Managerial Accounting
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Lecture - 03
Financial Statements

Now, we have so far, seen our module 1.1, we have also seen most of module 1.2. We were discussing forms of organization; we have seen sole proprietary business. Then, we have also seen Hindu undivided family, partnership form and limited liability partnership form. Now, let us try to understand the most popular form, where in the large organized business done, that is known as company form of organization.

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As you can see here, in companies you have two types. You have a limited company, you have unlimited company. In the limited companies there is private, public companies and amongst public companies again you can have listed and unlisted companies.

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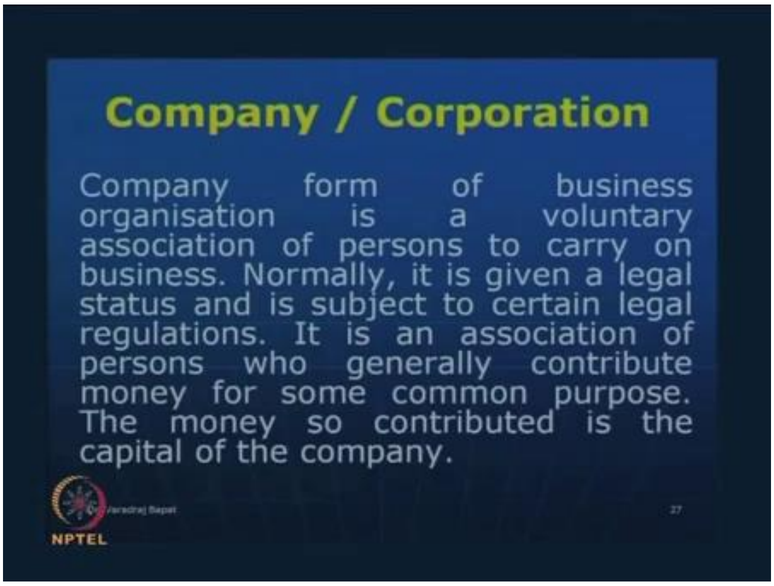

Now, the form of organization as a company is very unique, because here a group of people come together. But, it is not a partnership firm. Because, partnership firm is a small group and partnership firm cannot be separated from a company. But, in case of company what happens is? Company is recognized by law, as a separate person and the money contributed by the owners is called as a capital of the company.

But, company and a owners are not same. Company is treated as a separate legal entity. It can be showed one can file a case against the company, owners of the company are considered separate from the company. Now, the owners who put in the money, in case of a sole proprietary business as you know is known as proprietor. In case of partnership concern the money, which they put in known as partners.

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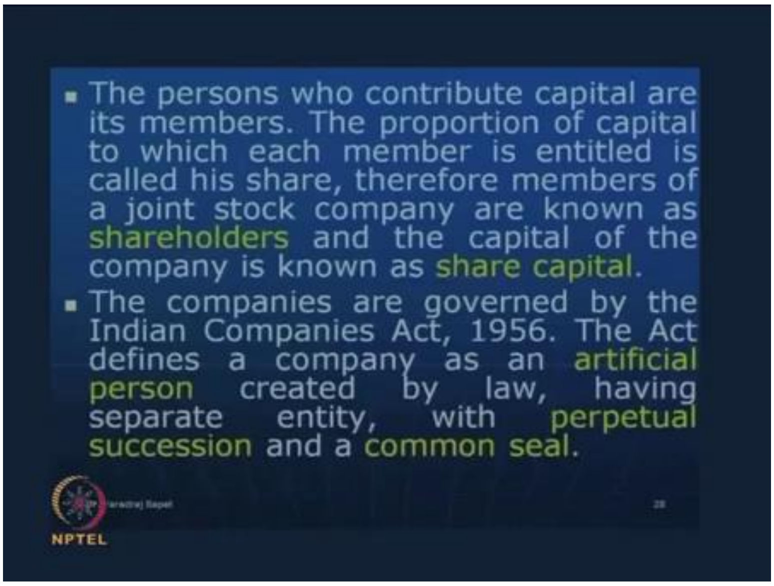

In case of company the owners, who put in the money are known as shareholders. And the money which they have put is known as share capital. Some unique features of the company as we have seen that, company is a artificial person with a separate entity and it has a perpetual succession. So, even if 1 or 2 or 5 or 100 owners come and go, the company continues forever.

Because, it is under law created. And just as individual science company has a common seal, which is recognize as a symbol of a company. Now, there are lot of advantages of company.

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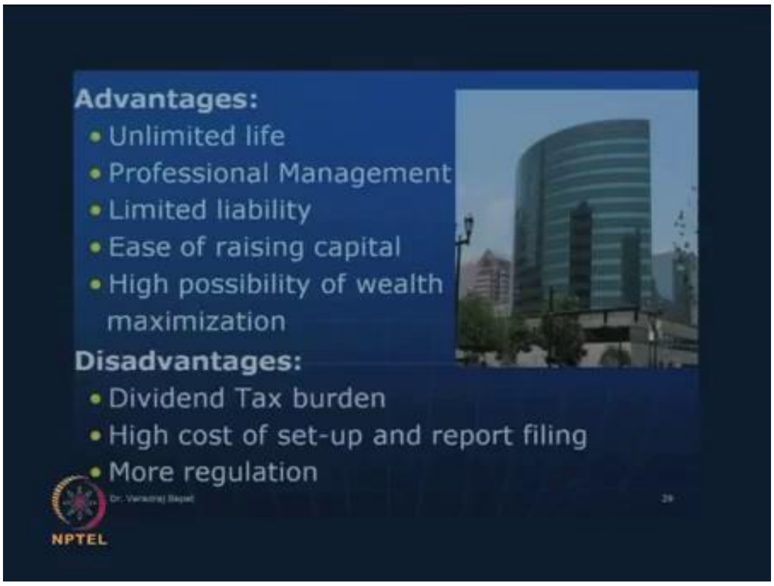

The most important advantage is, it has an unlimited life. The management of a company is not only with the owners. They can hire professional managers, they can hire directors, they can hire CEO’s. So, the management is not left with the owners, management is in a professional way. The third advantage is the liability of every owner, that is every shareholder is limited. Then, there is a ease of raising capital. So, because the life is unlimited, the liability is limited.

And the management is in the professional hands, you can raise money from many people. So, it is much easier to raise the capital. Similarly, banks also trust companies. So, banks also can give more loan to the company. That is why, the capacity to raise financial resources is much more for a company. Then, there is a possibility of maximization of well. Because, if you start let us say, I am starting the business, I start a proprietary concern, my resources are limited to myself.

If I make a group it can be a partnership firm. But, if I register a company and I become the promoter of the company 100‘s of people will join as the shareholders. I can also hire many employees, so I get financial as well as human resources. So, there is a very high possibility that my own wealth can be maximized, when the companies wealth maximizes. There are a few disadvantages of the company as well. One disadvantage is the cost of formation is relatively very high.

So, there is more cost and time involved when you try to form the company. Then, there has to be regular reporting, because companies are regulated by register of companies. In case of listed companies they are also regulated by securities and exchange board of India. So, regular disclosure of information publication of financial results, all these things are mandatory for a company. Taxation is also high, the rate of income tax is high.

Then, whenever company distributes profit as a dividend, again company has to pay double tax. So, companies face slightly higher tax as well. So, you can see that there are a few disadvantages. But, there are so many advantages to company form that almost all the big business is today in the hands of companies. So, it has come out as the most acceptable form of running the business. Since, the market confidence in companies high, it also helps growth of business.

Because, companies other people will give business easily to the company. Employees also are more comfortable to work in a company, rather than working under a sole proprietor organization. That is why, one can attract more human resources, one can attract more customers. So, company form of organization has become much more successful than, very small forms of organizations. Now, let us go to the next form, that is known as co-operative societies.

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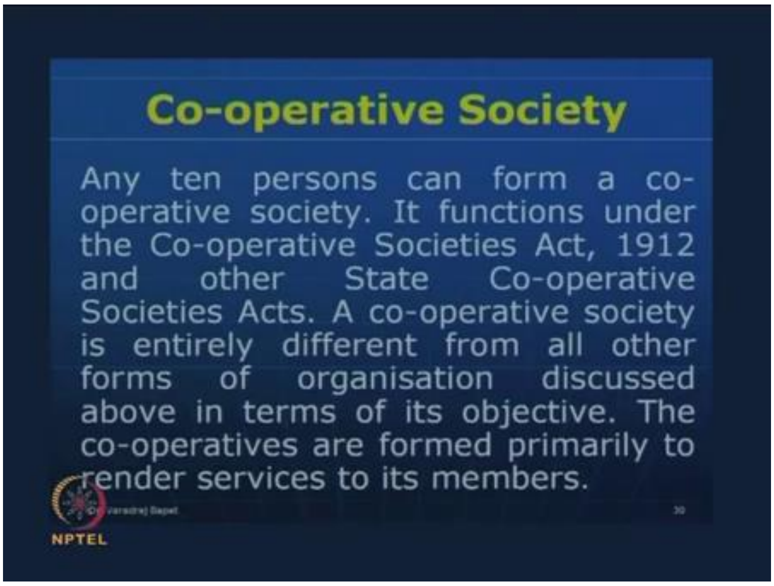

This co-operative societies are formed under co-operative society act, they are also sort of business organizations. But, they are mainly for rendering services to the members, so there is a profit motive.

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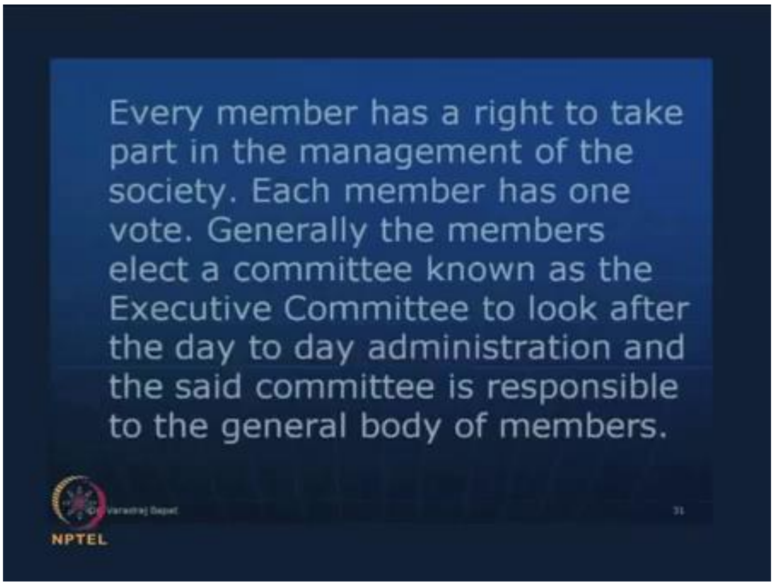

But, profit motive remains restricted, because too much of profit cannot be distributed to the owners. One major difference between a company and a co-operative society is in a company form of organization, owners get the right to vote in the proportion of shares they hold. So, suppose I invest 10 lakhs, someone else invest 50 lakhs. Then, my share let us say vote is 1, the other person because he has invested 50 lakhs will be 5 somebody invests 1 crore will be 10.

So, the voting is in the proportion of shares you hold, whereas in case of a co-operative society, one person has 1 vote. So, even if I have 1 share, I have 10 shares, I have 1 lakh shares, I have only 1 vote. So, it is intended to promote more a democratic group amongst the people. And all the members are supposed to participate in the running of a society. So, that way co-operative society has a limited role, it is a good format. But, it is not suitable for a large scale business.

For a small people, who are together let us say housing societies or milk co-operative societies or agricultural societies or even co-operative credit societies, it has become successful. But, it cannot grow beyond a point, because then the members cannot meet each other.

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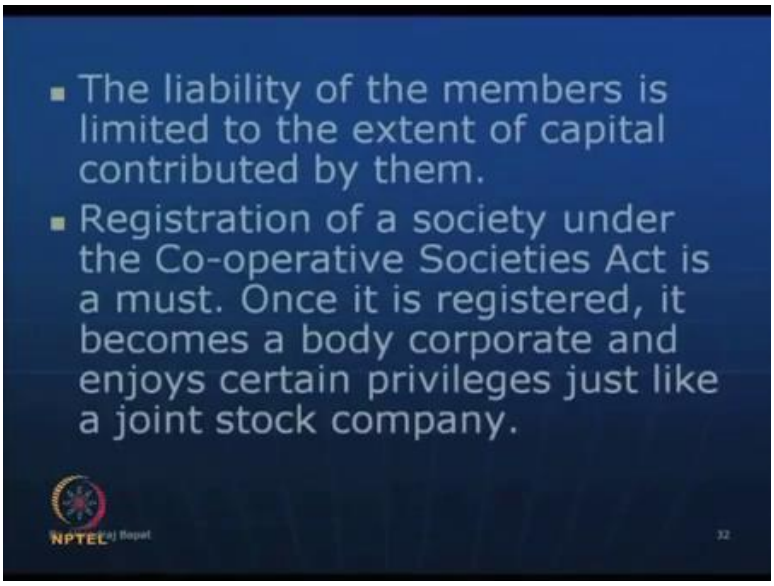

Now, here also registration is compulsory there are lot of formation requirements, the liability of the members continues to be limited.

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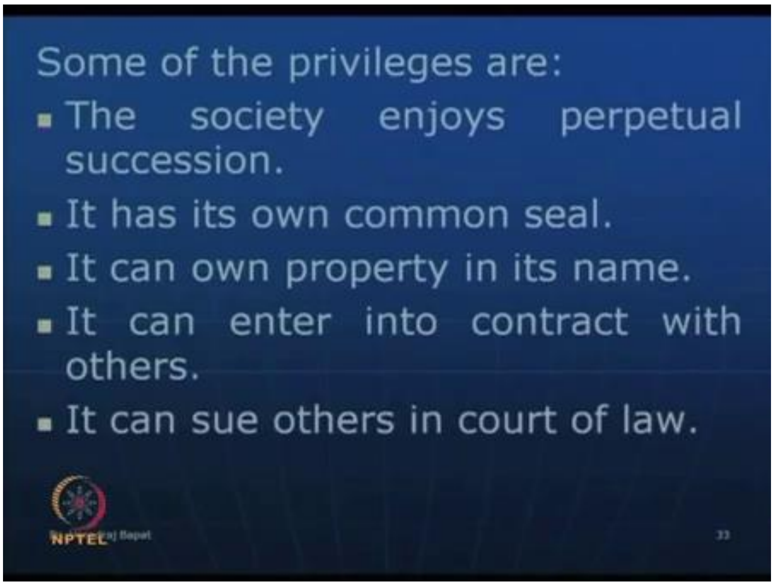

So, the privileges available to the society are similar to that of a company, it has a perpetual succession as you can see.

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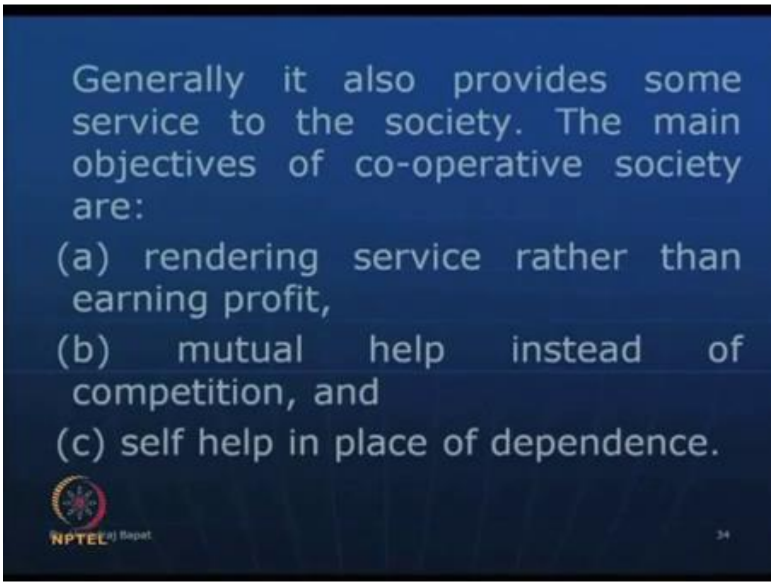

Now, this is more for rendering service as we can see. And not for earning profit, it intends to have mutual co-operation as the goal for forming a society.

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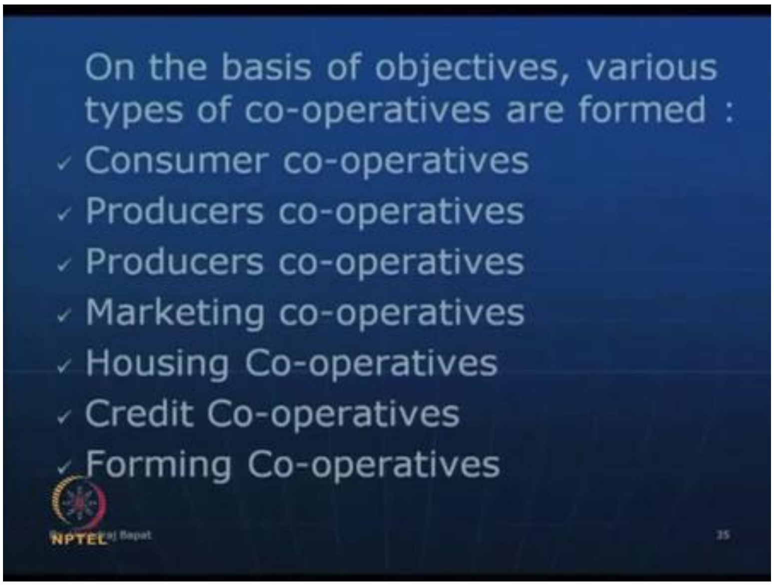

You can see here, the list of societies by objectives. You have consumer societies, producer societies. Sometimes marketing societies, housing societies, so then credit societies, forming societies. So, according to needs different type of co-operative societies are form. But, it has not become as popular as companies, because of some inherent limitations.

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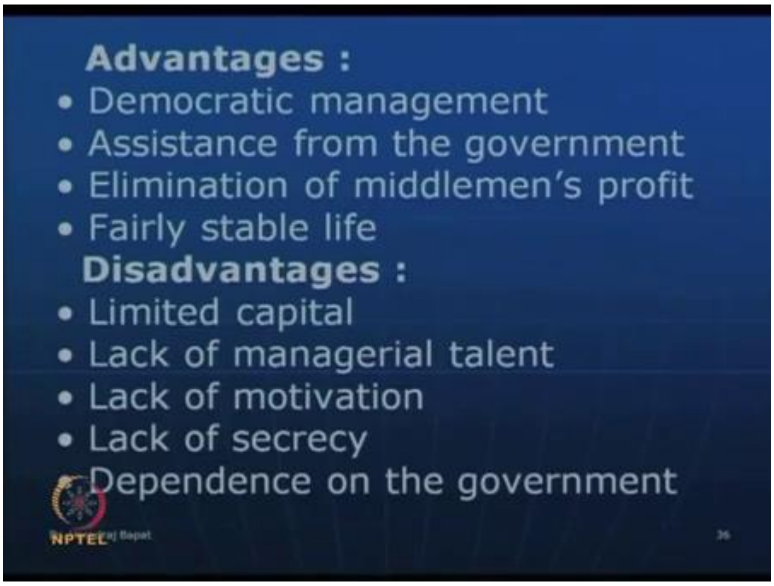

As you can see, the advantages are there is democratic management. Some assistances given by the government, no middlemen is involved. Because, group of say formers can come together and market their produce or group of customers can come together and buy goods from the suppliers. So, middlemen are avoided. Disadvantages that, they cannot raise lot of capital, because of one person 1 vote can save. Nobody can invest very big amount in a co-operative society.

There is no professional management and there is lack of secrecy. And most of the co-operative societies depend on the government help for their grown. Because of this, this form has not grown much though certain businesses are being done by co-operative societies. Now, let us go to the next concept, we have seen a variety of forms of organization.

Now, let us try to look at stakeholders. As you know, accounting or financial statements are essentially for someone, who wants to know the information. So, we should also know stakeholders, so that we can cater to their needs when we try to make statements.

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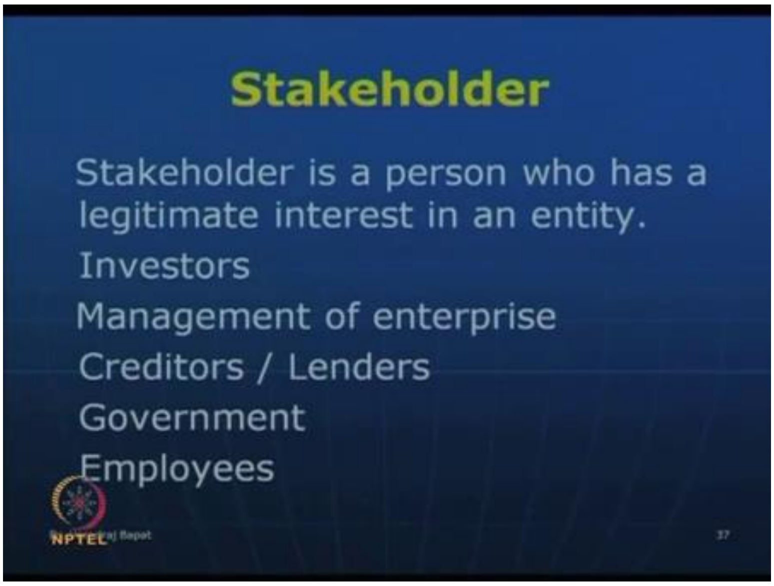

Now, different types of stakeholders are listed here. You have investors as a major stakeholders then management, creditors, government, employees.

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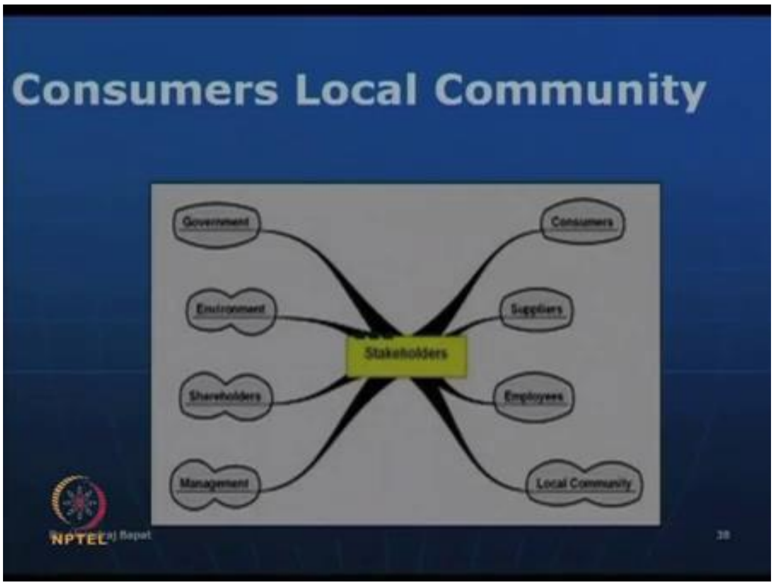

So, for any business organization, you have a variety of stakeholders as you can see in this chart.

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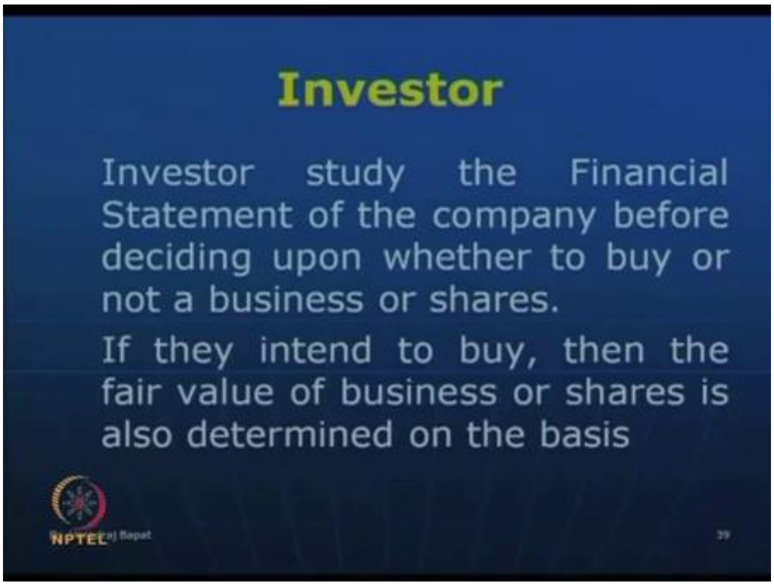

Now, the most important stakeholders are the investors, because they are the owners of the company. So, they have every right to know what is happening in the company. And not only the current shareholders, even the prospective shareholders, who may want to buy, shares in your company are also included in this group of owners.

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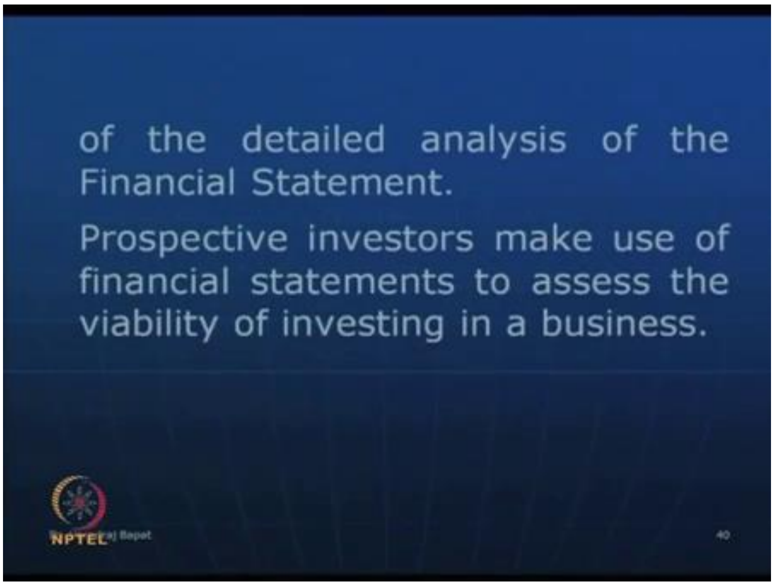

Some of the investors are capable of doing financial analysis, say banks, mutual funds or high net worth individuals. They study the financial statements of the company in detail and based on the study decide, in which company they should invest. So, especially in case of listed companies, the investor group, investor community is scattered I mean everywhere. But, some of the investors take interest in studying the affairs of the company.

Government tries to protect investors, particularly small investors, because the promoters or the managers, should not cheat or should not take the wealth from the investors. That is the idea of most of investor protection laws. The intention of making lot of disclosures mandatory is also to protect the investors mainly. So, investors are one of the most important stakeholders.

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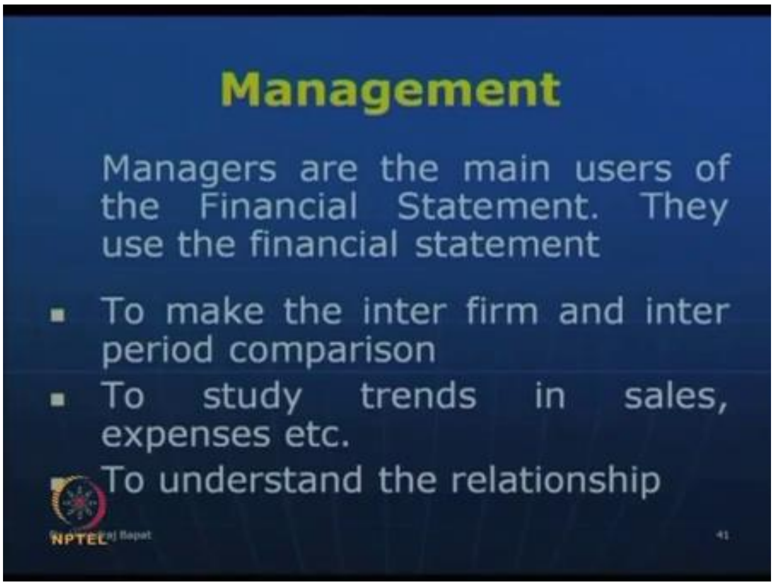

The second important stakeholder is management. This includes the board of directors, the CEO, the general manager or important managerial personal in the company. These people also need to get lot of information from the financial statement. Because, since they are running the company to take the decisions they should have the information. That information could be for inter firm comparison.

So, manager may want to know how is, his or her company doing this service other companies, so, you can also have inter period comparison. So, this periods result, this year result, you want to compare with last year. Then, you may want to study the trend of sales, same last 8 months what is a moment of sales. What is a moment of expenses, you would like to see the relationship between some expenses and some items of income.

So, manager management needs more detail information from the financial statements. Management also has to look at availability of cash.

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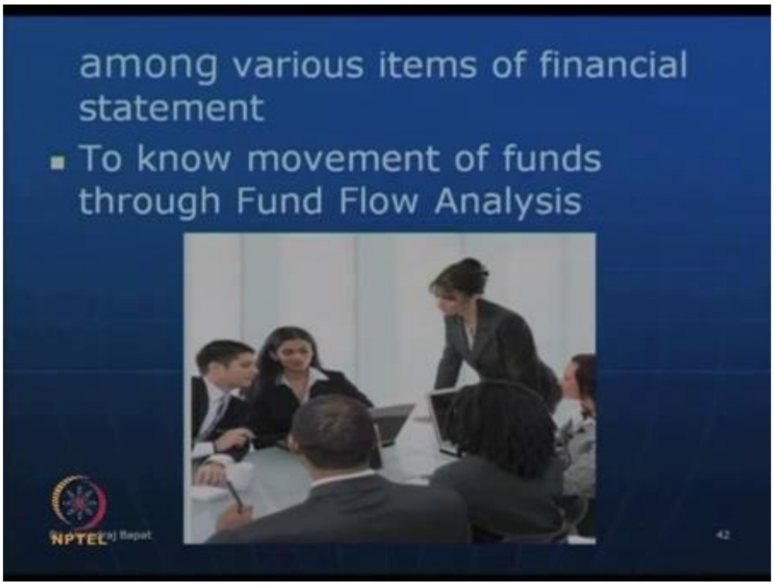

Whether there is a need to raise the money all for all that. A detail financial information is always necessary.

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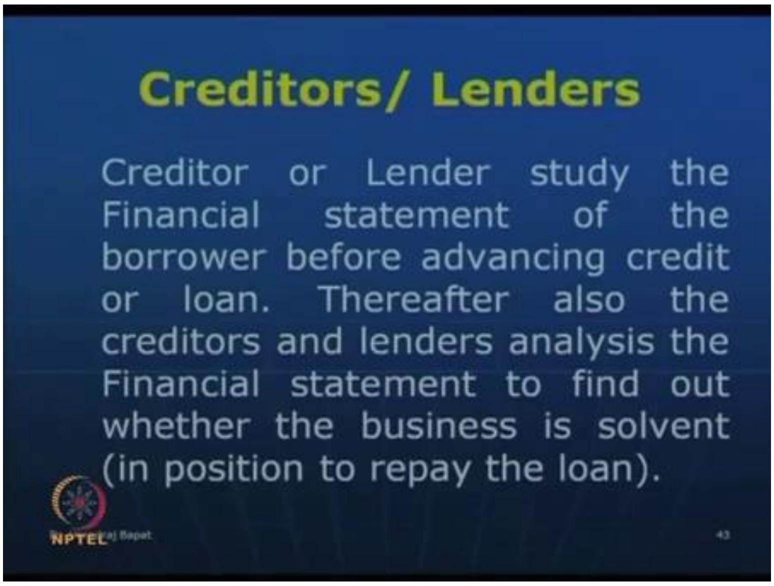

The third important stakeholders are creditors or the lenders. So, when bank gives loan to the any company naturally, bank as per all the financial statements not only at the time of releasing the loan, also at every say 3 months or every 6 months. Because, banks wants to ensure that business continues to have the capability to repay their loans. So, they keep a close track on the running of the business, same way there are business creditors. So, if there are suppliers, who give say goods on credit.

Then business has to pay them back. So, they also see, what is a financial status of the company to know the repayment capacity mainly. So, financial institutions, banks suppliers, creditors, these all so become one of the important stakeholders. The fourth major stakeholder is government.

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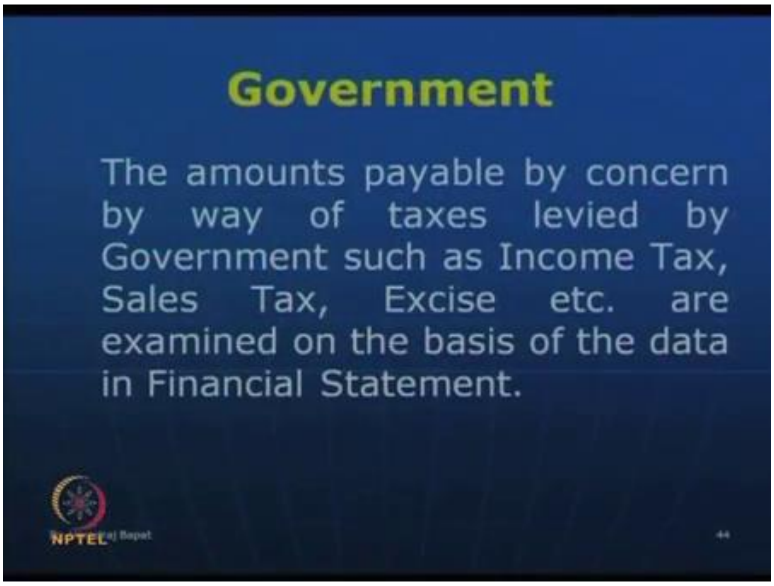

Now, government again you can think of in terms of two ways of it. One as a taxation authority, you have got income tax, sales tax, excise, variety of taxation authorities. And they want to examine the financial data because they want to charge tax on it. So, on the profit incomes taxes charge, on the sales, sales taxes charge, on the manufacturing excise duty charge or on the services provided service taxes charge.

So, on all these they have to keep track of the financial statement to ensure that, there is no tax being evaded or avoided by the business. Same way government also as a regulatory function, so as a regulator government needs to be looking at the fact that the business is being run as per law. So, if company cheating his customers or if company cheating is banks or company is not properly providing service to the customers.

Then as a regulator government needs to have some tap on it. There are also some specialized regulators like banks, banks are controlled by the RBI, listed companies are controlled by SIFY, insurance companies are regulated by insurance regulatory authority. All these authorities as for detailed financial information, which the respective businesses have to give.

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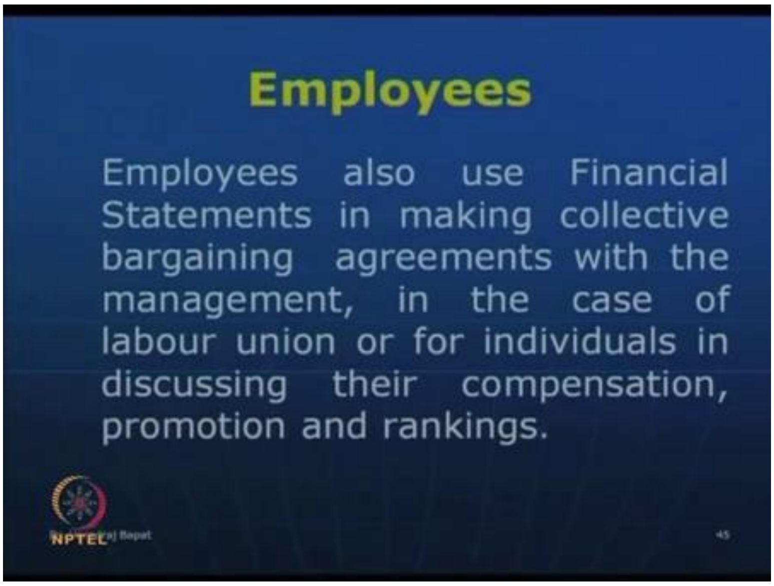

The fifth important stakeholders are employees. Now, employees of the concern are also interested, because their salaries are indirectly dependent on the business growth and on the profit earn. So, they try to know the financial position. And many prospective employees also want to know the position, because they have to decide whether to join or not to join. So, every time so to attract the talent, it is essential that company gives necessary information to the employees and also the prospective employees.

So, with this our module 1.2 is over. Now let us go to the next module 2.1. Now, in this module, we are going to study financial statements more in detail. Now, we have seen some basic concepts, where you have also understood various forms of organization and also various stakeholders. In our module 1.1 we have seen money cycle we have also seen very, very basic about what is a balance sheet and what is a P and L account. Now, let us go little more in depth into what are financial statements and how are they prepared.

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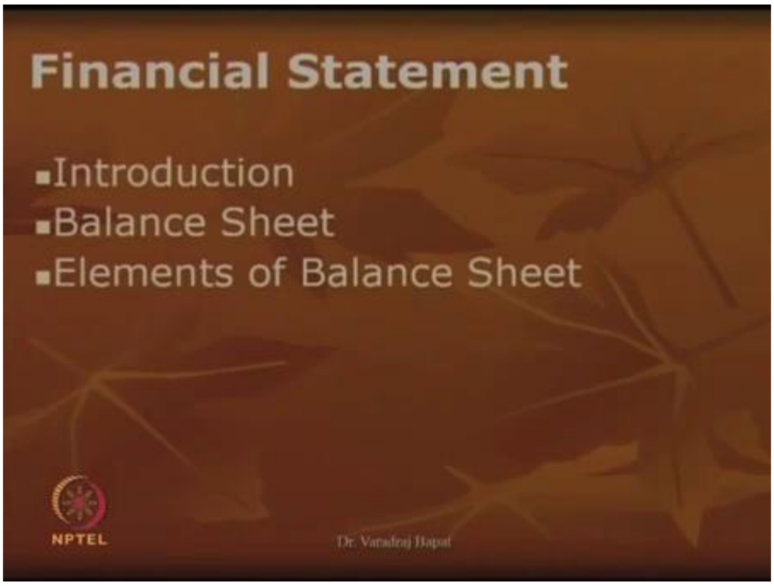

Now, in the first part we will again see the balance sheet. But, now we will look at it more in detail.

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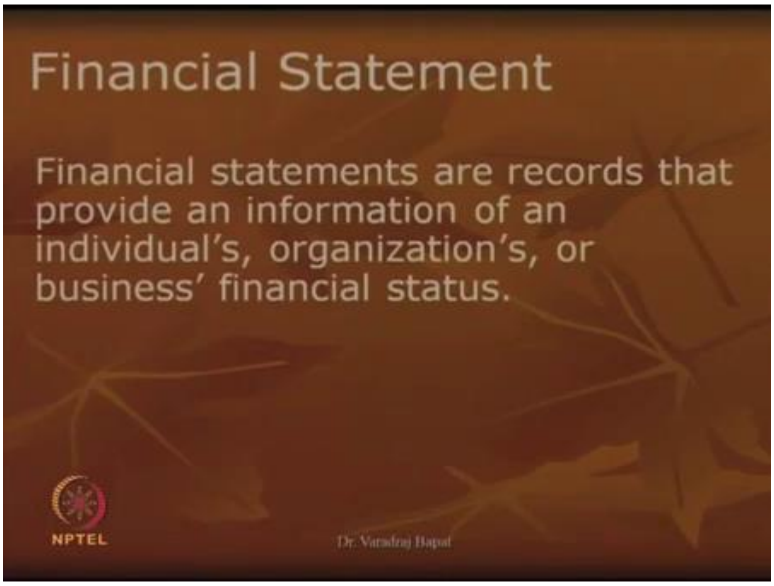

Now, as you know financial statements are those records that provide an information of an individual organization or about the business status.

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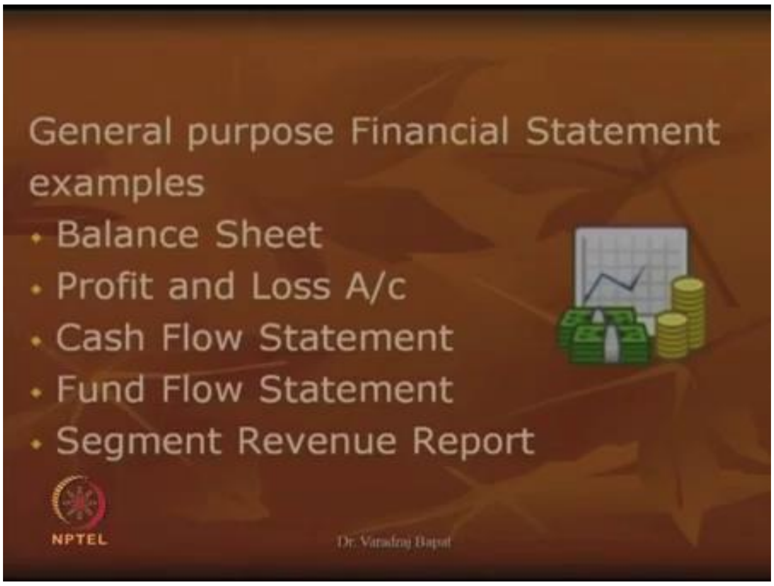

This could be for general purpose typically, you must have heard about the statements like balance sheet P and L cash flow, fund flow, segmental revenue these are known as general purpose statements. Because, they are given to all the stakeholders and they are required for a overall study of the business.

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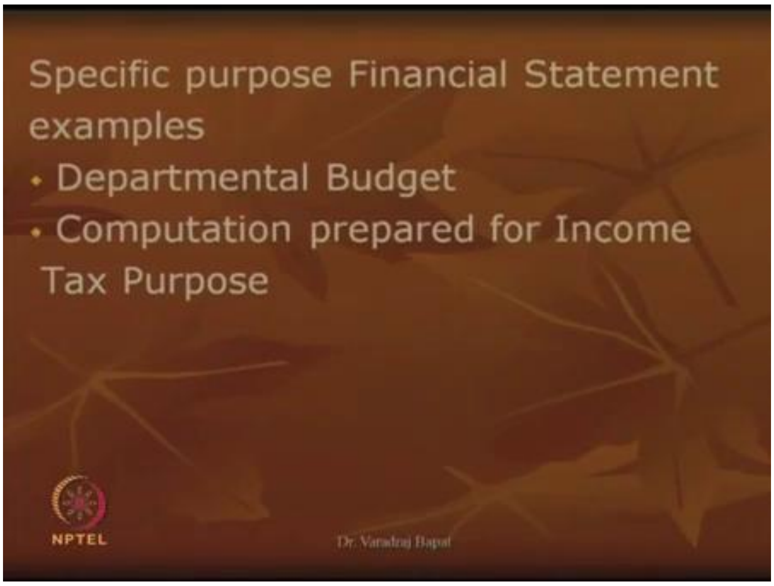

Same way, there are some specific financial statements. So, every department or every unit of the business has to make it is own budget. So, departmental budget, there are some computation prepared for income tax purposes. This could be an example of specific statements. Usually, they are not given to outsiders they are required for some information, which is required for some special purpose.

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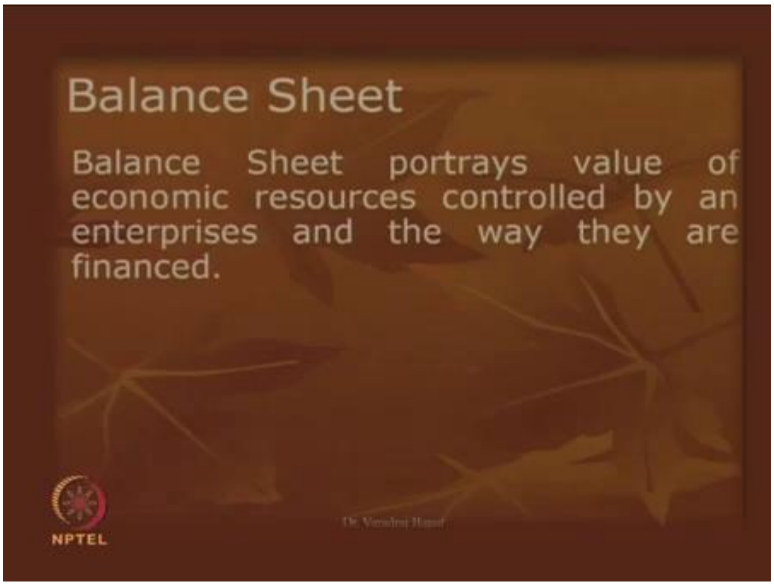

Now, let us look at what the balance sheet is. We have seen in our first module 1.1, that balance sheets shows the financial position of the business as on a particular day. So, to know to gauge how is the business doing. We should know what are the resources available with the business? And what are the payables of the business that you can see in the balance sheet. It is a statement of financial position, which summarizes the assets and liabilities and owners equity at a specific date.

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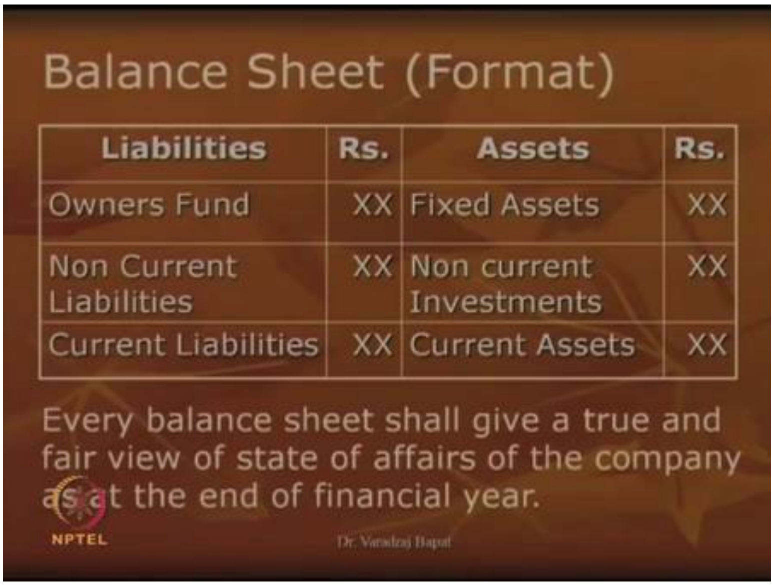

Now, this is a very simple format of balance sheet, which you can see. So, on one side you have got assets. On assets I have given three categories, fixed assets, noncurrent investments and current investments, on liabilities, which represents the resources, you have got owners fund, then you have got noncurrent liabilities and you have got current liabilities. When we have discussed the money cycle, we have to an extent scene what is meant by fixed assets and so on.

Now, we will go little bit more into depth of them. Now, every balance sheet is required to give true and fair view of the state of affairs of the company. So, by true and fair view what we mean is, the assets and liability should be disclosed at a correct value. So, that any third party, who looks at the balance sheet knows, how much are the assets owned, what are the payables.

And the difference is what the owner’s have as on a particular day. Usually, it is prepared at the end of the year, but it can be prepared at the end of the quarter or end of the month or in fact, at the end of any day as well.

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Now, as per company law a detailed format of balance sheet is prescribed, which is shown here it is known as schedule 6. This schedule 6 refers to the schedule under companies law. We have seen in the earlier format ((Refer Time: 20:45)), there is assets and liabilities. These liabilities are now you can see here, they are been nomenclated as equity and liabilities.

The first item in that is, share holders funds so this is the money which owners have put in. A in that share capital, now do you remember what is capital. We have seen earlier that capital refers to the money which is put in by the owners. In case of company share holders are the owners.

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So, money which they put in is known as share capital B is reserves and surplus. So, the profit which business generates belongs to the owners. So, it is shown under the owners fund and the title for it is reserves and surplus. C is money received against share warrants. Now, many times company gives right to buy the share, that is known as share warrant. So, if say employee has a employee stock option. Under which employee can pay some money and get the shares of the company. Till the time the money is converted into shares.

It is shown in the balance sheet as the money receives against share warrant. Once it gets converted into shares, it will be a part of share capital. So, you have got three headings under owners fund, share capital, reserves and surplus and money received against warrants. Second, now second heading is share application money pending allotment. Now, you may be knowing that, company can invite outsiders to subscribe to it is shares.

So, if I am a company, I sell shares to the public people pay money I give them shares. So, the money which I collect from people till I give them shares is known as share application money pending allotment. But, ultimately it will get converted into share capital. The third item is noncurrent liability. Now, you all must know first of all what is a current liability, which is a fourth item which we have discussed earlier, do you remember what is a current liability?

If you remember the fund of money cycle, money cycle refers to your day to day business. So, you buy goods manufacture something, deliver get back your money for in a manufacturing concern. But, any concern will have a money cycle. So, all those assets and liabilities, which are created from money cycle or from day to day business or known as current assets and current liabilities. So, current liabilities are day to day liabilities, what are other than them are known as noncurrent liabilities.

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Let us look at current liabilities first and then go back to noncurrent liability. In current liability a, you can see short-term borrowing. So, borrowing means loan taken, as the name suggests it is for a short term. So, suppose you take loan from bank, but you want to pay in a month’s time or let us say you borrow some money from a friend, you will repay in 15 days or say 2 months, that is known as item one short-term borrowing. B trade payables, trade means regular business. So, if I am a company I buy goods from someone, the money is payable say after 15 days then that is known as trade payable.

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C you can say c is other current liabilities. So, two liabilities we have seen, first one is short-term borrowings, the second one is trade payables. If other than that, if there are any current liabilities they are coming in c, Can you think of any other liability, other than trade creditors, suppose you are employed somewhere. At the end of the month the company, I am a company say I have to pay the salary to the people at the end of the month. If I do not pay, I will pay on the fourth of say next month.

Then at the end of the month the salary payable is a liability. And that will come under this item c, which is known as other current liabilities. So, other than trade payables, if there are any liabilities they are other trade liabilities. D is short-term provisions, now what is meant by a provision. Now what happens is sometimes I know that the amount is payable. But, I do not know exactly how much is payable. Can you think of such a case, example one I can tell you is every month I get electricity bill.

And I pay it say on 20th of the next month. Now, at the end of the current month I have not yet received electricity bill. But, I am making the balance sheet. So, how much bill will come I do not know. So, based on my record of earlier months, I will take the average bill and show it as a provision. Saying that, this much amount is payable. That is known as short-term provisions. One more example I can give, that is in case of taxes. Now, what happens is say I have to pay some tax.

So, on my own calculation I calculate the tax and pay. But, by chance government authority may ask for more tax. So, I am not very sure how much tax I have to pay. So, whatever calculation I make I show it as a provision. So, I got did you get. So, under current liabilities four items were listed. The first item was short-term loans taken, the second was trade payables, c was other current liabilities and d is short-term provisions.

So, all the current liabilities are in turn categorized into a, b, c, d. So, this was one type of liability. The other liabilities are item number 3 that is noncurrent liability. Noncurrent as the name suggests, these do not come from day to day business. And usually they are payable after 1 year, 2 year or more. So, any liability, which is below 1 year, which is payable in 1 year is known as current. Say more than 1 year is typically known as noncurrent or a long-term.

Amongst the noncurrent current liabilities, the first item is long-term borrowings. So, any loan taken let us say I have purchased house. I take loan from the bank, I will pay in next 15 years then this is an example of a noncurrent borrowing. Similarly, if company sets of a new factory, so for purchasing the machinery they have taken loan payable after 5 years then it is a long-term borrowing. 3 b you can see, deferred tax liability. Now, sometimes what happens is I have to pay tax.

But, I do not have to pay it in this year. I may be eligible for some tax benefit, so I can pay tax after say 4 years. Then that is known as deferred tax benefit or deferred tax liability. C is other long-term liabilities, so other than borrowing. So, let us say, I have taken loan it will come in a, but I have taken some goods or say some machinery for use, I will repay it after 2 years. Then it could be an example of other current liabilities d is long term provisions ((Refer Time: 28:57)).

We have seen, what is a provision? So I have to pay some money, but I do not know exactly how much I have to pay. Then it is called as a provision. You can have short-term provisions under current liabilities, under noncurrent liabilities this item d is non long-term provisions. Can you think of any example on this, let us say, I have got 500 employees. When the employee retires I have to pay gratuity to the employee. But, when the person will retire I do not know.

So, I also do not know the salary at the time of retirement. In case of death I have to give some more money. I do not know when and if the death will happen. So, these liabilities are not payable immediately. They are payable in the long-term and I also do not know their amounts. So, these are known as long-term provisions. Let us, have a look ((Refer Time: 29:59)) at the balance sheet again. We were looking at the liability ((Refer Time: 30:04)) side in that first item was share holder fund.

Second item ((Refer Time: 30:08)) was share application money, third was noncurrent liability, fourth was ((Refer Time: 30:13)) current liability. So, here all the liabilities are over, now let us go to the assets. Assets refer to the properties of the company. They are the resources, which are used for business. You know that assets in turn can be current or noncurrent, same like liabilities. So, what is a current asset? As we have seen for liability, those assets which arise from money cycle.

In a sense that they arise from day to day business, they are known as current assets. And typically, they can be converted into cash within 1 or 2 months 3 months like that. So, they can be converted into cash within 1 year. Then they are known as current assets. If they are cannot be converted beyond 1 year then I will list them as noncurrent. Let us first look at noncurrent assets. So, item one is noncurrent in that a is fixed asset. Now, what is a fixed asset?

Again if you remember our lecture in 1.1 first module we have slightly discussed on what is a fixed asset. So, you have a money cycle, which runs with the use of infrastructure. That infrastructure is referred to as fixed assets. Can you give any examples of fixed assets? I will give you one example. So, if I have a factory naturally, I have a land, I have factory building, I have some machinery all these are my fixed assets. I do not sell them every day. I make goods and sell.

But, I use the machinery, I use the land and I use the building, I use the vehicles, all these are known as fixed assets. Fixed assets in turn can be of two types. You have got tangible fixed assets. So, tangible means those fixed assets, which you can see, you can touch. And you also have non-tangible fixed assets. Now, lot of examples I gave like, land, building, machinery, which category they fall in tangible or intangible. Naturally, they fall in tangible assets. Now, there are also fixed assets, which you cannot see.

What are they what could be the non-tangible fixed assets, just think of? Is computer a fixed asset? Yes, the monitor, hard disk, all the printer all the components which you can see are the fixed assets and what about software, software is also a fixed asset. But can you see the software? No, you cannot see, you cannot touch the software. So, software is an example of a intangible fixed asset. Any other example of intangible fixed asset, many times company sells goods under some brand.

So, that brand name cannot be seen, but it has a value. So, that is also an intangible fixed asset. So, these are two sub categories of fixed asset. So, under fixed assets you have got tangible and intangible.

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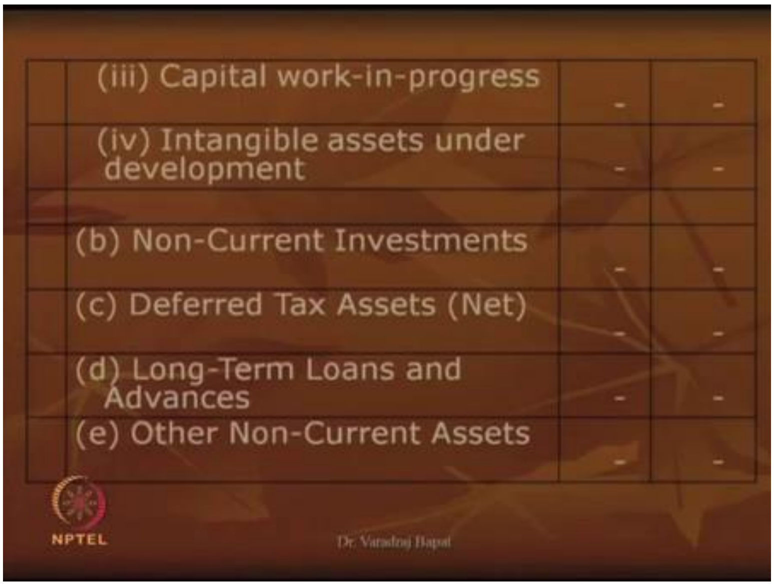

Let us, go to the next one. The third amongst the fixed asset is known as capital work in-progress. Now, as the name suggest it is work in-progress, now something is going on. So, what happens is, if suppose I constructing a new factory. The building is half finished. So, I cannot call it up factory building, it is under construction. Such items are known as capital work in-progress. Same way, there can be intangible assets, which are under development.

So, suppose I am making some module of software to be used in my company. So, the software is not yet ready to be use, but it is under construction, it is being under development as we call. So, indirect intangible assets under development are also an example of fixed assets. So, totally you have got four categories of fixed assets ((Refer Time: 34:34)), tangible, intangible, incomplete tangible which are known as capital work in-progress and intangible which are under development, so four a, b, c, d sorry 1, 2, 3, 4 under fixed assets.

The next type of noncurrent assets b as you can see here is noncurrent investment. Now, what do you understand by investment? Now, suppose I have got a lot of surplus money, I cannot use in my business. So, instead of keeping the money in bank, I may keep it in the fixed deposit instead of keeping in my saving or current account, I will keep in fixed deposit. Then it is an investment or I may buy shares of some other company or I may buy some land, which I can sale after many years.

I do not want to use the land, but I just want to buy it as an investment. Then these are the examples of noncurrent investment. As the name suggest it is noncurrent. So, it is not for regular buying and selling. It is to be held for a long time, then it is known as noncurrent investment. C you can see is deferred tax asset. In case of liabilities we have seen, what is deferred tax? So, what happens is many times tax provisions are such that, I can pay tax after 4 years then it becomes a deferred tax provision.

This is a deferred tax asset. So, what happens is I have to pay a tax now, but for next 3, 4 years I get tax benefit. Then it is called as deferred tax asset. Deferred, because I do not get the benefit right now. I make payment now, but I get benefit after 2, 3, 4 years, so it is known as deferred tax asset. Item d is long-term loans and advances. You know, long-term means these assets have a life of more than 1 year. Now, what is a loan and advance?

Now, this is not a loan taken, loan suppose I am a company, I take loan from bank that will be a liability. As against that, if I give loan to someone, let us say I give loan to my employees. And they will repay me after 5 years, then it will be a long term loan and advance. Same way, if I deposit some money with the electricity company to get the electric connection I have to keep deposit with them. Then that is a long-term loan and advance.

Item e, the last item now this is known as other noncurrent assets. So, what does not fall in a, b, c, d will come in e. Now, what was a, b, c, d? A was fixed assets. I think you all know now, these are the assets which are used for my business, but do not sell them. B are noncurrent investments. So, surplus money I invest outside my business that is a noncurrent investment. Then, deferred tax asset, so I have paid some tax dues will be after 2, 3 years.

Fourth is long-term loans and advance, so loans which I have given or deposits which I have given. Now if you leave all these four, if there are any other than these it is known as other noncurrent assets. Now, can you think of any example like that? Now, what happens is suppose I have given my asset on lease for use to someone else. Then it could be it is for a long term use for 3, 4 years.

Then it could be an example of other noncurrent asset. Now, let us go ahead. So, we have seen in detail what are noncurrent assets ((Refer Time: 38:34)), you can see all five categories. Now, let us go to current assets.

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Now, what is a current asset, a is current investments. Now you all know investment, that if I have surplus money, I put that money to outsiders. I mean I put that money outside my business. I give to someone for use that is known as investment. If it is given for less than 1 year it will be called as a current investment. For example, I keep F D with a bank just for 6 months, then it is a current investment. B are inventories, now what is an inventory. I think you all know, it is also on a stock of goods.

So, if you remember that money cycle, I buy some raw material, I convert them into finish goods, at all these stages it is known as inventory. I want to sale this in a short period of time that is why it is called it is a part of current assets. Now c, c is a trade receivable. Now what is trade receivable? We have just now seen trade payable. So, if I buy goods, but do not pay them, I will pay them after say 1 month, it is a trade payable.

Same way, if I sale goods, but my customers do not pay me immediately, they will pay me after a week. Then in that week, it is a trade receivable for me, because the money is going to be received in future, but in a short period. D is cash and cash equivalent mainly it consists of cash and bank balance. So, for my running business I should have some hard currency, I should also have some money in my bank. So, that I can give cheque or I can transfer the money, that is a cash and cash equivalent.

E, short-term loans and advances, now just now we have seen what is a loan and advance. So, if I give loan to someone, it will be considered as a loans and advance. So, if I give say advance to my employees. And employees is suppose to return in 2 months. Then it is a short term loan and advance. Same way to obtain let us say, some permission from a regulator I have to deposit some money. I will get it back in 3 months it is a short-term loan and advance.

And last f, if anything does not fall in a, b, c, d it will be clubbed as other current assets. So, now you can see here ((Refer Time: 41:18)). All assets were divided into two categories. You have noncurrent assets, in that fixed assets, noncurrent investment, deferred tax assets, long term loans and advance and other noncurrent assets. Same way, in current assets you have got 6 categories. So, have you understood now all items in balance sheet? We were discussing this format as given by company law, schedule 6 of company law. Now, let us look at each of these elements slightly in detail.

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Broadly speaking you can see that, balance sheet has three types of items. There are assets, there are liabilities and there are owner's funds. Now, what is an asset? In asset to define an item of as an asset, certain things must be satisfied.

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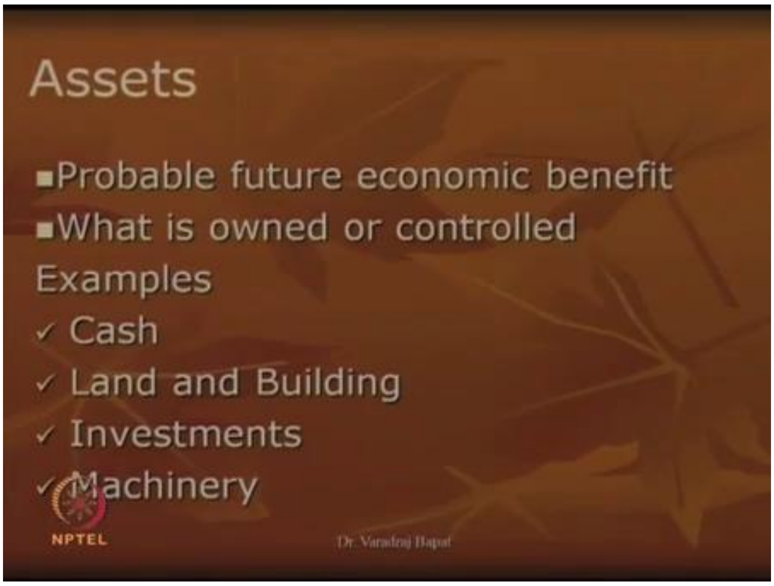

First thing, it should have some probable future economic benefit. And you can only record those assets, which are owned or controlled by an entity. So, one example I have shown you here, that is cash. Obviously, cash is one of the important assets. Now, apart from cash can you list give examples of more assets. In fact, right now we have discussed many examples. So, just try to remember some more assets. Will try to see? So, you can see here land and building, then investments, machinery.

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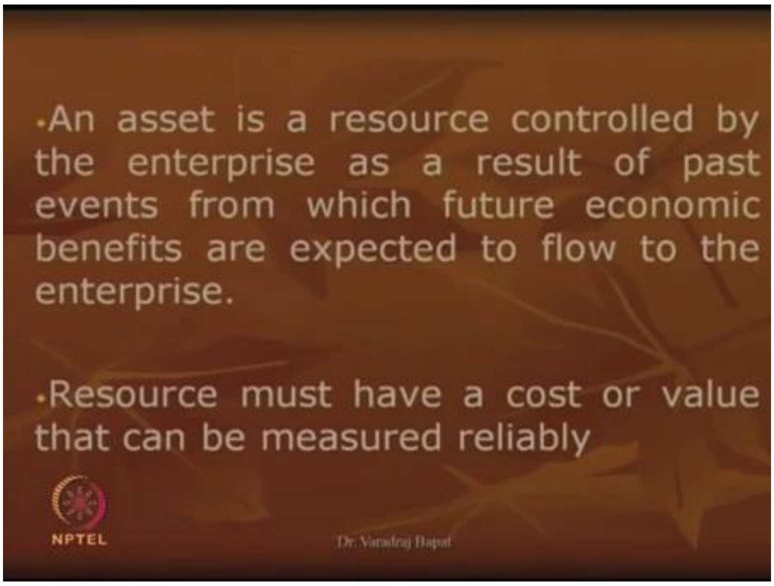

Now, asset is a resource, which is controlled by the entity. Because, of past events. And we expect some economic benefit from it. So, if I buy machinery, I am expecting that I can use the machinery make some production and sell the goods. If I buy a car, I want to travel use it for my travelling. If I buy, if I say keep money in a deposit with a bank, I am expecting that I will earn some interest and I will also get back to some get back the money.

So, every asset I should get some economic benefit. And I am expecting and I am able to control or own that asset. To record it they should have some cost or value, which can be readily measure.

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Now, let us go to the types of assets. We have already seen the types, main types fixed assets, current assets and investments. Fixed assets in turn can be divided into tangible and intangible.

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Now, we have discussed it just now, I am giving you three examples of tangible assets here. You have land and building, machinery and furniture. Amongst the intangibles you have goodwill, trade marks or patents. I will request you to think little bit and try to write four more examples in each category, apart from three, three examples which I have given.

Right now can you tell at least one more example of a tangible asset, we have just now discussed. So, apart from land and building machinery and furniture, which is listed here in this slide. You may have let us say, vehicle it is a tangible asset and one intangible asset. So, goodwill trade mark patent we have already seen computer software or a brand, these are all intangible assets.

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Now, let us try to categorize current assets. Current assets can be of two types, you do a monetary current assets. As the name suggests these current assets represents some money, that much money you know that you are going to get back. So, could you think of any examples of a monetary current assets. So, if you put some money in bank, let us say I put 10,000 in bank that is my bank balance. I can withdraw that 10,000, I will get exactly 10,000. So, it is a monetary current asset.

Same way, if I sold goods to customers of 50,000, after 15 days I am going to get that 50,000. So, debtors or a trade receivable is also a monetary current asset. So, you can see two examples of monetary debtors and bank. Same way, there is another category known as nonmonetary current assets. Can you think of any type under a nonmonetary current assets. So, two examples are listed here, you have got raw material stock or finished good stock. Any other example can you give?

Stock I think you all know, if I buy goods keep it with them value will keep on fluctuating. So, it is a nonmonetary current asset. Same way, if I make some investment for a short term let us say, I buy some shares values of shares keep on changing. I want to sell it in say 1 month, so it is also a nonmonetary current asset. So, we have seen broadly the types of assets, which are fixed current and investment. Now, let us go to liabilities. Now, what is a liability? In case of assets I was to get something, in case of liability I have to pay something.

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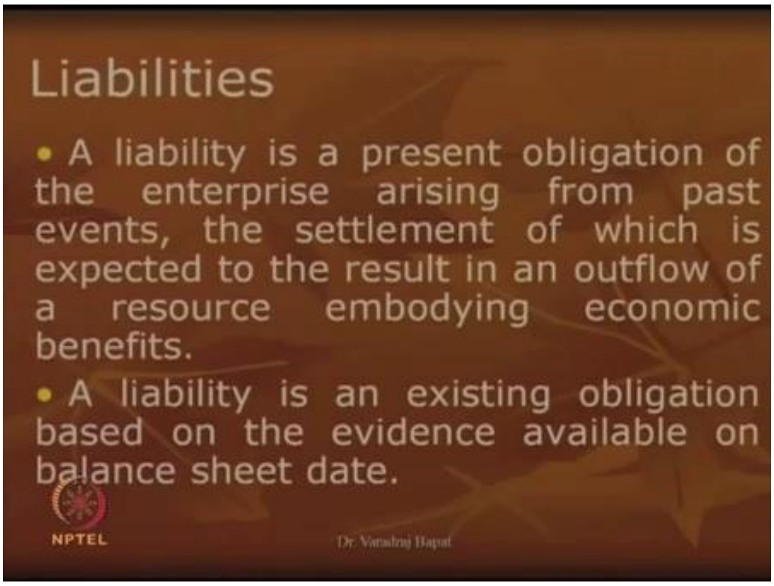

So, liability is something, which is a present obligation, where in I have to pay the money. And it is going to result in the outflow for the concern. That is a definition of liability. So, as on balance sheet they if there is any evidence that I will have to pay money it should be treated as a liability. Now, liabilities also can be divided on the lines of assets, one way of dividing is long term and short term.

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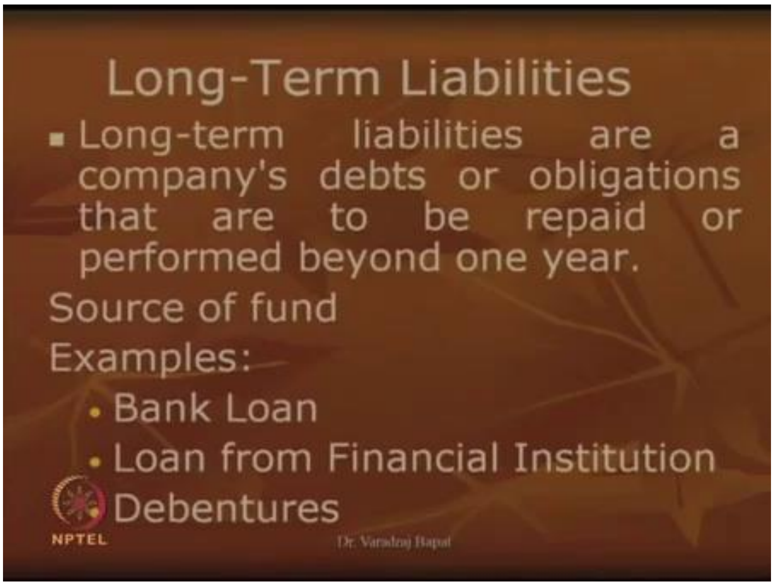

Now, what is a long term liability these are the company's debts or obligations, which are to be paid more than 1 year that is why we call them long term. Typically the sources of funds the money, which I raise to run the business is not going to be paid immediately. They are considered as long term liabilities. Examples are bank loan, loans taken from institutions or debentures. I hope you all know what is a loan?

So, if I want to run the business, I may approach the bank let us say, I want to start a plastic manufacturing unit. I approach the bank that I want say 50 lakhs to start a factory they give me loan. Then that is a example of a bank loan. Sometimes instead of approaching bank I may approach many people. And they may give me a loan in turn I give them a document, which is proof that I have taken loan from them that is known as a debenture. This is also example of a long term liability. So, three examples I have given bank loan, loans from institutions and debentures.

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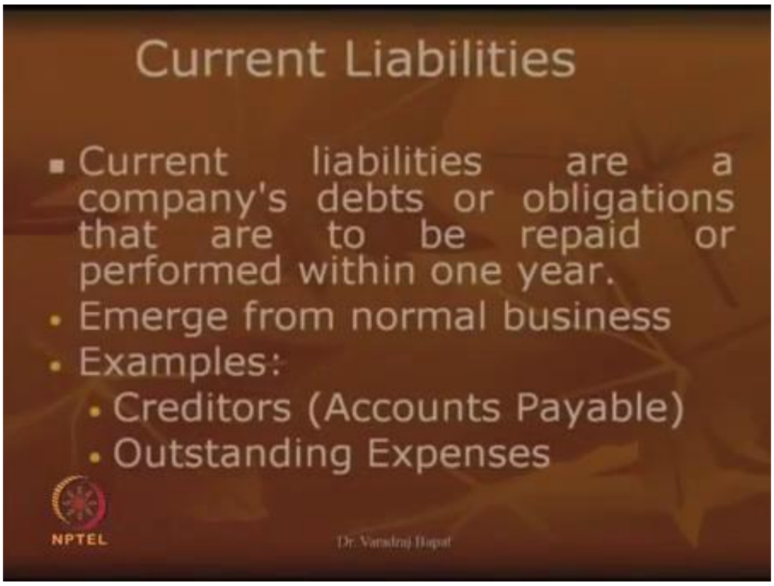

Now, other than long term the second type of liabilities are current liabilities. So, these are those obligations, which are payable immediately. That is within a period of 1 year. Typically, they immerge from day to day business transactions, examples are listed here one is creditor. I hope now you remember what is a creditor? So, what happens is suppose I have purchased goods, I have not yet paid. And I will pay after a month's time. Then it is a trade creditor or creditor or account payable.

Second example is outstanding expenses. Now, what is an outstanding expenses can you think of I had just given you an example, that suppose employees salary is payable at the end of the month. But it is after four days. So, at the end of the month it becomes a outstanding liability. Same way, suppose rent is payable, but is not paid at the end of the month. Then it is a outstanding liability.

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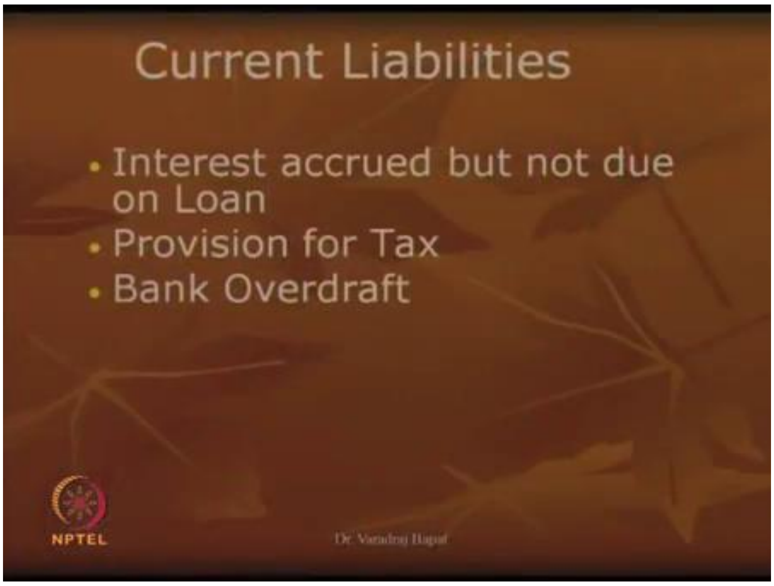

There are a few more examples listed here. Interest accrued, but not paid on loan. So, what happens is loan is taken, but no interest is paid at the end of the month. It will be paid next month. So, at the end of the month interest accrued becomes a liability at the end of the year. Every business has to pay tax. So, the amount of tax, which is payable is known as tax provision. There is also a facility from the bank to get an overdraft.

So, for example, if I invest, if I say deposit in bank 10,000 rupees normally, I can only withdraw 10,000. But, sometime bank gives a special facility that though I have deposited 10,000. Let us say, I can withdraw 15,000 that extra 5,000 which I have withdrawn is known as bank overdraft. I have to repay it to bank within a short period. So, it is an example of current liability.

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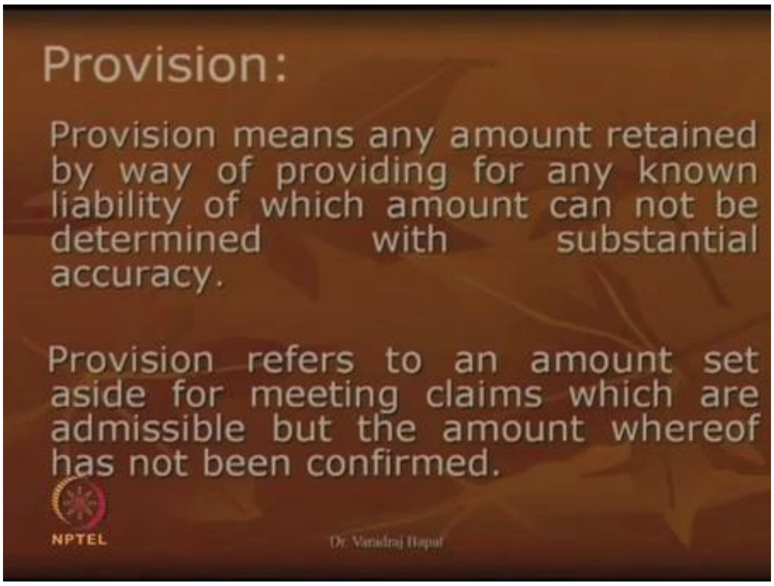

We will also see, what is a provision? We have discussed in fact, in the beginning. So, what happens is a liability exist? But, the amount of the liability cannot be defined correctly. So, what are the examples of provisions?

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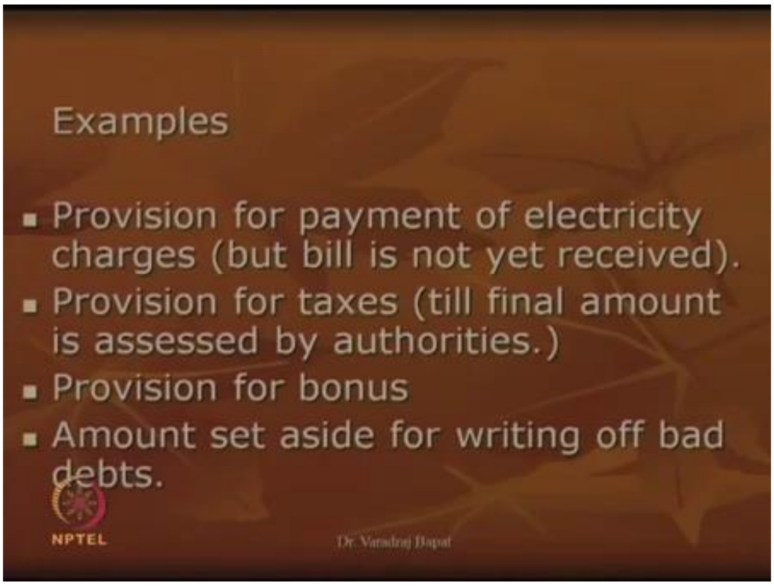

We have seen it earlier that suppose electricity bill becomes payable at the end of the month. But, I have not yet received the bill. So, I do not know the amount payable. Then I make a provision for payment of electricity at the end of the month or at the end of the year then that is a provision. Same way, I calculate how much tax I have to pay. And I make a provision for it, it is known as provision for tax. Ultimately, government authority will decide how much tax I have to pay, then it becomes a current liability.

But, as of today I have calculated based on my own working it is known as provision for tax. Same way, at the end of the year company may be paying bonus to the employees. So, they make a provision for bonus, they may also set aside some amount for bad debts. So, what happens is sometimes, company takes a gives goods to the customers. Customers are to pay me after one month, but they do not pay. I am worried whether they will pay or not pay, then I have to make a provision for bad debt.

So, we have seen most of the all the assets and also two major liabilities noncurrent and current liabilities. So, we stop here for this session, in the next session we will discuss on 2, 3 remaining parts of the balance sheet, which is contingent liability. We will also discuss about what is known as owners fund or the equity and so on, so will stop here.

Thank you so much.