Lecture no 8

### **Disclosure Requirements**

Public companies must prepare an **annual report** once a year for their shareholders. This report explains the company’s business activities and financial performance. Shareholders use this to decide if they want to keep investing in the company. If the company is publicly listed on a stock exchange, it has to follow additional rules for sharing its financial details.

### **Annual Report**

The annual report includes important sections like general company information, key financial highlights, and management’s analysis of the company’s performance. It also provides financial statements, such as the **balance sheet**, **income statement**, and **cash flow statement**. Additionally, an auditor’s report confirms the accuracy of the financial data.

### **Assets vs. Liabilities**

**Assets** are things that a company owns and that have value, like buildings, machinery, or cash. **Liabilities** are the debts or obligations the company owes to others, such as loans or unpaid bills. In simple terms, assets are what the company owns, and liabilities are what it owes.

### **Net Worth**

**Net worth** (also called equity) is the difference between the company’s total assets and its total liabilities. It shows the company's overall financial health. If a company’s assets are worth Rs. 10,000,000 and its liabilities are Rs. 6,000,000, its net worth is Rs. 4,000,000.

### **Fixed Asset vs. Current Asset**

**Fixed assets** are long-term items that a company uses to generate income, like land, buildings, and equipment. They are **not easily turned into cash.**

**Current assets** are short-term items like cash or inventory that can be **quickly converted into money**. Current assets help in day-to-day business operations.

**Depreciation (Straight Line Method)**

Depreciation means something losing value over time, like a car or machine getting older and less useful. Businesses use it to track this loss in value.

Depreciation is how a **fixed asset** loses value over time. In the straight-line method, the asset's cost is divided equally over its useful life. For example, if a machine costs Rs. 100,000 and will be used for 5 years, the machine loses Rs. 20,000 in value every year.

**Depreciation Impact**

If a company sells a depreciated asset for more than its current value, the extra money made is considered income. For example, if a machine is worth Rs. 20,000 after 4 years, but the company sells it for Rs. 25,000, the extra Rs. 5,000 is treated as income.

1. **Working Capital**:
   * **Definition**: Working capital is the difference between a company's **current assets and current liabilities**. It measures the company's ability to cover its short-term obligations with its short-term assets.
   * **Purpose**: It indicates the liquidity of the business and how efficiently it can manage its day-to-day operations. Positive working capital means the company has enough assets to cover its short-term liabilities.
2. **Net Worth (or Equity)**:
   * **Definition**: Net worth, also known as shareholders' equity or owner's equity, is the difference between a company's **total assets and total liabilities**. It represents the ownership value in the company.
   * **Purpose**: It shows the overall financial health and value of the company from an ownership perspective. Positive net worth indicates that the company has more assets than liabilities, which is generally a good sign of financial stability.

In summary, working capital focuses on short-term financial health and liquidity, while net worth gives a broader picture of a company’s long-term financial position and value

### **Creditors**

**Creditors** are the people or businesses the company owes money to. **Current liabilities** are debts that must be paid within a year, like invoices or short-term loans. **Long-term liabilities** are debts that will be repaid over a longer period, such as mortgages or long-term loans.

### **Called-Up Share Capital**

**Called-up share capital** is the money a company raises by issuing shares. When shares are sold for more than their face value, the extra amount is called **share premium**. For example, if shares with a par value of Rs. 10 are sold for Rs. 15, the Rs. 5 difference is the share premium.

### **Profit and Loss Account**

The **profit and loss account** (or income statement) records how much money the company has made and spent over a specific period. It doesn’t include money from loans or the sale of equity. It only shows regular income and expenses, like sales and operating costs.

### **Turnover**

**Turnover** measures how quickly a company does its business, such as how fast it collects payments from customers or sells its products. For example, a company with a fast turnover sells its inventory quickly, which helps it generate cash faster.

### **Cash Flow Statement**

The **cash flow statement** shows how money is flowing in and out of the company. It links the **balance sheet** and the **profit and loss account**. It shows how much cash the company has, where it came from, and how it’s being used. For example, the company may have cash coming in from sales but also cash going out for paying loans, buying equipment, or salaries.

**Balance Sheet**:  
The balance sheet shows what a company owns (assets) and what it owes (liabilities) at a specific moment, usually at the end of the financial year. For example, if a company owns equipment worth Rs. 500,000 and has debts of Rs. 300,000, the balance sheet reflects these values to show the company's financial position at that time.