

# Understanding Financial Statements

3<sup>rd</sup> October 2022

# Learning Objectives

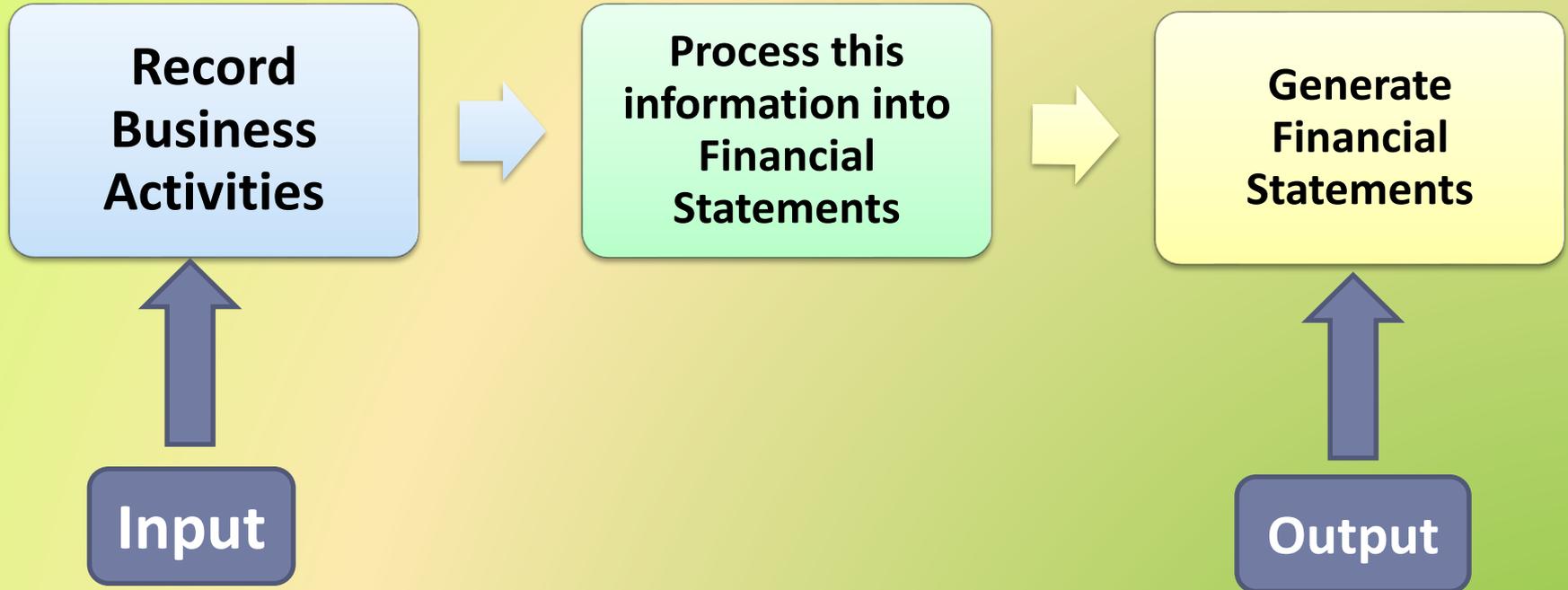
- To understand the need for financial statements
- To interpret the information contained in the financial statements

# Purpose of Financial Statements

– Accounting Process

Information for Decision Making

# Accounting Process



Information for Decision Making

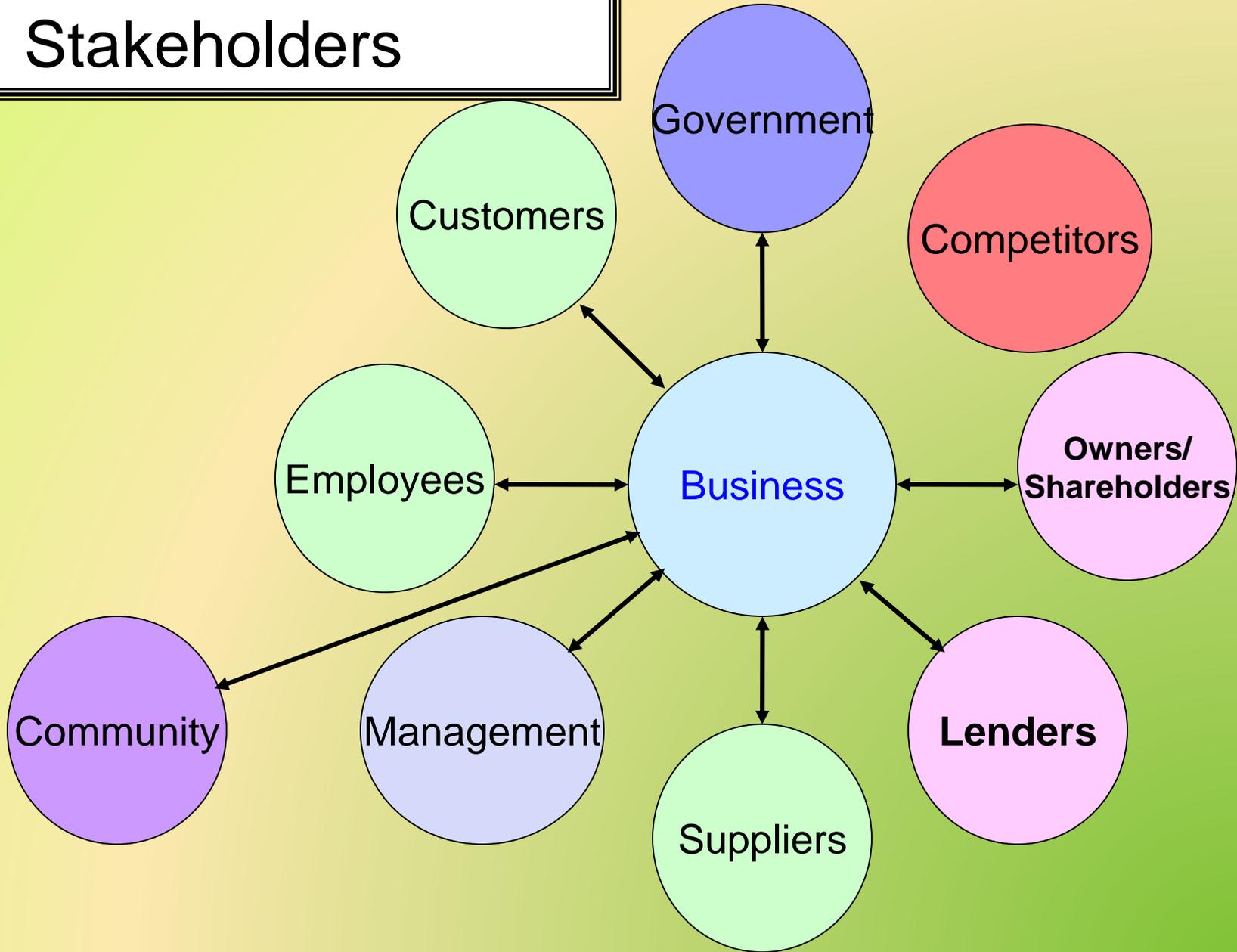
# Decision Makers

Who are the  
decision  
makers?

What  
decisions do  
they take?

What  
Information  
do they need?

# Decision Makers & Stakeholders



# WHAT IS NECESSARY FOR SURVIVAL OF A BUSINESS

A dramatic scene of a large cruise ship, illuminated by its own lights, sinking at night. The ship is tilted at a steep angle, with its bow pointing towards the viewer and its stern partially submerged. The dark sea reflects the ship's lights, and a splash of water is visible at the point of entry. The overall atmosphere is one of crisis and danger.

**CASH FLOW**

# CASH FLOW

SURVIVAL



NET CASH  
FLOW

Cash  
Inflow



Cash  
Outflow

VENDOR DEFAULT

# HOW DO WE MEASURE THE SUCCESS OF A BUSINESS



# Cash Flow vs Profit

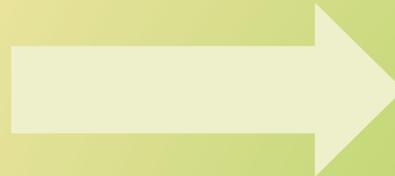
SURVIVAL



CASH FLOW

CASH IN FLOW – CASH OUTFLOW

SUCCESS



PROFIT

PROFIT = INCOME – EXPENDITURE

# Cash Flow vs Profits - example



# HOW DO WE MEASURE PROSPERITY OF A BUSINESS



# Information for Decision – Makers Investors



PROFIT GROWTH –  
Profit in Q1 last year vs Profit in Q1 this year

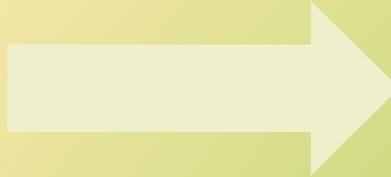
# OBJECTIVE OF FINANCIAL STATEMENTS

SURVIVAL



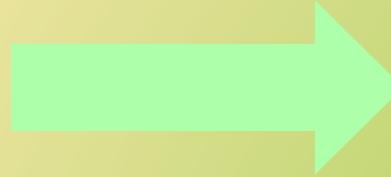
CASH FLOW

SUCCESS



PROFIT

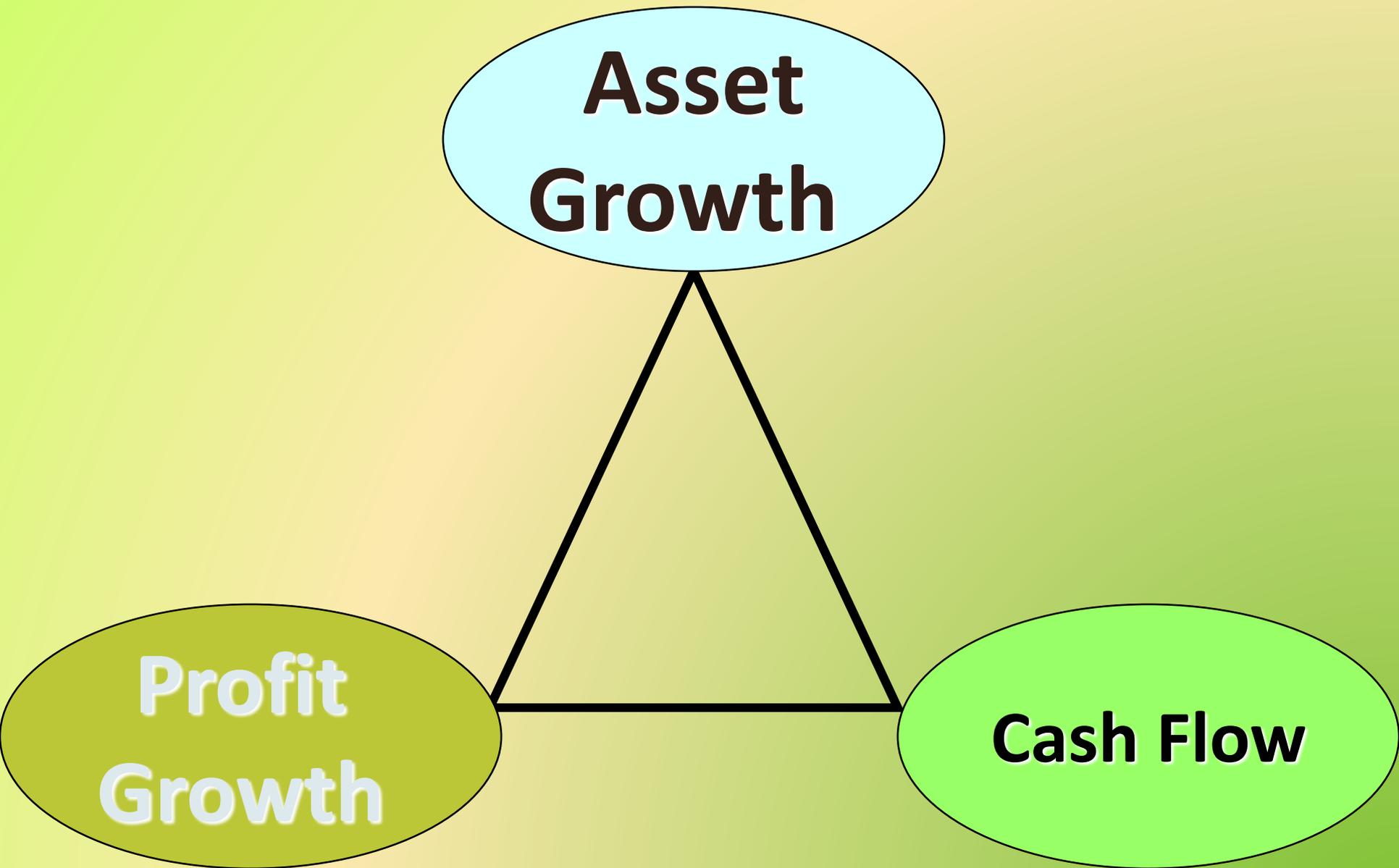
PROSPERITY



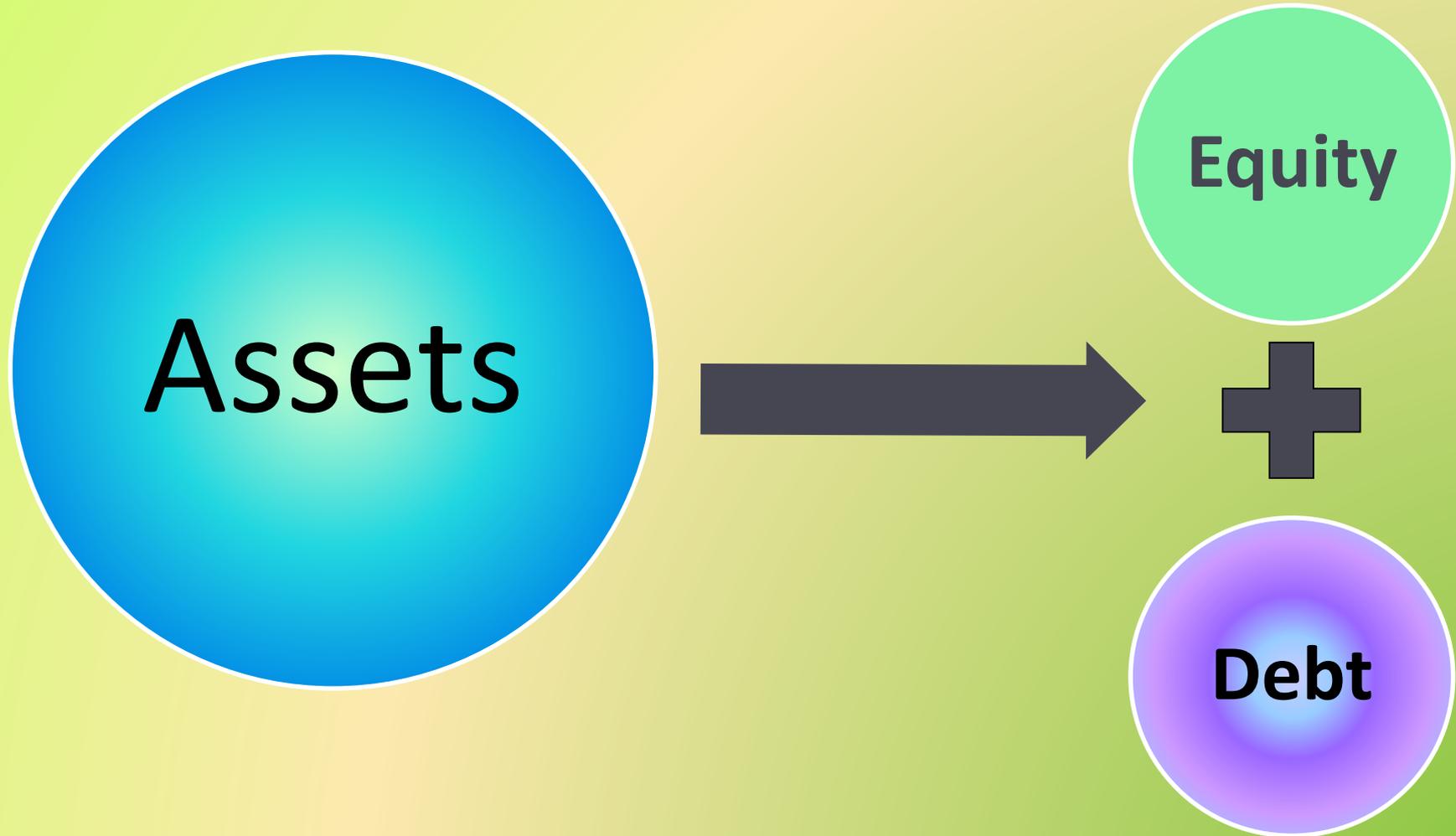
PROFIT  
GROWTH

ASSET  
GROWTH

# FINANCIAL STATEMENTS



# Growth in Assets



# Asset Funding

SOURCE OF FUNDS

Assets

=

Debt

+

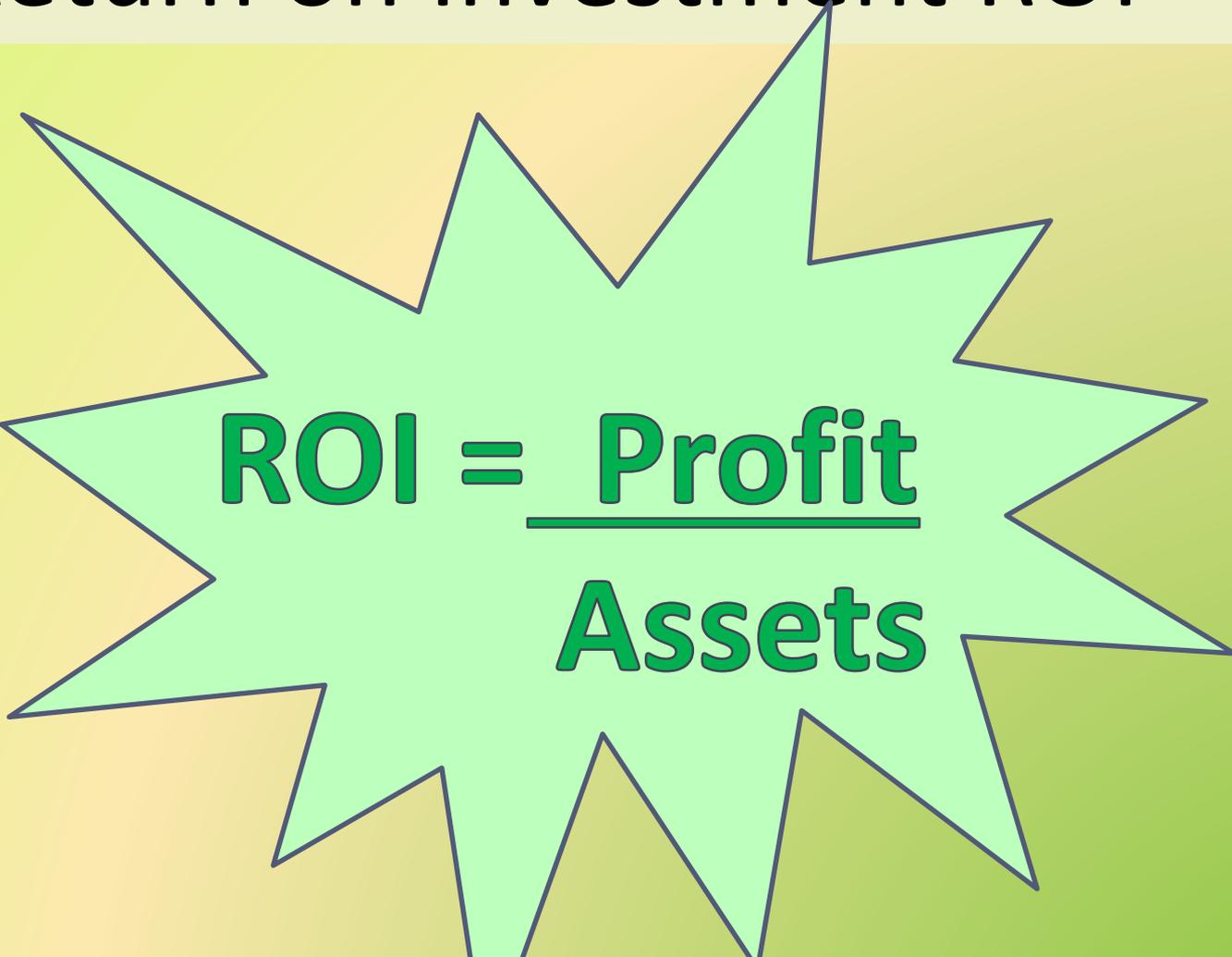
Equity

Equity Share  
Capital

Retained  
Earnings

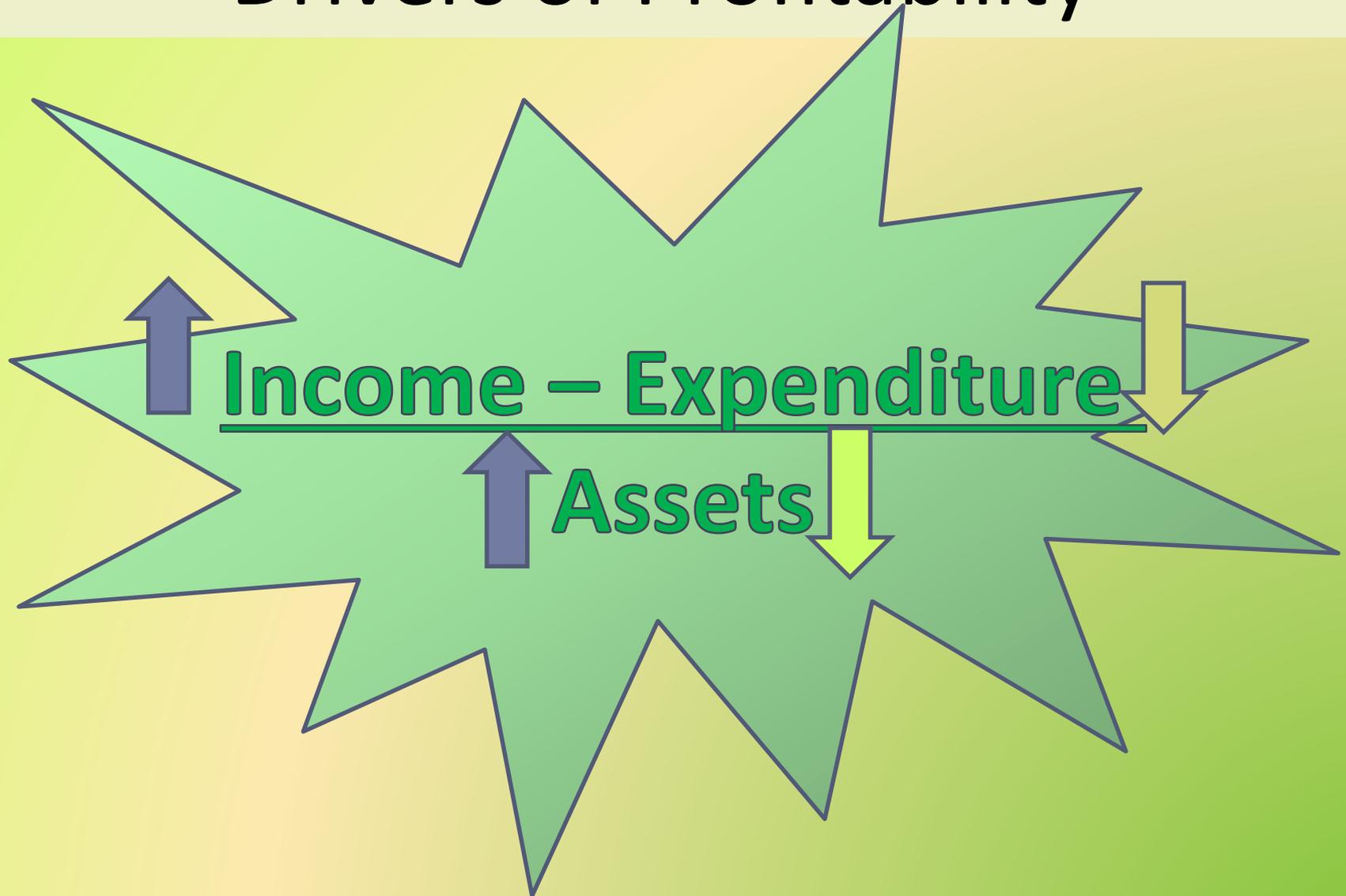
Income –  
Expenditure-  
Dividend

# Return on Investment ROI

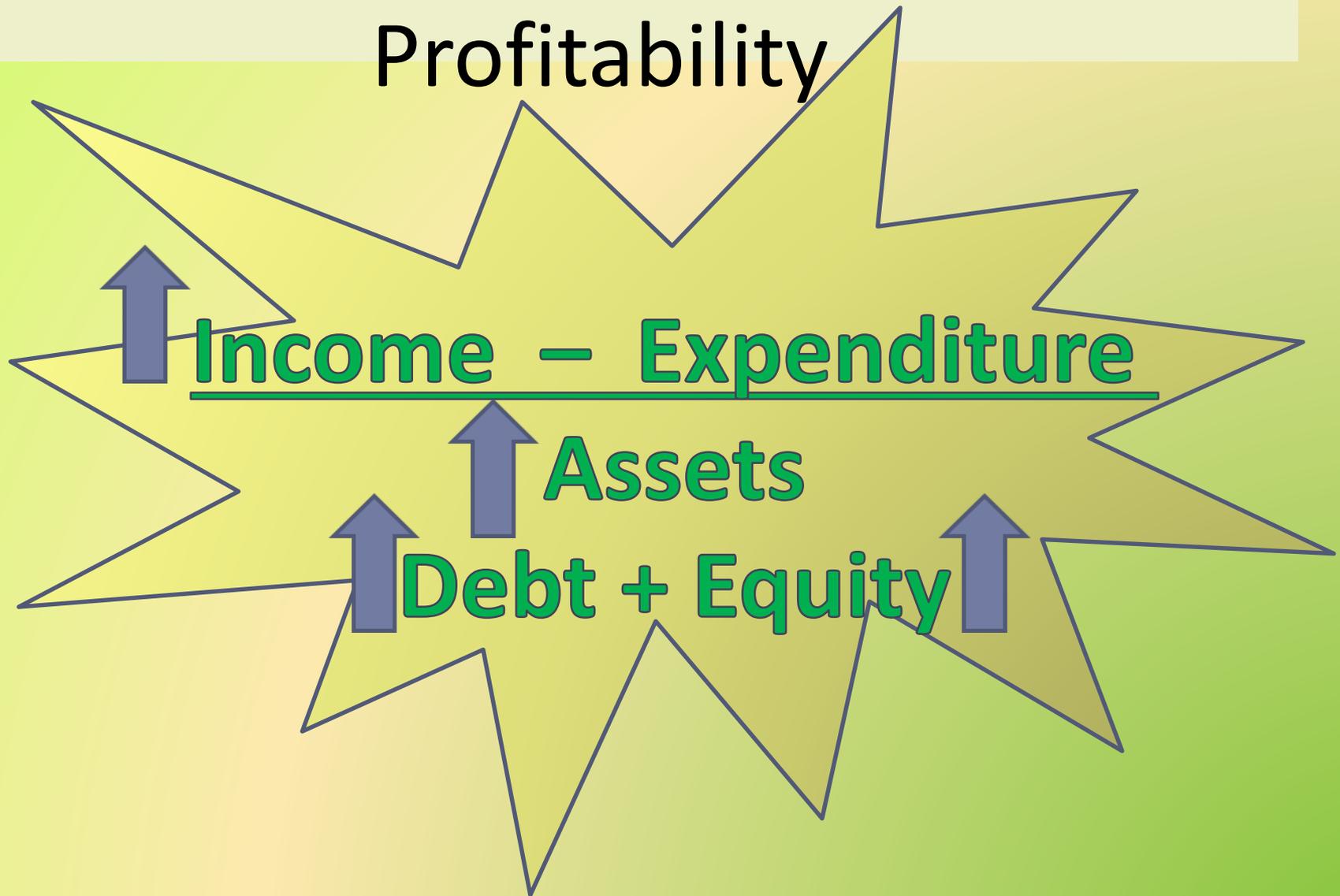

$$\text{ROI} = \frac{\text{Profit}}{\text{Assets}}$$

Return on Investment ROI  
measures profitability of the assets

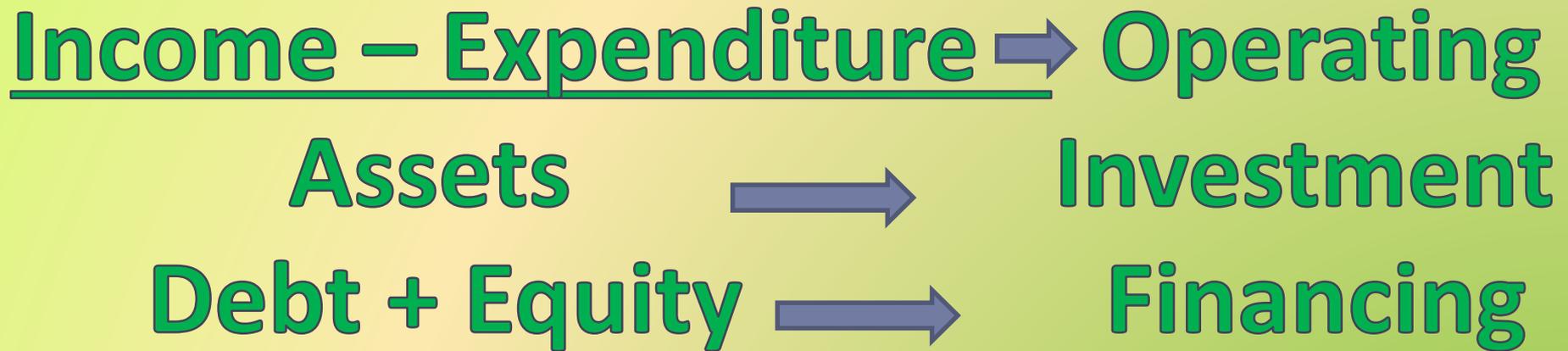
# Drivers of Profitability



# Revenue Growth – Sustainable Profitability



# Managerial Decisions drive Profitability



# Managerial Decisions

## FINANCING DECISIONS

- Raising **FUNDS** to acquire **ASSETS**

## INVESTMENT DECISIONS

- Acquiring **ASSETS** to operate the business

## OPERATING DECISIONS

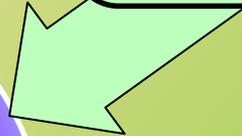
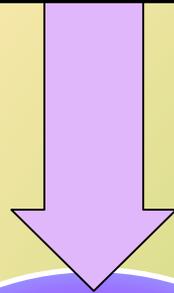
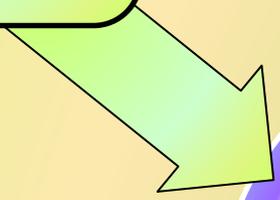
- Operating **ASSETS** to generate **INCOME**

**BALANCE SHEET**  
Financing &  
Investment  
Decisions

**PROFIT & LOSS  
ACCOUNT**  
Operating  
Decisions

**CASH FLOW  
STATEMENT**  
Operating,  
Investment &  
Financing Decisions

**Managerial  
Decision  
Making**



# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

Equity  
&  
Debt

=

Assets



# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

Equity

Liabilities

=

Assets



# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

**Equity**

**Non-Current  
Assets**

**Non-Current  
Liabilities**

=

**Current  
Assets**

**Current  
Liabilities**

# Current Liabilities vs Non- Current Liabilities

31<sup>st</sup> March, 2021

31<sup>st</sup> March 2022

## CURRENT LIABILITIES

Liabilities falling due after  
1.4.2021 upto 31/3/2022

## NON-CURRENT LIABILITIES

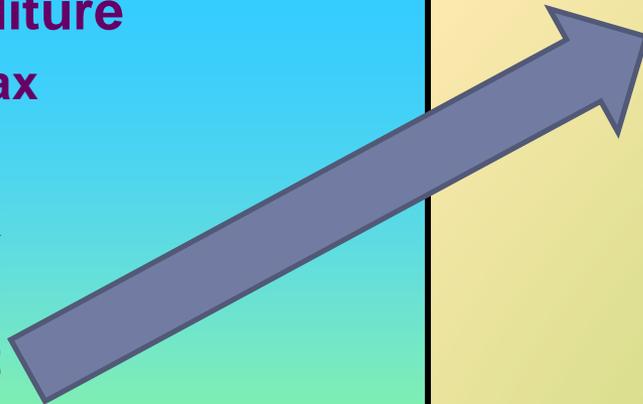
Liabilities falling due  
after 31/3/2022

# Linking Financial Statements

Profit & Loss Account
Income
Less: Expenditure
Profit before Tax
Less: Tax
Profit After Tax
Less: Dividend
Retained Profit

Balance Sheet	
Equity & Liabilities	Assets
Equity Capital	Non-Current Assets
Other Equity	
Retained Earnings	Current Assets
Non-Current Liabilities	Cash
Current Liabilities	

Cash Flow Statement
Opening cash balance
Operating
Investment
Financing
Closing Cash Balance





# PROFIT & LOSS ACCOUNT

**Income**

**MINUS**

**Expenditure**

**EQUALS TO**

**Profit**

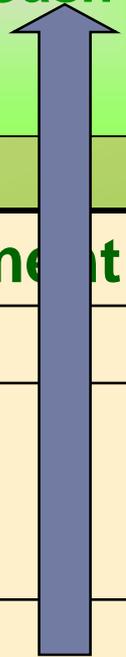
Operating Decisions

# in the Financial Statements

<b>Profit &amp; Loss Account</b>	
<b>Income</b>	
Revenue from Operations	
Other Income	
<b>Expenses</b>	
Cost of Material consumed	
Manufacturing Expenses	
Employee Expenses	
Selling Expenses	
Gen & Admin Expenses	
<b>EBITDA</b>	
Less: Depreciation	
<b>EBIT or Operating Profit or PBIT</b>	
Less: Interest	
<b>Profit before Tax</b>	
Less: Tax	
<b>Profit After Tax</b>	
Less: Dividend	
<b>Retained Profit</b>	

<b>Balance Sheet</b>	
<b>Equity &amp; Liabilities</b>	<b>Assets</b>
Equity Capital	Non Current Assets
Other Equity	
Non Current Liabilities	Current Assets
Current Liabilities	Cash

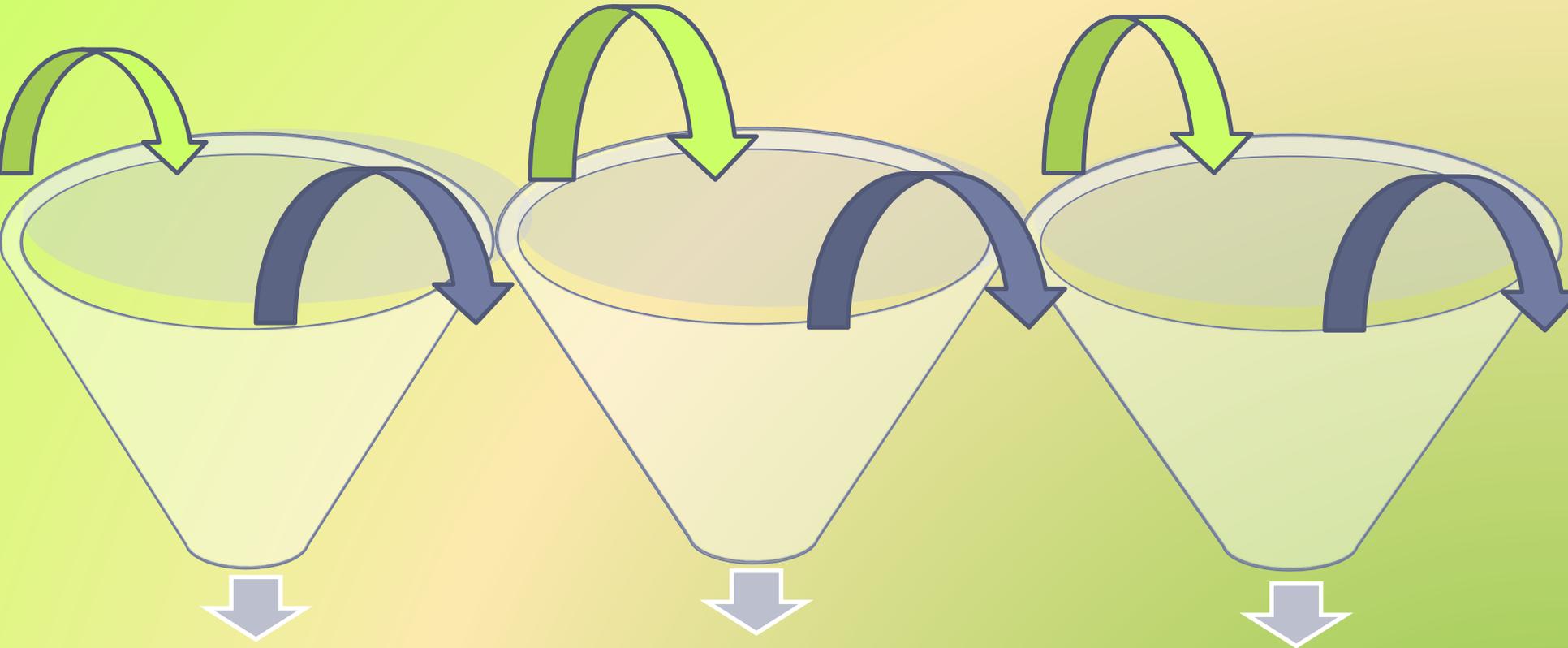
<b>Cash Flow Statement</b>	
Opening cash balance	
Operating	
Investment	
Financing	
Closing Cash Balance	



# Bharat Dynamics Profit & Loss Account

	FOR THE YEAR ENDED 31 Mar	2020	2021	2022
	<b>INCOME</b>	Rs in lakhs		
	Revenue from Operations	310,487.20	191,375.95	281,740.28
	Other Income	8,805.03	9,461.36	11,121.04
	<b>TOTAL INCOME</b>	<b>319,292.23</b>	<b>200,837.31</b>	<b>292,861.32</b>
<b>OPERATING</b>	<b>EXPENDITURE</b>			
	Cost of Materials Consumed	101,408.85	97,008.31	126,336.55
	Stock Adjustments	50,366.33	-12,890.75	-8,435.58
	Employee Benefits Expenses	53,403.07	50,108.86	57,066.27
	Power & Fuel	2,261.58	1,858.84	2,084.29
	Repairs & Miantenance	2,582.17	2,368.26	2,733.30
	Other Operating Expenses	14,510.16	9,484.10	11,362.90
	Other Expenses	10,405.26	8,966.46	17,985.87
	<b>TOTAL EXPENDITURE</b>	<b>234,937.42</b>	<b>156,904.08</b>	<b>209,133.60</b>
		<b>PROFIT BEFORE DEPRECIATION &amp; AMORTISATION, INTEREST AND TAX (EBITDA)</b>	<b>84,354.81</b>	<b>43,933.23</b>
	Less : Depreciation & Amortisation	9,643.84	9,453.84	9,035.47
	<b>PROFIT BEFORE INTEREST AND TAX (OPERATING PROFIT)</b>	<b>74,710.97</b>	<b>34,479.39</b>	<b>74,692.25</b>
	Less: Finance Cost			
	Interest & Bank Charges	326.55	252.26	203.41
	Others	139.02	139.02	139.02
	<b>PROFIT BEFORE EXCEPTIONAL ITEMS &amp; TAX</b>	<b>74,245.40</b>	<b>34,088.11</b>	<b>74,349.82</b>
	Less : Impairment Loss			-3,358.57
	<b>PROFIT BEFORE TAX</b>	<b>74,245.40</b>	<b>34,088.11</b>	<b>70,991.25</b>
	Less : Tax Expenses			
	Current Tax	19,002.93	7,204.37	21,653.56
	Deferred Tax	1,752.39	1,107.73	-654.75
	<b>PROFIT AFTER TAX</b>	<b>53,490.08</b>	<b>25,776.01</b>	<b>49,992.44</b>

# CASH FLOW STATEMENT



## FINANCING

- Cash Inflows minus Cash Outflows = Net Cash Flow

## INVESTMENT

- Cash Inflows minus Cash Outflows = Net Cash Flow

## OPERATING

- Cash Inflows minus Cash Outflows = Net Cash Flow

# CASH FLOW STATEMENT

## OPERATING

For the year ended 31st March	2020	2021	2022
<b>CASH FLOW FROM OPERATING</b>	Rs in crores		
Profit before tax	74,245.40	34,088.11	74,349.82
Adjustments for:			
Depreciation and amortisation	9,643.84	9,453.84	9,035.47
Finance Cost	465.57	391.28	342.43
Interest income	-5,393.40	-5,628.86	-6,375.16
Other Adjustments	-210.49	-1,281.78	5,784.03
<b>Cash Generated from operations before working capital changes</b>	<b>78,750.92</b>	<b>37,022.59</b>	<b>83,136.59</b>
<b>Net increase/(decrease) in cash from working capital changes</b>	<b>-10,964.37</b>	<b>77,560.95</b>	<b>-9,828.34</b>
<b>Cash generated from operations</b>	<b>67,786.55</b>	<b>114,583.54</b>	<b>73,308.25</b>
Taxes paid (net of refunds)	-17,364.41	-7,782.24	-20,342.35
<b>Net cash generated from operating activities - [A]</b>	<b>50,422.14</b>	<b>106,801.30</b>	<b>52,965.90</b>

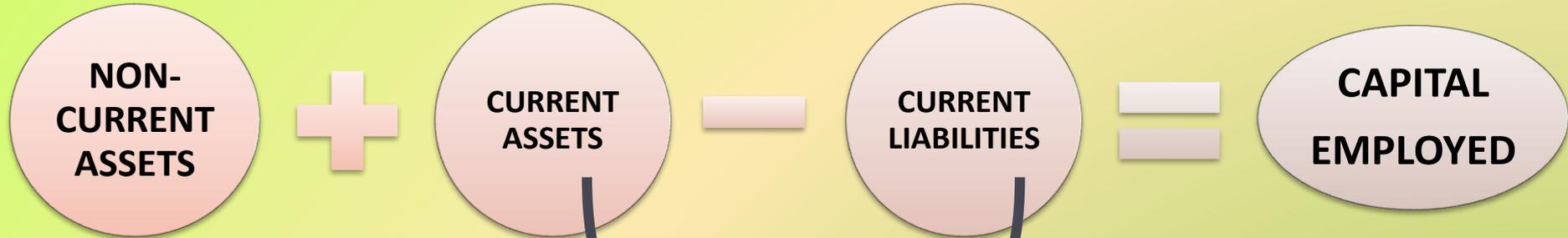
## INVESTMENT

CASH FLOW FROM INVESTING ACTIVITIES	Rs in lakhs		
Purchase of PP&E and intangible assets	-5,688.84	-5,660.91	-10,204.42
Proceeds from sale of PP&E and Intangible	0.36	11.21	0.45
Bank Deposits	-1,165.40	-73,803.80	-53,045.20
Interest received	3,536.25	6,075.10	5,947.93
<b>Net cash generated/(used in) from investing activities - [B]</b>	<b>-3,317.63</b>	<b>-73,378.40</b>	<b>-57,301.24</b>

## FINANCING

CASH FLOW FROM FINANCING			
Interest & Finance Charges paid	-326.55	-252.26	-203.41
Repayment of Lease Liabilities	-94.72	-106.10	-118.48
Dividends paid including Dividend tax	-18,665.92	-16,905.72	-14,530.06
<b>Net cash used in financing activities - [C]</b>	<b>-19,087.19</b>	<b>-17,264.08</b>	<b>-14,851.95</b>
<b>Net increase/(decrease) in cash and cash equivalents - [A+B+C]</b>	<b>28,017.32</b>	<b>16,158.82</b>	<b>-19,187.29</b>
Cash and cash equivalents at the beginning of the year	1,515.52	29,532.84	45,691.66
Cash and cash equivalents at the end of	<b>29,532.84</b>	<b>45,691.66</b>	<b>26,504.37</b>

# CAPITAL EMPLOYED



# Return on Capital Employed

$$\text{ROI} = \frac{\text{Income} - \text{Expenditure}}{\text{Assets}}$$

$$= \frac{\text{Income} - \text{Expenditure}}{\text{Debt} + \text{Equity}}$$

$$\text{Capital Employed} = \text{Debt} + \text{Equity}$$

## Return on Capital Employed

$$\text{ROCE} = \frac{\text{Income} - \text{Expenditure}}{\text{Debt} + \text{Equity}}$$

1. EQUITY
2. NON-CURRENT LIABILITIES
3. INTEREST BEARING CURRENT LIABILITIES
- Less:
1. DEFERRED TAX ASSETS

1. EQUITY =
2. NON-CURRENT LIABILITIES=
3. INTEREST BEARING CURRENT LIABILITIES=
- Less:
4. DEFERRED TAX ASSETS =

**CAPITAL EMPLOYED =**

# ROCE

ROCE

Return

Capital  
Employed