

**Financial Statements Analysis and Reporting**  
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**Lecture - 18**  
**Financial Statements with Adjustments Part-VII**

Welcome students. So, we are discussing the preparation of balance sheet, and in my previous lecture I assured certain important points with you, regarding the balance sheet.

So, here we have completed the capital side or the liability side of the balance sheet, and we have shown here that what are the different say sources, from where the funds have been generated by the company, and then we had found out these are the three important sources; one is capital. after adjusting capital in terms of interest drawings everything and profit, we have found out the balance of capital is 106558 then is the sundry creditors 12170, and the apprentice premium advance income; that is 400, which is a liability and sundry creditors are suppliers credit, which the firm has to pay at the later date, and till that point time they paid to the suppliers it is shown as a liability. So, it is 12170.

Now, we come to the asset side of the balance sheet, and let us put the assets here. Here I would say, that when we prepare the balance sheet, the items in the balance sheet should be put in the either of the two ways; one is, either it should be in the order of permanence, or it should be in the order of liquidity. Permanence means, when you talk about the permanence, when you talk about the liability side the permanence means the long term sources should be put on the top, and the shorter sources should be put at the lower part.

Similarly, when you put, take talk about the asset side of the balance sheet, the long term assets, fixed assets should be put on the top, and then the short term assets should be put on the lower side. Long term assets mean land, plant, buildings, plant, machinery, furniture which is going to stay with the firm further longer duration. They should be put on the first, and then the current assets like your cash, inventory, sundry, debtors they should come on the lower part. Similarly when you talk about the sources side, here you should start with the capital.

Capital is the longest source capital is coming on the first day and it is going to be returned, when the firm is going to be dissolved or close down, last day of the life of the firm. So, it means longest source, then you coming down to the shortest source, and then you talk about the assets. You take the longest asset; longest asset is land permanent, asset buildings, plant machinery furniture. They are going to be removed from the firm when the firm is going to be dissolved close down, and till that it is not removed, it is going to stay with the firm.

So now, we are starting the preparation of the balance sheet and putting the things on the asset side of the balance sheet. So, what are the important assets here?

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From the following Trial Balance extracted from the books of Waterfalls Pvt. Ltd., prepare a Trading and Profit and Loss Account for the year ended on 30<sup>th</sup> September, 2011 and a Balance Sheet as on that date:

Debit Balances	Rs.	Debit Balances	Rs.
Drawings	6,480	Sundry Debtors	37,800
Land and Buildings	25,000	Stock(1 <sup>st</sup> October, 2010)	26,420
Plant and Machinery	14,270	Fire Insurance	490
Furniture and Fixtures	1,250	Cash at bank	13,000
Carriage Inwards	4,370	Cash in Hand	850
Wages	21,470	<b>Credit Balances</b>	<b>Rs.</b>
Salaries	4,670	Capital Account	90,000
Sales Returns	1,760	Bad Debts Provisions(as on 1-10-2010)	2,470
Bank Charges	140	Sales	91,230
Coal, Gas and Water	720	Discount Account	120
Rate and Taxes	840	Purchases Returns	8,460
Purchases	42,160	Sundry Creditors	12,170
Bills Receivable	1,270	Apprentice Premium	500
Trade Expenses	1,990		

Charge depreciation on Land and Building account at 2.5%, on Plant and Machinery Account at 10%, and on Furniture and Fixtures Account at 10%. Make a Provision of 5% on Sundry debtors for Doubtful Debts. Carry forward the unexpired amounts for Fire Insurance Rs. 125, Rates and Taxes Rs. 240 and Apprentice Premium Rs. 400. Charges 5% interest on Capital and interest on Drawings is Rs. 300. The value of stock as on 30<sup>th</sup> September, 2011, was Rs. 29,390. (204950).

We talk about, first asset is we have. Now again start checking all the items here, drawings we have already taken, it means now it is closed. Next thing is land and building.

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Balance Sheet of Watcifalls Pvt Ltd as on 30.9.2011

Capital & Liabilities	Am't	Assets	Am't
Capital 90000		Land & Buildings 25000	
Add N/P 18858		Less 625	24375
	108858	Plant & Machinery 14270	
Add Interim Capital 4500		Less Dep. 1427	12843
	113358	Furniture & Fix. 1250	
Less Drawings (6480)		Less Dep. 125	1125
Less Interim Drawings (350)	106558	Bills Receivable	1270
Sundry Creditors	12170	S. Dvs. 37500	
Add. Ap. Premium	400	Less 1890	35910
	119128	Cash at Bank 13000	
		Cash in hand 850	
		Add. Five Dividend 125	
		Add. Rate & Taxes 240	
		Closing Stock 99390	
			119128

I told you it is asset, and asset, first asset permanent asset will come here, first of all it is land and building, no to no by land and buildings, where you check before putting the item here that whether it has any depreciation amount or not. So, if you talk about the yes, it is a depreciation amount it has adjustment here. So, it means one part of this adjustment we have already put in the profit and loss account. Here shown this in the profit and loss account 2.5 percent depreciation we have charged, and that depreciation amount worked out was, say 625 on 25000 rupees, 2.5 percent is 625 rupees, we have shown there one effect is shown in the profit and loss account we have shown the depreciation on the land and building. Second effect will come in the balance sheet, and the land and building here is 25000. So, put it in the inner column.

It is 25000, put it in the inner column, and then less depreciation, less depreciation and then depreciation is 625 you subtract it. So, you are left with how much 25275, this is the balance of the land and building, now sorry this is 375, this is 375, 25375 is the balance of land and building after depreciation right. Second is plant and machinery, plant and machinery, plant and machinery, and plant and machinery is 14270 put it in the inner column, because the depreciation is also there, 14270. And less depreciation on this, and this was 10 percent. So, depreciation amount was 1427. So, you subtract it, if you subtract this, this works out as 12843 is the plant and machinery. Then we have furniture, furniture and fixtures, furniture and fixtures. The amount is how much, furniture and

fixtures amount is 1250; 1250 less depreciation, and this is 125. So, we are left with the balance left is 1125.

1 1 2 5 and this way the balance sheet is, means this three long term permanent assets are here with us. Then we have. Now you again check it out carriage inward we have already taken, no need to take it again right. then we talk about the wages, we have already taken, salaries we have already taken, sales return we have taken, bank charges we have taken, coal gas and water we have already taken, rates and taxes we have taken, purchases we have taken, bills receivables. Now yes we will talk about the bills receivable. Now we are talking about the medium term assets, they are bills receivables are medium term assets, bills receivables, I will discuss again; what is the bills.

We have already talked to you bills receivables, but again I will talk to you, but let us first complete the balance sheet, and then I will discuss some of this items; bills receivables, and bills receivables amount is 1270, no adjustment nothing. So, straightway it will go to the outer column. Then we have trade expenses we have already taken as you know, this is already done. So, it means now we have sundry debtors, yes. Now we have the sundry debtors, sundry debtors. Sundry debtors amount is how much 37800s, put it in the inner column, because there is adjustment, pertaining to the sundry debtors. So, sundry debtors' amount we have taken in the profit and loss account.

And we have shown here the sundry debtors balance here, provision for 5 percent of sundry debtors. So, it is 5 percent on sundry debtors we have made the provision and that amount we have already worked out is, somewhere here; that is provision for sundry debtors is 1890, and this provision was 1890. So, we have to subtract it, because your sundry debtor has come down by this, or may come down by this. So, this is the sundry debtors, and finally, this amount will be 35910, means total credit sales are 37800s. Out of that 1890 sales may not be recovered, then doubtful debts. Total debts are 37800, and worth 18900; 18900 sales may not be recovered.

So, finally, we are treating that yes we will be receiving only 35910, not more than that will be receiving in any case. So, it means we are sure about that, that we are not going to receive more than that. So, it is sundry debtors, final figure is 35910. Then we have to take the other items. Here now we think about we have taken the stock, we have taken the fire insurance, and we have taken. Now we will take cash, yes cash at bank.

Cash at bank, cash at bank and second is cash in hand. Cash in hand and cash at bank, cash at bank is 13000. No adjustments directly; this amount will come here, and here it is cash in hand 850, cash in hand is 850. So, this is we have taken for these assets. So, we have taken the land and building, amount is 25000. Sorry this is 24000, this is not 25000, we will make the correction 24375. Then it is plant and machinery 12843. Then it is the furniture and fixtures 1125, then it is bills receivables 1270, then it is sundry debtors 35910, cash is 13000; that is cash at bank, cash in hand is 850, and then one more item is, here now we say check this side, this information also you can check.

Depreciation we have taken on land and building done, plant and machinery done, furniture and fixtures done, and make a provision of 5 percent on sundry debtors done there. Then forward the carry forward the unexpired amount of fire insurance one 25 we have already taken, no we will take, we will not take, means we have taken the one effect of this, but we will take the second effect of it.

Rates and taxes will take the second effect of it, apprentice premium we have taken already, the second effect also we have shown here, it means done. Interest on capital we have done both the effects; one effect we are shown in the profit and loss account, we have shown it is a debit entry, there have taken out the money from profit and loss account, and we have added this amount here in the capital. So, both the effects are complete. Then we talk about the interest on drawings, yes, we have already done we have shown interest on drawing is a incoming the profit and loss account 300 rupees, and the second effect of the drawings is coming here we are adding it in the total amount of drawings.

So, total amount of drawings becomes 6780, and this total both this, this plus this is subtracted from the capital. So, finally, we are left with the balance of 106558, which is the balance of the capital, amount of the capital. Now, we have taken almost all items here, but certain adjustments, double effect is left out. It means what is left out here is, say for example, carry forward the unexpired amount of the fire insurance 125, it means carry forward. We have paid 125 rupees in advance.

It means expenses, paid in advance, we have discussed one adjustment that expenses paid in advance, as incomes received in advance is a liability. So, what will be the expense paid in advance, asset. It means any expense which we have already paid, but

that was not due to be paid in this particular year for this company, it means we have paid in advance, and any expense paid in advance is considered as; first is we subtract first effect we have shown, we have subtracted this 125 rupees from the fire insurance, where is the fire insurance amount. Fire insurance amount is given here; this is the fire insurance amount 490 rupees.

So, if you remember if you check your profit and loss account, in the debit side in the expense side, we have subtracted this from 490 rupees 125. So, we have shown there 365 rupees, and now second effect of this particular part, not this part, this part will be in the balance sheet it will be shown as an asset. So, it is advance fire insurance, advance fire insurance, you can write premium also, because we pay the premium. Fire insurance premium paid in advance is 125. So, this is the asset till one to the extent of 125, then it is the rate and taxes, they are also paid in advance.

Advance, rates and taxes, advance rates and taxes; so advance rates and taxes are 240 rupees, we have paid in advance, 240 rupees rates and taxes we have paid in advance, it means that has to be treated as asset. Now, if you check almost all the items we have taken here this total, this total and this total information we have taken in to account, and we have shown it, we have considered it in the balance sheet. Now we will total it out, let us see whether it is equal or not. So, now, you total it up it is 8, it is 7 and 5 12 2 1, then it is 6, this is 1 and we are left with 1729. So, it is going to be how much 9, this is going to be 1 and this is going to be 1, 119128, the total of capital side or capital plus liability side, it means we have raised this much of the total resources 119128.

Now let us total the asset side also, we have forgotten this particular item that is given towards is closing stock, closing stock has again the double effect; one effect is in the trading account, credit side we have already done second effect is in the balance sheet. So, we have not taken the closing stock here, we have not taken the closing stock here. So, let us take the closing stock closing stock, and this is 29300 and, 29390 this is the closing stock, 29390 is the closing stock, we have already taken here 585 it is 13 13 and 5 18 8 1 8 12 14 then it is 21 22 27 29 33 and 942 it is again 2, then it is going to be total if you make out, I think this is going to be 119 and 128.

So, both the sides are equal now, because if you check the items 24375, 12843 1125, 1270 35910, 13850 and 29390, then we have 13850, 29390, and then we have 125, and

then 240, and the finally this closing stock. So, it means if you have both the items, means both the sides items in both the sides are equal, then I think total is going to be equal, and we can check it also 53 is going to be 8 then it is 742752 this 22, and say it means both the sides are equal it is 119128 is the balance sheet. So, we have seen the magic of the balance sheet both the sides are equal. It means when both the sides are equal, you can understand that the balance sheet is balanced, this is a balanced document.

And we have, means we have we can rest assured that the firm is solvent, the firm is not bankrupt firm is solvent. Firm has a proper account of all the sources from where the funds we have been generated, they can be easily shown here? Now you see we are generating resources here from this side right, and first is the capital, it means it is a cash. If similarly the sundry creditors, material they have supplied, we have converted the material into finished product, finished products has gone to the market, and we have sold that and again that is converted in to cash.

Similarly advance apprentice premium 400 rupees we have received in advance, in the form of cash. So, it means total cash we have received is, cash and kind we have received is, 119128. Now where this money has gone, this money has gone for the say, we have purchased land and building for total is 25000 rupees land and building we purchased, but to the extent of 625, we use the building and land this year building particularly, and it has come down to 24375 rupees worth. It means we have account you can we sell those land and building in the market we assume, we will be able to recover 24375.

Similarly, plant and machinery we have plant and machinery. We have the plant and machinery for 14275, but out of that 10 percent we have depreciated, we have used. So, it has the values gone down depreciated 1427. So, it has come down to 12843. Then we have furniture and fixtures we had 1250s worth of furniture, but out of that 10 percent we have used 125 we have depreciated. So, now we are left with 1125 worth of the furniture. Bills receivables yes, I told you I will discuss with you the bills receivables. If you remember I have discussed some time back also, but again I means discuss with you what are the bills receivables, and what is the difference between the sundry debtors and bills receivables.

Sundry debtors are almost; these are the similar kind of items. Sundry debtors are strictly those debtors of the firm, who have to pay the firm at a little bit, who have purchased goods and services, or goods or services from the firm today, in the in the present, in the current period they have purchased the goods and services from the firm, and they will be paying the firm back sometime later on. So, these are the buyers or firms goods on, say credit. So, they are the sundry debtors.

They are the sundry debtors. Bills receivables are also kind of the documents means when we sell to them on credit plus there has to be some documentary evidence. There has to be some documentary evidence, that we have sold to somebody on credit, and he will pay us in advance, sorry he will pay us at the some later date. Now when we are selling to somebody and creating a bill. Bill means you say legal document, is written is created by the company's lawyer or legal cell of company on a judicial paper. Language remains written as that X Y Z Limited has.

For example, for X Y Z Limited Company is the buyer from this company. So, X Y Z Limited Company has purchased goods worth rupees 1270 from Waterfalls Private Limited, and they will pay us at the end of the credit period means after three months, or after two months whatever the credit period is agreed between these two, that they will pay us they will pay back, an amount of 1270 at the end of 60 days or 90 days, to the Waterfalls Private Limited, because they have purchased the goods right.

So, this is written that they have purchased they have sold means, the language remains that waterfalls private limited has sold, goods worth rupees 1270 to X Y Z Limited. and X Y Z Limited has to pay a sum of 1270 back to the Waterfalls Private Limited, after the means that date may be after 60 days or 90 days, that date has to be mentioned there, and that document is written properly seen, and that is presented to the X Y Z Limited, legal officials or the legal representatives.

They will put the seal and signature, it means that document becomes valid, that firm has purchased and waterfalls have sold. when they put their seal and signature accept it, then it is returned back, one copy photo copy they can keep with them, or one copy original also they can keep, they can prepare two copies one copy the X Y Z Limited will keep in their records, and the one copy after signing they will return it back and original to the waterfalls private limited. So, it is a documentary evidence that x y z limited has



purchased goods worth rupees 1270 from this company, and they have to pay them at the later date.

So that is called as the bills receivable for the company waterfall private limited, and the other company who has purchased the goods and accepted the bills, it becomes the bills payable for them, and that bills payable will come on this side if it is a bills payable, it will be a liability and if it is a bills receivable then it is a asset it, receivable means they have sold to other company. So, they have to receive it is a asset they have purchased. So, it means they have to pay at the later date, it is the liability clear. Now these are the bills receivables, then sometimes there are the bills which are called as accommodation bills also.

Accommodation bills means where no real purchase of goods and services takes place. What happens that one company to help financially help for a short period, other company they create a document. Say this company will create this bill, that we have sold to X Y Z Limited, and X Y Z Limited will pay us after 60 days or 90 days right, but actually no purchase or sale has taken place only help the company. So, what will happen, this company bill waterfalls bill goes to the bank with this bill, and they will show to the bank catalogue we have sold goods worth rupees 1270 to X Y Z Limited.

X Y Z Limited is a very good company financially they are highly creditworthy company. So, you please we need the funds immediately then pay us after 60 days. So, you purchase this bill give us the funds immediately, and on the due date after 60 days there is X Y Z Limited will pay us, and then we will return your funds. So, bank may if the bank both if both the companies are good companies, creditworthy companies, then the bank will purchase this bill, and bank will give them immediately 80 percent of 1270, and 20 percent they will pay on the settlement.

When the 20 percent, means when the funds will paid by X Y Z Limited, or may be X Y Z Limited will not pay this Waterfalls Private Limited, it will go to the bank on the due date they will say this 1270 is paid to us by X Y Z Limited, they will generate the funds from their sources, and this amount has come to us. Please now you settle our account. So, you have paid us 80 percent of 1270 bank at that date will calculate the interest on that 80 percent plus the administrative charges, and if anything is left out of the remaining 20 percent, then the bank will further pay and if nothing is left then company

will get only 80 percent, but the company got 80 percent 60 days in advance. And if some balance is left then the bank will deduct its own interest on this 80 percent of this amount, plus administrative charges.

And then the able to return the bet remaining amount, or the company will pay only to the bank the total amount that is the interest on one 80 percent of 1270 plus administrative charges and after that they will not pay anything. So, it means immediately the at least by accepting the bill by X Y Z Limited for this company, this company could get a discounted from the bank and bank they could generate the short term funds for this short term immediate needs; otherwise this wont not have been possible. So, if any bill is created, drawn and accepted by two parties or each other, than without any real sale of goods and services, then that bill is called as accommodation bill.

Then we have say, sundry debtors. Sundry debtors are those debtors where no bill is created only on the basis of invoice, when no legal document is created both the companies trust each other, but no legal document is created, then it is called as the sundry debtors, that they will buy the goods X Y Z Limited is buying goods on credit worth rupees 35900, and 37800, and invoice is being passed on to the buyer company along with the goods, and one copy of the invoice is kept means, they will give the receipt on the invoice itself, that invoice that duly received by X Y Z Limited, will come back to the this waterfalls private limited, they will keep it in record they are called as sundry debtors. So, any sales ,credit sales on which a proper judicial legal document is created they are considered as bills receivables, and where no legal document is created, only on the basis of invoice purchase and sales takes place then they are called as sundry debtors. So, part of the sundry debtors are doubtful, may not be recovered so we should discount for that.

Then other items are if any of the total sources, if any of means any of the part of the source is left not invested here neither in the land nor in the buildings, plant machinery, furniture bills or credit series, then it remains with the firm is a cash. So, this is the cash at bank 13000 cash in hand 850, and these are the assets, means expenses paid in advance; that is fire insurance 125 paid in advance, rate and taxes paid in advance, so this is a asset till due date, and similarly the closing stock which is their with the firm,

and that will be sold at the later date. So, till it is sold in the market, it remains with the firm as an asset. So, we are showing it here, as a closing stock.

So, we are taken in to account the total information this, this and this, and now after adjusting everything given here, we have created three documents; one is the trading account profit and loss account and balance sheet, after adjustments, and then you see that the financial position of the firm is balanced, both the sides are balanced very equal it means the firm's financial position is good, acceptable. The firm can be allowed to carry on the business. So, it means nothing to worry about. So, here this I am taking very simpler problem, but with say precious of time we never.

Like next lectures will be moving towards the level of using increasing the level of difficulty, and then once we discuss that the financial statements of sole proprietors partnership firms in private limited companies. There we are move to the next time; that is the preparation of the financial statements of the public limited companies, which are little more complex as compared to this ones. That I will do in my next class.

Thank you very much.