Financial Statement Analysis and Reporting
Dr. Anil Kumar Sharma
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture – 23
Financial Statements with Adjustments Part-XII

Welcome students. So, we are continuing with the process of the financial statements and in my last lecture we were preparing the second statement that is called as income statement or the profit and loss account. So, we have taken some items here already as expenses, some this side as incomes.

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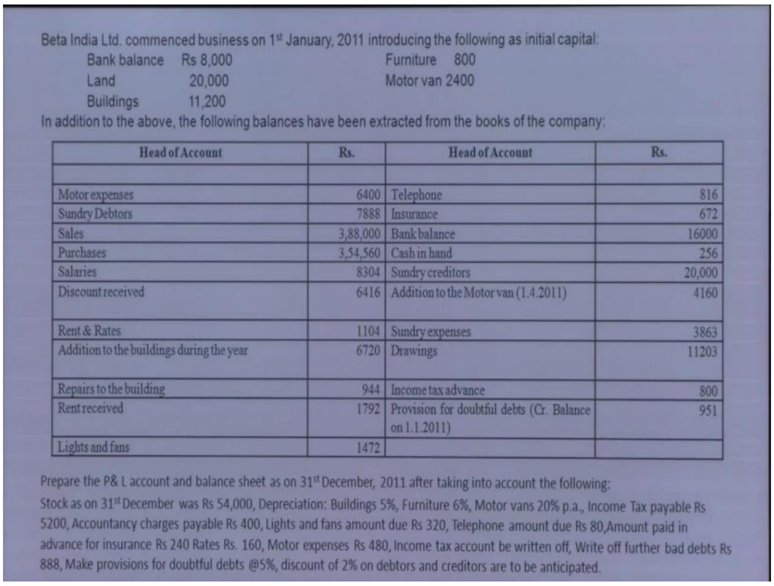
Beta India Ltd. commenced business on 1st January, 2011 introducing the following as initial capital:

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.

Now, we have some more items here, if you look at this may be one item is left, that is sundry expenses. This is sundry expenses, we have to take this into account and similarly, we have to take adjust this information also. Some information is left to be adjusted here.

So, we will be adjusting this information also. So, I am taking you to the next part means we are now starting from here, from the top and if we need more space, then we have to delete some more information. So, in this case we will be using this space for our say continuing the profit and loss account by removing the trading account, by removing the trading account will have to continue here. So, now, we were continuing on the upper part. So, next is to sundry expenses and sundry expenses are here 3,863 are the sundry expenses we have to take now.

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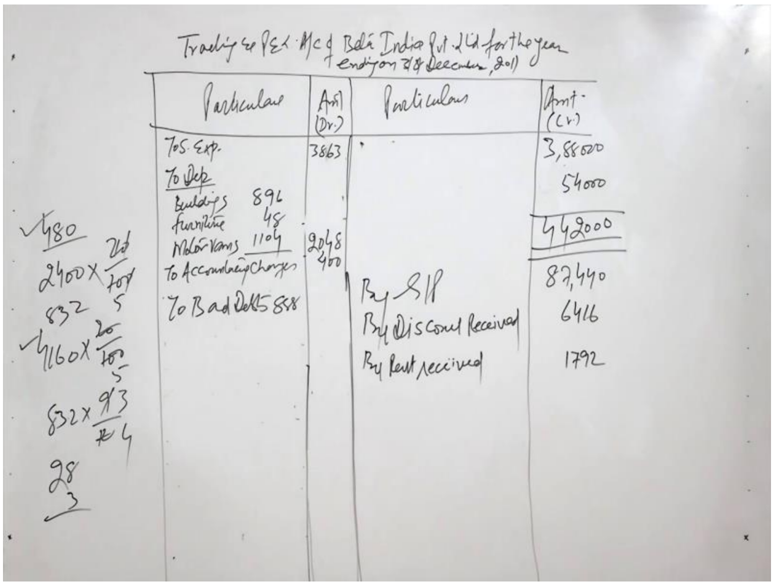

Or is there any other item left drawings no, income tax not yet, then is the provisions, will be talking about yes, provision for the doubtful debts. This is the credit balance of provisions for the doubtful debts. It means these are the provisions for the previous year's provision was done for the doubtful debts for the previous year, but no doubtful debts have, means no bad debts have taken place. So, it means that is why we have now the credit balance, they are left unused. If there is we had made the provision last year, but no sale turned as a bad debt. So, it means now, we will have to return it back to the firm and add it as an income. So, we have the two ways to treat the provisions has been discussed earlier, either you put it in the credit side, old provisions in the credit side and the new provisions here or we can adjust the new, old provisions here, that first you put the new provisions less old provisions and then the balance amount can be taken here. So, either way we can do it this no problem as such.

So, we will be doing it, like whatever the total information is given to us. So, we have continuing with this, that is your sundry expenses and now we have to all most this information is fully exhausted is nothing left here, but this information is left, part of this information is left here. For example, the first item here is, that stock on trade we have take, but the depreciation we have not taken.

Now, we will have to calculate the depreciation for the different assets, to depreciation, here is buildings 5 percent. So, it means buildings 5 percent. So, what is the amount of 5 percent on the buildings? Total buildings was 11,200 plus 11,000 say this addition to building was 6,720. So, this amount is 11,200 plus 6,720. So, this total amount works out as 0,29,717,920. So, this is the total building during the year and you have to calculate the 5 percent of this. So, this works out as 896 for the buildings.

Next thing is the asset is furniture, yes on the furniture, that depreciation on the furniture is 6 percent. 6 percent means for amount of 800 rupees. There is the 800 rupees and 6 percent is depreciation. So, this workout as 48 rupees and then we have next item is a motor vans. So, we have two amounts given here for calculating the depreciation on the motor van and these two balances are, motor vans first opening balance given here is, 2,400 rupees. So, this is one amount.

You charge this depreciation on this for the whole of the year and the rate is 20 percent. So, it is 20 percent. So, this is 5 and this is 4 plus this. So, this is 480 rupees is coming out as the depreciation for this 5 4 za 20 and then is 400 and then it is 5 to the 40 0. So, it is 480 one amount and then addition to motor van was 4,160, but this addition was done on the 1st April, 2011. It means there was no addition in the motor vans balance in the first 3 months.

There’s no addition in the first 3 months. It means only this part of the motor van has been used for 9 months. So, you have to charge the depreciation on this particular amount for the one full year and on this remaining this addition only for 9 months. So, this amount is 4,160 into 20 and if it is 100, it is 5. So, it is 813 and then it is to 832 and 832 is to be converted for the 9 months. So, it means it is this way. So, if you solve this. So, this works out as 480 plus some amount. So, the total depreciation for this motor van depreciation works out as 1,104. So, this is for the whole of the year on 2,400 and for 2,160 only for at the rate of 20 percent only for 9 months.

So, initially when you calculated for the full year that was 4,832 rupees, but when we converted that to this part. So, it means this works out as how much? This is 2 and then this is 8 and then this is multiplied by 3. So, total amount works out as 40 plus this is 1,104 this is the total depreciation, as you see the total balance of the depreciation is how much now? This is the 8 and then this is 4, then it is 0 and it is 2, 2 ,048. So, the amount, the balance of the depreciation is 2,048 is the depreciation balance, which we have calculated on the three important assets

Now, we talk about the next part. So, we have taken this closing stock we have adjusted, depreciation we have adjusted, income tax we will take later on. Now, the accountancy charges are payable 400 rupees. To accountancy charges and they are 400 rupees. So, one effect will come here and the 2nd effect will come in the balance sheet. So, I am removing this further information also, we are continuing with the same statement. So, we will be, you have noted it down. So, we will be removing it and then will add that remaining information here, and calculate the net profit after tax. So, we have taken the accountancy charges payable done, light and fans we have already adjusted, telephone we have adjusted, amount paid in advance for insurance done, motor expenses we have taken into account, income tax account to be written off.

Write of further bad debts of 888, make provisions at rate of 5 percent, discount of 2 percent on debtors and creditors are to be anticipated. So, the total amount of this we have to take into account. So, when we talk about the total income tax amount, we will have to take the total amount of that is given to us. Here, income tax payable is 5,200 rupees and here it is written income tax account to be written off means we will have to write it off. So, we will write it off and we will do it. So, it means we will take care now to bad debts that debts write off further bad debts rupees 888.

So, total amount of the bad debts is 888, which has really become the bed debts and in this make provisions for the doubtful debts, at the rate of 5 percent. So, it means what is the total amount of sundry debtors. The total amount of sundry debtors here, to cut this, these are the sundry debtors 7,888; so it is 7,888; out of 7,888, the 8,888 has already become the bad debts, first sure we say it will never be recovered clear, now on the remaining 7,000 rupees.

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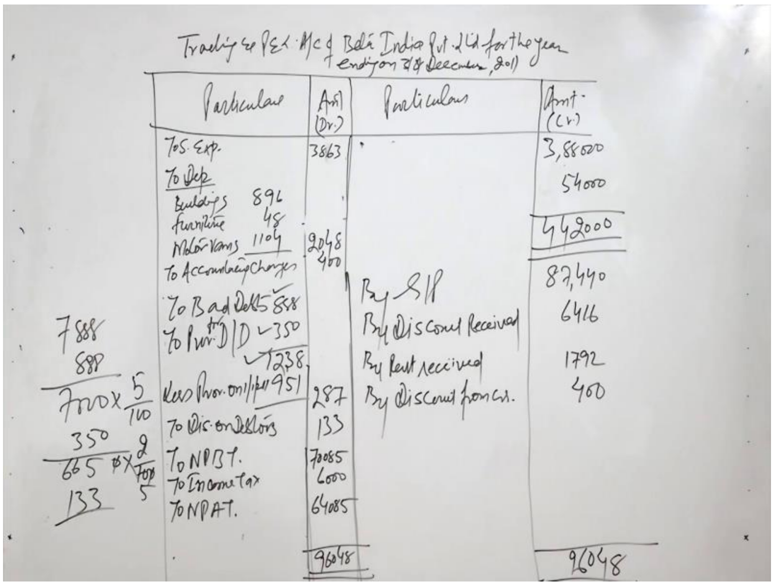

So, it means out of 7,888 we have not to recover 888. So, it means of the balance of the credit sales to be recovered as sundry debtors are 7,000.

7,000 are with us, but here it says that make provision for doubtful debts at the rate of 5 percent. So, we will have to make a provision of on this also 5 percent more may not come, so 5 into 100. So, it is 350 more may not come. So, this is 350 minus 350. So, how much is left with us it is now, 6,650 says; credit says expected to be recovered up 6,650. So, it means, to provision for doubtful debts, provision for doubtful debts is how much 350. So, total amount expected to be the bad debt is going to be 8, it is 31 and it is 1,238.

This amount is going to be 1,238 and out of this, we will have to subtract the opening balance of the bad debt provisions 951. So, as I told you we did you take 951 this side, what you subtract from this side. So, sometime what happens, we write it in this side when the old provisions are more and the new provisions are less. So, to avoid a negative figure here we put that balance of the previous year this side, but if you look at the current year's figure, current year figure is triple 8 plus 350 this is 1,238 and the old provisions are existing provisions are 950 on which is less than this. So, if we can put it on the debit side itself.

So, less provisions say you can call it has provisions on 1,12,011 or opening provisions we can write. So, this is 951. So, this has to be subtracted, because we had made the provisions like this hear 1,238 we made for this year. Previous year also had the made provision of 1,951, but these credit sales at that time did turn off to be the bad debts. We recovered those credit sales, no bad debts were there. So, it has to be returned back to the firm and those provisions made in the previous year have to be taken back in this year. So, previous years you can call it as expected loss will be now the income for the current year, because it is not provided. So, it should be taken into account here.

So, this is how much? This is 7 then this is 8 and then this is a 287, this is 287 is the amount of the bad debts. So, final bad debts for this year is, we wanted to make the total provisions for 1,238 out of that 888 has already become the bad debt, 350 more or expected to be bad debts. So, total amount expected to be bad debts this year is 3,21,238, but previous out of the previous year provisions, worth sales, worth rupees 951, they were not turned as a bad debt we recovered those sales. So, we will have to return it back to the firm in this year. So, total we want it to make it 1,238 this year, but previous year we have made access provisions 951 we are returning it back. So, fresh provisions we are making for this year is only 287.

After that next item is, 5 percent discount on debtors 2 percent, and discount on creditors is expected to be 2 percent. Now, after this further discount on, to discount on debtors that is 2 percent, discount on debtors is 2 percent. So, 2 percent on which amount? This amount 6,650. Total was 7,888. 888 has become the bad debt. We were left with the 7,000. 5 percent more is expected to be bad debt. So, it is 350 we have taken more. Now, the balance in the credit sales to be collected is left with 6,650. So, of this we are anticipating that we have to give for the 2 percent more discount to the buyers of goods from this company on credit, to collect this remaining amount of 6,650.

So, we will have to further subtract two percent of out of this. So, if you subtract this, this works out as this much and if you calculate this, this is 1, then this is a 3, and this is 3. So, 133 rupees, more discount is expected to be given to the buyers of the credit sales. So, we will have to lose 133 more rupees. So, it is 133 discount is expected to be given so, but this is discount to be given on the debtors and at the same time this firm is expecting that discount from the creditors also, they are expecting the discount from the, as they are giving expecting to give the discount to debtors it is a loss at the same time they are expecting that this firms creditors also will give some discount to this firm. So, that will be gain which is a loss and here it will be the gain.

So, how much is the amount of sundry creditors 20,000 and 2 percent of that is 400. So, by discount from creditors, it is going to be 400 rupees, this discount is going to be 400 rupees. So, I think I guess we have adjusted almost the total information till now, given to us and here, if we talk about the. So, let us check once again. We have not to take this balance, because they are all assets. So, nothing to be done in the profit and loss account we have taken the motor expenses this as well as this sundry debtors no, sales done, purchases done, salary is done, discount received done, discount to see, we have already taken rent and rates done, addition to buildings nowhere to be taken, but only depreciation has to be taken, so, we have taken, repairs to building we have taken.

Rent received we have taken, lights and fans rent received we have taken yes, we have taken, lights and fans we have taken, this as well as this information also. Telephone we have taken, insurance we have taken 672 at plus this information, bank balance no, it is a asset, cash in hand asset, sundry creditors is liability, will go to the balance sheet. Similarly, addition to the motor van we have to, we have only taken the depreciation on this and then we will be taking the total amount. Then the sundry expenses, we have already taken 38,363, drawings we will taken the balance sheet, income tax now we will have to adjust and provision for doubtful debts previous years balance we have already adjusted, we have already taken that into account.

So, it means, let us check this information also. We have taken the stock 54,000 it will already done, depreciation on building 5 percent done, furniture 6 percent done, motor vans 20 percent done, income tax we will have to adjust. Now, accounting charges we have taken, light and fan we have adjusted, telephone amount due 81, amount paid in advance for insurance is also taken into account. Similarly, your motor expenses are also taken into account, income tax we will have to write off, write off for further bad debts 888 we have done, make provisions for doubtful debts at the rate of 5 percent we have done.

Discount of 2 percent on debtors and on the creditors we have already done. Now, let us calculate the net profit before tax to net profit N P B T, we call it as N P B T net profit before tax. So, if you total of the this side, this is going to be something like this as say, 8 and then it is going to be 5 and 9 and14 1 5 4 9 and 16 and 20, this is 048 and then it is going to be 7 and 13 14 and 2 16 1 and it is 8. So, it is 96,048 is a total of this side. So, it means you have to write here, 96,048 is the total of the credit side it means credit side seems to be bigger than the debit side. So, we are going to end up with the profit and the first we have to calculate the profit before tax and then the profit after tax.

So, net profit before tax is going to be how much? If you take that 9,648 and if a total of all these expenses, of this side, we are going to end up with the net profit before taxes 70,085, this is going to be 70,085 is the net profit before tax. Now, tax amount, to income tax, that tax on the income of the firm, to income tax, so income tax is how much? Here it is advanced tax paid is 800 and income tax payable further, more is 5,600 rupees. So, how much is the total income tax to be paid that is 800 plus 5,200 that is 6,000 rupees.

So, you have to subtract that 6,000 rupees to income tax and this is 6,000 rupees, now, finally, to net profit after tax, to net profit after tax will be 64,085. This is the net profit after tax. So, we have already adjusted. So, it means the profit is calculated in two steps; first we have calculated the net profit before tax, that is a simple of total of this side minus all expenses in the profit and loss accounts debit side, then we were given information about the income tax, total income tax due is it a 6,000 out of that 800 are paid in advance and 5,200 is due to be paid. So, total this works outs at as which is already given to us. You are not given a percentage; we are given the total absolute amount. So, we have taken this absolute amount that is the 6,000 rupees.

So, profit after tax is 6,485 means 64,085 rupees is the net profit after tax. So, since it is a private limited company, as I told you in the beginning that it is a private limited company. So, no dividend will be paid, is supposed to be paid to anybody. So, this entire amount has to be registered in the balance sheet to be taken to the balance sheet and has to be added in the capital. So, after this, after preparing the profit and loss account we will have to now, go further web for preparing the balance sheet and here we have taken the four items gross profit, discount received, that is a gain 6,416 rent received is a indirect income as I discussed in my previous lectures, then is the discount from the creditors as we are giving the discount to the debtors this firm is giving to the discount to the people to the buyers who have bought from this firm on credit.

So, as they are giving the discount. Here, this firm is getting discount from their suppliers from whom they have bought, they are expecting to get the discount at the rate of 2 percent. So, 133 discount they are giving and 400 discount they are expected to get.

So, almost there is no loss as such, because sundry creditors are more, sundry creditors are here say 20,000. So, the 20,000 we are getting 2 percent discount, it means 400 rupees discount is there. So, total income on the credit side of the profit and loss is gross profit, then it is the discount received is again indirect income, gain rent is again indirect income, not from the main business and discount is the from the main business and that is from the suppliers.

We are going to pay less to the suppliers. We are going to pay to the suppliers now is the 19,600 rupees. So, this is the income side, this is expense side. This is the net profit before tax, then this income tax you have taken and then it is the net profit after tax 64,085 we have already calculated and this will be now added in the balance sheet.

Now, here before we start moving to prepare the balance sheet for this particular case, you must be remembering that, when we prepared the balance sheet we will be prepared, the balance sheet was start preparing the balance sheet; first item in the balance sheet comes up as capital, share capital or capital. Share capital is in the public limited companies and in case of private limited companies partnership firms and sole proprietors, we call it has only capital.

But no capital is given here. If you search for the capital, look at this motor expenses and sundry debtors, sales purchases, salaries, discount received, rent rates, addition to building, repair to building, rent received, lights, then it is the telephone, insurance, bank balance, all these. If you look at for this total information, you will find that no capital is here. So, is it possible that the business is running without capital? It cannot be possible that you have no capital; still we are doing the business. If you have no capital from where, then these balance is have come? Say, we have bank balance of 8,000, then land is 20,000, building is 11,200s, then is the 800 is furniture, and then it is the motor van of the 24,000s.

So, it means and this case, when we are talking about the capital part in the balance sheet. We will have to now, try to find out that capital means, that we are not given state way the amount here, but these all items are purchased from the capital. So, in the balance sheet; first item that will come as a capital, will be taken as a capital by us will be here something likes say total of these 5 assets; bank balance 8,000, land 20,000, 2,8000 buildings, this is the 2,838. 39,200, then it is the 40,000, this is 40,400.

So, the total capital that will be taking in the balance sheet will be 42,400, and then the other things will be adjusted other things will be taken care of, other things will be adjusted in the balance sheet. So, this is the capital, those not directly given here, but we will have to take it from here, that these balances is first been invested the funds in the business and those funds were converted into assets. So, on the asset side, these assets will come, 5 assets will comes on the liability side the first item we will start the preparing balance sheet with will be the capital. So, capital will be some of these 5 that is 42,400. So, when we will prepare the balance sheet we will take that in to account and the balance sheet I will be preparing in my next part of discussion in the next lecture.

Thank you very much.