Chapter 3 - Financial Statements Of A Company

Short Answer Questions

Question 1:

State the meaning of financial statements?

Answer:

Financial statements of a company present a true and fair picture of the results of a company's operations to the various users of an accounting information. Financial Statements are the end products of the accounting process. These are the annual formal statements that are prepared by various enterprises or organisations for a particular accounting period.

Quoting the words of the American Institute of Certified Public Accountants (AICPA), *"Financial statements are prepared for the purpose of presenting a periodical review or report on progress made by the management and deal with the status of investment in the business and the results achieved during the period under review."*

Question 2:

What are limitations of financial statements?

Answer:

The limitations of the financial statements are as follows:

1. **Historical Data-** The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects. Thus, it can be concluded that financial statements reflect the data and information of historical nature.
2. **Ignorance of Qualitative Aspects-** Financial statements do not reveal the qualitative aspects of a transaction. The qualitative aspects such as colour, size and brand position in the market, employees' qualities and capabilities are not disclosed by the financial statements. These statements record only those transactions that are quantitative in nature and can be expressed in the monetary terms.

3. **Biased-** Financial statements are based on the personal judgments regarding the use of methods of recording. For example, the choice of practice in the valuation of inventory, method of depreciation, amount of provisions, etc. are based on the personal value judgments, which may differ from person to person. Thus, the financial statements reflect the personal value judgments of the concerned accountants and experts.
4. **Inter-firm Comparison-** Usually, it is difficult to compare the financial statements of two companies (either in the same business or in different businesses). This is basically because of the difference in the methods and practices followed by them in preparing their respective financial statements.
5. **Window Dressing-** The possibility of window dressing is highly probable. This might be because of the motive of the company to overstate or understate its assets and liabilities to attract more investors or to reduce taxable profit. For example, Satyam showed high fixed deposits in the Assets side of its Balance Sheet for better liquidity that gave false and misleading signals to the investors.
6. **Difficulty in Forecasting-** Since the financial statements is based on the historical data, so they fail to reflect the effect of inflation. This drawback makes the forecasting difficult.

Question 3:

List any three objectives of financial statements?

Answer:

The financial statements are basically the accounts that are prepared for providing the true financial information to the internal as well as external users. These statements lay the base for the decision making process and policy designing by different users. The following are the various objectives for preparing financial statements.

1. **To Provide Information about Economic Resources-** Financial statements provide adequate, accurate, reliable and periodical information about the employment of economic resources. It also specifies the obligation of a business to its external users who do not have the powers or authority to access the information directly.
2. **To Ascertain the Financial Position-** These statements help to reveal the true financial position of an enterprise. In other words, it discloses the performance and position of an organisation in terms of their profitability, solvency, liquidity, financial viability, etc.

3. **To Ascertain the Earning Capacity-** These statements are prepared with an objective of providing useful information to compare, predict and evaluate the earning capacity of a business firm. Thus, it helps in ascertaining the earning capacity of firms.

Question 4:

State the importance of financial statements to

(i) shareholders

(ii) creditors

(iii) government

(iv) investors

Answer:

Importance of financial statements to its various users is given below.

(i) ***Shareholders*-** They are interested in assessing the profitability and viability of the capital invested by them in the business. The financial statements prepared by the business concerns enable them to have sufficient information to assess the financial performance and financial health of the business.

(ii) ***Creditors*-** These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and services. Hence, the creditors require information about the credit worthiness and liquidity position of the business.

(iii) ***Government*-** It needs information to determine various macroeconomic variables such as national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems such as unemployment, poverty, etc

(iv) ***Investors*-** These are the parties who have invested or are planning to invest in the business of an enterprise. Hence, in order to assess the viability and prospects of their investments, they need information about the profitability and solvency position of the business.

Question 5:

How will you disclose the following items in the Balance Sheet of a company:

(i) Loose Tools

(ii) Uncalled liability on partly paid-up shares

(iii) Debentures Redemption Reserve

(iv) Mastheads and publishing titles

(v) 10% debentures

(vi) Proposed dividends

(vii) Share forfeited account

(viii) Capital Redemption Reserve

(ix) Mining Rights

(x) Work-in-progress

Answer:

Disclosure of various items in the Balance Sheet of a company is given below.

Items		Main Head	Sub-Head
(i)	Loose Tools	Current Assets	Inventories
(ii)	Uncalled liability on partly paid-up shares	Contingent Liability and Capital Commitments	Capital Commitments

(iii)	Debentures Redemption Reserve	Shareholders' Funds	Reserve and surplus
(iv)	Mastheads and publishing titles	Non-Current Assets	Fixed Assets – Intangible assets
(v)	10% debentures	Non-Current Liabilities	Long-Term Borrowings
(vi)	Proposed dividend	Current Liabilities	Short-Term Provisions
(vii)	Share forfeited account	Shareholders' Funds	Subscribed Capital (to be added)
(viii)	Capital Redemption Reserve	Shareholders' Funds	Reserve and surplus
(ix)	Mining Rights	Non-Current Assets	Fixed Assets – Intangible assets
(x)	Work-in-progress	Current Assets	Inventories

Long Answer Questions

Question 1:

Explain the nature of the financial statements.

Answer:

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

1. ***Recorded facts***- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.

2. ***Conventions***- The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company.

3. ***Accounting Assumptions*** − These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.

4. ***Personal Judgment***s- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Question 2:

Explain in detail about the significance of the financial statements.

Answer:

The importance of financial statements is mentioned below.

1. ***Provides Information***- Financial statements provide information to various accounting users both internal as well as external users. It acts as a basic platform for different accounting users to derive information according to varying needs. For example, the financial statements on one hand help the shareholders and investors in assessing the

viability and return on their investments, while on the other hand, the financial statements help the tax authorities in calculating the amount of tax liability of the company.

2. ***Cash Flow***- Financial statements provide information about the cash flows of the company. The financial statements help the creditors and other investors in determining solvency of company.

3. ***Effectiveness of Management***- The comparability feature of the financial statements enables management to undertake comparisons like inter-firm and intra-firm comparisons. This not only helps in assessing the viability and performance of the business but also helps in designing policies and drafting policies. The financial statements enhance the effectiveness and efficacy of the management.

4. ***Disclosure of Accounting Policies***- Financial statements provide information about the various policies, important changes in the methods, practices and process of accounting by the company. The disclosure of the accounting policies makes financial statements simple, true and enables different accounting users to understand without any ambiguity.

5. ***Policy Formation by Government***- It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policy measures and to address various economic problems like employment, poverty etc.

6. ***Attracts Investors and Potential Investors***- They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

Question 3:

Explain the limitations of financial statements.

Answer:

The following are the limitations of financial statements.

1. ***Historical Data***- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.

2. ***Ignorance of Qualitative Aspect***- Financial statements does not reveal the qualitative aspects of a transaction. The qualitative aspects like colour, size and brand position in the market, employee's qualities and capabilities are not disclosed by the financial statements.

3. ***Biased***- Financial statements are based on the personal judgments regarding the use of methods of recording. For example, the choice of practice in the valuation of inventory, method of depreciation, amount of provisions, etc. are based on the personal value judgments and may differ from person to person. Thus, the financial statements reflect the personal value judgments of the concerned accountants and clerks.

4. ***Inter- firm Comparisons***- Usually, it is difficult to compare the financial statements of two companies because of the difference in the methods and practices followed by their respective accountants.

5. ***Window dressing***- The possibility of window dressing is probable. This might be because of the motive of the company to overstate or understate the assets and liabilities to attract more investors or to reduce taxable profit. For example, Satyam showed high fixed deposits in the Assets side of its Balance Sheet for better liquidity that gave false and misleading signals to the investors.

6. ***Difficulty in Forecasting***- Since the financial statements is based on historical data, so they fail to reflect the effect of inflation. This drawback makes forecasting difficult.

Question 4:

Prepare the format of statement of Profit and Loss and explain its items.

Answer:

Format of Statement of Profit and Loss- ***As per the REVISED SCHEDULE VI***

Statement of Profit and Loss

for year ended...

S. No.	**Particulars**	**Note No.**	**Figures for the Current Year**	**Figures for the Previous Year**

I II	Revenue from Operations Other Income			
III IV	Total Revenue (I + II) Expenses: Cost of Material Consumed Purchase of Stock-in-Trade Changes in inventories of finished goods Work-in-progress and Stock-in-Trade Employee Benefit Expenses			

	Finance Cost Depreciation and Amortisation Expenses Other Expenses Total Expenses			
V VI	Profit before exceptional and extraordinary items and tax (III – IV) Exceptional items			
VII VIII	Profit before extraordinary item and tax (V – VI) Extraordinary Items			
IX	Profit Before Tax (VII – VIII)			

X	Tax Expenses (1) Current Tax (2) Deferred Tax			
XI	Profit/(Loss) for period from continuing operations (IX – X) 			
XII	Profit/ (Loss) from discontinuing operations			
XIII	Tax expenses of discontinuing operations			
XIV	Profit/(Loss) from discontinuing operations (after Tax (XII – XIII)			
XV	Profit (Loss) for the period (XI + XIV)			

XVI	Earning Per Equity Shares (1) Basic (2) Diluted			

I. *Revenue from Operations*- It refers to the revenue earned from the basic operating business activities of an organization. For Non-financing companies, it consists of the following.

- Sale of Products
- Sale of Services
- Other Operating Revenues

For financing companies, revenue from operations includes the following.

- Interest
- Dividends
- Other Financial Services

II. *Other Incomes*- This income includes the income earned other than from the operating activities of a business. It comprised of the following incomes.

- Interest Income (in case of Non-Financing Company)
- Dividend Income (in case of Non-Financing Company)
- Net Gain or Loss on Sale of Investments
- Other Non-Operating Incomes (i.e. after deducting expenses directly related to such income)

III. *Expenses*- These can be bifurcated in the following given below types.

- Cost of Materials Consumed- It includes all the materials consumed during the process of manufacturing. It can also be calculated with the help of the given below formula.
  Material Consumed = Opening Stock of Raw Material + Purchase of Raw Material – Closing Stock of Raw Material

- Purchase of Stock-in-Trade- It includes all the goods purchased by a trading concern with an intention of resell.

- Change in Inventories, Work-in-Progress and Stock-in-Trade- It is difference of opening and closing balance of inventories (stock), work-in-progress and stock-in-trade.

Question 5:

Prepare the format of balance sheet and explain the various elements of balance sheet.

Answer:

COMPANY'S BALANCE SHEET- *As per REVISED SCHEDULE VI*

Name of the Company...

BALANCE SHEET

as at...

Particulars	**Note No.**	**Figures as at the end of Current Year**	**Figures as at the end of the Previous Year**
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(*a*) Share Capital			
(*b*) Reserves and Surplus			
(*c*) Money received against Share Warrants			
(2) Share Application Money Pending Allotment			

(3) Non-Current Liabilities (*a*) Long-Term Borrowings (*b*) Deferred Tax Liabilities (Net) (*c*) Other Long-Term Liabilities (*d*) Long-Term Provisions **(4) Current Liabilities** (*a*) Short-Term Borrowings (*b*) Trade Payables (*c*) Other Current Liabilities (*d*) Short-Term Provision			
TOTAL			
II. ASSETS (1) **Non-Current Assets** (*a*) Fixed Assets			

(*i*) Tangible Assets				
(*ii*) Intangible Assets				
(*iii*) Capital Work-in-Progress				
(*iv*) Intangible assets under development				
(*b*) Non-Current Investments				
(*c*) Deferred tax assets (net)				
(*d*) Long-Term Loans and Advances				
(*e*) Other Non-Current Assets				
(2) Current Assets				
(*a*) Current Investments				
(*b*) Inventories				
(*c*) Trade Receivables				
(*d*) Cash and Cash Equivalents				
(*e*) Short-Term Loans and Advances				
(*f*) Other Current Assets				

TOTAL			

Items under the head Equity and Liabilities

1. Shareholders' Funds

a. Share Capital:
    1. Authorised Capital-
    2. Issued Share Capital-
    3. Subscribed Share Capital-
    4. Called-up Share Capital-
    5. Paid-up Share Capital-
    6. Share Forfeiture Amount
b. Reserves and Surplus: It consists of the following items to be shown separately.
    1. Capital Reserve
    2. Capital Redemption Reserve
    3. Securities Premium
    4. Debenture Redemption Reserve
    5. Revaluation Reserve
    6. Other Reserves (such as General Reserve, Tax reserve, etc.)
    7. Proposed Additions to Reserves
    8. Sinking Fund
    9. Share Option Outstanding Amount
    10. Surplus i.e. credit balance in Statement of Profit and Loss. However, in case of debit balance in Statement of Profit and Loss, it is deducted from the total of reserves.
c. Money received against warrants: A financial instrument that allows its holder to acquire equity shares is known as Share Warrant. Any amount received by the company on such share warrants is required to be disclosed under this head.

2. Share Application Money Pending Allotment

Amount received by the company on application of shares issued and the allotment on which is to be received after the date of balance sheet is shown under this head separately.

3. Non-Current Liabilities

These are comprised of the following items.

1. Long-Term Borrowings- It is further consists of the given below items.
- Debentures
- Bonds
- Term Loans from bank as well as from other parties
- Deposits
- Other Loans and Advances

b. Deferred Tax Liabilities (Net)
c. Other Long-Term Liabilities
d. Long-Term Provisions

4. Current Liabilities

Under this head the following items are disclosed.

1. Short-term Liabilities- It is further comprised of the given below items.
- Loan repayable on demands from bank as well as from other parties
- Deposits
- Other Loans and Advances

b. Trade Payables
c. Other Current Liabilities- It includes all those liabilities that are not covered in any of the mentioned above heads. Some examples are-
- Income received in advance
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings
- Unpaid Dividends
- Calls-in-Advance and interest thereon
- Other Payables etc.

d. Short-term Provisions- These are categorised as follows.
- Provision for Doubtful Debts
- Proposed Dividend
- Provision for Tax
- Provision for Employees Benefits
- Others

Items under the head Assets

Non-Current Assets and Current Assets are two titles that come under the heading of Assets.

1. Non-Current Assets

1. Fixed Assets- These are further classified s follows.

- Tangible Assets (such as, Building, Machinery, Furniture, etc.)
- Intangible Assets (such as Goodwill, Trademark, Copyrights, Mining Rights, etc.)
- Capital Work-in-Progress
- Intangible Assets under development

b. Non-current Investments- These are the investments that are not held for the purpose of resale.
c. Deferred Tax Assets
d. Long-term Loans and Advances
e. Other Non-Current Assets

2. Current Assets

Under this head the following items are shown.

1. Current Investments- Investments that are held for conversion into cash within a period of 12 months. These are further classified as follows.

- Investment in Equity Shares
- Investment in Preference Shares
- Investment in Government or Trust Securities
- Investment in Debentures or Bonds
- Investment in Mutual Funds
- Investment in Partnership Firms
- Other Investments

b. Inventories- It comprised of the given items.

- Raw Materials
- Work-in-Progress
- Finished Goods
- Stock-in-Trade (goods acquired for trading)
- Stores and Spares
- Loose Tools

c. Trade Receivables
d. Cash and Cash Equivalents- These are classified as follows.

- Cash on Hand
- Balances with Banks
- Cheques, Drafts on Hand
- Others

e. Short-term Loans and Advances
f. Other Current Assets (such as prepaid expenses, advance taxes, etc.)

Question 6:

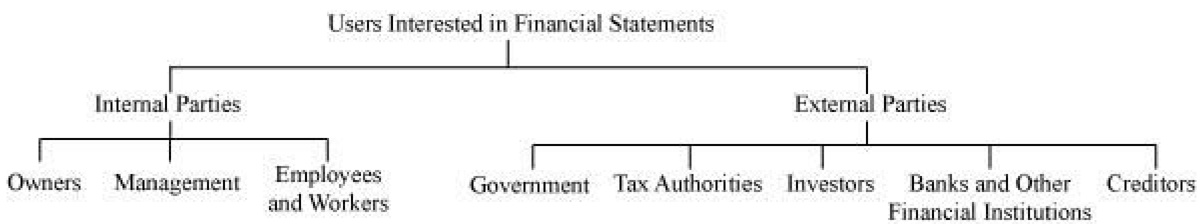
Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking?

Answer:

The various parties that are directly or indirectly interested in the financial statements of a company can be categorized into the following two categories:

1. Internal parties

2. External parties



Internal Parties

The following are the various internal accounting users who are directly related to the company.

1. Owner− The owner/s is/are interested in the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business.

2. Management− The financial statements help the management in drafting various policies measures, facilitating planning and decision making process. The financial statements also enable management to exercise various cost controlling measures and to remove inefficiencies.

3. Employees and workers− They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries.

External Parties

There are various external users of accounting who need accounting information for decision making, investment planning and to assess the financial position of the business. The various external users are given below.

1. Banks and other financial institutions− Banks provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, creditworthiness, solvency and profitability to advance loans.

2. Creditors− These are those individuals and organisations to whom a business owes money on account of credit purchases of goods and receiving services; hence, the creditors require information about credit worthiness of the business.

3. Investors and potential investors− They invest or plan to invest in the business. Hence, in order to assess the viability and prospectus of their investment, creditors need information about profitability and solvency of the business.

4. Tax authorities− They need information about sales, revenues, profit and taxable income in order to determine the levy various types of tax on the business.

5. Government− It needs information to determine national income, GDP, industrial growth, etc. The accounting information assist the government in the formulation of various policies measures and to address various economic problems like employment, poverty etc.

6. Researchers− Various research institutes like NGOs and other independent research institutions like CRISIL, stock exchanges, etc. undertake various research projects and the accounting information facilitates their research work.

7. Consumers− Every business tries to build up reputation in the eyes of consumers, which can be created by the supply of better quality products and post-sale services at reasonable and affordable prices. Business that has transparent financial records, assists the customers to know the correct cost of production and accordingly assess the degree of reasonability of the price charged by the business for its products and ,thus, helps in repo building of the business.

8. Public− Public is keenly interested to know the proportion of the profit that the business spends on various public welfare schemes; for example, charitable hospitals, funding schools, etc. This information is also revealed by the profit and loss account and balance sheet of the business.

Question 7:

`Financial statements reflect a combination of recorded facts, accounting conventions and personal judgments' discuss.

Answer:

The financial statements are the end-products of the accounting process. The financial statements not only reveal the true financial position of the company but also help various accounting users in decision making and policy designing process. The nature of the financial statements depends upon the following aspects like recorded facts, conventions, concepts, and personal judgment

1. *Recorded facts*- The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects.

2. *Conventions*- The preparation of financial statements is based on some accounting conventions like, Prudence Convention, Materiality Convention, Matching Concept, etc. The adherence to such accounting conventions makes financial statements easy to understand, comparable and reflects the true and fair financial position of the company.

3. *Accounting Assumptions* − These basic accounting assumptions like Going Concern Concept, Money Measurement Concept, Realisation Concept, etc are called as postulates. While preparing financial statements, certain postulates are adhered to. The nature of these postulates is reflected in the nature of the financial statements.

4. *Personal Judgment*s- Personal value judgments play an important role in deciding the nature of the financial statements. Different judgments are attached to different practices of recording transactions in the financial statements. For example, recording stock either at market value or at the cost requires value judgment. Similarly, provision on various assets, method of charging depreciation, period related to writing off intangible assets depends on personal judgment. Thus, personal judgments determine the nature of the financial statements to a great extent.

Question 8:

Explain the process of preparing income statement and balance sheet.

Answer:

The process of preparing Income Statement (now Statement of Profit and Loss) as per Revised Schedule VI is explained below in a chronological order.

1. Prepare a Trial Balance on the basis of the balances of various accounts in the ledger.

2. Record Revenue from Operations i.e. Sales less Sales Return.

3. Add Other Incomes to Revenue from Operations (such as profit on sale of assets, cash discount received etc.) to ascertain Total Revenue.

4. Deduct all the expenses incurred by the company from Total Revenue (such as cost of material consumed, finance cost, depreciation and amortisation etc.) to ascertain Profit before Tax.

5. Deduct Tax paid by the company from Profit before Tax to ascertain the Profit or loss for the period.

The process of preparing Balance Sheet as per the Revised Schedule VI is explained below in a chronological order.

As per the this schedule, the Balance Sheet is prepared in vertical format and divided into two parts i.e. (i) Equity and Liabilities and (ii) Assets

1. Under the head Equity and Liabilities: Shareholders' Funds, Share Application Money Pending Allotment, Non-Current Liabilities and Current Liabilities are recorded.

2. After recording Equity and Liabilities, Assets are recorded. Under this head all the Non-Current Assets (such as Tangible and Intangible Assets, Capital Work-in-Progress etc.) and Current Assets (such as Inventories, Trade Receivables, Current Investment etc.) are recorded.

3. At the end, total of two heads is ascertained, which must be equal.

Numerical Questions

Question 1:

Show the following items in the balance sheet as per the provisions of the Companies Act, 2013 in Schedule III:

Particulars	Rs.	Particulars	Rs.
Preliminary Expenses	2,40,000	Good will	30,000
Discount on issue of shares	20,000	Loose tools	12,000
10% Debentures	2,00,000	Motor Vehicles	4,75,000
Stock in Trade	1,40,000	Provision for tax	16,000
Cash at bank	1,35,000		
Bills receivable	1,20,000		

Answer:

Extract of Balance Sheet

as at March 31, 2013

Particulars	**Note No.**	**Amount (Rs)**
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital		
b. Reserves and Surplus		
2. Non-Current Liabilities		
1. Long-term Borrowings	1	2,00,000
3. Current Liabilities		

1. Other Current Liabilities b. Short-term Provisions	2	16,000
II. Assets **1. Non-Current Assets** 1. Fixed Assets i. Tangible Assets ii. Intangible Assets b. Non-Current Investments **2. Current Assets** 1. Inventories b. Trade Receivables c.Cash and Cash Equivalents d. Other Current Assets	3 4 5 6 7 8	4,75,000 30,000 1,52,000 1,20,000 1,35,000 2,60,000

Notes to Accounts

Particulars		Amount (Rs)
1. Long Term Borrowings		
10% Debentures		2,00,000
2. Short Term Provisions		
Provision for Tax		16,000
3. Tangible Assets		
Motor Vehicles		4,75,000
4. Intangible Assets		
Goodwill		30,000
5. Inventory		
Loose Tools	12,000	
Stock	1,40,000	1,52,000

		1,52,000
6. Trade Receivables		
Bill Receivable		1,20,000
7. Cash and Cash equivalents		
Cash at Bank		1,35,000
8. Other Current Assets		
Preliminary Expenses	2,40,000	
Discount on Issue of Shares	20,000	2,60,000
		2,60,000

Question 2:

On 1st Aril, 2017, Jumbo Ltd. issued 10,000; 12% debentures of Rs. 100 each a discount of 20%, redeemable after 5 years. The company decided to write-off discount on issue of such debentures over the life time of the Debentures. Show the items in the balance sheet of the company immediately after the issue of these debentures.

Answer:

Balance Sheet

as at April 01, 2017

Particulars	**Note No.**	**Amount (Rs)**
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital		
b. Reserves and Surplus		
2. Non-Current Liabilities		
a. Long-term Borrowings	1	10,00,000
3. Current Liabilities		
a. Other Current Liabilities		
b. Short-term Provisions		
Total		**10,00,000**

II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	1,60,000
2. Current Assets		
a. Other Current Assets	3	40,000
b. Cash and Cash Equivalents	4	8,00,000
Total		**10,00,000**

Notes to Accounts

Particulars	Amount (Rs)
1. Long Term Borrowings	
12% Debentures	10,00,000
2.Other Non-current assets	

Unamortized discount on issue of Debentures	1,60,000
3. Other Current Assets	
Unamortized discount on issue of Debentures	40,000
4. Cash and Cash Equivalents	
Bank	8,00,000

Question 3:

From the following information prepare the balance sheet of Gitanjali Ltd., as per the (Revised) Schedule VI:

Inventories Rs. 14,00,000; Equity Share Capital Rs. 20,00,000; Plant and Machinery Rs. 10,00,000; Preference Share Capital Rs. 12,00,000; Debenture Redemption Reserve Rs. 6,00,000; Outstanding Expenses Rs. 3,00,000; Proposed Dividend Rs. 5,00,000; Land and Building Rs. 20,00,000; Current Investments Rs. 8,00,000; Cash Equivalent Rs. 10,00,000; Short term loan from Zaveri Ltd. (A Subsidiary Company of Twilight Ltd.) Rs. 4,00,000; Public Deposits Rs. 12,00,000.

Answer:

Balance Sheet

as at ...

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	32,00,000
b. Reserves and Surplus	2	6,00,000
2. Non-Current Liabilities		
a. Long-term Borrowings	3	12,00,000
3. Current Liabilities		
a. Other Current Liabilities	4	3,00,000
b. Short-term Borrowings	5	4,00,000
c. Short-term Provisions	6	5,00,000
Total		**62,00,000**

II. Assets **1. Non-Current Assets** a. Fixed Assets i. Tangible Assets ii. Intangible Assets b. Non-Current Investments **2. Current Assets** a. Inventories b. Current Investments c. Cash and Cash Equivalents	7	30,00,000 14,00,000 8,00,000 10,00,000
Total		**62,00,000**

Notes to Accounts

Particulars	Amount (Rs)
1. Share Capital	

Equity Share Capital	20,00,000	
Preference Share Capital	12,00,000	32,00,000
		32,00,000
2.Reserve and Surplus		
Debenture Redemption Reserve		6,00,000
3. Long-term Borrowings		
Public Deposits		12,00,000
4. Other Current Liabilities		
Outstanding Expenses		3,00,000
5. Short-term Borrowings		
Loan from Zaveri Ltd.		4,00,000
6. Short-Term Provisions		

Proposed Dividend		5,00,000
7. Tangible Assets		
Land and Building	20,00,000	
Plant and Machinery	10,00,000	30,00,000
		30,00,000

Question 4:

From the following information prepare the balance sheet of Jam Ltd. as per the (revised) Schedule VI:

Inventories Rs. 7,00,000; Equity Share Capital Rs. 16,00,000; Plant and Machinery Rs. 8,00,000; Preference Share Capital Rs. 6,00,000; General Reserves Rs. 6,00,000; Bills payable Rs. 1,50,000; Provision for taxation Rs. 2,50,000; Land and Building Rs. 16,00,000; Noncurrent Investments Rs. 10,00,000; Cash at Bank Rs. 5,00,000;Creditors Rs. 2,00,000; 12% Debentures Rs. 12,00,000.

Answer:

Balance Sheet

as at March 31, 2013

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	22,00,000
b. Reserves and Surplus	2	6,00,000
2. Non-Current Liabilities		
a. Long-term Borrowings	3	12,00,000
3. Current Liabilities		
a. Short-term Borrowings		
b. Trade Payables	4	3,50,000
c. Short-term Provisions	5	2,50,000
Total		**46,00,000**
II. Assets		

1. Non-Current Assets		
a. Fixed Assets		
i. Tangible Assets	6	24,00,000
b. Non-Current Investments		10,00,000
2. Current Assets		
a. Inventories		7,00,000
b. Cash and Cash Equivalents	7	5,00,000
Total		**46,00,000**

Notes to Accounts

Particulars	**Amount (Rs)**
1. Share Capital	

Equity Share Capital	16,00,000	
Preference Share Capital	6,00,000	22,00,000
		22,00,000
2.Reserve and Surplus		
General Reserve		6,00,000
3. Long Term Borrowings		
12% Debentures		12,00,000
4. Trade Payables		
Creditors	2,00,000	
Bills Payable	1,50,000	3,50,000
		3,50,000
5. Short-Term Provisions		
Provision for Taxation		2,50,000

6. Tangible Assets		
Land and Building	16,00,000	
Plant and Machinery	8,00,000	24,00,000
		24,00,000
7. Cash and Cash Equivalents		
Bank		5,00,000

Question 5:

Prepare the balance sheet of Jyoti Ltd. as at March 31, 2017 from the following information:

Building Rs. 10,00,000; Investments in the shares of Metro Tyers Rs. 3,00,000; Stores & Spares Rs. 1,00,000; Discount on issue of 10% debentures Rs. 10,000; Statement of Profit and Loss (Dr.) Rs. 90,000; 5,00,000 Equity Shares of Rs. 20 each fully paid-up; Capital Redemption Reserve Rs. 1,00,000; 10% Debentures Rs. 3,00,000; Unpaid dividends Rs. 90,000; Share options outstanding account Rs. 10,000.

Answer:

Balance Sheet

as at March 31, 2017

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	10,00,000
b. Reserves and Surplus	2	10,000
2. Non-Current Liabilities		
1. Long-term Borrowings	3	3,00,000
3. Current Liabilities		
1. Other Current Liabilities	4	1,00,000
Total		**14,10,000**
II Assets		
1. Non-Current Assets		
a. Fixed Assets		

i. Tangible Assets	5	10,00,000
b. Non-Current Investments	6	3,00,000
2. Current Assets		
a. Inventories	7	1,00,000
b. Other Current Assets	8	10,000
Total		**14,10,000**

Notes to Accounts

Particulars		**Amount (Rs)**
1.Share Capital		
Equity Share Capital (50,000* shares of Rs 20 each)		10,00,000
2.Reserve and surplus		
Capital Redemption Reserve	1,00,000	
Less: Statement of Profit or Loss (Debit)	90,000	10,000

		10,000
3. Long-term Borrowings		
10% Debentures		3,00,000
4. Other Current Liabilities		
Unpaid Dividend	90,000	
Share Option Outstanding	10,000	1,00,000
		1,00,000
5. Tangible Assets		
Building		10,00,000
6. Non-Current Investments		
Shares of Metro Tyres		3,00,000
7. Inventory		
Stores and Spares		1,00,000

8. Other Current Assets	
Discount on Issue of 10% Debentures	10,000

*<u>***Note***</u>: There is a misprint in the book. The number of equity shares issued must be 50,000 so that both the sides of the Balance Sheet stand equal.

Question 6:

Brinda Ltd. has furnished the following information:

(a) 25,000, 10% debentures of Rs. 100 each;

(b) Bank Loan of Rs. 10,00,000 repayable after 5 years;

(c) Interest on debentures is yet to be paid.

Show the above items in the balance sheet of the company as at March 31, 2017.

Answer:

Extract of Balance Sheet

as at March 31, 2017

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		

a Share Capital b. Reserves and Surplus **2. Non-Current Liabilities** 1. Long-term Borrowings **3. Current Liabilities** 1. Other Current Liabilities	 1 2	 35,00,000 2,50,000

Notes to Accounts

Particulars		**Amount (Rs)**
1. Long Term Borrowings		
12% Debentures	25,00,000	
Bank Loan	10,00,000	35,00,000
		35,00,000
2. Other Current Liabilities		

Interest on Debentures	2,50,000

Question 7:

Prepare a balance sheet of Black Swan Ltd., as at March 31, 2017 form the following information:

General Reserve	:	3,000
10% Debentures	:	3,000
Statement of Profit & Loss	:	1,200
Depreciation on fixed assets	:	700
Gross Block	:	9,000
Current Liabilities	:	2,500
Preliminary Expenses	:	300
6% Preference Share Capital	:	5,000
Cash & Cash Equivalents	:	6,100

Answer:

Extract of Balance Sheet

as at March 31, 2017

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	5,000
b. Reserves and Surplus	2	4,200
2. Non-Current Liabilities		
a. Long-term Borrowings	3	3,000
3. Current Liabilities		2,500
Total		**14,700**
II. Assets		
1. Non-Current Assets		
a. Fixed Assets		
i. Tangible Assets	4	8,300

2. Current Assets		
a. Cash and Cash Equivalents	5	6,100
b. Other Current Assets	6	300
Total		**14,700**

Notes to Accounts

Particulars		Amount (Rs)
1. Share Capital		
6% Preference Share Capital		5,000
2.Reserve and Surplus		
General Reserve	3,000	
Statement of Profit or Loss	1,200	4,200
		4,200

3.Long Term Borrowings		
10% Debentures		3,000
4. Tangible Assets		
Fixed Assets	9,000	
Less: Depreciation	700	8,300
		8,300
5.Cash and Cash Equivalents		
Cash		6,100
6. Other Current Assets		
Preliminary Expenses		300