The Consequences of a Real Life Approach to Business Accounting

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Résumé p. 458

INTRODUCTION

The present article is the third in a series of papers devoted to the presentation of a new approach to business accounting.

Whilst the first article in the series laid the foundations of the new approach and the second article dealt with its practical feasibility in terms of bookkeeping and use in management accounting procedures, this third article will examine the content and presentation of financial statements consistent with the new approach. To set the study of these statements in proper perspective let us review the essential of what has been established in the two previous papers.

As explained in the first of these, the need for a fresh approach to business accounting stems from the unsatisfactory state in which the discipline finds itself at present and from the
rather disappointing results of the various attempts made so far to develop a more rigorous theory of accounting applicable in today’s fast changing economic circumstances.

The underlying assumptions of traditional accounting, and more specifically of its two essential pillars - net worth and profit, were closely examined in the first article.

This critical analysis revealed that the heterogeneous nature of business wealth - consisting of "productive wealth" and "stored purchasing power" - was ignored by traditional accounting. Yet this dual nature of business wealth must be taken into account to tackle the problem of valuation in a logical way. Moreover a good understanding of what business wealth consists of is essential to perceive the fundamental mechanics of business activity, namely the recurrent cycle in which changes in productive assets are linked to changes in stored purchasing power. In this basic business cycle the time dimension of money - which is related to the ever available option of earning fixed interest - is an important factor of financial performance. In other words, the timing of inflows and outflows of funds interacts with their magnitudes to determine performance. Although this fact is duly taken into account in investment appraisal techniques, it is simply ignored by orthodox accounting. By contrast, the starting point of the suggested new approach consists in adapting to the analysis of business performance the rationale widely accepted when assessing the attractiveness of future investments.

Following this idea one encounters the difficulty that when a going concern is analysed as opposed to a future project of limited duration, one has to deal (a) with known past funds flows and (b) with unknown future funds flows.

Hence the impossibility to ever cast an objective final judgment on business performance. All that can be done is to provide the
readers of the accounts with the clearest possible information about the fairly recent past so as to enable them to make reasonable forecasts on future flows of funds. Therefore, the new approach concentrates on the analysis of changes in business wealth over successive periods, with a particular emphasis on movements of funds.

"Funds" is defined in this approach as net current monetary assets (NCMA), which represent the part of "stored purchasing power" that can be used in the short run.

It follows that the principal financial statement used in the new approach alongside the balance sheet is a statement which gives a summary of all movements of funds classified by type of transactions as well as a summary of all changes in other (1) classes of balance sheet items. This statement is called the "Statement of Financial Flows"; as will clearly appear in what follows, it differs from the classical "Funds Statement" in some important respects. A "Profit Statement" is also used, but only as a by-product of the "Statement of Financial Flows".

A restricted definition of profit in terms of financial flows is adopted. Profit is no longer regarded as an overpowerful and central concept but as a quick and approximate measure derived from the statement of financial flows in the same sort of way that ratios are derived from the balance sheet.

A general overview of the relationships between the three statements will now follow. Afterwards each of the three statements will be examined in detail, and some comments will be made

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(1) i.e. of classes of assets and debts other than those included in NCMA.
on consolidated statements (2) before moving on to the conclusions.

Formats (3) of non consolidated statements illustrated by an example and formats of consolidated statements are provided in appendices, and it is essential to be reasonably familiar with their content and presentation by the time one starts reading beyond the general overview.

1. RELATIONSHIPS BETWEEN THE THREE FINANCIAL STATEMENTS

In the new approach the three financial statements - balance sheet, statement of financial flows and profit statement - are rigidly linked to one another.

The balance sheet is a statement of business wealth at a given point in time; it consists in a summarized list of all assets and debts followed "below the line" by the net total "net worth", itself subdivided into capital, reserves ... etc.

It must be stressed that

a) only "real" assets, debts or provisions appear above the line; notional items like deferred charges fall below the line as subdivisions of net worth;

b) the division of net worth into various constituents is purely formal and does not lend itself to any significant interpretation.

The statement of financial flows is a statement that shows how all transactions and financial events have affected business wealth over a period of time.

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(2) not with a view to cover the subject exhaustively but to establish that the logical rigour of the new approach can be applied to group accounts with the same practical effectiveness as to ordinary accounts.

(3) Belgian readers should not regard these as a specific alternative to existing legislation.
It consists in a summarized list of changes in groups of balance sheet items classified by types of transactions and financial events.

When the variations method of bookkeeping presented in the second article of the series is used, the balances of variation accounts show the effect since the start of the period of each type of transaction or financial event on each balance sheet item. The statement of financial flows is then obtained simply by computing the desired subtotals and classifying them as appropriate.

The relationship between balance sheet and statement of financial flows is straightforward: if the balance sheet at the start of an accounting period is added item by item to the corresponding variations of the statement of financial flows for the period the balance sheet at the end of the period is obtained.

This can be summarized as follows:

\[
\text{Item X} + \text{Sum of variations in item X} = \text{Item X} \\
\text{Bs at start} + \text{SFF for the period} = \text{Bs at end}
\]

A glance at the statements in appendices will show that this equality holds for all groups of balance sheet items. But one will notice that the degree of detail in the statement of financial flows is not always the same as on the balance sheet. This is the case in particular for NCMA, of which only the total is considered on the statement of financial flows.

The profit statement is an extract of the statement of financial flows; i.e. some lines of the latter are selected and presented separately in a different order.

This direct relationship between the two statements stems from
a deliberate decision to adopt a definition of profit based on financial flows, for reasons that will be explained when commenting on the profit statement.

It can already be noted that the new approach has the distinct advantage over traditional accounting as well as over existing systems of inflation accounting of leading to statements that are much easier to reconcile with one another.

II. THE BALANCE SHEET

The balance sheet is a statement of business wealth at a given point in time. When considering the various items on the balance sheet the fundamental distinction between productive wealth and stored purchasing power must always be borne in mind.

The rationale followed to determine the basis of valuation of each category of assets and debts rests on this distinction.

This point has been abundantly commented on in the previous articles and we can here summarize the classification of balance sheet items and its consequences for valuation, as follows:

\[
\text{valued at:} \quad \begin{align*}
\text{Fixed assets} & = \text{productive wealth} + \text{replacement cost (RC)} \\
\text{Stock} & \\
\text{Investments} & = \text{productive wealth} + \text{current value (CV)} \\
& + \text{stored purchasing power} \\
\text{Non operational assets} & = \text{stored purchasing power} \\
\text{NCMA} &
\end{align*}
\]
Debts Provisions } = negative purchasing + repayment value (RV)\(^{(4)}\) power
Net worth = net aggregate + amount obtained by algebraic total

We can now examine in some detail the content of the various headings of the balance sheet referring to the lay-out provided in appendix 1.

**Fixed assets**

In the new approach the purpose of providing information on productive assets is mainly to indicate how quickly they are being consumed or becoming obsolete so as to have an idea of the outlays that must be made to replace them.

For this reason, only real assets for which direct or indirect replacement is conceivable should be taken into account. In other words, deferred charges such as start-up expenses, R & D costs and the like should not be considered as assets\(^{(5)}\).

For the same reason, accumulated depreciation should be shown explicitly; when compared to the depreciation of the period it reveals the average remaining useful life of the assets.

The indication of historic cost as well as current replacement cost is desirable in view of the degrees of uncertainty and subjectivity attached to the latter.

Having an idea of the average age of the assets (from the comparison depreciation/accumulated depreciation) the reader of the accounts can use his knowledge of price changes in the industry

\(^{(4)}\) the same symbol RV is used for both realisable and repayment values, the latter being, so to speak, the negative version of the former.

\(^{(5)}\) If one wishes, however, not to ignore them, they must appear below the line under the heading net worth as an adjustment to retained earnings.
concerned to satisfy himself that the replacement values shown seem broadly correct.

Stock

What has been said above about the purpose of providing information on productive assets applies of course to stock as well as to fixed assets.

The difference lies in that consumption is not measured by depreciation but by net quantitative reduction.

Net quantitative reduction, or net quantitative increase as the case may be, is shown in the statement of financial flows.

On the balance sheet only the outstanding balance of stock appears, valued at replacement cost with a separate mention of historic cost (to be remembered that the historic cost shown in the books depends on the chosen method of permanent inventory : LIFO, FIFO, weighted average... etc.).

For our purpose which is to estimate how much would have to be spent to make up for any reduction in stock it seems fairly clear that direct costing should be preferred to full costing.

Further comments on valuation of products in stock can be found in the previous article.

Investments

Investments constitute a sort of extension of the business entity and represent therefore a mixture of productive wealth and purchasing power.
As soon as investments amount to a significant proportion of all assets, only the consolidated balance sheet gives a reasonable view of the enlarged entity.

For the valuation of all investments in the non consolidated balance sheet (6) the most logical position is to adopt the equity method, i.e. to value investments on the basis of percentage of ownership applied to the net worth of the companies concerned.

The net worth of companies in which shares are held is itself a net total of replacement costs and realisable/repayment values; for the sake of brevity we shall state that investments appear on the balance sheet at current value (CV).

As for fixed assets and stock it is useful to indicate the historic value in addition to current value.

Furthermore, it is also desirable to split the difference between these two values into two parts: goodwill, which represents the difference as it was at the time of acquisition, and the subsequent change in value.

Note that goodwill is negative (7) when the price paid for shares was higher than the current value at the time of acquisition.

(6) as well as of investments in associated companies in the consolidated balance sheet.

(7) in traditional balance sheets, goodwill appears as a positive amount, i.e. as an asset. In fact, it is a deferred charge; we do not consider deferred charges as assets but as purely formal subdivisions of net worth "below the line".
Non operational assets

These are any assets, such as land, buildings, stocks of commodities or long/medium term monetary placements without connection with the normal commercial activity of the business that are held purely in order to store purchasing power.

Being part of "stored purchasing power", they must be valued at current realisable value.

Net current monetary assets (NCMA)

The group of assets and debts appearing under this heading constitutes the net purchasing power available to the firm in the short run, i.e. an enlarged concept of cash.

The special role of NCMA in the recurrent basic cycle of business events has been explained in the first article of the series.

It is this special role that justifies the particular importance attached to variations in NCMA in the statement of financial flows.

There could be a degree of uncertainty about the exact boundaries of NCMA in that opinions may differ on whether short-term finance debt (as opposed to trade creditors... etc.) should be included (negatively) in NCMA. This is related to the fact that the distinction between short term and long term finance debt is not necessarily significant; borrowing short or long depends on expectations about future conditions in the financial markets.

This uncertainty about the exact boundaries of NCMA need not
worry us very much because the usefulness of the concept of NCMA is associated with the dynamical analysis; i.e. changes in NCMA matter more than its value at a given point in time.

Another subtle point to highlight is the treatment of accruals: since NCMA is an enlarged concept of "cash", it is proper to include in it accrued income and accrued charges (negatively), but to exclude from it deferred income (8) and prepaid expenses (9).

In fact deferred income and prepaid expenses are not only excluded from NCMA but they are rejected from the list of real assets and debts to "below the line" as a subdivision of net worth.

The valuation of items within NCMA is based on realisable value for assets and repayment value for debts and provisions.

In practice this means face value in the currency in which they are denominated converted at the appropriate exchange rate. Which is the appropriate exchange rate? - Since the future rates at the time of realisation or repayment are unknown, the most rational position is to adopt the rate at the time of balance sheet.

Debt

Under this heading come all debts that are not included (negatively) in NCMA.

(8) the corresponding amount has already been cashed or is accounted for in trade debtors.

(9) already paid or accounted for in trade creditors.
The valuation of debts is on the basis of repayment value, i.e. face value in currency of denomination converted at the exchange rate at the time of balance sheet.

Provisions

These are likely future debts; they may not have been formally incurred, and their precise magnitude and due date may not be known but a sufficient presumption that they will result in future outlays exist for them to be deducted from the "stored purchasing power" of the business.

Short term provisions fall within the boundaries of NCMA and under the heading considered here come all medium and long term provisions.

They may be denominated in foreign currencies and for their valuation they follow the same logic as debts.

Net worth

Under the stationary state assumption on which traditional historic cost accounting is based, business net worth represents several things simultaneously:
(a) the totality of funds that were brought into the business or acquired through operations
(b) the realisation value of the whole; in this respect, it is akin to the concept of net worth applied to individuals
(c) the current replacement value of the whole; what a new competitor entering the industry would have to pay to acquire an equivalent business.

It is this multiplicity of meanings that make it appear a commandingly obvious concept.
In real life conditions, however, the net worth revealed by a balance sheet set up for a going concern is a net aggregate of positive and negative purchasing power on the one hand and productive wealth on the other.

The only interpretation possible is as in (c) above, i.e. the amount of money required from a hypothetical new entrant in the industry to buy an equivalent business.

In the light of these considerations, it appears that subdividing net worth into capital, reserves, etc. has no particular meaning. It is a purely formal exercise, one which we shall perform for statutory reasons only.

Incidentally, in traditional reporting the words "reserves" and "provisions" are sometimes regarded as interchangeable. For us, anything that stands for a probable or possible future outlay of funds must appear under the heading "provisions" above the line. "Reserves" is a purely formal item; it is the part of net worth that is neither capital, nor retained earnings nor deferred income minus deferred charges.

Now capital is itself a purely formal item, for what is the meaning of an accumulation of funds brought into the business at different times that ignore the time dimension of money.

Retained earnings is a similarly formal item; it is increased each year by the amount of profit and decreased by the amount of dividends.

As for deferred income and deferred charges their only use is in the computation of profit. They are retained in our statements (but neutralized by their rejection "below the line") solely to offer preparers of accounts a certain amount of flexibility in
"tuning" the figure of profit.

III. THE STATEMENT OF FINANCIAL FLOWS

The statement of financial flows is the principal statement in our approach. It gives a summary of all movements in net current monetary assets (NCMA) as well as of all changes in other classes of assets and debts.

The statement of financial flows differs substantially from the orthodox "funds statement".

Before the differences between the two statements can be made totally clear, we must review the logic leading to the statement of financial flows.

Firstly, in accordance with the principles of our approach, all balance sheet items are regarded as divided into three categories: 
- net current monetary assets (NCMA) = purchasing power available in the short run
- other assets and debts, comprising
  . fixed assets and stocks = productive wealth
  . investments = productive wealth + purchasing power
  . non operational assets = purchasing power not normally to be realised in the short run
  . debts and provisions = negative purchasing power
- net worth, the net algebraic total of all assets and debts.

Secondly, the net total of NCMA is regarded as the best approximation of cash (10) for the purpose of global dynamical analysis.

(10) this approximation is acceptable as long as the relationship between changes in NCMA as a whole and changes in cash itself remains steady. To enable the readers of the accounts to check that this is the case a detailed breakdown of movements in the constituents of NCMA should be provided in appendices or notes on the published accounts.
This leads us to define the term "funds" as NCMA.

The special role of NCMA has been commented on in the first article of the series and we know from there that the analysis of movements in NCMA over successive periods leads to a good appreciation of the dynamical financial equilibrium of a business.

If such an analysis could be extended to the entire lifespan of the business, it would account perfectly for the overall return from start to finish, and it would be quite unnecessary to pay much attention to the pattern of changes in the other assets and debts, the latter being purely transitory items.

In reality of course the analysis of movements in NCMA stops at the current period and it is therefore useful to analyse also the pattern of changes in other assets and debts, for the study of this pattern helps in forming an idea of the likely future needs for funds.

This consideration is the third step in the logic leading to the statement of financial flows. It explains why the statement is composed of two main separate parts, namely:

1. Variations in net current monetary assets
2. Variations in other assets and debts.

The third heading – III. Variations in net worth – is added only to render the reconciliation with opening and closing balance sheets more self explanatory.

For a good understanding of the statement it is useful to bear in mind that

(a) all transactions induce changes in NCMA and are therefore reflected in part I
(b) some transactions have, in addition, a simultaneous effect of opposite sign on other balance sheet items and are therefore also reflected in part II (e.g. acquisition of fixed assets, repayment of debt)

(c) financial events (such as changes in exchange rates, changes in replacement costs of productive assets, the occurrence of depreciation, ... etc) can affect any part of business wealth without counterbalancing effect elsewhere. They are generally reflected in part II, except change in exchange rates affecting NCMA which is shown in part I.

We are now in a position to highlight the differences between the statement of financial flows and the orthodox "funds statement". These are that:

(a) there is no unanimity about the most suitable interpretation of the term "funds" in the orthodox statement, with the most widely used definition being working capital [1], [5], whereas in our approach "funds" is firmly defined as NCMA

(b) profit appears as the first source of funds in the orthodox statement, whereas we ignore profit altogether in the statement of financial flows (11)

(c) because profit is treated as the first source of funds in the orthodox statement, deductions such as depreciation which do not involve movements of funds have to be added back to sources of funds. The statement of financial flows makes a clear distinction between causes of movements of funds which are all listed in part I and changes in other assets and debts - e.g. depreciation - which are all listed in part II

(d) transactions with an effect on non-current assets or debts as well as on working capital (e.g. sale or disposal of fixed

(11) in fact, as will be explained in chapter IV, our concept of profit derives from the statement of financial flows rather than the other way round.
assets, repayment of debt) appear only once in the orthodox statement, whereas in the statement of financial flows they appear under part I as a cause of movement of funds and under part II as a variation of non-current assets or debts, which shows explicitly their dual aspect (12).

It is apparent that the orthodox "funds statement" is rather more cumbersome due to the interference of profit and the lack of a clear distinction between short term stored purchasing power and other constituents of business wealth, a fact also reflected in the uncertainty about the definition of the term "funds".

The statement of financial flows rests on a clear definition of funds, a clear distinction between funds and other constituents of business wealth and a direct explicit analysis of movements in business wealth.

We shall now make some comments about the various sections of the statement of financial flows, referring to the format and example provided in appendix 2.

It must be emphasised that the notes accompanying appendix 2 are to be considered together with the statement itself, which has to be kept fairly concise.

Negative signs indicate that the items concerned are normally negative; e.g. "change in foreign exchange rates" under heading E is negative when the exchange rates of the currencies in which debts and provisions are denominated have gone up (in the example the reverse has been the case so that the figure is positive : 55).

(12) so that in the case of disposal of fixed assets or investments the price received is shown as well as the book value of the assets disposed of.
Variations in net current monetary assets

These are variations in the total of NCMA, which is different from movements in actual cash. For an overall analysis this is an acceptable approximation, but a detail of changes in individual items within NCMA should be available in order mainly to control the pattern of payments received and made in relation to sales and purchases.

Revenues are gross of any deferred income and expenditures include any deferred expenses, in line with what has been said previously about accruals.

"Change in foreign exchange rates" is a balancing item between opening balance plus (other) variations and closing balance. Its magnitude depends on the rates of exchange applied to the other variations.

Variations in other assets and debts

Variations are here given separately for each large group of assets and debts not included in NCMA.

For headings A, B and C the tableaux provided in the notes show the detailed breakdown of variations with the separate indication of historic costs and current values.

Heading A is limited to one statement line in our example as the amounts involved are relatively small compared to those pertaining to investments and fixed assets.

Naturally, the degree of detail shown for A, B and C on the statement proper, as opposed to the notes, should be adapted to each particular case.
The relationships between figures on the statement itself and those given in the notes are as follows:

- For investments
  acquisitions (2,500) = historic price paid (3,000) - goodwill on acquisition (500)
  disposals (1,080) = CV at time of disposal; straight from tableau (total of column)
  change in current value (600) = gain in CV between time of acquisition and closing (200) plus change in CV on assets held throughout the period (400)

- For fixed assets
  acquisitions (4,500) = historic price paid, straight from tableau
  disposals (625) = RC at time of disposal, net of depreciation straight from tableau (total of column)
  depreciation (1,418) = depreciation of assets held throughout the period valued at closing RC (945) plus depreciation on assets acquired also based on closing RC (450 + 23).

Heading D has a rather different presentation. Acquisitions and disposals of items in stock occur on such a regular basis that the separate indication of their totals for a period is less revealing than that of the global net change in quantity observed at the end of the period.

The latter shows to what extent the level of productive wealth held in the form of stock has been affected by the commercial and industrial activities conducted over the period.
Since stock usually comprises different categories of goods of completely different natures, quantitative measures are possible only within the same class of items. Figures must therefore be computed first for each of the various homogeneous groups and then aggregated together. There can of course be net decreases in some groups counter balanced by net increases in other groups. Only in money terms can a common measurement be expressed to arrive at an idea of overall net increase or decrease. To that effect the net quantitative variation in each group must be valued on the basis of replacement cost at the end of the period (13).

Heading E and its accompanying note are self explanatory. Remark that additions to provisions are normally not counterbalanced by a change in NCMA as is the case for new debt and that reductions in provisions may be recorded either because the reasons that led to the setting-up of a provision are reappraised or because the outlay of funds that the provision anticipated has actually materialized.

Variation in Net Worth

As we have seen in chapter II, the distinction between the various constituents of net worth is purely formal. Their individual variations are of limited interest; they are indicated in order to provide a full reconciliation with the opening and closing balance sheets.

(13) It should be noticed that end of period replacement cost is used here whereas replacement cost at the time of disposal is used for fixed assets: the reason is that disposals of fixed assets are considered individually whilst the measurement of net quantitative variation of items in stock is by definition considered at the end of the period.
Remember, however (for the sake of complete understanding), that we consider reserves (14) as a balancing item between the total of net worth and capital + deferred income - deferred charges + retained earnings. The change in reserves is therefore obtained by difference.

IV. THE PROFIT STATEMENT

The essential characteristic of our new approach to business accounting is that it does not revolve around the concept of profit.

The most important statement provided in the new approach is the statement of financial flows. Its purpose is to reveal in a straightforward manner the pattern of funds flows and other movements in business wealth over the last few successive periods. The reader of the accounts is then left to use this information to reach his own appraisal of the likely future funds flows. This, we feel, is the only realistic way to assess the viability of a business. As for performance, we know that it is for ever in the making and can never be precisely measured over a limited period of time.

Having said all this, however, it must be recognized that readers of the accounts will always hanker after a quick indicator that could give them a first rough idea of how things are going without having to (or before starting to) analyse the pattern of funds flows.

(14) this item comprises traditional reserves and current value reserves arising from the use of CV, RC and RV. There appears to be no point in keeping track of these various reserves separately.
One indicator that fits well into our approach (in that it can be derived directly from the statement of financial flows) is the difference between the net inflow of funds from operations and the value of productive assets consumed. What this indicator shows is the dynamical equilibrium between inflows of funds of a regular nature and a measure of the outlay of funds necessary to maintain operating capacity at broadly the same level.

We shall call this indicator profit and set up a profit statement to show its constituents (which are all extracted from the statement of financial flows).

At the same time it must be stressed that this is a much more modest concept not only than traditional profit but also than the adjusted versions of profit put forward in the newly introduced systems of "inflation accounting". For a start, it is no longer built into the system of bookkeeping; the latter is operated on the basis of variations and leads to the statement of financial flows, of which our concept of profit is then derived at the final stage of the accounting procedure. Secondly, it no longer purports to fulfill the three functions classically attributed to the traditional concept of profit:
- to be the absolute measure of performance
- to offer the obvious basis for corporate taxation
- to set a legal limit to the payment of dividends.

Although our concept of profit seems rather like a straight CCA profit on the lines of, say, the current cost profit mentioned in the British SSAP16 [10] , the presentation of the constituents of profit and the whole spirit in which the concept is viewed are significantly different.

In complying with the professional standards on inflation accounting that exist in some countries, CCA profit (or, for that
matter, CPP profit) is generally presented as traditional historic cost profit "adjusted" for current costs; moreover profit remains the central concept of financial reporting and accounting in general. Amongst other things, the funds statement is still based on profit [8].

Although quite a lot has been said in this series of articles on the traditional concepts of profit and net worth, it is useful to add a few more words on the subject so that what is fundamentally misleading in traditional accounting and alas to a large extent in its revised versions put forward under the label of "inflation accounting" can be put into sharp focus.

The idea of profit raises no difficulty when applied to a very short lived venture, where expenditures and revenues fall in the same accounting period.

When the venture extends over some time or becomes a going concern, with the result that expenditures and "corresponding" revenues do not occur in the same accounting period, the rationale of orthodox accounting is to "store" values on the balance sheet and to carry them forward to successive periods where they are gradually written off against revenues, in accordance with the "accruals concept". This is the crux of the matter: a kind of "accumulator of values" is operated; the balance of this accumulator at a given point in time is net worth and the change in the accumulator since the start of some period of reference is profit.

To be meaningful this extraordinarily symplistic representation of business affairs has to rest on three sets of assumptions:

(a) the distinction between "productive wealth" and "stored purchasing power" is ignored; only the net balance of the accumulator matters, not its composition
(b) the time dimension of money is ignored; a sum added to the accumulator in one period can be subtracted from it in a later period without paying attention to foregone interest.

(c) the "stationary state assumption" (prices, interest rates, exchange rates, technology, cost structures ... etc. do not change); once added to the accumulator, values hold good indefinitely.

Inflation accounting has sought to adapt this model to a situation where prices are no longer stable, but not much attention, if any, has been paid to the other aspects of the "stationary state assumption" and the time dimension of money as well as the heterogeneous nature of business wealth have continued to be ignored.

In inflation accounting, the change in the balance of the accumulator is considered to contain two elements: a "real surplus" and a "paper gain". Only the former is entitled to be labelled "adjusted profit".

Agreeing on a basis for the determination of adjusted profit has proved to be an exceedingly difficult exercise and it is fair to say that none of the systems advocated can claim to be logically watertight [10]. My contention is that there will never be an entirely satisfactory system for the determination of adjusted profit, because the underlying model - the accumulator of values - is not a proper representation of real life business.

There is something really pernicious about the accumulator model in the sense that (a) because of its simplicity it has become accepted as entirely natural and (b) because it ignores different aspects of reality, the various omissions interact with one another to produce misleading ideas.

To illustrate the last point, let us take the case of deferred
charges. Because the time dimension of money is ignored, these purely notional creatures are added to the accumulator, and because the nature of business wealth is not properly grasped they are regarded as fixed assets. Similarly goodwill is traditionally considered as an asset. In fact it is not an asset; what is a real asset is the shareholding that was acquired. The supplement of price that was paid in excess of its current value is not an asset, but an expenditure in the period of acquisition. The same sort of compounded confusion leads to the use of cost of sales and “cost of sales adjustment” and to the use of working capital as a basis for the funds statement...etc.

The end result of all this is that in trying to reconcile the inadequate accumulator model with changing values, one is led to such contortions that the financial statements produced are unclear, difficult to interpret and fraught with misleading notions.

The object of the new approach is to pull accounting out of this morass. The underlying model of the new approach is somewhat more sophisticated than the accumulator model because it takes reality into account. But precisely because it is a much more refined representation of reality it can be implemented with far less conceptual difficulties and the financial statements produced appear distinctly clearer.

It can now be seen why our concept of profit is fundamentally different in spirit from the neo-traditional adjusted profit. The latter is still based on the accumulator model. Our definition is formulated in terms of financial flows. What matters in our model are successive flows of funds; when we come to the last of successive past periods we use the measure of reductions in productive assets (together with other information) as a guide to forecast future outlays of funds so that our analysis of successive flows of funds can be prolonged into the future.
Because it bears no relation with the old accumulator model and is no longer defined as the change in net worth, our concept of profit cannot fulfill the three classical functions of traditional profit mentioned earlier - absolute performance measurement, basis for taxation and limit to dividends. The question of performance measurement has already been discussed. As for as taxation is concerned, it is important to note that distinguished experts are now seriously questioning the idea that corporation tax should be based on any concept of profit. A radical alternative - the "flow-of-funds tax" - has been proposed in Britain by a committee on tax reform set up by the Institute for Fiscal Studies [9].

Whatever its other merits, this proposal constitutes a milestone in that it demonstrates that the subject of taxation need not be riveted to definitions and redefinitions of profit.

Finally, the question of a legal limit to dividends has no theoretically sound answer. Put another way, the problem is that of the protection of creditors. The possibility of repaying debts in the future depends on the adequacy of future inflows of funds; the latter can never be guaranteed. In the simplistic accumulator model, the amount of capital and reserves is supposed to constitute a guarantee; this is a pure fiction since the corresponding funds have in fact been invested into productive assets (15) which may or may not yield the expected return.

V. SOME COMMENTS ON CONSOLIDATED STATEMENTS

Shareholdings in other companies, which appear on the non consolidated balance sheet as "investments", represent a mixture

(15) in the "stationary state assumption" these assets have a realisable value equal to their historic cost. When the assumption is abandoned, the concept of capital and reserves as a general guarantee simply evaporates.
of productive wealth and stored purchasing power.

Because of the fundamental difference between productive wealth and stored purchasing power it is desirable to split investments into their constituents, i.e. assets and debts.

This leads to the notion of consolidation whereby a larger entity, the group, is considered for reporting purposes and corresponding balance sheet items of all the companies in the group are aggregated together.

A difficulty inherent to consolidation is the definition of the enlarged entity, or in other words, the setting of criteria for the inclusion of companies into the circle of consolidation.

We shall not discuss this problem in the present paper but simply assume henceforth that some option has been taken in respect of the circle of consolidation.

Once an enlarged entity is determined, the same financial statements can be prepared as for a single company.

The consolidated balance sheet differs from the non consolidated one in two respects:
- the item "investments" no longer includes companies that are within the circle of consolidation
- net worth is presented as composed of two shares: the group's share and minority interests.

The division of net worth into two shares results directly from the procedure leading to the consolidated balance sheet.

This procedure consists in the following steps:
a) the percentages of total group ownership in all consolidated companies are determined on the basis of the "hierarchical tree" of the group.

b) in the balance sheets of all consolidated companies the current value of investments in other consolidated companies is subtracted from the item "investments", and below the line, from net worth.

c) the net worth reduced as a result of b) above is split into the group's share and minority interests using the percentages calculated in a).

d) the balance sheets amended in b) and c) are added together line by line.

e) all reciprocal balances are eliminated.

It should be noted that no "goodwill on consolidation" arises since the current value of investments in consolidated companies eliminated from the balance sheet is equal to the group's share in the net worth of these companies.

Investments in non consolidated companies continue to appear amongst assets just as they do in non consolidated balance sheets. Naturally as soon as they become significant we fall back on the very problem that led to the need for consolidation, i.e. that important assets and debts are hidden within a net total.

A possible remedy in some cases is proportional integration; otherwise one has to admit that this difficulty sets a limit to the significance of consolidated statements and that supplementary information about major shareholdings in non consolidated companies should be provided separately.

The consolidated statement of financial flows is very similar
to the non consolidated one when the circle of consolidation and
the percentages of total ownership of the companies within the
circle remain unchanged over the period considered.

In that case the relationship between opening and closing
balance sheets and the statement of financial flows is exactly
the same as for a single company.

The consolidated statement of financial flows is then simply
the aggregate of statements of financial flows for all consoli-
dated companies after elimination of inter-company transactions.

When the circle of consolidation does change, with new com-
pagnies entering or existing companies leaving, the effect on each
category of assets and debts is shown explicitly by the addition
of an appropriate extra line in each section of the statement
with a title such as "additions from newly consolidated companies"
(16). With those extra lines, the existing relationship with
opening and closing balance sheets is maintained.

Changes in the circle of consolidation are usually associated
with purchases or sales of shares which appear as movements of
funds in the first section of the statement; a supplementary note
should indicate the difference between price paid or received and
the current value (i.e. the slice of net worth) of the share-
holding acquired or relinquished.

---

(16) the amount of these additions are those of the corresponding
items on the balance sheet of newcomers drawn up at the time
of entry; variations between that point and the close of the
period are included in the various normal items of the sta-
tement of financial flows.
When the acquisition is through an exchange of shares, the terms of the exchange do not affect the resulting new entity nor its net worth but simply characterize a deal between old and new shareholders of the parent company; the terms of the deal should be indicated in a separate note but are not shown in any of the consolidated statements.

When percentages of total ownership in companies within the circle of consolidation change, the division of net worth between group’s share and minority interests is affected and there is a movement of funds if shares have been bought or sold for cash.

The consolidated profit statement derives directly from the consolidated statement of financial flows.

No more eliminations of inter-company transactions are necessary since eliminations have been carried out in preparing the statement of financial flows.

CONCLUSIONS

The main distinctive features of the financial statements prepared in accordance with the new approach are:

a) the valuation of balance sheet items based on our understanding of the nature of business wealth

b) the vision of net worth as a pure algebraic net total

c) the rejection “below the line” of deferred income and expenses

d) the preeminence attached to the statement of financial flows

e) the straightforward relationship between this statement and the balance sheet

f) the structure and content of the statement of financial flows

g) the redefinition of profit as an indicator of dynamical
equilibrium derived directly from the statement of financial flows

h) the treatment of goodwill on investments as part of the total difference between CV and HC rather than as a pseudo asset

i) the explicit indication of additions from newly consolidated companies on the consolidated statement of financial flows.

Each of these characteristics is a logical consequence of the vision of business accounting unfolded in the first article of the series.

The detailed presentation of individual statements is less important than the spirit in which the statements are viewed. Recall that the statements should always be considered for the successive most recent periods, since the essence of the new approach is a dynamical analysis of the recurrent turnaround of business wealth with a particular emphasis on funds flows.
APPENDIX O

PRELIMINARY NOTES ON THE APPENDICES

1. The following abbreviations are used throughout

   HC = historic cost
   CV = current value
   RC = replacement cost
   RV = realisable or repayment value

2. Appendix 2 is followed by notes (referred to as
   ("Appendix 2. Notes")
   These notes are to be considered together with the statement
   proper; the amount of details left out of the statement itself
   is due to reasons of presentation only; i.e. to insure that
   the whole statement does not exceed one page.

3. Notes also apply to appendix 5; since they are completely
   similar to those following appendix 2, they have not been
   reproduced.

4. All three non consolidated statements are illustrated by
   the same example; no example is given for consolidated
   statements.
### APPENDIX 1

#### BALANCE SHEET
(Non consolidated)

<table>
<thead>
<tr>
<th></th>
<th>Opening</th>
<th>Closing</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED ASSETS (RC)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross value HC</td>
<td>8,000</td>
<td>11,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Adjustment RC</td>
<td>2,000</td>
<td>2,675</td>
<td>675</td>
</tr>
<tr>
<td>-Accumulated depreciation HC</td>
<td>-4,000</td>
<td>-4,650</td>
<td>-650</td>
</tr>
<tr>
<td>-Adjustment to depreciation RC</td>
<td>-1,000</td>
<td>-1,493</td>
<td>-493</td>
</tr>
<tr>
<td><strong>STOCK (RC)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HC</td>
<td>2,100</td>
<td>1,150</td>
<td>-950</td>
</tr>
<tr>
<td>Adjustment RC</td>
<td>100</td>
<td>50</td>
<td>-50</td>
</tr>
<tr>
<td><strong>INVESTMENTS (CV)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition value HC</td>
<td>5,000</td>
<td>7,000</td>
<td>2,000</td>
</tr>
<tr>
<td>-Goodwill on acquisition</td>
<td>-500</td>
<td>-900</td>
<td>-400</td>
</tr>
<tr>
<td>Further adjustment CV</td>
<td>900</td>
<td>1,320</td>
<td>420</td>
</tr>
<tr>
<td><strong>NON OPERATIONAL ASSETS (RV)</strong></td>
<td>500</td>
<td>385</td>
<td>-115</td>
</tr>
<tr>
<td><strong>NET CURRENT MONETARY ASSETS</strong></td>
<td>1,050</td>
<td>1,020</td>
<td>-30</td>
</tr>
<tr>
<td>Cash</td>
<td>400</td>
<td>465</td>
<td>65</td>
</tr>
<tr>
<td>Accounts and bills receivable</td>
<td>5,000</td>
<td>6,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Accrued income</td>
<td>150</td>
<td>55</td>
<td>-95</td>
</tr>
<tr>
<td>-Accounts and bills payable</td>
<td>-2,800</td>
<td>-3,200</td>
<td>-400</td>
</tr>
<tr>
<td>-Accrued expenses</td>
<td>-200</td>
<td>-300</td>
<td>-100</td>
</tr>
<tr>
<td>-Provisions for taxation and distribution</td>
<td>-1,500</td>
<td>-2,000</td>
<td>-500</td>
</tr>
<tr>
<td><strong>DEBT (RV)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Short term</td>
<td>-2,000</td>
<td>-1,600</td>
<td>-1,400</td>
</tr>
<tr>
<td>- Medium and long term</td>
<td>-6,000</td>
<td>-7,450</td>
<td>-1,450</td>
</tr>
<tr>
<td><strong>-- PROVISIONS (RV)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-600</td>
<td>-800</td>
<td>-200</td>
</tr>
<tr>
<td><strong>= NET WORTH</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>2,000</td>
<td>2,200</td>
<td>200</td>
</tr>
<tr>
<td>Reserves</td>
<td>750</td>
<td>1,810</td>
<td>1,060</td>
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<tr>
<td>Deferred income - deferred charges</td>
<td>-300</td>
<td>-800</td>
<td>-500</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,000</td>
<td>4,947</td>
<td>1,947</td>
</tr>
</tbody>
</table>
APPENDIX 2

STATEMENT OF FINANCIAL FLOWS
(Non consolidated)

**I. VARIATIONS IN NET CURRENT MONETARY ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net current revenues (Note 1)</td>
<td>7,530</td>
</tr>
<tr>
<td>Service of finance debt</td>
<td>-1,500</td>
</tr>
<tr>
<td>Investments + divestments (Note 2)</td>
<td>-5,650</td>
</tr>
<tr>
<td>Distribution and Corporation Tax (Note 3)</td>
<td>-2,000</td>
</tr>
<tr>
<td>Net equity capital raised</td>
<td>500</td>
</tr>
<tr>
<td>Net funds raised through debt (Note 4)</td>
<td>1,100</td>
</tr>
<tr>
<td>Change in exchange rates</td>
<td>-10</td>
</tr>
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</table>

**II. VARIATIONS IN OTHER ASSETS AND DEBTS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Variations in non operational assets (Note 5)</td>
<td>-115</td>
</tr>
<tr>
<td>B. Variations in investments (Note 6)</td>
<td>2,020</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>2,500</td>
</tr>
<tr>
<td>Disposals</td>
<td>-1,080</td>
</tr>
<tr>
<td>Change in current value</td>
<td>600</td>
</tr>
<tr>
<td>C. Variations in fixed assets (Note 7)</td>
<td>3,032</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>4,500</td>
</tr>
<tr>
<td>Disposals</td>
<td>-625</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-1,418</td>
</tr>
<tr>
<td>Change in replacement costs</td>
<td>575</td>
</tr>
<tr>
<td>D. Variations in stock</td>
<td>-950</td>
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<tr>
<td>Net quantitative change</td>
<td>-1,150</td>
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<tr>
<td>Change in replacement costs</td>
<td>200</td>
</tr>
<tr>
<td>E. Variations in debt and provisions (Note 8)</td>
<td>-1,250</td>
</tr>
<tr>
<td>New debt and provisions</td>
<td>-2,300</td>
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<tr>
<td>Debt repaid and reductions in provisions</td>
<td>995</td>
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<tr>
<td>Change in exchange rates</td>
<td>55</td>
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</table>

**III. VARIATION IN NET WORTH (Note 9)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in exchange rates</td>
<td>55</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New debt and provisions</td>
<td>-2,300</td>
</tr>
<tr>
<td>Debt repaid and reductions in provisions</td>
<td>995</td>
</tr>
<tr>
<td>Change in exchange rates</td>
<td>55</td>
</tr>
</tbody>
</table>

Total: 2,707
APPENDIX 2. NOTES

NOTES ON THE STATEMENT OF FINANCIAL FLOWS
(Non consolidated)

1. Net current revenues 7,530
   a. From operations 3,000
      Sales 40,000
      -Purchases -34,300
      -Other current expenditures -2,700
   b. From investments in other 4,500
      companies
      Dividends and fees 4,500
   c. From non operational assets 50
      Interests, dividends, rents 50
   d. Current financial revenues and -20
      charges
      Net interest received from NCMA 10
      -Commissions and other financial charges -30

2. Investments + divestments -5,650
   a. In non operational assets (see note 5) 150
      Sales 200
      -Purchases -50
   b. In other companies (see note 6) -1,800
      Sales 1,200
      -Purchases -3,000
   c. In fixed assets (see note 7) -4,000
      Sales 500
      -Purchases -4,500

3. Distribution and corporation tax -2,000
   - Dividends -1,000
   - Corporation tax -1,000

4. Net funds raised through debt -115
   New debt 2,000
   - Debt repaid -900
5. **Variations in non operational assets**

<table>
<thead>
<tr>
<th></th>
<th>opening balance</th>
<th>disposals (1)</th>
<th>change in RV for remaining assets</th>
<th>acquisitions</th>
<th>total change</th>
<th>closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>at RV change in RV</strong></td>
<td>500</td>
<td>-200</td>
<td>30</td>
<td>50</td>
<td>-150</td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>-200</td>
<td>30</td>
<td>55</td>
<td>-115</td>
<td>385</td>
</tr>
</tbody>
</table>

6. **Variations in investments**

<table>
<thead>
<tr>
<th></th>
<th>opening balance</th>
<th>disposals (1)</th>
<th>change in CV for remaining investments</th>
<th>acquisitions</th>
<th>total change</th>
<th>closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>acquisition value HC</td>
<td>5,000</td>
<td>-1,000</td>
<td>3,000</td>
<td>2,000</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>- goodwill on acquisitions</td>
<td>-500</td>
<td>100</td>
<td>-500</td>
<td>-400</td>
<td>-900</td>
<td></td>
</tr>
<tr>
<td>+ further adjustment CV</td>
<td>900</td>
<td>-180</td>
<td>400</td>
<td>200</td>
<td>1,320</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,400</td>
<td>-1,080</td>
<td>400</td>
<td>2,700</td>
<td>7,420</td>
<td></td>
</tr>
</tbody>
</table>

(1) for purposes of this illustration, disposals are assumed to take place before any change in realisable or current value.
7. Variations in fixed assets

<table>
<thead>
<tr>
<th>opening balance</th>
<th>disposals (1)</th>
<th>change in RC for remaining assets</th>
<th>depreciation of period for remaining assets</th>
<th>acquisitions</th>
<th>total change</th>
<th>closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>gross value HC</td>
<td>8,000</td>
<td>-1,000</td>
<td>4,500</td>
<td>3,500</td>
<td>11,500</td>
<td></td>
</tr>
<tr>
<td>adjustment</td>
<td>2,000</td>
<td>-250</td>
<td>700</td>
<td>225</td>
<td>675</td>
<td>2,675</td>
</tr>
<tr>
<td>- accumulated depreciation HC</td>
<td>-4,000</td>
<td>500</td>
<td>-700</td>
<td>-450</td>
<td>-650</td>
<td>-4,650</td>
</tr>
<tr>
<td>adjustment</td>
<td>-1,000</td>
<td>125</td>
<td>-350</td>
<td>-23</td>
<td>-493</td>
<td>-1,493</td>
</tr>
<tr>
<td>5,000</td>
<td>-625</td>
<td>350</td>
<td>-945</td>
<td>4,252</td>
<td>3,032</td>
<td>8,032</td>
</tr>
</tbody>
</table>

8. Variations in debt & provisions

a. In debt
   - New debt -2,000
   - Debt repaid 900
   + Change in exchange rates 50

b. In provisions
   - Additions -300
   - Reductions 95
   + Change in exchange rates 5

9. Variation in net worth

<table>
<thead>
<tr>
<th>Capital</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves</td>
<td>1,060</td>
</tr>
<tr>
<td>Deferred income - deferred charges</td>
<td>-500</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,947</td>
</tr>
</tbody>
</table>

Total: 2,707

(1) For purposes of this illustration, disposals are assumed to take place before any change in replacement cost and any depreciation in the period.
APPENDIX 3

PROFIT STATEMENT
(Non consolidated)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net current revenues</td>
<td>7,530</td>
</tr>
<tr>
<td>+ Change in exchange rates affecting NCMA</td>
<td>-10</td>
</tr>
<tr>
<td><strong>= Inflow from operations</strong></td>
<td>7,520</td>
</tr>
<tr>
<td>+ Deferred charges - deferred income</td>
<td>500</td>
</tr>
<tr>
<td>+ Net quantitative change in stock</td>
<td>-1,150</td>
</tr>
<tr>
<td>- Depreciation</td>
<td>-1,418</td>
</tr>
<tr>
<td><strong>= Trading profit</strong></td>
<td>5,452</td>
</tr>
<tr>
<td>- Service of finance debt</td>
<td>-1,500</td>
</tr>
<tr>
<td><strong>= Gross profit before extraordinary items</strong></td>
<td>3,952</td>
</tr>
<tr>
<td>+ Sales of investments</td>
<td>1,200</td>
</tr>
<tr>
<td>- Disposals of investments</td>
<td>-1,080</td>
</tr>
<tr>
<td>+ Sales of fixed assets</td>
<td>500</td>
</tr>
<tr>
<td>- Disposals of fixed assets</td>
<td>-625</td>
</tr>
<tr>
<td><strong>= Gross profit before taxation</strong></td>
<td>3,947</td>
</tr>
<tr>
<td>- Taxation</td>
<td>-1,000</td>
</tr>
<tr>
<td><strong>= Net profit</strong></td>
<td>2,947</td>
</tr>
<tr>
<td><strong>Appropriation</strong></td>
<td></td>
</tr>
<tr>
<td>- Distribution</td>
<td>-1,000</td>
</tr>
<tr>
<td><strong>= Addition to retained earnings</strong></td>
<td>1,947</td>
</tr>
</tbody>
</table>
APPENDIX 4

BALANCE SHEET
(Consolidated)

FIXED ASSETS (RC)
- Gross value HC
- Adjustment RC
- Accumulated depreciation HC
- Adjustment to depreciation RC

STOCK (RC)
- HC
- Adjustment RC

INVESTMENTS IN NON CONSOLIDATED COMPANIES (CV)
- Acquisition value HC
- Goodwill on acquisition
- Further adjustment CV

NON OPERATIONAL ASSETS (RV)

NET CURRENT MONETARY ASSETS (RV)
- Cash
- Accounts and bills receivable
- Accrued income
- Accounts and bills payable
- Accrued expenses
- Provisions for taxation and distribution

DEBT (RV)
- Short term
- Medium and long term

PROVISIONS (RV)

= NET WORTH
- Capital of parent company
- Reserves and group’s share in capital of subsidiaries
- Deferred income - deferred charges
- Retained earnings
- Minority interests
APPENDIX 5

STATEMENT OF FINANCIAL FLOWS
(Consolidated)

1. VARIATIONS IN NET CURRENT MONETARY ASSETS
   - Net current revenues
   - Service of finance debt
   - Investments + divertments
   - Distribution and corporation tax
   - Net equity capital raised
   - Net funds raised through debt
   - Change in exchange rates
   - Additions from newly consolidated companies

II. VARIATIONS IN OTHER ASSETS AND DEBTS

A. Variations in non operational assets

B. Variations in investments in non consolidated companies
   - Acquisitions
   - Disposals
   - Change in current values
   - Additions from newly consolidated companies

C. Variations in fixed assets
   - Acquisitions
   - Disposals
   - Depreciation
   - Change in replacement costs
   - Additions from newly consolidated companies

D. Variations in stock
   - Net quantitative change
   - Change in replacement costs
   - Additions from newly consolidated companies

E. - Variations in debt and provisions
   - New debt and provisions
   - Debt repaid and reductions in provisions
   - Change in exchange rates
   - Additions from newly consolidated companies

III. VARIATIONS IN NET WORTH
APPENDIX 6

PROFIT STATEMENT
(Consolidated)

Net current revenues
+ Change in exchange rates affecting NCMA

= Inflow from operations
  + Deferred charges - deferred income
  ± Net quantitative change in stock
  - Depreciation

= Trading profit
  - Service of finance debt

= Gross profit before extraordinary items and taxation
  + Sales of investments
  - Disposals of investments
  + Sales of fixed assets
  - Disposals of fixed assets
  + Group’s share in profits of non consolidated companies

= Gross profit before taxation
  - Taxation

= Net profit
  of which
  Group’s share
  Share of minority share holders
BIBLIOGRAPHY


RESUME

Troisième d'une série consacrée à une nouvelle approche de la comptabilité des entreprises, le présent article traite des états financiers établis dans l'esprit de cette nouvelle approche.

Ces états financiers sont le bilan, le "Statement of Financial Flows" et le résultat.

Conformément à la philosophie de la nouvelle approche, le "Statement of Financial Flows est l'état le plus important. Il se distingue nettement du classique "Funds Statement" qui, dans la conception traditionnelle, n'est qu'un complément au résultat. Ici, c'est au contraire le résultat qui dérive directement du "Statement of Financial Flows". Le concept de résultat lui-même est redéfini et ramené à un rôle beaucoup plus modeste.