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Lecture – 68 5.17 Validating the Learning – Income Statement

In this video we are going to validate our learning vis-a-vis income statement. We have learned how to prepare income statement and now we are going to look at the income statement of Reliance Industries Limited and validate our learning. The idea is to look at the items in the income statement of Reliance Industries Limited and answer if we know all these items already or not. So, let us get started.

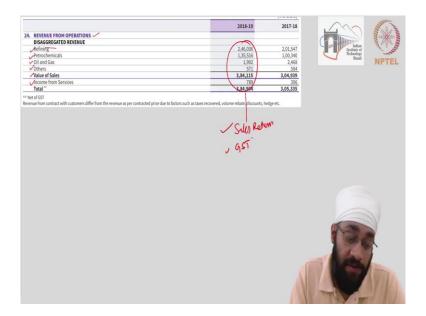
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-46 47-183	194 - 257 258 - 43	39 440-450	
			Indian In
		(₹ in crore)	Mani NPTI
Notes	2018-19	2017-18	
	100.00		
(2)			
(25)			
	3,94,323	3,13,555	
	2 65 200	1 99 029	
26			
20			
27			
-			
11	9,440	8,953	
17	2,764	3,160	
	35,163	33,612	
	26 27 27 28 1 1 29	4,00,139 847 4,00,986 15,092 3,148,991 3,94,223 3,94,223 3,94,223 3,94,223 3,94,223 3,94,223 3,94,223 3,94,223 3,94,235 1,1,3,85 27 5,334 1,10,558 3,46,356 47,367 11 9,440 17 2,764	Notes 208-19 2017-18 4,00,139 3,14,917 400 4,00,966 3,15,1517 15,002 10,002 20 13,2555 36,003 3,64,223 3,23,555 2,65,288 1,98,029 5,289 7,068 1,98,029 7,068 1,229 7,068 1,229 1,232 26 (0,294) (3,22) 27 5,836 4,240 27 5,836 4,240 28 9,751 4,556 1 10,558 9,550 29 36,695 11,495 29 36,695 247,839 47,367 45,755 11 9,440 8,551 17 9,440 8,555

On the screen, I have the income statement of Reliance Industries. We have income and expenses; two broad heads. We learned to prepare the income statement in account format, we called it profit and loss account. It is the same information, just presented in a different way. Income was the credit side for us, expenses were the debit side for us. Same thing, same content, being shown in a different format, that is all. If you look at the first section, income is from sales and income is from services. Both of these would be the total sales of the company. Then there is some GST that the company receives and we earlier discussed, the GST belongs to the government; you have to deduct it from the sales and then, consider your total revenue. Your total revenue from operation is this much and then you have your other incomes, which we used to show in the second section, if you remember. This is the first section of the profit

and loss account and this is the second section of the profit and loss account. Let us deep dive into these two and look at the details.

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For the first section we will go to note number 24, which I have here. Revenue from operations, now a disaggregation has been given. The company has different lines of operations, and you have been given the breakdown for all these plus income from services. If you further look into the reports, you will find more numbers. But just understand that these numbers have been adjusted for any sales return which we have discussed. These will be adjusted, for example-GST, as we saw on the previous slide, and these are the final numbers after that. This is nothing strange. You already know all of these. The next note I want to take you is note number 25 to see the breakdown of other incomes. If you remember, other incomes are the non-operating incomes. These are the operating incomes and these are the non-operating incomes.

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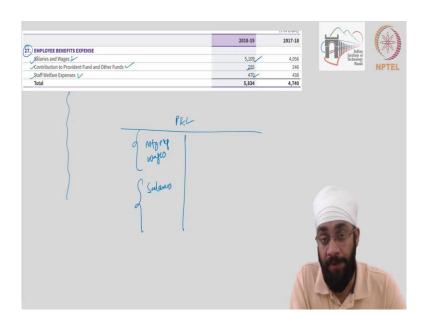
	2018-19	2017-18	
. OTHER INCOME			
INTEREST			
Bank deposits	146	85	Institute of
Debt instruments	5,337	3,231	lastitute of Technology Hamil NPTEL
Other Financial Assets measured at Amortised Cost	278	270	NPIEL
Others [₹ 8,38,573 (Previous Year ₹ 11,56,621)]			
	5,761	3,586	
DIVIDEND INCOME	449	935	
OTHER NON-OPERATING INCOME	604	253	
GAIN ON FINANCIAL ASSETS *			
Realised Gain	1,666	3,483	
Unrealised Gain / (Loss)	939	(37)	
	2,605	3,446	
Total	9,419	8,220	
Total	9,419	8,220	

Operating incomes are only from sales and hence, note 24. Here is the note on other incomes. The other incomes, typically, we saw commission and interest on investment. In case of Reliance Industries Limited also, it is interest: interest on bank deposit, interest on some debt instruments, interest on other financial assets, and some other. Again, I am repeating that the items may be advanced. The kind of instruments that Reliance Industries invests in, can be advanced: national, international level instruments which you may not be aware of. But the income which is coming by way of the investment into different kinds of investment options is other income. What are these investment options? That is a different question. That is a new question which needs research. You do a little bit of online browsing, look through some reading material, and you will understand what a debt instrument is. But, the idea of this course, the objective of this course is to tell you that a company can invest in different investment options and when you earn a revenue, earn an income on that, such an income is going to be called other income, non-operating income and such types of incomes are going to be shown like this in the income statement. You know about these incomes already. Again, there are different types of incomes there.

Next, I want to take you to the expenses side here or the debit side which we have already. It has two sections: direct expenses and indirect expenses to figure out the gross profit and then the net profit.

Let us see how the companies actually present these numbers. So, under expenses the first item, let me take a different colour here, the first item is the cost of material consumed. Then, you have purchase. I hope things are coming back to you. This is the cost of goods sold. This is the purchase that you have. There is something called changes in inventory. Do not bother about it; that is an advanced topic of discussion. You have excise duties which are again direct expenses. You have employee benefit expenses, which are salaries, wages, provident fund, and so on. Finance costs are non-operating expenses, as we have discussed, and also the indirect expense. Typically, it should include interest. We have depreciation. We know what depreciation is and how we arrive at these numbers and there are a bunch of other expenses. We are going to jump into the notes and look at the details. We are familiar with many of these terms.

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Let me go to note number 27. Employee benefit expenses have salaries and wages. What we used to do in the profit and loss account, is to show all manufacturing expenses here and we assumed that all wages are at the factory level and all salaries are at the sales level. However, that was only an assumption. In practice, the company will decide that these expenses are at the factory level or at the sales level and accordingly segregate the two. In the statement format of profit and loss account, this segregation is not done. They just show all these salaries and wages together. Contribution to provident fund is given, staff welfare expenses. If you look at the annual report you will actually have one or two more pages, where distribution of these amounts is also provided by the company.

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So, these are employee benefit expenses. Then there is note 28 on the finance cost. Finance cost, as we discussed, is the interest expense on the loans that the company has taken. Again, there are some notes on some jargon which has been used, that is the next step if you want to learn more about this. You can do more advanced courses in accounting or finance, financial management, valuations, and so on, to know all these terms. But, in this course what we wanted to learn was if a company is paying interest on the loans that it has taken, where is it showing that? it is showing that under the finance cost and there you have the value.

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	2018-19	2017-18	
OTHER EXPENSES V			
MANUFACTURING EXPENSES (direct Expense)			Indian Indian
Stores, Chemicals and Packing Materials	6,344	5,376	Institute of Technology
Electric Power, Fuel and Water	15,723	13,565	Hanti NPT
Zabour Processing, Production Royalty and Machinery Hire Charges	1,017	1,495	35.1
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	
	24,839	21,646	
SELLING AND DISTRIBUTION EXPENSES /			
Warehousing and Distribution Expenses	6,493	5,811	
Sales Tax / VAT	872	854	
Other Selling and Distribution Expenses	970	446	
	8,335	7,111	
ESTABLISHMENT EXPENSES			
Professional Fees 🕜	462	758	
General Expenses 🗸	1,453	1,049	
Rent 🐪	90	91	
Insurance	1,045	902	
Rates & Taxes	1,113	606	
Other Repairs V	511	427	
Travelling Expenses	249	173	
Payment to Auditors	22	18	
Coss on Sale / Discard of Property, Plant and Equipments No E	37	17	
Charity and Donations	935	790	
	5,917	4,831	
Less: Transferred to Project Development Expenditure	2,446	2,092	
Total	36,645	31,496	

Then I am going to note number 29 for other expenses. If I go back to the income statement, we looked at most of these expenses and now we are at the other expenses. What are the details of these other expenses? Note number 29. This is where the majority of expenses are clubbed under other expenses. You have manufacturing expenses, which we showed in the trading account as the direct expense. You have the electric power, fuel, water, labour, repairs, excise duty, lease rent. Typically, rent was shown in the profit and loss account second section, during practice problems. But I said if the rent is for the factory premises then you have to show it in direct expenses and that is what the company is doing here. You have selling and distribution expenses in a separate category. All the expenses relating to sales are further given separately. Establishment expenses is another categorization. You have a professional fee, possibly you know lawyers, chartered accountants, and so on. In general expenses of the business, you have rent. Now, this will be office rent of the sales staff, insurance premiums paid, we know this, rates and taxes, again we have done this. This was one of the items in the final accounts. Repairs and traveling expenses, payments to auditors, loss on sale: we have done all this as well. Loss on sale of property, plant, equipment, anything being lost by theft, fire or other things can be shown here and we know that this is non-operating expense. However, in this statement they are not worried about direct, indirect, operating, non-operating. It is more about following the categorization that has been prescribed by the law, but internally you want to know these numbers. Why? Well, there is a separate module in this course which discusses why we do this categorization, which is the analysis of financial statements. That is where we will discuss why the distinction between direct and indirect, operating and non-operating is required. We need all that data to create information and we will discuss that later. Charity and donations, goods given away as charity: all the things that we discussed till now, I was not just making those up, everything was being done and disclosed by the companies in these prescribed formats.

So, there you go. We have looked at the income statement of Reliance Industries Limited and hopefully, I have validated the learnings that we had and re-established your faith that whatever we have learned is in line with what companies are actually doing. I hope you had fun doing this, looking at the real statements and saying, *yes*, *I know all of these things*.

Go ahead! I encourage you to look at the statements of more companies: Infosys, TCS, whichever you want to look at. Maybe, if you work for a public company, download the statements of your own company and look at those numbers. What do they mean? I am sure you know most of the concepts mentioned there.

I will see you soon in the following videos.