

# PREPARATION & UNDERSTANDING OF FINANCIAL STATEMENTS & FINANCIAL DISCIPLINE



**Presented by :-**

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# WHAT IS INSIDE



1. Financial Statement
2. Various terms related to balance sheet
3. Ratio analysis & its benefit
4. Financial discipline & its requirement
5. Impact of demonetization on books of accounts



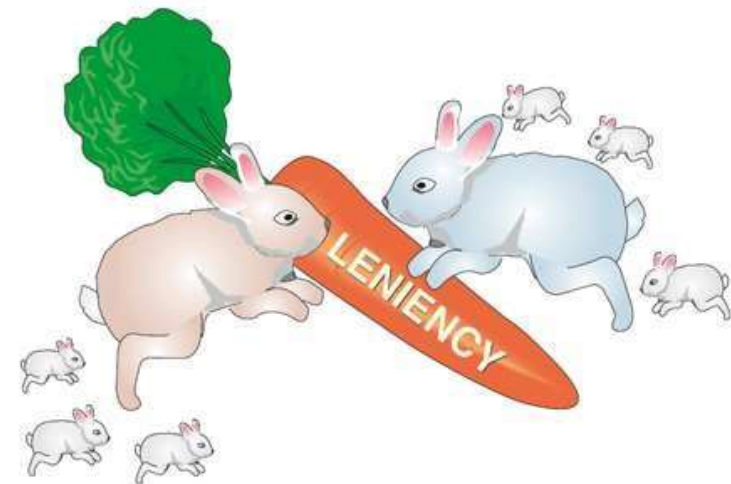
# FINANCIAL STATEMENT

## Present Scenario



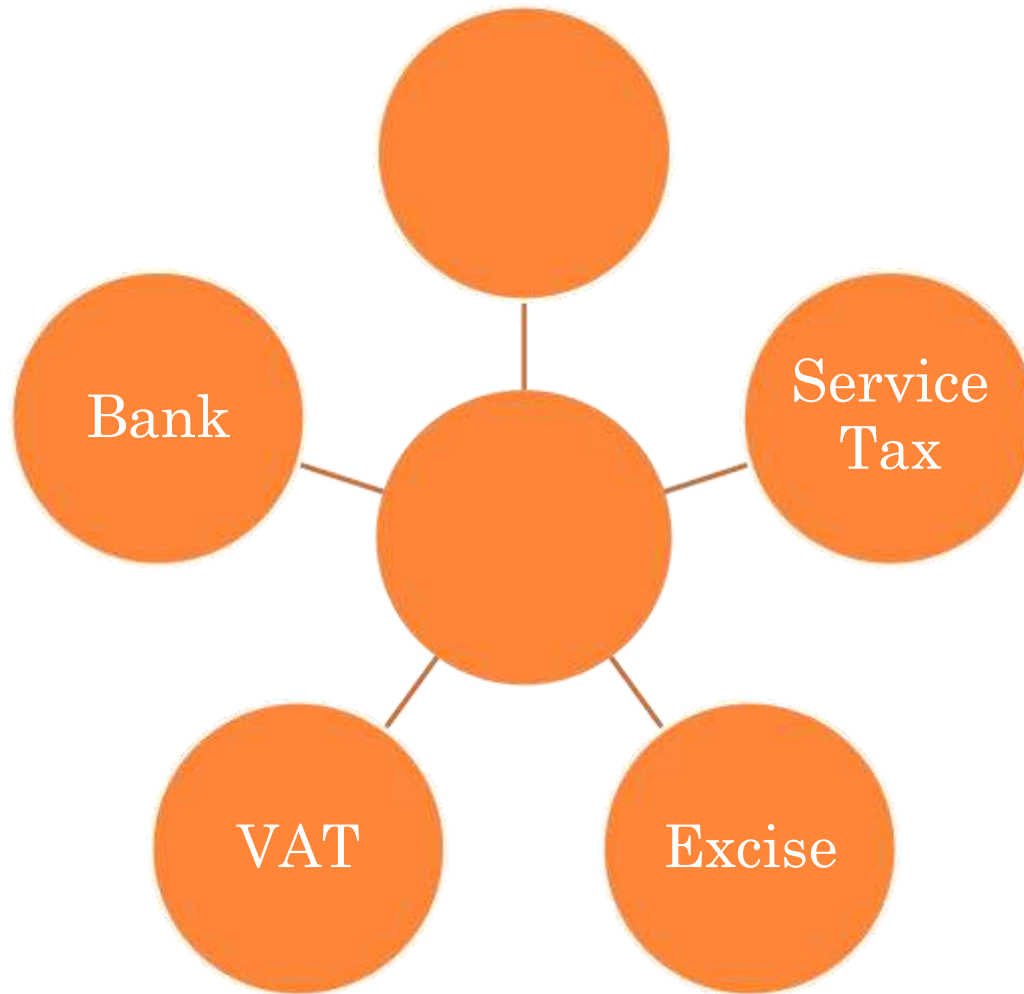
# REASON FOR DELAY IN PREPARATION OF BOOKS OF ACCOUNTS

- Accountant Busy hai..
- CA ke pas jana padega..
- Non receipt of Purchase Bill..
- Non issuance of Sale Bill on time..
- Dekh lenge march me..
- Ambani ko bhul ke muz jese chote vyapari ko q dekhega..
- 2 hi Suspense entry to bachi he..
- Laziness..
- Ek sath Sab kar lenge..
- Jarurat hi kya he..
- Dispute pending he..
- Muze applicable hi nahi hai..
- Kya farak padta..
- Next quarter me adjust kar lenge..
- Return revise kar lenge..
- CA sab sambhal lega..



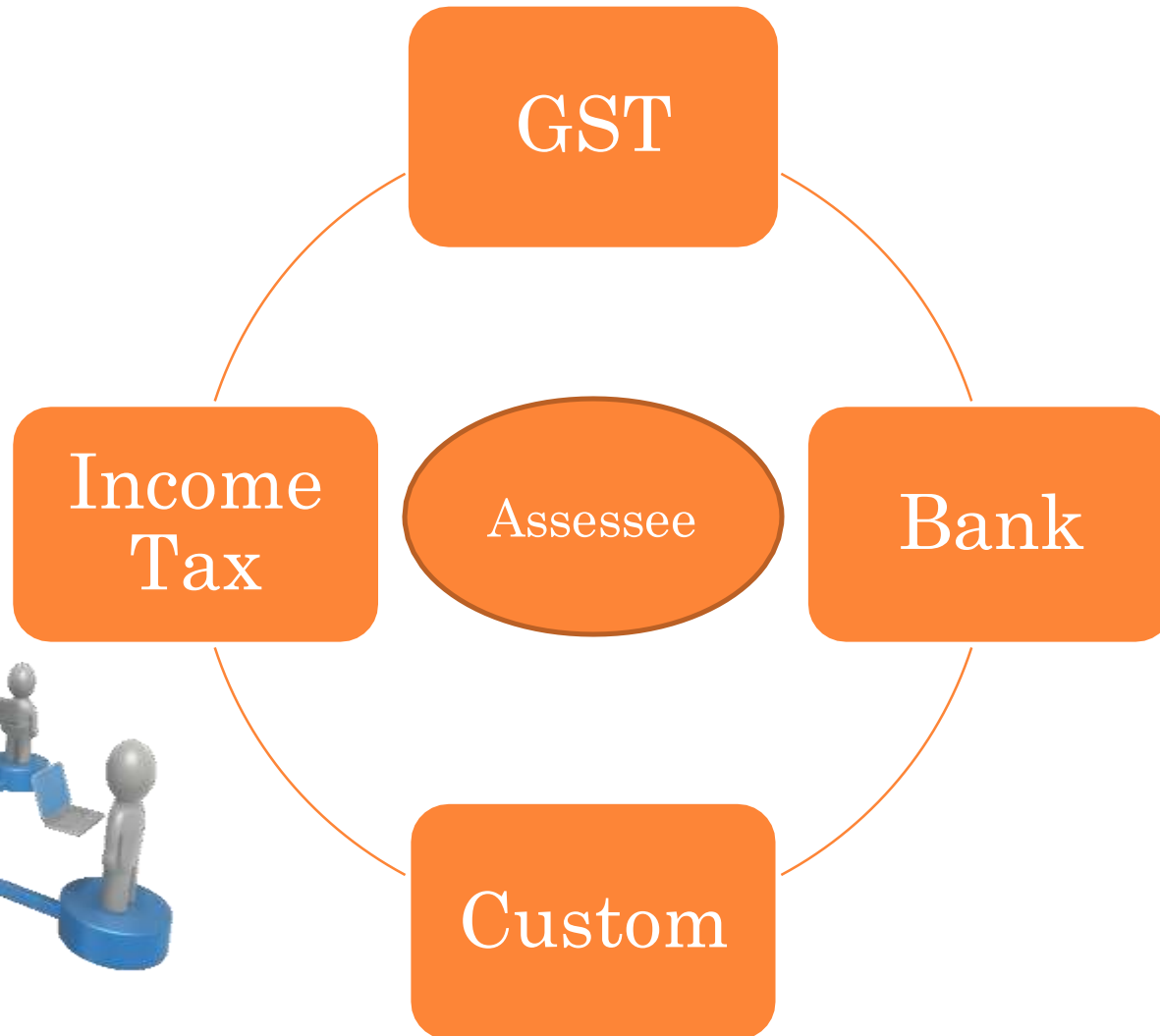
# OLD SCENARIO OF TAXATION

No Linkage between department



# PRESENT & UPCOMING SCENARIO OF TAXATION

Now all Departments are sharing data with each other



Let's Learn Few concept of Financial Statement:

Here is the solution



# BALANCE SHEET



What is  
Balance  
sheet?

- It is a summary statement of the financial position of the entity.

Why it is  
important?

- Because it provides picture of the financial health of a business at a given moment in time.

Who has to  
prepare  
Balance  
Sheet?

- Salaried Person
- Businessman
- Company
- Professionals





# CONTENT OF BALANCE SHEET

| LIABILITIES   | ASSETS   |
|---|--|
| <p><b><u>NET WORTH/EQUITY/OWNED FUNDS</u></b></p> <ul style="list-style-type: none"><li>- Owners Capital</li><li>- Reserves</li><li>- Profit</li></ul>  | <p><b><u>FIXED ASSETS:</u></b></p> <ul style="list-style-type: none"><li>- Land &amp; Building</li><li>- Plant &amp; Machinery</li><li>- Furniture &amp; Fixture, Etc.</li></ul> <p><b><u>-INTANGIBLE ASSETS</u></b><br/>Patent, Goodwill, Debit balance in P&amp;LA/c,<br/>Preliminary or Preoperative expenses</p> |
| <p><b><u>LONG TERM LIABILITIES:</u></b></p> <ul style="list-style-type: none"><li>- Term Loans</li><li>- Debentures/Bonds</li><li>- Unsecured Loans,</li></ul>  | <p><b><u>NON CURRENT ASSETS</u></b></p> <ul style="list-style-type: none"><li>- Long Term Investments</li><li>- Long Term Security Deposits</li></ul>  |
| <p><b><u>CURRENT LIABILITIES</u></b></p> <ul style="list-style-type: none"><li>- Working Capital Loan (CC)</li><li>- Sundry/Trade Creditors</li><li>- Short duration loans or deposit</li><li>- Expenses payable</li><li>- provisions against various items</li></ul> | <p><b><u>CURRENT ASSETS :</u></b></p> <ul style="list-style-type: none"><li>- Cash &amp; Bank Balance</li><li>- Debtors</li><li>- Stock</li><li>- Short Term Investment</li></ul>  |

# WHAT ARE ASSETS?



## Fixed assets

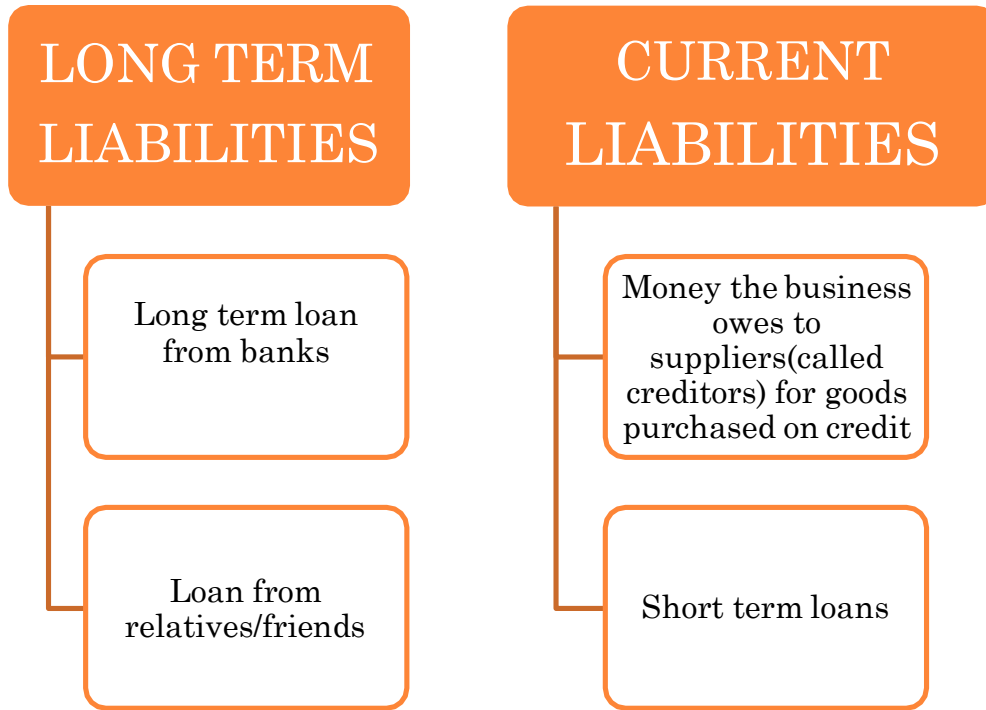


## Current assets



# WHAT ARE LIABILITIES?

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits



**Liabilities** also includes capital and reserves.

- Share capital/owners fund is money which shareholders have invested in the business
- Reserves = profit from previous years which has been kept to finance future developments

# Format of Financial Statement



## M/s XYZ

### Trading & Profit & Account year ended 31/03/20XX

| Particulars                            | Amount in Rs. | Particulars                         | Amount in Rs. |
|--|---------------|-------------------------------------|---------------|
| Opening Stock                          | 7,80,000      | Sales                               | 45,00,000     |
| Purchase                               | 36,00,000     | Closing Stock                       | 9,00,000      |
| Hamali and Freight Exp.                | 60,000        |                                     |               |
| Wages                                  | 2,40,000      |                                     |               |
| Power & Fuel                           | 3,30,000      |                                     |               |
| Gross Profit                           | 3,90,000      |                                     |               |
|  | 54,00,000     |                                     | 54,00,000     |
| Adminstrative Expenses                 | 1,55,000      | Gross Profit                        | 3,90,000      |
| (Depreciation, Interest,<br>Rent, etc) |               | Other Income                        | 20,000        |
| Net Profit                             | 2,25,000      | (Interest, Discount,<br>Commission) |               |
|  | 4,10,000      |                                     | 4,10,000      |

**M/s XYZ**  
**BALANCE SHEET AS ON 31/03/20XX**

| <b>LIABILITIES</b>                  | <b>AMOUNT IN<br/>RS.</b> | <b>ASSETS</b>                    | <b>AMOUNT IN<br/>RS.</b> |
|-------------------------------------|--------------------------|----------------------------------|--------------------------|
| <b><u>Capital A/c</u></b>           |                          | <b><u>Fixed Assets</u></b>       |                          |
| Prop./Partner / Share               | 9,35,000                 | Land                             | 3,50,000                 |
|                                     |                          | Factory and Office Building      | 3,75,000                 |
| <b><u>Long Term Liabilities</u></b> |                          | Plant and Machinery              | 1,20,000                 |
| Term Loan From Bank                 | 6,50,000                 | Motor Vehicle                    | 60,000                   |
| Loan from Mr. A                     | 1,00,000                 |                                  |                          |
|                                     |                          | <b><u>Non-Current Assets</u></b> |                          |
| <b><u>Current Liabilities</u></b>   |                          | Investments & Deposit            | 1,65,000                 |
| Cash Credit From Bank               | 8,00,000                 | Loan & Advances                  | 2,00,000                 |
| Provisions for Expenses             | 80,000                   |                                  |                          |
|                                     |                          | <b><u>Current Assets</u></b>     |                          |
|                                     |                          | Sundry Debtors                   | 2,45,000                 |
|                                     |                          | Stock                            | 9,00,000                 |
|                                     |                          | Cash & Bank Balances             | 1,50,000                 |
| <b>Total</b>                        | <b>25,65,000</b>         | <b>Total</b>                     | <b>25,65,000</b>         |

# WHY BANK DON'T PROVIDE FINANCE TO ME?

- Balance sheet Nahi he..
- Profit is in decreasing trend..
- Already Loan he..
- Income se jada apki already EMI he..
- Income tax return nahi he..
- 90 days se jada purane debtors he..
- Already books me excess cash dikh rahi he or loan kyu hona..
- Turnover does not justify CC Limit..
- Accounts se transaction nahi ho rahe...
- Purchase and Opening Stock does not justify Closing Stock
- Current Ratio is not good..
- EMI nahi baith raha..
- Market me image is not good...
- Security kam he..
- Industry Reputation not good..
- CIBIL Rating is bad..
- Liquidity shown in books is not sufficient..
- Capital base is not strong..



Here is the solution

Let's Learn type of bank finance and ratios  
that will help you in Financing:





# CASH CREDIT

Q. Why cash Credit is Important?

- To solve the requirement of working capital.
- For procuring raw material, stock of finished goods, fund involve in debtors trade cycle.

Q. On which form it is granted?

- In the form of overdraft on the security of stock in trade/process/raw material.

Q. Can Bank ask for additional security?

- Yes, if the security is not enough for the loan required.

Q. What is the maximum limit of outstanding?

- It is ensured that the balance outstanding does not exceed the drawing power

Q. What is the method of calculating drawing power?

**Drawing Power = Total value of the stock - Margin on it**

(Generally margin is 25% for Stock and 40% for trade debtors)

Q. Is it necessary that the borrower route all the transaction through CC Account?

Yes, It is necessary that the borrower must route all his transactions through the cash credit account and also submit the statement of sales along with the stock statement to enable the bank to ascertain whether the sales proceeds have been credited to the cash credit account

Q. Is there any penalty of non submission of stock statement?

Yes, Non submission of Stock statement shall entail charging of penal rate of interest at 2% p.a (General Rate)



# LONG TERM LOAN


What is term loan?

- It is loan from a bank for a specific amount that has a specified repayment schedule and a fixed or floating interest rate

What is purpose of Term loan?

- Land & Building
- Plant & Machinery

What is quantum of Finance?

- 25% - 30% Margin
  - 70% - 75% Finance
- 

# RATIO ANALYSIS

It's a tool which enables the banker or lender to arrive at the following factors :

- Liquidity position
- Profitability
- Solvency
- Financial Stability
- Quality of the Management
- Safety & Security of the loans & advances to be or already been provided



# CLASSIFICATION OF RATIO

| Balance Sheet Ratio   | P&L Ratio or Income/Revenue Statement Ratio  | Balance Sheet and Profit & Loss Ratio  |
|---|--|--|
| Financial Ratio   | Operating Ratio  | Composite Ratio  |
| <ul style="list-style-type: none"><li>➤ Current Ratio</li><li>➤ Quick Asset Ratio</li><li>➤ Proprietary Ratio</li><li>➤ Debt Equity Ratio</li></ul> | <ul style="list-style-type: none"><li>➤ Gross Profit Ratio</li><li>➤ Operating Ratio</li><li>➤ Expense Ratio</li><li>➤ Net profit Ratio</li><li>➤ Stock Turnover Ratio</li></ul> | <ul style="list-style-type: none"><li>➤ Fixed Asset Turnover Ratio.</li><li>➤ Return on Total Resources Ratio.</li><li>➤ Return on Own Funds Ratio.</li><li>➤ Earning per Share Ratio.</li><li>➤ Debtors' Turnover Ratio</li></ul> |

# CURRENT RATIO

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

## Extract of Current Assets and Liabilities

|                                   |        |
|-----------------------------------|--------|
| <b><u>Current Assets</u></b>      |        |
| Sundry Debtors                    | 245000 |
| Stock                             | 900000 |
| Cash & Bank Balances              | 150000 |
| <b>1295000</b>                    |        |
| <b><u>Current Liabilities</u></b> |        |
| Cash Credit From Bank             | 800000 |
| Provisions for Expenses           | 80000  |
| <b>880000</b>                     |        |

$$\frac{1295000}{880000} = 1.47$$

**CURRENT RATIO  
TELLS YOU IF THE  
COMPANY IS  
MANAGED WELL**



# DEBT-TO-EQUITY RATIO

$$\text{Debt To Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

|                               |                |
|-------------------------------|----------------|
| <b>Own Fund</b>               |                |
| Prop./Partner / Share Capital | 935000         |
| <b>Loan Fund</b>              |                |
| Term Loan From Bank           | 650000         |
| Loan from Mr. A               | 100000         |
| Cash Credit From Bank         | 800000         |
|                               | <b>1550000</b> |

$$\frac{1550000}{935000} = 1.65$$



# PROFIT MARGIN



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$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

|            |         |
|------------|---------|
| Net Profit | 225000  |
| Sales      | 4500000 |

$$\frac{225000}{4500000} = 0.05 \text{ Or } 5\%$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}}$$

|              |         |
|--------------|---------|
| Gross Profit | 390000  |
| Sales        | 4500000 |

$$\frac{390000}{4500000} = 0.09 \text{ Or } 8.66\%$$





# STOCK TURNOVER

$$\text{Stock Turnover} = \frac{\text{Net Sales}}{\text{Average Stock}}$$

|               |                |
|---------------|----------------|
| Opening Stock | 780000         |
| Closing Stock | 900000         |
| Average Stock | 840000         |
| Sales         | <b>4500000</b> |

$$\frac{4500000}{840000} = 5.35 \text{ Times}$$



# RECEIVABLE TURNOVER

$$\text{Receivable Turnover} = \frac{\text{Net Sales}}{\text{Sundry Debtors}}$$

|                |         |
|----------------|---------|
| Sundry Debtors | 245000  |
| Sales          | 4500000 |

$$\frac{4500000}{245000} = 18.37$$



Let's Move toward Financial Planning...

Financial Planning

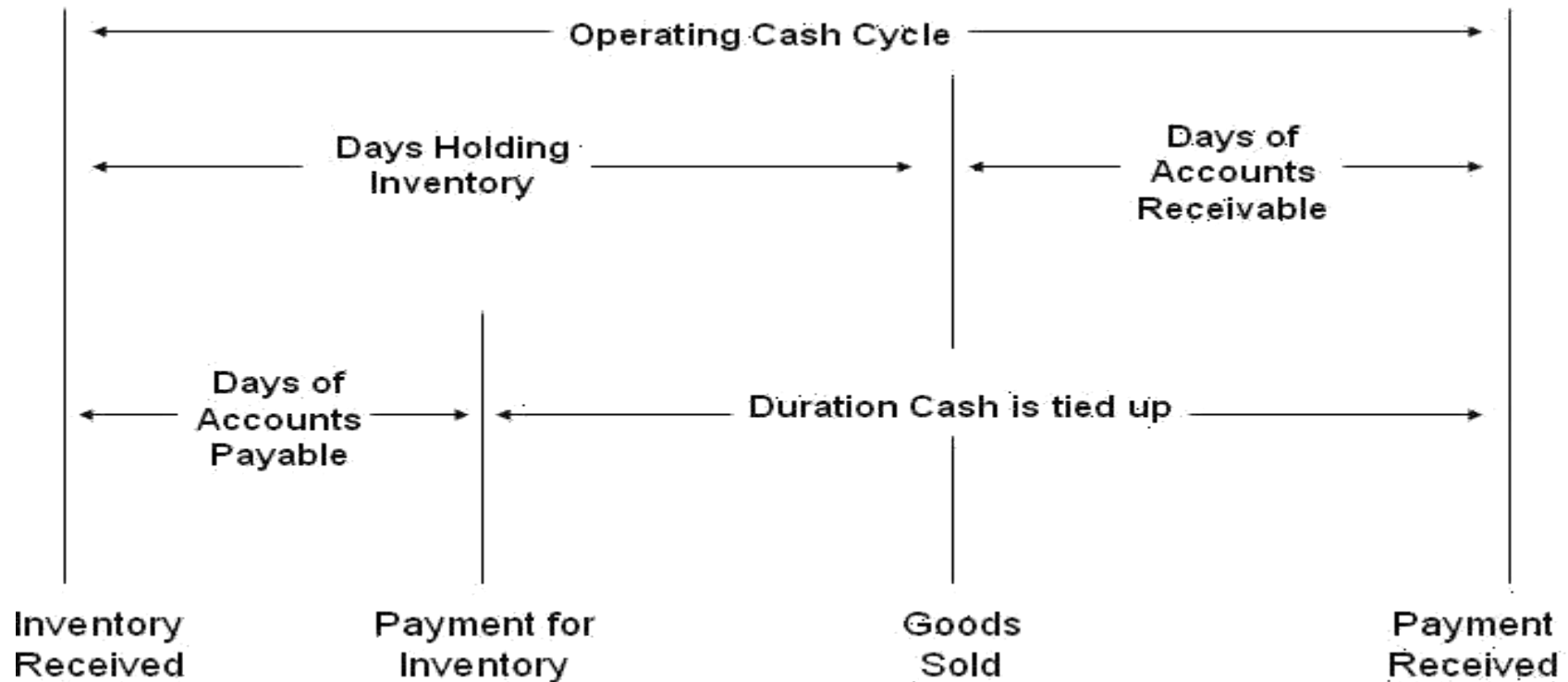


# WHAT FINANCIAL PLANNING IS???

- Proper Utilization of Secured as well as unsecured loan
- Effective utilization of Cash credit and their proper application in business
- Proper compliance followed in the preparation of financial statements
- Helps to evaluate the efficiency how well the company manages its assets and Liabilities in form of ratio analysis



# Cycle of Cash Flow which enable proper Financial Planning



# FINANCIAL DISCIPLINE

Financial discipline refers to how well you are able to conform your spending and saving to the plans that you have set to achieve your monetary goals.

## **Stages to achieve financial Discipline:-**

- ✓ Make a Plan
- ✓ Use Automation to Boost Discipline
- ✓ Be Accountable for Your Spending
- ✓ Rewards of Financial Discipline



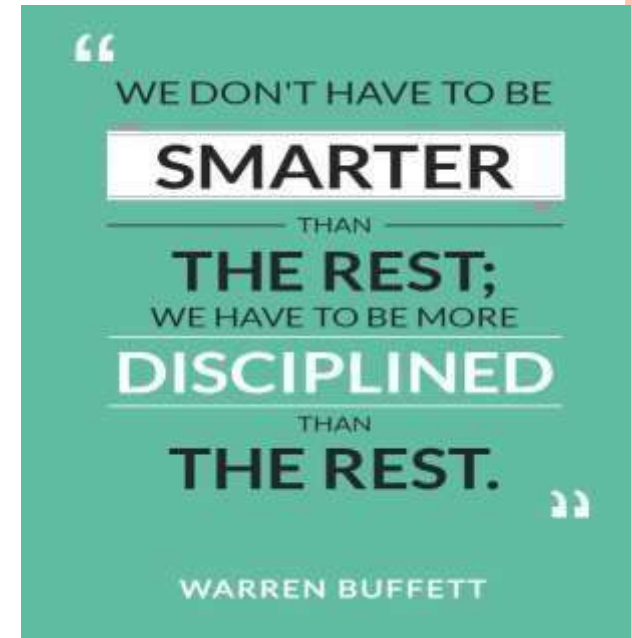
## **Areas that need to be avoid for Income tax Scrutiny:-**

- ✓ Overstatement of deductions and exemptions
- ✓ Falsification of documents
- ✓ Concealment or transfer of income
- ✓ Keeping two sets of financial ledgers
- ✓ Falsifying personal expenses as business expenses
- ✓ Claiming an exemption for a nonexistent dependent, such as a child
- ✓ Willfully underreporting income



# Consequences of non-compliance of Financial Discipline

- Penalties on late filing under VAT, Service Tax, Income Tax.
- Disallowance of cash expenses under Income Tax.
- Disallowance due to non deduction of TDS.
- Penalties due to non disclosure of income.
- Non-allowance of ITC under VAT.



# Impact of Demonetization on Books of Account:

- Unexplained Cash Created in Books of Account
- Unexplained jewellery bought
- Repaid loan which has not shown in books earlier
- Amount accepted from debtors which are written off
- Amount paid to creditor which are written off
- Accounting of personal Transaction
- Sudden increase shown for cash adjustment



# WHY SCRUTINY INCREASES DUE TO DEMONETIZATION

1

- Reported earnings consistently higher than previous year

2

- Sudden increase in inventory/sales ratio

3

- Spurt in other income

4

- Inclusion of personal Expenses in Business expenses

5

- Expenses incurred in E-transaction exceed income shown in returns of Previous year

6

- No Explanation available for cash deposited during 8<sup>th</sup> November to 31<sup>st</sup> December



Presenter M a





# GST TRANSITION- POINTS TO TAKE CARE

- Get Ready for 37 return Per Year
- Get Ready for Monthly completion of Accounting
- Interact With Your Vendor/Customer to settle old Tax Issue
- Prepare your Stock Position to take Credit into GST
- Complete Books of Account before Implementation of GST to file return In due date
- Close your Assessment pending under Old Law



# BUDGET PROVISION- POINTS TO BE NOTE

- Expenditure in cash in excess of Rs.10,000, whether revenue or capital, will not be eligible as deduction.
- Receipt of money in cash in excess of Rs.3 lakhs will attract penalty of equivalent amount.
- Time period for revising a tax return is being reduced to 12 months from completion of financial year.
- Filing tax return late will invite a late fee of Rs.5,000 or Rs.10,000. Will have to be paid before filing of return.



Here is the solution For

- Financial Discipline
- GST Transition
- Demonetization
- Budget Amendment



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# Cleaning up your Financial Statement

It involves providing accounting treatment for following issues:

➤ Long Pending Entries (as it is in case of):

1. Debtors
2. Creditors
3. Loans
4. Advances

➤ Discount Entries: No entries in books for discount received or given

➤ Lots of Cash Entries in books.

➤ When the loan is borrowed from relatives, friends or any other person should not be shown in firms balance sheet. But should be shown as borrowed by owners of firm and merge in capital account



# CLEANING OF BOOKS

- Invoice based accounting for VAT purpose
- Real time accounting and book keeping
- Maintaining your own bank book instead of depending on Bank Statements
- Getting confirmation of High value transaction in Creditors / Debtors / Loans .
- Early closing of books will have added advantage . Tallying records with the second party.
- We enjoy delaying payments of creditors.....!



# BENEFITS OF REAL TIME ACCOUNTING

To ascertain the cost of products / services offered.



To reconcile the balances with suppliers / customers.



To ascertain the cash and bank balance position



To detect revenue leakage / fraud / misappropriation if any.



To comply with Taxation laws in time , pay taxes and duties .



It helps to save interest and penalty cost.





*Thank  
You*