FINANCIAL STATEMENTS OF COMPANIES

★ Financial Statements: Financial statements are end products of accounting process. They provide information about the profitability and the financial position of a business.

→ Section 129 of the companies Act, 2013 prescribes that Balance Sheet and Statement of Profit or Loss are prepared in the form prescribes in Schedule III of the companies act, 2013.

→ A set of financial statements as per section 2(40) of the companies act, 2013 includes:
(a) Balance sheet [Position statement]
(b) P & L Account [Income statement]
(c) Notes to accounts
(d) Cash flow statements

➤ Nature of Financial Statements

(i) Recorded facts
(ii) Based on accounting principles and conventions
(iii) Based on accounting concepts (assumption)
- Going concern
- Consistency
- Accrual

(iv) Accounting standards are followed.
Eg → AS-3 : cash flow statements

(v) Estimates are also made if required.
Eg → provision for doubtful debts.

→ Contents of Annual Reports

(i) Report by Board of Directors.
(ii) Auditors reports to shareholders. *
(iii) Financial statements → Balance sheet
→ Statement of P&L
→ Notes to A/C
→ Cash flow.
(iv) Notes to accounts has different parts:
(a) Accounting policies followed by the company
(b) Explanatory notes, etc.

★ VERTICAL BALANCE SHEET

I. Equity & Liabilities

① Share Capital

$\boxed{\text{equity share capital + preference share capital}}$

② Reserves and surplus. (any reserve)
- General reserve
- capital reserve
- Securities premium reserves
- IFR / IFF
- WCR / WCF
- contingency reserves
- capital redemption reserve
- debenture redemption reserve
- ★ Stock option outstanding A/c

★ Appropriation of profit.

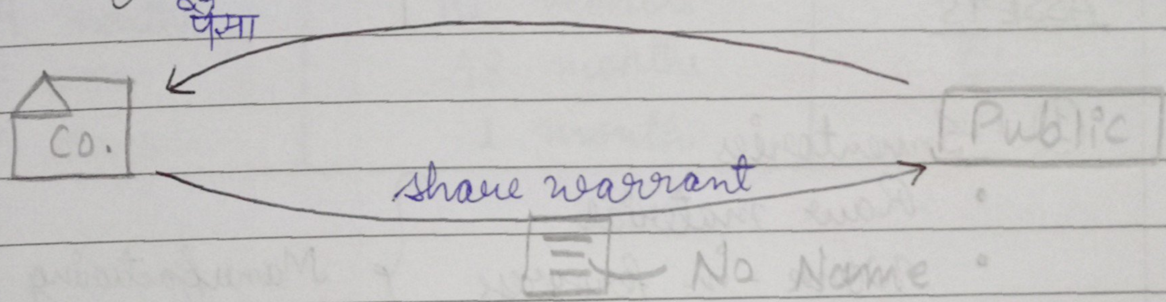
→ Any kind of appropriation is shown as deduction from the reserve.

eg → proposed dividend of previous year is shown as appropriations

After completing Financial Statement — PROFIT

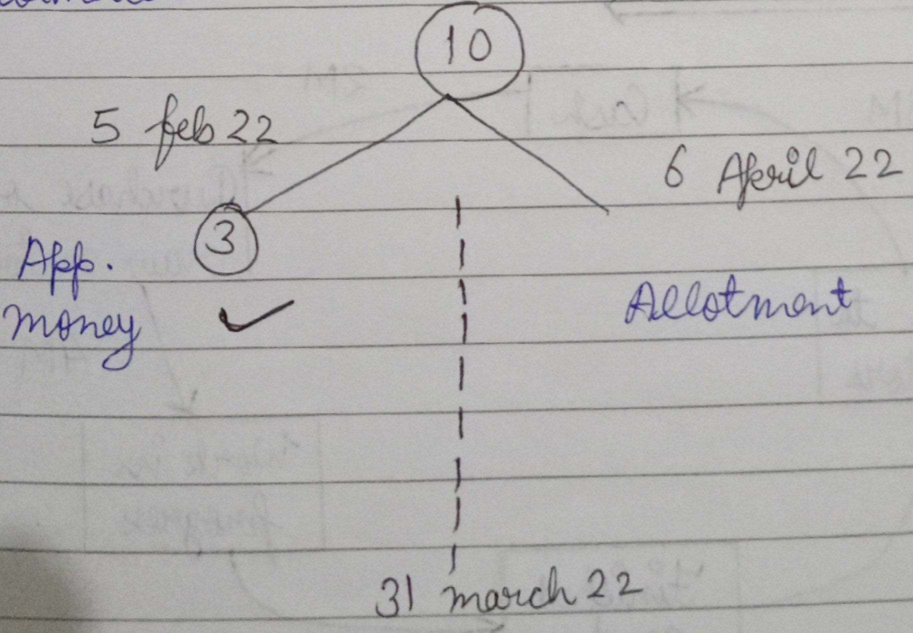
proposed dividend

③ Money received against share warrants



④ Share application money, pending allotment.

If a company has received application money but date of allotment falls after Balance sheet date (year end). So, their is pending allotment.



• Share application money . NOT pending allotment
It means application money to be
Refunded
Major head → Current liability.
Sub head → Other current liability

⑤ Long term provisions
→ Provision for Gratuity (retiring pension)
→ Funds that company sets aside to pay future expenses.

⑥ Short term provisions
→ Provision for doubtful debts
→ Provision for taxation
→ Within 12 months.

II. ASSETS

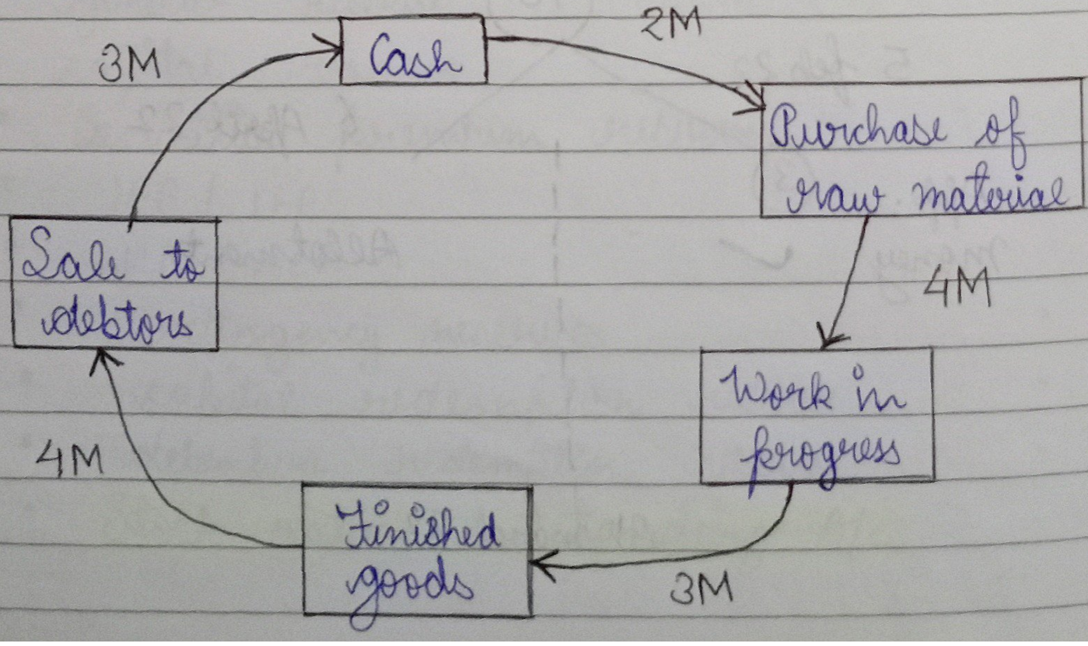
① Inventories

- Raw material
- Work-in progress
- finished goods

} Manufacturing entity

- Stock-in-trade } Trading entity
- Loose tools
- Stores and spares.

★ OPERATING CYCLE



Operating cycle is **16 months**

NCL > 1yr

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	Payment Period	Current / Non-current liabilities
(i)	13 months	current liability (CL)
(ii)	16 months	current liability (CL)
(iii)	9 months	current liability (CL)
(iv)	22 months	Non-current liability (NCL)

	Operating cycle	Payment period	CL or NCL
(i)	10 months	14 months	NCL
(ii)	15 months	14 months	CL
(iii)	9 months	10 months	CL *
(iv)	5 years	48 months	CL
(v)	3 days	1 month	CL

STATEMENT OF PROFIT & LOSS

Name of Company ______

Profit & loss statement for the year ended ______

(₹ in ______)

	PARTICULARS	Note No.	Current reporting period	Previous reporting period
I.	Revenue from operations		XXX	XXX
II.	Other Income		XXX	XXX
III.	Total revenue [I+II]		XXX	XXX
IV.	Expenses:			
	Cost of materials consumed		XXX	XXX
	Purchases of Stock-in-Trade		XXX	XXX
	Changes in inventories of finished goods, work-in-progress & Stock-in-Trade		XXX	XXX
	Employee benefits expenses			
	Finance costs			
	Depreciation & amortization expenses			
	Other expenses.			
	Total Expenses		XXX	XXX
V.	Profit before tax [III-IV]		XXX	XXX
VI.	(–) less: Tax		XXX	XXX
VII.	Profit after tax [V-VI]		XXX	XXX

1) Revenue from operations

→ Revenue earned from sale of goods and services.

→ Sale of scrap. (कूड़ा - कबाड़)

→ Commission received.

★ In case of finance Companies [Muthoot Finance Ltd., Bajaj]

→ Dividend received
→ Interest received
→ Gain on sale of investment

} RFO

2> Other income
→ Interest received
→ dividend received
→ rent received
→ Gain on sale of investment
→ Income tax refund.

3> Cost of Material consumed

raw material

Opening raw material	+ purchase raw material	− closing raw material

4> Employees benefits expenses {Compensation of employees}
→ Salary
→ wages
→ contribution to provident fund
→ staff welfare expenses
→ medical expenses

5> Finance Cost
(पैसों का जुगाड़ करते मे जो खर्च होते है।)
→ Interest paid on loan / debenture.
→ Loss on issue of debenture written off.
→ Share issue expenses − underwriting commission
→ Commission paid on deposit mobilisation.

6> Other Expenses
→ Carriage inwards / outwards.
→ Selling & administration expenses.
→ Loss on sale of fixed asset / investment
→ Overhead expenses.

- **Contingent Liabilities**

Show in Notes to ACCOUNTS

→ Any disputed liabilities against company.

→ Bills discount with bank.

→ Proposed dividend (current year)

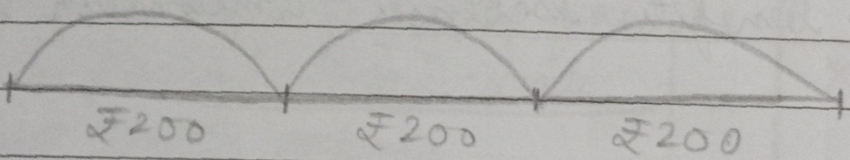
→ Corporate guarantee

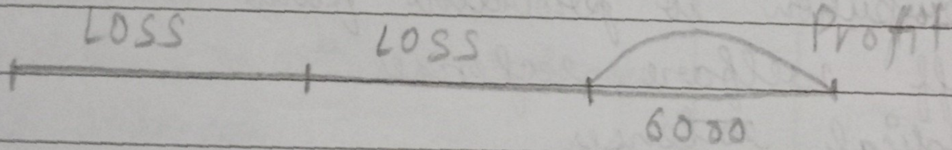
- **Capital Commitments** [मोटा / बड़ा वादे]

Show in Notes to Accounts.

→ Uncalled liability on shares partly paid.

→ Arrears of fixed ~~th~~ cummulative preference ~~shares~~ divident.





- **Calls in ~~ar~~ Arrears**

Shown as DEDUCTION in subscribed Share capital.

- **Share Forfeiture A/c**

Shown as addition in subscribed share capital

Ques 1 Under which main head and sub-head of equity and liabilities part of the Balance sheet are the following items classified or shown:

(i) Bonds	(V) Debentures
(ii) Public deposits	(Vi) Capital redemption reserve
(iii) Forfeited shares A/C	(Vii) Sundry creditors
(iv) Interest accrued but Not due on debentures	(Viii) Interest payable.

Ans-

	Main Head	Sub Head
(i)	Non current liabilities	long term borrowing
(ii)	Non current liabilities	long term borrowing.
(iii)	Share holder's fund	shown as Addition in subscribed share capital
(iv)	current liabilities	other current liabilities
(v)	Non-current liabilities	long term borrowings
(vi)	Share holder's fund	reserves and surplus
(vii)	current liabilities	trade payable
(viii)	current liabilities	Other current liabilities

Ques 2 Prepare balance sheet of HP Ltd. as at 31st march, 2022 from the following information

SHF (i) Equity share capital - 20,00,000

SHL (ii) 12% preference share capital - 10,00,000 } 30,00,000

(iii) Fixed asset - 46,60,000

(iv) Accumulated depreciation - 16,60,000 } 30,00,000

NCA (V) Investment - 400000

(vi) O. current liabilities - 8,00,000

LTB (vii) 12% debentures - 6,00,000

R&S (viii) WCR - 1,00,000

R&S (ix) Surplus in ~~B/S~~ balance in statement of P&L A/C (Cr.) - 3,00,000

Invent(x) Stock - 6,00,000
TR (xi) Sundry debtors - 8,00,000
C&CE (xii) Cash - 1,50,000
NCA(xiii) Loans & advances - 50,000
STP(xiv) Provision for taxation - 2,00,000

Ans - Balance Sheet

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. Equity & Liabilities			
1) Shareholders fund			
(a) Share capital	1	30,00,000	
(b) reserve & surplus	2	4,00,000	
2) Non-current liabilities			
(a) Long term borrowings	3	6,00,000	
3) Current liabilities + Provision for Taxation [800000+200000]		10,00,000	
TOTAL		50,00,000	
II. Assets			
1) Non current assets			
(a) fixed assets		30,00,000	
(b) Non current investment		4,00,000	
(c) Long term loan & advances		50,000	
2) Current Assets			
(a) Inventories	4	6,00,000	
(b) Trade receivables	5	8,00,000	
(c) Cash & cash equivalent	6	1,50,000	
TOTAL		50,00,000	

Notes to Accounts

		(₹)
1) Share capital		
(a) equity share capital	20,00,000	
(b) 12% preference share capital	10,00,000	30,00,000
2) Reserves & surplus		
(a) WCR	1,00,000	
(b) Surplus	3,00,000	4,00,000
3) Long term borrowing		
(a) 12% debentures		6,00,000
4) Inventories		
(a) Stock		6,00,000
5) Trade receivables		
(a) Debtors		8,00,000
6) Cash & cash equivalents		
(a) Cash		1,50,000

Ques-3 Under which head following revenue items of a non-financial company will be classified or shown:

(i) Sales
(ii) Revenue from services render
(iii) Sale of scrap
(iv) Interest earned on loans.
(V) Gain (profit) on sale of investment

Ans-(i) Revenue from operation
(ii) Revenue from operation
(iii) Revenue from operation
(iv) Other income
(V) Other income

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Ques 4 Calculate Cost of Material Consumed (CMC) from the following:
Opening inventory materials - ₹ 5,00,000
Purchase of materials - ₹ 25,00,000
Closing inventory of materials - ₹ 4,00,000

Ans - CMC = opening R·M + Purchase of RM - Closing of RM

= 500000 + 2500000 - 400000
= 3000000 - 400000 $\boxed{\Rightarrow ₹26,00,000}$

Ques-5 Calculate CMC from the following:
Opening material : Materials - 35,00,000, finished goods 75000
Stock in trade - ₹ 200000
Closing inventory : Material - 325000, finished goods - 85000
Stock in trade - 1,50,000
Purchase during the year : Raw material - 17,50,000 & Stock-in-Trade - ₹ 9,00,000

Ans - CMC = opening raw material + purchase raw material - closing raw material

= 35,00,000 + 17,50,000 - 325,000
= 52,50,000 ~~- 3,25,000~~
≠ 25,000
= 17,50,000 + 25,000

$\boxed{\Rightarrow ₹17,75,000}$

Ques-6 From the following information of Hospitality Ltd. for the year ended 31st march, 2022, calculate amount that will be shown in the Notes to accounts on Change in inventories of finished goods, work-in-progress and Stock-in-Trade.

Particulars	Opening Inventories (₹)	Closing Inventories (₹)
Finished goods	5,00,000	5,50,000
Work-in-Progress	4,50,000	4,25,000
Stock-in-Trade	6,50,000	6,00,000

Ans- Change in Inventories = Opening inventories − Closing inventories

(i) Finished goods = 500000 − 550000
= (50,000)

(ii) Work-in-Progress = 4,50,000 − 4,25,000
= 25,000

(iii) Stock-in-Trade = 6,50,000 − 600000
= 50,000

Net change $\boxed{= 25,000}$