Entrepreneurship Essentials
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Lecture - 36
Introduction to Financial Statements (Contd.)

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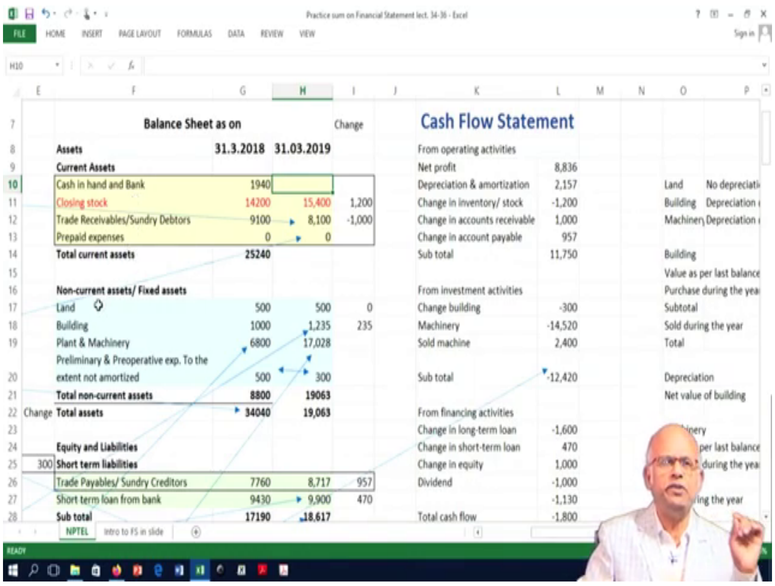

Welcome, we will continue from the previous session. We have seen that while estimating profit loss account, we estimated depreciation and in the process of estimating depreciation we have populated the book value of building asset and plant and machinery. We have done another item which I forgot to mention is the amortized value of preliminary and preoperative expense. Preliminary and preoperative expense as per previous balance sheet was 500; previous balance sheet meaning that as on 31.03.2018.

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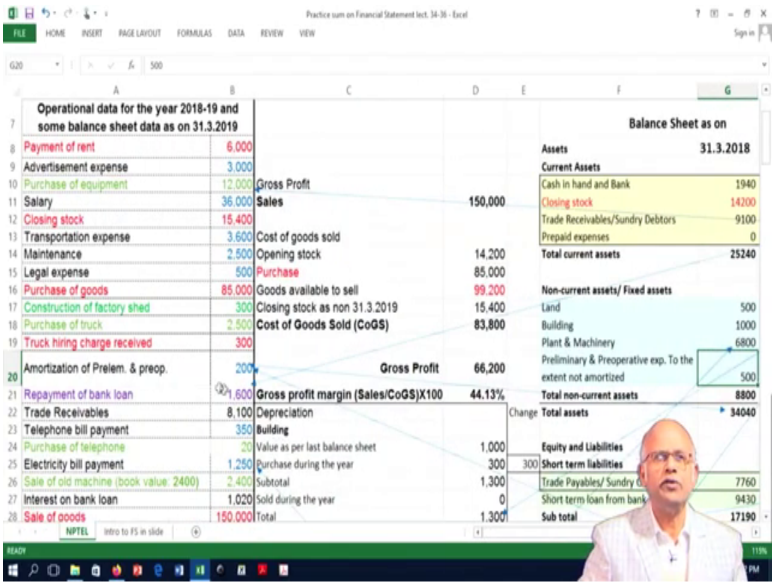

Now, we have already crossed another year. During the year, we have again allowed part of the expenses. How much was that? That was only 200. I have shown that here amortization of preliminary expense during the year, we should have written it during the year that was 200 rupees. So, this has reduced to the previous balance. So, this is already expensed like whenever we incur this kind of expenses like say research and development or advertisement expenses to create brand value, this creates some kind of intangible assets though preliminary preoperative is not so much related to intangible assets. But this is also some expenses that you incurred, but you have not expensed used up in a particular year. You have kept it in the balance sheet to the extent which is yet to be written or yet to be written off.

So, we have written off only 200 during the year. So, after writing of 200 whatever remains that should remain in the balance sheet. Again in the next year you will write off another portion maybe 200 rupees whatever remains after this write up that will go into the balance sheet of the next year. So, this year prior to this year it was 500, this year we have written of 200. So, the balance that remains is only 300; 500 minus 200 is 300. Suppose we write of another 200 during the year 2019-2020, then in the next years balance sheet, the balance will remain is only 100; that means, 300 minus 200. So, it will become 100.

Likewise we will write it off. Next year we will write off the entire 100 rupees. So, after that this entry will which is to exist from the balance sheet unless we have new investment.

Now, let us see how to populate the balance sheet and create the entire balance sheet. Number 1, in the balance sheet we have shown during introduction, normally we start with asset first and then we write lab equity and liabilities but we start with most liquid liabilities first. In case of asset, we start with the most liquid asset and there cannot be any other asset which is more liquid than cash; cash is the most liquid. So, cash in hand and bank is the first item in the balance sheet, then inventory is the second item, then trade receivables. There may be provisions and other current looking assets. There may be items that is specific to like suppose ok, we will talk about that later.

Now current among noncurrent asset is the land that is somewhat liquid, but it is very difficult to say which one is more liquid, then building, then plant and machinery any other expresses that you have incurred, but not written off. There may be some provisions also, long term provisions that you make may remain as an asset.

Now, cash in hand in the last year was 1940. Now this year, we do not know what is the cash in hand. We actually do not know because this is this should come from the cash flow statement. So, let us not write it here at this point of time, this point of time we do not have whatever is the position of cash that we do not know; it should come from the cash flow statement. So, we will start from closing stock. Where to get the closing stock?

As I mentioned that except reserves and surplus and amortization data and cash in hand data, all other items will be given in the information provided. Maybe you have to do some summation and subtraction, but other than that everything is given and it is pretty simple. If you can prepare the profit loss account, there is no reason why you should not be able to prepare balance sheet.

So, what is closing stock? Closing stock is not previous years closing stock. It is this year current year meaning, the stock value as on 31.03.2009. This was the value as on 31.03.2018, it is 31.03.2019. So, how much is that? You visit here closing stock is very much given 15400. So, pick up that data by make a formula make a connection. So, this is equal to B12. So, that there is no mistake.

Now receivable, trade receivable also you cannot estimate anything. There is no addition subtraction. Remember this data should not be added or subtracted with this data because this is the balance that is a, that data has been arrived at from this data. At the opening you had 9100. Gradually it has gone down at some times when you received some payment and it has gone up when you made some fresh sales because receivable arise out of sales. So, suppose you have shift another truckload of goods worth say 2000 rupees, then receivable will go up by 2000. Suppose somebody makes a payment of 3000 rupees so, receivable will come down by 3000 rupees. So, if it goes up by 2000 receivable will become 9100 plus 2000; 11100.

Now next there somebody makes a payment of 3000, so, 11100 minus that 3000, it will become 7000, 8100 rupees. So, suppose during the year the same thing happened. So, you have now 8100. It is a carry forward, it is a continuous data. So, do not try to add or subtract anything 8100 has to be given.

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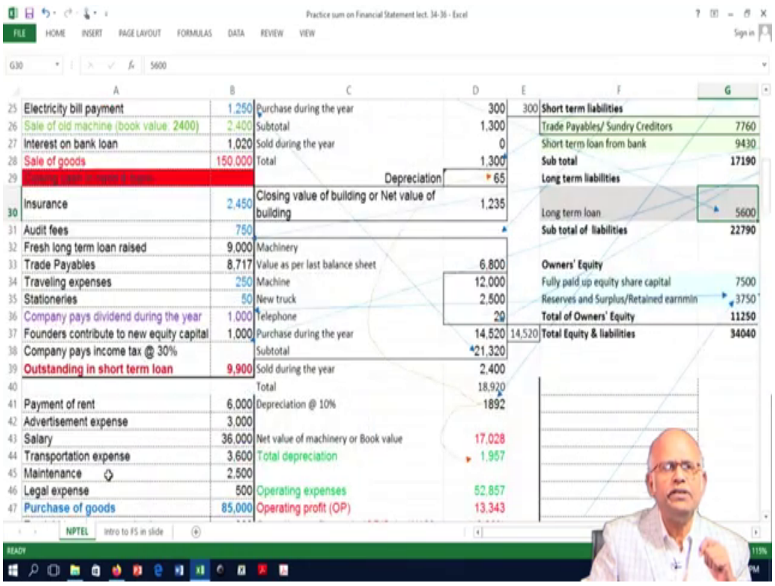

And we will look into this data, you will find it given somewhere accounts receivable. This is accounts trade payable; trade payable account payable is the same thing and there will be some data which is accounts receivable or accounts or trade receivable. Trade receivable and accounts receivable are the same thing; it is here, trader receivable is 8100. So, you pick up that data through formula giving equal to sign and you get that data here 8100.

So, we do not have the cash balance. So, that is why this data is not right. So, we should not make a subtotal at this point of time. So, we can very well delete it for the time being because we do not know what it is what the cash position is. Now these are all the current assets that we have from the given operational data and balance sheet items that are presented to us.

Let us see the long term asset or non-current assets. These are current asset, non-current asset; land, land is not depreciated. So, while depreciating even if somebody tells the depreciated of all the assets are at 10 percent, you should not make that mistake that land will be depreciated. Never nowhere in the world land is ever depreciated even the land price goes up even if land prices goes price may go down at some places for whatever reason normally land is not depreciated, unless until somebody on to write off some value of the land specifically through a valuation process not through depreciation process.

You can have a valuation process done; you can revalue your land at a higher value lower value. You can revalue your building at a higher value lower value depending on whatever is your perception necessity or policies.

So, land was 500 rupees in the previous year's balance sheet. This year if you make if you have made fresh purchase of land that is to be directly added. If you have sold a piece of land that is to be directly subtracted from the previous balance, but we have not done any transaction on land. So, land value remains the same. So, we are not doing any transaction on that.

Building value we have already shown. So, there should be no fresh estimation or anything. We have done that here building value as per last year balance sheet was 1000. We have made some fresh construction, purchase or fresh construction that was 3000 that is added back added to the previous year's value total became 13000.

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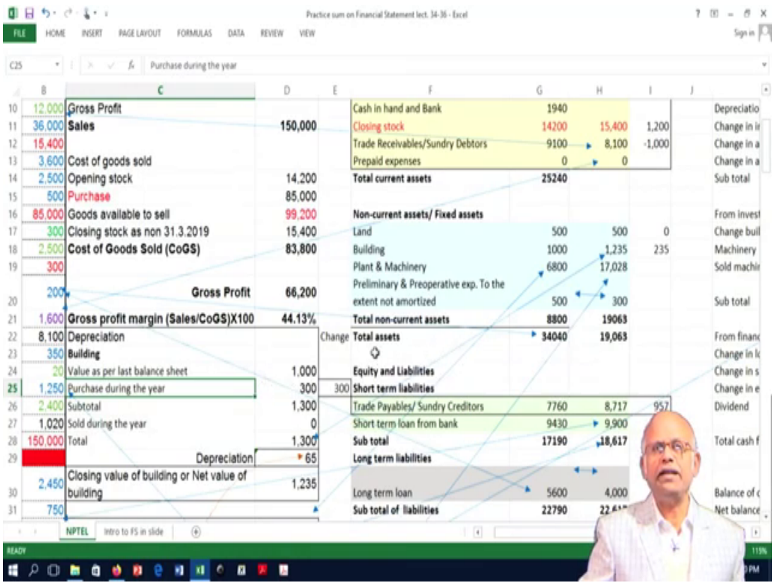

So, we have depreciated that at 5 percent which is only 65 rupees. So, you deduct 65 out of 1300 book value or net value becomes 1235 that comes to the balance sheet. So, we have 1235.

Similarly plant and machinery, we have 17000. We have already discussed that in a nutshell, we are not discussing it again and same thing with amortization of preliminary preoperative our previous balance of 500. We have already allowed writing off of preliminary preoperative depreciation; writing off means amortization.

For amortization whatever is the rules that company plans the way that becomes the rule whatever. Suppose the company wants to write off or amortize preliminary preoperative expenses over 10 year equitably; that means, in equal instalments, company can do that. If they want to do that for 5 years, company can do that very well. But then there has to be a policy. Company should declare that our policy is to amortize this amount equally every year by an amount of 200 rupees or they can very well say that we want to dip we want to amortize at the rate of say 40 percent every year that is also possible.

But then there has to be a policy. It should not be whimsical; this year something, next year something, lower next to next year something higher should not be that way. That if the company does that, then the external stakeholders of the company will think that the company is doing that to manipulate profit depending on the performance of the company. So, that should be avoided. That makes brings us to the total or aggregate of the fixed asset or noncurrent asset. Having done that or now job is to do equity and liabilities estimation. You can do it separately or you can show it under equity and liability.

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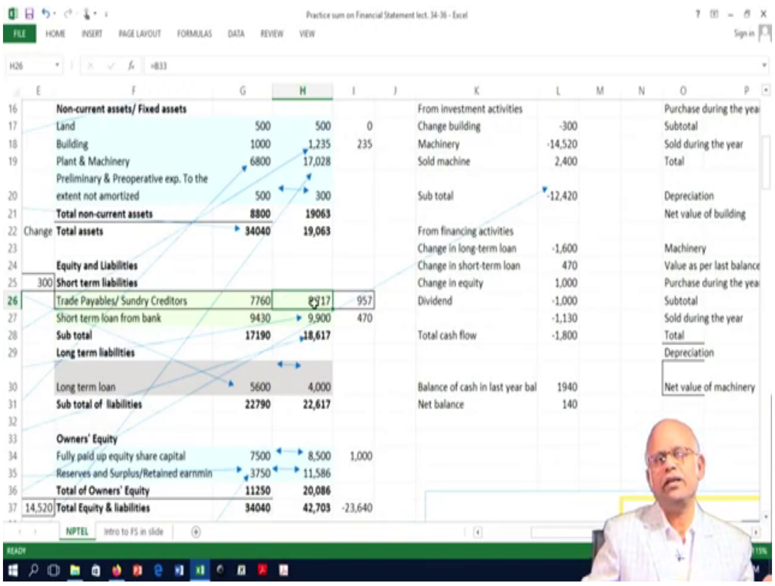

So, what is the short term liabilities? We will do the liabilities first then owners equity. Short term liabilities or the trade payables; meaning that you have bought or purchase goods, but you are yet to make payment. Whatever was the last years balance, you have actually added something you have actually deducted something during the whole year of operation on almost like on a daily basis.

At the end of the year you have got a balance of 8717 which duly taken we has duly taken into account the opening balance or previous year's closing balance that became the opening balance.

So, this value contains this value as well. So, you do not have to do any calculation, you have to just get this data from the ledger or which what has been given. So, you get a direct value, you just populate it here. Short term bank loan also will be available meaning that you just approach to the bank, ask them whatever is the balance in the short term bank loan account. They will give that data, you just populate it here that makes us the short term liabilities then long term loan.

This is slightly tricky, but then not so, tricky. You have the previous year's balance of long term loan of 5600 rupees. Remember one thing that is the long term loan is given to a enterprise to an enterprise on a long term basis meaning that the they are not supposed to repay the entire loan in a particular year, it is to be repaid by preferably by equated instalment.

Maybe over a period of 3 years, 5 years, 7 years at some time it becomes 10 years, it may go even up like suppose for an asset where cash flow is slow. Say for example, you have constructed a road a huge infrastructure, a road or a port or something where cash flow is not likely to be where the life is long and cash flow is not so much. So, and then capital investment is so high that after servicing of interest the surplus will be less, in those cases, the repayment period may be very high; it may go up to 20 years.

Say for example, even a solar plant solar power plant, the life of a solar power plant may be 20 years plus. So, repayment may be 20 years as well or you may prefer to have a repayment period of 10 years if you see that the cash flow is good.

So, long term loan is repaid in the form of instalment; every year you make some repayment. This is the opening balance or the closing balance of previous year and the opening balance of current year. So, now, you have to separately estimate what was the opening balance of the long term loan, then how much of that you have repaid during the year, you subtract that and then add if you have raised any fresh long term loan.

Suppose you have a solar power plant. So, you have raised some loan was existing at the opening of the year you have say 5600 rupees worth of loan that was the closing balance previous year. So, that is the opening balance this year.

Now, suppose you have repaid say 1000 rupees. So, that balance becomes 4600, but maybe you have installed or commissioned another plant elsewhere by raising another 5000 rupees say 5000 crore or whatever is the unit say 5000 rupees. So, 4600 was the balance and you added 5000. So, that becomes 9600 crore rupees which should be the balance as on 31st March 2019.

But, let us see what was the long term loan situation here. So, we have a balance that is there in the balance sheet. Now we have to see whether we have raised any fresh long term loan; long term fresh long term loan raised should be given here otherwise we will not be able to estimate. So, here you look at this fresh long term loan raised is 9000 maybe 9000 crore rupees; so, which is 9000. We have to now add this with the opening balance. Opening balance is how much? Was 5600; 5600 is the opening balance. So, we add that long term 9000 crore rupees or 9000 rupees with this 5600; that makes 14600.

Now, let us see if we have made any repayment, long term loan repaid. Do you see anything here repayment of long term loan? So, it should be payment of rent advertisement then repayment of bank loan is only 1600. Fresh loan raised is. Is there a mistake somewhere?

Fresh loan raised is something and repayment of bank loan is repayment means this long term loan it is not short term loan. Fresh loan I said 9000, was it right, fresh long term loan raised? Let us see because the looks like there is a mistake here because a long term loan.

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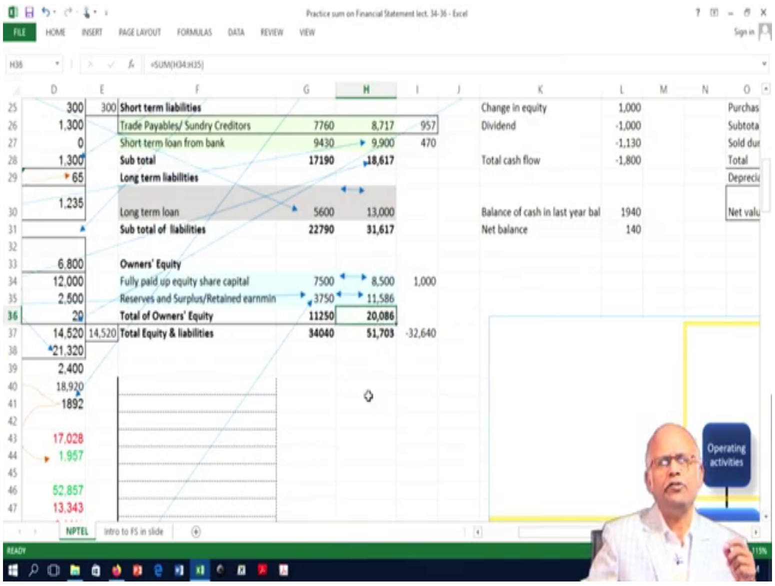

It was 5600 then it is G30 that is 5600 minus whatever we have repaid plus whatever we have raised. So, this is to be added up; I deleted some data. So, that has gone down.

So, this data should be 5000 is equal to this one minus whatever we have repaid that is 1600 or so, a repayment payment of rent, repayment of bank loan is here plus the loan that you have fresh loan that we have raised; fresh long term loan raised is 9000. So, this should be the total loan outstanding 13000. Now the loan is done. So, equity, previous year equity was 7500; equity is the money that founders invest in the company. So, long till the time till the period as on 31.03.2018, the founders invested only 7500.

Now, during the current year, we have to see whether they have made any more investment. They have actually made investment of 1000 rupees. So, founders contributed to equity 1000 rupees has to be added and we have added it here. I should have put an arrow there for easy understanding. So, we have added 1000 and that becomes sorry that becomes 8500, then reserves and surplus. We have already seen that reserves and surplus was 3750 as of the previous accounting and close up business.

And we have added 8836 which was the retained profit added with this and we got 11586 that makes the total owner's equity 20086. This is to be added with all other liabilities like loans and all that and then we should get the total of equity and liability that total should be is equal to total assets; both current assets and non-current asset. That will be available only when we have the cash balance position that will come from the cash flow statement. We will close it here and then we will do the cash flow in a separate session because cash flow is slightly involving.

So, thank you very much. Stay tuned.