

Ajith Traders

Notes to the Financial Statements
For the Year Ending 2024

Note 1: Basis of Preparation

1. **Company Operations:** These financial statements are for Ajith Traders for the reporting period ending December 31, 2024.
2. **First Year of Operations:** The financial statements have been prepared assuming 2024 is the first year of operations for the company. Therefore, all balance sheet accounts had a beginning balance of ₹0 on January 1, 2024.
3. **Basis of Accounting:** The financial statements have been prepared using the **accrual basis of accounting**. This means revenue is recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Note 2: Summary of Significant Accounting Policies

- **(a) Revenue Recognition:** Revenue from the sale of goods is recognized when the goods are delivered to the customer and ownership is transferred. Revenue from services is recognized at the time the service is completed and rendered to the customer.
- **(b) Non-Current Assets & Depreciation:** Non-current assets (equipment, machinery, office furniture, land, and building) are stated at their original purchase cost.
 - Depreciation on equipment, machinery, and office furniture is calculated using the **straight-line method** over their estimated useful lives.
 - Land is not depreciated.
 - The depreciation expense for the year was ₹20,000.
- **(c) Inventory:** Inventory is stated at the **lower of cost or market value**. Cost is determined using the First-In, First-Out (FIFO) method.
- **(d) Cash:** Cash consists of cash on hand and deposits held with banks.

Note 3: Key Calculations & Assumptions

- **(a) Dividends Paid:** The Balance Sheet shows Retained Earnings of ₹53,000. The Income Statement shows a Net Profit of ₹1,40,000.
 - Based on the first-year assumption (starting retained earnings of ₹0), the dividends paid to the owner were calculated as follows:
 - Net Profit: ₹1,40,000
 - Less: Ending Retained Earnings: (₹53,000)
 - **= Dividends Paid: ₹87,000**
 - This payment is classified as a financing activity in the Cash Flow Statement.