# CH-2 :- Framework for Preparation and Presentation of Financial Statement.

- Balance Sheet
- Statement of Profit & Loss.
- Cash flow statement
- Notes to Accounts (other disclosures)

## ① Users of financial Statements

a) Investor - Analysis of performance & profitability

b) Employees - Knowledge of stability & Growth

c) Creditors (Suppliers) - Credit worthiness of Company

d) Government - Evaluation of Social objectives & tax regulations

e) Lenders - Timely Repayment

f) Public ~~etc.~~ Determine contribution to the economy..

etc ....

## ② Fundamental Accounting Assumptions

**Going Concern**
↓
Business will Continue for fore seable future and will not liquidate

**Consistency**
↓
Same Accounting policies should be followed in all accounting periods

**Accrual**
↓
Transaction are ~~re-go~~ recognised when they occur, not when settlement is made.

If Going Concern assumption fails then assets are recorded at Net Realisable Value (Refer illust) (PP-3)

Accounting policy may be changed:-
a) if law requires
b) if AS requires
c) for better presentation of financial statement.

## ③ Qualitative characteristics of financial Statements

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① Understandability:- Information presented in financial Statement should be ~~really~~ readily understandable by the ~~users~~ users.

④ Relevance - It is not right to think that more information is always better. A mass of irrelevant information creates confusion and can be even more harmful than ~~a~~ non-disclosure.

- It is important to known the following two Constrainst in this regard:-

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a) Timeliness - If there is undue delay in the reporting of information, it may lose its relevance.

b) Balance between Benefit and Cost :- The Benefits derived from information should exceed the cost of providing it

(iii) **Reliability** - The information must be reliable i.e free from bias and material errors

- Principle of Substance over from should be followed (AS-1)

सच्चाई > legal from (कानूनी)

- Transactions & events must be neutral (i.e. Neutrality) free from bias

- Information must be complete

(iv) Comparability :- Financial Statements should provide both Inter-firm and Intra-firm Comparison.

## (4) Elements of financial Statements

(i) Asset - Resources owned & controlled by enterprise, which provides future economic benefit

(ii) liability - Present obligation arising from past event, the ~~settelment~~ settlement of which is expected to result in out flow of resources

Possible ☞ Contingent liability.

(iii) Equity (Capital) - Residual interest in the assets of an enterprise after deducting all liabilities. i.e Net Assets, capital.

(iv) Income/gain - Increase in economic benefits during the accounting period.

(v) Expense/loss - Decrease in economic benefit during the accounting period.

* $\boxed{\text{Assets} = \underset{\substack{\uparrow \\ \text{income} \\ (+)}}{\text{Equity}} + \underset{\substack{\uparrow \\ \text{expense} \\ (-)}}{\text{liability}}}$

(5) Measurement of elements of financial Statements.

- Historical Cost - Acquisition price
- Current Cost - Present cost of similar asset
- Realisable (settlement) Value - Asset will be realised (sold) at this Value.
- Present Value - Discounted Value of future flows.

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(6) Financial Capital Maintenance

(i) At historical Cost - Opening & closing assets are stated at historical cost

(ii) ~~At Current Purching~~ Purchasing power - Restatement at closing Prices using average Price index

(iii) At Physical Capital Maintenance – Restatement at closing prices using Specific price index

| | |
|---|---|
| Closing Capital (at HC/CP/PC) | xxx |
| (–) Opening Capital (at HC/CP/PC) | (xx) |
| (–) Introduction (Additional) (at HC/CP/PC) | (xx) |
| RETAINED Profit / (loss) | xx/(xx) |

Opening — Additional — Closing

10,000 — 5000 — 18,000

Closing
(–) Opening
(–) Additional
Profit

Ill ①

Profit & loss A/c

| | Case ① | Case ⑪ | | ① | ⑪ |
|---|---|---|---|---|---|
| To Depreciation | 13000 | 5000 | By Sales | 450,000 | 450000 |
| To opening stock | 30,000 | 30,000 | By closing stock | 32000 | 40,000 |
| To Purchase | 400000 | 40,0000 | By discount received | – | 600 |
| To Expenses | 14900 | 14900 | | | |
| To Amortisation | 2500 | 10,000 | | | |
| To P.D.D | 2000 | 6000 | | | |
| To loan Penalty | – | 2500 | | | |
| To Net Profit (bal.) | 19600 | 22200 | | | |
| | 482000 | 490600 | | 482000 | 490600 |

Balance Sheet

| Liabilities | I | II | Assets | I | II |
|---|---|---|---|---|---|
| Trade payables | 12000 | 11400 | PPE (65000-13000) | 52000 | 69000 |
| Capital | 60,000 | 60,000 | closing stock | 32000 | 40,000 |
| Loan 10% | 35000 | 37500 | Defered Cost | 7500 | Nil |
| P&L (25000+19600) | 44600 | 47200 | Trade Receivables | 23000 | 19000 |
| | | | Cash | 37100 | 37100 |
| | 151600 | 156100 | | 151600 | 156100 |