Decision making using financial accounting

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Lecture - 01
Introduction

Good morning and welcome and happy 2019. So, you have also tried to make a new beginning right again going back to school. So, what we are going to learn today or in this particular course is purely basics of accounting.

And when I talk about basics of accounting normally what happens is you will say there is a debit, there is a credit etcetera that is the first term that basically would come into your mind and let me make that clear that I am not going to look at it from the debit credit point of view at all because move and I bring in a debit credit point of view then, I would be losing at least about 60 percent of the class right first day so, I am not even getting into that.

My objective here would basically be, for you to appreciate if somebody gives you the financial statement; for you to understand the interactions between the financial statements that is all. Look at it as a manager not look at it like the person who is going to basically prepare these financial statements. That let me make that very very clear; the objective is not to make you prepare the financial statement.

So, it is slightly different from the way we" typical accountants" learn and a "manager "there is a lot of difference. We are going to look at it from the managerial perspective that is all, not from the accountant perspective, not to prepare a financial statement, not to tally the balance sheet finally, I mean the textbook, but in the examination that is a different issue.

Student: (Refer Time: 01:44).

But not typically to prepare a financial statement per say. So, let us get that aspect very very clear. Simple aspect what do you say why I said I am not going to look at debit credit part of it is, moment we say what is debit is good to or credit is good?

Student: Debit is good.

Debit is good what happens to your salary?

Student: Credit; credit.

So, credit is good or debit is good them?

Student: Credit is good.

Credit is good right, but whereas, if you look at the PL account and they will say debit what comes in that is if you are coming if some money is coming in if asset is coming in to you they will say debited and whereas, you will say immediately say my salary is coming to my account why is it credited why is it not debited right the confusion starts there and then its never ending.

So, let us ignore that for the time being; let us ignore that for the time being let us come back with basics of accounting. When we talk about accounting itself, we look at only financial statements I start from financial statement. You would have certainly heard about balance sheet, you would have heard about P&L statement and the third statement what I am very sure you might have heard about is what we call it as a cash flow statement that will talk about.

Now, what is the profit and loss statement, what is a cash flow statement? Let us first I mean you do you need that ? Does profit not indicate the cash what I have yes or no? Based on accrual accounting system fine now I have to explain that accrual for the rest of the audience, rest of the students here. Now when we talk about a profit or loss statement or the I mean we normally say a profit or loss statement, income statement or revenue and expenditure statement depending on the concern the terminology will change.

Profit and loss is basically for a profit making enterprise whereas, when you talk about a revenue and expenditure statement it is more suited for what you call it is a non profit enterprises etcetera there it is revenue no profit. So, what we call it they call the profit as excess of revenue over expenditure.

So, let us not even get into that. So, when we talk about. So, all these three basically mean basically it means what you call it as you are looking at locking in the revenues out there or clocking in the revenues out there, that is whatever you are earning and you are clocking in whatever you are spending. The first and foremost the concept out there when we talk about accounting itself is as he said accrual concept what is this accrual got dam it what is this accrual concept?

Normally how do you keep your monthly accounts? You keep your monthly accounts depending on how much money goes out of your wallet or how much; how much of swiping of the credit card you do, you basically take it as what do you call it as an expenditure and your salary is only source of income you take it as your income.

When we talk about accounting, we talk about accounting from the accrual in the sense we will take it as an expenditure irrespective of whether it is paid or not once the ownership is transferred we will take it as an expenditure. For example, let me take normally accounting here is what? April to March all of us know that. Supposing on 31st of March I make a sale , my organization makes the sale for about 500000s and the goods get and I make a sale of 500000s and isolate on a 90 day credit; that means, April may June, June 2nd is when I am going to get the money on the sale that I made on March 31st.

Money has not come in as of today the sale has taken place the invoice has prepared or whatever it is the goods are a bought out of the factory. Now for the financial year let us say 2017-18 let us say 2017-18 31st of March 2018 is when the sale has taken place, do you consider it as a sale for the year 2017-18 or you will get the money only in June

So, you will consider it for a sale in the year 2018-19 that is the next year?. As far as accounting is goes, we follow accrual that is the ownership has transferred the goods have left your factory that is it as sale as accrued irrespective of whether you receive the money or not that is secondary. So, what happens if they do not pay?

There is a legal course you take it, but the sale has over the sale has taken place when that fellow does not play pay you book it as a loss in that particular year of 18-19 that is the next year. But as of 17-18 what has happened the sale has taken place the ownership has basically transferred that is what we call it as accrual concept; that is the sale has basically accrued the event has accrued the ownership is transferred then we call it as accrued.

So, when we talk about P & L revenue what happens in this particular case? That 500000 is a revenue because it is sale which has taken place. So, you will write it as a revenue for the year 17-18 let us again let me again clarify. 17-18 March 31st 18 sale taking place for

500000, 90 day credit. So, first thing what we understood we said that we will record it as a sale in the year 17-18.

So, we are not even worried about that getting the money that is irrespective of it that is keep that aside. So, as of now we have recorded it as a sale. Once we record it as a sale then what happens? That increases your revenue am I right? That increases your income. So, naturally all the expenditures you knock off then you get a… , some amount of profit you get, that profit figure will have that 500000 which is added in your revenue also. So, will profit be equal to the cash what you have? No profit will not be equal to the cash because you are yet to receive.

So, that is what we call it as accrual that is one of the reasons we look at a different financial statement that is what we call it as the cash flow statement. A profit and loss statement again I repeat is purely on what we call it as accrual basis out there. Accrual that is where as when we look at a P& L statement …the second aspect of a P& L statement.

We talk about a P& L statement popularly called as P& L is always for a specified period time period. It can be a day, it can be a month, it can be a week, it can be year etcetera it is always prepared for a specified period what is the revenue and what is the expenditure or what is the income and what is the expenditure …you are basically looking at.

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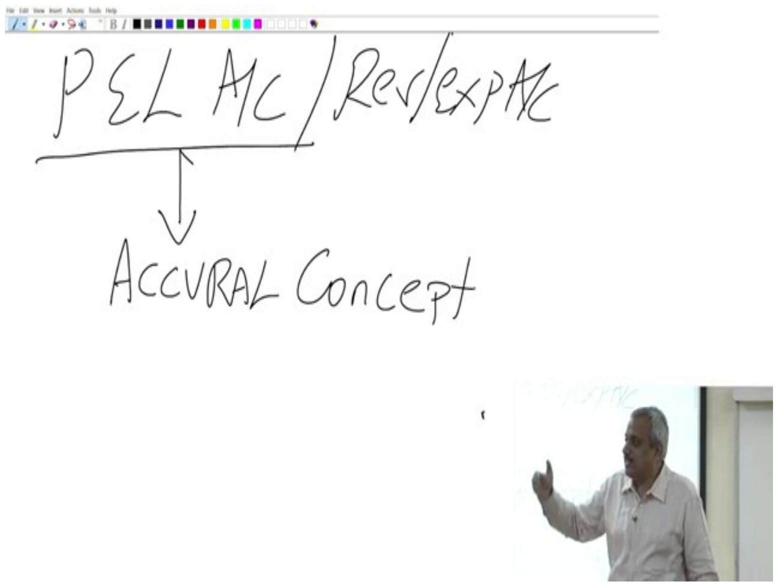

We call it as P& L account normally profit or loss account or the other way to look at is revenue and expenditure account. I am sorry my writing will be slightly… you not have you can figure it out because I keep repeating also.

Now when we talk about in the in this particular case,.. when we talk about what we call it as the P& L account and revenue account normally.. what happens is, this is .for a what is called as we follow accrual concept. Accrual concept, is we record what has basically accrued. Accrued in the sense what has the event has taken place we always look at it as an event; event has taken place simple examples sir.. one more example I will give.

Imagine a typical factory manufacturing small scale or a medium scale factory which works in, they pay I mean as for the government regulation you can one can pay the salary up to the 7th of the subsequent month, now as of 31st of March I prepare my financial statement. The worker has basically performed his duty or his activity for the month of March. Now when I prepare my financial statement on the 31st of March I am liable. I use the word I am liable to pay salary to my employee though actually cash would not have gone out of my come of my account out there because he has performed activity. So, I am liable to pay.

So, that much that amount what I have to pay which has accrued; that means, that job was performed by the a worker or the employee during the month of march. So, the amount is liable for the month of March alone. So, I will take it as what is called as an expenditure for the month of March 17-18 in this case, not when I actually pay in the subsequent year out there. So, I will show it as an expenditure because the expenditure has accrued the worker has performed his activity.

So, what happens is the event has taken place. If the event taken place event can be transfer of ownership in the case of sale and purchase once the event takes place once the ownership gets transferred then it is considered as a transaction and whatever is the resulting whatever whether it is an income or an expenditure gets; obviously, recorded in your books of accounts; understand the basic concept of P& L.

So, what we say when we talk about a P& L for a specified time period, I said specified a time period that is April 1st of 2017 to March 31st of 2018 it is for that specified period, in that specified period any event that has occurred and any trainee transaction or any financial commitment that is accruing will get recorded pertaining only to that particular ..period pertaining only to that period let me take one more example. Today its going to be more of I am going to be lecturing more because I am getting the basics tomorrow we will I use an excel, we will get you some numeric also make you feel more comfortable right that is the idea.

Let us take a let us let me take an example. Supposing on 1st of March you are a manufacturing concern, on 1st of March you make a purchase of let us say ~~50,00,000s~~50,00,000 worth of raw material. Now suppose I say, 1st of March 2018 1st of March I make a purchase for about ~~50,00,000s~~50,00,000 of raw material.

Student: (Refer Time: 12:35).

And I have bought this raw material on a 60 day credit note down; that means, that I am liable to pay not an April 1st on the 1st of May suppose in 1st or 2nd of May that is what waitings. Now as far as my statement is concerned the goods has come in basically either ownership has transferred to me. So, it is a purchase that has been made actually.

I utilize all the material to manufacture some particular good out there and then I sell all my good that I am manufactured on the 25th of March 2018 on a 90 day credit; that means, payment happens in June sometime May 25th or so, then what happens? I will record purchases rupees or that is goods or material utilized in this particular year to the tune of ~~50,00,000s~~50,00,000 and imagine I have manufactured something and sold it for about 75,00,000s, I will say my revenue is 75,00,000s, my net profit imagine there is no workforce it is only packing and repacking which I do and which cause on or say let us say 50,000 or something.

So, what happens? My profit is 24,50,0000s will be my profit what I have earned for the year 17-18 only from that activity. If you look at your cash box it will be 0, but payment happens in the next subsequent year. Is this taxes now what happens? On that 24 on that whatever money out there is a tax which has accrued because on the profit you are liable to pay taxes and as for income tax regulation you will not have finish the tax payment before 15th of March etcetera if you have anticipated what is the profit you do it.

If you have not anticipated it is a windfall gain is what is the profit you are arrived at the profit on 31st and then you are calculate what is the tax plus what is the fine on the tax because of the delayed payment and then the remaining amount will be the profit. And you will not immediately ensure that the money gets transferred you say you can say there is no money in my cashbox, go borrow loan and then pay the taxes that is obligatory. So, that part we will keep that aside as of now. Yes sir, you have agreed for a sale or you have sold ? There is a difference.

Agreement for sale is different from the sale. If the sale has taken place on the first of March ownership has transferred I record it as a sale. On 1st of April he cancels the order that is returns all the goods what I have sold it to him I will treat it as a return that has occurred in the subsequent year 18-19 not in 17-18 that 17-18 is closed right. If it is an agreement of sale, then books of and my books of accounts will have no entry there is nothing no entry in my books of accounts at all because its only an agreement ownership has not transferred, event has not taken place. There is no obligation for him to pay for example, let us take another example sir.

I hire 5 people for my managerial cadre by paying a salary of over 2,00,..000 per month for each of them what I have done? I have issued an appointment order for 5 of them when does; when does it I become liable to pay? I become liable to pay only after they have joined my organization and even performed the job for 1 hour that is when I am prepared I am supposed to pay 1 hour of wages out there. Till that time there is no it is there no transaction that has basically happened it is only what is called as an agreement and accounts accounting statements they are not bothered about that. When I give a credit, my sale price includes my cost of funds.

I said 90 day credit I sell it on 31st of March supposing I say he comes in and says I will pay your write cash immediately then what do? You do you given a discount of 10 percent or 5 percent or whatever it is your cost of fine you given a discount.

That particular cost of money or working capital cost or whatever we call it that is already built in your selling price itself and any discounts given on that because of a early payment etcetera what we call it as cash payments in the cash discounts I am sorry cash discounts normally am I with you? Taxation is purely based only on your profit P& L account that is all what is profit as accrued? Profit or loss as accrued forget about cash flow.

Cash flow let us not even worry about cash flow in today's class we will worry about cash flow later. Am I clear any other questions at this stage? Now we will revisit prevent the P& L tomorrow also no problem, next two classes we will be only visiting P& L and balance sheet yes please.

Student: (Refer Time: 17:19).

Sure sir any number of questions no do not how to restrict your questions, we have today is the first day its only half an hour still we have going to keep meeting for the next three more months.

Student: Sir (Refer Time: 17:28) spoke about the cash discount.

Yeah.

Student: Would regard also be part of the MRP of the sold price or with you sold on P& L or would you only?

It will be; it will be basically supposing I sell it to you for ~~50,00,000s~~50,00,000 whatever I said 75,00,000s what I said now and 31st 25th of March.

(Refer Slide Time: 17:48)

The next aspect what we talk about in this particular case what we see is basically what we call it as the balance sheet. How different is balance sheet from your P& L.. or is it the same? Assets and liability everybody said assets and liabilities fine investment what depending into the business you are also right sir means a company moves. See asset is nothing what we call it as whatever the entity owns.

Student: (Refer Time: 18:15).

Liability normally whatever the entity owes out there that is all. Now when you talk about they always say capital plus liability am I with you on this? They will always say capital plus all the liability equity plus liability this is the word that normally they will use equity plus liability. Why is equity plus liability, why is equity joined with your liability? See first and foremost we always follow what is called as we talked about accrual concept, the second concept what we look at is an entity concept ,an entity concept.

Entity concept is even if you start your own business for example, you start I start I am Arun Kumar I start a sole proprietorship out there, that is I start a company out there I file my tax return independently , my organization that is Arun Kumar and Co or whatever it is I start, that will file that tax return independently, that is it is a separate entity. Now what happens? I contribute I as Arun Kumar I have contributed 10,00,000 to my business as what you call it as equity or capital or whatever you might call it by your other various names, now at the time of dissolution the time that Arun Kumar and Co decides to wind up, Arun Kumar and Co owes the 10,00,000s back to me out there, I am separate that organization are separate whatever entity the business how is what I create is independent out there.

So, whatever the entity owes, that is where we will always say equity plus liability. Tomorrow you will say sir I have invested in reliance; do you think reliance is going to pay me the money back? Yes if at all they wind up the day they wind up and if at all you are alive till that date right which might be you do not know how many centuries later also none of us know about it right. So, yes they are liable to pay you back if at all they have some money left after clearing of other liabilities, if at all they have some money left after clearing of all the liabilities out there.

So, let us not worry about that too much. So, when we say asset that is all that you own, when you say liability or equity all that you the organization or the entity owes out there. So, first and foremost entity concept you are a separate entity, the organization or the business that you are basically creating is an independent entity or an enterprise out there. So, the books of accounts of that is different from the books of accounts of what you maintain for yourself out there.

Now, when we talk about when we talk about capital, we talk about equity, we talk about liability etcetera. Now when we say balance sheet can asset position change every day?

Student: Yes.

Yes.

Student: Yes yes.

Why?

Student: Depreciation.

Ah.

Student: Depreciation

Depreciation fine even simpler.

Student: Market value saying.

Market value no market value let us worry about it agreed you are right I mean you are not wrong I am talking about even simpler.

Student: Every purchase on credit.

Every purchase on credit agreed simple what do you what is cash that you have in your pocket?

Student: Cash is in.

Cash is in.

Student: Asset.

Asset then it will change every minute that is all. So, cash is supposing I say now what happens cash is not at all that you guys said are correct I am not saying it is wrong, but why complicate life when life is so, simple right. Cash itself keeps changing every minute your cash changes.

Student: (Refer Time: 21:58).

Cash in your cash box changes every minute the money in your account changes for a business house because there is a continuous debit or credit that keeps happening all the time or sorry there is a continuous additional reduction of money that keeps happening not debit and credit out of it. So, when we say when suppose let us take one example out here. You borrow some 100 lakhs or what I call it as 100 lakhs is how much that is say 100 lakhs out there from a bank to purchase a furniture or whatever it is to purchase your building and office building and furniture office building now what happens?

Student: It becomes an asset.

What becomes an asset?

Student: That what you have borrowed.

What I what becomes an asset then.

Student: The liability.

What is the liability?

Student: (Refer Time: 22:45) Liability for an~~eign~~ asset.

Liability foreign asset see it now this.

Student: (Refer Time: 22:47).

Forget about buy buying an asset let us say. You go to the bank that guy is giving you take a loan of 50,00,000~~s~~ and that guy has given you piles of cash of 50,00,000~~s~~ out there and you are just taken it out now what is it what is the cash with you? Now what is it its a is it a liability , is it an asset?

Student: Liability (Refer Time: 23:08).

Liability.

Student: (Refer Time: 23:10) the cash is an liability and the role is a liability (Refer Time: 23:12).

The cash you are taken ~~5000000~~50,00,000 bundles are in your hand and that minute you get robbed what happens , who owes the money? You owe the money or the bank owes the money.

Student: Who?

So, who owns the money who owns that ~~5000000s~~50,00,000.

Student: (Refer Time: 23:24).

Movement I just take it out of the counter, who owns that ~~5000000s~~50,00,000?

Student: I own.

So, what is it for you?

Student: Asset asset.

That is all. The liability is parallelly there yes liability is there you got to pay that is a different aspect, but moment you put your hand on the cash the cash is yours that is you own the cash please understand that. There is a liability parallel liability bank you have to pay that is ok, but the cash is yours.

So, what happens? When you ~~take~~ borrow money there is a liability which is going up that is in to the tune of ~~5000000s~~50,00,000 out there, there is an asset also consequently going up that is that cash comes and fits in your cash box out there that is your cash balance also goes up by ~~5000000s~~50,00,000. So, your liability is gone up by ~~5000000s~~50,00,000 your asset is also gone up by ~~5000000s~~50,00,000 am I with you on this?

Student: Yes.

Its also a liability for you agreed cash is an asset what you owe is a liability please note there are two different things; cash is an asset what you owe is a liability right. You buy a car take a loan and buy a car fancy car for 15,00,000~~s~~ or 20,00,000 ~~s~~ out there car is your own because it is registered on whose name? Your name hypothecated to the bank that is independent.

Student: (Refer Time: 24:36).

Its own car is owned by me, but I need to pay money on the car that is a liability. So, there is always what is called as a liability that also accrues there is an asset which also basically create gets created out of the money out there now.

Student: That is every asset come with a liability.

Every asset come with a liability we will come to that in a minute sir. Now what happens when we talk about what we call it as got it;.. got it; got it..; got it. What happens when we talk about in a balance sheet out there, we said what is called as a equity or what I call it as capital plus liability, equity slash what we talk about this side is all your assets, what you talk about the other part of it is all your assets out there equity is part of capital let me make that very clear. Because equity is a commonly used terminology that is why is specifically mentioned out there equity is part of your capital plus all your liability out there.

Now what happens? Initially imagine I incorporate a business I put in 10,00,000s as capital equity in my business first, I expect what happens? There is a capital which is there on the liability side a liability plus equity side of the balance sheet there is a cash which is sitting on the asset side of the balance sheet agreed your balance sheet that is there is what is called as money coming in.

Student: (Refer Time: 26:16).

There is an asset out there. I use this 10,00,000s to buy what is called as a small of his face out there then what happens? It is not remaining as a cash now it becomes what is called as a building which I own and value of the building is 10,00,000s out there straight.

So, then second aspect. I borrow ~~5000000s~~50,00,000 from a bank and then immediately what happens? Your asset will be basically 10,00,000s building ~~5000000s~~50,00,000 cash out there imagine you are taken cash your liabilities is capital 10,00,000s plus borrowing ~~5000000s~~50,00,000 out there. Third aspect I use this ~~5000000~~50,00,000 to buy whatever my factory etcetera etcetera out there, then these ~~5000000s~~50,00,000 ….4~~0000000~~0,00,000s out of that I used to buy my factory etcetera then what happens? Initially 10,00,000s is basically what you call it as the building or the factory premises 4~~0000000~~0,00,000s is your equipment 10,00,000 is the cash remaining.

So, 40 50 plus 10 6~~0000000~~0,00,000s is your total of your assets on the liability part of it equity is 1~~0000000~~0,00,000s bank borrowing is ~~5000000s~~50,00,000 over. Next I buy raw material on credit for the tune of 1~~0000000~~0,00,000s, I buy raw material for 1~~0000000~~0,00,000s to the tune on credit to the tune of 1~~0000000~~0,00,000s now what happens? There is material coming into your what is called as go down.

Now, what happens to your asset part of it? Your asset part of it is already about what is called as 1~~0000000~~0,00,000s as building, 4~~0000000~~0,00,000s as machinery, 1~~0000000~~0,00,000s as cash that is there, another 1~~0000000~~0,00,000s gets added as their raw material which is there that is stock of raw material that is there and the liability part of it what happens? Equity is 1~~0000000~~0,00,000s bank borrowing is ~~5000000s~~50,00,000 then creditors; creditors means to whom you ought to pay the money is another 1~~0000000~~0,00,000s out there that is also 6~~0000000~~0,00,000s out there.

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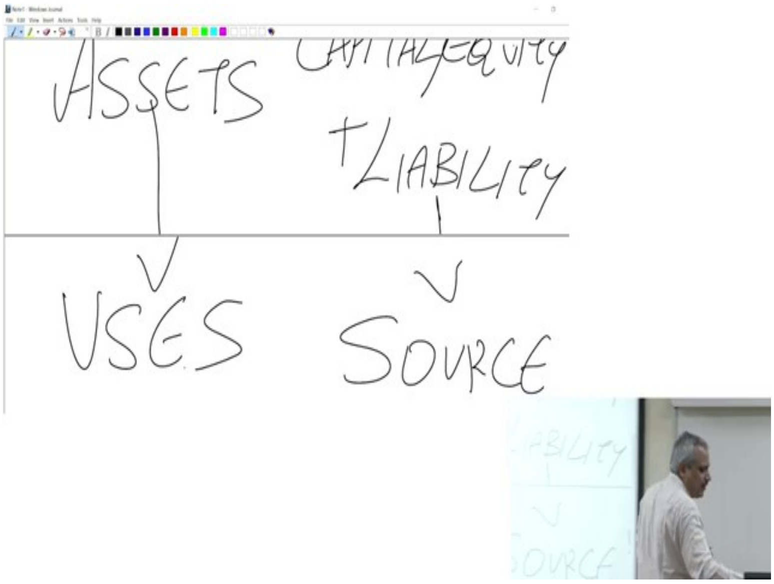

So, what are you seeing that liability and equity part of it what we call it typically is basically all this entire thing what I call it is basically the source of fund and what I have in my when I talk about my asset part of it out there out here in this particular case this is basically uses of my fund, that is not you call it as utilization of my fund. So, my sources will always be equal to my utilization if I make an inefficient utilization of the source then what happen sir?

Student: (Refer Time: 28:54) loss.

There is a loss that is all. If I make an inefficient utilization of the source of fund then there is a loss out there very simple sir. Imagine I start a company I forget I decide I am going to manufacture, I want to quit this job and manufacture some toys out there right let me say I contribute I borrow from him 10000, I put in 10,000 as my own money.

So, what is happening day 1? Day 1 capital equity is 10,000 borrowing is 10,000 my cash is 20,000 out there agreed. Day 2 I use this 20,000 to buy raw material now what is my balance sheet look like? 20,000 on the liability side that is equity plus liability, 20,000 on my asset side that is what happens is I have used bought the raw material for it, I manufacture some toys out there.

Once I manufacture a toy he decides to buy the toy from me because it looks so, fancy and beautiful he decides to buy it from me for 24,000 and he says 1 month credit then what happens? The toy which is there with the value of 20,000 in my books gets out of my books to him and debtors out there ~~d e b t o r s~~ debtors are receivables from him becomes what is called a sale a second place in the balance sheet. So, receivables from him becomes 24000. So, what happens? My balance sheet will look like.

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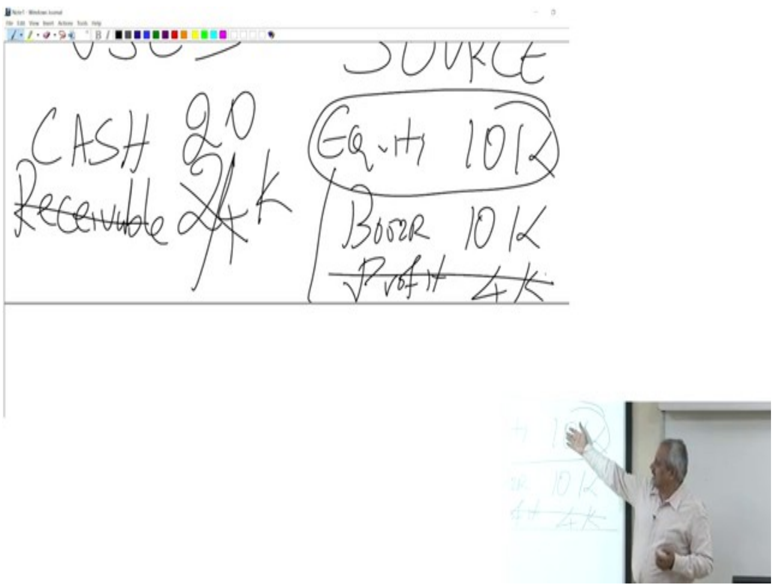

My balance sheet will basically look like what is called as my equity 10 k, my borrowing 10 k and I have made a sale my receivable 24,000 because I have sold it to him for 24,000 I am liable to get I am eligible to get what is called as 24,000 from him. So, what have I done?

I made a efficient utilization of the source of fund that is whatever the source I had, I have made a efficient utilization I mean enhance the value of that money moment I have enhanced the value of that money there is a four thousand that is profit which is created this 4000 belongs to whom? Belongs to the capital provider or the equity provider in this particular case.

Student: (Refer Time: 31:20).

Supposing I say the same toy what I have what I have created it does not turn out to be a toy it just becomes a monkey and then he says I do not want to buy it because there are too many of them on the campus in IIT so, I will buy it only for 15,000 from you then what happens?

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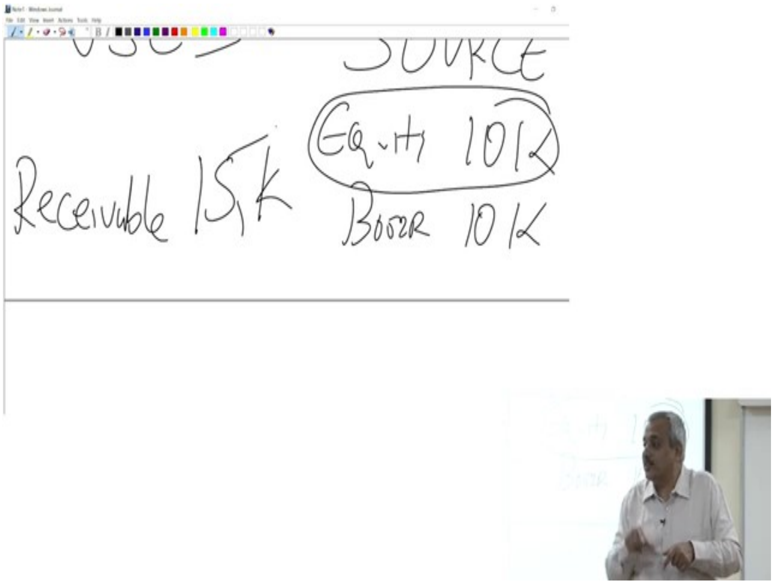

In this particular case what I am going I was able to get from him is only 15 k. Then what I made? I made a inefficient utilization of my fund out there when I made a inefficient utilization of the fund who bears the loss~~ast~~ the capital provided bears the loss that is he does not bear I have to bear the loss he is a just a I borrowed money from him I have to basically bear the loss as an equity provider. So, does every asset is it back by a liability well yes or no?

Student: So.

Normally yes if you make an efficient use you may not have a direct liability which is there which is a equity and liability.

Student: (Refer Time: 32:11).

Which is there, but it will get whatever is the resultant difference out there that is a value that you have created and that also becomes a that also becomes what is called as you have to flow it back to the equity or the capital providers of the firm out there. I may with you sir?

(Refer Time: 32:30) if you have paid what happens? As of today let me let us look at it let me say that oh sorry yeah you had a 24 k you have sold it now what happens? 4 k becomes what is called as the profit which is to be paid to the equity provider.

The minute I pay then what is the cash its supposing this receivable that is when will you pay when this receivable becomes cash only then you will pay that is once I have received the money is when you pay. Because if you do not receiving the money you can pay right only the one the receivables you received the money you pay. Once you pay how much of cash you have?

Student: 20 k.

20 k. So, what happens? This becomes 20 k once you pay or you are still liable to pay him? No that is also gone. So, still your balance sheet is?

Student: (Refer Time: 33:20).

That is all where is the cash in hand is only 20 k 20000 out there is what you will have as cash and your capital is equity the same thing and borrowing the same 1~~0000000~~0,00,000 out here 1~~0000000~~0,00,000 out here, 2~~0000000~~0,00,000 out there that is what will remain out there. Equity will you see what is the equity? Moment ~~vement~~ the profit is made then what is the value of the equity? Value of the equity is 10 plus 4 14 because the profit belongs to whom? Belongs to the equity provider.

So, equity becomes 14, mo~~ve~~ment I pay 4 equity becomes 10 that is all. If you are paying 4 suppose I have borrow I it is my company I manage it. Now is not taking 4 k, I take 6 k out of the business then what happens? My capital becomes 8 k in the process my cash is what is called as 18 k in the process out there.

Equity holder because when the entity what happens is when we talk about an enterprise any profit or loss is borne by the capital providers of the firm and when I say capital provider, it is not the debt provider because when we say capital is a big term equity plus debt, we it is more and more the equity providers of the firm out there with you on this loss is also shared only by the equity provider.

Student: But when you said like receivable 15 k.

Yes, I will take this I will again do that as an example do not worry one second sir.

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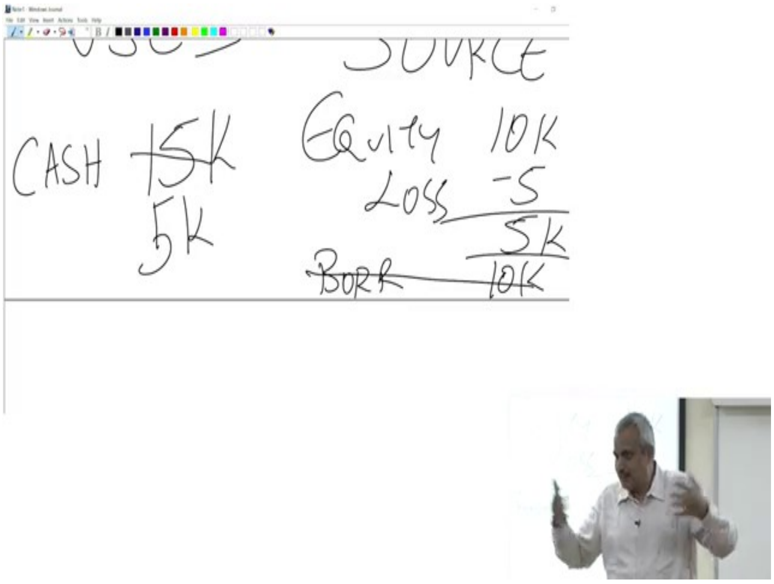

Now, what did we say equity was 10 k agreed? My borrowing was our 10 k now I would we said what is called as the cash what I have that is after selling you have sold it at a loss what you have is basically 15 k. Now there is a loss of 5 k who bears the loss?

The loss basically because imagine after selling the toy if I wind up that business and imagine he has given on a friendly loan no interest, I need to pay him 1~~0000000~~0,00,000~~s~~ out there, when I pay him 1~~0000000~~0,00,000~~s~~ this borrowing goes out agreed. So, what is the money though there what happens? This cash becomes what is called as 5 k out there what are the cash with me? 5 k who bears a loss? Loss is basically borne by this fellow or there that is the equity provider.

So, equity provider now gets only 5 k not 10 k in the process.

Student: He is like an investor.

He is an investor that is all there is an equity provider equity provider takes all the risks out there that is whether it is in the form of profit yes he gains in the form of loss he has to bear it.