

Introduction to Management Accounting

Meaning

It is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial information used by management to plan, evaluate and control within an organization and to ensure appropriate use of and accountability for its resources.

Management Accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies and tax authorities. (Robert E. Malcolm)

Of course this definition will be difficult to swallow and regurgitation of it in an exam will only prove that you had time to cram a paragraph. Have you gotten the underlying concept?

With relevance to a CIMA definition, the above is broken down to facilitate its understanding.

Management is concerned with identifying, presenting and interpretation of information used for:

- Formulating strategy
- Planning and controlling activities
- Decision making
- Optimizing use of resources
- Disclosure to shareholders and others external to the entity
- Disclosure to employees
- Safeguarding assets

Therefore for the above to work, management needs to:

- Formulate plans to meet objectives (Strategy planning)
- Formulate short term operation plans (Budgeting/profit planning)
- Acquire and use finance (financial management) and record transactions (Financial Accounting and Cost Accounting)
- Communicate financial and operating information
- Take corrective action to bring plans and results into line (Financial control)
- Reviewing and reporting on systems and operation (Internal audit)

Management Accounting is concerned with getting data (internal and external sources), analysing, processing, interpreting and communicating resulting information for use within the organization so that management can more effectively plan, make decision and control operations..

Providing information that is relevant for the intended purpose is a key aspect of the management. It's what he's there for. To do this he will, to get data,

- use appropriate techniques
- use appropriate techniques from statistics and operations research
- take into account human element in all activities
- be aware of economic logic in all transactions and activities

- **Scope of Management Accounting**

1. Cost Accounting

Cost accounting is the most important accounting technique or it is also considered as the pedestal factor in management accounting as it provides cost analysis tools for a business like the marginal cost, operational cost, inventory costing, budget control, etc. which is required by the business management for drafting and outlining the business needs.

Cost accounting helps to determine the overall budget for any business and also provides different ways to estimate and calculate the overall cost of providing the service to the customer. Cost accounting is extremely helpful to the business analyst or the business executives as any activity of the business depends on the cost involved.

2. Financial Accounting

[Financial accounting and cost-accounting](#) are two different things. Cost accounting as mentioned in the calculation and analysis of the overall cost of the business process whereas in financial accounting the calculation and analysis of the business transaction are related to expenses, inventory, assets, accountabilities, etc. Financial statements play an important role in financial accounting and they are prepared regularly at the end of every financial year. Financial statements include the balance sheet of the company and total profit or loss earned by the business or the company in the current financial year.

Financial accounting is very important for the financial forecasting of the organization as it gives the overall financial information incurred during the current fiscal year. Financial accounting is also important in terms that it helps the management to operate effectively and to implement coordination among the business processes to execute business planning.

3. Budget and Forecast

Budgeting and forecasting are also included under the scope of management accounting which comprises of budget control and business forecasting trends. The budget control system is based on a financial basis and the performance of the business. Budget control helps to identify and analyze the reasons and weak areas that tend to slow down the coordination and degrade the business performance.

Business forecasting is one of the important functions of management accounting as it gives the vision of the business from the stakeholder's point of view. Business budget and forecasting define the goals and future plans of the business and the possible set of outcomes due to the actions performed which helps to prepare the business for any circumstances.

4. Interpretation of Data

The interpretation of data is defined as the translation of business data into facts and figures which can be easily understood by the business management. The work interpretation is as important as financial statements for the business as it helps to avoid any wrong conclusion about the business data. If the data is not understood and

interpreted correctly it can lead to disaster for a business in the market. The data for the current year is interpreted and also compared with the previous data for understanding the growth of the business.

5. Financial Management

Financial management is the management and planning of the financial resources of the business. Raising funds and using the funds wisely is very important for effective financial management in the business. The objective of considering financial management as scope management accounting is to maximize the business profit by using the fund efficiently. Finance was and finance is the most important aspect of any business which flows like blood and without efficient financial management, a business cannot run.

6. Reporting/Management Reporting

Reporting is crucial for any business management. Fetching reports timely is extremely important to the management of business growth and resources. The timely report helps the management in effective decision making and keeps the management ware of the operations going on. The data and reports are present to the management in the form of graphs, charts, and presentations which are easy to understand.

The reports are fetched weekly, monthly, quarterly and yearly as per the business requirement and these reports are extremely helpful while reviewing the business data.

7. Inflation Accounting

Inflation analysis is very important in business and it is defined as the rapid change in the financial results during the changes in the market prices. Inflation accounting constitutes inflation analysis tools which help to identify the causes which result in inflation and helps to eradicate them for better performance.

8. Financial Statement Analysis

As already mentioned in the financial accounting that the financial statements are prepared at the end of every financial year to study and analyze the financial growth of the business. The financial statements give insights into the business and help the business to grow by interpretations and conclusions drawn from the financial statements.

Thus it can be concluded that the scope management accounting analyses the business data and interprets it effectively into understandable form effective business planning and decision making so that the profit can be maximized and resources can be fully utilized.

- **Functions of Management Accounting**

1. Planning of Accounting Function

An accounting system is maintained in an organization which should cover standards of costs, sales forecast, production planning, profit planning, allocation of resources, [capital budgeting](#) and short term and long term financial planning. Moreover, he has to prepare the necessary procedures to implement the plan effectively.

2. Controlling

The management accountant has to measure the actual performance and compare with standard. Based on this comparison, he has to find the differences and interpret the results of operation and submit the same to all levels of management. This is done through appropriate accounting reports for controlling.

3. Reporting

The top management requests the management accountant to prepare the report for the root causes for an unfavourable event or operations. In this report, the accountant can pin point real reasons and the persons who are responsible.

4. Coordinating

He consults all levels of management for framing a policy or an action programme. Such type of consultation brings co-ordination between the accounts department and top management.

5. Interpreting

The accounting information is modified and presented before the management with interpretation. The interpretation is made in different phases. If so, real reasons for the operating results can be understood by the management.

6. Evaluation

He has to evaluate the effectiveness of policies, organization structure and procedures adopted for attaining the objectives. For which, he has to consult the same with functional managers and top executives.

7. Advising

He has to advise the management in order to improve the performance of operations.

8. Administration of Tax

A business organization is liable to pay value added tax, income tax and other taxes to the local government, state government and central government. In this aspect, the management accountant is expected to pay the taxes and maintain the accounting records as the case may be.

9. Government Reporting

He will have to supervise all the statements and returns which are to be submitted to the government periodically within due date.

10. Appraisal of External Effects

There may be changes in the state and central government policy. Sometimes, there may be amendments in the existing laws. These policy changes and amendments have an impact on the attainment of business objectives. The extent of impact has to be assessed by the management accountant.

11. Economic Appraisal

The economic condition of the nation is periodically published by the central government. Now, the management accountant is to make economic appraisal and find the influence of economic condition over the business activities. In this aspect, he can prepare a report and submit before top management along with his/her comments.

12. Protection of Assets

This function is performed through maintenance of separate fixed assets register for each type of fixed assets. Moreover, he can frame the rules and regulation for using each type of fixed assets. He can take insurance coverage to all types of fixed assets.

- **Objective of Management Accounting**

1. Assisting in the Planning and Formulation of Future Policies

Proper planning, which is the core job of management, is critical to business success. It entails thoroughly examining available data and forecasting based on that data. When the data is placed in the right context, it aids management's ineffective planning.

Management accounting provides costing and statistical data that can be used to set goals and create policies. The financial accountant offers relative numbers from the past and forecasts for the future. These aid management in deciding on courses of action and the company's program of activities. Management accounting aids in planning for a specific objective and overall organization planning.

2. Assisting with the Understanding of Financial Data

Management accounting focuses on **analysing and interpreting data**, which has opened up new avenues. It is concerned with keeping records of past accomplishments, maintaining values, establishing duties, and providing a foundation for helping future development.

Management accounting delivers accounting information in an understandable style that allows **corporate executives, investors, and creditors** to analyze and evaluate financial statements. The financial accountant keeps a complete record of all transactions involving the organization's assets, creditors, claims, owners, and equity. For revenues and costs, for example, the management may not have the time to shift through the information presented in its raw form.

3. Assist in Performance Management

Management accounting assists management in directing the organization's destiny by maintaining performance criteria and measuring and estimating deviations from them. Actual performance is measured against approved **operating plans, standards, and budgets**, which are interpreted and reported to me by department leaders at higher levels. All of this assist's management in maintaining total control of the organization's performance. Management may quickly and successfully delegate authority using cost control strategies and functional control.

4. Assisting with Organization

Marketing management places a premium on **budgetary control and marginal costing**. Standard costing and a cash flow analysis Internal financial control, for example. All of this necessitates a thorough examination of the organizational structure. It aids in more efficiently streamlining the organizational structure of the commercial concern.

5. Helpful in Resolving Strategic Problems

Decision-making is largely a management activity. Accounting assists managers in making effective business decisions. These decisions may pertain to **business expansion, contraction, diversification, or establishing** a new line of business. All of these issues are addressed by management accounting. Management accounting uses

accessible accounting statistics to solve a variety of management difficulties. Its purpose is to offer vital facts, not to make decisions. It simply informed management and delegated decision-making authority to them.

It develops and exposes various plans comparably and provides insight into the implications for the organization's future. It is up to management to close the best course of the section using the available information provided by management accounting. It is an essential tool for **marginal costing, cost volume, profit analysis, standard costing, and capital budgeting** and helps managers to make sensible and sound judgments. Management accounting, according to Anthony, is "the application of accounting statistics in the recognition or resolution of management problems."

6. Information Exchange

Accounting is the language used to communicate financial information about an organization and its activities to people who want to put them to good use by interpreting them.

It boosts the company's efficiency and aids management in its goal of increasing profits or minimizing losses. Management accounting is a tool for communicating management plans within a company. It is an essential component of the company's management information system.

7. Assisting in Employee Motivation

Goal setting and good planning, employing a cost-effective strategy and assessing performance go a long way toward enhancing and increasing the organization's effectiveness. As a result, management accounting assists management in encouraging their staff.

8. Coordination Assistance

Management accounting is concerned with the efficiency of the many management phases; it aids in the overall and correct coordination of corporate operations, with budgets serving as the most effective form of coordination. The various plans are based on a budget, a financial statement of plans. Following the planning, the planned operations are directed, coordinating the actions of various departments and units and controlling the operations to meet the desired goals.

Thus, management accounting is a tool whose goal is to extend **financial and statistical information** to cast light on all aspects of the organization's activities. For this goal, it employs methodologies like as marginal costing, cost volume profit analysis, standard costing, and capital budgeting, among others, to assist management in making good rational decisions.

- **Importance of Management Accounting**

1. Helps In Making Plans

Management accounting assists organization in making better plans for future activities. It supplies all financial and non-financial data to management on a regular basis. Managers through the availability of all these information are able to perform better analysis and forecasting which enables them in framing proper plans.

2. Assist In Decision Making

Efficient decision making is a major role played by management accounting. It collects and analyses all financial information available within organization and present them in simplified charts, tables or graphs. Management gets better understanding regarding organization affairs and is able to take correct decisions at right time.

3. Measures The Performance

Management accounting monitors and measures the overall performance of organization. It uses various tools like variance analysis which measures the company performance with pre-established standards for finding out the deviations. Managers by identifying all variations in performance of company are able to take corrective measures accordingly for removing them.

4. Increases The Efficiency

This accounting branch aims at raising the overall efficiency of business organizations. Management accounting sets target for each division in advance and checks whether they fulfill all targets. It ensures that all resources are fully utilized which helps in improving the efficiency.

5. Better Service To Customers

Management accounting focuses on better service to customers by providing them quality goods at fair prices. It helps in controlling the prices of products by employing cost control devices. In addition to that, it sets various quality standards to be met by organization for producing their goods.

6. Raises The Profitability

It has an efficient role in enhancing the profitability of organizations. It makes companies cost conscious and assist in avoiding all extra expenditures. Management accounting uses techniques such as budgetary control and capital budgeting for reducing the expenses which helps in earning better profits.

7. Provides Reliability

Management accounting adds reliability to management decisions by providing them genuine information. It uses proper scientific tools and techniques for analysis purposes which helps managers in the proper management of business operations.

• Tools of Management Accounting

The various tools used at present in management accounting may be classified into the following groups.

1. Based on Financial Accounting Information

- Analysis of Financial Statements through [Ratio Analysis](#).
- [Analysis of Financial Statements](#) through comparative statements, trend, graph and diagram.
- Fund flow and cash flow analysis.
- Return on capital employed techniques.

2. Based on Cost Accounting Information

- Marginal costing (including cost volume profit analysis).
- Direct or incremental Costing and differential costing.
- Standard Costing.
- [Analysis of Cost Variances](#).

3. Based on Mathematics

- Operations Research.
- Linear Programming.
- Network analysis.
- Queing theory and Games Theory.
- Simulation Theory.

4. Based on Future Information

- Budget and Budgeting.
- [Budgetary control](#): Analysis of Budget Variance / Revenue Variance.
- Business Forecasting.
- Project Appraisal or Evaluation.

5. Miscellaneous Tools

- Managerial Reporting.
- Integrated Auditing.
- Financial Planning.
- Revaluation Accounting.
- Decision making Accounting.
- Management Information System.

Important tools and techniques used in management accounting

Some of the important tools and techniques are briefly explained below.

1. Financial Planning

The main objective of any business organization is maximization of profits. This objective is achieved by making proper or sound financial planning. Hence, financial planning is considered as best tool for achieving business objectives.

2. Financial Statement Analysis

Profit and Loss account and Balance Sheet are important financial statements. These [statements are analyzed](#) for different period. This type of analysis helps the management to know the rate of growth of business concern. This analysis is done through comparative financial statements, common size statements and ratio analysis.

3. Cost Accounting

[Cost accounting](#) presents cost data in product wise, process wise, department wise, branch wise and the like. These cost data are compared with predetermined one. This comparison of two costs enables the management to decide the reasons responsible for the difference between these costs.

4. Fund Flow Analysis

This analysis find out the movement of fund from one period to another. Moreover, this analysis is very useful to know whether the fund is properly used or not in a year when compared to the previous year. The [working capital changes](#) and funds from operation are also find out through this analysis.

5. Cash Flow Analysis

The movement of cash from one period to another can be find out through this analysis. Besides, the reasons for cash balance and changes between two periods are also find out. It studies the cash from operation and the movement of cash in a period.

6. Standard Costing

Standard costing is predetermined cost. It provides a yard stick for measuring actual performance. It is used to find the reasons for the deviations if any.

7. Marginal Costing

Marginal costing technique is used to fix the selling price, selection of best sales mix, best use of scarce raw materials or resources, to take make or buy decision, acceptance or rejection of bulk order and foreign order and the like. This is based on the fixed cost, variable cost and contribution.

8. Budgetary Control

Under Budgetary control techniques, future financial needs are estimated and arranged according to an orderly basis. It is used to control the financial performances of business concern. Business operations are directed in a desired direction.

9. Revaluation Accounting

The fixed assets are revalued as per the revaluation accounting method so that the capital is properly represented with the assets value. It helps to find out the fair return on capital employed.

10. Decision-making Accounting

A business problem can be solved by choosing any one of the best and most profitable alternative. To select such alternative, the relevant costs are compared. Thus, accounting information are used to solve the business problem which are arising out of increasing complexity of nature of business.

11. Management Information System

The free flow communication within the organization is essential for effective functioning of business. Hence, the management can design the system through which every employee of an organization can assess the information and used for discharging their duties and taking quality decisions.

12. Statistical Techniques

There are a lot of statistical techniques used in removing management problems. Methods of least square, regression and quality control etc. are some examples of statistical techniques.

13. Management Reporting

The management accountant is preparing the report on the basis of the contents of profit and loss account and balance sheet and submit the same before the top management. Thus prepared reports disclose the strength and weakness indifferent areas of operating activities and financial activities. These identification are highly useful to management for exercising control and decision-making.

14. Historical Cost Accounting

It means that costs are recorded after being incurred. This is used for comparing with predetermined costs to evaluate performance.

15. Ratio Analysis

It is used to management in the discharge of its basic functions of forecasting, planning, coordination, communication and control. It paves the way for effective control of business operations by undertaking an appraisal of both the physical and monetary targets.

Module 1

Analysis & Interpretation of Financial Statement

Meaning of Financial Statements

Every **business** concern wants to know the various financial aspects for effective decision making. The preparation of financial statement is required in order to achieve the objectives of the firm as a whole. The term financial statement refers to an organized collection of data on the basis of accounting principles and conventions to disclose its financial information. Financial statements are broadly grouped in to two statements:

- I. Income Statements (Trading, Profit and Loss Account)
- II. Balance Sheets

In addition to above financial statements supported by the following statements are prepared to meet the needs of the business concern:

- (a) Statement of Retained Earnings
- (b) Statement of Changes in Financial Position (cash flow statement)

The meaning and importance of the financial statements are as follows :

(1) **Income Statements:** The term ‘Income Statements’ is also known as Trading, Profit and Loss Account. This is the first stage of preparation of final accounts in accounting cycle. The purpose of preparing Trading, Profit and Loss Accounts to ascertain the Net Profit or Net Loss of a business concern during the accounting period.

(2) **Balance Sheet:** Balance Sheet may be defined as “a statement of financial position of any economic unit disclosing as at a given moment of time its assets, at cost, depreciated cost, or other indicated value, its liabilities and its ownership equities.” In other words, it is a statement which indicates the financial position or soundness of a business concern at a specific period of time. Balance Sheet may also be described as a statement of source and application of funds because it represents the source where the funds.

Statement of **Changes** in **Financial** Position: Income Statements and Balance sheet do not disclose the operational efficiency of the concern. In order to measure the operational efficiency of the concern it is essential to identify the movement of working capital or cash inflow or cash outflow of the business concern during the particular period. To highlight the changes of financial position of a particular firm, the statement is prepared may emphasize of the following aspects :

- (c) Fund Flow Statement is prepared to know the changes in the firm's working capital.
- (d) Cash Flow Statement is prepared to understand the changes in the firm's cash position.
- (e) Statement of Changes in Financial Position is used for the changes in the firm's total financial position.

- **Nature of Financial** statements

Financial Statements are prepared on the basis of business transactions recorded in the books of Original Entry or Subsidiary Books, Ledger, and Trial Balance. Recording the transactions in the books of primary entry supported by document proofs such as Vouchers, Invoice Note etc.

According to the American Institute of Certified Public Accountants, "Financial **Statement** reflects a combination of recorded facts, accounting conventions and personal judgments and conventions applied which affect them materially." It is therefore, nature and accuracy of the data included in the financial **statements** which are influenced by the following factors :

- (1) Recorded Facts.
- (2) Generally **Accepted** Accounting Principles.
- (3) Personal Judgments.
- (4) Accounting Conventions.

- **Objectives of Financial Statements**

The following are the important objectives of financial **statements** :

- (1) To provide adequate information about the source of finance and obligations of the finance
To provide reliable information about the financial performance and financial soundness of the concern.
- (2) To provide sufficient information about results of operations of business over a period of time.

- (3) To provide useful information about the financial conditions of the business and movement of resources in and out of business.
- (4) To provide necessary information to enable the users to evaluate the earning performance of resources or managerial performance in forecasting the earning potentials of business.

• **Limitations of Financial Statements**

- (1) Financial Statements are normally prepared on the basis of accounting principles, conventions and past experiences. Therefore, they do not communicate much about the profitability, solvency, stability, liquidity etc. of the undertakers to the users of the statements.
- (2) Financial Statements emphasis to disclose only monetary facts, i.e., quantitative information and ignore qualitative information.
- (3) Financial Statements disclose only the historical information. It does not consider changes in money value, fluctuations of price level etc. Thus, correct forecasting for future is not possible.
- (4) Influences of personal judgments leads to opportunities for manipulation while preparing of financial statements.
- (5) Information disclosed by financial statements based on accounting concepts and conventions. It is unrealistic due to difference in terms and conditions and changes in economic situations.

□ **Users of financial statements**

- 1) **Company management.** The management team needs to understand the profitability, liquidity, and cash flows of the organization every month, so that it can make operational and financing decisions about the business.
- 2) **Competitors.** Entities competing against a business will attempt to gain access to its financial statements, in order to evaluate its financial condition. The knowledge they gain could alter their competitive strategies.
- 3) **Customers.** When a customer is considering which supplier to select for a major contract, it wants to review their financial statements first, in order to judge the financial ability of a supplier to remain in business long enough to provide the goods or services mandated in the contract.
- 4) **Employees.** A company may elect to provide its financial statements to employees, along with a detailed explanation of what the documents contain. This can be used to increase

the level of employee involvement in and understanding of the business.

- 5) **Governments.** A government in whose jurisdiction a company is located will request financial statements in order to determine whether the business paid the appropriate amount of taxes.
- 6) **Investment analysts.** Outside analysts want to see financial statements in order to decide whether they should recommend the company's securities to their clients.
- 7) **Investors.** Investors will likely require financial statements to be provided, since they are the owners of the business and want to understand the performance of their investment.
- 8) **Lenders.** An entity loaning money to an organization will require financial statements in order to estimate the ability of the borrower to pay back all loaned funds and related interest charges.
- 9) **Rating agencies.** A credit rating agency will need to review the financial statements in order to give a credit rating to the company as a whole or to its securities.
- 10) **Suppliers.** Suppliers will require financial statements in order to decide whether it is safe to extend credit to a company.
- 11) **Unions.** A union needs the financial statements in order to evaluate the ability of a business to pay compensation and benefits to the union members that it represents.

□ **Analysis and Interpretations of Financial Statements**

Presentation of financial statements is the important part of accounting process. To provide more meaningful information to enable the owners, investors, creditors or users of financial statements to evaluate the operational efficiency of the concern during the particular period. More useful information are required from the financial statements to make the purposeful decisions about the profitability and financial soundness of the concern. In order to fulfil the needs of the above, it is essential to consider analysis and interpretation of financial statements.

□ **Meaning of Analysis and Interpretations**

The term “Analysis” refers to rearrangement of the data given in the financial statements. In other words, simplification of **data** by methodical classification of the data given in the financial **statements**.

The term “interpretation” refers to “explaining the meaning and significance of the data so simplified.”

Both **analysis and interpretations** are closely connected and inter **related**. They **are** complementary to each other. Therefore presentation of information becomes more purposeful and meaningful—both analysis and interpretations are to be considered.

Metcalf and Tigar have defined financial statement analysis and interpretations as a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance.

The facts and figures in the financial statements can be transformed into meaningful and useful figures through a process called "Analysis and Interpretations."

In other words, financial statement analysis and interpretation refer to the process of establishing the meaningful relationship between the items of the two financial statements with the objective of identifying the financial and operational strengths and weaknesses.

□ **Techniques of Management Accounting (tools of analysis)**

- Vertical form statement
- Comparative financial statement
- Trend percentage
- Common size statement
- Ratio analysis
- Cash flow analysis

1. Vertical form statement

- Vertical analytical balance sheet
- Profit and loss statement(in excel sheet)

2. Comparative financial statement

Under this form of comparative financial statements both the comparative **Profit** and Loss Account and comparative Balance sheet are covered. Such comparative statements are prepared not only to the comparison of the various figures of two or more periods but also the relationship between various elements embodied in profit and loss account and balance sheet. It enables to measure operational efficiency and financial soundness of the concern for analysis and interpretations. The following

information may be shown in the comparative statements:

- (a) Figures are presented in the comparative statements side by side for two or more years.
- (b) Absolute data in money value.
- (c) Increase or Decrease between the absolute figures in money value.
- (d) Changes or trend in various figures in terms of percentage.

$$\% \text{ Increase or Decrease} = \text{Increase or decrease} / \text{Amt of 1}^{\text{st}} \text{ year} * 100$$

3. Trend percentage

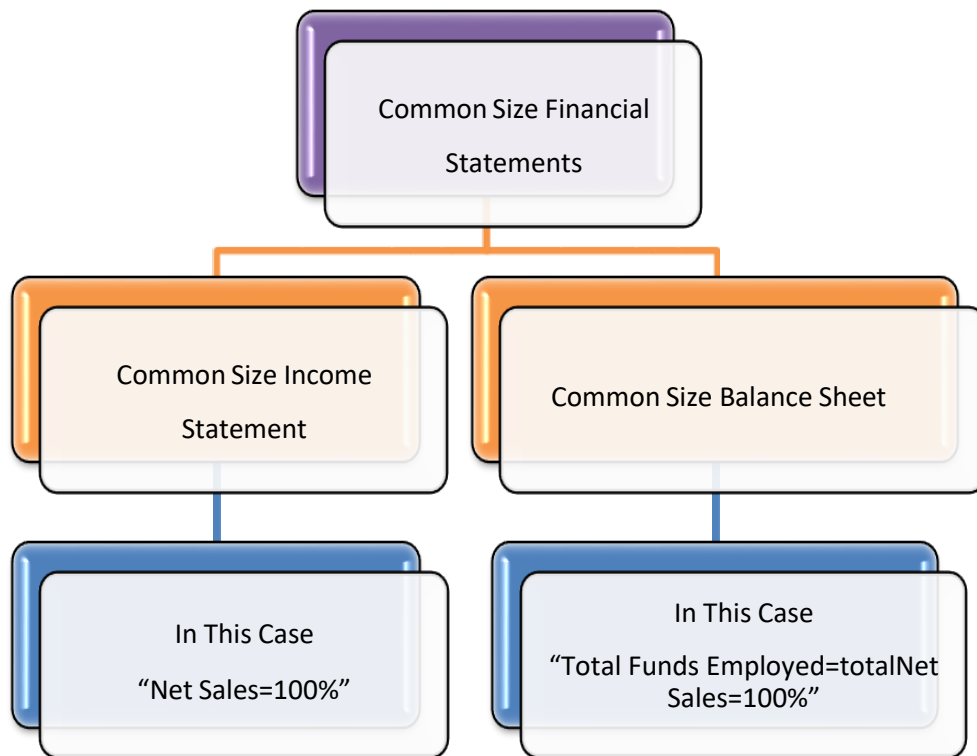
Trend Analysis is one of the important technique which is used for analysis and interpretations of financial statements. While applying this method, it is necessary to select a period for a number of years in order to ascertain the percentage relationship of various items in the financial statements comparing with the items in base year. When a trend is to be determined by applying this method, earliest year or first year is taken as the base year. The related items in the base year are taken as 100 and based on this trend percentage of corresponding figures of financial statements in the other years are concluded. This analysis is useful in framing suitable policies and forecasting in future also.

$$\text{Trend percentage} = \frac{\text{Amount of year under study}}{\text{Amount of base year}} \times 100$$

4. Common size statement

A common size statement shows the relation of each component to the whole. It is useful in case of a vertical financial analysis and comparison of two business enterprise at a certain date.

Take Capital employed as base that is 100% and then calculate remaining % as



Vertical Analytical Income Statement			
NO.	PARTICULARS	Rs	Rs
1	Gross Sales & Services	XX	
	less: returns & allowances	(x)	
	Net Sales (A)		XX
2	Less: Cost of Goods sold		
	a. Opening stock	XX	
	b. Purchase	XX	
	c. Direct/ manufacturing/ factory expenses	XX	
	d. depreciation on Machinery, Factory, Building	XX	
	Less: Closing stock	(X)	
	Sale of scrap	(X)	
	Cost Of Goods Sold (COGS) (a+b+c+d) (B)		XX
3	Gross profit (A-B)		XX
4	Less: Operating Expenses		
	a. Administration Expenses	XX	
	b. Selling and Distribution Expenses	XX	
	C. Finance expenses	XX	
	Total operating Expenses (except interest) (a+b+c)		XX
5	Operating Profit before interest		XX
	Less: interest		(X)
6	Net Profit after interest		XX
7	Net non operating income		
	a. Non operating Income	XX	
	b. Less: Non operating Expenses	(X)	
	Net non operating income (a-b)		XX
8	Net Profit before Tax (6+7)		XX
9	Less: Income Tax		(X)
10	Net Profit After Tax (8-9)		XX
11	Add: P&l Account (Balance b/d)		XX
12	Less: Appropriation		(x)
13	Retained Earnings		XX

Vertical Analytical Balance Sheet Format			
I.	SOURCES OF FUNDS	Rs.	Rs
1	OWNER'S FUND		
A.	Capital		XX
B.	Reserves and surplus	XX	
	less: Losses and fictitious assets	(X)	XX
	Own funds or net worth		XX
2	Loan Funds		
A.	Secured/ long term loans	XX	
B.	Unsecured loans	XX	XX
	Owed funds or Loan funds		
	Total funds available or Capital Employed (CE)		XX
	(Own Funds + Loan Funds)		
II.	APPLICATION OF FUNDS		
1	Fixed Assets (FA)		
A.	Tangible	XX	
B.	Intangible	XX	XX
2	Long term or Trade Investments		XX
3	Working Capital (WC)		
A.	Current assets	XX	
	less: Current liability	(X)	XX
	Total funds Used or Capital Employed		XX
	Fixed assets + Investments + Working Capital)		

Vertical income statement (detailed)
1. Gross Sales & Services
(revenue from operation)
a. Cash
b. Credit
2. Returns & Allowances
3. Net sales
4. Less: Cost of Goods Sold
a) Opening stock (RM)
b) Purchases (RM)
c) freight, octroi, Duty
d) Less: Closing stock(RM)
Raw Material Consumed
e) Direct Expenses
i. Factory Power
ii. Wages
iii. Other Manufacturing Expenses
f) Depreciation
i) on Machinery
ii) on Factory Building
iii) on Patterns/Patents
g) Opening Stock : WIP
h) Less: Closing Stock WIP
i) Less: Sale of Scrap
j) Opening Stock (FG)
k) Purchases (FG)
l) Less: Closing stock (FG)
Cost of Goods Sold
5. Gross Profit
6. Less : Operating Expenses
(A) Administration Expenses
a. Office Salaries
b. Office Rent Rates and Taxes
c. Insurance
d. Electricity for Office
e. Printing & Stationery
f. Depreciation on Office Assets
g. Postage and Telephone
h. Directors fees
i. Legal Expenses
j. Audit Fees
k. Repairs
l. Other
Administration Expenses (total)

(B) Selling & Distribution Expenses
a. Salaries to salesman
b. Rent of shop, showroom
c. Depreciation on Delivery vans
d. Exhibition Trade Fair
e. Advertisement or Publicity
f. Travelling/ van Expenses
g. Sale Discount/ Commission
h. Normal Bad Debts
Selling & Distribution Expenses(total)
(c) Finance Charges
i. Cash Discount
j. Bank Charoon / Commission
k. Abnormal Bad debts
Finance Charges(total)
Total Operating Expenses (Except Interest)
7. Operating Profit before Interest
8 Less: Interest Paid
a. Interest on Debentures or Bonds
b. Interest on Loans
c. interest on Public Deposits
d. Interest on Short Term Loans
Interest Paid
9. Net Profit after Interest
10. Net Non-operating Income
a. Non-operating Income
i. Dividends on Shares
ii. Interest on Debentures. Loans etc. Of
iii. Profit on Sale of Fixed Assets/investment
iv. Damages received
v. Royalty
vi. Shares Transfer Fees
Non-operating Income
b. Less: Non-operating Expenses
i. Loss on Sale of Fixed Assets Investment
ii. Damages paid /due
iii. Fine or Penalty
iv. Fictitious Assets w/o
Non-operating Expenses
Net Non-Operating Income
11. Net Profit before Tax (NPBT)
12. Less : Income Tax
13. Net Profit after Tax (NPAT)
14. Add : Profit & Loss Balance b/d
Profit Available for Appropriations
15. Less: Appropriations
(a) Sinking Fund / Reserves
(b) Dividends Paid
Appropriations
16. Retained Profits

Vertical Balance Sheet (Detailed Items)	
I. SOURCES OF FUNDS	
I. Owner's Funds	
A. Capital	
(i) Equity Share Capital / Capital of Proprietor or Partner	
(ii) Preference Share Capital Amount Subscribed / Called-up	
Less : Unpaid Calls Drawings of Proprietor or Partner	
Add : Forfeited Shares / Fresh Capital by Prop. / Partner	
Add: Received Against Share Warrants	
B. Reserves and Surplus	
(i) Capital Reserve	
(ii) Capital Redemption Reserve	
(iii) Share Premium	
(iv) General Reserve	
(V) Other Reserve	
(vi) Profit & Loss A/c - Cr. balance	
(vii) Sinking Fund Other Funds	
Less :Fund Investment	
C.Less: Losses & Fictitious Assets	
(i) Profit & LOSS AC - dr balance	
(ii) Misc Expenditure not we off	
(1) Preliminary Expenses	
2. share issue exp	
(3) Discount on issue of shares or debentures	
(4) Deferred Revenue Expenditure	
Net Reserves Surplus (b-c)	
Own Funds or Net Worth (1)	
(Capital+ Reserves & Surplus - Losses & Fictitious Assets)	
2 Loan Funds	
A. Secured Loans / Long Term Borrowings	
(i) Debentures bonds	
(ii) Loan from Banks	
(iii) Loans from Financial Institutions	
B. Unsecured Loans	
Public Deposits	
Owed Funds (a+ b)	
(Secured Loans + Unsecured loans)	
Total funds Available/ Capital Employed	
(Own Funds + Owed Funds) (1+2)	
II. APPLICATION of Funds	
1. Net Fixed / Non-Current Assets	
A. Tangible	
i. Land and building	
ii. Leaseholds	
iii. Plant and Machinery	
iv. Furniture and Fittings	
v. Vehicle (For each item	
a) Cost	
b) Less: Depreciation	
c) Net Tangible Assets (a - b)	
B. Intangible	
i. Goodwill	
ii. Patents, copyrights trademarks and designs	
Total Fixed Assets (A+ B)	
(Net Tangible Assets+ Intangible Assets)	
2. Long Term/ Non-current Investments	
i. Investment in Government Securities Shares, Debentures etc	
Less: Sinking Fund/ Other Funds /Investment	
ii. Investments in immovable properties	
iii. Investments in Capital of Partnership Firm	
iv. Long Term Loans given	
3. Working Capital	
Quick Assets	
a. Cash and Bank	
b. Debtors/Trade Receivables	
c. Bills Receivable	
d. Short Term Loans & Advances Given	
e. Accrued Income	
f. Short term or Marketable investments	
Total Quick or Liquid Assets (a to f)	
g. Inventory	
h. Prepayment (prepaid expenses advance for goods, advance tax)	
A .Current Assets (a to h)	
Less: Quick Liabilities	
a. Creditors / Trade Payables	
b. Bills Payable	
c. Advances Received	
d. Outstanding Expenses	
e. Accrued Interest	
f. Provision for Tax	
g. Unclaimed Dividend	
h. Short Term Loans	
Total Quick Liabilities (a to h)	
i. Bank Overdraft	
B. Current Liabilities (a to i)	
Net Current Assets or Working Capital (A-B)	
Total Assets or Total Funds Employed	
(Fixed Assets + Investments + Working Capital) (1+2 + 3)	

▪ **Equations Related To Balance Sheet**

1. Own funds + Loan Funds = Fixed assets + Investments + Working Capital
(OF + LF = FA + Inv + WC)
2. Total assets = FA + Inv + CA = TL (total liability) = OF + LF + CL
3. Capital employed = FA + WC = OF + LF
4. Owner's Fund = TA – CL – LF
5. Owner's Fund = Capital + Reserves & Surplus – Losses & Fictitious Assets
6. Total owned Funds = Secured Loan + Unsecured Loan
7. Total Funds Available = Own Funds + Owed Funds
8. Fixed Assets = Tangible Assets + Intangible Assets
9. Quick Assets = current Assets – Inventories – Pre-payments
10. Quick Liability = Current Liabilities – Bank Overdraft

▪ **Equations Related To Profit And Loss Statement**

1. Net sales = Gross sales – Returns and Allowances
2. Cost of Goods = Opening stock + Purchase + Direct Expenses + Depreciation – Closing Stock
3. Gross Profit = Net sales – Cost of Goods Sold
4. Operating Expenses = Administration Expenses + Selling Expenses + Finance Charges
5. Net Non operating Income = Non operating income – Non Operating Expenses
6. Net Profit After Tax (NPAT) = Net Profit Before Tax – Income Tax

▪ **Important Points**

1. If Depreciation is not classified it should be taken under Administration Expenses.
2. If Only Provision for depreciation is given on Liability side and all fixed assets are given then depreciation will be deducted from All tangible fixed assets except Land , Because land is not depreciable .
3. Proprietor's fund / Own Fund / Share Holder Fund / proprietor's Equity / Owners Fund.
4. Borrowed fund / Owed Funds / Long term loans.
5. If only carriage is given then it is carriage inward.
6. Profit and Loss on liability side indicates Profit and is transferred to reserve sand surplus A/c.

7. Profit and Loss of assets side indicates Loss and transferred to Misc. Expenditure A/c .
8. If investment is not specified it is assumed as Long Term Investment.
9. Short term and Marketable investment are to be shown under Quick Assets and not in investment.
10. All liabilities are quick except Bank overdraft
12. If stock of raw material and WIP is not given in the sum then directly answer will be gross profit
13. If balance in Profit and Loss and Profit and Loss in balance sheet are not same then the balancing figure will be opening balance of appropriation.

Questions: Balance Sheet Questions

Q1. Following is the Balance sheet of Kalpesh Ltd.

Liabilities	₹	Assets	₹
Equity Shares Capital	3,90,000	Cash in hand	15,000
10% Preference Share Capital	2,00,000	Cash at bank	90,000
9% Debentures	2,50,000	Preliminary Expenses	20,000
General Reserves	60,000	Goodwill	1,00,000
Capital reserves	50,000	Building	3,00,000
11% Bank Loan	1,00,000	Investment (Long term)	2,00,000
Creditors	1,25,000	Furniture	2,50,000
Bank overdraft	1,35,000	Plant and machinery	3,00,000
Provision of Tax	1,40,000	Debtors	1,50,000
OS EXPENSES	30,000	Prepaid expenses	50,000
Profit and Loss A/c	1,40,000	Stock	2,00,000
Depreciation provision	80,000	Calls in arrears (Equity)	10,000
		Commission on issue of shares	15,000
	17,00,000		17,00,000

Present the above in vertical form and show the following:

1. Net worth
2. Capital Employed
3. Working Capital
4. Borrowed Fund
5. Net Block
6. Fictitious Assets

Q2. The Following items appears in the Financial Statements of M Ltd. As on 31st December 2021.

Particulars	₹	Particulars	₹
Cash	45,000	Land and Building	8,00,000
Bills receivable	60,000	Stock	2,75,000
Creditors	4,00,000	Prepaid Expenses	60,000
General reserves	1,00,000	Debtors	5,00,000
Plant and machinery	5,50,000	Debentures	3,00,000
Bank overdraft	50,000	Equity Share Capital	10,00,000
Profit and loss A/c (credit)	2,25,000	Proposed Dividend	90,000
Long Term Investment	20,000	Advance Tax	1,00,000
Provision for Tax	2,00,000	Bills Payable	45,000
Preliminary expenses not yet w/o	25,000	Unclaimed Dividend	25,000

You are required to arrange the above items in the form of a vertical Balance Sheet and determine (a) Current Assets (b) Fixed Assets (c) Current Liabilities (d) Proprietary Fund (e) Quick Assets (f) Quick Liabilities

Q3. From the following information of PARI LTD. prepare a vertical balance sheet for analysis.

Particulars	₹
current account with Bank of India	50,000
Land and building	8,00,000
Advance payment	62,000
Stock	2,73,000
Creditors	4,06,000
Debtors	5,23,000
Bills receivables	21,000
Plant and Machinery	5,44,000
12% Debentures	2,50,000
Loan from Director	52,000
Equity Share capital	10,00,000
Profit and loss account	2,17,000
Trade Investment	20,000
Proposed Dividend	86,000
Advance Taxes	1,00,000
Provision for Tax	2,64,000
Bills Payable	18,000
General Reserve	1,00,000

Q4. The balance sheet of XYZ LTD. is given for the year 2014. Convert them into vertical Balance Sheet.

Liabilities	₹	Assets	₹
Equity Share Capital	1,91,000	Building	2,00,000
Capital Reserve	70,000	Plant and Machinery	55,000
Revenue Reserve and surplus	30,000	Furniture	20,000
Trade Creditors	40,000	Freehold Property	12,000
Bills Payable	60,000	Goodwill	30,000
Bank Overdraft	80,000	Cash Balance	20,000
Provision	20,000	Sundry Debtors	35,000
		Inventories	57,000
		Investments (Temporary)	42,000
		Bills Receivable	20,000
Total	4,91,000	Total	4,91,000

Q5. The following is the Balance sheet of ABC Limited as on 31st March 2014 you are required to present in Vertical form.

Liabilities	₹	Assets	₹
Equity share Capital	3,00,000	Goodwill	80,000
Reserves and Surplus	1,50,000	Land and Building	1,50,000
10% Mortgage Debentures	2,15,000	Plant and Machinery	2,00,000
Sundry Creditors	1,30,000	Patent Rights	21,500
Bank Overdraft	40,000	Stock in Trade	1,43,500
Provision for Tax	35,000	Sundry Debtors	2,40,000
		Cash in Hand	5,000
		Cash at Bank	10,000
		Preliminary Expenses	20,000
Total	8,70,000	Total	8,70,000

Q6. The following balances appear in the books of M/S Laxman Ltd. As on 31st March 2022. You are required to prepare a Balance Sheet in the Vertical form.

Particulars	₹	Particulars	₹
Sundry Debtors	2,00,000	Creditors	1,50,000
Trade Investment	2,50,000	Capital Reserve	1,50,000
Bank Overdraft	1,00,000	Short term Investment	50,000
Public Deposits	3,00,000	Plant & Machinery	12,00,000
Bills Payable	7,90,000	Outstanding Expenses	1,20,000
General Reserve	1,00,000	Cash & Bank	7,00,000
Bills Receivable	2,00,000	Profit & Loss (Cr.)	4,00,000
Vehicles	9,00,000	Stock	5,00,000
10% Preference Share Capital	8,00,000	Land & Building	12,00,000
Commission on issue of shares (not yet w/off)	40,000	Equity Share Capital	16,00,000
Provision for Tax	1,00,000	Preliminary Expenses (not yet w/off)	10,000
Bank Loan	3,00,000	Debentures	5,00,000
Advance Tax	3,00,000	Proposed dividend	3,00,000
Prepaid Expenses	1,00,000	Advance to supplier	60,000

Revenue Statement Questions

Q7. Profit and Loss account for the year ended 31-3-2019.

Particulars	₹	Particulars	₹
To opening Stock	76,250	By Sales	6,02,350
To purchase	3,15,250	less: Returns	10,000
To freight and Carriage	7,000	By closing stock	98,500
To staff Salaries	20,000	By interest on Bonds	1,500
To Sales salaries	15,300	By Dividend On shares	3,750
To interest on debentures	1,200	By profit on sale of share	3,900
To rent	2,700		
To Printing and Stationary	2,500		
To Advertising	4,700		
To sales Discount	2,400		
To depreciation	9,300		
To Insurance	1,000		
To electricity	350		
To salesmen's Travelling Expenses	2,000		
To Bad debts	3,400		
To Telephone Expenses	750		
To Legal Charges	6,400		
To Directors Fees	48,000		
To Loss on sales of Bonds	3,500		
To provision for Claim for Damages	1,650		
To Net Profit	1,76,350		
Total	7,00,000	total	7,00,000

Present the above in Vertical Form suitable for analysis.

Q8. The accountant of a company submits the following financial statements for March 2019.

Particulars	₹	Particulars	₹
To Opening stock	35,000	By Sales	8,30,000
To Purchase	7,50,000	By Closing Stock	80,000
To Gross Profit	1,25,000		
	9,10,000		9,10,000
To depreciation	47,000	By Gross Profit	
To Other Expenses	18,000	By Interest	1,25,000
To Tax provision	37,000		5,000
To Proposed Dividend	20,000		
To Net Profit	8,000		
Total	1,30,000	Total	1,30,000

Q9. Following is the Profit and Loss Account of Well balanced Limited for the year ended 31st March 2003. You are required to prepare Vertical Income Statement for purpose of analysis.

Particulars	₹	Particulars	₹
To opening stock	7,00,000	By sales	
To purchase	9,00,000	Cash	5,20,000
To wages	1,50,000	Credit	<u>15,00,000</u>
To factory expenses	3,50,000		20,20,000
To office salaries	25,000	Less : returns	20,000
To office rent	39,000		20,00,000
To postage and telegram	5,000	By closing stock	6,00,000
To director fees	6,000	By dividend on investment	10,000
To salesman salaries	12,000	By profit on sale of furniture	20,000
To advertising	18,000		
To delivery expenses	20,000		
To debenture interest	20,000		
To depreciation			
On office furniture	10,000		
On plant	30,000		
On delivery van	20,000		
To loss on sale of van	5,000		
To income tax	1,75,000		
To net profit	1,45,000		
total	26,30,000	total	26,30,000

Q10. The following figures relate to the trading activities of Z ltd for the year ended 31st March 2003

Particulars	₹
Sales	10,57,000
Closing stock	4,60,000
Purchases	8,35,000
Loss on sale of assets	45,000
Advertising	32,700
Rent	18,750
Profit on sale of shares	25,000
Provision for taxation	1,00,000
Salaries	35,750
Salesman's salaries	14,250
Depreciation	36,000
Sales return	57,000
Depreciation on delivery van	8,000
Printing and stationery	17,500
Audit fees	12,000
Opening stock	2,25,000
Dividend received on shares	15,000

You are required to rearrange above income statement in vertical form.

Q11. The following balances appear in the Boks of M/S Bhushan Ltd. For the year ended 31st March 2023. You are require to prepare a Revenue statement in vertical form.

Particulars	₹	Particulars	₹
Opening Stock	50,000	Sales Return	20,000
Net Profit b/f from P.Y.	60,000	Profit on Sale of Investment	5,000
Office Rent	5,000	Loss by Fire	5,000
Carriage Inward	20,000	Closing Stock	40,000
General Reserve	40,000	Purchase	2,00,000
Wages	72,000	Postage & Telegram	5,000
Octroi	5,000	Provision for Tax	30,000
Office Staff Salary	40,000	Sales	6,20,000
Audit Fees	20,000	Dividend on shares held	25,000
Advertisement	25,000	Carriage outward	5,000
Finance Expenses	25,000	Warehouse expenses	5,000
Loss on Sale of Asset	30,000	Import Duty	3,000
Depreciation on:		Proposed Dividend	35,000
Plant & Machinery	15,000		
Furniture	16,000		
Delivery van	14,000		

Combined Questions

Q12. The account of synthetic industries limited submits the following statements for 2016-17.

Trading and profit and loss account for the year ended 31-3-2017

Particulars	₹	Particulars	₹
To Opening Stock	25,000	By Sales	6,25,000
To Purchase	5,00,000	By Closing Stock	25,000
To Gross Profit C/D	1,25,000		
	6,50,000		6,50,000
To Depreciation On Assets Let Out	50,000	By Gross Profit B/D	1,25,000
To Other Expenses	30,000	By Returns From Assets Let Out	80,000
To Tax	40,000		
To Net Profit	85,000		
Total	2,05,000	Total	2,05,000

Balance sheet as on 31-3-2017

Liabilities	₹	Assets	₹
Share Capital	2,74,000	Cash	5,000
Sundry Creditor	80,000	Debtors	100,000
Bank Overdraft	25,000	Stock	25,000
Tax Provision	40,000	Let Out Assets Cost	4,00,000
Less: Tax Paid	(39,000)	Less: Depreciation	(1,50,000)
Total	380,000	Total	380,000

Rearrange the above in a form suitable for you.

Q13. From the following Trial Balance of Jyoti Ltd as on 31st March 2004 prepare vertical Revenue statement for the year ended 31st March 2004 and Vertical Balance Sheet as on that date after making the necessary adjustments

Particulars	Rs	Rs
Equity shares capital		11,00,000
Plant and machinery	12,00,000	
Sales		37,00,000
Purchases	17,00,000	
Sundry debtors	9,00,000	
Sundry creditors		8,50,000
Wages	3,50,000	
Opening stock	1,20,000	
Salaries	1,80,000	
Advertisement	75,000	
Telephone charges	35,000	
Furniture	2,00,000	
Investment (Long Term)	5,00,000	
Interest received		40,000
Loss on sale of furniture	20,000	
Commission	60,000	
Profit / loss		1,20,000
Interim dividend	50,000	
General reserves		1,00,000
Cash at bank	3,20,000	
Bills receivable	2,00,000	
	59,10,000	59,10,000

Adjustments

1. Stock on 31st March 2004 was valued at Rs 3,00,000.
2. Make provision of Rs 3,00,000 for Income tax.
3. Depreciate Plant and Machinery @ 20% and Furniture @ 10%

Q14. Following is the Trial Balance of Kusumanand Ltd. As on 31st March 2023.

Particulars	₹	Particulars	₹
Preliminary Expenses (not yet w/off)	10,000	Equity Share Capital	5,00,000
Goodwill	1,00,000	General Reserve	2,10,000
Plant & Machinery	4,00,000	10% Debentures	2,00,000
Land & Building	2,50,000	Accounts Payable	1,30,000
Investments	1,00,000	Proposed Dividend	50,000
Opening Stock	50,000	Sales	5,00,000
Accounts Receivable	2,00,000	Interest on Investment	10,000
Cash	40,000		
Depreciation on Plant & Machinery	40,000		
Wages	60,000		
Purchase	2,00,000		
Administrative expenses	70,000		
Selling expenses	60,000		
Interest on Debentures	20,000		

Additional Information :

1. Closing stock as on 31st March 2023 is ₹60,000.
2. Make provision for Tax @50% on PBT.
You are required to prepare vertical income statement for the year ended 31st March 2023 & Vertical Balance sheet as on that date for financial analysis.

Q15. The following balances appear in the books of M/s Suman Ltd for the year ended 31st March 2022. You are required to prepare Revenue Statement & Balance sheet in vertical form.

Particulars	₹	Particulars	₹
Equity share capital	2,25,000	Sales	8,55,000
Plant & Machinery	45,000	Debentures	50,000
Purchase	6,55,000	Interim Dividend paid	15,000
Wages	85,000	Depreciation	15,000
Bank Overdraft	20,000	Office Salaries	15,000
Office Rent	5,000	Dividend received	5,000
Advertisement	20,000	Goodwill	25,000
Finance expenses	8,000	Land Building	48,000
Income Tax	15,000	Creditors	25,000
Preliminary expenses (not w/off)	5,000	Trade Investment	75,000
Bills payable	15,000	Return to supplier	5,000
Net Profit B/f from P. Y.	13,000	Debtors	65,000
Opening stock	75,000	Cash	42,000

Closing Stock on 31st March 2022 is ₹80,000.

Common Size Questions

Q16. Following is balance sheet of M/S Surendra Ltd. as on 31st March 2017.

Balance sheet as on 31st March 2017

Liabilities	Rs	Assets	Rs
Equity Share Capital	2,50,000	Land And Building	2,00,000
10% Preference Share Capital	1,50,000	Machinery	2,50,000
General Reserve	2,00,000	Furniture	2,00,000
8% Debentures	1,50,000	Investment	90,000
Creditors	1,00,000	Stock	35,000
Bills Payable	50,000	Debtors	50,000
		Cash	40,000
		Bills Receivables	30,000
		Preliminary Expenses	5,000
Total	9,00,000	Total	9,00,000

Prepare a Common size Vertical Statement.

Q17. From the following Income statement of M/S Anant Traders **Prepare a Common Size Revenue Statement in a form suitable for analysis.**

Profit and Loss Account for the year ended 31st March 2017

Particulars	Rs	Particulars	Rs
To Administrative Expenses	5,00,000	By Gross Profit	16,00,000
To Selling Expenses	2,00,000	By Other Income	30,000
To Interest	90,000		
To Income Tax	2,60,000		
To Net Profit C/D	5,80,000		
Total	16,30,000	Total	16,30,000

Cash sales-Rs 12,00,000, credit sales- Rs 48,30,000, Sales return- Rs 30,000. Treat interest as Operating Expenditure.

Q18. From the following information prepare common size income statement and common size Balance sheet.

Balance Sheet as on 31-3-2019

Liability	Rs	Assets	Rs
Equity Share Capital	1,25,000	Land and Building	2,50,000
10% Preference Share Capital	50,000	Machinery	4,00,000
General Reserve	2,50,000	Furniture and Fixture	1,25,000
Profit and Loss Account	25,000	Stock	40,000
14% Debentures	5,00,000	Debtors	2,00,000
Sundry Creditors	1,50,000	Cash on Hand	15,000
Bank Overdraft	75,000	Preliminary Expenses	79,500
Outstanding Expenses	20,000	Bank Balance	35,500
		Bills Receivables	50,000
Total	11,95,000	Total	11,95,000

Profit and Loss Account for the year ended 31-3-2019

Particulars	Rs	Particulars	Rs
To opening stock	35,000	By sales	21,00,000
To purchase	8,25,000	By Closing stock	40,000
To wages	4,25,000		
To custom Duty	1,70,000		
To factory Expenses	2,00,000		
To Administrative Expenses	1,80,000		
To selling expenses	1,05,000		
To finance expenses	25,000		
To loss on sale of plant	75,000		
To net profit	1,00,000		
Total	21,40,000	Total	21,40,000

Comparative Questions

Q19. From the following Financial Statements of Vaibhav Ltd. prepare Comparative Financial statements.

Balance sheet as on 31st March					
Liabilities	₹(2013)	₹(2014)	Assets	₹(2013)	₹(2014)
Equity share capital	4,00,000	4,00,000	Land	2,00,000	2,40,000
12% preference Share Capital	3,00,000	3,00,000	Factory Plant and Building	6,00,000	5,40,000
General Reserve	2,00,000	2,45,000	Stocks	2,00,000	3,00,000
Tax payable	1,00,000	1,50,000	Debtors	2,00,000	3,00,000
Creditors	2,00,000	2,75,000	Cash	1,00,000	1,40,000
17% Debentures	1,00,000	1,50,000			
Total	13,00,000	15,20,000	Total	13,00,000	15,20,000

Profit and Loss account for the year ended 31st March

Particulars	₹(2013)	₹(2014)		₹(2013)	₹(2014)
To cost of Goods Sold	6,00,000	7,00,000	By sales	8,00,000	10,00,000
To Administrative Expenses	30,000	40,000			
To selling Expenses	20,000	20,000			
To Net Profit	1,50,000	1,90,000			
Total	8,00,000	10,00,000	total	8,00,000	10,00,000

Q20.

Balance sheet as on 31st March 2023.

Particulars	31.3.2022	31.3.2023
Current Assets:		
Cash at bank	1,23,300	1,53,000
Debtors	2,11,200	1,97,700
Bills Receivable	1,20,000	91,500
Prepaid	9,000	12,000
Fixed Assets:		
Building	4,80,000	4,65,000
Plant	4,05,000	3,75,000
Furniture	1,51,500	55,800
	15,00,000	13,50,000
Current Liabilities		
Creditors	2,70,000	15,000
Bills Payable	1,20,000	2,41,500
Outstanding Expenses	45,000	49,500
Reserve & Surplus	1,65,000	1,44,000
Share Capital	9,00,000	9,00,000
	15,00,000	13,50,000

Prepare a Comparative Balance sheet from the above & comment on Financial position of the company.

Trend Analysis Question

Q21. You are furnished with the following revenue statements for the year ended March 31st 2017.

Particulars	2014	2015	2016	2017
Sales	50,00,000	60,00,000	72,00,000	86,40,000
Less: Cost Of Sales	32,00,000	38,00,000	46,00,000	56,00,000
Gross Margin	18,00,000	22,00,000	26,00,000	30,40,000
Management Expense	3,00,000	3,50,000	4,00,000	4,50,000
Sales Expense	5,00,000	6,00,000	7,20,000	8,64,000
Interest On Borrowing	3,00,000	4,00,000	5,00,000	6,00,000
Total Expenses	11,00,000	13,50,000	16,20,000	19,14,000
Net Profit Before Depreciation And Taxation	7,00,000	8,50,000	9,80,000	11,26,000
Depreciation	5,00,000	4,50,000	6,00,000	6,50,000
Profit Before Taxation	2,00,000	4,00,000	3,80,000	4,76,000
Income Tax	80,000	2,00,000	1,85,000	2,40,000
Profit After Tax	1,20,000	2,00,000	1,95,000	2,36,000

You are asked to prepare **Trend Analysis**

Q22. Pass and Fail are Partners of a firm carrying on Business.

i. Their Position a on 31st March 2012 , 2013 and 2014 are as follows-

Liabilities	2014	2013	2012	Assets	2014	2013	2012
Partner Capital	4,00,000	3,40,000	3,00,000	Fixed Assets	4,00,000	3,60,000	2,80,000
General Reserve	1,00,000	1,00,000	1,00,000	<u>Current Assets</u>			
Secured Loan	60,000	60,000	50,000	Stock	1,60,000	1,50,000	1,35,000
Unsecured Loan	1,60,000	1,80,000	1,40,000	Debtor	2,00,000	1,60,000	1,40,000
Sundry Creditors	1,60,000	90,000	45,000	Loans and Advances	1,00,000	80,000	60,000
				Bank Balance	20,000	20,000	20,000
Total	8,80,000	7,70,000	6,35,000	Total	8,80,000	7,70,000	6,35,000

ii. Summarised Income Statement for the year ended:

Particulars	2014	2013	2012
Income			
Sales	40,00,000	36,00,000	30,00,000
Less: Cost of Sales	28,00,000	24,00,000	20,00,000
Gross Profit	12,00,000	12,00,000	10,00,000
Less: Expenses	8,00,000	8,00,000	7,00,000
Net Profit	4,00,000	4,00,000	3,00,000

Q23. From the following prepare Trend Revenue Statement of Moon Ltd after arranging in vertical form.

Particulars	31.3.2020	31.3.2021	31.3.2022
Sales	2,00,000	2,50,000	2,60,000
Material Consumed	30,000	50,000	50,000
Direct Wages	15,000	15,000	18,000
Gross Profit	?	?	?
Office Salaries	12,000	14,000	15,000
Office Rent	3,000	4,000	5,000
Other Admin Expenses	4,000	5,000	5,000
Selling & Distribution Expenses	10,000	15,000	18,000
Bad Debts	1,000	1,500	500
Debenture Interest	3,000	3,000	3,000
Dividend Received	4,000	4,000	4,000
Provision for Tax	40%	40%	40%