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“Analysis of **Financial Statements**” with Manish Kukreja

As per section 129 of the Companies Act 2013 “Financial Statement” comprises of (Schedule III, earlier Schedule VI to Companies Act 1956):

1. Statement of Profit & Loss Profit & Loss Account
2. Balance Sheet
3. Cash Flow Statement
4. Statement of Changes in Equity (if applicable)
5. Explanatory Note annexed thereto



Analysis of Financial Statements

Understanding FS
(Next Slide)

Tools of Analysis of FS:

1. Comparative Statements
2. Common size statements
3. Trend Analysis
4. Ratio Analysis
5. Cash Flow Analysis



UNDERSTANDING FINANCIAL STATEMENTS AGENDA:

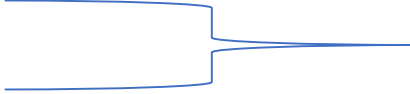
Note: Format Schedule III followed by Companies, Horizontal T format may be followed by Proprietor. Substance over form.

Concepts to be understand:

FINANCIALS ARE PREPARED ON ACCRUAL CONCEPT NOT ON CASH GENERALLY

MATCHING CONCEPT

CONSERVATISM AND PRUDENCE CONCEPT



All adjustments made in Financials are because of these 3 concepts.

Terms to be understand:

1. Difference between Gross Profit and Net Profit
2. Revenue from operation and other income
3. Accrued Income and Income received in advance
4. Direct and Indirect expenses
5. Operating and non operating activities
6. Prepaid expenses (RENT, INSURANCE) and outstanding expenses
7. Depreciation
8. Provision for bad and doubtful debts & Bad debts
9. Non current Assets and current Assets
10. Non current Liabilities and current liabilities
11. Equity and Preference share capital
12. Proposed Dividend and declared dividend
13. Contigent Liabilities

Dr Statement of P&L **Cr**

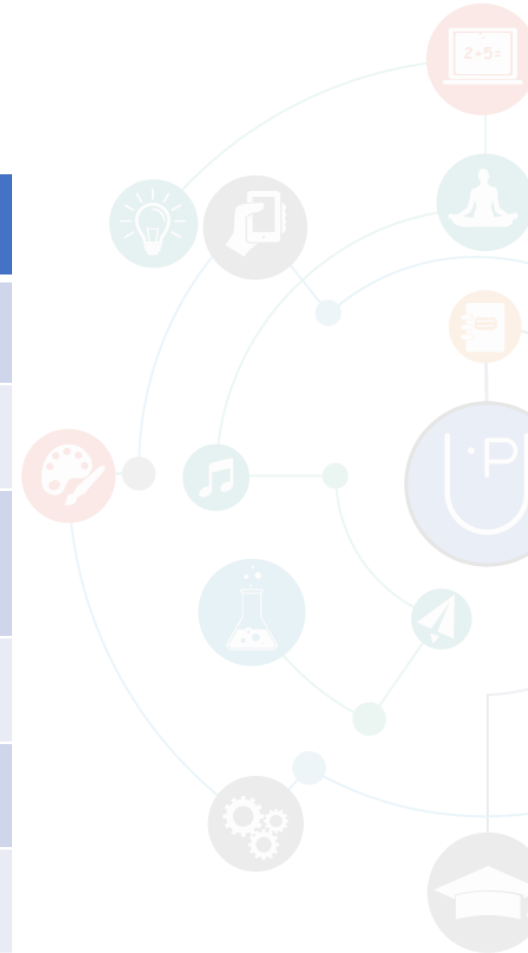
	Income	xxx
Expenses	xxx	

Cr BALANCE SHEET **Dr**

Equity	xxx	Assets	xxx
Liabilities	xxx		

5 TERMS 5 CLASSIFICATION:

ITEM	STATEMENT	DR/CR
EXPENSES	PROFIT & LOSS A/C	DEBIT SIDE
INCOME	PROFIT & LOSS A/C	CREDIT SIDE
ASSET	BALANCE SHEET	DEBIT SIDE
LIABILITIES	BALANCE SHEET	CREDIT SIDE
CAPITAL	BALANCE SHEET	CREDIT SIDE



TRADING A/C					
Expenses/Losses	Amt (₹)	Amt (₹)	Revenue/Gains	Amt (₹)	Amt (₹)
Opening stock		15000	Sales	250000	
Purchases	135000		Less: Sales Return	-2200	247800
Less: Purchase Return	-1200	133800	Closing Stock		30000
Wages		25000			
Freight Inward		500			
Gross Profit		103500			
		277800			277800
PROFIT OR LOSS A/C					
Expenses/Losses	Amt (₹)	Amt (₹)	Revenue/Gains	Amt (₹)	Amt (₹)
Rent		51000	Gross Profit		103500
Salaries	1500		Profit on sale of Asset		1000
Add: Outstanding Salaries	1000	2500	Interest on Fixed Deposit		2500
Freight Outward		1000	Commission	200000	
Insurance	10000		Less: Advance commission	-5000	15000
Less: Prepaid Insurance	-5000	5000	Interest on Drawings		1000
Depreciation	10000				
Add: Additional Depreciation	4000	14000			
Telephone		5000			
Electricity		20000			
Interest on Loan		500			
Provision for bad and doubtful Debts		8500			
Interest on capital		10000			
Provision for Tax		500			
Net Profit		5000			
		123000			123000



STATEMENT OF PROFIT AND LOSS (vertical format)

Particulars	Amt (₹)	
Revenue from operations	247800	
Other Income	19500	1000+2500+15000+1000
TOTAL REVENUE	267300	
Cost of Material Consumed (RM)	118800	15000+133800-30000
Purchase of Stock-in-Trade	0	
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	0	
Employee Benefits Expense	27500	25000+2500
Finance Costs	10500	500+10000
Depreciation/Amortisation and Depletion Expense	14000	
Other Expenses	91500	500+51000+1000+5000+5000+20000+8500+500
TOTAL EXPENSES	262300	
Profit before Tax	5000	
Tax		
Profit after Tax		

BALANCE SHEET

	Amt (₹)	Amt (₹)	ASSETS	Amt (₹)	Amt (₹)
Capital and Liabilities					
Capital	200000		I. Non-Current Assets		
Add: Net Profit	4000		Furniture	99000	
Add: Interest on capital	10000		Less: Accumulated dep	-4000	95000
Less: Drawings	-20000		Computer		50000
Less: Interest on Drawings	-1000	193000			
General Reserve		1000	II. Current Assets		
			Cash		37500
Non-current Liabilities			Debtors	40000	
Loan		50000	Less: Bad debts	-8500	31500
			Bills Receivable		50000
Current-Liabilities			Closing Stock		30000
Creditors		30000	Prepaid Insurance		5000
			Accrued interest on Fixed deposit		2500
Bills Payable		20000			
Outstanding Salaries		1000			
Commission Received in Advance		5000			
Rent Payable		1000			
Provision for Tax		500			
		301500			301500



DETAILED TRADING A/C

Trading Account

(For the year ended...)

Dr.			Cr.	
Particulars		Amount	Particulars	Amount
To Opening stock		Xxx	By Sales	xxx
To Purchases	xxx		Less: Return Inwards	<u>(xxx)</u>
Less: Return Outwards	<u>(xxx)</u>	Xxx	By Closing stock	Xxx
To Wages		Xxx	By Gross Loss	Xxx
To Carriage Inwards		Xxx		
To Freight Inwards/cartage		Xxx		
To Gross Profit c/d		Xxx		
		<u>xxx</u>		<u>xxx</u>

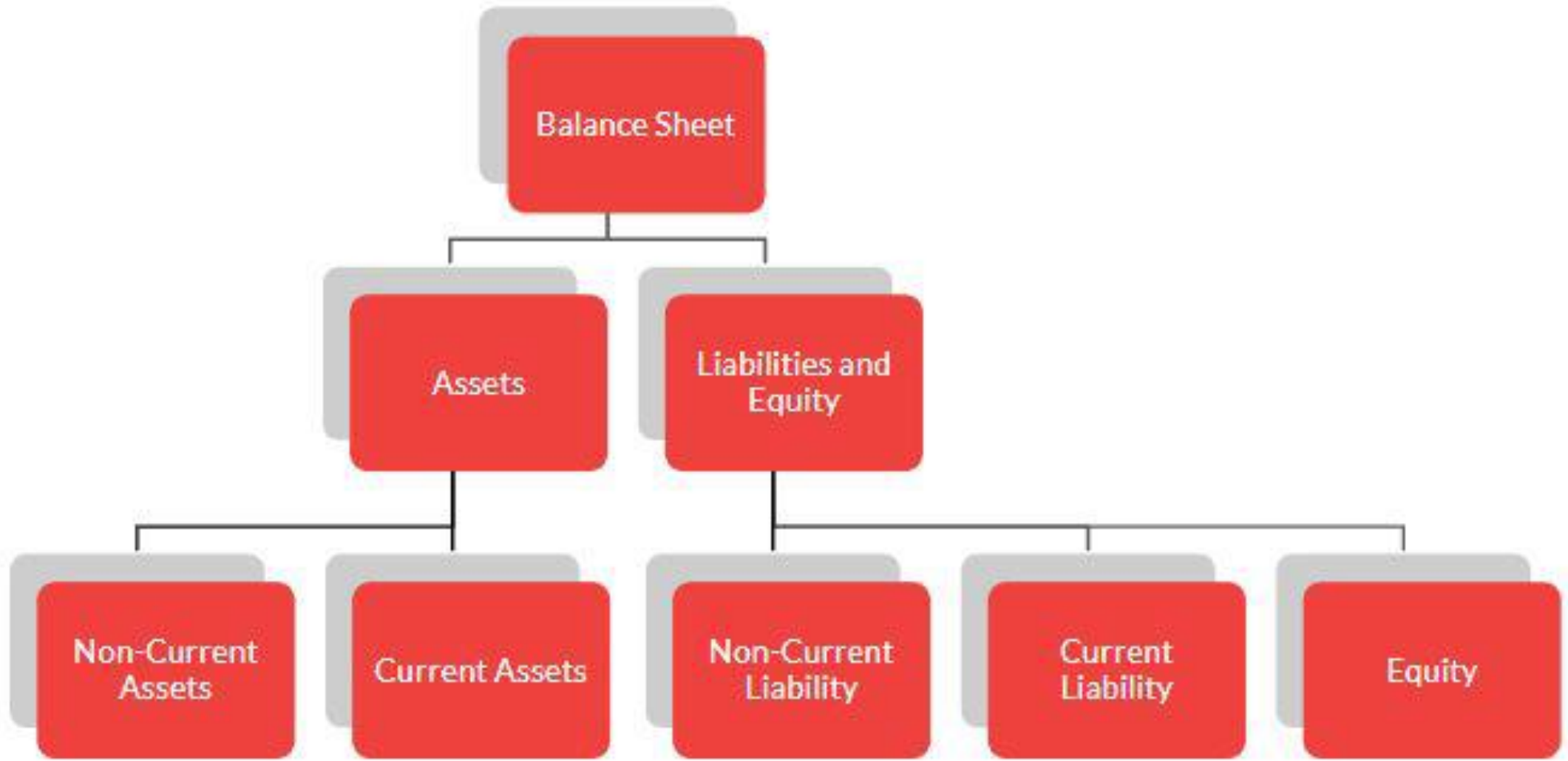
DETAILED P&L A/C

ABC Company
Profit and Loss Account
For the year ended 31st Dec.

	\$		\$
Gross Loss (Transferred from Trading A/c)	xxxx	Gross Profit (Transferred from Trading A/c)	xxxx
Office and Administration Expenses:		Commission Received	xxxx
Salaries	xxxx	Rent Received	xxxx
Rent, Rates and Taxes	xxxx	Interest received	xxxx
Postage and Telegram	xxxx	Discount received	xxxx
Telephone Charges	xxxx	Discount from Creditors	xxxx
Printing and Stationery	xxxx	Discount on Purchases	xxxx
Office Electricity	xxxx	Dividend Received	xxxx
Insurance	xxxx	Interest on Drawings	xxxx
Legal Charges	xxxx	Reserve for Discount on Creditors	xxxx
Marketing and Selling Expenses		Interest on Renewal of bills	xxxx
Carriage outwards	xxxx	Bad Debts Recovered	xxxx
Freight Outwards	xxxx	Provision for Bad Debts (Cr.)	xxxx
Sales Salaries	xxxx	Royalty Received	xxxx
Advertisement	xxxx	Apprentice Premium	xxxx
Godown Rent	xxxx	Miscellaneous Income	xxxx
Commissions	xxxx	Sundry Income	xxxx
Discount Allowed	xxxx		
Bad Debts	xxxx		
Financial and Other Expenses:			
Bank Charges	xxxx		
Interest	xxxx		
Depreciation	xxxx		
Repairs and Maintenance	xxxx		
Audit Fees	xxxx		
Loss by Theft, Accident and Fire	xxxx		
Miscellaneous and Sundry Expenses	xxxx		
Net Profit Transferred to Capital	xxxx	Net Loss (Transferred to Capital)	xxxx

BALANCE SHEET

Equity and Liabilities	INR	Assets	INR
I. EQUITY:		I. NON CURRENT ASSETS:	
Equity/Owner's Fund/Capital	XXX	I. Tangible Assets:	
Add: Reserves & Surplus (including Net Profit/ Net loss)	XXX	I(a) Fixed Assets:	
		Land	XXX
II. LIABILITIES:		Building	XXX
Non Current Liabilities:		Plant and Machinery	XXX
Long Term Loan/ Debentures	XXX	Vehicles / Furniture etc	XXX
Current Liabilities:		II. CURRENT ASSETS:	
Short Term Loan	XXX	Inventory / Stock	XXX
Creditors / Trade Payables	XXX	Debtors	XXX
		Cash & Bank Balance	XXX
TOTAL	XXXX	TOTAL	XXXX



NON CURRENT ASSETS

Tangible Assets

These are assets that are measurable and have a physical form

Intangible Assets

These are assets that lack physical form

Capital Work-in-Progress

These are assets that are still in the development stage

Other Assets

These are non-current assets, such as office vehicles and computer machines

Non-Current Investment

These are long term investment made into other company's bonds, government securities, mutual funds, etc

Long-Term Loans and Advances

These are long term loans that are given to other companies at a fixed rate of interest

Other Non-Current Assets

These are assets in a form of capital advances made by the company

CURRENT ASSETS

Current Investment

These assets include short-term investments, such as short-term bonds or government securities maturing within a year

Inventories

These assets include stock of unsold products or stock of raw-material to be used for manufacturing products

Trade Receivables

These are funds that the customer owes to a company on account of buying goods from the company on credit

Cash and Cash Equivalent

These are assets in the form of hard cash or money at bank

Short-Term Loans and Advances

These assets include short-term loans that are given to other companies at a fixed rate of interest

Other Current Assets

These are other assets that can be converted into cash within one year

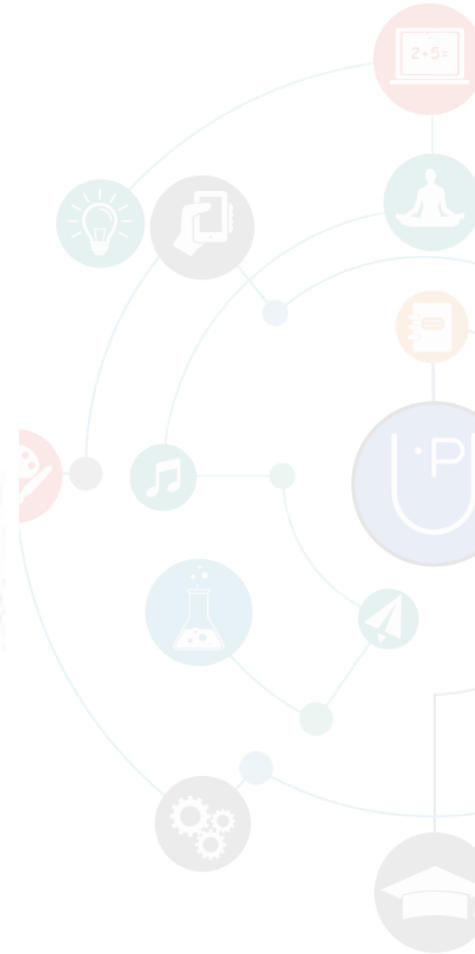
EQUITY

Share Capital

The amounts received from the owners or investors of a company

Retained Earnings

The undistributed or accumulated profits of a company over a years



NON CURRENT LIABILITIES

Long-Term Borrowings

Long-term loans taken for about 20-30 years in order to purchase assets

Deferred Tax Liabilities

Tax liabilities to be paid over a few years

Long-Term Provisions

Provisions created to meet long-term liabilities

CURRENT LIABILITIES

Short-Term Borrowing

These include financial obligations, such as short-term bank loans that are due within 12 months

Trade Payables

These include bills that are due to creditors on account of credit purchases made by a company

Other Current Liabilities

These are liabilities other than short-term borrowings, trade payables and short-term advances, that are due within 12 months.

Short-Term Provisions

These are provisions that are created to meet short-term liabilities

Profit and Loss Statement

Revenue

This refers to the amount earned by a company after selling its core products and services

Expenses

These refer to the costs incurred by a company in the production of goods or selling of services



TYPE OF EXPENSES

Cost of Goods Sold

This refers to the cost incurred in the production of goods or services sold

Employee Benefit Expenses

These include expenditure in the form of salaries, bonuses and staff welfare expenses

Other Expenses

These include expenditure on items, such as rent, warehouse costs, advertising, sales promotion expenses, printing and stationery

Depreciation and Amortisation Expenses

These are non-cash expenses that occur due to the normal wear and tear of the fixed assets

Finance Costs

These are expenditures that are incurred in the interest paid against any debt taken

Extraordinary Gains or Losses

These are expenditures or income from non-operating activities

Tax Expense

This includes corporate taxes that are paid to the government on the profit made by the company



