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

Lecture – 10
1.9 Walkthrough of Balance Sheet III

In this video, I am going to take you through the other side in the Balance Sheet which is liabilities.

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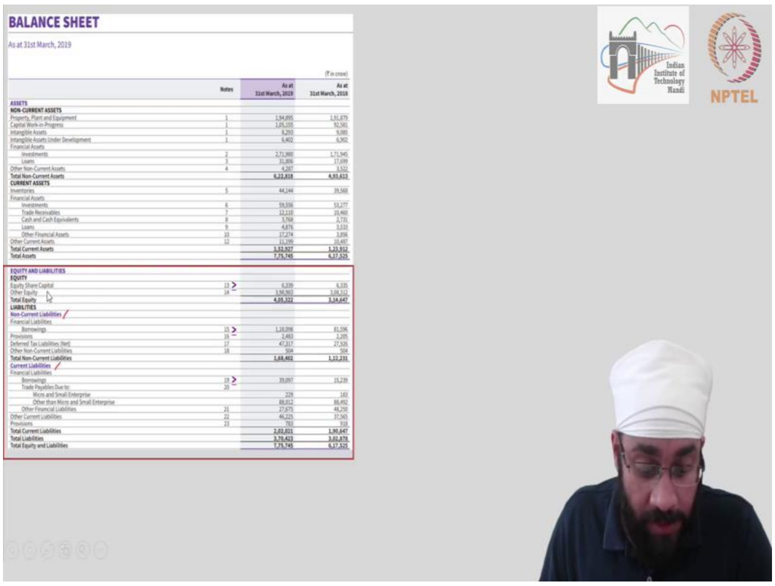

So, on the liability side we saw earlier that you have equity, non-current liabilities, and current liabilities. Now, we are going to deep dive into each of these three items to get a feel of the contents within.

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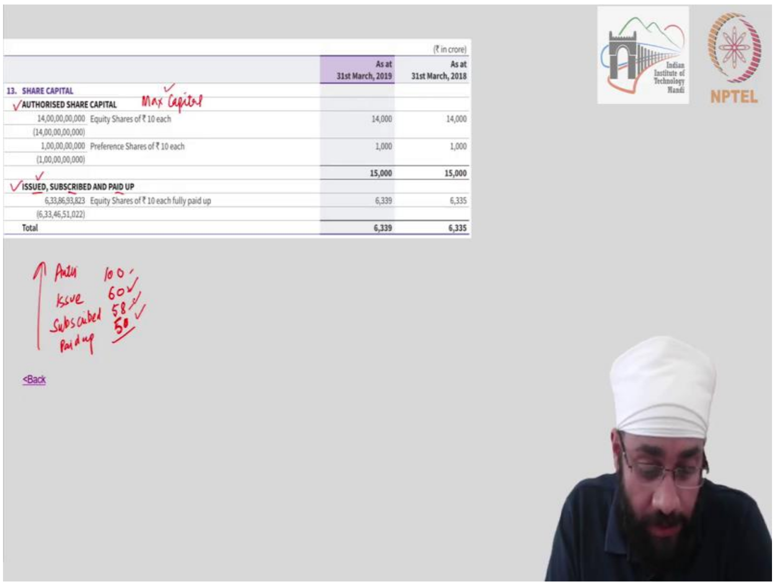

Let us look at equity share capital, point 13. When you scroll to note number 13 in the annual report, you see these details and you have something called authorized capital, issued, subscribed and paid-up capital. This nomenclature has certain meaning.

Authorized share capital is the maximum capital and by capital I mean the investment coming in from the shareholders. This is the maximum capital that a company is allowed to raise. It can be increased from time to time, but you have to pay a fee in order to increase the share capital. This is one of the restrictions on the company form of business. Out of the total maximum capital that you can raise from public, you are going to issue a certain percentage at a given time. So, let us say out of the authorized capital of 100, you decide to issue only 60 to the public at a given time. We are going to raise 60 rupees from the public and it is again possible that when you issue these shares to the public not all the shares are subscribed for. There is a process that you have to follow to issue shares that is beyond the scope of this course. Thus, by following that process the public subscribes for your capital. So, subscribed capital can be let us say 58; two is the amount which remained unsubscribed. Finally, paid up capital means that after 58 rupees had been subscribed for, the total amount for the investment may not be received and you ended up receiving only 50 out of the 58. So, that is the hierarchy of this terminology of capital.

In this case issued, subscribed, and paid-up capital all three are equal; meaning, all the shares that were issued were subscribed for and the company has received money for those shares from the public. So, that is the terminology in the share capital.

Let us go back and deep dive into the borrowings under non-current liabilities.

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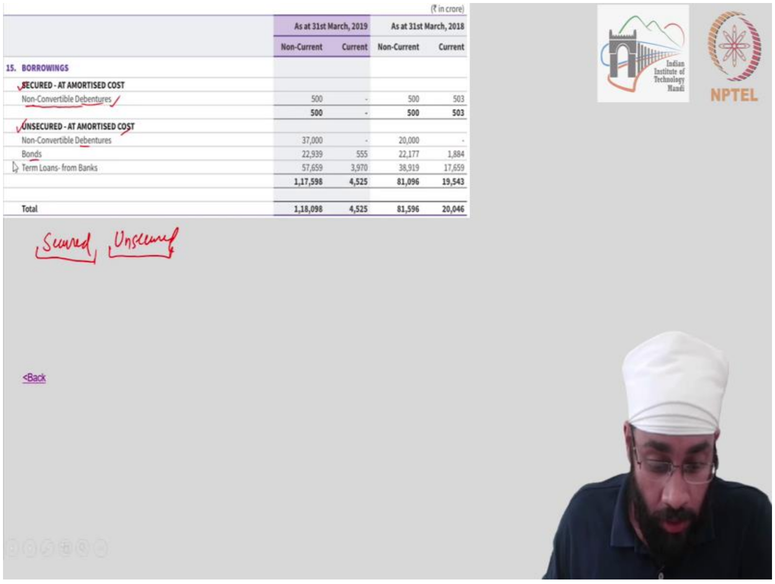

In note number 15, you have secured and unsecured borrowings; again, I clarified the concept of secured versus unsecured. If Reliance does not pay the secured liabilities then some property of Reliance Industries Limited is going to be taken over by the bank or if any other source from where the loan has been taken. They will take over that particular asset, sell it off and recover the money. Unsecured on the other hand means, the creditors cannot do anything if reliance does not pay back that amount.

Under the secured, you have non-convertible debentures; this is some advanced terminology-convertible, non-convertible. It basically means, convertibility into equity shares at some time in future, but again I do not want to get into that because it is beyond the scope of the course. All we need to understand is that there are long-term loans that the company has and some are secured while others are unsecured.

Again, there are debentures, there are bonds. Debenture and bonds, in simple language, is the money that you raise from general public in the form of a loan rather than raising from a bank.

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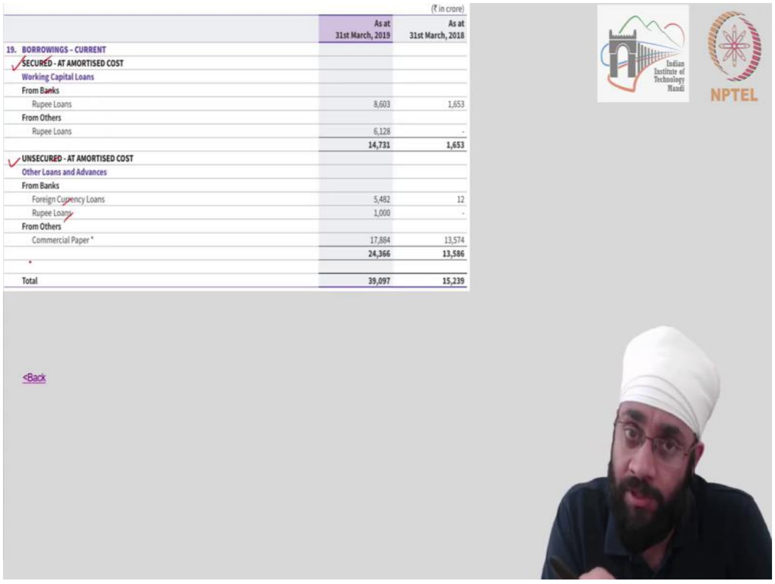

(₹ in crore)

	As at 31st March, 2019	As at 31st March, 2018
19. BORROWINGS – CURRENT		
SECURED - AT AMORTISED COST		
Working Capital Loans		
From Banks		
Rupee Loans	8,603	1,653
From Others		
Rupee Loans	6,128	-
	14,731	1,653
UNSECURED - AT AMORTISED COST		
Other Loans and Advances		
From Banks		
Foreign Currency Loans	5,482	12
Rupee Loans	1,000	-
From Others		
Commercial Paper *	17,884	13,574
	24,366	13,586
Total	39,097	15,239

Let us go back and now we are going to look at current liabilities and we will look at the borrowings under current liabilities: this is note number 19.

You have the same categorization and if you go to different companies' annual reports, financial statements, you will see similar categorization. We have secured borrowings and unsecured borrowings from banks in foreign currency and Indian currency.

These details can vary from company to company, but a certain nomenclature, certain way of breaking down these things and presenting these things has been prescribed under the Companies Act. There is a format which is issued using which all the companies need to prepare their financial statements.

So, that is it. This is what I wanted to discuss in this video. You now know the contents of the balance sheet in detail as well. We have not discussed some advanced items, but the idea is that that the discussion on asset, liability, income and expenses in the first module of the course has now equipped you to look through, to browse through the annual report, the financial reports of a company and understand it. You now know the broad level categorizations under these terms as well and you know how to find the details under each of these terms also. I will see you in the next video.