

## Key Advantages of Financial Statements:

1. **Review of cash flow:** It shows the financial solvency and the ability of the company to pay liabilities to pay its liabilities. The statement of cash flow statement breaks the statement into operating, investing, and financial parts. A review of cash flow helps us understand whether the business is operating under a cyclical revenue stream structure or consistent revenue model. This also helps the business to maintain and keep the expenditure of business inline within the revenue model it operates in.
2. **Review of liability:** Financial statements presents the short- and long-term obligations of the business. If the owner wants to expand his business, he must look at the statements of financial position and deduce the logic as to whether he should reduce existing liabilities to apply for further capital expansion. Lenders look at the financial statements and determine the prospect of business on the basis of revenues, assets, and liabilities.
3. **Review of inventory and its movement:** The levels of opening and closing stock as a percentage of purchase and sales along with the changes and movements in the levels of stock throughout the year shows the ability and nature of goods of the business. It shows whether the goods are in demand, fast-moving or slow-moving or change in the trend of sales and so on. When the goods are slow-moving as compared to industry, it is considered as a negative for the business prospect and growth.
4. **Identification of trends:** The business owner should prepare and compare financial statements over various periods so as to identify the trend in business. This helps the business in knowing what products are selling well, what segments are growing well, and which segment of business needs further review and re-investment or complete exit at once. Trends are the gospel in the performance of the business. Identifying trends is, therefore, a necessity for the business to sustain the growth and achieve higher profits.
5. **Preparation of budget:** Every business must have a vision. To prepare a vision, the business must have defined goals and objectives. The objective of financial statements is to prepare a blueprint for the future by analyzing the past financial statements already prepared and audited. Budgets help to keep the expenses in line with income and sales. The budgets are forecasted using prepared financial statements.

## **Limitations / Disadvantages of Financial Statements**

### **Indifferent to Market Values**

Financial statements are a derivative of bookkeeping and accounting. While accounting, an accountant records the transaction at cost. A heavy reliance on historical costs makes the financial statement less reliable and more misleading.

### **Inflation**

We all know that inflation is a reality. Sadly, financial statements do not consider the effects of inflation on the assets and liabilities shown in the balance sheet. In a period when the inflation rate is too high, the balance sheet misleads by showing substantially low values.

### **Specific Time Period**

Financial statements are prepared for a specific time period normally a year. Looking at one such period could be misleading because of seasonal impact on businesses, economic ups and downs etc. It is always advisable to look at 2 to 3 periods or even more if we wish to have a true analysis of the affairs of a company. Also, these statements show financial position on a particular date where the financial position changes every day and with every transaction.

### **Not Comparable**

For checking the performance of one company, it is a common practice to compare it with other similar company in the same sector. A financial statement just gives an indication and does not facilitate true comparison between the two companies. It is simply because different accounting practices followed by these companies.

### **Ignores Non-Financial Matters**

Successfully running a business is not limited to sales, expenses, and profits. A lot of other environmental, sociological, political factors, competitive position, contribution towards local communities etc impact the business. These factors are ignored in the financial statements. Although big and good companies have started taking care of these factors in their annual reports, there are many companies for whom writing for reporting about these factors is just a formality.

### **Errors and Omissions**

The basic recording of transactions is carried out by the accounting executive who is normally not highly qualified. So there are always chances of errors and omissions. Such misrepresentation in the ultimate financial statements.

### **Qualitative Information**

Financial statements highly focus on quantitative data and thus misses out on qualitative information which is very crucial in running the show. Qualitative information could be the efficiency of management, employees, customer satisfaction, the efficiency of the supply chain, etc.

## Format of Balance Sheet

<i>S No</i>	<i>PARTICULARS</i>	<i>AMT</i>
	<b><u>ASSETS</u></b>	
<b>1</b>	<b><u>NON CURRENT ASSETS</u></b> (a) Property, Plant and Equipment (b) Capital work-in-progress (c) Investment Property (d) Goodwill (e) Other Intangible assets (f) Intangible assets under development (g) Biological Assets other than bearer plants (h) Financial Asset i) Investments ii) Trade receivables iii) Loans I) Deferred tax assets (net) j) Other non-current assets	
<b>2</b>	<b><u>CURRENT ASSETS</u></b> <b>a)</b> Inventories <b>b)</b> Financial Assets i) Investments ii) Trade receivables iii) Cash and cash equivalents iv) Bank balances other than (iii) above v) Loans vi) Others (to be specified) <b>c)</b> Current Tax Assets (Net) <b>d)</b> Other current assets	
	<b><u>Total Assets</u></b>	
	<b><u>EQUITY AND LIABILITIES</u></b>	
	Equity a) Equity Share capital b) Other Equity	
<b>1.</b>	<b><u>LIABILITIES</u></b> <b><u>Non-current liabilities</u></b> a) Financial Liabilities i) Borrowings ii) Trade payables iii) Other financial liabilities b) Provisions c) Deferred tax liabilities (Net) d) Other non-current liabilities	

OUR LECTURES ARE SCORING NOT BORING

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<b>2.</b>	<b><u>Current liabilities</u></b> a) Financial Liabilities i) Borrowings ii) Trade payables iii) Other financial liabilities b) Other current liabilities c) Provisions d) Current tax liabilities (Net)	
	<b><u>Total Equity &amp; Liabilities</u></b>	

## Format of Statement of Profit & Loss

**Statement of Profit and Loss**  
 Name of the Company-----  
 Profit and Loss Statement for the year ended -----  
 (Rupees in-----)

Particulars		Figures at the end of current reporting period	Figures at the end of the previous reporting period
I	Revenue from operations	xxx	xxx
II	Other Income	xxx	xxx
III	Total Revenue(I+II)	xxx	xxx
IV	Expenses:	xxx	xxx
	Cost of Materials	xxx	xxx
	consumed Purchases	xxx	xxx
	of Stock-in-trade		
	Change in inventory of finished goods,	xxx	xxx
	work- in-progress and Stock-in-trade	xxx	xxx
	Employee benefit	xxx	xxx
	expense Finance Cost	xxx	xxx
	Depreciation and amortisation	xxx	xxx
	expense Other expense	xxx	xxx
V	Total expenses		
	Profit before exceptional and	xxx	xxx
	extraordinary items and tax(III-Iv)		
VI	Exceptional Items	xxx	xxx
VII	Profit before extraordinary items and tax(V- VI)	xxx	xxx
VIII	Extraordinary Expenses	xxx	xxx
IX	Profit before tax(VII-VIII)	xxx	xxx
X	Tax expense	xxx	xxx
	1. Current tax	xxx	xxx
	2. Deferred tax	xxx	xxx
XI	Profit (Loss) for the period from continuing operations (IX-X)	xxx	xxx
XII	Profit/(loss) from discontinuing operations	xxx	xxx
XIII	Tax expense of discontinuing operations	xxx	xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)	xxx	xxx
XV	Profit (Loss) for the period (XI +	xxx	xxx
XVI	XIV) Earnings per equity share:		
	(1) Basic	xxx	xxx
	(2) Diluted	xxx	xxx

# What is comprehensive income?

## Definition of Comprehensive Income

Comprehensive income for a corporation is the combination of the following amounts which occurred during a specified period of time such as a year, quarter, month, etc.:

1. *Net income* or net loss (the details of which are reported on the corporation's income statement), plus
2. *Other comprehensive income* (if any)

Examples of *other comprehensive income* include:

- Unrealized gains/losses on hedging derivatives
- Foreign currency translation adjustments
- Unrealized gains/losses on post retirement benefit plans

Basically, comprehensive income consists of all of the revenues, gains, expenses, and losses that caused stockholders' equity to change during the accounting period.

The amount of net income for the period is added to retained earnings, while the amount of other comprehensive income is added to *accumulated other comprehensive income*. Retained earnings and accumulated other comprehensive income are reported on separate lines within stockholders' equity on the end-of-the-period balance sheet.