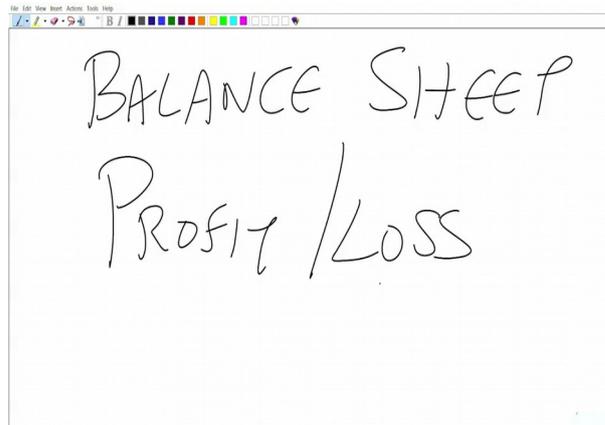


Decision making using financial accounting
Prof. Arun Kumar G
Department of Management Studies
Indian Institute of Technology, Madras

Lecture - 06
Three Financial Statements

(Refer Side Time: 00:19)



We talked about three basic financial statements, we started off with three basic financial statements what I said was we said balance sheet the next what we talked about attendance you can do it later just leave it just keep it I mean it distracts a little bit. After that the second statement what we talked about is profit or loss statement and third statement what we were; we I just mentioned I didn't write it was cash flow statement we will not discuss that as of now we will keep it as a aside as of now we will talk only about these few statements.

The second aspect what I talked about these two statements is, one the statement 1 that is what we call it as the balance sheet pertains to what you own and what you owe that's all. What you own as on a particular day that is as on the day you are preparing your financial statement or what we call it as the balance sheet, whatever you own and whatever you owe as on that day, that is all what does the balance sheet contain.

Move to the next aspect when we talk about the profit or loss statement or income statement or revenue expenditure statement used in different context depending on the kind of concern for which you are sort of preparing it. We talked about all the revenues that has come in not profit; please understand all the revenues all the revenues that has come in and all the expenditure that has basically been incurred. I never said all the cash which has come in or all the cash which has gone out. Please understand I never use that statement I said all the revenue that the organisation has earned or all the expenditure that you have incurred, the other way to put it is all the expenditure and income that have accrued that is accrual concept is what I use out there.

When I say it is accrued I meant that specifically, if you have earned an income irrespective of whether you have received or not you have earned it, you are eligible to get it. You have incurred an expenditure whether you have paid or not let us not worry about it, but the expenditures are accrued for you. All such revenue and expenditure is what we will record in a P & L statement or a income statement etc.

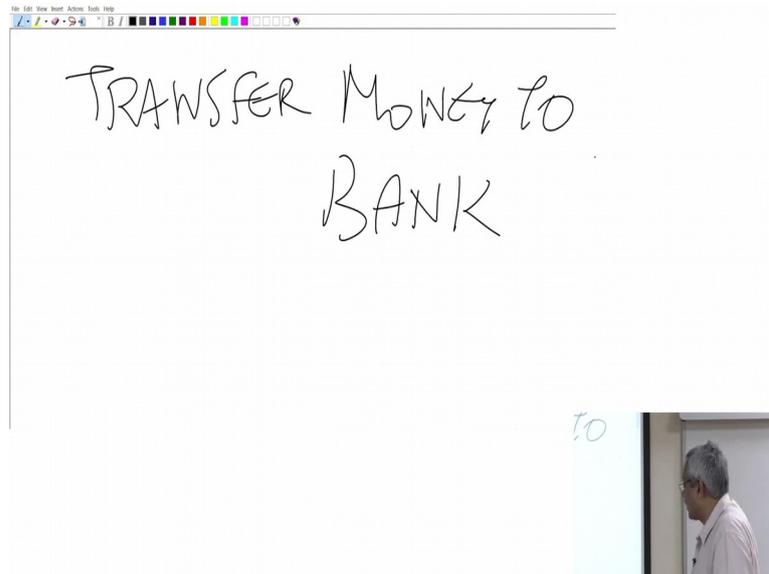
The next aspect is the P & L statement or the income statement is for a specified time period that is the next aspect what I sort of stressed upon in the last class. When I say it is for a specified time period, it could be for a day it could be for an hour, it would be for a week, it could be for a month, it could be for a year etc that is this particular date the beginning date to the end date whatever revenue you have earned, whatever expenditure you have incurred or accrued or income accrued or expenditure accrued all that will consolidated get recorded out there with you on this now.

The next aspect I move on from there. The next aspect what I move on from there is what we talk about, beyond every statement every financial transaction you talk about will always have two minimum of two basic aspects out there. It will have it will be affecting minimum of two basic aspects what we talk about when I; when I; when I sort of talked about the P & L statement and the balance sheet is, every financial transaction you take which can be expressed in monetary terms, it will always effect two aspects that is we talked about four that is what we talked about as of now.

Assets, liabilities, income, expenditure four that is what I wanted to write anyway not a problem. Now among the four aspects every transaction you take has normally two sides that is what we call it as typically in accounting parlance double entry, that is it will af-

fect two accounts that is what a typical accountant will say. It will have effect on two parts out there either an asset and a liability or an asset and an income or an expenditure and an income whatever combination or two accounts in an asset itself done. Thank you.

(Refer Side Time: 04:55)



For example I said I transfer money to bank; when I transfer money to bank what happens? Your cash in your asset basically goes down and the bank balance in your which is also your asset basically enhances out there.

So, every transaction will have minimum 2 why minimum 2? We will come to that when we sort of take up some numericals out there minimum 2 sometimes 3 sometimes 4 also could be possible, minimum it will have an effect. For example, I borrow money from a bank what happens? A liability gets affected what does a liability gets effected? It gets enhanced that is a liability which gets enhanced, then there is a cash which also gets enhanced that is there is an asset which also gets enhanced out there.

Now I make a sale and then I have sort of I have provided imagine I have provided a consulting service and then I have earned an income. So, what happens? There is an income that is your revenue is increasing in your P & L statement and consequently what is happening? Your cash that is whatever money that you have received in the form of consulting fee, that your cash balance is also increasing in the process. Then immediate question, how will the balance sheet balance do not worry about that we will take care of it; we will take care of it as we go along.

So, every transaction you take, every transaction you take it will have an effect at least in minimum 2 of the 4 aspects what I mentioned out there. Simple you have a stock of goods out there, some part of it gets damaged beyond repair you just throw it what happens? What you own as an asset basically reduces agreed asset reduces. Now that is what for you that's a expenditure loss for you. So, what you do? You write it in your profit and loss statement as an expenditure which is abnormal loss if its a abnormal loss out there that is what happens.

So, any transaction minimum 2 basic aspects. So, based on that we took up the sheet I hope all of you would have brought this I specifically mentioned it thank you thank you Navya. We talked about at least for we addressed about first four or five statements out there go to the excel sir.

(Refer Side Time: 07:29)

Balance sheet as at the end of transaction				Profit and loss for the pe	
Assets		Liabilities & Equity		Income	
Fixed Assets		Shareholder's funds			
building	95,00,000	12,00,000 equity share@10	1,20,00,000		
Plant	45,00,000		-		
		NET WORTH	1,20,00,000		
Long term Investments		Long term liabilities			
		M. Loan	95,00,000		
		8% debentures (200,000)	2,00,00,000		
		Loan	45,00,000		
Current Assets		Current Liabilities			
current account	3,14,00,000				
cash	6,00,000				

We talked about the first four or five statements out there. We talked about when you begin a business out there with an equity capital what happens out here? There is an equity share holding that comes in that is out here and there is a cash which also goes in out there you want me to start re doing it or the first five transactions are clear, we move on beyond fifth one first five are clear right we move on beyond that right.

Let us take up the next one 6th one. First January the company purchased a new plant and machinery for 45,00,000 through an equipment loan. So, you have purchased a machinery for 45,00,000s through an equipment loan when you when that happens what

happens? An asset that comes in for 44-45,00,000. So, what happens? Your asset increases long term asset increases out there then consequently what happens? There is a liability also which is increasing I am keeping statements very very simple for you to feel comfortable and get in tune to it right so, that is what happens make an entry on that right.

Pran and company purchased special raw material on 15th of January 2018 because normally when we make an entry like this, there is one more out there when we sort of do a journalising of typical accountant when we do there is also a column for a date, there is a column for a ledger folio etc etc I have removed all that for the purpose of ease of for understanding out there as of now.

On 15th of January you purchased a special raw material for rupees 30,00,000s on a 90 day credit with a cash discount of 10 percent applicable if paid within 10 days now what's happened? Slightly complicated? No what is the transaction that has happened on that particular day can you decide for that?

Student: (Refer Time: 09:33).

Material.

Student: (Refer Time: 09:38).

Asset material asset what is the value of the material?

Student: 30,00,000

Ah.

Student: 30,00,000

3,00,000s the discount does not apply as of now because discount applies when only if I pay within 10 days as of now you do not know you might have the intention to pay let us worry about it the day you pay. As of today what is the your have you paid you have not paid as of today what is the value? Value is 30,00,000 yes there is an asset which has increased by 30,00,000 out there go down just stock of special raw material right specifically special raw material because I use another special raw material 30,00,000

(Refer Side Time: 10:06)

	Assets		Liabilities & Equity		Income
Fixed Assets			Shareholder's funds		
building	95,00,000		12,00,000 equity share@10	1,20,00,000	
Plant	45,00,000			-	
			NET WORTH	1,20,00,000	
Long term Investments			Long term liabilities		
			M. Loan	95,00,000	
			8% debentures (200,000)	2,00,00,000	
			Loan	45,00,000	
Current Assets			Current Liabilities		
current account	3,14,00,000		Creditors for spcl raw mat	30,00,000	
cash	6,00,000				
Spcl raw mat	30,00,000				

Now, there is a current liability; no I think yeah there is a current liability which is also increasing what is a current liability which is increasing that is also payable what you call it as typically we use the term called as creditors. Creditors for special raw material, creditors for special raw material please note creditors for special raw material.

Now, having said this enough no again one zero I will you love 0s no problem. Now what are these distinctions? Current liability, there is a current asset, there is a long term investment long term liability fixed asset etc let me spend a minute on this distinctions. Current assets or current liabilities are those which could be what is current assets are those which can be liquidated or which could be converted to cash very easily or those aspects that normally gets converted to cash within a year or those aspects that change the form very quickly.

That is for example, your cash balance the number the amount of your cash balance keep changing every minute, the money in your bank keeps changing every minute, the stock of raw material keeps changing every minute there is a production out there. So, these aspects that is the position of these assets keep changing very very fast out there that is its fast moving basically. So, these are all what is called as your current assets. The assets which are current as of today this minute it can change tomorrow well.

Can we say about the same thing about the building or the plant well no. It cannot be because those are all what we call it as fixed assets out there long term investments we call

it long term assets, fixed assets any of those. In addition I have something called as long term investments out there when I say long term investments, I specifically mean your company basically investing in other entities. It could be in subsidiaries, it could be in affiliate companies, it could be in government bonds, it could be security deposit where you might have kept something etc etc out there please come in sir fast no problem. So, it could be one of those aspects out there.

So, that all that what we typically call it as what you call it as typically what we say is the current asset sorry your long term investments that are there. On the liability part of it when we see first of course, is what you call it as share holders equity. Share holders equity is basically the fund that money that share holders have put in plus what? Plus reserves and surplus in short plus all the money that belongs to the shareholders what belongs to the share holders?

Profit belongs to the share holders profit or loss anything that is culled out of profit or loss belongs to the shareholders. So, all the money that is culled out of share holder that is culled out of profit belongs to the share holders. So, all the money belonging to the share holder that is what we call it as the net worth out there.

And addition to after that is your long term liability; long term liability is liabilities which is not going to be immediate which is going to be very long term. A 10 year loan a 15 year loan etc etc and then you have current liabilities. Normally when we say current liability these liabilities ought to be paid out normally within a short period of time that short period of time is normally we call it a keep it as 1 year. As a year normally we keep it as 1 year any liability that is to be paid off within a year.

In this case its a 90 day credit. So, it is a current liability in this process am I with you on this? We move ahead the 8th transaction sorry 8th transaction out here, the company appointed 4 machine operators at a salary of 10,000 per month each and a manager at a salary of 25,000 per month on Jan 20th 2018 and the date of joining was 1st of February 2018 what is the entry sir?

Student: Nothing.

As of now you have only appointed when does the payment due? Only once they started working as of today there is no payment due. So, let us not worry about it, but when do we have to worry about it?

Student: On February 1st.

At the = February first onwards. So, when we finally.

Student: (Refer Time: 14:42).

No problem all of you please switch your mobile phone off alarm whatever it is please switch it off, if you have not done it please do it right now. So, when do we have to worry about it in this case we need to worry about it because when we are basically this entire list of transactions is for a year. At the end of the year when you are sort of closing or arriving at the final profit or loss; obviously, you will have to take into account we will worry about it that is what I just marked it out there. 9th the company settled the amount on 24th of January 2018 with regard to the special raw material that is purchased.

Student: (Refer Time: 15:21) sir 0.8.

1 second.

Student: On 0.8 we are saying that salary is going to be given at the end of the February.

I never said that the salary becomes due only once he performs, it never says I am giving in advance.

Student: But if we are taking the balances sheet somewhere around somewhere (Refer Time: 15:40)

Agreed.

Student: Yeah.

Agreed.

Student: Should we take the 10 days salary as an expenditure.

10 says salary as an expenditure you will write in your P & L statement, but it is not paid. So, it will appear as a liability that is supposing on the 10th of February you decide to shut down your factory, you are liable to pay the 10 days salary to them. So, that will appear in your current liabilities am I with you? Now yes Navya.

Student: Sir 0.8.

Yeah.

Student: Date of joining is February 1st.

Agreed.

Student: Right should be at this point, asks when the salary pays out and according to that (Refer Time: 16:19) prepare.

Normally it is believed as far as accounting is concerned, the salary it becomes a salary only once they have performed the duty that is if they are performed a duty on 1st of February and he is resigning right on the on the 1st of February evening, 1 day salary becomes due that becomes your liability.

If you have paid money upfront on Jan 20 th when you make an appointment that is an advance that is basically an asset for you. Because you have not derived the benefit for the money that you have basically paid you are eligible to recollect the money back from him with you on this? Now move on to the next one now is the 9th statement what we talk about.

You said that settle what do you call it as the on 24th of January the purchase of special raw material completely we sort of settled it. Now what are the go back to the earlier statement we bought it on 15th of January on a 90 day credit, but with a condition that a 10 percent discount I think 10 percent if I am not wrong 10 percent discount is applicable if it is paid off within 10 days. Now 24th of January falls within 10 days from the date of purchase. Now when I said normally I said two parts for a transaction here you will see the third part for a transaction also that is what we will see.

So, now what happens? First thing what happens you are paying money agreed how much are you paying? 30 lakhs minus 10 percent that is you are paying only 27 lakhs

(Refer Side Time: 17:59)

	A	B	C	D	E	F	G	H
4		building	95,00,000	12,00,000 equity share@10	1,20,00,000			
5		Plant	45,00,000					
6								
7				NET WORTH	1,20,00,000			
8								
9		Long term Investments		Long term liabilities				
10				M. Loan	95,00,000			
11				8% debentures (200,000)	2,00,00,000			
12				Loan	45,00,000			
13								
14								
15		Current Assets		Current Liabilities				
16		current account	2,87,00,000	Creditors for spcl raw mat	3,00,000			
17		cash	6,00,000					
18		Spcl raw mat	30,00,000					
19								
20								



So, what happens your cash balance goes down by?

Student: (Refer Time: 17:55).

How much? 27,00,000 out there cash balance reduced as by 27,00,000 cash or bank I mean basically your bank balance reduces by 27,00,000 out there. First part of a transaction agreed over fine. Now second part of a transaction whatever that was due out here 30,00,000 you have paid 27 lakhs cash. So, it goes down by 27,00,000 first, reduce it by 27,00,000. Now the other 3,00,000 is what? You have received as what is called as a discount that is what is called as its a revenue for you that is its a gain for you am I with you or not?

Student: Yes yes.

(Refer Side Time: 18:44)

Balance sheet as at the end of transaction				Profit and loss for the pe	
Assets		Liabilities & Equity		Income	
Fixed Assets		Shareholder's funds		Disc received	30000
building	95,00,000	12,00,000 equity share@10	1,20,00,000		
Plant	45,00,000	P&L	3,00,000		
		NET WORTH	1,23,00,000		
Long term Investments		Long term liabilities			
		M. Loan	95,00,000		
		8% debentures (200,000)	2,00,00,000		
		Loan	45,00,000		
Current Assets		Current Liabilities			
current account	2,87,00,000	Creditors for spcl raw mat	-		
cash	6,00,000				



So, what happens? Now go to the income side now when I on the income side I will say, discount received; discount received how much? 3,00,000 is the discount that you have received. When I have received a 3,00,000 as discount is this still due out here is that 3,00,000 still due on the payment of raw material that basically is not due because that is received as a income that is received as an income out there.

So, in this case what did you see three four different aspects out there right four different aspects of there for a transaction that is first part of the transaction payment, we split the transaction please understand what did I do? I split the transaction I cut it out at the point of payment first I say payment is made over. Now I go to the next part of the transaction what is the next part of the transaction? Discount received; discount received is basically gain for you or not?

Student: Yes.

That is what I recorded am I with you on this? So, when I say a transaction is two more than 2 or minimum 2 here you could see that minimum 2 it is going beyond the two aspects out here am I with you any doubts at this stage sir nothing clear am I with you sir am I communicating sir? Yes please.

Student: Sir 24 th March we are paying for raw material is that, we also count them in expense which you spends on.

I spent. So, what have I got I have?

Student: Raw material.

Raw material. So, who owns it, have you? So, when own it what is it?

Student: (Refer Time: 20:18).

That's all what I have done. When does it become what is called as when I use it and basically make a sale out of it that is when it becomes an expenditure out there please.

Student: Sir what is the date on the preparing the balance sheet (Refer Time: 20:32).

Balance sheet I have said at the end of every transaction, I never specified a date out here right because each transaction is on a specific date. So, I will have to keep changing the date that is one of the reasons I said that let us look at it at the end of every transaction. Basically imagine each transaction is on a different day because I do not have 365 transaction. So, there are only 30 or 40 each transaction as you write the date and at the end of every date you say this is the balance sheet right that is a good question but this is how you will understand.

Now we move to the tenth one, on 1st of April 2018 the company purchased cars and utility vehicles for office and industrial use at a cost of 42,00,000 the down payment of 4,00,000 was made at the time of purchase again more than 2.

(Refer Side Time: 21:31)

A	B	C	D	E	F	G	H
4	building	95,00,000	12,00,000 equity share@10	1,20,00,000			
5	Plant	45,00,000	P&L	3,00,000			
6	Cars, vechiles	42,00,000					
7			NET WORTH	1,23,00,000			
8							
9	Long term Investments		Long term liabilities				
10			M. Loan	95,00,000			
11			8% debentures (200,000)	2,00,00,000			
12			Loan	45,00,000			
13							
14							
15	Current Assets		Current Liabilities				
16	current account	2,87,00,000	Creditors for spcl raw mat	-			
17	cash	6,00,000					
18	Spcl raw mat	30,00,000					
19							
20							



First of all what has what has happened? You have purchased.

Student: Cars and vehicles.

Cars and utility vehicles whatever a motor car whatever utility why vehicles you have purchased for the worth of about 42,00,000. So, who want you to make a purchase who owns it?

Student: Company.

Your company owns it. So, its an asset for the company asset vehicles 42,00,000 vehicles put it as vehicles that is not car, it is cars plus utility vehicles that is a put just as for a vehicles. Now move to the next part what has happened? You have paid 4,00,000 amount you have paid 4,00,000 what happens? Your bank balance comes down by 4,00,000 out there.

(Refer Side Time: 22:08)

	B	C	D	E	F	G	H
2		Assets		Liabilities & Equity		Income	Exp
3	Fixed Assets		Shareholder's funds			Disc received	300000
4	building	95,00,000	12,00,000 equity share@10	1,20,00,000		consulting fee	2600000
5	Plant	45,00,000	P&L	29,00,000			
6	Cars, vechiles	42,00,000					
7			NET WORTH	1,49,00,000			
8							
9	Long term investments		Long term liabilities				
10			M. Loan	95,00,000			
11			8% debentures (200,000)	2,00,00,000			
12			Loan	45,00,000			
13			Liab for vec	38,00,000			
14							
15	Current Assets		Current Liabilities				
16	current account	5,43,00,000	Creditors for spcl raw mat				
17	cash	6,00,000					
18	Spcl raw mat	30,00,000					

Sorry sir you are not able to see with you on this.

Student: Sir.

1 second sir; 1 second sir; 1 second 42,,00,000s is the value of the purchase 4,00,000 you have paid; that means, another 38,00,000 is to be.

Student: Liability.

Is to be paid its a long term liability, it cannot be a current liability; obviously, it's a long term liability 1 second I will come to you. Long time liability for vehicles what happens? 38,00,000 long term for vehicle liability for vehicles or loan for vehicles whatever you want you write. 38,00,000 am I with you on this now your question sir.

Student: If we make a (Refer Time: 22:52) payment 42,00,000 and then come to current asset.

Hm.

Student: (Refer Time: 22:54).

If you make a complete payment of 40,00,000 out 42,00,000 out there then what happens? There is a long term vehicle is a long term investment it is not going to change the position every time its a long term asset.

Student: But.

Then what happens? Your current asset your bank balance goes down by 42,00,000 that's all. Supposing you had bought this vehicle for entirely your cash then what happens? Vehicles would have remained at a 42,00,000s, the bank balance instead of going down by 4,00,000s should have gone down by 42,00,000 in the process that's all that would have happened. The its a long term asset vehicle see normally short term asset is keeps changing position every minute vehicle when you buy, the value of the vehicle does not change every minute of course, one can argue depreciation, but still.

Student: There is a raw material can we converted (Refer Time: 23:42).

Vehicle that is if you are automobile dealer yes for a company when you are buying a vehicle you are buying utility vehicle for transporting your own equipment for example, you purchase a car for in the managing director of the company, its not it is not used for basically operations its used for a different purpose the purpose is not to convert that asset into right. So, that is the reason.

Move on looks fairly simple right. So, this is all the balance sheet and P & L right balance sheet P & L accounting is so, simple do not make it too complicated. We go to the 11th transaction, during the course of the year based on technical expertise of the staff,

the company also provided consulting services to other manufacturers and received a cheque to the tune of rupees 26,00,000s as consulting fee now what happened what happens?

Student: (Refer Time: 24:39) income (Refer Time: 29:40).

Ah.

Student: (Refer Time: 29:40) income; income.

Income consulting fee 26,00,000s straight.

Student: (Refer Time: 24:46) current account.

Current account; current account you instead of current account is fine you put just put as bank account that is better.

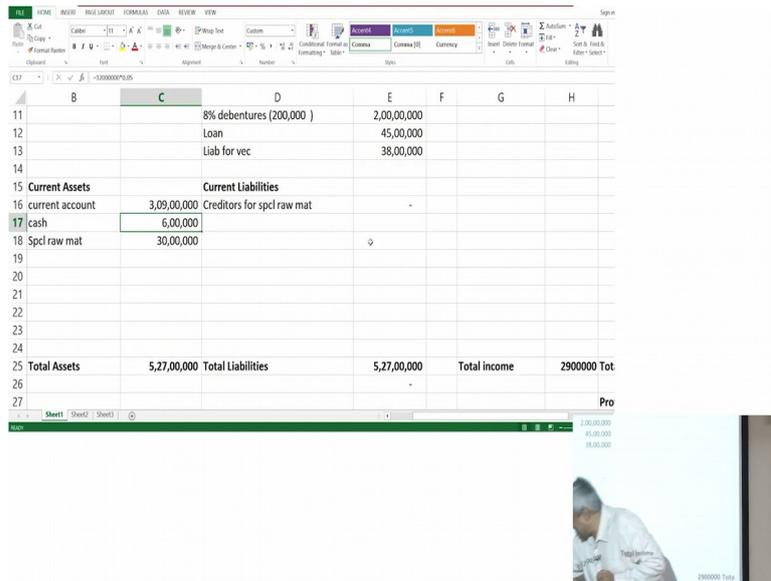
Student: (Refer Time: 24:53).

Current account is bank account.

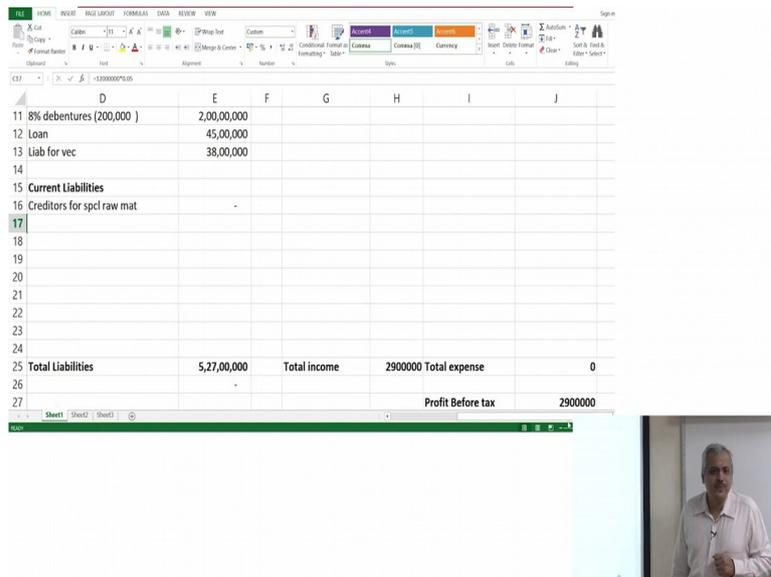
Student: Bank account.

Bank account because you have received a cheque basically 26,00,000 the bank account it basically goes up. Now 1 second sir, Rishab 1 second. Now you would be constantly worried 26,00,000 is fine how many 0s you have added you just see I think you had adding too many 0s every time Prateek you had breakfast right then fine.

(Refer Side Time: 25:24)



(Refer Side Time: 25:36)



Now, see at every stage what you see, you go down your balance sheet the liabilities and the assets are always the same how is it? How is the liability and the assets always the same? Move this side if we actually look at there is a total income the expenditure as of now is 0 what is the profit? Profit is entire thing is 29,00,000 out there so, far whatever is the profit you have earned 20 whatever the money to whom does the profit belong?

Student: Equity share holders.

So, what happens in the equity on the equity on the equity side go up. So, what happens out here? The value the money that is this 29,00,000s of profit what you are earning it

basically belongs to the share holder. So, that is just constantly getting added out here to the capital or the equity of the share holders at out there. That's all you want me to explain again if you are silent then I do not yes or no is fine.

Student: Yes its clear sir (Refer Time: 26:20).

Ah.

Student: Whatever the profit or loss.

Whatever the profit or loss yes of course, yes profit or loss whatever is a profit or loss it automatically gets basically what you call it as it is to be borne by the equity holders that's all. Yes Rishabh your question.

Student: Can we make a down payment of 4,00,000 firstly.

Ah.

Student: (Refer Time: 26:42).

Why?

Student: Because it is also expense.

When does it become an expense?

Student: When we are.

when you derive the benefit out of it have I derived the benefit of the vehicle completely?

Student: No sir.

What part will get added? Only depreciation part will get added depreciation on the entire value of the vehicle not only on 4,00,000.

Student: Fine sir.

I explain this again why is the asset equality liabilities? As I said sources utility equal to utilization this is another word which I used out there. Your sources of fund equal to util-

isation of funds what is the utilisation could be in the sense you are part of your current asset also what money in the bank also is basically that is there that is your it is lying unutilised, but its there your money.

Your sources is increasing how is it increasing? Every time you are making a profit, the profit is getting accumulated getting flowed back to the capital right. It is getting added to the capital out there that is what we see out here go up. The profit whatever you have made because profit belongs to whom? Because these two you have made these two are the transactions that has happened and both are generated income, there is no expenditure as of now the income belongs to whom?

Student: Share holders.

Belongs to these fellows I am flowing it back. When I am flowing it back it automatically is getting adjusted with my when increased the cash or bank balance or whatever stock balance etc out there that's all am I with you on this?

Student: Sir, even the loss goes to the share holders.

Of course, yes; of course, yes let us take there is no transaction here I am just checking for example, for the benefit of. Now there is a sudden fine imposed by the government for some activity that this firm has done and there is a fine that is imposed on this organisation to pay or you have paid about let us say about whatever is your cash and bank balance put together about let us say 3 crore out here; 3.6 crores is what you have basically paid out? Then what happens if you have paid out 3.6 crores out there your cash and bank balance becomes completely 0 whatever is there imagine just make an entry out there.

(Refer Side Time: 29:15)

	Assets	Liabilities
building	95,00,000	12,00,000 equity share@10
Plant	45,00,000	P&L
Cars, vehicles	42,00,000	
		NET WORTH
		1,49,00,000
Long term Investments		Long term liabilities
		M. Loan
		8% debentures (200,000)
		Loan
		Liab for vec
Current Assets		Current Liabilities
current account	-	Creditors for spcl raw mat
cash	-	
Spcl raw mat	30,00,000	

Your cash and bank balance out there completely cancel out 309 minus 309 whatever number of 0s.

Enough 6,00,000 minus 6,00,000 rights.

(Refer Side Time: 29:41)

	Liabilities & Equity	Income	Expense
Shareholder's funds		Disc received	300000 fine
12,00,000 equity share@10	1,20,00,000	consulting fee	260000
P&L	-2,86,00,000		
			31500000
NET WORTH	-1,66,00,000		
Long term liabilities			
M. Loan	95,00,000		
8% debentures (200,000)	2,00,00,000		
Loan	45,00,000		
Liab for vec	38,00,000		
Current Liabilities			
Creditors for spcl raw mat	-		

Imagine you are paying out as a fine go to the expenditure fine payment of fine do not make an entry I am not added this payment of fine whatever is a 309 whatever it plus 309 slow 9 slow plus 6,00,000.

(Refer Side Time: 30:02)

	D	E	F	G	H	I	J
16	Creditors for spcl raw mat						
17							
18							
19							
20							
21							
22							
23							
24							
25	Total Liabilities	2,12,00,000	Total income	2900000	Total expense	3150000	
26							
27					Profit Before tax	-28600000	
28					Tax	-28600000	
29					Profit after tax	-28600000	
30					Dividend	-28600000	
31					Retained Earnings	-28600000	
32							



So, what happens? Now what happens? Go down; go down further I want to see the loss now what happens? There is a profit before tax move to move one column one there is a negative because the income what you have earned and the expenditure that you have incurred is higher.

Now, go to the P & L go to the balance sheet go down what has happened? The entire thing is basically sitting out as the loss out there if a entire thing is sitting out as loss out there what is happening? That is more than the capital that you have invested; that means, your net worth has become negative when your net worth becomes negative what is the holding the equity holders have? 0 their value of their share is blocked the company in that case ceases to exist. Am I with you? Profit or loss both are borne only by the equity providers am I with you on this?

Student: Yes.

So, what happens if tomorrow any company that you have invested in, makes a huge amount of loss I mean as an equity holder do I have to bear the entire loss? You do your loss is limited to the extent of your investment what is the value of your share? Values of your share is 10 rupees face value forget about the market value at which you have bought value of your share is 10 rupees that is that which a share certificate earlier it is to be a share certificate which was worth 10 rupees or whatever now has become a tissue paper that's all move on further?

Student: Yes.

Am I with you on this?