



Preparation of Trial Balance

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Trial Balance

If both side balances of TRIAL BALANCE are not equal; we can know that there is something wrong.

At times, TRIAL BALANCE may tally but still it may contain some errors

Such errors may happen in recording the transactions, miscalculation of transactions, error in summarizing the fin. Transactions etc.

Classification of errors

Errors of omission

Errors of commission

Errors of principle

Errors of compensation

Suspense Account

Sometimes even after the best efforts by accountants, the trial balance does not tally.

In such a situation, to avoid the delay in the preparation of final A/c, the difference in the trial balance is placed into a newly opened A/c known as the SUSPENSE A/C.

Later on, the errors have to be located and necessary rectification entries have to be passed so that the suspense A/c can be closed.

In case, the suspense A/c cannot be closed, it will be taken to the Balance Sheet on the assets side if it shows a debit balance; or on the liabilities side if it shows a credit balance

Errors of omission

Appears when a transaction is completely omitted in a record & it will not affect the trial balance.

Example: Interest paid by a customer against his loan was not recorded in Journal or P&L A/c

It can be detected only by reconciliation of the accounts of the customer.

Errors of commission

Appears when we **commit** some errors in recording a transaction & it will not affect the trial balance.

It may include errors such as incorrect balancing of ledger A/c, wrong posting, wrong c/f of opening or closing balances, wrong totaling etc.

Example: Rs, 5000 received from Mr. Asthana was credited in his A/c but for Rs.500

Errors of principle

Appears when we could not understand the difference between a capital & revenue expenditure

Example: Building may be capital item, but repairs and renewals of building should be treated as revenue expenditure, otherwise it will result into an error of principle.

Errors of compensation

Appears when one error is compensated by another error, resulting no impact on trial balance

Example: Credit sale of Rs.5000 made to M/s Rakesh Agarwal was by mistake posted into the A/c of Mr. Rakesh Sharma.

Only comparing the customer's account with the credit memos / bills raised by the organization can prevent such mistakes.

How to correct a wrong entry?

A building was purchased for Rs.100,000 and the entry was:

| | | |
|-----------------------|-------------------|--------------------|
| Machine A/c Dr | Rs.100,000 | |
| To Cash A/c | | Rs. 100,000 |

The error can be corrected as:

| | | |
|------------------------|-------------------|--------------------|
| Building A/c Dr | Rs.100,000 | |
| To Machine A/c | | Rs. 100,000 |

How to correct a wrong entry?

The payment of a telephone bill was debited to advertising expense

| | | |
|------------------------------------|-----------------|-----------------|
| Advertising expenses A/c Dr | Rs. 5000 | |
| To Cash A/c | | Rs. 5000 |

The error can be corrected as:

| | | |
|----------------------------------|-----------------|-----------------|
| Telephone expenses A/c Dr | Rs. 5000 | |
| To Advertising expenses | | Rs. 5000 |

How to make provisions?

Provisions are usually made for

- **Doubtful debts**
 - **Depreciation**
 - **Repairs & Maintenance**
 - **Contingencies**
-

Provision for Doubtful Debts

1. Provision for Bad Debts

| | | |
|---------------------------------------|------------------|------------------|
| Bad & Doubtful Debt A/c Dr | Rs. 15000 | |
| To Sundry Debtor A/c | | Rs. 15000 |

(Expense/loss side in P&L account; Balance sheet CA – BDD)

Accounting prudence

| | | |
|---------------------------------------|------------------|------------------|
| Profit & Loss A/c Dr | Rs. 20000 | |
| To Provision of Doubtful debts | | Rs. 20000 |

(if provision is made this year; then next year actual bad debt is transferred to provision A/c not to P & L account, so net profit will not be unduly affected next year)

Provision for Doubtful Debts

Example: Trial Balance shows sundry debtors Rs.40,000; Bad debts Rs.2700, Provision for bad debt Rs.3500, require to maintain 5 % provision for BDD next year, what are the adjustment entry?

1. Already created as

| | | | |
|-------------------|--------------------------------|----------|----------|
| Profit & Loss A/c | Dr | Rs. 3500 | |
| | To Provision of Doubtful debts | | Rs. 3500 |

(Remember, if provision is made this year; then next year actual bad debt is transferred to provision A/c not to P & L account, so net profit will not be unduly affected next year)

2. So, now it will appear as

| | | | |
|----------------------------------|------------------|----------|----------|
| Provision for Doubtful Debts A/c | Dr | Rs. 2700 | |
| | To Bad Debts A/c | | Rs. 2700 |

So, the existing provision will become Rs.800 (Rs.3500- Rs.2700). But we require to make provision for 5 % of Sundry debtors Rs.70,000.

So we will create additional provision for the balance Rs.1200 as

| | |
|---------------------------------------|-----------------|
| Profit & Loss A/c Dr | Rs. 1200 |
| To Provision of Doubtful debts | Rs. 1200 |

Profit & Loss Account of M/s X & Co. for the year ended 31-03-2014

| | <i>Dr</i> | | | <i>Cr</i> | |
|--|---------------|----------|--------------------|---------------|----------|
| <i>Particulars</i> | <i>Amount</i> | | <i>Particulars</i> | <i>Amount</i> | |
| | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> |
| To Provision for Doubtful Debts | | | | | |
| Required for next year | 2000 | | | | |
| Add: Actual Bad Debts | 2700 | | | | |
| Total | 4700 | | | | |
| Less: Old Provision | 3500 | 1200 | | | |

Balance Sheet of M/s X & Co. as on 31-03-2014

| | <i>Liabilities</i> | | | <i>Assets</i> | | |
|--|--------------------|----------|---|---------------|------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| | | | Sundry debtors | 40000 | | |
| | | | Less: Provision for Doubtful Debts | 2000 | 38000 | |

Provision for Depreciation

Example: Trial Balance shows building value Rs. 1,20,000, how to charge depreciation at 10 %?

1. To charge depreciation on fixed asset (Ex: Building)

| | | |
|----------------------------|------------------|------------------|
| Depreciation A/c Dr | Rs. 12000 | |
| To Building A/c | | Rs. 12000 |

2. To transfer depreciation to P & L A/c (Ex: Building)

| | | |
|---------------------------------|------------------|------------------|
| Profit & Loss A/c Dr | Rs. 12000 | |
| To Depreciation A/c | | Rs. 12000 |

Profit & Loss Account of M/s X & Co. for the year ended 31-03-2014

| | <i>Amount</i> | | | <i>Amount</i> | |
|---|---------------|----------|------------|---------------|------------|
| <i>Particulars</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> |
| To Provision for Depreciation on Building | | | 12000 | | |

Balance Sheet of M/s X & Co. as on 31-03-2014

| | <i>Rs.</i> | | | <i>Rs.</i> | |
|--------------------|------------|----------|--------------------|------------|----------|
| <i>Liabilities</i> | <i>P</i> | <i>P</i> | <i>Assets</i> | <i>P</i> | <i>P</i> |
| | | | Building | 1,20,000 | |
| | | | Less: Depreciation | 12,000 | 1,08,000 |

Provision for Depreciation

Example: Trial Balance shows building value Rs. 1,20,000, how to charge provision for depreciation in the 1st Year at 10 %?

1. To create provision for depreciation on fixed asset (Ex: Building)

| | | |
|--|------------------|------------------|
| Profit & Loss A/c Dr | Rs. 12000 | |
| To Provision for Depreciation A/c | | Rs. 12000 |

Profit & Loss Account of M/s X & Co. for the year ended 31-03-2014

| <i>Dr</i> | | | | <i>Cr</i> | |
|---|---------------|----------|--------------------|---------------|----------|
| <i>Particulars</i> | <i>Amount</i> | | <i>Particulars</i> | <i>Amount</i> | |
| | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> |
| To Provision for Depreciation on Building | | 12000 | | | |

Balance Sheet of M/s X & Co. as on 31-03-2014

| <i>Liabilities</i> | | | <i>Assets</i> | | |
|--------------------|------------|----------|----------------------------------|------------|----------|
| | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> |
| | | | Building | 1,20,000 | |
| | | | Less: provision for Depreciation | 12,000 | 1,08,000 |

Provision for Depreciation

Example: Trial Balance shows building value Rs. 1,20,000, provision for depreciation in Trial Balance is Rs.12000, WDV depreciation for the 2nd Year at 10 %?

In the 2nd Year beginning building value will be Rs. 1,20,000 – 12,000 = 1,08,000. Therefore at the end of 2nd Year we have to calculate depreciation 10 % for Rs. 1,08,000. so,

| | |
|--|-------------------|
| Profit & Loss A/c Dr | Rs. 10,800 |
| To Provision for Depreciation A/c | Rs. 10,800 |

Profit & Loss Account of M/s X & Co. for the year ended 31-03-2014

| <i>Dr</i> | | | | | <i>Cr</i> |
|---|---------------|----------|--------------------|---------------|-----------|
| <i>Particulars</i> | <i>Amount</i> | | <i>Particulars</i> | <i>Amount</i> | |
| | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> |
| To Provision for Depreciation on Building | | 10,800 | | | |

Balance Sheet of M/s X & Co. as on 31-03-2014

| <i>Liabilities</i> | | | <i>Assets</i> | | |
|--------------------|------------|----------|----------------------------------|------------|----------|
| | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> |
| | | | Building | 1,20,000 | |
| | | | Less: provision for Depreciation | 22,800 | 97,200 |

Techniques of Financial Analysis

1. Comparative Statements

2. Common Size Statements

3. Ratio Analysis

4. Funds Flow Analysis

5. Cash Flow Analysis

6. Cost-Volume-Profit Analysis

1. Comparative Statements

1. Can be prepared for Income Statements (or) for Balance Sheets.
 2. It shows absolute figures for two or more periods
 3. The absolute change b/w 2 periods are shown in % also
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UTTAR PRADESH SAHKARI GRAM VIKAS BANK LIMITED; HEAD OFFICE, LUCKNOW

NAME OF THE BRANCH: LALITPUR, DISTRICT: LALITPUR

Profit & Loss Account for the year ended on 31-03-2013 & 2014 (Comparative Statement)

| <i>Dr</i> | | | <i>Cr</i> | | | | | | |
|-----------------------------|-------------|----------|-------------|----------|-------------------------------|-------------|----------|-------------|----------|
| <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | | <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | |
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| To TA (Staff, BMC) | XXX | | XXX | | By Intt. Earned | XXX | | XXX | |
| To postage & telegrams | XXX | | XXX | | By Admission fees | XXX | | XXX | |
| To Telephone charges | XXX | | XXX | | By Admn Fees | XXX | | XXX | |
| To Stationery consumed | XXX | | XXX | | By Sale of forms | XXX | | XXX | |
| To Salary & Allowances | XXX | | XXX | | By Head Office reimbursements | XXX | | XXX | |
| To Bonus & Exgratia | XXX | | XXX | | By miscellaneous income | XXX | | XXX | |
| To Bank charges | XXX | | XXX | | | | | | |
| To Rent & Taxes | XXX | | XXX | | | | | | |
| To Electric charges | XXX | | XXX | | | | | | |
| To Depreciation | XXX | | XXX | | | | | | |
| To Intt. Paid | XXX | | XXX | | | | | | |
| To P.O.L Charges | XXX | | XXX | | | | | | |
| To Jeep Rent | XXX | | XXX | | | | | | |
| To Advertisement charges | XXX | | XXX | | | | | | |
| To Borrowing cost | XXX | | XXX | | | | | | |
| To Legal & Admn charges | XXX | | XXX | | | | | | |
| To Entertainment expenses | XXX | | XXX | | | | | | |
| To Incentives to VDOs | XXX | | XXX | | | | | | |
| To Remuneration to Leg. Adv | XXX | | XXX | | | | | | |
| To Rebates, etc | XXX | | XXX | | | | | | |
| To Arms Guard | XXX | | XXX | | | | | | |
| To Uniform | XXX | | XXX | | | | | | |
| To Miscellaneous exp | XXX | | XXX | | | | | | |
| Total | XXXX | | XXXX | | Total | XXXX | | XXXX | |

Profit & Loss Account of M/s Radhika enterprises for the years ended on 31-03-2013 & 2014
(Rs. in Lakh)

| <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | | <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | |
|-------------------------|-------------|----------|-------------|----------|--------------------|-------------|----------|-------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| To Cost of Goods Sold | 600 | | 750 | | By Sales | 800 | | 1000 | |
| To Operating Expenses | | | | | | | | | |
| Administrative Expenses | 20 | | 20 | | | | | | |
| Selling Expenses | 30 | | 40 | | | | | | |
| To Net Profit | 150 | | 190 | | | | | | |
| Total | 800 | | 1000 | | Total | 800 | | 1000 | |

Profit & Loss Account of M/s Radhika enterprises for the years ended on 31-03-2013, 14
(Comparative Income Statements : Rs. in Lakh)

| <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | | <i>Absolute +, -</i> | | <i>% Increase / Decr</i> | |
|---------------------------------|-------------|----------|-------------|----------|----------------------|----------|--------------------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Net Sales | 800 | | 1000 | | 200 | | 25 | |
| Cost of Goods Sold | 600 | | 750 | | (150) | | 25 | |
| Gross Profit | 200 | | 250 | | 50 | | 25 | |
| Operating Expenses | | | | | | | | |
| (-) Administrative Expenses | 20 | | 20 | | - | | - | |
| (-) Selling Expenses | 30 | | 40 | | (10) | | 33.33 | |
| Total Operating Expenses | 50 | | 60 | | (10) | | 20 | |
| Net Operating Profit | 150 | | 190 | | 40 | | 26.67 | |

Balance Sheets of M/s Vasanth & Co (P) Ltd as on 31.03.2013 and 2014 (Rs. in Lakh)

| <i>Liabilities</i> | <i>2013</i> | | <i>2014</i> | | <i>Assets</i> | <i>2013</i> | | <i>2014</i> | |
|-----------------------|-------------|----------|-------------|----------|----------------|-------------|----------|-------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Bills Payable | 50 | | 75 | | Cash | 100 | | 140 | |
| Sundry Creditors | 150 | | 200 | | Sundry Debtors | 200 | | 300 | |
| Tax Payable | 100 | | 150 | | Stock | 200 | | 300 | |
| 6 % Debentures | 100 | | 150 | | Land | 100 | | 100 | |
| 6 % Preference Shares | 300 | | 300 | | Building | 300 | | 270 | |
| Equity Capital | 400 | | 400 | | Plant | 300 | | 270 | |
| Reserves | 200 | | 245 | | Furniture | 100 | | 140 | |
| Total | 1300 | | 1520 | | Total | 1300 | | 1520 | |

Balance Sheets of M/s Vasanth & Co (P) Ltd as on 31.03.2013 and 2014 (Rs. in Lakh)
(Comparative Balance Sheets: Rs. in Lakh)

| <i>Assets</i> | <i>2013</i> | | <i>2014</i> | | <i>Absolute +, -</i> | | <i>% Increase / Decr</i> | |
|-----------------------------|-------------|----------|-------------|----------|----------------------|----------|--------------------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Current Assets | | | | | | | | |
| Cash | 100 | | 140 | | 40 | | 40 | |
| Sundry Debtors | 200 | | 300 | | 100 | | 50 | |
| Stock | 200 | | 300 | | 100 | | 50 | |
| Total Current Assets | 500 | | 740 | | 240 | | 50 | |
| Fixed Assets | | | | | | | | |
| Land | 100 | | 100 | | - | | - | |
| Building | 300 | | 270 | | (30) | | (10) | |
| Plant | 300 | | 270 | | (30) | | (10) | |
| Furniture | 100 | | 140 | | 40 | | 40 | |
| Total Fixed Assets | 800 | | 780 | | (20) | | (2.5) | |
| Total Assets | 1300 | | 1520 | | 220 | | 17 | |

Balance Sheets of M/s Vasanth & Co (P) Ltd as on 31.03.2013 and 2014 (Rs. in Lakh)
(Comparative Balance Sheets: Rs. in Lakh)

| <i>Liabilities</i> | <i>2013</i> | | <i>2014</i> | | <i>Absolute +, -</i> | | <i>% Increase / Decr</i> | |
|--|-------------|----------|-------------|----------|----------------------|----------|--------------------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Current Liabilities | | | | | | | | |
| Bills Payable | 50 | | 75 | | 25 | | 50 | |
| Sundry Creditor | 150 | | 200 | | 50 | | 33.33 | |
| Tax Payable | 100 | | 150 | | 50 | | 50 | |
| Total Current Liabilities | 300 | | 425 | | 125 | | 41.66 | |
| Fixed Liabilities | | | | | | | | |
| 6 % Debentures | 100 | | 150 | | 50 | | 50 | |
| Total Liabilities | 400 | | 575 | | 175 | | 43.75 | |
| Capital & Reserves | | | | | | | | |
| 6 % Pref. Share Capital | 300 | | 300 | | - | | - | |
| Equity Capital | 400 | | 400 | | - | | - | |
| Reserves | 200 | | 245 | | 45 | | 22.5 | |
| Total share holder's Fund | 900 | | 945 | | 45 | | 5 | |
| Total Liabilities & Capital | 1300 | | 1520 | | 220 | | 17 | |

2. Common Size Fin.Statements

It Can be prepared by converting the reported figures into % to some common base.

In the Income Statement the sale figure is assumed to be 100 % and all other figures are expressed as % to the total

Profit & Loss Account of M/s Radhika enterprises for the years ended on 31-03-2013, 14
(Common Size Statements : Rs. in Lakh)

| <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | | <i>Absolute +, -</i> | | <i>% Increase / Decr</i> | |
|---------------------------------|-------------|----------|-------------|----------|----------------------|----------|--------------------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Net Sales | 800 | | 1000 | | 200 | | 25 | |
| Cost of Goods Sold | 600 | | 750 | | (150) | | 25 | |
| Gross Profit | 200 | | 250 | | 50 | | 25 | |
| Operating Expenses | | | | | | | | |
| (-) Administrative Expenses | 20 | | 20 | | - | | - | |
| (-) Selling Expenses | 30 | | 40 | | (10) | | 33.33 | |
| Total Operating Expenses | 50 | | 60 | | (10) | | 20 | |
| Net Operating Profit | 150 | | 190 | | 40 | | 26.67 | |

Profit & Loss Account of M/s Radhika enterprises for the years ended on 31-03-2013, 14
(Common Size Statements : Rs. in Lakh)

| <i>Particulars</i> | <i>2013</i> | | <i>2014</i> | |
|---------------------------------|-------------|----------|-------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Net Sales | 100 | | 100 | |
| Cost of Goods Sold | 75 | | 75 | |
| Gross Profit | 25 | | 25 | |
| Operating Expenses | | | | |
| (-) Administrative Expenses | 2.50 | | 2 | |
| (-) Selling Expenses | 3.75 | | 4 | |
| Total Operating Expenses | 6.25 | | 6 | |
| Net Operating Profit | 18.75 | | 19 | |

Interpretation

- 1. Absolute value of COGS has increased; but its % cost is same.**
 - 2. This is why the gross profit is constant at 25 %**
 - 3. Absolute value of Admn. Expenses remain the same; but its % to sales has come down by 5 %**
 - 4. This has caused increase in net profit by 0.25 % (i.e., from 18.75 % to 19 %)**
 - 5. But selling expenses has increased by 0.25 %.**
-

Balance Sheets of M/s Vasanth & Co (P) Ltd as on 31.03.2013 and 2014 (Rs. in Lakh)
(Comparative Balance Sheets: Rs. in Lakh)

| <i>Assets</i> | <i>2013</i> | | <i>2014</i> | |
|--|---------------|----------|---------------|----------|
| | <i>Rs.</i> | <i>P</i> | <i>Rs.</i> | <i>P</i> |
| Current Assets | | | | |
| Cash | 7.70 | | 9.21 | |
| Sundry Debtors | 15.38 | | 19.74 | |
| Stock | 15.38 | | 19.74 | |
| Total Current Assets | 38.46 | | 48.69 | |
| Fixed Assets | | | | |
| Land | 23.07 | | 17.76 | |
| Building | 23.07 | | 17.76 | |
| Plant | 7.70 | | 9.21 | |
| Furniture | 7.70 | | 6.58 | |
| Total Fixed Assets | 61.54 | | 51.31 | |
| Total Assets | 100.00 | | 100.00 | |
| Current Liabilities | | | | |
| Bills Payable | 3.84 | | 4.93 | |
| Sundry Creditor | 11.54 | | 13.16 | |
| Tax Payable | 7.69 | | 9.86 | |
| Total Current Liabilities | 23.07 | | 27.95 | |
| Fixed Liabilities | | | | |
| 6 % Debentures | 7.69 | | 9.86 | |
| Capital & Reserves | | | | |
| 6 % Pref. Share Capital | 23.10 | | 19.72 | |
| Equity Capital | 30.76 | | 26.32 | |
| Reserves | 15.38 | | 16.15 | |
| Total share holder's Fund | 69.24 | | 62.19 | |
| Total Liabilities & Capital | 100.00 | | 100.00 | |

Interpretation

- 1. Per cent of CA to TA has increased from 38.46 to 48.69**
 - 2. Per cent of CL to TL has also increased from 23.07 to 27.95**
 - 3. Proportionate increase of CA is higher (10 %) than that of CL (5 %), so financially the business is good.**
 - 4. This has caused increase in the working capital position also.
(Working Capital : $CA - CL$)**
 - 5. There is a slight deterioration in the debt equity ratio as proportion of Shareholder's fund to TL has come down (69.24 to 62.19) that of debenture holder's has gone up (7.69 to 9.86).**
-

Liquidity Ratios

1. Current ratio: Current Assets / Current liability (Ideal is 2)

| | | | |
|-------------------------|---------------|------------------------|-----------------|
| Sundry Debtors | 40,000 | Sundry Creditor | 20,000 |
| Prepaid Expenses | 20,000 | Debentures | 1,00,000 |
| ST Investments | 10,000 | Inventories | 20,000 |
| Machinery | 5000 | Outst. Expenses | 20,000 |
| Bills Payable | 10000 | Bank OD | 10,000 |

Current Assets / Current liability = 90,000 / 60,000 = 1.5

If it is 5: 1 what do you understand?, good or bad?

Liquidity Ratios

2. Quick ratio: Quick Assets / Current liability (Ideal is 1)

| | | | |
|-------------------------|---------------|------------------------|-----------------|
| Sundry Debtors | 40,000 | Sundry Creditor | 20,000 |
| Prepaid Expenses | 20,000 | Debentures | 1,00,000 |
| ST Investments | 10,000 | Inventories | 20,000 |
| Machinery | 5000 | Outst. Expenses | 20,000 |
| Bills Payable | 10000 | Bank OD | 10,000 |

Quick Assets / Current liability

$$= (90,000 - 40,000) / 60,000 = 50,000 / 60,000 = 0.83$$

QA = CA - Inventories & PP/Exp

QL = CL - OD & Cash Credit

Liquidity Ratios

3. Super Quick ratio: SQ Assets / Cur. Liability (Ideal is 1/2)

| | | | |
|-------------------------|---------------|------------------------|-----------------|
| Sundry Debtors | 40,000 | Sundry Creditor | 20,000 |
| Prepaid Expenses | 20,000 | Debentures | 1,00,000 |
| ST Investments | 10,000 | Inventories | 20,000 |
| Machinery | 5000 | Outst. Expenses | 20,000 |
| Bills Payable | 10000 | Bank OD | 10,000 |

Super Quick Assets / Current liability

$$= (50,000 - 40,000) / 60,000 = 10,000 / 60,000 = 0.17$$

SQA = Cash & Marketable Securities only

Profitability Ratios

1. ROI (or) Over all Profitability Ratio

Operating Profit / Capital employed x 100

Capital Employed:

(Share Capital + Reserves & Surpluses + LT Loans) -

(Non business assets + Fictitious assets)

Operating Profit: EBIT

Profitability Ratios

- 1. Gross Profit ratio : $\text{Gross Profit} / \text{Net sales} \times 100$**
 - 2. Net Profit ratio : $\text{Net Operating Profit} / \text{Net sales} \times 100$
(NOP = Gross Profit – Net Operating Expenses)**
 - 3. Earning Per Share (EPS): $\text{NP after Tax \& Pref. Share Div} / \text{No. of Equity shares}$**
 - 4. Pay out ratio: DPS / EPS**
 - 5. Dividend Yield ratio: $\text{DPS} / \text{Market Price Per Share} \times 100$**
-

Fund Flow Analysis

- 1. Any increase or decrease in working capital is called as FF**
- 2. Working Capital may be Gross (CA only) or Net (CA-CL)**
- 3. Assets & Liabilities may be (current / Non current)**
- 4. Buying a machine for Rs.2 Lakh by raising a debenture & raising a LT Loan to pay this debenture all could not be clearly traced from Balance sheet.**
- 5. A FFS help us to locate them, it locates sources of funds, applications of funds and change in working capital.**
- ~~6. Non fund transaction means 'fund' is not affected by that transaction. (Ex: purchase of machine by issuing shares)~~**

Fund Flow Analysis

Flow of funds will be there if transactions involve,

1. CA & FA (Building purchase by cash)
2. CA & Capital (Issue of shares for cash)
3. CA & FL (Redemption of debentures in cash)
4. CL & FL (Creditors paid via debentures)
5. CL & Capital (Creditors paid via shares issue)
6. CL & FA (Building transferred to creditors)

Flow of funds will not be there if transactions involve,

1. CA & CL (Creditors paid by cash)
2. FA & FL (Building bought via debentures)
3. FA & Capital (building purchased via shares issue)

Short cut: If journal entry has only Current & only Fixed,
we can say there is no flow of funds. Cross
transaction means there is a fund flow.

FFS Technique

Prepare the 'Schedule of Change in working Capital'

- 1. Increase in CA (Increase in WC)**
- 2. Decrease in CA (Decrease in WC)**
- 3. Increase in CL (Decrease in WC)**
- 4. Decrease in CL (Increase in WC)**

| Items | Change | |
|---------------------------------------|------------|------------|
| | Increase | Decrease |
| Current Assets | | |
| Cash | XXX | XXX |
| Bank Balance | XXX | XXX |
| Marketable Securities | XXX | XXX |
| A/c Receivables | XXX | XXX |
| Stock in trade | XXX | XXX |
| Prepaid expenses | XXX | XXX |
| Current Liabilities | | |
| Bank OD | XXX | XXX |
| Outstanding expenses | XXX | XXX |
| A/c Payables | XXX | XXX |
| Total | XXX | XXX |
| Net Increase or Decrease in WC | XXX | XXX |

Funds Flow Statement

While preparing FFS, ignore CA & CL (Take only FA & FL)

Funds Flow Statement

| Particulars | Amount Rs. |
|--------------------------------------|-------------------|
| Sources of Funds | |
| Issue of shares | XXXX |
| Issue of Debentures | XXXX |
| LT Borrowings | XXXX |
| Sale of fixed assets | XXXX |
| Operating profit | XXXX |
| Total | XXXX |
| Applications of funds | |
| Redemption of pref shares | XXXX |
| Redemption of debentures | XXXX |
| payment of LT loans | XXXX |
| Purchase if fixed assets | XXXX |
| operating loss | XXXX |
| payment of dividend, Tax, etc | XXXX |
| Total | XXXX |
| Net increase / decrease in WC | XXXX |

Funds Flow Statement

Schedule and FFS must Tally

BALANCE SHEET

| Liabilities | AS on 31 Dec | | Assets | AS on 31 Dec | |
|----------------------|--------------|--------------|----------------|--------------|--------------|
| | 2013 | 2014 | | 2013 | 2014 |
| Share capital | 10000 | 15000 | Fixed assets | 10000 | 20000 |
| Profit & Loss A/c | 4000 | 6000 | Current Assets | 13000 | 14500 |
| Provision for Tax | 2000 | 3000 | | | |
| Proposed dividend | 1000 | 1500 | | | |
| Sundry creditor | 4000 | 6000 | | | |
| Outstanding expenses | 2000 | 3000 | | | |
| Total | 23000 | 34500 | Total | 23000 | 34500 |

Addl Information

Tax paid during 2014 is Rs 2500, Dividend paid during 2014 is Rs.1000

Funds Flow Statement

Schedule and FFS must Tally

| Items | Change | |
|---------------------------|-------------|-------------|
| | Increase | Decrease |
| Current Assets | 1500 | |
| Current Liabilities | | |
| Sundry creditors | | 2000 |
| Outstanding expenses | | 1000 |
| Provision for tax | | 1000 |
| Provision for dividend | | 500 |
| Net Decrease in WC | 3000 | |
| Total | 4500 | 4500 |

Funds Flow Statement

Schedule and FFS must Tally

Funds Flow Statement

| Particulars | Amount Rs. |
|-------------------------------------|-------------|
| Sources of Funds | |
| Issue of shares | 5000 |
| Funds from operation (P&L Diff) | 2000 |
| Total | 7000 |
| Applications of funds | |
| Purchase of FA | 10,000 |
| -Decrease in working capital | 3000 |

Thanks
