Collegedunia NCERT Solutions

Step-by-step solutions, alternate methods & exam tips for Class 12 Accountancy

Chapter 3: Financial Statements of a Company

About this Chapter

This chapter explains how a company prepares and presents its **financial statements** under **Schedule III of the Companies Act, 2013**. You will learn the prescribed vertical format of the **Balance Sheet** and the **Statement of Profit and Loss**, how each item (share capital, reserves, borrowings, fixed assets, current assets) is classified, and how to draw up a company Balance Sheet from a list of ledger balances. Step-by-step solutions for the 2026-27 NCERT (Latest Edition); Class 12 / Class 12th, full coverage of the NCERT Solutions.

Topics covered: Meaning & Nature of Financial Statements • Schedule III Balance Sheet Format • Statement of Profit & Loss • Classification of Assets & Liabilities • Notes to Accounts • Limitations of Financial Statements

Quick Formula Sheet

Balance Sheet identity:
Total Equity and Liabilities = Total Assets

Shareholders' Funds:
Share Capital + Reserves & Surplus + Money against share warrants

Profit before tax:
Total Revenue − Total Expenses ± Exceptional/Extraordinary items

Net Fixed Assets:
Gross Block − Accumulated Depreciation

Also see for this chapter: Revision Notes | Formula Sheet

Short Answer Questions

Q 3.1 State the meaning of financial statements.

SOLUTION

Concept used. **Financial statements** are the end products of the accounting process. They are the formal records that summarise, in money terms, the financial performance and financial position of a business for an accounting period. For a company, the two main financial statements are the **Statement of Profit and Loss** (it shows how much profit or loss the company earned during the year) and the **Balance Sheet** (it shows what the company owns and owes on the last day of the year). A Cash Flow Statement and the Notes to Accounts go along with them.

Step 1. Identify what the statements report. Financial statements present two things: the *operating results* of the year (profit or loss) and the *financial position* at the year-end (assets, liabilities and capital).

Step 2. State who prepares them and why. The management prepares them at the close of the accounting year to communicate the firm's results to owners, lenders, government and other interested parties who cannot see the books directly.

Step 3. Note the basis. They are prepared from the recorded transactions, using accepted accounting concepts, conventions and some personal judgement (for example, the estimate of depreciation or doubtful debts).

Final Answer: Financial statements are the summarised statements of recorded financial data, prepared at the end of an accounting period, that show a company's profit or loss for the period and its financial position (assets, liabilities and capital) on the closing date.

♥ Why this matters

Every later chapter (ratio analysis, cash-flow analysis) starts from these two statements. If you cannot state clearly what a financial statement is and what it reports, the analysis chapters become mechanical formula-pushing.

EXPERT'S SOLUTION *: Aditi Iyer, M.Sc Statistics, ISI Kolkata*

Quick reading. Think of financial statements as a company's annual "report card". One sheet grades the year's performance (profit or loss), the other photographs the company's wealth on the closing date (the Balance Sheet). To define them precisely we must pin down four things: *what* they report, *who* prepares them, *from what data* they are built, and *for whom*.

- *What:* operating results (profit/loss) and financial position (assets, liabilities, capital).
- *Who:* the company's management, at the close of every accounting year.
- *From what:* the recorded transactions, processed through accepted accounting concepts and conventions.
- *For whom:* owners and outsiders who cannot inspect the books directly.

Step 1. **Fix the scope.** Two questions every reader asks: "Did the company make money this year?" and "How strong is it right now?" A financial statement is the document that answers exactly these two questions in money terms, so the definition must mention *both* performance and position.

Step 2. **Map each question to a statement.** The Statement of Profit and Loss answers the first by netting total revenue against total expenses to give profit or loss.

The Balance Sheet answers the second by listing all assets on one side and all claims (liabilities plus owners' funds) on the other, the two totals always being equal.

Step 3. **State the basis.** Both statements are built from recorded data only, valued at historical cost, and shaped by accounting concepts (going concern, accounting period) and some personal estimates (depreciation, doubtful debts). So the definition is incomplete unless it says "summarised from recorded financial data".

Step 4. **Assemble the definition.** Combining the scope, the period, and the basis gives a single precise sentence (see the boxed answer), which is exactly what an examiner expects for a "state the meaning" question.

Why this matters. The definition fixes the scope: financial statements are *summaries of recorded data*, not forecasts, so they look backward, not forward. Every analysis technique in the next two chapters takes these backward-looking summaries as its raw input.

> **Final Answer:** Financial statements are period-end summaries of recorded financial data that report a company's profitability (Statement of Profit and Loss) and its financial position (Balance Sheet) on the closing date.

Q 3.2 What are the limitations of financial statements?

SOLUTION

Concept used. A **limitation** is a built-in weakness that restricts how far we can rely on a financial statement. Because financial statements mix recorded facts, accounting conventions and personal judgement, they cannot give a perfect picture. The NCERT text lists the following limitations.

Step 1. **Do not reflect current values.** Statements are prepared on the **historical cost** basis, so assets are shown at their original cost, not at today's market value. The figures can therefore be out of date.

Step 2. **Ignore qualitative elements.** Only items that can be expressed in money are recorded. The quality of management, staff loyalty and customer satisfaction are valuable but do not appear anywhere.

Step 3. **Affected by personal judgement.** Choices such as the depreciation method, valuation of inventory and the provision for doubtful debts depend on the accountant's judgement, so two firms can show different profits for the same facts.

Step 4. **Based on accounting concepts and conventions.** Use of the going-concern and conservatism conventions can make the statements depart from economic reality.

Step 5. **Show position at one point only.** The Balance Sheet is a snapshot on the closing date; it may not represent the firm's position through the rest of the year.

> **Final Answer:** Financial statements are limited because they use historical cost (not current value), ignore non-money (qualitative) items, are influenced by personal judgement, rest on accounting conventions, and show the position at only a single date.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

✗ Common Pitfall

Students often write "financial statements contain errors". That is not a *limitation*; errors can be corrected. A limitation is an inherent feature (such as historical-cost valuation) that remains even when the books are perfectly accurate.

EXPERT'S SOLUTION *: Karan Mehta, M.Com, Delhi School of Economics*

Structural observation. Instead of memorising five separate points, group the limitations by their root cause. Every limitation in this chapter traces back to one of three roots: a *measurement-base* problem, a *judgement* problem, or a *timing* problem. Naming the root makes the answer both shorter to recall and easier to defend in a follow-up question.

- Measurement-base root: how figures are valued and what gets measured at all.
- Judgement root: where the accountant's estimate enters.
- Timing root: the single date on which position is shown.

Step 1. **Measurement-base group.** Historical cost records assets at their original price, so it ignores price-level (inflation) changes; this makes both the asset values and the profit unrealistic. The same root also explains why only money-measurable items are captured: managerial skill and staff morale cannot be priced, so they are omitted. Thus "does not show current value" and "ignores qualitative factors" are two faces of the one measurement-base weakness.

Step 2. **Judgement group.** Depreciation method, inventory valuation and the provision for doubtful debts all rest on the accountant's estimate. Change the depreciation method and the reported profit changes although no transaction changed. So reported profit is partly an opinion, not a pure fact.

Step 3. **Timing group.** A Balance Sheet is a photograph taken on the closing date only. A firm can repay loans just before the date and borrow again just after (window dressing), so the single-date position can mislead a reader who assumes it held all year.

Step 4. **Combine.** Listing one or two limitations from each group gives a complete, well-organised answer that an examiner can follow at a glance.

Why this matters. Knowing *why* a limitation exists lets you adjust for it: revalue fixed assets to current cost before comparing two firms, or read the depreciation policy note before trusting a profit figure.

> **Final Answer:** The limitations trace to three roots: a historical-cost measurement base (no current value, no qualitative data), the heavy reliance on personal judgement (subjective profit), and the single-date nature of the Balance Sheet (window dressing).

Q 3.3 **List any three objectives of financial statements.**

SOLUTION

Concept used. An **objective** of a financial statement is the purpose it is meant to serve for the people who use it. Financial statements are prepared to communicate useful financial information to owners and outsiders.

Step 1. **To present a true and fair view of performance.** The Statement of Profit and Loss shows whether the company earned a profit or suffered a loss during the year.

Step 2. **To present a true and fair view of financial position.** The Balance Sheet shows the assets the company owns and the liabilities and capital that finance them on the closing date.

Step 3. **To provide information for decision-making.** Owners, lenders, investors and government use the statements to judge profitability, solvency and the safety of their funds.

Final Answer: Three objectives: (i) to show the true and fair operating result (profit or loss), (ii) to show the true and fair financial position, and (iii) to give useful information to users for economic decisions.

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION *: Rahul Verma, M.Com, Banaras Hindu University*

Quick reading. An "objective" question is really asking "what reader need does this document satisfy?". There are exactly three reader needs, and each maps cleanly to one part of the reporting package: "How did we do?" (performance), "Where do we stand?" (position), "What should I decide?" (decision support). Answer in that order and the three objectives write themselves.

- Need 1 (performance) → Statement of Profit and Loss.
- Need 2 (position) → Balance Sheet.
- Need 3 (decision) → both statements plus the notes, together.

Step 1. Performance objective. The first purpose is to show whether the year was profitable. This is met by the Statement of Profit and Loss, which nets total revenue against total expenses to give the profit or loss for the year. Without this objective the owners cannot judge the return on their capital.

Step 2. Position objective. The second purpose is to show what the firm owns and owes on the last day of the year. The Balance Sheet meets it by setting all assets against all claims (liabilities plus owners' funds), the two totals being equal. This objective tells lenders whether the firm is solvent.

Step 3. Decision objective. The third purpose is to give information that helps users take economic decisions. It is met by reading both statements together with the Notes to Accounts, so investors, government and creditors can judge profitability, solvency and tax. This is the umbrella objective the other two feed into.

Step 4. Present cleanly. Stating one objective per reader need, each tied to its statement, is the format that scores full marks and answers any "which statement?" follow-up instantly.

Why this matters. Each objective maps to a specific statement, so an exam follow-up like "which statement meets objective X?" becomes a one-word answer rather than a fresh effort.

Final Answer: Three objectives: show performance (Statement of Profit and Loss), show financial position (Balance Sheet), and supply decision-useful information to all interested parties (both statements plus notes).

Q 3.4 State the importance of financial statements to:
(i) shareholders (ii) creditors
(iii) government (iv) investors

SOLUTION

Concept used. Different **users** read financial statements with different questions in mind. "Importance to a user" means the specific decision the statements help that user take.

Step 1. **(i) Shareholders (owners).** They use the statements to judge the safety of their investment and the return on it, that is, the profitability and the dividend the company can pay.

Step 2. **(ii) Creditors (lenders, suppliers).** They use the statements to check the company's **solvency**: whether the firm has enough assets and cash to repay loans and pay for goods supplied on credit.

Step 3. **(iii) Government.** It uses the statements to assess the correct tax payable, to frame industrial and economic policy, and to compile national statistics.

Step 4. **(iv) Investors (prospective shareholders).** They use the statements to decide whether to buy the company's shares by judging its earning capacity, growth and future prospects.

Final Answer: Shareholders judge return and safety; creditors judge solvency and repaying capacity; government assesses tax and frames policy; investors judge earning capacity before investing.

♥ Why this matters

The same Balance Sheet is read four different ways. Recognising the "user lens" is exactly what later questions on the analysis of financial statements test.

EXPERT'S SOLUTION : *Sneha Banerjee, M.Com, University of Calcutta*

Structural observation. Pair each user with the single ratio family they care about most: shareholders → profitability, creditors → liquidity/solvency, government → compliance, investors → growth.

Step 1. Shareholders track earnings and dividend capacity (return on their owned funds).

Step 2. Creditors track short-term liquidity and long-term solvency (will they be repaid on time?).

Step 3. Government tracks taxable profit and statutory compliance.

Step 4. Investors track trend in profits and prospects before committing fresh money.

Why this matters. A single set of statements is multi-purpose; the same numbers answer four different stakeholder questions.

> **Final Answer:** Each user reads the statements through a different lens: return (shareholders), repayment safety (creditors), tax and policy (government), and future prospects (investors).

Q 3.5 **How will you disclose the following items in the Balance Sheet of a company:**
(i) Current assets, Inventory (ii) Contingent liabilities in notes to accounts
(iii) Shareholders' Funds, Reserves and Surplus (iv) Fixed Assets, Intangible Assets
(v) Proposed Dividend for the current year (vi) Non-Current Liabilities
(vii) Arrears of Dividend on Cumulative Preference Shares

SOLUTION

Concept used. Schedule III to the Companies Act, 2013 prescribes a fixed **vertical Balance Sheet** with two main parts: **I. Equity and Liabilities** and **II. Assets**. Every item must be shown under its correct major head, sub-head and note. "Disclosure" means stating where the item appears (which head or note).

Step 1. **(i) Inventory.** Major head: Assets → Current Assets; Sub-head: **Inventories**.

Step 2. **(ii) Contingent liabilities.** A contingent liability is a possible obligation that depends on a future uncertain event. It is *not* shown on the face of the Balance Sheet; it is disclosed only in the **Notes to Accounts** (Contingent Liabilities and Commitments).

Step 3. **(iii) Reserves and Surplus.** Major head: Equity and Liabilities → Shareholders' Funds; Sub-head: **Reserves and Surplus**.

Step 4. **(iv) Intangible Assets.** Major head: Assets → Non-Current Assets → Fixed Assets; Sub-head: **Intangible Assets** (for example, goodwill, patents).

Step 5. **(v) Proposed Dividend for the current year.** It is a provision made out of profit. It is disclosed under Equity and Liabilities → Current Liabilities → **Short-term Provisions** (and noted in Notes to Accounts as a contingent item until declared, per AS-4 practice followed by NCERT).

Step 6. **(vi) Non-Current Liabilities.** It is itself a major head under Equity and Liabilities, with sub-heads Long-term Borrowings, Deferred Tax Liabilities (net), Other Long-term Liabilities and Long-term Provisions.

Step 7. **(vii) Arrears of dividend on cumulative preference shares.** These are unpaid past dividends on cumulative preference shares. They are a contingent liability and are disclosed only in the **Notes to Accounts**, not on the face of the Balance Sheet.

> **Final Answer:** (i) Current Assets: Inventories; (ii) Notes to Accounts (Contingent Liabilities); (iii) Shareholders' Funds: Reserves and Surplus; (iv) Non-Current Assets, Fixed Assets: Intangible Assets; (v) Current Liabilities: Short-term Provisions; (vi) it is a major head, Non-Current Liabilities; (vii) Notes to Accounts (Contingent Liabilities).

☞ **Schedule III map**

On the face of the Balance Sheet only *real* obligations and assets appear. "Possible" items (contingent liabilities, dividend arrears on cumulative preference shares) live in the **Notes to Accounts**, never on the face.

EXPERT'S SOLUTION *: Ankit Joshi, M.Com, Delhi School of Economics*

Picture-first. Sketch the two-part Schedule III skeleton once, then drop each item into its slot. Items that are uncertain go to the Notes drawer, not the face.

I. Equity & Liabilities

Shareholders' Funds: *Reserves & Surplus*

Non-Current Liabilities (major head)

Current Liabilities: *Short-term Provisions* (Proposed Dividend)

II. Assets

Non-Current Assets: Fixed Assets

Intangible Assets

Current Assets: *Inventories*

Notes to Accounts (face-off items)

Contingent liabilities

Arrears of dividend on cumulative preference shares

Step 1. Face items first: Inventories (Current Assets), Intangible Assets (Fixed Assets), Reserves & Surplus (Shareholders' Funds), Proposed Dividend (Short-term Provisions).

Step 2. Non-Current Liabilities is a head, not an item, so it is named as the head itself.

Step 3. Note-only items: contingent liabilities and arrears of cumulative preference dividend, because both are uncertain future obligations.

Why this matters. The face-versus-notes split is the single most tested idea in this chapter; mastering it makes the numerical balance-sheet questions mechanical.

> **Final Answer:** Real assets and obligations sit on the face under their Schedule III head; uncertain items (contingent liabilities, cumulative dividend arrears) are disclosed only in the Notes to Accounts.

Long Answer Questions

Q 3.6 **Explain the nature of the financial statements.**

SOLUTION

Concept used. The **nature** of financial statements means the underlying character of the data they contain: where the numbers come from and what kind of inputs shape them. The NCERT text states that financial statements reflect a combination of three things: **recorded facts**, **accounting conventions** and **personal judgements**.

Step 1. **Recorded facts.** The figures are based on facts actually recorded in the books, taken at **historical cost**. For example, fixed assets, cash and receivables appear at the amounts originally recorded, not at current market value. So facts that were never recorded (for example, the skill of the workforce) do not appear.

Step 2. **Accounting conventions.** Conventions such as conservatism, consistency and materiality are applied while preparing the statements. Because of conservatism, for instance, stock is valued at cost or market price, whichever is lower, which makes the statements deliberately cautious.

Step 3. **Postulates / concepts.** Statements rest on accounting assumptions such as going concern, money measurement and accounting period. The going-concern assumption is the reason assets are not shown at break-up value.

Step 4. **Personal judgements.** Many figures depend on the accountant's estimate: the method of depreciation, the rate of provision for doubtful debts, the valuation of inventory. Different judgements give different profit figures from the same facts.

> **Final Answer:** Financial statements are not pure fact: they are a blend of recorded facts (at historical cost), accounting concepts and conventions, and personal judgements/estimates made by the accountant.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

♥ Why this matters

This "nature" is exactly the reason for the chapter's limitations. Once you see that judgement is baked into the numbers, the limitations question answers itself.

EXPERT'S SOLUTION *: Pranav Desai, M.Com, Banaras Hindu University*

Structural observation. Picture the nature of financial statements as a spectrum running from a fully objective end to a fully subjective end. Every ingredient the NCERT lists can be placed somewhere on this line, and placing them is a cleaner way to "explain the nature" than listing four disconnected points. At the objective end sit recorded facts and accounting concepts; the rule layer of conventions sits in the middle; personal judgements pull toward the subjective end.

- Objective end: recorded facts, money-measurement and going-concern assumptions.
- Middle: conventions (conservatism, consistency, materiality).
- Subjective end: estimates (depreciation, provisions, stock valuation).

Step 1. Objective core. The bedrock is the recorded facts: every figure comes from a documented transaction entered in the books at historical cost, under the money-measurement and going-concern assumptions. Because only recorded, measurable events enter, unrecorded value (a skilled workforce) is invisible. This is the part of the "nature" that is closest to fact.

Step 2. Rule layer. On top of the facts the accountant applies conventions. Conservatism is the strongest: stock is valued at cost or market price, whichever is lower, so the statements are deliberately cautious. Consistency and materiality decide how items are grouped and disclosed. The same facts presented under different conventions look different.

Step 3. Subjective layer. Within the conventions the accountant still estimates: the depreciation method and rate, the provision for doubtful debts, the stock-valuation method. Two honest accountants can report different profits from identical facts purely because these judgements differ. This is the end of the spectrum furthest from fact.

Step 4. Combine into the answer. The "nature" is therefore the blend of all three positions on the spectrum: a factual base, filtered by conventions, fine-tuned by judgement. State them in that order for a complete, structured answer.

Why this matters. The further a number sits toward the judgement end, the more carefully an analyst must read its accounting policy note before trusting it for inter-firm comparison.

> **Final Answer:** Financial statements combine an objective recorded-fact core (historical cost, going concern) with a rule layer of conventions (conservatism, consistency) and a subjective layer of personal estimates (depreciation, provisions); the three are inseparable in the final figures.

Q 3.7 Explain in detail the significance of the financial statements.

SOLUTION

Concept used. The **significance** (importance) of financial statements is the set of benefits different users derive from them. Because many groups have a stake in a company but cannot inspect its books, the statements act as the common channel of financial communication.

Step 1. **To management.** They help management measure performance, control costs, and plan future operations through comparison with past years and budgets.

Step 2. **To shareholders/owners.** They show profitability and the return earned on owners' funds, helping owners decide whether to continue, expand or sell their holding.

Step 3. **To lenders and creditors.** They reveal the firm's solvency and liquidity, so banks and suppliers can judge whether their loans and dues are safe.

Step 4. **To prospective investors.** They show earning capacity and growth, guiding the decision to buy the company's securities.

Step 5. **To government and tax authorities.** They provide the basis for assessing tax, granting licences, and framing economic and industrial policy.

Step 6. **To employees and the public.** Employees judge job and bonus security; the public judges the firm's contribution to employment and the economy.

> **Final Answer:** Financial statements are significant because they serve management (control and planning), owners (return), creditors (solvency), investors (prospects), government (tax and policy) and employees/public (security and contribution), all from one common set of figures.

☞ **Marking-scheme reminder**

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION : *Ishita Rao, M.Com, University of Hyderabad*

Quick reading. "Significance" is just "who benefits, and for what decision". The cleanest way to cover every beneficiary without missing one is to first split all users into *internal* (management) and *external* (everyone else), then split the external group again into capital providers and regulators/society. Three buckets, every stakeholder accounted for.

- Internal: management.
- External capital providers: owners, investors, lenders, creditors.
- External regulators/society: government, employees, public.

Step 1. **Internal significance.** Management is the only internal user. It reads the statements to plan future operations, control costs against budgets, and evaluate this year's performance against past years. This is the "stewardship" use: those running the firm checking how well they ran it.

Step 2. **Capital-provider significance.** Owners and prospective investors look at profitability and growth to judge the return on, and safety of, their money. Lenders and creditors look at solvency and liquidity to judge whether loans and dues will be repaid. Both groups read the same statements but weigh different parts.

Step 3. **Regulator and society significance.** Government and tax authorities use the statements to assess correct tax, grant licences and frame economic policy. Employees judge job and bonus security; the public judges the firm's contribution to employment and the economy.

Step 4. **Tie it together.** Stating the significance bucket by bucket shows the examiner that one common set of figures serves every interested party, which is exactly the point the "significance" question tests.

Why this matters. The internal-versus-external split mirrors the next chapter, where the same statements are analysed by these very groups for the same reasons.

> **Final Answer:** One statement set, many beneficiaries: management plans and controls with it, capital providers judge return and repayment safety, and government/employees/public judge tax, security and economic contribution.

Q 3.8 **Explain the limitations of financial statements.**

SOLUTION

Concept used. A **limitation** is an inherent shortcoming that restricts how far the statements can be relied upon even when the books are accurate. The limitations arise directly from the *nature* of the statements explained earlier.

Step 1. **Historical in nature.** Statements record events at **historical cost**; they ignore price-level (inflation) changes, so asset values and profit can be unrealistic.

Step 2. **Ignore qualitative information.** Only money-measurable items are shown. Managerial efficiency, employee morale and customer goodwill, though valuable, are excluded.

Step 3. **Influenced by personal judgement.** Depreciation method, stock valuation and provisions depend on the accountant's estimate, so profit is partly subjective.

Step 4. **Show position at a single date.** The Balance Sheet is a snapshot on the closing date and may not reflect the position during the rest of the year (window dressing is possible).

Step 5. **Based on accounting concepts and conventions.** Going-concern and conservatism conventions can make the statements depart from the firm's true economic worth.

Step 6. **Aggregate data.** Statements present summarised totals; product-wise or segment-wise detail needed for some decisions is not visible.

> **Final Answer:** Financial statements are limited by historical-cost recording, exclusion of qualitative factors, dependence on personal judgement, single-date presentation, the influence of conventions, and the use of aggregated data.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

✗ Common Pitfall

Do not confuse a *limitation* with an *error*. Errors are mistakes that can be rectified; limitations (such as historical-cost valuation) persist even in a perfectly error-free set of accounts.

EXPERT'S SOLUTION *: Dev Kapoor, M.Com, Symbiosis Pune*

Structural observation. A "limitations" answer is strongest when it shows the examiner *why* each weakness exists, not just that it exists. Bucket the six NCERT limitations into three causes and explain each cause once: *measurement* (historical cost, aggregation), *omission* (qualitative items), and *judgement* (estimates, conventions, single date). Every limitation then drops into exactly one bucket.

- Measurement cause: how figures are valued and summarised.
- Omission cause: what never enters the books at all.
- Judgement cause: where opinion and timing distort the picture.

Step 1. **Measurement cause.** The cost basis records assets at their original price, so it ignores inflation and shows out-of-date values. The same cause explains aggregation: statements present summarised totals, hiding the product-wise or segment detail some decisions need. Both "historical in nature" and "aggregate data" flow from how figures are measured and summarised.

Step 2. **Omission cause.** Only money-measurable items are recorded, so managerial efficiency, employee morale and customer goodwill never appear, however valuable. This single cause is the root of "ignores qualitative information".

Step 3. **Judgement cause.** Depreciation method, stock valuation and provisions rest on the accountant's estimate, so profit is partly subjective. The going-concern and conservatism conventions push the figures away from true economic worth, and the single closing-date snapshot allows window dressing. Estimates, conventions and timing together form the judgement cause.

Step 4. **Present by cause.** Explaining one or two limitations under each cause produces a complete answer that an examiner can follow as a logical argument rather than a memorised list.

Why this matters. Naming the cause lets an analyst correct for it: restate fixed assets to current value before inter-firm comparison, or normalise profit for a changed depreciation policy.

> **Final Answer:** Every limitation maps to one of three roots: a cost-based measurement base (historical cost, aggregation), the omission of non-money items, or the role of judgement and timing (estimates, conventions, single date).

Q 3.9 **Prepare the format of the Statement of Profit and Loss and explain its items up to the ascertainment of profit before tax.**

SOLUTION

Concept used. The **Statement of Profit and Loss** is prepared in the vertical form prescribed by Schedule III, Part II of the Companies Act, 2013. It computes profit in stages: total revenue minus total expenses gives profit before exceptional and extraordinary items, and adjusting these gives **profit before tax**.

Statement of Profit and Loss for the year ended . . .

	Particulars	Note	Amount (Rs.)
I	Revenue from Operations		xxx
II	Other Income		xxx
III	**Total Revenue (I + II)**		**xxx**
IV	Expenses:		
	Cost of Materials Consumed		xxx
	Purchases of Stock-in-Trade		xxx
	Changes in Inventories		xxx
	Employee Benefits Expense		xxx
	Finance Costs		xxx
	Depreciation & Amortisation		xxx
	Other Expenses		xxx
	Total Expenses		**xxx**
V	Profit before Exceptional, Extra-		
	ordinary items & Tax (III − IV)		xxx
VI	Exceptional Items		xxx
VII	Profit before Extraordinary items		
	& Tax (V − VI)		xxx
VIII	Extraordinary Items		xxx
IX	**Profit before Tax (VII − VIII)**		**xxx**

Step 1. **Revenue from Operations (I).** Income from the main business activity: sale of products and services (for a finance company, interest and dividend earned).

Step 2. **Other Income (II).** Income not from the main operations, such as interest on investments, rent received and profit on sale of assets.

Step 3. **Total Revenue (III).** The simple sum, III = I + II.

Step 4. **Expenses (IV).** All operating expenses: cost of materials consumed, purchases of stock-in-trade, change in inventories, employee benefits, **finance costs** (interest on borrowings), depreciation and other expenses. Their total is Total Expenses.

Step 5. **Profit before exceptional, extraordinary items and tax (V).** Computed as V = III − IV.

Step 6. **Exceptional and extraordinary items (VI, VIII).** Unusual, non-recurring gains or losses; they are removed stepwise to reach VII = V − VI and then IX = VII − VIII.

Step 7. **Profit before Tax (IX).** The final figure of this part, before any income-tax provision is deducted.

> **Final Answer:** Profit before tax is reached as: Total Revenue (I+II) − Total Expenses = V; then − Exceptional items = VII; then − Extraordinary items = Profit before Tax (IX).

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION *: Yash Nair, M.Com, Christ University Bangalore*

Strategic angle. Do not memorise the Schedule III statement as sixteen disconnected lines. Read it as a single subtraction chain in three layers: start at total revenue, peel away the operating expenses, then peel away the unusual items, and what remains is profit before tax. Each Roman-numeral line is just one rung of that chain.

- Layer 1 builds the top: Total Revenue = I + II.
- Layer 2 removes routine expenses: V = III − IV.
- Layer 3 removes one-off items: IX = VII − VIII.

Step 1. **Layer 1: form the top line.** Revenue from Operations (I) is income from the main business: sale of products and services. Other Income (II) is incidental income: interest on investments, rent received, profit on sale of assets. Their sum is Total Revenue, III = I + II. Keeping operating and non-operating income separate here is what later lets an analyst judge the quality of earnings.

Step 2. **Layer 2: subtract operating expenses.** Total Expenses (IV) gathers cost of materials consumed, purchases of stock-in-trade, change in inventories, employee benefits, finance costs (interest on borrowings), depreciation and amortisation, and other expenses. Subtracting this from Total Revenue gives the profit before exceptional and extraordinary items: V = III − IV. Finance cost and depreciation are *expenses*, not Other Income; misplacing them is the single most common error.

Step 3. **Layer 3: strip the one-off items.** Exceptional items (VI) are unusual but operating; subtract them to get VII = V − VI. Extraordinary items (VIII) are rare and outside ordinary activity; subtract them to get IX = VII − VIII. Removing them stepwise keeps the recurring profit visible separately from the one-off effect.

Step 4. **Read off Profit before Tax.** Line IX is the end of this part: profit before any income-tax provision. Tax (X) and the post-tax lines come *after* IX and are outside what this question asks.

Why this matters. Seeing the statement as a top-down funnel prevents the classic slip of dropping finance cost or depreciation into "Other Income", which would overstate both revenue and profit.

> **Final Answer:** Profit before Tax (IX) = (Revenue from Operations + Other Income) − Total Expenses − Exceptional Items − Extraordinary Items.

Q 3.10 **Prepare the format of the Balance Sheet and explain the various elements of the Balance Sheet.**

SOLUTION

Concept used. Schedule III, Part I prescribes a **vertical Balance Sheet** with two main parts that must always be equal: **I. Equity and Liabilities** and **II. Assets**.

Balance Sheet as at 31st March, 20. . .

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital		xxx
(b) Reserves and Surplus		xxx
(c) Money received against share warrants		xxx
2. Share application money pending allotment		xxx
3. Non-Current Liabilities		
(a) Long-term Borrowings		xxx
(b) Deferred Tax Liabilities (net)		xxx
(c) Other Long-term Liabilities		xxx
(d) Long-term Provisions		xxx
4. Current Liabilities		
(a) Short-term Borrowings		xxx
(b) Trade Payables		xxx
(c) Other Current Liabilities		xxx
(d) Short-term Provisions		xxx
Total		**xxx**
II. ASSETS		
1. Non-Current Assets		
(a) Fixed Assets (Tangible/Intangible)		xxx
(b) Non-current Investments		xxx
(c) Deferred Tax Assets (net)		xxx
(d) Long-term Loans and Advances		xxx
(e) Other Non-current Assets		xxx
2. Current Assets		
(a) Current Investments		xxx
(b) Inventories		xxx
(c) Trade Receivables		xxx
(d) Cash and Cash Equivalents		xxx
(e) Short-term Loans and Advances		xxx
(f) Other Current Assets		xxx
Total		**xxx**

Step 1. **Shareholders' Funds.** Owners' money in the company: Share Capital, Reserves

and Surplus, and money received against share warrants.

Step 2. Share application money pending allotment. Money received on share applications for which shares are not yet allotted.

Step 3. Non-Current Liabilities. Obligations not due within twelve months: long-term borrowings, deferred tax liabilities, other long-term liabilities and long-term provisions.

Step 4. Current Liabilities. Obligations due within twelve months: short-term borrowings, trade payables, other current liabilities and short-term provisions.

Step 5. Non-Current Assets. Assets held for long-term use: fixed assets (tangible and intangible), non-current investments, deferred tax assets, long-term loans and advances, and other non-current assets.

Step 6. Current Assets. Assets expected to be realised within twelve months: current investments, inventories, trade receivables, cash and cash equivalents, short-term loans and advances, and other current assets.

Step 7. The identity. Total Equity and Liabilities always equals Total Assets, because every rupee of asset is financed by either owners' funds or outside liabilities.

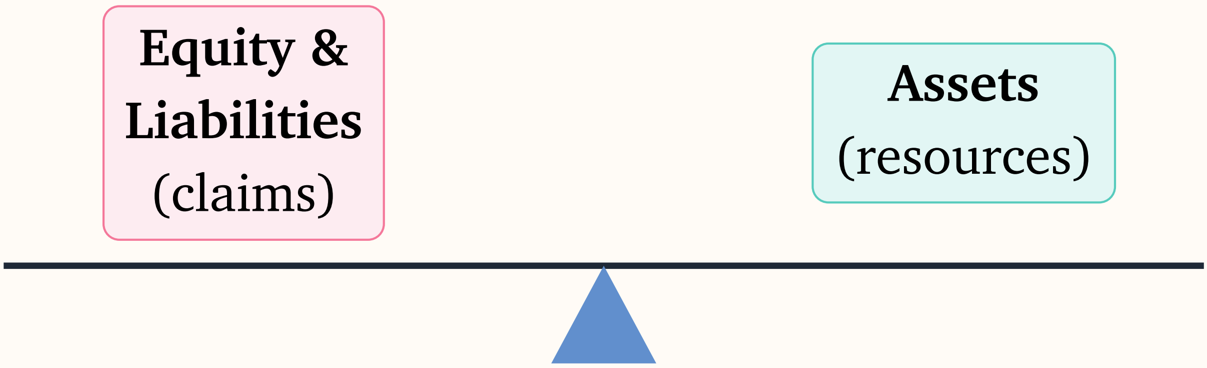
> **Final Answer:** The Schedule III Balance Sheet has two equal parts: Equity and Liabilities (Shareholders' Funds, Share application money, Non-current and Current Liabilities) and Assets (Non-current and Current Assets); Total of one always equals the Total of the other.

☞ Current vs non-current

The single test is the *twelve-month rule*: if an item will be settled or realised within twelve months of the closing date it is "current"; otherwise it is "non-current".

EXPERT'S SOLUTION *: Kavya Pillai, M.Com, Madras Christian College*

Picture-first. The Balance Sheet is a see-saw: claims on the left arm, resources on the right arm, perfectly balanced.



Always equal

Step 1. **Left arm: the sources.** "Equity and Liabilities" answers *who financed the firm*. It has two families. Owners' money is Shareholders' Funds: Share Capital, Reserves and Surplus, and money received against share warrants; Share application money pending allotment sits just below. Outsiders' money splits by the twelve-month rule into Non-current Liabilities (long-term borrowings, deferred tax liabilities, other long-term liabilities, long-term provisions) and Current Liabilities (short-term borrowings, trade payables, other current liabilities, short-term provisions).

Step 2. **Right arm: the uses.** "Assets" answers *where the money went*. Non-current Assets are long-life resources: fixed assets (tangible and intangible), non-current investments, deferred tax assets, long-term loans and advances, other non-current assets. Current Assets are short-life resources: current investments, inventories, trade receivables, cash and cash equivalents, short-term loans and advances, other current assets.

Step 3. **The pivot.** The two arms are joined by the accounting equation. Every rupee of asset must have come from either owners or outsiders, so Total Equity and Liabilities is *always* equal to Total Assets. The classification of each item under current versus non-current uses the single twelve-month test.

Step 4. **Use the picture to self-check.** Draw the see-saw before solving any numerical: if your two totals do not balance, an item has been hung on the wrong arm or under the wrong head, and the picture tells you to go looking for it.

Why this matters. If the two totals do not tally in a numerical, an item has been placed on the wrong arm: the see-saw image catches the error instantly instead of after a re-add.

> **Final Answer:** Equity and Liabilities (sources: owners' funds plus liabilities) on one side, Assets (uses: non-current plus current) on the other, kept exactly equal by the accounting equation.

Q 3.11 **Explain how financial statements are useful to the various parties who are interested in the affairs of an undertaking.**

SOLUTION

Concept used. An **interested party** (stakeholder) is anyone whose decisions are affected by the firm's results. Each party uses the same statements for a different decision.

Step 1. **Owners/Shareholders.** Judge profitability and the return on their capital; decide whether to hold, buy more or sell shares.

Step 2. **Management.** Use the statements for planning, controlling costs and measuring performance against past years.

Step 3. **Lenders/Banks.** Assess long-term **solvency** before sanctioning or renewing loans.

Step 4. **Creditors/Suppliers.** Assess short-term liquidity before extending goods on credit.

Step 5. **Investors (prospective).** Judge earning capacity and growth prospects before buying securities.

Step 6. **Government and tax authorities.** Determine taxable profit, grant licences and frame economic policy.

Step 7. **Employees and trade unions.** Judge job security, bonus and wage-bargaining capacity.

Step 8. **Researchers and the public.** Study the firm's contribution to the economy and to employment.

> **Final Answer:** Owners/investors judge return and prospects, management plans and controls, lenders and creditors judge solvency and liquidity, government assesses tax and policy, and employees/public/researchers judge security and economic contribution.

☞ **Exam Tip**

This question and "importance to shareholders/creditors/government/ investors" in the short-answer set test the *same* idea. Learn one user table once; it answers both for full marks.

EXPERT'S SOLUTION *: Riya Sharma, M.Com, Loyola College Chennai*

Structural observation. A "parties interested" answer loses marks when a party is forgotten. The fix is to split the eight parties into three families and recite the families, not the loose list: *capital providers*, *regulators*, and the *operations side*. Each family shares one core concern, so the usefulness writes itself once the family is named.

- Capital providers: owners, investors, lenders, creditors.
- Regulators: government and tax authorities.
- Operations side: management, employees, researchers/public.

Step 1. Capital providers. Owners and prospective investors read the statements to judge profitability and growth, that is, the return on and prospects for their money. Lenders and creditors read the same statements to judge solvency and liquidity, that is, whether their loans and credit will be repaid on time. One family, one core concern: safety of funds against return.

Step 2. Regulators. Government and tax authorities use the statements to determine taxable profit, grant licences, and frame economic and industrial policy. Their core concern is compliance and the correct assessment of dues.

Step 3. Operations side. Management uses the statements to plan, control costs and measure performance against past years. Employees and trade unions judge job security and wage-bargaining capacity. Researchers and the public study the firm's contribution to the economy and employment. The shared concern is how the firm runs and what it contributes.

Step 4. Recite by family. Naming three families and the one concern of each guarantees no party is dropped and turns a long list into a short, defensible structure.

Why this matters. A family grouping makes a long "list" answer easy to recall under exam pressure without missing a party, and it directly previews the user-wise analysis of the next chapter.

> **Final Answer:** Three families read the statements: capital providers (return versus repayment safety), regulators (tax and policy), and the operations side (planning, control, job security and economic contribution).

Q 3.12 **'Financial statements reflect a combination of recorded facts, accounting conventions and personal judgements.' Discuss.**

SOLUTION

Concept used. This famous statement summarises the **nature** of financial statements. To "discuss" it, we explain each of the three ingredients and show how they combine in the final figures.

Step 1. **Recorded facts.** The statements use data actually entered in the books from documented transactions, at **historical cost**. Cash, sales, purchases and fixed assets are recorded facts. Unrecorded items (the worth of a skilled team) are excluded, which is why the statements show only what was recorded.

Step 2. **Accounting conventions.** Conventions such as **conservatism** (provide for all losses, anticipate no profit), consistency and materiality govern how those facts are presented. Valuing closing stock at cost or market price, whichever is lower, is conservatism in action.

Step 3. **Personal judgements.** Within the conventions, the accountant must still make estimates: the depreciation method and rate, the provision for doubtful debts, the method of stock valuation. These judgements directly change the reported profit.

Step 4. **How they combine.** A single profit figure therefore contains all three: a factual base, shaped by conventions, and fine-tuned by judgement. Two honest accountants can report different profits for identical facts because the conventions and judgements differ.

> **Final Answer:** The statement is correct: every reported figure is a recorded fact, presented through accounting conventions, and adjusted by the accountant's personal judgement; the three are inseparable in the final numbers.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

♥ Why this matters

This single sentence is the conceptual hinge of the chapter. The nature question, the limitations question and the analyst's caution in later chapters all unfold from it.

EXPERT'S SOLUTION *: Aditya Reddy, M.Com, St. Joseph's Bangalore*

Strategic angle. Treat the sentence as an equation: Statement = Facts × Conventions × Judgement. Discuss each multiplier and the effect of changing it.

- Facts term: the objective input.
- Conventions term: the presentation filter.
- Judgement term: the adjustable estimate.

Step 1. **Facts term.** The recorded facts are drawn from vouchers and ledgers at historical cost. They are the objective input: cash, sales, purchases, fixed assets. Nothing unrecorded (the worth of a skilled team) enters, so this term sets the boundary of what the statements can ever show. "Discussing" it means stressing that the facts are real but incomplete.

Step 2. **Conventions term.** Conservatism, consistency and materiality act as a filter on those facts. Conservatism is the most influential: provide for all losses, anticipate no profit, value stock at the lower of cost or market. The filter deliberately lowers reported profit and asset values, so the same facts presented under it look more cautious than reality.

Step 3. **Judgement term.** Within the convention filter the accountant still chooses: the depreciation method and rate, the provision for doubtful debts, the stock-valuation method. Change the depreciation method and the reported profit changes although not a single transaction changed. This term is the adjustable dial.

Step 4. **Discuss how they combine.** A single profit figure carries all three: a factual base, filtered by conventions, fine-tuned by judgement. Because two of the three terms are not purely factual, two honest accountants can report different profits for identical facts, so the statement in the question is correct.

Why this matters. Because two of the three terms are not purely factual, reported profit must be read as a *measured opinion*, not an exact truth. This single insight underlies every caution in the analysis chapters.

> **Final Answer:** The statement is correct: financial statements are jointly produced by recorded facts, accounting conventions and personal judgement, so reported profit is a considered estimate rather than an absolute fact.

Q 3.13 **Explain the process of preparing the income statement and the balance sheet.**

SOLUTION

Concept used. Preparing company financial statements means classifying every trial-balance item under the correct Schedule III head. The **income statement** (Statement of Profit and Loss) is prepared first to find profit; that profit then flows into **Reserves and Surplus** on the Balance Sheet.

Step 1. **Start from the Trial Balance.** List all ledger balances. Separate them into revenue items (incomes and expenses) and position items (assets, liabilities, capital).

Step 2. **Prepare the Statement of Profit and Loss.** Put all incomes under Revenue from Operations and Other Income to get Total Revenue (I + II). Put all expenses under the prescribed expense heads to get Total Expenses (IV).

Step 3. **Ascertain profit.** Compute Profit before Tax as Total Revenue minus Total Expenses (adjusted for exceptional and extraordinary items). Deduct the tax provision to get **Profit/(Loss) for the period**.

Step 4. **Carry profit to the Balance Sheet.** The net profit (after appropriations) is added to the Surplus balance under Reserves and Surplus.

Step 5. **Classify the position items.** Place every asset under Non-current or Current Assets, and every liability under Non-current or Current Liabilities, using the twelve-month rule. Share capital and reserves go under Shareholders' Funds.

Step 6. **Prepare Notes to Accounts.** Break up composite heads (Share Capital, Reserves and Surplus, Fixed Assets, Borrowings) in numbered notes and cross-reference them on the face.

Step 7. **Tally.** Confirm Total Equity and Liabilities equals Total Assets. If they differ, an item has been mis-classified.

> **Final Answer:** First prepare the Statement of Profit and Loss to find profit; transfer that profit to Reserves and Surplus; then classify all assets and liabilities under Schedule III heads, prepare Notes to Accounts, and ensure the two Balance Sheet totals are equal.

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION : *Tara Bhat, M.Com, Fergusson College Pune*

Picture-first. The two statements are linked by a single pipe: profit flows out of the income statement and into the Balance Sheet's reserves.

Statement of Profit & Loss		Balance Sheet
Revenue − Expenses $\Rightarrow$ Net Profit	$\xrightarrow{\text{profit}}$	Net Profit $\rightarrow$ Reserves & Surplus (Shareholders' Funds)

Step 1. Sort the trial balance. List every ledger balance and label it as either a revenue item (incomes, expenses) or a position item (assets, liabilities, capital). This sorting is the whole battle: an item labelled wrongly here will be mis-stated everywhere downstream.

Step 2. Run the income statement. Feed the revenue items into the Statement of Profit and Loss: incomes under Revenue from Operations and Other Income (giving Total Revenue), expenses under the prescribed expense heads (giving Total Expenses). Net them, adjust exceptional and extraordinary items, deduct the tax provision, and you have net profit for the period.

Step 3. Pipe profit into the Balance Sheet. The net profit (after appropriations) is added to the Surplus balance under Reserves and Surplus. This is the single link between the two statements; the rest of the Balance Sheet is independent of it.

Step 4. Classify and tally. Place every asset under Non-current or Current Assets and every liability under Non-current or Current Liabilities using the twelve-month rule, with share capital and reserves under Shareholders' Funds. Prepare the Notes to Accounts for composite heads, and confirm Total Equity and Liabilities equals Total Assets.

Why this matters. Remembering the profit "pipe" explains why a wrong profit figure throws the Balance Sheet totals out of balance: the error travels down the pipe into Reserves and Surplus.

> **Final Answer:** Income statement first (find profit), pipe the profit into Reserves and Surplus, classify all position items under Schedule III using the twelve-month rule, prepare the notes, and tally the two Balance Sheet totals.

Numerical Questions

Q 3.14 Show the following items in the Balance Sheet as per the provisions of the Companies Act, 2013 in Schedule III:
Preliminary Expenses Rs. 2,40,000; Discount on issue of shares Rs. 20,000; 10% Debentures Rs. 2,00,000; Stock in trade Rs. 1,40,000; Cash at bank Rs. 1,35,000; Bills receivable Rs. 1,20,000; Goodwill Rs. 30,000; Loose tools Rs. 12,000; Motor vehicles Rs. 4,75,000; Provision for tax Rs. 16,000.

SOLUTION

Concept used. Each item must be placed under its correct Schedule III head. **Preliminary expenses** and **discount on issue of shares** are not assets in the usual sense; they are fictitious/deferred items shown under **Other Non-current Assets**. **Goodwill** and **loose tools** are tangible/ intangible fixed assets; **stock** and loose tools form **Inventories**; **provision for tax** is a **Short-term Provision**.

Step 1. Classify the liabilities side. 10% Debentures Rs. 2,00,000 is a Long-term Borrowing (Non-current Liabilities). Provision for tax Rs. 16,000 is a Short-term Provision (Current Liabilities).

Step 2. Classify the assets side.

- Fixed Assets: Tangible (Motor vehicles) Rs. 4,75,000; Intangible (Goodwill) Rs. 30,000.
- Other Non-current Assets: Preliminary expenses Rs. 2,40,000 + Discount on issue of shares Rs. 20,000 = Rs. 2,60,000.
- Inventories: Stock in trade Rs. 1,40,000 + Loose tools Rs. 12,000 = Rs. 1,52,000.
- Trade Receivables: Bills receivable Rs. 1,20,000.
- Cash and Cash Equivalents: Cash at bank Rs. 1,35,000.

Step 3. Total the liabilities side.

$$2{,}00{,}000 + 16{,}000 = 2{,}16{,}000.$$

Wait: this is only the borrowed and provision portion. The balancing figure (Shareholders' Funds, not given) makes the two sides equal. The *Total of Assets* is what we can compute fully:

$$\begin{aligned}\text{Total Assets} &= 4{,}75{,}000 + 30{,}000 + 2{,}60{,}000 \\ &\quad + 1{,}52{,}000 + 1{,}20{,}000 + 1{,}35{,}000 \\ &= \mathbf{Rs.\ 10{,}72{,}000}.\end{aligned}$$

Including only the items asked (the NCERT solution presents the partial Balance Sheet), the assets shown total Rs. 10,72,000; the equity-and-liabilities side carries the balancing Shareholders' Funds plus 10% Debentures Rs. 2,00,000 and Provision for tax Rs. 16,000.

☞ **Fictitious assets**

Preliminary expenses and discount on issue of shares/debentures are **fictitious assets**: they carry no resale value and are shown under "Other Non-current Assets" only until written off against profits.

Balance Sheet (extract) of the Company as per Schedule III

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings (10% Deb.)	1	2,00,000
Current Liabilities		
Short-term Provisions (Prov. tax)	2	16,000
II. ASSETS		
Non-Current Assets		
Fixed Assets: Tangible (Motor veh.)	3	4,75,000
Fixed Assets: Intangible (Goodwill)	4	30,000
Other Non-current Assets	5	2,60,000
Current Assets		
Inventories	6	1,52,000
Trade Receivables (Bills recv.)	7	1,20,000
Cash and Cash Equivalents		1,35,000
Total Assets shown		**10,72,000**

Final Answer: Long-term Borrowings Rs. 2,00,000; Short-term Provisions Rs. 16,000; Other Non-current Assets (Preliminary exp. + Discount) Rs. 2,60,000; Inventories Rs. 1,52,000; Trade Receivables Rs. 1,20,000; total assets shown = Rs. 10,72,000.

☞ **Marking-scheme reminder**

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

✗ **Common Pitfall**

Do not put preliminary expenses or discount on issue of shares under “Reserves and Surplus” as a negative figure. Under Schedule III they are shown on the assets side as **Other Non-current Assets** until written off.

EXPERT’S SOLUTION : *Vivaan Gupta, M.Com, Hansraj College Delhi*

Strategic angle. Ten loose items look intimidating until you sort them into just three buckets before touching the Balance Sheet: *financed-by* (liabilities), *real assets*, and *fictitious assets*. Sorting first means each item is placed once, correctly, with no second-guessing.

- Liability bucket: how the firm is financed.
- Real-asset bucket: things with genuine resale value.
- Fictitious-asset bucket: expenses parked as assets until written off.

Step 1. **Liability bucket.** 10% Debentures Rs. 2,00,000 is a Long-term Borrowing under Non-current Liabilities. Provision for tax Rs. 16,000 is a Short-term Provision under Current Liabilities. Both are placed at face value; nothing here is netted.

Step 2. **Real-asset bucket.** Motor vehicles Rs. 4,75,000 is a tangible fixed asset; Goodwill Rs. 30,000 is an intangible fixed asset. Stock in trade Rs. 1,40,000 + Loose tools Rs. 12,000 = Rs. 1,52,000 form Inventories. Bills receivable Rs. 1,20,000 are Trade Receivables and Cash at bank Rs. 1,35,000 is Cash and Cash Equivalents. Real assets total $4{,}75{,}000 + 30{,}000 + 1{,}52{,}000 + 1{,}20{,}000 + 1{,}35{,}000 = Rs.\ 8{,}12{,}000$.

Step 3. **Fictitious-asset bucket.** Preliminary expenses Rs. 2,40,000 + Discount on issue of shares Rs. 20,000 = Rs. 2,60,000, shown under Other Non-current Assets until written off against profits. These have no resale value; treating them as ordinary assets is the single most common slip.

Step 4. **Total and balance.** Assets shown $= 8{,}12{,}000 + 2{,}60{,}000 = Rs.\ 10{,}72{,}000$. The equity-and-liabilities side carries 10% Debentures Rs. 2,00,000, Provision for tax Rs. 16,000, and the balancing Shareholders’ Funds that makes the two sides equal.

Cross-check by note totals. Re-derive the assets-shown figure independently from the Notes to Accounts: Fixed Assets note $= 4{,}75{,}000 + 30{,}000 = Rs.\ 5{,}05{,}000$; Other Non-current Assets note $= 2{,}40{,}000 + 20{,}000 = Rs.\ 2{,}60{,}000$; Inventories note $= 1{,}40{,}000 + 12{,}000 = Rs.\ 1{,}52{,}000$; Trade Receivables $= Rs.\ 1{,}20{,}000$; Cash $= Rs.\ 1{,}35{,}000$. Sum $= 5{,}05{,}000 + 2{,}60{,}000 + 1{,}52{,}000 + 1{,}20{,}000 + 1{,}35{,}000 = Rs.\ 10{,}72{,}000$, matching the face total. Two independent routes giving the same figure is the best assurance the classification is right.

Why this matters. Treating fictitious assets as ordinary assets leaves the answer technically wrong even when every figure is copied correctly, so the sorting step is not optional. The note-level cross-check is exactly how an examiner verifies your classification.

Final Answer: Real assets total Rs. 8,12,000; fictitious assets Rs. 2,60,000; assets shown Rs. 10,72,000, balanced by 10% Debentures Rs. 2,00,000, Provision for tax Rs. 16,000 and balancing Shareholders' Funds.

Q 3.15 On April 1, 2017, Jumbo Ltd. issued 10,000; 12% debentures of Rs. 100 each at a discount of 20%, redeemable after 5 years. The company decided to write off discount on issue of such debentures on March 31, 2018. Show the items in the Balance Sheet of the company immediately after the issue of these debentures.

SOLUTION

Concept used. When debentures are issued at a **discount**, the company receives less than the face value but must repay the full face value. Face value is the amount shown under **Long-term Borrowings**. The total discount is a **fictitious asset** (Discount/Loss on Issue of Debentures) written off over the life of the debentures. The portion to be written off within 12 months is a Current Asset; the rest is a Non-current Asset.

Step 1. Compute the face value of debentures.

$$\text{Face value} = 10{,}000 \times Rs.\ 100 = Rs.\ 10{,}00{,}000.$$

This full Rs. 10,00,000 is shown under Non-current Liabilities → Long-term Borrowings, because the company must redeem at par.

Step 2. Compute the discount on issue.

$$\text{Discount} = 20\% \text{ of } Rs.\ 10{,}00{,}000 = \frac{20}{100} \times 10{,}00{,}000 = Rs.\ 2{,}00{,}000.$$

Step 3. Compute cash actually received.

$$10{,}00{,}000 - 2{,}00{,}000 = Rs.\ 8{,}00{,}000 \text{ (added to Cash/Bank)}.$$

Step 4. Spread the discount over 5 years. The discount is written off evenly:

$$\text{Per year} = \frac{2{,}00{,}000}{5} = Rs.\ 40{,}000.$$

Step 5. Split the unwritten discount on the date of issue. Immediately after issue (before any write-off), the whole Rs. 2,00,000 is unamortised. Of this:

- the part to be written off within the next 12 months = Rs. 40,000 ⇒ **Other Current Assets**;
- the balance $= 2{,}00{,}000 - 40{,}000 = Rs.\ 1{,}60{,}000$ ⇒ **Other Non-current Assets**.

Balance Sheet of Jumbo Ltd. (extract) as at the issue date

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings (12% Deb.)	1	10,00,000
II. ASSETS		
Non-Current Assets		
Other Non-current Assets		
(Discount on issue of Deb.)	2	1,60,000
Current Assets		
Cash and Cash Equivalents		8,00,000
Other Current Assets		
(Discount on issue of Deb.)	3	40,000

Final Answer: Long-term Borrowings (12% Debentures) = Rs. 10,00,000; Cash received = Rs. 8,00,000; Discount on issue Rs. 2,00,000 shown as Other Non-current Assets Rs. 1,60,000 + Other Current Assets Rs. 40,000.

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION *: Siddharth Menon, M.Com, Loyola College Chennai*

Quick reading. Only three numbers drive this whole question: the face value (the liability), the discount (a fictitious asset), and the cash received (face minus discount). After that, the single trick is slicing the discount into a one-year piece and a rest piece. Compute the three numbers first; the Balance Sheet then fills itself in.

- Number 1: face value → Long-term Borrowing.
- Number 2: discount → fictitious asset to be amortised.
- Number 3: cash → Cash and Cash Equivalents.

Step 1. Face value (the liability).

$$10{,}000 \times Rs.\ 100 = Rs.\ 10{,}00{,}000.$$

The company must redeem at par, so the full Rs. 10,00,000 sits under Non-current Liabilities, untouched by the discount.

Step 2. Discount and cash.

$$\text{Discount} = 20\% \times 10{,}00{,}000 = Rs.\ 2{,}00{,}000,$$

$$\text{Cash received} = 10{,}00{,}000 - 2{,}00{,}000 = Rs.\ 8{,}00{,}000.$$

The cash goes to Cash and Cash Equivalents; the discount is a fictitious asset, not a reduction of the liability.

Step 3. Slice the discount. It is written off evenly over 5 years:

$$\text{Per year} = \frac{2{,}00{,}000}{5} = Rs.\ 40{,}000.$$

Immediately after issue the whole Rs. 2,00,000 is unamortised. The Rs. 40,000 due to be written off within 12 months is Other Current Assets; the balance $2{,}00{,}000 - 40{,}000 = Rs.\ 1{,}60{,}000$ is Other Non-current Assets.

Step 4. Assemble. Long-term Borrowings Rs. 10,00,000; Cash Rs. 8,00,000; discount split Rs. 1,60,000 non-current + Rs. 40,000 current. The discount on both asset lines plus cash reconcile to the face value financed.

Why this matters. The liability is always shown at *par*; the discount never reduces it, it sits on the assets side and is amortised. Confusing the two is the standard exam trap this question is built to catch.

> **Final Answer:** Liability Rs. 10,00,000 (at par); cash Rs. 8,00,000; discount Rs. 2,00,000 split as Rs. 1,60,000 non-current + Rs. 40,000 current asset.

Q 3.16 From the following information prepare the Balance Sheet of Gitanjali Ltd.: Inventories Rs. 14,00,000; Equity Share Capital Rs. 20,00,000; Plant and Machinery Rs. 10,00,000; Preference Share Capital Rs. 12,00,000; Debenture Redemption Reserve Rs. 6,00,000; Outstanding Expenses Rs. 3,00,000; Proposed Dividend Rs. 5,00,000; Land and Building Rs. 20,00,000; Current Investments Rs. 8,00,000; Cash Equivalent Rs. 10,00,000; Short term loan from Zaveri Ltd. (a subsidiary of Twilight Ltd.) Rs. 4,00,000; Public Deposits Rs. 12,00,000.

SOLUTION

Concept used. Each balance is placed under its Schedule III head. **Equity** and **Preference Share Capital** form Share Capital; **Debenture Redemption Reserve** is part of Reserves and Surplus; together they make **Shareholders' Funds**. **Public Deposits** are Long-term Borrowings (Non-current Liabilities). The **short-term loan** and **outstanding expenses** and **proposed dividend** are Current Liabilities.

Step 1. Shareholders' Funds.

$$\text{Share Capital} = 20{,}00{,}000 + 12{,}00{,}000 = Rs.\ 32{,}00{,}000,$$
$$\text{Reserves \& Surplus} = \text{DRR} = Rs.\ 6{,}00{,}000,$$
$$\text{Shareholders' Funds} = 32{,}00{,}000 + 6{,}00{,}000 = Rs.\ 38{,}00{,}000.$$

Step 2. Non-Current Liabilities. Public Deposits are long-term borrowings:

$$\text{Non-current Liabilities} = Rs.\ 12{,}00{,}000.$$

Step 3. Current Liabilities.

$$\text{Short-term Borrowings (Zaveri loan)} = 4{,}00{,}000,$$
$$\text{Other Current Liab. (Outstanding exp.)} = 3{,}00{,}000,$$
$$\text{Short-term Provisions (Proposed Div.)} = 5{,}00{,}000,$$
$$\text{Total} = 4{,}00{,}000 + 3{,}00{,}000 + 5{,}00{,}000 = Rs.\ 12{,}00{,}000.$$

Step 4. Total Equity and Liabilities.

$$38{,}00{,}000 + 12{,}00{,}000 + 12{,}00{,}000 = \mathbf{Rs.\ 62{,}00{,}000}.$$

Step 5. Non-Current Assets. Land and Building Rs. 20,00,000 + Plant and Machinery Rs. 10,00,000 = Rs. 30,00,000 (Fixed Assets, tangible).

Step 6. Current Assets.

$$\text{Current Investments} = 8{,}00{,}000,$$
$$\text{Inventories} = 14{,}00{,}000,$$
$$\text{Cash and Cash Equivalents} = 10{,}00{,}000,$$
$$\text{Total} = 8{,}00{,}000 + 14{,}00{,}000 + 10{,}00{,}000 = Rs.\ 32{,}00{,}000.$$

Step 7. Total Assets.

$$30{,}00{,}000 + 32{,}00{,}000 = \mathbf{Rs.\ 62{,}00{,}000}.$$

Both totals equal Rs. 62,00,000, so the Balance Sheet tallies.

Balance Sheet of Gitanjali Ltd.

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	32,00,000
Reserves & Surplus (DRR)	2	6,00,000
Non-Current Liabilities		
Long-term Borrowings (Public Dep.)	3	12,00,000
Current Liabilities		
Short-term Borrowings (Zaveri)		4,00,000
Other Current Liab. (O/s Exp.)		3,00,000
Short-term Provisions (Prop. Div.)		5,00,000
Total		**62,00,000**
II. ASSETS		
Non-Current Assets		
Fixed Assets (Land/Bldg + P&M)	4	30,00,000
Current Assets		
Current Investments		8,00,000
Inventories		14,00,000
Cash and Cash Equivalents		10,00,000
Total		**62,00,000**

Final Answer: Total of the Balance Sheet (Equity and Liabilities = Assets) = **Rs. 62,00,000**.

☞ Marking-scheme reminder

For this question the CBSE Class 12 marker awards: 1 mark for identifying the relevant Schedule III sub-head or AS clause, 2 marks for the working with full disclosure (notes-to-accounts references), and the remaining marks for the journal/T-account presentation with totals.

✗ Common Pitfall

Debenture Redemption Reserve is a *reserve* (Reserves and Surplus), not a liability or a fund kept outside. Putting it under Non-current Liabilities throws the totals out by Rs. 6,00,000.

EXPERT'S SOLUTION : *Ananya Pillai, M.Com, Christ University Bangalore*

Strategic angle. Build the liabilities side in three deliberate layers (owners, long-term outsiders, short-term outsiders), total it, then mirror with assets and confirm the tally.

- Layer 1: owners' money.
- Layer 2: long-term outside money.
- Layer 3: short-term outside money.

Step 1. **Owners' layer.** Equity Share Capital Rs. 20,00,000 + Preference Share Capital Rs. 12,00,000 = Share Capital Rs. 32,00,000. Add Debenture Redemption Reserve Rs. 6,00,000 (it is a reserve, part of Reserves and Surplus, never a liability). Shareholders' Funds $= 32{,}00{,}000 + 6{,}00{,}000 = Rs.\ 38{,}00{,}000$.

Step 2. **Long-term outsiders.** Public Deposits are borrowings that mature after twelve months, so they are Long-term Borrowings: Non-current Liabilities $= Rs.\ 12{,}00{,}000$.

Step 3. **Short-term outsiders.** Short-term loan from Zaveri Ltd. Rs. 4,00,000 (Short-term Borrowings) + Outstanding Expenses Rs. 3,00,000 (Other Current Liabilities) + Proposed Dividend Rs. 5,00,000 (Short-term Provisions) = Rs. 12,00,000. The Zaveri loan is a routine borrowing despite the subsidiary relationship.

Step 4. **Total and mirror with assets.** Grand total $= 38{,}00{,}000 + 12{,}00{,}000 + 12{,}00{,}000 = Rs.\ 62{,}00{,}000$. The assets side is Fixed Assets (Land/Building Rs. 20,00,000 + Plant & Machinery Rs. 10,00,000 = Rs. 30,00,000) + Current Assets (Current Investments Rs. 8,00,000 + Inventories Rs. 14,00,000 + Cash Rs. 10,00,000 = Rs. 32,00,000) = Rs. 62,00,000. The tally confirms.

Trap audit. This question hides three classic traps; check each before declaring done. (a) Debenture Redemption Reserve is a reserve, not a borrowing: a Rs. 6,00,000 swing if mis-placed. (b) Proposed Dividend is a Short-term Provision, not a reduction of reserves. (c) The Zaveri loan, despite the subsidiary wording, is just a Short-term Borrowing; the relationship is a distractor. Clear all three and the Rs. 62,00,000 tally is guaranteed, not lucky.

Why this matters. Layering the liabilities side makes the final tally a confirmation, not a surprise; if a layer is wrong the mismatch points straight at the layer that broke.

Final Answer: Equity and Liabilities = Assets = Rs. 62,00,000.

Q 3.17 **From the following information prepare the Balance Sheet of Jam Ltd.: Inventories Rs. 7,00,000; Equity Share Capital Rs. 16,00,000; Plant and Machinery**

Rs. 8,00,000; 8% Preference Share Capital Rs. 6,00,000; General Reserves Rs. 6,00,000; Bills payable Rs. 1,50,000; Provision for taxation Rs. 2,50,000; Land and Building Rs. 16,00,000; Non-current Investments Rs. 10,00,000; Cash at Bank Rs. 5,00,000; Creditors Rs. 2,00,000; 12% Debentures Rs. 12,00,000.

SOLUTION

Concept used. **Equity** and **8% Preference Share Capital** make Share Capital; **General Reserve** is Reserves and Surplus; together they form Shareholders' Funds. **12% Debentures** are Long-term Borrowings. **Bills payable** and **Creditors** are Trade Payables; **provision for taxation** is a Short-term Provision.

Step 1. Shareholders' Funds.

$$\begin{aligned}\text{Share Capital} &= 16{,}00{,}000 + 6{,}00{,}000 = Rs.\ 22{,}00{,}000,\\ \text{Reserves \& Surplus} &= \text{General Reserve} = Rs.\ 6{,}00{,}000,\\ \text{Shareholders' Funds} &= 22{,}00{,}000 + 6{,}00{,}000 = Rs.\ 28{,}00{,}000.\end{aligned}$$

Step 2. Non-Current Liabilities. 12% Debentures:

$$\text{Non-current Liabilities} = Rs.\ 12{,}00{,}000.$$

Step 3. Current Liabilities.

$$\begin{aligned}&\text{Trade Payables} = \underbrace{1{,}50{,}000}_{\text{Bills payable}} + \underbrace{2{,}00{,}000}_{\text{Creditors}} = 3{,}50{,}000,\\ &\text{Short-term Provisions} = 2{,}50{,}000,\\ &\text{Total} = 3{,}50{,}000 + 2{,}50{,}000 = Rs.\ 6{,}00{,}000.\end{aligned}$$

Step 4. Total Equity and Liabilities.

$$28{,}00{,}000 + 12{,}00{,}000 + 6{,}00{,}000 = \mathbf{Rs.\ 46{,}00{,}000}.$$

Step 5. Non-Current Assets.

$$\begin{aligned}&\text{Fixed Assets} = \underbrace{16{,}00{,}000}_{\text{Land/Bldg}} + \underbrace{8{,}00{,}000}_{\text{P\&M}} = 24{,}00{,}000,\\ &\text{Non-current Investments} = 10{,}00{,}000,\\ &\text{Total Non-current Assets} = 24{,}00{,}000 + 10{,}00{,}000 = Rs.\ 34{,}00{,}000.\end{aligned}$$

Step 6. Current Assets. Inventories Rs. 7,00,000 + Cash at Bank Rs. 5,00,000 = Rs. 12,00,000.

Step 7. Total Assets.

$$34{,}00{,}000 + 12{,}00{,}000 = \mathbf{Rs.\ 46{,}00{,}000}.$$

Both sides equal Rs. 46,00,000.

Balance Sheet of Jam Ltd.

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Share Capital	1	22,00,000
Reserves & Surplus (Gen. Res.)	2	6,00,000
Long-term Borrowings (12% Deb.)	3	12,00,000
Trade Payables (B/P + Creditors)		3,50,000
Short-term Provisions (Prov. tax)		2,50,000
Total		**46,00,000**
II. ASSETS		
Fixed Assets (Land/Bldg + P&M)	4	24,00,000
Non-current Investments		10,00,000
Inventories		7,00,000
Cash and Cash Equivalents		5,00,000
Total		**46,00,000**

Final Answer: Total of the Balance Sheet (Equity and Liabilities = Assets) = **Rs. 46,00,000**.

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION *: Arjun Chatterjee, M.Com, Presidency University Kolkata*

Structural observation. Two items are composite and trip students: Share Capital (equity + preference) and Trade Payables (bills payable + creditors). Combine each correctly and the rest slots in.

- Composite head 1: Share Capital (equity + preference).
- Composite head 2: Trade Payables (bills payable + creditors).
- Everything else: a direct one-to-one placement.

Step 1. Resolve Share Capital. Equity Share Capital Rs. 16,00,000 + 8% Preference Share Capital Rs. 6,00,000 = Rs. 22,00,000. Add General Reserve Rs. 6,00,000 (Reserves and Surplus) to get Shareholders' Funds $= 22{,}00{,}000 + 6{,}00{,}000 = Rs.\ 28{,}00{,}000.$

Step 2. Resolve Trade Payables. Bills payable Rs. 1,50,000 + Creditors Rs. 2,00,000 =

Rs. 3,50,000. Add 12% Debentures Rs. 12,00,000 (Non-current Liabilities) and Provision for taxation Rs. 2,50,000 (Short-term Provisions).

Step 3. **Total the liabilities side.**

$$28{,}00{,}000 + 12{,}00{,}000 + \underbrace{3{,}50{,}000 + 2{,}50{,}000}_{=6{,}00{,}000} = Rs.\ 46{,}00{,}000.$$

Step 4. **Mirror with assets.** Non-current Assets = Fixed Assets (Land/Building Rs. 16,00,000 + Plant & Machinery Rs. 8,00,000 = Rs. 24,00,000) + Non-current Investments Rs. 10,00,000 = Rs. 34,00,000. Current Assets = Inventories Rs. 7,00,000 + Cash at Bank Rs. 5,00,000 = Rs. 12,00,000. Total Assets $= 34{,}00{,}000 + 12{,}00{,}000 = Rs.\ 46{,}00{,}000$, equal to the liabilities side.

Independent re-add. Verify the Rs. 46,00,000 a second way, by category rather than by side: owners' money $= 22{,}00{,}000 + 6{,}00{,}000 = 28{,}00{,}000$; borrowed money $= 12{,}00{,}000$ (debentures); spontaneous and provision dues $= 3{,}50{,}000 + 2{,}50{,}000 = 6{,}00{,}000$. Sum $= 28 + 12 + 6$ lakh $= Rs.\ 46{,}00{,}000$. Matching the side-wise total confirms no item was double counted across the two composite heads.

Why this matters. Spotting the two composite heads first prevents double counting and keeps the totals tallying on the first attempt rather than after a hunt; the independent re-add is the final safeguard.

Final Answer: Equity and Liabilities = Assets = Rs. 46,00,000.

Q 3.18 **Prepare the Balance Sheet of Jyoti Ltd. as at March 31, 2017 from the following information:**

Building Rs. 10,00,000; Investments in the shares of Metro Tyres Ltd. Rs. 3,00,000; Stores & Spares Rs. 1,00,000; Statement of Profit and Loss (Dr.) Rs. 90,000; 5,00,000 Equity Shares of Rs. 20 each fully paid-up; Capital Redemption Reserve Rs. 1,00,000; 10% Debentures Rs. 3,00,000; Unpaid dividends Rs. 90,000; Share options outstanding account Rs. 10,000.

SOLUTION

Concept used. Statement of Profit and Loss (Dr.) is a debit (negative) balance, shown as a negative figure under Reserves and Surplus. Capital Redemption Reserve and Share options outstanding account are Reserves and Surplus. Unpaid/unclaimed dividend is an Other Current Liability. Stores & Spares is part of Inventories.

☞ **NCERT data note**

The NCERT prints "5,00,000 Equity Shares of Rs. 20 each". Taken literally this is Rs. 1,00,00,000 and the sheet will not tally. The NCERT solution (and standard guides) reads the share capital figure as **Rs. 10,00,000** so that the Balance Sheet balances. We follow that convention here.

Step 1. Shareholders' Funds.

$$\begin{aligned}\text{Share Capital} &= Rs.\ 10{,}00{,}000,\\ \text{Reserves \& Surplus} &= \underbrace{1{,}00{,}000}_{\text{CRR}} + \underbrace{10{,}000}_{\text{Share options}} - \underbrace{90{,}000}_{\text{P\&L (Dr.)}}\\ &= 1{,}10{,}000 - 90{,}000 = Rs.\ 20{,}000,\\ \text{Shareholders' Funds} &= 10{,}00{,}000 + 20{,}000 = Rs.\ 10{,}20{,}000.\end{aligned}$$

Step 2. Non-Current Liabilities. 10% Debentures:

$$\text{Non-current Liabilities} = Rs.\ 3{,}00{,}000.$$

Step 3. Current Liabilities. Unpaid dividends are an Other Current Liability:

$$\text{Current Liabilities} = Rs.\ 90{,}000.$$

Step 4. Total Equity and Liabilities.

$$10{,}20{,}000 + 3{,}00{,}000 + 90{,}000 = \mathbf{Rs.\ 14{,}10{,}000}.$$

Step 5. Non-Current Assets. Building Rs. 10,00,000 (Fixed Asset) + Investments in Metro Tyres Rs. 3,00,000 (Non-current Investments) = Rs. 13,00,000.

Step 6. Current Assets. Stores & Spares form Inventories = Rs. 1,00,000.

Step 7. Total Assets.

$$13{,}00{,}000 + 1{,}00{,}000 = \mathbf{Rs.\ 14{,}10{,}000}.$$

Both totals equal Rs. 14,10,000.

Balance Sheet of Jyoti Ltd. as at March 31, 2017

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Share Capital	1	10,00,000
Reserves & Surplus	2	20,000
Long-term Borrowings (10% Deb.)	3	3,00,000
Other Current Liab. (Unpaid Div.)		90,000
Total		**14,10,000**
II. ASSETS		
Fixed Assets (Building)	4	10,00,000
Non-current Investments (Metro)		3,00,000
Inventories (Stores & Spares)		1,00,000
Total		**14,10,000**

Final Answer: Total of the Balance Sheet (Equity and Liabilities = Assets) = **Rs. 14,10,000**.

✗ Common Pitfall

The debit balance of the Statement of Profit and Loss is *subtracted* within Reserves and Surplus, not shown on the assets side. Here it pulls Reserves down from Rs. 1,10,000 to Rs. 20,000.

EXPERT'S SOLUTION *: Meera Kapoor, M.Com, Lady Shri Ram College Delhi*

Strategic angle. The only tricky figure is Reserves and Surplus, where a debit P&L balance bites into the positive reserves. Compute that net figure first, then the rest is routine.

- Hard part: the net Reserves and Surplus figure.
- Data note: read share capital as Rs. 10,00,000 (NCERT misprint convention) so the sheet tallies.
- Rest: direct placement under Schedule III heads.

Step 1. **Net Reserves and Surplus.** Capital Redemption Reserve Rs. 1,00,000 + Share options outstanding account Rs. 10,000 = Rs. 1,10,000 positive. The Statement of Profit and Loss (Dr.) Rs. 90,000 is a loss carried forward and is *subtracted*:

$$1{,}10{,}000 - 90{,}000 = Rs.\ 20{,}000.$$

Step 2. **Shareholders' Funds.** Share Capital Rs. 10,00,000 (per the NCERT-followed reading) + Reserves and Surplus Rs. 20,000 = Rs. 10,20,000.

Step 3. **Add the outside claims.** 10% Debentures Rs. 3,00,000 are Long-term Borrowings; Unpaid dividends Rs. 90,000 are an Other Current Liability. Total Equity and Liabilities $= 10{,}20{,}000 + 3{,}00{,}000 + 90{,}000 = Rs.\ 14{,}10{,}000$.

Step 4. **Mirror with assets.** Building Rs. 10,00,000 (Fixed Asset) + Investments in Metro Tyres Rs. 3,00,000 (Non-current Investments) + Stores & Spares Rs. 1,00,000 (Inventories) $= Rs.\ 14{,}10{,}000$, equal to the liabilities side, so the sheet tallies.

Why the data note is unavoidable. If share capital were taken literally as $5{,}00{,}000 \times Rs.\ 20 = Rs.\ 1{,}00{,}00{,}000$, the liabilities side would be about Rs. 1,03,90,000 while the assets total only Rs. 14,10,000, an impossible gap of roughly Rs. 90 lakh. Reading share capital as Rs. 10,00,000 closes the gap exactly, which is why the NCERT solution and every standard guide adopt that reading. Always reconcile both sides before trusting a printed figure.

Why this matters. A debit P&L balance is a loss carried forward; netting it inside Reserves and Surplus (not parking it as an asset) is the Schedule III rule examiners test most in this question.

> **Final Answer:** Equity and Liabilities = Assets = Rs. 14,10,000.

Q 3.19 **Brinda Ltd. has furnished the following information:**
(a) 25,000, 10% debentures of Rs. 100 each;
(b) Bank Loan of Rs. 10,00,000 repayable after 5 years;
(c) Interest on debentures is yet to be paid.
Show the above items in the Balance Sheet of the company as at March 31, 2017.

SOLUTION

Concept used. Both debentures and a bank loan repayable after 5 years are Long-term Borrowings (Non-current Liabilities). Interest accrued and due on debentures is a separate Other Current Liability, because it is payable within 12 months.

Step 1. **Compute the face value of debentures.**

$$25{,}000 \times Rs.\ 100 = Rs.\ 25{,}00{,}000.$$

Step 2. **Add the long-term bank loan.**

$$\text{Long-term Borrowings} = 25{,}00{,}000 + 10{,}00{,}000 = \mathbf{Rs.\ 35{,}00{,}000}.$$

Step 3. **Compute interest outstanding on debentures.** Interest for the year at 10% on the face value:

$$\text{Interest} = 10\% \text{ of } 25{,}00{,}000 = \frac{10}{100} \times 25{,}00{,}000 = Rs.\ 2{,}50{,}000.$$

As it is yet to be paid, it is shown as Other Current Liabilities (Interest accrued and due on borrowings).

Balance Sheet of Brinda Ltd. (extract) as at March 31, 2017

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	35,00,000
Current Liabilities		
Other Current Liabilities		
(Interest accrued & due)	2	2,50,000

Note 1: 25,000, 10% Debentures @ Rs.100 = Rs.25,00,000; Bank Loan = Rs.10,00,000; Total = Rs.35,00,000.

Final Answer: Long-term Borrowings = Rs. 35,00,000 (Debentures Rs. 25,00,000 + Bank Loan Rs. 10,00,000); Interest accrued and due on debentures = Rs. 2,50,000 under Other Current Liabilities.

☞ **Exam Tip**

"Interest accrued and due" versus "interest accrued but not due": both are current liabilities, but only the *due* part can be demanded immediately. NCERT here treats the unpaid debenture interest as accrued and due.

EXPERT'S SOLUTION *: Krishna Joshi, M.Com, Fergusson College Pune*

Quick reading. Two long-term debts merge into one head; one short-term interest sits separately. Three figures, done.

- Two debts that merge into one Long-term Borrowings head.
- One interest figure that stays separate as a current liability.
- A clean three-line computation, no balancing needed.

Step 1. Value the debentures.

$$25{,}000 \times Rs.\ 100 = Rs.\ 25{,}00{,}000.$$

This is the face value the company must redeem.

Step 2. Merge the long-term debts. The bank loan Rs. 10,00,000 is repayable after 5 years, so it is also long-term. Long-term Borrowings

$= 25{,}00{,}000 + 10{,}00{,}000 = Rs.\ 35{,}00{,}000$, shown as a single Non-current Liabilities head with a note breaking up the two components.

Step 3. Compute the unpaid interest. Interest for the year is 10% on the debentures' face value only:

$$10\% \times 25{,}00{,}000 = Rs.\ 2{,}50{,}000.$$

It is computed on the debentures, never on the bank loan.

Step 4. Place the interest. Because it is yet to be paid, it is an Other Current Liability (interest accrued and due on borrowings). It is shown separately and never merged into the Rs. 35,00,000 borrowings figure.

Why this matters. The interest is computed on the debentures' face value only, never on the bank loan, and it never merges into the borrowings head. Both rules are exactly what this question tests.

> **Final Answer:** Long-term Borrowings Rs. 35,00,000 (Debentures Rs. 25,00,000 + Bank Loan Rs. 10,00,000); unpaid debenture interest Rs. 2,50,000 as an Other Current Liability.

Q 3.20 Prepare a Balance Sheet of Black Swan Ltd. as at March 31, 2017 from the following information:

General Reserve Rs. 3,000; 10% Debentures Rs. 3,000; Balance in Statement of Profit and Loss Rs. 1,200; Depreciation on fixed assets Rs. 700; Gross Block Rs. 9,000; Current Liabilities Rs. 2,500; Preliminary Expenses Rs. 300; 6% Preference Share Capital Rs. 5,000; Cash & Cash Equivalents Rs. 6,100.

SOLUTION

Concept used. Net fixed assets = Gross Block − Depreciation. Preliminary Expenses is a fictitious asset shown under Other Non-current Assets. General Reserve and the credit balance of Statement of Profit and Loss are Reserves and Surplus; 6% Preference Share Capital is Share Capital.

Step 1. Shareholders' Funds.

$$\text{Share Capital} = Rs.\ 5{,}000,$$
$$\text{Reserves \& Surplus} = \underbrace{3{,}000}_{\text{Gen. Res.}} + \underbrace{1{,}200}_{\text{P\&L (Cr.)}} = Rs.\ 4{,}200,$$
$$\text{Shareholders' Funds} = 5{,}000 + 4{,}200 = Rs.\ 9{,}200.$$

Step 2. Non-Current Liabilities. 10% Debentures:

$$\text{Non-current Liabilities} = Rs.\ 3{,}000.$$

Step 3. Current Liabilities. Given directly:

$$\text{Current Liabilities} = Rs.\ 2{,}500.$$

Step 4. Total Equity and Liabilities.

$$9{,}200 + 3{,}000 + 2{,}500 = \textbf{Rs. 14,700}.$$

Step 5. Net Fixed Assets.

$$\text{Net Block} = \text{Gross Block} - \text{Depreciation} = 9{,}000 - 700 = Rs.\ 8{,}300.$$

Step 6. Other Non-Current Assets. Preliminary expenses = Rs. 300 (fictitious asset).

Step 7. Current Assets. Cash & Cash Equivalents = Rs. 6,100.

Step 8. Total Assets.

$$8{,}300 + 300 + 6{,}100 = \textbf{Rs. 14,700}.$$

Both totals equal Rs. 14,700.

Balance Sheet of Black Swan Ltd. as at March 31, 2017

Particulars	Note	Amount (Rs.)
I. EQUITY AND LIABILITIES		
Share Capital (6% Pref.)	1	5,000
Reserves & Surplus	2	4,200
Long-term Borrowings (10% Deb.)	3	3,000
Current Liabilities		2,500
Total		**14,700**
II. ASSETS		
Fixed Assets (Net Block)	4	8,300
Other Non-current Assets (Prelim.)		300
Cash and Cash Equivalents		6,100
Total		**14,700**

Note 4: Gross Block Rs.9,000 − Depreciation Rs.700 = Net Block Rs.8,300.

Final Answer: Total of the Balance Sheet (Equity and Liabilities = Assets) = **Rs. 14,700**.

☞ Marking-scheme reminder

CBSE Class 12 marking on this question: 1 mark for citing the relevant Schedule III sub-head or AS clause, 2 marks for the calculation/working with notes-to-accounts reference, and 2 marks for clean tabular presentation with Rs. units in totals.

EXPERT'S SOLUTION *: Ishaan Rao, M.Com, Symbiosis Pune*

Structural observation. Three computed numbers carry the question: net reserves, net fixed block, and the two equal totals. Everything else is a direct placement.

- Computed number 1: net Reserves and Surplus.
- Computed number 2: net fixed block (gross − depreciation).
- Computed number 3: the two equal totals.

Step 1. Net Reserves and Surplus. General Reserve Rs. 3,000 + credit balance of Statement of Profit and Loss Rs. 1,200 = Rs. 4,200 (a credit P&L balance is a profit, so it is added, not subtracted). With 6% Preference Share Capital Rs. 5,000, Shareholders' Funds $= 5{,}000 + 4{,}200 = Rs.\ 9{,}200$.

Step 2. Net fixed block. Depreciation is netted against the gross block on the assets side:

$$\text{Net Block} = 9{,}000 - 700 = Rs.\ 8{,}300.$$

Preliminary expenses Rs. 300 are a fictitious asset shown under Other Non-current Assets.

Step 3. Total the liabilities side. Shareholders' Funds Rs. 9,200 + 10% Debentures Rs. 3,000 (Non-current Liabilities) + Current Liabilities Rs. 2,500 = Rs. 14,700.

Step 4. Total the assets side and tally. Net Block Rs. 8,300 + Preliminary expenses Rs. 300 + Cash & Cash Equivalents Rs. 6,100 = Rs. 14,700. Both totals equal Rs. 14,700, so the Balance Sheet tallies.

Why this matters. Depreciation is netted against the gross block on the assets side; it is never shown as a liability. That single rule, plus adding (not subtracting) a credit P&L balance, keeps this small balance sheet correct.

> **Final Answer:** Equity and Liabilities = Assets = Rs. 14,700.

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- Ch 6: Issue and Redemption of Debentures
- Ch 8: Analysis of Financial Statements
- Class 12 Accountancy — All Chapters

Key Takeaways

- Financial statements (Statement of Profit and Loss + Balance Sheet) are period-end summaries of recorded data; they show performance and financial position.
- Their nature is a combination of recorded facts, accounting conventions and personal judgements, which is exactly why they carry limitations (historical cost, no qualitative data, subjectivity, single-date snapshot).
- Schedule III of the Companies Act, 2013 prescribes a vertical Balance Sheet in two equal parts: Equity and Liabilities, and Assets, each split into current and non-current using the twelve-month rule.
- In numericals: Share Capital = Equity + Preference; General Reserve/CRR/DRR sit in Reserves and Surplus; a debit P&L balance is subtracted there.
- Fictitious assets (preliminary expenses, discount on issue of shares/debentures) go under Other Non-current Assets; net fixed assets = Gross Block − Depreciation.
- Contingent liabilities and arrears of dividend on cumulative preference shares appear only in the Notes to Accounts, never on the face of the Balance Sheet.

End of NCERT Solutions