



Chapter-5 Financial Statements of Co.

'Self Analysis'

- 1) This topic focusses more on disclosure norms and requirements of Schedule-III of Companies Act-2013, rather than accounting treatments
- 2) In sch. III P&L we don't disclose OS & CS separately, we just disclose change in stock i.e. CS - OS. However, if OS = CS that means there is no change in stock then in such case, no separate disclosure is required. (Ref. Q2)
- 3) Preliminary Exps. should be deducted from P&L under R&S (Ref. Q13)
- 4) Δ in Invnt. i.e. CS - OS

Now, if $CS > OS =$ Invnt. \uparrow Exps. \downarrow
Invnt. \uparrow Profit/Income \uparrow P/L etc Exp. side -ve figure

$CS < OS =$ Invnt. \downarrow Exp. \uparrow
Invnt. \downarrow Profit/Income \downarrow P/L etc Exp. side +ve figure

5) In TB if Dep. Reserve / Acc. Dep. is given on Cr. side then it means the the assets are given on Dr. side at COST, otherwise WDV.

Objectives of preparation of FS:

- 1) To ascertain financial performance (Profit / loss)
- 2) To ascertain financial position (Solvency, liquidity, Resistance)
Financial ↓ Support

for whom do we prepare FS?



While preparing FS we have to keep 'Users of FS' at Epicenter i.e. we have to think from the viewpoint of user.

Transactions



BOA — Accounting

→ Primary BOA

→ Secondary BOA (Ledger)



• BRS • ROE

TRIAL BALANCE (RM)



→ Other Inform. (Adjustments)

FS (FG)

• Preparation of FS (Content)

• Presentation of FS (Format)



LAW



The Companies Act 2013

Companies Act 2013



Schedule - III

Form & Content of Financial Statements
format contents in it

Part-I

Form & Content
of Balance Sheet

Part-II

Form & Content of
Statement of Profit/Loss

Balance Sheet of Pioneer Ltd.

Particulars	Note Ref.	Amount
<u>I. Equity & Liabilities</u>		
1. Shareholders Funds		
(A) Share Capital	1	9,99,000
(B) Reserves & Surplus	2	2,96,700
2. Share Application money pending allotment		
		—
3. Non-current liabilities	3	2,63,500
4. Current liabilities		
Interest on loan from SFC		7,500
Provision for taxation		68,000
Dividend Payable		60,000
Trade Payables		200,000
		<hr/>
		18,94,700
<u>II. Assets</u>		
1. Non-current Assets		
Property, Plant & Equipments	4	11,25,000
2. Current Assets		
Inventories	5	250,000

Trade Receivables	6	200,000
Cash and Cash Equivalents	7	277,000
Other Current Assets & Advances		42,700
		<u>18,94,700</u>

Note on Contract WIP: The estimated amount of an incomplete contract is ₹150,000, which is not provided.

Notes to Accounts :-

Note-1: Share Capital

Issued, Subscribed and Paidup SC	10,00,000	
10,000 ES of ₹100 each		
(-) calls in Arrears	<u>(1,000)</u>	9,99,000

(Out of above 2000 ES are issued for consideration other than cash).

Note-2: Reserves & Surplus

General Reserves	210,000	
Profit & Loss A/c	<u>86,700</u>	2,96,700

Note-3: Non-current liability

Loan from SFC (150,000 - 7,500)	1,42,500	
(Secured by hypothecation of P&M)		

unsecured loan

1,21,000

263,500

Note-4: Property, Plant & Equipments

Total Depr. on an asset
from Dt. of purchase till current year

Asset	Gross Block (Cost)	Accumulated Depr.	Net Block (WDV)
Land	200,000	-	200,000
Building	400,000	50,000	350,000
Plant & Mach.	700,000	175,000	525,000
Furniture	62,500	12,500	50,000
	<u>13,62,500</u>	<u>237,500</u>	<u>11,25,000</u>

Note-5: Inventories

Finished Goods

200,000

Raw Material

50,000

P&L
CY Depr.

250,000

BS

Note-6: Trade Receivables

- Outstanding for

- less than six months

148,000

- More than six months

52,000

200,000

Note-7: Cash & Cash Equivalents

- Cash at Bank
 - less Risky - with Scheduled Banks
 - more Risky - with other Banks (Perfect Bank)
- cash in Hand

245,000	
2,000	247,000
	30,000
	277,000

Q9/AAA/5.8

Working Notes :-

Land a/c — Dr. 140,000
 To Rev. Res. a/c 140,000

Depr a/c — Dr. 76,000
 To P & M a/c 76,000

Mach. a/c (WDV)

598,000	4,000
(770-172)	76,000
2,000	(770,000 - 10,000) x 10%
600,000	520,000
	600,000

Cash a/c — Dr. 4000
 To Susp. a/c 4000

Cash a/c — Dr. 4000
 To Mach. a/c 2000
 To P&L a/c 2000

Suspense a/c — Dr. 4000
 To Mach. a/c 2000
 To P&L a/c 2000

Q3/AAA/5.7 - Classification of NCL & CL

As per schedule-III of Companies Act 2013, a Non Current liability is a liability that is to be settled within 12 Months from the reporting date i.e. year ending date. Current liability is a liability that is not a Non-Current liability, which means it is to be settled within 12 months of Reporting date i.e. year ending date.

Inst.No.	Date	Amount	Class. in BS as on 31/03/18
1	30/09/18	100,000	Current liability ₹ 200,000
2	31/03/19	100,000	
3	30/09/19	100,000	Non current liability ₹ 800,000
4	31/03/20	100,000	
5	30/09/20	100,000	
6	31/03/21	100,000	
7	30/09/21	100,000	
8	31/03/22	100,000	
9	30/09/22	100,000	
10	31/03/23	100,000	

Q4/AAA/5.7 - Presentation of Reserves

As per Schedule - III of Companies Act 2013, every company should disclose the balance of their reserves under the head "Reserves and Surplus" on Balance sheet 'Equity & Liability' side, no matter whether such Reserves have credit balance or Debit Balance.

In the given case, the presentation done by Futura Ltd. to disclose P&L A/c (Dr. Balance) of ₹ 250 Cr. on assets side is not in accordance with the provisions of Schedule - III.

The correct presentation is as under -

Balance Sheet (Extracts)

<u>Particulars</u>	<u>Amount (Cr.)</u>
<u>I. Equity & Liabilities</u>	
Reserves & Surplus	
Securities Premium	80
Capital Reserve	60
General Reserve	90
P&L A/c	<u>(250)</u> (20)

Balance Sheet of Honda Chemicals Ltd.

Particulars	Note Ref.	Amount (Rs.)
<u>I Equity & Liabilities</u>		
1) Shareholder's Funds		
(A) Share Capital	1	25,00,000
(B) Reserves & Surplus	2	740,000
2) Share Appl. money pending Allotment		-
3) Non-current liabilities		
11% Debentures		500,000
Bank loan		645,000
4) Current liabilities		
Trade Payables		281,000
		<u>46,66,000</u>

II. Assets

1) Non-current Assets		
Property Plant & Equipments	3	30,05,000
Intangible Assets - Goodwill		265,000
2) Current Assets		
Inventory		823,000

Trade Receivables		440,000
Cash & Cash Equivalents	4	53,000
Other Current Assets, Loans & Advances		
Loan to Director		80,000
		<u>46,66,000</u>

Statement of Profit and Loss - for the year ended 31st March 2020

Particulars	Note Ref.	Amount (Rs)
I. Revenue from Operations (Sales)		42,68,000
II. Other Incomes	5	56,000
III. Total Income (I + II)		43,24,000
IV. Expenses		
Cost of Material Consumed/Purchases		23,19,000
Changes in Inventory (Stock ↑ 143,000 Income ↑)		(143,000)
Employee Benefit Expenses		900,000
Finance Cost	7	171,000
Depreciation & Amortization (CY Depr.)		-
Other Expenses	6	476,000
		<u>37,23,000</u>
V. Net Profit/(Loss) for the year (III - IV) (BS > RS)		6,01,000

NOTES TO ACCOUNTS :-

Note-1: Share Capital

Authorised share capital

250,000 ES of ₹10 each

25,00,000

Issued, subscribed & Paidup SC

250,000 ES of ₹10 each

25,00,000

Note-2: Reserves & Surplus

Profit & Loss Account :-

Opening Balance

139,000

Add:- CY Profit (P/L acc)

601,000

740,000

Note-3: Property, Plant & Equipment

Asset	Cost	AccDep	WDV
Furniture	200,000	—	200,000
Plant & Machinery	860,000	146,000	714,000
Fixtures	300,000	—	300,000
Freehold land	15,46,000	—	15,46,000
Tools & Equip.	245,000	—	245,000
	<u>31,51,000</u>	—	<u>30,05,000</u>

Note-4: Cash & Cash Equivalents

Cash in Hand	8,000	
Cash at Bank	<u>45,000</u>	53,000

Note-5: Other Incomes

Rent Received	46,000	
Transfer fees	<u>10,000</u>	56,000

Note-6: Other Expenses

Discount	40,000
Advt.	20,000
Bad Debts	35,000
comm.	120,000
Rentals	25,000
Prel. Exps.	10,000
Consumables	84,000
Dealer Aids	21,000
Transit Insurance	30,000
Trade Exp.	37,000
Freight	<u>54,000</u>

	Prel. Exps.	
	↙	↘
	Amortised	Unamortised
	P&L > Dr.	BS > A
	Other Exps.	Deduct
		from P/L
		BS > L > RS
Total PE		50,000 (5 Yrs.)
(-) P/L		<u>(10,000)</u>
		40,000

476,000

Working Notes:-

ESC - 01/04/19

6000ES of ₹100 each fully paidup	600,000
2000ES of ₹100 each, ₹60 paidup	120,000
	<u>720,000</u>

Sh. Call ~~acc~~ (2000 x ₹40) — Dr. 80,000
 To SC ~~acc~~ 80,000

Bank ~~acc~~ (1900 x ₹40) — Dr. 76,000
 Calls in Arn. (100 x ₹40) — Dr. 4,000
 To Sh. ~~call acc~~ 80,000

Sh. Cap. ~~acc~~ (100 x ₹100) — Dr. 10,000
 To Calls in Arn. ~~acc~~ 4,000
 To Sh. Forf. ~~acc~~ (100 x ₹60) 6,000

Amt. Received on
 each forfeited share

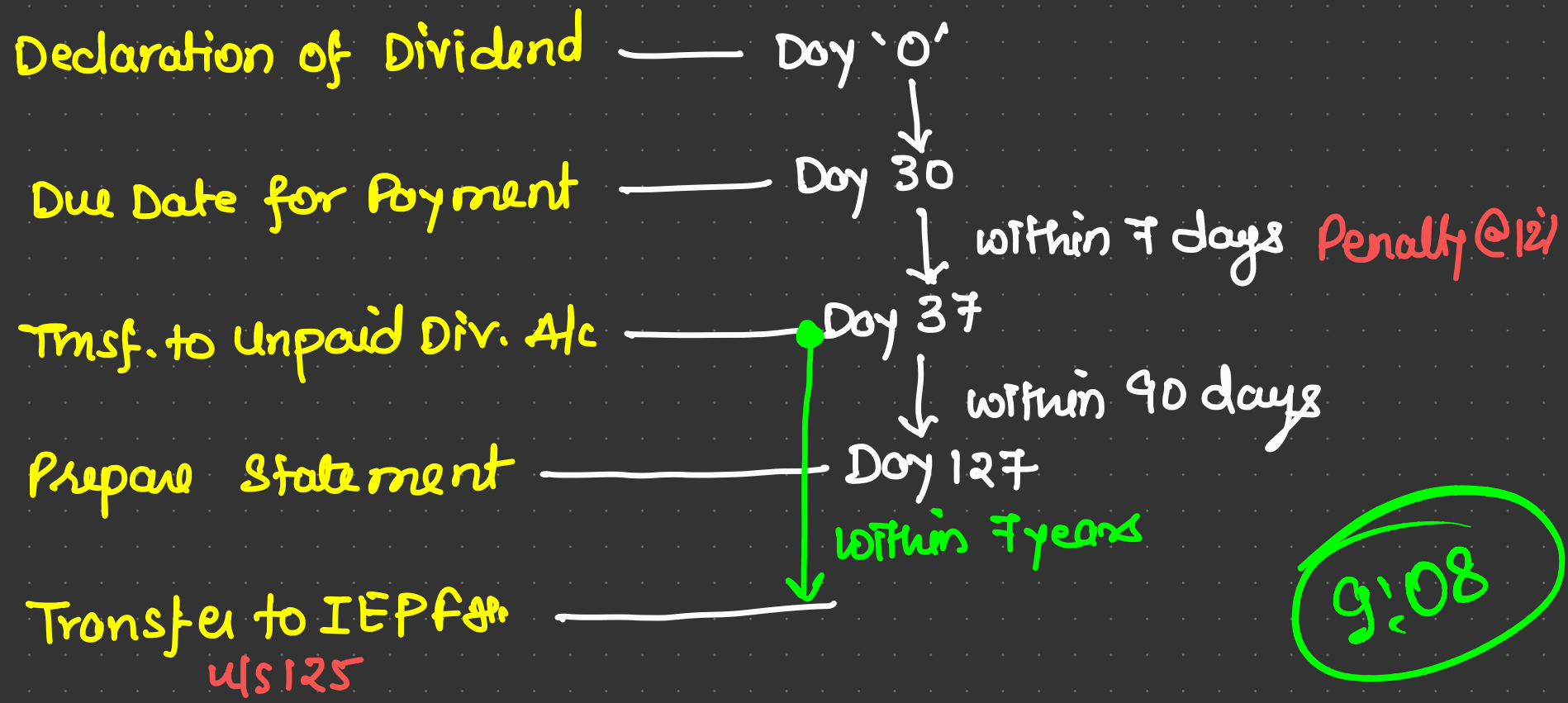
ESC acc	
✓ 10,000	720,000 ✓
	80,000 ✓
* 800,000	10,000 ✓
<hr/>	
810,000	810,000

Bank ~~acc~~ (100 x ₹90) — Dr. 9000
 Sh. Forf. ~~acc~~ (100 x ₹10) Dr. 1000
 To Sh. Cap. ~~acc~~ 10,000

Sh. Forf. ~~acc~~ — Dr. 5000
 To Cap. Reserve ~~acc~~ 5,000
 [6000 - 1000]

Solution referred from ICAI sm

Section 124:



Payment of Dividend

Out of Current Year's Profit

NO RESTRICTIONS

Out of Accumulated Profits/ Reserves

Comply with Regulations

NOTE: No co. can declare & pay dividends out of its capital.

FV

$$MP/ES = \frac{\text{Total NW of Co. / SH Funds} \rightarrow SC + RES}{\text{No. of ES}}$$

Net Worth

Q6(AAA)5.7

As per companies (Declaration of Dividend out of Reserves) Rules 2014, a co. can declare dividend out of Reserves, subject to following conditions

Condition - 1: Rate of Dividend \leq Avg. Rate of Div.
(in last 3 years)

$$10\% < 12\% \text{ (Given)} \quad \text{--- PASSED}$$

Condition - 2: Max. amt. to be utilised out of Reserves \leq 10% (Paid up SC + FR)

Amt. Required for Equity dividend out of GR

CY Profit	300,000
(-) Pref. Div. (17,50,000 x 9%)	(157,500)
<hr/>	
∴ Amt. avail for Eq. Div.	142,500
Eq. Div. Pay. (80,00,000 x 10%)	800,000
<hr/>	
∴ Amt. Req. out of GR	657,500

Max. Amt. allowable to use out of GR
 $= 10\% (17,50,000 + 80,00,000 + 25,00,000)$

= ₹12,25,000

Amt. Req. $<$ Amt. Allowable
657,500 $<$ 12,25,500 --- PASSED

Condition - 3: Bal. of Res. (After utilisation) \geq 15% Paidup SC

Bal. of GR (Given) 25,00,000
(-) utilised for Eq. Div. (657,500)

% Bal. of GR (After Util.) 18,42,500

Min. Req. Bal. of GR = 15% of Paidup SC
= 15% (17,50,000 + 80,00,000)
= ₹14,62,500

Actual Bal. of GR $>$ Min Req. Bal. --- PASSED
18,42,500 $>$ 14,62,500

Conclusion: - Since all 3 conditions are fulfilled, the co. can declare 10% dividend out of GR.