

**Financial Statements Analysis and Reporting**  
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**Lecture – 33**  
**Corporate Financial Statements Part-IX**

Welcome students. So, we were discussing in the previous lecture the preparation of the trading and profit and loss account of one company named as Sanjay Industries Limited. Now in this part we will be preparing the balance sheet of the same company that is Sanjay Industries Limited.

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Balance Sheet of Sanjay Industries Ltd as on  
31st March 2016

Liabilities & Cap.	Am't	Assets	Am't	Prov.
Share Capital		Plant & Mach		Dividend
Authorised Cap.		26,000		9,000
20,000 Equity Share	20,00,000	Debt 36,500	36,500	Provision
10,000 Equity Share	10,00,000	Prepaid Exp. 15,300	15,300	17,572
Issued, subscribed & called up & paid Capital	30,00,000	Cr. 2,500	2,500	
70,000 Equity Share	70,00,000	Patents & Trademarks	4,320	
By 10,000		Acc. Paid	2,100	
To General Reserve	13,950	Current Assets		
And Creditors	16,363	Inventory	7,200	
To P&L	2,73,758	Bills receivable	4,500	
Current assets		Sundry Debtors	4,500	
20,000		Bank Balance	4,500	
15,750				
7,000				
5,363				

So, it is balance sheet I am writing the title time and again. So, you have to very very careful because this title is very important. So, balance sheet of Sanjay Industries, balance sheet of Sanjay Industries Limited as on 31st march 2016. So, it is liabilities and capital it is amount this is assets and it is amount right. The format is very very important your figures are not correct that is acceptable, but if the format is not correct in that case it is not possible to excuse, because if you are writing here say balance sheet of Sanjay Industries for the year ending on 31st march 2016 it means the total sense changes. Because balance sheet depicts the financial position of the firm only for one day, that is last day of the accounting period. One day before that and one day after that it may change, liabilities maybe more than that asset or vice versa.

But on the date of balance sheet that is 31st march 2016 the balance sheet should be balanced. So, it is as on 31st march 2016, where is in case of the profit and loss account that statement depicts the profit and loss situation of the firm, income and expenses situation of the firm for a period of one year. So, we right there that is trading and profit and loss account of Sanjay Industries for the year, for the year ending on 31st march 2016. So, there is a reporting of the result. So, one full year and here the reporting of the results or the financial position of the firm only for one day that is on the last day of the year.

So, now we will start with the liabilities and capital. So, here if you talk about the capital, we will see that how much capital is there the authorized capital is share capital of the company is, that is the 20000, 20lakhs 2 lakh shares of rupees 10 each. So, we will start with the share capital, this is share capital and will right here authorized capital and authorized capital is how much? 2 lakh shares, 2 lakh equity shares at the rate of rupees 10 per share this works out has 20 lakhs and you put a line here 20 lakhs, so that we have to segregate we have not to count for this capital would be have to show in the balance sheet then how much is authorized capital of the company. Out of this the capital worth rupees 9 lakhs has been issued.

So, it is issued, subscribed, called up and paid up capital is how much? Called up paid up capital is how much that is how many shares that is 9 that capital is 9lakhs. So, it means 90000 shares have been issued; out of 2 lakh shares 90000 equity shares at the rate of rupees 10. So, it means per share and this amount works out as 9 lakhs, this is a share capital. I think we have put the entire amount of the share capital here, now we will talk about the reserves; general reserves and how much was the figure of general reserve, look at the profit and loss appropriation account. That amount was something we have transfers some amount to the balance sheet, and the general reserve figure was that is there any opening balance of the general reserve. Yes, this balance is opening balance of general reserve that is 1 lakh.

So, it is the opening balance, you can call it as the general reserve here it is existing adjusting 1, 39,000 at created during the year is amount how much we have created during the year as a general reserve? We have created that is three 16303. So, total amount of the general reserve works out as 3035145. So, this is 155000 and 39000, this was one lakh sorry this was 139500. So, it is 800, this is 8355, 155000, 803 and then is

profit and loss account or you can write as PAT profit, profit and loss account how much was that balance we transfer to the profit and loss account was 2, 73,000, 2, 73,758 that was in the profit and loss appropriation account that was transferred to the that is going to be transferred to the balance sheet, now that is 2, 73,758 is the profit.

So, I think these are only the long term sources, we do not have any long term loans in this case, we have only capital, we have the general reserve, we have the profit and loss account means net profit transferred to the balance sheet and added in the capital. These are only balance is pertaining to the capital, now others there is no other long term loan there is no other short term loan or anything, now we have largely the spontaneous finance. So, it is now current liabilities and provisions we will have to take here.

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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
<b>Total</b>	<b>44,91,000</b>	<b>44,91,000</b>

So, if we take the current liabilities and provisions. So, it means what are the current liabilities? Will have to look in the credit side, all the credit balance is stock sales no share capital we have taken then it is what is this? With this is the discount we have already taken; is there any current liability short term liability no purchase returns no, then it is sundry bills payable yes bills payable is there. So, it is bills payable. So, bills payable amount is 63,000 good 63,000 this is the bills payable amount.

Then we have creditors yes creditors. So, creditors are we have to take now the creditors and creditors are how much creditors we have here? 1,57,500 creditors are here, then we

have plant machinery furniture cash means if you talk about general reserve we have dealt with profit and loss we have dealt with.

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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 31<sup>st</sup> March, 2016.

Now, let us go to the next part that is adjustments part; and let us take the adjustments here that is outstanding rent amount into rupees 7200 and salaries. So, it is outstanding rent and outstanding salaries; outstanding rent and salaries it is 7200 and 8100; 7200 and 8100 is the rent and outstanding salaries we have taken make a provision for doubtful debts stock, depreciation, amortization done then managerial remuneration yes; provision for managerial remuneration.

So, if we take the provision for make the provision for managerial remuneration that amount is how much? We had already made the provision for managerial remuneration and the amount was how much? It is 7, 55,000 737. 737 was the provision for this and now we will have to continue the balance sheet here. So, we will shorten this column we will make this column little short, this is small and then we will be having the space for continuing the balance sheet.

So, now, we are having this and this is the assets and this is the amount. So, we will continue here this part we will continue again we will continue the balance sheet here. So, it is this part we are continuing it means we can take it here then it is provisions, after this current liabilities. Now we have to take the provisions, provisions are provision for

to provision for the one was the tax item, and what was the second provision? Dividend yes; that is income tax provision for we have to take the provision, so it is dividend; and it is income tax, it is income tax dividend and income tax.

So, dividend we have made the provision for dividend is how much? 90,000 dividend is going to be paid, and then we have to go for the income tax. So, income tax is 1,75,572 is the income tax. So, I think all these items we have taken we have taken the authorized capital, we have taken the issued capital, we have taken the general reserve 155803, then we have taken that profit transferred to the balance sheet 270, 150, 2,73,758 then we have taken the current liabilities which where the outstanding expenses, bills payable, creditors, bills payable are 63000. Creditors are worth 1, 57,500 and then we have outstanding, outstanding rent is 7200, then it is the salaries 8100, remuneration managerial provision for the managerial remuneration and that is 55737. So, total is this and then we have made two provisions, dividend is , and income tax is 1,75, this is the total of the liability side.

Now, let us continue with the asset side. So, let us take the assets; if you take the assets here in this case assets part is how much assets we have? Assets are stock this and then we were the assets, patents and trademarks right. So, we will start there is no land as such. So, we have the plant and these two buildings also given in this case. So, we will start with the plant and machinery first asset is the plant and machinery, furniture and fixtures, and patents and trademarks. So, let us start with the assets that is plant and machinery; plant and machinery was how much that figure is given to us is 2,61,000 less depreciation and this amount is depreciation on plant and machinery is how much? We have to take the depreciation for the plant and machinery this amount is 36540 is the plant and machinery.

So, it is 2, 24,000 balance is 2, 24,460 is the plant and machinery, next asset is a furniture and fittings. So, this balance is 1, 53,000. So, it is 1, 53,000 and less depreciation, and depreciation on the furniture and fittings is how much? We have to take this depreciation on the 18 percent. So, it is 27540, if it calculate this difference then it is the 1, 25,460 460 are the is the balance of this furniture and fittings this is 1,25,460, 1,25,000 1,25,460 is the furniture fittings.

Now, we have the next item is the patents and trademarks. So, patents and trademarks amount is how much? This is 43,200; less amortization, amortization amount is how much? Amortization of this amount is we have done the amortization of a cell 5 percent. So, if you talk about this 5 percent figure of amortization, it is 2160 is the amortization of the patents and trademarks. So, now, the balance left is 41,040. So, these are the three major fixed assets we have taken, now we will take the current assets and the first current asset is the inventory. Inventory left with us is how much? Inventory is the closing balance in the inventory is let us check for that, it is how much inventory stock is 7,92,000 is the inventory balance, then any other assets let us check for the other assets we have the other assets are purchases, carriage, patents then salaries, bills receivables; yes bills receivables we have bills receivables and this bills receivables balance is 45,000 then we have sundry debtors and sundry debtors balance is how much? Sundry debtors are 2,47,500 put it in the inner column, 2,47,500 and less provision for doubtful debts; provision for doubtful debts and how much are the doubtful debts?

We have made the provision for doubtful debts and that figure for doubtful debts was that is somewhere here the figure for doubtful debts is, make a provision for doubtful debts is 4 5 9 0 and this is the balance we are left with the difference of the sundry debtors is 2,42,910 and then this is the difference, what else is left we have taken the plant and machinery, furniture, patents and trademarks, we have taken inventory, we have taken debtors, we have taken the bills receivables, then we have now to go for the last asset let us check is there any item left here outstanding or the liabilities, provisions yes we have taken, stock we have taken, depreciation we have adjusted, amortization we have adjusted, managerial remuneration is a liability we have done, provision for income tax done, dividend everything is done.

So, now is there any cash or any other asset left. So, let us check the balance of the assets that is the cash must be there, cash at bank. There is no cash in hand entire cash is at the bank that is 450 15,800. So, it is 4, 15,800 is the cash balance cash at bank. Cash at bank 4, 15,800 is the cash at bank. So, I think we have taken all the assets here if we talk about the assets, we have taken the plant, building, machinery, furniture and patents, then you have taken the current assets like inventory, debtors, bills receivables, and then we made the provision for doubtful debts cash everything is taken.

So, if you total up both the sides all the items we have are same here, if you total up both the sides of the balance sheet you will find that the balance sheet total is going to be same. If you can check it up, it is 18, 86, 60,670 and this side also 18,86,670. So, you can check it also this side at least you can check 0, 0, 0 then it is 6, 6, 12 then it is 16 and it is 17. So, it is coming a 7, 17, 5 then it is 9, then it is 18, and 18 and 8 26 is 6. So, we have left with 2 6 then it is 5 11 then it is 12, then it is 14 it is 19 and then it is 2. 19 and then 2 is 21; 21 and it is 5 26. It is 26 we have taken 26 good, 2 then it is 4, then it is 6 then it is 10 it is 19, it is 4, 23, 27 and 28 is 8 good, due to then here it is 4,5,7,12 and then it is 14 and 418.

So, 18,86,670 this is 18,86,670 similar is the liability side. So, if you look at the balance sheet of Sanjay Industries it means it is a balanced document, and the financial position of the company we have already we have checked by preparing the balance sheet and we found that the financial position of the Sanjay Industries is its fine, and we can say that the industry the company is making profits, and even the financial position is also very good out of the total authorized capital of 20 lakhs, the company has used so far 9 lakhs, if you comment upon the financial position of the company, let us look at the financial position of the company if you look at the profits of the company yes that is earning a good amount of the profit, because the profit figure is this much 2,73,758 which we transferred to the balance sheet, and out of that out of the total profit 16,603 is added in the general reserves, and we have pay the dividend also and then profit transferred to the balance sheet is that is 2,73,758 profit is here.

So, if we talk about the total profit, that the total profit is much more the figure of the profit is of the this is not a very big firm, because 20 lakhs capital is not going to a very big firm is not going to a very big company, total 20 lakh is only the authorized these a total authorized share capital, and out of 20lakhs they are doing a business if you look at the performance of the company, first you look at that certain things that what is a total investment they are making. They are making the total investment of 9 lakhs right and they have general reserves not more than maximum is 1.5 lakh means that is including for the current year, and if you look at the profitability profit after tax that is 3,26,000. So, it means look at the extent of the profit as compared to the investment, investment is how much 9 lakhs.

So, this is 9 lakhs investment and the profit is 3,26,000, it means is a very good return one third of the equivalent to the one third of the capital amount, invested amount the companies earning the profits. So, it means a very good return around 33 percent returns the companies earning. So, and second important indicate if you look at overall financial position of the company, total business they are running with the owned funds; funds provided by the shareholders, they have not borrowed even a single penny from the loan or as a any anything from the financial institutions or maybe from any other say source like bank or anything they have not borrowed any money. So, it means in that case the total performance is with the internal funds.

So, there is no risk to the company, it means owners are investing the capital they have already invested the capital they running the show with their own capital without even a single penny of the borrowed capital, because if there is a borrowed capital if the loans are taken from the financial institutions or some external sources are used for providing the funding to the company, in that case there can be a problem if the companies not doing well. But you see that there is no say borrowing by the company from external sources; so no long term or the short term loans. So, they are using totally they are using the internal sources: that is the share capital, general reserves, and reinvesting the profit back into the business, and it means no short term or the long term finance borrowed finance, and that the they are using either the share capital that is internal funds, and second source they are using is the spontaneous finance.

This all is the spontaneous finance you call it as bills payable, you call it as creditors, you call it as say outstanding rent or salaries they are delaying the payment, but maybe they are allowed for that they are defaulting it, because they have no shortage of the profit or the say crunch of the funds. So, it means when they have sufficient funds still the outstanding rent and salaries are there they can afford to do that. So, there is no issue about that; they are paying even the extra remuneration to the managers also and they are making provisions for that. So, seems that their management is very happy their team management team is also very happy.

So, means the look at the profitability, look at the say funding sources of the funding from where the funds are coming only the internal sourcing no borrowing nothing, and maximum use of the spontaneous finance. If you look at the spontaneous finance this is a very positive sign about any business or any company in that how much to what extent



they can make use of the spontaneous finance if they are efficient organization, then you see they would be very efficient to generate the spontaneous finance, because no supplier will worry about that whatever is supplying to this company whether the company will pay him back or not; and similarly if there is a rent outstanding salaries are outstanding, but the people are sure about that the rent is not going anywhere the salaries are not going anywhere.

So, it means maximum use of the spontaneous finance and if any companies able to use maximum to the maximum extent, spontaneous finance to the maximum extent, it means it shows that the company is doing very well and settle in this company is doing very well. So, certain indicators say profitability is very good total performance is with the internal funds no borrowed funds or anything and use of the spontaneous finance is very very high, and that shows the credibility of the company. If you come to the asset side of the balance sheet in here this asset side also they have very good major assets like plant and machinery, furniture and patents they have taken from. Somebody they have borrowed and they have spent money on acquiring the patents, and then they are amortizing that and you have if you look at the inventory; inventory is here that is say as compared to the sales. If you talk about the sales figure how much is the sales figure 30 lakhs, and inventory is as compared to that is about say 8 lacks.

So, it means how much it is? Inventory amount is written on the higher side because as compare to 30 lakhs, this much of inventory should not be there, but they keeping it. So, maybe some time to avoid for stock out cost or anything they are keeping, but this should try to bring it down inventory comes down then the financial position will further improve. Similarly bills receivables and sundry debtors are sundry debtors figure is also little very high, it means this is a indication that what are the profit they are earning a larger chunk of the profit is on the credit sales, because credit sales are very high 2, 42,910 and if you include into that the bills receivables also, then the this magnitude further goes up.

So, this point of concern that they should be careful about that if they selling out of the total sales of say 30lakhs, around 3 lakhs of the sales are on credit. So, means 10 percent of the sales are on credit though if you consider is not very high, but still it can be brought down they should bring it down. Cash component at the bank is acceptable 4,

15,000 not a big amount and they are positive point is they are paying dividend to the shareholders, and done regularly means tax is also been paid to the government.

So, very good overall financial performance and the company is doing very well, and we have seen that balance sheet justifies the financial position of the company, and then the profit and loss account talks about the profitability of the company, which is very say acceptable magnitude of the profits, and a good organization, good company, properly managed company. So, with this process we complete here the discussion on the preparation learning about preparation of the financial statements.

So, for we have learnt the preparation of financial statements of a different organization like sole proprietorship form of organizations, partnership firms, private limited companies. And now we are completing by doing two exercises, we are completing discussion on the preparation of financial statements of the public limited companies. So, here I am going to stop the process of the learning about preparation of the financial statements, and from next lecture onwards I will be starting the financial statement analysis part.

Important tools and techniques will be using and learning about the financial statement analysis we will be talking about the different tools and techniques, one by one we will discuss we will do some cases also some exercises also so that how to use them in the practical sense we know about in detail. We know about the financial statement analysis and after that last part will be the learning about her reporting of the say financial information to the different stakeholders.

Thank you very much.