

# THE FORENSIC ACCOUNTING – OVERCOMING THE UNRECOVERABLE DEBT TO AVOID BANKRUPT BY PROJECTED SALES

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## Contents

ABSTRACT .....	1048
KEYWORDS AND DEFINITIONS .....	1048
STEPS OF FORENSIC ACCOUNTING TO OVERCOME THE BANKRUPT .....	1049
1. RESTRUCTURING CAPITAL .....	1049
2. DRAFTING THE EXPECTED GROWTH RATE BY MAKING DEBT COVERAGE AS PAT – UNDER PROFIT SITUATION .....	1049
1. THEORY: .....	1049
2. FORMULAE: .....	1049
3. DRAFTING THE EXPECTED GROWTH RATE BY GROWTH BY PERCENTAGE OF PAT AFTER DIVIDEND – IN PROFIT SITUATION WITH GROWTH IN PROFIT .....	1050
1. THEORY: .....	1050
2. FORMULAE: .....	1050
4. DRAFTING THE EXPECTED GROWTH RATE BY GROWTH IN SALES UNDER PROFIT WITH GROWTH IN SALES AND WITHOUT GROWTH IN PROFIT .....	1051
1. THEORY: .....	1051
2. FORMULAE: .....	1051
5. DRAFTING THE EXPECTED PBT – IN LOSS SITUATION .....	1052
1. THEORY: .....	1052
2. FORMULAE: .....	1052
6. DECIDING THE GROWTH RATE METHOD .....	1052
7. INVESTING THE CASH RESERVE IN ASSETS & SECURITIES .....	1052
8. DRAFTING THE PROJECTED INCOME STATEMENT: FORMAT .....	1052
1. LOGIC OF PROJECTION OF INCOME STATEMENT: IN PROFIT SITUATION .....	1052
2. LOGIC OF PROJECTED INCOME STATEMENT: IN LOSS SITUATION .....	1053
9. DRAFTING PROJECTED INCOME STATEMENT FOR THE YEAR YYYY: .....	1053
□ TABLE 1 .....	1053
10. DRAFTING VARIANCE STATEMENT AT EVERY YEAR END - FORMAT .....	1053
1. THEORY OF VARIANCE STATEMENT: .....	1053
□ TABLE 2 .....	1053
2. VARIANCE STATEMENT FOR THE YEAR XXXX: .....	1054
EXAMPLE - PROJECTED INCOME STATEMENT & VARIANCE STATEMENT .....	1054
11. PROJECTED INCOME STATEMENT BY MAKING DEBT COVERAGE AS PAT UNDER PROFIT 1054 .....	1054
□ TABLE 1 .....	1054
□ TABLE 2 .....	1055
12. PROJECTED INCOME STATEMENT GROWTH IN SALES UNDER PROFIT .....	1055
□ TABLE 3 .....	1055
□ TABLE 4 .....	1056
13. PROJECTED INCOME STATEMENT BY PERCENTAGE OF PAT AFTER DIVIDEND UNDER PROFIT 1056 .....	1056
□ TABLE 5 .....	1056
□ TABLE 6 .....	1057
14. PROJECTED INCOME STATEMENT UNDER LOSS .....	1058
□ TABLE 7 .....	1058
□ TABLE 8 .....	1058
15. VARIANCE STATEMENT FOR THE YEAR 2023 – UNDER PROFIT .....	1059

□ **TABLE 9** -----1059

**CONCLUSION:** -----1059

**ABSTRACT:**

Once we introduce a new capital by internal or external reconstruction and Merger & Acquisition, the unrecoverable debt is recorded in the books of account beyond the non-current assets' value, so we need to recover it by keeping a cash reserve from PAT after dividend. We should set a growth rate on each year sales turnover or revenue to keep a minimum cash reserve to repay the debt. Here we are drafting formulas, theory, and a projected income statement & Deviation Analysis between actual and projected income statement. We should address the deviation with proper reason so every year without fail we can keep a cash reserve balance. At regular interval, we should repay the debt by the cash reserve.

**KEYWORDS AND DEFINITIONS**

**1. Debts:**

The unrecoverable debts are addressed here on bankrupt stage. Each year the debt is repaid, and it is re-calculated at each year end.

**2. Revalued Non-Current Assets:**

All Non-Current Assets, which are saleable, are revalued at each year end for our assessment purpose.

**3. Total Overcome Years:**

The number of years that the irrecoverable debts can be overcome out of danger of bankrupt. At end year of TotalOvercome Years, the debt equals the available revalued non-current assets which saleable.

**4. The Remaining Overcome Years:**

Once we start doing this process, the years will pass on starting from first to last year of total overcome years so the remaining year within the total overcome years is known as Remaining Overcome Years. Total overcome years are defined in definition – 3. At first year, the total overcome years are the remaining overcome years but at on-going years, the years will get reduced in the remaining overcome years from the second year of total overcome year. At every year end, Debts are recalculated after considering the repayment and it is reduced from the Revalued Non-Current Assets, which are saleable. The balance after revalued assets are known as Debt Coverable.

**5. Minimum Cash Reserve:**

The debt coverage is divided by the remaining overcome years and residual value is known as Minimum Cash Reserve. At Every year end, this amount of part should be set aside from the PAT after dividend value.  $\text{Minimum Cash Reserve} = \text{Debt Coverage} / \text{Total Overcome Year}$

**6. Reserve Percentage:**

The percentage of reserve applied on the PAT after dividend of every year or projected PAT after dividend of every year.

**7. Actual Cash Reserve:**

We should keep a cash reserve the whole amount after the Dividend payment from PAT. Generally,  $\text{Actual Cash Reserve} = (\text{PAT} - \text{Dividend}) * \text{Reserve Percentage}$  or Set aside amount from Amount of PAT after deducting Dividend based on situation of business.

**8. Actual Sales:**

The Sale at year end of current year is known as actual sales. At every year, we must do this Bankrupt overcome accounting at each year end.

**9. Actual Return:**

The Return is the PAT after deducting the dividend of current year at year end.

**10. Actual Rate:**

The rate is found a percentage of PAT after dividend on actual sales at year end of current year.  $\text{Actual Rate or OAR} = ((\text{PAT} - \text{Dividend}) / \text{Actual Sales}) * 100$

**11. The Last Year Sales:**

The sales at last year are known as last year sales. The last year is previous year to current year.

**12. The Total Cash Reserve:**

The total amount of Cash reserve which is set aside from PAT after dividend is known as Total Cash Reserve.

**13. Expected Cash Reserve:**

The Debt Coverage is reduced by total cash reserve, and it is divided by the remaining overcome years and then the residual value is known as expected cash reserve.  $\text{Expected Cash Reserve} = (\text{Debt Coverage} - \text{Total Cash Reserve}) / \text{The Remaining Overcome Years}$ .

**14. Expected Sales:**

The expected cash reserve is divided by actual rate and the residual value is known as Expected Sales.  $\text{Expected Sales} = (\text{Expected Cash Reserve}) / \text{Actual Rate}$

**15. Actual Growth Rate:**

The percentage of increase or decrease percentage in sale comparing to last year is known as Actual Growth Rate.  $\text{Actual Growth Rate} = (\text{Actual Sales} - \text{Last Year Sales}) / \text{Last Year Sales} * 100$

**16. Expected Growth Rate:**

The Growth rate is the increase or decrease percentage in sales comparing the current year sales and expected to sales.  $\text{Expected Growth Rate} = (\text{Expected Sales} - \text{Actual Sales}) / \text{Actual Sales} * 100$

**17. Income Statement:**

The Income statement is used to find the Gross Profit, EBIT, PAT, PAT after Dividend. It is a statement which is specific to business.

**18. Projected Income Statement**

The Projected Income Statement is prepared by applying the Growth rate to revenue and by applying Rate of expenses and COGs to Actual Sales at current year to projected Year or Future Year. Depreciation is projected by schedule on Asset. Interest is projected by schedule on Loan. Dividend is projected by applying the rate of dividend on PAT at current year to PAT of projected Income Statement.

**19. Capital introduced/Restructuring:**

An amount of capital is brought in by a capital restructuring to overcome the current situation in Bankrupt and to compromise the lenders.

**20. Variance Statement**

The Actual Income Statement at each year is compared with projected income statement with variance amount and percentage by the Variance Statement

**STEPS OF FORENSIC ACCOUNTING TO OVERCOME THE BANKRUPT****1. RESTRUCTURING CAPITAL**

We must restructure the capital by acquisition or internal or external restructure of capital. The amount of Capital. The capital restructure is a major part, and it is done by many companies with an advice of Forensic auditors. We should do the accounting for Internal, External Restructuring or Merger & Acquisition based on capital introduction policy decided by forensic Auditors and accountants. Once Capital is introduced, we must recover the unrecoverable debt after revalued assets by a Cash reserve from profit and we should decide the growth rate of sales by considering the Cash Reserve. Below steps will show how to keep a cash reserve.

**2. DRAFTING THE EXPECTED GROWTH RATE BY MAKING DEBT COVERAGE AS PAT- UNDER PROFIT SITUATION****1. THEORY:**

The expected growth rate is found by some steps and formulae. We must consider the debt, Debt coverage, Actual Rate and total cash Reserve balance at every year while performing this accounting.

The expected growth rate on sale plays key role to overcome the bankrupt by rapid increase in the business after introducing a new capital or restructured capital into business. We should do a reverse engineering while the growth rate in sales is not achieved in any years within the total overcome years. Based on the performance of the business, the growth rate may be getting reduced to overcome the bankrupt. **Growth rate is recalculated every year based on actual values of income statement of the years**

**2. FORMULAE:****1. Debts:**

The unrecoverable debts are addressed here on bankrupt stage. Each year the debt is repaid, and it is re-calculated at each year end.

**2. Revalued Non-Current Assets:**

All Non-Current Assets, which are saleable, are revalued at each year end for our assessment purpose.

**3. Total Overcome Years:**

The number of years that the irrecoverable debts can be overcome out of danger of bankrupt. At end year of Total Overcome Years, the debt equals the available revalued non-current assets which saleable.

**4. The Remaining Overcome Years:**

Once we start doing this process, the years will pass on starting from first to last year of total overcome years so the remaining year within the total overcome years is known as Remaining Overcome Years. Total overcome years are defined in definition – 3. At first year, the total overcome years are the remaining overcome years but at on-going years, the years will get reduced in the remaining overcome years from the second year of total overcome year.

**5. Debt Coverage:**

- Debts at every year end – Revalued Non-Current Assets at every year-end = Debt Coverage

**6. Actual Rate:**

- Actual Rate or OAR = ((PAT – Dividend)/Actual Sales) \* 100(Current year actual)-

**7. Expected Cash Reserve:**

- (Debt Coverage at every Year End – Total Actual Cash Reserve) / The Remaining Overcome Year = Expected Cash Reserve

**8. Cash Reserve Rate:**

- The reserve fixed to set aside the cash reserve from profit is Cash Reserve Rate

**9. Expected Sales:**

- Expected Cash Reserve/Cash Reserve Rate \* Actual Rate = Expected Sales

**10. Expected Growth Rate:**

- ((Expected Cash Reserve/Cash Reserve Rate \* Actual Rate) – Actual Sales)/Actual Sales \* 100

**If expected growth rate is more than zero, we should consider the Rate otherwise we should keep current sales itself. If the percentage goes to zero or below zero, keep the current year sales as projected sales.**

**1. THEORY:**

The expected growth rate is found by some steps and formulae. We must consider the debt, Debt coverage, Actual Rate and total cash Reserve balance at every year while performing this accounting. The expected growth rate on sale plays key role to overcome the bankrupt by rapid increase in the business after introducing a new capital or restructured capital into business. We should do a reverse engineering while the growth rate in sales is not achieved in any years within the total overcome years. Based on the performance of the business, the growth rate may be getting reduced to overcome the bankrupt. Growth rate is recalculated every year based on actual values of income statement of the years

**2. FORMULAE:****11. Debts:**

The unrecoverable debts are addressed here on bankrupt stage. Each year the debt is repaid, and it is re-calculated at each year end.

**12. Revalued Non-Current Assets:**

All Non-Current Assets, which are saleable, are revalued at each year end for our assessment purpose.

**13. Total Overcome Years:**

The number of years that the irrecoverable debts can be overcome out of danger of bankrupt. At end year of Total Overcome Years, the debt equals the available revalued non-current assets which saleable.

**14. The Remaining Overcome Years:**

Once we start doing this process, the years will pass on starting from first to last year of total overcome years so the remaining year within the total overcome years is known as Remaining Overcome Years. Total overcome years are defined in definition – 3. At first year, the total overcome years are the remaining overcome years but at on-going years, the years will get reduced in the remaining overcome years from the second year of total overcome year.

**15. Debt Coverage:**

- Debts at every year end – Revalued Non-Current Assets at every year-end = Debt Coverage

**16. Actual Rate:**

- Actual Rate or OAR = ((PAT – Dividend)/Actual Sales) \* 100(Current year actual)-
- 17. **Expected Cash Reserve:**
  - (Debt Coverage at every Year End – Total Actual Cash Reserve) / The Remaining Overcome Year = Expected Cash Reserve
- 18. **Cash Reserve Rate:**
  - The reserve fixed to set aside the cash reserve from profit is Cash Reserve Percentage
- 19. **PAT Growth Percentage**
  - (PAT after Dividend at current year – PAT after Dividend at last year)/PAT after Dividend at last year \* 100
- 20. **Projected PAT:**
  - **If Expected Cash Reserve/PAT after Dividend is more than 1, follow below formula**
  - ((Expected Cash Reserve/PAT after Dividend) \* PAT Growth Percentage + 100%) \* PAT after Dividend Current year) / Cash Reserve Percentage
  - **If Expected Cash Reserve/PAT after Dividend is equal or less than 1, follow below formula**
  - PAT after Dividend at Current year is same as Projected PAT
- 21. **PAT to Sales Percentage Actual:**
  - PAT after Dividend at Current Year/Sales at Current Year \* 100
- 22. **Expected Growth Rate (Sales Growth Rate):**
  - ((Projected PAT/PAT to Sales Percentage Actual) – Actual Sales)/Actual Sales \* 100

If expected growth rate is more than zero, we should consider the Rate otherwise we should keep current sales itself. If the percentage goes to zero or below zero, keep the current year sales as projected sales.

### 3. DRAFTING THE EXPECTED GROWTH RATE BY GROWTH IN SALES UNDER PROFIT WITH GROWTH IN SALES AND WITHOUT GROWTH IN PROFIT

#### 1. **THEORY:**

The expected growth rate is found by some steps and formulae. We must consider the debt, Debt coverage, Actual Rate and total cash Reserve balance at every year while performing this accounting.

The expected growth rate on sale plays key role to overcome the bankrupt by rapid increase in the business after introducing a new capital or restructured capital into business. We should do a reverse engineering while the growth rate in sales is not achieved in any years within the total overcome years. Based on the performance of the business, the growth rate may be getting reduced to overcome the bankrupt. **Growth rate is recalculated every year based on actual values of income statement of the years**

#### 2. **FORMULAE:**

##### 23. **Debts:**

The unrecoverable debts are addressed here on bankrupt stage. Each year the debt is repaid, and it is re-calculated at each year end.

##### 24. **Revalued Non-Current Assets:**

All Non-Current Assets, which are saleable, are revalued at each year end for our assessment purpose.

##### 25. **Total Overcome Years:**

The number of years that the irrecoverable debts can be overcome out of danger of bankrupt. At end year of Total Overcome Years, the debt equals the available revalued non-current assets which saleable.

##### 26. **The Remaining Overcome Years:**

Once we start doing this process, the years will pass on starting from first to last year of total overcome years so the remaining year within the total overcome years is known as Remaining Overcome Years. Total overcome years are defined in definition – 3. At first year, the total overcome years are the remaining overcome years but at on-going years, the years will get reduced in the remaining overcome years from the second year of total overcome year.

##### 27. **Debt Coverage:**

- Debts at every year end – Revalued Non-Current Assets at every year-end = Debt Coverage

##### 28. **Actual Rate:**

- Actual sales (at current year)- Last year Sales/Last Year Sales\*100 = Actual Rate

##### 29. **Expected Cash Reserve:**

- Debt Coverage at every Year End / The Remaining Overcome Year = Expected Cash Reserve

##### 30. **Expected Sales:**

- Expected Cas Reserve/Actual Rate = Expected Sales

##### 31. **Expected Growth Rate:**

- ((Expected Cash Reserve/Actual Rate) – Actual Sales)/Actual Sales \* 100

**If expected growth rate is more than zero, we should consider the Rate otherwise we should keep current sales itself. If the percentage goes to zero or below zero, keep the current year sales as projected sales.**

#### 4. DRAFTING THE EXPECTED PBT – IN LOSS SITUATION

##### 1. **THEORY:**

When business register a loss in current year, we must go with a bottom-up draft statement. We should prepare a projected income statement. Loss is replaced with the debt coverage at year end for the projection and the cost are projected by a ratio of Loss to Expenses and the Sales is projected by summing all Cost and reducing it from loss.

##### 2. **FORMULAE:**

###### 1. **Cash Reserve Percentage:**

We must decide the percentage of cash reserve from PAT.

###### 2. **Projected PBT:**

When there is a loss, the Debt coverage at year end is divided by Cash Reserve Percentage and multiplied by 100+Cash Reserve Percentage.

Projected PBT = ((Debt Coverage at year end – Total Cash Reserve /Remaining outcome years)/Cash Reserve Percentage)

#### 5. DECIDING THE GROWTH RATE METHOD

There are four methods to prepare the projected income statement and we can make decision which can be used by following below logic.

1. If the business is having a rate of growth in Sales along with profit, we can choose Growth Rate by Growth in Sales.
2. If the business is having a rate of growth in Profit without growth in sales, we can choose Growth Rate by Growth in PAT.
3. If the business is having profit without growth in sales and profit, we can choose Growth Rate by making debt coverage asPBT.
4. If the business is under loss, we must follow the expected PBT – IN LOSS situation.

#### 6. INVESTING THE CASH RESERVE IN ASSETS & SECURITIES

A percentage is decided to set aside the cash reserve from PAT after Dividend based on Management Decision.

The Cash reserve taken away from the PAT is invested in an asset and security of a portfolio. The investment value will go up by the cash reserve every-year. The Market Value of Investment will help to overcome the Bankrupt.

#### 7. DRAFTING THE PROJECTED INCOME STATEMENT: FORMAT

##### 1. **LOGIC OF PROJECTION OF INCOME STATEMENT: IN PROFIT SITUATION**

Projection is drafted every year end within the total overcome years starting from first year to last year.

The Income statement has major sections generally, but it is specific to business. The sections are 1. Sales 2. COGS 3. Operating & Administration Expenses 4. Selling, Marketing & Distribution Expenses 5. Depreciation Expenses 6. EBIT 7. Interest 8. PAT 9. Dividend 10. PAT after dividend

Projection Logic.

1. Actual Sales, COGS, Admin, Gen, Operating, Marketing, Selling, distribution expenses are expenses and revenue of current year.

2. **Projected Sales** = (Actual Sales at current year \* Expected Growth Rate) + Actual Sales at current year. Expected Growth rate is calculated by following above section “Drafting the Expected Growth Rate.”

3. **Projected COGS** = (Actual COGS at current year/Actual Sales at current year) \* Projected Sales (Expected Sales)

4. **Projected General & Admin & Operation Expenses:**

Fixed Regular expenses continues same as projected Admin and operating expenses.

Other admin and operating expenses:

Projected Gen & admin and operating expenses = (Actual Gen & admin & op expense at current year/ Actual Sales at current year) \* Projected Sales (Expected Sales)

5. **Projected Selling, Marketing & Distribution Expenses:**

Fixed Regular expenses continues same as projected Selling, Marketing & Distribution expenses.

Other admin and operating expenses:

Projected Selling, Marketing & Distribution expenses = (Actual Selling, Marketing & Distribution at current year / Actual Sales at current year) \* Projected Sales (Expected Sales)

6. **Projected Depreciation Expenses**

The projected depreciation is projected by schedule of Assets & Rate of depreciation and schedule of Depreciation method.

7. **Projected Interest Expenses:**

The interest is projected by schedule of loan statement.

**8. Projected Dividend:**

The EBIT is projected by reducing the projected sales from projected COGS, Gen, Admin, the Operating Expenses, Selling, Distribution & Marketing expense, Depreciation. After Reducing projected interest from EBIT, PBT is projected. PAT is projected by reducing projected tax from PBT.

Projected PAT \* (Dividend at current year/Actual PAT at current year) = Projected Dividend.

**9. Projected Tax:**

Projected tax is projected by multiplying tax rate at the PAT projected.

Projected Tax = Projected PBT \* Rate of Tax

**2. LOGIC OF PROJECTED INCOME STATEMENT: IN LOSS SITUATION**

**1. Cash Reserve Percentage:**

We must decide the percentage of cash reserve from PAT.

**2. Projected PBT:**

When there is a loss, the Debt coverage at year end is divided by Cash Reserve Percentage and multiplied by 100+Cash Reserve Percentage.

Projected PAT = ((Debt Coverage at year end – Total Cash Reserve /Remaining outcome years)/Cash Reserve Percentage)

**3. Projected Expenses/ Cost:**

(Cost or Expense/Actual PBT) \* Projected PBT

**4. Projected Sales:**

Projected PBT – Projected Expenses and Costs = Projected Sales

**5. Projected Tax:**

Tax and dividend are derived from the Value of Projected PBT.

**8. DRAFTING PROJECTED INCOME STATEMENT FOR THE YEAR YYYY:**

The Management Accounts are grouped by individual financial accounts (Chart of Accounts) based on understanding of management and income statement.

➤ **TABLE 1**

Year: YYYY	
Management Accounts	Amount
Projected Sales	
Less:	
Projected COGS	
Gross Profit – Projection	
Less:	
Projected General, Admin, Operation expenses	
Projected Selling, Marketing, Distribution Expenses	
Projected Depreciation	
EBIT	
Less: Projected Interest	
PBT	
Less: Projected Tax	
PAT	
Less: Projected Dividend	
PAT after dividend Projected	
Expected Cash Reserve = Reserve Percentage * PAT after Dividend	

**9. DRAFTING VARIATION STATEMENT AT EVERY YEAR END - FORMAT**

**1. THEORY OF VARIANCE STATEMENT:**

At every year end within the total overcome years, we do a variance statement at year end starting from first year of total overcome years till end of overcome years. The variance amount and percentage show that deviation from growth rate and expected cash reserve. Based on the Variance amount or percentage, we can increase the total overcome years. Variance statements of every year end is compared and analysed for detailed information.

➤ **TABLE 2**

2. **VARIANCE STATEMENT FOR THE YEAR XXXX:**

<b>Year: YYYY</b>				
<b>Management Accounts</b>	<b>Actual Amount Taken from current year income statement</b>	<b>Projected Amount Taken from projection statement of current year from earlier section</b>	<b>Variance amount Actual Amount - Projected Amount</b>	<b>Variance (Percentage Variance Amount/Projected Amount *100)</b>
Sales				
Less:				
COGS				
Gross Profit				
Less:				
General, Admin, Operation expenses				
Selling, Marketing, Distribution Expenses				
Less: Depreciation				
EBIT				
Less: Interest				
PBT				
Less: Tax				
PAT				
Less: Dividend				
PAT after dividend				
Expected Reserve Cash= Reserve Percentage * PAT after Dividend				

**EXAMPLE - PROJECTED INCOME STATEMENT & VARIANCE STATEMENT****10. PROJECTED INCOME STATEMENT BY MAKING DEBT COVERAGE AS PAT UNDER PROFIT**➤ **TABLE 1**

Debt = 2000000, Assets Revalued: 1000000, Years to overcome: 10 years

<b>Management Accounts</b>	<b>Year</b>	
	<b>2021</b>	<b>2022</b>
Sales	200000	250000
Less:		
COGS	50000	55000
Gross Profit – Projection	150000	195000
Less:		
General, Admin, Operation expenses	10000	15000
Selling, Marketing, Distribution Expenses	10000	15000
Depreciation	10000	15000
EBIT	120000	150000
Less: Interest	10000	10000
PBT	110000	140000
Less: Tax	10000	20000
PAT	100000	120000
Less: Dividend	10000	15000
PAT after dividend Projected	90000	105000

Cash Reserve Percentage:

90 %



Actual Rate:

PAT After Dividend/Sales \* 100

$105000/250000 * 100 = 42\%$

Debt Coverage:

Debt – Revalued non-current assets

$2000000 - 1000000 = 1000000$

Growth Rate:

$(\text{Debt Coverage}/\text{Overcome years})/\text{Reserve Rate} * \text{Actual Rate} - \text{Actual Sales}/\text{Actual Sales} * 100$

$(100000/90\% * 42\%) - 250000/250000 * 100$

$(2,64,550 - 250000)/250000 * 100 = 5.82\%$

➤ **TABLE 2**

Year: 2023	
Management Accounts	Amount
Projected Sales	264550
Less:	
Projected COGS	58201
Gross Profit – Projection	206349
Less:	
Projected General, Admin, Operation expenses	15873
Projected Selling, Marketing, Distribution Expenses	15873
Projected Depreciation	15000
EBIT	159603
Less: Projected Interest	10000
PBT	149603
Less: Projected Tax	12000
PAT	137603
Less: Projected Dividend	16000
PAT after dividend Projected	121603
Expected Cash Reserve = Reserve Percentage * PAT after Dividend	109442

Debt coverage per year = 100000 and cash reserve this year = 109442

## 11. PROJECTED INCOME STATEMENT GROWTH IN SALES UNDER PROFIT

➤ **TABLE 3**

Debt = 2000000, Assets Revalued: 1000000, Years to overcome: 10 years

Management Accounts	Year	
	2021	2022
Sales	200000	250000
Less:		
COGS	50000	55000
Gross Profit – Projection	150000	195000
Less:		
General, Admin, Operation expenses	10000	15000
Selling, Marketing, Distribution Expenses	10000	15000
Depreciation	10000	15000
EBIT	120000	150000
Less: Interest	10000	10000
PBT	110000	140000
Less: Tax	10000	20000
PAT	100000	120000
Less: Dividend	10000	15000
PAT after dividend Projected	90000	105000

Cash Reserve Rate = 90%

**1. Debt Coverage:**

- $\frac{\text{Debts at every year end} - \text{Revalued Non-Current Assets at every year-end}}{\text{Debt Coverage}} = \text{Debt Coverage}$   
 $\frac{2000000-1000000}{1000000} = 1000000$

**2. Actual Rate:**

- $\frac{\text{Actual sales (at current year)} - \text{Last year Sales}}{\text{Last Year Sales}} * 100 = \text{Actual Rate}$   
 $\frac{(250000-200000)}{200000} * 100 = 25\%$

**3. Expected Cash Reserve:**

- $\frac{\text{Debt Coverage at every Year End}}{\text{The Remaining Overcome Year}} = \text{Expected Cash Reserve}$   
 $\frac{1000000}{10} = 100000$

**4. Expected Sales:**

- $\frac{\text{Expected Cash Reserve}}{\text{Actual Rate}} = \text{Expected Sales}$   
 $\frac{100000}{25\%} = 400000$

**5. Expected Growth Rate:**

- $\frac{((\text{Expected Cash Reserve}/\text{Actual Rate}) - \text{Actual Sales})}{\text{Actual Sales}} * 100$

If the percentage goes to zero or below zero, keep the current year sales as projected sales.

$$\frac{(400000-250000)}{250000} * 100 = 150000/250000 * 100 = 60\%$$

Sales is greater than 0 so we can consider the growth.

➤ **TABLE 4**

Year: 2023	
Management Accounts	Amount
Projected Sales	400000
Less:	
Projected COGS	88000
Gross Profit – Projection	312000
Less:	
Projected General, Admin, Operation expenses	24000
Projected Selling, Marketing, Distribution Expenses	24000
Projected Depreciation	15000
EBIT	249000
Less: Projected Interest	10000
PBT	239000
Less: Projected Tax	12000
PAT	227000
Less: Projected Dividend	22000
PAT after dividend Projected	205000
Expected Cash Reserve = Reserve Percentage * PAT after Dividend	184500

Debt coverage per year = 100000 and cash reserve this year = 184500

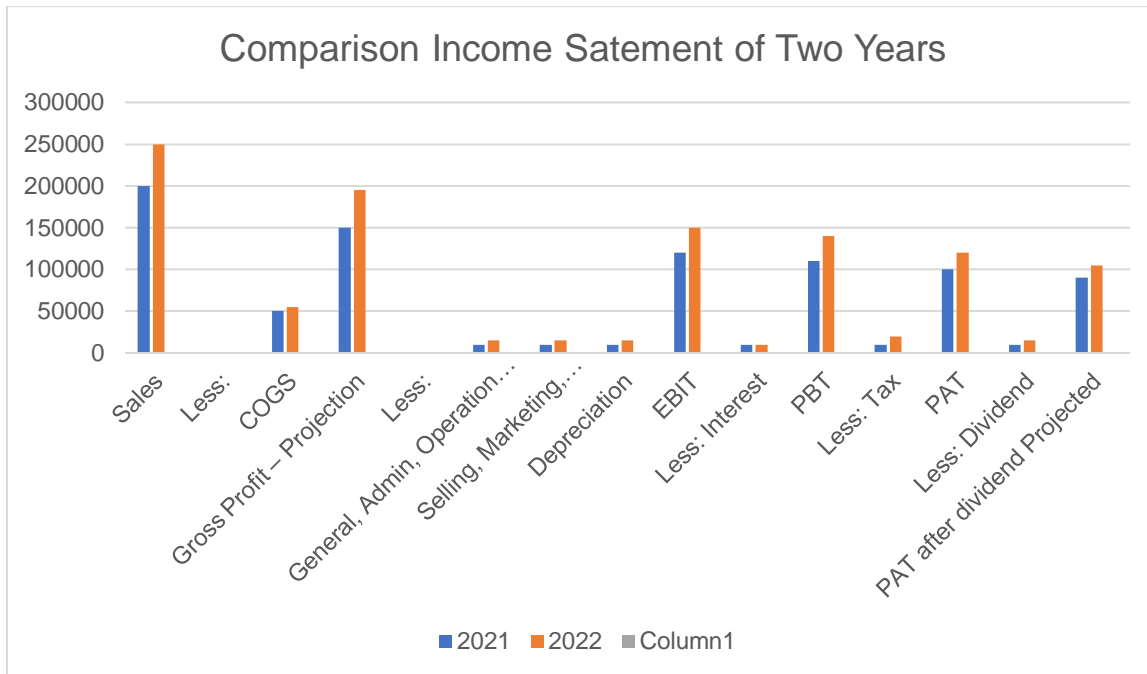
**12. PROJECTED INCOME STATEMENT BY PERCENTAGE OF PAT AFTER DIVIDEND UNDER PROFIT**

➤ **TABLE 5**

Debt = 2500000, Assets Revalued: 1000000, Years to overcome: 10 years

Management Accounts	Year	
	2021	2022
Sales	200000	250000
Less:		
COGS	50000	55000
Gross Profit – Projection	150000	195000
Less:		
General, Admin, Operation expenses	10000	15000
Selling, Marketing, Distribution Expenses	10000	15000

Depreciation	10000	15000
EBIT	120000	150000
Less: Interest	10000	10000
PBT	110000	140000
Less: Tax	10000	20000
PAT	100000	120000
Less: Dividend	10000	15000
PAT after dividend Projected	90000	105000



Cash Reserve Percentage:

90 %

Actual Rate:

PAT After Dividend/Sales \* 100

$105000/250000 * 100 = 42\%$

**1. Expected Cash Reserve:**

$(\text{Debt Coverage at every Year End} - \text{Total Actual Cash Reserve}) / \text{The Remaining Overcome Year} = \text{Expected Cash Reserve}$

Debt Coverage:

Debt - Revalued non-current assets

$2500000 - 1000000 = 1500000$

$1500000 - 0/10 = 150000$

**2. PAT Growth Percentage**

$(\text{PAT after Dividend at current year} - \text{PAT after Dividend at last year}) / \text{PAT after Dividend at last year} * 100$

$(105000 - 90000) / 90000 * 100 = 16.66\%$

**3. Projected PAT:**

Since, Expected Cash Reserve > PAT after Dividend

$((\text{Expected Cash Reserve} / \text{PAT after Dividend}) * \text{PAT Growth Percentage} + 100\%) * \text{PAT after Dividend Current year} / \text{Cash Reserve Percentage}$

$((\text{150000} / \text{105000} * \text{16.66\%}) + 100\%) * \text{105000} / 90\% = 144433.33$

**4. PAT to Sales Percentage Actual:**

$\text{PAT after Dividend at Current Year} / \text{Sales at Current Year} * 100$

$105000 / 250000 * 100 = 42\%$

**5. Projected Sales Growth Rate (Sales Growth Rate):**

$((\text{Projected PAT} / \text{PAT to Sales Percentage Actual}) - \text{Actual Sales}) / \text{Actual Sales} * 100$

$((\text{144433.33} / \text{42\%}) - 250000) / 250000 * 100 = (3,43,888.88 - 250000) / 250000 * 1000$

**37.56%**

➤ **TABLE 6**

<b>Year: 2023</b>	
<b>Management Accounts</b>	<b>Amount</b>
Projected Sales	343900
Less:	
Projected COGS	75658
Gross Profit – Projection	228242
Less:	
Projected General, Admin, Operation expenses	20364
Projected Selling, Marketing, Distribution Expenses	20364
Projected Depreciation	15000
EBIT	171974
Less: Projected Interest	10000
PBT	161974
Less: Projected Tax	12000
PAT	149974
Less: Projected Dividend	17000
PAT after dividend Projected	132974
Expected Cash Reserve = Reserve Percentage * PAT after Dividend	119676

Debt coverage per year = 150000 and cash reserve this year = 119676

### 13. PROJECTED INCOME STATEMENT UNDER LOSS

Debt = 2000000, Assets Revalued: 1000000, Years to overcome: 10 years

#### ➤ **TABLE 7**

<b>Management Accounts</b>	<b>Year</b>
	<b>2022</b>
Sales	10000
Less:	
COGS	50000
Gross Profit – Projection	50000
Less:	
General, Admin, Operation expenses	20000
Selling, Marketing, Distribution Expenses	20000
Depreciation	20000
EBIT	-10000
Less: Interest	10000
PBT	-20000
Less: Tax	0
PAT	-20000
Less: Dividend	0
PAT after dividend Projected	-20000

Projected PBT:

Projected PBT = ((Debt Coverage at year end – Total Cash Reserve /Remaining outcome years)/Cash Reserve Percentage) (100000/90) \*100 = 111111

#### ➤ **TABLE 8**

<b>Year: 2023</b>	
<b>Management Accounts</b>	<b>Amount</b>
Projected Sales	418888
Less:	
Projected COGS	277777
Gross Profit – Projection	
Less:	
Projected General, Admin, Operation expenses	111111

Projected Selling, Marketing, Distribution Expenses	111111
Projected Depreciation	20000
EBIT	
Less: Projected Interest	10000
PBT	111111
Less: Projected Tax	15000
PAT	
Less: Projected Dividend	15000
PAT after dividend Projected	71111
Expected Cash Reserve = Reserve Percentage * PAT after Dividend	63999

#### 14. VARIANCE STATEMENT FOR THE YEAR 2023 – UNDER PROFIT

➤ **TABLE 9**

<b>Year:2023</b>				
<b>Management Accounts</b>	<b>Actual Amount Taken from current year income statement</b>	<b>Projected Amount Taken from projection statement of current year from earlier section</b>	<b>Variance amount Actual Amount - Projected Amount</b>	<b>Variance (Percentage Variance Amount/Projected Amount *100)</b>
Sales	255000	264550	-9550	-3.609%
Less:				
COGS	55000	58201	-3201	-5.499%
Gross Profit	200000	206349	-6349	
Less:				
General, Admin, Operation expenses	15100	15873	-773	-4.869%
Selling, Marketing, Distribution Expenses	15100	15873	-773	-4.869%
Less: Depreciation	15000	15000	0	
EBIT	154800	159603	-4803	
Less: Interest	10000	10000	0	
PBT	144800	149603	-4803	
Less: Tax	11000	12000	-1000	-8.33%
PAT	133800	137603		
Less: Dividend	15000	16000	-1000	-6.25%
PAT after dividend	118800	121603		
Expected Reserve Cash= Reserve Percentage * PAT after Dividend	106920	109442		

#### CONCLUSION:

A fixed year of overcoming the unrecoverable debt is found. A growth rate is fixed at year beginning which starts from 1<sup>st</sup> year of Total overcome years to last year of total overcome years. A projected Income statement is prepared by logic of projections and expected growth rate fixed in this formula under profit situation or projected PAT under loss situation. A Variance Statement is prepared by comparing projection income statement with Actual Income Statement in every year end in the total overcome years.