

Class 12th
CBSE - Analysis of Financial Statement - (Volume-III)
Chapter 1 : Financial Statement of a Companies
Vidhi Commerce Classes - CA Vidhi Jain
(Commerce ki पाठशाला)

1. Meaning of Financial Statements

Financial Statements are structured reports prepared at the end of an accounting period to ascertain the financial performance and financial position of a company.

As per CBSE:

Financial statements include :

- The Statement of Profit & Loss
- the Balance Sheet prepared in accordance with Schedule III of the Companies Act, 2013.
- Notes of Accounts

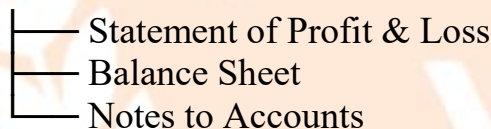
2. Objectives of Preparing Financial Statements

- To determine net profit or loss of the company
- To show true financial position
- To provide information to shareholders, creditors and management
- To ensure statutory compliance

3. Components of Financial Statements

Flow Chart:

Financial Statements



4. Statement of Profit & Loss (As per Schedule III)

Meaning:

Statement showing revenue earned, expenses incurred, and net profit during an accounting period.

Format (Vertical):

Revenue from Operations

+ Other Income

= Total Revenue

- Expenses

= Profit Before Tax

- Tax

= Profit After Tax

5. Items of Statement of Profit & Loss

Revenue from Operations

- Sale of goods
- Sale of services

- Other operating revenue

Other Income

- Interest received
- Dividend received
- Profit on sale of assets

6. Expenses Classification

(A) Cost of Materials Consumed

- Opening Stock + Purchases – Closing Stock

(B) Employee Benefit Expenses

- Salaries
- Wages
- Bonus

(C) Finance Cost

- Interest on debentures
- Interest on loans

(D) Depreciation and Amortisation

- Systematic allocation of cost of assets over useful life.

7. Profit Calculations (Formulas)

- Gross Profit = Revenue – Cost of Revenue
- Operating Profit = Gross Profit – Operating Expenses
- Profit before Tax = Operating Profit + Other Income
- Profit after Tax = PBT – Tax

8. Balance Sheet (As per Schedule III)

Meaning:

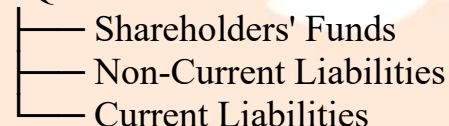
A statement showing assets, liabilities and shareholders' equity on a particular date.

Accounting Equation:

Assets = Equity + Liabilities

Diagram :

EQUITY & LIABILITIES



ASSETS



9. Structure of Balance Sheet

A. Equity and Liabilities

1. Shareholders' Funds

- Share Capital

- Reserves & Surplus

2. Non-Current Liabilities

- Long-term borrowings

3. Current Liabilities

- Trade payables
- Short-term provisions

B. Assets

1. Non-Current Assets

- Property, Plant & Equipment
- Intangible assets

2. Current Assets

- Inventories
- Trade receivables
- Cash and cash equivalents

10. Share Capital (Important Theory)

Types of Share Capital

- Authorised Capital
- Issued Capital
- Subscribed Capital
- Called-up Capital

11. Reserves & Surplus

Includes:

- General Reserve
- Capital Reserve
- Surplus (Profit & Loss balance)

12. Trade Payables & Trade Receivables

- Trade Payables: Amount payable to suppliers
- Trade Receivables: Amount receivable from customers

13. Notes to Accounts

Meaning:

Explanatory notes giving detailed breakup of items appearing in financial statements.

Importance:

- Enhances clarity
- Mandatory as per Schedule III

14. Adjustments (Highly Important)

Common Adjustments:

- Outstanding expenses
- Prepaid expenses

- Depreciation
- Provision for tax
- Proposed dividend

15. Treatment of Adjustments (Chart)

Adjustment →

- Statement of P&L (Effect on profit)
- Balance Sheet (Asset or Liability)

16. Depreciation (Exam Focus)

Meaning:

Decrease in value of fixed assets due to use and passage of time.

Accounting Treatment:

Shown as expense in Statement of P&L and deducted from asset value in Balance Sheet.

17. Provision for Tax

- Created out of profits
- Shown under Current Liabilities

18. Proposed Dividend

- Declared after year-end
- Shown under Notes to Accounts

19. Managerial Remuneration

Calculated as percentage of net profit

Shown as expense

20. Most Expected Board Questions

- Prepare Statement of Profit & Loss
- Prepare Balance Sheet as per Schedule III
- Explain need for Notes to Accounts
- Treatment of adjustments

21. Shareholders' Funds – Detailed

- Share Capital
- Reserves and Surplus
- Money received against share warrants (if any)

22. Reserves and Surplus – Items Included

- Capital Reserve
- Securities Premium
- General Reserve
- Surplus (P&L balance)

23. Non-Current Liabilities – Items

- Long-term borrowings
- Deferred tax liabilities
- Long-term provisions

24.Current Liabilities – Items

- Short-term borrowings
- Trade payables
- Other current liabilities
- Short-term provisions

25.Non-Current Assets – Items

- Property, plant and equipment
- Intangible assets
- Long-term investments
- Deferred tax assets

26.Current Assets – Items

- Current investments
- Inventories
- Trade receivables
- Cash and cash equivalents
- Short-term loans and advances

27.Notes to Accounts – Meaning

Notes to accounts provide detailed breakup of items shown in financial statements.

28.Common Adjustments in Company Final Accounts

- Depreciation
- Provision for tax
- Proposed dividend
- Transfer to reserves
- Outstanding expenses

29.Important Formulas (Revision)

Gross Profit = Net Sales – Cost of Revenue

Net Profit = Gross Profit + Other Income – Expenses

Working Capital = Current Assets – Current Liabilities

30. Practical Approach (Board Exam Writing Flow)

Read Question

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Classify Items (Schedule III)

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Prepare S.P&L

↓

Prepare Balance Sheet

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Prepare Notes

PART A: FULL SOLVED FORMATS (AS PER SCHEDULE III)

Statement of Profit & Loss (Vertical Format)

Statement of Profit & Loss for the year ended ...

I. Revenue from Operations

- Sales
- Less: Sales Returns
- Net Sales

II. Other Income

- Interest Received
- Commission Received
- Dividend on Investments

III. Total Revenue (I + II)

IV. Expenses

1. Cost of Materials Consumed
2. Purchases of Stock-in-Trade
3. Change in Inventories (Opening – Closing)
4. Employee Benefit Expenses
5. Finance Cost (Interest on Debentures/Loan)
6. Depreciation & Amortisation
7. Other Expenses (Carriage, Rent, Advertisement etc.)

V. Total Expenses

VI. Profit before Tax

VII. Tax Expense

VIII. Profit after Tax

➡ Transfer to Surplus in Balance Sheet

2. Balance Sheet (Vertical Format)

Balance Sheet as at ...

EQUITY & LIABILITIES

1. Shareholders' Funds

- Share Capital
- Reserves & Surplus

2. Non-Current Liabilities

- Long-term Borrowings
- Deferred Tax Liability

3. Current Liabilities

- Trade Payables
- Short-term Borrowings
- Other Current Liabilities
- Short-term Provisions

ASSETS

1. Non-Current Assets

- Property, Plant & Equipment

- Intangible Assets
- Non-current Investments

2. Current Assets

- Inventories
- Trade Receivables
- Cash & Cash Equivalents
- Short-term Loans & Advances

3. Notes to Accounts (Illustrative)

Note 1: Share Capital

Authorised / Issued / Subscribed / Paid-up

Note 2: Reserves & Surplus

General Reserve

Surplus (P&L balance)

Note 3: Trade Receivables

Secured / Unsecured

Good / Doubtful

Note 4: Inventories

Raw Material

Work-in-progress

Finished Goods

PART B: 40 CLASSIFICATION QUESTIONS (VERY IMPORTANT)

Write the correct heading & sub-heading:

1. Proposed Dividend → Current Liabilities → Short-term Provisions
2. Interim Dividend Paid → Statement of Profit & Loss (Appropriation)
3. Debentures → Non-current Liabilities → Long-term Borrowings
4. Interest Accrued on Debentures → Current Liabilities → Other Current Liabilities
5. Preliminary Expenses (unwritten off) → Non-current Assets → Other Non-current Assets
6. Goodwill → Non-current Assets → Intangible Assets
7. Loose Tools → Current Assets → Inventories
8. Provision for Doubtful Debts → Deduct from Trade Receivables
9. Outstanding Rent → Current Liabilities → Other Current Liabilities
10. Calls-in-Advance → Current Liabilities → Other Current Liabilities
11. Unclaimed Dividend → Current Liabilities → Other Current Liabilities
12. Bank Overdraft → Current Liabilities → Short-term Borrowings
13. Plant & Machinery → Non-current Assets → PPE
14. Furniture → Non-current Assets → PPE
15. Accrued Income → Current Assets → Other Current Assets
16. Bills Receivable → Current Assets → Trade Receivables
17. Capital Reserve → Shareholders' Funds → Reserves & Surplus
18. Securities Premium → Shareholders' Funds → Reserves & Surplus
19. Discount on Issue of Debentures → Non-current Assets → Other Non-current Assets

20. Tax Deducted at Source → Current Assets → Other Current Assets
21. Provision for Tax → Current Liabilities → Short-term Provisions
22. Advance from Customers → Current Liabilities → Other Current Liabilities
23. Investment in Shares (Long-term) → Non-current Assets → Non-current Investments
24. Closing Stock → Current Assets → Inventories
25. Outstanding Salary → Current Liabilities → Other Current Liabilities
26. Prepaid Insurance → Current Assets → Other Current Assets
27. Work-in-progress → Current Assets → Inventories
28. Income Received in Advance → Current Liabilities → Other Current Liabilities
29. Trademark → Non-current Assets → Intangible Assets
30. Loan from Bank (12 years) → Non-current Liabilities → Long-term Borrowings
31. Short-term Loan → Current Liabilities → Short-term Borrowings
32. Provision for Warranty → Current Liabilities → Short-term Provisions
33. Fixed Deposit (12 months) → Current Assets → Cash & Cash Equivalents
34. Cash at Bank → Current Assets → Cash & Cash Equivalents
35. Equity Share Capital → Shareholders' Funds → Share Capital
36. Preference Share Capital → Shareholders' Funds → Share Capital
37. Outstanding Interest on Loan → Current Liabilities → Other Current Liabilities
38. Patents → Non-current Assets → Intangible Assets
39. Provision for Discount on Debtors → Deduct from Trade Receivables
40. Dividend Received → Other Income (Statement of P&L)

Flow chart , Diagram, Formulas

A) MASTER FLOW CHART: FINANCIAL STATEMENTS PREPARATION

Trial Balance

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Adjustments

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Statement of Profit & Loss (Schedule III)

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Balance Sheet (Schedule III)

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Notes to Accounts

B) DIAGRAM: VERTICAL STATEMENT OF PROFIT & LOSS STRUCTURE

Revenue from Operations

+ Other Income

= Total Revenue

- Expenses (Material + Employee + Finance + Depreciation + Other)

= Profit Before Tax (PBT)

- Tax Expense

= Profit After Tax (PAT)

C) DIAGRAM: BALANCE SHEET STRUCTURE (SCHEDULE III)

EQUITY & LIABILITIES

ASSETS

1. Shareholders' Funds

1. Non-current Assets

• Share Capital

• PPE

- Reserves & Surplus
- 2. Non-current Liabilities
- Long-term Borrowings
- 3. Current Liabilities
- Trade Payables
- Short-term Provisions
- Intangibles
- 2. Current Assets
- Inventories
- Trade Receivables
- Cash & Bank
- Short-term Loans & Advances

D) FLOW CHART: CLASSIFICATION OF ITEMS (CURRENT vs NON-CURRENT)

Item

↓

Realised/Settled within 12 months?

↓

↓

Yes

No

(Current) (Non-current)

E) ADJUSTMENTS FLOW CHART

Adjustment

↓

Effect on Profit (Statement of P&L)

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Effect on Position (Balance Sheet)

(Asset / Liability)

F) DIAGRAM: IMPACT OF COMMON ADJUSTMENTS

1. Outstanding Expense

Expense ↑ in P&L

Liability ↑ in Balance Sheet

2. Prepaid Expense

Expense ↓ in P&L

Asset ↑ in Balance Sheet

3. Accrued Income

Income ↑ in P&L

Asset ↑ in Balance Sheet

4. Income Received in Advance

Income ↓ in P&L

Liability ↑ in Balance Sheet

F) FORMULA CHART (ULTRA IMPORTANT)

1. Cost of Goods Sold / Cost of Revenue

$\text{COGS} = \text{Opening Inventory} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Inventory}$

2. Gross Profit

$\text{Gross Profit} = \text{Net Sales} - \text{COGS}$

3. Operating Profit (EBIT)

$\text{Operating Profit} = \text{Gross Profit} - \text{Operating Expenses}$

4. Profit Before Tax (PBT)

PBT = Operating Profit + Other Income – Finance Cost (if not included)

5. Profit After Tax (PAT)

PAT = PBT – Tax Expense

6. Current Ratio

Current Ratio = Current Assets / Current Liabilities

7. Quick Ratio

Quick Ratio = (Current Assets – Inventory – Prepaids) / Current Liabilities

8. Debt-Equity Ratio

Debt-Equity Ratio = Total Debt / Shareholders' Funds

9. Return on Investment / Capital Employed

ROCE = EBIT / Capital Employed × 100

10. Working Capital

Working Capital = Current Assets – Current Liabilities

H. DIAGRAM: NOTES TO ACCOUNTS LINKING

Main Balance Sheet Head

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Note Number

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Detailed Break-up

I. LAST-DAY REVISION FLOW

Format → Headings → Classify → Adjustments → Notes → Final Totals

PRACTICAL PROBLEM 1

Preparation of Statement of Profit & Loss

Given:

- Revenue from Operations: ₹12,00,000
- Other Income: ₹80,000
- Cost of Materials Consumed: ₹5,20,000
- Employee Benefits Expense: ₹2,10,000
- Finance Cost: ₹40,000
- Depreciation: ₹50,000
- Tax Rate: 25%

Solution:

Statement of Profit & Loss (Extract)

Particulars	Amount (₹)
Revenue from Operations	12,00,000
Add: Other Income	80,000
Total Revenue	12,80,000
Less: Expenses	
Cost of Materials	5,20,000
Employee Benefits	2,10,000

Particulars	Amount (₹)
Finance Cost	40,000
Depreciation	50,000
Total Expenses	8,20,000
Profit Before Tax	4,60,000
Less: Tax @25%	1,15,000
Profit After Tax	3,45,000

PRACTICAL PROBLEM 2

Preparation of Balance Sheet (Major Heads)

Given:

- Share Capital: ₹10,00,000
- Reserves & Surplus: ₹3,50,000
- Long-term Borrowings: ₹2,00,000
- Trade Payables: ₹1,80,000
- Fixed Assets: ₹12,00,000
- Inventory: ₹2,20,000
- Trade Receivables: ₹1,60,000
- Cash & Bank: ₹1,50,000

Solution:

Balance Sheet (Extract)

Equity & Liabilities

- Shareholders' Funds = 13,50,000
- Non-Current Liabilities = 2,00,000
- Current Liabilities = 1,80,000

Total = ₹17,30,000

Assets

- Non-Current Assets = 12,00,000
- Current Assets = 5,30,000

Total = ₹17,30,000

PRACTICAL PROBLEM 3

Calculation of Gross Profit

Given:

- Sales: ₹15,00,000
- Opening Stock: ₹2,00,000
- Purchases: ₹7,50,000
- Closing Stock: ₹2,50,000

Solution:

COGS = Opening Stock + Purchases – Closing Stock
= 2,00,000 + 7,50,000 – 2,50,000
= ₹7,00,000

Gross Profit = Sales – COGS
 = 15,00,000 – 7,00,000
 = ₹8,00,000

PRACTICAL PROBLEM 4

Classification of Items

Classify the following:

- Debentures payable after 4 years
- Provision for Tax
- Trade Receivables

Preliminary Expenses

Solution:

Item	Head
Debentures	Non-Current Liability
Provision for Tax	Current Liability
Trade Receivables	Current Asset
Preliminary Expenses	Other Non-Current Asset

PRACTICAL PROBLEM 5

Managerial Remuneration (11% Rule)

Given:

- Net Profit before charging commission: ₹5,00,000

Solution:

Commission = 11% of Net Profit
 = 5,00,000 × 11/100
 = ₹55,000

PRACTICAL PROBLEM 6

Operating Profit Calculation

Given:

- Net Profit: ₹4,80,000
- Non-Operating Income: ₹60,000
- Non-Operating Expense: ₹30,000

Solution:

Operating Profit
 = Net Profit – Non-Operating Income + Non-Operating Expense
 = 4,80,000 – 60,000 + 30,000
 = ₹4,50,000

PRACTICAL PROBLEM 7

Cash Flow Classification

Item	Activity
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Item	Activity
Dividend Received	Investing
Payment of Tax	Operating
Issue of Shares	Financing
Purchase of Machinery	Investing

PRACTICAL PROBLEM 8

Depreciation Adjustment

Given:

- Machinery: ₹10,00,000
- Depreciation @10%

Solution:

$$\text{Depreciation} = 10,00,000 \times 10\% = ₹1,00,000$$

PRACTICAL PROBLEM 9

Calculation of Current Assets

Given:

- Inventory: ₹2,40,000
- Trade Receivables: ₹1,80,000
- Cash: ₹70,000

Solution:

$$\begin{aligned} \text{Total Current Assets} \\ &= 2,40,000 + 1,80,000 + 70,000 \\ &= ₹4,90,000 \end{aligned}$$

PRACTICAL PROBLEM 10

Balance Sheet Equation Check

Given:

- Assets: ₹25,00,000
- Liabilities: ₹9,50,000

Solution:

$$\begin{aligned} \text{Equity} &= \text{Assets} - \text{Liabilities} \\ &= 25,00,000 - 9,50,000 \\ &= ₹15,50,000 \end{aligned}$$

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