

FINANCIAL STATEMENTS OF COMPANIES

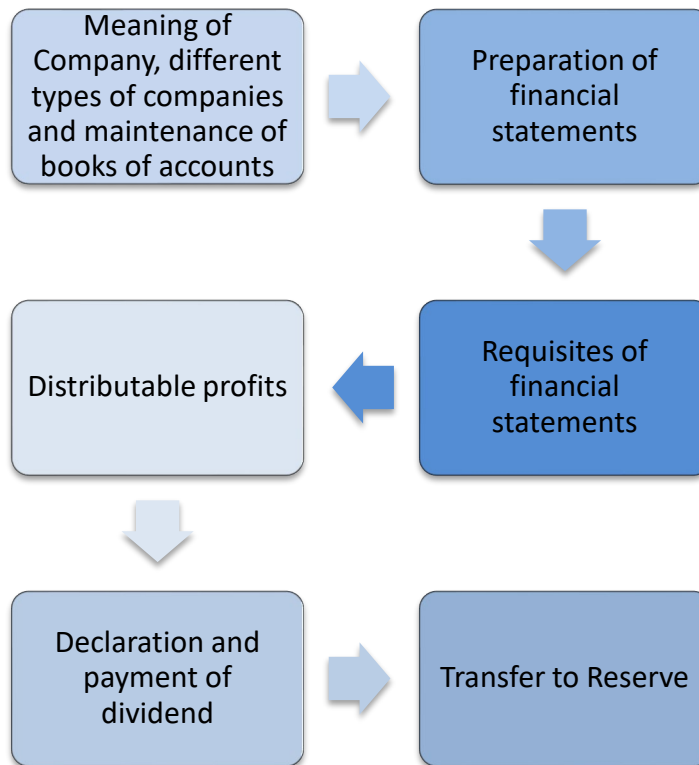


UNIT 1: PREPARATION OF FINANCIAL STATEMENTS

LEARNING OUTCOMES

After studying this unit, you will be able to–

- ◆ Know how to maintain books of account of a company.
- ◆ Learn about statutory books of a company.
- ◆ Prepare and present the financial statements of a company as per Schedule III to the Companies Act, 2013
- ◆ Appreciate the term divisible profits and dividends.

UNIT OVERVIEW**1.1 MEANING OF COMPANY**

As per Section 2(20) of the Companies Act, 2013, "Company" means a company incorporated under the Companies Act, 2013 or under any previous company law (e.g., the Companies Act, 1956). Different types of companies have been defined (under various sub-sections of the Companies Act, 2013) as follows:

2(21) "**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;

- 2(22) **"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;
- 2(42) **"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.
- 2(45) **"Government company"** means any company in which not less than 51% 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(62) **"One Person Company"** means a company which has only one person as a member;
- 2(68) **"Private company"** means a company having a minimum paid-up share capital as may be prescribed, and which by its articles,—
- (i) restricts 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;

2(71) **"Public Company"** means a company which—

- (a) is not a private company; and
- (b) has a minimum paid-up share capital as may be prescribed:

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;

2(85) **"Small company"** means a company, other than a public company, -

- (i) paid-up share capital of which does not exceed ₹ 50 lakhs or such higher amount as may be prescribed which shall not be more than ₹ 10 crores; and
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed ₹ 2 crores or such higher amount as may be prescribed which shall not be more than ₹ 100 crores:

Provided that nothing in this clause should apply to:

- (A) a holding company or a subsidiary company
- (B) a company registered under section 8
- (C) a company or body corporate governed by any special Act

As per the Companies (Specification of Definitions Details) Rules, 2014¹, for the purposes of sub-clause (i) and sub-clause (ii) of clause (85) of section 2 of the Act, paid up capital and turnover of the small company shall not exceed ₹ 4 crores and ₹ 40 crores respectively.

2(92) **"Unlimited company"** means a company not having any limit on the liability of its members;

2(46) **"Holding company"**, in relation to one or more other companies, means a company of which such companies are subsidiary companies;

¹ As amended by the Companies (Specification of Definitions Details) Amendment Rules, 2022 dated 15 September 2022.

Explanation.–For the purposes of this clause, the expression “company” includes any body corporate.

2(87) **“Subsidiary company”**, or “subsidiary”, in relation to any other company (that is to say the holding company), means 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:

Provided that such class or classes of holding companies as may be prescribed should not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation – For the purposes of this clause, -

- (a) a company should be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company’s Board of Directors should be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression “company” includes any body corporate;
- (d) “layer” in relation to a holding company means its subsidiary or subsidiaries;

Companies (Accounting Standards) Rules, 2021 define Small and Medium Sized Company as follows:

2(e) **“Small and Medium Sized Company” (SMC)** means, a company-

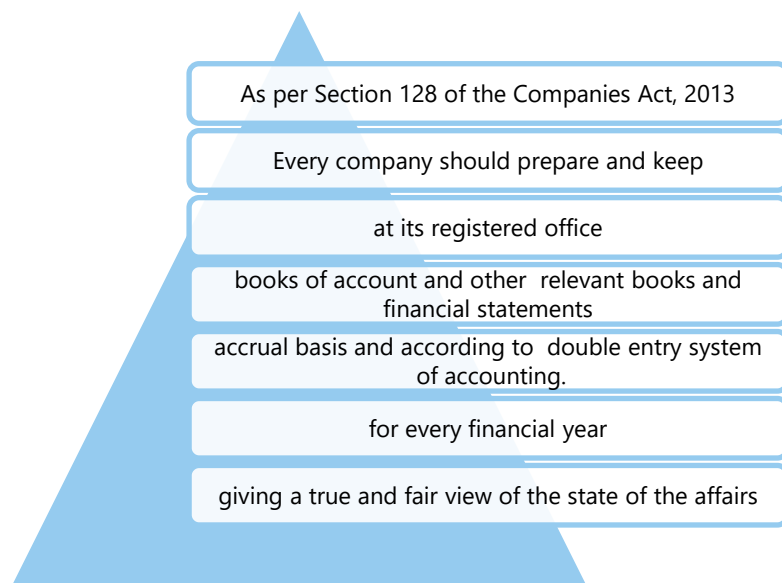
- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- (ii) which is not a bank, financial institution or an insurance company;

- (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
- (iv) which does not have borrowings (including public deposits) in excess of fifty crore rupees at any time during the immediately preceding accounting year; and
- (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of this clause, a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.



1.2 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 should 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.

Maintenance at Place other than Registered Office

It is a duty of the company to inform the Registrar of Companies within seven days of the decision in case the Board of Directors decides to maintain books at the place other than the registered office.

In Case of Branch Office

Where a company has a branch office in India or outside India, it should be deemed to have complied with the provisions of the Act, if proper books of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns periodically are sent by the branch office to the company at its registered office or such other place as the Board of Directors has decided.

Section 128 (3) further lays down that the books of account and other books and papers maintained by the company within India should be open for inspection at the registered office of the company or at such other place in India by any director during business hours, and in the case of financial information, if any, maintained outside the country, copies of such financial information should be maintained and produced for inspection by any director subject to such conditions as may be prescribed. Section 128(5) further states that the books of account of every company relating to a period of not less than 8 financial years immediately preceding a financial year, or where the company had been in existence for a period less than 8 years, in respect of all the preceding years together with the vouchers relevant to any entry in such books of account should be kept in good order.

Books of Accounts maintained in electronic mode

A company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times, so as to be usable for subsequent reference.

Provided that for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of

account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

The books of account and other relevant books and papers shall be retained completely in the format in which they were originally generated, sent or received, or in a format which shall present accurately the information generated, sent or received and the information contained in the electronic records shall remain complete and unaltered.

The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.

The information in the electronic record of the document shall be capable of being displayed in a legible form.

There shall be a proper system for storage, retrieval, display or printout of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law;

Provided that the back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a daily basis.

The company shall intimate to the Registrar on an annual basis at the time of filing of financial statement-

- (a) the name of the service provider;
- (b) the internet protocol address of service provider;
- (c) the location of the service provider (wherever applicable);
- (d) where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.

Explanation.- For the purposes of this rule, the expression "electronic mode" includes "electronic form" as defined in clause (r) of sub-section (1) of section 2 of Information Technology Act, 2000 and also includes an electronic record as

defined in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000 and "books of account " shall have the meaning assigned to it under the Act.

Where the service provider is located outside India, the name and address of the person in control of the books of account and other books and papers in India.

1.3 STATUTORY BOOKS

The following statutory books are required to be maintained by a company under different sections of the Companies Act, 2013:

- ◆ Register of Investments of the company held in its own name (Section 187)
- ◆ Register of Charges (Section 85)
- ◆ Register of Members (Sections 88)
- ◆ Register of Debenture-holders and other Security holders (Section 88)
- ◆ Minute Books (Section 118)
- ◆ Register of Contracts, or arrangements in which directors are interested (Section 189)
- ◆ Register of directors and key managerial personnel and their shareholding (Section 170)
- ◆ Register of Loans and Investments by Company (Section 186)

In addition, a company usually maintains a number of statistical books to keep a record of its transactions which have resulted either in the payment of money to it or constitute the basis on which certain payments have been made by it.

- ◆ Registers and documents relating to the issue of shares are:
 - (i) Share Application and Allotment Book;
 - (ii) Share Call Book
 - (iii) Certificate Book
 - (iv) Register of Members
 - (v) Share Transfer Book
 - (vi) Dividend Register.

1.4 ANNUAL RETURN

In accordance with Section 92 of the Companies Act, 2013, every company should prepare an annual return in the form prescribed by the Companies Act, 2013 signed by a director and the company secretary, or where there is no company secretary, by a company secretary in practice:

Provided that in relation to One Person Company and small company, the annual return should be signed by the company secretary, or where there is no company secretary, by the director of the company.

The annual return should be filed with the Registrar within 60 days from the day on which each of the annual general meeting (AGM) is held or where no AGM is held in any year, within 60 days from the date on which AGM should have been held along with a statement showing the reasons why AGM was not held.

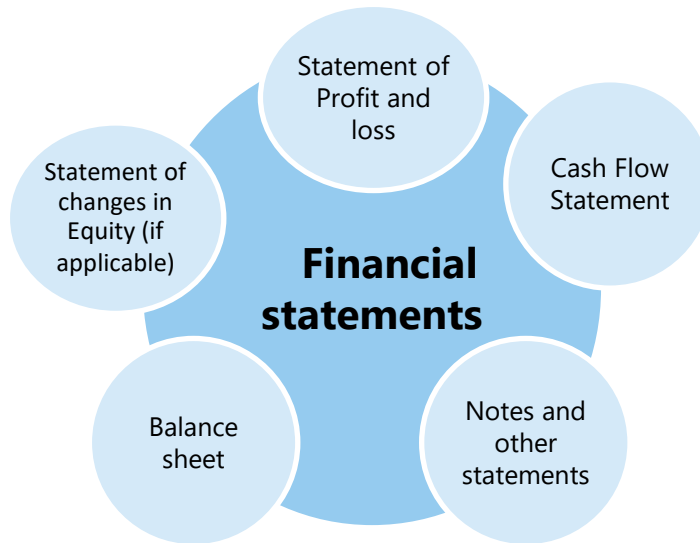
1.5 FINAL ACCOUNTS

Under Section 129 of the Companies Act, 2013, at the annual general meeting of a company, the Board of Directors of the company should lay financial statements before the 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 (i) to (iv) above:

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



The financial statements of a one person company, small company, dormant company or a private company (if such a private company is a start-up), may not include the cash flow statement.

Periodic Financial Statements

The Central Government may, require such class or classes of unlisted companies, as may be prescribed,—

- (a) to prepare the financial results of the company on such periodical basis and in such form as may be prescribed;
- (b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in such manner as may be prescribed; and
- (c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Requisites of Financial Statements

It should 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.

Division	Applicable to:
Division I	Companies that are required to apply Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division II	Companies that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.
Division III	Non-Banking Finance Companies (NBFCs) that are required to apply Indian Accounting Standards notified under Section 133 of the Companies Act, 2013.

**Section 1(4)(d) of the Companies Act, 2013 states that the provisions of the Companies Act shall apply to companies engaged in the generation or supply of electricity, except in so far as the said provisions are inconsistent with the provisions of the Electricity Act, 2003. Keeping this in view, Schedule III may be followed by such companies till the time any other format is prescribed by the relevant statute.*

Points to be kept in mind while preparing final accounts:

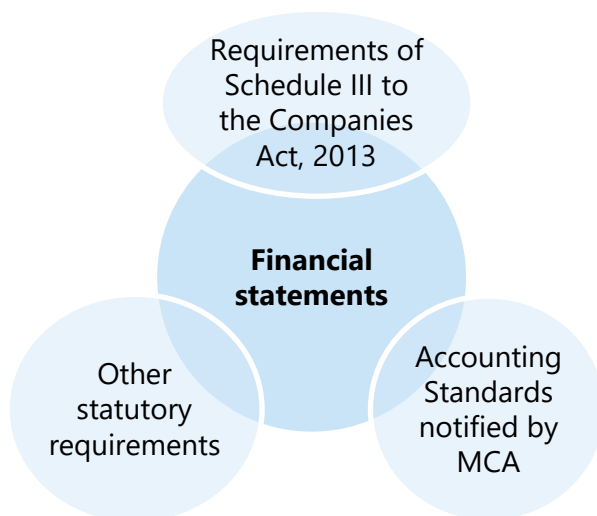
- ◆ Requirements of Schedule III to the Companies Act;
- ◆ Other statutory requirements;
- ◆ Accounting Standards notified by Ministry of Corporate Affairs (MCA) (AS 1 to AS 29²);
- ◆ Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI); which are necessary for understanding the accounting treatment/ valuation/ disclosure suggested by the ICAI.

Compliance with Accounting Standards

As per section 133 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 should 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 should be in the form or forms as may be provided for different class or classes of companies in Schedule III under the Act. Schedule III to the Companies Act, 2013 has been given as Annexure at the end of this chapter.



² AS 6 and AS 8 have been withdrawn

Example 1

In the financial statements of the financial year 20X1-20X2, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment.

Solution

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 20X1. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 20X2 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

Example 2

The management of Loyal Ltd. contends that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in process would be more or less the same. Accordingly, the management had not separately disclosed work in process in its financial statements. Comment in line with Schedule III.

Solution

Schedule III to the companies Act does not require that the amounts of WIP at the beginning and at the end of the accounting period to be disclosed in the statement of profit and loss. Only changes in inventories of WIP need to be disclosed in the statement of profit and loss. Non-disclosure of such change in the statement of profit and loss by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

Example 3

Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 20X1:

Amount ₹ in lakhs

Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

Solution

Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) should be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, should be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus, the presentation by the company is incorrect.

Example 4

Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.20X1 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 20X1 according to Schedule III.

Solution

In the given case, instalments due on 30.09.20X1 and 31.03.20X2 will be shown under the head 'short term borrowings' as current maturities of loan from bank as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Therefore, in the balance sheet as on 31.3.20X1, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'short term borrowings'.

Example 5

Prince Ltd. presents its provisions for contingencies under "Reserves and Surplus" in Notes to Accounts in its financial statements. Whether this presentation is correct?

Solution

The ICAI's Glossary of Terms Used in Financial Statements defines the term 'Reserve' as "the portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability." 'Reserves' should be distinguished from 'provisions'. For this purpose, reference may be made to the definition of the expression 'provision' in AS-29 Provisions, Contingent Liabilities and Contingent Assets.

As per AS-29, a 'provision' is "a liability which can be measured only by using a substantial degree of estimation". A 'liability' is "a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits." Present obligation' – "an obligation is a present obligation if, based on the evidence available, its existence at the Balance Sheet date is considered probable, i.e., more likely than not."

Example 6

Anek Ltd. is a company that is required to present its financial statements as per the Division I of Schedule III. The company has trade receivables at the balance sheet date. What are the disclosures that are applicable with respect to trade receivables in the financial statements?

Solution

Under Schedule III, trade receivables are required to be classified into long-term (non-current) trade receivables and short-term (current) trade receivables. Trade Receivables, shall be sub-classified as:

- (i) (a) Secured, considered good;
- (b) Unsecured considered good;
- (c) Doubtful

- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

For trade receivables outstanding, following ageing schedule shall be given:

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months-1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade Receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables – considered good						
(iv) Disputed Trade Receivables – considered doubtful						

similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Note: Students may note that the questions based on preparation of Statement of Profit and Loss and Balance Sheet and explanatory notes as per Schedule III have been given in this Unit. However, questions requiring preparation of cash flow statements have been separately given in the next unit of this chapter.



1.6 DISTRIBUTABLE PROFIT

One of the important functions of company accounting is to determine the amount of profits which is available for distribution to the shareholders as dividend. This is necessary since the amount of profits disclosed by the Profit & Loss Account, in every case, is not available for distribution. The availability of profits for distribution depends on a number of factors, *e.g.*, their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.

Meaning of Dividend

- (a) A dividend is a distribution of divisible profit of a company among the members according to the number of shares held by each of them in the capital of the company and the rights attaching thereto.
- (b) Such a distribution may or may not entail a release of assets; it would be where a distribution involves payment of cash.
- (c) But when profits are capitalised and the amount distributed is applied towards payment of bonus shares, issued free to the shareholders, no part of the assets of the company can be said to have been released since, in such a case, profits are only capitalised, thereby increasing the paid up capital of the company. The company does not give up any asset.

As per Section 2 (35) of the Companies Act, 2013, term "Dividend" includes interim dividend also.

Under Section 123 (1) of the Companies Act, 2013, no dividend should be declared or paid by a company for any financial year except-

- (a) Out of the profits of the company for that financial year arrived at after providing for depreciation in accordance with the provisions of section 123(2), or
- (b) Out of the profits for any previous financial years arrived at after providing for depreciation in accordance with the provisions of that sub section and remaining undistributed; or
- (c) Out of both the above;

- (d) Out of the moneys provided by the Central Government or any State Government for the payment of dividend by the Company in pursuance of any guarantee given by that government

Provided that no dividend should be declared or paid by a company from its reserves other than free reserves.

Declaration of a dividend presupposes that there is a trading profit or a surplus available for distribution, arrived at after providing for depreciation on assets, not only for the year in which the profits were earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by sub-section (2) of Section 123.

Sub-section (3) of Section 124 further states that the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

***Dividends cannot be declared except out of profits.
Capital cannot be returned to the shareholders by way of dividend.***

Dividend can be declared and paid by a company only out of the profits or free reserves (other than moneys provided by Central or State Govt.) as the payment of dividend from any other source will amount to payment of dividend from capital units.

Section 123(2) states that depreciation must be provided to the extent specified in Schedule II to the Companies Act, 2013. Further, when the assets are sold, discarded, demolished or destroyed in any financial year, the excess of the written down value over its sale proceeds as scrap, if any should be written off in the same financial year.

Declaration and Payment of Dividend

For the purpose of second proviso to sub-section (1) of section 123, a company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the reserves, in the event of inadequacy or absence

of profits in any year, subject to the fulfilment of the following conditions as per Companies (Declaration and Payment of Dividend) Rules, 2014:

- (1) The rate of dividend declared should not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year: provided that this sub-rule should not apply to a company, which has not declared any dividend in each of the three preceding financial years.
- (2) The total amount to be drawn from such accumulated profits should not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.
- (3) The amount so drawn should first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared.
- (4) The balance of reserves after such withdrawal should not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.
- (5) No company should declare dividend unless carried over previous losses and depreciation not provided in previous year are set off against profit of the company of the current year the loss or depreciation, whichever is less, in previous years is set off against the profit of the company for the year for which dividend is declared or paid.

Transfer to Reserves

- I The Board of Directors are free and can appropriate a part of the profits to the credit of a reserve or reserves as per section 123 (1) of the Companies Act, 2013.
- II Appropriation of a part of profit is sometimes made under law.
 - (a) For example, under the Banking Regulation Act, a fixed percentage of the profit of a banking company must first be transferred to the General Reserve before any dividend can be distributed.
 - (b) Transfer of a part of profit to a reserve is also necessary where the company has undertaken, at the time of raising of loan, that before any part of its profit is distributed, a specified percentage of the profit every year should be credited to a reserve for the repayment of the

loan and until the time for repayment arrives, the amount should remain invested in a specified manner.

- III Apart from appropriations aforementioned, it may also be necessary to provide for losses and arrears of depreciation and to exclude capital profit, as mentioned earlier, to arrive at the amount of divisible profit.

Declaration of Dividend

As per Section 123 of the Companies Act, 2013, Board of Directors of a company may declare dividend including interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared:

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend should not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

The amount of the dividend, including interim dividend, should be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.

No dividend should be paid by a company in respect of any share therein except to the registered shareholder of such share or to his order or to his banker and should not be payable except in cash: Provided that nothing in Section 123 should be deemed to prohibit the capitalisation of profits or reserves of a company for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the members of the company:

Provided further that any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend.

Dividend on preference shares

- (a) Holders of preference shares are entitled to receive a dividend at a fixed rate before any dividend is declared on equity shares.
- (b) But such a right can be exercised subject to there being profits and the Directors recommending payment of the dividend.

Dividend on partly paid shares:

- A company may if so authorised by its Article, pay a dividend in proportion to the amount paid on each share (Section 51 of the Companies Act, 2013).

Calls in Advance

Calls paid in advance do not rank for payment of dividend.

Payment of Dividend

As per Section 124 of the Companies Act, 2013:

- (1) Where a dividend has been declared by a company but has not been paid or claimed within thirty days from the date of the declaration to any shareholder entitled to the payment of the dividend, the company should, within seven days from the date of expiry of the said period of thirty days, transfer the total amount of dividend which remains unpaid or unclaimed to a special account to be opened by the company in that behalf in any scheduled bank to be called the Unpaid Dividend Account.
- (2) The company should, within a period of ninety days of making any transfer of an amount under this section to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the website of the company, if any, and also on any other website approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.
- (3) If any default is made in transferring the total amount or any part thereof to the Unpaid Dividend Account of the company, it should pay, from the date of such default, interest on so much of the amount as has not been transferred to the said account, at the rate of 12% per annum and the interest accruing on such amount should ensure to the benefit of the members of the company in proportion to the amount remaining unpaid to them.
- (4) Any person claiming to be entitled to any money transferred to the Unpaid Dividend Account of the company may apply to the company for payment of the money claimed.
- (5) Any money transferred to the Unpaid Dividend Account of a company in pursuance of this section which remains unpaid or unclaimed for a period of seven years from the date of such transfer should be transferred by the

company along with interest accrued, if any, thereon to the Fund "Investor Education and Protection Fund" established section 125 and the company should send a statement in the prescribed form of the details of such transfer to the authority which administers the said Fund and that authority should issue a receipt to the company as evidence of such transfer.

- (6) All shares in respect of which unpaid or unclaimed dividend has been transferred to "Investor Education and Protection Fund" should also be transferred by the company in the name of Investor Education and Protection Fund along with a statement containing such details as may be prescribed:

Provided that any claimant of shares transferred above should be entitled to claim the transfer of shares from Investor Education and Protection Fund in accordance with such procedure and on submission of such documents as may be prescribed.

- (7) If a company fails to comply with any of the requirements of this section, the company will be punishable with fine which will not be less than five lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default will be punishable with fine which will not be less than one lakh rupees but which may extend to five lakh rupees.

Illustration 1

Due to inadequacy of profits during the year ended 31st March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	₹
17,500 9% Preference shares of ₹ 100 each, fully paid up	17,50,000
8,00,000 Equity shares of ₹ 10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net profit for the year ended 31 st March, 20X2	3,00,000
Average rate of dividend during the last three years has been 12%.	

Solution

Amount that can be drawn from reserves for 10% dividend		
10% dividend on ₹ 80,00,000		₹ 8,00,000
Profits available		
Current year profit	3,00,000	
Less: Preference dividend	<u>(1,57,500)</u>	<u>(1,42,500)</u>
Amount which can be utilised from reserves		<u>6,57,500</u>

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 12,25,000 [10% of (80,00,000+17,50,000+25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15 % of its paid up capital ie. ₹ 14,62,500 (15% of ₹ 97,50,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserves (as per Declaration and Payment of Dividend Rules, 2014.)

Illustration 2

The following is the Trial Balance of Omega Limited as on 31.3.20X2:

(Figures in ₹'000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.X2)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

- (i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.
- (ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.
- (iii) Declared final dividend @ 10% on 2nd April, 20X2.
- (iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.20X1. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Omega Limited's Balance Sheet as on 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous years' figures & taxation.

Solution

Omega Limited
Balance Sheet as at 31st March, 20X2

<i>Particulars</i>	<i>Note No.</i>	<i>(₹ in 000)</i>
Equity and Liabilities		
1. Shareholders' funds		
A Share capital	1	300
B Reserves and Surplus	2	530
2. Non-Current liabilities		
A Long term borrowings	3	200
3. Current liabilities		
A Trade Payables		<u>52</u>
Total		<u>1082</u>
Assets		
1. Non-current assets		
A PPE (Property, Plant & Equipment)	4	880
2. Current assets		
A Inventories		86
B Trade receivables		96
C Cash and bank balances		<u>20</u>
Total		<u>1082</u>

Omega Limited

Statement of Profit and Loss for the year ended 31st March, 20X2

Particulars	Notes	(₹ in 000)
I. Revenue from operations		700
II. Other Income	5	<u>2</u>
III Total Income		<u>702</u>
IV Expenses:		
Purchases		320
Finance costs	6	20
Depreciation (10% of 760*)		76
Other expenses	7	<u>120</u>
Total Expenses		<u>536</u>
V. Profit (Loss) for the period (III – IV)		166

Notes to accounts

			(₹ in 000)
1. Share Capital			
Equity share capital			
Authorised			
40,000 shares of ₹ 10 each			<u>400</u>
Issued & subscribed & called up			
30,000 shares of ₹ 10 each			300
2. Reserves and Surplus			
Securities Premium Account			40
Revaluation reserve (360 – 220)			140
General reserve			130

* 770 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Profit & loss Balance		
	Opening balance	72	
	Profit for the period	<u>166</u>	238
	Less: Appropriations		
	Interim Dividend	<u>(18)</u>	<u>220</u>
			<u>530</u>
3.	Long term borrowing		
	10% Debentures		200
4.	PPE		
	Land		
	Opening balance	220	
	Add: Revaluation adjustment	<u>140</u>	
	Closing balance		360
	Plant and Machinery		
	Opening balance	770	
	Less: Disposed off	<u>(10)</u>	
		760	
	Less: Depreciation (172-8+76)	<u>(240)</u>	
	Closing balance		520
	Total		880
5.	Other Income		
	Profit on sale of machinery:		
	Sale value of machinery	4	
	Less: Book value of machinery (10-8)	<u>(2)</u>	2
6.	Finance costs		
	Debenture interest		20
7.	Other expenses:		
	Factory expenses	60	
	Selling expenses	30	
	Administrative expenses	<u>30</u>	120

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

Illustration 3

You are required to prepare Balance sheet and statement of Profit and Loss from the following trial balance of Haria Chemicals Ltd. for the year ended 31st March, 20X1.

Haria Chemicals Ltd. Trial Balance as at 31st March, 20X1

Particulars	₹	Particulars	₹
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of ₹ 10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to Directors	80,000	Bank loans	6,45,000
Advertisement	20,000	Trade payables	2,81,000
Bad debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Materials consumed	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit & Loss account	1,39,000
Rentals	25,000	Depreciation provision:	
Current account	45,000	Machinery	1,46,000
Cash	8,000		
Interest on bank loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold land	15,46,000		

<i>Tools & Equipment</i>	<i>2,45,000</i>		
<i>Goodwill</i>	<i>2,65,000</i>		
<i>Trade receivables</i>	<i>4,40,000</i>		
<i>Dealer aids</i>	<i>21,000</i>		
<i>Transit insurance</i>	<i>30,000</i>		
<i>Trade expenses</i>	<i>37,000</i>		
<i>Distribution freight</i>	<i>54,000</i>		
<i>Debenture interest</i>	<i>55,000</i>		
	<i>85,35,000</i>		<i>85,35,000</i>

Additional information: Closing Inventory on 31-3-20X1: ₹ 8,23,000.

Solution

Haria Chemicals Ltd. Balance Sheet as at 31st March, 20X1

	<i>Schedule No. (1)</i>	<i>Rupees as at the end of 31st March 20X1 (2)</i>
Equity and Liabilities		
(1) Shareholders' funds :		
(a) Share Capital	1	25,00,000
(b) Reserves and Surplus	2	7,40,000
(2) Non Current Liabilities		
(a) Long term borrowings	3	11,45,000
(3) Current Liabilities		
(a) Trade payables		2,81,000
Total		46,66,000

Assets**(1) Non current assets**

(a) PPE	4	30,05,000
(b) Intangible assets (goodwill)		2,65,000

(2) Current assets

(a) Inventories		8,23,000
(b) Trade receivables		4,40,000
(c) Cash and bank balances	5	53,000
(d) Short term loans and advances	6	80,000

Total		46,66,000
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Haria Chemicals Ltd.**Statement of Profit and Loss for the year ended 31st March, 20X1**

	Schedule	Figures
Revenue from operations		42,68,000
Other income	7	<u>56,000</u>
(A)		43,24,000
Expenses		
Cost of materials consumed		23,19,000
Change in inventory of finished goods	8	(1,43,000)
Employee benefit expenses	9	9,00,000
Finance cost	10	1,71,000
Other expenses	11	<u>4,76,000</u>
(B)		<u>37,23,000</u>
Profit before tax (A – B)		6,01,000
Provision for tax		<u>—</u>
Profit for the period		6,01,000

Notes to Accounts**1. Share capital**

₹

Authorised:

Equity share capital of ₹ 10 each 25,00,000

Issued and Subscribed:

Equity share capital of ₹ 10 each 25,00,000

2. Reserves and Surplus

Balance as per last balance sheet 1,39,000

Balance in profit and loss account 6,01,0007,40,000**3. Long term Borrowings**

11% Debentures 5,00,000

Bank loans (assumed long-term) 6,45,00011,45,000**4. PPE**

	Gross block	Depreciation	Net Block
Freehold land	15,46,000		15,46,000
Furniture	2,00,000		2,00,000
Fixtures	3,00,000		3,00,000
Plant & Machinery	8,60,000	1,46,000	7,14,000
Tools & Equipment	<u>2,45,000</u>	<u> </u>	<u>2,45,000</u>
Total	31,51,000	1,46,000	30,05,000

5. Cash and bank balances

Cash and cash equivalents

Current account balance 45,000

Cash 8,000

Other bank balances Nil53,000

6. Short-term loans and Advances

Loan to directors	80,000
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7. Other Income

Rent received	46,000
---------------	--------

Transfer fees	<u>10,000</u>
---------------	---------------

	<u>56,000</u>
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8. Changes in inventory of finished goods, WIP & Stock in trade

Opening inventory	6,80,000
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Closing inventory	(8,23,000)	(1,43,000)
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9. Employee benefit expense

Wages	9,00,000
-------	----------

10. Finance cost

Interest on bank loans	1,16,000
------------------------	----------

Debenture interest	<u>55,000</u>
--------------------	---------------

	<u>1,71,000</u>
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11. Other Expenses

Consumables	84,000
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Preliminary expenses	10,000
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Bad debts	35,000
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Discount	40,000
----------	--------

Rentals	25,000
---------	--------

Commission	1,20,000
------------	----------

Advertisement	20,000
---------------	--------

Dealers' aids	21,000
---------------	--------

Transit insurance	30,000
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Trade expenses	37,000
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Distribution freight	<u>54,000</u>
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	<u>4,76,000</u>
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Illustration 4

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 20X2:

	Dr. ₹	Cr. ₹
Authorised Capital-divided into 5,000 6% Preference Shares of ₹ 100 each and 10,000 equity Shares of ₹ 100 each		<u>15,00,000</u>
Subscribed Capital -		
5,000 6% Preference Shares of ₹ 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700

Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Inventory on hand, 1st April, 20X1		
Wines, Cigarettes. Cigars, etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of ₹ 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Trade payables		42,000
Trade receivables	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve	<u> </u>	<u>2,00,000</u>
	<u>19,75,000</u>	<u>19,75,000</u>
Wages and Salaries Outstanding	1,280	
Inventory on 31st March, 20X2		
Wines, Cigarettes and Cigars, etc.	22,500	
Foodstuffs	16,400	

Depreciation : Furniture and Fittings @ 5% p.a. : Land and Building @ 2% p.a.

The Equity capital on 1st April, 20X1 stood at ₹ 7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹ 60 paid. The directors made a call of ₹ 40 per share on 1st October 20X1. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹ 90 per share as fully paid. The Directors declared a dividend of 8% on equity shares on 2nd April, 20X2, transferring any amount that may be required from General Reserve. Ignore Taxation.

Solution

Balance Sheet of International Hotels Ltd. as at 31st March, 20X2

<i>Particulars</i>	<i>Note No</i>	<i>₹</i>
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	13,00,000
b Reserves and Surplus	2	2,68,745
2 Non-current liabilities		
a Long-term borrowings	3	2,00,000
3 Current liabilities		
a Trade Payables	4	42,000
b Other current liabilities	5	13,280
Total		18,24,025
ASSETS		
1 Non-current assets		
i PPE	6	9,14,985
ii Intangible assets (Goodwill)		5,00,000
iii Non-current investments		2,72,300
2 Current assets		
i Inventories	7	38,900
ii Trade receivables		19,260
iii Cash and bank balances	8	78,580
Total		18,24,025

**Statement of Profit and Loss of International Hotels Ltd.
for the year ended 31st March, 20X2**

	Particulars	Notes	Amount
I.	Revenue from operations	9	1,79,700
II.	Other income	10	6,800
III.	Total Income (I + II)		1,86,500
IV.	Expenses:		
	Cost of materials consumed	11	25,060
	Purchases of Inventory-in-Trade	12	45,800
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	13	(9,700)
	Employee benefits expense	14	29,580
	Finance costs	15	12,000
	Other expenses	16	40,200
	Depreciation and amortisation expense	17	21,315
	Total expenses		1,64,255
V.	Profit (Loss) for the period (III - IV)		22,245

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
Authorised	
10,000 Equity shares of ₹ 100 each	10,00,000
Issued & subscribed	
8,000 Equity Shares of ₹ 100 each (A)	8,00,000
Preference share capital	
Authorised	
5,000 6% Preference shares of ₹ 100 each	5,00,000

Issued & subscribed		
5,000 6% Preference shares of ₹ 100 each	(B)	5,00,000
Total (A + B)		13,00,000
2 Reserves and Surplus		
Capital reserve [100 x (90 – 40)]		5,000
General reserve		2,00,000
Surplus (Profit & Loss A/c)	22,245	
Add: Balance from previous year	<u>41,500</u>	<u>63,745</u>
Total		<u>2,68,745</u>
3 Long-term borrowings		
Secured		
6% Debentures		2,00,000
Total		2,00,000
4 Trade Payables		42,000
5 Other current liabilities		
Wages and Salaries Outstanding	1,280	
Interest on debentures	12,000	13,280
Total		13,280
6 PPE		
Freehold land & Buildings	8,50,000	
Less: Depreciation	<u>(17,000)</u>	8,33,000
Furniture and Fittings	86,300	
Less: Depreciation	<u>(4,315)</u>	81,985
Total		9,14,985

7 Inventories		
Wines, Cigarettes & Cigars, etc.		22,500
Foodstuffs		16,400
Total		38,900
8 Cash and bank balances		
Cash and cash equivalents		
Cash at bank		76,380
Cash in hand		2,200
Other bank balances		Nil
Total		78,580
9 Revenue from operations		
Sale of products		
Wines, Cigarettes, Cigars etc.	68,400	
Food	<u>57,600</u>	1,26,000
Sale of services		
Room Rent	48,000	
Billiards	<u>5,700</u>	53,700
Total		1,79,700
10 Other Income		
Transfer fees	700	
Miscellaneous Receipts	2,800	
Discount received	<u>3,300</u>	
Total		6,800
11 Cost of materials consumed		
Opening Inventory	5,260	
Add: Purchases during the year	36,200	
Less: Closing Inventory	<u>(16,400)</u>	25,060
Total		25,060

12 Purchases of Inventory-in-Trade		
Wines, Cigarettes etc.		45,800
Total		45,800
13 Changes in inventories of finished goods work-in-progress and Inventory-in-Trade		
Wines, Cigarettes etc.		
Opening Inventory	12,800	
Less: Closing Inventory	(22,500)	(9,700)
Total		(9,700)
14 Employee benefits expense		
Wages and Salaries	28,300	
Add: Wages and Salaries Outstanding	1,280	29,580
Total		29,580
15 Finance costs		
Interest on Debentures (2,00,000 x 6%)		12,000
16 Other expenses		
operating expenses		
Rent, Rates and Taxes	8,900	
Coal and Firewood	3,290	
Laundry	750	
Carriage and Cooliage	810	
Repairs	<u>4,250</u>	18,000
Selling and administrative expenses		
Advertising	8,360	
Sundry Expenses	<u>5,840</u>	14,200
Preliminary expenses written off		8,000
Total		40,200
17 Depreciation and amortisation expense		
Land and Buildings (8,50,000 x 2%)	17,000	
Furniture & Fittings (86,300 x 5%)	4,315	21,315
Total		21,315

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

Illustration 5

From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 20X1 as required by Schedule III of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

	Debit	Credit
	₹	₹
Equity Capital (Face value of ₹ 100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Inventory:		
Finished Goods	2,00,000	
Raw Materials	<u>50,000</u>	2,50,000
Provision for Taxation		68,000
Trade receivables	2,00,000	
Advances	42,700	
Dividend Payable		60,000
Profit and Loss Account		86,700

Cash Balance	30,000	
Cash at Bank	2,47,000	
Loans (Unsecured)		1,21,000
Trade payables (For Goods and Expenses)		2,00,000
	18,95,700	18,95,700

The following additional information is also provided:

- (1) 2,000 equity shares were issued for consideration other than cash.
- (2) Trade receivables of ₹ 52,000 are due for more than six months.
- (3) The cost of assets:

Building	₹ 4,00,000
Plant and Machinery	₹ 7,00,000
Furniture	₹ 62,500
- (4) The balance of ₹ 1,50,000 in the loan account with State Finance Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- (5) Balance at Bank includes ₹ 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (6) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

Solution

Pioneer Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	9,99,000
b Reserves and Surplus	2	2,96,700

2 Non-current liabilities		
a Long-term borrowings	3	2,63,500
3 Current liabilities		
a Trade Payables		2,00,000
b Other current liabilities	4	67,500
c Short-term provisions	5	68,000
Total		18,94,700
Assets		
1 Non-current assets		
a PPE	6	11,25,000
2 Current assets		
a Inventories	7	2,50,000
b Trade receivables	8	2,00,000
c Cash and bank balances	9	2,77,000
d Short-term loans and advances		42,700
Total		18,94,700

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
Issued & subscribed & called up	
10,000 Equity Shares of ₹ 100 each	10,00,000
(Of the above 2,000 shares have been issued for consideration other than cash)	
Less: Calls in arrears	(1,000)
Total	9,99,000
2 Reserves and Surplus	
General Reserve	2,10,000
Surplus (Profit & Loss A/c)	86,700
Total	2,96,700

3 Long-term borrowings			
Secured- Term Loans			
Loan from State Financial Corporation			1,42,500
(1,50,000 – 7,500)			
(Secured by hypothecation of Plant and Machinery)			
Unsecured loan			1,21,000
	Total		2,63,500
4 Other current liabilities			
Interest accrued but not due on loans (SFC)			7,500
Dividend Payable			60,000
	Total		67,500
5 Short-term provisions			
Provision for taxation			68,000
	Total		68,000
6 PPE			
Land			2,00,000
Buildings	4,00,000		
Less: Depreciation	(50,000) (b.f.)		3,50,000
Plant & Machinery	7,00,000		
Less: Depreciation	(1,75,000) (b.f.)		5,25,000
Furniture & Fittings	62,500		
Less: Depreciation	(12,500) (b.f.)		50,000
	Total		11,25,000
7 Inventories			
Raw Material			50,000
Finished goods			2,00,000
	Total		2,50,000

8 Trade receivables		
Debts outstanding for a period exceeding six months		52,000
Other Debts		1,48,000
Total		2,00,000
9 Cash and bank balances		
<i>Cash and cash equivalents</i>		
Cash at bank		
with Scheduled Banks	2,45,000	
with others (Perfect Bank Ltd.)	2,000	2,47,000
Cash in hand		30,000
<i>Other bank balances</i>		Nil
Total		2,77,000

Note: Estimated amount of contract remaining to be executed on capital account and not provided for ₹ 1,50,000. It has been assumed that the company had given this contract for purchase of machinery.

Illustration 6

Following is the trial balance of Delta limited as on 31.3.20X2.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.X1)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-X2)	96	Sales	1200

Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

- (i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- (ii) The company revalued the land at ₹ 9,60,000.
- (iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.
- (iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.20X1. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.
- (vii) Make provision for income tax @30%.
- (viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.20X2 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.20X2 as per Schedule III. Ignore previous year's figures & taxation.

Solution

Delta Limited

Balance Sheet as at 31st March 20X2

Particulars	Note No.	(₹ in '000)
A. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	807.20
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.00
(b) Short- term provision	4	<u>163.80</u>
Total		<u>1,796.00</u>
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	5	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables	6	120.00
(c) Cash and Cash equivalents	7	<u>30.00</u>
Total		<u>1,796.00</u>

Statement of Profit and Loss for the year ended 31st March 20X2

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		1200.00
II. Other Income	8	<u>6.00</u>
III. Total Income (I +II)		<u>1,206.00</u>
IV. Expenses:		
Purchases (adjusted)		400.00

Finance Costs	9	30.00
Depreciation (10% of 800)		80.00
Other expenses	10	<u>150.00</u>
Total Expenses		<u>660.00</u>
V. Profit / (Loss) for the period before tax (III – IV)		546.00
VI. Tax expenses @30%		<u>163.80</u>
VII Profit for the period		<u>382.20</u>

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		<u>800</u>
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(5)</u>	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	<u>382.20</u>	<u>457.20</u>
			<u>807.20</u>

3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	<u>160</u>	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	<u>(24)</u>	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	<u>(210)</u>	
	Closing Balance		<u>590</u>
	Total		<u>1,550</u>
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	<u>70</u>	120
7	Cash and Cash Equivalents		
	Cash at Bank With scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	<u>2</u>	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	<u>(4)</u>	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	<u>45</u>	150

SUMMARY

- Definitions of various types of companies as per the Companies Act, 2013.
- Books of accounts should be maintained at Registered office of company.
- Proper books are not deemed to be kept if they do not provide a true and fair view of state of affairs of company.
- A number of Statutory Books have been prescribed under Companies Act which is to be maintained along with statistical books to keep a record of all transactions.
- Annual Return is to be filed by every company within 60 days of holding Annual general meeting.
- Financial statements of a company should be as per Schedule III to the Companies Act, 2013 and they should give true and fair view.
- Determining amount of profits available for distribution is an important function and depends on a number of factors, like their composition, the amount of provisions and appropriations that must be made out of them in priority, etc.
- Capital cannot be returned to shareholders by way of dividend.
- Appropriating a part of profits may be done as a result of decision of Board of directors or as per law.
- Dividend may be declared out of reserves subject to certain conditions. Dividends cannot be declared except out of profits.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Trade payables as per Schedule III will include:*
 - (a) *Dues payable in respect to statutory obligation*
 - (b) *Interest accrued on trade payables*
 - (c) *Bills payables.*
 - (d) *Bills receivables*
2. *Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:*
 - (a) *Reserves and Surplus.*
 - (b) *Current Liabilities.*
 - (c) *Share Capital.*
 - (d) *Share application money pending allotment*
3. *"Fixed assets held for sale" will be classified in the company's balance sheet as*
 - (a) *Current asset*
 - (b) *Non-current asset*
 - (c) *Capital work- in- progress*
 - (d) *Deferred tax assets*
4. *Current maturities of long- term debt will come under*
 - (a) *Current Liabilities.*
 - (b) *Short term borrowings.*
 - (c) *Long term borrowings.*
 - (d) *Short term provisions*

5. Declaration of dividends for current year is made after providing for
- Depreciation of past years only.
 - Depreciation on assets for the current year and arrears of depreciation of past years (if any).
 - Depreciation on current year only and by forgoing arrears of depreciation of past years.
 - Excluding current year depreciation

Theoretical Questions

6. State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share application money received in excess of issued share capital.
 - Share option outstanding account.
 - Unpaid matured debenture and interest accrued thereon.
 - Uncalled liability on shares and other partly paid investments.
 - Calls unpaid.
 - Money received against share warrant.

Scenario based Questions

7. On 31st March, 20X1 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 20X1:

Credit Balances:

	₹
Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
(Secured by hypothecation of Plant & Machinery Repayable	

<i>within one year ₹ 2,00,000)</i>	
<i>Loans: Unsecured (Long term)</i>	<i>8,47,000</i>
<i>Sundry Creditors for goods & expenses</i> <i>(Payable within 6 months)</i>	<i>14,00,000</i>
<i>Profit & Loss Account</i>	<i>7,00,000</i>
<i>Provision for Taxation</i>	<i>8,16,900</i>
	<i>1,33,63,000</i>

Debit Balances:

	₹
<i>Calls in arrear</i>	<i>7,000</i>
<i>Land</i>	<i>14,00,000</i>
<i>Buildings</i>	<i>20,50,000</i>
<i>Plant and Machinery</i>	<i>36,75,000</i>
<i>Furniture & Fixture</i>	<i>3,50,000</i>
<i>Inventories: Finished goods</i>	<i>14,00,000</i>
<i>Raw Materials</i>	<i>3,50,000</i>
<i>Trade Receivables</i>	<i>14,00,000</i>
<i>Advances: Short-term</i>	<i>2,98,900</i>
<i>Cash in hand</i>	<i>2,10,000</i>
<i>Balances with banks</i>	<i>17,29,000</i>
<i>Preliminary Expenses</i>	<i>93,100</i>
<i>Patents & Trademarks</i>	<i>4,00,000</i>
	<i>1,33,63,000</i>

The following additional information is also provided in respect of the above balances:

- (i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.
- (ii) Cost of Building ₹ 28,00,000

- (iii) Cost of Plant & Machinery ₹ 49,00,000
 Cost of Furniture & Fixture ₹ 4,37,500
- (iv) Trade receivables for ₹ 3,80,000 are due for more than 6 months.
- (v) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.
- (vi) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.
- (vii) Entire amount of Preliminary expenses to be written off, by adjusting from opening balance of General Reserve.

You are not required to give previous year's figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 20X1 as required under Schedule III to the Companies Act, 2013.

8. From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 20X1 as required by Part I, Schedule III to the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	<u>10,00,000</u>	12,50,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	

<i>Profit & Loss Account</i>			4,33,500
<i>Cash in Hand</i>		1,50,000	
<i>Cash at Bank</i>		12,35,000	
<i>Unsecured Loan</i>			6,05,000
<i>Trade payables (for Goods and Expenses)</i>			8,00,000
<i>Loans & advances from related parties</i>			2,00,000
		94,78,500	94,78,500

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
- (ii) Trade receivables of ₹2,60,000 are due for more than 6 months.
- (iii) The cost of the Assets were:
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹3,12,500
- (iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.
- (v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.
- (vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.
- (vii) Board of directors declared dividend of 5% on the paid up capital on 2nd April, 20X1.

9. Ring Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 20X2:

Particulars	₹	Particulars	₹
<i>Buildings</i>	5,80,000	<i>Sales</i>	10,40,000
<i>Machinery</i>	2,00,000	<i>Outstanding Expenses</i>	4,000
<i>Closing Stock</i>	1,80,000	<i>Provision for Doubtful</i>	6,000
<i>Loose Tools</i>	46,000	<i>Debts (1-4-20X1)</i>	

<i>Purchases (finished goods)</i>	<i>4,20,000</i>	<i>Equity Share Capital</i>	<i>4,00,000</i>
<i>Salaries</i>	<i>1,20,000</i>	<i>General Reserve</i>	<i>80,000</i>
<i>Directors' Fees</i>	<i>20,000</i>	<i>Profit and Loss A/c</i>	<i>50,000</i>
<i>Rent</i>	<i>52,000</i>	<i>(1-4-20X1)</i>	
<i>Depreciation</i>	<i>40,000</i>	<i>Creditors</i>	<i>1,84,000</i>
<i>Bad Debts</i>	<i>12,000</i>	<i>Provision for depreciation:</i>	
<i>Investment</i>	<i>2,40,000</i>	<i>On Building 1,00,000</i>	
<i>Interest accrued on investment</i>	<i>4,000</i>	<i>On Machinery <u>1,10,000</u></i>	<i>2,10,000</i>
<i>Debenture Interest</i>	<i>56,000</i>	<i>14% Debentures</i>	<i>4,00,000</i>
<i>Advance Tax</i>	<i>1,20,000</i>	<i>Interest on Debentures</i>	<i>28,000</i>
<i>Sundry expenses</i>	<i>36,000</i>	<i>accrued but not due</i>	
<i>Debtors</i>	<i>2,50,000</i>	<i>Interest on Investments</i>	<i>24,000</i>
<i>Bank</i>	<i>60,000</i>	<i>Unclaimed dividend</i>	<i>10,000</i>
	<i>24,36,000</i>		<i>24,36,000</i>

You are required to prepare statement of Profit and Loss for the year ending 31st March, 20X2 and Balance sheet as at that date after taking into consideration the following information:

- Closing stock is more than opening stock by ₹ 1,60,000.
- Provide to doubtful debts @ 4% on Debtors.
- Make a provision for income tax @30%.
- Depreciation expense included depreciation of ₹ 16,000 on Building and that of ₹ 24,000 on Machinery.
- The directors declared a dividend @ 25% on 2nd April, 20X2 and transfer to General Reserve @ 10%.
- Bills Discounted but not yet matured ₹ 20,000.

10. On 31st March, 20X1, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 20X1.

Particulars	Amount (₹)	
	<i>Debit</i>	<i>Credit</i>
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	
Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
Total	1,76,24,000	1,76,24,000

The following additional information was also provided in respect of the above balances:

- (1) 50,000 fully paid equity shares were allotted as consideration for land.

- (2) *The cost of assets were:*

<i>Building</i>	<i>₹ 32,00,000</i>
<i>Plant and Machinery</i>	<i>₹ 30,00,000</i>
<i>Furniture and Fixture</i>	<i>₹ 16,50,000</i>

- (3) *Trade Receivables for ₹ 4,86,000 due for more than 6 months.*
- (4) *Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.*
- (5) *Loan from Public Finance Corporation repayable after 3 years.*
- (6) *The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.*
- (7) *Other long term loans (unsecured) includes:*

<i>Loan taken from Nixes Bank</i>	<i>₹ 13,80,000</i>
<i>(Amount repayable within one year</i>	<i>₹ 4,80,000)</i>
<i>Loan taken from Directors</i>	<i>₹ 8,50,000</i>

- (8) *Bills Receivable for ₹ 1,60,000 maturing on 15th June, 20X1 has been discounted.*
- (9) *Short term borrowings includes:*

<i>Loan from Naya bank</i>	<i>₹ 1,16,000 (Secured)</i>
<i>Loan from directors</i>	<i>₹ 48,000</i>

- (10) *Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.*
- (11) *Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS 10)*

You are required to prepare the Balance Sheet of the Company as on March 31st 20X1 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures.

ANSWERS/HINTS

Answer to the Multiple Choice Questions

1.	(c)	2.	(a)	3.	(a)	4.	(b)	5.	(b)
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Answer to the Theoretical Questions

6. (i) Current Liabilities/ Other Current Liabilities
 (ii) Shareholders' Fund / Reserve & Surplus
 (iii) Current liabilities/Other Current Liabilities
 (iv) Contingent Liabilities and Commitments
 (v) Shareholders' Fund / Share Capital
 (vi) Shareholders' Fund / Money received against share warrants

Answer to the Scenario based Questions

7. **Bose and Sen Ltd.**
Balance Sheet as at 31st March, 20X1

Particulars		Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	69,93,000
b	Reserves and Surplus	2	21,56,000
2	Non-current liabilities		
a	Long-term borrowings	3	16,97,000
3	Current liabilities		
a	Trade Payables		14,00,000

	b	Short term borrowings	4	2,00,000
	c	Short-term provisions	5	8,16,900
		Total		1,32,62,900
Assets				
1		Non-current assets		
	a	PPE	6	74,75,000
	b	Intangible assets (Patents & Trade Marks)		4,00,000
2		Current assets		
	a	Inventories	7	17,50,000
	b	Trade receivables	8	14,00,000
	c	Cash and bank balances	9	19,39,000
	d	Short-term loans and advances		2,98,900
		Total		1,32,62,900

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	7,00,000 Equity Shares of ₹ 10 each	70,00,000	
	(Out of the above 4,20,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(7,000)</u>	<u>69,93,000</u>
	Total		69,93,000
2	Reserves and Surplus		
	General Reserve	15,49,100	

	Less: Preliminary expenses	(93,100)	14,56,000
	Surplus (Profit & Loss A/c)		<u>7,00,000</u>
	Total		<u>21,56,000</u>
3	Long-term borrowings		
	Secured		
	Term Loans		
	Loan from State Finance Corporation (₹ 10,50,000 - ₹ 2,00,000) (Secured by hypothecation of Plant and Machinery)		8,50,000
	Unsecured		
	Bank Loan	2,00,000	
	Loan from related parties	1,00,000	
	Others	<u>5,47,000</u>	<u>8,47,000</u>
	Total		<u>16,97,000</u>
4	Short term borrowings		
	Current maturities of long-term debt- loan Instalment repayable within one year		2,00,000
5	Short-term provisions		
	Provision for taxation		8,16,900
6	Property, plant and equipment		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	(7,50,000) (b.f.)	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	(12,25,000) (b.f.)	36,75,000
	Furniture & Fittings	4,37,500	

	Less: Depreciation	(87,500) (b.f.)	3,50,000
	Total		74,75,000
7	Inventories		
	Raw Material		3,50,000
	Finished goods		14,00,000
			17,50,000
8	Trade receivables		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		10,20,000
	Total		14,00,000
9	Cash and bank balances		
	<i>Cash and cash equivalents</i>		
	Cash at bank with Scheduled Banks	12,11,000	
	with others	18,000	12,29,000
	Cash in hand		2,10,000
	<i>Other bank balances</i>		
	Bank deposits for period of 9 months		5,00,000
	Total		19,39,000

8.

Alpha Ltd.

Balance Sheet as at 31st March, 20X1

		Particulars	Notes	₹
1		Equity and Liabilities		
		Shareholders' funds		
	a	Share capital	1	49,95,000

2	b	Reserves and Surplus	2	14,83,500
		Non-current liabilities		
3		Long-term borrowings	3	13,17,500
		Current liabilities		
	a	Trade Payables		8,00,000
	b	Short-term provisions	5	6,40,000
	c	Short-term borrowings	4	2,00,000
	d	Other Current Liabilities: Interest accrued but not due on loans (SFC)		<u>37,500</u>
		Total		<u>94,73,500</u>
		Assets		
1		Non-current assets		
		PPE	6	56,25,000
2		Current assets		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and bank balances	9	13,85,000
	d	Short-term loans and advances		<u>2,13,500</u>
		Total		<u>94,73,500</u>

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of ₹ 100 each		
(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	

Less: Calls in arrears	(5,000)	<u>49,95,000</u>
Total		<u>49,95,000</u>
2 Reserves and Surplus		
General Reserve	10,50,000	
Add: current year transfer	20,000	10,70,000
Profit & Loss balance		
Profit for the year	4,33,500	
Less: Appropriations:		
Transfer to General reserve	(20,000)	4,13,500
Total		<u>14,83,500</u>
3 Long-term borrowings		
Secured Term Loan		
State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
Unsecured Loan		6,05,000
Total		<u>13,17,500</u>
4 Short term Borrowings		
Loans and advances		<u>2,00,000</u>
5 Short-term provisions		
Provision for taxation		6,40,000
6 Property, plant and equipment		
Land and Building	30,00,000	
Less: Depreciation	(2,50,000) (b.f.)	27,50,000
Plant & Machinery	35,00,000	
Less: Depreciation	(8,75,000) (b.f.)	26,25,000
Furniture & Fittings	3,12,500	
Less: Depreciation	(62,500) (b.f.)	2,50,000
Total		<u>56,25,000</u>

7 Inventories		
Raw Materials		2,50,000
Finished goods		10,00,000
Total		12,50,000
8 Trade receivables		
Outstanding for a period exceeding six months		2,60,000
Other Amounts		7,40,000
Total		10,00,000
9 Cash and bank balances		
<i>Cash and cash equivalents</i>		
Cash at bank		
with Scheduled Banks	12,25,000	
with others (Omega Bank Ltd.)	10,000	12,35,000
Cash in hand		1,50,000
<i>Other bank balances</i>		Nil
Total		13,85,000

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X1. Such dividends will be disclosed in notes only.

9.

Ring Ltd.**Profit and Loss Statement for the year ended 31st March, 20X2**

	Particulars	Note No.	(₹ In lacs)
I	Revenue from operations		10,40,000
II	Other income (interest on investment)		<u>24,000</u>
III	Total income [I + II]		<u>10,64,000</u>

IV	Expenses:		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs (debenture interest)		56,000
	Depreciation and Amortisation Expenses		40,000
	Other Expenses	8	<u>1,24,000</u>
	Total Expenses		<u>7,60,000</u>
V	Profit before Tax (III-IV)		3,04,000
VI	Tax Expenses @ 30%		(91,200)
VII	Profit for the period		2,12,800

Balance Sheet of Ring Ltd. as at 31ST March, 20X2

	Particulars	Note No.	₹
I	EQUITY AND LIABILITIES		
(1)	Shareholders' Funds		
	(a) Share Capital	1	4,00,000
	(b) Reserves and Surplus	2	3,42,800
(2)	Non-Current Liabilities		
	(a) Long-term Borrowings (14% debentures)		4,00,000
(3)	Current Liabilities		
	(a) Trade Payable (Sundry Creditors)		1,84,000
	(b) Other Current Liabilities	3	42,000
	(c) Short-Term Provisions	4	91,200
	Total		<u>14,60,000</u>
II	ASSETS		
(1)	Non-Current Assets		
	(a) PPE	5	5,70,000
	(b) Non-current Investments		2,40,000

(2)	Current Assets		
	(a) Inventories	6	2,26,000
	(b) Trade Receivables	7	2,40,000
	(c) Cash and bank balances		60,000
	(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
	(e) Other Current Assets (Interest accrued on investments)		4,000
	Total		14,60,000

Note: There is a Contingent Liability for bills discounted but not yet matured amounting to ₹ 20,000.

Notes to Accounts:

1.	Share Capital		
	Authorised Capital		
	10,000 Equity Shares of ₹ 100 each		<u>10,00,000</u>
	Issued Capital		
	4,000 Equity Shares of ₹ 100 each		4,00,000
	Subscribed Capital and fully paid		
	4,000 Equity Shares of ₹ 100 each		4,00,000
2.	Reserve and Surplus		
	General Reserve [₹ 80,000 + ₹ 21,280]		1,01,280
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50,000	
	Add: Profit for the period	<u>2,12,800</u>	
		2,62,800	
	Appropriations		
	Transfer to General Reserve @ 10%	<u>(21,280)</u>	<u>2,41,520</u>
			<u>3,42,800</u>

3. Other Current Liabilities		
Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		<u>28,000</u>
		<u>42,000</u>
4. Short-Term Provision		
Provision for Tax		91,200
5 Property, plant and equipment		
Buildings	5,80,000	
Less: Provision for Depreciation	<u>1,00,000</u>	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	<u>1,10,000</u>	<u>90,000</u>
		<u>5,70,000</u>
6 Inventories		
Closing Stock of Finished Goods	1,80,000	
Loose Tools	<u>46,000</u>	<u>2,26,000</u>
7 Trade Receivables		
Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	<u>(10,000)</u>	<u>2,40,000</u>
8. Other Expenses		
Rent		52,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of ₹ 2,50,000 less ₹ 6,000)		4,000
Sundry Expenses		36,000
		<u>1,24,000</u>

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 20X2. Such dividends will be disclosed in notes only.

10.

SR Ltd.

Balance Sheet as at 31st March, 20X1

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	79,85,000
b Reserves and Surplus	2	30,21,000
2 Non-current liabilities		
a Long-term borrowings	3	42,66,000
3 Current liabilities		
a Short-term borrowings	4	9,40,000
b Trade Payables		8,13,000
c Other current liabilities	5	2,04,000
d Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1 Non-current assets		
a PPE	7	92,00,000
2 Current assets		
a Inventories	8	58,00,000
b Trade receivables	9	17,50,000
c Cash and cash equivalents	10	4,84,000
d Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to accounts

			₹
1.	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	1,60,000 Equity Shares of ₹ 50 each	80,00,000	
	(Out of the above 50,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(15,000)</u>	79,85,000
2.	Reserves and Surplus		
	General Reserve	9,41,000	
	Add: Transferred from Profit and loss account	<u>35,000</u>	9,76,000
	Securities premium		15,00,000
	Surplus (Profit & Loss A/c)	5,80,000	
	Less: Appropriation to General Reserve (proposed)	<u>(35,000)</u>	<u>5,45,000</u>
			<u>30,21,000</u>
3.	Long-term borrowings		
	Secured: Term Loans		
	Loan from Public Finance Corporation [repayable after 3 years (₹ 26,30,000 - ₹ 1,34,000 for interest accrued but not due)] (secured by hypothecation of land)		24,96,000
	Unsecured		
	Bank Loan (Nixes bank) 9,00,000 (₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)		

	Loan from Directors	8,50,000		
	Others	<u>20,000</u>		<u>17,70,000</u>
	Total			<u>42,66,000</u>
4.	Short-term borrowings			
	Loan from Naya bank (Secured)	1,16,000		
	Loan from Nixes bank repayable within one year (Current maturity of Long term borrowing)	4,80,000		
	Loan from Directors	48,000		
	Others	<u>2,96,000</u>		9,40,000
5.	Other current liabilities			
	Unpaid dividend	70,000		
	Interest accrued but not due on borrowings	<u>1,34,000</u>		2,04,000
6.	Short-term provisions			
	Provision for taxation			3,80,000
7.	PPE			
	Land			25,00,000
	Buildings	32,00,000		
	Less: Depreciation	<u>(2,00,000)</u>		30,00,000
	Plant & Machinery	30,00,000		
	Less: Depreciation	<u>(6,00,000)</u>		24,00,000
	Furniture & Fittings	16,50,000		
	Less: Depreciation	<u>(3,50,000)</u>		<u>13,00,000</u>
	Total			<u>92,00,000</u>
8.	Inventories			
	Raw Material	13,00,000		
	Finished goods	40,00,000		

	Loose tools	<u>5,00,000</u>	58,00,000
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		<u>12,64,000</u>
	Total		<u>17,50,000</u>
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	<u>56,000</u>	4,14,000
	Cash in hand		<u>70,000</u>
	Total		<u>4,84,000</u>

Note: There is a contingent liability amounting to ₹ 1,60,000