Financial Accounting
Prof. Varadraj Bapat
School of Management
Indian Institute of Technology, Bombay

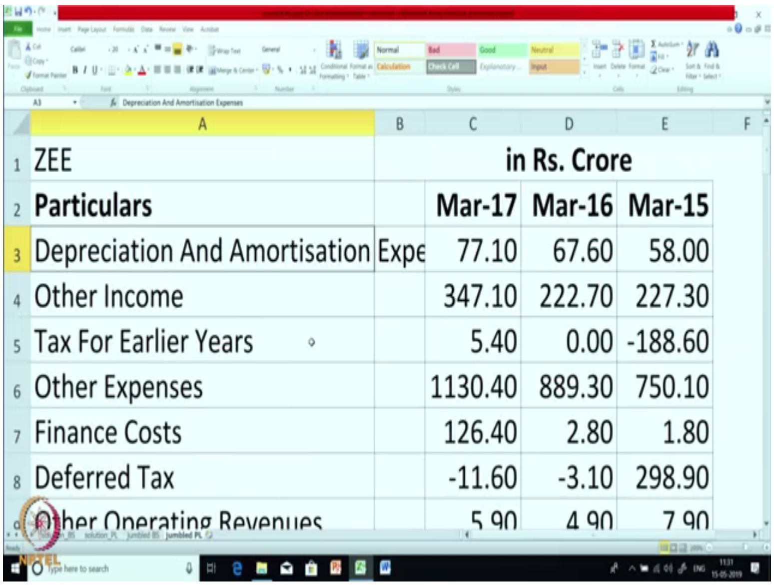
Lecture – 25
Zee Case: Profit & Loss and Balance Sheet

Namaste. In last few sessions, we have been discussing about various conceptual and theoretical aspects. So, we have already discussed about corporate governance, accounting standards, evolution of accounting and so on. Now let us go back to the problem solving. The way earlier we have introduced ourselves to balance sheet P and L and cash flow, now let us take the actual cases and try to prepare both balance sheet and P and L.

So, today we are going to take case of Zee TV Zee entertainment television and I think it will be interesting for you all. So, all I have already shared with you the case I will request you to take a print out in front of you and solve the problem along with me so, that you can actually prepare the balance sheet as well as P and L.

So, as we discusses in the video, you are expected to do it with you. If you do not have a print out right now, you can stop the video, take the print out, be ready and then see this video; then it will be more useful to you. Are you getting me?

(Refer Slide Time: 01:37)



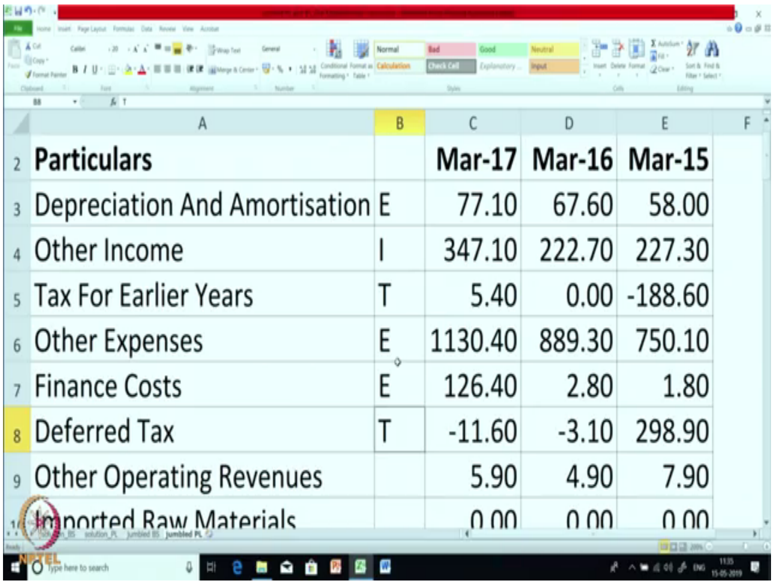
The link has already been shared with you that will help you to actually work on this particular case live. Now there are two parts, both the jumbled balance sheet and P and L has been given to you. So, the sequence is not as per the formal or the official sequence. You are suppose to put it in the official sequence calculate the profit and prepare complete the preparation of P and L.

3 year data is given to you for March 17, 16 and 15. So, that you can have a understanding of comparison; how the trends have happened in the last 3 years. Gradually this will help us to move to analysis because in coming sessions, we will calculate various ratios and discuss about analysis of financial statements. But as of today we will not go into analysis, but just keep on looking at figures for 3 years so, that you can understand the trend.

So, are you prepared? Take the sheet in front of you. We will start with the P and L account, you can have a look at P and L. This is the depreciation and amortisation is a first item. This column is specially kept for writing where a particular item will go. If you do not remember what are the items in P and L, just have a look at the format. It is a very simple format, we start with the income, we reduce various expenses, then we get profit before tax, then we will record various items related to tax. There are few more items as per the format and finally, you get the profit ok.

So, for each item read the item; if there are any queries, you can discuss it in the discussion forum. I will try to solve their query your queries right away and based on that based on the understanding of what that item is try to put it in a format in a at a particular place. So, P and L account for Zee TV for last 3 years, the first item is depreciation and amortisation expenses.

(Refer Slide Time: 04:09)



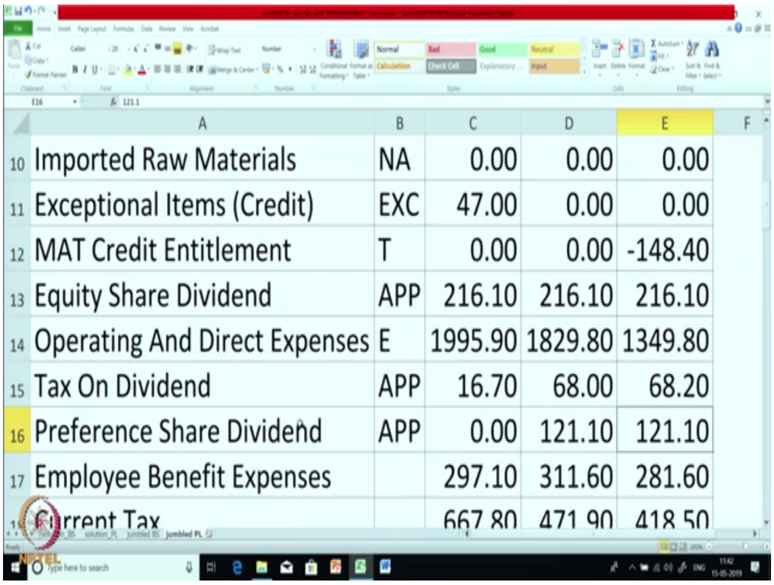
Particulars		Mar-17	Mar-16	Mar-15
Depreciation And Amortisation	E	77.10	67.60	58.00
Other Income	I	347.10	222.70	227.30
Tax For Earlier Years	T	5.40	0.00	-188.60
Other Expenses	E	1130.40	889.30	750.10
Finance Costs	E	126.40	2.80	1.80
Deferred Tax	T	-11.60	-3.10	298.90
Other Operating Revenues		5.90	4.90	7.90
Imported Raw Materials		0.00	0.00	0.00

As you all know, it is a very simple item; already it is given that it is expense. So, we will put it under the head of expenses like that we will go on putting for every item. Next is other income as the name suggests basically it is a income. So, I will put I am putting it as I, tax for earlier years; this is the item related to taxation.

So, what could have happened is some item of tax is related to earlier year, but the assessment of tax has been made in the current year that is why it is coming in the transactions today. You can have a look at the amount; the amounts are relatively small 5.40 in the March 17 00 in 16 and minus 1.88 in March 15. Why it is minus? Perhaps they have received some credit for extra amount paid earlier as a tax ok. So, taxation is a under the expense head that is why the amount has come as negative.

Other expenses as the name suggests it is an expense. So, mark it as E finance costs again it is an expense, deferred tax this is a tax related item. So, we are marking it as T. What do you mean by deferred tax? I think you all remember that there are two types of taxes; current tax and deferred tax. When the tax is required to be paid in the same year, we call it current tax. If deferment is allowed; that means, tax relates to this period, but it is to be paid in 2nd 3rd or 4th year or later, we call it a deferred tax, but both are charged to P and L. So, under P and L we will just mark it as T. Other operating revenues this is a revenue item so, it is a income.

(Refer Slide Time: 06:27)



So, I am marking it as I, imported raw material this is a tricky item it is to be given as a foot note. It is not a part of P and L, it is an additional information Zee TV being a into the services luckily there are no raw material inputs. So, item is 000, but still I have put it here and we are putting it as NA. So, that you understand that this item should not come in the normal course.

Next is exceptional items credit. So, we are putting it as exceptional items because if you remember after the regular items, we have to separately show exceptional and extra ordinary items. So, I have marked it as EXC to differentiate it from normal expenses. So, exceptional items are of credit nature 47 in the current year, 00 in the earlier years,. Are you getting?

Next is MAT entitlement credit. Now what is this MAT credit entitlement, first of all what is MAT? Full form of MAT is Minimum Alternate Tax. As per the Indian tax laws under income tax, suppose the tax is as calculated are less than the book profit by a certain percentage. See there are two sets of profits; one is the profits which we normally calculate that is called as a book profit. For the tax purpose, we calculate separate profit.

Now, if the taxation the taxable profit is much lesser than the normal profit government says that you at least pay some minimum tax that is normally calculated at 18 percent of the book profit. Are you getting me? Suppose book profit is 100 that is from P and L account the profit is 100, but for tax purposes the profit is only 10. Can this happen?

Answer is yes because depreciation may be higher some expenses may be higher in taxation and certain incomes may be exempt for tax purposes that is why as per as P and L is concerned, the net profit may be 100, but the taxable income may be only 10.

That means, you will pay tax only on the income of 10. That is in such scenario government says that based on whatever tax whatever profit you have calculated, at least 18 percent of that should be paid as a tax and that tax is called as Minimum Alternate Tax. The amount which you are paying, you can get credit later on.

Suppose in some other year let us say that now your profit is 20, but for income tax purpose the profit is higher; let us say 50. So, for book purpose or for P and L account it is 20, but income tax is higher in that year you will be paying tax on 50. You have already paid extra tax as MAT Minimum Alternate Tax that tax you can get credit now that is why here you can see an item known as MAT credit entitlement. So, 0 in the current year, 0 in earlier year, but in 3 years before it was minus 148 because it is a credit entitlement. Are you getting me?

Now this will fall in the taxation type of item so, right now I am putting it as T. Next is equity share dividend. So, you can see all the 3 years consistently the company is paying dividend of 216, it will be in which type; is it a income or a expense? Actually it is neither it is neither income nor expense. This is called as appropriation of profit after the profit is calculated it is distributed to the owners, so, it is called as appropriation of profit. So, I am just putting it as APP.

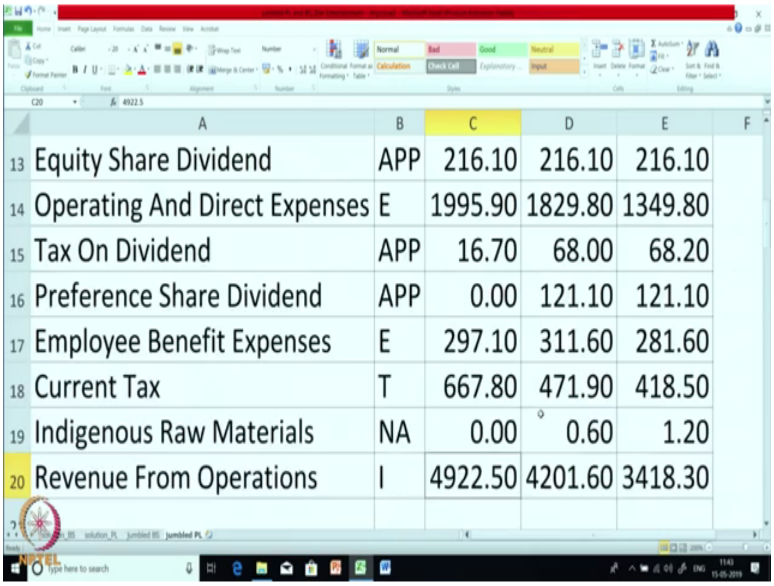
This particular categorization I E T etcetera is for our own calculation; it is not under any law just for understanding. So, APP stands for appropriation of profit operating and direct expense this is an expense head. So, we are putting it as E, tax on dividend. Now what is a meaning of tax on dividend? Whenever company pays any dividend, they have to pay tax on the amount of dividend paid.

Keep in mind this is different from the income tax. On the profit earned, you have to pay some tax that is a income tax. Now profit before tax minus tax, you get profit after tax, on from that PAT you pay dividend, on that dividend you have to pay some extra tax that is called as tax on dividend. So, this does not form part of the normal taxation. This is a part of appropriation of profit ok. So, it goes along with dividend so, you put it as APP.

Next is preference share dividend where will it go? Again it is a type of dividend. So, we are putting it as APP, you can see in the current year it is 0, last 2 years it is 121, 121. Are you getting me? Any doubts? Once again, I am repeating please solve it with me take a sheet in your hand and go on marking the items, later on you can prepare P and L account. You can pause the video and actually prepare the P and L, I will show you the solution; you can cross check the solution getting it.,

Next is employee benefit expense, this is one of the expenses. So, let us mark it as E.

(Refer Slide Time: 12:51)

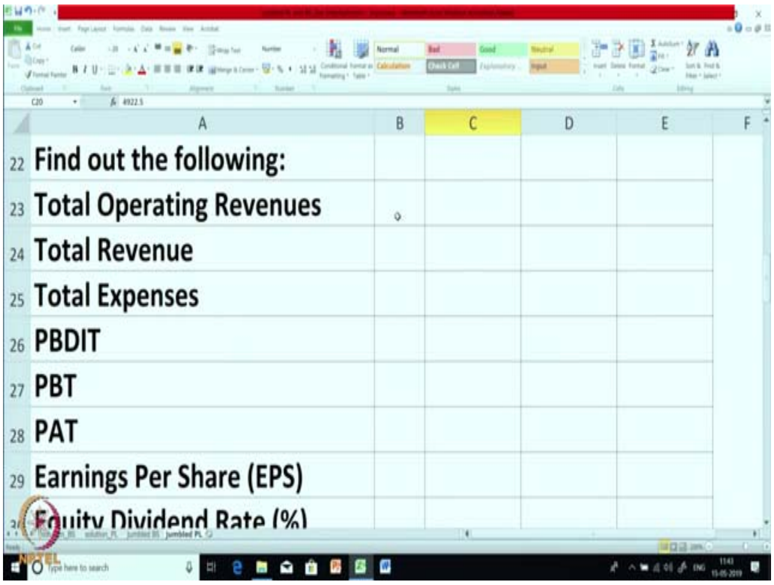


	A	B	C	D	E
13	Equity Share Dividend	APP	216.10	216.10	216.10
14	Operating And Direct Expenses	E	1995.90	1829.80	1349.80
15	Tax On Dividend	APP	16.70	68.00	68.20
16	Preference Share Dividend	APP	0.00	121.10	121.10
17	Employee Benefit Expenses	E	297.10	311.60	281.60
18	Current Tax	T	667.80	471.90	418.50
19	Indigenous Raw Materials	NA	0.00	0.60	1.20
20	Revenue From Operations	I	4922.50	4201.60	3418.30

Current tax, we have seen there are two types of tax. Here we have we had seen deferred tax; now this is a current tax. So, this is a T type of tax type of items. Indigenous raw material actually this is not an item to be shown. So, we are here imported raw material and now indigenous raw material. This is just a extra disclosure. So, we are just putting it as NA it is to come as a foot note.

Revenue from operations, this is the main income for the company. See this is a TV company. So, for a manufacturing or a selling company the main income is sales, but for a service company the main income is revenue from operations; you can see this 3 years income is given. You can also calculate the trend, you can calculate various ratios, but right now we are just marking it as I. So, we have now marked all the items.

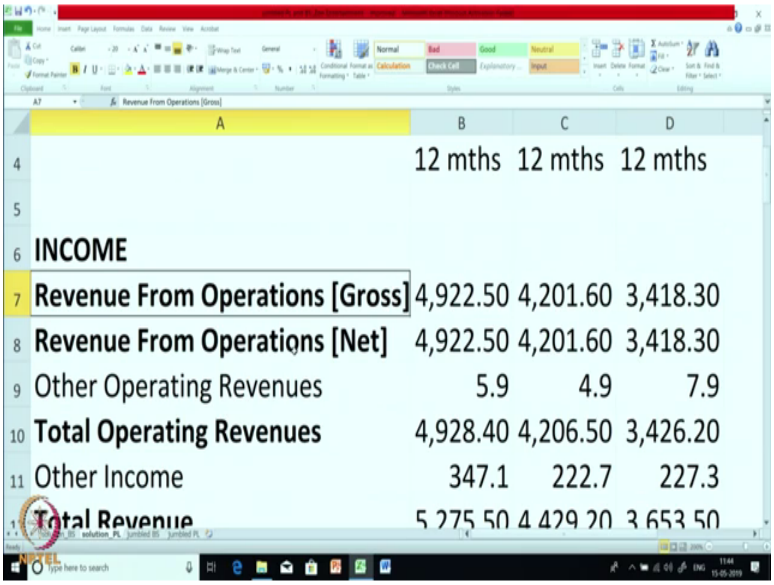
(Refer Slide Time: 13:55)



Now, based on this items, you are required to calculate the following total operating revenues, total revenue, total expense, PBDIT the full form is Profit Before Depreciation Interest and Tax, then PBT, PAT, earning per share and equity dividend percent. Are you getting?

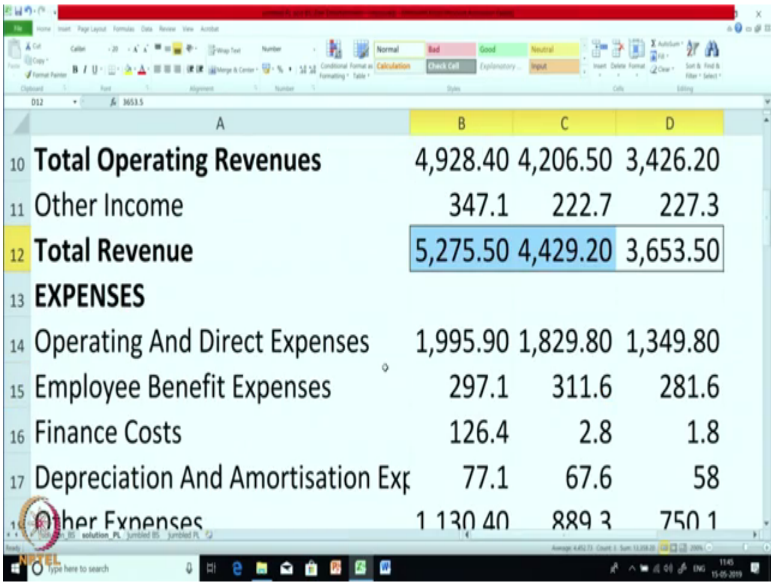
So, now we have noted everything before I go to the solution I will request all of you to solve it, prepare P and L account also calculate this items and then we will see the solution. You can pause the video for the time being so, that you can complete and verify the solution. Now let us go to the solution, I hope you are able to solve it.

(Refer Slide Time: 15:01)



Now, cross check it. This is the actual published financial statement for Zee TV, its starts with revenue from operations, then other operating revenue, you get total operating revenues.

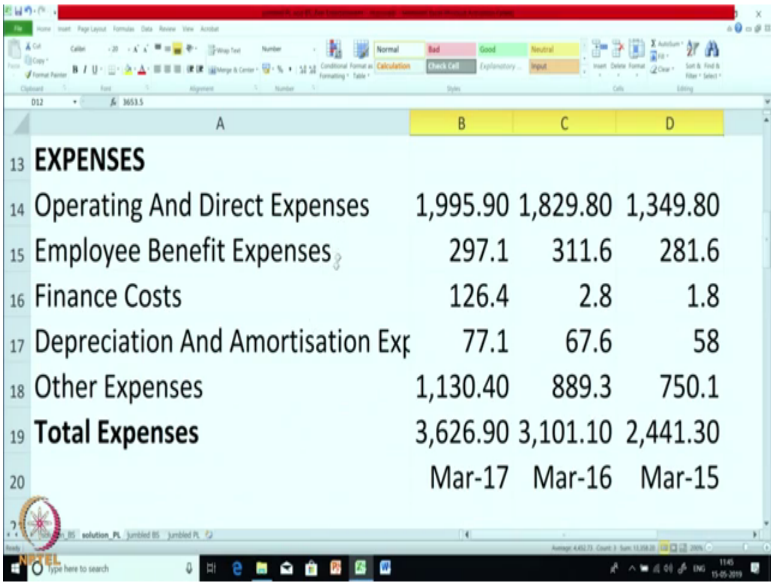
(Refer Slide Time: 15:19)



If you remember this was one of the items which was asked, then other income. What is a difference in other income and operating revenue? Operating revenue comes from your day to day business, from your profits, from your regular business. What is coming from regular operations is revenue from operations. Apart from that, but related to operations is other operating revenue and other income is something like investment income, money which is received on investment made outside the business. So, there is a classification between other operating revenue and other income.

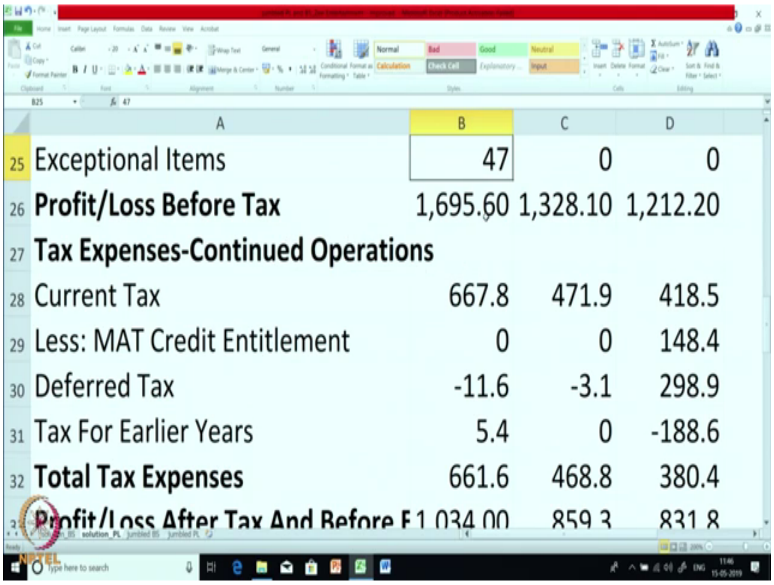
Now, the total will be called as total revenue. Is it matching with what you have calculated? Just see that trends in the revenue also then expenses.

(Refer Slide Time: 16:13)



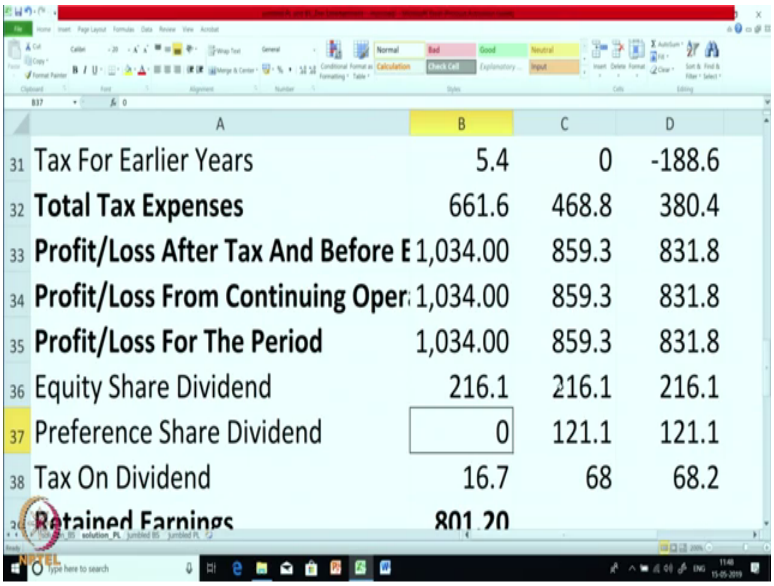
Normally, you should write it in this sequence there is a stated format as per the law operating and direct expense, employee benefit, financial cost, depreciation, other expense, total expense. Are you getting this figure? You can also have a look at that trends, how there is a increase in income. See the employee benefit expenses have dropped perhaps they have removed some of the employees. So, this is revenue trend, this is expense trend.

(Refer Slide Time: 16:53)



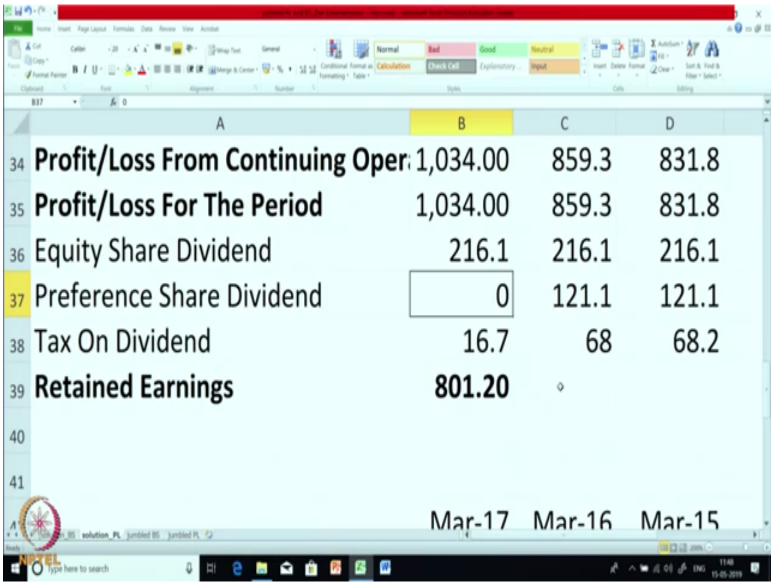
Now, when you compare these two, you get profit before exceptional and extraordinary items, see the profit has gradually increased. Then there was one item called exceptional item this 47, it is to be shown at this stage before calculating the tax taxable profit. Now, you get profit before tax, then the tax section comes. So, you have got tax expenses on continuing operation which includes current tax, MAT credit entitlement deferred tax, tax for earlier years. So, total tax. This is called as total tax expenses.

(Refer Slide Time: 17:37)



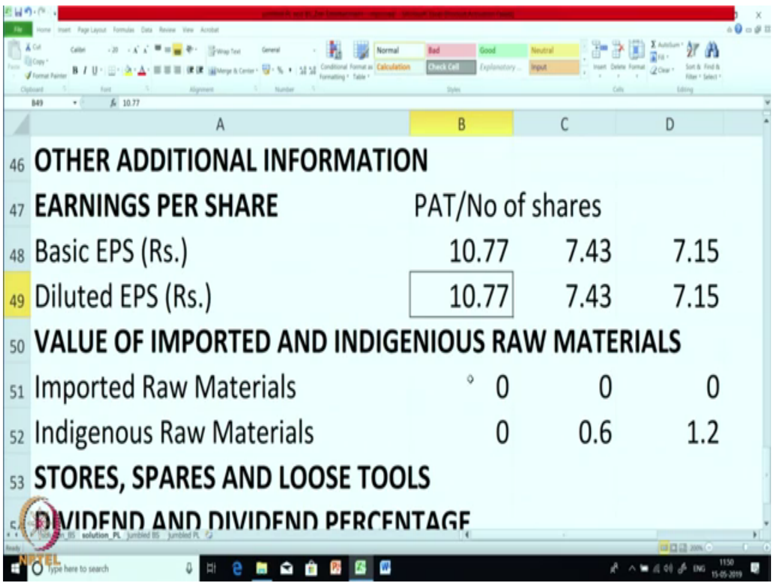
Then you get this was a profit before tax 1695, now at this stage you get profit after tax. This is the profit or loss from continuing operation because there are no discontinued operations for this company. So, same amount is a profit or loss for the year less. Now you calculate the appropriations. Appropriations is dividend and tax on dividend. You can see here equity dividend is constant, the preference dividend was constant for first 2 years, but is 0 in the current year.

(Refer Slide Time: 18:33)



Now, at this stage, we get the retained earnings for the current year which is 801.

(Refer Slide Time: 18:47)



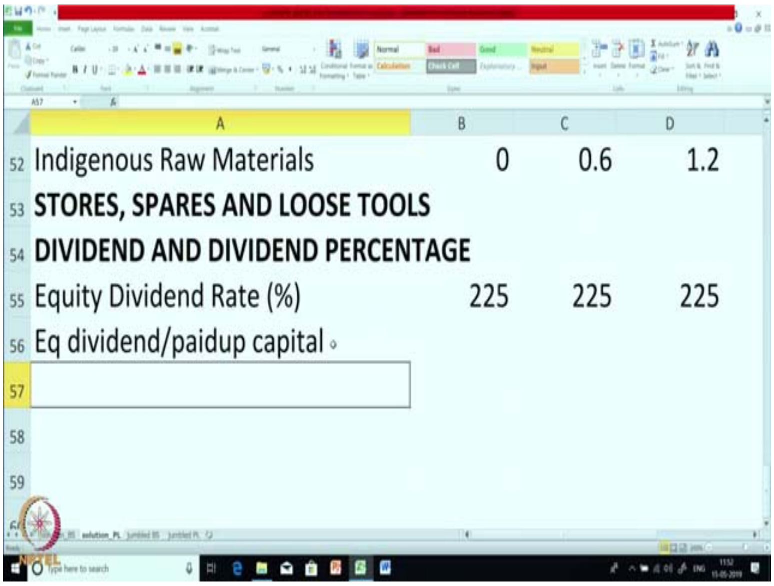
Now, you have to show other information. In the other information, first they have to show basic EPS and diluted EPS. Now what is meant by EPS? This is one of the ratios, but very important ratio earning per share. Now here you can see that the profit for the year is 1034; this is the total profit for the company, but what shareholder say is how much profit we like get or one share that is nothing, but earning per share.

So, the formula for earning per share is PAT divided by number of shares, I will write it down for you. Now you will say that number of shares are not known to you, you are right because we are just going to balance sheet. If you look at the balance sheet; in case, you have taken a print out you can get this figure, but we will calculate it once we do the balance sheet. So, based on this ratio, you can calculate the basic EPS and diluted EPS.

Now, what is a difference in basic and diluted EPS? See the numerator is same PAT, but the denominator can change. In the basic EPS, we calculate PAT upon current number of shares. For diluted EPS in the denominator we add some shares which might be issued in future. For example, there could be some share warrants issued which will get converted into shares at a later date. So, they are also going to be shares in future.

So, we calculate PAT plus those number of shares that is why it that amount will be slightly less than the basic PAT so, it basic EPS. So, it is called as a diluted EPS. For this company there is no difference in that so, both the amounts are same.

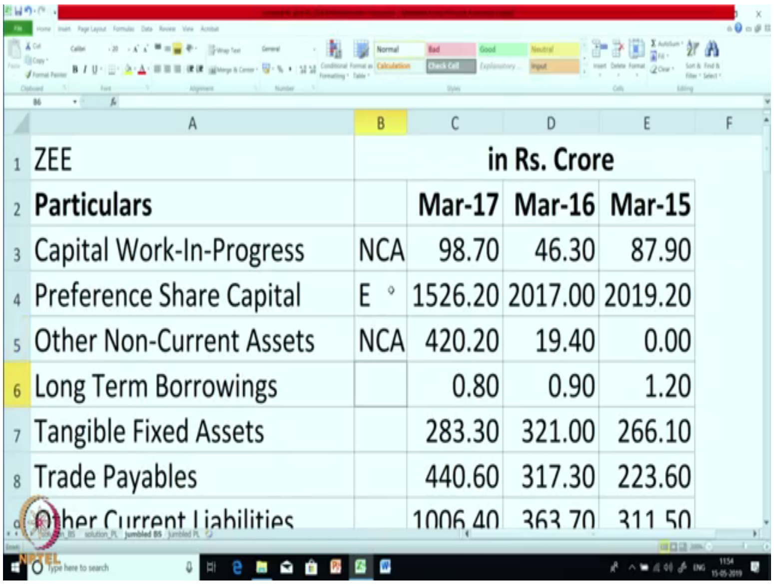
(Refer Slide Time: 20:59)



After this companies required to report the value of imported and indigenous raw material so, this two items are shown; imported raw material, indigenous raw material. Then we have to show that dividend and dividend percentage. We have already shown the dividend which is 216; you can convert it into percentage which comes to 225 percent. Now, how will you calculate the dividend percent? Has any one of you done it? So, get the equity dividend, take the figure of equity dividend and divide it by the number of equity shares that will give you dividend per share the way we had got earning per share, but here it is of interest to know what is a percentage of dividend.

So, we should calculate it by the total amount of capital. So, say a dividend of 216 is given on a capital of 1000 so, 216 upon 1000. So, here we will calculate, we will take into account paid up capital. Are you getting? So, equity dividend you divide it by paid up capital you will get the percentage of equity dividend as a rate so, that is 225 percent. Are you getting it?

(Refer Slide Time: 22:49)



	A	B	C	D	E
1	ZEE		in Rs. Crore		
2	Particulars		Mar-17	Mar-16	Mar-15
3	Capital Work-In-Progress	NCA	98.70	46.30	87.90
4	Preference Share Capital	E	1526.20	2017.00	2019.20
5	Other Non-Current Assets	NCA	420.20	19.40	0.00
6	Long Term Borrowings		0.80	0.90	1.20
7	Tangible Fixed Assets		283.30	321.00	266.10
8	Trade Payables		440.60	317.30	223.60
9	Other Current Liabilities		1006.40	363.70	311.50

Now, let us go to balance sheet. Now similar to P and [laughter], 3 years figures of balance sheet are given. Using this data, you are required to prepare the balance sheet for Zee TV. Take a look at these items and we will go on marking each item. If you remember the format of balance sheet, there are various sections in that like under assets, you have got noncurrent assets, then current assets; under liability, we have got equity followed by noncurrent liabilities and then back current liabilities.

So, each of the item try to understand it and give some mark as to under what heading will it fall. So, that it will become easier for you to prepare the balance sheet. Shall we go ahead now? So, capital work in progress, now what do you understand by this? So, if you have got some building under construction; once they are ready they will become fixed asset, but as long as they are getting constructed, they are a part of capital WIP.

So, this is under fixed assets under noncurrent assets. So, we will mark it as NCA; NCA refers to Non Current Assets see this marking is for our internal purposes. Next is preference share capital, now under what will it fall? This is a type of owners fund. So, we will put it as E stands for equity not equity share this is a preference share, but this is under owners funds. Other noncurrent assets as the name suggests, it is a noncurrent asset. So, we will mark it as NCA, I hope you are getting it.

So, now the time for this session is up. We will continue in the next session, but we have just started. So, that you can take the sheet and continue it and then compare with the answer which we will discuss in the next session.

So, we will stop here. Namaste. Thank you.