Financial Statement Analysis and Reporting

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Lecture – 24
Financial Statements with Adjustments Part-XIII

Welcome students. So, as we are continuing with the process of financial statements with the adjustments. So, we are trying to know that in the different situations, and in the different type of the business scenarios, how to prepare the financial statements. And now we have increased the level of difficulty. Initially we discussed the financial statements which were very simple, but now we are little on the next level, and we are preparing the financial statements where we have some more information.

So, in my previous lecture I showed with you that we have a three kind of information here; that is the opening balances, balance is given in the trial balance, and then it is the additional information which needs to be adjusted.

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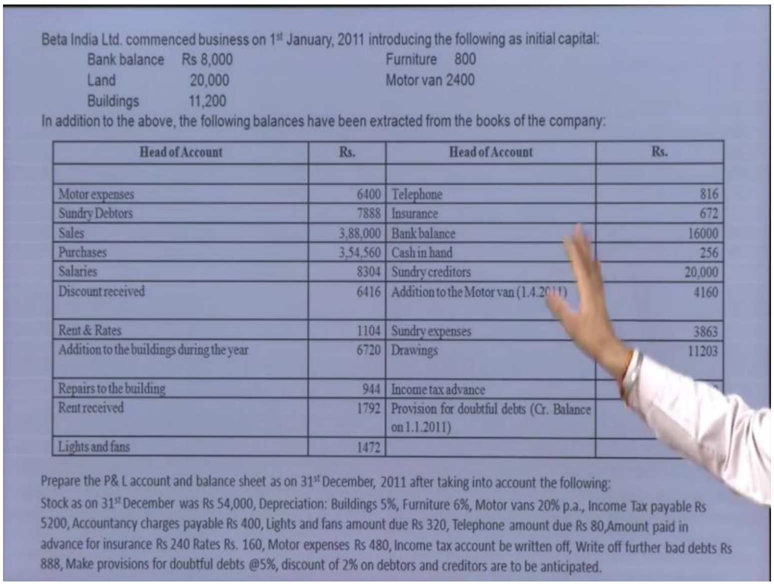

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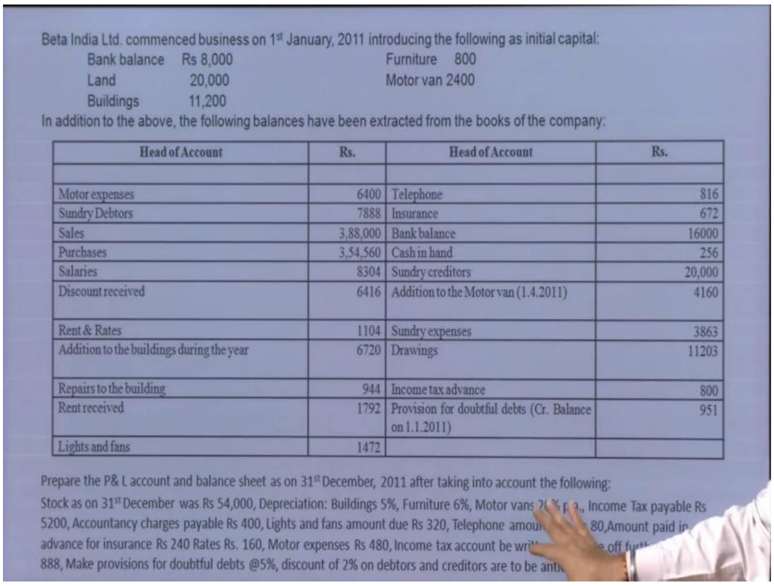

So, this information is already adjusted, this information is also adjusted. So, only single effect, and this needs to be adjusted. So, has to have the double effect. So, as we have been doing it, we have already prepared the trading account, we are prepared the financial statement. So, that the profit and loss statement. And today we will prepare the balance sheet for this particular problem and then see there what are the important issues what are the different adjustments are required to be done, and how these adjustments will be taken to the balance sheet. And then next thing we will do today is, means in this lecture we will move forward to the next level.

That is preparing the financial statements of company form of organizations, where we have some additional items, some more I can call it as an accounts balances, and different type of the transactions are there; say for example, one transaction is shared capital. Now we are not discussed the share capital so far that what is the share capital, real share capital. We are simply talking about the capital which is introduced in the business by the owner of the business or the partners of the business, or by the or members of the or owners of the private limited company, but that is not the share capital, because share capital in the real sense, is a from the say, it is taken in the larger perspective.

We are initially seven members establish a company, there are need for some time and when it start working and (Refer Time: 02:40) reaches at level, then a new members can join or maybe that the stocks of the company, the shares of the company can be sold to the general public in the market with the help of initial public offer, we call it as IPO's, and then if you take the second issue that is called as a FBS followed on public offers. So, we can through public offers, we can increase the shareholding of the companies, and we can involve last number of the people. As I discussed with you in sometime back that number of members, or owners of the companies limit.

As a minimum 7 in case of the public limited companies, we need minimum 7 people to establish a public limited company, or maximum there is no limit. So, the shares can be sold to general public. You must be aware that companies are selling shares worth say I means lakhs of the shares, to say thousands and lakhs of the people, they are subscribing. Anybody may subscribe any number of the shares, and they become the shareholder of the company, they become the owner of the company to the extent they have purchase the shares of that company. So, that is the case. So, we have not discussed their problem so far, but now in the next problem will be trying to know, that how to prepare the financial statements of truly a company form of organizations, which are public limited companies.

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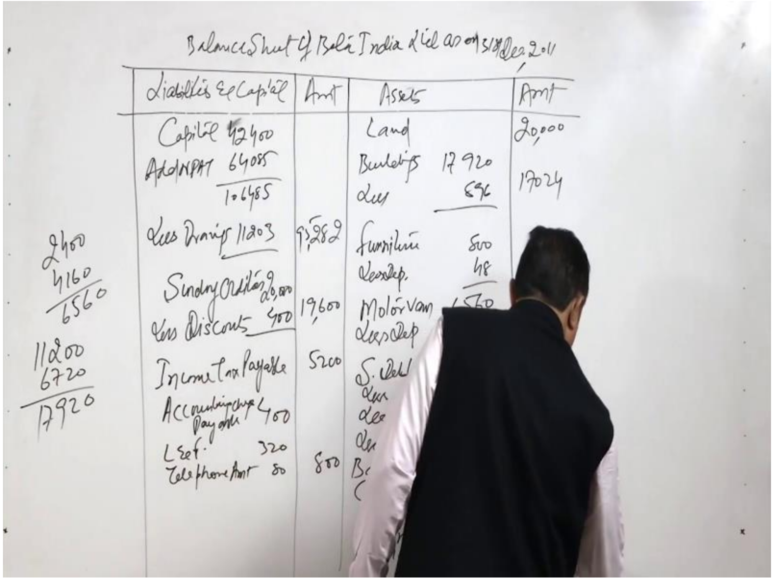

So, now let us prepare the balance sheet for this particular case, and then we will move forward to the public limited company's financial statements. So, here this is again the same format; balance sheet. Format you have to be very clear I am telling you time and again that format should be very clear of Beta India Limited; balance sheet of Beta India Limited as on. It is only for one day, depicting the financial position of the business for one day as on 31st December 2011.

So, there we had liabilities and capital, here we have liabilities and capital, and here we have amount. Here we have again we have the assets, here we have assets and here it is amount. no debit, no credit, no to, no by, nothing simple it is a plane statement, only putting liabilities and capital of one side and assets on the other side, or other were round that is the sources of funds on the left hand side, and the application of the funds on the right hand side as assets. So, we will see that how this balance sheet of Beta India Limited looks like and how we can prepare this balance sheet.

So, we will start with the liability side of the balance sheet. And when we talk about the liability side of the balance sheet, we have to start with the first item that is capital. As I told in my last lecture that there is no capital directly given here right, there is no capital given here. So, where is a capital? Capital is a sum of these 5 items, because these items are purchased by investing the funds in the business, and these items bank balance land buildings furniture and motor van and they have come from the funds only, and funds are invested in the business. So, some total of these 5 items is the capital, which is not share by given to us, but this is the meaning of these opening balances.

So, how much it works out 28 then 29 39 200, and it is 40 then 42400. So, the capital of the business is 42400s, then add more profit. So, we have calculated the net profit of the tax and this was net profit at net profit after tax, and this is 64000 and 085 64085. So, this is the total profit we have already a found out. So, this works out as how much 5846, and this is 106485. Now in this, there is any interest on capital we will have to take that into account and there is no interest on capital, in that case we will have to, not to take that, but I think this is no interest on capital here, it means they have to take the drawings.

So, we have to subtract the drawings from this amount, less drawings. So, is there any interest on the drawings? So, I do not think so, there is any interest on the drawings. There is no interest on the drawings; it means drawings are 11203. So, if you subtract this amount it is 2, it is 8, it is 2, then it is 5, then it is a 9. So, it is 95282, yes 95282 is the capital, that is total capital we had 42400, then we added the profit after tax here, and then we subtracted the drawings.

So, now finally, the capital left with the business is 95282. What are the other liabilities now? Let us look for the liabilities. So, we will now take motor expenses are done, sundry debtors no, sales no, purchase no, salaries no, discount received no, rent and rates no, additions to buildings no, repair to building no, rent received, light and fans no. So, you will find here the liabilities, I think on this side telephone no, insurance no, bank balance no, cash in hand, sundry creditors yes, sundry creditors is the another liability, this is sundry creditors. So, sundry creditors are 20,000.

So, 20,000 less discount they have given discount, there we have calculated yesterday that the creditors have given the discount and that was 2 percent, 2 percent of 20,000 is 400. So, finally, now this company is the debtor to the supplier is to the extent of 19600, 19600 worth of rupees they have to pay to the suppliers, because suppliers have already given them discount of 400 rupees. Any other items left here, we will have to take that into account, then it is the sundry creditors taken addition to motor vans no, sundry expenses no, drawings we have already taken, income tax advance we have already taken, provisions for the doubtful debts, credit balance they have already taken.

Now, let us looks for the information here. Prepare the profit and loss account of this, this, this, then it is closing stock will come on the asset side; depreciation will come on the asset side, income tax payable yes. Total income tax obligation of this firm was somewhere 6000 rupees. So, 800 is paid and 5200 rupees are to be paid. So, it is income tax, income tax payable to the government. So, this amount is 5200, 5200 one liability. Anything that will we have to find out which is payable outstanding, accounting charges payable 400 yes.

So, we will add up now all the items and that put one item only outside, accountancy charges, accountancy charges payable is how much; accountancy charges payable are 400. Then we have anything else payable here lights and fans amount yes. Light and fans payable is, light and fan payable is amount, this amount payable is 320. Then we have the telephone amount due; that is telephone amount is 80 to be paid, and anything else amount paid in advance, other there amount paid in advance; that is insurance, motor expenses and income tax to be written off right of the further bad debts. So, I think we have on this liability side we have taken everything 95282 is a capital, 19600 is the creditors, and this works out as 5200, and then this is 400 accountancy charges than 320 are the light and fan charges which are due to be paid.

And then telephone amount is that is 80 rupees. So, this is 32400. So, this is 800 rupees, are to be paid later on. We have the expenses these expenses have become due to be paid, but we have not yet paid them. So, we have to pay them I should no problem. So, I think there is no other item to be taken here. Almost we have taken everything on the liabilities side. Now we talk about the asset side, which start with the asset side, preparing the asset side of this balance sheet, and you have to start from the top. These are the opening balances here; we have to start from here, and all these assets we have to taken to account.

So, let us start with first item, and there first item opening balance is land, and land is how much 20000. No depreciation, no appreciation nothing. So, 20000 of the land we have to take as it is. Then we have to go for the buildings, buildings are how much. Buildings are buildings amount is total 11200, and then addition to the building is 67 this one. So, this works out as 11200. So, we have to take only one figure out side 11200, and then it is 6720. So, this is 0298, 18920, 18920 is the buildings amount .we have put here

18920 we have to put in the inner column, and in this we have to provide for the depreciation.

So, depreciation was at the rate of how much. This is, if you take let up this works out as 029 oh sorry this is 7, this is 17 17920 not 18000, 17920 and less depreciation. So, depreciation we have taken yesterday was 896 was a depreciation on it. So, final balance of this is 1 seen 024, 17024 is the buildings balance. Then the next item is the furniture. Furniture here is nothing may addition during the year. So, we have furniture worth rupees 800, and we have to subtract the depreciation less depreciation, and that depreciation amount is how much 48. So, this is less for 752 rupees is the furniture.

Then we have motor van another. Yes another important asset is the motor van. motor van is total about balance is 2400, we put here, 2400 was there, and we have make additions also motor van additions 4160, 4160 is 065, and it is 650 is the total motor van balance, 6560 is the total balance of the motor van, 065 and 6560 is the total balance, and from this we have to this we have to put here, 6560 less depreciation on the motor van. So, this is how much depreciation we have to take here that is 1104, this is the depreciation, and finally, the amount of the depreciation van will be how much this is 6 this is 5 this is 4 and this is 5.

5456 is going to be the final balance left in the balance sheet with regard to the motor van. So, we have taken all these five assets; 1 2 3 4 one thing is left is bank balance, we will take it later on now look let us look for the assets here, any asset is left here we will have to take for the motor expenses done, sundry debtors yes, for any other fixed asset there is no. So, let us take the sundry debtors. Sundry debtors, sundry debtors amount given it to us is 7888. So, we have to now subtract less bad debts. How much was the bad debt figure? 888 was the bad debts figure. Then we had some provision for doubtful debts, 5 percent and that 5 percent of 7000 was less 350; that is the provision for doubtful debts 350 less discount on debtors.

Discount on debtors was 133. So, these three items have to be subtracted from this total balance. So, if you subtract this total balance from this sundry debtors. So, finally, we are left with how much; that is the final balance will be 6517, 6517 is the balance of the sundry debtors. So, that is we have already taken. now we have to talk about the other things; that is sundry debtors are also done, it means sales, purchases, salaries, discount, rent, additions to building done, repair to building done, rent received done, light and fan done, telephone, insurance, bank balance.

Yes, now we will have to take the bank balance or anything else is there, no bank balance is closing balance is 16000 bank balance is 16000 closing balance is the 16000. So, we have to take it like this, then we have to take it as cash in hand, cash in hand. How much cash in hand is there, final balance of the cash in hand is 256 is the cash in hand. So, cash in hand is this sundry creditors, we have taken addition to motor van, we have taken sundry expensive, we have taken drawings, we have adjusted income tax advance, we have done provision for creditors, we have already done.

Now we are to look for this information if anything is left stock is, we have to take the stock that is the closing stock. Closing stock here is, closing stock is how much. We have the closing stock of 54000, closing stock of 54000 we have already taken the depreciation part on all, everything we have taken the income tax advance also, accountancy charges also, light and fan also, light and fan also, and telephone due also, we have taken amount paid in advance yes, these are the assets.

Advance insurance, advance insurance is how much, advance insurance is 24240 and sorry rupees, then advance insurance will be 240, rates, advance rates are 160, advance rates are 160, and then we have motor expenses 480, advance motor expenses 480, advance motor expenses are 480. Then we have income tax amount to be written off, write off, further bad debts done, make provisions we have already done, discount we have also taken into account.

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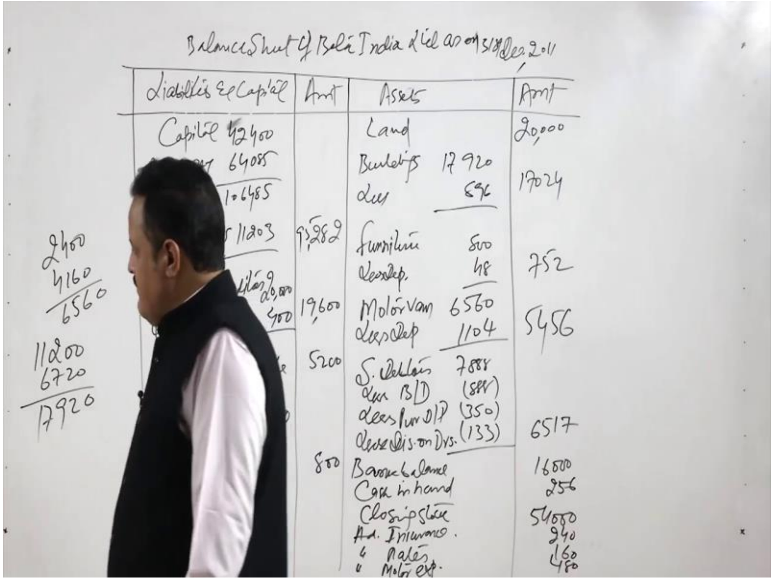

So, I think we have done with all the items if you talk about, if we check the balance you are done with all the items here, and nothing is left. So, let us see it is both the sides are equal or not. We will have to total it up and try to find out both the sides, this is we have limited items here. So, let us first totally it up, and if you talk about this figure of the drawings which is given here. We will have to correct one thing here to 03, it is not 2 0 112203, but it is a 11200. If it is 11200, so it is going to be 5.

So, we will have to make this correction, then it will be that telling the balance sheet will be tally. So, it is 11200, not 11203. So, if we you make this correction here. So, this works out as this. So, it means. So, it going to be now 5, 5 would, then it is 8 we have taken, then it is 8, 10 and 8, 18, then it is a 18 1, then it is 6, 6 9 15, 15 and 5 20 0 done; 20 0 2 7 20 20 and means 2 11 and 12, once 2 1 2 0 8 8 5, 1 2 0 8 8 5 is the total of the liability side. Now let us check whether it is equal amount in the asset side also.

This is 4 2 6 and 6 12 and 7, 19 and 6, yes seems to be same 5 would to 4 and then it is 5 9 and it is 5 50 14, 15 15 20 20 4 30, and yes fine this is going to be 85 than 282 then it is 2 9 and it is 13 18 50 80 means 20 20 2 20 3 and it is 25. So, it is again 8 what to. So, we have to go for the 4th item or 9 then it is 14 then it is 20 20 20 6 26 and it is a 30 0 yes good, 3 3 3 and then we have to take the next item that is 3 5 5 6 6 6 6 and it is 7 7 and 5 12.

So, it is equal. So, both the sides are 120885, 120885. So, we have tallied the balance sheet, we have prepared the balance sheet, both the balances are equal. And we have seen that after adjusting for all the adjustments say here, the opening balance is the trial balance and this in additional information, something was pending, something was paid in advance, something was due to be paid, closing stock, depreciation, provision for debtors and creditors everything we have adjusted. So, this is how we prepare the balance sheet of different type of the organizations, or different type of the say business enterprises, other than the company form of organizations. Normally company form of organization we also do like this process is same, everything is same. These items will be, certainly be there in the joint stock companies accounts also.

But in the joint stock companies accounts we will have some additional information right. we will have some additional information there we will have the problem of share capital, we will have the problem of paying dividends, we will have the problem of crediting reserves, then means especially preparing the profit and loss appropriation account, everything we have to do, which we are not doing here. Here it was very simple that there are few people who create that enterprise, maybe as a sole proprietor partnership firm, or say private limited company, and then they invest a capital and they start the business, not much legal formalities nothing. Here one important point is I told you that not much legal formalities.

Because government takes not much interest in these form of the organizations. Government is only limited that, yes they should pay the taxes on time they should pay the salaries and wages of the workers on time, they should produce good quality products, everything there kind of things, but because public money is not involved in these organizations. In the sole proprietor also the money coming from the owner, in the partnership firms also the money is coming from the partners, and in the private limited company is also the funds are coming from normally largely from the, that the members, initially members which may be 2 and maximize 50.

And maximum there can be borrowing from the banks or the financial institutions. So, if there is a borrowing from the bank or financial institutions, they are taking care of their own funds, they are taking care of their own funds and they are really very busy land, and as far as the other sources of funds are concerned they are private. They are private the owners have invested the funds, and if anybody has invested the funds they not allow them to go down in the drain. So, in that case government's role is not much, but in case of the public limited companies, governments rule increases to a very large extent, because these are the public sector companies, and public is the one of the important investor one of the bigger investor in these companies, and when they invest in these companies.

Normally everybody does not know what is the business, everybody is not insider in the firm. And the main important reason in the company form of organization is the, business entity concept. Business entity concept means that the, owner is different, company is different and owner is not running the company, owner is not running the company. In the sole proprietor owner is running the business, in the partnership firms partners are running the business, in the private limited companies also largely the owners are running the companies, but in case of the public limited companies owners are not at all running the companies, they are not at all running the companies.

Owners, because they are very large in number, this sometime with run in thousands or lakhs, so they do not run the companies, they hire the professional managers who know what is the business. One may be the shareholder, but he may not know how to run the business, he can provide the capital, he can subscribe to the shares of the company, but he does not know that how to do the business. So, if the management is separate, owners are separate, business is separate, it means in that case we need to have a proper look that how the management is running. The business management might have it is own objectives, owners might have it is own objective, business might have it is own objective.

So, it means the general man who was purchase the shareholding of their company, not to a very bigger extent; a small shareholder who is not allowed to say interferes in the company's affairs. He is only called once in a year in the annual general meeting, and he is explained everything how the business is being run, and rest of the things are not explain to, if he does not know anything. in that case it is the responsibility of the government, because the government being a custodian of public faith, it is the responsibility of the government to make sure that the business is running in a proper manner, the business is running in a proper manner, and there is no, I can call it as misappropriation of the public funds, because people are investing in these companies. So, if the managers are misappropriating the funds, if other, say owners who have the larger interest, and who are into the management also, who is somebody the chairman of the company or sometime managing director of the company.

Because share holders who have the larger stake in the companies, they are into the management also, and other managers are hired. So, they sometime can misappropriate and they can receive the other shareholders. So, that should not be done. So, for that reason governments control increases, government's interference increases, and when the governments control increases, interfere increases. There lies an importance of reporting of the business affairs to different stakeholders.

These financial statements become very important document. They are prepared by the, got prepared by the management, they are got audited from the chartered accountants, certified chartered accountants. Then these financial statements are supplied to different interest groups; that is a copy goes to every shareholder, a copy goes to the government, copy goes to the tax authorities if they ask for it, the copy of the balance sheet, goes to the financial institutions, who are provided the largest chunk of their money.

So, different stakeholders are there in the public limited companies, including government. So, reporting becomes very important and critical issue, because they have to compulsory keep on reporting to the different stakeholders, including government and shareholders that how the business is running, how the business is being run how the business is running, and if there is anything wrong that should be immediately brought into the notice of the concerned authorities. So, that the intention of the management and the major shareholders is not doubted.

So, in that case, the financial statements of the public limited companies become little more elaborated, more complex then, include more information, and then they are the real financial statements, as the reporting of those financial statements is also very important, is also very critical. So, that will be the very interesting thing for us to do; that is the next thing will be doing that learning about how to prepare the financial statements of the company form of the organizations, and that I will do in my next lecture.

Thank you very much.