

## CHAPTER

## 1

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 that belong to the shareholders of the company. They consist of Share Capital (both Equity and Preference Shares), 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 & 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 right to receive Equity Shares in the company on 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 or after the period of Operating Cycle from the date of Balance Sheet.

(b) Deferred Tax Liabilities  
(Net)

It is the amount of tax on the temporary differences 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. It is determined for each difference in accounting and taxable income and totalled and shown in the Balance Sheet at net amount.

## (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 estimated liabilities that will be payable after 12 months or after the period of Operating Cycle from the date of Balance Sheet.

#### 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, *i.e.*, Balance Sheet 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 or within the period of Operating Cycle from the date of Balance Sheet.

#### ASSETS

#### 6. Non-Current Assets

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

**(a) Property, Plant and Equipment and Intangible Assets**

**(i) Property, Plant and Equipment**

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 or for a period that is more than the period of Operating Cycle from the date of Balance Sheet.

(c) **Deferred Tax Assets (Net)**

**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 or for a period that is more than the period of Operating Cycle from the date of Balance Sheet.

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. It is determined for each difference in accounting and taxable income and totalled and shown in the Balance Sheet at net amount.

(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 or after the period of Operating Cycle from the date of Balance Sheet.

(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 or within the period of Operating Cycle from the date of Balance Sheet.

(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.

It includes cash in hand and balance with bank.

(d) **Cash and Cash Equivalents**

(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 or within the period of Operating Cycle from the date of Balance Sheet.

(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 & LOSS**

**8. Revenue from Operations**

It is the revenue earned by the company from its operating activities, *i.e.*, business activities carried on by the company to earn profit.

**9. Other Income**

It is the revenue earned by the company from the sources other than its operating activities.

**10. Cost of Materials Consumed**

It is the aggregate of cost of raw materials and other materials used in manufacture of goods.

**11. Purchase of Stock-in-Trade**

It means purchases of goods for resale, *i.e.*, goods purchased on which no further process is carried before sale.

**12. Changes in Inventories of Finished Goods, WIP and Stock-in-Trade**

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 & Loss.

**13. Employees Benefit Expenses**

These are the expenses incurred for the benefit of employees. Examples are: wages, salaries, bonus, staff welfare and medical reimbursement, etc.

**14. Finance Costs**

These are the expenses of the company incurred to borrow, *i.e.*, loans taken by it and cost incurred to service the borrowings.

**15. Depreciation and Amortisation Expenses**

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.

**16. Other Expenses**

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 includes Balance Sheet as at the end of the financial year, Statement of Profit & Loss for the financial year, Notes to Accounts giving details of items in the Balance Sheet and Statement of Profit & Loss and Cash Flow Statement. These are collectively known as **Financial Statements**.
- The form and content of Balance Sheet and Statement of Profit & 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 & 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 & 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 & Loss' under Reserves and Surplus. Profit for the year (as per Statement of Profit & Loss) is added to the opening balance of Surplus, *i.e.*, Balance in Statement of Profit & 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 for information. 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 & 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.**

### 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 as at...			
(₹ 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>Property, Plant and Equipment and Intangible Assets :</i>			
(i) Property, Plant and Equipment		...	...
(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 & Loss

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

STATEMENT OF PROFIT & 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 set aside when a company buys its own shares out of free reserves or Securities Premium. 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**

Securities Premium is the amount received over and above the nominal (face) value of securities (shares, debentures, etc.) is credited. The amount so received is credited to Securities Premium and shown under Reserves and Surplus in the Balance Sheet. 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.

**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	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 & Loss (Dr.)	Shareholders' Funds	Reserves and Surplus (As negative amount)
21.	Surplus, i.e., Balance in Statement of Profit & Loss	Shareholders' Funds	Reserves and Surplus
22.	Mortgage Loan	Non-current Liabilities	Long-term Borrowings
23.	Patents	Non-current Assets	Property, Plant and Equipment and Intangible 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	Short-term Borrowings
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	Property, Plant and Equipment and Intangible 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	Property, Plant and Equipment and Intangible 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	Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment
45.	Goodwill	Non-current Assets	Property, Plant and Equipment and Intangible 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	Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment
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	Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment
55.	Trademarks	Non-current Assets	Property, Plant and Equipment and Intangible 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	Property, Plant and Equipment and Intangible Assets—Intangible Assets
63.	Work-in-Progress (Building)	Non-current Assets	Property, Plant and Equipment and Intangible Assets—Capital Work-in-Progress
64.	Proposed Dividend	...	As Contingent Liability in Notes to Accounts
65.	Provision for Expenses	Current Liabilities	Short-term Provisions
66.	Capital Advances	Non-current Assets	Long-term Loans and Advances
67.	Shares in Companies	Non-current Assets	Non-current Investments

**Disclosure of Important Items in Company's Statement of Profit & Loss as per Schedule III**

S. No.	Item	Major Head	Sub-head
1.	Sale of Products	Revenue	Revenue from Operations
2.	Sale of Services (Services Rendered)	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	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	Property, Plant and Equipment and Intangible Assets—Intangible Assets
(ii)	Encashment of Employees Earned Leave Payable on Retirement	Non-current Liabilities	Long-term Provisions
(iii)	Vehicles	Non-current Assets	Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment

**Illustration 2.**

From the following Trial Balance of West Coast Ltd. for the year ended 31st March, 2026, prepare Statement of Profit & 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	...	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	...	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 & LOSS for the year ended 31st March, 2026

Particulars	Note No.	Year Ended 31st March, 2026 (₹)
<b>I. Revenue from Operations</b>	1	43,00,000
<b>II. Other Income</b>	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</b>		<b>2,14,500</b>

**Notes to Accounts**

Note No.	Particulars	Year Ended 31st March, 2026 (₹)
<b>1. Revenue from Operations</b>		
Sales		42,50,000
Sale of Scrap		50,000
		<b>43,00,000</b>
<b>2. Other Income</b>		
Dividend		<b>7,500</b>
<b>3. 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. 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>

1.14

<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: Property, Plant and Equipment and Intangible 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, 2026, 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.]