Financial Statements of a Company

Meaning of Financial Statements

Objective

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Financial Statements
- Nature of Financial Statements
- Objectives of Financial Statements
- Types of Financial Statements

Meaning of Financial Statements

Financial Statements are the end products of the accounting process. These are the annual formal statements that are prepared by various enterprises or organisations for a particular accounting period. The financial statements comprises of Income Statement for the financial year, Balance Sheet at the end of year, Cash Flow Statement for the year, Statement of changes in the Equity and any explanatory note annexed to or forming part of any document mentioned before. These statements reveal the true financial position of a company in terms of their solvency, liquidity, profitability position, etc. It provides the financial information to various accounting users that helps them in decision making and policy designing process. It is also helpful in providing the financial information to the external users (such as creditors, investors, suppliers, government, etc.) who are interested in a company's affairs. In short, financial statements are those statements that express the performance and position of an organisation in financial terms to various users of accounting information.

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

Nature of Financial Statements

The nature of the financial statements depends upon the following aspects.

1. ***Recorded Facts*-** Financial statements contains only those facts and data that are recorded in the accounting books and the data that is not recorded in the accounting books is excluded (irrespective of whether such facts are significant or not). The items recorded in the financial statements reflect their original cost (i.e. the cost at which they were acquired). Consequently, financial statements do not reveal the current market price of the items. Further, it fails to capture the inflation effects.

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

3. ***Accounting Assumptions***- The basic accounting assumptions such as Going Concern Concept, Money Measurement Concept, Realisation Concept, etc. are known as postulates. While preparing the financial statements such postulates are adhered to. Therefore, the nature of these postulates is reflected in the nature of the financial statements.

4. ***Personal Judgement***- Personal value judgement plays an important role in deciding the nature of the financial statements. Different judgements are attached to different practices of recording transactions in the financial statements. For example, method of charging depreciation requires personal value judgement (i.e. it entirely depends on the concerned accountant) Some accountants may use written-down value method of depreciation, while, some may use original cost method. Similarly, provision on various assets, period chosen to write-off intangible assets, etc. depend on personal judgement. Thus, personal judgement determine the nature of the financial statements to a great extent.

Objectives of Financial Statements

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

1. ***To Provide Information about Economic Resources***- Financial statements provide adequate, accurate, reliable and periodical information about the employment of economic resources. It also specifies the obligation of a business to its external users who do not have the powers or authority to access the information directly.

2. ***To Ascertain the Financial Position***- These statements help to reveal the true financial position of an enterprise. In other words, it discloses the performance and position of an organisation in terms of their profitability, solvency, liquidity, financial viability, etc.

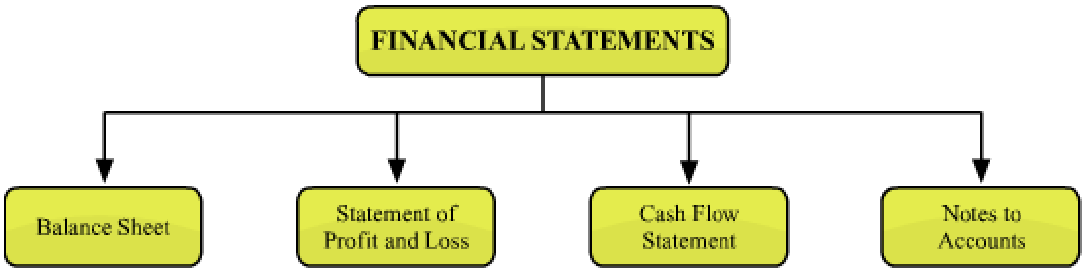
3. ***To Ascertain the Earning Capacity***- These statements are prepared with an objective of providing useful information to compare, predict and evaluate the earning capacity of a business firm. Thus, it helps in ascertaining the earning capacity of firms.

4. ***To Judge the Effectiveness of Management***- Financial statements also reveal the efficiency and effectiveness of management. It can be easily be assessed by the financial statements of a company that whether its management is judiciously using the scarce resources, effectively implementing the planned to meet the organisational goals, taking any cost-effective measures if needed, etc.

5. ***Helps in Decision Making***- These statements help the management to frame policies and decision-making process on various accounting matters.

Types of Financial Statements

Financial Statements as per Section 2 (40) of the Companies Act, 2013 inter-alia includes five things namely,
(i) Balance Sheet or Position Statement at the end of financial year,
(ii) Statement of Profit and Loss or Income Statement for the financial year,
(iii) Cash Flow Statement for the financial year and
(iv) Any explanatory notes or Notes to Accounts annexed to or forming part of any of the documents listed above



However, it should be noted that financial statements with respect to One Person Company (OPC), Dormant Company and Small Company, may not include Cash Flow Statements. And Section 129 of the Companies Act, 2013 states that the financial statements of the company be prepared as per Schedule III of the Companies Act, 2013.

All the above listed statements are helpful in providing the useful financial information to both internal as well as external users. The internal users (such as owners, management, employees and workers) can use these statements for decision making process and external users (such as creditors, investors, government, etc.) can use this to reach or obtain the information about the financial position.

(I) Balance Sheet

Balance Sheet refers to a statement that reflects the financial position of an organisation. It can be defined as a status report of a company giving information related to various assets and liabilities of an organisation at the closing of an accounting period. The form and format of a Company's Balance Sheet is prescribed in the Schedule III of the Companies Act, 2013.

As per the ***Schedule III of the Companies Act, 2013***, a company can prepare its Balance Sheet in Vertical format only as against the previous schedule which provides the preparation of balance sheet either in horizontal form or in vertical form. The format of New Balance Sheet as prescribed in the Revised Schedule is given in the latter lessons of this chapter.

(II) Statement of Profit and Loss

The basic motive of preparing Statement of Profit and Loss is to express the financial performance of an organisation in terms of profits and losses for a particular period. The Statement of Profit and Loss represent the concise version (summary) of the revenues earned and expenses incurred to earn such revenues. These statements act as inputs for preparing Balance Sheet. The information regarding the various items and adjustments to be included in these statements is given in the Schedule III, Part II of the Companies Act, 2013.

This ***Schedule III of Companies Act, 2013*** has prescribed a particular format for preparing Income Statement (Profit and Loss Account). The format of Statement of Profit and Loss as prescribed under Part II of Schedule III of Companies Act, 2013 is given in the latter lessons of this chapter.

(III) Cash Flow Statement

Cash Flow Statement records the inflows and outflows of cash and cash equivalents during a particular period. This statement is prepared to know how the cash and cash equivalents are used in the business. All the listed Companies are compulsorily required to prepare the Cash Flow Statement as per the Revised Accounting Standard- 3 (AS-3) along with their Financial Statements. According to the AS-3, Cash Flow Statement is bifurcated into three main heads.

(i) Cash Flow from Operating Activities
(ii) Cash Flow from Investing Activities
(iii) Cash Flow from Financing Activities

We will learn about these in greater details in the coming chapter. However, one thing should be noted that financial statements with respect to One Person Company (OPC), Dormant Company and Small Company, may not include Cash Flow Statements.

(IV) Notes to Accounts These are the supporting accounts that provides with details of the items mentioned in the Balance Sheet and Statement of Profit and Loss. Additional disclosures specified in the Accounting Standards are made by the way of notes to accounts or by the way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act are made in the notes to accounts in addition to the requirements set out in this Schedule. It should be noted that neither the Companies Act, 2013 nor any Accounting Standard specifies any fixed format for preparation of notes to accounts.

Uses of Financial Statements

Objective

After going through this lesson, you shall be able to understand the following concepts.

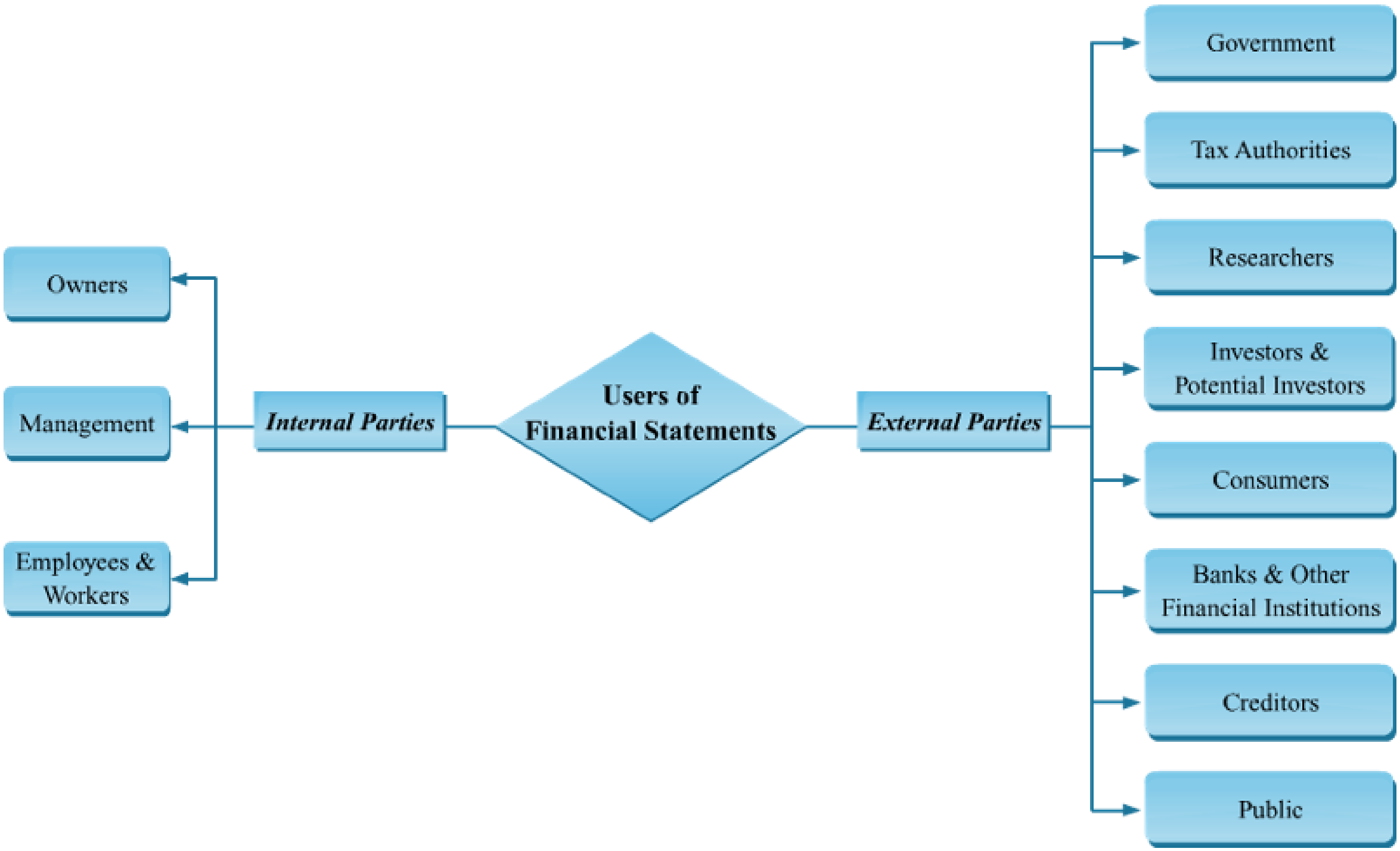
- Users of Financial Statements
- Importance of Financial Statements
- Limitations of Financial Statements

Users of Financial Statements

Financial Statements are the summarised statements revealing the financial performance of an organisation during an accounting period. These statements act as a pool of information for various accounting users such as investors, creditors, bankers, government, tax authorities, shareholders, etc. Different users having different motives and objectives study financial statements to fetch out the relevant information. These accounting users are directly or indirectly interested in the performance, financial vitality and feasibility of a business organisation.

Broadly, the different users can be categorised into following two categories.

1. Internal Parties
2. External Parties



Internal Parties

The owners, management, employees and other workers are the internal accounting users who are directly related to a company. These users are very internal to an organisation and are well aware of the hardcore internal affairs of the organisation. The following points describe different motives of each of the internal users and how financial statements are helpful for each of them.

a. ***Owners-*** The owners are interested in the profit earned or loss incurred during an accounting period. They are interested in assessing the profitability and viability of the capital invested by them in the business. The financial statements prepared by the business concerns enable them to have sufficient information to assess the financial performance and financial health of the business.

b. ***Management***- The management is an integral part of an organisation. They are interested in planning, decision-making process, evaluating the past performances, etc. The financial statements enable the management not only in drafting policies measures and planning but also in efficient implementation of the plans. With the help of the financial statements, management can not only enhance the efficacy of the business but also exercises various cost controlling measures to remove inefficiencies.

c. ***Employees and Other Workers***- They are interested in the timely payment of wages and salaries, bonus and appropriate increment in their wages and salaries. With the help of the financial statements they can know the amount of profit earned by the company and can demand reasonable hike in their wages and salaries. The financial statements also help them to assess their individual career scope and their growth prospects.

External Parties

These are outside users who are interested in the financial affairs of a business. The reason why they are regarded as external parties is that they lie outside the factory gate. The following points describe different motives of each of the external users and how financial statements are helpful for each of them.

a. ***Banks and other Financial Institutions-*** Banks provide finance in the form of loans and advances to various businesses. Thus, they need information regarding liquidity, credit worthiness, solvency and profitability to advance loans. The financial statements enable the banks and other financial institutions to access such information.

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

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

d. ***Tax Authorities-*** They are interested in knowing whether the amount of sales, production, profits, revenues, etc. are correctly calculated and shown unambiguously in the books. This is very important so that appropriate and correct tax rates (of taxes such as sales tax, excise duty, etc.) are levied on the business. These authorities also evaluate whether the financial statements have been prepared in accordance with the legal provisions or not.

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

f. ***Researchers-*** Various governemnt, non-government research institutes and other independent research institutions such as CRISIL, Stock Exchanges, etc. undertake various types of research projects. Correct information provided by the financial statements acts an input for these research works and make the research authenticate.

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

h. ***Public-*** Public is keenly interested to know the portion of profit that a business spend on various public welfare schemes; for example, charitable hospitals, funding schools, etc. Such type of information revealed by the financial statements helps in promoting the reputation and goodwill of an organisation.

Importance/Significance of Financial Statements

1. ***Provides Information***- Financial statements provide information to both types of accounting users- internal as well as external. These statments acts as a basic platform for different accounting users to derive information according to varying needs. For example, on one hand, the financial statements help the shareholders and investors in assessing the viability and return on their investments, while on the other hand, the financial statements help the tax authorities in calculating the amount of tax liability of the company.

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

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

4. ***Disclosure of Accounting Policies-*** Financial statements of an enterprise are prepared by following the accounting policies. Thus, it provide information about the various policies, important changes in the methods, accounting practices and processes pursued by a company. The disclosure of the accounting policies makes the financial statements simple, true and enables different accounting users to understand them without any ambiguity.

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

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

Limitations of Financial Statements

1. ***Historical Data-*** The items recorded in the financial statements reflect their original cost i.e. the cost at which they were acquired. Consequently, financial statements do not reveal the current market price of the items. Further, financial statements fail to capture the inflation effects. Thus, it can be concluded that financial statements reflect the data and information of historical nature.

2. ***Ignorance of Qualitative Aspects***- Financial statements do not reveal the qualitative aspects of a transaction. The qualitative aspects such as colour, size and brand position in the market, employees' qualities and capabilities are not disclosed by the financial statements. These statements record only those transactions that are quantitative in nature and can be expressed in the monetary terms.

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

4. ***Inter-firm Comparison***- Usually, it is difficult to compare the financial statements of two companies (either in the same business or in different businesses). This is basically because of the difference in the methods and practices followed by them in preparing their respective financial statements.

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

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

Income Statements

Objective

After going through this lesson, you shall be able to understand the preparation of Statement of Profit and Loss ***as per Schedule III of the Companies Act, 2013***.

Statement of Profit and Loss

The Statement of Profit and Loss represent the concise version (summary) of the revenues earned and expenses incurred to earn such revenues. The basic motive of preparing Statement of Profit and Loss is to express the financial performance of an organisation in terms of profits and losses for a particular period. These statements act as inputs for preparing Balance Sheet.

As per the latest information, Schedule III of Companies Act, 2013 has prescribed a particular format for preparing Statement of Profit and Loss. The format of Statement of Profit and Loss as prescribed under Part II of Schedule III of Companies Act, 2013 is given below.

Format of Statement of Profit and Loss- *As per SCHEDULE III of the Companies Act, 2013*

Statement of Profit and Loss
for year ended...

S. No.	Particulars	Note No.	Figures for the Current Year	Figures for the Previous Year
I	Revenue from Operations			
II	Other Income			
III	Total Revenue (I + II)			
IV	Expenses:			
	Cost of Material Consumed			
	Purchase of Stock-in-Trade			
	Changes in inventories of finished goods			
	Work-in-progress and Stock-in-Trade			
	Employee Benefit Expenses			
	Finance Cost			
	Depreciation and Amortisation Expenses			
	Other Expenses			
	Total Expenses			
V	Profit before tax (III – IV)			
VI	Tax			
VII	Profit after tax (V – VI)			

Details of Important Terms

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

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

For financing companies, revenue from operations includes the following.

- Interest
- Dividends
- Other Financial Services

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

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

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

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

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

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

****It should be noted that change in material is not shown as it is already included in the raw material consumed.***

- Employee Benefit Expenses- It includes all the expenses incurred by company in relation to its employees, like Salaries, Wages, Bonus, Leave Encashment, ESI, Staff Welfare Expenses, Gratuity Payment, Contribution to Gratuity Fund/Provident Fund.

- Finance Costs- These costs represent the cost of financing the funds by a company. It includes the borrowing cost in form of interest expenses and other related costs incurred to borrow funds.

- Depreciation and Amortisation Expenses- Depreciation is the normal wear and tear in the value of tangible assets (such as building, furniture, etc.). On the other hand, amortisation is the reduction in the value of the intangible assets (like goodwill written-off). In short, depreciation and amortisation expenses are writing off fixed tangible and fixed intangible asset over their life.

- Other Expenses- These are the expenses that are not covered in any of above heads such as Rent, Electricity, Power, Repairs, Insurance, Miscellaneous expense, etc..

***Example* 1:** Prepare Statement of Profit and Loss of X Ltd. from the following particulars for year ending March 31, 2013.

Particulars	**Amount (Rs)**
Sales	90,00,000
Purchases	50,00,000
Depreciation	1,00,000
Salaries	50,000

Interest Received	10,000
Opening Stock	50,000
Closing Stock	25,000

Solution

X Ltd.
Statement of Profit and Loss
for year ended March 31, 2013

S. No.	Particulars	Note No.	Amount (Rs)
I	Revenue from Operations	1	90,00,000
II	Other Income	2	10,000
III	Total Revenue (I + II)		90,10,000
IV	Expenses:		
	Purchase of Stock-in-Trade	3	50,00,000
	Change in Stock-in-Trade	4	25,000
	Employee Benefit Expenses	5	50,000
	Depreciation and Amortization Expenses		1,00,000
V	Profit before tax (III – IV)		38,35,000
VI	Tax		-
VII	Profit after Tax (V – VI)		38,35,000

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Revenue from Operations**	
	Sales	90,00,000
2	**Other Income**	
	Interest Received	10,000
3	**Purchase of Stock-in-Trade**	
	Purchase	50,00,000

4	**Change in Stock-in-Trade**		
	Opening Stock of Finished Goods	50,000	
	Less: Closing Stock of Finished Goods	(25,000)	25,000
5	**Employee Benefit Expenses**		
	Salaries		50,000

***Example* 2:** From following particulars of Idiot Ltd. prepare Statement of Profit and Loss as per Schedule III of the Companies Act, 2013.

Particulars	Amount (Rs)
Sales	20,00,000
Dividend Received	50,000
Interest Paid on bank Loan	20,000
Interest on Debentures	10,000
Staff Welfare Expenses	10,000
Salaries and Wages	50,000
Purchases	10,00,000
Miscellaneous Expenses	20,000
Opening Stock	2,00,000
Electricity	5,000
Telephone	6,000
Closing Stock	5,00,000
Tax Rate	50%

Solution

Idiot Ltd.

Statement of Profit and Loss

for year ended…

S. No.	Particulars	Note No.	Amount (Rs)
I	Revenue from Operations	1	20,00,000
II	Other Income	2	50,000
III	Total Revenue (I + II)		20,50,000

IV	Expenses:		
	Purchase of Stock-in-Trade	3	10,00,000
	Change in Stock-in-trade	4	(3,00,000)
	Employee Benefit Expenses	5	60,000
	Finance Costs	6	30,000
	Other Expenses	7	31,000
V	Profit before tax		12,29,000
VI	Tax Expenses (12,29,000 × 50%)		6,14,500
VII	Profit after Tax		6,14,500

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Revenue from Operations**		
	Sales		20,00,000
2	**Other Income**		
	Dividend Income		50,000
3	**Purchase of Stock-in-Trade**		
	Purchase of goods		10,00,000
4	**Stock-in-Trade**		
	Opening Stock of Finished Goods	2,00,000	
	Less: Closing Stock	(5,00,000)	(3,00,000)
5	**Employee Benefit Expenses**		
	Staff Welfare	10,000	
	Salaries and Wages	50,000	60,000
6	**Finance Costs**		
	Interest on Bank Loan	20,000	
	Interest on Debentures	10,000	30,000
7	**Other Expenses**		

	Miscellaneous Expenses	20,000	
	Electricity Expenses	5,000	
	Telephone Expenses	6,000	31,000

***Example* 3**: Prepare the Statement of Profit and Loss of MKH Ltd. for the year ending March 31, 2012 with the help of given below information.

Particulars	**Amount Rs**	
Opening Stock	80,000	
Purchases	4,00,000	
Sales	12,00,000	
Sales Return	40,000	
Leave Encashment	10,000	
Employee State Insurance	5,000	
Interest received	12,000	
Interest paid to Mr. Vikas	10,000	
Telephone Charges	12,000	
Profit on Sale of Car	10,000	
Internet Expenses	5,000	
Contribution to Provident Fund	10,000	
Depreciation on:		
Machinery	5,000	
Furniture	3,000	
Patents written-off	5,000	

Additional Information

i. Closing Stock 20,000.
ii. Tax Rate 40%

Solution

MKH Ltd.
Statement of Profit and Loss
for year ended March 31, 2012

S. No.	**Particulars**	**Note No.**	**Amount (Rs)**

I	Revenue from Operations	1	11,60,000
II	Other Income	2	22,000
III	Total Revenue (I + II)		11,82,000
IV	Expenses:		
	Purchase of Stock-in-Trade	3	4,00,000
	Change in Stock-in-Trade	4	60,000
	Employee Benefit Expenses	5	25,000
	Finance Costs	6	10,000
	Depreciation and Amortization expenses	7	13,000
	Other Expenses	8	17,000
V	Profit before tax (III – IV)		6,57,000
VI	Tax Expenses		
	(1) Current Tax (6,57,000 × 40%)		2,62,800
VII	Profit after Tax (V – VI)		3,94,200

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Revenue from Operations**		
	Sales	12,00,000	
	Less: Sales Return	(40,000)	11,60,000
2	**Other Income**		
	Interest Received	12,000	
	Profit on Sale of Car	10,000	22,000
3	**Purchase of Stock-in-Trade**		
	Purchases		4,00,000
4	**Stock-in-Trade (Finished Good)**		
	Opening Stock	80,000	
	Less: Closing Stock	(20,000)	60,000
5	**Employee Benefit Expenses**		
	Leave Encashment Expenses	10,000	
	Employee State Insurance	5,000	
	Contribution to Provident Fund	10,000	25,000

6	**Finance Cost**		
	Interest paid to Mr. Vikas		10,000
7	**Depreciation and Amortization expenses**		
	Depreciation on Tangible assets:		
	Machinery	5,000	
	Furniture	3,000	
	Amortisation of Patents	5,000	13,000
8	**Other Expenses**		
	Telephone Charges	12,000	
	Internet Expenses	5,000	17,000

Company's Balance Sheet

Objective

After going through this lesson, you shall be able to understand the preparation of the Company's Balance Sheet ***as per Schedule III of the Companies Act, 2013.***

Balance Sheet

Balance Sheet refers to a statement that reflects the financial position of an organisation. It can be defined as a status report of a company giving information related to various assets and liabilities of an organisation at the closing of an accounting period. The form and format of a Company's Balance Sheet has been prescribed in Part I of Schedule III of the Companies Act, 2013. It should be noted that Banking and Insurance Companies are exempted from following such instructions and format prescribed for preparation of their Balance Sheet.

As per the American Institute of Certified Accountants (AICA), *'A Balance Sheet is a tabular statement of balances carried forward after an actual and constructive closing of books of accounts and kept according to principles of accounting'.*

As per ***Schedule III of the Companies Act, 2013***, a company can prepare its Balance Sheet in Vertical format only as against the previous schedule which provides the preparation of balance sheet either in horizontal form or in vertical form. This schedule is effective from April 01, 2014. The below given is the format of the New Balance Sheet (Vertical Form) as prescribed in Schedule III.

COMPANY'S BALANCE SHEET- ***As per SCHEDULE III*** of the Companies Act, 2013

Name of the Company...

BALANCE SHEET

as at...

Particulars	Note No.	Figures as at the end of Current Year	Figures as at the end of the Previous Year
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(*a*) Share Capital			
(*b*) Reserves and Surplus			
(*c*) Money received against Share Warrants			
(2) Share Application Money Pending Allotment			
(3) Non-Current Liabilities			
(*a*) Long-Term Borrowings			
(*b*) Deferred Tax Liabilities (Net)			
(*c*) Other Long-Term Liabilities			
(*d*) Long-Term Provisions			
(4) Current Liabilities			
(*a*) Short-Term Borrowings			
(*b*) Trade Payables			
(*c*) Other Current Liabilities			
(*d*) Short-Term Provision			
TOTAL			
II. ASSETS			
(1) **Non-Current Assets**			
(*a*) Fixed Assets			
(*i*) Tangible Assets			
(*ii*) Intangible Assets			
(*iii*) Capital Work-in-Progress			
(*iv*) Intangible assets under development			
(*b*) Non-Current Investments			
(*c*) Deferred tax assets (net)			
(*d*) Long-Term Loans and Advances			

(*e*) Other Non-Current Assets **(2) Current Assets** (*a*) Current Investments (*b*) Inventories (*c*) Trade Receivables (*d*) Cash and Cash Equivalents (*e*) Short-Term Loans and Advances (*f*) Other Current Assets			
TOTAL			

The new Vertical Format of Balance Sheet incorporates mainly the following two heads.

I. Equity and Liabilities, and
II. Assets

I. Equity and Liabilities are further categorised as:

i. Shareholder's Fund
ii. Share Application Money Pending Allotment
iii. Non-Current Liabilities and
iv. Current Liabilities

II. Assets are categorised as:

i. Non-Current Assets and
ii. Current Assets

Items under the head Equity and Liabilities
Equity and Liabilities are the first two titles appearing in the Balance Sheet as per Schedule III of the Companies Act, 2013. Equity is basically obligation of a company towards its shareholders. It is also referred as Shareholders' Funds. It is comprised of Share Capital, Reserves and Surplus and Money received against share warrants.
Next, liabilities are the obligations of a company towards the outsiders. It is comprised of Non-Current and Current Liabilities which further include the following various items.

1. Shareholders' Funds

a. Share Capital: This is the first head that is shown under Shareholders' Funds. Under share capital the given below items are disclosed.

i. Authorised Capital- It is the maximum amount that a company can raise as per its Memorandum of Association. This capital is only shown in the Balance Sheet to reveal the information and not added to the liabilities.
ii. Issued Share Capital- It is a part of Authorised Capital which is offered by a company to the general public for its subscription.
iii. Subscribed Share Capital- It is a part of Issued Capital that is actually subscribed by the general public.
iv. Called-up Share Capital- It is a part of subscribed capital that is called up by the Directors from the shareholders of a company to pay.
v. Paid-up Share Capital- It is that part of Subscribed Capital which is actually received by the company from its shareholders.
vi. Detail of different types of Equity and Preference Shares issued is required to be disclosed by the company.
vii. Calls unpaid that is the amount of Calls-in-Arrears is shown by deducting from the called-up capital or subscribed capital. Apart from this Calls-in-Arrears from Directors and Officers is also required to be shown.
viii. Share Forfeiture Amount is also disclosed by adding it to the subscribed capital. (*In case of Profit on reissue of forfeited shares is transferred to Capital Reserve*).

b. Reserves and Surplus: It consists of the following items to be shown separately.
   i. Capital Reserve
   ii. Capital Redemption Reserve
   iii. Securities Premium
   iv. Debenture Redemption Reserve
   v. Revaluation Reserve
   vi. Other Reserves (such as General Reserve, Tax reserve, etc.)
   vii. Proposed Additions to Reserves
   viii. Sinking Fund
   ix. Share Option Outstanding Amount
   x. Surplus i.e. credit balance in Statement of Profit and Loss. However, in case of debit balance in Statement of Profit and Loss, it is deducted from the total of reserves.

c. Money received against warrants: A financial instrument that allows its holder to acquire equity shares is known as Share Warrant. Any amount received by the company on such share warrants is required to be disclosed under this head.

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

3. Non-Current Liabilities
These are the liabilities which are not current liabilities. To be a current liability it has to satisfy any one of the given below conditions.

i. It is expected to be settled in the company’s normal operation cycle. Where operation cycle of a company is difficult to ascertain, it is taken as 12 months.

ii. It is held for the trading purpose
iii. It is due to be settled within the period of 12 months after the reporting date.
iv. It does not have any unconditional right to offer settlement of liability for at least 12 months after the reporting date.

Thus, the liabilities which are not bifurcated as current liabilities are come under the head of non-current liabilities. These are comprised of the following items.

a. Long-Term Borrowings- It is further consists of the given below items.

- Debentures
- Bonds
- Term Loans from bank as well as from other parties
- Deposits
- Other Loans and Advances

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

4. Current Liabilities

Under this head the following items are disclosed.

a. Short-term Liabilities- It is further comprised of the given below items.

- Loan repayable on demands from bank as well as from other parties
- Deposits
- Other Loans and Advances

b. Trade Payables
c. Other Current Liabilities- It includes all those liabilities that are not covered in any of the mentioned above heads. Some examples are-

- Income received in advance
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings
- Unpaid Dividends
- Calls-in-Advance and interest thereon
- Other Payables etc.

d. Short-term Provisions- These are categorised as follows.

- Provision for Doubtful Debts
- Proposed Dividend
- Provision for Tax
- Provision for Employees Benefits
- Others

Items under the head Assets

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

1. Non-Current Assets

Non-current assets are those assets which are held for a long period of time and to improve the earning capacity of the business. These assets are not held for the purpose of resale. As per Schedule VI, the assets that are not current assets are referred as Non-Current Assets. An assets is classified as current assets if satisfy any one of the given below conditions.

i. It is expected to realised in or intended for sale or consumption in the company's normal operating cycle. Where operation cycle of a company is difficult to ascertain, it is taken as 12 months.
ii. It is held for the trading purpose
iii. It is expected to be realised within the period of 12 months after the reporting date.
iv. It is cash and cash equivalents.

Non-Current Assets are comprised of the following items.

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

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

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

2. Current Assets

Under this head the following items are shown.

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

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

b. Inventories- It comprised of the given items.

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

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

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

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

***Example 1*:**List the various which are presented under the major head 'Non-Current Liabilities' as per Schedule III Part I of the Companies Act, 2013.

Solution

The given below are the items which are presented under the major head 'Non-Current Liabilities' as per Schedule III Part I of the Companies Act, 2013.
(a) Long-Term Borrowings
(i) Debentures/Bonds
(ii) Term Loans

- From Bank

- From Other Parties

(iii) Deposits

(iv) Other Loans and Advances

(b) Deferred Tax Liabilities

(c) Other Long-Term Liabilities

(d) Long-Term Provisions

Example 2: From the given below information, prepare Balance Sheet of the company for the year ended March 31, 2013 as per Schedule III Part I of the Companies Act, 2013.

Particulars	**Amount (Rs) (In Thousands)**
Reserves and Surplus	70
Long-Term Borrowings	110
Share Application money Pending Allotment	50
Long-Term Provisions	35
Trade Payables	27
Other Current Liabilities	33
Share Capital	355
Deferred Tax Liabilities	80
Capital Work-in-Progress	40
Fixed Assets (Intangible)	250
Inventories	114
Short-Term Loans and Advances	56
Deferred Tax Assets	90
Cash and Cash Equivalents	140
Trade Receivables	70

Solution

Balance Sheet

as on March 31,2013

Particulars	**Note No.**	**2012-13**	**2011-12**
I. Equity and Liabilities			
1.Shareholders' Funds			
(a) Share Capital		355	

(b) Reserves and Surplus		70	
(c) Money received against Share Warrants		-	
2. Share Application money Pending Allotment		50	
3. Non-Current Liabilities			
(a) Long-Term Borrowings		110	
(b) Deferred Tax Liabilities		80	
(c) Other Long-Term liabilities		-	
(d) Long-Term Provisions		35	
4. Current Liabilities			
(a) Short-Term Borrowings		-	
(b) Trade Payables		27	
(c) Other Current Liabilities		33	
(d) Short-Term Provisions		-	
Total		**760**	
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		-	
(ii) Intangible Assets		250	
(iii) Capital Work-in-Progress		40	
(iv) Intangible Assets under Development		-	
(b) Non-Current Investments			
(c) Deferred Tax Assets		90	
(d) Long-Term Loans and			

Advances (e) Other Non-Current Assets			
2. Current Assets (a) Current Investments (b) Inventories (c) Trade Receivables (d) Cash and Cash Equivalents (e) Short-Term Loans and Advances (f) Other Current Assets		 114 70 140 56	
Total		**760**	

Example 3**:** The following information have been extracted from the books Sky Ltd. as on March 31, 2012.

Share Capital	1,200	Land and Building	600
Debentures	550	Furniture and Fixtures	550
Term Loans	250	Trade Receivables	150
Securities Premium	100	Cash in hand	250
Share Option Outstanding Amount	150	Balances with Bank	370
Capital Reserve	320	Raw Materials	450
Surplus (Credit Balance From Statement of Profit and Loss)	750	Finished Goods	300
		Loose Tools	250
Provision for Doubtful Debts	140	Investment in Mutual Funds	400
Provision for Tax	160		
Trade Payables	400		
Discounts on Issue of Debentures	150		
Preliminary Expenses	200		
Goodwill	350		

Solution

Balance Sheet

as on March 31, 2013

Particulars	**Note No.**	**2012-13 Amount (Rs)**	**2011-12 Amount (Rs)**

I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital		1,200	
(b) Reserves and Surplus	1	1,320	
(c) Money received against Share Warrants		-	
2. Share Application Money Pending Allotment			
3. Non-Current Liabilities			
(a) Long-Term Borrowings	2	800	
(b) Deferred Tax Liabilities		-	
(c) Other Long-term liabilities		-	
(d) Long-Term Provision		-	
4. Current Liabilities			
(a) Short-Term Borrowings		-	
(b) Trade Payables		400	
(c) Other Current Liabilities		-	
(d) Short-Term Provisions	3	300	
Total		**4,020**	
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	4	1,150	
(ii) Intangible Assets	5	350	

(b) Non-Current Investments			
(c) Deferred Tax Assets		-	
(d) Long-Term Loans and Advances		-	
(e) Other Non-Current Assets	6	350	
2. Current Assets			
(a) Current Investments	7	400	
(b) Inventories	8	1,000	
(c) Trade Receivables		150	
(d) Cash and Cash Equivalents	9	620	
(e) Short-Term Loans and Advances		-	
(f) Other Current Assets		-	
Total		**4,020**	

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Reserve and Surplus**	
	Securities Premium	100
	Share Option Outstanding Amount	150
	Capital Reserve	320
	Statement of Profit and Loss (Credit Balance)	750
		1,320
2	**Long-Term Borrowings**	
	Debentures	550
	Term Loans	250
		800
3	**Short-Term Provision**	
	Provision for Doubtful Debts	140

	Provision for Tax		160
			300
4	**Tangible Assets**		
	Land and Building		600
	Furniture and Fixtures		550
			1,150
5	**Intangible Assets**		
	Goodwill		350
6	**Other Non-Current Assets**		
	Discount of Issue of Debentures	150	
	Preliminary Expenses	200	350
7	**Current Investments**		
	Investment in Mutual Funds		400
8	**Inventories**		
	Raw Materials		450
	Finished Goods		300
	Loose Tools		250
			1,000
9	**Cash and Cash Equivalents**		
	Cash in Hand		250
	Balance with Bank		370
			620

Example 4: AKS Ltd. has an authorised capital of Rs 8,00,000 divided into 80,000 shares of Rs 10 each. Out of these, 30,000 shares were issued to the vendor fully paid as purchase consideration for a machinery acquired and remaining shares were offered to the public. Applications were fully subscribed and company allotted shares to all the applicants. All the money was duly received except first call of Rs 2 per share on 1,500 shares. Out of these 1,000 shares were forfeited. The company did not made the final call of Re 1. Show how the Share Capital will appear in the Balance Sheet of the company by preparing Notes to Accounts.

Solution

Particulars	Note No.	Current Year	Previous Year
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	7,48,000	

NOTES TO ACCOUNTS

Authorised Capital		
80,000 shares of Rs 10 each		8,00,000
Issued Capital		
30,000 shares of Rs 10 each fully paid issued to vendor		3,00,000
50,000 shares of Rs 10 each issued to public		5,00,000
Subscribed Capital, Called-up and Paid-up		
30,000 shares of Rs 10 each fully paid issued to vendor		3,00,000
49,000 shares of Rs 10 each issued to public, Rs 9 called-up	4,41,000	
Less: Calls-in-Arrears (500 × 2)	(1,000)	
Add: Shares Forfeited (1,000 × 8)	8,000	4,48,000
		7,48,000

Example 5**:** State the main heads and sub-heads under which the following items will appear in the Balance Sheet of a company as per ***Schedule III*** of the Companies Act, 2013.

1. Public Deposits
2. Sinking Fund
3. Motor Car
4. Creditors
5. Unclaimed Dividend
6. Proposed Dividend
7. Goodwill
8. Debtors
9. Prepaid Insurance
10. Bills Payable
11. Calls-in-Advance
12. Patents

Solution

S. No.	Items	Main Head	Sub-Head
1	Public Deposits	Non-Current Liabilities	Long-Term Borrowings
2	Sinking Fund	Shareholders' Funds	Reserves and Surplus
3	Motor Car	Non-Current Assets	Tangible Assets
4	Creditors	Current Liabilities	Trade Payables
5	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
6	Proposed Dividend	Current Liabilities	Short-Term Provision
7	Goodwill	Non-Current Assets	Intangible Assets
8	Debtors	Current Assets	Trade Receivables
9	Prepaid Insurance	Current Assets	Other Current Assets
10	Bills Payable	Current Liabilities	Trade Payables
11	Calls-in-Advance	Current Liabilities	Other Current Liabilities
12	Patents	Non-Currents Assets	Intangible Assets

Topics

- Meaning of Financial Statements
- Uses of Financial Statements
- Income Statements
- Company's Balance Sheet