# Financial Statements Analysis and Reporting

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## Lecture – 32
## Corporate Financial Statements Part-VIII

Welcome students. So, in this lecture we will try to means do one more problem with regard to the preparation of financial statements of the company form of organization. So, this is again another company Sanjay industries limited and here almost the information here is also like the information for the joint stock companies company form of organizations. So, again we will do, we did in the previous lectures with did one problem that is a Mamta fashion and we will do one more problem that is of Sanjay industries and this is the last problem we have going to solve or discuss here with regard to the preparation of the financial statements of the company form of organizations. And here we will end up with the preparation of learning how to prepare the financial statements and after this, I will start the financial analysis part and then we will talk about the reporting.

So, it is a composite course about the financial statement analysis and reporting where we learned; we will learn about preparation of the financial statements analysis of the financial statements and reporting of the financial statements.

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The following is the trial balance of Sanjay Industries Ltd. as on 31st March, 2016

| Head of Accounts | Dr.(Rs) | Cr. (Rs) |
|---|---|---|
| Stock, 1st April, 2015 | 6,75,000 | |
| Sales | | 30,60,000 |
| Wages | 2,70,000 | |
| Share Capital (Authorized Capital 2,00,000 shares of Rs 10 each) | | 9,00,000 |
| Discount | | 27,000 |
| Purchases | 22,05,000 | |
| Carriage inwards | 8550 | |
| Purchase returns | | 90,000 |
| Patents & trade marks | 43,200 | |
| Salaries | 67,500 | |
| Bills receivable | 45,000 | |
| Sundry expenses | 63,450 | |
| Bills payable | | 63,000 |
| Rent | 36,000 | |
| Debtors & Creditors | 2,47,500 | 1,57,500 |
| Plant & Machinery | 2,61,000 | |
| Furniture and fittings | 1,53,000 | |
| Cash at bank | 4,15,800 | |
| General reserve | | 1,39,500 |
| P & L 31st March 2015 | | 54000 |
| **Total** | **44,91,000** | **44,91,000** |

So, again if you look at the information given here that is the trial balance of Sanjay industries limited, these are the debit balances, these are the credit balances and here is the total which is 4,91,000s in both the cases and we are giving the opening stock that is stock on the 1st April 2015 then we are given the sales figure, wages, share capital we are also given, including the authorized capital then other items are also given to us and apart from these trial balance items we are given the additional information also not much, but yes it is there it will serve out our purpose to learn that how to prepare the profit and loss account and profit and loss appropriation account and then the balance sheet as well.

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**Further Information:**

1. Outstanding rent amounting to Rs 7,200 while outstanding salaries Rs 8100 are at the end of the year.
2. Make a provision for doubtful debts amounting to Rs 4,590
3. Stock on 31st March 2016 was valued at Rs 7,92,000
4. Depreciate Plant & Machinery @ 14% and furniture & fittings @ 18%
5. Amortize patents and trademarks @ 5%
6. Provide for managerial remuneration @ 10% of the net profit after tax
7. Make a provision for income tax @ 35%
8. The Board of Directors proposes a dividend @ 10% for the year ended on 31st March 2016 after transfer to General Reserve @ 5% of the profit after tax.

**Required:**

Prepare the Profit and Loss account and Profit and Loss Appropriation account for the company and Balance Sheet on 31st March, 2016.

So, this all information we have to adjust and then to prepare the trading and profit and loss account profit and loss appropriation account and balance sheet of the companies. So, this is Sanjay industries problem.

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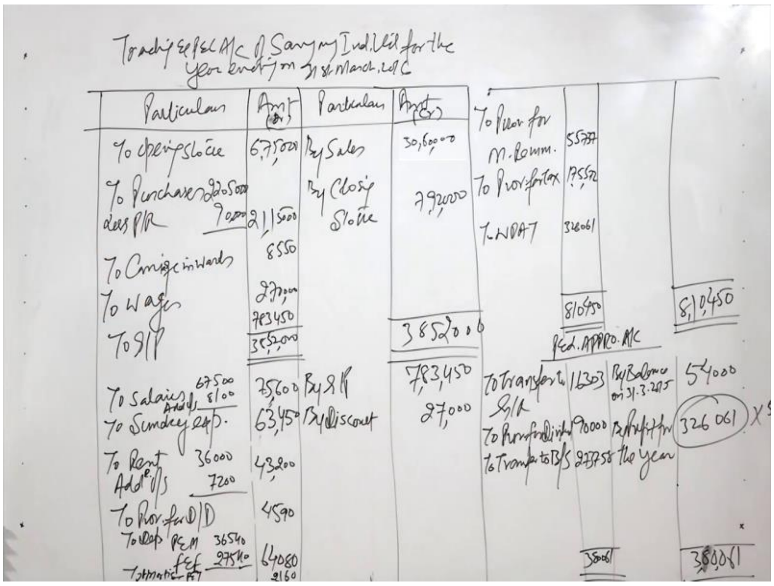

So, let us learn how to prepare the financial statements for the another company that is Sanjay industries limited and then we will be completing the discussion on the preparation of financial statements after that we will start talking about the analysis part. So, here it is the learning about the preparation of financial statements. So, we are doing it in a way that we will have to create we have to expand the formats of prepare it in the half of the board then there will expand it in the remaining space. So, it is here we are starting from and again it is a trading and profit and loss account and then we will be preparing the balance sheet for this. So, this is the trading and profit and loss account trading and profit and loss account of Sanjay industries Sanjay industries limited for the year ending on 31st March, 2016.

So, we have a particulars here these are the particulars, this is amount this is particulars and this is amount debit and the credit sides debit and the credit sides. So, we are going to take it here. So, we will start with the again we will start with the opening stock. So, opening stock is the stock on 1st April. So, raw material and then it is the opening stock. So, it is opening stock of raw material which is given to us stock on 1st April 2015 6,75,000; 6,75,000s then we have information on purchases, yes, purchases are there to purchases; to purchases and purchases figure is purchases figure is 22,05,000s is there any purchase return, yes, less purchase return. So, purchase return here is 90,000s it is 90,000s. So, we are left with 0 0 0 5 then 1 then it is 21,15,000s is now the purchases part of the material then we have the carriage on purchases that is called as to carriage inwards to carriage inwards to carriage inwards and that amount is 8,550; 8,550 and then purchase returns we have taken 90,000 carriage is also done then is the patents salaries bills receivable sundry debtors bills payable rent debtors and creditors plant and machinery furniture fixtures I think nothing is there.

So, now we will talk yeah next is a wages to wages to wages and wages amount is 2,70,000; 2,70,000s. So, it is taken away taken material we are taken wages we have taken purchases carriage purchase returns and there is no other direct expenses like to fuel and power or oil and greasing or anything. So, we will have not to bother about that now we have to take the others that is by sales by sales and sales figure is that is by sales it is 30,60,000 is there any sales return also sales return, return inwards, or sales return that is the salaries, sales, wages, discount, purchases, salaries, bills receivables, discount, yeah there is no sales returns. So, no problem will I am not to bother about that this is 30,60,000s and 30,60,000 and then finally, it is by closing stock; by closing stock closing stock is let us check about the closing stock part and the closing stock is stock on 31st March 2017 is 7,92,000s it is worth of 7,90,000s.

So, this is a total amount of the closing stock and this is 60,000, this is 60,000. 30,60,000s and then closing stock is of the 7,92,000s. So, this works out as 0 0 0, this is 2 this is 8 8 and 3. So, it is 38,52,000s is the total of this trip the trading account. Now to GP to gross profit and gross profit we are going to have to. So, we have to take the figures like 6,75,000; 21,15,000, 8,550 which is our 2,70,000s. So, if you take these total items into account. So, your GP is 7,83,450; 450 is the GP that is gross profit, 7,83,000; 700,000 GP is 7,83,450 and finally, it is 38,52,000s. So, this is the gross profit figure 7,83,450.

So, this is the gross profit now we will move to the P and L account. So, it is by GP, this is 7,83,450 is the GP and then we will have to take the other items like direct and indirect items. So, in this case stock we are taken sales we have taken wages we have taken capital will not take discount is the income. So, it is by discount means it is a discount earned it is a discount earned. So, discount is discount earned is 27,000s discount earned is 27,000s then is the purchases we have taken carriage inwards we have taken purchase returns we have taken patents and trademarks know its asset salaries yes now we come to the debit side to salaries to salaries and this amount is 67,500s; 67,500s then we talk about the bills receivable is the assets sundry expenses yes to sundry expenses to sundry expenses and this amount is going to be 63,450; 63,450. This is a sundry expenses, bills payable liability, rent; rent is a debit balance or credit balance rent is the debit balance to rent and the rent figure is 36,000s rent figure is 36,000 is there, anything to be adjusted, let us check for the outstanding rent amounting to rupees 7,200s while outstanding salaries 8,100 are at the end of the years.

So, outstanding rent is also there. So, it means the total rent figure will be something different 36,000. We have to take here 36,000, add outstanding rent outstanding, add rent outstanding that is 7,200s; 7200s. So, it is 43,200s is the rent figure and same is the case with the salaries. So, for the salaries we will have to adjust the 67,500s; 67,500s add outstanding salaries and outstanding salaries are how much? 8,100s. So, it is 8,100 is a salaries. So, it is 0 0 then it is 6 then it is 5; 75,600s are the salaries balance then we have the sundry expenses 63,450 and then we have the rent; rent part is the 43,200s. Now let us check the other items here and when we check the other items stock, sales, wages, share capital, discount purchases carriage inwards, purchase returns, patents, salaries, bills receivable, sundry expenses, bills payable, rent, rent we have taken debtors and creditors know then we have to come back to this.

So, I think we are taken this part also, now let us go to the adjustments or the additional information we have taken the outstanding rent and salaries now we will take the provisions for doubtful debts and that is 4590 to provision, for to provision for doubtful debts and that amount is provisions amount is may provisions at the rate of this amount 4590 provisions is 4590. So, salaries is done provision for doubtful debts is done 4590 stock on 31st March 2016 was valued at this we have taken depreciation yes now the another major expenses the depreciation to depreciation to depreciation it is plant and machinery fourteen percent and furniture and fittings 18 percent. So, plant and machinery figure is how much plant and machinery figure here is 2,61,000s; 2,61,000s and another figure is the depreciation is this and the another figure is the we have going to charge the depreciation on plant and machinery furniture and fittings furniture and fittings the figure is here we have the figure of the furniture and fittings if you look at then it is 1,53,000s; 1,53,000s.

So, this is 14 percent and this is 18 percent. So, now, if we calculate the depreciation that is on plant and machinery, it is plant and machinery and then it is furniture and fixtures plant and machinery say depreciation is how much? We have a 36,540 and then we have the second is 27,540. So, total depreciation workout works out has how much? 0 8 then it is 5 5 10 1, it is 4, then it is 6; 64,080 is the depreciation part we have already taken. So, it means we have taken the salaries 75,600 then the plant and machinery is 64; 64,080 means the depreciation rent is 2 1 6 0, it means we have to take the salaries furniture that is amortization rent is 43,200s then is a provision for doubtful debts 4590, we have taken provision this is also done then it is a provision for the tax. So, only one thing is amortization of patents and trademarks.

So, we have got the patent and trademark patent and trademark are basically assets of the companies and they have been amortized. So, amortization of how the patents and trademarks has to be done. So, patents and trademarks figure is here somewhere that is 43,200s and he says that amortized patents and trademarks at the rate of 5 percent. So, amortization of to amortization of patents and trademarks and this amount is a 43,200 and 5 percent of that works out as 2 1 6 0; 2 1 6 0 is the amortization value. We have discussed the amortization in the previous lectures. So, we have got the salaries depreciation amortization rent provision for doubtful debts provision for yes now one more item is there we should expand this statement here this side we will explain this statement and then we will complete it. So, this is the credit side and now if we expand the statement here. So, will be preparing this side also, so, if you expand this then we will have a total items.

So, then we have to go for the; to managerial remuneration to managerial remuneration means managerial commission or the managerial remuneration I discuss one adjustment with you that is a managerial adjustment managerial remuneration or the managerial commission. So, provide for managerial remuneration at the rate of 10 percent of the net profit after tax at the rate of the 10 percent of the net profit after tax soon net profit after tax. So, we will have to calculate that profits and if you calculate. So, what we have to do here is we will have to total this, this, this, this, this, this, this, and this all the items. We have to total it up then we have to total the incomes. So, if you total the income side this works out as the total of the income side is going to be we are going to put it here income side is going to be here that is something like 0 5 then it is 4 then it is 10 1 9 1 and then it is 8. So, it is 8,10,450 is going to be the total of our profit and loss account and now the managerial commission.

So, managerial commission will be calculated on this total amount minus all of this whatever that figure comes out means subtracting the tax on that and if you calculate the commission on that then that amount will be provided as a commission. So, if you solve this one if you calculate the managerial commission. So, we are going to provision for this is a provision basically we are making provision for managerial commission to provision for we are not paying at we will make a provision here and then we will pay it at the later date that is to provision for managerial remuneration. So, it means that amount we have calculated is 55,737; 55,737 is a managerial remunerations.

Now we will calculate the tax part to provision for the tax to provision for if you calculate, now the profit and make the provisions for tax we will be able to find out the text figure and the provision for tax is 1,75,000 and then 572; 572. So, this is the tax part. This is a tax figure and now we have to finally, calculate the profit after tax net profit after tax this is 8 1 0 4 5 0 and then it is the to net profit and PAT; net profit after tax and if you calculate the net profit after tax that works out as 3,26,061; 3,26,061. It means 3,26,061 thousands is the net profit after tax after taking this into consideration.

So, we have taken the only one indirect income is there discount that is 27,000s other is a direct income that is gross profit and then we have taken all the expenses like salaries sundry expenses rent provision for doubtful debts depreciation on plant and machinery and furniture and fittings then we have taken amortization patents the companies spent on buying this patents and now this amount will be is being recovered through the process of amortization. So, 5 percent we are recovering we are debiting the profit and loss accounts. This debt for this year and then we are taking the making the provision for managerial commission. So, for the managerial commission what you have to do is that is on the profit after tax. So, we will have to calculate the profit calculate the tax on that then the managerial commission and then finally, we have made the provision for the tax that is 1,75,572 and now finally, the profit after tax is that is 3,26,061. So, this is the total profit trading and profit and loss account of the Sanjay industries limited.

Now, we move forward to the next level and that is the preparation of the profit and loss profit and loss appropriation account profit and loss appropriation account and here again the same thing is continuing, same columns everything is continuing in the same form and then when we are continuing with this then is the first of all we are looking at is there any opening balance of the profit which is not yet transferred to the balance sheet if it is their first we will have to adjust that. So, profit and loss account 31st March 2015. The balance is this. So, it is the balance on by balance, on 31st March 2015, this is the balance in the profit account. So, we will have to take in this into account and this amount was 54,000s this is the and the profit by profit for the year by profit for the year by profit for the year and this amount is how much profit we have calculated this amount we have calculated is 3,26,061.

So, this is a total profits available will say it is 1 6 0 4 6 10 1 5 7 8 and then it is 3, 80,000s; 3,80,000s. So, it is the profit, here 3, 80,061. So, it is again 3, 80,061. We will have to put the things here, but we will make the provision. So, first what are the provision to be made here let lets checked the provisions to be made payable to make the provisions for outstanding, we have done make provision for doubtful debt done stock is done appreciation is done amortization of provision for done provision for income tax we have done board of director proposes a dividend of 10 percent for the year ended on 31st March 2016 and transfer to general reserve at the rate of 5 percent, all the profit after tax. So, we will have to calculate 5 percent of the, we will have to transfer to the general reserve to transfer to general reserve this is the first head of the portion meant of the profit to transfer to general reserve to transfer to general reserve this amount will work out as 5 percent of the profit.

So, this is the 5 percent of this profit is going to be how much? This is going to be 10 percent is 32,666. So, it means if you calculate this, we have to calculate the 5 percent of this. So, this is going to be the amount 16,303; 16,303 is going to the transferred to the general reserve and then to provision for dividend; provision for dividend; provision for dividend is we have to make the provision of dividend. What is the rate of the dividend? That is 10 percent dividend. So, 10 percent dividend we have to make provision of what we take the 10 percent of the share capital not of the profit. So, share capital here it is authorized share capital is 20,00,000, but the issued share capital is 9,00,000. So, the 10 percent of the 9,00,000 is 90,000 rupees. We have to make the provision for dividend is 90,000s. So, this total is there that works out as a 1,06,303 and remaining amount will be transferred to balance sheet it means to be added in the capital.

So, transferring to balance sheet will be the remaining amount that is 2,73,758. So, this is 3 8 0 and 0 1 1 is the total of the profit and loss appropriation account that is 3,80,061 is a total of the profit and loss appropriation account and from this total profit that is the balance, we had open which was not transferred to the balance sheet or may be added in the capital that is 54,000. It was a opening balance kept in the profit and then the current is profit is 3,26,061. So, total profit available with us is for distribution is that is 3,80,061 and then we have transferred to the general reserve 16,303 and provision for dividend, we have made 90,000 that is 10 percent of the share capital and the remaining amount has been transferred to the balance sheet and that is the balance sheet means that that would be added in the share capital. So, share capital will be appreciating by that amount.

So, this is the total process how we calculate means we prepare the trading and profit and loss account or you, other way round you call it as the income statement of the company form of the organizations or the joint stock companies. Now we will have to for this same problem will have to move forward to prepare the balance sheet means the balance sheet for the Sanjay industries and to check the financial position of this firm whether liabilities and capital are equal to the assets and vice versa are not and if it is there then it is fine there is no problem and the financial position. So, we will have to see and we will have to check while preparing the means while preparing or by preparing the balance sheet will check the financial position and that we will be doing in the next lecture.

Thank you very much.