



Analysis of Financial Statements

**DTRTI - Chennai
19th September, 2016**

Objective of this session

- ✓ Voluminous & Unwanted data.
- ✓ Too many transactions with RP's.
- ✓ **Substance over Form.**





COMPONENTS OF FINANCIAL STATEMENTS

Components of financial statements



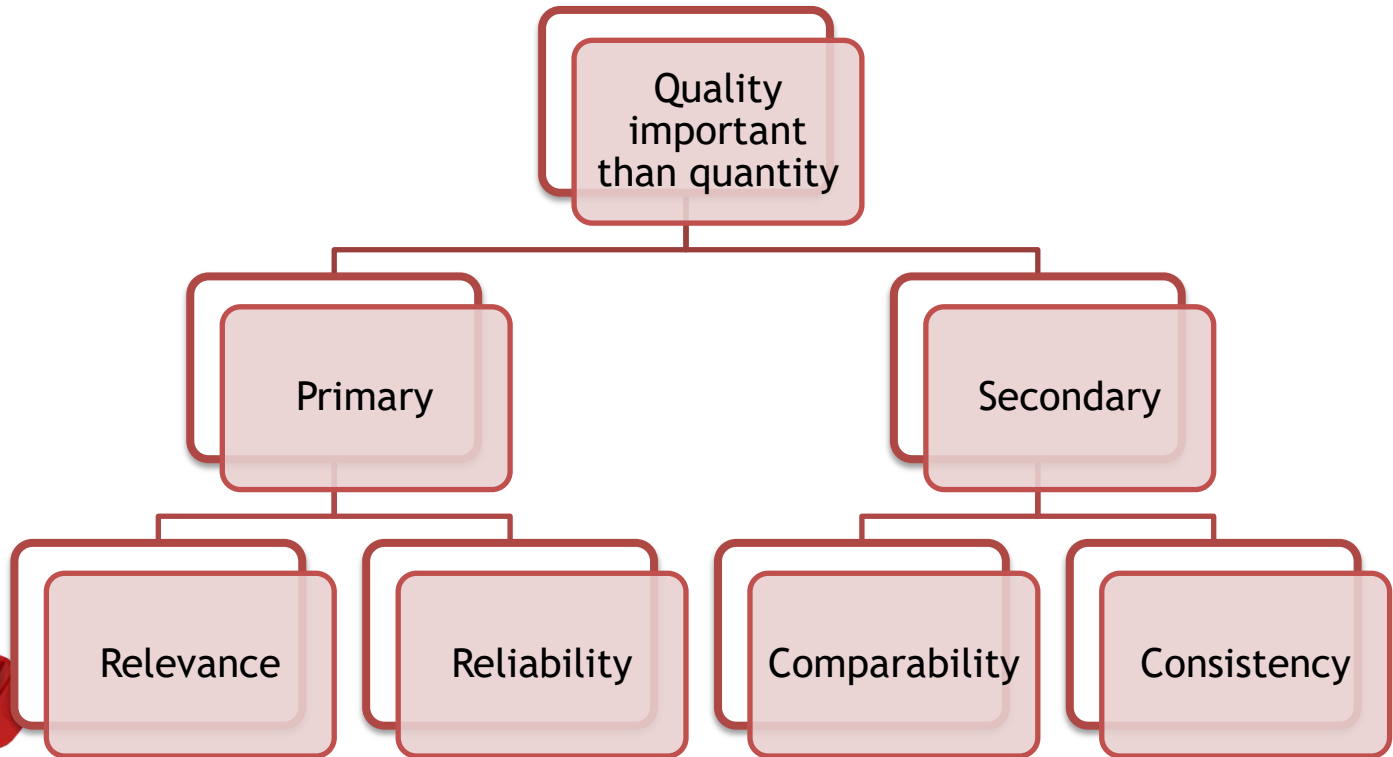
Users of financial statements





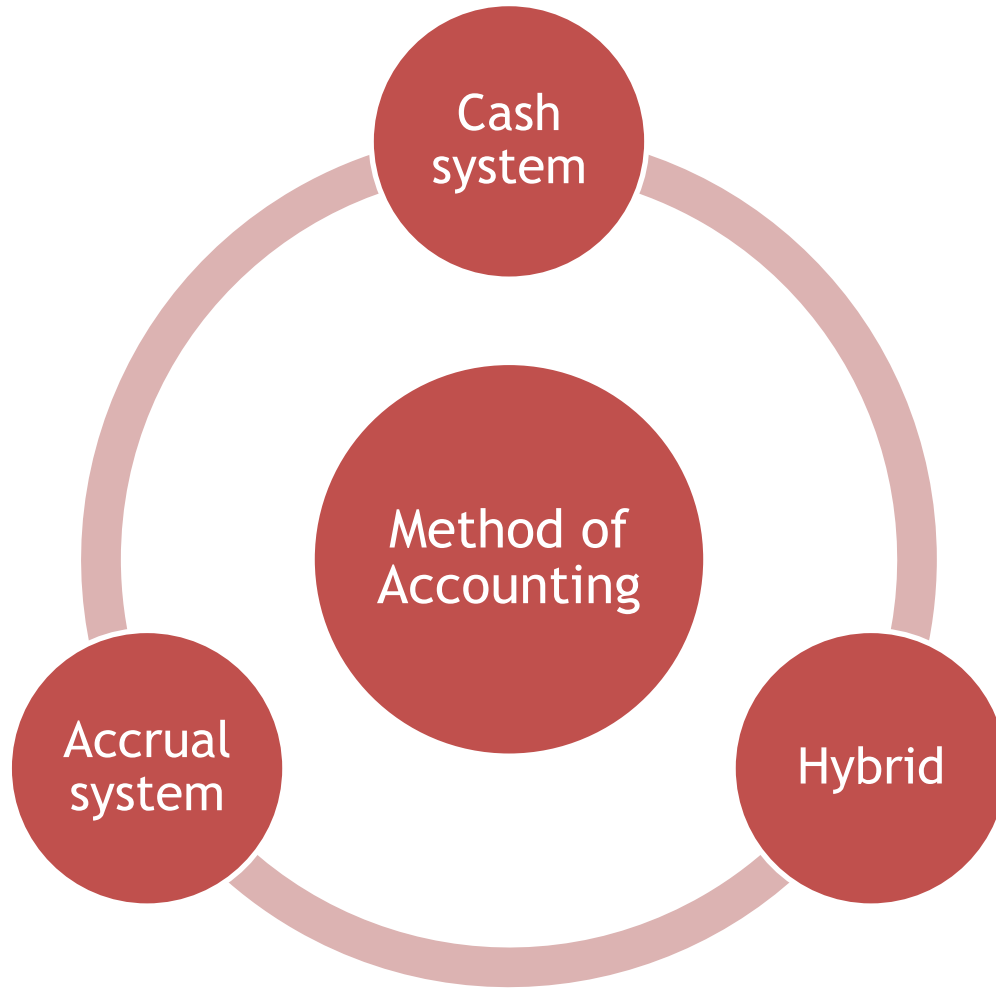
ASPECTS OF FINANCIAL STATEMENTS

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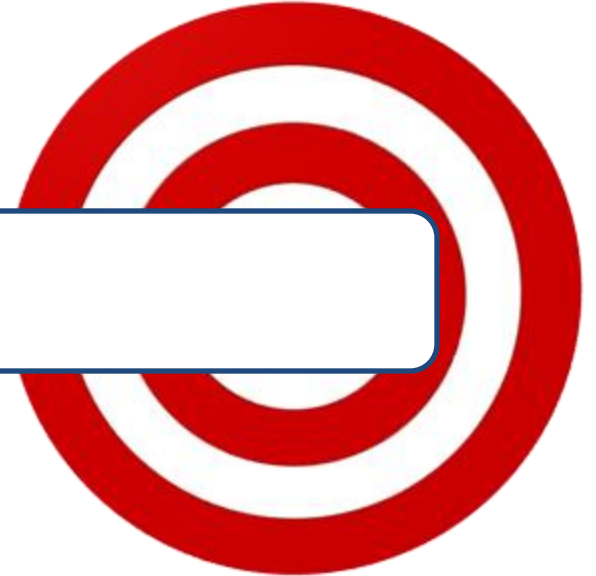
METHOD OF ACCOUNTING





ITEM WISE APPROACH - BALANCE SHEET

SHARE CAPITAL



SHARE CAPITAL

	31 March 20XX	31 March 20XX		
<u>Authorised</u>				
10,00,000 Equity Shares of Rs.10/- each	<u>1,00,00,000</u>	<u>1,00,00,000</u>		
<u>Issued, Subscribed and Paid up</u>	12,50,000	11,00,000		
1,25,000 Equity Shares of Rs.10/- each				
<p>Reconciliation of the number of shares outstanding at the beginning and at the end of the reporting year</p>				
	20XX No. of Shares	20XX In rupees	20XX No. of Shares	20XX In rupees
At the beginning of the year	1,10,000	11,00,000	1,00,000	10,00,000
Issued during the year - Employee Stock Option Scheme	15,000	1,50,000	10,000	1,00,000
Outstanding at the end of the year	1,25,000	12,50,000	1,10,000	11,00,000



b) Terms/rights attached to equity shares

The company has one class of shares referred to as equity shares having a par value of Rs. 10. Each holder of equity shares is entitled to one vote per share.

c) Details of shareholders holding more than 5% shares in the company

	As at 31, March 20XX		As at 31, March 20XX	
	No. of Shares	% held	No. of Shares	% held
Mr. A	35,000	28	35,000	28
PQR Ltd	40,000	32	40,000	32

d) The company has reserved issuance of 5,000 (20,000) equity shares of Rs. 10 each for offering to eligible employees of the company and its subsidiaries under the Employee Stock Option Scheme - 2007.



ANALYSIS OF SHARE CAPITAL

- ✓ Movement in share capital/Share advance;
- ✓ Major shareholding;
- ✓ Shares issued at premium/discount;
- ✓ Buy back of shares.



ANALYSIS OF LIABILITIES



LONG TERM BORROWINGS

Particulars	As at March 31, 2016		As at March 31, 2015	
	Non Current	Current	Non Current	Current
	Rs. in Lakhs	Rs. in Lakhs	Rs. in Lakhs	Rs. in Lakhs
Bonds / Debentures	-	-	-	-
Term Loans				
- From Bank (Secured)	12	41	51	46
- From Other Parties	17	24	43	24
Deferred Payment Liabilities	-	-	-	-
Loans from related parties	1125	500	NIL	5

Term loan includes Rs.8 lakhs (Rs.20 lakhs) from State Bank of India and is secured by a first charge on fixed assets purchased out of the term loan and land and buildings of XYZ factory of the company.

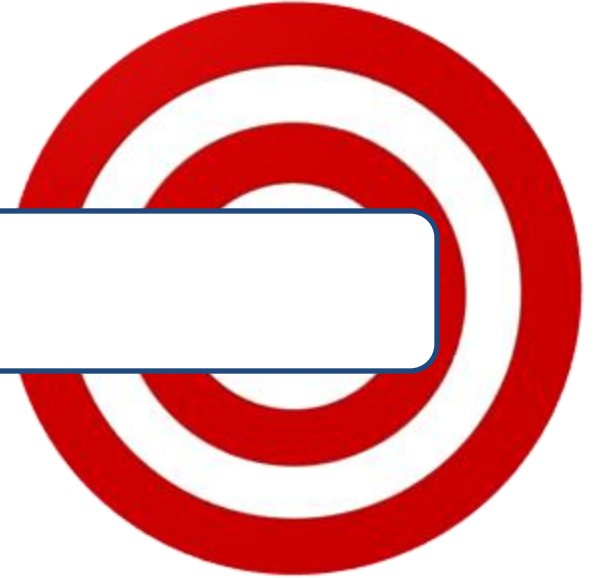


ANALYSIS OF LIABILITIES

- ✓ Loans from related parties;
- ✓ 269SS and 269T;
- ✓ Loans from/to director;
- ✓ Remission or Cessation of liability



PROVISIONS



PROVISIONS

Particulars	As at March 31, 20XX	As at March 31, 20XX
	Rs. in Lakhs	Rs. in Lakhs
i. Provision for Employee Benefits		
Provision for Bonus & Leave Encashment	10	8
Provision for Gratuity	20	18
ii. Others		
Provision for Warranty and contractual obligation	30	20
Provision for Bad debts	40	30
Proposed dividend	10	8
Provision for		
Tax on Proposed dividend	1	1
Income taxes (net)	50	40
Total	161	125

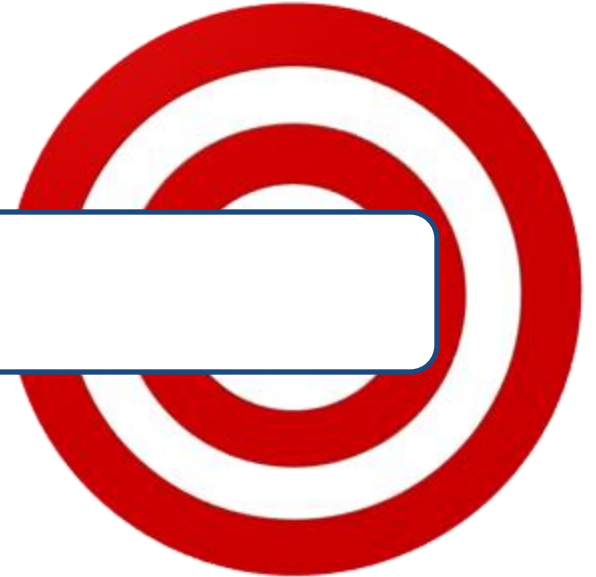


ANALYSIS OF PROVISIONS

- ✓ Provision Vs. Write off in books;
- ✓ Dividend Vs. DDT;
- ✓ Provision for employee benefits.



FIXED ASSETS



FIXED ASSETS

PARTICULARS	GROSS BLOCK				DEPRECIATION / AMORTISATION				NET BLOCK	
	As at		As at		Up to		Up to		As at	
	31.03.20XX	Addition	Deletion	31.03.20XX	31.03.20XX	for the year	Deletions	31.03.20XX	31.03.20XX	31.03.20XX
Tangible										
Land	25	15	5	35	-	-	-	-	25	35
Buildings	50	10	20	40	10	6	2	14	40	26
Plant	30	10	5	35	5	6	2	9	25	26
Vehicles	20	10	5	25	5	4.5	0.5	9	15	16
	125	45	35	135	20	16.5	4.5	32	105	103
Intangible										
Technical Know-How	12	4	-	16	3	1	-	4	9	12
Software	16	8	-	24	4	2	-	6	12	18
	28	12	-	40	7	3	-	10	21	30
TOTAL – 31.03.20XX	153	57	35	175	27	19.5	4.5	42	126	137
31.03.20XX	140	20	7	153	17	13	3	27	137	153

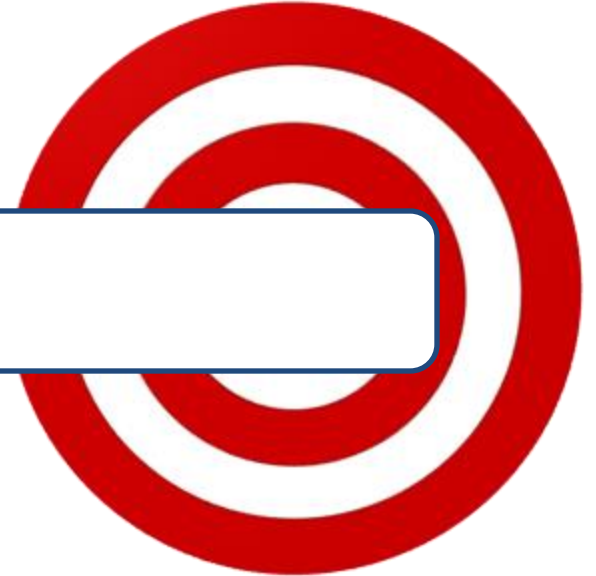


ANALYSIS OF FIXED ASSETS

- ✓ Policy on capitalization - Interest, Forex etc.
- ✓ Test of 'put to use' - Passive Vs. Active.
- ✓ 50C/43CA in case of deletions;
- ✓ Intangible Assets - Depreciation.

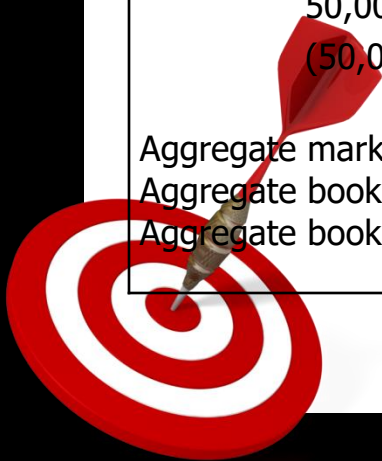


INVESTMENTS



Investments

Particulars	As at	As at
	March, 31 20XX	March, 31 20XX
	Rs. in lakhs	Rs. in lakhs
Trade Investments (at cost)		
In Equity Shares of Subsidiary Companies - Unquoted, fully paid up		
42,50,000 ABC Limited (42,50,000) of Rs 10/- each	425	425
13,61,62,900 XYZ Limited (9,59,65,400) of Rs. 10 each	13612	9597
Other investments (at cost)		
In Mutual Funds - Quoted fully paid up - Face Value Rs 10 each		
50,000 SBI Mutual Fund-Magnum Multi Cap Fund - Dividend (50,000) units	5	5
	14042	10027
Aggregate market value of quoted investments	7	7
Aggregate book value of quoted investments	5	5
Aggregate book value of unquoted investments	14037	10025

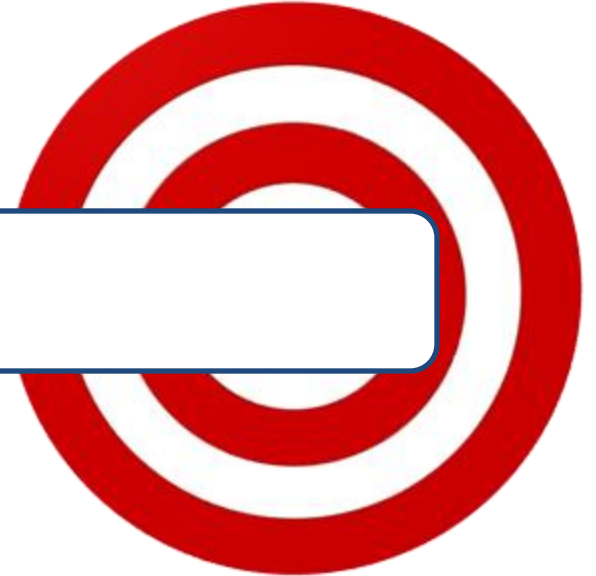


ANALYSIS OF INVESTMENTS

- ✓ Sale of investments - Capital Gains Vs. Business;
- ✓ Speculative Vs. non speculative income;
- ✓ Unexplained investment/ Shares received without/inadequate consideration.
- ✓ Impairment of investments;



INVENTORIES



INVENTORIES

Particulars	As at March 31, 20XX	As at March 31, 20XX
Raw Materials	10	8
Raw Materials in Transit	20	18
Work-in-Process	30	45
Finished Goods	50	48
Stores, Chemicals and Packing Materials	60	58
Stock-in-Trade	80	80
Total	250	257



ANALYSIS OF INVENTORIES

- ✓ Quantitative analysis;
- ✓ Cost of Production method;
- ✓ Consistency in valuation.





ITEM WISE APPROACH - STATEMENT OF PROFIT AND LOSS



STATEMENT OF PROFIT & LOSS - INCOME

Statement of Profit and Loss - Income

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MAR 20XX		
Description	For the Year ended 31.03.20XX	For the Year ended 31.03.20XX
INCOME		
Revenue from operations	1,200	1,000
Less : Excise Duty	100	100
	1,100	900
Other Income		
- Profits on sale of asset	15	4
- Profit from dealing of shares	50	
	1,165	904



Statement of Profit and Loss - Income

- ✓ Analysis of revenue recognition policy
- ✓ Advances from customers;
- ✓ Utility of 26AS /Service Tax/VAT returns;
- ✓ Exempt income - Sec 14A;
- ✓ AIR check.





STATEMENT OF PROFIT & LOSS - EXPENDITURE

Statement of Profit and Loss - Expenditure

Description	Section No.	For the Year ended	
		31.03.20XX	31.03.20XX
Cost of Materials	28	130	120
Cost of Manufacturing	28	140	135
(Increase)/Decrease in work in progress	28	100	40
Administration, Selling & General Expenses	37(1)	35	25
Employee Benefit expense	192	80	65
Finance Cost	36(1)/43B	25	20
Depreciation, amortization & Impairment	32	14	10
Foreign Exchange Loss	43A	15	---
Other expenses subject to tax deduction	40(a)(ia)	50	40
Provision for Gratuity and other retirement benefits	40 A (7)	25	20
Provision for bad and doubtful debts	36 (1)	15	10
Foreign Currency expenses	43 A	20	15
Warranty and contractual obligation	37(1)	30	25
Repairs to building/plant and machinery	32/37(1)	40	35
Donations	37(1)	45	40
Interest payable to MSMED	37(1)	9	7
Research & Development expense	35	100	93
Diminution in value of investments		50	40
		923	740



List of sections for disallowances

36(1)

- Bad debts

37(1)

- Not in connection to business

40(a)

- Business disallowance - Interest, taxes, non-deduction of tax, non-remittance.

40(b)

- Interest, salary etc., paid to Partners by firm

40A(2)

- Payment to related parties at market value

40A(3)

- Cash payments exceeding Rs. 20,000

40A(7)

- Business disallowance - Gratuity

43B

- Deduction based on actual payment



Analytical Review of Statement of Profit & Loss

- ✓ Comparison with PY & Peer
- ✓ Nexus with business.
- ✓ Documentation.
- ✓ Donations/MSMED/R&D etc.



Real Vs. Notional Income

- ✓ Salaries - Perquisites;
- ✓ House Property - GAV;
- ✓ Business Income Sec 43CA;
- ✓ Capital Gains - Sec 50C;
- ✓ Other Sources - Gift.



Miscellaneous

- ✓ Off - Balance Sheet items
- ✓ Books of account - to Accept or Reject ;
- ✓ Emerging areas:
 - A. IT tools;
 - B. E-commerce/Cross Border Transactions



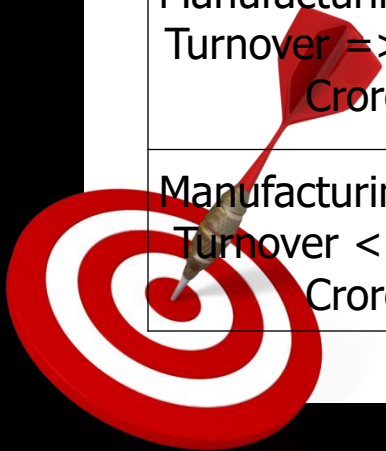
Top 10 Companies in India based on Market Capitalisation as on 15.09.2016

S.No	Name of the Company	No. of pages in Annual Report	Market Capitalisation (in Crores)
1	TATA Consultancy Services	241	458,814.15
2	Reliance Industries Infrastructure Limited	100	340,396.39
3	HDFC Bank	220	325,036.82
4	ITC Limited	296	310,597.18
5	Infosys	218	238,457.31
6	HDFC	212	221,341.31
7	Oil and Natural Gas Corporation Limited	396	210,251.17
8	Coal India	314	203,860.66
9	Hindustan Unilever Limited	208	198,409.74
10	State Bank of India	290	197,989.63



ICAI Awards for Excellence in Financial Reporting for the competition for the year 2014-15

Category	Award	Name of the entity	Annual Report for the year ended
Insurance sector	Gold shield	HDFC ERGO General Insurance Company Limited	31-Mar-15
	Silver Shield	1) HDFC 2) Standard Life Insurance Company Limited	31-Mar-15
	Plaque for commended Annual Report	1) ICICI 2) Prudential Life Insurance Company Limited	31-Mar-15
Manufacturing sector Turnover =>Rs. 500 Crore	Silver Shield	1) Jointly to ACC Limited 2) Asian Paints Limited 3) Abbott India Ltd.	31-Dec-14 31-Mar-15 31-Mar-15
Manufacturing sector Turnover < Rs. 500 Crore	Silver Shield	Kewal Kiran Clothing Ltd.	31-Mar-15



Category	Award	Name of the entity	Annual Report for the year ended
Service Sector (other than financial services sector) (Turn over => Rs. 500 Crore)	Silver Shield	Zensar Technologies Limited	31-Mar-15
	Plaque for commended Annual Report	Mindtree Limited	31-Mar-15
Service Sector (other than financial services sector) (Turn over < Rs. 500 Crore)	Plaque for commended Annual Report	Alphageo (India) Limited	31-Mar-15
Not-for- Profit Sector	Silver Shield	Vidya Dairy	31-Mar-15
	Plaque for commended Annual Report	Swami Vivekanand Youth Movement	31-Mar-15



Thank You!

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