

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.)

6+ 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 ?**



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***Storytelling vs Number Cruncher
Who are You ?***



Why Accounting?

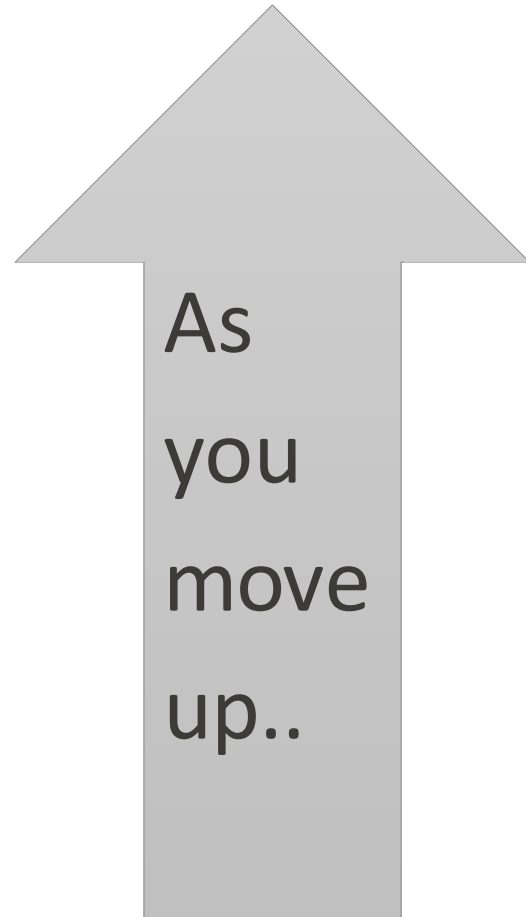
“Why do I need to learn about
Accounting...”

I am very good in my
own area of specialization”

Or

How this course will help me ”

The Job Content



Why Accounting is the Backbone of Finance ?

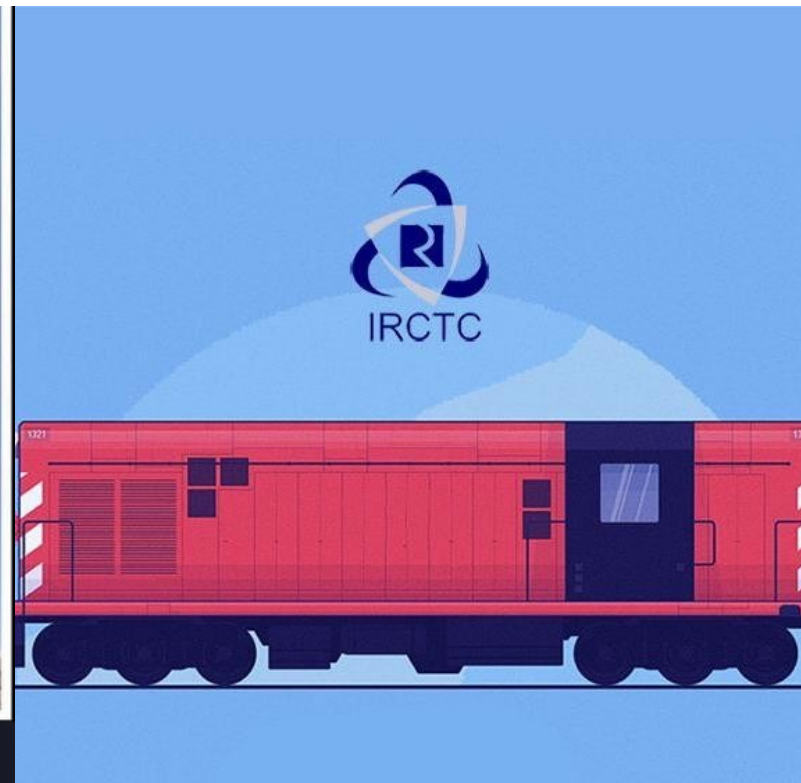


What ties the bustling market of Mumbai to the IT hubs of Bangalore?

From Startups to Unicorns: The role of Accounting

Accounting in Management Program

- 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
- 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 tweets that the decision is being reversed
- 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/>

Internal Risk Factors

- 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

ETPrime

We had our maiden net profitable financial year at nearly Rs 100 cr: Oyo founder Ritesh Agarwal

By Anumeha Chaturvedi, ET Bureau • Last Updated: May 30, 2024, 12:53:00 PM IST

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Synopsis

Agarwal had shared with employees in February that it has doubled its profit after tax (PAT) sequentially in quarter three of financial year 2024 to Rs 30 crore. The company had marked its maiden profitable quarter with a PAT of over Rs 16 crore in quarter two of fiscal year 2024.



Ritesh Agarwal, CEO, Oyo

Oyo founder Ritesh Agarwal said on Thursday the company had its maiden **net profitable financial year** with a profit of nearly Rs 100 crore. In a post on X, Agarwal said this was the company's eighth consecutive quarter of a positive **EBITDA** and that it also has a **cash balance** of about Rs 1000 crore.

-
- We have incurred net losses in each year since incorporation, and our ability to achieve profitability may be delayed
 - Any adverse outcome in legal proceedings involving Zostel may materially and adversely affect our business, reputation, prospects, results of operation and financial condition.
 - Our levels of indebtedness could adversely affect our financial flexibility and our competitive position.

A summary of outstanding litigation proceedings involving our Company, our Subsidiaries, our Directors and Promoter 1, as disclosed in “*Outstanding Litigation and Material Developments*” on page 526, in terms of the SEBI ICDR Regulations as of the date of this Draft Red Herring Prospectus is set out below.

Nature of cases	No. of cases	Total amount involved
		(₹ million)^
Litigation involving our Company		
<i>Against our Company</i>		
<i>Material litigation</i>	4 ^{S&}	₹15.04
<i>Criminal litigation</i>	Nil	Nil
<i>Action taken by statutory and regulatory authorities</i>	2 [@]	₹16.44
<i>Taxation matters</i>	8	₹947.24
<i>By our Company</i>		
<i>Material litigation</i>	Nil	Nil
<i>Criminal litigation</i>	1 [*]	₹18.06
Litigation involving our Directors		
<i>Against our Directors</i>		
<i>Material litigation</i>	1 ^Ω	Not quantifiable
<i>Criminal litigation</i>	14 ^{**}	Not quantifiable
<i>Action taken by statutory and regulatory authorities</i>	1 ^{SS}	Not quantifiable
<i>Taxation matters</i>	Nil	Nil
<i>By our Directors</i>		
<i>Material litigation</i>	Nil	Nil
<i>Criminal litigation</i>	Nil	Nil
Litigation involving our Subsidiaries		
<i>Against our Subsidiaries</i>		
<i>Material litigation</i>	15 ^{# &!}	₹2,436.23
<i>Criminal litigation</i>	3 [∞]	Not quantifiable

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



- 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.

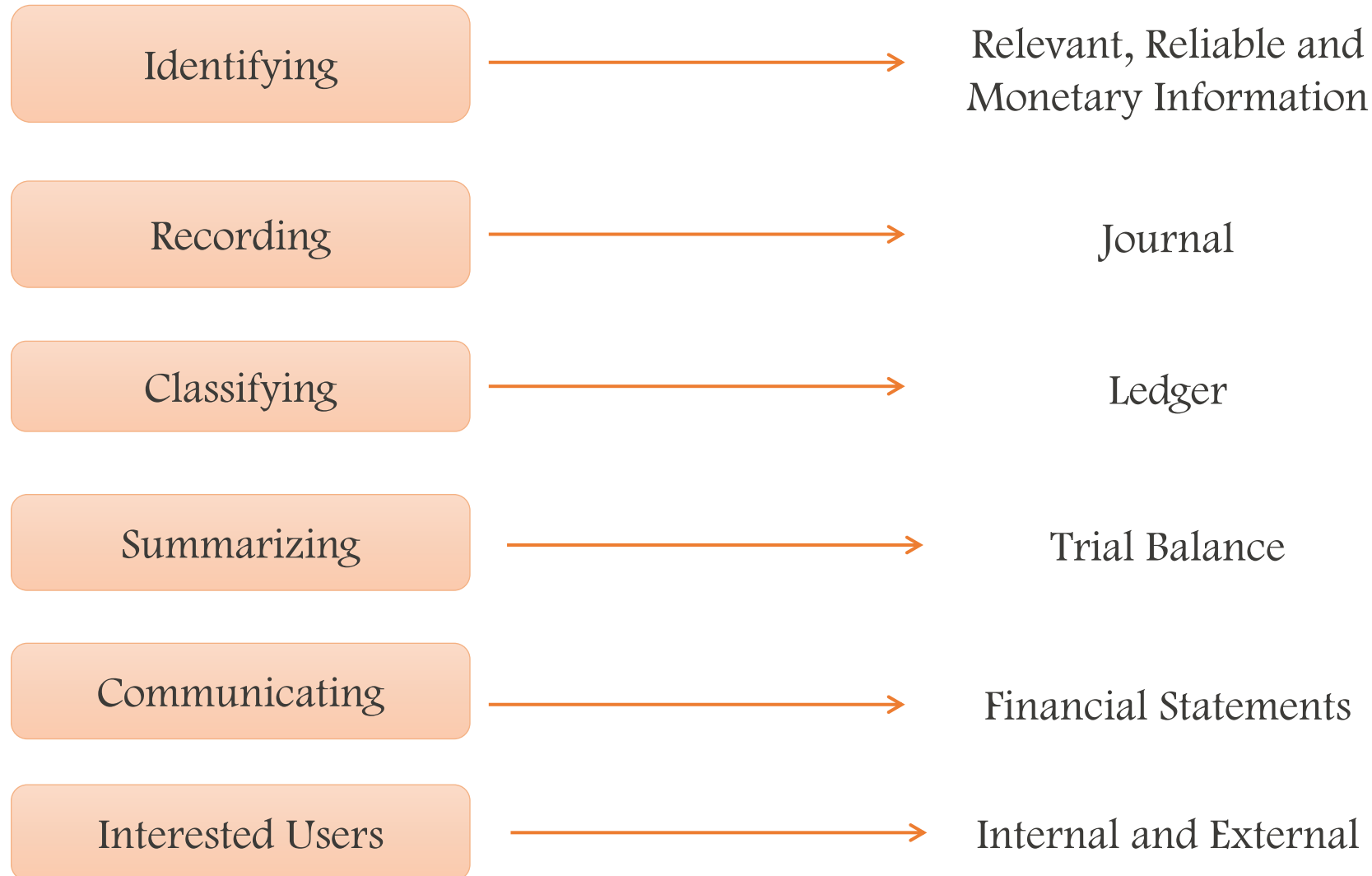
What is Accounting?

“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

Accounting Process



Incl AS → (IFRS)

VS GAAP

Financial Statements under GAAP

Generally Accepted Accounting Principles

Status report

- Balance Sheet – Statement of Financial Position

AS → 2013-14 → Incl AS

↓
Snapshot

<ul style="list-style-type: none"> Cash → 1,00,000 Car → 5,00,000 	<p>9th June</p> <ul style="list-style-type: none"> Laptop → 50,000 Wear → 10,00,000
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- Income Statement – Financial performance of the company

Video | Period → 1 Year | 31st March

Flow report

- Statement of Cash Flows

↓
Period

Financial Statements of a company

Global Grocer	
Balance Sheet as of September 30, 2014	
Assets	Liabilities
Current Assets	Current Liabilities
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	
Non-current Assets	Non-current Liabilities
Land 30,000	Mortgage payable 10,000
Warehouse building, at cost \$40,000	
Less: Accumulated depreciation 300	
Warehouse building, net 39,700	
Van, at cost 10,000	
Store fixtures, at cost \$5,000	
Less: Accumulated depreciation 100	
Store fixtures, net 4,900	
Franchise fee, net 17,250	
Total Assets \$223,350	Total Liabilities \$18,000
	Owner's Equity
	Common stock 205,350
	Retained earnings 10,000
	Total Owner's Equity \$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.....	
Net Income	

Global Grocer	
Statement of Cash Flows for month ending September 30, 2014	
Cash Flows From Operating Activities	
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
Cash Flows From Investing Activities	
Van purchase.....	(10,000)
Net cash provided (used) by investing activities.....	\$(10,000)
Cash Flows From Financing Activities	
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.....	\$ 121,500

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

Total Assets..... **\$ 223,350**

Liabilities

Current Liabilities

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

Non-current Liabilities

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

Owners' Equity

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

Total Liabilities and Owners' Equity **\$ 223,350**

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		(*****)
Gross Profit/Loss		*****
Commercial Expenses:		
Selling Expenses	*****	
Administrative Expenses	*****	
Operating Profit		****
Other Income		****
Other Expenses		(***)
Earnings Before Interest and Taxes (EBIT)		*****
Financial Charges		(****)
Earnings Before Tax (EBT)		*****
Tax		(***)
Net Profit		***** ✓
Dividend		*****
Add to Retained Earning		*****

Handwritten notes:
 Net Profit = (1000) Cr.
 ↓
 Retained Earnings Dividend
 1000
 + Net Profit
 1000

 2000
 - Dividend
 200

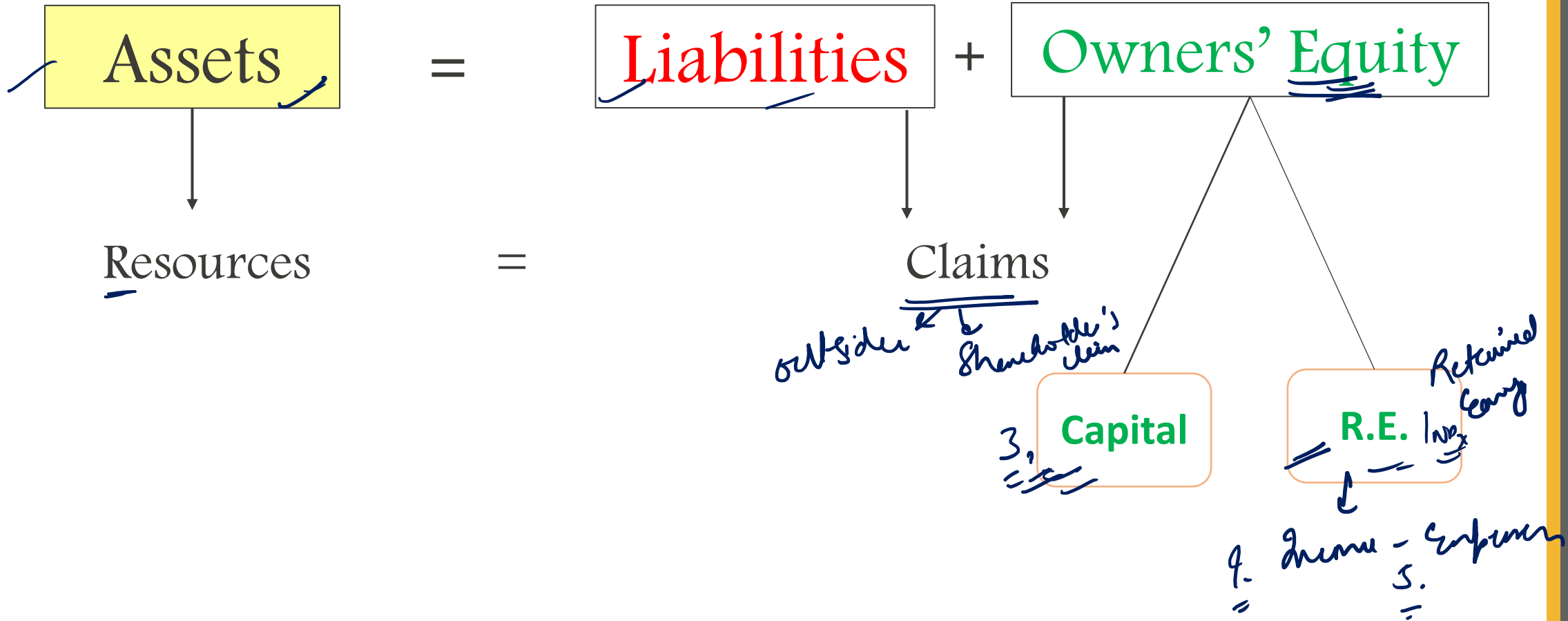
 1800
 R.E.

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
Net sales:			
Products	\$ 316,199	\$ 297,392	\$ 220,747
Services	78,129	68,425	53,768
Total net sales	394,328	365,817	274,515
Cost of sales:			
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
Operating expenses:			
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
Earnings per share:			
Basic	\$ 6.15	\$ 5.67	\$ 3.31
Diluted	\$ 6.11	\$ 5.61	\$ 3.28
Shares used in computing earnings per share:			
Basic	16,215,963	16,701,272	17,352,119
Diluted	16,325,819	16,864,919	17,528,214

The Accounting Equation



The Accounting Equation



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

The Accounting Equation

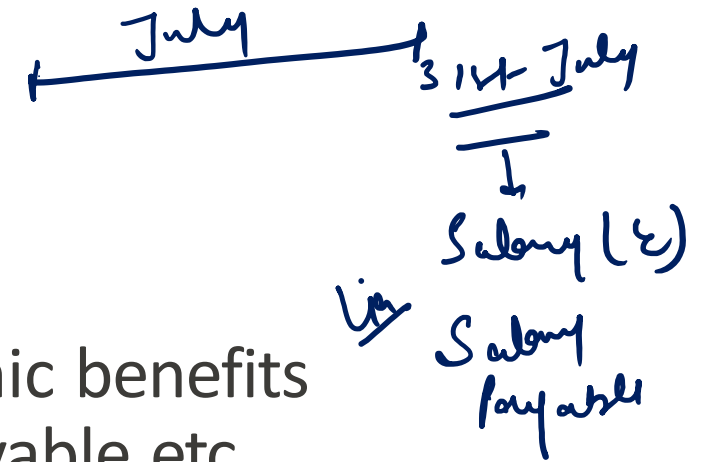


2. **Liabilities**

to pay to provide the service

Present Obligation of the enterprise
 Outflow of resources embodying economic benefits
Loans payable, Trade payable, salaries payable etc.

→ B/P



The Accounting Equation



Resources =



Residual Interest (shareholders)

Ownership claim on total assets

Revenue, Expenses,

Claims



↑ R. E.

Basic Concepts

Assets

Value - benefit - future/Right

A) Receivables

Capital

Claim of owner in total assets of the business

Liability

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

*Cash ↑ 500
Unearned Revenue 500
=*

Terminology Cautions

Income **IS NOT** Revenue

Net income **IS NOT** Increase in Cash

Retained Earnings **IS NOT** Cash

Transaction Analysis

TRANSACTION 1. Ray Neal decides to start a smartphone app development company which he names Softbyte. On September 1, 2017, he invests \$15,000 cash in the business.

Transaction	Assets				=	Liabilities +		Owner's Equity R. E.	
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment		Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev.
1.	+15,000						+15,000		

TRANSACTION 2. Softbyte Inc. purchases computer equipment for \$7,000 cash.

Trans- action	Assets				=	Liabilities +		Owner's Equity	
	Cash	+ Accounts Receivable	+ Supplies	+ <u>Equipment</u>	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev. - Exp.
1.	+15,000						+15,000		
2.	<u>-7,000</u>			<u>+7,000</u>					

TRANSACTION 3. Softbyte Inc. **purchases for \$1,600** headsets and other accessories expected to last several months. The supplier allows Softbyte to pay this bill in October.

Transaction	Assets				=	Liabilities +		Owner's Equity					
	Cash	+	Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+	Owner's Capital	-	Owner's Drawings	+ Rev.	- Exp.
1.	+15,000			<i>need on 2nd</i>					+15,000				
2.	-7,000				+7,000								
3.				+1,600			+1,600						

TRANSACTION 4. Softbyte Inc. receives \$1,200 cash from customers for app development services it has performed.

Trans- action	Assets				=	Liabilities +		Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev.	- Exp.
1.	+15,000						+15,000			
2.	-7,000			+7,000						
3.			+1,600			+1,600				
4.	+1,200								+1,200	

TRANSACTION 5. Softbyte Inc. receives a bill for \$250 from the ~~Daily News~~ for advertising on its online website but postpones payment until a later date.

Correct



Transaction	Assets				=	Liabilities +		Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev.	- Exp.
1.	+15,000						+15,000			
2.	-7,000			+7,000						
3.			+1,600			+1,600				
4.	+1,200								+1,200	
5.						+250				-250

TRANSACTION 8. Softbyte Inc. **pays its \$250 *Daily News* bill in cash.**

Trans- action	Assets				=	Liabilities +		Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+Equipment	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev.	- Exp.
1.	+15,000						+15,000			
2.	-7,000			+7,000						
3.			+1,600			+1,600				
4.	+1,200								+1,200	
5.						+250				-250
6.	+1,500	+2,000							+3,500	
7.	-1,700									-600 -900 -200
8.	-250					-250				

TRANSACTION 10. Ray Neal withdraws \$1,300 in cash in cash from the business for his personal use.

Drawings

Income Statement

Transaction	Assets				=	Liabilities +		Owner's Equity	
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev. - Exp.
1.	+15,000				=		+15,000		
2.	-7,000			+7,000	=				
3.			+1,600		=	+1,600			
4.	+1,200				=				+1,200
5.					=	+250			-250
6.	+1,500	+2,000			=				+3,500
7.	-1,700				=				-600 -900 -200
8.	-250				=	-250			
9.	+600	-600			=				
10.	-1,300				=			-1,300	
	<u>\$8,050</u>	<u>+ \$1,400</u>	<u>+ \$1,600</u>	<u>+ \$7,000</u>	=	<u>\$1,600</u>	<u>+ \$15,000</u>	<u>- \$1,300</u>	<u>+ \$4,700 - \$1,950</u>

Balance Sheet

Dividend

TRANSACTION 10. Ray Neal withdraws **\$1,300 in cash** in cash from the business for his personal use.

Transaction	Assets				=	Liabilities +		Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Rev.	- Exp.
1.	+15,000						+15,000			
2.	-7,000			+7,000						
3.			+1,600			+1,600				
4.	+1,200								+1,200	
5.						+250				-250
6.	+1,500	+2,000							+3,500	
7.	-1,700									-600
										-900
										-200
8.	-250					-250				
9.	+600	-600								
10.	-1,300							-1,300		
	\$8,050	+ \$1,400	+ \$1,600	+ \$7,000	=	\$1,600	+ \$15,000	+ \$1,300	- \$4,700	- \$1,950
	\$18,050					\$18,050				

Financial Statements



SOFTBYTE

Income Statement

For the Month Ended September 30, 2017

Revenues

Service revenue \$ 4,700 ✓

Expenses

Salaries and wages expense \$900

Rent expense 600

Advertising expense 250

Utilities expense 200

Total expenses 1,950

Net income \$ 2,750 ✓

Net income is needed to determine the ending balance in owner's equity.

SOFTBYTE
Owner's Equity Statement
For the Month Ended September 30, 2017

Owner's capital, September 1		\$ -0-
Add: Investments	\$15,000	
Net income	<u>2,750</u>	17,750
		<u>17,750</u>
Less: Drawings		<u>1,300</u>
Owner's capital, September 30		<u><u>\$16,450</u></u>

SOFTBYTE
Balance Sheet
September 30, 2017

<u>Assets</u>		
Cash		\$ 8,050
Accounts receivable		1,400
Supplies		1,600
Equipment		<u>7,000</u>
Total assets		<u><u>\$ 18,050</u></u>
<u>Liabilities and Owner's Equity</u>		
Liabilities		
Accounts payable		\$ 1,600
Owner's equity		
Owner's capital		<u>16,450</u>
Total liabilities and owner's equity		<u><u>\$ 18,050</u></u>

Equity → Capital → 15000 + 1300
R. & 2750