Decision making using financial accounting
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Lecture – 32
Recap week 1 to 5

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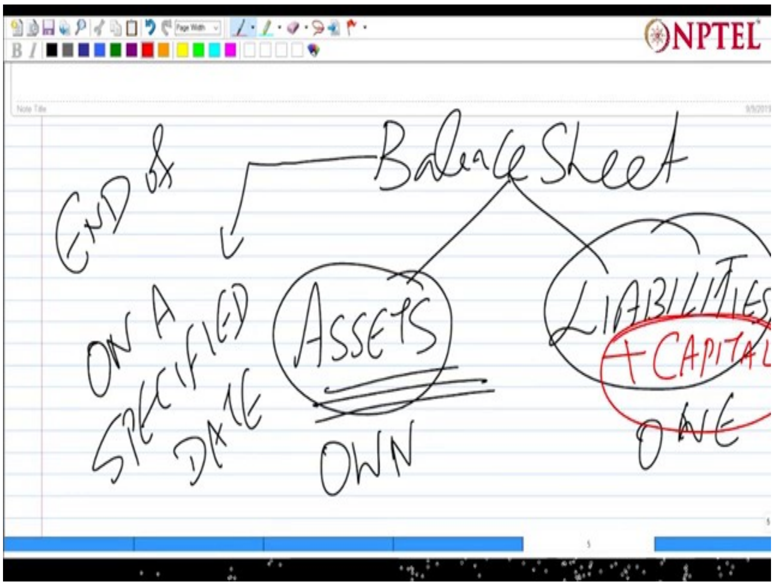

So, what we basically. I think now it should or it should (Refer Time: 00:54). And what we own basically is what we typically call it as an asset, what we owe basically what we typically call it as the liability. And when we talk about a balance sheet, I is basically said it is always as on a particular date on a specified date because when we why do we say that on a specified date out here, ok.

Because every day your position financial position basically keeps changing. So, when every day the position keeps changing that is when I say it is on a day its basically at the end of that particular day, end of that particular day is what we call it typically as what we call it as a balance sheet, ok. So, then we will take some examples. We will take some examples and run through it before we given move into the doubts what are filled out here.

Whereas, when we sort of move on further what do you call it as to as a profit or loss statement in this particular case, what we call it as profit or loss statement or profit and loss statement.

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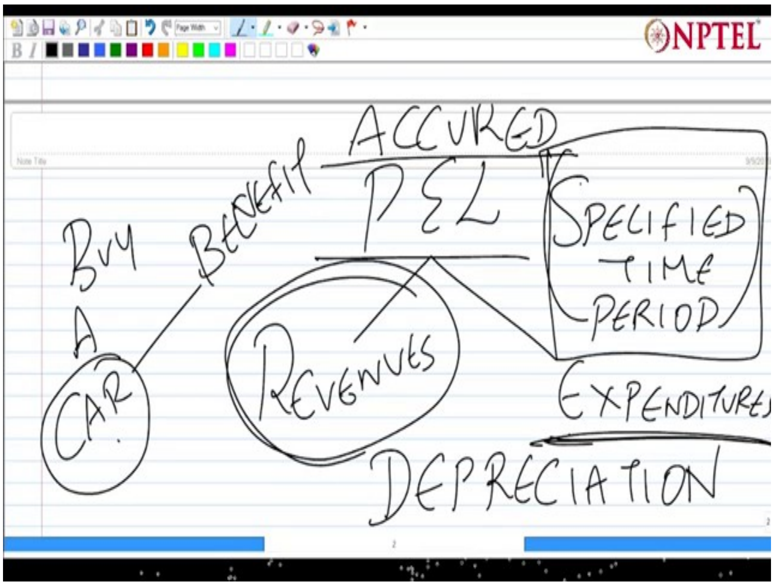

I think there were some people who are like this. Why should it be call it profit or loss statement? Why should we call it a profit and loss statement? It is basically profit and loss statement that is what the because it gives you the statement what you call it as gives you what is called as at the end of the day a profit or a loss that basically you finally, arrive. That is what we call, that is where we normally say that what is called it is a profit and loss statement.

In the profit and loss statement, we look at only two aspects out here. We look at basically revenues, we look at expenditures out here. But the most important thing in this particular case is we look at revenues, we look at expenditures, but these revenues and the expenditures should pertain to the specified time period, specified time period for which you are basically what you call it as preparing what did we say this financial statement, this profit or loss statement. It could be a time period of a month, year, etcetera, etcetera, etcetera out there.

So, that is where that is the core difference when we say between P and L and a balance sheet. Balance sheet is what you own and what you owe, this is basically between what do you call it as, what do you call it as a revenue and expenditure for the specified time period during which for which you are preparing the profit or loss statement out there.

Now, moving further from here, I am just doing a quick recap of what all we did it let me repeat. I am just doing a quick recaps recap of what all we did so far. So, now if we to move further than this for example, normally the kind of questions that I have encountered some of the doubts that I have encountered is supposing I buy what do you call it as I buy a car for example. When I buy a car why is it not treated as an expenditure in the P and L state, that is a kind of a question which I have actually seen in the kind of doubts that are been asked.

Please note when you buy a car, please understand the use of the car is going to be beyond this specified time period what you are basically indicating. Beyond this specified time period what you have basically indicating. So, what happens? So, the is entire expenditure pertaining to this specified time period basically no because the benefit of these expenditure.

Student: (Refer Time: 04:50).

Benefit of these expenditure is way beyond the specified time period. So, what do we do? We basically charge only that portion that is used in this particular specified time period. So, that is what we call it as depreciation, that is what we typically call it as depreciation. When I say depreciation, what is depreciation? That is depreciation is the value of the particular asset that has been utilized in this specified period out there.

The rest of the asset, value of the asset is not utilized. You buy an automobile for let us say about 10 lakhs out there, use it in the first year you feel that it is usable for a period of 10 years, you use it in the first year then what happens 1 lakh worth of that automobile you are already utilized out there. So, remaining 9 lakhs worth of that automobile is still value is still there and it is owned by you that is why what happens is if that 9 lakhs automobile will come and sit as basically your asset then this particular case, that 1 lakh worth of automobile that you have utilized will basically go as depreciation as an expenditure out here.

I think I am clear in this particular explanation of why these thing, these particular a, these kind of expenditures basically do not what you call it as do not basically get treated in what you call it as an expenditure in the P and L statement. Am I clear? Is there any doubt? Prateek is there any doubt? Anybody is coming up with any double you please tell me. If nobody is coming in we can just move ahead in the process out there.

Student: (Refer Time: 06:40).

I am that is fine, (Refer Time: 06:42). Now, the third basic aspect, what we third basic statement then we will take up some transactions also try and see (Refer Time: 06:49) and then we look at the doubts, ok.

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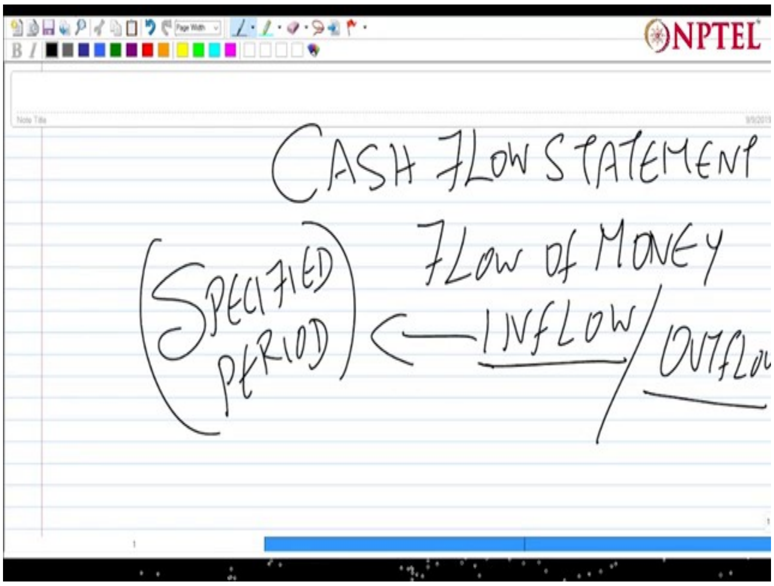

We will train, see will take up some transactions. If you actually see this, in this particular third statement what we took at, in this particular case is what we call it as the cash flow statement. When we talk about the cash flow statement, we look at the cash flows in under 3 broad heads out there. That is please note when we talk about, talked about in the earlier case when you talked about revenues does not mean cash flows; revenues does not mean cash flows at all. That is revenues mean, that is revenue as what you call it as I think I use this word.

Student: (Refer Time: 07:37).

What you typically call it as accrued during this particular period. Accrued means it is may it has accrued, but I have not received this (Refer Time: 07:46). It is accrued, I am not received, I might not have received. I will not say rather than say I have not I would say I might not have received this particular (Refer Time: 07:57) out there. So, that is the difference.

Whereas, when we talk about the cash flow statement, cash flow statement we talk about the basically what you call it as we basically call it as the flow of money. When we say flow of money that is we call it as inflow of money and what is called as outflow of money. We call it inflow of money and outflow of money. Now, when this only talks about inflow and outflow of money, again for a specified period that is during the year, during the what is called as whatever it is worth during the time period whatever money that has come in, whatever money that has gone out irrespective of the purpose out here, irrespective of the purpose that is their basically what we talk about inflow and outflow out here.

Please you can ask me any doubts what you have so far in that particular course out here. This is basically live session, so that we can interact and then I can clarify any specific terms out here. Now, this particular is when we talk about what we call it as when we talk about, when we talk about cash flow statement out here we are looking at; what is the aspect we are looking at when you said inflow and outflow?

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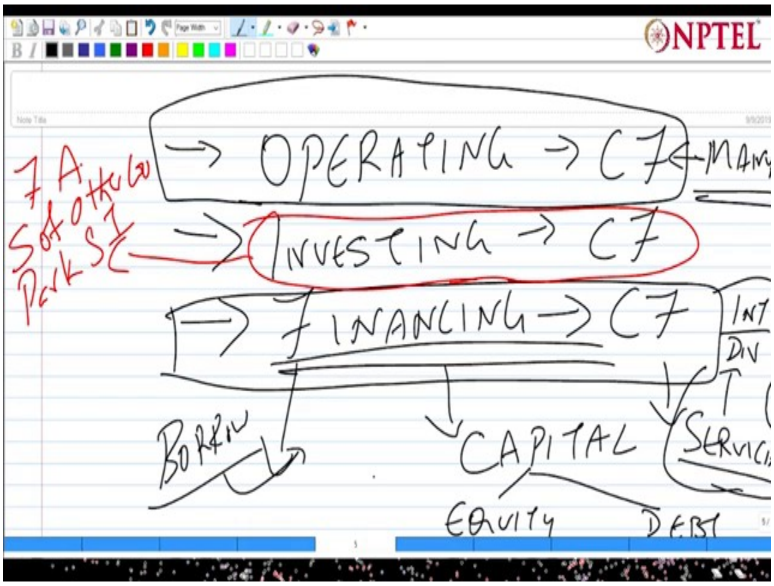

But if this inflow and outflow are also classified under 3 basic categories that is the first category what we classified is what is called as the classified under, what is called as operating, operating cash flows out here. The second category I basically want to classify is what we call it as investing cash flow, investing activity. The third basic category what we talk about is what we call it as financing activity leading to what is called as your cash flows out here.

These are the 3 core activities under its basically your cash flows are what you call it as divider or basically what we call it as that money that comes in and the money that goes out at this statement. When we talk about operating it pertains to any money receipt or paid with regard to your core operations, core activity. Mean, supposing you are a manufacturing enterprise any money that comes in or goes out because of what you call it as a manufacturing activity will all basically fall into.

Now, when I talk about financing activity out here, any money that is basically money that is coming in as what is called as in for example, in the form of capital, when you say capital out here I mean both equity I mean also what is called as debt. Debt means any long-term the borrowing etcetera. Any of these; that is any money that is coming in and going out.

Repayment of debt as a cash outflow because of a financing activity, that is money coming in and going out related to what is call it as capital or what do you call it as servicing of this capital. When I say servicing of I think when I say servicing of this capital out here I mean to say for example, you pay what is called as interest, you pay what is called as dividend, etcetera. All these aspect what we are servicing when I say servicing on this capital out here.

All these (Refer Time: 11:34) that is that is what we are trying to say your business itself is being financed, your business is being funded by somebody. That is the money that basically is being paid out or collected with regard to funding is all what we term it as basically what we call it as the financing cash flows out here. I think I am very clear on that. Now, the third basic aspect what we looked at is what we call it as typically as in this particular case, I am going to use a different color if I am seeing; I am going to give the I am going to see its basically what we call it as investing cash flows.

Now, what do you mean by this investing cash flows out here? I am going to write on this part of the, I am going to write it slightly out here. When I talk about investing cash flows out here I specifically mean to say that wherever you are basically spending, that is where you are investing you can invest in what is called as a fixed asset of the company. You can invest even in what is called as shares and securities of other companies out here.

You can invest in what is called as you can invest in basically what you called as you can park the money for any short term investments. All these aspects out here, all these aspects out here well basically what you call it as what all these aspect basic all they listed, when we say listed means if it is listed the any of these stock exchanges in the country, any of the stock exchanges in the country then it becomes what you call it as mandatory that is all the 3 statements becomes mandatory at the end of every financial year. I hope I have cleared a doubt what you basically have.

Now, I sort of continue somewhere. Virat you can you just reduce the temperature of AC, because it is too hot, too warm for me. Now, move on further these are basically what we call it as the basically what we see is the 3 financial statements what we have basically seen out here. Now, I will look at what you call it as let us keep the cash flow statement aside for the time being. We will take up one problem from the textbook that is I think most of you would have thought this textbook by what you call it as Anthony and Hawking.

This is one of the older edition what I have. I think you guys might have one of the recent edition you guys might have, a recent edition. I have a slightly older edition out here but that is ok. That is the textbook which we follow for what it is called as basic accounting and that has also indicated right in what do you call it as, that was also indicated right in the outlet.

Now, the other doubt I have from Vaishnavi (Refer Time: 14:27), it is a net worth part of cash flow. What is net worth? Net worth is the money that belongs to be shareholders. Now, where is it that value that belongs to share? Now, where do we see that what is called as the value that belongs to the shareholders? The value that we see that belong to the shareholder is basically you will see only in what is called as your balance sheet out here, when we talk about what do you call it as, when you talk about; when you talk about what you call it as.

Student: (Refer Time: 14:59).

When we talk about balance sheet out here, we basically no do not move, in this particular case. When I talk about balance sheet out here we normally say liabilities plus basically when we you are moving, I am moving it. So, do not worry, I will take care of it. Now, it is basically what we call it as liability plus capital. When we say liabilities for capital out here, capital is the money that these people have contributed to the business out here. Let me just giving you a brief about how does a balance sheet look like. It, basically a balance sheet will look like these kind of an aspect out here.

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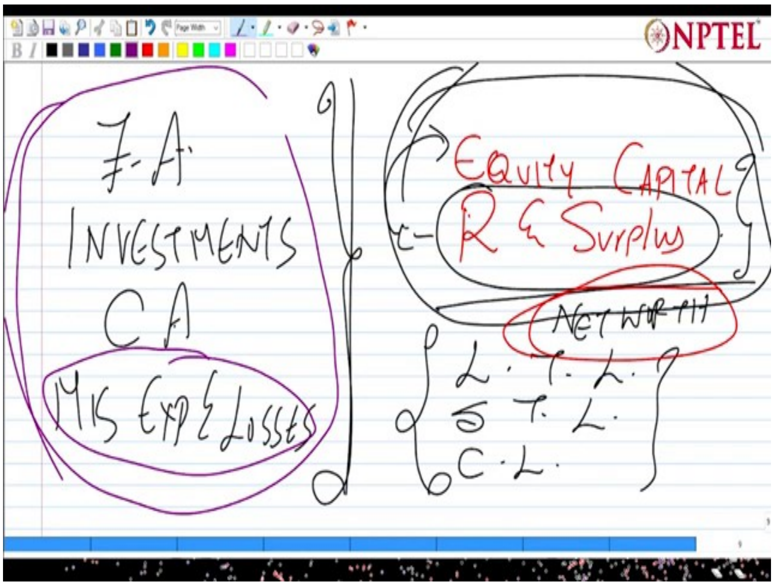

Now, the first you have what is called as equity capital. Then normally you would prefer to have what is called as reserves and surplus. What is reserves and surplus? Reserves and surplus is nothing, but it is generally the money that basically belongs to the shareholders out there. What is the money belonging to the shareholder? All the money that is basically created out of the profits of the company.

All the money that is basically created out of the profits of the company basically is what is called as your, a reserves it could be in various forms out there. Now, these two constitute what is called as net worth of the company. Beyond this your other liabilities, you might have a long term liability that is which it is could be in the form of a loans, etcetera from the banks and financial institutions etcetera, you could have other short term loans out there, you would have current liabilities out there and so on and so forth out here.

Now whereas, when we look at the asset side part of it you normally have; you normally have what is called as fixed assets out there. Then next you have what is called as investments out here. Third what you have is you have what is called as a current assets out there. And fourth of course, as I told you is basically miscellaneous expenditures and losses I will explain about this also in the few minutes now.

Now, what are we trying to say? If I sell all these assets and generate the money what I indicated in the balance sheet we have all these liabilities what I have indicated out here. What is the money left? The money left will be basically this particular amount out here that is the equity plus what is called as results and surplus totally and that is what we basically call it I basically call it as a net worth of the enterprise out there. I hope I have clarified this particular aspect out here.

We move on further. When we talk about in this particular case, I was talking about cash flows out here. If you have any other doubts you can just keep asking and I can see and then I can try and see if I can clarify also as we go along the process out here. Now, if we further if we move further in this particular case out here, let me do one thing, let me take couple of transactions out there and try and see how most of these will or basically getting affected or what we did with an excel. I am not going to use an excel, I am just going to use a simple dashboard out here and then I am going to do.

Now, I will say let us say we make a statement out here. This statement what I make let me say that I am making a statement saying that there is somebody who has contributed money into the business out there that is in the form of capital. Now, visualize what happens? That is now the business is a independent entity. Now, as far as the business is concerned the business will have to give the money back to the person who has contributed on the day you are basically winding up their business out there.

So, what is happening? Now, that it becomes that is something which is supposed to be given back out here, but not immediately, maybe at a later stage out there.

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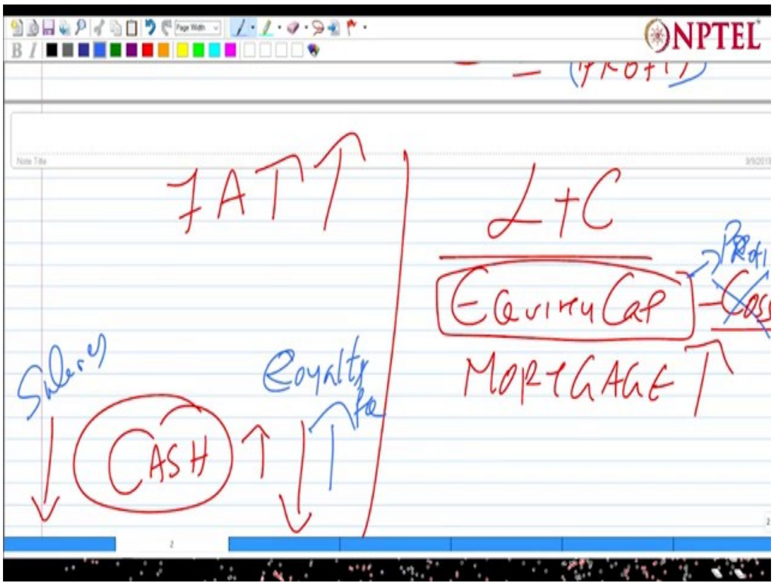

So, when will it said it basically will find a place in liability plus what is called as capital out there that whatever money that is contributed, let us say it is equity capital out there. What is happening the other side? There is cash that is owned by you. So, what is it? It is basically an asset that basically is there with you and the cash balance basically increases that losses out.

Now, the next aspect I do, I am sort of looking at using the cash, buying a fixed asset out there; I use the cash and buy a fixed asset. Then immediately what happens? My cash basically comes down out here and my fixed assets on the asset side increases out. Third statement I buy a fixed asset using a mortgage, using a what do you call it as a mortgage. When I use a mortgage and then what is the mortgage? Mortgage is basically a borrowing that I have had.

Moment I had a borrowing then what happens? My liability that is what do you call it as my liability basically enhances out there. Now, what happens? You bought another fixed asset out there. Now, what happens? The fixed asset again increases, your liability, your asset out there, that is basically what is the kind of interactions that we talking about. Now, how does it; how does it affect when there is what you call it as if there is what is called as an expenditure out there?

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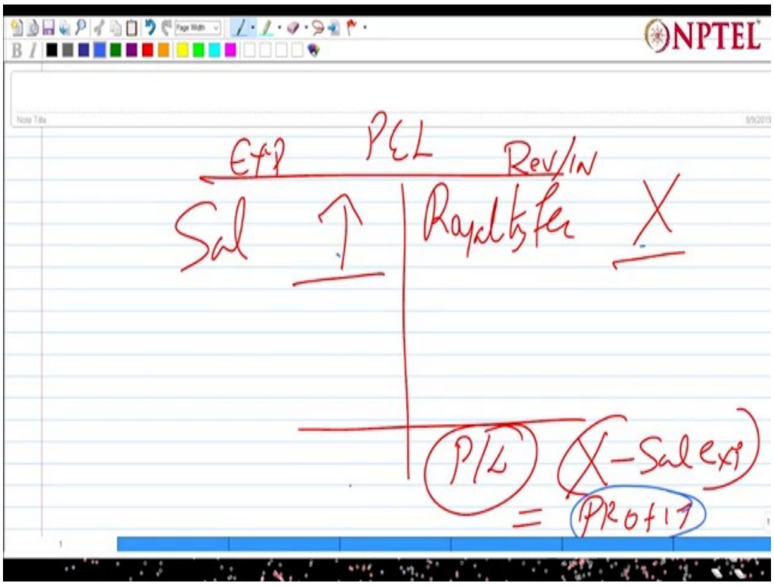

Let us say I pay salaries let me look at what is called as a P and L statement out here, I pay salaries out here. I am in plucking about all revenues out here or income I am talking about all expenditures out here, in this particular case out here. Now, supposing I pay salaries to my employees out here. When you pay salaries your employees out there then what happens? There is an expenditure is increased.

If expenditure is increasing whatever your profit or a loss out there these particular case basically the money and there is no revenue in this particular case. So, what happens? Whatever I make is basically a loss out. This loss is to be borne by whom? This loss is to be borne by what is called as a equity provided or their capital will basically come down to the extent of the loss that basically is cut out there.

When you pay the salary, your cash balance also comes down; please note your cash balance comes down that side. To the same extent what happens your capital expenditure, capital also comes down to that same extent supposing there is no revenue. These example what we took there is revenue is 0, there is only one expenditure that is salary. I have paid, then I have paid salary; that means, my expenditure is more than the income whatever incurred is basically a loss.

Now, if I move further what happens? Move on when I pay paid salary what is happened? My cash has basically come down in the process. So, what happens to the loss? Loss is borne by whom? Borne by the equity provider the capital. Capital is basically reducing in the process. So, what happen? They extend to with your cash has gone out, your capital has reduced in the form of flux. So, what happen? Your balance sheet will automatically get taken care of is it will get balanced in the process out 3. Am I communicating? At the stage if you still have any doubts you can come back. I think this branch is part is like let us take one more example.

Supposing, I say, I get what do you call it as a I get something like a fee, a what you called as a royalty fee, I get a royalty fee of about some X amount out here. And then I also see these expenditure out here the salary expenditure is far less than the X, so whatever the profit or loss is basically nothing, but X minus the salary expenditure what I have is basically out here.

Let us assume that it is a profit. Now, what happens? Moment you have received a consulting fee your cash balance as increased by the consulting a royalty fee. Cash balance has increased. Cash, but at the same time you have paid some amount for salaries.

Student: Ok.

So, it has increased by the net amount. That net amount is what basically what you saw is the profit out here. That net amount that is income minus this expenditure is the profit. Now, what does a cash gone up? Cash has gone up a royalty cut done by salaries; that means, the net increase it cash is only the difference between these two. Now, what happens in this particular case? I basically whatever is the profit that is the result at figure. Profit belongs who? Belongs to the equity holders whatever you do, I add it to the equity capital. Your balance sheet basically gets balanced in the process out there.

Yes, Govind you can any question you can ask me. I think I am clear about the P and L and balance sheet part. But this is all what happens is for (Refer Time: 24:23) P and L and balance sheet out here.

Student: (Refer Time: 24:26).

Nothing beyond that. We have to wait for a any question to ask anybody's on enlight with any question not there, ok. Now, let us do one thing, let us take up; I think there has been let us let me take up some of the questions that you have basically asked out there and I am just printed out most of these.

Student: (Refer Time: 24:45).

I will write the question, ok. I will write the question also. I will sort of write the question also at the process out here. Now.

Student: (Refer Time: 25:00).

Then.

Student: (Refer Time: 25:00).

You can go (Refer Time: 25:02).

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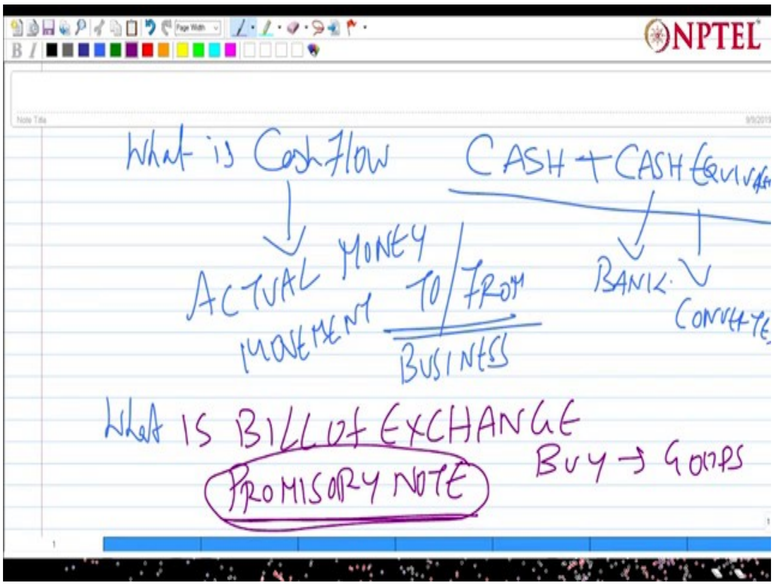

Now, I will go from the last question out here. Vaishnavi Sudheer, I think the question is what is a cash flow. What is cash flow? Let me explain. Cash flow is nothing, but the actual cash coming into the business and actual cash going out of the business. When we say actual cash we mean cash plus cash equivalence. When we say equivalent may be any amount that basically is there in the bank or anything which can be converted to cash easily. So, cash flow, what is cash flow?

Cash flow is nothing, but actual money movement to and from the business that is all, that is all what we call it as a typical cash flow, ok, fine. Now, I go to the second question out there. I want to clearly know what is bill of exchange that is what does it say, it says I want to clearly know what is called as the bill of exchange out here. Let me just add one more pay out here, what is bill of exchange? Let me change the color further.

What is bill of exchange? Bill of exchange if you actually see this in this particular case, it is what we call it as a promissory note. You just take a currency note, when you take a currency note and actually see it what does it say? The currency note says if you have the current note in your pocket you can just pick it up and see the currency note just says I promise to pay the bearer that so on so amount that is whatever is the currency note depending on the kind of currency note what you have. It is basically nothing, but bill of exchange is basically a promissory note.

Now, when does it happened? Now, I imagine I buy what is called as goods out there on credit. I buy goods and credit, I do not pay the person, I am buying on credit because I buying on credit I give that person a promissory note a promissory note which indicates that I will pay so and so, whoever from whoever I am buying, the amount that is specified for the purchase of this goods and the date that is also specified for their particular.

That is I give you a promissory note saying that I will pay X amount for the purchase that I am a today on with the date that is it is you. That is what is called as the bill of exchange.

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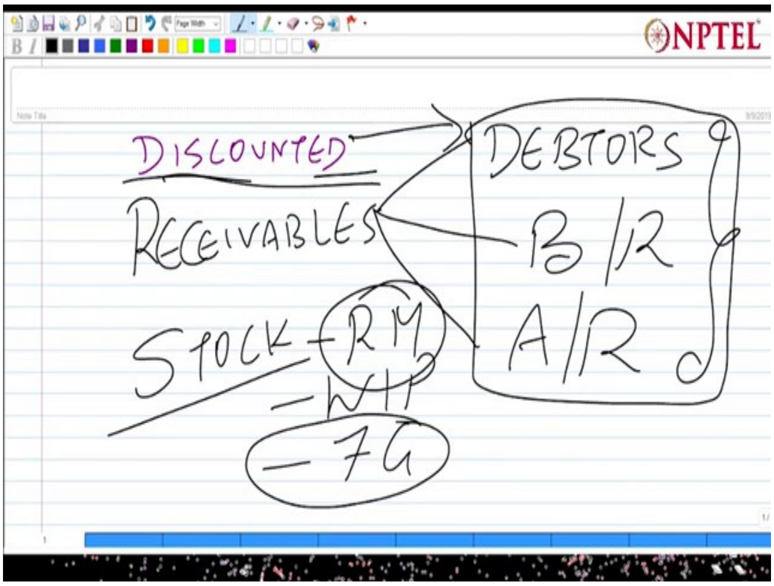

Now, what is the use of this bill of exchange? This bill of exchange itself if you actually see this bill of exchange itself can basically be what we call it as discounted. When I say discounted, what do you mean by discounted? Discounted means I can take this bill of exchange and then go to the bank, when I go to the bank and then I can discount that is supposing I say I have a bill of exchange, where I am eligible to get the money on 1st of October, that is almost about close to about 20 days on today, 20 days from today etcetera. I need the money as today and the bill of exchange is for about 1 lakh rupees.

I will go to the bank today and then the bank will take that as a guarantee that is they know that a 1 lakh is going to come to you on October first keep that as a guarantee. And give me some money out there. They will not give me 1 lakh, they will give me say suppose 95,000 or 96,000 that 4,000 less they are giving that is basically for their financing out there, giving me the money today. But they are know, when are they going to get the money?

They are going to get the money when the person pays on 1st of October that is what we call it as discounting. I get them, I give the bill to the bank, get the money as of today, some money, little less than what is the money that is basically I am eligible to get on the bill out there that is what we call it as discounting. Can you read? Can companies issue promissory notes?

Student: Newly (Refer Time: 29:44).

Newly updates.

Companies can issue promissory note, but again there should be taken for promissory notes, that is can issue a promissory note they should be taken for. As long as there are taken for promissory note companies issue promissory notes and they do issue promissory notes also. That is what we call it when you talk about bill of exchange.

Student: There is one more question.

(Refer Time: 30:03).

Student: Miscellaneous expense is not imported net worths and reserves, they reserves in two miscellaneous?

No. Where does miscellaneous expenditure and losses occur? If you actually see this balance sheet what I (Refer Time: 30:14), I think I do a balance sheet somewhere out here in this perfectly case out here. I think let me just take this whatever it. Where does miscellaneous expenditure and losses come out there? This entire thing out here, this entire thing miscellaneous expenditure and losses is basically unamortized. The amount that is not utilized that is yours c k, what would be (Refer Time: 30:37), let me take an example.

Supposing, you spend about 10 lakhs on an advertisement by launching by getting a movie stuff and you are feel that the ad will have a life for 3 or 4 more years out there, 3 years out there. Now, at the first year what part of the expenditure that you are spent on the ad you are talking to (Refer Time: 31:02) there is only one-third of it because the ad is a life of 3 years out there.

The other two years expenditure amount what you have basically spent out there, the amount that you have spent out there it is already spent, but the benefit of that amount is not derived at. So, what happens? That will sit under the head miscellaneous expenditures and losses and it is basically owned by you still it is an asset out there. It could be you know for example, tomorrow you might sell the company, when you sell the company, the purchasing company can still use this at out there, possible. So, it is basically part of asset. It is nothing to do with your liability part of it. Am I with you on this?

Now, we move on to third.

Student: (Refer Time: 31:43).

Question out there I am just going to skip one of the question, because which is out of the purview of this course that is how to write a good research paper on classification shifting. That we are not talking about writing research papers out here, because we are talking about what do you call it as a basics of accounting, basics of finance is out here.

Next question: how do you how to take strategic decision in financial matters out there. Strategic decisions in financial matters has a lot of again it is out of the purview of this particular course out here. It is a decision making, but what we do is we do basic decision, in terms of ratio analysis etcetera.

Strategic decision making will involve lot of aspects out there. When I say lot of aspects out there it is basically we look at what you call it as the future cash flows and a whole lot of thing. That is part of the next advanced course which possibly I will be teaching hopefully. The next doubt I have from Mister Pramodh, for which capital structure is good for a company; how to identify promoters as well as manage as well or promoters very well managing the capital as debt is cheaper than debt is cheaper than capital (Refer Time: 33:02).

To be very I will try and answer this question certainly yes, but to be very precise that is not what is this course is intended to, sort of talk to you about. If you actually see this, we talk about when we talk about what is called as capital structure decision though that is not directly part of this course.

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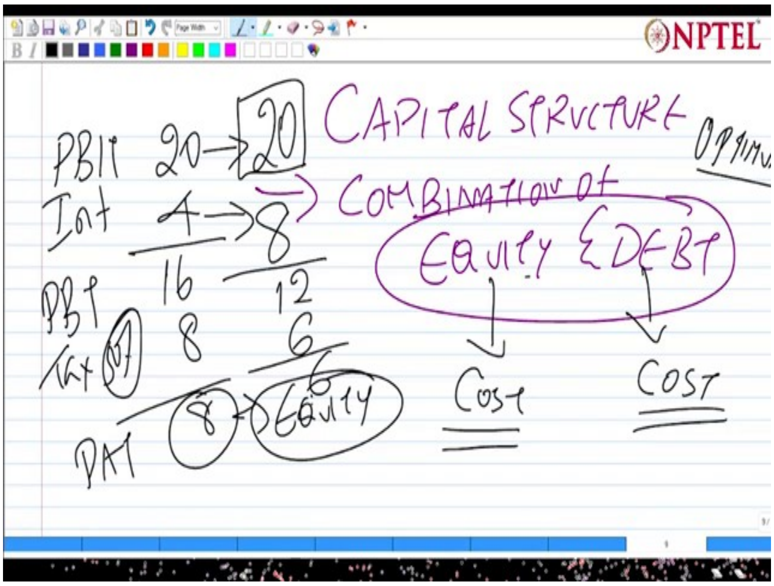


Capital structure is nothing but a combination of what you call it as equity and debt out there. You got to have some combination of these equity and that which is basically what do we call it as is the correct combination out there. Why do we need to get the correct combination? Please note: equity has also has a cost, debt also has a cost these cost will vary with the percentage of debt and equity in the business out there. Why does it vary? Give you one simple very simple example.

Now, supposing I have a company and I have my profit before interest and taxes 20 dollars out here. And I have a debt in the capital structure and I have what is called as the interest in the capital structure; interest because of the debt that I have I have my interest as about 4 dollars out here. Then, imagine 16 dollars is profit before tax out there. Let me say tax at 50 percent, for ease of multiplication I called it 8 and then tax versus 8 dollars is 8 dollars is what do you call it as profit after tax belonging to what is called as equity holders.

Supposing the situation changes out here. I take more debt in the company, I think I change the capital structure, I take more I need more money I need to raise the capital expand my business when I need to expand my business I take more debt in the capital out it. If I take more debt in the capital out there if I take more debt out there then what happens; your cost of debt will your debt payment will increase that is interest payment will increase out there.

Supposing what will the interest payment? The interest payment imagine moves basically to 8 dollars out there, because you are doubling the debt out there. And, imagine for the time being the worst case scenario will earn the same amount of profit. Because, moment you bother next day the money is not what you call it is your business is not going to grow it is going to take some time. You are borrowing today I am going to put up a plant and then its going to grow, so it going to take some time.

So, imagine if for a hypothetically if the worst case scenario if you try to earn the same amount of profit then what happens. Basically, your you get 12 dollars out here you pay a tax of 6 dollars and then how much the equity holder gets equity holder get 6 dollars out there. So, what happens? The risk of the equity holder keeps on increasing one step in their business and the capital structure some increasing out there. The risk for the equity holder keeps on a why that is earlier case you got 8 dollars now he is getting the 6 dollars out there.

Why because, the debt holders earlier were getting 4 now you have doubled the debt and they are getting 8. They are not taking any cut out there. There is for the equity holder keeps on increasing as capital such as keeps changing. So, that is way what we normally say there is a cost out there; cost for debt cost for equity. When I talk about capital structure we look at such a combination where this particular cost a equity and debt is kept what is called as a debt optimum.

Now, how to decide what is the kind of, what is the best capital structure for the company etcetera all that will get decided based on the company you are basically analyzing. And that, we are not getting into it as of now because that is not part of this particular course out there, fine. Now, any doubts, any other doubts, like, ok.

Now, I go on to the next couple of doubts out there, ok. Now, I have doubt from one Mister Amit Kumar. He says I have a doubt in 2 and 3 answer responses; which in. Working capital loan from a bank is a cash flow from what activity when I talk about loan that I am taking basically what am I trying to do in this particular case out here let me go to a cash flow statement out there; that means, just go to cash flow statement out here.

Let me go to the cash first. When I take a, when I normally take up what is a working capital loan out there when I take up what is called as what am I doing? I am doing financing activity out there that is I am borrowing for what do you call it as to take care of my what is called as financial needs, my capital needs out there; that means, also there. When I am borrowing to take care of my capital needs in the business in the entity out here, what I am trying to do? I am basically there is a cash flow from what do you call it as typically if financing activity.

Some textbooks, let me make that very clear, some textbooks could possibly treat it as a cash flow because of an operating activity because purely the money is getting used for operations etcetera. But strictly if you look at it working capital loan it is a borrowing. Borrowing means it is you might be using it for operation. Supposing, you have a very high equity capital in the company surplus equity capital in the company then the question of borrowing itself does not arise in the process out the question of borrowing itself does not arise in the process out there.

So, in that particular case what happens? If the question of borrowing itself does not arise in the process then there may not be any working capital because of your capital structure changes that is may you are looking at what you call it as borrowing out in this particular case in this particular case. So, that basically is what we call it as cash flow from what is called as financing activity out there.

Student: There is a doubt.

Student: (Refer Time: 39:26).

Student: Immediate (Refer Time: 39:28) from substitute company.

Student: Which I go back to you give this.

I will tell that. In a (Refer Time: 39:34) go on doing its fine, it is ok, that is fine.

Now, I have one more doubt before I continue with this questions out here of Amit Kumar let me (Refer Time: 39:44) out. Dividend received from subsidiary company. What have you done in the subsidiary company? Why do you receive dividend? Because you have invested capital in the subsidiary company. When you have invested capital in the subsidiary company what is activity it is? It is a cash flow from investing activity when you receive dividend on that particular on that particular investment, what is it? It is a cash flow again from my investing activity alone in the process.

Now, I move on further. I think Mister Ramith I have sort of explained you have given a logic and I have sort of given explained it. Now, let me move to the next question out here. Interest, mean and debentures is dash activity is again a financing it is basically (Refer Time: 40:38) financing activity out here. You said that it is an operating activity because what do you call it as a because it is used as trading securities etcetera, etcetera, etcetera, etcetera.

Now, debenture is a capital structure decision please understand that. Debenture is what you call it as a capital structure decision. When I talk about it is a capital structure decision out there that is your company might have equity, another company might have a might have debentures, some company may not even have any debentures might have all the equity. So, what happens?

That debenture itself is coming in purely because of what we call it as a financing is basically because of the capital structure decision. More to you talk about a what you call it as a capital structure decision it becomes part of my financing activity and financing activity alone out there. Third question what do you have as out there company has opted for stock repurchase. This is cost about some amount of inr 100, 1000, 100 lakh INR what you have given out there to the company.

Then cash flow is treated as cash flow from cash activity out here. One, in this particular case again what are you trying to do out here, that is company is opted for a stock repurchase out here company adapted for the stock. Now, when you are talking about a stock repurchase you are basically not investing in your own company out there. So, you are purchasing this particular all the money all the money all these stocks out there.

So, basically what we are looking at? You are looking at more and more from the financing that is your basically your in this particular case I borrow and then buy it then basically it will become part of my financing activity this particular. Now, I have the last doubt. Any doubts this.

Student: Once the venture joint venture.

Student: Co-venture (Refer Time: 42:31).

What is nature of joint venture and co-venture account? Basically, joint venture I mean joint venture in the sense joint ventures I do not understand in what context. You are talking about in accounting context or which context I am not very clear about, that where we context, ask up that and then I can clarify out there.

Now, the third question out here what we see if the last question out here in the doubts that we see is we consider stock of goods is non with a set and receivable is with current asset. In actual practice do we really find receivables from customers in the balance sheet of any good company, many good companies do business and cash or advance basis. So, sometimes customer advances are formed. Secondly, stock can easily be sold out or saleable at a saleable price, but the task cannot be received equally. So, how can it be a quick asset?

Now, please note there is there is that is there is a I can get up a sheet out here. Please can you ensure that it is there? Thank you sir. Now, if I sort of look at it. Please understand there is a lot of difference between these two. Every good company will have what is called as you have said no good company will have what is many good companies in business do on cash or advance basis. Please note good companies will also have what is called as receivables.

These receivables will be termed as what is called as it could be what is called as debtors. It could be what is called as bills receivable. It could be accounts receivable every come; today no businesses are never done on cash basis out there. There are some very very few businesses which basically get down on cash basis, most of the businesses will always be on credit out there and that will all have this particular component out there.

I they do not have this particular component what they do is they do what is called as discounting of all their receivables out there whatever money that they ought to receive they are basically discounting it with the bank and then getting the cash. Every company will have what is called as receivables. Now, your argument, how can receivables not be what it be a quick asset whereas, when I call it as inventory, inventory is a non-quick asset that is what you have said the current asset and either non-quick asset it is not easily convertible to cash.

Let us take a very simple examples out. Suppose you are looking at Maruthi Hundai that is the example which we use. When we take Maruthi Hundai out here there can be 3 kinds of stock out here, one would be raw material stock, second would be work in process inventory, third will basically be finished goods stock out which is that which can be converted to cash very easily? If you actually see at the most maximum finished goods can be converted to cash easily.

Now, you say that stock can be sold at a saleable price. Supposing, I am inventory of lot of car shells out there that is the lot of shell of the car out there. When I say shell of the car I have what is called as the basic structure of the car, but without the engine. How will you be able to sell it? Will you be able to sell it? It is impossible for you to sell it. I am talking about any stage. For example, or I have an engine, I have tires out there, I have the shell which is unpainted, the car is not (Refer Time: 46:07) to the paint shop out there it is still in the body shop. Now, will I be able to sell it?

So, when I talk about inventory, when I talk about inventory, when I especially when I talk about work in process inventory number 1 it is never saleable out there. It is selling that work in process unless the job on it is completed is just not possible number 1. Number 2, when I took out the next aspect out here I next aspect out here I take is what we call it as raw materials. Even raw material inventory, in the sense it is not easy for you to liquidate raw material inventories.

Let us take a very simple example. Maruthi Hundai buy tires some MRR of Goodyear, Apollo etcetera for their cars out. Now, MRR, if Apollo, Goodyear are basically in the tire sales business out there they will have their distributor, they will have their retailers and then they will keep selling out perfectly, all right. Now, if Maruthi Hundai suddenly says I have a lot of inventory, I want to sell the tires out there to get money you are you do not have your distributors are not basically going to sell the tires out there, you got to looked at establishing another set of distributors for the tires out there.

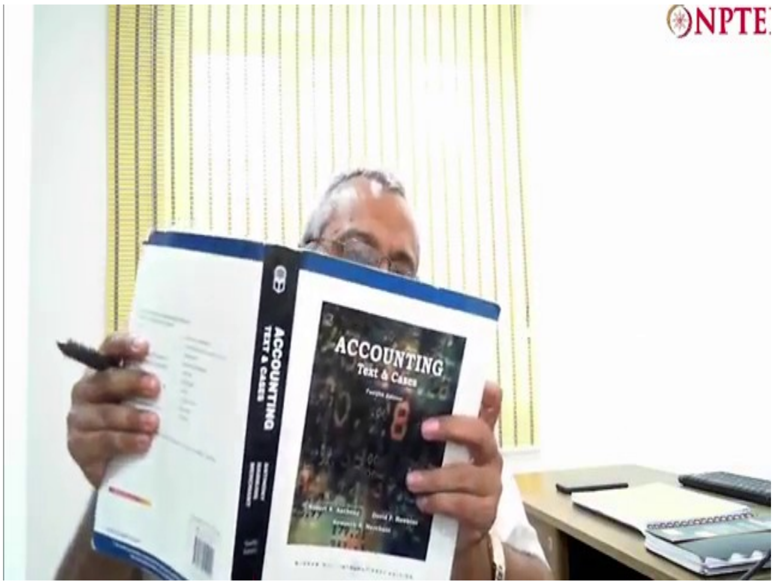
That is all that is basically is a challenge for you. So, liquidating this particular kind of a asset out there what do you call it as the inventory out there becomes a real challenge. So, what happens? That is where we normally say that is where we normally say, what we normally say is we say that inventory is always basically what we call it as is a sticky asset out there in the process, whether it is work in process inventory or whether it is finished goods inventory.

They are all what is called as sticky process out there. The sticky process means the ease of conversion to cash is not possible. Whereas, can I collect money from debtors that is also equally difficult, I am not saying that it is it is possible, but you have one advantage. The advantage what you have is I can go ahead and discount all these receivables what I have. I think I have clarified almost all the doubts out there Prateek. I we have done it. We have done this.

Student: (Refer Time: 48:16) 11.1 is they are (Refer Time: 48:18) as well as (Refer Time: 48:18).

There is a we have clarified almost all the doubts out here.

(Refer Slide Time: 48:27)



Now, I go to what is called as exercise in cash flow statement that is what we call it as a in this particular accounting text book what I have, the chapter number 11 which is on cash flow. I am looking at what is called as solving this problem 11.5, that is where I think most of you had a doubt on problem number 11.5. We will spend some time on 11.5 and then we will basically try and see if you can pause the class out there (Refer Time: 48:48). Am I ready? I think you can just get it organized out there because I need to solve all of them.

Now, if you look at in this particular case if I sort of look at the problem number 11.5 out here, if I look at the sorry, if I sort of look at the problem number 11.5 out here let me just open a new sheet in the process. The problem 11.5 says the owner of a small business, I do not know if you have a textbook with you please open chapter 11 exercise number 11.5 I think we are going to do that.

It says that the owner of a small business has asked you to prepare a statement that will show you a where his firms cash came from and how it was used during the year. He gives the following information based on a general ledger out there. If there are couple of aspects what they have mentioned out here, one he says collection of accounts receivable, interest on savings account, sale of old machine, cash sales and then so on and so forth out there and then the list of entries which are basically called your access (Refer Time: 50:02).

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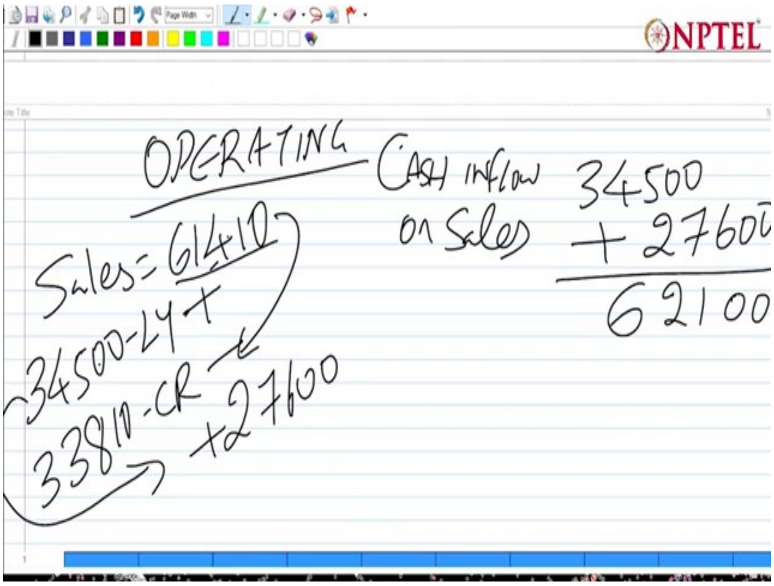

Now, can we look at in this particular case? They talk about direct, indirect, etcetera, etcetera can we look at what is the operating cash flows. What is the operating cash flows out here? Operating cash flows out here pertains basically to the core operations out there. Now, let us look at first, let us look at the positives out there. The statement says sales were to the extent of 61410 for the year.

They also say that collection from accounts receivable was to the extent of 34300 was there and then cash sales to the extent of 27600 was there. So, basically that is what we call it as money or what do you I would say cash flow, cash inflow on what do you call it as sales out here, total sales, that is on total sales will be nothing but 34500 plus what do you call it as money that is on cash sales out there that is 27600 was there.

Now, I am not touched upon the sales figure at all. Even if you can actually look at it, you can actually get the sales figure. Sales figure is it is about 61410 out there. The next statement it says accounts receivable decreased by 690. Now, what is the total of this? Let me put out the total of this out here 0 and 0 and then what do you call it as 1 and then 5 and 7 is 12 and then 3 and the 3 and 2 plus 1 is about basically 6 out there. Now, am I right with the total, Prateek, you keep checking.

Now, the next thing basically we let us go the other way around. What was sales during the year? The sales during the year was 61410 out here. Now, what are the receivables last year? What are the receivables last year? The receivables last year that is basically whatever is the amount out there, I do not know the collection from receivables. And receivables out there this year a collection there is what is called as this year, receivables is do not make 690. What are the receivables last year? Receivables last year was basically 34500 was basically the receivables last year.

Now, this year what is the receivable? This year receivables is down by 690. This is basically receivables last year, the current year receivables is it is drawn by 690; that means, you have received for about 33910, if I am not wrong. Am I? 34500 minus 690 how much is it Prateek?

Student: (Refer Time: 52:54).

(Refer Time: 52:55).

Student: 33801.

33810 sorry, 33810, it is 33810. Now, current year's receivables is 33810; that means, what I have received, what is the money?

Student: 810.

810. I have corrected it. I have corrected it. Sorry, I have corrected it, it will take 30 seconds to sort of show up there.

Now, basically if you actually see this what happens in this particular case out here? This is last year, this is the current here receivables. Now, let us see this. This is the money total sales, this is the money that you have received on the last years what do you call it as sales, this is the money that you have to receive on this particular sale of this year. So, on the sale of this year this is the money you have to receive. So, basically what is the cash received on this year sales? This minus this that is 61410 minus 33810 out there. How much is it sell?

Student: (Refer Time: 53:53).

61410 minus 33810.

Student: 27600.

27600 is basically what money that you have basically that is the cash sale out there. Then on this what happens? Last year's money I have basically which I have received indicated that is what gives you one 60, 62100 that is basically what we call it as typically your cash receipts out there. Now, operating part of it. Now, the next aspect out here in this particular case out here what is a cash outflow because of operations. Cash outflow because of operations is all the payment that you have made to vendors out there.

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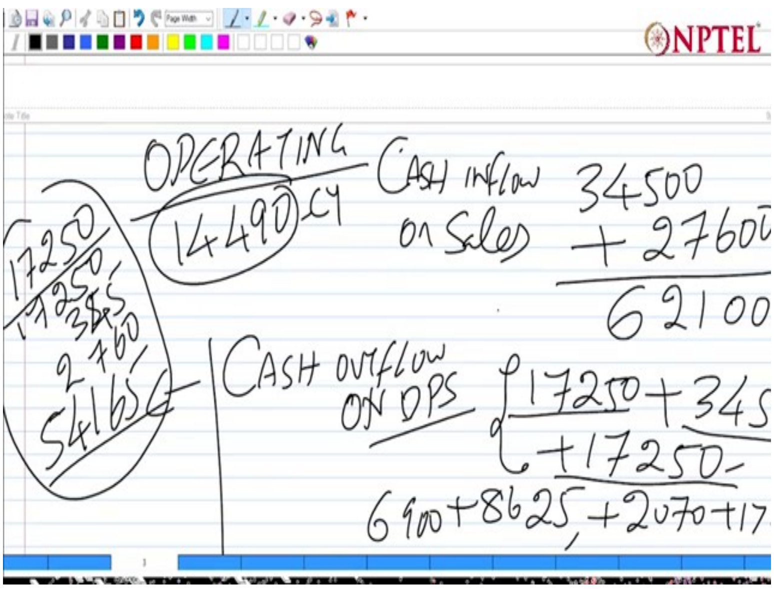

That is if I say cash outflow of on operations, on cash outflow on operations. The money that you have basically payment to vendors out there. The money that you have paid to vendors that is 17250 plus cash purchases supplies that is 345 plus cash purchase of what you call it as inventory that is an another 17250 out there.

Basically what happens? These 3 put together will basically constitute what you call it as cash outflow because of because of what do you call it as ops activity in addition to what do you call it as rent that is basically paid. What is the rent that is basically paid out there? 8625. What are the utilities that you have paid? 2070. What is the, what is the interest payment (Refer Time: 55:41)?

What is the miscellaneous expenditure in this particular case? Miscellaneous expenditure in this particular case what we call it as is 1725, sorry I think 1725. Plus, what do you call it as what is the next aspect out here? There is a part time help out there 6900 out there. There is nothing new on any of these things out here.

So, if you actually see this it says that it instead of all these to putting all these together if you read the point number 3 itself it says cash operating expenditures total 54165 which included cost of sale, supplies, rent, utility, (Refer Time: 56:29) help and other miscellaneous expenditure out here. Can I go to the big screen out here? All these put together he says his cash outflow in this particular case is 54000, 54165 out there, 54165. This account payable, increase, decrease, let us not even worry about all that out here. This basically is a cash outflow.

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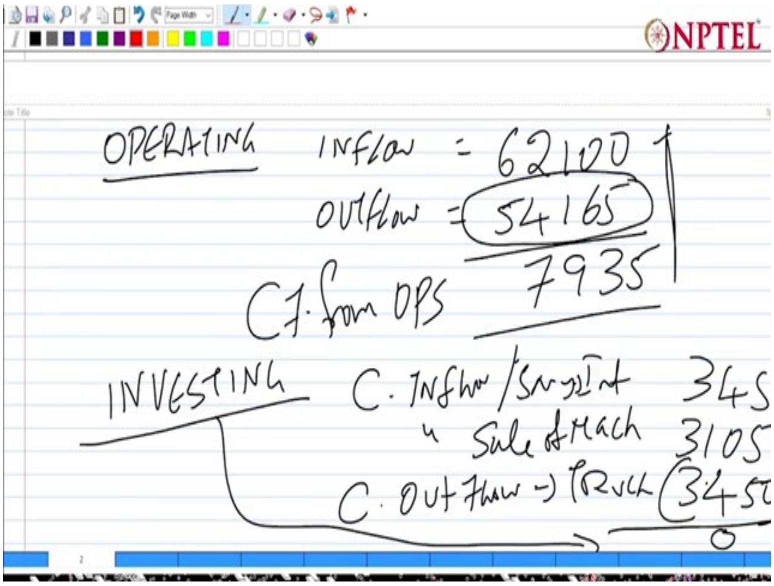

So, what is the net operating cash flows out here? If I look at what is called as the net operating cash flow out here. If I will say then if I say out here operating inflow is basically 60. What is the amount we calculated Prateek? Out here 62100.

Student: Yes, sir.

Outflow, we had what we call it as we had is about 54165.

So, what is the basic difference between this inflow and outflow?

Student: 79.

7935 is a cash flow from operations. Am I right? I think its fine.

Now, let us in order to look at the other basic aspects out there the other aspect. The other aspect is basically investing aspects, investing. The first and foremost, the interest on savings account 345 it is basically that because you have kept the money in the invested the money in the savings account, there is a cash inflow from what is called as savings account, savings interest out here that is about 345.

Next, when I talk about investing out there sale of a old machine 3105. You have invested in the machine, you sold the machine today that is cash inflow, from sale of a machine out there if I say that that is about 3105 that is also basically positive cash flow that is basically coming out there. Next, if I look at in the expenditure part of it there is what is called as down payment for a new truck 3440 that is when you make a down payment there is cash outflow for down payment of a truck out there 3450.

I am putting it in bracket parenthesis, parenthesis means a negative out there because that is a cash inflows. Now, what is the resultant figure out here? 345 plus 3105, 345 plus 3105 minus 3450. It basically resultant because cash inflow or outflow from what do you call it as; what do you call it as a what do you call it as an investing activity is nothing, but 0 logout that is cash inflow from an investing activity is 0.

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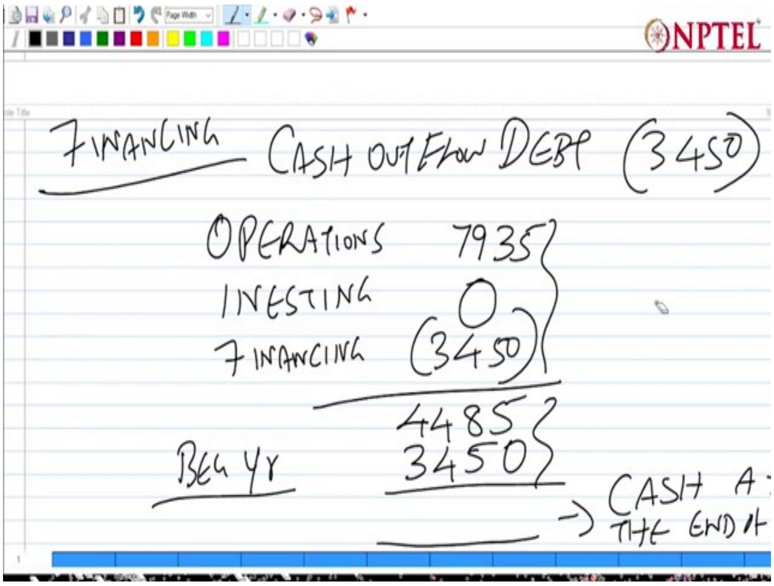

Now, let us go to the last aspect out here, now, what do you call it as typically financing activity. Any question sir? What is a question?

Student: What about the account table check is in that year?

Now, Pramod, I will come back to it in a minute because exactly like the way we did it for the receivables we will do it, do not worry, we will just come back to it. That is way we will come back to it in a couple of minutes out there.

Now, I am talking about financing, once you finish financing we will come to that. When we talk about financing cash flows out there where is it, there is a sale of old machine is over, there is cash sale collection from receivable, interest on savings account, sale of old machine is all over out here. When I am looking at what do you call it as financing cash flows there is a re-payment of debt out there. There is what is a cash outflow on payment of what is called as debt out there.

What is the amount out there? The payment of debt is about 3450 negative, payment is there that is payment is basically made out there. Now, if I look at the cash flow statement out here what are the cash flow statement? What are the basically? We will say cash flow from operations a investing financing. Now, let us look at adding these numbers out here 7935 basically it is 7935, investing is 0, this is 3450 negative. So, what is the cash flows out there?

Student: 4485.

4489 is the cash flow.

Student: (Refer Time: 61:26).

85 is that, ok, I am sorry, 85. Now, to this I add the cash that is at the beginning of the year, beginning of the year, the first item on the on the in this problem out there the cash at the beginning of the year that is nothing, but 3450 is a cash that because you start with the money you start with the money in your pocket out there. Now, what is it what is the cash that you ought to have out there is about one 8 plus 1, 9 and then 4 plus 3 is 7935 should be the cash that is there at the end of the year, at the end of the year out there. Am I going wrong somewhere? Yes, I am going wrong somewhere. There is cash at the end of the year is 6900.

Now, question is where have you missed it. Let us sort of look at it in the process out there. If you actually see this in this particular case out here, your, if you actually see this there is somewhere basically you have missed out here. Now, what is that basic aspect we have missed out let us sort of see this in this particular case out here. If you actually see, if you actually go back out here in this particular case in this particular case out there, if you will basically see the cash that is there at the end of the year to be about 6000.

Now, basically if you add these two you ought to get what is called as the cash that is at the end of the year and you what the cash that is at the end of the year you going to get is about 6900. Now, there is a mistake in one of the places where basically I think I have, one of the basic aspects out here; where is it. Can you one of you identify and tell me?

Student: (Refer Time: 63:05).

I am, ok. We will sort of we are doing by this, perfectly all right. If you actually see this inflows out here, inflows are perfectly all right 6100. If you look at the outflows per say on this particular thing 54165. Any problem Prateek? No. If you look at this outflows per say, you actually look at this outflows out here. What are we looking at in this particular case outflow? Cash, that is we should cash operating expenditure, total 54165 which included cost of sale, that is cost of sale we have taken supplies, rent, utilities, work time help and other miscellaneous expenditure in the process.

Now, we somebody also asked me about account payable decreased by about 2760 in the process out here, account payable decreased by about 2760 in the process out here. Let us look at that particular aspect out here in this particular case. If you look at it, what was the what do you call it as; what is the cash supplies out here? The cash I have done this also in another sheet out here, out here, I done this. What are the cash supplies out here? The cash supplies out here is basically 345 was the cash supply cash purchase of some place. Cash purchase of inventory was 17250 out there in the process.

Now, these two out there. Now, the third basic aspect is payment to vendors out there is about 17250 out there in the process out there. Now, if you actually see this what is the basic cash, what is the basic cash that has gone? 17250 is basically what is called as payment that has happened to the vendors out there. Now, cash receivables the account receivable decreased by 600, the accounts payables decreased by about 2760 out here out in the during the year out there; that means, what has happened in this in the next particular year the difference is. Prateek can you just do this? 17250 minus 2760.

Student: 14400.

Basically, what happens in the current year your receivables is only about 14400 is what is there in the current year receivables out here. This is the previous year what you have received out there.

Now, if you actually see this in this particular case cash purchase of inventory, cash purchase of inventory, cash purchases supplies etcetera out there, basically what has happened? You have basically made payment to the vendor account, you have made this payment out there plus you have made what is called as I think 17250, 17250 out here plus you have made a cash purchase of the inventory out here, let us say cash purchase of this inventory you have basically made out there. Then you basically have what is called as a cash purchase of supply as you basically have 345 you basically have.

In addition to that what happens? Your accounts payable has gone down by so much; that means, you have bought additional middle of it. That is the difference between these two also basically you have paid; that means, another 2760 is basically what has been paid in the process out there, in the process in the I am sorry, in the basic process out there.

So, basically if you actually look at this particular what is the total payment that has basically gone on in the process out here? That is the total payment that you have made is this 17250 plus 345 plus this 17250 is basically what you have can use just do this 17250 plus 17250 plus.

Student: (Refer Time: 66:59).

Plus 345, plus 2760 that is basically that is the difference out there. And then all the other aspects out there 6900, I am sorry I think I took the wrong number out here, that is there we went wrong yeah 6900, one time help 8625, 2070, 1725.

Student: Sir, minus 65.

Minus not minus 6900 plus 8625 plus 2070 plus 1725.

Student: (Refer Time: 67:37).

Student: (Refer Time: 67:38)

I did not take you.

Student: (Refer Time: 67:40).

1725.

Student: Plus 2070.

Plus 1725, the whole thing put together, this entire thing if you look at, this entire thing put together if you actually you can either do it calculate it that way also. You can either club the whole thing in this particular case out here or like calculated like this that is what they have said as 40 by 54165 is basically what basically they have got in the process out there. Any question out there.

Now, why? You have to give basically you look at this entire payment out there that is the entire total payment in this particular case like what you did for this inflows also. Can you just calculate it in the process? Whatever is a complete payments, you can take the book and basically do your do the calculation and then give you the numbers because I do not have a calculator (Refer Time: 68:55) for me do it. (Refer Time: 69:25) fine, perfectly all right.

Student: (Refer Time: 69:41) not correct in.

No, (Refer Time: 69:44) fine. I think you have missing out somewhere.

Student: 62000 (Refer Time: 69:47) minus 376.

No, you are missing out somewhere. You just give it to me. I will take, I will handle it that the process out here.

Student: (Refer Time: 69:54).

Now, if you actually see this basically what we are trying to say in this particular case out here, we look at I mean I think we have done some maybe one of these totaling errors out there I will ask into put up the solution again in the process out here, again in the process out here. That is basically what we have looked at? In this particular case we looked at.

Student: Core.

Core operations out there. Have I missed out anything on the operations? That is what is my worry is, I think I might have missed out, I am not I am just trying to check that again in the process. Anyway, let us leave that again, let us leave that aside; if we basically look at in this particular case out there. So, what are we looking at in this particular? 62100 that part I (Refer Time: 70:45). Then when we look at the outflows out here, outflows is nothing, outflows is clearly all these are listed out here 17250 plus 345 plus 17250 and then what do you call it as these are the 3 and then your rent payment is 8625 and then your utilities is 2070.

And then ok. And then, I now I got it. What I what do we left out is, we left out what is called as there is something called as what do you what we typically say is there is an interest payment that is there out here, there is what is called as an interest payment out there. Are we covered that interest payment? Interest payment is something it is cleared left out.

Interest payment happens basically in financing out there. So, when there is that is what that is what I gone by outside, I am just going to erase this part of it and now I know where we have missed out in the process out here.

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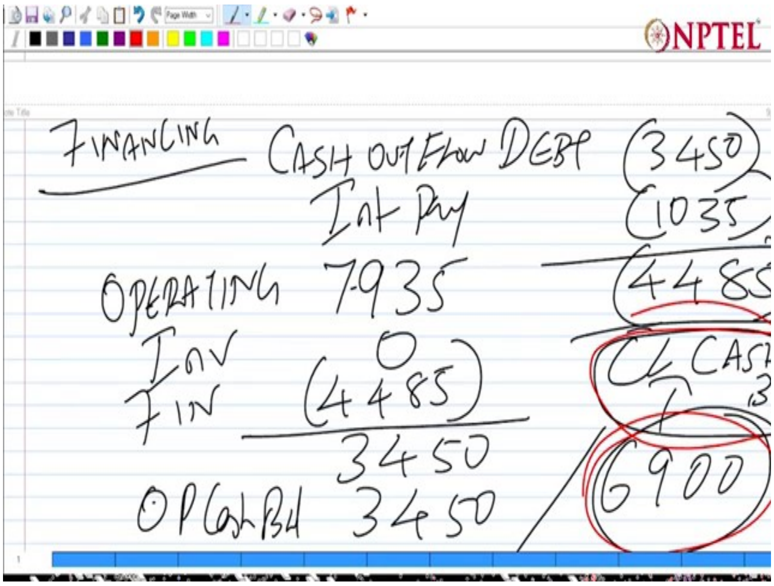


Now, there is in this is a cash outflow then there is what is called as the next is interest payment. Interest payment is also a cash outflow. And why do you pay interest? You pay interest because of financing activity, 1035 out here. So, now what is the total? 3450 minus plus 1035.

Student: (Refer Time: 71:59) 4485.

4485 is basically the is basically what you have as a cash as the cash outflow because of financial out here. Now, we will come back, we will go to operating. What did we arrive at operating out here? Then are we arrived at operating cash flow as 7935 out here, I arrived at cash flows 7935. I arrived at what is called as investing cash flows as block. I arrived at financing cash flow as what is called as negative 4485 out here. So, and then what is the total cash flows I have? 7935 minus 4485.

Student: 3450.

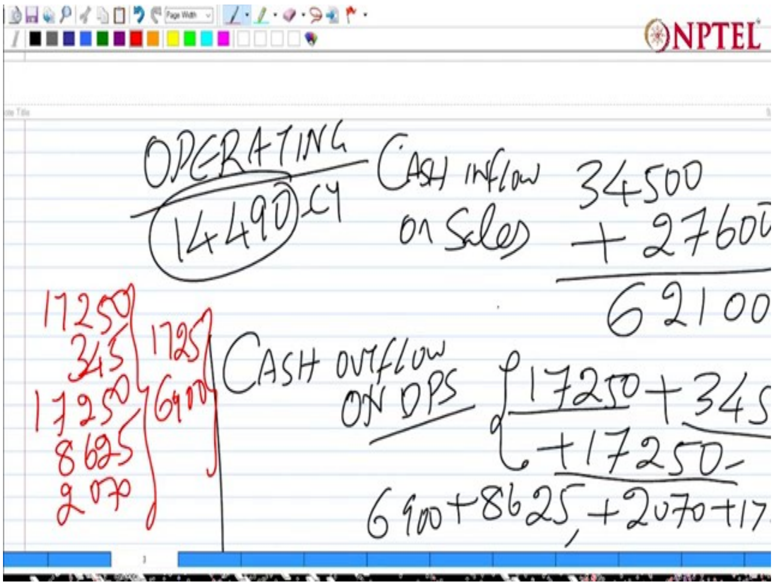
I have what is called as 3450 out here. Then, I have my opening cash balance out here my opening cash balance is another 3450 out there, that gives me what is called as 6900 which you can verify with what is called as my closing cash balance out there.

Student: (Refer Time: 72:54).

I am sorry, I have missed out that is what I felt that I missed out. So, I missed out now we get it. What we call it as we call it as the closing cash flows out here, I am just going to color it out here, the closing cash flows in this particular case out here. We basically see this closing cash balance that is 6900 what we have here. Now, let me go back to the question what you had asked me.

Sir, why did not we consider what we call it as in this particular case, whatever, what happened to this 3000; to what happened to this whatever was there in this accounts a payable etcetera? Now, go back, the amount that is given as 54 and 65 each after considering all that out there, or else you can even total it.

(Refer Slide Time: 73:42)



If you even total it what did you, how do you total? I will say 17250 is what I have paid to vendors out there. 345 is what basically I have purchased out there. Then another 17250 is what I made a cash purchase out there. 8625 is what I have given as a rent out there. Then I have 2070 is what I have paid as utilities out there and then I have what is called as.

Student: (Refer Time: 74:04).

I have what is called as other miscellaneous expenditure of 1725 I have given out there. And then I have what is called as part time help, I have paid 6900 out there. If you can total all these basic aspects out here then basically you will almost arrive at the same kind of a figure out there. Can you total it? 17250, 17250.

Student: (Refer Time: 74:30).

Plus 345 plus 17250 plus 8625 plus 2070 plus 1725.

Student: 825.

Student: (Refer Time: 74:45).

Correct, perfect. Plus 6900.

Student: (Refer Time: 74:50).

We got, basically what is the amount we got? We got 54165. What is the amount that is given out there? 54165. We are not considering this accounts payable because that is already taken care of in the numbers what they have basically given out there. I hope I am clear. Is there anything that.

Student: (Refer Time: 75:10).

(Refer Time: 75:11).

Student: I know give example of operating plus and financing (Refer Time: 75:15).

Operating activity I purchased raw materials by cash for my production. I sell goods and then collect cash that is again operating cash flow. I collect cash and receivables, I pay cash and payables, all operating. Investing, I have purchased a fixed asset that is I am investing in the fixed asset. I invest in a short term deposit, investing. I am earning interest on the money that I have invested, finance basically investing, that is cash inflow because of investing. I can investing in a subsidiary equity shares, cash outflow because of investing. I get dividend on the equity shares, what I am invested cash inflow because of the investment.

Financing cash flows, when we look at financing somebody invest in my company in equity shares I am getting cash inflow because of financing. Somebody I borrow money from the bank, cash inflow because of financing. I pay dividends to my shareholders, cash outflow because of financing. I pay interest on the borrowing, cash outflow because of what is called as financing out there. Any other question Prateek?

Student: No, sir.

I think with this we almost complete basically whatever we have. I think we will have one more week of classes where I am doing the ratio analysis. I think we can go ahead with the ratio analysis out there, ok. I think with this we will sort of wind up for today's session. Thank you very much.

Thank you.