

**Financial Accounting**  
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**Lecture - 11**  
**1.10 Walkthrough of Income Statement I**

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The slide features a red header box with the text "Financial Accounting" and "Dr. Puran Singh" below it. In the top right corner, there is the NPTEL logo. A black bar at the bottom of the slide contains the text "1.10 Walkthrough of Income Statement". The bottom right corner of the slide is occupied by a video feed of Dr. Puran Singh, who is wearing a white turban and glasses.

In this video, I am going to take you through the Income Statement or the Profit and Loss Statement of Reliance Industries Limited.

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The slide displays a table of contents for a report. The table is organized into several columns: CORPORATE OVERVIEW, MANAGEMENT REVIEW, GOVERNANCE, FINANCIAL STATEMENTS, Consolidated, and SHAREHOLDER INFORMATION. The NPTEL logo is visible in the top right corner. A video feed of Dr. Puran Singh is positioned in the bottom right corner of the slide.

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In the same annual report, now we go to page number 269, where the statement of profit and loss is given.

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	Notes	2018-19	2017-18
<b>REVENUE</b>			
Value of Sales		4,60,128	3,34,817
Income from Services		987	940
Value of Capital Services (Reverend)		4,60,944	3,35,817
Less: GST Recovered		(30,052)	(30,052)
<b>REVENUE FROM OPERATIONS</b>		<b>16,082</b>	<b>16,082</b>
Other Income		6,212	6,212
<b>Total Income</b>		<b>22,294</b>	<b>22,294</b>
<b>EXPENSES</b>			
Cost of Material Consumed		2,83,388	1,98,029
Purchase of Stock in Trade		8,288	7,288
Change in Inventory of Finished Goods, Work-in-Progress and Stock-in-Trade	26	(1,246)	(1,452)
Bad Debt and Service Tax		(3,885)	(4,273)
Employee Benefits Expense	27	5,824	4,740
Finance Costs	28	1,752	4,036
Depreciation, Impairment and Capital Expenditure	29	(10,028)	(5,580)
Other Expenses	30	(20,449)	(21,476)
<b>Total Expenses</b>		<b>8,46,556</b>	<b>5,87,288</b>
Health Before Tax		47,387	45,712
<b>TAX EXPENSES</b>			
Corporate Tax	32	8,440	8,952
Income Tax	37	2,784	3,080
<b>Profit for the Year</b>		<b>21,682</b>	<b>21,612</b>

$\checkmark$  Income - Expenses = Profit  
 Price = 100 + 18% GST  
 Market = 118  
 Revenue = 100  
 Cost = 18

And again, do not be surprised to notice the same thing- this is a real company, Reliance Industries Limited- financial statements for 2018-19. What you have here is income and you have expenses and what did we learn? We said there is going to be income and there is going to be expenses and there is going to be profit. So, where is the profit? You have profit for the year at the bottom. This was also the background equation for the accounting equation. You have assets equal to the liabilities; but in liabilities, income and expenses play a part. Let us go through the contents of the income statement to see what are the various items and how are these shown.

You have the value of sales first, then we have income from services; so, sale is for goods and other section is services. You have the value of sales and services in total, then you have GST recovered. As it happens in India, if you are selling anything, you have to pay GST on it. So, if a company says the price of a good is 100 and you have to pay a GST of say 18 percent on top of it then 118 rupees is the market price of that item. Now, when a consumer pays 118 rupees to the company, the company's revenue is only 100. The remaining 18 goes to the government. This is a new thing that I wanted to introduce. That is what is shown in the income statement here: you have the total value of the sales and services. This is what total revenue is. However, 16082 crores is not the revenue of the company. They have deducted this to come at

the actual revenue of the company. Now, why do they show it here? Because it is required by the law that they disclose the amount of GST that they have recovered. This gives you total revenue from operations.

This is the primary income of the business. This is the operating income of the business and then, you have other incomes. Again, we will go into the details to see what these other incomes are. You know these are clearly the secondary incomes for Reliance Industries Limited. You sum those two up and you have the total income for two 2018 and 19.

So, as we discussed, income is of two types: operating and non-operating. This is exactly how Reliance Industries or any other company show their incomes in their financial statements.

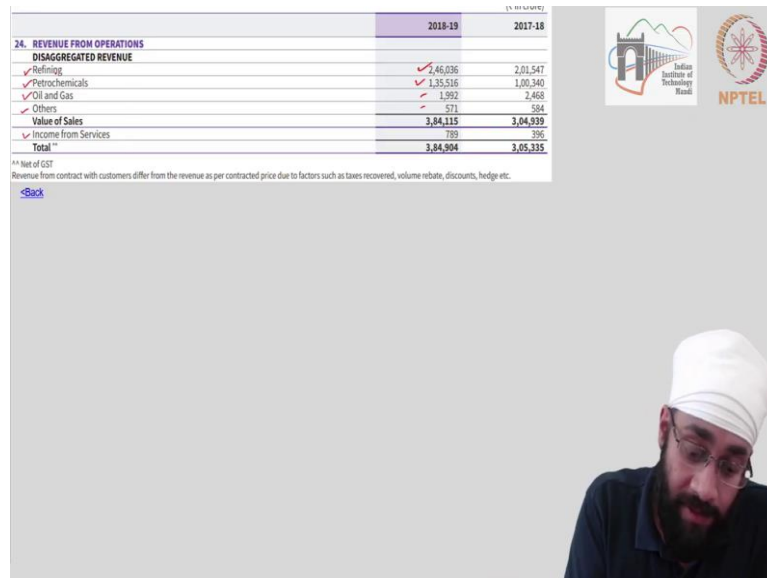
In the second section of the statement, you have expenses. Under the expenses, you have the cost of materials, purchase of stock, then there is an item about changes in inventory. Even this is an advanced discussion- the value of stock changes from time to time and you have to make some adjustments to it. Do not bother about it in this course. We will not need to know the details of that, but just understand that because the stock's value changes you either make some gain (if the value goes up) or make some loss (if the value goes down). Based upon market value, you purchase stock at some value and if it is unsold, the prices may change in future - there are some adjustments. So, do not bother too much about that at this point in time.

Then, you have excise duty, service tax, all the taxes that we have to pay, employee benefit expenses are salaries, provident fund, other things, then you have finance cost. We know what the finance cost is. This is the non-operating expense for the business. You have depreciation and amortization and in the previous video, I have also explained the concept of depreciation to you. So, that is also shown here as an expense. Now, whether depreciation is an expense or not is a debatable question. But I will clarify it as we move forward in the course. There is plenty of use for this concept of depreciation in this course. So, it will become clear to you gradually. In brief, it is that part of an asset which is used in a given year and because you are using a resource to generate revenue, you call it an expense. Thus, it is shown here. All the rest of expenses such as the taxes charged on profit: you pay your taxes and you have profit for the year. So, there you go- it is that simple.

Now, you can read the profit and loss statement of a company to make sense of its structure and the specific terms used in the statement and their meanings: you know this language. Now,

let us deep dive into these items. Let us go to note number 24, to see where the revenue from operations is coming.

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	2018-19	2017-18
<b>24. REVENUE FROM OPERATIONS</b>		
<b>DISAGGREGATED REVENUE</b>		
✓ Refining	2,46,036	2,01,547
✓ Petrochemicals	1,35,516	1,00,340
✓ Oil and Gas	1,992	2,468
✓ Others	571	584
<b>Value of Sales</b>	<b>3,84,115</b>	<b>3,04,939</b>
✓ Income from Services	789	396
<b>Total**</b>	<b>3,84,904</b>	<b>3,05,335</b>

\*\* Net of GST  
Revenue from contract with customers differ from the revenue as per contracted price due to factors such as taxes recovered, volume rebate, discounts, hedge etc.

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Revenue from operation is coming from refining petrochemicals, oil and gas; you know the others. There is income from services as well- Reliance is a diversified company. Majority of income comes from the refining operations of the crude oil. Then, there is petrochemicals and their exports: Reliance are actually among the top exporters of some of the petrochemicals.

For any company, you can look through the notes and you can understand what is the breakdown, what are the sources of the revenue from operations, what all does this company sell. So, that is revenue from operations. Let us go to the next item which is other income. Let us look at what non-operating incomes are.

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	(₹ in crore)	
	2018-19	2017-18
<b>25. OTHER INCOME</b>		
<b>INTEREST</b>		
Bank deposits	146	85
Debt Instruments	5,337	3,231
Other Financial Assets measured at Amortised Cost	278	270
Others (₹ 6,38,573 (Previous Year ₹ 11,56,621))	-	-
	<b>5,761</b>	<b>3,586</b>
<b>DIVIDEND INCOME</b>	<b>449</b>	<b>935</b>
<b>OTHER NON-OPERATING INCOME</b>	<b>604</b>	<b>253</b>
<b>GAIN ON FINANCIAL ASSETS*</b>		
Realised Gain	1,666	3,483
Unrealised Gain / (Loss)	939	(37)
	<b>2,605</b>	<b>3,446</b>
<b>Total</b>	<b>9,419</b>	<b>8,220</b>

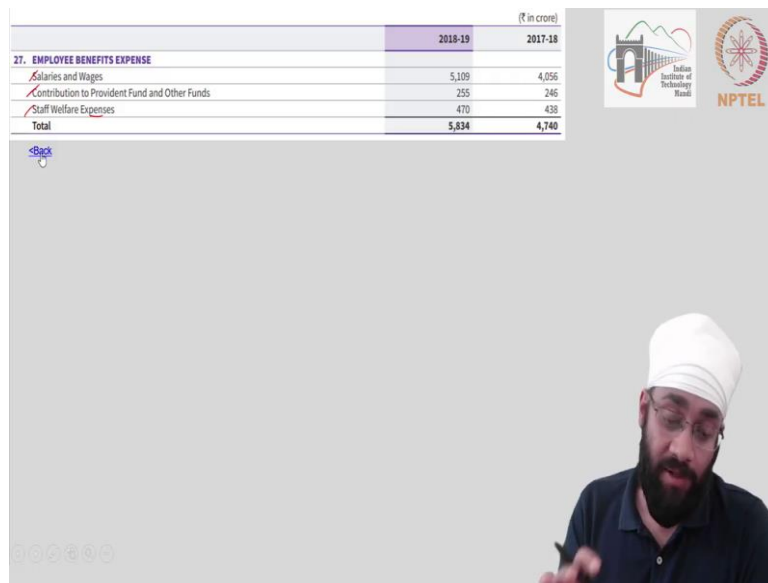
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In this we have financial income- income from the financial investments. You put money in a bank, you invest in debt instruments such as debentures or bonds in other companies, you have dividend income (dividend income is the income from money invested in other companies).

So, when you invest, when you put money in the bank, the bank gives you interest; when you put money in other companies, the interest that they give you is called dividend. Thus, dividend is another non-operating income. There are some gains- some advanced items, we do not have to worry about that right. Thus, financial income or income from financial assets is counted under the non-operating incomes.

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	₹ in crore)	
	2018-19	2017-18
<b>27. EMPLOYEE BENEFITS EXPENSE</b>		
Salaries and Wages	5,109	4,056
Contribution to Provident Fund and Other Funds	255	246
Staff Welfare Expenses	470	438
<b>Total</b>	<b>5,834</b>	<b>4,740</b>

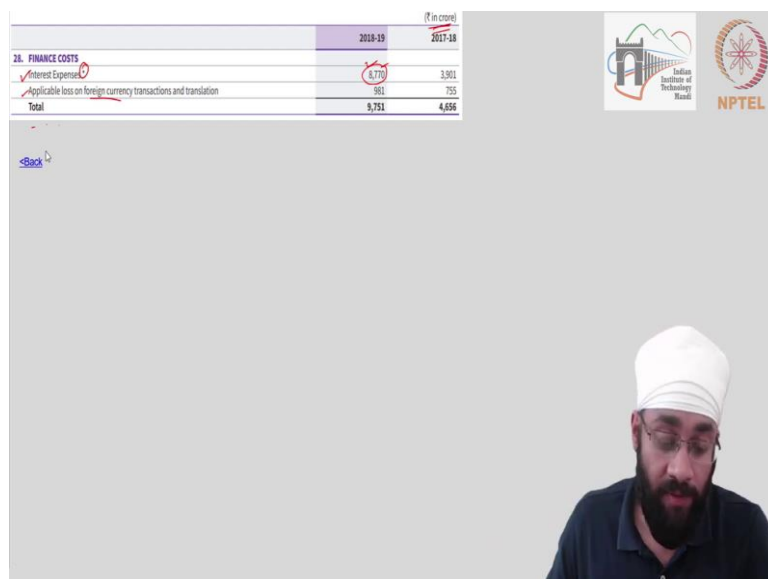


Let us look at employee benefit costs. So, you got salaries and wages, you got provident funds, staff welfare expenses and then, you can read through the report to understand more about staff welfare expenses: what did they do during the year specially for their staff.

More could be found out, but we are right now just reading these financial statements, understanding what are the contents. And I am only looking at selected items from this; otherwise it will be too long a discussion. Feel free to go through the rest of the financial statement as well to know more.

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	₹ in crore)	
	2018-19	2017-18
<b>28. FINANCE COSTS</b>		
Interest Expense	6,710	3,901
Applicable loss on foreign currency transactions and translation	981	755
<b>Total</b>	<b>9,751</b>	<b>4,656</b>



Finance cost- let us look at where the company is spending this money. Interest expenses- there was a star, I do not have it here but they would have given more details. So, Reliance is paying 8000 crores in interest on various loans that they have taken and we saw in the previous video that under the liabilities you can see what various loans are.

Then, you have applicable losses - this is you know something very advanced; we do not have to worry about it at this point in time. Right now, you should focus on building the basic understanding of terms and how things work in accounting- these are matters of advanced exploration.

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	2018-19	2017-18
<b>29. OTHER EXPENSES</b>		
<b>MANUFACTURING EXPENSES</b>		
Stores, Chemicals and Packing Materials	6,344	5,376
Electric Power, Fuel and Water	15,723	13,565
Labour-Processing, Production Royalty and Machinery Hire Charges	1,817	1,455
Repairs to Building	126	97
Repairs to Machinery	1,328	1,145
Exchange Difference (Net)	126	52
Excise Duty*	159	(95)
Lease Rent	16	11
	<b>24,639</b>	<b>21,646</b>
<b>SELLING AND DISTRIBUTION EXPENSES</b>		
Warehousing and Distribution Expenses	6,493	5,811
Sales Tax / VAT	872	854
Other Selling and Distribution Expenses	970	446
	<b>8,335</b>	<b>7,111</b>
<b>ESTABLISHMENT EXPENSES</b>		
Professional Fees	462	758
General Expenses	1,453	1,049
Rent	90	91
Insurance	1,045	902
Rates & Taxes	1,113	606
Other Repairs	511	427
Travelling Expenses	249	173
Payment to Auditors	22	18
Loss on Sale / Discard of Property, Plant and Equipments	37	17
Charity and Donations	935	700
	<b>5,917</b>	<b>4,831</b>
Less: Transferred to Project Development Expenditure	(2,446)	(2,092)
<b>Total</b>	<b>36,645</b>	<b>31,496</b>

Other expenses. What are other expenses? Again, a range of expenses which were not covered in any of the other categories have been shown here. You have manufacturing expenses, selling distribution expenses, you have establishment you know administrative expenses, rent insurance and what not and many of these items. We have already seen in the previous videos, are types of expenses.

So, yeah, that is it. That is what I wanted to talk about the income statement of Reliance Industries Limited. You are very familiar with the contents in it. So, feel free to go to any other company, look at Infosys, TCS or any other company's financial statements and try to see where they get their revenue, do they have loans, what are the assets that they have and so on. So, reading the financial statements: a cursory look, surface level understanding of the two financial statements, balance sheet and profit and loss- check! You are done with it.