**Decision making using financial accounting**
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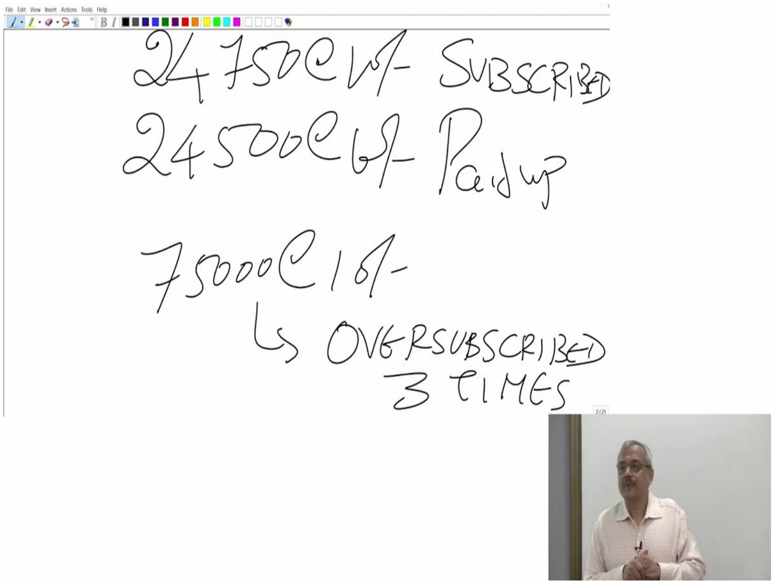
**Lecture - 26**
**Reading the Financial Statements of a Annual Report - 2**

(Refer Slide Time: 00:15)




We are further out here, schedule number 21 there is what is called as trades sorry in this particular I am sorry; I am sorry I think I left out non current liabilities schedule number 20, if I look at non current liabilities schedule number 20 further I move to page number.

Student: 229.

229.

Student: Sir Ram Kumar asked in case of deferred tax do companies have to pay extra like interest on the amount or any?

All that depends on the kind of what is called as your the subsidiary what you are getting the kind of regulation what is being there what is given by to by the government they might say subsidy, they might say it has there is not even interest they will say there will be a simple interest, they would say there is no interest it depends on what is called as the arrangement that basically comes along with deferred tax syllabus. Go to other liabilities out here, there is something called as deferred revenue there is what is called as other liability deferred revenue what is it other liability and deferred revenue? Any reason what is this other liability it is there and there is something called as deferred revenue?

Student: Some payment you have not received there.

Exactly opposite, see somebody has pretty advanced, as of today it is not a revenue because you will not delivered goods to him. When you deliver the goods its a revenue as of now it is deferred the revenue is that today revenue is deferred is an English word is that exactly the opposite of it, but good thinking that is all. See as I have said today when does it become a revenue?

Student: (Refer Time: 02:08).

When the transfer of the good takes place. As of now the remittances as come the car is still getting the last touches final touches of painting and it will be loaded onto the truck once it loaded onto a truck it is the dealer's responsibility till that time it is your responsibility.

Now that what I call it is amount, it is not you cannot convert it to revenue because I have still not total (Refer Time: 02:34) on to the truck it is still my yard. So, it is my responsibility it is not. So, it is deferred revenue it is deferred in future that is what is it that is why it is a liability because supposing at that last minutes dealer for who decides the folder and this is a call for the money back, you got to give the money back because it is not revenue it is not shipped am I with you on this?

So, that is all what we call it as deferred revenue. some people some companies you term it some accountants you term it, I use the word accountant someone some accountant you term it as advance received from customers, they would have they would write it as advance received at customers they are very glorified they have said deferred revenue right at least looks very fancy right.

Student: You get both of them.

Both are the of them.

Student: Yeah non current (Refer Time: 03:25).

One is the we are looking at when we are (Refer Time: 03:29) looking at a non current. Only looking at non current out here in this particular case there could be what is called as why is it non current. Now you will say then it will should be the current why is it non current? I receive a deposit from my dealer 10 lakhs and I am going to say that this 1000000 I am adjust going to adjust it over a period of next to 5 years and then I will retain the deposit from you at 100000 or whatever it is the other 900000s I am going to adjust it over a period of about 9 years or next 5 years or 7 years or whatever you see.

Now it is not going to get converted revenue right today in a years time, it is going to and gets converted over a period of time that is why it becomes non current. Am I with you on this any questions there? Now I go back to page number 196; go back to page number 196 out here we have finished everything which is non current that is everything which is a long term liability as well as we have finished everything which is part of equity and debt part of it only one aspect which I will I said it will clarify as we go along. Now I move to the current liable; current liabilities are there in schedule 16, 21 17 that is a borrowing straight payable other financial liabilities and so on and so forth doing go back going to schedules out there starting from 16 schedule 16 would be page number.

Student: 25.

25 schedule 16 page number 225 is these are long term part of it there is also a current part of it that is non current what is called as non current term loans and there is a current part of it, loans repayable on demand from bank and cash credit and overdraft what is this cash credit overdraft etcetera?

When we take a loan from a financial institution from the bank there are two forms one is what we call it as long term loan, long term for creating some kind of a asset out there fixed asset. The other is what is called as short term loan in short term loans. It could be your cash credit overdraft everything will come in and that is predominantly for your working capital requirement let me research that it is predominantly for only working capital requirement.

When does a company get into financial what is called as a financial trouble out there. You have take a short term loan and buy a long term asset then what happens? There is a problem because a short term loan repayment will come in and when short term loan repayment comes in then you do not have money because when you take a short term loan to finance working capital that is what am I doing. I am buying the raw material using the loan imagine buying for cash.

Now, I know it is for 2 months. In 2 months time I will use the raw material convert it to a product and sell it and get the money and when I get the money, I will repay it to that fellow from what have I done? I have just used my working capital loan out there. Imagine I have borrowed money on a short term and created bought a machinery and then of 2 months I have to repay, the machinery I have just started producing and as a attained only what is called as what is steady state only know where is the money for me to repay.

So, then what I have get into? I get into this kind of a financial module out there. So, what do you do? To repay that short term loan you will take one more short term loan and then the cycle goes on and on and on. Now are you able to related to any event which happened in the last 1 year which has been in news not you sir not you.

Student: Yes.

Because in the newspaper all over anybody putting on that?

Student: Guessing kingfisher.

No kingfisher old yeah [FL] last 3 months 4 months.

Student: IL and FS.

Student: IL and FS.

Beautiful thank you. So, what happens? If you look at IL and FS there is HFCL is the banker I asked him to keep it where as you would know that. Now if you look at IL and FS what happened? If you say IL FS has gone for hundreds. So, it is not basically the kind of assets what they have his huge I am digressing from this, but give you a little more understanding of the.

IL and FS is basically an infrastructure for example, your roads projects bridges etcetera. When you create a road project their concession agreement is normally for about 30 to 30 years. We call at concession agreement because until that particular point of time you operate that is what is called as you do bot model or b o o t model build operate transfer build own operate transfer.

So, you build it, you collect toll imagine I put in 30,000 crores to create a road infrastructure from Chennai to say let us say the next town out here Kanchipuram including land acquisition everything. Now I collect toll on this, that toll what I am going to collect is basically going to feed in for servicing my debt out there as well as when I say servicing interest as well as repayment.

So, I had only 50 rupees and 100 rupees how is it going to cover 30,000 crores like you there are hundreds of thousands of fellows every day right everybody paying toll and patrol the value is also increasing. So, principle is also slowly reducing etcetera. So, now, and how long does it take? When he say concession agreement he takes about 20 to 30 years for you to collect the money repay the loan and pay the interest part of it that the entire closure happens at 20 year 30 years out there.

So, what happens? At the end of 30 years till 30 years you operate and after that there is at last bot or b o o t the t means transferred after 30 years I am not eligible to collect over on this, I have record the money I transferred this road basically to the government and then come out of it and its the government property after that. With you on this so, far so, clear? So, what happened in a ILFS? Long term investment long term project you are looking at a 30 year time period for you to recover the money and basically financed by short term. Short term means not in that case, short term is not less than a year, but short term is 4 years, 5 years, 8 years whatever that is short term for them for that kind of a project out there.

So, at the end of 5 years when the repayment comes in when the servicing comes in there is no money out here, because money is going to come over a period of 30 years out there. So, that is what (Refer Time: 10:11) it is not that they did not have assets it is not that they were basically with doldrums no that is not it is you cannot somebody said Kingfisher you cannot compare it with Kingfisher at all. Its a asset rich entity, but only thing is your financing arrangement there was a problem you finance used short term loans basically to finance the long term project out there.

So, matching is very very essential a classic example that is very (Refer Time: 10:36) what I point out with you on this? So, this current borrowing is always for working capital for example, there is sudden some short requirement. Imagine on the 30th of a month you were to pay salaries to my employees, but I know on the 5th of that next month I am going to receive money and the sales what I made two months back.

So, what do you do? I need money for 5 days when (Refer Time: 10:59) money for 5 days I do I can do what is called as cash credit, I can do what is called as overdraft; overdraft means I draw my more money than what is actually there is my account etcetera and so, on and so, forth am I with you on this? That is all what is called as current for meeting your working capital. Now banks also term this entire thing into two parts; one is a term loan and then other is a overdraft facility out there.

For example they based on your working capital requirement, the banks can sanction at the beginning of the financial year itself let us say we sanctioned 10 crores I am sure he will be able to explain it better, but let me try and attempt to explain it and let me say 10 crore they sanction you a sanction as a loan to you working capital loan. Part of it is term loan working capital term loan and the other part of it is what we call it is a overdraft facility.

And let us say 20 percent is overdraft facility out of the 10 crore. On that 20 percent there is a small charge which is already which is always charged to you that is 1 percent or 2 percent whatever is the number I do not remember the exact number out there is a small percentage which is charged to you that is, but you are eligible to borrow whenever you want that 20 percent money, that is you can just borrow you can borrow today and return it tomorrow, but the bank why are they charging they are making it available to you at any point of time during the working days of the bank. And when you borrow for that period you pay a little higher interest for the amount what you have borrowed.

Student: Ok.

The other part of it is term loan 80 percent of it. You can take it you can borrow it for 3 months, you borrow it for fixed 6 for its a fixed time period fixed, interest you pay interest only when you basically borrow out there am I right sir? Depends on the understanding with the bank because normally for example, if you look at all the sugar mills government sugar mills or cooperative sugar mills in the country, the kind of stock what they have as far as sugar mills are concerned is equal to about 8 to 9 months of production as of now it was about a years production.

Now, it is upto 8 or 9 years of production out there. And all of them are basically what is called as have cash credits that is their inventory is completely pledged and then the money is taken out there for them to meet the day to day operation. Every time they have to sell they make an arrangement to sell go and pay money collect the advance and go and pay money to the bank, the bank will come and release the stock for them to be sold out there that is what in that case what happens in terms of cash credit etcetera with you on this? So, far so, clear?

We move ahead we go back out here to what is called as page number 100 and sorry we are continuing with this what we call it as the borrowings that part is over, then go to schedule number 17 you have all your financial liabilities payable to capital creditors, interest accrued, accrued, unpaid, dividend, bank overdraft and other things.

Student: Sir.

1 second hold your question schedule number 17 these are all current liability. So, various kinds of current liabilities that is there as of today. Yes please yes Prathik.

Student: Malik Sir Malika asked can you explain the header going by unsecured.

Secured unsecured secured means what? Secured means it has you have a hold over a particular asset something is as he said you have something which is basically pledged out there, you have some inventory something pledged unsecured nothing it is based on the relationship there is a they are giving you that is based on understanding what they basically give you out there, that is all the difference between secured and unsecured very simple.

Am I with you on this? Schedule number 17, if you look at page 226 you would see payable (Refer Time: 14:43) cash capital creditors interest accrued interest accrued, but might be interest accrued, but not due. Imagine I pay I have collected deposits from whatever corporates also collect deposits you know that corporate deposits you can all do invest in corporates out there you can invest in the form of corporate deposits. Imagine I will invest in to the corporate deposit, interest payment happens on June 30th and December 31st.

When I prepared the financial statement in the month March 31st, interest accrued for 3 months Jan Feb March, but is it due? It is not due, it is accrued it is a liability for that 3months. So, that is what I would put out there interest which has accrued, but not due possible. Unpaid dividend declared, but not paid dividend declared and paid, but that fellow that fellows has closed the account and then gone dividend is not credited, but I am still liable to pay him the day any day he comes back, there is a time period, there is a regulations etcetera etcetera we are not even getting it all that.

Look at next one schedule 18 provisions. Provisions current part of it is there what are the current part of the provisions out there? Employee retirement benefit the fellows who is going to the retire this particular year financial year I got to pay short term, there are retirement benefits for employees right you might retire 50 years later or 30 years later, but somebody else might retire this year. So, that part of that becomes what is called as current asset entire thing that is all what you basically see out here 21 and 22 schedule 21 and 22.

Student: You got.

20, 21 and 22 if you look at schedule 20, 21 and 22 the page number 229 there is what is called as other liabilities at one some customers, deferred revenue sort a statutory dues which you got to pay statutory dues which you got to pay then you have what is called a trade payable. In trade payable outstanding dues to micro small and medium enterprises, outside due to creditors others then micro small and medium enterprises.

Payable what do you have to pay; what do you have pay? They have divided it into these. Some companies who divided into trades payable which are what is called as payable in foreign currency, payable in local currency some other companies can divided into which are trades payable more than 6 months due less than 6 months due. Anyway you basically a you look at various annual report you will see these kind of differences out there. If you invoice it as next financially it becomes the revenue for the next financial year there is no point. Because whenever your invoice that is when it becomes a revenue as of today, it is not a revenue I do not even make a provision out there.

Now, there are schedule 22 is basically the current taxes etcetera let us not even getting into the current taxes part of it of or then current taxes in the sense taxes is the liability which is basically current out there right. There are a couple of questions I have been getting, let me try and address those questions. One of them said that Bawa I think he said that my company increase their authorized share capital to accommodate what is called as preferential right.

No it is not basically preference please note preference shares is different, preference share is not part of your authorized capital that is they would have privately placed or what is called as your equity share they would have given a preferential equity shares to somebody out there that is I do not do have public issue, I privately place my what is called as my equity shares out there.

You do not have a preferential equity share that is not possible right you will have you can have multiple classes of equity shares that is possible, but not very common in India I think only TATA motors has a to a dual class of equity shares, I am not even getting into that aspect as of now I do not want to confuse, but the all equity shares are the same.

There is no preferential equity share; preference shares are different equity shares are different you increase the authorized capital you basically do a private. I want to give a preferential right to my promoters to pick up an equity shares and invest more money that is what I basically would have done in that particular case am I with you on this? Now we move on out here.

If you move on out here, I will move into the asset side of the balance sheet that is this is the top portion of it. We look at the asset side of the balance sheet there is what is called as non current assets some balance sheets will keep it as its page number 196 Ma'am, some of the annual reports will call it as fixed assets here this are non current assets anything its a basically.

If you look at property, plant, equipment, capital work-in-progress, intangible assets I am going to stop at that, I am not beyond that we will look at it later. Then what is called as property plant equipment you do not know what is the value of each, what is the value at which it was brought, what is the depreciation per year, how much have you sold etcetera. Now you look just look at schedule 4 page number?

Student: 210.

210. If you look at page number 210 can be little confusing let us sort of try and understand that. Though forget about the first part of the table look at the second part of the table. The first part of the table what does it give you? It just gives you that plant property and equipment consolidated figure is there it just gives you a split up of each of the house that is how much of it is in freehold land, how much of it is in leasehold land, how much of it is in building, how much of it is in plant and machinery, how much of it is in electronic data processing equipment, how much of it is in vehicles etcetera.

And please note the vehicles mentioned here is not for this is Maruti Udyog not the vehicles which are finished goods stock. Please note these are vehicles which are owned by the company for their own purposes there is slight difference there. Now come to the second part of the table; second part of the table is where the challenge is for you. When I say challenge is for you leave the first 3 or 4 rows out there move to what is called as the balance as of March 31st 2017; 3 4 rows you can skip and look at balance as of at March 31st 2017.

There is what is called as a freehold land, there is a leasehold land, there is a building, there is a plant and machinery etcetera all the aspects what you saw before are out here. Now what is the addition that is made during that particular year? What is the disposal of the adjustments? What is this adjustment? Adjustment could be because you are scrapping some things disposals and adjustments during the particular year out there.

Then what in the balance as of 31st March 2018 and that balance is what we call it is the gross value the original value at which it was basically purchased. To that you have what is called as accumulated depreciation; when you say accumulated depreciation part of it you again leave the three four rows and look at only decrease in expenditure for March 2017 that is balanced as of March.

2017 out there, there was what is the this was the balance as of March 31st 2017 in depreciation at just look at that row that is the accumulated depreciation on each of these particular fixed asset till 31st of March 2017 am I with you on that? Now I say depreciation for the year that is what I am adding that is for the year 17-18 because the balance sheet what we are looking at is for 17-18. Abdul any problem?

Student: Sir which row are?

Which row are we looking at? There is what is called as there is an head called as accumulated depreciation and impairment.

Student: (Refer Time: 23:01).

In that look at balance as of March 31st 2017 depreciation that is charged on that particular asset till 2017 31st of March. The next row immediate next row any questions coming up please note.

Student: No sir.

Immediate next row yes please you missed out.

Student: No.

You are.

Student: Probably the depreciation happens for leasehold land.

Which one?

Student: There is a 5 million.

Student: Depreciation for leasehold land.

Leasehold land can have depreciation sir lease hold land can have depreciations in the sense of the kind of lease its a long term 99 year lease etcetera and the building part of the building part of the land could come with some kind of what is called as your it could be maintained, it could be what is called as you could have a pathway out there and everything. There could be depreciation part of it that is very it is very very small in that ways not exactly huge.

Now, depreciation is expenditure for the year that is depreciation in expenditure for the year is there. Next out of it after that there is what is called as the depreciate disposal or adjustments. What is this disposal or adjustments in depreciation? Imagine, I have a particular asset out here.