

- **Balance Sheet** is a statement of a firm's assets, liabilities and equity on a specific date.
- **Assets** are economic resources that help generating revenues.
- **Liabilities** are the firm's obligations to creditors.
- **Equity** is the investment made by owners in the firm.
- **Statement of Changes in Financial Position** Both the balance sheet and the profit and loss statement do not explain the changes in assets, liabilities and owner's equity. The statement of changes in financial position is prepared to show these changes. Two common forms of such statement are: (a) the funds flow statement, and (b) the cash flow statement.
- **Fund** can be defined at least in three ways: It may mean (i) cash, (ii) working capital (the difference between current assets and current liabilities), or (iii) financial resources (arising from both current and non-current items).
- **Funds Flow Statement** provides an analysis of changes in the firm's working capital position.

- **Cash Flow Statement** is prepared to analyse changes in the firm's cash position. Both these statements can be recast to incorporate additional financial information that does not affect cash or working capital but influences the financing and asset mix of the firm. Funds flow and cash flow statement are important managerial tools for financial analysis. They help the firm to know its liquidity position, capital expenditures incurred, dividend paid and extent of external financing.
- **Projected Funds or Cash Flow Statement** plan the matching of inflow and outflow of funds or cash.
- **Funds/Cash from Operations** The main source of funds—working capital or cash—is the firm's operations. Funds from operations are calculated by adjusting the figure of net profit for non-fund or non-cash items such as depreciation. Depreciation is added to net profits to arrive at funds from operation. To determine cash from operations, changes in current assets and current liabilities are also adjusted in net profits. Increase in current assets and decrease in current liabilities reduce cash while decrease in current assets and increase in current liabilities increase cash. Other sources of working capital or

cash include sale of fixed assets, issue of share capital and borrowings. The typical examples of uses of funds are: acquisition of fixed assets, repayment of debt and payment of cash dividend.