

FINANCIAL STATEMENTS OF COMPANIES

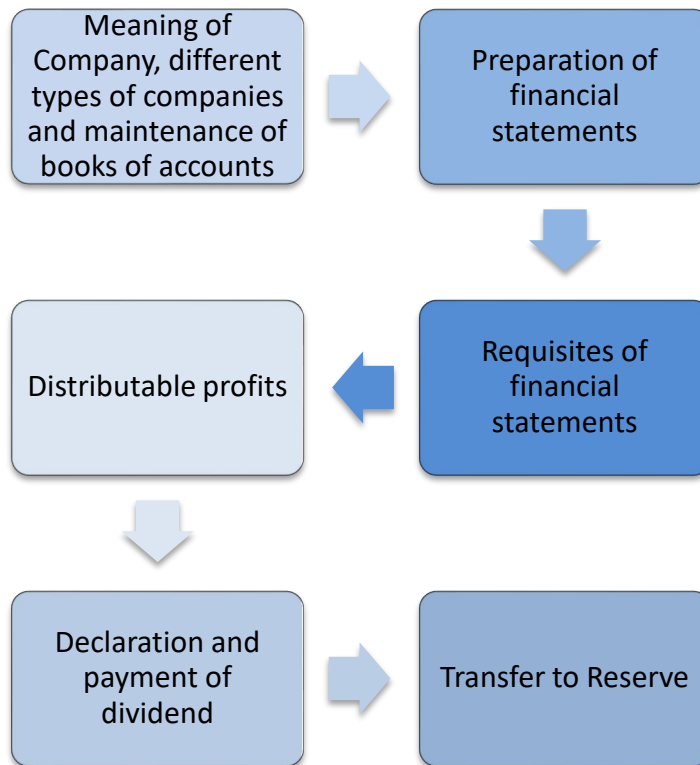


UNIT 1: PREPARATION OF FINANCIAL STATEMENTS

LEARNING OUTCOMES

After studying this unit, you will be able to–

- ◆ Know how to maintain books of account of a company.
- ◆ Learn about statutory books of a company.
- ◆ Prepare and present the financial statements of a company as per Schedule III to the Companies Act, 2013
- ◆ Appreciate the term divisible profits and dividends.

UNIT OVERVIEW**1.1 MEANING OF COMPANY**

As per Section 2(20) of the Companies Act, 2013, "Company" means a company incorporated under the Companies Act, 2013 or under any previous company law (e.g., the Companies Act, 1956). Different types of companies have been defined (under various sub-sections of the Companies Act, 2013) as follows:

2(21) "**company limited by guarantee**" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up;

- 2(22) **"Company limited by shares"** means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them;
- 2(42) **"Foreign company"** means any company or body corporate incorporated outside India which –
- (a) has a place of business in India whether by itself or through an agent physically or through electronic mode; and
 - (b) conducts any business activity in India in any other manner.
- 2(45) **"Government company"** means any company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company;
- 2(62) **"One Person Company"** means a company which has only one person as a member;
- 2(68) **"Private company"** means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,—
- (i) restricts the right to transfer its shares;
 - (ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this sub-clause, be treated as a single member:

Provided further that—

- (A) persons who are in the employment of the company; and
 - (B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased,
- shall not be included in the number of members; and
- (iii) prohibits any invitation to the public to subscribe for any securities of the company;

2(71) **"Public Company"** means a company which—

- (a) is not a private company; and
- (b) has a minimum paid-up share capital as may be prescribed:

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles;

2(85) **"Small company"** means a company, other than a public company, -

- (i) paid-up share capital of which does not exceed ₹ 50 lakhs or such higher amount as may be prescribed which shall not be more than ₹ 10 crores; and
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed ₹ 2 crores or such higher amount as may be prescribed which shall not be more than ₹ 100 crores:

Provided that nothing in this clause should apply to:

- (A) a holding company or a subsidiary company
- (B) a company registered under section 8
- (C) a company or body corporate governed by any special Act

As per the Companies (Specification of Definitions Details) Rules, 2014¹, for the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed ₹ 4 crores and ₹ 40 crores respectively.

2(92) **"Unlimited company"** means a company not having any limit on the liability of its members;

2(46) **"Holding company"**, in relation to one or more other companies, means a company of which such companies are subsidiary companies;

¹ As amended by the Companies (Specification of Definitions Details) Amendment Rules, 2022 dated 15 September 2022.

Explanation.–For the purposes of this clause, the expression “company” includes any body corporate.

2(87) **“Subsidiary company”**, or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company-

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed should not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation – For the purposes of this clause, -

- (a) a company should be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company’s Board of Directors should be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression “company” includes any body corporate;
- (d) “layer” in relation to a holding company means its subsidiary or subsidiaries;

Companies (Accounting Standards) Rules, 2021 define Small and Medium Sized Company as follows:

2(e) **“Small and Medium Sized Company” (SMC)** means, a company-

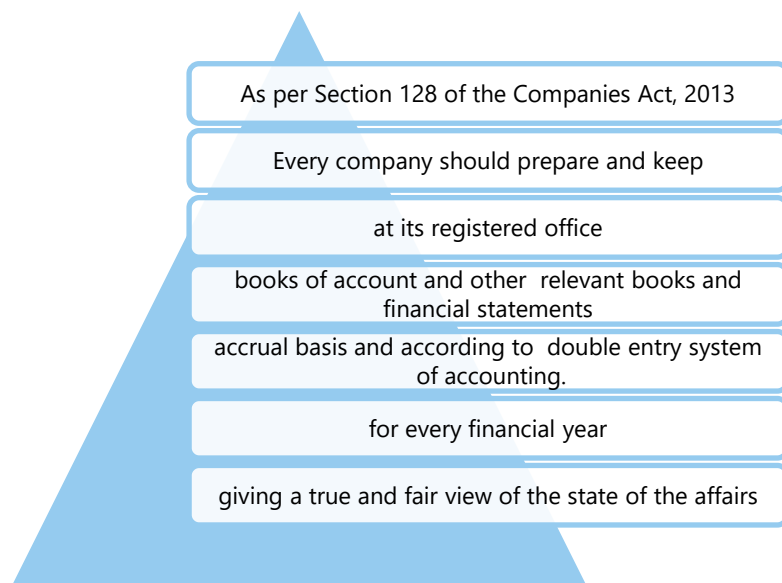
- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- (ii) which is not a bank, financial institution or an insurance company;

- (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
- (iv) which does not have borrowings (including public deposits) in excess of fifty crore rupees at any time during the immediately preceding accounting year; and
- (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of this clause, a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.



1.2 MAINTENANCE OF BOOKS OF ACCOUNT



As per Section 128 of the Companies Act, 2013, every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books should be kept on accrual basis and according to the double entry system of accounting:

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

Maintenance at Place other than Registered Office

It is a duty of the company to inform the Registrar of Companies within seven days of the decision in case the Board of Directors decides to maintain books at the place other than the registered office.

In Case of Branch Office

Where a company has a branch office in India or outside India, it should be deemed to have complied with the provisions of the Act, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns periodically are sent by the branch office to the company at its registered office or such other place as the Board of Directors has decided.

Section 128 (3) further lays down that the books of account and other books and papers maintained by the company within India should be open for inspection at the registered office of the company or at such other place in India by any director during business hours, and in the case of financial information, if any, maintained outside the country, copies of such financial information should be maintained and produced for inspection by any director subject to such conditions as may be prescribed. Section 128(5) further states that the books of account of every company relating to a period of not less than 8 financial years immediately preceding a financial year, or where the company had been in existence for a period less than 8 years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account should be kept in good order.

Books of Accounts maintained in electronic mode

A company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times, so as to be usable for subsequent reference.

Provided that for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of

account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

The books of account and other relevant books and papers shall be retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.

The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.

The information in the electronic record of the document shall be capable of being displayed in a legible form.

There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law;

Provided that the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.

The company shall intimate to the Registrar on an annual basis at the time of filing of financial statement-

- (a) the name of the service provider;
- (b) the internet protocol address of service provider;
- (c) the location of the service provider (wherever applicable);
- (d) where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.

Explanation.- For the purposes of this rule, the expression "electronic mode" includes "electronic form" as defined in clause (r) of sub-section (1) of section 2 of Information Technology Act, 2000 and also includes an electronic record as

defined in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000 and "books of account " shall have the meaning assigned to it under the Act.

Where the service provider is located outside India, the name and address of the person in control of the books of account and other books and papers in India.

1.3 STATUTORY BOOKS

The following statutory books are required to be maintained by a company under different sections of the Companies Act, 2013:

- ◆ Register of Investments of the company held in its own name (Section 187)
- ◆ Register of Charges (Section 85)
- ◆ Register of Members (Sections 88)
- ◆ Register of Debenture-holders and other Security holders (Section 88)
- ◆ Minute Books (Section 118)
- ◆ Register of Contracts, or arrangements in which directors are interested (Section 189)
- ◆ Register of directors and key managerial personnel and their shareholding (Section 170)
- ◆ Register of Loans and Investments by Company (Section 186)

In addition, a company usually maintains a number of statistical books to keep a record of its transactions which have resulted either in the payment of money to it or constitute the basis on which certain payments have been made by it.

- ◆ Registers and documents relating to the issue of shares are:
 - (i) Share Application and Allotment Book;
 - (ii) Share Call Book
 - (iii) Certificate Book
 - (iv) Register of Members
 - (v) Share Transfer Book
 - (vi) Dividend Register.

1.4 ANNUAL RETURN

In accordance with Section 92 of the Companies Act, 2013, every company should prepare an annual return in the form prescribed by the Companies Act, 2013 signed by a director and the company secretary, or where there is no company secretary, by a company secretary in practice:

Provided that in relation to One Person Company and small company, the annual return should be signed by the company secretary, or where there is no company secretary, by the director of the company.

The annual return should be filed with the Registrar within 60 days from the day on which each of the annual general meeting (AGM) is held or where no AGM is held in any year, within 60 days from the date on which AGM should have been held along with a statement showing the reasons why AGM was not held.

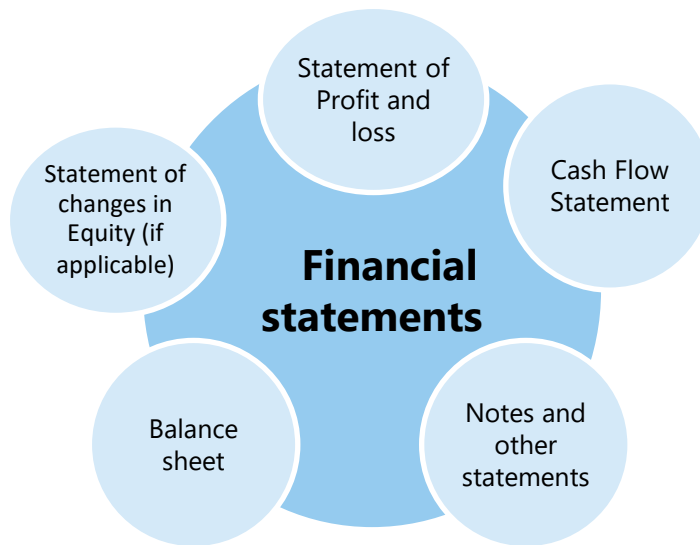
1.5 FINAL ACCOUNTS

Under Section 129 of the Companies Act, 2013, at the annual general meeting of a company, the Board of Directors of the company should lay financial statements before the company:

Financial Statements as per Section 2(40) of the Companies Act, 2013, *inter-alia* include -

- (i) a balance sheet as at the end of the financial year;
- (ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- (iii) cash flow statement for the financial year;
- (iv) a statement of changes in equity, if applicable; and
- (v) any explanatory note annexed to, or forming part of, any document referred to in (i) to (iv) above:

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.



The financial statements of a one person company, small company, dormant company or a private company (if such a private company is a start-up), may not include the cash flow statement.

Periodic Financial Statements

The Central Government may, require such class or classes of unlisted companies, as may be prescribed,—

- (a) to prepare the financial results of the company on such periodical basis and in such form as may be prescribed;
- (b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in such manner as may be prescribed; and
- (c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Requisites of Financial Statements

It should give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable

(1) Specific Act is Applicable

For instance, any

- (a) insurance company
- (b) banking company or
- (c) any company engaged in generation or supply of electricity* or
- (d) any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies

Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III.

Division	Applicable to:
Division I	Companies that are required to apply Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division II	Companies that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division III	Non-Banking Finance Companies (NBFCs) that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.

**Section 1(4)(d) of the Companies Act, 2013 states that the provisions of the Companies Act shall apply to companies engaged in the generation or supply of electricity, except in so far as the said provisions are inconsistent with the provisions of the Electricity Act, 2003. Keeping this in view, Schedule III may be followed by such companies till the time any other format is prescribed by the relevant statute.*

Points to be kept in mind while preparing final accounts:

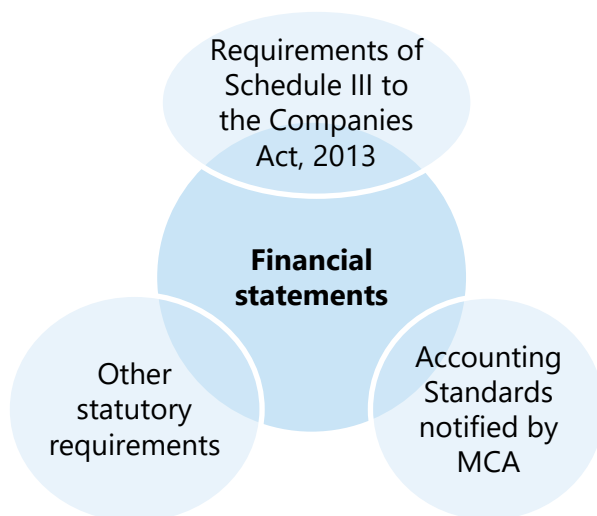
- ◆ Requirements of Schedule III to the Companies Act;
- ◆ Other statutory requirements;
- ◆ Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29²);
- ◆ Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI); which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

Compliance with Accounting Standards

As per section 133 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time.

Schedule III of the Companies Act, 2013

As per section 129 of the Companies Act, 2013, Financial statements should give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under section 133 and should be in the form or forms as may be provided for different class or classes of companies in Schedule III under the Act. Schedule III to the Companies Act, 2013 has been given as Annexure at the end of this chapter.



² AS 6 and AS 8 have been withdrawn

Example 1

In the financial statements of the financial year 20X1-20X2, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

Solution

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 20X1. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 20X2 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

Example 2

The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III.

Solution

Schedule III to the companies Act does not require that the amounts of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventories of WIP need to be disclosed in the statement of profit and loss. Non-disclosure of such change in the statement of profit and loss by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

Example 3

Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

Amount ₹ in lakhs

Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

Solution

Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) should be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, should be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus, the presentation by the company is incorrect.

Example 4

Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.20X1 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 20X1 according to Schedule III.

Solution

In the given case, instalments due on 30.09.20X1 and 31.03.20X2 will be shown under the head 'short term borrowings' as current maturities of loan from bank as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Therefore, in the balance sheet as on 31.3.20X1, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'short term borrowings'.

Example 5

Prince Ltd. presents its provisions for contingencies under "Reserves and Surplus" in Notes to Accounts in its financial statements. Whether this presentation is correct?

Solution

The ICAI's Glossary of Terms Used in Financial Statements defines the term 'Reserve' as "the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability." 'Reserves' should be distinguished from 'provisions'. For this purpose, reference may be made to the definition of the expression 'provision' in AS-29 Provisions, Contingent Liabilities and Contingent Assets.

As per AS-29, a 'provision' is "a liability which can be measured only by using a substantial degree of estimation". A 'liability' is "a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits." Present obligation' – "an obligation is a present obligation if, based on the evidence available, its existence at the Balance Sheet date is considered probable, i.e., more likely than not."

Example 6

Anek Ltd. is a company that is required to present its financial statements as per the Division I of Schedule III. The company has trade receivables at the balance sheet date. What are the disclosures that are applicable with respect to trade receivables in the financial statements?

Solution

Under Schedule III, trade receivables are required to be classified into long-term (non-current) trade receivables and short-term (current) trade receivables. Trade Receivables, shall be sub-classified as:

- (i) (a) Secured, considered good;
- (b) Unsecured considered good;
- (c) Doubtful

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

For trade receivables outstanding, following ageing schedule shall be given:

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months-1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade Receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables – considered good						
(iv) Disputed Trade Receivables – considered doubtful						

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Note: Students may note that the questions based on preparation of Statement of Profit and Loss and Balance Sheet and explanatory notes as per Schedule III have been given in this Unit. However, questions requiring preparation of cash flow statements have been separately given in the next unit of this chapter.



1.6 DISTRIBUTABLE PROFIT

One of the important functions of company accounting is to determine the amount of profits which is available for distribution to the shareholders as dividend. This is necessary since the amount of profits disclosed by the Profit & Loss Account, in every case, is not available for distribution. The availability of profits for distribution depends on a number of factors, *e.g.*, their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.

Meaning of Dividend

- (a) A dividend is a distribution of divisible profit of a company among the members according to the number of shares held by each of them in the capital of the company and the rights attaching thereto.
- (b) Such a distribution may or may not entail a release of assets; it would be where a distribution involves payment of cash.
- (c) But when profits are capitalised and the amount distributed is applied towards payment of bonus shares, issued free to the shareholders, no part of the assets of the company can be said to have been released since, in such a case, profits are only capitalised, thereby increasing the paid up capital of the company. The company does not give up any asset.

As per Section 2 (35) of the Companies Act, 2013, term "Dividend" includes interim dividend also.

Under Section 123 (1) of the Companies Act, 2013, no dividend should be declared or paid by a company for any financial year except-

- (a) Out of the profits of the company for that financial year arrived at after providing for depreciation in accordance with the provisions of section 123(2), or
- (b) Out of the profits for any previous financial years arrived at after providing for depreciation in accordance with the provisions of that sub section and remaining undistributed; or
- (c) Out of both the above;

- (d) Out of the moneys provided by the Central Government or any State Government for the payment of dividend by the Company in pursuance of any guarantee given by that government

Provided that no dividend should be declared or paid by a company from its reserves other than free reserves.

Declaration of a dividend presupposes that there is a trading profit or a surplus available for distribution, arrived at after providing for depreciation on assets, not only for the year in which the profits were earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by sub-section (2) of Section 123.

Sub-section (3) of Section 124 further states that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

***Dividends cannot be declared except out of profits.
Capital cannot be returned to the shareholders by way of dividend.***

Dividend can be declared and paid by a company only out of the profits or free reserves (other than moneys provided by Central or State Govt.) as the payment of dividend from any other source will amount to payment of dividend from capital units.

Section 123(2) states that depreciation must be provided to the extent specified in Schedule II to the Companies Act, 2013. Further, when the assets are sold, discarded, demolished or destroyed in any financial year, the excess of the written down value over its sale proceeds as scrap, if any should be written off in the same financial year.

Declaration and Payment of Dividend

For the purpose of second proviso to sub-section (1) of section 123, a company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the reserves, in the event of inadequacy or absence

of profits in any year, subject to the fulfilment of the following conditions as per Companies (Declaration and Payment of Dividend) Rules, 2014:

- (1) The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year: provided that this sub-rule should not apply to a company, which has not declared any dividend in each of the three preceding financial years.
- (2) The total amount to be drawn from such accumulated profits should not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- (3) The amount so drawn should first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.
- (4) The balance of reserves after such withdrawal should not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.
- (5) No company should declare dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year the loss or depreciation, whichever is less, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

Transfer to Reserves

- I The Board of Directors are free and can appropriate a part of the profits to the credit of a reserve or reserves as per section 123 (1) of the Companies Act, 2013.
- II Appropriation of a part of profit is sometimes made under law.
 - (a) For example, under the Banking Regulation Act, a fixed percentage of the profit of a banking company must first be transferred to the General Reserve before any dividend can be distributed.
 - (b) Transfer of a part of profit to a reserve is also necessary where the company has undertaken, at the time of raising of loan, that before any part of its profit is distributed, a specified percentage of the profit every year should be credited to a reserve for the repayment of the

loan and until the time for repayment arrives, the amount should remain invested in a specified manner.

- III Apart from appropriations aforementioned, it may also be necessary to provide for losses and arrears of depreciation and to exclude capital profit, as mentioned earlier, to arrive at the amount of divisible profit.

Declaration of Dividend

As per Section 123 of the Companies Act, 2013, Board of Directors of a company may declare dividend including interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

The amount of the dividend, including interim dividend, should be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.

No dividend should be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and should not be payable except in cash: Provided that nothing in Section 123 should be deemed to prohibit the capitalisation of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company:

Provided further that any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend.

Dividend on preference shares

- (a) Holders of preference shares are entitled to receive a dividend at a fixed rate before any dividend is declared on equity shares.
- (b) But such a right can be exercised subject to there being profits and the Directors recommending payment of the dividend.

Dividend on partly paid shares:

- A company may if so authorised by its Article, pay a dividend in proportion to the amount paid on each share (Section 51 of the Companies Act, 2013).

Calls in Advance

Calls paid in advance do not rank for payment of dividend.

Payment of Dividend

As per Section 124 of the Companies Act, 2013:

- (1) Where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company should, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.
- (2) The company should, within a period of ninety days of making any transfer of an amount under this section to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the website of the company, if any, and also on any other website approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.
- (3) If any default is made in transferring the total amount or any part thereof to the Unpaid Dividend Account of the company, it should pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of 12% per annum and the interest accruing on such amount should ensure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.
- (4) Any person claiming to be entitled to any money transferred to the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed.
- (5) Any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the date of such transfer should be transferred by the

company along with interest accrued, if any, thereon to the Fund "Investor Education and Protection Fund" established section 125 and the company should send a statement in the prescribed form of the details of such transfer to the authority which administers the said Fund and that authority should issue a receipt to the company as evidence of such transfer.

- (6) All shares in respect of which unpaid or unclaimed dividend has been transferred to "Investor Education and Protection Fund" should also be transferred by the company in the name of Investor Education and Protection Fund along with a statement containing such details as may be prescribed:

Provided that any claimant of shares transferred above should be entitled to claim the transfer of shares from Investor Education and Protection Fund in accordance with such procedure and on submission of such documents as may be prescribed.

- (7) If a company fails to comply with any of the requirements of this section, the company will be punishable with fine which will not be less than five lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default will be punishable with fine which will not be less than one lakh rupees but which may extend to five lakh rupees.

Illustration 1

Due to inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	₹
17,500 9% Preference shares of ₹ 100 each, fully paid up	17,50,000
8,00,000 Equity shares of ₹ 10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net profit for the year ended 31 st March, 20X2	3,00,000
Average rate of dividend during the last three years has been 12%.	

Solution

Amount that can be drawn from reserves for 10% dividend		
10% dividend on ₹ 80,00,000		₹ 8,00,000
Profits available		
Current year profit	3,00,000	
Less: Preference dividend	<u>(1,57,500)</u>	<u>(1,42,500)</u>
Amount which can be utilised from reserves		<u>6,57,500</u>

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 12,25,000 [10% of (80,00,000+17,50,000+25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15 % of its paid up capital ie. ₹ 14,62,500 (15% of ₹ 97,50,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserves (as per Declaration and Payment of Dividend Rules, 2014.)

Illustration 2

The following is the Trial Balance of Omega Limited as on 31.3.20X2:

(Figures in ₹'000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.X2)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

- (i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.
- (ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.
- (iii) Declared final dividend @ 10% on 2nd April, 20X2.
- (iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.20X1. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Omega Limited's Balance Sheet as on 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous years' figures & taxation.

Solution

Omega Limited
Balance Sheet as at 31st March, 20X2

<i>Particulars</i>	<i>Note No.</i>	<i>(₹ in 000)</i>
Equity and Liabilities		
1. Shareholders' funds		
A Share capital	1	300
B Reserves and Surplus	2	530
2. Non-Current liabilities		
A Long term borrowings	3	200
3. Current liabilities		
A Trade Payables		<u>52</u>
Total		<u>1082</u>
Assets		
1. Non-current assets		
A PPE (Property, Plant & Equipment)	4	880
2. Current assets		
A Inventories		86
B Trade receivables		96
C Cash and bank balances		<u>20</u>
Total		<u>1082</u>

Omega Limited**Statement of Profit and Loss for the year ended 31st March, 20X2**

Particulars	Notes	(₹ in 000)
I. Revenue from operations		700
II. Other Income	5	<u>2</u>
III Total Income		<u>702</u>
IV Expenses:		
Purchases		320
Finance costs	6	20
Depreciation (10% of 760*)		76
Other expenses	7	<u>120</u>
Total Expenses		<u>536</u>
V. Profit (Loss) for the period (III – IV)		166

Notes to accounts

		(₹ in 000)
1. Share Capital		
Equity share capital		
Authorised		
40,000 shares of ₹ 10 each		<u>400</u>
Issued & subscribed & called up		
30,000 shares of ₹ 10 each		300
2. Reserves and Surplus		
Securities Premium Account		40
Revaluation reserve (360 – 220)		140
General reserve		130

* 770 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Profit & loss Balance		
	Opening balance	72	
	Profit for the period	<u>166</u>	238
	Less: Appropriations		
	Interim Dividend	<u>(18)</u>	<u>220</u>
			<u>530</u>
3.	Long term borrowing		
	10% Debentures		200
4.	PPE		
	Land		
	Opening balance	220	
	Add: Revaluation adjustment	<u>140</u>	
	Closing balance		360
	Plant and Machinery		
	Opening balance	770	
	Less: Disposed off	<u>(10)</u>	
		760	
	Less: Depreciation (172-8+76)	<u>(240)</u>	
	Closing balance		520
	Total		880
5.	Other Income		
	Profit on sale of machinery:		
	Sale value of machinery	4	
	Less: Book value of machinery (10-8)	<u>(2)</u>	2
6.	Finance costs		
	Debenture interest		20
7.	Other expenses:		
	Factory expenses	60	
	Selling expenses	30	
	Administrative expenses	<u>30</u>	120

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

Illustration 3

You are required to prepare Balance sheet and statement of Profit and Loss from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 20X1.

Haria Chemicals Ltd. Trial Balance as at 31st March, 20X1

Particulars	₹	Particulars	₹
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of ₹ 10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to Directors	80,000	Bank loans	6,45,000
Advertisement	20,000	Trade payables	2,81,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Materials consumed	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provision:	
Current account	45,000	Machinery	1,46,000
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		

<i>Tools & Equipment</i>	<i>2,45,000</i>		
<i>Goodwill</i>	<i>2,65,000</i>		
<i>Trade receivables</i>	<i>4,40,000</i>		
<i>Dealer aids</i>	<i>21,000</i>		
<i>Transit insurance</i>	<i>30,000</i>		
<i>Trade expenses</i>	<i>37,000</i>		
<i>Distribution freight</i>	<i>54,000</i>		
<i>Debenture interest</i>	<i>55,000</i>		
	<i>85,35,000</i>		<i>85,35,000</i>

Additional information: Closing Inventory on 31-3-20X1: ₹ 8,23,000.

Solution

Haria Chemicals Ltd. Balance Sheet as at 31st March, 20X1

	<i>Schedule No. (1)</i>	<i>Rupees as at the end of 31st March 20X1 (2)</i>
Equity and Liabilities		
(1) Shareholders' funds :		
(a) Share Capital	1	25,00,000
(b) Reserves and Surplus	2	7,40,000
(2) Non Current Liabilities		
(a) Long term borrowings	3	11,45,000
(3) Current Liabilities		
(a) Trade payables		2,81,000
Total		46,66,000

Assets**(1) Non current assets**

(a) PPE	4	30,05,000
(b) Intangible assets (goodwill)		2,65,000

(2) Current assets

(a) Inventories		8,23,000
(b) Trade receivables		4,40,000
(c) Cash and bank balances	5	53,000
(d) Short term loans and advances	6	80,000

Total		46,66,000
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Haria Chemicals Ltd.**Statement of Profit and Loss for the year ended 31st March, 20X1**

	Schedule	Figures
Revenue from operations		42,68,000
Other income	7	<u>56,000</u>
(A)		43,24,000
Expenses		
Cost of materials consumed		23,19,000
Change in inventory of finished goods	8	(1,43,000)
Employee benefit expenses	9	9,00,000
Finance cost	10	1,71,000
Other expenses	11	<u>4,76,000</u>
(B)		<u>37,23,000</u>
Profit before tax (A – B)		6,01,000
Provision for tax		<u>—</u>
Profit for the period		6,01,000

Notes to Accounts**1. Share capital**

₹

Authorised:

Equity share capital of ₹ 10 each 25,00,000

Issued and Subscribed:

Equity share capital of ₹ 10 each 25,00,000

2. Reserves and Surplus

Balance as per last balance sheet 1,39,000

Balance in profit and loss account 6,01,0007,40,000**3. Long term Borrowings**

11% Debentures 5,00,000

Bank loans (assumed long-term) 6,45,00011,45,000**4. PPE**

	Gross block	Depreciation	Net Block
Freehold land	15,46,000		15,46,000
Furniture	2,00,000		2,00,000
Fixtures	3,00,000		3,00,000
Plant & Machinery	8,60,000	1,46,000	7,14,000
Tools & Equipment	<u>2,45,000</u>	<u> </u>	<u>2,45,000</u>
Total	31,51,000	1,46,000	30,05,000

5. Cash and bank balances

Cash and cash equivalents

Current account balance 45,000

Cash 8,000

Other bank balances Nil53,000

6. Short-term loans and Advances

Loan to directors	80,000
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7. Other Income

Rent received	46,000
---------------	--------

Transfer fees	<u>10,000</u>
---------------	---------------

	<u>56,000</u>
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8. Changes in inventory of finished goods, WIP & Stock in trade

Opening inventory	6,80,000
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Closing inventory	(8,23,000)	(1,43,000)
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9. Employee benefit expense

Wages	9,00,000
-------	----------

10. Finance cost

Interest on bank loans	1,16,000
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Debenture interest	<u>55,000</u>
--------------------	---------------

	<u>1,71,000</u>
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11. Other Expenses

Consumables	84,000
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Preliminary expenses	10,000
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Bad debts	35,000
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Discount	40,000
----------	--------

Rentals	25,000
---------	--------

Commission	1,20,000
------------	----------

Advertisement	20,000
---------------	--------

Dealers' aids	21,000
---------------	--------

Transit insurance	30,000
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Trade expenses	37,000
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Distribution freight	<u>54,000</u>
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	<u>4,76,000</u>
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Illustration 4

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 20X2:

	Dr. ₹	Cr. ₹
Authorised Capital-divided into 5,000 6% Preference Shares of ₹ 100 each and 10,000 equity Shares of ₹ 100 each		<u>15,00,000</u>
Subscribed Capital -		
5,000 6% Preference Shares of ₹ 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700

Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of ₹ 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve	<u> </u>	<u>2,00,000</u>
	<u>19,75,000</u>	<u>19,75,000</u>
Wages and Salaries Outstanding	1,280	
Inventory on 31st March, 20X2		
Wines, Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	

Depreciation : Furniture and Fittings @ 5% p.a. : Land and Building @ 2% p.a.

The Equity capital on 1st April, 20X1 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid. The Directors declared a dividend of 8% on equity shares on 2nd April, 20X2, transferring any amount that may be required from General Reserve. Ignore Taxation.

Solution

Balance Sheet of International Hotels Ltd. as at 31st March, 20X2

Particulars	Note No	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	13,00,000
b Reserves and Surplus	2	2,68,745
2 Non-current liabilities		
a Long-term borrowings	3	2,00,000
3 Current liabilities		
a Trade Payables	4	42,000
b Other current liabilities	5	13,280
Total		18,24,025
ASSETS		
1 Non-current assets		
i PPE	6	9,14,985
ii Intangible assets (Goodwill)		5,00,000
iii Non-current investments		2,72,300
2 Current assets		
i Inventories	7	38,900
ii Trade receivables		19,260
iii Cash and bank balances	8	78,580
Total		18,24,025

**Statement of Profit and Loss of International Hotels Ltd.
for the year ended 31st March, 20X2**

	Particulars	Notes	Amount
I.	Revenue from operations	9	1,79,700
II.	Other income	10	6,800
III.	Total Income (I + II)		1,86,500
IV.	Expenses:		
	Cost of materials consumed	11	25,060
	Purchases of Inventory-in-Trade	12	45,800
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	13	(9,700)
	Employee benefits expense	14	29,580
	Finance costs	15	12,000
	Other expenses	16	40,200
	Depreciation and amortisation expense	17	21,315
	Total expenses		1,64,255
V.	Profit (Loss) for the period (III - IV)		22,245

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
Authorised	
10,000 Equity shares of ₹ 100 each	10,00,000
Issued & subscribed	
8,000 Equity Shares of ₹ 100 each (A)	8,00,000
Preference share capital	
Authorised	
5,000 6% Preference shares of ₹ 100 each	5,00,000

Issued & subscribed		
5,000 6% Preference shares of ₹ 100 each	(B)	5,00,000
Total (A + B)		13,00,000
2 Reserves and Surplus		
Capital reserve [100 x (90 – 40)]		5,000
General reserve		2,00,000
Surplus (Profit & Loss A/c)	22,245	
Add: Balance from previous year	<u>41,500</u>	<u>63,745</u>
Total		<u>2,68,745</u>
3 Long-term borrowings		
Secured		
6% Debentures		2,00,000
Total		2,00,000
4 Trade Payables		42,000
5 Other current liabilities		
Wages and Salaries Outstanding	1,280	
Interest on debentures	12,000	13,280
Total		13,280
6 PPE		
Freehold land & Buildings	8,50,000	
Less: Depreciation	<u>(17,000)</u>	<u>8,33,000</u>
Furniture and Fittings	86,300	
Less: Depreciation	<u>(4,315)</u>	<u>81,985</u>
Total		9,14,985

7 Inventories		
Wines, Cigarettes & Cigars, etc.		22,500
Foodstuffs		16,400
Total		38,900
8 Cash and bank balances		
Cash and cash equivalents		
Cash at bank		76,380
Cash in hand		2,200
Other bank balances		Nil
Total		78,580
9 Revenue from operations		
Sale of products		
Wines, Cigarettes, Cigars etc.	68,400	
Food	<u>57,600</u>	1,26,000
Sale of services		
Room Rent	48,000	
Billiards	<u>5,700</u>	53,700
Total		1,79,700
10 Other Income		
Transfer fees	700	
Miscellaneous Receipts	2,800	
Discount received	<u>3,300</u>	
Total		6,800
11 Cost of materials consumed		
Opening Inventory	5,260	
Add: Purchases during the year	36,200	
Less: Closing Inventory	(16,400)	25,060
Total		25,060

12 Purchases of Inventory-in-Trade		
Wines, Cigarettes etc.		45,800
Total		45,800
13 Changes in inventories of finished goods work-in-progress and Inventory-in-Trade		
Wines, Cigarettes etc.		
Opening Inventory	12,800	
Less: Closing Inventory	(22,500)	(9,700)
Total		(9,700)
14 Employee benefits expense		
Wages and Salaries	28,300	
Add: Wages and Salaries Outstanding	1,280	29,580
Total		29,580
15 Finance costs		
Interest on Debentures (2,00,000 x 6%)		12,000
16 Other expenses		
operating expenses		
Rent, Rates and Taxes	8,900	
Coal and Firewood	3,290	
Laundry	750	
Carriage and Cooliage	810	
Repairs	<u>4,250</u>	18,000
Selling and administrative expenses		
Advertising	8,360	
Sundry Expenses	<u>5,840</u>	14,200
Preliminary expenses written off		8,000
Total		40,200
17 Depreciation and amortisation expense		
Land and Buildings (8,50,000 x 2%)	17,000	
Furniture & Fittings (86,300 x 5%)	4,315	21,315
Total		21,315

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

Illustration 5

From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 20X1 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

	Debit	Credit
	₹	₹
Equity Capital (Face value of ₹ 100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Inventory:		
Finished Goods	2,00,000	
Raw Materials	<u>50,000</u>	2,50,000
Provision for Taxation		68,000
Trade receivables	2,00,000	
Advances	42,700	
Dividend Payable		60,000
Profit and Loss Account		86,700

Cash Balance	30,000	
Cash at Bank	2,47,000	
Loans (Unsecured)		1,21,000
Trade payables (For Goods and Expenses)		2,00,000
	18,95,700	18,95,700

The following additional information is also provided:

- (1) 2,000 equity shares were issued for consideration other than cash.
- (2) Trade receivables of ₹ 52,000 are due for more than six months.
- (3) The cost of assets:

Building	₹ 4,00,000
Plant and Machinery	₹ 7,00,000
Furniture	₹ 62,500
- (4) The balance of ₹ 1,50,000 in the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- (5) Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (6) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

Solution

Pioneer Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	9,99,000
b Reserves and Surplus	2	2,96,700

2 Non-current liabilities		
a Long-term borrowings	3	2,63,500
3 Current liabilities		
a Trade Payables		2,00,000
b Other current liabilities	4	67,500
c Short-term provisions	5	68,000
Total		18,94,700
Assets		
1 Non-current assets		
a PPE	6	11,25,000
2 Current assets		
a Inventories	7	2,50,000
b Trade receivables	8	2,00,000
c Cash and bank balances	9	2,77,000
d Short-term loans and advances		42,700
Total		18,94,700

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
Issued & subscribed & called up	
10,000 Equity Shares of ₹ 100 each	10,00,000
(Of the above 2,000 shares have been issued for consideration other than cash)	
Less: Calls in arrears	(1,000)
Total	9,99,000
2 Reserves and Surplus	
General Reserve	2,10,000
Surplus (Profit & Loss A/c)	86,700
Total	2,96,700

3 Long-term borrowings			
Secured- Term Loans			
Loan from State Financial Corporation			1,42,500
(1,50,000 – 7,500)			
(Secured by hypothecation of Plant and Machinery)			
Unsecured loan			1,21,000
	Total		2,63,500
4 Other current liabilities			
Interest accrued but not due on loans (SFC)			7,500
Dividend Payable			60,000
	Total		67,500
5 Short-term provisions			
Provision for taxation			68,000
	Total		68,000
6 PPE			
Land			2,00,000
Buildings	4,00,000		
Less: Depreciation	(50,000) (b.f.)		3,50,000
Plant & Machinery	7,00,000		
Less: Depreciation	(1,75,000) (b.f.)		5,25,000
Furniture & Fittings	62,500		
Less: Depreciation	(12,500) (b.f.)		50,000
	Total		11,25,000
7 Inventories			
Raw Material			50,000
Finished goods			2,00,000
	Total		2,50,000

8 Trade receivables	
Debts outstanding for a period exceeding six months	52,000
Other Debts	1,48,000
Total	2,00,000
9 Cash and bank balances	
<i>Cash and cash equivalents</i>	
Cash at bank	
with Scheduled Banks	2,45,000
with others (Perfect Bank Ltd.)	2,000
Cash in hand	30,000
<i>Other bank balances</i>	Nil
Total	2,77,000

Note: Estimated amount of contract remaining to be executed on capital account and not provided for ₹ 1,50,000. It has been assumed that the company had given this contract for purchase of machinery.

Illustration 6

Following is the trial balance of Delta limited as on 31.3.20X2.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.X1)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-X2)	96	Sales	1200

Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

- (i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- (ii) The company revalued the land at ₹ 9,60,000.
- (iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.
- (iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.20X1. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
- (vii) Make provision for income tax @30%.
- (viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous year's figures & taxation.

Solution

Delta Limited

Balance Sheet as at 31st March 20X2

Particulars	Note No.	(₹ in '000)
A. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.00
(b) Short- term provision	4	<u>163.80</u>
Total		<u>1,796.00</u>
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables	6	120.00
(c) Cash and Cash equivalents	7	<u>30.00</u>
Total		<u>1,796.00</u>

Statement of Profit and Loss for the year ended 31st March 20X2

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		1200.00
II. Other Income	8	<u>6.00</u>
III. Total Income (I +II)		<u>1,206.00</u>
IV. Expenses:		
Purchases (adjusted)		400.00

Finance Costs	9	30.00
Depreciation (10% of 800)		80.00
Other expenses	10	<u>150.00</u>
Total Expenses		<u>660.00</u>
V. Profit / (Loss) for the period before tax (III – IV)		546.00
VI. Tax expenses @30%		<u>163.80</u>
VII Profit for the period		<u>382.20</u>

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		<u>800</u>
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(5)</u>	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	<u>382.20</u>	<u>457.20</u>
			<u>807.20</u>

3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	<u>160</u>	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	<u>(24)</u>	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	<u>(210)</u>	
	Closing Balance		<u>590</u>
	Total		<u>1,550</u>
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	<u>70</u>	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	<u>2</u>	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	<u>(4)</u>	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	<u>45</u>	150

SUMMARY

- Definitions of various types of companies as per the Companies Act, 2013.
- Books of accounts should be maintained at Registered office of company.
- Proper books are not deemed to be kept if they do not provide a true and fair view of state of affairs of company.
- A number of Statutory Books have been prescribed under Companies Act which is to be maintained along with statistical books to keep a record of all transactions.
- Annual Return is to be filed by every company within 60 days of holding Annual general meeting.
- Financial statements of a company should be as per Schedule III to the Companies Act, 2013 and they should give true and fair view.
- Determining amount of profits available for distribution is an important function and depends on a number of factors, like their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.
- Capital cannot be returned to shareholders by way of dividend.
- Appropriating a part of profits may be done as a result of decision of Board of directors or as per law.
- Dividend may be declared out of reserves subject to certain conditions. Dividends cannot be declared except out of profits.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Trade payables as per Schedule III will include:*
 - (a) *Dues payable in respect to statutory obligation*
 - (b) *Interest accrued on trade payables*
 - (c) *Bills payables.*
 - (d) *Bills receivables*
2. *Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:*
 - (a) *Reserves and Surplus.*
 - (b) *Current Liabilities.*
 - (c) *Share Capital.*
 - (d) *Share application money pending allotment*
3. *"Fixed assets held for sale" will be classified in the company's balance sheet as*
 - (a) *Current asset*
 - (b) *Non-current asset*
 - (c) *Capital work- in- progress*
 - (d) *Deferred tax assets*
4. *Current maturities of long- term debt will come under*
 - (a) *Current Liabilities.*
 - (b) *Short term borrowings.*
 - (c) *Long term borrowings.*
 - (d) *Short term provisions*

5. Declaration of dividends for current year is made after providing for
- Depreciation of past years only.
 - Depreciation on assets for the current year and arrears of depreciation of past years (if any).
 - Depreciation on current year only and by forgoing arrears of depreciation of past years.
 - Excluding current year depreciation

Theoretical Questions

6. State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share application money received in excess of issued share capital.
 - Share option outstanding account.
 - Unpaid matured debenture and interest accrued thereon.
 - Uncalled liability on shares and other partly paid investments.
 - Calls unpaid.
 - Money received against share warrant.

Scenario based Questions

7. On 31st March, 20X1 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 20X1:

Credit Balances:

	₹
Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
(Secured by hypothecation of Plant & Machinery Repayable	

<i>within one year ₹ 2,00,000)</i>	
<i>Loans: Unsecured (Long term)</i>	<i>8,47,000</i>
<i>Sundry Creditors for goods & expenses</i> <i>(Payable within 6 months)</i>	<i>14,00,000</i>
<i>Profit & Loss Account</i>	<i>7,00,000</i>
<i>Provision for Taxation</i>	<i>8,16,900</i>
	<i>1,33,63,000</i>

Debit Balances:

	₹
<i>Calls in arrear</i>	<i>7,000</i>
<i>Land</i>	<i>14,00,000</i>
<i>Buildings</i>	<i>20,50,000</i>
<i>Plant and Machinery</i>	<i>36,75,000</i>
<i>Furniture & Fixture</i>	<i>3,50,000</i>
<i>Inventories: Finished goods</i>	<i>14,00,000</i>
<i>Raw Materials</i>	<i>3,50,000</i>
<i>Trade Receivables</i>	<i>14,00,000</i>
<i>Advances: Short-term</i>	<i>2,98,900</i>
<i>Cash in hand</i>	<i>2,10,000</i>
<i>Balances with banks</i>	<i>17,29,000</i>
<i>Preliminary Expenses</i>	<i>93,100</i>
<i>Patents & Trademarks</i>	<i>4,00,000</i>
	<i>1,33,63,000</i>

The following additional information is also provided in respect of the above balances:

- (i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.
- (ii) Cost of Building ₹ 28,00,000

- (iii) Cost of Plant & Machinery ₹ 49,00,000
 Cost of Furniture & Fixture ₹ 4,37,500
- (iv) Trade receivables for ₹ 3,80,000 are due for more than 6 months.
- (v) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.
- (vi) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.
- (vii) Entire amount of Preliminary expenses to be written off, by adjusting from opening balance of General Reserve.

You are not required to give previous year's figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III to the Companies Act, 2013.

8. From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III to the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	<u>10,00,000</u>	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	

<i>Profit & Loss Account</i>			4,33,500
<i>Cash in Hand</i>		1,50,000	
<i>Cash at Bank</i>		12,35,000	
<i>Unsecured Loan</i>			6,05,000
<i>Trade payables (for Goods and Expenses)</i>			8,00,000
<i>Loans & advances from related parties</i>			2,00,000
		94,78,500	94,78,500

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
 - (ii) Trade receivables of ₹2,60,000 are due for more than 6 months.
 - (iii) The cost of the Assets were:
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹3,12,500
 - (iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
 - (v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
 - (vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.
 - (vii) Board of directors declared dividend of 5% on the paid up capital on 2nd April, 20X1.
9. Ring Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:

Particulars	₹	Particulars	₹
<i>Buildings</i>	5,80,000	<i>Sales</i>	10,40,000
<i>Machinery</i>	2,00,000	<i>Outstanding Expenses</i>	4,000
<i>Closing Stock</i>	1,80,000	<i>Provision for Doubtful</i>	6,000
<i>Loose Tools</i>	46,000	<i>Debts (1-4-20X1)</i>	

<i>Purchases (finished goods)</i>	<i>4,20,000</i>	<i>Equity Share Capital</i>	<i>4,00,000</i>
<i>Salaries</i>	<i>1,20,000</i>	<i>General Reserve</i>	<i>80,000</i>
<i>Directors' Fees</i>	<i>20,000</i>	<i>Profit and Loss A/c</i>	<i>50,000</i>
<i>Rent</i>	<i>52,000</i>	<i>(1-4-20X1)</i>	
<i>Depreciation</i>	<i>40,000</i>	<i>Creditors</i>	<i>1,84,000</i>
<i>Bad Debts</i>	<i>12,000</i>	<i>Provision for depreciation:</i>	
<i>Investment</i>	<i>2,40,000</i>	<i>On Building 1,00,000</i>	
<i>Interest accrued on investment</i>	<i>4,000</i>	<i>On Machinery <u>1,10,000</u></i>	<i>2,10,000</i>
<i>Debenture Interest</i>	<i>56,000</i>	<i>14% Debentures</i>	<i>4,00,000</i>
<i>Advance Tax</i>	<i>1,20,000</i>	<i>Interest on Debentures</i>	<i>28,000</i>
<i>Sundry expenses</i>	<i>36,000</i>	<i>accrued but not due</i>	
<i>Debtors</i>	<i>2,50,000</i>	<i>Interest on Investments</i>	<i>24,000</i>
<i>Bank</i>	<i>60,000</i>	<i>Unclaimed dividend</i>	<i>10,000</i>
	<i>24,36,000</i>		<i>24,36,000</i>

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information:

- Closing stock is more than opening stock by ₹ 1,60,000.*
- Provide to doubtful debts @ 4% on Debtors.*
- Make a provision for income tax @30%.*
- Depreciation expense included depreciation of ₹ 16,000 on Building and that of ₹ 24,000 on Machinery.*
- The directors declared a dividend @ 25% on 2nd April, 20X2 and transfer to General Reserve @ 10%.*
- Bills Discounted but not yet matured ₹ 20,000.*

10. On 31st March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 20X1.

Particulars	Amount (₹)	
	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

- (1) 50,000 fully paid equity shares were allotted as consideration for land.

- (2) *The cost of assets were:*

<i>Building</i>	<i>₹ 32,00,000</i>
<i>Plant and Machinery</i>	<i>₹ 30,00,000</i>
<i>Furniture and Fixture</i>	<i>₹ 16,50,000</i>

- (3) *Trade Receivables for ₹ 4,86,000 due for more than 6 months.*
- (4) *Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.*
- (5) *Loan from Public Finance Corporation repayable after 3 years.*
- (6) *The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.*
- (7) *Other long term loans (unsecured) includes:*

<i>Loan taken from Nixes Bank</i>	<i>₹ 13,80,000</i>
<i>(Amount repayable within one year</i>	<i>₹ 4,80,000)</i>
<i>Loan taken from Directors</i>	<i>₹ 8,50,000</i>

- (8) *Bills Receivable for ₹ 1,60,000 maturing on 15th June, 20X1 has been discounted.*
- (9) *Short term borrowings includes:*

<i>Loan from Naya bank</i>	<i>₹ 1,16,000 (Secured)</i>
<i>Loan from directors</i>	<i>₹ 48,000</i>

- (10) *Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.*
- (11) *Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)*

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures.

ANSWERS/HINTS

Answer to the Multiple Choice Questions

1.	(c)	2.	(a)	3.	(a)	4.	(b)	5.	(b)
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Answer to the Theoretical Questions

6. (i) Current Liabilities/ Other Current Liabilities
 (ii) Shareholders' Fund / Reserve & Surplus
 (iii) Current liabilities/Other Current Liabilities
 (iv) Contingent Liabilities and Commitments
 (v) Shareholders' Fund / Share Capital
 (vi) Shareholders' Fund / Money received against share warrants

Answer to the Scenario based Questions

7. **Bose and Sen Ltd.**
Balance Sheet as at 31st March, 20X1

Particulars		Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	69,93,000
b	Reserves and Surplus	2	21,56,000
2	Non-current liabilities		
a	Long-term borrowings	3	16,97,000
3	Current liabilities		
a	Trade Payables		14,00,000

	b	Short term borrowings	4	2,00,000
	c	Short-term provisions	5	8,16,900
		Total		1,32,62,900
Assets				
1		Non-current assets		
	a	PPE	6	74,75,000
	b	Intangible assets (Patents & Trade Marks)		4,00,000
2		Current assets		
	a	Inventories	7	17,50,000
	b	Trade receivables	8	14,00,000
	c	Cash and bank balances	9	19,39,000
	d	Short-term loans and advances		2,98,900
		Total		1,32,62,900

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	7,00,000 Equity Shares of ₹ 10 each	70,00,000	
	(Out of the above 4,20,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(7,000)</u>	<u>69,93,000</u>
	Total		69,93,000
2	Reserves and Surplus		
	General Reserve	15,49,100	

	Less: Preliminary expenses	(93,100)	14,56,000
	Surplus (Profit & Loss A/c)		<u>7,00,000</u>
	Total		<u>21,56,000</u>
3	Long-term borrowings		
	Secured		
	Term Loans		
	Loan from State Finance Corporation (₹ 10,50,000 - ₹ 2,00,000) (Secured by hypothecation of Plant and Machinery)		8,50,000
	Unsecured		
	Bank Loan	2,00,000	
	Loan from related parties	1,00,000	
	Others	<u>5,47,000</u>	<u>8,47,000</u>
	Total		<u>16,97,000</u>
4	Short term borrowings		
	Current maturities of long-term debt- loan Instalment repayable within one year		2,00,000
5	Short-term provisions		
	Provision for taxation		8,16,900
6	Property, plant and equipment		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	(7,50,000) (b.f.)	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	(12,25,000) (b.f.)	36,75,000
	Furniture & Fittings	4,37,500	

	Less: Depreciation	(87,500) (b.f.)	3,50,000
	Total		74,75,000
7	Inventories		
	Raw Material		3,50,000
	Finished goods		14,00,000
			17,50,000
8	Trade receivables		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		10,20,000
	Total		14,00,000
9	Cash and bank balances		
	<i>Cash and cash equivalents</i>		
	Cash at bank with Scheduled Banks	12,11,000	
	with others	18,000	12,29,000
	Cash in hand		2,10,000
	<i>Other bank balances</i>		
	Bank deposits for period of 9 months		5,00,000
	Total		19,39,000

8.

Alpha Ltd.

Balance Sheet as at 31st March, 20X1

		Particulars	Notes	₹
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	49,95,000

2	b	Reserves and Surplus	2	14,83,500
		Non-current liabilities		
3		Long-term borrowings	3	13,17,500
		Current liabilities		
	a	Trade Payables		8,00,000
	b	Short-term provisions	5	6,40,000
	c	Short-term borrowings	4	2,00,000
	d	Other Current Liabilities: Interest accrued but not due on loans (SFC)		<u>37,500</u>
		Total		<u>94,73,500</u>
		Assets		
1		Non-current assets		
		PPE	6	56,25,000
2		Current assets		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		<u>2,13,500</u>
		Total		<u>94,73,500</u>

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of ₹ 100 each		
(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	

Less: Calls in arrears	(5,000)	<u>49,95,000</u>
Total		<u>49,95,000</u>
2 Reserves and Surplus		
General Reserve	10,50,000	
Add: current year transfer	20,000	10,70,000
Profit & Loss balance		
Profit for the year	4,33,500	
Less: Appropriations:		
Transfer to General reserve	(20,000)	4,13,500
Total		<u>14,83,500</u>
3 Long-term borrowings		
Secured Term Loan		
State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
Unsecured Loan		6,05,000
Total		<u>13,17,500</u>
4 Short term Borrowings		
Loans and advances		<u>2,00,000</u>
5 Short-term provisions		
Provision for taxation		6,40,000
6 Property, plant and equipment		
Land and Building	30,00,000	
Less: Depreciation	(2,50,000) (b.f.)	27,50,000
Plant & Machinery	35,00,000	
Less: Depreciation	(8,75,000) (b.f.)	26,25,000
Furniture & Fittings	3,12,500	
Less: Depreciation	(62,500) (b.f.)	2,50,000
Total		<u>56,25,000</u>

7 Inventories		
Raw Materials		2,50,000
Finished goods		10,00,000
Total		12,50,000
8 Trade receivables		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		7,40,000
Total		10,00,000
9 Cash and bank balances		
<i>Cash and cash equivalents</i>		
Cash at bank		
with Scheduled Banks	12,25,000	
with others (Omega Bank Ltd.)	10,000	12,35,000
Cash in hand		1,50,000
<i>Other bank balances</i>		Nil
Total		13,85,000

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X1. Such dividends will be disclosed in notes only.

9.

Ring Ltd.**Profit and Loss Statement for the year ended 31st March, 20X2**

	Particulars	Note No.	(₹ In lacs)
I	Revenue from operations		10,40,000
II	Other income (interest on investment)		<u>24,000</u>
III	Total income [I + II]		<u>10,64,000</u>

IV	Expenses:		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs (debenture interest)		56,000
	Depreciation and Amortisation Expenses		40,000
	Other Expenses	8	<u>1,24,000</u>
	Total Expenses		<u>7,60,000</u>
V	Profit before Tax (III-IV)		3,04,000
VI	Tax Expenses @ 30%		(91,200)
VII	Profit for the period		2,12,800

Balance Sheet of Ring Ltd. as at 31ST March, 20X2

	Particulars	Note No.	₹
I	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds		
	(a) Share Capital	1	4,00,000
	(b) Reserves and Surplus	2	3,42,800
(2)	Non-Current Liabilities		
	(a) Long-term Borrowings (14% debentures)		4,00,000
(3)	Current Liabilities		
	(a) Trade Payable (Sundry Creditors)		1,84,000
	(b) Other Current Liabilities	3	42,000
	(c) Short-Term Provisions	4	91,200
	Total		<u>14,60,000</u>
II	ASSETS		
(1)	Non-Current Assets		
	(a) PPE	5	5,70,000
	(b) Non-current Investments		2,40,000

(2)	Current Assets		
	(a) Inventories	6	2,26,000
	(b) Trade Receivables	7	2,40,000
	(c) Cash and bank balances		60,000
	(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
	(e) Other Current Assets (Interest accrued on investments)		4,000
	Total		14,60,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting to ₹ 20,000.

Notes to Accounts:

1.	Share Capital		
	Authorised Capital		
	10,000 Equity Shares of ₹ 100 each		<u>10,00,000</u>
	Issued Capital		
	4,000 Equity Shares of ₹ 100 each		4,00,000
	Subscribed Capital and fully paid		
	4,000 Equity Shares of ₹ 100 each		4,00,000
2.	Reserve and Surplus		
	General Reserve [₹ 80,000 + ₹ 21,280]		1,01,280
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50,000	
	Add: Profit for the period	<u>2,12,800</u>	
		2,62,800	
	Appropriations		
	Transfer to General Reserve @ 10%	<u>(21,280)</u>	<u>2,41,520</u>
			<u>3,42,800</u>

3. Other Current Liabilities		
Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		<u>28,000</u>
		<u>42,000</u>
4. Short-Term Provision		
Provision for Tax		91,200
5 Property, plant and equipment		
Buildings	5,80,000	
Less: Provision for Depreciation	<u>1,00,000</u>	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	<u>1,10,000</u>	<u>90,000</u>
		<u>5,70,000</u>
6 Inventories		
Closing Stock of Finished Goods	1,80,000	
Loose Tools	<u>46,000</u>	<u>2,26,000</u>
7 Trade Receivables		
Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	<u>(10,000)</u>	<u>2,40,000</u>
8. Other Expenses		
Rent		52,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of ₹ 2,50,000 less ₹ 6,000)		4,000
Sundry Expenses		36,000
		<u>1,24,000</u>

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

10.

SR Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 Non-current liabilities		
a Long-term borrowings	3	42,66,000
3 Current liabilities		
a Short-term borrowings	4	9,40,000
b Trade Payables		8,13,000
c Other current liabilities	5	2,04,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1 Non-current assets		
a PPE	7	92,00,000
2 Current assets		
a Inventories	8	58,00,000
b Trade receivables	9	17,50,000
c Cash and cash equivalents	10	4,84,000
d Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

			₹
1.	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	1,60,000 Equity Shares of ₹ 50 each	80,00,000	
	(Out of the above 50,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(15,000)</u>	79,85,000
2.	Reserves and Surplus		
	General Reserve	9,41,000	
	Add: Transferred from Profit and loss account	<u>35,000</u>	9,76,000
	Securities premium		15,00,000
	Surplus (Profit & Loss A/c)	5,80,000	
	Less: Appropriation to General Reserve (proposed)	<u>(35,000)</u>	<u>5,45,000</u>
			<u>30,21,000</u>
3.	Long-term borrowings		
	Secured: Term Loans		
	Loan from Public Finance Corporation [repayable after 3years (₹ 26,30,000 - ₹ 1,34,000 for interest accrued but not due)] (secured by hypothecation of land)		24,96,000
	Unsecured		
	Bank Loan (Nixes bank) 9,00,000 (₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)		

	Loan from Directors	8,50,000		
	Others	<u>20,000</u>		<u>17,70,000</u>
	Total			<u>42,66,000</u>
4.	Short-term borrowings			
	Loan from Naya bank (Secured)	1,16,000		
	Loan from Nixes bank repayable within one year (Current maturity of Long term borrowing)	4,80,000		
	Loan from Directors	48,000		
	Others	<u>2,96,000</u>		9,40,000
5.	Other current liabilities			
	Unpaid dividend	70,000		
	Interest accrued but not due on borrowings	<u>1,34,000</u>		2,04,000
6.	Short-term provisions			
	Provision for taxation			3,80,000
7.	PPE			
	Land			25,00,000
	Buildings	32,00,000		
	Less: Depreciation	<u>(2,00,000)</u>		30,00,000
	Plant & Machinery	30,00,000		
	Less: Depreciation	<u>(6,00,000)</u>		24,00,000
	Furniture & Fittings	16,50,000		
	Less: Depreciation	<u>(3,50,000)</u>		<u>13,00,000</u>
	Total			<u>92,00,000</u>
8.	Inventories			
	Raw Material	13,00,000		
	Finished goods	40,00,000		

	Loose tools	<u>5,00,000</u>	58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		<u>12,64,000</u>
	Total		<u>17,50,000</u>
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	<u>56,000</u>	4,14,000
	Cash in hand		<u>70,000</u>
	Total		<u>4,84,000</u>

Note: There is a contingent liability amounting to ₹ 1,60,000

UNIT 2: CASH FLOW STATEMENTS

LEARNING OUTCOMES

After studying this unit, you will be able to–

- ◆ Define cash flow statement as per AS 3 “Cash Flow Statements”.
- ◆ Differentiate operating, investing and financing activities.
- ◆ Learn the various elements of cash and cash equivalents.
- ◆ Prepare cash flow statement both by direct method and indirect method.

UNIT OVERVIEW



Definition & Significance of cash flow statement

Meaning of Cash & cash equivalents and Cash flow

Difference between operating, investing and financing activities.

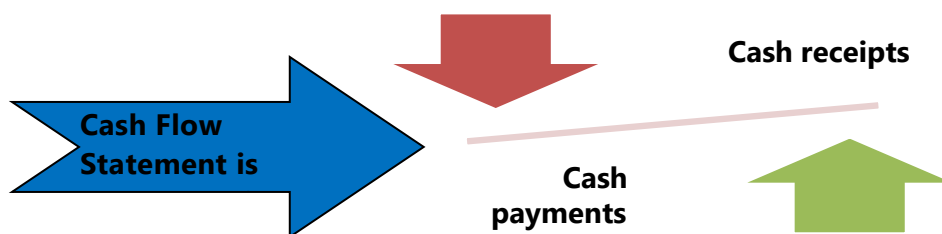
Preparation of Cash Flow Statement as per AS 3.

2.1 INTRODUCTION

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainty of their generation.

The Standard deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

This statement provides relevant information in assessing a company's liquidity, quality of earnings and solvency.



Benefits:

- (a) Cash flow statement provides information about the changes in cash and cash equivalents of an enterprise.
- (b) Identifies cash generated from trading operations.
- (c) The operating cash surplus which can be applied for investment in fixed assets.
- (d) Portion of cash from operations is used to pay dividend and tax and the other portion is ploughed back.
- (e) Very useful tool of planning.

Purpose:

Cash flow statements are prepared to explain the cash movements between two points of time.

Sources of Cash:

1. Issue of shares and debentures and raising long-term loan.
2. Sale of investments and other fixed assets.
3. Cash from operations (Net Operating Profit).

Applications of Cash

1. Redemption of preference shares and debentures and repayment of long-term loan.

2. Purchase of investments and other fixed assets.
3. Payment of tax.
4. Payment of dividend.
5. Loss on Operation (Net Operating Loss)

Note: Cash includes Bank Account also. Increase in cash or decrease in cash is put in the applications and the sources respectively just to balance the cash flow statement. At this juncture, you may note that changes in all balance sheet items are to be taken into consideration separately in cash flow statement for explaining movement of cash.

2.2 ELEMENTS OF CASH

As per AS 3, issued by the Council of the ICAI,

'Cash' include:

- (a) Cash in hand,
- (b) Demand deposits with banks, and

Cash equivalents include:

- (a) Components
 - Short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value
 - Securities with short maturity period of, say, three months or less from the date of acquisition
- (b) Objective
 - Deploy, for a short period, idle cash required to meet short-term cash-commitments.
- (c) Examples
 - Acquisition of preference shares, shortly before their specified redemption date, bank deposits with short maturity period, etc.

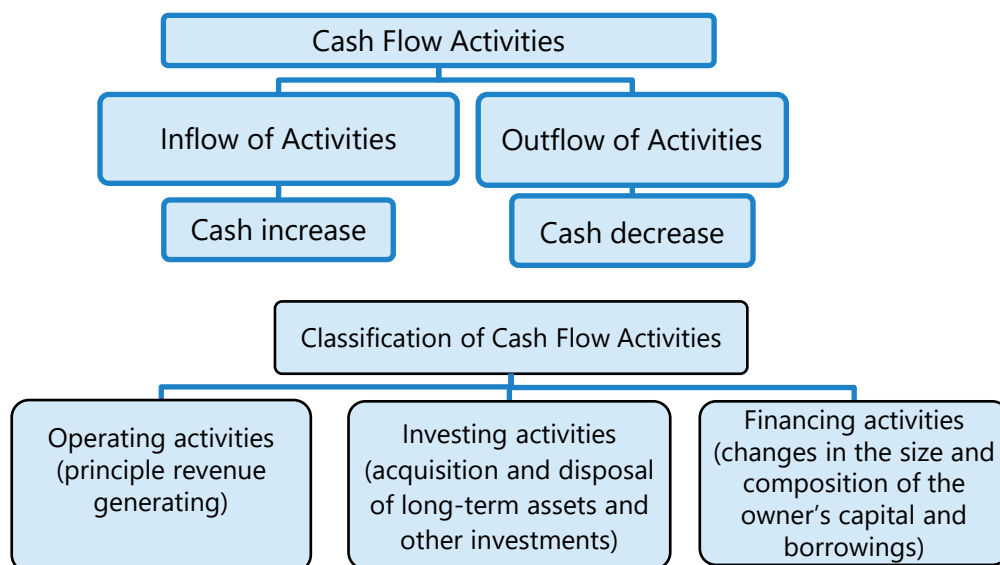
Conclusion: Thus, cash flow statement deals with flow of cash funds but does not consider the movements among cash, bank balance payable on demand and

investment of excess cash in cash equivalents. Examples are cash withdrawn from current account, cash deposited in bank for 60 days, etc.



2.3 CLASSIFICATION OF CASH FLOW ACTIVITIES

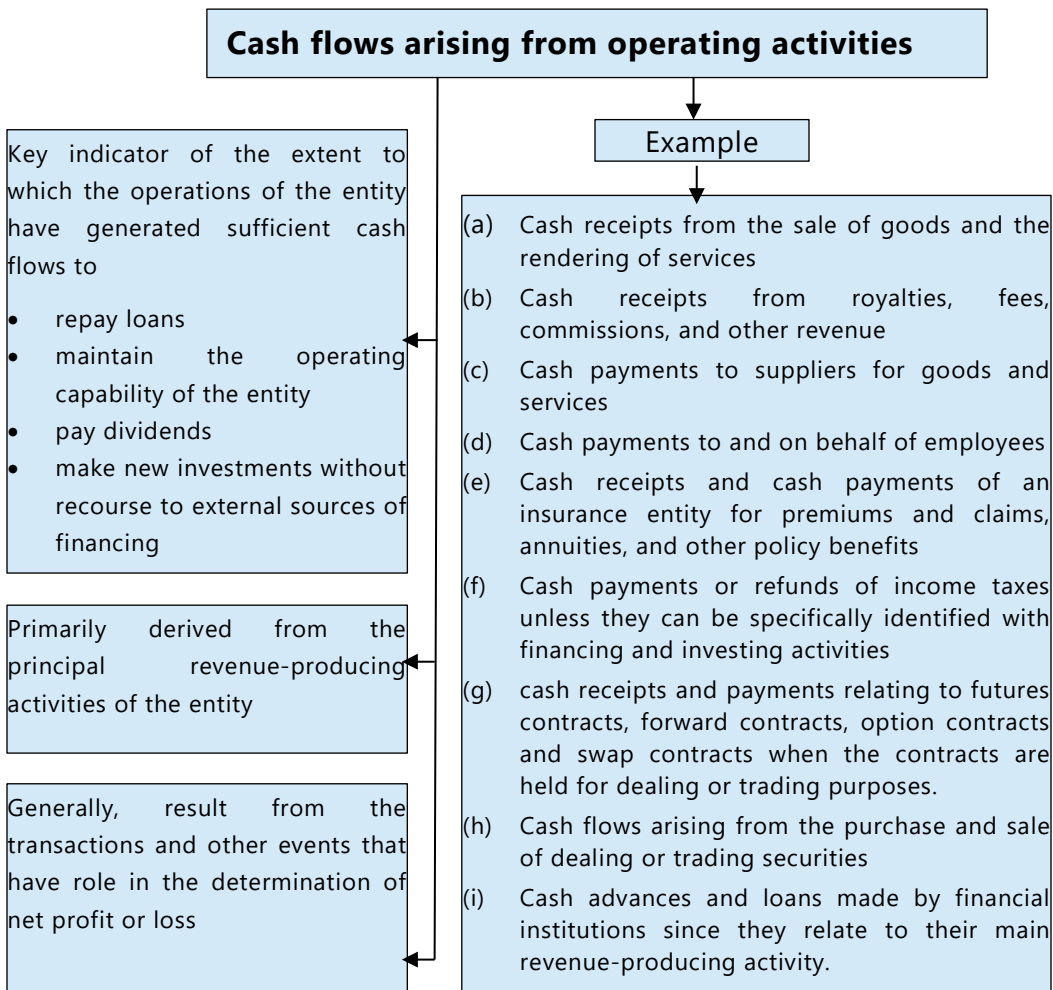
AS 3 provides explanation for changes in cash position of the business entity. As per Accounting Standard 3, cash flows during the period are classified as Operating; Investing and Financing activities.



2.3.1 Operating Activities

1. **Definition:** These are the principal revenue generating activities of the enterprise.
2. **Net Impact:** Net impact of operating activities on flow of cash is reported as 'Cash flows from operating activities' or 'cash from operations'.
3. **Key Indicator:** The amount of cash flows from operating activities is a key indicator of the extent to which the operations of the enterprises have generated sufficient cash flows to:
 - (a) Maintain the operating capability of the enterprise;
 - (b) Pay dividends, repay loans; and

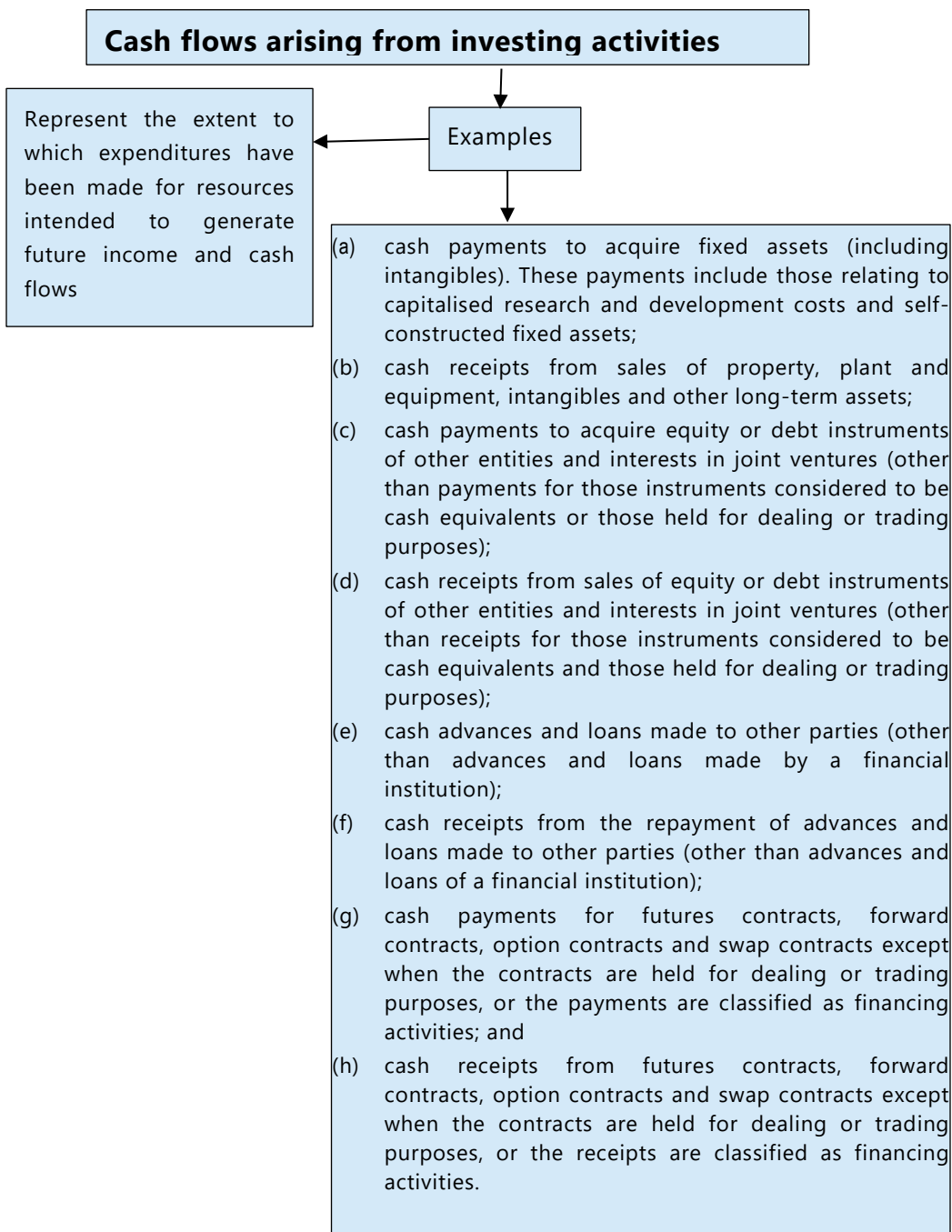
- (c) Make new investments without recourse to external sources of financing.
4. *Information Provided:* It provides useful information about financing through working capital.
5. *Benefits:* Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.



2.3.2 Investing activities

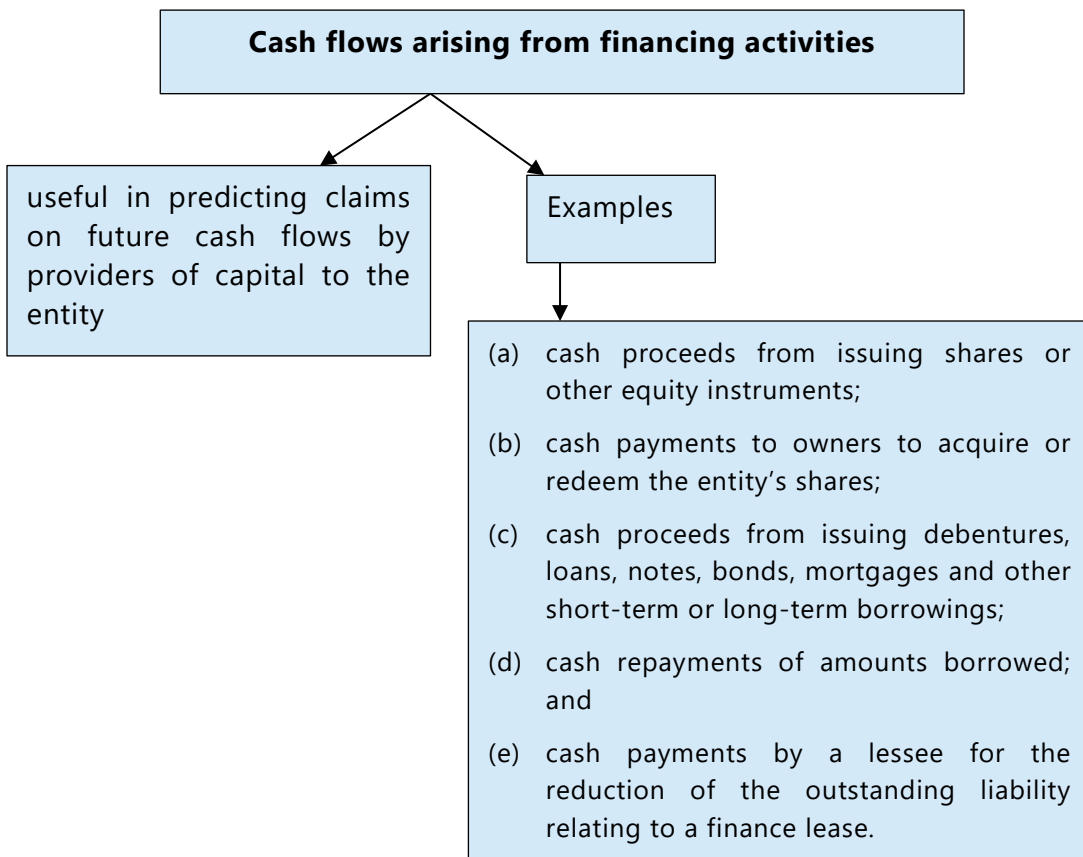
1. *Definition:* These are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

2. *Separate Disclosure*: Separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which the expenditures have been made for resources intended to generate future incomes and cash flows.



2.3.3 Financing activities

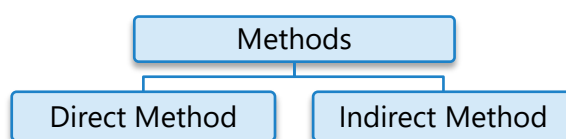
1. *Definition:* These are the activities that result in changes in the size and composition of the owner's capital (including preference share capital) and borrowings of the enterprise.
2. *Separate Disclosure:* The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds (both capital and borrowings) to the enterprise.





2.4 CALCULATION OF CASH FLOWS FROM OPERATING ACTIVITIES

1. **Components:** Cash flows from operating activities result from the transactions and other events that enter into the determination of net profit or loss.
2. **Methods:** An enterprise can determine cash flows from operating activities using either:



- (a) **Direct Method:** The direct method, whereby major classes of gross cash receipts and gross cash payments are considered; or
- (b) **Indirect Method:** The indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing activities.

2.4.1 Direct Method

1. Information Required

- (a) Gross receipts and gross cash payments may be obtained from the accounting records to ascertain cash flows from operating activities.
- (b) For example,
 - (i) information about cash received from trade receivables,
 - (ii) payment to trade payables, cash expenses etc., which may be obtained by an analysis of cash book.
- (c) In actual practice, the relevant information is obtained by adjusting sales, cost of sales and other items in the profit and loss accounts for:
 - Changes during the period in inventories and operating receivables and payables;
 - Other non-cash items such as depreciation on fixed assets,

goodwill written off, preliminary expenses written off, loss or gain on sale of fixed assets etc.; and

- Other items for which the cash effects are investing or financing cash flows. Examples are interest received and paid, dividend received and paid etc., which are related to financing or investing activities and are shown separately in the cash flow statement.
2. The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method.
 3. However, indirect method of determining the cash from operating activities is more popular in actual practice.

2.4.2 Indirect Method

Under the indirect method, the net cash from operating activities is determined by adjusting net profit or loss instead of individual items appearing in the profit and loss account. Net profit or loss is also adjusted for the effect of:

- (a) changes during the period in inventories and operating receivables and payables;
- (b) non-cash items such as depreciation; and
- (c) all other items for which the cash effects are financing or investing cash flows.

2.4.3 Conclusion

1. It is worth noting that both direct and indirect methods adjust current assets and current liabilities related to operating activities to determine cash from operating activities.
2. But direct method adjust individual items of profit and loss account and indirect method adjusts overall net profit (or loss) to determine cash from operation.
3. Therefore, indirect method fails to provide break-up of cash from operations.

Proforma of 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year		-
<i>Add:</i> Non-Cash and Non-Operating Expenses:		-
Depreciation	-	
Loss on Sale of Assets	-	
Provision for taxation, etc.	-	
<i>Less:</i> Non-Cash and Non-Operating Incomes:		-
Profit on Sale of Assets	-	
Net Profit after Adjustment for Non-Cash Items		(-)
Cash from operation	=	Net Profit (after adjustment for Non-cash Items)
	-	Increase in Current Assets
	+	Decrease in Current Assets
	+	Increase in Current Liabilities
	-	Decrease in Current Liabilities



2.5 CALCULATION OF CASH FLOWS FROM INVESTING ACTIVITIES

1. These activities are related to the acquisition and disposal of long-term assets, non-operating current assets and investments which results in outflow of cash.
2. Disposal of the aforesaid assets results in inflow of cash.
3. Thus, inflows and outflows related to acquisition and disposal of assets, other than those related to operating activities, are shown under this category.



2.6 CALCULATION OF CASH FLOWS FROM FINANCING ACTIVITIES

1. These activities are basically related to the changes in capital and borrowing of the enterprise which affect flow of cash.

2. Redemption of shares and repayment of borrowings results in outflow of cash.
3. Thus inflows and outflows related to the amount of capital and borrowings of the enterprise are shown under this head.

Note: Students are advised to refer full text of Accounting Standard on Cash Flow Statements (AS 3) for the better understanding of the chapter.

2.7 ILLUSTRATIONS

Illustration 1

Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) *Loans and Advances given to the following and interest earned on them:*

- (1) *to suppliers*
- (2) *to employees*
- (3) *to its subsidiaries companies*

(ii) *Investment made in subsidiary Smart Ltd. and dividend received*

(iii) *Dividend paid for the year*

(iv) *TDS on interest income earned on investments made*

(v) *TDS on interest earned on advance given to suppliers*

(vi) *Insurance claim received against loss of fixed asset by fire*

Discuss in the context of AS 3 Cash Flow Statement.

Solution

(i) **Loans and advances given and interest earned**

- | | |
|---------------------------------|---------------------|
| (1) to suppliers | Operating Cash flow |
| (2) to employees | Operating Cash flow |
| (3) to its subsidiary companies | Investing Cash flow |

(ii) **Investment made in subsidiary company and dividend received**

Investing Cash flow

(iii) **Dividend paid for the year**

Financing Cash Outflow

(iv) **TDS on interest income earned on investments made**

Investing Cash Outflow

(v) **TDS on interest earned on advance given to suppliers**

Operating Cash Outflow

(vi) **Insurance claim received of amount loss of fixed asset by fire**

Extraordinary item to be shown under a separate heading as 'Cash inflow from investing activities'.

Illustration 2

Following are extracts of the Balance Sheets of Ajay Ltd.:

	Particulars	Notes	31.3.20X1 ₹	31.3.20X2 ₹
	Equity and Liabilities			
	Shareholder's funds			
(a)	Share capital	1	5,00,000	5,00,000
(b)	Reserve & surplus	2	50,000	90,000
	Non-current liabilities			
(a)	Long-term borrowings	3	5,00,000	7,50,000
	Current liabilities			
(a)	Other current liabilities	4	---	5,000
	Assets			
	Non-current assets			
(a)	Intangible assets	5	2,05,000	1,80,000

Notes to accounts

		31.3.20X1	31.3.20X2
		₹	₹
1	Share Capital 50,000 Equity Shares of ₹10 each	5,00,000	5,00,000
2	Reserve & surplus Profit & Loss A/c	50,000	90,000
3	Long-term borrowings 10% Debentures	5,00,000	7,50,000
4	Other current liabilities Unpaid interest	---	5,000
5	Intangible assets Goodwill	2,05,000	1,80,000

You are required to show the related items in Cash Flow Statement.

Solution**An Extract of Cash Flow Statement for the year ending 31.3.20X2**

	₹
Cash flows from operating activities:	
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss Alc	(50,000)
Add: Goodwill amortisation	25,000
Add: Interest on Debentures (Refer Note 1)	75,000
Net Cash from Operating Activities	1,40,000

Note 1 : Interest has been computed on the closing balance of debentures as on 31.3.20X2 assuming that all the additions/ deletions were made, if any, at the beginning of the year.

Cash flows from financing activities:

Proceeds from debentures (Refer Working Note)	2,50,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,80,000

Working Note:

10% Debentures Account

Particulars	₹	Particular	₹
To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig.)	2,50,000
	7,50,000		7,50,000

Illustration 3

From the following information, calculate cash flow from operating activities:

**Summary of Cash Account
for the year ended March 31, 20X1**

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
	5,96,000	By Balance c/d	1,04,000
			5,96,000

Solution

Cash Flow Statement of
for the year ended March 31, 20X1(Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

Illustration 4

The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account

		(₹'000)
<i>Balance at 1.3.20X1</i>		35
<i>Receipts from customers</i>		2,783
<i>Issue of shares</i>		300
<i>Sale of fixed assets</i>		128
		3,246
<i>Payments to suppliers</i>	2,047	
<i>Payments for property, plant & equipment</i>	230	
<i>Payments for overheads</i>	115	

<i>Wages and salaries</i>	69	
<i>Taxation</i>	243	
<i>Dividends</i>	80	
<i>Repayments of bank loan</i>	250	(3,034)
<i>Balance at 31.3.20X2</i>		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st March, 20X2 in accordance with AS-3 (Revised).

The company does not have any cash equivalents.

Solution

Hills Ltd.

Cash Flow Statement for the year ended 31st March, 20X2 (Using direct method)

		(₹'000)
Cash flows from operating activities		
Cash receipts from customers	2,783	
Cash payments to suppliers	(2,047)	
Cash paid to employees	(69)	
Other cash payments (for overheads)	(115)	
Cash generated from operations	552	
Income taxes paid	(243)	
<i>Net cash from operating activities</i>		309
Cash flows from investing activities		
Payments for purchase of fixed assets	(230)	
Proceeds from sale of fixed assets	128	
<i>Net cash used in investing activities</i>		(102)

Cash flows from financing activities		
Proceeds from issuance of share capital	300	
Bank loan repaid	(250)	
Dividend paid	(80)	
<i>Net cash used in financing activities</i>		(30)
Net increase in cash and cash equivalents		177
Cash and cash equivalents at beginning of period		35
Cash and cash equivalents at end of period		212

Illustration 5

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 20X1 with the help of the following information:

- (1) Company sold goods for cash only.
- (2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.
- (3) Opening inventory was lesser than closing inventory by ₹ 35,000.
- (4) Wages paid during the year ₹ 4,92,500.
- (5) Office and selling expenses paid during the year ₹ 75,000.
- (6) Dividend paid during the year ₹ 30,000.
- (7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000).
- (8) Trade payables on 31st March, 20X0 exceed the balance on 31st March, 20X1 by ₹ 25,000.
- (9) Amount paid to trade payables during the year ₹ 4,60,000.
- (10) Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.20X1 ₹ 45,000).
- (11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.
- (12) Depreciation on fixed assets amounts to ₹ 85,000.
- (13) Plant and machinery purchased on 15th November, 20X0 for ₹ 2,50,000.
- (14) Cash and Cash Equivalents on 31st March, 20X0 ₹ 2,00,000.
- (15) Cash and Cash Equivalents on 31st March, 20X1 ₹ 6,07,500.

Solution**M/s MNT Ltd.****Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)**

Particulars	₹	₹
<i>Cash flows from Operating Activities</i>		
Cash sales (₹ 3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
<i>Cash flows from investing activities</i>		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
<i>Cash flows from financing activities</i>		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

Illustration 6

Ryan Ltd provides you the following information at the year-end, March 31, 20X1:

	₹	₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses (including Depreciation Expense of ₹ 37,000)		(1,47,000)
		31,000
Other Income / (Expenses):		
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Information available:

	31st March 20X1	31st March 20X0
	₹	₹
Plant	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000

<i>Investments (Long term)</i>	<i>1,15,000</i>	<i>1,27,000</i>
<i>Inventory</i>	<i>1,44,000</i>	<i>1,10,000</i>
<i>Trade receivables</i>	<i>47,000</i>	<i>55,000</i>
<i>Cash</i>	<i>46,000</i>	<i>15,000</i>
<i>Prepaid expenses</i>	<i>1,000</i>	<i>5,000</i>
<i>Share Capital</i>	<i>4,65,000</i>	<i>3,15,000</i>
<i>Reserves and surplus</i>	<i>1,40,000</i>	<i>1,32,000</i>
<i>Bonds</i>	<i>2,95,000</i>	<i>2,45,000</i>
<i>Trade payables</i>	<i>50,000</i>	<i>43,000</i>
<i>Outstanding liabilities</i>	<i>12,000</i>	<i>9,000</i>
<i>Income taxes payable</i>	<i>3,000</i>	<i>5,000</i>

Analysis of selected accounts and transactions during 20X0-X1

- 1. Purchased investments for ₹ 78,000.*
- 2. Sold investments for ₹ 1,02,000. These investments cost ₹ 90,000.*
- 3. Purchased plant assets for ₹ 1,20,000.*
- 4. Sold plant assets that cost ₹10,000 with accumulated depreciation of ₹ 2,000 for ₹ 5,000.*
- 5. Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 20X1.*
- 6. Repaid ₹ 50,000 of bonds at face value at maturity.*
- 7. Issued 15,000 shares of ₹ 10 each.*
- 8. Paid cash dividends ₹ 8,000.*

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

Solution

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 20X1

	₹	₹
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in trade receivables	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in trade payables	7,000	
Increase in outstanding liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
<i>Net cash generated from operating activities</i>		47,000
Cash flows from investing activities		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	
Purchase of investments	(78,000)	

Sale of investments	1,02,000	
Interest received	6,000	
<i>Net cash used in investing activities</i>		(85,000)
Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
<i>Net cash from financing activities</i>		<u>69,000</u>
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		<u>46,000</u>

Note: Significant non-cash adjustments: Issued ₹ 1,00,000 of bonds at face value for acquisition of plant on 31st March, 20X1.

***Working Note:**

	₹
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	<u>5,000</u>
	12,000
Less: Income tax liability at the end of the year	<u>(3,000)</u>
	<u>9,000</u>

Illustration 7

The balance sheets of Sun Ltd. as at 31st March 20X1 and 20X0 were as:

Particulars	Notes	20X1 ₹	20X0 ₹
Equity and Liabilities			
1 Shareholder's funds			
(a) Share capital	1	60,000	50,000
(b) Reserve & surplus	2	5,000	4,000
2 Current liabilities			
(a) Trade Payables		4,000	2,500
(b) Other current liabilities	3	-	1,000
(c) Short term provision (provision for tax)		1,500	1,000
Total		70,500	58,500
Assets			
1 Non-current assets			
(a) Property, Plant & Equipment	4	39,500	29,000
2 Current assets			
(a) Current investments		2,000	1,000
(b) Inventories		17,000	14,000
(c) Trade receivables		8,000	6,000
(d) Cash & cash equivalents	5	4,000	8,500
		70,500	58,500

Notes to accounts

		20X1 ₹	20X0 ₹
1	Share Capital		
	<i>Equity Shares of ₹10 each</i>	<u>60,000</u>	<u>50,000</u>
2	Reserve & surplus		
	<i>Profit and Loss Account</i>	<u>5,000</u>	<u>4,000</u>
3	Other current liabilities		
	<i>Dividend Payable</i>	<u>-</u>	<u>1,000</u>
4	Property, plant and equipment (at WDV)		
	<i>Building</i>	10,000	10,000
	<i>Fixtures</i>	17,000	11,000
	<i>Vehicles</i>	<u>12,500</u>	<u>8,000</u>
	<i>Total</i>	<u>39,500</u>	<u>29,000</u>
5	Cash and cash equivalents		
	<i>Cash and Bank</i>	<u>4,000</u>	<u>8,500</u>

The profit and loss statement for the year ended 31st March, 20X1 disclosed:

Particulars	₹
Profit before tax	4,500
<i>Tax expense: Current tax</i>	<u>(1,500)</u>
<i>Profit for the year</i>	3,000
<i>Declared dividend</i>	<u>(2,000)</u>
<i>Retained Profit</i>	1,000

Further information is available:

	Fixtures	Vehicles
	₹	₹
<i>Depreciation for the year</i>	1,000	2,500
<i>Disposals:</i>		
<i>Proceeds on disposal of vehicles</i>	—	1,700
<i>Written down value</i>	—	<u>(1,000)</u>
<i>Profit on disposal</i>		<u>700</u>

Prepare a Cash Flow Statement for the year ended 31st March, 20X1.

Solution

Sun Ltd.
Cash Flow Statement
for the year ended 31st March, 20X1

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations	3,800	
Income taxes paid (W.N.1)	(1,000)	
<i>Net cash generated from operating activities</i>		2,800

Cash flows from investing activities		
Sale of vehicles	1,700	
Purchase of current investments	(1,000)	
Purchase of vehicles (W.N.3)	(8,000)	
Purchase of fixtures (W.N.3)	(7,000)	
<i>Net cash used in investing activities</i>		(14,300)
Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid (W.N.2)	(3,000)	
<i>Net cash generated from financing activities</i>		<u>7,000</u>
Net decrease in cash and cash equivalents		(4,500)
Cash and cash equivalents at beginning of period (See Note)		8,500
Cash and cash equivalents at end of period (See Note)		4,000
Note to the Cash Flow Statement		
<i>Cash and Cash Equivalents</i>		
	31.3.20X1	31.3.20X0
Bank and Cash	4,000	8,500
Cash and cash equivalents	4,000	8,500

Working Notes:

			₹
1.	Income taxes paid		
	Income tax expense for the year		1,500
	Add: Income tax liability at the beginning of the year		1,000
			2,500
	Less: Income tax liability at the end of the year		(1,500)
			1,000
2.	Dividend paid		
	Declared dividend for the year		2,000
	Add: Amount payable at the beginning of the year		1,000
			3,000
	Less: Amount payable at the end of the year		-
			3,000
3.	Property, plant and equipment acquisitions		
		<i>Fixtures</i>	<i>Vehicles</i>
		₹	₹
	W.D.V. at 31.3.20X1	17,000	12,500
	Add back:		
	Depreciation for the year	1,000	2,500
	Disposals	—	1,000
		18,000	16,000
	Less: W.D.V. at 31.12.20X0	(11,000)	(8,000)
)	
	Acquisitions during 20X0-20X1	7,000	8,000

Note: Current investments may not be readily convertible to a known amount of cash and may not be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

Illustration 8

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 20X1:

	(₹ in lakhs)
<i>Net Profit</i>	25,000
<i>Dividend paid</i>	8,535
<i>Provision for Income tax</i>	5,000
<i>Income tax paid during the year</i>	4,248
<i>Loss on sale of assets (net)</i>	40
<i>Book value of the assets sold</i>	185
<i>Depreciation charged to the Statement of Profit and Loss</i>	20,000
<i>Profit on sale of Investments</i>	100
<i>Carrying amount of Investment sold</i>	27,765
<i>Interest income received on investments</i>	2,506
<i>Interest expenses of the year</i>	10,000
<i>Interest paid during the year</i>	10,520
<i>Increase in Working Capital (excluding Cash & Bank Balance)</i>	56,081
<i>Purchase of Fixed assets</i>	14,560
<i>Investment in joint venture</i>	3,850
<i>Expenditure on construction work in progress</i>	34,740
<i>Proceeds from calls in arrear</i>	2
<i>Receipt of grant for capital projects</i>	12
<i>Proceeds from long-term borrowings</i>	25,980
<i>Proceeds from short-term borrowings</i>	20,575
<i>Opening cash and bank balance</i>	5,003
<i>Closing cash and bank balance</i>	6,988

Prepare the Cash Flow Statement for the year ended 31 March 20X1 in accordance with AS 3. (Make necessary assumptions)

Solution

Star Oils Limited
Cash Flow Statement
for the year ended 31st March, 20X1

		(₹ in lakhs)
Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Receipt of grant for capital projects	12	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	
Net cash used in investing activities		(22,622)

Cash flows from financing activities		
Proceeds from calls in arrear	2	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	<u>(8,535)</u>	27,502
Net increase in cash and cash equivalents		1,985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note:

1. Book value of the assets sold	185
Less : Loss on sale of assets	<u>(40)</u>
Proceeds on sale	<u>145</u>

Illustration 9

From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 20X1 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.20X1

	₹000		₹000
Balance on 1.4.20X0	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Asset	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100

		<i>Taxation</i>	250
		<i>Dividend</i>	50
		<i>Repayment of Bank Loan</i>	300
		<i>Balance on 31.3.20X1</i>	150
	3,250		3,250

Solution**X Ltd.**

Cash Flow Statement for the year ended 31st March, 20X1
(Using direct method)

	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
<i>Net cash generated from operating activities</i>		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
<i>Net cash used in investing activities</i>		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
<i>Net cash used in financing activities</i>		(50)
Net increase in cash		100
Cash at the beginning of the year		50
Cash at the end of the year		150

Illustration 10

Given below are the relevant extracts of the Balance Sheet and the Statement of Profit and Loss of ABC Ltd. along with additional information:

Extract of Balance sheet

		Particulars	Notes	31.3.20X1 (₹ in lakhs)	31.3.20X0 (₹ in lakhs)
1		Equity and Liabilities			
		Current liabilities			
	(a)	Trade Payables		250	230
	(b)	Short term Provisions	1	200	180
	(c)	Other current liabilities	2	70	50
1		Assets			
		Current assets			
	(a)	Inventories		200	180
	(b)	Trade Receivables		400	250
	(c)	Other current assets	3	195	180

**Statement of Profit and Loss of ABC Ltd.
for the year ended 31st March, 20X1**

	Particulars	Notes	₹ in lakhs
I	Revenue from operations		4,150
II	Other income	4	<u>100</u>
III	Total income (I + II)		<u>4,250</u>
	Expenses:		
	Purchases of Stock-in-Trade		2,400
	Change in inventories of finished goods		(20)
	Employee benefits expense		800
	Depreciation expense		100
	Finance cost	5	60
	Other expenses		<u>200</u>
IV	Total expenses		<u>3,540</u>

V	Profit before tax (III – IV)		710
VI	Tax expense:		
	Current tax		200
VII	Profit for the year from continuing operations		510

Appropriations

Balance of Profit and Loss account brought forward	50
Transfer to general reserve	200
Dividend paid	330

Notes to accounts:

		20X1 (₹ in lakhs)	20X0 (₹ in lakhs)
1	Short term Provisions:		
	Provision for Tax	<u>200</u>	<u>180</u>
2	Other current liabilities:		
	Outstanding wages	50	40
	Outstanding expenses	<u>20</u>	<u>10</u>
	Total	<u>70</u>	<u>50</u>
3	Other current assets:		
	Advance tax	<u>195</u>	<u>180</u>
4	Other income:		
	Interest and dividend	<u>100</u>	
5	Finance cost:		
	Interest	<u>60</u>	

Compute cash flow from operating activities using both direct and indirect method.

Solution**Cash Flows from Operating Activities**

	<i>₹ in lakhs</i>	<i>₹ in lakhs</i>
Using Direct Method		
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150 + 250 – 400	<u>4,000</u>
Cash payments:		
Cash purchases & payment to Trade payables		
Purchases + Opening Trade payables – Closing Trade payables	2,400 + 230 – 250	2,380
Wages and salaries paid	800 + 40 – 50	790
Cash expenses	200 + 10 – 20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A – B)		445
Using Indirect Method		
Profit before tax		710
Add: Non-cash items : Depreciation		100
Add: Interest : Financing cash inflow		60
Less: Interest and Dividend : Investment cash outflow		(100)
Less: Tax paid		(195)
Working capital adjustments		

Trade receivables	250–400	(150)	
Inventories	180–200	(20)	
Trade payables	250–230	20	
Outstanding wages	50–40	10	
Outstanding expenses	20–10	10	(130)
Cash flow from operating activities			<u>445</u>

Illustration 11

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.20X1 from the following information:

- (1) *Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.*
- (2) *Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.*
- (3) *Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.*
- (4) *The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.*
- (5) *Dividend paid during the year amounted to ₹ 11.7 crores.*
- (6) *Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.*
- (7) *₹ 8 crores was paid towards income tax during the year.*
- (8) *A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.*

(9) The following balances are also provided:

	₹ in crores 1.4.20X0	₹ in crores 31.3.20X1
Debtors	45	50
Creditors	21	23
Bank	6	18.2

Solution

Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 20X1 (Using direct method)

Particulars	₹ in crores	₹ in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+ (55x80%) - 23]	(42)	
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 - 10)	(11)	
Net cash generated from investing activities		3.4

Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	<u>(11.7)</u>	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Significant non-cash items:

- Debenture-holders received equity shares of ₹ 15 crores on redemption of the debentures.
- Plant having book value of ₹ 12 crores was given in exchange of an asset costing ₹ 21 crores. The said plant was transferred at a value of ₹ 10 crores only, and ₹ 11 crores was paid for the balance dues towards the plant.

Illustration 12

From the following information of Mr. Zen, prepare a Cash flow statement as per AS-3 for the year ended 31.3.20X1:

Ledger balances of Mr. Zen as of 20X0 and 20X1

	As on 1.4.20X0	As on 1.4.20X1
	₹	₹
Zen's Capital A/c	10,00,000	12,24,000
Trade payables	3,20,000	3,52,000
Mrs. Zen's loan	2,00,000	--
Loan from Bank	3,20,000	4,00,000
Land	6,00,000	8,80,000
Plant and Machinery (net block)	6,40,000	4,40,000
Inventories	2,80,000	2,00,000
Trade receivables	2,40,000	4,00,000
Cash	80,000	56,000

Additional information:

A machine costing ₹ 80,000 (accumulated depreciation there on ₹24,000) was sold for ₹ 40,000. The provision for depreciation on 1.4.20X0 was ₹ 2,00,000 and 31.3.20X1 was ₹ 3,20,000. The net profit for the year ended on 31.3.20X1 was ₹ 3,60,000.

Solution

**Cash Flow Statement of Mr. Zen as per AS 3
for the year ended 31.3.20X1**

		₹
(i) Cash flow from operating activities		
Net Profit (given)		3,60,000
Adjustments for		
Depreciation on Plant & Machinery (W.N.2)	1,44,000	
Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
Operating Profit before working capital changes		5,20,000
Decrease in inventories	80,000	
Increase in trade receivables	(1,60,000)	
Increase in trade payables	32,000	(48,000)
Net cash generated from operating activities		4,72,000
(ii) Cash flow from investing activities		
Sale of Machinery (W.N.1)	40,000	
Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
Net cash used in investing activities		(2,40,000)

(iii) Cash flow from financing activities		
Repayment of Mrs. Zen's Loan	(2,00,000)	
Drawings (W.N.3)	(1,36,000)	
Loan from Bank	80,000	
Net cash used in financing activities		(2,56,000)
Net decrease in cash		(24,000)
Opening balance as on 1.4.20X0		80,000
Cash balance as on 31.3.20X1		56,000

Working Notes:**1. Plant & Machinery A/c**

	₹		₹
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Provision for Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. Provision for depreciation on Plant and Machinery A/c

	₹		₹
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	<u>3,44,000</u>		<u>3,44,000</u>

3. To find out Mr. Zen's drawings:

	₹
Opening Capital	10,00,000
Add: Net Profit	<u>3,60,000</u>
	13,60,000
Less: Closing Capital	<u>(12,24,000)</u>
Drawings	<u>1,36,000</u>

Note: Students may note that in case there is an increase in the amount of debentures/ loans during the year and the interest is required to be computed, then in such a case, students may choose either to compute interest on the closing balance of the debentures or may compute interest on opening balance for full year (in case of no repayment) and proportionate interest on additions. Suitable note for assumption may be given in the solution for this.

SUMMARY

- Cash flow statement dealt under AS 3.
- Benefits include providing information relating to changes in cash and cash equivalents of an enterprise.
- Cash include:
 - (a) Cash in hand and (b) Demand deposits with banks
- Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- Cash flow activities may be classified as inflow and outflow but as per AS-3 they are classified as Operating Activities, Investing activities, Financing activities.
- Operating activities are principal revenue generating activities.
- Investing Activities relate to acquisition and disposal of long-term assets and other investments.

- Financing Activities include the ones which result in changes in the size and composition of the owner's capital (including preference share capital) and borrowings of the enterprise.
- Methods to calculate cash flow from operating activities include:
 - (a) Direct Method
 - (b) Indirect Method
- In order to calculate cash flow from investing activities inflows and outflows related to acquisition and disposal of assets, other than those related to operating activities, are shown under this category.
- In order to calculate cash flow from financing activities inflows and outflows related to the amount of capital and borrowings of the enterprise are shown under this head.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *While preparing cash flow statement, conversion of debt to equity*
 - (a) *Should be shown as a financing activity.*
 - (b) *Should be shown as an investing activity.*
 - (c) *Should not be shown as it is a non-cash transaction*
 - (d) *Should not be shown as operating activity.*
2. *Which of the following would be considered a 'cash-flow item from an "investing" activity'?*
 - (a) *Cash outflow to the government for payment of taxes.*
 - (b) *Cash outflow to purchase bonds issued by another company.*
 - (c) *Cash outflow to shareholders as dividends*
 - (d) *Cash outflow to make payment to trade payables.*

3. *All of the following would be included in a company's operating activities except:*
- (a) *Income tax payments*
 - (b) *Collections from customers or Cash payments to suppliers*
 - (c) *Dividend payments*
 - (d) *Office and selling expenses.*
4. *Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?*
- (a) *Operating Activities.*
 - (b) *Investing Activities.*
 - (c) *Financing Activities.*
 - (d) *Non-cash transaction*
5. *As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as*
- (a) *Operating activity.*
 - (b) *Financing activity.*
 - (c) *Investing activity.*
 - (d) *Non-cash transaction*

Theoretical Questions

6. *What is the significance of cash flow statement? Explain in brief.*
7. *Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to AS 3.*

Scenario based Questions

8. Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

- (a) Brokerage paid on purchase of investments
- (b) Underwriting commission paid
- (c) Trading commission received
- (d) Proceeds from sale of investment
- (e) Purchase of goodwill
- (f) Redemption of preference shares
- (g) Rent received from property held as investment
- (h) Interest paid on long-term borrowings
- (i) Marketable securities (having risk of change in value)
- (j) Refund of income tax received

9. How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 20X2?

- (i) 10% Debentures issued: As on 01-04-20X1 ₹ 1,10,000
As on 31-03-20X2 ₹ 77,000
- (ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.
- (iii) Unpaid Interest on Debentures: As on 01-04-20X1 ₹ 275
As on 31-03-20X2 ₹ 1,175
- (iv) Debtors of ₹ 36,000 were written off against the Provision for Doubtful Debts A/c during the year.
- (v) 10% Bonds (Investments): As on 01-04-20X1 ₹ 3,50,000
As on 31-03-20X2 ₹ 3,50,000
- (vi) Accrued Interest on Investments: As on 31-03-20X2 ₹ 10,500

10. From the following Balance sheet of Grow More Ltd., prepare Cash Flow Statement for the year ended 31st March, 20X1 :

Particulars			Notes	31 st March, 20X1	31 st March, 20X0
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital		10,00,000	8,00,000
	B	Reserves and Surplus	1	3,00,000	2,10,000
2		Non-current liabilities			
		Long term borrowings	2	2,00,000	-
3		Current liabilities			
	A	Trade Payables		7,00,000	8,20,000
	B	Other current liabilities	3	-	1,00,000
	C	Short term provision (provision for tax)		1,00,000	70,000
		Total		23,00,000	20,00,000
		Assets			
1		Non-current assets			
	A	Property, plant and Equipment	4	13,00,000	9,00,000
	B	Non-Current Investments		1,00,000	-
2		Current assets			
	A	Inventories		4,00,000	2,00,000
	B	Trade receivables		5,00,000	7,00,000
	C	Cash and Cash equivalents		-	2,00,000
		Total		23,00,000	20,00,000

Notes to accounts

No.	Particulars	31 st March, 20X1	31 st March, 20X0
1	Reserves and Surplus		
	General reserve	2,00,000	1,50,000

	<i>Profit and Loss account</i>	<u>1,00,000</u>	<u>60,000</u>
	Total	<u>3,00,000</u>	<u>2,10,000</u>
2	Long term borrowings		
	<i>Debentures (issued at end of year)</i>	<u>2,00,000</u>	--
3.	Other current liabilities		
	<i>Dividend payable</i>	<u>-</u>	<u>1,00,000</u>
4	Property, plant and equipment		
	<i>Plant and machinery</i>	7,00,000	5,00,000
	<i>Land and building</i>	<u>6,00,000</u>	<u>4,00,000</u>
	Net carrying value	<u>13,00,000</u>	<u>9,00,000</u>

- (i) Depreciation @ 25% was charged on the opening value of Plant and Machinery.
- (ii) At the year end, one old machine costing ₹ 50,000 (WDV ₹ 20,000) was sold for ₹ 35,000. Purchase was also made at the year end.
- (iii) ₹ 50,000 was paid towards Income tax during the year.
- (iv) Construction of the building got completed on 31.03.20X1 and hence no depreciation may be charged on the same.

Prepare Cash flow Statement.

11. From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect method for the year ended 31st March, 20X1:

Particulars		Notes	31st March 20X1 ₹	31st March 20X0 ₹
1	Equity and Liabilities			
	Shareholders' funds			

	A	Share capital	1	6,00,000	7,00,000
	B	Reserves and Surplus	2	4,20,000	3,00,000
2		Non-current liabilities			
		Long term borrowings	3	2,00,000	-
3		Current liabilities			
	A	Trade Payables		1,15,000	1,10,000
	B	Other current liabilities	4	30,000	80,000
	C	Short term provision (provision for tax)		95,000	60,000
		Total		14,60,000	12,50,000
		Assets			
1		Non-current assets			
	A	Property, plant and Equipment	5	9,15,000	7,00,000
	B	Non-Current Investments		50,000	80,000
2		Current assets			
	A	Inventories		95,000	90,000
	B	Trade receivables		2,50,000	2,25,000
	C	Cash and Cash equivalents		50,000	90,000
	D	Other Current assets		1,00,000	65,000
		Total		14,60,000	12,50,000

Notes to accounts

No.			31 st March, 20X1	31 st March, 20X0
1.	Share capital			
	Equity share capital		6,00,000	5,00,000
	10% Redeemable Preference share capital		—	<u>2,00,000</u>
	Total		<u>6,00,000</u>	<u>7,00,000</u>

2	Reserves and Surplus			
	Capital redemption reserve		1,00,000	-
	Capital reserve		70,000	-
	General reserve		1,50,000	2,50,000
	Profit and Loss account		<u>1,00,000</u>	<u>50,000</u>
	Total		<u>4,20,000</u>	<u>3,00,000</u>
3	Long term borrowings			
	9% Debentures		<u>2,00,000</u>	<u>--</u>
4.	Other current liabilities			
	Dividend payable		-	60,000
	Liabilities for expenses		<u>30,000</u>	<u>20,000</u>
	Total		<u>30,000</u>	<u>80,000</u>
5	Property, plant and equipment			
	Plant and machinery		7,65,000	5,00,000
	Land and building		<u>1,50,000</u>	<u>2,00,000</u>
	Net carrying value		<u>9,15,000</u>	<u>7,00,000</u>

Additional Information:

- (i) A piece of land has been sold out for ₹1,50,000 (Cost – ₹1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.
- (ii) On 1st April, 20X0 a plant was sold for ₹90,000 (Original Cost – ₹70,000 and W.D.V. – ₹ 50,000) and Debentures worth ₹1 lakh were issued at par as part consideration for plant of ₹4.5 lakhs acquired.
- (iii) Part of the investments (Cost – ₹50,000) was sold for ₹70,000.

- (iv) Pre-acquisition dividend received ₹5,000 was adjusted against cost of investment.
- (v) Interim dividend was declared and paid @ 15% during the current year.
- (vi) Income-tax liability for the current year was estimated at ₹1,35,000.
- (vii) Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.
12. The Balance Sheet of New Light Ltd. as at 31st March, 20X1 and 20X0 (for the years ended) are as follows:

			Notes	₹ 31 st March 20X0	₹ 31 st March 20X1
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital	1	16,00,000	18,80,000
	B	Reserves and Surplus	2	8,40,000	11,00,000
2		Non-current liabilities			
		Long term borrowings	3	4,00,000	2,80,000
3		Current liabilities			
	A	Other current liabilities	4	6,00,000	5,20,000
	B	Short term provision (provision for tax)		3,60,000	3,40,000
		Total		38,00,000	41,20,000
		Assets			
1		Non-current assets			
	A	Property, plant and Equipment	5	22,80,000	26,40,000
	B	Non-Current Investments		4,00,000	3,20,000
2		Current assets			
	A	Cash and Cash equivalents		10,000	10,000

	B	Other Current assets		11,10,000	11,50,000
		Total		38,00,000	41,20,000

Notes to accounts

No.	Particulars		31 st March, 20X0	31 st March, 20X1
1.	Share capital			
	Equity share capital		12,00,000	16,00,000
	10% Preference share capital		<u>4,00,000</u>	<u>2,80,000</u>
	Total		<u>16,00,000</u>	<u>18,80,000</u>
2	Reserves and Surplus			
	General reserve		6,00,000	7,60,000
	Profit and Loss account		<u>2,40,000</u>	<u>3,40,000</u>
	Total		<u>8,40,000</u>	<u>11,00,000</u>
3	Long term borrowings			
	9% Debentures		<u>4,00,000</u>	<u>2,80,000</u>
	Total		<u>4,00,000</u>	<u>2,80,000</u>
4.	Other current liabilities			
	Dividend payable		1,20,000	-
	Current Liabilities		<u>4,80,000</u>	<u>5,20,000</u>
	Total		<u>6,00,000</u>	<u>5,20,000</u>
5	Property, plant and equipment			
	Property, plant and equipment		32,00,000	38,00,000
	Less: Depreciation		<u>(9,20,000)</u>	<u>(11,60,000)</u>
	Net carrying value		<u>22,80,000</u>	<u>26,40,000</u>

Additional information:

- (i) The company sold one property, plant and equipment for ₹ 1,00,000, the

cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹80,000.

- (ii) The company also decided to write off another item of property, plant and equipment costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.
- (iii) Depreciation on property, plant and equipment provided ₹ 3,60,000.
- (iv) Company sold some investment at a profit of ₹ 40,000.
- (v) Debentures and preference share capital redeemed at 5% premium. Debentures were redeemed at the year end.
- (vi) Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.20X0 was ₹ 2,16,000. The inventory on 31.3.20X1 was correctly valued at ₹ 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

13. ABC Ltd. gives you the Balance sheets as at 31st March 20X0 and 31st March 20X1. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31st March 20X1:

Particulars			Notes	₹ 31 st March 20X0	₹ 31 st March 20X1
1	Equity and Liabilities				
	Shareholders' funds				
	A	Share capital		50,00,000	50,00,000
	B	Reserves and Surplus		26,50,000	36,90,000
2	Non-current liabilities				
		Long term borrowings	1	-	9,00,000

3	Current liabilities				
	A	Short-term borrowings (Bank loan)		1,50,000	3,00,000
	B	Trade payables		8,80,000	8,20,000
	C	Other current liabilities	2	4,80,000	2,70,000
		Total		91,60,000	1,09,80,000
	Assets				
1	Non-current assets				
	A	Property, plant and Equipment	3	21,20,000	32,80,000
2	Current assets				
	A	Current Investments		11,80,000	15,00,000
	B	Inventory		20,10,000	19,20,000
	C	Trade receivables	4	22,40,000	26,40,000
	D	Cash and Cash equivalents		15,20,000	15,20,000
	E	Other Current assets (Prepaid expenses)		90,000	1,20,000
		Total		91,60,000	1,09,80,000

Notes to accounts

No.	Particulars		₹20X0	20X1
1	Long term borrowings			
	9% Debentures (issued at the end of year)		-	<u>9,00,000</u>
	Total		-	<u>9,00,000</u>
2.	Other current liabilities			
	Dividend payable		1,50,000	-
	Liabilities for expenses		<u>3,30,000</u>	<u>2,70,000</u>
	Total		<u>4,80,000</u>	<u>2,70,000</u>

3	Property, plant and equipment		
	Plant and machinery	27,30,000	40,70,000
	Less: Depreciation	(6,10,000)	(7,90,000)
	Net carrying value	21,20,000	32,80,000
4	Trade receivables		
	Gross amount	23,90,000	28,30,000
	Less: Provision for doubtful debts	(1,50,000)	(1,90,000)
	Total	22,40,000	26,40,000

Additional Information:

- (i) Net profit for the year ended 31st March, 20X1, after charging depreciation ₹ 1,80,000 is ₹ 10,40,000.
- (ii) Trade receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.
14. Following is the Balance Sheet of Fox Ltd. You are required to prepare cash flow statement using Indirect Method.

Particulars	Note No.	31 st March, 20X2 (₹)	31 st March, 20X1 (₹)
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	1	5,60,000	3,00,000
(b) Reserve and Surplus	2	35,000	25,000
2. Current Liabilities			
(a) Trade payables		1,50,000	60,000
(b) Short-term provisions (Provision for taxation)		8,000	5,000
Total		7,53,000	3,90,000

(II) Assets			
1. Non-current assets			
(a) Property, Plant and Equipment		3,50,000	1,80,000
2. Current assets			
(a) Inventories		1,20,000	50,000
(b) Trade receivables		1,00,000	25,000
(c) Cash and cash equivalents		1,05,000	90,000
(d) Other current assets		78,000	45,000
Total		7,53,000	3,90,000

Notes to Accounts

Particulars	31 st March, 20X2 (₹)	31 st March, 20X1 (₹)
1. Share capital		
(a) Equity share capital	4,10,000	2,00,000
(b) Preference share capital	<u>1,50,000</u>	<u>1,00,000</u>
	<u>5,60,000</u>	<u>3,00,000</u>
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	25,000	
Add: Profit of the year	20,000	
Less: Dividend	<u>(10,000)</u>	
Surplus in statement of profit and loss at the end of the year	35,000	25,000

Additional Information:

- Dividend paid during the year ₹ 10,000
- Depreciation charges during the year ₹ 40,000.

ANSWERS/ HINTS

Answer to the Multiple Choice Questions

1.	(c)	2.	(b)	3.	(c)	4.	(a)	5.	(c)		
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Answer to the Theoretical Questions

6. Cash flow statement provides information about the changes in cash and cash equivalents of an enterprise. It identifies cash generated from trading operations and is very useful tool of planning.
7. As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:
- (a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - (b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Answer to the Scenario based Questions

8. **Classification of activities with reference to AS 3**

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as investment	Investing Activities

h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Not a Cash equivalent
j.	Refund of Income tax received	Operating activities

9.

**Cash Flow Statement of M/s Gagan Ltd.
for the year ended March 31, 20X2**

A	Cash Flow from Operating Activities	
	Net Profit as per Profit & Loss A/c	xxxxx
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	Cash Flow from Investing Activities	
	Interest on Investments [35,000-10,500]	24,500
C	Cash Flow from Financing Activities	
	Interest on Debentures paid [11,000 - (1,175 - 275)] - outflow	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium] - outflow	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

10.

**Cash Flow Statement of Grow More Ltd.
for the year ended 31st March, 20X1
Cash Flow from Operating Activities**

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	

Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	2,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	1,60,000	
Income tax paid	(50,000)	
Net Cash generated from operating activities		1,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

Cash Flow from Financing activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	<u>(1,00,000)</u>	
Net cash generated from financing activities		<u>3,00,000</u>
Net decrease in cash and cash equivalents		(2,00,000)
Cash and Cash equivalents at the beginning of the year		<u>2,00,000</u>
Cash and Cash equivalents at the end of the year		<u>Nil</u>

Working Notes:**1. Provision for taxation account**

	₹		₹
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c	80,000
		(Balancing figure)	
	<u>1,50,000</u>		<u>1,50,000</u>

2. Plant and Machinery account

	₹		₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c (profit on sale of machine)	15,000		
To Cash (Balancing figure)	3,45,000	By Cash (sale of machine)	35,000
		By Balance c/d	<u>7,00,000</u>
	<u>8,60,000</u>		<u>8,60,000</u>

11.

Cash Flow Statement of Ryan Limited
For the year ended 31st March, 20X1

	₹	₹
Cash flow from operating activities		
Net Profit before taxation (W.N.1)	2,75,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of land	(30,000)	

Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.4)	(20,000)	
Interest on debentures (2,00,000 X 9%)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Other current assets (W.N.9)	(35,000)	
Increase in Trade payables	5,000	
Increase in liabilities for expenses	10,000	
Cash generated from operations	2,88,000	
Income taxes paid (W.N.8)	(1,00,000)	
Net cash generated from operating activities		1,88,000
Cash flow from investing activities		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
Cash flow from financing activities		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(1,50,000)	

Interest paid on debentures	(18,000)	
Net cash used in financing activities		(1,68,000)
Net decrease in cash and cash equivalents		(40,000)
Cash and cash equivalents at the beginning of the year		90,000
Cash and Cash equivalents at the end of the year		50,000

Significant Non-cash Items:

Debentures amounting to ₹ 1,00,000 have been issued as part consideration for acquisition of plant of ₹ 4,50,000.

Working Notes:

1.		₹
	Net profit before taxation	
	Retained profit	1,00,000
	Less: Balance as on 31.3.20X0	(50,000)
		50,000
	Provision for taxation	1,35,000
	Dividend	90,000
		2,75,000

2. **Land and Building Account**

	₹		₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Profit and Loss A/c (Profit on sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

3. Plant and Machinery Account

	₹		₹
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss account	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	<u>9,90,000</u>		<u>9,90,000</u>

4. Investments Account

	₹		₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000	By Balance c/d	50,000
	<u>1,25,000</u>		<u>1,25,000</u>

5. Capital Reserve Account

	₹		₹
To Balance c/d	70,000	By Profit on revaluation of land	70,000
	<u>70,000</u>		<u>70,000</u>

6. General Reserve Account

	₹		₹
To Capital redemption reserve	1,00,000	By Balance b/d	2,50,000
To Balance c/d	1,50,000		
	<u>2,50,000</u>		<u>2,50,000</u>

7. **Dividend payable Account**

	₹		₹
To Bank (Balancing figure)	1,50,000	By Balance b/d	60,000
To Balance c/d	-	By Profit and loss account	90,000
	1,50,000		1,50,000

8. **Provision for Taxation Account**

	₹		₹
To Bank (Balancing figure)	1,00,000	B Balance b/d	60,000
To Balance c/d	95,000	B Profit and loss account	1,35,000
	1,95,000		1,95,000

9. **Other Current Assets Account**

	₹		₹
To Balance b/d	65,000	By Balance c/d	1,00,000
To Bank (Balancing figure)	35,000		
	1,00,000		1,00,000

12. **New Light Ltd.****Cash Flow Statement for the year ended 31st March, 20X1**

A.	Cash Flow from operating activities	₹	₹
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment [₹3,40,000 – (₹2,40,000 + ₹24,000)]	76,000	

Transfer to general reserve	1,60,000	
Provision for tax	3,40,000	
Net profit before taxation and extraordinary item	5,76,000	
Adjustments for:		
Depreciation	3,60,000	
Loss on sale of property, plant and equipment	20,000	
Decrease in value of property, plant and equipment	16,000	
Profit on sale of investment	(40,000)	
Premium on redemption of preference share capital	6,000	
Interest on debentures	36,000	
Premium on redemption of debentures	6,000	
Operating profit before working capital changes	9,80,000	
Increase in current liabilities (₹5,20,000 – ₹4,80,000)	40,000	
Increase in other current assets [₹11,50,000 – (₹ 11,10,000 + ₹24,000)]	(16,000)	
Cash generated from operations	10,04,000	
Income taxes paid	(3,60,000)	
Net Cash generated from operating activities		6,44,000
B. Cash Flow from investing activities		
Purchase of property, plant and equipment (W.N.3)	(8,56,000)	
Proceeds from sale of property, plant and equipment (W.N.3)	1,00,000	

	Proceeds from sale of investments (W.N.2)	1,20,000	
	Net Cash used in investing activities		(6,36,000)
C.	Cash Flow from financing activities		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (₹1,20,000 + ₹6,000)	(1,26,000)	
	Redemption of debentures (₹ 1,20,000 + ₹ 6,000)	(1,26,000)	
	Dividend paid	(1,20,000)	
	Interest on debentures	(36,000)	
	Net Cash generated from financing activities		(8,000)
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

Working Notes:

1. Revaluation of inventory will increase opening inventory by ₹ 24,000.

$$2,16,000/90 \times 10 = ₹ 24,000$$

Therefore, opening balance of other current assets would be as follows:

$$₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000$$

Due to under valuation of inventory, the opening balance of profit and loss account be increased by ₹ 24,000.

The opening balance of profit and loss account after revaluation of inventory will be ₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000

2.

Investment Account

	₹		₹
To Balance b/d	4,00,000	By Bank A/c	1,20,000
To Profit and Loss A/c (Profit on sale of investment)	40,000	(balancing figure being investment sold)	
		By Balance c/d	3,20,000
	4,40,000		4,40,000

3.

Property, Plant and Equipment Account

	₹		₹	₹
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000	
To Bank A/c (balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000	
		By Profit and loss A/c (loss on sale of assets)	20,000	2,00,000
		By Accumulated depreciation A/c	40,000	
		By Profit and loss A/c (assets written off)	16,000	56,000
		By Balance c/d		38,00,000
	<u>40,56,000</u>			<u>40,56,000</u>

4. **Accumulated Depreciation Account**

	₹		₹
To Property, plant and equipment A/c	80,000	By Balance b/d	9,20,000
To Property, plant and equipment A/c	40,000	By Profit and loss A/c (depreciation for the year)	3,60,000
To Balance c/d	11,60,000		
	12,80,000		12,80,000

13. **Cash Flow Statement of ABC Ltd. for the year ended 31.3.20X1**

Cash flows from Operating Activities	₹	₹
Net Profit	10,40,000	
Add: Adjustment For Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Add: Adjustment for Provision for Doubtful Debts (₹ 4,20,000 – ₹1,50,000)	2,70,000	
Operating Profit Before Working Capital Changes	14,90,000	
Add: Decrease in Inventories (₹ 20,10,000 – ₹ 19,20,000)	90,000	
	15,80,000	
Less: Increase in Current Assets		
Trade Receivables (₹ 30,60,000 – ₹23,90,000)	6,70,000	
Prepaid Expenses (₹ 1,20,000 – ₹90,000)	30,000	

Note:

1. Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.20X1. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.20X1.

2. Current investments (i.e. Marketable securities) may not be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value as per the requirements of AS 3 and hence those have been considered as investing activities.

14.

Fox Ltd.**Cash Flow Statement for the year ended 31st March, 20X2**

	₹	₹
<u>Cash flows from operating activities</u>		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	<u>8,000</u>	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
<i>Cash used in operating activities</i>		(20,000)
Less: Tax paid*		(5,000)
<i>Net cash used in operating activities</i>		(25,000)
<u>Cash flows from investing activities</u>		
Purchase of PPE	(2,10,000)	
<i>Net cash used in investing activities</i>		(2,10,000)

<u>Cash flows from financing activities</u>		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
<i>Net cash generated from financing activities</i>		2,50,000
Net increase in cash and cash equivalents		15,000
Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

**Provision for tax of last year considered to be paid in the current year.*

Working Note:

	₹
Property, plant and equipment acquisitions	
W.D.V. at 31.3.20X2	3,50,000
<i>Add back:</i>	
Depreciation for the year	40,000
	3,90,000
<i>Less: W.D.V. at 31.12.20X1</i>	1,80,000
Acquisitions during 20X1-20X2	2,10,000

ANNEXURE

Schedule III to the Companies Act, 2013

(See section 129)

Division I*

Financial Statements for a company whose Financial Statements are required to comply with the Companies (Accounting Standards) Rules, 2021.

GENERAL INSTRUCTIONS FOR PREPARATION OF BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS OF A COMPANY

1. Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/sub-head or any changes *inter se*, in the financial statements or statements forming part thereof, the same shall be made and the requirements of this Schedule shall stand modified accordingly.
2. The disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.
3. (i) Notes to accounts shall contain information in addition to that presented in the Financial Statements and shall provide where required (a) narrative descriptions or dis-aggregations of items

* As per syllabus, only Division I of Schedule III (excluding general instructions for the preparation of consolidated financial statements) has been reproduced here. In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013, the Central Government made certain amendments in Schedule III to the said Act with effect from 1st day of April, 2021 vide MCA notification dated 24th March, 2021. This Annexure incorporates these amendments.

recognized in those statements and (b) information about items that do not qualify for recognition in those statements.

- (ii) Each item on the face of the Balance Sheet and Statement of Profit and Loss shall be cross-referenced to any related information in the notes to accounts. In preparing the Financial Statements including the notes to accounts, a balance shall be maintained between providing excessive detail that may not assist users of financial statements and not providing important information as a result of too much aggregation.
4. (i) Depending upon the total income of the company, the figures appearing in the Financial Statements shall be rounded off as given below:

Total income	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.

- (ii) Once a unit of measurement is used, it should be used uniformly in the Financial Statements.
5. Except in the case of the first Financial Statements laid before the Company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding reporting period for all items shown in the Financial Statements including notes shall also be given.
6. For the purpose of this Schedule, the terms used herein shall be as per the applicable Accounting Standards.

Note: This part of Schedule sets out the minimum requirements for disclosure on the face of the Balance Sheet, and the Statement of Profit and Loss (hereinafter referred to as "Financial Statements" for the purpose of this Schedule) and Notes. Line items, sub-line items and sub-totals shall be presented as an addition or substitution on the face of the Financial Statements when such presentation is relevant to an understanding of the company's financial position or performance or to cater to industry/sector-specific disclosure requirements or when required for compliance with the amendments to the Companies Act or under the Accounting Standards.

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 previous reporting period
		1	2	3	4
		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			

1		(A) total outstanding dues of micro enterprises and small enterprises; and (B) total outstanding dues of creditors other than micro enterprises and small enterprises.			
	c	Other current liabilities			
	d	Short-term provisions			
		Total			
		ASSETS			
		Non-current assets			
	a	i Property, plant and Equipment			
		ii Intangible assets			
		iii Capital Work-in-progress			
		iv Intangible assets under development			
2	b	Non-current investments			
	c	Deferred tax assets (Net)			
	d	Long-term loans and advances			
	e	Other non-current assets			
		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 Financial Statements.

Notes**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 realized 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 realized 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 a duration of 12 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 percent 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)
- (m) A company shall disclose Shareholding of Promoters* as below:

Shares heldby promoters at the end of the year				% Change during the year***
S. No	Promoter name	No. of Shares**	% of total shares**	
Total				

*Promoter here means promoter as defined in the Companies Act, 2013.

** Details shall be given separately for each class of shares

*** percentage change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue.

B. RESERVES AND SURPLUS

- (i) Reserves and Surplus shall be classified as:
 - (a) Capital Reserves;
 - (b) Capital Redemption Reserve;
 - (c) Securities Premium;
 - (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 & 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 instalments, the date of maturity for this purpose must be reckoned as the date on which the first instalment 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.
- "(v) current maturities of Long term borrowings shall be disclosed separately.

FA. Trade Payables

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.

FB. Trade payables due for payment

The following ageing schedule shall be given for Trade payables due for payment:-

Trade Payables ageing schedule

(Amount in ₹)

Particulars	Outstanding for following periods from due date of payment#				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
(i) MSME					
(ii) Others					
(iii) Disputed dues – MSME					
(iv) Disputed dues –					
(v) Others					

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately;

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 finance lease obligations;
- (b) Interest accrued but not due on borrowings;
- (c) Interest accrued and due on borrowings;

- (d) Income received in advance;
- (e) Unpaid dividends
- (f) 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 authorized 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'
- (g) Unpaid matured deposits and interest accrued thereon
- (h) Unpaid matured debentures and interest accrued thereon
- (i) Other payables (specify nature);

H. SHORT-TERM PROVISIONS

The amounts shall be classified as:

- (a) Provision for employee benefits.
- (b) Others (specify nature).

I. Property, Plant and Equipment

- (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, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) 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) Licenses 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, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) and other adjustments and the related depreciation and impairment losses or 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) Loans and advances to related parties (giving details thereof);
 - (c) 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);
- (ia) Security Deposits;
- (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.
- (iv) For trade receivables outstanding, following ageing schedule shall be given:

Trade Receivables ageing schedule

(Amount in ₹)

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables – considered good						

(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

similar information shall be given where no due date of payment is specified, in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately.

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) For trade receivables outstanding, the following ageing schedules shall be given:

Trade Receivables ageing schedule

(Amount in ₹)

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately.

(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 12 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 unutilized amounts have been used or invested.

- VA.** Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.
- W.** If, in the opinion of the Board, any of the assets other than Property, Plant Equipment, "Intangible assets and non-current investments do not have a value on realization 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.
- Y.** Additional Regulatory Information

(i) Title deeds of Immovable Property not held in name of the Company

The company shall provide the details of all the immovable property (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the company in format given below and where such immovable property is jointly held with others, details are required to be given to the extent of the company's share.

Relevant line item in the Balance sheet	Description of item of pro-property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative# of promoter* / director or employee of promoter/ director	Pro-property held since which date	Reason for not being held in the name of the company* *
PPE -	Land Building	-	-	-	-	**also indicate if in dispute

Investment property						
-						
PPE retired from active use and held for disposal	Land Building					
-						
others	Land Building					

#Relative here means relative as defined in the Companies Act, 2013.

*Promoter here means promoter as defined in the Companies Act, 2013.

- (ii) Where the Company has revalued its Property, Plant and Equipment, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.
- (iii) Following disclosures shall be made where Loans or Advances in the nature of loans are granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013,) either severally or jointly with any other person, that are:
- repayable on demand or
 - without specifying any terms or period of repayment

Type of Borrower	Amount of loan or advance in the nature of loan outstanding	Percentage to the total Loans and Advances in the nature of loans
Promoters		
Directors		
KMPs		
Related Parties		

(iv) Capital-Work-in Progress (CWIP)

- (a) For Capital-work-in progress, following ageing schedule shall be given:

CWIP aging schedule

(Amount in ₹)

CWIP	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in progress					
Projects temporarily suspended					

*Total shall tally with CWIP amount in the balance sheet.

- (b) For capital-work-in progress, whose completion is overdue or has exceeded its cost compared to its original plan, following **CWIP completion schedule** shall be given**:

(Amount in ₹)

CWIP	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1 Project 2"				

**Details of projects where activity has been suspended shall be given separately.

(v) Intangible assets under development:

- (a) For Intangible assets under development, following ageing schedule shall be given:

Intangible assets under development aging schedule

(Amount in ₹)

Intangible assets under development	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in progress Projects temporarily suspended					

* Total shall tally with the amount of Intangible assets under development in the balance sheet.

For Intangible assets under development, whose completion is overdue or has exceeded its cost compared to its original plan, following **Intangible assets under development completion schedule** shall be given**:

(Amount in ₹)

Intangible assets under development	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1 Project 2				

**Details of projects where activity has been suspended shall be given separately.

(vi) Details of Benami Property held

Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-

- (a) Details of such property, including year of acquisition,
- (b) Amount thereof,
- (c) Details of Beneficiaries,
- (d) If property is in the books, then reference to the item in the Balance Sheet,
- (e) If property is not in the books, then the fact shall be stated with reasons,
- (f) Where there are proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided,
- (g) Nature of proceedings, status of same and company's view on same.

(vii) Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:-

- (a) whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
- (b) if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

(viii) Wilful Defaulter*

Where a company is a declared wilful defaulter by any bank or financial Institution or other lender, following details shall be given:

- a. Date of declaration as wilful defaulter,
- b. Details of defaults (amount and nature of defaults),

* “wilful defaulter” here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by the Reserve Bank of India.

(ix) Relationship with Struck off Companies

Where the company has any transactions with companies struck off under section 248 of the Companies Act, 2013 or section 560 of Companies Act, 1956, the Company shall disclose the following details:-

Name of struck off Company	Nature of transactions with struck-off Company	Balance outstanding	Relationship with the Struck off company, if any, to be disclosed
	Investments in securities		
	Receivables		
	Payables		
	Shares held by stuck off company		
	Other outstanding balances (to be specified)		

(x) Registration of charges or satisfaction with Registrar of Companies

Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

(xi) Compliance with number of layers of companies

Where the company has not complied with the number of layers prescribed under clause (87) of section 2 of the Act read with

Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies shall be disclosed.

(xii) Following Ratios to be disclosed:-

Current Ratio,

- a. Debt-Equity Ratio,
- b. Debt Service Coverage Ratio,
- c. Return on Equity Ratio,
- d. Inventory turnover ratio,
- e. Trade Receivables turnover ratio,
- f. Trade payables turnover ratio,
- g. Net capital turnover ratio,
- h. Net profit ratio,
- i. Return on Capital employed,
- j. Return on investment.

The company shall explain the items included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

(xiii) Compliance with approved Scheme(s) of Arrangements

Where any Scheme of Arrangements has been approved by the Competent Authority in terms of sections 230 to 237 of the Companies Act, 2013, the Company shall disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the Company 'in accordance with the Scheme' and 'in accordance with accounting standards' and deviation in this regard shall be explained.

(xiv) Utilisation of Borrowed funds and share premium:

- (A) Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
 - (ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries; the company shall disclose the following:-
 - (I) date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
 - (II) date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries.
 - (III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries.
 - (IV) declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).;
- (B) Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall
 - (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or

- (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries, the company shall disclose the following:-
 - (I) date and amount of fund received from Funding parties with complete details of each Funding party.
 - (II) date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries alongwith complete details of the other intermediaries' or ultimate beneficiaries.
 - (III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).;

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 for the current reporting period	Figures for the previous reporting period
1		2	3	4
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	Total Income (I + II)		xxx	xxx
IV.	Expenses:		xxx	xxx
	Cost of materials consumed		xxx	xxx
	Purchases of Stock-in-Trade		xxx	xxx
	Changes in inventories of finished goods		xxx	xxx
	work-in-progress		xxx	xxx
	and Stock-in-Trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses			
	Total expenses		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	xxx	xxx
	(2) Deferred tax	<u>xxx</u>	<u>xxx</u>
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	xxx	xxx
	(2) Diluted	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 a finance company revenue from operations shall disclose separately in the notes revenue from
 - (a) Sale of products;
 - (b) Sale of services;
 - “(ba) Grants or donations received (relevant in case of section 8 companies only)”;
 - (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:

- (i) (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 amortization expense;
- (c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or ₹ 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,
 - (f) for reimbursement of expenses;
- (k) In case of companies covered u/s 135, amount of expenditure incurred on corporate social responsibility activities.
- (l) Details of items of exceptional and extraordinary nature;
- (m) Prior period items;
- (ii) (a) In the case of manufacturing companies,
 - (1) Raw materials under broad heads.
 - (2) goods purchased under broad heads.
- (b) In the case of trading companies, purchases in respect of goods traded in by the company under broad heads.
- (c) In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.
- (d) 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 is shown under broad heads.
- (e) In the case of other companies, gross income derived under broad heads.
- (iii) In the case of all concerns having works in progress, works-in-progress under broad heads.
- (iv) (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.
- (v)
 - (a) The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.
 - (b) The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.
- (vi) 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,
- (vii)
 - (a) Dividends from subsidiary companies.
 - (b) Provisions for losses of subsidiary companies.
- (viii) 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
- (ix) Undisclosed income: The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.
- (x) Corporate Social Responsibility (CSR)

Where the company covered under section 135 of the companies act, the following shall be disclosed with regard to CSR activities:-

 - (a) amount required to be spent by the company during the year,

- (b) amount of expenditure incurred,
 - (c) shortfall at the end of the year,
 - (d) total of previous years shortfall,
 - (e) reason for shortfall,
 - (f) nature of CSR activities,
 - (g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
 - (h) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.
- (xi) Details of Crypto Currency or Virtual Currency

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

- (a) profit or loss on transactions involving Crypto currency or Virtual Currency
- (b) amount of currency held as at the reporting date,
deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.

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