

# Financial Statements of a Company

## MEANING OF KEY TERMS USED IN THIS CHAPTER

### BALANCE SHEET

#### EQUITY AND LIABILITIES

##### 1. Shareholders' Funds

Shareholders' Funds are the funds belonging to the shareholders of the company. They consist of Share Capital; Reserves and Surplus and Money received against Share Warrants.

###### (a) Share Capital

It is the amount received by the company as capital. It includes both Equity Share Capital and Preference Share Capital.

###### (b) Reserves and Surplus: Reserves

It is the amount set aside out of Surplus, *i.e.*, Balance in Statement of Profit and Loss or amount received as Securities Premium. A reserve may be free reserve or committed reserve.

###### Surplus

It is the amount of accumulated profit which may be appropriated towards reserve or for payment of dividend.

###### (c) Money Received against Share Warrants

It is the amount received against Share Warrants. Share Warrants are the financial instruments which give the holder the right to acquire Equity Shares in the company at a specified date and at a specified rate.

##### 2. Share Application Money Pending Allotment

It is the amount received as share application and against which the company will make allotment.

##### 3. Non-Current Liabilities

Non-current Liabilities are defined in Schedule III of the Companies Act, 2013 as those liabilities which are not current liabilities. These are sub-classified into: Long-term Borrowings; Deferred Tax Liabilities (Net); Other Long-term Liabilities; and Long-term Provisions.

###### (a) Long-term Borrowings

Long-term borrowings are the borrowings which as on the date of borrowing are repayable after more than 12 months from the date of Balance Sheet or after the period of Operating Cycle.

###### (b) Deferred Tax Liabilities (Net)

It is the amount of tax on the temporary difference between the accounting income and taxable income. It is only a book entry and not an actual liability. It arises when accounting income is more than the taxable income.

###### (c) Other Long-term Liabilities

They are the Long-term Liabilities other than Long-term Borrowings of the company.

###### (d) Long-term Provisions

These are the provisions for liabilities that will be payable after 12 months from the date of Balance Sheet or after the period of Operating Cycle.

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## Analysis of Financial Statements—CBSE XII

### 4. Current Liabilities

Current Liabilities are those liabilities which are:

- (a) expected to be settled in company's normal Operating Cycle; or
- (b) due to be settled within 12 months after the reporting date. (Reporting date is the date on which financial statements are prepared); or
- (c) held primarily for the purpose of being traded; or
- (d) there is no unconditional right to defer settlement for at least 12 months after the reporting date.

### 5. Operating Cycle

It is the time between the acquisition of assets for processing and their realisation into Cash and Cash Equivalents. Where the Operating Cycle cannot be identified, it is assumed to be a period of 12 months.

**Operating Cycle** can be different for different businesses.

**Current Liabilities** are classified into Short-term Borrowings; Trade Payables; Other Current Liabilities; and Short-term Provisions.

- (a) **Short-term Borrowings** These are the borrowings that are repayable within 12 months from the date of Balance Sheet or within the period of Operating Cycle.
- (b) **Trade Payables** These are the amounts payable within the period of 12 months from the date of Balance Sheet or within the period of Operating Cycle for goods purchased or services taken in the ordinary course of business. It includes Bills Payable and Sundry Creditors.
- (c) **Other Current Liabilities** These are short-term liabilities, other than short-term borrowings, trade payables and short-term provisions.
- (d) **Short-term Provisions** These are provisions for liabilities that will be payable within 12 months from the date of Balance Sheet or within the period of Operating Cycle.

## ASSETS

### 6. Non-Current Assets

Non-current assets are those assets which are not current assets. These are sub-classified into: Fixed Assets; Non-current Investments; Deferred Tax Assets (Net); Long-term Loans and Advances; and Other Non-current Assets.

- (a) **Fixed Assets**
  - (i) **Tangible Assets** These are the assets which have physical existence, *i.e.*, can be seen and touched. Examples are: land, building, machinery and computers, etc.
  - (ii) **Intangible Assets** These are the assets which do not have physical existence, *i.e.*, cannot be seen and touched. Examples are: patents, trademarks and computer software, etc.
  - (iii) **Capital Work-in-Progress** Capital Work-in-Progress means expenditure incurred on construction or development of tangible assets not yet complete.
  - (iv) **Intangible Assets Under Development** Intangible Assets Under Development means expenditure incurred on development of intangible assets not yet complete.
- (b) **Non-Current Investments** Non-current Investments are those investments that are invested to be held for a period of more than 12 months from the date of Balance Sheet or for a period that is more than the period of Operating Cycle.

A **trade investment** is an investment made by the company in another company for the furtherance of its own business. It is non-current investment when it is invested to be held for more than 12 months from the date of Balance Sheet or for a period that is more than the period of Operating Cycle.

**(c) Deferred Tax Assets (Net)** It is the amount of tax on the temporary difference between the accounting income and taxable income. It is only a book entry and not an actual asset. It arises when accounting income is less than the taxable income.

**(d) Long-term Loans and Advances** Long-term Loans and Advances are loans and advances given by the company that are repayable or adjustable after 12 months from the date of Balance Sheet or after the period of Operating Cycle.

**(e) Other Non-Current Assets** All non-current assets that are not shown or classified under the above heads are Other Non-current Assets.

## 7. Current Assets

Current assets are those assets which are:

- (a) expected to be realised in or intended for sale or consumption in normal Operating Cycle of the company; or
- (b) held primarily for the purposes of trading; or
- (c) expected to be realised within 12 months from the reporting date or closing date. (Reporting date is the date for which financial statements are prepared.); or
- (d) Cash and Cash Equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Current Assets** are classified into Current Investments; Inventories; Trade Receivables; Cash and Cash Equivalents; Short-term Loans and Advances; and Other Current Assets.

**(a) Current Investments** Current Investments are those investments that are invested to be held for a period of less than 12 months from the date of Balance Sheet or within the period of Operating Cycle.

**(b) Inventories** Inventories (stock) is a tangible asset held:

- (i) for the purpose of sale in the normal course of business; or
- (ii) for the purpose of using it in the production of goods meant for sale or service to be rendered.

In case of trading company, it comprises of stock of goods traded in.

In case of a manufacturing company, it comprises of raw materials, work-in-progress and finished goods.

Inventories are valued at lower of cost or net realisable value, *i.e.*, market price.

**(c) Trade Receivables** Trade receivables are the amounts receivable within 12 months from the reporting date or within the period of Operating Cycle for sale of goods or services rendered in the normal course of business. It includes Bills Receivable and Sundry Debtors.

**(d) Cash and Cash Equivalents** It includes cash in hand and balance with bank.

**(e) Short-term Loans and Advances** Short-term Loans and Advances are loans and advances given by the company that are receivable or adjustable within 12 months from the date of Balance Sheet or within the period of Operating Cycle.

**(f) Other Current Assets** All other current assets that are not shown or classified under the above heads are shown as Other Current Assets.

**STATEMENT OF PROFIT AND LOSS**

<b>8. Revenue from Operations</b>	It is the revenue earned by the company from its operating activities, <i>i.e.</i> , business activities carried on by the company to earn profit.
<b>9. Other Income</b>	It is the revenue earned by the company from the sources other than its operating activities.
<b>10. Cost of Materials Consumed</b>	It is the aggregate of cost of raw materials and other materials used in manufacture of goods.
<b>11. Purchase of Stock-in-Trade</b>	It means purchases of goods for resale, <i>i.e.</i> , goods purchased on which no further process is carried before sale.
<b>12. Changes in Inventories of Finished Goods, WIP and Stock-in-Trade</b>	It is the sum of difference between the opening inventories and closing inventories of Finished Goods, WIP and Stock-in-Trade. It is shown separately in the Notes to Accounts as single amount on the face of the Statement of Profit and Loss.
<b>13. Employees Benefit Expenses</b>	These are the expenses incurred for the benefit of employees. Examples are: wages, salaries, bonus, staff welfare and medical reimbursement, etc.
<b>14. Finance Costs</b>	These are the expenses of the company incurred to borrow, <i>i.e.</i> , loans taken by it and cost incurred to service the borrowings.
<b>15. Depreciation and Amortisation Expenses</b>	Depreciation is allocation of cost of fixed asset over its useful life. In other words, it is the fall in the value of fixed assets due to its usage or efflux of time or obsolescence. Amortisation is the term associated with writing off intangible assets.
<b>16. Other Expenses</b>	Expenses that do not fall in the above classifications are shown as Other Expenses.

Expenses shown under Employees Benefit Expenses and Other Expenses may be further shown as Direct and Indirect Expenses. Other Expenses may be shown under different heads, say Administrative Expenses, Selling and Distribution Expenses and General Expenses, etc.

**CHAPTER SUMMARY**

- The annual accounts of a company consist of Balance Sheet as at the end of the financial year, Statement of Profit and Loss for the financial year, Notes to Accounts giving details of items in the Balance Sheet and Statement of Profit and Loss and Cash Flow Statement. These are collectively known as **Financial Statements**.
- The form and content of Balance Sheet and Statement of Profit and Loss are prescribed in Part I and Part II of Schedule III of the Companies Act, 2013 respectively.
- A single amount is shown against each line item of the Balance Sheet and Statement of Profit and Loss while the details are given in the Notes to Accounts of the line item.
- **Balance Sheet** is a statement which shows the financial position of the company as at the end of the financial year.
- **Statement of Profit and Loss** is a statement which shows the profit earned or loss incurred during the financial year.
- **Appropriation of Profit:** Profit is appropriated out of 'Surplus, *i.e.*, Balance in Statement of Profit and Loss' under Reserves and Surplus. Profit for the year (as per Statement of Profit and Loss) is added to the opening balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss and thereafter appropriation is made towards other reserves (say Debentures Redemption Reserve) or Dividend declared (approved) by the shareholders. The appropriations made towards other reserves are added to that reserve. Proposed Dividend for the Current Year is not provided (accounted) in the books but is shown in the Notes to Accounts as Contingent Liability.

**NOTE**

The AS-4 Revised, Contingencies and Events Occurring After the Balance Sheet Date prescribes that dividend proposed by the Board of Directors, *i.e.*, Proposed Dividend for the Current Year is not to be provided in the books of account but is to be disclosed (shown) in the Notes to Accounts. Proposed dividend of the current year is shown in the Notes to Accounts and proposed dividend of the previous year, if declared (approved) by the shareholders in the AGM, is shown as appropriation from Surplus, *i.e.*, Balance in Statement of Profit and Loss.

- **Provision** means amount written off or retained by way of depreciation or for known liabilities, amount of which cannot be determined with accuracy.
- **Reserve** means amount set aside out of profit and other surpluses for specific or general purposes.

**IMPORTANT NOTE**

According to **CBSE** Circular No. Acad-43/2013 dated 2nd July, 2013 on Schedule VI of the Companies Act, 1956 (Now Schedule III of the Companies Act, 2013) accounting treatment of certain items is not to be evaluated in the examination. The circular clarifies that although accounting treatment of certain items will not be evaluated but, their presentation in the Balance Sheet as per Schedule VI of the Companies Act, 1956 (now Schedule III of the Companies Act, 2013) can be examined.

According to the circular **accounting treatment** of following will **not be evaluated**:

- (i) *Reserves and Surplus*: (Revaluation Reserve, Share Options Outstanding and Other Reserves are **not to be evaluated**. However, **General Reserve can be evaluated**);
- (ii) Money Received against Share Warrants;
- (iii) Share Application Money Pending Allotment;
- (iv) Deferred Tax Liabilities (Net);
- (v) Other Long-term Liabilities;
- (vi) *Intangible Assets*: (Masthead and Publishing Titles, Copyrights and Patents and Other Intellectual Property Rights, Services and Operating Rights and Licences and Franchise are not to be evaluated);
- (vii) Capital Work-in-Progress;
- (viii) Intangible Assets Under Development;
- (ix) Deferred Tax Assets (Net);
- (x) Other Non-current Assets;
- (xi) *Cash and Cash Equivalents*: (Earmarked Balance with Banks, Balances with Banks held as Margin Money or Security against borrowings, guarantees, other commitments and Bank Deposits with more than 12 months maturity are **not to be evaluated**); and
- (xii) Treatment of Unamortised Expenses.

**Also note: Accounting Treatment of Other Current Assets is restricted to Prepaid Expenses, Accrued Incomes and Advance Tax only.**

The expression 'Not to be evaluated' used in the circular, means that a student will not be examined for the above items in the examination in the topics of Comparative Statements, Common-size Statements, Accounting Ratios and Cash Flow Statement. In simple words, questions on Comparative Statements, Common-size Statements, Accounting Ratios and Cash Flow Statement will not have entries or items from above heads.

***Thus, these items have not been included in the illustrations and questions in this chapter.***

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## Analysis of Financial Statements—CBSE XII

## Format of the Balance Sheet

The format of Balance Sheet as prescribed in Part I of Schedule III of the Companies Act, 2013, is as follows:

Name of the Company...			
BALANCE SHEET <i>as at...</i>			
(₹ in ...)			
Particulars	Note No.	Figures as at the end of the Current Reporting Period	Figures as at the end of the Previous Reporting Period
(1)	(2)	(3)	(4)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		...	...
(b) Reserves and Surplus		...	...
(c) Money Received against Share Warrants		...	...
<b>2. Share Application Money Pending Allotment</b>		...	...
<b>3. Non-Current Liabilities</b>			
(a) Long-term Borrowings		...	...
(b) Deferred Tax Liabilities (Net)		...	...
(c) Other Long-term Liabilities		...	...
(d) Long-term Provisions		...	...
<b>4. Current Liabilities</b>			
(a) Short-term Borrowings		...	...
(b) Trade Payables		...	...
(c) Other Current Liabilities		...	...
(d) Short-term Provisions		...	...
<b>Total</b>		...	...
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) <i>Fixed Assets:</i>			
(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		...	...
<b>2. Current Assets</b>			
(a) Current Investments		...	...
(b) Inventories		...	...
(c) Trade Receivables		...	...
(d) Cash and Cash Equivalents		...	...
(e) Short-term Loans and Advances		...	...
(f) Other Current Assets		...	...
<b>Total</b>		...	...

**Format of Statement of Profit and Loss**

Format of the Statement of Profit and Loss is prescribed in Part II of Schedule III of the Companies Act, 2013, as follows:

STATEMENT OF PROFIT AND LOSS  
for the year ended ...

Particulars	Note No.	Figures for the Current Reporting Period	Figures for the Previous Reporting Period
I. Revenue from Operations		...	...
II. Other Income		...	...
III. <b>Total Revenue (I + II)</b>		...	...
IV. <b>Expenses</b>			
Cost of Materials Consumed		...	...
Purchases of Stock-in-Trade		...	...
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade		...	...
Employees Benefit Expenses		...	...
Finance Costs		...	...
Depreciation and Amortisation Expenses		...	...
Other Expenses		...	...
<b>Total Expenses</b>		...	...
V. <b>Profit before Tax (III – IV)</b>		...	...
VI. <i>Less: Tax</i>		...	...
VII. <b>Profit or Loss for the Period (V – VI)</b>		...	...

The column for Note No. is prescribed for the purpose of cross reference to the Note No. in the Notes to Accounts where detail of the line item is given.

**IMPORTANT NOTE**

*CBSE has prescribed that Exceptional Items, Extraordinary Items and Discontinued Operations are excluded. Therefore, these items have not been shown in the format.*

**Definition of Authorised Capital** [Section 2(8) of the Companies Act, 2013] **“Authorised Capital”** or **“Nominal Capital”** means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.

**Definition of Issued Capital** [Section 2(50) of the Companies Act, 2013] **“Issued Capital”** means such capital as the company issues from time to time for subscription.

**Definition of Subscribed Capital** [Section 2(86) of the Companies Act, 2013] **“Subscribed Capital”** means such part of the capital which is for the time being subscribed by the members of a company.

**Definition of Called-up Capital** [Section 2(15) of the Companies Act, 2013] **“Called-up Capital”** means such part of the capital, which has been called for payment.

**Definition of Paid-up Share Capital or Share Capital Paid-up** [Section 2(64) of the Companies Act, 2013] **“Paid-up Share Capital”** or **“Share Capital Paid-up”** means such aggregate of money credited as paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of a company, but does not include any other amount received in respect of such shares, by whatever name called.

**Capital Reserve**

A reserve created out of the capital profit is known as **Capital Reserve**. It is created out of the profit earned from transactions of capital nature and is not available for the distribution to the shareholders as dividend. The examples of capital profit from which capital reserve is created are:

- Gain (Profit) on sale of fixed assets;
- Gain (Profit) on reissue of forfeited shares; and
- Gain (Profit) on purchase of an existing business.
- Gain (Profit) on sale of investment;

**Capital Redemption Reserve**

Capital Redemption Reserve is a reserve created when a company buys its own shares out of free reserves or Securities Premium Reserve. Section 69(1) of the Companies Act, 2013, requires that a sum equal to nominal value of shares so purchased shall be transferred to Capital Redemption Reserve. The reserve may be used by the company to issue fully-paid bonus shares.

Section 55 of the Companies Act, 2013, requires that where preference shares are redeemed out of profits which would be otherwise available for declaration of dividend a sum equal to Nominal (face) Value of the shares redeemed must be transferred to 'Capital Redemption Reserve'.

**Securities Premium Reserve**

Securities Premium Reserve is a reserve to which amount received in excess of the nominal (face) value of securities (shares, debentures, etc.) is credited. It can be used by a company for the purposes stated in Section 52(2) of the Companies Act, 2013.

**Debentures Redemption Reserve (DRR)**

Debentures Redemption Reserve is a reserve credited by the amount prescribed under Section 71(4) of the Companies Act, 2013 and Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 by a company before redemption of debentures commences. In respect of partly convertible debentures, DRR is created only for non-convertible portion of debentures.

DRR is not required for debentures issued by Banking Companies and All India Financial Institutions (AIFIs) regulated by Reserve Bank of India.

**Revaluation Reserve**

Revaluation Reserve is a reserve which is credited by the upward revision of the book value of an asset. It is debited when the value of that asset is revised downward or the asset is sold or discarded. The amount standing to the credit of Revaluation Reserve Account cannot be used for payment of dividend or issuing bonus shares.

**Shares Options Outstanding Account**

Shares Options Outstanding Account is a reserve to which difference between the market value and issue price of shares issued to employees is credited over the vesting period. For example, the market price of the share is ₹ 75 and is to be issued to employees at ₹ 50. The difference, ₹ 25 (*i.e.*, ₹ 75 – ₹ 50) should be credited to this reserve.



## Disclosure of Important Items in the Company's Balance Sheet as per Schedule III

S.No.	Items	Main Head	Sub-head
1.	Debentures	Non-current Liabilities	Long-term Borrowings
2.	Public Deposits	Non-current Liabilities	Long-term Borrowings
3.	Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus
4.	Capital Reserve	Shareholders' Funds	Reserves and Surplus
5.	Forfeited Shares Account	Shareholders' Funds	Subscribed Capital (Shown by way of addition)
6.	Interest Accrued and due on Debentures	Current Liabilities	Other Current Liabilities
7.	Interest Accrued but not due on Debentures	Current Liabilities	Other Current Liabilities
8.	Bills Payable	Current Liabilities	Trade Payables
9.	Advances Received from Customers	Current Liabilities	Other Current Liabilities
10.	Sundry Creditors	Current Liabilities	Trade Payables
11.	Unclaimed Dividend	Current Liabilities	Other Current Liabilities
12.	Calls-in-Arrears	Shareholders' Funds	Subscribed Capital (shown by way of deduction from subscribed but not fully paid-up)
13.	Calls-in-Advance and Interest thereon	Current Liabilities	Other Current Liabilities
14.	Interest Accrued but not due on Unsecured Loans	Current Liabilities	Other Current Liabilities
15.	Debentures Redemption Reserve	Shareholders' Funds	Reserves and Surplus
16.	Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
17.	Advances from Customers (Long-term)	Non-current Liabilities	Other Long-term Liabilities
18.	Trade Payables	Current Liabilities	Trade Payables
19.	Provision for Tax	Current Liabilities	Short-term Provisions
20.	Surplus, i.e., Balance in Statement of Profit and Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	Surplus, i.e., Balance in Statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus
22.	Mortgage Loan	Non-current Liabilities	Long-term Borrowings
23.	Patents	Non-current Assets	Fixed Assets—Intangible Assets
24.	Investments	Non-current Assets	Non-current Investments
25.	General Reserve	Shareholders' Funds	Reserves and Surplus
26.	Bills Receivable	Current Assets	Trade Receivables
27.	Debentures Repayable after 3 yrs.	Non-current Liabilities	Long-term Borrowings
28.	Loose Tools	Current Assets	Inventories
29.	Current Maturities of Long-term Debts	Current Liabilities	Other Current Liabilities

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30.	Premium on Redemption of Debentures	Non-current Liabilities	Other Long-term Liabilities
31.	Balances with Banks	Current Assets	Cash and Cash Equivalents
32.	Tax Reserve	Shareholders' Funds	Reserves and Surplus
33.	Stores and Spares	Current Assets	Inventories
34.	Mining Rights	Non-current Assets	Fixed Assets—Intangible Assets
35.	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
36.	Subsidy Reserve	Shareholders' Funds	Reserves and Surplus
37.	Copyrights	Non-current Assets	Fixed Assets—Intangible Assets
38.	Accrued Incomes	Current Assets	Other Current Assets
39.	Provision for Employees Benefits	Non-Current Liabilities	Long-term Provisions
40.	Unpaid/unclaimed Dividend	Current Liabilities	Other Current Liabilities
41.	Short-term Loans	Current Liabilities	Short-term Borrowings
42.	Long-term Loans	Non-Current Liabilities	Long-term Borrowings
43.	Share Options Outstanding Account	Shareholders' Funds	Reserves and Surplus
44.	Computers	Non-current Assets	Fixed Assets—Tangible Assets
45.	Goodwill	Non-current Assets	Fixed Assets—Intangible Assets
46.	Sundry Debtors	Current Assets	Trade Receivables
47.	Long-term Investments	Non-current Assets	Non-current Investments
48.	Prepaid Insurance	Current Assets	Other Current Assets
49.	Building	Non-current Assets	Fixed Assets—Tangible Assets
50.	General Reserve	Shareholders' Funds	Reserves and Surplus
51.	Bonds	Non-current Liabilities	Long-term Borrowings
52.	Loans repayable on demand	Current Liabilities	Short-term Borrowings
53.	Income received in advance	Current Liabilities	Other Current Liabilities
54.	Office Equipments	Non-current Assets	Fixed Assets—Tangible Assets
55.	Trademarks	Non-current Assets	Fixed Assets—Intangible Assets
56.	Advance Tax	Current Assets	Other Current Assets
57.	Bank Overdraft	Current Liabilities	Short-term Borrowings
58.	Cheques/Drafts in Hand	Current Assets	Cash and Cash Equivalents
59.	Stock-in-Trade	Current Assets	Inventories
60.	Long-term Provisions	Non-current Liabilities	Long-term Provisions
61.	Stock of Finished Goods	Current Assets	Inventories
62.	Computer software	Non-current Assets	Fixed Assets—Intangible Assets
63.	Work-in-Progress (Building)	Non-current Assets	Fixed Assets—Capital Work-in-Progress
64.	Intellectual Property Rights under Development	Non-current Assets	Fixed Assets—Intangible Assets under Development
65.	Proposed Dividend	...	As Contingent Liability in Notes to Accounts
66.	Provision for Expenses	Current Liabilities	Short-term Provisions
67.	Capital Advances	Non-current Assets	Long-term Loans and Advances
68.	Designs	Non-current Assets	Fixed Assets—Intangible Assets
69.	Shares in Companies	Non-current Assets	Non-current Investments

## Disclosure of Important Items in Company's Statement of Profit and Loss as per Schedule III

S.No.	Item	Major Head	Sub-head
1.	Sale of Products	Revenue	Revenue from Operations
2.	Sale of Services	Revenue	Revenue from Operations
3.	Trading Commission	Revenue	Revenue from Operations
4.	Interest Income	Revenue	Other Income
5.	Interest Income of a Finance Company	Revenue	Revenue from Operations
6.	Dividend Income of a Finance Company	Revenue	Revenue from Operations
7.	Dividends from Companies	Revenue	Other Income
8.	Rental Income	Revenue	Other Income
9.	Selling and Marketing Expenses	Expenses	Other Expenses
10.	Opening Inventories of Finished Goods, Work-in-progress and Stock-in-trade	Expenses	Changes in Inventories of Finished Goods, Work-in-progress and Stock-in-trade
11.	Discount/Loss on Issue of Debentures written off	Expenses	Finance Costs
12.	Salary	Expenses	Employees Benefit Expenses
13.	Excess Provision written back	Revenue	Other Income
14.	Rent of Factory	Expenses	Other Expenses
15.	Audit Fee	Expenses	Other Expenses
16.	Purchase of Material	Expenses	Cost of Materials Consumed
17.	Rent of Office Building	Expenses	Other Expenses
18.	Carriage Outwards	Expenses	Other Expenses
19.	Wages	Expenses	Employees Benefit Expenses
20.	Leave Encashment	Expenses	Employees Benefit Expenses
21.	Gain (Profit) on Sale of Building	Revenue	Other Income
22.	Goodwill Amortised	Expenses	Depreciation and Amortisation Expenses
23.	Carriage Inwards	Expenses	Other Expenses
24.	Miscellaneous Expenses	Expenses	Other Expenses
25.	Cash Discount Received	Revenue	Other Income
26.	Interest on Loans	Expenses	Finance Costs
27.	Bonus to Employees	Expenses	Employees Benefit Expenses
28.	Interest on Fixed Deposits	Revenue	Other Income
29.	Gratuity Paid	Expenses	Employees Benefit Expenses
30.	Depreciation on Computers/Furniture	Expenses	Depreciation and Amortisation Expenses
31.	Electricity Expenses	Expenses	Other Expenses
32.	Bank Charges	Expenses	Other Expenses
33.	Repair to Machinery	Expenses	Other Expenses

## Solved Questions

### Illustration 1.

Under what heads and sub-heads the following items will appear in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013:

- (i) Mining Rights;
- (ii) Encashment of Employees Earned Leave Payable on Retirement;
- (iii) Vehicles. (AI 2013, Modified)

### Solution:

S. No.	Items	Main Head	Sub-head
(i)	Mining Rights	Non-current Assets	Fixed Assets—Intangible Assets
(ii)	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
(iii)	Vehicles	Non-current Assets	Fixed Assets—Tangible Assets

### Illustration 2.

From the following Trial Balance of West Coast Ltd. for the year ended 31st March, 2018, prepare Statement of Profit and Loss as per Part II of Schedule III of the Companies Act, 2013:

Particulars	Debit Balance (₹)	Credit Balance (₹)
Share Capital	...	10,00,000
Securities Premium Reserve	...	2,50,000
9% Debentures	...	5,00,000
Bank Overdraft	...	2,00,000
Dividend Payable	...	1,00,000
Provision for Tax	...	1,50,000
Fixed Assets	17,50,000	...
Investments	4,50,000	...
Sales	...	42,50,000
Sale of Scrap	...	50,000
Dividend on Investments	...	7,500
Opening Inventory of Materials	1,50,000	...
Purchase of Materials	21,00,000	...
Opening Inventory of WIP	75,000	...
Opening Inventory of Finished Goods	1,25,000	...
Wages	6,00,000	...
Salaries	7,20,000	...
Staff Welfare	60,000	...
Interest on Debentures	50,000	...
Interest on Bank Overdraft	20,000	...
Depreciation	1,50,000	...
Carriage Inwards	21,000	...
Audit Fee	42,500	...
Advertisement Expenses	75,000	...
Telephone and Internet Expenses	24,000	...
Courier Expenses	12,000	...
Power and Electricity Expenses	30,000	...
Bank Charges	3,000	...
Administrative Expenses	30,000	...
Marketing and Selling Expenses	20,000	...
<b>Total</b>	<b>65,07,500</b>	<b>65,07,500</b>

*Additional Information:*

**Closing Inventory:** Materials ₹ 1,25,000; Work-in-Progress ₹ 65,000; Finished Goods ₹ 1,40,000. Provide for Tax @ 35%.

**Solution:**

**West Coast Ltd.**

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2018

Particulars	Note No.	Year Ended 31st March, 2018 (₹)
I. Revenue from Operations	1	43,00,000
II. Other Income	2	7,500
<b>III. Total Revenue (I + II)</b>		<b>43,07,500</b>
<b>IV. Expenses</b>		
Cost of Materials Consumed	3	21,25,000
Changes in Inventories of Finished Goods and Work-in-Progress	4	(5,000)
Employees Benefit Expenses	5	13,80,000
Finance Costs	6	70,000
Depreciation and Amortisation Expenses		1,50,000
Other Expenses	7	2,57,500
<b>Total Expenses</b>		<b>39,77,500</b>
<b>V. Profit before Tax (III – IV)</b>		<b>3,30,000</b>
<b>VI. Less: Tax @ 35%</b>		<b>1,15,500</b>
<b>VII. Profit after Tax (V – VI)</b>		<b>2,14,500</b>

**Notes to Accounts**

Note No.	Particulars	Year Ended 31st March, 2018 (₹)
<b>1.</b>	<b>Revenue from Operations</b>	
	Sales	42,50,000
	Sale of Scrap	50,000
		<b>43,00,000</b>
<b>2.</b>	<b>Other Income</b>	
	Dividend on Investments	<b>7,500</b>
<b>3.</b>	<b>Cost of Materials Consumed</b>	
	Opening Inventory of Materials	1,50,000
	Add: Purchases of Materials	21,00,000
		22,50,000
	Less: Closing Inventory of Materials	1,25,000
		<b>21,25,000</b>
<b>4.</b>	<b>Changes in Inventories of Finished Goods and Work-in-Progress</b>	
	<b>(a) Finished Goods</b>	
	Opening Inventory	1,25,000
	Less: Closing Inventory	1,40,000
		(15,000)
	<b>(b) Work-in-Progress</b>	
	Opening Inventory	75,000
	Less: Closing Inventory	65,000
		10,000
	<b>Total (a + b)</b>	<b>(5,000)</b>

<b>5. Employees Benefit Expenses</b>	
Wages	6,00,000
Salaries	7,20,000
Staff Welfare	60,000
	<b>13,80,000</b>
<b>6. Finance Costs</b>	
Interest on Debentures	50,000
Interest on Bank Overdraft	20,000
	<b>70,000</b>
<b>7. Other Expenses</b>	
Carriage Inwards	21,000
Audit Fee	42,500
Advertisement Expenses	75,000
Telephone and Internet Expenses	24,000
Courier Expenses	12,000
Power and Electricity Expenses	30,000
Bank Charges	3,000
Administrative Expenses	30,000
Marketing and Selling Expenses	20,000
	<b>2,57,500</b>

### Unsolved Questions

1. Give the heads under which the following items will be shown in a company's Balance Sheet: (i) Debentures; (ii) Interest Accrued on Investments; (iii) Goodwill; and (iv) Bills of Exchange.

[Ans.: Head: Sub-head, if any: (i) Non-current Liabilities: Long-term Borrowings; (ii) Current Assets: Other Current Assets; (iii) Non-current Assets: Fixed Assets—Intangible Assets; (iv) Current Assets: Trade Receivables.]

2. Calculate Cost of Materials Consumed from the following:

Opening Inventory of: Materials ₹ 4,50,000; Finished Goods ₹ 75,000; Stock-in-Trade ₹ 2,00,000; Closing Inventory of: Materials ₹ 4,00,000; Finished Goods ₹ 65,000; Stock-in-Trade ₹ 1,75,000; Opening WIP ₹ 10,000; Closing WIP ₹ 15,000; Purchases during the year: Raw Material ₹ 20,00,000; Stock-in-Trade ₹ 9,00,000.

[Ans.: ₹ 20,50,000.]

3. Under which line item of the financial statements following items will be shown:

(i) Sale of Scrap; (ii) Gain (Profit) on Sale of Vehicle; (iii) Deposits; (iv) Loss on Issue of Debentures Written off; (v) Gratuity Payable at the Time of Retirement; (vi) Workmen Compensation Reserve; (vii) Carriage paid on Sales; and (viii) Selling and Distribution Expenses?

[Ans.: Revenue from Operations: (i); Other Income: (ii); Long-term Borrowings: (iii); Other Expenses: (iv); Long-term Provisions: (v); Reserves and Surplus: (vi); Other Expenses: (vii) and (viii).]

4. Under which head following revenue items of financial company will be classified or shown:

(i) Gain (Profit) on Sale of Fixed Asset; (ii) Fee Received for Arranging Loans; (iii) Interest on Loans Given; (iv) Gain (Profit) on Sale of Investments; and (v) Sale of Miscellaneous Items?

[Ans.: Revenue from Operations: (ii) Fee Received for Arranging Loans; (iii) Interest on Loans Given; (iv) Gain (Profit) on Sale of Investments; Other Income: (i) Gain (Profit) on Sale of Fixed Asset; (v) Sale of Miscellaneous Items.]

5. From the following information of Manchur Ltd. for the year ended 31st March, 2019, calculate amount that will be shown in the Note to Accounts on Changes in Inventories of Finished Goods, WIP and Stock-in-Trade:

Particulars	Opening Inventory (₹)	Closing Inventory (₹)
Finished Goods	15,00,000	12,50,000
Work-in-Progress	10,50,000	9,25,000
Stock-in-Trade	9,50,000	8,00,000

[Ans.: Change in Inventories of: Finished Goods—₹ 2,50,000; Work-in-Progress—₹ 1,25,000; Stock-in-Trade—₹ 1,50,000; Net Change—₹ 5,25,000.]

# Financial Statement Analysis

## MEANING OF FINANCIAL STATEMENT ANALYSIS

*Analysis of Financial Statements is a systematic process of analysing the financial information in the financial statements to understand and make decisions regarding the operations of the enterprise.*

## TOOLS OR TECHNIQUES OF FINANCIAL STATEMENT ANALYSIS

### Comparative Statements

Comparative Statements or Comparative Financial Statements mean a comparative study of individual items or components of financial statements, *i.e.*, Balance Sheet and Statement of Profit and Loss of two or more years of the enterprise itself.

### Common-size Statements

Common-size Statements or Common-size Financial Statements mean statements in which individual items of financial statements of two or more years are placed side by side and thereafter converted into percentage taking a common base. Common base normally taken is *Total Assets or Total of Equity and Liabilities*, in the case of Common-size Balance Sheet and *Revenue from Operations*, in the case of Common-size Statement of Profit and Loss.

### Ratio Analysis

Ratio is an arithmetical expression of relationship between two related or interdependent components of financial statements of an accounting period.

### Cash Flow Statement

Cash Flow Statement is a statement showing flow of Cash and Cash Equivalents during the accounting period, classified under Operating Activities, Investing Activities and Financing Activities.

## TYPES OF FINANCIAL STATEMENT ANALYSIS

### External Analysis

### Internal Analysis

*External analysis is carried out by outsiders such as creditors, bankers, debentureholders and government agencies. Internal analysis is meant for management.*



**Horizontal (or Dynamic) Analysis****Vertical (or Static) Analysis**

*Dynamic or Horizontal Analysis is a time series analysis. Static or Vertical Analysis is carried out at one particular point of time, generally when the accounts are closed.*

**Intra-firm Comparison and Inter-firm Comparison**

*Intra-firm Comparison:* A comparison of financial variables of an enterprise over a period of time is known as **Intra-firm Comparison**. It is also called **Time Series Analysis** or **Trend Analysis**. It analyses the performance of a business over a number of years and shows trend of financial factors.

*Inter-firm Comparison:* A comparison of two or more enterprises or firms is known as **Inter-firm Comparison**. It analyses and compares financial variables of two or more enterprises or firms to determine their competitive position. When single set of statements of two firms is compared, it is known as **Cross-sectional Analysis**.

**PROCESS OF FINANCIAL STATEMENT ANALYSIS****Rearrangement of Financial Statements****Comparison****Analysis****Interpretation****PURPOSES (OBJECTIVES) AND SIGNIFICANCE OF FINANCIAL ANALYSIS****Assessing the Earning Capacity or Profitability****Assessing the Managerial Efficiency****Assessing the Short-term and Long-term Solvency of the Enterprise****Inter-firm Comparison****Forecasting and Preparing Budgets****Explainable and Understandable****USES OF FINANCIAL ANALYSIS****Security Analysis****Credit Analysis****Debt Analysis****Dividend Decision****General Business Analysis**

**PARTIES INTERESTED IN FINANCIAL ANALYSIS**

Management

Employees and Trade Unions

Shareholders or Owners or Investors

Potential Investors

Suppliers or Creditors

Bankers and Lenders

Researchers

Tax Authorities

Customers

**LIMITATIONS OF FINANCIAL STATEMENT ANALYSIS**

Historical Analysis

Ignores Price Level Changes

Qualitative Aspect Ignored

Suffers from the Limitations of Financial Statements

Not Free from Personal Bias

Variation in Accounting Practices

Window Dressing

Identifies Symptoms

**CHAPTER SUMMARY**

- **Analysis of Financial Statements** is a systematic process of identifying the financial strengths and weaknesses of a firm by properly establishing relationships between the items of the Balance Sheet and Statement of Profit and Loss.
- **Tools or Techniques of Financial Statement Analysis**
  1. Comparative Statements
  2. Common-size Statements
  3. Ratio Analysis
  4. Cash Flow Statement
- **Types of Financial Statement Analysis**
  1. External Analysis
  2. Internal Analysis
  3. Horizontal or Dynamic Analysis
  4. Vertical or Static Analysis

## 2.4

## Analysis of Financial Statements—CBSE XII

- **Purposes or Objectives of Financial Analysis**

1. To assess an enterprise's operating efficiency and profitability.
2. To assess financial stability of an enterprise.
3. To assess an enterprise's short-term and long-term solvency.
4. To compare intra-firm position, inter-firm position and pattern position within the industry.
5. To assess the future prospects of an enterprise.

- **Uses of Financial Analysis**

1. Security Analysis
2. Credit Analysis
3. Debt Analysis
4. Dividend Decision
5. General Business Analysis

- **Parties Interested in Financial Statements Analysis**

1. Management
2. Employees and Trade Unions
3. Shareholders or Owners or Investors
4. Potential Investors
5. Suppliers or Creditors
6. Bankers and Lenders
7. Researchers
8. Tax Authorities
9. Customers

- **Limitations of Analysis of Financial Statements**

1. Historical Analysis.
2. Ignores the price-level changes.
3. Qualitative Aspect is ignored.
4. Limitations of Financial Statements are also the limitations of Financial Statement Analysis.
5. Not free from bias.
6. Financial analysis identifies the symptoms but does not arrive at the diagnosis.
7. Variation in Accounting Practices.
8. Window Dressing.

# Tools of Financial Statement Analysis —Comparative Statements and Common-Size Statements

## MEANING OF KEY TERMS USED IN THE CHAPTER

- 1. Financial Statements** These are the final accounts prepared at the end of the accounting period and include Balance Sheet and Statement of Profit and Loss along with Notes to Accounts.
- 2. Comparative Statement** It is the statement prepared to compare individual items or components of the financial statements of two or more years of a company. The amount of each component of financial statements is placed side by side and difference is ascertained, which is shown as a percentage of the base year.
- 3. Comparative Balance Sheet** It is the statement prepared to compare individual items or components of Balance Sheet of two or more years of a company.
- 4. Comparative Statement of Profit and Loss (Income Statement)** It is the statement prepared to compare individual items or components of Statement of Profit and Loss (Income Statement) of two or more years of a company.
- 5. Common-size Statement** It is the statement prepared to compare components of financial statements (Balance Sheet and Statement of Profit and Loss) of two years by converting them into percentages taking a common base.
- 6. Common-size Statement of Profit and Loss (Income Statement)** It is the statement prepared to compare components of Statement of Profit and Loss of two years by converting them into percentages taking a common base, *i.e.*, Revenue from Operations.
- 7. Common-size Balance Sheet** It is the statement prepared to compare components of Balance Sheet of two years by converting them into percentages taking a common base, *i.e.*, Total Assets or Total of Equity and Liabilities.

## CHAPTER SUMMARY

- **Comparative Financial Statement** is a tool of financial analysis that shows change in each item of the financial statement in both absolute amount and percentage terms, taking the item in preceding accounting period as base.
- **Objectives or Purposes of Comparative Financial Statements**
  1. To know the nature of changes influencing financial position.
  2. To know the weaknesses and soundness about liquidity, profitability and solvency of the enterprise.
  3. To forecast and plan.
  4. To know the movements of key financial statistics.
- **Tools for Comparison of Financial Statements**
  1. Comparative Balance Sheet.
  2. Comparative Statement of Profit and Loss (Income Statement).
  3. Common-size Statement of Profit and Loss.
  4. Common-size Balance Sheet.
- **Comparative Balance Sheet**

*“Comparative Balance Sheet analysis is the study of the trend of same items, group of items and computed items in two or more Balance Sheets of the same business enterprise on different dates.”* —Foulka
- **Comparative Statement of Profit and Loss (Income Statement)**

Comparative Statement of Profit and Loss shows the operating results for a number of accounting periods so that changes in data in terms of money and percentage from one period to another may be known.
- **Common-size Statement of Profit and Loss (Income Statement)**

Common-size Statement of Profit and Loss is a statement in which amounts of individual items of Statement of Profit and Loss for two or more years are written. These amounts are further converted into percentage of common base which is Revenue from Operations.
- **Common-size Balance Sheet**

Common-size Balance Sheet is a statement in which amounts of individual items of Balance Sheet for two or more years are written. These amounts are further converted into percentage of a common base, which is Total Assets or Total of Equity and Liabilities of the Balance Sheet.

## FORMAT OF COMPARATIVE BALANCE SHEET

COMPARATIVE BALANCE SHEET  
as at ...

Particulars	Note No.	Previous Year	Current Year	Absolute Change	Percentage Change
		₹	₹	(Increase/Decrease) ₹	(Increase/Decrease) %
		(A)	(B)	(C = B - A)	$\left(D = \frac{C}{A} \times 100\right)$
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) <i>Share Capital:</i>					
(i) Equity Share Capital		...	...	...	...
(ii) Preference Share Capital		...	...	...	...
(b) Reserves and Surplus		...	...	...	...
<b>2. Non-Current Liabilities</b>					
(a) Long-term Borrowings		...	...	...	...
(b) Long-term Provisions		...	...	...	...
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		...	...	...	...
(b) Trade Payables		...	...	...	...
(c) Other Current Liabilities		...	...	...	...
(d) Short-term Provisions		...	...	...	...
<b>Total</b>		...	...	...	...
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) <i>Fixed Assets:</i>					
(i) Tangible Assets		...	...	...	...
(ii) Intangible Assets		...	...	...	...
(b) Non-current Investments		...	...	...	...
(c) Long-term Loans and Advances		...	...	...	...
<b>2. Current Assets</b>					
(a) Current Investments		...	...	...	...
(b) Inventories		...	...	...	...
(c) Trade Receivables		...	...	...	...
(d) Cash and Cash Equivalents		...	...	...	...
(e) Short-term Loans and Advances		...	...	...	...
(f) Other Current Assets		...	...	...	...
<b>Total</b>		...	...	...	...

**Note:** If current year's figure has decreased, show the absolute change and percentage change in brackets so as to reflect negative item.

**FORMAT OF COMPARATIVE STATEMENT OF PROFIT AND LOSS**

## COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended...

Particulars	Note No.	Previous Year	Current Year	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		₹	₹	(C = B - A)	$(D = \frac{C}{A} \times 100)$
		(A)	(B)	(C = B - A)	$(D = \frac{C}{A} \times 100)$
I. Revenue from Operations		...	...	...	...
II. Other Income		...	...	...	...
III. <b>Total Revenue (I + II)</b>		...	...	...	...
IV. <b>Expenses</b>					
(a) Cost of Materials Consumed		...	...	...	...
(b) Purchases of Stock-in-Trade		...	...	...	...
(c) Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade		...	...	...	...
(d) Employees Benefit Expenses		...	...	...	...
(e) Finance Costs		...	...	...	...
(f) Depreciation and Amortisation Expenses		...	...	...	...
(g) Other Expenses		...	...	...	...
<b>Total Expenses</b>		...	...	...	...
V. <b>Profit before Tax (III - IV)</b>		...	...	...	...
Less: Income Tax		...	...	...	...
VI. <b>Profit after Tax</b>		...	...	...	...

**Note:** If current year's figure has decreased, show the Absolute change and Percentage change in brackets so as to reflect negative item.

**FORMAT OF COMMON-SIZE STATEMENT OF PROFIT AND LOSS (INCOME STATEMENT)**

## COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended...

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		Previous Year	Current Year	Previous Year	Current Year
		₹	₹	%	%
I. Revenue from Operations (Net Sales)		...	...	100	100
II. Other Income		...	...	...	...
III. <b>Total Revenue (I + II)</b>		...	...	...	...
IV. <b>Expenses</b>					
(a) Cost of Materials Consumed		...	...	...	...
(b) Purchases of Stock-in-Trade		...	...	...	...
(c) Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade		...	...	...	...
(d) Employees Benefit Expenses		...	...	...	...
(e) Finance Costs		...	...	...	...
(f) Depreciation and Amortisation Expenses		...	...	...	...
(g) Other Expenses		...	...	...	...
<b>Total Expenses</b>		...	...	...	...
V. <b>Profit before Tax (III - IV)</b>		...	...	...	...
VI. Less: Income Tax		...	...	...	...
VII. <b>Profit after Tax (V - VI)</b>		...	...	...	...

## FORMAT OF COMMON-SIZE BALANCE SHEET

## COMMON-SIZE BALANCE SHEET

as at...

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		Figures as at the end of Previous Year (₹)	Figures as at the end of Current Year (₹)	Previous Year %	Current Year %
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) <i>Share Capital:</i>					
(i) Equity Share Capital		...	...	...	...
(ii) Preference Share Capital		...	...	...	...
(b) Reserves and Surplus		...	...	...	...
<b>2. Non-Current Liabilities</b>					
(a) Long-term Borrowings		...	...	...	...
(b) Long-term Provisions		...	...	...	...
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		...	...	...	...
(b) Trade Payables		...	...	...	...
(c) Other Current Liabilities		...	...	...	...
(d) Short-term Provisions		...	...	...	...
<b>Total</b>		...	...	<b>100</b>	<b>100</b>
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) <i>Fixed Assets:</i>					
(i) Tangible Assets		...	...	...	...
(ii) Intangible Assets		...	...	...	...
(b) Non-current Investments		...	...	...	...
(c) Long-term Loans and Advances		...	...	...	...
<b>2. Current Assets</b>					
(a) Current Investments		...	...	...	...
(b) Inventories		...	...	...	...
(c) Trade Receivables		...	...	...	...
(d) Cash and Cash Equivalents		...	...	...	...
(e) Short-term Loans and Advances		...	...	...	...
(f) Other Current Assets		...	...	...	...
<b>Total</b>		...	...	<b>100</b>	<b>100</b>

**Note:** It does not include line items of Balance Sheet, accounting treatment of which are not to be evaluated.



## Solved Questions

### Illustration 1.

From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss of Exe Ltd.:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>		
Revenue from Operations	33,00,000	30,00,000
Other Income	60,000	60,000
<b>Total</b>	<b>33,60,000</b>	<b>30,60,000</b>
<b>II. Expenses</b>		
Purchases of Stock-in-Trade	24,00,000	23,00,000
Change in Inventories of Stock-in-Trade	1,20,000	1,00,000
Employees Benefit Expenses	90,000	70,000
Finance Costs	60,000	60,000
Other Expenses	90,000	80,000
<b>Total Expenses</b>	<b>27,60,000</b>	<b>26,10,000</b>
<b>Profit (I – II)</b>	<b>6,00,000</b>	<b>4,50,000</b>
Tax is payable @ 30%		

### Solution:

**Exe Ltd.**  
COMPARATIVE STATEMENT OF PROFIT AND LOSS  
for the years ended 31st March, 2018 and 2019

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. Revenue from Operations		30,00,000	33,00,000	3,00,000	10.00
II. Other Income		60,000	60,000	...	...
III. <b>Total Revenue (I + II)</b>		<b>30,60,000</b>	<b>33,60,000</b>	<b>3,00,000</b>	<b>9.80</b>
IV. <b>Expenses</b>					
(a) Purchases of Stock-in-Trade		23,00,000	24,00,000	1,00,000	4.35
(b) Change in Inventories of Stock-in-Trade		1,00,000	1,20,000	20,000	20.00
(c) Employees Benefit Expenses		70,000	90,000	20,000	28.57
(d) Finance Costs		60,000	60,000	...	...
(e) Other Expenses		80,000	90,000	10,000	12.50
<b>Total Expenses</b>		<b>26,10,000</b>	<b>27,60,000</b>	<b>1,50,000</b>	<b>5.75</b>
V. <b>Profit before Tax (III – IV)</b>		<b>4,50,000</b>	<b>6,00,000</b>	<b>1,50,000</b>	<b>33.33</b>
Less: Income Tax		1,35,000	1,80,000	45,000	33.33
VI. <b>Profit after Tax</b>		<b>3,15,000</b>	<b>4,20,000</b>	<b>1,05,000</b>	<b>33.33</b>

### Illustration 2.

From the following Statement of Profit and Loss of Moontrack Ltd., for the years ended 31st March, 2011 and 2012, prepare Comparative Statement of Profit and Loss:

Particulars	Note No.	2011–12 (₹)	2010–11 (₹)
Revenue from Operations		40,00,000	24,00,000
Other Income		24,00,000	18,00,000
Expenses		16,00,000	14,00,000

(Outside Delhi 2013)

**Solution:**

COMPARATIVE STATEMENT OF PROFIT AND LOSS  
for the years ended 31st March, 2011 and 2012

Particulars	Note No.	31st March, 2011 ₹	31st March, 2012 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. Revenue from Operations		24,00,000	40,00,000	16,00,000	66.67
II. Other Income		18,00,000	24,00,000	6,00,000	33.33
III. <b>Total Revenue (I + II)</b>		42,00,000	64,00,000	22,00,000	52.38
IV. <b>Expenses</b>		14,00,000	16,00,000	2,00,000	14.29
V. <b>Profit (III – IV)</b>		28,00,000	48,00,000	20,00,000	71.43

**Illustration 3.** Prepare Common-size Statement of Profit and Loss from the following Statement of Profit and Loss:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations (Net Sales)		10,00,000	10,00,000
Other Income		11,000	10,000
<b>Total</b>		10,11,000	10,10,000
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		7,00,000	6,50,000
Change in Inventories of Stock-in-Trade		48,000	50,000
Employees Benefit Expenses		98,000	80,000
Other Expenses		90,000	1,17,500
<b>Total</b>		9,36,000	8,97,500
<b>III. Profit (I – II)</b>		75,000	1,12,500

Additional Information:

Other Expenses include	₹	₹
Provision for Tax	75,000	1,12,500

**Solution:**

COMMON-SIZE STATEMENT OF PROFIT AND LOSS  
for the years ended 31st March, 2018 and 2019

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2018 (₹)	31st March, 2019 (₹)	31st March, 2018 (%)	31st March, 2019 (%)
I. Revenue from Operations (Net Sales)		10,00,000	10,00,000	100.00	100.00
II. Other Income		10,000	11,000	1.00	1.10
III. <b>Total Revenue (I + II)</b>		10,10,000	10,11,000	101.00	101.10
IV. <b>Expenses</b>					
(a) Purchases of Stock-in-Trade		6,50,000	7,00,000	65.00	70.00
(b) Change in Inventories of Stock-in-Trade		50,000	48,000	5.00	4.80
(c) Employees Benefit Expenses		80,000	98,000	8.00	9.80
(d) Other Expenses		5,000	15,000	0.50	1.50
<b>Total Expenses</b>		7,85,000	8,61,000	78.50	86.10
V. <b>Profit before Tax (III – IV)</b>		2,25,000	1,50,000	22.50	15.00
VI. Less: Tax		1,12,500	75,000	11.25	7.50
VII. <b>Profit after Tax (V – VI)</b>		1,12,500	75,000	11.25	7.50

**Illustration 4.**

Revenue and expense data for the year ended 31st March, 2019 of Star Paper Mills Limited and for the Paper Industry are as follows:

Star Paper Mills Limited data is expressed in rupees, the Paper Industry data is expressed in percentage.

Particulars	Note No.	₹
<b>I. Income</b>		
Revenue from Operations	1	70,00,000
Other Income		35,000
<b>Total</b>		<u>70,35,000</u>
<b>II. Expenses</b>		
Cost of Materials Consumed		48,00,000
Changes in Inventories of Finished Goods and WIP	2	2,40,000
Employees Benefit Expenses		5,74,000
Other Expenses	3	9,24,000
<b>Total</b>		<u>65,38,000</u>
<b>III. Profit (I – II)</b>		<u>4,97,000</u>

**Notes to Accounts**

<b>1. Revenue from Operations</b>	₹
Gross Sales	70,70,000
Less: Returns	70,000
	<u>70,00,000</u>
<b>2. Changes in Inventories of Finished Goods and WIP</b>	
WIP: Opening Inventory	4,50,000
Less: Closing Inventory	4,00,000
	<b>A.</b> 50,000
Finished Goods: Opening Inventory	4,00,000
Less: Closing Inventory	2,10,000
	<b>B.</b> 1,90,000
<b>Total (A + B)</b>	<u>2,40,000</u>
<b>3. Other Expenses</b>	
General Expenses	4,34,000
Miscellaneous Expenses	84,000
Provision for Tax	4,06,000
	<u>9,24,000</u>

Revenue and Expense data of Paper Industry is as follows:

Cost of Materials Consumed	67.00%
Changes in Inventories of Finished Goods and WIP	3.00%
Employees Benefit Expenses	9.20%
Other Income	0.60%
Other Expenses	9.40%
Income Tax	5.50%

- Prepare Common-size Statement of Profit and Loss (Income Statement) comparing the results of operations of Star Paper Mills Limited with the industry average.
- Analyse the data and comment on significant relationships revealed by the comparisons.

**Solution:** COMMON-SIZE STATEMENT OF PROFIT AND LOSS OF STAR PAPER MILLS LIMITED  
for the Current Calendar Year

Particulars	Absolute Amount	Percentage of Net Sales	Industry Average
	₹	%	%
I. Revenue from Operations (Net Sales)	70,00,000	100.00	100.00
II. Other Income	35,000	0.50	0.60
III. <b>Total Revenue (I + II)</b>	70,35,000	100.50	100.60
IV. <b>Expenses</b>			
(a) Cost of Materials Consumed	48,00,000	68.57	67.00
(b) Changes in Inventories of Finished Goods and WIP	2,40,000	3.43	3.00
(c) Employees Benefit Expenses	5,74,000	8.20	9.20
(d) Other Expenses	5,18,000	7.40	9.40
<b>Total Expenses</b>	61,32,000	87.60	88.60
V. <b>Profit before Tax (III – IV)</b>	9,03,000	12.90	12.00
VI. <i>Less: Provision for Tax</i>	4,06,000	5.80	5.50
VII. <b>Profit after Tax (V – VI)</b>	4,97,000	7.10	6.50

**Comments:** The above table reveals that profit after tax of the company is more than the industry percentage. The reason for this is better control on expenses resulting in lower expenses. Expenses other than cost of merchandise sold (*i.e.*, Employees Benefit Expenses + Other Expenses) 15.6% are also less than industry average, *i.e.*, 18.6%.

**Note:** Analysis of Common-Size Statement of Profit and Loss is not in Syllabus. It is given for better understanding.

#### Illustration 5.

From the following Balance Sheet of Y Ltd., prepare Comparative Balance Sheet:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		25,00,000	25,00,000
(b) Reserves and Surplus		6,00,000	5,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		15,00,000	15,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,40,000	2,25,000
(b) Trade Payables		2,25,000	2,00,000
(c) Other Current Liabilities		55,000	50,000
(d) Short-term Provisions		30,000	25,000
<b>Total</b>		51,50,000	50,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets—Tangible Assets		36,00,000	30,00,000
(b) Non-current Investments		5,00,000	5,00,000
<b>2. Current Assets</b>			
(a) Inventories		5,50,000	7,50,000
(b) Trade Receivables		3,00,000	5,00,000
(c) Cash and Cash Equivalents		1,75,000	1,50,000
(d) Other Current Assets		25,000	1,00,000
<b>Total</b>		51,50,000	50,00,000

## 3.10

## Analysis of Financial Statements—CBSE XII

## Solution:

COMPARATIVE BALANCE SHEET as at 31st March, 2018 and 2019

Particulars	Note No.	31st March, 2018	31st March, 2019	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		₹	₹	(C = B - A)	$(D = \frac{C}{A} \times 100)$
		(A)	(B)		
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital		25,00,000	25,00,000	...	...
(b) Reserves and Surplus		5,00,000	6,00,000	1,00,000	20.00
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		15,00,000	15,00,000	...	...
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		2,25,000	2,40,000	15,000	6.67
(b) Trade Payables		2,00,000	2,25,000	25,000	12.50
(c) Other Current Liabilities		50,000	55,000	5,000	10.00
(d) Short-term Provisions		25,000	30,000	5,000	20.00
<b>Total</b>		<b>50,00,000</b>	<b>51,50,000</b>	<b>1,50,000</b>	<b>3.00</b>
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) Fixed Assets (Tangible)		30,00,000	36,00,000	6,00,000	20.00
(b) Non-current Investments		5,00,000	5,00,000	...	...
<b>2. Current Assets</b>					
(a) Inventories		7,50,000	5,50,000	(2,00,000)*	(26.67)
(b) Trade Receivables		5,00,000	3,00,000	(2,00,000)	(40.00)
(c) Cash and Cash Equivalents		1,50,000	1,75,000	25,000	16.67
(d) Other Current Assets		1,00,000	25,000	(75,000)	(75.00)
<b>Total</b>		<b>50,00,000</b>	<b>51,50,000</b>	<b>1,50,000</b>	<b>3.00</b>

\*If current year's figure has decreased, show the Absolute Change and Percentage Change in brackets.

## Illustration 6.

From the following summarised Balance Sheet of Green Ltd. as at 31st March, 2019, prepare Comparative Balance Sheet:

(₹ in Lakhs)

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
<i>(a) Share Capital:</i>			
(i) Equity Share Capital		60.00	60.00
(ii) Preference Share Capital		15.00	15.00
(b) Reserves and Surplus		18.00	15.00
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	1	45.00	45.00
(b) Long-term Provisions		2.30	2.00
<b>3. Current Liabilities</b>			
(a) Trade Payables	2	13.20	12.00
(b) Short-term Provisions		1.00	1.00
<b>Total</b>		<b>154.50</b>	<b>150.00</b>

II. ASSETS			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets (Tangible)		108.00	90.00
(b) Non-Current Investments		15.00	15.00
<b>2. Current Assets</b>			
(a) Trade Receivables	3	29.50	40.00
(b) Cash and Cash Equivalents		2.00	5.00
<b>Total</b>		154.50	150.00

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Long-term Borrowings</b>		
From: Loan from Bank	27.00	30.00
Loan from Others	18.00	15.00
	45.00	45.00
<b>2. Trade Payables</b>		
Sundry Creditors	13.20	12.00
<b>3. Trade Receivables</b>		
Sundry Debtors	29.50	40.00

**Solution:**

COMPARATIVE BALANCE SHEET as at 31st March, 2018 and 2019

(₹ in Lakhs)

Particulars	Note No.	31st March,	31st March,	Absolute Change	Percentage Change
		2018	2019	(Increase/Decrease)	(Increase/Decrease)
		₹	₹	₹	%
		(A)	(B)	(C = B - A)	$(D = \frac{C}{A} \times 100)$
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital:					
(i) Equity Share Capital		60.00	60.00	...	...
(ii) Preference Share Capital		15.00	15.00	...	...
(b) Reserves and Surplus		15.00	18.00	3.00	20.00
<b>2. Non-Current Liabilities</b>					
(a) Long-term Borrowings					
(i) Loan from Bank		30.00	27.00	(3.00)	(10.00)
(ii) Loan from Others		15.00	18.00	3.00	20.00
(b) Long-term Provisions		2.00	2.30	0.30	15.00
<b>3. Current Liabilities</b>					
(a) Trade Payables (Creditors)		12.00	13.20	1.20	10.00
(b) Short-term Provisions		1.00	1.00	...	...
<b>Total</b>		150.00	154.50	4.50	3.00
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) Fixed Assets (Tangible)		90.00	108.00	18.00	20.00
(b) Non-Current Investments		15.00	15.00	...	...
<b>2. Current Assets</b>					
(a) Trade Receivables (Debtors)		40.00	29.50	(10.50)	(26.25)
(b) Cash and Cash Equivalents		5.00	2.00	(3.00)	(60.00)
<b>Total</b>		150.00	154.50	4.50	3.00

### 3.12

### Analysis of Financial Statements—CBSE XII

#### Illustration 7.

Following information is extracted from the Statement of Profit and Loss of Gold Star Ltd. for the years ended 31st March, 2019 and 2018. Prepare Comparative Statement of Profit and Loss.

Particulars	Note No.	31st March, 2019	31st March, 2018
Revenue from Operations		₹ 40,00,000	₹ 32,00,000
Employees Benefit Expenses		₹ 20,00,000	₹ 16,00,000
Depreciation and Amortisation Expenses		₹ 50,000	₹ 40,000
Other Expenses		₹ 1,50,000	₹ 3,60,000
Tax Rate		30%	30%

#### Solution:

COMPARATIVE STATEMENT OF PROFIT AND LOSS  
for the years ended 31st March, 2018 and 2019

Particulars	Note No.	31st March, 2018 ₹ (A)	31st March, 2019 ₹ (B)	Absolute Change (Increase/ Decrease) (₹) (C = B - A)	Percentage Change (Increase/ Decrease) (%) $\left(D = \frac{C}{A} \times 100\right)$
I. Revenue from Operations		32,00,000	40,00,000	8,00,000	25.00
II. <b>Expenses</b>					
(a) Employees Benefit Expenses		16,00,000	20,00,000	4,00,000	25.00
(b) Depreciation and Amortisation Expenses		40,000	50,000	10,000	25.00
(c) Other Expenses		3,60,000	1,50,000	(2,10,000)	(58.33)
<b>Total Expenses</b>		20,00,000	22,00,000	2,00,000	10.00
III. <b>Profit before Tax (I - II)</b>		12,00,000	18,00,000	6,00,000	50.00
IV. <i>Less: Tax @ 30%</i>		3,60,000	5,40,000	1,80,000	50.00
V. <b>Profit after Tax (III - IV)</b>		8,40,000	12,60,000	4,20,000	50.00

## Unsolved Questions

1. Prepare Comparative Balance Sheet of Deepankur Ltd.:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		9,00,000	7,50,000
(b) Reserves and Surplus		3,30,000	2,85,000
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings: 12% Debentures, Secured</i>		3,00,000	4,50,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		1,40,000	1,70,000
(b) Trade Payables		2,00,000	1,50,000
(c) Other Current Liabilities		60,000	45,000
(d) Short-term Provisions		20,000	10,000
<b>Total</b>		<b>19,50,000</b>	<b>18,60,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		9,55,000	10,45,000
(b) Non-Current Investments		2,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories		2,50,000	2,00,000
(b) Trade Receivables		2,50,000	2,25,000
(c) Cash and Cash Equivalents		1,95,000	1,10,000
(d) Other Current Assets		1,00,000	80,000
<b>Total</b>		<b>19,50,000</b>	<b>18,60,000</b>

[Change in Percentage: Share Capital 20%; Reserves and Surplus 15.79%; Debentures (33.33%);  
Current Liabilities 12%; Non-Current Assets (7.23%); Current Assets 29.27%.]

2. From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss (Income Statement):

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations (Sales)		19,20,000	16,00,000
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		11,70,000	9,50,000
Change in Inventories of Stock-in-Trade		(10,000)	50,000
Employees Benefit Expenses		3,80,000	2,80,000
Other Expenses		1,50,000	2,00,000
<b>Total</b>		<b>16,90,000</b>	<b>14,80,000</b>
<b>III. Net Profit (I – II)</b>		<b>2,30,000</b>	<b>1,20,000</b>

Particulars	Revenue from Operations	Purchases of Stock-in-Trade	Change in Inventories of Stock-in-Trade	Employees Benefits Expenses	Other Expenses	Total Expenses	Net Profit
Absolute Change (₹)	3,20,000	2,20,000	(60,000)	1,00,000	(50,000)	2,10,000	1,10,000
Percentage Change (%)	20.00	23.16	(120.00)	35.71	(25.00)	14.19	91.67



### 3.14

### Analysis of Financial Statements—CBSE XII

3. From the following Balance Sheet of Usha Chemicals Ltd. as at 31st March, 2019, prepare Comparative Balance Sheet:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital	7,00,000	4,00,000
(b) Reserves and Surplus	5,00,000	6,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings (12% Loan)	13,00,000	10,00,000
<b>3. Current Liabilities</b>		
(a) Trade Payables	5,60,000	3,75,000
(b) Short-term Provisions	40,000	25,000
<b>Total</b>	<b>31,00,000</b>	<b>24,00,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets (Tangible Assets)	18,00,000	20,00,000
(b) Less: Accumulated Depreciation	6,00,000	8,00,000
	<u>12,00,000</u>	<u>12,00,000</u>
<b>2. Current Assets</b>		
(a) Trade Receivables	16,50,000	10,00,000
(b) Cash and Cash Equivalents	2,50,000	2,00,000
<b>Total</b>	<b>31,00,000</b>	<b>24,00,000</b>

Particulars	Shareholders' Funds	Non-Current Liabilities	Current Liabilities	Current Assets
Absolute Change (₹)	2,00,000	3,00,000	2,00,000	7,00,000
Percentage Change (%)	20.00	30.00	50.00	58.33

4. From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations		10,00,000	7,50,000
Other Income		10,000	7,500
<b>Total</b>		<b>10,10,000</b>	<b>7,57,500</b>
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		4,00,000	3,00,000
Change in Inventories of Stock-in-Trade		1,00,000	75,000
Employees Benefit Expenses		1,44,000	1,44,000
Depreciation and Amortisation Expenses		10,000	12,000
Other Expenses		25,000	14,000
<b>Total</b>		<b>6,79,000</b>	<b>5,45,000</b>
<b>III. Profit before Tax (I – II)</b>		<b>3,31,000</b>	<b>2,12,500</b>
<b>IV. Tax @ 30%</b>		<b>99,300</b>	<b>63,750</b>
<b>V. Profit after Tax (III – IV)</b>		<b>2,31,700</b>	<b>1,48,750</b>

Particulars	Revenue from Operations	Other Income	Purchases of Stock-in-Trade	Change in Inventories of Stock-in-Trade	Depreciation and Amortisation Expenses	Other Expenses	Profit before Tax	Tax	Profit after Tax
Absolute Change (₹)	2,50,000	2,500	1,00,000	25,000	(2,000)	11,000	1,18,500	35,550	82,950
Percentage Change (%)	33.33	33.33	33.33	33.33	(16.67)	78.57	55.76	55.76	55.76

5. From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations	1	60,00,000	75,00,000
Other Income		1,50,000	3,00,000
<b>Total</b>		61,50,000	78,00,000
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		31,00,000	43,00,000
Change in Inventories of Stock-in-Trade	2	(1,00,000)	2,00,000
Employees Benefit Expenses		2,00,000	3,00,000
Other Expenses	3	18,75,000	21,00,000
<b>Total</b>		50,75,000	69,00,000
<b>III. Net Profit (I – II)</b>		10,75,000	9,00,000

#### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Revenue from Operations</b>		
Sale	59,80,000	74,50,000
Sale of Waste	20,000	50,000
	60,00,000	75,00,000
<b>2. Change in Inventories of Stock-in-Trade</b>		
Opening Inventory	1,00,000	3,00,000
Less: Closing Inventory	2,00,000	1,00,000
	(1,00,000)	2,00,000
<b>3. Other Expenses</b>		
Administrative and General Expenses	8,00,000	12,00,000
Marketing Expenses	10,75,000	9,00,000
	18,75,000	21,00,000

Particulars	Revenue from Operations	Other Income	Purchases of Stock-in-Trade	Change in Inventories of Stock-in-Trade	Employees Benefit Expenses	Other Expenses	Expenses	Profit before Tax
Absolute Amount (₹)	(15,00,000)	(1,50,000)	(12,00,000)	(3,00,000)	(1,00,000)	(2,25,000)	(18,25,000)	1,75,000
Percentage (%)	(20.00)	(50.00)	(27.91)	(150.00)	(33.33)	(10.71)	(26.45)	19.44

## 3.16

## Analysis of Financial Statements—CBSE XII

6. Prepare Comparative Statement of Profit and Loss of Advance Marketing Ltd. from the following Statement of Profit and Loss and Additional Information:

Particulars	Note No.	31 March, 2019 (₹)	31 March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations (Net Sales)		30,00,000	25,00,000
Other Income		40,000	40,000
<b>Total</b>		<b>30,40,000</b>	<b>25,40,000</b>
<b>II. Expenses</b>			
Cost of Materials Consumed		18,00,000	15,00,000
Changes in Inventories of Finished Goods and WIP		(15,000)	10,000
Employees Benefit Expenses		2,40,000	2,40,000
Finance Costs		90,000	70,000
Depreciation and Amortisation Expenses		22,500	25,000
Other Expenses	1	3,02,000	2,66,000
<b>Total</b>		<b>24,39,500</b>	<b>21,11,000</b>
<b>III. Profit (I – II)</b>		<b>6,00,500</b>	<b>4,29,000</b>

## Note to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Expenses</b>		
Power and Fuel	40,000	36,000
Carriage Outwards	9,500	7,500
Licence Fee	2,500	2,500
Selling and Distribution Expenses	1,90,000	1,70,000
Provision for Tax	60,000	50,000
	<b>3,02,000</b>	<b>2,66,000</b>

Particulars	Revenue from Operations	Cost of Materials Consumed	Changes in Inventories of FG and WIP	Finance Costs	Depreciation and Amortisation Expenses	Other Expenses	Profit before Tax	Profit after Tax
Absolute Amount (₹)	5,00,000	3,00,000	(25,000)	20,000	(2,500)	26,000	1,81,500	1,71,500
Percentage (%)	20.00	20.00	(250.00)	28.57	(10.00)	12.04	37.89	39.98

7. Given below is the information extracted from the books of Shyam Ltd.:

Particulars	31st March, 2019	31st March, 2018
Revenue from Operations (Net Sales)	₹ 20,00,000	₹ 17,50,000
Purchases of Stock-in-Trade	₹ 10,00,000	₹ 8,25,000
Change in Inventories of Stock-in-Trade	₹ 1,70,000	₹ 1,50,000
Other Expenses	₹ 11,500	₹ 7,700
Income Tax	40%	40%

Prepare Comparative Statement of Profit and Loss on the basis of the above information.

Particulars	Revenue from Operations	Purchases of Stock-in-Trade	Change in Inventories of Stock-in-Trade	Other Expenses	Total Expenses	Net Profit before Tax	Tax	Net Profit after Tax
Absolute Change (₹)	2,50,000	1,75,000	20,000	3,800	1,98,800	51,200	20,480	30,720
Percentage Change (%)	14.29	21.21	13.33	49.35	20.23	6.67	6.67	6.67

8. Prepare Comparative Statement of Profit and Loss from the following Statement of Profit and Loss:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations		50,00,000	40,00,000
Other Income		3,00,000	2,00,000
<b>Total</b>		53,00,000	42,00,000
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		34,00,000	32,00,000
Change in Inventories of Stock-in-Trade		1,00,000	(2,00,000)
Employees Benefit Expenses		1,00,000	1,00,000
Finance Costs		45,000	50,000
Depreciation and Amortisation Expenses		30,000	25,000
Other Expenses	1	3,25,000	3,00,000
<b>Total</b>		40,00,000	34,75,000
<b>III. Net Profit (I – II)</b>		13,00,000	7,25,000

**Note to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Expenses</b>		
Administrative and Selling Expenses	2,00,000	2,00,000
Miscellaneous Expenses (Non-operative)	1,25,000	1,00,000
	3,25,000	3,00,000

Particulars	Revenue from Operations	Other Income	Purchase of Stock-in-Trade	Change in Inventories	Finance Cost	Dep. & Amortisation	Other Expenses	Net Profit
Absolute Change (₹)	10,00,000	1,00,000	2,00,000	3,00,000	(5,000)	5,000	25,000	5,75,000
Percentage Change (%)	25.00	50.00	6.25	150.00	(10.00)	20.00	8.33	79.31

9. Convert the following Statement of Profit and Loss into Common-size Statement of Profit and Loss:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. Income</b>			
Revenue from Operations	1	18,01,000	15,00,000
Other Income		20,000	15,000
<b>Total Revenue</b>		18,21,000	15,15,000
<b>II. Expenses</b>			
Purchases of Stock-in-Trade		10,22,500	9,00,000
Change in Inventories of Stock-in-Trade		(10,000)	10,000
Employees Benefit Expenses		3,30,000	3,00,000
Other Expenses	2	2,00,000	1,70,000
<b>Total</b>		15,42,500	13,80,000
<b>III. Net Profit (I – II)</b>		2,78,500	1,35,000

## 3.18

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Revenue from Operations</b>		
Sales	18,36,000	15,30,000
Less: Returns	35,000	30,000
	18,01,000	15,00,000
<b>2. Other Expenses</b>		
Administrative Expenses	1,70,000	1,50,000
Miscellaneous Expenses (Non-operative)	30,000	20,000
	2,00,000	1,70,000

Year Ended	Other Income	Purchases of Stock-in-Trade	Change in Inventories of Stock-in-Trade	Employees Benefit Expenses	Other Expenses	Net Profit
31st March, 2018 (%)	1.00	60.00	0.67	20.00	11.33	9.00
31st March, 2019 (%)	1.11	56.77	(0.55)	18.32	11.10	15.46

10. Prepare Common-size Balance Sheet of X Ltd. as at 31st March, 2019 and 2018:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) <i>Share Capital:</i>			
(i) Equity Share Capital		6,00,000	8,00,000
(ii) Preference Share Capital		2,00,000	4,00,000
(b) Reserves and Surplus		2,00,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings (Debentures)		2,00,000	2,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		90,000	1,50,000
(b) Trade Payables (Creditors)		1,00,000	1,25,000
(c) Short-term Provisions		20,000	25,000
<b>Total</b>		14,10,000	19,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) <i>Fixed Assets:</i>			
(i) Tangible Assets		6,00,000	8,00,000
(ii) Intangible Assets		2,00,000	2,00,000
(b) Non-current Investments		2,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories		1,75,000	2,50,000
(b) Trade Receivables		1,45,000	2,75,000
(c) Cash and Cash Equivalents		90,000	1,75,000
<b>Total</b>		14,10,000	19,00,000

## Comparative Statements and Common-Size Statements

**3.19**

	2019	2018		2019	2018
<i>[Equity and Liabilities</i>			<i>Assets</i>		
Equity Share Capital	42.57	42.10	Fixed Assets:		
Preference Share Capital	14.18	21.05	(a) Tangible Assets	42.56	42.10
Reserves and Surplus	14.18	10.53	(b) Intangible Assets	14.18	10.53
Long-term Borrowings (Debentures)	14.18	10.53	Non-current Investments	14.18	10.53
Current Liabilities	14.89	15.79	Current Assets	29.08	36.84
	<u>100.00</u>	<u>100.00</u>		<u>100.00</u>	<u>100.00</u> ]

(In % age)

# Accounting Ratios

## MEANING OF KEY TERMS USED IN THE CHAPTER

- 1. Ratio** It is an arithmetical expression of relationship between two interdependent or related items.
- 2. Accounting Ratio** Accounting Ratio means ratio calculated on the basis of accounting information.
- 3. Pure Ratio** It is a ratio expressed as quotient. For example, 2 : 1.
- 4. Percentage** It is a ratio expressed in percentage. For example, 25%.
- 5. Times** It is a ratio expressed in number of times. For example, 3 Times.
- 6. Fraction** It is a ratio expressed as fraction. For example,  $\frac{3}{4}$  or .75.
- 7. Liquidity Ratios** These ratios measure the ability of the enterprise to meet its short-term financial commitments. These include: Current Ratio and Quick Ratio/Liquid Ratio/Acid Test Ratio.
- 8. Solvency Ratios** These ratios measure long-term financial position of the enterprise. These include: Debt to Equity Ratio; Total Assets to Debt Ratio; Proprietary Ratio and Interest Coverage Ratio.
- 9. Activity or Turnover Ratios** These ratios measure efficiency in use of assets of the enterprise in generating sales. These include: Inventory Turnover Ratio; Trade Receivables Turnover Ratio; Trade Payables Turnover Ratio, Working Capital Turnover Ratio.
- 10. Profitability Ratios** These ratios show the profitability of the enterprise. These include: Gross Profit Ratio; Operating Ratio; Operating Profit Ratio; Net Profit Ratio and Return on Investment (ROI).

## CHAPTER SUMMARY

- **Accounting Ratio** is a mathematical expression of the relationship between two related or interdependent items or group of items shown in the financial statements.
- **Ratio Analysis** is the process of computing, determining and presenting the relationship of related or interdependent items or group of items in the financial statements. It is an important technique of financial analysis.
- **Objectives of Ratio Analysis**
  1. To assess the earning capacity, financial soundness and operating efficiency of an enterprise.
  2. To simplify the accounting information.
  3. To help in comparative analysis.
- **Uses of Ratio Analysis:** Ratio Analysis is useful in:
  1. Analysis of financial statements.
  2. Assessing the profitability of the business.
  3. Assessing the liquidity or short-term solvency of the business.
  4. Assessing the long-term solvency of the business.
  5. Assessing the operating efficiency of the business.
  6. Intra-firm and inter-firm comparison.
  7. Locating the weak areas of the business.
- **Limitations of Ratio Analysis**
  1. *Qualitative Factors are Ignored:* Ratio analysis is a technique of quantitative analysis and thus, ignores qualitative factors, which may be important in decision-making.
  2. *Lack of Standard Ratio:* There is almost no single standard ratio against which the actual ratio may be measured and compared.
  3. *False Results if Based on Incorrect Information:* Conclusions drawn may be misleading if ratios are based on incorrect accounting information.
  4. *May not be Comparable:* Ratios may not be comparable if different firms follow different accounting policies and procedures.
- **Classification of Accounting Ratios**
  1. *Liquidity Ratios:* (i) Current Ratio; and (ii) Quick Ratio.
  2. *Solvency Ratios:* (i) Debt to Equity Ratio; (ii) Proprietary Ratio; (iii) Total Assets to Debt Ratio; and (iv) Interest Coverage Ratio.
  3. *Activity Ratios:* (i) Inventory Turnover Ratio; (ii) Trade Receivables Turnover Ratio; (iii) Trade Payables Turnover Ratio; and (iv) Working Capital Turnover Ratio.
  4. *Profitability Ratios:* (i) Gross Profit Ratio; (ii) Operating Ratio; (iii) Operating Profit Ratio; (iv) Net Profit Ratio; and (v) Return on Investment.



Table Showing Summary of Accounting Ratios

Description of the Ratio	Formula	Significance	How Expressed	Remarks
1. <b>Current Ratio</b>	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	<p><b>I. LIQUIDITY RATIOS</b></p> <p>This ratio shows short-term financial soundness of the business. Higher ratio means better capacity to meet its current obligation.</p> <p>The ideal current ratio is 2 : 1. In case it is very high it shows the idleness of funds.</p>	Pure Ratio	<p>Current Assets = Current Investments + Inventories (Excluding Stores and Spares and Loose Tools) + Trade Receivables (Net of Provision for Doubtful Debts) + Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets</p> <p>Current Liabilities = Short-term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions.</p>
2. <b>Liquid Ratio/Acid Test Ratio/Quick Ratio</b>	$\frac{\text{Liquid Assets or Quick Assets}}{\text{Current Liabilities}}$	<p>Liquid Ratio is a fairly stringent measure of liquidity. It is based on those current assets which are highly liquid, i.e., can be converted into Cash and Cash Equivalents quickly.</p> <p>Quick Ratio of 1 : 1 is considered as ideal. Higher the Quick Ratio better the short-term financial position.</p>	Pure Ratio	<p>Quick Assets = Current Assets – Inventories – Prepaid Expenses Current Liabilities as per Current Ratio.</p> <p><b>Note:</b> Inventories and prepaid expenses are not considered as Quick Assets.</p>
1. <b>Debt to Equity Ratio</b>	$\frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$	<p><b>II. SOLVENCY RATIOS</b></p> <p>This ratio assesses the long-term financial position and soundness of enterprises. In general, lower the Debt to Equity Ratio higher the degree of protection enjoyed by the lenders.</p>	Pure Ratio	<p>Debt = Long-term Borrowings, (i.e., debentures, mortgage, public deposits) + Long-term Provisions</p> <p>Shareholders' Funds = Share Capital + Reserves and Surplus</p> <p>Or</p> <p>Non-current Assets (Tangible Assets + Intangible Assets + Non-current Investments + Long-term Loans and Advances) + Working Capital – Non-current Liabilities (Long-term Borrowings + Long-term Provisions).</p> <p>Working Capital = Current Assets – Current Liabilities</p>
2. <b>Total Asset to Debt Ratio</b>	$\frac{\text{Total Assets}}{\text{Debt}}$	<p>This ratio measures the safety margin available to lenders of long-term debts. It measures the extent to which debt is being covered by assets.</p>	Pure Ratio, e.g., 2 : 1	<p>Total Assets = Non-current Assets (Tangible Assets + Intangible Assets + Non-current Investments + Long-term Loans and Advances) + Current Assets [Current Investments + Inventories (including Stores and Spares and Loose Tools) + Trade Receivables + Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets]</p> <p>Debt = Long-term Borrowings + Long-term Provisions</p>

3. <b>Proprietary Ratio</b>	$\frac{\text{Shareholders' Funds or Proprietors' Funds or Equity}}{\text{Total Assets}}$	This ratio shows the extent to which total assets have been financed by the proprietor. Higher the ratio, higher the safety margin for lenders and creditors.	Fraction	$\frac{\text{Shareholders' Funds} = \text{Share Capital} + \text{Reserves and Surplus}}{\text{Shareholders' Funds} = \text{Non-Current Assets} + \text{Working Capital} - \text{Non-Current Liabilities}}$ Total Assets as per Total Assets to Debt Ratio.
4. <b>Interest Coverage Ratio</b>	$\frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$	This ratio shows how many times the interest charges are covered by the profits available to pay interest. Higher the ratio, more secure the lender is in respect of payment of interest regularly.	Times	Profit before Interest and Tax = Profit after Tax + Tax + Interest
<b>III. ACTIVITY RATIOS/TURNOVER RATIOS</b>				
1. <b>Inventory (Stock) Turnover Ratio</b>	$\frac{\text{Cost of Revenue from Operations or Cost of Goods Sold}}{\text{Average Inventory (Stock)}}$	This ratio measures how fast inventory is moving and generating sales. Higher the ratio, more efficient management of inventories and vice versa.	Times	Average Inventory or Stock = $\frac{\text{Opening Inventory or Stock} + \text{Closing Inventory or Stock}}{2}$
2. <b>Trade Receivables or Debtors' Turnover Ratio</b>	$\frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$	This ratio shows efficiency in the collection of amount due from trade receivables. Higher the ratio, better it is since it indicates that debts are being collected more quickly.	Times	Trade Receivables means debtors plus bills receivable. Provision for Doubtful Debts is not deducted. Average Trade Receivables = $\frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$
3. <b>Trade Payables or Creditors' Turnover Ratio</b>	$\frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}}$	It shows the number of times the creditors are turned over in relation to purchases. A high turnover ratio or shorter payment period shows the availability of less credit or early payments.	Times	Trade Payables means creditors plus bills payable. Average Trade Payables = $\frac{\text{Opening Trade Payables} + \text{Closing Trade Payables}}{2}$
4. <b>Working Capital Turnover Ratio</b>	$\frac{\text{Revenue from Operations}}{\text{Working Capital}}$	This ratio shows the number of times working capital has been employed in the process of carrying on business. Higher the ratio, better the efficiency in the utilisation of working capital.	Times	Working Capital = Current Assets – Current Liabilities Current Assets = As per Current Ratio Current Liabilities = As per Current Ratio.

<b>IV. PROFITABILITY RATIOS</b>	
<p><b>1. Gross Profit Ratio</b></p>	<p style="text-align: center;"> <math display="block">\frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100</math> </p> <p>This ratio indicates the relationship between gross profit and net sales. Higher the Ratio, lower the cost of goods sold.</p>
<p><b>2. Operating Ratio</b></p>	<p style="text-align: center;"> <math display="block">\frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100</math> </p> <p>This ratio is calculated to assess the operational efficiency of the business. A decline in the operating ratio, is better because it means higher margin, and thus, more profit.</p>
<p><b>3. Operating Profit Ratio</b></p>	<p style="text-align: center;"> <math display="block">\frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100</math> </p> <p>The objective of computing this ratio is to determine the operational efficiency of management.</p>
<p><b>4. Net Profit Ratio</b></p>	<p style="text-align: center;"> <math display="block">\frac{\text{Profit after Tax}}{\text{Revenue from Operations}} \times 100</math> </p> <p>It indicates overall efficiency of the business. Higher the net profit ratio, better the business.</p>
<p><b>5. Return on Investment or Return on Capital Employed</b></p>	<p style="text-align: center;"> <math display="block">\frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100</math> </p> <p>It assesses the overall performance of the enterprise. It measures how efficiently the resources entrusted to the business are used.</p>

<p><b>1. Gross Profit Ratio</b></p>	<p>Gross Profit = Revenue from Operations – Cost of Revenue from Operations                      Cost of Revenue from Operations                      = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses – Closing Inventory (excluding Stores and Spares and Loose Tools)                      Or                      Revenue from Operations – Gross Profits                      Or                      Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses.                      If direct expenses are not given, assume them to be nil.</p>
<p><b>2. Operating Ratio</b></p>	<p>Cost of Revenue from Operations                      = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses – Closing Inventory (excluding Stores and Spares and Loose Tools)                      Or                      Revenue from Operations – Gross Profit                      Or                      Cost of Revenue from Operations = Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses.                      If Direct Expenses are not given, assume them to be nil.                      Operating Expenses = Employees Benefit Expenses + Other Expenses (Other than Non-operating Expenses)                      Revenue from Operations = Sales – Sales Return</p>
<p><b>3. Operating Profit Ratio</b></p>	<p>Operating Profit                      = Net Profit (Before Tax) + Non-operating Expenses – Non-operating Income                      Or                      = Gross Profit + Operating Income – Operating Expenses                      Non-operating Expenses = Interest on Long-term Borrowings + Loss on Sale of Fixed Assets or Non-current Assets                      Non-operating Income = Interest received on investments + Profit on Sale of Fixed Assets or Non-current Assets                      Profit after Tax                      = Gross Profit + Other Income – Indirect Expenses – Tax</p>
<p><b>4. Net Profit Ratio</b></p>	<p>Capital Employed: <i>Liabilities Approach:</i> Share Capital + Reserves and Surplus + Long-term Borrowings + Long-term Provisions  <i>Assets Approach:</i> Non-current Assets (Tangible Assets + Intangible Assets) + Non-current Investments + Long-term Loans and Advances + Working Capital.                      Working Capital = Current Assets – Current Liabilities                      (Assume that all Non-current Investments are Trade Investments)  <b>Note:</b> 1. Non-operating Assets do not form part of Capital Employed, e.g., Non-Trade Investments, Capital Work-in-progress, etc.                      2. Interest on Non-trade Investments should be deducted from Profit before Interest, Tax and Dividend.</p>

## Solved Questions

### Illustration 1.

From the following Balance Sheet of Warmex Ltd. as at 31st March, 2019, calculate Current Ratio:

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		5,00,000
(b) Reserves and Surplus		(50,000)
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		2,75,000
<b>3. Current Liabilities</b>		
(a) Short-term Borrowings		2,50,000
(b) Trade Payables		50,000
(c) Short-term Provisions		75,000
<b>Total</b>		<u>11,00,000</u>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets:		
(i) Tangible Assets		4,50,000
(ii) Intangible Assets		50,000
(b) Non-current Investments		50,000
<b>2. Current Assets</b>		
(a) Current Investments		1,00,000
(b) Inventories		1,50,000
(c) Trade Receivables		1,75,000
(d) Cash and Cash Equivalents		1,25,000
<b>Total</b>		<u>11,00,000</u>

### Solution:

$$\begin{aligned} \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ &= \frac{\text{₹ } 5,50,000}{\text{₹ } 3,75,000} = 1.47 : 1. \end{aligned}$$

$$\begin{aligned} \text{Current Assets} &= \text{Current Investments} + \text{Inventories} + \text{Trade Receivables} + \text{Cash and} \\ &\quad \text{Cash Equivalents} \\ &= \text{₹ } 1,00,000 + \text{₹ } 1,50,000 + \text{₹ } 1,75,000 + \text{₹ } 1,25,000 = \text{₹ } 5,50,000. \end{aligned}$$

$$\begin{aligned} \text{Current Liabilities} &= \text{Short-term Borrowings} + \text{Trade Payables} + \text{Short-term Provisions} \\ &= \text{₹ } 2,50,000 + \text{₹ } 50,000 + \text{₹ } 75,000 = \text{₹ } 3,75,000. \end{aligned}$$

## Illustration 2.

From the following Balance Sheet of Galaxy Ltd., compute Debt to Equity Ratio:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		7,00,000
(b) Reserves and Surplus		2,00,000
<b>2. Non-Current Liabilities</b>		
(a) Long-term Borrowings		15,00,000
(b) Long-term Provisions		57,500
<b>3. Current Liabilities</b>		
(a) Trade Payables		2,50,000
(b) Other Current Liabilities		55,000
(c) Short-term Provisions		25,000
<b>Total</b>		<u>27,87,500</u>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets:		
Tangible Assets		17,47,500
<b>2. Current Assets</b>		
(a) Inventories		5,00,000
(b) Trade Receivables		3,50,000
(c) Cash and Cash Equivalents		1,75,000
(d) Other Current Assets	1	15,000
<b>Total</b>		<u>27,87,500</u>

## Note to Accounts

Particulars	₹
<b>1. Other Current Assets</b>	
Accrued Income	10,000
Prepaid Expenses	5,000
	<u>15,000</u>

## Solution:

$$\begin{aligned} \text{Debt to Equity Ratio} &= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}} \\ &= \frac{\text{₹ } 15,57,500}{\text{₹ } 9,00,000} = 1.73 : 1. \end{aligned}$$

$$\begin{aligned} \text{Debt} &= \text{Long-term Borrowings} + \text{Long-term Provisions} \\ &= \text{₹ } 15,00,000 + \text{₹ } 57,500 = \text{₹ } 15,57,500. \end{aligned}$$

$$\begin{aligned} \text{Equity or Shareholders' Funds} &= \text{Share Capital} + \text{Reserves and Surplus} \\ &= \text{₹ } 7,00,000 + \text{₹ } 2,00,000 = \text{₹ } 9,00,000. \end{aligned}$$

**Illustration 3.**

From the following Balance Sheet, calculate Total Assets to Debt Ratio:

BALANCE SHEET OF GOOD LUCK LTD. as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		3,00,000
(b) Reserves and Surplus		(90,000)
<b>2. Non-Current Liabilities</b>		
(a) Long-term Borrowings		4,50,000
(b) Long-term Provisions		50,000
<b>3. Current Liabilities</b>		
(a) Trade Payables		1,30,000
(b) Short-term Provisions		10,000
<b>Total</b>		<b>8,50,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets:		
Tangible Assets		4,80,000
(b) Non-current Investments	1	50,000
<b>2. Current Assets</b>		
(a) Inventories		1,14,000
(b) Trade Receivables		1,26,000
(c) Cash and Cash Equivalents		70,000
(d) Other Current Assets		10,000
<b>Total</b>		<b>8,50,000</b>

**Note to Accounts**

Particulars	₹
<b>1. Non-Current Investments</b>	
Government Securities	40,000
Shares in Listed Companies	10,000
	<b>50,000</b>

$$\text{Solution: Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{\text{₹ 8,50,000}}{\text{₹ 5,00,000}} = 1.70 : 1.$$

$$\begin{aligned} \text{Total Assets} &= \text{Non-current Assets (i.e., Fixed Assets + Non-current Investments)} + \text{Current} \\ &\quad \text{Assets (i.e., Inventories + Trade Receivables + Cash and Cash Equivalents} \\ &\quad \text{+ Other Current Assets)} \\ &= \text{₹ 4,80,000} + \text{₹ 50,000} + \text{₹ 1,14,000} + \text{₹ 1,26,000} + \text{₹ 70,000} + \text{₹ 10,000} \\ &= \text{₹ 8,50,000.} \end{aligned}$$

$$\begin{aligned} \text{Debt} &= \text{Long-term Borrowings} + \text{Long-term Provisions} \\ &= \text{₹ 4,50,000} + \text{₹ 50,000} = \text{₹ 5,00,000.} \end{aligned}$$

**Illustration 4.**

From the following Balance Sheet of Channel Ltd., compute Shareholders' Funds by following Liabilities Side Approach and Assets Side Approach:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		5,00,000
(b) Reserves and Surplus		4,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		5,00,000
<b>3. Current Liabilities</b>		
(a) Trade Payables		1,50,000
(b) Short-term Provisions		50,000
<b>Total</b>		<b>16,00,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
<i>Fixed Assets:</i>		
(a) Tangible Assets		9,68,000
(b) Intangible Assets		90,000
<b>2. Current Assets</b>		
(a) Inventories		3,00,000
(b) Trade Receivables		1,60,000
(c) Cash and Cash Equivalents		82,000
<b>Total</b>		<b>16,00,000</b>

**Solution:**

Particulars	₹
<i>Shareholders' Funds under Liabilities Side Approach:</i>	
Share Capital	5,00,000
Reserves and Surplus	4,00,000
<b>Shareholders' Funds</b>	<b>9,00,000</b>
<i>Shareholders' Funds under Assets Side Approach:</i>	
Fixed Assets (Tangible + Intangible)	10,58,000
Add: Working Capital (Note)	3,42,000
	14,00,000
Less: Non-current Liabilities (Long-term Borrowings)	5,00,000
<b>Shareholders' Funds</b>	<b>9,00,000</b>

<b>Working Note:</b>	Current Assets	₹	Current Liabilities	₹
	Inventories	3,00,000	Trade Payables	1,50,000
	Trade Receivables	1,60,000	Other Current Liabilities	50,000
	Cash and Cash Equivalents	82,000		
		<u>5,42,000</u>		<u>2,00,000</u>

Working Capital = Current Assets – Current Liabilities = ₹ 5,42,000 – ₹ 2,00,000 = ₹ 3,42,000.

## 4.10

## Analysis of Financial Statements—CBSE XII

## Illustration 5.

From the following Balance Sheet of XYZ Ltd., calculate:

(i) Debt to Equity Ratio; (ii) Proprietary Ratio, and (iii) Total Assets to Debt Ratio.

BALANCE SHEET OF XYZ LTD. as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Equity Share Capital		15,00,000
(b) Reserves and Surplus		3,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		9,00,000
<b>3. Current Liabilities</b>		
(a) Short-term Borrowings		2,00,000
(b) Trade Payables		11,00,000
<b>Total</b>		<u>40,00,000</u>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets: Tangible Assets		16,50,000
(b) Long-term Investments		1,60,000
<b>2. Current Assets</b>		
(a) Inventories		9,10,000
(b) Trade Receivables		12,40,000
(c) Cash and Cash Equivalents		40,000
<b>Total</b>		<u>40,00,000</u>

## Solution:

$$\begin{aligned}
 \text{(i) Debt to Equity Ratio} &= \frac{\text{Debt (WN 1)}}{\text{Equity (Shareholders' Funds) (WN 2)}} \\
 &= \frac{\text{₹ 9,00,000}}{\text{₹ 18,00,000}} = 0.50 : 1.
 \end{aligned}$$

**Working Notes:**

- Debt = Long-term Borrowings = ₹ 9,00,000.
- Equity (Shareholders' Funds) = Equity Share Capital + Reserves and Surplus  
= ₹ 15,00,000 + ₹ 3,00,000 = ₹ 18,00,000.

$$\begin{aligned}
 \text{(ii) Proprietary Ratio} &= \frac{\text{Shareholders' Funds}}{\text{Total Assets}} \\
 &= \frac{\text{₹ 18,00,000}}{\text{₹ 40,00,000}} = 0.45 : 1.
 \end{aligned}$$

$$\text{(iii) Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{\text{₹ 40,00,000}}{\text{₹ 9,00,000}} = 4.44 : 1.$$



**Illustration 6.**

Following is the Statement of Profit and Loss of Hindustan Products Limited for the year ended 31st March, 2019 and the Balance Sheet of the company as at that date:

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations		8,00,000
II. Expenses:		
Purchases of Stock-in-Trade		5,45,000
Change in Inventories of Stock-in-Trade	1	(1,00,000)
Other Expenses		2,95,000
Total Expenses		7,40,000
III. Profit for the Period (I – II)		60,000

**Note:** Other expenses include direct expenses of ₹ 15,000.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		2,90,000
(b) Reserves and Surplus		60,000
<b>2. Current Liabilities</b>		
(a) Trade Payables (Creditors)		1,15,000
(b) Other Current Liabilities (Outstanding Expenses)		15,000
<b>Total</b>		4,80,000
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets:		
Tangible Assets		2,30,000
<b>2. Current Assets</b>		
(a) Inventories (Stock)		1,99,000
(b) Trade Receivables (Debtors)		21,000
(c) Cash and Cash Equivalents		30,000
<b>Total</b>		4,80,000

**Note to Accounts**

Particulars	₹
<b>1. Change in Inventories of Stock-in-Trade</b>	
Opening Inventory	99,000
Less: Closing Inventory	1,99,000
	(1,00,000)

Calculate the following ratios:

(i) Quick Ratio and (ii) Inventory Turnover Ratio.

**Solution:**

$$\begin{aligned}
 (i) \text{ Quick Ratio} &= \frac{\text{Quick Assets}}{\text{Current Liabilities}} \\
 &= \frac{\text{Cash and Cash Equivalents} + \text{Trade Receivables (Debtors)}}{\text{Trade Payables} + \text{Outstanding Expenses}} \\
 &= \frac{\text{₹ } 30,000 + \text{₹ } 21,000}{\text{₹ } 1,15,000 + \text{₹ } 15,000} = \frac{\text{₹ } 51,000}{\text{₹ } 1,30,000} = \mathbf{0.39 : 1.}
 \end{aligned}$$

## 4.12

(ii) Inventory Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations, i.e., Cost of Goods Sold}}{\text{Average Inventory}}$$

$$= \frac{\text{₹ 4,60,000}}{\text{₹ 1,49,000}} = 3.09 \text{ Times.}$$

### Working Notes:

- Cost of Revenue from Operations, i.e., Cost of Goods Sold  
= Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade + Direct Expenses  
= ₹ 5,45,000 – ₹ 1,00,000 + ₹ 15,000 = ₹ 4,60,000.
- Average Inventory = (Opening Inventory + Closing Inventory)/2  
= (₹ 99,000 + ₹ 1,99,000)/2 = ₹ 1,49,000.

### Illustration 7.

From the following Statement of Profit and Loss, calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations (Sale)		5,00,000
II. Expenses:		
Purchases of Stock-in-Trade		3,00,000
Change in Inventories of Stock-in-Trade	1	60,000
Employee Benefit Expenses	2	40,000
Finance Costs		10,000
Depreciation and Amortisation		20,000
Other Expenses	3	20,000
<b>Total</b>		<b>4,50,000</b>
III. Profit before Tax (I – II)		50,000
IV. Tax Expenses: Current Tax		17,500
V. Profit after Tax (III – IV)		32,500

### Notes to Accounts

Particulars	₹
<b>1. Change in Inventories of Stock-in-Trade</b>	
Opening Inventory	1,00,000
Less: Closing Inventory	40,000
	<b>60,000</b>
<b>2. Employee Benefit Expenses</b>	
Wages	10,000
Salaries	30,000
	<b>40,000</b>
<b>3. Other Expenses</b>	
Carriage Inwards	5,000
Carriage Outwards	5,000
Miscellaneous Expenses	10,000
	<b>20,000</b>

$$\begin{aligned}\text{Solution: Inventory Turnover Ratio} &= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} \\ &= \frac{\text{₹ } 3,75,000}{\text{₹ } 70,000} = 5.36 \text{ Times.}\end{aligned}$$

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Purchases of Stock-in-Trade} + \text{Change in} \\ &\quad \text{Inventories of Stock-in-Trade} + \text{Direct Expenses} \\ &\quad (\text{i.e., Wages} + \text{Carriage Inwards}) \\ &= \text{₹ } 3,00,000 + \text{₹ } 60,000 + \text{₹ } 10,000 + \text{₹ } 5,000 = \text{₹ } 3,75,000.\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{\text{₹ } 1,00,000 + \text{₹ } 40,000}{2} = \text{₹ } 70,000.\end{aligned}$$

**Illustration 8.**

From the following Statement of Profit and loss, calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations		50,00,000
II. Other Income		1,00,000
III. Total Revenue (I + II)		51,00,000
IV. Expenses:		
Cost of Materials Consumed		18,00,000
Changes in Inventories of Finished Goods and Work-in-Progress	1	(1,00,000)
Employee Benefit Expenses		7,00,000
Finance Costs		1,00,000
Depreciation and Amortisation		50,000
Other Expenses	2	6,50,000
<b>Total Expenses</b>		<b>32,00,000</b>
V. Profit before Tax (III – IV)		19,00,000
VI. Tax Expenses: Current Tax		5,00,000
VII. Profit after Tax (V – VI)		14,00,000

**Notes to Accounts**

Particulars	₹
<b>1. Changes in Inventories of Finished Goods and Work-in-Progress</b>	
Opening	2,00,000
Less: Closing	3,00,000
	(1,00,000)
<b>2. Other Expenses</b>	
Direct Carriage Inwards, Octroi, etc.	3,00,000
Indirect General and Administration Expenses	3,50,000
	6,50,000

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## Analysis of Financial Statements—CBSE XII

$$\begin{aligned} \text{Solution: Inventory Turnover Ratio} &= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} \\ &= \frac{\text{₹ } 20,00,000}{\text{₹ } 2,50,000} = \mathbf{8 \text{ Times.}} \end{aligned}$$

**Working Notes:**

$$\begin{aligned} 1. \text{ Cost of Revenue from Operations} &= \text{Cost of Materials Consumed} + \text{Changes in Inventories of} \\ &\quad \text{Finished Goods and Work-in-Progress} + \text{Direct Expenses} \\ &= \text{₹ } 18,00,000 - \text{₹ } 1,00,000 + \text{₹ } 3,00,000 = \text{₹ } 20,00,000. \end{aligned}$$

$$\begin{aligned} 2. \quad \text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{1}{2} (\text{₹ } 2,00,000 + \text{₹ } 3,00,000) = \text{₹ } 2,50,000. \end{aligned}$$

**Illustration 9.**

From the following Balance Sheet of Sure Success Ltd. as at 31st March, 2019, calculate Return on Investment:

Particulars	31st March, 2019 ₹
<b>I. Equity and Liabilities</b>	
<b>1. Shareholders' Funds</b>	
(a) <i>Share Capital:</i>	
50,000 Equity Shares of ₹ 10 each	5,00,000
5,000; 9% Preference Shares of ₹ 10 each	50,000
(b) <i>Reserves and Surplus:</i>	
Surplus, i.e., Balance in Statement of Profit and Loss	1,25,000
<b>2. Non-Current Liabilities</b>	
Long-term Borrowings (12% Debentures)	4,00,000
<b>3. Current Liabilities</b> (Trade Payables)	1,70,000
<b>Total</b>	<u>12,45,000</u>
<b>II. Assets</b>	
<b>1. Non-Current Assets</b>	
(a) <i>Fixed Assets</i>	
Fixed Assets	11,50,000
Less: Accumulated Depreciation	<u>2,00,000</u>
	9,50,000
(b) <i>Non-current Investment:</i>	
10% Trade Investment	50,000
10% Other Investment (Face Value ₹ 35,000)	25,000
<b>2. Current Assets</b>	2,20,000
<b>Total</b>	<u>12,45,000</u>

*Additional Information:*

Net Profit after Interest and Tax for the year ended 31st March, 2019 was ₹ 1,21,500;  
Tax Rate: 40%.

**Solution:**

$$\begin{aligned} \text{Return on Investment (ROI)} &= \frac{\text{Net Profit before Interest, Tax and Dividend (WN 1)}}{\text{Capital Employed}} \times 100 \\ &= \frac{\text{₹ } 2,47,000}{\text{₹ } 10,50,000} \times 100 = \mathbf{23.52\%}. \end{aligned}$$

**Working Notes:**

## 1. Calculation of Net Profit before Interest and Tax:

Let the Net Profit before Tax = ₹ 100

Tax = 40%

So, Net Profit after Tax = ₹ 100 - ₹ 40 = ₹ 60.

If Net Profit after Tax is ₹ 60, then Net Profit before Tax = ₹ 100.

If Net Profit after Tax is ₹ 1, then Net Profit before Tax =  $\frac{₹ 100}{₹ 60}$ .If Net Profit after Tax is ₹ 1,21,500, then Net Profit before Tax =  $\frac{₹ 100}{₹ 60} \times ₹ 1,21,500 = ₹ 2,02,500$ .

Net Profit before Tax	2,02,500
Add: Interest on Debentures (₹ 4,00,000 × 12/100)	48,000
	2,50,500
Less: Interest on Non-trade Investment $\left[ ₹ 35,000 \times \frac{10}{100} \right]$	3,500
Net Profit before Interest and Tax	2,47,000

## 2. Calculation of Capital Employed:

## A. Liabilities Side Approach

Capital Employed = Equity Share Capital + Preference Share Capital + Reserves and Surplus  
 + Long-term Borrowings – Non-trade Investment  
 = ₹ 5,00,000 + ₹ 50,000 + ₹ 1,25,000 + ₹ 4,00,000 – ₹ 25,000 = ₹ 10,50,000.

## B. Assets Side Approach

Capital Employed = Net Fixed Assets + Trade Investment + Working Capital\*  
 = ₹ 9,50,000 + ₹ 50,000 + ₹ 50,000 = ₹ 10,50,000.

\*Working Capital = Current Assets – Current Liabilities  
 = ₹ 2,20,000 – ₹ 1,70,000 = ₹ 50,000.

**Illustration 10.**

Mr. Vijay owns a business and gives the following information:

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
Net Sales	9,00,000	18,00,000
Gross Profit	2,25,000	3,60,000
Current Assets	3,00,000	4,50,000
Current Liabilities	1,50,000	2,50,000

He is of the opinion that his manager Rajeev is very efficient as there is an increase in profit from ₹ 2,25,000 to ₹ 3,60,000 by his efforts.

Again his current assets have increased from ₹ 3,00,000 to ₹ 4,50,000 whereas current liabilities have increased only by ₹ 1,00,000 and thus his short-term financial position is also becoming strong.

Do you agree with him? State yes/no. Give reasons for your answer.

**Solution:**

Undoubtedly, there is an increase in gross profit from ₹ 2,25,000 to ₹ 3,60,000, i.e., ₹ 1,35,000. But this is not the test of efficiency of the manager. There is an increase in Net Sales also.

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## Analysis of Financial Statements—CBSE XII

Therefore, we have to calculate Gross Profit Ratio to check the efficiency of the manager.

$$\begin{aligned} \text{Gross Profit Ratio for the year ended 31st March, 2018} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \\ &= \frac{\text{₹ 2,25,000}}{\text{₹ 9,00,000}} \times 100 = 25\%. \end{aligned}$$

$$\text{Gross Profit Ratio for the year ended 31st March, 2019} = \frac{\text{₹ 3,60,000}}{\text{₹ 18,00,000}} \times 100 = 20\%.$$

Gross Profit Ratio has decreased from 25% to 20%, which shows that margin of profit has decreased in the year ended 31st March, 2019 and Vijay is wrong in his decision.

To test the short-term financial position of the company, we have to calculate Current Ratio.

$$\text{Current Ratio for the year ended 31st March, 2018} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\text{₹ 3,00,000}}{\text{₹ 1,50,000}} = 2:1.$$

$$\text{Current Ratio for the year ended 31st March, 2019} = \frac{\text{₹ 4,50,000}}{\text{₹ 2,50,000}} = 9:5 \text{ or } 1.80:1.$$

Since, Current Ratio has decreased from 2 in 2018 to 1.8 in 2019, financial position of the company has become weak. So Vijay is again wrong in his decision that short-term financial position of the company is becoming strong.

### Illustration 11.

From the following information, calculate Operating Ratio:

STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations		50,00,000
II. Other Income		1,00,000
III. Total Revenue		51,00,000
IV. Expenses:		
Purchases of Stock-in-Trade		27,00,000
Change in Inventories of Stock-in-Trade		(2,00,000)
Employee Benefit Expenses		3,10,000
Depreciation		90,000
Finance Cost		1,00,000
Other Expenses	1	2,50,000
<b>Total Expenses</b>		32,50,000
V. Profit before Tax (III – IV)		18,50,000

### Note to Accounts

Particulars	₹
<b>1. Other Expenses</b>	
Office Expenses	1,20,000
Selling and Distribution Expenses	80,000
Loss on Sale of Fixed Assets	50,000
	2,50,000

**Solution:**

$$\begin{aligned}\text{Operating Ratio} &= \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100 \\ &= \frac{\text{₹ } 31,00,000}{\text{₹ } 50,00,000} \times 100 = 62\%.\end{aligned}$$

**Note:** Operating Cost = Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade  
+ Employee Benefit Expenses + Depreciation + Office Expenses  
+ Selling and Distribution Expenses  
= ₹ 27,00,000 – ₹ 2,00,000 + ₹ 3,10,000 + ₹ 90,000 + ₹ 1,20,000 + ₹ 80,000  
= ₹ 31,00,000.

**Total Assets to Debt Ratio****Illustration 12.**

Following is the Balance Sheet of Hyatt Ltd. as at 31st March, 2019. You are required to calculate Total Assets to Debt Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	10,00,000	7,50,000
(b) Reserves and Surplus		3,00,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings		24,00,000	8,00,000
(b) Long-term Provisions		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	1,50,000
(b) Short-term Provisions		1,00,000	...
<b>Total</b>		<b>42,00,000</b>	<b>21,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		20,00,000	11,50,000
<b>2. Current Assets</b>			
(a) Inventories		9,00,000	4,00,000
(b) Trade Receivables		11,50,000	4,50,000
(c) Cash and Cash Equivalents		1,50,000	1,00,000
<b>Total</b>		<b>42,00,000</b>	<b>21,00,000</b>

**Note to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	7,50,000	5,00,000
Preference Share Capital	2,50,000	2,50,000
	<b>10,00,000</b>	<b>7,50,000</b>

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## Solution:

<b>Total Assets to Debt Ratio</b>	<b>31st March, 2019</b>	<b>31st March, 2018</b>
$= \frac{\text{Total Assets}}{\text{Debt (Long-term Debts)}}$	$= \frac{₹ 42,00,000}{₹ 26,00,000}$	$= \frac{₹ 21,00,000}{₹ 9,00,000}$
	$= 1.62 : 1$	$= 2.33 : 1$

**Working Note:**

	31st March, 2019 (₹)	31st March, 2018 (₹)
Total Assets =	₹ 42,00,000	₹ 21,00,000
Debt = Long-term Borrowings + Long-term Provisions =	₹ 26,00,000	₹ 9,00,000

**Debt to Equity Ratio****Illustration 13.**

Following is the Balance Sheet of Zee Ltd. as at 31st March, 2019. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		10,00,000	7,50,000
(b) Reserves and Surplus		3,00,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings		24,00,000	8,00,000
(b) Long-term Provisions		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	1,50,000
(b) Trade Payables		3,50,000	1,50,000
(c) Short-term Provisions		1,50,000	50,000
<b>Total</b>		<b>46,00,000</b>	<b>22,50,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		20,00,000	11,50,000
<b>2. Current Assets</b>			
(a) Inventories		10,00,000	4,50,000
(b) Trade Receivables		12,50,000	5,00,000
(c) Cash and Cash Equivalents		3,50,000	1,50,000
<b>Total</b>		<b>46,00,000</b>	<b>22,50,000</b>

## Solution:

<b>Debt to Equity Ratio</b>	<b>31st March, 2019</b>	<b>31st March, 2018</b>
$= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$	$= \frac{₹ 26,00,000}{₹ 13,00,000}$	$= \frac{₹ 9,00,000}{₹ 10,00,000}$
	$= 2 : 1$	$= 0.90 : 1$



## Accounting Ratios

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### Working Note:

	₹	₹
Debt = Long-term Borrowings + Long-term Provisions		
2019 = ₹ 24,00,000 + ₹ 2,00,000	26,00,000	
2018 = ₹ 8,00,000 + ₹ 1,00,000		9,00,000
Equity or Shareholders' Funds = Share Capital + Reserves and Surplus		
2019 = ₹ 10,00,000 + ₹ 3,00,000	13,00,000	
2018 = ₹ 7,50,000 + ₹ 2,50,000		10,00,000

Alternatively:

Equity = Non-current Assets + Current Assets – (Non-current Liabilities – Current Liabilities)		
2019 = ₹ 20,00,000 + ₹ 26,00,000 – ₹ 24,00,000 – ₹ 2,00,000 – ₹ 7,00,000	13,00,000	
2018 = ₹ 11,50,000 + ₹ 11,00,000 – ₹ 8,00,000 – ₹ 1,00,000 – ₹ 3,50,000		10,00,000

### Illustration 14.

Following is the Balance Sheet of Exe Ltd. as at 31st March, 2019. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		10,00,000	7,50,000
(b) Reserves and Surplus		5,00,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings		8,00,000	4,00,000
(b) Long-term Provisions		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	1,50,000
(b) Trade Payables		3,50,000	1,50,000
(c) Short-term Provisions		1,50,000	50,000
<b>Total</b>		<b>32,00,000</b>	<b>18,50,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		14,00,000	9,50,000
<b>2. Current Assets</b>			
(a) Inventories		7,50,000	4,50,000
(b) Trade Receivables		7,50,000	2,50,000
(c) Cash and Cash Equivalents		3,00,000	2,00,000
<b>Total</b>		<b>32,00,000</b>	<b>18,50,000</b>

### Solution:

#### Debt to Equity Ratio

$$= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$$

31st March, 2019

$$= \frac{\text{₹ } 10,00,000}{\text{₹ } 15,00,000}$$

$$= 0.67 : 1$$

31st March, 2018

$$= \frac{\text{₹ } 5,00,000}{\text{₹ } 10,00,000}$$

$$= 0.50 : 1$$

## 4.20

## Analysis of Financial Statements—CBSE XII

**Working Note:**

		₹	₹
	Debt = Long-term Borrowings + Long-term Provisions		
	2019 = ₹ 8,00,000 + ₹ 2,00,000	10,00,000	
	2018 = ₹ 4,00,000 + ₹ 1,00,000		5,00,000
	Equity or Shareholders' Funds = Share Capital + Reserves and Surplus		
	2019 = ₹ 10,00,000 + ₹ 5,00,000	15,00,000	
	2018 = ₹ 7,50,000 + ₹ 2,50,000		10,00,000

*Alternatively:*

	Equity = Non-current Assets + Current Assets – (Non-current Liabilities – Current Liabilities)		
	2019 = ₹ 14,00,000 + ₹ 18,00,000 – ₹ 8,00,000 – ₹ 2,00,000 – ₹ 7,00,000	15,00,000	
	2018 = ₹ 9,50,000 + ₹ 9,00,000 – ₹ 4,00,000 – ₹ 1,00,000 – ₹ 3,50,000		10,00,000

**Illustration 15.**

Following is the Balance Sheet of Financial Services Ltd. as at 31st March, 2019. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	7,50,000
(b) Reserves and Surplus		3,00,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		4,50,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	1,00,000
(b) Trade Payables		4,50,000	3,50,000
(c) Other Current Liabilities		1,50,000	1,00,000
<b>Total</b>	1	23,00,000	20,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		7,50,000	7,00,000
(b) Non-current Investments		2,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories	2	4,50,000	3,50,000
(b) Trade Receivables		5,00,000	4,50,000
(c) Cash and Cash Equivalents		2,00,000	2,00,000
(d) Other Current Assets	3	2,00,000	1,00,000
<b>Total</b>		23,00,000	20,00,000

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Current Liabilities</b>		
Expenses Payable	1,00,000	1,00,000
Current Maturities of Long-term Debt	50,000	...
	1,50,000	1,00,000
<b>2. Inventories</b>		
Raw Materials	3,00,000	2,25,000
WIP	1,00,000	75,000
Stores and Spares	50,000	50,000
	4,50,000	3,50,000
<b>3. Other Current Assets</b>		
Prepaid Expenses	50,000	25,000
Advances to Staff	1,50,000	75,000
	2,00,000	1,00,000

**Solution:**

<b>Current Ratio</b>	<b>31st March, 2019</b>	<b>31st March, 2018</b>
= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	= $\frac{\text{₹ 13,00,000}}{\text{₹ 8,00,000}}$	= $\frac{\text{₹ 10,50,000}}{\text{₹ 5,50,000}}$
	= 1.63 : 1	= 1.91 : 1
		₹       ₹

**Working Note:**

Current Assets = Inventories (Excluding Stores and Spares) + Trade Receivables + Cash and Cash Equivalents + Other Current Assets		
2019 = ₹ 4,00,000 + ₹ 5,00,000 + ₹ 2,00,000 + ₹ 2,00,000	13,00,000	
2018 = ₹ 3,00,000 + ₹ 4,50,000 + ₹ 2,00,000 + ₹ 1,00,000		10,50,000
Current Liabilities = Short-term Borrowings + Trade Payables + Other Current Liabilities		
2019 = ₹ 2,00,000 + ₹ 4,50,000 + ₹ 1,50,000	8,00,000	
2018 = ₹ 1,00,000 + ₹ 3,50,000 + ₹ 1,00,000		5,50,000

<b>Liquid Ratio</b>	<b>31st March, 2019</b>	<b>31st March, 2018</b>
= $\frac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$	= $\frac{\text{₹ 8,50,000}}{\text{₹ 8,00,000}}$	= $\frac{\text{₹ 7,25,000}}{\text{₹ 5,50,000}}$
	= 1.06 : 1	= 1.32 : 1
		₹       ₹

**Working Note:**

Liquid Assets = Trade Receivables + Cash and Cash Equivalents + Other Current Assets (Advances to Staff)		
2019 = ₹ 5,00,000 + ₹ 2,00,000 + ₹ 1,50,000	8,50,000	
2018 = ₹ 4,50,000 + ₹ 2,00,000 + ₹ 75,000		7,25,000
Current Liabilities = Short-term Borrowings + Trade Payables + Other Current Liabilities		
2019 = ₹ 2,00,000 + ₹ 4,50,000 + ₹ 1,50,000	8,00,000	
2018 = ₹ 1,00,000 + ₹ 3,50,000 + ₹ 1,00,000		5,50,000

**Illustration 16.**

Following is the Balance Sheet of Financial Services Ltd. as at 31st March, 2019. You are required to calculate Liquid Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus		2,50,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		7,50,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	1	1,00,000	75,000
(b) Trade Payables		2,50,000	2,00,000
<b>Total</b>		18,50,000	14,75,000

## 4.22

## Analysis of Financial Statements—CBSE XII

II. ASSETS			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		6,00,000	5,50,000
(b) Non-current Investments		1,00,000	1,00,000
<b>2. Current Assets</b>			
(a) Inventories		3,50,000	2,75,000
(b) Trade Receivables		4,00,000	2,50,000
(c) Cash and Cash Equivalents		2,00,000	2,00,000
(d) Other Current Assets	2	2,00,000	1,00,000
<b>Total</b>		<b>18,50,000</b>	<b>14,75,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Short-term Borrowings</b>		
Bank Overdraft	60,000	50,000
Loan Against Fixed Deposit	40,000	25,000
	<b>1,00,000</b>	<b>75,000</b>
<b>2. Other Current Assets</b>		
Prepaid Expenses	50,000	25,000
Advances for Purchases of Goods	1,50,000	75,000
	<b>2,00,000</b>	<b>1,00,000</b>

## Solution:

Liquid Ratio	31st March, 2019	31st March, 2018
= $\frac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$	= $\frac{₹ 7,50,000}{₹ 3,50,000}$	= $\frac{₹ 5,25,000}{₹ 2,75,000}$
	= 2.14 : 1	= 1.91 : 1

## Working Note:

Liquid Assets = Trade Receivables + Cash and Cash Equivalents + Other Current Assets (Advances for Purchases)	₹	₹
2019 = ₹ 4,00,000 + ₹ 2,00,000 + ₹ 1,50,000	7,50,000	
2018 = ₹ 2,50,000 + ₹ 2,00,000 + ₹ 75,000		5,25,000
Current Liabilities = Short-term Borrowings + Trade Payables		
2019 = ₹ 1,00,000 + ₹ 2,50,000	3,50,000	
2018 = ₹ 75,000 + ₹ 2,00,000		2,75,000

**Always Remember:** While calculating Current Ratio and Liquid (Quick) Ratio 'Provision for Doubtful Debts' and 'Provision for Discount on Debtors' are deducted from Trade Receivables.

**Illustration 17.**

Following is the Balance Sheet of Computers India Ltd. as at 31st March, 2019. You are required to calculate Liquid Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		10,00,000	7,50,000
(b) Reserves and Surplus		5,00,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		15,00,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	1	2,00,000	1,50,000
(b) Trade Payables		3,50,000	1,50,000
(c) Short-term Provisions	2	1,50,000	50,000
<b>Total</b>		<b>37,00,000</b>	<b>18,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		14,00,000	7,50,000
(b) Non-current Investments		5,00,000	1,50,000
<b>2. Current Assets</b>			
(a) Inventories	3	7,50,000	4,50,000
(b) Trade Receivables	4	7,50,000	2,50,000
(c) Cash and Cash Equivalents		3,00,000	2,00,000
<b>Total</b>		<b>37,00,000</b>	<b>18,00,000</b>

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Short-term Borrowings</b>		
Bank Overdraft	1,50,000	1,00,000
Loan from Directors	50,000	50,000
	<b>2,00,000</b>	<b>1,50,000</b>
<b>2. Short-term Provisions</b>		
Provision for Expenses	50,000	25,000
Provision for Tax	1,00,000	25,000
	<b>1,50,000</b>	<b>50,000</b>
<b>3. Inventories</b>		
Materials	3,25,000	1,50,000
Stock-in-trade	1,75,000	1,00,000
Finished Goods	1,50,000	1,50,000
Loose Tools	1,00,000	50,000
	<b>7,50,000</b>	<b>4,50,000</b>
<b>4. Trade Receivables</b>		
Sundry Debtors	6,00,000	2,25,000
Bills Receivable	1,50,000	25,000
	<b>7,50,000</b>	<b>2,50,000</b>

**Solution:****Liquid Ratio**

$$= \frac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$$

31st March, 2019

$$= \frac{₹ 10,50,000}{₹ 7,00,000}$$

$$= 1.50 : 1$$

31st March, 2018

$$= \frac{₹ 4,50,000}{₹ 3,50,000}$$

$$= 1.29 : 1$$

## 4.24

## Analysis of Financial Statements—CBSE XII

**Working Note:**

	₹	₹
Liquid Assets = Trade Receivables + Cash and Cash Equivalents		
2019 = ₹ 7,50,000 + ₹ 3,00,000	10,50,000	
2018 = ₹ 2,50,000 + ₹ 2,00,000		4,50,000
Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions		
2019 = ₹ 2,00,000 + ₹ 3,50,000 + ₹ 1,50,000	7,00,000	
2018 = ₹ 1,50,000 + ₹ 1,50,000 + ₹ 50,000		3,50,000

**Illustration 18.**

Following is the Balance Sheet of Daily Needs Ltd. as at 31st March, 2019. You are required to calculate Current Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		10,00,000	7,50,000
(b) Reserves and Surplus		5,00,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		15,00,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	1	2,00,000	1,50,000
(b) Trade Payables		3,50,000	1,50,000
(c) Short-term Provisions	2	1,50,000	50,000
<b>Total</b>		37,00,000	18,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		14,00,000	7,50,000
(b) Non-current Investments		5,00,000	1,50,000
<b>2. Current Assets</b>			
(a) Inventories	3	7,50,000	4,50,000
(b) Trade Receivables	4	7,50,000	2,50,000
(c) Cash and Cash Equivalents		3,00,000	2,00,000
<b>Total</b>		37,00,000	18,00,000

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Short-term Borrowings</b>		
Bank Overdraft	1,50,000	1,00,000
Loan from Directors	50,000	50,000
	2,00,000	1,50,000
<b>2. Short-term Provisions</b>		
Provision for Expenses	50,000	25,000
Provision for Tax	1,00,000	25,000
	1,50,000	50,000

<b>3. Inventories</b>		
Materials	3,25,000	1,50,000
Stock-in-trade	1,75,000	1,00,000
Finished Goods	1,50,000	1,50,000
Loose Tools	1,00,000	50,000
	<u>7,50,000</u>	<u>4,50,000</u>
<b>4. Trade Receivables</b>		
Sundry Debtors	6,00,000	2,25,000
Bills Receivable	1,50,000	25,000
	<u>7,50,000</u>	<u>2,50,000</u>

**Solution:**

<b>Current Ratio</b>	<b>31st March, 2019</b>	<b>31st March, 2018</b>
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{₹ 17,00,000}{₹ 7,00,000}$	$= \frac{₹ 8,50,000}{₹ 3,50,000}$
	$= 2.43 : 1$	$= 2.43 : 1$

**Working Note:**

Current Assets = Inventories (Excluding Loose Tools) + Trade Receivables + Cash and Cash Equivalents	₹	₹
2019 = ₹ 6,50,000 + ₹ 7,50,000 + ₹ 3,00,000	17,00,000	
2018 = ₹ 4,00,000 + ₹ 2,50,000 + ₹ 2,00,000		8,50,000
Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions		
2019 = ₹ 2,00,000 + ₹ 3,50,000 + ₹ 1,50,000	7,00,000	
2018 = ₹ 1,50,000 + ₹ 1,50,000 + ₹ 50,000		3,50,000

**Illustration 19.**

Following is the Balance Sheet of Total Care Ltd. as at 31st March, 2019. You are required to calculate Current Ratio for the two years.

BALANCE SHEET  
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus		2,50,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		7,50,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	1	1,00,000	75,000
(b) Trade Payables	2	2,50,000	2,00,000
<b>Total</b>		<u>18,50,000</u>	<u>14,75,000</u>

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## Analysis of Financial Statements—CBSE XII

II. ASSETS			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		6,00,000	5,50,000
(b) Non-current Investments		1,00,000	1,00,000
<b>2. Current Assets</b>			
(a) Inventories	3	4,50,000	3,75,000
(b) Trade Receivables	4	5,00,000	2,50,000
(c) Cash and Cash Equivalents		2,00,000	2,00,000
<b>Total</b>		<b>18,50,000</b>	<b>14,75,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Short-term Borrowings</b>		
Bank Overdraft	60,000	50,000
Loan Against Fixed Deposit	40,000	25,000
	<b>1,00,000</b>	<b>75,000</b>
<b>2. Trade Payable</b>		
Sundry Creditors	2,00,000	1,65,000
Bills Payable	50,000	35,000
	<b>2,50,000</b>	<b>2,00,000</b>
<b>3. Inventories</b>		
Materials	2,25,000	1,75,000
Finished Goods	1,25,000	1,75,000
Loose Tools	1,00,000	25,000
	<b>4,50,000</b>	<b>3,75,000</b>
<b>4. Trade Receivables</b>		
Sundry Debtors	4,00,000	2,25,000
Bills Receivable	1,00,000	25,000
	<b>5,00,000</b>	<b>2,50,000</b>

## Solution:

## Current Ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

31st March, 2019

$$= \frac{₹ 10,50,000}{₹ 3,50,000}$$

$$= 3 : 1$$

31st March, 2018

$$= \frac{₹ 8,00,000}{₹ 2,75,000}$$

$$= 2.91 : 1$$

## Working Note:

Current Assets = Inventories (Excluding Loose Tools) + Trade Receivables +  
Cash and Cash Equivalents

$$2019 = ₹ 3,50,000 + ₹ 5,00,000 + ₹ 2,00,000 = ₹ 10,50,000$$

$$2018 = ₹ 3,50,000 + ₹ 2,50,000 + ₹ 2,00,000 = ₹ 8,00,000$$

Current Liabilities = Short-term Borrowings + Trade Payables

$$2019 = ₹ 1,00,000 + ₹ 2,50,000 = ₹ 3,50,000$$

$$2018 = ₹ 75,000 + ₹ 2,00,000 = ₹ 2,75,000.$$



**Illustration 20.**

Current Assets of a company are ₹ 17,00,000. Its Current Ratio is 2.5 and Liquid Ratio is 0.95. Calculate Current Liabilities and Inventory.

**Solution:**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2.5 = \frac{\text{₹ 17,00,000}}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \text{₹ 6,80,000}$$

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$0.95 = \frac{\text{Quick Assets}}{\text{₹ 6,80,000}}$$

$$\text{Quick Assets} = \text{₹ 6,46,000}$$

$$\text{Inventory} = \text{Current Assets} - \text{Quick Assets}$$

$$= \text{₹ 17,00,000} - \text{₹ 6,46,000} = \text{₹ 10,54,000}$$

Thus, Current Liabilities = ₹ 6,80,000 and Inventory = ₹ 10,54,000.

**Illustration 21.**

Following is the Balance Sheet of X Ltd. as at 31st March, 2019:

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		20,00,000
(b) Reserves and Surplus	1	9,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings (10% Loan)		10,00,000
<b>3. Current Liabilities</b>		
		15,00,000
<b>Total</b>		54,00,000
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
<i>Fixed Assets:</i>		
(a) Tangible		25,00,000
(b) Intangible		4,00,000
<b>2. Current Assets</b>		
(a) Inventories		10,00,000
(b) Trade Receivables		10,00,000
(c) Cash and Cash Equivalents		5,00,000
<b>Total</b>		54,00,000

**Note to Accounts**

Particulars	₹
<b>1. Reserves and Surplus</b>	
(a) General Reserve	3,00,000
(b) Surplus, i.e., Balance in Statement of Profit and Loss	6,00,000
	9,00,000

Surplus, i.e., Balance in Statement of Profit and Loss includes profit of ₹ 5,00,000 for the current year.

Compute Return on Capital Employed.

**Solution:** Return on Capital Employed =  $\frac{\text{Profit before Interest}}{\text{Capital Employed}} \times 100$

$$= \frac{₹ 6,00,000 \text{ (WN 1)}}{₹ 39,00,000 \text{ (WN 2)}} \times 100 = 15.38\%.$$

**Working Notes:**

1. Profit before Interest:	Profit	₹ 5,00,000
	Add: Interest (10% of ₹ 10,00,000)	1,00,000
	<b>Net Profit before Interest</b>	<b>6,00,000</b>
2. Capital Employed:	Fixed Assets (Tangible Assets + Intangible Assets)	29,00,000
	Working Capital, i.e., Current Assets – Current Liabilities (₹ 25,00,000 – ₹ 15,00,000)	10,00,000
	<b>Capital Employed (Assets Side Approach)</b>	<b>39,00,000</b>
	Or	
	Share Capital	20,00,000
	Reserves and Surplus	9,00,000
	Long-term Borrowings	10,00,000
	<b>Capital Employed (Liabilities Side Approach)</b>	<b>39,00,000</b>

**Always Remember:** Capital Employed can be computed from the assets side as well as the liabilities side of the Balance Sheet. Result in both the workings will be same.

**Illustration 22.**

Current Assets of a company are ₹ 9,00,000. Its Current Ratio is 3 and Liquid Ratio is 1.2. Calculate Current Liabilities, Liquid Assets and Inventory. (Foreign 2005)

**Solution:**

(i) Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$3 = \frac{₹ 9,00,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{₹ 9,00,000}{3} = ₹ 3,00,000.$$

(ii) Liquid Ratio =  $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$$1.2 = \frac{\text{Liquid Assets}}{₹ 3,00,000}$$

$$\text{Liquid Assets} = ₹ 3,60,000.$$

(iii) Inventory = Current Assets – Liquid Assets

$$= ₹ 9,00,000 - ₹ 3,60,000 = ₹ 5,40,000.$$

**Illustration 23.**

Calculate Debt to Equity Ratio from the following data:

(i) Total Assets ₹ 1,25,000    (ii) Total Debts ₹ 1,00,000    (iii) Short-term Loans ₹ 50,000.

**Solution:** Calculation of Debt to Equity Ratio:

$$\text{Debt to Equity Ratio} = \frac{\text{Debt/Long-term Debt}}{\text{Equity/Shareholders' Funds}} = \frac{₹ 50,000}{₹ 25,000} = 2 : 1.$$

**Working Notes:**

1. Long-term Debt = Total Debts – Current Liabilities (Short-term Loans)  
= ₹ 1,00,000 – ₹ 50,000 = ₹ 50,000.
2. Shareholders' Funds = Total Assets – Total Debts = ₹ 1,25,000 – ₹ 1,00,000 = ₹ 25,000.

**Illustration 24.**

From the following information compute:

(i) Debt to Equity Ratio; (ii) Total Assets to Debt Ratio; (iii) Proprietary Ratio.

Particulars	₹
Long-term Borrowings	5,00,000
Long-term Provisions	2,50,000
Current Liabilities	1,25,000
Non-Current Assets	9,00,000
Current Assets	2,25,000

**Solution:**

$$(i) \quad \text{Debt to Equity Ratio} = \frac{\text{Debt/Long-term Debt}}{\text{Shareholders' Funds}} = \frac{₹ 7,50,000}{₹ 2,50,000} = 3 : 1.$$

$$(ii) \quad \text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹ 11,25,000}{₹ 7,50,000} = 1.5 : 1.$$

$$(iii) \quad \text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}} = \frac{₹ 2,50,000}{₹ 11,25,000} = 0.22 : 1.$$

**Working Notes:**

1. Debt = Long-term Borrowings + Long-term Provisions = ₹ 5,00,000 + ₹ 2,50,000 = ₹ 7,50,000.

2. Shareholders' Funds = Total Assets – Non-Current Liabilities – Current Liabilities  
 = (Non-Current Assets + Current Assets) – (Long-term Borrowings + Long-term Provisions) – Current Liabilities  
 = (₹ 9,00,000 + ₹ 2,25,000) – (₹ 5,00,000 + ₹ 2,50,000) – ₹ 1,25,000  
 = ₹ 11,25,000 – ₹ 7,50,000 – ₹ 1,25,000 = ₹ 2,50,000.

3. Total Assets = Non-Current Assets + Current Assets = ₹ 9,00,000 + ₹ 2,25,000 = ₹ 11,25,000.

**Illustration 25.**

The data given below is of SKC Ltd. for 3 years. The company has a loan of ₹ 360 (lakhs) repayable in next 5 years. You are required to calculate Interest Coverage Ratio for each year.

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3
Profit after Tax (₹)	480	575	635
Tax (₹)	125	203	254
Interest on Loan (₹)	162	125	87

$$\text{Solution:} \quad \text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$$

Profit before Interest and Tax (₹)	767	903	976
Interest Coverage Ratio	= 767/162	= 903/125	= 976/87
	= 4.73 Times	= 7.22 Times	= 11.22 Times

**Note:** Profit before Interest and Tax = Profit after Tax + Tax + Interest on Loan.

## 4.30

**Illustration 26.**

From the following Statement of Profit and Loss of Business Machines Ltd., calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT AND LOSS  
for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations		10,00,000
II. Other Income		50,000
III. Total Revenue (I + II)		10,50,000
IV. Expenses:		
Purchases of Stock-in-Trade		5,00,000
Change in Inventory of Stock-in-Trade	1	25,000
Employees Benefit Expenses		1,20,000
Depreciation and Amortisation Expenses		5,000
Other Expenses		20,000
Total Expenses		6,70,000
V. Profit before Tax (III – IV)		3,80,000

**Note to Accounts**

Particulars	₹
<b>1. Change in Inventory of Stock-in-Trade</b>	
Opening Inventory	1,00,000
Less: Closing Inventory	75,000
	25,000

**Solution:** Inventory Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{\text{Average Inventory}} = \frac{\text{₹ } 5,25,000}{\text{₹ } 87,500} = 6 \text{ Times.}$$

Cost of Revenue from Operations (Cost of Goods Sold)

$$= \text{Purchases of Stock-in-Trade} + \text{Change in Inventories of Stock-in-Trade}$$

$$= \text{₹ } 5,00,000 + \text{₹ } 25,000 = \text{₹ } 5,25,000.$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = \frac{\text{₹ } 1,00,000 + \text{₹ } 75,000}{2}$$

$$= \text{₹ } 87,500.$$

**Note:** Direct Expenses are not given, hence they are presumed to be nil.

**Illustration 27.**

A trader carries an Average Inventory of ₹ 75,000. His Inventory Turnover Ratio is 12 times. Find out his profit, if he sells at a profit of 20% on sales. (Foreign 2004)

**Solution:**

$$\text{Profit} = \text{Sales} - \text{Cost of Revenue from Operations (Cost of Goods Sold)}$$

$$= \text{₹ } 11,25,000 - \text{₹ } 9,00,000 = \text{₹ } 2,25,000.$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{\text{Average Inventory}}$$

$$12 = \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{\text{₹ 75,000}}$$

$$\begin{aligned} \text{Cost of Revenue from Operations (Cost of Goods Sold)} \\ = ₹ 75,000 \times 12 = ₹ 9,00,000. \end{aligned}$$

Let Selling Price be ₹ 100,

$$\text{Profit} = ₹ 20$$

$$\text{Cost} = ₹ 100 - ₹ 20 = ₹ 80$$

If Cost is ₹ 80, then Sales = ₹ 100.

$$\text{If Cost is ₹ 9,00,000, then Sales} = \frac{₹ 100}{₹ 80} \times ₹ 9,00,000 = ₹ 11,25,000.$$

### Illustration 28.

From the following data, calculate Gross Profit Ratio, Current Ratio, Quick Ratio and Debt to Equity Ratio:

Revenue from Operations ₹ 3,00,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 2,00,000; Net Profit ₹ 30,000; Current Assets ₹ 60,000; Inventory ₹ 10,000; Current Liabilities ₹ 20,000; Share Capital ₹ 50,000 and Debentures ₹ 25,000.

### Solution:

$$(i) \quad \text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$\begin{aligned} \text{Gross Profit} &= \text{Revenue from Operations} \\ &\quad - \text{Cost of Revenue from Operations (Cost of Goods Sold)} \\ &= ₹ 3,00,000 - ₹ 2,00,000 = ₹ 1,00,000. \end{aligned}$$

$$\text{Gross Profit Ratio} = \frac{₹ 1,00,000}{₹ 3,00,000} \times 100 = 33.33\%.$$

$$(ii) \quad \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹ 60,000}{₹ 20,000} = 3 : 1.$$

$$(iii) \quad \text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹ 60,000 - ₹ 10,000 (\text{Inventory})}{₹ 20,000} = 2.5 : 1.$$

$$\begin{aligned} (iv) \quad \text{Debt to Equity Ratio} &= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}} = \frac{\text{Debentures}}{\text{Share Capital + Profit}} \\ &= \frac{₹ 25,000}{₹ 50,000 + ₹ 30,000} = \frac{₹ 25,000}{₹ 80,000} \\ &= 0.31 : 1. \end{aligned}$$

## Illustration 29.

**Grow More Ltd.**  
COMPARATIVE BALANCE SHEET as at 31st March, 2018 and 2019

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital		2,00,000	3,00,000	1,00,000	50.00
(b) Reserves and Surplus		2,00,000	2,00,000	...	...
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		40,000	1,60,000	1,20,000	300.00
<b>3. Current Liabilities</b>					
Trade Payables		60,000	1,00,000	40,000	66.67
<b>Total</b>		<b>5,00,000</b>	<b>7,60,000</b>	<b>2,60,000</b>	<b>52.00</b>
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) Fixed Assets		3,60,000	5,60,000	2,00,000	55.55
(b) Non-Current Investments		40,000	40,000	...	...
<b>2. Current Assets</b>					
(a) Trade Receivables		80,000	1,20,000	40,000	50.00
(b) Cash and Cash Equivalents		20,000	40,000	20,000	100.00
<b>Total</b>		<b>5,00,000</b>	<b>7,60,000</b>	<b>2,60,000</b>	<b>52.00</b>

## Additional Information:

- Trade Receivables as at 31st March, 2017 were ₹ 60,000.
- Revenue from Operations (Net Sales) for the year ended 31st March, 2018 and 31st March, 2019 is ₹ 20,00,000 and ₹ 30,00,000 respectively. Net Credit Revenue from Operations being 70% of Revenue from Operations in both the years.

From the above Comparative Balance Sheets and additional information, compute Trade Receivables Turnover Ratio.

## Solution:

Trade Receivables Turnover Ratio	31st March, 2018	31st March, 2019
$\frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$	$= \frac{₹ 14,00,000}{\frac{₹ 60,000 + ₹ 80,000}{2}}$	$= \frac{₹ 21,00,000}{\frac{₹ 80,000 + ₹ 1,20,000}{2}}$
	= 20 Times	= 21 Times
Credit Revenue from Operations	= 70% of ₹ 20,00,000 = ₹ 14,00,000	= 70% of ₹ 30,00,000 = ₹ 21,00,000

## Illustration 30.

Current Ratio of a company is 2.5 : 1. State, giving reasons, which of the following would improve, decline or not change the ratio:

- Repayment of long-term loans;
- Goods purchased on credit of 3 months;

- (iii) Purchase of computer on credit of 2 months;
- (iv) Purchase of building by issuing debentures;
- (v) Revenue from Operations, *i.e.*, Sale of goods for ₹ 20,000 on credit of 1 month (Cost of Goods Sold ₹ 15,000);
- (vi) Cash collected from debtors;
- (vii) Cash paid to creditors;
- (viii) Payment of outstanding liabilities;
- (ix) Sale of goods for cash ₹ 20,000 (Cost ₹ 24,000);
- (x) Issue of shares for cash;
- (xi) Bills receivable drawn on debtors for 2 months; and
- (xii) Bills receivable collected at maturity.

**Solution:** Statement Showing the Effect of Different Items on Current Ratio

Transactions	Effect on Current Ratio	Reason
(i)	Improve	Repayment of long-term loans will <b>reduce</b> Cash and Cash Equivalents, <i>i.e.</i> , current assets and, current liabilities with the amount paid. Therefore, Current Ratio will improve.
(ii)	Decline	Goods purchased on credit will <b>increase</b> inventory, <i>i.e.</i> , current assets and also current liabilities by the same amount. In effect, Current Ratio will decline.
(iii)	Decline	Purchase of computer on credit which will be paid within 2 months will increase current liabilities. However, current assets <b>will not change</b> . Therefore, Current Ratio will decline.
(iv)	No change	Purchase of building by issuing debentures <b>will not affect</b> current assets or current liabilities. Therefore, Current Ratio will not change.
(v)	Improve	Credit Sale of goods at a profit will <b>increase</b> current assets. However, current liabilities will remain same. Therefore, Current Ratio will improve.
(vi)	No change	Cash collected from debtors will <b>not change</b> current assets because one current asset will be replaced by another. Besides, current liabilities will remain same. Therefore, Current Ratio will not change.
(vii)	Improve	Cash paid to creditors will <b>reduce</b> current assets and current liabilities by the same amount. Therefore, Current Ratio will improve.
(viii)	Improve	Payment of outstanding liabilities will <b>reduce</b> current assets and current liabilities. Therefore, Current Ratio will improve.
(ix)	Decline	Sale of goods at a loss will <b>reduce</b> current assets but current liabilities will remain same. Therefore, Current Ratio will decline.
(x)	Improve	Issue of shares for cash will <b>increase</b> current assets but current liabilities will remain same. Therefore, Current Ratio will improve.
(xi)	No change	Bills receivable drawn on debtors will <b>not change</b> current assets because one current asset will be replaced by another. Therefore, it will not change the Current Ratio.
(xii)	No change	Bills receivable collected at maturity will <b>not change</b> current assets because one current asset will be replaced by another. Therefore, Current Ratio will not change.

## 4.34

## Illustration 31.

Compute Total Assets to Debt Ratio from the following information:

	₹		₹
Total Assets	7,50,000	Bills Payable	30,000
Total Debts	8,00,000	Bank Overdraft	37,500
Creditors	75,000	Outstanding Expenses	17,500

## Solution:

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{\text{₹ 7,50,000}}{\text{₹ 6,40,000}} = 1.17 : 1.$$

$$\begin{aligned} \text{Debt} &= \text{Total Debts} - \text{Creditors} - \text{Bills Payable} - \text{Bank Overdraft} - \text{Outstanding Expenses} \\ &= \text{₹ 8,00,000} - \text{₹ 75,000} - \text{₹ 30,000} - \text{₹ 37,500} - \text{₹ 17,500} = \text{₹ 6,40,000}. \end{aligned}$$

**Note:** Creditors, Bills Payable, Bank Overdraft and Outstanding Expenses are Current Liabilities. Hence, these are deducted.

## Illustration 32.

From the following information, calculate Total Assets to Debt Ratio:

	₹		₹
Total Debt	4,50,000	Short-term Bank Loan	50,000
Sundry Creditors	75,000	Total Assets	5,50,000
Expenses Payable	25,000	Surplus, i.e., Balance in Statement of	
Bills Payable	25,000	Profit and Loss (Debit)	20,000

## Solution:

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{\text{₹ 5,50,000}}{\text{₹ 2,75,000}} = 2 : 1.$$

**Note:** Debt = Total Debt – Short-term Bank Loan – Trade Payables (Sundry Creditors + Bills Payable) – Other Current Liabilities (Expenses Payable).  
 $= \text{₹ 4,50,000} - \text{₹ 50,000} - (\text{₹ 75,000} + \text{₹ 25,000}) - \text{₹ 25,000} = \text{₹ 2,75,000}.$

## Illustration 33.

From the following Balance Sheet of Y Ltd. for the year ended 31st March, 2019, calculate Total Assets to Debt Ratio:

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
Share Capital	20,00,000
<b>2. Non-Current Liabilities</b>	
Long-term Borrowings	10,00,000
<b>3. Current Liabilities</b>	
Trade Payables	5,00,000
<b>Total</b>	35,00,000



<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets: Tangible Assets	22,00,000
<b>2. Current Assets</b>	
(a) Inventories	8,00,000
(b) Trade Receivables	3,00,000
(c) Cash and Cash Equivalents	1,50,000
(d) Short-term Loans and Advances	50,000
<b>Total</b>	<b>35,00,000</b>

**Solution:** Total Assets to Debt Ratio =  $\frac{\text{Total Assets}}{\text{Debt}} = \frac{\text{₹ } 35,00,000}{\text{₹ } 10,00,000} = 3.5 : 1.$

#### Illustration 34.

From the following Balance Sheet of Times Ltd. as at 31st March, 2019, compute Return on Capital Employed or Return on Investment:

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		13,00,000
(b) Reserves and Surplus		(2,50,000)
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		5,00,000
<b>3. Current Liabilities</b>		
(a) Trade Payables		1,00,000
(b) Other Current Liabilities		70,000
(c) Short-term Provisions		30,000
<b>Total</b>		<b>17,50,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets		11,20,000
(b) Non-current Investments (Trade)		2,00,000
<b>2. Current Assets</b>		
(a) Inventories		1,70,000
(b) Trade Receivables		1,40,000
(c) Cash and Cash Equivalents		1,20,000
<b>Total</b>		<b>17,50,000</b>

**Note:** Net Profit for the year before interest and tax is ₹ 4,65,000.

#### Solution:

$$\begin{aligned} \text{Return on Capital Employed} &= \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100 \\ &= \frac{\text{₹ } 4,65,000}{\text{₹ } 15,50,000} \times 100 = 30\%. \end{aligned}$$

## 4.36

## Analysis of Financial Statements—CBSE XII

Capital Employed:

- Liabilities Approach = Share Capital + Reserves and Surplus + Long-term Borrowings  
= ₹ 13,00,000 – ₹ 2,50,000 + ₹ 5,00,000 = ₹ 15,50,000.
- Assets Approach = Fixed Assets + Non-current Investments (Trade) +  
Working Capital (*i.e.*, Current Assets – Current Liabilities)  
= ₹ 11,20,000 + ₹ 2,00,000 + (₹ 1,70,000 + ₹ 1,40,000  
+ ₹ 1,20,000 – ₹ 1,00,000 – ₹ 70,000 – ₹ 30,000) = ₹ 15,50,000.

## Illustration 35.

## Matrix Ltd.

COMMON-SIZE STATEMENT OF PROFIT AND LOSS for the years ended 31st March, 2018 and 2019

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2018 (₹)	31st March, 2019 (₹)	31st March, 2018 (₹)	31st March, 2019 (₹)
I. Revenue from Operations		16,00,000	20,00,000	100.00	100.00
II. Employees Benefit Expenses		8,00,000	10,00,000	50.00	50.00
Other Expenses		2,00,000	1,00,000	12.50	5.00
III. Total Expenses		10,00,000	11,00,000	62.50	55.00
IV. Profit before Tax (I – III)		6,00,000	9,00,000	37.50	45.00

From the above, compute Operating Ratio.

## Solution:

Operating Ratio	31st March, 2018	31st March, 2019
$\frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$	$= \frac{₹ 10,00,000}{₹ 16,00,000} \times 100$	$= \frac{₹ 11,00,000}{₹ 20,00,000} \times 100$
	= 62.50%	= 55%

## Illustration 36.

From the following Balance Sheet of Moon Ltd. as at 31st March, 2019, prepare a Common-size Balance Sheet and compute Proprietary Ratio:

Particulars	Note No.	31st March, 2019 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		60,00,000
(b) Reserves and Surplus		8,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		20,00,000
<b>3. Current Liabilities</b>		
Short-term Borrowings		12,00,000
<b>Total</b>		<u>1,00,00,000</u>

<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
<i>Fixed Assets:</i>		
(i) Tangible Assets		60,00,000
(ii) Intangible Assets		12,00,000
<b>2. Current Assets</b>		
(a) Inventories		20,00,000
(b) Cash and Cash Equivalents		8,00,000
<b>Total</b>		<u>1,00,00,000</u>

**Solution:**

COMMON-SIZE BALANCE SHEET  
as at 31st March, 2019

Particulars	Note No.	Absolute Amount (₹)	% of Balance Sheet Total
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		60,00,000	60
(b) Reserves and Surplus		8,00,000	8
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		20,00,000	20
<b>3. Current Liabilities</b>			
Short-term Borrowings		12,00,000	12
<b>Total</b>		<u>1,00,00,000</u>	<u>100</u>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>Fixed Assets:</i>			
(i) Tangible Assets		60,00,000	60
(ii) Intangible Assets		12,00,000	12
<b>2. Current Assets</b>			
(a) Inventories		20,00,000	20
(b) Cash and Cash Equivalents		8,00,000	8
<b>Total</b>		<u>1,00,00,000</u>	<u>100</u>

$$\begin{aligned} \text{Proprietary Ratio} &= \frac{\text{Shareholders' Funds}}{\text{Total Assets}} \\ &= \frac{\text{₹ } 68,00,000}{\text{₹ } 1,00,00,000} = 0.68 : 1. \end{aligned}$$

$$\begin{aligned} \text{Shareholders' Funds} &= \text{Share Capital} + \text{Reserves and Surplus} \\ &= \text{₹ } 60,00,000 + \text{₹ } 8,00,000 = \text{₹ } 68,00,000. \end{aligned}$$

## Unsolved Questions

1. Current Assets and Current Liabilities of Times Ltd. are as follows:

Current Assets	₹	Current Liabilities	₹
Cash and Cash Equivalents	50,000	Creditors	3,00,000
Debtors	3,10,000	Bills Payables	1,20,000
Bills Receivable	30,000	Short-term Borrowings	1,00,000
Marketable Securities	1,50,000		
Inventories	5,00,000		
	10,40,000		5,20,000

Calculate Current Ratio and Liquid Ratio.

[Current Ratio = 2 : 1; Liquid Ratio = 1.04 : 1.]

2. From the following Balance Sheet of Star Ltd., calculate Current Ratio:

BALANCE SHEET as at 31st March, 2019

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
(a) Share Capital	63,000
(b) Reserves and Surplus	12,000
<b>2. Current Liabilities</b>	
(a) Short-term Borrowings	6,000
(b) Trade Payables	18,000
<b>Total</b>	99,000
<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets (Tangible Assets)	51,000
<b>2. Current Assets</b>	
(a) Inventories	18,600
(b) Trade Receivables	9,600
(c) Cash and Cash Equivalents	19,800
<b>Total</b>	99,000

[Current Ratio = 2 : 1.]

3. Following is the Balance Sheet of Bright Co. Ltd. as at 31st March, 2019:

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
(a) Share Capital	7,00,000
(b) Reserves and Surplus:	
(i) General Reserve	80,000
(ii) Surplus, i.e., Balance in Statement of Profit and Loss	20,000
<b>2. Non-Current Liabilities</b>	
Long-term Borrowings (12% Debentures)	2,00,000
<b>3. Current Liabilities</b>	
(a) Trade Payables	50,000
(b) Other Current Liabilities	50,000
<b>Total</b>	11,00,000

<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets (Tangible Assets)	6,00,000
<b>2. Current Assets</b>	
(a) Inventories	1,50,000
(b) Trade Receivables	2,50,000
(c) Cash and Cash Equivalents	1,00,000
<b>Total</b>	<b>11,00,000</b>

Calculate Total Assets to Debt Ratio.

[Total Assets to Debt Ratio = 5.5 : 1.]

4. Following is the Balance Sheet of XYZ Ltd. as at 31st March, 2019:

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
(a) Share Capital	2,00,000
(b) Reserves and Surplus:	
(i) General Reserve	55,000
(ii) Surplus, i.e., Balance in Statement of Profit and Loss	45,000
<b>2. Non-Current Liabilities</b>	
Long-term Borrowings	1,00,000
<b>3. Current Liabilities</b>	
(a) Trade Payables	1,70,000
(b) Short-term Provisions: Provision for Tax	10,000
<b>Total</b>	<b>5,80,000</b>
<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets (Tangible Assets)	3,80,000
<b>2. Current Assets</b>	
(a) Trade Receivables	1,70,000
(b) Cash and Cash Equivalents	30,000
<b>Total</b>	<b>5,80,000</b>

Calculate Return on Investment.

[Return on Investment = 13.75%.]

## 4.40

## Analysis of Financial Statements—CBSE XII

5. Following is the Balance Sheet of ABC Limited as at 31st March, 2019:

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		4,80,000
(b) Reserves and Surplus		1,20,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		3,00,000
<b>3. Current Liabilities</b>		
(a) Short-term Borrowings		68,000
(b) Trade Payables (Creditors)		4,00,000
(c) Short-term Provisions		12,000
<b>Total</b>		<b>13,80,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets (Tangible Assets)		9,00,000
<b>2. Current Assets</b>		
(a) Inventories (Stock)		2,40,000
(b) Trade Receivables (Debtors)		1,80,000
(c) Cash and Cash Equivalents		60,000
<b>Total</b>		<b>13,80,000</b>

**Notes:**

- Long-term Borrowings are 3,00,000, 10% Debentures of ₹ 100 each.
- Short-term Provisions is towards Provision for Tax.

Calculate the following Ratios:

- (i) Current Ratio, and (ii) Liquid Ratio.

What conclusions do you draw about the Company on the basis of these Ratios?

[Current Ratio = 1 : 1; Liquid Ratio = 0.50 : 1.]

6. From the following Balance Sheet of Ramji Ltd., calculate Current Ratio:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		2,60,000
(b) Reserves and Surplus		90,000
<b>2. Current Liabilities</b>		
(a) Short-term Borrowings (Bank Overdraft)		20,000
(b) Trade Payables		60,000
<b>Total</b>		<b>4,30,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets (Tangible)		2,60,000
<b>2. Current Assets</b>		
(a) Inventory (Including Loose Tools ₹ 10,000)		72,000
(b) Trade Receivables		32,000
(c) Cash and Cash Equivalents		56,000
(d) Other Current Assets (Accrued Income)		10,000
<b>Total</b>		<b>4,30,000</b>

[Current Ratio = 2 : 1.]

7. From the following Balance Sheet of M and S Ltd., compute Debt to Equity Ratio:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		7,50,000
(b) Reserves and Surplus		(1,15,000)
<b>2. Non-Current Liabilities</b>		
(a) Long-term Borrowings		7,50,000
(b) Long-term Provisions		1,42,500
<b>3. Current Liabilities</b>		
(a) Trade Payables		57,500
(b) Other Current Liabilities		40,000
<b>Total</b>		<u>16,25,000</u>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
(a) Fixed Assets—Tangible		6,15,000
(b) Non-current Investments		1,00,000
(c) Other Non-current Assets	1	30,000
<b>2. Current Assets</b>		
(a) Inventories		3,75,000
(b) Trade Receivables		1,50,000
(c) Cash and Cash Equivalents		2,60,000
(d) Other Current Assets	2	95,000
<b>Total</b>		<u>16,25,000</u>

**Notes to Accounts**

Particulars	₹
<b>1. Other Non-Current Assets</b>	
Unamortised Loss on Issue of Debentures	30,000
<b>2. Other Current Assets</b>	
Unamortised Share Issue Expenses	75,000
Interest Receivables	10,000
Prepaid Expenses	10,000
	<u>95,000</u>

[Debt to Equity Ratio = 1.68 : 1.]

8. From the following Balance Sheet, calculate (i) Proprietary Ratio; (ii) Debt to Equity Ratio; and (iii) Total Assets to Debt Ratio:

BALANCE SHEET OF A LTD. as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		1,00,000
(b) Reserves and Surplus:		
General Reserve		10,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		60,000
<b>3. Current Liabilities</b>		
(a) Trade Payables		32,000
(b) Short-term Provisions		15,000
<b>Total</b>		<u>2,17,000</u>

II. ASSETS	
<b>1. Non-Current Assets</b>	
<i>Fixed Assets:</i>	
(i) Tangible Assets	95,000
(ii) Intangible Assets	57,000
<b>2. Current Assets</b>	
(a) Trade Receivables	25,000
(b) Cash and Cash Equivalents	40,000
<b>Total</b>	<b>2,17,000</b>

[(i) Proprietary Ratio = 0.51 : 1; (ii) Debt to Equity Ratio = 0.55 : 1; (iii) Total Assets to Debt Ratio = 3.62 : 1.]

9. From the following Statement of Profit and Loss for the year ended 31st March, 2019 of Matrix Ltd., calculate Inventory (Stock) Turnover Ratio:

STATEMENT OF PROFIT AND LOSS  
for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations (Net Sales)		25,00,000
II. Other Income		25,000
III. Total Revenue (I + II)		25,25,000
IV. Expenses:		
(a) Cost of Materials Consumed	1	10,00,000
(b) Changes in Inventories of Finished Goods and WIP	2	1,25,000
(c) Employees Benefit Expenses		3,00,000
(d) Other Expenses		75,000
<b>Total Expenses</b>		<b>15,00,000</b>
V. Profit before Tax (III – IV)		10,25,000

**Notes to Accounts**

Particulars	₹
<b>1. Cost of Materials Consumed</b>	
Opening Inventory	1,50,000
Add: Purchases	9,50,000
	11,00,000
Less: Closing Inventory	1,00,000
	10,00,000
<b>2. Changes in Inventories of Finished Goods and WIP</b>	
<b>Work-in-Progress</b>	
Opening Inventory	75,000
Less: Closing Inventory	50,000
	<b>A</b> 25,000
<b>Finished Goods</b>	
Opening Inventory	1,75,000
Less: Closing Inventory	75,000
	<b>B</b> 1,00,000
<b>Total (A + B)</b>	<b>1,25,000</b>

[Ans.: Inventory Turnover Ratio = 3.6 Times.]

$$\text{[Hint: Average Inventory} = \frac{\text{Opening Inventory of Materials, WIP and Finished Goods} + \text{Closing Inventory of Materials, WIP and Finished Goods}}{2}]$$



10. From the following Balance Sheet of Z Ltd., Calculate:

- (i) Debt to Equity Ratio (ii) Total Assets to Debt Ratio  
(iii) Proprietary Ratio (iv) Interest Coverage Ratio.

Particulars		₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) <i>Share Capital:</i>		
(i) Equity Share Capital		8,00,000
(ii) 10% Preference Share Capital		2,08,000
(b) <i>Reserves and Surplus:</i>		
(i) General Reserve	84,000	
(ii) Surplus, i.e., Balance in Statement of Profit and Loss	84,000	1,68,000
<b>2. Non-Current Liabilities</b>		
12% Mortgage Loan		3,60,000
<b>3. Current Liabilities</b>		
(a) Short-term Loan		30,000
(b) Trade Payables		1,71,600
<b>Total</b>		<u>17,37,600</u>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets		
<i>Tangible Assets:</i>		
(i) Land and Building	4,80,000	
(ii) Furniture	3,60,000	
(iii) Machinery	2,52,000	10,92,000
<b>2. Current Assets</b>		
(a) Inventory (Stock)	3,00,000	
(b) <i>Trade Receivables:</i>		
(i) Debtors	1,05,600	
(ii) Bills Receivables	2,40,000	6,45,600
<b>Total</b>		<u>17,37,600</u>

*Additional Information:*

Net Profit after Interest and Tax = ₹ 3,00,000. Rate of Income Tax = 40%.

[(i) Debt to Equity Ratio = 0.31 : 1; (ii) Total Assets to Debt Ratio = 4.83 : 1;  
(iii) Proprietary Ratio = 0.68 : 1; (iv) Interest Coverage Ratio = 12.57 Times.]

11. Following is the Statement of Profit and Loss of Sham Ltd. for the year ended 31st March, 2019 and the Balance Sheet of the company as at that date:

STATEMENT OF PROFIT AND LOSS  
for the year ended 31st March, 2019

Particulars		₹
Revenue from Operations (Net Sales)		2,00,000
<i>Expenses:</i>		
Purchases of Stock-in-Trade	1,00,000	
Changes in Inventories (Opening Stock – Closing Stock) (₹ 25,000 – ₹ 30,000)	(5,000)	
Employees Benefit Expenses (Salaries)	17,000	
<i>Other Expenses:</i> Direct Expenses	8,000	
Loss on Sale of Furniture	10,000	18,000
<b>Net Profit</b>		<u>70,000</u>

BALANCE SHEET  
as at 31st March, 2019

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
(a) Share Capital	1,00,000
(b) Reserves and Surplus	70,000
<b>2. Current Liabilities</b>	
(a) Trade Payables	95,000
(b) Other Current Liabilities	35,000
<b>Total</b>	3,00,000
<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets (Tangible)	2,00,000
<b>2. Current Assets</b>	
(a) Inventories	30,000
(b) Trade Receivables	50,000
(c) Cash and Cash Equivalents	20,000
<b>Total</b>	3,00,000

Calculate following ratios:

- (i) Quick Ratio; (ii) Inventory Turnover Ratio; and (iii) Return on Investment (ROI). (OD 1997, Modified)  
 [(i) Quick Ratio = 0.54 : 1; (ii) Inventory Turnover Ratio = 3.74 Times;  
 (iii) ROI = 47.06%.]

[Hint: For ROI, Net Profit = ₹ 70,000 + ₹ 10,000 (Loss on Sale of Furniture; being Non-operating) = ₹ 80,000.]

- 12.** From the following information, calculate **any three** of the following ratios:

- (i) Operating Ratio; (ii) Current Ratio; (iii) Inventory or Stock Turnover Ratio; and (iv) Debt to Equity Ratio.

Particulars	₹
Equity Share Capital	5,00,000
9% Preference Share Capital	4,00,000
12% Debentures	2,40,000
General Reserve	40,000
Revenue from Operations (Net Sales)	8,00,000
Opening Inventory	48,000
Purchases	5,00,000
Wages	30,000
Closing Inventory	52,000
Selling and Distribution Expenses	6,000
Other Current Assets	2,00,000
Current Liabilities	1,50,000

(Foreign 2000, 2003)

- [(i) Operating Ratio = 66.5%; (ii) Current Ratio = 1.68 : 1; (iii) Inventory or Stock Turnover Ratio = 10.52 Times; and (iv) Debt to Equity Ratio = 0.26 : 1.]

13. Following is the Statement of Profit and Loss of Rajasthan Product Limited for the year ended 31st March, 2019 and Balance Sheet as at that date:

## STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations (Sales)		10,00,000
II. Other Income		50,000
<b>Total Revenue</b>		<b>10,50,000</b>
IV. Expenses:		
Cost of Materials Consumed	1	2,00,000
Employees Benefit Expenses	2	2,00,000
Finance Costs		10,000
Other Expenses	3	2,55,000
<b>Total Expenses</b>		<b>6,65,000</b>
V. Profit for the Period (III – IV)		3,85,000

## BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital		2,00,000
(b) Reserves and Surplus		1,00,000
<b>2. Non-Current Liabilities</b>		
Long-term Borrowings		2,00,000
<b>3. Current Liabilities</b>		
Trade Payables		1,50,000
<b>Total</b>		<b>6,50,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets (Tangible)		2,50,000
<b>2. Current Assets</b>		
(a) Inventories		2,50,000
(b) Trade Receivables		1,00,000
(c) Cash and Cash Equivalents		50,000
<b>Total</b>		<b>6,50,000</b>

## Notes to Accounts

Particulars	₹
<b>1. Cost of Materials Consumed:</b>	
Opening Stock	1,50,000
Add: Purchases	3,00,000
	4,50,000
Less: Closing Stock	2,50,000
	2,00,000
<b>2. Employees Benefit Expenses:</b>	
Wages	2,00,000
<b>3. Other Expenses:</b>	
(a) Manufacturing Expenses	1,00,000
(b) Administrative Expenses	50,000
(c) Selling and Distribution Expenses	50,000
(d) Loss on Sale of Fixed Assets	55,000
	2,55,000

## 4.46

## Analysis of Financial Statements—CBSE XII

There was no Opening and Closing Inventory of Finished Goods and WIP.

Examine the Statement of Profit and Loss and Balance Sheet given above and calculate following ratios:

- |                                       |  |
|---------------------------------------|--|
| (i) Gross Profit Ratio                | (ii) Current Ratio                     |
| (iii) Debt to Equity Ratio            | (iv) Inventory or Stock Turnover Ratio |
| (v) Liquid Ratio                      | (vi) Proprietary Ratio                 |
| (vii) Total Assets to Debt Ratio      | (viii) Working Capital Turnover Ratio  |
| (ix) Trade Receivables Turnover Ratio | (x) Operating Ratio                    |

[(i) Gross Profit Ratio = 50%; (ii) Current Ratio = 2.67 : 1;  
 (iii) Debt to Equity Ratio = 0.67 : 1; (iv) Inventory or Stock Turnover Ratio = 2.5 Times;  
 (v) Liquid Ratio = 1 : 1; (vi) Proprietary Ratio = 46.15%; (vii) Total Assets to  
 Debt Ratio = 3.25 : 1; (viii) Working Capital Turnover Ratio = 2 Times  
 (based on Cost of Sales), Alternatively = 4 Times (based on Sales);  
 (ix) Trade Receivables or Debtors' Turnover Ratio = 10 Times;  
 (x) Operating Ratio = 60%.]

14. Following is the Balance Sheet of Raddisson Ltd. as at 31st March, 2019. You are required to calculate Total Assets to Debt Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	6,50,000
(b) Reserves and Surplus		3,00,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	1	15,00,000	5,00,000
(b) Long-term Provisions		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	1,50,000
(b) Short-term Provisions		1,50,000	50,000
<b>Total</b>		<b>31,00,000</b>	<b>17,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		18,00,000	9,00,000
<b>2. Current Assets</b>			
(a) Inventories		5,00,000	3,00,000
(b) Trade Receivables		6,50,000	4,00,000
(c) Cash and Cash Equivalents		1,50,000	1,00,000
<b>Total</b>		<b>31,00,000</b>	<b>17,00,000</b>

## Note to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Long-term Borrowings</b>		
10% Debentures	7,50,000	5,00,000
Term loan from Bank	7,50,000	...
	<b>15,00,000</b>	<b>5,00,000</b>

[Total Assets to Debt Ratio: 2019—1.82 : 1; 2018—2.83 : 1.]

15. Following is the Balance Sheet of Star Ltd. as at 31st March, 2019. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	7,50,000
(b) Reserves and Surplus		2,50,000	1,50,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		10,00,000	6,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		1,50,000	1,00,000
(b) Trade Payables		50,000	1,00,000
<b>Total</b>		<b>22,00,000</b>	<b>17,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		8,00,000	9,00,000
<b>2. Current Assets</b>			
(a) Inventories		4,50,000	3,00,000
(b) Trade Receivables		8,00,000	4,00,000
(c) Cash and Cash Equivalents		1,50,000	1,00,000
<b>Total</b>		<b>22,00,000</b>	<b>17,00,000</b>

[Debt to Equity Ratio: 2019—1 : 1; 2018—0.67 : 1.]

16. Following is the Balance Sheet of Colours Ltd. as at 31st March, 2019. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	7,50,000
(b) Reserves and Surplus		1,50,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings		16,00,000	10,00,000
(b) Long-term Provisions		2,00,000	...
<b>3. Current Liabilities</b>			
(a) Trade Payables		3,50,000	1,00,000
(b) Short-term Provisions		1,50,000	50,000
<b>Total</b>		<b>32,00,000</b>	<b>21,50,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		9,00,000	10,50,000
<b>2. Current Assets</b>			
(a) Inventories		8,00,000	4,50,000
(b) Trade Receivables		13,50,000	5,00,000
(c) Cash and Cash Equivalents		1,50,000	1,50,000
<b>Total</b>		<b>32,00,000</b>	<b>21,50,000</b>

[Debt to Equity Ratio: 2019—2 : 1; 2018—1 : 1.]

## 4.48

## Analysis of Financial Statements—CBSE XII

17. Following is the Balance Sheet of Star Sports Ltd. as at 31st March, 2019. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		7,50,000	7,50,000
(b) Reserves and Surplus		1,50,000	2,50,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings		13,00,000	9,00,000
(b) Long-term Provisions		2,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		1,50,000	1,00,000
(b) Short-term Provisions		50,000	...
<b>Total</b>		26,00,000	21,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		9,00,000	10,50,000
<b>2. Current Assets</b>			
(a) Inventories		6,00,000	4,50,000
(b) Trade Receivables		9,50,000	4,50,000
(c) Cash and Cash Equivalents		1,50,000	1,50,000
<b>Total</b>		26,00,000	21,00,000

[Debt to Equity Ratio: 2019—1.67 : 1; 2018—1 : 1.]

18. Following is the Balance Sheet of Best Barcode Ltd. as at 31st March, 2019. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus		5,00,000	4,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		4,50,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	75,000
(b) Trade Payables		3,50,000	2,00,000
<b>Total</b>		20,00,000	16,75,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		6,00,000	5,50,000
(b) Non-current Investments		1,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories		4,00,000	2,75,000
(b) Trade Receivables		4,50,000	3,50,000
(c) Cash and Cash Equivalents		2,50,000	2,00,000
(d) Other Current Assets		2,00,000	1,00,000
<b>Total</b>		20,00,000	16,75,000

[Current Ratio: 2019—2.36 : 1; 2018—3.36 : 1; Liquid Ratio: 2019—1.64 : 1; 2018—2.36 : 1.]

19. Following is the Balance Sheet of Master Services Ltd. as at 31st March, 2019. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus		5,00,000	4,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		4,50,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,00,000	75,000
(b) Trade Payables		3,50,000	2,00,000
<b>Total</b>		20,00,000	16,75,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		6,00,000	5,50,000
(b) Non-current Investments		1,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories		4,00,000	2,75,000
(b) Trade Receivables		4,50,000	3,50,000
(c) Cash and Cash Equivalents		2,50,000	2,00,000
(d) Other Current Assets		2,00,000	1,00,000
<b>Total</b>		20,00,000	16,75,000

Inventories include Loose Tools amounting to ₹ 50,000 in both the years.

[Current Ratio: 2019—2.27 : 1; 2018—3.18 : 1; Liquid Ratio: 2019—1.64 : 1; 2018—2.36 : 1.]

20. Following is the Balance Sheet of Ultimate Barcode Ltd. as at 31st March, 2019. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEETS as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus		5,00,000	4,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		4,00,000	5,50,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		1,50,000	75,000
(b) Trade Payables		3,50,000	1,50,000
(c) Other Current Liabilities	1	1,00,000	...
<b>Total</b>		20,00,000	16,75,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		6,00,000	5,50,000
(b) Non-current Investments		1,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories	2	4,00,000	2,75,000
(b) Trade Receivables		4,50,000	3,50,000
(c) Cash and Cash Equivalents		2,50,000	2,00,000
(d) Other Current Assets	3	2,00,000	1,00,000
<b>Total</b>		20,00,000	16,75,000

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## Analysis of Financial Statements—CBSE XII

## Notes to Accounts

Particulars		31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Current Liabilities</b>			
Expenses Payable		50,000	...
Current Maturities of Long-term Debt		50,000	...
		1,00,000	...
<b>2. Inventories</b>			
Raw Materials		2,75,000	2,00,000
WIP		75,000	50,000
Stores and Spares		50,000	25,000
		4,00,000	2,75,000
<b>3. Other Current Assets</b>			
Prepaid Expenses		50,000	50,000
Other Advances		1,50,000	50,000
		2,00,000	1,00,000

[Current Ratio: 2019—2.08 : 1; 2018—4.00 : 1; Liquid Ratio: 2019—1.42 : 1; 2018—2.67 : 1.]

21. Following is the Balance Sheet of Master Services Ltd. as at 31st March, 2019. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET  
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus		7,00,000	6,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		2,50,000	3,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings		2,50,000	1,25,000
(b) Trade Payables		3,00,000	2,00,000
(c) Other Current Liabilities	1	2,00,000	1,75,000
<b>Total</b>		25,00,000	20,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		8,00,000	6,50,000
(b) Non-current Investments		2,00,000	2,00,000
<b>2. Current Assets</b>			
(a) Inventories	2	5,00,000	2,50,000
(b) Trade Receivables		7,50,000	7,00,000
(c) Cash and Cash Equivalents		1,50,000	1,00,000
(d) Other Current Assets	3	1,00,000	1,00,000
<b>Total</b>		25,00,000	20,00,000



## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Current Liabilities</b>		
Expenses Payable	1,50,000	1,25,000
Current Maturities of Long-term Debt	50,000	50,000
	2,00,000	1,75,000
<b>2. Inventories</b>		
Raw Materials	3,00,000	2,00,000
WIP	1,00,000	50,000
Loose Tools	1,00,000	...
	5,00,000	2,50,000
<b>3. Other Current Assets</b>		
Prepaid Expenses	25,000	50,000
Other Advances	75,000	50,000
	1,00,000	1,00,000

[Current Ratio: 2019—1.87 : 1; 2018—2.3 : 1; Liquid Ratio: 2019—1.3 : 1; 2018—1.7 : 1.]

22. Current Ratio 4.5, Quick Ratio 3 : 1, Inventory ₹ 72,000. Cash ₹ 4,000, Gross Profit @  $33\frac{1}{3}\%$  on cost was ₹ 1,00,000, Cash Revenue from Operations being  $33\frac{1}{3}\%$  of Credit Revenue from Operations; Trade Receivables Turnover Ratio is 3 Times. In current assets, there was no asset other than Inventory, Trade Receivables and Cash. Calculate the Opening Trade Receivables. [Opening Trade Receivables = ₹ 60,000.]  
[Hint: Current Assets = ₹ 2,16,000; Quick Assets = ₹ 1,44,000; Closing Trade Receivables = Quick Assets – Cash = ₹ 1,40,000. Credit Revenue from Operations = ₹ 3,00,000.]

**Calculation of Current Assets and Quick Assets:**

$$\text{Quick Ratio} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilities (CL)}} = \frac{\text{Current Assets - Inventory}}{\text{CL}}$$

$$3 = \frac{\text{CA} - ₹ 72,000}{\text{CL}}$$

$$\text{CA} - ₹ 72,000 = 3\text{CL}$$

$$\text{CA} - 3\text{CL} = ₹ 72,000 \quad \dots(1)$$

$$\text{CA} - 4.5\text{CL} = 0 \quad \text{[As per Current Ratio]} \quad \dots(2)$$

Subtracting Equation (2) from (1), we get

$$1.5\text{CL} = ₹ 72,000 \text{ or } \text{CL} = \frac{₹ 72,000}{1.5} = ₹ 48,000.$$

$$\begin{aligned} \text{Current Assets} &= \text{Current Liabilities (CL)} \times \text{Current Ratio} \\ &= ₹ 48,000 \times 4.5 = ₹ 2,16,000. \end{aligned}$$

$$\text{Quick Assets} = ₹ 48,000 (\text{CL}) \times 3 = ₹ 1,44,000.$$

23. The Current Ratio of a company is 3 : 1. State giving reason, which of the following would improve, reduce or not change the ratio:
- Repayment of a Current Liability;
  - Purchase of goods on cash;
  - Sale of office equipment for ₹ 4,000 (Book value ₹ 5,000);
  - Sale of goods for ₹ 11,000 (cost ₹ 10,000);
  - Payment of dividend.

(Delhi 1999)

[(i) Improve; (ii) No change; (iii) Improve; (iv) Improve; (v) Improve.]

24. Current Ratio of a company is 2.5 : 1. Which of the following suggestions would improve, reduce or not change it?

- (i) Payment to trade creditors
- (ii) Sold machinery for cash
- (iii) Purchased goods for cash
- (iv) Issue of Equity Shares

[(i) Increase; (ii) Increase; (iii) No change; (iv) Increase.]

25. Balance Sheet of XYZ Ltd. as at 31st March, 2019 is as follows:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
(a) Share Capital	1,00,000	1,00,000
(b) Reserves and Surplus	28,700	13,000
<b>2. Current Liabilities</b>		
(a) Short-term Borrowings	26,000	25,000
(b) Trade Payables	31,000	36,000
<b>Total</b>	<b>1,85,700</b>	<b>1,74,000</b>
<b>II. ASSETS</b>		
<b>1. Non-Current Assets</b>		
Fixed Assets (Tangible)	1,12,000	1,08,000
<b>2. Current Assets</b>		
(a) Inventories	27,000	25,000
(b) Trade Receivables	45,000	40,000
(c) Cash and Cash Equivalents	1,000	450
(d) Other Current Assets	700	550
<b>Total</b>	<b>1,85,700</b>	<b>1,74,000</b>

*Additional Information:*

Revenue from Operations (Net Sales) amounted to ₹ 4,00,000 in 2018 and ₹ 5,00,000 in 2019.

You are required to calculate following ratios: (i) Working Capital Turnover Ratio; (ii) Current Ratio; and (iii) Quick Ratio.

[(i) Working Capital Turnover Ratio = 2018—80 Times; 2019—29.94 Times;

(ii) Current Ratio = 2018—1.08 : 1; 2019—1.29 : 1;

(iii) Quick Ratio = 2018—0.66 : 1; 2019—0.81 : 1.]

26. Quick assets ₹ 1,50,000; Inventory ₹ 50,000; Working Capital ₹ 1,20,000. Calculate Current Ratio.

[Hints: 1. Current Assets = Quick Assets + Inventory.

2. Current Liabilities = Current Assets – Working Capital.]

[Current Ratio = 2.5 : 1.]

27. From the following data, calculate Current Ratio and Operating Ratio:

Sundry Debtors ₹ 10,000; Bills Payable ₹ 6,000; Stock ₹ 15,000; Cash ₹ 10,000; Bank ₹ 5,000; Creditors ₹ 14,000; Sales ₹ 60,000; Operating Expenses ₹ 12,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 18,000.

[Current Ratio = 2 : 1; Operating Ratio = 50%.]

28. From the following Balance Sheet and other information, calculate **any two** of the following ratios:

- (i) Debt to Equity Ratio;
- (ii) Working Capital Turnover Ratio; and
- (iii) Trade Receivables Turnover Ratio.

BALANCE SHEET  
as at 31st March, 2019

Particulars	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>1. Shareholders' Funds</b>	
(a) Share Capital	1,00,000
(b) Reserves and Surplus	90,000
<b>2. Non-Current Liabilities</b>	
Long-term Borrowings (Loan @ 15%)	1,20,000
<b>3. Current Liabilities</b>	
Trade Payables	50,000
<b>Total</b>	3,60,000
<b>II. ASSETS</b>	
<b>1. Non-Current Assets</b>	
Fixed Assets (Tangible)	1,80,000
<b>2. Current Assets</b>	
(a) Inventories	40,000
(b) Trade Receivables	90,000
(c) Cash and Cash Equivalents	50,000
<b>Total</b>	3,60,000

*Other Information:*

Sales during the year amounted to ₹ 1,80,000.

[(i) Debt to Equity Ratio = 0.63 : 1; (ii) Working Capital Turnover Ratio = 1.38 Times;

(iii) Trade Receivables Turnover Ratio = 2 Times.]

29. Following information has been extracted from the books of Elite Electricals:

Revenue from Operations (Net Sales) ₹ 30,00,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 20,00,000; Net Profit ₹ 3,00,000; Current Assets ₹ 6,00,000; Current Liabilities ₹ 2,00,000; Paid-up Share Capital ₹ 5,00,000; Debentures ₹ 2,50,000. Compute **any two** ratios based on the above information:

(i) Gross Profit Ratio; (ii) Working Capital Turnover Ratio; and (iii) Debt to Equity Ratio.

[(i) Gross Profit Ratio =  $33\frac{1}{3}\%$  (ii) Working Capital Turnover Ratio = 7.5 Times;  
(iii) Debt to Equity Ratio = 0.31 : 1.]

30. Current Ratio 2.5; Working Capital ₹ 60,000. Calculate amount of Current Assets and Current Liabilities.

[Current Assets = ₹ 1,00,000; Current Liabilities = ₹ 40,000.]

31. Net Sales of M.S. Limited during the year were ₹ 1,80,000. If Trade Receivables Turnover Ratio is 4 times, calculate Trade Receivables in the beginning and at the end of the year. You are informed that closing Trade Receivables are two times in comparison to opening Trade Receivables.

[Trade Receivables in the beginning = ₹ 30,000; Trade Receivables at the end = ₹ 60,000.]

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- 32.** From the following information, calculate Working Capital Turnover Ratio:

Marketable Securities ₹ 1,50,000; Inventory ₹ 50,000; Sundry Debtors ₹ 2,00,000; Bills Receivable ₹ 50,000; Cash at Bank ₹ 1,00,000; Cash in Hand ₹ 50,000; Bills Payable ₹ 30,000; Sundry Creditors ₹ 2,00,000; Provision for Tax ₹ 20,000; Sales ₹ 23,00,000; Returns Inward ₹ 2,00,000.

[Working Capital Turnover Ratio = 6 Times.]

- 33.** From the following information, calculate Inventory Turnover Ratio; Operating Ratio; and Gross Profit Ratio:

Opening Inventory	₹ 28,000	Carriage Inwards	₹ 4,000
Closing Inventory	₹ 22,000	Office Expenses	₹ 4,000
Purchases	₹ 46,000	Selling and Distribution Expenses	₹ 2,000
Revenue from Operations (Net Sales)	₹ 80,000	Capital Employed	₹ 2,00,000
Return	₹ 10,000		

[Inventory Turnover Ratio = 2.24 Times; Operating Ratio = 77.5%; Gross Profit Ratio = 30%.]

# Cash Flow Statement

## MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Cash Flow Statement** It is the statement that shows flow of Cash and Cash Equivalents during the period under report.
2. **Cash Flows** These are the inflows (receipts) and outflows (payments) of Cash and Cash Equivalents.
3. **Cash** It comprises of Cash on Hand and demand deposits with banks.
4. **Cash Equivalents** These are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value. An investment normally qualifies as cash equivalent only when it has short maturity period of, say, three months or less from the date of acquisition, *i.e.*, purchase.
5. **Operating Activities** These are the principal revenue producing activities of the enterprise and other activities that are not Investing and Financing Activities.
6. **Investing Activities** These are activities of acquisition and disposal of long-term assets and other investments not included in cash equivalents.
7. **Financing Activities** These are the activities that result in change in the size and composition of the owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise.
8. **Extraordinary Activities** These are incomes or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

## CHAPTER SUMMARY

- **Cash Flow Statement** is a statement that shows flow of Cash and Cash Equivalents during the period under report. The statement shows net increase or decrease of Cash and Cash Equivalents under each activity separately (operating/investing/financing) and collectively.
- **Preparation of Cash Flow Statement:** Cash Flow Statement is prepared following the steps as:
  - Step 1:** Compute Cash Flow from Operating Activities.
  - Step 2:** Compute Cash Flow from Investing Activities.
  - Step 3:** Compute Cash Flow from Financing Activities.
  - Step 4:** Cash flows under each activity, *i.e.*, Operating Activity, Investing Activity and Financing Activity as computed under Steps 1, 2 and 3 are added in Cash Flow Statement and the resultant amount is Net Increase or Decrease in Cash and Cash Equivalents.

**Step 5:** Cash and Cash Equivalents balance in the beginning of the period is added to the cash flows as arrived under Step 4. The amount so determined should be equal to Cash and Cash Equivalents balance at the end of the year.

**Step 6:** Report any significant investing or financing transactions which do not involve Cash or Cash Equivalents in a separate schedule to Cash Flow Statement.

### Proposed Dividend

Proposed Dividend, both on Equity Shares and Preference Shares are paid after being declared (approved) by the shareholders in the Annual General Meeting. Annual General Meeting is held after the end of the financial year, *i.e.*, in the next financial year. AS-4 (Revised), Contingencies and Events Occurring After the Balance Sheet Date prescribes that Proposed Dividend is not to be provided in the books of account but is to be disclosed (shown) in the Notes to Accounts as Contingent Liability being payable upon being declared (approved) by the shareholders. Dividend is an appropriation of Profit and is deducted from Surplus, *i.e.*, Balance in Statement of Profit and Loss in the Note to Accounts on Reserves and Surplus in the year in which dividend is paid.

#### FORMAT OF CASH FLOW STATEMENT (INDIRECT METHOD) for the year ended ... [As per Accounting Standard-3 (Revised)]

Particulars	₹
<b>I. Cash Flow from Operating Activities</b>	
(A) Net Profit before Tax and Extraordinary Items (as per Working Note)	...
Adjustment for Non-cash and Non-operating Items	
(B) <b>Add: Items to be Added</b>	
— Depreciation	...
— Goodwill, Patents and Trademarks Amortised	...
— Interest on Bank Overdraft/Cash Credit	...
— Interest on Borrowings (Short-term and Long-term) and Debentures	...
— Loss on Sale of Fixed Assets	...
— Increase in Provision for Doubtful Debts*	...
	...
(C) <b>Less: Items to be Deducted</b>	
— Interest Income	...
— Dividend Income	...
— Rental Income	...
— Gain (Profit) on Sale of Fixed Assets	...
— Decrease in Provision for Doubtful Debts*	...
	...
(D) <b>Operating Profit before Working Capital Changes (A + B – C)</b>	...
(E) <b>Add: Decrease in Current Assets and Increase in Current Liabilities</b>	
— Decrease in Inventories (Stock)	...
— Decrease in Trade Receivables (Debtors/Bills Receivable)	...
— Decrease in Accrued Incomes	...
— Decrease in Prepaid Expenses	...
— Increase in Trade Payables (Creditors/Bills Payable)	...
— Increase in Outstanding Expenses	...
— Increase in Advance Incomes	...

(F) Less: <b>Increase in Current Assets and Decrease in Current Liabilities</b>		
— Increase in Inventories (Stock)	...	
— Increase in Trade Receivables (Debtors/Bills Receivable)	...	
— Increase in Accrued Incomes	...	
— Increase in Prepaid Expenses	...	
— Decrease in Trade Payables (Creditors/Bills Payable)	...	
— Decrease in Outstanding Expenses	...	
— Decrease in Advance Incomes	...	...
(G) <b>Cash Generated from Operations (D + E – F)</b>		...
(H) Less: Income Tax Paid (Net of Tax Refund received)		...
(I) Cash Flow before Extraordinary Items		...
— Extraordinary Items (+/-)		...
(J) Cash Flow from (or Used in) Operating Activities		...
<b>II. Cash Flow from Investing Activities</b>		
— Proceeds from Sale of Fixed Assets	...	
— Proceeds from Sale of Investments (Other than Current Investments (to be included in Cash and Cash Equivalents) and Marketable Securities)	...	
— Proceeds from Sale of Intangible Assets	...	
— Interest and Dividend received (For Non-financial Companies only)	...	
— Rent Received	...	
— Payment for Purchase of Fixed Assets	(...)	
— Payment for Purchase of Investments (Other than Marketable Securities)	(...)	
— Payment for Purchase of Intangible Assets like Goodwill	(...)	
— Extraordinary Items (e.g., Insurance Claim on Machinery against Fire) (+/-)	...	
Cash Flow from (or Used in) Investing Activities		...
<b>III. Cash Flow from Financing Activities</b>		
— Proceeds from Issue of Shares and Debentures	...	
— Proceeds from Other Long-term Borrowings	...	
— Increase/Decrease in Bank Overdraft and Cash Credit	...	
— Final Dividend paid during the year	(...)	
— Interim Dividend paid during the year	(...)	
— Payment of Interest on Debentures and Loans (Short-term and Long-term)	(...)	
— Repayment of Loans	(...)	
— Redemption of Debentures/Preference Shares	(...)	
— Payment of Share Issue Expenses	(...)	
— Payment for Buy-back of Shares as Extraordinary Activity	(...)	
Cash Flow from (or Used in) Financing Activities		...
<b>IV. Net Increase/Decrease in Cash and Cash Equivalents (I + II + III)</b>		...
<b>V. Add: Cash and Cash Equivalents in the beginning of the year</b>		
— Cash-in-Hand	...	
— Cash at Bank	...	
— Short-term Deposits	...	
— Current Investments	...	
— Marketable Securities	...	...
		...
<b>VI. Cash and Cash Equivalents at the end of the year</b>		
— Cash-in-Hand	...	
— Cash at Bank	...	
— Short-term Deposits	...	
— Current Investments	...	
— Marketable Securities	...	...

\*Alternatively, increase/decrease in Provision for Doubtful Debts may be treated under increase/decrease in Current Liabilities. In this situation, increase/decrease in Provision for Doubtful Debts is adjusted after Operating Profit before Working Capital Changes.

## 5.4

## Analysis of Financial Statements—CBSE XII

<b>Working Note:</b> Net Profit before Tax and Extraordinary Items:	₹
Net Profit as per Statement of Profit and Loss or Difference between Closing Balance and Opening Balance of Surplus, i.e., Balance in Statement of Profit and Loss	...
Add: Transfer to Reserves	...
Dividend (Proposed Dividend of previous year) paid during the year	...
Interim Dividend paid during the year	...
Provision for Tax for the current year	...
Extraordinary Items, if any, debited to the Statement of Profit and Loss	...
	—
	...
Less: Extraordinary Items, if any, credited to the Statement of Profit and Loss	...
Refund of Tax credited to the Statement of Profit and Loss	... ..
<b>Net Profit before Tax and Extraordinary Items</b>	... .. — —

### IMPORTANT NOTE

1. Current Investments to be taken as Marketable Securities unless otherwise specified.
2. Bank overdraft and cash credit is shown as part of Financing Activities.

## Solved Questions

**Illustration 1.** Following relevant information is obtained from the books of X Ltd.:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
Short-term Provision: Provision for Tax		70,000	50,000

The amount of tax paid during 2018–19 amounted to ₹ 40,000. How would you deal with this item while preparing Cash Flow Statement? You are also given net profit after taxation ₹ 80,000.

### Solution:

PROVISION FOR TAX ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	40,000	By Balance b/d	50,000
To Balance c/d	70,000	By Statement of Profit and Loss (Bal. Fig.) (Tax Provided)	60,000
	1,10,000		1,10,000

**Note:** If Opening and Closing amounts of Provision for Tax are given with the figure of tax paid (provided) during the year, prepare Provision for Tax Account to ascertain the amount of tax provided (paid) during the current year.



## CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹	₹
Net Profit after Tax	80,000	
Add: Provision for Tax	60,000	
Cash Generated from Operations		1,40,000
Less: Tax Paid		40,000
<i>Cash Flow from Operating Activities</i>		1,00,000

**Illustration 2.** Calculate Net Profit before Tax and Extraordinary Items from the following Balance Sheet of Prime Hotels Ltd. as at 31st March, 2019:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus	1	3,30,000	2,20,000
<b>2. Current Liabilities</b>			
(a) Short-term Borrowings	2	40,000	55,000
(b) Trade Payables		50,000	80,000
(c) Other Current Liabilities		25,000	10,000
(d) Short-term Provisions	3	70,000	40,000
<b>Total</b>		13,15,000	10,05,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets: Tangible Assets		9,75,000	6,05,000
(b) Non-current Investments		1,10,000	1,00,000
<b>2. Current Assets</b>			
<b>Total</b>		13,15,000	10,05,000

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	1,20,000	80,000
Surplus, i.e., Balance in Statement of Profit and Loss	2,10,000	1,40,000
	3,30,000	2,20,000
<b>2. Short-term Borrowings</b>		
Bank Overdraft	40,000	55,000
<b>3. Short-term Provisions</b>		
Provision for Tax	70,000	40,000

**Note:** Proposed dividend for the years ended 31st March, 2018 and 2019 are ₹ 90,000 and ₹ 1,00,000 respectively.

## 5.6

### Solution:

<i>Net Profit before Tax and Extraordinary Items:</i>	₹
Surplus, i.e., Balance in Statement of Profit and Loss (Closing)	2,10,000
Less: Surplus, i.e., Balance in Statement of Profit and Loss (Opening)	1,40,000
	<u>70,000</u>
<i>Add:</i> Transfer to General Reserve (₹ 1,20,000 – ₹ 80,000)	40,000
Dividend (Previous Year) Paid during the year	90,000
Provision for Tax (Current Year)	70,000
<b>Net Profit before Tax and Extraordinary Items</b>	<b><u>2,70,000</u></b>

**Illustration 3.** Calculate Cash Flow from Operating Activities from the following information:

	₹
Net Profit (After Provision for Tax ₹ 3,06,000)	14,06,000
Proposed Dividend	2,42,000
<i>Above Net Profit is determined after following Credit and Debits:</i>	
<i>Credits:</i>	
(i) Compensation for Earthquake Disaster	1,50,000
(ii) (Gain) Profit on Sale of Machinery	35,000
(iii) Dividend Received on Investments	30,000
<i>Debits:</i>	
(i) Depreciation	2,80,000
(ii) Loss on Sale of Investments	60,000
<i>Decrease or Increase in Current Assets and Current Liabilities is as follows:</i>	
Decrease in Current Assets (Other than Cash and Cash Equivalents)	20,000
Increase in Current Liabilities (Other than Bank Overdraft and Cash Credit)	3,02,000
Increase in Current Assets (Other than Cash and Cash Equivalents)	6,00,000
Decrease in Current Liabilities (Other than Bank Overdraft and Cash Credit)	1,28,000
<i>Other Information:</i>	
Income Tax Paid	2,36,000
Refund of Income Tax Received	6,000

### Solution:

#### CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹
Net Profit After Tax	14,06,000
<i>Add:</i> Provision for Tax	3,06,000
	<u>17,12,000</u>
<i>Less:</i> Refund of Income Tax	6,000
<i>Extraordinary Items:</i> Compensation for Earthquake Disaster	1,50,000
<b>Net Profit before Tax and Extraordinary Items</b>	<u>15,56,000</u>
<i>Add: Non-Cash/Non-Operating Items:</i>	
Depreciation	2,80,000
Loss on Sale of Investments	60,000
<i>Less: Non-Cash/Non-Operating Items:</i>	
Gain (Profit) on Sale of Machinery	(35,000)
Dividend Received on Investments	(30,000)
<b>Net Profit before Working Capital Changes</b>	<u>18,31,000</u>
<i>Add:</i> Decrease in Current Assets	20,000
Increase in Current Liabilities	3,02,000
	<u>21,53,000</u>
<i>Less:</i> Increase in Current Assets	(6,00,000)
Decrease in Current Liabilities	(1,28,000)
<b>Cash Flow from Operating Activities before Tax and Extraordinary Items</b>	<u>14,25,000</u>
<i>Less:</i> Income Tax Paid (Net of Refund)	(2,30,000)
<b>Cash Flow from Operating Activities after Tax</b>	<u>11,95,000</u>
<i>Add: Extraordinary Item:</i> Compensation for Earthquake Disaster	1,50,000
<b>Cash Flow from Operating Activities</b>	<u>13,45,000</u>

**Note:** Proposed Dividend is not taken as the Net Profit given is after Provision for Tax.

## Cash Flow Statement

## 5.7

**Illustration 4.** From the following information, calculate Cash Flow from Operating Activities and Investing Activities:

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	50,000	2,00,000
Provision for Tax	15,000	15,000
Trade Payables	20,000	75,000
Current Assets (Inventories and Trade Receivables)	2,30,000	2,60,000
Fixed Assets	4,25,000	4,66,000
Accumulated Depreciation	2,12,500	2,20,000

*Additional Information:*

- Tax paid during the year ₹ 15,000.
- A machine costing ₹ 40,000 (Book value ₹ 10,000) was sold at a gain (profit) of ₹ 4,000.

**Solution:**

### CASH FLOW FROM OPERATING ACTIVITIES AND INVESTING ACTIVITIES

Particulars	₹
<b>(A) Cash Flow from Operating Activities</b>	
Net Profit before Tax and Extraordinary Items (WN 1)	1,65,000
Add: Depreciation (WN 3)	37,500
Less: Gain (Profit) on Sale of Machinery	(4,000)
<i>Operating Profit before Working Capital changes</i>	1,98,500
Less: Increase in Current Assets	(30,000)
Add: Increase in Trade Payable	55,000
	2,23,500
Less: Tax Paid	15,000
<b>Cash Flow from Operating Activities</b>	2,08,500
<b>(B) Cash Flow from Investing Activities</b>	
Sale of Machinery	14,000
Purchase of Fixed Assets (WN 2)	(81,000)
<b>Cash Used in Investing Activities</b>	(67,000)

**Working Notes:**

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Closing Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	2,00,000
Less: Opening Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	50,000
	1,50,000
Add: Provision for Tax made during the Current Year	15,000
Net Profit before Tax and Extraordinary Items	1,65,000

2.Dr.		FIXED ASSETS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		₹
To Balance <i>b/d</i>	4,25,000	By Bank A/c (Sale)	14,000		
To Gain (Profit) on Sale of Asset A/c (Statement of Profit and Loss)	4,000	By Accumulated Depreciation A/c (Depreciation on Sold Machine)	30,000		
To Bank A/c (Purchase) (Bal. Fig.)	81,000	By Balance <i>c/d</i>	4,66,000		
	5,10,000		5,10,000		

## 5.8

## Analysis of Financial Statements—CBSE XII

3.Dr.		ACCUMULATED DEPRECIATION ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Fixed Assets A/c (Transfer)	30,000	By Balance b/d		2,12,500
To Balance c/d	2,20,000	By Depreciation A/c (Bal. Fig.)		37,500
	<u>2,50,000</u>			<u>2,50,000</u>

**Illustration 5.** Calculate Cash Flow from Financing Activities from the following:

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
Equity Share Capital	6,00,000	8,00,000
12% Preference Share Capital	2,00,000	...
10% Debentures	...	1,00,000

*Additional Information:*

- Equity shares were issued at a premium of 15%, underwriting commission paid thereon ₹ 10,000.
- 12% Preference shares were redeemed at a premium of 5%.
- 10% Debentures were issued at a discount of 10%.
- Interest paid on debentures ₹ 10,000.
- Dividend paid on preference shares ₹ 24,000.
- Interim dividend paid on equity shares ₹ 64,000.

**Solution:**

## CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Issue of Equity Shares (₹ 2,00,000 + ₹ 30,000)	2,30,000
Redemption of 12% Preference Shares (₹ 2,00,000 + ₹ 10,000)	(2,10,000)
Issue of 10% Debentures (₹ 1,00,000 – ₹ 10,000)	90,000
Underwriting Commission Paid	(10,000)
Interest Paid on Debentures	(10,000)
Dividend Paid on Preference Shares	(24,000)
Interim Dividend Paid on Equity Shares	(64,000)
<b>Cash Flow from Financing Activities</b>	<u>2,000</u>

**Illustration 6.** X Ltd. provides the following information, calculate the Net Cash Flow from Investing Activities and Net Cash Flow from Financing Activities as per AS-3 (Revised):

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
8% Preference Share Capital	2,00,000	1,50,000
Equity Share Capital	5,00,000	10,00,000
11% Debentures	2,00,000	1,00,000
Securities Premium Reserve	...	50,000
Investment	1,00,000	2,50,000
Goodwill	...	1,00,000
Machinery	2,15,000	4,00,000
Patents	1,50,000	...

*Additional Information:*

1. Dividend on equity shares ₹ 50,000. The company paid preference dividend also.
2. Dividend received on shares held as an investment ₹ 15,000.
3. Interest received on 'Government Bonds' held as an investment ₹ 26,000.
4. A plot of land was purchased out of surplus funds for investment purposes and was let out for commercial use and rent received ₹ 1,10,000.
5. All issues and redemption were made at the end of the year.

**Solution:**

## CASH FLOW FROM INVESTING ACTIVITIES AND FINANCING ACTIVITIES

Particulars		₹
<b>(A) Cash Flow from Investing Activities</b>		
Sale of Patents	1,50,000	
Interest received on Government Bonds	26,000	
Dividend Received on Shares held as Investments	15,000	
Rent received on Plot of Land	1,10,000	3,01,000
Goodwill Purchased	(1,00,000)	
Investment Purchased	(1,50,000)	
Machinery Purchased	(1,85,000)	(4,35,000)
<b>Cash Used in Investing Activities</b>		<b>(1,34,000)</b>
<b>(B) Cash Flow from Financing Activities</b>		
Issue of Share Capital (including premium)	5,50,000	
Dividend Paid	(50,000)	
Preference Dividend Paid	(16,000)	
Redemption of Preference Shares	(50,000)	
Redemption of Debentures	(1,00,000)	
Interest on Debentures (Note)	(22,000)	3,12,000
<b>Cash Flow from Financing Activities</b>		<b>3,12,000</b>

**Note:** It is presumed that the company must have paid Interest on Debentures as it cannot pay Preference Dividend and Equity Dividend without payment of interest. Decrease in Patents is considered as Sales.

**Illustration 7.** Following is the extract from the Balance Sheet of Atlas Ltd.:

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2019 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholders' Funds</b>			
<i>Reserves and Surplus: Surplus, i.e., Balance in Statement of Profit and Loss</i>		5,00,000	9,00,000
<b>II. ASSETS</b>			
Goodwill		11,50,000	9,00,000
Patents		9,00,000	11,50,000
Land		2,50,000	10,50,000
Plant and Machinery		85,00,000	93,20,000
Less: Provision for Depreciation		(42,50,000)	(44,00,000)
10% Investment		10,50,000	2,50,000

*Additional Information:*

1. Investments costing ₹ 2,00,000 were purchased and some investments were sold at a loss of 20% on 31st March, 2019.
2. Goodwill amortised was ₹ 5,00,000 and patents purchased was ₹ 5,00,000.

## 5.10

## Analysis of Financial Statements—CBSE XII

3. Depreciation provided on Plant and Machinery was ₹ 14,50,000. A machine costing ₹ 21,00,000 was sold at profit of 20%.

Calculate Cash Flow from Operating Activities and Cash Flow from Investing Activities.

### Solution:

**Atlas Ltd.**

CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars		₹
<b>(A) Cash Flow from Operating Activities</b>		
Surplus, i.e., Balance in Statement of Profit and Loss (Closing)	9,00,000	
Less: Surplus, i.e., Balance in Statement of Profit and Loss (Opening)	5,00,000	
Net Profit before Tax	4,00,000	
Add: Patents Amortised (WN 2)	2,50,000	
Goodwill Amortised (WN 1)	5,00,000	
Depreciation	14,50,000	
Loss on Sale of investment (WN 4)	2,00,000	
Less: Gain (Profit) on Sale of Machinery	(1,60,000)	
Income from Investment	(1,05,000)	25,35,000
<b>Cash Flow from Operating Activities</b>		<b>25,35,000</b>
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Land (WN 3)	(8,00,000)	
Purchase of Investment	(2,00,000)	
Sale of Investment (WN 4)	8,00,000	
Income from Investment	1,05,000	
Purchase of Machinery (WN 5)	(29,20,000)	
Sale of Machinery (WN 5)	9,60,000	
Purchase of Patents	(5,00,000)	
Purchase of Goodwill (WN 1)	(2,50,000)	(28,05,000)
<b>Cash Used in Investing Activities</b>		<b>(28,05,000)</b>

### Working Notes:

1. Dr. Cr.

GOODWILL ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	11,50,000	By Statement of Profit and Loss (Amortised)	5,00,000
To Bank A/c (Purchase) (Bal. Fig.)	2,50,000	By Balance c/d	9,00,000
	<u>14,00,000</u>		<u>14,00,000</u>

2. Dr. Cr.

PATENTS ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	9,00,000	By Statement of Profit and Loss (Amortised)	2,50,000
To Bank A/c (Purchase)	5,00,000	(Bal. Fig.)	
	<u>14,00,000</u>	By Balance c/d	11,50,000
			<u>14,00,000</u>

3. Dr. Cr.

LAND ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	2,50,000	By Balance c/d	10,50,000
To Bank A/c (Purchase) (Bal. Fig.)	8,00,000		
	<u>10,50,000</u>		<u>10,50,000</u>

## Cash Flow Statement

5.11

4.Dr.		10% INVESTMENT ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance <i>b/d</i>	10,50,000	By Bank A/c (80% of ₹ 10,00,000) (Bal. Fig.)		8,00,000
To Bank A/c (Purchased)	2,00,000	By Loss on Sale of Investment A/c (Statement of Profit and Loss)		2,00,000
		By Balance <i>c/d</i>		2,50,000
	<u>12,50,000</u>			<u>12,50,000</u>

5.Dr.		PLANT AND MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Balance <i>b/d</i>	85,00,000	By Bank A/c (Sale)		9,60,000*
To Gain (Profit) on Sale of Machine A/c (Statement of Profit and Loss)	1,60,000	By Provision for Depreciation A/c		13,00,000
To Bank A/c (Purchase) (Bal. Fig.)	29,20,000	By Balance <i>c/d</i>		93,20,000
	<u>1,15,80,000</u>			<u>1,15,80,000</u>

\* ₹ 21,00,000 – ₹ 13,00,000 (All Depreciation) + 20% of (₹ 21,00,000 – ₹ 13,00,000) = ₹ 9,60,000.

6.Dr.		PROVISION FOR DEPRECIATION ACCOUNT		Cr.
Particulars	₹	Particulars		₹
To Plant and Machinery A/c (Bal. Fig.) (Accumulated Depreciation)	13,00,000	By Balance <i>b/d</i>		42,50,000
To Balance <i>c/d</i>	44,00,000	By Depreciation A/c (Depreciation Provided)		14,50,000
	<u>57,00,000</u>			<u>57,00,000</u>

**Illustration 8.** Prepare Cash Flow Statement on the basis of the information given in the Balance Sheet of P.S. Ltd. as at 31st March, 2019:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		2,50,000	2,00,000
(b) Reserves and Surplus	1	70,000	50,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings (12% Debentures)		80,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables	2	1,60,000	60,000
(b) Other Current Liabilities (Outstanding Expenses)		20,000	25,000
<b>Total</b>		<u>5,80,000</u>	<u>4,35,000</u>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) <i>Fixed Assets:</i>			
(i) <i>Tangible Assets:</i> Land and Building		2,80,000	2,00,000
(ii) <i>Intangible Assets:</i> Patents		2,000	10,000
(b) Long-term Loans and Advances		1,30,000	1,00,000
<b>2. Current Assets</b>			
(a) Current Investments		5,000	3,000
(b) Inventories		90,000	70,000
(c) Trade Receivables		60,000	40,000
(d) Cash and Cash Equivalents		13,000	12,000
<b>Total</b>		<u>5,80,000</u>	<u>4,35,000</u>

## 5.12

### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	70,000	50,000
<b>2. Trade Payables</b>		
Creditors	60,000	40,000
Bills Payable	1,00,000	20,000
	1,60,000	60,000

### Solution:

**P.S. Ltd.**  
CASH FLOW STATEMENT  
for the year ended 31st March, 2019

Particulars	₹
<b>I. Cash Flow from Operating Activities</b>	
Closing Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	70,000
Less: Opening Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	50,000
Net Profit before Tax and Extraordinary Items	20,000
Add: Non-cash Expenses: Patents Amortised	8,000
Non-operating Expense: Interest on 12% Debentures*	12,000
Operating Profit before Working Capital Changes	40,000
Add: Increase in Current Liabilities:	
Creditors	20,000
Bills Payable	80,000
	1,40,000
Less: Increase in Current Assets and Decrease in Current Liabilities:	
Outstanding Expenses	5,000
Trade Receivables	20,000
Inventories	20,000
	45,000
<b>Cash Flow from Operating Activities</b>	95,000
<b>II. Cash Flow from Investing Activities</b>	
Purchase of Land and Building	(80,000)
Loans and Advances	(30,000)
<b>Cash Used in Investing Activities</b>	(1,10,000)
<b>III. Cash Flow from Financing Activities</b>	
Proceeds from Issue of Equity Shares	50,000
Repayment of Long-term Borrowings	(20,000)
Interest on 12% Debentures	(12,000)
<b>Cash Flow from Financing Activities</b>	18,000
<b>IV. Net Increase in Cash and Cash Equivalents (I + II + III)</b>	3,000
<b>V. Cash and Cash Equivalents in the beginning of the Year (₹ 3,000 + ₹ 12,000)</b>	15,000
<b>VI. Cash and Cash Equivalents at the end of the Year (IV + V) (₹ 5,000 + ₹ 13,000)</b>	18,000

\*Debentures' interest @ 12% on ₹ 1,00,000.



**Illustration 9.** From the following Balance Sheet of Bhushan Steel Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	9,50,000	8,00,000
(b) Reserves and Surplus	2	1,44,000	(20,000)
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings: 15% Debentures</i>		5,00,000	4,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		2,02,000	82,000
(b) Short-term Provisions (Provision for Tax)		18,000	18,000
<b>Total</b>		<b>18,14,000</b>	<b>12,80,000</b>
<b>II. ASSET</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets	3	9,04,000	3,40,000
(b) Investments (Non-Current)		90,000	80,000
<b>2. Current Assets</b>			
(a) Inventories		4,00,000	3,00,000
(b) Trade Receivables	4	1,12,000	3,52,000
(c) Cash and Cash Equivalents		3,08,000	2,08,000
<b>Total</b>		<b>18,14,000</b>	<b>12,80,000</b>

#### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	8,00,000	6,00,000
12% Preference Share Capital	1,50,000	2,00,000
	<b>9,50,000</b>	<b>8,00,000</b>
<b>2. Reserves and Surplus</b>		
Securities Premium Reserve	10,000	10,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,34,000	(30,000)
	<b>1,44,000</b>	<b>(20,000)</b>
<b>3. Fixed Assets</b>		
Tangible Assets	10,00,000	4,00,000
<i>Less: Accumulated Depreciation</i>	96,000	60,000
	<b>9,04,000</b>	<b>3,40,000</b>
<b>4. Trade Receivables</b>		
Sundry Debtors	1,44,000	3,72,000
<i>Less: Provision for Doubtful Debts</i>	32,000	20,000
	<b>1,12,000</b>	<b>3,52,000</b>

#### Additional Information:

- Dividend on equity shares @ 9% was paid during the year.
- Investments costing ₹ 20,000 were sold at a profit of 40%.
- Fixed Assets costing ₹ 40,000 (accumulated depreciation ₹ 16,000) were sold for ₹ 34,000.
- Fresh Equity Shares were issued at a premium of 5% and preference shares were redeemed at par on 1st April, 2018.
- Additional debentures amounting to ₹ 1,00,000 issued on 1st August 2018 at a discount of 10% but redeemable at par after two years. The company wrote off discount on issue of debentures from Securities Premium Reserve.

## 5.14

## Analysis of Financial Statements—CBSE XII

## Solution:

## Bhushan Steel Ltd.

CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars	₹	₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Profit (Note 1)	1,64,000	
Add: Interim Dividend on Equity Shares Paid during the year	72,000	
Provision for Tax	18,000	
Dividend on Preference Shares	18,000	
Net Profit before Tax and Extraordinary Items		2,72,000
Add: Non-Cash/Non-Operating Items:		
Depreciation (Note 3)	52,000	
Interest on Debentures (Note 5)	70,000	
Provision for Doubtful Debts	12,000	1,34,000
		4,06,000
Less: Gain (Profit) on Sale of Investments (being Investing Activity)	8,000	
Gain (Profit) on Sale of Fixed Assets (being Investing Activity)	10,000	18,000
Operating Profit before Working Capital Changes		3,88,000
Add: Decrease in Current Assets:		
Trade Receivables	2,28,000	
Increase in Current Liabilities:		
Trade Payables	1,20,000	3,48,000
		7,36,000
Less: Increase in Current Assets:		
Inventories		1,00,000
<b>Cash Generated from Operations</b>		6,36,000
Less: Tax Paid		18,000
<b>Cash Flow from Operating Activities</b>		6,18,000
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets (Notes 2 and 3)	(6,40,000)	
Sale of Fixed Assets	34,000	
Purchase of Investments (Note 4)	(30,000)	
Sale of Investments	28,000	
<b>Cash Used in Investing Activities</b>		(6,08,000)
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Issue of Equity Shares	2,00,000	
Premium Received on Issue of Shares	10,000	
Proceeds from Issue of Debentures	90,000	
Redemption of Preference Shares	(50,000)	
Dividend Paid on Equity Shares	(72,000)	
Dividend on Preference Shares	(18,000)	
Interest on Debentures Paid	(70,000)	
<b>Cash Flow from Financing Activities</b>		90,000
<b>Net Increase in Cash and Cash Equivalents (A + B + C)</b>		1,00,000
Add: Cash and Cash Equivalents in the beginning of the year		2,08,000
<b>Cash and Cash Equivalents at the end of the year</b>		3,08,000

## Working Notes:

1. Negative Surplus, i.e., Balance in Statement of Profit and Loss of ₹ 30,000 appearing in the previous year's Balance Sheet means the amount of loss. In the current year, after covering this loss of ₹ 30,000, surplus of ₹ 1,34,000 is appearing on the liabilities side. It means that during the current year net profit earned by the company is ₹ 1,64,000 (i.e., ₹ 1,34,000 + ₹ 30,000).

## Cash Flow Statement

5.15

2.Dr.		FIXED ASSETS ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance <i>b/d</i>	4,00,000	By Bank A/c (Sale)	34,000	
To Gain (Profit) on Sale of Asset A/c (Statement of Profit and Loss)	10,000	By Accumulated Depreciation A/c (Depreciation on Fixed Assets Sold)	16,000	
To Bank A/c (Bal. Fig., being Purchase)	6,40,000	By Balance <i>c/d</i>	10,00,000	
	<u>10,50,000</u>		<u>10,50,000</u>	

3.Dr.		ACCUMULATED DEPRECIATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Fixed Assets A/c (Transfer of Depreciation on Fixed Assets Sold)	16,000	By Balance <i>b/d</i>	60,000	
To Balance <i>c/d</i>	96,000	By Depreciation (Bal. Fig.) (Statement of Profit and Loss)	52,000	
	<u>1,12,000</u>		<u>1,12,000</u>	

4.Dr.		INVESTMENTS ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance <i>b/d</i>	80,000	By Bank A/c (Sale) (₹ 20,000 + 40% of ₹ 20,000)	28,000	
To Gain (Profit) on Sale of Investment A/c (Statement of Profit and Loss)	8,000	By Balance <i>c/d</i>	90,000	
To Bank A/c (Bal. Fig., being Purchase)	30,000			
	<u>1,18,000</u>		<u>1,18,000</u>	

5. Interest on Debentures = (₹ 4,00,000 × 15/100) + (₹ 1,00,000 × 15/100 × 8/12) = ₹ 60,000 + ₹ 10,000 = ₹ 70,000.
6. Since dividend payment on preference shares has a priority over payment of interim dividend payment on equity shares so payment of dividend on preference shares is implied.

**Illustration 10.** Prepare Cash Flow Statement on the basis of information given in the Balance Sheet of Simco Ltd. as at 31st March, 2019:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	1,00,000	80,000
(b) Reserves and Surplus	2	10,000	6,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	3	14,000	12,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		22,000	24,000
(b) Short-term Provisions	4	8,400	6,000
<b>Total</b>		<u>1,54,400</u>	<u>1,28,000</u>

<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets: Tangible (Net)	5	50,000	60,000
<b>2. Current Assets</b>			
(a) Inventories		62,000	50,000
(b) Trade Receivables		34,400	15,000
(c) Cash and Cash Equivalents		7,000	2,400
(d) Other Current Assets	6	1,000	600
<b>Total</b>		<b>1,54,400</b>	<b>1,28,000</b>

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	80,000	55,000
12% Preference Share Capital	20,000	25,000
	<b>1,00,000</b>	<b>80,000</b>
<b>2. Reserves and Surplus</b>		
General Reserve	7,600	4,000
Surplus, i.e., Balance in Statement of Profit and Loss	2,400	2,000
	<b>10,000</b>	<b>6,000</b>
<b>3. Long-term Borrowings</b>		
15% Debentures	14,000	12,000
<b>4. Short-term Provisions</b>		
Provision for Taxation	8,400	6,000
<b>5. Fixed Assets</b>		
Tangible Assets (Cost)	80,000	82,000
Less: Accumulated Depreciation	30,000	22,000
	<b>50,000</b>	<b>60,000</b>
<b>6. Other Current Assets</b>		
Prepaid Expenses	1,000	600

*Additional Information:*

- Proposed Dividend for the year ended 31st March, 2018 and 2019 are ₹ 10,000 and ₹ 8,000 respectively.
- Provision for tax made ₹ 9,400.
- Fixed assets costing ₹ 20,000 (accumulated depreciation till date of sale ₹ 6,000) were sold for ₹ 10,000.
- New Debentures were issued on 31st March, 2019.

**Solution:****Simco Ltd.****CASH FLOW STATEMENT for the year ended 31st March, 2019**

Particulars	₹	₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Profit before Tax and Extraordinary Items (WN 1)	23,400	
Add: Depreciation (WN 4)	14,000	
Interest on Debentures (15% of ₹ 12,000)	1,800	
Loss on Sale of Fixed Assets (WN 3)	4,000	
Operating Profit before Working Capital Changes	<b>43,200</b>	

<i>Adjustment for Change in Current Assets and Current Liabilities:</i>		
Decrease in Trade Payable	(2,000)	
Increase in Inventories	(12,000)	
Increase in Trade Receivables	(19,400)	
Increase in Prepaid Expenses	(400)	
<i>Cash Generated from Operating Activities before Tax</i>	9,400	
<i>Less: Tax Paid (WN 2)</i>	7,000	
<b>Cash Flow from Operating Activities</b>		2,400
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets (WN 3)	(18,000)	
Sale of Fixed Assets (WN 3)	10,000	
<b>Cash Used in Investing Activities</b>		(8,000)
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Issue of Equity Share Capital	25,000	
Redemption of 12% Preference Shares	(5,000)	
Proceeds from Issue of 15% Debentures	2,000	
Interest on Debentures	(1,800)	
Final Dividend Paid during the year	(10,000)	
<b>Cash Flow from Financing Activities</b>		10,200
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		4,600
<i>Add: Opening Balance of Cash and Cash Equivalents</i>		2,400
<b>(E) Closing Balance of Cash and Cash Equivalents</b>		7,000

**Working Notes:**

1. Calculation of Net Profit before Tax and Extraordinary Items:		₹
Difference between Closing and Opening balance of Surplus, i.e.,		
Balance in Statement of Profit and Loss		400
<i>Add: Transfer to General Reserve</i>	3,600	
Proposed Dividend (Previous Year) paid during the year	10,000	
Provision for Tax	9,400	23,000
Net Profit before Tax and Extraordinary Items		<u>23,400</u>

2. Dr.	PROVISION FOR TAX ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid) (Bal. Fig.)	7,000	By Balance b/d	6,000
To Balance c/d	8,400	By Statement of Profit and Loss (Provision Made)	9,400
	<u>15,400</u>		<u>15,400</u>

3. Dr.	FIXED ASSETS ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	82,000	By Bank A/c (Sale)	10,000
To Bank A/c (Bal. Fig.)	18,000	By Accumulated Depreciation A/c	6,000
		By Loss on Sale of Asset A/c (Statement of Profit and Loss)	4,000
		By Balance c/d	80,000
	<u>1,00,000</u>		<u>1,00,000</u>

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## Analysis of Financial Statements—CBSE XII

4. Dr.		ACCUMULATED DEPRECIATION ACCOUNT		Cr.	
Particulars	₹	Particulars		₹	
To Fixed Assets A/c (Transfer)	6,000	By Balance b/d		22,000	
To Balance c/d	30,000	By Depreciation (Balancing Figure) (Statement of Profit and Loss)		14,000	
	36,000			36,000	

**Illustration 11.** From the following Balance Sheet of ABC Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		5,00,000	5,00,000
(b) Reserves and Surplus	1	2,75,000	1,50,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	2	6,00,000	4,75,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	3	75,000	50,000
(b) Trade Payables		1,75,000	1,00,000
(c) Short-term Provisions	4	1,25,000	1,00,000
<b>Total</b>		17,50,000	13,75,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>Fixed Assets:</i>			
(i) Tangible Assets	5	10,75,000	9,25,000
(ii) Intangible Assets	6	25,000	37,500
<b>2. Current Assets</b>			
(a) Inventories		2,50,000	1,37,500
(b) Trade Receivables		2,25,000	1,25,000
(c) Cash and Cash Equivalents		1,37,500	1,00,000
(d) Other Current Assets	7	37,500	50,000
<b>Total</b>		17,50,000	13,75,000

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	87,500	50,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,87,500	1,00,000
	2,75,000	1,50,000
<b>2. Long-term Borrowings</b>		
10% Debentures	3,75,000	2,50,000
Mortgage Loan	2,25,000	2,25,000
	6,00,000	4,75,000
<b>3. Short-term Borrowings</b>		
Bank Overdraft	55,000	25,000
Cash Credit	20,000	25,000
	75,000	50,000
<b>4. Short-term Provisions</b>		
Provision for Tax	1,25,000	1,00,000

<b>5. Fixed Assets</b>		
<i>Tangible Assets:</i>		
Land and Building	3,50,000	6,50,000
Machinery	7,25,000	2,75,000
	10,75,000	9,25,000
<b>6. Fixed Assets</b>		
<i>Intangible Assets:</i>		
Brands	25,000	37,500
<b>7. Other Current Assets</b>		
Prepaid Expenses	37,500	50,000

*Additional Information:*

1. During the year ₹ 27,500 depreciation was charged on machinery.
2. Gain on sale of Land and Building ₹ 50,000.
3. Interest paid ₹ 62,500.

**Solution:****ABC Ltd.**

## CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars	₹	₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Profit (₹ 1,87,500 – ₹ 1,00,000)	87,500	
Add: Transfer to General Reserve	37,500	
Provision for Tax (Current Year)	1,25,000	
<i>Net Profit before Tax</i>	2,50,000	
<i>Adjustment for Non-cash and Non-operating Items:</i>		
Add: Depreciation	27,500	
Brands written off	12,500	
Interest Paid	62,500	
Less: Gain on Sale of Land and Building	(50,000)	
Operating Profit before Working Capital Changes	3,02,500	
Add: <i>Increase in Current Liabilities and Decrease in Current Assets:</i>		
Trade Payables	75,000	
Prepaid Expenses	12,500	
Less: <i>Increase in Current Assets:</i>		
Inventories	(1,12,500)	
Trade Receivables	(1,00,000)	
Net Cash Inflow from Operating Activities before Tax	1,77,500	
Less: Income Tax Paid	1,00,000	
<b>Cash Flow from Operating Activities</b>		77,500
<b>(B) Cash Flow from Investing Activities</b>		
Sale of Land and Building (WN 1)	3,50,000	
Purchase of Machinery (WN 2)	(4,77,500)	
<b>Cash Used in Investing Activities</b>		(1,27,500)
<b>(C) Cash Flow from Financing Activities</b>		
Proceed from Bank Overdraft	30,000	
Issue of Debentures	1,25,000	
Payment of Cash Credit	(5,000)	
Interest Paid	(62,500)	
<b>Cash Flow from Financing Activities</b>		87,500
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		37,500
<b>(E) Add: Cash and Cash Equivalents at the beginning</b>		1,00,000
<b>(F) Cash and Cash Equivalents at the end (D + E)</b>		1,37,500

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## Analysis of Financial Statements—CBSE XII

**Working Notes:**

1. Dr.		LAND AND BUILDING ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	6,50,000	By Bank A/c (Sale)	3,50,000	
To Gain on Sale of Land and Building A/c (Statement of Profit and Loss)	50,000	By (Bal. Fig.)		
		By Balance c/d	3,50,000	
	7,00,000		7,00,000	

2. Dr.		MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Balance b/d	2,75,000	By Depreciation A/c	27,500	
To Bank A/c (Purchase) (Bal. Fig.)	4,77,500	By Balance c/d	7,25,000	
	7,52,500		7,52,500	

**Illustration 12.** From the following Balance Sheet of Bhusan Steel Ltd. as at 31st March, 2019, prepare its Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	7,00,000	5,00,000
(b) Reserves and Surplus	2	2,50,000	3,25,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	3	2,00,000	2,50,000
<b>3. Current Liabilities</b>			
Short-term Provisions	4	50,000	25,000
<b>Total</b>		12,00,000	11,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
Tangible Assets (Machinery)		5,00,000	3,00,000
Non-current Investments		2,00,000	1,40,000
<b>2. Current Assets</b>			
(a) Inventories		1,50,000	2,00,000
(b) Trade Receivables		1,80,000	1,50,000
(c) Cash and Cash Equivalents		1,70,000	3,10,000
<b>Total</b>		12,00,000	11,00,000

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	6,00,000	3,00,000
12% Preference Share Capital	1,00,000	2,00,000
	7,00,000	5,00,000
<b>2. Reserves and Surplus</b>		
General Reserve	1,50,000	3,75,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,00,000	(50,000)
	2,50,000	3,25,000
<b>3. Long-term Borrowings</b>		
9% Debentures	2,00,000	2,50,000
<b>4. Short-term Provisions</b>		
Provision for Tax	50,000	25,000



*Additional Information:*

- (i) Machinery costing ₹ 1,00,000 on which depreciation charged was ₹ 70,000, was sold at a profit of 20% on book value. Depreciation charged during the year amounted to ₹ 70,000.
- (ii) Preference Shares were redeemed at par on 31st March, 2019.
- (iii) Debentures were redeemed on 1st January, 2019 and Equity Shares were issued on 1st April, 2018.
- (iv) The company declared and paid interim dividend on Equity Shares @ 8%. It did not propose final dividend on Equity Shares.
- (v) Non-current Investments costing ₹ 60,000 were sold at a profit of 20%.
- (vi) Income tax ₹ 45,000 was provided.

**Solution:**

CASH FLOW STATEMENT  
for the year ended 31st March, 2019

Particulars	₹	₹
<b>A. Cash Flow from Operating Activities</b>		
Net Profit before Tax (WN 1)	42,000	
<i>Adjustment for Non-cash and Non-operating Items:</i>		
<i>Add:</i> Depreciation on Machinery (WN 3)	70,000	
<i>Less:</i> Gain (Profit) on Sale of Machinery (WN 3)	(6,000)	
<i>Add:</i> Interest on Debentures [(9% × ₹ 2,50,000 × 9/12) + (9% × ₹ 2,00,000 × 3/12)]	21,375	
<i>Less:</i> Gain (Profit) on Sale of Non-current Investments (WN 4)	(12,000)	
Operating Profit before Working Capital Changes	1,15,375	
<i>Add: Decrease in Current Assets:</i>		
Inventories	50,000	
<i>Less: Increase in Current Assets:</i>		
Trade Receivables	(30,000)	
<i>Net Cash Inflow from Operating Activities</i>	1,35,375	
<i>Less:</i> Tax Paid (WN 2)	20,000	1,15,375
<i>Cash Flow from Operating Activities</i>		1,15,375
<b>B. Cash Flow from Investing Activities</b>		
Purchase of Machinery (WN 3)	(3,00,000)	
Purchase of Non-current Investment (WN 4)	(1,20,000)	
Sale of Machinery (WN 3)	36,000	
Sale of Non-current Investments (WN 4)	72,000	(3,12,000)
<i>Cash Used in Investing Activities</i>		(3,12,000)
<b>C. Cash Flow from Financing Activities</b>		
Cash Proceeds from Issue of Equity Shares (₹ 6,00,000 – ₹ 3,00,000)	3,00,000	
Redemption of 12% Preference Shares	(1,00,000)	
Redemption of 9% Debentures	(50,000)	
Payment of Preference Dividend (12% of ₹ 2,00,000)	(24,000)	
Payment of Equity Dividend (8% of ₹ 6,00,000)	(48,000)	
Payment of Interest on Debentures	(21,375)	56,625
<i>Cash Flow from Financing Activities</i>		56,625
<b>D. Net Decrease in Cash and Cash Equivalents (A + B + C)</b>		(1,40,000)
<i>Add:</i> Opening Cash and Cash Equivalents		3,10,000
<b>E. Closing Cash and Cash Equivalents</b>		1,70,000

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## Analysis of Financial Statements—CBSE XII

### Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Closing Balance of Surplus, i.e., Balance in Statement of Profit and Loss	1,00,000
Add: Opening Balance of Surplus, i.e., Balance in Statement of Profit and Loss (Debit)	50,000
	<u>1,50,000</u>
Less: Transferred from General Reserve	(2,25,000)
	<u>(75,000)</u>
Add: Provision for Tax	45,000
Dividend on Preference Shares (12% of ₹ 2,00,000, WN 5)	24,000
Dividend (Interim) on Equity Shares (8% of ₹ 6,00,000)	48,000
	<u>42,000</u>
<b>Net Profit before Tax and Extraordinary Items</b>	<u><u>42,000</u></u>

2. Dr.	PROVISION FOR TAX ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid) (Balancing Figure)	20,000	By Balance b/d	25,000
To Balance c/d	50,000	By Statement of Profit and Loss (Provision)	45,000
	<u>70,000</u>		<u>70,000</u>

3. Dr.	MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	3,00,000	By Bank A/c (Sale) (₹ 30,000 + ₹ 6,000)	36,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	6,000	By Depreciation A/c	70,000
To Bank A/c (Purchase) (Bal. Fig.)	3,00,000	By Balance c/d	5,00,000
	<u>6,06,000</u>		<u>6,06,000</u>

4. Dr.	NON-CURRENT INVESTMENTS ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	1,40,000	By Bank A/c (Sale) (₹ 60,000 + 20% of ₹ 60,000)	72,000
To Gain (Profit) on Sale of Investment A/c (Statement of Profit and Loss)	12,000	By Balance c/d	2,00,000
To Bank A/c (Purchase) (Bal. Fig.)	1,20,000		
	<u>2,72,000</u>		<u>2,72,000</u>

5. Preference Shareholders get a preferential right as to payment of dividend. In the given question, company declared and paid dividend on Equity Shares. So, it is implied that dividend was first paid to the preference shareholders and then to equity shareholders.

**Illustration 13.** From the following Balance Sheet of ABC Ltd., prepare the Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		35,000	30,000
(b) Reserves and Surplus	1	22,000	5,500
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings:</i>			
10% Debentures		25,000	15,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings—Cash Credit		5,000	4,000
(b) Trade Payables	2	12,500	8,500
<b>Total</b>		99,500	63,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets (Net)		41,000	32,000
(b) Non-current Investments: 10% Investments	3	8,000	3,000
<b>2. Current Assets</b>			
(a) Inventories		10,500	8,000
(b) Trade Receivables		19,000	8,000
(c) Cash and Cash Equivalents		21,000	12,000
<b>Total</b>		99,500	63,000

#### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	15,000	10,000
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	7,000	(4,500)
	22,000	5,500
<b>2. Trade Payables</b>		
Sundry Creditors	11,000	7,500
Bills Payable	1,500	1,000
	12,500	8,500
<b>3. Fixed Assets</b>		
Machinery (Cost)	54,000	41,000
<i>Less:</i> Provision for Depreciation	13,000	9,000
	41,000	32,000

#### Additional Information:

- Investments costing ₹ 3,000 were sold for ₹ 2,800 during the year.
- A new machine was purchased for ₹ 13,000.

## Solution:

CASH FLOW STATEMENT  
for the year ended 31st March, 2019

Particulars	₹
<b>(A) Cash Flow from Operating Activities</b>	
Closing Balance as per Surplus, i.e., Balance in Statement of Profit and Loss	7,000
<i>Add:</i> Opening Debit Balance (Loss) as per Surplus, i.e., Balance in Statement of Profit and Loss	4,500
Transfer to General Reserve	5,000
Net Profit before Tax and Extraordinary Items	16,500
<i>Add: Non-cash and Non-operating Expenses:</i>	
Depreciation	4,000
Loss on Sale of 10% Investments	200
Interest on Debentures	1,500
	5,700
	22,200
<i>Less: Non-operating Income:</i>	
Interest on 10% Investments	300
Operating Profit before Working Capital Changes	21,900
<i>Add: Increase in Current Liabilities:</i>	
Sundry Creditors	3,500
Bills Payable	500
	4,000
<i>Less: Increase in Current Assets:</i>	
Inventories	2,500
Trade Receivables	11,000
	13,500
<i>Cash Flow from Operating Activities</i>	12,400
<b>(B) Cash Flow from Investing Activities</b>	
Purchase of Machinery	(13,000)
Purchase of Investments (WN 3)	(8,000)
Proceeds from Sale of Investments	2,800
Interest on 10% Investments	300
<i>Cash Used in Investing Activities</i>	(17,900)
<b>(C) Cash Flow from Financing Activities</b>	
Proceeds from Issue of Equity Share Capital	5,000
Proceeds from Long-term Borrowings (10% Debentures)	10,000
Increase in Short-term Borrowings (Cash Credit)	1,000
Interest on Debentures	(1,500)
<i>Cash Flow from Financing Activities</i>	14,500
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>	9,000
<b>(E) Add:</b> Cash and Cash Equivalents in the beginning of the year	12,000
<b>(F) Cash and Cash Equivalents at the end of the year (D + E)</b>	21,000

**Working Notes:**

1. It is assumed that new debentures have been issued at the end of the current accounting year.
2. It is assumed that new investments have been purchased at the end of the current accounting year.

## Cash Flow Statement

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3.Dr.		10% INVESTMENTS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	3,000	By Bank A/c	2,800		
To Bank A/c (Purchase)	8,000	By Loss on Sale (Statement of Profit and Loss)	200		
(Balancing Figure)		By Balance c/d	8,000		
	11,000		11,000		

**Illustration 14.** From the following Balance Sheet of XY Ltd. as on 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	8,50,000	4,60,000
(b) Reserves and Surplus	2	1,70,000	2,60,000
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings:</i>			
10% Debentures		1,80,000	2,00,000
<b>Total</b>		12,00,000	9,20,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		7,00,000	5,00,000
<b>2. Current Assets</b>			
(a) Inventories		2,50,000	2,10,000
(b) Trade Receivables		1,90,000	1,40,000
(c) Cash and Cash Equivalents		60,000	50,000
(d) Other Current Assets	3	...	20,000
<b>Total</b>		12,00,000	9,20,000

### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	7,50,000	4,00,000
8% Preference Share Capital	1,00,000	60,000
	8,50,000	4,60,000
<b>2. Reserves and Surplus</b>		
Securities Premium Reserve	...	20,000
General Reserve	50,000	70,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,20,000	1,70,000
	1,70,000	2,60,000
<b>3. Other Current Assets</b>		
Share Issue Expenses	...	20,000

*Additional Information:*

(i) During the year machine costing ₹ 80,000 was sold for ₹ 50,000.

(ii) Dividend paid ₹ 80,000.

(Delhi 2008, Modified)

## 5.26

## Analysis of Financial Statements—CBSE XII

## Solution:

CASH FLOW STATEMENT  
for the year ended 31st March, 2019

Particulars		₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Loss as per Surplus, i.e., Balance in Statement of Profit and Loss (₹ 1,20,000 – ₹ 1,70,000)	(50,000)	
Add: Dividend paid	80,000	
Less: Transfer from Reserve	(20,000)	
Net Profit before Tax and Extraordinary Items	10,000	
Add: Debentures Interest (₹ 2,00,000 × 10/100)	20,000	
Loss on Sale of Machinery	30,000	
Operating Profit before Working Capital Changes		60,000
<i>Adjustment for Working Capital Changes:</i>		
<i>Less: Increase in Current Assets:</i>		
Inventories	40,000	
Trade Receivables	50,000	
		90,000
<i>Cash Used in Operating Activities</i>		(30,000)
<b>(B) Cash Flow from Investing Activities</b>		
Sale of Fixed Assets	50,000	
Purchases of Fixed Assets (WN 2)	(2,80,000)	
<i>Cash Used in Investing Activities</i>		(2,30,000)
<b>(C) Cash Flow from Financing Activities</b>		
Issue of Equity Share Capital	3,50,000	
Issue of Preference Share Capital	40,000	
Redemption of Debentures	(20,000)	
Dividend Paid	(80,000)	
Interest on Debentures Paid	(20,000)	
<i>Cash Flow from Financing Activities</i>		2,70,000
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		
		10,000
Add: Cash and Cash Equivalents in the beginning of the year		50,000
<b>Cash and Cash Equivalents at the end of the year</b>		<b>60,000</b>

**Working Notes:**

1. It is assumed that debentures had been redeemed at the end of the year.

2. Dr. Cr.

FIXED ASSETS ACCOUNT			
Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Bank A/c (Sale)	50,000
To Bank A/c (Purchases)	2,80,000	By Loss on Sale of Assets A/c	30,000
(Balancing Figure)		(Statement of Profit and Loss)	
		By Balance c/d	7,00,000
	7,80,000		7,80,000

3. Share Issue Expenses have been adjusted from Securities Premium Reserve as per Section 52(2) of the Companies Act, 2013.

4. It is assumed that Dividend paid includes dividend on equity as well as Preference Shares.

**Illustration 15.** From the following Balance Sheet of ABC Ltd. as at 31st March, 2019, prepare the Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) <i>Share Capital:</i> Equity Share Capital		35,000	30,000
(b) Reserves and Surplus	1	22,000	15,500
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings:</i>			
10% Debentures		25,000	15,000
<b>3. Current Liabilities:</b>			
(a) Short-term Borrowings—Bank Overdraft		1,000	700
(b) Trade Payables		10,000	6,800
(c) Other Current Liabilities		1,500	1,000
<b>Total</b>		94,500	69,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets			
(i) <i>Tangible Assets:</i> Machinery		41,000	32,000
(ii) <i>Intangible Assets:</i> Goodwill		8,000	10,000
(b) Non-current Investments (10% Investments)		8,000	3,000
<b>2. Current Assets</b>			
(a) Inventories		5,500	4,000
(b) Trade Receivables		19,000	8,000
(c) Cash and Cash Equivalents		13,000	12,000
<b>Total</b>		94,500	69,000

**Note to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit and Loss	7,000	5,500
	22,000	15,500

*Additional Information:*

- Investments costing ₹ 3,000 were sold for ₹ 2,800 during the year.
- A new machine was purchased for ₹ 13,000. Depreciation of ₹ 4,000 has been charged on machinery,
- During the year, company purchased its own Debentures for ₹ 4,500 (Face Value ₹ 5,000) and sold them at a gain (profit) of ₹ 300.

**Solution:**

CASH FLOW STATEMENT  
for the year ended 31st March, 2019

Particulars	₹	₹
<b>(A) Cash Flow from Operating Activities</b>		
Closing Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss		7,000
Less: Opening Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss		5,500
		1,500
Add: Transfer to General Reserve		5,000
		6,500
Less: Gain (Profit) on Sale of Own Debentures		300
Net Profit before Tax and Extraordinary Items		6,200
<i>Adjustment for Non-Cash and Non-Operating Items:</i>		
Add: Depreciation on Machinery	4,000	
Goodwill amortised	2,000	
Loss on Sale of Investments	200	
Interest on Debentures	1,500	7,700
Less: <i>Non-Operating Income:</i>		
Interest on Investments (₹ 3,000 × 10/100)		(300)
Operating Profit before Working Capital Changes		13,600
Add: <i>Increase in Current Liabilities:</i>		
Trade Payables	3,200	
Other Current Liabilities	500	3,700
	17,300	
Less: <i>Increase in Current Assets:</i>		
Inventories	1,500	
Trade Receivables	11,000	12,500
<i>Cash Flow from Operating Activities</i>		4,800
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Machinery		(13,000)
Purchase of 10% Investments (WN 3)		(8,000)
Proceeds from Sale of 10% Investments		2,800
Purchase of Own Debentures (as investment)		(4,500)
Proceeds from Sale of Own Debentures		4,800
Interest on Investments		300
<i>Cash Used in Investing Activities</i>		(17,600)
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Issue of Share Capital		5,000
Proceeds from Long-term Borrowings (Debentures)		10,000
Increase in Bank Overdraft		300
Interest on Debentures		(1,500)
<i>Cash Flow from Financing Activities</i>		13,800
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		1,000
<b>(E) Add: Cash and Cash Equivalents in the beginning of the year</b>		12,000
<b>(F) Cash and Cash Equivalents at the end of the year (D + E)</b>		13,000

**Working Notes:**

1. It has been assumed that new debentures have been issued at the end of current accounting year.
2. It has been assumed that new investments have been purchased at the end of the current accounting year.



## Cash Flow Statement

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3.Dr.		10% INVESTMENTS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	3,000	By Bank A/c	2,800		
To Bank A/c (Purchase) (Balancing Figure)	8,000	By Loss on Sale of Investments A/c (Statement of Profit and Loss)	200		
		By Balance c/d	8,000		
	11,000		11,000		

4.Dr.		MACHINERY ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	32,000	By Depreciation A/c	4,000		
To Bank A/c	13,000	By Balance c/d	41,000		
	45,000		45,000		

**Illustration 16.** From the following Balance Sheet of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 ₹	31st March, 2018 ₹
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	6,30,000	5,60,000
(b) Reserves and Surplus: Surplus, i.e., Balance in Statement of Profit and Loss		3,08,000	1,82,000
<b>2. Current Liabilities</b>			
(a) Trade Payables		2,64,000	1,66,000
(b) Other Current Liabilities		14,000	28,000
(c) Short-term Provisions (Provision for Tax)		16,000	16,000
<b>Total</b>		12,32,000	9,52,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets: Plant and Machinery		3,92,000	2,80,000
<b>2. Current Assets</b>			
(a) Inventories		1,26,000	1,82,000
(b) Trade Receivables		6,30,000	4,20,000
(c) Cash and Cash Equivalents		84,000	70,000
<b>Total</b>		12,32,000	9,52,000

### Note to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	4,30,000	3,60,000
8% Preference Share Capital	2,00,000	2,00,000
	6,30,000	5,60,000

### Additional Information:

1. An old machinery having book value of ₹ 42,000 was sold for ₹ 56,000.
2. Depreciation provided on machinery during the year ₹ 28,000.
3. Interim Dividend paid on equity shares during the current year ₹ 56,000.

### 5.30

### Analysis of Financial Statements—CBSE XII

#### Solution:

#### CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars	₹	₹
<b>(A) Cash Flow from Operating Activities</b>		
Closing Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	3,08,000	
Less: Opening Balance of Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	1,82,000	
	1,26,000	
Add: Interim Dividend Paid on Equity Shares during the Current Year	56,000	
Preference Dividend Paid during the year	16,000	
Provision for Tax	16,000	
Net Profit before Tax and Extraordinary Items	2,14,000	
Add: Non-Cash Expense:		
Depreciation	28,000	
	2,42,000	
Less: Gain (Profit) on Sale of Machinery	14,000	
Operating Profit before Working Capital Changes	2,28,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Inventories	56,000	
Trade Payables	98,000	
	1,54,000	
	3,82,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	2,10,000	
Other Current Liabilities	14,000	
	2,24,000	
Cash Generated from Operations	1,58,000	
Less: Tax Paid	16,000	
Cash Flow from Operating Activities		1,42,000
<b>(B) Cash Flow from Investing Activities</b>		
Proceeds from Sale of Machinery	56,000	
Payment for Purchase of Machinery (WN)	(1,82,000)	
Cash Used in Investing Activities		(1,26,000)
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Issue of Equity Shares	70,000	
Interim Dividend Paid on Equity Shares	(56,000)	
Preference Dividend Paid	(16,000)	
Cash Used in Financing Activities		(2,000)
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		14,000
Add: Cash and Cash Equivalents in the beginning of the year		70,000
<b>(E) Cash and Cash Equivalents at the end of year</b>		84,000

#### Working Notes:

1. Dr. PLANT AND MACHINERY ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	2,80,000	By Bank A/c (Sale)	56,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	14,000	By Depreciation A/c	28,000
To Bank A/c (Balancing Figure) (Purchase of Machinery)	1,82,000	By Balance <i>c/d</i>	3,92,000
	4,76,000		4,76,000

2. Preference Shareholders get a preferential right as to payment of dividend. In the given question, company declared and paid dividend on Equity Shares. So, it is implied that dividend was first paid to the preference shareholders and then to equity shareholders.

**Illustration 17.** From the following information, calculate Cash Flow from Investing Activities of X Ltd.:

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
1. Investments @ 10%	2,50,000	5,00,000
2. Fixed Assets	8,75,000	11,90,000

*Additional Information:*

- Half of the investments held in the beginning of the year were sold at 10% gain (profit).
- Depreciation on Fixed Assets was ₹ 1,00,000 for the year.
- Interest received on investments—₹ 35,000.
- Dividend received on investments—₹ 15,000.
- Rent received—₹ 10,000.

**Solution:**

CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Proceeds from Sale of Investments	1,37,500
Purchase of Investments (WN 1)	(3,75,000)
Purchase of Fixed Assets (WN 2)	(4,15,000)
Interest Received	35,000
Dividend Received	15,000
Rent Received	10,000
<b>Cash Used in Investing Activities</b>	<b>(5,92,500)</b>

**Working Notes:**

1. Dr. INVESTMENTS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Opening)	2,50,000	By Bank A/c (Sale)	1,37,500
To Gain on Sale of Investment A/c (Statement of Profit and Loss)	12,500	(₹ 2,50,000 × ½ = ₹ 1,25,000) (Gain 10% of ₹ 1,25,000 = ₹ 12,500)	
To Bank A/c (Purchase of Investments) (Balancing Figure)	3,75,000	By Balance c/d	5,00,000
	<u>6,37,500</u>		<u>6,37,500</u>

2. Dr. FIXED ASSETS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Opening)	8,75,000	By Depreciation A/c	1,00,000
To Bank A/c (Purchase) (Balancing Figure)	4,15,000	By Balance c/d	11,90,000
	<u>12,90,000</u>		<u>12,90,000</u>

## 5.32

## Analysis of Financial Statements—CBSE XII

**Illustration 18.** Statement of Profit and Loss of XYZ Ltd. for the year ended 31st March, 2019 and additional information is given below. Calculate Cash Flow from Operating Activities.

STATEMENT OF PROFIT AND LOSS  
for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations (Net Sales)		18,00,000
II. Other Income	1	22,000
III. Total Revenue (I + II)		18,22,000
IV. Expenses:		
(a) Purchases of Stock-in-Trade		14,56,000
(b) Change in Inventories of Stock-in-Trade (Opening Inventories ₹ 80,000 and Closing Inventories ₹ 96,000)		(16,000)
(c) Employees Benefit Expenses		1,80,000
(d) Depreciation and Amortisation Expenses		50,000
(e) Other Expenses	2	1,74,000
		18,44,000
V. Net Loss for the Year (III – IV)		(22,000)

**Notes to Accounts**

Particulars	₹
<b>1. Other Income</b>	
Rent	15,000
Miscellaneous	7,000
	22,000
<b>2. Other Expenses</b>	
Manufacturing Expenses	30,000
Insurance	9,000
Administration Expenses	47,000
Selling and Distribution Expenses	58,000
Loss on Sale of Assets	30,000
	1,74,000

*Additional Information:*

	31st March, 2019 (₹)	31st March, 2018 (₹)
1. Wages Payable	10,000	...
2. Salaries Payable	25,000	...
3. Prepaid Insurance	3,000	...
4. Accrued Commission	7,000	...

## Solution:

## CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Loss as per Statement of Profit and Loss		(22,000)
<i>Adjustments for Non-Cash and Non-Operating Items:</i>		
Add: Depreciation and Amortisation Expenses	50,000	
Loss on Sale of Assets	30,000	80,000
		58,000
Less: <i>Non-Operating Income:</i> Other Incomes (Rent and Miscellaneous)		22,000
Operating Profit before Working Capital Changes		36,000
<i>Add: Increase in Current Liabilities:</i>		
Wages Payable	10,000	
Salaries Payable	25,000	35,000
		71,000
<i>Less: Increase in Current Assets:</i>		
Inventories (₹ 96,000 – ₹ 80,000)	16,000	
Accrued Commission	7,000	
Prepaid Insurance	3,000	26,000
<b>Cash Flow from Operating Activities</b>		<b>45,000</b>

**Illustration 19.** From the following Balance Sheet and information, prepare Cash Flow Statement:

## BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		8,00,000	5,00,000
(b) Reserves and Surplus:			
Surplus, i.e., Balance in Statement of Profit and Loss		3,50,000	2,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings: 6% Debentures		1,00,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings: Bank Loan		50,000	...
(b) Trade Payables	1	75,000	1,00,000
(c) Short-term Provisions: Provision for Tax		65,000	50,000
<b>Total</b>		<b>14,40,000</b>	<b>9,50,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets	2	5,20,000	7,00,000
(ii) Intangible Assets: Goodwill		50,000	1,00,000
(b) Non-current Investments		2,70,000	...
<b>2. Current Assets</b>			
(a) Current Investments	3	90,000	...
(b) Inventories		50,000	60,000
(c) Trade Receivables		80,000	40,000
(d) Cash and Cash Equivalents: Cash and Bank Balance		3,80,000	50,000
<b>Total</b>		<b>14,40,000</b>	<b>9,50,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Trade Payables</b>		
Creditors	55,000	50,000
Bills Payable	20,000	50,000
	<u>75,000</u>	<u>1,00,000</u>
<b>2. Tangible Assets</b>		
Building	2,50,000	4,00,000
Plant and Machinery	2,70,000	3,00,000
	<u>5,20,000</u>	<u>7,00,000</u>
<b>3. Current Investments</b>		
Investment in Securities (Other than Marketable Securities)	90,000	...

## Additional Information:

- ₹ 50,000 as Interim Dividend was paid during the year.
- Building is sold at book value.

## Solution:

CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars		₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Profit before Tax and Extraordinary Items (WN)	2,65,000	
<i>Add:</i> Non-Cash Items and Non-operating Items:		
Goodwill amortised (₹ 1,00,000 – ₹ 50,000)	50,000	
Depreciation on Plant and Machinery (₹ 3,00,000 – ₹ 2,70,000)	30,000	
Interest on Debentures	6,000	
Operating Profit before Working Capital Changes	<u>3,51,000</u>	
<i>Add:</i> Decrease in Current Assets and Increase in Current Liabilities:		
Creditors (Trade Payables)	5,000	
Inventories	10,000	
	<u>3,66,000</u>	
<i>Less:</i> Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	40,000	
Bills Payable (Trade Payables)	<u>30,000</u>	70,000
Cash Generated from Operating Activities	2,96,000	
<i>Less:</i> Tax Paid	50,000	
<i>Cash Flow from Operating Activities</i>		<u>2,46,000</u>
<b>(B) Cash Flow from Investing Activities</b>		
Proceeds from Sale of Building	1,50,000	
Purchase of Non-Current Investments	(2,70,000)	
Purchase of Securities	(90,000)	
<i>Cash Used in Investing Activities</i>		<u>(2,10,000)</u>
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Issue of Shares	3,00,000	
Payment of Interest on Debentures	(6,000)	
Payment of Interim Dividend	(50,000)	
Proceeds from raising of Bank Loan	50,000	
<i>Cash Flow from Financing Activities</i>		<u>2,94,000</u>
<b>(D) Net Increase In Cash and Cash Equivalents (A + B + C)</b>		<u>3,30,000</u>
<i>Add:</i> Cash and Cash Equivalents in the beginning of the year		50,000
<b>(E) Cash and Cash Equivalents at the end of the year</b>		<u><u>3,80,000</u></u>

<b>Working Note:</b>	₹
Balance—Statement of Profit and Loss as on 31st March, 2019	3,50,000
Less: Balance—Statement of Profit and Loss as on 31st March, 2018	<u>2,00,000</u>
	1,50,000
<b>Add: Appropriations:</b>	
Interim Dividend Paid	50,000
Provision for Tax (Current Year)	<u>65,000</u>
Net Profit before Tax and Extraordinary Items	<u><u>2,65,000</u></u>

**Illustration 20.** From the following Balance Sheet of A Ltd., prepare Cash Flow Statement as per AS-3 (Revised), as at 31st March, 2019:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) <i>Share Capital:</i> Equity Share Capital		2,00,000	2,00,000
(b) <i>Reserves and Surplus:</i> Surplus, i.e., Balance in Statement of Profit and Loss		90,000	50,000
<b>2. Current Liabilities</b>			
(a) <i>Short-term Borrowings:</i> Cash Credit		...	10,000
(b) Trade Payables		20,000	15,000
(c) Other Current Liabilities	1	5,000	5,000
(d) <i>Short-term Provisions:</i> Provision for Tax		25,000	20,000
<b>Total</b>		<u>3,40,000</u>	<u>3,00,000</u>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets		2,75,000	2,35,000
<b>2. Current Assets</b>			
(a) Inventories		15,000	25,000
(b) Trade Receivables		20,000	10,000
(c) Cash and Cash Equivalents	2	30,000	30,000
<b>Total</b>		<u>3,40,000</u>	<u>3,00,000</u>

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Other Current Liabilities</b>		
Outstanding Expenses	1,000	5,000
Unclaimed Dividend	4,000	...
	<u>5,000</u>	<u>5,000</u>
<b>2. Cash and Cash Equivalents</b>		
Cash	10,000	8,000
Bank	20,000	22,000
	<u>30,000</u>	<u>30,000</u>

*Additional Information:*

Net Profit for the year after providing ₹ 20,000 for depreciation was ₹ 60,000. During the year, the company declared the interim dividend @ 10% and paid ₹ 15,000 as income tax.

## 5.36

## Analysis of Financial Statements—CBSE XII

## Solution:

CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars		₹
<b>(A) Cash Flow from Operating Activities</b>		
Net Profit before Tax and Extraordinary Items (WN 1)	80,000	
Add: Non-Cash Item: Depreciation	20,000	
Operating Profit before Working Capital Changes		1,00,000
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Trade Payables	5,000	
Inventories	10,000	15,000
		1,15,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Receivables	10,000	
Outstanding Expenses	4,000	14,000
Cash Generated from Operations		1,01,000
Less: Tax Paid (Given)		15,000
Cash Flow from Operating Activities		86,000
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets (WN 2)	(60,000)	
Cash Used in Investing Activities		(60,000)
<b>(C) Cash Flow from Financing Activities</b>		
Decrease in Cash Credit	(10,000)	
Payment of Dividend [₹ 20,000 – ₹ 4,000 (Unclaimed)]	(16,000)	
Cash Used in Financing Activities		(26,000)
<b>(D) Net Increase in Cash and Cash Equivalents (A + B + C)</b>		Nil
Add: Opening Balance of Cash and Cash Equivalents		30,000
<b>(E) Closing Balance of Cash and Cash Equivalents</b>		30,000

**Working Notes:**

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Surplus, i.e., Balance in Statement of Profit and Loss as on 31st March, 2019	90,000
Less: Surplus, i.e., Balance in Statement of Profit and Loss as on 31st March, 2018	50,000
	40,000
Add: Appropriations:	
Interim Dividend	20,000
Provision for Tax	20,000
Net Profit before Tax and Extraordinary Items	80,000

2.Dr.		FIXED ASSETS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	2,35,000	By Depreciation A/c	20,000		
To Cash A/c (Balancing Figure) (Fixed Asset Purchased)	60,000	By Balance c/d	2,75,000		
	2,95,000		2,95,000		



**Illustration 21.** Following is the Balance Sheet of Sreshtha Ltd. as on 31st March, 2014:

Particulars	Note No.	31st March, 2014 (₹)	31st March, 2013 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		20,00,000	15,00,000
(b) Reserves and Surplus	1	5,00,000	3,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		3,00,000	2,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		1,50,000	2,00,000
(b) Short-term Provisions	2	70,000	60,000
<b>Total</b>		<b>30,20,000</b>	<b>22,60,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets:			
(i) Tangible Assets	3	19,00,000	15,00,000
(ii) Intangible Assets	4	4,70,000	2,70,000
<b>2. Current Assets</b>			
(a) Inventories		2,50,000	1,60,000
(b) Trade Receivables		2,10,000	2,10,000
(c) Cash and Cash Equivalents		1,90,000	1,20,000
<b>Total</b>		<b>30,20,000</b>	<b>22,60,000</b>

#### Notes to Accounts

Particulars	31st March, 2014 (₹)	31st March, 2013 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	5,00,000	3,00,000
<b>2. Short-term Provisions</b>		
Provision for Tax	70,000	60,000
<b>3. Tangible Assets</b>		
Machinery	27,00,000	21,00,000
Less: Accumulated Depreciation	(8,00,000)	(6,00,000)
	19,00,000	15,00,000
<b>4. Intangible Assets</b>		
Goodwill	4,70,000	2,70,000

Prepare a Cash Flow Statement after taking into account the following adjustment:

During the year, a piece of machinery costing ₹ 30,000 on which accumulated depreciation was ₹ 6,000, was sold for ₹ 20,000. (Delhi 2015 C)

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## Analysis of Financial Statements—CBSE XII

## Solution:

CASH FLOW STATEMENT  
for the year ended 31st March, 2014

Particulars	₹	₹
<b>I. Cash Flow from Operating Activities</b>		
Net profit before Tax and Extraordinary Items (WN 1)	2,70,000	
<i>Add: Non Operating/Non-cash Expenses:</i>		
Depreciation on Machinery (WN 3)	2,06,000	
Loss on sale of Machinery	4,000	
Operating Profit before Working Capital changes	4,80,000	
<i>Less: Increase in Current Assets and Decrease in Current Liabilities:</i>		
Inventories	90,000	
Trade Payables	50,000	
<i>Cash Generated from Operations</i>	3,40,000	
<i>Less: Income Tax Paid</i>	60,000	2,80,000
<i>Cash Flow from Operating Activities</i>		<b>2,80,000</b>
<b>II. Cash Flow from Investing Activities</b>		
Purchase of Machinery (WN 2)	(6,30,000)	
Proceeds from Sale of Machinery	20,000	
Goodwill Purchased	(2,00,000)	(8,10,000)
<i>Cash Used in Investing Activities</i>		<b>(8,10,000)</b>
<b>III. Cash Flow from Financing Activities</b>		
Proceeds from Issue of Shares	5,00,000	
Proceeds from Long-term Borrowings	1,00,000	6,00,000
<i>Cash Flow from Financing Activities</i>		<b>6,00,000</b>
<b>IV. Net Increase in Cash and Cash Equivalents (I + II + III)</b>		70,000
<i>Add: Opening Balance of Cash and Cash Equivalents</i>		1,20,000
<b>V. Closing Balance of Cash and Cash Equivalents</b>		<b>1,90,000</b>

**Working Notes:**

1. Calculation of Net Profit before Tax and Extraordinary Items:	₹
Surplus, i.e., Balance in Statement of Profit and Loss (₹ 5,00,000 – ₹ 3,00,000)	2,00,000
Add: Provision for Tax	70,000
Net Profit before Tax and Extraordinary Items	<u>2,70,000</u>

2. Dr.	MACHINERY ACCOUNT	Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	21,00,000	By Bank A/c (Sale)	20,000
To Bank A/c (Balancing Figure) (Purchase)	6,30,000	By Accumulated Depreciation A/c	6,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	4,000
		By Balance c/d	27,00,000
	<u>27,30,000</u>		<u>27,30,000</u>

3. Dr.		ACCUMULATED DEPRECIATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Machinery A/c (Transfer)	6,000	By Balance b/d	6,00,000	
To Balance c/d (Given)	8,00,000	By Depreciation A/c (Balancing Figure) (Statement of Profit and Loss)	2,06,000	
	8,06,000		8,06,000	

## Unsolved Questions

1. From the following information, calculate Net Profit before Tax and Extraordinary Items:

	₹
Surplus, i.e., Balance in Statement of Profit and Loss (Opening)	(2,00,000)
Surplus, i.e., Balance in Statement of Profit and Loss (Closing)	6,72,000
Dividend Paid in the current year	1,44,000
Interim Dividend Paid during the year	1,80,000
Transfer to Reserve	2,00,000
Provision for Tax for the current year	3,00,000
Refund of Tax	6,000
Loss due to Earthquake	4,00,000
Insurance Claim Received from Earthquake disaster settlement	2,00,000

[Ans.: Net Profit before Tax and Extraordinary Items: ₹ 18,90,000.]

2. Calculate Cash Flow from Operating Activities from the following information:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Surplus, i.e., Balance in Statement of Profit and Loss	3,10,000	3,40,000
Trade Receivables	1,50,000	1,70,000
Outstanding Rent	48,000	72,000
Goodwill	80,000	70,000
Prepaid Insurance	20,000	10,000
Trade Payables	1,20,000	1,60,000

[Ans.: Cash Used in Operating Activities = ₹ 84,000.]

3. Calculate Cash Flow from Operating Activities from the following information:

	₹
Net profit for the year ended 31st March, 2019	15,00,000
Annual Depreciation	6,00,000
Gain (Profit) on sale of furniture which was transferred to Statement of Profit and Loss	1,50,000
Trade Receivables (Increase in Debtors)	1,20,000
Trade Payables (Increase in Creditors)	1,80,000

[Ans.: ₹ 20,10,000.]

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## Analysis of Financial Statements—CBSE XII

4. Compute Cash Flow from Operating Activities from the following:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	80,000	40,000
<i>Trade Receivables:</i>		
Bills Receivable	8,000	5,000
Debtors	12,000	10,000
Inventories (Stock)	4,000	7,000
Prepaid Expenses	...	500
<i>Trade Payables:</i>		
Creditors	6,000	4,000
Bills Payable	...	1,000
Outstanding Expenses	3,000	2,000

[Ans.: Cash Flow from Operating Activities = ₹ 40,500.]

5. From the following you are required to calculate Cash Flow from Operating Activities:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	65,000	60,000
<i>Trade Receivables:</i>		
Debtors	40,000	87,000
Bills Receivable	1,03,000	62,000
General Reserve	2,37,000	2,02,000
Dividend Equalisation Reserve	1,00,000	78,000
Salary Outstanding	12,000	30,000
Wages Prepaid	7,000	5,000
Goodwill	70,000	80,000

[Ans.: Cash Flow from Operating Activities = ₹ 58,000.]

6. Calculate Cash Flow from Operating Activities from the following:

Case (a)

BALANCE SHEET (An Extract)

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>Shareholders' Funds</b>		
<i>Reserves and Surplus:</i> Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	6,00,000	2,00,000
<b>II. ASSETS</b>		
<b>Non-Current Assets</b>		
Fixed Assets—Tangible Assets	12,00,000	10,00,000
<i>Less:</i> Accumulated Depreciation	(2,50,000)	(2,00,000)
	9,50,000	8,00,000

Case (b) BALANCE SHEET (An Extract)		
Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>Shareholders' Funds</b>		
<i>Reserves and Surplus:</i> Surplus, i.e., Balance in Statement of Profit and Loss	6,00,000	2,00,000
<b>II. ASSETS</b>		
<b>Non-Current Assets</b>		
<i>Fixed Assets:</i> Intangible Assets		
Goodwill	90,000	1,00,000

Case (c) BALANCE SHEET (An Extract)		
Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>1. Shareholders' Funds</b>		
Reserves and Surplus	6,00,000	2,00,000
<b>2. Current Liabilities</b>		
<i>Short-term Provisions:</i>		
Provision for Tax	1,50,000	1,00,000

Case (d) BALANCE SHEET (An Extract)		
Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>Shareholders' Funds</b>		
<i>Reserves and Surplus:</i>		
General Reserve	3,20,000	3,00,000
Surplus, i.e., Balance in Statement of Profit and Loss	6,00,000	2,00,000
	9,20,000	5,00,000

Case (e) BALANCE SHEET (An Extract)		
Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>Shareholders' Funds</b>		
<i>Reserves and Surplus:</i>		
Surplus, i.e., Balance in Statement of Profit and Loss	6,00,000	2,00,000
<b>II. ASSETS</b>		
Plant and Machinery	4,00,000	4,00,000
<i>Less: Accumulated Depreciation</i>	(1,50,000)	(1,00,000)
	2,50,000	3,00,000

*Additional Information:* During the year, a part of machinery costing ₹ 50,000 (accumulated depreciation thereon ₹ 40,000) was sold for ₹ 5,000.

[Ans.: (a) ₹ 4,50,000; (b) ₹ 4,10,000; (c) ₹ 4,50,000; (d) ₹ 4,20,000; (e) ₹ 4,95,000.]

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## Analysis of Financial Statements—CBSE XII

7. Compute Cash Flow from Operating Activities of M/s Progressive Sales from the following details:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Inventories	50,000	60,000
Trade Receivables	23,000	25,000
Trade Payables	50,000	67,000
Expenses Outstanding	4,500	3,500
Accrued Income	9,000	8,000
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	90,000	80,000

[Ans.: ₹ 5,000.]

8. Compute Cash Flow from Operating Activities from the following:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	30,000	20,000
Trade Receivables	18,000	16,000
Provision for Depreciation	30,000	28,000
Prepaid Insurance	1,500	1,300
Goodwill	16,000	20,000
Inventories	12,000	9,000

[Ans.: ₹ 10,800.]

9. Following is the Balance Sheet of Good Luck Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus	1	58,000	50,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings (Mortgage Loan)		1,40,000	1,70,000
<b>3. Current Liabilities</b>			
Trade Payables		1,48,000	1,25,000
<b>Total</b>		<b>7,46,000</b>	<b>6,45,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets	2	3,41,000	2,32,000
<b>2. Current Assets</b>			
(a) Inventories		2,80,000	2,00,000
(b) Trade Receivables		1,07,000	1,30,000
(c) Cash and Cash Equivalents	3	18,000	80,000
(d) <i>Other Current Assets</i> : Prepaid Expenses		...	3,000
<b>Total</b>		<b>7,46,000</b>	<b>6,45,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	58,000	50,000
<b>2. Fixed Assets</b>		
Tangible: Plant	2,96,000	1,72,000
Intangible: Goodwill	45,000	60,000
	3,41,000	2,32,000
<b>3. Cash and Cash Equivalents</b>		
Cash-in-Hand	16,000	50,000
Cash at Bank	2,000	30,000
	18,000	80,000

[Ans.: Cash Used in Operating Activities = ₹ 8,000; Cash Used in Investing Activities = ₹ 1,24,000;  
Cash Flow from Financing Activities = ₹ 70,000;  
Net Decrease in Cash and Cash Equivalents = ₹ 62,000.]

[Hint: No interest on mortgage loan is calculated because the rate of interest is not given.]

10. From the following Balance Sheet of Varun Ltd. as at 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 ₹	31st March, 2018 ₹
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		1,50,000	1,25,000
(b) Reserves and Surplus	1	75,000	60,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings : Bank Loan		20,000	...
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings: Bank Overdraft		10,000	5,000
(b) Trade Payables	2	70,000	65,000
(c) Short-term Provisions	3	25,000	15,000
<b>Total</b>		3,50,000	2,70,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		30,000	20,000
(b) Non-current Investments		10,000	15,000
<b>2. Current Assets</b>			
(a) Inventories (Stock)		1,20,000	87,000
(b) Trade Receivables (Debtors)		90,000	98,000
(c) Cash and Cash Equivalents		1,00,000	50,000
<b>Total</b>		3,50,000	2,70,000

## 5.44

## Analysis of Financial Statements—CBSE XII

### Notes to Accounts

Particulars	31st March, 2019 ₹	31st March, 2018 ₹
<b>1. Reserves and Surplus</b>		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit and Loss	60,000	50,000
	<u>75,000</u>	<u>60,000</u>
<b>2. Trade Payables</b>		
Creditors	45,000	50,000
Bills Payable	25,000	15,000
	<u>70,000</u>	<u>65,000</u>
<b>3. Short-term Provisions</b>		
Provision for Tax	25,000	15,000
	<u>25,000</u>	<u>15,000</u>

#### Additional Information:

- During the year ₹ 5,000 depreciation was charged on fixed assets.
- Company has paid ₹ 12,000 interim dividend during the year.
- Tax provided during the year ₹ 20,000.

[Ans.: Cash Flow from Operating Activities = ₹ 22,000; Cash Used in Investing Activities = ₹ 10,000;  
Cash Flow from Financing Activities = ₹ 38,000; Net Increase in  
Cash and Cash Equivalents = ₹ 50,000.]

11. From the following Balance Sheet of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	2,00,000	1,80,000
(b) Reserves and Surplus	2	6,400	6,000
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings:</i>			
10% Debentures		14,000	12,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings (Bank Overdraft)		13,600	25,000
(b) Trade Payables (Creditors)		22,000	24,000
(c) Short-term Provisions	3	8,400	6,000
<b>Total</b>		<u>2,64,400</u>	<u>2,53,000</u>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets—Tangible	4	1,50,000	1,60,000
<b>2. Current Assets</b>			
(a) Inventories		59,400	50,600
(b) Trade Receivables		48,000	40,000
(c) Cash and Cash Equivalents		7,000	2,400
<b>Total</b>		<u>2,64,400</u>	<u>2,53,000</u>



## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	1,80,000	1,55,000
12% Preference Share Capital	20,000	25,000
	2,00,000	1,80,000
<b>2. Reserves and Surplus</b>		
General Reserve	4,000	4,000
Surplus, i.e., Balance in Statement of Profit and Loss	2,400	2,000
	6,400	6,000
<b>3. Short-term Provisions</b>		
Provision for Tax	8,400	6,000
<b>4. Fixed Assets—Tangible</b>		
Cost	1,80,000	1,82,000
Less: Accumulated Depreciation	30,000	22,000
	1,50,000	1,60,000

## Additional Information:

- Fixed Assets sold for ₹ 10,000, their cost ₹ 20,000 and accumulated depreciation till date of sale of them ₹ 6,000.
- Interim Dividend during the year ₹ 9,000.
- Tax paid ₹ 7,000.
- Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 10,000 and ₹ 11,600 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 22,200; Cash Used in Investing Activities = ₹ 8,000; Cash Used in Financing Activities = ₹ 9,600; Net Increase in Cash and Cash Equivalents = ₹ 4,600.]

[Hints: 1. It has been assumed that the new debentures have been issued at the end of the Current Accounting Year.

- Proposed Dividend includes dividend on Equity as well as Preference Shares.]

12. From the following summarised Balance Sheets of Add Gel Pens Ltd. as at 31st March, 2019 and 31st March, 2018 and the additional information, prepare Cash Flow Statement:

## BALANCE SHEETS

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	3,00,000	2,00,000
(b) Reserves and Surplus	2	1,60,000	80,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	3	50,000	1,80,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings (Bank Overdraft)		30,000	45,000
(b) Trade Payables		50,000	40,000
(c) Short-term Provisions	4	80,000	60,000
<b>Total</b>		6,70,000	6,05,000

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## Analysis of Financial Statements—CBSE XII

II. ASSETS			
<b>1. Non-Current Assets</b>			
Fixed Assets		4,00,000	4,10,000
<b>2. Current Assets</b>			
(a) Current Investments		10,000	10,000
(b) Inventories		89,000	75,000
(c) Trade Receivables		1,50,000	1,00,000
(d) Cash and Cash Equivalents	5	21,000	10,000
<b>Total</b>		<b>6,70,000</b>	<b>6,05,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	1,50,000	1,00,000
8% Preference Share Capital	1,50,000	1,00,000
	<b>3,00,000</b>	<b>2,00,000</b>
<b>2. Reserves and Surplus</b>		
General Reserve	70,000	30,000
Surplus, i.e., Balance in Statement of Profit and Loss	90,000	50,000
	<b>1,60,000</b>	<b>80,000</b>
<b>3. Long-term Borrowings</b>		
15% Debentures	...	80,000
Loan from Bank	50,000	1,00,000
	<b>50,000</b>	<b>1,80,000</b>
<b>4. Short-term Provisions</b>		
Provision for Tax	80,000	60,000
<b>5. Cash and Cash Equivalents</b>		
Cash in Hand	11,000	5,000
Cash at Bank	10,000	5,000
	<b>21,000</b>	<b>10,000</b>

## Additional Information:

1. Depreciation charged on Fixed Assets ₹ 10,000.    2. Interest paid on Loan from Bank ₹ 5,000.
3. Interest paid on Debentures ₹ 9,000.
4. Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 10,000 and ₹ 22,500 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 80,000; Cash Flow from Investing Activities = Nil; Cash Used in Financing Activities = ₹ 69,000; Net Increase in Cash and Cash Equivalents = ₹ 11,000.]

[Hint: Current Investments are taken as Marketable Securities as no information is given. It is taken as Cash and Cash Equivalent.]

13. Balance Sheets of XYZ Ltd. as at 31st March, 2019 and 31st March, 2018 were:

## BALANCE SHEETS

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		6,00,000	5,00,000
(b) Reserves and Surplus	1	75,000	50,000
<b>2. Non-Current Liabilities</b>			
<i>Long-term Borrowings:</i>			
8% Debentures		1,10,000	2,00,000
<b>3. Current Liabilities</b>			
(a) <i>Short-term Borrowings:</i> Bank Overdraft		1,00,000	80,000
(b) Trade Payables		75,000	80,000
(c) Short-term Provisions	2	25,000	20,000
<b>Total</b>		<b>9,85,000</b>	<b>9,30,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>(a) Fixed Assets:</i>			
<i>(i) Tangible Assets:</i>			
Land and Building		5,50,000	5,50,000
<i>(ii) Intangible Assets:</i>			
Goodwill		75,000	1,00,000
(b) Non-current Investment		2,00,000	1,50,000
<b>2. Current Assets</b>			
(a) Inventories		65,000	50,000
(b) Trade Receivables		90,000	68,000
(c) Cash and Cash Equivalents		5,000	12,000
<b>Total</b>		<b>9,85,000</b>	<b>9,30,000</b>

## Notes to Accounts

Particulars		31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>			
Securities Premium Reserve		50,000	50,000
Surplus, i.e., Balance in Statement of Profit and Loss		25,000	...
		<b>75,000</b>	<b>50,000</b>
<b>2. Short-term Provisions</b>			
Provision for Tax		25,000	20,000

*Additional Information:*

- Net Profit for the year before Tax and dividend amounted to ₹ 63,000.
- Provision for Tax made during the year 2018–19 was ₹ 23,000.
- Depreciation provided on Fixed Assets for the year 2018–19 ₹ 80,000.
- Debentures amounted to ₹ 90,000 were redeemed on 1st July, 2018.
- Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 10,000 and ₹ 15,000 respectively.

You are required to prepare Cash Flow Statement as per Accounting Standard-3 (Revised).

[Ans.: Cash Flow from Operating Activities = ₹ 1,13,600; Cash Used in Investing Activities = ₹ 1,30,000; Cash Flow from Financing Activities = ₹ 9,400; Net Decrease in Cash and Cash Equivalents = ₹ 7,000.]

[Hint: Interest on Debentures = on ₹ 2,00,000 for 3 months + on ₹ 1,10,000 for 9 months = ₹ 10,600.]

## 5.48

## Analysis of Financial Statements—CBSE XII

14. From the following summarised Balance Sheets of KBC Ltd. as at 31st March, 2019 and 31st March, 2018, you are required to prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		3,50,000	3,00,000
(b) Reserves and Surplus	1	2,30,000	1,50,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings: 15% Debentures		1,00,000	1,50,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		1,25,000	80,000
(b) Short-term Provisions	2	38,000	35,000
(c) Other Current Liabilities: Outstanding Expenses		6,000	5,000
<b>Total</b>		<b>8,49,000</b>	<b>7,20,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets: Tangible (Net)		4,75,000	4,00,000
(b) Long-term Investments (At Cost)	3	90,000	90,000
<b>2. Current Assets</b>			
(a) Inventories		1,18,000	85,000
(b) Trade Receivables		1,22,500	1,12,500
(c) Cash and Cash Equivalents: Cash in Hand		43,500	32,500
<b>Total</b>		<b>8,49,000</b>	<b>7,20,000</b>

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Capital Reserve (Profit on Sale of Investment)	5,000	...
Surplus, i.e., Balance in Statement of Profit and Loss	2,25,000	1,50,000
	<b>2,30,000</b>	<b>1,50,000</b>
<b>2. Short-term Provisions</b>		
Provision for Tax	38,000	35,000
<b>3. Fixed Assets</b>		
Tangible Assets (At Cost)	6,00,000	5,00,000
Less: Accumulated Depreciation	1,25,000	1,00,000
	<b>4,75,000</b>	<b>4,00,000</b>

## Additional Information:

- During the year ended 31st March, 2019, Fixed Assets with a net Book Value of ₹ 5,000 (accumulated depreciation ₹ 15,000) was sold for ₹ 4,000.
- During the year ended 31st March, 2019, investment costing ₹ 40,000 was sold.
- Debentures were redeemed at a premium of 10%.
- Tax of ₹ 37,500 was paid.
- Debenture interest paid during the year ended 31st March, 2019 was ₹ 15,000.
- Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 15,000 and ₹ 17,000 respectively.

[Ans.: Cash Flow from Operating Activities = ₹ 1,57,000; Cash Used in Investing Activities = ₹ 1,11,000; Cash Used in Financing Activities = ₹ 35,000; Net Increase in Cash and Cash Equivalents = ₹ 11,000.]

[Hints:

1. Dr. FIXED ASSETS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	5,00,000	By Bank A/c (Sale)	4,000
To Bank A/c (Purchase) (Bal. Fig.)	1,20,000	By Accumulated Depreciation A/c	15,000
		By Loss on Sale (Statement of Profit and Loss)	1,000
		By Balance <i>c/d</i>	6,00,000
	6,20,000		6,20,000

2. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Fixed Assets A/c (Transfer)	15,000	By Balance <i>b/d</i>	1,00,000
To Balance <i>c/d</i>	1,25,000	By Depreciation A/c (Depreciation Provided) (Bal. Fig.)	40,000
	1,40,000		1,40,000

3. Dr. PROVISION FOR TAX ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	37,500	By Balance <i>b/d</i>	35,000
To Balance <i>c/d</i>	38,000	By Statement of Profit and Loss (Provision Made) (Bal. Fig.)	40,500
	75,500		75,500

4. Dr. INVESTMENT ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	90,000	By Bank A/c (Sale) (₹ 40,000 + ₹ 5,000 profit)	45,000
To Capital Reserve A/c	5,000	By Balance <i>c/d</i>	90,000
To Bank A/c—Purchase (Bal. Fig.)	40,000		
	1,35,000		1,35,000

15. Calculate Net Profit before Tax and Extraordinary Items from the following Balance Sheets of AB Trades Ltd. as at 31st March, 2019 and 2018:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		10,00,000	8,00,000
(b) Reserves and Surplus	1	4,00,000	2,50,000
<b>2. Current Liabilities</b>			
(a) Short-term Borrowings		50,000	60,000
(b) Trade Payables		50,000	80,000
(c) Other Current Liabilities		25,000	15,000
(d) Short-term Provisions	2	80,000	40,000
<b>Total</b>		16,05,000	12,45,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets: Tangible Assets		10,00,000	8,00,000
(b) Non-Current Investments		3,00,000	2,00,000
<b>2. Current Assets</b>			
<b>Total</b>		16,05,000	12,45,000

## 5.50

## Analysis of Financial Statements—CBSE XII

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
(a) General Reserve	1,20,000	80,000
(b) Surplus, i.e., Balance In Statement of Profit and Loss	2,80,000	1,70,000
	4,00,000	2,50,000
<b>2. Short-term Provisions</b>		
Provision for Tax	80,000	40,000

*Additional Information:* Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 80,000 and ₹ 1,00,000 respectively. [Ans.: ₹ 3,30,000.]

16. From the following Balance Sheets of Vivek Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	2,90,000	2,50,000
(b) Reserves and Surplus	2	72,000	50,000
<b>2. Current Liabilities</b>			
Trade Payables		5,000	23,000
<b>Total</b>		3,67,000	3,23,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>Fixed Assets:</i>			
(a) Tangible	3	1,50,000	1,40,000
(b) Intangible (Goodwill)		20,000	30,000
<b>2. Current Assets</b>			
(a) Inventories		20,000	18,000
(b) Trade Receivables		1,60,000	1,20,000
(c) Cash and Cash Equivalents		17,000	15,000
<b>Total</b>		3,67,000	3,23,000

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	2,50,000	2,00,000
12% Preference Share Capital	40,000	50,000
	2,90,000	2,50,000
<b>2. Reserves and Surplus</b>		
General Reserve	55,000	35,000
Surplus, i.e., Balance in Statement of Profit and Loss	17,000	15,000
	72,000	50,000
<b>3. Fixed Assets (Tangible)</b>		
Building	80,000	1,00,000
Plant	70,000	40,000
	1,50,000	1,40,000

*Additional Information:* Depreciation charged on Plant was ₹ 30,000 and on Building ₹ 50,000.

[Ans.: Cash Flow from Operating Activities = ₹ 52,000; Cash Used in Investing Activities = ₹ 90,000; Cash Flow from Financing Activities = ₹ 40,000; Net increase in Cash and Cash Equivalents = ₹ 2,000.]

17. Balance Sheet of A Ltd. as at 31st March, 2019 was as follows:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		8,40,000	6,00,000
(b) Reserves and Surplus		2,46,000	1,20,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	1	1,50,000	1,50,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings	2	75,000	90,000
(b) Trade Payables		2,49,000	1,50,000
(c) Short-term Provisions	3	60,000	45,000
<b>Total</b>		<b>16,20,000</b>	<b>11,55,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets (Net)	4	3,90,000	4,80,000
(ii) Intangible Assets	5	30,000	60,000
(b) Non-current Investments		7,50,000	3,75,000
<b>2. Current Assets</b>			
(a) Current Investments	6	90,000	60,000
(b) Inventories		90,000	30,000
(c) Trade Receivables		1,95,000	90,000
(d) Other Current Assets	7	39,000	15,000
(e) Cash and Cash Equivalents		36,000	45,000
<b>Total</b>		<b>16,20,000</b>	<b>11,55,000</b>

#### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Long-term Borrowings</b>		
12% Loan	1,50,000	1,50,000
<b>2. Short-term Borrowings</b>		
Bank Overdraft	75,000	90,000
<b>3. Short-term Provisions</b>		
Provision for Tax	60,000	45,000
<b>4. Fixed Assets—Tangible (Net)</b>		
Plant and Machinery	5,40,000	6,00,000
Less: Provision for Depreciation	1,50,000	1,20,000
	3,90,000	4,80,000
<b>5. Intangible Assets</b>		
Trademarks	30,000	60,000
<b>6. Current Investments</b>		
Short-term Investments	90,000	60,000
<b>7. Other Current Assets</b>		
Prepaid Expenses	39,000	15,000

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## Analysis of Financial Statements—CBSE XII

*Additional Information:*

- Interest received on Investment: ₹ 45,000.
- Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 60,000 and ₹ 90,000 respectively. You are required to prepare Cash Flow Statement.

[**Ans.:** Cash Flow from Operating Activities = ₹ 1,44,000; Cash Used in Investing Activities = ₹ 2,70,000; Cash Flow from Financing Activities = ₹ 1,47,000; Net Increase in Cash and Cash Equivalents = ₹ 21,000.]

18. Nazma Ltd. received interest on an item and the accountant classified it under financing activity while preparing Cash Flow Statement. Name another item for which such a treatment is possible.

(Delhi 2016 C)

**Note by Authors:** There seems to be printing error. Please read 'Investing Activity' in place of 'Financing Activity'.

19. From the following Balance Sheets of X Ltd., prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus:			
Surplus, i.e., Balance in Statement of Profit and Loss		1,10,000	85,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings: Bank Loan		75,000	1,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables (Creditors)		2,95,000	3,10,000
(b) Short-term Provisions	1	60,000	45,000
<b>Total</b>		<b>9,40,000</b>	<b>8,40,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets (Net)	2	4,15,000	3,20,000
<b>2. Current Assets</b>			
(a) Inventories (Stock)		2,25,000	2,00,000
(b) Trade Receivables	3	3,00,000	2,90,000
(c) Cash and Cash Equivalents		...	30,000
<b>Total</b>		<b>9,40,000</b>	<b>8,40,000</b>

### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Short-term Provisions</b>		
Provision for Tax	60,000	45,000
<b>2. Fixed Assets</b>		
Plant and Machinery	5,50,000	4,00,000
Less: Accumulated Depreciation	1,35,000	80,000
	<b>4,15,000</b>	<b>3,20,000</b>
<b>3. Trade Receivables</b>		
Debtors	1,90,000	2,10,000
Bills Receivable	1,10,000	80,000
	<b>3,00,000</b>	<b>2,90,000</b>



## Cash Flow Statement

5.53

*Additional Information:*

A piece of machinery costing ₹ 60,000 on which accumulated depreciation was ₹ 15,000 was sold for ₹ 30,000.

[Ans.: Cash Flow from Operating Activities = ₹ 75,000; Cash Used in Investing Activities = ₹ 1,80,000; Cash Flow from Financing Activities = ₹ 75,000; Net Decrease in Cash and Cash Equivalents = ₹ 30,000.]

20. From the following Balance Sheet of Sultan Ltd. as at 31st March, 2019, prepare a Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	7,00,000	5,00,000
(b) Reserves and Surplus	2	2,50,000	3,25,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings	3	2,00,000	2,50,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings (12% Bank Loan)		4,00,000	5,00,000
(b) Trade Payables		1,50,000	40,000
(c) Short-term Provisions	4	1,90,000	1,50,000
<b>Total</b>		18,90,000	17,65,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) <i>Fixed Assets:</i>			
(i) Tangible Assets (Machinery)		11,00,000	9,00,000
(ii) Intangible Assets (Goodwill)		40,000	90,000
(b) 10% Non-current Investments		2,00,000	1,40,000
<b>2. Current Assets</b>			
(a) Inventories		1,50,000	2,00,000
(b) Trade Receivables		1,80,000	1,50,000
(c) Cash and Cash Equivalents		2,20,000	2,85,000
<b>Total</b>		18,90,000	17,65,000

### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
Equity Share Capital	6,00,000	3,00,000
12% Preference Capital	1,00,000	2,00,000
	7,00,000	5,00,000
<b>2. Reserves and Surplus</b>		
General Reserve	1,50,000	3,75,000
Surplus, i.e., Balance in Statement of Profit and Loss	1,00,000	(50,000)
	2,50,000	3,25,000
<b>3. Long-term Borrowings</b>		
9% Debentures	2,00,000	2,50,000
<b>4. Short-term Provisions</b>		
Provision for Tax	1,90,000	1,50,000

*Additional Information:*

(i) Machinery costing ₹ 1,00,000 on which depreciation charged was ₹ 70,000, was sold at a profit of 20% on book value. Depreciation charged during the year amounted to ₹ 70,000.

## 5.54

## Analysis of Financial Statements—CBSE XII

- (ii) Bank loan was repaid and Preference Shares were redeemed at par on 31st March, 2019.
- (iii) Debentures were redeemed on 1st January, 2019 and Equity Shares were issued on 1st April, 2018.
- (iv) During the year, company declared and paid interim dividend on Equity Shares @ 8%. Final dividend was not proposed on equity shares.
- (v) At the end of the year some Non-current Investments costing ₹ 60,000 were sold at a profit of 20%. Some of Non-current investments were also made on 31st March, 2019.
- (vi) Tax paid during the year was ₹ 1,40,000 and adjusted against Provision for Tax Account.
- (vii) Proposed dividend for the year ended 31st March, 2018 ₹ 24,000 was paid during the year.

[Ans.: Cash Flow from Operating Activities = ₹ 3,36,375; Cash Used in Investing Activities = ₹ 2,98,000; Cash Used to Financing Activities = ₹ 1,03,375; Net Decrease in Cash and Cash Equivalents = ₹ 65,000.]

21. From the following extract of Balance Sheet of a company, calculate Cash Flow from Financing Activities:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Equity Share Capital	6,00,000	4,00,000
10% Preference Share Capital	2,00,000	3,00,000
Securities Premium Reserve	35,000	...
11% Debentures	5,00,000	4,00,000

Additional Information:

- (i) Equity shares were issued at a premium of 20% on 31st March, 2019.
- (ii) Underwriting commission on issue of equity shares ₹ 5,000. The company met underwriting commission from Securities Premium Reserve.
- (iii) Preference shares were redeemed on 31st March, 2019 at par along with dividend.
- (iv) Additional Debentures were issued on 1st April, 2018.
- (v) The company paid interim dividend @ 9% on Equity Share Capital. The company did not propose final dividend on Equity share Capital.

[Ans.: Cash Flow from Financing Activities = ₹ 1,14,000.]

22. Following are the Balance Sheets of Sreshtha Ltd. as on 31st March, 2014 and 2013:

Particulars	Note No.	31st March, 2014 (₹)	31st March, 2013 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		40,00,000	30,00,000
(b) Reserves and Surplus	1	10,00,000	6,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		6,00,000	4,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		3,00,000	4,00,000
(b) Short-term Provisions	2	1,40,000	1,20,000
<b>Total</b>		<b>60,40,000</b>	<b>45,20,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>Fixed Assets:</i>			
(i) Tangible Assets	3	38,00,000	30,00,000
(ii) Intangible Assets	4	9,40,000	5,40,000
<b>2. Current Assets</b>			
(a) Inventories		5,00,000	3,20,000
(b) Trade Receivables		4,20,000	4,20,000
(c) Cash and Cash Equivalents		3,80,000	2,40,000
<b>Total</b>		<b>60,40,000</b>	<b>45,20,000</b>

## Notes to Accounts

Particulars	31st March, 2014 (₹)	31st March, 2013 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	10,00,000	6,00,000
<b>2. Short-term Provisions</b>		
Provision for Tax	1,40,000	1,20,000
<b>3. Tangible Assets</b>		
Machinery	42,00,000	33,00,000
Less: Accumulated Depreciation	(4,00,000)	(3,00,000)
	38,00,000	30,00,000
<b>4. Intangible Assets</b>		
Goodwill	9,40,000	5,40,000

Prepare a Cash Flow Statement after taking into account the following adjustment:

During the year, a piece of machinery costing ₹ 40,000 on which accumulated depreciation was ₹ 30,000, was sold for ₹ 9,000. (OD 2015 C)

[Ans.: Cash Flow from Operating Activities = ₹ 2,71,000; Cash Used in Investing Activities = ₹ 13,31,000; Cash Flow from Financing Activities = ₹ 12,00,000; Net Increase in Cash and Cash Equivalents = ₹ 1,40,000.]

23. From the following Balance Sheet of India Ltd. and the additional information given, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital: Equity Share Capital		4,00,000	3,00,000
(b) Reserves and Surplus	1	1,18,000	70,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		1,00,000	1,50,000
<b>3. Current Liabilities</b>			
(a) Trade Payables	2	99,000	75,000
(b) Short-term Provisions	3	50,000	40,000
<b>Total</b>		7,67,000	6,35,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
Fixed Assets—Tangible	4	3,70,000	2,80,000
—Intangible (Goodwill)		90,000	1,15,000
<b>2. Current Assets</b>			
(a) Inventories		59,000	35,000
(b) Trade Receivables	5	2,30,000	1,80,000
(c) Cash and Cash Equivalents		18,000	25,000
<b>Total</b>		7,67,000	6,35,000

## 5.56

## Analysis of Financial Statements—CBSE XII

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
General Reserve	70,000	40,000
Surplus, i.e., Balance in Statement of Profit and Loss	48,000	30,000
	1,18,000	70,000
<b>2. Trade Payables</b>		
Creditors	83,000	55,000
Bills Payable	16,000	20,000
	99,000	75,000
<b>3. Short-term Provisions</b>		
Provision for Tax	50,000	40,000
<b>4. Fixed Assets (Tangible)</b>		
Land and Building	1,80,000	2,00,000
Plant	1,90,000	80,000
	3,70,000	2,80,000
<b>5. Trade Receivables</b>		
Debtors	2,00,000	1,60,000
Bills Receivable	30,000	20,000
	2,30,000	1,80,000

**Note:** Proposed equity dividends for the years ended 31st March, 2018 and 2019 are ₹ 50,000 and ₹ 60,000 respectively.

*Additional Information:*

1. Depreciation of ₹ 10,000 and ₹ 20,000 have been charged on Plant and Land and Building respectively in 2018–19.
2. An Interim Dividend of ₹ 20,000 has been paid in 2018–19.
3. Share Issue Expenses of ₹ 5,000 were incurred and written off in 2018–19 from the Statement of Profit and Loss.
4. Income Tax ₹ 35,000 was paid during the year 2018–19.

[Ans.: Cash Flow from Operating Activities = ₹ 1,38,000; Cash Used in Investing Activities = ₹ 1,20,000; Cash Used in Financing Activities = ₹ 25,000.  
Net Decrease in Cash and Cash Equivalents = ₹ 7,000.]

24. From the following Balance Sheet of Clay Ltd., prepare Cash Flow Statement:

BALANCE SHEET as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		8,00,000	5,00,000
(b) Reserves and Surplus	1	3,50,000	2,05,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings (10% Debentures)		4,00,000	5,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings (10% Bank Loan)		50,000	...
(b) Trade Payables	2	75,000	1,00,000
(c) Other Current Liabilities	3	30,000	...
(d) Short-term Provisions	4	65,000	50,000
<b>Total</b>		17,70,000	13,55,000

II. ASSETS			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets	5	5,20,000	7,00,000
(ii) Intangible Assets		50,000	1,00,000
(b) Non-current Investments (10% Investments)		1,60,000	60,000
<b>2. Current Assets</b>			
(a) Inventories		50,000	60,000
(b) Trade Receivables		80,000	40,000
(c) Cash and Cash Equivalents		9,10,000	3,95,000
<b>Total</b>		<b>17,70,000</b>	<b>13,55,000</b>

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Securities Premium Reserve		
Opening Balance	75,000	75,000
Less: Share Issue Expenses Written off	40,000	...
	35,000	75,000
Capital Reserve	...	5,000
Surplus, i.e., Balance in Statement of Profit and Loss	3,15,000	1,25,000
	<b>3,50,000</b>	<b>2,05,000</b>
<b>2. Trade Payables</b>		
Trade Creditors	55,000	50,000
Bills Payable	20,000	50,000
	<b>75,000</b>	<b>1,00,000</b>
<b>3. Other Current Liabilities</b>		
Unpaid Dividend	20,000	...
Unpaid Interest on Debentures	10,000	...
	<b>30,000</b>	<b>...</b>
<b>4. Short-term Provisions</b>		
Provision for Tax	65,000	50,000
<b>5. Fixed Assets (Tangible)</b>		
Building	2,50,000	4,00,000
Plant and Machinery	2,70,000	3,00,000
	<b>5,20,000</b>	<b>7,00,000</b>

**Note:** Proposed Dividend for the year ended 31st March, 2018 and 2019 are ₹ 1,15,000 and ₹ 1,25,000 respectively.

*Additional Information:*

- Interim Dividend of ₹ 50,000 was paid during the year.
- Share Issue Expenses of ₹ 40,000 were incurred and written off during the year 2018-19 from Securities Premium Reserve.
- Tax of ₹ 60,000 was paid during the year.
- Debentures were redeemed at par on 1st April, 2018 and Bank Loan was raised on the same date.

## 5.58

## Analysis of Financial Statements—CBSE XII

5. At the end of the year some Non-current Investments costing ₹ 40,000 were sold at a loss of 25% and some Non-current Investments costing ₹ 20,000 were sold at a profit of 25%. Profit/Loss on investments was adjusted against Capital Reserve. Additional Non-current investments were made on 31st March, 2019.

[Ans.: Cash Flow from Operating Activities = ₹ 4,34,000; Cash Flow from Investing Activities = ₹ 51,000; Cash Flow from Financing Activities = ₹ 30,000; Increase in Cash and Cash Equivalents = ₹ 5,15,000.]

## [Hints:

1. Dr.		10% INVESTMENTS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d	60,000	By Bank A/c (Sale)	30,000		
To Capital Reserve A/c (Profit)	5,000	By Capital Reserve A/c (Loss on Sale)	10,000		
To Bank A/c (Purchase)	1,60,000	By Bank A/c (₹ 20,000 + ₹ 5,000)	25,000		
(Balancing Figure)		By Balance c/d	1,60,000		
	2,25,000		2,25,000		

2. Depreciation on Plant and Machinery—₹ 30,000; Sale of Building—₹ 1,50,000.]

25. From the following Balance Sheet of Varun Ltd. as at 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		1,50,000	1,25,000
(b) Reserves and Surplus	1	75,000	60,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings : Bank Loan		20,000	...
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings: Bank Overdraft		10,000	5,000
(b) Trade Payables	2	70,000	65,000
(c) Short-term Provisions	3	25,000	15,000
<b>Total</b>		<b>3,50,000</b>	<b>2,70,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets		30,000	20,000
(b) Non-current Investments		10,000	15,000
<b>2. Current Assets</b>			
(a) Inventories (Stock)		1,20,000	87,000
(b) Trade Receivables (Debtors)		90,000	98,000
(c) Cash and Cash Equivalents		1,00,000	50,000
<b>Total</b>		<b>3,50,000</b>	<b>2,70,000</b>

## Notes to Accounts

Particulars	31st March, 2019 ₹	31st March, 2018 ₹
<b>1. Reserves and Surplus</b>		
General Reserve	15,000	10,000
Surplus, i.e., Balance in Statement of Profit and Loss	60,000	50,000
	<u>75,000</u>	<u>60,000</u>
<b>2. Trade Payables</b>		
Creditors	45,000	50,000
Bills Payable	25,000	15,000
	<u>70,000</u>	<u>65,000</u>
<b>3. Short-term Provisions</b>		
Provision for Tax	25,000	15,000

*Additional Information:*

1. During the year ₹ 5,000 depreciation was charged on fixed assets.
2. Company has paid ₹ 12,000 interim dividend during the year.
3. Tax provided during the year ₹ 20,000.

[Ans.: Cash Flow from Operating Activities = ₹ 22,000; Cash Used in Investing Activities = ₹ 10,000;  
Cash Flow from Financing Activities = ₹ 38,000; Net Increase in  
Cash and Cash Equivalents = ₹ 50,000.]

# Practice Test Papers

## Practice Test Paper 1

- ABC Ltd. implemented Voluntary Retirement Scheme which was accepted by 100 employees. The company paid ₹ 20 lakhs to these employees as compensation. Under which activity and how will this payment be shown in the Cash Flow Statement? (1)
- Amrit Securities Ltd., a company dealing in shares and other financial instruments made strategic investment of ₹ 50 lakhs in Rathi Securities Ltd., a company having membership of BSE. Under which head ₹ 50 lakhs will be shown in Cash Flow Statement? (1)
- Under which head of the Statement of Profit and Loss will the following items be shown?
  - Loss on Issue of Debentures written off
  - Share Issue Expenses written off
  - Goodwill written off
  - Bad Debts Recovered
 (4)
- Ratio of Current Assets (₹ 12,50,000) to Current Liabilities (₹ 5,00,000) of a company is 2.5 : 1. The management decided to maintain a current ratio of 2 : 1, by acquiring some current assets on credit. By what amount should it increase its current assets to maintain the ratio?
  - A company has Debt to Equity Ratio of 3 : 1, total Debts ₹ 15,00,000 and Equities ₹ 5,00,000. If company wants to maintain Debt to Equity Ratio of 2 : 1, how much amount should be paid? (4)
- ABC Ltd. is in the business of manufacturing and selling FMCG, decided to set up a new manufacturing unit in economically backward area of Chhattisgarh. It decided to employ factory staff from the local population. But before that it imparted training to them for six months and gave each trainee a stipend of ₹ 5,000 per month. Its Comparative Statement of Profit and Loss for the years ended 31st March, 2018 and 2019 was as follows:

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. Revenue from Operations		12,50,000	15,00,000	2,50,000	20.00
II. Other Income		40,000	50,000	10,000	25.00
III. <b>Total Revenue (I + II)</b>		12,90,000	15,50,000	2,60,000	20.16
IV. <b>Expenses</b>					
(a) Cost of Materials Consumed		7,00,000	8,00,000	1,00,000	14.29
(b) Employees Benefit Expenses		1,80,000	2,00,000	20,000	11.11
(c) Other Expenses		75,000	1,00,000	25,000	33.33
<b>Total Expenses</b>		9,55,000	11,00,000	1,45,000	15.18
V. <b>Profit before Tax (III - IV)</b>		3,35,000	4,50,000	1,15,000	34.33
VI. <b>Less: Tax</b>		95,000	1,50,000	55,000	52.63
VII. <b>Profit after Tax (V - VI)</b>		2,40,000	3,00,000	60,000	25.00



**PTP.2**

**Analysis of Financial Statements—CBSE XII**

Inventories for the years ended 31st March, 2017—₹ 2,00,000; 31st March, 2018—₹ 2,50,000 and 31st March, 2019—₹ 2,50,000.

Calculate Inventory Turnover Ratio for the two years. (4)

6. From the following Balance Sheet of Crystal Company Ltd. as at 31st March, 2019, prepare Cash Flow Statement:

BALANCE SHEET OF CRYSTAL COMPANY LTD.  
as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		6,00,000	4,00,000
(b) Reserves and Surplus	1	2,00,000	1,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings: Bank Loan		1,00,000	2,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables (Creditors)		45,000	60,000
(b) Short-term Provisions	2	70,000	40,000
<b>Total</b>		<b>10,15,000</b>	<b>8,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets: Building		6,00,000	6,00,000
(ii) Intangible Assets: Patents		45,000	50,000
(b) Non-current Investments		75,000	...
<b>2. Current Assets</b>			
(a) Inventories		15,000	10,000
(b) Trade Receivables (Debtors)		1,95,000	1,20,000
(c) Cash and Cash Equivalents		85,000	20,000
<b>Total</b>		<b>10,15,000</b>	<b>8,00,000</b>

**Notes to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	2,00,000	1,00,000
<b>2. Short-term Provisions</b>		
Provision for Tax	70,000	40,000

*Additional Information:*

- During the year Building costing ₹ 75,000 was purchased. Loss on Sale of Building was ₹ 5,000. Depreciation charged on Building was ₹ 12,000.
- Proposed dividend for the years ended 31st March, 2018 and 2019 were ₹ 80,000 and ₹ 60,000 respectively. (6)

## Practice Test Paper 2

1. XYZ Ltd. purchased its own debentures from the market for investment for a consideration of ₹ 5,00,000. Under which activity and how will this payment be shown in the Cash Flow Statement? (1)
2. Avon Securities Ltd., a company dealing in shares and other financial instruments had made strategic investment of ₹ 5 lakhs in Bull Securities Ltd., a company having membership of BSE. It later sold these shares at a gain of ₹ 2,00,000. Under which head will the sale and gain be shown in Cash Flow Statement? (1)
3. Under which main-head and sub-head of the Balance Sheet will the following items be shown?
  - (i) Share Application Money
  - (ii) Debentures with maturity period of 12 months
  - (iii) Computer Software
  - (iv) Preference Share Capital (4)
4. (a) State **any two** objectives of Common-size Balance Sheet.  
 (b) Opening Inventory ₹ 40,000; Closing Inventory ₹ 50,000; Revenue from Operations ₹ 6,00,000; Gross Profit Ratio 25%.  
 Calculate Inventory Turnover Ratio. (4)
5. XYZ Ltd. is in the business of manufacturing and selling carpets, decided to set up a new manufacturing unit in Jammu and Kashmir. It decided to do so because of the natural calamity struck in the state. It decided to employ factory staff from the local population after giving them adequate training to develop the weaving skill in them. Each trainee was paid stipend during the training period. Its Comparative Statement of Profit and Loss for the years ended 31st March, 2018 and 2019 was as follows:

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. Revenue from Operations		17,50,000	25,00,000	7,50,000	42.86
II. Other Income		40,000	50,000	10,000	25.00
III. <b>Total Revenue (I + II)</b>		17,90,000	25,50,000	7,60,000	42.46
IV. <b>Expenses</b>					
(a) Cost of Materials Consumed		10,50,000	15,00,000	4,50,000	42.86
(b) Employees Benefit Expenses		3,80,000	4,00,000	20,000	5.26
(c) Other Expenses		75,000	1,00,000	25,000	33.33
<b>Total Expenses</b>		15,05,000	20,00,000	4,95,000	32.89
V. <b>Profit before Tax (III - IV)</b>		2,85,000	5,50,000	2,65,000	92.98
VI. <b>Less: Tax</b>		95,000	1,50,000	55,000	57.89
VII. <b>Profit after Tax (V - VI)</b>		1,90,000	4,00,000	2,10,000	110.53

*Additional Information:*

Employees Benefit Expenses include Wages of ₹ 2,00,000 and ₹ 1,90,000 in the years ended 31st March, 2019 and 2018 respectively.

Calculate Gross Profit Ratio for the two years. (4)

**PTP.4****Analysis of Financial Statements—CBSE XII**

6. (a) Classify the following items under different heads of operating, investing and financing activities:

(i) Investments costing ₹ 4,00,000 sold for ₹ 5,00,000.

(ii) Goods sold on credit ₹ 50,000.

(iii) Dividend paid ₹ 1,00,000.

(iv) Furniture purchased for ₹ 90,000. (2)

(b) Few items have been extracted from the Balance Sheet of a company, which are as under:

	31st March, 2019 (₹)	31st March, 2018 (₹)
Equity Share Capital	9,00,000	7,00,000
15% Preference Share Capital	3,00,000	5,00,000
Securities Premium Reserve	1,40,000	1,00,000
12% Debentures	4,00,000	3,00,000

*Additional Information:*

1. Interim Dividend on Equity Shares at the end of current year was paid @ 15%.

2. Preference Shares were redeemed at a premium of 5% on 31st March, 2019.

3. Issues of new Shares and Debentures were made on the last date of current year.

Calculate Cash Flow from Financing Activities. (4)

## Practice Test Paper 3

1. Moonlight Ltd. bought back its own shares having nominal value of ₹ 10,00,000 at its nominal value. Under which activity and how will this payment be shown in the Cash Flow Statement? (1)
2. Top Securities Ltd., a company dealing in shares and other financial instruments declared and paid final dividend of ₹ 5,00,000. Under which activity dividend paid will be shown in Cash Flow Statement? (1)
3. Under which main-head and sub-head of the Balance Sheet will the following items be shown?
  - (i) Share Application Money Pending Allotment
  - (ii) Workmen Compensation Reserve
  - (iii) Patents
  - (iv) Debentures (4)
4. (i) Calculate Gross Profit Ratio based on the following information:  
Cash Revenue from Operations: 25% of Total Revenue from Operations; Purchases: ₹ 2,76,000; Credit Revenue from Operations: ₹ 2,40,000; Excess of Closing Inventory over Opening Inventory: ₹ 20,000.  
(ii) Current Ratio of Z Ltd. is 1 : 1 at present. In future the company wants to improve this ratio to 2 : 1. Suggest **any two** accounting transactions for improving the Current Ratio. (4)
5. XYZ Ltd. is in the business of readymade garments, decided to take part in Swachh Bharat Abhiyan by educating the people about the benefits of cleanliness from the health point of view. Its Comparative Balance Sheet as at 31st March, 2018 and 2019 was as follows:

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital		15,00,000	20,00,000	5,00,000	33.33
(b) Reserves and Surplus		4,00,000	5,00,000	1,00,000	25.00
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		27,00,000	25,00,000	(2,00,000)	(7.41)
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		3,00,000	4,00,000	1,00,000	33.33
(b) Trade Payables		80,000	1,00,000	20,000	25.00
<b>Total</b>		<b>49,80,000</b>	<b>55,00,000</b>	<b>5,20,000</b>	<b>10.44</b>

**PTP.6**

**Analysis of Financial Statements—CBSE XII**

<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
<i>Fixed Assets:</i>					
(i) Tangible Assets	27,50,000	30,00,000	2,50,000	9.10	
(ii) Intangible Assets	6,00,000	5,00,000	(1,00,000)	(16.67)	
<b>2. Current Assets</b>					
(a) Current Investments	7,50,000	7,50,000	0	0.00	
(b) Trade Receivables	7,00,000	7,50,000	50,000	7.14	
(c) Cash and Cash Equivalents	1,80,000	5,00,000	3,20,000	177.77	
<b>Total</b>	<b>49,80,000</b>	<b>55,00,000</b>	<b>5,20,000</b>	<b>10.44</b>	

Calculate Debt to Equity Ratio for the two years. (4)

6. Following is the Balance Sheet of GEC Ltd. as at 31st March, 2019:

BALANCE SHEET OF GEC LTD. as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	7,00,000	6,00,000
(b) Reserves and Surplus		2,00,000	1,10,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		3,00,000	2,00,000
<b>3. Current Liabilities</b>			
Trade Payables		30,000	25,000
<b>Total</b>		<b>12,30,000</b>	<b>9,35,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>Fixed Assets:</i>			
Tangible Assets		11,00,000	8,00,000
<b>2. Current Assets</b>			
(a) Inventories		70,000	60,000
(b) Trade Receivables		32,000	40,000
(c) Cash and Cash Equivalents		28,000	35,000
<b>Total</b>		<b>12,30,000</b>	<b>9,35,000</b>

**Note to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	2,00,000	1,10,000

*Adjustments:*

During the year, a piece of machinery of the book value of ₹ 80,000 was sold for ₹ 65,000. Depreciation provided on tangible assets during the year amounted to ₹ 2,00,000.

Prepare a Cash Flow Statement. (6)

## Practice Test Paper 4

1. Sunlight Ltd. received insurance claim of ₹ 10,00,000 for the loss of building and machinery due to floods. Under which activity and how will this payment be shown in the Cash Flow Statement? (1)
2. Evergreen Securities Ltd., a company dealing in shares and other financial instruments received dividend from various companies amounting to ₹ 5,00,000. Under which activity dividend received will be shown in Cash Flow Statement? (1)
3. Under which main-head and sub-head of the Balance Sheet will be the following items be shown?
  - (i) Employees Stock Option Account
  - (ii) Deferred Tax Liabilities
  - (iii) Bank Overdraft or Cash Credit
  - (iv) Investment in Shares (4)
4. (a) Total Equity and Liabilities are ₹ 50,00,000; Shareholders' Funds ₹ 20,00,000 and Current Liabilities ₹ 10,00,000. Calculate Debt to Equity Ratio. (2)
- (b) During the year ending 31st March, 2019, Ajmera Ltd., a Jewellery manufacturer, sold goods costing ₹ 4 crores. Its average of Opening and Closing Inventory was ₹ 40 lakh. Calculate Company's Inventory Turnover Ratio. The industry's bench mark is 5 times. Also, comment on the efficiency of company. (2)
5. C&C Ltd. is in the business of manufacturing ingots, implemented health programme in its factory. Under the programme every employee was to undergo medical tests every month, get healthy food at subsidised costs. Besides this, a gym was set up with all exercise equipment for the staff. The staff was to be educated regularly about the benefits of good health. Its Comparative Balance Sheet as at 31st March, 2018 and 2019 was as follows:

Particulars	Note No.	31st March, 2018 ₹	31st March, 2019 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital		15,00,000	20,00,000	5,00,000	33.33
(b) Reserves and Surplus		4,00,000	5,00,000	1,00,000	25.00
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		27,00,000	25,00,000	(2,00,000)	(7.41)
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		3,00,000	4,00,000	1,00,000	33.33
(b) Trade Payables		80,000	1,00,000	20,000	25.00
<b>Total</b>		<b>49,80,000</b>	<b>55,00,000</b>	<b>5,20,000</b>	<b>10.44</b>

II. ASSETS					
<b>1. Non-Current Assets</b>					
<i>Fixed Assets:</i>					
(i) Tangible Assets	27,50,000	30,00,000	2,50,000	9.10	
(ii) Intangible Assets	6,00,000	5,00,000	(1,00,000)	(16.67)	
<b>2. Current Assets</b>					
(a) Current Investments	7,50,000	7,50,000	0	0.00	
(b) Trade Receivables	7,00,000	7,50,000	50,000	7.14	
(c) Cash and Cash Equivalents	1,80,000	5,00,000	3,20,000	177.77	
<b>Total</b>	<b>49,80,000</b>	<b>55,00,000</b>	<b>5,20,000</b>	<b>10.44</b>	

*Additional Information:*

Revenue from Operations for the years ended 31st March, 2019 and 31st March, 2018 were ₹ 50,00,000 and ₹ 30,00,000 respectively.

Calculate Working Capital Turnover Ratio for the two years. (4)

6. From the following Balance Sheet of Alok Industries Ltd. as at 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	40,00,000	34,00,000
(b) Reserves and Surplus		6,00,000	8,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		4,00,000	2,00,000
<b>3. Current Liabilities</b>			
Trade Payables		1,00,000	2,00,000
<b>Total</b>		<b>51,00,000</b>	<b>46,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
<i>(a) Fixed Assets:</i>			
(i) Tangible Assets		16,00,000	18,00,000
(ii) Intangible Assets		12,00,000	10,00,000
(b) Non-current Investments		6,00,000	5,00,000
<b>2. Current Assets</b>			
(a) Inventories		2,00,000	...
(b) Trade Receivables		6,00,000	5,00,000
(c) Cash and Cash Equivalents		9,00,000	8,00,000
<b>Total</b>		<b>51,00,000</b>	<b>46,00,000</b>

**Note to Accounts**

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	6,00,000	8,00,000

*Additional Information:*

- Depreciation of ₹ 2,00,000 was provided on Tangible Assets during the year.
- The company paid interest ₹ 30,000 on its long-term borrowings. (6)

## Answers to Practice Test Paper 1

1. It will be shown under the head 'Operating Activity' as Extraordinary Item.
2. It will be shown under 'Investing Activity', it being an investment and purchase of securities not for resale.
3.
  - (i) Finance Costs
  - (ii) Finance Costs
  - (iii) Depreciation and Amortisation Expenses
  - (iv) Other Income
4.
  - (a) Current Assets should be increased by ₹ 2,50,000.
  - (b) Debt should be paid = ₹ 5,00,000.
5. Inventory Turnover Ratio: 2018 – 5.56 Times and 2019 – 6 Times.
6. Cash Flow from Operating Activities = ₹ 1,37,000.  
Cash Used in Investing Activities = ₹ 92,000.  
Cash Flow from Financing Activities = ₹ 20,000.  
Net Increase in Cash and Cash Equivalents = ₹ 65,000.



## Answers to Practice Test Paper 2

1. It will be shown under the head 'Financing Activity'.
2. It will be shown under 'Investing Activity', since these were not purchased for resale.
- 3.

Item	Main Head	Sub-head
(i) Share Application Money	Current Liabilities	Other Current Liabilities
(ii) Debentures with maturity period of 12 months	Current Liabilities	Short-term Borrowings
(iii) Computer Software	Non-current Assets	Fixed Assets—Intangible Assets
(iv) Preference Share Capital	Shareholders' Funds	Share Capital

4. (a) (i) To analyse the changes in individual items of Balance Sheet.  
(ii) To assess the relative financial position on the basis of Common-size Balance Sheets for different companies belonging to the same industry.  
(b) Inventory Turnover Ratio = 10 Times.
5. Gross Profit Ratio – 2019 – 32%; and 2018 – 29.14%.
6. (a) (i) Investing (ii) No flow of Cash  
(iii) Financing (iv) Investing  
(b) Cash Used in Financing Activities = ₹ 86,000.

## Answers to Practice Test Paper 3

1. It will be shown under the head 'Financing Activity' as Extraordinary Item.
2. It will be shown under 'Financing Activity', because, dividend paid is associated with the share capital of the company.
- 3.

Item	Main Head	Sub-head
(i) Share Application Money Pending Allotment	As a line item between Shareholders' Funds and Non-current Liabilities.	...
(ii) Workmen Compensation Reserve	Shareholders' Funds	Reserves and Surplus
(iii) Patents	Non-current Assets	Fixed Assets—Intangible Assets
(iv) Debentures	Non-current Liabilities	Long-term Borrowings

4. (i) Gross Profit Ratio = 20%.  
(ii) Issue of Shares for cash, Long-term loan borrowed from Bank.
5. Debt to Equity Ratio: 2019 – 1 : 1; and 2018 – 1.42 : 1.
6. Cash Flow from Operating Activities = ₹ 3,08,000;  
Cash Used in Investing Activities = ₹ 5,15,000;  
Cash Flow from Financing Activities = ₹ 2,00,000;  
Net Decrease in Cash and Cash Equivalents = ₹ 7,000.

## Answers to Practice Test Paper 4

1. It will be shown under Investing Activity as Extraordinary item.
2. It will be shown under Operating Activity, it being its business.
- 3.

Item	Main Head	Sub-head
(i) Employees Stock Option Account	Shareholders' Funds	Reserves and Surplus
(ii) Deferred Tax Liabilities	Non-current Liabilities	As a Line Item
(iii) Bank Overdraft or Cash Credit	Current Liabilities	Short-term Borrowings
(iv) Investment in Shares	Non-current Assets	Non-current Investments

4. (a) Debt to Equity Ratio = 1 : 1.
- (b) Inventory Turnover Ratio = 10 Times.

**Interpretation:** Ajmera Ltd. is definitely very efficient because its Inventory Turnover Ratio is just double to that of industry.

$$5. \text{ Working Capital Turnover Ratio (2019)} = \frac{\text{₹ } 50,00,000}{\text{₹ } 15,00,000} = 3.33 \text{ Times.}$$

$$\text{Working Capital Turnover Ratio (2018)} = \frac{\text{₹ } 30,00,000}{\text{₹ } 12,50,000} = 2.4 \text{ Times.}$$

6. Cash Used in Operating Activities = ₹ 3,70,000;  
 Cash Used in Investing Activities = ₹ 3,00,000;  
 Cash Flow from Financing Activities = ₹ 7,70,000;  
 Net Increase in Cash and Cash Equivalentents = ₹ 1,00,000.

# Practical Test Papers

## Practical Test Paper 1

Time Allowed: 1 Hour

Max. Marks: 12

- Who are mainly interested in Solvency Ratios?
  - What is meant by Inter-firm Analysis?
    - What is meant by an Operating Cycle? (1 + 2 = 3)
- Quick Ratio is 2 : 1. State giving reason, whether the Quick Ratio will improve or decline or will not change on sale of goods (costing ₹ 20,000) at a loss of ₹ 5,000. (1)
- Debt to Equity Ratio of Alpha Ltd. and Salpha Ltd. is 1 : 1 and 2 : 1 respectively. Which company in your opinion has got better Debt to Equity Ratio and why? (2)
- From the following Balance Sheet of Green Ltd. as at 31st March, 2019, prepare Cash Flow Statement:

BALANCE SHEET OF GREEN LTD. as at 31st March, 2019

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital		6,00,000	4,00,000
(b) Reserves and Surplus	1	2,00,000	1,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings: Bank Loan		1,00,000	2,00,000
<b>3. Current Liabilities</b>			
(a) Trade Payables		45,000	60,000
(b) Short-term Provisions	2	70,000	40,000
<b>Total</b>		10,15,000	8,00,000
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets (Building)		6,00,000	5,20,000
(ii) Intangible Assets (Patents)		45,000	50,000
(b) Non-current Investments		75,000	...
<b>2. Current Assets</b>			
(a) Inventories		15,000	10,000
(b) Trade Receivables		2,55,000	2,00,000
(c) Cash and Cash Equivalents		25,000	20,000
<b>Total</b>		10,15,000	8,00,000

## Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Reserves and Surplus</b>		
Surplus, i.e., Balance in Statement of Profit and Loss	2,00,000	1,00,000
<b>2. Short-term Provisions</b>		
Provision for Tax	70,000	40,000

*Additional Information:*

- Dividend proposed by the Board for the previous year (2017–18) ₹ 60,000 was declared in the AGM held during the year ended 31st March, 2019.
- During the year, Building costing ₹ 2,00,000 was purchased. Loss on Sale of Building was ₹ 5,000. Depreciation charged on Building was ₹ 12,000. (6)

## Practical Test Paper 2

Time Allowed: 1 Hour

Max. Marks: 12

- State how qualitative aspects are ignored in Financial Statement Analysis.
  - Star Ltd. has Quick Ratio of 1.5 : 1. Its Working Capital is ₹ 1,20,000 and its Inventory is ₹ 80,000. Calculate Current Assets. (1 + 2 = 3)
- Strong Ltd. has given the following information for two years:

Particulars	31st March, 2018 (₹)	31st March, 2019 (₹)
Current Assets	12,00,000	18,00,000
Current Liabilities	6,00,000	10,00,000
Net Profit	4,50,000	7,20,000
Revenue from Operations (Net Sales)	18,00,000	36,00,000

The management of Strong Ltd. is of the opinion that their workers are working very hard and manager is working very efficiently, since sales and net profits have increased and current assets have increased by ₹ 6,00,000 whereas current liabilities have increased only by ₹ 4,00,000 and thus their short-term financial position is becoming better. The management is thinking of increasing the compensation to manager and the employees. Do you agree with the management's viewpoint? Justify your opinion. (3)

- State with reason **two** examples of activities which are classified as Investing Activities in case of one enterprise and as Operating Activities in case of another enterprise. (2)
- Following balances were extracted from the Balance Sheet of Moon Ltd. as on 31st March, 2018:

	₹
Fixed Assets (at cost)	40,00,000
Less: Accumulated Depreciation	5,00,000
	35,00,000
Bank Balance	1,30,000
Current Assets	8,00,000
Current Liabilities	5,50,000

*Additional Information:*

1. Net profit for the year ending 31st March, 2019, after depreciation was ₹ 3,00,000. The company provided depreciation of ₹ 1,60,000 for the year ended 31st March, 2019.
2. During the year ended 31st March, 2019, the company purchased machine for ₹ 4,00,000. It sold a machine costing ₹ 1,00,000 (accumulated depreciation thereon ₹ 35,000) for ₹ 75,000.
3. Current Assets and Current Liabilities (excluding bank balances) on 31st March, 2019 were ₹ 11,30,000 and ₹ 8,00,000 respectively.
4. Interest received on investments amounted to ₹ 15,000.

Calculate Cash Flow from Operating Activities and Investing Activities for the year ended 31st March, 2019. (4)

## Practical Test Paper 3

**Time Allowed: 1 Hour**

**Max. Marks: 12**

1. (a) What is meant by the term 'Cash Flows'?
- (b) From the following information, calculate Cash Flow from Financing Activities:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Equity Share Capital	20,00,000	15,00,000
12% Preference Share Capital	...	5,00,000
14% Debentures	2,50,000	...

*Additional Information:*

- (i) Equity Shares were issued at a premium of 20%.
  - (ii) 12% Preference Shares were redeemed at par.
  - (iii) 14% Debentures were issued at a discount of 10%.
  - (iv) Interim dividend paid on Equity Shares ₹ 1,50,000.
  - (v) Interest paid on 14% Debentures ₹ 35,000.
  - (vi) Underwriting Commission on Equity Shares ₹ 20,000.
  - (vii) Dividend paid on Preference Shares ₹ 60,000. (1 + 2 = 3)
2. For each of the following transactions, calculate the resulting Cash Flow and state the nature of Cash Flow, viz., Operating, Investing and Financing:
    - A. Acquired machinery for ₹ 2,50,000 paying 20% immediately and executing a bond for the balance amount.
    - B. Paid ₹ 2,50,000 for purchase of shares in Infosys Ltd. and received a dividend of ₹ 50,000 after acquisition.
    - C. Sold machinery of original cost ₹ 2,00,000 with an accumulated depreciation thereon ₹ 1,60,000 at a profit of 50% of its book value. (3)

**PTP.16****Analysis of Financial Statements—CBSE XII**

3. Capital Employed ₹ 1,00,000; Non-Current Assets ₹ 80,000; Cost of Revenue from Operations ₹ 3,20,000; Gross Profit Ratio 20%. Calculate Working Capital Turnover Ratio. (2)
4. Total Equity and Liabilities are ₹ 50,00,000; Shareholders' Funds ₹ 20,00,000 and Current Liabilities ₹ 10,00,000. Calculate Debt to Equity Ratio. (2)
5. During the year ending 31st March, 2019, Ajmera Ltd., a Jewellery manufacturer, sold goods costing ₹ 4 crores. Its average of Opening and Closing Inventory was ₹ 40 lakh. Calculate company's Inventory Turnover Ratio. The industry's benchmark is 5 times. Also, comment on the efficiency of company. (2)

## Practical Test Paper 4

**Time Allowed: 1 Hour****Max. Marks: 12**

1. Under which heads and sub-heads in the Balance Sheet of a company following items will be shown:
  - (i) Computer Software;
  - (ii) Capital Advance? (2)
2. Profit of Moon Ltd. after appropriation was ₹ 3,50,000. This profit was arrived at after taking into consideration the following items:
  - (i) Trade Receivables decrease by ₹ 56,000 during the year.
  - (ii) Prepaid Expenses increase by ₹ 14,000 during the year.
  - (iii) Trade Payables decrease by ₹ 32,000 during the year.
  - (iv) Outstanding Expenses increase by ₹ 8,000 during the year.
  - (v) Decrease in Inventories by ₹ 1,00,000.Calculate Net Cash provided by Operating Activities for the year ended 31st March, 2019. (2)
3. Consider the following data: ₹

Machinery at the end of 2017–18	10,00,000
Machinery at the end of 2018–19	6,00,000

*Adjustment:* Machinery purchased in the beginning of the year (2018–19) ₹ 7,00,000 and during the year, the balance Machinery was sold at 20% loss.

Find out the cash flow during the year and name the head under which it appears in the Cash Flow Statement. (2)
4. (i) Calculate Gross Profit Ratio based on the following information:  
Cash Revenue from Operations: 25% of Total Revenue from Operations; Purchases: ₹ 2,76,000; Credit Revenue from Operations: ₹ 2,40,000; Excess of Closing Inventory over Opening Inventory: ₹ 20,000.

- (ii) Current Ratio of Sun Ltd. is 1 : 1 at present. In future the company wants to improve this ratio to 2 : 1. Suggest **any two** accounting transactions for improving the Current Ratio.
- (iii) Assume you are a loan officer of HDFC Bank and two companies require a loan of equal amount to be repaid over the next two years based on the following information:

	Green Ltd.	Star Ltd.
Current Ratio	3.5 : 1	2 : 1
Acid Test Ratio	1.8 : 1	1.3 : 1
Debt to Equity Ratio	35%	45%
Interest Coverage Ratio	5 Times	3 Times

If you could grant loan to only one company, which will it be and why?

(2 + 2 + 2 = 6)



## GUIDE TO ANSWERS

## Practical Test Paper 1

1. (a) Persons who provide Long-term Funds to the company like debentureholders and financial institutions.
- (b) (i) It is a comparison of Financial Statements of two or more enterprises for the same accounting period. It is conducted to determine the relative position of an enterprise as compared to other competitive enterprises of the same industry.
- (ii) An Operating Cycle is the time between the acquisition of assets for processing and their realisation into Cash and Cash Equivalents.
2. **Improve. Reason:** Total Quick Assets are increased by ₹ 15,000 but total Current Liabilities remain unchanged.
3. Debt to Equity Ratio of 1 : 1 of Alpha Company is *better*. A low ratio is generally viewed as favourable from long-term creditors' (lenders) point of view, because a large margin of protection provides safety for lenders.
4. (i) Cash Flow from Operating Activities = ₹ 1,37,000.
- (ii) Cash Used in Investing Activities = ₹ 1,72,000.
- (iii) Cash Flow from Financing Activities = ₹ 40,000.
- (iv) Net Increase in Cash and Cash Equivalents = ₹ 5,000.

[Hint:

BUILDING ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Balance b/d	5,20,000	By Depreciation A/c	12,000
To Bank A/c (Purchase)	2,00,000	By Loss on Sale of Building A/c	5,000
		By Bank A/c (Sale)—Balancing Figure	1,03,000
		By Balance c/d	6,00,000
	7,20,000		7,20,000

## Practical Test Paper 2

1. (a) Since the Financial Statements are confined to the monetary matters only, the qualitative elements like quality of product, efficiency of management, public relations, etc., are ignored while carrying out the Financial Analysis.
- (b) Current Liabilities = ₹ 80,000; Current Assets = ₹ 2,00,000.  
**Note:** Current Assets = Current Liabilities + Working Capital.
2. The analysis of Net Profit Ratio and Current Ratio indicates that both the ratios have decreased during the year. It indicates low profitability and poor solvency position. Therefore, it is advisable not to increase the compensation of manager and employees.
3. (a) Purchase and Sale of Shares and Debentures of other companies;
- (b) Dividend Received on Shares and Interest Received on Debentures.  
**Reason:** These are Investing Activities in case of manufacturing enterprise since these relate to the acquisition and disposal of long-term assets but are Operating Activities in case of a financial enterprise since these relate to the 'Principal Revenue Producing Activities' of the enterprise.

4. Cash Flow from Operating Activities = ₹ 3,55,000; Cash Used in Investing Activities = ₹ 3,10,000.

[Hints:

1. Dr. FIXED ASSETS ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance <i>b/d</i>	40,00,000	By Bank A/c (Sale)	75,000
To Bank A/c (Purchase)	4,00,000	By Accumulated Depreciation A/c	35,000
To Gain (Profit) on Sale of Fixed Assets A/c	10,000	By Balance <i>c/d</i> (Balancing Figure)	43,00,000
	<u>44,10,000</u>		<u>44,10,000</u>

2. Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Fixed Assets A/c	35,000	By Balance <i>b/d</i>	5,00,000
To Balance <i>c/d</i> (Balancing Figure)	6,25,000	By Depreciation A/c	1,60,000
	<u>6,60,000</u>		<u>6,60,000</u>

### Practical Test Paper 3

- (a) Cash Flows are inflows and outflows of Cash and Cash Equivalents.  
(b) Cash Flow from Financing Activities = ₹ 60,000.
- A. Cash Used in Investing Activities = ₹ 50,000.  
B. Cash Used in Investing Activities = ₹ 2,00,000.  
C. Cash Flow from Investing Activities = ₹ 60,000.
- 20 Times.

[Hints: 1. Revenue from Operations = ₹ 4,00,000.

2. Working Capital = Capital Employed – Non-Current Assets = ₹ 20,000.]

- 1 : 1.
- 10 Times\*.

\***Interpretation:** Ajmera Ltd. is definitely very efficient because its Inventory Turnover Ratio is just double to that of industry.

### Practical Test Paper 4

- (i) **Major Head:** Non-Current Assets; **Sub-head:** Fixed Assets: Intangible Assets.  
(ii) **Major Head:** Non-Current Assets; **Sub-head:** Long-term Loans and Advances.
- Cash Flow from Operating Activities: ₹ 4,68,000.
- Cash Flow from Investing Activities:  
Inflow = ₹ 8,80,000 [*i.e.*, ₹ 11,00,000 – 20% of ₹ 11,00,000].  
Outflow = ₹ 7,00,000.
- (i) Gross Profit Ratio = 20%;  
(ii) Issue of shares for cash, Long-term loan borrowed from Bank; and  
(iii) Green Ltd. Because the accounting ratios of Green Ltd. show better Long-term and Short-term financial position as compared to Star Ltd.

# Project Work

## Project Illustration 1

You are to obtain the quarterly results of a listed company and analyse the published results with respect to sales and profit before tax over the period using the suitable analytical tools and give your conclusion.

### Project Solution

The Project is to analyse sales and profit of a listed company with the purpose to analyse the sales and profit pattern with respect to the quarter ended 31st March, 2012. Moreover, determine profitability on the basis of accounting ratios.

### Data Source

The data has been published in money.radiiff.com as listed company in NSE. The data relates to the company named 'HT Media Ltd.' and is as follows:

<b>HT Media Ltd.</b>					
Quarterly Results					
(₹ In Lakhs)					
Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Sales	309.95	317.22	365.24	314.09	330.74
Other Income	15.75	14.99	12.62	17.14	16.80
<b>Total Revenue</b>	<b>325.70</b>	<b>332.21</b>	<b>377.86</b>	<b>331.23</b>	<b>347.54</b>
Raw Material	95.44	98.54	106.17	100.67	95.92
Change in Inventories	(0.09)	0.09	0.09	(0.12)	(0.05)
Employees Benefit Expenses	63.11	60.78	65.45	59.09	61.90
Administrative and Selling Expenses	...	...	...	20.13	20.64
Finance Cost	7.58	8.15	6.33	5.67	4.43
Depreciation	13.82	16.43	14.13	15.83	13.90
Other Expenses	97.18	117.83	119.73	83.03	76.05
<b>Total Expenses</b>	<b>277.04</b>	<b>301.82</b>	<b>311.90</b>	<b>284.30</b>	<b>272.79</b>
<b>Profit before Tax</b>	<b>48.66</b>	<b>30.39</b>	<b>65.96</b>	<b>46.93</b>	<b>74.75</b>
Taxation	11.89	8.74	16.23	11.30	21.94
Net Profit/Loss after Tax	36.77	21.65	49.73	35.63	52.81

### Other Information

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Gross Profit	62.48	46.82	80.09	62.76	88.65
Return on Net Worth (%)	12.19	15.19	12.36	9.45	15.78

### Project Plan

Project is planned to be executed as follows:

1. A comparison of absolute amount of sales is made with the help of a bar diagram.
2. A comparison of percentage increase or decrease in sales is computed and presented graphically.

**P.2****Analysis of Financial Statements—CBSE XII**

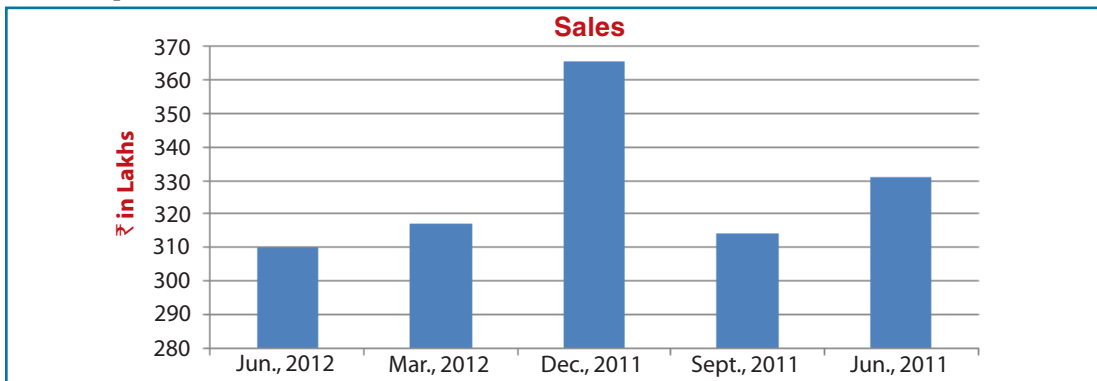
3. A comparison of Gross Profit is made with the help of a bar diagram.
4. A comparison of percentage increase or decrease in Gross Profit is made and presented graphically.
5. A comparison of Profit after Tax is made with the help of a bar diagram.
6. A comparison of percentage increase or decrease in Profit after Tax is made and presented graphically.
7. Calculate Gross Profit Ratio and show it graphically.
8. Calculate Net Profit Ratio and show it graphically.
9. Present the Return on Net Worth (%) through bar diagram.
10. Draw conclusion about the working result of the company.

**Project Solution**

1. Table showing Sales during different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Sales (₹ in Lakhs)	309.95	317.22	365.24	314.09	330.74

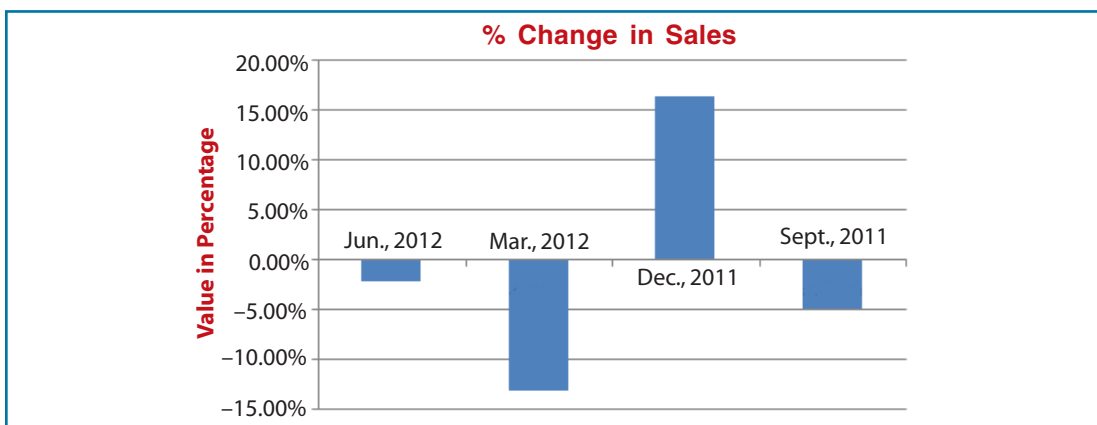
Graphical Presentation of Sales in Different Quarters:



2. Table showing percentage increase or decrease in Sales:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Sales (₹ in Lakhs)	309.95	317.22	365.24	314.09	330.74
% Increase or Decrease in Sales	(2.29%)	(13.15%)	16.29%	(5.03%)	...

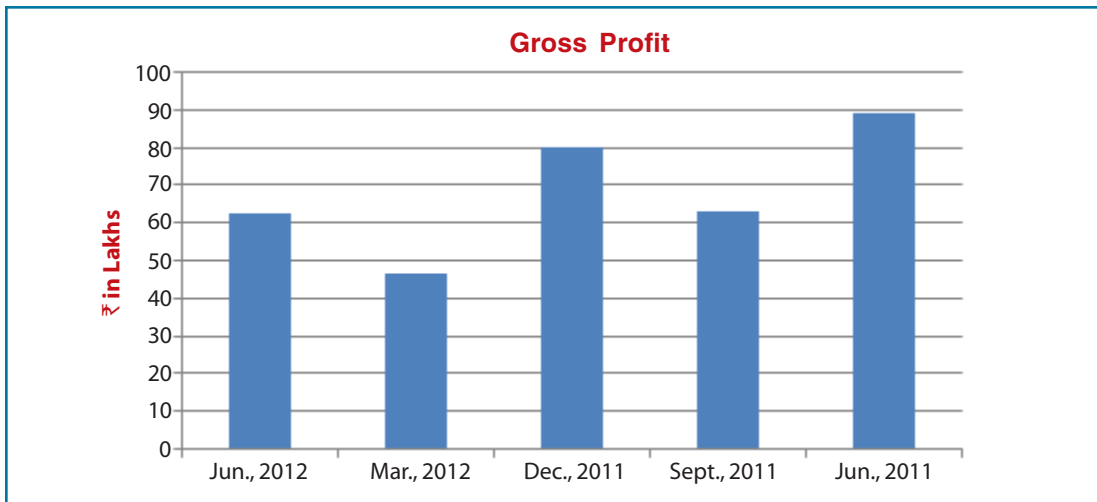
Graphical Presentation of percentage Change in Sales in Different Quarters:



3. Table showing Gross Profit of different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Gross Profit (₹ in Lakhs)	62.48	46.82	80.09	62.76	88.65

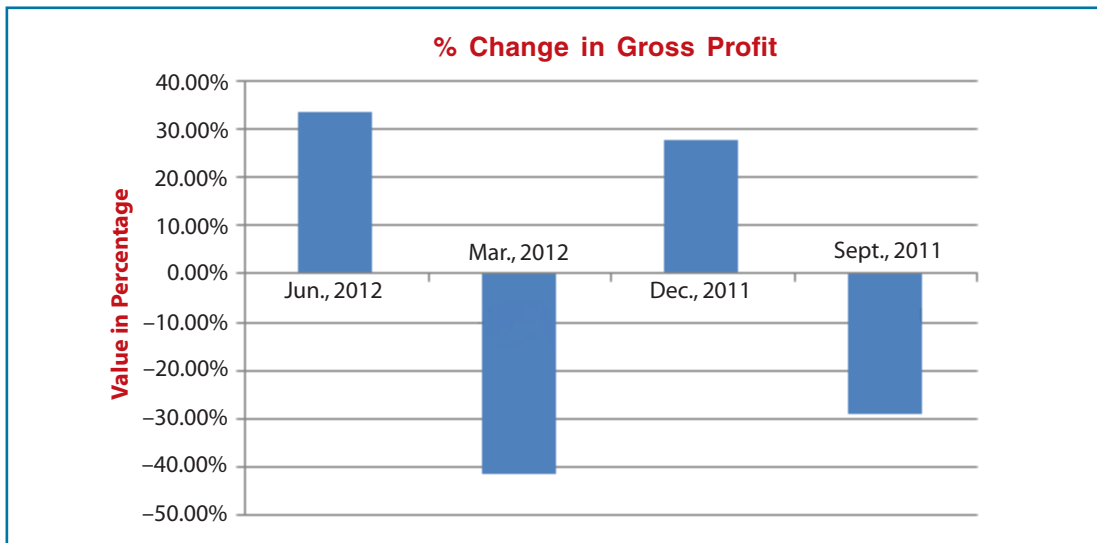
Graphical Presentation of Gross Profit in Different Quarters:



4. Table showing percentage change in Gross Profit in different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Gross Profit (₹ in Lakhs)	62.48	46.82	80.09	62.76	88.65
% Change in Gross Profit	33.45%	(41.54%)	27.61%	(29.20%)	...

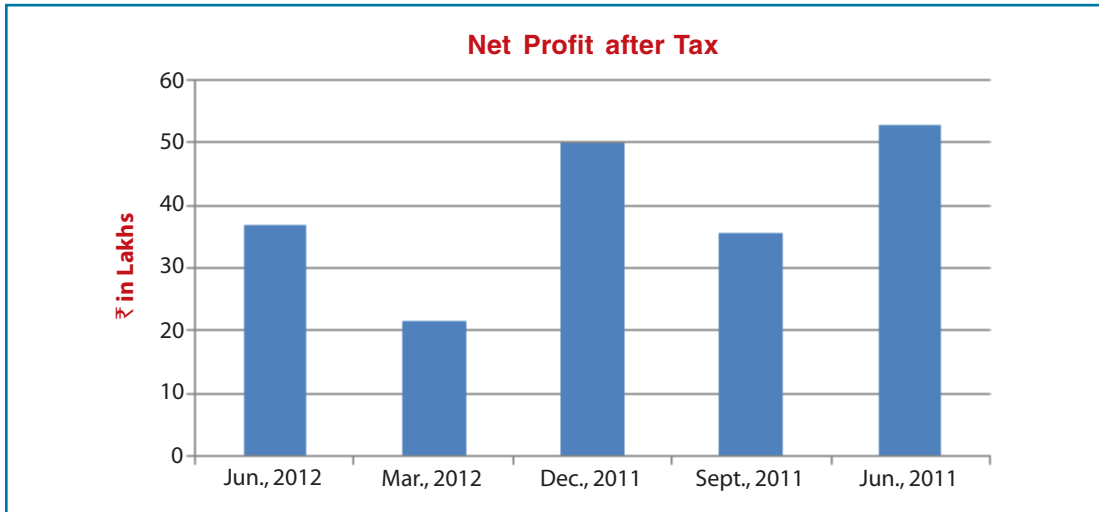
Graphical Presentation of the Percentage Change in Gross Profit in Different Quarters:



5. Table showing absolute Net Profit after Tax of different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Net Profit (₹ in Lakhs)	36.77	21.65	49.73	35.63	52.81

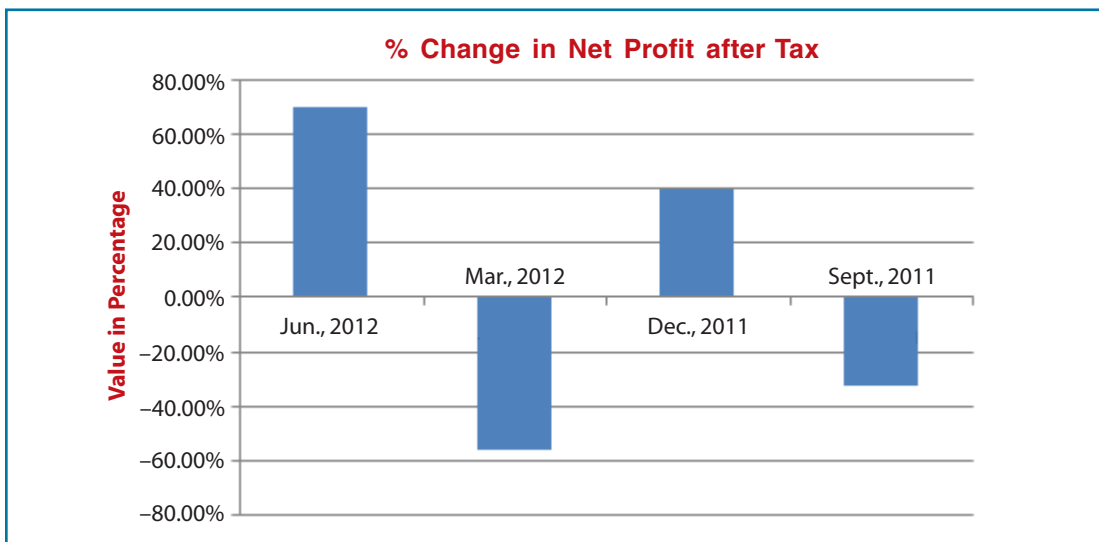
Graphical Presentation of Net Profit After Tax for Different Quarters:



6. Table showing the percentage change in Net Profit after Tax in different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Net Profit (₹ in Lakhs)	36.77	21.65	49.73	35.63	52.81
% Change in Net Profit	69.84%	(56.46%)	39.57%	(32.53%)	...

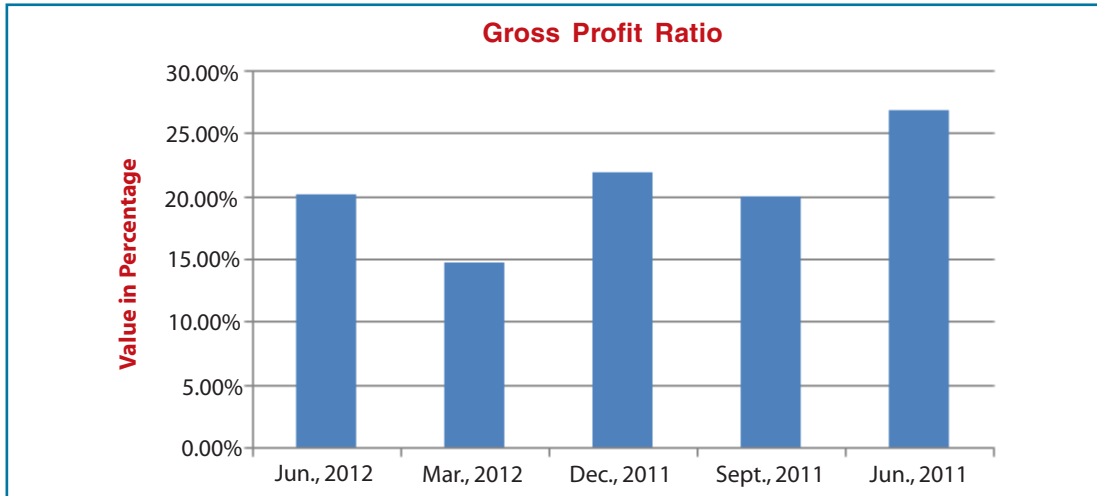
Graphical Presentation of the Percentage Change in Net Profit after Tax in Different Quarters:



7. Table showing Gross Profit Ratio for the different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Gross Profit (₹ in Lakhs)	62.48	46.82	80.09	62.76	88.65
Sales (₹ in Lakhs)	309.95	317.22	365.24	314.09	330.74
Gross Profit Ratio	20.16%	14.76%	21.93%	19.98%	26.80%

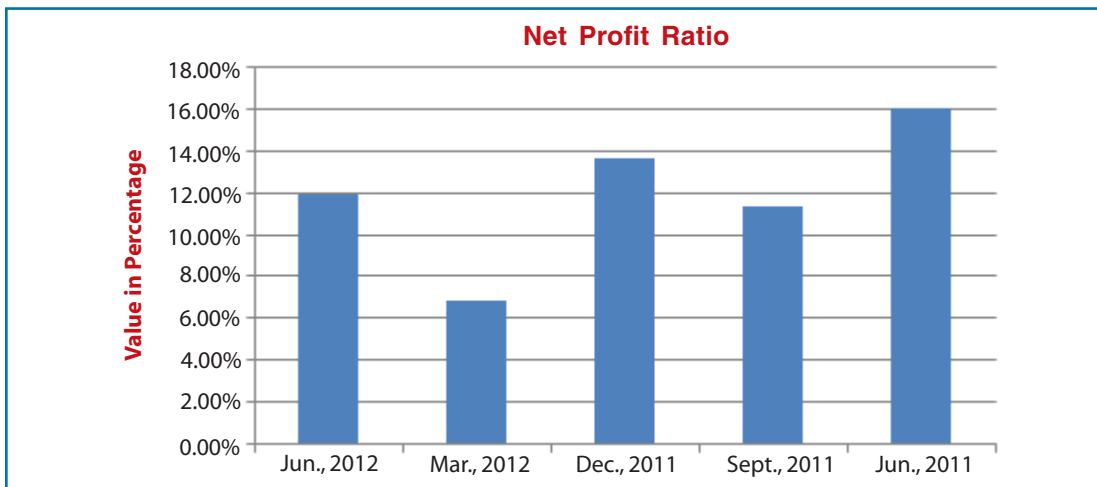
Graphical Presentation of Gross Profit Ratio in Different Quarters:



8. Table showing Net Profit Ratio:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Net Profit/Loss after Tax (₹ in Lakhs)	36.77	21.65	49.73	35.63	52.81
Sales (₹ in Lakhs)	309.95	317.22	365.24	314.09	330.74
Net Profit Ratio	11.86%	6.82%	13.62%	11.34%	15.97%

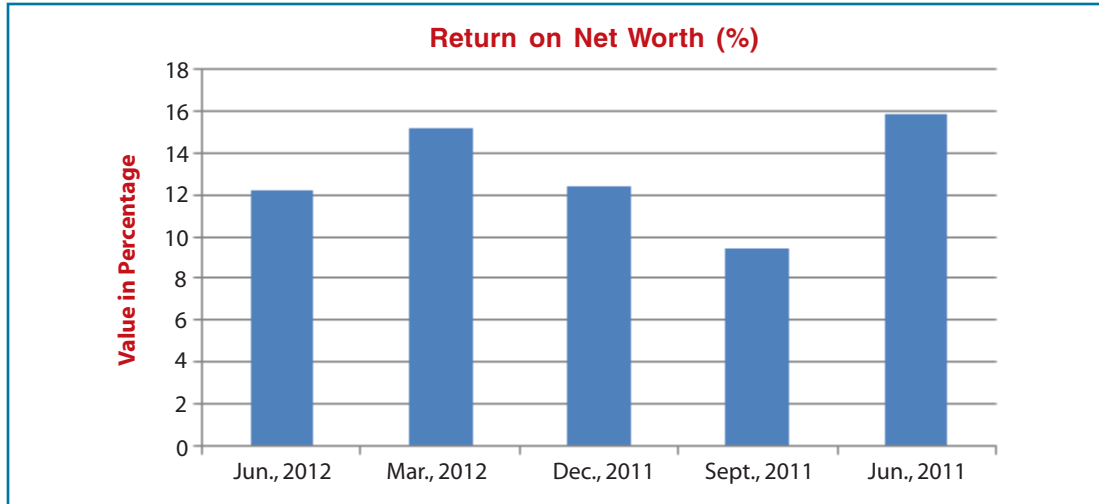
Graphical Presentation of Net Profit Ratio in Different Quarters:



9. Table showing Return on Net Worth in different quarters:

Particulars	Jun., 2012	Mar., 2012	Dec., 2011	Sept., 2011	Jun., 2011
Return on Net Worth (%)	12.19	15.19	12.36	9.45	15.78

Graphical Presentation of Return on Net Worth in Different Quarters:



#### 10. Conclusion

It can be observed that the company's Gross Profits and Net Profits have fluctuated to a large extent in absolute amount. In terms of ratios also it has fluctuated and the range has been 14.76% to 26.80% for Gross Profit and 6.82% to 15.97% for Net Profit. Obviously, it is because of the fluctuating sales. However, an increase can be observed in every respect in December, 2011 in comparison with the previous quarters. Therefore, quarter ended December, 2011 is important for the analysis purpose. Management has to investigate the reasons of decline in the performance in comparison to the previous quarter.

Overall assessment is that the company has to work hard to gain their previous performance.



## Project Illustration 2

### Project

You are required to take the annual results of a listed company and analyse the performance with respect to result of the current year ended and the result of the previous year. The analysis should include the profit and also the segment results.

### Project Solution

I have drawn the Segment Results of Mphasis Limited, a company listed on Bombay Stock Exchange. The results uploaded on the official website of the company are reproduced hereunder:

(₹ in Lakhs)

Particulars	Year ended 31st March, 2019 (₹)	Year ended 31st March, 2018 (₹)
<b>Segment Revenue</b>		
Banking and Capital Market	8,796.25	8,202.63
Insurance	7,024.04	5,471.76
Information Technology, Communication and Entertainment	4,702.71	6,405.01
Emerging Industries	8,605.94	10,094.22
Unallocated-Hedge	137.69	90.84
	29,266.63	30,264.46
<b>Segment Result</b>		
Banking and Capital Market	125.75	1,050.77
Insurance	2,098.39	1,356.66
Information Technology, Communication and Entertainment	1,464.64	1,897.27
Emerging Industries	2,967.71	3,830.64
Unallocated-Hedge	137.69	90.84
	6,794.18	8,226.18
Interest Income	602.78	517.12
Finance Costs	(64.27)	(59.21)
Other Income	1,020.66	1,104.29
Other Unallocable Expenditure	(2,262.93)	(2,471.77)
<b>Profit before Taxation</b>	6,090.42	7,316.61
Income Taxes	1,506.77	1,786.31
<b>Profit after Taxation</b>	4,583.65	5,530.30

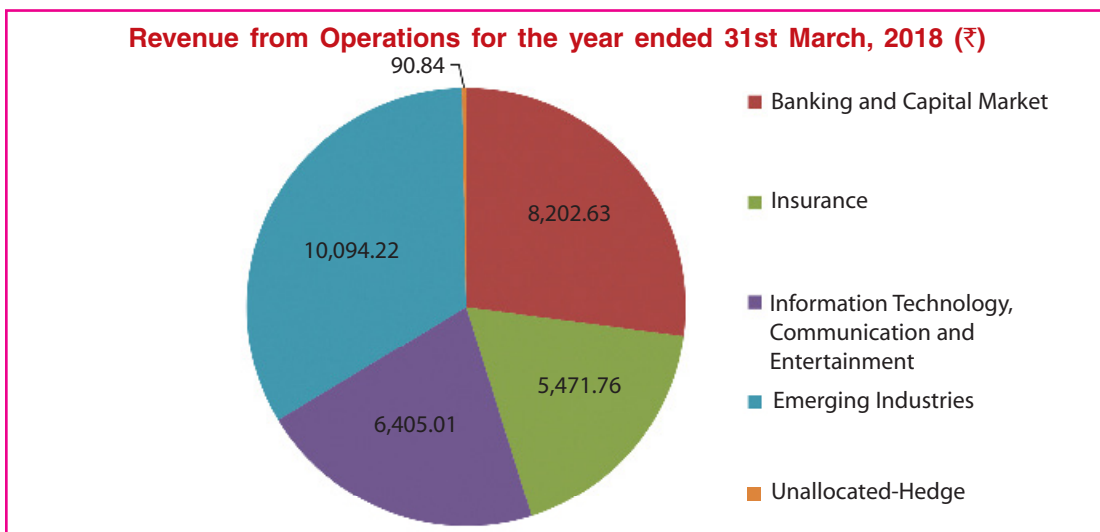
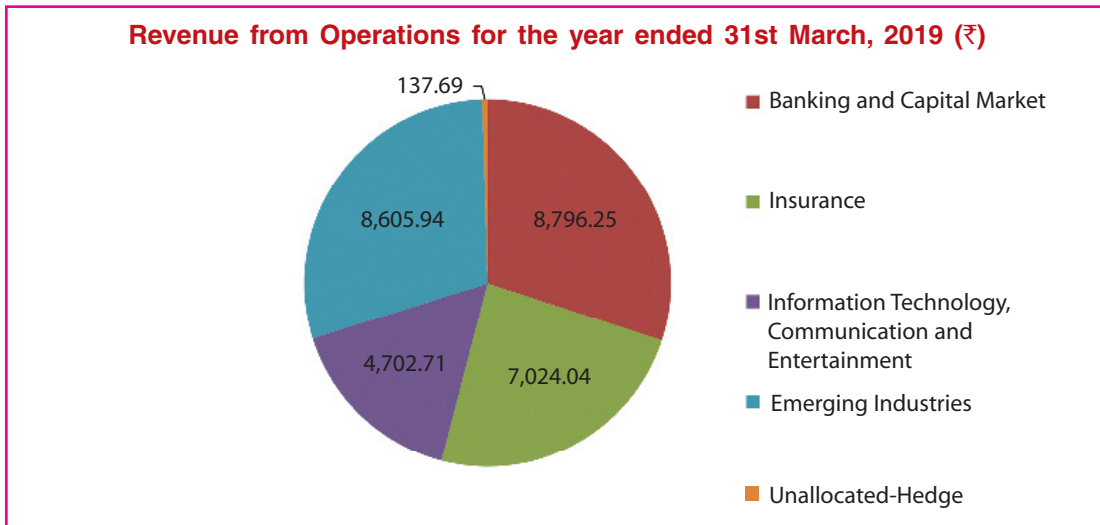
(₹ in Lakhs)

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>Segment Assets</b>		
Banking and Capital Market	5,767.76	5,039.24
Insurance	2,681.29	1,926.40
Information Technology, Communication and Entertainment	1,372.65	2,061.93
Emerging Industries	3,259.69	3,319.71
Unallocated-Hedge	40,404.40	39,431.54
	53,485.79	51,778.82
<b>Segment Liabilities</b>		
Banking and Capital Market	2,573.59	1,812.08
Insurance	1,566.96	1,206.82
Information Technology, Communication and Entertainment	929.53	1,098.99
Emerging Industries	1,629.83	1,601.61
Unallocated-Hedge	1,511.05	5,564.27
	8,210.96	11,283.77

Capital Employed		
Banking and Capital Market	3,194.17	3,227.16
Insurance	1,114.33	719.58
Information Technology, Communication and Entertainment	443.12	962.94
Emerging Industries	1,629.86	1,718.10
Unallocated-Hedge	38,893.35	33,867.27
	45,274.83	40,495.05

**Solution:** On the basis of the information of Mphasis Limited relating to financial results of the year ended 31st March, 2019 and 31st March, 2018, the project has been prepared showing the analysis of changes in Segment Results and comparison of the results with Capital Employed.

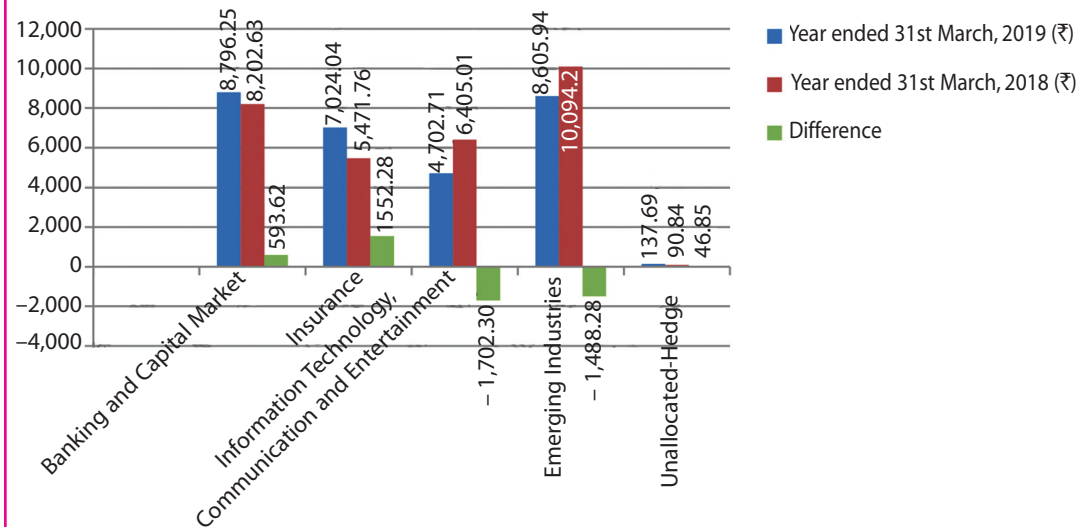
**Graphic presentation of Segement-wise Revenue from Operations through Pie-charts:**



1. Table showing segment-wise Revenue from Operations for the year ended 31st March, 2019 and 31st March, 2018 with their difference:

Segment Name	Year ended 31st March, 2019 (₹)	Year ended 31st March, 2018 (₹)	Difference (₹)
Banking and Capital Market	8,796.25	8,202.63	593.62
Insurance	7,024.04	5,471.76	1552.28
Information Technology, Communication and Entertainment	4,702.71	6,405.01	(1,702.3)
Emerging Industries	8,605.94	10,094.22	(1,488.28)
Unallocated-Hedge	137.69	90.84	46.85

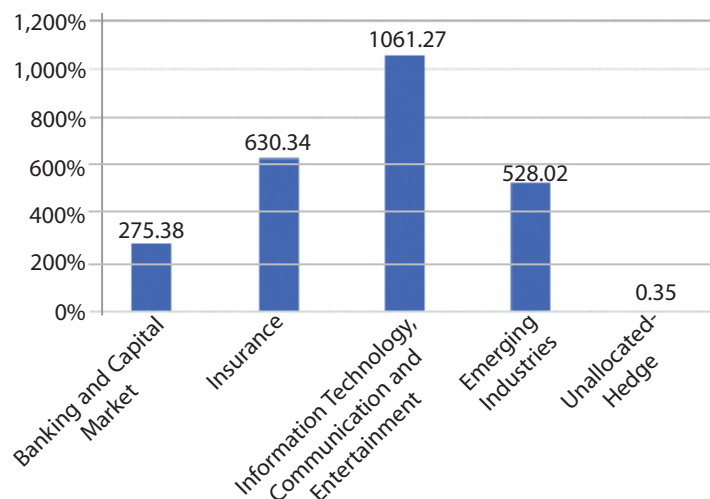
**Graphical representation of data showing segment-wise Revenue for Operations in the year 2019 and 2018 with their difference**



2. Table showing percentage of segment-wise Revenue from Operations to Capital Employed for the year ended 31st March, 2019:

Segment Name	Revenue from Operations 2018-19 (₹)	Capital Employed in the Year 2018-19 (₹)	Percentage of Revenue to Capital Employed (%)
Banking and Capital Market	8,796.25	3,194.17	275.38
Insurance	7,024.04	1,114.33	630.34
Information Technology, Communication and Entertainment	4,702.71	443.12	1,061.27
Emerging Industries	8,605.94	1,629.86	528.02
Unallocated-Hedge	137.69	38,893.35	0.35

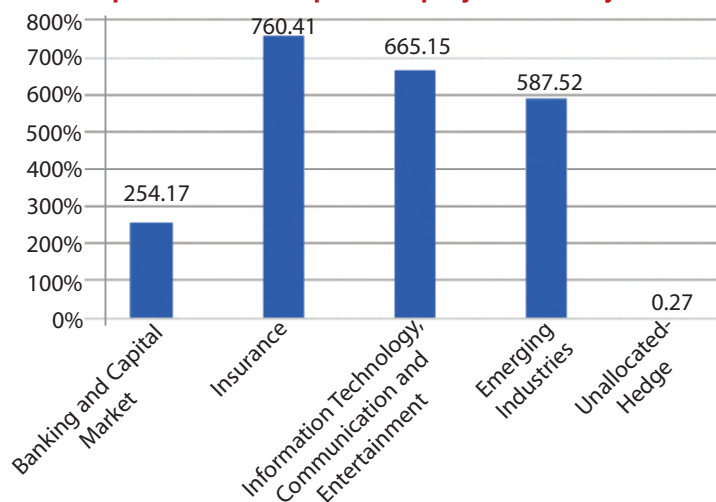
**Graphical representation of data showing Percentage of Segment-wise Revenue from Operations to Capital Employed in the year 2018–19**



3. Table showing percentage of segment-wise Revenue from Operations to Capital Employed for the year ended 31st March, 2018:

Segment Name	Revenue from Operations 2017–18 (₹)	Capital Employed in the Year 2017–18 (₹)	Percentage of Revenue to Capital Employed (%)
Banking and Capital Market	8,202.63	3,227.16	254.17
Insurance	5,471.76	719.58	760.41
Information Technology, Communication and Entertainment	6,405.01	962.94	665.15
Emerging Industries	10,094.22	1,718.10	587.52
Unallocated-Hedge	90.84	33,867.27	0.27

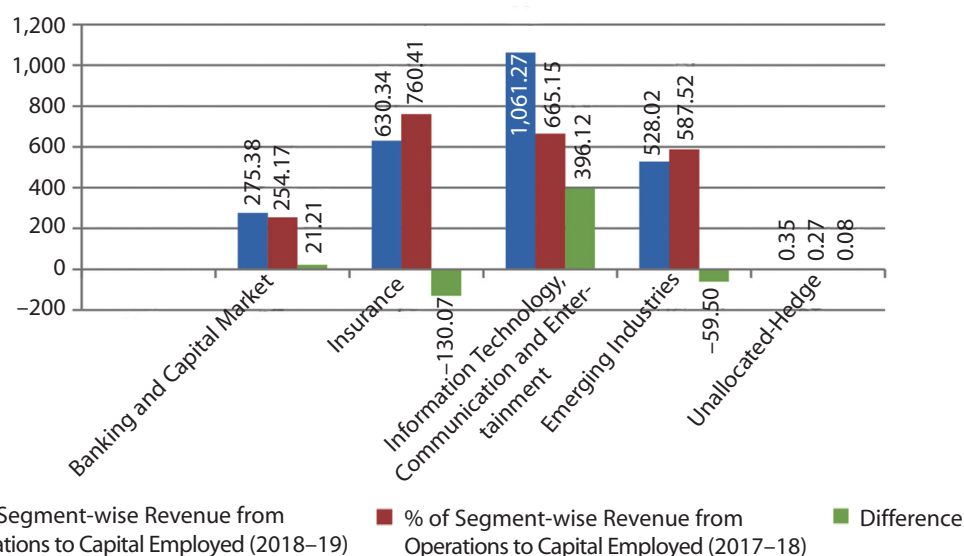
**Graphical representation of data showing percentage of segment-wise Revenue from Operations to Capital Employed in the year 2017–18**



4. Table showing percentage of segment-wise Revenue from Operations to Capital Employed for the year ended 31st March, 2019 and 2018 with their difference:

Segment Name	% of Segment-wise Revenue from Operations to Capital Employed 2019	% of Segment-wise Revenue from Operations to Capital Employed 2018	Difference
Banking and Capital Market	275.38	254.17	21.21
Insurance	630.34	760.41	(130.07)
Information Technology, Communication and Entertainment	1,061.27	665.15	396.12
Emerging Industries	528.02	587.52	(59.50)
Unallocated-Hedge	0.35	0.27	0.08

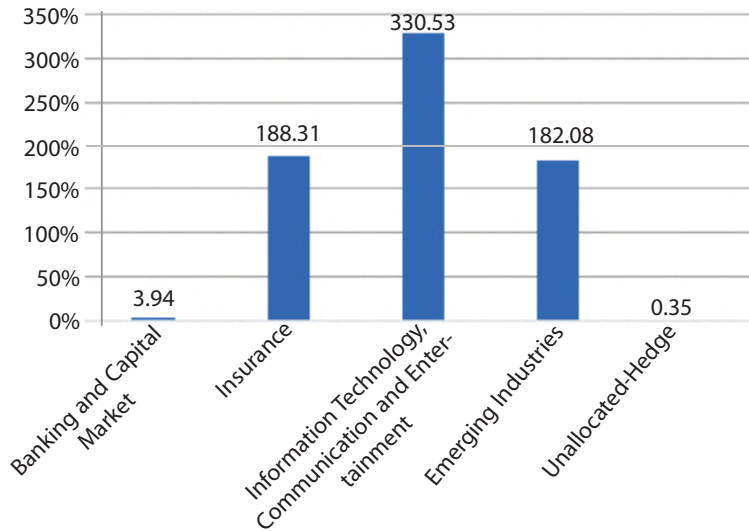
**Graphical representation of data showing percentage of segment-wise Revenue to Capital Employed with their difference for the year 2018–19 and 2017–18**



5. Table showing percentage of Profit before Tax to Capital Employed for the year ended 31st March, 2019:

Segment Name	Profit before Tax for Year ended 31st March, 2019 (₹)	Capital Employed in the year ended 31st March, 2019 (₹)	Percentage of PBT to Capital Employed (%)
Banking and Capital Market	125.75	3,194.17	3.94
Insurance	2,098.39	1,114.33	188.31
Information Technology, Communication and Entertainment	1,464.64	443.12	330.53
Emerging Industries	2,967.71	1,629.86	182.08
Unallocated-Hedge	137.69	38,893.35	0.35

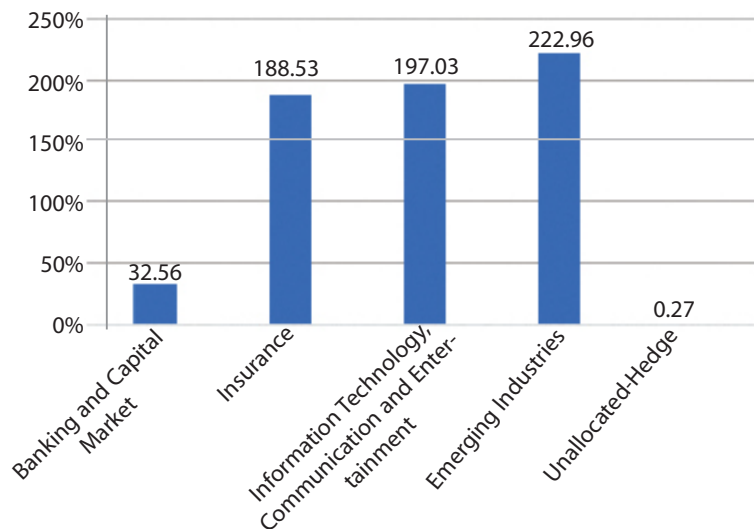
**Graphical representation of data showing Profit before Tax to Capital Employed for the year ended 31st March, 2019**



6. Table showing percentage of Profit before Tax to Capital Employed for the year ended 31st March, 2018:

Segment Name	Profit before Tax for Year ended 31st March, 2018 (₹)	Capital Employed in year ended 31st March, 2018 (₹)	Percentage of PBT to Capital Employed (%)
Banking and Capital Market	1,050.77	3,227.16	32.56
Insurance	1,356.66	719.58	188.53
Information Technology, Communication and Entertainment	1,897.27	962.94	197.03
Emerging Industries	3,830.64	1,718.10	222.96
Unallocated-Hedge	90.84	33,867.27	0.27

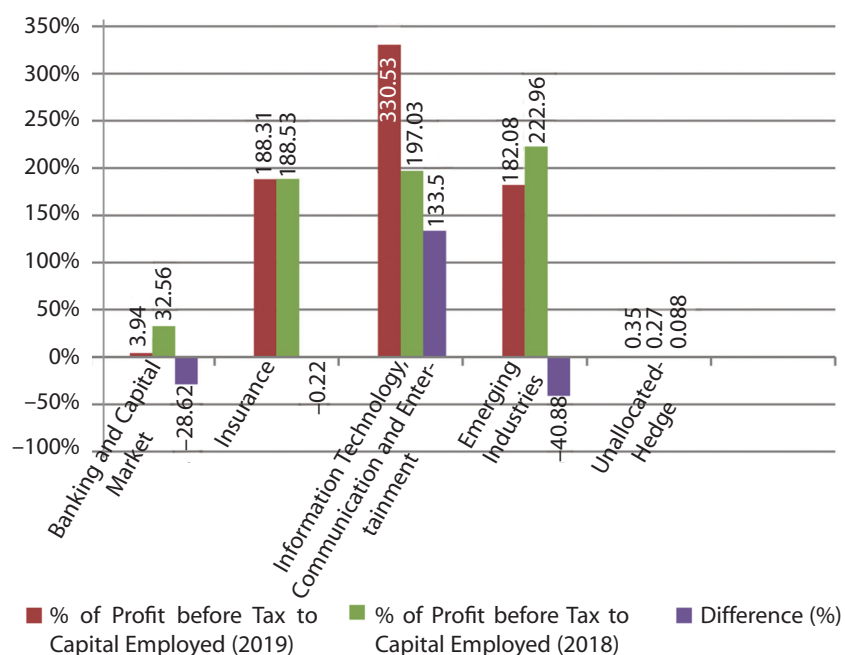
**Graphical Representation of data showing Profit before Tax to Capital Employed for the year ended 31st March, 2018**



7. Table showing difference in the percentage of Profit before Tax and Capital Employed for the year ended 31st March, 2019 and 2018:

Segment Name	% of Profit before Tax to Capital Employed Year ended 31st March, 2019 (₹)	% of Profit before Tax to Capital Employed Year ended 31st March, 2018 (₹)	Difference
Banking and Capital Market	3.94	32.56	(28.62)
Insurance	188.31	188.53	(0.22)
Information Technology, Communication and Entertainment	330.53	197.03	133.50
Emerging Industries	182.08	222.96	(40.88)
Unallocated-Hedge	0.35	0.27	0.08

**Graphical Representation of data showing difference in percentage of Profit before Tax to Capital Employed for the year ended 31st March, 2018 and 2019**



## VIVA QUESTIONS

1. What is Segment Reporting?

**Ans.** Segment reporting is the reporting of the operating segments of a company in the disclosures accompanying its financial statements. Segment reporting is required for publicly-held entities, and is not required for privately held ones. Segment reporting is intended to give information to investors and creditors regarding the financial results and position of the most important operating units of a company, which they can use as the basis for decisions related to the company.

**2.** Name the various segments of Mphasis Limited.

**Ans.** Various segments of Mphasis Limited are:

- (i) Banking and Capital Market
- (ii) Insurance
- (iii) Information technology, Communication and Entertainment
- (iv) Emerging Industries
- (v) Unallocated-Hedge

**3.** Which segment is the best segment of the Company?

**Ans.** Emerging Industries is the best segment, because it contributes about 48% to the profit of the company.

**4.** Which segment has high revenue?

**Ans.** Banking and Capital Market has high revenue, it has around 30.05% revenue to the total net revenue from operations of the company.

**5.** Should the company operate in only Emerging Industries due to high profits?

**Ans.** In my opinion, the company should make efforts to promote business of other segments as these segments have more business potential than what has been achieved.



### Project Illustration 3

Following is the summarised Balance Sheet of Mohak Ltd. You are required to prepare Cash Flow Statement and on the basis of it and interpret the result.

BALANCE SHEETS as at 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	8,00,000	6,00,000
(b) Reserves and Surplus	2	97,000	22,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	3	3,50,000	50,000
(b) Long-term Provisions	4	1,11,000	86,000
<b>3. Current Liabilities</b>			
(a) Trade Payables	5	30,000	52,500
(b) Other Current Liabilities	6	67,000	62,000
(c) Short-term Provisions	7	46,000	37,000
<b>Total</b>		15,01,000	9,09,500
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets	8(a)	6,74,400	3,15,000
(ii) Intangible Assets	8(b)	1,68,600	78,750
(iii) Capital Work-in-Progress		2,82,000	1,32,250
(b) Non-current Investments	9	42,000	70,000
(c) Deferred Tax Assets (Net)		8,000	4,000
<b>2. Current Assets</b>			
(a) Current Investments		35,000	49,000
(b) Inventories		1,00,500	1,03,500
(c) Trade Receivables	10	1,68,000	1,15,500
(d) Cash and Cash Equivalents	11	18,500	37,500
(e) Short-term Loans and Advances	12	4,000	4,000
<b>Total</b>		15,01,000	9,09,500

**Non-current Investments are sold at a gain (profit) of ₹ 1,000.**

#### Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>1. Share Capital</b>		
(a) <i>Authorised Capital:</i>		
1,00,000 (Previous Year 1,00,000 shares) Equity Shares of ₹ 10 each	10,00,000	10,00,000
5,000 Preference Shares of ₹ 100 each	5,00,000	5,00,000
	15,00,000	15,00,000
(b) <i>Issued Capital:</i>		
60,000 (Previous Year 40,000 shares) Equity Shares of ₹ 10 each	6,00,000	4,00,000
2,000; 10% Preference Shares of ₹ 100 each	2,00,000	2,00,000
	8,00,000	6,00,000
(c) <i>Subscribed Capital:</i>		
<i>Subscribed and fully paid-up:</i>		
60,000 (Previous Year 40,000 shares) Equity Shares of ₹ 10 each	6,00,000	4,00,000
2,000; 10% Preference Shares of ₹ 100 each	2,00,000	2,00,000
	8,00,000	6,00,000

<b>2. Reserves and Surplus</b>					
General Reserve			50,000	50,000	
Surplus/(Deficit), i.e., Balance in Statement of Profit and Loss			47,000	(28,000)	
			97,000	22,000	
<b>3. Long-term Borrowings</b>					
3,500 (Previous year 500 Debentures); 11% Debentures of ₹ 100 each			3,50,000	50,000	
<b>4. Long-term Provisions</b>					
Provision for Employees Benefit			1,11,000	86,000	
<b>5. Trade Payables</b>					
Sundry Creditors			28,000	46,500	
Bills Payable			2,000	6,000	
			30,000	52,500	
<b>6. Other Current Liabilities</b>					
Income Received in Advance			67,000	62,000	
<b>7. Short-term Provisions</b>					
Provision for Tax			46,000	37,000	
<b>8. Fixed Assets</b>					
	Net Block		Depreciation for the year	Sale of Assets on Book Value during the Year	Purchase of Assets during the Year
	31st March, 2019	31st March, 2018			
	₹	₹	₹	₹	₹
<b>(a) Tangible Assets</b>					
Land			1,50,000	1,50,000	...
Building			3,33,900	91,500	7,600
Plant and Machinery			1,44,750	36,250	12,500
Furniture and Fixtures			40,000	29,500	2,900
Computers			5,750	7,750	2,000
<b>Total</b>			6,74,400	3,15,000	25,000
<b>(b) Intangible Assets</b>					
Computer Software			9,600	750	3,000
Technical Know-how			1,59,000	78,000	9,000
<b>Total</b>			1,68,600	78,750	12,000
<b>9. Non-Current Investments</b>					
Investment in Debentures			42,000	70,000	
<b>10. Trade Receivables</b>					
Debtors			1,40,000	1,08,000	
Bills Receivable			28,000	7,500	
			1,68,000	1,15,500	
<b>11. Cash and Cash Equivalents</b>					
Cash-in-Hand			4,500	6,500	
Cash at Bank			14,000	31,000	
			18,500	37,500	
<b>12. Short-term Loans and Advances</b>					
Unsecured Loan			4,000	4,000	

**Note:** Proposed Dividend for the years ended 31st March, 2018 and 2019 are ₹ 75,000 and ₹ 80,000 respectively.

## Project Solution

### Introduction

The project is to draw Cash Flow Statement as per Accounting Standard-3 (Revised) issued by the Institute of Chartered Accountants of India from the given data and to express the views on the issue—why bank balance is not in line with the profit.

The data, *i.e.*, Balance Sheets as at 31st March, 2019 and 31st March, 2018 and along with the relevant information and Notes to Accounts for the year ended 31st March, 2019, is provided.

The project has been planned and executed as follows:

1. Redrafting Balance Sheets for the purpose of Cash Flow Statement.
2. Cash Flow Statement of Mohak Limited for the year ended 31st March, 2019 has been prepared in accordance with the Accounting Standard-3 (Revised) and has been analysed to determine the reasons for bank balance not being in line with the profit.

### Redrafted Balance Sheets of Mohak Limited for the purpose of Cash Flow Statement:

BALANCE SHEETS as at 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital	1	8,00,000	6,00,000
(b) Reserves and Surplus	2	89,000	18,000
<b>2. Non-Current Liabilities</b>			
(a) Long-term Borrowings	3	3,50,000	50,000
(b) Long-term Provisions	4	1,11,000	86,000
<b>3. Current Liabilities</b>			
(a) Trade Payables	5	30,000	52,500
(b) Other Current Liabilities	6	67,000	62,000
(c) Short-term Provisions	7	46,000	37,000
<b>Total</b>		<b>14,93,000</b>	<b>9,05,500</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets:			
(i) Tangible Assets	8(a)	6,74,400	3,15,000
(ii) Intangible Assets	8(b)	1,68,600	78,750
(iii) Capital Work-in-Progress		2,82,000	1,32,250
(b) Non-current Investments	9	42,000	70,000
<b>2. Current Assets</b>			
(a) Current Investments		35,000	49,000
(b) Inventories		1,00,500	1,03,500
(c) Trade Receivables	10	1,68,000	1,15,500
(d) Cash and Cash Equivalents	11	18,500	37,500
(e) Short-term Loans and Advances	12	4,000	4,000
<b>Total</b>		<b>14,93,000</b>	<b>9,05,500</b>

#### Clarification:

As per the CBSE Guidelines, accounting treatment of the Deferred Tax Liability/Assets (Net) is not to be evaluated, otherwise also it is a part of Surplus, *i.e.*, Balance in Statement of Profit and Loss and it is merely a book entry and not a actual Liability/Asset.

Hence, it is a redrafted Balance Sheet and Deferred Tax Asset (Net) is deducted from Surplus, *i.e.*, Balance in Statement of Profit and Loss.

## Redrafted Note to Accounts

Particulars		31st March, 2019 (₹)		31st March, 2018 (₹)
<b>2. Reserves and Surplus</b>				
General Reserve		50,000		50,000
Surplus/(Deficit), i.e., Balance in Statement of Profit and Loss	47,000		(28,000)	
Less: Deferred Tax Assets (Net) transferred	8,000	39,000	(4,000)	(32,000)
		89,000		18,000

## CASH FLOW STATEMENT for the year ended 31st March, 2019

Particulars		₹
<b>(A) Cash Flow from Operating Activities</b>		
Closing Surplus, i.e., Balance in Statement of Profit and Loss	39,000	
Less: Opening Surplus, i.e., Balance in Statement of Profit and Loss	(32,000)	71,000
Add: Provision for Tax	46,000	
Dividend paid (Proposed Dividend of Previous Year)	75,000	1,21,000
Net Profit before Tax and Extraordinary Items		1,92,000
Add: <b>Non-cash/Non-operating Expenses</b>		
Interest on Debentures	5,500	
Depreciation and Amortisation	37,000	
Long-term Provisions (Provision for Employees Benefits)	25,000	67,500
		2,59,500
Less: <b>Non-cash/Non-operating Income</b>		
Gain (Profit) on Sale of Investment		1,000
Operating Profit before Working Capital Changes		2,58,500
Add: <i>Decrease in Current Assets and Increase in Current Liabilities:</i>		
Inventories	3,000	
Other Current Liabilities (Income Received in Advance)	5,000	8,000
		2,66,500
Less: <i>Increase in Current Assets and Decrease in Current Liabilities:</i>		
Trade Receivables	52,500	
Trade Payables	22,500	75,000
<b>Cash Generated from Operations</b>		1,91,500
Less: Net Income Tax (paid)		37,000
<b>Cash Flow from Operating Activities</b>		1,54,500
<b>(B) Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets	(5,19,250)	
Expenses on Capital Work-in-Progress	(1,49,750)	
Proceeds from Sale of Non-current Investments	29,000	
Proceeds from Sale of Fixed Assets	33,000	
<b>Cash Used in Investing Activities</b>		(6,07,000)
<b>(C) Cash Flow from Financing Activities</b>		
Proceeds from Share Capital	2,00,000	
Payment of Dividend	(75,000)	
Proceeds from Long-term Borrowings	3,00,000	
Payment of Interest on Debentures	(5,500)	
<b>Cash Flow from Financing Activities</b>		4,19,500
<b>(D) Net Decrease in Cash and Cash Equivalents (A + B + C)</b>		(33,000)
Add: Cash and Cash Equivalents in the beginning of the year		86,500
<b>(E) Cash and Cash Equivalents at the end of the year</b>		53,500

**Note:** It has been presumed that additional 3,000; 11% Debentures of ₹ 100 each are issued on 31st March, 2019.

### Comments

Accrual method of accounting when used necessarily means that the amount of Net Profit will not match with corresponding increase in cash balance.

Net Profit is ascertained after adjusting outstandings and prepayments (both in respect of incomes and expenses) in the beginning and at the end of the accounting period.

In addition, items regarded as capital, *e.g.*, the purchase of fixed assets are not part of Statement of Profit and Loss but, involve payments of Cash and Cash Equivalents.

Cash Flow from Operating Activities is ₹ 1,54,500, it may be due to increase in sales or decrease in expenses. But the Cash Outflow from Investing activity is ₹ (6,07,000) as the company invest the amount in purchasing fixed asset which in future increases the efficiency of the company. Cash Flow from Financing Activity is ₹ 4,19,500 as the company procured funds by issuing share capital and by raising funds through long-term borrowings.

As a result, Cash and Cash Equivalents has decreased by ₹ 33,000 and, on the other hand, the net profit has increased by ₹ 71,000 [₹ 39,000 – (₹ 32,000)], is because net cash outflow from investing activities ₹ 6,07,000 exceeds the aggregates of net cash inflows from operating activities ₹ 1,54,500 and financing activities ₹ 4,19,500. Another reason is that Mohak Ltd. has invested more funds in working capital, largely because of an increase in the amount owing from debtors and substantial decrease in the amount due to the creditors.

### VIVA QUESTIONS

1. Under which method of accounting, net profit will not match with a corresponding increase in cash balance?  
**Ans.** Under accrual method of accounting, net profit will not match with a corresponding increase in cash balance.
2. Do you think that purchase of fixed assets do not appear in the Statement of Profit and Loss?  
**Ans.** Yes, purchase of fixed assets do not appear in the Statement of Profit and Loss.
3. Why purchase of fixed assets do not appear in the Statement of Profit and Loss?  
**Ans.** Purchase of fixed assets do not appear in the Statement of Profit and Loss because it is a Capital Expenditure.
4. Why Gain (Profit) on Sale of Investments is deducted from Income from Operating Activities?  
**Ans.** Because it is an investing activity and the full amount of sale is added in Cash from Investing Activities.
5. Why we do not deduct Expenses on Issue of Shares from Financing Activities?  
**Ans.** Because it is Deferred Revenue Expenditure that is written off in 5 years.
6. Give **two** examples of Cash Flow from Operating Activities.  
**Ans.** (i) Cash receipts from the sale of goods and the rendering of services.  
(ii) Cash payments to suppliers for goods purchased and for services availed.
7. Give **one** example of Financing Activity.  
**Ans.** Cash proceeds from issuing shares or debentures.
8. How can we ascertain Cash Flow from Financing Activities?  
**Ans.** Cash Flow from Financing Activities can be ascertained by analysing the change in Equity Share Capital, Preference Share Capital, Debentures, other Long-term Borrowings and Short-term Borrowings, *i.e.*, Bank Overdraft.
9. How can we ascertain Cash Flow from Investing Activities?  
**Ans.** Cash Flow from Investing Activities can be ascertained by analysing the change in Fixed Assets and Long-term Investments during the accounting period.
10. State the conditions for an investment to qualify as Cash Equivalents.  
**Ans.** For an investment to qualify as Cash Equivalent:
  1. It must be readily convertible to a known amount of cash.
  2. It must be subject to an insignificant risk of change in value.
Therefore, an investment normally qualifies as a Cash Equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.