Managerial Accounting
Prof. Dr. Varadraj Bapat
Department of School of Management
Indian Institute of Technology, Bombay

Lecture - 12
Fund Flow Statement Cases

Dear students, let us study today, Funds Flow Statement. We will have a brief recap of funds flow. And then we will go into more details analysis of financial statements. Last few sessions, we have been studying cash flow and funds flow statement. Do you remember now, what is mean by cash flow statement? This is the statement, which makes summary of cash inflows and outflows, which have been categorized specifically as operating flows, investing flows and financing flows.

Same way, we also seen, what is fund flow statement? Fund flow statement is in a way developed prior to cash flow statements. Here, we give a list of from where, the funds have come and from where, the funds have gone. But, we do not specifically categorize the items into investing and financing. They are simply listed as inflows on one side and outflows on other side.

In fund flow statement, there is one important item, funds from operations, which shows the profit, which is realized and which gives inflow to the business. And usually, there is an item on application or huge side. That is increase in the working capital. Because, as the funds are generated from business, some funds gets locked in working capital. That is what is shown in fund flow statement. Let us have a look at the PPT for few moments. And then we will solve the problem, which we were solving in the last session.

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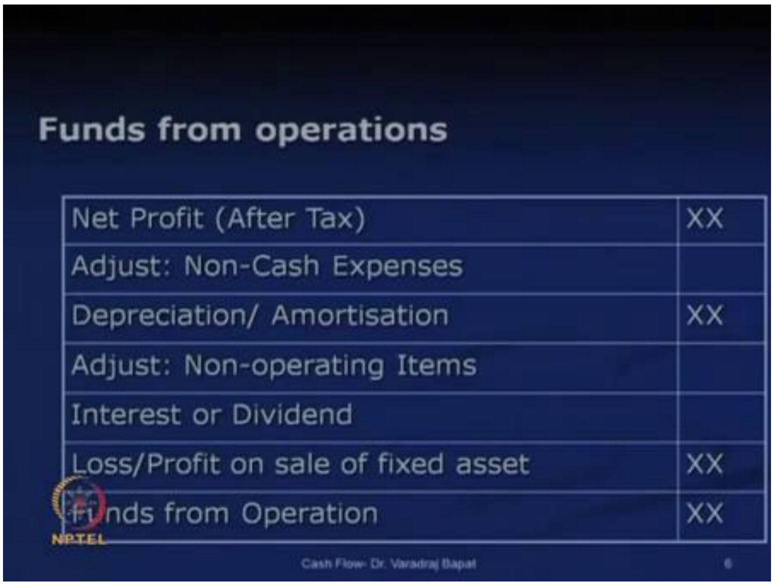

So, we have seen, what is a fund flow statement? Let us have a look at it once again. This is, what is the calculation of funds from operation? Here, we calculate the net profit, add non-cash expenses, depreciation, adjust for non-operating items. And figure, which we get is, funds from operations.

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To this, we adjust for we also calculate the changes in working capital.

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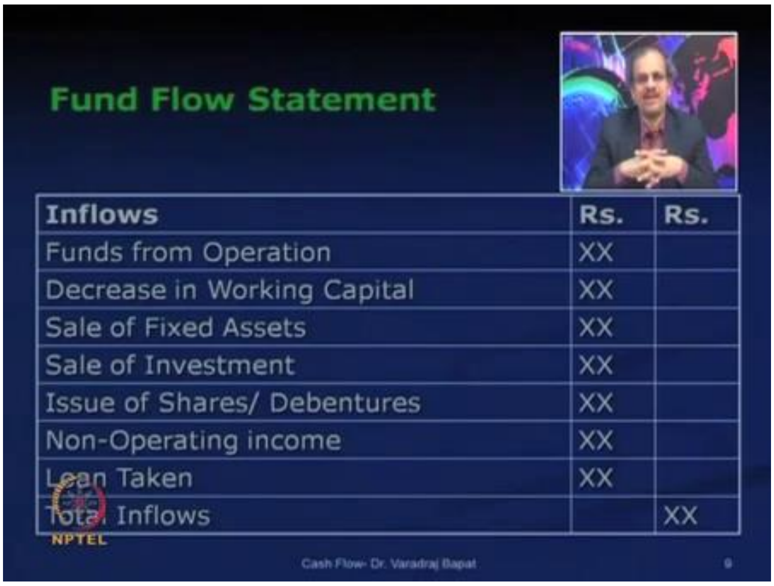

And this is the format of the final statement, where we show inflows on one side. You can see what are the inflows? One of the most important inflows is, as I have just now told you. It is funds from operations. Then, there are inflows by selling fixed assets, there are inflows by selling investments or by issue of shares and debentures and so on.

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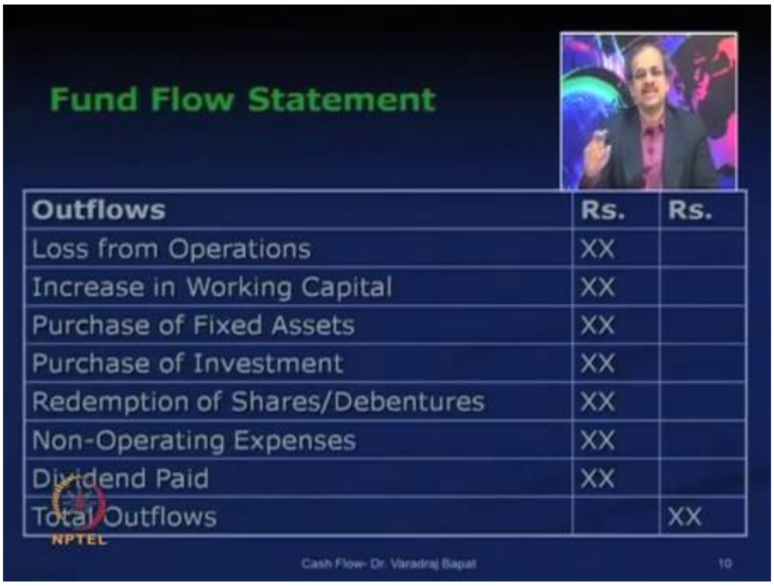

Same way, outflows are listed. Here, major outflow is increase in working capital. Sometimes, there is loss; that will be an outflow. And then there will be purchases of assets, there could be redemption of shares, dividend paid, all these are outflows. We had seen the concepts of fund flow statement. If you remember, last time, we were solving a problem on calculation of fund flow for reliance industries, have a look at it.

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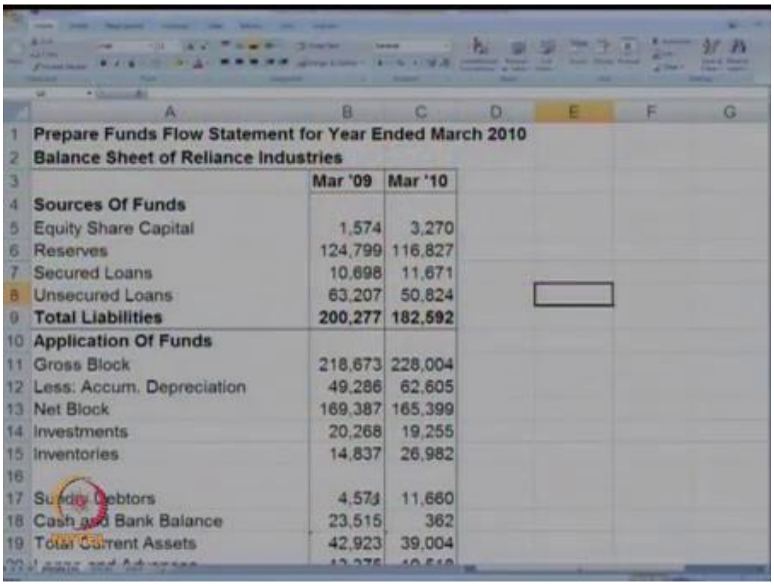

Prepare Funds Flow Statement for Year Ended March 2010		
Balance Sheet of Reliance Industries		
	Mar '09	**Mar '10**
Sources Of Funds		
Equity Share Capital	1,574	3,270
Reserves	124,799	116,827
Secured Loans	10,698	11,671
Unsecured Loans	63,207	50,824
Total Liabilities	**200,277**	**182,592**
Application Of Funds		
Gross Block	218,673	228,004
Less: Accum. Depreciation	49,286	62,605
Net Block	169,387	165,399
Investments	20,268	19,255
Inventories	14,837	26,982
Sundry Debtors	4,57[illegible]	11,660
Cash and Bank Balance	23,515	362
Total Current Assets	42,923	39,004

I had told you that, try to solve yourself. So, this is where we had started, we were given the balance sheet for 2 years.

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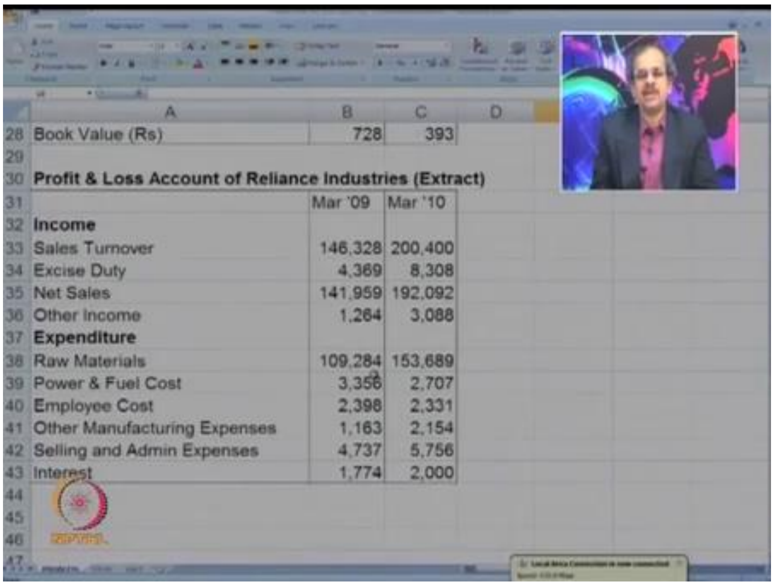

Book Value (Rs)	728	393
Profit & Loss Account of Reliance Industries (Extract)		
	Mar '09	Mar '10
Income		
Sales Turnover	146,328	200,400
Excise Duty	4,369	8,308
Net Sales	141,959	192,092
Other Income	1,264	3,088
Expenditure		
Raw Materials	109,284	153,689
Power & Fuel Cost	3,356	2,707
Employee Cost	2,398	2,331
Other Manufacturing Expenses	1,163	2,154
Selling and Admin Expenses	4,737	5,756
Interest	1,774	2,000

And some extract to P and L account. Also, for 2 years, from this, we were to make fund flow statement. So, how do you start, how will you make fund flow statement from this much of info. You are right, first what we have to do is? Find the difference between the figures, because that is something, which tells you the flow. So, any increase or decrease in the assets and liability is indirectly shows or hints; that there is some flow.

So, we calculate the difference, then we identify those differences as inflows or outflows. And from that, we try to make the final statement. Before making the final statement of fund flow, we have to calculate funds from operations. And we also have to calculate the changes in the working capital. Let us see, what we had done in the last session.

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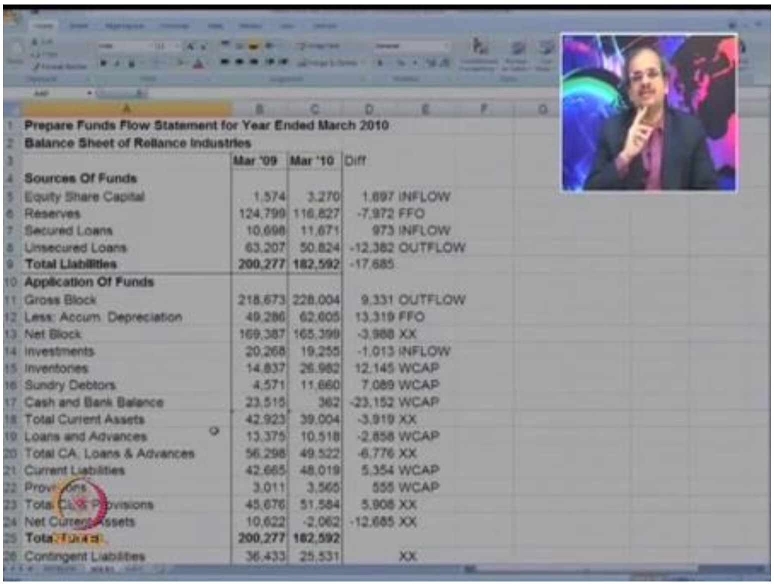

Prepare Funds Flow Statement for Year Ended March 2010				
Balance Sheet of Reliance Industries				
	Mar '09	**Mar '10**	Diff	
Sources Of Funds				
Equity Share Capital	1,574	3,270	1,697	INFLOW
Reserves	124,799	116,827	-7,972	FFO
Secured Loans	10,698	11,671	973	INFLOW
Unsecured Loans	63,207	50,824	-12,382	OUTFLOW
Total Liabilities	**200,277**	**182,592**	-17,685	
Application Of Funds				
Gross Block	218,673	228,004	9,331	OUTFLOW
Less: Accum. Depreciation	49,286	62,605	13,319	FFO
Net Block	169,387	165,399	-3,988	XX
Investments	20,268	19,255	-1,013	INFLOW
Inventories	14,837	26,982	12,145	WCAP
Sundry Debtors	4,571	11,660	7,089	WCAP
Cash and Bank Balance	23,515	362	-23,152	WCAP
Total Current Assets	42,923	39,004	-3,919	XX
Loans and Advances	13,375	10,518	-2,858	WCAP
Total CA, Loans & Advances	56,298	49,522	-6,776	XX
Current Liabilities	42,665	48,019	5,354	WCAP
Provisions	3,011	3,565	555	WCAP
Total CL & Provisions	45,676	51,584	5,908	XX
Net Current Assets	10,622	-2,062	-12,685	XX
Total [illegible]	**200,277**	**182,592**		
Contingent Liabilities	36,433	25,531		XX

So, we were here, if you remember, first we calculated the difference in this column. So, all the figures were simply subtracted. I mean, 10 figures were subtracted, 9 and 10. So, you get the difference. Then, we have identified the difference as inflow or out flow. So, let us have a brief recap at it. So, equity share capital, you can see, there is an increase in the equity capital that represents inflow.

Why, does it represent inflow, anyone can tell? So, what happens is, the capital has increased. So, probably it has come by issue of shares for cash, so it is an inflow. Of course, there is a possibility; that it might have also been, because of bonus shares. In that case, it is not an inflow, but right now, no such information is provided to us. So, we will take it as an inflow.

Next is reserves, reserves, you can see there is decrease in reserve, this is FFO. So, it has come, we have taken it as fund from operations, because it represents the changes. Then, we have got gone into secured loan. There is an increase in the secured loan, it is an inflow. Decrease, it is an out flow, on assets or on application side, if you see, there is a gross block. There is an increase in the gross block. That represents the purchase of fixed assets. So, it is an outflow.

Accumulated depreciation, this is charged or adjusted from profit and loss account. So, it represents, it is an item of fund flow, FFO, Fund From Operations. So, we have marked it as FFO and so on. The items, which were not to be considered, have been marked as x x, for example, net block. Then, some items like inventories, debtors, cash, they are marked as WCAP, because they represent the changes in working capital. So, if you remember for all the items, we have marked them as inflows, outflows, working capital FFO and so on.

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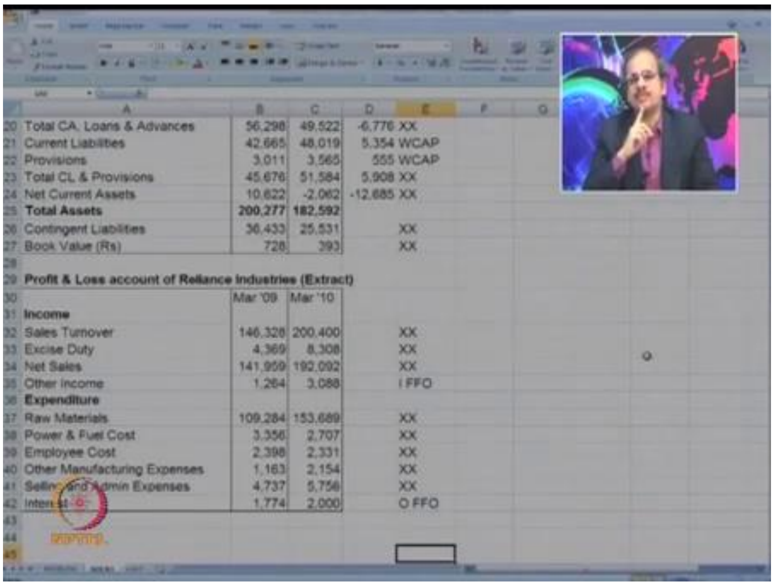

In case of profit and loss account items, the difference has no relevance. We have to only look at the current year figures, in our case March 10 is the latest figures. So, we will look at those figures and identify, whether they will have any impact on the fund flow statement. So, you can see first item is sale turnover, it is not to be considered for fund flow statement. So, we marked it as x x, then excise duty x x, net sales x x.

Other income is marked as I. Because, it represents an inflow and it will also have to be adjusted FFO. Same way, all expenses are marked x x except interest, which is an outflow and it will also need to be adjusted in FFO. So, this is where we were, do you remember? Now from this, let us try to go to the next level and try to prepare fund flow statement. So, I will try to make a copy of the sheet and now let us work on it.

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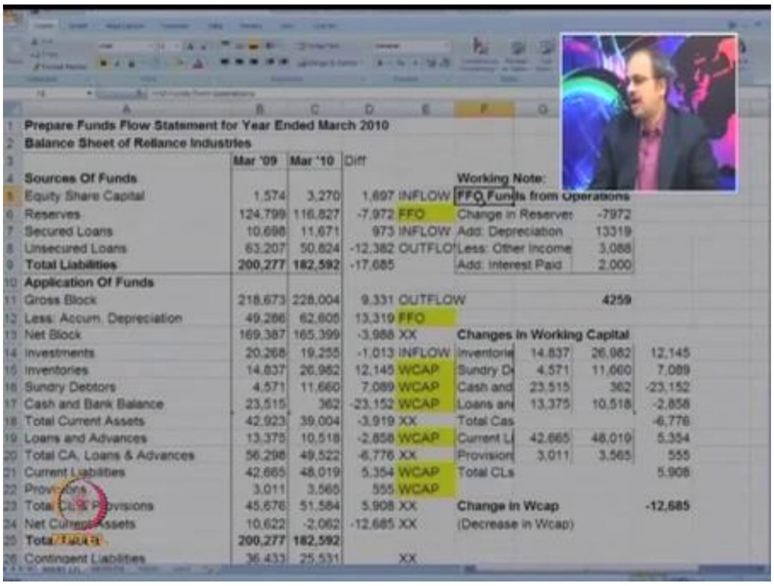

So, what will be the first step? We need to make two working notes. One for calculation of FFO, other for calculation of working capital. So, let us make those notes first, once they are ready, we will go for final statement or the fund flow statement. So, let us make a working note first, which is on calculation of working capital. I am requesting that, you also try to solve with me. So, that, you really understand exactly, what I am doing.

So, first we will make it for FFO full form is Funds From Operations. So, here, we are trying to start with profit and make relevant adjustments to know, what was the money coming in from operations. Here, you can see the change in the reserve; we take it as proxy for profit. So, the amount which is given here is in negative. So, same amount, we will take as changes in reserves.

Now, look for FFO items as we have marked. So, first one, this one, we have already taken care now. The next is accumulated depreciation, will it be added or deducted, to results. Answer is, it will be added, why it is added, anyone is able to remember? We have discussed it, at the time of making cash flow and also at the time of making fund flow. What happens is, depreciation is charged as an expense, but there is no out flow for it.

So, when, we are calculating the fund from operations or cash from operations, it needs to be added. So, 13319; that is 13319; represents the amount of depreciation provided. So, we have accounted for this also. Now, the next one, you look for all the FFO items. Next item, you can see here, other income. Now, other income, this is something, which is added to for calculation of profit. But, it comes from, it is a separately to be shown as a inflow items.

So, we should not include it in FFO. That is why; we will reduce it. The amount for the current year is, 3088. So, I will try to adjust that amount. So, other income, now in this case, it should be deducted and not added. So, I will specifically say, less other income. So, that, it will be more clear to you. Again, go back, go down, you will realize that, interest one more item.

Now, interest is outflow specifically to be shown, but it also appears in P and L. That is why; we will reduce it from P and L, we will add it. So, we will say add interest, this represents interest paid amount is 2000. So, if I try to calculate now, fund from operations, you can see here, I will add the depreciation minus other income plus interest paid.

So, 4259 represents the funds from operations as we have calculated. Now, next calculation, we have to do is, for changes in working capital. Now, naturally, you will look for items, which are marked as WCAP. So, take a look at the items, which have been marked as working capital, wait a moment, first, let us mark this FFO. So, amongst the working capital items, you will see, starting from inventory.

We have inventory, debtors and cash, these three items there are change in the working capital. So, let us take this three items, this represents the change. Then, again, there is an item loans and advances, which is one of the current assets, please do not confuse with the loan received. That is a source, these loans and advances are working capital item. They represent short term advances given. So, it is a working capital item.

Now, we have two items on liabilities also, current liabilities and provisions. So, total changes in the current assets. So, you will realize that, there is no increase; there is decrease of current assets by 6766. And there is an increase in the liability by 5908. Change in the working capital, I am going to find. So, it will be increase in the working capital minus increase in the current asset minus increase in the current liability.

So, I get the figure of minus 12,000; because it is minus 6 minus 5. So, this is the overall, you can see the decrease in working capital. For more clarity, I am specifically writing that, since the figure is in negative, it represents the decrease in the working capital. So, now, we can mark all this WCAP items, because we have recorded them, fine take a look, there is no other item left now.

Now, we have to go to the main statement, wherein, we will record all the inflows and outflows as given. And we will also take the items, which are taken from working note. That is funds from operations and decrease in the working capital.

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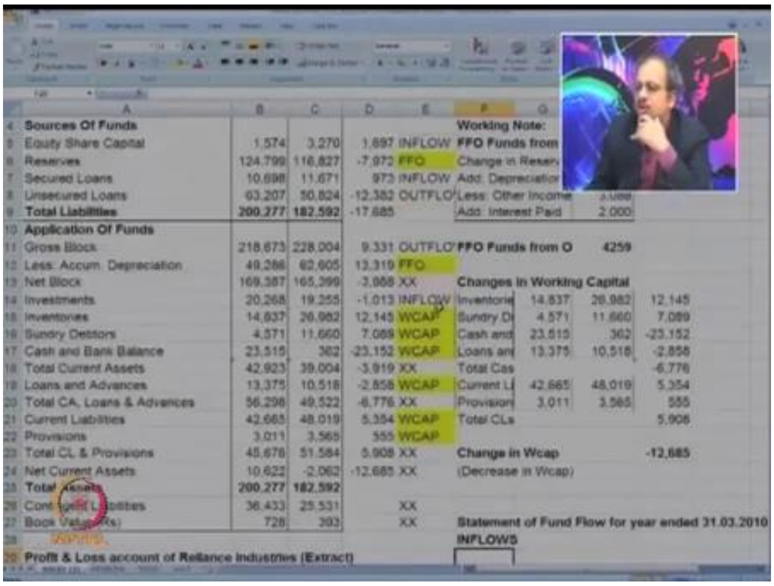

So, now, let us try to make the final statement. That is the statement of fund flow, keep in mind, that these statements are for a particular year. In this case, it is for March 0, 10’s. So, it is for year ended 31, 03, 2010. Now, we will list out all the inflows first. So, take a look at the statement, there are number of items, where inflows are given. So, we will take those items first. So, first inflow is share capital.

So, equity share capital has increased by 1696. Now, this increase represents 1697; this is an inflow, because probably, there is an issue of share. It is also possible that, there is some bonus share. But, since, information is not available to us right now. We will just go for recording it as an inflow. Now, the next item, take a look at again the main sheet, you will realize that, the secured loans have gone up.

So, that is all inflow to us. So, we will record secured loans. So, it is 972. Next is, so we have considered two inflows. So, far this outflow, we will take later. Next inflow, you can see is investment. In case of investment, what has happened is, investments have actually gone down, take a look at figure from 20,000. They have reduced to 19,000. So, there is a sale of investment.

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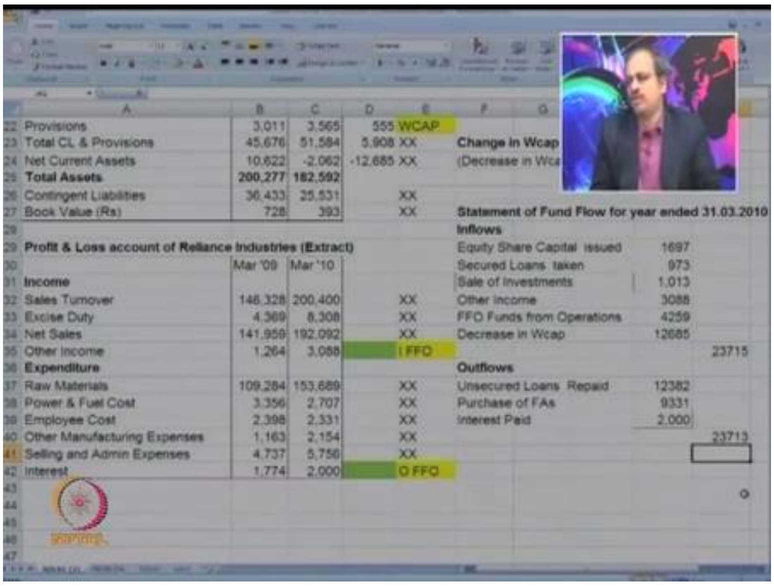

So, I would like to specifically state that, there is a sale of investment. In equity shares also, you may also specify that it is equity shares issued and secured loans taken, because new loans were taken in the year. Then, there is a sale of investment which is to the tune of 1013. Next, inflow you can see. So, all the inflows in the main statement are over. I think, I hope you are getting it clearly. There is one item. Other income, we have marked it as I FFO.

That is, to show that inflow. So, there is an inflow to the tune of 3088. That is because of other income. Can you imagine, what does this other income likely to include. It is likely to include, dividend received income or interest received from investments. So, it is not an inflow from operations. It is a separate item. That is why it is shown separately under, the inflows as other income 3088. Now, apart from this fund from operations 4259, this is also one of the important inflows.

So, 4259 is an inflow which we call as FFO or fund from operations. Then, there is a decrease in working capital. This also represents an inflow. Most of the cases, we have observed that as business increases, the working capital requirement tends to increase. But, in case of this company in case of reliance, you can see that for the March 0 10 there was a decrease in working capital. So, it releases the funds for day to day.

That is, why we have marked it as inflow. So, it is 12685. We have calculated it. We have got the figure as minus 12000. So, we concluded that, it is a decrease and we have shown it as an inflow. So, total inflows we have calculated. Now, let us try to calculate the total outflows. Now, for outflows you again go back to the main statement. Take a look at various items as are given. So, first one you can see unsecured loan.

So, there is a decrease of unsecured loan from 63 to 50. So, company must have paid for repayment of unsecured loan. So, I will take it as an outflow. So, you can say unsecured loan repaid for more clarity. Next item of outflow is gross block, as we have already discussed. There is an increase in the gross block, which shows purchase of fixed assets for the company. So, I will mark it as purchase of fixed assets. Now, next if you see, now there is no item left directly from a P L account.

The last item, which you can see is interest. This represents the interest paid. So, it is an outflow. The amount, we will take the current year figure, which is 2000. So, we have marked three items. Now, take total and verify. Is it matching? So, you can see it is matching. There is a minor difference that is, because of error in rounding off. So, we will ignore it. But, total of inflows and outflows comes to 23715. Is it clear to everyone?

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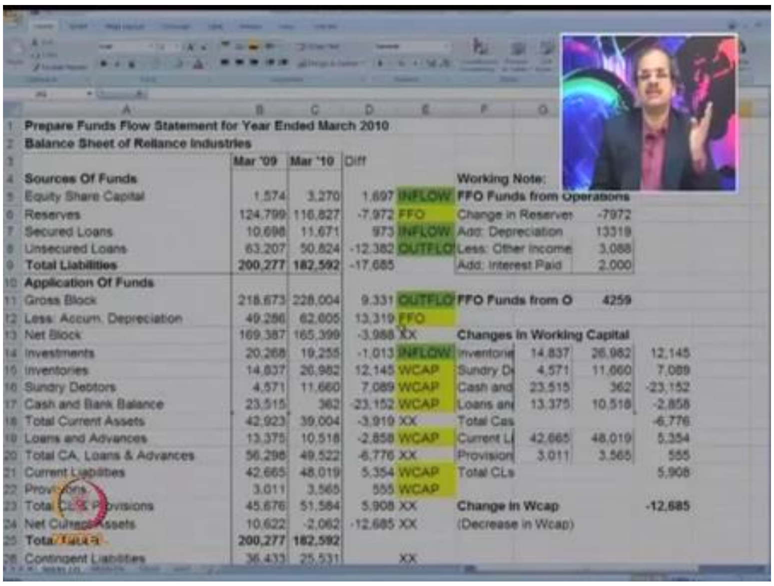

	A	B	C	D	E	F	G	H	I
1	Prepare Funds Flow Statement for Year Ended March 2010								
2	Balance Sheet of Reliance Industries								
3		Mar '09	Mar '10	Diff					
4	Sources Of Funds					Working Note:			
5	Equity Share Capital	1,574	3,270	1,697	INFLOW	FFO Funds from Operations			
6	Reserves	124,799	116,827	-7,972	FFO	Change in Reserves		-7972	
7	Secured Loans	10,698	11,671	973	INFLOW	Add: Depreciation		13319	
8	Unsecured Loans	63,207	50,824	-12,382	OUTFLO	Less: Other Income		3,088	
9	Total Liabilities	200,277	182,592	-17,685		Add: Interest Paid		2,000	
10	Application Of Funds								
11	Gross Block	218,673	228,004	9,331	OUTFLO	FFO Funds from O		4259	
12	Less: Accum. Depreciation	49,286	62,605	13,319	FFO				
13	Net Block	169,387	165,399	-3,988	XX	Changes in Working Capital			
14	Investments	20,268	19,255	-1,013	INFLOW	Inventorie	14,837	26,982	12,145
15	Inventories	14,837	26,982	12,145	WCAP	Sundry D	4,571	11,660	7,089
16	Sundry Debtors	4,571	11,660	7,089	WCAP	Cash and	23,515	362	-23,152
17	Cash and Bank Balance	23,515	362	-23,152	WCAP	Loans an	13,375	10,518	-2,858
18	Total Current Assets	42,923	39,004	-3,919	XX	Total Cas			-6,776
19	Loans and Advances	13,375	10,518	-2,858	WCAP	Current L	42,665	48,019	5,354
20	Total CA, Loans & Advances	56,298	49,522	-6,776	XX	Provision	3,011	3,565	555
21	Current Liabilities	42,665	48,019	5,354	WCAP	Total CLs			5,908
22	Provisions	3,011	3,565	555	WCAP				
23	Total CL & Provisions	45,676	51,584	5,908	XX	Change in Wcap			-12,685
24	Net Current Assets	10,622	-2,062	-12,685	XX	(Decrease in Wcap)			
25	Total	200,277	182,592						
26	Contingent Liabilities	36,433	25,531		XX				

Please, have a look at balance sheet again. So, this is we were. We were given only the data for two years. We have first calculated the differences. Then, we have identified the items as inflows outflows. And then we have made two working notes. One was from fund flow operations, second was change in working capital. And then we have made the final statement or statement of fund flow. I hope, it is clear to everyone.

Keep in mind that, whenever you are doing profit and loss items, actually there are two adjustments required. And in case of balance sheet item, it has only one effect. So, we will stop here. For this particular topic, now we are moving to the next topic that is on analysis on financial statement. So, what we have done. So, far is we have covered a topic on balance sheet. So, that you understand the basic figures.

Then, we have gone into profit and loss account. Next level, we have also seen the recording part as to, how the profit and loss account or balance sheet is prepared. So, before that, you need to know how the entries are recorded in the transactions that, we have seen. Next, we have also seen, how do you make cash flow and fund flow statement. Now, we will try to go into interpretation of financial statements. Before going into that first let us see, how to interpret a cash flow statement or fund flow statement.

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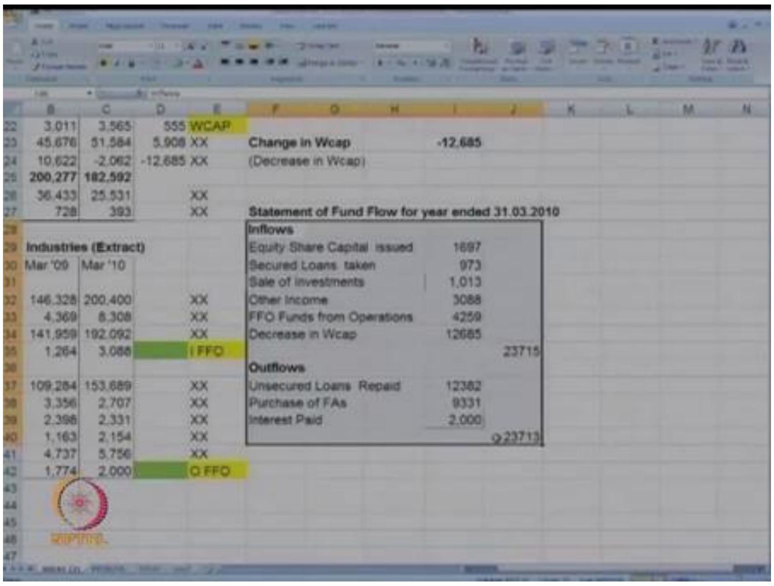

Now, you have this fund flow statement in front of you, which we have just solved. So, what do you see from it, how do you interpret it. So, as you can clearly see during the year, company has the biggest amount available with the company was, from decrease of working capital. So, company has taken a decision to reduce it is day to day assets. Especially, it is cash balance has been significantly reduced. We can look at the figures.

In the working capital, you can see the cash balance. So, reliance was flush with money. Lot of cash was available. So, they have reduced their cash balance substantially. And that is, why there is decrease in working capital of 12000. There was also some money received from operations. And money received from investment to the tune of 4000 and 3000. That, gives us explanation as to from where the funds came.

Now, look at the outflows. The biggest outflow was repayment of unsecured loan, which is to the tune of 12000. So perhaps, company has tried to reduce its interest burden by repaying the unsecured loan. Secondly, company is also improving its financial position, because its dead equity ratio will improve. The loans totally taken by the company have gone down. We are going to look at the ratios today.

But, I am just explaining as to what will be the impact of this repayment of 12000, on the financial position of the company. You will also see that, 9000 crores was used for purchase of fixed assets, which is a required investment for expansion and also for maintaining the current machinery conditions. Maintaining, not in a sense of repair, but lot of old machines would have been worn out. So, company has to replace them.

And also add few more items in plant and machinery or other current assets. So, that is 9000. And interest paid is of course, 2000. So, this is how you can understand, how the fund flow statement is made. I think, let us make one more fund flow statement, which will make the things more clear to you.

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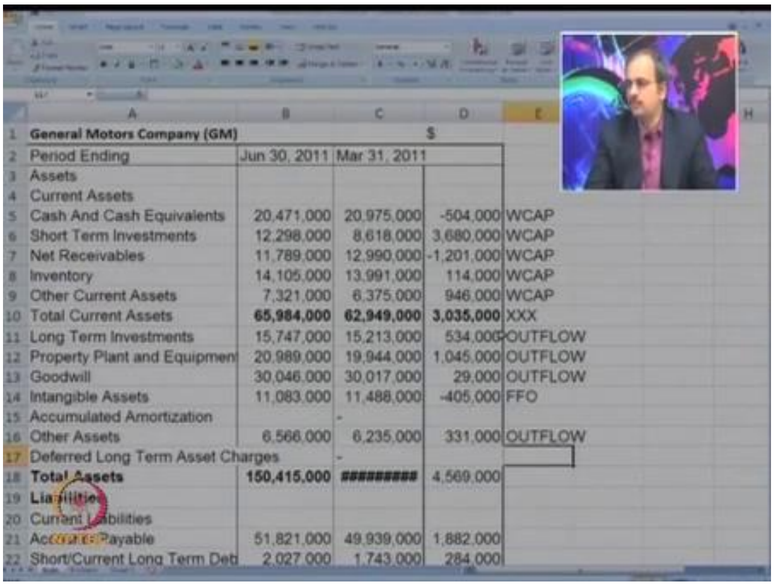

	A	B	C	D	E
1	**General Motors Company (GM)**			$	
2	Period Ending	Jun 30, 2011	Mar 31, 2011		
3	Assets				
4	Current Assets				
5	Cash And Cash Equivalents	20,471,000	20,975,000	-504,000	WCAP
6	Short Term Investments	12,298,000	8,618,000	3,680,000	WCAP
7	Net Receivables	11,789,000	12,990,000	-1,201,000	WCAP
8	Inventory	14,105,000	13,991,000	114,000	WCAP
9	Other Current Assets	7,321,000	6,375,000	946,000	WCAP
10	Total Current Assets	**65,984,000**	**62,949,000**	**3,035,000**	XXX
11	Long Term Investments	15,747,000	15,213,000	534,000	OUTFLOW
12	Property Plant and Equipment	20,989,000	19,944,000	1,045,000	OUTFLOW
13	Goodwill	30,046,000	30,017,000	29,000	OUTFLOW
14	Intangible Assets	11,083,000	11,488,000	-405,000	FFO
15	Accumulated Amortization		-		
16	Other Assets	6,566,000	6,235,000	331,000	OUTFLOW
17	Deferred Long Term Asset Charges		-		
18	**Total Assets**	**150,415,000**	**#########**	4,569,000	
19	**Liabilities**				
20	Current Liabilities				
21	Accounts Payable	51,821,000	49,939,000	1,882,000	
22	Short/Current Long Term Debt	2,027,000	1,743,000	284,000	

So, please look at the balance sheet of general motors as you know, one of the biggest corporates in the world, one of the largest companies in US. So, I have tried to show you the balance sheet for two quarters, March 31st and June 30th of 2011. Then, we have also calculated the difference between the two. Using this data now, we have to calculate or prepare fund flow statement. Now, how to proceed? Just give me a hint as to, what is a way now for us to go ahead with this.

Any one is able to recollect how shall we go ahead? You are right. These are the figures in dollars. First, what we have to do is, we have to identify the items into inflows, outflows, working capital, FFO and so on. Once, they are identified we will try to prepare next statements. So, you can also see the format as per the US gap, which is much different than the format of, as per the Indian gap.

So, here under current assets, the first item shown is cash and cash equivalents. You can see there is a difference of 405. We have been asked to make a fund flow statement. So, how to go ahead? What will be the first step, to make a fund flow statement? Look at cash and cash equivalents. There is a decrease minus 504. We are comparing June quarter with the March quarter.

So, this is the working capital item. So, I will mark it as WCAP. Next is short term investment, you can see there is a major increase from 8000, it has become 12,000. So, there is a increase of 36,000, again it is a item of working capital. Net receivable there is a decrease in net receivables again it is a item of working capital. Net receivables or debtors represents the money, which is recoverable from the customers.

Next item given is inventories, you can see there is a small change in inventories, small increase in the inventory. But, it is a working capital item. Other current assets again a working capital item. So, total current assets is given we will not consider this item. Next, long term investment. Now long term investment you can see there is a increase in the long term investment. Under what head you will put it. It is not a working capital item, it is not going to be an inflow it represents the outflow, because company must have invested some money in the securities or in some other markets. That is why long term investment has increased. Next is property plant and investment, again you can see there is an increase. So, we will mark it as outflow. Next item is good will now this is a very important item. You can see there is a small increase in the good will. Again it is an outflow as per US gap good will is shown as a separate item.

When we saw the balance sheet of reliance, it was not shown as a separate item. In this case, it is a separate item and there is outflow. So, we will mark it there is an increase so we have mark it as an outflow. Next is intangible assets. You will see there is a decrease in the intangible assets. So, how should I put it? Inflow, outflow where will it come, this is slightly a tricky item. You may feel, that decrease means it is an inflow we might have sold the assets. It could have been true, if it would have been tangible assets.

In this case, what has happened is, intangible assets represent items like, software patterns, which are essentially, return off. So, decrease in the intangible assets is due to writing off of those assets, not because of sale or any other way. So, writing off is going to affect the fund from operations, so we have to mark it as FFO. Next you can see, other assets again there is a small increase is because of purchase, so we will make it as outflow.

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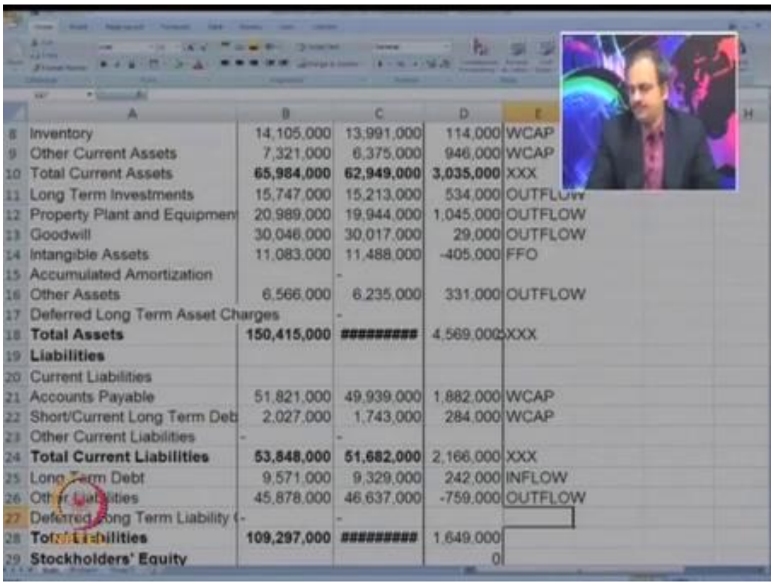

	A	B	C	D	E
8	Inventory	14,105,000	13,991,000	114,000	WCAP
9	Other Current Assets	7,321,000	6,375,000	946,000	WCAP
10	**Total Current Assets**	**65,984,000**	**62,949,000**	**3,035,000**	XXX
11	Long Term Investments	15,747,000	15,213,000	534,000	OUTFLOW
12	Property Plant and Equipmen	20,989,000	19,944,000	1,045,000	OUTFLOW
13	Goodwill	30,046,000	30,017,000	29,000	OUTFLOW
14	Intangible Assets	11,083,000	11,488,000	-405,000	FFO
15	Accumulated Amortization		-		
16	Other Assets	6,566,000	6,235,000	331,000	OUTFLOW
17	Deferred Long Term Asset Charges		-		
18	**Total Assets**	**150,415,000**	**#########**	4,569,000	XXX
19	**Liabilities**				
20	Current Liabilities				
21	Accounts Payable	51,821,000	49,939,000	1,882,000	WCAP
22	Short/Current Long Term Deb	2,027,000	1,743,000	284,000	WCAP
23	Other Current Liabilities	-	-		
24	**Total Current Liabilities**	**53,848,000**	**51,682,000**	2,166,000	XXX
25	Long Term Debt	9,571,000	9,329,000	242,000	INFLOW
26	Other Liabilities	45,878,000	46,637,000	-759,000	OUTFLOW
27	Deferred Long Term Liability (	-	-		
28	**Total Liabilities**	**109,297,000**	**#########**	1,649,000	
29	**Stockholders' Equity**			0	

Then total assets we will ignore. Now let us, go to liability side we have finished, asset side may be you can have a look at assets side once again. Now let us, go to liability side liability again it starts with current liabilities. The first item is accounts payable. So, how will you mark it as, for us it is simple it is a working capital item. So, we will mark it as working capital. Next is short or current long term liabilities, again it is a working capital item.

Because, either they are short term liabilities or even if they are long term liabilities, only the current portion of long term liabilities. So, it is a working capital item. There are no other current liabilities, total we will just mark it as x x. Next is long term debt, you can see there is a marginal increase in the long term debt. So, it should be marked as what inflow or outflow. There is a increase in the loan, so company has taken new loans. So, it is a inflow for the company.

Other liabilities, again they are long term in nature, because we are under other liabilities not under the current liabilities. So, there is a decrease in the liability, which represents an outflow. Why, it is an outflow, company must have paid cash to decrease it is liabilities. So, it is an outflow.

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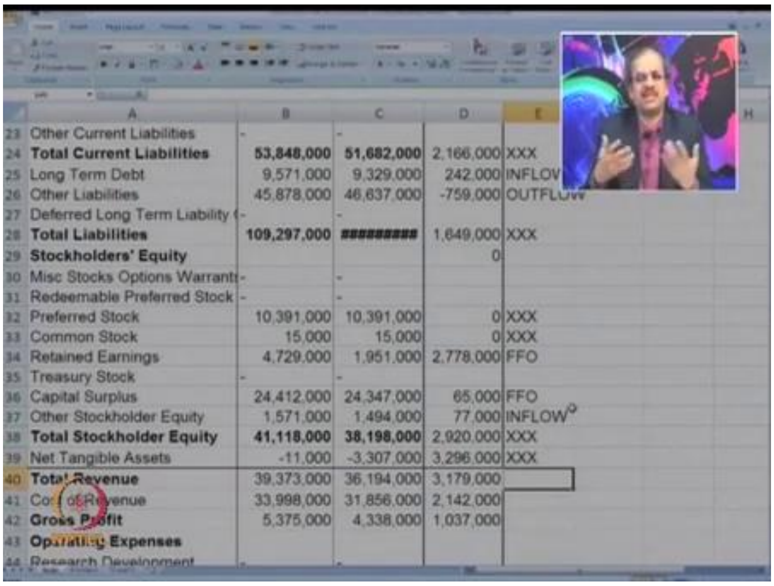

	A	B	C	D	E
23	Other Current Liabilities	-	-		
24	**Total Current Liabilities**	**53,848,000**	**51,682,000**	2,166,000	XXX
25	Long Term Debt	9,571,000	9,329,000	242,000	INFLOW
26	Other Liabilities	45,878,000	46,637,000	-759,000	OUTFLOW
27	Deferred Long Term Liability (	-	-		
28	**Total Liabilities**	**109,297,000**	**#########**	1,649,000	XXX
29	**Stockholders' Equity**			0	
30	Misc Stocks Options Warrants	-	-		
31	Redeemable Preferred Stock	-	-		
32	Preferred Stock	10,391,000	10,391,000	0	XXX
33	Common Stock	15,000	15,000	0	XXX
34	Retained Earnings	4,729,000	1,951,000	2,778,000	FFO
35	Treasury Stock	-	-		
36	Capital Surplus	24,412,000	24,347,000	65,000	FFO
37	Other Stockholder Equity	1,571,000	1,494,000	77,000	INFLOW
38	**Total Stockholder Equity**	**41,118,000**	**38,198,000**	2,920,000	XXX
39	Net Tangible Assets	-11,000	-3,307,000	3,296,000	XXX
40	**Total Revenue**	39,373,000	36,194,000	3,179,000	
41	Cost of Revenue	33,998,000	31,856,000	2,142,000	
42	**Gross Profit**	5,375,000	4,338,000	1,037,000	
43	**Operating Expenses**				
44	Research Development	-	-		

So, total we have to ignore. So now, we have tried to mark all items from balance sheet. Now, let us go down and balance sheet assets and liabilities. Now, we are looking at stock holders equity, again note that in case of US gap balance sheet it is given separately. In Indian balance sheet we only show assets and liabilities. Here, they are showing assets liabilities and equities separately.

First item preferred stock or preferential there is no change, common stock or equity shares again there is no change, retained earnings. You can see there is a significant increase in the retained earnings. It represents inflow or outflow. Actually, none of them it represents the profit earned and accumulated. So, we are going to mark it as FFO. Next, you can see is capital surplus now you will note that the capital surplus has increased.

Now, we are not given exactly the reason why we capital surplus has increased. It could be because sale of assets and the profit earned or it could be because of shares issued at premium. In this case, you can see that there is no issue of shares. So, capital surplus is probably the reason it has happened. Because, of sale of assets you have to also look at asset side whether, there was any sale, we do not see any major sale of asset. In fact, the properties have increased. So, there is a purchase of assets.

So, we assume that it is because of transfer of money from revenue or day to day surplus to capital surplus. So, we will mark it as FFO. Of course, this is because of our assumption. Next is other stock holder equity, again there is a small increase. It represent inflows, because money should have come from something. So, we will mark it as inflow. Then total we can just mark it as x x net in tangible assets also are not important for making fund flow statements. So, we are marking it as x x.

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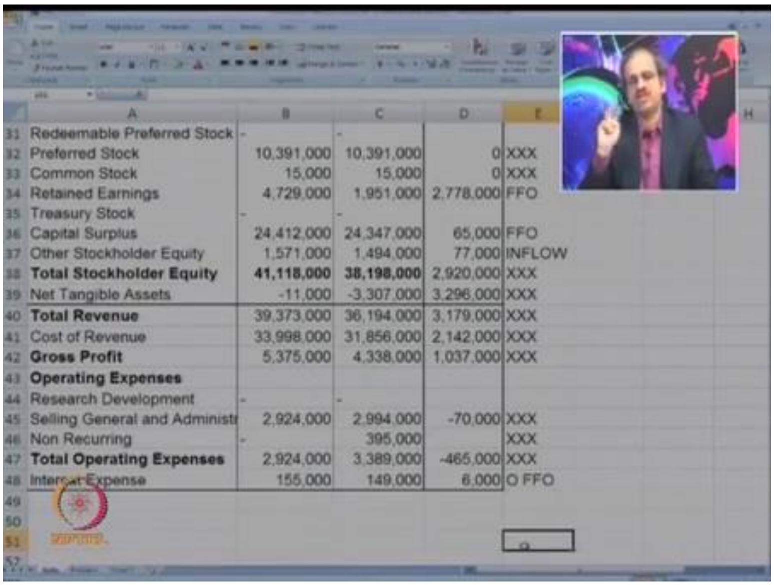

	A	B	C	D	E
31	Redeemable Preferred Stock	-	-		
32	Preferred Stock	10,391,000	10,391,000	0	XXX
33	Common Stock	15,000	15,000	0	XXX
34	Retained Earnings	4,729,000	1,951,000	2,778,000	FFO
35	Treasury Stock	-	-		
36	Capital Surplus	24,412,000	24,347,000	65,000	FFO
37	Other Stockholder Equity	1,571,000	1,494,000	77,000	INFLOW
38	**Total Stockholder Equity**	**41,118,000**	**38,198,000**	2,920,000	XXX
39	Net Tangible Assets	-11,000	-3,307,000	3,296,000	XXX
40	**Total Revenue**	39,373,000	36,194,000	3,179,000	XXX
41	Cost of Revenue	33,998,000	31,856,000	2,142,000	XXX
42	**Gross Profit**	5,375,000	4,338,000	1,037,000	XXX
43	**Operating Expenses**				
44	Research Development	-	-		
45	Selling General and Administr	2,924,000	2,994,000	-70,000	XXX
46	Non Recurring	-	395,000		XXX
47	**Total Operating Expenses**	2,924,000	3,389,000	-465,000	XXX
48	Interest Expense	155,000	149,000	6,000	O FFO

Now, let us go to revenue statement or P and L items. The first item is total revenue, how will we mark it total revenue. Is it an inflow or outflow? It is neither inflow, nor outflow, because we are going to separately consider the profits. So, we will not consider the revenues. Next is cost of revenue, again not to be considered, gross profit again we have to ignore gross profit, r and d gross are anyway not given. Selling and general expenses you will find there is a decrease.

But, decrease is not important. In fact, we are not going to consider this item at all. They have also mentioned some non-recurring expenses we will not consider total operating expenses we need not consider interest expense now this we need to consider, because interest is regarded as separately as an outflow. And it also has an impact on profits. So, we will mark it as O and FFO. All revenue statement P and L items are going to have two effects in the fund flow statements. We have marked as O and also as FFO.

So, take a look ((Refer Time: 38:26)) now we have marked all the items I hope it is clear to you why we have marked those items like that. Now using this data we have to make fund flow statement. Before that we need to make two working notes, which are those two working notes. First working note is for preparation of changes in working capital, calculation of changes in working capital, next is related to calculation of FFO.

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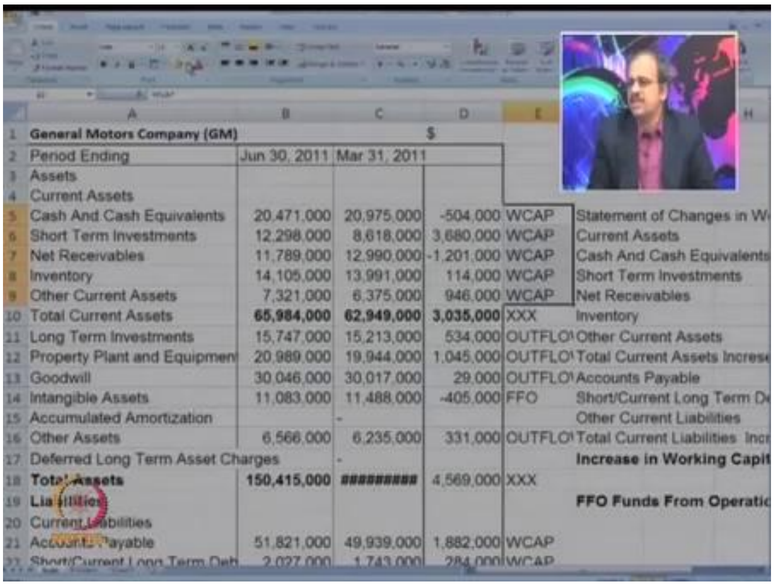

	A	B	C	D	E	F
1	**General Motors Company (GM)**			$		
2	Period Ending	Jun 30, 2011	Mar 31, 2011			
3	Assets					
4	Current Assets					
5	Cash And Cash Equivalents	20,471,000	20,975,000	-504,000	WCAP	Statement of Changes in W
6	Short Term Investments	12,298,000	8,618,000	3,680,000	WCAP	Current Assets
7	Net Receivables	11,789,000	12,990,000	-1,201,000	WCAP	Cash And Cash Equivalents
8	Inventory	14,105,000	13,991,000	114,000	WCAP	Short Term Investments
9	Other Current Assets	7,321,000	6,375,000	946,000	WCAP	Net Receivables
10	Total Current Assets	**65,984,000**	**62,949,000**	**3,035,000**	XXX	Inventory
11	Long Term Investments	15,747,000	15,213,000	534,000	OUTFLO	Other Current Assets
12	Property Plant and Equipmen	20,989,000	19,944,000	1,045,000	OUTFLO	Total Current Assets Increse
13	Goodwill	30,046,000	30,017,000	29,000	OUTFLO	Accounts Payable
14	Intangible Assets	11,083,000	11,488,000	-405,000	FFO	Short/Current Long Term De
15	Accumulated Amortization		-			Other Current Liabilities
16	Other Assets	6,566,000	6,235,000	331,000	OUTFLO	Total Current Liabilities Incr
17	Deferred Long Term Asset Charges		-			**Increase in Working Capit**
18	**Total Assets**	**150,415,000**	**#########**	4,569,000	XXX	
19	**Liabilities**					**FFO Funds From Operatic**
20	Current Liabilities					
21	Accounts Payable	51,821,000	49,939,000	1,882,000	WCAP	
22	Short/Current Long Term Deb	2,027,000	1,743,000	284,000	WCAP	

Now, let us look at changes statement of changes in working capital. So, all the items, which are marked as WCAP, they will go into this statement. We will start first with current assets. So, this is the information as is given. So, you can see, that cash has we will just shift this side, cash has actually gone down, short term loans have increased etc. So, you see there is a net position of we will just take the total. So, this is the total increase in the current assets.

Now, take a look at current liabilities. So, in case of current liabilities also there is a increase. So, you can see here, once again that all the current both the current liabilities have actually gone up. So, there is a increase of current assets to the tune of 3,035,000. And there is a increase in the current liabilities as well. So, we will calculate the increase in working capital. So, this is a increase in c a minus increase in c l. So, net increase is this amount.

Now, we will try to calculate the second working note that is on calculation of FFO or funds from operations. Now, again go back to the balance sheet ((Refer Time: 41:22)) look at the items, which were marked as FFO. Before that, let us specifically mark the current assets item as done. Current assets and current liabilities, now working capital you will see that, sorry FFO you will see that the first item is on intangible assets.

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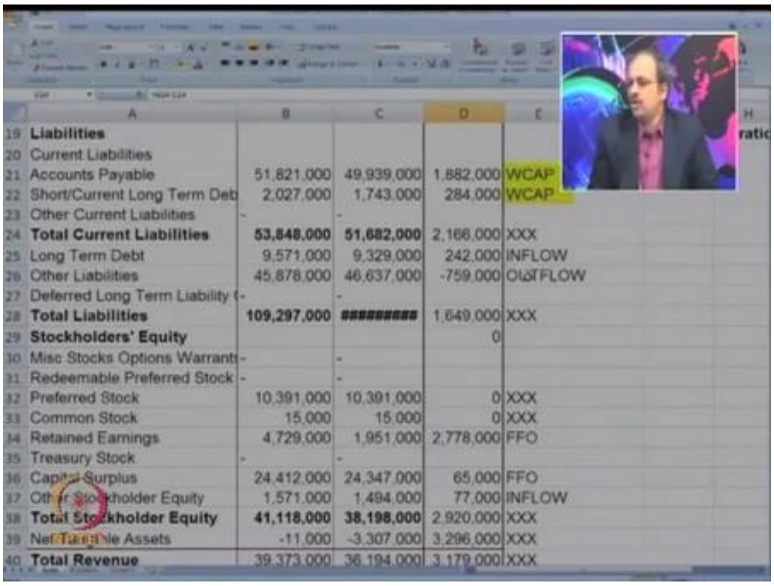

So, intangible assets, which have gone down must have been, because of right off. If you go down, you will see one item on retained earnings. That represents the profit is earned. So, let us take that first. So, increase in retained earnings is one item, which we have taken then there is a increase in capital surpluses. Let us take that as well.

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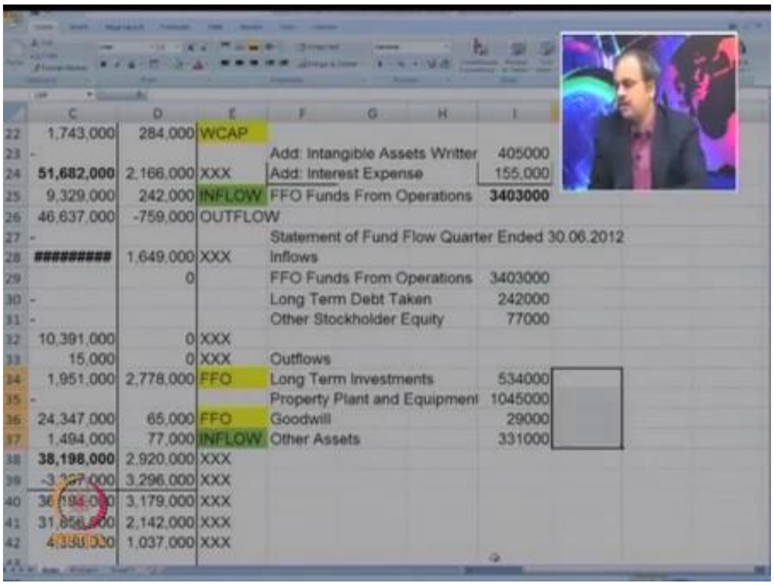

So, these two items of FFO are over. Then we have one more item on intangible assets, which have been written off. Now, should this item be added or deducted. Intangible assets have been written off. I will specifically write that, try to guess add or less. You are right this should be added. Because, it is like depreciation which is a non-cash expense it is for writing off of intangible assets. So, they will be added. Next FFO item you can see, you can have a look at the whole balance sheet now.

Any FFO item remaining you can see at the end, there is an item interest expense. You need not see old figures now. There is nothing like a difference. We will just look at the current item of current interest. In this case, will it be added or deducted interest expense, you are right it is also added. So, interest as an when paid has to must have been reduced from profits, now we are adding it back, because we are going to separately show interest expense. So, we will mark interest also as recorded.

So, for funds from operations there is a increase in retain earnings, increase in capital surplus, intangible assets written off and interest expense all of them will be added. So, this is the total FFO, which is an inflow. Now, based on this information, let us try to make the main statement or the statement of fund flow keep in mind this was the statement for the quarter. These are not fund flow and cash flow are not for not a statement for balance sheet as on a date. They are statements for a particular quarter.

So, we will record them as quarter ended for 362012. Now, we need to record the inflows and outflows. So, one of the important inflows is funds from operations. So, let us record it first. Now look at the items, which are given in the balance sheet. And which are still unrecorded. So, we see all these outflow, outflow, outflow. There is one item long term debt, there is a inflow. So, what has happened is new long term debt is taken, that is why company has received money I have marked it.

That way you can look at the item for more clarity long term debt has increased from 93 9 to 9571. So, there is a inflow, same way there is a inflow in others share stock holder equity. So, might be there is a some small issue of share or there might have been conversion of ESOPs. So, they also represent inflows. Now, you will see all inflows are over. Now, try to look at the outflows mainly, outflows are from assets, because of purchase of new assets. So, let us all record them together.

I hope you are with me, we have calculated, we have already marked these items are outflow. Now, we are transferring it to the main statement. So, I will mark it here as well.

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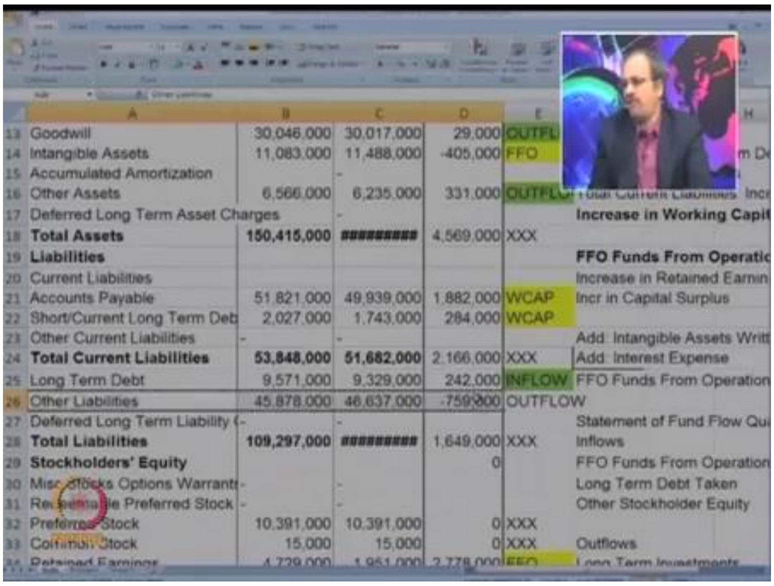

Now, go down you will see one more outflow from other liabilities, because, other liabilities have been paid off, have been reduced, so that costs some outflow. But, this is not a negative item. So, this outflow also we have considered other liabilities.

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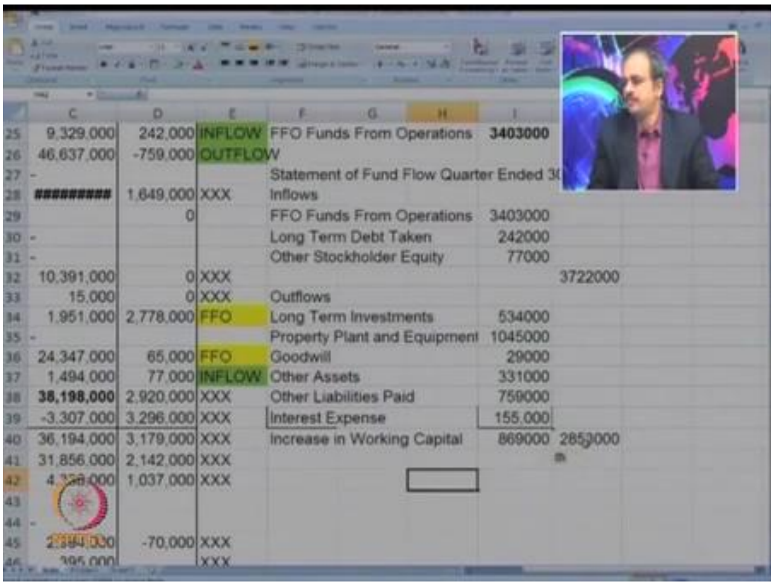

Now, if you see all the balance sheet items are accounted. But, we should also account for interest expense. Because, it is also interest paid only the current year figure is relevant, that is 155. So, we have recorded almost all the items. Now, let us take the total. So, you will see that, total inflows are more than outflows. So, you must have excluded some of the items. So, take a look at balance sheet once again. What have we excluded, just try to guess.

Actually, we have not considered working capital. We have included all other items we have not considered working capital. So, where will you go? We have calculated the statement of working capital there is a increase in working capital that also we are aware. So, where should it go? Increase when happens it represents an outflow. So, it should be considered as outflow.

So, I will record it as a outflow. So now, you can see, exactly matching keep in mind that increase in the working capital is one of the important outflows. And FFO or fund from operation is one of the important inflows. So, here the statement is ready now try to look at the statement carefully I hope you understood the process of making.

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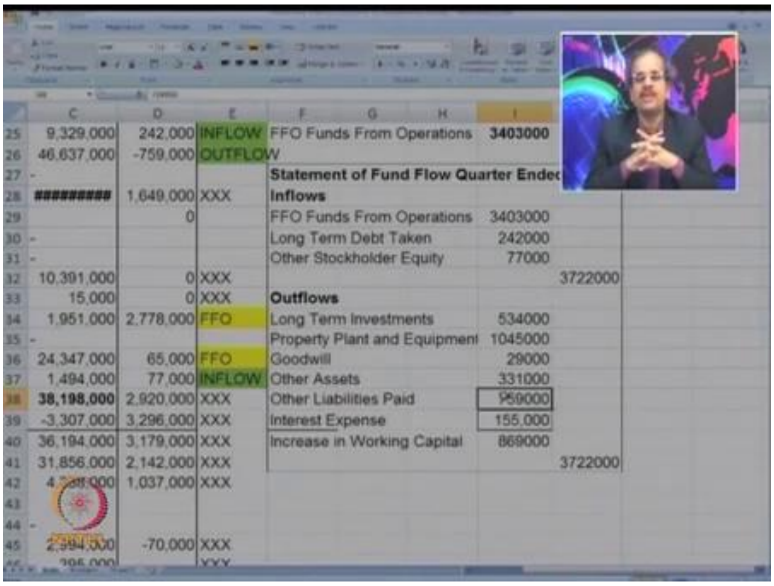

So, now you will realize that out of 3722 main amount 3403 is fund from operations. And as for as the outflows are considered, the biggest is new purchase of plant. And also to an exceed increase in the working capital. They have also paid off some old liabilities. This is how fund flow statement gives you an idea as to inflows and outflows. So, we will stop here and in the nest session we will look at more details of the analysis of statements.

In this session, we have covered mainly preparation of fund flow statements, where in what we do is we find the difference mark the items as inflow outflow. Mark the items as working capital, mark the items as FFO. Then, we made two working notes for working capital. And for funds from operations and then all the inflows outflows and these two items need to be taken in the main statement, ensure that the total inflows matches with total of outflows. Then, you have considered all the effects correctly.

Thank you so much. We will meet in the next session.