<u>Financial Statements Of A Company</u>

(1) What do you mean by Financial Statements . Or

Give the meaning of financial statements.

Answer: Financial Statements are formal records of financial activities of a business. Financial Statements record the performance of the business and helps in identifying the strengths and weaknesses of the business.

According to Anthony, " Financial Statements, essentially are interim reports , presented annually and reflect a division of the life of an enterprise into more or less arbitrary accounting period more frequently a year'.

(2) Explain the nature/ features of Financial Statements.

Answer: Following are the characteristics of Financial Statements:

(a) Financial Statements are prepared at periodical intervals usually at the end of the accounting period, generally ,one year as per the provisions of the company law.

(b) Financial Statements are prepared by the management depicting the true and fair view of the state of affairs of the entity for the period under review.

(c) Financial Statements are summarized reports prepared on the basis of accounting records.

(d) Financial Statements are prepared following the accounting conventions.

(e) Financial Statements are influenced by the personal judgments of the policy makers that are the management.

(3) Name the items shown under the head Shareholder's Fund.

Answer: Following items are shown under the head Shareholder's Fund:

(a) Equity Share Capital. (b) Preference Share Capital. (c) Securities Premium Reserve. (d) General Reserve.

(4) Name any 3 items that can be shown under the head "Reserve and Surplus".

Answer: Following items are shown under the head "Reserve and Surplus".

(a) Capital Reserves. (b) General Reserve. (c) Securities Premium Reserve. (d) Revaluation Reserve.

(5) Name the major headings under which the liabilities and assets side of a Company's Balance Sheet is organized and presented.

Answer: Major Headings of the assets side of a Company Balance Sheet is:

(1) Non-Current Assets.

(2) Current Assets.

Major Headings of the liabilities side of a Company Balance Sheet is:

(1) Shareholder's Fund.

(2) Share Application Money Pending Allotment.

(3) Non-Current Liabilities.

(4) Current Liabilities.

(6) Give the new format of the Balance Sheet of A Company. Or

Give the format of Balance Sheet of a Company as Per Company's Act 2013.

Answer: Format prescribed under Schedule III to the Companies Act 2013 are as under:

Particulars	**Note Number**	**Current Year**	**Previous Year**
I. EQUITY AND LIABILITIES			
(1) Shareholder's Fund	**xxx**	**xxx**	
(2) Share Application Money Pending Allotment	**xxx**	**xxx**	
(3) Non-Current Liabilities.	**xxx**	**xxx**	
(4) Current Liabilities.	**xxx**	**xxx**	
TOTAL		**xxxx**	**xxxx**
II.ASSETS			
(1) Non –Current Assets.		**xxx**	**xxx**
(2) Current Assts.		**xxx**	**xxx**
TOTAL		**xxxx**	**xxxx**

(7) What do you mean by Contingent liabilities? Mention any 2 items of Contingent Liabilities.

Answer: Contingent Liabilities are those liabilities that may be incurred by an entity on the outcome of an uncertain future event such as outcome of a pending lawsuit.

Examples of Contingent Liabilities are:

(a) Uncalled Liability on shares (b) Legal Liability. (c) Tort (d) Liquidated damages.

(8) What do you mean by Preliminary Expenses? Mention the items which are usually included in the list of Preliminary Expenses.

Answer: Preliminary expenses are the expenses that are incurred before the incorporation, initial stage and commencement of the business. The expenses incidental for the formation of a company are also regarded as preliminary expense. These are considered as deferred revenue expenditure.

Examples of Preliminary Expenses are:

(a) Company Incorporation Expenses (b) Logo Expenses (c) Amount paid for stamp duties.

(9) Discuss the limitations of Financial Statements.

Answer: Following are the limitations of Financial Statements:

(a) <u>Do not reflect current situation:</u> Financial Statements are prepared from the books and accounts after the annual closure of accounts. They provide information of past events. From such statements, current position cannot be known.

<u>(b) Do not reflect the real value of assets:</u> Since assets are recorded on cost basis, the book values shown in the financial statements do not reflect real value of assets.

(c)<u>Fail to reflect changes in price level</u>: Financial Statements are prepared from the records maintained on cost basis. The changes in price level are not considered while preparing these statements.

(d<u>) Timely information not possible</u>: Financial Statements are published after 3-4 months of the closure of accounts. So, in many cases they cannot give timely and relevant information for decision making.

(e) <u>No Qualitative Information</u>: Financial Statements provide only quantitative information and fail to provide key non-financial information like quality and reputation of the management team and employees, labour relations, quality of work, etc.

(f<u>) Ignores the productivity</u>: Financial Statement ignores the productivity and the skills of the employees in an organization.

(10) Mention the objectives/ advantages/ benefits / importance of Financial Statements.

Answer: Following are the merits of Financial Statements:

(a) Helps Stock Brokers: The financial statements enable the stock brokers to judge the financial position of different concerns and take decisions about the prices to be quoted.

(b) Importance to the Consumers: Consumers use financial statements to safeguard their interest in regard to quality of products , price charged and to uphold the consumer movement.

(c) Basis for Research work: Research scholars make use of financial statements for making analysis and interpretation of data to derive new findings.

(d) Basis for making investment: Information contained in the financial statements is used to judge long-term solvency , profitability , dividend pay out as well as debt servicing capacity of the concern. The prospective investors can make their own decision whether to invest or not to invest in the company on the basis of these information contained in the financial statements.

(e) Basis to judge short term liquidity: Creditors are interested in information which enables them to determine whether amounts owing to them will be paid when due. Therefore, financial statements are important to them as the information on short term liquidity, cash flows, etc can be known from these statements.

(f) Guide to employees: Employees of the company are interested in financial statements in order to assess the stability of their employment, to lodge their claim for hike in wage, share in profit, etc.

(11) Who are the users of Financial Statements? Explain.

Answer: Following are the users of Financial Statements:

(A) Internal Users:

(1) Owners: Owners provide capital to the business and bear all the risk of the business. They want to know whether their funds are being properly utilized or not.

(2) Managers: Accounting information is useful to managers for the purpose of planning , decision making, controlling, motivating , directing and monitoring the functioning of a business entity.

(3) Employees: Employees are interested in financial information in order to assess the stability of their employment, to lodge their claim for hike in wage, share in profit, bonus, etc.

(B) External Users:

(1) Creditors: Creditors use accounting information to ascertain the short term liquidity, long term liquidity or solvency position, the ability of the entity to repay the amount in scheduled time and the earning capacity.

(2) Consumers: Consumers use financial information to safeguard their interest in regard to quality of products, price charged and to uphold the consumer movement.

(3) Researchers: Research Scholars make use of financial statements for making analysis and financial journals also conduct analysis of the financial statements to report the operational result of the business entity.

(4) Bankers: Bankers who advance money to a business entity are interested in financial statements to ascertain the short term and long term debt repaying and debt servicing capacity of the business entity.

(12) Distinguish between a Company's balance sheet and the balance sheet of a Partnership Firm.

Answer: Following are the differences;

Basis	Company's Balance Sheet	Partnership Balance Sheet

(1) Form	**It is prepared in the format prescribed under the Companies Act 2013.**	**There is no prescribed format for balance sheet of a Partnership Firm.**
(2) Easy	**It is difficult to prepare.**	**It is easy to prepare.**
(3) Time Involved	**It is more time consuming.**	**It is less time consuming.**
(4) Figures for 2 years	**Figures of every item in the Balance Sheet of both previous year and current year is required to be shown.**	**In a Balance Sheet of a Partnership Firm, figures of only current year are shown.**
(5) Audit.	**The balance sheet of a company is required to be audited and signed by the Chartered Accountant.**	**Audit of a Partnership Firm's Balance Sheet is not compulsory except under Tax Audit.**
(6) Order.	**Marshalling of assets and liabilities in a Company's balance sheet is done in order of performance.**	**There is no prescribed order of marshalling of assets and liabilities in the balance sheet of a Partnership Firm.**