INTRODUCTION

The earlier chapters have considered a wide range of alternative ways of evaluating financial events. However, in terms of the basic statements that are to be used for presentation to the users of the accounting information nothing fundamentally new has been discussed. It has been implicitly assumed throughout that two essential statements are to be created:

1. Some form of position statement (balance sheet);
2. Some form of income statement (P&L account).

Several possible extensions or alternatives have been suggested in recent years, and we will consider some of these here.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS (SSAP 10)

The only significant extension to published accounts to have been required by the ASC is a statement of source and application of funds (a funds flow statement). SSAP 10 was issued in 1975 and was intended to provide a link between balance sheets, expressed in terms of the flow of funds to and from the organization.

The idea for such statements was not new, but it is reasonable to suggest that their formal introduction was hastened by several dramatic company failures in the early 1970s, particularly Rolls-Royce. It appeared that these apparently successful companies collapsed without any warning; indeed many had reported profits right up to the end, and commentators asked how increasing financial distress had not revealed itself earlier. On close examination, however, it is clear that changes in asset and liability
composition between one balance sheet date and the next are not easily ascertainable from the balance sheet or P&L account. Although the former will reveal the position at the year end, and although comparative figures will indicate a change from a previous position, only an extensive search in the notes to the accounts and a careful examination of all such changes will provide an explanation of all aspects of the year’s movements. A P&L account does not assist greatly in this process, because it focuses on only one item in the balance sheet, the net accretion (reduction) to shareholders’ funds.

The funds flow statement provides a clearer picture of the dynamic processes by focusing upon the changes in asset and liability composition between one balance sheet and the next. The ASC recognized the need for such a dynamic statement so as to provide a clearer understanding of the movements of the year and the resultant effect on net liquid funds. SSAP 10 says that fund flow statements (paragraph 11):

... should show the profit or loss for the period together with the adjustments required for items which did not use (or provide) funds in the period. The following other sources and applications of funds should, where material, also be shown:
(a) dividends paid;
(b) acquisitions and disposals of fixed and other non-current assets;
(c) funds raised by increasing, or expended in repaying or redeeming, medium or long-term loans or the issued capital of the company;
(d) increase or decrease in working capital sub-divided into its components, and movements in net liquid funds.

Although providing a necessary, and welcome, addition to company reporting the Standard is somewhat deficient in its requirements for presentation. Indeed the quotation above is almost the only guidance for the preparers of such statements. The appendices to the Standard (one of which is reproduced in Fig. 9.1) illustrate the type of layout and content that companies might select, but they are ‘in no way prescriptive, and other methods of presentation may equally comply with the Accounting Standard’. The Companies Act 1985 fails even to mention funds flow statements anywhere in its 630 pages! The analytical and presentational difficulties such a lack of standardization can cause were outlined by Paul Taylor in Accountancy in October 1979:

SSAP 10 has caused public companies to include funds statements, but has done little to improve or standardize content. A glance at the Institute’s Survey of Published Accounts reveals that published funds statements are very difficult to analyse or even understand because of