

## Financial Statements of a Company

1. Azhar, Sumit and Robit were partners in a firm sharing profits and losses in the ratio of 3 : 1 : 1. Their Balance Sheet as at 31<sup>st</sup> March, 2023, was as follows :

(2024)

Balance Sheet of Azhar, Sumit and Robit as at 31<sup>st</sup> March, 2023

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	90,000	Bank	20,000
General Reserve	60,000	Stock	40,000
Capitals :		Debtors	1,50,000
Azhar      60,000		Fixed Assets	60,000
Sumit      40,000			
Robit <u>20,000</u>	1,20,000		
	<u>2,70,000</u>		<u>2,70,000</u>

Robit died on 30<sup>th</sup> June, 2023. According to the Partnership deed, Robit's legal representatives were entitled to :

- (i) Balance in his Capital Account.
- (ii) His share of General Reserve.
- (iii) Interest on capital @ 10% p.a.
- (iv) His share of goodwill. Goodwill of the firm was valued on the basis of thrice the average of the past four years' profits.
- (v) His share in profits up to the date of death on the basis of the profit for the last year.

Profit for the previous years were :

	₹
2019 – 20	(3,000)
2020 – 21	28,000
2021 – 22	16,000
2022 – 23	15,000

Prepare Robit's Capital Account to be rendered to his legal representatives.

**Ans.**

Dr.		Cr.	
Robit's Capital A/c			
Particulars	Amount ₹	Particulars	Amount ₹
To Robit's Executor's A/c / Legal Representatives A/c (½)	41,650	By Bal b/d	20,000
		By General Reserve A/c	12,000
		By Interest on Capital A/c	500
		By Azhar's Capital A/c	6,300
		By Sumit's Capital A/c	2,100
		By P&L Suspense A/c	750
	41,650		41,650

Working Notes:

(i) Goodwill =  $3 \times 56,000 / 4 = 42,000$

Robit's Share in firm's Goodwill =  $42,000 \times 1/5 = 8,400$

Gaining ratio between Azhar and Sumit = 3:1

(ii) Robit's Share in the Profit upto the date of death =  $15,000 \times 1/5 \times 3/12$   
= 750

## Previous Years' CBSE Board Questions

### 3.4 Types of Financial Statements

#### MCQ

1. Liquid Assets do not include:  
 (a) Trade Receivables  
 (b) Cash and Cash Equivalents  
 (c) Inventory  
 (d) Short-term Investments (2021 C) R

#### VSA (1 mark)

2. Define "Cash Equivalents". (2020 C)  
 3. 'Prepaid Expenses' are presented in the Balance Sheet of a company under the sub-head \_\_\_\_\_. (Delhi 2020)  
 4. 'Interest accrued on investments' will be presented in the Balance Sheet of a company under the sub-head \_\_\_\_\_. (Delhi 2020)

#### SA II (3/4 marks)

5. Under which major heads and sub-heads will following the items be presented in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013?  
 (a) Income received in advance  
 (b) Computer Software  
 (c) Balance of forfeited shares (2023) Ev
6. State under which major headings and sub-headings will the following items be presented in the Balance Sheet of a company as per Schedule-III, Part-I of the Companies Act, 2013.  
 (i) Prepaid insurance  
 (ii) Investment in debenture  
 (iii) Calls-in-arrears  
 (iv) Unpaid dividend  
 (v) Capital reserve  
 (vi) Loose tools  
 (vii) Capital work-in-progress  
 (viii) Patents being developed by the company. (Delhi 2019)
7. Under which major heads and sub-heads will the following items be presented in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013?  
 (i) Bank Overdraft  
 (ii) Subsidy Reserve  
 (iii) Capital Redemption Reserve  
 (iv) Mining Rights  
 (v) Patents  
 (vi) Debit balance in the Statement of Profit and Loss  
 (vii) Debenture Redemption Reserve  
 (viii) Provision for Taxation (NCERT, AI 2019) U

8. JW Ltd. was a company manufacturing geysers. As a part of its long term goal for expansion, the company decided to identify the opportunity in rural areas. Initial plan was rolled out for Bhiwani village in Haryana. Since, the village did not have regular supply of electricity, the company decided to manufacture solar geysers. The core team consisting of the Regional Manager, Accountant and the Marketing Manager was taken from the Head Office and the remaining employees were selected from the village and neighbourhood areas.

At the time of preparation of financial statements, the accountant of the company fell sick and the company deputed a junior accountant temporarily from the village for two months.

The Balance Sheet prepared by the junior accountant showed the following items against the Major Heads and Sub-heads mentioned which were not as per Schedule III of the Companies Act, 2013.

Item	Major Head/Sub-Head
Loose Tools	Trade Receivables
Cheques in Hand	Current Investments
Term Loan from Bank	Other Long-term Liabilities
Computer Software	Tangible Fixed Assets

Identify any two values that the company wants to communicate to the society. Also present the above items under the correct major heads and sub-heads as per Schedule III of Companies Act, 2013. (2018)

9. Financial statements are prepared following the consistent accounting concepts, principles, procedures and also the legal environment in which the business organisations operate. These statements are the sources of information on the basis of which conclusions are drawn about the profitability and financial position of a company so that their users can easily understand and use them in their economic decisions in a meaningful way.  
 From the above statement, identify any two values that a company should observe while preparing its financial statements. Also state under which major headings and sub-heading the following items will be presented in the balance sheet of a company as per Schedule III of the Companies Act 2013.  
 General Reserves, short term loans and advances, Capital work in progress and design. (Delhi 2017)
10. Name any two items that are shown under the head 'Other Current Liabilities' and two items that are shown under the head 'Other Current Assets' in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013. (Delhi 2016, AI 2016)

11. Under which major heading the following items will be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013?

- (i) Loans provided repayable on demand
- (ii) Goodwill
- (iii) Copyrights
- (iv) Loose tools
- (v) Cheques
- (vi) General Reserve
- (vii) Stock of finished goods and
- (viii) 9% Debentures repayable after three years.

(Delhi 2015) (An)

12. Under which major headings and sub-heading will the following items be shown in the balance sheet of a company as per Schedule VI, Part I of the Companies Act, 1956 :

- (i) Net loss as shown by Statement of Profit and Loss.
- (ii) Capital redemption reserve.
- (iii) Bonds.
- (iv) Loans repayable on demand.
- (v) Unpaid dividend.
- (vi) Buildings.
- (vii) Trademarks.
- (viii) Raw materials.

(AI 2015)

13. Under which major sub-headings the following items will be placed in the Balance Sheet of a company as per revised Schedule III, Part I of the Companies Act, 2013 :

- (i) Accrued incomes

- (ii) Loose tools
- (iii) Provision for employees benefits
- (iv) Unpaid dividend
- (v) Short-term loans

(vi) Long-term loans (Delhi 2014) (U)

14. Under which sub-headings the following items will be placed in the Balance Sheet of a company as per revised Schedule-III, Part-I of the Companies Act, 2013 :

- (i) Capitals reserves
- (ii) Bonds
- (iii) Loans repayable on demand
- (iv) Vehicles
- (v) Goodwill
- (vi) Loose tools.

(AI 2014)

### 3.6 Limitations of Financial Statements

#### MCQ

15. Which of the following is a limitation of financial analysis?

- (a) It is just a study of reports of the company.
- (b) It judges the ability of the firm to repay its debts.
- (c) It identifies the reasons for change in financial position.
- (d) It ascertains the relative importance of different components of the financial position of the firm.

(2020)

## CBSE Sample Questions

### 3.2 Nature of Financial Statements

#### MCQ

1. Financial statements are prepared on certain basic assumptions (pre-requisites) known as \_\_\_\_\_.

- (a) Provision of Companies Act, 2013
- (b) Accounting Standards
- (c) Postulates
- (d) Basis of Accounting

(2022-23) (R)

### 3.4 Types of Financial Statements

#### MCQ

2. A company has an operating cycle of eight months. It has accounts receivables amounting to ₹1,00,000 out of which ₹60,000 have a maturity period of 11 months. How would this information be presented in the balance sheet?

- (a) ₹40,000 as current assets and ₹60,000 as non-current assets.
- (b) ₹60,000 as current assets and ₹40,000 as non-current assets.
- (c) ₹1,00,000 as non-current assets.
- (d) ₹1,00,000 as current assets. (Term-I, 2021-22) (Ap)

3. Match the items given in Column I with the headings/sub-headings (Balance sheet) given column II as defined in Schedule III of Companies Act, 2013.

Column I		Column II	
(I)	Loose Tools	(a)	Intangible fixed assets
(II)	Patents	(b)	Other current assets
(III)	Prepaid insurance	(c)	Long term Borrowings
(IV)	Debentures	(d)	Inventories
(V)	Machinery	(e)	Tangible Fixed assets

Choose the correct option.

- (a) (I)-(a), (II)-(b), (III)-(d), (IV)-(c), (V)-(e)
- (b) (I)-(d), (II)-(a), (III)-(b), (IV)-(c), (V)-(e)
- (c) (I)-(d), (II)-(a), (III)-(b), (IV)-(e), (V)-(c)
- (d) (I)-(e), (II)-(d), (III)-(a), (IV)-(c), (V)-(b)

(Term-I, 2021-22)

4. Which of the following is not a part of Finance Cost (in statement of profit and loss)?

- (a) Bank Charges
- (b) Interest Paid on Debentures
- (c) Interest Paid on Public Deposits
- (d) Loss on Issue of Debentures (2020-21) (U)


(2020-21) (U)

VSA (1 mark)

5. Proposed dividend is a \_\_\_\_\_ liability. (2020-21)

SA II (3/4 marks)

6. Classify the following items under Major heads and Sub-heads (if any) in the Balance Sheet of a Company as per schedule III of the Companies Act 2013.

- (i) Current maturities of long term debts
- (ii) Furniture and Fixtures
- (iii) Provision for Warranties
- (iv) Income received in advance
- (v) Capital Advances
- (vi) Advances recoverable in cash within the operation cycle (2022-23) 

## Detailed SOLUTIONS

### Previous Years' CBSE Board Questions

1. (c) : Inventory
2. Cash and cash equivalents refer to the line item on the balance sheet that reports the value of a company's assets that are cash or can be converted into cash immediately. Cash equivalents include bank accounts and marketable securities, which are debt securities with maturities of less than 90 days.
3. Other Current Assets.
4. Other Current Assets.
- 5.

Items	Major head	Sub-head
Income received in advance	Current liabilities	Other current liabilities
Computer Software	Non-current assets/Fixed assets	Intangible assets
Balance of forfeited shares	Shareholders' funds	Subscribed capital

6.

	Items	Head	Sub-Head
(i)	Prepaid Insurance	Current Assets	Other Current Assets
(ii)	Investment in Debentures	Non Current Assets	Non Current Investments
(iii)	Calls-in arrears	Shareholders' Funds	Share Capital/ Subscribed capital
(iv)	Unpaid dividend	Current Liabilities	Other current Liabilities
(v)	Capital reserve	Shareholders' Funds	Reserve and Surplus
(vi)	Loose Tools	Current Assets	Inventories
(vii)	Capital Work-in-progress	Non current Assets	Fixed Assets
(viii)	Patents being developed by the company	Non Current Assets	Fixed Assets - Intangible Assets under development

### Related Theory

- ⇒ Contingent liability always results in a loss if they are actually arise. Capital commitment may result in a profit or loss on completion.

7.

	Sub Head	Major Head
(i)	Short-term borrowings	Current Liabilities
(ii)	Reserve and Surplus	Shareholder's Fund
(iii)	Reserve and Surplus	Shareholder's Fund
(iv)	Fixed Assets (Intangible)	Non-current Assets
(v)	Fixed Assets (Intangible)	Non-current Assets
(vi)	Reserve and Surplus	Shareholder's Fund
(vii)	Reserve and Surplus	Shareholder's Fund
(viii)	Short-term Provisions	Current Liabilities

8.

Items	Major Head	Sub-Head
Loose tools	Current Assets	Inventories
Cheque in hand	Current Assets	Cash and cash equivalents
Term loan from Bank	Non-current liabilities	Long term borrowings
Computer software	Non-current assets/ fixed assets	Intangible assets

Values : Sensitivity towards environment and providing employment opportunities in rural areas.

9.

	Items	Main heading	Sub-heading
(i)	General Reserves	Reserves and surplus	Other Reserves
(ii)	Short term loans and advances	Current liabilities	Short-term Borrowings
(iii)	Capital work in progress and design	Non-current assets	Fixed assets

Two values which are highlighted in this statement are :

- (i) Financial statement gives a useful information to all the potential investors which secures the interest of investor.
- (ii) It shows profitability of firm which reduce the estimated risk of the firm.

10. Other Current Liabilities : (i) Outstanding expenses, (ii) Calls-in-Advance.

Other Current Assets : (i) Prepaid expenses, (ii) Interest occurred on investment.

11.

S. No.	Items	Major Heads
(i)	Loans provided re-payable on demand	Current liabilities
(ii)	Goodwill	Non-current assets
(iii)	Copyrights	Non-current assets
(iv)	Loose tools	Current assets
(v)	Cheques	Current assets
(vi)	General Reserve	Shareholders' funds
(vii)	Stock of finished goods	Current assets
(viii)	9% Debentures repayable after three years	Non-Current liabilities

12.

S. No.	Items	Headings	Sub-Headings
(i)	Net loss as shown by statement of profit and loss	Shareholders' funds	Reserve and Surplus as negative item
(ii)	Capital redemption reserve	Shareholders' funds	Reserve and Surplus
(iii)	Bonds	Non-current liabilities	Long-term borrowings
(iv)	Loans payable on demand	Current liabilities	Short-term borrowings
(v)	Unpaid dividend	Current liabilities	Other current liabilities
(vi)	Buildings	Non-current assets	Fixed assets-tangible
(vii)	Trademarks	Non-current assets	Fixed assets-intangible
(viii)	Raw material	Current assets	Inventory

#### Commonly Made Mistake

Students must be noted that while estimating cost of material consumed, inventory of work in progress, finished goods and stock in trade are not considered.

6.

Item	Heading	Sub - Heading
(i) Current maturities of long term debts	Current Liabilities	Short term borrowings
(ii) Furniture and Fixtures	Non - Current Assets	Property, Plant and Equipments and Intangible Assets Property, Plant and Equipments
(iii) Provision for Warranties	Non - Current Liabilities	Long Term Provisions
(iv) Income received in advance	Current Liabilities	Other Current Liabilities
(v) Capital Advances	Non - Current Assets	Long Term Loans and Advances
(vi) Advances recoverable in cash within the operation cycle	Current Assets	Short Term Loans and Advances

(3)

13.

S. No.	Items	Sub-Heading
(i)	Accrued Incomes	Other Current Assets
(ii)	Loose Tools	Inventories
(iii)	Provision for Employees benefits	Long-term provisions
(iv)	Unpaid Dividend	Other Current Liabilities
(v)	Short-term loans	Short term Borrowings/Short-term loans and Advances
(vi)	Long-term loans	Long-term Borrowings/Long-term loans Advances

14.

S. No.	Items	Sub-Heading
(i)	Capital Reserves	Reserve and Surplus
(ii)	Bonds	Long-term Borrowings
(iii)	Loans Repayable on Demand	Short-term Borrowings
(iv)	Vehicle	Fixed Assets : Tangible Assets
(v)	Goodwill	Fixed Assets : Intangible Assets
(vi)	Loose Tools	Inventories

15. (a) : The limitation of financial analysis is that it is just a study of reports of the company.

#### CBSE Sample Questions

- (c) : Postulates (1)
- (d) : ₹ 1,00,000 as current assets. (0.80)
- (b) : (I)-(d), (II)- (a), (III)-(b), (IV)- (c), (V)-(e) (0.80)
- (a) : Bank Charges (1)
- Contingent (1)