Bank of India

FINANCIAL STATEMENTS

Bank of India

Balance Sheet
Profit & Loss A/C
Trading Account

Fund Flow Statement
Cash Flow Statement
Director's Report
Auditor's Report

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https://bankingdigests.com/

YouTube Banking Digest by Abinash Mandilwar

WHAT IS A BALANCE SHEET?

- After ascertaining the net profit or loss of the business enterprise, the Stake holders like to know the exact financial position of his business.
- For this purpose, a statement is prepared which contains all the Assets and Liabilities of the business enterprise. The statement so prepared is called a Balance Sheet.
- The Balance sheet measures what you own and what you owe.

What you own is called your Assets. *(Uses)*

What you owe is called your Liabilities. *(Sources)*

DEFINITION OF BALANCE SHEET

A Balance Sheet has been defined as follows:

"A business form showing what is owed and what the proprietor's worth, is called a Balance Sheet."

"The Balance Sheet is a statement at a particular date showing on one side the trader's property and possessions and on the other hand the liabilities."

"A Balance Sheet is a statement prepared with a view to measure the exact financial position of a business on a certain fixed date."

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IMPORTANCE OF FINANCIAL STATEMENTS

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- Help in understanding the financial strength and forming a judgment on the financial strength & weakness of a business.
- Help us to form a judgment on the operational efficiency of the business.
- Help us to decide whether the business is worthy of financial support from the bank and whether the bank's money will be safe in the hands of the business.

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IMPORTANT FINANCIAL STATEMENTS

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1) BALANCE SHEET
2) TRADING ACCOUNT
3) PROFIT & LOSS ACCOUNT
4) FUND FLOW STATEMENT
5) CASH FLOW STATEMENT
6) DIRECTOR'S REPORT
7) AUDITOR'S REPORT

FORMAT OF BALANCE SHEET

Vertical Form

1. Sources of funds:

(I) Shareholder's funds

a. Capital

b. Reserves

(II) Loan funds

a. Secured loans

b. Unsecured Loans

2. Application of Funds:

(I) Fixed Assets

(II) Investments

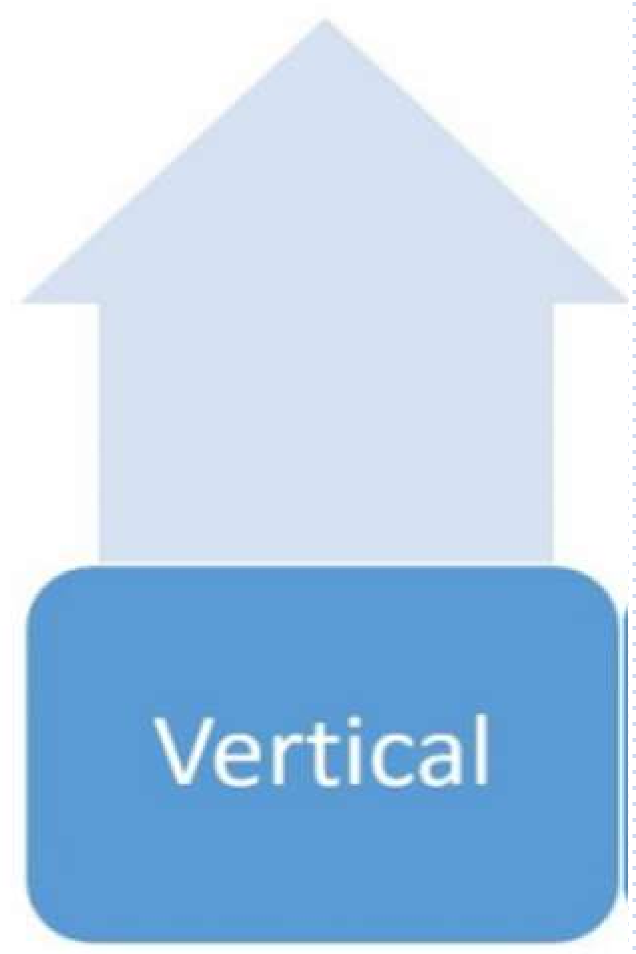
(III) Current Assets, Loans, and Advances

Less

Current Liabilities and Provisions

(IV) a. Miscellaneous expenditure – not written off

b. Profit & Loss account



FORMAT OF BALANCE SHEET

Horizontal Form

Liabilities

1. Share Capital
2. Reserves & Surplus
3. Secured Loans
4. Unsecured Loans
5. Current Liabilities & Provisions
   a. Current Liabilities
   b. Provisions
6. Profit (if any)

Assets

1. Fixed Assets
2. Investments
3. Current Assets, Loans & Advances
   a. Current Assets
   b. Loans & Advances
4. Miscellaneous Exp. – not written off
5. Loss (If any)

THE TWO SIDE OF BALANCE SHEETS

Liabilities	Assets
Net worth	FIXED ASSETS
Term Liabilities	NON CURRENT ASSETS
Current Liabilities	INTANGIBLES ASSETS
	CURRENT ASSETS

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NET WOTH ALLOCATION

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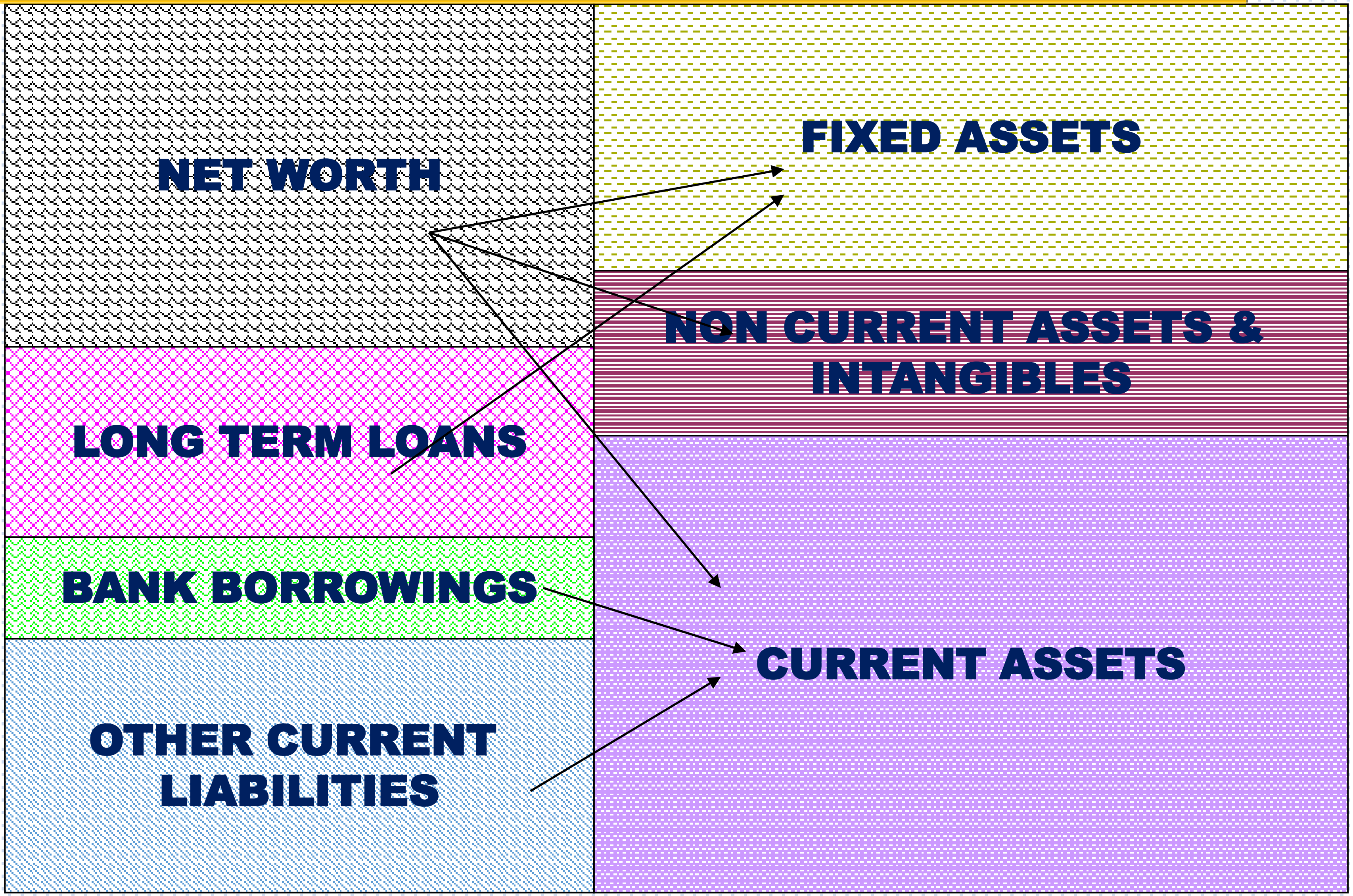
Net worth Finances All assets Partially Or fully

LONG TERM LOANS	FIXED ASSETS
NET WORTH	NON CURRENT ASSETS & INTANGIBLES
BANK BORROWINGS	CURRENT ASSETS
OTHER CURRENT LIABILITIES	

Presented by Abinash Kr. Mandilwar, Chief Manager and Faculty, BOI STC, Kolkata

NET WOTH ALLOCATION

General presentation of balance sheet



LIABILITIES
(THE SOURCE OF FUND)

- Amounts borrowed and repayable by the business to outsiders (including the owners of the business) are called liabilities.
- Liabilities are the "sources" of funds.
- Depending upon the order in which they are repayable, that is to say, time available whether in the <u>Short Run</u> or <u>Long Run</u>, etc, the liabilities are classified into three broad groups;

a) Current liabilities;

b) Medium and long-term liabilities;

c) Capital and reserves.

CURRENT / NON CURRENT LIABILITIES

Current liabilities are short-term obligations that are expected to utilize cash or other current assets within an operating cycle or within one financial year, whichever is longer.

Noncurrent liabilities represent obligations that generally require payment over periods longer than a year.

CURRENT OR SHORT-TERM LIABILITIES

Those liabilities which are expected to be paid within one year of the date of the Balance Sheet are termed current or short-term liabilities.

In the case of the Balance Sheet of a bank, these include Bank Overdraft, Creditors, Bills Payable, Outstanding expenses, etc.

In the case of the Balance Sheet of a business, Current liabilities are:

- ✓To be given top priority in repayment.
- ✓Liabilities repayable in the short term, within the operating cycle of the business.
- ✓All liabilities repayable within a year from the date of the balance sheet are generally included in current liabilities.

CURRENT LIABILITIES

Examples

- ✓Short Term Borrowings from Banks,
- ✓Sundry Creditors,
- ✓Advance Received from Buyers / Dealers,
- ✓Bills Payable,
- ✓Tax Liabilities,
- ✓Expenses Payable within a year,
- ✓Instalment of Term Loan, Deferred Payments- payable within one year,
- ✓Redemption of Debentures - payable within one year,
- ✓Dividends,
- ✓Statuary Liabilities – like PF, Gratuity etc.

MEDIUM AND LONG TERM LIABILITIES

Those liabilities which are to be repaid after one year or are to be settled over a longer period of time say 5-10 years are termed as long-term liabilities.

In the case of the Balance Sheet of a bank, these include Public Deposits, Debentures etc.

In the case of the Balance Sheet of a business, long-term liabilities are those which may repay after one year viz.:

- Gets priority in repayments after short term liabilities,
- Long term loans from banks, and financial institutions,
- Borrowings in the form of debentures in the case of companies,
- Borrowings from friends and relatives in the case of firms.

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NET WORTH/EQUITY/OWN FUNDS

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- ➢Funds contributed by proprietor/partners/ share-holders for carrying on the business.
- ➢Capital and reserves form the owners' funds.
- ➢No priority in repayment. Repayment will be taken up after all outside debts are settled. Part or even no amount requires to be repaid if funds are not available.

Examples

- ✓**Capital (Share Capital/Partner's Capital/Paid up Capital)**
- ✓**Reserves (General, Capital, Revaluation & Other Reserves)**
- ✓**Credit Balance in P&L A/c**

CAPITAL AND RESERVES & SURPLUS

1. **Capital:** This indicates the initial amount the owner or owners of the business contributed.

   This contribution could be at the time of starting business or even at a later stage to satisfy requirements of funds for expansion, diversification etc.

   As per business entity concept, owners and business are distinct entities, and thus, any contribution by owners by way of capital is liability.

2. **Reserves and Surplus:** The business is a going concern and will keep making profit or loss year by year.

   The accumulation of these profit or loss figures (called as surpluses) will keep on increasing or decreasing owners' equity.

   In case of non-corporate forms of business, the profits or losses are added to the capital A/c and not shown separately in the balance sheet of the business.

TYPE OF CAPITALS

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SHARE CAPITAL

Share capital consists of all funds raised by a company in exchange for shares of either common or preferred shares of stock.

PARTNERSHIP CAPITAL

The partnership capital account is an equity account in the accounting records of a partnership. It contains the following types of transactions: Initial and subsequent contributions by partners to the partnership, in the form of either cash or the market value of other types of assets.

PAID-UP CAPITAL

Paid-up capital is the amount of money a company has received from shareholders in exchange for shares of stock. Paid-up capital is created when a company sells its shares on the primary market, directly to investors.

TYPE OF CAPITALS

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QUASI CAPITAL

OWNERS FUND

Quasi Capital

A Quasi Capital also known as Quasi Equity refers to a debt which is having some characteristics of equity. The characteristics can be flexible payment options or riskiness of returns.

Owners Fund

In accounting, **equity** (or **owner's equity**) is the difference between the value of the assets and the value of the liabilities of something owned. It is governed by the following equation:

Equity = Asset – Liability

TYPE OF RESERVES

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GENERAL RESERVES

General reserves are the retained earnings of a company which are kept aside out of company's profits to meet future (known or unknown) obligations..

CAPITAL RESERVE

A capital reserve is a type of account on a company's balance sheet that is reserved for long-term capital investm ent projects or other large and anticipated expenses that will be incurred in the future.

REVALUATION RESERVE

The revaluation reserve is an accounting term used when a company has to enter a line item on its balance sheet due to a revaluation performed on an asset. This line item is used when the revaluation finds the current and probable future value of the asset is higher than the recorded historic cost of the same asset..

CONTINGENT LIABILITIES

These are the liabilities which will become payable only on the happening of some specific event, otherwise not. Such as:

I. **Liabilities for bill discounted:** In case a bill discounted from the bank is dishonoured by the acceptor on the due date, the firm will become liable to the bank.

II. **Liability in respect of a suit pending in a court of law:** This would become an actual liability if the suit is decided against the firm.

III. **Liability in respect of a guarantee given for another person:** The firm would become liable to pay the amount if the person for whom guarantee is given fails to meet his obligation.

Contingent liabilities are not shown in the Balance Sheet: They are, however, shown as a footnote just below the balance sheet so that their existence may be revealed.

ASSETS (THE USES OF FUND)

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An asset is an economic resource. Anything tangible or intangible that can be owned or controlled to produce value and that is held to have positive economic value is considered an asset.

Simply stated, assets represent value of ownership that can be converted into cash (although cash itself is also considered an asset).

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TYPES OF ASSETS

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- Assets are the items owned by the business.
- Assets are where the money raised is used/invested.
- Assets are application of funds.
- Depending upon the nature of asset, whether held for short term or long term etc, assets are divided into four broad categories:
  - Fixed Assets
  - Non-current Assets
  - Intangible Assets
  - Current Assets

CURRENT ASSETS

Assets which can be converted into cash in a short span generally within a period of 12 months.

In the case of the Balance Sheet of a bank, these include Cash & Bank balances, Debtors & Bills Receivables, Inventory, and Prepaid Expenses.

In the case of the Balance Sheet of a business, Current Assets are:

- Assets required for day-to-day running of a business.
- Assets corresponding to Current liabilities.
- Assets likely to be converted into cash in the ordinary course of business during operating cycle of the business.
- Normally, all assets, which are likely to be converted into cash within one year from the date of Balance Sheet.
- The correct Classification of Current Assets assumes importance as the Working Capital Limit that can be considered will be based on the required build-up of Current Assets.
- Current Assets form a substantial portion of total assets in many cases whether manufacturers or traders.

CURRENT ASSETS

Examples

- Cash & Bank Balances;
- Stocks of goods or raw materials, goods-under process, finished goods and book debts;
- Advance paid to suppliers;
- Installments of deferred receivables;
- Advance tax paid;
- Cash margins for L/Cs and cash/term deposit with banks as margin for L/Cs relating to working capital facilities;
- Consumable spares, Pre Paid Expenses etc.

FIXED ASSETS

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Those assets which is not meant for realization but support the business or the assets which are fixed in their place or those assets which get Depreciated Due to usage (Except Land). Fixed Assets are:

- **Assets like Land, Building, Plant and Machinery, Transport Vehicles, Furniture and Fixtures etc are called Fixed Assets.**
- **Because they remain "fixed" in the business i.e., they are not meant for sale in the normal course.**
- **They are the tools of the business.**
- **They may be replaced when they become old/ obsolete.**
- **Every business contains some or other fixed assets, the value of which may vary from business to business. Normally, Industrial Units require heavy investment in Fixed Assets.**

DEPRECIATION

It means decline in the value of an assets as a result of wear and tear due to actual use, passage of time, obsolescence, accident or fall in market value.

- **TWO IMPORTANT METHODS OF DEPRECIATION**

- **Straight Line Method**
- **Written Down Value Method**

NON-CURRENT ASSETS

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This includes those items which were supposed to come under Current Assets but, due to some reasons they have lost some special characteristic and came under this head.

- **Certain Assets like Sundry Debtors above 6 months, Tools, Out of fashion/date stock, Security Deposit with Telephone Companies / Electricity Companies etc. are called Non-Current Assets because they are not available for meeting daily expenses in running the business.**
- **They are not fixed assets like land and building etc.**
- **They are kept separately because bank does not want to finance working capital against them.**

NON-CURRENT ASSETS

Other Examples

- Investment in subsidiary companies/sister concerns above 10% of tangible net worth.
- Non consumable spares which are not connected with machinery necessary for production.
- Non marketable investments.
- Advances granted by the business to its employees.

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INTANGIBLE OR FICTITIOUS ASSETS

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- Assets which are not backed by any tangible property are called Intangible / Fictitious Assets.
- Assets which are shown in the Balance Sheet but actually no one can see or touch those but actually their existence cannot be denied.
- They are brought into the Balance Sheet for accounting purposes.
- These assets are not likely to fetch any value in the event of winding-up of the business. Hence, while calculating Tangible Net-worth of any borrower, these are excluded from owned funds.
- **Examples:**
  - ✓ Preliminary Expenses
  - ✓ Pre-operative Expenses
  - ✓ Director's Borrowings
  - ✓ Loss
  - ✓ Trade Mark
  - ✓ Goodwill
  - ✓ Copyright
  - ✓ Patent

FORMAT OF BALANCE SHEET

LIABILITIES	ASSETS
NET WORTH/EQUITY/OWNED FUNDS: Share Capital/Partner's Capital/Paid up Capital Reserves (General, Capital, Revaluation & Other Reserves) Credit Balance in P&L A/c	**FIXED ASSETS:** LAND & BUILDING, PLANT & MACHINERIES Original Value Less Depreciation Net Value or Book Value or Written down value
LONG TERM LIABILITIES/BORROWED FUNDS : Term Loans (Banks & Institutions) Debentures/Bonds, Unsecured Loans, Fixed Deposits, Other Long Term Liabilities	**NON CURRENT ASSETS:** Investments in quoted shares & securities Old stocks or old/disputed book debts Long Term Security Deposits Other Misc. assets which are not current or fixed in nature
CURRENT LIABILTIES: Bank Working Capital Limits such as CC/OD/Bills/Export Credit Sundry /Trade Creditors/Creditors/Bills Payable, Short duration loans or deposits Expenses payable & provisions against various items payable	**CURRENT ASSETS:** Cash & Bank Balance, Marketable/quoted Govt. or other securities, Book Debts/Sundry Debtors, Bills Receivables, Stocks & inventory (RM,SIP,FG) Stores & Spares, Advance Payment of Taxes, Prepaid expenses, Loans and Advances recoverable within 12 months **INTANGIBLE ASSETS** Patent, Goodwill, Debit balance in P&L A/c, Preliminary or Preoperative expenses

BALANCE SHEET OF THE BANK
FORM 'A'

- **It is the Balance Sheet of the bank. It contains twelve schedules. Schedule 1 to 5 form Liability Side of the Bank's Balance Sheet and Schedule 6 to 12 on the Asset side of the Balance Sheet.**
- **The Assets side of the Balance Sheet has been arranged in such a manner that liquid assets such as Cash, Balances with Banks and Investments are shown in that order.**
- **This enables the investor to quickly identify how much the Bank is liquid enough to meet its commitment towards its customers. This arrangement of Assets is from liquid to fixed assets in contrast to corporate balance sheets where the arrangement is from fixed to liquid.**

Form 'A'
Balance Sheet as on 31st March 20....

Schedules	Liabilities	As on 31.03... (Current year)	As on 31.03... (Previous year)
Schedule - 1	Capital		
Schedule - 2	Reserves & Surplus Schedule		
Schedule - 3	Deposits Schedule		
Schedule - 4	Borrowings Schedule		
Schedule - 5	Other Liabilities and Provisions		
	Assets		
Schedule - 6	Cash and balances with RBI		
Schedule - 7	Balances with Banks and money at call and short notice		
Schedule - 8	Investments		
Schedule - 9	Advances		
Schedule - 10	Fixed Assets		
Schedule - 11	Other Assets		
Schedule - 12	Contingent Liabilities: Bills for Collection, Bank Guarantee issued		

ILLUSTRATION
Case Study

Classify the Following Assets / Liabilities in the following groups:

1. CURRENT ASSETS
2. FIXED ASSETS
3. NON-CURRENT ASSETS
4. INTANGIBLE / FICTITIOUS ASSETS
5. CAPITAL
6. CURRENT LIABILITIES
7. TERM LIABILITIES
8. RESERVES & SURPLUS
9. CONTINGENT LIABILITIES

Details Values of Assets / Liabilities

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Land & Building	Rs. 15,00,000/
Preliminary Expenses	Rs. 1,30,000/
Promoters Contribution	Rs. 59,53,000/
Deposit with Tele Dept.	Rs. 18,000/
Cash & Bank Balance	Rs. 1,67,000/
Bank Guarantee	Rs. 7,00,000/
Bank Overdraft	Rs. 4,00,000/
Debenture	Rs. 30,00,000/
Term Loans	Rs. 41,00,000/
Furniture & Fittings	Rs. 6,75,000/
General Reserves	Rs. 3,65,200/
Profit & Loss Debit Balance	Rs. 4,72,000/
Investment for 12 months	Rs. 8,00,000/
Plant & Machinery	Rs. 65,00,000/
Depreciation on Land & Building-	Rs. 15,000/
-----Do-------Plant & Machinery-	Rs. 18,000/
-----Do-------Furniture & Fittings –	Rs. 7,800/

Stock of Raw Materials –	Rs. 6,55,000/
Semi Finished Products –	Rs. 3.45,000/
Finished Products –	Rs. 5,50,000/
Sundry Debtors -	Rs. 32,49,000/
Letter of Credit -	Rs. 16,00,000/
Bills Receivable -	Rs. 4,51,000/
Sundry Creditors -	Rs. 9,60,000/
Bills Payable	Rs. 7,45,000/
Prepaid Expenses	Rs. 95,000/
Outstanding Taxes	Rs. 63,000/
Cash Credit Account	Rs. 9,00,000/
12 Months Instalment of Term Loan	Rs. 11,53,000/
Tools	Rs. 17,000/
Unusable Stock	Rs. 4,56,000/
Goodwill	Rs. 10,00,000/
Letter of Undertaking -	Rs. 10,00,000/
Drawings	Rs. 6,00,000/

Solution

CURRENT ASSETS

Cash & Bank Balance		Rs. 1,67,000
Investment for 12 months		Rs. 8,00,000
Inventory		
Raw Materials	Rs.6, 55,000	
Semi-Finished	Rs.3, 45,000	
Finished Goods	Rs.5, 50,000	Rs. 15, 50,000
Sundry Debtors	Rs. 32,49,000	
Bills Receivable	Rs. 4,51,000	
Prepaid Expenses	Rs. 95,000	
		Rs. 63, 12,000

FIXED ASSETES

Land & Building	**Rs.15,00,000**	
Less Depreciation	**Rs. 15,000**	**Rs.14, 85,000**
Plant & Machinery	**Rs. 65,00,000**	
Less Depreciation	**Rs. 18,000**	**Rs.64,82,000**
Furniture & Fittings	**Rs. 6,75,000**	
Less Depreciation	**Rs. 7,800**	**Rs. 6,67,200**
		Rs. 86,34,200

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NON-CURRENT ASSETS

Tools	Rs.17,000	
Unusable Stock	Rs.4,56,000	
Deposit with Telephone Dept.	Rs.18,000	
		Rs. 4,91,000

INTANGIBLE / FICTITIOUS ASSETS

Goodwill	Rs.10,00,000	
Preliminary Expenses	Rs. 1,30,000	
		Rs. 11,30,000

CAPITAL & RESERVES

Promoter's Contribution -	Rs. 59,53,000		
Less P & L Debit Balance	Rs. 4, 72,000		
Less Drawings	Rs. 6, 00,000	Rs.10,72,000	Rs.48,81,000
General Reserve			Rs.3, 65,200

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CURRENT LIABILITIES

Bank Overdraft	Rs. 4,00,000
Sundry Creditors	Rs. 9,60,000
Bills Payable	Rs. 7,45,000
Cash Credit Account	Rs. 9,00,000
12 Months Instalment of T/L	Rs.11,53,000
Outstanding Taxes	Rs. 63,000

Rs. 42, 21,000

TERM LIABILITIES

Term Loans	Rs.41,00,000	
Debentures	Rs.30,00,000	
		Rs.71,00,000

CONTINGENT LIABILITIES

Bank Guarantee	Rs.7,00,000	
Letter of Credit	Rs. 16,00,000	
Letter of Undertaking	Rs. 10, 00,000	
		Rs. 33,00,000

BALANCE SHEET

Capital & Liabilities	Amount (Rs.)	Assets & Properties	Amount (Rs.)
Current Liabilities	42,21,000	Fixed Assets	86,34,200
Term Liabilities	71,00,000	Current Assets	63,12,000
Capital	48,81,000	Non-Current Assets	4,91,000
Reserves	3,65200	Intangible Assets	11,30,000
TOTAL	**1,65,67,200**	**TOTAL**	**1,65,67,200**

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TRADING AND PROFIT & LOSS A/C

Presented by Abinash Kr. Mandilwar, Chief Manager and Faculty, BOI STC, Kolkata

TRADING AND PROFIT & LOSS A/C

- A business needs to prepare a trading and profit & loss account first before moving on to the balance sheet. Trading and profit and loss accounts are useful in identifying the gross profit and net profits that a business earns.
- The motive of preparing trading and profit and loss account is to determine the revenue earned or the losses incurred during the accounting period.
- The trading and profit and loss account are two different accounts that are formed within the general ledger. The two parts of the account are:
  1. Trading Account
  2. Profit and Loss Account
- The trading account is the first part of this account, and it is used to determine the gross profit that is earned by the business while the profit and loss account is the second part of the account, which is used to determine the net profit of the business.

PROFIT & LOSS ACCOUNT

PROFIT & LOSS ACCOUNT

Meaning:

" A profit and loss account is an account into which all gains and losses are collected, in order to ascertain the excess of gains over the losses or vice-versa."

P/L Account is for a certain period (Within two Balance Sheet dates) not for specific date.

PROFIT & LOSS ACCOUNT

- The Indian Companies Act has not prescribed any format for Profit & Loss account but gives the information to be furnished in such accounts as Gross Sales, Net Sales, Gross Profit, Net Profit, Depreciation etc.
- Profit and loss account shows the net profit and net loss of the business for the accounting period. This account is prepared in order to determine the net profit or net loss that occurs during an accounting period for a business concern.
- Profit and loss accounts get initiated by entering the gross loss on the debit side or gross profit on the credit side. This value is obtained from the balance which is carried down from the Trading account.
- A business will incur many other expenses in addition to direct expenses. These expenses are deducted from the profit or are added to a gross loss and the resulting value thus obtained will be net profit or a net loss.

PROFIT & LOSS ACCOUNT

The examples of expenses that can be included in a Profit and Loss Account are:

1) Taxes
2) Maintenance
3) Depreciation
4) Administrative Expense
5) Selling and Distribution Expense
6) Provisions
7) Freight and carriage on sales
8) Wages and Salaries

These appear on the debit side of the Profit and Loss Account while Commission received, Discount received, and profit obtained on the sale of assets appear on the credit side.

ANALYSIS OF PROFITABILITY

Profitability indicates the efficiency or effectiveness with which the operations of the business is carried on. Poor operational performance may result in poor sales and, therefore, low profit. Low profitability may be due to lack of control over expenses. Profitability is the main base for liquidity as well as solvency.

Gross Profit: Gross profit is the profit a business makes after subtracting all the costs that are related to manufacturing and selling its products or services. You can calculate gross profit by deducting the cost of goods sold (COGS) from your total sales.

While calculating the total sales, include all goods sold over a financial period, but exclude sales of fixed assets such as buildings or equipment.

Gross Profit = Revenue – Cost of Goods Sold

ANALYSIS OF PROFITABILITY

Net Profit: Net profit is the amount of money your business earns after deducting all operating expenses, interest, and tax expenses over a given period of time. To arrive at this value, you need to know a company's gross profit. If the value of net profit is negative, then it is called net loss.

Net profit = Gross Profit – Expenses

Operating Profit: A company's operating profit is its total earnings from its core business functions for a given period, excluding the deduction of interest and taxes. It also excludes any profits earned from ancillary investments, such as earnings from other businesses that a company has a part interest in. An operating loss occurs when core business income ends up being lower than expenses.

Operating Profit = Operating Revenue - Cost of Goods Sold (COGS) - Operating Expenses - Depreciation & Amortization

ANALYSIS OF PROFITABILITY

The terms EBIT and PBIT are financial acronyms, EBIT meaning 'earnings before interest and tax', and PBIT referring to 'profit before interest and tax.'

EBIT: EBIT, or Operating Income, is a measure of a firm's net income before interest and tax expenses. The larger a company's EBIT value, the more profitable the company is likely to be. EBIT is calculated by subtracting expenses, usually the cost of goods sold, as well as selling and administrative expenses, from revenues.

EBIT = Operating Revenue – Cost of Goods Sold – Operating Expenses

PBIT: Like EBIT, PBIT measures an enterprise's profitability by subtracting operating expenses from profit, while excluding tax and interest costs.

Also known as operating income, operating profit, and operating earnings, PBIT can be calculated by adding net profit, interest, and taxes together. It should not, however, be confused with gross profit.

PBIT = Net Profit + Interest + Taxes

PROFIT & LOSS ACCOUNT OF THE BANK FORMAT 'B'

It is the Profit & Loss Account of the bank. It contains four schedules. Schedule thirteen & fourteen are the income of the bank. Schedule fifteen & sixteen are the expenses of the bank.

Form 'B'

Profit & Loss account for the year ended 31st March 20….

Schedules	P & L Accounts	Year ended 31.03… (Current year)	Year ended 31.03… (Previous year)
Schedule - 13	Interest Earned		
Schedule - 14	Other Income		
Schedule - 15	Interest Expended		
Schedule - 16	Operating Expenses		

ILLUSTRATION

During Discussion with M/S ABC Manufacturing company and analysis of their financials, we have extracted following Data (all figs are in '000).

Payments

Opening Stock - 100
Purchases – 1000
Manufacturing expenses – 100

Operating expenses (Like Salary , Lighting, Travelling etc – 250

Taxes paid this year - 50

Receipts

Sales Proceeds – 1500
Closing stock – 200

Prepare an operating statement and extract Operating Profit Gross Profit & Net Profit

Operating Statement

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Financial statement of M/S ABC Manufacturing company

Payments		Receipts	
To, Opening Stock	100	By Sales	1500
To Purchases	1000	By closing stock	200
To Mfg Expenses	100		
To Excess amt, i.e. Gross Profit	500		
	1700	Total	1700

This should be Transferred to Profit and loss account to extract Operating profit or Net profit after deducting other expenses

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Financial statement of M/S ABC Manufacturing company

Payments		Receipts	
To all operating statements- like salary , lighting, travelling, mobile exp, etc	250	By Gross Profit transferred from Manufacturing account	500
To excess over gross profit i.e. Operating Profit	250		
Total	500	Total	500
Payments		**Receipts**	
To Statutory obligations	50	By Operating Profit	250
Excess over Operating Profit i.e. Net Profit	200		
	250	Total	250

This should be Transferred to Capital Part of any firm of Balance sheet

TRADING ACCOUNT

TRADING ACCOUNT

- Trading account is used to determine the gross profit or gross loss of a business that results from trading activities.
- Trading activities are mostly related to the buying and selling activities involved in a business.
- A trading account is useful for businesses that are dealing in the trading business.
- This account helps them to easily determine the overall gross profit or gross loss of the business.
- The amount thus determined is an indicator of the efficiency of the business in buying and selling.

Prepare Trading account form the given information for X LTD. For the year 31st December 2019

Opening stock- 40,000
Purchases- 1,75,000
Sales- 3,03,000
Return Inwards- 3,000
Return Outwards- 5,000
Wages – 30,000
Carriage Inwards – 5,000
Closing Stock- 65,000

Trading Accountof X ltd. For the Year 31st Dec. 2019

Particulars	Rs.	Rs.	Rs.
Sales	3,03,000		
Less Sales return	3,000		3,00,000
Opening stock		40,000	
Purchases	1,75,000		
Less purchase return	5,000	1,70,000	
Carriage Inward	5,000		
Wages	30,000	35,000	
		2,45,000	
Less Closing Stock		65,000	
Cost of Good sold			1,80,000
Gross profit			1,20,000

FUND FLOW STATEMENT

Presented by Abinash Kr. Mandilwar, Chief Manager and Faculty, BOI STC, Kolkata

FUND FLOW STATEMENT

- A funds flow statement is a statement that comprises the inflows and outflows of funds.
- A fund flow statement is a statement prepared to analyse the reasons for changes in the financial position of a company between two balance sheets.
- A funds flow statement explains the changes in a company's working capital.
- It considers the inflows and outflow of funds (source of funds and application of funds) for a particular period.
- The statement helps in analysing the changes in a company's financial position between two balance sheet periods.

FUND FLOW STATEMENT

The statement helps in determining how the funds are being used. As a result, analysts can assess the company's fund flow in the future.

The statement comprises of the following 2 components:

- **Sources of Funds:** Includes where the funds have come from and their source.
- **Application of Funds:** Denotes the usage of funds for short term and long-term needs.

Fund inflows can be through issues of shares or debentures or from the sale of fixed assets. Or through business operations.

HOW TO PREPARE FUND FLOW STATEMENT?

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To prepare a funds flow statement, you have to follow the below steps:

Step 1

Prepare a Schedule of Changes in Working Capital. Consider the increase or decrease in the current assets and current liabilities. The difference between the net current assets and net current liabilities gives the net increase or decrease in working capital.

Increase in Working Capital

When the long-term source of funds is more than the application or use of funds, it is referred to as an increase in working capital. Since a company can use these funds for their working capital needs. As a result, an increase in working capital will become part of the 'Application of Funds' in the Funds Flow Statement.

HOW TO PREPARE FUND FLOW STATEMENT?

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Decrease in Working Capital

A company may require more funds but has only a limited long term source of funds. In such scenarios, the company will use the funds available for working capital. As a result, funds available for working capital are reduced. Thus, a decrease in working capital will become part of the 'Source of Funds' in the Funds Flow Statement.

Step 2

Prepare the Adjusted P&L Account to find out Funds from Operations.

Step 3

To create the fund flow statement; you need to identify the Sources of Funds (Inflows) and Application of Funds (Outflows). Identify the source of funds or application of funds (increasing or decreasing) from the balance sheet to create a fund flow statement. And also net increase or decrease in working capital and funds from operations to complete the statement.

FORMAT / SPECIMEN OF FUND FLOW STATEMENT

T-Format of Fund Flow Statement

Fund Flow Statement (Statement of Sources and Application of Funds) for the year ended on………………..

Sources of Funds	$	Application of Funds	$
Issue of share capital (both equity and preference)	*****	Redemption of preference shares	*****
Issue of debentures	*****	Redemption of debentures	*****
Amount raised through long-term loans	*****	Repayment of loans	*****
Sale of fixed assets	*****	Purchase of fixed assets purchased for consideration (other than shares, debentures, or long-term debt)	*****
Sale of investment	*****	Purchase of long-term investments	*****
Non-trading income (e.g., income from investments, dividends, etc.)	*****	Payment of interim and final dividends in cash	*****
Fund from operations (trading profit)	*****	Non-trading expenses	*****
(A) Decrease in working capital (as per statement of changes in working capital)	*****	Funds lost in operations	*****
	*****	Payment of taxes	*****
	*****	(B) Increase in working capital (as per statement of changes in working capital)	*****
Total	*****	**Total**	*****

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IMPORTANCE OF A FUND FLOW STATEMENT

- **Financial Position**: A profit and loss statement or balance sheet does not explain the reasons for the change in a company's financial position. The statement will give information about where the funds have come (Source of Funds) and where the funds have been used (Application of Funds).
- **Company Analysis**: Often, companies that are making profits end up in cash crunch scenarios. In such scenarios, the funds flow statement offers a clear picture of the source and usage of funds.
- **Management**: The funds flow statement assists management in determining its future course of action and also serves as a management control tool.
- **Changes in Assets and Liabilities**: The statement shows the reason behind the change in assets and liabilities between two balance sheet dates. As a result, you can conduct an in-depth analysis of the balance sheet.
- **Creditworthiness**: Lending institutions use the this statement of a company to analyse the creditworthiness. They compare the statement over the years before approving a loan. Therefore, the statement depicts a company's credibility in terms of fund management.

LIMITATIONS OF FUNDS FLOW STATEMENT

- Despite its importance in analyzing the financial position of a firm, the statement has the following limitations:
- The statement focuses only on the movement of funds. It doesn’t consider other parameters that are part of the Balance Sheet and Profit and Loss Account. Therefore, it has to be analyzed alongside the Balance Sheet and Profit and Loss Account.
- The funds flow statement doesn’t depict the cash position of a company. Hence, a separate cash flow statement has to be made for analyzing the cash position.

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CASH FLOW STATEMENT

Presented by Abinash Kr. Mandilwar, Chief Manager and Faculty, BOI STC, Kolkata

WHAT IS A CASH FLOW STATEMENT?

- A cash flow statement summarizes the amount of cash and cash equivalents entering and leaving a company.
- A cash flow statement is an important tool used to manage finances by tracking the cash flow for an organization.
- A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources.
- It also includes all cash outflows that pay for business activities and investments during a given period.

IMPORTANCE OF A CASH FLOW STATEMENT

For a business to be successful, it should always have sufficient cash. This enables it to pay back bank loans, buy commodities, or invest to get profitable returns. A business is declared bankrupt if it doesn't have enough cash to pay its debts. Here are some of the benefits of a cash flow statement:

Gives details about spending

- A cash flow statement gives a clear understanding of the principal payments that the company makes to its creditors.
- It also shows transactions which are recorded in cash and not reflected in the other financial statements.
- These include purchases of items for inventory, extending credit to customers, and buying capital equipment.

IMPORTANCE OF A CASH FLOW STATEMENT

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Helps maintain optimum cash balance

- A cash flow statement helps in maintaining the optimum level of cash on hand.
- It is important for the company to determine if too much of its cash is lying idle, or if there's a shortage or excess of funds.
- If there is excess cash lying idle, then the business can use it to invest in shares or buy inventory.
- If there is a shortage of funds, the company can look for sources from where they can borrow funds to keep the business going.

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IMPORTANCE OF A CASH FLOW STATEMENT

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Helps you focus on generating cash

- Profit plays a key role in the growth of a company by generating cash.
- But there are several other ways to generate cash.
- For instance, when a company finds a way to pay less for equipment, it is actually generating cash.
- Every time it collects receivables from its customers quicker than usual, it is gaining cash.

IMPORTANCE OF A CASH FLOW STATEMENT

Useful for short-term planning

- A cash flow statement is an important tool for controlling cash flow.
- A successful business must always have sufficient liquid cash to fulfil short-term obligations like upcoming payments.
- A financial manager can analyse incoming and outgoing cash from past transactions to make crucial decisions.
- Some situations where decisions have to be made based on the cash flow include foreseeing cash deficit to pay off debts or establishing a base to request for credit from banks.

STRUCTURE OF THE CASH FLOW STATEMENT

The main components of the cash flow statement are:

- ❖**Cash from Operating Activities:** The operating activities on the CFS include any sources and uses of cash from business activities. In other words, it reflects how much cash is generated from a company's products or services.
- ❖**Cash from Investing Activities:** Investing activities include any sources and uses of cash from a company's investments. Purchases or sales of assets, loans made to vendors or received from customers, or any payments related to mergers and acquisitions (M&A) are included in this category. In short, changes in equipment, assets, or investments relate to cash from investing.
- ❖**Cash from Financing Activities:** Cash from financing activities includes the sources of cash from investors and banks, as well as the way cash is paid to shareholders. This includes any dividends, payments for stock repurchases, and repayment of debt principal (loans) that are made by the company.

EXAMPLE OF A CASH FLOW STATEMENT

CASH FLOW STATEMENT COMPANY ABC

(FY Ended 31 March 2022)

Cash Flow From Operations		
Net Earnings		**20,00,000**
Additions to Cash		
Depreciations Decrease in Accounts Receivable Increase in Accounts Payable Increase in Taxes Payable		10,000 15,000 15,000 2,000
Subtractions from Cash		
Increase in Inventory		(30,000)
Net Cash From Operations		**2,012,000**
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Dividend Payable		10,000
Cash Flow for FY Ended March 2022		**15,22,000**

DIFFERENCE BETWEEN FUND FLOW AND CASH FLOW STATEMENT

Cash and funds have different business functions and help formulate financial strategies. The physical currency available with a business is known as cash. Whereas, the total financial resources available with a business are its funds.

THE KEY DIFFERENCES BETWEEN FUND FLOW AND CASH FLOW STATEMENTS

Fund Flow	Cash Flow
Funds flow statements record the changes in working capital.	Cash flow statements record the movement of cash only.
It helps understand the financial position of the company.	It helps understand the net cash flow of the company.
The fund flow statement determines the source and application of funds.	The cash flow statement records changes in opening balance and closing balance of cash.
It works on the accrual basis of accounting.	It works on a cash basis of accounting.
The analysis is for the long term.	The analysis is for a short duration.
Fund flow is useful for capital budgeting.	Cash flow is useful for cash budgeting.

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DIRECTOR'S REPORT

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DIRECTOR’S REPORT

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Director’s report is a financial disclosure made by director to the shareholders of the company. It is envisaged to disclose financial status of the company by disclosing company’s affairs and scope of work along with its subsidiaries. It is basically financial summary of the company for the whole financial year and future vision too.

The objective of Directors’ report: A director of the company needs to prepare and submit a said report to shareholders of the company at every *annual general meeting* every year in order to maintain transparency in the company. It helps stakeholders of the company understand the current financial status of the company and future scope and understand:

- The current financial health of the company
- Company’s capability to diversify and grow
- Company’s status and position in the current market and future scope and growth
- Whether company is following current regulations, standards, and social responsibility as required by various regulators like ROC, RBI, SEBI, etc.

WHAT DOES DIRECTORS' REPORT COVERS?

Directors' Report covers the following:

- Company's description and details of current shareholders and other key managerial personnel's;
- Directors description submitting director's report;
- Description of companies trading activity;
- Future vision and prospectus of the company;
- Submission and description of financial records and statement of the company before members;
- Current Balance sheet, profit and loss, and cash flow description along with auditor's report;
- Dividend recommendation for current financial year;
- Any financial incidence that may affect company's financial position in the future.

A director of the company is liable to submit director report every financial year before shareholders of the company. Companies act, 2013 has made it mandatory to file this report as per many sections embedded in the act whereas, in the erstwhile act, only section 217 talked about director's report.

As per the provisions of section 134(6) of the companies act, 2013 chairperson of the company shall sign director/board's report and in case of his absence or as authorized by board of directors by at least 2 directors. One of 2 directors shall be Managing director of the company.

AUDITORS REPORT

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AUDITORS REPORT

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- An auditor's report is a written letter from the auditor containing their opinion on whether a company's financial statements comply with generally accepted accounting principles (GAAP) and are free from material misstatement.
- The independent and external audit report is typically published with the company's annual report. The auditor's report is important because banks and creditors require an audit of a company's financial statements before lending to them.
- A clean audit report means a company followed accounting standards while an unqualified report means there might be errors.
- An adverse report means that the financial statements might have had discrepancies, misrepresentations, and didn't adhere to GAAP.

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THE COMPONENTS OF AN AUDITOR'S REPORT

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The auditor's letter follows a standard format, as established by generally accepted auditing standards (GAAS). A report usually consists of three paragraphs.

1) The first paragraph states the responsibilities of the auditor and directors.
2) The second paragraph contains the scope, stating that a set of standard accounting practices was the guide.
3) The third paragraph contains the auditor's opinion.

An additional paragraph may inform the investor of the results of a separate audit on another function of the entity. The investor will key in on the third paragraph, where the opinion is stated.

The type of report issued will be dependent on the findings by the auditor. Below are the most common types of reports issued for companies.

AUDITORS REPORT

A clean report means that the company's financial records are free from material misstatement and conform to the guidelines set by GAAP. A majority of audits end in unqualified, or clean, opinions.

Objectives of an Auditor's Report: The objectives of the auditor when the auditor concludes that an unqualified opinion is appropriate are to:

- Issue a written report that expresses an unqualified opinion on the financial statements and describes the basis for that opinion; and
- Communicate in the auditor's unqualified report critical audit matters, when required, relating to the audit of the financial statements or state that the auditor determined that there are no critical audit matters.