Decision making using financial accounting

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Lecture - 12
Lone Pine Cafe (Case)

We talked about Lone pine cafe A part of it that is the question of opening balance sheet. We talked about the first two paragraphs, talk about purely the opening balance sheet as to what is there and what was not there, we took care of it and we accounted for it. Now, let me move to the closing part of it. When I move to the closing part of it, I think there was some confusions which are sort of popping up out there.

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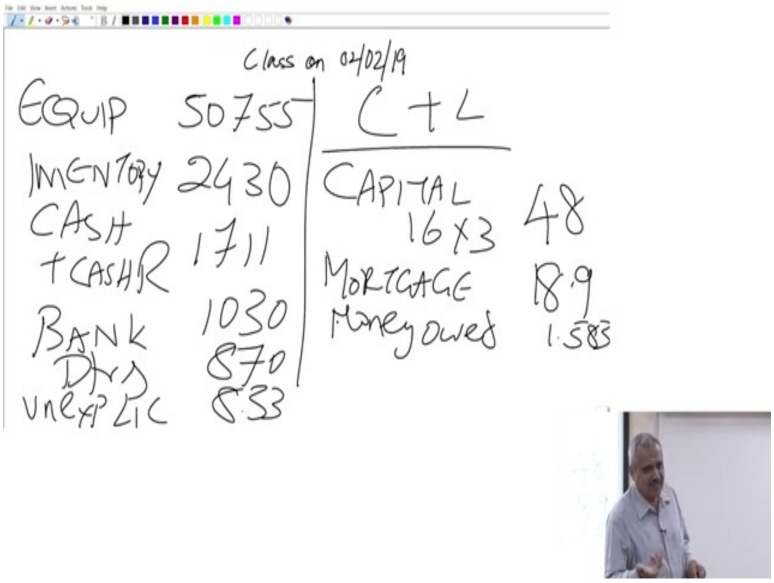


Let us start with the first aspect out here capital plus liability what we had. We had capital of what is called as 16 into 3 whatever 16000 into 3 that was about roughly 48 what we had was 48. I will just write these numbers out there. Then there was something called as mortgage. And the case also talks about part of the mortgage being repaid that is what was your liability initially, your liability initially was there was some amount out there.

Student: 21.

21000 was the liability, part of it is repaid. When part of it is repaid what is the kind of liability that is there as of now 21000 minus whatever is repaid that is liability as on the closing part of your balance sheet. So, what is that amount?

Student: (Refer Time: 01:24).

21 minus.

Student: 2000.

2100, so that will be about 18900 that is about 18.9. Then it also talks about something like, there was some money which the cafe owed to what is called as a suppliers that part of it so it was also there. I am talking about only liability as of now. We will go to the asset side a little later.

Student: 1008.

There are something what is the amount sir?

Student: (Refer Time: 01:54).

108.

Student: 1585.

1585, ok, 1583, 1.583 ok, you can just take care of that, you just take care of that that is not a problem. Then what else was the liability this is money owed for purchases. What else other than that is a liability, nothing no other liability. Now, there was what is called as cafe equipment, there was some things what you purchased go back to your opening balance sheet, if you look at your opening balance sheet, there are some things which you basically had purchased. Your licenses let us go to the fixed asset even larger.

Students: (Refer Time: 02:34).

Equipments etcetera. These equipments also had something called a depreciation that is what the equipment. What is the value of the equipment as of today that is what I am interested in. The value of the equipment as of today is whatever the value at which your purchase minus the depreciation part of it. Am I with you?

So, what are the total final value of the equipment 50000? What was the original value 50755, this 50755? How did you get sir?

Student: (Refer Time: 03:03).

What is the equipment cost you have taken?

Student: (Refer Time: 03:07).

53200 minus your depreciation part of it, agree, yes that is a slightly combined what you have. Now, what else was there were something it says that there was what is called as the food that was basically left out there. The kind of food that was left out there that is the food in the sense the cafe what you call it as stock of.

Student: Inventory.

Inventory, what is the kind of inventory that is left. What is the value of the inventory?

Student: (Refer Time: 03:33).

Inventory done. What else?

Student: Cash (Refer Time: 03:48).

Cash and cash register, there was a confusion with regard to cash and cash register. Somebody said cash register is stolen, am I right Murali Krishnan? Right. You said, cash and cash register both are stolen, so why should we take it into account. Now, suppose you recover the cash and cash register, it belongs to whom?

Student: Company.

It belongs to the company. So, who owns it?

Student: Company.

Company owns it; when the company owns it, then naturally what happens as of today stolen, stolen is a different event do not mix both. You are basically the the cash and the cash register owned by the café, the fact that it is stolen is a different event by itself. Sir, I may not recover the day you decide you will not recover, you will write it off as a loss on that particular day as of that whatever last day you are preparing 31st or whatever is the day, you have not declared that it is irrecoverable.

Have you declared it as irrecoverable as of today, no; you have just said it is stolen, we do not know whether it is recoverable or irrecoverable. The day I decide it as a irrecoverable, then I will write it as a loss out there. As of today, I have not done any of that I have said it is stolen, stolen is an event that has occurred, but today moment if the same evening you recover that then it belongs basically to the cafe not to the people who have basically stolen it, am I with you on this?

Student: Yes.

So, the cafe and cafe equipment will also the value of the sorry, the value of the cash the amount of cash that was there in the cash register as well as the cash register value of the cash register will also be part of your asset of the balance sheet agreed, then what else, cash and cash register. Let me sort of look at my cash and cash register, cash plus cash register.

Student: (Refer Time: 05:43) 1000.

Pardon me 311 and 1000.

Student: (Refer Time: 05:48).

311 and 1400 that is 1711, am I right?

Student: Yes.

Yeah, roughly about 1711. Yes, Murali Krishnan; 311 was cash right cash in the register, 1400 is the value of the register itself. So, I have I have taken both together right (Refer Time: 06:03) I just said that Joel you got it. They have not mentioned if it has depreciation, yes depreciation will be taken into account, they have not mentioned any depreciation. So, we presume maybe there is no depreciation for it maybe it is in high demand, so they are not depreciating it. If they see what are we recording, we are recording what is the value as of today that is all, then what else is left out.

Student: Current account balance.

Bank or cash balance or bank account balance, bank are bank account balance what is the bank account balance?

Student: 1 0 (Refer Time: 06:32).

1 0.

Student: 3 0.

1030, and then there was another statement also which said that the ski instructors owed something to the cafe out there that is what you typically call it as debtors.

Student: 870.

870, whatever 870 am I right that is all I think moral retards, I mean the people who owe you money are debtors if I if you owe money to somebody that is creditors that is a subtle difference between the two. Now, you just total up the asset side and total up the liability side of the balance sheet.

Student: (Refer Time: 07:11).

And you are sorry, unused license, license initially what you had you had paid how much for the license initially.

Student: 1428.

1428 and that was valid for 12 months, but how many months has left since the cafe has started.

Student: 5.

5 months, so the cafe is the license is still usable for 7 more months out there, so that is something as an asset; either you use it for 7 months or you sell it to somebody for 7 months right that is something which you own that is unexpired license, 833. I think more or less we are complete out there, whereas I based on memory I just called out the aspects out there now, yes (Refer Time: 07:57).

Student: (Refer Time: 07:59) what will happen if that license is not transfer (Refer Time: 08:01) I mean it cannot sell.

If the license is not transferable, license is not cannot be sold, then it is not an asset anymore that is all it is not there on your asset side obviously, moment it is not there on your assets now what happens, I will answer your question in a in a minutes time.

Now, you told you have the total of your asset you have the total of your liabilities, when you have the total of your assets and the total of your liabilities out there, you clearly see that the total of your asset side is what is called as less than the total of your liability side that is what all of you found there, liability plus capital. In short what is what I am trying to say out here, the sources of fund that is the capital plus liability which we typically call it as a source of fund out there is much more than the way in which you have basically utilized the fund as of that particular day. So, there is what is called as an inefficient utilization of the source of fund, yes sir any problem, following sir.

So, there is what is called as an inefficient utilization of the source of funds. You remember that example of the toy and the monkey, which I had sort of given right in the first class out there. You make an efficient utilization that is I borrow 100 dollars from you, I try to make a toy and sell it and I sell the toy for 100 I borrow 100 that means it is a liability of 100, I make a toy.

Supposing, I sort of make that into convert that to a toy and sell it or 150 dollars to him; he buys it for 150 dollars, and then he owes you money. Then what happened, there is a debtors of some 150 dollars on the asset side, there is a liability of 100 dollars; what I have done, I have made a efficient utilization of the source of fund.

Source of fund is borrowing the toy is the sale is where I have utilized the fund, I have made a efficient utilization when I made a efficient utilization what do I make, the profit I made; it gets brought back to the capital provider. In that case, the debt provider 50 dollars get I mean equity or whatever he has provided it gets brought back to him. So, your balance sheet sort of takes care of it. Debt provider will not get a share in the profit; let us keep it as equity provider in that case.

Suppose, you had made an inefficient utilization, I was able to sell it to him only for 80 dollars that means, there is a 20 dollar loss that again will be borne by the equity provider, supposing he is a equity provided he has provided that 100 dollars, he will basically bear that loss out there. So, in this particular case the assets, the value of the assets are far less as compared to the liabilities. So, what happens that remaining part of it the difference part of it will get deducted from the capital out there, the capital of 48 whatever 48000 out there.

Now, if the cash register I had declared it as a loss and it was not there, then what happens if this is also not there, then your loss will.

Student: Increase.

Obviously, increase out there that is all. Suppose, if somebody says the food gets spoiled out there, the inventory of food gets spoiled out there; then that cannot be called as an asset, do not call it as an asset, then what happens your loss basically.

Student: (Refer Time: 11:03).

Obviously, keeps on mounting in that particular case that is all what happens. Now, how does the third question of that particular case if you see, how do the partners divide what is the kind of capital what they have, what they what is the kind of ownership what they have or what are they eligible to get. In a partnership unless until otherwise specified, unless until otherwise specified, the profits are divided equally; unless until otherwise specified irrespective of the capital contributed by you in a partnership not in the equity share. In the equity, it basically depends on what you call it as what you are eligible is basically divided by the number of shares out there in a partnership; this is a pure partnership out there.

So, each one will the loss will have to be split equally between the three and in this particular case luckily, the capital contributed by all the three is also the same out there. The capital contributed can be different, but if there is no specific mention in the partnership agreement, still the loss or profit will have to be divided equally out there, am I with you on this.

Student: Yes.

Any questions on this, yes Joel.

Student: Capital is different sir (Refer Time: 12:24) the capital, then how.

Suppose, in the capital each one they it despite the capital equal capital out there, they decide that the loss or profit will be split in the ratio of let us say 3 is to 2 is to 1, then whatever is the loss you just divided in the ratio of 3 is to 2 is to 1, who has to get the third share one-third of the share, they get it whoever is to get the second share they will get it and whoever has to get the share, they will get it that is it is a profit or loss the ratio will remain the same. We cannot say for profit, I will have this ratio; for loss, I will have this ratio. Suppose you will you can have provided you are able to establish that in your partnership agreement and so on and so forth, etcetera with you on this Joel.

Student: (Refer Time: 13:09).

Yes, Naresh, Naresh right, fine.

Student: (Refer Time: 13:12).

No, (Refer Time: 13:14) is as it as it being repaid as of now, no where does it say it is repaid, where are they; they are not even there to repay for you, they have run away. So, as of now they are eligible to get so much that is what I have done accounting treatment, I have not repaid. Moment I repay, this is not a liability anymore none of these assets will exist, I do not have to sell all these asset convert it to cash and only repay.

As of now this is the money, they are eligible to get that is all; I have not I have not repaid anything. As of today closings balanced sheet, this is the position of my asset, this is the position of my liability that is all there is nothing else; with you on this, we move ahead to the next step. Yes, Rishab.

Student: When we say that food is spoiled and we are charging it off from.

No, I not said for if you will consider.

Student: In case, if it is if while we are charging it out from the balance sheet. So, all the assets side it will become 0, it will go to 0, on the capital side are also there will be a change with that.

In the sense what happens, if this goes off, food goes off whatever is the balance of inventory out there if this goes off,

Student: Correct sir.

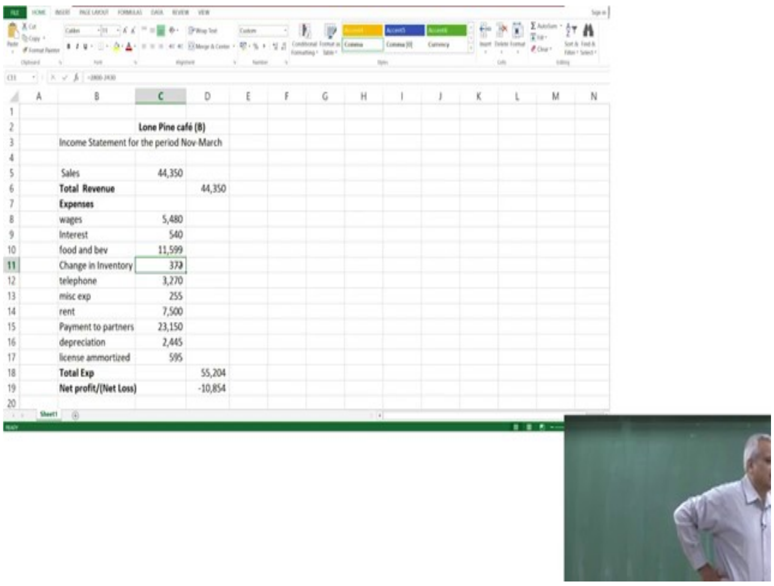
then what happens to your now if you calculate your profit or loss. Now, what happens, your assets side total will be even lesser, so the loss will be even higher that is all.

Student: The loss will get here (Refer Time: 14:30) against.

Obviously, obviously right, losses getting good see right, you calculate the P & L and carry forward the loss or you do it this way, it is going to be the same. Now, you have arrived at the loss out there right, now you need to verify whether it is right or wrong.

So, take a lone pine cafe B part of it, lone pine cafe B part of it, just open that and read it for 2, 3 minutes, then we will try and solve it. Lone pine cafe B, lone pine cafe B that will be in chapter 3, chapter 3, I am sorry, unfortunately or fortunately you guys have to carry both the textbook as well as my material for my classes at least the first year.

(Refer Slide Time: 15:12)



Now, let us get to this in addition to preparing the balance sheet describe lone pine cafe A, Simpson the accountant agreed to prepare the income statement; he said that such a financial statement would show Ms. Antonio how profitable operations has been and does help her judge whether it was worthwhile to continue the operation of the restaurant, because she was trying to continue the operation of the restaurant.

In addition to the information given in a case the Simpson learned, Ms. Simpson learned that cash received from customers through March 30th that is till March 30th cash received from customers till March 30th through March 30th is still March 30th was about, 43800 and 43480 dollars and cash payments were as follows. So, when you have received cash from customers, why do you receive cash?

Student: (Refer Time: 15:57).

Normally on a sale not as advanced, in this case normally only as a sale. So, naturally what happens cash received that is basically sales is 4380 first thing. Now, is it only 4380 as of now, is it only 4830 it is the sale, is only 4380 is the sale, 800 and why Jay Kumar?

Student: (Refer Time: 16:25).

Beautiful, there is something see these are cash you received, there is something which you are yet to receive that is also a part of the sale right; you go back to the closing balance sheet what we did, 833 is the money that you are yet to receive; it is some whatever that 800 and dot.

It is a money which you are yet to receive that basically also is part of your sale, what is sale irrespective of whether you have received or not, the event has occurred that is what is a sale. So, actual sale value will be 4380 plus that amount that you are basically about to what do you call it as you are to receive from that ski instructors out there, am I with you on this, so far so good.

Now, let us look at that expenditure, it is a very simple thing. Now, look at the expenditures monthly payment of partners were 23150, one-third to each partner let us keep that aside, let us go to the other one. Wages to part time employees were 5480 that is an expenditure right, expenditure.

Interest was 540; expenditure interest on the mortgage is an expenditure whether you are paid or not paid, in this case you have paid you are writing it as an expenditure. Food and beverage supplies 10016, 10016 right; food and beverage you have bought purchased 10016, is that the expenditure.

Student: Yes (Refer Time: 18:05).

Go to the balance sheet.

Student: (Refer Time: 18:09) inventory.

Inventory is different; inventory let us not worry about the inventory.

Student: Expenditure.

It is a expenditure, then.

Student: (Refer Time: 18:19).

Why minus inventory?

Student: (Refer Time: 18:24).

Its can still be used agreed, but there was opening inventory fine. Now, we are not worried about inventory as of now, we are worried about what you have paid. Basically if we look at your purchases as such, there is some money which you are still owing for which is still owed to your purchases out there, you can just look at it.

Student: (Refer Time: 18:44).

Student: That has to be added to the

Basically, what is your total purchase?

Student: (Refer Time: 18:49).

Your total purchase is this 10016.

Student: (Refer Time: 18:55).

Plus.

Student: 1583.

1583 is your total purchase out there, am I right.

Student: (Refer Time: 19:01).

10000 is actually cash paid and remaining.

Student: (Refer Time: 19:05).

15 (Refer Time: 19:06) still a liability that is you have made a purchase, right. So, here what is your total purchases?

Student: (Refer Time: 19:13).

That is what is got it; inventory part of it we will worry about a little later, what is the inventory part of it?

Student: Sir it its added in the (Refer Time: 19:23).

It is added. Now.

Student: (Refer Time: 19:28).

Yes Smitha, any problem?

Student: (Refer Time: 19:37).

There is no formula its only addition.

Student: (Refer Time: 19:41).

See again I repeat; what is the cash that has paid to suppliers, 10016 is the cash that is paid to suppliers, what is the cash that you are yet to pay.

Student: (Refer Time: 19:51).

1000, what is your total purchase?

Student: (Refer Time: 19:55).

10016 plus your what you are yet to pay that is all what I have taken, nothing no rocket science. Inventory do not worry, we will take care of it; inventory is also adjusted out there, let us not worry about it.

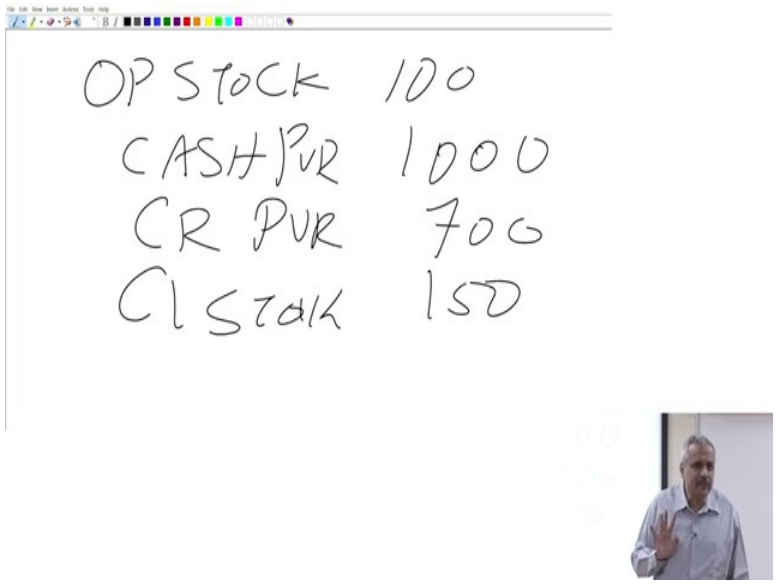
Student: But it is ah (Refer Time: 20:07).

Student: 1159.

We will that is that this is a first, first step first part of it do not worry next part of it. What we will do one second sir, hold it, hold it, hold on one second, one second, do not worry, I have to go step by step, because I have to carry at least take 75 to 80 percent along with me ok, now. Now, what is the next step, next up is first step we talked about what is the total purchasers, what will go in your P & L; in your P & L, you will record only that part of the amount which is utilized during that period for which you are preparing the P & L statement. Now, all the purchases have you utilized no, there is something still remaining in the stock that you are basically not utilized that first thing what you have to do, you have to deduct out there; have you done it, Prateek?

In addition, one second hold it Swapnika one second, in addition you had recorded something you had bought some part of the goods out there or supplies when you started the cafe, when you opened the cafe on the first part of it that also you might have utilized that is also basically what does your total supplies out there in the in this particular case, just go to the other plain blank sheet.

(Refer Slide Time: 21:45)



In this particular case if I had to see that let us take it, let us move away from here. Supposing there was an opening stock of 100, cash purchase during the year was 1000, credit purchase during the year was 700, closing stock of during the year was 150. What is the utilization in this particular year, it is what is the total amount of inventory available for you 100 opening stock plus 1000 what you have bought through cash plus 700 what you have bought through credit. So, total amount of supplies available for you is 1800, am I with you or not?

Student: Yes.

15, 150 is still the closing stock which is still left with you that means, how much you how much you have utilized 1650 is what you are utilized it yes or no?

Student: Yes.

That is what will come into your P & L yes or no. Now, go to the excel. Now keep your cursor there, keep your cursor at 1169, so what has it done. First part of the amount is what you have paid in cash, second part of the second figure out there is basically what is still to be paid out there, am I right is that the way you have taken?

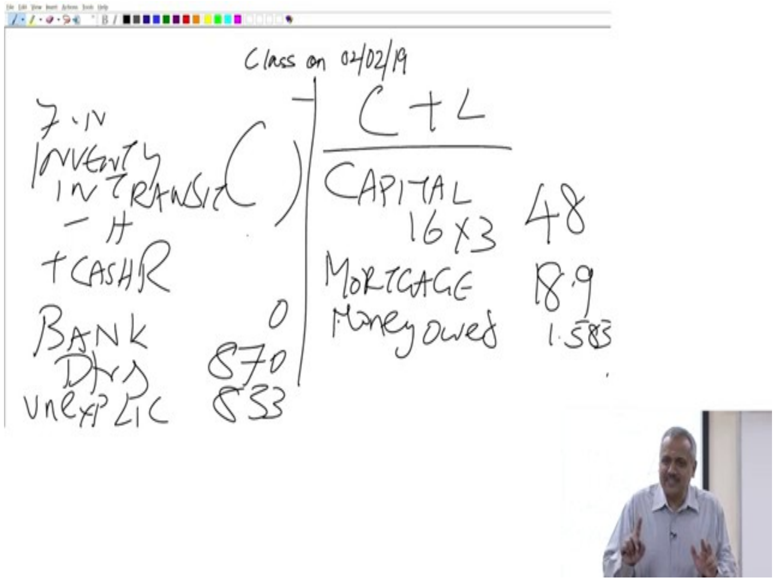
Student: (Refer Time: 23:07) added the opening stock.

He has added ok, the last part of it is that do it and see that. Now, what is the second amount out there, second amount 24 2800 is basically the opening stock that was there that is a stock with which you started the basic operation. The next is third amount what you see out there that is about patience, patience, patience Prateek; do not keep changing once you have entered live it that way, now if you change it, then see now again I have to again it is a second part right, do not once you have entered live it, I will adjust it accordingly now you do it. Can I open the.

Student: (Refer Time: 23:55).

Open the balance sheet; go to the go to the other go to the other sheet ok.

(Refer Slide Time: 24:05)



This is whatever it is cleared right. Now, there are some food and beverage that is gone out here. You just open your lone pine cafe A, you will see what is the food, what is the food and beverage that was there left out, what are the food and beverage that was there.

Student: (Refer Time: 24:23) 2430.

2430 was basically go to the excel, 2430 was basically the closing stock that he has reduced, you will see minus that before I figured before that 2800 was the opening stock. The first figure is basically the cash purchase, second figure is basically the credit that is money which is yet to be paid out there with you on this, now hope we are we in sync out there, how we are getting the expenditure part of it, now move ahead.

Telephone and electricity you have paid some amount 30 to 70 yes please yes sir, any problem sure, ok. Miscellaneous expenditure 255, rent is 7500.

Student: (Refer Time: 25:29).

that is what till March 30th that is what they have clearly said it, that is they have for that period the day opening of the cafe till the 30th of March whatever is the day the cafe closed off, there is not per month, they have not given they have given a complete statement for that entire period out there, am I with you on this?

Student: (Refer Time: 25:50) monthly payment or the again means all the months put together.

All the months put together that is where the first statement in a before you read that it says that, it is the expenditure cash payments through March 30th, till March 30th with you sir on this. Expenditure in a P & L is that which will account basically for which has accrued as an expenditure, you are not you might have spent, but what you have utilized accrued during that particular period.

I might have spent in this particular case, the total amount of purchases are spent is 10000 go to the keep the cursor there is 10000 and 16 plus 1583; but what I utilized might be more than that or less than that it will be more than that provided I bought taken lot from the opening inventory, it will be less than that provided I keep a lot of inventory out there. In this particular case you actually see it is more than what is your purchase, because you have drawn from your inventory also, am I with you on this, so far so clear.

Now, mayanot company A and B you will have to do it on your own, I am not trying to revisit mayanot company A and B, Vyshali, Vyshali right fine that is good. Yes Joel any problem, sure perfectly fine that is great. Now, we move to the any doubts on P & L balance sheet, I am not going to revisit by P & L balance sheet anymore, I am not going to revisit P & L and balance sheet anymore unless you have a doubt as of today, yes Navya.

Student: (Refer Time: 27:34) what does the (Refer Time: 27:35).

What does the.

Student: (Refer Time: 27:40).

Now, you have to calculate what is the profit or loss, can you calculate the profit or loss.

Student: You don’t put it this (Refer Time: 27:46).

Which one?

Student: Salary for partners (Refer Time: 27:48).

You can say payment to partners we have we have taken he has he has not added ok, you have to add that that is the first statement that was there, am sorry that was the first statement that was there; salaries to partners, net payment to partners monthly whatever is the amount.

Student: (Refer Time: 28:03).

23150 now this is the loss go to your one second, go to your balance sheet closing balance sheet match it with the same is that does the loss figure match, if the loss figure does not match, then we have a problem, is it does not match?

Student: (Refer Time: 28:25).

Now, it does not match right, why does not it match tell me now? Why, which one?

Student: (Refer Time: 28:36) capital it is a loss.

No.

Student: (Refer Time: 28:39).

No, what are we preparing we are preparing only profit and loss statement right, we are trying to find out the profit; we have taken the income, we are taking the expenditure the difference is profit or loss that is what will go to the balance sheet. Now, why is the loss not loss figure, what you have got here not matching.

Student: (Refer Time: 28:56).

Depreciation is not a cash payment, depreciation is a non-cash expenditure that is the value of the assets has depreciated during this period of 5 months of your cafes operation; what is the value of your total depreciation that is a non-cash expenditure, put that the figure which is.

Student: (Refer Time: 29:22).

Then the other aspect out there is license fee that also you utilized out there, I will come to the explanation there is some confusion for Swapnika, I will come back let him finish that then let me come back.

Now its fine, now I go back and explain each of this. Now, you can concentrate here, you can stop writing for a few minutes. Idea is now what you see out here is all the expenditure that has accrued for that particular period, I use the word accrued here. In this case the license fee are the depreciation, she can argue Swapnika can argue that it is not the money that has gone out of the company perfectly fine, but it is an expenditure that is money has gone out in the capital purchase initially; that part of the money you have some part of that expenditure, you are utilizing for this particular period of 5 months out there the cafe operation that is you put the title as profit and loss statement for the period, whatever the opening of the closing and the closing date out there.

So, these expenditures have accrued the license fee 5 months of license fee, you have enjoyed during this particular period, so that particularly pertains as an expenditure that has accrued for this particular period, am I with you on this that the same doubt you had, no.

Student: (Refer Time: 31:03).

In this particular case if you read the case B, sorry case A it clearly says that there was partners are eligible for some salary out there, so I am considering it as a salary. Otherwise instead of putting out here, I would have reduced out here from the capital if it is with drawings out there that is why, I have considered it as a salary out there. So, in this case even this food and beverage why was so much of adjustment, keep your cursor here not as a March 30th for the period.

Now, in this particular case also you see this what are we calculated; we have calculated what is accrued for the period, what is pertaining to that particular period not what all that all the food and beverage that you bought does not pertain in to the same period.

Student: (Refer Time: 31:51).

Not food and beverage, food and beverage there is no depreciation there is only consumption.

Student: (Refer Time: 31:58).

What a what a potential period, what potential period whatever I have bought minus whatever is leftover is what I have consumed, but there is also some stock which was there when I started the cafe that also so what a what have I consumed, whatever I would have bought plus whatever was there at the beginning all these are available to me for consumption. So, what have I consumed actually, what was available to me minus what is left on the stock is what I have consumed out there. So, in this particular case you see there is a keep the cursor here, there is a cash purchase, there is a credit purchase that is both the purchases.

Then there is an inventory out there the third aspect. Inventory is there that means, that these three put together is a total quantum of food supply is available to me during this particular period. What I have consumed minus what is still left over is what I have consumed that is what pertains to this particular period November to March what he has given out there. So, what we are recording in the P & L is only whatever expenditure that has accrued irrespective of whether cash has gone out or not.

Why cash has gone or not, if you look at you are what you call it as a food and beverage also that is there is some amount yet to pay; the same thing we are doing with that income part of it also yet to receive, but it has accrued. There is no depreciation in the opening stock; depreciation that is what is called as your stock value of the stock that is there, in a stock we do not call depreciation is normally for what is called as long term assets.

This is for example you have fuel, fuel which can or liquid nitrogen 30th of March evening you close down, there is some amount of inventory; first of March when you open, there is some amount which has gone out for as evaporated that right. So, your inventory decreases that is all, your inventory just decreases the rest of it is part of normal loss, there is a part of normal loss if we are adding liquid nitrogen.

Student: Basically you see (Refer Time: 34:13) that is a loss.

That is a loss that is that is what is used that is all, am I with you sir. So, first of March 30th of March I have taken inventory, 500 liters of liquid nitrogen. First of April evening I am again taking the inventory, the liquid nitrogen is of which was 500 liters has come to about 400 liters, but you actually think back and see in the production I have used only 70 liters what happened to the other 30 liters its gone, but what is your consumption, consumption is 100 liters that is all, with you on this.

Student: (Refer Time: 32:49) amortization.

Amortization, I explained the other day. Amortization is what do you call it as I said, I create some kind of a preliminary expenditure, I create an ad expenditure I said, I use the example of one of your movies starts out there. Now, that is what is called as un amortize until unless I write it off in the P & L it is un amortized is sitting in that miscellaneous and expenditure side of the balance sheet.

Whatever part I write it of every particular year for example, I am going to there is a 10 crore investment on that ad, the benefit of the ad is going to be there for 10 years; every year I am going to write 1 crore in my P & L out there write off as an expenditure. So, I am amortizing out of the 10 crore, 1 crore as an expenditure amount.

Depreciation is not amortization, depreciation is a physical asset which can be bought and sold. In ad as I said, kingfisher logo I think I use all these examples if I am not wrong that cannot be it will not be beneficial for anybody. Preliminary expenditure of starting the industry, you might have spent 10 crores in getting your license and taking care of many of the aspects out there. Now, you cannot sell it.

It is for you right that expenditure you want to do not want to write it off in the right first year out there, if you write it off in the first year, then nobody will come in there will be no investor out there for you. You will always keep it in your unamortized amount in the balance sheet and amortize part of it every year, over a period of whatever time you decide as account with you sir, yes Rishab.

Student: (Refer Time: 36:18). change in the inventory is positive negative (Refer Time: 36:23).

Change in the value of the inventory, normally what happens when we say as I said, principle of being conservative first class. Whatever is the value at which we have either purchased or the value of the value of it which is in the market.

Whatever is whichever is lower number 1; number 2 change inventory that is change in value of the inventory that can happen. Change in inventory per say it will occur normally what happens in this particular case in this, what did we take we took all these four together instead of that I can just cut it out or create a create a row here; just take only the purchases part of it here, only the purchase only a two purchases out there, enter these are the total purchases.

Now, the change in inventory there was an opening inventory there is a closing inventory whatever is the change in inventory I record it separately that is all what I do, instead of putting it everything total together if I had purpose of me putting it together was so explained to you the process, normally in the balance sheet they will record it like this change in inventory, am I with you sir, done P & L balance sheet fine. So, you can take a quiz on that now, good fine.

Student: (Refer Time: 37:51).

Yes Ashok, one second sir.

Student: If there is a abnormal loss it goes to the.

Not [vocalized-noise] abnormal loss occurs rarely, whatever.

Student: (Refer Time: 37:59) it goes into the.

It goes by everything will be written out here, whatever is this figure loss figure is what gets written in the balance sheet out there, it gets added or reduced to the capital out there profit or loss right. In that case, you can just do the balance sheet and calculate it, you can do the P & L, know how did you arrive at that loss and then carry it forward to the balance sheet also that is all. What did we do, we just did the balance sheet initially we found there was a loss, but everybody is amused why there is a loss.

So, what did we do we did a P & L, but normal process of Pratistha would have done first P & L, then balance sheet take this loss and add it reduce it or add it to the capital perfectly fine that is the process agreed, but you need to understand conceptualize how basically this entire thing happen that is why we sort of did this thing. Am I with you on this?

Student: sir some cases the goods are not sold out

Ah.

Student: but (Refer Time: 38:55)

Ah.

Student: it maybe (Refer Time: 38:58) so those items (Refer Time: 39:03)

Sir, in this particular case in the balance sheet whatever I go, to the balance sheet, go to the other part of it, go to the any balance sheet, any balance sheet out there; balance sheet not other one, move up, move down ok. In this part of it I will say inventory finished goods or finished inventory in transit, what is the value I will write there that is all. Finished inventory in transit, it is in transit know it midway as of 31st of March, its midway it is in transit; who owns it you own it, it will appear in your balance sheet, with you on this.

Student: (Refer Time: 39:48).

Part of inventory, but you need to know what is there in your go down, what is in transit, what is in your dealers go down which is still owned by you, what is in your stock in the godown which is still owned by you, because you need to have the value of all this, accounting. You cannot just say everything is owned and I do not know how much, because supposing there is a fire in your stock in the godown and all the goods is destroyed, you need to know what is the value right.

Supposing it is in transit, there are there are cars coming all the way from Gurgaon right your Maruthi, on the way the truck meets with an accident and the cars are destroyed who bears the loss; the dealer bears the loss or the purchaser bears the loss or the company bears the loss.

Student: Dealer.

Dealer, why?

Student: (Refer Time: 40:33).

Has it been sold?

Student: Insurance.

Insurance is later sir, who will claim insurance fine, who will claim insurance should the company claim insurance or should the dealer claim insurance or should you as a purchaser of the car claim insurance.

Student: Company.

Depends on agreement; if after the sale it is dealers responsibility to shift the car, then the dealers responsibility; it is the companies responsibility till the doorstep of the dealer, it is a dealers it is the companies responsibility. If for example, you are buying Rolls Royce customized, so specially shipped for you and already registered from the factory then your problem.

Right, it all depends on what is the status on that day that is all who owns it, who owns it at the point of time of the incident with you on this. Now, as of today I have lodged a claim with it 2000, 18--19 I have lodged a claim with insurance for 50 lakhs; I have not received, there is a loss for me, I write it off as an expenditure abnormal loss in the P & L statement for 1819.

19-20 insurance company wakes up and gives me the money, 19-20 P & L statement I will record it as a money received from that is the loss which was written off in the year 18-19 received in the year 19-19 from the insurance company. So, it will get added to your income of 19-20, with you on this, but you have claimed a benefit of it no in the previous year, now you are reading.