

# Analysis of Financial Statements

## CHAPTER – 10

### Financial Statements of Companies

Financial Statements are the end products of accounting process and are prepared at end of the accounting period to reveal the financial position of the enterprise at a particular date and the result of its business operations preparing an accounting period.

As per Section 2(40) of the Companies Act, 2013 Financial Statements includes:

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Notes to Accounts.
4. Cash Flow Statement.
5. Explanatory Notes.

#### Objectives of Preparing Financial Statements

- (i) To present a true and fair view of the financial performance (i.e profit/loss) of the business
- (ii) To present a true and fair view of the financial position (i.e Assets/Equity & Liabilities) of the business.

#### Characteristics of Financial Statements

- (i) Financial statements are related to past period and hence are historical documents.
- (ii) They are expressed in terms of money
- (iii) Financial statements show profitability through Statement of Profit and Loss and financial position through Balance Sheet

#### Nature of Financial Statements

- (1) **Recorded Facts:** The term recorded facts means that the data used for preparing financial statements are drawn from accounting records. For example figures relating to cash in hand, cash at bank, trade receivables etc. are recorded facts. The financial statements do not include such facts which are not recorded in the books whether or not such facts are significant. The assets purchased at different times and at different prices are shown in the

Balance Sheet at their actual cost. They are not shown in the Balance Sheet at their realisable value or replacement Cost because as per the accounting records the cost price (not the realisable value or replacement cost) of the fixed cost is a recorded fact.

- (2) **Accounting Conventions:** Accounting Conventions imply certain fundamental accounting principles which have gained wide acceptance and which are followed while preparing financial statements. For example, due to the convention of 'Conservatism' provision is made in the books for expected future losses but expected profits are ignored. Likewise, the closing inventory is valued at cost or realisable value whichever is less. This means that the actual financial position of the business may be much better than disclosed by financial statements.

- (3) **Personal Judgements:** Even though certain accounting conventions are followed while preparing the financial statements, still personal judgement of the accountant plays a decisive role in accounting. For example, the accountant has to decide whether the asset is to be depreciated on straight line method, written down value method or some other method.

**Balance Sheet:** It is a statement of assets, liabilities and equities of a business and it is prepared to show the financial position of the company at particular date.

The balance sheet of a company is prepared as per the formal prescribed in part I of Schedule III of the Companies Act, 2013.

The Schedule III prescribes only the vertical format for presentation of financial statements. Thus, a company will now not have an option to use horizontal format for the presentation of financial statements.

## Format of Balance Sheet

**PART I**  
**FORM OF BALANCE SHEET**  
 Name of the Company .....  
 Balance Sheet as at .....  
 (₹ in .....)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
<b>I. EQUITY AND LIABILITIES:</b>			
<b>(1) Shareholders' funds</b>			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
<b>(2) Share application money pending allotment</b>			
<b>(3) Non-current liabilities</b>			
(a) Long-term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other Long-term liabilities			
(d) Long-term provisions			
<b>(4) Current liabilities</b>			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
<b>TOTAL</b>			
<b>II. ASSETS:</b>			
<b>(1) Non-current assets</b>			
(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			
<b>(2) Current assets</b>			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
<b>TOTAL</b>			

### Contents of Balance Sheet

#### Part I – Form of Balance Sheet

##### 1. EQUITY AND LIABILITIES

##### 2. (a) Shareholders' funds

- **Share Capital:** Under the head share capital, some of the important items to be shown are as under:
  - (a) Number and amount of shares authorised
  - (b) Number of shares issued, Subscribed and fully paid up and subscribed and not fully paid up.
  - (c) Par value per share
  - (d) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.
  - (e) Shares in the company held by each shareholder holding more than 5% shares specifying the number of shares held.

- (f) Calls unpaid (showing aggregate value of calls unpaid by directors and officers)  
Calls unpaid (Calls in arrears) will be shown as deduction from subscribed but not fully paid up capital.

- (g) Forfeited shares (amount originally paid up)  
It is shown by adding it to 'Subscribed Capital'

The various items used in connection with the Share capital of a company are explained below:

- (i) Authorised Capital:** Authorised Capital refers to that amount which is stated in the Memorandum of Association. This is the maximum Capital for which a Company is authorised to issue shares during its lifetime. The amount of authorized capital is disclosed for information only. i.e., it is not added to the total.

**(ii) Issued Capital:** Issued Capital is that part of Authorised Capital which is actually offered to the public for subscription. The remaining part of the Authorised Capital is known as the Unissued Capital' which can be issued later on. It may be noted that issued capital can be equal to or less than the authorised capital. The amount of issued capital is also disclosed for information only, i.e., it is not added to the total.

**(iii)Subscribed Capital** Subscribed Capital is that part of Issued Capital which has been subscribed for by the public If, say, 13,000 shares of 100 each are offered to the public and the public applies for 12,000 shares, the Subscribed Capital will be Rs.12,00,000

Subscribed capital is shown in the Balance Sheet under two heads

(a) Subscribed and fully paid up, and

(b) Subscribed but not fully paid up.

(a) **Subscribed and fully paid up:** When entire nominal (face) value of a share is called by the company and also paid up by the shareholder, it is said to be 'Subscribed and fully paid-up' Capital. It is shown in the balance sheet in the following manner

**(b) Subscribed but not fully paid up:** Shares are said to be 'Subscribed but not fully paid-up' under the following situations:

(i) When the company has called-up the full nominal value of share but the shareholder has not paid some part of the nominal value of share.

(ii) When the company has not called-up the full nominal value of share.

- Reserves and surplus
- Money received against share warrants

**(b) Reserves and Surplus**

**(i)** Reserves and Surplus shall be classified as :

**(a)** Capital Reserves;

**(b)** Capital Redemption Reserve;

**(c)** Securities Premium Reserve;

**(d)** Debenture Redemption Reserve;

**(e)** Revaluation Reserve- It is a reserve which is created by the upward revision of the book value of an asset. It cannot be used for payment of dividend or for issuing bonus shares.

**(f)** Share Options Outstanding Account- It is a reserve which represents the difference between the market value and issue price of shares issued to 'Employees Stock Option Scheme i.e, ESOP'.

**(g)** Other Reserves (Restricted to general reserve)

**(h)** Surplus i.e. Balance in statement of Profit & Loss after appropriations such as dividend, bonus shares and transfer to/from reserves etc.

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

**(iii)** Debit balance of statement of profit and loss shall be shown as negative figure under the head 'surplus'.

**(c) Money received against share warrants:** A share warrant is a financial instrument issue by a public company which gives the holder the right to acquire certain number of equity shares specified therein at a later date. Amount received against share warrants is included in shareholder's funds as they will be converted into equity shares on specified date at a pre-determined price. They are not shown as part of share capital but to be shown as a separate line item.

**2. Share Application Money Pending Allotment:** If a company has received application but due date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

(i) Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line item.

(ii) Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under 'Other Current Liabilities'.

**3. Non-current liabilities**

A liability shall be classified as non-current if it is not a current liability. The following items shall be disclosed under non-current liabilities.

(i) Long-term borrowings

(ii) Deferred tax liabilities (Net)

(iii) Other Long term liabilities

(iv) Long-term provisions

**(i) Long-term borrowings:** Long term borrowings refer to loans taken by the company. Borrowings shall be classified as long term borrowings when they are payable by the company after 12 months from the date of loan.

It shall be shown under the following heads:

**(a)** Bonds/debentures;

**(b)** Term loans;

From banks;

From other parties;

**(d)** Deposits;

**(ii) Deferred Tax Liabilities (Net):** A deferred tax liability comes into existence when accounting income is more than taxable income.

**(iii) Other Long-term Liabilities:** Examples are (a) Premium payable on redemption of debentures (b) Premium payable on Redemption of preference shares

**(iv) Long term provisions:** All provisions for which the related claims are expected to be settled beyond 12 months after the balance sheet date are classified as long term provisions. Examples are : Provision for Employee benefits, such as provision for Gratuity and provision for earned leave, Provision for Warranty claims etc.

## Current Liabilities

A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle; or
- (b) it is held primarily for the purpose of being traded; or
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counter party, result in its settlement by the issue of equity instruments do not affect its classification.

An operating cycle is the time between the acquisition of an asset 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 12 months.

- (i) Short-term borrowings
- (ii) Trade payables
- (iii) Other Current liabilities
- (iv) Short-term provisions

### (i) Short-term borrowings:

Short-term borrowings are the borrowings which are payable within 12 months from the date of Balance Sheet or within the period of operating cycle. The following items are included in short term borrowings:

- (a) loans repayable on demand
- (b) Bank overdraft and cash credit limit from banks;
- (c) Loans from other parties repayable within 12 months;
- (d) Deposits; and
- (e) Other loans and advances (Specify nature).

**(ii) Trade Payables:** A payable shall be classified as '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.

### (iii) Other current liabilities

The amounts shall be classified as:

- (a) Current maturities of long-term debt;
- (c) Interest accrued but not due on borrowings;
- (d) Interest accrued and due on borrowings;
- (e) Income received in advance;
- (f) Unpaid dividends;
- (g) Excess application money which is due for refund and interest accrued thereon is shown under 'Other Current Liabilities'.
- (h) Unpaid matured deposits and interest accrued thereon;
- (i) Unpaid matured debentures and interest accrued thereon;
- (j) Other Payables (such as Outstanding Expenses, Calls in advance and interest thereon, Unclaimed dividends, Provident fund Payable, VAT payable etc.)

## (iv) Short-term Provisions

Provisions which are expected to mature within 12 months are classified as short term provisions.

### The amounts shall be classified as :

- (a) Provision for doubtful debts;
- (b) Provision for employee benefits (who will retire within 12 months from the date of balance sheet).
- (c) Others (specify nature).

Others would include Proposed Dividend, Provision for Taxation, Provision for expenses, Warranty Provisions, etc. These amounts should be disclosed separately specifying nature thereof.

#### Note:

There is a distinction between a liability and a provision. If an amount is payable in future and figure is exact, it is a liability. If the amount of a liability is not certain, it will be a provision.

### 1. Assets

### 2. Non-Current Assets

#### (a) Fixed assets

**(i) Tangible assets:** Tangible assets are the assets which can be physically seen and touched.

Classification shall be given as :

- (a) Land
- (b) Buildings
- (c) Plant and Equipment
- (d) Furniture and Fixtures
- (e) Computers
- (f) Vehicles
- (g) Office Equipments
- (h) Railway tracks, Railway sidings
- (i) Horses and Carts

**(ii) Intangible assets:** Intangible assets are the assets which do not have a physical existence and thus, cannot be seen or touched

**Classification shall be given as:**

- (a) Goodwill
- (b) Brands/Trademarks
- (c) Computer software and Mining rights
- (d) Mastheads and publishing titles
- (e) Copyrights and patents and other intellectual property rights, services and operating cycle.
- (f) Recipes, formulae, models, designs and prototypes
- (g) Licenses and Franchise

**(iii) Capital work-in-progress:** It refers to fixed tangible assets which are under construction such as building, Plant and Equipment etc.

**(iv) Intangible assets under development:** Like patents, intellectual property rights etc. which are being developed by the company.

**(b) Non-current investments:** Non Current investments are those investments which are held by company not to with the purpose of reselling but to retain them. Non-current investments shall be classified as trade investments and other investments:

- (i) **Trade Investments:** It refers to the investment made by the company in shares or debentures of another company, not being its subsidiary, to promote its trade and business.
- (ii) **Other Investments:** It refers to those investments which are not trade investments.
  - (a) Investment in property
  - (b) Investment in Equity instruments
  - (c) Investment in preference shares
  - (d) Investment in government or trust securities
  - (e) Investment in debentures and bonds
  - (f) Investment in mutual funds
  - (g) Investment in partnership firms
  - (h) Other non-current investment (specify nature)
- (c) **Deferred tax assets (net):** A deferred tax asset comes into force when accounting income is less than taxable income.
- (d) **Long-term loans and advances:** These are loans and advances which are expected to be received back after more than 12 months from the date of balance sheet. They are classified as:
  - (i) **Capital Advances:** Advances given for acquiring assets are called 'Capital Advances'.
  - (ii) **Security Deposits:** Security deposits are given for a period of more than 12 months from the date of balance sheet. Examples are security deposits for electricity and telephone etc.
- (e) **Other non-current assets:** All other non-current assets which do not fall into any of the above classification under this heading. These may include the following:
  - (i) Trade receivables after 12 months from the date of balance sheet.
  - (ii) Unamortised expenses such as share issue expenses, discount or loss on issue of debentures that shall be written off after 12 months from the date of balance sheet.

### Current Assets

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; or
- (b) it is held primarily for the purpose of being traded; or
- (c) it is expected to be realized within twelve months after the reporting date; or
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

An operating cycle is the time between the acquisition of an asset 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 12 months.

### (i) Current Investments

Current Investments are the investments which are held to be converted into cash within, short period, i.e., within 12 months.

**Current investments 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 (specify nature)

### (ii) Inventories:

Inventories means stock held for the purpose of trade in normal course in business

**Inventories shall be classified as :**

- (a) Raw materials;
- (b) Work-in-progress;
- (c) Finished goods;
- (d) Stock-in-trade (in respect of goods acquired for trading);
- (e) Stores and spares;
- (f) Loose tools;
- (g) Goods in transit

### (iii) 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 services rendered in the normal course of business. A trade receivable will be treated as current if it is likely to be realized within 12 months from the date of Balance Sheet or Operating cycle of the business. Trade receivables include both Debtors and Bills Receivables.

### (iv) Cash and Cash Equivalents

As defined in AS-3, Cash flow Statement, cash and cash equivalents are share term highly liquid investments that are readily convertible into known amount cash and which are subject to an insignificant risk of change in value.

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

- (a) Balances with banks;
- (b) Cheques, drafts on hand,
- (c) Cash in hand;
- (d) Other (specify nature)

### (v) Short-term Loans and Advances:

These are the loans and advances which are expected to be realised within 12 months from the date of balance sheet or within the operating cycle of business.

### Other Current Assets (specify nature)

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset, categories e.g. prepaid expenses, interest accrued on investments, advance tax and unamortized expenses to be written off within 12 months from the date of balance sheet.

**Contingent Liabilities:** Contingent liabilities are liabilities which have not arisen, but may arise upon the happening of a certain event. In other words, the liability itself is uncertain. It may or may not involve the payment of money. The amount of contingent liabilities is never shown in the liabilities side. These are always shown in the liabilities side of the balance sheet.

Contingent liabilities shall be classified as :

- (a) Claims against the company not acknowledged as debt
- (b) Guarantees given by company.
- (c) Other money for which the company is contingently liable.

**Commitments:**

Commitment is defined as 'an agreement to perform a particular activity at a certain time in the future under certain circumstances. Commitment shall be classified as:

- (a) Estimated amount of contracts remaining to be executed on capital account and not provided for
- (b) Uncalled liability on shares and other investments partly paid
- (c) Other commitments such as arrears of dividends on Cumulative Preference Shares.

**Statement of Profit and Loss**

- **Statement of Profit and Loss:** It is a statement prepared to show the result of business operations during an accounting period.

It shows the operating performance of a company during the accounting period.

A Statement of Profit & Loss of a Company is prepared as per the format prescribed in Part II of Schedule III of the Companies Act, 2013.

**Statement of Profit & Loss**

For the year ended

(₹ In.....)

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 + IV)		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 and Stock-in-Trade		xxx	xxx
	Employee benefits expenses			
	Finance costs			
	Depreciation and amortization expenses			
	Other expenses			
	Total expenses		xxx	xxx
V.	Profit before tax (III-IV)		xxx	xxx
VI.	Tax		xxx	xxx
VII.	Profit after (V-VI)		xxx	xxx

**(1) Revenue from Operations:** It refers to the revenue earned by the company from its business operations. It will be shown in notes to accounts as follows:

- (a) Revenue from sale of products (Gross)  
Less: returns
- (b) Revenue from sale of services
- (c) Other operating revenues such as sale of scrap  
Less: Excise duty collected

**(2) Other Income:** It refers to the revenue earned by the company from activities other than its business operations.

**For example:**

- (i) Interest Income
- (ii) Dividend Income
- (iii) Gain on sale of investments.  
Less: Loss on sale of investments

(iv) Other income such as:

- (a) Rent received
- (b) Discount received, Commission received
- (c) Transfer fees
- (d) Sundry creditors written back
- (e) Excess provision for bad debts written back
- (f) Profit on sale of fixed assets
- (vii) Prior period income
- (viii) Sale of miscellaneous items
- (ix) Revenue from project consultancy
- (x) Fess received for arranging loans
- (xi) Refund of income tax

**(3) Cost of Material Consumed:** Cost of materials consumed means cost of raw materials and other materials consumed in manufacturing the goods.  
= Opening inventory of Raw Materials + Net Purchases of Raw Materials – Closing Inventory of Raw Materials.

**Note:** Materials such as stores, fuel, spare parts etc. which do not enter physically into the composition of finished product are excluded from raw materials and hence are shown under other expenses.

- (4) **Purchase of Stock in trade:** The term 'Stock in trade' means goods purchased for reselling. In case company, carries out further processing on the goods purchased, they are not classified as 'Purchase of Stock in trade' but become part of 'Cost of Materials consumed'. Likewise, if any semi-finished goods or materials are purchased for further processing, the same should be included in 'Cost of materials consumed' rather than as stock-in-trade.

(5) **Change in Inventories of finished goods, work-in-progress and Stock in Trade:**

This will be shown as follows:

(a) Opening Inventory of Finished Goods	xxxx
<b>Less:</b> Closing Inventory of Finished Goods	xxxx
(b) Opening Inventory of Work-in-progress	xxxx
<b>Less:</b> Closing Inventory of Work-in-progress	xxxx
(c) Opening Inventory of Stock-in-trade	xxxx
<b>Less:</b> Closing Inventory of Stock-in-trade	xxxx
Total (a + b + c)	xxxx

6. **Employees Benefit Expenses:** It includes all expenses incurred by the company on its employees such as:

- (i) Wages, salaries, bonus etc.
- (ii) Leave encashment, staff welfare expenses, etc.
- (iii) Contribution to employees provident fund and other funds like superannuation funds and gratuity fund.

7. **Finance Cost:** It means cost incurred by a company on its borrowings.

- (i) Interest Expenses such as:
  - (a) Interest paid on term loan from bank
  - (b) Interest paid on Overdraft and cash credit limit from bank
- (c) Interest paid on debentures, Bonds and public deposits

(ii) Other Borrowing Costs such as:

- (a) Discount or loss on issue of debentures
- (b) Premium payable on redemption of debentures written off
- (c) Loan processing charges
- (d) Guarantee Charges
- (e) Commitment charges
- (f) Commission paid for deposit mobilisation

8. **Depreciation and Amortisation expenses:**

Depreciation is the cost of tangible fixed assets written off over their useful life such as on building, plant & machinery etc.

Amortisation is the cost of intangible fixed assets written off over their useful life such as on patents, trademarks, computer software etc.

9. **Other Expenses:** Expenses that are not shown in any of the above mentioned heads are shown here.

**For example:**

- (i) Carriage Inwards/Outwards
- (ii) Audit Fees
- (iii) Insurance charges
- (iv) Rent, Rates and taxes
- (v) Bank charges
- (vi) Advertisement expenses
- (vii) Administrative expenses
- (viii) Selling and distribution expenses
- (ix) Power and electricity expenses
- (x) Loss on sale of Fixed Assets.
- (xi) Rent
- (xii) Telephone expenses
- (xiii) Sundry expenses
- (xiv) Consumption of Loose tools
- (xv) Freight
- (xvi) Excise Duty paid
- (xvii) Director's fees
- (xviii) Business Promotion Expenses

## Solved Examples

**Q1.** Anupam Ltd. has the following balances as on 1<sup>st</sup> April, 2016

	₹
Statement of Profit & Loss	(2,00,000)
Debenture Redemption Reserve	6,00,000
Capital Reserve	5,00,000

It earned a profit of ₹10,00,000 for the year ended 31<sup>st</sup> March, 2017. It decided to transfer ₹2,00,000 to Debenture Redemption Reserve and ₹3,00,000 to General Reserve. Directors proposed a final dividend of ₹1,20,000.

Show how these items will appear in the Balance Sheet and notes accounts.

**Solution:**

**Anupam Ltd.**  
EXTRACT OF BALANCE SHEET  
as at 31<sup>st</sup> March, 2017

Particulars	Note No.	31.03.2017	31.03.2016
		₹	₹

<b>I. EQUITY AND LIABILITIES:</b>			
<b>(1) Shareholder's Funds:</b>			
Reserves and Surplus	1	17,80,000	9,00,000
<b>(2) Current Liabilities:</b>			
Short term Provisions	2	1,20,000	
		<u>19,00,000</u>	

**Notes to Accounts:**

			31.03.2017
<b>(1) Reserves and Surplus:</b>			
(a) Capital Reserve			5,00,000
(b) Debenture Redemption Reserve:			
Opening Balance	6,00,000		
Transfer from Surplus	<u>2,00,000</u>		8,00,000
(c) General Reserve:			
Opening Balance	---		
Transfer from Surplus	<u>3,00,000</u>		3,00,000
(d) Surplus:			
Balance in Statement of Profit & Loss (Opening)	(2,00,000)		
Surplus for the Period	<u>10,00,000</u>		
Available for Appropriations	8,00,000		
Less: Appropriations:			
Debenture Redemption Reserve	2,00,000		
General Reserve	3,00,000		
Proposed Dividend	<u>1,20,000</u>	<u>6,20,000</u>	1,80,000
			<u>17,80,000</u>
<b>(2) Short term Provisions:</b>			
Proposed Dividend			1,20,000

**Q2.** Compute Revenue from Operations, Other Income and Total Revenue for a non-financial company from the following particulars:

Sales ₹20,00,000; Sales Return ₹1,00,000; Sale of Scrap ₹40,000; Sale of Miscellaneous items ₹5,000; Refund of Income Tax ₹10,000; Interest on Time Deposits ₹25,000.

**Solution:**

Particulars	₹	₹
<b>I. Revenue from Operations:</b>		
Sales	20,00,000	
Less: Sales Return	<u>1,00,000</u>	19,00,000
Sale of Scrap		40,000
		<u>19,40,000</u>
<b>II. Other Income:</b>		
Sale of Miscellaneous Items	5,000	
Refund of Income Tax	10,000	
Interest on Time Deposits	<u>25,000</u>	40,000
Total Revenue (I + II)		<u>19,80,000</u>

**Q3.** Under which major headings and sub-headings will the following items be shown in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:

(i) Net loss as shown by Statement of Profit and Loss.

(ii) Capital redemption reserve.

(iii) Bonds.

(iv) Loans repayable on demand.

(v) Unpaid dividend.

(vi) Buildings.

(vii) Trademarks.

(viii) Raw materials.

S. No.	Items	Headings	Sub-Headings
(i)	Net loss as shown by statement of profit and loss	Shareholders' funds	Reserve and Surplus as negative item
(ii)	Capital redemption reserve	Shareholders' funds	Reserve and Surplus



(iii)	Bonds	Non-current liabilities	Long-term borrowings
(iv)	Loans payable on demand	Current liabilities	Short term borrowings
(v)	Unpaid dividend	Current liabilities	Other current liabilities
(vi)	Buildings	Non-current assets	Fixed assets – tangible
(vii)	Trademarks	Non-current assets	Fixed assets – intangible
(viii)	Raw materials	Current assets	Inventory

**Q4.** How would you disclose the following items in the Balance Sheet of a Company:

- (i) Share Issue Expenses (to be written off in next 12 months)
- (ii) Share Issue Expenses (to be written off after 12 months)
- (iii) Premium on Redemption of Debentures
- (iv) Debit balance of Statement of Profit & Loss
- (v) Loan from Bank
- (vi) Loan repayable on demand
- (vii) Share in S.B.I.
- (viii) Investments
- (ix) Interest Accrued on Investments
- (x) Guarantees given by the Company

**Solution:**

S. No.	Item	Major Head	Sub-head
(i)	Share Issue Expenses (to be written off in next 12 months)	Current Assets	Other Current Assets
(ii)	Share Issue Expenses (to be written off after 12 months)	Non Current Assets	Other Non Current Assets
(iii)	Premium on Redemption of Debentures.	Non Current Liabilities	Other long term Liabilities
(iv)	Debit balance of Statement of Profit & Loss.	Shareholder's Funds	Reserve and Surplus (shown as a negative figure) under 'Surplus'.
(v)	Loan from Bank	Non Current Liabilities	Long term Borrowings
(vi)	Loan repayable on demand	Current Liabilities	Short term Borrowings
(vii)	Shares in S.B.I.	Non Current Assets	Non Current Investments
(viii)	Investments	Non Current Assets	Non Current Investments
(ix)	Interest Accrued on Investments	Current Assets	Other Current Assets
(x)	Guarantees given by the Company.	Contingent Liability and commitments (to be shown under Contingent Liabilities in 'Notes to Accounts')	

**Q5.** Prepare the Balance Sheet of Zee Ltd. as per the provisions of Schedule III of Companies Act, 2013:

	₹
Share Capital (50,000) Shares of ₹ 10 each)	5,00,000
Statement of Profit & Loss (Cr.)	2,00,000
Securities Premium Reserve	1,50,000
Long term Borrowings	1,00,000
Inventory	2,10,000
Preliminary Expenses	80,000
Provision for Tax	40,000
Goodwill	50,000

Totalling of Balance Sheet is not required.

**Solution:**

**EXTRACT OF BALANCE SHEET OF ZEE LTD.**

as at .....

Particulars	Note No.	Current year	Previous year
<b>I. EQUITY AND LIABILITIES:</b>		₹	₹
<b>Shareholder's Funds:</b>			

(a) Share Capital	1	5,00,000	
(b) Reserve and Surplus	2	2,70,000	
<b>Non Current Liabilities</b>			
Long term Borrowings		1,00,000	
<b>Current Liabilities:</b>			
Short term Provisions	3	40,000	
<b>II. ASSETS:</b>			
<b>Non Current Assets</b>			
Fixed Assets			
Intangible Assets	4	50,000	
<b>Current Assets</b>			
Inventory		2,10,000	
<b>Notes to Accounts:</b>			
			₹
<b>(1) Share Capital:</b>			
Authorised:			
..... Shares of ₹..... each			
Issued:			
..... Shares of ₹..... each			
Subscribed and Fully Paid			
50,000 Shares of ₹ 10 each			<u>5,00,000</u>
<b>(2) Reserve &amp; Surplus:</b>			
(a) Securities Premium Reserve	1,50,000		
Preliminary Expenses Written Off	<u>(80,000)</u>		70,000
(b) Surplus			
Balance of Statement of Profit & Loss			2,00,000
			<u>2,70,000</u>
<b>(3) Short term Provisions:</b>			
Provision for Tax			<u>40,000</u>
<b>(4) Intangible Assets:</b>			
Goodwill			<u>50,000</u>

## QUESTIONS FOR PRACTICE

### MCQ

- Which of the following points out the nature of financial statements?
  - Financial statements are prepared on the basis of recorded facts.
  - Certain accounting conventions are followed while preparing financial statements.
  - Financial statements are prepared on certain basic assumptions.**Options:**
  - Only (i)
  - (i) and (ii)
  - (i), (ii) and (iii)
  - (ii) and (iii)
- Which of the following is not included under the head shareholders' fund?
  - Share capital
  - Reserves and surplus
  - Money received against share warrants
  - Long-term provisions
- Under which of the following head/ sub-head is 'forfeited shares' presented in the balance sheet of a company?
  - Reserves and surplus
  - Share capital
  - Other long-term liabilities
  - Other current liabilities
- Staff Welfare Expenses are included in:
  - Cost of materials consumed
  - Revenue from operation
  - Employee Benefit Expenses
  - Other Current Liabilities
- A Company issued capital. A shareholder paid all money on allotment while first call is not called by company. So you are required to show this advance in balance sheet of company as
  - current liability
  - long-term liability
  - current assets
  - None of these
- Public deposits appear under which of the following head in a company's balance sheet?
  - Current liabilities
  - Non-current liabilities

- (c) Reserves and surplus (d) Shareholders' funds
7. A company issued shares calling application, allotment and first and final call. A holder of shares not paid allotment and first call. His shares are forfeited but not re-issued. As on balance sheet date, you are required to show these forfeited shares in the balance sheet of company under the head  
(a) current liability (b) shareholders' fund  
(c) current assets (d) None of these
8. 11% Debentures are included in:  
(a) Current Liability (b) Fixed Assets  
(c) Current Assets (d) None of these
9. From following information, calculate other incomes.  
Sales of product = ₹54,000; Sale of services = ₹60,000;  
Commission received = ₹1,20,000; Excise duty paid = ₹3,00,000; Dividend from investment = ₹20,000  
(a) ₹1,40,000 (b) ₹2,54,000  
(c) ₹(46,000) loss (d) None of these
10. From the following information, you are required to compute profit after tax.  
I. Revenue from operation = ₹80,00,000  
II. Cost of material consumed = ₹10,00,000  
III. Purchase of stock-in-trade = ₹30,00,000  
IV. Employees salary = ₹4,00,000  
V. Tax rate = 50%  
(a) ₹20,00,000 (b) ₹24,00,000  
(c) ₹15,00,000 (d) ₹18,00,000
11. A company purchased a business of a firm. When accountant was tallying all assets and liabilities, he found that the company has paid more amount than the worth of its assets. You are required to find what this difference be called and where it will be shown?  
(a) Capital reserve, reserve and surplus  
(b) Goodwill, intangible assets  
(c) Accountants totalling is wrong, assets and liabilities always tally without adjustment  
(d) None of the above
12. Livestock is a item of ..... assets under sub-head fixed assets and the major head non-current assets.  
(a) intangible (b) inventories  
(c) trade receivables (d) tangible
13. Which of the following is not an item of sub-head other current liabilities in balance sheet?  
(a) Creditors (b) Outstanding expenses  
(c) Advance income (d) Both (b) and (c)
14. In balance sheet, 'Trade receivables' is the shown under the head .....  
(a) non-current assets (b) current assets  
(c) non-current liabilities (d) current liabilities
15. External users of financial statements are:  
(a) Banks (b) Suppliers  
(c) Both (a) and (b) (d) Director of company
16. Compute cost of materials consumed from the following information. Opening inventory of materials ₹5,00,000, materials purchased ₹40,00,000 and closing inventory of materials ₹6,00,000.  
(a) ₹40,00,000 (b) ₹51,00,000  
(c) ₹27,00,000 (d) ₹39,00,000
17. What is the total under equity and liabilities side of the balance sheet when the following information is given?  
Shareholders' Funds = ₹10,00,000; Non-current Liabilities = ₹5,00,000; Current Liabilities = ₹3,00,000  
(a) ₹10,00,000 (b) ₹15,00,000  
(c) ₹18,00,000 (d) ₹13,00,000
18. What will be the amount shown under the head current assets when the following data is given Inventories = ₹2,30,000; Trade Receivables = ₹70,000; Cash and Cash Equivalents = ₹50,000, Current Investments = ₹50,000  
(a) ₹3,00,000 (b) ₹3,50,000  
(c) ₹2,80,000 (d) ₹4,00,000
19. What will be the amount shown under the head current liabilities when the following data is given? Short-term borrowings = ₹3,00,000; Trade Payables = ₹2,00,000; Other Current Liabilities = ₹1,00,000; Short-term Provisions = ₹1,00,000  
(a) ₹5,00,000 (b) ₹6,00,000  
(c) ₹4,00,000 (d) ₹7,00,000
20. What is the total under assets side of the balance Sheet when the following information is given?  
Non-current Assets = ₹5,00,000; Current Assets = ₹2,00,000; Current Liabilities = ₹3,00,000  
(a) ₹7,00,000 (b) ₹10,00,000  
(c) ₹5,00,000 (d) None of these

### SUBJECTIVE QUESTIONS

1. Multiple Paper Solutions Ltd. received applications for 5,00,000 preference shares against an issue of 4,00,000 preference shares of ₹10 each. Allotment has not been made against the applications yet. How will you show the amount in the Balance Sheet of company?
2. Under which major heads and sub-heads will the following items be presented in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013?
- (i) Bank Overdraft  
(ii) Revaluation Reserve  
(iii) Capital Redemption Reserve  
(iv) Mining Rights  
(v) Patents  
(vi) Debit balance in Statement of Profit and Loss  
(vii) Debenture Redemption Reserve  
(viii) Provision for Taxation

3. Under which major headings and sub-headings will the following items be shown in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:
  - (i) Sinking Fund
  - (ii) Capital redemption reserve
  - (iii) Bonds
  - (iv) Loans repayable on demand
  - (v) Unpaid dividend
  - (vi) Buildings
  - (vii) Trademarks
  - (viii) Raw materials.
4. Under which major headings and sub-headings will the following items be shown in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:
  - (i) Balance of the Statement of Profit and Loss
  - (ii) Loan of ₹1,00,000 payable after three years
  - (iii) Investment in Mutual Funds
  - (iv) Loose tools
  - (v) Trademark
  - (vi) Land
  - (vii) Cash at bank
  - (viii) Trade payables
5. Name the major heads under which the following items will be presented in the Balance Sheet of a company as per Schedule III of Companies Act, 2013:
  - (i) Provision for Employee Benefit
  - (ii) Unpaid Dividend
  - (iii) Interest on Calls-in-Advance
  - (iv) Patents
  - (v) Short-term Loans
  - (vi) Trade payables
  - (vii) Stores and Spare Parts
  - (viii) Goodwill
6. Under which major sub-headings, the following items will be placed in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013:
  - (i) Accrued Income
  - (ii) Loose Tools
  - (iii) Provision for Employees benefits
  - (iv) Unpaid dividend
  - (v) Short-term loans
  - (vi) Long-term loans
7. Under which sub-headings, will the following items be placed in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:
  - (i) Capital Reserve
  - (ii) Bonds
  - (iii) Loans repayable on demand
  - (iv) Vehicles
  - (v) Goodwill
  - (vi) Drafts on Hand
8. State under which major headings the following items will be presented in the Statement of Profit and Loss of a company as per the Companies Act, 2013: Bonus, Internet Expenses, Materials Purchased, Goodwill Amortized
9. Under which heads of the Statement of Profit and Loss of a Financial Company will be shown
  - (i) Interest Paid on Debentures
  - (ii) Prior Period Expenses
  - (iii) Interest Earned
  - (iv) Profit on Sale of Investments
10. State the major headings under which the following items will be put as per Schedule III, Part I of the Companies Act, 2013:
  - (i) Long-term investments; (ii) Bills of Exchange; (iii) Motor Car; (iv) Loss on Issue of Debentures; (v) Unpaid matured debentures and interest accrued thereon and (vi) Unclaimed Dividend; (vii) Security Deposits for Electricity.

## HOMEWORK

### MCQ

1. Under which heading the item 'Bills discounted but not yet matured' will be shown in the Balance Sheet of a company?
  - (a) Current liability
  - (b) Current Assets
  - (c) Contingent Liabilities
  - (d) Unamortized Expenditure
2. While preparing the Balance Sheet of a company, 6% debentures is shown under which head?
  - (a) Share capital
  - (b) Long term borrowings
  - (c) Short term borrowings
  - (d) None of these
3. Which of the following items is shown under the head 'Non-Current Assets', while preparing the Balance sheet of a company?
  - (a) Underwriting Commission
  - (b) Current Investment
  - (c) Inventory
  - (d) Patents
4. 'Interest accrued but not due on loans, is shown in the companies balance sheet under the sub-head\_\_\_\_\_
  - (a) Reserves and Surplus
  - (b) Other Current Liabilities
  - (c) Contingent Liabilities
  - (d) Shareholders Funds
5. Claim against the company not acknowledged as debts are shown under:
  - (a) Current Liabilities
  - (b) Contingent Liabilities
  - (c) Non-current Liabilities
  - (d) Capital commitments
6. Which of the following is not a subhead of Current Liabilities?
  - (a) Short Term Provisions
  - (b) Trade Payables
  - (c) Deferred Tax Liabilities

- (d) Other Current Liabilities
7. As per Schedule III, Part I of the companies Act, 2013 'Unpaid Dividend' will be presented under which of the following head/sub-head, in the Balance Sheet of a company?
    - (a) Reserves and Surplus
    - (b) Current Liabilities
    - (c) Contingent Liabilities
    - (d) Shareholder's Funds
  8. Interest accrued but not due on investment will be shown under which head of current assets?
    - (a) Short term loans and advances
    - (b) Current investments
    - (c) Other current assets
    - (d) Cash and cash equivalents
  9. Money received against share Warrants is shown as
    - (a) Shareholder's funds
    - (b) Other Long Term Liabilities
    - (c) Long term provisions
    - (d) Other current liabilities
  10. Which of the following is not a component of other income?
    - (a) Dividend Income
    - (b) Interest Income
    - (c) Proceeds from the sale of scrap
    - (d) Gain on sale of investment
  11. Calls in Advance and interest payable thereon is shown as
    - (a) Shareholders funds
    - (b) Other non-current liabilities
    - (c) Other current liabilities
    - (d) Trade Payables
  12. Purchase of goods for resale is shown in Statement of Profit and Loss as:
    - (a) Revenue from Operations
    - (b) Cost of Material consumed
    - (c) Purchase of Stock in trade
    - (d) Change in inventories
  13. Interest and dividend earned by a financial company is shown in Statement of Profit and Loss under the sub-head:
    - (a) Revenue from Operations
    - (b) Other income
    - (c) either a) or b)
    - (d) neither a) nor b)
  14. Loose Tools appear in the company's Balance Sheet under the head/sub-head.
    - (a) Inventory
    - (b) Non-current assets
    - (c) Other current assets
    - (d) stores and spare parts
  15. In a company's Balance Sheet, computer software is shown under the main head.
    - (a) Non-current Liabilities
    - (b) Current Liabilities
    - (c) Non-current Assets
    - (d) Current Assets
  16. Carriage inwards is shown in statement of profit and loss under \_\_\_\_ .
    - (a) Cost of materials consumed
    - (b) Other expenses
    - (c) Employee benefit expenses
    - (d) None of the above
  17. Under which head will 'Leave Encashment Expenses' be shown in Statement of Profit and Loss ?
    - (a) Other expenses
    - (b) Finance costs
    - (c) Depreciation and Amortization expenses
    - (d) Employee benefit expenses
  18. Which of the following is not included in 'Revenue from operations' in Statement of Profit and Loss?
    - (a) Sale of products
    - (b) Sale of Services
    - (c) Other operating revenues
    - (d) Interest Income
  19. Which of the following is/are a component of Cash and Cash equivalents ?
    - (a) Balances with Banks
    - (b) Cash in hand
    - (c) Cheques/Drafts in hand
    - (d) All of the above
  20. Which of the following is not a part of finance cost(in the Statement of Profit and Loss) ?
    - (a) Bank charges
    - (b) Interest paid on debentures
    - (c) Interest paid on public deposits
    - (d) Loss on issue of Debentures
  21. Preliminary expenses of are treated as 'short term borrowings' in the balance sheet of the company?
    - (a) True
    - (b) False
    - (c) Partially true
    - (d) Can't say
  22. \_\_\_\_ reserve can be used freely for any purpose .
    - (a) Capital
    - (b) General
    - (c) Securities premium
    - (d) Capital redemption
  23. Which of the following is not a subhead under the current assets ?
    - (a) Cash and Cash equivalents
    - (b) Trademarks
    - (c) Short term loans and advances
    - (d) Inventories
  24. Premium payable on redemption of debentures is shown under the head ' Non Current Liabilities' and sub-head 'Other Non Current Liabilities' in the balance sheet of the company.
    - (a) True
    - (b) False
    - (c) Partially true
    - (d) Can't say
  25. Livestock is an item of \_\_\_\_ under sub-head fixed asset and the major head non-current assets.
    - (a) Tangible
    - (b) Inventories
    - (c) Trade Receivables
    - (d) Inventories
  26. Under which head will 'Commission paid for deposit mobilisation' be shown in Statement of Profit and Loss ?
    - (a) Other Expenses
    - (b) Finance costs
    - (c) Cost of materials consumed

- (d) None of these
27. Under which head will 'Business promotion expenses' be shown in Statement of Profit and Loss ?
- Other expenses
  - Finance costs
  - Cost of materials consumed
  - Employee benefit expenses

**Directions (Q. Nos. 28 to 30)** There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- Both Assertion (A) and Reason (R) are true and Reason(R) is the correct explanation of Assertion (A)
- Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- Assertion (A) is false, but Reason (R) is true
- Assertion (A) is true, but Reason (R) is false

**28. Assertion (A):** Certain accounting conventions like consistency, conservatism, full disclosure, etc. are followed while preparing financial statements.

**Reason (R):** Use of accounting conventions makes the financial statements comparable, simple and realistic.

**29. Assertion (A):** The bank charges charged by the bank are included in finance cost.

**Reason (R):** Bank charges is an expense not incurred in connection with raising finance but for availing the services of the bank.

**30. Assertion (A):** Bills receivable are shown as trade receivables in the balance sheet of the company.

**Reason (R):** Debtors and bills receivable forms the part of trade receivables.

### SUBJECTIVE QUESTIONS

- Under what headings and sub-headings of the Balance Sheet of a company, following will be presented:
  - Proposed Dividend
  - Calls-in-Arrears
  - Patents and Trade Marks
  - Prepaid insurance
  - Outstanding Salary
  - Shares in R.M.L. Limited
- Under which headings and sub-headings, would you disclose the following items in the Balance Sheet of a limited company?
  - Forfeited share Account
  - Capital Advances
  - Factory Building under construction
  - Premium on Redemption of Debentures
  - Shares in Wipro Ltd.
  - Interest Accrued and due on Unsecured Loan
  - Interest Accrued and due on Secured Loan
  - Interest Accrued but not due on Loan.
- Show the following items in the Balance Sheet of ABC Ltd. as at 31st March, 2019 as per the requirements of Schedule III of the Companies Act, 2013:
- Calculate Cost of Material Consumed from the following information:

	₹
Opening Inventory: Material	2,75,000
Finished Goods	1,25,000
Material purchased	11,25,000
Closing Inventory : Material	2,25,000
Finished Goods	75,000

General Reserve (31st March, 2018) ₹4,00,000, Surplus *i.e.*, Balance in Statement of Profit and Loss (Debit Balance) for 2018-19 ₹7,50,000.

- Calculate total revenue from operations for the year ended 31st March, 2019 of MNO Finance Ltd. (a financing company) from the following information:  
Commission Received ₹10,000, Interest on Loans ₹60,00,000, Dividend Received ₹2,00,000, Profit on sale of Land ₹ 30,00,000.
- From the following information of Ratna Ltd., prepare a Statement of Profit and Loss for the year ended 31st March, 2017:  
Revenue from operations ₹1,15,000, Commission Received ₹35,000, Cost of Material Consumed ₹12,500, Purchases of stock-in-trade ₹5,000, Changes in Inventories ₹22,500, Employees Benefit Expenses ₹10,000, Finance Cost ₹6,000, Depreciation ₹2,500, Advertising Expenses ₹8,500.



7. Calculate the amount of change in inventories of finished goods, work-in-progress and stock-in-trade, that will be shown in the Notes to Accounts from the following information:

Opening Inventories (₹)	Closing Inventories (₹)	
Finished Goods	2,50,000	2,75,000
Work-in-progress (WIP)	2,25,000	2,12,500
Stock-in-Trade	3,25,000	3,00,000

8. The following balances were extracted from the books of Perfect Sports Ltd. as on 31st March, 2017:  
Plant and Machinery ₹2,00,000, Shares in RXL Ltd. ₹1,00,000, Stock-in-Trade ₹80,000, Bills Receivable ₹10,000, Prepaid Expenses ₹10,000, Share capital ₹2,00,000, Capital Redemption Reserve ₹1,20,000, 10% Debentures ₹60,000, Short-term loan from Bank ₹10,000 and provision for taxation ₹10,000. Prepare Balance Sheet of the company as per Schedule III Part I of the Companies Act, 2013.
9. X Ltd. has an authorised capital of ₹15,00,000 divided into 1,00,000 Equity shares of ₹10 each and 50,000, 9% preference shares of ₹10 each.  
The whole of preference shares were subscribed, called and paid. However the company issued only 90,000 equity shares. 85,000 equity shares were subscribed for. During the first year ₹8 per share were called. Ram holding 1,000 shares did not pay first call of ₹2. Also Shyam holding 2,000 shares did not pay first call of ₹2. Only Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at ₹6 per share, ₹8 called up.  
(a) Show capital in Balance Sheet as per Schedule III of Companies Act, 2013 as at 31st March, 2017.  
(b) Prepare relevant 'Notes to Accounts'.
10. Midas Shoes Ltd. had the following opening balances in the Reserves and Surplus:

	(₹)
Debenture Redemption Reserve	50,000
Securities Premium Reserve	1,00,000
Surplus, i.e., Balance in Statement of Profit and Loss	4,50,000
Profit after tax during the year 2018-19 amounted to ₹2,50,000.	
The following appropriations to the profit earned were proposed:	
	(₹)
Transfer to Debenture Redemption Reserve	2,00,000
Transfer to General Reserve	2,00,000
Transfer to Securities Premium Reserve	1,50,000
Determine how the above items shall be shown in the Notes to Accounts on Reserves and Surplus.	

## SOLUTION FOR PRACTICE QUESTIONS

### SOLUTION FOR MCQ QUESTIONS

- (c)
- (d)
- (b): Forfeited shares are shown by adding it to subscribed capital.
- (c)
- (a): Calls-in-advance is always treated as current liability because it is reversed when call money is called-up by company.
- (b)
- (b): Amount received before forfeiture is kept by the company and therefore, it is a gain for the company. However, forfeiture reduces the share capital by amount of forfeited shares. Hence, it is shown on the liabilities side of balance sheet under 'shareholders' fund' head.
- (d)
- (a):

Other Incomes	Amt (₹)
(i) Commission Received	= 1,20,000
(ii) Dividend from Investment Received	= 20,000
	= 1,40,000

Sale of products and services are revenue from operation and excise duty is revenue from operation in negative nature.
- (d):

Particulars	Amt (₹)
Revenue from Operations	80,00,000
(--) Expenses	
Cost of Material Consumed	10,00,000

Purchase of Stock-in-trade	30,00,000	
Employees Benefit Expense	<u>4,00,000</u>	[44,00,000]
Profit before Tax		36,00,000
(-) Tax @ 50%		(18,00,000)
Profit after Tax		18,00,000

**11. (b):** When net assets are less and payment for business purchase is more, then it is called goodwill and it is shown under intangible assets.

**12. (d)**                      **13. (a)**                      **14. (b)**

**15. (c)**

**16. (d):** Cost of materials consumed  
= Opening Inventory of Materials + Purchases  
– Closing Inventory of Materials  
= 5,00,000 + 40,00,000 – 6,00,000  
= ₹39,00,000

**17. (c):** Total under equity and liabilities side  
= Shareholders Funds + Non-current Liabilities +

Current Liabilities  
= 10,00,000 + 5,00,000 + 3,00,000  
= ₹18,00,000

**18. (d):** Current Assets = Inventories + Trade Receivables  
+ Cash and Cash Equivalents  
+ Current investments  
Current Assets = 50,000 + 70,000 + 50,000  
+ 2,30,000 = ₹4,00,000

**19. (d):** Current Liabilities = Short-term borrowings  
+ Trade Payables  
+ Other current Liabilities  
+ Short-term Provisions  
Current Liabilities = 3,00,000 + 2,00,000 + 1,00,000  
+ 1,00,000 = ₹7,00,000

**20. (a):** Total under Assets Side = Non-current Assets  
+ Current Assets  
= 5,00,000 + 2,00,000  
= ₹7,00,000

## SOLUTIONS FOR SUBJECTIVE QUESTIONS

**1.** ₹40,00,000 (4,00,000 × ₹10) will be shown against 'Share Application Money Pending Allotment' and ₹10,00,000 (1,00,000 × ₹10) will be shown as 'Other Current Liabilities' under the head 'Current Liabilities'.

**2.**

S.No.	Items	Headings	Sub-Headings
(i)	Bank Overdraft	Current Liabilities	Short Term Borrowings
(ii)	Revaluation Reserve	Shareholder's Funds	Reserves and Surplus
(iii)	Capital Redemption Reserve	Shareholder's Funds	Reserves and Surplus
(iv)	Mining Rights	Non-Current Assets	Fixed Assets -Intangible
(v)	Patents	Non-Current Assets	Fixed Assets -Intangible
(vi)	Debit balance in Statement of P and L	Shareholder's Funds	Reserves and Surplus (as negative amount)
(vii)	Debenture Redemption Reserve	Shareholder's Funds	Reserves and Surplus
(viii)	Provision for Taxation	Current Liabilities	Short-term Provisions

**3.**

S.No.	Items	Headings	Sub-Headings
(i)	Sinking Fund	Shareholder's Funds	Reserves and Surplus
(ii)	Capital Redemption Reserve	Shareholder's Funds	Reserves and Surplus
(iii)	Bonds	Non-Current Liabilities	Long Term Borrowings
(iv)	Loans repayable on demand	Current Liabilities	Short-term Borrowings
(v)	Unpaid dividend	Current Liabilities	Other Current Liabilities
(vi)	Buildings	Non-Current Assets	Fixed Assets -Tangible
(vii)	Trademarks	Non-Current Assets	Fixed Assets – Intangible
(viii)	Raw Materials	Current Assets	Inventories

**4.**

S.No.	Items	Headings	Sub-Headings
(i)	Balance of Statement of Profit and Loss	Shareholder's Funds	Reserves and Surplus
(ii)	Loan of ₹1,00,000 payable after 3 years	Non-Current Liabilities	Long Term Borrowings
(iii)	Investment in Mutual Funds	Current Assets	Current Investments
(iv)	Loose Tools	Current Assets	Inventories
(v)	Trademarks	Non-Current Assets	Fixed Assets – Intangible
(vi)	Land	Non-Current Assets	Fixed Assets – Tangible



(vii)	Cash at Bank	Current Assets	Cash and Cash Equivalents
(viii)	Trade Payables	Current Liabilities	Trade Payables

5.

S.No.	Items	Headings
(i)	Provision for Employee Benefits	Non-Current Liabilities
(ii)	Unpaid Dividend	Current Liabilities
(iii)	Interest on Calls in Advance	Current Liabilities
(iv)	Patents	Non-Current Assets
(v)	Short Term Loans	Current Liabilities
(vi)	Trade Payables	Current Liabilities
(vii)	Stores and Spare Parts	Current Assets
(viii)	Goodwill	Non-Current Assets

6.

S.No.	Items	Sub-Headings
(i)	Accrued Income	Other Current Assets
(ii)	Loose Tools	Inventories
(iii)	Provision for Employee Benefits	Long-term Provisions
(iv)	Unpaid Dividend	Other Current Liabilities
(v)	Short-term Loans	Short-term Borrowings
(vi)	Long-term Loans	Long-term Borrowings

7.

S.No.	Items	Sub-Headings
(i)	Capital Reserve	Reserves and Surplus
(ii)	Bonds	Long-term Borrowings
(iii)	Loans Repayable on demand	Short-term Borrowings
(iv)	Vehicles	Fixed Assets- Tangible
(v)	Goodwill	Fixed Assets- Intangible
(vi)	Drafts on Hand	Cash and Cash Equivalents

8.

S.No.	Items	Headings
(i)	Bonus	Employee Benefit Expenses
(ii)	Internet Expenses	Other Expenses
(iii)	Materials Purchased	Cost of Materials Purchased
(iv)	Goodwill Amortized	Depreciation and Amortization Expenses

9.

S.No.	Items	Headings
(i)	Interest Paid on Debentures	Finance Costs
(ii)	Prior Period Expenses	Other Expenses
(iii)	Interest Earned	Revenue from Operations
(iv)	Profit on Sale of Investments	Revenue from Operations

10.

Items	Major Headings
(i) Long-term Investments	Non- Current Assets
(ii) Bills of Exchange	Current Assets
(iii) Motor Car	Non-Current Assets

(iv) Unpaid matured debentures and interest accrued thereon	Current Liabilities
(v) Securities Premium Reserve	Shareholder's Funds
(vi) Unclaimed Dividend	Current Liabilities
(vii) Security Deposits for Electricity	Non-Current Assets

## SOLUTION FOR HOMEWORK QUESTIONS

### SOLUTION FOR MCQ QUESTIONS

1. (c)	4. (b)	7. (b)	10. (c)	13. (a)	16. (b)	19. (d)	22. (b)	25. (a)	28. (a)
2. (b)	5. (b)	8. (c)	11. (c)	14. (a)	17. (d)	20. (a)	23. (b)	26. (b)	29. (c)
3. (d)	6. (c)	9. (a)	12. (c)	15. (c)	18. (d)	21. (b)	24. (a)	27. (a)	30. (a)

### SOLUTION FOR SUBJECTIVE QUESTIONS

1.

S.No.	Items	Headings	Sub-Headings
(i)	Proposed Dividend	-	To be shown as Contingent Liability in Notes to Accounts
(ii)	Calls in Arrears	Deducted from Subscribed but not fully paid up capital in shareholder's funds	
(iii)	Patents and Trade Marks	Non Current Assets	Fixed Assets – Intangible
(iv)	Prepaid Insurance	Current Assets	Other Current Assets
(v)	Outstanding Salary	Current Liabilities	Other Current Liabilities
(vi)	Shares in R.M.L Limited	Non-Current Assets	Non-Current Investments

2.

S.No.	Items	Headings	Sub-Headings
(i)	Forfeited Shares Account	Shareholder's Funds	Share Capital (Shown by way of adding it to subscribed capital)
(ii)	Capital Advances	Non-Current Assets	Long term loans and Advances
(iii)	Factory Building Under Construction	Non Current Assets	Fixed Assets – Capital Work in progress
(iv)	Premium on Redemption of Debentures	Non-Current Liabilities	Other Long-Term Liabilities
(v)	Shares in Wipro Ltd.	Non-Current Assets	Non-Current Investments
(vi)	Interest Accrued and due on Secured Loan	Current Liabilities	Other Current Liabilities
(vii)	Interest Accrued and due on Secured Loan	Current Liabilities	Other Current Liabilities
(viii)	Interest Accrued but not due on loan	Current Liabilities	Other Current Liabilities

3.

**Balance Sheet of ABC Ltd.**  
as at 31<sup>st</sup> March, 2019

Particulars	Note No.	Current Year 31st March, 2019 (₹)	Previous Year 31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds:</b>			
Reserves and Surplus	1	(3,50,000)	

Notes to Accounts:

Particulars		(₹)
<b>1. Reserves and Surplus:</b>		
General Reserve	4,00,000	
Surplus, i.e., Balance in Statement of Profit and Loss (Dr. Balance)	(7,50,000)	(3,50,000)

4.

**Statement of Profit and Loss of MNO Finance Ltd.**  
*for the year ended 31st March, 2019*

Particulars	Note No.	31st March, 2019 (₹)
<b>I. Revenue from Operations</b>	<b>1</b>	62,10,000
<b>II. Other Income</b>	<b>2</b>	30,00,000
<b>III. Total Revenue from Operations (I + II)</b>		<u>92,10,000</u>

Notes to Accounts:

Particulars	(₹)	(₹)
<b>1. Revenue from Operations</b>		
Commission received	10,000	
Interest on loans	60,00,000	
Dividend received	<u>2,00,000</u>	<u>62,10,000</u>
<b>2. Other Income</b>		
Profit on sale of land		<u>30,00,000</u>

5.

**Statement of Profit and Loss**  
*for the year ended 31st March, 2017*

Particulars	Note No.	31 <sup>st</sup> March, 2017 (₹)
<b>I. Revenue from Operations</b>	<b>1</b>	1,15,000
<b>II. Other Income</b>		35,000
<b>III. Total Revenue (I + II)</b>		<u>1,50,000</u>
<b>IV. Expenses:</b>	<b>2</b>	
Cost of Materials Consumed		12,500
Purchases of Stock-in-Trade		5,000
Changes in Inventories		22,500
Employees Benefit Expenses		10,000
Finance Cost		6,000
Depreciation		2,500
Other Expenses		<u>8,500</u>
		<u>67,000</u>
<b>V. Profit before tax (III - IV)</b>		<u>83,000</u>

Notes to Accounts:

Particulars	(₹)
<b>1. Other Income</b>	
Commission Received	35,000
<b>2. Other Expenses</b>	

Advertising expenses	8,500
----------------------	-------

6. Cost of Material Consumed = Opening inventory of material + Purchase of material – Closing inventory of material  
= 2,75,000 + 11,25,000 – 2,25,000  
= ₹11,75,000

7.

#### Notes to Accounts

Particulars	(₹)	(₹)
Change in Inventories of Finished Goods, WIP and Stock-in-Trade		
(a) <b>Finished Goods</b>		
Opening inventories	2,50,000	
Less: Closing Inventories	2,75,000	(25,000)
(b) <b>Work-in-Progress</b>		
Opening Inventories	2,25,000	
Less: Closing Inventories	2,12,500	12,500
(c) <b>Stock-in-Trade</b>		
Opening Inventories	3,25,000	
Less: Closing Inventories	3,00,000	25,000
Net change to be shown in Statement of Profit and Loss (a + b + c)		12,500

8.

#### Balance Sheet of Perfect Sports Ltd.

as at 31st March, 2017

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2016 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	2,00,000	
(b) Reserves and Surplus	2	1,20,000	
<b>2. Non-current Liabilities</b>			
(a) Long-term Borrowings	3	60,000	
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	4	10,000	
(b) Short-term Provisions	5	10,000	
<b>Total</b>		40,000	
<b>II. ASSETS</b>			
<b>1. Non-current Assets</b>			
(a) Fixed Assets (Tangible)	6	2,00,000	
(b) Non-Current Investments	7	1,00,000	
<b>2. Current Assets</b>			
(a) Inventories	8	80,000	
(b) Trade Receivables	9	10,000	
(c) Other Current Assets	10	10,000	
<b>Total</b>		4,00,000	

#### Notes to Accounts:

Particulars	(₹)
<b>1. Share Capital:</b>	
Subscribed and Paid-up Share Capital	2,00,000
<b>2. Reserves and Surplus:</b>	
Capital Redemption Reserve	1,20,000
<b>3. Long-term Borrowings:</b>	
10% Debentures	60,000
<b>4. Short-term Borrowings:</b>	
Short-term Loan from Bank	10,000
<b>5. Short-term Provisions:</b>	

Provision for Taxation	10,000
<b>6. Fixed Assets (Tangible):</b>	
Plant and Machinery	2,00,000
<b>7. Non-current Investments:</b>	
Shares in RXL Ltd.	1,00,000
<b>8. Inventories:</b>	
Stock-in-Trade	80,000
<b>9. Trade Receivables:</b>	
Bills Receivable	10,000
<b>10. Other Current Assets:</b>	
Prepaid Expenses	10,000

9. (a)

**Balance Sheet of X Ltd.**  
**as at 31st March, 2017 (Extract)**

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2016 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds:</b>			
(a) Share Capital	1	11,77,000	
(b) Reserves and Surplus	2	6,000	
<b>Total</b>		<b>11,83,000</b>	

**(b) Notes to Accounts:**

Particulars	(₹)
<b>1. Share Capital:</b>	
<i>Authorised Capital:</i>	
1,00,000 equity shares of ₹10 each	10,00,000
50,000, 9% preference shares of ₹10 each	5,00,000
	15,00,000
<i>Issued Capital:</i>	
90,000 equity shares of ₹10 each	9,00,000
50,000, 9% preference shares of ₹10 each	5,00,000
	14,00,000
<i>Subscribed Capital:</i>	
<i>Subscribed and fully paid up:</i>	
50,000, 9% preference shares of ₹10 each	5,00,000
<i>Subscribed but not fully paid:</i>	
84,500 equity shares of ₹10 each, ₹8 called-up	6,76,000
Less: Calls-in-arrears (1,000 × 2)	(2,000)
Add: Share Forfeited A/c (500 × 6)	3,000
	11,77,000
<b>2. Reserves and Surplus:</b>	
Capital Reserve	6,000

**10. Notes to Accounts**

Particulars	(₹)
<b>1. Reserves and Surplus</b>	
<b>(a) Debenture Redemption Reserve</b>	
Opening Balance	50,000
Add: Transfer from Statement of Profit and Loss	<u>2,00,000</u>
	2,50,000
<b>(b) General Reserve</b>	
Opening Balance	--
Add: Transfer from Statement of Profit and Loss	2,00,000
	2,00,000
<b>(c) Securities Premium Reserve</b>	
Opening Balance	1,00,000
Add: Transfer from Statement of Profit and Loss	1,50,000
	2,50,000
<b>(d) Surplus, i.e., Balance in Statement of Profit and Loss</b>	
Opening Balance	4,50,000

<i>Add:</i> Profit for the year	<u>2,50,000</u>	7,00,000	
<i>Less:</i> Appropriations			
Transfer to Debenture Redemption Reserve	2,00,000		
Transfer to General Reserve	2,00,000		
Transfer to Securities Premium Reserve	1,50,000		
		<u>(5,50,000)</u>	1,50,000
Balance of Reserves and Surplus [as shown in Balance Sheet: (a) + (b) + (d)]			<u>8,50,000</u>