

09/12

Chapter-5

Financial Statements Under Modern Structure

1 Nu

Components of Financial Statements

1. Income statement (combining Trading & P/L a/c)
2. Statement of Retained Earning (Similar to P/L App'd)
3. Balance Sheet

All these statements are prepared in vertical format.

1) Income statement

Income statement is one of the important financial statements, prepared to determine the net income (profitability position) of the business by deducting all expenses from total income.

Types of income statement

- a. Single step format of income statement
- b. Multi-step format of income statement

a) Single step format

Under this format, income statement is prepared to determine net income by deducting all expenses from total income without classifying income and expenses heading.

Specimen:

_____ Company
Single Step Income Statement
For the year ended _____

Particulars	Amount (Rs.)	Amount (Rs.)
Sales revenue	xxx	
Less: sales return	xxx	
Net sales	xxx	xxx
Add: All other incomes	xyy	
Total income		xxx
Less: Expenses		
Cost of goods sold	xxx	
Salary	xxx	
Rent	xxx	
Advertisement	xxx	xxx
Net income before tax		xxx
Less: Income tax expenses		xyy
Net income after tax		xyy

b) Multi-step format

Under this format, income statement is prepared by classifying income and expenses into operating section and non-operating section and profit is calculated step by step.

_____ Company
Multi-Step Income Statement
For the year ended _____

Particulars	Amount (Rs.)	Amount (Rs.)
Sales revenue	xxx	
Less: sales return	xxx	

Net sales		
less: cost of goods sold:		xxx
Opening stock		
Purchase	xxx	
Purchase return	xxx	
Purchase related expenses	(xxx)	
Closing stock	xxx	
Gross profit	(xxx)	xxx
Add: Operating expenses:		xxx
Office and administrative expenses		
Salary	xxx	
Rent	xxx	
Audit fee	xxx	
Insurance	xxx	
a) Office and administrative expenses	xxx	
Selling and distribution expenses		
Advertising expenses	xxx	
Carriage outward	xxx	
Export duty	xxx	
b) Total selling and distribution expenses	xxx	
Total operating profit (a+b)		xxx
Operating profit		xxx
Add: other incomes:		
• Rent / Int / Commission received	xxx	
• Discount / Dividend received	xxx	
• Gain on sales of old assets	xxx	
• Appreciation	xxx	xxx
less: other expenses		
• Interest expenses	xxx	

• Loss on sale of old assets	xxx	xxx
• Written off	xxx	(xxx)
Net income before tax		xxx
less: Income tax expenses		xxx
Net income after tax		xxx

2) Statement of retained earnings

- Statement of retained earnings is similar to P/L App. a/c.
- It is prepared in vertical format
- It is prepared to show the distribution of profit into dividend and reserve and to calculate the ending balance of retained earnings (profit).

Specimen

_____ Company
Statement of Retained Earnings
As on _____

Particulars	Amount (Rs.)	Amount (Rs.)
Beginning balance of retained earnings	xxx	
Add: net income after tax	xxx	
Total profit for distribution		xxx
less: Distributions:		
• Interim Dividend	xxx	
• Proposed dividend (adj.)	xxx	
• Any reserve (adj.)	xxx	
Ending balance of retained earnings		xxx

3. Balance Sheet

Specimen:

Company
Balance Sheet
As on _____

Particulars	Amount	Amount
<u>Assets</u>		
<u>Property, plant and Equipment</u>		
Land		
Building	Xxx	
Plant	xxx	
a) Total property, plant and equipment	xxx	
<u>Intangibles</u>		
• Goodwill / Franchise agreement	xxx	
b) Total intangibles		Xxy
<u>Investment:</u>		
Government bond	xxx	
Investment in _____	xxx	
c) Total investment		XXx
<u>Current Assets</u>		
Cash / Bank	xxx	
Debtors/ Receivable	xxX	
Accrued income	xxY	
Marketable security	xxx	
d) Total Current Assets		XXY
<u>Fictitious Assets</u>		
• Discount on issue of _____	Xxx	
• Underwriting commission	XXx	
• Preliminary expenses	Xyy	
e) Fictitious Assets		xxx
Total assets (a+b+c+d+e)		xxx

<u>Liability and Equity</u>		
<u>Liabilities</u>		
Long term debt	xxx	
Bank loan	xxx	
Debenture		xxx
a) Total long term debt		
<u>Current liabilities</u>		
• Creditors / Payables / Dues	xxx	
• Bank overdraft / Short term loan	xxx	
• Advance income / Unearned income	xxx	
b) Total current liabilities		xxx
Total liabilities		xxx
<u>Equity:</u>		
• Common stock (Eq. Cap)	xxx	
• Preferred stock (Pref. Cap)	xxx	
• Share premium	xxx	
• Any reserves	xxx	
• Retained earnings	xxx	
Total equity		xxx
Total liabilities and equity		xxx

HW1

Deswell Company Limited
Single Step Income Statement
For the year ended June 30 2021

Particulars	Amount (b)	Amount (c)
Sales revenue	800000	
Less: sales return	17000	
Net sales	783000	
Add: other income		
: Commission earned	30000	
: Gain on sale of investment	32000	62000
Total income		845000
Less: Expenses:		
• Cost of goods sold	375000	

• Postage and telegram	15000	
• General expenses	12000	
• Salary expenses	165000	
• Depreciation on fixed assets	25000	
• Advertising expenses	18000	
• Travelling expenses	9500	619500
Net income before tax		225500
Less: Income tax expenses		56375
Net income after tax		169125

HW2

Intel Company Limited
 Single Step Income Statement
 For the year ended June 30-2021

Particulars	Amount (₹)	Amount (₹)
Internet service revenue	1800000	
Add: other incomes		
• Interest on investment	60000	
Total income		1860000
Less: Expenses:		
• Cost of internet service	700000	
• Sundry expenses	50000	
• Repair and maintenance	175000	
• Advertisement	125000	
• Interest on bank loan	40000	
• Office rent	225000	
• Audit fees	20000	
• Administrative staff salary	165000	
• Legal expenses	12000	
• Technical staff salary	205000	
• Utility expenses	45000	
• Depreciation expenses	35000	
• Commission expenses	15000	1812000
Net income before tax		48000

less: income tax expenses 9600
 Net income after tax 38400

XW3

Jhimruk Company Limited
 Multi-Step Income Statement
 For the year ended June 30, 2021

Particulars	Amount (Rs)	Amount (Rs)
Sales revenue	1120500	
Less: sales return	12000	
Net sales		1108500
less: cost of goods sold:		
Stock (1-7-2020)	64000	
Coal and coke	34000	
Purchases	575000	
Carriage inward	7000	
Manufacturing wages	55000	
Ending inventory	(130000)	605000
Gross profit		503500
less: Operating Expenses:		
Office and Administrative Expenses		
• Office rent	45000	
• Salary	213000	
• Audit fee	20000	
• Utility expenses	34000	
• Depreciation	14000	
• Insurance premium	13000	
• Establishment expenses	11000	
a) Total office and administrative exp	380000	
Selling and Distribution Expenses		
• Salesman salary	30600	
• Bad debts	5000	
• Discount allowed	5500	
• ^{rent of showroom}	38000	
b) Total selling & distribution expenses	79100	
Total operating expenses		456100
		421100

Operating profit		47400
Add: other incomes		82400
Interest on investment		
sundry receipts	15000	
Less: other expenses	25000	40000
Loss on sale of investment		
Interest on debenture	5000	
Net income before tax	7500	12500
Less: income tax expenses		74900
Net income after tax		22470
		22430

HW4

Alpha Company Limited
Multi-step Income Statement
For the year ended June 30 2021

Particulars	Amount (Rs)	Amount (Rs)
Sales revenue	640000	
less: sales return	15000	
Net sales		625000
less: cost of goods sold		
Opening stock	25000	
Purchases	360000	
Less: purchase return	10000	350000
Wages	22000	
Closing stock	(60000)	337000
Gross profit		288000
less: operating expenses		
Office and administrative expenses		
Audit fees	10000	
Packing expenses	12000	
Sundry expenses	15000	
Telephone and electricity charges	18000	
Manager commission	13000	

Depreciation on plant and machinery	20000	
Salary	122000	
Printing and Stationery	5000	
a) Total office & administrative exp.	203000	
Selling and distribution expenses		
Depreciation on delivery van	15000	
Sales agent commission	12000	
Free sample distribution	11000	
Packing expenses	12000	
Bad debt	9000	
b) Total selling & distribution expenses	47000	
Total operating expenses		262000
Operating profit		250000
Add: other income		26000
Transfer fee	10000	10000
Discount received	14000	24000
Less: other expenses		
Interest on bank loan	5000	
Loss on sale of vehicle	4200	9200
Net income before tax		40800
Less: Income tax exp		52800
Net income after tax		10200
		30600

HWS

Sangrila Manufacturing Company
Multi-step Income Statement
For the year ended 31-12-2017

Particulars	Amount (Rs)	Amount (Rs)
Sales revenue		2342000
Less: cost of goods sold		
Opening stock	127500	
Royalty	58000	
Direct wages	247000	
Carriage in ward	15000	
Purchases	1472000	
(Closing stock	(220000)	1699500

Gross profit		
less: operating expenses		692500
Office & administrative expenses		
Salaries	370000	
Miscellaneous expenses	32000	
Other office expenses	42000	
Add: outstanding office expenses	²⁰⁰⁰⁰ 44000	62000
Depreciation expenses	42000	
a) Total office & administrative exp	⁵⁰⁰⁰⁰⁰ 488000	
Selling and distribution expenses		
Traveller's salary	28000	
Sales manager's commission	32000	
Promotional expenses	44000	
b) Total selling & distribution exp.	104000	10
Total operating expenses	208000	692000
Operating profit		50500
Add: other incomes		
Apprentice premium	17000	
Commission received	23000	40000
Less: other expenses		
Interest on bank loan		10000
Net income before tax		62500
less: income tax expenses		15625
Net income after tax		46875

HW6

Mercantile Company Limited
Statement of Retained Earnings
As on June 30, 2021

Particulars	Amount (₹)	Amount (₹)
Opening balance of retained earning	115000	
Add: net income during the year	157000	
Total profit available for distributions		272000

Less. Distributions:		
In term dividend	25500	
Proposed dividend on equity	15000	
Transfer to general reserve	25000	65500
Ending balance of retained earnings		206500

HW7

Asian Company Limited
Statement of Retained Earnings
As on 31-12-2020

Particulars	Amount (Rs)	Amount (Rs)
Retained earnings (1.1.2020)	175000	
less: Add: net income during the year	157500	
Total profit available for distribution		332500
less: Distributions :		
Debenture redemption reserve	65000	
Dividend equalization fund	44500	
Proposed dividend	83000	192500
Ending balance of retained earnings		140000

W.D.

$$\text{Proposed dividend} = 12\% \times (550000 - 50000) + 10\% \times 230000$$

HW8

Friendly Company Limited
Balance Sheet
As on 30-06-2078

Particulars	Amount	Amount
<u>Assets</u>		
Property, Plant and equipment		
Land and Building	400000	
Plant and machine	219000	
a) Total property, plant and equipment		619000
<u>Intangibles</u>		
Patent	35500	

b)	Total intangibles		35500	
	Investment			
	9% Investment	175000		
c)	Total investment		175000	
	Current Assets			
	Stock at the end	87000		
	Cash and bank balance	302000		
	Unexpired rent	25500		
	Short term investment	60000		
d)	Total current assets		474500	
	Fictitious Assets			
	Discount on issue of shares	62000		
e)	Total fictitious assets		62000	
	Total assets		1366000	
	Liability and Equity			
	Liability			
	Long term liability			
	10% Debenture	190000		
a)	Total long Term liability		190000	
	Current Liabilities			
	Bank overdraft	44000		
	Advance Income	33000		
	Interest on debenture payable	7000		
	<small>sundry creditors</small>	92000		
b)	Total current liabilities		176000	
	Total liabilities		84000	
	Equity		366000	
	Retained earnings	102000		
	Common stock	670000		
	General reserve	93000		
	10% preference share capital	150000		
	Share premium	35000		1000000
c)	Total equity		1000000	
	Total liability & equity		1366000	

HW9

Phuket Company Limited
Multi-step Income Statement
For the year ended June 30, 2021

Particulars	Amount	Amount
Sales revenue		775000
less: cost of goods sold:		
cost of goods - Opening Stock	65000	
Purchases	425000	
Freight on purchase	20000	
Closing stock	(95000)	415000
Gross profit		360000
less: operating expenses		
office and administrative expenses		
Salary 132000	144000	
Add: outstanding salary 12000	120000	
Depreciation on machinery	35000	
a) Total office and administrative expenses	185000 ¹⁷⁹⁰⁰⁰	155000
Selling and Distribution Expenses		
Promotional expenses	13000	
Discount allowed	25000	
b) Total selling and distribution exp	38000	
Total operating expenses		193000 ¹⁹²⁵⁰⁰
Operating profit		167000 ¹⁶⁷⁵⁰⁰
Add: other income		
Discount received		46000
less: other expenses		
Outstanding interest		14400
Net income before tax		198600 ¹⁷⁴⁶⁰⁰
less: income tax expenses		43656
Net income after tax		130950

Phuket Company Limited
Statement of Retained Earnings
As on June 30, 2021

Particulars	Amount	Amount
Retained earnings (1-7-2020)	110000	110000
Add: net income after tax	130950	
Total profit available for distribution		240950
less: Distributions:		
Proposed dividend		8000
Ending balance of retained earnings		158950

Phuket Company Limited
Balance Sheet
As on June 30, 2021

Particulars	Amount	Amount
<u>Assets</u>		
<u>Property, plant and equipment</u>		
Machinery 350000		
less: Depreciation 35000	315000	
Business premises	486000	
a) Total property, plant & equipment		801000
<u>Intangibles</u>		
Goodwill	62000	
b) Total intangibles		62000
<u>Investment</u>		
Government bond	110000	
c) Total investment		110000
<u>Current assets</u>		
Prepaid insurance premium	25000	
Account receivables	110000	
Cash at bank	280000	
Closing stock	95000	

		490000
d) Total current assets		
Fictitious Assets	13000	
Preliminary expenses		13000
Total fictitious assets		1476000
Total assets		
Liability and Equity		
Liability		
long-term liability	120000	
12% Bank loan		120000
a) Total long term liability		
Current liability		
Account payable	20000	
Outstanding interest	14400	
Outstanding salary	12000	
Proposed dividend	82000	
Income tax payable	43650	
b) Total current liability		172050
Total liability		292050
Equity		
Equity		
Equity share capital	1025000	
Retained Earning	158950	
Total Equity		1183950
Total liability & equity		1476000

MW10

Silver Zone Company Ltd.
Multi-step income statement
for the year ended 31-12-2020

Particulars	Amount	Amount
Sales revenue		730000
Less: cost of sales	310000	
Gross profit		420000
Less: operating expenses		
Office and administrative expenses		

Salary	205000	
Depreciation on equipment	43500	
Interest on bank loan 13000	46000	
Add: Payable 3000		
Miscellaneous expenses	35000	
a) Total office & administrative exp.	2995000 2683500	
Selling and distribution expenses		
Transportation expenses on sales	18000	
Advertisement expenses	37500	
b) Total selling & distribution exp	55500	
Total operating expenses		339000
Operating profit		355000
Add: other income		81000
Rent income	15000	15000
Add: other expenses		
Interest on bank loan 13000	16000	16000
Add: payable 3000		
Net income before tax		80000
Less: income tax expenses		20000
Net income after tax		60000

Silver Zone Company Ltd.
Statement of retained earnings
As on 31-12-2020

Particulars	Amount (₹)	Amount (₹)
Retained earnings (Opening balance)	69500	
Add: Net income after tax	60000	
Total profit available for distribution		129500
Less: Distributions:		
Proposed dividend		10500
Ending balance of retained earnings		119000

Silver Zone Company Ltd.
Balance Sheet
As on 31-12-2020

Particulars	Amount	Amount
<u>Assets</u>		
<u>Property, Plant and Equipment</u>		
land building	55000	
Equipment	350000	
a) Total Property, Plant and Equipment		900000
<u>Intangibles</u>		
Goodwill	80000	
b) Total intangibles		80000
<u>Investment</u>		
		-
<u>Current assets</u>		
Cash and bank balance	151000	
Sundry debtors	70000	
c) Total Current assets		221000
<u>Fictitious assets</u>		
		-
Total assets		1201000
 <u>Liability and Equity</u>		
<u>Liability</u>		
<u>Long term liability</u>		
8% Bank loan	200000	
a) Total long term liability		200000
<u>Current liability</u>		
Sundry creditors	45000	
Unearned rent 25000	10000	
less: rent expense 15000		
Accumulated depreciation	103500	
Income tax payable	20000	
Proposed dividend	10500	
Bank loan payable	3000	
b) Total current liability		192000
Total liability		392000

Equity			
Common stock			
7% preferred stock	54000		
Retained earnings	140000		
Total equity	119000	209000 690000	
Total liability and equity		809000	1201000