1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 04 (Class XII, Semester – 2)
Module Name/Title	Financial Statements of a Company – Part 3
Module Id	leac_20303
Pre-requisites	Basic knowledge of Financial Statements
Objectives	At the end of the lesson, the learners will be able to: • Solve practical questions on Balance Sheet • State the meaning of Statement of Profit and Loss • Understand the format of Statement of Profit and Loss
Keywords	Financial Statements, Balance Sheet, Profit and loss statement

2. Development Team

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1.1. Introduction

The financial statements are the end products of accounting process. They are prepared as per the accounting policies and accounting standards prescribed in the Companies Act. The accounting concepts, principles, procedures and also the legal environment in which the business organisations operates are also taken into consideration before their preparation. These statements are the outcome of the summarising process of accounting and are, therefore, the sources of information on the basis of which conclusions are drawn about the profitability and the financial position of a company. Hence, they need to be arranged in a proper form with suitable contents so that the shareholders and other users of financial statements can easily understand and use them in their economic decisions in a meaningful way.

A balance sheet is a financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time, and provides a basis for computing rates of return and evaluating its capital structure. It is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders.

Thus, Balance Sheet is required for external reporting and also for internal needs of the management like planning, decision-making and control.

Every company registered under The Companies Act 2013 shall prepare its balance sheet, to harmonise the disclosure requirement as per the schedule III of the companies' act 2013 that is with the accounting standards and to converge with new reforms.

This module will cover practical questions on balance sheet and an introduction to statement of profit loss, the next type of financial statement.

2.1 Illustrations on Balance Sheet

Illustration 2.1.1

Show the following items in the balance sheet of ABC Ltd. as on March 31, 2019:

8% Debentures	Rs. 10,00,000
Equity share capital	Rs. 50,00,000
Securities premium	Rs. 20,000
Preliminary expenses	Rs. 40,000
Statement of Profit & Loss(cr.)	Rs. 1,50,000
Loose tools	Rs. 20,000
Bank balance	Rs. 60,000
Cash in hand	Rs. 38,000

Solution:

Balance Sheet of ABC Ltd. as at March 31, 2019

Particulars		*Note No.*	*Amount (Rs.)*
I. Equity and Liabilities			
1. Shareholders' Funds		1	50,00,000
a) Share capital		2	1,30,000
b) Reserve and surplus			
2. Non-current Liabilities			10,00,000
a) Long-term borrowings			
II. Assets			
3. Current assets			
a) Inventories			
b) Cash and cash equivalents		3	
c) Other current assets		4	20,000
		5	98,000
			10,000

Notes to Accounts

Particulars	*Amount (Rs.)*	*Amount (Rs.)*
1. Reserve and surplus		

Securities premium reserve 20,000		
Less: Preliminary expenses (40,000)	(20,000)	
Statement of profit and loss	1,50,000	1,30,000
2. Long-term borrowings		
8% debentures		10,00,000
3. Inventory		
Loose tools		20,000
4.Cash and cash equivalents		
Bank balance	60,000	
Cash in hand	38,000	98,000
5. **Other current assets**		**10,000**
Discount on issue of 8% debentures (1⁄4 of 40,000)		

Illustration 2.1.2:

From the following data of XYZ Ltd. as on 31st March 2019, prepare Balance Sheet:

Share capital (Equity): Rs. 18,00,000

Long term borrowings: 8% Debentures : Rs. 6,00,000

Trade payables : Rs. 6,00,000

Tangible Assets: Rs. 18,00,000

Trade Receivables: Rs. 10,00,000

Cash: Rs. 2,00,000

Solution:

Balance Sheet of XYZ Ltd. as on March 31,2019

Particulars		**Amount (Rs.)**
I. Equity And Liabilities		18,00,000
•Shareholders' funds		
• Share capital (Equity)		6,00,000
• Non- Current Liabilities		
Long term borrowings: 8% Debentures		6,00,000

• Current Liabilities Trade payables		
Total		**30,00,000**
II. Assets **a)** Non–Current Assets Fixed Assets: Tangible Assets **b)** Current Assets Trade Receivables Cash and cash Equivalents		 18,00,000 10,00,000 2,00,000
Total		**30,00,000**

Illustration 2.1.3

From the given particulars of PQR Co. Ltd., as at March 31, 2019, prepare balance sheet in accordance to the Schedule III:

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
Preliminary expenses	2,40,000	Goodwill	30,000
10% Debentures	2,00,000	Loose Tools	12,000
Stock in trade	1,40,000	Motor vehicles	4,75,000
Cash at bank	1,35,000	Provision for tax	16,000
Bills receivables	1,20,000		

Solution:

Balance Sheet of PQR Co. Ltd. as on March 31, 2019

Particulars	*Note No.*	*Figure as at the end of current reporting period*
I. Equity and Liabilities		
1. Non-current Liabilities		

a) Long-term borrowings	1	2,00,000
2. Current liabilities		
a) Short-term provisions	2	16,000
II. Assets		
1. Non-current assets		
a) Fixed assets		
Tangible assets	3	4,75,000
Intangible assets	4	30,000
2. Other non-current assets*	5	2,60,000
Current assets		
a) Inventories	6	1,52,000
b) Trade receivables	7	12,000
c) Cash and cash equivalents		1,35,000

Notes to Accounts

Particulars		***Amount (Rs.)***
1. **Long-term borrowings**		
10% debentures		2,00,000
2. Short-term provisions:		
Provision for taxation		16,000
3. Fixed Assets:		
(i) Tangible assets		
Motor vehicles		4,75,000
(ii) Intangible assets		
Goodwill		30,000
4. Other non-current assets		
Preliminary expenses	2,40,000	2,40,000
5. **Inventories**		
Stock in trade	1,40,000	
Loose tools	12,000	1,52,000
6. Trade receivables		
Bills receivables		12,000
7. Cash & cash equivalents		
Cash at bank		1,35,000

Illustration 2.1.4

Prepare Balance Sheet of the Company as per Schedule III of the Companies Act, 2013:	₹
10% Debentures of ₹ 100 each	1,90,000
Stock-in-Trade (inventories)	40,000
Goodwill	20,000
Provision for Tax	60,000
Totalling of Balance Sheet is not required	

Solution:

Balance Sheet *as at …*

Particulars	**Note No.**	**Amount (Rs)**
I. Equity and Liabilities		
1. Shareholders' Funds		–
2. Non-Current Liabilities		
Long-term Borrowings	1	1,90,000
3. Current Liabilities		
Short-term Provisions	2	6,000
Total		
II Assets		
1. Non-Current Assets		
Intangible (Fixed Assets)	3	20,000
2. Current Assets		
a. Inventories	4	40,000
Total		

Notes to Accounts :

Note No.	**Particulars**	**Amount (Rs)**
1	**Long-term Borrowings**	
	10% Debentures	1,90,000

2	**Short-term Provisions**	
	Provision for Tax	6,000
3	**Intangible (Fixed Assets)**	
	Goodwill	20,000
4	**Inventories**	
	Stock-in-Trade	40,000

3.1 Meaning of Statement of Profit and Loss

The Profit and Loss statement is also popularly referred to as the P&L statement, Income Statement, Statement of Operations, and Statement of Earnings. The Profit and Loss statement shows what has transpired during a time period. The P&L statement reports information on:

1. The revenue of the company for the given period (yearly or quarterly)
2. The expenses incurred to generate the revenues
3. Tax and depreciation
4. The earnings per share number

Thus, the profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year.

4.1 Format of Statement of Profit and Loss

Statement of Profit and Loss for the year ended ________________

S.No	Particulars	Note No.	Figure as at the end of Current reporting period	Figure as at the end of Previous reporting period
I	Revenue from operations			
II	Other income			
III	Total Revenue (I+II)			
IV	**Expenses :** • Cost of materials consumed • Purchases of stock-in-trade • Changes in inventories of finished goods			

	• Work-in-progress and stock-in-trade • Employee benefits expense Finance costs • Depreciation and amortisation expense • Other expenses **Total expenses**			
V	Profit before extraordinary items and tax (III-IV)			
VI	Exceptional items			
VII	Profit before extraordinary items and tax (V-VI)			
VIII	Extraordinary items			
IX	Profit before tax (VII-VIII)			
X	Tax expense: (1) Current tax (2) Deferred tax			
XI	Profit/(Loss) for the period from continuing operations (IX-X)			
XII	Profit/(Loss) from discontinuing operations			
XIII	Tax expense of discontinuing operations			
XIV	Profit/(Loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit/(Loss) for the period (XI + XIV)			
XVI	Earnings per equity share: (1) Basic (2) Diluted			

The items of statement of profit and loss are discussed as follows:

4.1.1 Revenue from operations

This includes:

(i) Sale of products

(ii) Sale of services

(iii) Other operating revenues

In respect to a finance company, revenue from operations shall include revenue from interest, dividend and income from other financial services.

4.1.2 Other Income

The other income includes:

(i) Interest income (in case of a company other than a finance company),

(ii) Dividend income,

(iii) Net gain/loss on sale of investments,

(iv) Other non-operating income (net of expenses directly attributable to such income).

4.1.3 Expenses

a) Expenses incurred to earn the income shown under various heads as discussed below:

b) Cost of Materials: It applies to manufacturing companies. It consists of raw materials and other materials consumed in manufacturing of goods.

c) Purchase of Stock-in-trade: It means purchases of goods for the purpose of trading.

d) Changes in inventories of finished goods, WIP and stock-in-trade: It is the difference between opening inventory (stock) of finished goods, WIP and stock-in-trade and closing inventory.

e) Employees benefit expenses: Expenses incurred on employees towards salary, wages, leave encashment, staff welfare, etc., and are shown under this head. Employees benefit expenses may be further categorised into direct and indirect expenses.

f) Depreciation: Depreciation is the diminution in the value of fixed assets whereas amortisation is writing off the amount relating to intangible assets.

g) Finance cost: It is the expenses towards interest charges during the year on the borrowings. Only the interest cost is to be shown under this head. Other financial expenses such as bank charges are shown under "Other Expenses".

h) Other expenses: All other expenses which do not fall in the above categories are shown under other expenses. Other expenses may further be categorised into direct expenses, indirect expenses and non-operating expenses.

Particulars	***Main Heading***	***Sub Heading***
Audit fees	Expenses	Other expenses
Wages, Salary, Bonus	Expenses	Employees benefit expenses
Cost of Raw Material	Expenses	Cost of production
Interest income	Income	Other income
Bad debts recovered	Income	Other income
Advertisement expenses	Expenses	Other expenses
Contribution to EPF	Expenses	Employees benefit expenses
Sale of scrap	Income	Revenue from operations
Power and electricity	Expenses	Other expenses
Insurance	Expenses	Other expenses

5.1 Difference between Balance Sheet and Statement of Profit and Loss

The P&L shows the income, expenditures, and profitability of a company over a period of time, the balance sheet provides a snapshot of the company's assets and liabilities as of a certain date.

6.1 Importance of Statement of Profit and Loss

1. To Obtain Net Result

Profit and loss account gives the actual information about net profit or net loss of the business for an accounting period. So, it is very useful to know the financial condition of the firm.

2. To Know Total Expenses

Profit and loss account gives the actual information about indirect expenses.

3. Determination of Ratio

Profit and loss account serves to determine the ratio between net profit to sales and the ratio between net profits to operating expenses. It helps to understand the operational efficiency of the firm.

4. Controlling

Profit and loss account helps in controlling indirect expenses by providing important information about these expenses.

7.1 Illustrations

Illustration 1: Calculate Cost of material consumed from the following data:

Material as on 1st April 2019: Rs. 5,00,000

Material as on 31st March 2020: Rs. 4,50,000

Purchases: Rs. 10,00,000

Solution:

Cost of Material Consumed = Opening Stock + Purchases – Closing Stock

= Rs. 5,00,000 + Rs. 10,00,000 – Rs. 4,50,000

= Rs. 10,50,000

Therefore, the cost of material consumed is Rs. 10,50,000.

Illustration 2: Prepare a statement of profit and loss from the following data as on March 31st,2019:

Revenue from Operations (Net Sales): Rs. 3,50,000

Purchases of Stock-in-Trade: 2,10,000

Change in Inventories of Stock-in-Trade 15,000

Employees Benefits Expenses 17,500

Other Expenses 7500

Solution: Statement of Profit and Loss as on 31st March, 2019

Particulars	Note No.	Amount (Rs.)
I. Income Revenue from Operations (Net Sales)		**3,50,000**
II Expenses Purchases of Stock-in-Trade Change in Inventories of Stock-in-Trade Employees Benefits Expenses Other Expenses **Total**		 **2,10,000** **15,000** **17,500.** **7,500** **2,50,000**
III. Profit before Tax (I-II)		**1,00,000**
IV. *Less*: Tax		**30,000**
Profit after Tax (III-IV)		**70,000**

Illustration 3: Calculate Cost of Materials Consumed from the following:

Opening Inventory of Materials ₹3,50,000;

Finished Goods ₹75,000;

Stock-in-Trade ₹2,00,000;

Closing Inventory of: Materials ₹3,25,000;

Finished Goods ₹85,000;

Stock-in-Trade ₹1,50,000;

Purchases during the year: Raw Material ₹17,50,000;

Stock-in-Trade ₹9,00,000.

Solution:

Cost of Material Consumed = Opening Stock + Purchases – Closing Stock

= Rs. 3,50,000 + Rs. 17,50,000 – Rs. 3,25,000

= Rs. 17,75,000

Therefore, the cost of material consumed is Rs. 10,50,000.

Note: Opening Inventory of Finished Goods and Closing Inventory of Finished Goods will not be considered as these are shown under Change in Inventory of Finished Goods. Also, Opening, Closing and Purchases of Stock-in-Trade are not considered as they are not part of cost of materials consumed.

Illustration 4: From the following information, calculate Change in Inventory of Finished Goods:

Opening Inventory and Closing Inventory of Finished Goods ₹2,00,000 and ₹1,75,000 respectively.

Solution:

Note No.	Particulars		Amount (Rs)
(a)	**Finished Goods**		
	Opening Inventory	2,00,000	
	Less: Closing Inventory	1,75,000	25,000
			25,000

Rs 25,000 will be shown in the Statement of Profit and Loss against Change in Inventories of Finished Goods.

<u>Summary</u>

The financial details that are prepared by the business enterprisers so as to meet the information requirement of the decision-makers are known as financial statements. These statements provide financial data that require analysis, comparison and interpretation for taking decision by the external as well as internal users of accounting information.

Financial statements includes: Cash Flow statement, Statement of Profit and Loss and Balance Sheet. A balance sheet is a financial statement that reports a company's assets, liabilities and shareholders' equity at a specific point in time, and provides a basis for computing rates of return and evaluating its capital structure. It is a financial statement that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders.

Thus, Balance Sheet is required for external reporting and also for internal needs of the management like planning, decision-making and control.

The profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year. The P&L shows the income, expenditures, and profitability of a company over a period of time, the balance sheet provides a snapshot of the company’s assets and liabilities as of a certain date.