REVISED OUTLINE GUIDANCE NOTES

regarding adoption of

Schedule VI to the Companies Act 1956

in the subject of

ACCOUNTANCY

Class XII

For the Board Examination, March 2014

CONTENT

Chapter 1: GENERAL INTRODUCTION

General Introduction to Schedule VI to the Companies Act-1956

Schedule VI to the Companies Act, 1956 deals with the form of Balance Sheet and Profit and Loss Account and classified disclosure to be made therein and it applies uniformly to all the companies registered under the Companies Act, 1956, for the preparation of financial statements of an accounting year. The original schedule VI, with minor amendments from time to time, has been in force for more than fifty years. To keep pace with the changes in the economic philosophy leading to privatization and globalization and consequent desired changes/reforms in the corporate financial reporting practices, the Ministry of Corporate Affairs, Government of India, has revised the above mentioned schedule and through its notification No. F. No. 2/6/2008—C.L-V has notified that the text of the Revised Schedule VI to the Companies Act, 1956 shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 01.04.2011. The primary focus of the revision has been to bring the disclosures in Financial Statements at par, or at least very close, to the international corporate reporting practices.

Note:

As you proceed reading further, you may find that there are certain items against which in bracket the clause 'Not to be Evaluated ' is written. It means that for such items, no Accounting treatment will be asked in the Board Examination.

Salient features of Schedule VI include the following:

- A vertical format for presentation of Balance Sheet with classification of Balance Sheet items into current and non-current categories.
- A vertical format of Statement of Profit and Loss with classification of expenses based on nature.
- Deletion of part IV of the original schedule requiring presentation of Balance Sheet abstract and general business profile.
- The schedule VI has eliminated the concept of Schedules and such information is now to be furnished in terms of, 'Notes to Accounts'.
- While preparing the Balance-Sheet, ' Cash and Cash Equivalents' will be shown under, 'Current Assets', and include the following:

I.

(a) Balance 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 **(Not to be Evaluated).**

III. Balances with banks held as margin money or security against the borrowings, guarantees, other commitments shall be disclosed separately **(Not to be Evaluated)** .

IV. Bank deposits with more than 12 months maturity **(Not to be Evaluated).**

- Schedule VI does not contain any specific disclosure for items included in Old Schedule VI under the head, ' Miscellaneous Expenditure'. As per AS-16 borrowing cost and discount or premium relating to borrowing could be amortized over loan period. Further, share issue expenses, discount on shares, discount / premium on borrowing, etc. are excluded from AS-26. These items be amortized over period of benefit i.e., normally 3-5 years. The draft guidance note issued by ICAI suggests that unamortized portion of such expenses be shown under the head 'Other Current / Non-current Assets' depending on whether the amount will be amortized in the next 12 months or thereafter**.** **(Note: Treatment of unamoritized expenses shall not be evaluated.)**
- Now the Dr. Balance of Statement of Profit & Loss will be disclosed under the head. 'Reserve & Surplus' as the negative figure.
- No change in the format of Cash Flow Statement as per schedule VI. Therefore its preparation continues to be as per AS-3 on Cash Flow Statement.

1. <u>Format of Balance Sheet as per Schedule VI to the Companies Act-1956</u>

The vertical format of Financial Statement as per **SCHEDULE VI** and the major structural changes in the classification and disclosure of information in the Financial Statements are discussed below in details:

PART-1 Form of Balance Sheet

Name of the Company ……………………….
Balance Sheet as at ………………………….

(Rupees in ………………)

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
1.	2.	3.	4
I. **EQUITY AND LIABILITIES**			
1. **Shareholders funds**			
(a) Share capital			
(b) Reserves and Surplus			
(c) Money received against share warrants			
2. **Share application money pending allotment**			
3. **Non-Current Liabilities**			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)			
(c) Other Long term liabilities			
(d) Long-term provisions			
4. **Current Liabilities**			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. **ASSETS**			
1. **Non-Current Assets**			
(a) Fixed Assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
2. **CURRENT ASSETS**			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
TOTAL			

Note: The Accounting treatment of the following items will not be examined:

1. Money received against share warrants
2. Share application money pending allotment
3. Deferred tax liabilities (Net)
4. Other Long term liabilities
5. Capital work-in-progress

6. Intangible assets under development
7. Deferred tax assets (net)

I. ITEMS APPEARING UNDER THE HEAD EQUITY AND LIABILITIES IN THE BALANCE SHEET

(1) Shareholders Funds

(a) **Share Capital**: Under the head, 'Share Capital', some of the important items to be shown are as under:

(i) Number and amount of shares authorized.

(ii) Number of shares issued. Subscribed and fully paid up and subscribed but not fully paid up.

(iii) Par value per share.

(iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period.

(v) Shares in the company held by each share holder holding more than 5% shares specifying the number of shares held.

(vi) Aggregate number and class of shares allotted as fully paid up for consideration other than cash.

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

(viii) Calls unpaid (showing aggregate value of calls unpaid by directors and officers.)

(ix) Forfeited shares (amount originally paid up).

The disclosure of Share Capital in the Balance Sheet is limited to the following:

Name of the Company ……………………….
Balance Sheet (An Extract) as on………………………….

(Rupees in ………………)

Particulars	Note No.	Figures as at the end of current reporting period ₹	Figures as a the end of the previous reporting period ₹

1.	2.	3.	4
I. **EQUITY AND LIABILITIES** 1. **Shareholders funds** (a) Share capital	I	x x x	xxx

Notes to Accounts (1)

Particulars		**Amount (₹)**
(a) Share Capital Authorised Capital ……Shares of ₹. ….. each		x x x
Issued Capital ……Shares of ₹…....each		x x x x x x
Subscribed Capital Subscribed and fully paid up ….Shares of ₹ …….. each		x x x
Subscribed but not fully paid up …Shares of ₹ …… each…… Called up Less-calls-in-Arrear (If/any) Add-shares forfeited A/c	x x x (x x)	x x x x x x
TOTAL		x x x

Note: Equity share capital and Preference share capital to be shown separately.

(b) **Reserves and Surplus:** The following items are shown under this head:

(i) Capital Reserves;

(ii) Capital Redemption Reserve;

(iii) Securities Premium Reserve;

(iv) Debenture Redemption Reserve;

(v) Revaluation Reserve **(Accounting Treatment Not to be Evaluated);**

(vi) Share options Outstanding Account **(Accounting Treatment Not to be evaluated);**

(vii) Other reserve **(restricted to General Reserve only);**

(viii) Surplus i.e. balance in Statement of Profit & Loss.

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 negative.

(c) **Money received against share warrants (Accounting Treatment Not to be evaluated):** A share warrant is a financial instrument which gives holder the right to acquire equity shares. A disclosure of the money received against share warrants is to be made since shares are yet to be allotted against the share warrants. These are not shown as part of share capital but to be shown as a separate line items.

(2) **Share application money pending allotment (Accounting Treatment Not to be evaluated):** If company has issued shares but date of allotment falls after the balance sheet date, such application money pending allotment will be shown in the following manner:

(i) Share application money not exceeding the issued capital and to extent not refundable is to be disclosed under this line-item.

(ii) Share application money to the extent refundable or where minimum subscription is not met, such amount shall be shown separately under 'Other Current liabilities'

(3) **Non-current liabilities:** A non-current Liability is a liability which is not classified as current-liability.

(a) Long Term borrowing (Debentures / Bonds, Long Term Loans etc.)

(b) Deferred Tax Liabilities (Net). **(Accounting Treatment Not to be Evaluated).**

(c) Other Long Term Liabilities **(Accounting Treatment Not to be Evaluated).**

(d) Long Term provisions: All provisions for which the related claims are expected to be settled beyond 12 months after the reporting date are classified as non-current provisions. (Provision for employee benefits, Provision for Warranties).

4. **Current Liabilities:** A liability is classified as current when it satisfies any one of the following conditions:

(i) It is expected to be settled in the company's normal operating cycle. Operating cycle means the time between the acquisition of assets for processing and their realization in cash or cash equivalents. It may vary from few days to few years. Where the operating cycle cannot be identified, it is assumed to have a duration of 12 months.

(ii) It is held for the purpose of being traded.

(iii) It is due to be settled within 12 months after the reporting date.

(iv) The company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(a) **Short-term Borrowings**: Loans repayable on demand from banks and other parties; Deposits.

(b) **Trade Payables**: A trade payable refers to the amount due on account of goods purchased or services rendered in the normal course of business. It includes both creditors and bills payable.

(c) **Other Current Liabilities**: Unpaid dividends, interest accrues and due/ not due on borrowings, income received in advance, calls in advance and interest thereon.

(d) **Short-term Provisions**: All provisions for which the related claim is expected to be settled within 12 months after the reporting period are classified as Short term provisions and shown under the head 'Current Liabilities' (Provision for tax and Proposed dividend).

II. ITEMS APPEARING UNDER THE HEAD ASSETS IN THE BALANCE SHEET.

DEFINITION AND PRESENTATION

An asset shall be classified as current when it satisfies any of the following:

(a) It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle; (An operating cycle is the time between the acquisition of assets for processing and their realization in cash and cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

(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 equivalents 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'

1. **Non-Current Assets:**

(a) **Fixed Assets: Assets which are required for purpose of reuse in the business but not for purpose of resale.**

(i) **Tangible Assets:** Tangible assets are assets which can be physically seen and touched. (Land, Building, Plant and Equipment, Furniture & Fixture, Vehicles, Office Equipments, Others).

(ii) **Intangible Assets:** Intangible Assets are those which are not tangible.

(a) Goodwill

(b) Brand / Trademarks

(c) Computer Software & Mining rights

(d) Masthead and Publishing titles**. (Accounting Treatment Not to be Evaluated)**

(e) Copyrights, and patents and other intellectual property rights, services and operating rights. **(Accounting Treatment Not to be Evaluated).**

(f) Recipes, formulae, models, designs and prototypes (Not to be Evaluated)

(h) Licenses and franchise **(Accounting Treatment Not to be Evaluated)**

(iii) Capital work in Progress. **(Accounting Treatment Not to be Evaluated)**

(iv) Intangible Assets under Development – like patents, intellectual property rights, etc. which are being developed by the company. **(Accounting Treatment Not to be Evaluated).**

(b) Non-Current Investments: Non-current Investments are investments which are held not with the purpose to resell but to retain them. Non-current Investments are further classified into ' Trade Investments' and ' Other Investments'.

Trade Investments are investments made by a company in share or debentures of another company, not being its subsidiary, to promote its own trade and business. Other Investments are those investments which are not trade investments.

(c) Deferred Tax Assets (Net). **(Accounting Treatment Not to be Evaluated).**

(d) Long-term Loans and Advances – only Capital Advances and Security Deposits.

(e) Other non-current assets. **(Accounting Treatment Not to be Evaluated).**

2. **Current Assets**

(a) **Current Investments** – Investments which are held to be converted into cash within a short period i.e., within 12 months (Investments in Equity Instrument, Preference shares, Government Securities, Debentures, Mutual Funds etc.)

(b) **Inventories :** Inventories include the following:

(i) Raw Material

(ii) Work-in-progress

(iii) Finished Goods

(iv) Stock in trade

(v) Stores and Spares

(vi) Loose tools.

(c) **Trade Receivables:** Trade receivables refer to the amount due on account of goods sold or services rendered in the normal course of business. It includes both Debtors and Bills receivables.

(d) **Cash and cash equivalents** – as discussed in the salient features of Schedule-VI in General Instructions.

(e) **Short-term Loans and Advances**

(f) **Other Current Assets** (Restricted to prepaid expenses, accrued incomes and advance tax only)

3. **Contingent Liabilities and Capital Commitments (Not to be Evaluated)**

(a) **Contingent Liabilities –** Those liabilities which may or may not arise because they are dependent on a happening in future. It is not recorded in the books of accounts but is disclosed in the Notes to Accounts for the information of the users. (Claims against the company not acknowledged as debts, Guarantees, Other money for which the company is contingently liable).

(b) **Capital commitments -** A future liability for capital expenditure in respect of which contacts have been made. (Uncalled liability on shares and other investments partly paid etc.)

3. **Format of Statement of Profit & Loss (In accordance with the requirements for Board Examination 2014)**

PART-II STATEMENT OF PROFIT AND LOSS
IMPORTANT NOTE

'Statement of Profit & Loss' is not a part of current syllabus but to understand the different Tools of Analysis of Financial Statements, its knowledge is required.

The Form specified in Part II of Schedule-VI of the Companies Act, 1956 is as follows: **(Modified as per requirement for Board Examination 2014)**

Name of the Company…………………
Profit and Loss Statement of for the year ended:……………………

(Rupees in ……………..)

	Particulars	**Note No.**	**Figures for the Current reporting period**	**Figures for the previous reporting period**
i.	Revenue from Operations		---	----
ii.	Other Income		---	----
iii.	Total Revenue (i+ii)		---	----
iv.	Expenses			
	Cost of Materials Consumed		---	---
	Purchases of Stock-in-Trade		---	---
	Changes in inventories of Finished Goods			
	Work-in-Progress and Stock-in-Trade		---	---
	Employees Benefits Expenses		---	---
	Finance Costs		---	---
	Depreciation and Amortization Expenses		---	---
	Other Expenses		---	---
	Total Expenses		---	---
v.	Profit before Tax (iii – iv)		---	---

vi.	Tax		---	---
vii.	Profit after tax (v – vi)		---	---

Illustration-1:

List the major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a company as per Schedule VI Part I to the Companies Act 1956.

Solution:

The major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a company as per Schedule VI Part I to the Companies Act 1956, are listed below:

(i) Shareholders Funds

(ii) Share Application Money pending allotment

(iii) Non-Current liabilities

(iv) Current Liabilities

Illustration-2:

List the major heads under which the assets are presented in the Balance Sheet of a company as per Schedule VI part I of the Companies Act 1956.

Solution:

The Major heads under which the Assets are presented in the Balance Sheet of company as per Schedule VI Part I of the Companies Act 1956, are listed below:

(i) Non-current Assets

(ii) Current Assets

Illustration-3:

Name the sub-heads under the head (a) 'Shareholders Funds' and (b) 'Non-current liabilities as per Schedule VI Part 1 of the Balance Sheet.

Solution:

(a) The sub-heads under 'Shareholders Funds' are
- (i) Share Capital
- (ii) Reserves and surplus
- (iii) Money received against Share Warrants

(b) The sub-heads under ' Non-current liabilities' are
- (i) Long-term Borrowings
- (ii) Deferred Tax Liabilities (Net)
- (iii) Other Long-term Liabilities
- (iv) Long-term Provisions

Illustration-4

Name the sub-heads under the head 'Non-current assets' in the Balance Sheet under Schedule-VI of the Indian Companies Act, 1956.

Solution:

The sub-heads under 'Non-current assets' are

(a) Fixed Assets
(b) Non-Current Investments
(c) Deferred Tax Assets (Net)
(d) Long-term loans and advances
(e) Other Non-current Assets

Illustration-5

From the following information extracted from the books of XY Ltd., prepare a Balance Sheet of the company as at 31st March, 2012 as per Schedule-VI of the Indian Companies Act, 1956.

Particulars	**Amount (₹ in '000')**
Long-Term Borrowings	500
Trade Payables	30
Share Capital	400
Reserve and surplus	90
Fixed assets (tangible)	800
Inventories	20
Trade receivables	80
Cash and cash equivalents	120

Solution:

XY Ltd.
Balance Sheet as at 31st March, 2012

(₹ in '000')

Particulars	**Note No.**	**2011-12**	**2010-11**
I. Equity and Liabilities			
1. **Shareholders Funds**			
(a) Share Capital		400	---
(b) Reserves & Surplus		90	---
2. **Non-current liabilities**			
Long-term borrowings		500	---
3. **Current liabilities**			
Trade payables		30	--
Total		**1020**	---
II. **Assets**			
1. **Non-Current Assets**			
(a) Fixed Assets			
Tangible Assets		800	
2. **Current Assets**			---
(a) Inventories			
(b) Trade receivables		20	---
(c) Cash & Cash Equivalents		80	---

		120	---
TOTAL		**1020**	---

Illustration-6

On 1st April, 2012, Ashok Ltd. was formed with an authorized capital of ₹1,00,00,000 divided into 2,00,000 equity shares of ₹ 50 each. The company issued prospectus inviting applications for 1,50,000 shares. The issue price was payable as under :

On application	:	₹15
On allotment	:	₹ 20
On call	:	Balance

The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year.

The company also issued 5,000 shares of ₹50 each fully paid up to the vendor for purchase of office premises.

Show the

(a) Share capital in the Balance Sheet of the company as per Schedule-VI

(b) Also prepare 'Notes to Accounts'

Solution:

Balance Sheet of Ashok Ltd.
as at 31.03.2013 (Extract)

(a)

₹ in '000'

Particulars	Note No.	31.03.2013	
1. Equity and Liabilities (i) **Shareholders Funds** (a) Share Capital	1	5500	---
Total		**5500**	---

(b) Notes to Accounts (1)

(₹ in '000')

Particulars	31.03.2013
Authorised Capital 2.00.000 equity shares of ₹ 50 each	10,000
Issued capital 5000 shares of ₹ 50 each fully paid up issued to vendors	250
1,50,000 shares of ₹ 50 each issued to public	7,500

Subscribed Capital Subscribed and fully paid 5000 shares of ₹ 50 each issued to vendors	250
Subscribed but not fully paid 1,50,000 shares of ₹ 50 each issued to public. ₹ 35 called up	5250
TOTAL	**5500**

Illustration-7

The authorized capital of XYZ Ltd. is ₹20,00,000 divided into 2,00,000 equity share of ₹10 each. Out of these company issued 1,00,000 equity shares of ₹10 each. The amount is payable as follows:

On application ₹2

On allotment ₹ 5

On Final call ₹ 3

The public applied for 90,000 equity shares and all the money was duly received.

You are required to:

(a) Show share capital in the Balance Sheet of the company as at 31st March 2013, and

(b) Prepare 'Notes to Accounts' for the same

Solution:

Balance Sheet of XYZ Ltd.
as at 31.3.2013 (Extract)

(a)

Particulars	**Note No.**	**31.03.2013 ₹**	
1. Equity and Liabilities			
(i) **Shareholders' Funds**			
(a) Share Capital	1	9,00,000	---
TOTAL		**9,00,000**	---

(b) Notes to Accounts (1)

Particulars	**31.03.2013 (₹)**
Authorized Capital 2.00.000 equity shares of ₹10 each	20,00,000

Issued capital 1,00,000 equity shares of ₹10 each	10,00,000
Subscribed Capital Subscribed and fully paid 90,000 equity shares of ₹10 each	9,00,000
TOTAL	**9,00,000**

Illustration-8

X Ltd. has an Authorized capital of ₹ 15,00,000 divided into 1,00,000 Equity shares of ₹10 each and 50,000 9% preference share of ₹ 10 each .

The company invited applications for all the preference shares but only 90,000 equity shares.

All the preference shares were subscribed, called and paid while subscriptions were received for only 85,000 equity shares.

During the first year ₹ 8 per share were called.

Ram holding 1,000 shares and Shyam holding 2,000 shares did not pay first call of ₹2.

Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at ₹6 per share ₹8 called up.

(a) Show share capital in the Balance Sheet as per revised Schedule VI as at 31st March 2013.

(b) Prepare relevant 'Notes to Accounts'

Solution:

Balance Sheet of X Ltd.
as at 31st March 2013 (Extract)

(a)

Particulars	Note No.	31.03.2013 (₹)	
I. Equity and Liabilities			
1. **Shareholders' Funds**			
(a) Share Capital	1	11,77,000	
(b) Reserves & Surplus	2	6,000	
TOTAL		**11,83,000**	

(b) Notes to Accounts (1)

Particulars	31.03.2013 (₹)
1. SHARE CAPITAL **Authorised Capital**	10,00,000 5,00,000

1.00.000 equity shares of ₹10 each		15,00,000
50,000 9% preference shares of ₹ 10 each		
Issued capital		
90,000 equity shares of ₹ 10 each		9,00,000
50,000 9% preference shares of ₹ 10 each		5,00,000
		14,00,000
Subscribed Capital		
Subscribed and fully paid		
50,000, 9% preference shares of ₹ 10 each		5,00,000
Subscribed but not fully paid		
84,500 equity shares of ₹ 10 each ₹8 called up	6,76,000	
Less Calls in arrears	(2,000)	6,74,000
Add shares forfeited		3,000
		11,77,000
2. RESERVES AND SURPLUS		
Capital Reserve		6,000
TOTAL		**11,83,000**

Chapter 2: TOOLS FOR FINANCIAL STATEMENTS ANALYSIS

1. Comparative Financial Statements

(1)

Format of Comparative Balance Sheet
Comparative Balance Sheet as at …….. 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (Increase/ Decrease)	Percentage (increase/ Decrease
1.		2.	3.	4	5
		A	B	(B-A)=C	$\frac{C}{A}$x100=D
I. **EQUITY AND LIABILITIES**					
1. **Shareholders funds**					
(a) Share capital		--	--	--	--
(b) Reserves and Surplus		--	--	--	--
2. **Non-Current Liabilities**					
(a) Long-term borrowings		--	--	--	--
(b) Long-term provisions		--	--	--	--

3. **Current Liabilities**					
(a) Short-term borrowings		--	--	--	--
(b) Trade payables		--	--	--	--
(c) Other current liabilities		--	--	--	--
(d) Short-term provisions		--	--	--	--
Total		**--**	--	--	--
II. **ASSETS**					
1. **Non-Current Assets**					
(a) Fixed Assets		--	--	--	--
(i) Tangible assets		--	--	--	--
(ii) Intangible assets		--	--	--	--
(b) Non-current investments		--	--	--	--
(c) Long-term loans and advances		--	--	--	--
2. **Current Assets**					
(a) Current investments		--	--	--	--
(b) Inventories		--	--	--	--
(c) Trade receivables		--	--	--	--
(d) Cash and cash equivalents		--	--	--	--
(e) Short-term loans and advances		--	--	--	--
(f) Other current assets		--	--	--	--
Total		--	--	--	--

(2)

Format of Comparative Statement of Profit & Loss

Comparative Statement of Profit & Loss for the years ended 31st March 2012 & 2013

Particulars	**Note No.**	**2011-12**	**2012-13**	**Absolute Change (Increase or Decrease)**	**Percentage change (Increase or Decrease)**
1		**2**	**3**	**4**	**5**
		A	**B**	**(B-A)=C**	$\frac{C}{A}$x100=D
i. Revenue from Operations		---	---	----	---
ii. Other Income		---	---	----	---
iii. Total Revenue (i+ii)		---	---	----	---

iv.	Expenses					
	Cost of Materials Consumed		---	---	---	---
	Purchases of Stock-in-Trade		---	---	---	---
	Changes in inventories of Finished Goods Work-in-Progress and Stock-in-Trade		---	---	---	---
	Employees Benefits Expenses		---	---	---	---
	Finance Costs		---	---	---	---
	Depreciation and Amortization Expenses		---	---	---	---
	Other Expenses		---	---	---	---
	Total Expenses		---	---	---	---
v.	Profit before Tax (iii – iv)		---	---	---	---
vi.	Tax					
vii.	Profit after tax (v – vi)					

(3)

Format of Common – Size Statement of Profit & Loss

Common Size Statement of Profit & Loss for the year ended 31st March 2013

Particulars		Note No.	Absolute Amount	Percentage of Revenue from Operations
			2012-13	**2012-13**
i.	Revenue from Operations		---	100
ii.	Other Income		---	---
iii.	Total Revenue (I + ii)		---	---
iv.	Expenses			
	Cost of Materials Consumed		---	---
	Purchases of Stock-in-Trade		---	---
	Changes in inventories of Finished Goods Work-in-Progress and Stock-in-Trade		---	---
	Employees Benefits Expenses		---	---
	Finance Costs		---	---
	Depreciation and Amortization Expenses		---	---
			---	---
	Other Expenses		---	---
	Total Expenses		---	---
v.	Profit before Tax (iii – iv)		---	---
vi.	Tax		---	---
vii.	Profit after tax (v – vi)		---	---

(4)

Format of Common – Size Balance Sheet

Common Size Balance Sheet as at 31st March 2013

Particulars		Note No.	Absolute Amount	Percentage of Balance Sheet Total
			2012-13	**2012-13**
I.	**Equity and Liabilities**			
1.	**Shareholders funds**			
(a)	Share capital		--	--

(b) Reserves and Surplus		--	--
2. **Non-Current Liabilities**			
(a) Long-term borrowings		--	--
(b) Long-term provisions		--	--
3. **Current Liabilities**			
(a) Short-term borrowings		--	--
(b) Trade payables		--	--
(c) Other current liabilities		--	--
(d) Short-term provisions		--	--
Total		--	100
II. **ASSETS**			
(1) **Non-Current Assets**			
(a) Fixed Assets			
(i) Tangible assets		--	--
(ii) Intangible assets		--	--
(b) Non-current investments		--	--
(c) Long-term loans and advances			
(2) **CURRENT ASSETS**		--	--
(a) Current investments			
(b) Inventories		--	--
(c) Trade receivables		--	--
(d) Cash and cash equivalents		--	--
(e) Short-term loans and advances		--	--
(f) Other current assets			
		--	--
		--	--
Total		--	100

Illustration-1

Prepare Comparative Statement of Profit & Loss from the following:

Particulars	Note No.	31.03.2012 (₹)	31.03.2011 (₹)
Revenue from operations		15,00,000	10,00,000
Expenses		10,50,000	6,00,000
Other Income		1,80,000	2,00,000

Solution:

Comparative Statement of Profit & Loss for the year ended 31st March 2012 & 2011

Particulars	Note No.	2010-11 ₹	2011-12 ₹	Absolute Change (Increase or	Percentage change (Increase or

				Decrease) ₹	Decrease)
1		2	3	4	5
		A	B	(B-A)=C	$\frac{C}{A}$x100=D
i. Revenue from Operations		10,00,000	15,00,000	5,00,000	50
ii. Other Income		2,00,000	1,80,000	(20,000)	(10)
iii. Total Revenue (i+ii)		12,00,000	16,80,000	4,80,000	40
iv. Less Expenses		6,00,000	10,50,000	4,50,000	75
Profit before Tax (iii – iv)		6,00,000	6,30,000	30,000	5

Illustration-2

From the following statement of Profit and Loss of Star Ltd. for the years ended 31st March 2011 and 2012 prepare a comparative statement of Profit & Loss

Particulars	Note No.	31.03.2012 (₹)	31.03.2011(₹)
Revenue from operations		20,00,000	16,00,000
Employee benefit expenses		10,00,000	8,00,000
Other Expenses		1,00,000	2,00,000
Tax		50%	50%

Solution:

Comparative Statement of Profit & Loss
for the year ended 31st March 2012 & 2011

Particulars	Note No.	31.03.2011 ₹	31.03.2012 ₹	Absolute Change (Increase or Decrease) ₹	Percentage change (Increase or Decrease)
1		2	3	4	5
		A	B	(B-A)=C	$\frac{C}{A}$x100=D
i. Revenue from Operations		16,00,000	20,00,000`	4,00,000	25
ii. Less Expenses Employee benefit expenses Other Expenses		 8,00,000 2,00,000	 10,00,000 1,00,000	 2,00,000 (1,00,000)	 25 (50)
iii. Total Expenses		10,00,000	11,00,000	1,00,000	10
iv. Profit before tax (i-iii)		6,00,000	9,00,000	3,00,000	50
v. Tax		3,00,000	4,50,000	1,50,000	50
vi. Profit after tax		3,00,000	4,50,000	1,50,000	50

Illustration-3

Prepare a Comparative Statement of Profit & Loss from the following details:

Particulars	Note No.	31.03.2013	31.03.2012
Revenue from operation		₹30,00,000	₹20,00,000
Other income (% of Revenue from operations)		15%	20%
Expenses (% of Revenue from operations)		60%	50%

Solution:

Comparative Statement of Profit & Loss
for the year ended 31st March 2012 & 2011

Particulars		Note No.	31.03.2012 ₹	31.03.2013 ₹	Absolute Change (Increase or Decrease) ₹	Percentage change (Increase or Decrease)
1			2	3	4	5
			A	B	(B-A)=C	$\frac{C}{A}$x100=D
i.	Revenue from Operations		20,00,000	30,00,000	10,00,000	50
ii.	Other Income		4,00,000	4,50,000	50,000	12.5
iii.	Total Revenue (i+ii)		24,00,000	34,50,000	10,50,000	43.75
iv.	Expenses		10,00,000	18,00,000	8,00,000	80
v.	Profit before Tax (iii-iv)		14,00,000	16,50,000	2,50,000	17.85

Illustration-4

From the following Balance Sheets of Universe Ltd., as on 31 March 2011 & 2012 prepare a Comparative Balance Sheet

Universe Ltd.
Balance Sheets as at 31st March 2012 & 2011

Particulars		Note No.	31.03.2012 ₹	31.03.2011 ₹
1.		2.	3.	4
I.	**Equity and Liabilities**			
1.	**Shareholders funds**			
(a)	Share capital		20,00,000	15,00,000
(b)	Reserves and Surplus		3,00,000	4,00,000
2.	**Non-Current Liabilities**			
	Long term borrowings		9,00,000	6,00,000
3.	**Current Liabilities**			
	Trade payables		3,00,000	2,00,000
	TOTAL		35,00,000	27,00,000
II.	**ASSETS**			
(1)	**Non-Current Assets**			
(a)	Fixed Assets			
(i)	Tangible assets		20,00,000	15,00,000
(ii)	Intangible assets		9,00,000	6,00,000
(2)	**CURRENT ASSETS**			
(a)	Inventories		3,00,000	4,00,000
(b)	Cash and cash equivalents		3,00,000	2,00,000
	TOTAL		35,00,000	27,00,000

Solution:

Comparative Balance Sheet as at 31st March 2011 & 2012

Particulars		Note No.	2010-11 (₹)	2011-12 (₹)	Absolute Change (Increase/ Decrease)	Percentage (increase/ Decrease
1.			2.	3.	4	5
			A	B	(B-A)=C	$\frac{C}{A}$x100=D
I.	Equity and Liabilities					
1.	**Shareholders funds**					
(a)	Share capital		15,00,000	20,00,000	5,00,000	33.3%
(b)	Reserves and Surplus		4,00,000	3,00,000	(1,00,000)	(25%)
2.	**Non-Current Liabilities**					
	long term borrowings		6,00,000	9,00,000	3,00,000	50%
3.	**Current Liabilities**					
	Trade payables		2,00,000	3,00,000	1,00,000	50%
	Total		**27,00,000**	35,00,000	8,00,000	29.6%
II.	**ASSETS**					
(1)	**Non-Current Assets**					
(a)	Fixed Assets					
(i)	Tangible assets		15,00,000	20,00,000	5,00,000	33.3%
(ii)	Intangible assets		6,00,000	9,00,000	3,00,000	50%
(2)	**CURRENT ASSETS**					
(a)	Inventories		4,00,000	3,00,000	(1,00,000)	(25%)
(b)	Cash and cash equivalents		2,00,000	3,00,000	1,00,000	50%
	Total		27,00,000	35,00,000	8,00,000	29.6%

Illustration-5

From the following Statement of Profit and Loss of Star Ltd. for the year ended 31st March 2012, prepare a Common Size Statement of Profit & Loss.

Particulars	Note No.	31.03.2012 (₹)
Revenue from operation		20,00,000
Employee benefit expenses		10,00,000
Other Expenses		1,00,000

Solution

Common Size Statement of Profit & Loss for the year ended 31st March 2012.

Particulars		Note No.	Absolute Amount ₹	Percentage of Revenue from Operations
			2011-12	2011-12
i.	Revenue from Operations		20,00,000	100
ii.	Employee benefits Expenses		10,00,000	50
	Other Expenses		1,00,000	5

iii	Total expenses		11,00,000	55
iv	Profit before Tax (i –iii)		9,00,000	45

Illustration-6

From the following Balance Sheet of Sun Ltd., as on 31st March 2012, prepare a Common Size Balance Sheet.

Sun Ltd.
Balance Sheet as at 31st March 2012

Particulars		Note No.	31.03.2012
1.		2.	3.
I.	Equity and Liabilities		
1.	**Shareholders funds**		
(a)	Share capital		30,00,000
(b)	Reserves and Surplus		4,00,000
2.	**Non-Current Liabilities**		
	long term borrowings		10,00,000
3.	**Current Liabilities**		
	Trade payables		6,00,000
	TOTAL		50,00,000
II.	**ASSETS**		
(1)	**Non-Current Assets**		
(a)	Fixed Assets		
(i)	Tangible assets		30,00,000
(ii)	Intangible assets		6,00,000
(2)	**CURRENT ASSETS**		
(a)	Inventories		10,00,000
(b)	Cash and cash equivalents		4,00,000
	TOTAL		50,00,000

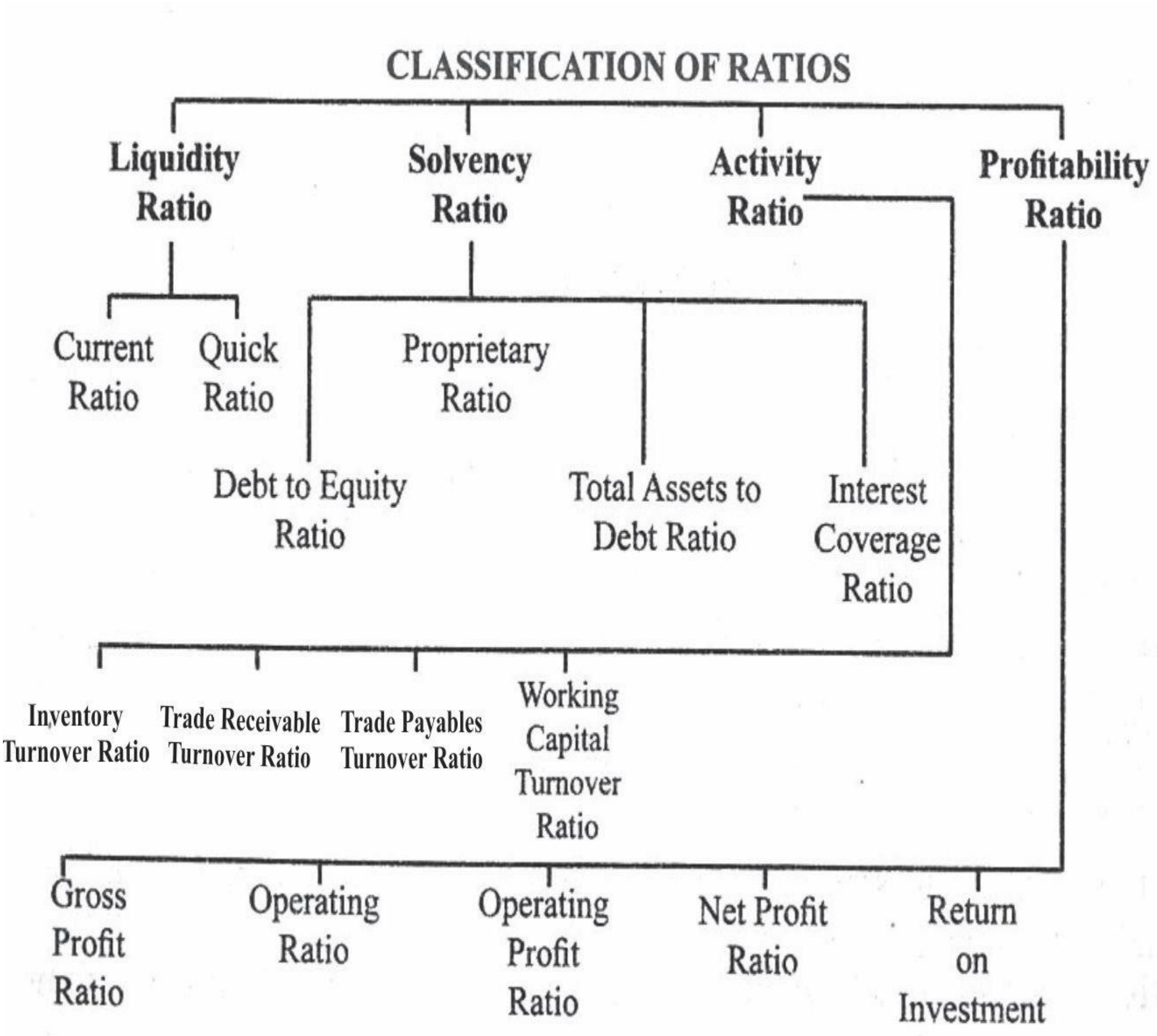
Solution:

Common Size Balance Sheet as at 31st March 2012

Particulars		Note No.	Absolute Amount	Percentage of Balance Sheet Total
			31.03.2012	**31.03.2012**
I.	Equity and Liabilities		₹	(%)
1.	**Shareholders funds**			
(a)	Share capital		30,00,000	66.7
(b)	Reserves and Surplus		4,00,000	10
2.	**Non-Current Liabilities**			
	Long term borrowings		10,00,000	20
3.	**Current Liabilities**			
	Trade payables		6,00,000	3.3
	Total		50,00,000	100
II.	**ASSETS**			
(1)	**Non-Current Assets**			
(a)	Fixed Assets			

(i) Tangible assets		30,00,000	66.7
(ii) Intangible assets		6,00,000	3.3
(2) **CURRENT ASSETS**			
(a) Inventories		10,00,000	20
(b) Cash and cash equivalents		4,00,000	10
Total		50,00,000	100

3. Accounting Ratios



Note: The components of formulas for accounting ratios are restricted to those 'Heads', 'Sub heads' and 'Sub Sub heads' of Financial Statements, which shall be evaluated in Board Examination-2014

1. LIQUIDITY RATIOS

(a) Current Ratio $= \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$

Current Assets = Current Investments + Inventories + Trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets (prepaid expenses + accrued incomes+ advance tax)

Current Liabilities = Short-Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions

b) Liquid Ratio $= \frac{\textit{Liquid Assets}}{\textit{Current Liabilities}}$

Liquid Assets = Current Assets – Inventories – Other current assets

Current Liabilities = Short-Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions

Illustration-1

From the following compute **(a) Current Ratio (b) Quick Ratio**

S.No.	Items	Amount ₹	S.No.	Items	Amount ₹
1	Current Investments	40,000	7	Short-Term Provisions	3,000
2	Inventories	5,000	8	Other Current Liabilities	5,000
3	Trade Receivables	2,000	9	Short-term Loans & Advances	4,000
4	Short-term Borrowings	20,000	10	Tangible Fixed Assets	1,00,000
5	Trade Payables	2,500	11	Cash & Cash Equivalents	10,000
6.	Prepaid expenses	2,000	12	Advance tax	8,000

Solution:

(a) Current Ratio $= \frac{\textit{Current Assets}}{\textit{Current Liabilities}}$

Current Assets = Current Investments + Inventories + Trade Receivables + Cash & Cash Equivalents + Short-term Loans & Advances + Prepaid expenses +Advance tax

= ₹ 40,000 + ₹ 5,000 + ₹ 2,000 + ₹10,000 + ₹4,000 + ₹2,000 + ₹8,000

= ₹ 71,000

Current Liabilities = Short-term Borrowings + Trade payables + Short-term Provisions + Other Current Liabilities

= ₹ 20,000 + ₹ 2,500 + ₹ 3,000 + ₹ 5,000

= ₹ 30,500

Current Ratio = ₹ $\frac{71{,}000}{30{,}500}$= 2.32:1

(b) Quick Ratio $= \frac{\textit{Quick Assets}}{\textit{Current Liabilities}}$

Quick Assets = Current Assets – Inventories- Prepaid expenses –Advance tax
= ₹ 71,000 – ₹5,000 – ₹8,000 - ₹2,000
= ₹56,000

Current Liabilities = Short-term Borrowings + Trade payables + Short-term Provisions + Other Current Liabilities
= ₹ 20,000 + ₹ 2,500 + ₹ 3,000 + ₹ 5,000
= ₹ 30,500

∴ Quick Ratio = ₹ $\frac{56{,}000}{30{,}500}$ = 1.8:1

Illustration-2

From the following compute **Current Ratio**

S.No.	Items	Amount ₹	S.No.	Items	Amount ₹
1	Total Assets	1,00,000	3	Non-Current Liabilities	20,000
2	Shareholders Funds	60,000	4	Non-Current Assets	50,000

Solution:

(a) Current Ratio = $\frac{\textit{Current Assets}}{\textit{Current Liabilities}}$

Current Assets = Total Assets – Non- Current Assets
= ₹ 1,00,000 – ₹ 50,000
= ₹ 50,000

Current Liabilities = Total Assets – Shareholders Funds – Non-Current liabilities
= ₹ 1,00,000 – ₹ 60,000 – ₹ 20,000
= ₹20,000

∴ Current Ratio = ₹ $\frac{50{,}000}{20{,}000}$ = **2.5:1**

Illustration-3

The **current Ratio** of a company is **2:1.** State giving reasons which of the following would **improve, reduce or not change** the ratio

1. Cash paid to trade payables
2. Sale of fixed tangible assets for cash
3. Issue of new shares for cash
4. Payment of final dividend already declared.

Solution:

S.No.	Effect on Current Ratio	Reason
1.	**Improve**	Both current assets and current liabilities have decreased by the same amount
2.	**Improve**	Current liabilities remain unchanged but current assets have increased.
3.	**Improve**	Current liabilities remain unchanged but current assets have increased.
4.	**Improve**	Both current assets and current liabilities have decreased by the same amount.

Illustration-4

The Current Ratio of A Ltd. is 4.5:1 and Liquid Ratio is 3:1. Inventories are ₹3,00,000. Calculate Current Liabilities.

Solution:

- Let Current Liabilities be x
- Current Ratio 4.5:1 so Current Assets = 4.5 x
- Liquid Ratio 3:1 so Liquid Assets = 3x
- Liquid Assets = Current Assets – Inventories

Or 3x = 4.5x – ₹ 3,00,000

1.5x = 3,00,000

∴ $x = \frac{3,00,000}{1.5}$ = ₹ 2,00,000

∴ Current liabilities = ₹ 2,00,000

II) SOLVENCY RATIOS

a) Debt Equity Ratio $= \frac{Debt}{Equity—Shareholders' \ funds}$

Debt =Long Term Borrowings + Long Term Provisions

Equity / Shareholders' Funds = Share Capital + Reserves and Surplus

Share capital = Equity Share Capital + Preference Share capital

or

Equity / Shareholders' Funds = Non Current Assets + Working Capital - Non Current Liabilities

Non-Current Assets = Tangible Assets + Intangible Assets + Non-Current Investments + Long-Term Loans & Advances

Working Capital = Current Assets – Current Liabilities

Non-Current Liabilities = Long-Term Borrowings + Long-Term Provisions

b) Total Assets to Debt Ratio= $\frac{Total\ Assets}{Debt}$

Total Assets = **Non-Current Assets** (Tangible Assets + Intangible Assets + Non-Current Investments + Long-Term Loans & Advances)
+
Current Assets (Current Investments + Inventories + Trade Receivables + Cash & Cash Equivalents + Short-Term Loans & Advances + Other Current Assets).

Debt =Long Term Borrowings + Long Term Provisions

c) Proprietary Ratio = $\frac{Proprietors\ Funds/Shareholders'\ funds}{Total\ Assets}$

Proprietors Funds = Share Capital + Reserves and Surplus

Share capital = Equity Share Capital + Preference Share capital

or

Proprietors Funds = Non Current Assets + Working Capital - Non Current Liabilities

Non-Current Assets = Tangible Assets + Intangible Assets + Non-Current Investments + Long-Term Loans & Advances

Working Capital = Current Assets – Current Liabilities

Non-Current Liabilities = Long-Term Borrowings + Long-Term Provisions

Total Assets = **Non-Current Assets** (Tangible Assets + Intangible Assets + Non Current Investments + Long-Term Loans & Advances)
+
Current Assets (Current Investments + Inventories + Trade Receivables + Cash & Cash Equivalent + Short-Term Loans & Advances + Other Current Assets).

d) $\boxed{\text{Interest Coverage Ratio} = \dfrac{Profit\ before\ Interest\ and\ Tax}{Interest\ on\ Long\ Term\ Debt}}$

Profit before interest and tax = Profit after interest and tax + Interest on long term debt + tax

Illustration-5

From the following compute:
a) Debt to Equity Ratio
b) Total Assets to Debt Ratio
c) Proprietary Ratio

S.No.	Items	Amount ₹
1	Long-Term Borrowings	1,00,000
2	Long-Term Provisions	50,000
3	Current Liabilities	25,000
4	Non-Current Assets	1,80,000
5	Current Assets	45,000

Solution:

a) Debt to Equity Ratio = $\dfrac{\text{Debt}}{\text{Equity/Shareholders' funds}}$

Debt = Long-Term Borrowings + Long-Term Provisions
= ₹ 1,00,000 + ₹50,000
= ₹1,50,000

Equity / Shareholders' Funds = Non Current Assets + Working Capital – Non Current Liabilities

= Non-Current Assets + Current Assets – Current Liabilities -Long Term Borrowings – Long Term Provisions

= ₹ 1,80,000 + ₹ 45,000 – ₹ 25,000 - ₹1,00,000 – ₹ 50,000

= ₹ 50,000

∴ Debt-Equity Ratio = $\frac{₹1,50,000}{₹50,000}$ = 3:1

b) Total Assets to Debt Ratio = $\frac{Total\ Assets}{Debt}$

Total Assets = Non-Current Assets + Current Assets

= ₹ 1,80,000 + ₹ 45,000

= ₹ 2,25,000

Debt = Long-Term Borrowings + Long-Term Provisions

= ₹ 1,00,000 + ₹. 50,000

= ₹ 1,50,000

∴ Total Assets to Debt Ratio = $\frac{₹\ 2,25,000}{₹\ 1,50,000}$= 1.5 : 1

c) Proprietary Ratio = $\frac{Shareholders'\ funds}{Total\ Assets}$

Shareholders' Funds = ₹ 50,000

Total Assets = ₹ 2,25,000

∴ Proprietary Ratio = $\frac{₹50,000}{₹2,25,000}$= 0.22:1

Illustration-6

Akshara Ltd. has 8% Debentures of ₹ 5,00,000. Its profit before interest & tax is ₹ 2,00,000. **Calculate Interest Coverage Ratio**.

Solution:

Interest Coverage Ratio = $\frac{\text{Profit before Interest \& } Taxes}{Interest\ on\ Long-Term\ Debt}$

Profit before Interest & Tax = ₹ 2,00,000

Interest on Debenture = ₹ 5,00,000 x $\frac{8}{100}$

∴ Interest Coverage Ratio = $\frac{₹2,00,000}{₹40,000}$ = 5 Times

Illustration-7

Assuming that the Debt-Equity Ratio is 2:1, state, giving reasons, which of the following transactions would (i) Increase; (ii) Decrease; (iii) Not alter the Debt-Equity Ratio :

i) Issue of new shares for cash

ii) Conversion of debentures into equity shares.

iii) Sale of a fixed asset at profit.

iv) Purchase of a fixed asset on long-term deferred payment basis.

v) Payment to creditors

Solution:

Statement showing the effect of various transactions on Debt-Equity Ratio.

Tr. No.	Effect on Debt Equity Ratio	Reasons
1	Decrease	Debt remains unchanged but equity (shareholders' funds) increases.
2.	Decrease	Debt decreases and equity (shareholders' funds) increases by the same amount.
3.	Decrease	Debt remains unchanged but equity (shareholders' funds) increases..
4.	Increase	Debt increases but equity (shareholders' funds) remains unchanged..
5.	No change	Both debt and equity remain unchanged.

(iii) ACTIVITY / TURNOVER RATIOS

a) Inventory Turnover Ratio = $\frac{\substack{\text{Cost of Revenue from Operations} \\ \text{or} \\ \text{Cost of Goods Sold}}}{\text{Average Inventory}}$ = … times

Cost of Revenue from Operation = Cost of materials consumed + purchase of stock-in-trade + change in Inventory (Finished Goods; Work in

Progress & Stock-in-trade) + Direct Expenses

Or

Opening Inventory + Net Purchases + Direct Expenses – Closing Inventories

Or

Revenue from Operations – Gross Profit

Average Inventory = $\frac{\text{Opening Inventory+Closing Inventory}}{}$

b) Trade Receivables Turnover Ratio/ Debtors turnover ratio

$$= \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables/Average Debtors}} = \dots \text{ times}$$

Credit Revenue from Operations = Revenue from Operations – Cash Revenue from Operations

Average Trade Receivable = $\frac{\text{Opening Trade Receivables + Closing Trade Receivable}}{2}$

Where Trade Receivables = Debtors + Bills Receivables

c) Trade Payables Turnover Ratio/ Creditors turnover ratio

$$= \frac{\text{Net Credit Purchases}}{\text{Aveage Trade Payables/ Average creditors}} = \dots \text{ times}$$

Average Trade Payables = $\frac{\text{Opening Trade Payables + Closing Trade Payables}}{2}$

Trade Payables = Creditors + Bills Payable

d) Working Capital Turnover Ratio = $\frac{\text{Revenue from Operations}}{\text{Working Capital}}$ = Times

Working Capital = Current Assets – Current Liabilities

Current Asset = Current Investments + Inventories + Trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets

Current Liabilities = Short-Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions

Illustration-8

Calculate **Working Capital Turnover Ratio** from the following

S.No.	Items	Amount (₹.)
1.	Current Asset	9,00,000
2.	Revenue from Operations	24,00,000
3.	Current Liabilities	1,00,000

Solution:

Working Capital Turnover Ratio $= \dfrac{Revenue\ from\ Operations}{Working\ Capital}$

Revenue from Operation = ₹ 24,00,000

Working Capital = Current Asset – Current Liabilities

= ₹ 9,00,000 – ₹ 1,00,000

= ₹ 8,00,000

∴ Working Capital Turnover Ratio $= \dfrac{₹\ 24,00,000}{₹\ 8,00,000}$ = 3 Times

Illustration-9

Calculate **Working Capital Turnover Ratio** from the following

S.No.	Items	Amount (₹)
1.	Revenue from Operations	12,00,000
2.	Current Assets	5,00,000
3.	Total Assets	8,00,000
4.	Non Current Liabilities	4,00,000
5.	Shareholders' Funds	2,00,000

Solution:

Working Capital Turnover Ratio $= \dfrac{Revenue\ from\ Operations}{Working\ Capital}$

Revenue from Operations = ₹ 12,00,000

Working Capital = Current Assets – Current Liabilities

Current Assets = ₹ 5,00,000

Current Liabilities = Total Assets – Non Current Liabilities – Shareholders' Funds

= ₹ 8,00,000 – ₹ 4,00,000 – ₹ 2,00,000

= ₹ 2,00,000

Working Capital = ₹ 5,00,000 – ₹ 2,00,000

= ₹ 3,00,000

∴ Working Capital Turnover Ratio = $\frac{₹\ 12,00,000}{₹\ 3,00,000}$ = 4 Times

Illustration-10

Cost of Revenue from Operations = ₹ 3,00,000

Inventory Turnover Ratio = 6 Times

Find out the value of **Opening Inventory**, if opening inventory is ₹ 10,000 less than the closing inventory.

Solution

Inventory Turnover Ratio = $\frac{Cost\ of\ Revenue\ From\ Operations}{Average\ Inventory}$

6 = $\frac{Rs.3,00,000}{Average\ Inventory}$

∴ Average Inventory = $\frac{₹\ 3,00,000}{6}$ = ₹ 50,000

Let Closing Inventory = x

∴ Opening Inventory = x – ₹ 10,000

Average Inventory = $\frac{Opening+Closing}{2}$

= $\frac{x-10,000+x}{2}$

= x – ₹ 5,000

∴ ₹ 50,000 = x – ₹5,000

∴ x = ₹ 55,000

∴ Closing Inventory = ₹ 55,000

∴ Opening Inventory = ₹ 55,000 – ₹ 10,000

= ₹ 45,000

(IV) **<u>PROFITABILITY RATIOS</u>**

(a) Gross Profit Ratio = $\frac{Gross\ Profit}{Revenue\ from\ Operations}$x100

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

Cost of Revenue from Operations = Cost of materials consumed + purchase of stock-in-trade + change in Inventory (Finished Goods; Work in Progress & Stock-in-trade) + Direct Expenses

Or

Opening Inventories + Net Purchases + Direct Expenses – Closing Inventories

Or

Revenue from Operations – Gross Profit

(b) Operating Ratio= $\frac{Cost\ of\ revenue\ from\ Operations+Operating\ Expenses}{Revenue\ from\ Operations}$x10 0

Cost of Revenue from Operations = Cost of materials consumed + purchase of stock-in-trade + change in Inventory (Finished Goods; Work in Progress & Stock-in-trade) + Direct Expenses

Or

Opening Inventories + Net Purchases + Direct Expenses – Closing Inventories

Or

Revenue from Operations – Gross

Profit

Operating Expenses = Employees Benefit expenses + Depreciation + Other expenses

Other expenses = Office, Administrative, Selling and Distribution Expenses etc.

(c) Operating Profit Ratio = $\frac{Operating\ Profit}{Revenue\ from\ Operations}$x100

Operating Profit = Net Profit (After Tax) + Non Operating Expenses / Losses – Non Operating Incomes

or

Gross Profit + Other Operating Incomes – Other Operating Expenses

Non Operating Expenses = Finance cost + Other Non Operating Expenses

Finance cost = Interest on Long Term Borrowings etc.

Other Non Operating Expenses = Loss on sale of Non Current Assets etc.

Non Operating Incomes = Other Incomes

Other Income = Interest received on investments + Profit of sale of Non-Current Assets etc.

(d) Net Profit Ratio = $\frac{Net\ Profit\ after\ Tax}{Revenue\ from\ Operations}$ x 100

(e) Return on Investment or

Return on Capital Employed

$= \frac{Net\ Profit\ before\ Interest\ Tax\ and\ Dividend}{Capital\ Employed}$x100

Capital Employed may be calculated by any of the following two Methods.

(1) Liabilities Side Approach	(2) Assets Side Approach
Shareholders' Funds (Share Capital + Reserves & surplus) + Non-Current liabilities (Long term borrowings + Long term Provisions)	Non-Current Assets + Working Capital Non-Current Assets =Tangible Assets + Intangible Assets + Non-Current investments + Long-term Loans & Advances Working Capital = Current Assets - Current Liabilities
Note: It is assumed that all Investments are Trade Investments.	

Illustration-11

Calculate **Gross Profit Ratio** from the following:

S.No.	Items	Amount (₹)
1.	Opening Inventories	50,000
2.	Purchases	1,50,000
3.	Returns outwards	20,000
4.	Wages	10,000
5.	Revenue from Operations	2,50,000
6.	Closing Inventories	40,000

Solution:

Gross Profit Ratio $= \frac{Gross\ Profit}{Revenue\ from\ Operations}$ x 100

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

Cost of Revenue from Operations =Opening Inventories + Purchases – Returns outwards +Wages –Closing Inventories

= ₹ 50,000 + ₹1,50,000 – ₹ 20,000 + ₹ 10,000 – ₹ 40,000

= ₹1,50,000

Gross Profit = ₹ 2,50,000 – ₹1,50,000

$$= ₹\ 1,00,000$$

∴ Gross Profit Ratio $= \frac{₹\ 1,00,000}{₹\ 2,50,000} \times 100 = 40\%$

Illustration-12

From the following **Calculate Operating Ratio**

S. No.	Items	Amount (₹)
1.	Cost of Revenue from Operations	50,000
2.	Revenue from Operation	1,50,000
3.	Other Operating Expenses	20,000

Solution

$$\text{Operating Ratio} = \frac{Cost\ of\ Revenue\ from\ Operation + Other\ Operating\ Expenses}{Revenue\ from\ operations} \times 100$$

$$= \frac{₹\ 50,000 + ₹\ 20,000}{₹\ 1,50,000} \times 100 = 46.6\%$$

Illustration-13

From the following calculate

(a) Net Profit Ratio
(b) Operating Profit Ratio

S.No.	Items	Amount (₹)
1.	Revenue from Operations	2,00,000
2.	Gross Profit	75,000
3.	Office Expenses	15,000
4.	Selling Expenses	26,000
5.	Interest on Debentures	5,000
6.	Accidental losses	12,000
7.	Income from Rent	2,500
8.	Commission received	2,000

Solution:

(a) Net Profit Ratio $= \frac{Net\ Profit}{Revenue\ from\ Operations} \times 100$

Net Profit = Gross Profit – Indirect expenses & losses + Other incomes

Indirect expenses and losses =Office expenses + Selling expenses + Interest on debentures + Accidental losses

=₹15,000 + ₹26,000 + ₹5,000 + ₹12,000

=₹58,000

Other incomes = Commission received + Income from rent

=₹2,000 + ₹2,500

= ₹4,500

Net profit = =₹ 75,000 – ₹ 58,000 + ₹4,500

= ₹21,500

Revenue from Operations = ₹ 2,00,000

∴ Net Profit Ratio = $\frac{₹\ 21,500}{₹\ 2,00,000}$ x100 =10.75%

(b) Operating Profit Ratio = $\frac{Operating\ Profit}{Revenue\ from\ Operations}$x100

Operating Profit = Gross Profit + Other Operating Income – Other Operating Expenses

= ₹ 75,000 + ₹2,000 – ₹15,000 – ₹ 26,000

= ₹ 36,000

Revenue from Operation = ₹ 2,00,000

∴ Operating Profit Ratio = $\frac{₹\ 36,000}{₹\ 2,00,000}$ x100 =18%

Illustration-14

From the following calculate Return on Investment (or Return on Capital Employed)

S.No.	Items	Amount (₹)
1.	Share Capital	50,000

2.	Reserves & Surplus	25,000
3.	Net Fixed Assets	2,25,000
4.	Non Current Trade Investments	25,000
5.	Current Assets	1,10,000
6.	12% Long term borrowings	2,00,000
7.	Current Liabilities	85,000

Net Profit before tax ₹ 60,000

Solution

Return on Investment or Return on Capital Employed

$$= \frac{Net\ Profit\ before\ Interest\ and\ Tax}{Capital\ Employed} \times 100$$

Net Profit before interest and tax = ₹ 60,000 + ₹ 24,000

= ₹ 84,000

Capital Employed = Share Capital + Reserves & Surpluses + 12% long term borrowings

= ₹ 50,000 + ₹ 25,000 + ₹ 2,00,000

= ₹ 2,75,000

∴ Return on Investment or Return on Capital Employed

$$= \frac{₹\ 84,000}{₹\ 2,75,000} \times 100 = 30.54\%$$

4. <u>CASH FLOW STATEMENT</u>

Note: The following format of 'Cash Flow Statement' is in accordance with those items of Financial Statements which 'are to be Evaluated' for Board Examination-2014.

Format of Cash Flow Statement (Indirect Method)

For the year ended…..

(As per Accounting Standard-3 (Revised)

Particulars	**₹**
A, **Cash Flows from Operating Activities**	
Net Profit before Tax **(see note No. 1)**	---
Adjustments for non cash and non operating items:	

Particulars		₹
Add:		
- Depreciation	--	
- Preliminary Expenses/Discount on issue of Share and Debentures written off	--	
- Goodwill, Patents and Trademarks Amortised	--	
- Interest on long-term borrowings	--	
- Loss on Sale of Fixed Assets		(---)
Less:		
- Interest Income	(--)	
- Dividend Income	(--)	
- Rental Income	(--)	
- Profit on sale of Fixed Assets	(--)	(---)

Operating Profit before Working Capital Changes		---
Add:		
Decrease in current Assets	--	---------
Increase in Current Liabilities	--	(---)
		(---)
Less:		-----------
Increase in current Assets	(….)	---
Decrease in Current Liabilities	(-- -)	(---)

Cash Generated from operations		---
Less: Income Tax Paid (Net Tax Refund received)		
Net Cash from (or used in) Operating Activities		
B. Cash Flows from Investing Activities		
- Proceeds from Sale of Tangible Fixed Assets	--	
- Proceeds from Sale of intangible Fixed Assets	--	
- Proceeds from Sale of Non-Current Investments	--	
- Interest and Dividend received	--	
- Rent received	--	…
- Purchase of Tangible Fixed Assets	(--)	-------------
- Purchase of intangible Fixed Assets like goodwill	(--)	
- Purchase of Non-Current Investments	(--)	
Net Cash from (or used) in Investing Activities		
C. **Cash Flow from Financing Activities**		

Particulars		₹
- Proceeds from issue of Shares and Debentures	--	
- Proceeds from Long-term Borrowings	--	
- Final Dividend Paid	(--)	
- Interim Dividend Paid	(--)	
- Interest on Long-term borrowings paid	(--)	
- Repayment of Loan	(--)	
- Redemption of Debentures	(--)	
Net Cash from (or used) in financing activities	---------	----------
		----------
Net Increase (or Decrease) in Cash & Cash Equivalents (A+B+C)		---
Add: Cash and Cash Equivalents in the beginning		----------
Cash and cash Equivalents at the end of the year		

Note No.1: Calculation of Net Profit before Tax and Extraordinary Item.

Particulars			₹
Net Profit of the current year (after appropriations)			
Add:	-	Transfer to reserves (all transfers to reserves from balances of the statement of Profit & Loss)	---
	-	Proposed dividend for Current Year	---
	-	Interim dividend paid during the year	---
Net profit			---
Add	-	Provision for tax made during the current year	---
Less:	-	Refund of tax	---
Net profit before tax			----------------

Illustration No. 1

Calculate Cash Flows from Operating Activities from the following details:

Particulars	31.03.2011 (₹)	31.03.2010 (₹)
Balance in Statement of Profit and Loss	55,000	60,000
Trade Receivables	25,000	31,000
Outstanding Rent	12,000	21,000
Goodwill	40,000	38,000

Prepaid Expenses	4,000	2,000
Trade Payables	13,000	19,000

Solution:

Calculation of Cash Flows from Operating Activities.

Particulars		Amount (₹)
Net loss for the year ending 31.03.2011		(5,000)
Add: Decrease in current assets and Increase in current liabilities		
Trade Receivables	6,000	6,000
		1,000
Less: Increase in current Assets and Decrease in current liabilities		
Prepaid Expenses	(2,000)	
Trade Payables	(6,000)	
Outstanding Rent	(9,000)	(17,000)
Net Cash Flows from operating activities		(16,000)

Illustration No. 2

The profit of Philips Ltd.after appropriations was ₹2,50,000. This profit was arrived at after taking into consideration the following items:

S.No.	Particulars	(₹)
1	Depreciation on Fixed Tangible Assets (Machinery)	20,000
2	Loss on sale of Fixed Tangible Assets (Furniture)	2,000
3	Goodwill written off	9,000
4	Provision for Taxation	35,000
5	Transfer to General Reserve	17,500
6	Gain on sale of Fixed Tangible Assets (Machinery)	8,000

Additional information:

Particulars	31.03.2011 (₹)	31.03.2012 (₹)
Trade Receivables (all good)	50,000	62,000
Trade payables	45,000	55,000
Inventory	12,000	8,000
Income received in Advance	8,000	-------
Outstanding Expenses	6,000	3,000
Prepaid Expenses	--	5,000

You are required to calculate **Cash from Operating Activities:**

Solution:

Calculation of Cash from Operating Activities.

Particulars		Amount (₹)
Net Profit before tax (see note)		3,02,500
Add: Depreciation on Fixed Tangible Assets	20,000	
Loss on sale of Fixed Tangible Assets	2,000	
Goodwill written off	9,000	31,000
		3,33,500
Less: Gain on sale of Machinery		(8,000)
Net Profit before Working Capital changes		3,25,500
Add: Decrease in Current Assets and Increase in Current Liabilities		
Inventory	4,000	
Trade Payables	10,000	14,000
		3,39,500
Less: Increase in Current Assets and Decrease in Current Liabilities		
Trade Receivables	(12,000)	
Prepaid Expenses	(5,000)	
Outstanding Expenses	(3,000)	
Income received in Advance	(8,000)	(28,000)
Cash Flow from operating activities before tax		3,11,500
Less: Tax paid		(35,000)
Cash Flow from operating activities		2,76,500

Working Note: Calculation of net profit before Tax

Particulars	Amount (₹)
Net Profit after appropriations	2,50,000
Add: Provision for Tax	35,000
Add: Transfer to General Reserve	17,500
Net Profit before tax	3,02,500

Illustration No. 3

From the following information calculate the amount of cash flows from Investing Activities:

Particulars	31.03.2011 (₹)	31.03.2012 (₹)
Plant and Machinery	8,50,000	10,00,000
Non Current Investments	40,000	1,00,000
Land (At cost)	2,00,000	1,00,000

Additional Information

(i) Depreciation charged on Plant and Machinery was ₹ 50,000

(ii) Plant and Machinery with a book value of ₹ 60,000 was sold for ₹ 40,000

(iii) Land was sold at a gain of ₹ 60,000.

Solution:

Calculation of Cash from Investing Activities.

Particulars	**Amount (₹)**
Sale of Plant and Machinery	40,000
Sale of land (see note 1)	1,60,000
Purchase of Plant & Machinery (see note 2)	(2,60,000)
Purchase of Investments	(60,000)
Net Cash flows from Investing Activities	(1,20,000)

Working Note No. 1

Dr. **Land A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d To gain on sale of land	2,00,000 60,000	By bank (machinery sold) By Balance c/d	1,60,000 1,00,000
	2,60,000		2,60,000

Working Note No. 2

Dr. **Plant & Machinery A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d To bank (machinery purchased)	8,50,000 2,60,000	By Depreciation By bank (machinery sold) By Loss on Sale of Machinery By Balance c/d	50,000 40,000 20,000 10,00,000
	11,10,000		**11,10,000**

Illustration No. 4

From the following information calculate the amount of cash flows from Investing Activities

Particulars	**(₹)**
Land purchased during the year	5,00,000
Non-Current Investment purchased	2,70,000
Fixed Tangible Assets (Machinery) purchased	4,50,000
Fixed Tangible Assets sold (Building)	6,00,000
Sale of Non-Current Investments	1,60,000
Sale of Tangible Fixed Assets (Machinery)	2,10,000
Interest received on Debentures held as Investments	1,10,000
Dividend received on Shares as Investments	30,000

Solution:

Calculation of Cash from Investing Activities.

Particulars		Amount (₹)
Cash received from sale of Building	6,00,000	
Cash received from sale of Investment	1,60,000	
Cash received from sale of Machinery	2,10,000	
Cash received for interest of Debentures	1,10,000	
Cash received for dividend on shares	30,000	
		11,10,000
Cash used for purchase of land	(5,00,000)	
Cash used for purchase of non-Current investments	(2,70,000)	
Cash used for purchased of machinery	(4,50,000)	(12,20,000)
Net Cash used in Investing Activities		(1,10,000)

Illustration No. 5

XYZ Ltd., provided the following information, calculate net cash flows from financing activities.

Particulars	31.03.2011	31.03.2012
Equity Share Capital	10,00,000	12,00,000
12% Long-term borrowing (Debentures)	1,00,000	2,00,000

Additional Information:

(i) Interest paid on Debentures ₹12,000

(ii) Dividend paid ₹50,000

Solution

Calculation of Cash from Financing Activities

Particulars	Amount (₹)
Cash received from issue of Equity Share capital	2,00,000
Cash received from issue of long-term Borrowing (12% Debentures)	1,00,000
Cash used in payment of interest on long-term borrowings (12% Debentures)	(12,000)
Cash used in payment of dividend	(50,000)
Net cash flow from Financing Activities	2,38,000

Illustration 6

From the following information, calculate Cash flows from Financing Activities:

Particulars	**31st March 2012 ₹**	**31st March 2013 ₹**
Equity Share Capital	4,00,000	5,00,000
10% Debentures	1,50,000	1,00,000
Securities Premium Reserve	40,000	50,000

Interest paid on debentures 10,000.

Solution:

		₹
Issue of Shares (including Premium)	1,10,000	
Interest paid on debentures	(10,000)	
Redemption of debentures	(50,000)	
Net Cash Flows from Financing Activities		50,000

Illustration No. 7

Prepare of Cash Flow Statement on the basis of the information given in the balance sheet of ABC Ltd., as at 31.03.2012 & 2011.

Particulars		**Note No.**	**31.03.2012 (₹)**	**31.03.2011 (₹)**
1.		2.	3.	4
I.	**EQUITY AND LIABILITIES**			
1.	**Shareholders funds**			
(a)	Share capital		70,000	60,000
(b)	Reserves and Surplus	1	44,000	8,000
2.	**Non Current Liabilities**			
(a)	Long term borrowings:	2	50,000	50,000
3.	**Current Liabilities**			
(a)	Trade payables		25,000	9,000
	Total		**1,89,000**	**1,27,000**
II.	**ASSETS**			
(1)	**Non-Current Assets**			
(a)	Fixed Assets			
(i)	Tangible assets		98,000	84,000
(b)	Non current investments		16,000	6,000
(2)	**CURRENT ASSETS**			
(a)	Current investments (Marketable)		18,000	20,000
(b)	Inventories		49,000	12,000
(c)	Cash & Cash Equivalents		8,000	5,000
	Total		**1,89,000**	**1,27,000**
Notes to Accounts				
Particulars			**31.03.2012**	**31.03.2011**

1.	**Reserves & Surplus**		
	General Reserve	30,000	20,000
	Surplus i.e. Balance in Statement of Profit and Loss	14,000	(12,000)
		44,000	**8,000**

Additional Information:

(i) Depreciation provided on tangible assets (Machinery) during the year ₹8,000

(ii) Interest paid on debentures ₹ 5,000

Solution:

Cash Flow Statement for the year ended 31.03.2012

Cash Flows from Operating Activities				
(A)	Net Profit before Tax **(see note No. 1)**			36,000
(B)	**Items to be added**			
	- Depreciation on Fixed Tangible Asset (Machinery)		8,000	
	- Interest on long-term borrowings (Debentures)		5,000	13,000
(C)	Operating Profit before working capital changes (A+B)			49,000
(D)	Add: Increase in Current Liabilities			
	Trade Payables		16,000	
(E)	Less: Increase in Current Assets			
	Inventories		(37,000)	(21,000)
(H)	**Net Cash from Operating Activities**	**(X)**		28,000
2.	**Cash Flows from Investing Activities**			
-	Purchase of Tangible Fixed Assets (Machinery) (see Note No. 2)			(22,000)
-	Purchase of Non-Current Investments			(10,000)
-	**Net Cash (used) in Investing Activities**	**(Y)**		(32,000)
3.	**Cash Flows from Financing Activities**			
-	Proceeds from issue of Equity Share Capital			10,000
-	Interest on Long-term borrowings paid (Debentures)			(5,000)
-	**Net Cash Flow from Financing Activities**	**(Z)**		5,000
4.	**Net Increase in Cash & Cash Equivalents (X+Y+Z)**			
5.	**Add: Cash and Cash Equivalents in the beginning**			1,000
	Short term marketable securities		**20,000**	
	Cash & Cash Equivalents		**5,000**	25,000
6.	**Cash and cash Equivalents at the end of the year (4+5)**			
	Short term marketable securities		**18,000**	
	Cash & Cash Equivalents		**8,000**	26,000

Working Note No.1

Calculation of Net Profit before Tax

Net Profit from the current year (₹14,000 + ₹12,000)	=	26,000
Add transfer to General Reserve	=	10,000

		36,000

Working Note No. 2

Dr. Fixed Tangible Assets (Machinery) Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	84,000	**By Depreciation**	8,000
To Cash Purchases **BF**	22,000	Balance c/d	98,000
Total	**1,06,000**	**Total**	**1,06,000**