

Financial Accounting
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Lecture – 91
7.3 Walkthrough of Cash Flow Statement of RIL

In this video, we are going to take a look at the Cash Flow Statement of our favorite company, Reliance Industries Limited, yet again. We will look at the format, the template which is used by the companies and we look at the details, the content which are shown. We look at the activities, the transactions, which are shown under the operating, investing and financing activities. Let us get started.

(Refer Slide Time: 00:42)

CASH FLOW STATEMENT		(₹ in crore)	
For the year ended 31st March, 2019		2018-19	2017-18
A CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit Before Tax as per Statement of Profit and Loss			
Adjusted for:			
(+) / (-) Loss on Sale / Discard of Property, Plant and Equipment Net		105	181
Depreciation / Amortisation and Depletion Expense		18,308	9,389
Effect of Exchange Rate Change		(1,546)	(3,912)
Net Gain on Financial Assets		(2,805)	(3,441)
Dividend Income		(48)	(93)
Interest Income		15,711	(9,586)
Finance Costs		9,721	4,855
Operating Profit before Working Capital Changes		57,306	56,083
Adjusted for:			
Trade and Other Receivables		(18,777)	(11,897)
Inventories		14,379	(9,556)
Trade and Other Payables		1,309	27,479
Cash Generated from Operations		43,254	79,615
Change in Cash		11,420	(8,615)
Cash Flow from Operating Activities*		32,834	42,000
B CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment and Intangible Assets			
Proceeds from disposal of Property, Plant and Equipment and Intangible Assets		103	75
Investments in Subsidiaries / Trusts		(28,827)	(34,978)
Disposal of Investments in Subsidiaries		91	-
Purchase of Other Investments		(10,05,612)	(4,98,788)
Proceeds from Sale of Financial Assets		18,17,713	5,04,118
Net Cash Flow for Other Financial Assets		(10,248)	(1,186)
Interest Income		2,812	2,182
Dividend Income from Associates		9	12
Dividend Income from Others		468	522
Cash Flow from Investing Activities		(17,980)	(19,289)
C CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from Issue of Equity Shares - Capital			
Share Application Money		117	125
Proceeds from Borrowing - Non Current		21,089	28,238
Repayment of Borrowing - Non Current		(6,994)	(11,344)
Borrowing - Current (Net)		24,147	(7,893)
Dividend Paid (including Dividend Distribution Tax)		(4,262)	(9,916)
Interest Paid		(11,986)	(7,267)
Cash Flow from Financing Activities		24,799	(1,914)
Change in Cash and Cash Equivalents		4,893	977
Opening Balance of Cash and Cash Equivalents		3,713	3,794
Closing Balance of Cash and Cash Equivalents** (Refer Note 8)		8,788	4,731

On the screen I have the cash flow statement from the same annual report which we have been using in this course. Right after the balance sheet and income statement you will see the third statement which is cash flow statement. The statement is for the year ended 31st March 2019. And since it says it is for a year it explains to you the transactions during that year. So, it is a flow concept in that sense. There are three broad heads using which this report is prepared. You have A, B, and C, you can see the screen, I will zoom into each of these. First of all, you have cash flows from operating activities. The second head is cash flows from investing activities. And third is cash flow from financing activities.

So, we have categorized the transactions into these three and then we are saying what is the net cash that you get or you pay as a result of all the operating activities which are shown here. Again, what is the net cash flow as a result of investing activities. And what is the net cash flow as a result of financing activity. And finally, as a result of all three categories, what happens to the cash which is shown here.

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	2018-19	2017-18
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax as per Statement of Profit and Loss	47,367	45,725
Adjusted to:		
– (Profit) / Loss on Sale / Discard of Property, Plant and Equipment (Net)	(15)	(8)
– Depreciation / Amortisation and Depletion Expense	10,558	9,580
– Effect of Exchange Rate Change	(1,540)	(1,903)
– Net Gain on Financial Assets	(2,605)	(3,446)
– Dividend Income	(449)	(935)
– Interest Income	(5,761)	(3,586)
– Finance Costs	9,751	4,656
Operating Profit before Working Capital Changes	57,306	50,083
Adjusted to:		
Trade and Other Receivables	(19,777)	(11,397)
Inventories	(4,575)	(5,550)
Trade and Other Payables	9,300	37,479
Cash Generated from Operations	42,254	70,615
– Taxes Paid	(9,426)	(8,615)
Net Cash Flow from Operating Activities *	32,828	62,000

Handwritten notes on the slide:
 - Red circles around "Adjusted to" and "Net Cash Flow from Operating Activities".
 - Red checkmarks next to "Net Profit Before Tax as per Statement of Profit and Loss", "Operating Profit before Working Capital Changes", and "Net Cash Flow from Operating Activities".
 - A box labeled "Non-Cash" with a checkmark, containing "Depreciation / Amortisation and Depletion Expense", "Effect of Exchange Rate Change", "Net Gain on Financial Assets", "Dividend Income", and "Interest Income".
 - A box labeled "Non operating" with a checkmark, containing "Net Gain on Financial Assets", "Dividend Income", and "Interest Income".
 - A box labeled "Non operating (Investing)" with a checkmark, containing "Net Gain on Financial Assets".
 - A box labeled "Non operating (Finance)" with a checkmark, containing "Interest Income".
 - A box labeled "CA" with a checkmark, containing "Trade and Other Receivables", "Inventories", and "Trade and Other Payables".
 - A box labeled "W. Capital" with a checkmark, containing "Trade and Other Payables".

Now, let us go to each of these sections one by one. We will look at the operating activities first. This is a zoomed in version of the first section, section A. What is it? It starts with net profit before tax as per the statement of profit and loss. As I said earlier, a cash flow statement is prepared using the data from the final accounts. In that sense this is an analytical statement and less of a final account statement. So, the net profit before interest and tax is being adjusted for a number of things. What are these things is something that we will discuss, but to give you a quick idea, you have depreciation. Depreciation is a non-cash transaction. You have gain on financial assets which are non-operating transactions. You have finance cost which is also a non-operating transaction or specifically a finance activity. So, finance interest income is a non-operating income, dividend income is also a non-operating income. And if you have to specifically point out, both of these are investing activities. So, both of these are a result of investing activities of the business. You are receiving income or dividend or interest on the investments made, in deposits, or in the shares of other companies.

Then, you have the effect of exchange rate changes, just ignore this: it is a little bit complex international company. We do not have to worry about that right now.

So, in the first section, there are some adjustments which are being made for non-cash and non-operating activities. If you remember, in the income statement we do not worry about showing only operating, we also show non-operating. So, in this first section of cash flow statement, we are making adjustments to the net profit during the year. What are the adjustments being made? Adjustments are being made for the non-cash and non-operating items. Just remember that and of course, we are going to deep dive into these things and learn to prepare this section as well.


The next section here shows operating profit before working capital changes and then it is adjusted for trade and other receivables, inventories and other payable. So, you have current assets and current liabilities. Both of these, taken together, give you a sense of working capital. And, hence, it says operating profit before working capital changes. Now, this number is received after the adjustments above. And then, you make some more adjustments due to working capital. What is working capital? It has current assets and current liabilities. Current assets, say trade receivables, have you received money from the customers, have you purchased more stock, have you paid to your vendors, all these are also operating activities of the business. So, these are also being adjusted for in this first section. And then, you have the cash generated from operations and then you paid taxes on it. You see taxes are being shown separately here. Taxes are paid and finally, you arrive at a number which is called net cash flow from operating activities. This is nothing new. We are familiar with all the items being shown here except for one odd advanced item which we are not going to discuss at all.

So, this is the first section: we are familiar with the terms. All we have to understand in this section of the statement is why these adjustments are being made and what is the outcome of these adjustments. So, hold on for that, in the following videos I will do that.

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B. CASH FLOW FROM INVESTING ACTIVITIES		
✓ Purchase of Property, Plant and Equipment and Intangible Assets	✓ (24,971)	(24,700)
✓ Proceeds from disposal of Property, Plant and Equipment and Intangible Assets	103	75
✓ Investments in Subsidiaries / Trusts	✓ (28,827)	(34,973)
✓ Disposal of Investments in Subsidiaries	97	-
✓ Purchase of Other Investments	✓ (10,05,611)	(4,99,789)
✓ Proceeds from Sale of Financial Assets	10,17,713	5,04,318
✓ Net Cash Flow for Other Financial Assets	✓ (19,150)	(7,136)
✓ Interest Income	2,612	2,162
✓ Dividend Income from Associates	3	12
✓ Dividend Income from Others	445	922
Net Cash Flow used in Investing Activities	0 (57,586)	(59,109)

Outflow (handwritten in red next to the Net Cash Flow used in Investing Activities row)



Let us go to this second section which is about the investing activities of the business. So, let me zoom in. These are the investing activities. Now, if you remember we said investing activities are about purchase of assets, sale of assets, purchase of an investment in a financial instrument, or sale of that, or any income resulting from these financial instruments in which investment has been made.

So, let us look at Reliance Industries, cash flows from investing activities during the financial year 19-20. So, we have purchase of property, plant equipment, and intangible assets. Purchases are being made of fixed assets: yes, these are investing activities.

You have proceeds. Proceeds are basically inflows of the cash that you get. So, the technical term used for the money that you get, proceeds from sale of goods, proceeds from sale of asset, this term is used. So, proceed from disposal of property. So, now, you are selling the property, you are showing it here.

Then, you have investment in subsidiaries or trusts. Reliance has a lot of subsidiary companies. Subsidiary company basically means that Reliance starts another company and holds all the shares in that company or most of the shares in that company. So, one company is investing in another company. This is the relationship between a subsidiary company and the holding company: that is another new term that I introduced here. Holding is the parent company, one which invests in its child company which is a subsidiary company.

So, this is an investment. Then, you have disposal of investment. Disposal basically means sales: you have disposed of your investments in a subsidiary company and made some money. Then, you have purchase of any other investments, proceeds from sale of financial assets, net cash flows from other financial assets. So, there are other financial activities, maybe this is due to the quantity of money... total which is invested in these assets and these assets. But it does not matter. If you go to the financial statements, the balance sheet or the income statement you will figure out the details of this as well.

Then, you have interest income which you earn on the various investments that you have made. You have dividend income from associates: associates possibly are the subsidiary companies associated with the Reliance Industries. And then, you have dividend income from any other sources. There you go.

Some of these are cash inflows, some are cash outflows. So, outflows are shown in brackets, brackets mean negative. So, these are outflows and these are inflows, inflows and inflows. And then the total of all of this comes out to be a negative number, so net you have an outflow. So, net cash flow used, used means outflow, used in investing activities.

So, Reliance Industry Limited, during this financial year, has used up about 57.5 crores: the units are in crores. This much money has been used in the investing activities. Where has it been used? Well, it has been used in purchase of fixed assets, in investing in other subsidiary companies, purchase of some other investments, and spent money in the financial assets as well.

So, there you go. This is the second section of the cash flow statement of Reliance Industries limited. We do not see any special terms here. There were a couple of new terms, subsidiary, holding company, associates: I have explained those. So, nothing to be worried about. Let us go on to the third section. The final section of the statement is cash flow from financing activities.

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C. CASH FLOW FROM FINANCING ACTIVITIES		
✓ Proceeds from issue of Equity Share Capital	117	125
✓ Share Application Money	2	15
✓ Proceeds from Borrowing - Non-Current	23,989	28,328
✓ Repayment of Borrowing - Non-Current	(6,594)	(11,344)
✓ Borrowing - Current (Net)	24,147	(7,855)
✓ Dividend Paid (Including Dividend Distribution Tax)	(4,282)	(3,516)
✓ Interest Paid	(11,584)	(7,267)
Net Cash Flow from / (used) in Financing Activities	25,795	(1,914)
Net Increase in Cash and Cash Equivalents	40	977
Opening Balance of Cash and Cash Equivalents	100	1,754
Closing Balance of Cash and Cash Equivalents ** (Refer Note 8)	140	2,731

Handwritten notes and diagrams explaining the cash flow from financing activities. A diagram shows a person applying for shares (100) and paying application money (20). A flowchart shows the balance of cash and cash equivalents: 100 (2019 April 1) + 140 (2020 Mar 31) = 240. A calculation shows Net Cash Flow from Financing Activities (A+B+C) = 25,795. A final calculation shows FY 2019 (Mar April) = 100 and FY 2020 = 140, with a net change of +40.

Cash flow from financing activities shows proceeds from the issue of equity share capital. Proceed again refers to the cash that you receive from a transaction. So, Reliance is issuing equity shares. They issued some equity shares and they have got 117 crores in return. This is an inflow: share application money. When a company offers shares to the public, issues shares to the public, there are steps which are followed. The first step is to apply for shares. Who applies for shares? Well, a company is issuing shares to the public. So, if you want to subscribe to the share you have to apply. So, an application is sent to the company and this is simply an online application.

Now, you cannot just send an application, you have to also submit an application money, just like you know if you are preparing for any exam, you submit your registration fee for the exam to register. It is just an entry barrier, so that not everybody starts registering, and then on the day of the exam we prepare a seating arrangement for 1000 people, but only 100 show up. So, if you pay then you are more likely to come. Likewise, if the share is worth, say 100 rupees per unit then they say, pay 20 percent on this. So, 20 per share is the application money. So, that money is given to the company, and the company treats that as an inflow and that is what is shown here. Share application money has been received, so 117 is the actual shares issued and 2 crores is the share application money which is with the business.

Let us move forward. You have proceeds from borrowings non-current, non-current is long-term, borrowings we know. So, you have raised some long-term loans. Then, you repay some

long-term previous loans, you must have paid. Then, you have borrowings current these are short-term loans being raised and then you have dividend that is being paid. So, a dividend is paid on the equity shares that the company has. Again, this is a financing activity and any interest paid on the loans that the company has.

So, that is it. This is the end of the section and you have 25 crores which are cash flows. This is a positive number. So, cash flow from financing activities. The financing activities involve raising of capital, raising some loan, and then paying some dividend, and interest there on. Net you are receiving, you are making cash through the financing activities of the business. That is it. That is the third section of the cash flow statement. And then you have these three lines which are after the third section ends.

So, let me first explain to you and then you should look at these. So, there are 3 activities. You have operating activities, and you have investing and financing. As a result of operating activities let us say you make some cash, 50. In the investing activities you are spending the cash, in financing activities you are making some cash. What is the net result? The net result is $A + B + C$. In all the activities what happened is that you made 50 plus 10, 60 and you spent 20. So, net during the year cash equal to 40 has come into the business. This is the net cash inflow during the year.

Now, if this is the cash inflow during the year, we are talking about a financial year 2019-2020. So, in the financial year 2019, maybe let me take a date say April let me write it here. So, April 1st in 2019 and now we are in 2020, March 31st. This is the financial year. So, when you started the year in 2019, April 1st, the first day of the financial year you had cash equivalent to 100 in the books of accounts, in the bank account of the company, 100. And at the end of the year, you have 140.

What is the change? The change is plus 40, alright. Why this change? This change has resulted due to these 3 items. 50 came in 20 went out, 10 came in: net 40 came in and that is shown here. So, exactly the same thing is being shown here. You have a net increase during the year. This is your 40. Opening balance of cash was 100 and the final balance at the end of the year was 140, that is it. That is the last part of the conclusion of the cash flow statement.

Now, this conclusion, these two balances, these two balances can be easily seen in the balance sheet. Balance sheet already shows you that what we did was we broke this 40 down into these 3 components that is the purpose of the cash flow statement. The purpose is to explain the

reasons for change. The reasons are categorized into three and the outcome of each of these three reasons is given in each of these three sections and you are done with the cash flow statement.

So, in this video, I took you through the actual statement of a real company and what we have seen is that none of these items is something which we do not know about. We have already discussed all these items. We are just using another technique to categorize the information in the balance sheet and income statement and coming up with a new guide of information.

I will see you in the next video.