COURSE 5

BLOCK 3

Unit-1

Preparation ofIncome statement and balance sheet of companies

Learning objectives:

After studying this lesson, you will be able to know: how balance sheet of the company is prepared, what are the guidelines to disclose the reserve and surplus in its balance sheet, the manner in which secured and unsecured loans are disclosed, way of segregation to disclose the nature of current liabilities and provisions, manner to disclose the fixed assets, investment, current assets, loan and advances, miscellaneous expenditure. How income statement is prepared after considering turnover purchased, other expenses, depreciation with miscellaneous income.

Structure:

1.1Introduction

1.2 Final account

1.3 Profit &loss account

1.4 Provision and reserve

1.5 Appropriation of profit &loss

1.6 Statement of comprehensive income

1.7 Observation of profit &loss

1.8 Balance sheet

1.9 Horizontal format of balance sheet

1.10 Vertical format of balance sheet

1.11 Requirement of schedule VI

1.12 Illustrations

1.1Introduction:

Companies are governed by the Companies Act, 1956. Therefore, it is statutory obligation that all companies are expected to follow the relevant section for the Act that governs the maintaining of accounts.Section 209 and 210 of the companies act specifies regarding preparation of final accounts. The Companies Act requires every company to prepare every year a Profit and Loss Account or Income and Expenditure Account and Balance Sheet of the end of the year – Final Accounts of company including Trading Account, Profit and Loss Account, Profit and loss Appropriation Account and Balance Sheet.The Act does not specify form to which the Profit and Loss Account to be presented. But it has laid down that all such information's which help in presenting a true and fair view of operations of the company disclosed in Profit and Loss Account.The period to which the accounts relate is known as the financial year of it may be less then, equal to or greater than 12 months but cannot exceed the 18 months.

Section 209 of the Companies Act makes it compulsory for every company to keep proper books of an account with respect to:

1. All sums of money received and spent by the company and the money in respect of which the receipt and expenditure take place.

2. All sale and purchases of goods by the company.

3. The assets and liabilities of the company. The books of accounts and the relevant vouchers to any entry relating to period of at least eight immediately preceding the current must be preserved.

1.2 Final Accounts:

Section 210 of the Companies Act governs the preparation of final account of a Company. The Board of Directors of a Company must, within 18 month from the date of incorporation, and subsequently once a year, lay take the company in general meeting the Balance Sheet of the Company and a Profit and Loss Account.In case of non-profit Companies, an Income and expenditure Account should be submitted. The period to which the account relates is called a Financial Year of the Company. It may be less or more of a calendar year but must not exceed 15 months. It may also be extended to 18 months provided the Register has granted special permission.The Profit and Loss Account or Income and Expenditure Account the relate, in the case of the first Annual General Meeting of the Company, in a period from the date of a incorporation to a day which shall not precede the day of the meeting by more than nine months.And in case of any subsequent Annual General Meeting, the period runs from the date of the previous accounts to a date not more than six months prior to the date of meeting.

Section 211 prescribes the form of Balance Sheet and contents of Profit and Loss Account. Every Balance Sheet of Company shall give a true and fair view of the state of affairs of the Company as at the end of the financial year.It shall also be in the form set out in part 1 of Schedule VI, or in such other form as may be approved by the Central Government [211 (1)].Provided that nothing contained in this sub-section shall apply to any Insurance or Banking Company or any Company engaged in the generation of supply of electricity or to any other class of Company for which a form of Balance Sheet been specified in or under the Act governing such class of Company.

Every Profit and Loss Account of a Company shall give a true and, fair view of the profit and loss the Company for the financial year. It shall also comply with the requirements of part II of Schedule VI, so far as they are applicable thereto [Sec. 211 (2)].This requirement does not apply to any Insurance or Banking Company or any Company engaged in the generation of supply of electricity, or any other class of company for which a form of Profit and Loss Account has been specified in or under the Act governing such class of Company.Every Balance Sheet and every Profit and Loss Account of a Company shall be duly signed on behalf of the Board of Directors by the Manager or Secretary, if any, and by not less than two Directors of the Company.

One of the Directors who sign shall be a Managing Director where there is one. The Balance Sheet and Profit and Loss Account must be approved by the Board before they are submitted to the auditors who must in turn attach their report thereto.The Profit and Loss Account shall be annexed to the Balance Sheet and the auditor's report shall be attached thereto. If there is any separate, special supplementary report by the auditor, it shall also be attached to the Balance Sheet.If any person, being a Director of a Company, fails to take all reasonable step to company with the previsions, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with imprisonment for a term which may extend to six months, or with fine which may extend to Rs. 1,000 or with both.

1.3Profit and Loss Account:

The Indian Companies Act is silent as to the form of Profit and Loss Account. But part II of Schedule VI contains a list of items of incomes and expenditure which should be included in the Profit and Loss Account.The profit and Loss Account of a Company should give a true and fair view of the profit or loss of the Company for the financial year. The first account covers the period since the incorporation of the Company, and subsequent accounts cover the period since the date of the preceding account.An Income and Expenditure Account takes the place of Profit and Loss Account in the case of a Company not trading for profit.

Statutory Requirements:

Profit and Loss Account shall be so made out as to clearly disclose the result of the working of the Company during the period covered by the account and shall disclose every material feature including credits or receipts and debits or expenses in respect of non-recurring expenditure or expenditure of an exceptional nature. It shall set out the various items relating to the income and expenditure of the Company under the most convenient heads and in particular shall disclose the following information in respect of the accounting period.

The Profit and Loss Account must be prepared with the directions given in part II Schedule VI of the Act. The important provisions are given below:

1. (a) The turnover, that is, the aggregate amount for which sales are effected by the Company, giving the amount of sales in respect of each class of goods dealt with by the Company, and indicating the quantities of such sales for each class Separately.

(b) Commission paid to sole selling agent within the meaning of section 294 of the Act

(c) Commission paid to other selling agents.

(d) Brokerage and discount on sales other than sales trade discount.

2. (a) In the case of manufacturing concerns, the purchase of raw material including consumption and the opening and closing stocks of the good produced indicating the quantity produced.

(b) In the case of trading concerns the purchases made and the opening and the Closing stocks.

(c) In the case of Companies rendering or supplying services, the gross income derived from service rendered or supplied.

(d) In the case of Company which falls under more than one of the categories mentioned in (a), (b) and (c) above, it shall be sufficient compliance with the requirements herein if the total amounts are shown in respect of the opening and closing stocks, purchases, sales up and the gross income from services rendered is shown.

(e) In the case of other Companies, the gross income derived under different heads.

3. In the case of all concerns having work-in-progress, the amounts for which (such works have been completed) at the commencement and at the end of the accounting period.

4. The amount provided for depreciation, renewals or diminution in value of fixed assets. If such provision is not made by means of a depreciation charge, the method adopted for making such provision.

If not provision is made for depreciation, the fact that no provision has been made shall be stated and the quantum of arrears of depreciation computed in accordance with Section 205 (2) of the Act shall be disclosed by way of a note.The amount of interest on the Company's debentures and other fixed loans, that is to say loans for fixed periods stating separately the amount of interest if any, paid or payable to the Managing Director, and the Manager, if any.

The amount reserved for:
(a) Repayment of share capital and

(b) Repayment of loans.

(a) The aggregate, if material, of any amounts set aside or proposed to be set aside to reserves but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date of the Balance Sheet.

(b) The aggregate, if material, of any amount withdraws from such reserves.

(a) The aggregate, if material of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.

(c) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

Expenditure incurred on each of the following items separately for each item:
(a) Consumption of stores and spare parts.

(b) Power and fuel.

(c) Rent.

(d) Repairs to Buildings.

(e) Repairs to Machinery.

(f) (i) Salaries, Wages and Bonus.

(ii) Contribution to provident and other funds.

(iii) Workmen and staff welfare expenses to the extent not adjusted from any previous provision or reserve.

(g) Insurance

(h) Rates and taxes including taxes on income.

(i) Miscellaneous expenses.

Provided that any item under which the expenses exceed 1% of the total revenue of the Company or Rs. 5,000, whichever is higher, shall be shown as a separate and distinct item against an appropriate account head in the Profit and Loss Account and shall not be combined with any other items to be shown under Miscellaneous Expenses.

(a) The amount of income from investments, distinguishing between trade Investments.

(b) Other income by way of interest, specifying the nature of the income.

(c) The amount of income tax deducted if the gross income is stated under subparagraphs (a) and (b) above.

(a) Profit and losses on investments (showing distinctly the extent of the profits or losses earned or incurred on account of membership of a partnership firm) to the extent not adjusted from any previous provision or reserve.

(b) Profit and losses in respect of transactions of a kind not usually undertaken by the Company or undertaken in circumstances of an exceptional or non-recurring if material in amount.

(c) Miscellaneous income.

(a) Dividends from Subsidiary Companies.

(b) Provisions for losses of Subsidiary Companies.

The aggregate amount of dividends paid and proposed, and stating whether such amounts are subject to deduction of income tax or not.

Amount, if material, by which any items shown in the Profit and Loss Account is affected by any change in the basis of accounting. The Profit and Loss Account shall contain by way of a note detailed information showing separately the following payments provided or made during the financial year to the Directors (including Managing Directors) the Managing Agents, Secretaries and Treasurers or Manager, if any, by the Company.

The subsidiaries the Company, the subsidiaries of the Company of any other person:

Managerial remuneration under Section 198 of the Act paid or payable during the financial year.Expenses reimbursed to the Managing Agent under Section 345.Commission or other remuneration payable separately to a Managing Agent or his associate under Section 356,357 and 358.Commission received or receivable under Section 356 by the Managing Agent or his associate as selling agent of other concerns in respect of contracts entered into by such concerns with the Company.The money value of the contracts for the sale or purchase of goods and materials or supply of services, entered into by the Company with the Managing Agent or his associate under Section 360 during the financial year.

Any other perquisites or benefits in cash or in kind stating the money value where practicable.Pensions, gratuities, payments from provident funds in excess of own subscription and interest thereon, compensation for loss of office, consideration in connection with retirement from office.The Profit and Loss Account shall contain or give by way of a note a statement showing the computation of net profits in accordance with Section 340 of the Act with the relevant details of the calculation of the commission's payable by way of percentage of such profits to the directors including Managing Directors or Managers, if any.The Profit and Loss Account also contains by way of note detailed information in regard to amounts paid to the auditors whether as fees, expenses or otherwise for services rendered as auditor and in any other capacity.

1.4Provision and Reserves as per Company Act:

Provision:

Provision is a change against profits and finds its places on the debit side of Profit and Loss Account. The net profit is arrived at after taking into account all provisions. The provisions are in the nature of expense.

Thus Profit is subjected to further any adjustment that is in order to make it available for distribution of dividend to shareholders. It is popularly known as above line adjustments.

Provisions that are generally charged to the debit side of Profit and Loss Account.

Provision for Depreciation

Provision for Reserve for Doubtful Debts on Debtors

Provision for Managerial Remuneration payable

Provisions for any expenses that may become payable

Reserve:
Reserve is an appropriation out of net profits (i.e., the Profits after adjustment of provision).

The adjustments to reserve are made in Profit and Loss Appropriation Account. It is popularly known as below line adjustments.

(Note: line denotes the stage at which the Net profit is arrived at)

Reserves that are generally appropriated out of profits

Reserve for Taxation i.e., provision for taxation though it is called a provision the meaning of provision is not applied to this and have to be treated as reserve. Moreover tax can be provided only after all the expenses are provided for.

Provision for Dividends as per law dividends can be paid out of profits. Profit means profit available after taking into all the statutory expenses and provision. This is applicable for interim dividend, final dividend and proposed dividend.

Transfers to Reserves specifically like general reserve, sinking fund, and other specific reserves.

1.5The items usually appearing in the Profit and Loss Appropriation Account are as shown below:

1. Details under each of the above items shall be given in separate schedules. The schedules shall incorporate all the information required to be given under A. Horizontal form read with notes containing general instructions for preparation of Balance Sheet.

2. The schedules, referred to above, accounting policies and explanatory notes that may be attached shall form an integral pan of the Balance Sheet.

3. The figures in the Balance Sheet may be rounded off to the nearest ‘000’ or ’00’ as may be expressed in terms of decimals of thousands.

4. A foot note to the Balance Sheet may be added to show separately the contingent liabilities.

Profit-and-Loss Appropriation

- The profit-and-loss appropriation account is much different from the original profit-and-loss account. Once the first account has been created, the business must choose what to do with any extra earnings the business has created (as long as there is not a loss). Some money will be transferred into new investments and business growth accounts. Some will be used for bonuses. A portion of earnings will be distributed as dividends to the shareholders. The appropriation account shows what portion of earnings will be used for each of these activities.

Uses of Appropriation Account

- The appropriation account is used within the business to tally earnings and match earnings to predetermined strategies for spending profit, but it has an important purpose outside the company as well. Investors can look at the appropriation account and see at a glance how much money the company is making and what kind of a dividend to expect, as well as how much of the company profit will be used for business growth, important factors when making an investment decision.

1.6 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

Rs. in Million

	2009	2
Revenue		
Other Income		
Changes in inventories of finished goods and work in progress		
Total		.
Expenses		
Raw material consumed		
Employee Benefit Expenses		
Depreciation and Amortisation Expenses		
Impairment of Property, Plant and Equipment and Intangible Assets		
Other Expenses		
Adjustment for Expenses Capitalised		
Operating Profit		
Finance Expenses		
Share of profit of associates		
Profit/Loss on Sale of Property, Plant and Equipment, Intangible Assets, Financial Assets		
Fair value gain/loss on Held for Trading Financial Assets /Liabilities		
Fair value gain/loss on Investment Property		
Exchange Fluctuation Gain/Loss		
Profit before Tax		
Income tax expense		
Profit for the year from continuing operations		
Profit (Loss) for the year from discontinued operations		

Profit for the year		
Other Comprehensive Income :		
Exchange differences in translating foreign operations		
Gain (loss) on fair value changes is available for sale financial instruments		
Gain (loss) fair value changes in Cash Flow Hedges		
Gain on Revaluation of Property, Plant and Equipment		
Actuarial Gain (Loss) on defined benefit pension plans		

INCOME STATEMENT

	200	2008
Share of other comprehensive income of associates		
Income tax relating to items of other comprehensive		
Other Comprehensive Income net of tax		
Total Comprehensive Income for the year		
Profit attributable to :		
Owners of the entity		
Non-controlling interest		
Total Comprehensive Income attributable to :		
Owners of the entity		
Non-controlling interest		
Earning per share		
Basic		
Diluted		

1.7Examining this format carefully. The main observations would be the following.

i**. Revenue and other income are segregated**. Revenue arises from sale of goods and sale of services, and return for the use of entity's resource by others in the form of royalty, dividend and interest are presented as other income. That apart the following items also add to profit of the entity but presented separately:

(a) profit on sale of property, plant and equipment, intangible assets or financial assets, *(b)* insurance claims, *(c)* fair value gain arising out of revaluation property, plant and equipment, intangible assets or financial assets are not included in revenue.

ii Changes in inventories of finished goods and work in progress : We have discussed this item in Example 7.3 as well. For a manufacturing entity, the difference between closing inventories of work in progress and finished goods and opening inventories are adjusted against the revenue. This is called inventory adjustment.

Alternatively, it is possible to take the difference between opening and closing inventories of work in progress and finished goods, and adjust to the expenses.

It may be mentioned that Trial Balance considers the opening inventories. Stock taking takes place the year end. The latest value of the stock is shown in the Balance Sheet. Thus the difference between the opening and closing inventories are adjusted.

iii. **Raw material consumed :** It is given by—

Opening inventory of raw material + Purchases - Closing Inventory of raw material

A trading entity presents *costs of goods sold* which is given by Opening stock + Purchases - Closing stock

A trading entity does not have any work in progress and raw material inventories. It purchases and sale finished goods.

iv. **Employee Benefit Expenses:** All expenses on account of salaries and wages including provision for retirement benefits and other employee benefits. Termination benefits are also charged to the Statement of Income.

v. **Depreciation and Amortisation Expenses:** Property, Plant and Equipment are depreciated because of wear and tear, usage, obsolescence or simply by passage of time.

On the other hand, intangible assets are amortised. Amortisation is the equivalent of depreciation for intangible assets. Of course, certain intangible assets are considered to have indefinite life. Such intangible assets are not amortised.

vi. **Impairment of Property, Plant and Equipment and Intangible assets:** Impairment loss is the reduction in value of assets as shown in the Balance Sheet (which is termed as *carrying amount).* Impairment loss is measured taking the difference between -

vii. **Other Expenses :**They include factory administrative, selling and distribution and general expenses other than borrowing costs. Employee benefit expenses, raw material consumed (or cost of goods sold for trading entities), depreciation and amortisation and impairment loss are shown as separate line items. Similarly, *(a)* loss of sale of property, plant and equipment, intangible assets or financial assets, *(b)* fair value loss held for trading financial assets, investment property, *(c)* mark to market exchange fluctuation loss on monetary assets and liabilities are not included in other expenses. They are presented as separate line items.

viii.Adjustment for Expenses Capitalised : Certain expenses are incurred for self-constructed property, plant and equipment or intangible asset which is recorded under the normal account heads like raw material consumed, employee benefit expenses and other expenses. Based on separate record maintained, the entity will analyse the proportion of expenses to be charged to self-constructed property, plant and equipment or intangible asset.

ix. Finance Expenses: It comprises of borrowing costs which is defined as interest and other costs that an entity incurs in connection with the borrowing of funds. Examples of other costs are issue expenses and discount to face value. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Qualifying assets are non-financial assets which take substantial time before being ready for intended use. Substantial period may be interpreted as a period of 12 months. Example of qualified assets: property, plant and equipment, intangible assets, investment property, inventories.

x. Share of profit of associates: Associates are entities wherein the investor enjoys significant influence. For discussion on accounting for investments in associates. When an entity preparesConsolidatedfinancial statements under equity method accounting of associates, its share of profit is accounted for as income.

xi.Profit/Loss on Sale of Property, Plant and Equipment, Intangible Assets, Financial Assets - When an entity sell these assets there may arise profit/ loss which is adjusted in the Statement of Income.

xiiFair value gain/loss on Held for Trading Financial Assets/Liabilities :

Held for Trading Financial Assets are short term investments in financial assets like shares, debentures, government securities like GOI bond or T-bills, derivatives like options and futures. These investments are measured at fair value at the end of each reporting period. Best measure of the fair value of these investments are quoted market price. Suppose purchase price of shares is Rs. 5 lacks and market price at the year end is Rs. 6 lacks - then there is a fair value gain of Rs. 1 lack. Alternatively, if the purchase price is Rs. 5

General Instructions for Preparation of Balance Sheet

1. An asset shall be classified as current when it satisfies any of the following criteria:—

(a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the reporting date; or

(d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

2. An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have duration of twelve months.

3. A liability shall be classified as current when it satisfies any of the following criteria:—

(a) It is expected to be settled in the company's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is due to be settled within twelve months after the reporting date; or

(d) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

4. A receivable shall be classified as a "trade receivable" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

5. A payable shall be classified as a "trade payable" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

6. A company shall disclose the following in the notes to accounts.

A. Share Capital

For each class of share capital (different classes of preference shares to be treated separately):

(a) The number and amount of shares authorized;

(b) The number of shares issued, subscribed and fully paid, and subscribed but not fully paid;

(c) Par value per share;

(d) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(e) The rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;

(f) Shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;

(g) shares in the company held by each shareholder holding more than 5 per cent. shares specifying the number of shares held;

(h) shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment, including the terms and amounts;

(i) for the period of five years immediately preceding the date as at which the Balance Sheet is prepared:

(A) Aggregate number and class of shares allotted as fully paid-up pursuant to contract(s) without payment being received in cash.

(B) Aggregate number and class of shares allotted as fully paid-up by way of bonus shares.

(C) Aggregate number and class of shares bought back.

(j) terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date;

(k) calls unpaid (showing aggregate value of calls unpaid by directors and officers);

(l) forfeited shares (amount originally paid-up).

B. Reserves and Surplus

(i) Reserves and Surplus shall be classified as:

(a) Capital Reserves;

(b) Capital Redemption Reserve;

(c) Securities Premium Reserve;

(d) Debenture Redemption Reserve;

(e) Revaluation Reserve;

(f) Share Options Outstanding Account;

(g) Other Reserves–(specify the nature and purpose of each reserve and the amount in respect thereof);

(h) Surplus i.e., balance in Statement of Profit and Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc.;

(Additions and deductions since last balance sheet to be shown under each of the specified heads);

(ii) A reserve specifically represented by earmarked investments shall be termed as a "fund".

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head "Surplus". Similarly, the balance of "Reserves and Surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and Surplus" even if the resulting figure is in the negative.

C. Long-Term Borrowings

(i) Long-term borrowings shall be classified as:

(a) Bonds/debentures;

(b) Term loans:

(A) from banks.

(B) from other parties.

(c) Deferred payment liabilities;

(d) Deposits;

(e) Loans and advances from related parties;

(f) Long term maturities of finance lease obligations;

(g) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/ debentures are redeemable by installments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due.

(v) Particulars of any redeemed bonds/debentures which the company has power to reissue shall be disclosed.

(vi) Terms of repayment of term loans and other loans shall be stated.

(vii) Period and amount of continuing default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

D. Other Long-term Liabilities

Other Long-term Liabilities shall be classified as:

(a) Trade payables;

(b) Others.

E. Long-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits;

(b) Others (specify nature).

F. Short-term borrowings

(i) Short-term borrowings shall be classified as:

(a) Loans repayable on demand:

(A) from banks.

(B) from other parties.

(b) Loans and advances from related parties;

(c) Deposits;

(d) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Period and amount of default as on the balance sheet date in repayment of loans and interest, shall be specified separately in each case.

Trade Payable

The following details relating to Micro, Small and Medium Enterprises shall be disclosed in the notes:—

(a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;

(b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;

(c) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;

(d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and

(e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Explanation.-The terms ‘appointed day’, ‘buyer’, ‘enterprise’, ‘micro enterprise’, ‘small enterprise’ and’ supplier’, shall have the same meaning assigned to those under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006.]

G. Other current liabilities

The amounts shall be classified as:

(a) Current maturities of long-term debt;

(b) Current maturities of finance lease obligations;

(c) Interest accrued but not due on borrowings;

(d) Interest accrued and due on borrowings;

(e) Income received in advance;

(f) Unpaid dividends;

(g) Application money received for allotment of securities and due for refund and interest accrued thereon. Share application money includes advances towards allotment of share capital. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether the company has sufficient authorised capital to cover the share capital amount resulting from allotment of shares out of such share application money. Further, the period for which the share application money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable, i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under "Other current liabilities";

(h) Unpaid matured deposits and interest accrued thereon;

(i) Unpaid matured debentures and interest accrued thereon;

(j) Other payables (specify nature).

H. Short-term provisions

The amounts shall be classified as:

(a) Provision for employee benefits.

(b) Others (specify nature).

I. Tangible assets

(i) Classification shall be given as:

(a) Land;

(b) Buildings;

(c) Plant and Equipment;

(d) Furniture and Fixtures;

(e) Vehicles;

(f) Office equipment;

(g) Others (specify nature).

(ii) Assets under lease shall be separately specified under each class of asset.

(iii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

(iv) Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

J. Intangible assets

(i) Classification shall be given as:

(a) Goodwill;

(b) Brands/trademarks;

(c) Computer software;

(d) Mastheads and publishing titles;

(e) Mining rights;

(f) Copyrights, and patents and other intellectual property rights, services and operating rights;

(g) Recipes, formulae, models, designs and prototypes;

(h) Licences and franchise;

(i) Others (specify nature).

(ii) A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortization and impairment losses/reversals shall be disclosed separately.

(iii) Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every balance sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

K. Non-current investments

(i) Non-current investments shall be classified as trade investments and other investments and further classified as:

(a) Investment property;

(b) Investments in Equity Instruments;

(c) Investments in preference shares;

(d) Investments in Government or trust securities;

(e) Investments in debentures or bonds;

(f) Investments in Mutual Funds;

(g) Investments in partnership firms;

(h) Other non-current investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly-paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof;

(iii) The following shall also be disclosed:

(a) Aggregate amount of quoted investments and market value thereof;

(b) Aggregate amount of unquoted investments;

(c) Aggregate provision for diminution in value of investments.

L. Long-term loans and advances

(i) Long-term loans and advances shall be classified as:

(a) Capital Advances;

(b) Security Deposits;

(c) Loans and advances to related parties (giving details thereof);

(d) Other loans and advances (specify nature).

(ii) The above shall also be separately sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

M. Other non-current assets

Other non-current assets shall be classified as:

(i) Long-term Trade Receivables (including trade receivables on deferred credit terms);

(ii) Others (specify nature);

(iii) Long term Trade Receivables, shall be sub-classified as:

(A) (a) Secured, considered good;

(B) Unsecured, considered good;

(C) Doubtful.

(b) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(c) Debts due by directors 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 should be separately stated.

N. Current Investments

(i) Current investments shall be classified as:

(a) Investments in Equity Instruments;

(b) Investment in Preference Shares;

(c) Investments in Government or trust securities;

(d) Investments in debentures or bonds;

(e) Investments in Mutual Funds;

(f) Investments in partnership firms;

(g) Other investments (specify nature).

Under each classification, details shall be given of names of the bodies corporate [indicating separately whether such bodies are: (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities] in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.

(ii) The following shall also be disclosed:

(a) The basis of valuation of individual investments;

(b) Aggregate amount of quoted investments and market value thereof;

(c) Aggregate amount of unquoted investments;

(d) Aggregate provision made for diminution in value of investments.

O. Inventories

(i) Inventories shall be classified as:

(a) Raw materials;

(b) Work-in-progress;

(c) Finished goods;

(d) Stock-in-trade (in respect of goods acquired for trading);

(e) Stores and spares;

(f) Loose tools;

(g) Others (specify nature).

(ii) Goods-in-transit shall be disclosed under the relevant sub-head of inventories.

(iii) Mode of valuation shall be stated.

P. Trade Receivables

(i) Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.

(ii) Trade receivables shall be sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.

(iv) Debts due by directors 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 should be separately stated.

Q. Cash and cash equivalents

(i) Cash and cash equivalents shall be classified as:

(a) Balances with banks;

(b) Cheques, drafts on hand;

(c) Cash on hand;

(d) Others (specify nature).

(ii) Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

(iii) Balances with banks to the extent held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately.

(iv) Repatriation restrictions, if any, in respect of cash and bank balances shall be separately stated.

(v) Bank deposits with more than twelve months maturity shall be disclosed separately.

R. Short-term loans and advances

(i) Short-term loans and advances shall be classified as:

(a) Loans and advances to related parties (giving details thereof);

(b) Others (specify nature).

(ii) The above shall also be sub-classified as:

(a) Secured, considered good;

(b) Unsecured, considered good;

(c) Doubtful.

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

S. Other current assets (specify nature)

This is an all-inclusive heading, which incorporates current assets that do not fit into any other asset categories.

T. Contingent liabilities and commitments (to the extent not provided for)

(i) Contingent liabilities shall be classified as:

(a) Claims against the company not acknowledged as debt;

(b) Guarantees;

(c) Other money for which the company is contingently liable.

(ii) Commitments shall be classified as:

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

(b) Uncalled liability on shares and other investments partly paid;

(c) Other commitments (specify nature).

U. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares shall also be disclosed separately.

V. Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the balance sheet date, there shall be indicated by way of note how such unutilised amounts have been used or invested.

W. If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have 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 that opinion, shall be stated.

1.9Horizontal format of balance sheet:

Balance sheet (Schedule VI A)

Figures for the previous year	Liabilities	Figures for the current year	Figures for the previous year	Assets	Figures for the current year

₹	**Share capital:** **Authorised:** .....shares of ₹..... each **Issued:** **.....shares of ₹..... each** Subscribed: (Distinguished between the various classes of capital and starting the particulars specified bellow, in respect of each class) (.....shares of ₹..... each, ₹..... called up. Of the above shares .....shares are allotted as fully paid-up pursuan	₹	₹	**Share Assets:** Distinguishing as far as possible between expenditure upon: (a) Goodwill (b) Land (c) Buildings (d) Leaseholds (e) Railway Sidings (f) Plant and Machinery (g) Furniture and Fittings (h) Develop	₹

	t to a contract without payment being received in cash. Of the above shares .....shares are allotted as fully paid-up by way of bonus shares.) Specify the source from which bonus shares are issued, e.g., capitalization of profits or reserves or from share premium account. Less: Class unpaid (i) by Directors (ii) by Others Add:			ment of Property (i) Patents, Trade Marks and Designs (j) Live-stock (k) Vehicles, etc. **Investments:** Showing nature of investments and mode of valuation, for example, cost or market value and distinguishin	

	Forfeited shares (amount originally paid up) **Reserves and surplus:** 1. Capital Reserves 2. Capital Redemption Reserve 3. Securities Premium Account 4. Other Reserves specify the nature of each Reserve and amount in 5. Surplus, i.e., balance in Profit and Loss A/c after providing for proposed			g between: 1. Investment in Government or Trust Securities 2. Investments in shares, debentures or bonds. 3. Immovable properties 4. Investment in the capital of partnership firms. **Current Assets, Loans**	

	allocations, namely, Dividend, Bonus or Reserves 6. proposed additions to Reserves 7. Sinking Funds **Secured Loans:** 1. Debentures 2. Loans and advances from banks 3. Loans and Advances from subsidiaries 4. Other Loans and Advances **Unsecured Loans** 1. Fixed Deposits 2. Loans and Advances from subsidia			**and Advances:** **A. Current Assets:** 1. Interest accured on Investments 2. Stores and Spare parts 3. Loose tools 4. Stock-in-trade 5. Work in progress 6. Sundry Debtors (a) Debts outstanding for a	

	ries 3. Short term Loans and Advances: a) From Banks b) From Others 4. Other Loans and Advances: a) From Banks b) From Oth			period exceeding six months (b) Other debts Less: Provision 7.(a) Cash balance on hand (b) Bank balances: (i) with scheduled Banks (ii) with Others **B. Loans and Advances:** 8. (a) Advances and loans to subsidiari	

	ers Current Liabilities and Provisions: **A. Current Liabilities:** 1. Acceptances 2. Sundry Creditors 3. Subsidiary Companies 4. Advance payments and unexpired discounts for the portion of which value has still to be given. 5. Unclaimed Dividends 6. Other Liabilities, if any 7.			es (b) Advances and loans to partnership 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, e.g., Rates, Taxe	

	Interest accrued but not due on loans **B. Provisions** 8. Provision for taxation 9. Proposed Dividends 10. Foe 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			s, Insurance etc. 11. Balances with Customs, Port Trust etc. (Where payable on demand) **Miscellaneous Expenditure:** (to the extent not written off or adjusted) 1. Preliminary expenses. 2. Expenses including commission or	

	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 moneys for which the company is contingently liable			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) **Profit and Loss Account** (balance of loss not yet adjusted)	

As a new rule, if the information required to be given under any of the items in the prescribed form cannot be conveniently included in the balance sheet itself, it should be furnished in a separate schedule or schedules to be annexed to form a part of the balance sheet.

1.10VERTICAL FORMAT OF BALANCE SHEET

Name of the Company..........
Balance sheet as at....... (Schedule VI B)

	Schedule No.	Figure as at the end of current	Figure as at the end of previous

		financial year	financial year
I. Sources of fund:			
1. Shareholder’s 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 balances	....	....	
(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			

Notes:

1. Details under each of the above items shall be given in separate schedules. The Schedules shall incorporate all the information required to be given under A – Horizontal form read with the notes containing general instructions for

preparation of balance sheet.

2. The schedules referred to above, accounting policies and explanatory notes that may be attached, shall form an integral part of the balance sheet.

3. The figure in the balance sheet may be rounded off to the nearest '000'or '00'as may be convenient or may be expressed in terms of decimals of thousands.

4. A foot-note to the balance sheet may be added to show separately contingent liabilities.

The following is a Skeleton horizontal form of balance sheet containing only the board heads.

Liabilities	₹	Assets	₹
Share capital Reserves and surplus Secured Loans Unsecured Loans Current Liabilities and Provisions (a) Current Liabilities (b) Provisions Foot-note re: Contingent Liabilities		Fixed Assets Investments Current Assets. Loans and advances: (a) Current Assets (b) Loans and Advances Miscellaneous Expenditure Profit and Loss Account	

1**.12 Illustration**: The following is the trial balance extracted on December 31.2012

Assets	(₹)	(₹)
Stock (January 1,2007)	93,210	
Manufacturing wages	54,870	
Manufacturing expenses	9,620	
Purchases and sales	4,10,730	5,84,950
Machinery repairs	4,305	
Carriage inwards	2,455	
Carriage outwards	4,630	
Advance payment of income tax	7,145	
Bank loan (at 5%)		25,000
Interest on loan	625	
Debtors and creditors	82,200	46,110
Profit and loss account (January 1.2012)		4,320
Bank current account	3,430	
Cash in hand	960	
Leasehold factory	32,105	
Plant and machinery	39,200	
Loose tools	6,225	
Share capital		2,00,000
Calls in arrear	500	

Rates and electricity		
(Factory-₹ 7,105; office-₹ 1,700)	8,805	
Director's fees and remuneration	6,000	
Office salaries and expenses	6,500	
Auditor's fees	625	
Office furniture	2,500	
Commission	4,320	
Returns	6,320	4,905
Preliminary expenses	3,000	
Transfer fees		20
Goodwill	75,000	
Total		
	8,65,305	8,65,305

You are required to prepare trading and Profit and loss account for the year ended December 31, 2012 and a balance sheet as on that date after taking into consideration the following adjustments:

1. Write off one-third preliminary expenses
2. Depreciation: on plant and machinery at 20%; on office furniture at 10%
3. Manufacturing wages ₹ 945 and office salaries ₹ 600 had accrued due
4. Provide for interest on bank loan for 6 months
5. The stock was valued at Rs 62, 240 and loose tools at Rs5, 000
6. Reserve of Rs 4,250 on debtors for doubtful debts
7.Reserve further Rs1, 560 for discount on debtors
8. The director recommended dividend at 5% for the year ending December 31, 2012, after providing for taxes amounting to ₹ 11,500.

Solution: Trading and Profit and Loss account for the year ended December 31, 2012

Particulars	Amount (₹)	Particulars	Amount (₹)
To opening stock	93,200	By sales	
To purchase			5,78,630
	4,05,825		62,420
4,10,730		5,84,950	
Lees: Returns	55,815	Less: Return	
	9,600		
4,900	4,305		
To Manufacturing	2,455		
wages 54,870		6,320	
Add: Accrued due	7,105	By closing	
943		stock	
To manufacturing			
expenses			

To machinery	9,090		
repairs	53,625		
To carriage inward	6,41,050		6,41,050
To rates and	4,630		53,625
electricity:	1,700		20
Factory	6,000		
To depreciation			
on:	7,100		
Plant and	625		
Machinery	4,320		
7,840	1,250		
(20 %on ₹ 39,200)		By gross profit	
Loose tools (₹	250	b/d	
6,225 – 5,000)		By transfer	
1,250	4,250	fees	
To gross profit c/d	1,560		
	21,960		
To carriage	53,645		53,645
outward			4,320
To rates and	1,000		21,960
electricity office	11,500		
To directors fees			
and remuneration	9,975		
To office salaries	3,805		
and expenses	26,280		26,280
6,500			
Add: Accrued dues			
600		By balance b/f	
To audit fees		By net profit	
To commission		for the year	
To interest on			
bank loan @ 5%			
(on ₹ 25,000 for 6			
months)			
To depreciation on			
office furniture @			
10% on ₹ 2,500			
To provision for			
doubtful debts			
To provision for			
discount on			
debtors			
To net profit c/d			
To preliminary			
expenses written			
off (1/3rd of ₹			
3,000)			
To provision for			
taxation			
To proposed			

dividend @ 5% on paid up capital on ₹ 1,99,500 By balance c/d			

Dr.

Cr.

Balance sheet as on December 31, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Share capital		**Fixed Assets:**	
Authorised –	5,00,000	Goodwill	75,000
50,000 shares of		Leasehold	32,105
₹ 10 each		factory	
		Plant and	31,360
	2,00,000	machinery	
			2,250
Issued 22,000			
shares of ₹ 10	1,99,500	39,200	
each		Less:	5,000
Subscribed	3,805	Depreciation	62,000
20,000 shares of			
10 each			
Fully called up			77,950
	25,625	7,840	
		Office furniture	3,430
			960
2,00,000			
Less: Calls in			7,145
arrear paid up		2,500	
	47,655	Less:	
		Depreciation	2,000
500	1,560		
Reserve and	11,500		
surplus:	9,975		
Profit and loss		250	
a/c		**Current Assets,**	
Secured loans:	2,99,620	**loans and**	2,99,620
Unsecured		**advances:**	
loans:		(A) Current	
Bank loan at 5%		Assets:	
		Loose tools (as	
		valued)	
		Stock	
25,000		Sundry debtors	
Add: Interest			
accrued and due			
(1,250 – 645)			
625		82,200	

Current liabilities and provisions: **(A) Current liabilities:** Sundry creditor 46,110 **Outstanding expenses:** Manufacturing wages 945 Office salaries 600 **(B) Provisions** Provisions for discount on debtors Provisions for taxation Proposed dividends		Outstanding from more than 6 months – Less: Provision for doubtful debts 4,250 Bank current a/c (Scheduled bank) Cash in hand (B) Loans and advances: Advance payment of income tax Miscellaneous expenditure (to the extent written off or adjusted) Preliminary expenses (₹ 3,000 – 1,000)	

Illustration: Following is the trial balance of Progressive agencies Ltd., as on march 31, 2012. Prepare trading and profit and loss account as well as profit and loss appropriation account for the year ended on March 31, 2012, and a balance sheet on that date.

Trial Balance

Particulars	Dr. (₹)	Cr. (₹)
Authorised capital		
50,000 equity shares of ₹ 10 each		
Subscribed and paid up capital:		
25,000 equity shares of ₹10 each fully called up		2,50,000
Stock	50,000	
Sales		4,25,000
Purchase	3,00,000	
Wage (Productive)	70,000	
Printing and stationery	2,400	
Advertising expenses	14,300	
Debtors and creditors	48,700	35,200
Discount	4,200	3,150

Insurance premium	6,720	
Salaries (administrative staff)	18,500	
Rent	6,000	
Central expenses	8,950	
Profit and loss a/c		16,200
Plant and machinery	80,600	
Cash at bank	1,34,700	
Furniture	17,000	
General reserve		25,000
Loan from managing director (unsecured)		15,700
Bad debts	3,200	
Calls-in-arrears	5,000	
	7,70,270	7,70,270

Value of stock on March 31, 2012, was ₹ 91,500 depreciation is to be provided at 10% p.a. on plant and machinery, and at 20% p.a. on furniture. Outstanding liabilities are: Wages- ₹ 5,200, Salaries-₹ 1,200, rent-₹ 600. Insurance premium includes a sum of ₹800 being the charge for the quarter ended on June 30, 2012, No dividend payment is proposed and provision for taxation are not considered necessary.

Solution:

Progressive Agencies Ltd.
Trading and profit and loss a/c for the year ended 31.3.2012

Liabilities	(₹)	Assets	(₹)
To opening stock	50,000	By sales	4,25,000
To purchase	3,00,000	Bu closing	91,500
To wage		stock	
	75,200		
70,000	91,300		
Add: Outstanding	**5,16,500**		**5,16,500**
	2,400		91,300
5,200	14,300	By G/P f/d	3,150
To gross profit c/d	4,200	By discount	
		received	
To printing and	5,900		
stationery			
To advertising	19,700		
expenses			
To discount	6,600		
To insurance	8,950		
premium	3,200		
6,720			
Less prepaid	11,460		

800 To salaries 18,500 Add outstanding 1,200 To rent 6,000 Add outstanding 600 To general expenses To bad debts **To depreciation:** Plant and machinery 8,060 Furniture 3,400 To net profit c/d Balance c/d	17,720 94,450 33,940 **33,940**	 By Balance b/d By net profit	 94,450 16,220 17,720 **33,940**

Balance sheet as on 31.3.2012

Liabilities	(₹)	Assets	(₹)
Share capital **Authorised:** 50,000 equity shares of ₹ 10 each **Paid up capital:** 25,000 shares @ ₹ 10 each 2,50,000 Less: Calls in arrear 5,000 **Reserve and surplus** General reserve Profit and loss	 5,00,000 2,45,000 25,000 33,940 Nil 15,700 35,200 7,000	**Fixed assets:** Plant and machinery 80,600 Less: Depreciation 8,060 Furniture 17,000 Less: Depreciation	 72,540 13,600 91,500 48,700 1,34,700 Nil 800 Nil

account Secured loans **Unsecured loans:** Loans from managing director **Current liabilities:** Creditor **Outstanding expenses** Wages 5,200 Salaries 1,200 Rent 600	 3,61,840	3,400 **Current Asset:** Closing stock Debtors Cash in banl Loans and advances Prepaid insurance Miscellaneous	 3,61,840

Illustration: The following balances extracted from the books of Bharat steels Ltd., you are required to prepare the statutory forms, profit and loss account for the year ended March 31, 2012, and the balance sheet as on that date.

Share capital	**(₹)**
6,00,00 equity share @ ₹ 10 fully paid	60,00,000
1,600 8% redeemable preference share @ ₹ 100	1,60,000
Securities premium account	1,00,000
General reserve	4,00,000
Preference share redemption	1,92,000
Block capital (at cost less depreciation)	38,20,000
Net profit for the year (before tax)	16,84,000
Debtors (unsecured, considered good)	1,20,000
Creditor	1,00,000
Profit and loss account (as on 31,3,2011) (Cr.)	40,000
Interim dividend	3,00,000
Unpaid dividend	3,600
Other current assets	23,00,000
Investments	7,80,000
Outstanding expenses	24,400

Income tax paid under dispute for the year ending 30.3.2011	4,00,000
Provision for taxation for the above year	2,80,000
Advance payment of income tax	8,80,000

You are given the following additional information:
1. Profit was calculate after charging rs72,000 paid to managing director as minimum remuneration. He is to be given remuneration @ 5% of the net profit before tax, subject to the above minimum. Preference share were redeemed on October 1, 2011, at a premium of 20% but no entries were record in the books for giving effect thereto, except for the payment standing to the debit for preference share redemption account.
3. Income tax demanded for the year ended September 30, 2011, of rs 4, 00, 00 has not been provided in full, as an appeal is pending.
4. Market value of the investments is rs7, 10,000
5. Income for the year is to be provided @ 55% on the year is book profits.

Solution:

Bharat Steel Ltd.
P&L account for the year ending September 30, 2012

Particulars	Amount (₹)	Particulars	Amount (₹)
To managing		By net profit	17,56,000
directors	87,800		
remuneration –	9,17,510		
5% ₹ 17,56,000	7,50,690		
To provision for	**17,56,000**		**17,56,000**
taxation	3,00,000	By balance	40,000
To profit for the	1,60,000	b/d	7,50,690
year came down	3,30,690	By net profit	
		b/d	
To interim			
dividend	7,90,690		7,90,690
To capital			
redemption			
reserve account			
To balance c/d			

*The net profit shown in the problem is ₹ 16,84,000; to this 72,000 paid as remuneration to the managing director has been added.

Balance sheet of Bharat steel Ltd. as on March 31, 2012

Liabilities	(₹)	Assets	(₹)
Share capital:		**Fixed assets:**	
Authorised		Cost	
Issued and		Less:	38,20,000
subscribed	60,00,000	Depreciation	7,80,000
6,00,000 equity		Investment at	
shares of ₹ 10		cost (market	
each fully paid		value 7,10,000)	
Preference		**Current assets,**	
share of ₹......		**loans and**	
each redeemed		**advances**	24,20,000
during the year	68,000	(A) Current	
Reserves and		assets	
surplus			12,80,000
Share premium	8,90,690		
Balance as per		23,00,000	
balance sheet		Sundry debtors	
		(unsecured	
1,00,000		considered	
Less: Premium		good)	
paid on			
redemption		Outstanding for	
Of preference		a period	
shares		exceeding	
		Others	
32,000			
Capital			
redemption			
reserve		1,20,000	
account		(B) Advance	
1,60,000		Advance	
General		payment of	
reserve		income tax	
		(8,80,000 +	
		4,00,000)	
4,00,000			
Profit & loss			
a/c			
3,30,690			
Current			
liabilities and			
provisions			
(A) Current			
liabilities			
Liabilities for			
goods and			

expenses 1,40,200			

Sum up:A balance sheet or statement of financial position is a summary of the financial balances of an individual or organization, A balance sheet is often described as a "snapshot of a company's financial condition".Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time of a business' calendar year.A standard company balance sheet has two sides: assets on the rightand financing which itself has two parts, liabilities and ownership equity. On the left, the main categories of assets are usually listed first and typically in order of liquidity. Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company and according to the accounting equation, net worth must equal assets minus liabilities.

Keywords: Secured loan, Contingent liabilities, Inventories, Miscellaneous expenditure, Turnover, Provisions, Dividend, Managerial remuneration

Self assessment questions:

Problem 1 : The following balances extracted from the books of TATA steels Ltd., you are required to prepare the statutory forms, profit and loss account for the year ended March 31, 2015, and the balance sheet as on that date.

Share capital	**RS**
7,00,00 equity share @ ₹ 10 fully paid	70,00,00
1,500 8% redeemable preference share @ ₹ 100	1,50,000
Securities premium account	2,00,000
General reserve	5,00,000
Preference share redemption	90,000
Block capital (at cost less depreciation)	30,00,000
Net profit for the year (before tax)	15,80,000
Debtors (unsecured, considered good)	1,00,000
Creditor	2,00,000
Profit and loss account (as on 31,3,2011) (Cr.)	50,000
Interim dividend	4,00,000
Unpaid dividend	6,600
Other current assets	25,00,000
Investments	6,80,000
Outstanding expenses	20,400
Income tax paid under dispute for the year ending 30.3.2011	5,00,000
Provision for taxation for the above year	2,50,000
Advance payment of income tax	8,00,000

You are given the following additional information:

1. Profit was calculate after charging rs80,000 paid to managing director as

minimum remuneration. He is to be given remuneration @ 5% of the net profit before tax, subject to the above minimum. Preference share were redeemed on October 1, 2014, at a premium of 20% but no entries were record in the books for giving effect thereto, except for the payment standing to the debit for preference share redemption account.

2. Income tax demanded for the year ended September 30, 2014, of rs 3, 00, 00 has not been provided in full, as an appeal is pending.

3. Market value of the investments is rs8, 00,000

4. Income for the year is to be provided @ 35% on the year is book profits.

Problem 2.: Following is the trial balance of Progressive agencies Ltd., as on march 31, 2016. Prepare trading and profit and loss account as well as profit and loss appropriation account for the year ended on March 31, 2016, and a balance sheet on that date.

Trial Balance

Particulars	Dr.	Cr.
Authorised capital		6,00,000
60,000 equity shares of ₹ 10 each		
Subscribed and paid up capital:		
25,000 equity shares of ₹10 each fully called up		
Stock		1,50,000
Sales	4,00,000	5,35,000
Purchase	60,000	
Wage (Productive)	12,400	
Printing and stationery	24,300	
Advertising expenses	38,700	
Debtors and creditors	4,200	25,200
Discount	5,720	4,150
Insurance premium	19,500	
Salaries (administrative staff)	7,000	
Rent	7,950	
Central expenses		
Profit and loss a/c	70,600	15,200
Plant and machinery	1,44,700	
Cash at bank	15,000	
Furniture		
General reserve		15,000
Loan from managing director (unsecured)	5,200	25,700
Bad debts	5,000	
Calls-in-arrears		
	7,70,270	7,70,270

Value of stock on March 31, 2012, was rs 81,500 depreciation is to be provided at 15% p.a. on plant and machinery, and at 20% p.a. on furniture. Outstanding liabilities are: Wages- rs6,200, Salaries-2,200, rent-1600. Insurance premium includes a sum of 1800 being the charge for the quarter ended on June 30, 2015, No dividend payment is proposed and provision for taxation are not considered necessary.

Model questions:

1. What items are required to be included under the current assets loan and advances?

2. Distinguish between liability and provision

3. Expalin the significance of schedule VI

4. Draw the proforma of balance sheet under schedule VI

5. Draw the proforma of income statement**.**

Further readings:

1. Modern Accountancy: Hanif and Mukherjee, volume –I, Tata Mcgrewhill.

2. Higher secondary Accounting: Biswal and Sharma.

3. Financial Accounting: P.C. Tulsian, Pearson.

4. An Introduction to Accountancy: S.N. Maheshwari, S.K. Maheshwari. Vikas.