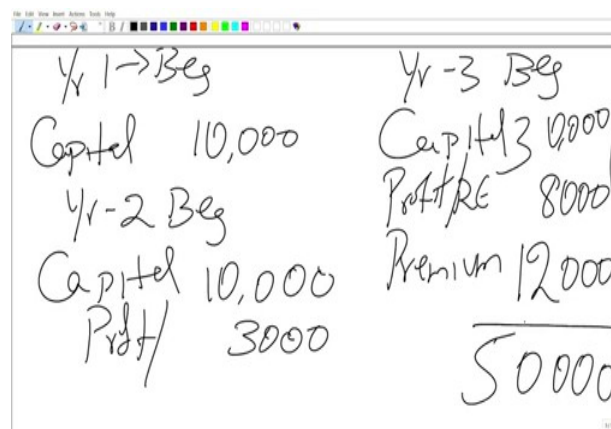


Decision making using financial accounting
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Lecture - 05
Two Financial Statements

Or if it was so close buddy that you want to reward him because of him he is created that business for you and take him at par perfectly fine.

(Refer Slide Time: 00:23)



Year	Capital	Profit	Premium	Total
Yr 1 -> Beg	10,000			
Yr 2 Beg	10,000	3000		
Yr 3 Beg	30000	8000	12000	50000



I get one more investor and then I take him at par, now what happens? My he contributes 10,000 out here, then what happens? It is 50,000. Then three partners, what is your holding? 50,000 divided by 3, that is all. Of course, you lose some part of it, everybody loses.

Student: (Refer Time: 00:38).

Keep capital gain aside, sir. Capital gain is for you, capital gains is different. Capital gains is for liquidating a particular set. Let us not bring capital gains at all now. Do not worry about it. We will address it by the end of the class.

Student: Sir, what is the (Refer Time: 00:52).

Ah?

Student: (Refer Time: 00:54).

Premium; premium; premium.

Student: (Refer Time: 00:56).

Term is premium.

Student: (Refer Time: 00:58).

You can.

Student: Can (Refer Time: 01:01).

If somebody is prefer to pay why 60, 16 it can be 60.

Student: Yeah.

No problem. You have to find a fellow who is going to invest in you who has.

Student: (Refer Time: 01:08).

See, suppose I start a company and I say I collect I am going to charge premium on my share I do not think anybody will invest.

Student: Actually, nowadays there is some formula for (Refer Time: 01:17).

There was a formula. Formula is gone there was what is called as before 1993-92 there was what is called as a capital controller of capital issues who used have a formula.

92' that formula was abolished that is capital of control of capital issues abolished. Companies were free to price because as long as you are able to find the investor that is what we normally say is when it is bearish run in the market when it is bullish run in the market right?

If there is bullish run in the market and lot of investors, a lot of company, good companies are coming out with the public issue as a bad company I will also sneak in my issue at a premium and why will you invest? He is making money in the market that is all I know. So, I will just go and blindly pick up one application and put my money and burn my fingers, that is how it operates.

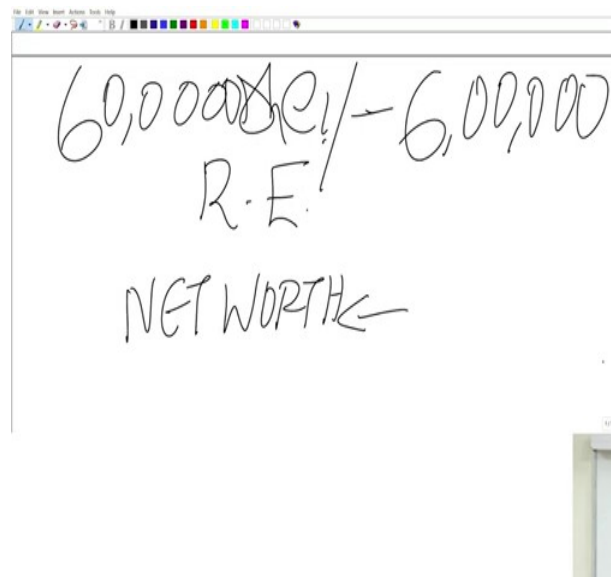
If every investor does his homework well in the market there will be no place for scams .Agreed? We move on.

(Refer Slide Time: 02:28)



So far what we covered we. So, far we covered today? We covered different forms of capital started with. I covered different forms equity preference and debt, we talked about that I am just doing a quick recap.

(Refer Slide Time: 02:37)



Then we talked about what is called as equity shares, how it is denominated, what is bonus shares, what is net worth etc then we moved on from there.

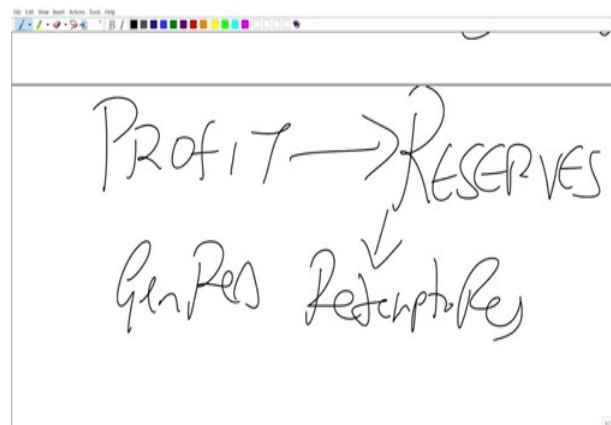
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Yr 1 → Beg	Capital 10,000	Yr -3 Beg	Capital 30,000
Yr -2 Beg	Capital 10,000	Profit RE 8,000	
Profit 3,000		Premium 12,000	
			<u>50,000</u>



And, then we talked about the premium part of it, how is premium, what is the premium, how is premium and I know roughly; roughly; roughly again. Will companies exactly use this formula and price that the premium? This is the basis. That is all I would say. This is the theoretical basis for that beyond which you will sort of look at it.

(Refer Slide Time: 03:04)

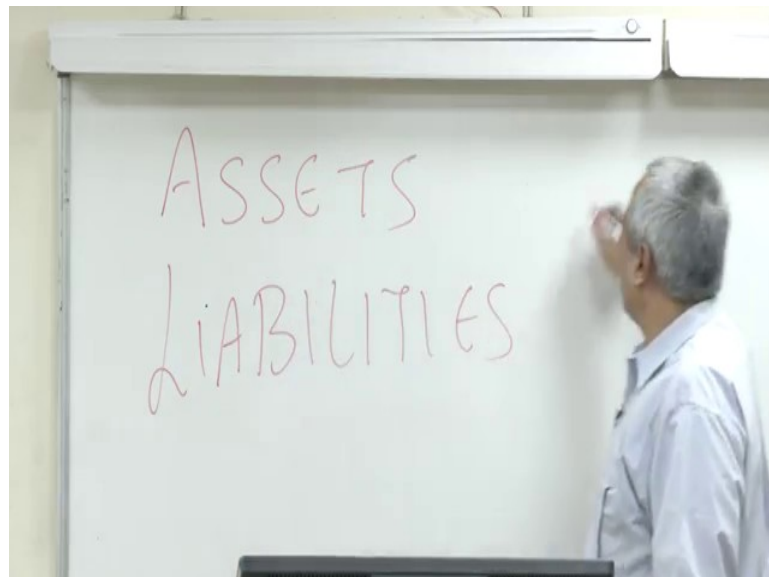


Then we look at what is called as profits and reverses and whatever money belongs to the equity holders and that is what we call it as your different forms of reserves that basically occur are is there in your P&L out there.

Now, just pick up this what have I done? Before let us not even worry about solving it as of now. Everybody has got a copy; I think that must made enough number of copies of them. Now, in this particular case what I have basically done out here? I have just given you list of transactions; a simple list of transactions that can happen in a company. A what you call it I am not given it date wise etc I have given you. A simple list of transactions; about 25 transactions are there that can have.

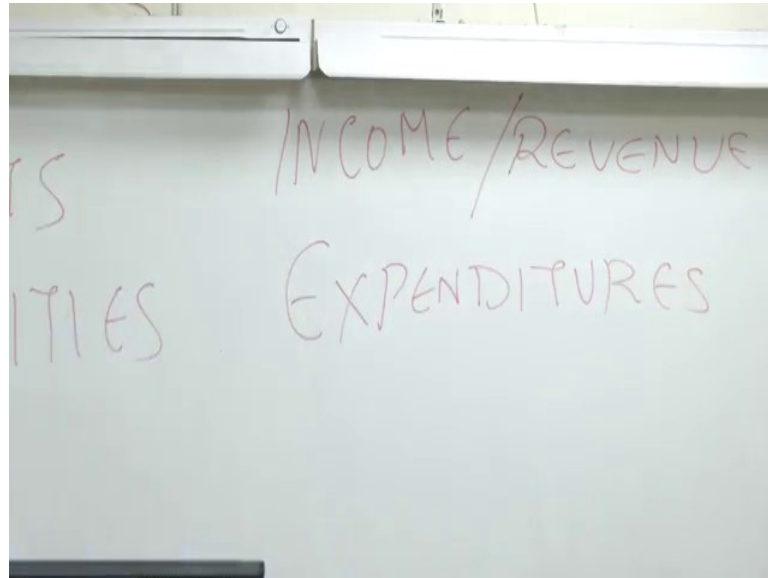
Now, what are we looking at it? Every transaction as I said in the last class we will have to have an effect among the four. I am going to use this board now, for a minute.

(Refer Slide Time: 04:13)



I done it where as he is going to use an excel. What we talked about? We talked about assets, we talked about liabilities.

(Refer Slide Time: 04:26)



We talked about income. We talked about what is called as income or revenue.

Student: Expenditure.

We talked about expenditures. These are the four, I am just going to keep this four on the board right there. There are only for every transaction we will have to find a place there will always be two sides to a transaction that is what accountants will call it as double entry system.

For every corresponding debit there is a corresponding credit etc your accounting friends would tell you, but let us not even worry about it there are two sides for every transaction and every transaction the two sides of the transaction will have to find a place in one of this four, that is all; minimum two. Let us take. So, what I am trying to do balance sheet if I think increase the font they have to see man. What is they have to see this.

(Refer Slide Time: 05:25)

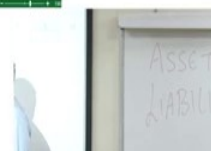
Balance sheet as at the end of transaction				Profit and loss for the period 1st	
Assets		Liabilities & Equity		Income	Expenses
Fixed Assets		Shareholder's funds			
building	95,00,000	12,00,000 equity share@10		1,20,00,000	
		NET WORTH		1,20,00,000	
Long term Investments		Long term liabilities			
		M. Loan		95,00,000	
Current Assets		Current Liabilities			
bank Account	1,20,00,000				



It's all such a low font even I cannot read it [FL] enough. Able to see last row? Or else you have to move front move up move it up move it up other way man, it is a. Leave it there. Now, you see balance sheet as on 31st December that is what is the finally, we are going to arrive at a balance sheet as of 31st December whereas, when you moved to the profit and loss statement out here moved here move the cursor here.

(Refer Slide Time: 06:10)

Profit and loss for the period 1st January to 31st December				
Category	Income	Expense		



You need a mouse. You keep the mouse also that side right wait you all have it. Now you have it. When I say profit and loss statement; profit and loss statement for the period 1st January to 31st December. Now, move to the other side, move to move to the balance sheet part of it. Now, I am strictly not going to see 31st December as of now. I am going

to say you are going to see a balance sheet at the end of every transaction at the end of every transaction whereas, P&L will remain for the period for whatever period you are looking at whereas, the balance sheet is what we call it as at the end of every transaction. Just change it to balance sheet to at the end of as at the end of every transaction.

So, we are going to every transaction that basically happens will have to find a place in this two. Normally typical accountants will pass journal entry, journal entry to ledger account, ledger account to trail balance trail balance to trading account etc. So, finally, what have they have doing it? They are doing it step by step to basically arrive at and fit it out here a consolidated part of it. So, we will attack it directly that is all because that is for a typical 11th standard commerce 15 year old kid. So, now, we have we have to catch up for the next 20 years of our learning. So, we will start attacking directly out here.

Very simple let us look at the first statement out here Prateek and Imran two friends incorporated Pran and Co. whatever is the company name of the company with each contributing to 6,00,000 equity shares of 10 rupees each fully paid as of 1st January 2018. Now, what has happened out here in this particular case go to this cell D4. There are equity shares what is that value what is the number of equity shares that is there? That is now this is balance sheet of the company, what is number of equity share? The number of equity shares in the company is 12,00,000 6 plus 6.

6,00,000 equity 12,00,000 equity shares at 10 rupees each. First write it there man, first write there. 12,00,000 equity share lakh English lakh l a fine. No problem, go ahead equity share shares at 10 rupees each equity at 10 rupees each at 10, that is it. Now, this is not this is I think you have missed a 0 into 10; into 10 into 2 into 10, that is it. So, what has happened equity shares has come into the company; equity plus liability plus equity. Now, what is happening?

Student: The networth of.

What is a second part of it?

Student: Net worth.

Net worth is there; net worth is there, net worth is created.

Student: Income.

There is no income, is that true. Share is not an income.

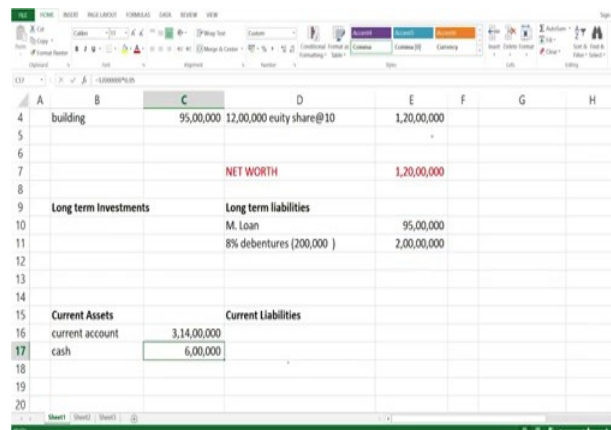
Student: Cash.

There is a cash which is there, move on they are contributed what is happening to the company. They are not Imran and independent Prateek and Imran. They are now what is called as the combined. Now, we are looking at it from the point of view of the company. As far as the company is concerned what is happening?

Student: (Refer Time: 09:23).

There is a cash that is sitting bank bal bank account go move to the current asset.

(Refer Slide Time: 09:28)



	A	B	C	D	E	F	G	H
4	building		95,00,000	12,00,000 equity share@10		1,20,00,000		
5								
6								
7						1,20,00,000		
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I will tell you what are all these. Bank account whatever is the balance out there, that is 6 plus 6, 12,00,000s into 10. 12,00,000 into 10 just multiply 12,00,000 into 10 1.2 cores over he is made it no problem right now. So, what has happened if you look at the sources of fund is equal to my?

Student: Assets.

Is equal to the what equal to is I the funds what I basically owned out there. Am I with you on this?

Student: Yeah.

So, basically two parts of a transaction. What is the transaction? These two guys are contributed Imran and Pratik have contributed into the business. A capital or 6,00,000 each, 600,000 shares of 10 rupees each they have brought it. No premium, nothing. Do not worry, it is a new company. So, that money has come in. As far as the company is concerned why am I writing liability plus equity? As far as the company is concerned the company owes the money tomorrow today right today they decide to dissolve the company. The company owes the money back to these two guys who are contributed as capital. For company the bank the money that is shown into the bank the account is in the name of?

Student: Company.

In the company out there in the process with you on this.

Student: Capital contributes long term investment.

Ah?

Student: Capital.

Long term?

Student: Long term (Refer Time: 11:08).

It is a basically there is no long term liability, is a long term what is called as a borrowing. In this case there is no long term, it is a lifelong. There is no long term here. There is no term attached to a equity borrowing at all it is what is called as it is a lifelong investment out there, unless the company decides to buy back. All this clear? Now, let us read the second statement out there. Additionally they also appointed themselves as managers in the business at a nominal salary of 100,000 each; 100,000 each.

Student: 200,000s.

100,000 each per month I am not mention per month you can add per month.

Student: It is annual salary.

Annual salary [FL]. 100,000 annual salary, I am sorry or is it they appointed themselves managers in the business at an annual salary. I am sorry, annual salary of 100,000. I. So, that means, it is an annual salary of 100,000. So, what is that what happens now?

Student: (Refer Time: 12:09).

Sir, they are just appointed. They have just appointed. It is 1st of January, let us not worry about it now. Let us worry about it when we close it. As of today they are appointed may be they might fight and leave today also Imran and Prateek might because Prateek is enthusiastic Imran is balanced.

Student: (Refer Time: 12:26).

There that is provided they perform their activity with every passing day the company becomes liable.

Student: Right.

Third; on the 1st day of the incorporate on the 1st day of the incorporation the company purchase a building worth 95,00,000s on a mortgage from a financial institution. In this particular case it becomes a transaction. It finds a place in the profit and loss statement if and only if a transaction has taken place.

In this particular case what has happened they have appointed nobody has basically worked that is the transaction has not happened. Until the transaction takes place there will even if one day is over, then there is a transaction then that will find a place in basically what we call it as the P&L statement. First what has happened? The company has purchased a building. So, what has happened to you?

Student: Assets.

There is an asset that is created which is worth in 95,00,000s. So, what happens? Go to the fixed asset out here. Will have fixed asset Prateek third accountants cannot commit some mistakes like this. Building, 9500,000. Now, eliminate this zeros decimals out there, after that no problem, do it later. Now, what is happening there is a mortgage. Mortgage means what? You are to pay. There is a liability you are created the liability. So, what is happening?

Student: Long term.

Long term liability, that is mortgage. 95,00,000s out there. Now, having mortgage here, just write mortgage no problem just write mortgage 9500,000s. Eliminate this decimals here. Once again, once more, that is it. Thank you that is great.

Now, please understand source of fund is a loan, utilisation of fund is a building out there; source of fund is a loan, utilisation of fund is a building out there. There is a source of fund. Source of fund is there is 100,000 one 1.2 crore plus 95,00,000s utilisation is 95,00,000s plus 1.2 crore which is sitting in your bank account out there. Now, 95 percent of that 1.2 crore is in the current account rest of it is in the form of cash out there; rest of it write it as cash. Do not do that, do not do that because there will be problem afterwards because that cell will also change know.

Student: (Refer Time: 15:05)

That will have that cell will also change current, account will also change know. It will be 95 percent of that 1.2 crore. Do not do it, write there 95 1.2 crore do not have it is ok.

Student: This.

That will be 95 percent of it right. You have cash is 95 percent, 5 percent par cash, current account is 95.

Student: So, 100 percent?

I will just do it; I will just do it I will just.

Student: (Refer Time: 15:35).

Just do one thing. Just do this just what you called as just do that 1.2 crore. How many 0s? Am I with the 0s into 0.95 that is it and here 1.2 crore into 0.05. Now, that is one 0 missing out here. So, add just add a 0 there on top of it, just add a 0 on top of it there. Am I ok? I think I am I think I am right.

Student: (Refer Time: 16:14) I understood what is the (Refer Time: 16:15) there was 9500,000s in budget something to decrease (Refer Time: 16:20).

Why should it be decrease why should see I have purchased for 95,00,000s. What I have purchased? I have purchased a building. What do I own? I own the?

Student: Building.

That is what you see on the asset side.

Student: But what is account by the cash?

It is a where is; where is?

Student: (Refer Time: 16:38).

One sec one sec one sec forget about a account. I have brought a building on loan. Who owns the building?

Student: Company.

Company owns a building. Is it a asset for me?

Student: Yes.

Agreed? Understood that? Second part of it, how I have bought it? I have bought it by taking a loan. So, do I am I liable to pay the loan?

Student: Yes.

What is the amount I am liable to pay?

Student: 95,00,000s.

95,00,000s. So, that is what is mortgage. Mortgage is nothing, but you pledge it and then buy it. The building is pledged, to the loan provider that is all; that is all mortgage is.

Student: But, I still do not have the funds right?

You do not need to have funds.

Student: No the building.

If you have every fund and operate business you will never operate business. You do not need you do not have funds, but who owns the building? Sir, let us check an example sir. Do you have a car? How did you buy?

Student: Loan.

Loan. Which company which bank?

Student: ICICI.

ICICI. Registered on your name?

Student: Yeah.

Car is registered on your name? Are you ,can you sell it?

Student: No.

You can.

Student: Can.

You can sell it. Who owns it? You own it, but are you also paying the loan?

Student: Yes.

Yes, that is a different, this is different. Car you own, loan you have to pay. Same thing; building I own, loan I have to pay. Agreed, sir?

Student: Mortgage is 95,00,000.

Ah.

Student: So, most of the mortgage is more.

Yes, sir. I have not I have actually the cost of mortgage, see in this case when I said 95,00,000s it is including all costs mortgage costs, legal costs, they have landed costs for me sir. I have not kept it separately.

Student: That is not the value of a building.

That is the value of the building. Value of the building is landing cost. When you buy a car what is the price? Ex factory price, ex showroom price, with RTO charges, with number plate charges, with basic accessories or without all this at what stage?

Student: (Refer Time: 18:38).

When the dabba is made or when engine is fixed what is the value?

Student: (Refer Time: 18:43) if I want to sell the building.

Ah.

Student: It may not fetch me 95,00,000s.

It may not fetch you 95,00,000s like today it may even if you want to sell it may not fetch you, but what is the cost of purchase?

Student: Cost of purchase.

Cost of purchase that is cost of purchase or the value market value whichever is lower, then I am not basically done it done what is called as a simple evaluation of it. So, normally what we talk about is market in the purchase price out there. What is it concept we are talking about yesterday?

Student: Conservative.

Not conservative.

Student: Historical.

Historical cost. I am sorry, I missed out that yesterday. Historical cost concept what we do is we look at the historical cost in this particular case. The earlier what we based on the historical cost then next is what is called as conservatism combination. With you, yes ma'am. Yes, Mallika.

Student: (Refer Time: 19:30) mortgage loan will also not (Refer Time: 19:32).

Move on to I called the name of fellow.

Student: (Refer Time: 18:33).

No problem, do not worry.

Student: (Refer Time: 18:35) we want to get back the interest?

What we? Yes, yes of course, we will worry about the interest.

Student: Would that not become a liability?

As of today is not no interest know. Maybe I might win the lottery today and clear of that mortgage. When does it when day when is the interest due? After one day.

Student: It will reflect probably in the property.

It will reflect both in the profit and loss if I pay; if I do not pay it will reflect in the profit and loss as well as in the balance sheet also. We will come to all that we are just in third transaction ma'am. There are 25, I will add 5 more. We will do it, do not worry. So far so clear, sir? Mortgage.

Student: Yes.

The company issued 8 percent 200,000 debentures or 200,000 debentures, 8 percent debentures of 100 each on 1st of January and all the debentures are fully subscribed and paid; interest payable half yearly sll that I have indicated. 3 more minutes because he is signalling from that keyhole. So, I think this is 3 more minutes. Let me finish this.

8 percent debentures 200,000 debentures, so, what has the company done? The company has issued 8 percent debentures 200,000; mention 200,000 debentures also my dear here 200,000. If you finding it difficult you sit here, no problem ok. No 2 more no problem. So, what are happening? So, 200,000s out there into 100 just keep the cursor on keep your on that is what is called as 200,000s into 100, mention 200,000 debentures out here, 8 percent debentures, 8 percent debentures, 200,000. Mention 200,000 there.

Student: (Refer Time: 21:30).

Mention 200,000, how many debentures? Right close the bracket debenture debentures mentioned man already. Just close the bracket you do not need to write again just close it. Prateek.

Student: (Refer Time: 21:53).

Debenture 8 percent, debenture 200,000, debenture what is it? 8 percent debenture bracket 200,000s is fine. Now, cut the debenture there. So, do not worry the first time Prateek is trying to be my TA. So, he will get trained and.

Student: Also owner of the company.

He is also owner of the company. Now, what is happening? Move into all this debentures you are liable to pay the interest as well as principal. So, what is happening to you? There is something?

Student: (Refer Time: 22:23) liabilities.

Liability is one part of it, that we have created.

Student: (Refer Time: 22:28).

What is the asset?

Student: Cash.

There is money that is coming in, bank. There is a bank balance also increases by so much. Interest your payable Mallika, yes, interest payable. When? Half yearly. We will worry about it on June 30th, as of today we do not need to worry. This is we are still on Jan 1st, let us enjoy the new year. So, we are still when we come to June 30th, let us worry about interest. So, what is happening? There is a source of fund. Go down sir, just move down.

(Refer Slide Time: 22:58)

	A	B	C	D	E	F	G	H
16		current account	3,14,00,000					
17		cash	6,00,000					
18								
19								
20								
21								
22								
23								
24								
25		Total Assets	4,15,00,000	Total Liabilities	4,15,00,000	Total Income		0
26								
27								
28								
29								
30								
31								
32								



If you enough. Your balance sheet out there total if you look at why is it 200,000 15 there? You have not entered cash? Bank balance bank balance, current account; current account has increased . 200,000 debentures know. Increase it beautiful. Now, what happens? Your sources of fund is whatever fund 4.15 crore. Your utilisation of fund is 4.15 crore. We are not even touch the P&L out there. Am I with you on this?