

Financial Statements Analysis and Reporting
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Lecture – 30
Corporate Financial Statements Part VI

Welcome students. So, in the previous lecture, we were discussing about the preparation of the financial statements for this particular problem. And I was preparing the profit and loss account after preparing the trading account; I was preparing the profit and loss account. So, we had taken all the items on the debit side of the profit and loss statement, but on the credit side we had not taken anything so far. So, now, we will be completing the credit side and then we will be calculating the profit or loss. So, if we take the credit balance is into account, so we have taken almost everything. One correction, I would like to advise you here that we have taken one item that is a central sales tax.

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The following is the Trial Balance of Mamta Fashions Ltd. as on 31st March, 2016

Sr. No.	Head of Account	Amount (Dr.)	Amount (Cr.)
1.	Premises	3,60,800	
2.	Plant & Machinery	4,95,000	
3.	Opening Inventory	1,12,500	
4.	Debtors	1,06,050	
5.	Land	87,500	
6.	Cash in Hand	4,725	
7.	Current Account	45,500	
8.	Bills Receivables	58,875	
9.	Purchases	27,00,000	
10.	Preliminary expenses	7,500	
11.	Wages	86,970	
12.	General expenses	10,252	
13.	Salaries	90,338	
14.	Bad Debts	3,165	
15.	Interest on term loan	27,000	
16.	Equity share capital		3,00,000
17.	10% Preference Share Capital		1,00,000
18.	Secured Loan @ 12% p.a.		4,50,000
19.	P&A/C Balance as on 1.4.2015		39,375
20.	Bills Payables		55,500
21.	Creditors		83,000
22.	Sales		31,20,000
23.	General Reserves as on 1.4.2015		37,500
24.	Central Sales tax Payable		10,800
	Total	4,196,175	4,19,6175

But so central sale tax is if you look at this items, central sales tax is written that it is payable. So, it has not yet been paid it is payable. So, it will not be taken in the profit and loss account, but it will go to the balance sheet, and we will show it as a liability in the balance sheet. So, we have to remove this item from the profit and loss statement and then other items are ok, we have taken all the items in the debit side.

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P&L A/c			
		Dr	Cr
Total Exp	26763	26763	
NPBT	87895		87895
Pro. for Tax	39763	39763	
NPAT	59132		59132
	355530		355530
Particulars			
By Balance b/d	39595		39595
By Net Profit	59132		59132
	98727		98727

And now we will be taking the items in the credit side and then we will be trying to find out the profit and loss before tax and then after tax. So, this is the way we are going to continue with the profit and loss account. So, now I will be coming up here, whatever the total expenses were there we have already taken and then we will be taking the calculating the profit or loss. So, in this case, we have to take now the gross profit will come this side by gross profit that we calculated in the trading account will take it to this side 3,55,530. This is the gross profit.

And then let us look for any other item if there is any other income is there indirect income is there just search for it. And premises no, plant and machinery no, opening inventory no, debtors no, land no, cash in hand no, current account no, bills receivable no, purchase, preliminary, expenses, wages, general expenses, salaries, bad debts, interest on loan nothing is already debit items. Incomes side if you look at we have share capital secured loans profit and loss balance no, nothing is there then creditors sales general reserve and central sale tax payable. So, it means there is no other income which you we can call it as the indirect income, so that is not there.

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Further Information:

1. Authorized Share Capital of the company is as under:
 - 1,00,000 equity shares of Rs. 10 each
 - 1000 Preference Shares of Rs. 100 each
2. Issued Share capital of the company is as under:
 - 30,000 equity Shares
 - 1,000 Preference Shares
3. Depreciation is to be provided for @10% on Premises and 14% on Plant & Machinery.
4. 20% Preliminary expenses are to be Written off.
5. Interest on Term loan is to be provided for six months
6. Bills receivable Rs 25,000 were dishonored, Effect was not carried out.
7. Doubtful Debts are to be provided for Rs 3,000
8. Value of Inventory on 31.3.2016 is 1,35,000
9. Income Tax is to be provided for @ 35%
10. The BOD recommends dividends on Preference Shares and a dividend of 12% on equity shares after transferring 5% of Net profit to general reserves.

Required:

Prepare the following Financial Statements of the Concern:

- P&L account for the year ending on 31.3.2016
- P&L Appropriation Account for the year ended on 31.3.2016
- Balance Sheet as on 31.3.2016

Here we looked at the additional information for adjustments. So, we have share capital then we have depreciation, preliminary expenses, interest on term loans, bills receivable doubtful debts, value of inventory, income tax and the dividend. So, please there is no other income. So, we have taken the income here only has GP as income and then on this side we will be we have to take all the expenses. So, it means this is 3,55,530 is the total direct or indirect income. And we have taken all the expenses here.

So, if you take all the expenses then we can see that; what is the profit before tax. We will have to calculate their profit before tax; and on that, you have been given the percentage. So, the total items here we will again put 90,338 were the salaries, and then the other balance is where there that is 54,000 was the interest items. Then we have the general expensive of 10,252 then we had depreciation 1,05380 was the depreciation, bad debts are 3165 and then we have 3,000 and then we have 1500, and then we have I think these are the only preliminary expenses and everything. So, we have taken all the items all the expenses here if you look at.

So, we will be able to find out that what is the total of the expense side, it is 5 2 7 8 15, 1 4 9 then 8, 17 and 6 is 23, 2 then it is 5, 7, 10, 11 and 5, 16 is 1, 5. Then 5, 10 then 17 and then we have to go for the 1, 10, 5, 15, and 16. So, it is it is 16 and 112. So, it is 2,67,365. So, it is the total of the credit side is 3,55,530 and this is 2,67,635.

So, now we have to take this. And if you take this, so we are able to find out what is the profit before tax that will be 5 then it is 9, then it is if you take this is 4, 14, 6, 8 then it is 14, 7, then it is 14, 8 and then it is 87,895. So, the profit figure is 87,895 is the profit. So, the total of means total of the expense side is this is the gross profit. And total of the total expenses is, but we have written in the previous lecture total expenses is 2,67,635. And now the profit net profit before tax net profit before taxes is 87,895.

Now, we have to calculate; we have to provide for the provision for the tax, provision for tax. Now, how much period for text we have to make the text rate is given to us here somewhere income tax is 35 percent. So, we have to calculate the 35 percent of this. So, if we take the 35 percent of this figure that is 87,895 into 35 of this. So, this works out as this text part works out as provision for income tax that is 30,763 this is that provision for tax. And now I have to calculate the net profit net profit after tax. So, net profit after tax is going to be 57,132. So, this is the total net profit before tax is this much then is a provision for tax, and then the net profit after tax is 57002. So, if you take this into account. So, we will have to take count this, this and this if we count these three things 3 2 5 510 0, and then it is 1 4 and 4 and 6 10 and 3 13. So, this will workout has 33,55,530, this is the net profit after tax.

So, this is the net profit after text, we have calculated for this given problem. And net profit after tax is 57,132, tax is at the rate of 35 percent on the net profit that is 87,895 this profit provision for the tax is that the rate of 35 percent 30,763. So, now, this is the completion of income statement that is a profit and loss account.

Now, we will be moving further to prepare the profit and loss, this is we are going to prepare now profit and loss appropriation account profit and loss appropriation account. Profit and loss appropriation account, this account we are preparing for the first time. So, same again, same columns that are the particulars here, we will have the same columns here particular as we are having for the profit and loss account particulars, then it is amount, this is the debit side; this is again particulars, amount and this is the credit side.

So, now we will have to take the profit. So, there is given to us that there is opening balance of the profit. Profit of the previous means year is kept open this is not transferred to the capital not added into the capital; so the balance of the on 1st April 2015. So, you will have to start with year that is by balance by balance on 1st April 2015 the balance

amount of the profit is which is open kept open we will have to added it to the current year's profit 39,375, 39,375 is the balance. Then by net profit net profit for the year net profit for the year that we have calculated here that is 57,132. So, this is the total profit we have earned. So, this is the total profit. And that total profit works out as it is 7 then it is 10, 1, then it is 4, it is 5 then it is 16, 6, 1 5 3 9, and it is 9; it is 96,507, it is 96,507 is the profit here.

Now, we have to make the provisions now let us look at that; what are the provision general ledger balance is also given to us. So, we will have to take this into account. So, we will be transferred to the balance sheet so from here only. So, what are the provisions required to be given, depreciate no, preliminary expenses, interest bill receivable, doubtful debts, value for inventory, income tax to provide, we have done board of director recommends dividend on preference shares and dividend preference shares and dividend at 12 percent on equity shares after transferring 5 percent of the net profit to the general reserves. So, it is 5 percent of this will go to general reserve to general reserve.

So, general reserve is how much is the profit for the year 57,132 into 5 percent of this. So, this works out as this. So, it means this amount will come out as 2900 rupees will be the general reserve. This amount 5 percent we have to create of this particular figure, which is the profit for the current year, this is the profit for the current year that is 57,132. So, 5 percent of that we have transferred to the general reserve which works out as 2900.

After that they say that we have to provide for the dividend on the preference and equity shares. So, what is the preference shares, rate preference shares are say if you look at the preference capital, it is given to a 10 percent preference share capital. So, this 10 percent preference share capital means it is 1 lakh. So, 10 percent of the 1 lakh is 10,000 rupees. So, preference now we have to go for that to dividend, to dividend. So, it is preference first preference is 10,000 because it is 10 percent rate of the dividend is given to us here, this is a rate of dividend it is total capital is 1 lakh. So, 10 percent of the 1 lakh is 10,000 rupees preference dividend. Equity dividend equity dividend is at the rate of 12 percent So, how much is we are going to provide 36,000, this figure will come as 36,000.

How we have calculated this 36,000 because how much is the share capital if we look at the share capital equity capital is 3 lakh rupees. So, it is 3 lakh rupees. And we are given

the percentage share here, here it is given that dividend of 12 percent on equity shares means it is a 12 percent of the equity share capital you to provide the dividend which works out as 36,000. So, this is 46,000 rupees is going to be distributed as dividend. And what is your remaining amount to surplus to be transferred to surplus to be transferred to balance sheet and that what is the difference now, it is 48,900. So, balance amount is 47,607 is going to be transferred to the balance sheet as a profit of the year.

So, total profit we had was 57,132 previous year's profit which was kept open not added in the capital in the balance sheet was 39,375. So, total profit we have here is 96,507 out of this we have transferred 2900 that is 5 percent of current year's profit to the general reserve which works out as 2900. And then we have paid the dividend that is 10,000 to the preference shareholders which is already given specified and to the equity shareholders the rate is given to us is the 12 percent, so 36,000. So, total amount given as dividend is 46,000. So, this plus this minus this is the balance here 47,607 and that is transferred to the balance sheet as a net profit to be transferred to the balance sheet. And now this will be added to the balance sheet transferred to the balance sheet and added in the capital and this is the total balance going to available with these which we will be transferring to the balance sheet.

So, this way we have completed the profit and loss account. And we have try to find out that how much is the total profit available with us and out of this profit we have paid the dividend. And remaining we are going to transfer to the balance sheet this amount is going to be 47,607, this amount will be 47,607 that is going to be transferred to the balance sheet. So, this is the amount which will go to the balance sheet as a surplus profit which is neither as a means act as a general reserves nor it is distributed as a dividend, but it is left on used. So, it is added into the capital and the capital will appreciate by this amount. So, this is how we prepare the profit and loss account and the profit and loss appropriation account of the public limited company or a joint stock companies.

Now, we will move to the next step learning how to prepare the another important financial statement that is the balance sheet for Mamta Fashions Limited and we will take some items in the balance sheet means whatever the items are required to be taken to the liabilities and the asset side. Liabilities and capital and asset side of the balance sheet we will be taking and preparing and balancing the balance sheet of this company.

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Balance Sheet of Mamta Fashion Ltd as on
31st March 2016

Liabilities & Capital	Am't	Assets	Am't
<u>Share Capital</u>			
<u>Authorized Capital</u>			
- 1,00,000 Equity Shares @ Rs 10 / Share	10,00,000		
- 1,000 Preference Shares @ Rs 100 each	1,00,000		
<u>Issued, Subscribed, Called up & paid up</u>			
- 30,000 Equity Shares @ Rs 10 / Share	3,00,000		
- 1,000 P @ Rs 100	1,00,000		
<u>Reserves & Surplus</u>			
General Reserve 4,00,000			
14,30,000	37,50,000		
Crash test 29,000	40,000		
<u>Total</u>	<u>47,60,000</u>		

So, now let us prepare the balance sheet of Mamta Fashion this is the balance sheet. So, learning how to prepare the financial statement is more important and after that is the analysis of the financial statements. So, we will be doing the same thing. So, it is the balance sheet of Mamta Fashion Limited as on as on 31st March, 2016. Again liabilities and capital, and it is amount, it is assets, and it is amount, it is assets, and it is amount. So, we have been given almost all the items you very clearly. So, we will be taking those items.

And first we will take the share capital; first we will take the share capital. And first of all as I told you now we have to mention all the five kinds of share capital in the balance sheet. So, first we will be taking the authorized capital, authorized capital. This is authorized capital and authorized capital is how much it is 1 lakh equity shares 1 lakh equity shares of rupees 10 each, at the rate of rupees 10 per share. And this amount is 10 lakhs, this is 10 lakhs. Then preference, preference shares preference capital means preference shares are equity shares at the rate of rupees 10, 1 lakh and then the 1,000 preference shares will have to write here 1,000 preference shares it is the 1,000 preference shares at the rate of rupees 100 each. So, it means this amount works out at 1 lakh this amount is 1 lakh. So, your total share capital which was authorized is that is 11 lakhs. So, we have to put a line here and this is the share capital be here this is the authorized capital.

Now, next part of the capital is issued capital, subscribed, called up and paid up capital, and paid up capital is we have to now calculate this. So, this is authorized and then this is issued subscribed, called up and paid up capital is 30,000 equity shares at the rate of rupees 10 per share per share, it is 3 lakhs, it is 3 lakhs. And preference shares are 1000 preference shares at the rate of rupees 100, so it means it is 1 lakh total capital is 4 lakh.

So, this capital is of importance to us now. This for the sake of showing we have shown it here that our authorized capital is 10 plus 1 - 11 lakhs total out of that equity capital has been issued in the market is that is for 3 lakh rupees and preference capital as been fully exhausted for 1 lakh rupees. So, total capital which is now being used by the firm which has been shares have been issued in the market and the capital has been generated funds have been generated that is only 4 lakhs.

Apart from that, we have to take now the other things that are reserves and surplus. So, this is the two categories one is general reserve; and when we take the general reserve as on that is the opening balance as on 1st April, 2015 that is given to us, 1st April, 2015 is already given to us. So, we have to write that what is that reserve that figure is given to us this is a figure of general reserve on 1st April, 2015 this is a opening balance kind of 37,500. And then we have created during the year is 2900, which were created in the profit and loss account that we have already created. So, this works out as 40,400. So, total general reserve has become now 40,400 this is the total reserves.

And the third thing is that is the profit and loss account for the profit and loss balance this is how much was that figures that is 47,607 rupees. So, now the total capital at the end of 2016 of this firm has become the share capital was 4 lakhs, and then their general reserves became 40,400. And now the profit transferred to the capital is or to the balance sheet and then to the capital is 47,607. These are the total equal. If you sum it up this way becomes of total capital available with the firm. And with this total capital, now the firm is doing the business maybe in the sixteen as well as in the future years.

After this we now to add the other item shared in this balance sheet. And once we have completed the share capital part, after that we will be considering now the loans, long-term loans or the fixed liabilities, long-term loans will be taking long term loans then we will see that is there any other source of funding there using. And if they are not using then we will come down will take into account the short-term sources you have the funds

spontaneous finance means all the current liabilities, and then this liability and the capital sites will be complete. And then we will move to the asset side, and this all will be doing in the next part of discussion.

Thank you very much.