

CU-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

- Investor - Analysis of performance & profitability
- Employer - Knowledge of stability & Growth
- Creditors (Suppliers) - Credit worthiness of Company
- Government - Evaluation of social objectives & tax regulations
- Lenders - Timely Repayment
- Public etc. - Determine contribution to the economy etc.

② Fundamental Accounting Assumptions

Going Concern

Business will continue for foreseeable future and will not liquidate

Consistency

Same Accounting policies should be followed in all accounting periods

Accrual

Transactions are 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

Imp

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

② 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 non-disclosure.

- It is important to know the following two constraints in this regard:-

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 form** should be followed (AS-1)
Hजाई > legal form (कानून)
 - 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.

(v) **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 settlement of which is expected to result in **outflow of resources**

Possible $\Rightarrow$ **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.

$$\text{Assets} = \text{Equity} + \text{Liability}$$

income (+) expense (-)

(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.

V. imp

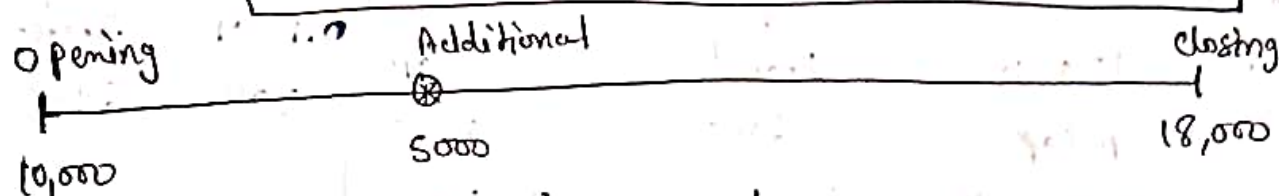
(6) Financial Capital Maintenance

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

(ii) At current purchasing power - Restatement at closing prices using average price index

③ 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)	<u>xx/yy</u>



$$\begin{aligned} & \text{closing} \\ & \text{opening} \\ & \text{Additional} \\ & \hline \text{Profit} \end{aligned}$$

Ex ①

Profit & loss A/c

	Case I	Case II		①	②
To Depreciation	13000	5000	By Sales	450,000	450,000
To opening stock	30,000	30,000	By closing stock	32000	40,000
To Purchase	400,000	400,000	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			
	<u>482000</u>	<u>490600</u>		<u>482000</u>	<u>490600</u>

Balance Sheet

Liabilities	(i)	(ii)	Assets	(i)	(ii)
Trade payables	12 000	11 400	P P E (65 000 - 13 000)	52 000	69 000
Capital	60 000	60 000	closing stock	32 000	40 000
Loan b/l.	35 000	37 500	Deferred Cost	7 500	Nil
P L L (25 000 + 19 600)	44 600	47 200	Trade Receivables	23 000	19 000
			Cash	37 100	37 100
	151 600	156 100		151 600	156 100