Decision making using financial accounting
Prof. Arun Kumar G
Department of Management Studies
Indian Institute of Technology, Madras

Lecture - 02
Introduction

Now what happens is moving is little more one more step ahead. Now this equity supposing one of the companies where you have invested makes a loss, then will all my assets go will all my property go that would be the question ? But the liability is limited to the extent of your investment. The liability is limited to the extent of your investment. For example, let us take you had a factory and you had a borrowing of 50 lakhs and you had an investment of 10 lakhs.

So, for earlier example 10 lakhs you invested borrowed from a bank of 50 lakhs and then you created what is called as a factory and a building etcetera, but this runs under a huge loss out there. After selling of then you decide to close down the business you sell the factory you sell what is called as a building and then which was worth about say 50+10= 60 lakhs you are able to generate only 30 lakhs from that you are able to generate only 30 lakhs from that then what happens?

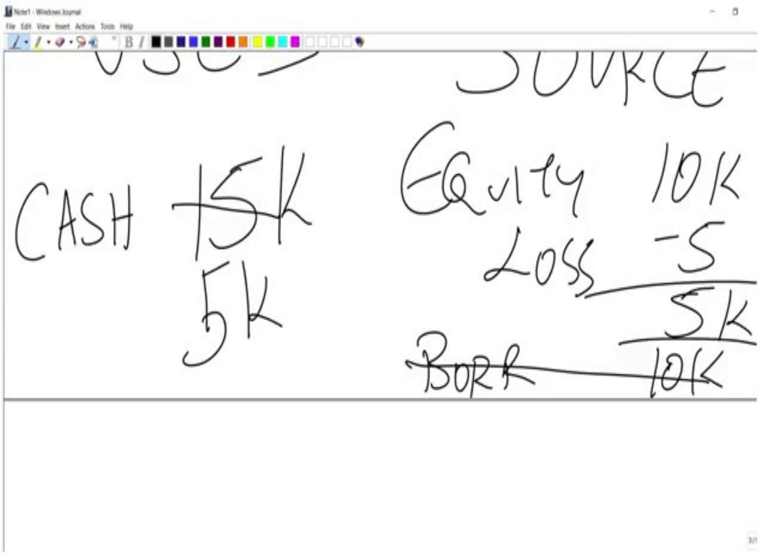
What you over to the bank is 50 lakhs plus interest, you pay 30 lakhs and banks basically has to take the rest of the hit out there. As an equity holder you get blobbed you do not get anything because in that case your liability is limited as an equity investor, then the partnership is different sole proprietary is different in an equity am I right Prateek?

In a equity your liability is limited to the extent of your investment. Supposing you had invested in Kingfisher Airlines you had brought the shares at 14 rupees or whatever 10 rupees or etcetera whatever money, no banker is chasing you your loss is that is what is called as delisted and you have just washed your hands off you just go back in on a suddenly evening and enjoy somewhere and then forget about that what we call it as sorrow and then live.

Student: (Refer Time: 01:57).

With it that is all your liability is limited to the extent of your investment over; that is where you do what is called as your credit analysis right?

(Refer Side Time: 02:05)



Now, I come to the third concept. First concept we talked about accrual, second we talked about entity, now the third concept all these will be there in the first and second chapter of the text book what is given to you also. If you want you can also read through that and then brush it up now third concept. Accountants are always mean right including me now mean when I say the we always follow what is called as being very “conservative”.

They call it as conservatism concept. We will always record depreciation, but not appreciation. There is always what is called as depreciation because accountants are the most hated fellows in all your companies you would know because they are never pass your bills right? So, all of you know that and.

Student: (Refer Time: 02:48).

Liability is basically the your liability; your liability is limited to the investment what you have made that is all as an equity investment I make that is all whereas, in a partnership in a sole proprietorship the rule of the game changes. So, do not worry about it.

Student: (Refer Time: 03:01).

Now, I talk about conservative and concept. When we say we accountants are conservative, accountants will always enter the value the particular asset or investment at either the value they have purchased or the current market value whichever is lower; whichever is lower because what happens? There is depreciation let me where tell you what is depreciation. There is an as accounting standard out there in your book and your manual also we can read through it we will revisit it also sometime later, when we talk about depreciation what is depreciation?

Depreciation is the reduction in the value of an asset due to usage and passage of time. Both please understand that, its usage and passage of time. Now can land have depreciation? No can maybe in a very rare case, but usually what is there? There is appreciation do you ever record it? No you will never record it because what happens? We will record whichever is lower the value at which you have purchased or the value at which you have brought value which is you have purchased or the current market value whichever is lower.

This is also known as historical cost concept. Depreciation let us say let us take a little more elaborate example out there. I buy a building for about 10 lakhs and I say the building will sustain for the next 10 years without any major modifications are repaired then the other than the regular maintenance, at the end of 10 years I may had to pull it down and then rebuild it again.

So, what I say? I use a straight line method I say every year the value of the building is going to depreciate by 1 lakh I use a simple straight line method. So, the value of the building 1st year its 10 lakhs, when is do the though the 2nd year balance sheet it is 9 lakhs, 3rd year balance sheet it is 8 lakhs and so on and so, forth out there that 1 lakh reduction that is there what do you do with it?

Student: Tax benefit.

Tax benefit now how does you how do you get tax benefit that is a beautiful term.

Student: (Refer Time: 05:04) loss of loss of.

Basically that is not a loss that is a extent of utilisation that is there, that is happened during the particular period let me take forget about building. Let me take a machinery. Imagine, I buy a machinery which can manufacture 1 lakh pieces of a particular component which that suppose a machinery is to about a manufacture in its life or at the end of 1 lakh its I have to junk it and there is no value. Bought it for 10 lakhs or bought it for 1 lakh, I have bought the machinery for 1 lakh it can manufacture 1 lakh components. 1st year I make 10,000 components after out of it; that means, to what extent I have utilised the machine to the extent of 10,000? No is it an expenditure pertaining to this particular year ? Student: No.

No ,why?

Student: Because (Refer Time: 05:46) only make the purchase on.

I have paid the purchase, but who owns the machine? I have utilised the entire benefit of the machine?

Student: No.

To what extent have I utilised the benefit?

Student: 10 percent.

Student: 10 percent.

I have utilised the benefit only to the text percent. So, when we talk about P & L accrual concept, what has accrued for the year? Only 10 percent benefit from that machine has accrued for that year yes or no?

Student: Yes yes.

The remaining 90 percent benefit is yet to accrue is yet to accrue for me. So, that 90 percent value I have not derived. Tomorrow at the end of 1 year I might sell the business or I might close down the business I can sell the machine right I can sell the machine and somebody can pay me 90,000 on it yes or no?

Student: Yes.

So, I have paid 1 lakh what have I created I have not created an expenditure I have created what is called as an asset out there when I brought the machine. Now P & L ; P & L please don't mistake with cash inflow and cash outflow, you are mistaking it with cash inflow and outflow not cash inflow and outflow the expenditure that has accrued. I utilised manufacture.

Student: (Refer Time: 06:51).

10,000 pieces in the 1st year to what extent I have utilised the machine? 10 percent when I have utilise 10 percent what is expenditure pertaining to the year of that machine? Only 10 percent that is what I will write it as depreciation of the machine rupees 10,000 am I with you on this? At the end of that year what is the value of the asset value of the asset in my asset side of the balance sheet is?

Student: 90,000.

90,000 still. 2nd year I manufacture 15,000 pieces, then in the second year what is the depreciation? 15,000 is the depreciation value of the machine in the balance sheet at the end of the second year is 75,000 am I am with you on this? Don’t mix with cash inflow and outflow, keep that aside do not mix with that what is expenditure that has accrued in that particular year that is all what we worry about agreed. So, when we talk about when you write that as an expenditure, what I must do a profit?

Student: (Refer Time: 07:47).

Ah.

Student: (Refer Time: 07:48).

So, what happens to your tax liability? Because you so, interested in tax I am and I have to bring that what happens to a tax liability?

Student: Comes down.

Comes down. Now imagine you have a piece of land, the land does appreciate 1 second mam. Imagine we have piece of land, land is appreciated 10 times then you record it as an appreciation that is though what is called as there is no cash outflow, but income has accrued right. So, you record it as an income then what happens to a profit madam?

Student: I go to (Refer Time: 08:14).

It increased then what happens your tax liability?

Student: Increased.

Increased and I may not have any money, but I may have to pay end up paying more and more tax please understand that. Imagine I am not running any business I am just sitting at home, I have an asset which I have inherited a piece of land which is worth about 10 lakhs valued at 10 lakhs which my four fathers would have bought it. Today the value might be at 10 crores if I write appreciation 10 lakhs, 10 crores minus 10 lakhs; that means, that is an income which has accrued, but not received in hand then my tax liability where will I go, even if I sell myself I cannot pay the tax on that.

Student: (Refer Time: 08:52).

Right. So, accountants are always conservative first and foremost. We will always follow what is called as conservatism principal in the sense that, we will record which is over purchase price or the market value whichever is lower. As said the earlier that what we call it as historical cost this again I would like to repeat this is also called as historical cost. Supposing I bought raw material or suppose you forget about raw material you bought made an investment in equity, you made an investment in IDFC bank shares out there because that is in the news you know why it is in the news?

Student: (Refer Time: 09:27).

Ah.

Student: (Refer Time: 09:28).

No not an IDFC Bank then I will have a heart attack sir.

Student: (Refer Time: 09:34).

IDFC Bank is in news because it is getting occurred it is merged right with capital first I know there is lot of news anyway; equity part of it let us check in a different session out there. Now IDFC Bank is selling at 43 rupees as of today you buy that shares or you buy about 1000 shares of that 1000 into 43 is what you have paid and you show it as an asset because you own the shares you show it as an asset as an investment in your asset side of the balance sheet.

On the day I prepare the balance sheet the price is drop to 36 if the price is drop to 36 what will I show my investment as? I will show my investment as 1000 into 36 whatever is the value there in the asset side, the difference between the purchase price what I have bought 43 and 36 that is about 4 plus 3 7 rupees per share 7 into 1000 7000 rupees I will show it as a loss in my P & L statement . With you on this . so far so clear?

So, we record accountants always record whichever is lower I repeat again whatever I said now is also known as historical cost that is where L 1, L 2 all your codes and every-thing will you will be familiar with all that yes ma'am your question.

Student: (Refer Time: 10:47).

Now, a (Refer Time:10:48) machine is not there I have utilised there is no its a scrap, if there is a scrap value I get a scrap value if the I assume there is no scrap value that is all it is junk I just have to throw it out.

Student: If you still keep on producing in he come as an appreciation.

It will you know it will not come as an appreciation no appreciation no appreciation is only in the class not in the books.

Student: (Refer Time: 11:04).

Right not in the books in the books we will always talk about a revaluation that is it very different thing as together now we will look at it little later. If you utilise it, that is the life of the machine as extended that is all. Supposing at the end of the 8th year, I spend another 20,000 rupees to extend the life of the machine by three more years, then what happens? That 20,000 rupees I will depreciate it over the?

Student: Next.

Next 3 year that is all or the or sorry at the end of 8 years whatever is the value suppose in the value of the machine is 10,000 I spend and add 20,000 to extend it by another 3 more years. So, value of the machine is 10 plus 3 30,000, life of the machine from that day is 5 years the 30,000 will be depreciated whatever the next 5 years out there.

Student: Sir between from my question it.

Ah.

Student: If I want to hundred release the machine.

If.

Student: If by end of the 10th year.

Ah.

Student: If I have under utilise the machine.

Ah.

Student: I am not completive face for the 1 lakh (Refer Time: 12:01).

No I here in this particular case I did not take time, I took utilization because that is why I said first year 10,000, second year I produce 15000, depreciation is 15000 here I based it on the utilization. Normally as per accounting rules, your depreciation is normally there is a guideline which is basically given out there. For a car supposing its a computer depreciated in 2 years or 3 years I do not remember the guidelines because I am not a what you call it as well versed with that or supposing its a car 5 years 3 to 5 years then the Prateek.

Student: 60 percent (Refer Time: 12:32).

60?

Student: 60 (Refer Time: 12:34) its computer.

Computer.

Student: 60 percent.

60 percent chartered accountants know that better. Now if it's a car 3 to 5 years right?

Student: 20 percent.

20 percent per year. So, that is there is there is a guideline given by what is called as your tax laws you just follow the guideline and depreciate. Then you what say the car might be worth it is usable even in the 6th year, fine use it there is no depreciation that is all its a depreciate completely depreciated asset out there.

So, what happens? There is no cost that is getting added as an expenditure , simple. If you look at even your automobile manufacturers many of them have very highly depreciated asset for example, Maruti Suzuki if you look at huge depreciated asset. So, what happens? Your cost of the asset will never come for you will not be huge in your expenditure part of it. So, you will always your cost of your end product will always be the little relatively lower compared to a new player in the market for whom depreciation is going to be large because of the cost out there.

Student: So, sir in that case can we say that, it will not once the asset is completely depreciated.

Ah.

Student: Still able to utilise it.

Ah.

Student: You see that then it (Refer Time: 13:40) it does not reflect to the profit and loss.

Normally what happens is asset when it is completely depreciated there is always a scrap value which is there. So, for example, I buy an asset for 1 lakh and then I estimate at the end of 5 years or 10 years the value the scrap value is 10,000; that means, I depreciate only 90,000 the value of its scrap value will continue to remain in a books as long as I it is there till the day it gets out who owns it, simple who owns it you own it that is the value for it put that money that is all. Yes Prathista.

Student: How do you deal with land and building in this case because?

Land the value the original value at which you have brought it just continues that is all.

Student: There is no.

Only you do what is called as revaluation and that is once in a blue moon that is not even touch a revaluation we will worry about revalue building now will be depreciated building has a life.

Student: Yeah.

Yes sir.

Student: As per the guidelines there is no depreciation for the land and.

There is depreciation for the building land normally not.

Student: Sir.

Building yes there is depreciation.

Student: My question was still little bit of (Refer Time: 14:43).

No problem sir again don't hesitate to ask me questions relevant irrelevant I tell you when if I cannot answer I will certainly tell you.

Student: (Refer Time: 14:53) depreciation will percentage (Refer Time: 14:54) which is in the guideline.

Ah.

Student: Being decided by the government of India.

It's basically as per the tax loss there are certain guidelines given that is otherwise what happens? You would want to climb the entire depreciation right in the first year. So, what you will write it off is has an expenditure. So, government has mandated there are certain what is called as.

Student: (Refer Time: 15:15) the (Refer Time: 15:16) guideline that (Refer Time: 15:16).

Guideline I don't .I am not; I am not a guideline person sir that is why I changed my profession I told you right.

Student: Sir does not varying account?

So, guideline I think Prateek will share that I if you want I can share a document right I can check a document Prateek just get the document.

Student: Basically (Refer Time: 15:36) basis on which this guideline.

I will basis on which is depending on the for example, computers 1st year 60 percent why because technology changes very fast? If you look at cars now it is 20 percent earlier it is to be 3 years in 3 years, you depreciate the car earlier then they made it because yeah because earlier they normally say 3 years now what happens with better technology life of the car is extended that is why they say 5 years out there that is how the guideline basically goes out. I will come to you 1 minute; 1 minute; 1 minute there was a question here because I.

Student: So, a from machine has depreciated after 10 years.

Ah.

Student: And we still have a life of 1 or 2 years.

Ah.

Student: And we are not accounting it.

No, we have never said you are not accounting it that is why sir normally you will have a scrap value you keep that scarp value out there.

Student: That will be minimal right?

That will be very minimal

Student: The potential to manufacture more products using it will not equate to what we have actually invested.

See normally when you buy the kind of estimate what you make will have to be more and more realistic if at all you have a gain it's a wind fall gain for you that is all. Normally its more and more realistic or you sort of a spend money to increase a life of that you capitalise it. See that you have for example, for what is called as your credit and loan purpose the valuation is separate.

Now when we talk about that is you look at a different valuation you mortgage it, then the banker will assess what is the value and then you will give a loan that is independent of it. Balance sheet when we what we present to all the stake holders is the value at which we have brought or the value at which market value whichever is lower.

Increase the value of what increase the value.

Student: Rent (Refer Time: 17:06).

Rental value, but not the value of the building.

Student: Now values of building.

The demand that operates an demand and supply may be it might be it might value might have reduced of that in the sense value of the building might have reduced it will be ramshackle right ?

Student: (Refer Time: 17:19).

But the demand to be there just be if you have a place in nariman point, even if its a 100 -150 years old there will be value out there right. So, value of the building it might be ramshackle it might be getting pulled down any minute, but demand purely demand and supply.

Student: Depreciation value.

Depreciation value.

Student: (Refer Time: 17:37).

Yeah.

Student: He said unique to each country each government is there a (Refer Time: 17:41).

No its unique to the country sir its unique to the country depreciation norms are and the norms change from country to country the way in which you treat many things. Supposing you go to Kazakhstan which where we were there looking at evaluating one of the entities, the way in which you treat many aspects itself is very very different that is completely different. So, you got a first learn those because there is an accounting standard out there, that is why we are trying to move towards what is called as a IFRS. IFRS is what is called as your universal accounting standards for across the world, but you have still not achieved that.

Student: (Refer Time: 18:14).

Accounting concepts we look at what is called as the what is the value at which you have bought are.

Student: For I have something in the higher and.

Sir your balance sheet will reflect the same value, but what is the value that you will be able to sell it, selling is different balance sheet projection what I am presenting it to the public is different see do not mix both that is independent. Say that way if I look at I manufacture a particular good whatever is the cost goes into what is the value? The value of it is whatever input that has gone into it that is not the value at which you are going to Balance sheet is one information. Yes sir.

Student: Sir essence written on lease to the depreciation (Refer Time: 18:55).

Take it there I am different kinds of lease sir, there what is called as wet lease, dry lease, financial lease, operating lease etcetera. If its a financial lease yes it comes in your books and then you will have to take care of it. So, lease there are multiple kinds it varies with the kind of lease what you are taking that lease part of it we will cover it at I will think almost towards the end of the course. The day it gets destroyed you will write it off immediately in your P & L as a abnormal.

Student: (Refer Time: 19:20).

Loss whatever is the amount for example, you brought a building you brought a machinery at 10 lakhs after 2 years when the value was 8 lakhs, the flood comes and completely washes away no scarp value gone. So, what happens? It's a that particular year its an abnormal loss value lost 8 lakhs over? You write it down over a period of time that we will worry about it in a little at a later stage. Last 1 hour we have been taking am I communicating, are you following that is more important we are that then a 1 hour I wanted to check; whether my pace is ok or you want me to change the pace higher or lower either way I can do it.

Student: So, (Refer Time: 19:58).

Comfortable?

Student: Yes sir.

You are following? Fine at any stage you are not following just tell me I can change the phase of it right because I taught different audiences I mean the freshie's , the executive

MBA's in the country, outside the country couple of other places etcetera. So, pace altering can be done not a problem I will come to you.

Student: Doing back to the example can also be (Refer Time: 20:21).

See what happens is your cost how do you price it? Based on your expenditure.

Student: Correct.

Right for a Maruti depreciation is low they are overall expenditures might be relatively lower also.

Student: Yes.

Whereas for a new car company it might be far higher right.

Student: Yes.

So, then your pricing will also be higher that is why it is becomes difficult for you to compete on the price part of it.

Student: Understood.

Understood sir? Yes sir.

Student: After the 100 percent of (Refer Time: 20:50) the scrap value, can be used to (Refer Time: 20:54).

As long as you own it, the day you don't own it is not there.

Student: As.

What you own will be there in the books.

Student: As long as the machine is in the plant.

As long as the machine is in the plant, in your go down, outside your factory wherever as long as you own it. If irrespective or the place is not worried I am not worried about the place who owns it is what I am worried about.

Student: That is scrap value without any (Refer Time: 21:20) system (Refer Time: 21:21).

It will continue that’s all. A machine which is absolute with a scrap value of 10,000 you are not able to dispose it its lying in a corner in your store room yes you own it that is all with you sir now.. ya mam.

Student: Going to scrap value come down as well with time depends on.

Yes and no sometimes a scrap value basically what happens? It’s a piece of metal right the price of in fact, scarp value it can increase also because the price of metal can keep increasing right, but you would not record the increase you record whatever is the value which is the lower of it. So, it can happen the other way also. Now that we have come to all this P & L I spend specific period etcetera, now we will talk about the balance sheet, please understand this asset and liability position will change every day agreed every minute.

Student: Yes.

As of when you talk about a balance sheet, balance sheet is always on a specified date that is all it is not for a specified time period unlike a P & L , it is for a specified date as of today as of today what is the; what is the part of it that is all as of today. So, when we say year end financial statements are ready that means.

Student: (Refer Time: 22:45).

P & L statements for the year April 1st 2017 to 2018 31st March I repeat P & L statement from April 1st 2017 to 31st of March 2018.

Student: (Refer Time: 22:58).

Agreed plus balance sheet as of 31st of March 2018. Please understand balance sheet that is on that day on the closure of that day 5 PM of 31st of March 2018 whatever is the list of assets you own and whatever is the list of liabilities you own that is all what you record nothing else; am I communicating?

Student: Yes.

Balance sheet always on a particular date, it just lists it is a simple list of what you own and what you owe. Now when you prepare a balance sheet, sir asset should be left side, liability should be right side, liability should be left, asset should be left all kinds of things what is what Prateek asked me day before yesterday when I was preparing for this class. Do not worry about it, left right whether up down etcetera it is simple prepare a list of what you own prepare a list of what you owe that is all. Do not worry about the format as of now because if you look at the American book the format will be different, if you look at an Indian book the format will be different if you ask the accounting friends the format will be even different.

Student: (Refer Time: 24:06).

Now sir when is the order when does the order when does the order complete?

Student: (Refer Time: 24:15).

12 or 2 invoice is read order complete next day you can place any number of orders 11:58 you can place an order 11:59.

Student: (Refer Time: 24:23).

And 59 micro seconds I can cancel the order possible? Algorithmic trading right today people do all the all these kind of things right. So, ownership transfer order complete that is all. Now in those kind of things Amazon etcetera Amazon or whatever your Flipkart and business etcetera.

Student: (Refer Time: 24:46).

The sale they will record, but actual sale when happens when it when does it happen? When the ownership translate, when that fellow delivers in the in the transhipment if the goods gets lost please not the sale they will have to rework and cancel that sale in the process slightly different.

When does it when does the deal take place when you basically strike the hammer out there that is what is important. Please sir mobile phones I your silent mode now I think switch off for in a hour and half that is always better; reason I insist is sometimes it distracts me and this is everybody because I teach with a lot of enthusiasm. So, it can throw everybody out of gear. Now yes sir go ahead.

Student: (Refer Time: 25:38) paid up capital.

Paid up hold it sir; hold it sir; hold it sir hold it for two more classes sir hold it for two more classes do not worry.

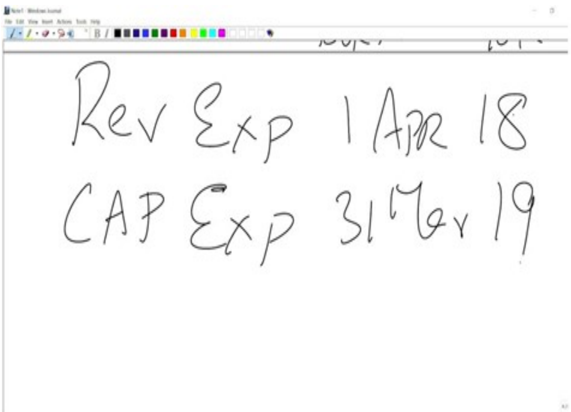
Student: (Refer Time: 25:46).

Because moment I get into paid up capital everyone will get into trading and start asking me which stocks to buy and which stocks to sell right as of now.

Student: (Refer Time: 25:56).

So, you all have to goes out hold it for some time, you know not right away.

(Refer Side Time: 26:08)



Now, when I talk about we spend and then we buy it what we say basically is what is called as. We call it as revenue expenditure or what is called as capital expenditure. That goes back to the question what she asked. See she said I have bought a machine for 1 lakh then why is it not an expenditure? There is a slight difference, there is a revenue expenditure, there is a capital expenditure that is expenditure which is capitalised expenditure which is capitalised will not go in the P & L , it will go directly to the balance sheet on as a?

Student: Asset.

Louder.

Student: Asset; asset.

As an asset beautiful now at least that part is cleared I am very happy because moment the expenditure people should not say liability right. Now it goes and sets basically as an asset out there capital expenditure. Revenue expenditure the day to day expenditure that is pertaining to the particular period for which I am incurring specified period time period for which I am incurring. Supposing I say in this particular case let me talk about for example, April 2018 first of April to 31st of March 2019 any expenditure pertaining to this specified period is what I will normally take it as what we call it as an a we will take it about as a revenue expenditure, expenditure pertaining to the period.

Now machinery I have bought for 10 lakhs 10 because life of the machinery is 10 years, now that is an asset what pertains to this particular year? One-tenth of it pertains to this particular year only that one tenth of it is what is an expenditure rest of it is a asset out there that is a difference revenue expenditure normally capital out there.

Student: (Refer Time: 27:56) day to.

Anything which is pertaining to the not entire marketing, entire operations anything pertained to be. For example, I will say you have your I do not know who is the latest hero have a Hrithik Roshan to launch your any product out there and pay 6 crores as ad fee for example, for him to shoot for a 10 second video out there, now that expenditure per say is what of your marketing and sales promotion etcetera, but entire 6 crores is not pertaining to this particular year because you are going to use the benefit of that add for the next 5 years or 3 years as long as he is still star out there. So, I am going to divide it that way.

So, all expenditures or promotion whatever it is etcetera need not pertain only to that. Anything pertaining to that particular year is what you will record. Now there is no liable expenditure is not a liability revenue expenditure I pay my employees salary, then what happens? It’s an expenditure in a which is sitting in P & L statement as an expenditure P & L statement.

Student: To expenditure.

The benefit of it you are going to derive for more than a year or more than the said time period.

Student: So, after.

All the expenditure because of which you are going to derive benefit for more than the time period say 1 year is all capital expenditures out there in short.

Student: Sir profit and loss statement still goes at 1 lakh.

Profit and loss statement what goes is, 1 lakh is the value at which you have bought profit and loss statement is for the year 18 19, value of it is 10 years what is what part of the machine I have utilised? I have utilised only 10 percent that is what we will go as an expenditure.

Student: (Refer Time: 29:40).

Profit and loss account do not mix with cash outflow.

Student: Sir (Refer Time: 29:47) period of 10 yeas then may be all of these we can.

I will do it mam do it I really.

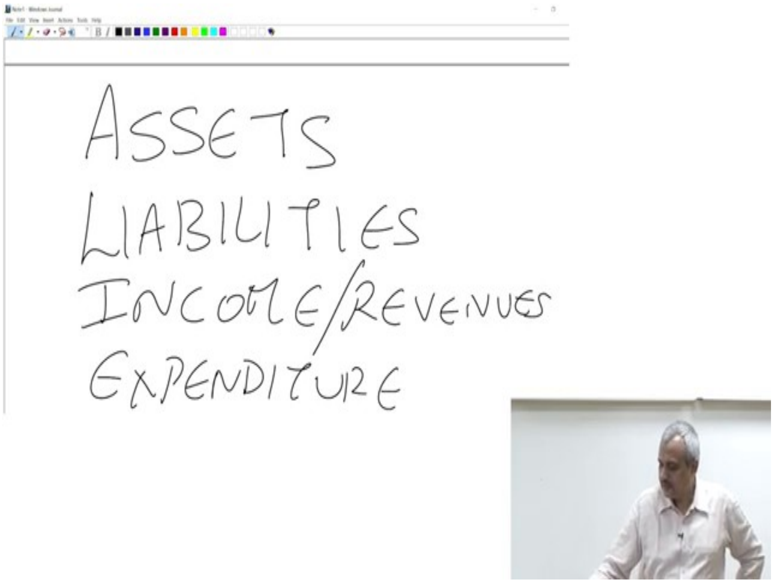
Student: (Refer Time: 29:51).

Sure I will do it I next that is what I said next class onwards he is going to be here and using an excel we are going to do that.

Student: Sir assume we buy a (Refer Time: 30:04) all those other charges like a legal charges registration who I looking at the (Refer Time: 30:06).

Landing cost when you buy a car you buy your you record as a value of the car is x factory price or the price of registration, your initial accessories that come in and then what is called as your insurance etcetera complete landing cost. All the cost which is incurred till it becomes operational in your hands what we said now is what is call it as landing cost, that is cost at which the revoked asset is valued as an asset in your balance sheet right. Now last aspect before I close the class today in addition to this, there are only four terms that we need to know especially in accounting.

(Refer Side Time: 30:49)



What we need to differentiate between is assets, liabilities and then what is called as income and expenditure income or revenue.

Students: Procure.

Assets we procure do not pay it access now everything you pay GST; when I value of the asset is the value landing cost of my asset completely. If you are getting a tax credit because of that, that is a different issue we are not even dealing with that accident I am just looking at without that. We need to any expenditure any transaction let me use the word transaction we will always have two sides. We said we took an example of what is called as bank loan there is a cash there is a liability.

I make a sale what is happening is goods going out there is the cash coming in or if not cash is not coming in, debtors is coming in that is he is going to pay after sometime. Any transaction we look at there are two part two sides to it and those two sides will have to fit into one of these four and beyond these four there is no accounting, beyond these four there is no accounting all you need to know is a anything whatever any transaction will have two parts; will have two parts first get that clear minimum two parts 2 to 3 minimum two parts and that will have to fit into these four, you will have to classify into these four that is all; that is all is accounting nothing beyond that.