

Introduction to Vertical Financial Statements

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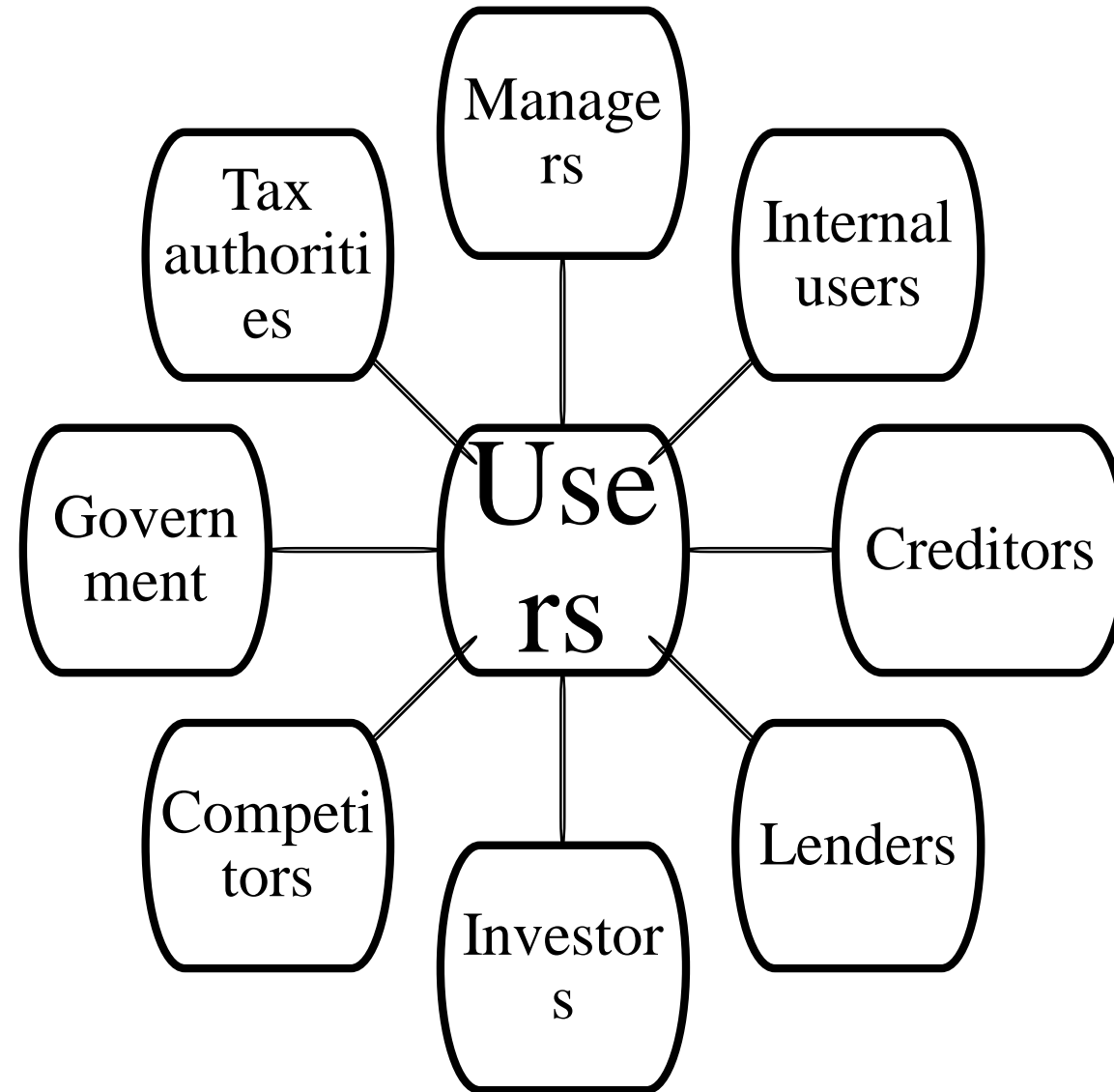
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Users of financial statements



Traditional Balance Sheet

Liabilities	Rs	Assets	Rs
Equity share capital	X	Plant & Machine	X
Preference share capital	X	Land & Building	X
Reserves & Surplus	X	Furniture	X
Loans	X	Goodwill	X
Debentures	X	Patents et.al	X
Trade Creditors	X	Trade Investments	X
Bank OD	X	Trade Debtors	X
Outstanding Expenses	X	Cash/Bank	X
Income received in advance	X	Prepaid Expenses	X
		Income accrued yet not received	X
		Marketable Securities	X
	<u>XX</u>		<u>XX</u>

In Vertical Format: Liability Side

Liabilities	Sources of Funds
Equity share capital	Own Funds or Shareholders funds
Preference share capital	
Reserves & Surplus	
Term Loans/ Public Deposits/ Loan from other sources	Borrowed Funds
Debentures	
Trade Creditors/ Payables	Current Liabilities to be deducted from Application of funds
Bank OD/ Cash Credits/ Loans and Advances	
Outstanding Expenses	
Income received in advance	

In Vertical Format: Asset Side

Assets	Application of Funds
Plant & Machine	Tangible Fixed Assets
Land & Building	
Furniture	
Goodwill	Intangible Fixed Assets
Patents et.al	
Trade Investments	Investments
Trade Debtors/ Receivables	Current Assets to be added in Application of funds
Cash/Bank	
Prepaid Expenses	
Income accrued yet not received	
Marketable Securities/ Non trade investments	

Vertical Balance sheet

Particulars	Amt Rs	Amt Rs.
Sources of funds:		
1) Own Funds or Shareholders funds	500	
2)Owe /Borrowed Funds	500	
Total Capital Employed (1+2)		1000
Application of funds:		
1) Total Fixed Assets	500	
2) Trade Investments	200	
3)Working Capital		
Current Assets	500	
(-) Current Liabilities	(200)	
	300	
Total Capital Employed (1+2+3)		1000

Vertical Balance sheet

Liabilities	Rs.	Assets	Rs.
24,000 Equity share capital of Rs.20 each	480,000	Land and building	440,000
1,000 9% Preference Share capital of Rs.50each	50,000	Furniture	120,000
General reserves	45,000	Patents	30,000
Add: Profits (C.Y.)	90,000	Debtors	90,000
10% Long term loan	90,000	Bills receivable	60,000
8% Debentures	75,000	Inventory/Stock	148,500
Bank overdraft	30,000	Cash	67,500
Outstanding expenses	45,000	Bank	30,000
Creditors	135,000	Accrued income	54,000
	<u>1,040,000</u>		<u>1,040,000</u>

Vertical Balance sheet

Liabilities	Rs.	Assets	Rs.
24,000 Equity share capital of Rs.20 each	SOF- OF- SC	Land and building	AOF-FA-T
1,000 9% Preference Share capital of Rs.50each	SOF- OF-SC	Furniture	AOF-FA-T
General reserves	SOF- OF- R&S	Patents	AOF-FA-In
Add: Profits (C.Y.)	SOF- OF- R&S	Debtors	AOF- WC-CA
10% Long term loan	SOF- BF	Bills receivable	AOF- WC-CA
8% Debentures	SOF- BF	Inventory/Stock	AOF- WC-CA
Bank overdraft	AOF- WC-CL	Cash	AOF- WC-CA
Outstanding expenses	AOF- WC-CL	Bank	AOF- WC-CA
Creditors	AOF- WC-CL	Accrued income	AOF- WC-CA

Traditional Manufacturing , Trading,

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To work-in-process (opening)		By Closing stock	
To Raw material consumed:		Raw materials	
Opening stock		Work-in-process	
Add: Purchase of raw material		By Cost of production	
Less: Closing stock of Raw		transferred to	
material		Profit & Loss	
To Direct or productive wages		account	
To Factory overhead:			
Power and Fuel			
Factory rent			
Carriage inwards			
Octroi. etc			
TOTAL		TOTAL	

1.9.4 Format of Trading account

Trading account of ABC. Ltd for the year ending.....

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock		By Closing stock	
To Purchases		By Sales	
To Direct or productive wages		By Gross Loss	
To wages and salaries		transferred to Profit &	
To Power and Fuel		Loss account	
To Factory rent			
To Carriage inwards			
To Octroi. etc			
To Gross profit transferred			
to Profit & Loss account			

Traditional P&L Account

Profit and Loss Account of

Dr.

For the year ending

Cr.

Particulars	Amt Rs.	Particulars	Amt Rs.
To Gross loss b/d	****	By Gross profit b/d	****
To Sales commission	****	By Rent received	****
To Selling and distributing expenses	****	By Miscellaneous received	****
To Postage and telegram	****	By Interest received	****
To Insurance	****	By Discount received	****
To Electricity charges	****	By Dividend received	****
To Telephone charges	****	By Compensation received	****
To General expenses	****	By Commission received	****
To Legal charges	****	By Profit on sale of fixed assets	****
To Discount allowed	****	By Bad debt recovered	****
To Audit fees	****	By Apprentice premium	****
To Bank charges	****	By Net loss c/d	****
To Interest	****		
To Free sample distribution	****		
To Office and administrative expenses	****		
To Entertainment expenses	****		
To Donation and charities	****		
To Sales tax	****		
To Goods lost by fire/ theft	****		
To Loss on sale of fixed assets	****		
To Carriage outward	****		
To Printing and stationery	****		
To Rent, rates and taxes	****		
To Depreciation on fixed assets	****		
To Other expenses	****		
To Bad debts	****		
To Net profit c/d	****		
	*****		*****

Terms Used

- Operating Income- $\text{SALES} = \text{GOODS/SERVICES}$
- $\text{COGS} + \text{Operating Expense} = \text{BUSINESS} = \text{Office and admin, Selling and Distribution, Finance, RD\&}$
- **NON** Operating Expense- Interest, Dividend, Loss on Sale Assets
- **NON** Operating Income- Interest, Dividend, Profit on Sale Assets

Vertical Revenue Statement

Particulars	Amt Rs	Amt Rs
Net Sales = (Gross Sales – Sales Returns)		100
(-) COGS: (Opening & Closing stocks to be adjusted, Manufacturing expenses)		(30)
Gross Profits= (Net Sales - COGS)		70
(-) Operating Expenses:		
Office and Admin:	10	
Selling & Distribution:	10	
Finance Expenses (other than Interest):	10	(30)
Operating Profits (EBIT) = (NS-COGS-Operating Exps)		40
(+) Non Operating Income:	20	
(-) Non Operating Expenses:	(10)	10
PBIT or NPBIT		50
(-) Interest (Long term funds)		(5)
EBT or NPBT		45
(-) Tax or Provision for tax		(20)
EAT or NPAT or Profits available for appropriations		25

Vertical Revenue Statement

Particulars	Amt Rs	Amt Rs
Net Sales = (Gross Sales – Sales Returns)		X
(-) COGS: (Opening & Closing stocks to be adjusted, Manufacturing expenses)		(x)
Gross Profits		x
(-) Operating Expenses		
Office and Admin:	x	
Selling & Distribution:	x	
Finance Expenses (other than Interest):	x	(x)
Operating Profits (EBIT)		x
(+) Non Operating Income:	x	
(-) Non Operating Expenses:	(x)	x or (x)
PBIT or NPBIT		x
(-) Interest (Long term funds)		(x)
EBT or NPBT		x
(-) Tax or Provision for tax		(x)
EAT or NPAT or Profits available for appropriations		XXXXX

Vertical Revenue Statement

Particulars	Amt	Particulars	Amt
To opening stock	90,000	By sales	700,000
To purchases	300,000	By closing stock	60,000
To carriage inwards	60,000		
To factory managers salary	80,000		
To repairs and maintenance of machine	40,000		
To gross profit	190,000		
	<u>760,000</u>		<u>760,000</u>
To administrative expenses	30,000	By Gross profit	190,000
To selling expenses	12,000	By dividend income	19,000
To printing and stationery	15,000		
To carriage outwards	47,000		
To office managers salary	45,000		
To interest	15,000		
To net profit	45,000		
	<u>209,000</u>		<u>209,000</u>

Thank You

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