6

Introduction of Financial Statements of Company

Learning objectives :

The study of this chapter would enable you to understand :

- Meaning of financial statements
- Characteristics of financial statements
- Objectives of financial statements
- Format of the Balance Sheet of Company and general instructions for preparation of Balance Sheet
- Format of the statement of profit and loss of Company and general Instructions for preparation of statement of Profit and Loss.

Meaning of Financial Statement

Financial statements mean the statements which show the profitability and financial position of a business at the end of the accounting year. Thus, the financial statements are final product of the financial accounting work. These statements exhibit the financial informations of a concern/enterprise in brief. Thus, "financial statements refer to the statements that show the financial position and results of business activities at the end of the accounting period".

"The term financial statements, as used in modern business, refer to the two statements which the accountant prepares at the end of a period of time for a business enterprise. They are the balance sheet or statement of financial position, and the income statement or profit and loss statement." -John N. Myer

According to section 2(40) of the Companies Act, 2013, "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;

(iii) Cash flow statement for the financial year;

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

(v) Any explanatory note.

Provided that the financial statement, with respect to one person company, small company and dormant company, may not include the cash flow statement.

Financial year :

According to section 2 (41) of the Companies act, 2013, financial year in relation to any company or body corporate, means the period ending on the 31st day of March every year and where it has been incorporated on or after the 1st day of January of a year, the period ending the 31st day of March of the following year, in respect where of financial statement of the company or body corporate is made up.

According to section 129 (1) of the Companies Act, 2013, the financial statements of the Company.

(i) Shall give true and fair view of the state of affairs of the Company.

(ii) Comply with the accounting standards notified under section 133, and

(iii) Shall be in the form as may be prescribed in schedule III.

Characteristics of Financial Statements :

(i) Information is presented in monetary form in the financial statements.

(ii) Financial statements are called historical documents because they are related with past period.

(iii) Financial statements present profitability through statement of profit & loss and financial position through Balance Sheet of an enterprise.

(iv) Financial statements make available different types of information to the users of information.

Objectives of Financial Statements :

Financial Statements are such sources of information, which make available different types of information. Different groups of users of financial information like-shareholders, creditors, loan providers, manager, employee, government, bank and financial institutions, tax officers and researchers, etc. use these information for different types of decisions. Thus, the main objective of financial statements are to provide information about financial position, performance and cash flow of the concern so that many users can take economic decisions. In brief, objectives of financial statements are as follows :

1. To provide necessary information in relation to financial position of the business enterprise.
2. To present necessary information relating to profitability of the business enterprise.
3. To provide essential and sufficient information to different groups, which are interested in financial statements.
4. To present base for future decisions.
5. To give true and fair view of profit and Loss and financial position of the business.
6. To provide knowledge about the work done by the business concern for up gradation of social environment.

Balance Sheet of a company

At the end of the each financial year, statement of profit and loss and Balance Sheet are prepared by the company, these are called final accounts. These basic statements of the company should be in the format given in schedule III of the companies Act, 2013. The format of Balance Sheet is given in part-I and, the format of statement of profit and loss in given in part-II of schedule III. General instructions for preparation of Balance Sheet and statement of profit and Loss are also given.

According to schedule III of the Companies Act, 2013, new vertical format of the Balance Sheet is as follows :

PART – I : FORM OF BALANCE SHEET

Particulars	Note No.	Figures as at the end of the current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
Name of the Company................ Balance Sheet as at			
I. EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(a) Share capital			

(b) Reserves and 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			
II. 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 non-current assets			
(2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			

General instructions for preparation of Balance Sheet

1. **Current Asset :** An asset shall be classified as current when it satisfies any of the following criteria:
   - (a) It is expected to be realized in, or is intended for sale or consumption, in the company's normal operating cycle.
   - (b) It is held primarily for the purpose of being traded.
   - (c) It is expected to be realized within twelve months after the reporting date.

   All other assets shall be classified as non-current.
2. **Operating cycle :** An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have **a** duration of twelve months.
3. **Current Liability :** A liability shall be classified as current when it satisfies any to the following criteria :
   - (a) It is expected to be settled in the company's normal operating cycle.

(b) It is held primarily for the purpose of being traded.

(c) It is due to be settled within twelve months after the preparation of balance sheet.

All other liabilities shall be classified as non-current.

4. **Trade Receivables :** A receivable shall be classified as a "trade receivable" if it is in respect of the amount due on account of goods sold or service rendered in the normal course of business. Trade receivables include sundry debtors and bills receivables.

5. **Trade Payables :** A payable shall be classified as a trade payable" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business. Trade payables include sundry creditors and bills payables.

6. To disclose the items given in the balance sheet, term schedule was used earlier but now the term 'Notes to Accounts' is used, Now a company shall disclose the following in the notes to accounts :

Explanation of Equity and Liabilities

1. **Shareholder's funds**

(a) Share Capital : Items to be shown under the head share capital are as follows :

(i) The number and amount of shares authorized;

(ii) The number of shares issued, Subscribed and fully paid, and subscribed but not fully paid;

(iii) At par value per share;

(iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(v) Shares in the company held by each shareholder holding more than 5% shares specifying the number of shares held;

(vi) For the period of 5 years immediately preceeding the date as at which the balance sheet is prepared.

(A) Aggregate number and class of shares allotted as fully paid-up pursuant to contract (s) without payment being received in cash.

(B) Aggregate number and class of shares allotted as fully paid-up by way of bonus shares.

(C) Aggregate number and class of shares buy back.

(vii) Calls unpaid, (showing aggregate value of calls unpaid by directors and officers);

Unpaid calls will be subtracted from subscribed but not fully paid up capital.

(viii) Forfeited shares (amount originally paid up).

Share Capital is shown in Notes to Accounts as follows :

Notes No.	Particulars			Amount ₹
1	(a) **Share Capital :**			
	Authorised Capital			
	.... Shares of ₹ .....each			xxx
	Issued Capital :			
	... Shares of ₹ ....each			xxx
	Subscribed and Fully paid up :			
	... Shares of ₹ .... Each		xxx	
	Subscribed but not Fully paid up :			
	... Shares of ₹ ... each ₹ ... called up	xxx		
	Less : Calls in Arrears	xxx	xxx	
	Add: Shares Forfeited A/c		xxx	xxx
	Total			**xxx**

Note : Equity share capital and preference share capital is shown separately.

Illustration 1 :

Sarveshwar Ltd. was registered with an authorized capital of ₹1,20,00,000 divided into 10,00,000 equity shares of ₹ 10 each and20,000 9% preference shares of ₹ 100 each. Company has issued 2,00,000 equity shares of ₹ 10 each to vendors in consideration for supply and assets and it has issued 20,000 9% preference shares of ₹ 100 each on which all amount has been received in cash.

Now the company issued 4,00,000 equity shares of ₹ 10 each at a premium of ₹ 3 per share, payable as follow: ₹ 4 on application, ₹ 5 (including premium) on allotment; and balance as and when required. The Company received applications for all these shares and allotment was made by the company. A shareholder, who holds 5000 shares did not pay the allotment money and remaining shareholders has paid allotment money. Show the above information in the Balance Sheet of the company under 'Equity and Liabilities' Part.

Solution :

Balance Sheet of Sarveshwar Ltd.
as at.................

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
1. Shareholder's Funds			
(a) Share Capital	1	63,90,000	
(b) Reserves and Surplus	2	11,85,000	
		75,75,000	

Notes to Accounts:

(1) Share Capital :

Authorised Capital :		
20,000 9% Preference Shares of ₹100 each		20,00,000
10,00,000 Equity Shares of ₹ 10 each		1,00,00,000
		1, 20, 00, 000
Issued Capital :		
20, 000 9% Preference Shares of ₹ 100 each		20,00,000
2,00,000 Equity Shares of ₹ 10 each fully Paid up issued to vendors		20,00,000
4,00,000 Equity Shares of ₹10 each issued to public		40,00,000
		80,00,000
Subscribed Capital :		
Subscribed and fully paid Capital :		
20,000 9% Preference Shares of ₹ 100 each		20,00,000
2,00,000 Equity Shares of ₹ 10 each fully paid up issued to vendors		20,00,000
Subscribed but not fully paid Capital :		
4,00,000 Equity Shares of ₹ 10 each Issued to public, ₹ 6 called up	24,00,000	
Less: Calls in Arrears on 5000 shares @ ₹ 2 =	10,000	23,90,000
Total		**63,90,000**

(2) Reserves and Surplus :

Securities Premium 4, 00, 000 shares @ ₹ 3 each =	12,00,000	
Less: Calls in Arrears on 5000 shares @₹ 3 each =	15,000	11,85,000

(b) Reserves and Surplus :

(i) Reserves and surplus shall be classified as:

(a) Capital Reserve;

(b) Capital Redemption Reserve;

(c) Securities Premium Reserve;

(d) Debenture Redemption Reserve;

(e) Revaluation Reserve;

(f) Shares options outstanding account;

(g) Other reserves (specify the nature and purpose of each reserve and the amount in respect thereof);

(h) Surplus i.e., balance in statement of profit and loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc.

(ii) A reserve specifically represented by earmarked investments shall be termed as a "fund".

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head "surplus". Similarly, the balance of "Reserves and Surplus," after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in negative.

Note :

1. "Share Options outstanding Account" is a scheme of employee compensation under which the option is granted to the employees and officers of the company to apply for purchase of certain quantum of shares at a future date, at a predetermined price.

   Generally these shares are offered at lower price (concessional price) than the market price.

2. Preliminary Expenses: According to As-26 Preliminary Expenses should not be shown in the balance sheet but these should be written off in the year of incurring. These expenses should be written off out of securities premium first, then out of statement of Profit & Loss.

3. Discount & Loss on issue of debentures should be written off either in period of debentures or in 5 years, either from capital profit or from the Statement of Profit and Loss.

4. Share issue expenses and underwriting commission should be writing off in 3 to 5 years either from capital profit or from the statement of Profit and Loss.

According to schedule III, Profit & Loss Appropriation Account will not be prepared. It means all appropriations should be shown in Notes to Accounts. For this, see the following illustration :

Illustration 2 :

Vishakha Ltd. has the following balances on 1st April 2016.

	₹
Securities Premium	1,00,000
Debenture Redemption Reserve	2,00,000
Statement of Profit and Loss	(4, 00, 000)

Company earned a profit of ₹ 15,00,000 for the year ended 31st March 2017. It was decided to transfer ₹4,00,000 to General Reserve and ₹4,00,000 to debenture Redemption Reserve. Directors propose a final dividend of ₹2,00,000.

Show the above items in the Balance Sheet and Notes to Accounts.

Solution :

Extract of Balance Sheet of Vishakha Ltd.
as at 31st March 2017

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
1 Share holder's Funds			
Reserves and Surplus	1	12,00,000	(1,00,000)
2 Current Liabilities			
Short Term Provisions	2	2,00,000	

Notes to Accounts :			**31.03.2017**
(1) Reserves and Surplus			
(a) Securities Premium			1,00,000
(b) Debenture Redemption Reserves			
Opening Balance		2,00,000	
Transfer from Surplus		4,00,000	6,00,000
(c) General Reserves			
Opening Balance		-	
Transfer from Surplus		4,00,000	4,00,000
(d) Surplus			
Balance of Statement of P&L (opening)		(4,00,000)	
Surplus for the period		15,00,000	
Available for Appropriations		11,00,000	
Less: Appropriations:			
Debenture Redemption Reserves	4,00,000		
General Reserves	4,00,000		
Proposed Dividend	2,00,000	10,00,000	1,00,000
			12,00,000
(2) Short term Provisions :			
Proposed Dividend			**2,00,000**

(c) **Money received against share warrant :** Share warrants is a financial document issued by a public company which provides the right to obtain a certain number of equity shares at a future date to the holders of it. Money received against share warrants cannot be shown as share capital because allotment of shares is yet pending. So, it includes in shareholders' fund showing separately.

(2) **Share Application Money Pending Allotment :** If a company has received application money but allotment of shares has not been made till the date of Balance Sheet, then the money is shown under this head.

(3) **Non-Current Liabilities :** Non-Current liabilities are liabilities which are not a current liabilities. These shall be classified as follows:

(i) **Long Term Borrowings :** Long term borrowings means such loans as taken by the company which are repayable after 12 months from the date of loan. These shall be classified as:

(a) Bonds/Debentures

(b) Term loans

* From Banks

* From Other Parities

(c) Deferred Payment Liabilities

(d) Deposits repayable after 12 months

- Borrowing shall further be sub-classified as secured and unsecured.
- If a part of long term borrowing is repayable within twelve months from the date of Balance sheet, then that part shall be shown as 'Current Maturity of Long Term Debts' under the head 'Other Current Liabilities'.

(ii) Deferred Tax Liabilities (Net) :

Deferred tax - The difference between tax on accounting income and tax on taxable income is called deferred tax. Taxable income is calculated on the basis of related tax law while accounting income is determined on the basis of system of accounting followed by the firm. At present, generally provision for tax is calculated on the basis of taxable income but it can be calculated on the basis of accounting income.

Deferred Tax Liabilities : When accounting income is greater than taxable income then deferred tax liabilities exist.

(iii) Other Long Term Liabilities : Other long term liabilities shall be classified as:

(a) Trade Payable- if payable after 12 months.

(b) Others.

(iv) Long Term Provisions : All the provisions are classified as long term provisions against which the claim is to be settled after 12 months from the date of Balance Sheet. These shall be classified as :

(a) Provision for employee benefits.

(b) Others- Provision for warranties etc.

4. Current Liabilities : The liability, which is due to be settled within twelve months from the date of Balance Sheet. These shall be classified as:

(a) Short Term Borrowings :

(i) Loan repayable on demand:

* From Banks- cash credit and overdraft etc.
* From other parties.

(ii) Deposits

(iii) Other Loans and Advances.

(b) Trade Payables : If it is payable in the period of 12 months or less. For example- Sundary creditors and Bills Payables.

(c) Other current Liabilities : These shall be classified as follows:

(i) Current maturities of long term debts- The amount of debentures or banks loan, which is payable within twelve months from the date of Balance Sheet.

(ii) Interest accrued but not due on borrowings;

(iii) Interest accrued and due on borrowings;

(iv) Income received in advance;

(v) Unpaid dividends;

(vi) The amount in excess of application money received for allotment of securities and due for refund and interest accrued thereon.

(vii) Unpaid matured deposits and interest accrued thereon;

(viii) Debentures matured to pay but not paid and interest accrued thereon;

(ix) Other payables: Such as outstanding expenses, calls in advance and interest thereon, unclaimed dividends, provident fund etc.

(d) Short Term Provisions : All the provisions are classified as short term provisions against which the claim is to arise within 12 months from the date of Balance Sheet. These shall be classified as:

(i) Provision for employee benefits.

(ii) Others- provision for tax, proposed dividend.

(iii) Provision for doubtful debts.

Explanation of Assets

1. Non-Current Assets : The assets which are not classified as current assets.

(a) Fixed Assets : The assets which are intended to held for regular use in the business, not for sale are called fixed assets.

(i) Tangible Assets : Tangible assets are those assets which can be seen and touched physically. Classification is:

(a) Land

(b) Buildings

(c) Plant and Equipment

(d) Furniture and Fixtures

(e) Vehicles

(f) Office equipment

(g) Others

(ii) Intangible Assets: Those assets which do not have any physicaly existence and those that cannot be seen and touched. Classification shall be given as:

(a) Goodwill

(b) Brands/ Trade Marks

(c) Computer Software

(d) Mastheads and Publishing Titles

(Name of a newspaper or magazine published on the top of front page, is called mast heads)

(e) Mining right

(f) Copyrights, Patents, Intellectual Property Rights, Services and operating rights.

(g) Recipes, formulae, models, designs and prototypes.

(h) Licenses and Franchise.

(iii) Capital Work in Progress : Capital work in progress means fixed tangible assets which are under construction such as- Buildings, Plant and Equipment etc.

(iv) Intangible Assets under developments : Such as patents etc. on which work is still in progress.

(b) Non-Current Investments : Those investments which are purchased by a company for holding with it and not for salef or a period more than one year.

(i) Non-Current investments shall be classified as trade investments and other investments.

Trade Investments- Investments made by a company in shares or debentures of other company for the purpose to promote its trade and business are called trade investments.

Other Investments- Investments other than trade investment are called other investments.

Again investments can be classified as:

(a) **Investments in Property :** Property investment means those lands and buildings which are held for the purpose to earn rentals or price appreciation not for **sale**

   (i) Production and supply of goods and services and administrative works, or

   (ii) Sale during the normal business operations.

(b) Investments in Equity Instruments.

(c) Investments in Preference Shares.

(d) Investments in Government and Trust Securities.

(e) Investments in Bonds and Debentures.

(f) Investments in Mutual Funds.

(g) Investments in partnership firms.

(h) Other Non-Current Investments.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof;

(iii) The following shall be the basis also to be disclosed.

   (a) Aggregate amount of quoted investments and market value thereof.

   (b) Aggregate amount of unquoted investments;

   (c) Aggregate provision for diminution in value of investments.

(c) Deferred Tax Assets: When accounting income in lesser than taxable income then deferred tax assets exist: For example-to calculate accounting income provisions for bad debts is subtracted while to calculate taxable income provision for bad debts is not treated as expense but actual bad debts is treated as expense. As a result accounting income becomes less.

(d) Long Term Loans and Advances: Those loans and advances which are not expected to recover within 12 months from the date of Balance Sheet. These shall be classified as:

   (i) Capital Advances : The Advance given for purchase of fixed assets are called Capital Advances. These advances are not realized in cash but converted into fixed assets. So, these are classified as Long Term Loans and Advances.

   (ii) Security Deposits : The amount of security deposit given for a period of more than 12 months from the date of Balance Sheet falls in this head. For example- Security deposit given for electricity and telephone

   (iii) Other Loans and Advances (specify nature)

(e) Other Non-Current Assets : These assets shall be classified as:

   (i) Long Term Trade Receivables : Including trade receivales on deferred credit conditions.

   (ii) Others

   (iii) Long Term Trade Receivables shall be sub-classified as:

      (a) 1. Secured, considered good

      2. Unsecured, considered good

      3. Doubtful

      (b) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

      (c) Amount due by directors and other officers of the company should be separately stated.

2. Current Assets : Those assets which are expected to be realized in the company's normal operating cycle or within twelve months after the preparations of balance sheet and these are held primarily for the purpose of being traded shall be classified as:

(A) Current Investments : Those investments which are held for the purpose to convert in cash within the 12 months from the date of purchase. These shall be classified as:

(a) Investment in Equity Instruments;

(b) Investment in Preference Shares;

(c) Investment in Government or Trust Securities;

(d) Investment in debentures or bonds

(e) Investment in Mutual Funds

(f) Investment in Partnership firms.

(g) Other Investments

(B) Inventories : Inventories shall be classifies as:

(a) Raw Material

(b) Work-in-Progress

(c) Finished goods

(d) Stocks in Trade (in respect of goods acquired for trading)

(e) Stores and Spares

(f) Loose Tools

* Goods in transit shall be disclosed under the relevant sub-head of inventories.

* Mode of valuation shall be stated.

(C) Trade Receivables : Receivables received in respect of goods sold or services rendered in normal course of business are called trade receivables. These include debtors and bills receivables to be realized within 12 months mainly.

(i) Allowance for bad and doubtful debts shall be disclosed under the relevant head separately.

(ii) Debts due by directors or other officers of the company should be separately stated.

(D) Cash and Cash Equivalents:

(i) Cash and cash equivalents shall be classified as:

(a) Cash or Balance with Banks

(b) Cheques and drafts in hand

(c) Cash in hand

(d) Others

(ii) Earmarked balance with banks (for example for unpaid dividend) shall be separated stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantee, other commitments shall be disclosed separately.

(iv) Banks, deposits with more than twelve months maturity shall be disclosed separately.

Cash Equivalents: These are such highly liquid short term investments which must be readily convertible to amount of cash can be subject to an insignificant risk of changes in volume. Therefore, an investment normally qualifies as a cash equivalent only if it has a short maturity or say, three months or less from the date of acquisition.

(E) Short Term Loans and Advances.

(F) Other Current Assets : Under this head all those current assets in corporate that do not fit into any other assets categories. e.g.: Prepaid expenses, Advance to suppliers, Interest accrued on investments and Advance Tax etc.

Contingent Liabilities and Commitments
(to the extent not provided for)

1. Contingent Liabilities : Contingent liabilities are such liabilities which are not obligations at present but arise by the occurrence or non-occurrence of uncertain future events or say is not sure to occurrence of a liability.

Amount of these is not to be added in total of Balance Sheet. So, the amount of these is shown in Notes to Accounts below the Balance Sheet. Contingent liabilities shall be classified as:

(a) Claims against the company not acknowledged as debt;

(b) Liabilities against the guarantee taken by the company;

(c) Other money for which the company is contingently liable.

2. Commitments: Commitments means an agreement to execute certain obligation in future under certain conditions and at a certain time. Commitments shall be classified as:

(a) Estimated amount of contracts remaining to be executed on capital account and not provided for;

(b) Uncalled liability on partly paid shares- If a company has purchased partly paid shares of other company as investment then uncalled amount on these shares is a commitment to the company since the amount can be paid at any time.

(c) Other commitments- Arrear of dividends on cumulative Preference Shares.

Illustration 3 :

Under which heads will you show the following items in the Balance Sheet of a Company?

(1) Unclaimed Dividend

(2) Securities Premium

(3) Proposed Dividend

(4) Preliminary Expenses

(5) Acceptances

(6) Debentures

(7) Matured Debentures

(8) Calls in Advance

(9) Calls in Arrears

(10) Provision for Tax

(11) Prepaid Insurance

(12) Advances recoverable in cash within the operating cycle.

(13) Uncalled liability on partly paid shares.

(14) Interest accrued and due on secured loan.

(15) Dr. balance of Statement of Profit and Loss

(16) Share issue expenses (to be written off after 12 months)

Solution:

S.No.	Items	Heading	Sub-heading
1.	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
2.	Securities Premium	Shareholder's Funds	Reserves & Surplus
3.	Proposed Dividend	Current Liabilities	Short term Provisions
4.	Preliminary Expenses	(As per note)	-
5.	Acceptance	Current Liabilities	Trade Payables
6.	Debentures	Non-current Liabilities	Long term borrowings
7.	Matured Debentures	Current Liabilities	Other current Liabilities
8.	Calls in advance	Current Liabilities	Other current Liabilities
9.	Calls in Arrears	Shareholders funds	It is deducted from the subscribed but not fully paid Capital.

10.	Provisions for Tax	Current Liabilities	Short term Provisions
11.	Prepaid Insurance	Current Assets	Other current Assets
12.	Advances recoverable in cash within the operating cycle	Current Assets	Short term Loans
13.	Uncalled Liability on partly paid shares	Commitments in notes to account	--
14.	Interest accrued and due on Secured Loans	Current Liabilities	Other Current Liabilities
15.	Debit Balance of Statement of profit & Loss	Shareholders funds	Reserves & surplus (shown as a negative figure) under 'surplus'
16.	Share issue Expenses (to be written off after 12 months)	Non-Current Assets	Other Non-Current Assets

Note : Preliminary Expenses- Not to be shown in Balance Sheet since as per AS-26 these expenses are to be written off in the year in which they are incurred.

Format of statement of Profit and Loss is given in part-II of schedule III of Companies Act, 2013.

For Board Examinations, C.B.S.E. has recommended vide its letters No.43 dated: 02 July, 2013 the following format :

PART – II

STATEMENT OF PROFIT AND LOSS

Name of the company ....

Profit and Loss Statement for the year ended................ (₹ in......)

	Particulars	**Note No.**	**Figures for the current reporting period**	**Figures for the 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 Material Consumed		xxx	xxx
	Purchases of stock-in-trade		xxx	xxx
	Changes-in-inventories of finished goods, Work-in-progress and stock-in-trade		xxx	xxx
	Employee benefits expenses		xxx	xxx
	Finance Costs		xxx	xxx
	Depreciation and amortization expenses		xxx	xxx
	Other Expenses		xxx	xxx
	Total Expenses		**xxx**	**xxx**
V	Profit before tax (III-IV)		xxx	xxx
VI	Tax		xxx	xxx
VII	Profit after tax (V-VI)		**xxx**	**xxx**

General Instructions for preparation of statement of Profit and Loss

1. **Revenue from operations :**
   - (A) In respect of a company other than a finance company revenue from operations shall disclose separately in notes
     - (a) Revenue from sale of products (Gross)
       Less : Returns
     - (b) Revenue from Sale of Services
     - (c) Other Operating Revenues like-Sale of Scrap, commission received etc.
     - (d) Less: Excise Duty
   - (B) In respect of a Finance Company, revenue from operations shall include the following revenues from:
     - (a) Interest Income
     - (b) Dividend Income
     - (c) Net gain/Loss on sale of investments
     - (d) Revenue from other financial services
2. **Other Income: Other income shall be classified as :**
   - (a) Interest Income
   - (b) Dividend Income
   - (c) Net gain/Loss on sale of investments
   - (d) Other operating income (This type of income will be shown as net income after subtracting relevant expenditure) as:
     - (i) Profit on sale of fixed assets
     - (ii) Discount received
     - (iii) Rent received
     - (iv) Transfer fees
     - (v) Sundry creditors written off
     - (vi) Excess provision for bad debts written back
     - (vii) Revenue from project consultancy
     - (viii) Fees received from arranging loans
     - (ix) Sale of miscellaneous Items like- old newspaper etc.
     - (x) Refund of income tax
3. **Expenses :** Expenses shall disclose the following as:
   - (a) Cost of Material Consumed: Cost of material consumed means cost of raw material and other materials used in manufacturing of product/goods. Cost of material consumed will be calculated as follows:

     Raw Material Consumed= Opening Inventory (Stock) of Raw Materials + Purchases of Material-Closing Inventory (stock) of Raw Materials.

Note : The items do not become substantial part of finished goods like- stores, fuel, spare parts etc. are not included in raw material. These are shown as 'Other Expenses'.

   - (b) Purchase of Stock in Trade : The goods purchased for the purpose of resale by a business concern are called purchase of Stock in Trade. The goods purchased for consumption in the production of other goods, its cost will be added to cost of material consumed.

(C) Changes in Inventories of Finished goods, work-in-Progress and Stock in Trade:

These should be shown as follows:

(i)	Opening Inventory of Finished goods	xxx	
	Less: Closing Inventory of Finished goods	xxx	xxx
(ii)	Opening Inventory of work-in-Progress	xxx	
	Less: Closing Inventory of work-in-Progress	xxx	xxx
(iii)	Opening Inventory of Stock-in-Trade	xxx	
	Less: Closing Inventory of Stock-in-Trade	xxx	xxx
	Total (i + ii + iii)		**xxx**

Note : Net difference of opening inventory and closing inventory may be positive/negative. Negative difference will be shown in (bracket).

(d) Employee Benefit Expenses: Under this, following items will be shown separately:

(i) Salaries and wages, Bonus, cash payment in lieu of leaves.

(ii) Contribution to Provident and other funds like- Gratuity fund, Superannuation fund etc.

(iii) Employee Stock Option Scheme (ESOS), Employee Stock Purchase Plan (ESPP) etc.

(iv) Staff welfare expenses like- canteen expenses, medical Expenses.

(e) Finance Costs: Finance Costs shall be classified as:

(i) Interest Expenses: Payment of interest on long term loan taken from Bank;

Payment of interest on Bank overdraft and cash credit limit;

Payment of interest on debentures, bonds and public deposits

(ii) Other Borrowing Costs:

Discount/Loss on issue of debentures written off;

Premium payable on redemption of debentures;

Loan processing fees

Guarantee Charges

Commission paid for deposit mobilization

(f) Depreciation and Amortization Expenses:

(i) Depreciation: Depreciation is cost of written off tangible fixed assets.

(ii) Amortization: Cost of written off long term intangible assets is called amortization i.e. written off Goodwill, Patents, Technical Know how and Computer Software.

(g) Other Expenses: All other expenses do not come under the heads (a) to (f) will be shown in this head:

(i) Carriage, Carriage inwards and Carriage outwards

(ii) Freight

(iii) Consumption of Loose tools, Spare parts, Stores, Power & fuel.

(iv) Manufacturing Expenses

(v) Rent, Rates and Taxes (Excluding Tax on Income)

(vi) Insurance Expenses

(vii) Discount allowed

(viii) Commission allowed

(ix) Directors fees

(x) Audit fees

(xi) Trade Expenses
(xii) Bad debts written off and Provision for Bad debts
(xiii) Repairs to Machinery, Building and other Fixed Assets
(xiv) Office and administrative expenses
(xv) Telephone and internet expenses
(xvi) Conveyance expenses and travelling expenses
(xvii) Bank Charges
(xviii) Excise Duty paid
(xix) Loss on sale of fixed assets
(xx) Entertainment expenses
(xxi) Business Promotion expenses
(xxii) Courier expenses
(xxiii) Lease Rent
(xxiv) Computer hiring charges
(xxv) Share issue expenses written off
(xxvi) Under writing commission on issue of shares and debentures written off

Illustration 4 :

From the following information for the year ending 31st March, 2017 prepare notes to accounts to calculate the amount to be shown in statement of Profit and Loss against 'Changes in Inventories':

	Opening Inventory ₹	Closing Inventory ₹
Finished Goods	6, 50, 000	4, 80, 000
Work-in-Progress	3, 60, 000	5, 00, 000
Stock-in-Trade	7, 00, 000	6, 90, 000
Materials	2, 00, 000	3, 00, 000

Solution :

Particulars	₹	Year ended 31.03.2017 ₹
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade :		
(a) Opening Inventory of Finished Goods	6,50,000	
Less: Closing Inventory of Finished Goods	4,80,000	1,70,000
(b) Opening Inventory of Work-in-Progress	3,60,000	
Less: Closing Inventory of Work-in-progress	5,00,000	(1,40,000)
(c) Opening Inventory of Stock-in-Trade	7,00,000	
Less: Closing Inventory of Stock-in-Trade	6,90,000	10,000
Total (a+b+c)		**40,000**

Note : Opening and closing Inventory of Materials will be used to calculate cost of Materials Consumed.

Illustration 5:

Following information are extracted from the books of Arnav Ltd. Prepare Statement of Profit and Loss for the year ending 31st March, 2017.

Sales ₹32,00,000; Purchase of Stock-in-Trade ₹ 13,20,000; Salaries ₹ 5,40,000; Wages ₹ 40,000; Bonus ₹ 62,000; Medical Expenses ₹ 18,000; Gratuity paid ₹ 60,000; Contribution to provident fund ₹ 80,000; Printing and Stationery ₹ 25,000; Sales Promotion expenses ₹ 40,000; Interest Paid on Debentures ₹ 70,000; Depreciation on Furniture ₹ 25,000; opening Stock-in-Trade ₹ 1,40,000; Closing Stock-in-Trade ₹ 2,00,000; Sale of scrap ₹ 90,000; and Interest received ₹ 30,000.

Solution:

Arvan Ltd.
STATEMENT OF PROFIT AND LOSS
For the year 31st March 2017

	Particulars	Notes No.	Amount ₹
I.	**Revenue from operations**	1	32,90,000
II.	**Other Income**	2	30,000
III.	**Total Revenue (I+II)**		**33,20,000**
IV	**Expenses**		
	Purchase of Stock-in-Trade		13,20,000
	Changes in Inventories of Stock-in-Trade	3	(60,000)
	Employee Benefit Expenses	4	8,00,000
	Finance Costs	5	70,000
	Depreciation and Amortization	6	25,000
	Other Expenses	7	65,000
	Total Expenses		**22,20,000**
V	**Profit Before Tax (III-IV)**		**11,00,000**

Notes to Accounts :

	Particulars		Amount ₹
1.	Revenue From Operations :		
	Sales	32,00,000	
	Sale of Scrap	90,000	32,90,000
2.	Other Income		
	Interest received	30,000	30,000
3.	Changes in Inventories of Stock-in-Trade		
	Opening Inventory	1,40,000	
	Less: Closing Inventory	2,00,000	(60,000)
4.	Employee Benefit Expenses		
	Wages	40,000	
	Salaries	5,40,000	
	Bonus	62,000	
	Medical Expenses	18,000	
	Contribution to Provident fund	80,000	
	Gratuity paid	60,000	8,00,000
5.	Finance Cost:		
	Interest on Debentures	70,000	

6.	Depreciation and Amortization		
	Depreciation on Furniture	25,000	
7.	Other Expenses:		
	Printing and Stationary	25,000	
	Sales Promotion Expenses	40,000	65,000

Illustration 6 :

From the following information prepare Balance Sheet of Star Ltd. as at 31st March, 2017 according to provisions of Schedule-III of Companies Act, 2013.

	(₹ in 000)
Equity Share Capital	4,000
Preference Share Capital	1,000
Discount on issue of Debentures	300
(Amount to be written off in next 3 years)	
Trade receivables	6,100
Bills Payables	2, 500
Preliminary Expense	300
Securities Premium	3, 000
Debentures	3, 500
Statement of Profit and Loss(Cr)	1, 200
Depreciation on Fixed Assets	800
Gross Fixed Assets	9, 100
Goodwill	50
Inventories	210
Provision for Tax	60

Solution:

STAR Ltd.
BALANCE SHEET
as at 31st March, 2017

(₹ in 000)

Particulars	Notes No.	Amount ₹ 31.03.2017	Amount ₹ 31.03.2016
I. EQUITY AND LIABILITIES :			
(1) Shareholders funds			
(a) Share Capital	1	5,000	
(b) Reserves and Surplus	2	3,900	
(2) Non Current Liabilities			
(a) Long Term Borrowings (Debentures)		3,500	
(3) Current Assets			
(a) Trade Payables (Bills Payables)		2,500	
(b) Short term Provisions (Provision for Tax)		60	
Total		**14,960**	

II	**Assets**			
(1)	Non Current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	3	8300	
	(ii) Intangible Assets (Goodwill)		50	
	(b) Other Non-Current-Assets	4	200	
(2)	Current Assets			
	(a) Inventories		210	
	(b) Trade Receivables		6,100	
	(c) Other Current Assets	5	100	
	Total		**14960**	

Notes to Accounts

	Particulars		₹	Year ended 31.03.2017 ₹
1.	Share Capital			
	Equity Share Capital		4,000	
	Preference Share Capital		1,000	5,000
2.	Reserves and Surplus			
	Securities Premium	3,000		
	Less: Preliminary Expenses	300	2,700	
	Surplus: Statement of Profit & Loss		1,200	3,900
3.	Tangible Assets			
	Gross Fixed Assets		9,100	
	Less: Depreciation on Fixed Assets		800	8,300
4.	Other Non Current Assets			
	Discount on issue of Debentures (2/3 of ₹ 300)			200
5.	Other Current Assets			
	Discount on issue of Debentures (1/3of ₹300)			100

Note :

(1) Discount on issue of Debenture is to be written off in next 3 years, So 1/3 of ₹300 = ₹100, which is to be written off in next 12 months, will be treated as Current Assets and remaining 2/3 of ₹300 = ₹200 will be shown as Non-Current Assets.

(2) As per As-26 Preliminary Expenses to be written off in the year of incurring. First it should be written off from securities Premium and remaining from Statement of Profit and Loss.

Illustration 7:

Under which heads will you show the following items in the Balance Sheet of a Company?

(1) Computer
(2) Computer Software
(3) Loose Tools
(4) Provision for Employee Benefits
(5) Debenture Sinking Fund
(6) Unpaid Dividend
(7) Public Deposits
(8) Guarantee given by the Company

(9) Mortgage Loan (10) Outstanding Salary

(11) Work-in-Progress (12) Building under Construction

Solution :

S.No.	Items	Heading	Sub-heading
1.	Computer	Non-Current Assets	Fixed Assets-Tangible Assets
2.	Computer Software	Non-Current Assets	Fixed Assets-Intangible Assets
3.	Loose Tools	Current Assets	Inventories
4.	Provision for Employee benefits	Non Current Liabilities	Long term provisions
5.	Debenture Sinking Fund	Shareholder's Funds	Reserves and Surplus
6.	Unpaid Dividend	Current Liabilities	Other Current Liabilities
7.	Public Deposits	Non Current Liabilities	Long Term Borrowings
8.	Guarantee Given by the Company	Contingent Liabilities and commitment (In Notes to Accounts under contingent Liabilities)	--
9.	Mortgage Loan	Non Current Liabilities	Long Term Borrowings
10.	Outstanding Salary	Current Liabilities	Other Current Liabilities
11.	Work-in-Progress	Current Assets	Inventories
12.	Building under Construction	Non Current Assets	Fixed Assets – Capital work-in-progress

Illustration 8 :

Under which major heads, the following items will be shown in the statement of Profit & Loss of a Company?

(i) Depreciation on Machine

(ii) Bonus

(iii) Purchase of Stock-in-Trade

(iv) Interest paid on Term Loan

(v) Computer Software written off

(vi) Revenue from Service rendered

(vii) Interest Paid on overdraft

(viii) Loss on issue of Debentures written off

(ix) Contribution to Provident/ Superannuation fund

(x) Bank Charges

(xi) Profit on sale of Plant

(xii) Loan Processing Charges

(xiii) Bad debts written off and Provision for Bad debts

(xiv) Canteen Expenses

(xv) Return of Material Purchased

Solution:

S.No.	Items	Major Head
1.	Deprecation on Machine	Depreciation and Amortization Expenses
2.	Bonus	Employee Benefit Expenses
3.	Purchase of Stock-in-Trade	Purchase of Sock-in-Trade

4.	Interest paid on term loan	Finance costs-Interest Expenses
5.	Computer software written off	Depreciation and Amortization Expenses
6.	Revenue from services rendered	Revenue from operations
7.	Interest paid on overdraft	Finance costs- Interest Expenses
8.	Loss on issue of debentures written off	Finance Costs- other Borrowing Costs.
9.	Contribution to Provident/ Superannuation fund	Employee Benefit Expenses
10.	Bank Charges	Other Expenses
11.	Profit on sale of Plant	Other Income-other Non-operating Income
12.	Loan Processing charges	Finance cost-other Borrowing Costs
13.	Bad Debts written off and Provision for bad debts	Other Expenses
14.	Canteen Expenses	Employee Benefit Expenses
15.	Return of Material Purchased	Cost of Material Consumed (Less in Calculation)

Note :

1. Interest Paid is shown as Interest Expense sunder the head Finance Cost.
2. Expenses regarding loan taken from Banks and Discount/Loss on issue of Debentures will be shown as other borrowing costs under the head Finance cost.
3. Bank Charge is other expenses not finance cost. So it will be shown under the head other Expenses.
4. Return of Material purchased will be substrated in calculating cost of material consumed.

Summary

Financial statements : Financial Statements means the statements prepared at the end of a stated period. Balance Sheet shows firms assets, liabilities, and net worth on a stated date and Profit and Loss statement shows result of performance over a stated period. Financial Statements are the medium by which a firm discloses financial information to external users.

Financial Statements comprise of the following statements :

(i) Statement of financial position or Balance Sheet.

(ii) Statement of Profit and Loss.

(iii) Cash flow statement

Balance Sheet : A statement which represents a record of firm's assets, liabilities and Capital at a particular point of time

Statement of Profit and Loss : A statement which **is** prepare to measure a concern's performance over a specific time period. The statement presents information about revenue earned by a concern and expenses incurred to earn revenue. Net result of this represents net Profit and Loss for that period.

Cash flow statement : The statement of cash flow represents record of a business cash inflows and cash out flows over a period of time. This is different from cash account.

Characteristics of Financial Statements : The following are the Characteristics of Financial Statements:

(i) Information is presented in monetary form in the financial statements.

(ii) These are historical documents.

(iii) These present financial position and Profit and Loss of a concern.

(iv) These supply essential information to users.

Users of financial Statements : Financial Statements are used by various groups of users like- Shareholders, creditors, lenders, managers, employees, Government, Bank and Financial institutions and Tax officers.

Objectives of financial Statements : Main objectives of financial statements are as follows:

(i) To provide information regarding financial position

(ii) To present information about result of operations on Profit and Loss.

(iii) To provide sufficient and essential information to users of financial statements.

(iv) Provide base for future decisions.

(v) To present true and fair view of financial position and Profit and Loss.

(vi) To provide knowledge of work done regarding upliftment of social environment.

Glossary

1. **Financial Statements-** These statements show financial position and result of performance.
2. **Financial year-** Generally, the period that ends at 31st March of each year is called financial year.
3. **Current Assets-** The assets which are expected to be converted into cash, in the normal operating cycle of business or within twelve months from the date of Balance Sheet.
4. **Non-Current Assets-** All the assets other than current assets are termed as Non-Current Assets.
5. **Operating Cycle-** An operating cycle is the time between the purchase of an asset and its realization in cash or cash equivalents.
6. **Current Liabilities-** The liabilities which are expected to be paid in normal operating cycle or within twelve months from the date of Balance Sheet.
7. **Non-Current Liabilities-** The liabilities which are payable after twelve months from the date of balance sheet.
8. **Deferred Tax Liabilities-** Deferred tax liabilities exist when accounting income is greater than taxable income.
9. **Long term Provisions-** All the provisions against which the claim is to be settled after twelve months from the date of balance sheet.
10. **Short Term Loan-** Loan which is repayable within twelve months from the date of loan taken, is termed as short term loan.
11. **Trade Payables-** Payables in respect of purchase of goods or receiving services are called trade payables. These include sundry creditors and Bills Payables.
12. **Liability-** Amount payable in future which is certain/ fixed is called liability.
13. **Provision-** A liability which is known but amount of which can't be determined exactly. So the provision is made to meet the liability.
14. **Reserves-**Reserves are created to strengthen economic condition of the firm and to meet out unforeseen losses.
15. **Fixed Assets-** The assets which are intended to be held for regular use in the business, not for sale are called fixed assets.
16. **Tangible Assets-** The assets which have physical existence and can be seen and touched are called tangible assets.
17. **Intangible Assets-** Those assets which do not have any physical existence and those which cannot be seen and touched.
18. **Capital work-in-progress-** Capital work-in-progress means fixed tangible assets which are under construction.
19. **Trade Investments-** Investments made by a company in shares or debentures of other company for the purpose to promote its trade and business are called trade investments.
20. **Other Investments-** Investments other than trade investments are called other investments.
21. **Investment in Property-** When investment made in any land and building to earn rentals or price appreciation, is not held for use in normal business operations it is called investment in property.

22. **Stock-** Stock means those things or goods which are held for trading purpose in normal course of business operations.

23. **Trade Receivables-** Receivable received in respect of goods sold or service rendered in normal course of business are called trade receivables. It includes sundry debtors and Bills receivables.

24. **Cash Equivalents-** These are such highly liquid short term investments which must be readily convertible to cash and are subject to an insignificant risk of change in value.

25. **Contingent Liability-**Contingent liability are such liabilities which are not an obligation at present but arise by occurrence or non-occurrence of uncertain future events.

26. **Commitments-** Commitment means an agreement to execute certain obligation in future under certain conditions and at a certain time.

27. **Revenue from operations-** Revenue earned by a company through business activities as sale of goods or rendering services is called revenue from operations.

28. **Other Income-** Income earned from sources, other than business activities is called other Income.

29. **Change in Inventories-** Changes in inventories means net difference of opening and closing Inventories of Stock, Work-in-Progress and finished goods available at the firm.

30. **Employee Benefit Expenses-** Expenses related with employees salary, wages and amenities are called employee benefit expenses.

31. **Depreciation-** Depreciation is cost of written off tangible fixed assets.

32. **Amortization-** Cost of written off long term intangible assets is called amortization.

Questions for Exercise

Multiple Choice Questions :

1. Financial Statements are prepared at the time of:

   (a) Inception of Business (b) Winding up of Business

   (c) End of Accounting year (d) None of these

2. The Statement which depicts the financial position of a company is:

   (a) Balance Sheet (b) Cash flow Statement

   (c) Statement of Profit and Loss (d) Statement of changes in equity

3. For which of the following company it is necessary to prepare cash flow statement:

   (a) Inactive company (b) Public Company

   (c) One Person Company (d) Small Company

4. Owners of the company are :

   (a) Shareholders (b) Loan Providers

   (c) Creditors (d) All the above

5. Financial Statements are useful for:

   (a) Employees (b) Managers

   (c) Shareholders (d) All of these

6. For a company financial year ends:-

   (a) On 30 June (b) On 30 September

   (c) On 31 December (d) On 31 March

7. Under which head of the Balance Sheet General Reserve will be shown :-

   (a) Short Term Provisions (b) Share Capital

   (c) Miscellaneous Expenditure (d) Reserves and surplus

8. Number of main heads under 'Equity and Liabilities' part of Balance Sheet of a company is:-
(a) 1 (b) 2 (c) 3 (d) 4
9. When accounting income exceeds taxable income, it leads to:-
(a) Deferred tax liabilities (b) Deferred Tax Assets
(c) Long Term Loan (d) None of these
10. Which of the following is not employee benefit expense:-
(a) Salary (b) Provident Fund Contribution
(c) Repair of Factory Machine (d) Payment of Gratuity

Very Short Answer Type Questions :

1. What is meant by financial Statements?
2. Name the two financial statements prepared by a company.
3. Name the major heads of the Assets part of the Balance Sheet of a Company.
4. Why are financial statements called historical documents?
5. What is operating cycle?
6. Define Trade Payables.
7. What is meant by statement of Profit and Loss?
8. What is meant by Current Liabilities?
9. How are calls in arrear shown in Balance Sheet?
10. What is meant by 'Share Application money, Pending Allotment'?

Short Answer Type Questions :

1. Which statements are included in the financial statements under section 2(40) of the Companies Act, 2013?
2. Write main Characteristics of financial statements.
3. Write four objectives of financial statements.
4. What is meant by current Assets?
5. Explain meaning of Trade Receivables.
6. Write four items to be shown under the head 'Reserves and surplus' of Balance sheet.
7. What is 'Share options outstanding Account'? Explain.
8. Write the name of five sub heads comprising under the head 'Non-Current Assets'?
9. Explain cash Equivalents.

Essay Type Questions :

1. What do you mean by financial statements? Describe Characteristics and objectives of these statements.
2. What do you mean by Balance Sheet? Give its format.
3. What is meant by Profit and Loss Statement? Give its format.
4. Explain Contingent Liabilities and Commitments.
5. Under which heads will you show the following items in the Balance Sheet of a Company?
   (i) Money received against share warrants. (ii) Provision for Provident Fund.
   (iii) Sundry Debtors and B/R. (iv) Loan repayable on demand.
   (v) Goodwill, patents and Trade Marks. (vi) Government Subsidy Reserve.
   (vii) Forfeited shares. (viii) Share options outstanding
   (ix) Premium on redemption of debentures (x) Shares in Hindalco Ltd.

6. Under which major head will you show the following items in the Statement of Profit and Loss of a Company?

(i) Rent received
(ii) Revenue from Project consultancy
(iii) Revenue from operations-Return
(iv) Refund of Income Tax
(v) Leave Encashment Expenses
(vi) Profit on sale of Investments
(vii) Transfer Fees
(viii) Loss on sale of Investments
(ix) Sale of Scrap
(x) Stores and Spare parts used
(xi) Salary and Wages
(xii) Manufacturing Expenses
(xiii) Telephone and Internet Expenses
(xiv) Share issue expenses written off
(xv) Lease Rent

Answers of Multiple Choice Questions

Question No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Answer	C	A	B	A	D	D	D	D	A	C

Numerical Questions :

1. From the following information calculate Revenue from operations, Other Income and Total Revenue of a non-financial company:

   Revenue from sales ₹30,00,000; Sales Return ₹6,50,000; Sale of Scrap ₹1,50,000; Interest on Bank Deposit ₹2,00,000; Interest earned on Debentures ₹50,000.

   Answer: [₹25,00,000, ₹2,50,000 and ₹27,50,000]

2. From the following information of Religare Ltd. (a financial Company), calculate Revenue from Operations, other Income and Total Revenue:

   Profit or Sale of Investments ₹5,00,000; Profit on sale of Building ₹4,50,000; Miscellaneous Income ₹50,000; Dividend Received ₹4,00,000; Interest on Loan ₹25,00,000.

   Answer: [₹34,00,000, ₹ 5,00,000 and ₹ 39,00,000]

3. The following balances are taken from Trial Balance of a company :

	₹
Loan from IDBI	5, 00, 000
Plant and Machinery	2, 58, 000
Investments	2, 47, 000
Trade Receivables	2, 25, 000
Inventory	1, 75, 000
Land and Buildings	3, 70, 000
Furniture	45, 000
Debit balance of Statement of Profit & Loss	50, 000
Cash and Cash Equivalents	51, 000

   You are required to draw up assets side of Balance Sheet as per Companies Act, 2013.

   Answer: [Total of Assets side ₹ 13,71,000]

4. The following balances are taken from Trial Balance of a Company:

	₹
1, 20, 000 Equity Shares of ₹ 10 each fully called up	12,00,000
Calls in arrears on 5000 shares @ ₹2 each	10,000
General Reserves	5, 80, 000

Preliminary Expenses	20, 000
Provision for Provident fund	1, 20, 000
Trade Payables	3, 00, 000
Loan from Bank	5, 00, 000
Provision for Doubtful Debt	40, 000

You are required to prepare Equity and Liabilities side of Balance Sheet as per Companies Act, 2013.

Answer: [Total of Equity and Liability Side ₹ 27, 10, 000]

5. Prepare Notes to Accounts on Employee Benefit Expenses from the following information for the year ended 31st March, 2017:

	₹
(i) Entertainment Expenses	1, 50, 000
(ii) Staff Welfare Expenses	2, 70, 000
(iii) Travelling Expenses	80, 000
(iv) Bonus	5, 50, 000
(v) Salaries	18, 70, 000
(vi) Wages	25, 20, 000

Answer: [₹ 52, 10, 00]

6. From the following information prepare Balance Sheet of Suzuki Ltd. as at 31st March, 2017.

	₹
Share Capital	24, 00, 000
Deferred Tax Liabilities	60, 000
General Reserve	6, 00, 000
Balance of Statement of Profit & Loss (Cr)	5, 20, 000
Tangible Fixed Assets	34, 60, 000
Trade Receivables	8, 00, 000
Provision for Doubtful Debts	40, 000
Trade Payables	3, 20, 000
Provision for Tax	80, 000
Proposed Dividend	2, 40, 000

Answer: [Total Balance sheet ₹ 42,60,000]

7. From the following inforamtion, prepare Statement of Profit and Loss of Shubham Ltd. for the year ending 31st March, 2017.

	₹
Sales	45, 00, 000
Cost of Material Consumed	8, 0, 000
Purchase of Stock-in-Trade	30, 00, 000
10% Debentures (Issued on 01.04.2016)	2, 00, 000
Depreciation on Machinery	50, 000
Interest received	60, 000
Wages	1, 80, 000
Salaries	60, 000

Sale of Scrap	10, 000
Opening Stock-in-Trade	3, 00, 000
Closing Stock-in-Trade	5, 00, 000

Answer: [Profit before Tax ₹ 6, 60, 000]

8. From the following information, prepare Balance Sheet of Ganesh Ltd. as at 31st Mach, 2017.

		₹
50, 000 Equity Shares of ₹ 10 each fully paid		5,00, 000
25000 8% Preference Shares of ₹ 10 each fully paid		2, 50, 000
7% Debentures		5, 00, 000
Trade creditors		5, 72, 500
Cash and Cash Equivalents		1, 37, 500
Provision for Tax		85, 000
Goodwill at cost		1, 25, 000
Balance of Statement of Profit & Loss (Dr)		1, 50, 000
Provision for Doubtful Debts		10, 100
Tangible Fixed Assets at cost		25, 00, 000
Other Current Assets		3, 25, 000
General Reserve		10, 25, 000
Short Term Loans		13, 50, 000
Long Term Advances		1, 86, 000
Short Term Advances		56, 500
Securities Premium		2, 37 500
Non- Current Investments		1, 00, 000
Current Investments		12, 600
Sundry Debtors		6, 12, 500
Creditors for Expenses		1, 00, 000
Closing Stock :		
Stores	2, 00, 000	
Finished goods	3, 75, 000	5, 75, 000
Capital work in Progress		1, 00, 000
Accumulated Depreciation on fixed Assets		2, 50,000

Answer: [Total of Balance Sheet ₹ 44, 80, 100]

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