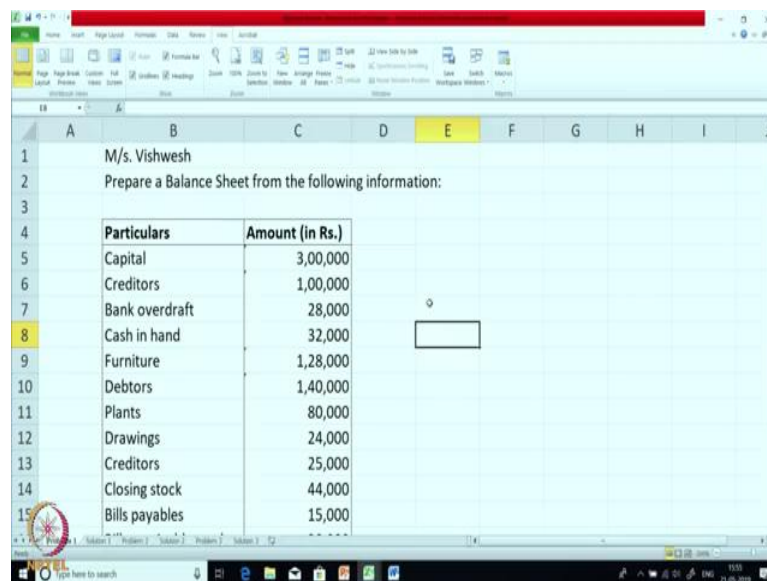


**Financial Accounting**  
**Prof. Varadraj Bapat**  
**School of Management**  
**Indian Institute of Technology, Bombay**

**Lecture – 05**  
**Balance Sheet 3**

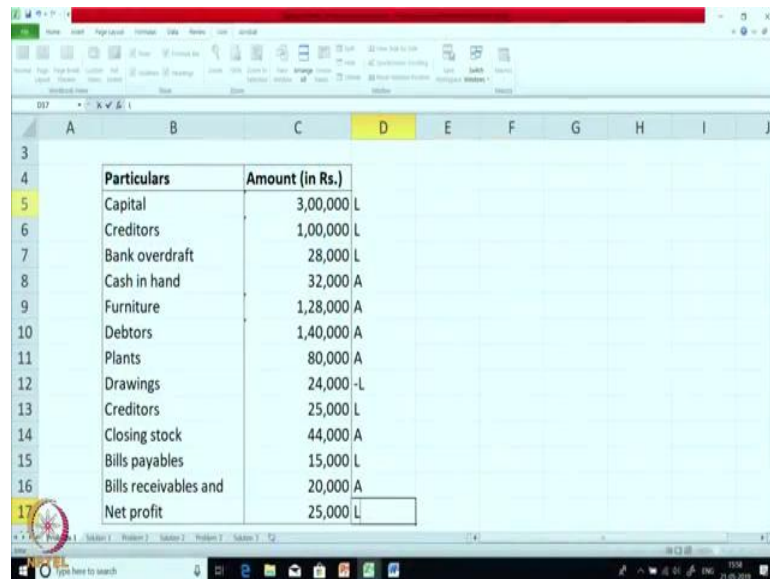
Namaste we have already discussed format of Balance Sheet. So, you know that amongst the financial statements balance sheet has a very important role and it shows the financial position as at a particular date. Now let us do a small case or a problem where we will try to prepare the balance sheet from given balances, later on we will do it for a company in a company format, but this is a small exercise which wherein we will not emphasize too much on format. We will just try to prepare the basic structure of balance sheet you have a printout of this so, have a look at it and try to solve the case along with me.

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Particulars	Amount (in Rs.)
Capital	3,00,000
Creditors	1,00,000
Bank overdraft	28,000
Cash in hand	32,000
Furniture	1,28,000
Debtors	1,40,000
Plants	80,000
Drawings	24,000
Creditors	25,000
Closing stock	44,000
Bills payables	15,000

(Refer Slide Time: 01:16)



Particulars	Amount (in Rs.)
Capital	3,00,000 L
Creditors	1,00,000 L
Bank overdraft	28,000 L
Cash in hand	32,000 A
Furniture	1,28,000 A
Debtors	1,40,000 A
Plants	80,000 A
Drawings	24,000 -L
Creditors	25,000 L
Closing stock	44,000 A
Bills payables	15,000 L
Bills receivables and	20,000 A
Net profit	25,000 L

Now, this is a balance sheet they have given list of balances and from this you are required to prepare a balance sheet. So, how shall we go about? We know there are two sides of balance sheet one represents liabilities and the other represents assets, liabilities are the way the money has been sourced and assets are the resources which are required for the business. So, for each and every item go on marking it as a asset item or a liability item.

For example capital, where will you capital be recorded, where will you take it? This is a liability item so, mark it as L like that try to mark each and every item. So, creditors is what type of item? Creditors represent the payables for our supply somebody has supplied us good and we have to pay them right now it is a liability so, we will mark it as L. Bank overdraft here the bank has allowed us to draw excess beyond our balance again it is one more liability so, L cash in hand this is A, furniture A, debtors these are receivables from customers so, this is A.

Plant and machinery or plant it is A, drawings so, money is put in by the owners that is capital if they take out the money from the business it is called as a drawing. So, this is not exactly asset, but we will mark it as minus L. So, it is a L item, but it should be reduced from L system is not allowing me to mark it that way. Now I think its fine creditors; creditors also represent, closing stock this is S, bills payable is a liability.

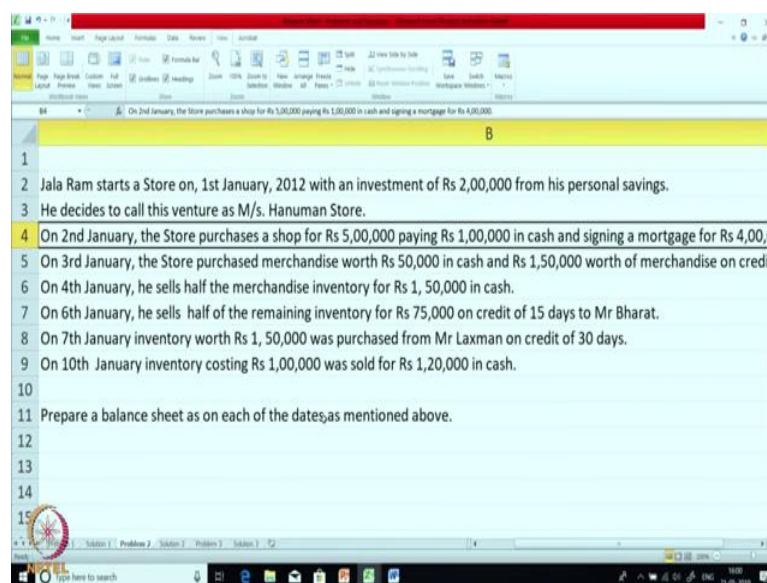
Bills receivables and maybe other assets, but it is an asset and net profit is it an asset or liability should it be written in the balance sheet, net profit or reserves represents the

accumulated profit of the undertaking. So, it is one of the liabilities, it belongs to the owners we will add it to the owners funds, but right now mark it as liability. So, we have marked all the items now based on this prepare the balance sheet you can do the exercise on your own you can halt the pause the video here and prepare the balance sheet and then we will check the solution. So, ready with the solution.

	A	B	C	D	E	F	G	H	I	J
1				<b>Balance Sheet</b>						
2										
3				<b>Liabilities</b>	<b>R₹</b>	<b>Assets</b>	<b>R₹.</b>			
4				Capital	3,00,000	Plant	80000.00			
5				Less: Drawings	-24,000	Furniture	128000.00			
6					276000	Debtors	140000.00			
7				Creditors	100000	Closing stock	44000.00			
8				Bank overdraft	28,000	Bills receivables	20000.00			
9				Bills payables	15,000	Cash in hand	32000.00			
10				Creditors	25,000					
11					<b>444000</b>		<b>444000</b>			

Because these are probably long term creditors and these are short term creditors, bank overdraft and bills payables and this last creditor these are all current assets current liabilities sorry getting it. So, this is a balance sheet as on that particular date using the balances which we were we had been given.

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Now, let us go to the next problem this is even more interesting because here based on the information as it is made available we are trying to prepare the balance sheet. Now we have been given a few raw transactions and directly from raw transaction we should make balance sheet on respective date on each date ok. Now, Jala Ram start store on 1st January 2012 with investment of 200000 from his personal savings he decides to call the venture as Messrs Hanuman Stores. On 2nd January the stores purchases a shop for 500000.

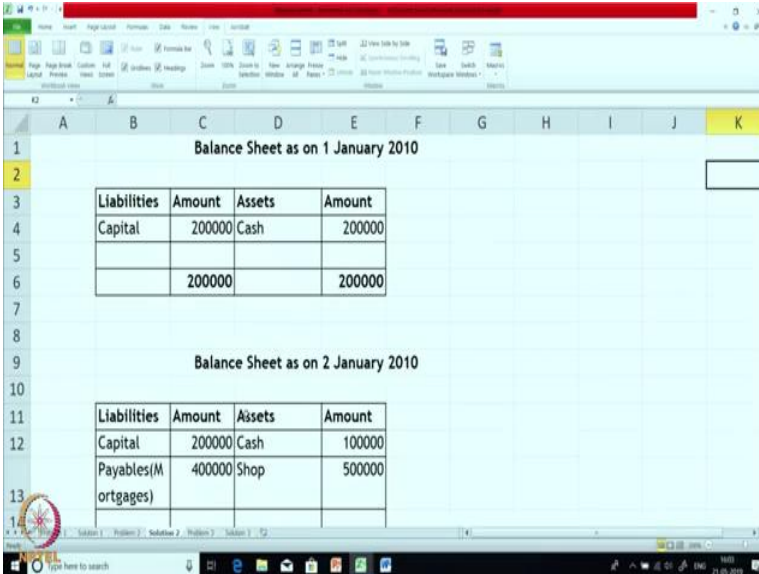
Paying 100000 rupees in cash and signing a mortgage for 400000. So, a shop is purchased down payment of 100000 is made in cash and a mortgage is signed; that means, a loan is obtained for 400000 so, that shop of 500000s can be paid. Now the store purchases merchandise worth 50000 in cash and one fifth 150000 on credit. So, the payment for this 150000 will be made latter on, but we will have to record it right now on the date the transaction is entered it is recorded the payment is made as and when it becomes due. Now he sells half the merchandise for 150000 in cash.

He sales the remaining inventory for 75000 on credit for 15 days to Mr. Bharat on 7 January inventory of 150 that is the next purchase is made from Laxman on credit of rupees 30 of 30 days and on 10th Jan another inventory of that inventory of 100000 was sold for 120 in cash. Now here not only we have to make balance sheet we have to make balance sheet on the respective dates. You I will request you to take printout of this and

solve it yourself you can take a pause here solve it and then we are going to check answer for every transaction. So, you have to make series of balance sheets on 1st Jan, 2nd Jan 3rd Jan 4th Jan and so on.

So you are ready ok. In the interest of time I am immediately showing you the solution I hope you are ready with the solution by now, so, that you can cross check it.

(Refer Slide Time: 09:19)



**Balance Sheet as on 1 January 2010**

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	200000
	200000		200000

**Balance Sheet as on 2 January 2010**

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	100000
Payables(Mortgages)	400000	Shop	500000

So, the first transaction was opening of a new business with investment of 200000s from personal savings that is a capital which Jala Ram has brought in. So, the day 1 that is on 1st January the balance sheet shows capital of 200000s Mr. Jala Ram would have brought in cash of 200000. So, we are showing cash of 200000 the balance sheet tallies at 200000. So, total of liabilities matches the total of assets. Now this precondition should be there on all the days now.

The next transaction; the next transaction is there is a purchase of shop for 500000 down payment is made for 100000 and remaining is in the form of mortgage loan of 400000.

(Refer Slide Time: 10:23)

The screenshot shows an Excel spreadsheet with the following data:

	A	B	C	D	E	F	G	H	I	J	K
4		Capital	200000	Cash	200000						
5											
6			200000		200000						
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											

Balance Sheet as on 2 January 2010

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	100000
Payables(Mortgages)	400000	Shop	500000
	600000		600000

Balance Sheet as on 3 January 2010

So, now the on in the balance sheet on 2nd January we have added a shop of 500000 and mortgage loan payable is shown as 400000 and the cash balance which was earlier 200000 has been reduced now by 100000 and now it stands at 100000, getting it the capital which was 200000 remains unchanged. So, the balance sheet on 2nd January now has a total of 200000 both of assets and liabilities the balance sheet in tallying.

Are you getting it. Now you will observe one thing that the earlier balance of capital of 200000s which was as on 1st January will be continued in the balance sheet of 2nd January. This happens because balance sheet is a cumulative statement, it is not a statement of anyone transaction as on 1st January since it was only one transaction we made a fresh balance sheet, but on 2nd January we continue earlier balance of capital of 200000 and we continue to write it on 2nd January.

In fact, as long as it is not paid off it will be continued to be shown in the balance sheet this balance sheet and in the subsequent balance sheets also, are you getting it. These things are very simple, but since this is a very first problem which we are discussing I am just going slow. So, it is clear to you. Now let us go to the third transaction; third transaction now there is a purchase of merchandise that is goods are purchased 50000 in cash and remaining 150 on credit.

(Refer Slide Time: 12:25)

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	50000
Payables for mortgages	400000	Shop	500000
Payables	150000	Merchandise (Inventories)	200000
	750000		750000

So, on 3rd January this is how the balance sheet looks like. Now the cash balance has come down to 50000, see earlier it was 100000 since we have made a payment of 50000 for goods. The cash will come down to 50 shop remains unchanged at 500000 merchandise that is inventory is 200000 now it is also called as goods 150 is purchased on credit 50000 is purchased on cash so, total goods are 200000.

Capital 200000 payable for mortgage this is continued in the last time on from last time that is 400000 and payables now these are trade payables that is creditors also sometimes is called its 150000, total is 750000 sorry you getting it. This is how slowly the balance sheet will get build and more and more items will get added. Now next transaction on 4h January half of the merchandise inventory is sold for 150000 in cash.



(Refer Slide Time: 13:51)

The screenshot displays an Excel spreadsheet with two balance sheets. The first balance sheet is titled "Balance Sheet as on 4 January 2010" and is located in the range C25:G32. The second balance sheet is titled "Balance Sheet as on 6 January 2010" and is located in the range C33:G40. The spreadsheet includes a ribbon with tabs like Home, Insert, and Formulas, and a status bar at the bottom.

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	200000
Payables	400000	Shop	500000
Mortgages	150000	Mercandise (Inventories)	100000
Profit and Loss A/c	50000		
	800000		800000

Now, on 4th of Jan the cash balance increases from 50000 plus 150 it becomes 200000. Shop 500000, unchanged merchandise earlier it was 200000, now half of it remains so, it has become 100000. Capital unchanged 200000, mortgages unchanged at 400000s, payables unchanged. Now there is a addition here because the transaction was unique compared to our earlier transactions inventory of 100000 was sold for 150000.

So, we get cash of 200000 I mean 50000 was the earlier cash, new 150 was added I will just mark write it here for more clarity. So, we got fresh cash of 150 and merchandise or inventory or goods of 100000 were given to customers. So, inventory of 100000 sold for 150; that means, we got 50000 extra that 50000 represents profit. So, in balance sheet we will write it as profit and loss account 50000 getting it. Now let us go to next transaction on 6th January remaining half of the inventory is sold for 75000.



(Refer Slide Time: 15:39)

	A	B	C	D	E	F	G	H	I	J	K
34			<b>Balance Sheet as on 6 January 2010</b>								
35											
36											
37											
38											
39											
40											
41											
42											
43											
44											

Liabilities	Amount	Assets	Amount
Capital	200000	Cash	200000
Payables	400000	Shop	500000
for Mortgages			
Payables	150000	Mercandise (Inventories)	50000
			50000
		Receivables	75000
			75000
Profit and Loss A/c	75000		
	825000		825000

So, now cash is 200000 shop 500000 no changes here merchandise or inventory which was 100000 earlier half of it is sold. So, remaining is now 50000 a new asset that is receivables is added. So, you can see inventory of 50000 is reduced and receivables of 75 are added, we have not yet received any cash, but we are going to receive it in future.

Still we will show 75000 in the balance sheet so, there is a difference of 25000 which is further profit. So, profit and loss account which was 50000 earlier is now 50 plus 25 become 75. So, capital 200000, mortgages 400000 and payables 150 they are same as in earlier balance sheet.

(Refer Slide Time: 16:45)

	A	B	C	D	E	F	G	H	I	J	K
37		Capital	200000	Cash	200000						
38		Payables for Mortgages	400000	Shop	500000						
39		Payables	150000	Mercandise (Inventories)	50000	50000					
40				Receivables	75000	75000					
41		Profit and Loss A/c	75000								
42											
43											
44			825000		825000						
45											

Balance Sheet as on 7 January 2010

And now the balance sheet total has become 825000. Now 7 January inventory worth 150 was purchased from Laxman on credit of 30 days.

(Refer Slide Time: 17:12)

	Liabilities	Amount	Assets	Amount
Capital	200000	Cash	200000	
Payables for Mortgages	400000	Shop	500000	
Payables	300000	Mercandise (Inventories)	200000	
Profit and Loss A/c	75000	Receivables	75000	

Balance Sheet as on 7 January 2010

So, this is as on 7 January since the new inventory is purchased, inventory has become 200000 this is a transaction on credit. So, payables will now become 300000 earlier it was 150, 150 plus 150 it become 300000 all other balances are unchanged.

(Refer Slide Time: 17:33)

	A	B	C	D	E	F	G	H	I	J	K
49		Capital	200000	Cash	200000						
50		Payables for Mortgages	400000	Shop	500000						
51		Payables	300000	Mercandise (Inventories)	200000						
52				Receivables	75000						
53		Profit and Loss A/c	75000								
54											
55											
56											
57			975000		975000						

Balance Sheet as on 10 January 2010

So, now the total becomes 975. Now the last transaction on 10th January inventory costing 100000 was sold for 120 in cash.

(Refer Slide Time: 17:58)

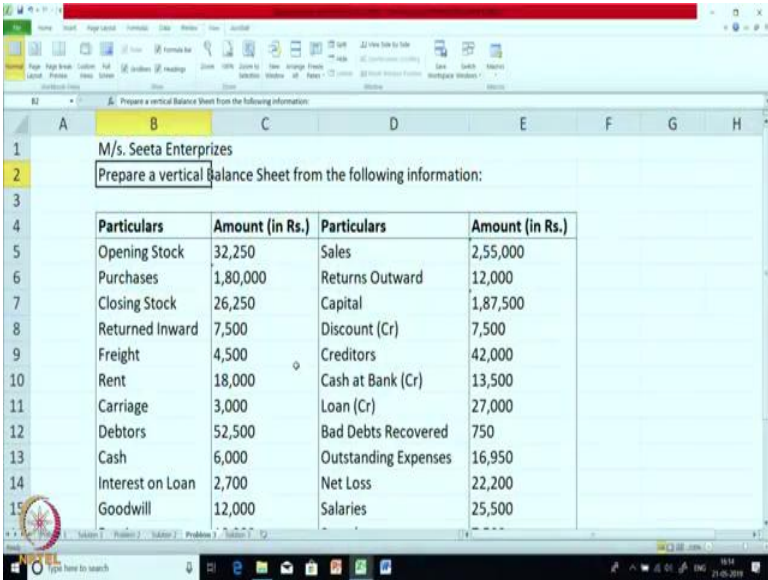
	A	B	C	D	E	F	G	H	I	J	K
61		Liabilities	Amount	Assets	Amount						
62		Capital	200000	Cash	320000						
63		Payables for Mortgages	400000	Shop	500000						
64		Payables	300000	Mercandise (Inventories)	100000						
65				Receivables	75000						
66		Profit and Loss A/c	95000								
67											
68											
69			107500		107500						
70											

So, 10th Jan; now, the cash balance increases by 120, it was 200000 earlier becomes 320, merchandise or inventory which was 200000 of that 100000 is reduced. So, it becomes 100000, shop and receivables are unchanged because this was a cash transaction. The profit which was 75 we are going to further add 20000 to profit. Capital payables for

mortgage and payables that is trade payables remain unchanged the total becomes 107500 are you getting.

This was a very simple exercise we have seen a series of transactions and made a series of balance sheets for it. In real life it is not necessary to make balance sheet everyday you can make it at the end of the period at the end of 3 months or at the end month of 1 month. But within the system this is how the balance sheet gets updated or revised. So, this is only one problem where we are looking at series of balance sheet are you getting it ok. Let us go to the third case.

(Refer Slide Time: 19:29)



Prepare a vertical Balance Sheet from the following information:

Particulars	Amount (in Rs.)	Particulars	Amount (in Rs.)
Opening Stock	32,250	Sales	2,55,000
Purchases	1,80,000	Returns Outward	12,000
Closing Stock	26,250	Capital	1,87,500
Returned Inward	7,500	Discount (Cr)	7,500
Freight	4,500	Creditors	42,000
Rent	18,000	Cash at Bank (Cr)	13,500
Carriage	3,000	Loan (Cr)	27,000
Debtors	52,500	Bad Debts Recovered	750
Cash	6,000	Outstanding Expenses	16,950
Interest on Loan	2,700	Net Loss	22,200
Goodwill	12,000	Salaries	25,500

Now, in the third case we have been given several balances and from these balances you are required to make a vertical balance sheet. Latter on for a company we are going to make a detailed balance sheet this is a very simple exercise where we use only a skeleton type of pattern or a structure and we will try to make a vertical balance sheet. So, have a look at these items go through each and every item. As we did in the first case we will mark every item as asset and liability and then prepare a balance sheet.

(Refer Slide Time: 20:12)

	A	B	C	D	E	F	G	H
7		Closing Stock	26,250	Capital	1,87,500	L		
8		Returned Inward	7,500	Discount (Cr)	7,500	PL		
9		Freight	4,500	Creditors	42,000	L		
10		Rent	18,000	Cash at Bank (Cr)	13,500	L		
11		Carriage	3,000	Loan (Cr)	27,000	L		
12		Debtors	52,500	Bad Debts Recovered	750	+CASH A		
13		Cash	6,000	Outstanding Expenses	16,950	L		
14		Interest on Loan	2,700	Net Loss	22,200	-L		
15		Goodwill	12,000	Salaries	25,500	PL		
16		Furniture	18,000	Samples	7,500	PL		
17		Bad debts	6,000	Land and Building	1,50,000	A		
18		Wages	10,500					
19								
20								
21								

Bad debts recovered is not included in the Cash Balance.

One note is also given that bad debts recovered is not included in cash balance perhaps they do not know where to write it. So, if you start from sales where will you record it in the balance sheet? Actually sales is a profit and loss item. So, it should not be recorded anywhere in the balance sheet it is just given to you as an extra balance. So, we will just mark it as PL, those of who are interested in preparing profit and loss account you can make it as extra work, but right now we are going not going to use this.

Because we are only going to focus on the balance sheet return outward this is also a profit and loss item capital, capital is a balance sheet item we will write it on liability side discount, discount cr this is the discount which we have received it is a PL item, creditors a liability item cash at bank credit they have given; that means, this is a bank overdraft. Normally, cash at bank is if we keep cash in bank it becomes a debit balance it becomes a asset, but here cash at bank credit; that means, we have drawn excess from the bank or it is also known as bank overdraft it is a type of loan which bank has given us.

So, we will mark it as, loan credit so, we have got loan. So, again we will mark it as L bad debts recovered this is a unique item first of all everybody has understood what is bad debt recovered? When we sell goods it gets converted into receivables or debtors, you can see here there is a debtors balance, now from those debtors we are supposed to receive cash. In case a particular debtors becomes non paying or becomes bankrupt, for

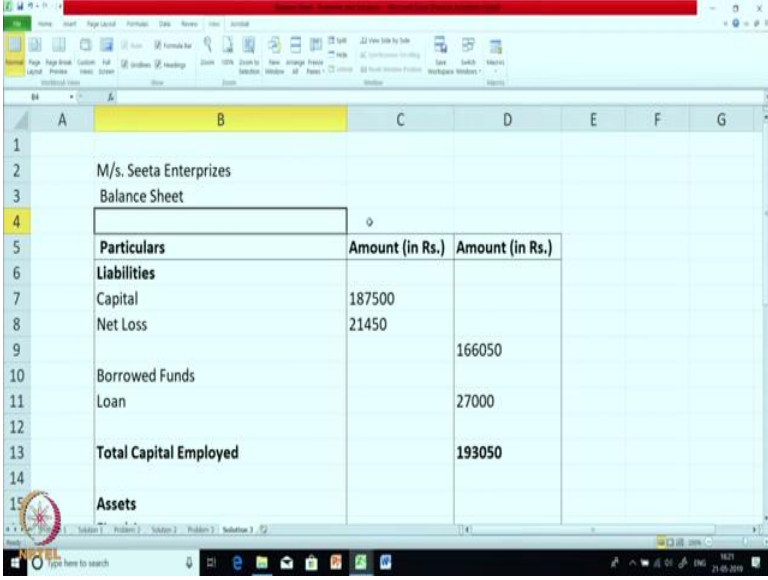
example Vijay Mallya. So, for banks the loan which was given to Mallya became bad debts.

Now, of course, government very smartly has caught it and is recovering the money from Mallya, but otherwise the money given to Mallya was more or less like a bad debt. So, in case of this party Messrs Seetha enterprises they would have given some loan and the loan is not receivable that is why they consider it as a bad debt earlier. But now that bad debt they are able to recover they have received that money as a bad debt, but they do not know where to record it. So, they have not included it in cash balance. So, now, we are going to do two things we are going to include it in the cash balance outs. So, this is a special case this is not as such for bad debt recovered this is definitely bad debt recovered.

But since the money is not shown in the cash we are going to add it in the cash. So, I have written it plus 2 cash A, A means on asset side outstanding expenses; that means, we have taken we have incurred some expense like say electricity bill, but we have not yet paid it so, it becomes a liability. Net loss companies or the enterprise is suffering loss. So, where should we write this loss will it go to balance sheet yes because if there is a profit it is added to liability side if there is a loss we will reduce it from liability.

So, we will mark it as minus, salary this is a PL item, samples these are free samples which are distributed it is a marketing expense. So, we will mark it as PL and building this is an asset item, I think most of the items are getting clear to you. Now on this side also we have got few balances we will not go for marking every item I hope you will be able to mark it yourself and based on this let us go for preparation of balance sheet. So, you can pause your video here and I will show you the solution please first solve it and then check with my solution.

(Refer Slide Time: 25:58)



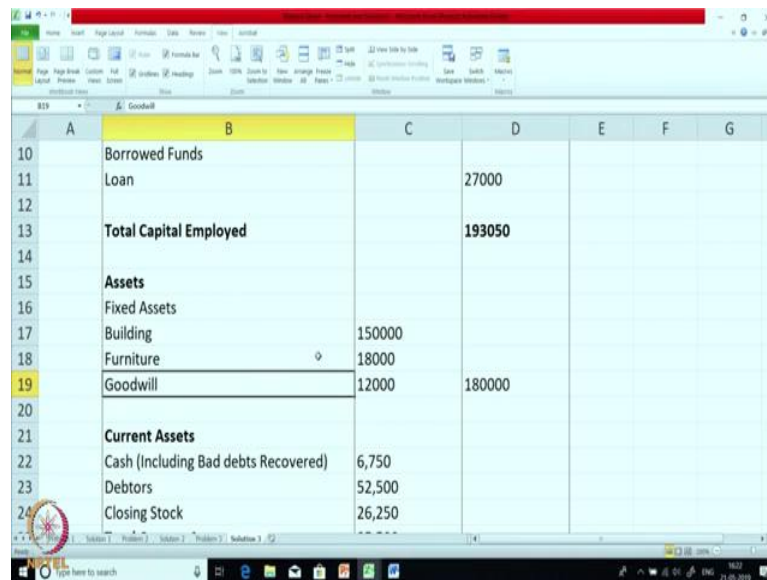
Particulars	Amount (in Rs.)	Amount (in Rs.)
<b>Liabilities</b>		
Capital	187500	
Net Loss	21450	
		166050
<b>Borrowed Funds</b>		
Loan		27000
<b>Total Capital Employed</b>		<b>193050</b>
<b>Assets</b>		

So let us have a look at the solution this is the balance sheet for Messrs Seetha enterprises. So, always have a habit of writing it on top either we can write it as a liability on one side and asset on one side or we are I can write in the vertical form right now we are making it in vertical form. So, we will start with liabilities.

Have a look at the items as we have marked in the earlier sheet. So, the capital is marked as L. So, we will start with capital there is a loss which is reduced from capital. So, capital minus loss the value of capital or the amount of capital is reduced then one heading called borrowed fund is made we have written loan in that.



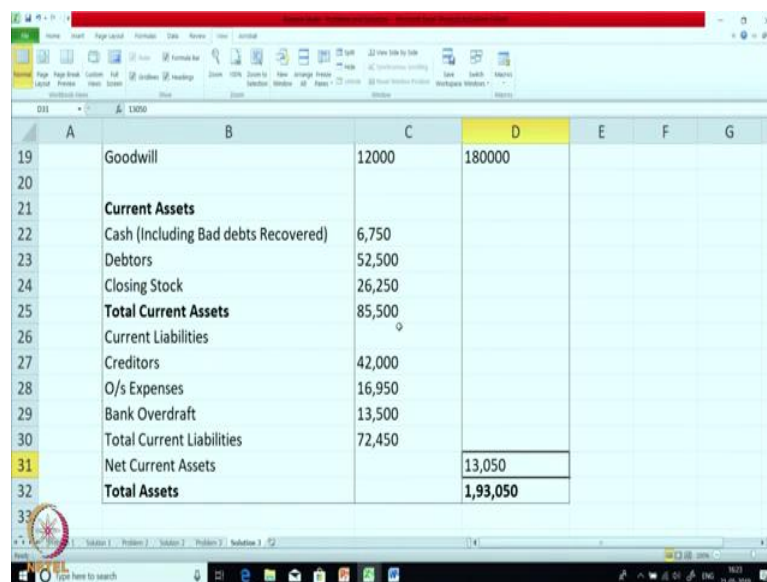
(Refer Slide Time: 27:29)



	A	B	C	D	E	F	G
10		Borrowed Funds					
11		Loan		27000			
12							
13		<b>Total Capital Employed</b>		<b>193050</b>			
14							
15		<b>Assets</b>					
16		Fixed Assets					
17		Building	150000				
18		Furniture	18000				
19		Goodwill	12000	180000			
20							
21		<b>Current Assets</b>					
22		Cash (Including Bad debts Recovered)	6,750				
23		Debtors	52,500				
24		Closing Stock	26,250				

Total capital employed then we have listed all the assets under the heading fixed assets first of all building, furniture and goodwill please check with the solution which you have made.

(Refer Slide Time: 27:41)



	A	B	C	D	E	F	G
19		Goodwill	12000	180000			
20							
21		<b>Current Assets</b>					
22		Cash (Including Bad debts Recovered)	6,750				
23		Debtors	52,500				
24		Closing Stock	26,250				
25		<b>Total Current Assets</b>	<b>85,500</b>				
26		<b>Current Liabilities</b>					
27		Creditors	42,000				
28		O/s Expenses	16,950				
29		Bank Overdraft	13,500				
30		<b>Total Current Liabilities</b>	<b>72,450</b>				
31		<b>Net Current Assets</b>		<b>13,050</b>			
32		<b>Total Assets</b>		<b>1,93,050</b>			

Then in current assets we have got cash, but keep in mind we have the balance of cash was given as 6000 this bad debt recovered was added to cash balance because it was not added by them earlier. So, now we will write 6750 then debtors than closing stock. So, we get total of current assets, from current assets we are reducing the current liabilities

creditors, outstanding expense, bank overdraft, total current liabilities and we get the net balance as net current assets 13050.

You can also write these liabilities on liability side, but we are making in a vertical format. So, we have written it under the assets and reduced it from current assets. So, total assets is 193 it matches with total liabilities 193050, getting it. This was a simple balance sheet; latter on we are also going to make balance sheet for companies, but just to make you understand the fundamentals we are making this simple balance sheet.

So, we will stop here Namaste.