

FINANCIAL STATEMENTS

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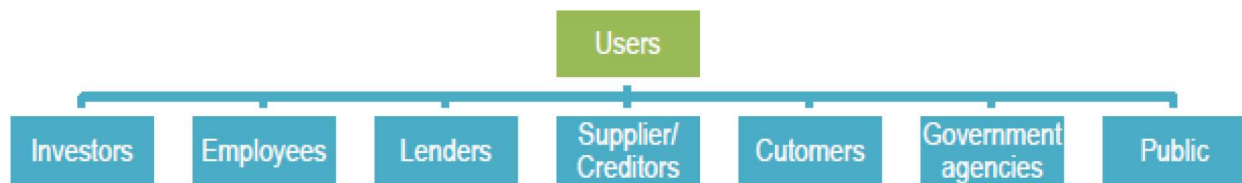
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USERS OF FINANCIAL STATEMENTS



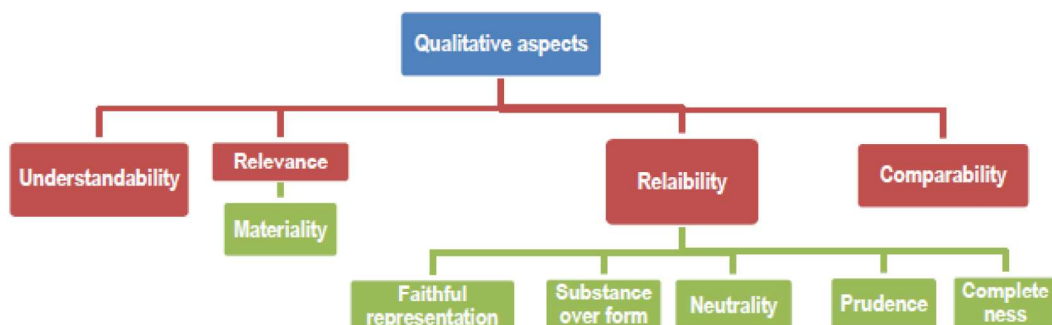
OBJECTIVES OF FINANCIAL STATEMENTS

Balance Sheet comprises information about the economic resources controlled by the entity and its capacity in the past to modify these resources is useful in predicting the ability of the entity to generate cash and cash equivalents in the future. The balance sheet provides overall strength and capacity of a business at any point of time.

Income Statement comprises information about the performance of an entity, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future.

Cash flow Statements will be useful in order to assess its investing, financing and operating activities during the reporting period. This information is useful in providing the user with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows,

QUALITATIVE ASPECT



TAXATION

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CONCEPT

- Accounting Income
 - Net Profit or Loss reported in the Statement of Profit and Loss before deducting the income tax expense

- Taxable Income
 - Income as per Income Tax laws
 - Tax payable is calculated on this income

- Tax Expense
 - Aggregate of the Current Tax and Deferred Tax as shown in the Statement of Profit & Loss

- Current Tax
 - Amount of Income Tax payable based on Taxable Income
 - Equal to Current Tax provision

CONCEPT

- **Previous Year**
 - The financial year for which income is earned and taxes are calculated
- **Assessment Year**
 - The financial year following Previous Year in which income tax returns are filed and assessments are done
- **Advance Income Tax**
 - Taxes paid in advance of the assessment year- before the completion of the financial year
 - As per Income Tax Act 1961
 - Pay as you earn tax
 - Assessee estimates income and pays tax in advance as per dates and rates prescribed
- **Self Assessment Tax**
 - Assessee self calculates the tax before filing the income tax return
 - Deducts the amount of advance taxes paid (if any) from the total tax liability
 - Deposits the balance tax payable called as Self Assessment Tax before filing the tax return
 - Can't file return unless whole tax is deposited

CONCEPT

- **Prior Period Tax Expense**
 - Income Tax Department may raise demand for more tax as per their calculation for previous year which has been completed in the subsequent years when the assessment is done
 - Such Expense is booked in the year when the demand is raised and paid and is called as Prior period tax expense
- **Prior Period Tax Saving**
 - When the tax liability determined by tax authorities is lesser than the Current Tax of the previous year, the difference is Prior Period Tax Saving
- **Income Tax Payable or Refund A/c**
 - Advance Tax + TDS deducted of the company by others (Asset) < Tax Liability → Income Tax Payable
 - Advance Tax + TDS deducted of the company by others (Asset) > Tax Liability → Income Tax Refundable

DEFERRED TAX

- Deferred Tax
 - When Accounting Income and Taxable Income are different, and
 - The difference is temporary / **Timing Difference**

- Timing Differences
 - Difference between Accounting Income & Taxable Income that originate in one period and are capable of reversal in one or more subsequent periods
 - Arise because period in which revenue and expenses are given effect in books don't coincide with the revenue and expenses that are included for calculation of Taxable Income as per Income Tax Act.
 - **Example:**
 - Machinery used for R & D - allowed 100% for tax purposes
 - depreciated by company over useful life
 - Total Depreciation charged for machinery will be the same but the amounts charged in different years will be different

DEFERRED TAX

- Few Other Examples
 - Provisions allowed may not be same as per Income Tax Act
 - Amortization of certain expenses
 - Taxes etc allowed on payment basis but books are made on accrual basis

- Kinds of Deferred Tax
 - Deferred Tax Liability : If Accounting Income > Taxable Income
Tax effect on the difference between these two become DTL
 - Deferred Tax Asset : If Accounting Income < Taxable Income
Tax effect on the difference between these two become DTA

- The Amount of DTA or DTL for a FY is adjusted to the existing figures from previous Balance Sheet and Net result is shown

- DTA or DTL are merely book entries they are neither assets nor liabilities in actual sense

- Permanent Differences
 - Differences in taxable income in Accounting Income originated in a previous year and don't reverse in the subsequent years
 - Example: If Tax Laws allow only a part of expenditure and disallows the rest then that amount becomes Permanent Difference

EXERCISE

Year	Original Depreciable Cost	Annual Tax Depreciation	Cumulative Depreciation	Tax Basis
2010	1000	333.3	333.3	666.7
2011	1000	266.7	600.0	400.0
2012	1000	200.0	800.0	200.0
2013	1000	133.3	933.3	66.7
2014	1000	66.7	1000.0	0.0
Total	5000	1000		

EXERCISE

Year	EBDT	Depreciation	Taxable Income	Taxes Due @ 40%
2010	1000	333.3	666.7	266.68
2011	1000	266.7	733.3	293.32
2012	1000	200	800	320
2013	1000	133.3	866.7	346.68
2014	1000	66.7	933.3	373.32
Total	5000	1000	4000	1600

EXERCISE

Year	Original Book Cost	Annual Tax Depreciation	Cumulative Book Depreciation	Net Book Value
2010	1000.0	200.0	200	800.0
2011	1000.0	200.0	400.0	600.0
2012	1000.0	200.0	600.0	400.0
2013	1000.0	200.0	800.0	200.0
2014	1000.0	200.0	1000.0	0.0
Total	5000	1000		

EXERCISE

Year	Net Book Value	Tax Basis	Net Book Value Less Tax Basis	Deferred Income Taxes Liability @ 40%	Deferred Income Tax Expense
2010	800.0	666.7	133.3	53.3	53.3
2011	600.0	400.0	200.0	80.0	26.7
2012	400.0	200.0	200.0	80.0	0.0
2013	200.0	66.7	133.3	53.3	-26.7
2014	0.0	0.0	0.0	0.0	-53.3
Total	2000	1333.4			



ACCOUNTING

5/18/2020

JOURNAL ENTRIES

Stage 1 : During the Year

Payment of advance Tax

Advance Income Tax Dr
 To Bank

TDS deducted

Bank A/c Dr
 TDS Asset Dr
 To Revenue / Income/ Receipts

At the end of the year for Current Tax & Deferred Tax

P & L Dr
 Deferred Tax Asset Dr
 To Current Tax
 To Deferred Tax Liability
 To P & L

Shri Ram College of Commerce

5/18/2020



JOURNAL ENTRIES

Stage 2: Following year before filing Tax return

Self Assessment Tax

Self Assessment Tax Dr
 To Bank

JOURNAL ENTRIES

Stage 3: Year when assessment takes place

	Possibility 1	Possibility 2
Situation	Tax Liability by IT Dept > Current Tax	Tax Liability by IT Dept < Current Tax
Step 1	P & L Dr To Prior Period Tax Expense	Prior Period Tax Saving Dr To P & L
Step 2	Income Tax Payable / Refundable Dr To Advance Income Tax To TDS To Self Assessment Tax Current Tax Dr Prior Period Tax Exp Dr To Income Tax Payable / Refundable	Income Tax Payable / Refundable Dr To Advance Income Tax To TDS To Self Assessment Tax To Prior Period Tax Savings Current Tax Dr To Income Tax Payable / Refundable
Step 3	Income Tax Payable Dr To Bank	Bank Dr To Income Tax refund

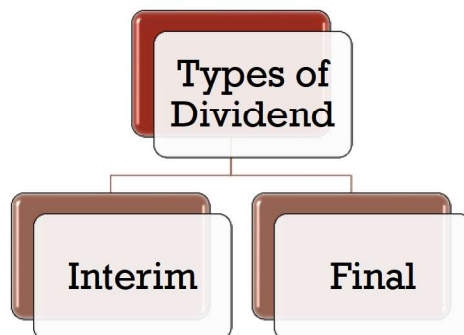
DIVIDEND



CONCEPT

What is Dividend?

- Return on investment made by shareholders
- Sec 2 (35) of The Companies Act 2013: Dividend includes Interim Dividend
- ICAI: Dividend is return on share held in an entity which is payable out of distributable profits



INTERIM DIVIDEND

Meaning

- Declared in the Current year for the Current year
- Declared between 2 AGMs

No. of times allowed in a year

- Can be done more than once

Source

- Surplus in P & L A/c
- Profits of the FY in which interim dividend is declared

Who can declare

- Board of Directors

Approval of Members

- Not required

Precautions

- Check Financial position of the Company

FINAL DIVIDEND

Meaning

- Recommended by Board based on the financial results of the company
- Declared in the AGM by the shareholders

No. of times

- Once

Source

- Distributable Profits

Who can declare

- Shareholders

Approval of Members

- Required

Precautions

- Check Financial position of the Company



ACCOUNTING

5/18/2020

JOURNAL ENTRIES- INTERIM DIVIDEND

Event	Journal Entry
Declaration of Interim Dividend	Interim Dividend Dr To Interim Dividend Payable
Dividend Tax Due	Corporate Dividend Tax Dr To Corporate Dividend Tax Payable
Deposit money in new Bank A/c within 5 days	Interim Dividend Bank A/c Dr To Bank A/c
Payment of Interim Dividend in 30 days from declaration	Interim Dividend Payable Dr To Interim Dividend Bank A/c
Payment of corporate Dividend Tax	Corporate Dividend Tax Payable Dr To Bank A/c
Transfer of unclaimed Interim Dividend	Unpaid Dividend Bank A/c Dr To Interim Dividend Bank A/c
For payment of unclaimed Dividend within 7 years	Interim Dividend Payable Dr To Unpaid Dividend Bank A/c
Accrual of Interest on unclaimed Dividend	Unpaid Dividend Bank A/c Dr To Interest Payable
Transfer to Investor Education & Protection Fund (IEPF)	Interim Dividend Payable Dr Interest Payable Dr To IEPF
Payment to IEPF	IEPF Dr To Unpaid Dividend Bank A/c
Transfer to P&L Appropriation	P & L To Interim Dividend To Corporate Dividend Tax

JOURNAL ENTRIES- FINAL DIVIDEND

Event	Journal Entry
Recommendation by Board	No Entry Mention in Notes to Accounts
Declaration by Shareholders in AGM	P & L Dr To Dividend Dividend Dr To Dividend Payable
Dividend Tax Due	P & L Dr To Corporate Dividend Tax Corporate Dividend Tax Dr To Corporate Dividend Tax Payable
Deposit money in new Bank A/c within 5 days	Dividend Bank A/c Dr To Bank A/c
Payment of Dividend in 30 days from declaration	Dividend Payable Dr To Dividend Bank A/c
Payment of corporate Dividend Tax	Corporate Dividend Tax Payable Dr To Bank A/c
Transfer of unclaimed Dividend	Unpaid Dividend Bank A/c Dr To Dividend Bank A/c
For payment of unclaimed Dividend within 7 years	Dividend Payable Dr To Unpaid Dividend Bank A/c
Accrual of Interest on unclaimed Dividend	Unpaid Dividend Bank A/c Dr To Interest Payable
Transfer to Investor Education & Protection Fund (IEPF)	Dividend Payable Dr Interest Payable Dr To IEPF
Payment to IEPF	IEPF Dr To Unpaid Dividend Bank A/c

EARNING PER SHARE (EPS)

BASIC EPS

- Basic EPS is a measurement of the company's per share performance over a period of time

$$\text{Basic EPS} = \frac{\text{Net Income attributable to equity shares}}{\text{No. of outstanding equity shares}}$$

- Net Income should be taken after deducting Preference Dividend and any attributable tax for the period

** Can also take Weighted Average of No. of outstanding equity shares

DILUTED EPS

- Diluted EPS is amount of earnings for a period applicable to each equity share outstanding adjusted to reflect dilution assuming all potentially dilutive equity shares were outstanding during the year
- Potential Dilutive equity shares may include
 - Stock Options
 - Warrants
 - Convertible Securities
- Objective
 - To alert financial statement users to its potential dilution
- It reflects the potential dilution of earnings per share that could occur if these contracts and securities were exercised or converted to equity shares

- Net Profit or Loss attributable to Equity Shareholders
- Weighted Average number of Equity shares outstanding

Adjusted to effects
of all Dilutive
Potential Equity
Shares

EXERCISE

- Net Profit of Current Year : Rs 1,00,00,000
- No. of Equity shares outstanding : 50,00,000
- No. of 12% convertible Debentures of Rs 100 each : 1,00,000
(Convertible into 10 equity shares each)
- Interest Expense for the year : Rs 12,00,000
- Tax relating to Interest Expense : 30% i.e. Rs 3,60,000

Solution

- Basic EPS = $\text{Rs } 1,00,00,000 / 50,00,000 = \text{Rs } 2$
- Adjusted Net Earnings = $1,00,00,000 + 12,00,000 - 3,60,000 = 1,08,40,000$
- No. of Equity shares resulting from Debentures = 10,00,000
- Diluted EPS = $1,08,40,000 / (50,00,000 + 10,00,000) = \text{Rs } 1.81$

THANKS

