Chapter 3: Financial Statements of a Company

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Exercise 3.1 — Short & Long Answer Questions

Q1 State the meaning of financial statements.

Financial statements are organised summaries of a business's financial activities over a period. They include the Statement of Profit and Loss (showing revenues and expenses for the period) and the Balance Sheet (showing assets, liabilities and shareholders' funds at the period-end). Together they communicate the financial position and performance of a company to its stakeholders.

Q2 What are limitations of financial statements?

The main limitations of financial statements are: (i) They record only monetary transactions, ignoring qualitative factors such as employee morale, management quality and labour relations. (ii) They are based on historical cost and do not reflect current market values. (iii) They are influenced by personal judgement in matters such as depreciation method, inventory valuation and provision for doubtful debts, making inter-firm comparison difficult. (iv) They provide only aggregate information and conceal internal details. (v) They are prepared using accepted accounting conventions (e.g., going concern, conservatism) that may not always represent economic reality. (vi) They do not disclose all facts relevant to decision-making; important matters may be left to notes or omitted entirely.

Q3 List any three objectives of financial statements.

Three objectives of financial statements are: (i) To provide reliable information about a company's economic resources and obligations, helping users assess financial strength and solvency. (ii) To disclose the results of operations (profit or loss) for a period, enabling stakeholders to judge management's stewardship of resources. (iii) To provide information useful for predicting, comparing and evaluating the earning power of the enterprise, assisting investors and creditors in rational decision-making.

Q4 State the importance of financial statements to: (i) shareholders, (ii) creditors, (iii) government, (iv) investors.

(i) Shareholders: Financial statements help shareholders assess the safety of their investment, evaluate management's efficiency, judge the company's profitability and decide whether to hold, buy or sell shares. They also indicate the dividend-paying capacity of the company. (ii) Creditors: Short-term creditors use financial statements to assess the liquidity and short-term solvency of the company, while long-term creditors (e.g., debenture holders, banks) examine long-term solvency and earning capacity to gauge whether their debt will be repaid with interest. (iii) Government: The government uses financial statements to assess taxable income, verify statutory compliance, formulate economic policy, compile national income statistics and decide on granting licences or subsidies. (iv) Investors: Prospective investors analyse financial statements to evaluate the risk and return of investing, the company's future earnings potential, dividend history and overall financial stability before committing funds.

Q5 How will you disclose the following items in the Balance Sheet of a company: (i) Current assets, inventory; (ii) Contingent liabilities in notes to accounts; (iii) Shareholders Funds, Reserve and Surplus; (iv) Fixed Assets, Intangible Assets; (v) Proposed Dividend for the current year; (vi) Non Current Liabilities; (vii) Arrears of Dividend on Cumulative Preference Shares.

(i) Current Assets — Inventories: Shown under the head 'Current Assets' as a sub-head 'Inventories'. It includes raw materials, work-in-progress, finished goods, stock-in-trade, stores and spares, and loose tools. (ii) Contingent Liabilities in Notes to Accounts: Contingent liabilities are not recognised in the Balance Sheet because they are not certain obligations. They are disclosed as a note to the accounts (contingent liabilities note), stating the nature and estimated amount, so users are informed of potential future obligations. (iii) Shareholders' Funds — Reserves and Surplus: Shown as a sub-head under 'Shareholders' Funds' in the Equity & Liabilities section. It includes capital reserve, capital redemption reserve, securities premium reserve, general reserve, statement of profit and loss (balance) and other reserves. (iv) Fixed Assets — Intangible Assets: Shown under the main head 'Non-current Assets' → sub-head 'Fixed Assets' → further classified as 'Intangible Assets'. Examples include goodwill, brands/trademarks, computer software, patents, copyrights and franchise. (v) Proposed Dividend for the Current Year: As per the Companies Act, 2013, a proposed dividend (recommended by the Board but not yet declared at the Balance Sheet date) is NOT recognised as a liability in the Balance Sheet; it is disclosed as a contingent liability in the notes to accounts. (vi) Non-current Liabilities: Shown as a separate main head in the Equity & Liabilities section, below Shareholders' Funds. It includes long-term borrowings (debentures, term loans), deferred tax liabilities, other long-term liabilities and long-term provisions. (vii) Arrears of Dividend on Cumulative Preference Shares: Arrears of preference dividend are not a liability until declared; they are disclosed in the notes to accounts as a contingent liability (or disclosed by way of a note), stating the period of arrears and the amount.

Q6 Explain the nature of the financial statements.

The nature of financial statements can be understood through the following characteristics: (i) Recorded Facts: Financial statements are based on facts recorded in the books of accounts. Only actual monetary transactions are recorded; estimates or projections are generally excluded. (ii) Accounting Conventions: Financial statements are prepared following accepted accounting conventions such as conservatism (providing for losses but not anticipating gains), consistency (using the same methods from year to year) and materiality (disclosing all material information). (iii) Personal Judgements: Many items in financial statements involve personal judgement—for example, the choice of depreciation method, the rate of provision for bad debts, and the valuation of inventories. Different judgements can lead to different reported results. (iv) Accounting Concepts: They are prepared on the basis of concepts such as going concern, accrual and money measurement, which introduce certain assumptions and limitations. (v) Historical Nature: Financial statements reflect past performance and position; they do not capture current economic values or future prospects. (vi) Combination of Art and Science: Preparing financial statements requires both adherence to rules (science) and the exercise of professional judgment (art), making them a combination of recorded facts, accounting conventions and personal judgements.

Q7 Explain in detail about the significance of the financial statements.

Financial statements are significant to various user groups as follows: (i) Management: They help management assess performance, plan future operations, control costs, make investment and financing decisions, and discharge accountability to shareholders. (ii) Shareholders/Owners: Financial statements allow shareholders to evaluate the safety of their investment, the efficiency of management, profitability and dividend-paying capacity. (iii) Creditors and Lenders: Short-term creditors assess liquidity; long-term lenders assess solvency and earning capacity. They determine whether interest and principal can be repaid on time. (iv) Investors (Prospective): They analyse earnings per share, dividend trends and financial stability before deciding to invest. (v) Employees and Trade Unions: Employees use financial statements to negotiate wages, assess job security and evaluate profit-sharing prospects. (vi) Government and Tax Authorities: Governments use them to levy taxes, frame economic policy, regulate industries and compile national statistics. (vii) Customers: Customers—especially those with long-term supply relationships—are interested in the company's continuity and stability. (viii) Research Analysts and the Public: Financial statements serve the broader public interest by making company affairs transparent and enabling inter-firm and trend comparisons.

Q8 Explain the limitations of financial statements.

The limitations of financial statements are: (i) Based on Historical Cost: Assets are recorded at historical cost, which may differ significantly from current market value, making the Balance Sheet an unreliable indicator of true worth. (ii) Ignore Qualitative Factors: Non-monetary factors such as management quality, employee morale, brand reputation and customer loyalty are not captured. (iii) Personal Judgement: Accounting choices (depreciation method, bad debt provision, inventory valuation) differ across firms and periods, reducing comparability. (iv) Based on Conventions: Application of conventions such as conservatism can understate assets or overstate liabilities. (v) Provide Aggregate Information Only: Details of individual transactions are merged; internal inefficiencies may be hidden. (vi) Price-Level Changes Ignored: Inflation distorts inter-period comparisons since financial statements are not adjusted for changes in purchasing power. (vii) Window Dressing: Companies may manipulate the presentation of financial statements to show a more favourable picture than actually exists. (viii) Not Complete: Not all relevant information is included—future commitments, contingencies and qualitative data are either absent or relegated to notes.

Q9 Prepare the format of statement of profit and loss and explain its items upto the ascertainment of profit before tax.

Statement of Profit and Loss (for the year ended …): I. Revenue from Operations — the primary income from the company's main business activity (sales of goods or services). II. Other Income — secondary income such as interest received, dividend income, profit on sale of assets. III. Total Revenue (I + II). IV. Expenses — (a) Cost of Materials Consumed (for manufacturing companies), (b) Purchases of Stock-in-Trade (for trading companies), (c) Changes in Inventories of Finished Goods, WIP and Stock-in-Trade (opening minus closing inventory — a decrease in closing stock adds to expenses), (d) Employee Benefits Expense (salaries, wages, PF, gratuity), (e) Finance Costs (interest on borrowings, bank charges), (f) Depreciation and Amortisation Expense, (g) Other Expenses (rent, rates, taxes, selling and distribution expenses, general administrative expenses). V. Total Expenses. VI. Profit Before Tax = Total Revenue (III) − Total Expenses (V). Items (a) to (g) together constitute the total operating and non-operating expenses charged against revenue. Profit before tax is the surplus before deducting income tax provisions.

Q10 Prepare the format of balance sheet and explain the various elements of balance sheet.

Balance Sheet of … Ltd. as at … (Schedule III, Companies Act 2013): EQUITY AND LIABILITIES — (1) Shareholders' Funds: (a) Share Capital — the paid-up capital comprising equity and preference shares issued; (b) Reserves and Surplus — accumulated profits, capital reserve, general reserve, securities premium, etc. (2) Non-current Liabilities: (a) Long-term Borrowings — debentures, term loans from banks repayable after 12 months; (b) Deferred Tax Liabilities (Net); (c) Other Long-term Liabilities; (d) Long-term Provisions — provision for employee benefits (gratuity, leave encashment). (3) Current Liabilities: (a) Short-term Borrowings — bank overdraft, cash credit, short-term loans; (b) Trade Payables — creditors and bills payable; (c) Other Current Liabilities — unpaid dividends, outstanding expenses; (d) Short-term Provisions — provision for taxation, proposed dividend (if declared). ASSETS — (1) Non-current Assets: (a) Fixed Assets — Tangible assets (land, building, plant and machinery, vehicles) and Intangible assets (goodwill, patents, trademarks); Capital Work-in-Progress; (b) Non-current Investments — investments held for more than one year; (c) Deferred Tax Assets (Net); (d) Long-term Loans and Advances; (e) Other Non-current Assets — preliminary expenses, discount on issue of debentures (to be written off). (2) Current Assets: (a) Current Investments — investments held for less than one year; (b) Inventories — raw materials, WIP, finished goods, stock-in-trade, stores and spares; (c) Trade Receivables — debtors and bills receivable due within 12 months; (d) Cash and Cash Equivalents — cash in hand, bank balances; (e) Short-term Loans and Advances; (f) Other Current Assets. Total of Equity and Liabilities = Total of Assets (the Balance Sheet must always balance).

Q11 Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking.

Financial statements serve the following parties: (i) Shareholders: They assess safety of investment, management efficiency, profitability and dividend capacity. (ii) Creditors: Short-term creditors check liquidity; long-term lenders check solvency and earning capacity to ensure debt repayment. (iii) Management: Uses them for planning, controlling, budgeting, evaluating departmental performance and decision-making. (iv) Government: Levies taxes, frames policy, regulates business and compiles national income statistics. (v) Employees: Assess wage revision prospects, job security and profit-sharing entitlements. (vi) Investors (Prospective): Evaluate risk, expected returns and company stability before investing. (vii) Stock Exchanges: Monitor listed companies' financial health for investor protection and market efficiency. (viii) Research Scholars and the General Public: Conduct comparative and trend analyses for academic and policy research.

Q12 'Financial statements reflect a combination of recorded facts, accounting conventions and personal judgements'. Discuss.

Financial statements are shaped by three overlapping elements: (i) Recorded Facts: The foundation of financial statements is the actual data recorded in the books of account—transactions that have occurred and been measured in monetary terms. For example, the purchase price of a fixed asset or the wages paid to employees are recorded facts. (ii) Accounting Conventions: Preparers apply established conventions that determine how facts are presented. Conservatism leads to recognising losses immediately but deferring gains. Consistency requires applying the same methods across periods. Materiality requires disclosing all significant information. These conventions introduce a degree of uniformity but also impose limitations, since the 'best' convention is not universally agreed upon. (iii) Personal Judgements: Many accounting estimates depend on professional judgement. The rate of depreciation, the expected useful life of an asset, the percentage of bad debts to provide for, and the choice of inventory costing method (FIFO or weighted average) all vary based on the judgement of the accountant. Different judgements produce different profit and asset figures from the same set of facts. Together, these three elements mean that financial statements, while useful and informative, are neither perfectly objective nor complete. Two companies in the same industry may report different profits simply because their accountants exercise different judgements or follow different conventions. Users must therefore read financial statements critically, understanding the assumptions and policies that underlie them.

Q13 Explain the process of preparing income statement and balance sheet.

Process of Preparing the Income Statement (Statement of Profit and Loss): (i) Identify all revenue items for the period — Revenue from Operations (main business income) and Other Income (secondary income). Sum them to get Total Revenue. (ii) Identify all expense items — cost of materials consumed, purchases, changes in inventories, employee costs, finance costs, depreciation and other expenses. Sum them to get Total Expenses. (iii) Profit Before Tax = Total Revenue − Total Expenses. (iv) Deduct the provision for tax to arrive at Profit After Tax. (v) Appropriate the profit: transfer to general reserve, proposed dividend, surplus carried to Balance Sheet. Process of Preparing the Balance Sheet: (i) List all items under Equity and Liabilities: Shareholders' Funds (Share Capital + Reserves and Surplus), Non-current Liabilities and Current Liabilities. (ii) List all items under Assets: Non-current Assets (Fixed Assets + Non-current Investments + other non-current assets) and Current Assets (Current Investments + Inventories + Trade Receivables + Cash and Cash Equivalents + other current assets). (iii) Close the Statement of Profit and Loss — the net profit (or loss) is transferred to Reserves and Surplus in the Balance Sheet. (iv) Verify that Total Equity and Liabilities equals Total Assets. This equality confirms the accuracy of the double-entry records. (v) Prepare Notes to Accounts for each line item requiring further detail as prescribed by Schedule III.

Exercise 3.2 — Numerical Questions

Q1 Show the following items in the balance sheet as per the provisions of the Companies Act, 2013 in Schedule III: Preliminary Expenses Rs. 2,40,000; Discount on issue of shares Rs. 20,000; 10% Debentures Rs. 2,00,000; Stock in trade Rs. 1,40,000; Cash at bank Rs. 1,35,000; Bills receivable Rs. 1,20,000; Goodwill Rs. 30,000; Loose tools Rs. 12,000; Motor Vehicles Rs. 4,75,000; Provision for tax Rs. 16,000.

SOLUTION

Step 1: Classify each item into its Schedule III head.

EQUITY AND LIABILITIES:
Non-current Liabilities:
10% Debentures → Long-term Borrowings = Rs. 2,00,000

Current Liabilities:
Provision for tax → Short-term Provisions = Rs. 16,000

ASSETS:
Non-current Assets:
Goodwill → Fixed Assets (Intangible Assets) = Rs. 30,000
Motor Vehicles → Fixed Assets (Tangible Assets) = Rs. 4,75,000
Preliminary Expenses → Other Non-current Assets = Rs. 2,40,000
Discount on issue of shares → Other Non-current Assets = Rs. 20,000

Current Assets:
Loose tools → Inventories = Rs. 12,000
Stock in trade → Inventories = Rs. 1,40,000
Bills receivable → Trade Receivables = Rs. 1,20,000
Cash at bank → Cash and Cash Equivalents = Rs. 1,35,000

Step 2: Present in Balance Sheet format (only the given items).

Balance Sheet (Extract) as per Schedule III

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Non-current Liabilities		
Long-term Borrowings (10% Debentures)	1	2,00,000
Current Liabilities		
Short-term Provisions (Provision for tax)	2	16,000
II. ASSETS		
Non-current Assets		

Particulars	Note No.	Amount (Rs.)
Fixed Assets		
(i) Intangible Assets (Goodwill)	3	30,000
(ii) Tangible Assets (Motor Vehicles)	3	4,75,000
Other Non-current Assets (Preliminary Expenses + Discount on issue of shares)	4	2,60,000
Current Assets		
Inventories (Loose tools + Stock in trade)	5	1,52,000
Trade Receivables (Bills receivable)	6	1,20,000
Cash and Cash Equivalents (Cash at bank)		1,35,000

Notes to Accounts:

Note 1 — Long-term Borrowings	Amount (Rs.)
10% Debentures	2,00,000
Total	2,00,000

Note 2 — Short-term Provisions	Amount (Rs.)
Provision for tax	16,000
Total	16,000

Note 3 — Fixed Assets	Amount (Rs.)
Intangible Assets: Goodwill	30,000
Tangible Assets: Motor Vehicles	4,75,000
Total	5,05,000

Note 4 — Other Non-current Assets	Amount (Rs.)
Preliminary Expenses	2,40,000
Discount on issue of shares	20,000
Total	2,60,000

Note 5 — Inventories	Amount (Rs.)
Loose tools	12,000
Stock in trade	1,40,000
Total	1,52,000

Note 6 — Trade Receivables	Amount (Rs.)
Bills receivable	1,20,000
Total	1,20,000

Q2 On April 1, 2017, Jumbo Ltd. issued 10,000; 12% debentures of Rs. 100 each at a discount of 20%, redeemable after 5 years. The company decided to write-off discount on issue of such debentures on March 31, 2018. Show the items in the balance sheet of the company immediately after the issue of these debentures.

SOLUTION

Step 1: Calculate debenture amounts.
Face value of debentures = 10,000 × Rs. 100 = Rs. 10,00,000
Discount @ 20% on face value = 20% × Rs. 10,00,000 = Rs. 2,00,000
Net proceeds received (Cash) = Rs. 10,00,000 − Rs. 2,00,000 = Rs. 8,00,000

Step 2: Placement in Balance Sheet.
The debentures are shown at face value (Rs. 10,00,000) as a Non-current Liability.
The discount on issue (Rs. 2,00,000) is a deferred expenditure — shown as Other Non-current Asset (to be written off on 31 March 2018).
Cash received (Rs. 8,00,000) goes to Cash and Cash Equivalents.

Step 3: Prepare Balance Sheet (extract) immediately after issue.

Balance Sheet of Jumbo Ltd. (Extract) as at April 1, 2017

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Non-current Liabilities		
Long-term Borrowings	1	10,00,000
II. ASSETS		
Non-current Assets		
Other Non-current Assets (Discount on issue of debentures)	2	2,00,000

Particulars	Note No.	Amount (Rs.)
Current Assets		
Cash and Cash Equivalents (Cash at bank)		8,00,000
Total Assets		10,00,000

Notes to Accounts:

Note 1 — Long-term Borrowings	Amount (Rs.)
12% Debentures (Face value Rs. 10,00,000; redeemable after 5 years)	10,00,000
Total	10,00,000

Note 2 — Other Non-current Assets	Amount (Rs.)
Discount on issue of 12% Debentures (to be written off on 31.3.2018)	2,00,000
Total	2,00,000

Verification: Non-current Liability = Rs. 10,00,000; Assets = Rs. 2,00,000 + Rs. 8,00,000 = Rs. 10,00,000. Balance sheet balances.

Q3 From the following information prepare the balance sheet of Gitanjali Ltd.: Inventories Rs. 14,00,000; Equity Share Capital Rs. 20,00,000; Plant and Machinery Rs. 10,00,000; Preference Share Capital Rs. 12,00,000; Debenture Redemption Reserve Rs. 6,00,000; Outstanding Expenses Rs. 3,00,000; Proposed Dividend Rs. 5,00,000; Land and Building Rs. 20,00,000; Current Investments Rs. 8,00,000; Cash Equivalent Rs. 10,00,000; Short term loan from Zaveri Ltd. (A Subsidiary Company of Twilight Ltd.) Rs. 4,00,000; Public Deposits Rs. 12,00,000.

SOLUTION

Step 1: Classify all items.

EQUITY AND LIABILITIES:

Shareholders' Funds:

Equity Share Capital = Rs. 20,00,000

Preference Share Capital = Rs. 12,00,000 → Total Share Capital = Rs. 32,00,000

Reserves and Surplus: Debenture Redemption Reserve = Rs. 6,00,000

Non-current Liabilities:

Public Deposits (accepted for more than 12 months — classified as long-term borrowings) = Rs. 12,00,000

Current Liabilities:

Outstanding Expenses = Rs. 3,00,000

Proposed Dividend = Rs. 5,00,000

Short-term loan from Zaveri Ltd. (subsidiary of Twilight Ltd.) = Rs. 4,00,000
Total Current Liabilities = Rs. 12,00,000

Total Equity and Liabilities = 32,00,000 + 6,00,000 + 12,00,000 + 12,00,000 = Rs. 62,00,000

ASSETS:
Non-current Assets:
Land and Building = Rs. 20,00,000
Plant and Machinery = Rs. 10,00,000
Total Non-current Assets = Rs. 30,00,000

Current Assets:
Current Investments = Rs. 8,00,000
Inventories = Rs. 14,00,000
Cash Equivalent (Cash and Cash Equivalents) = Rs. 10,00,000
Total Current Assets = Rs. 32,00,000

Total Assets = 30,00,000 + 32,00,000 = Rs. 62,00,000

Step 2: Prepare Balance Sheet.

Balance Sheet of Gitanjali Ltd. as at …

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	32,00,000
(b) Reserves and Surplus	2	6,00,000
2. Non-current Liabilities		
Long-term Borrowings (Public Deposits)	3	12,00,000
3. Current Liabilities	4	12,00,000
Total Equity and Liabilities		62,00,000
II. ASSETS		
1. Non-current Assets		
Fixed Assets (Tangible)	5	30,00,000
2. Current Assets		
Current Investments		8,00,000
Inventories		14,00,000
Cash and Cash Equivalents		10,00,000

Particulars	Note No.	Amount (Rs.)
Total Assets		62,00,000

Notes to Accounts:

Note 1 — Share Capital	Amount (Rs.)
Equity Share Capital	20,00,000
Preference Share Capital	12,00,000
Total	32,00,000

Note 2 — Reserves and Surplus	Amount (Rs.)
Debenture Redemption Reserve	6,00,000
Total	6,00,000

Note 3 — Long-term Borrowings	Amount (Rs.)
Public Deposits	12,00,000
Total	12,00,000

Note 4 — Current Liabilities	Amount (Rs.)
Outstanding Expenses	3,00,000
Proposed Dividend	5,00,000
Short-term loan from Zaveri Ltd. (subsidiary)	4,00,000
Total	12,00,000

Note 5 — Fixed Assets (Tangible)	Amount (Rs.)
Land and Building	20,00,000
Plant and Machinery	10,00,000
Total	30,00,000

Verification: Total Equity and Liabilities = Rs. 62,00,000 = Total Assets = Rs. 62,00,000. Balance sheet balances.

Q4 From the following information prepare the balance sheet of Jam Ltd.: Inventories Rs. 7,00,000; Equity Share Capital Rs. 16,00,000; Plant and Machinery Rs. 8,00,000; 8% Preference Share Capital Rs. 6,00,000; General Reserves Rs. 6,00,000; Bills payable Rs. 1,50,000; Provision for taxation Rs. 2,50,000; Land and Building Rs. 16,00,000; Non-current Investments Rs. 10,00,000; Cash at Bank Rs. 5,00,000; Creditors Rs. 2,00,000; 12% Debentures Rs. 12,00,000.

SOLUTION

Step 1: Classify all items.

EQUITY AND LIABILITIES:
Shareholders' Funds:
Equity Share Capital = Rs. 16,00,000
8% Preference Share Capital = Rs. 6,00,000 → Total Share Capital = Rs. 22,00,000
Reserves and Surplus: General Reserves = Rs. 6,00,000

Non-current Liabilities:
12% Debentures = Rs. 12,00,000

Current Liabilities:
Bills payable = Rs. 1,50,000
Creditors (Trade Payables) = Rs. 2,00,000
Provision for taxation = Rs. 2,50,000
Total Current Liabilities = Rs. 6,00,000

Total Equity and Liabilities = 22,00,000 + 6,00,000 + 12,00,000 + 6,00,000 = Rs. 46,00,000

ASSETS:
Non-current Assets:
Land and Building = Rs. 16,00,000
Plant and Machinery = Rs. 8,00,000
Non-current Investments = Rs. 10,00,000
Total Non-current Assets = Rs. 34,00,000

Current Assets:
Inventories = Rs. 7,00,000
Cash at Bank = Rs. 5,00,000
Total Current Assets = Rs. 12,00,000

Total Assets = 34,00,000 + 12,00,000 = Rs. 46,00,000

Step 2: Prepare Balance Sheet.

Balance Sheet of Jam Ltd. as at …

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		

Particulars	Note No.	Amount (Rs.)
(a) Share Capital	1	22,00,000
(b) Reserves and Surplus	2	6,00,000
2. Non-current Liabilities		
Long-term Borrowings (12% Debentures)	3	12,00,000
3. Current Liabilities	4	6,00,000
Total Equity and Liabilities		46,00,000
II. ASSETS		
1. Non-current Assets		
Fixed Assets (Tangible)	5	24,00,000
Non-current Investments		10,00,000
2. Current Assets		
Inventories		7,00,000
Cash and Cash Equivalents (Cash at Bank)		5,00,000
Total Assets		46,00,000

Notes to Accounts:

Note 1 — Share Capital	Amount (Rs.)
Equity Share Capital	16,00,000
8% Preference Share Capital	6,00,000
Total	22,00,000

Note 2 — Reserves and Surplus	Amount (Rs.)
General Reserves	6,00,000
Total	6,00,000

Note 3 — Long-term Borrowings	Amount (Rs.)
12% Debentures	12,00,000
Total	12,00,000

Note 4 — Current Liabilities	Amount (Rs.)
Trade Payables: Bills payable	1,50,000
Trade Payables: Creditors	2,00,000
Short-term Provisions: Provision for taxation	2,50,000
Total	6,00,000

Note 5 — Fixed Assets (Tangible)	Amount (Rs.)
Land and Building	16,00,000
Plant and Machinery	8,00,000
Total	24,00,000

Verification: Total Equity and Liabilities = Rs. 46,00,000 = Total Assets = Rs. 46,00,000. Balance sheet balances.

Q5 Prepare the balance sheet of Jyoti Ltd., as at March 31, 2017 from the following information: Building Rs. 10,00,000; Investments in the shares of Metro Tyers Ltd. Rs. 3,00,000; Stores & Spares Rs. 1,00,000; Statement of Profit and Loss (Dr.) Rs. 90,000; 5,00,000 Equity Shares of Rs. 20 each fully paid-up; Capital Redemption Reserve Rs. 1,00,000; 10% Debentures Rs. 3,00,000; Unpaid dividends Rs. 90,000; Share options outstanding account Rs. 10,000.

SOLUTION

Step 1: Classify all items.

EQUITY AND LIABILITIES:
Shareholders' Funds:
Share Capital: 5,00,000 equity shares × Rs. 20 = Rs. 1,00,00,000
Reserves and Surplus:
Capital Redemption Reserve = Rs. 1,00,000
Share options outstanding account = Rs. 10,000
Less: Statement of Profit and Loss (Dr. balance — debit balance reduces Reserves) = Rs. (90,000)
Net Reserves and Surplus = Rs. 20,000

Non-current Liabilities:
10% Debentures = Rs. 3,00,000

Current Liabilities:
Unpaid Dividends (Other Current Liabilities) = Rs. 90,000

Total Equity and Liabilities = 1,00,00,000 + 20,000 + 3,00,000 + 90,000 = Rs. 1,04,10,000

ASSETS:

Non-current Assets:

Fixed Assets (Tangible): Building = Rs. 10,00,000

Non-current Investments: Investments in shares of Metro Tyers Ltd. = Rs. 3,00,000

Total Non-current Assets = Rs. 13,00,000

Current Assets:

Inventories: Stores & Spares = Rs. 1,00,000

Total Current Assets = Rs. 1,00,000

Total Assets = 13,00,000 + 1,00,000 = Rs. 14,00,000

Note: The question provides only selected items for classification practice. The Balance Sheet is prepared with the given items placed in their correct Schedule III heads. The total of assets (Rs. 14,00,000) does not equal total liabilities (Rs. 1,04,10,000) because the question does not supply a complete set of data — only items requiring specific classification treatment are given.

Step 2: Prepare Balance Sheet (with given items).

Balance Sheet of Jyoti Ltd. as at March 31, 2017

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	1,00,00,000
(b) Reserves and Surplus	2	20,000
2. Non-current Liabilities		
Long-term Borrowings (10% Debentures)		3,00,000
3. Current Liabilities		
Other Current Liabilities (Unpaid Dividends)		90,000
Total Equity and Liabilities		1,04,10,000
II. ASSETS		
1. Non-current Assets		
Fixed Assets (Tangible): Building		10,00,000
Non-current Investments		3,00,000
2. Current Assets		
Inventories (Stores & Spares)		1,00,000

Particulars	Note No.	Amount (Rs.)
Total Assets (given items)		14,00,000

Notes to Accounts:

Note 1 — Share Capital	Amount (Rs.)
5,00,000 Equity Shares of Rs. 20 each, fully paid-up	1,00,00,000
Total	1,00,00,000

Note 2 — Reserves and Surplus	Amount (Rs.)
Capital Redemption Reserve	1,00,000
Share options outstanding account	10,000
Less: Balance in Statement of Profit and Loss (Dr. — debit balance)	(90,000)
Net Reserves and Surplus	20,000

Q6 Brinda Ltd. has furnished the following information: (a) 25,000, 10% debentures of Rs. 100 each; (b) Bank Loan of Rs. 10,00,000 repayable after 5 years; (c) Interest on debentures is yet to be paid. Show the above items in the balance sheet of the company as at March 31, 2017.

SOLUTION

Step 1: Calculate amounts.

10% Debentures:
Face value = 25,000 × Rs. 100 = Rs. 25,00,000
(Shown as Long-term Borrowings under Non-current Liabilities)

Bank Loan (repayable after 5 years) = Rs. 10,00,000
(Shown as Long-term Borrowings under Non-current Liabilities)

Interest on debentures accrued but not paid:
Annual interest = 10% × Rs. 25,00,000 = Rs. 2,50,000
(Accrued interest yet to be paid = Rs. 2,50,000 — shown as Other Current Liabilities, as it is due within 12 months)

Step 2: Prepare Balance Sheet (extract).

Balance Sheet of Brinda Ltd. (Extract) as at March 31, 2017

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		

Particulars	Note No.	Amount (Rs.)
Non-current Liabilities		
Long-term Borrowings	1	35,00,000
Current Liabilities		
Other Current Liabilities (Interest accrued on debentures)		2,50,000
II. ASSETS		

(Other assets not given)

Notes to Accounts:

Note 1 — Long-term Borrowings	Amount (Rs.)
10% Debentures (25,000 × Rs. 100)	25,00,000
Bank Loan (repayable after 5 years)	10,00,000
Total	35,00,000

Q7 Prepare a balance sheet of Black Swan Ltd., as at March 31, 2017 from the following information: General Reserve Rs. 3,000; 10% Debentures Rs. 3,000; Balance in Statement of Profit and Loss Rs. 1,200; Depreciation on fixed assets Rs. 700; Gross Block Rs. 9,000; Current Liabilities Rs. 2,500; Preliminary Expenses Rs. 300; 6% Preference Share Capital Rs. 5,000; Cash & Cash Equivalents Rs. 6,100.

SOLUTION

Step 1: Classify items and compute the derived figures.

Net Block = Gross Block − Depreciation = Rs. 9,000 − Rs. 700 = Rs. 8,300
(Depreciation is given only to arrive at the Net Block shown in Fixed Assets.)

Reserves and Surplus = General Reserve Rs. 3,000 + Balance in Statement of Profit and Loss (credit balance) Rs. 1,200 = Rs. 4,200

The question supplies no Equity Share Capital — only 6% Preference Share Capital is given — so the Balance Sheet is prepared with the given items, which sum equally on both sides.

Total Equity and Liabilities = PSC 5,000 + R&S 4,200 + 10% Debentures 3,000 + Current Liabilities 2,500 = Rs. 14,700
Total Assets = Net Block 8,300 + Preliminary Expenses 300 + Cash & Cash Equivalents 6,100 = Rs. 14,700

Step 2: Prepare Balance Sheet.

Balance Sheet of Black Swan Ltd. as at March 31, 2017

Particulars	Note No.	Amount (Rs.)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital (6% Preference Share Capital)		5,000
(b) Reserves and Surplus	1	4,200
2. Non-current Liabilities		
Long-term Borrowings (10% Debentures)		3,000
3. Current Liabilities		2,500
Total Equity and Liabilities		14,700
II. ASSETS		
1. Non-current Assets		
Fixed Assets (Tangible) — Net Block	2	8,300
Other Non-current Assets (Preliminary Expenses)		300
2. Current Assets		
Cash and Cash Equivalents		6,100
Total Assets		14,700

Notes to Accounts:

Note 1 — Reserves and Surplus	Amount (Rs.)
General Reserve	3,000
Balance in Statement of Profit and Loss	1,200
Total	4,200

Note 2 — Fixed Assets (Tangible)	Amount (Rs.)
Gross Block	9,000
Less: Accumulated Depreciation	(700)
Net Block	8,300

Verification: Total Equity and Liabilities = 5,000 + 4,200 + 3,000 + 2,500 = Rs. 14,700. Total Assets = 8,300 + 300 + 6,100 = Rs. 14,700. Balance sheet balances.