

# Presentation of FINANCIAL STATEMENT

**Subject:- Financial Accounting 1**

**Presented By.....**

<b>Pallabi Goswami</b>	<b>MCI14028</b>
<b>Padum Chetry</b>	<b>MCI14026</b>
<b>Indrani Talukdar</b>	<b>MCI14011</b>
<b>Kamal K. Saharia</b>	<b>MCI14027</b>
<b>Tonmoyee Talukdar</b>	<b>MCI14013</b>
<b>Nandit N.P Gayan</b>	<b>MCI14021</b>
<b>Aklanta Madhav Kalita</b>	<b>MCI14030</b>
<b>Jahnu Borah</b>	<b>MCI14023</b>

**Tezpur University**

# Introduction

*Financial statements are the end products of the accounting process, which reveals the financial results of the specified period and financial position as on particular date. It is the basic and formal annual report through which a business communicates financial information to its various user groups.*

# Nature of Financial Statement

- 1. Recorded facts*
- 2. Accounting conventions*
- 3. Postulates(Assumptions)*
- 4. Personal Judgements*

1. SOURCE DOCUMENTS



2. JOURNALS



3. LEDGER  
(T-ACCOUNTS)



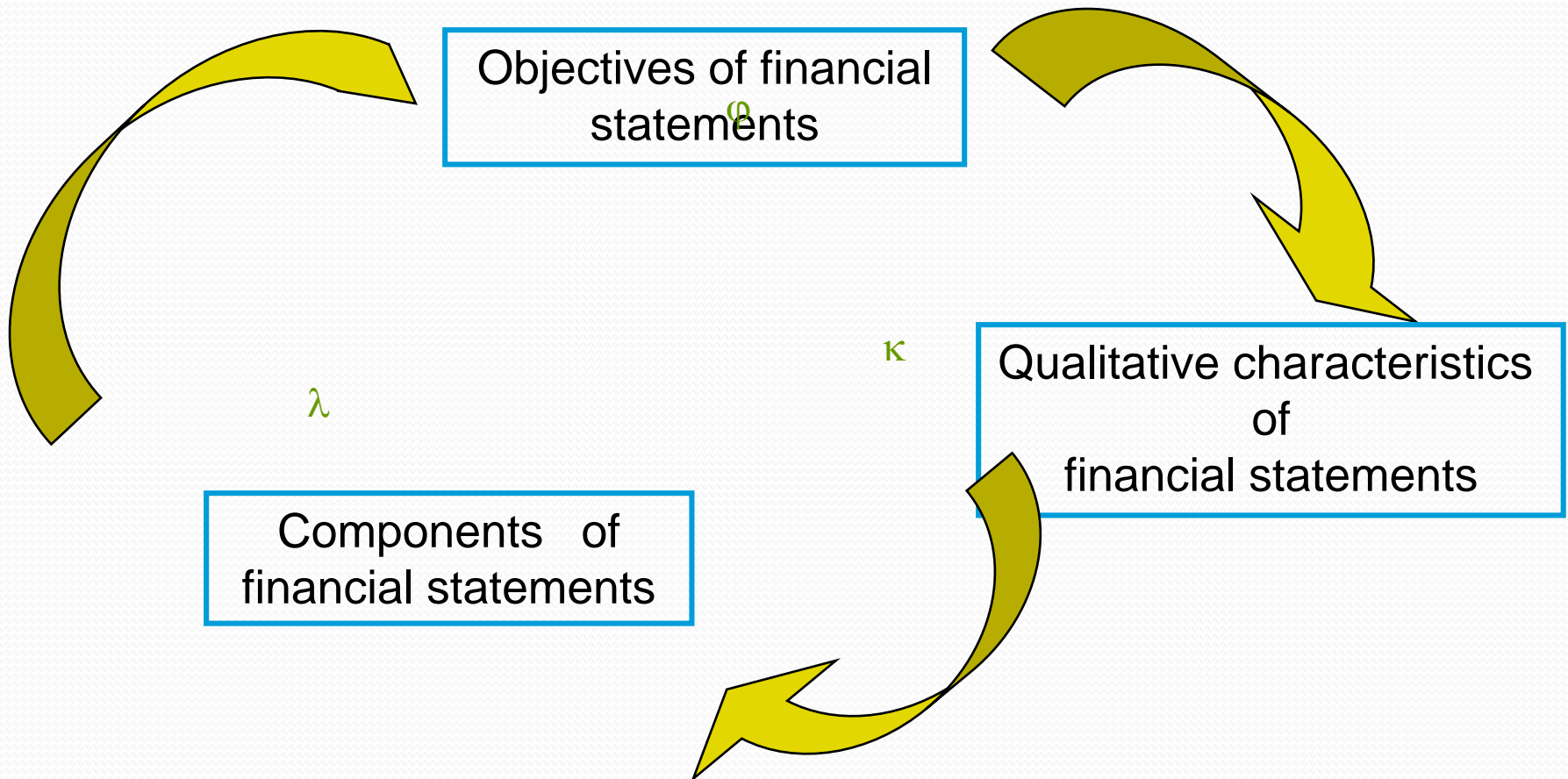
4. TRIAL  
BALANCE



5. FINANCIAL  
STATEMENTS




# Framework for preparing Financial Statement



# Objectives

- 1. To provide reliable financial information about economic resources(assets) and obligations(liabilities) of a business firm*
- 2. To provide information about the earning capacity of the business firm*

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3. *To provide reliable information about the changes in resources and obligations arising out of business activities.*
  
  4. *To disclose , the various accounting policies followed in preparing the financial statement to its various user groups.*
  
  5. *To disclose, to the extent possible, other related information to financial statement that is relevant to the needs of the users.*

# Characteristics of Ideal financial statement

- *1. Relevency*
- *2. Reliability*
- *3. Understandibility*
- *4. Comparability*



# Importance of financial statement

- 1. *Importance to management*
- 2. *Importance to Creditors*
- 3. *Importance to Bankers*
- 4. *Importance to Investors*
- 5. *Importance to Government*

# Limitation of financial statement

- 1. *Provide only interim reports*
- 2. *Aggregate information*
- 3. *No qualitative information*
- 4. *Personal biasness*
- 5. *Historical cost*

# Components of Financial Statement

## 1. *Income Statement*

(a) *Manufacturing Account*

(b) *Trading account*

(c) *Profit and loss account*

## 2. *Statement of Financial Position*

*\*Balance sheet*

# Manufacturing Account

- **Meaning** : *Those Concerns which convert the raw materials into finish goods are required to find out the cost of goods manufactured besides gross and net profit of the concern. These are manufacturing cum trading concerns. In order to have full information about the cost of goods manufactured, the concerns firstly prepare Manufacturing Account & then prepare the Trading & Profit & Loss Account.*
  
- **Object of Manufacturing Account** :
  1. *Cost of finished goods produced and*
  2. *Constituent items thereof such as cost of material consumed, productive wages , direct & Indirect expenses.*

# Manufacturing Account

## for the year ended.....

Particulars	Amount	Particulars	Amount
To Raw Materials Consumed: (Opening Stock Of raw Material + Purchases During The Year – Closing Stock Of Raw Materials)		By Cost of Goods Manufactured transferred to Trading A/c	
To Direct Wages			
To Direct Expenses(as carriage on purchases)			
Prime Cost			
Factory Expenses:			
To Factory Lighting			
Factory Rent			
Indirect Expenses			
Supervisor's Salary			
Stores Consumed etc.			
To Work In Progress			
Beginning			
Less: Closing Work In Progress			
Sale of Scrap			

## □ 1. Trading account:

*(a) Purpose*

*(b) Types*

*\*\* Horizontal form*

*\*\* Vertical form*

# Horizontal form

- *Horizontal form is called 'T form' under which the Trading account is prepared in the Format of Ledger account having two sides i.e. debit side and credit side*

# Trading Account

Dr

for the year ended on.....

Cr

Particulars	Amount(₹)	Particulars	Amount(₹)
To Opening Stock		By Sales	
To Purchases		Less: Sales Return or Return	
Less: Purchase Return		Inward	
Or		By Closing Stock	
Returns Outward		By Profit & Loss A/C	
To Wages		To Gross Loss Transferred	
To Wages and Salaries			
To Direct Expenses			
To Carriage ,Carriage Inward or			
Carriage on Purchase			
To Duty On Purchase			
To Gas ,Fuel And Power			
To Freight/Cartage			
To Octroi			
To Dock Charges			
To Excise Duty			
To Import Duty on custom duty			
To Profit And Loss A/C			
(GROSS PROFIT TRANSFER)			



# Vertical Form

- *Vertical form is a form under which the trading account is prepared in vertical order i.e. in the form of a statement. These are shown below*

# Trading Account

## For the Year ended.....

<i>Particulars</i>	<i>Amount(₹) Dr</i>	<i>Amount(₹) Cr</i>
<i>Sales</i>		.....
<i>Less: Sales Return</i>		.....
		.....
<i>Less: Cost of Good Sold:</i>		
<i>Opening stock</i>	.....	
<i>Purchases less Returns</i>	.....	
<i>Wages</i>	.....	
<i>Carriage</i>	.....	
	.....	
<i>Less: Closing Stock</i>		.....
<b><i>Gross Profit</i></b>		..... .....

# Profit and loss Account

## □ Meaning:

*According to R. N. Carter : “ A profit and loss account is an account into which all gains and losses are collected, in order to ascertain the excess of gains over the losses or vice-versa.”*

*Net Profit=Operating Profit – Non operating expenses +  
Non operating Income*

# Profit and Loss Account

Dr		For the year ended on.....		Cr	
Particulars	Amount()	Particulars	Amount()		
To Trading A/c (Gross Loss transferred)		By Trading Account (GROSS Profit Transferred)			
<b>Office &amp; Administration Expenses:</b>		By Rent			
To Salaries		By DISCOUNT Received			
To Salaries and Wages		By Commission Received			
To Rent, Rates & Wages		By Interest on investment			
To Printing & Stationary		By Sundry Receipts			
To Postage & Telegram		BY Bad Debt Recovered			
To Lighting		By Sale of scrapes			
To Insurance Premium(Office)		By Interest on Drawings			
To Telephone Charges		By Capital a/c (net loss transferred)			
To Legal Charges					
To Audit Fees					
To travelling expenses					
To Establishment Expenses					
To Trade Expenses					
To General Expenses					

# MEANING and FEATURES of Profit and Loss

## Appropriation Account

### **Meaning:**

*Profit and Loss Appropriation Account is an account which is prepared with an objective of appropriating or distributing the net profits among the partners.*

### **Features:**

- It is prepared after the Preparation of Profit & Loss A/C*
- It is an extension of Profit & Loss A/C.*
- It is Prepared by partnership firm ( and Companies) for appropriations ( distribution) of profits among partners.*
- It discloses how the net profit for an accounting period has been appropriated.*
- It is prepared in terms of the partnership Deed or the Partnership Act.*

# Profit and Loss Appropriation Account

For the year ended .....

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Interest on Partners Capital A/c		By Net Profit b/d (Net Profit transferred)	
To Partners Salary a/c		By Interest on Drawings a/c	
To Commission to partner's a/c		By Balance of Undistributed Profit (brought forward from previous year)	
To General Reserve a/c			
To Partner's Capital a/c* ( share of profits )		By Partner's Capital a/c* ( share of loss )	

# Balance Sheet

According to J.R. Batliboi , “ A balance sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date.”

## □ Importance of Balance Sheet :

1. To Ascertain the financial position
2. To Ascertain the Information about the exact amount of capital
3. Helpful in the preparation of books of account in the next year

# Characteristics of Balance Sheet

- The balance sheet is a statement not an account.
- The word 'to' and 'By' are not used before the names of the accounts shown in the balance sheet.
- The total of the two sides of the balance sheet must be equal.
- It Shows the financial position of the business according to the going concern concept.
- The balance sheet does not have Debit or Credit Side. The two sides of the balance sheet are called "Assets" And "Liability"



# Marshalling of Assets & Liabilities

- Marshalling can be made in one of the following two methods
  - (a) Liquidity; or
  - (b) Permanence

Generally , sole proprietors and partnership firms prepare their Balance Sheet in the order of Liquidity.

# Formats of Balance Sheet

- Horizontal Form and
- Vertical Form

## □ Horizontal Form:-

Under this form of presentation of Balance Sheet the Assets are shown on the right hand side. And the Liabilities are shown on the Left Hand Side . This form is also called 'T' form. This shown below

# Balance Sheet

as on .....

<b>Liabilities</b>	<b>Amount(Rs)</b>	<b>Assets</b>	<b>Amount(Rs)</b>
<b>Current Liabilities</b>		<b>Current Assets</b>	
Bank Overdraft		Cash in Hand	
Sundry Creditors		Cash at Bank	
Bills Payable		Bills Receivable	
Outstanding		Short term	
Expenses		Investments	
Unearned		Sundry Debtors	
Income		Closing Stock	
		Prepaid	
		Expenses	
<b>Fixed Liabilities</b>		Accrued Income	
Long term Loans			
		<b>Fixed Assets</b>	
		Loose Tools	
<b>Reserves</b>		Motor Vehicle	
		Furniture	
		Long term	
<b>Capital</b>		Investments	
Add- Net Profit		Plant and	
Less-Net Loss		Machinery	
		Patent	



## □ Vertical Form:-

Under vertical form of preparing a balance sheet, the liabilities and assets are shown one after another in vertical order i.e. in the form of a statement.

	Figures as at the end of current financial year	Figures as at the end of previous financial year
<p><b>Assets</b></p> <p><b>Current Assets:</b></p> <p>Cash  Sundry Debtors  Less: Provision for Doubtful Debts  Stock  Prepaid Expenses</p> <p><b>Fixed Assets:</b></p> <p>Furniture and Fixtures  Land and Buildings  Plant and Machinery  Less: Depreciation  Goodwill</p> <p><b>Total Assets</b></p>		
<p><b>Liabilities and Capital:</b></p> <p><b>Current Liabilities:</b></p> <p>Sundry Creditors  Outstanding Expenses  Total Current Liabilities</p>		

# Prepare Trading account form the given information for X LTD. For the year 31<sup>st</sup> December 2006

- Opening stock- 40,000
- Purchases- 1,75,000
- Sales- 3,03,000
- Return Inwards- 3,000
- Return Outwards- 5,000
- Wages – 30,000
- Carriage Inwards – 5,000
- Closing Stock- 65,000

# Trading Account of X Ltd. For the Year 31<sup>st</sup> Dec. 2006

Particulars	Rs.	Rs.	Rs.
Sales	3,03,000		
Less Sales return	3,000		3,00,000
Opening stock		40,000	
Purchases	1,75,000		
Less purchase return	5,000	1,70,000	
Carriage Inward	5,000		
Wages	30,000	35,000	
		2,45,000	
Less Closing Stock		65,000	
Cost of Good sold			1,80,000
Gross profit			1,20,000



2006

- Discount Recd.- 12,000
- Dividend Recd.- 16,000
- Profit on Sale of an asset- 16,000
- Salaries to sales people- 15,000
- Salaries to Administrative- 25,000
- Telephone Charges- 1,500
- Audit Fees – 1,000
- Depreciation on Furniture- 200
- Bad Debts –200
- Interest paid on loans- 200
- Loss by Fire- 3,000

# Profit and loss account for X Ltd. For the year 31<sup>st</sup> Dec. 2006

Particulars	Rs	Rs.	Rs
Gross Profit			1,20,000
Add: Other Income( Dis. Recd.)		12,000	
Non Trading income (Div. Recd.		16,000	
Abnormal gains ( Profit on asset sale)		16,000	44,000
			1,64,000
Less:Mgt. Expenses ( Admin. Salary)	25,000		
Telephone Charges and Audit Fees	2,500	27,500	
Less: Maintenance Expenses( Dep.)		200	
Less: Selling &Dist.Exp(sales Salary)	15,000		
Bad debts	200	15,200	
Less: Financial expenses ( Interest)		200	
Less: Abnormal Losses ( Fire loss)		3,000	46,100
Net profit Transferred to capital account			1,17,900

# Balance Sheet

A business firm has following Assets and Liabilities . From the following information prepare a balance sheet

Machinery –Rs 100000

Furniture -Rs 30000

Prepaid expences-2000

Outstanding income-1000

Long term loan-1000

Closing stock 5000

Outstanding expences-100

Income received in advance-500

Capital of the partners-

A-400000

B-400000

Depreciation on machinery-10000

Profit of the year-90000

cash in hand-3000

## Balance sheet as on

Liabilities	Amount	Assets	Amount
Long term loan	100000	Machinery	100000
Income received in Advance	200	Less : Depreciation	
		<u>10000</u>	90000
Outstanding expenses	100	Furniture :	169000
Capital ::		Closing Stock	5000
A: 40000		Cash in Hand	3300
Add : profit 45000		Prepaid expenses	2000
B: 40000		Outstanding income	1000
Add : Profit 45000	170000		
	<u>270300</u>		<u>270300</u>

# Treatment of Adjustments

- ❖ **Closing Stock**: If this item is given inside the trial balance then only mention as Current assets in Balance Sheet.  
But if given in adjustments then show the same in trading account as well as in Current Asset side of Balance Sheet.
- ❖ **Outstanding Expenses** : ( due for accounting period but not paid) Add this amount in the particular expense either in trading or P&L A/c and show as Current Liabilities in Balance Sheet.
- ❖ **Prepaid Expenses**: (Expenses paid in advance) Deduct this amount in the particular expense either in trading or P&L A/c and show as Current Assets in Balance Sheet.

- **Outstanding Income**: (Income due in accounting period but still not received) Add this amount in the particular income in P&L A/c and show as Current Assets in Balance Sheet.
- **Income Received in advance**: (Income received in advance by business before it being earned by the business.) Deduct this amount in the particular income in P&L A/c and show as Current Liabilities in Balance Sheet.
- **Depreciation**: Show this amount in the P&L A/c and deduct from that particular fixed asset in the Balance Sheet.
- **Interest on Capital**: Show this amount as Financial expense P&L A/c and added in capital in Balance Sheet.



THANK YOU