Revision Notes

- **Financial Statements:** Financial statements are the end products of the accounting process revealing the financial results of a specified period and the financial position as of a particular date. These statements include the Statement of Profit and Loss and the Balance sheet. The primary objective of these statements is to provide information required for decision-making by the management, as well as other external parties interested in the affairs of the undertaking, in accordance with Section 129, Schedule III of the Companies Act, 2013, each year.

Financial Statements
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- **Nature of Financial Statements:**
  - (1) First recorded facts in monetary form
  - (2) Application of accounting conventions
  - (3) Application of accounting postulates
  - (4) Dependency on personal opinions and judgments
- **Uses of Financial Statements:**
  - (1) As a report of stewardship;
  - (2) As a basis for fiscal policy;
  - (3) To determine the legality of dividends;
  - (4) As guide to advise dividend action;
  - (5) As a basis for the granting of credit;
  - (6) As informative for prospective investors in an enterprise;
  - (7) As a guide to the value of investment already made;
  - (8) As an aid to government supervision;
  - (9) As a basis for price or rate regulation;
  - (10) As a basis for taxation.

Balance Sheet
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- **Importance of Financial Statements:**

The utility of financial statements to different parties is discussed in detail as follows:

(1) **Management:** Financial statements help management evaluate the efficiency of all financial resources being used by the organisation. Management uses this data to identify inefficient areas of operations for further planning to achieve optimum results.

(2) **Creditors:** Commercial debt should be paid on a short-term basis. This liability is met out of current assets. Creditors are interested in the current solvency of the organisation. They can assess the current financial position of the organisation by calculating the current ratio and the liquid ratio.

(3) **Bankers:** Bankers are interested in ensuring that the loan amount is secured and that customer can pay interest on a regular basis. They analyse the balance sheet to determine the financial viability of the organisation and the profit and loss account also to assess its earning status.

(4) **Investors:** Investors include both short-term and long-term investors. They are interested in the security of the principal loan amount and the interest payments associated with it. Investors assess the long-term solvency of the organisation using financial statements. They analyse not only the current financial situation but also future prospects and plans for expansion. Opportunities for loan repayment in the event of liquidation are also considered.

(5) **Government:** Financial statements are used to assess corporate tax liability. The government uses these statements to study the economic situation of the country. Financial statements enable the government to determine whether businesses comply with various laws and regulations. These also form the basis for formulating and amending rules of business governance.

(6) **Trade Associations:** Trade associations provide assistance and protection to their members. They may analyse financial statements to offer services to these members. They may also develop standard ratios and design a similar accounting systems.

PART-I: BALANCE SHEET

Balance Sheet as at 31st March 20

Particulars	Note No.	Figures as at the end of current reporting period (₹)	Figures as at the end of the previous reporting period (₹)
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) Long-term provisions			
(d) Other long-term liabilities			

(4) Current Liabilities: (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions			
Total			
II. ASSETS **(1) Non-current Assets:** (a) Property, plant and equipment: (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			

Form and content of statement of profit and loss

Statement of profit and loss for the year ended 31 March 20

	Particulars	Note no.	Figure as at the end of current reporting period	Figure as at the end of previous reporting period
I	**Revenue from operations**			
II	**Other income**			
III	**Total revenue (I+II)**			
IV	**Expenses:** Cost of materials consumed Changes in inventories of finished goods Purchases of stock-in-trade Work-in-progress and stock-in-trade Employee benefits expense Finance costs Depreciation and amortisation expense Other expenses Total expenses			
V	**Profit before tax (III–IV)**		....	....
VI	*Less:* Tax		(..............)	(..................)
VII	**Profit after tax (V–VI)**		....	....

Explanation of Items:

Equity and Liabilities Side

Shareholders' Funds

(A) Share Capital: Shares issued by the company for subscription purposes, and the money received against the issued shares, are called 'share capital'. As per Schedule III of the Companies Act, 2013, the balance sheet must disclose authorised capital, issued capital and subscribed capital for each class of share capital (i.e., for both Equity and Preference Shares), in addition to the called-up amount made by the company and the paid-up amount made by the shareholders. Share capital may be classified as:

(1) Authorised or nominal capital
(2) Issued capital
(3) Subscribed capital
   (a) Subscribed and fully paid-up
   (b) Subscribed but not fully paid-up
(4) Called-up share capital
(5) Paid-up chare capital

Nominal Capital: It is the maximum amount of a company's share capital that it can issue to shareholders.

It is important that the details required by the schedule are provided in the Notes to Accounts.

In the balance sheet, share capital will be presented as under:

Balance Sheet

Particulars	Note No.	Figures as at the end of current reporting period (₹)	Figures as at the end of previous reporting period (₹)
I. Equity and Liabilities **(1) Shareholders' funds** (a) Share capital			

Other information related to share capital will be disclosed in Notes to Accounts as follows:

Notes to Accounts

Particulars	Amount (₹)	Amount (₹)
(1) Share capital		
Authorised capital:		
.....Equity shares of ₹........ each		
.....Preference shares of ₹........each		
Issued capital:		
.....Equity shares of ₹.........each		
.....Preference shares of ₹........each		
Subscribed capital:		
Subscribed and Fully paid-up:		
.....Equity shares of ₹..........each		
.....Preference shares of ₹........each		
(of the above shares .... shares are allotted as fully paid-up pursuant to contract without payment in cash)		
Subscribed but not fully paid-up:		
.......Equity shares of ₹.........each, ₹....per share called-up		
Less: Calls-in-arrears		
.......Preference shares of ₹........ each, ₹......called up		
Less: Calls-in-arrears		
(i) By directors ₹..............		
(ii) By others ₹..............		
Add: Forfeited shares		
Amount to be shown in the balance Sheet		

(B) Reserves and Surplus: Reserves are amounts set aside from profits and surplus to meet prospective losses and future uncertainties, there by strengthening the financial position of the company.

Surplus refers to the amount of accumulated profit (i.e., balance in the statement of profit and loss), which may be appropriated towards reserves used and for the payment of dividends. Surplus may have either a credit balance or a debit balance. The current year's profit or loss is adjusted against the balance brought forward, from which appropriations towards other reserves and dividends are made.

- **Reserves and surplus shall be classified as:**

(1) Capital Reserve
(2) Securities premium reserve
(3) Capital redemption reserve