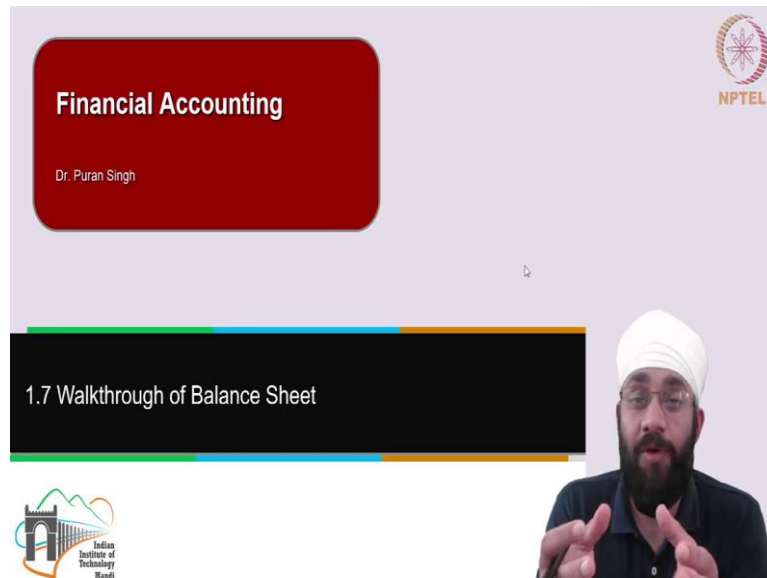


Financial Accounting
Dr. Puran Singh
School of Humanities and Social Sciences
Indian Institute of Technology, Mandi

Lecture – 8
1.7 Walkthrough of Balance Sheet I

(Refer Slide Time: 00:16)



In this video, I am going to take you through the financial statements of a company, Reliance industries limited. Having learnt about assets, liabilities, incomes and expenses do not be surprised now to see these items in the balance sheet of a real company. Let us quickly gather it.

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The screenshot shows the Reliance Industries Limited website. The 'Investors Relations' tab is selected and circled in red. Underneath, the 'Financial Reporting' link is also circled in red. Below this, there are three columns of reports. The first column, 'Annual Reports', has the 'Annual Report for the year 2017-2018' highlighted in red. The second column, 'Financial Presentations', and the third column, 'Quarterly Reports', also show various reports. The NPTEL logo is visible in the top right corner of the website.

So, all you need to do is to go to a web browser, type in the name of a company. I type in RIL Reliance Industries Limited and I go to their website, click on investors relation tab and after that I click on financial reporting and you would see a list of reports.

You could click on the latest annual report. You could also look at the financials in brief from any of these, but what I did was to go to the annual report of this company and click on the annual report. It opens up a new page or it will download an annual report for you which looks like this.

(Refer Slide Time: 01:29)

The screenshot shows the 'INSIDE THIS REPORT' table of contents from the Reliance Industries Limited annual report. The 'Consolidated' link is circled in red. The table lists various sections and their page numbers:

Section	Page Number
CORPORATE OVERVIEW	
2 Reliance at a Glance	
4 Key Performance Indicators	
6 Letter to Shareholders	
10 Board of Directors	
12 Theme Introduction	
14 Business Model:	
Integrated Reporting	
16 Selling and Marketing	
20 Petrochemicals	
24 Oil and Gas Exploration & Production	
26 Retail	
30 Digital Services	
34 Media and Entertainment	
36 Reliance Foundation	
38 Reliance in Our Lives	
40 Awards and Accolades	
42 Company Information	
44 Product Flow Chart	
46 Financial Highlights	
MANAGEMENT REVIEW	
48 Management's Discussion and Analysis	
170 Report on Corporate Social Responsibility	
GOVERNANCE	
384 Business Responsibility Report	
284 Independent Reasonable Assurance on Sustainability Discourse	
286 Corporate Governance Report	
238 Board's Report	
FINANCIAL STATEMENTS	
Standalone	
239 Independent Auditor's Report on Financial Statements	
Balance Sheet	
Statement of Profit and Loss	
270 Statement of Changes in Equity	
272 Cash Flow Statement	
274 Notes to the Financial Statements	
Consolidated	
340 Independent Auditor's Report on Consolidated Financial Statements	
342 Consolidated Balance Sheet	
347 Consolidated Statement of Profit and Loss	
348 Consolidated Statement of Changes in Equity	
350 Consolidated Cash Flow Statement	
352 Notes to the Consolidated Financial Statements	
433 Salient Features of Financial Statements of Subsidiary/Associate/ Joint Ventures	
SHAREHOLDER INFORMATION	
440 Notice of Annual General Meeting	
• Attendance Slip and Proxy Form	
• Members' Feedback Form 2018-19	

In the annual report I look at the contents of the report. There are different sections- you have a corporate overview, management review, governance, financial statements which are of interest to us, consolidated, and shareholders information. Consolidated is actually part of this. Annual reports are prepared by all the public companies and now you should be aware of what the public companies are.

All the public companies at the end of the year prepare a report and publish it on their website for anybody to view it. We are interested in page numbers 268 and 269. So, if you have downloaded the report, as I was going through it, you can go to page 268 and start browsing it as well. So, in this video I am going to look at the balance sheet and we look at the profit and loss statement of profit and loss in the next video. There you go.

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BALANCE SHEET				
As at 31st March, 2019				
	Notes	31st March, 2019	31st March, 2018	if required
Assets = Liabilities				
ASSETS				
NON-CURRENT ASSETS				
Property, Plant and Equipment	1	1,04,000	1,01,178	
Capital Work-in-Progress	2	1,05,255	11,561	
Intangible Assets	3	8,205	3,085	
Intangible Assets Under Development	4	6,462	6,562	
Financial Assets				
Investments	5	2,71,800	1,71,945	
Loans	6	31,856	37,499	
Other Non-Current Assets	7	6,287	3,522	
Total Non-Current Assets		6,22,613	4,93,613	
CURRENT ASSETS				
Financial Assets	8	44,144	39,568	
Investments	9	4	4	
Trade Receivables	10	19,356	19,277	
Trade Payables	11	(21,212)	(20,442)	
Cash and Cash Equivalents	12	3,794	1,731	
Loans	13	6,876	5,532	
Other Financial Assets	14	11,276	8,356	
Other Current Assets	15	1,470	1,487	
Total Current Assets		1,42,872	1,28,812	
Total Assets		7,65,485	6,22,425	
EQUITY AND LIABILITIES				
EQUITY				
Equity Share Capital	16	6,320	6,320	
Other Equity	17	1,36,812	1,38,112	
Total Equity		4,95,932	3,15,442	
LIABILITIES				
Non-Current Liabilities				
Financial Liabilities				
Borrowings	18	1,18,000	81,506	
Provisions	19	3,482	3,205	
Deferred Tax Liabilities (Net)	20	42,121	27,426	
Other Non-Current Liabilities	21	566	566	
Total Non-Current Liabilities		1,64,169	1,12,703	
Current Liabilities				
Financial Liabilities				
Borrowings	22	39,087	15,229	
Trade Payables Due to:				
Micro and Small Enterprises	23	229	183	
Other Trade Payables and Small Enterprises	24	88,812	86,852	
Other Financial Liabilities	25	27,875	46,255	
Other Current Liabilities	26	46,225	17,465	
Provisions	27	70	10	
Total Current Liabilities		2,02,811	1,36,847	
Total Liabilities		3,75,421	3,49,478	
Total Equity and Liabilities		7,65,485	6,22,425	

So, this is how the balance sheet of a company looks. Now in the financial reports, balance sheet and income statement are the two key reports which the company has to disclose. There is a third one, but you know that is later in the course. Let us focus on the contents of this balance sheet. Now this balance sheet is based upon the accounting equation.

So, assets are equal to liabilities, this is what we learned earlier in the videos and this is a proof of it. I was not joking around, the equation holds. Let us look at the real numbers of a real company and the statement is for the year 2019 and you have a statement for 2018 as well. So, there are two you know data points for two financial years. Now, let us look at the contents in this balance sheet.

(Refer Slide Time: 03:36)

BALANCE SHEET		As at 31st March, 2019	
	Notes	As at 31st March, 2019	As at 31st March, 2018
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	1	1,84,809	1,81,479
Capital Work-in-Progress	2	1,05,105	92,381
Intangible Assets	3	8,205	9,095
Intangible Assets Under Development	3	6,452	6,902
Financial Assets			
Investments	2	2,71,360	1,71,940
Loans	3	18,368	17,095
Other Non-Current Assets	4	2,487	3,524
Total Non-Current Assets		6,33,021	4,80,381
CURRENT ASSETS			
Inventory	5	35,148	35,568
Financial Assets			
Investments	6	39,058	33,277
Trade Receivables	7	12,110	10,462
Loans and Cash Equivalents	8	5,768	2,713
Loans	9	4,876	3,531
Other Financial Assets	10	17,274	3,856
Other Current Assets	11	11,209	16,851
Total Current Assets		1,13,533	1,10,747
Total Assets		7,46,554	5,91,128
EQUITY AND LIABILITIES			
EQUITY			
Equity Share Capital	13	6,300	6,300
Other Equity	14	3,09,583	3,09,312
Total Equity		4,05,512	3,25,444
LIABILITIES			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	15	1,18,008	81,596
Provisions	16	2,453	2,205
Deferred Tax Liabilities (Net)	17	47,217	37,428
Other Non-Current Liabilities	18	500	500
Total Non-Current Liabilities		1,68,178	1,21,729
Current Liabilities			
Financial Liabilities			
Borrowings	19	30,097	15,239
Trade Payables Due To:			
- Banks and Small Enterprises	20	229	183
- Other than Banks and Small Enterprises		88,812	88,492
Other Financial Liabilities	21	27,825	49,265
Other Current Liabilities	22	46,225	37,565
Provisions	23	793	918
Total Current Liabilities		1,07,981	1,01,647
Total Liabilities		3,76,459	3,00,878
Total Equity and Liabilities		7,46,554	5,91,128

You have two parts in this report; first up you have assets. Now, who does not know what assets are, we just went through it and then under assets you have noncurrent assets.

Well, what are noncurrent assets? You know it and then you have current assets here and you very well know what current assets are. You can read the financial statements of the company so early in the course! However, there are details and are you familiar with the details- let us look through it.

Do you know what property, plant and equipment are? Yes, that is generic, you know what these things are. Capital work in progress- what is this? This is a fancy term for things which are under construction. You are building or constructing assets. So, that is easy. Then you have intangible assets. Do you know what intangible assets are? Yes, you do. Patents, trademark, various software which a company is developing, there can be many other things depending upon the nature of the company, but in principle you know what intangible assets mean. Then you have intangible assets under development. What is this? This is the same as physical assets in construction- things are being developed.

So, whatever progress has been made that also comes as an asset. Then you have financial assets. What are financial assets? These are investments that you have made. The company, Reliance industries, has invested money in a number of different places and we will see those details as well. So, these investments can be fixed deposits in banks, the very simplest form of investment or it could be investment by Reliance Industries Limited into other companies or in

stock markets, in various other national or international investment avenues. Then you have loans. Now, what do we mean by loans here? These are not the loans taken by RIL because that will be a liability; this loan is given under noncurrent assets. This means that Reliance Industries has given loans to others. Who are these others? These could be other companies or these could be employees of the company as well. Have you heard of the employee loans in a company? There are policies in some companies to give out loans to their employees. So, this loan may refer to those given to other people and then whatever is left is clubbed under the other noncurrent assets. So, there you go. You have total noncurrent assets. So, it was not difficult at all. By now you are very much familiar with what are current assets, what are noncurrent assets and I just took you through the list of noncurrent assets that a real company Reliance Industrial Limited has and it was not difficult.

On the right-hand side all you have is 2 years of figures so that you can compare. Now, total noncurrent assets were 493,613 in 2018 and they have grown to become 622,818 that is all it means. For comparison purposes, it is required that there should be at least 2 years of data.

Let us go to the second subsection which is current assets. What is in the current assets? Inventories; inventory is stock of unsold goods. It is just a fancy term for stock. You have financial assets. Now, you also have financial assets in the non-current asset category. It only means that there are assets, there are investments which are long term in nature and there are investments which are short term in nature. Accordingly, you categorize them into noncurrent assets or current assets. So, there is a whole range of financial assets that are there, you have cash and cash equivalents. This includes bank balance, cash in hand, and readily marketable securities. These are the investments which you can sell in a matter of hours and get cash for it. Loans given to others- trade receivable. Trade receivable are the debtors- these are the receivables we discussed. Your customers who have not paid for the goods that you have sold to them. These are the trade receivables and other investments. Whatever is left is clubbed under other current assets. So, total current assets were 123,912 in 2018 and they have grown to become 158,927 in the next year.

Total assets have grown from 617525 to 775745 and the amount is in crores by the way. So, there you go, that is the asset side for you. Now, look at the liability side. On the liability side, you have something called equity and I told you in the previous video that shareholders' funds are shown separately under the liabilities.

Equity represents the shareholders' funds. Equity is just a fancy name for the shareholders' funds or it is what is prescribed in the acts. So, they use these nomenclatures, but all they mean is shareholders' funds. So, you have share capital and you have some other details and we could go to the notes to see in more detail what these items consist of. We will do that shortly. Then you have liabilities, noncurrent liabilities, and current liabilities.

Where did you come across these two terms? You should be familiar with these two terms, what are noncurrent liabilities. We have financial liabilities, the borrowings from various sources, there are provisions (which we have not discussed, but we will as we move along). For now, just understand that it is a part of profit which we keep aside in case something comes up and we will have to pay. Thus, provision is a possible liability of which the amount is not sure. Then we have tax liabilities which are getting ascertained- it takes time for the government to tell what is the actual amount that you have to pay. Sometimes the taxes from previous years are pending and there are different legal issues going on and so on. All those things are also mentioned here. In the next section we have current liabilities. Again, we have financial liabilities, borrowings and then there are trade payables, these are the vendors, suppliers of this company to whom they have to pay which includes small enterprises and other enterprises and then you know whatever is left is shown here.

So, there you go- it was not difficult, it was not technical, especially because you saw the previous videos so you know what these terms are and why they are called so. This is a quick overview of the balance sheet, now let us look deeper into it. What comprises the property plant and equipment. So, if you have the annual report with you, you could scroll down and go to note number 1. So, after you look at the balance sheet in the following pages, you will have various notes which give you details of what is included in the property, plant and equipment and so on. So, that is the next step and we do that in the next video.