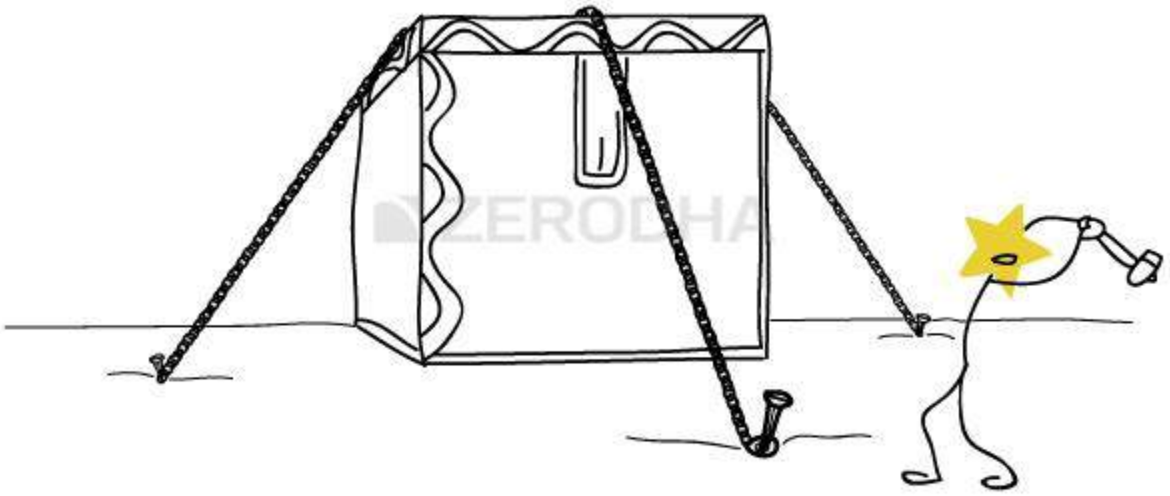
Understanding the Balance Sheet Statement (Part 2)

7.1 – The Assets side of Balance Sheet

In the previous chapter we looked at the liability side of the balance sheet in detail. We will now proceed to understand the 2nd half of the balance sheet i.e the Asset side of the balance sheet. The Asset side shows us all the assets the company owns (in different forms) right from its inception. Assets in simple terms are the resources held by a company, which help in generating the revenues. Here is the snapshot of the Assets side of the balance sheet:

ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52
Total			21,394.41		17,704.70

As you can see the Asset side has two main sections i.e Non-current assets and Current assets. Both these sections have several line items (with associated notes) included within. We will look into each one of these line items.



7.2 – Non-current assets (Fixed Assets)

Similar to what we learnt in the previous chapter, non-current assets talks about the assets that the company owns, the economic benefit of which is enjoyed over a long period (beyond 365 days). Remember an asset owned by a company is expected to give the company an economic benefit over its useful life.

If you notice within the non-current assets there is a subsection called "Fixed Assets" with many line items under it. Fixed assets are assets (both tangible and intangible) that the company owns which cannot be converted to cash easily or which cannot be liquidated easily. Typical examples of fixed assets are land, plant and machinery, vehicles, building etc. Intangible assets are also considered fixed assets because they benefit companies over a long period of time. If you see, all the line items within fixed assets have a common note, numbered 10, which we will explore in great detail shortly.

Here is the snapshot of fixed assets of Amara Raja Batteries Limited:

Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	

The first line item 'Tangible Assets' is valued at Rs.619.8Crs. Tangible assets consists of assets which has a physical form. In other words these assets can be seen or touched. This usually includes plant and machinery, vehicles, buildings, fixtures etc.

Likewise the next line item reports the value of Intangible assets valued at Rs.3.2 Crs. Intangible assets are assets which have an economic value, but do not have a physical nature. This usually includes patents, copyrights, trademarks, designs etc.

Remember when we discussed the P&L statement we discussed depreciation. Depreciation is a way of spreading the cost of acquiring the asset over its useful life. The value of the assets deplete over time, as the assets lose their productive capacity due to obsolescence and physical wear and tear. This value is called the Depreciation expense, which is shown in the Profit and Loss account and the Balance Sheet.

All the assets should be depreciated over its useful life. Keeping this in perspective, when the company acquires an asset it is called the 'Gross Block'. Depreciation should be deducted from the Gross block, after which we can arrive at the 'Net Block'.

Net Block = Gross Block –Accumulated Depreciation

Note, the term 'Accumulated' is used to indicate all the depreciation value since the incorporation of the company.

When we read tangible assets at Rs.619.8 Crs and Intangible assets at Rs.3.2 Crs, do remember the company is reporting its Net block, which is Net of Accumulated depreciation. Have a look at the Note 10, which is associated with fixed assets.

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
Particulars	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

At the top of the note you can see the Gross Block, Depreciation/amortization, and Net block being highlighted. I have also highlighted two net block numbers which tallies with what was mentioned in the balance sheet.

Let us look at a few more interesting aspects on this note. Notice under Tangible assets you can see the list of all the assets the company owns.

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

For example, the company has listed 'Buildings' as one of its tangible asset. I have highlighted this part:-

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
Previous year	6,212.49	745.75	155.61	6,802.63	2,666.77	586.24	114.56	3,138.45	-	75.52	-	75.52	3,588.66	3,545.72
C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

As of 31st March 2013 (FY13) ARBL reported the value of the building at Rs.93.4 Crs. During the FY14 the company added Rs.85.8Crs worth of building, this amount is classified as 'additions during the year'. Further they also wound up 0.668 Crs worth of building; this amount is classified as 'deductions during the year'. Hence the current year value of the building would be:

Previous year's value of building + addition during this year – deduction during the year

93.4 + 85.8 – 0.668

= 178.5Crs

You can notice this number being highlighted in blue in the above image. Do remember this is the gross block of the building. From the gross block one needs to deduct the accumulated depreciation to arrive at the 'Net Block'. In the snapshot below, I have highlighted the depreciation section belonging to the 'Building'.

NOTE 10: FIXED ASSETS & DEPRECIATION ₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
R&D plant & machinery	118.84	36.85	9.75	145.94	81.90	12.84	8.95	85.79	-	-	-	-	60.15	36.94
Electrical installations	468.15	58.55	4.52	522.18	153.50	31.08	4.24	180.34	-	-	-	-	341.84	314.65
Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
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C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

As of 31st March 2013 (FY13) ARBL has depreciated Rs.17.2 Crs, to which they need to add Rs.2.8 Crs belonging to the year FY14, adjust 0.376 Crs as the deduction for the year. Thus, the Total Depreciation for the year is:-

Previous year's depreciation value + Current year's depreciation – Deduction for the year

= 17.2 + 2.8 – 0.376

Total Depreciation= Rs.19.736 Crs. This is highlighted in red in the image above.

So, we have building gross block at Rs.178.6 Crs and depreciation at Rs.19.73 Crs which gives us a net block of Rs.158.8 Crs (178.6– 19.73). The same has been highlighted in the image below:

NOTE 10: FIXED ASSETS & DEPRECIATION

₹ million

Particulars	GROSS BLOCK				DEPRECIATION / AMORTISATION				IMPAIRMENT				NET BLOCK	
	As at March 31, 2013	Additions during he year	Deductions during the year	As at March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	Upto March 31, 2013	For the year	On Deductions	Upto March 31, 2014	As at March 31, 2014	As at March 31, 2013
A. Tangible assets														
Land and land development														
- Freehold land	170.17	-	-	170.17	-	-	-	-	75.52	-	-	75.52	94.65	94.65
- Leasehold land*	133.65	267.86	-	401.51	0.84	2.22		3.06	-	-	-	-	398.45	132.81
Buildings	934.48	858.44	6.68	1,786.24	172.70	28.42	3.76	197.36	-	-	-	-	1,588.88	761.78
R&D buildings	9.90	9.03	-	18.93	4.59	0.48	-	5.07	-	-	-	-	13.86	5.31
Plant & machinery	4,549.43	1,950.56	121.13	6,378.86	2,527.37	522.95	105.11	2,945.21	-	-	-	-	3,433.65	2,022.06
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Furniture	79.25	21.56	0.002	100.81	42.45	4.87	0.002	47.32	-	-	-	-	53.49	36.80
Vehicles	105.50	37.65	12.54	130.61	33.81	9.73	10.07	33.47	-	-	-	-	97.14	71.69
Office equipment	181.06	63.16	6.71	237.51	102.78	24.09	6.19	120.68	-	-	-	-	116.83	78.28
Total	6,750.43	3,303.66	161.33	9,892.76	3,119.94	636.68	138.32	3,618.30	75.52	-	-	75.52	6,198.94	3,554.97
Previous year	6,181.26	724.78	155.61	6,750.43	2,656.46	578.04	114.56	3,119.94	-	75.52	-	75.52	3,554.97	3,524.80
B. Intangible assets														
Brands/trademarks	0.12	-	-	0.12	0.12	-	-	0.12	-	-	-	-	-	-
Computer software	52.08	10.30	-	62.38	18.39	11.04	-	29.43	-	-	-	-	32.96	33.69
Total	52.20	10.30	-	62.50	18.51	11.04	-	29.55	-	-	-	-	32.96	33.69
Previous year	31.23	20.97	-	52.20	10.31	8.20	-	18.51	-	-	-	-	33.69	20.92
Grand Total (A+B)	6,802.63	3,313.96	161.33	9,955.26	3,138.45	647.72	138.32	3,647.85	75.52	-	-	75.52	6,231.90	3,588.66
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C. Capital work-in-progress													1,443.60	1,024.97
D. Intangible assets under development													3.14	4.84

*Leasehold land represents one time lease rental paid for 99 years. Amortisation of leasehold land rent of ₹2.85 million is capitalised/included in capital work-in-progress as part of pre-operative expenses.

The same exercise is carried out for all the other tangible and intangible assets to arrive at the Total Net block number.

The next two line items under the fixed assets are Capital work in progress (CWIP) and Intangible assets under development.

CWIP includes building under construction, machinery under assembly etc at the time of preparing the balance sheet. Hence it is aptly called the "Capital Work in Progress". This amount is usually mentioned in the Net block section. CWIP is the work that is not yet complete but where a capital expenditure has already been incurred. As we can see, ARBL has Rs.144.3 Crs under CWIP. Once the construction process is done and the asset is put to use, the asset is moved to tangible assets (under fixed assets) from CWIP.

The last line item is 'Intangible assets under development'. This is similar to CWIP but for intangible assets. The work in process could be patent filing, copyright filing, brand development etc. This is at a miniscule cost of 0.3 Crs for ARBL. All these costs are added to arrive at the total fixed cost of the company.

7.3 – Non-current assets (Other line items)

Besides the fixed assets under the non-current assets, there are other line items as well. Here is a snapshot for the same:

Non-current investments	11	160.76	160.76
Long-term loans and advances	12	567.69	353.52
Other non-current assets	13	1.22	3.43

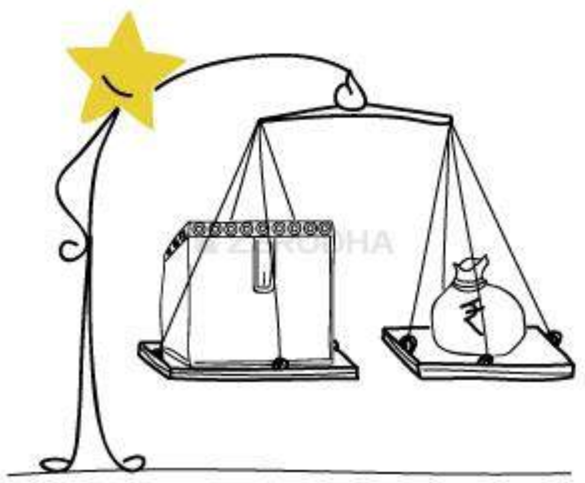
Non-current investments are investments made by ARBL with a long term perspective. This stands at Rs.16.07 Crs. The investment could be anything – buying listed equity shares, minority stake in other companies, debentures, mutual funds etc. Here is the partial (as I could not fit the entire image) snapshot of Note 11. This should give you a perspective.

NOTE 11: NON-CURRENT INVESTMENTS ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
A. In Equity Instruments				
a. Quoted - Non trade at cost				
i) 125 Fully paid up equity shares of ₹1 each				
in Standard Batteries Limited	0.01		0.01	
Less: Provision for diminution in value	0.01		0.01	
	-		-	
ii) 25 Fully paid up equity shares of ₹2 each				
in Nicco Corporation Limited	0.001		0.001	
iii) 10,000 Fully paid up equity shares of ₹1 each				
in Exide Industries Limited	0.04		0.04	
iv) 5,500 Fully paid up equity shares of ₹1 each				
in HBL Power Systems Limited	0.01		0.01	
v) 160,000 Fully paid up equity shares of ₹2 each				
in IVRCL Limited	0.21		0.21	
vi) 23,749 Fully paid up equity shares of ₹10 each				
in IDBI Bank Limited	1.01		1.01	
vii) 227,900 Fully paid up equity shares of ₹10 each				
in Andhra Bank	2.28	3.55	2.28	3.55
b. Unquoted - Non trade at Cost				
i) 1,128 Fully paid up equity shares of ₹10 each				
in Indian Lead Limited	0.03		0.03	
Less: Provision for diminution in value	0.03	-	0.03	-
c. Unquoted - Trade at Cost				
i) 1,206,000 Fully paid up equity shares of ₹10 each				
in Andhra Pradesh Gas Power Corporation Limited		157.14		157.14
B. In Government Securities - Non trade at Cost				
a) 6 years National Savings Certificates				
(Lodged as security with Government departments.				

The next line item is long term loans and advances which stand at Rs.56.7Crs. These are loans and advances given out by the company to other group companies, employees, suppliers, vendors etc.

The last line item under the Non-current assets is 'Other Non-current assets' which is at Rs. 0.122 Crs. This includes other miscellaneous long term assets.



7.4 – Current assets

Current assets are assets that can be easily converted to cash and the company foresees a situation of consuming these assets within 365 days. Current assets are the assets that a company uses to fund its day to day operations and ongoing expenses.

The most common current assets are cash and cash equivalents, inventories, receivables, short term loans and advances and sundry debtors.

Here is the snapshot of the current assets of ARBL:

Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	

The first line item on the Current assets is Inventory which stands at Rs.335.0 Crs. Inventory includes all the finished goods manufactured by the company, raw materials in stock, goods that are manufactured incompletely etc. Inventories are goods at various stages of production and hence have not been sold. When any product is manufactured in a company it goes through various processes from raw material, to work in progress to a finished good. Snapshot of Note 14 associated with inventory of the company is as shown below:

NOTE 14: INVENTORIES ₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
(Valued at lower of cost or net realisable value)				
Raw materials	826.36		666.18	
Add: Raw materials in transit	120.73		264.64	
Total Raw materials		947.09		930.82
Work-in-process		1,052.11		828.95
Finished goods		941.75		536.44
Stock-in-trade		74.56		368.98
Stores and spares		323.27		255.22
Loose tools		6.07		4.39
Secondary packing materials and others		5.23		3.78
Total		**3,350.08**		**2,928.58**

As you can see, a bulk of the inventory value comes from 'Raw material' and 'Work-in- progress'.

The next line item is 'Trade Receivables' also referred to as 'Accounts Receivables'. This represents the amount of money that the company is expected to receive from its distributors, customers and other related parties. The trade receivable for ARBL stands at Rs.452.7 Crs.

The next line item is the Cash and Cash equivalents, which are considered the most liquid assets found in the Balance sheet of any company. Cash comprises of cash on hand and cash on demand. Cash equivalents are short term, highly liquid investments which has a maturity date of less than three months from its acquisition date. This stands at Rs.294.5 Crs. Note 16 associated with Cash and bank balances is as shown below. As you can see the company has cash parked in various types of accounts.

NOTE 16: CASH AND BANK BALANCES

₹ million

Particulars	As at March 31, 2014		As at March 31, 2013	
a) Cash and cash equivalents				
i) Balances with banks				
in current accounts	156.95		238.37	
in deposit accounts	2,445.79		3,652.00	
in exchange earner's foreign currency account	56.65		30.23	
ii) Cheques/drafts on hand	268.15		172.61	
iii) Cash on hand	1.09	2,928.63	1.47	4,094.68
b) Other bank balances in earmarked accounts				
Unclaimed dividends		17.04		13.22
Total		2,945.67		4,107.90

The next line item is short-term loans and advances, that the company has tendered and which is expected to be repaid back to the company within 365 days. It includes various items such as advances to suppliers, loans to customers, loans to employees, advance tax payments (income tax, wealth tax) etc. This stands at Rs.211.9 Crs. Following this, is the last line item on the Assets side and infact on the Balance sheet itself. This is the 'Other current assets' which are not considered important, hence termed 'Other'. This stands at Rs.4.3 Crs.

To sum up, the Total Assets of the company would now be:-

Fixed Assets + Current Assets

= Rs.840.831 Crs + Rs.1298.61 Crs

= Rs. 2139.441 Crs, which is exactly equal to the liabilities of the company.

With this we have now run through the entire Assets side of the Balance sheet, and infact the whole of Balance sheet itself. Let us relook at the balance sheet in its entirety:

Balance Sheet as at March 31, 2014

₹ million

Particulars	Note No.	As at March 31, 2014		As at March 31, 2013	
EQUITY AND LIABILITIES					
Shareholders' funds					
Share capital	2	170.81		170.81	
Reserves and surplus	3	13,456.20		10,427.33	
			13,627.01		10,598.14
Non-current liabilities					
Long-term borrowings	4	759.47		773.13	
Deferred tax liabilities (net)	5	301.33		195.09	
Long-term provisions	6	369.57		376.41	
			1,430.37		1,344.63
Current liabilities					
Short-term borrowings	7	83.83		98.63	
Trade payables	8	1,277.79		1,362.84	
Other current liabilities	9	2,156.68		1,807.26	
Short-term provisions	6	2,818.73		2,493.20	
			6,337.03		5,761.93
Total			21,394.41		17,704.70
ASSETS					
Non-current assets					
Fixed assets	10				
Tangible assets		6,198.94		3,554.97	
Intangible assets		32.96		33.69	
Capital work-in-progress		1,443.60		1,024.97	
Intangible assets under development		3.14		4.84	
		7,678.64		4,618.47	
Non-current investments	11	160.76		160.76	
Long-term loans and advances	12	567.69		353.52	
Other non-current assets	13	1.22		3.43	
			8,408.31		5,136.18
Current assets					
Inventories	14	3,350.08		2,928.58	
Trade receivables	15	4,527.89		3,806.77	
Cash and bank balances	16	2,945.67		4,107.90	
Short-term loans and advances	12	2,119.30		1,656.78	
Other current assets	13	43.16		68.49	
			12,986.10		12,568.52
Total			21,394.41		17,704.70
Significant accounting policies	1				

Statement on significant accounting policies and notes are an integral part of the financial statements

As you can see in the above, the balance sheet equation holds true for ARBL's balance sheet,

Asset = Shareholders' Funds + Liabilities

Do remember, over the last few chapters we have only inspected the balance sheet and the P&L statements. However, we have not analyzed the data to infer if the numbers are good or bad. We will do the same when we look into the financial ratio analysis chapter.

In the next chapter, we will look into the last financial statement which is the cash flow statement. However, before we conclude this chapter we must look into the many ways the Balance sheet and the P&L statement are interconnected.

7.5 – Connecting the P&L and Balance Sheet

Let us now focus on the Balance Sheet and the P&L statement and the multiple ways they are connected (or affect) to each other.

Have a look at the following image:

Connecting the P&L and Balance Sheet

The P&L Statememt		The Balance Sheet statement
Sales Revenue	---->	Receivables and Cash Balance
Operating Expenses	---->	Inventory and Trade Payables
Depreciation & Amortization	---->	Accumulated Depreciation
Other Income	---->	Investments
Finance Cost	---->	Debt
PAT	---->	Shareholders Equity

In the image above, on the left hand side we have the line items on a typical standard P&L statement. Corresponding to that on the right hand side we have some of the standard Balance Sheet items. From the previous chapters, you already know what each of these line items mean. However, we will now understand how the line items in the P&L and the Balance Sheet are connected to each other.

To begin with, consider the **Revenue from Sales**. When a company makes a sale it incurs expenses. For example if the company undertakes an advertisement campaign to spread awareness about its products, then naturally the company has to **spend cash** on the campaign. The money spent tends to decrease the cash balance. Also, if the company makes a sale on credit, the **Receivables** (Accounts Receivables) go higher.

Operating expenses includes purchase of raw material, finished goods and other similar expenses. When a company incurs these expenses, to manufacture goods two things happen. One, if the purchase is on credit (which invariably is) then the **Trade payables** (accounts payable) go higher. Two, the **Inventory** level also gets affected. Whether the inventory value is high or low, depends on how much time the company needs to sell its products.

When companies purchase Tangible assets or invest in Brand building exercises (Intangible assets) the company spreads the purchase value of the asset over the economic useful life of the asset. This tends to increase the **depreciation** mentioned in the Balance sheet. Do remember the Balance sheet is prepared on a flow basis, hence the Depreciation in balance sheet is accumulated year on year. Please note, Depreciation in Balance sheet is referred to as the **Accumulated depreciation.**

Other income includes monies received in the form of interest income, sale of subsidiary companies, rental income etc. Hence, when companies undertake **investment** activities, the other incomes tend to get affected.

As and when the company undertakes **Debt** (it could be short term or long term), the company obviously spends money towards financing the debt. The money that goes towards financing the debt is called the **Finance Cost/Borrowing Cost**. Hence, when debt increases the finance cost also increases and vice versa.

Finally, as you may recall the **Profit after tax (PAT)** adds to the surplus of the company which is a part of the **Shareholders equity**.

Key takeaways from this chapter

1. The Assets side of the Balance sheet displays all the assets the company owns
2. Assets are expected to give an economic benefit during its useful life
3. Assets are classified as Non-current and Current asset
4. The useful life of Non-current assets is expected to last beyond 365 days or 12 months
5. Current assets are expected to payoff within 365 days or 12 months
6. Assets inclusive of depreciation are called the 'Gross Block'
7. Net Block = Gross Block – Accumulated Depreciation
8. The sum of all assets should equal the sum of all liabilities. Only then the Balance sheet is said to have balanced.
9. The Balance sheet and P&L statement are inseparable. They are connected to each other in many ways.