Financial Statements Analysis and Reporting
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Lecture – 22
Financial Statements with Adjustments Part-XI

Welcome students. We are continuing with the process of preparing the financial statements in the different situations, considering the different problems and different situations. So, far we have discussed two problems with the adjustments, and we have to try to prepare that trading and profit and loss account and balance sheet. This is the three main financial statements, from the information which was given in two firms; one was in the trial balance, and the second was an, say additional information which was required to be adjusted, and we have learned that how to adjust that additional information right.

Now, I will discuss with you another problem which is at the next level. You do not call it has a complex problem, but it is of the next level.

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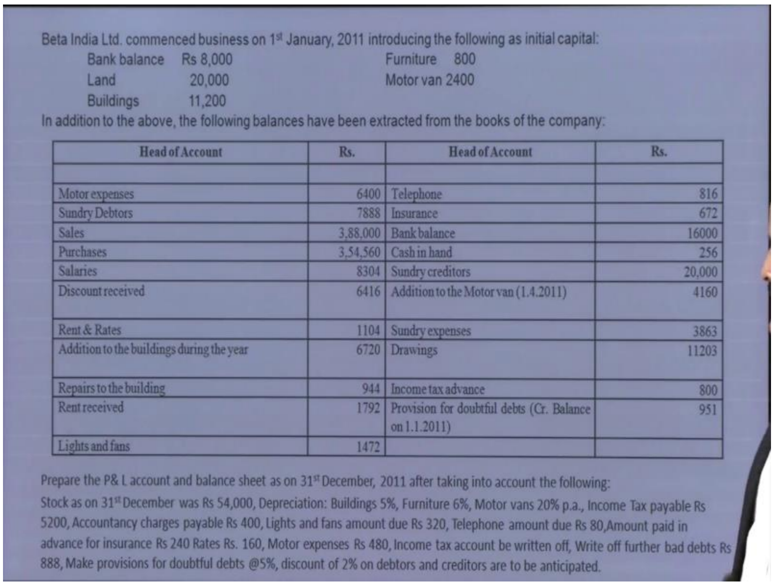
Beta India Ltd. commenced business on 1st January, 2011 introducing the following as initial capital:

Bank balance Rs 8,000 Furniture 800
Land 20,000 Motor van 2400
Buildings 11,200

In addition to the above, the following balances have been extracted from the books of the company:

Head of Account	Rs.	Head of Account	Rs.
Motor expenses	6400	Telephone	816
Sundry Debtors	7888	Insurance	672
Sales	3,88,000	Bank balance	16000
Purchases	3,54,560	Cash in hand	256
Salaries	8304	Sundry creditors	20,000
Discount received	6416	Addition to the Motor van (1.4.2011)	4160
Rent & Rates	1104	Sundry expenses	3863
Addition to the buildings during the year	6720	Drawings	11203
Repairs to the building	944	Income tax advance	800
Rent received	1792	Provision for doubtful debts (Cr. Balance on 1.1.2011)	951
Lights and fans	1472		

Prepare the P& L account and balance sheet as on 31st December, 2011 after taking into account the following:

Stock as on 31st December was Rs 54,000, Depreciation: Buildings 5%, Furniture 6%, Motor vans 20% p.a., Income Tax payable Rs 5200, Accountancy charges payable Rs 400, Lights and fans amount due Rs 320, Telephone amount due Rs 80,Amount paid in advance for insurance Rs 240 Rates Rs. 160, Motor expenses Rs 480, Income tax account be written off, Write off further bad debts Rs 888, Make provisions for doubtful debts @5%, discount of 2% on debtors and creditors are to be anticipated.

If you look at this problem here, you will find three things here, this is the trial balance given to us, and the different type of, different heads of accounts and their amount is given to us, and here we talk about that the additional information is given to us, as it is a little more as compared to the previous problems. So, we will have to adjust this entire information while preparing the financial statements again. So, this and this we have already seen, the only a quantum is different, but this is the new information here.

On the top of the trial balance we are giving some balances, some information additional information and after that we have given the trial balance, and then we have given the additional information to be adjusted in the financial statements. So, here we are given some balances. So, Beta India Limited commenced business on 1st January 2011, introducing falling as initial capital. This was the initial capital, which was introduced and these, this information is called as a opening balances, beginning balances. So, for example, then this started the business for this particular year, on the 1st January 2011.

When they started working and manufacturing and say start, till the production and the other business process. They have this beginning information with them, and later on these balances were generated during the year, and then they had some additional information also this, pertaining to this year 2011. So, this plus this information is generated in the current year, and this information was inherited from the previous year. So, now, by taking into account these opening balances, the balance is given in the trial balance, and some additional balances, additional information given here.

We have to adjust all the three things, and then we will have to prepare the financial statements by taking into consideration. Here one important issue is, that tax problem is also there, that how to deal with the tax part, and how to calculate the tax. So, and how to show it in the profit and loss account, and in some income tax is only calculated, but not paid, remains outstanding that will go to the balance sheet.

So, these different issues are there, this is called comprehensive problem, and if we are able to understand this problem and able to prepare the financial statements, out of this information when I think to a larger extent you will be clear, that how to prepare the financial statements, but again I would say, that this type of the problems are pertaining to the business undertakings other than the joint stock companies, public limited companies. For the public limited companies some additional information is there, that I will be talking to you in my next couple of lectures.

But this is information you can assume that this is also not for a company firm of organization. You can assume it is a private limited company or a partnership firm, and we have to take into account these opening balances, then these balances given here, and this information given here, taking into consideration all the three things we will have to prepare the financial statements. Now for example, you see that we have the opening balances here; that are bank balance that we started the business with; that is 8000, and now the bank balance has become here, cash at the bank has become 16000 rupees. So, we will take, means finally, we start of the day 8000 amount in the bank in the beginning of 2011, and then we earned some more money, some more cash, deposited in the bank, and now the current balance in the bank is 16000 rupees.

So, we will take this into account. Similarly, if you talk about the land, land component is same; we have not added any land here. So, what about the land is given there? So, we will have to take that land only into account, no additional land is given here. So, we will be taking that land figure, because this opening balance of land is also the current as well as the closing balance of the land. So, we will be taking that, and taking that land to the balance sheet, then buildings. Buildings are given here as a opening balance, when we started the process of the business in 2011. We have the opening balance of the buildings that is 11000 worth of 11,200 rupees, and here it is given some there that some buildings were added, during the year say this information is given to us.

Addition to the buildings during the year is done for this amount, it means now the buildings are 11,200 plus 6,720. So, this total amount is somewhere you can call it as 17920, worth of the buildings are there by the end of the year 2011. This is going to be the closing balance. Then we have the furniture. Furniture has not further been added, the furniture is same, and no for the furniture has been purchased or sold. So, we will be taking the balance of the furniture as 800 rupees, and no change is expected there. And then we have the motor van, motor van we started with the motor van; that is a vehicles 2,400 of those balance, and then here it is information given to us that addition to the motor van was done on this 1st April 2011.

So, it means after doing the business for three months, we have added some more motor vans to the tune of 4160. So, we have to take that also into account. So, this will be, this plus this we have to take into account. For the bank: that 8000 plus 8000, so 16000 we have to take into account. Land only 20,000 you have to take into account, buildings we have to take into account 11200 plus 6720. And furniture we have to take into account is only 800, and the motor van we have to take into account is, 2400 plus 4160.

This is the information we started with opening balances. We had this all different transactions during the year. So, we ended up with these balances from the trial balance. And apart from these balances we have, this additional information also, which needs to be adjusted, as we are doing in the past. One more important here is, you might be wondering that we have this trial balance, this information is also outside the trial balance, and this information is also outside the trial balance. So, for this information we are making a double treatment D B R, giving a double treatment, because we have to complete the double entry accounting system for this right. So, the question arises that is, this information is out of trial balance. So, do we need to make, get the double treatment for this information also. Answer is no.

We have to what to get only this single treatment will be here, and single treatment will be for this information as well, and double treatment for this information only, because these are also the balances after the completion of double entry accounting system, and like these balances has a double entry accounting system has been completed. Here also the double entry accounting system has been completed. So, difference is that we have some closing balances of the previous year, which became the opening balance is for the current year. And now for the current year, we have some additions or deletions. In these balances either some additions are there or deletions are there.

We will purchase an added a new asset in this, then we will be taking that into account, and if some asset has been sold, we will also taking that into account. So, both the things have to be, but this is also the same like this, and for this as well as this, double entry accounting system has been completed, only for this information we need to have double effect, and we have to treat it at the two places.

So, this is some additional information, and some new thing has been introduced here, and we will be preparing the financial statements out of it. So, if you are able to understand this problem, and if are able to prepare the financial statements yourself, then I think will not be a problem, because largely I can guess that you have understood, but are the financial statements, and how to prepare the financial statements, at least in the firm organizations other than the public limited companies.

For the private limited companies, for the partnership firms, for the sole proprietor organizations, you know that how to prepare the financial statements. And for the company firm of organizations will be discussing the some couple of other cases. So, now, let us begin with the preparation of the financial statements for this particular organization, this particular company Beta India Limited. So, there should written as a Beta India Limited, but you may treat it as Beta India Private Limited. This is the Beta India Private Limited, this is the information we will assume is for the private limited company, not for a, means that the word is Beta India Limited, it means its a public limited company

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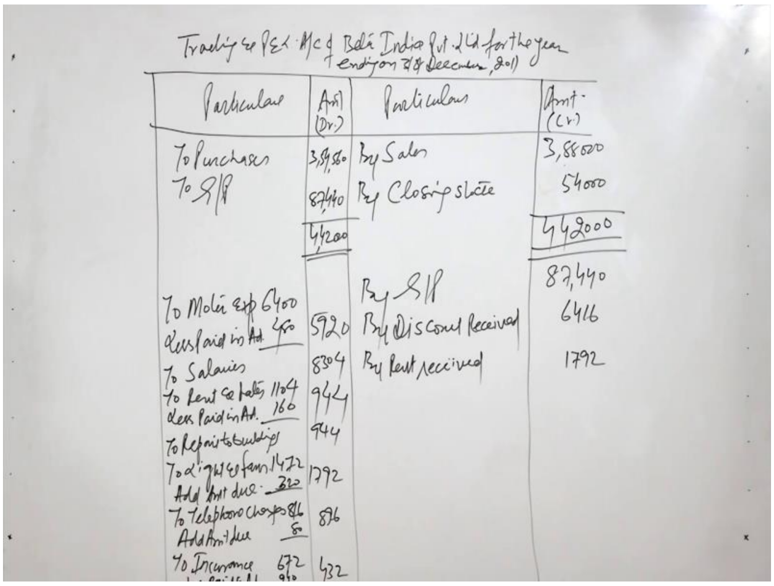

But it is not a public limited company, you assume it, it is a private limited company. So, we preparing the same statements for this trading and profit and loss account, but the additional information are there, interesting information is there. So, will have to adjust the opening balances, current balances, additional information, and then finally, end up with the, preparing the financial statements. So, it is trading and profit and loss account of Beta India Private Limited, for the year ending on 31st December 2011.

For the year ending on 31st first December 2011, this is the year 2011. Same format we are repeating, so it is particulars, this is amount, this is particulars, and this is amount. This is debit balance and this is the credit balance, debit balance and the credit balance. So, now, we again will have to start the process as we have been doing in the past, take the three important expenses in the trading account, that is the material, labor and the other direct expenses, and the other side we will have to take the sales and closing stock and adjust everything.

So, we will look here for the opening stock of raw material. So, is there any opening stock of the raw material given, let us try to find it out. There is nothing in the opening balances, then head of count motor expenses, so nothing. Sundry debtors no, sales no, purchases, yes we will take into account, salaries, discount received, rent and rates addition to buildings, repairs to building, rent received, lights and fans, telephone, insurance, bank balance, cash in hand, sundry creditors, addition to motive van, sundry expenses, drawings, income tax advance, and then it is provision for doubtful debts. It means nowhere the opening stock is given. So, it means it is very clear that when we started the manufacturing process for this year, means in this company Beta India Private Limited, and when they started the manufacturing process, there was no opening stock of the raw material, is there is nothing left out material from the previous year, which had to be used in the current year. When there is no opening stock of material of material it means, even the first day of the year, first morning, first session of the production when start on the plant, we will have to buy the raw material.

And when we have to buy the raw material, we will have to look for the information where the purchases are given to us; yes purchase is given to us. So, it means purchases are there, so it means there is no opening stock, we were straightway starting with to purchases. So, to purchases means, we have purchase the material worth rupees 354500 and 54500 and 6354560 worth of material is purchased, then they have to go for searching for thus. Is there any purchase you returned? You have to look for that part of the material is returned.

So, I think there is no purchase return, what are the material is purchased that is used till end, nothing has been returned. So, that is fine how the next thing is, we will have to look for the wages. Is there any wages information given to us? No information for the wages is given to us. So, it means wages are also not paid, maybe they have not paid in the current year, either they are already paid or some other think, or maybe up everything is included in the purchases, it can also be possible then when the purchase figure is given to us, everything is included in the purchases, and no additional information is available to us. So, we will, if it nothing is there, we will not take that into account, had it mean there you would have been taking it. Now we will look for this, no other I think there is no information on the debit side only one item is there. Then we look for the credit side, and the credit side we have to look for the first item and the first item is the sales.

This sales information is given to us; that is by sales, and this information is by sales, how much sales we have done 300 and 88000, worth of sales are done. So, 3 and 388000 worth of the sales are done; that is fine good, and there is no information with regard to the sales returns. If you look at this information, there is no information with regard to the sales returns. Now we go for the next thing, if there is no sales return like purchase return, then the next thing is, by closing stock, closing stock of the material is will be somewhere here, and that is given to us and that is for 54000 rupees. Closing stock is 54000 rupees; that is given to us 54000 worth of closing stock is less.

So, total production was made by having the purchases of investing 354560, and then we had the closing, be sold in the market for say 388000, and then the stock worth rupees 54000 is given to us here, this is the closing stock. So, this is the total output, this becomes 0 0 0, this is 12 1, then it is 4 1, and this is 4 1. So, 442000, 442000 total output is there. So, we will have to close it by two lines, there is nothing other than purchases. So, we will have to find out this is 442000, this is close. So, it is to G P Gross Profit, and the difference of these will be the Gross Profit.

So, how much gross profit is there 442000, and then it is th354560. So, this is 0, then it is 4, then it is 9 5 it is 4, then it is 11, it is 7, and then it is say you can say 13, it is 87440 is the Gross Profit; 87440 is the Gross Profit. So, we have calculated very simple, only three items. So, two on the credit side, one on the debit side we have taken. So, the trading account is very simple, straight, no wrinkles, no complex information, and we have been able to do it. Now we try to move further and try to prepare the profit and loss account.

But if I look at this total information given here, say this information, this information, this information and this information. I can make out that the profit and loss account is going to be quite lengthier, quite longer and lot of information we have to adjust in the profit and loss account and then to arrive at with the profit after tax, but no problem we will go head, and that we will be doing that is by Gross Profit first item 87440 right. Now we take different items here, to start from the top, will not be taking motor, yes we will be taking motor expenses. So, let us start with the motor expenses, first two motor expenses, two motor expenses. This is a revenue item motor expenses, the amount given is 6400.

Is there any additional information with the motor expenses, if it is there we will have to take that into account somewhere, and say yes that is given to us, motor expenses 480. What is this paid in advance or this is pending. We will say that it depreciation income tax payable is, this accountancy charges payable, this telephone account due paid, amount paid in advance for insurance 240 for rates 160, and motor is 480, 480 worth of rupees are paid in advance out of it. So, we will have to subtract it, means expenses paid, but not yet due, if anything in advance has will paid then you will have to subtract that, because that is not due for this year.

So, less paid in advance, less paid in advance, and that amount is 400 and, the motor expenses 480. So, we are left with finally, this, this, and then this is 9, and it is 5 9 2 0. This is the final motor expenses to be taken into account for the current year, done. Next item is sundry debtors. We will not take that into account, because this is the asset. Sales we have already taken. Purchase is we have already taken. Salaries, yes next item is the salaries, next indirect expenses, to salaries, and salaries amount is going to be how much; 8304, but is there any additional information about pertaining to salaries. If you look at this information, then you will find here salaries accounting fan this, you will not find any additional.

So, there is nothing outstanding or paid in advance. So, salaries are direct; that is 8304 are the salaries expenses, this is the 8304. Then we will be taking the next item, discount received. It is a credit item, so let us take it to the credit side, discount received. So, this is by discount received, this is discount, discount received is a gain. So, discount received is again, and this is 6416, this is the gains, we are putting all the items together, debit balance will go to a debit side, and credit balance will go to the credit side. Yes rent and rates, we have to take that into accounts, this expense; rent and rates, rent and rates are 1104, and if there is anything extra about this, any information about this. So, it means rent and rates are, we will find something is there. Yes it is amount paid in advance for insurances 240, rates is 160 that is paid in advance.

So, it is less, less paid in advance. How much amount is paid in advance; that is the amount paid in advance for the rates is 160. So, if you subtract the 160. So, we are left with how much 4, then it is 10 6 again 4, then we are left with 10 1 it is 9. So, 944 is the rent and rates expenditure. Then is the addition to building during the year, this is the capital nature, this is asset. So, we will be taking that into account, means when will be preparing the balance sheet, then we will be taking that into account. Yes repairs to buildings, is a revenue item. Addition to building: when you are constructing the building and making addition to the existing. Balance of the building this is a capital expenditure, but repair is the revenue expenditure.

So, repair part you have to take here, this is small expense. So, to repair, to buildings, repair to buildings, and repairs to buildings is, how much it is 944. So, this we have to take into account 944 the repairs to buildings. Then we have rent received; now again it is the credit, same income indirect income. So, it is by rent received, by rent received. How much rent is received? Rent received is 1792, rent received is 1792 we will be taking here, and then is lights and fans. Yes lights and fans is the another head of expenditure, to lights and fans, but before that let us look, is there any, some additional information pertaining to lights and fans, stock, depreciation, income tax, accounting charges. Yes light and fans amount due is 320.

It means we have already paid, 1472; that is 1472, put it in the inner column, if some adjustment has to be done we have to put the items in the inner column first, and then final balance has to be taken only in the outer column, after adjusting the additional information. So, light and fan is 1472, and then it is the some adjustment light and fans amount due; mean it is due but has not been paid. So, it is outstanding, and we will have to pay for it. So, it is add, amount add, amount due for outstanding, which is not paid and light and fans amount is 320.

So, this is 2 9, then it is a 7. So, it is 1792 is the expenditure for light and fans, so it is done. Now the next item is telephone. So, it is telephone expense, telephone rent or the telephone charges. Telephone charges, will be take telephone charges into account this is 18. So, is there any additional information with regard to telephone charges? Yes, telephone amount due is rupees 80. So, we have already paid 100 and, sorry 816 add amount due is 80. So, total telephone expenses are 896, 896 are the telephone expenses. Similarly we take into account the next; that is the insurance, to insurance, to insurance is

672, and is there anything due here. We have to check that additional information if it is given and then will have to adjust for it.

So, the depreciation income tax accountancy lights and fans, telephone amount. Yes, amount paid in advance first item is insurance; that is 240, so less. Now if it is due, but not paid, you have to add it up, but something is paid, but was not due, you have to subtract it. So, less paid in advance less paid in advance, and this amount is this is the insurance 240. So, we will have to subtract this amount and this is 2, this is 3, and this is 4, 432 is the insurance amount. Bank balance will be not be taking, because it is an asset, similarly cash in hand will not be taking is asset. Sundry credit is a liability will go to the balance sheet. Then additions to the motor van are again a asset. Sundry expenses we will have to take; drawings not to be taken. Income tax will have to adjust here and we will have to treat it. So, I will be taking that also into account.

So, but in the income side if you look at we have taken the discount received, and we have taken the rent; that is 1792. Is there in any other income, if you look at this information, then we will be able to find it out there is some additional information is there with regard to the incomes side so, but we will considered it in due course must be add in to this the other expense.

So, what we have to do? Now we have exhausted this total space available, and we will have to add some more expenses say for sundry expenses, or some other expenses, and say other incomes also, and some this additional information we also be require to be adjusted. So, that is also going to be taken into account, and to be adjusted here, to be put here.

So, this I will be continuing with the same problem, and with the same statement; that is the profit and loss account in my next part of discussion in the next lecture.

Thank you very much.