Foundations of Entrepreneurship

INTRODUCTION TO FINANCIAL STATEMENTS

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Lecture Note # 6

Topics to be covered

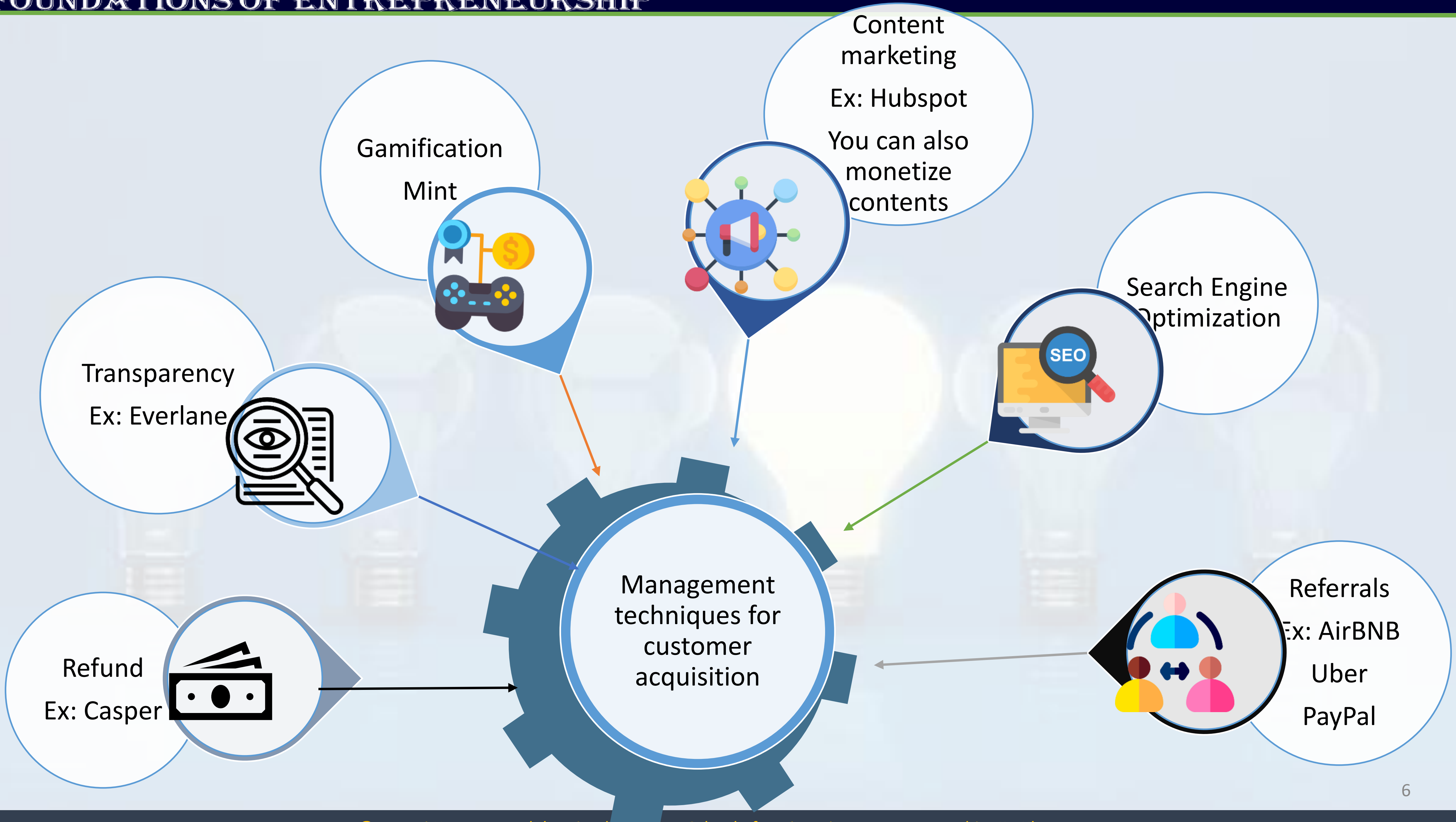
- **Understanding financial statements**
- **Balance sheet**
- **Profit & Loss Account**
- **Cash Flow Statement**

Cash is KING!

- Yes, cash is king, and your business can't run without it.
- Profit is sweet. But book-profit may be a mirage and can lead businesses to death.
- Only cash balance tells the real story.

Acquiring and Retaining a Growing Number of Customers is Key to Success.

- Customer acquisition is one of the hardest thing for new ventures,
  - Casper allows customers to use their mattress for 100 nights without any charge.
  - You are unimpressed, they would pick it up at their cost with full refund. [There are small % people who are sneaky and you lose money on them. But the vast majority become convinced of the quality of your product.
- Mint, a financial advisor firm, offer digital game that entertains and teaches financial prudence early on.
- Content marketing: Hubspot publishes huge number of videos, blogs, twitter posts that are educative and shared extensively with back-links. They build a huge follower base, a large part of whom have chosen to become customers.
- SEO consulting firm Backlinko publishes one blog per month, but its quality is so great that it quickly gets viral. Gets way more shares.


Content marketing
Ex: Hubspot
You can also monetize contents
Gamification
Mint
Search Engine Optimization
SEO
Transparency
Ex: Everlane
Management techniques for customer acquisition
Referrals
Ex: AirBNB
Uber
PayPal
Refund
Ex: Casper

How Important is Financial Statements

01

There is a saying:

If one can't manage finances, won't be able to manage a business.

03

The fact that a major cause of startup failure is 'running out of cash', reinforces the above statement.

04

All entrepreneurs and non-entrepreneurs who are directly or remotely connected to the past, present, and future financials of a company must have a grip on financial statements.

Lack of Knowledge on Financial Accounting

- **Aerion went down in spite of order book position of US$11.2 B and $1 B investment in product development. Everything was in place.**
- **There was no dearth of money either.**
- **Only one reason is attributed to the failure of the business: running out of funds!**
- **Why? Because they could not foresee the event and did not try early enough to raise more funds. "**I will never be able to forgive myself for not taking action sooner." read – for not preparing the cash flow statements.
- **Drone startup Airware shuts down after burning $118M**
- **Since they "ran out of financial runway."**

The primary purpose of financial statements is to report the actual financial state of any company to all stakeholders.

- Stakeholders
  - Founders/ Promoters / Owners
  - Shareholders
  - Lenders (bankers)
  - Government (Income tax and GST department)
  - Economists
  - Analysts
  - Investors
  - Employees
  - Policymakers or Statisticians

Three perspectives of Financial Statements

- **Financial statements should be viewed from three perspectives: one from the entrepreneurs, the other, from the other stakeholders' perspectives, and from the Government (Income tax).**
- **Depending on which side you are in, you would like to look at it through different prisms.**
- **Owners of a company frequently under-report or over-report performance to derive values.**
- **The consumers of the data in financial statements are the victims of such wrong reporting.**

From Owners' Perspective

- Decisions influenced by financials
  - Cost cutting
  - Pricing
  - Hiring
  - Hiving off
  - Capacity augmentation
  - Making-vs.- outsourcing
  - Borrowing
  - Capital raising

Major Disaster for Accounting Frauds: Enron

- At its peak, Enron was one of America's largest corporations with 22,000 employees.
- Reported $111 billion revenues in 2000
- Overstated profit and hid a mountain of debt.
- When it came to light,
  - Share price went from $90.75 in August 2000 to just $0.67 in 2002 to 0.0 soon thereafter.

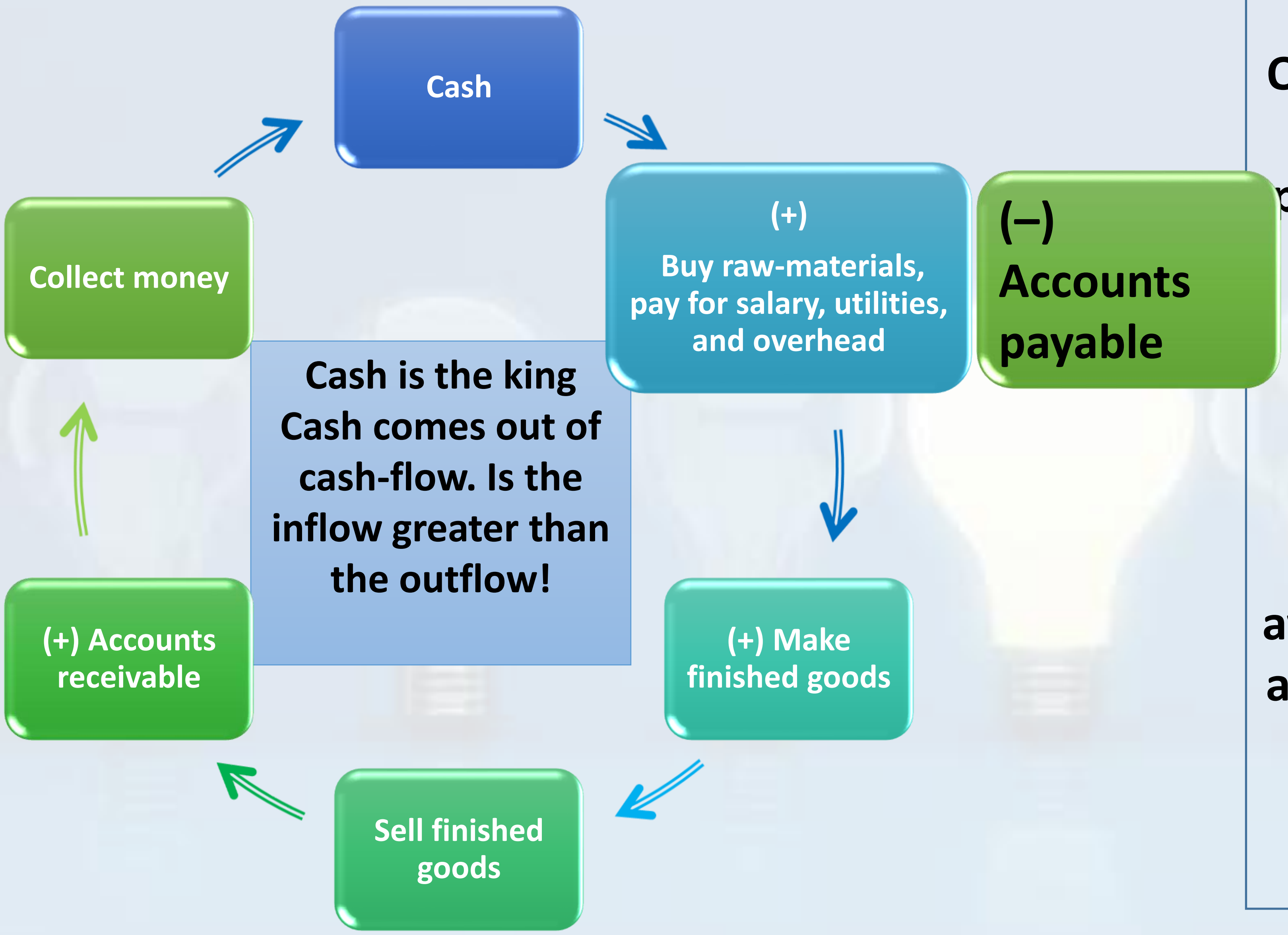
Major Disaster for Accounting Frauds: WorldCom

WorldCom, USA

- Was the second biggest phone company
- WorldCom fraudulently underreported cost of a staggering $3.8 billion.
- In 2020, it filed for bankruptcy.

Satyam Computers of Hyderabad

- The chairman of Satyam Computers, Ramalinga Raju confessed that the company's accounts had been falsified to the extent of Rs 12,318 crore.
- The company went through turmoil rendering thousands of employees jobless and millions of investor poorer.

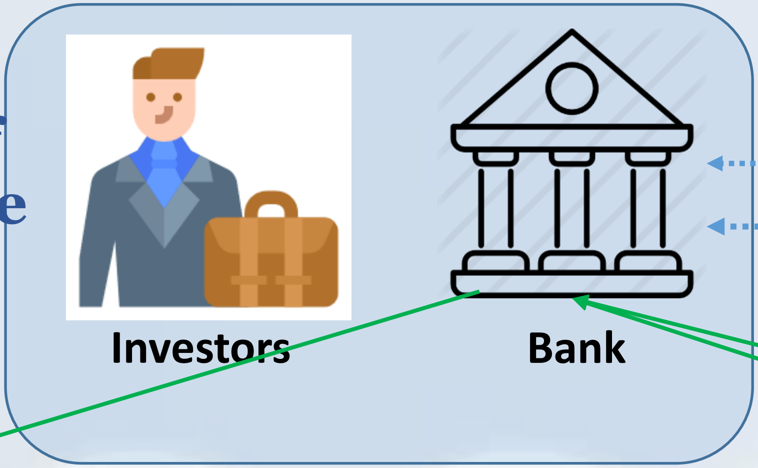


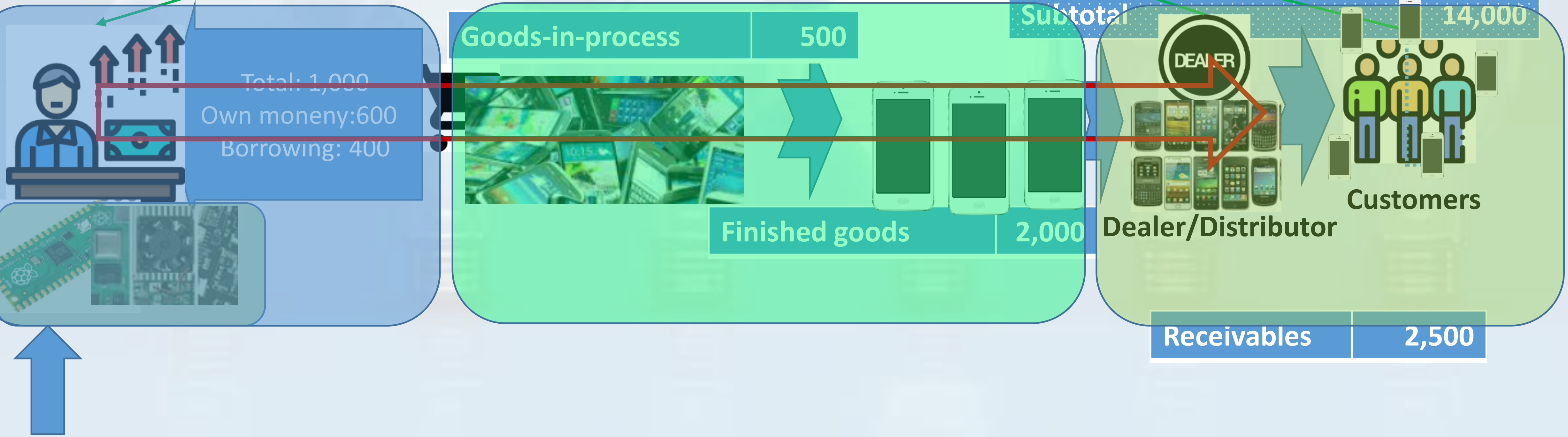
Operating cycle starts from cash and moves through purchase of raw materials, converting them into finished goods, selling them and receiving the cash.

In numeric term, the operating cycle is the average period required for a business to complete this process.

Money blocked at different stages of the operating cycle and the importance of managing creditors

Investment in fixed assets	10,000
Raw-materials stock	1,000
Goods-in-process	500
Finished goods	2,000
Receivables	2,500
Accounts payable	(–)2,000
Total for operating cycle	4,000
Subtotal	14,000



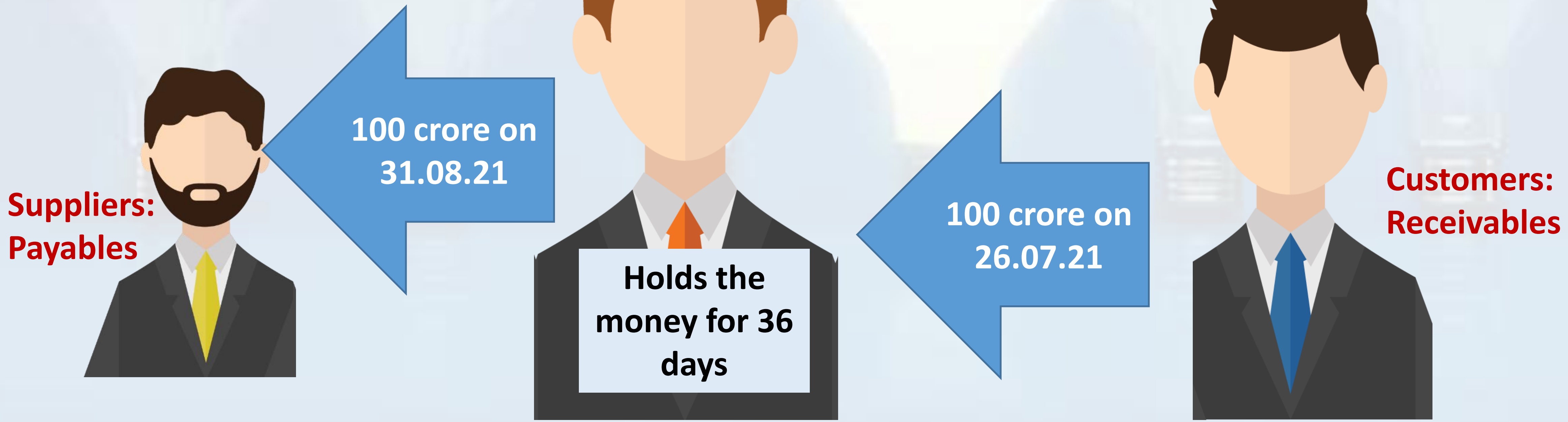


Adani Enterprises:

Adani enterprise : has
Receivable cycle of 90 days and
Payable cycle of 126 days.

Define receivable cycle:

Average outstanding in Receivable:	10,000
Annual sales:	40,000 cr
Receivable turnover ratio:	40,000/10,000 = 4
Receivable cycle:	365/4 = 91.25 days



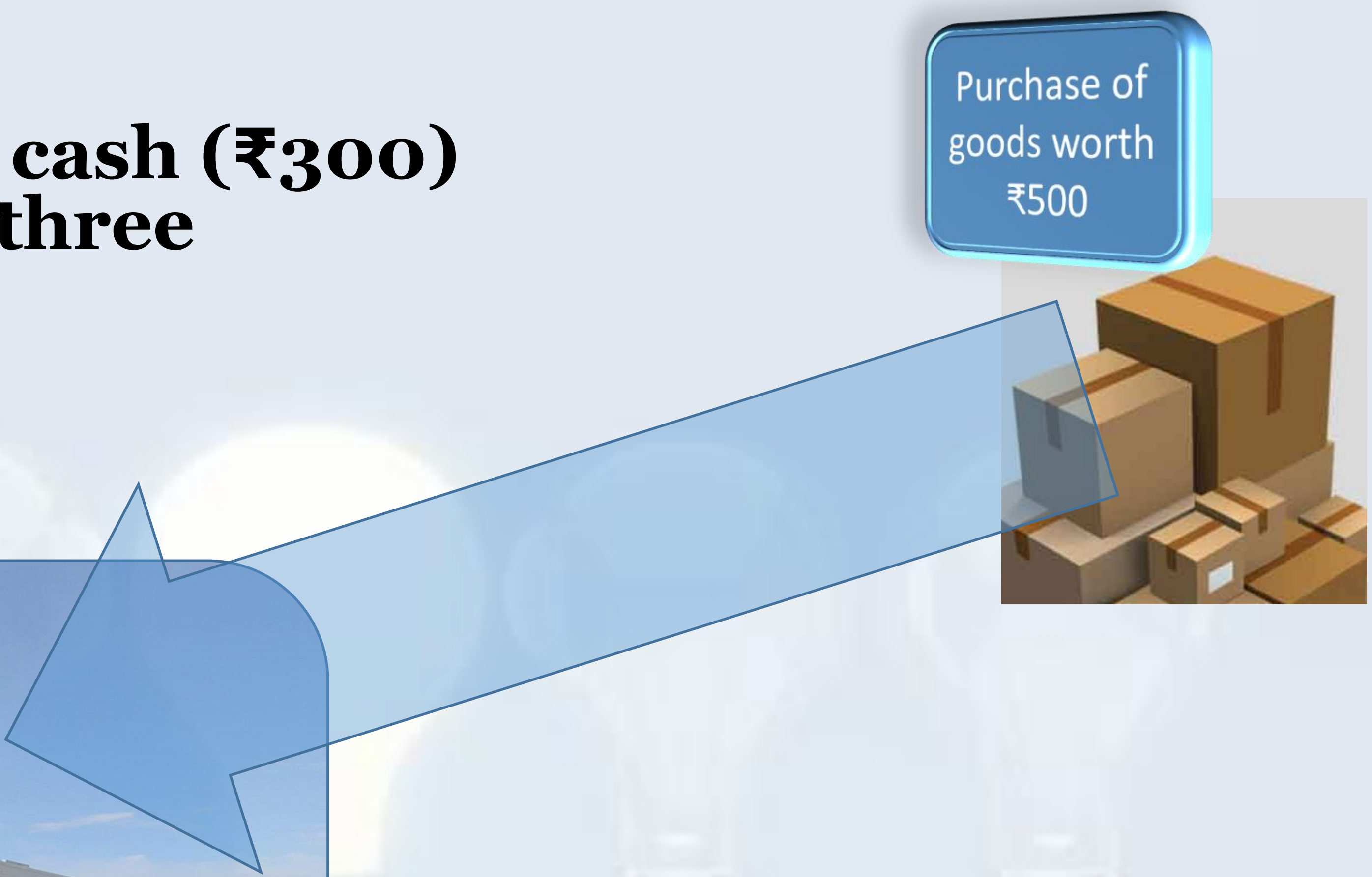
Double entry system

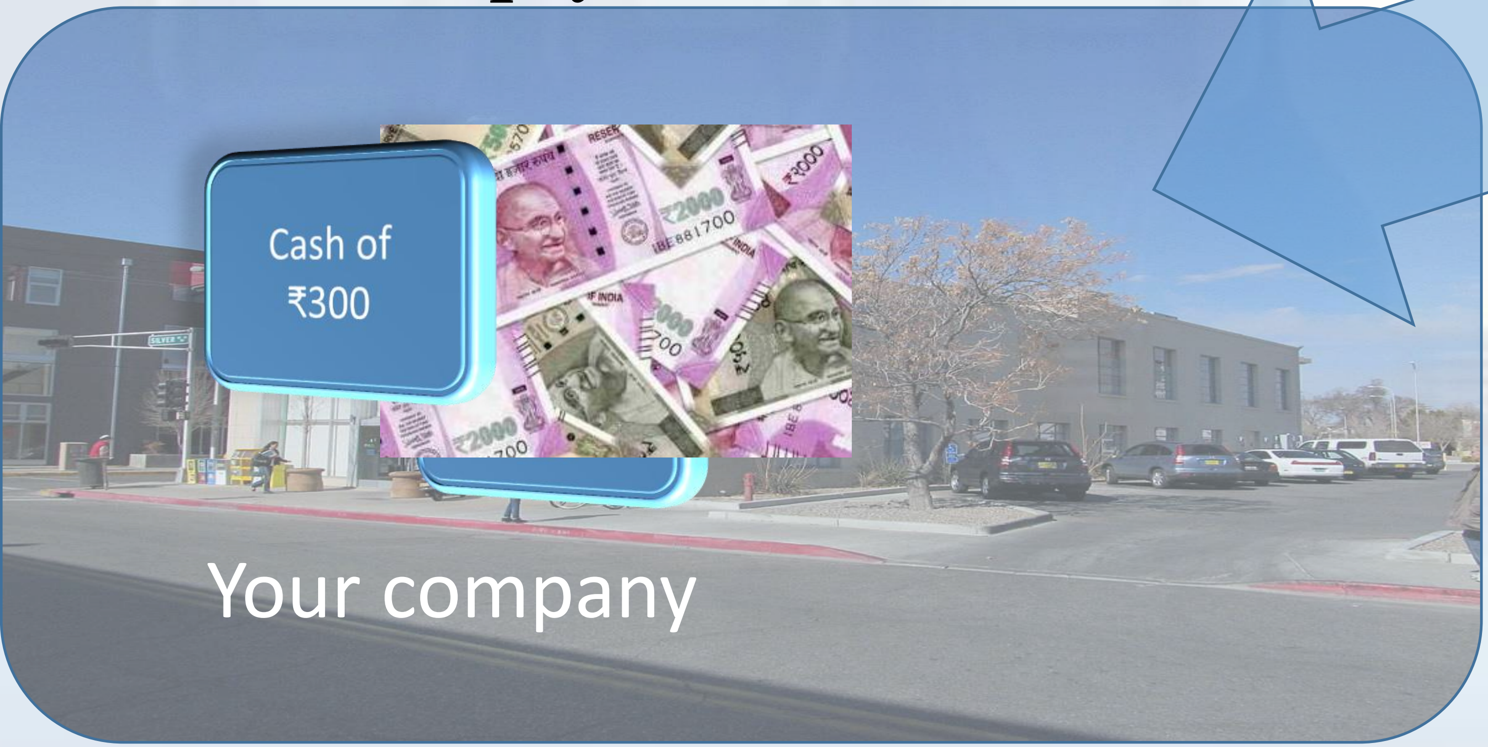
- **Double entry system** of accounting means that every business transaction involves two or more accounts.
- Example: Your company 'A' purchases raw-materials (₹500) from company 'B' in cash. Your cash account reduces and raw-material purchase account increases. The books where you enter these data are called ledgers. For example 'Cash Ledger', 'Sales Ledger', 'Purchase Ledger', etc.



Double Entry System

- If your payment is partly on cash (₹300) and partly on credit,(₹200) three accounts will be affected:
  - Purchase: ₹500
  - Cash: ₹300
  - Accounts payable: ₹200





The debit – credit rule

The debit – credit rule is that asset account is debited when value increases; opposite is for liabilities.

Income account is credited when value increases; opposite is for expenses.

Purchase:	₹500	(Expense type account) Purchase ledger debited
Cash:	₹300	(Asset type account) Cash ledger credited
Accounts payable:	₹200	(Liability type account) Accounts payable ledger credited

Three Major Financial Statements

- Balance Sheet
- Profit & Loss or Income statement
- Cash Flow statement

A fourth statement is also used

Statement of changes in owners' equity or stockholders' equity.

Balance sheet

- **Balance sheet** is a snapshot of financial position at a particular point in time.
- It aims to convey the position of the assets, liabilities and owner's equity at any particular point in time.

Profit & Loss or Income Statement

Profit & Loss Statement, also known as 'Income Statement' shows the operational performance of an enterprise for a certain period of time (contrary to balance sheet which refers to the status at a point in time).

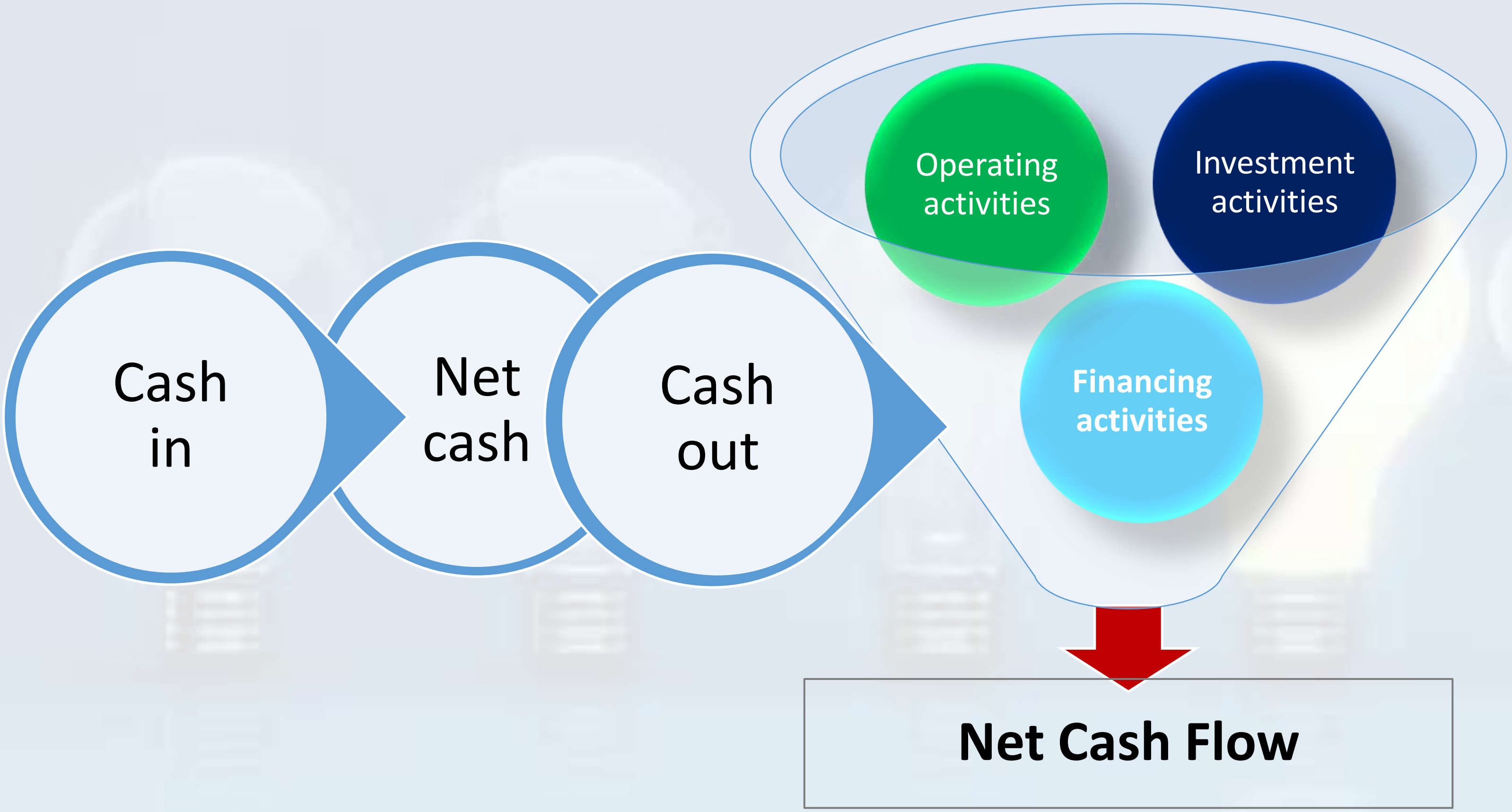
Balance sheet as on 31.03.2021

Profit & Loss account for the year starting from 01.04.2020 to 31.03.2021

Cash Flow Statement

- A cash flow statement is the financial statement that provides information on cash sources and uses from i. Operational activities, ii. Investment activities & iii. Financing activities, is the net cash flow of an enterprise for a specific period.
- Cash flow statement contains all the receipts and payments of cash and cash equivalent of an enterprise and the net cash receipt during an accounting period. It reveals whether net cash flow is increasing or decreasing.
- The net cash flow data is very useful in understanding liquidity position of a company and help eliminate any possible misperception stemming from profit data.

Cash flows from i. Operational activities, ii. Investment activities & iii. Financing activities



Use of Cash Flow Statement for Startups

- Money gets used up in assets/inventory, dividend, investment, and accounts receivables, some of which becomes sticky and illiquid.
- Cash flow shows how liquid the business is, and projected cash flow reveals if the company is likely to fall short of cash to make essential payments in the future.
- If cash shortage is imminent, the founders can take preemptive action to arrange fund.

- **The fundamental and critical question to answer is how much money it will take to get the venture started.**
- **Let us take a very simplistic example. Let's start by setting up a new firm: a retail store.**
- **Financial statements for any company engaged in retail business are simpler compared to those of a manufacturing company. So, let us start with a retail store.**
- **Let us start something with which you all may connect very easily. Suppose you are starting a stationery shop at your hostel room.**

- Let us see what all you need to start the business and estimate the requirement of fund:
- Counter : ₹ 500
- Rack : ₹ 600
- Chair : ₹ 400
- Subtotal ₹ 1,500
- Purchase materials i.e. stationery items (pens, notebooks, files/folders, pencils, receivables, (-) payable, and the like): ₹ 5,000
- Suppose that you want to keep some small change (cash): ₹500
- Subtotal: ₹ 5,500
- Total : ₹ 7,000

Your Business Has Two Kinds of Assets

Long-term or Fixed assets

Counter	: ₹ 500
Rack	: ₹ 600
Chair	: ₹ 400
Subtotal	₹ 1,500

Short-term or Current assets (working capital)

pens, notebooks, files/folders, pencils, and the like): ₹ 5,000
And some cash: ₹ 500

Fixed Assets or Long-Term Assets

- All the above are assets of your business.
- Give a sharp look at the items in the first part and try to understand that these items are not for sale. You need them to facilitate your business. At some point of time, you may like to replace them and sell them as used machine. But that is not part of the business.
- These assets are called “Long-Term Assets” or “Fixed Assets”. They contribute to your business but they remain with you for a long time.

Short-Term Assets or Current Assets

Contrary to 'Fixed Assets' the raw-materials or the stationery items are meant for selling and they are meant to be with your business for shortest possible time so that you can convert them into revenue (sales) and make profit. These are "Short-Term Assets" or "Current Assets".

Current Assets or Short-Term Assets for car manufacturer

It's a long-term asset for a transport operator

Arranging the Money

- How do you propose to fund purchase of these fixed and current assets?
- Suppose you have ₹ 3,000 with you. So, there is a shortfall of ₹ 4,000. Suppose you could borrow the remaining amount of ₹ 4,000 from your friend Rohit. So, your budgeted project outlay is fully tied up (your project reached financial closure).
- Let us now prepare the balance sheet.

Balance sheet as on 31.03.2020

Assets	₹
Current assets/ Short-term assets	
Cash	500
Accounts receivable	0
Inventory	5,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,500
Total of Assets:	**7,000**
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	0
Short-term Bank loan/ working cap loan	0
Long-term liabilities	0
Long-term Bank loan	0
Other loan	4,000
Owners' equity:	3,000
Total of Liabilities and owners' equity	**7,000**

You have now started the business on 1st of April 2020.

- Soon you realise that there is good demand but you have your other engagements. So, you decide to hire an employee, say, with monthly salary of ₹ 5,000
- Now you need a billing machine for ₹10,000 to keep track of inventory and sales.

Cash	500
Accounts receivable	0
Inventory	5,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,500
Billing machine	10,000
Total of Assets:	**17,000**
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	0
Short-term Bank loan	0
Long-term liabilities	0
Long-term Bank loan	0
Other loan	14,000
Owners' equity:	3,000
Total of Liabilities and owners' equity	**17,000**

You have now started the business on 1st of April 2018.

Following are the transactions during the year 2020-21 (from 01.04.2020 to 31.03.2021)

Sales	5,00,000		
Purchase of materials	2,50,000	Depreciation	
Salary	60,000	Furnit	1500
Rent	12,000	Depreciation@10%	150
Closing stock	10,000	Book Value	1350
Transportation	5,000		
Telephone	3,000	Billing m/c	10000
Electricity	6,000	Depreciation @10%	1000
Trade license	5,000	Book Value	9000
Depreciation	1,150		
Closing cash in hand	?	Total deprn.	1150
Accounts payable	12,000		
Accounts receivable	15,000		
Interest paid	400		
Gross profit			
Opening inventory	5,000		

- **Gross profit = Sales – Cost of goods sold**
- **Operating profit = Gross profit – Operating expenses**
- **Profit Before Tax (PBT) = Operating profit – Interest expenses**
- **Net profit = Profit before tax – Income tax**
- **Retained profit = Net profit – dividend**
- **EBITDA = Earnings (profit) before Interest, tax, depreciation & amortization.**

Profit Margin is percentage profit with respect to sales

$$Gross\ Profit\ Margin = \frac{Gross\ profit}{Sales} \text{x100}$$

$$Operating\ Profit\ Margin = \frac{Operating\ profit}{Sales} \text{X100}$$

$$Net\ Profit\ Margin = \frac{Net\ profit}{Sales} \text{X100}$$

$$EBITDA\ Margin = \frac{EBITDA}{Sales} \text{X100}$$

Notice that the denominator is always ‘sales’.

Why different types of profits??

Why to Estimate Different Types of Profits

- Each type of profit helps to make an apple-to-apple comparison.
- Some company may be efficient in managing the process better than others. Some may be efficient in managing the operating expenses.
- EBITDA helps to compare companies by eliminating the differences of depreciation, interest and tax.
- Some company's capital structure may have a high debt. So, even if they are more efficient in managing process and operation, may perform poorly on the PBT.
- You want to know the cause of certain performance.

All figures are in Rupees billion	Mahindra & Mahindra		Tata Motors		Maruti Suzuki	
	19-20	18-19	19-20	18-19	19-20	18-19
Net Sales	951	1047	2610	3019	756	860
Operating Profit	136	162	209	276	106	135
Operating profit margin %	**14.30**	**15.47**	**8.01**	**9.14**	**14.02**	**15.70**
Interest	60.65	50.21	72	57	1	0.1
Interest % to OP	**44.60**	**30.99**	**34.45**	**20.65**	**0.94**	**0.07**
PBDT	75	112	137	218	105	134
Profit Before Tax	6	75	-105	-313	69	104
Provision for Tax	19	28	3	-24	14	29
Profit After Tax	-13	46	-109	-289	55	74
Net profit margin	-0.01	0.04	-0.04	-0.10	0.07	0.09
Share price ₹	**615**		**148**		**7128**	

Why to Estimate Different Types of Profits

- **Gross profit reflects efficiency of converting inputs into sales. If one company's gross profit margin (percentage) is more than others in the same industry, it is because one or more of the followings:**
  - **More efficiently converts raw-materials into finished goods.**
  - **More energy-efficient process.**
  - ***Sells at higher price than competitors.***
  - ***Bargaining power in buying inputs.***
  - ***Use more efficient manufacturing process***
- **In short, they are more efficient and likely to be more profitable than competitors**

Remember

i. **Porter's five forces**

ii. **Asymmetric BM**

Operating Profit Margin is Combination of Processing and Operational efficiency.
However, it does not take into account the differentiation caused due to cost of financing across companies.
PBT margin takes into account the finance costs.
Net profit margin takes into account the income tax management.

You prepare balance sheet at this point of time, i.e. as on a particular date: here, as on 31.03.2020

You prepare Profit & Loss Account for this entire period, i.e. from 01st April 2020 to 31st March 2021

You prepare balance sheet at this point of time, i.e. as on a particular date: here, as on 31.03.2021

Year 2019-20

Year 2020-21

Year 2021-22

PURCHASE DURING THE YEAR

Closing stock

Opening stock

You purchase a lot of stocks and sell a lot of them during the year. But some stocks remain unsold, they are the closing stock

Closing stock

Opening stock

Closing stock: ₹5,000

Year 2019-20

Opening stock: ₹5,000

Year 2020-21

Closing stock: ₹10,000

Year 2020-

Opening stock: ₹10,000

Year 2021-22

Closing stock is the stock or inventory that remains unsold as at the close of business of any particular year. You begin the business in the next year with the closing stock of the previous year. Therefore, the closing stock of the previous year becomes the opening stock of the next year.

Cost of goods sold	
Opening stock of materials	5,000
Add purchase during the year	2,50,000
Deduct closing stock of materials	10,000
Cost of goods sold	**2,45,000**

Opening stock data is obtained from previous year balance sheet. It is the closing stock of previous year.

Cost of goods sold =	**5,000 + 2,50,000 – 10,000 = 2,45,000**

Cost of goods sold = Opening inventory + Purchase during the year – Closing Inventory

For the purpose of estimating ‘Materials consumed’ to derive ‘Gross Profit’ previous year’s ‘Closing stock’ is current year’s ‘Opening stock’.

Year 2019-20	Year 2020-21			Year 2021-22
As on 31.03.2020	As on 01.04.2020	Purchase during the year ₹2,50,000	As on 31.03.2021	As on 01.04.2021
Closing stock: ₹5,000	Opening stock: ₹5,000		Closing stock: ₹10,000	Opening stock: ₹10,000

Sales		**5,00,000**
Gross profit		
Opening stock of materials		5,000
Purchase	(+)	2,50,000
Closing stock of materials	(–)	10,000
Cost of goods sold (CoGS)		**2,45,000**
Gross profit = (sales - CoGS)		2,55,000

Opening stock data is obtained from previous year balance sheet. It is the closing stock of previous year.

Depreciation

- **Depreciation is an accounting method of gradual apportioning of the cost incurred to acquire a tangible asset as expense over its useful life.**
- **Businesses depreciate long-term assets differently for two different accounting purposes: i. for tax and ii. for reporting to stakeholders.**

Depreciation is the process of charging the loss of value of capital assets in Profit & Loss A/C

- Through depreciation, the procurement costs of capital assets are gradually charged in the profit & loss account.
- The other alternative is to charge the entire cost of acquisition as expense in the year the expenditure is incurred.
- But that would cause great volatility in the bottom-line (profit), which is not desirable.

Sales	1000
Cost of goods sold	600
Gross profit	400
Depreciation & Amortization	100
Other operating expenses	150
Operating profit	150
Less: Interest	50
Profit before tax	100
Income tax @20%	20
Net profit	80
Dividend	30
Retained profit	50

Depreciation	
Furniture	1500
Depreciation @10%	150
Book value net of depreciation	1350
Billing m/c	10000
Depreciation @10%	1000
Book value net of depreciation	9000
Total depreciation	1150

Detailed discussion on methods of depreciation and their significance would be made later

Depreciation is gradual apportioning of the cost of a tangible fixed asset over its useful life span. Businesses depreciate long-term assets mostly differently for accounting and tax purposes.

Following are the transactions during the year 2020-21 (from 01.04.2020 to 31.03.2021)

Sales	5,00,000		
Purchase of materials	2,50,000	Depreciation	
Salary	60,000	Furnit	1500
Rent	12,000	Depreciation@10%	150
Closing stock	10,000	Book Value	1350
Transportation	5,000		
Telephone	3,000	Billing m/c	10000
Electricity	6,000	Depreciation @10%	1000
Trade license	5,000	Book Value	9000
Depreciation	1,150		
Closing cash in hand	?	Total deprn.	1150
Accounts payable	12,000		
Accounts receivable	15,000		

Let us estimate the operating expenses for the year 2020-21 (i.e. the year starting on 01.04.2020 and ending on 31.03.2021)

Salary	60,000	Furnit	1500
Rent	12,000	Depreciation@10%	150
Transportation	5,000		
Telephone expenses	3,000	Billing m/c	10000
Electricity	6,000	Depreciation @10%	1000
Trade license	5,000	Book Value	9000
Depreciation	1,150		
Operating expenses	92,150	Total deprn.	1150

Gross profit	
Opening inventory	5,000
Purchase	2,50,000
Closing inventory	10,000
Materials consumed	2,45,000
Gross profit	2,55,000
Gross profit margin %	51
Operating expenses	92,150
Operating profit	1,62,850
Operating profit margin	32.57%
Interest	40
Profit before tax	1,62,810
Income tax @20%	32,562
Net profit	1,30,248
Suppose you pay yourselves some dividend	50,000
Retained profit / earnings	80,248

Note that the profit of proprietorship firm is clubbed with personal income of the proprietor. All income tax benefits of personal income is available.
We have considered 30% only for demonstration. The Current rate is about 22%

Continued from the previous slide

Profit before tax	1,62,810
Income tax	32,562
Net profit	1,30,248
Net profit margin	**26.05%**
Suppose you pay yourselves some dividend	**50,000**
Retained profit / earnings	**80,248**
This amount belongs to the owners.	
Therefore, it is added to owners' equity in the form of	
Retained Profit or Reserves & Surplus	

Balance sheet as on 31.03.2019

Assets	₹
Current assets/ Short-term assets	
Cash	61,898
Accounts receivable	15,000
Inventory	10,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,350
Machinery (billing machine)	9,000
Total of Assets:	97,248

Assets portion of the balance sheet

Liabilities	₹
Current liabilities/ Short-term liabilities	
Accounts payable	12,000
Short-term Bank loan	0
Long-term liabilities	
Long-term Bank loan	0
Other loan — Loan from your friend, Rohit	2,000
Owners' equity:	
Equity capital	3,000
Retained profit/earnings	80,248
Total of Liabilities and owners' equity	97,248

Liabilities portion of the balance sheet

Balance sheet as on 31.03.2019	
Assets	₹
Current assets/ Short-term assets	
Cash	61,898
Accounts receivable	15,000
Inventory	10,000
Fixed assets/ Long-term assets	
Furniture/Fixture	1,350
Machinery	9,000
Total of Assets:	97,248
Liabilities	
Current liabilities/ Short-term liabilities	
Accounts payable	12,000
Short-term Bank loan	0
Long-term liabilities	
Long-term Bank loan	0
Other loan	2,000
Owners' equity:	
Equity capital	3,000
Retained profit/earnings	80,248
Total of Liabilities and owners' equity	97,248

Complete balance sheet
As on 31.03.2018

The total assets and the total liabilities must be the same

Reliance Industries Ltd
Balance sheet as at 31.03.2024 (Assets)

(₹ in crore)

	Notes	As at 31st March, 2024	As at 31st March, 2023
Assets			
Non-Current Assets			
Property, Plant and Equipment	1	6,06,084	5,70,503
Spectrum	1	69,852	75,351
Other Intangible Assets	1	89,060	63,681
Goodwill		14,989	15,270
Capital Work-in-Progress	1	1,52,382	1,17,259
Spectrum Under Development	1	1,29,602	1,22,357
Other Intangible Assets Under Development	1	56,871	54,136
Financial Assets			
Investments	2	1,19,502	1,17,087
Loans	3	899	1,525
Other Financial Assets	4	2,622	2,523
Deferred Tax Assets (Net)	5	938	1,549
Other Non-Current Assets	6	43,085	40,894
Total Non-Current Assets		**12,85,886**	**11,82,135**
Current Assets			
Inventories	7	1,52,770	1,40,008
Financial Assets			
Investments	8	1,06,170	1,18,473
Trade Receivables	9	31,628	28,448
Cash and Cash Equivalents	10	97,225	68,664
Loans		2,517	176
Other Financial Assets	11	23,965	19,696
Other Current Assets	12	55,825	49,831
Total Current Assets		**4,70,100**	**4,25,296**
Total Assets		**17,55,986**	**16,07,431**

Reliance Industries Ltd

Balance sheet as at 31.03.2024

(Liabilities)

	Notes	As at 31st March, 2024	31st Ma
Assets			
Non-Current Assets			
Property, Plant and Equipment	1	6,06,084	5
Spectrum	1	69,852	
Other Intangible Assets	1	89,060	
Goodwill		14,989	
Capital Work-in-Progress	1	1,52,382	1
Spectrum Under Development	1	1,29,602	1
Other Intangible Assets Under Development	1	56,871	
Financial Assets			
Investments	2	1,19,502	1
Loans	3	899	
Other Financial Assets	4	2,622	
Deferred Tax Assets (Net)	5	938	
Other Non-Current Assets	6	43,085	
Total Non-Current Assets		**12,85,886**	**11**
Current Assets			
Inventories	7	1,52,770	1
Financial Assets			
Investments	8	1,06,170	1
Trade Receivables	9	31,628	
Cash and Cash Equivalents	10	97,225	
Loans		2,517	
Other Financial Assets	11	23,965	
Other Current Assets	12	55,825	
Total Current Assets		**4,70,100**	**4**
Total Assets		**17,55,986**	**16**

Reliance Industries Ltd.

Cash flow statement for the year 2022-23

(₹ in crore)

	Notes	2022-23	2021-22
Income			
Value of Sales		8,56,770	6,95,052
Income from Services		1,18,094	93,691
Value of Sales & Services (Revenue)		**9,74,864**	**7,88,743**
Less: GST Recovered		83,553	71,108
Revenue from Operations	25	**8,91,311**	**7,17,635**
Other Income	26	11,734	14,943
Total Income		**9,03,045**	**7,32,578**
Expenses			
Cost of Materials Consumed		4,50,241	3,60,784
Purchase of Stock-in-Trade		1,68,505	1,33,665
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	27	(30,263)	(21,457)
Excise Duty		13,476	21,672
Employee Benefits Expense	28	24,872	18,758
Finance Costs	29	19,571	14,584
Depreciation / Amortisation and Depletion Expense	1	40,303	29,782
Other Expenses	30	1,22,318	95,767
Total Expenses		**8,09,023**	**6,53,555**
Profit Before Share of Profit / (Loss) of Associates and Joint Ventures, Exceptional Item and Tax		**94,022**	**79,023**
Share of Profit / (Loss) of Associates and Joint Ventures		24	295
Profit Before Exceptional Item and Tax		**94,046**	**79,318**
Exceptional Item (Net of Tax)	31	-	2,836
Profit Before Tax *		**94,046**	**82,154**
Tax Expenses *			
Current Tax	13	8,398	2,837
Deferred Tax	13	11,978	13,133
Profit from Continuing Operations		**73,670**	**66,184**
Profit from Discontinued Operations (Net of Tax)		**418**	**1,661**
Profit for the Year		**74,088**	**67,845**
Other Comprehensive Income			
Continuing Operations:			
i. Items that will not be reclassified to Profit or Loss	26.1	(39)	1,468
ii. Income Tax relating to items that will not be reclassified to Profit or Loss		(13)	(232)
iii. Items that will be reclassified to Profit or Loss	26.2	(9,503)	(2,557)
iv. Income Tax relating to items that will be reclassified to Profit or Loss		1,829	520
Total Other Comprehensive Income / (Loss) from Continuing Operations (Net of Tax)		**(7,726)**	**(801)**
Discontinued Operations:			
i. Items that will not be reclassified to Profit or Loss (Net of Tax)		(11,101)	23,082
ii. Items that will be reclassified to Profit or Loss (Net of Tax)		15	(21)
Total Other Comprehensive Income / (Loss) from Discontinued Operations (Net of Tax)		**(11,086)**	**23,061**

(₹ in cror

	Notes	2022-23	2021-2
Net Profit Attributable to:			
a) Owners of the Company		66,702	60,70
b) Non-Controlling Interest		7,386	7,14
Other Comprehensive Inc			
a) Owners of the Comp		(18,783)	22,18
b) Non-Controlling Inter		(29)	7
Total Comprehensive Inco			
a) Owners of the Comp		47,919	82,89
b) Non-Controlling Inter		7,357	7,21
Earnings Per Equity Share			
Continuing Operations:			
Basic (in ₹) - After Exceptio		97.97	89.4
Basic (in ₹) - Before Excepti		97.97	85.1
Diluted (in ₹) - After Except		97.97	88.3
Diluted (in ₹) - Before Exce		97.97	84.1
Discontinued Operations:			
Basic (in ₹) - After Exceptio		0.62	2.5
Basic (in ₹) - Before Excepti		0.62	2.5
Diluted (in ₹) - After Except		0.62	2.4
Diluted (in ₹) - Before Exce		0.62	2.4
Continuing and Discontin			
Basic (in ₹) - After Exceptional Items	33	98.59	92.0
Basic (in ₹) - Before Exceptional Items	33	98.59	87.7
Diluted (in ₹) - After Exceptional Items	33	98.59	90.8
Diluted (in ₹) - Before Exceptional Items	33	98.59	86.6
Significant Accounting Policies	A-D		
See accompanying Notes to the Financial Statements	1 to 47		

* Profit before tax is after Exceptional Item and tax thereon. Tax expenses are excluding the Current Tax and Deferred Tax on Exceptional Item.

Cash Flow Statement

- Cash flow statement is a summary of a company's cash inflows and outflows during a certain period of time.
- All cash flow items are grouped into three categories based on their origins: i. Operating activities, ii. Investment activities, and iii. Financing activities.
- Bankers and analysts are interested in all categories in order to understand if all three heads are in good shape.
- Founders are particularly interested in meeting cash requirements for all the three activities and the overall ending cash balance.

Reliance Industries Ltd

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31st March, 2023

(₹ in crore)

	2022-23	2021-22
A. Cash Flow from Operating Activities		
Net Profit Before Tax As Per Statement Of Profit And Loss (After exceptional item and tax thereon)	**94,801**	**84,142**
Continuing Operations	94,046	82,154
Discontinued Operations	755	1,988
Adjusted for:		
Share of (Profit) / Loss of Associates and Joint Ventures from Continuing Operations	(24)	(295)
Share of (Profit) / Loss of Associates and Joint Ventures from Discontinued Operations	67	15
Premium on buy back of Debentures	33	380
(Profit) / Loss on Sale / Discard of Property, Plant and Equipment and Other Intangible Assets (Net)	(60)	40
Depreciation / Amortisation and Depletion Expense of Continuing Operations	40,303	29,782
Depreciation / Amortisation and Depletion Expense of Discontinued Operations	16	15
Effect of Exchange Rate Change	(3,680)	1,821
Net Gain on Financial Assets #	1,214	(1,352)
Exceptional Item (Net of Tax)	-	(2,836)
Dividend Income #	(38)	(41)
Interest Income #	(11,240)	(12,529)
Finance Costs #	19,571	14,584
Subtotal	**46,162**	**29,584**
Operating Profit before Working Capital Changes	1,40,963	1,13,726
Adjusted for:		
Trade and Other Receivables	13,194	(14,180)
Inventories	(32,228)	(24,983)
Trade and Other Payables	(600)	39,888
Subtotal	**(19,634)**	**725**
Cash Generated from Operations	1,21,329	1,14,451
Taxes Paid (Net)	(6,297)	(3,797)
Net Cash Flow from Operating Activities *	**1,15,032**	**1,10,654**
B. Cash Flow from Investing Activities		
Expenditure for Property, Plant and Equipment, Spectrum and Other Intangible Assets	(1,40,988)	(1,00,145)
Proceeds from disposal of Property, Plant and Equipment and Other Intangible Assets	9,186	3,137
Purchase of Other Investments	(4,71,822)	(6,67,878)
Proceeds from Sale of Financial Assets	5,01,266	6,68,137
Payment of Deferred Payment Liabilities	-	(19,306)
Interest Income #	11,103	5,933
Dividend Income from Associates	17	18
Dividend Income from Others	3	1
Net Cash used in Investing Activities	**(91,235)**	**(1,10,103)**

(₹ in crore)

	2022-23	2021-22
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Share Capital	-\$	5
Proceeds from Issue of Share Capital to Non-Controlling Interest (Net of Dividend Paid)	479	450
Net Proceeds from Rights Issue	40	39,762
Payment of Lease Liabilities	(1,406)	(2,132)
Proceeds from Borrowings - Non-current (including Current Maturities)	35,936	59,343
Repayment of Borrowings - Non-current (including Current Maturities)	(29,059)	(40,647)
Borrowings - Current (Net)	31,198	(8,846)
Dividend Paid	(5,083)	(4,297)
Interest Paid #	(21,650)	(26,349)
Net Cash Flow from Financing Activities	**10,455**	**17,289**
Net Increase in Cash and Cash Equivalents	**34,252**	**17,840**
Opening Balance of Cash and Cash Equivalents	**36,178**	**17,397**
Add: Upon addition of Subsidiaries	4,278	941
Less: On Demerger (Refer Note 44)	6,044	-
Closing Balance of Cash and Cash Equivalents (Refer Note 10)	**68,664**	**36,178**

Other than Financial Services Segment.
\$ ₹10,00,000
* Includes amount spent in cash towards Corporate Social Responsibility of ₹ 1,271 crore (Previous Year ₹ 1,186 crore).

Change in Liability Arising from Financing Activities

(₹ in crore)

Particulars	1st April, 2022	Cash flow	Foreign exchange movement / Others	31st March, 2023
Borrowings - Non-current (including Current Maturities) (Refer Note 16)	2,14,719	6,877	10,112	2,31,708
Borrowings - Current (Refer Note 20)	51,586	31,198	(526)	82,258
Total	**2,66,305**	**38,075**	**9,586**	**3,13,966**

(₹ in crore)

Particulars	1st April, 2021	Cash flow	Foreign exchange movement/ Others	31st March, 2022
Borrowings - Non-current (including Current Maturities) (Refer Note 16)	1,91,730	18,696	4,293	2,14,719
Borrowings - Current (Refer Note 20)	60,081	(8,846)	351	51,586
Total	**2,51,811**	**9,850**	**4,644**	**2,66,305**

As per our Report of even date

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
(Registration No. 117366W /W-100018)

For **Chaturvedi & Shah LLP**
Chartered Accountants
(Registration No. 101720W/W-100355)

Srikanth Venkatachari
Chief Financial Officer

For and on behalf of the Board

M.D. Ambani DIN: 00001695 — Chairman and Managing Director

N.R. Meswani DIN: 00001620
H.R. Meswani DIN: 00001623
P.M.S. Prasad DIN: 00012144
— Executive Directors

Abhijit A. Damle
Partner
Membership No. 102912

Sandesh Ladha
Partner
Membership No. 047841

Savithri Parekh
Company Secretary

Nita M. Ambani DIN: 03115198
Adil Zainulbhai DIN: 06646490
Raminder Singh Gujral
Dr. Shumeet Banerji

For additional reading please visit the site of Ministry of Corporate Affair at http://www.mca.gov.in/Ministry/notification/pdf/AS_3.pdf

- Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
- For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Indirect Method: Cash Flow from Operational Activities

Total cash flow from operating activities =

+ Net profit (known as Net Income in USA)

+ Depreciation (This was deducted as expense. But no cash went out)

+ Losses from sale of fixed assets, if any.

— Gains from sale of fixed assets, if any.

(Note that sale values of fixed assets will be included in cash flow from investment activity)

— Increase in current assets.

+ Decrease in current assets.

+ Increase in current liabilities

— Decrease in current liabilities

Cash Flow from Investment Activities

+ Capital expenditure
+ Investment

Cash Flow from Financing Activities

+ Net borrowing.

— Net investment in equity or debt of other companies.

— Dividend paid

+ Fresh equity induction.

Cash Flow from Operating Activities	
A. Net profit	1,13,995
B. Plus Depreciation	1,150
C. Minus increase in current assets	20,000
D. Plus increase in current liabilities	12,000
E. Cash Flow from Operating Activities	**1,07,145**
F. Cash flow from investment activities	
G. Purchase of new fixed assets	10,000
H. Cash flow from Financing activities	
I. Decrease in loan	2,000
J. Divident payment	50,000
K. Net Cash flow	**45,145**
L. Add previous cash balance	500
M. Net cash balance as at the end of the y	**45,645**

= A + B – C + D

You have repaid ₹2,000 to Jack out of his loan of ₹ 4,000 during the year

= E – F – H

= K + L

Estimate Net Profit

Adjust for non-cash gains (add) and losses (subtract)

Estimate net cash inflow and outflow out of changes in current assets and liabilities

Add/subtract the above three to get cash flow from operating activities

Cash flow from Investment activities:

Changes in fixed assets/ investment

Cash flow from financing activities: Changes in long-term liabilities and equity

Add up cash inflows/subtract outflows from three activities

Add the closing cash balance of the previous year (with signs)

Cash balance as at the end of the year

Preparation of Cash Flow Statement

References:

- https://www.caclubindia.comText 1
- http://www.mca.gov.in/MinistryV2/accountingstandards1.html
- Horngren, C. T., Sundem, G. L., Elliott, J. A., & Philbrick, D. R. (2002). *Introduction to financial accounting* (Vol. 8). Prentice Hall.

- **Determination Is The Biggest Predictor of Long-term Success**

Thank you