

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

Lecture – 67
5.16 Validating the learning - Balance Sheet

Hi. If you have reached this far, you have been introduced to the various terms in the final accounts of the companies and you should be very familiar with the contents of the balance sheet and the income statement. In this video, I am going to help you validate the learning that we had till now. By validation, I mean that I have helped you prepare the balance sheet and income statement in the account format. However, the statements in the annual report of a company look different. They are typically presented in the statement format, not the account format. In this video, I am going to tell you that the statement format is nothing but a better presentation of the account format and account format gives us more breakdowns, more information, more data to be converted into information. So, we are going to look at the balance sheet of Reliance Industries Limited again and look at its content. When we look at the content, I will take you through the notes as well and you will see that the concepts that we discussed in last many videos are actually followed by these companies. So, let us get started.

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BALANCE SHEET			
As at 31st March, 2019			
(₹ in crore)			
	Notes	As at 31st March, 2019	As at 31st March, 2018
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	1	1,84,895	1,91,879
Capital Work-in-Progress		1,05,355	92,581
Intangible Assets	1	8,293	9,085
Intangible Assets Under Development	1	6,402	6,902
Financial Assets			
Investments	2	2,71,980	1,71,945
Loans	3	31,806	17,699
Other Non-Current Assets	4	4,287	3,572
Total Non-Current Assets		6,22,818	4,93,613
CURRENT ASSETS			
Inventories	5	44,144	39,568
Financial Assets			
Investments	6	59,556	53,277
Trade Receivables	7	12,110	10,490
Cash and Cash Equivalents	8	3,750	2,731
Loans	9	4,876	3,533
Other Financial Assets	10	17,274	3,856
Other Current Assets	12	11,199	10,487
Total Current Assets		1,92,912	1,29,912
Total Assets		8,15,730	6,23,525



So, I have on the screen the balance sheet and the asset side of the balance sheet for Reliance Industries Limited and you are no stranger to this balance sheet because we have seen this at the beginning of the course as well. In this balance sheet, we are going to look at some selected items and relate the balances of the data provided here to our learnings in the last few videos of the final accounts.

On the asset side, we said there are two heads; non-current assets and current assets. It appears as such and we have within non-current assets property, plant and equipment, and details are provided in note 1. Notice that in the final accounts that we prepared, we showed the name of the asset and we showed the total amount and we deducted the depreciation out of it. Here, in this balance sheet, you have been given the final value of property, plant and equipment, and all the assets have been clubbed into one head. All fixed assets, property, plant and equipment, everything has been clubbed under it.

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Description	Gross Block			Depreciation / Amortisation and Depletion			Net Block			
	As at 01-04-2018	Additions / Adjustments	Deductions / Adjustments	As at 31-03-2018	For the Year*	Deductions / Adjustments	As at 31-03-2018	As at 31-03-2018	As at 31-03-2018	
1. PROPERTY, PLANT AND EQUIPMENT, CAPITAL WORK-IN-PROGRESS, INTANGIBLE ASSETS AND INTANGIBLE ASSETS UNDER DEVELOPMENT										
PROPERTY, PLANT AND EQUIPMENT										
Own Assets:										
Leasehold Land	19,510	2	19	19,493	1,146	217	1	1,362	18,131	18,364
Freehold Land	36,954	92	3	37,043	-	-	-	-	37,043	36,954
Buildings	14,422	2,238	7	16,653	5,374	950	1	6,323	10,330	9,048
Plant and Machinery	2,19,609	9,152	421	2,28,340	96,391	6,621	381	1,04,631	1,23,709	1,21,218
Electrical Installations	6,322	513	104	6,731	3,287	572	87	3,772	2,959	3,035
Equipments [†]	5,741	44	362	5,423	2,819	565	359	3,125	2,298	2,822
Furniture and Fixtures	658	57	3	712	513	35	3	545	167	145
Vehicles	567	38	36	569	400	61	35	426	143	167
Ships	424	1	7	418	319	10	7	322	96	105
Aircrafts and Helicopters	46	-	-	46	37	1	-	38	8	9
Sub-Total	3,04,253	12,137	962	3,15,428	1,12,386	9,032	874	1,20,544	1,94,884	1,91,867
Leased Assets:										
Plant and Machinery	318	-	-	318	306	1	-	307	11	12
	10	-	-	10	10	-	-	10	-	-
Sub-Total	328	-	-	328	316	1	-	317	11	12
Total (A)	3,04,581	12,137	962	3,15,756	1,12,702	9,033	874	1,20,861	1,94,895	1,91,879
INTANGIBLE ASSETS*										
Technical Knowhow Fees	4,420	138	-	4,558	2,749	161	-	2,910	1,648	1,671
Software	1,023	43	13	1,083	957	44	13	988	75	78
Development Rights	42,163	630	-	42,793	34,825	1,412	-	36,237	6,556	7,338
Others	812	52	-	864	812	38	-	850	14	14
Total (B)	48,428	863	13	49,278	39,343	1,655	13	40,985	8,293	9,085
Total (A + B)	3,53,009	13,000	975	3,65,034	1,52,045	10,688	887	1,61,846	2,03,188	2,00,964
Previous Year	2,97,352	56,253	596	3,53,009	1,42,774	9,805	534	1,52,045	2,00,964	
CAPITAL WORK-IN-PROGRESS								1,05,155	92,581	
INTANGIBLE ASSETS UNDER DEVELOPMENT								6,402	6,902	

So, we can just go to note number 1. I have it ready with me and in note number 1, if you recall, this is the gross block which is the cost of the asset and this is the section that you should consider as the value that we showed in the balance sheet and out of this value, we deducted the depreciation amount. You take out all the depreciation and then you have the net block. The word block means the balance or the value of all the assets clubbed together. This is exactly what is done except that it is more complicated in a company format and what we

did was more simplistic so that you could grasp the concepts gradually at a smaller scale. In a company like Reliance, which is the largest in India, you will have many complex transactions. But the idea is that you understand the basics, you know the principles; now, you can look into more details. You can further do research on what is amortization; what is depletion and why do they have three columns within it? So, all of this is only functional knowledge. The technical knowledge you already have. You know the principle that from the cost you have to deduct depreciation and show the final value in the balance sheet and rest can be figured out on your own. So, this is one.

The other example that I want to show is point 7. Note number 7 is for trade receivables. We discussed that you have debtors and you adjust them for any bad debts and so on. Do companies actually do that?

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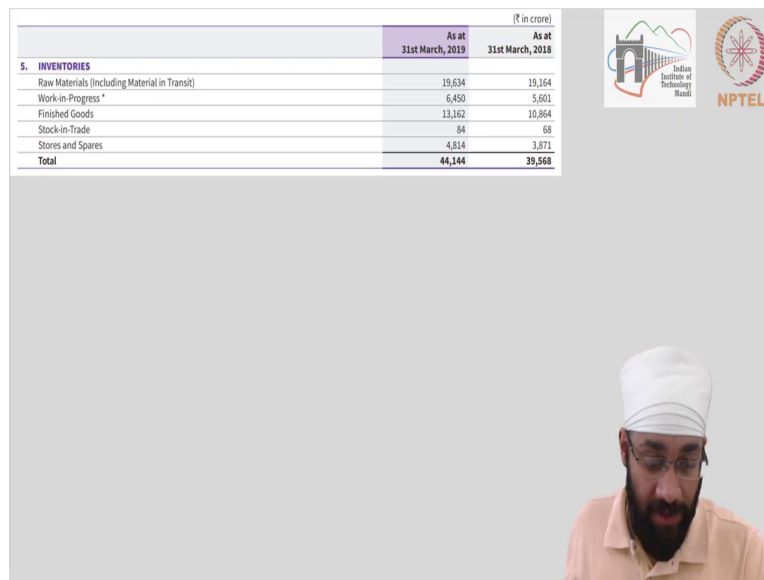
	As at 31st March, 2019	As at 31st March, 2018
7. TRADE RECEIVABLES (UNSECURED AND CONSIDERED GOOD)		
Trade Receivables	12,110	10,460
Total	12,110	10,460

Let us look at note 7 which I also have here. So, trade receivables, these are the debtors, they are the customers, from whom you have to recover the money. All of these are unsecured, meaning if they do not pay, you cannot do anything about it, you do not have any security against it and all are considered good. What does it mean? That means, there are no bad debts. So, the companies do take a note and you know possibly if you stumble upon some other company's balance sheets, you may find that they have some bad debts, they may specify it. In Reliance Industries case, they are stating that we are considering all our

receivables as good; none of those are going to be bad and therefore, they have their amount here. We did this as well earlier when we were doing the practice questions and tutorials; we adjusted the debtors' amount for bad debts and companies actually do that.

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	₹ in crore)	
	As at 31st March, 2019	As at 31st March, 2018
5. INVENTORIES		
Raw Materials (including Material in Transit)	19,634	19,164
Work-in-Progress *	6,450	5,601
Finished Goods	13,162	10,864
Stock-in-Trade	84	68
Stores and Spares	4,814	3,871
Total	44,144	39,568





I have another note on inventories. Let me go back to the balance sheet, you have inventories. What is this inventory? This is the stock, unsold stock, closing stock. Are we alone in discussing the closing stock? No, companies actually have to show their closing stock and note number 5; let me go to note number 5, here. So, this is the stock as on 31st march 2019 which is the end of the financial year. This is the closing stock. Now, the stock here has different categories. This is a complex business, different types of stocks, stock of raw materials, stock of material which is being converted like work in progress, stock of finished goods, spare parts, stock in trade. Different kinds of stocks are there. The question is how do we distinguish between these and it can be easily learned by doing more research. But you know the principle on which this categorization is based. You know what is closing stock, why is it shown, where it is shown and so on.

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		₹ (in crore)	
		As at	As at
		31st March, 2019	31st March, 2018
10. OTHER FINANCIAL ASSETS - CURRENT			
Interest Accrued on Investment	147	118	
Deposits to Related Parties (Refer Note 31(VI))	10,245	—	
Other Deposits	3,718	792	
Others*	3,164	2,946	
Total	17,274	3,856	

* Others include fair value of derivatives.

*(Accrual)
Principle
(Not received)*



That is inventories for you. I want to take you to note number 10; note number 10 which is for other financial assets. In note number 10, we have other financial assets. This is under the current assets, by the way. The first item under note number 10 is interest accrued. Now, are you familiar with the accrual principle of accounting? The accounting is done on accrual basis and Reliance Industries says interest accrued on investment is 147 crores. There is the income that they have earned, but they have not received. It is not received in cash, but they have earned it. So, they will be receiving in the following year. Again, we were not alone on an island, where we discussed accrual concept and the accrued incomes. Companies actually show all of these, they have to do. Again, you know the principle, when you see the word accrue, you know it means it's due but has not been received or paid. There are, of course, other items there. But we do not want to go into that because there is a lot of advanced terminology that some of these companies will use.

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EQUITY AND LIABILITIES			
EQUITY			
Equity Share Capital		6,339	6,335
Other Equity		3,98,983	3,08,312
Total Equity		4,05,322	3,14,647
LIABILITIES			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	15	1,18,098	81,596
Provisions	16	2,483	2,205
Deferred Tax Liabilities (Net)	17	47,312	27,556
Other Non-Current Liabilities	18	504	504
Total Non-Current Liabilities		1,68,402	1,12,231
Current Liabilities			
Financial Liabilities			
Borrowings	19	39,097	15,230
Trade Payables Due to:	20		
Micro and Small Enterprise		229	183
Other than Micro and Small Enterprise		88,022	88,492
Other Financial Liabilities	21	27,675	48,250
Other Current Liabilities	22	46,225	37,565
Provisions	23	783	918
Total Current Liabilities		2,02,021	1,90,647
Total Liabilities		3,70,423	3,02,878
Total Equity and Liabilities		7,75,745	6,17,525

That was about the asset side of the balance sheet. We looked at some handpicked items so that you can relate to the actual financial statements of the companies as well. On the equities and liability side, we used to prepare this side by side opposite to each other, in T format, account format. But companies show, one at the top of the other, in statement format. So, equity share capital again a note number 13, it says money brought in by the shareholders and we have already discussed it.

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				₹ (in crore)	
				As at	As at
				31st March, 2019	31st March, 2018
13 SHARE CAPITAL					
AUTHORISED SHARE CAPITAL					
14,00,00,00,000	Equity Shares of ₹ 10 each		14,000	14,000	
(14,00,00,00,000)					
1,00,00,00,000	Preference Shares of ₹ 10 each		1,000	1,000	
(1,00,00,00,000)					
			15,000	15,000	
ISSUED, SUBSCRIBED AND PAID UP					
6,33,86,93,823	Equity Shares of ₹ 10 each fully paid up		6,339	6,335	
(6,33,46,51,022)					
Total			6,339	6,335	

Cap brought in by shareholders

Let us look at note number 13. In note number 13, this heading says issued, subscribed and paid up. Paid up capital is the capital brought in by the owners, by the investors. Capital brought-in by the shareholders, this is shareholders capital, and they give you a number of equity shares, their face value, the money that has been brought in crores. So, there you go. Next time you look at this section in the balance sheet you know what it means.

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	31st March, 2019	31st March, 2018
14 OTHER EQUITY		
SHARE APPLICATION MONEY PENDING ALLOTMENT		
As per last Balance Sheet	15	4
Add: Issue of Shares / Application money received	(13)	11
	2	15
CAPITAL RESERVE		
As per last Balance Sheet	291	291
CAPITAL REDEMPTION RESERVE		
As per last Balance Sheet	-	48
Less: On issue of bonus shares	-	(48)
	-	-
SECURITIES PREMIUM		
As per last Balance Sheet	46,174	49,080
Add: On Employee Stock Options	132	126
	46,306	49,206
Less: On issue of Bonus shares	-	(3,032)
	46,306	46,174
DEBENTURES REDEMPTION RESERVE		
As per last Balance Sheet	5,251	1,117
Add: Transferred from Retained Earnings	4,124	4,134
	9,375	5,251
SHARE BASED PAYMENTS RESERVE		
As per last Balance Sheet	12	16
Less: On Employee Stock Options	(3)	(4)
	9	12
GENERAL RESERVE		
As per last Balance Sheet	2,25,000	2,00,000
Add: Transferred from Retained Earnings	30,000	25,000
	2,55,000	2,25,000
RETAINED EARNINGS		
As per last Balance Sheet	30,051	29,485
Add: Profit for the year	35,163	33,612
	65,214	63,097
Add: Transferred from Share Based Payments Reserve	-	4
Less: Appropriations		
Transferred to General Reserve	(30,000)	(25,000)
Dividend on Equity Shares (Dividend per Share ₹ 6 (Previous Year ₹ 11))	(3,554)	(3,255)
Tax on Dividend	(728)	(661)
Transferred to Debenture Redemption Reserve	(4,124)	(4,134)
	26,808	30,051

Then, I want to go to other equities. This section has other equities number 14. If you remember, we used to transfer the profit from the profit and loss account to a section called reserves and surpluses. Why do companies show that here? Well, Reliance is showing other equity and there is a note number 14, here you go. In note number 14, we have something called retained earnings. This is the earnings which have not been distributed during the year. After paying all the taxes, all the expenses, this money has been retained and it is going to contribute to shareholders funds, capital in the next year. If I go back to the equity side here, the whole equity section includes both of these; equity share capital and the other equity. The other equity is this, is the section where reserves and surpluses are going to be included. So, in a way, it goes back into the company and in the note, specifically retained earnings, it says profit for the year. This is where the profit for the year is being brought in, being added to the capital. Now, you have a number of other items here, but you know the principle. The principle is out of the profit, you are going to set aside some amount for certain purposes and

those purposes can vary. Here is a security premium account, debenture redemption reserve, share based payments reserve, a general reserve which could be used for any purpose.

Again, large scale, big companies, they will have different types of reserves for different purposes. We have only discussed retained earnings which is the profit during the year being transferred to the equities to the capital; this fund as a whole. So, if you know the principle, you can figure out the rest. You know all this money has been set aside, you know it is part of the profit; but has been reserved for specific purposes and they are showing it as other equities.

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	As at 31st March, 2019	As at 31st March, 2018
22. OTHER CURRENT LIABILITIES		
Contract Liabilities	40,882	32,114
Other Payables*	5,343	5,451
Total	46,225	37,565
* Mainly includes statutory dues.		
		(₹ in crore)
	As at 31st March, 2019	As at 31st March, 2018
23. PROVISIONS - CURRENT		
Provision for Employee Benefits (Refer Note 27.1)	277	276
Other Provisions**	506	642
Total	783	918

** The provision for employee benefit includes annual leave and vested long service leave entitlement accrued and compensation claims made by employees. The Company had recognised liability for export duty payable on goods in stock as on 31st March, 2018 of ₹ 274 crore as per the estimated pattern of dispatches. During the year, ₹ 274 crore was offset for clearance of goods. Provision recognised under this class for the year is ₹ 289 crore which is outstanding as on 31st March, 2019. Actual outflow is expected in the next financial year. The Company had recognised customs duty liability on goods imported under various export incentive schemes of ₹ 291 crore as at 31st March, 2018. During the year, further provision of ₹ 1,306 crore was made and sum of ₹ 1,361 crore were reversed on fulfillment of export obligation. Closing balance on this account as at 31st March, 2019 is ₹ 236 crore.

Let me go to note 22 for current liabilities. Here is the balance sheet. We have looked at the equity, non-current liabilities. I am not going into this because this is mostly loans and also, nothing major that we discussed during the last few videos. But current liabilities, we did discuss about creditors, about short-term loans, overdrafts trade payables. Let us look at some of these notes and say what are the details that the companies provide. We are going to other current liabilities and in the other current liabilities, you have contract liabilities which means you have contracted with third parties who provide you services and you have to pay them. So, these are the creditors of the business. And we have other payables which are statutory dues, a number of other legal costs that may have to be paid. Note 23, which is provisions again, under the current liability. We discussed in one of the practice problems that provision

needs to be created out of the profit in order to provide for, or be ready for any future losses, that may happen. In that case, when you have set aside the profit, you are at risk. This is the concept, this is the principle of conservatism, prepare for losses. So, do companies actually do that? Yes, they do. There are provisions for which they are creating note number 23. So, here is note number 23, provisions under the current liabilities head. What does it mean? Provision for employee benefits, and you have two stars here, there is a description provided. It says the provision is for employee benefit that includes annual leave, vested long service leave, entitlement accrued, compensation claims made by employees. So, you know companies offer different types of compensation and they know that on average, x number of employees claim these many benefits and we will have to be prepared for that. They may or may not claim that, but we have to create a provision for that. So, that is what this provision is about. Similarly, there are other provisions. Let us see what these other provisions are. They say the company had recognized liability for excise duty. These are again uncertain liabilities and whenever you have some amount of surety, you quickly create a provision so that whenever in future, this liability arises, you have money set aside to take care of it. There is no shock. Again, there are other provisions that can be made for different types. I am emphasizing that the principal understanding- why provisions are created, how they are created, where they are shown- that is important. Understanding different purposes for which this provision can be created, what is this employee benefit expense, vested long service, all of these things are now up to you to further research. What is a vested long service? You will be able to understand these things more clearly.

So, in this video, we looked at both the asset side and the liability side of the balance sheet. This balance sheet was for Reliance Industries limited. And we have validated our learnings. Whatever we learnt till now in the process of accounting cycle is actually being done by the companies. So, go ahead. Download another annual report, another financial statement of any other company: Infosys, TCS, and look at those numbers. Can you read those numbers? I bet you can! You can now understand what those numbers mean.

I will see you in the next video, where we look at the income statement of Reliance Industries Limited.