
FINANCIAL STATEMENTS OF A COMPANY

Financial Statement

Financial Statements are the end products of accounting process and are prepared at end of the accounting period **to reveal the financial position** of the enterprise at a particular date and **the result of its business operations during an accounting period.**

As per Section 2(40) of the Companies Act, 2013 Financial Statements includes :

1. Balance Sheet or Position Statement
2. Statement of Profit and Loss or Income Statement
3. Notes to Accounts.
4. Cash Flow Statement.

Balance Sheet : It is a statement of assets, liabilities and Equities of a business and it is prepared to show the financial position of the company at a particular date.

A balance sheet of a company is prepared as per the format prescribed in Part I of Schedule III of the Companies Act, 2013.

The Schedule III prescribes only the vertical format for presentation of financial statements. Thus, a company will now not have an option to use horizontal format for the presentation of financial statements.

Important contents of Balance Sheet

An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

Part-I – Form of Balance Sheet

(₹ in-----)

Particulars	Note No	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
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 provisions			
TOTAL			

I. ASSETS			
(5) Non-current assets			
(d) Fixed assets			
(ii) Tangible assets			
(iii) Intangible assets			
(iv) Capital work-in- progress			
(v) Intangible assets under development			
(e) Non-current investment			
(f) Deferred tax assets (net)			
(g) Long-term loans and advances			
(h) other non-current assets			
(2) Current Assets			
(a) current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(i) Short term loans and advances			
(j) other current assets			
TOTAL			

The balance of ₹1,00,000 in Surplus i.e., Balance in Statement of Profit and Loss will be shown under Reserve and Surplus in the Balance Sheet.

Illustration 3: C Ltd. has an opening credit balance of ₹2,50,000 in Securities Premium Reserve and also debit balance of ₹5,00,000 in Surplus i.e., Balance in statement of Profit and Loss in Reserve and Surplus. During the year ended 31st March, 2016, it incurred a loss of ₹3,00,000. Prepare Notes to Account on Reserve and Surplus showing the amount to be shown in Balance Sheet.

Solution:

Note to Accounts

Particulars	₹
Reserve and Surplus	
(a) Securities Premium Reserve	2,50,000
(b) Surplus i.e., Balance in statement of Profit & Loss	
Opening Balance (5,00,000)	(8,00,000)
<u>Add-</u> Profit (loss) for the year (3,00,000)	(5,50,000)

₹ (5,50,000) will be shown against Reserve and Surplus under shareholders' funds in the Balance Sheet.

Statement of Profit and Loss

Statement of Profit and Loss: It is a statement prepared to show the result of business operations during an accounting period.

It shows the operating performance of a company during the accounting period.

A Statement of Profit & Loss of a Company is prepared as per the format prescribed in Part II of Schedule III of the Companies Act, 2013.

PART II - FORM OF STATEMENT OF PROFIT AND LOSS

Statement of Profit & Loss

For the year ended.....

(₹ in)

Particulars	Note No.	Figures for the current reporting period	Figures for the Previous reporting period
I. Revenue from operations	
III. Other Income	
IV.Total Revenue (I+II)	
V. IV. Expenses:			
• Cost of Material consumed			
• Purchases of Stock-in-Trade			
• Changes in Inventories of Finished Goods, work-in-progress and stock-in-trade			
• Employees Benefit Expenses			
• Finance Cost			
• Depreciation & Amortisation Expenses	
• Other Expenses		
Total Expenses	
V. Profit before Tax (III–IV)	
VI. Less: Tax		(.....)	(.....)
VII. Profit after Tax (V–VI)	

BALANCE SHEET
(Companies Act 2013 Schedule III Part 1)

B/s Heading	Major Heading	Sub Heading	Sub Sub Heading	Treatment if any
Equity and Liabilities	1. Shareholders Fund	a. Share Capital	<ul style="list-style-type: none"> • Authorised Capital • Issued Capital • Subscribed Capital 	
			• Calls in Arrear	• Subtracted from Called up capital
			• Share Forfeited Account	• Added to Called Up capital
Equity and Liabilities	1. Shareholders Fund	b. Reserves and Surplus	<ul style="list-style-type: none"> • Capital Reserve • Securities Premium Reserve • Debenture Redemption Reserve • Capital Redemption Reserve • General Reserve • Sinking fund • Revaluation Reserve • Share Option Outstanding A/c • Surplus or Retained earnings or Accumulated Profits) <p>Note: -</p> <ul style="list-style-type: none"> • This Surplus has to be after transfer to Reserves and Proposed dividend. • Surplus can be a Negative figure. 	-
Equity and Liabilities	1. Shareholders Fund	c. Money Received Against i Share Warrants	Share Warrants are issued to promoters for preferential issue. This instrument gives the holder the right to acquire equity shares. Money is already allocated at the time of issue of issue of warrants.	
Equity and Liabilities	2. Share Application Money Pending Allotment			
Equity and Liabilities	3. Non-Current Liabilities	a. Long Term Borrowing	<ul style="list-style-type: none"> • Debentures • Bonds • Loans from banks/mortgage loan • Loans from other parties • Deposits (Public Deposits, Fixed Deposits) <p>Note: -</p> <ol style="list-style-type: none"> 1. They should be classified as secured and unsecured 2. Borrowing which is due for 	

			payment within 12 months is to be as Other Current Liabilities	
Equity and Liabilities	3. Non-Current Liabilities	b. Deferred Tax Liabilities		
Equity and Liabilities	3. Non-Current Liabilities	c. Other Long Term Liabilities	<ul style="list-style-type: none"> • (12 months) • Premium Payable on Redemption of Debentures • Premium Payable a on Redemption of Preference Share 	
Equity and Liabilities	3. Non-Current Liabilities	d. Long Term Provisions	<ul style="list-style-type: none"> • Provision for employees retirement benefits. i.e. amount of earned leave etc. • Provision for Warranty Claims 	
Equity and Liabilities	4. Current Liabilities	a. Short Term Borrowings	<ul style="list-style-type: none"> • Loans from bank • Loans from oth er parties • Deposits (Publi: Deposits, Fixed Deposits) 	
Equity and Liabilities	4. Current Liabilities	b. Trade Payable	<ul style="list-style-type: none"> • Creditors • Bills payables 	
Equity and Liabilities	4. Current Liabilities	c. Other Current Liabilities	<ul style="list-style-type: none"> • Current matur ties of long term loans • Interest accrued but not due on borrowings • Interest accrued and due on borrowings • Income received in Advance • Unpaid dividend / Unclaimed dividend • Unpaid matured deposit and interest accn ed there on • Unpaid matured debentures and interest accn ied thereon • Outstanding expenses • Calls in advance • Application money due for refund and Interest thereon 	
Equity and Liabilities	4. Current Liabilities	d. Short Term Provisions	<ul style="list-style-type: none"> • Provision foi tax • Provision fo employees benefits • Provision fo doubtful debts • Provision fo' discount on debtors 	

Assets	1. Non-Cumst Assets i	a. Fixed Assets u Tangible Fixed Assets	<ul style="list-style-type: none"> • Land • Building • Machinery & Plant • Vehicles • Office equipment • Furniture and fixture • Live stock • Computers • Office Equipment 	
Assets	1. Non-Current Assets	a. Fixed Assets ii. Intangible Fixed Assets	<ul style="list-style-type: none"> • Goodwill • Brands/trademarks • Copyrights & patents • Computer software • Mastheads and Publishing titles (name of newspapers/ magazines printed at the top of first page) • Mining rights • Recipes, formulae, model, designs • Licenses and franchise • Intellectual Property Rights 	
Assets	1. Non-Current Assets	a. Fixed Assets iii. Capital Work in Progress	Construction of assets in progress E.g. construction of building	
Assets	1. Non-Current Assets	a. Fixed Assets iv. Intangible Assets Under Development		
Assets	1. Non-Current Assets	b. Non-Current Investments	<ul style="list-style-type: none"> • Investment in property • Investment in equity insti uments • Investment in preference shares • Investment in govt, securities • Investment in debenture: / bonds • Investment in mutual funds • Investments in Partnership firms <p>Note: -Fixed deposit in banks. • They should be classified o s Trade Investment&Non-Trade Investment • Trade investment -Investment in shares and debentures di me for promoting its own busint ss. E.g. a company invests in at other company which is supplying raw material to it, so as to ensure a continuous supply.</p>	

Assets	1. Non-Current Assets	c. Deferred Tax Assets		
Assets	1. Non-Current Assets	d. Long Term Loans and Advances	<ul style="list-style-type: none"> • Capital advance, (advances for acquiring fixed assets) • Security deposits • Long term loans to employees. • Long term loans to suppliers. 	
Assets	1. Non-Current Assets	e. Other Non-Current Assets	<ul style="list-style-type: none"> • Long term trade receivables • Preliminary expenses, Underwriting Commission, Discount/Loss/Expense on Issue of Shares and Debentures which are to be amortized after a period of 12 months 	
Assets	2. Current Assets	a. Current Investments	<ul style="list-style-type: none"> • Investment in equity instruments • Investment in preference shares • Investment in govt. securities • Investment in debentures / bonds • Investment in mutual funds • Investments in Partnership firms. 	
Assets	2. Current Assets	b. Inventories	<ul style="list-style-type: none"> • Inventory of raw material • Inventory of work in progress • Inventory of finished goods • Stock in trade (goods acquired for trading) • Stores and spares • Loose tools 	
Assets	2. Current Assets	c. Trade Receivables	<ul style="list-style-type: none"> • Debtors • Bills receivable. 	
Assets	2. Current Assets	d. Cash and Cash Equivalents	<ul style="list-style-type: none"> • Cash • Bank balance • Cheques and drafts in hand 	
Assets	2. Current Assets	e. Short Term Loans and Advances	<ul style="list-style-type: none"> • Loans and advances to related parties. 	
Assets	2. Current Assets	f. Other Current Assets	<ul style="list-style-type: none"> • Prepaid expenses • Advance taxes • Interest accrue on investments • Preliminary expenses, Underwriting Commission, Discount/Loss/Expense on Issue of Shares and Debentures which are 	

			to be amortized within a period of 12 months	
Contingent Liabilities			<p>Contingent Liabilities are those liabilities which are not actual liabilities but may become so on happening of certain events. Examples are following:</p> <ul style="list-style-type: none"> • Claim against the company not acknowledged as debts • Guarantees • Bills discounted from bank 	
Capital Commitments			<p>Capital commitments are agreements to perform a particular activity at a certain time in the future under certain circumstances. Examples are followings:</p> <ul style="list-style-type: none"> • Estimated amounts of contract remaining to be executed on capital account and not provided for <p>Uncalled liability on investment in partly paid shares.</p> <p>Arrears of dividend on cumulative preference share</p> <p>Example of Estimated amount of contract remaining to be executed on capital account and not provided for:</p> <ul style="list-style-type: none"> • A project of ₹ 100 crore to construct a bridge time is 60% complete & 40% remaining. If 40% is completed on time the company will get entire ₹100 crore and thereby make a profit. (Because ₹ 100 crore which is the contract price includes profit it). <p>But if the project is not completed on time penalties may be imposed and the company may not be able to <u>make profit out of the project.</u></p>	
			<p>NOTE:-</p> <p>Contingent liability always results in a loss if they are actually arise.</p> <p>Capital commitment may result in profit or loss on completion</p>	

DISCLOSURE OF IMPORTANT ITEMS IN THE COMPANY'S BALANCE SHEET AS PER SCHEDULE III

S.No.	Items	Main Head	Sub-head
1.	Debentures	Non-current Liabilities	Long-term Borrowings
2.	Public Deposits	Non-current Liabilities	Long-term Borrowings
3.	Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus
4.	Capital Reserve	Shareholders' Funds	Reserves and Surplus
5.	Forfeited Shares Account	Shareholders' Funds	Subscribed Capital (Shown by way of addition)
6.	Interest Accrued and due on Debentures	Current Liabilities	Other Current Liabilities
7.	Interest Accrued but not due on Debentures	Current Liabilities	Other Current Liabilities
8.	Bills Payable	Current Liabilities	Trade Payables
9.	Advances Received from Customers	Current Liabilities	Other Current Liabilities
10.	Sundry Creditors	Current Liabilities	Trade Payables
11.	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
12.	Calls-in-Arrears	Shareholders' Funds	Subscribed Capital (shown by way of deduction)
13.	Calls-in-Advance and Interest	Current Liabilities	Other Current Liabilities
14.	Interest Accrued but not due on Unsecured Loans	Current Liabilities	Other Current Liabilities
15.	Debentures Redemption Reserve	Shareholders' Funds	Reserves and Surplus
16.	Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
17.	Advance from Customers (Loan-term)	Non-current Liabilities	Other Long-term Liabilities
18.	Trade Payables	Current Liabilities	Trade Payables
19.	provision for Tax	Current Liabilities	Short-term Provisions
20.	surplus, Balance in Statement and Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	surplus, Balance in Profit and Loss	Shareholders' Funds	Reserves and Surplus
22.	Mortgage Loan	Non-current Liabilities	Long-term Borrowings
23.	Patents	Non-current Assets	Fixed Assets—Intangible Assets
24.	Investment	Non-current Assets	Non-current Investments
25.	General Reserve	Shareholders' Funds	Reserves and Surplus
26.	Bills Receivable	Current Assets	Trade Receivables
27.	Borrowings Repayable after 3yrs.	Non-current Liabilities	Long-term Borrowings
28.	Loose Tools	Current Assets	Inventories
29.	current Maturities of Long-term	Current Liabilities	Other Current Liabilities

30.	Premium on Redemption of Debentures	Non-current Liabilities	Other Long-term Liabilities
31.	Balances with Banks	Current Assets	Cash and Cash Equivalents
32.	Tax Reserve	Shareholders' Funds	Reserves and surplus
33.	Stores and Spares	Current Assets	Inventories
34.	Mining Rights	Non-current Assets	Fixed Assets- Intangible Assets
35.	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
36.	Subsidy Reserve	Shareholders' Funds	Reserves and Surplus
37.	Copyrights	Non-current Assets	Fixed Assets- Intangible Assets
38.	Accrued Incomes	Current Assets	Other Current Assets
39.	Provision for Employees Benefits	Non-Current Liabilities	Long-term Provisions
40.	Unpaid/unclaimed Dividend	Current Liabilities	Other Current Liabilities
41.	Short-term Loans	Current Liabilities	Short-term Borrowings
42.	Long-term Loans	Non-Current Liabilities	Long-term Borrowings
43.	Share Options Outstanding Account	Shareholders' Funds	Reserves and Surplus
44.	Computers	Non-current Assets	Fixed Assets— Tangible Assets
45.	Goodwill	Non-current Assets	Fixed Assets— Intangible Assets
46.	Sundry Debtors	Current Assets	Trade Receivables
47.	Long-term Investments	Non-current Assets	Non-current Investment
48.	Prepaid Insurance	Current Assets	Other Current / ssets
49.	Building	Non-current Assets	Fixed Assets— Tangible Assets
50.	General Reserve	Shareholders' Funds	Reserves and Surplus
51.	Bonds	Non-current Liabilities	Long-term Borrowings
52.	Loans repayable on demand	Current Liabilities	Short-term Borrowings
53.	Income received in advance	Current Liabilities	Other Current liabilities
54.	Office Equipments	Non-current Assets	Fixed Assets— Tangible Assets
55.	Trademarks	Non-current Assets	Fixed Assets— Intangible Assets
56.	Advance Tax	Current Assets	Other Current assets
57.	Bank Overdraft	Current Liabilities	Short-term Borrowings
58.	Cheques/Drafts in Hand	Current Assets	Cash and Cash Equivalents
59.	Stock-in-Trade	Current Assets	Inventories
60.	Long-term Provisions	Non-current Liabilities	Long-term Provisions
61.	Stock of Finished Goods	Current Assets	Inventories
62.	Computer software	Non-current Assets	Fixed Assets—Intangible Assets
63.	Work-in-Progress (Building)	Non-current Assets	Fixed Assets—Capital Work-in-Progress
64.	Intellectual Property Rights under Development	Non-current Assets	Fixed Assets—Intangible Assets under Development
65.	Provision for Expenses	Current Liabilities	Short-term Provisions
66.	Capital Advances	Non-current Assets	Long-term Loans and Advance
67.	Designs	Non-current Assets	Fixed Assets—Intangible Assets
68.	Shares in Companies	Non-current Assets	Non-current Investments

CONTENTS OF STATEMENT OF PROFIT AND LOSS

S.No.	Item/Heads	Meaning	Examples/Sub heads
1.	Revenue from operation	Revenue earned by the company from its operating activities.	<ul style="list-style-type: none"> Revenue from sale of products or service. Revenue from sale of scrap.
2.	Other income	Income earned by the company from its non-operating activities.	<ul style="list-style-type: none"> Interest income Dividend income Profit from sale of investment or fixed assets Bad debts recovered Excess provision written back Rental income etc.
3.	Cost of material consumed	Cost of raw material and other material used in manufacturing of goods.	<p>COMC = opening inventory of raw material + net purchases of raw materials-closing stock of raw materials</p> <p>Note : inventory of work in progress, finished goods and stock in trade are not considered.</p>
4.	Purchase of stock-in-trade	Goods purchased for reselling without any further processing.	
5.	Changes in inventories of finished goods, work-in-progress and stock-in-trade	Difference between opening and closing inventories	Change in inventory=opening inventories-closing inventories
6.	Employees benefits expenses	All expenses incurred by the company on its employees.	<p>Direct expenses:</p> <ul style="list-style-type: none"> Wages; • Bonus Leave encashment; • Salaries Staff welfare expenses Contribution to employees provident fund and other funds
7.	Finance cost	Cost incurred by the company on borrowings.	<ul style="list-style-type: none"> Interest paid on term loan from bank Interest paid on overdraft and cash credit limit from bank Interest paid on debentures, bonds public deposits Discount or loss on issue of debentures written off Premium payable on redemption of debentures written off Load processing fees Guarantee charges Commitment charges etc. <p>Note : Service charges not included like bank charges.</p>
8.	Depreciation and amortization expenses	Depreciation is the cost of tangible assets while amortization is the cost of intangible assets written off their useful life.	<ul style="list-style-type: none"> Depreciation of plant and machinery, building, furniture etc. Amortization of patents, trademarks, copyrights, computer software etc.
9.	Other expenses	Expenses that are not shown any of above mentioned heads are shown here.	<ul style="list-style-type: none"> Carriage inwards/outwards Audit fees; • Insurance charges Rates and taxes; • Bank charges Advertisement expenses Administrative expenses Selling and distribution expenses Power and electricity charges Repair of fixed assets Rent; • Telephone expenses Sundry expenses etc.

Illustration 2: Under which major sub-heading the following items will be placed in the Balance Sheet of a Company as per Schedule-III, Part I of the Companies Act, 2013 :

- (i) Accrued Incomes
- (ii) Loose Tools
- (iii) Provision for employee's benefits
- (iv) Unpaid dividend
- (v) Short-term loans
- (vi) Long-term loans

Solution:

Item	Sub-heading
Accrued Incomes	Other Current Assets
Loose tools	Inventories
Provision for Employees benefits	Long-term provisions
Unpaid Dividends	Other Current Liabilities
Short-term loans	Short-term borrowings/Short-term loans and advances
Long-term loans	Long-term borrowings/Long-term loans and advances

Illustration 3: List the items which are shown under the heading, 'Current Assets' in the Balance Sheet of a company as per provisions of Schedule III, of the Companies Act, 2013.

Solution:

- (a) Current Investments
- (b) Inventories
- (c) Trade Receivables
- (d) Cash and cash equivalents
- (e) Short-term loans and advances
- (f) Other Current Assets

Illustration 4: Name the major headings under which the Equity and Liabilities side of a company's Balance Sheet is organised and presented.

Solution:

The major headings on the Equity and Liabilities side are:

- I. Shareholder's funds
- II. Share Application money pending allotment
- III. Non-Current Liabilities
- IV. Current Liabilities

Illustration 5: List the items that are included under Inventories.

Solution:

- (i) Raw materials
- (ii) Work-in-progress
- (iii) Finished goods
- (iv) Stock-in-trade
- (v) Stores and spares
- (vi) Loose tools

Illustration 6: Name any three items that are shown under the head "Other Current Liabilities" and any three items that are shown under the head "Other Current Assets" in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013.

Solution:

Other Current Liabilities:

- (a) Unpaid Dividend
- (b) Interest accrued and due on borrowings
- (c) Calls in advance
- (d) Outstanding expenses etc.

Other Current Assets:

- a) Prepaid expenses
- b) Accrued Incomes
- c) Advance Tax

Illustration 7: Time Ltd. is in the process of preparing its Financial statements as per schedule III, Part I and Part II of the companies Act, 2013 and provides its true and fair view of the financial statements.

- a) Under which head and sub-head will the companies show 'stores and spares' in its Balance Sheet?
- b) What is the accounting treatment of 'Stores and spares' when the company will calculate its Inventory Turnover Ratio?
- c) The management of time Ltd. wants to analyses it financial statements. State any two objectives of such analysis.
- d) Identify the values being followed by time Ltd.

Sol. a) Head-Current Assets ; Sub head- Inventories.

- b) It will not included in inventories.
- c) Objectives- Assessing the earning capacity of the enterprise, Assessing the ability of the enterprise to meet its short term and long term commitment.
- d) Values: Transparency, Honesty, abiding by law.

MULTIPLE CHOICE QUESTIONS

1. Which of the following will not covered under finance cost?
 - (a) Discount on issue of debentures written off
 - (b) Interest paid on bank overdraft
 - (c) Bank charges
 - (d) Premium payable on redemption of debentures written off
2. Loose tools will be covered under main head and sub head (fill in the blanks)
3. Earmarked balances with bank like unpaid dividend will be shown under sub head cash and cash equivalents. (True or false with reason).
4. Long term provisions does not include:
 - (a) Provision for Gratuity
 - (b) Provision for earned leave
 - (c) Provision for employees benefit
 - (d) Provision for warrenty
5. Forfeited share account will be covered under main head and sub head

Answers:

1. C
2. Current, Assets, Inventories
3. True
4. C
5. Shareholder's Fund, Subscribed Capital (Shown by way of Addition)