NOTES
10 January 2022 12:33

IIM-MBA

Shares Trading / Investing

Trading
Speculation
Day to day Trading
Intra day Trading
square off at 3:15
BSE / NSE

Short Term
Holding < 12 months
If sold within 12 months
then short term
Capital Gain = 15%

Long Term
Holding > 12 months
before 2018 → Fully Exempt Section 10(38) of IT Act
after 2018 → ≤ ₹100,000 → E
> 100,000 → 10%

Tax On gain
(Selling price − Purchase price)

Company

Owner
Shareholders

Management
Directors / Top level Management

Revenue Department

MCA (Ministry of Corporate Affairs)
ROC (Registrar of Companies)
Companies
LLP

Brokers

Zerodha / ICICI / Edelweiss / Motilal
Share purchase → Demat is handled by CDSL / NSDL
Government bodies
T+2
Trading

Financial statements:—

1) P&L
2) BS
Cash Method
Accrual Method → transaction basis
3) CFS (Cash Flow Statement) → Turnover > 2 cr
4) Statement of changes in Equity (if applicable)
5) Notes annexed thereto

Standards

Accounting
Accounting Standards
True & Fair view of Financial Statements
AS
INDAS
IFRS
Turnover > 250 cr
Carveouts

Auditing
Standard on Auditing

- Financial statements are prepared based on Companies Act 2013

For Tax purpose → IT Act 1961

Audit

Statutory Audit / IT Act 1961
only CA
Report to Members
Compliance of Law
- Co Act 2013
- IT Act 1961
- INDAS

Internal Audit
Any professional
Report to Board of Directors
Finding out mistakes in Process / SOPs

P&L
For the Year Ending 31st M 2022

Expenses | Income

Net profit

BS
as at 31st M 22

Sources of Funds | Application of Funds

Capital
Equity
R&S

Liabilities

Assets

2020-21
1st Oct
Insurance → 50,000

2021-22
Sep 30th

March 31

P&L
20-21
1st Oct to 31st March
P&L

BS
1st Apr – 30th Sep 22
Asset

P&L

Expenses | Income

COC
15%

ROI = 14%

Ke

WACC
COC

Kd

BS

Capital

Liabilities

Capital

Shares

Owners

Reserves & Surplus! –
→ Net profit
Capital Reserves

Liabilities! –
NCL – >12 m

Asset

NCA | CA

Time period >12 m
Nature / Intention

NCA
- Tangible (can be touched & feel)
  Fixed Assets
  - ~~Land~~ Property, Plant & Eq.
  - Furniture & Fixtures
  - CWIP (Capital work in progress)
- Intangible
  - Patent
  - Copyright

progress)

Kd
1000
9%

Liabilities! –
NCL > 12m
• Long term Loan
• Debentures → From Public

CL < 12m
Trade payable/Creditors →

• Intangible
• Patent
• Copyright
• TM
• Goodwill

– Current Assets
• Inventory – RM, WIP, FG
• Debtors
• Cash/Bank
• Prepaid Expenses

Q5)

2020-21

P&L

Expenses	2 cr
dep^n 10 L	
Other Expenses 80 L	
Profit 1.1 cr	

Dividend — Retained Earnings

	Asset	Dep^n
2020-21 31st March	100,000	
2021-22	~~6~~7777	33333
2022-23	33333	33333
2023-24	0	33333

BS

Asset — 10L
P&M
Furniture
Building

15/01/22

P&L

Exp	Income 0
Provision for Bonus 100,000	Sales 50 L
~~NP~~ ↑ 50 L Net profit	Net Loss 100,000

Dr

BS

Shares ↑ ①	↑ Shares ↑
Loss (150,000) ②	↓ Creditors ↓
50 ↑	③ ↑↓
Debentures ↓	
ST Provision 100,000	
0 ~~100,000~~ 50 L	

↑ – LAND ↑	
BANK ↓	
④ ↑↓	Land + 50, BANK – 50 = 0
Debtors 50 L –	
– 50 L	

LTP 20,000
TOTAL 20,000

Dr
Purchase 40,000
Salary (10,000)
~~Consulta~~ Registration fee 75,000

P&L
Sales 80,000
– 10,000

Cr

Capital 100,000
Less: CA fee (75,000)
Less: Loss (10,000)
R&S
~~Cur~~ Current Liabilities 10,000
Trade payable (10,000)
Green Field 40,000

BS

Cr

Cash 100,000
Less: RM (10,000)
+ 60,000
(75,000)

Dr. ~~100,000~~ 50 L | 50 L

Capital R&S	(1545000) BS (155,000)	Furniture Machinery Office Equip	600,000 800,000 100,000 → NCA
LOAN	1000,000		
Trade payable	40,000		
Other Current Liab Salary Staff	80,000 10,000	Bank Cash	30,000 15,000
P&L	1545000		1545000 BS

Cash
To All Assets Cr

Sales ↑
R&S
NP ↑
NP ↑

Inv ↓
BANK ↑

Trading A/c 100 200

	Qty	R	Amt		Qty	R	Amt
Op Stock	100	20	2000	Sales	300	30	9000
Purchases	400	20	8000	Cl Stock	200	20	4000
Direct Expenses (Wages, Carr. inward, Factory Rent, Electricity)			1000				
Gross profit			2000				
→ Margin on product							
			13000				13000

P&L

Indirect Expenses → Carriage outward, office Rent	Indirect Incomes
Net profit	

Direct Exp ⇒ directly linked with production.
2) Till Factory
Indirect ⇒ other than direct.

Sales − COGS = GP
COGS = op Stock + Purchases + Dir. Exp − Cl Stock
(Cost of Goods sold)
9000 − 7000 = 2000

Goods
(1) Mfr (2) Trading
Colgate
8 to 15%

(B) Services
40% − 80%

8 to 15%

Types of Organisation

- Proprietorship
- Firms
  - 1932 Act
  - 2008 Act → LLP (Limited Liability Partnership)
- Company
  - Pvt
  - Public
    - Listed → BSE/NSE
    - Unlisted
- AOP/BOI → Joint Venture
- NGO's/NPO → Section 8 companies → 12AA of IT Act

Indirect Taxes

- GST → Domestic sale & purchase → 17 Indirect taxes subsumed
  - Excise → Factory, VAT → Value added tax, CST
  - GST → Credit available
- Custom duty → Import/Export

A Mfr	B Wholesaler	C Retailer	D Consumer
100	100	150	295
18	50	100	
118	150	250	
@18%	27	45	
	177	295	
	@18%		

295 → 250, 45

118, 177

Payment Tax = 27 (Output tax liability)

Input tax 18 (A), 9 Govt

45 → 27 (B), 18 → Govt

Govt

A, B, C

18 + 9 + 18 = 45

Import (10% Custom duty)

- Sell Domestic → GST
- Export → No Tax

18/01/22

Sales xxx
Less: Direct Exp (xxx) Trading A/c (Ok S + Purchase of SI T+

18/01/22

Sales xxx
Less: Direct Exp (xxx) [Trading] { (1) COGS + Purchase of SIT + Change in Inventory }
Gross Margin / Gross profit — 67.8% → Colgate
Less: Indirect Exp (Employee benefit, Finance cost, Depn & other Exp) — 32.2% → Cost

Net profit (PBT) xxx
Less: TAX xxx
PAT xxx
Divident Retained

EBIT, EBITDA, NOPAT

EBIT → Earning before Intt & Tax → SC ↑ 1320, R&S ↓ 1320 (General Res.)

BS

PBT + Intt on Loan

EBITDA → EBIT + Depn + Amortisation

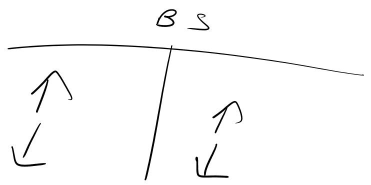
$EPS = \frac{\text{Earning}}{\text{Total no of shares}}$

$P/E = \frac{\text{Price}}{\text{Earning}} = \frac{MPS}{EPS} = \frac{\text{Market value}}{\text{Earning}} = \frac{1400}{38} = 36.84x$

36.84 times

₹36 लगाओगे ₹1 कमाओगे!

Generally low P/E ratio is prefered.
High P/E prefered in bull run where everyone is bullish on it.



19/01/2022

Value of a share = P/E × Book value

$= \frac{MPS}{EPS} \times$ ~~[illegible]~~

$= \frac{1400}{38} \times \frac{116586}{2720}$

$= 36.84 \times 42.86$

$= 1579$

Market value = 1400
Colgate share is undervalued.

Ratios

- Liquidity
  - WCR = CA/CL (2:1)
  - Liquid ratio / Acid test ratio / Quick ratio = (CA − Inv − Pre Exp) / Current Liability (1:1)
- Solvency
  - D/E
  - Proprietor
  - Total Asset to Debt
  - Intt Cov. ratio
- Turnover / Activity
  - Inventory Turnover
  - Debtor Turnover
  - Creditor Turnover
  - Working Cap. Turnover
- Profitability

Liquidity ratios: —

(1) $WCR = \frac{CA \ (\text{Inv} + \text{Debtors} + \text{Cash})}{CL \ (\text{Trade payable} + \text{Short term borrowing})}$ → Not efficiently utilised

= 0.8 : 1

4:1

Standard ratio = 2:1

(2) Liquid ratio = $\frac{CA - \text{Inventory} - \text{Pre Exp}}{CL}$

Standard ratio 1:1

Standard ratio = 2 : 1

② Liquid ratio = $\dfrac{CA - Inventory - \boxed{Prep\ Exp}}{CL}$

Standard ratio: 1 : 1

SOLVENCY

1. Debt / Eq ratio
2. Proprietor ratio
3. Total Asset to Debt ratio
4. Interest Coverage ratios

① D/E ratio = $\dfrac{Debt\ (Long\ term)}{Equity}$ = 3 : 1

Ke > Kd

COE > COD

New Lenders →

② Proprietor ratio = $\dfrac{Equity}{Total\ Assets}$

③ Total Asset to Debt ratio = $\dfrac{Total\ Assets}{Debt}$

④ Intt coverage ratio = $\dfrac{EBIT}{Intt}$ Minimum Standard = 6 to 7 times

Income
– All Exp (Except Intt)

20/01/22

P & L

Parts	1800	Services	33400
	2100		

Op St + P + D.E – Cl Stock

Turnover Ratios:–

1) Inventory Turnover ratios = $\dfrac{COGS}{Avg\ Inventory}$ Sales   Margin

Avg Invent = $\dfrac{Op\ Inv + Cl\ Inv}{2}$

"Avg Inv कितनी बार बिक जाती है"

2) Debtor Turnover Ratio = $\dfrac{Net\ RFO\ (Revenue\ from\ operations)\ \{Sales - Sales\ Return\}}{Avg\ Debtors}$ 4 – PBD

⇒ Avg collection period = $\dfrac{365}{Debtor\ T/O\ Ratio}$ = 90

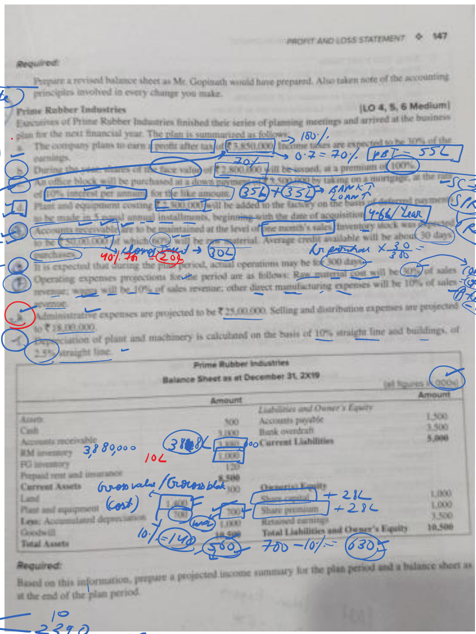
3) Creditor Turnover ratio = $\dfrac{Net\ Cr\ Purchase}{Avg\ creditors}$

Avg payment period = $\dfrac{365}{CTR}$

4) WCTR = $\dfrac{RFO}{Net\ Working\ Capital\ (CA - CL)}$ ⇒

Profitability

1. GP = GP / Sales
2. NP



PROFIT AND LOSS STATEMENT ❖ 147

Required:

Prepare a revised balance sheet as Mr. Gopinath would have prepared. Also taken note of the accounting principles involved in every change you make.

Prime Rubber Industries [LO 4, 5, 6 Medium]

Executives of Prime Rubber Industries finished their series of planning meetings and arrived at the business plan for the next financial year. The plan is summarized as follows:

a. The company plans to earn a profit after tax of ₹3,850,000. Income taxes are expected to be 30% of the earnings.
b. During the year, shares of the face value of ₹2,800,000 will be issued, at a premium of 100%.
c. An office block will be purchased at a down payment of ₹3,500,000 by taking on a mortgage, at the rate of 10% interest per annum for the like amount.
d. Plant and equipment costing ₹2,500,000 will be added to the factory on the basis of deferred payments to be made in 5 equal annual installments, beginning with the date of acquisition.
e. Accounts receivable are to be maintained at the level of one month's sales. Inventory stock was expected to be ₹50,00,000 of which 60% will be raw material. Average credit available will be about 30 days purchases.
f. It is expected that during the plan period, actual operations may be for 300 days.
g. Operating expenses projections for the period are as follows: Raw material cost will be 30% of sales revenue; wages will be 10% of sales revenue; other direct manufacturing expenses will be 10% of sales revenue.
h. Administrative expenses are projected to be ₹25,00,000. Selling and distribution expenses are projected to ₹18,00,000.
i. Depreciation of plant and machinery is calculated on the basis of 10% straight line and buildings, of 2.5% straight line.

Prime Rubber Industries
Balance Sheet as at December 31, 2X19
(all figures in 000s)

	Amount		Amount
Assets		Liabilities and Owner's Equity	
Cash	500	Accounts payable	1,500
Accounts receivable	3,000	Bank overdraft	3,500
RM inventory	3,880	**Current Liabilities**	**5,000**
FG inventory	1,000		
Prepaid rent and insurance	120		
Current Assets	**8,500**	Owner(s) Equity	
Land	300	Share capital	1,000
Plant and equipment	1,400	Share premium	1,000
Less: Accumulated depreciation	700 700	Retained earnings	3,500
Goodwill	1,000	**Total Liabilities and Owner's Equity**	**10,500**
Total Assets	**10,500**		

Required:

Based on this information, prepare a projected income summary for the plan period and a balance sheet as at the end of the plan period.

PBT = PAT / (1 − tax rate)

100 / 30 / 70

100,000 ← 70

100,000 = 70%

→ 100% 0.7 = 70% PBT = 55L

70%

SC → 28L
S/P → 28L
R&S

35L + 35L → BANK LOAN

4.66/Year

40% FG 60% → 20L
Closing Invent → 30L

Cr purchases × 30/300 =

COMS = (OS + P + DE − Cl stock)

10,000,000
100 →
1,000
1,000
100,000
1,000,000

3,880,000 10L 388L

Gross value / Gross block (Cost)

10% = 140 → 560 WDV

+28L +28L

700 − 10% = 630

2400 − 10 = 2390

BS

SC (7V) 10	BANK 2400
R&S / STR 2390	

35L + Int = 10L

45L / 9 = 5L/Year

2021

40L → Next 8 yrs → NCL

Current Liab. of Long Term Loan

10L 10yrs 10%

SLM | Repair | WDV {Written down value method}

Straight line Method

1L — 1L — 9L
1L — .9L — 8.1L
1L — 0.81L
1L
1L
1L

1L Overall Cost

CL Bal
Repair Cost

Depⁿ

Manufacturing Useful life / Rates
Co Act 2013

Single shift

8 hrs

Single P&M → 10%
Double shift → 30%

Dr — P&L — Cr

Expenses ↑↓ Dr Cr	Income ↑↓ Cr Dr

Dr — BS — Cr

Capital ↑↓ Cr Dr	Assets ↑↓ Dr Cr
Liabilities ↑↓ Cr Dr	

1/4/21 Pg 1 Dr Cr

	Dr	Cr
Suresh — Sale		5000

30/6/21 Pg 15 Dr Cr

	Dr	Cr
BANK	2000	

15/9/21 Pg 21 Dr Cr

	Dr	Cr
Sale		8000

Suresh

5000	2000
8000	Bal 11000
13000	13000

Dr — Suresh (Debtor) — Cr

Sale 5000	BANK 2000
Sale 8000	Bal 11000 → It has Dr nature

Dr — Suresh (Debtor) — Cr

Sale	5000	BANK	2000
Sale	8000	Bal	11000 → It has Dr nature
	13000		13000

Dr — Ramesh (Creditor) — Cr

To Bank	7000	By purchase	10000
To Bal	11000	By purch	8000
			18000

It has Cr balance

Dr — Income (Sales) — Cr

To P&L	13000		5000
			8000
	13000		13000

BS Ledgers → Bal b/d, c/d
P&L Ledgers → No Bal b/d, c/d
Trf to P&L

Dr
Cr

JE → Ledgers → Trial Balance → P&L
→ BS

Dr Cr

Book keepers
(B. Com)

Int ₹ 5000

Acc Intt Dr 5000
To Intt Inc 5000

Ledgers → TB

Dr — Acc Intt — Cr

To Intt	5000	By Bal c/d	5000
			5000

Dr — Intt Inc — Cr

To P&L	5000	Acc Intt	5000
	5000		5000

TB

	Dr	Cr
Acc Intt	5000	
Intt Inc		5000
	5000	5000

P&L

NP	5000		5000

BS

	5000	Acc	5000
	5000		5000

04/02/2022

Accounting process

JE → Ledger → TB → P&L
→ BS

Summary of Ledgers

	Dr	Cr
Suresh (customer)		

- Error of Principle → Putting in wrong A/c
- Error of Compensating → Totalling Error / Clerical Error
- Error of Omission

Document

JE → Ledger → TB → P&L
→ BS

Suresh Amt 10,000
To Sales 10,000
Income

Dr — Suresh — Cr

To Sales	10,000	By Bal c/d	10,000
	10,000		10,000

Dr — Sales — Cr

To P&L	10,000	By Suresh	10,000
	10,000		10,000

TB

	Dr	Cr
Suresh	10,000	
Sales		10,000
	10,000	10,000

P&L

N.P	10,000		10,000

BS

R&S	10,000	TR	10,000
	10,000		10,000

JE

Capital Res Dr 100,000
To SC 100,000

SC Dr 100,000
To Bank 100,000

Dr — Capital Res — Cr

To SC	100,000	By Bal c/d (IL)	
	100,000		100,000

SC

To Bank	100,000	By CR	100,000
	100,000		100,000

Bank

To Bal (IL)	(IL)	By SC	(IL)
	IL		IL

TB

	Dr	Cr
CR	10,000	—
SC	—	10,000
Bank		
	10,000	10,000

BS

SC	(100,000)	Cash	(100,000)

BS

Share Cap ↑ 100,000
R&S
Cap Res (100,000)

7/2/2022

CFS

AS 3

IND AS 7

Carve ins

Carve outs

CFS (Carve Ins)

AS 3
- Direct
- Indirect
  - P&L → N.P
  - ↓
  - CF op. Activities

IND AS (Carve Outs)
- IFRS → U.K
  - International Financial Reporting Standards
- U.S GAAP
  - Generally Accepted Accounting Principle

Three activities
- Cash flow from operating Activities (धंधे की कमाई)
- Cash flow from Investing Activities (जो आयेगा पैसा लगाया)
- Cash flow from Financing Activities (जो आयेगा पैसा लिया)

Op. Activities

N.P as per P&L	XXX
Add: Non Cash Expenses	XX
: Non Operating Expenses (to be shown in Financing/Investment Activities)	
Less: Non cash Incomes	
: Non operating Incomes (to be shown in Financing / Inv. Activities)	
Cash flow before working cap. changes	

10 cr → T.P / Creditor
13 cr →

Cash → Purchase (3 cr) — P&L
Non cash → NP

Add: Inc. in Current Liab

(150) → 2015

09/02/22 WDV (10 cr) → 2022

2022 ← (10 cr) — At par

(12 cr) — Investment Activity; P&L ↑ (2 cr)

(8 cr) → Investment Activity (Non Cash) / Non operating
P&L → (2 cr) Loss
Add back to P&L to ascertain Cash flow

P&L (2 cr) → Cash profit / Non operating activity

Equity

Investment
10 cr → Equity
(12 cr) → Cash → Inv. Activity

P&L (2 cr) → Non operating activity

IPO

Issue price
2000 — (2100)

3 days period
100,000 shares → Issues
(150,000) application
150,000 × 2100 =

Market
- Primary
  - Company — shareholder
  - IPO
- Secondary
  - Shareholder — Shareholder
  - Demand / Supply

Q1) 10/02/22

PAT	20
+ Tax	2
PBT	22
Add: Non Cash Expenses	
Non operating exp	~~12~~
Intt	10
Dividend	13
Less: Non operating Income	
Intt	(12)
Dividend	(8)
Cash flow before working cap. changes	25
Add: Increase in Current Liab	
Decrease in Current Assets	
Less: Decrease in Current Liab	(5) (Short term Loan)
Increase in Current Assets	
Cash flow from operating activities	20
Less: IT paid	2
	18

Cash flow from Investment Activities —

Loans & Advances	(5)
Investments	10
Machinery	(15)
Other Fixed Assets	(15)
Intt received	12
Div. receive	8
	(5)

Cash flow from Financing Activities —

Long term Loan	20
Eq. share capital	10

Div. receiv 8

(5)

Cash flow from Financing Activities:-

Long term Loan	20
Eq share capital	10
Dividend payment	(13)
Intt payment	(10)
~~Income tax payment~~	~~(3)~~
	~~7~~

Net Cash flow	20
Add: Opening Cash Equivalent	10
Closing Cash Equivalents	30

Q2) 11/02/22

Equity:-

Authorised Capital ₹ 10,00,000

Issued Capital ₹ 800,000

Subscribed Capital:-

Paid up Capital
- Subscribed & fully paid up ₹ 500,000
- Subscribed but not fully paid up ₹ 250

750000

₹ 10 FV Face Value

₹ ₹

₹2 → App

₹2 → Allot

₹3 → First Call

₹3 → Second call

₹ 2400

10 → FV

2390 → Premium

Solution to Q1)

Ruks Industries Limited

Cash Flow Statement for the Year ----

		₹ in millions
A) Cash Flow from operating activities:-		
Net profit as per P&L		20
Add: Non Cash Expenses	—	
Non operating Expenses		
Interest Exp	10	
Dividend payment	13	23
Less: Non Cash Income	—	
: Non operating Income		
Intt received	12	
Dividend income	8	(20)
Cash Flow before working capital changes		23
Add: Increase in Current Liabilities:	—	
: Decrease in Current Assets	—	
Less: Increase in Current Assets	—	
: Decrease in Current Liabilities		
Short term Loan	(5)	(5)
Cash flow from operating activities		18
B. Cash flow from Investing activities:-		
Loans & Advances	(5)	
Investments	10	
Machinery	(15)	
Other fixed Assets	(15)	
Interest received	12	
Dividend Income	8	(5)
C. Cash flow from Financing Activities:-		
Long term Loans	20	
Equity share capital	10	
Dividend payment	(13)	
Interest payment	(10)	7
Net increase in cash and cash Equivalents		20
Add: Cash & Cash Equivalent at the beginning		10
Cash & Cash Equivalents at the End of the period		30

15/02/22

20-21 P&L

21-22 → September CFS

Provision for IT (10) → Non Cash Exp

Add NP Provision	xxx 10
Less: IT paid	( )

16/02/22

Direct & Indirect Exp → incurred on production of goods

Operating & Non operating Exp

Trading

Op St	xx	Sales	
Purchases (RM)	xx	Cl Stock	
D.E	xx		
G P			

D.E → 1) Wages 2) Carriage Inward (Transportation) 3) Electricity charges

COGS

Sales − COGS = GP

100 − 80 = 20

P&L

AMC

Depn	
Carriage outward	xxx
Salary	xxx

07/03/22

Ratios

Efficiency ratios

① P/E → $\frac{MPS}{EPS}$

② P/B → $\frac{MPS}{BV}$

③ ROI → $\frac{\text{Return (EBIT)}}{\text{Investment (Capital Employed) (Equity + Debt)}}$

④ ROE → $\frac{\text{Return (PAT)}}{\text{Equity}}$

(1) P/E = $\frac{\text{Price}}{\text{Earning}}$ = $\frac{\text{MPS (Market price/share)}}{\text{EPS}}$; EPS = $\frac{\text{PAT}}{\text{No. of shares outstanding}}$

₹1 → कितना पैसा मैं दे रहा हूँ।

$\frac{100}{40}$ = 2.5

P/E × BV = 75 → 250 → undervalued

2.5 × 30 = 75

BV = $\frac{\text{Net worth}}{\text{No of shares}}$

COE

Sales	2300	2300	2300	2300		
Exp	(800)	(800)	800	800		
Depn	(500)	(500)	800	500		
EBIT =	1000	900	900	1000		
Tax @30%	300	(270)	(270)	(300)		
NOPAT	700	630	630	700		
+ Depn	500	500	800	500		
	1200	1130	1230	1200	1200	
Less: CAPEX	(300)	(300)	(300)	(300)	300	
Inc WC	(280)	(200)	(200)	(200)	(300)	
+ Terminal Value	800	600	800	800	800	180
FCFF	1300	1230	1330	1300	1200	1400

18/08/22

Sales	xxx		12,50,000
Less: VC (Variable Cost)	(xx)		(250,000)
Contribution	xxx		10,00,000
Less: Fixed Cost	(xx)		(600,000)
~~Profit~~ (PBT)	xxx		400,000
Less: Tax		@30%	(120,000)
PAT	xxx		280,000
Add: depn	xxx		500,000
Cash Flow	Annual Cash Flow		780,000