



COMPANY ACCOUNTS



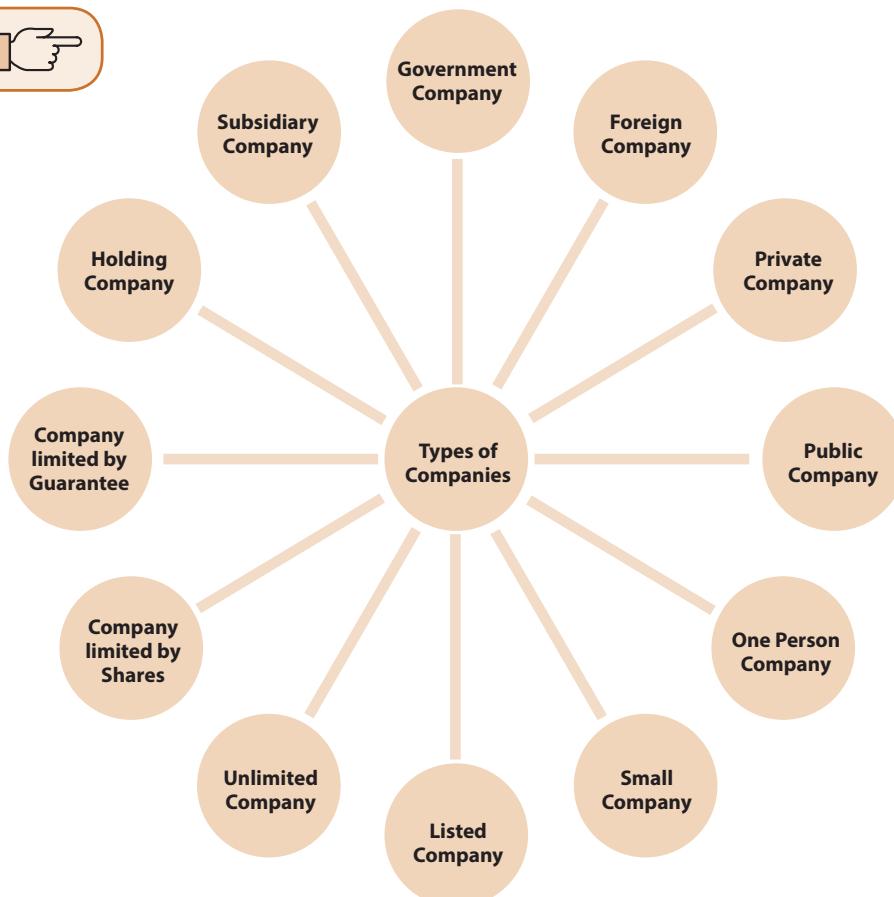
UNIT 1: INTRODUCTION TO COMPANY ACCOUNTS

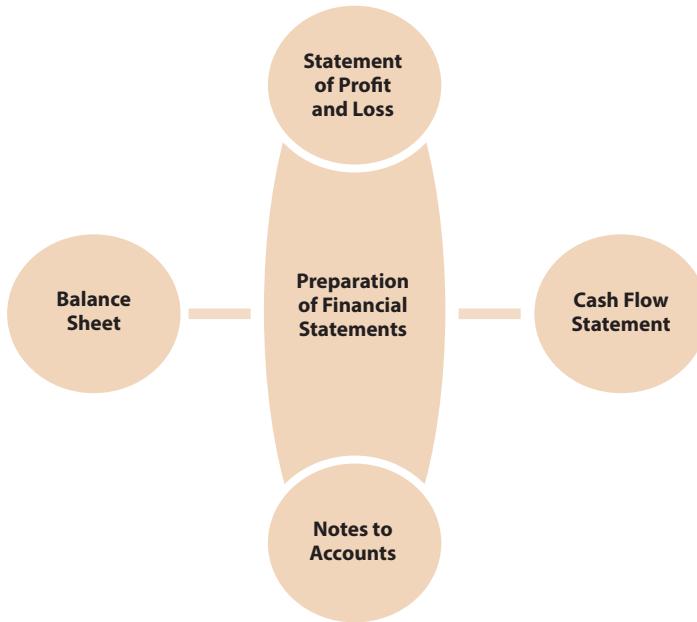
LEARNING OUTCOMES

After studying this unit, you will be able to:

- ♦ Understand the reason for the existence and survival of a company.
- ♦ Learn the nature and types of companies.
- ♦ Explain the salient features of a company.
- ♦ Understand the purpose of preparing the financial statements of the company.

UNIT OVERVIEW





1.1 INTRODUCTION

The never-ending human desire to grow and grow further has given rise to the expansion of business activities, which in turn has necessitated the need to increase the scale of operations so as to provide goods and services to the ever-increasing needs of the growing population of consumers. Large amount of money, modern technology, large human contribution etc. is required for it, which is not possible to arrange under partnership or proprietorship. To overcome this difficulty, the concept of 'Company' or 'Corporation' came into existence.

While the invention of steam power ignited the human imagination to build big machines for the mass production of goods, the need to separate the management from ownership gave birth to a form of organisation today known as 'company'.

Company form of organisation is one of the ingenious creations of human mind, which has enabled the business to carry on its wealth creation activities through optimum utilisation of resources. In course of time, company has become an important institutional form for business enterprise, which has carved out a key place for itself in the field of business operations as well as in the wealth-generating functions of society.

1.2 MEANING OF COMPANY

The word 'Company', in everyday usage, implies an assemblage of persons for social purpose, companionship or fellowship. As a form of organisation, the word 'company' implies a group of people who voluntarily agree to form a company.

The word 'company' is derived from the Latin word 'com' i.e. with or together and 'panis' i.e. bread. Originally the word referred to an association of persons or merchant men discussing matters and taking food together. However, in law 'company' is termed as company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws. As per this definition of law, there must be group of persons who agree to form a company under the law and once

so formed; it becomes a separate legal entity having perpetual succession with a distinct name of its own and a common seal. Its existence is not affected by the change of members.

Company begs its origin in law. It is an organisation consisting of individuals, called shareholders by virtue of holding the shares of a company, who are authorised by law to elect a board of directors and, through it, to act as a separate legal entity as regards its activities. Generally, the capital of the company consists of transferable shares, and members have limited liabilities.

To get to the heart of the nature of the company, let us examine the concept of company propounded under corporate jurisprudence.

According to Justice Marshal, "A corporation is an artificial being, invisible, intangible and existing only in the contemplation of law".

In the same manner, Lord Justice Hanay has defined a company as "an artificial person created by law with a perpetual succession and a common seal".

A common thread running through the various definitions of 'company' is that it is an association of persons created by law as a separate body for a special purpose. At the same time, definitions have laid down certain characteristics of a corporate organisation, which make it out as a separate and unique organisation which enables the people to contribute their wealth to the capital of the company by subscribing to its shares and appointing elected representatives to carry out the business.

1.3 SALIENT FEATURES OF A COMPANY

Following are the salient features of a company:

1. *Incorporated Association:* A company comes into existence through the operation of law. Therefore, incorporation of company under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.
2. *Separate Legal Entity:* A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.
3. *Perpetual Existence:* Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.
4. *Common Seal:* Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal tool called 'Common Seal'. The common seal is affixed on all documents by the person authorised to do so who in turn puts his signature for and on behalf of the company. Companies Act, 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.) Now, the use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.
5. *Limited Liability:* The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
6. *Distinction between Ownership and Management:* Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the

operational management of the company on a day-to-day basis. This gives rise to the need of separation of the management and ownership.

7. *Not a citizen:* A company is not a citizen in the same sense as a natural person is, though it is created by the process of law. It has a legal existence but does not enjoy the citizenship rights and duties as are enjoyed by the natural citizens.
8. *Transferability of Shares:* The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
9. *Maintenance of Books:* A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
10. *Periodic Audit:* A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors.
11. *Right of Access to Information:* The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

1.4 TYPES OF COMPANIES

1. Government Company

According to Section 2(45) of the Companies Act, 2013, "Government company" means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

2. Foreign Company

According to Section 2 (42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which –

- (a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

3. Private Company

Section 2(68) of the Companies Act, 2013 defines 'Private company' as a company which by its articles,

- i. Restrict the right to transfer its shares;
- ii. Except in case of One Person Company limits the number of its members to two hundred: Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this sub-clause, be treated as a single member:

Provided further that—

- (A) Persons who are in the employment of the company; and
- (B) persons who, having been formerly in the employment of the company, were members of the

company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and

- (iii) Prohibits any invitation to the public to subscribe for any securities of the company. Shares of a Private Company are not listed on Stock Exchange.

4. Public Company

Section 2(71) of the Companies Act, 2013 defines Public Company as a company which— (a) is not a private company; provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

A company which is a listed public company if it gets unlisted continues to be a public company.

No Minimum Paid-up Share Capital: The minimum paid-up share capital requirement of INR 1,00,000 (in case of a private company) and INR 5,00,000 (in case of a public company) has been done away with under Companies Act, 2013. Accordingly, no minimum paid-up capital requirements will now apply for incorporating private as well as public companies in India.

5. One Person Company

Section 2 (62) of the Companies Act, 2013 defines "One Person Company" as a company which has only one person as a member.

6. Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or
- (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees;

Note: The status of a company as a Small Company may change from year to year.

7. Listed Company

As per Section 2 (52) of the Companies Act, 2013,"listed company" means a company which has any of its securities listed on any recognised stock exchange.

The company, whose shares are not listed on any recognised stock exchange, is called "Unlisted Company".

An unlisted company can be a public company or a private company.

8. Unlimited Company

Section 2 (92) of the Companies Act, 2013 defines "Unlimited company" means a company not having any limit on the liability of its members.

9. Company limited by Shares

As per Section 2(22) of the Companies Act, 2013, "Company limited by shares" means a company having

the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

10. Company limited by Guarantee

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

11. Holding Company

According to Section 2 (46) of the Companies Act, 2013, "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

12. Subsidiary Company

Section 2(87) of the Companies Act, 2013 defines "subsidiary company" as a company in which the holding company:

- (i) Controls the composition of the Board of Directors; or
- (ii) Exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.

A company shall be deemed to be a subsidiary company of the holding company even if there is indirect control through the subsidiary company (ies). The control over the composition of a subsidiary company's Board of Directors means exercise of some power to appoint or remove all or a majority of the directors of the subsidiary company.

1.5 MAINTENANCE OF BOOKS OF ACCOUNT

As per Section 128 of the Companies Act, 2013, every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting:

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

1.6 PREPARATION OF FINANCIAL STATEMENTS

Under Section 129 of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the notified accounting standards and shall be in the form or forms as may be provided for different class or classes of companies, as prescribed in Schedule III. The Board of Directors of the company shall lay financial statements at every annual general meeting of a company.

Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include -

- i. A balance sheet as at the end of the financial year;
- ii. A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

- iii. cash flow statement for the financial year;
- iv. A statement of changes in equity, if applicable; and
- v. (any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Requisites of Financial Statements

It shall give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable

- (1) Specific Act is Applicable

For instance, any

- (a) Insurance company
- (b) Banking company or
- (c) Any company engaged in generation or supply of electricity* or
- (d) Any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company.

- (2) In case of all other companies:

Balance Sheet as per Form set out in Part I of Schedule III and Statement of Profit and Loss as per Part II of Schedule III:

Compliance with Accounting Standards

As per Section 129 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time.

Schedule III of the Companies Act, 2013

As per Section 129 of the Companies Act, 2013, Financial statements shall give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under Section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III under the Act.

PART I – Form of BALANCE SHEET*Name of the Company.....**Balance Sheet as at.....*

(₹ in.....)

Particulars	Notes No.	Figures as at end of the current reporting period	Figures as at end of the previous reporting period
EQUITY AND LIABILITIES			
1. Shareholders' funds			
a. Share capital (A)		xxx	xxx
b. Reserves and Surplus (B)		xxx	xxx
c. Money received against share warrants		xxx	xxx
2. Share application money pending allotment		xxx	xxx
3. Non-current liabilities			
a. Long-term borrowings (C)		xxx	xxx
b. Deferred tax liabilities (Net)		xxx	xxx
c. Other long term liabilities		xxx	xxx
d. Long-term provisions (D)		xxx	xxx
4. Current liabilities			
a. Short-term borrowings (E)		xxx	xxx
b. Trade Payables		xxx	xxx
c. Other current liabilities (F)		xxx	xxx
d. Short-term provisions		xxx	xxx
Total ASSETS		xxx	xxx
1. Non-current assets			
a. Property, Plant and Equipment			
i. Tangible assets (G)		xxx	xxx
ii. Intangible assets (H)		xxx	xxx
iii. Capital Work-in-progress		xxx	xxx
iv. Intangible assets under development		xxx	xxx
b. Non-current investments (I)		xxx	xxx
c. Deferred tax assets (Net)		xxx	xxx
d. Long-term loans and advances (J)		xxx	xxx
e. Other non-current assets		xxx	xxx
2. Current assets			
a. Current investments (K)		xxx	xxx
b. Inventories (L)		xxx	xxx
c. Trade receivables		xxx	xxx
d. Cash and cash equivalents (M)		xxx	xxx
e. Short-term loans and advances		xxx	xxx
f. Other current assets		xxx	xxx
Total		xxx	xxx

Some items are to be explained as follows:

A. SHARE CAPITAL

For each class of share capital following points is to be kept in mind:

- i. The number and amount of shares authorised.
- ii. The number of shares which are issued, subscribed and fully paid and which are issued, subscribed but not fully paid.
- iii. The par value per share.
- iv. Shares outstanding at the beginning and at the end of the reporting period should be reconciled.
- v. Calls unpaid.
- vi. Forfeited shares.

B. RESERVES AND SURPLUS

Reserves and surplus can be distributed among the following sub-heads:

- i. Capital reserves
- ii. Capital redemption reserves
- iii. Securities Premium
- iv. Debenture Redemption reserve
- v. Revaluation reserve
- vi. Surplus; the balance as per profit and loss statement
- vii. Other reserves (specify the nature and purpose)

C. LONG TERM BORROWINGS

Long term borrowings can be classified under the following sub-heads:

- i. Bonds/Debentures
- ii. Term loans
- iii. Deferred payment liabilities
- iv. Deposits
- v. Long term maturities of finance lease obligations
- vi. Loans and advances from related parties
- vii. Other loans and advances (specify nature)

D. LONG TERM PROVISIONS

This can be classified as follows:

- i. Employee benefits provision like gratuity, provident fund etc.

- ii. Other provisions (specify the nature)

E. SHORT TERM BORROWINGS

Short term borrowings can be classified among the following sub-heads:

- i. Loans repayable on demand
- ii. Loans and advances from related parties
- iii. Deposits
- iv. Other loans and advances (specify the nature)

F. OTHER CURRENT LIABILITIES

Some of the other current liabilities can be grouped as under:

- i. Interest accrued but not/and due on borrowings
- ii. Income received in advance
- iii. Unpaid dividends
- iv. Application money received for allotment of securities and due for refund and interest accrued thereon
- v. Other current liabilities (specify the nature)

G. TANGIBLE ASSETS

Tangible assets can be classified as follows:

- i. Land
- ii. Buildings
- iii. Plant and Equipments
- iv. Furniture and Fixtures
- v. Vehicles
- vi. Office equipments
- vii. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

H. INTANGIBLE ASSETS

Intangible assets can be classified as follows:

- i. Goodwill
- ii. Brands/trademarks
- iii. Computer software
- iv. Mining rights

- v. Publishing titles
- vi. Copyrights, patents and other intellectual property rights, services and operating rights.
- vii. Licence and franchise
- viii. Recipes, models, designs, formulae and prototypes
- ix. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

I. NON-CURRENT INVESTMENTS

Investments can be classified as under:

- i. Investments in property
- ii. Investments in equity instruments
- iii. Investments in preference shares
- iv. Investments in governments or trust securities
- v. Investments in debentures or bonds
- vi. Investments in mutual funds
- vii. Investments in partnership firms
- viii. Other non-current investments (specify the nature)

J. LONG TERM LOANS AND ADVANCES

It can be classified under the following sub-groups:

- i. Capital advances
- ii. Security deposits
- iii. Loans and advances to related parties
- iv. Other loans and advances (specify nature)

The above shall also be sub-classified as follows:

- i. Secured, considered goods
- ii. Unsecured, considered goods
- iii. Doubtful

K. CURRENT INVESTMENTS

It can be classified as follows:

- i. Investments in equity instruments
- ii. Investments in preference shares

- iii. Investments in government or trust securities
- iv. Investments in bonds or debentures
- v. Investments in mutual funds
- vi. Investments in partnership firms
- vii. Other investments (specify the nature)

L. INVENTORIES

Inventories can be classified as:

- i. Raw materials
- ii. Work-in-progress
- iii. Stores and spares
- iv. Finished goods
- v. Loose tools
- vi. Stock in trade
- vii. Goods in transit
- viii. Others (specify the nature)

M. CASH AND CASH EQUIVALENTS

The following head can be classified as follows:

- i. Balances with banks
- ii. Cheques, drafts in hand
- iii. Cash in hand
- iv. Others (specify the nature)

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and Loss Statement for the year ended

(₹ in.....)

Particulars	Note No.	Figures for the current reporting period		Figures for the previous reporting period
I. Revenue from operations		xxx		xxx
II. Other income		xxx		xxx
III. Total Revenue (I + II)		xxx		xxx
IV. Expenses:		xxx		xxx
Cost of materials consumed		xxx		xxx
Purchases of Stock-in-Trade		xxx		xxx
Changes in inventories of finished goods Work-in-Progress and Stock-in-Trade		xxx		xxx
Employee benefits expense		xxx		xxx
Finance costs		xxx		xxx
Depreciation and amortization expense		xxx		xxx
Other expenses		xxx		xxx
Total expenses		xxx		xxx
V. Profit before exceptional and extraordinary items and tax (III-IV)		xxx		xxx
VI. Exceptional items		xxx		xxx
VII. Profit before extraordinary items and tax (V-VI)		xxx		xxx
VIII. Extraordinary Items		xxx		xxx
IX. Profit before tax (VII-VIII)		xxx		xxx
X. Tax expense:				
(1) Current tax		xxx		xxx
(2) Deferred tax		xxx	xxx	xxx
XI. Profit (Loss) for the period from continuing operations (VII-VIII)		xxx		xxx
XII. Profit/(Loss) from discontinuing operations		xxx		xxx
XIII. Tax expense of discontinuing operations		xxx		xxx

XIV.	Profit/(Loss) from discontinuing operations (after tax) (XII-XIII)			xxx	xxx
XV.	Profit (Loss) for the period (XI + XIV)			xxx	xxx
XVI.	Earnings per equity share:				
	(1) Basic			xxx	xxx
	(2) Diluted			xxx	xxx



SUMMARY

1. Company' is termed as an entity which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws.
2. Salient features of a company include: Incorporated Association; Separate Legal Entity; Perpetual Existence; Common Seal; Limited Liability; Distinction between Ownership and Management; Not a citizen; Transferability of Shares; Maintenance of Books; Periodic Audit; Right of Access to Information.
3. Types of companies: Government Company; Foreign Company; Private Company; Public Company; One Person Company; Small Company; Listed Company; Unlimited Company; Company limited by Shares; Company limited by Guarantee; Holding Company; Subsidiary Company.
4. The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the notified accounting standards and shall be in the form or forms as may be provided for different class or classes of companies, as prescribed in Schedule III to the Companies Act, 2013. Financial Statements as per Section 2(40) of the Companies Act, 2013, include balance sheet as at the end of the financial year; profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year; cash flow statement for the financial year; statement of changes in equity, if applicable; and any explanatory note annexed to.

TEST YOUR KNOWLEDGE

True and False

1. Every public company is a listed company.
2. Shares of a private company are not listed on stock exchange.
3. It is not mandatory to incorporate a company under the companies act.
4. Company is an artificial, legal person created by law.
5. Death, insolvency or change of members affects the existence of a company.
6. If the shares are fully paid-up by the shareholder, he is subject to no further liability.
7. Public limited company has restrictions on transferability of shares.
8. Financial statements of company show the financial position of the business.
9. Schedule I gives proforma of Balance Sheet.

MCQs

1. Which of the following statement is not a feature of a Company?
 - (a) Separate legal entity
 - (b) Perpetual Existence
 - (c) Members have unlimited liability
2. In a Government Company, the holding of the Central Government in paid-up capital should not be less than
 - (a) 25%
 - (b) 50 %
 - (c) 51%
3. Which of the following statement is true in case of a Foreign Company?
 - (a) A Company incorporated in India and has place of business outside India.
 - (b) A Company incorporated outside India and has a place of business in India.
 - (c) A Company incorporated in India and has a place of business in India.
4. Which of the following statements is not a feature of a private company?
 - (a) Restricts the rights of members to transfer its shares.
 - (b) Does not restrict on the number of its members to any limit.
 - (c) Does not involve participation of public in general.

Theory Questions

1. Explain salient features of a company in brief.
2. Write short note on:
 - (i) Foreign company.
 - (ii) Small company.
 - (iii) Company limited by guarantee.

ANSWERS**True and False**

1. False: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.
2. True: Only the shares of public company are listed on stock exchange. Every listed company is a public company.
3. False: It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.
4. True: Company comes into existence through the operation of law. It is a separate entity distinct from its members.

5. False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect its existence.
6. True: Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.
7. False: Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.
8. True: Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.
9. False: Schedule III Part I explains form of Balance Sheet.

MCQs

1.	(c)	2.	(c)	3.	(b)	4.	(b)
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Theoretical Question

1. Refer para 1.3 of this unit for salient features of a company.

2. (i) Foreign Company

According to Section 2 (42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which –

- (a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

(ii) Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company.

- (i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or
- (ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees.

(iii) Company limited by Guarantee

As per Section 2(21) of the Companies Act, 2013, "company limited by guarantee" means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

1. Comparative Financial Statements

Comparative financial statements refer to those statements which summarise and present accounting data for a number of years incorporating therein changes (both absolute and relative) in individual items of financial statements. These statements mainly include (a) Comparative balance sheet and (b) Comparative income statement or profit and loss account.

(a) **Comparative Balance Sheet** A comparative balance sheet is a balance sheet which is prepared to ascertain the increase or decrease in proprietors' funds, in assets and in liabilities during the course of two years (or more). While comparing the figures of two years, the previous year figures should be considered as 'base' for calculation of changes (increase or decrease) in percentages. Usually, a comparative balance sheet consist of two columns depicting figures of previous year and current year and a third column showing increase or decrease between the two balance sheet dates. Another column is added to show the percentage of increase or decrease. This balance sheet is highly useful to study the progress of the business.

(b) **Comparative Profit and Loss Account** A comparative profit and loss account is a statement which is prepared to find out the increase or decrease in various items of cost, expense and income over a number of years, at least two. While comparing the previous year's figures with current year's figures, the previous year's figures have to be taken as 'base' for calculation of increase or decrease in percentages. Generally, a comparative profit and loss account contains two columns for the figures of the original income statements and a third column for showing the increase or decrease in various items. Another column is provided to indicate the percentage of increase or decrease. It indicates the trend in the business operations. For the management particularly, it calls for attention to the areas that require further investigation.

2. Common Size Financial Statements

Comparative Financial Statements facilitate horizontal analysis i.e., analysis across years. Another type of analysis, known as Common-size Financial Statements, refers to the vertical studies of the components of the total. The common-size financial statement, first convert each amount in the statement to a percentage of the total amount of the group of which it is a part. It overcomes the limitations of comparative financial statements by enabling the analyst to understand the changes that have taken place from year to year in relation to the total of the group, say, assets, liabilities, sales etc. It is also known as "common percentage" or "100 percent" statement. It mainly includes (a) Common-size profit and loss account and (b) Common-size balance sheet.

(a) **Common-size Profit and Loss Account** The following procedures are to be adopted while preparing common-size profit and loss account from the given traditional profit and loss account:

- (i) An item in the profit and loss account should be taken as 'base'. The base, let us say is 'sales'.
- (ii) The base i.e. Sales, is assumed to equal 100.
- (iii) All other items in the profit and loss account debit side and credit side are, then, expressed as 'percentage of sales'.
- (iv) Instead of taking 'Gross Sales' as the base, it is better to choose 'Net Sales' as the base because it represents the effective revenue generation point.

(b) **Common-size Balance Sheet** For preparing common-size balance sheet, the following procedures are to be observed:

- (i) Either the total of the assets side or the total of the capital and liabilities side (as both are same) is to be taken as 100.
- (ii) Each type of asset is, then, expressed as a percentage of total assets (or total of the capital and liabilities).
- (iii) Each item on the 'capital and liabilities' side is also expressed as a percentage of total assets (or total of the capital and liabilities).

3. Trend Analysis

The term 'trend' refers to any 'general tendency'. Analysis of these general tendencies is called "trend analysis". Like comparative financial statements, trend analysis is also a horizontal type of analysis of financial statements. Under this technique, the profit and loss account and balance sheet of an accounting year are taken as the base. The base year may be the earliest year

or any intervening year. Normally, the earliest year is reckoned as the base year. Every item in the base year's financial statements is taken as equivalent to 100. All the corresponding figures in the financial statements of other years are expressed as percentage of their value in the base year's financial statements. This trend percentage/ratio can be computed by dividing each amount in the other financial statements with the corresponding item found in the base financial statements. It should be noted that the trend percentages/ratios are generally computed not for the items in the statement, as the primary objective is only to make comparison between items which are interrelated to one another. The main advantage of trend analysis is that management can more readily study the changes in financial statements between periods by establishing a base year and other years in relation to base year.

Comparative Balance Sheet

(A) Comparative Financial Statements

I Comparative Balance Sheet

Illustration 1 The following balance sheets of Harper Steel Ltd., are given for the years ending on 31st March 1998 and 1999.

Liabilities	31st Mar. 1998 (Rs.)	31st Mar. 1999 (Rs.)	Assets	31st Mar. 1998 (Rs.)	31st Mar. 1999 (Rs.)
<i>Share Capital:</i>			<i>Fixed Assets:</i>		
Equity share capital	20,00,000	40,00,000	Land and buildings	12,00,000	28,00,000
<i>Reserves and Surplus:</i>			Plant and machinery	6,00,000	18,00,000
Capital reserve	1,00,000	2,00,000	Furniture and fixtures	2,00,000	3,00,000
General reserve	6,00,000	5,00,000	<i>Investments:</i>		
<i>Secured Loans:</i>			Subsidiary in X Ltd.	1,00,000	1,00,000
10% Debentures	2,00,000	4,00,000	Immovable properties	8,00,000	4,00,000
<i>Current Liabilities:</i>			<i>Current Assets:</i>		
Sundry creditors	12,00,000	8,20,000	Cash	2,00,000	20,000
	41,00,000	59,20,000	Book debts	6,00,000	2,00,000
			Stock-in-trade	4,00,000	3,00,000
				41,00,000	59,20,000

Prepare a comparative balance sheet of the company and study its financial position.

Solution

Harper Steel Ltd.,
Comparative Balance Sheet as on 31st March 1998 and 1999

<i>Particulars</i>	<i>31st Mar. 1998</i>	<i>31st Mar. 1999</i>	<i>Absolute Increase or Decrease</i>	<i>Percentage Increase or Decrease</i>
Assets	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	
<i>Fixed Assets:</i>				
Land and buildings	12,00,000	28,00,000	16,00,000	133.33
Plant and machinery	6,00,000	18,00,000	12,00,000	200.00
Furniture and fixtures	2,00,000	3,00,000	1,00,000	50.00
Total Fixed Assets (A)	20,00,000	49,00,000	29,00,000	145.00
<i>Investments:</i>				
Subsidiary in X Ltd.	1,00,000	1,00,000	—	—
Immovable properties	8,00,000	4,00,000	(4,00,000)	(50.00)
Total Investments (B)	9,00,000	5,00,000	(4,00,000)	(44.44)
<i>Current Assets :</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	
Cash	2,00,000	20,000	(1,80,000)	(90.00)
Book debts	6,00,000	2,00,000	(4,00,000)	(66.67)
Stock-in-trade	4,00,000	3,00,000	(1,00,000)	(25.00)
Total Current Assets (C)	12,00,000	5,20,000	(6,80,000)	(56.67)
Total Assets (A + B + C)	41,00,000	59,20,000	18,20,000	44.39
Liabilities				
<i>Capital and Reserves :</i>				
Equity share capital	20,00,000	40,00,000	20,00,000	100.00
Capital reserve	1,00,000	2,00,000	1,00,000	100.00
General reserve	6,00,000	5,00,000	(1,00,000)	(16.67)
Shareholders' Funds (A)	27,00,000	47,00,000	20,00,000	74.07
<i>Secured Loans :</i>				
10% Debentures (B)	2,00,000	4,00,000	2,00,000	100.00
<i>Current Liabilities :</i>				
Sundry creditors (C)	12,00,000	8,20,000	(3,80,000)	(31.67)
Total Liabilities and Capital (A + B + C)	41,00,000	59,20,000	18,20,000	44.39

Comp Balance Sheet

Particulars	PY	CY	Absolute Increase or Decrease	Percentage Increase or Decrease
Assets			6 ---- 12 100 ---?	(100/6)*12
Land	12,00,000	28,00,000	16,00,000(28,00,000 - 12,00,000)	133.33%(100/12,00,000 *16,00,000)
P & M	6,00,000	18,00,000	12,00,000	200 %(100/6,00,000 *12,00,000)
Imm Prop	8,00,000	4,00,000	(4,00,000)	50%(100/800000 *400000)

Interpretation

Financial Statement Analysis FSA . 13

Notes

1. Figures within brackets indicate "decrease".
2. The percentage increase or decrease column should not be vertically added or subtracted.

The analysis of the above comparative balance sheet gives the following conclusions:

- (i) Fixed assets have increased by Rs. 29,00,000. This increase has been financed by issue of share capital of Rs. 20,00,000 and 10% debentures of Rs.2,00,000 and from the sale proceeds of immovable property to the tune of Rs. 4,00,000. The balance money has been found from current assets.
- (ii) Investments in immovable property have been liquidated to the tune of Rs. 4,00,000 to purchase fixed assets.
- (iii) Current assets on 31st March 1998 were equal to current liabilities. The company could meet them as and when the current liabilities accrued. Current assets on 31.3.99 have depleted to Rs. 5,20,000 as against current liabilities of Rs. 8,20,000.
- (iv) Cash balance has been drawn upon to an extent as to reduce it to Rs. 20,000. This sum appears to be quite inadequate for the regular operations of the company. Unless the company has made arrangement for short term funds which it can manage at a very short notice, it is playing unsafe and may land itself into difficulties.
- (v) Increase of Rs. 1,00,000 in capital reserve may be due to appreciation in the value of fixed assets upon their revaluation.
- (vi) Decrease in general reserve may be due to net loss in operations during the year.

Comparative Income Statement

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<i>Particulars</i>	<i>Year ended 31.3.1999 Rs.</i>	<i>Year ended 31.3.1998 Rs.</i>
Sales	12,80,000	9,60,000
<i>Less:</i> Cost of goods sold	7,12,000	4,96,000
Gross profit	5,68,000	4,64,000
<i>Less:</i> Administrative expenses	2,56,000	1,76,000
<i>Less:</i> Selling expenses	1,44,000	1,68,000
<i>Interest charges</i>	6,400	9,600
	4,06,400	3,53,600
Net Profit before income tax	1,61,600	1,10,400
<i>Less:</i> Income tax @ 50%	80,800	55,200
	80,800	55,200

(Madras, B.Com., Nov. 2006)

Solution

Particulars	PY	CY	Absolute Increase or Decrease	Percentage Increase or Decrease	
Sales	9,60,000	12,80,000	(12,80,000 – 9,60,000)3,20,000	33.33%	9,60,000—3,20,000 100---? (100/9,60,000)*3,20,000
(-)COGS	4,96,000	7,12,000	2,16,000	43.55%	
GP	4,64,000	5,68,000	1,04,000	22.41%	4,64,000---1,04,000 100---? (100/4,64,000)*1,04,000

Comparative Income Statement

the year.

II. Comparative Income Statement

Illustration 2 From the following profit and loss account of Eveready Co. Ltd., for the year ending on 31st March 1998 and 1999, you are required to prepare a comparative income statement and comment on the performance:

PSA . 14 Financial Statement Analysis

Particulars	Year ended 31.3.1999 Rs.	Year ended 31.3.1998 Rs.
Sales	12,80,000	9,60,000
Less Cost of goods sold	7,12,000	4,96,000
Gross profit	5,68,000	4,64,000
Less Administrative expenses	2,56,000	1,76,000
Selling expenses	1,44,000	1,68,000
Interest charges	6,400	9,600
	4,06,400	3,53,600
Net Profit before income tax	1,61,600	1,10,400
Less Income tax @ 50%	80,800	55,200
	80,800	55,200

(Madras, B.Com., Nov. 2006)

Solution

Eveready Co. Ltd.,
Comparative Income Statement for the Years Ended 31st March 1998 & 1999

Particulars	31.3.98 Rs.	31.3.99 Rs.	Absolute Change Rs.	Percentage Change %
Sales	9,60,000	12,80,000	3,20,000	33.33
Less Cost of goods sold	4,96,000	7,12,000	2,16,000	43.55
Gross profit (A)	4,64,000	5,68,000	1,04,000	22.41
Less Administrative expenses	1,76,000	2,56,000	80,000	45.45
Selling expenses	1,68,000	1,44,000	(24,000)	(14.29)
Interest charges	9,600	6,400	(3,200)	(33.33)
Total expenses (B)	3,53,600	4,06,400	52,800	14.93
Net profit before income tax (A - B)	1,10,400	1,61,600	51,200	46.38
Less Income tax at 50%	55,200	80,800	25,600	46.38
Net profit after tax	55,200	80,800	25,600	46.38

Note: Figures in brackets indicate 'decrease'.

Interpretation

Financial Statement Analysis FSA . 15

Comments:

- (i) Whereas the sales have increased by 33.33%, cost of sales has correspondingly increased by 43.55%. The increase is more by 10.22%. This should set the management to investigate the causes of increase in cost of sales. This means the increase in sales was relatively expensive in terms of the cost of goods sold.
- (ii) Administrative expenses have increased by 45.45% compared to increase in sales of 33.33%. Administrative expenses are more or less a fixed overhead and such heavy increase in administrative expenses must be a cause of concern.
- (iii) Selling expenses have come down by 14.29% in spite of increase in sales by 33.33%. This is a welcome trend. This may be due to efficiency of sales personnel or this may also point out that in 1998, heavy selling expenses were incurred to introduce some new product in the market. The cause should be investigated.
- (iv) Interest charges have come down by 33.33%. This means that some loans have been partly or fully paid off. This is a favourable sign.
- (v) Decrease in selling expenses and interest charges account for about one-fourth of increase in profits.

(B) Common-size Statements

I. Common-size Income Statement

Illustration 3 The following figures relate to the activities of Moon Ltd., for the year ending 31st Dec. 1999.

	Rs.
Sales (Net)	16,00,000
Cost of goods sold	7,20,000
Administrative expenses:	
Salaries	1,74,000
Rent and rates	24,000
Postage and telegrams	10,000
Stationery	74,000
Selling and Distribution expenses:	
Salesmen salaries	36,000
Advertising	12,000
Sales commission	15,000
Discount on sales	4,000

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Non-operating expenses:	
Interest	10,000
Loss on sale of building	22,000

Non-operating income:	
Gain on sale of investments	20,000

You are required to study the income statement with the help of common-size statement.

Solution

Moon Ltd.,

Common Size Income Statement

Particulars	Amount Rs	% of Sales
Net Sales	16,00,000	100
(-) COGS	7,20,000	45(100 /16,00,000 * 7,20,000)
GP	8,80,000	55 (100/ 16,00,000 * 8,80,000)

<i>Non-operating expenses:</i>	
Interest	10,000
Loss on sale of building	22,000

<i>Non-operating income:</i>	
Gain on sale of investments	20,000

You are required to study the income statement with the help of common-size statement.

Solution**Moon Ltd.,****Common-size Income Statement for the Year Ended 31st Dec. 1999**

<i>Particulars</i>	<i>Amount Rs.</i>	<i>% of sales</i>
Net sales	16,00,000	100.00
<i>Less: Cost of goods sold</i>	7,20,000	45.00
Gross profit (A)	8,80,000	55.00
<i>Less: Operating expenses:</i>		
Administrative expenses:		
Salaries	1,74,000	10.88
Rent and rates	24,000	1.50
Postage and telegrams	10,000	0.63
Stationery	74,000	4.63
	2,82,000	17.63
Selling and distribution expenses:		
Salesmen salaries	36,000	2.25
Advertising	12,000	0.75
Sales commission	15,000	0.94
Discount on sales	4,000	0.25
	67,000	4.19
Total operating expenses (B)	3,49,000	21.81
Operating profit (A - B)	5,31,000	33.19
<i>Add: Non-operating income:</i>		
Gain on sale of investments	20,000	1.25
	5,51,000	34.44

<i>Less: Non-operating expenses:</i>		
Interest	10,000	0.63
Loss on sale of building	22,000	1.38
	32,000	2.00
Net profit	5,19,000	32.44

Interpretation

The cost of goods sold being 45% of sales is quite reasonable leaving 55% as gross profit. The operating expenses are 21.81% of sales and non-operating are 2% which shows that various expenses are quite under control. Operating profit of Rs.5,31,000 which is 33.19% is satisfactory. The net profit of 32.44% is on the high side and the company is able to keep various expenses under control. The overall profitability of the company is good.

Illustration 4 Following are the two Balance sheets of X Co. and Y Co. as on 31.12.1990.

(Rs. in lakhs)

	X Co. Ltd.	Y Co. Ltd.
Assets		
Cash	27	72
Sundry debtors	220	226
Stock	100	174
Prepaid expenses	11	21
Other current assets	10	21
Total current assets	368	514
Fixed assets (net)	635	513
Total	1,003	1,027
Liabilities		
<i>Current liabilities:</i>		
Sundry creditors	42	154
Others	78	62
Fixed liabilities	120	216
	225	318
Total liabilities	345	534
Capital	658	493
Total	1,003	1,027

From the above data, prepare a common-size balance sheet.

Solution

Common-Size Balance Sheet of 'X' Co. Ltd. & 'Y' Co. Ltd., as on 31st Dec.
1990

(Rs. in lakhs)

Particulars	X Co. Ltd.		Y Co. Ltd.	
	Amount	% of total Assets	Amount	% of total Assets
Assets				
Current Assets:				
Cash	27	2.69	72	7.01
Sundry debtors	220	21.93	226	22.01
Stock	100	9.97	174	16.94
Prepaid expenses	11	1.10	21	2.05
Other current assets	10	1.00	21	2.05
Total Current Assets	368	36.69	514	50.05
Fixed assets (net)	635	63.31	513	49.95
Total assets	1,003	100.00	1,027	100.00
Liabilities				
Current Liabilities:				
Sundry creditors	42	4.19	154	15.00
Others	78	7.78	62	6.04
Total Current Liabilities	120	11.96	216	21.03
Fixed liabilities	225	22.43	318	30.96
Capital	658	65.60	493	48.00
Total Liabilities and Capital	1,003	100.00	1,027	100.00

Illustration 5 Following are given balance sheets as on 31st Dec. 1998 and 1999 of Calcutta Steel Co. Ltd. You are required to prepare a common-size balance sheet and interpret the results.

(C)Trend Analysis

Illustration 6 Calculate the trend ratios from the following figures of MPM Company Ltd, taking 1994 as the base and comment thereon.

<i>Year</i>	<i>Sales</i> Rs.	<i>Stock</i> Rs.	<i>Profit before tax</i> Rs.
1994	1,80,000	70,000	32,000
1995	2,30,000	78,100	43,500
1996	2,65,000	81,500	45,700
1997	3,02,000	94,400	52,700
1998	3,76,000	1,15,000	67,300

• 1994 180000 100

230000 ?

$$1995 = 100 / 180000 * 230000 = 127.77\%$$

$$1996 = 100 / 180000 * 265000 = 147.22\%$$

$$1997 = 100 / 180000 * 302000 = 167.77\%$$

Trend Ratios (Base year 1994 = 100)

Year	Sales		Stock		Profit before tax	
	Rs.	Trend Ratio	Rs.	Trend Ratio	Rs.	Trend Ratio
1994	1,80,000	100.00	70,000	100.00	32,000	100.00
1995	2,30,000	127.77	78,100	111.57	43,500	135.94
1996	2,65,000	147.22	81,500	116.43	45,700	142.81
1997	3,02,000	167.77	94,400	134.86	52,700	164.69
1998	3,76,000	208.88	1,15,000	164.29	67,300	210.31

Interpretation

The following points are worth noting from the trend ratios:

- (i) Sales have registered a continuous increase in all the five years. This is a favourable tendency as success of business depends on sales.
- (ii) Although there is an increase in quantity of stock during the last five years, it is comparatively less than the increase in sales. To keep less stock in spite of increase in the sales, is an indicator of efficient inventory management.
- (iii) Profit before tax has increased substantially. In the last five years, it has more than doubled. Moreover, the increase in profits is more than proportionate increase in sales in all the years.
- (iv) The overall performance of MPM company is really good.

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15. Calculate the trend percentages from the following figures of Z Ltd., taking 1994 as the base and interpret them.

<i>Year</i>	<i>Sales</i> <i>Rs.</i>	<i>Stock</i> <i>Rs.</i>	<i>Profit before tax</i> <i>Rs.</i>
1994	3,76,200	1,41,800	64,200
1995	4,68,000	1,56,200	87,000
1996	5,31,000	1,63,200	91,600
1997	6,04,200	1,88,800	1,05,400
1998	7,53,600	2,30,800	1,34,400

	Sales	Stock	PBT
1994	100	100	100
1995	124	110	136
1996	141	115	143
1997	161	133	164
1998	200	163	209

(C) Trend Analysis

13. From the following information, interpret the result of operations of a manufacturing concern using trend percentages with 1994 as base year.

<i>Particulars</i>	<i>For the year ended</i>			
	<i>1994 Rs.</i>	<i>1995 Rs.</i>	<i>1996 Rs.</i>	<i>1997 Rs.</i>
Sales (Net)	2,00,000	1,90,000	2,40,000	2,60,000
Less: Cost of goods sold	1,20,000	1,17,800	1,39,200	1,45,600
Gross profit	80,000	72,200	1,00,800	1,14,400
Less: Operating expenses	20,000	19,400	22,000	24,000
Net operating profit	60,000	52,800	78,800	90,400

(Paraglade Products Ltd., May 2001 V. G. S.)

	Net Sales	COGS	GP	Op Ex	OP Profit
1994	100	100	100	100	100
1995	95	98	90	97	88
1996	120	116	126	110	131
1997	130	121	143	120	151

COGS			sales	
GP				
Other Op exp			GP	
NOE or NOL			Other Income	
			NOI	
PAT				

Annual Financial Statement for the year ended 31st March, 2021

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
7. Trade Receivables (Unsecured and Considered Good)		
Trade Receivables	4,159	7,483
Total	4,159	7,483

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
8. Cash and Cash Equivalents		
Cash on Hand	18	17
Balances with Banks *	5,555	8,468
Cash and Cash Equivalents as per Balance Sheet	5,573	8,485
Cash and Cash Equivalent as per Cash Flows Statement	5,573	8,485

* Includes Unclaimed Dividend of ₹ 208 crore (Previous Year ₹ 220 crore), Fixed Deposits of ₹ 5 crore (Previous Year ₹ 249 crore) with maturity of more than 12 months and Fixed Deposits of ₹ 2,468 crore (Previous Year ₹ 2,549 crore) given as collateral securities. These deposits can be withdrawn by the Company at any point of time without prior notice or penalty on the principal.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
9. Loans – Current		
Secured and Considered Good		
Loans and Advances to Related Parties (Refer Note 33 (IV)) *	990	990
	990	990
Unsecured and Considered Good		
Loans and Advances to Related Parties (Refer Note 33 (IV)) *	13,533	505
Other Loans	3	14,038
	3	14,038
Total	993	15,028

* Refer Note 3.A for details of Loans.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
10. Other Financial Assets – Current		
Deposits to Related Parties (Refer Note 33 (IV))	12,000	-
Other Deposits	904	606
Call Money Receivable (Refer Note 13.B)	39,843	-
Others *	6,813	15,509
Total	59,560	16,115

* Mainly includes fair valuation of derivatives and interest receivable on loans to related parties (Refer Note 33 (II)).

	Notes	As at 31st March, 2021	As at 31st March, 2020	(in crore)
Assets				
Non-Current Assets				
Property, Plant and Equipment	1	2,92,092	2,97,854	
Capital Work-in-Progress	1	20,765	15,638	
Intangible Assets	1	14,741	8,524	
Intangible Assets Under Development	1	12,070	12,327	
Financial Assets				
Investments	2	2,52,620	4,21,793	
Loans	3	65,698	44,348	
Other Non-Current Assets	4	4,968	4,461	
Total Non-Current Assets		6,62,954	8,05,045	
Current Assets				
Inventories	5	37,437	38,802	
Financial Assets				
Investments	6	94,665	70,030	
Trade Receivables	7	4,159	7,483	
Cash and Cash Equivalents	8	5,573	8,485	
Loans	9	993	15,028	
Other Financial Assets	10	59,560	16,115	
Other Current Assets	12	8,332	10,711	
Total Current Assets		2,10,719	1,66,654	
Total Assets		8,73,673	9,71,699	
Equity and Liabilities				
Equity				
Equity Share Capital	13	6,445	6,339	
Other Equity	14	4,68,038	3,84,876	
Total Equity		4,74,483	3,91,215	
Liabilities				
Non-Current Liabilities				
Financial Liabilities				
Borrowings	15	1,60,598	1,94,402	
Other Financial Liabilities	16	4,014	2,930	
Provisions	17	1,499	1,410	
Deferred Tax Liabilities (Net)	18	30,788	50,556	
Other Non-Current Liabilities	19	504	504	
Total Non-Current Liabilities		1,97,403	2,49,802	
Current Liabilities				
Financial Liabilities				
Borrowings	20	33,152	59,899	
Trade Payables Due to:	21	90	115	
Micro and Small Enterprises		86,909	70,932	
Other than Micro and Small Enterprises		61,172	1,32,492	
Other Financial Liabilities	22	19,563	66,170	
Other Current Liabilities	23	901	1,073	
Provisions	24			
Total Current Liabilities		2,01,787	3,30,682	
Total Liabilities		3,99,190	5,80,484	
Total Equity and Liabilities		8,73,673	9,71,699	
Significant Accounting Policies				
See accompanying Notes to the Financial Statements				

	₹ in crore	
	As at 31st March, 2021	As at 31st March, 2020
5. Inventories		
Raw Materials (Including Material in Transit)	15,023	15,040
Work-in-Progress *	7,712	7,748
Finished Goods	9,314	10,873
Stock-in-Trade	49	45
Stores and Spares	5,339	5,096
Total	37,437	38,802

* Includes Land, Development Cost and on transfer on completion of Projects of ₹ 4,322 crore (Previous Year ₹ 5,253 crore).

	₹ in crore	
	As at 31st March, 2021	As at 31st March, 2020
6. Investments - Current		
Investments measured at Amortised Cost		
In Collateral Borrowing & Lending Obligation- Unquoted	1,000	-
Total of Investments measured at Amortised Cost	1,000	-
Investments Measured At Fair Value Through Other Comprehensive Income (FVTOCI)		
In Fixed Maturity Plan - Quoted, fully paid up ^	10,446	-
In Mutual Fund - Quoted ^	2,768	2,720
In Mutual Fund - Unquoted ^	48,891	38,216
Total of Investments measured at Fair Value Through Other Comprehensive Income	62,105	40,936
Investments Measured at Fair Value Through Profit and Loss (FVTPL)		
In Government Securities - Quoted fully paid up ^	4,767	14,783
In Debentures or Bonds Quoted, fully paid up ^	1,946	3,442
In Treasury Bills - Quoted	13,161	10,869
In Mutual Fund - Unquoted ^	8,471	-
In Mutual Fund - Quoted ^	3,215	-
Total of Investments measured at Fair Value Through Profit and Loss	31,560	29,094
Total Investments - Current	94,665	70,030
Aggregate amount of Quoted Investments	36,303	31,814
Market Value of Quoted Investments	36,303	31,814
Aggregate amount of Unquoted Investments	58,362	38,216

^ Refer Note 37C

* Includes ₹ Nil (Previous Year ₹ 11,690 crore) given as collateral security (Refer Note 20)

	₹ in crore	
	As at 31st March, 2021	As at 31st March, 2020
6.1 Category-Wise Investment - Current		
Financial assets measured at amortised cost	1,000	-
Financial assets measured at Fair Value through Other Comprehensive Income	62,105	40,936
Financial Assets measured at Fair value through Profit and Loss	31,560	29,094
Total Investment - Current	94,665	70,030

(₹ in crore)

	Year ended 31st March, 2021	Year ended 31st March, 2020
Tax expenses for the year can be reconciled to the accounting profit as follows:		
Profit Before Tax and Exceptional Items	22,908	44,561
Applicable Tax Rate	34.944%	34.944%
Computed Tax Expense	8,005	15,571
Tax Effect of:		
Exempted income	(133)	(3,100)
Expenses disallowed	4,910	3,632
Additional allowances net of MAT Credit	(12,782)	(8,903)
Current Tax Provision (A)	-	7,200
Incremental Deferred tax Liability/(Asset) on account of Property, Plant and Equipment and Intangible Assets	2,354	3,271
Incremental Deferred tax Liability/(Asset) on account of Financial Assets and Other items	(7,086)	(1,058)
Deferred Tax Provision (B)	(4,732)	2,213
Tax Expenses Recognised in Statement of Profit and Loss (A+B)	(4,732)	9,413
Effective Tax Rate	-	21.12%
Tax on Exceptional Item*	(14,062)	(899)

* Refer Note 31

(₹ in crore)

	As at 31st March, 2021	As at 31st March, 2020
12. Other Current Assets (Unsecured and Considered Good)		
Balance with Customs, Central Excise, GST and state authorities	4,536	7,685
Other Current Assets to Related Parties (Refer Note 33 (II))	-	134
Others*	3,796	2,892
Total	8,332	10,711

* Includes primarily prepaid expenses and claims receivable.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
20. Borrowings – Current		
Secured – At Amortised Cost		
Working Capital Loans		
From Banks		
Rupee Loans	2,981	4,720
From Others		
Rupee Loans	-	18,847
	2,981	23,567
Unsecured – At Amortised Cost		
Other Loans and Advances		
From Banks		
Foreign Currency Loans	-	8,623
Rupee Loans	5,250	-
From Others		
Commercial paper *	24,921	27,709
	30,171	36,332
Total	33,152	59,899

* Maximum amount outstanding at any time during the year was ₹ 33,718 crore (Previous Year ₹ 29,054 crore).

20.1 Working Capital Loans from Banks of ₹ 2,981 crore (Previous Year ₹ 4,720 crore) are secured by hypothecation of present and future stock of raw materials, work-in-progress, finished goods, stores and spares (not relating to plant and machinery), book debts, outstanding monies, receivables, claims, bills, materials in transit, etc. save and except receivables of Oil & Gas segment (additionally was secured by Government Securities in previous year (Refer Note 2 and 6)).

20.2 Working Capital Loans from Others of ₹ Nil (Previous Year ₹ 18,847 crore) are secured by Government Securities and Corporate Bonds (Refer Note 2 and 6).

20.3 Refer note 37 B(iv) for maturity profile.

20.4 The Company has satisfied all the covenants prescribed in terms of borrowings.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
21. Trade Payables due to		
Micro and Small Enterprise	90	116
Other than Micro and Small Enterprise	86,909	70,932
Total	86,999	71,048

21.1 There are no overdues to Micro, Small and Medium Enterprises as at March 31, 2021.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
22. Other Financial Liabilities – Current		
Current maturities of Borrowings - Non - Current	27,948	44,298
Interest accrued but not due on Borrowings	3,217	2,814
Unclaimed Dividends *	208	220
Lease Liabilities - Current	116	102
Advance from Related Parties (Refer Note 33 (ii))	202	7,969
Other Payables *	29,481	77,089
Total	61,172	1,32,492

* Does not include any amount due and outstanding, to be credited to Investor Education and Protection Fund except ₹ 2 crore (Previous Year ₹ 2 crore) which is held in abeyance due to legal cases pending.

* Includes Creditors for Capital Expenditure, Security Deposit and Financial Liability at Fair Value.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
23. Other Current Liabilities		
Contract Liabilities	15,163	63,882
Other Payables ^	4,400	2,288
Total	19,563	66,170

^ Mainly includes statutory dues.

	(₹ in crore)	
	As at 31st March, 2021	As at 31st March, 2020
24. Provisions – Current		
Provisions for Employee Benefits (Refer Note 28.1)**	293	335
Other Provisions*	608	738
Total	901	1,073

** The provision for employee benefit includes annual leave and vested long service leave entitlement accrued.

* The Company had recognised liability for excise duty payable on clearance of goods lying in stock as on 31st March, 2020 of ₹ 387 crore as per the estimated pattern of dispatches. During the year, ₹ 387 crore was utilised for clearance of goods. Provision recognised under this class for the year is ₹ 343 crore which is outstanding as on 31st March, 2021. Actual outflow is expected in the next financial year. The Company had recognised customs duty liability on goods imported under various export incentive schemes of ₹ 195 crore as at 31st March, 2020. During the year, further provision of ₹ 582 crore was made and sum of ₹ 590 crore were reversed on fulfilment of export obligation. Closing balance on this account as at 31st March, 2021 is ₹ 187 crore.

(₹ in crore)

2020-21

2019-20

		2021
1 Current Ratio	CA/CL	210719/201787 = 1.04:1
2 Quick Ratio	<u>CA (-) (stk+ prepaid Exp)</u> CL	1,64,950/201787 =0.82:1
	OR	169513/201787 =0.84:1
3Superquick Ratio	<u>Current Investment + CCE</u> CL -	100238/201787 = 0.50:1

Income Statement

- Income (-) Expenses = Profit
- Income :- Operational & non Operational
- Expenses :- Operational & Non Operational

Profitability Ratios :- Capital , sales

- Related to Sales :-
- Gross profit ratio = (GP / Net Sales) * 100 =
- Net Profit ratio = (NP/Net Sales)*100 =
- Operating Profit ratio = (Operating Profit / Net sales)*100 =
- Operating Ratio = ((COGS+ Other Operating Exp)/ Net Sales) *100
- Expenses Ratios :-
- Admin Exp Ratio = Admin Exp/Net sales *100
- S&D Exp Ratio = (S&D Exp/ Net sales)*100

6. From the following Trading and Profit and Loss A/c of Shyam Lal Co. Ltd for the year ending 31st March 1999, calculate:

- (i) Gross profit ratio (ii) Net profit ratio (iii) Operating profit ratio
- (iv) Operating ratio (v) Administration expenses ratio (vi) Selling and Distribution expenses ratio (vii) Finance expenses ratio
- (viii) Non-operating expenses ratio.

Trading and Profit and Loss A/c for the year ending 31.3.1999

Particulars	Rs.	Particulars	Rs.
To Opening stock	45,000	By Sales (net)	3,00,000
To Purchases (net)	1,80,000	By Closing stock	60,000
To Carriage inwards	15,000		
To Gross profit c/d	1,20,000		
	3,60,000		3,60,000
To Administrative expenses	60,000	By Gross profit b/d	1,20,000
To Selling & distribution expenses	7,500	By Non-operating income	15,000
To Finance expenses	4,500		
To Other non-operating expenses	3,000		
To Net profit	60,000		
	1,35,000		1,35,000

Sales (Operating Income)	3,00,000
(-) COGS (Op Exp)	1,80,000
GP	1,20,000
(-) Other Op Exp	
1) Admin Exp (Op Exp)	60,000
2) S & d Exp (Op Exp)	7,500
Operating Profit	52,500
(+) Non Operating Income	15,000
(-) Other Non Exp + Fin Exp	7,500
Net Profit	60,000
COGS =Opening Stk + Net Purch + DE(-) Clo Stk =45,000+1,80,000+15,000(-)60,000 = 1,80,000	

1) GP R = $\frac{GP}{NS} * 100$	$\frac{1,20,000}{3,00,000} * 100$ = 40%
2) NP R = $\frac{NP}{NS} * 100$	$\frac{60,000}{3,00,000} * 100$

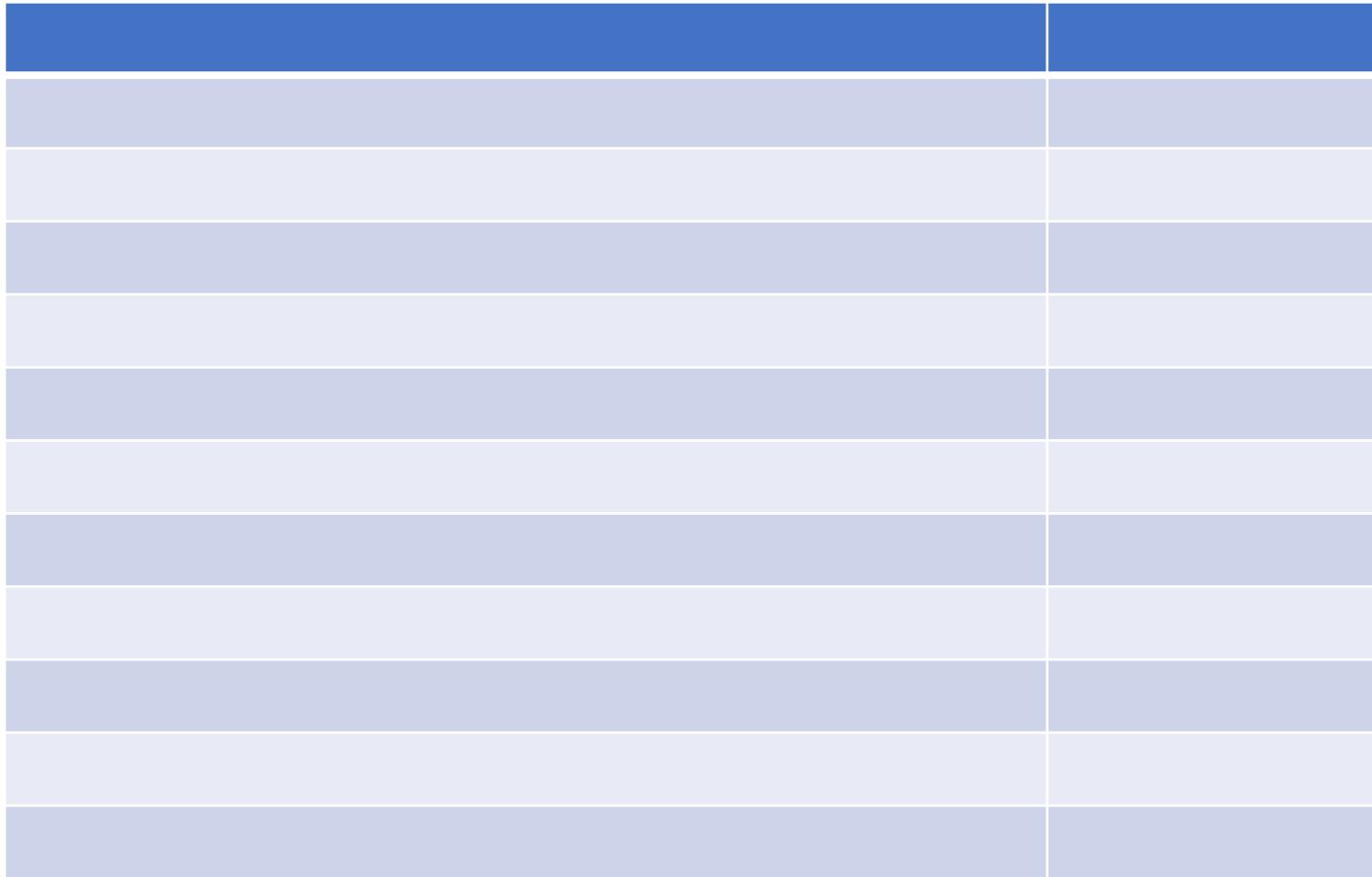
6) Non Op. Exp R = <u>Non Op. Exp</u> * 100 NS Non Op Exp = Fin Exp + Other Non Exp	<u>7,500</u> *100 3,00,000 = 2.5%
7)Finance Exp R = <u>Finance Exp</u> *100 NS	<u>4,500</u> *100 3,00,000 = 1.5%

Calculate 1)GP R 2)NP R 3)OP R4)O R5) Expenses Ratios

	Rs		Rs.
Sales	37,84,000	Closing Stock	45,000
Return Inward	1,40,000	Salary	3,45,000
Opening stock	58,000	Net Purchases	15,40,000
Office Rent	2,75,000	Manufacturing Exp (Other than Depreciation)	2,00,000
Advertisement	85,000	Depreciation on Machinery	1,00,000
Fire Insurance Premium	55,000	Depreciation on Office Building	1,00,000
Int on Debt	69,000	Tax Rate	30%

Calculate 1)GP R 2)NP R 3)OP R4)O R5) Expenses Ratios

	Rs		Rs.
Net Sales	48,96,000	Closing Stock	1,00,000
COGS	65% of sales	Payment for CSR activities	1,00,000
Selling & distribution Exp	2,25,000	Auditors Fees payment	85,000
Salary & Wages	3,25,000	Loss by Fire	10,000
Advertisement written off	50,000	Lawsuit Settlement Charges	25,000
Admin Exp other than Salary	1,50,000	Gain on sale of investment	75,000
Int on Debt	2,00,000	Tax Rate	30%



Profitability Ratios :- related on Capital Investment

$$1. \text{ ROI (Return on Investment) } = \frac{\text{Op Profit} / \text{PBIT}}{\text{Cap Emp}} * 100$$

Cap Emp = Debt + Equity (-) Fict assets

$$2 \text{ Return on Shareholders Fund} = \frac{\text{PAT}}{\text{Shareholders Fund}} * 100$$

Sh Holders Fund = Share Cap + Res

Share Cap = Equity Cap + Pref Sh Cap (-) Fict assets

$$3 \text{ Return on Net Worth (Equity)} = \frac{\text{PAT} (-) \text{Pref Div}}{\text{Equity Cap} + \text{reserves} (-) \text{Fict assets}} * 100$$

- Cap = Debt + Equity = $100 + 100 = 200$
 - $200 = 10 / - = 190/-$
-
- ROI = $(50 / 200) * 100 = 25\%$
 - ROI = $(50 / 190) * 100 = 26\%$

8. The net sales of Apex co. are Rs. 15 crore. The EBIT of the company as a percentage of sales is 12%. The capital employed of the company consists of Rs. 5 crore of equity, Rs. 1 crore of 13% of preference shares and Rs. 3 crore of 15% debt capital. The company's profit is subject to tax at 40%.
- Calculate Return on equity

EBIT (12% * 15,00,00,000)	Rs.1,80,00,000
(-) Interest (15%* 3,00,00,000)	Rs.45,00,000
EBT	Rs. 1,35,00,000
(-) Tax (40% * 1,35,00000)	Rs.54,00,000
EAT	Rs.81,00,000
Equity Capital	Rs.5,00,00,000
13% Pref Sh capital	Rs.1,00,00,000
15% Debt	Rs. 3,00,00,000
Cap Employed = Equity Cp + Pref Cap + Debt	Rs.9,00,00,000
Sh holders Fund = Equity Cap + Pref Cap	Rs.6,00,00,000

ROI = $\frac{\text{EBIT}}{\text{Cap Emp}} * 100$	ROI = $\frac{1,80,00,000}{9,00,00,000} * 100$
	= 20%
Return on Sh Holders Fund = $\frac{\text{EAT}}{\text{Sh holders fund}} * 100$	$\frac{81,00,000}{6,00,00,000} * 100$
	=13.5%
Return on Equity = $\frac{\text{EAT} (-) \text{Pref Div}}{\text{Equity Cap}} * 100$	$\frac{81,00,000 (-) 13,00,000}{5,00,00,000} * 100$
	=13.6%

(iii) Calculate return on capital employed from the following information:

	Rs.
Current liabilities	3,40,000
Current assets	4,40,000
Fixed assets (net)	10,00,000
Net profit after interest and tax	2,40,000

Ratio Analysis RA. 117

Tax

12% Debentures	2,40,000
Long term trade investments	8,00,000
Equity capital	1,00,000
10% Preference capital	1,00,000
Reserves and surplus	1,00,000

PAT	2,40,000
(+) Tax	2,40,000
PBT	4,80,000
(+) Interest (12% * 8,00,000)	96,000
PBIT	5,76,000
Equity Cap	1,00,000
10% pref Cap	1,00,000
Reserves	2,00,000
12% Debentures	8,00,000
Cap Employed = Equity Cap + Pref Cap + Reserves + Debentures	12,00,000
OR Cap Employed = FA +Long Term Inv + CA (-) CL	12,00,000
Sh holders fund = Equity + Pref + Res	4,00,000
Pref Div (10% * 100,000)	10,000

ROI = $\frac{\text{EBIT}}{\text{Cap Emp}} * 100$	ROI = $\frac{5,76,000}{12,00,000} * 100$
	= 48%
Return on Sh Holders Fund = $\frac{\text{EAT}}{\text{Sh holders fund}} * 100$	$\frac{2,40,000}{4,00,000} * 100$
	=60%
Return on Equity = $\frac{\text{EAT} (-) \text{Pref Div}}{\text{Equity Cap + Res}} * 100$	$\frac{2,40,000 (-) 10,000}{1,00,000 + 2,00,000} * 100$
	=76.6%

Int rate on Debt 5% and Pref Div rate 10%

* Calculate ROI & Debt Equity Ratio.

GR PR

Equity Sh. Cap.	7000000	7200000
Pref. Sh. Cap.	1200000	1900000
Tam Loans.	700000	850000
Reserves & Surplus.	500000	100000
Debentures	800000	1500000
Operating Profit.	1800000	2100000
Non. op. Income	120000	-
Non. op. Expenses	84000	790000
Tax Rate	30%	30%
Prelim. Expenses	50000	80000

$$NS - COGS = GP - \text{Other Op Exp} = \text{Op Profit} - \text{NOE} + \text{NOI} = \text{PBIT}$$

- PBIT = Op Profit – NOE + NOI
- PBIT QR = $1800000 - 84000 + 120000 = 1836000$
- PBT QR = PBIT (-) Int
- Int = $5\% * 700,000 + 5\% * 800,000 = 75,000$
- PBT QR = $18,36,000 (-) 75,000 = 17,61,000$
- PAT QR = PBT (-) Tax = $17,61,000 (-) 5,28,300 = 12,32,700$
- Tax = $30\% * 17,61,000 = 5,28,300$
- PBIT PR = $2100000 - 790000 = 1310000$
- PBT PR = PBIT (-) Int
- Int = $5\% * 8,50,000 + 5\% * 15,00,000 = 1,17,500$
- PBT PR = $13,10,000 (-) 1,17,500 = 11,92,500$
- PAT PR = PBT (-) Tax = $11,92,500 (-) 3,57,750 = 8,34,750$
- Tax = $30\% * 11,92,500 = 3,57,750$

- $\text{Cap Emp} = \text{Equity} + \text{Debt} - \text{Fict Assts}$
 - $\text{Equity} = \text{Eq Sh Cap} + \text{Pref Cap} + \text{Res.}$
 - $\text{Debt} = \text{Debentures} + \text{T Loans}$
 - $\text{Fict Assts} = \text{Prelim Exp}$
- $\text{Proprietors Fund} = \text{Eq Sh Cap} + \text{Pref Cap} + \text{Res.} (-) \text{Prelim Exp}$
- $\text{Net Worth} = \text{Eq Sh Cap} + \text{Res.} (-) \text{Prelim Exp}$

- Cap Emp QR = $7000000+1200000 + 500000+800000+ 700000 - 50000$
 $= 10150000$
- Cap Emp PR =
 $7200000+1300000+100000+15000$
 $00+850000-80000$
 $= 10870000$
- ROI QR = $\frac{1836000}{10150000} * 100$
 $= 18.08\%$
- ROI PR = $\frac{1310000}{1870000} * 100$
 $= 12.05\%$

- Return on Sh Holders Fund QR =

$$\frac{\text{EAT}}{\text{Sh holders fund}} * 100$$

- Proprietors Fund = Eq Sh Cap + Pref Cap +Res.(-) Prelim Exp
 $= 87,00,000(-)$
 $50,000 = 86,50,000$
- QR = 12,32,700 *100
 $86,50,000$
 $= 14.24\%$

- Return on Sh Holders Fund PR =

$$\frac{\text{EAT}}{\text{Sh holders fund}} * 100$$

- Proprietors Fund = Eq Sh Cap + Pref Cap +Res.(-) Prelim Exp
 $= 86,00,000(-)$
 $80,000 = 85,20,000$
- PR = 8,34,750 *100
 $85,20,000$
 $= 9.79\%$

- Return on Net Worth QR =
$$\frac{\text{EAT} \text{ (-)} \text{ Pref Div}}{\text{Net Worth}} * 100$$

- Net Worth = Eq Sh Cap +Res.(-) Prelim Exp

$$= 75,00,000 \text{ (-)} 50,000$$

$$= 74,50,000$$
- QR = $\frac{12,32,700}{74,50,000}$ *100

$$= 14.92\%$$
- (Pref Div 10%12,00,000)

- Return on Net Worth PR =
$$\frac{\text{EAT} \text{ (-)} \text{ Pref Div}}{\text{Sh holders fund}} * 100$$

- Net Worth = Eq Sh Cap + Pref Cap +Res.(-) Prelim Exp

$$= 73,00,000 \text{ (-)} 80,000$$

$$= 72,20,000$$
- PR = $\frac{8,34,750}{72,20,000}$ *100

$$= 9.76\%$$
- (Pref Div 10%13,00,000)

- Return on Total Assets =
$$\frac{\text{PAT}}{\text{TA} \text{ (-) Fict . Assets}} * 100$$

- EPS = $\frac{\text{PAT}(-) \text{ Pref Div}}{\text{No. of Equity Sh}}$

Dividend Payout Ratio = $\frac{\text{Equity Dividend} * 100}{\text{PAT} (-) \text{ Pref Div}}$

- Retained Earnings Ratio = $\frac{\text{Retained Earnings} * 100}{\text{PAT} (-) \text{ Pref Div}}$
≡

- Pref.Div Coverage Ratio = $\frac{\text{PAT}}{\text{Pref Div}}$

- Int Coverage Ratio = $\text{PBIT} / \text{Int on Debt}$
- Div Coverage Ratio = $\frac{\text{PAT} (-) \text{ Pref Div}}{\text{Equity Div}}$

- Dividend Yield Ratio = $\frac{\text{Dividend Per Share}}{\text{FV} : -10, \text{Div } 50\% \quad \text{Market Price Per sh}}$
 $= (5/50)*100 = 10\%$

- Price Earnings Ratio = $\frac{\text{Market Price Per share}}{\text{EPS}}$

- Int Coverage R = PBIT / Int
 - $= 500 / 50 = 2\text{times}$
- Pref.Div Coverage Ratio = PAT
 - $\frac{\text{Pref Div}}{\text{PAT}} = 200 / 10 = 20 \text{ times}$
- Div Coverage Ratio = PAT (-) Pref Div
 - $\frac{\text{Equity Div}}{\text{PAT}} = 190 / 100 = 1.9 \text{ times}$

- Pref.Div Coverage Ratio = $\frac{\text{PAT}}{\text{Pref Div}}$
- Int Coverage Ratio = PBIT / Int on Debt
- Div Coverage Ratio = $\frac{\text{PAT} (-) \text{Pref Div}}{\text{Equity Div}}$
- Dividend Yield Ratio = $\frac{\text{Dividend Per Share}}{\text{Market Price Per sh}}$
= 5/100= 5%

Face Value Rs. 10/- ,Rate of Div :- 50% , DPS Rs. 5/-

- $\text{EPS} = \frac{\text{PAT}(-) \text{ Pref Div}}{\text{No. of Equity Sh}}$

PAT :- $100 - 10 = 90/-$

$\text{EPS} = 90 / 10 = \text{Rs.9/-}$

Illustration 7 The capital of X Co., is as follows:

	Rs.
9% Preference shares of Rs. 10 each	= 6,00,000
Equity shares Rs. 10 each	= 16,00,000
	22,00,000

The accountant has ascertained the following information :

Profit after tax @ 50%	= Rs. 5,40,000
Depreciation	= Rs. 1,20,000
Equity dividend paid	= 20%
Market price of equity share	= Rs. 40

You are required to state the following, showing the necessary working:

- i The dividend yield on equity shares
- ii The cover for the preference and equity dividends
- iii The earning per share
- iv The price earnings ratio
- v The net cash flow

- Div Yield Ratio = DPS / Market Price Per share

$$\text{Div Per Share (DPS)} = \text{Rs.}10 * 20\% = \text{Rs.} 2$$

$$\text{Therefore Div Yield ratio} = 2/40 = 0.05 = 5\%$$

- Pref Div Div coverage Ratio = PAT / Pref Div

$$= 5,40,000 / 54,000 = 10 \text{ times}$$

$$\text{Pref Div} = 9\% * 6,00,000 = 54,000$$

- Equity Div Coverage Ratio = PAT (-) Pref Div / Equity Div

$$= 5,40,000(-)54,000 / 3,20,000$$

$$= 1.52 \text{times}$$

$$\text{Equity Div} = 20\% * \text{Rs.}16,00,000 = \text{Rs.}3,20,000$$

- EPS = PAT(-) Pref Div

No. of Equity Sh

$$= 5,40,000(-) 54,000 / 1,60,000 = \text{Rs. } 3.03$$

No. of Equity Shares = 16,00,000 / 10 = 1,60,000

- P/E Ratio = MPS / EPS

$$= 40 / 3.03 = 13.20.$$

- Net Cash Flow = PAT (+) dep = 5,40,000 + 1,20,000 = 6,60,000

- Therefore Net Cash Flow = Rs. 6,60,000 (-) 54,0000 (-) 3,20,000 = Rs. 2,86,000

Calculate : Return on Assets , EPS ,DPS , Payout Ratio, Retained Earnings Ratio Coverage Ratios, Div. Yield Ratio , P/E , Ratio

PBIT	Rs. 7,50,000
Long Term Debt at 12%	Rs.12,00,000/-
Tax Rate	30%
Total Long Term Liabilities	Rs. 25,00,000
Current Liabilities	Rs. 10,00,000
Fictitious Assets	Rs.50,000
Equity Sh Cap at Rs. 10 Each	?
Reserves	Rs 100,000
Market Price Per Share	Rs. 50/-
Equity Div Rate	50%

PBIT		Rs.7,50,000
(-) Interest	12% * Rs.12,00,000	Rs.1,44,000
PBT		Rs.6,06,000
(-) Tax at 30 % * 6,06,000		Rs.1,81,800
PAT		Rs.4,24,200
=====	=====	=====
Total Liab = Long Term Liab + CL	Rs.25,00,000 + Rs.10,00,000 = Rs.35,00,000	
Total Assets = Total Liab	Rs.35,00,000	
Long Term Liab = Equity Sh Cap + res + Long Term Debt	Rs. 25,00,000= Eq Sh Cap + 1,00,000 + 12,00,000	
Therefore Equity Sh Cap	=Rs. 12,00,000	

1) EPS = PAT / No. of Equity Shares		= 4,24,200 / 120,000 = Rs.3.54
No. of Equity Shares =	12,00,000 / 10 = 120,000	
2) DPS = Face Value Per Share * Rate of Div (or Equity Div / no.of equity shares)	= 10 * 50% (or 50%*12,00,000/ 120000)	Rs.5/-
3) Payout Ratio = (DPS/ EPS) * 100	= (5 / 3.54)* 100	141 %
4) Retained Earnings Ratio = Since Payout ratio is more than 100 % , means no profit was retained in this year .		
5) Int Coverage Ratio = PBIT / Int	=7,50,000 / 144000	=5.20 times
6) Div Coverage Ratio = PAT / Equity Div OR		

7) Price Earnings Ratio = Market Price Per share / EPS	= 50/ 3.54	=14.12
8) Return on Total Assets = PAT * 100/ TA (-) Fict Assets	<u>4,24,200</u> *100 35,00,000(-) 50,000	= 12.29 %
9) Div Yield Ratio = DPS *100/ Market Price Per share	= 5 * 100/50	=10%

Calculate : Return on Assets , EPS ,DPS , Payout Ratio, Retained Earnings Ratio Coverage Ratios, Div. Yield Ratio , P/E , Ratio

Sales	Rs.60,00,000
Operating Expenses	Rs. 28,00,000
Non-Operating Expenses other than Financial Expenses	Rs. 100,000
Long Term Debt at 12%	Rs.10,00,000/-
Tax Rate	30%
Total Assets	Rs. 60,00,000
Current Liabilities	Rs. 10,00,000
Fictitious Assets	Rs.50,000
Equity Sh Cap at Rs. 20 Each	
Reserves	Rs 10,00,000
Market Price Per Share	Rs. 78/-
Equity Div Rate	30%

Sales		60,00,000
(-) Op Exp		28,00,000
Operating Profit		32,00,000
(-) NON Op Exp		1,00,000
PBIT		31,00,000
(-) Int	12% * 10,00,000	1,20,000
PBT		29,80,000
(-) Tax	30% * 29,80,000	8,94,000
PAT		20,86,000
=====	=====	=====
Total Assets = Total Liab	60,00,000	
Total Liab = CL + Long Term Liab	60,00,000	
Long Term Liab =	60,00,000 (-) 10,00,000 = 50,00,000	
Long term Liab = Long term debt + Equity Cap + Pref Cap + Res	= 50,00,000	
10,00,000 + Equity Cap + Pref Cap +	= 50,00,000	

Therefore Equity Cap + Pref Cap	= 50,00,000(-) 20,00,000 = 30,00,000	
Equity Share Cap = 2times the Pref Sh Cap		
If Pref Cap is x , Equity Cap will be $2x$		
Therefore $x + 2x$	= 30,00,000	
x	= 10,00,000	
And $2x$	= 20,00,000	
Equity Cap is Rs. 20,00,000 Pref Sh Cap Rs. 10,00,000		

1) EPS = PAT / No. of Equity Shares	20,86,000 / 100,000	=Rs. 20.86
No. of Equity Shares =20,00,000 / 20		
2) DPS = Face Value Per Share * Rate of Div	20 * 30%	=Rs. 6 /-
3) Payout Ratio = DPS * 100/ EPS	6 *100/20.86	=28.76%
4) Retained Earnings Ratio	=100 (-) 28.76	= 71.24%
5) Int Coverage Ratio = PBIT / Int	= 31,00,000 / 1,20,000	= 25.83 times
6) Div Coverage Ratio = PAT / Equity Div OR = EPS /DPS	= 20.86 /6	= 3.47 times

Turnover / Activity / Operational Efficiency / Velocity Ratios

- Stock/ Inventory Turnover Ratio = $\frac{\text{Net Sales}}{\text{Ave Stock}} / \text{COGS}$

where Ave Stock = $\frac{\text{Open Stk} + \text{Closing Stk}}{2}$

- Stock Conversion Period = $360 / \text{STR}$
- Debtors Turnover Ratio = $\frac{\text{Net Credit Sales}}{\text{Ave debtors}}$

where Ave Debtors = $\frac{\text{Open debtors} + \text{Closing Debtors}}{2}$

- Debtors Collection Period = $360 / \text{DTR}$

Turnover / Activity / Operational Efficiency / Velocity Ratios

- Creditors Turnover Ratio = $\frac{\text{Net Credit Purchases}}{\text{Ave Creditors}}$

where Ave Creditors = $\frac{\text{Open Creditors} + \text{Closing Creditors}}{2}$

- Creditors Payment Period = $360 / \text{CTR}$

	2010	2011	2012
Opening Stock	20,000	80,000	50,000
Closing Stock	80,000	50,000	45,000
Debtors Opening balance	90,000	85000	95000
Debtors Closing balance	85,000	95,000	1,05,000
Net Sales	4,50,000	5,50,000	6,45,000
Credit Sales in % with Net Sales	80%	90%	90%
Net Credit Purchases	3,00,000	3,50,000	4,50,000
Creditors	1,00,000	2,00,000	2,00,000
Bills Payable	1,00,000	1,00,000	2,00,000
GP	50,000	1,00,000	1,25,000
Calculate , STR , SCP , DTR , DCP , CTR , CPP for all three years			

1 STR = COGS / Ave Stock	8 times	6.92 times	10.94 times
COGS = Net Sales (-) GP	4,50,000(-) 50,000= 4,00,000	5,50,000(-)1,00,000= 4,50,000	6,45,000(-)1,25000= 5,20,000
Ave Stk = <u>Open Stk + Cl Stk</u> 2	(20000+80000)/2= 50,000	(80,000+50,000)/2= 65,000	(50,000+45,000)= 47,500
2 Stock Conversion Period = 360/ STR	45 days	52 days	33 days
3 DTR = Net Credit Sales / Ave Debtors	4.11 times	5.5 TIMES	5.81 times
Net Credit Sales =	80 % * 4,50,000 = 3,60,000	90% * 5,50,000 = 4,95,000	90% * 6,45,000= 5,80,500
Ave debtors = <u>Open Debtors+Cl Debtors</u>	(90000+85000)/2 = 87,500	(85000+95000)/2= 90,000	(95000+105000)/2= 1,00,000

4 Debtors Collection Period = 360/ DTR	88 days	66 days	62days
5 CTR = Net Credit Purchases / Ave Creditors	$300000 / 200000 = 1.5$ times	$3,50,000 / 3,00,000 = 1.16$ times	$4,50,000 / 4,00,000 = 1.13$ times
Calculation of Average Creditors is not possible for the year 2010 , so closing balance of Creditors and Bills Payable is taken as it is for all three years .			
Creditors = Creditors + Bills Payable			
6 Creditors payment Period = 360 / CTR	240 days	310 Days	318 days

- Working Capital Turnover Ratio = Net Sales / Net Working Cap =
- Capital Turnover Ratio = Net Sales / Cap . Employed
- Fixed Assets Turnover Ratio = Net Sales / Fixed Assets

	2010	2011	2012
Fixed Assets (Gross)	15,00,000	19,00,000	22,00,000
Depreciation	1,50,000	1,90,000	2,20,000
Current Assets	2,50,000	3,50,000	4,00,000
Current Liabilities	?	?	?
Equity	9,00,000	9,00,000	15,00,000
Debt	6,00,000	10,00,000	7,00,000
Net Sales	17,00,000	19,00,000	22,50,000
Calculate , WCTR , Cap TR , FATR for all three years			

	2010	2011	2012
1 WCTR = Net Sales / Net WC	17,00,000/150000= 11.33 times	19,00,000/190000 = 10 times	22,50,000/220,000= 10.22 times
Net WC = CA (-) CL	=1,50,000	=1,90,000	=220000
CL = Total Liab (-) Long Term Liab	16,00,000(-)15,00,000 = 1,00,000	20,60,000(-)19,00,000 = 1,60,000	23,80,000(-)22,00,000 = 1,80,000
Long Term Liab (I e Cap Emp) = Equity + Debt	15,00,000	19,00,000	22,00,000
Total Liab = Total Assets			1980,000 +4,00,000 =
Total Assets =Net Fixed Assets + CA	13,50,000+250000= 16,00,000	17,10,000+3,50,000 = 20,60,000	23,80,000
Net Fixed Assets = Fixed Assets Gross (-) Dep	15,00,000(-)150000 =13,50,000	19,00,000(-) 190,000 = 17,10,000	22,00,000(-) 2,20,000 = 19,80,000
2 Cap TR = Net Sales / Cap Emp	17,00,000/15,00,000 = 1.13 times	19,00,000/19,00,000= 1 time	2250,000/22,00000= 1.02 times
3 FA TR = Net Sales / Net FA	17,00,000/13,50,000 = 1.25 times	19,00,000/17,10,000= 1.11 times	2250,000/19,80,000= 1.13times

	Co 1	Co 2
Equity Sh Cap	22,00,000	16,00,000
10% Pref Cap	15,00,000	12,00,000
12 % Debentures	9,00,000	13,00,000
13% Term Loan	5,00,000	12,00,000
CL	7,00,000	9,00,000
Intangible Assets	1,00,000	70,000
Reserves	2,00,000	70,000

	Co 1	Co 2
1) Debt Equity Ratio = Long Term Debt / Equity	14,00,000/ 39,00,000 = 0.35:1	25,00,000/28,70,000= 0.87:1
2) Cap Gearing Ratio = <u>Long Term Debt + Pref Sh Cap</u> Equity Sh cap + res	29,00,000/24,00,000= 1.20	37,00,000/16,70,000= 2.21
3) Proprietary Ratio = Sh holders Fund /Total Tangible Assets =	39,00,000/59,00,000= 0.66	28,70,000/62,00,000= 0.46
Total Liab =Long Term Debt +Equity+ CL =	60,00,000	62,70,000
Total Liab = Total Assets	60,00,000	62,70,000
Total Tangible Assets = Total Assets (-) Intangible assets	60,00000(-) 1,00,000=59,00,000	62,70,000(-) 70,000= 62,00,000

	C. X.	C. Y.
Equity Sh. Cap.	25,00,000	45,00,000
Pref. Sh. Caps.	10,00,000	15,00,000
Reserves & Surplus.	8,00,000	12,00,000
12). Debentures.	35,00,000	12,00,000
13). Term Loans.	18,00,000	8,00,000
Net w.c.	4,00,000	8,00,000
CA = 2 w.c		

	Co. X.	Co. Y.
Equity Sh. Cap.	25,00,000	45,00,000
Pref. Sh. Caps.	10,00,000	15,00,000
Reserves & Surplus.	8,00,000	12,00,000
<u>Total Equity</u>	<u>43,00,000</u>	<u>72,00,000</u>
12% Debentures.	35,00,000	12,00,000
15% Term Loans.	18,00,000	8,00,000
<u>Total Debt</u>	<u>53,00,000</u>	<u>20,00,000</u>
Net W.C.	4,00,000	8,00,000
CA = 2 WC ; CA =	8,00,000	16,00,000
Net W.C. = CA + CL =	4,00,000	8,00,000
∴ CL = CA - Net W.C. =	<u>4,00,000</u>	<u>8,00,000</u>
Total Liab = CL +	= 1,00,00,000	1,00,00,000
Total Debt + Total Equity		

$$\therefore \frac{\text{Total Assets}}{(\text{Total Liab} = \text{Total Assets})} = \frac{1,00,00,000}{1,00,00,000}$$

D) Debt Equity

$$\frac{\text{Long Term Debt}}{\text{Equity}} = \frac{53,00,000}{43,00,000} = 1.23 : 1$$

$$\frac{20,00,000}{72,00,000} = 0.27 : 1.$$

$$2) \text{Proprietary Ratio} = \frac{\text{W.H. Fund}}{\text{Total Assets}} = \frac{43,00,000}{100,00,000} * 100 = \frac{7200000}{100000000} = 0.72$$

- Cap Gearing Ratio = Long Term Debt + Pref Sh Cap

Equity Cap + Res

Co X = 63,00,000/33,00,000 = 1.90

Co Y = 35,00,000/ 57,00,000 = 0.61

From the following data calculate all possible ratios.

Income Statement.

Net Sales.	52,80,000
COGS.	40,80,000
Office Exp.	1,80,000
Selling Exp.	2,25,000
Non Op. Exp. (excluding Int. & Tax)	20,000
Non Op. Income	80,000
Int.	45,000

Tax @ 30%.

Equity Div. Rate.	10%
Market Price Per Sh.	25/-

Balance Sheet

* Owners Equity & Liabilities.

1) Sh. Cap. (Equity @ Rs. 10/- each)	25,00,000
2) Prep. Cap. (@ 10%).	10,00,000
3) Reserves.	5,00,000

* Long Term Debt

1) Debentures	12,00,000
2) Term Loans.	10,00,000

* CL.

4,00,000

Total

66,00,000

* Assets (Fixed).

35,00,000

* Long Term Inv.

10,00,000

* Short Term Inv.

5,00,000

* CA.

16,00,000

Stock.

8,00,000

Debtors.

4,00,000

~~Others~~ Cash

4,00,000

Total

66,00,000

From the following prepare Balance Sheet

Owners Equity Rs 100000

Short Term Debt to Total Debt 0.40

Total Debt to Owners Equity 0.60

Fixed Assets to Owners Equity 0.60

Total Assets Turnover 2 times

Inventory Turnover 8 times

Short Term Debt		Cash	
Long Term Debt		Inventory	
Total Debt		Total Current Assets	
Owners Equity		Fixed Assets	
Total Capital & Liabilities		Total Assets	

1) Total Debt to Owners Equity =

Total Debt/ Owners Equity= 0.60

Total Debt = $0.60 * 100,000$ =Rs. 60000

2)ST Debt / Total debt = 0.40

ST debt = $0.40 * 60,000$ =Rs 24,000.

3)Total Liab = Total Debt + Owners Equity = Rs. 1,60,000

Therefore Total Assets = Total Liab = Rs 1,60,000/-

4) Fixed Assets /Owners Equity = 0.60

Fixed Assets = $0.60 * 1,00,000 = \text{Rs. } 60,000/-$

5) Total Assets = Fixed Assets + Current Assets = Rs 1,60,000

Current Assets = $1,60,000(-) 60,000 = \text{Rs. } 1,00,000$

6) Total Assets Turnover = 2times

Net Sales / Total Assets = 2

Therefore Net Sales = $2 * 160,000 = \text{Rs. } 3,20,000$

7) ITR = Net sales / Inven=8

Inven = 3,20,000 / 8 = Rs. 40,000

8) CA = Cash + Inven = Rs.1,00,000

Therefore Cash = 1,00,000 (-) 40,000 = Rs. 60,000

9) Total debt = ST debt + L T Debt = Rs. 60,000

Therefore LT Debt = 60,000(-) 24,000 = Rs.36,000

Short Term Debt	24000	Cash	60000
Long Term Debt	36000	Inventory	40000
Total Debt	60000	Total Current Assets	100000
Owners Equity	100000	Fixed Assets	60000
Total Capital & Liabilities	160000	Total Assets	160000

Illustration 30 From the following particulars of Imperial Chemicals Ltd., and its industry averages, assess the company's strength and weaknesses in terms of liquidity, solvency and profitability:

**Imperial Chemicals Ltd.,
Balance sheet as on 31-12-1985**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Equity share capital	2,00,000	Plant & machinery	3,02,000
10% Preference share capital	80,000	Stock	1,21,600
Retained earnings	54,800	Debtors	72,000
Long-term debt	68,000	Cash	24,600
Sundry creditors	63,000		
Outstanding expenses	2,400		
Other current liabilities	52,000		
	5,20,200		5,20,200

Statement of Profit for the Year Ended 31-12-1985

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Net sales	—	4,80,000
<i>Less :</i> Cost of goods sold	3,05,000	
Selling expenses	59,000	
Administrative expenses	42,600	
Interest	5,800	4,12,400
Earnings before tax		67,600
<i>Less :</i> Income tax		33,800
Net income		33,800
Dividend paid to equity shareholders		12,000

Financial ratios of industry:

	1985
(i) Current ratio	2.2 to 1
(ii) Stock turnover ratio	2.8 times
(iii) Collection period	56 days
(iv) Fixed charges coverage before tax	10 times
(v) Return on shareholders' equity	10.9%
(vi) Income before tax + sales	11.9%

(Andhra, M.Com., 1986)

Solution

<i>Ratio</i>	<i>Formula</i>	<i>Financial Ratios</i>	
		<i>Company</i>	<i>Industry (given)</i>
1. Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2,18,200}{1,17,400}$ $\text{Current assets} = \text{Stock} + \text{Debtors} + \text{Cash}$ $= 1,21,600 + 72,000 + 24,600$ $= \text{Rs. } 2,18,200$ $\text{Current liabilities} = \text{Sundry creditors}$ $+ \text{Outstanding expenses} + \text{Other current liabilities}$ $= 63,000 + 2,400 + 52,000$ $= \text{Rs. } 1,17,400$	1.86 : 1	2.2 : 1
2. Stock turnover ratio	$= \frac{\text{Cost of goods sold}}{\text{Closing Stock}} = \frac{3,05,000}{1,21,600}$	2.51 times	2.8 times
3. Collection period	$= \frac{\text{Debtors}}{\text{Credit Sales}} \times 365 \text{ days}$ $= \frac{72,000}{4,80,000} \times 365 \text{ days}$	55 days	56 days
4. Fixed charges coverage before tax	$= \frac{\text{EBIT}}{\text{Fixed interest charges}}$ $= \frac{67,600 + 5,800}{5,800} = \frac{73,400}{5,800}$	12.66 times	10 times
5. Return on shareholders equity	$= \frac{\text{Net profit after interest & tax}}{\text{Shareholders' funds}} \times 100$ $= \frac{33,800}{2,00,000 + 80,000 + 54,800} \times 100$ $= \frac{\text{Rs. } 33,800}{\text{Rs. } 3,34,800} \times 100$	10.1%	10.9%
6. Income before tax + Sales	$= \frac{\text{Rs. } 67,600}{\text{Rs. } 4,80,000} \times 100$	14.08%	11.9%

$$\text{Equity dividend cover} = \frac{\text{Net profit after tax and preference dividend}}{\text{Equity dividend}}$$

(or)

$$= \frac{\text{Earnings per equity share (Rs.)}}{\text{Dividend per equity share (Rs.)}}$$

Higher the dividend cover, higher is the extent of retained earnings and higher is the degree of certainty that dividend will be repeated in future also. A typical standard cover is 2 i.e., out of every Rs. 100 profits available for dividend, Rs. 50 is distributed and Rs. 50 is retained, in the business.

Activity/Turnover/Performance ratios

Profit depends on the rate of turnover and the net margin. A good turnover (sales) is essential for all the companies. The performance of a company is generally evaluated on the basis of turnover. Higher turnover means better performance which indicates optimum utilization of resources at its disposal. The turnover or activity ratios reveal how well and efficiently the assets of the company are being utilized. These ratios disclose the relationship between the level of sales or cost of goods sold and the investments in various assets. Higher the turnover ratio, better and more efficient utilization of resources and of course, higher the profitability. Following are various turnover ratios:

1. **Capital turnover ratio**: This ratio shows the efficiency of capital employed in the business by computing how many times capital is turned over in a stated period. This ratio is calculated by using the following formula:

$$\text{Capital turnover ratio} = \frac{\text{Cost of goods sold or sales}}{\text{Capital employed}}$$

This ratio ensures whether the capital employed has been effectively used or not. It also shows the profitability and efficiency of management. Higher the ratio, more efficient rotation of capital employed and as a consequence, higher profitability. However, too high ratio may indicate overtrading resulting in paucity of funds, i.e., capital resources are being stretched too far to realize sales. It is a situation which indicates that the company is carrying on large volume of business on a thin margin of invested capital.

2. **Fixed assets turnover ratio**: This ratio establishes the relationship between sales or cost of goods sold and fixed assets. It determines whether the investments made in fixed assets has really helped in generating sales.

It is used to effect improvement, if any, in sales due to increased investment in fixed assets. It is calculated by using the following formula:

$$\text{Fixed assets turnover ratio} = \frac{\text{Cost of goods sold or sales}}{\text{Net fixed assets}}$$

Here, Net fixed assets = Gross fixed assets - Total depreciation.

This ratio is highly useful in measuring the efficiency and profit earning capacity of the company. Higher the ratio, the greater is the utilization of fixed assets in terms of sales. A low ratio indicates under utilization of fixed assets. This ratio is especially useful for manufacturing concerns where sales are produced largely by the capital invested in fixed assets.

3. **Working capital turnover ratio**: Working capital means excess of current assets over current liabilities. Working capital is closely related to sales. Working capital turnover ratio indicates the number of times the working capital is converted into sales. It is calculated with the help of the following formula:

$$\text{Working capital turnover ratio} = \frac{\text{Cost of goods sold (or) sales}}{\text{Net working capital}}$$

The higher the ratio, the lower is the investment in working capital and greater are the profits. However, a very high turnover of working capital is a sign of over trading and may put the concern in financial difficulties. On the other hand, a low working capital turnover ratio indicates the working capital not being efficiently utilized.

4. **Stock turnover ratio**: This ratio is also known as "inventory turnover ratio" or "stock velocity ratio". It establishes relationship between average stock at cost and cost of goods sold. It is calculated by applying the following formula:

$$\text{Stock turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

where,

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

If there is no opening stock, closing stock can be taken as average stock.

This ratio is employed to measure how quickly stock is converted into sales. Higher the ratio, the better it is, since it indicates that more sales are being made by a rupee of investment in stocks. A low stock turnover ratio may

reflect dull business, overinvestment in stock, accumulation of stock at the end of the period in anticipation of higher prices or unsaleable goods, etc. Thus, only a proper inventory turnover ratio enables the business to earn a reasonable margin of profits.

5. Debtors turnover ratio This ratio is also known as "Ratio of Net Sales to Gross Receivable" (or) "Receivable turnover" (or) "Debtors velocity". It expresses the relationship between net credit sales and average accounts receivable. It measures the number of times the receivables are rotated in a year in terms of sales. It also indicates the efficiency of credit collection and efficiency of credit policy. It is calculated by applying the following formula:

$$\text{Debtors turnover ratio} = \frac{\text{Net credit sales}}{\text{Average accounts receivable}}$$

where,

$$\text{Accounts receivable} = \text{Debtors} + \text{Bills receivable}$$

$$\text{Average accounts receivable} = \frac{\text{Opening A/R} + \text{Closing A/R}}{2}$$

where, (A/R = Account receivable)

If information relating to credit sales and average debtors is not available, the ratio can be worked out as follows:

$$\text{Debtors turnover ratio} = \frac{\text{Total sales}}{\text{Closing debtors}}$$

The purpose of this ratio is to ascertain the period taken by debtors to make payment. It also helps to judge the adequacy of working capital. It measures average credit period enjoyed by the customers. A low ratio indicates that the risk and cost of collection of debtors is increasing. A high ratio indicates speedy realization of debts.

6. Average collection period It is a variation of debtors turnover ratio. It represents the time-segment which is generally required to recover the debts due from customers and amounts realizable on bills. It is calculated by using any one of the following formulae:

$$(i) \text{Average collection period} = \frac{\text{Days (months) in a year}}{\text{Debtors turnover}}$$

$$(ii) \text{Average collection period} = \frac{\text{Average accounts receivable}}{\text{Credit sales}} \times 365 \text{ days}$$

$$(iii) \text{Average collection period} = \frac{\text{Accounts receivable}}{\text{Average monthly or daily credit sales}}$$

where

$$\text{Average daily credit sales} = \frac{\text{Total credit sales for the year}}{\text{Number of working days}} \\ (365 \text{ days or } 360 \text{ days})$$

As regards the calculation of average daily credit sales, the denominator represents the number of working days during the year. It is customary to reckon the number of working days as 360 instead of 365 days which is exact. Some authors even go to the extent of reckoning the number of working days as 300, leaving a margin for holidays.

This ratio indicates the quality of debtors by measuring the rapidity or slowness in the collection process. Generally, shorter the collection period, the better is the quality of debtors as a short collection period implies quick payment of debtors. On the other hand, a higher collection period implies inefficient collection performance which, in turn, adversely affects the liquidity or short-term paying capacity of a firm out of its current liabilities.

7. Creditors turnover ratio This ratio is also known as accounts payable ratio or creditors velocity. It expresses the relationship between credit purchases and average accounts payable. It may be calculated as under:

$$\text{Creditors turnover ratio} = \frac{\text{Net credit purchases}}{\text{Average accounts payable}}$$

where,

$$\text{Accounts payable} = \text{Creditors} + \text{Bills payable}$$

$$\text{Average Accounts payable} = \frac{\text{Opening A/P} + \text{Closing A/P}}{2}$$

where, (A/p = Accounts payable)

In case, the details regarding credit purchases, opening and closing creditors are not given, the ratio may be calculated as follows:

$$\text{Creditors Turnover ratio} = \frac{\text{Total purchases}}{\text{Closing creditors}}$$

This ratio is calculated to determine whether the company is making payment to creditors in time. Lower the ratio, the larger is the period of credit enjoyed by the company. Higher ratio means that the company enjoys lower credit period and creditors are being paid promptly.

8. Average payment period It is a variation of creditors turnover ratio. It is calculated to indicate the speed with which the payments for credit purchases are made to creditors. It can be calculated by using any one of the following formulae:

$$(i) \text{Average payment period} = \frac{\text{Months (days) in a year}}{\text{Creditors turnover}}$$

$$(ii) \text{Average payment period} = \frac{\text{Average accounts payable}}{\text{Credit purchases in the year}} \times 365 \text{ days}$$

$$(iii) \text{Average payment period} = \frac{\text{Average accounts payable}}{\text{Average monthly (or daily) credit purchases}}$$

This ratio indicates the promptness or otherwise with which the payment is made to the suppliers in respect of credit purchases. Generally, lower the ratio, better is the liquidity position of the company and higher the ratio, less liquid is the position of the company.

Liquidity ratios (Short-term solvency)

Liquidity or short-term solvency refers to the ability of a business concern to pay off its short-term liabilities. Liquidity ratios are those ratios which are computed to evaluate the capacity of the company to repay its short-term liabilities. These ratios indicate the short-term financial position of the company by relating short-term resources with short-term obligations. These ratios are basically used by the short-term creditors viz. suppliers, bankers, lenders, employees and all others who are interested in the recovery of money due to them. Short-term creditors focus their attention on the liquidity of the company. Following are commonly used liquidity ratios:

1. Current ratio This ratio is also called 'working capital ratio'. It is used to assess the short-term financial position of the business concern. In other words, it is an indicator of the company's ability to meet its short-term obligations. It matches the total current assets of the company against its current liabilities. It is calculated on the basis of the following formula:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

where,

Current Assets = Cash in hand + Cash at bank + Short-term investments
+ B/R + Debtors + Short-term loans and advances + Stock (stock of finished goods + stock of raw materials + work-in-progress) + Prepaid expenses

Current liabilities = Creditors + B/P + Bank overdraft + Provision for taxation
+ Proposed dividend + Unclaimed dividends + Advance payment received
+ Outstanding interest on loans and debentures + Outstanding expenses
+ Other liabilities payable within one year.

The ideal current ratio is supposed to be 2:1. The higher the ratio, the more protected are the short-term creditors. This also indicates that the company is in a position to pay off its creditors. If this ratio is less than the ideal, it may mean that the working capital is less than required. It should also be kept in mind that retaining the higher ratio is an evidence of the fact that more of stock or short-term investment, itself may not be a healthy business practice.

2. Liquid ratio This ratio is also known as the "acid test ratio" or "the quick ratio" or "the near money ratio". It is only a variation of current ratio. Like current ratio, it measures the ability of the company to meet its current obligations. It explains the relationship between liquid assets and current liabilities. The formula for calculating the ratio is:

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

where,

Liquid assets = Current assets - (Stock + Prepaid expenses)

Liquid ratio is a better test of financial liquidity because it places more emphasis on immediate conversion of assets into cash than does the current ratio. A liquid ratio of 1:1 is usually considered to be good and satisfactory.

3. Absolute liquidity ratio This ratio is also called, 'cash position ratio' or 'cash ratio' or 'super quick ratio.' This ratio establishes relationship between absolute liquid assets and current liabilities. Absolute liquid assets include cash, bank and immediately realisable assets e.g. marketable securities. This ratio is computed with the help of the following formula:

$$\text{Absolute liquidity ratio} = \frac{\text{Cash in hand and cash at bank} + \text{Marketable securities}}{\text{Current liabilities}}$$

Absolute liquidity ratio is the most conservative test of a company's liquidity position. It may be used by banks and financial institutions who are

very much interested in lending short-term loans to companies for a period of not more than three months. Generally, an absolute liquidity ratio of 0.75:1 is considered ideal and satisfactory.

4. *Ratio of inventory to working capital* In order to ascertain that there is no overstocking, this ratio is calculated. This ratio can be calculated by using the following formula:

$$\text{Ratio of inventory to working capital} = \frac{\text{Inventory (stock)}}{\text{Working capital}}$$

Increasing volume of sales requires increase in the size of inventory, but from a sound financial point of view, inventory should not exceed amount of working capital, thus, desirable ratio is 1:1

Solvency ratios (Long-term solvency)

The term 'Solvency' refers to the ability of the company to repay its outside liabilities. The outside liabilities are normally categorized into two i.e., short-term liabilities and long-term liabilities. The ratios relating to short-term solvency (i.e. company's ability to pay off short-term liabilities) have already been discussed under liquidity ratios. Here, the term 'Solvency Ratios' refer to three ratios which deals with company's ability to meet long-term liabilities. Long-term creditors include debentureholders, vendors selling equipments on hire purchase basis and other financiers supplying long-term loans. The long-term creditors are primarily interested in ascertaining whether the company is sufficiently strong enough to meet long-term liabilities/debts and whether the company is having adequate profits to pay its interest obligations regularly. They would very much like to study the financial structure, the contribution of long-term lenders vis-a-vis the owners to the total capital employed. Following are some important solvency ratios:

1. *Debt-equity ratio* This ratio is also called 'External-Internal Equity ratio'. It is mainly calculated to assess the soundness of long-term financial policies and to determine the relative stakes of outsiders and owners (shareholders). It determines the relationship between debt and equity (shareholders funds). It can be computed by using any one of the following formulae:

$$\text{Debt-equity ratio} = \frac{\text{Total long-term debt}}{\text{Shareholders' funds}}$$

where,

Total long-term debt = Debentures + Term loans + Loan on mortgage + Loans from financial institutions + Other long-term loans + Redeemable preference share capital.

Shareholders' funds = Equity share capital + Preference share capital + Capital reserves + Retained earnings + Any earmarked surplus like provision for contingencies etc. - Fictitious assets.

$$\text{Debt-Equity ratio} = \frac{\text{Total long-term debt}}{\text{Long-term funds}}$$

where,

Long-term funds = Share capital + Reserves and surplus + Debentures + Term loans + Loan on mortgage + Loans from financial institutions + Other long-term loans - Fictitious assets.

$$\text{Debt-equity ratio} = \frac{\text{Outsiders' funds}}{\text{Shareholders' funds}}$$

where,

Outsiders' funds = Debentures + Term loans + Loan on mortgage + Loans from financial institutions + Other long-term loans + Redeemable preference share capital + All current liabilities.

Although three formulae are given (above) to calculate debt-equity ratio, the third formula which shows the outsiders funds as a proportion of shareholders funds is the most popular one and will be adopted throughout the chapter.

The main purpose of calculating debt-equity ratio (irrespective of the formula used) is to measure the relative interest of the creditors and shareholders. It reveals the extent to which debt financing has been used in the business. It discloses to the creditors the extent of their interest being covered by net worth of the company.

A high debt-equity ratio shows the higher claims of creditors over assets of the company than those of shareholders. A very high ratio indicates an unfavourable position as the company feels difficulty in raising funds due to thin equity. Heavy indebtedness may result in undue pressure from creditors and clouds independent business judgment and saps management energies. A highly indebted company has a greater charge on its profits and profitability. On the contrary, a low debt-equity ratio indicates lesser claims of creditors and a higher margin of safety for them. But from shareholders point of view during the period of boom, a low debt-equity may be unfavourable, because there is

where,

Net fixed assets

Long-term funds

- = Gross fixed assets - Total depreciation
- = Equity share capital + Preference share capital
- Reserves and surplus - Debentures
- Other long-term loans.

This ratio indicates as to what extent fixed assets are financed out of long-term solvency. A ratio of 1:1 indicates that long-term funds are equal to fixed assets. If this ratio is less than 1, it implies that company has used short-term funds for fixed assets which is not prudent on the part of the company. On the other hand, a very high ratio indicates that company uses long-term funds for financing working capital. Generally, this ratio of 0.67 is considered to be ideal. It is always prudent on the part of the company to provide a part of the working capital out of the long-term funds.

5. **Proprietary ratio** This ratio is also called 'Equity ratio' (or) 'Owners fund ratio' (or) 'Net worth ratio' (or) 'Shareholders equity ratio'. This ratio points out relationship between the shareholders funds and total tangible assets. The formula for this ratio may be written as follows:

$$\text{Proprietary ratio} = \frac{\text{Shareholders' funds}}{\text{Total tangible assets}}$$

where,

Shareholders funds

- = Equity share capital + Preference share capital

- Reserves and surplus - Fictitious assets.

Total tangible assets

- = Fixed assets + Current assets.

This ratio is very useful to determine the long-term solvency of the company. It is of particular importance to the creditors who can ascertain the proportion of shareholders funds in the total assets employed in the company. A high ratio shows that there is safety for creditors of all types. A ratio below 50% may be alarming for the creditors since they may have to lose heavily in the event of company's liquidation as it indicates more of creditors funds and less of shareholders funds in the total assets of the company.

The proprietary ratio may be analyzed further into the following:

- Ratio of fixed assets to Proprietors' funds
- Ratio of current assets to Proprietors' funds.

6. **Ratio of fixed assets to proprietors' funds** This is also known as fixed assets to net worth. It establishes the relationship between fixed assets

to trading or non-trading or lower dividend. To balance the conflicting interests, growth is not always satisfactory.

2. **Interest coverage or debt service ratio or fixed charges cover** Now a company ratio, the most test of solvency is interest coverage ratio. This ratio indicates the company's ability to pay off interest on debt funds and other long-term out-of-profit amount during the year. This ratio measures the relationship between profit before interest and tax and fixed charges. It can be computed with the help of the following formula:

$$\text{Interest coverage ratio} = \frac{\text{Net profit before interest and tax}}{\text{Interest on long-term loans or debentures}}$$

This ratio can be expressed either in the form of percentage or number of times. It is necessary to debenture holders and lenders of long-term credit, as it indirectly highlights the ability of the company to raise additional funds in the future. Higher the ratio better is the position of long-term creditors and the company looks safer.

3. **Fixed dividends coverage ratio** The preference shareholders are entitled to get dividend only after paying off debenture interest and tax liability. Dividend coverage ratio tests to justify the ability of the company to pay dividend to preference shareholders at a stated rate. It can be calculated by dividing net profit after interest and tax by the amount of preference dividend. The formula is:

$$\text{Dividend coverage ratio} = \frac{\text{Net profit after interest and tax less preference dividend}}{\text{Preference dividends}}$$

This ratio is generally expressed as number of times. It indicates how secure the dividends are for the preference shareholders. Higher the ratio, better is the position of preference shareholders. It reveals the interest coverage ratio and the safety margin available to preference shareholders.

4. **Fixed assets ratio** This ratio is also called ratio of capital of long-term funds to fixed assets. It establishes the relationship between fixed assets and long-term funds. The main purpose of calculating this ratio is to find out the proportion of long-term funds invested in fixed assets. It is calculated by using the following formula:

$$\text{Fixed assets ratio} = \frac{\text{Net fixed assets}}{\text{Long-term funds}}$$

and shareholders funds. The main object of calculating this ratio is to ascertain the percentage of owners funds invested in fixed assets. It can be calculated as follows:

$$\text{Fixed assets to proprietors funds} = \frac{\text{Fixed assets (after depreciation)}}{\text{Shareholders' funds}}$$

This ratio indicates as to what extent the shareholders funds have been invested in fixed assets which constitute the main structure of the business. If the ratio is high, it implies that much of shareholders' funds is invested in fixed assets. But too high a ratio will indicate that unduly high amount is tied up in fixed capital and there is a risk of shortage of circulating capital. There is no 'rule of thumb' to interpret this ratio but 60 to 65 percent is considered to be ideal in case of industrial undertakings.

7. Ratio of current assets to proprietors' funds This ratio points out the relationship between current assets and shareholders funds. The object of calculating this ratio is to calculate the percentage of shareholders funds invested in current assets. It can be expressed in percentage or as proportion. It is calculated as follows:

$$\text{Current assets to proprietors' funds} = \frac{\text{Current assets}}{\text{Shareholders' funds}}$$

This ratio indicates the extent to which proprietors funds are invested in current assets. If this ratio is high, it indicates that the financial position of the company is good. If this ratio is low, it implies that the financial position of the company is weak.

8. Ratio of Current Assets to Fixed Assets This ratio establishes relationship between fixed assets and current assets. It is worked out as given below:

$$\text{Ratio of fixed assets to current assets} = \frac{\text{Fixed assets}}{\text{Current assets}}$$

A decrease in this ratio means that trading is slack or mechanization has been used. An increase in the ratio means a heavy investment on debtors and stocks or that fixed assets are more intensively used. If current assets increase with the corresponding increase in profit, it will show that the business is expanding.

9. Reserves to capital ratio This ratio points out the relationship between reserves and Equity share capital. The formula is:

$$\text{Reserve to capital ratio} = \frac{\text{Reserves}}{\text{Equity share capital}} \times 100$$

This ratio indicates the extent of profits that are usually retained by the company for future growth. It highlights upon the dividend policy of the company. If the ratio is high, dividend policy followed by the company will be considered as conservative.

10. Capital gearing ratio This ratio is also known as "Capital Structure ratio" or "Leverage ratio" (or) "Capitalization ratio". It is one of the long-term solvency ratios. It is used to analyze the capital structure of the company. It establishes relationship between fixed interest, dividend bearing securities and equity shareholders' funds. It can be calculated by using the following formula:

$$\text{Capital gearing ratio} = \frac{\text{Preference share capital} + \text{Debentures} + \text{Long-term loans}}{\text{Equity share capital} + \text{Reserves and surplus}}$$

This ratio shows the proportion of various items of long-term funds employed in the business. Its main emphasis is on indication of the proportion between owners' funds and non-owners' fund. This proportion is termed as leverage. If securities carrying a fixed rate of return are greater in proportion to equity shareholders funds, the capital structure is to be highly geared. If the equity shareholders funds is more than the fixed interest and dividend securities, the capital structure is said to be 'low geared'. The degree of capital gearing adopted will determine the future prospects of raising finance. If the capital gearing is high, raising of further long-term loans and deposits, debentures or preference share capital may be out of question, while an issue of equity shares may be an attractive proposition to the investors. On the other hand, if the capital gearing is low, issue of equity shares may not be an attractive proposition to the investors, while raising of further long-term loans and deposits, debentures and preference share capital can be easy.

SUMMARY OF RATIOS

Ratios	Formula
1. Gross profit ratio	$\frac{\text{Gross profit}}{\text{Net sales}} \times 100$
2. Net profit ratio	$\frac{\text{Net profit}}{\text{Net sales}} \times 100$

3. Operating profit ratio = $\frac{\text{Operating profit}}{\text{Net sales}} \times 100$
- $$\begin{aligned} \text{Operating profit} &= \text{Gross profit} - \text{Operating expenses} \\ &\quad (\text{or}) \\ &= \text{Net profit} - \text{Non-operating gains} \\ &\quad + \text{Non-operating losses} \end{aligned}$$
4. Operating ratio = $\frac{\text{Cost of goods sold} + \text{Operating expenses}}{\text{Net sales}} \times 100$
- Here, Cost of goods sold = Sales - Gross profit
(or)
- $$\begin{aligned} \text{Operating expenses} &= \text{Opening stock} + \text{Purchases} + \text{Direct} \\ &\quad \text{expenses} - \text{Closing stock} \\ &= \text{Manufacturing expenses} \\ &\quad + \text{Administrative expenses} + \text{Selling} \\ &\quad \text{expenses} \end{aligned}$$

5. Expenses ratio

(i) Material consumed ratio (Direct material cost to sales)

$$= \frac{\text{Direct material cost}}{\text{Net sales}} \times 100$$

$$(\text{ii}) \text{ Direct labour cost to sales} = \frac{\text{Direct labour cost}}{\text{Net sales}} \times 100$$

$$(\text{iii}) \text{ Particular expenses ratio} = \frac{\text{Particular expenses}}{\text{Net sales}} \times 100$$

$$6. \text{ Return on investment (ROI)} = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$

Here, Operating profit = Net profit after depreciation but before charging interest (on fixed liabilities) and tax

Capital employed = Equity share capital + Preference share capital + Reserves + Profit and loss account credit balance + Fixed liabilities - Fictitious assets

(or)

$$\text{Capital employed} = \text{Fixed assets} + \text{Working capital}$$

$$7. \text{ Return on shareholders' funds} = \frac{\text{Net profit (after interest & tax)}}{\text{Shareholders' funds}} \times 100$$

Here, Shareholders' funds = (Net worth) - Equity share capital + Preference share capital + Reserves + Undistributed profits.

$$8. \text{ Return on Equity} =$$

$$\frac{\text{Net profit after interest, taxes and preference dividend}}{\text{Equity capital}} \times 100$$

Here, Equity capital = Equity share capital + Reserves + Undistributed profits.

$$9. \text{ Return on total assets} = \frac{\text{Net profit after taxes and interest}}{\text{Total assets} - \text{Fictitious assets}} \times 100$$

$$10. \text{ Earning per share (EPS)} = \frac{\text{Net profit after tax and preference dividend}}{\text{No. of equity shares}}$$

$$11. \text{ Price earning ratio (P.E.R.)} = \frac{\text{Market price per equity share}}{\text{Earnings per equity share}}$$

$$12. \text{ Pay-out ratio} = \frac{\text{Dividend per equity share}}{\text{Earnings per equity share}}$$

$$13. \text{ Retained earnings ratio} = \frac{\text{Retained earnings}}{\text{Net profit after tax and pref. dividend}} \times 100$$

$$14. \text{ Dividend yield ratio} = \frac{\text{Dividend per equity share}}{\text{Market price per share}} \times 100$$

$$15. \text{ Cover for equity dividend} = \frac{\text{Net profit after tax - Preference dividend}}{\text{Equity dividend}} \times 100$$

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16. Capital turnover ratio = $\frac{\text{Cost of goods sold or sales}}{\text{Capital employed}}$
17. Fixed assets turnover ratio = $\frac{\text{Cost of goods sold or sales}}{\text{Net fixed assets}}$
18. Working capital turnover ratio = $\frac{\text{Cost of goods sold or sales}}{\text{Net working capital}}$
19. Stock turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average stock}}$
- Here, Average stock = $\frac{\text{Opening stock} + \text{Closing stock}}{2}$
20. Stock turnover period = $\frac{\text{Days or months in the year}}{\text{Stock turnover ratio}}$
(or stock velocity in days or months)
21. Debtors turnover ratio = $\frac{\text{Net credit sales}}{\text{Average accounts receivable}}$
- Here, Accounts receivable = $\text{Debtors} + \text{Bills receivable}$
- Average accounts receivable = $\frac{\text{Opening A/c receivable} + \text{Closing A/c receivable}}{2}$
22. Average collection period = $\frac{\text{* Days (months) in a year}}{\text{Debtors' turnover ratio}}$
* No. of days in a year = 365 days.
(No. of days in a year can also be taken as 360 days for calculation convenience)
23. Creditors turnover ratio = $\frac{\text{Net credit purchases}}{\text{Average accounts payable}}$
- Here Accounts payable = $\text{Creditors} + \text{Bills payable}$
- Average accounts payable = $\frac{\text{Opening creditors and B/P} + \text{Closing creditors and B/P}}{2}$

Ratio Analysis RA. 29

24. Average payment period = $\frac{\text{Months (or days) in a year}}{\text{Creditors turnover ratio}}$
25. Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$
Here, Current assets = Cash in hand + Cash at bank + Short-term investments + Bills receivable + Sundry debtors + Prepaid expenses + Accrued income + Stock.
Current liabilities = Bills payable + Sundry creditors + Provision for taxation + Proposed dividend + Outstanding expenses + Income received in advance + Bank overdraft.
26. Liquid ratio = $\frac{\text{Liquid assets}}{\text{Current liabilities}}$
Here, Liquid assets = Current assets - Stock - Prepaid expenses
27. Absolute liquidity ratio = $\frac{\text{Cash in hand and at bank} + \text{Marketable securities}}{\text{Current liabilities}}$
28. Ratio of inventory to working capital (Stock - working capital ratio) = $\frac{\text{Stock (or Inventory)}}{\text{Working capital}}$
29. Debt-equity ratio = $\frac{\text{Debt}}{\text{Equity}}$
= $\frac{\text{External equities}}{\text{Internal equities}} = \frac{\text{Outsiders' funds}}{\text{Shareholders' funds}}$
Outsiders' funds = Long-term debt + Short-term debt + Debentures + Creditors + Bills payable.
Shareholders' funds = Equity share capital + Preference share capital + Reserves + P & L A/c
(or) $\frac{\text{Total long-term debts}}{\text{Total long-term funds}}$
Long-term debts = Loan from IBRD + Loan from IFC + Loan from IDBI + Debentures + Mortgages + Other long-term loans.
Total long-term funds = Long-term debts + Shareholders' funds + Accumulated surplus.

RA. 30 Ratio Analysis

30. Fixed charges cover = $\frac{\text{Net profit before interest and tax}}{\text{Interest on fixed (Long - term) loans or debentures}}$

31. Fixed dividend coverage ratio

$$= \frac{\text{Net profit after interest and tax but before dividend}}{\text{Preference dividend}}$$

33. Proprietary ratio = $\frac{\text{Shareholders' funds}}{\text{Total tangible assets}}$
 Here, Shareholders' funds, Equity share capital + Preference share capital
 + Share premium + Reserves + Profit and loss account (cr.) - Profit and
 Loss A/c (Dr).

$$\begin{aligned} \text{Total tangible assets} &= \text{Fixed assets} + \text{Current assets (or)} \\ &= \text{Total assets} - \text{Intangible assets} - \text{Fictional assets} \end{aligned}$$

34 Ratio of Fixed assets to Proprietors' funds

$$= \frac{\text{Fixed assets (Net)}}{\text{Shareholders' funds}}$$

35. Ratio of Current assets to Proprietor's funds

$$= \frac{\text{Current assets}}{\text{Shareholders' funds}}$$

36. Ratio of Fixed assets to Current assets = $\frac{\text{Fixed assets}}{\text{Current assets}}$

37. Reserve to Capital ratio

$$= \frac{\text{Reserve}}{\text{Equity share capital}} \times 100$$

$$38. \text{ Capital Gearing ratio} = \frac{\text{Fixed interest bearing securities}}{\text{Equity share capital} + \text{Reserves and surplus}}$$

Here, Fixed interest bearing securities = Debentures + Loans + Preferred share capital.

Funds Flow Analysis

- Funds :- Net Working Capital (Net CA) = CA (-) CL
- CA : Stck 100000
- Drs 50000
- CL: 30000
- Net WC :170000

Existing Net WC		1.Sold goods Rs.1 lac for cash	2. Paid Rs.50,000 to Creditors	3. Purchased a Mch Rs.50,000 against Shares	4.Purcha sed a Mach Rs. 1,00,000 for cash	5. Issue of shares Rs.2,00,0 0
Cash	5,00,000	6,00,000	4,50,000	5,00,000	4,00,000	7,00,000
Stock	2,00,000	1,00,000	2,00,000	2,00,000	2,00,000	2,00,000
Total CAs	7,00,000	7,00,000	650,000	7,00,000	6,00,000	9,00,000
Creditors	3,00,000	3,00,000	2,50,000	3,00,000	3,00,000	3,00,000
Total CLs	3,00,000	3,00,000	2,50,000	3,00,000	3,00,000	3,00,000
Net WC	4,00,000	4,00,000	4,00,000	4,00,000	3,00,000	6,00,000

Funds From Operations Calculation

	Dr Rs		Cr Rs
COGS	15,00,000*	Net Sales	25,00,000 (A)
GP	10,00,000 =====		=====
Office Expenses	1,00,000*	GP	10,00,000
Selling Expenses	1,00,000*		
Packaging Expenses	1,00,000*		
Depreciation	1,00,000		
Loss on sale of Mach	1,00,000	Gain on Sale of Inv	1,00,000
Int & Tax	1,00,000		
NP	500,000		
Funds from Operations = (A) - (*) = Rs.7,00,000			

	Dr Rs		Cr Rs
Depreciation	1,00,000	Gain on Sale of Inv	1,00,000
Loss on sale of Mach	1,00,000	Funds from Operations (Bal Fig)	7,00,000
Int & Tax	1,00,000		
NP	5,00,000		

Adjusted Profit & Loss Account

Profit & Loss Account

(c) Simple Funds Flow Statement

Illustration 6 From the following balance sheets of Sun Company Ltd., as on 31st Dec. 1997 and 31st Dec. 1998, prepare:

(i) A schedule of changes in working capital and (ii) Funds flow statement

Liabilities	31.12.97 Rs.	31.12.98 Rs.	Assets	31.12.97 Rs.	31.12.98 Rs.
Equity share capital	3,00,000	4,00,000	Furniture (at cost)	1,00,000	1,20,000
Share premium	—	10,000	Less: Depreciation	56,000	68,000
General reserve	1,00,000	1,20,000		44,000	52,000
Profit and Loss A/c	40,000	70,000	Goodwill	20,000	16,000
Debentures	2,00,000	1,50,000	Long term investments	80,000	1,04,000
Bills payable	50,000	40,000	Stock	5,08,000	5,78,000
Trade creditors	70,000	80,000	Debtors	62,000	56,000
Outstanding expenses	4,000	2,000	Cash at bank	44,000	62,000
			Discount on debentures	6,000	4,000
	7,64,000	8,72,000		7,64,000	8,72,000

Solution

(i) Schedule of Changes in Working Capital for the Year 1998

Particulars	1997 Rs.	1998 Rs.	Net effect on working capital	
			Increase Rs. (Dr)	Decrease Rs. (Cr)
<i>Current assets</i>				
Stock	5,08,000	5,78,000	70,000	—
Debtors	62,000	56,000	—	6,000
Cash at bank	44,000	62,000	18,000	—
Total (A)	6,14,000	6,96,000		
<i>Current liabilities</i>				
Bills payable	50,000	40,000	10,000	—
Trade creditors	70,000	80,000	—	10,000
Outstanding expenses	4,000	2,000	—	2,000
Total (B)	1,24,000	1,22,000		
Working capital (A - B)	4,90,000	5,74,000		
Net increase in working capital	84,000	—		84,000
	5,74,000	5,74,000	1,00,000	1,00,000

FFS. 28 Funds Flow Statement

Calculation of Funds From Operations

Adjusted Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Depreciation	12,000	By Balance b/d	40,000
To Discount on debentures written off	2,000		
To Goodwill written off	4,000		
To General reserve	20,000	By Funds from operations (Bal.fig)	68,000
To Balance c/d	70,000		
	1,08,000		1,08,000

(ii) Funds Flow Statement for the Year 1998

Sources	Rs.	Applications	Rs.
Issue of equity shares	1,00,000	Redemption of debentures	50,000
Increase in share premium	10,000	Purchase of furniture	20,000
Funds from operations	68,000	Purchase of investments	24,000
		Net increase in working capital	84,000
	1,78,000		1,78,000

Furniture Ac at Cost			
To Bal	100000		
To cash (purchase – bal fig)	20000		
		Bv Bal	120000
Furniture Ac at Book Value			
To bal	44000	By Dep (for the year)	12000
To cash (purchase – bal fig)	20000		
		By bal	52000
Accum. Dep Ac			
		By bal	56000
		By Adj P & L Acc (bal fig Dep for the year)	12000
To bal	68000		

(D) Comprehensive Funds Flow Statement

Illustration 7 From the following balance sheets, prepare a sources and application statement:

<i>Liabilities</i> Rs.	<i>1992</i> Rs.	<i>1993</i>	<i>Assets</i> Rs.	<i>1992</i> Rs.	<i>1993</i>
Share capital	2,00,000	2,10,000	Fixed assets	3,50,000	4,75,000
Retained earnings	1,60,000	3,00,000	Inventory	1,00,000	95,000
Premium on shares	—	5,000	Bills receivable	43,000	50,000
Accumulated depreciation	80,000	1,00,000	Prepaid expenses	4,000	5,000
Debentures	60,000	—	Cash	15,800	10,200
Bills payable	37,800	40,200	Commission on shares	25,000	20,000
	5,37,800	6,55,200		5,37,800	6,55,200

Additional Information:

- (i) Depreciation for the year Rs. 20,000
- (ii) Income tax paid was Rs. 40,000
- (iii) Interim dividend paid during the year was Rs.20,000

(Madras, B.Com., Nov. 2006; Thiruvalluvar, BBA., Apr. 2010)

Solution**(i) Schedule of Changes in Working Capital**

Particulars	Effect on working capital			
	1992 Rs.	1993 Rs.	Increase Rs.	Decrease Rs.
<i>Current assets</i>				
Inventory	1,00,000	95,000	-	5,000
Bills receivable	43,000	50,000	7,000	-
Prepaid expenses	4,000	5,000	1,000	-
Cash	15,800	10,200	-	5,600
Total (A)	1,62,800	1,60,200		
<i>Current liability</i>				
Bills payable	37,800	40,200	-	2,400
Total (B)	37,800	40,200		
Working capital (A - B)	1,25,000	1,20,000	-	
Decrease in working capital	-	5,000	5,000	-
	1,25,000	1,25,000	13,000	13,000

Preparations of Non-current Accounts**(a) Calculation of purchase of fixed assets:****Fixed Assets A/c**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,50,000		
To Bank a/c (Purchase) (Bal fig)	1,25,000	By Balance c/d	4,75,000
	4,75,000		4,75,000

(b) Calculation of current year depreciation:**Accumulated Depreciation A/c**

Particulars	Rs.	Particulars	Rs.
		By Balance b/d	80,000
To Balance c/d	1,00,000	By Profit & Loss A/c - Current year's depreciation (Bal fig)	20,000
	1,00,000		1,00,000

FFS . 30 Funds Flow Statement**(c) Calculation of Funds from Operations:****Adjusted Profit and Loss A/c**

Particulars	Rs.	Particulars	Rs.
To Interim dividend	20,000	By Balance b/d	1,60,000
To Provision for taxation	40,000	By Funds from operations (Bal fig)	2,25,000
To Commission on shares written off	5,000		
To Depreciation	20,000		
To Balance c/d	3,00,000		
	3,85,000		3,85,000

(ii) Funds Flow Statement for the Year Ending 31.12.1993

Sources	Rs.	Applications	Rs.
Issue of shares	10,000	Redemption of debentures	60,000
Remittance of premium on shares	5,000	Income tax paid	40,000
Decrease in working capital	5,000	Interim dividend paid	20,000
Funds from operations	2,25,000	Purchase of fixed assets	1,25,000
	2,45,000		2,45,000

Note Interim dividend of Rs. 20,000 given in the additional information for the current year (i.e. 1993) as such, it is proposed and paid in the same year.

FA Ac at Cost			
To Bal	350000		
To Cash (purchases – bal fig)	125000		
		By Bal	475000
			475000
FA Ac at Book Value			
To bal (350000 – 80000)	270000	By Dep (for the year)	20000
To Cash (purchases – bal fig)	125000		
		By bal(475000-100000)	375000
			375000
Accum. Dep Ac			
		By bal	80000
		By Adj P & L (bal fig – current year)	20000
To bal	100000		

long term investments.

Illustration 9 The balance sheets of AB and Co. Ltd., at the end of 1968 and 1969 are given below.

<i>Liabilities</i>	<i>1968</i> <i>Rs.</i>	<i>1969</i> <i>Rs.</i>	<i>Assets</i>	<i>1968</i> <i>Rs.</i>	<i>1969</i> <i>Rs.</i>
Share capital	1,00,000	1,50,000	Freehold land	1,00,000	1,00,000
Share premium	—	5,000	Plant at cost	1,04,000	1,00,000
General reserve	50,000	60,000	Furniture at cost	7,000	9,000
Profit and Loss A/c	10,000	17,000	Investments at cost	60,000	80,000
6% Debentures	70,000	50,000	Debtors	30,000	70,000
Provision for depreciation on plant	50,000	56,000	Stock	60,000	65,000
Provision for depreciation on furniture	5,000	6,000	Cash	30,000	45,000
Provision for taxation	20,000	30,000			
Sundry creditors	86,000	95,000			
	3,91,000	4,69,000		3,91,000	4,69,000

Additional Information:

- (i) A plant purchased for Rs 4,000 (depreciation Rs.2,000) was sold for cash
Rs.800 on 30.9.1969 (ii) On 30th June 1969, an item of furniture was purchased
for Rs.2,000. These were the only transactions concerning fixed assets during
1969 (iii) Depreciation on plant was provided at 8% on cost (the sold out item
is not taken into consideration) and on furniture at 12½ % on average cost
(iv) A dividend of 22½ % on original shares was paid.

You are required to prepare

Prepare funds flow statement.

(C.A., Final, Nov. 1970; Bharathidasan, M.C.A.)

Solution

(i) Schedule of Changes in Working Capital for the Year 1969

Particulars	1968 Rs.	1969 Rs.	Net effect on working capital		
			Increase Rs.	Decrease Rs.	
<i>Current assets:</i>					
Debtors	30,000	70,000	40,000	-	
Stock	60,000	65,000	5,000	-	
Cash	30,000	45,000	15,000	-	
Total (A)	1,20,000	1,80,000			
<i>Current liabilities:</i>					
Sundry creditors	86,000	95,000	-	9,000	
Provision for taxation	20,000	30,000	-	10,000	
Total (B)	1,06,000	1,25,000			
Working capital (A - B)	14,000	55,000			
Net increase in working capital	41,000	-	-	41,000	
	55,000	55,000	60,000	60,000	

Preparation of Non-current Accounts

Plant A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,04,000	By Bank-sale	800
		By Provision for depreciation	2,000
		By Adjusted profit and loss a/c -loss on sale	1,200
		By Balance c/d	1,00,000
	1,04,000		1,04,000

Provision for Depreciation on Plant A/c

Particulars	Rs.	Particulars	Rs.
To Plant a/c	2,000	By Balance b/d	50,000
To Balance c/d	56,000	By Adjusted profit and loss a/c-Current year's depreciation (Bal. fig)	8,000
	58,000		58,000

Furniture A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	7,000		
To Bank-purchase	2,000	By Balance c/d	9,000
	9,000		9,000

Provision for Depreciation on Furniture A/c

Particulars	Rs.	Particulars	Rs.
		By Balance b/d	5,000
To Balance c/d	6,000	By Adjusted profit and loss a/c-Current year's depreciation (Bal. fig)	1,000
	6,000		6,000

Calculation of Funds from Operations:

Adjusted Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Depreciation on plant	8,000	By Balance b/d	10,000
To Depreciation on furniture	1,000		
To General reserve	10,000		
To Proposed dividend	22,500		
To Loss on sale of plant	1,200	By Funds from operations (Bal. fig)	49,700
To Balance c/d	17,000		
	59,700		59,700

(ii) Funds Flow Statement for the Year 1969

Sources	Rs.	Applications	Rs.
Issue of shares	50,000	Redemption of debentures	20,000
Share premium	5,000	Purchase of furniture	2,000
Sale of plant	800	Purchase of investments	20,000
Funds from operations	49,700	Payment of dividend	22,500
		Net increase in working capital	41,000
	1,05,500		1,05,500

Plant Acc (at cost)				Profit / Loss calculation	
To bal	104000	By Dep (on the sold out part)	2000	Cost of the Plant sold	4000
		By Cash – sale	800	(-) Dep	2000
		By Adj P &L Ac – loss on sale	1200	WDV	2000
		By bal	100000	SP	800
	104000		104000	Loss on sale	1200

Provision for Dep on Plant			
To Plant (Dep on Sold out Part')	2000	By bal	50000
		By Adj P &L Ac (bal fig – Dep for the year)	8000
To bal	56000		

Plant at cost Ac (for example)				
To Cash Year 1	100000			
		By bal year 1	100000	Cost 100000
				Dep 20000
To bal Year 2	100000	By bal year 2	100000	WDV 80000
				Sale 70000
To bal year 3	100000	By Dep	20000	Loss 10000
		By cash – sale	70000	
		By P & L – loss	10000	

Plant at Book Value Ac				
To cash Year 1	100000	By dep Year1	10000	
		By bal Year 1	90000	
To bal Year 2	90000	By dep Year 2	10000	

Dep ac (for example)				
To plant	10000	By P & L	10000	
To plant	10000	By P & L	10000	

Acc Dep ac (Provision for Dep ac)				
To pLant	20000	By P & L year 1	10000	
		By P & L year2	10000	

Furniture Acc at cost

To bal	7000		
To Cash – purchase	2000		
		By bal	9000
	9000		9000

Provision for Dep on Furniture

		By bal	5000
		By Adj P & L (dep for the year)	1000
		(As per adj = Dep = <u>(7000+9000)</u> 2 = 8000	

Illustration 10 The comparative balance sheets of National Industries Ltd., for 1974 and 1975 are given below:

<i>Liabilities</i>	<i>1974 Rs.</i>	<i>1975 Rs.</i>	<i>Assets</i>	<i>1974 Rs.</i>	<i>1975 Rs.</i>
Paid up capital	3,00,000	3,40,000	Bank	45,600	48,800
Reserves and Surplus	1,20,600	1,43,600	Debtors	9,800	16,000
Mortgage loan	20,000	19,000	Stock	42,000	65,200
Sundry creditors	42,400	45,200	Marketable securities	32,200	10,000
Liabilities for expenses	2,600	1,000	Trade investments	42,300	35,100
Provision for depreciation	25,600	34,000	Plant and machinery	1,83,400	2,68,000
Provision for taxation	11,000	12,400	Land and buildings	1,50,000	1,40,000
	5,22,200	5,95,200	Intangible assets	16,900	12,100
	5,22,200	5,95,200		5,22,200	5,95,200

The following transactions took place during 1975:

- (i) Land which had cost Rs. 10,000 was sold for Rs. 25,000.
- (ii) Some of the marketable securities were sold at a loss of Rs. 3,000.
- (iii) Difference between the figures to trade investments represents amount written off in respect of worthless investment.
- (iv) A dividend of Rs. 25,000 was paid.
- (v) An old machinery which had cost Rs. 10,000 (accumulated depreciation thereon Rs. 8,000) was sold for Rs. 6,000.

Prepare a funds flow statement.

- Net W C for Year 1974 :- Rs. 52,400/-
- Net W C for Year 1975 :- Rs.83,800/-
- Net increase in WC :- Rs. 31,400/-

Land & Build Account cost

To bal b/d	1,50,000	By cash – sale	25,000
To Adj P & L Ac – Profit on sale	15000		
		By bal c/d	1,40,000
	=====		=====

Provision for Dep

To Mach	8000	By bal b/d	25,600
		By Adj P &I – Dep for the year – bal fig	16,400
To bal c/d	34,000		
	=====		=====

Machine Acc at Cost

To bal	1,83,400	By Dep (on the sold out part)	8000
To Adj P & L – Profit on sale	4000	By cash – sale	6000
To Cash – Purchase – bal fig	94,600		
		By bal c/d	2,68,000
	=====		=====

Marketable Sec Acc

To bal b/d	32,200	By Cash – sale	19,200
		By Adj P & L Ac – Loss on sale	3000
		By bal c/d	10,000
	=====		=====

Trade Invt Ac

To bal b/d	42,300		
		By Adj P & L - written off	7,200
		By bal c/d	35,100
	=====		=====

Adj P & L Acc

		By Bal b/d	1,20,600
To Prov For Tax	12,400		
To Loss on Sale f Mkt Sec	3000	By Profit on Sale of Mch	4000
To Trade Inv Written Off	7200	By Profit on Sale of land	15,000
To Proposed Div	25,000		
To Dep	16,400		
To Intangible Assets written off	4800	By Funds from Operations (bal fig)	72,800

FFS			
Sources		Applications	
Issue of Shares	40000	Repayment of Loan	1000
Mkt Sec Sold	19,200	Tax Paid	11,000
Sale of mach	6000	Div Paid	25,000
Sale of Land	25,000	Purchase of Mch	94,600
Funds from Operations	72,800	Net Increase in WC	31,400
	1,63,000		1,63,000

Illustration 13 From the following balance sheets, prepare funds flow statement:

<i>Liabilities</i>	<i>1989 Rs.</i>	<i>1990 Rs.</i>	<i>Assets</i>	<i>1989 Rs.</i>	<i>1990 Rs.</i>
Share capital	6,00,000	7,12,000	Fixed assets	8,00,000	9,50,000
General reserve	2,00,000	2,50,000	Investments	1,80,000	1,80,000
Profit on sale of investment	—	10,000	Stock	2,00,000	2,70,000
Profit and Loss A/c	1,00,000	2,00,000	Debtors	2,25,000	2,45,000
7% Debentures	3,00,000	2,00,000	Bills receivable	40,000	65,000
Creditors	1,60,000	2,50,000	Prepaid expenses	10,000	12,000
Proposed dividend	40,000	35,000	Discount on debentures	15,000	10,000
Provision for tax	70,000	75,000			
	14,70,000	17,32,000		14,70,000	17,32,000

Other Information:

- (i) During 1990, Fixed assets (book value of Rs. 10,000 and depreciation written off Rs. 30,000) were sold for Rs. 8,000.
- (ii) During 1990, Investment costing Rs. 80,000 were sold and new investments were bought for Rs. 80,000.
- (iii) Debentures were redeemed at a premium of 10%.
- (iv) During 1990, income tax paid was Rs. 55,000.
- (v) Provision for depreciation:

31.12.89 – Rs. 2,00,000

31.12.90 – Rs. 2,50,000

(Madras, B.A. (Corp.) March 1992)

- Net W C for Year 1989 :- Rs. 3,15,000/-
- Net W C for Year 1990 :- Rs.3,42,000/-
- Net increase in WC :- Rs. 27,000/-

Fixed Assets Ac (Book value)			
To bal	8,00,000	By cash – sale	8000
To Cash – purchase – bal fig	2,40,000	By Adj P & L – loss on sale	2000
		By dep – for the year	80,000
		By bal c/d	9,50,000

Provision for Dep Ac

To FA – sold out part	30,000	By bal b/d	2,00,000
		By Adj P & L – dep for the year	80,000
To bal c/d	250,000		

Fixed Assets Ac (Cost)			
To bal b/d (8,00,000 + 2,00,000)	10,00,000	By Dep- sold out part	30,000
To cash – purchase – bal fig	2,40,000	By cash – sale	8000
		By Adj P & L – loss	2000
		By bal c/d (9,50,000 + 2,50,000)	12,00,000
	12,40,000		12,40,000

Investments Ac			
To bal b/d	1,80,000		
		By Cash – sale – bal fig	90,000
To Profit on Sale	10,000		
To Cash – purchase	80,000		
		By bal c/d	1,80,000

Provision for tax			
To bank – tax paid	55,000	By bal b/d	70,000
		By Adj P & L – New Provision – bal fig	60,000
To bal c/d	75,000		
	130000		130000

Debentures			
To Cash – redemption at premium	1,10,000	By bal b/d	3,00,000
(Prem = 10% * 1,00,000 = Rs.10,000)		By Adj P & L – premium on Deb	10,000
To Bal c/d	2,00,000		
	3,10,000		3,10,000

Adj P & L Ac			
To Transfer to GR	50,000	By bal b/d	1,00,000
To Proposed Div	35,000		
To Dis on Deb written off	5,000	By FFO – bal fig	3,42,000
To loss on sale of FA	2000		
To dep	80,000		
To Pro For Tax	60,000		
To Pre on Deb	10,000		
To bal c/d	2,00,000		
	4,42,000		4,42,000

FFS			
Sources		Applications	
Issue of Shares	1,12,000	Div Paid	40,000
Sale of FA	8000	Tax Paid	55,000
		Purchase of Inv	80,000
Sale of Inv	90,000	Redemption of deb	1,10,000
FFO	3,42,000	Purch FA	2,40,000
		Net increase in WC	27,000
	5,52,000		5,52,000

Illustration 18 From the following details relating to the accounts of Husmundi & Co. Ltd., prepare statement of sources and application of funds.

<i>Liabilities</i>	<i>31.12.86 Rs.</i>	<i>31.12.85 Rs.</i>
Share capital	4,00,000	3,00,000
Reserve	1,00,000	80,000
Profit and loss a/c	50,000	30,000
Debentures	1,00,000	1,50,000
Income tax provision	40,000	50,000
Trade creditors	70,000	90,000
Proposed dividend	40,000	30,000
	8,00,000	7,30,000
<i>Assets:</i>		
Goodwill	Rs. 90,000	Rs. 1,00,000
Plant and machinery	4,29,250	2,98,000
Debenture discount	5,000	8,000
Prepaid expenses	5,750	4,000
Investments	60,000	1,00,000
Sundry debtors	1,10,000	1,60,000
Stock	80,000	50,000
Cash and bank	20,000	10,000
	8,00,000	7,30,000

Additional Information:

- (i) 15% depreciation has been charged on plant and machinery.
- (ii) Old machine costing Rs. 50,000 (WDV Rs.20,000) has been sold for Rs. 35,000.

Funds Flow Statement FFS. 59

- (iii) A machine costing Rs. 10,000 (WDV Rs.3,000) has been discarded.
- (iv) Rs. 10,000 profit has been earned on investments.
- (v) Debentures have been redeemed at 5% premium.
- (vi) Rs. 45,000 income tax has been paid and adjusted against income tax provision account.

(C.A. Final. Nov. 1988)

(i) Schedule of Changes in Working Capital for the Year 1986

Particulars	31.12.85	31.12.86	Net effect on working capital	
	Rs.	Rs.	Increase Rs.	Decrease Rs.
<i>Current assets:</i>				
Stock	50,000	80,000	30,000	—
Sundry debtors	1,60,000	1,10,000	—	50,000
Cash and bank	10,000	20,000	10,000	—
Prepaid expenses	4,000	5,750	1,750	—
Total (A)	2,24,000	2,15,750		
<i>Current liabilities:</i>				
Trade creditors	90,000	70,000	20,000	—
Total (B)	90,000	70,000		
Working capital (A - B)	1,34,000	1,45,750		
Net increase in working capital	11,750	—	—	11,750
	1,45,750	1,45,750	61,750	61,750

Preparation of Non-current Accounts

(a) Calculation of purchase of plant:

Plant and Machinery A/c

Particulars	Rs.	Particulars		Rs.
To Balance b/d	2,98,000	By Bank (Sale)		35,000
To Adjusted profit and loss a/c		By Adjusted profit and loss a/c		
(Profit on sale)	15,000	(Discarded)		3,000
To Bank - Purchase (Bal. fig)	2,30,000	By Depreciation		
		2,30,000 × 15%	34,500	
		(2,98,000 - 23,000)		
		= 2,75,000 × 15%	41,250	75,750
		By Balance c/d		4,29,250
	5,43,000			5,43,000

(b) Calculation of written down value of addition:

	Rs.
	4,29,250
Closing balance	
Less: WDV of old machine (2,75,000 - 41,250)	2,33,750
WDV of addition	1,95,500

$$\text{Depreciation charged on addition during the year} = 1,95,500 \times \frac{15}{85} = \text{Rs. } 34,500$$

(c) Calculation of Income tax provision made during the year:

Income Tax Provision A/c

Particulars	Rs.	Particulars	Rs.
To Bank (Tax paid)	45,000	By Balance b/d	50,000
To Balance c/d	40,000	By Adjusted profit and loss a/c	
		(Current year's provision) (Bal. fig)	35,000
	85,000		85,000

(d) Calculation of sale proceeds of investments:

Investments A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,00,000	By Bank (Sale) (Bal. fig)	50,000
To Adjusted P&L A/c	10,000	By Balance c/d	60,000
	1,10,000		1,10,000

(e) Calculation of amount of repaid on debentures:

Debentures A/c

Particulars	Rs.	Particulars	Rs.
To Bank (Redemption)(Bal. fig)	52,500	By Balance b/d	1,50,000
To Balance c/d	1,00,000	By Adjusted profit and loss a/c (premium on redemption (50,000 × 5%))	2,500
	1,52,500		1,52,500

Calculation of Funds from Operations:
Adjusted Profit and Loss A/c

Particulars	Rs.	Particulars	Rs.
To Discount on debentures written off	3,000	By Balance b/d	30,000
To Premium on redemption of debentures (Loss)	2,500	By Profit on sale of investments	10,000
To Depreciation on plant and machinery	75,750	By Profit on sale of machine	15,000
To Loss on machine discarded	3,000	By Funds from operations (Bal. fig)	1,84,250
To Goodwill written off	10,000		
To Reserves	20,000		
To Proposed dividend	40,000		
To Provision for taxation	35,000		
To Balance c/d	50,000		
	2,39,250		2,39,250

(ii) Funds Flow Statement for the Year 1986

Sources	Rs.	Applications	Rs.
Issue of shares	1,00,000	Redemption of debentures	52,500
Sale of investments	50,000	Payment of dividend	30,000
Sale of machine	35,000	Payment of tax	45,000
Funds from operations	1,84,250	Purchase of plant	2,30,000
	3,69,250	Net increase in working capital	11,750
	3,69,250		

Illustration 10. The following are the balance sheets of Cullinan Co. Ltd. for

Cash Flow Statement

INTRODUCTION

In the previous chapter, we have had a discussion on the concept and preparation of funds flow statement taking into account the inflow and outflow of fund in terms of working capital. For successful functioning of any business, the existence of adequate working capital i.e. excess of current assets over current liabilities alone is not sufficient. In the ultimate analysis, cash has either to be paid or received to effect most of the business transactions. Cash is the hub of entire business transactions, without which the other components of current assets have little significance. Therefore, availability of adequate cash in the business is one of the pre-requisites for successful business operation. For example, a company might have earned handsome profits, but will be unable to meet the expenses like interest, tax and dividends owing to paucity of funds. This may be because, a considerable portion of profits earned that are present in terms of other current assets like inventory or debtors or bills receivable or the cash as derived from operational profits is being used either to redeem a long term debt or to purchase a fixed asset. As a result adequate cash is not available to meet all expenses. Such an anomaly does exist in companies where proper attention is not paid to the inflow and outflow of cash. It is, therefore, necessary to have a cash flow analysis by preparing a statement called the 'Cash Flow Statement' or 'Statement of Accounting for Variations in Cash'.

MEANING OF CASH FLOW STATEMENT

Cash flow statement is a statement which highlights the inflows and outflows of cash during a specified period. It indicates the sources from which the cash has been generated, uses to which the cash has been put and the resultant

CFS. 2 Cash Flow Statement

change in the cash balance over the period. It explain the reasons for the change in cash position of a company. Transactions which increase the cash position of a company are labelled as 'inflow' of cash and those which decrease the cash position as 'outflow' of cash. Cash flow statement traces the various sources which brings in cash such as cash from operations, sale of current and fixed assets, issue of share capital and debentures, etc and applications which cause outflow of cash such as loss from operations, purchase of current and fixed assets, redemption of debentures and preference shares and other long term debts for cash. In short, a cash flow statement is a statement which points the changes in the cash position between two accounting periods.

Differences between Cash Flow Statement and Funds Flow Statement

Although both these statements depict the changes in the financial position of a company, yet there are many points on the basis of which the distinction between cash flow statement and funds flow statement can be made. The following are the main points of distinction:

1. Cash flow statement is concerned with cash position only, whereas funds flow statement is concerned with changes in working capital of which cash is only one of the constituents.
2. In cash flow statement, individual items involving cash is taken into account, whereas in the case of funds flow statement, the net increase or decrease in working capital is recorded.
3. Cash flow statement begins with the opening balance of cash and after recording uses and sources of cash, reaches the closing balance of cash, whereas, the funds flow statement matches the sources of funds with their uses.
4. In cash flow analysis, cash from operations are calculated after adjusting the increase and decrease in the current assets and current liabilities. In funds flow analysis, such changes in current account items are adjusted in the schedule of changes in working capital.
5. Classification of accounts and transactions into current and non-current is relevant only for the purpose of funds flow statement. If notional concept of cash is taken, no such classification is required in the case of cash flow statement.
6. 'Cash flow statement' can be described as a supplement to 'funds flow statement' as it is based on just one important element of working capital.
7. Fund flow statement is prepared in consonance with the 'accrual concept', while in cash flow statement 'accrual data' is converted into 'cash data'.

8. Fund flow statement is appropriate in long range planning, whereas cash flow statement is appropriate for short range planning.

Advantages of Cash Flow Statement

Cash flow statement serves as an essential tool of short term financial analysis and planning. The chief advantages of cash flow statement are as follows:

1. Cash flow statement is very useful in preparing cash budgets. As cash is the very basis of business operations cash flow proves very useful in evaluating the cash position of the concern.
2. The projected cash flow statement helps finance manager in exploring the possibility of repayment of long term debts which depends upon the availability of cash.
3. Cash flow statement can be used for making appraisal of various capital investment projects just to determine their liquidity and profitability.
4. A comparison of the cash flow statement of previous year and projected cash flow statement reveals deviations of actuals from budgeted. This helps in taking requisite corrective action.
5. For payment of liabilities which are likely to mature immediately, cash is more important than working capital. Cash flow statement is certainly a better tool of analysis than funds flow statement as far as short term analysis is concerned.
6. Cash flow statement enables the management to explain why the company is facing difficulties in paying dividend while it has earned good profits.
7. It helps in taking loans from banks and other financial institutions; the repayment capacity of the company can be understood by going through the cash flow statement.
8. It supplements the analysis provided by funds flow statement as cash is a part of the working capital.

Limitations of Cash Flow Statement

Although cash flow statement has a number of advantages, it suffers from following limitations:

1. Cash balance as per cash flow statement may not give real picture of liquidity as it gets easily affected by postponing purchases, etc.
2. 'Cash' is used to signify fund in a narrow concept. It does not give a complete picture of the financial position of the concern; even the term 'cash' is not precisely defined.

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3. Comparison over a period of time can be misleading. A company cannot be said to be better off in the current year as compared to the previous year just because its cash flow has increased.
4. Inter-industry comparison of cash flow statement can also be misleading, for it does not measure the economic efficiency of one company in relation to another. Usually a company with heavy capital investment will have more cash inflow.
5. Cash flow statement cannot replace funds flow statement or income statement. Funds flow statement gives an exhaustive view of the financial changes than cash flow statement.
6. Cash can be easily influenced by managerial decisions such as making certain payments in advance or postponing payments.

PREPARATION OF CASH FLOW STATEMENT

A cash flow statement can be prepared on the same pattern on which a funds flow statement is prepared. It is prepared with the help of opening and closing balance sheets, profit and loss account and other additional information i highlights, as pointed out earlier, various cash inflows and outflows. All sources from which cash moves into the concern are shown on the one side and the various uses to which cash is put and thus cash moves out of the concern are shown on the other side of the statement. The net effect of such cash movements is known as Net Cash Flow which is added/deducted to the opening balance of Cash/Bank to get closing balance of Cash/Bank. Therefore, it becomes necessary to have thorough knowledge of the various items of cash inflow and cash outflow.

Items of Cash Inflow (Sources)

1. **Cash from operations or cash operating profit** Cash from trading operations during the year is a very important source of cash inflows. The ultimate result of all business transactions would be either net profit or net loss. While net profit results in cash inflow, net loss would result in cash outflow. Further, when all transactions are cash transactions, the net profit or loss as shown by the profit and loss account may be taken as the amount of cash from operations. However, in actual practice, it does not happen. It is often found that a part of sales are credit sales; some purchases are credit purchases; a few expenses are always outstanding to some extent, all incomes do not realize immediately. Under such circumstances, the net profit made by a firm cannot generate equivalent amount of cash. Therefore, adjustments will have to be made in the net operating profit.

Funds from operations (i.e., Net profit + Non-cash charges or Non-operation expenses–Non-operating incomes) for each of these items in order to find out cash from operations. For considering inflow and outflow of cash from operations, the following changes in current assets and current liabilities are to be considered:

- (a) **Changes in book debts** Decrease in the book debts over the period means more cash was collected than is accounted for as credit sales by the income statement. Such reduction should be added to net operating profit to arrive at cash from operations. Similarly, any increase in book debts implies that less cash was collected from the customers than was reported as credit sales by the income statement. Such increase should be subtracted from the net operating profit to ascertain cash from operations. The same treatment is to be given for bills receivable. It may be expressed as follows:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Decrease in debtors and B/R (or)} - \text{Increase in debtors and B/Rs}$$

- (b) **Changes in stock** Increase in stock should be subtracted from net operating profit, whereas decrease in stock should be added to net operating profit to arrive at cash from operations. An increase in stock indicates that cash has been spent to accumulate stock. To that extent, cash from operations will be less than the reported income. Likewise, decrease in stock implies that a portion of the cost of goods sold has been paid for in the previous period and is not met from out of current cash outlay. To that extent, cash from operations will be more than the reported income. This may be presented as follows:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Decrease in stock (or)} - \text{Increase in stock}$$

- (c) **Changes in prepaid expenses** An increase in prepaid expenses indicates excessive cash spending resulting in the building up of an asset for the benefit of the next period. Such an increase should be deducted from net operating profit. On the other hand, a decrease in prepaid expenses implies that current period got the benefit because of the cash outlay in the preceding period. Such a decrease should be added to net operating profit to arrive at cash from operations. It may be expressed as follows:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Decrease in prepaid expenses (or)} - \text{Increase in prepaid expenses}$$

- (d) **Changes in accrued income** The increase in accrued income indicates that cash inflow is less than the amount of income shown in

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the profit and loss account. So, the increased amount should be deducted from net operating profit to calculate cash from operations. On the other hand, the decrease in accrued income implies that cash inflow is greater than the amount of income shown in the profit and loss account. Hence, the decreased amount should be added to net operating profit to ascertain cash from operations. It may be presented as follows:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Decrease in accrued income (or)} - \text{Increase in accrued income.}$$

- (e) **Changes in trade liabilities** The term trade liabilities includes creditors and bills payable. An increase in trade liabilities indicates that less cash was paid during the period on account of cost of goods sold. To that extent, cash from operations will be higher than the net income reported and accordingly, an increase in trade liabilities should be added to net operating profit to compute cash from operations. On the contrary, a decrease in trade liabilities implies that more cash is paid to suppliers than the portion of credit purchases included in 'cost of goods sold'. So, the decreased amount should be deducted from the net operating profit to calculate cash from operations. It can be presented as given below:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Increase in creditors and B/P (or)} - \text{Decrease in creditors and B/P.}$$

- (f) **Changes in outstanding expenses** The outstanding expense balance should be adjusted in the profit made during the year to arrive at cash from operations. Opening balance of outstanding expenses is deducted from and the closing balance of outstanding expenses is added to the profit made during the year. This is based on the logic that liability on account of opening balance of outstanding expenses is paid during the year and thus reduces the cash generated from operations. The closing balance of outstanding expenses is added to expenses paid account for calculating expenses for the purpose of profit and loss account. This reduces the profit made during the year. Since this is outstanding, it will not reduce the cash balance. Alternatively, increase in outstanding expenses is added to and decrease in outstanding expenses is deducted from net operating profit to ascertain cash from operations. This may be expressed as follows:

$$\text{Cash from operations} = \text{Net operating profit} + \text{Increase in outstanding expenses (or)} - \text{Decrease in outstanding expenses.}$$

(g) ***Changes in income received in advance*** An increase in income received in advance implies more cash inflow than the income shown in the profit and loss account. Such an increase is to be added to net operating profit to get cash from operations. On the other hand, a decrease in income received in advance indicates less cash inflow than the figure of income reflected in the profit and loss account. Such a decrease is to be deducted from net operating profit to find out cash from operations. It may also be expressed as follows:

Cash from operations = Net operating profit + Increase in income received in advance (or) - Decrease in income received in advance.

After considering the changes in book debts, stock, prepaid expenses, accrued incomes, creditors, outstanding expenses and income received in advance, cash from operations can be calculated by using the following formula:

- (+) Decrease in debtors
- (+) Decrease in stock
- (+) Decrease in prepaid expense
- (+) Decrease in accrued income
- (+) Increase in creditors
- (+) Increase in outstanding expenses
- (+) Increase in income received
in advance.
- (or)
- (-) Increase in debtors
- (-) Increase in stock
- (-) Increase in prepaid expenses
- (-) Increase in accrued income
- (-) Decrease in creditors
- (-) Decrease in outstanding
expenses
- (-) Decrease in income received in
advance.

Cash from operations = Net operating profit

The above formula can be summarized as follows:

Cash from operations = Net operating profit + Decrease in current assets
+ Increase in current liabilities

(or)

(-) Increase in current assets (-) Decrease in
current liabilities.

2. **Increase in share capital and non-current liabilities** The increase in share capital, debentures, long term loans, etc. is usually considered inflows of cash. However, if the shares or debentures are issued for the purchase of fixed assets or redemption of debentures etc., it will not be taken into account.
3. **Sale of fixed assets** The amount realized from the sale of fixed assets like land, buildings or machinery is to be considered as a source of cash. Similarly, the sale proceeds of long term investments is also taken as a source of cash.
4. **Non-trading receipts** Under some special circumstances, a business concern may get some non-trading receipts like dividend received, rent received, refund of tax, etc. Such receipts or incomes, although non-trading in nature, result in inflow of cash and hence taken in the cash flow statement.

Items of Cash Outflows (Applications of Cash)

1. **Cash lost in operations** Should the net results of the operations of the year be cash trading loss, it would mean loss (or application) of equivalent fund (cash concept) of accounting of trading. In other words, any trading loss arising as a result of business operations during the year, becomes application of cash, outflow for the business.
2. **Redemption of redeemable preference shares and debentures** The amount paid for redemption of preference share capital or debentures or any other long term loans should be considered as an outflow of cash. The actual amount paid also should be taken either including premium or excluding discount.
3. **Purchase of fixed assets** Payments made for purchase of fixed assets like land, building, machinery and furniture are to be considered as uses of cash. Similarly, amount paid to acquire long term investments also constitutes an application of cash.
4. **Non-trading payments** Sometimes, there may be non-trading payments like payment of dividend, income tax, etc. Such payments or expenses are, although non-trading in nature, result in outflow of cash and hence taken as items of cash outflows in the cash flow statement.

Cash Flow Statement of for the Year Ended

Particulars	Rs.	Rs.
(i) Cash Flows from Operating Activities:		
Net profit before tax and extra-ordinary items	XXX	
Add : Items to be Added:		
Depreciation	XX	
Preliminary expenses written off	XX	
Discount on issue of shares and Debenture written off	XX	
Loss on foreign exchange	XX	
Good will written off	XX	
Patents & Trade marks written off	XX	
Loss on sale of fixed assets	XX	
Interest on Borrowings & Debentures (only for Non-finance companies-to be shown under financing activities)	XX	
	XXX	
Less : Items to be deducted:		
Interest income (only for non-finance companies-to -be shown under investing activities)	XX	
Dividend income (only for non-finance companies-to -be shown under investing activities)	XX	
Rental income	XX	
Profit on sale of finance assets (to be shown under investing activities-sale price)	XX	
Operating profit before working capital changes	XXX	
Add: Net decrease in current assets	XX	
Net increase in current liabilities	XX	
	XXX	
Less: Net increase in current assets	XX	
Net decrease in current liabilities	XX	
Cash generated from Operations	XXX	
Less: Income tax paid (net of tax refund received)	XX	
Cash flows before extra-ordinary items	XXX	

Add/Less: Extra ordinary items	XX	
Net cash from (or used in) operating activities		XXX
(ii) Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	XX	
Proceeds from sale of investments	XX	
Proceeds from sale of intangible assets	XX	
Interest and dividend received (for non-finance companies only)	XX	
Rent income	XX	
	XXX	
Less: Purchase of fixed assets		
Purchase of investments	XX	
Purchase of intangible assets like goodwill	XX	
Extraordinary items (+/-)	XX	
Net cash from (used in) Investing Activities:		XXX
(iii) Cash Flows from Financing Activities:		
Proceeds from issue of shares and debentures	XX	
Proceeds from other long term borrowings	XX	
	XX	
Less: Final dividend paid		
Interim dividend paid	XX	
Interest on debentures and loans paid	XX	
Repayment of loans	XXX	
Redemption of debentures/ preference shares	XX	
Extra ordinary items (+/-)	XX	
Net cash from (or used in) Financing Activities		XXX
Net Increase/Decrease in cash and cash equivalents (I+II+III)		XXX
Add : Cash and Cash Equivalents in the beginning of the year (i.e Cash in hand + Cash at bank (less bank overdraft) + Short term deposits + Marketable securities)		XX
Cash and Cash Equivalents at the end of the year.		XXX

Notes

1. **Net profit before tax** Difference in profit and loss a/c balance + Provisions for taxation + All appropriations like transfers to general reserve, proposed dividend, interim dividend. Dividend Equalisation fund—Refund of tax.
2. Short term loans should be classified as financing activities and shown separately under cash flows from financing activities. They should not be shown under cash flows from operating activities.
3. **Interest and dividends** In case of *financial enterprises* cash flows arising from interest paid and interest and dividend received should be included in cash flows from operating activities. In case of *non-financial enterprises*, cash flows arising from interest paid should be included in cash flows from financing activities and interest and dividend received should be included in cash from investing activities. However, dividend paid should always be included in cash flows from financing activities, whether the enterprise is a financial enterprise or a non-financial enterprise.
4. **Extra-ordinary items** There may be some extra-ordinary items such as claims from insurance companies ,bad debts recovered, winning a lottery or a law suit, etc. Cash flows resulting from extra-ordinary items are classified as operating or investing or financing activities and shown separately under the appropriate classification in the cash flow statements. For example, bad debts recovered is shown separately under cash flows from operating activities.
5. **Non-cash transactions** There may be some significant non-cash transactions such as purchase of assets by issue of shares or debentures, conversion of debentures into shares, etc. Being non-cash transactions, such transactions are not shown in cash flow statement. However, such transactions should be shown as a footnote in cash flow statement.

(B) Simple Cash Flow Statement

Illustration 10 From the following, prepare a cash flow statement:
Balance Sheets as on 31st December

Liabilities	2001	2002	Assets	2001	2002
Share capital	65,000	78,000	Fixed assets	83,000	86,000
Profit & Loss A/c	4,000	6,500	Stock-in-trade	29,000	37,000
Debentures	30,000	25,000	Cash	8,000	9,000
Creditors for goods	17,000	16,000	Prepaid Expenses	1,000	1,500
Bills payable	4,000	5,000	Goodwill	1,000	-
Outstanding expenses	2,000	3,000			
	1,22,000	1,33,500		1,22,000	1,33,500

- Financing Activities :-
- Investing Activities :-
- Operating Activities :-

Sales	300,000
Cash 2,00,000	
Credit 1,00,000	
(-) Manufacturing Exp	30,000
Cash 10,000	
Credit 20,000	
(-) Purchases	1,00,000
Cash 20,000	
Credit 80,000	
(-) Office Exp	20,000
(-) Selling Exp	10,000
(-)Dep	20,000
(-) Loss on sale of Invt	5000
(+) Profit on sale of FA	2000
(-) Int & Tax	20,000
PAT	97,000

Sales	300,000
Cash 2,00,000 *I	
Credit 1,00,000 Drs	
(-) Manufacturing Exp	30,000
Cash 10,000 *E	
Credit 20,000 Crs	
(-) Purchases	1,00,000
Cash 20,000 *E	
Credit 80,000 Crs	
(-) Office Exp *E	20,000
(-) Selling Exp *E	10,000
(-) Dep	20,000
(-) Loss on sale of Inv	5000
(+) Profit on sale of FA * I	2000
(-) Int & Tax *E	20,000
PAT	97,000

Balance Sheet					
Liab	1	2	Assets	1	2
Long Term Cap	0	5,00,000	Long Term Assets	0	4,95,000
Creditors	0	1,00,000	Drs	0	100,000
Dep Fund	0	20,000	Cash	0	1,22,000
P & L Ac	0	97,000			
	0	7,17,000		0	7,17,000

Assets increase = -

Assets decrease = +

Liab Increase = +

Liab Decrease = -

Cash Flow Statement

1) Cash Flow from Operating Activities

Net Profit for the year(6500 – 4000) 2500

Add – Goodwill written off 1000

Operating profit before WC changes 3500

Add Increase in BP 1000

Add Increase in O/s Exp 1000

Less Decrease in Cres (1000)

Less Increase in Stock (8000)

Less Increase in PE (500)

Cash Used in Operating Activities (4000)

2) Cash Flow from Investing Activities

Purchase of FA (3000)

Cash used in Investing Activities (3000)

3) Cash Flow from Financing Activities

Issue of Shares 13,000

Redemption of Deb (5000)

Illustration 14 From the following balance sheet of Tikolo Co. Ltd. for the year 1993 and 1994, prepare a cash flow statement:

Balance Sheet

<i>Liabilities</i>	<i>1993 Rs.</i>	<i>1994 Rs.</i>	<i>Assets</i>	<i>1993 Rs.</i>	<i>1994 Rs.</i>
Equity share capital	15,00,000	20,00,000	Plant & Machinery	20,00,000	22,50,000
Share premium	—	50,000	Less: Depreciation	7,00,000	7,50,000
Profit & loss a/c				13,00,000	15,00,000
Balance b/f	5,00,000	5,00,000	Property	10,00,000	12,50,000
Profit for the year	—	10,00,000	Loan to subsidiary co.	—	75,000
8% Debentures	7,50,000	5,00,000	Shares in subsidiary co.	1,00,000	1,00,000
Profit on redemption of debenture	—	10,000	Stock	7,00,000	7,50,000
Sundry creditors	7,00,000	5,50,000	Debtors	5,00,000	7,50,000
Provision for taxation	2,50,000	5,00,000	Cash at bank	1,75,000	7,85,000
Proposed dividend	75,000	1,00,000		37,75,000	52,10,000
	37,75,000	52,10,000			

Additional Information:

- (i) During the year, a machine costing Rs. 2,00,000, accumulated depreciation thereon being Rs. 30,000 was sold for Rs. 1,50,000. The loss on sale being charged to profit & loss account;
- (ii) Income tax Rs. 2,00,000 has been paid during the year.

Cash Flow Statement		
1) Cash Flow from Operating Activities		
Net Profit for the year	10,00,000	
(+) Provision for Tax	4,50,000	
(+) Proposed Div	1,00,000	
(+) Dep	80,000	
Operating Profit before WC changes	16,50,000	
(-) Increase in stock	(50,000)	
(-) Increase in Drs	(2,50,000)	
(-) Decrease in Crs	(150000)	
(-) Increase in Loans to Sub Co	(75,000)	
	11,25,000	
(-) Tax Paid	(2,00,000)	
Cash from Operating Activities		9,25,000
2) Cash Flow from Investing Activities		
Purchase of Mach	(450,000)	
Purchase of Property	(2,50,000)	

Cash Flow Statement		
Sale of Mch	1,50,000	
Cash Used in Investing Activities		(5,50,000)
3) Cash Flow from Financing Activities		
Issue of Shares	5,00,000	
Share Premium	50,000	
Redemption of Deb	(2,40,000)	
Div Paid	(75,000)	
Cash from Fin Activities		2,35000
Net Increase in cash balance		610,000
(+) Opening Cash Balance		1,75,000
Therefore closing cash balance		7,85,000

Plant & mach Ac book value

To bal b/d	13,00,000	By Cash – sale	1,50,000
To cash – Purchase- bal fig	450,000	By Adj P & L ac – loss on sale	20,000
		By Dep - for the year	80,000
		By Bal c/d	15,00,000

Provision for Dep Ac

To Plant & Mach – on sold out part	30,000	By Bal b/d	7,00,000
		By Adj P & L Ac – dep for the year – bal fig	80,000
To bal c/d	7,50,000		

Plant & mach Ac at Cost

To bal b/d	20,00,000	By Dep – sold out part	30,000
To cash – Purchase- bal fig	450,000	By Cash – sale	1,50,000
		By Adj P & L ac – loss on sale	20,000

Provision for Tax Ac			
To cash – tax paid	2,00,000	By bal b/d	2,50,000
		By Adj P & L Ac- new provision	4,50,000
To bal c/d	5,00,000		
	7,00,000		7,00,000

Deb Ac			
To Profit on Redemption	10,000	By bal	750,000
To Cash – redemption	240,000		
To bal	500000		
	7,50,000		7,50,000

Illustration 18 The financial position of M/s. A& B on Jan 1 and Dec. 31 1999 were as follows:

Liabilities	1.1.99 Rs.	31.12.99 Rs.	Assets	1.1.99 Rs.	31.12.99 Rs.
Current liabilities :					
For goods	36,000	41,000	Cash	4,000	3,600
Mrs. A's loan	-	20,000	Debtors	35,000	38,400
Loan from bank	30,000	25,000	Stock	25,000	22,000
Hire purchase vendor	-	20,000	Land	20,000	30,000
Capital	1,48,000	1,54,000	Building	50,000	55,000
			Machinery	80,000	86,000
			Delivery van	-	25,000
	2,14,000	2,60,000		2,14,000	2,60,000

The delivery van was purchased in Dec.1999 on hire-purchase basis: a payment of Rs.5,000 was made immediately and the balance of the amount is to be paid in 20 monthly installments of Rs.1,000 each together with interest @12% p.a. During the year, the partners withdrew Rs. 26,000 for domestic expenditure. The provision for depreciation against machinery as on 1.1.99 was Rs. 27,000 and on 31.12.99 Rs. 36,000. You are required to prepare the cash flow statement as well as funds flow statement

Cap Acc	
Cap bal	148000
(+) NP- bal fig	32,000
(-) Drawings	26000
Cap Bal	154000