Financial Statements of a Company

3

Learning Objectives

After studying this chapter, you will be able to :

- *Explain the nature and objectives of financial statements of a company;*
- *Describe the form and content of income statement of a company;*
- *Describe the form and content of balance sheet of a company;*
- *Explain the significance and limitations of financial statements; and*
- *Prepare the financial statements.*

Having understood how a company raises its capital, we have to learn the nature, objectives and types of financial statements it has to prepare including their contents, format, uses and limitations. The financial statements are the end products of accounting process. They are prepared following the consistent accounting concepts, principles, procedures and also the legal environment in which the business organisations operate. 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.

3.1 Meaning of Financial Statements

Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties which include- investors, tax authorities, government, employees, etc. These normally refer to (a) the balance sheet (position statement) as at the end of accounting period, and (b) the profit and loss account (income statement) of a company. Now a days, the cash flow statement is also taken as an integral component of the financial statements of a company.

Box 1

In the words of *John N. Myer*, "The Financial statements provide a summary of accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain date and the income statement showing the results of operations during a certain period".

Smith and Asburne define financial statements as "the end product of financial accounting in a set of financial statements prepared by the accounts of a business enterprise that purport to reveal the financial position of the enterprise, the result of its recent activities and an analysis of what has been done with earnings".

In the words of *Anthony*, "Financial statements, essentially, are interim reports presented annually and reflect a division of the life of an enterprise into more or less arbitrary accounting period more frequently a year".

3.2 Nature of Financial Statements

The chronologically recorded facts about events expressed in monetary terms for a defined period of time are the basis for the preparation of periodical financial statements which reveal the financial position as on a date and the financial results obtained during a period. The American Institute of Certified Public Accountants states the nature of financial statements as, "the statements prepared for the purpose of presenting a periodical review of report on progress by the management and deal with the status of investment in the business and the results achieved during the period under review. They reflect a combination of recorded facts, accounting principles and personal judgements."

The following points explain the nature of financial statements:

1. *Recorded facts:* Financial statements are prepared on the basis of facts in the form of cost data recorded in accounting books. The original cost or historical cost is the basis of recording transactions. The figures of various accounts such as cash in hand, cash at bank, bills receivable, sundry debtors, fixed assets, etc. are taken as per the figures recorded in the accounting books. The assets purchased at different times and at different prices are put together and shown at costs. As these are not based on market prices, the financial statements do not show current financial condition of the concern.
2. *Accounting Conventions:* Certain accounting conventions are followed while preparing financial statements. The convention of valuing inventory at cost or market price, whichever is lower, is followed. The valuing of assets at cost *less* depreciation principle for balance sheet purposes is followed. The convention of materiality is followed in dealing with small items like pencils, pens, postage stamps, etc. These items are treated as expenditure in the year in which they are purchased even though they are assets in nature. The stationery is valued at cost

and not on the principle of cost or market price, whichever is less. The use of accounting conventions makes financial statements comparable, simple and realistic.

3. *Postulates:* Financial statements are prepared on certain basic assumptions (pre-requisites) known as postulates such as going concern postulate, money measurement postulate, realisation postulate, etc. Going concern postulate assumes that the enterprise is treated as a going concern and exists for a longer period of time. So the assets are shown on historical cost basis. Money measurement postulate assumes that the value of money will remain the same in different periods. Though there is drastic change in purchasing power of money, the assets purchased at different times will be shown at the amount paid for them. While, preparing profit and loss account the revenue is included in the sales of the year in which the sale was undertaken even though the sale price may be received over a number of years. The assumption is known as realisation postulate.
4. *Personal Judgments:* Under more than one circumstance, facts and figures presented through financial statements are based on personal opinion, estimates and judgments. The depreciation is provided taking into consideration the useful economic life of fixed assets. Provisions for doubtful debts are made on estimates and personal judgments. In valuing inventory, cost or market value, whichever is less is being followed. While deciding either cost of inventory or market value of inventory many personal judgments are to be made based on certain considerations. Personal opinion, judgments and estimates are made while preparing the financial statements to avoid any possibility of over statement of assets and liabilities, income and expenditure, keeping in mind the convention of conservatism.

Thus, financial statements are the summarised reports of recorded facts and are prepared following the accounting concepts, conventions and requirements of Law.

3.3 Objectives of Financial Statements

Financial statements are the basic sources of information to the shareholders and other external parties for understanding the profitability and financial position of any concern. They provide information about the results of the concern during a specified period of time and status of the concern in terms of assets and liabilities, which provide the basis for taking decisions. Thus, the primary objective of financial statements is to assist the users in their decision-making. The specific objectives include the following:

1. *To provide information about economic resources and obligations of a business:* They are prepared to provide adequate, reliable and periodical information about economic resources and obligations of a business firm to investors and other external parties who have limited authority, ability or resources to obtain information.
2. *To provide information about the earning capacity of the business:* They are to provide useful financial information which can gainfully be utilised to predict, compare, and evaluate the business firm's earning capacity.
3. *To provide information about cash flows:* They are to provide information useful to investors and creditors for predicting, comparing and evaluating, potential cash flows in terms of amount, timing and related uncertainties.
4. *To judge effectiveness of management:* They supply information useful for judging management's ability to utilise the resources of a business effectively.
5. *Information about activities of business affecting the society:* They have to report the activities of the business organisation affecting the society, which can be determined and described or measured and which are important in its social environment.
6. *Disclosing accounting policies:* These reports have to provide the significant policies, concepts followed in the process of accounting and changes taken up in them during the year to understand these statements in a better way.

3.4 Types of Financial Statements

The financial statements generally include two statements known as balance sheet and profit and loss account which are required for external reporting and also for internal needs of the management like planning, decision-making and control. These two basic statements are supported by number schedules, annexures, supplementing the data contained in the balance sheet and profit and loss account. Apart from these two basic financial statements, there is a need to know about movements of funds and changes in the financial position of the company. For this purpose, a statement of changes in financial position of the company or a cash flow statement help in this direction.

Balance Sheet : The purpose of balance sheet is to show its resources and obligations for acquiring its resources i.e., assets and liabilities. According to American Institute of Public Accountants, balance sheet is "a tabular statement of summary of balances (debits and credits) carried forward after an actual and constructive closing of books of accounts and kept according to principles of accounting". Balance sheet is the statement prepared on a particular date and shows classified properties and assets on the right hand side and obligations or liabilities on the left hand side.

Profit and Loss Account or Income Statement : The profit and loss account is the accounting report which summarises the revenues and expenses and ascertains the profit/loss for a specified accounting period. It also represents the changes in the owner's equity between two successive periods. It is an essential statement for preparation of balance sheet and hence annexed to it. Income statement is the moving picture of an organisation and reflects the results of operations for a period. Income statement gives a quantitative interpretation of policies, expenses, knowledge, foresight and aggressiveness of the management of a business from the point of view of income, expenses, gross profit, operating profit and net profit or loss.

As per the accounting concept of income, income (profit) is excess of realised revenues over related expired cost of the period and loss is known as excess of expired cost of a period over related realised revenues of the period. Thus, profit or loss is the difference between the realised revenues of the period and the related expired costs. It may be noted that normally accrual basis of accounting is followed for measuring the revenues and expenses for the period. In addition, another statement called Profit and Loss Appropriation Account is prepared to record various appropriations of profits like transfer to reserve and provision for dividends.

Test your Understanding – I

1. State whether the following statements are 'True' or 'False'.
   (a) Financial statements are the end products of accounting process.
   (b) Financial statements are primarily directed towards the needs of owners.
   (c) Facts and figures presented in financial statements are not at all based on personal judgements.
   (d) Recorded facts are based on replacement cost.
   (e) Going Concern concept assumes that the enterprise continues for a long-period of time.
2. Fill in the blanks with appropriate word(s):
   (a) Financial statements are the ——— of information to interested parties.
   (b) The owners of a company are called ———.
   (c) For income measurement ——— basis of accounting is followed.
   (d) The statement which shows the assets and liabilities of a company is known as ———.
   (e) Profit and loss account is also called ——— statement.

3.5 Form and Contents of Income Statement

Income statement may be divided into three components viz., (a) trading account which shows the gross profit earned, (b) profit and loss account which shows net profit earned or net loss incurred, and (c) profit and loss appropriation account which shows all appropriations from the current year and balance of profit or loss of last year and surplus or deficit at the end of the period. In this context, it should also be noted that its heading does not including the word 'Trading', and that it must also show the name of the company concerned.

The simplified form and contents of Profit and Loss Account and Profit and Loss Appropriation part are given below:

Profit and Loss Account of ..... Company Ltd.
for the year ended.....

Expenses		*Amount (Rs.)*	*Revenues*		*Amount (Rs.)*
Opening stock		xxx	Sales	xxx	
			Less: Sale returns	x	xxx
Purchases	xxx		By Closing Stock		xxx
Less: Purchase returns	xx	xxx			
Carriage inwards		xxx	Gross loss c/d (if any)		xxx
Wages		xxx			
Other direct expenses		xxx			
Gross profit c/d		xxx			
		xxxx			**xxxx**
Gross loss b/d(if any)		xxx	Gross profit b/d		xxx
Salaries		xxx			
Office Rent		xxx			
Advertising		xxx			
Carriage outwards		xxx			
Discount allowed		xxx			
Provision for bad and doubtful debts		xxx			
Depreciation:					
Office building	xx				
Furniture	xx	xxx			
Provision for taxation		xxx			
Net Profit c/d		xxx			
		xxxx			**xxxx**
Transfer to general reserve		xxx	Balance b/f (previous year balance of profit)		xxx
Transfer to other Reserves, if any		xxx	Net profit b/d (for the current year)		xxx
Proposed dividend		xxx			
Balance c/d		xxx			
		xxxx			**xxxx**

Fig. 3.2 : *Format of Profit and Loss Appropriation Account of Company*

Income statement may also be presented in vertical form with detailed data. This is considered more suitable for further analysis and providing necessary data for decision-making. The form and contents of vertical income statement is shown below (Vertical Form):

Income Statement of ... Company Ltd.
for the year ended...

Elements of Revenues and Expenses	*Amount Rs.*	*Amount Rs.*
Sales :		
Cash sales	xxx	
Credit sales	xxx	
Total sales	xxx	
Less: Sale Returns	xx	
Net Sales – (1)		xxx
Less: Cost of Goods Sold:		
Opening Stock	xxx	
+Purchases including (incidental expenses and materials) + wages	xxx	
+ Manufacturing expenses	xxx	
+ any other direct expenses	xxx	
	xxx	
Less: Closing Stock	xxx	
Total of Cost of Goods Sold – (2)		xxx
Gross Profit – (3) i.e. (1) minus (2)		xxx
Less: Operating Expenses – (4)		
+ Salaries	xxx	
+ Administrative Expenses	xxx	
+ Selling Expenses	xxx	
+ Distribution Expenses	xxx	
+ Depreciation	xxx	xxx
Operating Profit – (5) (i.e. 3-4)		xxx
***Add:* Non-Operating Income, if any, such as Commission, Profit on sale of Assets, Income from Investments, etc.**		xxx
***Less:* Non-Operating Expenses, if any,**		xxx
such as Loss by Fire		xxx
Net Profit before interest and taxes – (6)		xxx
Less: **Interest Charges – (7)**		
Interest on Loans	xxx	
Interest on Debentures	xxx	xxx
		xxx
Net Profit before Tax – (8) (i.e. 6-7)		xxx
***Less:* Provision for Tax – (9)**		
		xxx
Net Profit – (10) (i.e. 8-9) (Profit after tax)		

Fig. 3.3 : *Format of Income Statement of Company*

The following process is to be followed for preparation of income statement in account form:

1. Recording all the revenue receipts appearing on the credit side of the trial balance on the credit side of income statement after making suitable adjustments for revenues received in advance or revenues realised but not received, etc.
2. Recording all the revenue expenditure items appeared on the debit side of trial balance on the debit side of income statement after making adjustments for outstanding, prepaid expenses, depreciation, provisions for bad debts, taxes, etc.
3. Recording non-operating incomes and gains on the credit side of income statement.
4. Recording non-operating losses on the debit side of the income statement.
5. Asertaining the difference between totals of credit items and totals of debit items.
6. If the credit items are more than the debit items, it is known as net profit and if it is the other way round, it will be treated as loss.
7. In India, the accounting year for preparing financial statements for companies is April 01 to March 31 (same as that of financial year of Government).

It may be noted that The Companies Act does not prescribe any format for the profit and loss account. However, Part II of Schedule VI of the Act gives detailed requirements as to the profit and loss account and clearly states that it "shall be made out as clearly to disclose the result the working of the company during the period covered by the account, and shall disclose every material feature."

3.6 Form and Contents of Balance Sheet

Balance sheet is usually prepared in horizontal ('T') form with assets shown on the right hand side and capital and liabilities on the left. In case of companies, the assets and liabilities are arranged on permanency basis. Accordingly, all permanent long term assets, and capital and liabilities are shown at the beginning and liquid assets and liabilities are shown subsequently in order of their liquidity or maturity. The registered companies are required to follow Part I of Schedule VI of The Companies Act for recording assets and liabilities in the balance sheet. According to section 211(i) of The Companies Act, the balance sheet shall be prepared in a prescribed format, depict true and fair view of financial position and follow general instructions for preparation of balance sheet under the given headings with notes at the end. This format is not applicable to banking and insurance companies which have to follow the formats prescribed by their respective legislations. The prescribed form of balance sheet as per Part I of

Schedule VI of The Companies Act has been duly given in Appendix I of this chapter for perusal and clarily.

It may be noted that the balance sheet of a company may be prepared either in horizontal form or in vertical form. These are as follows.

Horizontal Form of Balance Sheet

Balance Sheet of ..... (Name of the company) as on .....

(1) *Figures for the previous year (Rs.)*	(2) *Liabilities*	(3) *Figures for the current year (Rs.)*	(4) *Figures for the previous year (Rs.)*	(5) *Assets*	(6) *Figures for the current year (Rs.)*
	Share Capital: Authorised: Preference Equity Issued : Preference Equity *Less:* Calls Unpaid: *Add:* Forefeited Shares **Reserves and Surplus:** Capital Reserve Capital Redemption Reserve Securities Premium Other Reserves Profit and Loss Account **Secured Loans:** Debentures Loans and Advance from Banks Loans and Advances from Subsidiary Companies Other Loans and Advances			Fixed Assets: Goodwill Land Building Household Premises Railway Sidings Plant and Machinery Furniture Patents and Trademarks Live stock Vehicles **Investments:** Government or Trust Securities Shares, Debentures, Bonds **Current Assets, Loans and Advances:** **(A) Current Assets:** Interest Accrued Stores and Spare parts Loose Tools Stock in Trade Work in Progress Sundry Debtors Cash and Bank balances **(B) Loans and Advances:** Advances and Loans to Subsidiary Companies Bills Receivable Advance Payments	

	Unsecured Loans: Fixed Deposits Loans and Advances from Subsidieries Short Term Loans and Advances Other Loans and Advances **Current Liabilities and Provisions:** **A. Current Liabilities:** Acceptances Sundry Creditors Outstanding Expenses **B. Provisions:** For Taxation For Dividends For Contingencies For Provident Fund Schemes For Insurance, Pension and other similar benefits			**Miscellaneous - Expenditure:** Preliminary Expenses Discount on Issue of Shares and Debentures Other Deferred Expenses **Profit and Loss Account (debit Balance: if any)**	

The Balance sheet can be prepared in the abridged form also which is shown below:

Abridged Balance Sheet

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
1. Share Capital 2. Reserves and Surplus 3. Secured Loans 4. Unsecured Loans 5. Current Liabilities and Provisions: (a) Current Liabilities (b) Provisions		1. Fixed Assets 2. Investments 3. Current Assets, Loans and Advances: (a) Current Assets (b) Loans and Advances 4. Miscellaneous Expenditure 5. Profit and Loss Account (debit balance, if any)	

Vertical Form of Balance Sheet

Balance Sheet of ..... as on .....

Particulars	*Schedule Number*	*Figures as at the end of current year*	*Figures as at the end of previous financial year*
I. Source of Funds:			
1. Shareholder's Funds:			
(a) Share capital		xxx	xxx
(b) Reserves and Surplus		xxx	xxx
Net Worth or Shareholders Funds		**xxx**	**xxx**
2. Loan Funds:			
(a) Secured loans		xxx	xxx
(b) Unsecured loans		xxx	xxx
Total (Capital Employed)		**xxx**	**xxx**
II. Application of Funds			
1. Fixed Assets:			
(a) Gross block		xxx	xxx
(b) *Less:* depreciation		(xx)	xxx
(c) Net block		xxx	xxx
(d) Capital work-in-Progress		xxx	xxx
		xxxx	**xxxx**
2. Investments:		xxx	xxx
3. Current Assets, Loans and Advances:			
(a) Inventories		xxx	xxx
(b) Sundry Debtors		xxx	xxx
(c) Cash and Bank Balances		xxx	xxx
(d) Other Current Assets		xxx	xxx
(e) Loans and Advances		xxx	xxx
Less: Current Liabilities and Provisions:		**xxx**	**xxx**
(a) Current liabilities		(xxx)	(xxx)
(b) Provisions		(xxx)	(xxx)
		xxx	**xxx**
Net Current Assets			
4. (a) Miscellaneous expenditure to the extent not written-off or adjusted.		xxx	xxx
(b) Profit and Loss account (debit balance, if any)		xxx	xxx
TOTAL		**xxxx**	**xxxx**

The schedules, accounting policies and other explanatory notes form part of the financial statements. Schedules contain the detailed information relating to all items appearing in the balance sheet and profit and loss account as they appear in the Annual Report of a company. The details to be provided under various heads of liabilities and assets are as follows.

3.6.1 Liabilities Side

1. *Share Capital:* It is the first item on the liabilities side of the balance sheet and shows details of authorised capital, and issued and paid-up capital in terms of the number and amount of each type of share, and so also the amounts of calls in arears and the forefeited shares as explained Chapter 1.
2. *Reserves and Surplus:* This item includes various reserves such as capital reserves, capital redemption reserves, balance of securities premium account, general reserve, credit balance of profit and loss account, and other reserves specifying the nature of each reserve and the amount in respect thereof including the additions during the current year.
3. *Secured Loans:* Long-term loans, which are taken against some security, are included under this head. Debentures and secured loans and advances from banks, subsidiary companies, etc., are fall under this category and are shown separetely under this head.
4. *Unsecured Loans:* Loans and advances for which no security is given are shown under this heading. This item includes public deposits, unsecured loans and advances from subsidiary companies, short-term loans and advances and other loans and advances from banks.
5. *Current Liabilities and Provisions:* Current liabilities refer to such liabilities, which mature within a period of one year. They include acceptances, (bills payable), sundry creditors, advance payments and un-expired discounts, unclaimed dividends, interest accrued but not paid, and other liabilities. Provisions refer to the amounts set aside out of revenue profits for some specific liabilities payable within a period of one year. Those include provision for taxation, proposed dividends, provision for contingencies, provision for provident fund, provision for insurance, pension and similar staff benefit schemes, etc.

3.6.2 Assets Side

1. *Fixed Assets:* The expenditure incurred on various fixed are to be shown separately for various fixed assets which include goodwill, land, buildings, leaseholds, plant and machinery, railway sidings, furniture and fittings,

patents, livestock, vehicles, etc. These assets are shown at cost less depreciation till the date.

2. *Investments:* Under this head, various investments made such as investment in government securities or trust securities; investment in shares, debentures, and bonds of other companies, immovable properties, etc., are to be shown separately in the balance sheet.
3. *Current Assets, Loans and Advances:* Current assets include interest accrued on investments, inventories, sundry debtors, bills receivables, cash and bank balances, and other advances like prepaid expenses, etc.
4. *Miscellaneous Expenditure:* The expenditure which has not been written of fully its balance is shown under this heading. These expenses include preliminary expenses, advertisement expenditure, discount on issue of shares and debentures, share issue expenses, etc.
5. *Profit and Loss Account:* When the Profit and Loss account shows a debit balance, i.e., loss which could not be adjusted against general reserves, the same is shown as a last item on the asset side.

Test your Understanding – II

1. What are the items shown under the heading 'Reserves and Surplus'?

....

....

....

....

2. What are the items shown under the heading 'Miscellaneous expenditure?'

....

....

....

....

3. Match the following:

(i)	Gross profit	(a)	The explanatory notes to financial statements	( )
(ii)	Operating profit	(b)	Amounts receivable by the company	( )
(iii)	Sundry Debtors	(c)	Amounts payable by the company	( )
(iv)	Sundry Creditors	(d)	Sales – Cost of goods sold	( )
(v)	Schedules	(e)	Gross profit – Operating expenses	( )
(vi)	Net Profit	(f)	Operating profit – interest and tax	( )

Exhibit - I

Asian Paints (India) Ltd.

Balance Sheet as on March 31, 2005

(Rs. In Millions)

	Schedules		As on 31.3.2005	As on 31.3.2004
Funds Employed				
Shareholder's Funds:				
Share Capital	A	959.20		959.20
Reserves and Surplus	B	4,763.00		4,356.21
			5,722.20	5,315.41
Loan Funds	C			
Secured Loans		283.65		229.23
Unsecured Loans		555.12		475.50
			838.77	704.73
Deferred Tax Liability (Net)			305.38	486.56
(Refer Note B - 27 in Schedule 'M')				
Total			**6,866.35**	**6,506.70**
Application of Funds				
Fixed Assets	D			
Gross Block		7,127.04		6,511.93
Less : Depreciation/Amortisation/Impairment		4,014.73		3,106.49
Net Block		3,112.31		3,405.44
Add : Capital Work in Progress		82.78		38.89
			3,195.09	3,444.33
Investments	E		2,584.27	2,424.84
Current Assets, Loans and Advances	F			
Interest accrued on investments		0.03		0.83
Inventories		3,307.89		2,114.90
Sundry debtors		1,489.63		1,379.20
Cash and Bank Balances		210.42		245.53
Other receivables		190.12		81.45
Loans and Advances		727.25		787.88
		5,925.34		4,609.79
Less: Current Liabilities and Provisions	G			
Current Liabilities		3,721.32		3,087.23
Provisions		1,117.03		885.03
		4,838.35		3,972.26
Net Current Assets			1.086.99	637.53
Total	M		**6,866.35**	**6,506.70**

Notes:

As per our report of even date	**For and on behalf of the Board**			
For Shah & Co.	Ashwin C. Choksi	Ashwin S. Dani	Abhay A. Vakil	Tarjani Vakil
Chartered Accountants	**Chairman**	**Vice Chairman & Managing Director**	**Managing Director**	**Director**
H.N. Shah				
Partner	Jayesh Merchant			
Membership No. 8152	**Vice President Corporate Finance & Company Secretary**			
Mumbai	Mumbai			
11th May, 2005	**11th May, 2005**			

Contd...

Asian Paints (India) Ltd.
Profit & Loss Account for the year ended March 31, 2005

(Rs. In Millions)

	Schedules	Year 2004-2005	Year 2003-2004
INCOME			
Sales and operating income (Net of discounts)	H	22,553.86	19,531.92
Less: Excise		3,138.71	2,565.46
Sales and operating income (Net of discounts and excise)		19,415.15	16,966.46
Other income		316.14	216.77
EXPENDITURE		**19,731.29**	**17,183.23**
Materials Consumed	J	11,154.04	9,441.50
Employees' remuneration and benefits	K	1,179.30	1,015.56
Manufacturing, administrative, selling and distribution expenses	L	4,144.05	3,814.02
		16,477.39	**14,271.08**
PROFIT BEFORE INTEREST, DEPRECIATION, EXTRAORDINARY ITEM AND TAX		3,253.90	2,912.15
Less: Interest (Refer Note B - 17 in Schedule 'M')		27.54	52.65
Less: Depreciation/Amortisation (Refer Note B - 19 in Schedule 'M')	D	476.05	480.10
PROFIT BEFORE TAX AND EXTRAORDINARY ITEM		2,750.31	2,379.40
Less: Extraordinary item (Refer Note B-23 in Schedule 'M') 42.31		68.06	
PROFIT BEFORE TAX		**2,708.00**	**2,311.34**
Less: Provision For Current Tax		988.00	880.00
Less: Provision For Deferred Tax Liability/(Asset) (Refer Note B - 27 in Schedule 'M')		(18.16)	(44.46)
PROFIT AFTER TAX AND BEFORE PRIOR PERIOD ITEMS		1,738.16	1,475.80
Add/(Less) : Prior period items		(3.34)	2.07
PROFIT AFTER TAX		**1,734.82**	**1,477.87**
Add: Balance of Profit & Loss Account brought forward of Pentasia Investments Ltd. on merger		–	8.40
Add: Balance brought forward from previous year		820.00	720.00
DISPOSABLE PROFIT		**2,554.82**	**2,206.27**
DISPOSAL OF ABOVE PROFIT			
Dividend : Equity Shares - Interim		383.69	335.73
- Final		527.56	479.60
Tax on Dividend		125.36	104.47
Transfer to General Reserve		518.21	466.47
Balance carried to Balance Sheet		1,000.00	820.00
		2,554.82	**2,206.27**
Earnings per share (Rs.) Basic and diluted (Face value of Rs. 10 each) (Refer Note B - 30 in Schedule 'M')	M	18.53	16.12

Notes:

As per our report of even date	**For and on behalf of the Board**			
For Shah & Co.	Ashwin C. Choksi	Ashwin S. Dani	Abhay A. Vakil	Tarjani Vakil
Chartered Accountants	**Chairman**	**Vice Chairman & Managing Director**	**Managing Director**	**Director**
H.N. Shah				
Partner	Jayesh Merchant			
Membership No. 8152	**Vice President Corporate Finance & Company Secretary**			
Mumbai	Mumbai			
11th May, 2005	**11th May, 2005**			

Asian Paints (India) Ltd.
Annual Report 2004-05

3.7 Some Peculiar Items

There are certain items relating to financial statements of companies which need clarification to ensure their correct treatment while preparing the final accounts of a company. Some of these have already been clarified in the previous chapters which include items like share capital, discount on issue of shares, securities premium, calls in arears, calls in advance, forefeited shares, discount (or loss) on issue of debentures, etc. The nature and treatment of some other peculiar items is explained hereunder.

(a) *Preliminary expenses:* This refers to the expenses that are incurred in connection with the formation of a company which include items like cost of printing various documents, fees paid to the lawyers for drafting of such documents, stamp duty, registration and filing fees paid at the time of registration of the company, etc. The amount spent on these items is put under one head called 'preliminary expenses' which is written-off over a period of 3 to 5 years. The amount to be written-off annually is debited to the profit and loss account, and the balance is shown under the heading 'Miscellaneous expenditure' on the assets side of the balance sheet.

(b) *Expenses on Issue of Shares and Debentures:* When shares and debentures are issued to the public, the company has to incur expenses on preparation and printing of prospectus, advertisement on the issue, merchant bankers fees, brokerage, etc. Such expenses are also capitalised and written-off over a period of 3 to 5 years, and treated in the same manner as preliminary expenses, but are shown separately.

(c) *Interest on Debentures:* The rate of interest payable on debentures is always mentioned with the debentrures, and paid half yearly on September 30 and March 31 (or June 30 and December 31). The amount of interest paid on debentures is given in the trial balance which is usually for the half year. This implies that a provision must be made for the remaining half year whether or not it is specified in adjustments. In other words, one has to ensure that full years interest on debentures is charged to profit and loss account and the unpaid part, if any, must be shown as outstanding interest in the balance sheet on the liabilities side.

(d) *Provision for Taxation:* This refers to the provision for income tax (corporation tax) chargeable on profits, and it is made by debiting the profit and loss account and crediting the provision for taxation account which is shown on the liabilities side under the heading 'Current liabilities and Provisions' in the balance sheet.

(e) *Dividends:* Dividend refers to that part of profits which is distributed among its shareholders. The general practice is to declare the dividend for an accounting year at the annual general meeting of the company while presenting the Annual Report (including Financial Statements) for approval, and it is shown as proposed dividend in the appropriation part of the profit and loss account (debit side) and so also in the balance sheet on the liabilitieis side under the heading 'Current Liabilities and

Provisions'. Sometimes, the companies also declare and pay some dividend during the course of an accounting year in anticipation of profits. This is known as interim dividend and since the same stands paid, it is simply shown in the appropriation part of the Profit and Loss Account (debit side). In such a situation, the dividend declared in addition to the interim dividend at the time of presenting the Annual Report is termed as final dividend which is treated in the same manner in accounts as the proposed dividend. It may be noted that no dividend is payable on the calls-in-arears.

Any amount of dividend, interim or final, which remains unclaimed (unpaid) is shown as unclaimed dividend under the heading current liabilities.

In this context, there is another important aspect to be kept in view namely, 'Dividend Tax' payable by the company. While dividends are tax free in the hands of shareholders, the company has to pay tax on dividends declared at the prescribed rate which is termed as 'Corporate Dividend Tax' and a provision has to be made thereof. The is shown along with dividends in the appropriation part of the profit and loss account on the debit side, and so also in balance sheet under current liabilities and provisions.

- *Transfer to Reserves:* Invariably, the companies transfer a part of their profits to reserves. The amount transferred to general reserve or any specific reserve is shown in the appropriation part of the profit and loss account and added to the concerned reserve shown under the heading 'Reserves and Surplus' in the balance sheet.

Illustration 1

Big & Co. Ltd. is a company with an authorised capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100 each. 2,500 shares were fully paid-up on 31.12.2005.

The following are the balances extracted from the books of the company as on 31.12.2005:

	(Rs.)		*(Rs.)*
Stock	50,000	Advertisement	3,800
Sales	4,25,000	Bonus	10,500
Purchases	3,00,000	Debtors	38,700
Wages (productive)	70,000	Creditors	35,200
Discount allowed	4,200	Plant and Machinery	80,500
Discount received	3,150	Furniture	17,100
Insurance paid-up to 31.3.2006	6,720	Cash and bank	1,34,700
Salaries	18,500	General Reserve	25,000
Rent	6,000	Loan from managing director	15,700
General expenses	8,950	Bad debts	3,200
Profit and Loss Account balance (Cr.)	6,220	Calls-in-arrears	5,000
Printing and Stationery	2,400		

You are required to prepare profit and loss account for the year ended 31.12.05 and the balance sheet as on that date of the company. The following further information is given: (1) Closing stock, Rs. 91,500 (2) Depreciation to be charged on plants, machinery and furniture at 15% and 10% respectively. (3) Outstanding liabilities: wages Rs. 5,200, salary Rs.1,200 and rent Rs.600. (4) Dividend @ 5% on paid-up share capital is to be provided.

Solution

Big & Co. Ltd. Profit and Loss Account
for the year ended December 31, 2005

Expenses/Losses		*Amount Rs.*	*Revenues/Gains*	*Amount Rs.*
Opening stock		50,000	Sales	4,25,000
Purchases		3,00,000	Closing Stock	91,500
Wages	70,000			
Add: Outstanding	5,200	75,200		
Gross profit c/d		91,300		
		5,16,500		**5,16,500**
Salaries	18,500			
Add: Outstanding	1,200	19,700	Gross profit b/d	91,300
Discount allowed		4,200	Discount received	3,150
Insurance	6,720			
Less: prepaid	1,680			
		5,040		
Rent	6,000			
Add: Outstanding	600			
		6,600		
General expenses		8,950		
Printing and Stationery		2,400		
Advertisement		3,800		
Bonus		10,500		
Bad debts		3,200		
Depreciation:				
Plant & Machinery	12,075			
Furniture	1,710			
		13,785		
Net Profit c/d		16,275		
		94,450		**94,450**
Proposed dividend 5% on Rs. 2,45,000 (i.e., excluding calls in arrears)		12,250	Net profit for the year b/d	16,275
Balance c/d		10,245	Balance b/d	6,220
		22,495		**22,495**

Balance Sheet
as on December 31, 2005

Liabilities		*Rs.*	*Assets*		*Rs.*
SHARE CAPITAL:			**FIXED ASSETS:**		
Authorised:			Plant and Machinery	80,500	
5,000 shares of Rs. 100 each		5,00,000	*Less:* Depreciation	12,075	
Issued and Subscribed:				------	68,425
2,500 shares of Rs. 100			Furniture	17,100	
each fully called	2,50,000		*Less:* Depreciation	1.710	15,390
Less: Calls-in-arrears	5,000	2,55,000			
		2,45,000			83,815
RESERVES AND SURPLUS:			**INVESTMENTS:**		Nil
General Reserve		25,000			
Profit and Loss Account		10,245	**Current assets loans**		
			and advances:		
			A: Current assets:		
			Stock (assumed at cost)		91,500
			Debtors		38,700
			Cash and bank balance		1,34,700
			B: Loans and Advances:		
			Prepaid Insurance		1,680
Secured Loans:		Nil	**MISCELLANEOUS**		
Unsecured Loans:			**EXPENDITURE NOT YET**		
Loan from managing		15,700	**ADJUSTED**		Nil
director (assumed unsecured)			Profit and Loss Account (Debit)		
CURRENT LIABILITIES					
AND PROVISIONS:					
A: Current Liabilities:					
Creditors		35,200			
Expenses outstanding		7,000			
(Wages, Salaries & Rent)					
B: Provisions:					
Proposed dividend		12,250			
		3,50,395			**3,50,395**

Illustration 2

The following is the trial balance of Vaibhavi Co. Ltd. as at 30th June, 2006:

	(Rs.)	(Rs.)
Stock (30th June, 2005)	75,000	-
Sales	-	3,50,000
Purchases	2,45,000	-
Wages	50,000	-
Discount	-	5,000
Furniture and Fittings	17,000	-
Salaries	7,500	-
Rent	4,950	-
Sundry expenses	7,050	-
Profit and Loss Appropriation Accounts (30th June, 2005)	-	15,030
Dividends paid	9,000	-
Share capital	-	1,00,000
Debtors and Creditors	37,500	17,500
Plant and Machinery	29,000	-
Cash and Bank	16,703	-
General reserve	-	16,003
Patens and Trademark	4,830	-
Total	**5,03,533**	**5,03,533**

Prepare Profit and Loss Account for the year ended 30th June, 2006 and the Balance Sheet as at that date. Take into consideration the following adjustments:

1. Stock on 30th June, 2006 was valued at Rs. 82,000.
2. Depreciation on fixed assets @ 10%.
3. Make a provision for income-tax @ 50% of the net profit.

Solution

Vaibhavi Co. Ltd. Profit and Loss Account
for the year ended June 30, 2006

Expenses/Losses	*Amount Rs.*	*Revenues/Gains*	*Amount Rs.*
Opening stock	75,000	Sales	3,50,000
Purchases	2,45,000	Closing stock	82,000
Wages	50,000		
Gross profit c/d	62,000		
	4,32,000		**4,32,000**
Salaries	7,500	Gross profit b/d	62,000
Rent	4,950	Discount	5,000
Sundry expenses	7,050		
Depreciation :			
Plant and Machinery	2,900		
Patent and Trademarks	483		
Furniture and Fittings	1,700		
Provision for income tax	21,209		
Net Profit c/d	21,208		
	67,000		**67,000**
Dividend paid	9,000	Balance b/d	15,030
Balance c/d	27,238	Net Profit for current year	21,208
	36,238		**36,238**

Balance Sheet of Vaibhavi Co. Ltd.
as on June 30, 2006

Liabilities	*(Rs.)*	*Assets*		*(Rs.)*
Share Capital	1,00,000	**Fixed Assets**		
Authorised		Plant and Machinery	29,000	
.... shares of		*Less:* Depreciation	2,900	
Rs. .... each			– – – –	26,100
Issued		Furniture & Fittings	17,000	
.... shares of		*Less:* Depreciation	1,700	
Rs. .... each			– – – –	15,300
		Patents & Trade Marks	4,830	
		Less: Depreciation	483	
			– – – –	4,347
Reserves & Surplus		**Current Assets**		
General Reserve	16,003	Stock		82,000
Profit & Loss Account	27,238	Debtors		37,500
		Cash at bank		16,703
Current Liabilities and Provisions:				
Creditors	17,500			
Provision for Taxation	21,209			
	181,950			**1,81,950**

The following illustration will further explain the process of preparation of Profit & Loss Account and Balance Sheet in respect of companies.

Illustration 3

Mahavir Manufacturing Co. Ltd., was registered with a nominal capital of Rs.25,00,000 divided into shares of Rs.10 each. On March 31, 2006 the following were the balances as per the books of the company:

Details	*Amount Rs.*	*Details*	*Amount Rs.*
Plant and Machinery	9,00,000	Freight	42,750
Stock (1.4.2005)	2,87,500	Goodwill	1,90,250
Fixtures	18,000	Wages	1,77,000
Sundry debtors	3,47,500	Cash in hand	15,875
Buildings	6,00,000	Cash at bank	85,750
Purchases	3,62,500	Director's fees	10,350
Interim dividend paid	28,750	Bad debts	9,27
General expenses	30,250	Salaries	48,250
Debenture interest	22,250	6 % Debentures	7,50,000
Bills payable	45,000	Sales	10,87,500
General reserve	66,250	4 % Govt. Bonds	1,50,000
Profit and Loss Account (Cr)	86,250	Provision for doubtful debts	10,000
Share capital	12,50,000	Sundry creditors	80,000
Calls in arrears	38,750	Preliminary expenses	10,000

The stock on the March 31, 2006 was estimated at Rs. 2,02,500. The following adjustments have to be made:

1. Depreciation on Plant and Machinery at 10%, on Fixtures @ 5%.
2. Final dividend @ 5% is to be provided.
3. Preliminary expenses are to be written-off by 25%.
4. A provision of Rs. 8,215 on Sundry debtors is to be provided.
5. Rs. 20,000 is to be transferred to general reserve.
6. A provision for income tax to the extent of Rs. 65,500 is to be made.

You are required to prepare the Profit and Loss Account, Profit and Loss Appropriation Account and balance sheet as on the March 31, 2006.

Solution

Mahavir Manufacturing Co., Ltd
Profit and Loss Account
for the year ending on March 31, 2006

Dr. *Cr.*

Expenses/Losses	*Amount Rs.*	*Revenues/Gains*	*Amount Rs.*
Stock (1-4-05)	1,87,500	Sales	10,87,500
Purchases	3,62,500	Closing stock	2,02,500
Wages	1,77,000		
Freight	42,750		
Gross Profit c/d	4,20,250		
	11,90,000		**12,90,000**
Salaries	48,250	Gross Profit b/d	4,20,250
General expenses	30,250	Interest	6,000
Debenture interest paid 22,250 *Add:* Outstanding 22,750	45,000		
Directors fees	10,350		
Preliminary expenses (25%)	2,500		
Depreciation: on Plant and Machinery @ 10% 90,000 on Fixtures @ 5% 900	90,900		
Bad debts 9,275 *Add:* Provision for doubtful debts 8,125 17,400 *Less:* Existing provision 10,000	7,400		
Provision for tax	65,500		
Net Profit c/d	1,26,100		
	4,26,250		**4,26,250**

Profit and Loss Appropriation Account

Dr. Cr.

	(Rs.)		(Rs.)
General reserve	20,000	Balance b/d	86,250
Interim dividend	28,750	Net profit for current year	1,26,100
Proposed final dividend	60,562		
Balance c/d	1,03,038		
	2,12,350		**2,12,350**

Notes:

1. 6% debenture interest on Rs. 7,50,000 comes to Rs. 45,000, of which Rs. 22,250 have already been paid. The balance of Rs. 22,750 is treated as outstanding
2. Paid up share capital Rs. 12,50,000 – 38,750 (calls-in-arrears) is Rs. 12,11,250, on which 5%, Final dividend is Rs. 60,562.

Mahavir Manufacturing Company Limited
Balance Sheet as on the of March 31, 2006

Liabilities		(Rs.)	*Assets*		(Rs.)
Share Capital:			**Fixed Assets:**		
Authorised:			Goodwill		1,90,250
2,50,000 shares of			Buildings		6,00,000
Rs. 10 each		25,00,000			
Issued & Paid Up :			Plant and Machinery	9,00,000	
1,25,000 shares of			*Less:* Depreciation	90,000	
Rs. 10 each	12,50,000				8,10,000
Less: Calls-in-			Fixtures	18,000	
Arrears	38,750		*Less:* Depreciation	900	
		12,11,250			17,100
Reserves and Surplus:			**Investments:**		
General Reserve	66,250		4% Government bonds		1,50,000
Add: Transfer from					
Profit and Loss A/c	20,000				
		86,250			
P&L Account balance		1,03,038			
Secured Loans:			**Current Assets, Loans and Advances:**		
6% Debentures		45,000	A. Current Assets		
			Interest on bonds		6,000
			Stock in trade		2,02,500
			Sundry debtors	3,47,500	
			Less: Provision for		
			doubtful debts	8,125	3,39,375

		Cash at Hand	15,875
		Cash at Bank	85,750
		B. Loans and Advances:	
Unsecured Loans:	Nil	**Miscellaneous Expenditure:**	
		Preliminary expenses 10,000	
		Less: Written off 2,500	
		------	7,500
Current Liabilities & Provisions			
A. Current Liabilities:			
Bills payable	45,000		
Sundry creditors	80,000		
Debentures interest	22,750		
B. Provisions:			
Provisions for Income tax	65,500		
Proposed final dividend	60,562		
	24,24,350		**24,24,350**

Exhibit - 2

Balance Sheet and Profit and Loss Account of Grasim Industries Ltd. for the year ending March 31, 2006 be given in this Box as attached.

Grasim Industries Ltd.
Balance Sheet as on March 31, 2006

	Schedules No.		Rs. in Crores Previous Year	Rs. in Crores Current Year
Sources of Funds				
Shareholders' Funds				
Share Capital	1 A	91.67		91.67
Share Capital Suspense	1 B	0.02		0.02
Reserves and Surplus	2	4,890.39		4,236.66
			4,982.08	4,328.35
Loan Funds				
Secured Loans	3	1,331.08		1,439.02
Unsecured Loans	4	586.27		535.79
Documentary Bills Discounted with Banks	5	62.32		33.53
			1,979.67	2008.34
Deferred Tax Liabilities			584.38	599.50
Total			**7546.13**	**6,936.19**
Application of Funds				
Fixed Assets				
Gross Block	6	6,114.12		5,897.04
Less: Depreciation & Amortisation		3,109.49		2,848.17
Net Block		3,004.63		3,048.87
Capital Work-in-Progress		293.64		145.94
			3,298.27	3,194.81
Fixed Assets held for disposal			12.76	13.73
Investments	7		3,481.71	2,982.02
Current Assets, Loans and Advances				
Interest accrued on Investments		1.46		1.09
Inventories	8	750.73		678.59
Sundry Debtors	9	413.45		522.01
Cash and Bank Balances	10	155.58		86.70
Loans and Advances	11	705.54		565.54
		2,026.76		8,044.49
Less :				
Current Liabilities and Provisions				
Liabilities	12	969.15		827.89
Provisions	13	304.22		280.41
		1,273.37		1,108.30
Net Current Assets			753.39	745.63
Total			**7,546.13**	**6,936.19**
Accounting Policies and Notes on Accounts	22 & 23			

Exhibit - 3

Grasim Industries Ltd.

Profit & Loss Account for the year ended March 31, 2006

	Schedules		*Rs. in Crores Previous Year*	*Rs. in Crores Current Year*
Income				
Gross Sales		7,607.20		7,201.06
Less: Excise Duty		986.69		971.80
Net Sales			6,620.51	6,229.26
Interest and Dividend Income	14		67.53	114.75
Other Income	15		136.71	72.44
Increase/(Decrease) in Stocks	16		(43.48)	100.67
			6,781.27	**6,517.12**
EXPENDITURE				
Raw Materials Consumed	17		1,822.69	1,873.05
Manufacturing Expenses	18		1,580.34	1,498.77
Purchase of Finished and Other Products			240.15	49.02
Payments to and Provisions for Employees	19		407.64	373.13
Selling, Distribution, Administration and Other Expenses	20		1,139.59	938.46
Interest	21		97.32	138.76
Depreciation and Amortisation [Note A of Schedule 6]			291.64	284.57
			5,579.37	**5,155.76**
Profit before Tax & Exceptional Items			1,201.90	1,361.36
Surplus on pre-payment of sales tax loan			4.13	34.35
Provision for diminution in value of investment and loans				(92.00)
Profit before Tax			1,206.03	1,303.71
Provision for Current Tax			(369.82)	(451.00)
Deferred Tax			27.00	33.00
Profit after Tax			863.21	885.71
Debenture Redemption Reserve No Longer Required			8.62	6.86
Investment Allowance Reserve No Longer Required			0.25	0.16
Balance brought forward from Previous Year			815.35	790.20
Profit available for Appropriation			**1,687.43**	**1,682.93**
Appropriations :				
Proposed Dividend			183.35	146.68
Corporate Dividend Tax			25.71	20.90
General Reserve			600.00	700.00
Balance carried to Balance Sheet			878.37	815.35
			1,687.43	**1,682.93**
Basic and diluted earnings per share (in Rs.)			94.14	96.60
Accounting Policies and Notes on Accounts	22 & 23			

3.8 Uses and Importance of Financial Statements

The users of financial statements include management, investors, shareholders, creditors, government, bankers, employees and public at large. Financial statements, provide the necessary information about the performance of the management to these parties interested in the organisation and help in taking appropriate economic decisions. It may be noted that the financial statements constitute an integral part of the Annual Reports of the companies which is included to are concerned which include in addition, the directors report, auditors report, corporate governance report, and management discussion and analysis.

The various uses and importance of financial statements are as follows:

1. *Report on stewardship function:* Financial statements report the performance of the management to the shareholders. The gaps between the management performance and ownership expectations can be understood with the help of financial statements.
2. *Basis for fiscal policies:* The fiscal policies, particularly taxation policies of the government, are related with the financial performance of corporate undertakings. The financial statements provide basic input for industrial, taxation and other economic policies of the government.
3. *Basis for granting of credit:* Corporate undertakings have to borrow funds from banks and other financial institutions for different purposes. Credit granting institutions take decisions based on the financial performance of the undertakings. Thus, financial statements form the basis for granting of credit.
4. *Basis for prospective investors:* The investors include both short-term and long-term investors. Their prime considerations in their investment decisions are security and liquidity of their investment with reasonable profitability. Financial statements help the investors to assess long-term and short-term solvency as well as the profitability of the concern.
5. *Guide to the value of the investment Already Made:* Shareholders of companies are interested in knowing the status, safety and return on their investment. They may also need information to take decision about continuation or discontinuation of their investment in the business. Financial statements provide information to the shareholders in taking such important decisions.
6. *Aids trade associations in helping their members:* Trade associations may analyse the financial statements for the purpose of providing service and protection to their members. They may develop standard ratios and design uniform system of accounts.

7. *Helps stock exchanges:* Financial statements help the stock exchanges to understand the extent of transparency in reporting on financial performance and enables them to call for required information to protect the interest of investors. The financial statements enable the stock brokers to judge the financial position of different concerns and take decisions about the prices to be quoted.

3.9 Limitations of Financial Statements

Though utmost care is taken in the preparation of the financial statements and provide detailed information to the users, they suffer from the following limitations:

1. *Do not reflect current situation:* Financial statements are prepared on the basis of historical cost. Since the purchasing power of money is changing, the values of assets and liabilities shown in financial statement do not reflect current market situation.
2. *Assets may not realise:* Accounting is done on the basis of certain conventions. Some of the assets may not realise the stated values, if the liquidation is forced on the company. Assets shown in the balance sheet reflect merely unexpired or unamortised cost.
3. *Bias:* Financial statements are the outcome of recorded facts, accounting concepts and conventions used and personal judgments made in different situations by the accountants. Hence, bias may be observed in the results, and the financial position depicted in financial statements may not be realistic.
4. *Aggregate information:* Financial statements show aggregate information but not detailed information. Hence, they may not help the users in decision-making much.
5. *Vital Information missing:* Balance sheet does not disclose information relating to loss of markets, and cessation of agreements, which have vital bearing on the enterprise.
6. *No Qualitative information:* Financial statements contain only monetary information but not qualitative information like industrial relations, industrial climate, labour relations, quality of work, etc.
7. *They are only interim reports:* Profit and loss account discloses the profit/loss for a specified period. It does not give an idea about the earning capacity over time similarly, the financial position reflected in balance sheet is true at that point of time, the likely change on a future date is not depicted.

Terms Introduced in the Chapter

1. Financial statements
2. Profit and Loss Account
3. Balance Sheet
4. Accounting Concept of Income
5. Cost of Goods Sold
6. Permanency Order
7. Liquidity Order
8. Preliminary Expenses
9. Postulates
10. Operating Profit
11. Non Operating Income
12. Sources of Funds
13. Uses of Funds
14. Operating Profit
15. Interim Dividend
16. Share Capital

Summary

Financial Statements: Financial statements are the end products of accounting process, which reveal the financial results of a specified period and financial position as on a particular date. They are the general purpose financial statements prepared and published by every corporate undertaking for the benefit of the parties interested. These statements include income statement and balance sheet. The basic objective of these statements is to provide information required for decision-making by the management as well as other outsiders who are interested in the affairs of the undertaking.

Balance Sheet: The balance sheet shows all the assets owned by the concern, all the obligations or liabilities payable to outsiders or creditors and claims of the owners on a particular date. It is one of the important statements depicting the financial position or status or strength of an undertaking. It gives a concise summary of firm's resources and obligations and measures the firm's liquidity and solvency. Balance sheet can be presented either in liquidity or permanency order. However all companies established under The Companies Act have to prepare their financial statements in permanency order classifying under suitable heads. Balance sheet is prepared on the basis of accrual and going concern basis. Financial statements are prepared for the period starting with 1st April and ending 31st March.

Income statement: The Income Statement or Profit and Loss Account is prepared for the above period to determine the operational results of an undertaking. It is a statement of revenue earned and the expenses incurred for earning the revenue. It is a performance report showing the changes in income, expenses, profits and losses as a result of business operations during the year between two balance sheet dates.

Significance of Financial Statements: The users of financial statements include Shareholders, Investors, Creditors, Lenders, Customers, Management, Government, etc. Financial statements help all the users in their decision-making process. They provide data about general purpose needs of these members.

Limitations of Financial Statements: Financial statements are not free from limitations. They provide only aggregate information to satisfy the general purpose needs of the users but not for the specific purpose needs. They are technical statements understood by only persons having some accounting knowledge. They reflect historical information but not current situation, which is essential in any decision making. In addition, one can get idea about the organisation's performance in terms of quantitative changes but not in qualitative terms like labour relations, quality of work, employees satisfaction, etc. the financial statements are neither complete nor accurate as the flow of income and expenses are segregated using best judgment apart from accepted concepts. Hence, these statements need proper analysis before their use in decision-making.

Questions for Practice

Short Answer Questions

1. What is public company?
2. What is private limited company.
3. Define Government Company?
4. What do you mean by a listed company?
5. What are the uses of securities premium?
6. What is buy-back of shares?
7. Write a brief note on 'Minimum Subscription".

Long Answer Questions

1. Explain the nature of the financial statements.
2. Explain in detail about the significance of the financial statements.
3. Explain the limitations of financial statements.
4. Prepare the format of income statement and explain its elements.
5. Prepare the format of balance sheet and explain the various elements of balance sheet.
6. Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking?
7. 'Financial statements reflect a combination of recorded facts, accounting conventions and personal judgments' discuss.
8. Explain the process of preparing income statement and balance sheet.

Numerical Questions

1. The following is the trial balance on June 30, 2006 of the Modern Manufacturing Company Ltd.

Details	*Amount (Rs.)*	*Details*	*Amount (Rs.)*
Stock, 30th June, 2005	7,500	Dividend paid in, August, 2005	500
Sales	35,000	Interim Dividend paid in Feb., 2006	400
Purchases	24,500	Capital- 10,000 Rs. 1 shares full paid	10,000
Productive wages	5,000	Debtors	3,750
Discounts (Dr.)	700	Creditors	1,750
Discounts (Cr.)	500	Plant and machinery	2,900
Salaries	750	Cash in Bank	1,620
Rent	495	Reserve	1,550
General expenses	1,705	Loan to Managing Director	325
Profit and loss account, 30th June 2005 (Cr.)	1,503	Bad debts	158

Stock, on June 30, 2006 Rs. 8,200. You are required to make out the trading account, and profit and loss account for the year ended June 30, 2006 and the balance sheet as on the date. You are also to make provision in respect of the following: (i) Depreciate machinery @ 10% per annum; (ii) Reserve 5% for discount on debtors; (iii) One month rent Rs. 45 was due on 30th June; and (iv) Six month's insurance, included in general expenses, was unexpired at Rs. 75.

(*Gross profit Rs. 6,200; Net profit Rs. 2,044.50; Balance Sheet total Rs. 16,392.50)*

2. The following is the trial balance of Alfa Ltd., for the year ended June 30, 2005

Details	*Amount (Rs.)*	*Details*	*Amount (Rs.)*
Land and Buildings	3,00,000	Sundry creditors	40,000
Plant and Machinery	4,50,000	Bills payable	20,000
Furniture and fittings	40,000	General Reserve	2,00,000
Goodwill	60,000	Profit and Loss account balance (on 1.7.04)	90,000
Sundry debtors	60,000	Sales	6,25,000
Bills receivable	26,000	Purchase returns	15,000
Investments (5% Govt. Securities)	30,000	Equity share capital	5,00,000
Cash in hand	2,000	8% Preference share capital	2,00,000

Cash at bank	55,000		
Preliminary expenses	29,000		
Purchases	4,00,000		
Sales return	10,000		
Stock on 1-7-04	85,000		
Wages	47,000		
Salaries	55,000		
Rent, rates and taxes	9,000		
Carriage inwards	6,500		
Law charges	2,500		
Trade expenses	23,000		
	16,90,000		**16,90,000**

Prepare the Profit and Loss Account and Balance Sheet of the company after taking the following particulars into consideration:

a) The original cost of land and building plant and machinery and furniture and fittings was Rs. 2,50,000, Rs. 6,00,000 and Rs. 60,000 respectively. Additions during the year were : building Rs. 50,000 and plant Rs. 20,000.

b) Depreciation is to be charged on plant and machinery and furniture and fitting at 10 per cent on original cost.

c) Of the sundry debtors, Rs. 10,000 are outstanding for a period exceeding 6 months, Rs. 5,000 are considered doubtful, while the others are considered good.

d) The directors are entitled to a commission at 1 per cent of the net profits before charging such commission.

e) Stock on 30th June, 2005 is Rs. 1,30,000.

f) Provide Rs. 34,800 for income tax

(*Gross profit Rs. 2,21,500; Net profit Rs. 25,095; Balance sheet total Rs. 11,10,500*)

3. The following balances appeared in the books of Parasuram Flour Mills Ltd., as on December 31, 2005 :

Details	*(Rs.)*	*Details*	*(Rs.)*
Stock of wheat	9,500	Furniture	5,100
Stock of flour	16,000	Vehicles	5,100
Wheat purchases	4,05,000	Stores and spare parts	18,300
Manufacturing expenses	90,000	Advances	24,500
Flour sales	5,55,000	Book debts	51,700
Salaries and wages	13,000	Investments	4,000
Establishment	4,700	Share capital	72,000

Interest (Cr.)	500	Pension fund	23,000
Rent Received	800	Dividend equalisation fund	10,000
Profit and loss account (Cr.)	15,000	Taxation provision	8,500
Director's fees	1,200	Unclaimed dividends	900
Dividend for 2004	9,000	Deposits (Cr.)	1,600
Land	12,000	Trade creditors	1,24,000
Buildings	50,500	Cash in hand	1,200
Plants and machinery	50,500	Cash at bank	40,000

Prepare the company's trading and profit and loss account for the year and balance sheet as on December 31, 2005 after taking the following adjustments into account:

(a) Stock on December 31, 2005 were: Wheat at cost, Rs. 14,900: Flour at market price, Rs. 21,700; (b) Outstanding expenses: Manufacturing expenses, Rs. 23,500; and salaries and wages, Rs. 1,200; (c) Provide depreciation : Building at 2% ; Plant and machinery at 10%: Furniture at 10% ; and Vehicle 20%. (d) Interest accrued on Government Securities, Rs.100: (e) A tax provision of Rs. 8,000 is considered necessary. (f) The directors propose a dividend of 20%. (g) The authorised capital consists of 12,000 equity shares of Rs. 10 each of which 7,200 shares were issued and fully paid up.

(*Gross profit Rs. 47,600; Net profit Rs. 21,310; Profit and loss appropriation balance Rs. 13,410; Balance sheet total Rs. 2,92,010*).

4. An unexperienced accountant prepared the following trial balance of Bang Vikas Ltd., for the year ending 31.12.2005. The cash in hand on 31.12.2005 was Rs. 750.

Details	*Rs.*	*Details*	*Rs.*
Depreciation on machinery	33,000	Authorised Capital: 6,000 shares of Rs. 10 each	60,000
Calls in arrear	7,500	Subscribed capital	4,00,000
Land and buildings	3,00,000	6% debentures	3,00,000
Machinery	2,97,000	Profit and loss account(Cr.)	13,625
Interim dividend paid	37,500	Sundry debtors	87,000
Stock on 1-1-2005	75,000	Sales	4,15,000
Sundry Creditors	40,000	Sinking fund	75,000
Bills payable	38,000	Preliminary expenses	5,000
Furniture	7,200		
Bank balance	39,900		
Purchases	1,85,000		
Provision for bad debts	4,375		

Investments	75,000		
Salary and wages	99,300		
Repairs	4,300		
Fuel	2,500		
Rates and taxes	1,800		
Travelling expenses	2,000		
Discounts	6,400		
Director's fees	5,700		
Bad debts	2,100		
Debenture interest	9,000		
Carriage	1,800		
Freight	8,900		
Sundry expenses	2,350		
Public deposits	10,000		
	12,95,625		**12,95,625**

After locating the mistakes and making the following adjustments prepare trading and profit and loss account and balance sheet in the prescribed form.

Adjustments: (i) Stock on 31.12.2005 Rs. 95,000 and (ii) Write-off preliminary expenses.

Note: Rectified trial balance need not be prepared.

(*Gross profit Rs. 2,36,800; Net profit Rs. 60,475; Balance of profit and loss appropriation account Rs. 36,600; Balance sheet Rs. 9,01,100; Difference in trial balance Rs. 750*)

5. The Silver Ore Co. Ltd. was formed on April 1, 2005 with an authorised capital of Rs.6,00,000 in shares of Rs. 10 each. Of these 52,000 shares had been issued and subscribed but there were calls in arrear on 100 shares @ Rs. 2.50. From the following trial balance as on March 31, 2006 prepare the trading and profit and loss account and the balance sheet:

	(Rs.)		(Rs.)
Cash at bank	1,05,500	Advertising	5,000
Share capital	5,19,750	Cartage on plant	1,800
Plant	40,000	Furniture and buildings	20,900
Sale of silver	1,79,500	Administrative expenses	28,000
Mines	2,20,000	Repairs to plant	900
Promotion expenses	6,000	Coal and oil	6,500
Interest of F.D. up to Dec.31,2005	3,900	Cash	530

Dividend on investment	3,200	Investments-share of tin mines	80,000
Royalties paid	10,000	Brokerage on above	1,000
Railway track and wagons	17,000	6% F.D. in Syndicate Bank	89,000
Wages of mines	74,220		

(i) Depreciate plant and railways by 10%; furniture and building by 5%; (ii) Write off a third of the promotion expenses; (iii) Value of silver ore on March 31, 1969 Rs. 15,000, The directors forfeited on December 20, 1968, 100 shares on which only Rs. 7.50 had been paid.

(*Gross profit Rs. 97,900; Net profit Rs. 70,398; Balance sheet total Rs. 5,90,148*)

Answers to Test your Understanding

Test your Understanding – I

1. (i) True (ii) True (iii) False (iv) False (v) True
2. (i) Basic sources (ii) Shareholders (iii) Accrual
   (iv) Balance sheet (v) Income.

Test your Understanding – II

1. Capital reserves, capital redemption reserves, balance of securities premium account, general reserve, credit balance of profit and loss account
2. Preliminary expenses, advertisement expenditure, discount on issue of shares and debentures, share issue expenses
3. (i) (d) (ii) (e) (iii) (d) (iv) (c) (v) (a) (vi) (f)

SCHEDULE VI

[See Section 211]

[4] [Part 1

FORM OF BALANCE SHEET

[5] *[The balance Sheet of a company shall be either in horizontal form or vertical form] :*

A. [HORIZONTAL FORM]

BALANCE SHEET OF ....

[Here enter the name of the company]

AS ON ....

[Here enter the date as at which the balance sheet is made out]

(1)	(2)		(3)		(4)
	Liabilities		Assets		
Instructions in accordance with which liabilities should be made out	Figures for the previous year Rs. (b)	Figures for the current year Rs. (b)	Figures for the previous year Rs. (b)	Figures for the current year Rs. (b)	Instructions in accordance with which assets should be made out
(1)	(2)		(3)		(4)
+Terms of redemption or conversion (if any) of any redeemable preference capital to be stated, together with earliest date of redemption of capital and stating the or conversion. +Particulars of any option on unissued share capital to be specified. +Particulars of the different classes of preference share to be given.	**+SHARE CAPITAL** Authorised .... shares of Rs. .... each +Issued (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class) .... shares of Rs. ..... each. +Subscribed (distinguishing between the various classes of capital and stating the particulars specified below, in respect of each class). (c) .... shares of Rs. .... each.		**+FIXED ASSETS** Distinguishing as far as expenditure upon (a) goodwill, (b) land, (c) building, (d) leaseholds, (e) railway sidings, (f) plant and machinery, (g) furniture and fittings, (h) development of property, (i) partnets, trade marks and designs, (j) livestock, and (k) vehicles, etc.		+Under each head the original cost and the additions thereto and deductions therefrom during the year, and the total depreciation written off or provided up to the end of the year to be stated.

4. Substituted by the Companies (Amendment) Act, 1960
5. Inserted by Notification No. GSR 220 (E), dated 12.3.1979.

Rs. .... called up.
Of the above shares ....,
shares are allotted as fully paid-up pursuant to a contract without payments being received in cash.]

[6][*Specify the source from which bonus shares are issued, eg capitalisation of profits or Reserves or from Share Premium Account.]

[7][Of the above share......, shares are allotted as fully paid-up by way of bonus shares *]

Less : Calls unpaid:

(i) By managing agent of secretaries and treasurers and where the managing agent of secretaries and treasurers are a firm, by the partners thereof, and where the managing agent or secretaries and treasurers are a private company, by the directors or members of that company.]
(ii) By Directors.
(iii) By others.

[9][+Any capital profit on reissue of forfeitted shares should be transferred to Capital Reserve]

[10][+*Add:* Forfeited shares (amount) originally paid-up.)]

[8][Where the original cost aforesaid and additions and deductions thereto, relate to any fixed asset which has been acquired from a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such asset, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset or for repayment of the whole or a part of money borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the assets (being in either case the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or, as the case may be, deducted from the cost, and the amount arrived at after such

---

6. Inserted by Notification No. GSR 414, dated 21.3.1961
7. *Substituted, ibid.*
8. Inserted by Notification No. GSR 129, dated 3.1.1968
9. Inserted by Notification No. GSR 414, dated 21.3.1961
10. *Substituted, ibid.*

addition or deduction shall be taken to be the cost of the fixed asset.

Explanation 1: This paragraph shall apply in relation to all balance sheets that may be made out as at the 6th day of June, 1966, or any day thereafter and where, at the date of issue of the notification of the Government of India, in the Ministry of Industrial Development and Company Affairs (Department of Company Affairs), G.S.R. No. 129, dated the 3rd day of January, 1968, any balance sheet, in relation to which this paragraph applies, has already been made out and laid before the company in Annual General Meeting, the adjustment referred to in this paragraph may be made in the first balance sheet made out after the issue of the said notification.

Explanation 2: In this paragraph, unless the context otherwise requires, the expression "rate of exchange", "foreign currency" and "Indian currency" shall have the meanings respectively assigned to them under sub-section (1) of section 43A of the Income-tax Act, 1961 (43 of 1961), and *Explanation 2* and *Explanation 3* of the said sub-section shall,

11. Substituted by Notification No. GSR 414, dated 21.3.1961.

as far as may be, apply in relation to the said paragraph as they apply to the said sub-section (1).

[11][In every case where the original cost cannot be ascertained, without unreasonable expense or delay, the valuation shown by the books shall be given. For the purposes of this paragraph, such valuation shall be the net amount at which an asset stood in the company's books at the commencement of this Act after deduction of the amounts previously provided or written off for depreciation or diminution in value, and where any such asset is sold, the amount of sale proceeds shall be shown as deduction.]

Where sums have been written-off on a reduction of capital or a revaluation of assets, every balance sheet, (after the first balance sheet) subsequent to the reduction or revaluation shall show the reduced figures and with the date of the reduction in place of the original cost.

Each balance sheet for the first five years subsequent to the date of the reduction, shall show also the amount of the reduction made. Similarly, where sums have been added by writing up the assets, every

13. Substituted by Notification No. GSR 414, dated 21.3.1961.

*Additions and deductions since last balance sheet to be shown, under each of the specified heads. The word "fund" in relation to any "Reserve" should be used only where such Reserve is specifically represented by earmarked investments.	***RESERVES AND SURPLUS :** [13](1) Capital Reserves. (2) Capital Redemption Reserve. (3) Share Premium Account (cc). (4) Other reserves specifying the nature of each reserve and the amount in respect thereof. *Less :* Debit balance in profit and loss account (if any) (h). (5) Surplus, i.e. balance in profit and loss account after providing for proposed allocations, namely, dividend, bonus or reserves. (6) Proposed additions to reserves. (7) Sinking Funds]	**INVESTMENTS:** Showing nature of investments and mode of valuation, for example, cost or market value and distinguishing between – * (1) Investments in Government (2) Investments shares, debenture or bonds (showing separately shares, fully paid-up and partly paid-up and also distinguishing the different classes of shares and showing also in similar details investments in shares, debentures or bonds of subsidiary companies. (3) Immovable properties. [14](4) Investments in the capital of partnership firms. [16][(5) Balance of unutilised money raised by issue]	balance sheet subsequent to such writing up shall show the increased figures with the date of the increase in place of the original cost. Each balance sheet for the first five years subsequent to the date of writing up shall also show the amount of increase made. [12][*Explanation :* Nothing contained in the preceding two paragraphs shall apply to any adjustment made in accordance with the second paragraph.] *Aggregate amount of company's quoted investment and also the market value thereof shall be shown. Aggregate amount of company's unquoted investments shall also be shown. [15][All unutilised money out of the issue must be separately disclosed in the balance sheet of the company indicating the form in which such unutilised funds have been invested] ++ Mode of valuation of stock shall be stated and the amount in respect of raw material shall also be stated separately where practicable.
[17][Loans from Directors, $[the Managing Agents, Secretaries and Treasures] Managers should be shown separately.	**SECURED LOANS:** *(1) Debentures+ *(2) Loans and Advances from banks.	**CURRENT ASSETS, LOANS AND ADVANCES :** *(A)* CURRENT ASSETS (1) Interest accrued on Investments.	**Mode of valuation of work-in-progress shall be stated. + In regard to sundry debtors, particulars to be given separately of – (a) debts

14. Inserted by Notification No. GSR 494 (E), dated 9.11.1973.
15. Inserted by Notification No. GSR 423 (E), dated 13.9.1996
16. Inserted by Notification No. GSR 423 (E), dated 13.9.1996
17. Substituted by Notification No. GSR 414, dated 21.3.1961.

Interest accrued and due on Secured Loans should be included under the appropriate sub-heads under the head "Secured Loans".]

*The nature of the security to be specified in each case.

Where loans have been guaranteed by $[managing agents, secretaries and treasurers] managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such loans under the head.

+Terms of redemption or conversion (if any) of debentures issued to be stated together with earliest date-of-redemption or conversion.

*(3) Loans and Advances from subsidiaries.

*(4) Other loans and advances

++(2) Stores and spare parts.

[17](3) Loose tools.

++(4) Stock-in-trade.

**(5) Works-in-progress.

+(6) Sundry debtors –

(a) Debts outstanding for a period exceeding six months.

(b) Other debts.

[17][*Less* : Provision]

considered goods and in respect of which the company is fully secured; and (b) debts considered goods for which the company holds no security other than the debtor's personal security; and (c) debts considered doubtful or bad.

Debts due by directors or other officers of the company or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member to be separately stated.

[18][Debts due from other companies under the same management within the meaning of sub-section (1B) of section 370, to be disclosed with the names of the companies).

The maximum amount due by directors or other officers of the company at any time during the year to be shown by way of a note.

The [19][provisions] to be shown under this head should not exceed the amount of debts stated to be considered doubtful or bad and any surplus of such [19][provision], if already created, should be shown at every closing under "Reserves and Surplus" (in the Liabilities

18. Substituted by Notification No. GSR 78, dated 4.1.1963.
19. Substituted by Notification No. GSR 414, dated 21.3.1961.
20. Substituted by Notification No. GSR 78, dated 4.1.1963.

side) under a separate sub-head "Reserve for Doubtful or Bad Debts".

[20][(7A) Cash balance on hand.
*(7B) Bank balances —
(a) with Scheduled banks; and
(b) with others.]

[20][*In regard to bank balances, particulars to be given separatly of—
(a) the balances lying with Scheduled Banks on current accounts, call accounts, and deposit accounts;
(b) The names of the bankers other than Scheduled Banks and the balance lying with each such banker on current accounts. call accounts and deposit accounts and the maximum amount outstanding at any time during the year from each such banker; and
(c) the nature of the interest, if any, of any director or his relative $[or the managing agent/ secretaries and treasurers of any associate of the latter] in each of the bankers (other than) Scheduled Banks) referred to in (b) above.]

[21][Loans from Directors, $[the managing agents, secretaries and

UNSECURED LOANS:
(1) Fixed deposits.

[22][All unutilised money out of the issue must be separately

21. Inserted by Notification No. GSR 414, dated 21.3.1961.
22. Inserted by Notification No. GSR 423(E), dated 13.9.1996.
23. Existing item 8 lettered as sub-item(a) and sub-item (b) inserted by Notification No. GSR 494(E), dated 31-10-1973.

treasurers] managers, should be shown separately. Interest accrued and due on Unsecured Loans should be included under the appropriate sub-heads under The head "UNSECURED LOANS".]

+Where loans have been guaranteed by $[managing agents, secretaries and treasurers] managers and/or directors, a mention thereof shall also be made and also the aggregate amount of such and also the aggregate amount of such loans under each head.

*See note (*d*) at foot of Form.
[24] [*The name(s) of small scale industrial undertaking(s) to whom the company owe any sum together with interest outstanding for more than thirty days, are to be disclosed.*]

+(2) Loans and advances from subsidiaries.
+*(3) Short-term loans and advances :
(a) From Banks.
(b) From others.
+(4) Other loans and advnaces:
(a) From Banks.
(b) From others.

CURRENT LIABILITIES AND PROVISIONS :

A. CURRENT LIABILITIES:
[25] [(1) Acceptances.
(2) Sundry creditors
[25a] (i) Total outstanding dues to small scale industrial under-taking (s); and (ii) Total outstanding dues of creditors other than small scale industrial undertaking(s);]
(3) Subsidiary companies.
(4) Advance payments and unexpired discounts for

+(B) LOANS AND ADVANCES
(8) [23] (a) Advances and loans to subsidiaries.
[23] [(b) Advances and loans to partinership firms in which the company or any of its subsidiaries is a partner.]
(9) Bills of Exchange.
(10) Advances recoverable in cash or in kind or for value to be received, eg rates, taxes, insurance, etc.
$(11) [Balance on current account with managing agents or secretaries and treasurers]
(12) Balances with customs, port trust, etc (where payable on demand).

disclosed in the balance sheet of the company indicating the form in which such unutilised funds have been invested.]
+The above instructions regarding "Sundry Debtors" apply to "Loans and Advances" also.

---

24. Substituted by Notification No. GSR 376(E), dated 22.5.2002. Earlier it was inserted by Notification No. GSR 129(E), dated 22.2.1999.
25. Substituted by Notification No. GSR 78, dated 4.1.1963.
25a. Inserted by Notification No. GSR 129(E), dated 22.2.1999.
26. Substituted by Notification No. GSR 414, dated 21.3.1961.

the portion, for which value has still to be given e.g. in the case of the following classes of companies: newspapers, fire insurance, theatres, clubs, banking, steamship companies, etc.

(5) Unclaimed dividends.

(6) Other liabilities (if any)

(7) Interest accrued but not due on loans.]

B. PROVISIONS

[26][(8) Provision for taxation.

(9) Proposed dividends.

(10) For contingencies.

(11) For provident fund scheme.

(12) For insurance, pension and similar staff benefit schemes.

(13) Other provisions.]

[A foot note to the balance sheet may be added to show separately:

(1) Claims against the company not acknowledged as debts.

(2) Uncalled liability on shares partly paid.]

++(3) Arrears of fixed cumulative dividends

(4) Estimated amount of contracts remaining to be executed on capital account and not provided for.

+(5) Other money for which the company is contingently liable.]

27. Inserted by Notification No. GSR 414, dated 21.3.1961.

28. Substituted, *ibid*.

29. Inserted, *ibid*.

++The period for which the dividends are in arrear or if there is more than one class of shares, the dividends on each such class are in arrear, shall be stated.

The amount shall be stated before deduction of income-tax, except that in the case of tax-free dividends, the amount shall be shown free of income-tax and the fact that it is so shown, shall be stated.

+The amount of any guarantees given by the company on behalf of directors or other officers of the company shall be stated and where practicable, the general nature and amount of each such contingent liability, if material, shall also be specified.

MISCELLANEOUS EXPENDITURE :

(to the extent not written-off [27][or adjusted]):

(1) Preliminary expenses.
(2) Expenses including commission or brokerage on underwriting or subscription of shares or debentures.
(3) Discount allowed on the issue of shares or debentures.
(4) Interest paid out of capital during construction (also stating the rate of interest).
(5) Development expenditure not adjusted.
(6) Other items (specifying nature).

[28]**[+PROFIT AND LOSS ACCOUNT]**

[29][+ Show here the debit balance of profit and loss account carried forward after deduction of the uncommitted reserves, if any.]

NOTES

General Instructions for Preparation of Balance Sheet

(a) The information required to be given under any of the items or sub-items in this Form, if it cannot be conveniently included in the balance sheet itself, shall be furnished in a separate Schedule to be annexed to and to form part of the balance sheet. This is recommended when items are numerous.

(b) Naye Paise can also be given in addition to Rupees, if desired.

(c) In the case of 75 [subsidiary companies] the number of shares held by the holding company as well as by the ultimate holding company and its subsidiaries must be separately stated.
The auditor is not required to certify the correctness of such shareholdings as certified by the management.

[30] [(cc) The item "Share Premium Account" shall include details of its utilisation in the manner provided in section 78 in the year of utilisation.]

(d) Short-term loans will include those which are due for not more than one year as at the date of the balance sheet.

(e) Depreciation written-off or provided shall be allocated under the different asset heads and deducted in arriving at the value of fixed assets.

(f) Dividends declared by subsidiary companies after the date of the balance sheet [should] not be included unless they are in respect of period which closed on or before the date of the balance sheet.

(g) Any reference to benefits expected from contracts to the extent not executed shall not be made in the balance sheet but shall be made in the Board's report.

[31] [(h) The debit balance in the Profit and Loss Account shall be shown as a deduction from the uncommitted reserves, if any.]

(i) As regards Loans and Advances, [amounts due by the Managing Agents or Secretaries and Treasurers, either severally or jointly with any other persons to be separately stated;] [the amounts due from other companies under the same management within the meaning of sub-section (1B) of section 370 should also be given with the names of the companies], the maximum amount due from every one of these at any time during the year must be shown.

(j) Particulars of any redeemed debentures which the company has power to issue should be given.

(k) Where any of the company's debentures are held by a nominee or a trustee for the company, the nominal amount of the debentures and the amount at which they are stated in the books of the company shall be stated.

[32] (i) A statement of investments (whether shown under "Investment" or under "Current Assets" as stock-in-trade) separately classifying trade investments and other investments should be annexed to the balance sheet, showing the names of the body corporates (indicating separately the names of the body corporates under the

---

30.
31.
32.

same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate; provided that in the case of an investment company, that is to say, a company whose principal business is the acquisition of shares, stock, debentures or other securities, it shall be sufficient if the statement shows only the investments existing on the date as at which the balance sheet has been made out. In regard to the investments in the capital of partnership firms, the name of the firms (with the names of all their partners, total capital and the shares of each partner), shall be given in the statement.]

(m) If, in the opinion of the Board, any of the current assets, loans and advances have not a value on realisation in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of the opinion shall be stated.

(n) Except in the case of the first balance sheet laid before the company after the commencement of the Act, the corresponding amounts for the immediate preceding financial year for all items shown in the balance sheet shall also be given in the balance sheet. The requirement in this behalf shall, in the case of companies preparing quarterly or half-hearly accounts, etc relate to the balance sheet for the corresponding date in the previous year.

(o) The amounts to be shown under Sundry Debtors shall include the amounts due in respect of goods sold or services rendered or in respect of other contractual obligations but shall not include the amounts which are in the nature of loans or advances.

[33] (p) Current accounts with directors $[managing agents, secretaries and treasurers] and managers, whether they are in credit, or debit, shall be shown separately.]

[34] (q) A small scale industrial undertaking has the same meaning as assigned to it under clause (j) of section 3 of the Industries (Development and Regulation) Act, 1951.]

Note : $References to managing agents, secretaries and treasurers should be omitted.

33. Substituted by Notification No. GSR 414, dated 21.3.1961.
34. Inserted by Notification No. GSR 129(E), dated 21.3.1961.

VERTICAL FORM OF BALANCE SHEET

B. VERTICAL FORM

Name of the Company ....

Balance Sheet as on ....

	Schedule No.	*Figures as at the end of current financial year*	*Figures as at the end of previous financial year*
1 2	3	4	5
I. Sources of Funds			
(1) *Shareholders' funds :*			
(a) Capital			
(b) Reserves and surplus			
(2) *Loan funds:*			
(a) Secured loans			
(b) Unsecured loans			
TOTAL			
II. Application of funds			
(1) *Fixed assets :*			
(a) Gross block			
(b) Less : Depreciation			
(c) Net block			
(d) Capital work-in-progress			
(2) *Investments*			
(3) *Current assets, loans and advances:*			
(a) Inventories			
(b) Sundry debtors			
(c) Cash and bank balance			
(d) Other current assets			
(e) Loans and advances			
Less :			
Current liabilities and provisions :			
(a) Liabilities			
(b) Provisions			
Net current assets			
(4) (a) Miscellaneous expenditure to the extent not written-off or adjusted			
(b) Profit and loss account			
TOTAL			