# Financial Statements Analysis and Reporting

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## Lecture – 31
## Corporate Financial Statements Part-VII

Welcome students. So, now, we are in the process of preparation of the balance sheet and in the balance sheet we have completed the first source of funding of this company that is capital. We have taken the total authorized capital and out of that we have shown that the capital company has used out of the total 11 lakhs, company has used the 4 lakhs and then we have some additions in the capital appreciation, in the capital as we made that is by reserves 44,400s and by a profit for the current as well as for the previous year the total profit has now been transferred to the balance sheet that is 47,607.

So, it means share capital is over, if you say that if you total it up this share capital becomes somewhere 4,88,000 almost 88,000. So, 4 lakh was initially invested and 88,000 is appreciation in the capital which was because of the profitability of the firm. So, then the firm has earned the profits they have been transferred to the balance sheet and now the funds available with the firm are 4,88,000 that is the appreciation of 88,000.

So, it means we have completed the capital part. Now we will be looking for the other sources this firm is using and after that we will be completing the process of the balance sheet by balancing it. So, now, we take the other sources and other source if you look at here the other sources are premises is a asset plant and machinery is asset opening inventory debtors, cash in hand, cash, current account, bills receivable are assets, purchases, preliminary expenses are assets, wages, general expenses, salaries, bad debts, we have taken interest on term loan is the revenue expense, share capital, equity and preference we have already dealt with and now the secured loans.

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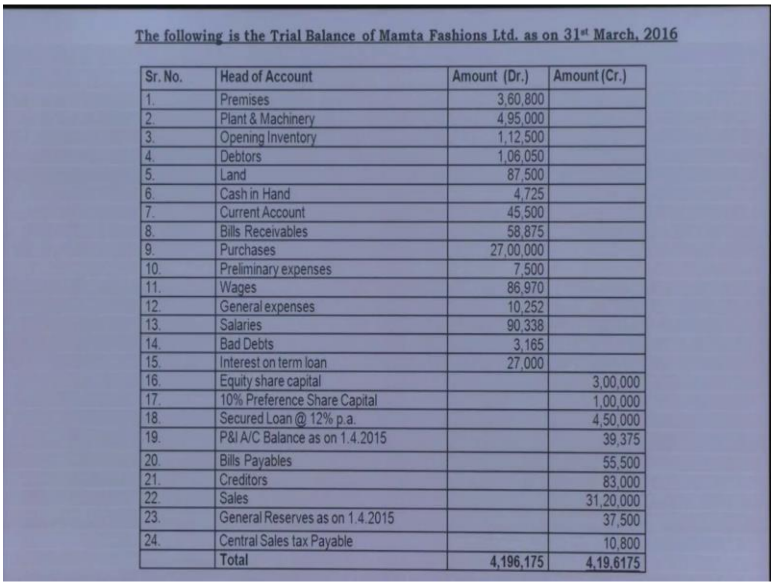

**The following is the Trial Balance of Mamta Fashions Ltd. as on 31st March, 2016**

| 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&I 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** |

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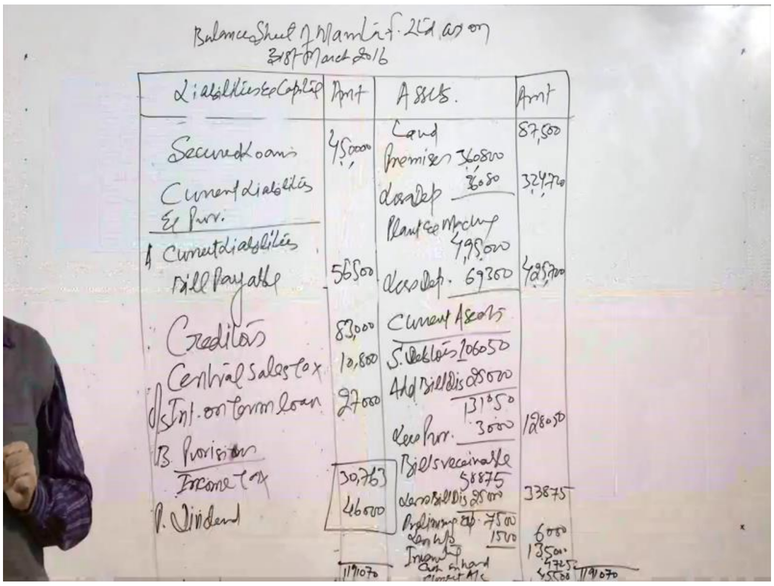


So, now we have the next item is secured loan secured loans and the secured loans are here that is 4,55,000 rupees, no loan has been repaired. So, we have the total balance of the 4,50,000 rupees to loans are here 4, 50,000 of the secured loan and there is no other source of funding. This company is using, this company is using only 2 long term sources, one is the share capital and second is the term loan that is a secured loan of the 4,50,000s.

Now, after this will have to go for the short term sources. So, we write here, current liabilities; current liabilities and provisions; current liabilities and provisions. So, now, the current liabilities are if you look at the current liabilities, so the current liabilities are first part that is A part is the current liabilities; current liabilities, this firm is using current liabilities. So, the current liabilities are; what are the current liabilities? Let us see now. You will find in the credit balances, all the liabilities here we will find here. So, we have equity capital done, preference capital done, secured loan done, profit and loss balance adjusted, bills payable is the one, this is the one bill payable; this is the one current liability; bills payable; bills payable; bills payable are say 55,500; 55,500. So, let us check is there anything say to be added here or something is given in the additional information, depreciation, preliminary expenses, interest, bills receivable, doubtful debts, value of inventory and there is nothing else.

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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

So, we have done this then we have creditors. Next liability, next source of liabilities, next source of funding here is creditors they are sundry creditors or creditors; creditors. So, the creditors are 83000s, creditors are 83000s you taken the creditors also sales general reserve. So, I think these are the 2 current liabilities and third liability is that is the central sales tax yes that is a central sales tax which is not yet paid, this is payable central sale tax is payable. So, this is 10,800, central sale tax is 10,800s and another liability is interest on term loan, interest on term loan we had shown the interest for to 54,000. It means if you look at the total interest here that is on the 4,50,000 at the rate of

12 percent, the interest works out as 54,000 out of that 27,000 has been paid and 27,000 is yet to be paid, but we have shown in the profit and loss account; the total 54,000, there is a one effect is over.

Second effect; we are doing here in trust on the term loan and that is which is outstanding; outstanding interest on term loans is 27,000s we have to take here, we have taken and then I think almost all the current liabilities are over we have taken consider all the current liabilities these are creditors bills payable central sale tax and interest on the term loans and now we have to come down to the provisions be part of this is provisions. So, provisions we are making for what we are making 2 provisions one we are making the provision for the dividend and then second is making the provision for income tax. So, this is the income tax first provision is income tax which we have shown there, but now we have to show it as a liability until unless it is paid 30,763 was a text part and dividend, dividend is dividend component is proposed dividend we would say it is a proposed dividend.

So, proposed dividend is 46,000 here and I think there is no other provision. So, it means we have already completed the assets liability side capital and liability side of the balance sheet and there we will be now, will be moving forward to the asset side of the balance sheet. Here it is one important question that why we have shown the income tax and the dividend as a liability. See when we have subtracted this tax and dividend tax was subtracted from the net profit in the profit and loss account and we have debited the profit and loss account with the tax amount and dividend was shown proposed dividend was shown in the profit and loss appropriation account.

So, there when you make provisions means in the profit and loss account and profit and loss appropriation account they are only making provisions that yes we have to pay the income tax. So, we have now kept this much money means separate set aside similarly we are going to pay the dividend 46,000. So, we are going to set aside certain sum of money. Now after the date of balance sheet means the last date of the year that income tax will be transferred to the government account after that maybe in the new year that is may be within a month or means as early as possible it should be transferred to the government account. So, it remains as a provision here till the time it is paid to the government means it is a liability on the company for the period that is when it is subtracted or the provision is made in the profit and loss account and till it is paid to the government it remains a liability on the company and till that time these funds are used by the firm. So, they are they become the source of fund also and until unless this tax is paid to the government this remains a liability of the head of the company.

Similarly, when we talk about the dividend; dividend is also taken out from the profit and we have made the provision in the profit and loss appropriation account for paying the dividend, but there only it is a provision that taking out the money, but that money has not been transferred to the shareholders yet and as per rule of the means, as per Indian companies act the dividend amount after the declaration of the dividend that is on the date of balance sheet. Last date of the accounting period it can be passed on to the shareholders up to 90 days or within a period of 3 months, it has to be sent to the shareholders within a period of 3 months means 90 days. So, companies normally use this money for almost 2 months and 3 weeks and they start dispatching the cheques or the total dividend is transferred to the shareholder’s account in the last week of the third month. So, till then means making the provision in the profit and loss appropriation account and till then it is transferred to the shareholder’s account it is used by the companies as a source of fund and that is why it is, but it does not belong to the company, though it belongs to the shareholder for the time being, they are using it finally, it has to be transferred to the shareholder. So, till then it is shown as a liability in the balance sheet.

Once it will be paid tax will be paid to the government and then the dividend will be paid to the shareholders then these 2 items these 2 provisions will be removed from the balance sheet. So, in the current years balance sheet we are showing and next year for example, if there is no tax to be paid and if there is no dividend to be paid by the company then these provisions will not exist, but because tax as to be paid every year and dividend also company is pay almost every year. So, these provisions adjust in the balance sheet of the next year also we will adjust, but the figures will change then figure will come for the New Year’s tax and the New Year’s dividend.

So, till the time it is paid to the government and transfer to the shareholder account it is used by the company it is a source of fund for the company and consequently the liabilities were short term liabilities very short term liabilities only up to 3 months. Now let us move to the asset side of the balance sheet and put up all that assets here. So, when we talk about the asset side of the balance sheet we have to take all the assets and first asset is we have the land. Land is land here is land amount is 87,500; 87,500s. Then we have the premises, premises is the kind of buildings. So, premises is 3, 60,800s; 3,60,800, I am putting it in the inner column and we have to charge the depreciation also on these assets fix fixed term assets. So, let us depreciation and depreciation was how much that is 10 percent. So, it is 36,800 rupees is the depreciation. So, it means we have 3 of 24,000 is a balance, 3,24,720 is the balance in the premises account then we have the next asset is the plant and machinery.

Plant and machinery plant and machinery is here. So, plant and machinery is balance is 4, 95, and I guess the depreciation is also here on this amount less depreciation. So, the depreciation is how much? We have charged the depreciation on this plant machinery at the rate of 14 percent and that was 69,300s. So, the balance left here is how much? Balance is left that is 4,25,700s; 4,25,700s of the balance in the plant and machinery account is there. So, I think these are the 3 fixed assets.

Let us check again, we have land, we have taken premises, we taken plant and machinery, we have taken then opening inventory, then cash, then receivables, purchase, preliminary expenses, then share capital, loans, then profit and loss account, all this yes, there is no other long term or the fixed asset with the firm. These were the only the 3 fixed assets, land was for 87,500, premises for 3,60,800 less depreciation. So, final balance left at the end of the current year is 3,24,720 and then we have the plant and machinery that is 4,95,000 and depreciation subtracting it. So, we are left with 4,25,700s. So, these are the 3 long term assets. Now let us come to the other assets which are called as current assets.

So, these are the fixed assets and now we talked about the current assets. So, the current assets are here are the current assets. So, when we talk about the current assets here we have to take the current assets means what are the current assets here. Now let us start with the current assets, here premises, plant machinery, opening inventory, yeah, first is the debtors, first is sundry debtors; sundry debtors and sundry debtors amount is how much? That is 1,06,050; 1,06,050 is the sundry debtors, cash in hand, cash at bank will take later on. So, it is given to us here that we have some bills were dishonored; some bills were dishonored here if you look at this information we are given that bill receivable worth rupees 25,000 were dishonored and the effect was not carried out. So, now, the dishonored bills will be added in the sundry debtors because these bills have become redundant, but they are the person who has to make the payment to this company, he is still the debtor to the company.

So, he have to add it at bills dishonored which is 25,000s. So, this amount works out as 50 0 1 3; 1,31,050: 1,31,050 and now we have to subtract the provisions. We have to make the provisions and it is written here that we have made the provision for make doubtful debts are to be provided for 3,000s. So, 3,000s amount will not come. So, let us provisions 3,000s. So, this final amount left with us is 1,28,050. This is the provisions amount 1,28,050.

Next current asset is the bills receivable; bills receivable. So, what is the total amount of the bills receivable? If you look at the figure of the bills receivable, here the figure of the bills receivables is 58,875; 58,875; 58,875 out of that 25 worth of bills, less bills dishonored. So, that was 25,000s. So, that has to be subtracted from here. So, we are left with the final amount of 33,000; 33,875 worth of the bills are left now with the firm which are expected to be collected or expected to be received by the firm at the sum later date.

So, we have taken the bills also now what are the other current assets are left premises, plant, machinery, debtors, land cash in hand, cash at bank, bill receivable, purchases, preliminary expenses, wages, general expenses, salaries, bad debt, interest, then it is bills payable, almost. Now we will talk about the preliminary expenses; preliminary expenses. So, preliminary expenses are total is 7,500 less written off is 15,000. So, we are left with how much? With the balance in the preliminary expenses account, they are left with 6,000 rupees worth of the preliminary expenses are left to be adjusted. Now we talk about the cash; cash in hand and cash at bank. So, we have taken the yes, we have left one item yes, I think that is the inventory will be taking now the inventory also before cash, let us take the inventory or the closing stock.

This is inventory and the inventory was it is given to us that is the inventory amount is closing stock inventory closing inventory here given to us is the somewhere it is value of the inventory on 31st March 2016 is 1,35,000. So, that is also a current asset. This is the inventory and then we have to go for the cash; cash in hand and the cash in hand balance is that is also given to us cash in hand balance is 4,725; 4,725 and then the current account current account balance is; balance in the current account is that is 45,500 or you can say it is a cash at bank, it is the cash at bank 45,500 it is a cash at bank.

So, almost we have taken all the assets here (Refer Time: 19:14) again want to verify, we have taken the inventory, we have taken the debtors and adjusted for the doubtful debts and bills dishonored, we have taken the bills receivable, less dishonored, cash in hand, we have taken current account we have taken and then we have taken the preliminary expenses, that is 6,000 worth of the preliminary expenses we have taken. This is a miscellaneous expenditure. So, now, this is the total of the asset side. This is the total of the liability side and if we total up these 2 sides will be able to find out that the total of the side is we have taken the capital earlier and now the remaining. So, if we total it up the balance comes out as 11,91,070 is the total of this side and certainly going to be the same total on the asset side also and this is 9; 11,91,070 is the total of the asset side.

So, total of the liabilities and assets side, you see that if in this case, if you look at what was the basic difference as compared to the 2 balance sheet, we have seen the balance sheet, we prepared for the non company form of organizations and now we have prepared the balance sheet for the company form of organizations. So, here the basic difference was that in the non company form of organization no share capital was shown, but in this balance sheet we have carefully show the means considerably categorically shown the share capital we started with authorized capital then we have shown that how much out of that is issued subscribed called up and the paid up capital right. And then there is a main difference then we have going for the secured loans that is a long term source as I told you that in the sources of funding for the companies there is a 3 sources.

That is long term finance, short term finance and the spontaneous finance. In this balance sheet if you look at this firm has used only 2 sources of the finance that is long term finance and the spontaneous finance. No short term borrowings are used, no short term loans from the bank have been used. So, up to this secured loans capital loans they are the long term sources of the funding capital is also the longest source and the loan is also the long term source, secured loans and then the remaining at in the current liabilities if you look at bills payable are the bills to be paid to the suppliers similarly the payment to be made to the suppliers is again the creditor. So, no finance is coming rather material is coming.

So, spontaneously material is coming spontaneously the payment is going out when it is becoming due similarly the central sale tax this is the liability because it has become due this is expense that has become due, but not yet paid. So, we have to consider that also and then we have to go for the again interest on the term loan interest on the term loan is also the expense due, but not yet paid and that interest on the term loan was 20; 54,000, out of that 27,000 was paid as shown here and 27,000 we have to take it as a liability. So, we have taken it and then we have to come down to the third item here that is a provisions first provision is for the income tax and the second provision is for the dividend.

So, as I explained to you earlier income tax and dividend are shown his liabilities till the time they are transferred to the concerned stakeholder’s income tax will go to the government; government’s account and the dividend will go to the shareholders. So, till it is transferred to the shareholders and the government’s account, it is shown as the liability. So, this is the total of the liability side. So, major difference in this balance sheet and the earlier balance sheets is that here we have the detail detailed information about the share capital where is in the other balance sheets no share capitals information was there and now you come to the asset side of the balance sheet. So, in the asset side balance sheet there is not a major change we have been considering almost all the assets earlier also we have taken the land we have taken the here we are calling it premises.

Premises means buildings. So, buildings we are also been talking earlier. So, we have taken the depreciation means principal amount and less depreciation then plant and machinery and principal amount and depreciation. So, these were the 3 long term assets fixed assets which are land building means premises and plant and machinery no furniture no fittings nothing and now lower parts talks about the current assets short term assets. So, current assets are like sundry debtors. So, we have taken the, but these one change that we have got the bills now here bills receivable.

As I discussed with you, the difference between the sundry debtors and the bills so it means some sales which were made against the bills, bills receivable means sales were made by the company to the person or to other company and a bill was got received from that company and on the due date when the bill was presented to this company, this company refuse to make the payment. They said that we will not make any payment and they have denied making the payment. They were huge making the payment. So, this will have become dishonored. Dishonored means when on the due date; when the bill is presented by the selling company to the buying company and the buying company refuses to make the payment that bill is considered as dishonored. So, what will happen now that out of the total bills because this bills date was; this bills date was only in this year and when it was presented it was dishonored. So, it becomes now the useless.

So, when it is become the useless. So, it means now the bills balance is transferred that dishonored part is transferred to the sundry debtor's account and sundry debtors because that firm who was bought and refused to make the payment though they have this bill has become redundant, but still that firm is a debtor to this firm of the (Refer Time: 25:08). So, it means the balance of sundry debtors is gone up from 1,06,000 to 1,31,000s and the bill receivable has come down because that 25,000s part bill has become redundant. So, we have subtracted 25,000 from here and we have added 25,000 rupees here that form the bills receivables now that company remains the debtors and then we have the subtracted the provision for doubtful debts as we have been doing in the past again now bills receivables the original amount plus sorry minus the dishonored part and then we have got the one more new thing here is that is a preliminary expenses.

As I told you that the preliminary expenses are the expenses incurred before the company comes into existence or the company starts business or company starts production. So, these are the preliminary expenses. So, these are the expenses which are sometime very large and if they are large, it is not advisable to debt them in the first year profit and loss account. So, we have to capitalize it. So, we treat it like an asset we take shown it in the balance sheet and in the balance sheet the total amount is shown in the balance sheet and some fraction of that part of that we keep on transferring to the profit and loss every year.

So, for example, in this case if you look at total preliminary expenses are 7,500s out of that 1,500 of the worth of the preliminary expenses, we are going to recover this year. We have transferred to profit and loss account and now the balance in the preliminary expenses is left to 6,000, 1,500 will be recovered next year, 15 next year; 15 next year; 15 next year. So, that way in the next 4 years, the total amount of the means this year plus next 4 years the total amount of the 7,500s will be recovered and this item will be removed from the balance sheet.

After that we have the balance of the cash in hand and current account means companies accounts in the banks are called as current accounts. Companies are not allowed to open the savings account whatever their cash in the bank remains that remains in the current account and that is the current account means the account in which the companies the account cash remains in the bank for day to day uses for the current uses that is in the current account and that account is called as the cash at bank means current account is the cash at bank.

So, what is the difference between the saving account and current account? In the saving account when we deposit the money we get the interest on that at the rate of 4 percent or something like that, but on the current account for the companies no interest is paid by the bank. We keep the amount for day to day uses and the number of transactions is also fixed in a day. So, if any company increases the number of transactions in that case the company has to pay to the bank rather than bank is paying any interest to the company. So, that current account, this is in a way and companies are not allowed to have the saving account for their business transactions for their day to day transactions if they want to keep the cash in the bank then it has to be there in the current account and that is in a way we call it as the cash in, cash at bank.

So, cash in hand and cash at bank, these are all liabilities, these are all assets and this is the balance sheet of a company form of organization and if you look at the difference means the difference other than share capital insert a new items there is no much difference and we have to adjust for the share capital, yeah we have prepare the profit and loss appropriation account because we have to create the reserves we have to pay the dividend and some other say provision. So, for that we have to prepare the profit and loss appropriation account. So, we have to prepare the trading and profit and loss account profit and loss appropriation account and the balance sheet for the company form of organizations.

Similar one more this kind of the problems we will discuss in the next part of our discussion and after that I will shift to the financial analysis; financial statements analysis part. Till now we have learn means by doing one more problem we would be completing the learning of the preparation of the financial statements of all kind of the organization sole proprietors partnership firms and company form of organizations that is both public and private limited company and once we have completed the process of learning, how to prepare the financial statements of all form of the business organizations then the next part will be we will start talking about the financial analysis that if these 3 statements are available with us. On the basis of these 3 statements, how to analyze this financial statements and how to draw the meaningful conclusions what are the different tools and techniques available we will be discussing and we will start talking about after doing one more exercise in the next lecture or in the next part of discussion.

Thank you very much.