Preparation of Financial Statements

- Dividend payment Guidelines ✓
- Schedule-III provisions
- Preparation of:-
  - B/S
  - P&L
  - Notes
  - as per Schedule III

Dividend Payment Guidlines

1) Dividend means distribution of profits.

2) Dividend can be paid to Equity Shareholders without any limit if distributed out of Cy Profits.

3) If Cy profits are not Sufficient (or) there are losses in cy then Equity Dividend can be distributed out of past profits available in the Form of Free Reserves (GR + P&L a/c op. Bal.)

4) If Dividend is paid out of Past profits Entity has to Fulfill Following 3 Conditions:-

Condition 1:- Such Dividend Shall not exceed the Avg. Dividend Rate of Last 3 years.

25-26	24-25	23-24	22-23
Cy	9%	11%	8%

Cy Divd. Rate shall not exceed 9.33%.

Avg. Divd Rate = 9.33%

Condition 2:- Maximum Use of Past profit for Paying Dividend shall not exceed :- Maximum withdrawal

10% of (Total paid up Capital + Free Reserves)
(ESC + PSC)

eg:- ESC 40 lacs.
PSC 18 lacs.
GR 23 lacs. } past profits
P&L 10 lacs.
Bal.

91 lacs. × 10% = 9.10 lacs. Can be used out of past profits

Suppose, Dividend amt is 10,00,000, & we have Cy profits of 1,00,000. We want to use 900000 of Past profit. is it allowed?

Yes up 9.10 lacs. Can

be used out of past profits.

Condition 3:- Minimum Balance in past profits after withdrawal for Dividend shall be atleast 15% of Total paidup Capital

Imp. Notes:-

1) Before Paying Equity Dividend, Preference Dividend shall be paid in priority.

2) All above Conditions are applicable for Equity Dividend only.

Formate of Statement of P&L

Particulars	Note	Amt.
1) Revenue From operations	13	
2) Other Incomes	14	
(a)		
Expenses :-		
1) Cost of Material Consumed (Only for Manf. Companies)		
Op. Raw material		
(+) purchase of Rm		
(–) Closg Rm		
2) Purchases of Stock in Trade		
3) Changes in Inventory		
4) Employee Benefit Expenses.		
5) Finance Cost		
6) Depreciation and Amortisation		
7) Other Expenses.		
(b)		
Net profit Before Tax (a-b)		xxx
(–) Tax Expense		(xx)
Net profit After Tax		xxx

Balance Sheet Format

Particulars	Note no.	Amt.
Equity & Liabilities		
1) **Shareholder's Funds**		
a) Share Capital (ESC + PSC)		
b) Reserves & Surplus		
c) Money received against the warrant		
2) Share application money pending allotment		
3) **Non Current Liab.** :-		
a) LT Borrowings		
b) DTL		
c) Other Non Current Liab.		
d) LT Provisions.		
4) **Current Liabilities** :-		
a) ST Borrowings		
b) Trade payables		
c) Other Current Liab.		
d) ST provisions		

ASSETS

1) Non Current Assets :-

PPE
Intangible Assets
Capital WIP
Intangible Asset Under Develop.
Non Current Investment
DTA
Long Term L&A
Other Non Current Assets

2) Current Assets :-

Current Investments
Inventories
Trade Receivables
Cash & Cash Equivalents
ST Loans & Advances
Other CA

Step 1:- items classification

Step 2:- B/s SPL (without Fig.)

Step 3:- Notes to A/cs

Important Summary

1) **OCL (Other Current Liability) items :-**

a) O/S expenses
b) Dividend Payable & Unclaimed Divd.
c) Interest Payable
d) Share application money Refundable
e) Interim Dividend Payable

2) **Other Current Assets (OCA) items :-**

a) Prepaid Exp.
b) Accrued Income

3) **Income Tax Provision & Income Tax Paid :-**

Tax a/c

To Bank (I.T. Paid)	xxx	By Bal b/d (Opng. provision)	xxx
To Bal c/d (Closg. provision)	xxx	By P&L a/c (I.T. provision Created)	xxx

eg :- Openg provision for Tax = 50,000 (as per TB)

Tax paid during the year = 1,23,000

Closg Provision = 62,000

Tax A/c

To Bank	1,23,900	By Bal b/d	50,000
To Bal c/d	62,000	By P&L a/c (B/F)	135000

SPL

B/s
STP (CL)

4) Director Remuneration ⇒ Employee Benf. Exp.

Director's Sitting fees ⇒ other Exp.

5) Technical Know How ⇒ Intangible Asset

6) Dividend declared But date not mentioned
↳ Treat Contingent Liability only.

7) Bills discounted but not yet matured
↳ Treat Contingent Liability.

8) Advance (Loan) to Director ⇒ Short Term L&A
if nothing
is Specified.

9) Dividend Can not be distributed out of
SP a/c

10) Debenture "%" is given → We have to check whether Interest is shown in TB or not.

If not shown in T.B., then dual effect of Interest should be given

- Finance Cost (SPL)
- Interest Payable (OCL – B/S)

11) Bad debt recovered ⇒ Other Income in SPL

12) Current Maturity of Long Term Loan

→ ST Borrowing

LT से घटाओ
ST में add Karo

13) Bank OD ⇒ always ST Borrowings

14) Bill dishonoured

- B/R (–)
- Debtor (+)

15) If Trial Balance shows only Assets & Liabilities no Incomes/expenses, it means P&L Bal. given in TB is closing

16) Ageing of Trade Receivables

Notes to A/c of Trade Receivables must Disclose their ageing as Under :-

Amt due for 6 months or more	xxx
Remaining Amt due for less than 6 months	xxx

17) All provisions must be Created out of P&L a/c only :-

P&L a/c

To provision for Tax

To prov. for B.D

To Warranty provision

To Prov. for Depr.

18) Bank Balances must be shown in Notes as Under :-

Balance with Scheduled Banks ———	xxx
Balance with Other Banks ———	xxx

19) Trial Balance (extract)

	Dr.	Cr.
PPE	xxx	—
provision For Dep	—	xxx

this is original cost

this is Accumulated Dep.

Trial Balance (extract)

	Dr.	Cr.
PPE	xxx	

WDV

20) Other Expenses items :-

a) Carriage inward / outward
b) Selling, Promotional, Advert, Marketing.
c) preliminary.
d) Dealer aid
e) Transit insurance (or) any other Insurance premium paid
F) Factory exp.
g). ManuFacturing exp.
h) Director's Fees / sitting fees.

i) Consumables

21) Adjusted purchase will always be treated as COGS.

22) Goods given as free Sample

- purchase
  घटा
  minus
- other Exp
  ↓
  Advert. Exp
  (+)

23) <u>Share Forfeited & Reissued :-</u>

Amt already paid up ——— xxx

(+) Amt. Collected on Reissue ——— xxx

Total

- Face Value
  ↓
  Part of Share Capital
- &
- Extra
  ↓
  CR

24) Closing Inventory is more than Opening Inventory => Negative Expense in Expense side

25) Investment (not mentioned Current or Non-Current)

↓

Always Non-Current

26) Bonus issue during the year shall be made out of :-

1st priority —— CRR

2nd priority —— SP a/c

3rd priority —— GR

4th priority —— P&L a/c

ESC (+)   R&S (−)

27) When Question ask to Transfer Some Portion of profit to GR such as 10% then such 10% shall be calculated on CY NPAT only.

28) Debit Balance of P&L ⇒ means Loss
it is to be disclosed Under R&S
as negative figure.

29) Calls in arrears shall always be deducted from Share Capital.

30) Govt. Grant Received

- Revenue Nature
  - ↓ Other Income (P&L)
- Capital Receipt → For PPE / Promoter Contri
  - ↓ AS 12
  - ↓ B/S Liability Side

31) Advance Tax ⇒ Short Term L&A in Current Assets.

32) Operating Cycle :-

Cash $\xrightarrow{1m}$ RM purchase $\xrightarrow{2m}$ process → FG $\xrightarrow{\text{Store } 2m}$ (Debtor) Sale $\xrightarrow{3m}$ Cash

MASTER QUESTION

MQ.FS.01:

The following is the Trial Balance of Holding Ltd., as on 31st March, 20X2:

PARTICULARS	DR.	CR.
Equity Share Capital	-	16,25,000
3000, 9% Cumulative Pref. Share Capital	-	3,00,000
10% Debentures	-	4,80,000
Security Premium	-	1,55,000
General Reserves	-	15,00,000
Profit and Loss A/c (PY)	-	1,50,000
Sales	-	90,00,000
Trade Payables	-	11,50,000
Provision for Depreciation on P&M	-	3,50,000
Suspense A/c	-	1,40,000
Land at Cost	40,00,000	-
Plant and Machine at Cost	12,50,000	-
Sundry Debtors	15,00,000	-
Bills Receivables	4,00,000	-
Inventories Closing (Stock in Trade)	7,50,000	-
Bank Balance	4,30,000	-
Adjusted Purchase of Stock in Trade	21,30,000	-
Factory Expenses	12,00,000	-
Administration Exp	4,00,000	-
Selling Exp	9,00,000	-
Debenture Interest Paid till 30th Sep	35,000	-
Goodwill	10,00,000	-
Interim Dividend Paid	90,000	-
Bad Debts	45,000	-
Provision for Doubtful Debts	-	67,000
Directors Fees	51,000	
Loose Tools	25,000	
Consumables	18,000	
Unclaimed Dividend of Last Year	-	12,000
Long Term Investments (7.5%)	16,00,000	-
Interest received on above Investments	-	90,000
Preliminary Expenses	40,000	-
Opening Raw Material	2,10,000	-
Purchase of Raw Material	8,10,000	-
Long Term Loan from Bank	-	13,20,000
Long Term Laon from Other Parties	-	3,00,000
Short Term Loan from Bank	-	5,00,000
Govt. Grant Received (Revenue Nature)	-	1,75,000
Managerial Remuneration Paid	1,00,000	-
Income Tax Paid	9,50,000	-
Provision for Income Tax (as on 1/04/20X1)	-	5,20,000
Deferred Tax Liability	-	1,00,000
	1,79,34,000	**1,79,34,000**

Additional Information:

1. The authorised share capital of the company is:
3,000, 9% preference shares of Rs. 100 each 3,00,000

20,000, Equity shares of Rs. 100 each	20,00,000

2. Issued equity capital as on 1st April 20X1 stood at Rs. 14,40,000, that is 12,000 shares fully paid and 4,000 shares of Rs. 60 paid. The directors made a call of Rs. 40 per share on 1st October. A shareholder could not pay the call on 500 shares and his shares were then forfeited and reissued @ Rs. 90 per share as fully paid.
3. On 31st March 20X2, the Directors declared a dividend of 12% on equity shares, transferring any amount that may be required from General Reserve.
4. The company on the advice of independent valuer wishes to revalue the land by 10%
5. Suspense account of Rs. 1,40,000 represents amount received for the sale of some of the machinery on 1-4-20X1. The cost of the machinery was Rs. 3,00,000 and the accumulated depreciation thereon being Rs. 1,80,000.
6. Depreciation is to be provided on plant and machinery at 10% on diminishing balance.
7. Amortize 1/5th of Goodwill.
8. Rs. 2,00,000 of Debentures were redeemed on 1st Oct at 10% Premium but premium amount not yet debited to Security Premium A/c. Full Amount wrongly debited to Debentures A/c.
9. Maintain a Provision of 7% on Debtors as on 31st March 20X2.
10. Provision for Income Tax as on 31st March should be Rs. 8,00,000
11. Closing Raw Material is Rs. 2,45,000
12. Adjusted Purchase of Stock in Trade includes 16,000 distributed among valued customers
13. Long Term loan from Bank includes Interest Accrued but not due Rs. 50,000 and Rs. 1,20,000 To be payable within 1 Year.
14. Bills receivables discounted not yet matured Rs. 15,000
15. Outstanding expenses Rs. 21,000
16. Transfer 20% of NPAT to General Reserve.

You are required to prepare Holding Limited's Balance Sheet as on 31-3-20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31-3-20X2 as per Schedule III of the Companies Act, 2013.

Master Question Pg. no. 2.51

Rough working

1) Pref. Dividend = 27000 → R&S (−) ; OCL (+)

2) Interest on Deb^n

3) Interest on Investments = 120000 → P&L

30000 → Receivable OCA

4) Equity Share Capital = 1625000

ESC 16 lacs. CR 25000

5) Eq. Divd => 1600000 × 12% = 192000

R&S (−)　　OCL (+)

4) Revaluation 400000

Land (+)　　R&S (+)

5) Plant & machine

Org. Cost
1250000
SOLD (−) 300000
950000

Provision For Dep.
350000
SOLD (−) 180000
170000

Dep @ 10% on (950000 − 170000) = 78000

6) Amortisation 200000
Goodwill (−)
Dep/Amort +
SPL

7) Redemption of Debⁿ (1/10) ⇒ FV 200000
(+) prem. 20000
220000

Wrong

Debenture A/c 220000
To Bank 220000

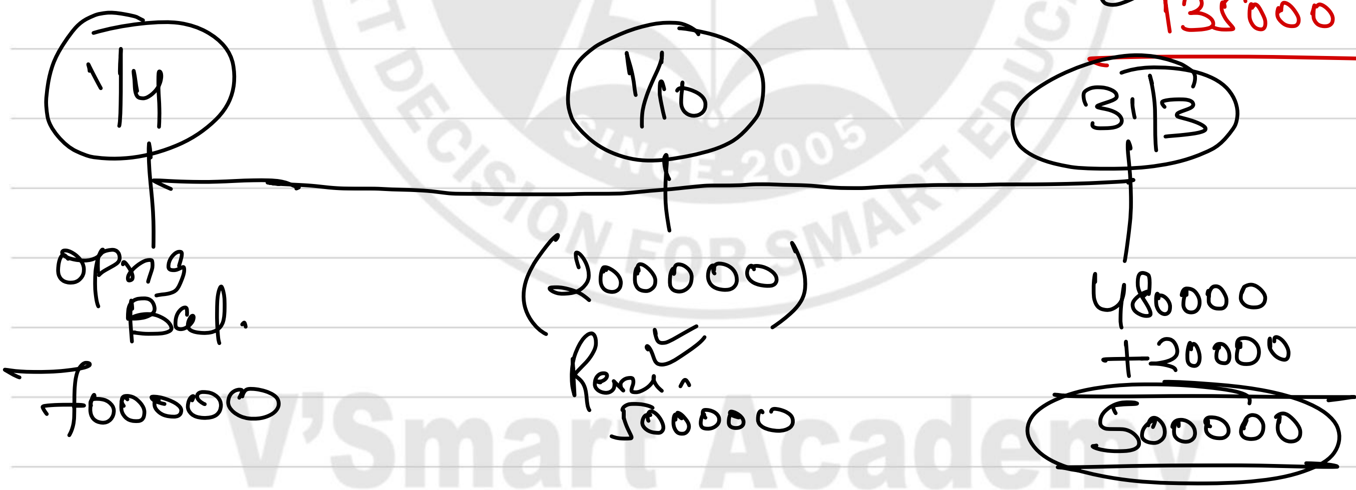
Correct entry

Debⁿ a/c Dr. 200000
SP Dr. 20000
To Bank 220000

Correction Required

1) Deb 480000
+20000
500000

2) SP 155000
−20000
135000



Debⁿ Int. (1st Half) = 35000 (TB) FC

Debⁿ Int (2nd Half) = 25000 Payable

on 500000 × 10% × 6/12

FC (+)   OCL (+)

8) Debtors = 1500000

↓

7% provision = 105000
(-) 67000 TB

Creation ⇒ 38000

Other exp.

Prov.
67
(+) 38

9) Tax A/c

To Bank	950000	By Bal b/d	520000
To Bal c/d	800000	By P&L a/c (B/F)	1230000

STP (B/S)

SPL
NPBT
(-) Tax exp.

10) 16000 — Purchase (-)
— Other exp (+) Advertisement

11) LT Loan 1320000

50000 Interest Payable → OCL

120000 Current maturity → ST Borrowing

Balance 11,50,000 → LTB

12) O/s Exp. 21000

SPL → Other Exp (+)

OCL (+)

Holding Ltd
Balance Sheet
As on 31/03/X2

Particulars	Note	Amt.
Equity & Liabilities		
1) Shareholders Funds		
a) Share Capital	1	19,00,000
b) Reserves & Surplus	2	39,30,000
2) Non Current Liabilities		
a) Long Term Borrowing	3	19,50,000
b) DTL		1,00,000
3) Current Liabilities		
a) Short Term Borrowing	4	6,20,000
b) Trade Payables		11,50,000

c) Short Term provision	5	8,00,000
d) Other Current Liab.	6	3,27,000
Total		1,07,77,000

ASSETS

1) Non Current Assets

a) PPE	7	51,02,000
b) Intangible Asset	8	8,00,000
c) Non Current Investments		16,00,000

2) Current Assets

a) Inventories	9	10,20,000
b) Trade Receivables	10	17,95,000
c) Cash & Cash Equivalents	11	4,30,000
d) Other Current Asset	12	30,000
		1,07,77,000

Contingent Liabilities	13	15,000

Statement of P&L

Particulars	Note	Amt.
Revenue from operation	14	90,00,000
Other Income	15	3,15,000
Total (a)		93,15,000
Expenses :-		
1) COMC	16	7,75,000
2) Purchases	17	21,14,000
3) Employee Benf. Exp.	18	1,00,000
4) Finance Cost	19	60,000
5) Depreciation & Amort.	20	2,78,000
6) Other Exp.	21	27,29,000
Total (b)		60,56,000
Net profit Before Tax (a-b)		32,59,000
(-) Tax Expense		(12,30,000)
Net profit after Tax (transfer to R&S)		20,29,000

Notes to Accounts

1) Share Capital

a) Authorised Capital

3000, 9% Pref. Shares of 100/-	300000
20000, Equity Shares of 100/-	20,00,000
	23,00,000

b) Issued & Subscribed :-

3000, 9% pref. Shares of 100/-	300000
16000 Equity shares of 100/-	16,00,000
	19,00,000

2) Reserves & Surplus

a) Capital Reserve (500 x 50/-)		25,000
b) Revaluation Reserves (on Land)		400000
c) Security premium (155000 − 20000)		135000
d) General Reserves		19,05,800
Opng Bal	1500000	
(+) Transfer from P&L	405800	

e) Profit & Loss a/c

Openg Bal.	150000	1464200
(+) NPAT	2029000	
(–) Pref. Divd	(27000)	
(–) Eq. Divd.	(192000)	
(–) Transfer to GR 20%	(405800)	
(–) Interim Divd.	(90000)	39,30,000

3) Long Term Borrowings

a) Debentures (480000 + 20000)	500000
b) LT Loan from Bank	11,50,000
c) Loan from other parties	300000
	19,50,000

4) Short Term Borrowing

a) Current maturity of LT Loan	120000
b) ST Loan	500000
	620000

5) Short Term Provision

Tax provision	8,00,000

6) Other Current Liabilities

a) Pref. Dividend (300000 x 9%)	27000
b) Equity Dividend (1600000 x 12%)	192000
c) Debn Interest (2nd Half)	25000
d) Interest on LT Loan	50,000

e) Unclaimed Dividend	12,000
F) O/s Exp.	21,000
	327,000

7) PPE :-

Particulars	Org. Cost	Provision For Dep.	Net
a) Land	4000000	—	
(+) Revaluation	400000		
	4400000	—	4400000
b) Plant & Mach.			
Opng. Bal.	1250000	350000	900000
(–) Machine Sold	(300000)	(180000)	(120000)
(+/–) Depreciation	–	78000	(78000)
	950000	248000	702000
Gross Total	53,50,000	248000	51,02,000

8) Intangible Assets

Goodwill	10,00,000
(–) Amortisation	(200000)
	800000

9) Inventory

Loose Tools	25000
Rm Closing	245000
Closing SIT/FG	750000
	10,20,000

10) Trade Receivable

a) B/R		400,000
b) Debtors	1500000	1395000
(–) provision	(105000)	
		1795000

11) Cash & Cash Equivalent

Bank	430000

12) Other Current Assets

Interest on Invest. receivable	30000

13) Contingent Liab. :-

Bill Discounted	15000

14) Revenue From operations

Sales	90,00,000

15) Other Income

Gain on Sales.	20,000
Govt Grant	1,75,000
Interest on Invest (90+30)	1,20,000
	3,15,000

16) Cost of Material Consumed

Opn Rm	210000
(+) Pur. of Rm	810000
(-) Closg Rm	(245000)
	775000

17) Purchases of SIT

Adjusted purchases	21,30,000
(-) Goods given for Sample	(16,000)
	21,14,000

18) Employee Benefit Exp.

Managerial Remn.	10,00,000

19) Finance Cost

Interest on Debn (35+25)	60,000

20) Depreciation & Amorti

P&M	78,000
Goodwill	200000
	278000

21) Other Expense :—

Factory exp.	12,00,000
Adm. exp.	4,00,000
Selling exp.	9,00,000
Bad-debts	45,000
provision	38,000
Directors fees	51,000
Consumables	18,000
preliminary o/s exp.	40,000
	21,000
Advertisement (Sample)	16,000
	27,29,000