Decision making using financial accounting
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Lecture - 27
Reading the Financial Statements of a Annual Report – 3

Let me look at imagine I am going to use the board here.

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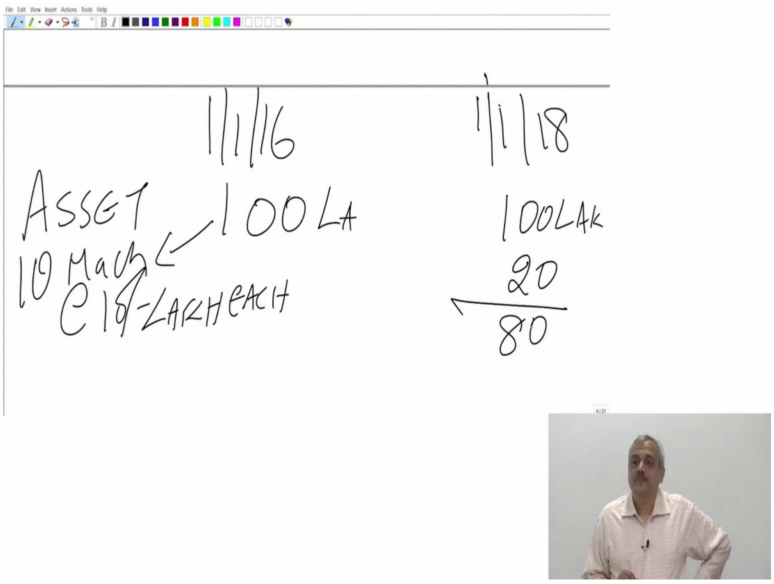

Imagine on 1.1. 2016 I have an asset which is value is about 100 lakhs out there and this 100 lakhs is of 10 machineries of then what is called as what we call 10 machineries out there at the value of 10 lakh each, that makes it 100 lakhs. Imagine there is a depreciation of 10 percent on this machinery every year. Now I am looking at a calendar here I am looking at the value of this machinery as of 1.1. 2018. Original value of the asset is 100 lakhs, depreciation imagine 10 year 10 percent straight line depreciation 2 year 16 and 17 there is depreciation; that means, there must be depreciation of about 20 lakhs out here and the value of it is about 80 lakhs out there, very clear.

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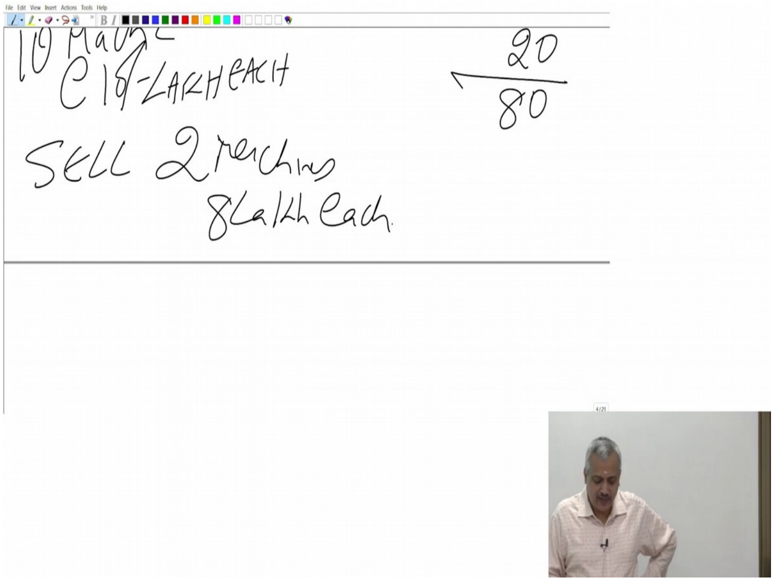

Now on first of January 2018 I decide to sell 2 machines and I decide to sell 2 machines let us say at what is a value I decide to sell two machines at about 8 lakhs each right. So; that means, two machines gone out here in this particular case. So, when I when I basically write my financial statement, I will say gross value 100 sale of 2 machines, what is the sale?

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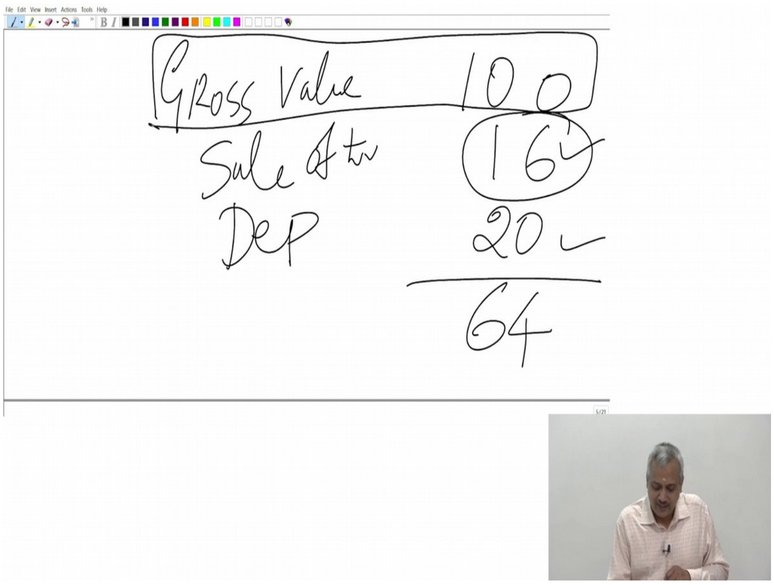

Student: 16.

16 is the sale out there what you have. Depreciation what is the depreciation I have write there?

Student: 20.

20, that is what you say; now what is the figure I get out here? 80 minus 16 is.

Student: 64.

Student: 64.

64. how many machines do I have?

Student: 8 machines.

8 machines. what is the value per machine?

Student: 8.

8. So, is it 8 and 8 64 out there in the process am I with you in this particular case out there yes. Now in this particular case what I have done out here? I have taken out depreciation, I have taken out what is called as the sale value of this particular machinery out there in this particular case. But when I take out the sale value in this particular case out here what is the value I am taking out? In this in this particular case I have to return the sale value, but what is the value that I should deduct from here; should I deduct it as 16 or should I deduct 20? Because what is it you have only the gross value out here? The gross value of each machine is 10 lakhs. So, you have 10 machines out there. Now when two machines goes out of the gross value, what is the gross value of the asset? Imagine this is not there for the time being I do not take this, I take only this imagine I do not take this.

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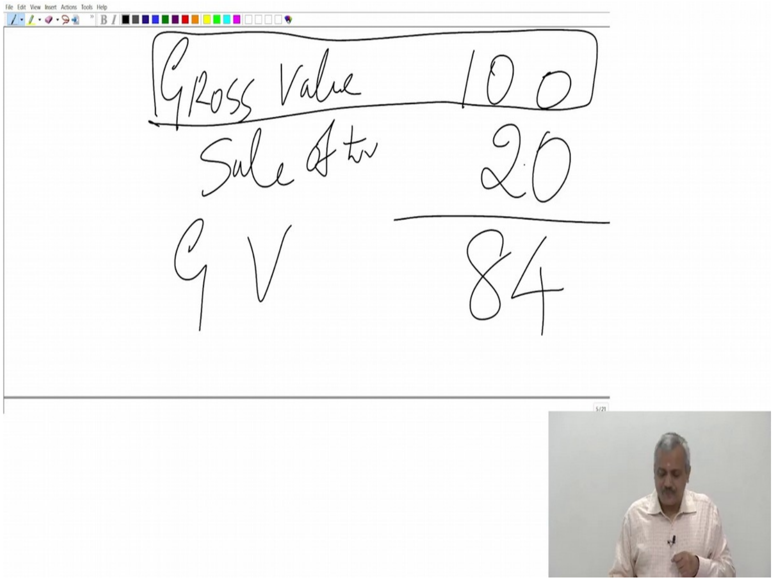

Now, what is the gross value of the machine I hold? Is gross value of the machine what I hold 84 lakhs? No, gross value of the machine what I hold is only 80 lakhs gross value of the machine what I hold is not 84, its only 80 lakh.

So, what do I do? I am playing around with the gross value not the net value. So, what do I do? I sell two machines when I sell two machine what is the gross value of the two machines?

Student: 20.

20 lakhs I said probably lakhs out there. So, now, what is the gross value of the machines what I have?

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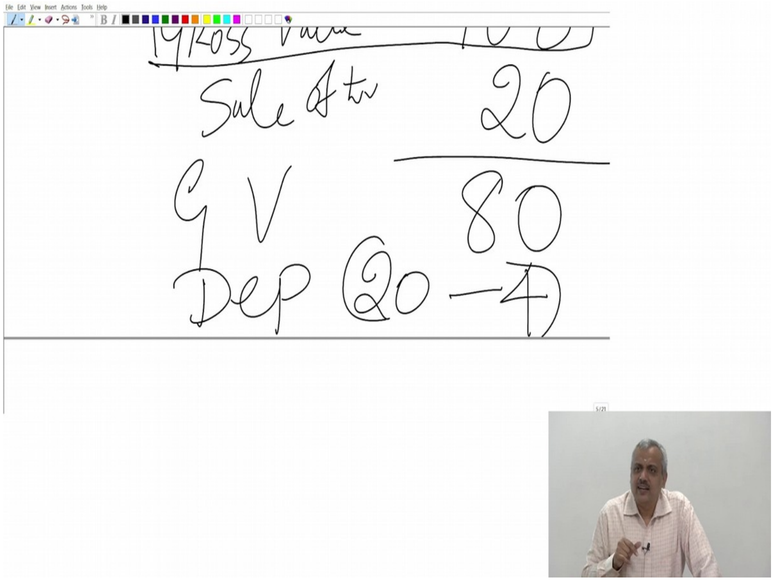

Student: 80.

80 lakhs is the gross value of the machine now I say when I say depreciation what is the depreciation value I have to deduct from here?

Student: (Refer Time: 04:24).

Here you see depreciation is 20, what is the depreciation I have to deduct out here?

Student: 16.

Student: 16.

16 or 20?

Student: 16.

Sure 16 or 20? Where we solved out here depreciation was 20, here depreciation 20. So, should I deduct depreciation of 20 or 16?

Students: Probably 16 (Refer Time: 04:46) 10 percentage (Refer Time: 04:47).

No you are not doing a 10 percentage (Refer Time: 04:49) you are looking at what is called as for accumulated, your accumulated depreciation is 20. So, ideally you should deduct 20 yes or no, how many of you say yes? Yes no, what are you looking at in a balance sheet? What you own and basically only what you own. So, what you own? You own only 8 machines. So, what do I have to charge? I have to charge depreciation for 8 machines when I have to charge accumulated depreciation is 20 out of that two machines I have sold it is not there with me why should I take the depreciation alone?

I have already charged it in the P and L the year in which I incurred the deprecation. So, the depreciation pertaining to the two machines I am deducting that. So, net deduction 16. So, naturally the value what I own will be 64 out there that is all what it is. Any questions any doubts at this stage no doubts out here?

So, basically in this particular line again I go back to the same thing out here, go back to your accumulated depreciation in that look at balance as of 31st of March 2017. In that balance as of 2000 March 2017 you look at disposals and adjustments. The machine which you do not own the depreciation which you are charged part of it also I will take it out of the accumulated depreciation amount and throw it like what I basically did out here. That is all what is that disposal; that means, with you or not, why Prateek why are you smiling?

Student: I am sorry.

Something funny; no jokes right, nobody is cutting a jokes with me anyway fine. So, basically then you see what is called as a carry amount out there in the process what is the amount that is carried additions, disposals etcetera basically you look at that particular amount out there. Look at they have given it for entire 2 years we look at only 1 year. So, basically that disposals and adjustments are there, then they carrying amount. Carrying amount is balanced as of 2017 what are the additions, what are the final disposals and what is the basic net amount out here is what you see in the last row that is all basically what is carrying.

I go back to my non-current assets out here, we looked at plant property and equipment, then we look at capital work in progress; that is also part of your schedule 4 only schedule 4 if you look at that is where part of your schedule 4 page number I forget.

Student: 2011.

2011, what is this capital work in progress? Where is it not 2011?

Student: No sir 2 10.

2 10 it was. It is part of your 2 10, the first table not the second table the first table last item in the first table in page number 2010 capital work in progress. What is the capital work in progress? It is for example, imagine you are constructing a building on March 31st you are constructed the walls and the foundation there is no roof, can you call it a building? It is not a building as of now it is only a capital work which is in progress, but it is an asset that whatever shell what is there without the roof is owned by that particular company out there.

So, that is a capital work which is in progress. So, the value of it, how do you determine the value of it? The amount of money you have spent till that date or till that stage is the value of it and that is what we mentioned out here as capital work in progress out there. With you on this, any questions? Move on further' go to page number 200 and sorry 196, there is what is called as intangible assets the next one that is schedule number 5 schedule number 5 is page number 211.

In this particular case its lump sum royalty which you are basically receiving royalty, that is lump sum royalty and engineering support fee. Now you are receiving some kind of a royalty why should I receive royalty? Now rather I should pay royalty to Suzuki not necessarily, you would receive royalty from your vendors also because you are given them technology to manufacture and supply team, you might have given them technology to manufacture them.

So, you would get some kind of a royalty in the process. There would be a vendor, who would or there would be a spare part manufacturer who would be using your brand name which you allowed him to use it because he is meeting the standards he is a doing that and selling then naturally you get a royalty. You could get a royalty for using the brand from basically your many of your service centres, showrooms etcetera where whatever it is, there is what is called as a money that you have collected upfront at what is called as it is a capitalised amount, which there you are collected for using your brand out there that is all part of your basically your intangible asset out there.

Or value of your royalty, brand etcetera out there, that is the entire value that is what we basically talk about in the particular case. Next I move to your schedule number if I look at page number 196, I move to your schedule number financial assets out there, in financial assets I look at investments and loans that is schedule 6, 7 and 9 and other financial assets.

Schedule 6, 7 and 9 schedule 6, 7 and 9 page number 2012 you look at non-current investments no do not look at the current part of it we look at it little later non-current. You are mister in what is called as if you look at in this particular case what are the associate companies that is 6.1 6.2 and so on and so, forth out there they will give you what is the associate companies they have invested in. Bharath seats, Jai Bharath Maruthi, Machino plastics and then what is called as Capro Maruthi, Hanone climate, Krishnamurti and so on and so, forth.

We are all they are basically made the investment that is all their vendor they would have holding their stock if you look at if any of you would have visited the Maruthi plant in Gurgaon it is very interesting they were the first to start that way because I have a plant I have space for all my vendors in my what is called as in that entire factory ground out there they all put up their shops. So, what happen? I am holding a stake in it why am I doing that? Because I am ensuring there is going to be a constant supply and I am look at jet manufacturing system etcetera out there.

So, basically all these companies you are holding a stake, when you have invested you have invested in the form of equity. When you invested in the form of equity it is an investment, when it is an investment it is an asset for you that is all what is there. Now somebody can come up with what is the value of that equity? Listed unlisted possible value what is the value? Go back to the financial principle according principle of principle of being very.

Student: (Refer Time: 11:55).

Fine beautiful there you guys remember that is fantastic. So, you know I do not have to explain further. So, you know how to basically evaluate, very happy that you guys remember. Look at 6.2 also investment in joint ventures, 6.3 other equity investments 6.4 investment in preference shares and then you would basically runs beyond that if you look at 6.3, then after your 6.3 basically investment in 6.5.

You basically see that investment in 6.5 running to n number of pages out there. See that you can see the details spend some time understanding the details of all that not part of this task, but you can spend some time understanding the details of all that. If you look at a Unilever's balance sheet you pick up a Unilever balance sheet this investment will run to at least about 8 pages. This kind of investment will run to at least about 8 pages we look at a Unilever balance sheet.

Now why are they made their investment, part of their treasury management, they have to park the funds out there. When you talk about treasury management out there in this case particularly what happens is in a treasury function please understand any company has to manage their cash they cannot keep liquid cash.

They have to park it somewhere that is I am getting money on my sales as of today, all your dealers pay advance and pick up the vehicle where as you pay your vendors much later there is cash excess cash with you. So, what do you do with the cash? You basically go and park that cash somewhere, you are playing around with that cash. Playing around means not you do not get into the market and play around stock market, but there are what is called as a treasury management function, that is what is called as a treasury management function. The treasury management function will take that money park it in xyz places, and ensured that the money comes back to you on the day in which you have to make basically the payment out there.

So, they park the money in all these cases on as of 31st of March. On the 1st of April it could be different marginally because we would have withdrawn some they would have parked some more money it can basically happen in the process out there the mark places where they have parked the money (Refer Time: 14:21). Further in this particular case out there other financial assets if I look at other financial assets out here that is schedule number 9 and what is called a schedule number 12, we let us just focus on schedule number 9 and schedule number 12 out there.

Schedule number 7 also you see that schedule number 7 in page number 2018 schedule number 7 page number 2018. Non current loans which are unsecured I give loans to my employees long term I give a house building loan to my employee can I do not know if the company policy is. At least government had it sometimes back not after the last 5 10 years. Now I can give this kind of long term loan inter corporate deposits these are all what is called as your long term that is a basically an asset quantities.

Now more details on it you will not get out here, if that is where you sign an NDA if you are purchasing out that particular company then you go and inspect their books of account and get all that details and so on and so forth out there. Now move from here to schedule number 9; other financial assets unsecure, security deposits under the security deposits you are keeping security deposits out here out there you have to (Refer Time: 15:43) security deposit the government also you might have security deposits wherever you are operating also possible and others out there.

Then move to schedule number 12 that is where you have unsecured part of it comes in. Other non current assets capital advances, prepaid expenses and leases, amount paid under protest or dispute; you have paid under protest, you are still disputed you observe basically there is an expenditure somebody has claimed you have a dispute. So, what does he say? I will fight it, but first I have to pay only then I fight it. But as of now I have not treated it as an expenditure because I feel I am not eligible to pay I might get back that money I am treating it as an asset out there.

If the verdict goes against me on that year we never know what it goes I will take it off the balance sheet write it in the expenditure. If your verdicts is basically is in my favour then it moves from there to the current asset that is it becomes cash because I am going to get the money back out there that is all any questions; yes Bhargav?

From here I move back to page number 196, I move on to what is called as the current assets out there. If I look at the current assets then there is what is called as your schedule number 10 that is basically your inventory, that is where we start of with schedule number 10 inventory is page number 220. Somebody asked me work in process how do you treat it, you actually see out here, I remember 1 of the class I think some of you have one of you asked me in the class work in process etcetera that is in a manufacturing plant half finished goods a car without engine can be there work in process what is the value? How do you determine the value whatever amount of money that has gone into the manufacture of that particular component in that particular point of time.

So, this entire aspect out here or you basically see. You see the raw material work in process finished goods ,vehicle ,spare total goods ,loose tools etcetera. Inventory includes transit inventory of raw material and stock in trade you see look at that statement before below inventory includes transit inventory also, which is because it takes about 10 days for the truck to reach Chennai, the entire amount of climate of things out there that is what basically if you look at in the particular days. Move on to the next schedule, if I have to look at this next schedule out here it says schedule 6 and 8, if you go and look schedule 6 and 8. 6 is basically pertaining to what is called as your investment; investment here current investments will be there somewhere in the process out here.

If you look at your investments out here that is schedule 6 the top portion in the first schedule 6 you see current investment in debt mutual fund aggregate value of the uncoated investment, aggregated value of the quoted investment, market value of the quoted investment all is there what do you do? You take the market value what is the number what is the figure you take? Market value is for you to indicate again you follow the principle of being.

Student: (Refer Time: 19:02).

That is all. Follow the principle of being very conservative you do not think that market value unless until it is lower than the value of your investment, that is just an information which is given to you. Schedule 8 next is basically if you look at the schedule 8 out here, schedule 8 is more pertaining to trade receivables; schedule 8, page number 218 containing pertaining to trade receivables. Here you see two classifications considered good considered doubtful; still doubt about it and then if I say considered doubtful, then I make a what is called as provision for the doubtful debt that is I say I have to receive 100 crores but I may not receive 8 crores I am doubtful about it I create a provision.

So, what is your asset? Your asset is not 100 crores, your asset is only 92 crore and 100 minus 8 crores that is what they have done basically what do you see. Am I with you on this? Now, some companies will say receivables which are more than 6 months due which are less than 6 months due they would classify. Receivables which are more than 12 months due, 6 months due and then which are receivables which are 6 less than 6 month due any kind of classification you are allowed to do that.

And please note your auditor signs only in the first three pages that is balance sheet P and L and cash flow that is all not beyond that. Schedules are up to you to the way in which you want to present it to your stakeholders I do not use the word shareholders I say stakeholders, with you on this?

Now, move on further last few minutes do not worry. Look at a schedule 11 which gives you cash and bank balances 7 9 and so on and so forth. If you look at your schedule 7 let us start with schedule 7 page number 2018 schedule 7. Schedule 7 talks about you are what is called as current loans related out there, that is there is a current portion of the loans also there is a small current portion this one statement employee related loans and advances which are current; that means, immediately recoverable 1 month advance somebody has taken.

Now, move to the schedule 9 out there that is it gives you some kind of some more details out here, if you look at your schedule 9 other financial assets. Interest accrued, secured, not secured, recoverable from related parties, others considered good other considered doubtful and so on because financial assets out there some kind of an interest which you are eligible to receive on your investments and so on and so forth. Move further to what is called as your cash and bank balances, your cash and bank balances will give you the complete details of the money that is basically there with you in the process.

The complete balances with bank checks and drafts in hand please note somebody said in the one of the classes they said I get a cheque, but it is not cash right I have not cashed it is neither in the bank nor in the form of cash, but it is in the form of a paper. So, what is the value of it that is also mentioned as on that day I get a post dated cheque not considered; the cheque which is valid as on that day, the cheque which is valid on the day. I get a cheque which is dated April fifteen not considered that is not your money cheque which is dated March thirtieth yes that is your money, but you are not encashed it value.

So, it gives you an idea so, far what we have looked at gives you an idea about the (Refer Time: 23:08) balance sheet components of the balance sheet and how to related to the schedules, it could have been a little flying over your head as of today no problem. Try to look at it, a try to pick up another annual report of any company your own company you can look at it and try to relate to the schedules. So, that you will all these will not look at Greek and Latin to you it will be more comfortable in flipping through the pages of an annual report, you should be that is the finance part of it. Similar schedules are there for P and L also, I have not looked at the schedules of the P and L as of today; we look at it in the next class next class, we will look at some part of the P and L.

By then I hope that you would look at an annual report preferably look at an annual report of a manufacturing concern that is slightly better more comfortable do not look at annual report of a bank or a financial or a NBFC or a finance company. Because you can you do not know, because when they say deposits are treated as liability and thing you will get a little confusion as a baring my friend out here.

So, you do not look at what is called as Finance the company's balance sheet, look at preferably a manufacturing company's you can just download it from the web. Look through the schedules related you will feel a little more comfortable because when somebody is throwing the schedules at you are not going to get a little scared; you have to be little more comfortable out there. Try to see relate the schedules to what is there in the P and L also, I will spend some time in the next class and then we go on ok.

Thank you very much.