

**Decision making using financial accounting**  
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**Lecture - 07**  
**Three Financial Statements**

(Refer Slide Time: 00:15)

3	<b>Fixed Assets</b>		<b>Shareholder's funds</b>			
4	building	95,00,000	12,00,000 equity share@10	1,20,00,000	Disc received	300000
5	Plant	45,00,000	P&L	29,00,000	consulting fee	2600000
6	Cars, vechiles	42,00,000				
7			<b>NET WORTH</b>	<b>1,49,00,000</b>		
8						
9	<b>Long term investments</b>		<b>Long term liabilities</b>			
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	<b>Current Assets</b>		<b>Current Liabilities</b>			
16	current account	3,09,00,000	Creditors for spcl raw mat	0		
17	cash	6,00,000				
18	Spcl raw mat	30,00,000				
19						

Now, we move to the 12th transaction purchases were made. See here, because I have not given purchases at every specific interval. Read the statement very carefully, purchases are made on the 1st and the 16th of every month starting 16th of January; that means, how many purchases in a year?

Student: 23.

Purchases in a year?

Student: 24, 23.

1st and 15th? So in a month 2? 23, 24 because I start only on 16. In that year, Jan to December, 23 purchases are there. The total purchases for the year amounted to 1 crore 43 lakhs whatever 98 thousand whatever I have given the amount out there. All purchases were of uniform value and were with a 60 day credit out there simple straight. Now, pur-

chases I have made purchases to the tune of a board whatever amount out there 1 crore 43 lakhs etc. Now, all these purchases were made over a period of time out there.

Now, when the purchases are made then what will happen also there is a payment that also happens at every 60 days out there. So, as of 31st of December, if I for example, for a minute if we take as of 31st of December total purchases is given, what is the payment due?

Student: Backtracking.

Payment due backtracking, backtracking payment due will be basically for?

Student: (Refer Time: 01:48).

One, two, three, four purchases basically your four purchases; last three or four purchases is what will have to. The purchases you have made of December 16th, 60 day credit you are not paid. December 1st, 60 day credit you are not paid. November 16th, 60 day credit you are not paid.

Student: November.

November 1st, 60 days yeah.

Student: (Refer Time: 02:07).

Possible 60 days credit, you are not paid basically for four purchases you are basically not paid so much out there. Am I with you on this so?

Student: Sir.

Yeah.

Student: November (Refer Time: 02:17).

December?

Student: December 31 days, 60 days.

60 days November is 30, 30 plus 31.

Student: 61.

61 days. November 1st may not come and agreed thank you. Now, November 1st, purchase may not basically come in because 61 days basically November is 30 days, December has 31 days. So, 61 days let us not keep it. Somebody can argue, what if some was the payments had been delayed? There is no information, what is the information? Information as of now says, 60 days, it was paid. So, let us assume it let us not add for then information to this.

So, basically for three purchases, we have not you are yet to pay. whereas for most of the other purchases, you would have automatically paid out there. As of now, let us not make an entry, hold this transaction this is slightly complicated one read the next statement also. Purchase returns on average were to the extent of 10 percent of the value of for every purchase; what is purchase return?

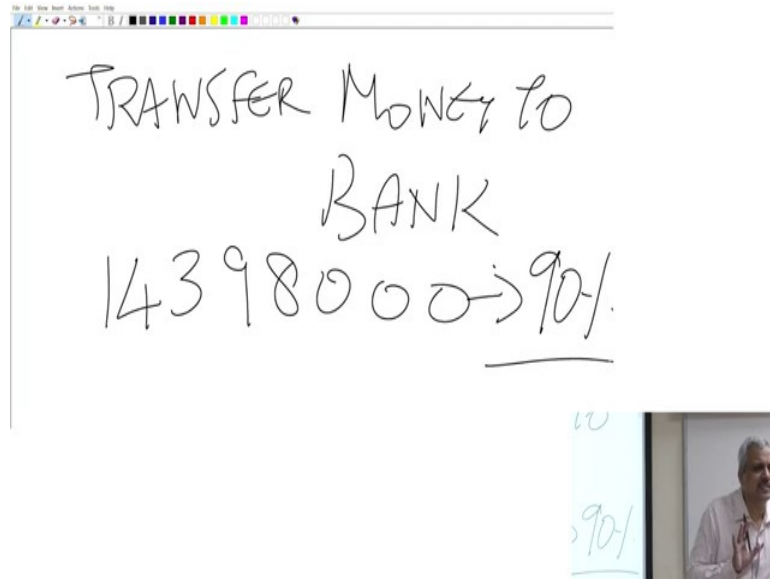
Student: (Refer Time: 03:18).

Did purchase you make some of it.

Student: Get back. Got back.

No, purchase not get back. You return because it is defective, faulty, not meeting your standard, that is what is purchase return. So, what happens in that case, the liability that you have to pay will basically further reduce in the process. Simple, go back to the other screen.

(Refer Slide Time: 03:45)



In this particular case, if I look at in this particular case I will say, 1 lakh 1,43,98,000 is the total purchases. Every month, it is distributed equally for the purpose of ease of your multiplication given or division.

Every month also says 10 percent is defective on an average. So, basically what is happens? Only 90 percent of it is basically what we take as purchases effective purchases out there. Effective purchases is only 90 percent of these entire value, what is 90 percent of this value? You can basically look at calculating, go to the excel. That is basically my effective purchases out there go down further write purchases.



Not a fixed asset that is why you said raw material; raw material means it keeps moving fast moving right its keeps moving every minute, if the same thing, purchase of vehicle then fixed asset out there. Am I with you on this? So, purchase has happened. Now, in this particular case it says that, 10 percent were basically our purchase return.

So, 90 percent is a effective purchase. Now, these 90 percent of it is divided over 23 different purchases, am I with you or not?

Student: Yes.

Out of 23 purchases for 3 purchases, it is yet to be I am yet to pay; I am yet to pay out there. So, what is the liability, current liability creditors out here still creditors out here is, whatever is the net value divided by 23 multiply by 3 basically is the net current liability as of now, can you do that? Anybody who is not following? Following sir?

Student: Why 3 sir?

Why 3?

Student: Yeah.

Because 60 day credit ma'am.

Student: Yeah.

So, we have still yet to pay on purchase of November 16th, December 1st and December 16th. Had it been February, then 1st of November also would 1st of February would have also get added. So, right in this case no.

Student: 1 plus 10. See when we spoke about the special raw material we think is that discount as then income share.

Of course, yes.

Student: Why is that as per the accounting private we just no adjusted in the creditors (Refer Time: 06:52) 27 lakh and then you know remove the credit.

Which one, I did not get you.

Student: What I am asking is if we did that discount of 10 percent and then income.

Of course, yes.

Student: So then you have the purchase returns we are saying you are adjusting it as part of our.

Sir, purchase return is different discount is different. In a discount, what is the value of the good that you have got in that case? The value of the good that you have got is worth 30 lakhs.

Student: Ok.

So, that extra you have got it at a discount you have got the value of 30 lakhs but you have paid less than 30 lakhs. So, that is an income for you, agreed. In this case, what is the value of the good I have got? The value of the good, keep the cursor there on the purchases cell.

Student: (Refer Time: 07:35).

Now, the value of the good that I have got is not 1 crore 43 lakhs, the value of the good that I have got is 10 percent less because, 10 percent has been purchase return. Purchase return is different, discount is different. In a purchase return, what happens? The good that I have received is defective, does not meet my standard, I may not require. So, I am returning it back. So, what is the value I have received? What is the money that I am liable to pay? I am liable to pay only for the value of a purchase, what is the effective value of my purchase? Effective value of my purchase is?

Student: 90 percent.

90 percent of the gross value out there, yes sir.

Student: After this point number 12 now if the balance sheet becomes like make it as of somebody take first.

Yeah.

Student: So, he has a take out the balance sheet.

A balance sheet as of now it does not still have a date. It says I still say every transaction, ideally what you could have done in that cases this is a accumulated purchases still December 31st perfectly fine, that is why titled it as at the end of every transaction. Ideally these three transactions I could have moved it to the end of my list of my transactions out there.

Instead of it being 11 and 12, I could have made it 24 and 25 then it would a become more better for you right, you can do it if you want to, but I did not want to stretch this slide. In this case what you call it as following is slightly difficult right, it is a little confusing.

So, I did not want to push it towards the end of the class. If I push it towards the end of the class, people will be in a hurry right. So, that is the reason I push it in the middle. Yeah ma'am.

Student: Sir, then now in the salaries we after.

No wait. We are not, we will come to the salaries, we will come to the salaries, we will come to the salaries part of it. Yes your question is pertinent, it is valid will that is why I said at the end of every transaction that is all what I said we will certainly take the salaries into account. Yes Imran.

Student: So, (Refer Time: 09:30) how do dealers are going to do it in fraction on the taxes.

Taxes let us not worry, taxes is total profit. Taxes it will get impacted on the taxes because you ought to pay tax on the 3 lakhs also, what discount what we have received because, you have gained out there you have gained something which is more worth more than what you have paid out there; obviously,.

Student: So, if you wrong route disclose the raw material amount of 25 lakhs in the.

Sir your invoice, initial invoice will be for 30 lakhs. This cash discount is independent, there is a paper trail for all that. When there is a paper trail there is cannot be question of disclosure non-disclosure, that will be a problem right. There is accounting fraud per say we will deal it separately, last class I will deal with accounting fraud. And I have a chartered accountant also. So, you will also help me do that.



Student: Sir.

Yeah, sure sir, 1 second.

Student: Basically we are concerned with the multiple construction into 1 year also.

Precisely sir.

Student: So.

I could have slit it as 23 different transactions.

Student: Normally the question was. So, right now we are at the present particle like that.

Yeah only for this transaction keep it as December time period, only for this transaction keep it as December no problem. What I have done? As he rightly put it, I could have split first of February purchase raw material for so much, purchase returns 10 percent. 16th of February purchase raw material so much, return so much. I can go on making that interest instead of that I have basically clubbed it. Am I with you? Yes Imran.

Student: How did the 3 lakh profit seller of the raw material and how much of him?

For him, it is an expenditure discount given. It is an expenditure for him; obviously, right for you it is an income, you gain at the cost of somebody right. So, somebody it is an expenditure simple sir. I get my salary from a company, it is an income for me for that company, what is it?

Student: Expenditure.

It is an expenditure that is all.

Student: Sir, is that transaction holds? Because I do not see it is balancing.

No it is not over sir; I have not come to that. Now in this particular case, yes sir.

Student: Sir if the cashless commit is given for the raw material purchase.

Student: And it is remitted immediately.

Remitted where?

Student: As when we pay.

Cash is paid immediately and discount is given.

Student: No.

Student: Some purchase cash discount is given.

Purchase cash discount is given.

Student: And made the payment of them.

Ok.

Student: Then this concept is need not to come.

No, it will come because you have received the, see you have made a payment.

Student: It has come on the invoice as well.

Which one? It has come on the, see.

There is a now that you have said use this thing, there are two kinds of discount one is a cash discount another is what is called as a trade discount. Trade discount is a discount typical people in Chennai will know, what is what is your typical Audi sale out there right? Across board there is a discount, all shops everything across board there is a discount, January 1st there is a discount, across board there is a discount where you buy.

I buy he buys etc. Now, what happens? Then that becomes if there is a trade discount, the value of the good itself has reduced in that particular case.

Then the invoice value itself will be the value at which you are purchasing or what you are paying. In that case, the trade discount will never appear anywhere in your books of accounts. Or that say for example, there is a good worth 40 lakhs out there and there is a 10 lakh audit discount or whatever discount out here. So, the purchase you pay 30 lakhs and buy it, the value of the good is 30 lakhs today because the value of the good is not 40 lakhs because across board it is 30 lakhs whether he buys it or buy it, it is 30 lakhs.

Why is cash discount given? Cash discount is given; I give a credit to you 90 day credit. 90 days I have to source money for myself because I have to finance it. Now you pay early, I give you some discount why? Because I am saving on the cost.

Of that fund for 90 .. 90 days. Only that part of it, Prateek cool. Now, only that part of it will basically appear that discount I might get it, he may not get it.

Student: Yeah.

Only that will appear in your books of accounts, am I with you on this sir?

Student: Sir, so at that time of Audi sale or whatever, our current assets will go down?

No your current asset will not go down whatever is the value of your purchase, value of your purchase that is what.

Student: Then that sale will again me tracked as discount and then we will make it equal to the.

No no you do not take it, what is the value of your purchase then? The value of your purchase is not 30 lakhs; it is only 27 lakhs because there is a 10 percent discount, trade discount.

Student: Yeah, but if we are selling goods let us say selling goods are discount with rate. But we actually believe with sort of more value.

You might believe anything sir. Accounting is not worthy for belief, accounting is worth about transaction, I might believe so many things, but what is the value of the transaction? There is a slight difference there; belief is different, keep the belief aside.

Student: Sir as a purchaser.

Yeah.

Student: As a purchaser, you pay the after the trade discount you pay the net value worth.

You are in that case, right in your purchase invoice itself, there is a value of the good 10 lakhs, trade discount 10 percent, value of the purchase 9 lakhs that is what it will come. Then you pay how much? 9 lakhs.

Student: But as a company, when you are giving a trade discount, how do you account?

Trade discount means simple, I have reduce the value of the good across board that is all.

Student: But in your books.

In I books, what happens? That extra part of it is basically in abnormal loss out there, trade discount loss in the sense; it is a loss for me. If the value of the good is reducing, it is a loss. Value of a finish goods is 10 lakhs.

Student: Yeah.

Now, I am selling it for 9 lakhs; that means, that 1 lakh is basically a loss for me.

Student: So, you showed it as of now?

Yeah I showed it as of, if the value I have already recorded it as 10 lakhs. Normally, what happens? The value you will record it in your books of accounts will be the cost that we have incurred in manufacturing. Imagine a car; I have incurred about 5 lakhs in manufacturing the car. The selling price might be 7 lakhs perfectly fine, but the value in my books is only 5 lakhs.

So, what happens? Selling price is 7 lakhs. Now, because of January 1st or whatever it is, I give a discount and then I sell the car for 6 lakhs then what has happened? There is no effect there is no discount I have given, I am reduce the value it is 6 lakhs, what is the value of my car in my books? 5 lakhs, what is the value at which I sold? 6 lakhs, what is the value of the sale? 6 lakhs that is all.

I have in that case I made a profit of 1 lakh that is all what happens; you are not selling it at a loss. If I am because of some problem I have to sell the car at 4 lakhs then that 1 lakh automatically is recorded, that is my expenditure or the value of the good I have sold is 5 lakhs, the income I have earned is 4 lakhs then; obviously, 1 lakh loss will get automatically recorded in the process.

Student: Understand that by trade discount, the whole among the accounts of only purchase go to the accounts of the sell.

Not necessary also, it not need not be, I took an example of this. I said the car the value of the car according to my books is 5 lakhs, selling price in the market of the car is 7 lakhs. Now, whatever Jan 1st, I decided to give a trade discount and decide to sell the car at 6 lakhs. When I sell the car at 6 lakhs, what is happening? The value that is getting out of my asset is only 5 lakhs; the income that I am getting is 6 lakhs there that is all that happens, that another 1 lakh it just gets hidden. It does not appear anywhere in your books.

Student: Sir, small question.

Sure sir.

Student: Ah the case you gave just now is being a manufacturer.

Of course yes.

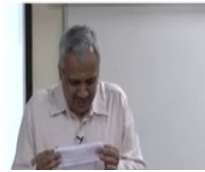
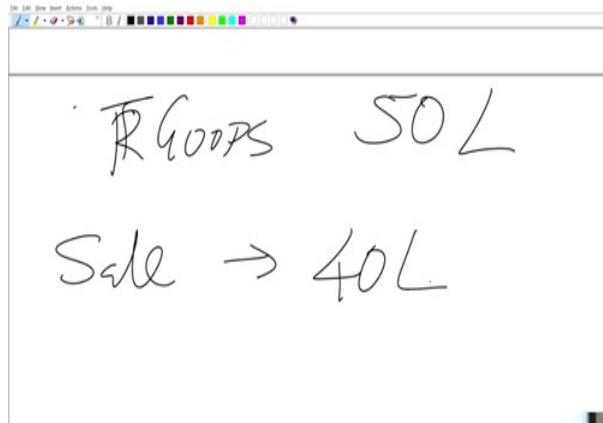
Student: If you are a trader, there buying and you recording that percept and entry as on date.

Your cost of if you are selling less than the cost, in that case what happens? You will record the sale value, go back to the screen.

Student: Sir you might not.

One second one second one second will do that we will do that we will do that no problem. Imagine I am a trader; I have purchased what is called as the raw material out there.

(Refer Slide Time: 17:57)



I have purchased the raw material basically whatever the traded goods out there, traded goods out there for let us say 50 lakhs, that is there in the asset side of a balance sheet as a current asset.

Student: Sir.

Some problem, I have to sell it. Now, what happens in the income statement, the sale that value that I will record is only 40 lakhs. I am selling it for 40 lakhs. Now, what is my goods that has gone out? The goods that has gone out worth about 50 lakhs. In that case, what is a net loss for you? Net loss that appears is basically 10 lakhs that is what we will get recorded, it will not get recorded separately as a trade discount as a separate item want to place, with you on this?

Student: Sir, come back to the on cash backs return in the same way?

Cash back is cash back whatever money that you have received yes, it is an indirect form of discount that is all.

Student: Sir, it is returned in the same way sir (Refer Time: 18:56).

Obviously right, cash is coming to you only you know. So, it is an income for you right. Move on? I move on further. Move to the transaction number sorry, I have not finished this transaction, go to the excel.

Student: The cash will go down.

Now, what happened? You have made a purchase of so much, so much is still due whatever, so much is still due; that means, what happens? The rest of it you have basically.

Student: Paid off.

Paid off if you are paid off, what happens?

Student: Current account.

Your current account basically.

Student: Comes down.

Comes down to that extent, is there sufficient money there?

Student: Yes sir.

It cannot be negative. If there is a negative, I will just add one more transaction suddenly borrowed from banks some 50 lakhs you know.

(Refer Slide Time: 19:37)

A	B	C	D	E	F	G	H
6	Cars, vehicles	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	1,62,51,600	Creditors for spcl raw mat	-			
17	cash	6,00,000	creditors	16,90,200			
18	Spcl raw mat	30,00,000					
19	Purchases	1,29,58,200					
20							
21							
22							



Squeeze them one transaction and then we will take care of it, there is ok.

Student: If I will move with (Refer Time: 19:54).

Where pardon me?

Student: When the current account liability given a we will not liable.

Why? Why? What is the cash that is gone out?

Student: 1 crore 29 lakhs.

That is all that is gone out.

Student: Yeah.

The not the 1 crore 29 lakhs is gone out, 1 crore 29 lakhs is the value of your purchase.

Student: Yeah.

What is the cash that has gone out? This minus what you have to pay, have you done it properly? Right.

Student: That is what.

That that part of it is in still not gone out.

Student: Ok.

You have done it properly know?

Student: So, because.

He has done it, minus C 19. No, I think you have not done it properly. I think you have to put a parenthesis there.



(Refer Slide Time: 20:45)

	A	B	C	D	E	F	G	H
6		Cars, vehicles	42,00,000					
7				<b>NET WORTH</b>	<b>3,17,45,660</b>			
8								
9		<b>Long term Investments</b>		<b>Long term liabilities</b>				
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		<b>Current Assets</b>		<b>Current Liabilities</b>				
16		current account	1,96,32,000	Creditors for spcl raw mat	-			
17		cash	6,00,000	creditors	16,90,200			
18		Spcl raw mat	30,00,000					
19		Purchases	1,29,58,200					
20		Debtors	29,29,660					
21								
22								

Now, it is I think some problem right. Now, now we move on 14th transaction, exactly similar to your 12th one. It is now purchases, I given sales out here that is all. Sales during the year amounted to 1 crore 87 lakhs 17 thousand 4 hundred.

Why I given this 17 lakhs 400 etc is basically the ease of your division and everything, it will not be in decimals when you divide by 23, 24 and all these things it will not be in decimals, that is why I given in that way. Now, on followed a similar pattern as purchases, where the sales were made on 10th and 25th of every month. Starting 25th of January, all sales were on the basis of 60 day credit out there. Again you have 23 sales out there.

Student: 24.

Student: 14.

23.

Student: I will tell you.

23 sales, 23 pieces of sales out there exactly the same and due will be 60 day credit not 3 in this case 4 because, 4 dues will be there, because now November 10th sale will also be still due because, Jan 9th only you end up paying out there.

(Refer Slide Time: 21:57)

as at the end of transaction		Profit and loss for the period 1st January to 31st December	
Liabilities & Equity		Income	Expense
Shareholder's funds		Disc received	300000
12,00,000 equity share@10	1,20,00,000	consulting fee	2600000
P&L	1,97,45,660	Sales	16845660
<b>NET WORTH</b>	<b>3,17,45,660</b>		
<b>Long term liabilities</b>			
M. Loan	95,00,000		
8% debentures (200,000 )	2,00,00,000		
Loan	45,00,000		
Liab for vec	38,00,000		
<b>Current Liabilities</b>			
Creditors for spcl raw mat	-		
creditors	16,90,200		



So, what is the sales out there? Let us go to a sales out there, let us go to the income statement out there, sales yeah what is the value?

Student: 1.

1 and then 18717400 as of now hold it. Read the next transaction, during the year sales returns on an average worth to the tune of 10 percent of the value of every sale same similar thing. So, what happens? The total sale value is?

Student: 90.

90 percent of that whatever 1 lakh, 1 crore 87 lakhs or whatever it is. Again like in the last transaction, I have clubbed it 24 transactions together 23 transactions together. Into 0.9 over, now agreed. Now, next part of it what? In this particular case, it was all on 60 day credit.

That means this value of the sale is divided by 23. For 4 sales, you have not received money so; that means, it is a debtor for you that is it is receivable it is an asset for you. So, 16845660 divided by 23 into 4.

Student: Yeah divided by.

Divided by 4 into 23, what did you do? Ok fine.

Student: (Refer Time: 23:20).

4 into 4.

Student: It is also not.

(Refer Time: 23:24) 4 yeah.

Student: Sir, what do you mean by sales returns?

Sales returns, you have sold a goods that is the damage Amazon return, what you do? That is sales return right. For Amazon, it is a sales return. Many goods coming back purchase return, you return the purchases sales return the good.

Student: When invested that 10 percent when we considered as transferred or something.

No I have not I have not I have not talked about the goods that has gone out; wait we will let us not; obviously, when the goods come back it gets added to your asset. Now, when the goods are going out I have not reduced your assets still, I have not reduced your asset because the good might be value of 100 in your books, you might have sold it at 400. What is the markup you have had, there is no information as of now on that then markup information we will get it next transaction you will get that markup information.

Student: So, about the just on the previous purchase.

Student: For the purchase of the slightly goes on will also be accounted in the expenditure we have already.

We have to hold few minutes, we will come to that definitely that other question we will take care of next transaction, we will take care of it, we will do it today's class no problem. Now this is the due; that means, what has happened, rest of the money?

Student: Received.

You would have received it that is what is the value of the sale? Go to the value of the sale; go to the value of the sale. This minus what is due; you have automatically received and it gets added to your current account or bank account out there that is all. Put the brackets properly.

(Refer Slide Time: 25:07)

Balance sheet as at the end of transaction			Profit and loss for the period	
Assets		Liabilities & Equity	Income	Exp
<b>Fixed Assets</b>		<b>Shareholder's funds</b>	Disc received	300000
building	95,00,000	12,00,000 equity share@10	consulting fee	2600000
Plant	45,00,000	P&L	Sales	16845660
Cars, vehicles	42,00,000			
		<b>NET WORTH</b>		
<b>Long term Investments</b>		<b>Long term liabilities</b>		
		M. Loan	95,00,000	
		8% debentures (200,000 )	2,00,00,000	
		Loan	45,00,000	
		Liab for vec	38,00,000	
<b>Current Assets</b>		<b>Current Liabilities</b>		
current account	000 (C19-E17)H	Creditors for spcl raw mat		
cash	6,00,000	creditors	16,90,200	

Student: Sir.

Yeah

Student: One type of (Refer Time: 25:22) the base of (Refer Time: 25:24).

Yeah.

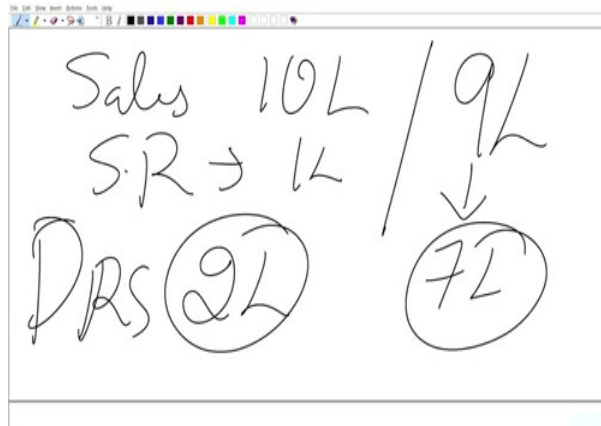
Student: (Refer Time: 25:27).

(Refer Slide Time: 25:17)

Balance sheet as at the end of transaction			Profit and loss for the period	
Assets		Liabilities & Equity	Income	Exp
building	95,00,000	12,00,000 equity share@10	consulting fee	2600000
Plant	45,00,000	P&L	Sales	16845660
Cars, vehicles	42,00,000			
		<b>NET WORTH</b>		
<b>Long term Investments</b>		<b>Long term liabilities</b>		
		M. Loan	95,00,000	
		8% debentures (200,000 )	2,00,00,000	
		Loan	45,00,000	
		Liab for vec	38,00,000	
<b>Current Assets</b>		<b>Current Liabilities</b>		
current account	3,35,47,980	Creditors for spcl raw mat		
cash	6,00,000	creditors	16,90,200	
Spcl raw mat	30,00,000			
Purchases	1,29,58,200			
Debtors	29,29,680			

Go to the other screen; go to the other screen. Let us take a very simple example sir, let us take a very simple numeric.

(Refer Slide Time: 25:41)



Imagine over a period of one year, I am selling goods worth about 10 lakhs. There is the sales return of sales return in this case of about 1 lakh, what is my effective sale? My effective sale is only 9 lakhs that is what I record at in the sales column out there, am I with you on this? Now, in this the out of 9 lakhs, let me say that still I am yet to receive money on sales worth 2 lakhs; that means, what get what is the money that I have received?

Student: 7 lakhs.

7 lakhs is what I have received. So, out of this 7 lakhs will get added to my bank account, the other 2 lakhs which I am yet to receive will basically become what is called as; it basically become what is called as my debtors out there, DRS is basically debtors out there that is what is; that is what we are adding.

Now, how did we get that 2 lakhs in this particular example? Payment is made in 60 days; that means, last four purchases you are not made the payment. So, this 9 lakhs, I have divided by 23, 23 purchase I have made last four purchases, I have not made the?

Student: Payment.

Payment so that whatever is the amount into 4 is the debtors, remaining I must have automatically received out there, am I with your sir? Now go to the excel.

Student: Sir, I have to.

Sure sir.

Student: So, the sales of.

Student: Sales of 10 lakhs.

Student: And returns is like 1 lakh.

Student: So, it may not come on the same pair of building, it will be coming.

Of course yes. Here we are looking at overall that is why I give it as a next transaction I did not combine it right, it is a clubbed agreed. Let us assume 1st of January for whatever 25th of January, you made a sale of whatever 1 lakh 93 thousand divided by 23. 2nd of February, 10 percent of that sale has come back when you record it you will be recorded by the date. Here we are just combining only for the purpose of you do understand the whole thing, am I with you sir?

Student: Yeah.

Yeah ma'am?

Student: Sir, when you do a sale.

Student: I might of you, you considering a profit margin in a (Refer Time: 27:47).

Student: And you got a 10 percent returns.

No, I have not you have not got a 10 percent return.

Student: I mean 10 percent discount.

You have given a 10 percent discount ok.

Student: Loss.

Loss.

Student: When you are doing the sales return.

Student: Value is reduced by 10 percent.

Not a value has the 10 percent worth of goods has come back to you, you can rework on it you can do whatever you want with it.

Student: Ok.

You can rework on it, you can take it out as a scrap whatever it is that is. For example, it can be I have used 100 rupees worth of goods I have sold. For selling 100 rupees worth of goods, I have used 80 rupees worth of raw material. Now, my profit is neat 20 rupees in this case. Once I make a sale, 10 percent of that comes back to me and I cannot rework on it, I have to just destroy it as scrap out there.

That means, what is the effective sale? Effective sale is 90 rupees, what is my investment? My investment is 80 rupees out there. So, my profit is return. 10 percent of it is come back, out of it I can derive a value of about 6 rupees out of that; that means, what is my effective material that I have utilized? Effective material that I have utilized is 80 minus 6 rupees which I have derived can derive value effective material that I have utilized its only 74, value of this sale is 90 whatever is a profit you can calculate. Am I with you on this?

Now, in this particular example what I have talked so far, I have not included the margin, I have not included the mark up.

Student: Yes sir.

I have not said whether the scrap purchase returns or sales returns; that is occurring sales returns that is occurring, whether you can rework on that, whether you cannot rework on that I have not said any of those things, but the next statement we will talk about consolidated again of all those things because I did not want to split it. If you read the next statement it says that there will be a transactions, we will come to that we will come to that in a few minutes, we will we will come to that as you go along will come to that do not worry about it.

Transaction number 16 incurred an advertisement expenditure of 45 lakhs on 1st of April 2018 and paid through a one month post dated check. The effect of the advertisement is expected to last two years. Now, how do you treat this?

Student: (Refer Time: 30:09).

No, once you have issued a check you are liable to pay; otherwise one can be pay and boss so.

Student: Can be your expected.

Student: Post paid with the.

Post dated only for one month in the year, yes.

Student: Part of expenditure.

Part of expenditure.

Student: I know part of (Refer Time: 30:24).

Agreed.

Student: The benefit this has to (Refer Time: 30:26).

First let us let us let us flit the transaction multiple parts right. First part was, there is a advertisement that is done, there is an expenditure that is incurred.

Expenditure that is incurred is worth to be 45 lakhs there is a cash out flow of 45 lakhs not immediately one month later, on the day there is your on the day the add is complete you have got that what is called as your become liable to pay, what will be the entry? The entry will be, liability to pay that is creditors for advertisement 45 lakhs.

Student: Yes.

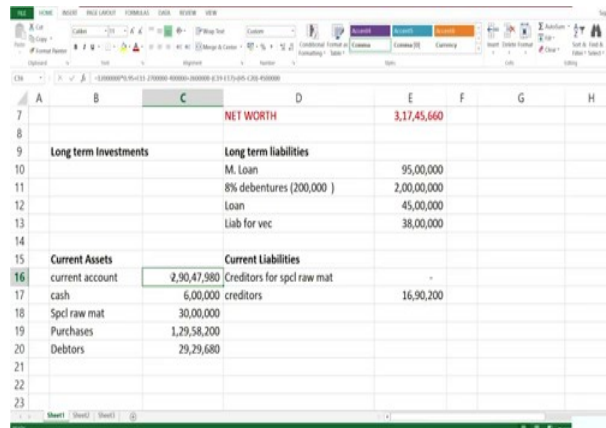
The day the check becomes valid, he might cash it one month later also because check valid is three months. So, we are not the day it becomes valid then what happens? 45 lakhs your cash balance have current account balance basically comes down, am I with you on this?



Student: Yes sir.

Now, let us first let us take that one month later that is on the day the check has become valid, let us reduce 45 lakhs from the current account that is you have issued a check the check has also become valid.

(Refer Slide Time: 31:27)



	C	D	E	F	G	H
7		<b>NET WORTH</b>		<b>3,17,45,660</b>		
8						
9	<b>Long term investments</b>	<b>Long term liabilities</b>				
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	<b>Current Assets</b>	<b>Current Liabilities</b>				
16	current account	creditors for spcl raw mat		-		
17	cash	creditors		16,90,200		
18	Spcl raw mat					
19	Purchases					
20	Debtors					
21						
22						
23						



Now, now reduce 45 lakhs from that. First part of the transaction over, agreed? Now, what is the add worth? Add is worth 45 lakhs. Validity of the add is how many years?

Student: Two years.

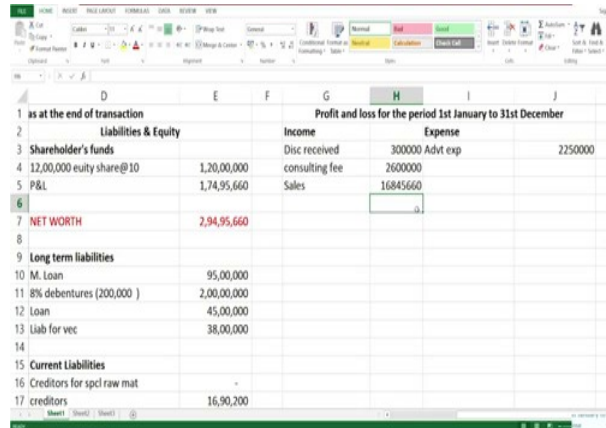
Two years; that means, one year you have basically; that means, you have whatever you have candidate you can reuse it etc validity of the add is two years out there. So, whatever your film, it is worth 45 lakhs. You have you have spend money one year part of it that is 45 lakhs divided by 2 assuming that this is done at the beginning of the year, assuming that this is done at the. Supposing I add a indicator, it is worth two years, this ad were short only on 30th of June and becomes valid from 1st of July.

That means, what happens? It can still valid for two years; that means, what happens? What is the expenditure that I will judge? Move to the expenditure part of it.

Student: Only one of.

Go to the expenditure part of it; that means, what I will charge? I will charge expenditure that has accrued, what is accrued?

(Refer Slide Time: 32:27)



as at the end of transaction		Profit and loss for the period 1st January to 31st December			
Liabilities & Equity		Income	Expense		
Shareholder's funds		Disc received	300000	Advt exp	2250000
12,00,000 equity share@10	1,20,00,000	consulting fee	2600000		
P&L	1,74,95,660	Sales	16845660		
<b>NET WORTH</b>	<b>2,94,95,660</b>				
<b>Long term liabilities</b>					
M. Loan	95,00,000				
8% debentures (200,000 )	2,00,00,000				
Loan	45,00,000				
Liab for vec	38,00,000				
<b>Current Liabilities</b>					
Creditors for spcl raw mat					
creditors	16,90,200				



Student: One year.

One year's expenditure has accrued in that case in this case let us assume for the time being that it is done at the beginning of the year; that means, 45 lakhs divided by 2, 22.5 lakhs worth of advertisement I have consumed, it has been utilized. Supposing, I said I get what you call it as Katrina kafe and launch an ad and pay her 6 crores out there [noise.] Now, the benefit of that ad is going to be there for three years; that means what? One-third of it, it becomes an expenditure for this particular year, the other two-thirds is not expenditure for the current year, it is for the subsequent years out there.

Student: But I have made the payment.

One second sir payment is done, payment do not worry we will we will come to that sir. Now, if you sort of look at in that particular in the other case, in this particular case assume for the beginning of the year. If I had assumed that it is on 30th of June, 1st of July and valid for three years; that means, what happens? One-sixth of it pertains to this year and the rest of it so on and so forth etc.

Now, coming to this question I have made the payment. When you are made you are purchasing an asset, when you are purchasing a car you are making a payment and buying it

you are not buying without payment, are you writing it as expenditure? What part of it you are writing as expenditure? Only the percentage the value the percentage of value by which it is going down in the current year, you are writing it as depreciation this year, the rest of it is basically an asset for you.

So, in this particular case Katrina Kafe is still going to be the heroine whatever next one year at least at least as long as some of the in fronts are there.

So, what happens they are going to still remember her; I can still derived the benefit of Katrina Kafe for next one year using that ad. So, I am still keeping that ad as an asset for the next one year only the half of it I have utilize this year because as per the contract with her I can use this that for two years. So, valid for two years maybe she can maybe our market is there beyond that also, but as per my contract with her, I can use it for two year. So, this ad was valid for two years for me. So, what is that I have utilized? I have utilized only half of it this particular year is an expenditure.

Student: Sir.

Am I with you on this?

Student: 1st of April sir.

It is 1st of April, in this particular case?

Student: See.

Have I said that 1st of April sir?

If I said 1st of April, three-quarters.

(Refer Slide Time: 34:57)

as at the end of transaction		Profit and loss for the period 1st January to 31st December		
Liabilities & Equity		Income	Expense	
Shareholder's funds		Disc received	300000	Advt exp
12,00,000 equity share@10	1,20,00,000	consulting fee	2600000	
P&L	1,74,95,660	Sales	16845660	
<b>NET WORTH</b>	<b>2,94,95,660</b>			
<b>Long term liabilities</b>				
M. Loan	95,00,000			
8% debentures (200,000 )	2,00,00,000			
Loan	45,00,000			
Liab for vec	38,00,000			
<b>Current Liabilities</b>				
Creditors for spcl raw mat				
creditors	16,90,200			

Perfectly that is the I must have had that part. It is valid for two years from 1st of April. So, what has happened? For the current year, imagine as of 31st of December, I utilize for April, May, June, July, August, September so three-quarters. So, what happens? 45 lakhs divided by, how many quarters in two years? 8-quarters.

(Refer Slide Time: 35:15)

as at the end of transaction		Profit and loss for the period 1st January to 31st December		
Liabilities & Equity		Income	Expense	
Shareholder's funds		Disc received	300000	Advt exp
12,00,000 equity share@10	1,20,00,000	consulting fee	2600000	1687500
P&L	1,80,58,160	Sales	16845660	
<b>NET WORTH</b>	<b>3,00,58,160</b>			
<b>Long term liabilities</b>				
M. Loan	95,00,000			
8% debentures (200,000 )	2,00,00,000			
Loan	45,00,000			
Liab for vec	38,00,000			
<b>Current Liabilities</b>				
Creditors for spcl raw mat				
creditors	16,90,200			

Multiplied by 3 out there, just do that, 9?

Student: Sir, 9000.

9, 24 you have said fine, with you on this sir?