

Welcome to IIM Visakhapatnam

Module 1: Financial Statement  
Analysis

Dr. Monika Dhochak

# About me:

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Ph.D. – IIT Roorkee, MBA (Finance), B.Com (Hon.)

7+ years (IIM Nagpur, Goa Institute of Management, EDII Ahmedabad)

More than 15 international journals, American Accounting Association; Venture Capital, Multi-criteria Decision Analysis; IIM Indore, IIT Kharagpur; IIT Madras; MDI Gurgaon; Elsevier; Wiley, Emerald

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- 
- **How do I Approach this module?**
  - **Is this all about numbers and other fancy accounting jargon ?**

Zomato - Loss-making → Sales | Revenue  
 Brand Value / Future Prospects / Align Profit X  
 Growth Potential / ↑↑↑↑



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Storytelling vs Number Cruncher  
 Who are You ?

Facts

Nykaa





Finances

Saving / Capital / Money  
Investing  
Dividend

## Why Accounting/Financial Statements?

Uses ?  
↓

Investors

Potential Inv.

Govt

IT

“Why do I need to learn about Accounting...”

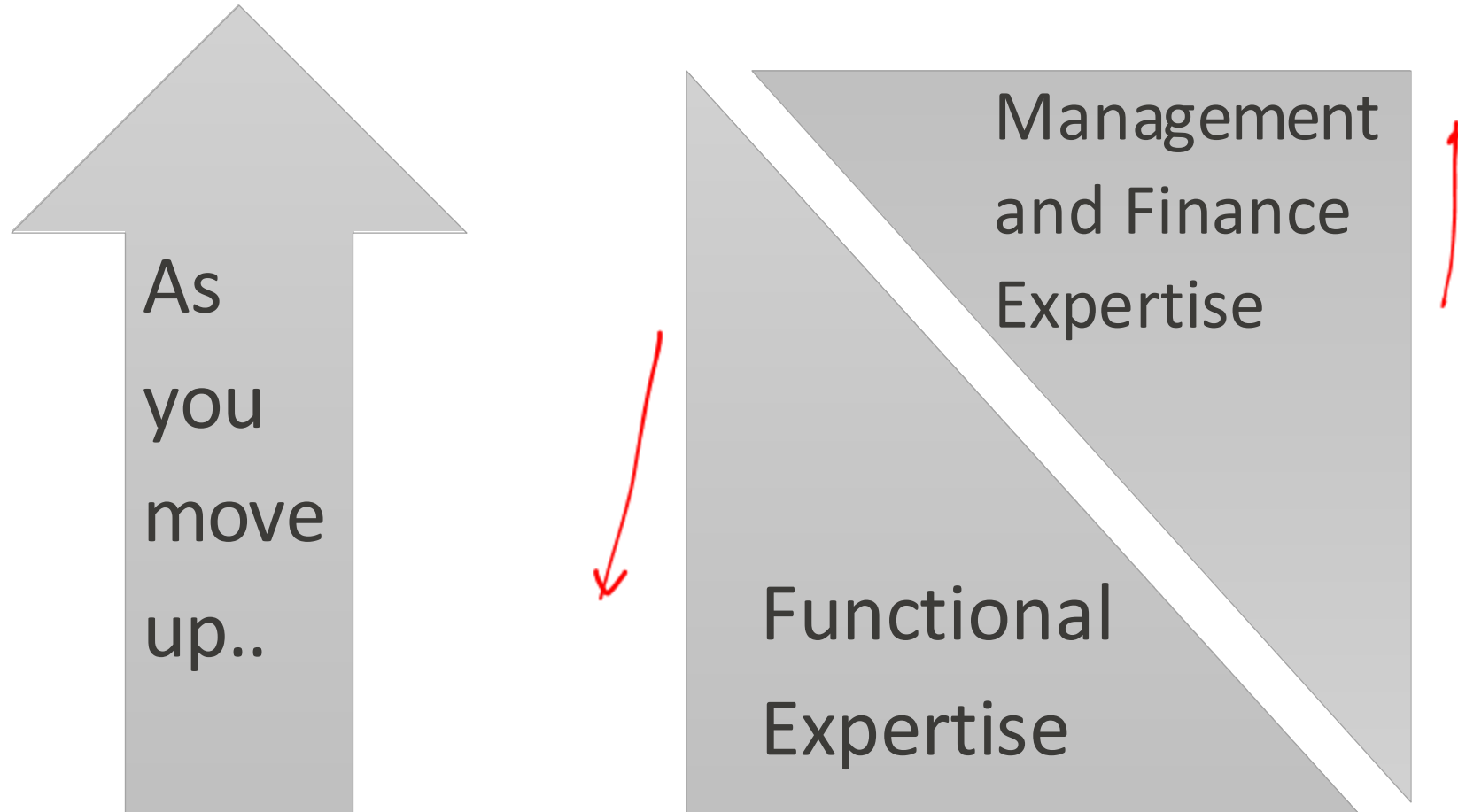
I am very good in my own area of specialization”

Or

How this module will help me”

# The Job Content

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# Why Accounting is the Backbone of Finance ?



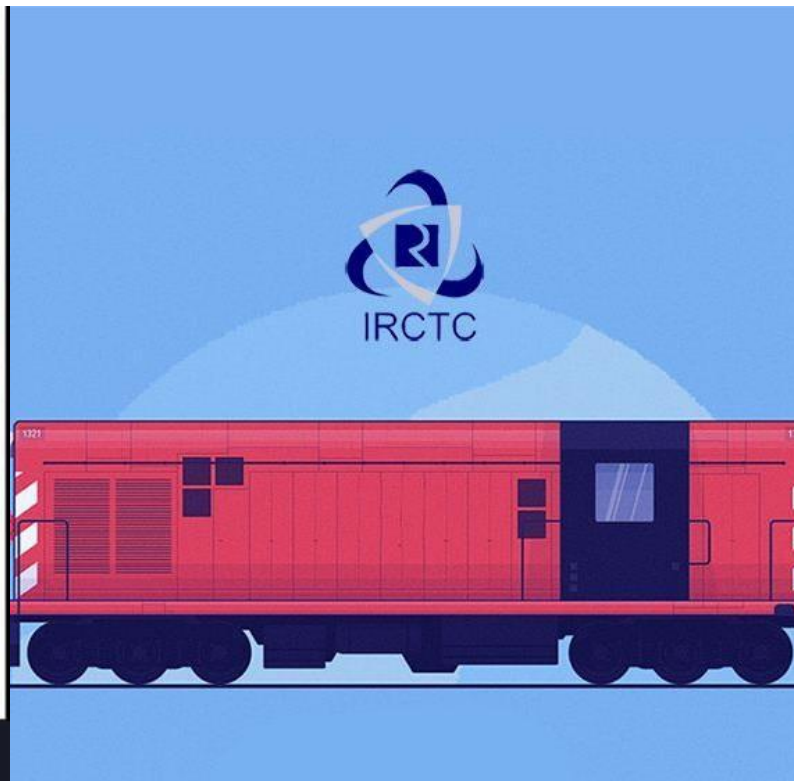
What ties the bustling  
market of Mumbai to the  
IT hubs of Bangalore?

From Startups to  
Unicorns: The role of  
Accounting

# Accounting in Management Program

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- No CA or CMA
- Focus on Decision Making; Not on Mastery of Accounting Techniques
- Real World Application
- Fun



### KEY EVENTS

- Oct 28:** IRCTC informed exchanges Railway Ministry will take 50% of its convenience fee revenue ✓ tweets that the decision is being reversed
- Oct 28:** Stock closed at ₹913.75 apiece on Thursday on BSE
- Oct 29:** Share opens at ₹822.40 and tumbles to ₹650.10
- Oct 29 - 11:06 am:** DIPAM
- IRCTC's scrip rises to intraday high of ₹906.60
- 2:52 pm:** IRCTC informs the exchanges that Railway Board has accepted its request
- Shares close at ₹845.65/sha

# Remember Irctc Story

<https://finshots.in/archive/the-curious-case-of-irctc/>

MRF → 1.5 Lakh  
28th - 75m cash

↑ Liquidity

Stock Split →

10 → 1 share

10 → 2 shares

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Internal Risk Factors → MDA

1. *Our business and revenues are substantially dependent on Indian Railways. Any adverse change in policy of the Ministry of Railways may adversely affect our business and results of operations.*

Our business and revenues are substantially dependent on the policies of the Ministry of Railways and operations of Indian Railways. As a CPSE wholly owned by the Government of India and under the administrative control of the Ministry of Railways, our scope of services, and the fees we charge, are primarily determined by the Ministry of Railways. At certain times in the past, the Government has made certain decisions that has adversely impacted our results of operations. For example, the Ministry of Railways in 2016 removed the charges we levy on passengers booking railway tickets online as service charge at rates of ₹20 per ticket for non AC classes and ₹40 per ticket for AC classes. This had a material adverse impact on our revenues. Ministry of Finance by separate notification on July 5, 2017 proposed to reimburse ₹800.00 million to us until the Government of India permits us to recover online ticketing cost/levy of commission on passengers utilizing the online ticketing service we provide. The Ministry of Railways reimbursed our Company in the amount of ₹800.00 million and ₹880.00 million for Fiscal 2018 and 2019, respectively for our operations costs. Any similar decisions by the Ministry of Railways in the future could adversely affect our results of operations. More generally, as it is necessary for us to act in accordance with the directives of Government of India, through Ministry of Railways, we cannot assure you that our investments and efforts into our current operation will be profitable. The Government of India may, reasons of public interest, terminate any of its policy directives without due consideration to the performance of our operation. Further, Ministry of Railways issued general guidance on redevelopment of railway stations by Indian Railway Stations Development Corporation Limited

# Did you buy or sell during the recent Market Dip?

*How's the market bloodbath feeling?*

→ buy  
→ Technical Analysis  
→ Fundamental Analysis

Rank	Name	Total net worth	\$ Last change	\$ YTD change	Country / Region	Industry
1	Elon Musk	\$302B	-\$19.9B	-\$130B	United States	Technology
2	Jeff Bezos	\$193B	-\$7.59B	-\$45.2B	United States	Technology
3	Mark Zuckerberg	\$179B	-\$9.44B	-\$28.1B	United States	Technology
4	Bernard Arnault	\$158B	-\$5.23B	-\$18.6B	France	Consumer
5	Bill Gates	\$155B	-\$6.45B	-\$3.38B	United States	Technology
6	Warren Buffett	\$155B	-\$10.7B	+\$12.7B	United States	Diversified
7	Larry Ellison	\$150B	-\$10.1B	-\$42.1B	United States	Technology
8	Larry Page	\$134B	-\$4.65B	-\$34.6B	United States	Technology
9	Steve Ballmer	\$127B	-\$4.36B	-\$19.5B	United States	Technology
10	Sergey Brin	\$126B	-\$4.38B	-\$32.3B	United States	Technology

And that's no joke given that he oversees the \$1 trillion behemoth that Berkshire Hathaway is – where a single misstep can wipe out billions.

# So how does he stay so calm and keep winning?

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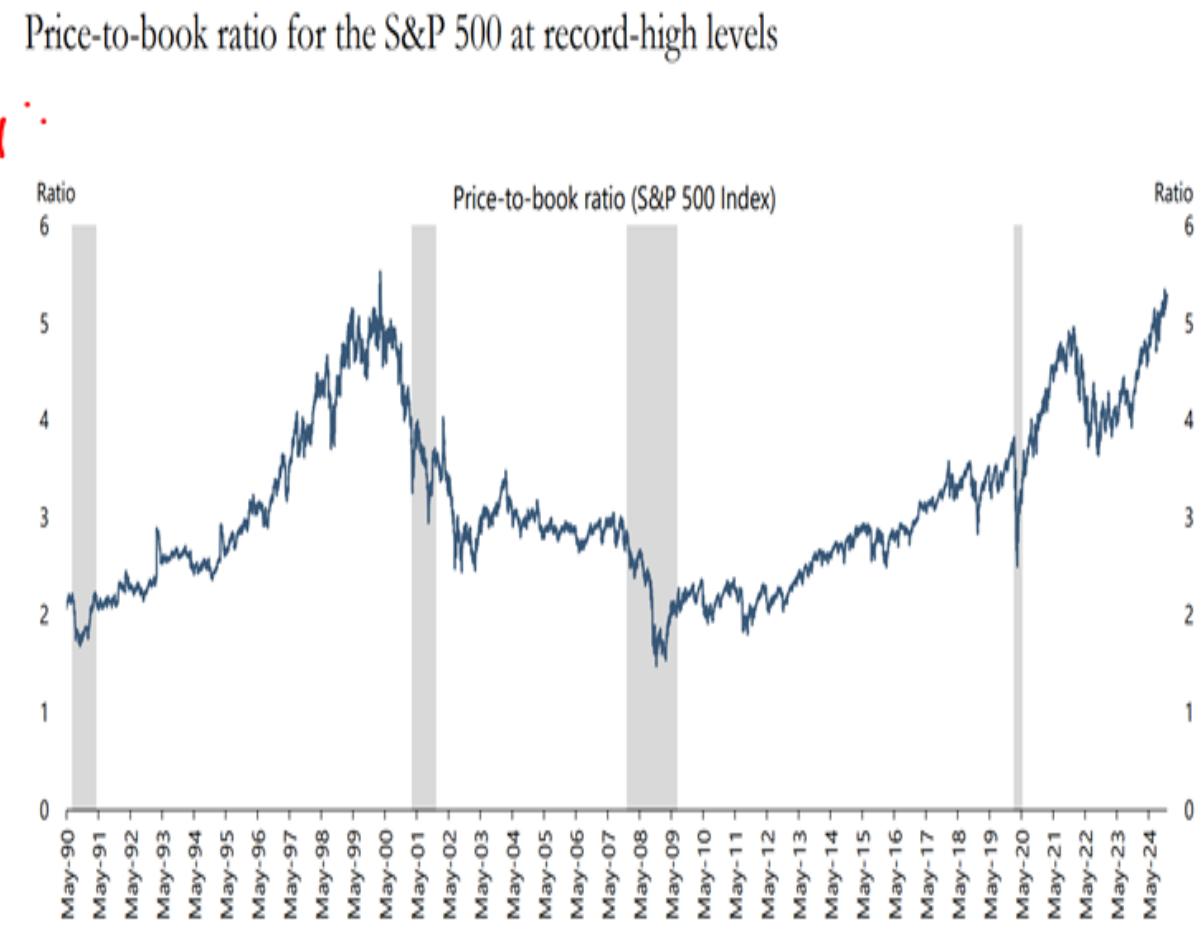
- Buffett quietly began preparing in 2024, when market optimism was at its peak.
- While everyone was cheering on the bull run, Berkshire sold \$134 billion worth of equities.
- He didn't jump into private equity, buybacks, crypto, or chase the next AI boom. He parked that money in good ol' US Treasury bills. Yes, boring but safe, predictable T-bills (something like short term government bonds in India).
- Today, Berkshire sits on \$330 billion in cash. That's more than the combined value of Starbucks, Ford, X, New York Times, Target and Zoom!

**BERKSHIRE HATHAWAY INC.**  
**and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
*(dollars in millions)*

	December 31,	
	2024	2023
<b>Assets:</b>		
<b>Insurance and Other:</b>		
Cash and cash equivalents*	\$ 44,333	\$ 34,268
Short-term investments in U.S. Treasury Bills	286,472	129,619
Investments in fixed maturity securities	15,364	23,758
Investments in equity securities	271,588	353,842
Equity method investments	31,134	29,066
Loans and finance receivables	27,798	24,681
Other receivables	43,887	46,261
Inventories	24,008	25,856
Property, plant and equipment	30,071	30,199
Equipment held for lease	17,828	16,947
Goodwill	56,860	57,473
Other intangible assets	34,638	35,884
Deferred charges - retroactive reinsurance	8,797	9,495
Other	24,994	21,866
	<u>917,772</u>	<u>839,215</u>
<b>Railroad, Utilities and Energy:</b>		
Cash and cash equivalents*	3,396	3,754
Receivables	4,503	4,999
Property, plant and equipment	175,030	169,447
Goodwill	27,020	27,153
Regulatory assets	5,349	5,565
Other	20,811	19,845
	<u>236,109</u>	<u>230,763</u>
<b>Total assets</b>	<b>\$ 1,153,881</b>	<b>\$ 1,069,978</b>

\* Includes U.S. Treasury Bills with maturities of three months or less when purchased of \$14.4 billion at December 31, 2024 and \$4.8 billion at December 31, 2023.

And in 2024 he said it clearly. Stock valuations were just too high. His favourite market metric, the so-called “**Buffett Indicator**” (which compares the size of the stock market to the country’s GDP), had crossed 200% late last year.



# Tata Tech Q4 results: Net profit falls 28% YoY to ₹157 crore, declares dividend

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- The board of Tata Technologies has recommended a final dividend of ₹8.40 and a special dividend of ₹1.65 per equity share of ₹2 each.
- Revenue from operations marginally jumped from ₹1,289.5 crore during the quarter ending December 2023.
- Overall, in fiscal year 2024, Tata Technologies witnessed an 8% jump in its net profit from ₹624 crore in FY23 to ₹679.3 during the period under review.

# What is Accounting?

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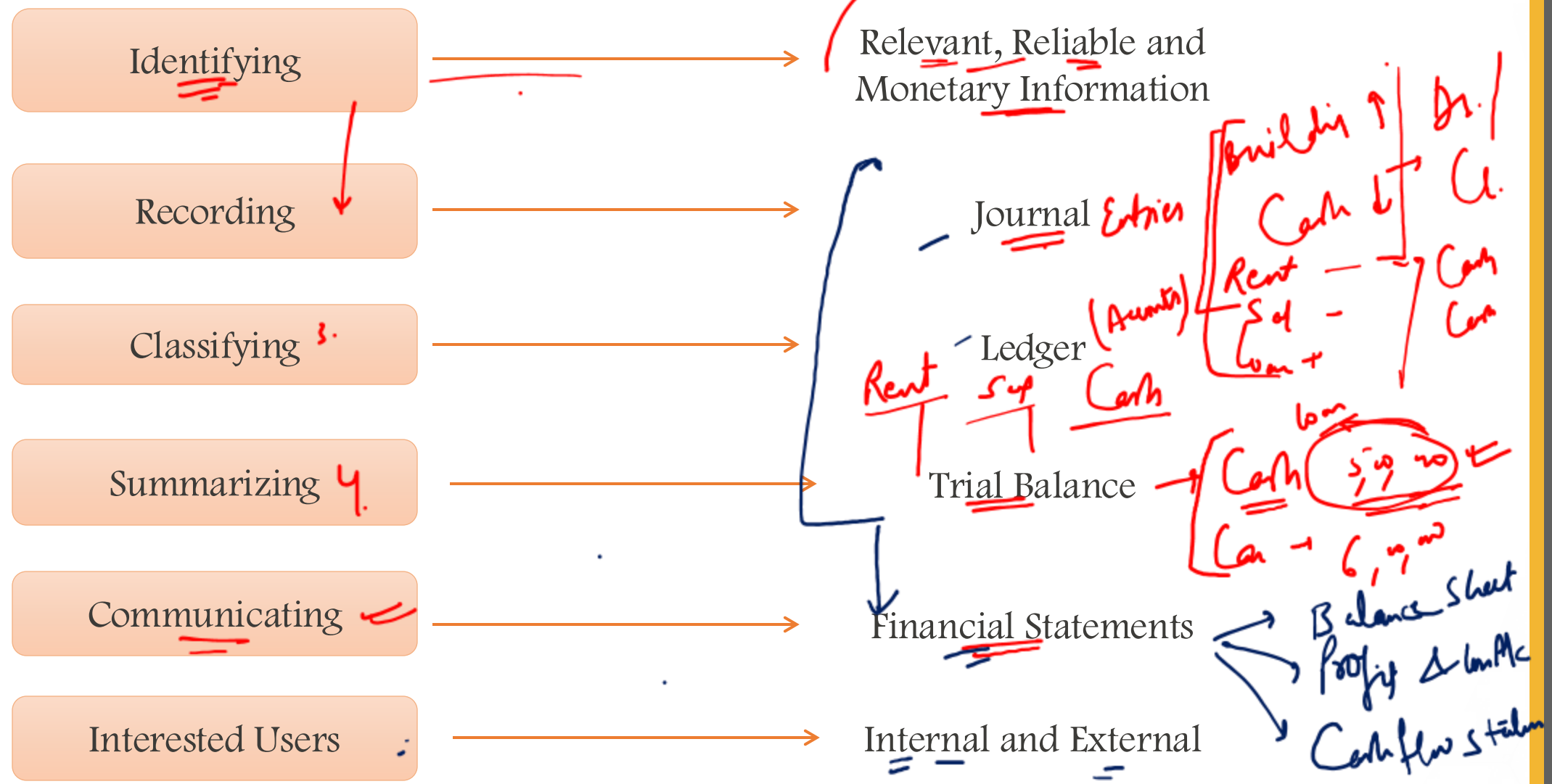
## “Language of Business”

The purpose of accounting is to:

- 1) identify, record, and communicate the economic events of an
- 2) Organization to
- 3) Interested users

Mx →  
2 Cas → 10,00,000

# Accounting Process



# Financial Statements under GAAP

- Balance Sheet – Statement of Financial Position
- Income Statement – Financial performance of the company
- Statement of Cash Flows

Incl. Assets

Generally Accepted Accounting Principles

Status report ✓

Snap shot

on a specific date  
27<sup>th</sup> April → Cash - / Bank - / Vehicle +

P&L A/c.

Video

Duration → Month / Quarter / Yearly  
Profit = 10 Cr. / Sales = 1 Cr.

Flow report ✓

Duration  
Cash Inflows & Cash Outflows

# Financial Statements of a company

Global Grocer	
Balance Sheet as of September 30, 2014	
<b>Assets</b>	<b>Liabilities</b>
<b>Current Assets</b>	<b>Current</b>
Cash ..... \$95,500	Accounts payable..... 5,000
Accounts receivable ..... 5,000	Taxes payable..... 1,000
Merchandise Inventory..... 19,000	Short-term debt..... 1,000
Prepaid expenses ..... 2,000	Total ..... 8,000
Total current assets ..... \$121,500	<b>Non-current</b>
<b>Non-current Assets</b>	Mortgage payable..... 10,000
Land ..... 30,000	
Warehouse building, at cost ..... \$40,000	<b>Owner's Equity</b>
Less: Accumulated depreciation..... 300	Common stock..... 10,000
Warehouse building, net ..... 39,700	Retained earnings..... 10,000
Van, at cost ..... 10,000	
Store fixtures, at cost ..... \$5,000	<b>Total</b>
Less: Accumulated depreciation ... 100	<b>Owner's Equity</b>
Store fixtures, net ..... 4,900	
Franchise fee, net ..... 17,250	
<b>Total Assets</b> ..... \$223,350	<b>Total</b> ..... \$223,350

Global Grocer	
Income Statement for month ending September 30, 2014	
Sales.....	
Less: Cost of Goods Sold.....	
Gross Margin.....	
Less: Operating Expenses.....	
Operating Income.....	
Less: Interest Expense.....	
Income Before Income Taxes.....	
Less: Tax Expense.....	
<b>Net Income</b> .....	

Global Grocer	
Statement of Cash Flows for month ending September 30, 2014	
<b>Cash Flows From Operating Activities</b>	
Collections from customers.....	\$ 11,000
Inventory purchase.....	(2,500)
Salaries paid.....	(3,000)
Utilities paid.....	(500)
Interest paid.....	(350)
Net cash provided (used) by operating activities.....	\$ 4,650
<b>Cash Flows From Investing Activities</b>	
Van purchase.....	(10,000)
Net cash provided (used) by investing activities.....	\$ (10,000)
<b>Cash Flows From Financing Activities</b>	
Mortgage principal payment.....	(150)
Five-year bank loan.....	30,000
Net cash provided (used) by financing activities.....	\$ 29,850
Net increase (decrease) in cash.....	24,500
Beginning cash balance.....	56,000
Ending cash balance.....	\$ 80,500

# Elements of Financial Statements

## Balance Sheet

- Assets ✓
- Liabilities ✓
- Equity ✓

## Income Statement

- Revenue / Income ✓
- Expenses ✓

## Cash Flow Statement

- No other elements





## Global Grocer



### Balance Sheet as of September 30, 2014

#### Assets

##### Current Assets

Cash.....	\$ 95,500
Accounts receivable.....	5,000
Merchandise inventory.....	19,000
Prepaid expenses.....	2,000
Total current assets.....	<u>\$ 121,500</u>

##### Non-current Assets

Land.....	30,000
Warehouse building, at cost	\$ 40,000
Less: Accumulated deprec'n	300
Warehouse building, net.....	39,700
Van, at cost	10,000
Store fixtures, at cost.....	\$ 5,000
Less: Accumulated deprec'n	100
Store fixtures, net.....	4,900
Franchise fee, net.....	17,250
<b>Total Assets</b> .....	<u><u>\$ 223,350</u></u>

#### Liabilities

##### Current Liabilities

Accounts payable.....	\$ 16,000
Taxes payable.....	950
Short-term debt.....	70,000
Total current liabilities.....	<u>\$ 86,950</u>

##### Non-current Liabilities

Mortgage payable.....	24,900
-----------------------	--------

#### Owners' Equity

Common stock.....	110,000
Retained earnings.....	1,500

##### Total Liabilities and

<u>Owners' Equity</u> .....	<u><u>\$ 223,350</u></u>
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# Income Statement

Name of Company

Income Statement

During the Period ended .....

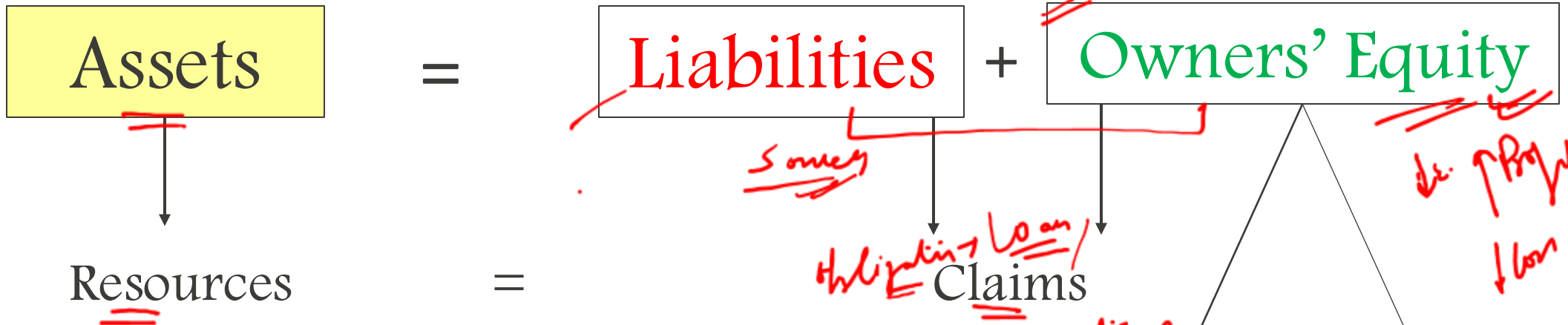
Descriptions	Rs.	Rs.
Sales	*****	
Sales Return/Discounts/Allowances etc.	(****)	
Net Sales		*****
Cost of Goods/Sales/Services Sold		(*****)
<b>Gross Profit/Loss</b>		*****
Commercial Expenses:		
Selling Expenses	*****	
Administrative Expenses	*****	
<b>Operating Profit</b>		****
Other Income		****
Other Expenses		(***)
<b>Earnings Before Interest and Taxes (EBIT)</b>		*****
Financial Charges		(****)
<b>Earnings Before Tax (EBT)</b>		*****
Tax		(***)
<b>Net Profit</b>		*****
Dividend		*****
Add to Retained Earning		*****

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 24, 2022	September 25, 2021	September 26, 2020
<b>Net sales:</b>			
Products	\$ 316,199	\$ 297,392	\$ 220,747
Services	78,129	68,425	53,768
Total net sales	394,328	365,817	274,515
<b>Cost of sales:</b>			
Products	201,471	192,266	151,286
Services	22,075	20,715	18,273
Total cost of sales	223,546	212,981	169,559
Gross margin	170,782	152,836	104,956
<b>Operating expenses:</b>			
Research and development	26,251	21,914	18,752
Selling, general and administrative	25,094	21,973	19,916
Total operating expenses	51,345	43,887	38,668
Operating income	119,437	108,949	66,288
Other income/(expense), net	(334)	258	803
Income before provision for income taxes	119,103	109,207	67,091
Provision for income taxes	19,300	14,527	9,680
Net income	\$ 99,803	\$ 94,680	\$ 57,411
<b>Earnings per share:</b>			
Basic	\$ 6.15	\$ 5.67	\$ 3.31
Diluted	\$ 6.11	\$ 5.61	\$ 3.28
<b>Shares used in computing earnings per share:</b>			
Basic	16,215,963	16,701,272	17,352,119
Diluted	16,325,819	16,864,919	17,528,214

# The Accounting Equation



Prepaid → Future Economic benefit  
 → Application of fund → Can  
 CA's Values → Long-term Investment → Building / Machine

Goodwill / Patent  
 Insurance Premium

Creditors  
 Payable

Capital

R.E.

Income → Retained Earnings

Retained Earnings

Income - Expenses  
 Profit = 10 Lakhs  
 → Dividend

Income - Expenses  
 Profit = 10 Lakhs

# Brand is it an asset?

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# Employee is s/he an asset?

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For IT firms?

For Pharma (particularly scientists in R&D)?

Or

for any (or all) firms?

# Which is an asset for Reliance Industries

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Telecom License or



*Patent / Trademark*



# The Accounting Equation



**Assets**

Provide future economic benefits  
Cash, Supplies, Equipment, etc.



**Liabilities**

Present Obligation of the enterprise

Outflow of resources embodying economic benefits

Loans payable, Trade payable, salaries payable etc.



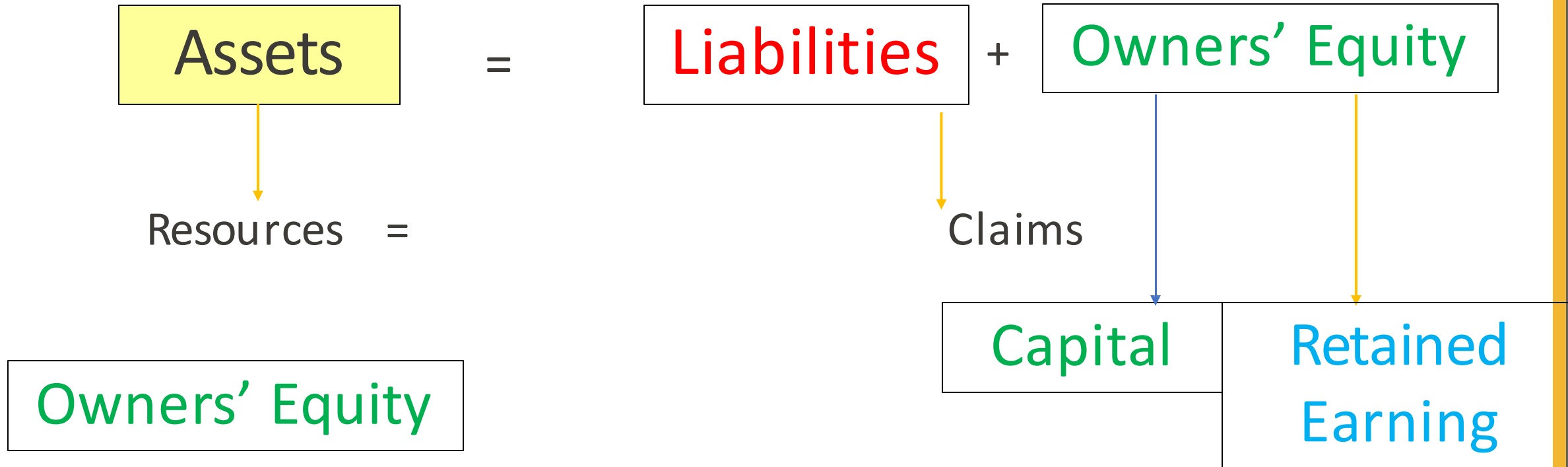
IIM

विद्या परं दैवतम्

भारतीय प्रबंध संस्थान विशाखपट्टणम  
Indian Institute of Management Visakhapatnam

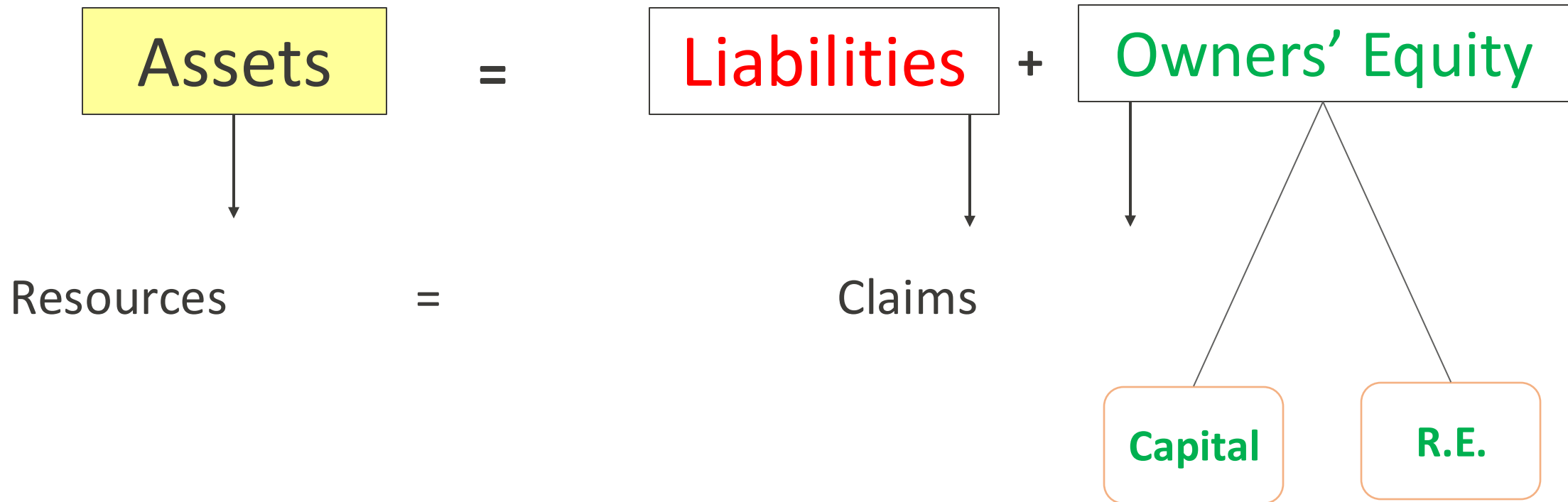


# The Accounting Equation



Residual Interest (shareholders)  
Ownership claim on total assets  
Revenue, Expenses,

# The Accounting Equation



<b>Basic Equation</b>	<b>Assets = Liabilities</b>	<b>+</b>	<b>Owner's Equity</b>		
<b>Expanded Equation</b>	<b>Assets = Liabilities</b>	<b>+</b>	<b>Owner's Capital</b>	<b>- Owner's Drawings</b>	<b>+ Revenues - Expenses</b>

# Introduction to Accounting Terms

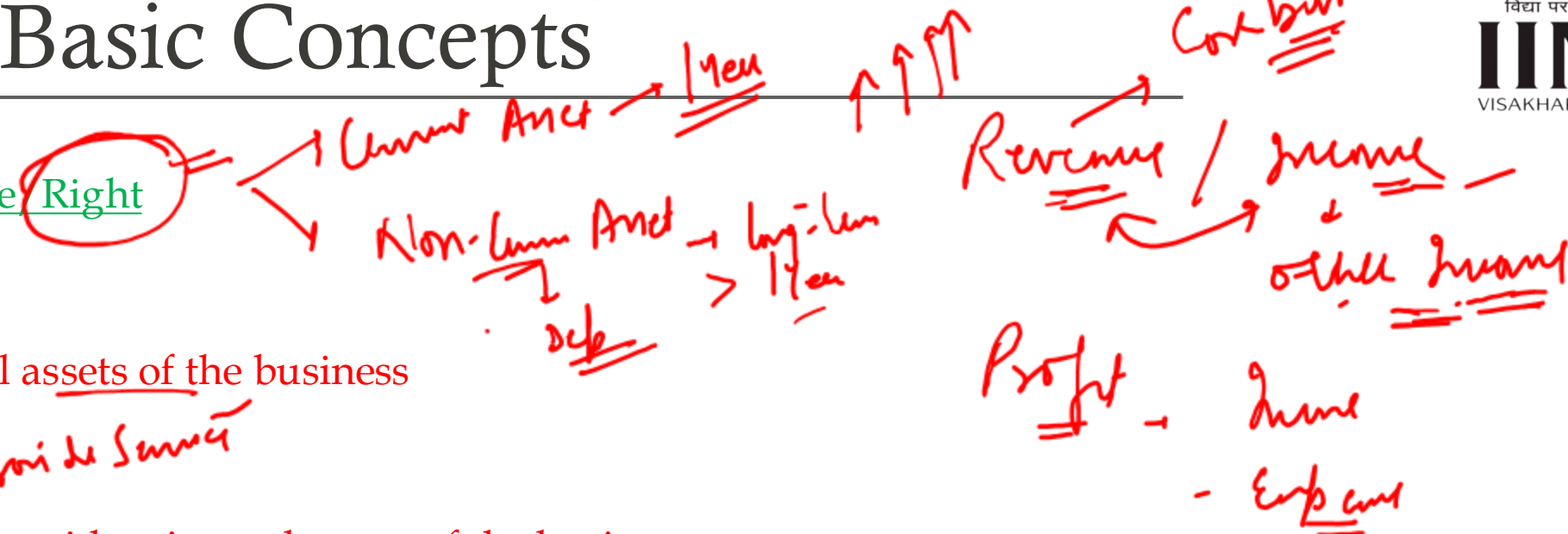
- Assets → Value-benefit → future → 1 day / 11 year / 10 year | Cash / Plant & Machinery
- Capital
- Liability
- Expense — Value-benefit - Already taken
- Income

Depreciation → Tangible / Intangible → Amortization

# Revision - Basic Concepts

## Assets

Value - benefit - future Right



## Capital

Claim of owner in total assets of the business

## Liability

to pay to provide services

Obligation / Claim of outsiders in total assets of the business

## Expenses

Value - benefit - already taken

It doesn't matter whether payment has been made or not

## Income / Revenue

If services have been rendered or product is delivered, it means income has been earned.

It doesn't matter whether payment has been received or not

AR Receivable = (10,000)  
Revenue → 1,00,000  
 (10,000)

# Terminology Cautions

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Income IS NOT Revenue

Net income IS NOT Increase in Cash

Retained Earnings

IS NOT

Cash



# Income Statement & R.E. format

Name of Company

Income Statement

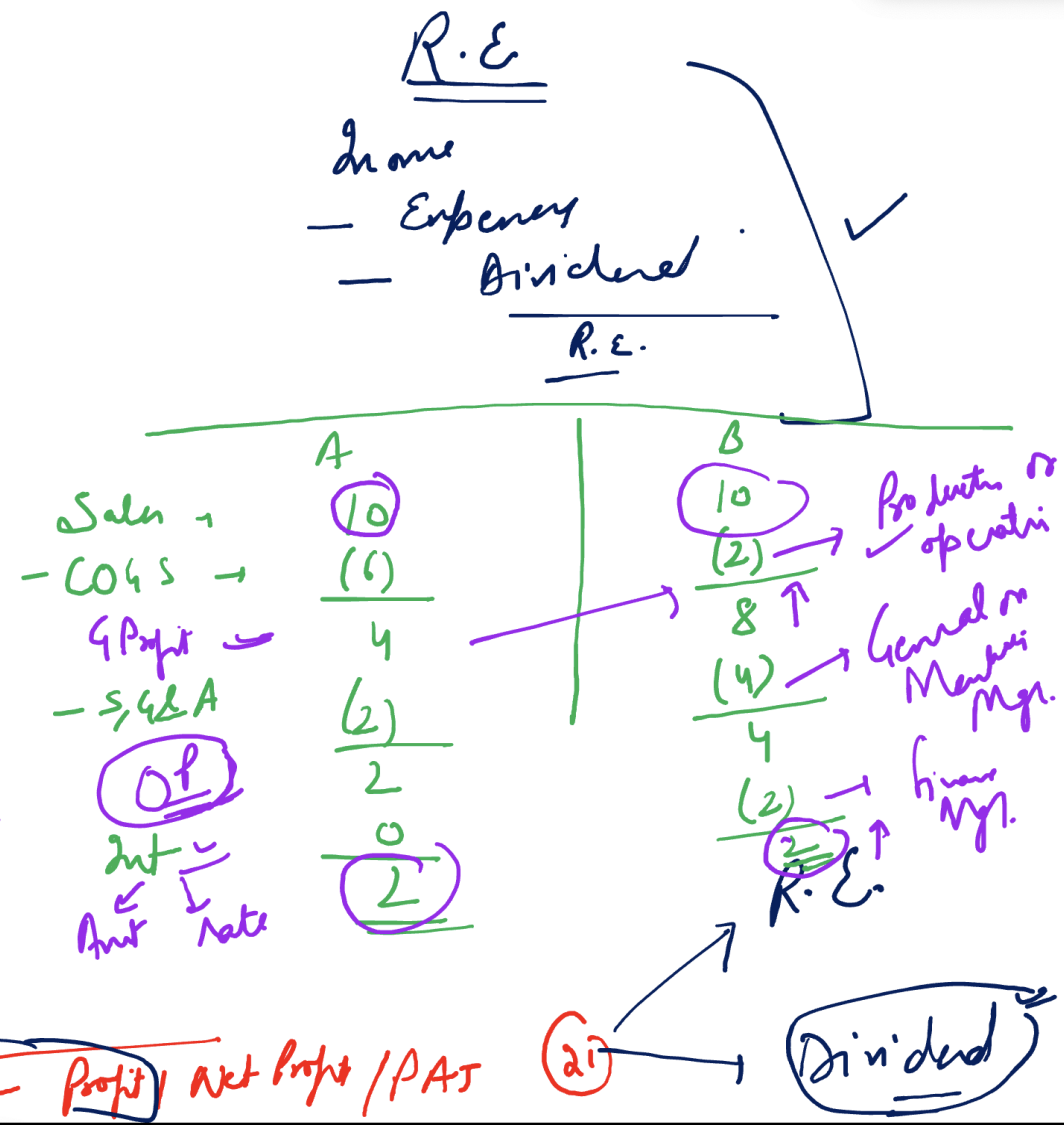
During the Period ended .....

Descriptions	Rs.	Rs.
Sales	*****	
Sales Return/Discounts/Allowances etc.	(****)	
Net Sales		*****
Cost of Goods/Sales/Services Sold		(*****)
<b>Gross Profit/Loss</b>		*****
Commercial Expenses:		
Selling Expenses	*****	
Administrative Expenses	*****	
<b>Operating Profit</b> -		****
Other Income		****
Other Expenses		(***)
<b>Earnings Before Interest and Taxes (EBIT)</b>		*****
Financial Charges		(****)
<b>Earnings Before Tax (EBT)</b>		*****
Tax		(***)
<b>Net Profit</b>		*****
Dividend		*****
Add to Retained Earning		*****

Construction Com Ltd  
Statement of retained earnings  
For the year end 31 December 2018

	USD
Retain Earnings , 01 Jan 2018	XXXX
Add:	
Net Profits	XXXX
Less	
Dividend Declared	XXXX
Retain Earnings , 31 Dec 2018	XXXXX

Sales/Revenue	xx	100
- COGS (cost of goods sold)	(xx)	(20)
<b>Gross Profit</b>		<b>80</b>
- S, G & A Exp.		
Selling, General & Administrative	(xx)	(20)
<b>Operative Profit / loss</b>		<b>60</b>
- other income/expense		
Legal fees	(x)	(10)
<b>EBIT / PBIT</b>		<b>50</b>
Interest/finance cost	(2)	
<b>EBT / PBT</b>		<b>30</b>
- Taxes @ 30%	(9)	
<b>Net Profit / Net Profit / PAT</b>		<b>(21)</b>



# How are financial Statements related?

## Income Statement

	2018	2019
in €m	Act	Act
Revenue	100	110
Costs of Goods Sold	(60)	(65)
Gross Profit	40	45
Operating Expenses	(23)	(20)
EBITDA	17	25
D&A	(2)	(2)
EBIT	15	23
Financial Result	(5)	(6)
Tax	(3)	(5)
<b>Net Income</b>	<b>7</b>	<b>12</b>

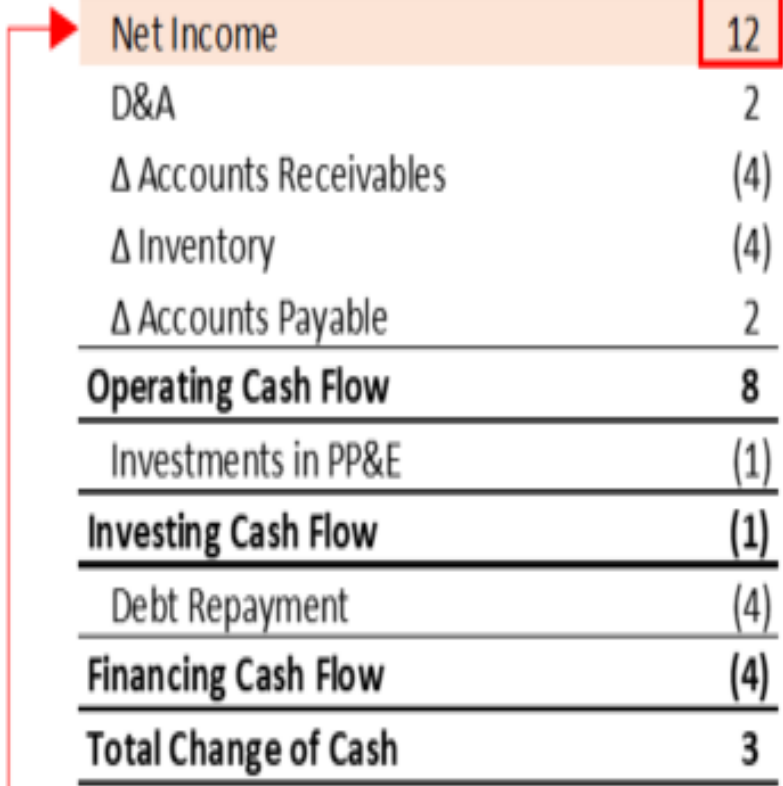
## Balance Sheet

	2018	2019
in €m	Act	Act
Cash	10	13
Accounts Receivables	15	19
Inventory	15	19
PP&E	20	19
<b>Total Assets</b>	<b>60</b>	<b>70</b>
Accounts Payable	10	12
Debt	20	16
<b>Total Liabilities</b>	<b>30</b>	<b>28</b>
Share Capital	23	23
<b>Retained Earnings</b>	<b>7</b>	<b>19</b>
<b>Shareholders' Equity</b>	<b>30</b>	<b>42</b>
<b>Total Liabilities &amp; Equity</b>	<b>60</b>	<b>70</b>

## Cash Flow Statement

	2018	2019
in €m	Act	Act
<b>Net Income</b>		<b>12</b>
D&A		2
Δ Accounts Receivables		(4)
Δ Inventory		(4)
Δ Accounts Payable		2
<b>Operating Cash Flow</b>		<b>8</b>
Investments in PP&E		(1)
<b>Investing Cash Flow</b>		<b>(1)</b>
Debt Repayment		(4)
<b>Financing Cash Flow</b>		<b>(4)</b>
<b>Total Change of Cash</b>		<b>3</b>

**Statement of Change in Equity**



# Income Tax department asks Flipkart to reclassify discounts as capital expenditure


## Twist in the Ecomm Tale

**MARKETING INTANGIBLES**  
Tax department claims discounts and marketing spend are capital expenditure

**REVENUE SPEND**  
Flipkart claims discounts offered to customers are its cost and must be deducted from total revenues

**30%**  
Tax rate applicable on annual profits of Flipkart as the company will turn profitable if discounts and marketing spend are categorised as capex

Many other startups and some telecom players that spend huge sums on discounts to promote brands could see similar tax issues in future



Discounts are capital spends, not marketing expenses, says tax department to ecommerce firms

Editor | Mar 22, 2021

