Module II

Components of Financial Statements

Process and Mechanism of Accounting

Book Keeping and Accounting

Bookkeeping Versus Accounting:

Branches of Accounting

1. Financial Accounting
2. Cost Accounting
3. Managerial Accounting

Basic Principles of Financial Accounting

- **Accrual principle**
  - Actually occur(Not cash flows)

- **Prudence principle**
  - ➉Record Exp & Losses as soon as Possible
  - ➉Anticipate NO Profits
  - ➉Conservative approach

- **Consistency principle**
  - ➉Accounting Policy/Principle/Methods followed Consistently

- **4. Historical Cost principle**
  - ➉ AS's:Adjusting to fair values

- **5. Economic entity principle -**
  - ➉ Ownwr is separate from Entity

- Full disclosure principle (AS's)
- Going concern principle
- Matching principle
- Materiality principle
- Monetary unit principle

Reliability principle (Evidence)

Revenue recognition principle

(overstating-Fraud)

Time period principle

(comparable Periods-Trend analysis)

These principles are incorporated into a number of accounting frameworks, from which accounting standards govern the treatment and reporting of business transactions.

Business Transaction

There must be two parties:

The event must be measurable in terms of money:

The event must result in transfer of property or service:

The event must change the financial position of the business:

- **Quantitative change**
  - (change of Fin Position)
- **Qualitative change**
  - (overall Position will not change)

Cash and Credit Transaction

Accounting through Double Entry System

⑩ **Definition and Explanation of Double Entry System:**

Processes of the accounting in Double Entry System:

Journal:

Ledger:

Trial Balance:

Final Accounts:

⑩ **Advantages of Double Entry System:**

⑩ **Disadvantages of Double Entry System**

Journal & Ledger Accounts

First stage - Journal

Second stage - Ledger

Business Transaction

↓

Business Document Prepared

↓

Entry Recorded in Journal

↓

Entry Posted to Ledger

Journal Book

Introduction:

Journal Entry:

Narration for the Entry:

Characteristics of a Journal:

Advantages of Journal:

Format of Journal:

Date	Particulars	LF	Amount	Amount
	Account to be debited ....Dr. Account to be credited (Narration)		XXX	 XXX

Classification of Accounts – Credit & Debit Rules

- Personal accounts
- Real accounts
- Nominal accounts

Personal Accounts:

[Debit the Receiver, Credit the Giver]

Real Accounts:

[Debit what comes in, Credit what goes out]
These are **accounts of assets and liabilities**.

Nominal Accounts:

[Debit all expenses and losses, Credit all incomes and gains]

Example 1:

- Examples of real, nominal and personal accounts:

Plant and machinery	Real account
Purchases	Nominal account
Investment	Real account
Bank	Personal account
Tata Iron & steel Co.	Personal account
Rent	Nominal account
Land and Building	Real account
Carriage outward	Nominal account
Capital	~~Real~~ **Personal** account
Leasehold	Real account
Trademark	Real account
Return outwards	Nominal Account
Import duty	Nominal Account

Example 2

- **The Business is proposed to be started.**
- This transaction has no monetary effect and hence will not be recorded in books of accounts based on ‗Monetary Unit Principle'
- **2. Commenced Business with a capital of INR 1,00,000.**
- Capital being in the nature of cash/money is being brought into the business. i.e. Capital goes up by INR 1,00,000 and cash goes by INR 1,00,000.
- *Elements affected by the transaction are –*
- Capital Account – Owners Equity account – **Real Account**
- Cash Account – No Person involved - Asset to the Company – **Real Account**

Example 2

- Cont..,
- **3. Brought Furniture for Cash worth INR 10,000.**
- Furniture is being brought for cash. The value of Furniture goes up by INR 10,000 and the amount of Cash comes down by INR 10,000.
- *Elements affected by the transaction are –*
- Furniture Account - No Person involved - Asset to the Company – **Real Account**
- Cash Account – No Person involved - Asset to the Company – **Real Account**
- **4. Purchased Stock from Star Limited worth INR 25,000.**
- Goods are being purchased for cash. The Value of goods increases by INR 25,000 and the amount of cash comes down by INR 25,000.
- *Elements affected by the transaction are –*
- Goods Account - No Person involved – Asset to company – **Nominal Account**
- Cash Account – No Person involved - Asset to the Company – **Real Account**

Example – 3

From the following transactions, state the nature of accounts and state which account will be debited and which account will be credited.

1. Mr. A started business with INR 50,000
2. Purchased goods for cash INR 10,000.
3. Sold goods for cash INR 15,000
4. Purchased goods from X for cash INR 5,000
5. Sold goods to B for INR 6,000.
6. Purchased furniture for INR 40,000.
7. Purchased plant or INR 10,000.
8. Paid wages INR 4,000

SN.	Accounts Involved	Nature of Accounts	Debit or Credit
1.	Cash account Capital account	Real Personal	Debit (incomings) Credit (giver)
2.	Purchases account Cash account	Nominal Real	Debit (expenses) Credit (outgoings)
3.	Cash account Sales account	Real Nominal	Debit (incomings) Credit (income)
4.	Purchases account Cash account	Nominal Real	Debit (expenses) Credit (outgoings)
5.	B account Sales account	Personal Nominal	Debit (receiver) Credit (income)
6.	Furniture account Cash account	Real Real	Debit (incomings) Credit (outgoings)
7.	Plant account Cash account	Real Real	Debit (incomings) Credit (outgoings)
8.	Wages account Cash account	Nominal Real	Debit (expenses) Credit (outgoings)

Ledger

Explanation of Ledger

Ledger Posting

Characteristics of Ledger Account

Standard Form of Ledger Account:

Date	Particulars	J. R	Amount	Date	Particulars	J.R	Amount

Posting Procedure:

Balancing an Account:

Accounting Equation

The three basic elements of accounting are **assets, liabilities and owners' equity (capital)**.

- **The assets** represent the things of value that a business owns.
- **The liabilities** are the claims of the creditors against those assets.
- **The owner's equity (capital)** is the claim of the owner against those assets. Whatever is not claimed by the creditors belongs to the owner.

Assets =	Liabilities	+	Owner's Equity

- ***"The expression of the equality of an entity's assets with the claims against them is referred to as the accounting equation."***

Effect of Business Transactions on Accounting Equation:

- **Example:**
- Assume that Mr. Rana decided to start a "shoes business" of his own, to be known as Rana Shoes Company". The new business was started on 1st January, 2015, when Mr. Rana invested INR 5,00,000 in his business.
- *Recall that the business entity is kept separate from its owner.* The business unit has borrowed INR 5,00,000 from its owner. This is a first transaction of the business. It brought a double change in the financial position of the business — an asset (cash) increased by INR 5,00,000 and a liability (owner's equity or capital) increased also by INR 5,00,000. This transaction is consisting of two elements:
  - 1. The receipt of INR 500,000 cash. 2. Supplied by the owner of the business.
- The initial accounting equation of the new business then appeared as follows:

Assets	=	Liabilities	+	Owner's equity
Cash	=			Capital
INR 5,00,000	=	Nil	+	INR 5,00,000

Transaction No. 2:

Mr. Rana purchased a building for INR 2,00,000. This transaction brought two changes—cash (asset) decreased by INR 2,00,000 and Building (a new asset) increased by INR 2,00,000. Now the equation will be;

Assets			=	Liabilities	+	Owner's equity
Cash	+	Building	=			Capital
INR 3,00,000	+	INR 2,00,000	=	Nil	+	INR 5,00,000

(cash) has been converted into another asset

Transaction No. 3:

He purchased furniture for INR 30,000. This transaction brought two changes—cash (asset) decreased by INR 30,000 and furniture (a new asset) increased by INR 30,000. The equation will be;

Assets					=	**Liabilities**	+	**Owner's equity**
Cash	+	Building	+	Furniture	=			Capital
INR 270,000	+	INR 2,00,000	+	INR 30,000	=	Nil	+	INR 5,00,000

Again there is no change on the right side of the equation and cash (asset) is converted into a new asset, furniture

Transaction No. 4:

- He purchased goods (shoes) for INR 1,50,000 to stock
- up the business. This transaction brought two changes –
- cash (asset) decreased by INR 1,50,000 and goods
- (stock) increased by INR 1,50,000. Again, there is no
- change on the right side of the equation. The equation
- will be:

Assets				=	Liabilities	+	Owner's equity
Cash	+ Building	+ Furniture	+ Goods	=			Capital
120000	+ 200000	+ 30000	+ 150000	=	Nil	+	INR 5,00,000

Transaction No. 5:

He sold goods costing INR 60,000 for INR 80,000 for cash. This transaction has brought three changes (a) cash (asset) increased by INR 80,000; (b) stock of goods decreased by INR 60,000; (c) the difference between sale price of goods (80,000) and cost price of goods (60,000) is profit of INR 20,000, it would increase the owner's equity by INR 20,000. The equation will be:

Assets				= Liabilities	+	Owner's equity
Cash	+ Building	+ Furniture	+ Goods	=		Capital
INR 120000	+ 200000	+ 30000	+ 150000	=		500,000
+80000			- 60000	Nil	+	20,000
200000	+ 200000	+ 30000	+ 90000	= Nil	+	520000

Transaction No. 6:

He purchased goods (shoes) for INR 30,000 on credit basis. This transaction has brought two changes Goods (stock) increased by INR 30,000 and a liability (creditor) is created, a s goods have been purchased on credit basis : The equation will be as follows:

Assets							=	Liabilities + Owner's equity		
Cash	+	Building	+	Furniture	+	Goods		Creditors	+	Capital
INR 200000	+	200000	+	30000	+	90000	=	Nil	+	520,000
					+	30000		30000		
200000	+	$200000	+	30000	+	120000	=	30000	+	520,000

Transaction No. 7:

He sold goods costing INR 50,000 for INR 70,000 on credit basis. The result of this transaction is (a) Stock of goods is reduced by INR 50,000; (b) A new asset (debtor) is increased by INR 70,000, as goods have been sold on credit basis; (c) The owner's equity is increased by INR 20,000 as a credit to the P&L A/c (the profit) The equation will be:

Assets					=	Liabilities + Owner's equity		
Cash	+ Building	+ Furniture	+ Goods	+ Debtors	=	Creditors	+	Capital
200000	+ 200000	+ 30000	+ 120000	+ Nil	=	30000	+	520,000
			- 50000	+ 70000				20000
200000	+ 200000	+ 30000	+ 70000	+ 70000	=	30000	+	540000

Transactions No. 8:

Creditor was paid INR 30,000. The result of this transaction is - a liability (creditor) is decreased by INR 30,000 and cash (asset) is also decreased by INR 30,000. Now the equation is:

Assets															=	Liabilities + Owner's equity		
Cash	+	Building	+	Furniture	+	Goods	+	Debtors							=	Creditors	+	Capital
200000	+	200000	+	30000	+	70000	+	70000							=	30000	+	540000
-30000																-30000		
170000	+	200000	+	30000	+	70000	+	70000							=	Nil	+	540000

Transaction No. 9:

Cash received from the debtor INR 40,000. The result of this transaction is - cash (asset) increased by INR 40,000 and debtor (asset) decreased by INR 40,000. The equation is:

Assets									=	**Liabilities + Owner's equity**		
Cash	+	Building	+	Furniture	+	Goods	+	Debtors	=	Creditors	+	Capital
170000	+	200000	+	30000	+	70000	+	70000	=	Nil	+	540,000
+ 40000							-	40000				
210000	+	200000	+	30000	+	70000	+	30000	=	Nil	+	540000

Transaction No. 10:

Goods costing INR 25,000 were lost by fire. The result of this transaction is - stock of goods is reduced by INR 25,000 and owner's equity is also decreased by INR 25,000 as a charge to the P&L A/c (as loss will be borne by the owner). The equation is:

Assets					=	Liabilities + Owner's equity		
Cash	+ Building	+ Furniture	+ Goods	+ Debtors	=	Creditors	+	Capital
210000	+ 200000	+ 30000	+ 70000	+ 30000	=	Nil	+	540,000
			- 25000				-	25000
210000	+ 200000	+ 30000	+ 45000	+ 30000	=	Nil	+	515000

Transaction No. 11:

He paid salaries and telephone bill INR 7,000. The result of this transaction is - cash (asset) is decreased by INR 7,000 and owner's equity is also decreased by 7,000 (the expenses reduced the owner's equity as a charge to the P&L A/c). The equation is:

Assets					=	Liabilities + Owner's equity		
Cash	+ Building	+ Furniture	+ Goods +	Debtors	=	Creditors	+	Capital
210000 +	200000 +	30000	+ 45000 +	30000	=	Nil	+	515000
- 7000							-	7000
203000 +	200000 +	30000	+ 45000 +	30000	=	Nil	+	508000

Transaction No. 12:

He borrowed money from a bank (as bank loan) INR 50,000. The result of this transaction is - cash (asset) is increased by INR 50,000 and a new liability (bank loan) is created (increased) by INR 50,000. The accounting equation is:69

Assets								=	Liabilities + Owner's equity			
Cash	+	Building +	Furniture	+ Goods +		Debtors		= Creditors		Bank Loan	+	Capital
203000 +		200000 +	30000	+ 45000 +		30000		=	Nil	0	+	508000
+ 50000										+ 50000		
253000 +		200000 +	30000	+ 45000 +		30000		=	Nil	50000	+	508000

Resources	=	Sources
(Assets)	=	(Equities)
INR 558000	=	INR 558000

It may be noted that equality of the two sides was maintained throughout the recording of the transactions.

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Financial Statements

The basic **components of financial statements :**

- as given in the **definition** under **Section 2(40)** of the companies act, 2013 include –

  a) Balance sheet as at the end of the accounting period

  b) Profit and loss account/income and expenditure account Cash flow statement

  c) Statement of changes in equity; and

  d) Any explanatory note annexed to the above.

- Section 129 of companies act 2013, financial statements ~true and fair view
  - **Accounting Standards (Ind AS)**
  - format of those financial statements shall be as per **Schedule III** of CA, 2013.

Schedule III of the companies Act, 2013 - Form; Format and Content of the Balance Sheet and Profit & Loss Account

The Structure of Schedule III is as under:

I. General Instructions

II. Part I – Form of Balance Sheet

III. General Instructions for Preparation of Balance Sheet

IV. Part II – Form of Statement of Profit and Loss

V. General Instructions for Preparation of Statement of Profit and Loss

VI. General Instructions for the Preparation of Consolidated Financial Statements

GENERAL INSTRUCTIONS

- **Schedule stand modified**
- **Disclosure is in addition to..**
  - **Additional disclosures**
- **Notes to Accounts –Information in Addition to in FSs.,**
- **Cross reference to related information**
- **Rounding off**
- **Unit of measurement**
- **Comparative figures**
- **These are Minimum requirements**

Turnover	Rounding off
(*a*) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(*b*) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

PART I — BALANCE SHEET

Name of the Company……………………..

Balance Sheet as at ……………………….

(Rupees in…………)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1	2	3	4
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c)Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
(4) Current liabilities			

(a) Short-term borrowings
(b) Trade payables
(c) Other current liabilities
(d) Short-term provisions

TOTAL

II. ASSETS

Non-current assets

(1) (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

See accompanying notes to the Financial Statements.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET

- Current Assets
  - Operation cycle
- Current Liability
  - Due in 12 months
- Trade receivables
- Trade Payables

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

A. Share Capital

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 ―

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.

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.

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) Secured, considered good;
(B) Unsecured, considered good;
(C) Doubtful.

- Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- 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.

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company……………………….

Profit and loss statement for the year ended ………………………

(Rupees in…………)

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
I	Revenue from operations		xxx	xxx
II	Other income		xxx	xxx
III	Total Revenue (I + II)		xxx	xxx
IV	Expenses: Cost of materials consumed Purchases of Stock-in-Trade Changes in inventories of finished goods work-in-progress and Stock-in-Trade Employee benefits expense Finance costs Depreciation and amortization expense Other expenses Total expenses		Xxx Xxx Xxx xxx	Xxx Xxx Xxx Xxx
V	Profit before exceptional and extraordinary items and tax (III - IV)		xxx	xxx
VI	Exceptional items		xxx	xxx

VII	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII	Extraordinary items		xxx	xxx
IX	Profit before tax (VII- VIII)		xxx	xxx
X	Tax expense: (1) Current tax (2) Deferred tax		 Xxx Xxx	 Xxx Xxx
XI	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII	Profit/(loss) from discontinuing operations		xxx	xxx
XIII	Tax expense of discontinuing operations		xxx	xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)		xxx	xxx
XV	Profit (Loss) for the period (XI + XIV)		xxx	xxx
XVI	Earnings per equity share: (1) Basic (2) Diluted		Xxx xxx	Xxx xxx

See accompanying notes to the financial statements.

GENERAL INSTRUCTIONS FOR PREPARATION OF STATEMENT OF PROFIT AND LOSS

1. The provisions of this Part shall apply to the income and expenditure account referred to in sub-clause (*ii*) of clause (*40*) of section 2 in like manner as they apply to a statement of profit and loss.

2.(*A*) In respect of a company other than finance company **revenue from operations** shall disclose separately in the notes revenue from—

(a) Sale of products;
(b) Sale of services;
(c) Other operating revenues;

Less:

(*d*) Excise duty.

(B)In respect of a finance company, revenue from operations shall include revenue from—

(a) Interest; and

(b) Other financial services.

Revenue under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

3.Finance Costs

Finance costs shall be classified as:

(a) Interest expense;

(b) Other borrowing costs;

(c) Applicable net gain/loss on foreign currency transactions and translation.

4.Other income

Other income shall be classified as:

(a) Interest Income (in case of a company other than a finance company);

(b) Dividend Income;

(c) Net gain/loss on sale of investments;

(d)Other non-operating income (net of expenses directly attributable to such income).

5.Additional Information

A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:—

General Expenditure

(a)Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses].

(b) Depreciation and amortisation expense;

(c)Any item of income or expenditure which exceeds one per cent. of the revenue from operations or Rs.1,00,000, whichever is higher;

(d) Interest Income;

(e) Interest expense;

(f) Dividend income;

(g) Net gain/loss on sale of investments;

(h) Adjustments to the carrying amount of investments;

(i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);

(j)Payments to the auditor as (a) auditor; (b) for taxation matters; (c) for company law matters; (d) for management services; (e) for other services; and (f) for reimbursement of expenses;

(k)In case of Companies covered under section 135, amount of expenditure incurred on corporate social responsibility activities;

(l) Details of items of exceptional and extraordinary nature;

(m) Prior period items;

In the case of manufacturing companies,—

(1) Raw materials under broad heads.
(2) goods purchased under broad heads.

In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.

In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.

In the case of a 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 purchases, sales and consumption of raw material and the gross income from services rendered are shown under broad heads.

In the case of other companies, gross income derived under broad heads.

In the case of all concerns having works in progress, works-in-progress under broad heads.

(a)The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the balance sheet is made up.

(b) The aggregate, if material, of any amounts withdrawn from such reserves.

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

(d)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) Insurance;

(g) Rates and taxes, excluding, taxes on income;

(h) Miscellaneous expenses,

(i) Dividends from subsidiary companies.

(j)Provisions for losses of subsidiary companies.

The profit and loss account shall also contain by way of a note the following information, namely:—

(a)Value of imports calculated on C.I.F basis by the company during the financial year in respect of—

I.Raw materials;

II.Components and spare parts;

III.Capital goods;

(b)Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters;

(c)Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption;

(d)The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related;

(e) Earnings in foreign exchange classified under the following heads, namely:—

I. Export of goods calculated on F.O.B. basis;

II. Royalty, know-how, professional and consultation fees;

III. Interest and dividend;

IV. Other income, indicating the nature thereof.

Note:— Broad heads shall be decided taking into account the concept of materiality and presentation of true and fair view of financial statements.

GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Where a company is required to prepare Consolidated Financial Statements, *i.e.*, consolidated balance sheet and consolidated statement of profit and loss, the company shall *mutatis mutandis* follow the requirements of this Schedule as applicable to a company in the preparation of balance sheet and statement of profit and loss. In addition, the consolidated financial statements shall disclose the information as per the requirements specified in the applicable Accounting Standards including the following:

(i)Profit or loss attributable to ―minority interest‖ and to owners of the parent in the statement of profit and loss shall be presented as allocation for the period.

(ii)―Minority interests‖ in the balance sheet within equity shall be presented separately from the equity of the owners of the parent.

3.All subsidiaries, associates and joint ventures (whether Indian or foreign) will be covered under consolidated financial statements.

4.An entity shall disclose the list of subsidiaries or associates or joint ventures which have not been consolidated in the consolidated financial statements along with the reasons of not consolidating.

Illustration: Standalone Balance Sheet Excerpts from annual report of Heritage Food Limited

Heritage

Heritage Foods Limited | 26th Annual Report 2017-18

Standalone Balance Sheet as at 31 March 2018

(All amounts in ₹ lakhs, except share data and where otherwise stated)

	Note	As at 31 March 2018	As at 31 March 2017	As at 1 April 2016
ASSETS				
Non-current assets				
(a) Property, plant and equipment	6	39,353.75	27,817.97	30,785.62
(b) Capital work-in-progress		872.71	750.43	958.80
(c) Investment property	8	337.21	124.15	121.00
(d) Other intangible assets	7	1,947.64	48.40	164.12
(e) Investment in subsidiaries, joint venture and associate	9	1,695.68	101.20	72.69
(f) Financial assets				
(i) Investments	10	100,115.41	47,744.57	35.12
(ii) Loans	16	394.72	1,449.59	2,200.05
(iii) Other financial assets	11	75.22	72.53	63.07
(g) Other non-current assets	12	402.66	208.76	135.76
Total non-current assets		145,195.00	78,317.60	34,573.23
Current assets				
(a) Inventories	13	15,051.89	11,648.50	14,491.11
(b) Financial Assets				
(i) Investments	10	0.42	1.37	1.65
(ii) Trade receivables	14	1,010.40	1,129.47	2,871.06
(iii) Cash and cash equivalents	15(i)	5,985.69	4,465.57	4,440.19
(iv) Bank balances other than (iii) above	15(ii)	716.91	111.34	82.52
(v) Loans	16	436.15	448.89	458.30
(vi) Other financial assets	11	17.47	11.35	13.39
(c) Current tax assets (net)		46.45	109.09	-
(d) Other current assets	12	721.17	329.68	429.33
Total current assets		23,346.55	18,275.03	22,787.55
Total assets		168,541.55	96,592.63	57,360.78
EQUITY AND LIABILITIES				
Equity				
(a) Equity share capital	17	2,319.90	2,319.90	2,319.90
(b) Other equity	18	75,480.78	57,002.43	22,434.05
Total equity		77,800.68	59,322.33	24,753.95
Liabilities				
Non-current liabilities				
(a) Financial liabilities				
(i) Borrowings	19	13,830.74	6,877.05	6,527.86
(ii) Other financial liabilities	20	42,611.74	3,854.86	-
(b) Provisions	21	584.30	489.58	551.54
(c) Government grant		8.76	37.67	44.85
(d) Deferred tax liabilities (net)	22	1,820.75	1,878.00	1,837.91
Total non-current liabilities		58,856.29	13,137.16	8,962.16
Current liabilities				
(a) Financial liabilities				
(i) Borrowings	19	10,222.90	6,587.71	3,325.16
(ii) Trade payables	24	6,629.11	5,075.98	8,467.46
(iii) Other financial liabilities	20	13,656.61	11,135.37	9,695.13
(b) Other current liabilities	23	669.45	726.41	805.13
(c) Government grant		1.61	9.40	7.29
(d) Provisions	21	704.92	598.27	579.47
(e) Current tax liabilities (net)		-	-	105.03
Total current liabilities		31,884.60	24,133.14	23,644.67
Total equity and liabilities		168,541.55	96,592.63	57,360.78

The accompanying notes referred to above form an integral part of the standalone financial statements.

This is the Standalone Balance sheet referred to in our report of even date.

For **Walker Chandiok & Co LLP**
Chartered Accountants

per Sanjay Kumar Jain
Partner

Place : Hyderabad
Date : May 24, 2018

For and on behalf of the Board of Directors of
Heritage Foods Limited

N. Bhuvaneswari
Vice Chairperson & Managing Director
DIN : 00003741

N Brahmani
Executive Director
DIN : 02338940

M Sambasiva Rao
President

A Prabhakara Naidu
Chief Financial Officer
M.No. FCA 200974

Umakanta Barik
Company Secretary
M.No. FCS 6317

Place : Hyderabad
Date : May 24, 2018

Illustration: Standalone Profit & Loss Statement: Excerpts from annual report of Heritage Food Limited

Standalone Statement of Profit and Loss

for the year ended 31 March 2018

(All amounts in ₹ lakhs, except share data and where otherwise stated)

	Notes	For the year ended	
		31 March 2018	31 March 2017
Revenue from operations	25	234,401.10	183,392.94
Revenue from transactions with discontinued operations		-	3,750.63
Other income	26	716.95	360.68
Fair value gain on FVTPL equity securities		39,537.07	24,681.01
Total income		274,655.12	212,185.26
Expenses			
Cost of materials consumed	27	181,869.02	137,680.12
Purchase of Stock-in-Trade		15,017.18	3,053.10
Purchase transactions with discontinued operations		-	3,353.54
Excise duty	28	33.26	87.23
Changes in inventories of finished goods, semi finished goods, stock-in- trade and work-in-progress	29	(4,305.13)	3,342.25
Employee benefit expenses	30	12,014.23	9,791.22
Finance costs	31	1,745.45	963.24
Depreciation and amortisation expense	6, 7 & 8	3,698.54	2,487.07
Impairment losses	6	40.28	70.26
Other expenses	32	19,031.11	14,609.00
Loss due to changes in fair value of derivative liabilities		38,703.86	3,854.87
Total expenses		265,847.80	179,853.90
Profit before tax from continuing operations		**8,807.32**	**32,331.36**
Tax expense	33		
Current tax		2,829.39	2,600.07
Deferred tax expense/(benefit)		(60.23)	471.15
Profit for the year from continuing operations		6,038.16	**29,260.14**
Discontinued operations			
Loss before tax	42	-	(1,772.30)
Tax income	33	-	(15.06)
Loss for the year from discontinued operations		**-**	**(1,757.24)**
Profit for the year		6,038.16	**27,502.90**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
(i) Re-measurement gains/(losses) on defined benefit plans, net of taxes		(77.82)	4.69
(ii) Net gain on FVTOCI equity securities		13,182.25	8,229.95
Total other comprehensive income for the year		13,104.43	**8,234.64**
Total comprehensive income for the year		19,142.59	**35,737.54**
Earnings per equity share (EPES) (in absolute ₹ terms)	34		
Par value per share		5	5
EPES for continuing operations			
Basic and Diluted EPES		13.01	63.06
EPES for discontinued operations			
Basic and Diluted EPES		-	(3.78)
EPES for continuing and discontinued operations			
Basic and Diluted EPES		13.01	59.28

The accompanying notes form an integral part of the standalone financial statements.

This is the Standalone Statement of Profit and Loss referred to in our report of even date.

For **Walker Chandiok & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

Place : Hyderabad
Date : May 24, 2018

For and on behalf of the Board of Directors of
Heritage Foods Limited

N. Bhuvaneswari
Vice Chairperson & Managing Director
DIN : 00003741

N Brahmani
Executive Director
DIN : 02338940

M Sambasiva Rao
President

A Prabhakara Naidu
Chief Financial Officer
M.No. FCA 200974

Umakanta Barik
Company Secretary
M.No. FCS 6317

Place : Hyderabad
Date : May 24, 2018

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Illustration: Standalone Cash Flow Statement: Excerpts from annual report of Heritage Food Limited

Heritage

Standalone Cash Flow Statement for the year ended 31 March 2018

(All amounts in ₹ lakhs, except share data and where otherwise stated)

	For the year ended	
	31 March 2018	31 March 2017
Cash flow from operating activities		
Profit before tax from continuing operations	8,807.32	32,331.36
Adjustments:		
Fair value gain on FVTPL equity securities	(39,557.07)	(24,681.01)
Loss due to changes in fair value of derivative liabilities	38,703.86	3,854.87
Depreciation and amortization	3,698.54	2,487.07
Impairment losses	40.28	70.26
Provision for doubtful advances	71.00	5.00
Provision for doubtful debts	12.63	58.63
Loss on sale of property, plant and equipment	85.64	-
Impairment of investment in subsidiary	257.77	-
Provisions no longer required/ credit balances written back	(213.37)	(718.12)
Interest income	(23.24)	(27.38)
Interest expenses	1,659.63	886.56
Guarantee income	(14.53)	-
Dividend income on long term investments	(4.02)	(4.00)
Operating cash flow before working capital changes	**13,544.44**	**14,863.24**
Decrease/ (increase) in inventories	1,558.55	(2,088.35)
Decrease/ (increase) in trade receivables	106.44	(438.82)
Decrease/ (increase) in loans	1,067.61	(130.02)
Increase in other assets	(460.82)	(113.14)
Increase in other financial assets	(6.12)	(4.42)
Increase in trade payables	455.92	592.46
Increase/(decrease) in provisions	123.55	(90.70)
Decrease in Government grant	(36.70)	(1.87)
Increase in other financial liabilities	95.24	311.92
Increase in other liabilities	300.88	424.43
Cash generated from operating activities	**16,548.99**	**13,324.73**
Income-taxes paid, net	(2,777.25)	(2,910.00)
Net cash generated from operating activities of continuing operations	**13,771.74**	**10,414.73**
Net cash used in operating activities of discontinued operations	-	**(1,575.99)**
Net cash generated from operating activities (A)	13,771.74	**8,838.74**
Cash flow from investing activities		
Purchase of property, plant and equipment and other intangible assets including Capital work in progress	(14,227.94)	(7,684.80)
Proceeds from sale of property, plant and equipment	409.59	250.65
(Purchase)/ sale of investments	(0.11)	2.28
Investment in a joint venture	(10.00)	-
Investment in a subsidiary	(1,757.82)	(0.06)
Interest received	28.12	27.38
Movement in other bank balances, net	3.66	(38.95)
Consideration paid towards Business combination (refer note 43)	(6,151.00)	-
Dividend income	4.02	4.00
Net cash used in investing activities of continuing operations	**(21,701.48)**	**(7,439.50)**
Net cash used in investing activities of discontinued operations	-	**(1,559.26)**
Net cash used in investing activities (B)	(21,701.48)	**(8,998.76)**

Module III

Understanding of Financial Statements

Introduction

Financial Statements: Meaning

Objectives of Financial Statements

- Income statement which comprises of Trading Account and Profit & Loss Account, and
  - Net worth Position Statement i.e., the Balance Sheet.
- Cash flow position statement

objectives of preparing financial statements:

- **Ascertaining the results of business operations**
- **Ascertaining the financial position**
- **Source of information**
- **Helps in managerial decision making**
- **An index of solvency of the concern**

Capital Expenditure and Revenue Expenditure, Capital Receipts and Revenue Receipts

Capital Expenditure

Revenue expenditure,

deferred revenue expenditure.

Basis of Difference	Capital Expenditure	Revenue Expenditure
Purpose	It is incurred for the acquiring of fixed assets.	It is incurred for utilization & maintenance of fixed assets.
Earnings	It helps in maintaining capacity capacity of the business.	It increases the earning the earning capacity of the business intact.
Periodicity of Benefit	Its benefits accrue over a number of years.	Its benefits are spread only in one accounting year.
Placement in the financial statements	It is an item of balance sheet and is shown as an Asset	It is an item of trading and profit & loss statement and is shown on the debit side
Occurrence of expenditure	It is non-recurring in nature	It is usually a recurring expenditure

Capital and Revenue Receipts

.Basis of Difference	Capital Receipts	Revenue Receipts
Source	Receipts that do not arise during the normal course of business.	Receipts that arise during the normal course of business
Nature	These are of capital nature and hence are not treated as items of income of the business	These are of revenue nature and hence are treated as items of income of the business.
Occurrence	These are of non-recurring in nature	These are recurring in nature

TRADING ACCOUNT

Income statement consists of Trading and Profit and Loss Account

NEED OF TRADING ACCOUNT

Trading Account serves the following purposes:

- **Knowledge of Gross Profit**
- **Knowledge of All Direct Expenses**
- **Precaution against future losses**

COST OF GOODS SOLD AND GROSS PROFIT

Cost of goods sold = the amount of goods purchased + expenses incurred in bringing the goods to the place of sale or expenses incurred on manufacturing the goods (called direct expenses).

Cost of goods sold = Opening stock + Net purchases + All direct expenses – Closing stock

Gross Profit = Net sales – Cost of goods sold

Illustration

Calculate the cost of goods sold from the following information:

Opening stock		10000
Closing stock	8000	
Purchases	80000	
Carriage on purchases		2000
Wages	6600	

Solution:

Cost of Goods Sold **=** opening stock + purchases + direct expenses (carriage on purchases + wages) – closing stock

= Rs. [10000 + 80000 + 8600 (i.e. 2000 + 6600) – 8000]

= Rs. 90600

Illustration 2

Calculate cost of goods sold and gross profit from the following information.

Sales	62500	
Sales Returns	500	
Opening Stock		6400
Purchases	32000	
Direct Expenses	4200	
Closing Stock	7200	

Solution:

Net Sales (Sales-Sales Returns)	= (62500 – 500)	= 62000
Cost of goods sold	= (6400 + 32000+ 4200 -7200)	= 35400
Gross Profit	= Net sales – cost of goods sold	
	= 62000 – 35400 = **<u>26600</u>**	

Format of Trading Account for the period ended __

Particulars	Amount
Sales	XXXX
Less: Sales	(XX)
Returns Closing	XXX
stock	X
Gross loss transferred to Profit & Loss Account	(XX)
Opening Stock	XXX
Purchases	XX
Less Purchase	(XX)
Returns **Direct**	XX
Expenses :	XX
Carriage Inward	XX
Freight	XX
Wages	XX
Fuel & Power	XX
Excise Duty	XX
Factory Rent	XX
Heating &	
Lighting	
Factory Rent & Insurance	
Work Managers Salary	XX
Gross Profit transferred to Profit & Loss Account	XXX

Important items of Trading account

1.Stock: two types:

Opening stock

Closing Stock

- **cost price or market price Which ever is Less**

2.Purchases

consignment basis
sale or return‘ basis ~are never treated as purchases.

3.Sales

- **sales return or returns inward**
- **Goods sent on _sale or approval‘ are not part of sales until approval is received.**

4.Direct Expenses

Important items of direct expenses

- **Wages i.e. wages relate to production.**
  - **paid for construction of building or manufacturing of furniture for office ~subtracted**
- **Carriage Inwards/Freight**

Other such direct expenses are customs and import duty, packing materials, gas, electricity water, fuel, oil, gas grease, heating and lighting, factory rent and insurance and many more such items.

5. Gross Profit/Gross Loss

- **Gross profit = Net sales – Cost of goods sold**
- **Gross loss = Cost of goods sold – Net sales**

PROFIT & LOSS ACCOUNT

Format of Profit & Loss Account for the period ended _

Particulars	Amount
Gross Profit b/d	XXXX
Discount Received	XX
Commission	XX
Received	X
Dividend	XX
Received	XX
Interest on	X
Investment Rent	XX
Received —	XX
Net Loss transferred to capital account	X
Gross loss b/d	XXX
Salaries	X
Rent, Rates & taxes	X
Insurance	(X
Premium	X)
Advertising	
	XX
Commission paid	XX
Discount Allowed	XX
Repairs & Renewals	XX
Bad Debts	XX
Establishment charges	XX
Travelling Expenses	XX
Bank Charges	XX
Sales Tax/Value added Tax	XX
Depreciation on fixed assets	XXX
Net Profit transferred to Capital Account	

Some important items of Profit and Loss Account

Credit items

- **As in Table**

Debit items

1. **Selling and distribution expenses**
2. **Office and administration expenses**
3. **Financial expenses**
   - **Interest, Discount on Bills etc.,**
4. **Depreciation and maintenance charges**
   - Expense incurred on repairs and renewals and
   - maintenance exp of assets
5. **Other expenses**
   - Ex: losses and expenses due to fire, theft etc.

NEED OF PREPARING PROFIT AND LOSS ACCOUNT

a) Net profit ~compared ~previous ~efficiently or not.

b) Different expenses ~compared ~previous years. ~control over such expenses.

Position Statement/Balance Sheet
Some important items of Balance Sheet

ASSETS
Current assets

Investments in marketable securities

Accounts receivable

Inventories

methods of accounting for inventory, including:

- FIFO (first in, first out),
- LIFO (last in, first out),
- Average cost,

- ## Non-current Assets
  - **For example,** ~a patent ~~ legal life of 17 years
  - ~copyright ~literary, artistic, or musical composition, ~50 years
  - **A company may have additional noncurrent assets:**
    - Long-term investment in securities of other companies
    - long term prepaid expenses

LIABILITIES:

Current liabilities :

- ➢ must be paid within ~one operating cycle or
- ➢ one year, whichever is longer.

Long-term liabilities:

- ➢ must be paid over a period beyond one year.

THANK YOU

CA J T SARMA