PROJECT MANAGEMENT & ENTREPRENEURSHIP
KHU-802

UNIT-4
Notes

WORKING CAPITAL

Working capital represents the amount of funds invested in current assets like debtors, stock-in-trade and cash required for meeting day-to-day expenses, paying wages/ salaries to its work-force and clearing dues of its creditors. It is also known as circulating capital because most of the amount invested in current assets is continuously recovered through realisations of debtors and cash sale of goods, and is re-invested in current assets. It keeps on revolving from cash to current assets and back again to cash as shown in the working capital cycle here

Working Capital Cycle

It should be noted that a part of working capital is of a permanent nature because depending on the volume of business certain amount of cash, debtors and stock-in-trade shall always be maintained by every firm. This part of working capital is known as permanent or fixed working capital and must always be financed through long-term sources. The remaining part of the working capital requirement varies from period to period on account of fluctuations in the

volume of business and is called fluctuating or variable working capital. This part of working capital is usually financed through short-term sources like bank overdraft, trade creditors, bills payable, etc.

Factors Determining Working Capital Requirement

Adequate working capital is very necessary for maintenance of liquidity and running the business smoothly and efficiently. However, the amount of working capital required varies from business to business and from period to period. The various factors that influence such requirement are as follows:

(a) Nature of Business: The working capital requirement of the manufacturing companies is usually high as they require huge stock-in-trade (inventories) and the amount of their debtors is also expected to be large because of the credit sales involved. As against this, the public utilities like electricity and telephone companies and the concerns like hotels, restaurants, etc. can manage with small amount of working capital as most of their transactions are undertaken on cash basis and their inventory needs are low.

(b) Size of Business: The size or volume of business plays a major role in determining the amount of working capital requirement of every firm. Obviously, larger the volume of business, larger would be the amount of working capital need. This is because, as their inventory requirement will be large and so also the amount of their debtors.

(c) Length of Production Cycle: Length of production cycle refers to the time period involved in converting raw-material into finished goods. Longer the length of such period, larger will be the requirement of working capital and vice versa. The length of production cycle, however, depends upon the type of product being manufactured and the nature of technology used. For example, in case of products like cars and cotton textiles, the production cycle is much longer than in case of items like stationery, detergents, etc. Therefore working capital requirement is

large for car companies and textile mills. Similarly, the firms using updated technology may have shorter production cycles and hence their requirement of working capital may not be large.

(d) Inventory Turnover Rate: Inventory turnover rate refers to the speed at, or the time period within which finished stock is converted into sales. There is a high degree of correlation between the amount of working capital required and the inventory turnover rate. A firm having high inventory turnover rate needs less working capital as against a firm which has low inventory turnover rate. It is so because the firm with high rate can manage with less investment in stock. Take the case of a retailer dealing in fast moving items like groceries and cosmetics with a high turnover rate. Its investment in stock is bound to be much less than a retailer who is dealing in slow moving items like readymade garments or electronics goods.

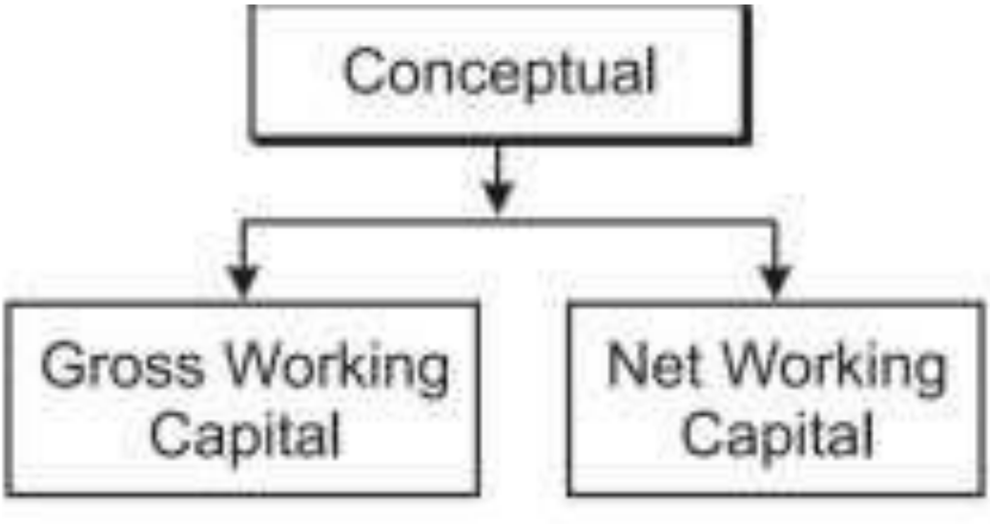
(e) Credit Policy: The firms which provide liberal credit facility to their customers need more working capital as compared to those firms which observe strict credit terms and are efficient in realisation of their debts. It is so because when customers enjoy longer period of credit, a larger amount of firm's funds get tied up with debtors. This results in higher requirement of working capital. However, if such a firm also enjoys liberal credit facility from its suppliers, it can manage with lower amount of working capital. But, this may not be true in all cases.

(f) Seasonal Fluctuations: The firms that are engaged in manufacturing products like ceiling fans or woollen garments, the demand of which is limited to a specific period of the year, require higher amount of working capital not only during the peak period but also during off season. This is so because they may be left with a good amount of unsold goods which is kept in stock for sale during the next season.

There is no denying the fact that the firms dealing in consumer durables or items involving long production period or wide seasonal fluctuations require large amount of working capital. But, with proper planning and efficient management of inventories and debt collection exercise, the firms can drastically reduce their working capital requirement.

CONCEPTS AND COMPONENTS OF WORKING CAPITAL

Working capital management is the administration of the firm's current assets and current liabilities. There are two concepts involved in working capital:



(i) Gross Working Capital

Gross Working Capital refers to a firm's current assets used in business operations, including cash and marketable securities, inventory, accounts receivable. These assets are always discussed in terms of their turnover into sales. Shorter the period of turnover indicates more rotation of the business operating cycle. It can be understood in another way, the heart of body pumps blood in human body. Pumping of blood in an appropriate and continuous quantity maintain the life. On the other hand, a heart pumping blood at very slow speed may create problem. Similarly, working capital move and make cash from the given resources, an adequate rotation of working capital cycle leads to profit, otherwise may create solvency crises. The components of current assets and current liabilities in a Balance Sheet are mentioned below:

Current Assets and Current Liabilities

Current Liabilities	Current Assets
Creditors	Debtors
Bills Payable	Bills Receivable
Out-standing expenses	Pre-paid expenses
Bank overdraft	Cash in hand and at Bank
Short-term liabilities	Short-term marketable securities
Provisions for taxation	Inventories
	Accrued incomes

(ii) Net Working Capital

Net Working Capital refers to excess amount of current assets over current liabilities.

In simple words, net-working capital is current assets minus current liabilities.

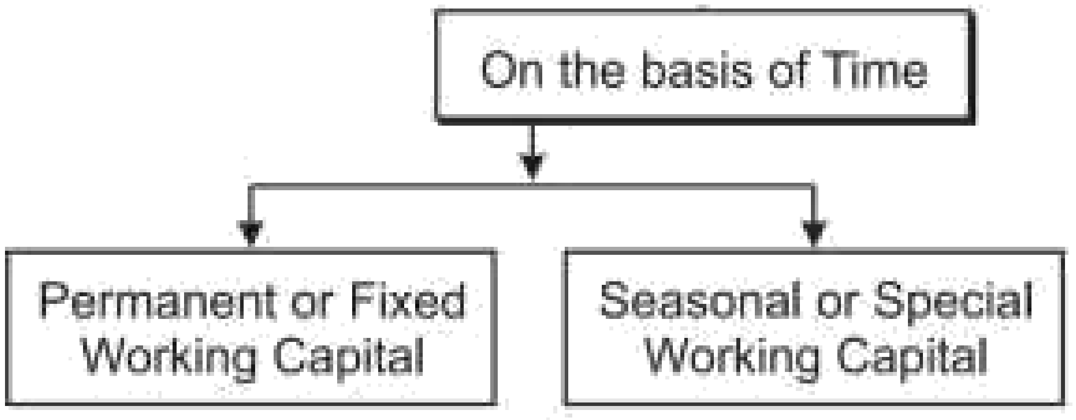
Net Working Capital = Current Assets – Current Liabilities

As long as current assets exceeds current liabilities, the firm has net working capital. Underlying the use of net working capital, it is belief that greater the margin of firm's current assets over its short-term obligations, better the ability to pay bills as they come due.

For example, if current assets of a company are 540000 and current liabilities are 310000, then gross capital will be 540000, and net working capital is 230000 (540000 -310000).

CLASSIFICATION OF WORKING CAPITAL ON THE BASIS OF TIME

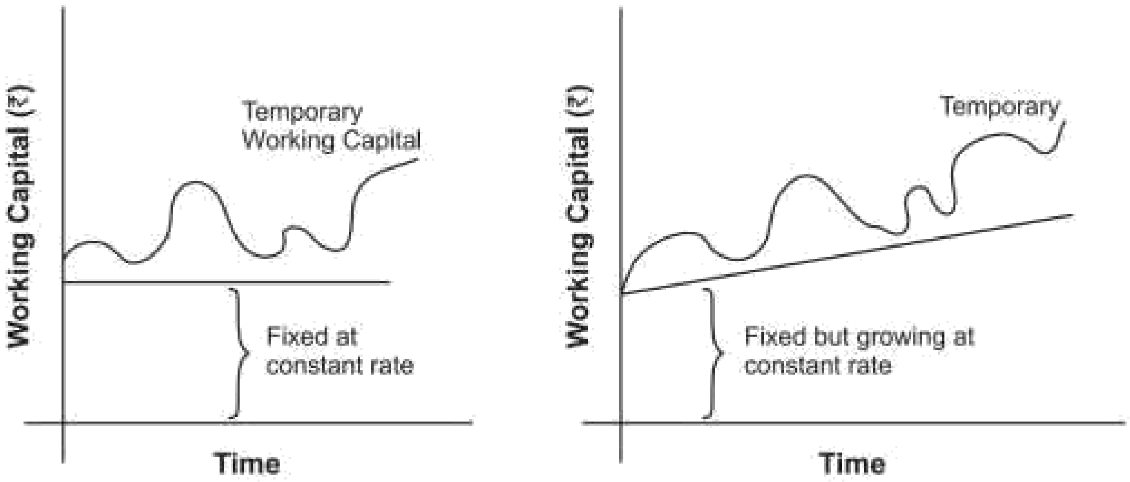
The classification on the basis of time involves permanent or fixed working capital, or seasonal or special working capital.



No firm put working capital at the stake of current liabilities. Of course, current liabilities are substantial source of funds to current assets, but a portion of current assets is also funded by long-term sources of funds. This portion generally kept at minimum as working capital always required. For example, in case of firm whose supplier generally takes long-time to make supply of raw material, in such firm they have to maintain an optimum level of stock of raw material in order to put factory in working conditions on continuous basis, this minimum investment is fixed working capital.

On the other hand, in few firms, working capital is kept as reserve for difficult times. It provides extra cushion to production facility to maintain the availability of free flow of funds. In case of permanent or temporary working capital, a portion of working capital is always ensured, however above that point, short-term sources may be used for temporary working capital.

Given below are the two situations, first indicates the fixed working capital over a period of time, and second signifying a constant increase in fixed working capital symbolising constant growth in firms gross working capital.



In case of seasonal working capital, a firm dealing in seasonal goods, has to purchase raw material in advance so they can manufacture goods during the off-seasons and may sell in boom-seasons. Similarly, some industries are of nature that they have to make extra provision for working capital known as reserve capital due to its nature of production. For example, food beverages are sold across the year, but the availability of raw fruits are according to their seasons, therefore, making extra provision is necessity in such industries.

CAPITAL BUDGETING

Capital budget involves the planning to acquire worthwhile projects, together with the timings of the estimated cost and cash flow of each project. Such projects require large sum of funds and have long-term implications for the firm. Capital budgets are difficult to prepare because estimates of the cash flows over a long period have to be made which involve a great degree of uncertainty. The term capital budget can be applied to budgets that lay down the estimates in respect of the capital resources of the firm. The operating budget helps to prepare the estimated income statement. The capital budgets facilitate in the task of compiling of a projected balance sheet. The capital budgets can be prepared for long-term as well as for the short-term

capital. The capital budgets specify the capital intentions of the management and as such often reflect the management policy in respect of investment, expansion, growth, contraction, production and profits. Capital budgeting includes both raising of long-term funds as well as their utilization. It may be defined as, "The firm's formal process for acquisition and investment of capital." It involves firm's decision to invest its current funds for addition, deposition, modification and replacement of long-term or fixed assets. Capital budgeting is a many sided activity. It includes searching for new and more profitable investment proposals, investigating engineering and marketing considerations to predict the consequences of accepting the investment and making economic analysis to determine the profit potential of each investment proposal. Its basic features can be summarized as under:

(i) It has the potentiality of making large anticipated profits.

(ii) It involves a high degree of risk.

(iii) It involves a relatively long-time period between the initial outlay and the anticipated return.

MEANING OF CAPITAL BUDGETING

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IMPORTANCE OF CAPITAL BUDGETING

The capital budgeting decisions are crucial and critical business decisions hence utmost care must be taken while taking such decisions. These decisions are significant due to the following reasons:

(a) They have long term implications for the firm. They have decisive influence on the rate and direction of the growth of the firm in future. A wrong decision may prove fatal to the long term survival of the firm.

(b) They involve large amount of funds.

(c) They are irreversible decisions. Once the decisions are taken they cannot be changed or corrected later on. Because once the big assets are purchased it is difficult to resell those after the mistake in purchasing is realized.

(d) They are among the most difficult decisions to make because they are based on assessment of future events which are uncertain.

METHODS OR TECHNIQUE OF CAPITAL BUDGETING

In most business firms there are more proposals for projects than the firm is able and willing to finance. Some of these proposals are good while others are poor. In view of the utmost importance of the capital budgeting decision, a sound appraisal should be undertaken to measure the economic worth of each of these proposals. A screening process has to be devised for finding out the real content of such proposals. Following are the important methods or technique of capital budgeting

Technique of Capital Budgeting

(i) Pay-back Method

(ii) Average Rate of Return Method

(iii) Discounted Cash Flow Method

(i) Pay-back Method

Pay back method, also known as pay-out /or pay-off period method, is a simple technique for taking capital budgeting decision. Under this method the investment decision is based on pay-back period. The payback period is the period within which the investment in capital asset will be recovered out of annual savings arising out of investment decision? For example, if a machine is acquired for Rs.1,50,000 and it fetches Rs. 30,000 as income in the first year, Rs. 60,000 in the second year and Rs. 60,000 in the third year. The total cost of machine will be recovered fully within 3 years hence the pay-back period is 3 years, pay-back period is calculated by following formula

$$\text{Pay-back period} = \frac{\text{Net Investment}}{\text{Net Cash Inflow Per Annum}}$$

All alternative investment proposals are ranked according to the payback period and only that alternative is approved which has relatively lesser payback period.

Advantages

1. It is easy to understand and simple to operate.

2. It is suitable if the firm facing shortage of funds because it gives importance to investments which do speedy recovery of funds.

3. It is suitable if there is a fear of project being obsolete in short period of time.

4. It is suitable for industries where rapid technological changes take place.

5. It is suitable for evaluating the projects where the returns (or savings) beyond three or four years are uncertain hence cannot be considered in making decision.

1. This method gives undue emphasis on fast recovery of invested fund ignoring the profitability of investments. It ignores the income from investment beyond pay-back period hence it may lead to wrong decisions.

2. It ignores the 'interest factor' which is very important factor in making investment decisions.

3. It causes management to overlook many profitable investment opportunities because they are slow starters and only gather momentum after few years of operation.

4. It gives importance to return of cash rather than return of profits on investment.

5. It does not make correct appraisal of investments because it does not consider the full economic life of the project but only its early years.

Inspite of all these limitations, this method is popularly used in industries where technological changes are frequent, future is uncertain and risk of obsolescence is more, necessitating the prompt pay back of investment in projects.

(ii) Return on Investment Method

This method is also known as unadjusted Return on Investment Method or Financial Statement Method or Average Rate of Return Method or Accounting Method. Under this Method an attempt is made to measure the rate of return on investment in a project when initial investment is taken into account for calculation it is called Return on Investment (ROI) and when average investment is considered for calculation purpose it is called Average Rate of Return Method

(ARR)

$$\text{Rate of Return on Investment} = \frac{\text{Average Annual Profit (after taxation and depreciation)}}{\text{Total Investment}} \times 100$$

$$\text{Rate of Return on Average Investment} = \frac{\text{Average Annual Profit (after taxation and depreciation)}}{\text{Average Investment}} \times 100$$

$$\text{Where, Average Investment} = \frac{\text{Total Investment}}{2}$$

Advantages

1. It is easy to understand & simple to operate.

2. It takes into account the earning of project over entire period of its economic life.

3. It recognizes the concept of net earnings (i.e., earnings after providing depreciation on capital asset) which is of vital importance in appraisal of investment proposal.

4. It makes realistic comparison between different projects than the pay back method.

1. The main disadvantage of this method is that it treats a rupee to be received in future as equal (in value) to a rupee received today. In other words, it neglects the 'interest factor' or 'time value of money' from calculation which leads to a serious mistake in calculations.

2. The variants used in formula have different interpretations. The "earning" may mean earnings before depreciation or after depreciation. Similarly, 'investment' may mean Initial investment or average investment. As a result, different rates of return may be produced leading to confusion.

3. Under this method of ranking the investment proposals a minimum rate of return is always fixed and investments yielding a return higher than this minimum are approved. but determination of this minimum rate of return is arbitrary & left to the discretion of management.

(iii) The Present Value Method or Discounted Cash-flow Method

This method considers the present value of the net cash benefits at a rate equal to the firm's cost of capital. "The present value of an investment is the maximum amount a firm could pay for the opportunity of making the investment without being financially worse off" Thus, the basic ideology of this method is that Rs.100 of today is not equal to Rs.100 to say one or two years hence, as the amount increases with interest earned. Under this method we calculate the present worth of earnings (after taxes but before depreciation) after discounting them at a rate of interest which is appropriate to the cost of capital. The timing of cash receipts, rate at which future earnings are to be discounted and the normal rate of return are taken into consideration. The profitability of the projects is studied by comparing the discounted earnings with the cost of investment.

If the present value is greater than the cost of investment, the proposal should be accepted and if it is smaller, the proposal should be rejected.

There are two methods: (1) Trial and Error Method and (2) Net Present Value or Net Gain Method.

1. Trial and Error Method of Internal Rate of Return Method: This method tries to find out such rate of interest, as it is likely to reduce the net cash flows to its present worth. The internal rate of return is defined as 'the interest that equates the present value of the expected future receipts to the cost of investment outlay.' This rate of interest is traced out by 'trial and error' method i.e. different rates to be tried; taking the first arbitrary rate and rate which ultimately equates the present value with the cost is treated as internal rate of interest.

2. Net Gain Method:

The amount of net gain is arrived at as under. The present value of cash flow.

Less: present value of net investment.

The present value of cash flow is arrived at by selecting an appropriate rate of interest.

However, selection of an appropriate rate is not an easy task. If there is net gain, the project can be accepted and if there is net loss, the project should be rejected.

Advantages of Discounted Cash-Flow Method

1. The method takes into account the time factor. Some assets yield more returns in early period and less later on or vice versa, while other asset may be expected to earn equal proceeds. The duration of earnings period of each asset is different. Under these cases, the discounted cash flow method is the only one to guide regarding the profitability of capital expenditure projects.

2. The method considers the entire economic life of an asset as also income there from.

3. Projected returns on investment can be compared with the cost of borrowing money.

1. The method is different and complicated, involving good deal of calculations.
2. Economic life of an investment cannot be judged accurately.
3. Selection of an appropriate rate of interest is not an easy task.

NATURE OF FINANCIAL STATEMENTS

The American Institute of Certified Public Accountants states the nature of financial statements as, "the statements prepared for the purpose of presenting a periodical review of report on progress by the management and deal with the status of investment in the business and the results achieved during the period under review. They reflect a combination of recorded facts, accounting principles and personal judgements". The following points explain the nature of financial statements:

1. Recorded Facts: Financial statements are prepared on the basis of facts in the form of cost data recorded in accounting books. The original cost or historical cost is the basis of recording transactions. The figures of various accounts such as cash in hand, cash at bank, trade receivables, fixed assets, etc., are taken as per the figures recorded in the accounting books.

The assets purchased at different times and at different prices are put together and shown at costs. As these are not based on market prices, the financial statements do not show current financial condition of the concern.

2. Accounting Conventions: Certain accounting conventions are followed while preparing financial statements. The convention of valuing inventory at cost or market price, whichever is lower, is followed. The valuing of assets at cost less depreciation principle for balance sheet purposes is followed. The convention of materiality is followed in dealing with small items like pencils, pens, postage stamps, etc. These items are treated as expenditure in the year in which they are purchased even though they are assets in nature. The stationery is valued at cost and not on the principle of cost or market price, whichever is less. The use of accounting conventions makes financial statements comparable, simple and realistic.

3. Postulates: Financial statements are prepared on certain basic assumptions (pre-requisites) known as postulates such as going concern postulate, money measurement postulate, realization postulate, etc. Going concern postulate assumes that the enterprise is treated as a going concern and exists for a longer period of time. So the assets are shown on historical cost basis. Money measurement postulate assumes that the value of money will remain the same in different periods. Though there is drastic change in purchasing power of money, the assets purchased at different times will be shown at the amount paid for them. While, preparing statement of profit and loss the revenue is included in the sales of the year in which the sale was undertaken even though the sale price may be received over a number of years. The assumption is known as realisation postulate.

4. Personal Judgements: Under more than one circumstance, facts and figures presented through financial statements are based on personal opinion, estimates and judgements. The depreciation is provided taking into consideration the useful economic life of fixed assets. Provisions for doubtful debts are made on estimates and personal judgements. In valuing

inventory, cost or market value, whichever is less is being followed. While deciding either cost of inventory or market value of inventory, many personal judgements are to be made based on certain considerations. Personal opinion, judgements and estimates are made while preparing the financial statements to avoid any possibility of over statement of assets and liabilities, income and expenditure, keeping in mind the convention of conservatism. Thus, financial statements are the summarised reports of recorded facts and are prepared the following accounting concepts, conventions, accounting policies, accounting standards and requirements of Law.

OBJECTIVES OF FINANCIAL STATEMENTS

Financial statements are the basic sources of information to the shareholders and other external parties for understanding the profitability and financial position of any business concern. They provide information about the results of the business concern during a specified period of time in terms of assets and liabilities, which provide the basis for taking decisions. Thus, the primary objective of financial statements is to assist the users in their decision-making. The specific objectives include the following:

(i) To provide information about economic resources and obligations of a business

They are prepared to provide adequate, reliable and periodical information about economic resources and obligations of a business firm to investors and other external parties who have limited authority, ability or resources to obtain information.

(ii) To provide information about the earning capacity of the business

They are to provide useful financial information which can gain fully be utilised to predict, compare and evaluate the business firm's earning capacity.

(iii) To provide information about cash flows

They are to provide information useful to investors and creditors for predicting, comparing

and evaluating, potential cash flows in terms of amount, timing and related uncertainties. (iv) To judge effectiveness of management

They supply information useful for judging management's ability to utilise the resources of a business effectively.

(v) Information about activities of business affecting the society

They have to report the activities of the business organisation affecting the society, which can be determined and described or measured and which are important in its social environment. (vi) Disclosing accounting policies

These reports have to provide the significant policies, concepts followed in the process of accounting and changes taken up in them during the year to understand these statements in a better way.

USES AND IMPORTANCE OF FINANCIAL STATEMENTS

The users of financial statements include management, investors, shareholders, creditors, government, bankers, employees and public at large. Financial statements provide the necessary information about the performance of the management to these parties interested in the organisation and help in taking appropriate economic decisions. It may be noted that the financial statements constitute an integral part of the annual report of the company in addition to the directors report, auditors report, corporate governance report, and management discussion and analysis.

The various uses and importance of financial statements are as follows:

(i) Report on stewardship function

Financial statements report the performance of the management to the shareholders. The gaps between the management performance and ownership expectations can be understood with the help of financial statements.

(ii) Basis for fiscal policies

The fiscal policies, particularly taxation policies of the government, are related with the financial performance of corporate undertakings. The financial statements provide basic input for industrial, taxation and other economic policies of the government.

(iii) Basis for granting of credit

Corporate undertakings have to borrow funds from banks and other financial institutions for different purposes. Credit granting institutions take decisions based on the financial performance of the undertakings. Thus, financial statements form the basis for granting of credit.

(iv) Basis for prospective investors

The investors include both short-term and long-term investors. Their prime considerations in their investment decisions are security and liquidity of their investment with reasonable profitability. Financial statements help the investors to assess long-term and short-term solvency as well as the profitability of the concern.

(v) Guide to the value of the investment already made

Shareholders of companies are interested in knowing the status, safety and return on their investment. They may also need information to take decision about continuation or discontinuation of their investment in the business. Financial statements provide information to the shareholders in taking such important decisions.

(vi) Aids trade associations in helping their members

Trade associations may analyse the financial statements for the purpose of providing service and protection to their members. They may develop standard ratios and design uniform system of accounts.

(vii) Helps stock exchanges

Financial statements help the stock exchanges to understand the extent of transparency in reporting on financial performance and enables them to call for required information to protect the interest of investors. The financial statements enable the Stock brokers to judge the financial position of different concerns and take decisions about the prices to be quoted.

LIMITATIONS OF FINANCIAL STATEMENTS

Though utmost care is taken in the preparation of the financial statements and provide detailed information to the users, they suffer from the following limitations:

(i) Do not reflect current situation

Financial statements are prepared on the basis of historical cost. Since the purchasing power of money is changing, the values of assets and liabilities shown in financial statement do not reflect current market situation.

(ii) Assets may not realise

Accounting is done on the basis of certain conventions. Some of the assets may not realise the stated values, if the liquidation is forced on the company. Assets shown in the balance sheet reflect merely unexpired or unamortised cost.

(iii) Bias

Financial statements are the outcome of recorded facts, accounting concepts and conventions used and personal judgements made in different situations by the accountants. Hence, bias may be observed in the results, and the financial position depicted in financial statements may not be realistic.

(iv) Aggregate information

Financial statements show aggregate information but not detailed information. Hence, they may not help the users in decision-making much.

(v) Vital information missing

Balance sheet does not disclose information relating to loss of markets, and cessation of agreements, which have vital bearing on the enterprise.

(vi) No qualitative information

Financial statements contain only monetary information but not qualitative information like industrial relations, industrial climate, labour relations, quality of work, etc.

(vii) They are only interim reports

Statement of Profit and Loss discloses the profit/loss for a specified period. It does not give an idea about the earning capacity over time similarly, the financial position reflected in the balance sheet is true at that point of time, the likely change on a future date is not depicted.

FORMAT OF STATEMENT OF PROFIT AND LOSS

Form and content of statement of profit and loss for the year ended is given below:

	Particulars	Note No.	Figure as at the end of Current reporting period	Figure as at the end of Previous reporting period
I	Revenue from operations			
II	Other income			
III	Total Revenue (I+II)			
IV	Expenses:			
	Cost of materials consumed			
	Purchases of stock-in-trade			
	Changes in inventories of finished goods Work-in-progress and stock-in-trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortisation expense			
	Other expenses			
	Total expenses			
V	Profit before extraordinary items and tax (III-IV)			
VI	Exceptional items			
VII	Profit before extraordinary items and tax (V-VI)			
VIII	Extraordinary items			
IX	Profit before tax (VII-VIII)			

X	Tax expense: (1) Current tax (2) Deferred tax			
XI	Profit/(Loss) for the period from continuing operations (IX-X)			
XII	Profit/(Loss) from discontinuing operations			
XIII	Tax expense of discontinuing operations			
XIV	Profit/(Loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit/(Loss) for the period (XI + XIV)			
XVI	Earnings per equity share: (1) Basic (2) Diluted			

The items of statement of profit and loss are discussed as follows:

1. Revenue from

operations This includes:

(i) Sale of products

(ii) Sale of services

(iii) Other operating revenues

In respect to a finance company, revenue from operations shall include revenue from interest, dividend and income from other financial services. It may be noted that under each of the above heads shall be disclosed separately by way of notes to accounts to the extent applicable.

2. Other income

(i) Interest income (in case of a company other than a finance company)

(ii) Dividend income

(iii) Net gain/loss on sale of investments

(iv) Other non-operating income (net of expenses directly

attributable to such income)

3. Expense

Expenses incurred to earn the income under various heads are discussed below:

(a) Cost of Materials

It applies to manufacturing companies. It consists of raw materials and other materials consumed in manufacturing of goods.

(b) Purchase of Stock-in-trade

It means purchases of goods for the purpose of trading.

(c) Changes in inventories of finished goods, WIP and stock-in-trade

It is the difference between opening inventory (stock) of finished goods, WIP and stock-in-trade and closing inventory.

(d) Employees benefit expenses

Expenses incurred on employees towards salary, wages, leave encashment, staff welfare, etc., are shown under this head. Employees benefit expenses may be further categorised into direct and indirect expenses.

(e) Finance cost

It is the expenses towards interest charges during the year on the borrowings. Only the interest cost is to be shown under this head. Other financial expenses such as bank charges are shown under "Other Expenses".

(f) Depreciation

Depreciation is the diminution in the value of fixed assets whereas amortisation is writing off the amount relating to intangible assets.

(g) Other expenses

All other expenses which do not fall in the above categories are shown under other expenses. Other expenses may further be categorised into direct expenses, indirect expenses and non-operating expenses.

FORMAT OF BALANCE SHEET

The financial statements generally include two statements: balance sheet and statement of profit and loss which are required for external reporting and also for internal needs of the management like planning, decision-making and control. Apart from these, there is also a need to know about movements of funds and changes in the financial position of the company. For this purpose, a cash flow statement is prepard. Every company registered under The Companies Act 2013 shall prepare its balance sheet, statement of profit and loss and notes to account thereto in accordance with the manner prescribed in the revised Schedule III to the Companies Act, 2013 to harmonise the disclosure requirement with the accounting standards and to converge with new reforms.

Balance Sheet as at 31st March, 20.....

Particulars	Note No.	Figure as at the end of Current reporting period	Figure as at the end of Previous reporting period
I. EQUITY AND LIABILITIES			
1) Shareholder's Funds			
(a) Share Capital			
(b) Reserves and Surplus			
(c) Money received against share warrants			
2) Share Application money pending allotment			
3) Non-current Liabilities			
(a) Long term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other long term liabilities			
(d) Long term provisions			
4) Current Liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
Total			
II. ASSETS			
1) Non-Current Assets			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
2) Current Assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short term loans and advances			
(f) Other current assets			
Total			

See accompanying notes to the financial statements
NOTES:

Important Features of Presentation

1. It applies to all Indian companies preparing financial statement as per Schedule III to the Companies Act, 2013.

2. It does not apply to (i) Insurance or Banking Company, (ii) Company for which a form of balance sheet or income statement is specified under any other Act.

3. Accounting standards shall prevail over Schedule III of the Companies Act, 2013.

4. Disclosure on the face of the financial statements or in the notes are essential and mandatory.

5. Terms in the revised Schedule III will carry the meaning as defined by the applicable accounting standards.

6. Balance to be maintained between excessive details that may not assist users of financial statements and not providing important information.

7. Current and non-current bifurcation of assets and liabilities is applicable.

8. Rounding off requirements is mandatory

9. Vertical format for presentation of financial statement is prescribed.

10. Debit balance in the statement of profit and loss to be disclosed as negative figure under the head "Surplus".

11. Mandatory disclosure for share application money pending allotment.

12. 'Sundry Debtors' and 'Sundry Creditors' replaced by terms 'Trade Receivables' and 'Trade Payables