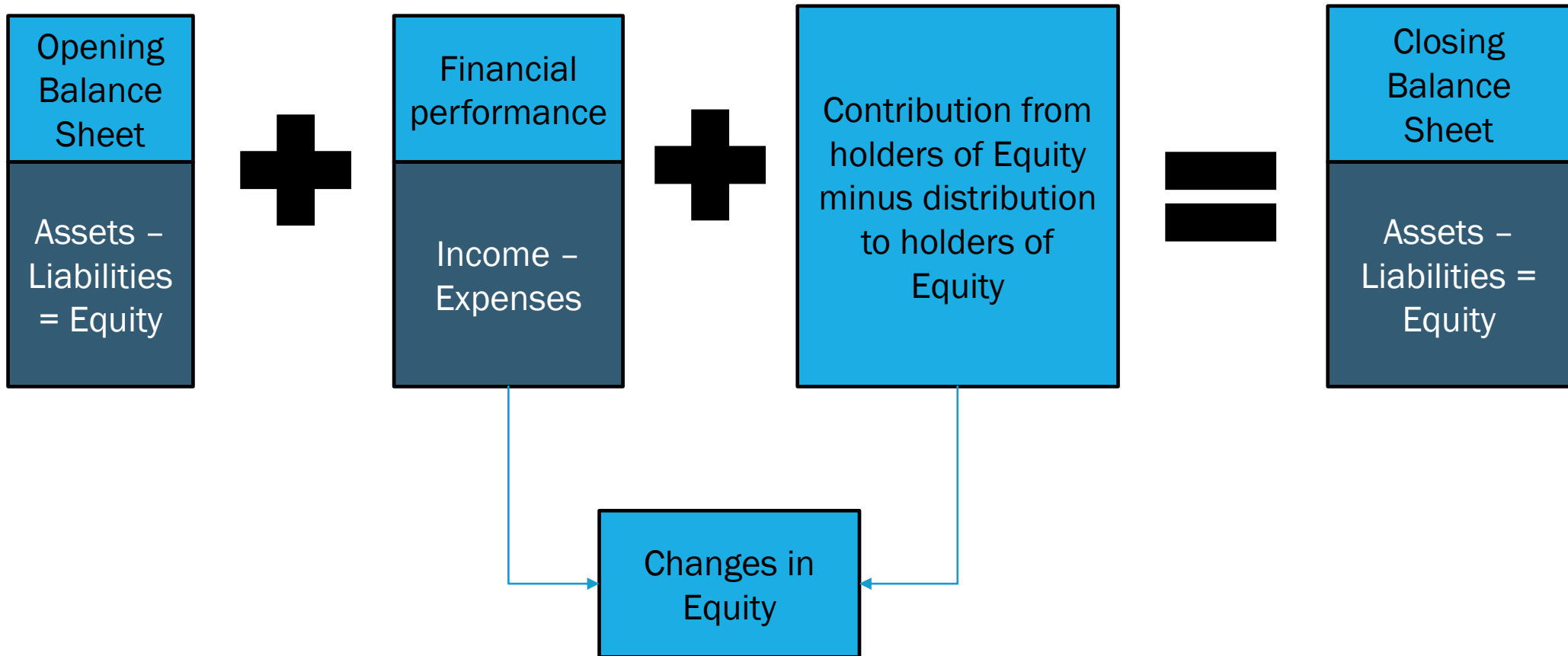
BALANCE SHEET

- This statement represents the financial position which discloses ***short term and long-term solvency***, which is the ability to meet the liability in the short as well as long term.
- ***Solvency*** is the availability of cash over the longer term to meet the financial commitments as they fall due.
- ***Liquidity*** represents the availability of sufficient funds to meet the deposit withdrawals and other financial commitments as they fall due.

STATEMENT OF CHANGES IN EQUITY (*FOR IND AS ENTITIES ONLY*)

- The statement of changes in equity would reconcile opening to closing amounts for each component of equity.
- It would include reserves and surplus and items of other comprehensive income.
- Additionally, the conditions or restrictions for distribution attached to statutory reserves have to be separately disclosed in the notes as stipulated by the relevant statute.

FINANCIAL PERFORMANCE



STATEMENT OF PROFIT AND LOSS

Depicts the net financial results of the organization represented by income and expenses and would include all items of income and expense in a period in profit or loss.

Income

Income is *increases in assets*, or *decreases in liabilities*, that result in *increases in equity*, other than those relating to contributions from holders of equity claims - *Framework*

Expenses

Expenses are *decreases in assets*, or *increases in liabilities*, that result in *decreases in equity*, other than those relating to distributions to holders of equity claims - *Framework*

STATEMENT OF OTHER COMPREHENSIVE INCOME (FOR IND AS ENTITIES ONLY)

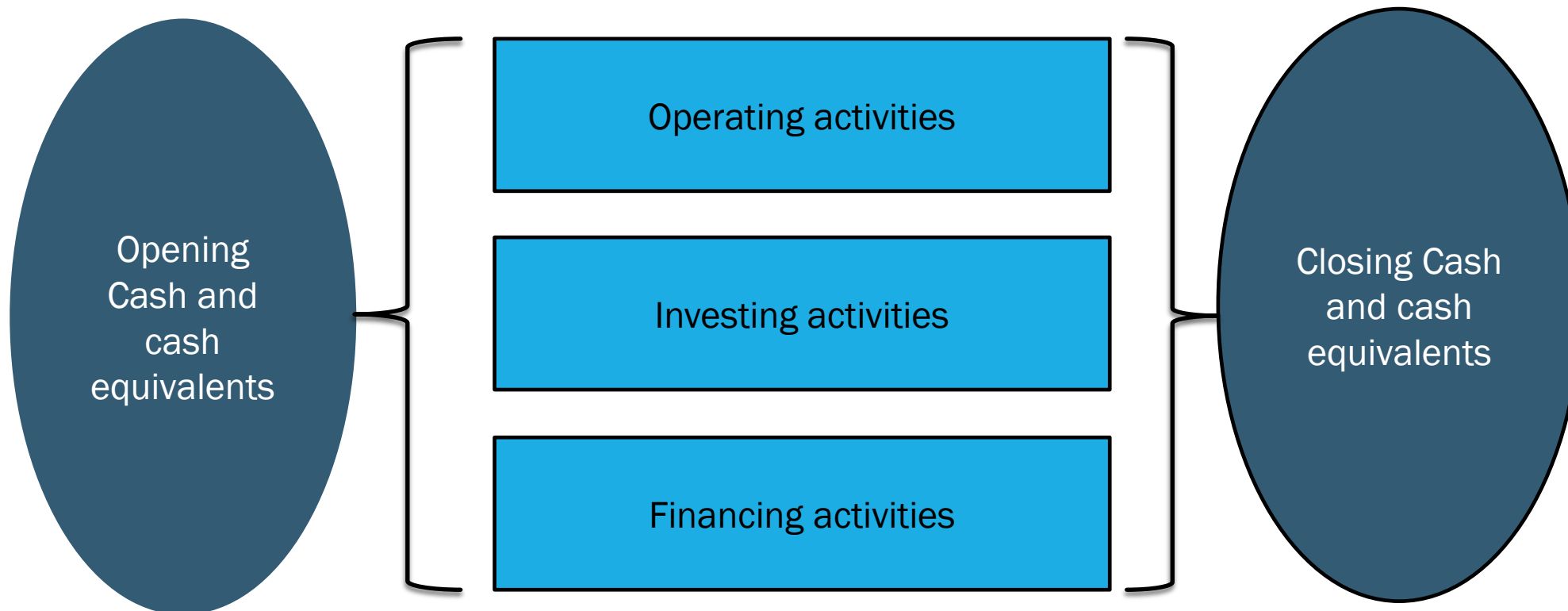
The Statement of other comprehensive income would include amounts of other comprehensive income in the period, *classified by*

nature (including share of the other comprehensive income of associates and joint ventures accounted for using the equity method) and

grouped into those that, by other Ind ASs-

- (a) will not be reclassified subsequently to profit or loss; and
- (b) will be reclassified subsequently to profit or loss when specific conditions are met.

CASH FLOW STATEMENT



NOTES ON ACCOUNTS

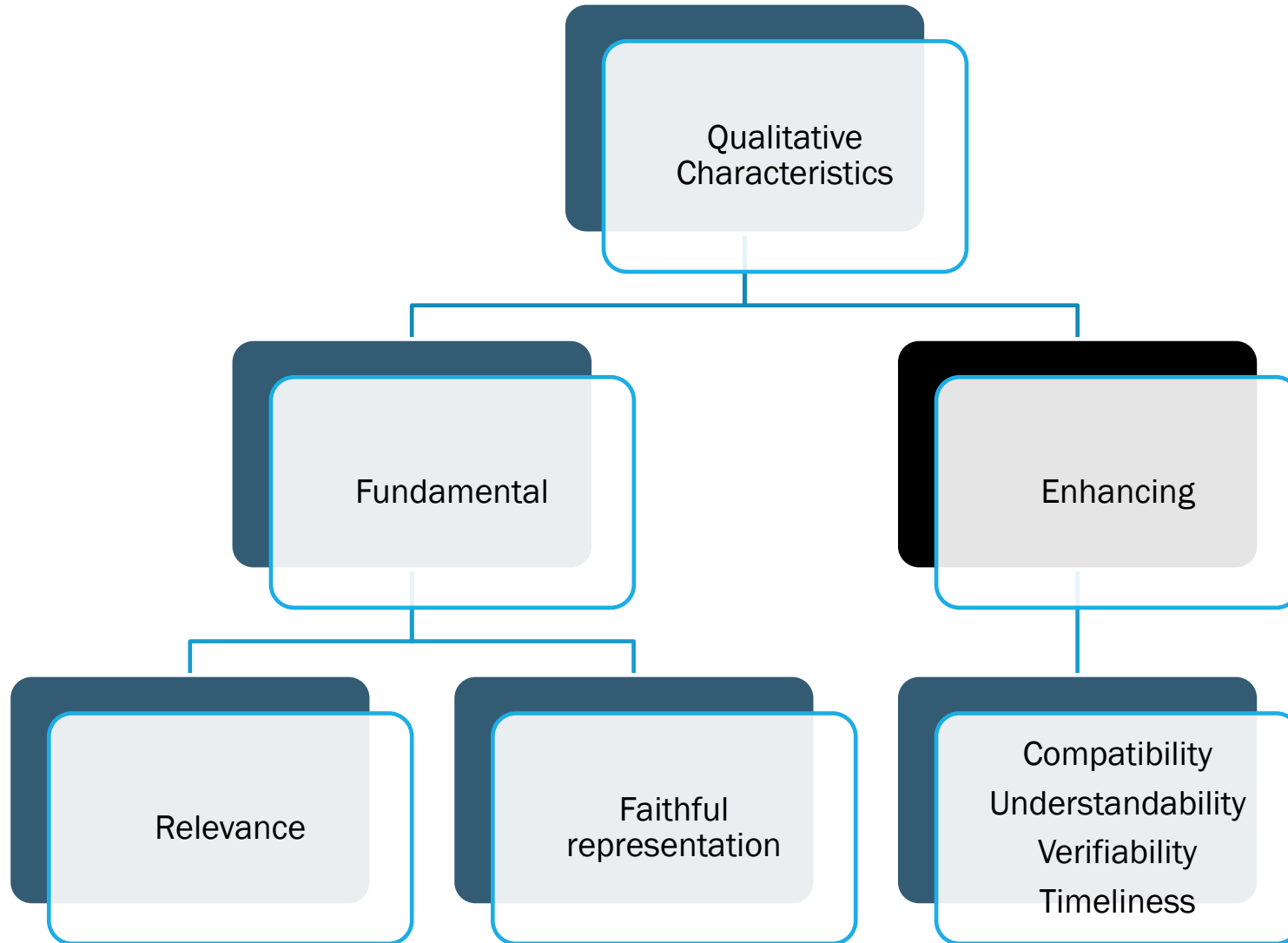
- Present information about the basis of preparation of financial statements and specific accounting policies used
- disclose any information required by IFRSs not presented elsewhere in the financial statements and
- provide additional information that is relevant for the understanding of the financial statements not presented elsewhere in the financial statements

GOING CONCERN ASSUMPTION

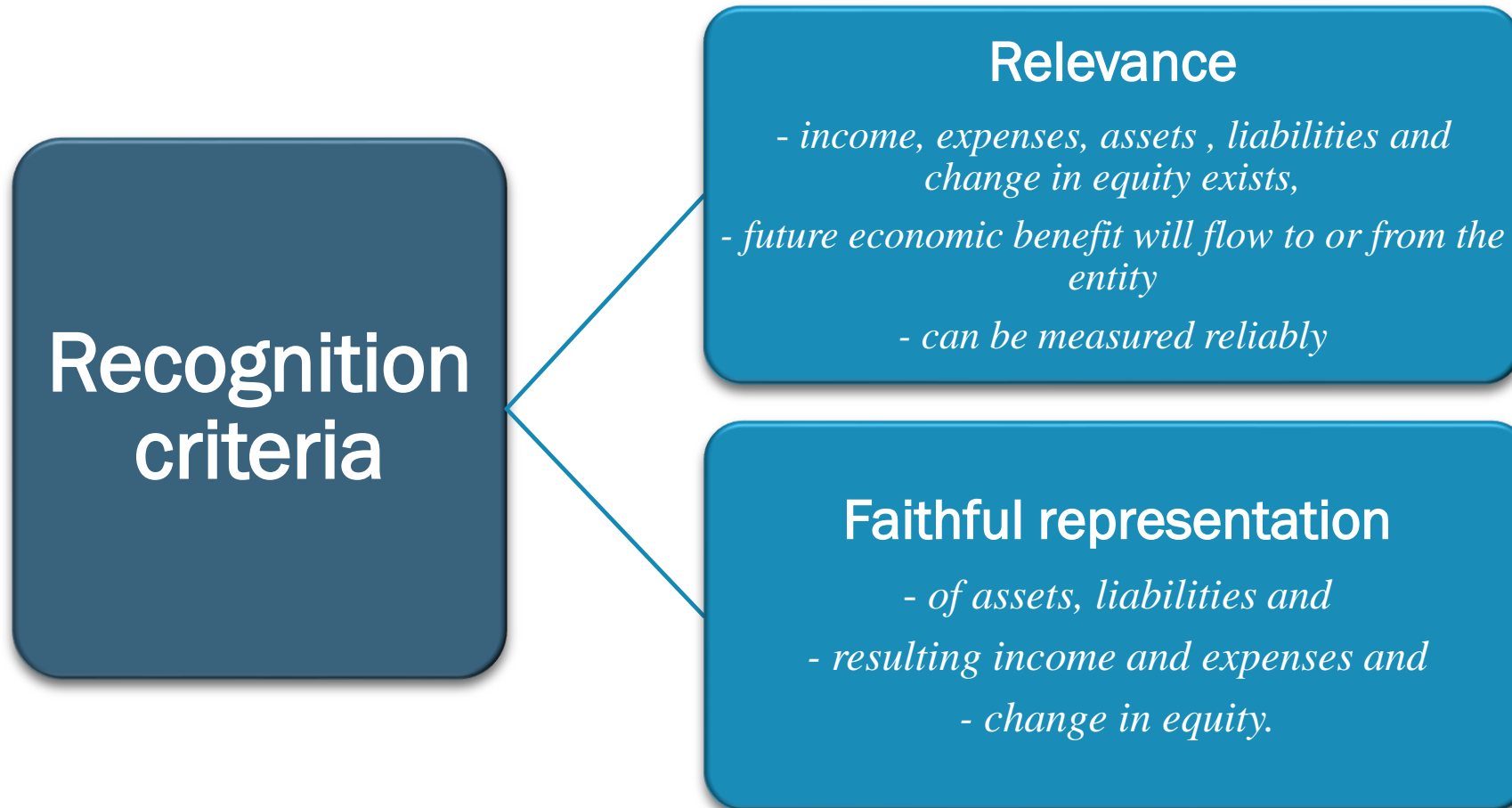
The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

Going concern concept indicates that assets are kept for generating benefit in the future, not for immediate sale, the current change in the asset value is not realizable and so it should not be counted.

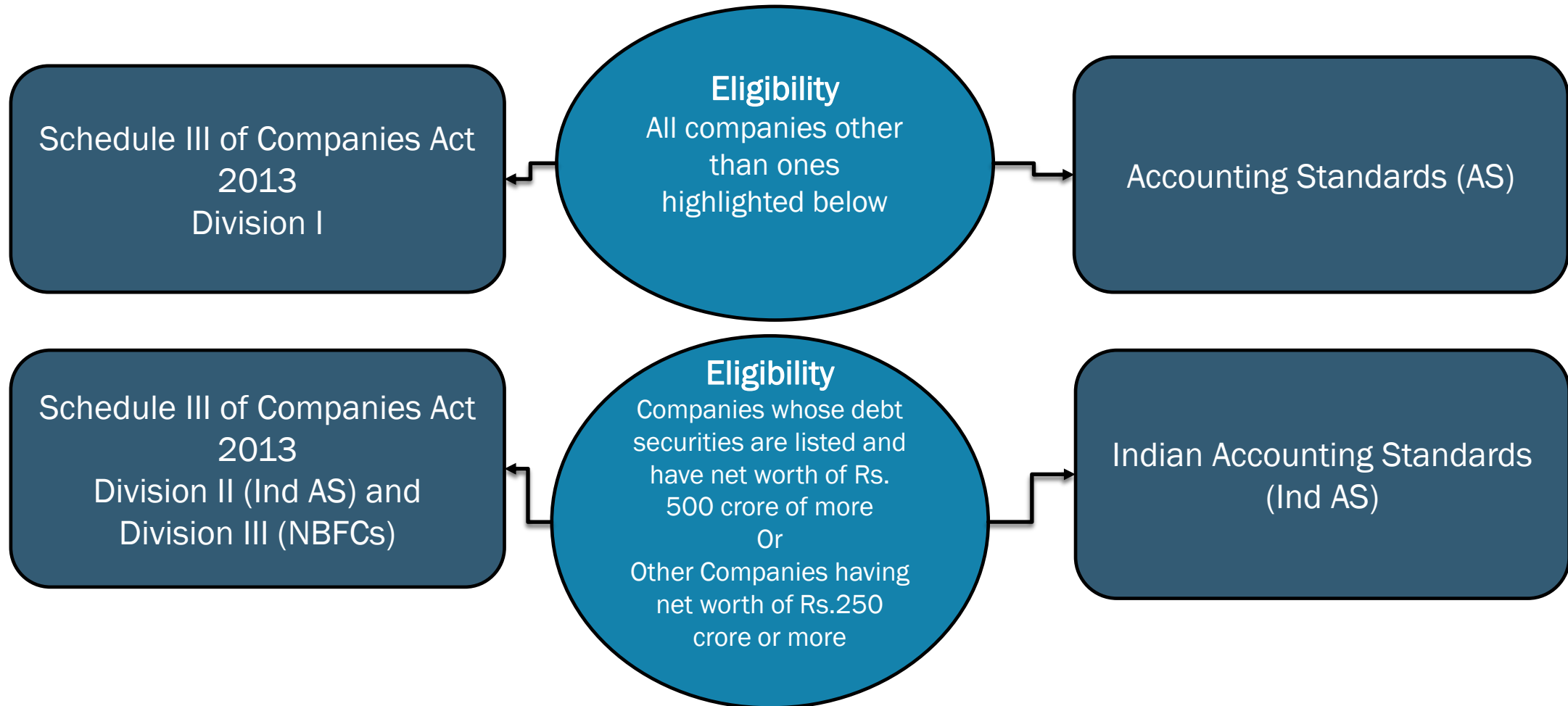
QUALITATIVE CHARACTERISTICS



RECOGNITION CRITERIA



FINANCIAL REPORTING FRAMEWORK UNDER COMPANIES ACT 2013





THANK YOU!