

PART – 2
CHAPTER 03
FINANCIAL STATEMENTS OF A COMPANY

Question 1

State the meaning of financial statements?

Answer:

The preparation of the Financial Statements is done from the Trial Balance. They are responsible for depicting the true financial position of the business and they may further provide the valuable financial information to the users. The Financial statements include the following:

- Trading and Profit & Loss A/c or Income statement - This shows the financial performance by determining the profit or loss made by the business during an accounting year.
- Balance sheet – This showcases the financial position of the business by telling about the assets, liabilities and The capital as on a particular date.
- Cash flow statement – This is responsible for showcasing the inflow and outflow of the cash during a particular accounting period.

Financial statements are prepared from Trial Balance. They should present a true and fair view of the financial performance and financial position of a business. They provide valuable information to the users / stakeholders and aid them in decision making.

Question 2

What are the limitations of financial statements?

Answer:

The limitations of the financial statements are as follows:

- These can be manipulated in order to present the false picture of the organisation.
- There are different methods of accounting and there is the adoption of varied different kinds of accounting policies which can make it a complex task to compare the financial position of the business.
- It records only the monetary task and delivers no true picture of the qualitative position of the business. Hence the accounting ignores the qualitative aspects of any business.
- The transactions are recorded on the chronological basis at the historical cost of the transactions and hence it may not provide the valuable information that the user may want to achieve.
- The recording of the assets and the liabilities in the balance sheet do not adjust the inflationary impact of the assets and the liabilities. Hence the financial statements may present the distorted image of the organisation.
- There is a scope for the subjectivity and personal bias at the end of the user who may derive false information from the financial statements.

Question 3

List any three objectives of the financial statements.

Answer:

Following are the objectives of the preparation of the financial statements:

- They deal with providing the valuable information about the financial performance and position of any business to its users who are guided to take the relevant decisions. Thus they ensure the protection of the interests of the stakeholders who are directly or indirectly involved in the conduct of the business.
- They provide with the useful information to the external agencies and the regulatory authorities about the financial information to undertake the consideration of such financial information.
- They provide the necessary information about the prospects of the business in the future and is further useful in making the necessary predictions and forecasting. They are also helpful in making comparisons to determine the performance of the business.

Question: 4

State the importance of financial statements to :

- i. Shareholders**
- ii. Creditors**
- iii. Government**
- iv. Investors**

Answer:

Importance of financial statements:

Name	Importance and use of financial statements
Shareholders	They are interested in determining the profit earned by the company for an accounting period so as to determine the financial position of the business.
Creditors	They are concerned about the safety of their principal amount as well as interest which they are required to earn.
Government	The government may want to know about the information of the profitability of any business which can be ascertained in order to levy the taxes and further meet other regulatory requirements.
Investors	The investors may be interested knowing about the financial position of the business so as to determine the solvency and the earning capacity of the business.

Question 5

How will you disclose the following items in the Balance Sheet of a company:

(i) Loose Tools

(ii) Uncalled liability on partly paid-up shares

(iii) Debentures Redemption Reserve

(iv) Mastheads and publishing titles

- (v) 10% debentures**
- (vi) Proposed dividends**
- (vii) Share forfeited account**
- (viii) Capital Redemption Reserve**
- (ix) Mining Rights**
- (x) Work-in-progress**

Answer:

Name	Disclosure in Balance sheet
Loose tools	Assets - Inventories
Uncalled liability on partly paid up shares	Contingent liabilities and commitments
Debenture redemption reserve	Liabilities - Reserves and Surplus
Mastheads and publishing titles	Assets – Intangible assets
10% debentures	Liabilities – Long-term borrowings
Proposed dividend	Contingent liabilities and commitments
Share forfeited account	Liabilities – Share capital
Capital redemption reserve	Liabilities - Reserves and Surplus
Mining rights	Assets – Intangible assets
Work in progress	Assets – Non-current assets – Fixed assets

Question 6

Explain the nature of the financial statements.

Answer:

Financial statements are responsible for reflecting upon the financial position and the performance of the business on the given date. They are recorded through the various records of the monetary transactions which are prepared in the chronological manner. These hence provide the periodical review and report of the progress which is made by the business. They hence reflect the combination of accounting principles, recorded facts and personal judgements.

1. **Recorded Facts:** The financial statements accounts in the books the original cost of the various transactions and further provides the evidence of the historical transactions. The financial statement thus reflects upon the records of the transactions when the adjustments of many transactions are not made on them.

2. **Accounting Conventions:** The preparation of the financial statements are made on the basis of certain accounting conventions which are as follows:

- The inventories are based on the value of either the cost or the market price, whichever is lower.
- The value of the fixed assets is shown at the price which deducts the cost of the depreciation. This written down value method is shown in the Balance Sheet.

- For the accounting of small items such as pens, pencils etc, the concept of materiality is followed They are charged-off as the expenditure of the revenue nature in the profit and loss account despite of the fact that they are assets.

These conventions are followed in accounting which makes the financial statements simple, comparable and realistic.

Postulates: Postulates are the certain accounting assumptions which are made in the preparation of the financial statements. These are as follows:

- Going concern postulate: As per this, any business will not stop its operations with the intention of closing in the near future. This is known as going concern. Hence the value of the assets is recorded in the books at historical cost instead of recording them into their realisable values.
- Money measurement postulate: This concept entails the assumption that all the events which can be measured in money must be recorded in the books of accounts at their original cost instead of recording them into their inflationary changes.
- Realisation postulate: This postulate entails the concept of accrual instead of receipt. For e.g. if the sales occur during the period which is considered as revenue in that year itself even though the actual receipt for the same may be received in a further different year.
- Personal Judgements: As per this postulate the facts and the figures which are presented in the financial statements are based upon the number of assumptions.

The examples of this include the concept of depreciation which considers the fact that the cost of the asset decreases with the increase in time. Hence, the financial statements can be said to be the summarised reports instead of merely being the record of the facts which are prepared from the accounting concepts and conventions.

Question 7

Explain in detail about the significance of the financial statements.

Answer:

Following are the significance and importance of the Financial Statements:

- **Importance to Management:**

Financial information is of importance to the management as they have to derive the information from them in order to take the management decisions which is necessary to ensure the success of the organisation. The management must be thus updated with the accurate information of the organisation from time to time so that they can make measurements of the operations of the business.

- **Importance to the Shareholders:**

The financial information is of importance to the shareholders of the organisation as they have to take varied decision about the organisation and its related aspects. The shareholders are interested in knowing their financial position of the business as they may want to determine their decision about the investment. The management may be

interested in knowing the financial position of the business also in order to determine the decisions they have to take at the annual general meetings.

- Importance to potential investors:

The Prospective shareholders or the potential investors may be interested in knowing the financial position of the business in order to base their decision to make a probable investment in the business. They thus analyse the profitability of the business and determine the earning capacity of the business before making any investments.

- Importance to Lenders/Creditors:

The creditors and the lenders have to know about the financial position of the business in order to make the lending. Thus, all the banks, financial institutions and creditors are interested in knowing the repayment capacity of the business and thus the position of the liquidity of the business.

- Importance to the employees:

Any organisation to make the bonus to its employees and thus the employees must be satisfied of the financial position of the business in order to meet their satisfaction and pertain their growth in the organisation.

- Importance to the Public:

The financial statements of any company has to be used by the varied groups of society, analysts, lawyers etc. who might be interested in knowing the position of the business. Hence the financial statements satisfy their needs.

- Importance to the Nation:

The success of the corporate sector of the country is essential to determine the success of the economy of the

country. There are various instances of corporate scams where the accounts are manipulated to depict the false position of the business and conduct varied kinds of fraudulent activities. Hence the accurate financial statements are imperative to determine the true position of the business and thus facilitate the success of the economy. The financial statements are further required by the law and the regulatory agencies of the country who have to determine the legality of the operations of the business and hence the financial statement allows such regulatory agencies to satisfy their needs.

Question 8

Explain the limitations of financial statements.

Answer:

The limitations of the financial data are as follows:

- **Manipulation of data:**
There is always the possibility that the financial data represent the inaccurate position of the business so that they cover the weak financial position of the business. Thus the information provided by the financial information may be inaccurate which is manipulated such as to depict the false position of the business.
- **Usage of the diverse methods:**
Various different methods of accounting are followed which differs from organisation to organisation and

hence it may be difficult at the times to depict the true financial position of the business and further make comparisons between two or more than two organisations.

- **Qualitative aspects ignored:**
It factors only the monetary transactions by ignoring the qualitative aspects and standards. This may hence lead the lack of the true position o the business.
- **Historical information:**
The financial information can be said do not depict the true financial position of the business as it merely records the historical transactions in the books and thus lacks the various important information about the future prospects of the business.
- **Inflationary changes:**
The assets and liabilities which are showcased in the balance sheet do not adjusted the inflationary impact of varies transactions and hence they showcase the distorted information and figures which is inaccurate for the analysis on varied grounds. For example the price level change of the raw material from the previous accounting year is not recorded ad mentioned in the financial statements.
- **Subjectivity and bias:**
The analysis and the conclusions made from the financial information are based on the personal bias of

the individual and hence the derivation of the information of the financial position of the business depends upon the ability and bias of an individual.

Question 9

Prepare the format of statement of profit and loss and explain its items.

Answer:

Format of statement of profit and loss:

Trading and Profit and Loss
Account of for the year ended

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<i>Expenses/Losses</i>	<i>Amount Rs.</i>	<i>Revenues/Gains</i>	<i>Amount Rs.</i>
Opening stock Purchases <i>less</i> return Direct expenses: Carriage on goods purchased Wages Fuel & Power Manufacturing expenses		Sales <i>less</i> return Closing stock	

Gross profit c/d			
Indirect			
expenses:			
Carriage on sales		Gross profit b/d	
Advertisement		Interest on investment	
Salaries		Discount on purchases	
Packing material			
Rent paid			
Interest paid			
Commission paid			
Repairs to plant			
Incidental trading expenses			
Sales tax paid			
Discount allowed			
Net profit (transferred to capital account)			

The different items appearing in the trading and profit and loss account are explained hereunder:

Items on the debit side

- (i) *Opening stock*: This is the stock of goods which has been carried forward from the previous year. This remains unchanged during the year and is reflected in the trial balance. It is the stock of goods in hand at the beginning of the accounting year. In the trading account it appears on the debit side. It forms the part of cost of goods sold for the current accounting year.
- (ii) *Purchases less returns*: Goods, which have been bought for resale appears as purchases on the debit side of the trading account. Both Cash and credit purchases are shown under this head. Out of these goods when some are returned back to the sellers they are termed as purchases returns. Purchase Returns are usually shown as a deduction from purchases and amount so obtained is known as *Net purchases*.
- (iii) *Wages*: Amount paid to workers who are directly engaged in production of goods is called Wages. Wages are debited to trading account.
- (iv) *Carriage inwards/Freight inwards*: Expenses which are incurred on shipping and handling materials/goods purchased to the company premises is called Carriage/Freight inwards. They are generally pertained to bringing the purchased goods to the business premises and are debited to the trading account.
- (v) *Fuel/Water/Power/Gas*: These are items used in the course of the production process and hence forms a part of production expenses.
- (vi) *Packaging material and packing charges*: Packing cost consists of material used in packing and also labour cost involved in it. When packing of good is vital without

which the goods cannot be supplied in such case packing cost becomes a part of the cost of goods sold. For example, in case of drinking water without packing it cannot be sold. When packing is just to boost up the look of the goods sold then such packing cost is shown in Trading and Profit and loss account as it is an indirect expense.

- (vii) *Salaries*: This cost is an indirect expense paid to the employees in administration, sales and marketing departments who are much needed for the smooth operation of business though not involved in production process. Even perquisites like mediclaim facility, food and accommodation provided for free should also be treated as salaries and hence shown in debit side of the profit and loss account.
- (viii) *Rent paid*: Rent paid for use of factory, office premises, warehouse/ godowns and associated rates and taxes are booked under this head. This expense is debited in Trading and Profit and Loss account.
- (ix) *Interest paid*: Interest expense like Interest paid to banks on loans and overdraft facility and other financial institutions is debited under this head in profit and loss account.
- (x) *Commission paid*: A business may have some agents working for them. Payments made to them are termed as Commission. Commission is an expense and is shown in debit side of profit and loss account.
- (xi) *Repairs*: Repairs, small renewals and replacements are expenses incurred to keep assets like plant and machinery, furniture, fixtures, fittings, etc. in working

condition. These expenses are debited to the Trading and Profit and loss account.

- (xii) *Miscellaneous expenses*: Though there are various heads for different expenses, a business has some small expenditure clubbed together which is termed as miscellaneous expenses. These are called as the Sundry expenses or the Trade Expenses in the normal usage.

Items on the credit side

- (i) *Sales less returns*: In Trial balance sales figure comprises of cash and credit sales. It is credited to the trading account. Out of these some goods returned may be returned by customers and they are called as Sales return or returns inwards. Sales return is deducted from total sales and the amount so obtained is known as net sales.
- (ii) *Other incomes*: Apart from main source of income i.e. sales, other incomes are also recorded in the credit side of the profit and loss account. Examples of such incomes are rental income, dividend income, interest income, commission received, discount received, etc.
- (iii) *Closing stock*: This is the stock which remains at the end of the accounting year and is shown in the credit side of the profit and loss account. This stock is reduced from the cost of goods sold since remains as a balance without being used. This forms the opening stock for the next financial year.

Questions 10

Prepare the format of balance sheet and explain the various elements of balance sheet.

Answer:

Format of Balance sheet:

Balance Sheet ofas at

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Capital		Furniture	.....
Add .....	.....	Cash	.....
Profit			
Long-term loan	.....	Bank	.....
Short-term loan		Goodwill	.....
Sundry creditors	.....	Sundry debtors	.....
Bills payable		Land and Buildings	
Bank overdraft	xxxx	Closing stock	xxxx

Items which are generally included in a balance sheet are explained below:

- (1) *Current Assets*: Current assets are those which are either in the form of cash or can be converted into cash within a year. The examples of current assets are cash in

hand, cash at bank, bills receivable, inventories, sundry debtors, short term investments, prepaid expenses, etc.

- (2) *Current Liabilities*: Current liabilities are those liabilities which are expected to be paid within a year and which are usually to be paid out of current assets. The examples of such liabilities are bank overdraft, bills payable, sundry creditors, short-term loans, outstanding expenses, etc.
- (3) *Fixed Assets*: Fixed assets are those assets, which are held on a long-term basis in the business. Such assets are not acquired for the purpose of resale, e.g. land, building, plant and machinery, furniture and fixtures, etc. Sometimes the term 'Fixed Block' or 'Block Capital' is also used for them.
- (4) *Intangible Assets*: These are such assets which cannot be seen or touched. Goodwill, Patents, Trademarks are some of the examples of intangible assets.
- (5) *Investments*: Investments represent the funds invested in government securities, shares of a company, etc. They are shown at cost price. If suppose the NAV of investments is lower than the cost price on the date of balance sheet, a footnote may be made in the balance sheet.
- (6) *Long-term Liabilities*: All liabilities other than the current liabilities are known as long-term liabilities. Such liabilities are usually payable after one year of the date of the balance sheet. The important items of long-term liabilities are long-term loans from bank and other financial institutions.

(7) *Capital*: Capital is the amount initially contributed by the proprietor/owner in the business which is further increased by profits and interest on capital and decreased by losses drawings and interest on drawings.

(8) *Drawings*: Amount withdrawn by the proprietor is termed as drawings and has the effect of reducing the balance on his capital account. Therefore, the drawings account is closed by transferring its balance to his capital account. However, it is shown by way of deduction from capital in the balance sheet.

Question 11

Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking?

Answer:

The financial instruments are useful to various parties in the following manners:

<i>Name</i>	<i>Internal/ External users</i>	<i>Objective for participating in business</i>	<i>Accounting Information requirements</i>
Shareholders	Internal	They provide the capital and the investment in the business.	They require the accounting information in order to determine the Profitability of the

<i>Name</i>	<i>Internal/ External users</i>	<i>Objective for participating in business</i>	<i>Accounting Information requirements</i>
			business , Dividend and Earnings of the company and the position of solvency position of the company
Management	Internal	They deal with the routine day-to-day affairs of the business.	They may require the periodic information to determine the profitability and the financial position of the business. It also serves them with the scope of varied analysis which allows them to take the further course of action
Government	External	Regulatory authority	They levy taxes based upon the position and the profitability of the business and hence

<i>Name</i>	<i>Internal/ External users</i>	<i>Objective for participating in business</i>	<i>Accounting Information requirements</i>
			they require the financial information of the business. They also asses that the business is meeting the compliance standards set up by the stature of law, the purpose of which is served through such information.
Prospective investor	External	The potential investor who may invest into the business.	The potential investors are interested in knowing about the various aspects and the areas such as the profitability, earning capacity and the future prospects of business

<i>Name</i>	<i>Internal/ External users</i>	<i>Objective for participating in business</i>	<i>Accounting Information requirements</i>
Bank	External	Bank are interested in knowing about the safety of the principal amount which they have lent to the organisation and further may want to know about the periodical interests which are to be paid on the loans made by the banks.	The banks are interested in profitability and the capacity of earning, especially when they are to offer loans and credits. This hence requires them to know and inquire about the financial capacity of the business.
Trade creditors	External	They supply the goods on credit to our business.	They may be interested in knowing about the liquidity of the business in order to

<i>Name</i>	<i>Internal/ External users</i>	<i>Objective for participating in business</i>	<i>Accounting Information requirements</i>
			trust them for paying the due sum in the due time.
Employees	Internal	Employees are crucial to the success of the organisation and they help the company to run its business.	The employees might be interested in knowing about the profitability of the business. They may hence look upon their prospects of hike and bonus and thus may be able to negotiate and deal better with the organisations.
Customers	External	Customers are considered to be the backbone of any business who wish to buy the	The customers might be interested in knowing whether the company will exist and maintain its stability.

<i>Name</i>	<i>Internal/</i>	<i>Objective for</i>	<i>Accounting</i>
	<i>External</i>	<i>participating</i>	<i>Information</i>
	<i>users</i>	<i>in business</i>	<i>requirements</i>
		product of our company.	

Question 12

Financial statements reflect a combination of recorded facts, accounting conventions and personal judgments'. Discuss.

Answer:

Financial statements are responsible for reflecting upon the financial position and the performance of the business on the given date. They are recorded through the various records of the monetary transactions which are prepared in the chronological manner. These hence provide the periodical review and report of the progress which is made by the business. They hence reflect the combination of accounting principles, recorded facts and personal judgements.

1. Recorded Facts: The financial statements accounts in the books the original cost of the various transactions and further provides the evidence of the historical transactions. The financial statement thus reflects

upon the records of the transactions when the adjustments of many transactions are not made on them.

2. Accounting Conventions: The preparation of the financial statements are made on the basis of certain accounting conventions which are as follows:

- The inventories are based on the value of either the cost or the market price, whichever is lower.
- The value of the fixed assets is shown at the price which deducts the cost of the depreciation. This written down value method is shown in the Balance Sheet.
- For the accounting of small items such as pens, pencils etc, the concept of materiality is followed. They are charged-off as the expenditure of the revenue nature in the profit and loss account despite of the fact that they are assets.

These conventions are followed in accounting which makes the financial statements simple, comparable and realistic.

3. Postulates: Postulates are the certain accounting assumptions which are made in the preparation of the financial statements. These are as follows:

- Going concern postulate: As per this, any business will not stop its operations with the intention of closing in the near future. This is known as going concern. Hence the value of the assets is recorded in the books at historical cost instead of recording them into their realisable values.

- Money measurement postulate: This concept entails the assumption that all the events which can be measured in money must be recorded in the books of accounts at their original cost instead of recording them into their inflationary changes.
 - Realisation postulate: This postulate entails the concept of accrual instead of receipt. For e.g. if the sales occur during the period which is considered as revenue in that year itself even though the actual receipt for the same may be received in a further different year.
4. Personal Judgements: As per this postulate the facts and the figures which are presented in the financial statements are based upon the number of assumptions. The examples of this include the concept of depreciation which considers the fact that the cost of the asset decreases with the increase in time. Hence, the financial statements can be said to be the summarised reports instead of merely being the record of the facts which are prepared from the accounting concepts and conventions.

Question 13

Explain the process of preparing income statement and balance sheet.

Answer:

Format of the statement of profit and loss:

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<i>Expenses/Losses</i>	<i>Amount Rs.</i>	<i>Revenues/Gains</i>	<i>Amount Rs.</i>
Opening stock		Sales less	
Purchases less		return	
return		Closing stock	
Direct			
expenses:			
Carriage on			
goods			
purchased			
Wages			
Fuel & Power			
Manufacturing			
expenses			
Gross profit c/d			
Indirect			
expenses:			
Carriage on			
sales			
Advertisement			
Salaries			
Packing			
material			
		Gross profit b/d	
		Interest on	
		investment	
		Discount on	
		purchases	

Rent paid			
Interest paid			
Commission paid			
Repairs to plant			
Incidental trading expenses			
Sales tax paid			
Discount allowed			
Net profit (transferred to capital account)			

The different items appearing in the trading and profit and loss account are explained hereunder:

Items on the debit side

(xiii) *Opening stock*: Opening Stock is referred to as the stock of the goods which has been carried forward from the previous year. It remains unaffected throughout the year and hence its amount is reflected in the Trial Balance. It appears on the debit side of the Trading Account. It is a part of the cost of the goods sold for the current accounting year.

(xiv) *Purchases less returns*: These are referred to as the return made the business of the purchases of the goods from the entities they were bought. They are shown as the deductions made from the figures of the purchases

which include the amount of both the credit and the cash purchases. This hence leads the determination of the net Purchases.

- (xv) *Wages*: Wages are referred to as the amount which is paid to the workers engaged in the direct manner to produce the goods for the business. The wages are shown in the debit side of the trading account.
- (xvi) *Carriage inwards/Freight inwards*: The expenses which are made on the handling and the shipping of the goods which are purchased by any business. They are hence made in order to bring the goods in the premises of the business and hence are shown as the debit made in the trading account.
- (xvii) *Fuel/Water/Power/Gas*: These are the expenses which are made on the water, fuel, power and gas which the business incurs while preparing the goods.
- (xviii) *Packaging material and packing charges*: The Packing cost are the cost that the business incurs during the packing of the goods and which includes the material cost of packing as well as the labor costs involved. They are included in the cost of the goods sold in some cases in which the packing is the routine part of the business activity. The example for the same can be a biscuit company who packages their products mandatorily. In some other cases the packaging is shown as the indirect cost in the Trading and the Profit and the Loss Account.
- (xix) *Salaries*: Salary is an indirect expense made by the organisation to the employees of the organisation. All other and perquisites such as the facility of Mediclaim,

food and accommodation. These are shown in the debited side of the Profit and Loss account.

- (xx) *Rent paid:* The amount of rent which is paid for use of factory, office premises etc. are covered under this head. Such an expense is debited in Trading and Profit and Loss account.
- (xxi) *Interest paid:* It is the expense made by the organisation to the bank or the loans or the overdraft facility provided by the banks. It is debited in the profit and the loss account.
- (xxii) *Commission paid:* A business may be required to pay various kinds of commissions in order to get the work of the business done through agents. The Payments which are made to them are known as Commission. It is an expense and hence is shown in the debit side of the profit and loss account.
- (xxiii) *Repairs:* The expenses made on the repairs, replacements, small renewals which are made to keep the assets such as plant, furniture etc. in their working conditions. These are hence debited in the Trading and Profit and loss account.
- (xxiv) *Miscellaneous expenses:* These are the expenses which are made by the business which clubs together the various expenses and expenditures of the small nature. These are also called as the Sundry expenses or the Trade Expenses.

Items on the credit side

- (i) *Sales less returns:* The Trial balance comprises of the cash and the credit sales in the Sales figure. The sales are

further credited in the Trading Account. However out of the goods sold by the organisation, there may be some goods which may come back to it as the returns made by the customers. These are referred as the return inwards or the sales return. The sales return is thus made in the books by deducting the amount of it from Sales to arrive at the amount of the Net Sales.

- (ii) *Other incomes*: These are referred to the incomes which the organisation earns apart from the main source of the income which is sales. Other incomes are hence recorded in the side of credit of the profit and loss account. The examples of such incomes are dividend received, interest received etc.
- (iii) *Closing stock*: Closing stock is the stock which is remaining at the end of the year and is shown in the credit side of the profit and loss account. It reduces the stock from the cost of the goods sold as it depicts the remaining balance of the stock which remains with the organisation in the end of the accounting year. It thus informs about the opening stock of the next financial year.

Format of Balance sheet:

Balance Sheet ofas at

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Capital		Furniture	.....
Add Profit <u>.....</u>		Cash	.....

Long-term loan	.....	Bank	.....
Short-term loan		Goodwill	.....
Sundry creditors	.....	Sundry debtors	.....
Bills payable		Land and Buildings	
Bank overdraft		Closing stock	
	XXXX		XXXX

Items which are generally included in a balance sheet are explained below:

- (i) *Current Assets:* The Current assets of any organisation are considered to be those assets which in the form of cash or have the tendency to be converted into cash within the duration of one year. The examples of current assets include cash in hand, bills receivable, cash at bank, sundry debtors, inventories, short term investments, etc.
- (ii) *Current Liabilities:* The current liabilities of the organisation are considered to be those liabilities which are expected to be paid within a year and further they are paid by the current assets of the organisation. The examples of such liabilities include bills payable, bank overdraft, sundry creditors, outstanding expenses, etc.

- (iii) *Fixed Assets*: Fixed assets are considered to be those assets of any organisation which are held by it for a long-term basis. They are not meant for the purpose of resale. Examples of fixed assets include land, furniture and fixtures, building, plant and machinery, etc.
- (iv) *Intangible Assets*: Intangible assets are considered to be those assets of the organisation which cannot be touched or seen. The example of these are Goodwill, Patents, Trademarks etc.
- (v) *Investments*: Investments are considered to be the amounts or funds which are invested by the organisation in the form of the government securities, shares of a company, etc. These are shown at the cost price in which they are made by the organisation.
- (vi) *Long-term Liabilities*: Long term liabilities are all the liabilities of the organization which are usually payable after one year of the date of the balance sheet. All liabilities of the organisation which are other than the current liabilities can be regarded as the long-term liabilities of any business. Examples of such liabilities are loan taken from bank.
- (vii) *Capital*: Capital is referred to as the amount which is contributed in the initial manner by the owner of the business. This is further increased by the increase in the profits and the interest on capital and thus decreased with the losses on drawings and the interest on drawings.

(viii) *Drawings*: Drawings are referred to as the amount which is withdrawn by the owner of the organization. The effect of this is the reduction in the balance of the capital account. In the balance sheet this is shown as the reduction from the capital.

Question 14

Show the following items in the balance sheet as per the provisions of the Companies Act, 2013 in Schedule III:

Particulars	Rs.	Particulars	Rs.
Preliminary Expenses	2,40,000	Good will	30,000
Discount on issue of shares	20,000	Loose tools	12,000
10% Debentures	2,00,000	Motor Vehicles	4,75,000
Stock in Trade	1,40,000	Provision for tax	16,000
Cash at bank	1,35,000		
Bills receivable	1,20,000		

Balance Sheet as on ...

	Not e No.	Amount	Amount
Particulars			

	(Current year)	(Previous year)
<u>I. EQUITY AND LIABILITIES</u>		
(1) Shareholder's Fund :		
(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	200000	
(d) Long-term provisions		
(4) Current liabilities		
(a) Short-term borrowings		
(b) Trade payables		

(c) Other current liabilities		
(d) Short-term provisions	16000	
TOT		
AL		
<u>II. ASSETS</u>		
Non-current		
assets		
(1) (a) Fixed assets		
(i) Tangible assets	487000	
(ii) Intangible assets	30000	
(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	260000	
(2) Current assets		

(a) Current investments			
(b) Inventories		140000	
(c) Trade receivables		120000	
(d) Cash and cash equivalents		135000	
(e) Short-term loans and advances			
(f) Other current assets			
	TOT		
AL			

Question 15

On 1st April, 2017, Jumbo Ltd. issued 10,000; 12% debentures of Rs. 100 each at a discount of 20%, redeemable after 5 years. The company decided to write-off discount on issue of such debentures over the life time of the Debentures. Show the items in the balance sheet of the company immediately after the issue of these debentures.

Balance sheet of Jumbo Ltd. as on 01.04.17					
Liabilities	Amount	Amount	Asset	Amount	Amount

12 % Debentures (12000 each @ Rs.100)		1200 000	Bank (12000 each @ Rs.80)		9600 00
			Misc. Asset Discount on issue of debentures		2400 00
		1200 000			1200 000

Question 16

From the following information prepare the balance sheet of Gitanjali Ltd., as per the (Revised) Schedule VI:

Inventories Rs. 14,00,000; Equity Share Capital Rs. 20,00,000; Plant and Machinery Rs. 10,00,000; Preference Share Capital Rs. 12,00,000; Debenture Redemption Reserve Rs. 6,00,000; Outstanding Expenses Rs. 3,00,000; Proposed Dividend Rs. 5,00,000; Land and Building Rs. 20,00,000; Current Investments Rs. 8,00,000; Cash Equivalent Rs. 10,00,000; Short term loan from Zaveri Ltd. (A Subsidiary Company of Twilight Ltd.) Rs. 4,00,000; Public Deposits Rs. 12,00,000.

Balance sheet of Gitanjali Ltd. as on 31.03.2017					
Liabilities	Amo unt	Amo unt	Asset	Amo unt	Amo unt
Equity Share Capital		2000000	Land & Building		2000000
Preference share capital		1200000	Plant & Machinery		1000000
Debenture redemption reserve		600000			1400000
Public deposits		1200000	Inventories		800000
Short term loans		400000	Current Investments		1000000
Outstanding expenses		300000	Cash equivalents		6200000
Proposed Dividend (Payable)		500000			
		6200000			6200000

Question 17

From the following information prepare the balance sheet of Jam Ltd. as per the (revised) Schedule VI:

Inventories Rs. 7,00,000; Equity Share Capital Rs. 16,00,000; Plant and Machinery Rs. 8,00,000; Preference Share Capital Rs. 6,00,000; General Reserves Rs. 6,00,000; Bills payable Rs. 1,50,000; Provision for taxation Rs. 2,50,000; Land and Building Rs. 16,00,000; Noncurrent Investments Rs. 10,00,000; Cash at Bank Rs. 5,00,000; Creditors Rs. 2,00,000; 12% Debentures Rs. 12,00,000.

Balance sheet of Jam Ltd as on 31.03.2017					
Liabilities	Amo unt	Amo unt	Asset	Amo unt	Amo unt
Equity Share Capital		1600000	Land & Building		1600000
Preference share capital		600000	Plant & Machinery		800000
		1200000			700000
Debentures		000	Inventories		00
General reserve		600000	Non -current investments		1000000
Provision for taxation		250000			500000
		150000	Cash at Bank		00
Bills Payable		00			
		200000			
Creditors		00			

		4600 000			4600 000

Question 18

Prepare the balance sheet of Jyoti Ltd. as at March 31, 2017 from the following information:

Building Rs. 10,00,000; Investments in the shares of Metro Tyers Rs. 3,00,000; Stores & Spares Rs. 1,00,000; Discount on issue of 10% debentures Rs. 10,000; Statement of Profit and Loss (Dr.) Rs. 90,000; 5,00,000 Equity Shares of Rs. 20 each fully paid-up; Capital Redemption Reserve Rs. 1,00,000; 10% Debentures Rs. 3,00,000; Unpaid dividends Rs. 90,000; Share options outstanding account Rs. 10,000.

Balance sheet of Jyoti Ltd as on 31.03.2017					
Liabilities	Amo unt	Amo unt	Asset	Amo unt	Amo unt
Equity shares of Rs.20 each		1000 000	Building		1000 000
10% Debentures		3000 00	Investment s		3000 00
Capital redemption reserve		1000 00	Closing stock		1000 00

Share options Outstanding	10000	Profit & Loss A/c	90000
Unpaid dividends	0	Misc Asset	
		Discount on issue of Debentures	10000
	150000		150000

Question 19

Brinda Ltd. has furnished the following information:

- (a) 25,000, 10% debentures of Rs. 100 each.**
- (b) Bank Loan of Rs. 10,00,000 repayable after 5 years.**
- (c) Interest on debentures is yet to be paid.**

Show the above items in the balance sheet of the company as at March 31, 2017.

Question 20

Prepare a balance sheet of Black Swan Ltd., as at March 31, 2017 from the following information:

General Reserve	:	3,000
10% Debentures	:	3,000
Statement of Profit & Loss	:	1,200
Depreciation on fixed assets	:	700
Gross Block	:	9,000

Current Liabilities	:	2,500
Preliminary Expenses	:	300
6% Preference Share Capital	:	5,000
Cash & Cash Equivalents	:	6,100

Balance sheet of Black Swan Ltd as on 31.03.2017					
Liabilities	Amount	Amount	Asset	Amount	Amount
6% Preference share Capital		5000	Fixed Assets		
10% Debentures		3000	Gross Block	9000	
General Reserve		3000	Less: Depreciation	700	8300
Profit & Loss A/c		1200			
Current Liabilities		2500	Cash & Bank balances		6100
			Preliminary expenses		300
		14700			14700