[Academic Script]

Introduction to Corporate Accounts

Subject:	Business Economics
Course:	B. A. (Hons.), 1st Semester, Undergraduate
Paper No. & Title:	Paper – 103 Fundamentals of Business & Accounting
Unit No. & Title:	Unit – 4 Introduction to Corporate Accounts
Lecture No. & Title:	Lecture – 1 Introduction to Corporate Accounts

Academic Script

1. Introduction

Section 2(40)Companies Act, 2013 provides that;

Financial Statement in relation to a company, includes-

(i) a balance sheet as at the end of the financial year;

(ii) a profit and loss account, or in case of company carrying out activity not for profit, an income and expenditure account for the financial year;

(iii) cash flow statement for the financial year;

(iv) statement of changes in equity, if applicable; and

(v) any explanatory note annexed to, or forming part of, any document referred to sub-clause (iv) stated above.

2. Cash Flow Statement:

The cash flow statement's primary purpose is to provide information regarding a company's cash receipts and cash payments. Cash flow is the movement of money into and out of the business. It is a financial tool which forms the basis for the projection of future investing and financing plans of the enterprise, and explains the most important distinction between profits earned and cash inflows. It supplements the profit and loss account and balance sheet. Statement of cash flows provides important insights about the liquidity and solvency of a company which are vital for survival and growth of any organization.

Cash Flow Statement presents the movement in cash flows over the period as classified under operating, investing and financing activities.

Cash Flow Statement (AS-3 Revised) is mandatory in nature in respect of accounting periods commencing on or after 1-4-2001 for the following:

1. Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.
2. All the commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crores.

Operating activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss.

3. Examples of cash flows from operating activities for manufacturing or trading firm are:

(i) Cash receipts from the sale of goods and the rendering of services;

(ii) Cash receipts from royalties, fees, commissions and other revenue;

(iii) Cash payments to suppliers for goods and services;

(iv) Cash payments to and on behalf of employees;

(v) Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits;

(vi) Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and Cash.

Examples of cash flows from operating activities for a banking or financial firm are:

(i) Long term borrowings

(ii) Accepting public deposits

(iii) Purchase and sale of investments

(iv) Repayment of borrowings and deposits

(v) Receipt of interest and dividend on investments

(vi) Payment of interest on borrowings and deposits

Investing activities: Activities related to the acquisition and disposal of non-current assets and non-current investments. Examples of cash flows arising from investing activities are:

(i) Cash payments to acquire and construction of fixed assets (including intangibles)

(ii) Cash receipts from disposal of fixed assets (including intangibles)

(iii) Cash payments to acquire shares, warrants or debt instruments of other enterprises i.e. Non-Current investments (For a financial enterprise, it is an operating activity)

(iv) Cash receipts from disposal of Non-Current Investments (For a financial enterprise, it is an operating activity)

(v) Cash advances and loans made to third parties (For a financial enterprise, it is an operating activity)

(vi) Cash receipts from the repayment of advances and loans made to third parties (For a financial enterprise, it is an operating activity)

(vii) Cash receipts of interest and dividend from non-current

Investments (For a financial enterprise, it is an operating activity)

Financing activities: Activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and long term borrowings of the enterprise are called as financing activities. Examples of cash flows arising from financing activities are:

(i) Cash proceeds from issue of shares, debentures and bonds

(ii) Cash proceeds from long term borrowings

(iii) Redemption of preference shares, debentures and bonds

(iv) Repayment of long term borrowings

(v) Payment of dividend on shares

(vi) Payment of interest on long term borrowings

Note: Activities relating to Long term borrowings and payment of interest on it are operating activities for a financial enterprise

4. Specimen of Cash Flow Statement as per AS-3:

Particulars	As on 31.03.2015 (INR)
(A) Cash Flow from Operating Activities: Net Profit for the year Add: Profit transferred to Reserves Proposed Dividend for current year Interim Dividend paid during the year Provision for Income Tax for current year Payment of extraordinary items Less: Refund of Income Tax Receipts of extraordinary items =Profit Before Tax and Extra Ordinary Items Adjustments of Non-Cash and Non-Operating Items Add: Non Cash and Non-Operating Charges Depreciation on Non-Current Tangible assets Amortization of Intangible assets	

Miscellaneous Expenses-Written Off
Loss on sale of non- current assets including investments
Premium (Loss) on redemption of Debentures and Preference shares
Interest paid on Borrowings
Less: Non Cash and Non-Operating Incomes
Interest and Dividend on investments
Rent received
Profit on sale of non- current assets including investments
Profit on redemption of debentures and preference shares
=Operating Profit Before Working Capital Changes
Add: Decrease in Current Assets and Increase in Current Liabilities
Less: Increase in Current Assets and Decrease in Current Liabilities
=Cash generated from Operations
Add: Receipts of extraordinary items
Less: Payments of extraordinary items
Less: Income Tax paid
Add: Refund of Income Tax
=Net Cash Flow from Operating Activities

(B) Cash Flow From Investing Activities:

Proceeds from sale of Non-Current Assets including investments

Rent received from assets let out

Interest and Dividend received on investments

Less: Sale of Non-Current Assets including investments
=Net Cash Flow from Investing Activities

(C) Cash Flow from Financing Activities

Proceeds from issue of Shares, Debentures and Bonds

Proceeds from long term borrowings

Less: Redemption of Preference shares, Debentures and Bonds Interest on long term borrowings Payment of proposed dividend of last year Payment of interim dividend **=Net Cash Flow from Financing Activities** **Net Increase/Decrease in Cash and Cash Equivalent (A+B+C)** **Add: Cash and Cash Equivalent in the beginning of the period** **= Cash and Cash Equivalent at the end of the period**	

5. Case Study:

Prepare cash flow statement for the year ending on 31.3.2015 on the basis of given balance sheets of Hind Ltd as at 31.3.2015 & 2014. Also give your comment.

Particulars	Note No.	31.3.2015 (INR in Million)	31.3.2014 (INR in Million)
Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	14000	12000
(b) Reserves and Surplus			
2. Non - Current Liabilities	2	8000	5000
Long Term Borrowings			
3. Current Liabilities			
Trade Payables	3	6000	2000
Short Term Provisions			
	4	1000	1500
	5	800	400
		29800	20900

Assets			
1. Non-Current Assets	6	20000	15000
2.Current Assets			
Inventories		3200	1800
Trade Receivables		2700	2800
Cash & Cash Equivalents		3900	1300
		29800	20900

Notes to the accounts:

Note -1 Share Capital	31.3.2015	31.3.2014
Equity Share capital	11000	8000
10% Preference share capital	3000	4000
	14000	**12000**
Note-2 Reserves and Surplus		
Surplus i.e. Balance in statement of Profit and Loss A/c	4500	3000
General Reserve	3500	2000
	8000	**5000**
Note-3 Long Term Borrowings		
10% Debentures	6000	2000
Note-4 Trade Payables		
Creditors	700	1300
Bills Payables	300	200
	1000	**1500**
Note-5 Short Term Provisions		
Proposed Dividend	500	300
Provision for tax	300	100
	800	**400**
Note-6 Non-Current Assets		
Land and Building	12000	10000
Plant and Machinery	8000	5000
	20000	**15000**

Additional Information:

(i) Depreciation provided during the year: land and Building Rs. 400, Plant and Machinery Rs. 300
(ii) Tax paid during the year Rs. 280

Cash Flow Statement for the year ended 31st March, 2015.

Particulars	As on 31.03.2015 (INR)
(A) Cash Flow from Operating Activities:	
Net Profit for the year(4500-3000)	1500
Add: Profit transferred to General Reserves	1500
Proposed Dividend for current year	500
Provision for Income Tax for current year	480
=Profit Before Tax and Extra Ordinary Items	3980
Adjustments of Non-Cash and Non-Operating Items	
Add: Non Cash and Non-Operating Charges	
Depreciation on land and Building 400	
Depreciation on plant and machinery 300	700
Interest paid on Debentures (6000x10%)	600
Less: Non Cash and Non-Operating Incomes	-
=Operating Profit Before Working Capital Changes	5280
Add: Decrease in Current Assets and Increase in Current Liabilities	
Decrease in Trade Receivable	100
Increase in Bills Payable	100
Less: Increase in Current Assets and Decrease in Current Liabilities	
Increase in Inventory	(1400)
Decrease in Creditors	(600)
=Cash generated from Operations	3480
Less: Income Tax paid	280
=Net Cash Flow from Operating Activities	**3200**
(B) Cash Flow From Investing Activities:	
Purchase of Land and Building	(2400)
Purchase of Plant and machinery	(3300)

=Net Cash used in Investing Activities	**(5700)**
(C) Cash Flow from Financing Activities	
Proceeds from issue of Equity Shares	3000
Redemption of Preference Shares	(1000)
Proceeds from issue of Debentures	4000
Interest paid on Debentures	(600)
Proposed Dividend paid (Last Year)	(300)
=Net Cash Flow from Financing Activities	**4100**
Net Increase in Cash and Cash Equivalent (A+B+C)	**2600**
Add: Cash and Cash Equivalent in the beginning of the period	**1300**
= Cash and Cash Equivalent at the end of the period	**3900**

Working Notes:

Provision for Taxation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To bank- Tax paid To Balance c/d	280 300	By Balance b/d By statement of P&L A/c- Provision	100 480
	580		580

Land and Building A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d To Bank a/c (?) – Purchase	10000 2400	By Depreciation a/c By Balance c/d	400 12000
	12400		12400

Plant and machinery A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d To Bank a/c (?) –	5000 3300	By Depreciation a/c	300

Purchase		By Balance c/d	8000
	8300		8300

Analysis: Book profit for the year ending 31st march 2015 is Rs. 1500 but cash profit from operating activities is Rs. 3200. Cash flow is also generated by issuing equity shares and debentures Rs. 4000 and Rs. 3000 respectively. The company has invested Rs. 5700 in purchasing non - current assets as a part of expansion or diversification.

6. Corporate Financial statements as per Companies Act 2013

The Structure of Schedule III as per companies act 2013 requires financial statements to incorporate

(I) General Instructions.

(II) Part I - Balance Sheet.

(III) General Instructions for preparation of Balance Sheet.

(IV) Part II - Statement of Profit and Loss.

(V) General Instructions for preparation of Statement of Profit and Loss.

(VI) General Instructions for the preparation of the Consolidated Financial Statements.

Schedule III prescribes the Format of Balance Sheet and Profit and Loss Account

Balance Sheet

Particulars	Figures as at end of current reporting period	Figures as at end of previous reporting period
EQUITY & LIABILITIES (**1) Shareholders 'Funds** (a) Share Capital (b) Reserves &Surplus (c) Money received against share		

warrants **(2) Share application money pending allotment** **(3) Non-current Liabilities** (a) Long-term borrowings (b) Deferred tax liabilities (Net) (c) Other long term liabilities (d) Long-term provisions **(4) Current Liabilities** (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions **TOTAL** ASSETS **(1) Non-Current Assets** **(a) Fixed Assets** (i) Tangible Assets (ii) Intangible Assets (iii) Capital Work- in Progress (iv) Intangible Assets under development **(b) Non-current Investments** **(c) Deferred tax assets (net)** **(d) Long-term loans and advances** **(e) Other noncurrent assets** **(2) Current Assets** **(a) Current Investments** **(b) Inventories** **(c) Trade Receivables** **(d) Cash and cash equivalents** **(e) Short-term loans and advances** **(f) Other current assets** **TOTAL**		

Profit and Loss Account

Particulars	Figures as at end of current reporting period	Figures as at end of previous reporting period
I. Revenue from Operations		

II. Other Income III. Total Revenue (I+ II) IV. Expenses: Cost of materials consumed Purchases of Stock-in-Trade Changes in inventories of finished goods, work-in progress and Stock-in-Trade Employee benefit expense Finance costs Depreciation and amortization expense Other expenses Total expenses V. Profit before exceptional and extraordinary items and tax (III-IV) VI. Exceptional items VIII. Extraordinary Items IX. Profit before tax (VII- VIII) X Tax expense: (1) Current tax (2) Deferred tax XI. Profit (Loss) for the period from continuing operations (VII-VIII) XII Profit/(loss) from discontinuing operations XIII. Tax expense of discontinuing operations XIV. Profit/(loss) from Discontinuing operations (after tax) (XII-XIII) XV. Profit (Loss) for the period (XI + XIV) XVI. Earnings per equity share: (1) Basic (2) Diluted		

7. Summary

Cash flow statement is prepared as a part of final accounts which is mandatory for all listed companies and other companies whose turnover exceeds Rs. 50crore. It is prepared as per specimen given in AS-3 classifying cash inflow and out flow from Operating, Investing and Financing Activities. Cash flow is generated when actual cash is received or payables increase. Cash outflow takes place when actual cash is paid or receivables increase. Cash flow statement helps to take decision based on cash regarding dividend, Capital investment and redemption of long term borrowings.