

Decision making using financial accounting
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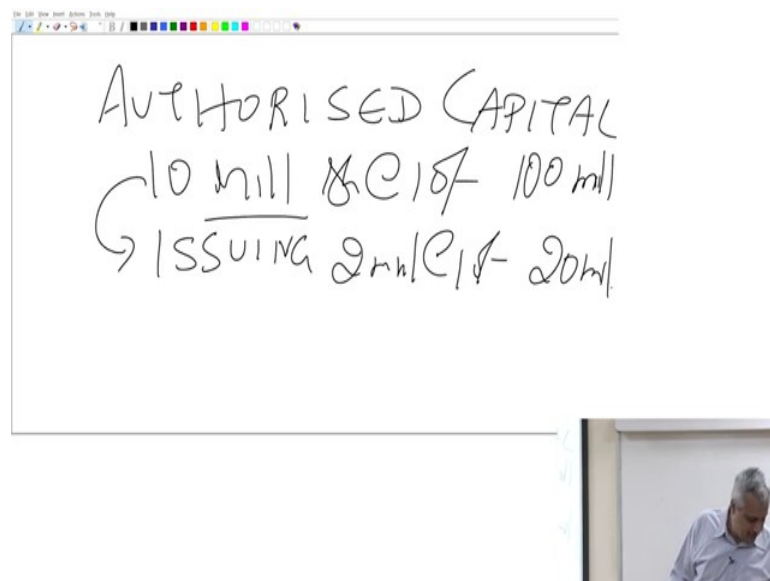
Lecture - 11
Transaction And Financial Statements

Now, for the benefit go to the excel, go to the normal; go to the normal thing.

Student: (Refer Time: 0:20).

No wait, go to the plain sheet. Now, excuse me there is one question that I have got from, I do not know your name sir Ashok; Ashok; he says that what is this paid up capital, paid up capital is gets added is what when we talk about capital, equity capital, I am talking about specifically about equity capital.

(Refer Slide Time: 00:47)



First we start with what is called as authorized capital. Now, what is this authorized capital. Maybe If you look at for the purpose you actually if you have that yellow manual out there, there is a Maruti Udyog's balance sheet there if you can look at it also you will know about it, do not worry you can also do it later.

What is this authorized capital? Authorized capital is the amount of money that the company can raise as equity in its lifetime. I repeat authorized capital is the amount of

money that the company can raise in its lifetime. It can say I will have 10 million shares at 10 dollars each; whatever is the value you can write that is value will be 100 million. That is what the company has decided, the company has decided that, I will raise 10, I can raise in my lifetime 10 million shares at 10 rupees each; now can it change?

Student: Yeah.

Well it can, but the ones in life; it cannot change every year it once in a blue moon. So, let us not worry about it. Now, the company decides to go public; the company says out of this 10 million shares I am issuing 2 million shares to the public at 10 dollars each. That is what we call it as your 20 million is the value, that is what is issue to the public I announced as of now I want to issue 2 million shares to the public. You can subscribe, you pay and subscribe.

Once you pay and subscribe part of it I get I receive applications for let us say, out of the 2 million shares are I have received applications of 1.99 million shares. I received applications for 1.99 million shares; I have issued to that 1.99 million shares what I issue what I received applications that will what we called it as subscribed capital people have subscribed to it. And I do the financial transaction that is all of them would have paid the money I basically tried to encash it, when I encash it some things get bounced back etcetera I am receiving money only for 1.98 million shares.

I am receiving money only for 1.98 million shares and that 1.98 million shares is what is called as that paid up share capital and paid up share capital is what we are worried about not anything else; that share capital go to the excel sheet sir.

(Refer Slide Time: 03:39)

Balance sheet as at on 31 Dec						Pr
Assets			Liabilities & Equity			Income
Fixed Assets			Shareholder's funds			Disc receiv
Gross Value building		95,00,000	12,00,000	equity share@10	1,20,00,000	consulting
Less: Dep		-9,50,000		Drawings by partners	-5,00,000	Sales
Net Value of building	85,50,000					
Plant		45,00,000	P&L		-20,50,040	Reimburse
less: dep		-2,25,000	NET WORTH		94,49,960	Dividend
Net value of plant	42,75,000					Int Accruc
Cars, vech		42,00,000				
less:dep		-8,40,000				
Net value of Vech	33,60,000					
Long term Investments			Long term liabilities			
Bond 6%		50,00,000	M. Loan		95,00,000	
Equity inv in subsidiary		35,00,000	8% debentures (200,000)		2,00,00,000	
			Loan		45,00,000	
			Liab for vec		38,00,000	

That share capital what I have shown out here is basically the paid-up share capital. The paid, that is what is valid. The fellow who has subscribed not paid I do not care there are various ways of dealing with it lets not even worried about it forfeiture and everything. The fellow I have the other 8 million shares which is still authorized, I have not issued I will show it in the financial statement, but I am not worried that is not the capital which I have is collected.

After 5 years I decided to raise further capital I will issue 5 million shares to the public at that point of time, then I will collect money. So, what is happens at that point of time what is the shared capital 5 plus 1 point assume that the entire 5 million is fully paid up; what is the total shared capital value there 5 million plus 1.98. So, 6.98 will be the paid up shared capital, with you sir?

Student: Sir, but in this case this one crore 20 lakh is the authorized capital as well.

Is the in this case I have not shown the authorized capital at all in this case I have not given.

Student: (Refer Time: 4:40).

No, in this case no it is not it might be it may not be. I have not indicated to you what is authorized, I have not indicated to you what is subscribed, I have not issued I have not indicated what is issued. I have indicated only what is paid up, because it is only 2

partners so, that is all in the public limited company and what you are worried about is what you will see is what is a paid-up capital, am I with you on this.

Student: (Refer Time: 5:05) is it only applicable for public limited (Refer Time: 5:11).

Its anywhere if you are denominating it for as equity, moment you are denominating your share capital and equity all this come into force. It might be closely held also we all can start a company right, it may be closely held it may not even go and list it, yes Prathista.

Student: (Refer Time: 5:29) authorized capitals how much should we.

That the board takes care of it the company takes care of it, based on their plan the envisage. Can it be revised, yes it can be revised, but not does not happen every year happens once in a blue moon, right now we go to.

Student: Can the authorized actual be added for that?

Yeah, that is what I said. It can be revised, it not every day, but once in a blue moon you can revise it; that is you have to pass it special resolution, you have to amend the articles, you have to amend the memorandum, that is a laborious process.

Student: There is some MCFE for adding why is that.

Where?

Student: There is some MCFE for adding into the authorized capital.

That is basically MCFE I am not very.

Student: (Refer Time: 6:10).

Government charge, charges are always there that is every time you have to amend you have to get it was vetted by the registrar of companies, I mean that is a laborious process I am not even getting into the legal aspects of it let us keep that aside now.

Student: Sir will you make covering all company gets listed and

Not here not as part of this course, no if need back I can do an informal chat, but not as part of this course. Now, let us get this Smoky Valley Cafe, please read the case very quickly.

Student: Lone Pine Cafe.

Lone Pine Cafe sorry smoking that is used to be in our textbook called smoky valley; Lone Pine Cafe page number?

Student: 48.

Page number 40?

Student: 8.

8. Open this and give me. Quickly; please refer to the book, textbook that is given and please refer to the case what we call it as in this particular case, earlier it is to be called the Smoky Valley Cafe, in this case a Lone Pine Cafe the Lone Pine Cafe, a please refer to the case and then we will be solving that case. I had requested you guys to read it and come to the class.

Student: Yeah.

You have read.

So fine I assume that you have read, somebody is searching for the page number today that is why.

Now, please bring the carry the textbook right, that is required also. Now, in this case what does that; what does that it says? I talk about, it talks about two aspects. There is somebody 3 of them got together started a cafe and then they operated for a couple of months and at the end of couple of months they had to wind it up and they restarted etcetera. Let us not worry about the story behind it.

Now, let the what they say I want to know what is the position of the assets and liabilities as on the day you have opened the cafe as well as on the day you are basically winding up that particular cafe out there. Now let us worry about what happens to this cafe on the

day you are starting the cafe, that is what they call it as 31st of March 2006, am I right or.

Student: (Refer Time: 8:09).

Because I have a different textbook, I think same textbook, but a different version that is international edition that is the reason. No problem, let us look at the date what do you guys have. Let us look at the balance sheet. Thank you.

(Refer Slide Time: 08:25)

BALANCE SHEET	
A	L + C
EQUIP 52200	3 PARTNERS 48000
LIC 1428	Borrowing 21000
F&B 2800	
CASH 13000	
CASH RY: 1400	



I am not going to use excel, I am just going to use the basic thing; L plus C is liability plus capital, A is asset out there. Should it be left and right, right and left whichever way you write it I do not have a problem.

March 31st 2010 the partnership had been organized to operate Lone Pine Cafe, was dissolved under the circumstances etcetera, where is the. The partnership was formed by Mister and Misses Henry and Mister Sanders who had become acquainted while working in Portland Oregon. On November 1 st, 2009 each of the partners contributed 16,000 in cash to the partnership and to share the profits professional proportionally. So, what are the first aspect that happens? In this particular case, the three partners capital will basically be 48,000 dollars out there and I have my cash which has also been accumulated at 48,000 dollars out there.

Student: Sir it is no Paid-up capital (Refer Time: 9:37)?

In this case equity, there is no it is not as equity right. It is a paid-up capital accepted; is the capital they have contributed. Paid up capital comes in only when we talk about equity, the term paid up capital. Otherwise it is capital; that is the capital they have contributed. I go on further and read it. On the day the partnership was signed a 1-year lease for Lone Pine Cafe located at a nearby recreational area the monthly rent of the cafe was 1,500, what happens?

Student: Nothing happens.

What happens?

Student: Nothing happens.

Nothing?

Student: (Refer Time: 10:14).

I am asking you; you do not have to worry about it now, because you are signed an agreement right. We will worry about it later. The partners borrowed 21,000 from a local bank plus used 35,000 from their partnership. So, what happens, if they used 35,000 from your partnership your cash balance which was 48,000 now becomes 13,000; whatever you use we will come to that. Cash balance has come down to 13,000 and you have borrowed how much.

Student: (Refer Time: 10:49).

Borrowing 1 second sir

Student: asset, liability, (Refer Time: 10:56)

Yeah borrowing is 21,000; I hope you are following what am I writing right I am also repeating it is a simple thing. Now, 35 plus 21 whatever is 35 plus 45, 64, 55, 56,000; what have you bought they are basically listed out there. Of this amount 53,200 was for equipment that is basically what is called as your asset out there 53,200 sorry. 2,800 for food and beverage your current asset. Partnership paid 1,428 for local operating license out there, local operating license. Sorry.

Student: (Refer Time: 11:58).

Pardon me.

Student: (Refer Time: 12:02). Asking of ah the license can be current assets and then it would be an expensive

As of November 1 st what is the license?

Student: (Refer Time: 12:15) it was paid.

You have paid.

Student: We have paid.

Your cash has gone down.

Student: It is a miscellaneous expense.

As ah.

Student: It is an expense for us? It is a miscellaneous expense?

Is it an expense for you?

Student: It is a miscellaneous expense.

1 second sir one second I will come to you. You have paid out, but what happens in this particular case? If you have since you have read the complete case at the end of 3 months the cafe winds up, if the license is still valid.

Student: (Refer Time: 12:43).

Where maybe whatever 3 months over 9 months it is still valid. So, what do you do the license?

Student: Maybe I can sell it.

When you are selling it what is it? Can you sell an expenditure? When you say can you sell an expenditure? As of today, it is unutilized. I have not utilized the benefit of that license; the license is valid for 1 year. I have not utilized. As of November 1 st opening day it is still valid for 1 year. Same evening instead of you can instead of the story which

happened 3 months later, it could have happened on the 1 st day itself. If it happened on the 1 st day itself then what would happen, you would have closed the store and the license would have been sold to somebody else also. So, license is valid. As of today, it is an asset, am I with you sir. Now beyond this, they paid about 1,400 for the new cash register.

Student: (Refer Time: 13:38).

Then what else am I missing out?

Student: Cash (Refer Time: 13:44).

Which one

Student: (Refer Time: 13:46)

That's what I said cash 13,000.

Student: Sir if it register [FL].

Vo saab add kardiya everything is added.

Student: Cash has to be (Refer Time 13:58).

Cash has to be?

Student: (Refer Time: 14:02) paying.

When I paying?

Student: Paying for license.

Out of what are you paying, see you have borrowed 35,000, you have utilized sorry, borrowed 21,000 utilized your cash of 35,000. So, total all this 53,200, 1,428, 2,800, cash register 1,400 and then how much is it?

Student: (Refer Time: 14:28) Cash will be more right?

Cash will be more that is what I am asking you?

Student: (Refer Time: 14:33).

Let me read it the partners is borrowed 21,000 from a local bank and used; and used this plus 35,000 of partnership funds to buy out the previous operator of the cafe.

Student: (Refer Time: 14:49) 21,000 will be added then your 35,000 (Refer Time: 14:52).

That is what I have added 21,000. 1 second we will go step by step on that. Now, let us not as of now what happened you have borrowed 21,000. Initially what was your capital? Your capital was 48 you have got 21,000 more 48 plus 21.

Student: 69.

69,000 that is what they will say. So, let us keep it at 69,000 as of now. In that 69,000 you have bought an equipment for 53,200 it gets reduced. Further you have bought what is called as 2,800 of food and beverage on hand when you bought the cafe from somebody. The partnership paid for a local license 1,428. That is these two 53,200 plus 2,800 is how much?

Student: 56.

50?

Student: 6.

56,000 so, basically these two is what you have got when you have purchased the cafe. So, 69,000 minus that 56, then what happens basically it becomes 13,000. Then you have bought in the sense if you have to further do this let us add the stage, these are the things what you have bought now its ok.

Student: Yeah.

(Refer Slide Time: 16:08)

BALANCE SHEET	
A	L + C
Equip 52,200	3 Part Gr 48,000
LIC 14,28	Borrowing 2,100
FCB 2,800	
CASH 10,172	
CASH REG 1,400	
	<hr/>
	69,000



Now, it is clear; now what have you done you have gone ahead and bought what is called as a license for 1,428. When I have gone ahead and bought a license for 1,428 now what happens to my cash balance out here? 13,000 minus 1,428 can one of you tell me that? 13,000 minus 1,428?

Student: 11,572.

11?

Student: 11,572.

572. Now, further you are gone ahead and bought a cash register. Cash register is basically the machine which you basically use out there. Now cash register that is about 1,400. When you have gone ahead and bought that then what happens to the cash out there, cash balance?

Student: 10,172.

10?

Student: 172.

170, 172, with you on this, now I gone step by step that is perfectly fine right; that is all what has happened. So, as of today as of the opening balance sheet this 48 plus 21 is

basically what is called as 69,000. In this part of it you totally add all this, it basically be 69,000 out there, all your assets out there. That is where you have utilized your assets and liabilities.

Student: (Refer Time: 17:10).

Now it says the cash was remitted is a checking account. Checking account is nothing about but your remitting in a bank account. Instead of cash you erase it and write it as bank account that is all. Yes sir yes Anshuman; Anshuman right.

Student: Yes the cash register that we bought that will be added right?

That is what I have written, last one cash register of course, my writing is very poor 1,400.

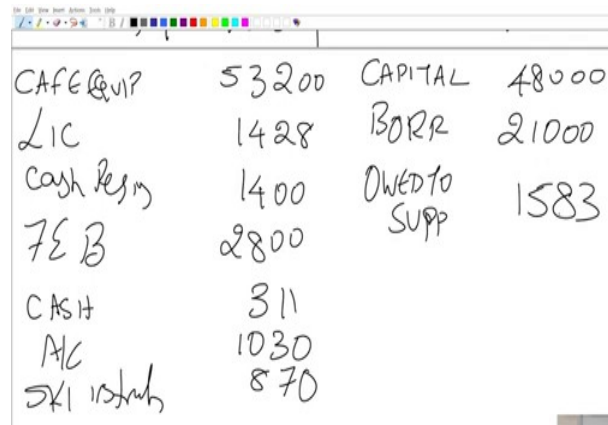
Student: (Refer Time: 17:30) at what time do you consider (Refer Time: 17:33)?

On the day you open, when you start the business beginning.

Student: So?

Not at the end of the day and first of the day 1st of November when you start the business. Once you have all this, then you go into the ribbon cutting and then open the café, before you do the ribbon cutting right. Just for you to follow am I with you on this? Now, I am going to give you a 5 minutes. Do the closing balance sheet. I want to take 5 minutes extra you have a 20 minute break right? I am going to do 5 minutes extra today.

(Refer Slide Time: 18:09)



CAFE EQUIP	53200	CAPITAL	48000
LIC	1428	BORR	21000
CASH REG	1400	OWED TO SUPP	1583
FEB	2800		
CASH	311		
AC	1030		
SKI INST	870		



Do we move ahead?

Student: Yes sir.

5 minutes we move ahead you can.

Student: (Refer Time: 19:34).

You can follow what we do and then there will be confusions there will be doubts do not worry about it. As we go along, we will try and solve it.

Now, I am just moving skipping the couple of paragraphs of the story, because I do not want to talk about the story out here. I am just moving to the last, but one paragraph in response to Mister Simpsons questions catch that, last but one paragraph in response to Mister Simpsons questions, last but one paragraph. Miss Antonio said that the cash register had contained 311 and that the checking account balance was 1030. On the day the cafe was wound up the cash register contained 311 dollars in cash and checking account contain 1030.

That means what are the cash that was there out here, the cash that was there out here which was 1,700 and whoever the beginning the cash that you owned was only 311 and then what is called as your account balance was basically what we call it your account

balance was to the tune of about 1030 right. We are preparing the closing balance sheet. I am just taking the opening and we are preparing; what you own on the day that is all.

Student: (Refer Time: 20:44).

Now, there is a question, I know what is the question, the cash register was stolen we that is the question ok, we will come to that; we will come to that. I am expecting the question do not worry. We will come to that; we will come to that. Ski instructors who are permitted to charge their meals had run up at accounts totaling about 870, the accounts are subsequently paid on fully later. Let us not worry about it. As on that day they had run up an account of 870 dollars; that means, what is it, it is basically receivable for you, that is receivable for you, what do you call it us ski instructors account 871.

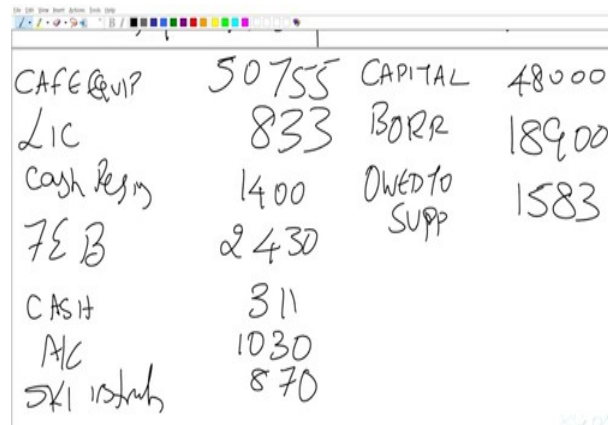
Student: (Refer Time: 21:21).

870? 870, with you on this? So far that is an asset for you. The rest of the things we will worry about it, one by one as we go along. The Lone Pine Cafe owed the suppliers amount totaling 1583 on that day, what is it? It is a liability. Agreed, so far? Yes Rajesh sorry for a.

Student: Time of (Refer Time: 22:11).

No, 10:40 is I told them 5 minutes extra I am going to do Sunil thank you. Now, Mister Simpson estimated that depreciation on the asset amount to 2,445. What are the asset value? The cafe equipment was 53,200. Now, what is the value as of today? 53,200 minus 2,445; can you tell me one of the one of you tell me what is the value?

(Refer Slide Time: 22:38)



CAFE @ V/P	50755	CAPITAL	48000
LIC	833	BORR	18900
Cash Regm	1400	OWED TO SUPP	1583
FE B	2430		
CASH	311		
AC	1030		
SKI instrum	870		

Student: 50,755.

50?

Student: 7.

50,755.

Student: (Refer Time: 22:44).

Correct fine thank you; so far, so good. Further, food and beverages were estimated to be worth about 2,430. That is on that day what is there in stock with you that is what is there in stock with you it was about 2,800 earlier, now it is 2,430. So far we have touched equipment, we have touched food and beverage, we have touched cash, we have touched account out there. We have not touched the cash register and as well as the license so far. We have not got touch these two aspects we will worry about these two aspects also.

During the period of its operation the partners do salaries upon agreed upon amounts. Will it affect your balance sheet? Why? Cash will reduce obviously, but after reduction of that cash is what is the cash what you own. That is what you have return. So, partner salaries are not known, you do not need to know. You would have already paid means that would have gone out of the, what is the cash in that and in the whatever in your hand that is what you are worried about and that is your asset, that is all.

Student: (Refer Time: 22:53).

The clothing that Misses Anto, Mister Antonio left behind was estimated to be 750 dollars.

Student: (Refer Time: 23:59).

What do we do that? Asset?

Student: Asset (Refer Time: 24:03).

How many of you say it is an asset?

Student: Part of the (Refer Time: 24:06).

But what?

Student: (Refer Time: 24:11).

But what?

Student: (Refer Time: 24:12).

As far as the entity is concerned, does the entity own the clothing?

Student: No no.

Then why is it why are we worried about it?

Student: (Refer Time: 24:19).

Somebody can say I can use it to recover the cost of the cash register. That is a different angle sir; that is.

Student: (Refer Time: 24:28).

That is, we will not even worry about all that.

Student: He may come back.

He may come back, he may not come back, I will use it, I will sell it, I will wear it.

Whatever you want you do, but does the company entity own it. No entity will not own it. So, it will not appear anywhere. What are we worried about? What the entity owns, what the entity owes as on that day that is all. The partnership had repaid it 2,100 of the bank loan. Now, 2,100 of the bank loan that you had repaid; that means, what is your bank loan left out there?

Student: 18,900.

18,900. Now cash should reduce; somebody will say yes cash would have reduced only after reduction of the cash is what you have 311 dollars with you. That is all that it has got reduced already. Further, Simpson explained that in the order of the account of the partnership etcetera etcetera etcetera out there. Now, cash register I have kept at the same and as well as cash also have sort of retained at 311. His argument is cash register is stolen, cash is also stolen along with that. Perfectly fine, you lodge a police complaint maybe you will recover it maybe you go to the court and have who owns that register.

Student: (Refer Time: 25:42).

The day suppose in next day, you are able to find the register in that gutter next to it along without the cash. Who owns and register? Register is owned by you. So, as of today it is an asset for the business until unless you decide to write off. As of today, you have not written off that asset. It is still owned by you, because it has stolen. Agreed, lodge a police complaint. Supposing I have an automobile, if an automobile gets stolen what do we do? Automobile is still registered on my name, if something happens if somebody plans a bomb, but it gets it bursts somewhere who will be caught? Me, not the fellow who was stolen.

Again lodge a police complaint, but I will have to be running between the court and the police station all the time, because you own that. So, what you own is what we record out here. Stolen do not worry about it. Unless for example, food; food and beverage food and beverage to the extent of rupees 1000 is destroyed or as got spoiled. Then what happened that 1000 rupees was spoiled will be an expenditure for you. So, what will be the food? That is valid out there remaining usable. What you own is what is important. Now, that is all what is there in this balance sheet. Now, you look at the balance sheet with it balance.

Student: No, it does not.

No, it does not why?

Student: Expenses are (Refer Time: 26:54).

Student: (Refer Time: 26:55).

Where I have not, we have not dealt a body at any expenditure at all; Usha 1 minute.

Student: We have also not calculated the monthly rate.

No, we have not looked at that is all that would have all been paid. As of now what you own that is all.

Student: License would need to (Ref Time 27:15).

License agreed, license part of it what is the utilization of the license? The license was for 1 year now, what is the how many months have passed?

Student: 5.

5 months have passed, the license is valid only for 7 months. So, what is the 1428 divided by 12 into 7? what is the validity of the license?

Student: 833.

That is the validity of the license accepted sir; perfectly fine. Now think through this. Think through this why the balance sheet is not balancing.

Student: You have account it profit of the loss (Refer Time: 27:48).

No problem, so simple. This is the sources of fund, this is the utilization of the fund. Now, what has happened? There is an inefficient utilization of the source of funds. So, what is the resultant figure? Resultant figure is basically the loss that is to be borne by the equity provider. Whatever is the difference, that you reduce it from the capital loss then your balance sheet gets taken care of.

We will revisit it no problem. We will revisit it next class, but before that, textbook chapter 2, I have given the exercise numbers 2.1, 2.2, 2.3, whatever it is. Please try and

attempt solving all that. Now, what you will have to attempt solving all the exercises in chapter 2 and chapter 3 also if am not wrong. As well as, solve the case Maynard company A Maynard company A and then walk into the class next week.

Now, go back and think through it. I am very sure 90 percent of you would still be confused why is the balance, how is it a loss? We are not accounted for expenditure etcetera what did we do? We accounted for what you own and what you do as of that day. What you own the value of what you own is less than the value of?

Student: What you owe?

What you owe plus equity plus equity; that means what? You have made an inefficient utilization. Remember the monkey and toy example which I used in the first class? I borrow 100 rupees, I make it toy 120 rupees value, a perfectly fine I made efficient utilization. That 20 rupees gets by flowed back to the profit. Borrowed 100, made a toy became a monkey bought it for 80 rupees then what happens then 20 rupees is to be borne by the ?

Student: Shareholder.

Share holder or the capital provider in that case, ok. I am sorry I extended for 10 minutes that is because I start also a few minutes late people walk in, try to be on time at 9' O clock right ok.

Thank you.