

Chapter - 8

FINANCIAL STATEMENTS OF A COMPANY**QUESTION BOOKLET****SUBCONCEPT: MEANING, NATURE & LIMITATIONS OF FINANCIAL STATEMENTS****1 Mark Questions****1. State whether the following statements are true or false.**

- (a) Financial statements are the end products of accounting process.
- (b) Financial statements are primarily directed towards the needs of owners.
- (c) Facts and figures presented in financial statements are not at all based on personal judgements.
- (d) Recorded facts are based on replacement cost.
- (e) Going Concern concept assumes that the enterprise continues for a long-period of time.

2. Fill in the blanks with appropriate word(s)

- (a) Financial statements are the-----of information to interested parties.
- (b) The owners of a company are called ----- .
- (c) For Income measurement-----basis of accounting is followed.
- (d) The statement which shows the assets and liabilities of a company is known as-----.
- (e) Profit and loss account is also called-----statement.

3. What are Financial Statements?

- 4. Mention any two objectives of Financial Statements.
- 5. What is the financial year in case of a company?
- 6. Mention the two reports which must be attached to the financial statements.
- 7. What type of format of Financial Statements is prescribed by Schedule III?
- 8. How is Calls-in Arrears shown in a Company's Balance Sheet?
- 9. What is meant by Operating cycle?

10. What are the two sections of a Company's Balance Sheet?
11. Give three items shown under the heading Long-term Borrowings.
12. Mention the main items of Non-Current Liabilities.
13. Name the major headings under which the Assets part of a company's Balance Sheet is organised and presented.

SUB CONCEPT: PREPARATION OF BALANCE SHEET AS PER SCHEDULE III

3 Marks Questions

14. **What are the items shown under heading 'Reserve and Surplus'?**
15. Name the items that are shown under Long-term Borrowings.
16. **What are the items shown under heading 'Miscellaneous Expenditure'?**
17. **State the nature of financial statements.**
18. **What are the limitations of financial statements?**
19. Under what head furniture and fixtures of a company will be shown?
20. Name any three reserves shown under 'Reserves and Surplus'.
21. Under which main head and sub-head, current maturities of long term debts is shown in the company's balance sheet .
22. What is contingent liability ?
23. **Prepare the format of income statement and discuss its elements.**

SUB CONCEPT: CONTENTS OF STATEMENT OF PROFIT & LOSS

1 Marks Questions

24. How will you show debit balance of Statement of Profit and Loss?
25. What is Revenue from Operation?
26. Define finance costs with example.
27. What are employee benefit expenses? Its examples.
28. Explain purchase of Stock-in-Trade & Changes in Inventories of Finished goods.
29. What do you mean by capital commitments?
30. Give two examples of capital commitments of a company.

4 Marks Questions

31. Prepare the format of statement of Profit and Loss as prescribed in Schedule III Part II of the Companies Act, 2013.
32. Calculate Cost of Materials Consumed from the following:
Opening Inventory of Materials ₹5,00,000; Purchase of Materials ₹25,00,000; and Closing Inventory of Materials ₹4,00,000.
33. From the following information, calculate Change in Inventory of Finished Goods: Opening Inventory and Closing Inventory of Finished Goods ₹2,50,000 and ₹2,00,000 respectively.

34. Calculate Cost of Materials Consumed from the following:
Opening Inventory of Materials ₹2,50,000; Finished Goods ₹1,00,000; Closing Inventory of Materials ₹2,25,000; Finished Goods ₹75,000; Raw Material purchased during the year ₹15,00,000.
35. From the following information compute the amount to be shown in Note to Accounts on Employees Benefit Expenses: Wages ₹ 5,40,000; Salaries ₹ 7,20,000; bonus ₹ 1,05,000; Staff Welfare Expenses ₹ 60,000 and Business Promotion Expenses ₹ 50,000.
36. From the following information, prepare Note to Accounts on Employees Benefit Expenses: Wages ₹ 2,70,000; Salaries ₹ 3,60,000; Staff Welfare Expenses 60,000; Printing and Stationery Expenses ₹ 20,000 and Business Promotion Expenses ₹ 50,000.

SUB CONCEPT: CONTENTS OF STATEMENT OF BALANCE SHEET

3 Marks Questions

37. A company has an opening credit balance in Surplus, i.e., Balance in Statement of Profit and Loss of ₹ 1,00,000. During the year, it earned a profit of ₹ 75,000. It decided to transfer ₹ 15,000 to Debentures Redemption Reserve (DRR) and also proposed to pay dividend of ₹ 25,000. How will be the appropriations shown in the financial statements?
38. Under which head and how are the following items shown in the Balance Sheet of a company under Schedule III:
(i) Calls-in-Arrears; (ii) Share Application Money Pending Allotment; (iii) Unpaid Dividend; and (iv) Dividend not paid on Cumulative Preference Shares?
39. **Prepare the format of balance sheet and discuss its elements.**
40. Under which major head and sub-head of the Assets part of the Balance Sheet will the following be shown:
(i) Intangible Assets; (ii) Intangible Assets under Development; (iii) Investments (more than 12 months); (iv) Deferred Tax Assets (Net); (v) Stores and Spares; and (vi) Loose Tools?
41. Under which sub-head will the following be classified or shown:
(i) Long-term Borrowings; (ii) Deferred Tax Liabilities (Net); and (iii) Long-term Provision?
42. Classify the following items under major head and sub-head (if any) in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013:
(i) Capital Work-in-Progress; (ii) Provision for Warranties; (iii) Income received in Advance; and (iv) Capital Advances
43. Under which major sub-headings, the following items will be placed in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.
(i) Accrued incomes
(ii) Loose tools
(iii) Provision for employees benefits
(iv) Unpaid dividend
(v) Short-term loans
(vi) Long-term loans

44. Under which sub-headings will the following items be placed in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.
- (i) Capital reserves
 - (ii) Bonds
 - (iii) Loans repayable on demand
 - (iv) Vehicles
 - (v) Goodwill
 - (vi) Loose tools
45. State under which major headings the following items will be presented in the balance sheet of a company as per Schedule III Part I of the Companies Act, 2013.
- (i) Long-term borrowings
 - (ii) Trade payables
 - (iii) Provision for tax
 - (iv) Securities premium reserve
 - (v) Patents
 - (vi) Accrued incomes
46. State under which major headings the following items will be presented in the balance sheet of a company as per Schedule III Part I of the Companies Act, 2013.
- (i) Trade marks
 - (ii) Capital redemption reserves
 - (iii) Income received in advance
 - (iv) Stores and spares
 - (v) Office equipment's
 - (vi) Current investments
47. Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013
- (i) Debentures
 - (ii) Loose tools
 - (iii) Calls-in-advance
48. Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013
- (i) Mining rights
 - (ii) Encashment of employees earned leave payable on retirement
 - (iii) Vehicles
49. Under what heads and sub-heads, the following items will appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.
- (i) Premium on redemption of debentures
 - (ii) Loose tools
 - (iii) Balances with banks
50. Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.
- (i) Subsidy reserve
 - (ii) Mining rights
 - (iii) Provision for doubtful debts
51. State the major headings under which the following items will be put as per Schedule III, Part I of the Companies Act, 2013.

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|--------------------------------|----------------------------------|
| (i) Long-term investments | (ii) Bills of exchange |
| (iii) Motor car | (iv) Discount on issue of shares |
| (v) Securities premium reserve | (vi) Unclaimed dividend |

52. List the items which are shown under the heading 'current assets' as per Schedule III, Part I of the Companies Act, 2013.
53. Show the major headings into which the liabilities side of a company's balance sheet is organised and presented as per Schedule III, Part I of the Companies Act, 2013.

Chapter 8 - Financial Statement of Companies

R – Remembering

U- Understanding

A – Application

A&E- Analysis & Evaluation

ONE MARK EACH

54. In the case of operating cycle cannot be determined then the time period of operating cycle is assumed to be _____ months.
55. There are _____ major head of the equity and liabilities side of a company's balance sheet.
56. Bank overdraft and cash credit in the balance sheet of a company are shown under _____.
57. Analysis of the financial statement measures _____ capacity.
58. Financial statement analysis ignores _____ elements.
59. Financial statement refers to the statement of profit and loss and _____.
60. _____ are interested in knowing the firm's ability to meet its short-term liabilities.
61. Provision for employee benefits is shown under the sub-head _____.
62. If expected period of payment of trade payables is 7 months and operating cycle is of 14 months, then it is a _____ liability.
63. The statement which shows the assets and liabilities of the company is known as _____.
64. Statement of profit and loss account is also called _____ statement.

TRUE OR FALSE

65. [R] It is compulsory for the directors of a company to present company's statement of Profit and Loss Account and Balance Sheet in the annual general meeting of shareholders.
66. [R] Contingent liabilities are shown in the balance sheet under the heading Current Liabilities.
67. [R] The authorized capital is shown by way of information in the notes to accounts. It is not added to the amount of share capital to be shown in balance Sheet.
68. [R] It is not compulsory for a company to prepare balance sheet as per proforma given in Schedule III of companies Act, 2013.

69. [R]Interest accrued and due on debentures is shown under the heading non- current liabilities.
70. [U]Facts and figures presented in financial statement are not at all based on personal judgments.
71. [U]Financial analysis removes the limitations of financial statements.
72. [A]Horizontal analysis is useful in long term planning.
73. [U]Financial analysis ignores qualitative factors.
74. Financial statements show price-level changes.
75. [A&E]Vertical analysis is useful in time series analysis.
76. [A&E]Common size statements enable horizontal analysis.
77. [U]Comparative financial statements show only absolute changes in the figures.
78. [A] In case of common size statement, figures of previous years are taken as base for comparison.
79. [A]A company has call in arrears of Rs 4,00,000 and calls in advance of Rs. 1,50,000. The company shown net balance of Rs 2,50,000 under current assets .
80. [R]Securities premium reserves is shown under share capital head.
81. [U]12 % Debentures redeemable within 12 months of the date of balance sheet it is shown in short term provision.
82. [R]Interest accrued on investment is shown in companies' balance sheet under non-current investment.
83. [A&E] Vertical analysis is also known as Static Analysis.
84. [U] Financial analysis considers price level changes