Two-Minute Read #8

Understanding financial statements

Understanding Balance Sheet

Some introductions on accounting standards

There are two international bodies for setting financial standard practices.

i. International Financial Reporting Standards (IFRS) – followed by majority of the nations except USA.
ii. Financial Accounting Standards Board (FASB) – followed by USA

The Indian accounting standards are mostly guided by the International Financial Reporting Standards (IFRS). India has its own Accounting Standards Board (ASB) whwhich constitutes the accounting standards for businesses operating in India. The ABS is mostly inspired by the recommendations made by the IFRS. ASB is constituted by the Institute of Chartered Accountants of India (ICAI) with representatives from the government department, academicians, other professional bodies viz. ICAI, representatives from ASSOCHAM, CII, FICCI, etc. National Financial Reporting Authority (NFRA) recommends these standards to the Ministry of Corporate Affairs (MCA). The MCA finally circulates the accounting standards to all stakeholders in India.

The American accounting system is generally known as US-GAAP or Generally Accepted Accounting Principles (GAAP). The US GAAP is the accounting standard adopted by the USA and is regulated by the Securities and Exchange Commission (SEC), which follows the Financial Accounting Standards Board (FASB) recommendations. Many companies in India publish their financial statements following both the Indian standards and the American GAAP to meet local requirements and address the audience in US and Foreign Institutional Investors bringing parity for their analysis.

Balance sheet

The balance sheet is a financial statement that shows the assets, liabilities, and shareholders' equity at any specific point in time. It provides a snapshot at any point in time the assets owned by a company and the liabilities it owes including those of the owners of the business. The balance sheet equation is as follows:

Assets = Liabilities + Owners' equity

The equation shows that all the assets of an enterprise are procured out of all the liabilities and owners' equity. In other words, balance sheet is the depiction of the sources from where the company receives all its money (SOURCES: liabilities and owners' equity) and wherever all the money has been deployed or which assets have been acquired using all the money (UTILISATION).

Let us understand the terms

Assets

A generic expression of assets is that these are the applications or deployments of money. Assets are in the form of both tangible and intangible. Tangible assets include land, plant & machinery, infrastructure, stock of raw materials, goods-in-process, finished goods, cash, moneys that are to be received against supply of goods to customers (known as accounts receivables), money invested in fixed deposit or any other forms of investment, and other items where money has been deployed for the time being (such as advanced payment made to some suppliers, provision made for future commitments, advance tax payments, and such.) Intangible assets are those which have been created using money, but its existence is not physically visible such as brand (created by advertisement & promotion spending money), technologies (created by investing in R&D or by purchasing from others), and some expenses temporarily capitalized for future expensing.

Tangible Assets				Intangible assets
Fixed Assets or Non-Current Assets		*Current Assets*		
Land	Machinery	Stock of raw materials	Cash in hand and in bank(s)	Brands, Trademarks
Building, Shed, staff quarters	Equipment	Stock of goods in process	Investments	Technologies
Road	Transportation vehicles	Stock of finished goods	Advance payments	Copyrights
Electrical installation	Furniture & Fixture	Accounts receivables	Provisions	Goodwill

The tangible assets are divided into two categories: i. **Fixed Assets** ('Non-Current Assets' or 'Long-Term Assets') and ii. **Current Assets** (or 'Short-Term Assets'), for convenience of understanding, monitoring, and analyzing various performance parameters. Fixed assets are expected to remain with the business for a long time (at least more than one year); these assets facilitate the business operation and are not usually for sale. The current assets are either directly sold or are converted into finished goods to be sold. These assets also include cash and other cash-equivalents that are to be converted into cash such as accounts receivables and advance payments.

If the company has given loans to any other entities, the outstanding amount of such loans is also part of the assets of the company. (See the balance sheet of Reliance Industries Ltd. as on 31.03.2021 below).

An exceptional type of asset is '**Accumulated Loss'**. Since an enterprise incur money to incur loss or loss is funded to remain a going concern, loss is deployment or use of fund. Thus, **accumulated loss** carried in the balance sheet is **an asset**.

Equity and Liabilities

Equity and Liabilities of an enterprise are all the **sources** of money including the money that has been invested by the owners of the business [**equity share capital** (*one becomes owner or part-owner of a business by virtue of her/his investment in its equity capital*) and **other equity** (also known as Reserves & Surplus)], **preference share capital**, **secured loans from banks & others, unsecured loans, accounts payables** (amount of money owed to those who supplied materials but are yet to be paid).

Balance Sheet

As at 31st March, 2021

Reliance Industries Ltd.

(₹ in crore)

	Notes	As at 31st March, 2021	As at 31st March, 2020
Assets			
Non-Current Assets			
Property, Plant and Equipment	1	2,92,092	2,97,854
Capital Work-in-Progress	1	20,765	15,638
Intangible Assets	1	14,741	8,624
Intangible Assets Under Development	1	12,070	12,327
Financial Assets			
Investments	2	2,52,620	4,21,793
Loans	3	65,698	44,348
Other Non-Current Assets	4	4,968	4,461
Total Non-Current Assets		**6,62,954**	**8,05,045**
Current Assets			
Inventories	5	37,437	38,802
Financial Assets			
Investments	6	94,665	70,030
Trade Receivables	7	4,159	7,483
Cash and Cash Equivalents	8	5,573	8,485
Loans	9	993	15,028
Other Financial Assets	10	59,560	16,115
Other Current Assets	12	8,332	10,711
Total Current Assets		**2,10,719**	**1,66,654**
Total Assets		**8,73,673**	**9,71,699**
Equity and Liabilities			
Equity			
Equity Share capital	13	6,445	6,339
Other Equity	14	4,68,038	3,84,876
Total Equity		**4,74,483**	**3,91,215**
Liabilities			
Non-Current Liabilities			
Financial Liabilities			
Borrowings	15	1,60,598	1,94,402
Other Financial Liabilities	16	4,014	2,930
Provisions	17	1,499	1,410
Deferred Tax Liabilities (Net)	18	30,788	50,556
Other Non-Current Liabilities	19	504	504
Total Non-Current Liabilities		**1,97,403**	**2,49,802**
Current Liabilities			
Financial Liabilities			
Borrowings	20	33,152	59,899
Trade Payables Due to:	21		
Micro and Small Enterprises		90	116
Other than Micro and Small Enterprises		86,909	70,932
Other Financial Liabilities	22	61,172	1,32,492
Other Current Liabilities	23	19,563	66,170
Provisions	24	901	1,073
Total Current Liabilities		**2,01,787**	**3,30,682**
Total Liabilities		**3,99,190**	**5,80,484**
Total Equity and Liabilities		**8,73,673**	**9,71,699**

Statement of Profit and Loss

For the year ended 31st March, 2021

(₹ in crore)

	Notes	2020-21	2019-20
Income			
Value of Sales		2,76,181	3,62,869
Income from Services		2,759	3,308
Value of Sales & Services (Revenue)		**2,78,940**	**3,66,177**
Less: GST Recovered		13,871	14,322
Revenue from Operations	25	**2,65,069**	**3,51,855**
Other Income	26	14,818	13,566
Total Income		**2,79,887**	**3,65,421**
Expenses			
Cost of Material Consumed		1,68,262	2,37,342
Purchase of Stock-in-Trade		7,301	7,292
Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	27	610	77
Excise Duty		19,402	14,902
Employee Benefits Expense	28	5,024	6,067
Finance Costs	29	16,211	12,105
Depreciation/Amortisation and Depletion Expense	1	9,199	9,728
Other Expenses	30	30,970	33,347
Total Expenses		**2,56,979**	**3,20,860**
Profit Before Exceptional Item and Tax		**22,908**	**44,561**
Exceptional Item (Net of Tax)	31	4,304	(4,245)
Profit Before Tax*		**27,212**	**40,316**
Tax Expenses*			
Current Tax	11	-	7,200
Deferred Tax	18	(4,732)	2,213
Profit for the Year		**31,944**	**30,903**
Other Comprehensive Income			
i. Items that will not be reclassified to Profit or Loss	26.1	350	(392)
ii. Income tax relating to items that will not be reclassified to Profit or Loss		(79)	(944)
iii. Items that will be reclassified to Profit or Loss	26.2	2,755	(6,921)
iv. Income tax relating to items that will be reclassified to Profit or Loss		(456)	1,183
Total Other Comprehensive Income/(Loss) for the Year (Net of Tax)		**2,570**	**(7,074)**
Total Comprehensive Income for the Year		**34,514**	**23,829**

THE STORY OF ZLINGO

The Team Zilingo

Founded in 2015 by Ankiti Bose and Dhruv Kapoor, Zilingo, B2B fashion tech startup, is an online platform where small businesses engaged in fashion business can sell online. Though the beginning was humble, Ziliongo started to offer multitudes of services to the merchants with unique value propositions. Ankiti Bose, at 23 years of age, wanted to replicate the e-commerce business doing brisk business in India in the South Eastern countries, particularly Thailand, Hong Kong, Korea, Vietnam, Indonesia where merchants did not have access to customers beyond their brick & mortar stores or mainly roadside shops. Currently, Zilingo connects 60,000 businesses and 6000 factories globally, with nearly 50 factories from India.

Unique selling proposition and customer acquisition strategies

Zilingo began its journey in Thailand by discovering an opportunity while on a tour (by Ankiti Bose). She noticed the absence of any e-commerce platform there whereas many such platforms such as Flipkart, Amazon, Jabong, Mintra, etc. were vibrant in India. Her working experience in McKinzie and Sequa Capital helped her big time. Zilingo did not charge any entry fees for registering on their portal. They charged only 10 to 20% commission on sales (gross merchandise value or GMV: sales happening on their portal is GMV, but the GMV amount is not their sales. The aggregate commission is their sales).

Instead of integrating their portal with third party technology Zilingo built their own proprietary technology that helped them in the long run.

Zilingo started being a B2C business model, transforming into a B2B model. However, they went several steps backward and connected manufacturers and even the raw-materials suppliers to factories, thus integrated the entire value chain.