

Steps involved in Preparation of statements

KLE

Step – 1. Preparation of schedule of changes in working capital

Step -- 2 Calculation of funds from operations-adjusted profit and Loss account

Step -- 3. Statement of sources and application or funds flow statement.

Step 1 ; Format of schedule of changes in working capital

working capital

Particulars	previous year	Current year	increase-	decrease
<b>Current Assets</b>				
Cash				
Bank				
Bills receivable				
Debtors				
Inventories				
Prepaid expenses				
Accrued or outstanding income				
Temporary investments				
-----	-----	-----		
Total current Assets (A)				
-----	-----	-----		
<b>Current liabilities</b>				
Sundry creditors				
Bills payable				
Outstanding expenses				
Bank overdraft				
Short term loans				
Unclaimed dividend or dividend payable				
Proposed dividend ( if taken as current liability )				
Provision for taxation (if taken as current liability)	-			
-----	-----	-----		
Total current liabilities (B)				
-----)	-----	-----		
Working Capital ( A – B)				
Increase or decrease in working capital (Balancing figure)				
Total				

Step 2 ; Preparation of adjusted profit and loss account

Format of adjusted profit and loss account

Particulars	amount	Particulars	Amount
To Depreciation on fixed assets To Depletion or Amortization of fixed assets To preliminary expenses written off To goodwill written off To Transfer to general reserves To Transfer to dividend - equalisation fund To Transfer to sinking fund To Advertisement suspense a/c To loss on sale of Fixed assets To dividend (including interim dividend) To proposed dividend( if not taken as current liability) To provision for tax (if not taken as current liability) To closing bal of P&L To funds lost in operation (bal figure )		By opening balance of P&L a/c By Appreciation in the value of fixed assets. By Dividends received By interest on investments By profit on sale of fixed assets By profit on revaluation of assets By non operating incomes By excess provision written back By funds from Operations (bal figures)	

Format of Fund Flow statement

Sources	amount	Applications	Amount
Issue of share capital Issue of debentures Raising of long term loans Receipts of partly paid shares Sale of fixed assets Dividend received Sale of investments Net decrease in working capital Funds from operation		Redemption of share capital Redemption of debentures Redemption of long term loans  Purchase of fixed assets Payments of dividends Purchase of investment Payments of tax Net increase in working capital Funds lost in operation	

Problems.

1. From the following Balance sheet Of Gowri company you are required to prepare schedule of working capital changes.

Particulars	31-3-2008	31-3-2009
<b>Liabilities</b>		
Equity Capital	2,40,000	3,60,000
Share premium	24,000	36,000
General reserve	18,000	27,000
P&L account	58,500,	62,400
8% debentures	---	78,000
Provision for taxation	29400	32,700
Creditors	1,00,500	1,09,200
	<hr/>	<hr/>
	4,70,400	7,05,300
<b>Assets</b>		
Land and Building	1,66,200	1,39,600
Machinery	1,06,800	3,53,900
Furniture	7,200	4,500,
Stores	66,300,	78,000
Debtors	1,09,500	1,17,300
Bank	14,400	12,000
	<hr/>	<hr/>
	4,70,400	7,05,300

Additional information;

1. Depreciation on machinery written off during the year Rs 25,000.

2. Consider provision for taxation as a current liability.

2. Prepare a statement of changes in working capital from the following balance sheet item.

Liabilities	2013	2014	Assets	2013	2014
Equity capital	5,00,000	5,00,000	Fixed assets	6,00,000	7,00,000
Debentures	3,70,000	4,50,000	Long term	2,00,000	1,00,000
Tax payable	77,000	43,000	investments	80,000	90,000
Account payable	96,000	1,92,000	Work in progress	1,50,000	2,25,000
Interest payable	37,000	45,000	Stock in trade	710,000,	1,40,000
Dividend payable	50,000	35,000	Accounts receivable	30,000	10,000
			Cash		
	<hr/>	<hr/>		<hr/>	<hr/>
	11,30,000	12,65,000		11,30000	12,65,000

3. from the following calculate funds from operations as on 31/3/2010

1. Net profit for the year ending 31-3-2010 Rs 6,50,00
  2. profit on sale of building Rs 35,500
  3. Goodwill appear in the books at Rs 1,80,000 out of that 10% has been written off during the year.
  4. Old machinery worth Rs 8000 has been sold for Rs 6,500 during the year.
  5. Rs 1,25,000 has been transferred to General reserve
  6. Advertisement suspense account Rs 5,000.
4. Calculate funds from operation from the following information

Particulars	Amount	Particulars	Amount
To operating expenses	1,00,000	By Gross profit	2,00,000
To Depreciation	40,000	By gain on sale of plant	20,000
To Loss on sale of building	10,000		
To Advertisement suspensea/c	5,000		
To Discount allowed	500		
To discount on issue of shares Written off	500		
To Goodwill	12,000		
To net profit	52,000		
	2,20,000		2,20,000

5. Calculate funds from operation

Particulars	Amount	Particulars	Amount
To rent paid	25,000	By Gross Income	5,00,000
To salaries paid	1,00,000	By profit on sale of vehicle	3,000
To provision for depreciation	50,000	By refund of tax	2,000
To commission paid	5,000	By dividend Received	10,000
To provision for taxation	1,50,000		
To general reserve	3,000		
To loss on sale of investment	10,000		
To cost of issue of Shares written off	2,000		
To Provision for Legal damages	5,000		
To Net profit	1,65,000		
	5,15,000		5,15,000

6. From the following Balance Sheet Of Ravi Co. Ltd . you are required to prepare fund flow statement.

Particulars	31-03-2008	31-3-2009
<b>Assets</b>		
Land and building	1,00,000	95,000
Plant and Machinery	80,000	90,000
Stock	70,000	1,10,000
Debtors	20,000	25,000
Investment		10,000
Cash	10,000	10,000
Goodwill	20,000	10,000
	-----	-----
	3,00,000	3,50,000
	-----	-----
<b>Liabilities</b>		
Share Capital	1,00,000	1,50,000
General Reserve	30,000	32,000
P&L A/C	20,000	20,000
6% Debentures	80,000	80,000
Creditors	65,000	58,000
Provision for taxation	5,000	10,000
	3,00,000	3,50,000

Additional Information:

1. During the year 2009 ,dividends Rs 15, 000 were paid.

2. Depreciation is written off on plant and machinery Rs 6,000 and no depreciarion charged on Land and building.

11. from the following Balance sheet of Swastik Ltd as on 31-3-2008 & 31-3-2009. You are required to prepare fund flow statement

Liabilities	2008	2009	Assets	2008	2009
Share capital	4,00,000	5,00,000	Land and building	4,00,000	4,80,000
Reserve and surplus	80,000	1,40,000	Machinery	3,60,000	2,60,000
P&L Account	64,000	78,000	Stock	2,00,000	2,52,000
Bank loan (long term)	3,20,000	80,000	Debtors	1,60,000	1,28,000
Creditors	3,00,000	2,60,000	Bank	1,04,000	18,000
Provision for taxation	60,000	80,000			
	12,24,000	11,38,000		12,24,000	11,38,000

13. From the following Balance sheet of PQR limited as on 31-12-2009 and 31-12-2010 prepare funds flow statements

Liabilities	31-03-2009	31-03-2010	Assets	31-03-2009	31-03-2010
Share capital	5,00,000	6,00,000	Plant and machinery	3,00,000	2,50,000
General reserve	80,000	1,20,000	Land and building	2,00,000	4,00,000
P&L account	60,000	1,00,000	Stock	2,60,000	2,00,000
Bank loan (Long term)	1,60,000	1,00,000	Debtors	1,30,000	2,00,000
Creditors	1,20,000	1,60,000	Cash	50,000	60,000
Provision for Taxation	40,000	60,000	investments	60,000	80,000
O/S expenses	40,000	50,000			
	10,00,000	11,90,000		10,00,000	11,90,000

Additional information;

1. Interest paid on bank loan Rs 10,000.

2. Income tax paid for the year 2010 Rs 44,000.

3. Assets of another company were purchased for a consideration for Rs 1,00,000 paid in shares . assets consisted of land and building Rs 40,000 and stock Rs 60,000.

4 A machinery costing Rs 50,000, accumulated depreciation Rs 20,000 sold for Rs 10,000.

The loss being written off against general reserve.

5. Closing stock of 2010 was over valued by Rs 5,000.

6. Investments are trade investments Rs 600 by way of dividend was received including Rs 200 from pre acquisition profits which has been credited to investment account.

14. The following are the summarised balance sheet of X Ltd on 31-3-2009 & 31-3-2010

Liabilities	31-12-2009	31-12-2010	Assets	31-12-2009	31-12-2010
Share capital	6,00,000	8,00,000	P&M	4,00,000	6,45,000
Debentures	2,00,000	3,00,000	Land & building	3,00,000	4,00,000
P&L a/c	1,25,000	2,50,000	Stock	3,00,000	3,50,000
Creditors	1,15,000	90,000	Bank	20,000	40,000
Provision for bad and			Preliminary exp	7,000	6,000

doubtful debts	6,000	3,000	Debtors	69,000	61,000
Provision for depreciation					
Land and building	20,000	24,000			
Plant and machinery	30,000	35,000			
	10,96,000	15,02,000		10,96,000	15,02,000

Additional Information;

1. During the year a part of machinery costing Rs 70,000 (accumulated depreciation there on Rs 20000) was sold for Rs 60,000.

2. dividends of Rs 50,000 were paid during the year.

You are required to ascertain changes in working capital for 2010 and prepare fund flow statement.

15. The following is the balance sheet of PQR Ltd. As at 31-12-2005 & 31-12-2006.

Liabilities	31-12-2005	31-12-2006	Assets	31-12-2005	31-12-2006
Equity share capital	3,00,000	4,00,000	Goodwill	60,000	55,000
10% pref share capital (Reedemable)	80,000	50,000	L&B	1,25,000	85,000
Capital Reserve		20,000	P&M	1,20,000	2,25,000
General Reserve	30,000	40,000	Furniture	15,000	12,000
P&L a/c	26,000	35,000	Trade investment	12,000	48,000
Sundry Creditors	30,000	58,000	Debtors	65,000	1,05,000
Bills Payable	12,000	8,000	Stock	90,000	84,000
O/S expenses	6,000	5,000	Bills Receivable	16,000	30,000
Proposed dividends	30,000	42,000	Cash	13,000	20,000
Provision for tax	32,000	36,000	Bank	15,000	20,000
			Preliminary exp	15,000	10,000
	5,46,000	6,94,000		5,46,000	6,94,000

Additional information

1. A piece of land has been sold in 2006 and the balance has been revalued. profits on sale and revaluation being transferred to Capital Reserve Account .

2. Depreciation on plant and machinery has been written off Rs 24,000 and no depreciation has been charged on land & buildings.

3.A machinery was sold for Rs 16,000 (w.d.v.being Rs 20,000)and no furniture has been sold during the year.

4.An interim dividend of Rs 20,000 has been paid in 2006

5.Rs 3,000 has been received as dividend on trade investment.

Prepare a statement of changes in working capital & fund flow statement for the year 2006.

16.The following **are** the summarised Balance Sheet of a Co as on 31-12-1999 & 31-12-2000

Particulars	31-12-1999	31-12-2000
<b>Liabilities</b>		
Equity Capital	2,00,000	2,40,000
8% Debentures	50,000	
Share premium		10,000
General reserve	30,000	50,000
P/L account	48,000	68,000
Sundry Creditors	1,30,000	1,50,000
Provision for Depreciation		
Plant Machinery	1,40,000	1,50,000
Furniture	6,000	4,000
Proposed Dividends	20,000	24,000
Total Liabilities	6,24,000	6,96,000
	-----	-----
<b>Assets</b>		
Land and building	1,05,000	1,50,000
Plant and machinery (at cost)	2,90,000	3,20,000
Furniture (at cost)	9,000	10,000
Inventories	1,30,000	1,05,000
Sundry Debtors	75,000	85,000
Cash	15,000	26,000
Total Liabilities	6,24,000	6,96,000

Additional Information;

1.Furniture which costs Rs 5000 written down value Rs 1000 was sold during the year 2000 for Rs 2000.

2.Plant and Machinery which costs Rs 20,000 and in respect of which Rs 13,000 have been written off as depreciation , was sold during the year for Rs 3,000

3.The dividend of 1999 was paid during 2000.



17. From the following information prepare statement of changes in working capital and fund flow statement

Liabilities	2010	2011	Assets	2010	2011
Equity share capital	3,00,000	3,50,000	Fixed Assets(net)	5,10,000	6,20,000
9% Preference shares	2,00,000	1,00,000	Investments	30,000	80,000
Debentures	1,00,000	2,00,000	Current Assets	2,40,000	3,75,000
P/L account	1,10,000	2,70,000	Discount on debentures	10,000	5,000
Provision for doubtful debts	10,000	15,000			
Current liabilities	70,000	1,45,000			
	7,90,000	10,80,000		7,90,000	10,80,000

1. Preference Shares were redeemed at a premium of 5% during the year 2011.

2. Dividends at 15% on equity shares for the year 2010 & Preference dividends for 2011 were paid during 2011.

3. The provisions for depreciation stood at Rs 1,50,000 & 1,90,000 for the year 2010 & 2011 respectively.

4. A machine costing Rs 70,000, depreciation written off Rs 30,000 was disposed of Rs 25,000.

18. From the following particulars, prepare fund flow statements of Mr. SaiKumar.

Liabilities	31-12-12	31-12-13	Assets	31-12-12	31-12-13
Loans	---	25,000	Cash	5,000	4,000
Current Liabilities	35,000	40,000	Debtors	40,000	45,000
Bank overdraft	40,000	30,000	Stock	30,000	25,000
Capital	1,50,000	1,54,000	Land	30,000	40,000
			Buildings	50,000	55,000
			Machinery	70,000	80,000
	2,25,000	2,49,000		2,25,000	2,49,000

1. During the year Mr. Saikumar brought an additional capital of Rs 10,000 & his drawings during the year were Rs 31,000.

2. Provision for depreciation on machinery

Opening Balance - 30,000

Closing Balance - 40,000

No depreciation needed to be provided on other assets.

19. Balance Sheet of India Ltd.

Particulars	2010	2011
<b>Assets</b>		
Cash at bank	2,500	2,700
Debtors	87,490	73,360
Stock	1,11,040	97,370
Plant and machinery	1,12,950	1,16,200
Land and Building	1,48,500	1,44,,250
Goodwill	-----	20,000
	-----	-----
<b>Total Assets</b>	<b>4,62,480</b>	<b>4,53,880</b>
	-----	-----
<b>Liabilities:</b>		
Creditors	39,500	41,135
Bills payable	33,780	11,525
Bank Overdraft	59,510	----
Provision for Taxation	40,000	50,000
Reserves	50,000	50,000
P/L account	39,690	41,220
Share Capital	2,00,000	2,60,000
<b>Total Liabilities</b>	<b>4,62,480</b>	<b>4,53,880</b>

1. During the year interim dividend of Rs 26,000 was paid

2. The assets of another company were purchased for Rs 60,000 payable in fully paid –up shares of the company. The assets consisted of Stock Rs 22000, Machinery -18,000, Goodwill – 20,000.

3. Purchase of plant for cash Rs 5,600.

4. Tax paid Rs 25,000.

5. Net profit for the year 2011 before tax was Rs 62,530.

20. From the following balance sheet of Sowmya Ltd as on 31-12-09, you are required to prepare a fund flow statement for the year 2009.

Liabilities	2008	2009	Assets	2008	2009
Share capital	50,000	60,000	P&M	30,000	25,000
General Reserve	8,000	12,000	Land and Building	20,000	40,000
P/L account	6,000	10,000	Stock	26,000	20,000
Bank loan (long term )	10,000	2,000	Debtors	13,000	20,000
Creditors	12,000	16,000	Cash	5,000	6,000

Provision for taxation	4,000	6,000			
O/S exp	4,000	5,000			
	94,000	1,11,000		94,000	1,11,000

1. Interest paid on bank loan amounted to Rs. 1000.
2. Income tax paid Rs 4.400.
3. Assets of another company was purchased for a consideration of Rs 10,000. And paid in shares ;Assets consisted of Land and building Rs 4000, nd stock of Rs 60000.
- 4 A machine costing Rs 5,000. (written down value of Rs 3,000) was sold For Rs 1,000. The loss being written off against general reserve.
5. Closing stock of 2009 was overvalued by Rs 5,000.
6. Outstanding expenses paid during the year were Rs 4,500.

### **Financial statement Analysis**

Joan Myer defines “ financial statement analysis is largely a study of relationship among the various financial facts in a business is disclosed by a single set of statement and a study of the trend of these factors as shown in a series of statement.”

### **Comparative income statement**

It is prepared to compare the various items of income statement of different periods and to ascertain the changes. i.e increase or decrease that have taken place in the items of income statement from one period to another period and interpret the results there off.

The first two columns are provided to show the balances of various accounts for two different periods , the third column is for absolute change i.e increase or decrease and forth one provides percentage change.

### **Comparative Balance Sheet**

Comparative balance sheet is prepared to show different assets ,liabilities and capital as on two or more dates so as to compare and ascertain any increase or decrease in absolute items and also percentage changes. The changes can be observed by comparison of the balance sheet at the beginning and at the end of the period and these changes help in forming an opinion about the progress of the enterprise.

## **Common size statement**

The common size balance sheet and income statement are shown in analytical percentages. The figures are shown as percentages of total assets and total liabilities and total sales.

### **1.Common size income statement**

The items of income statement are shown as percentage of sales to show the relation of each item to sales. A significant relationship can be established between the items of income statement and volume of sales . This relationship is helpful in evaluating operational efficiency of the concern.

### **2.Common size balance sheet**

A statement in which balance sheet items are expressed as the ratio of each assets to total assets and the ratio of each liability is expressed as a ratio of total liabilities is called as common size balance sheet.

## **Trend analysis**

The financial statements may be analysed by computing trends of series of information. Trend analysis refers to finding the tendency of accounting information. This method determines the upward or downward tendencies of items and involves the computation of the percentage relationship that each statement item bears to the same item in base year. This is used when the information of more number of years is given. Generally the first year is taken as base and the values of base year are taken as 100 . trend ratios of other years are calculated on the basis of base year.

