

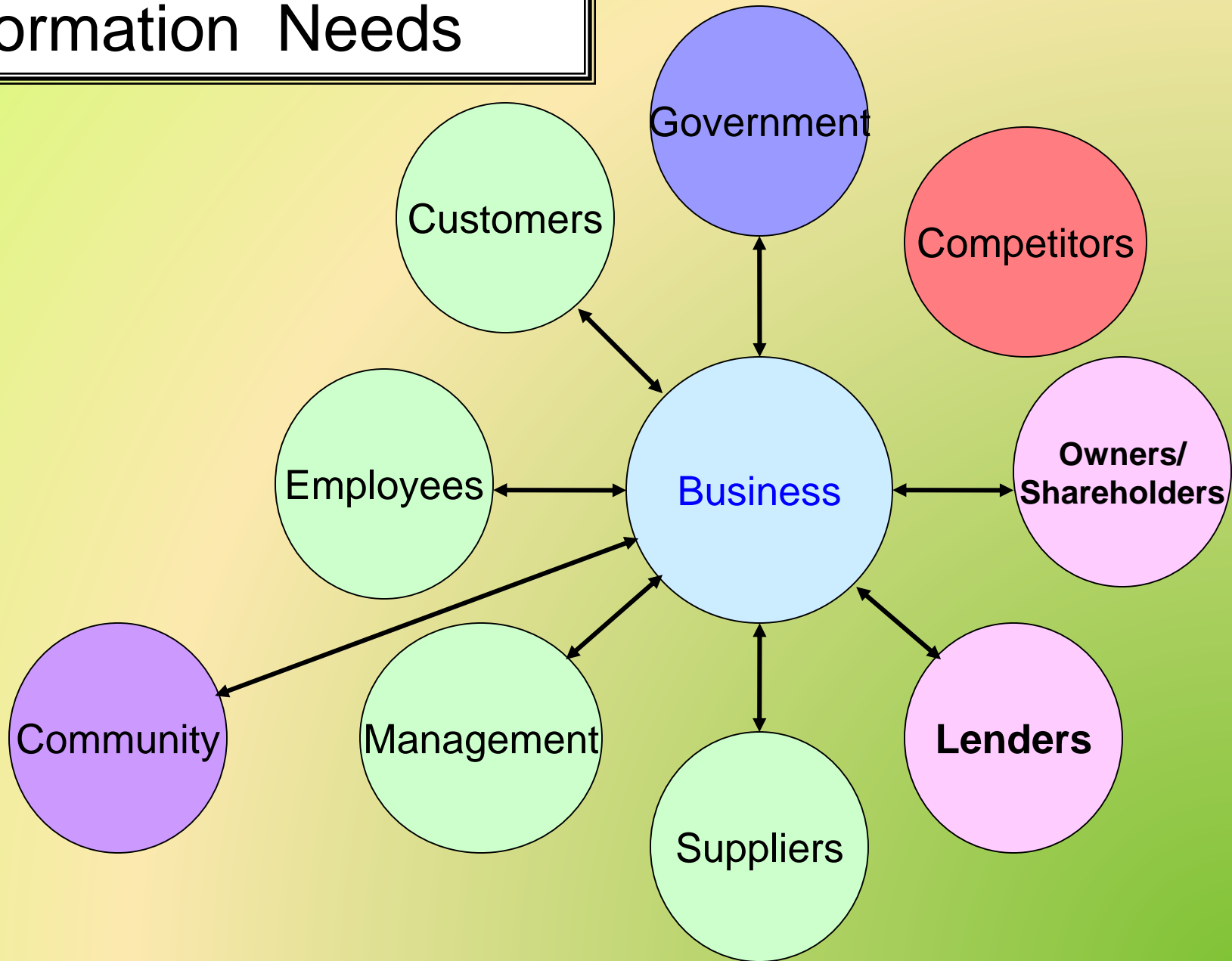
# Understanding the Financial Health of an Organisation

# Purpose of Accounting

- Measure business activities
- Process this information into reports
- Communicate the results to decision makers

Information for Decision Making

# Stakeholders and their Information Needs



# SURVIVAL OF A BUSINESS

A dramatic scene of a large cruise ship, resembling the Titanic, sinking at night. The ship is tilted at a steep angle, with its bow pointing towards the viewer and its stern partially submerged. The ship's lights are on, and the water is dark with some white foam around the sinking point. The sky is dark with some stars visible. The text "CASH FLOW" is overlaid in large, white, bold, sans-serif capital letters across the center of the image.

**CASH FLOW**

# CASH FLOW

SURVIVAL



NET CASH  
FLOW

Cash  
Inflow



Cash  
Outflow

VENDOR DEFAULT

# HOW DO WE MEASURE THE SUCCESS OF A BUSINESS



# Cash Flow vs Profit

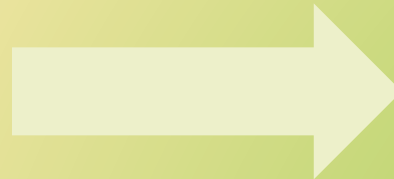
SURVIVAL



CASH FLOW

CASH IN FLOW – CASH OUTFLOW

SUCCESS



PROFIT

PROFIT = INCOME – EXPENDITURE

# Cash Flow vs Profits - example





# HOW DO WE MEASURE PROSPERITY OF A BUSINESS



# PERFORMANCE METRICS



PROFIT GROWTH – Profit in Q1 last year vs Profit in Q1 this year

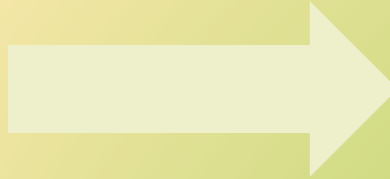
# MEASURING PERFORMANCE

SURVIVAL



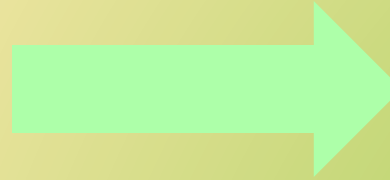
CASH FLOW

SUCCESS



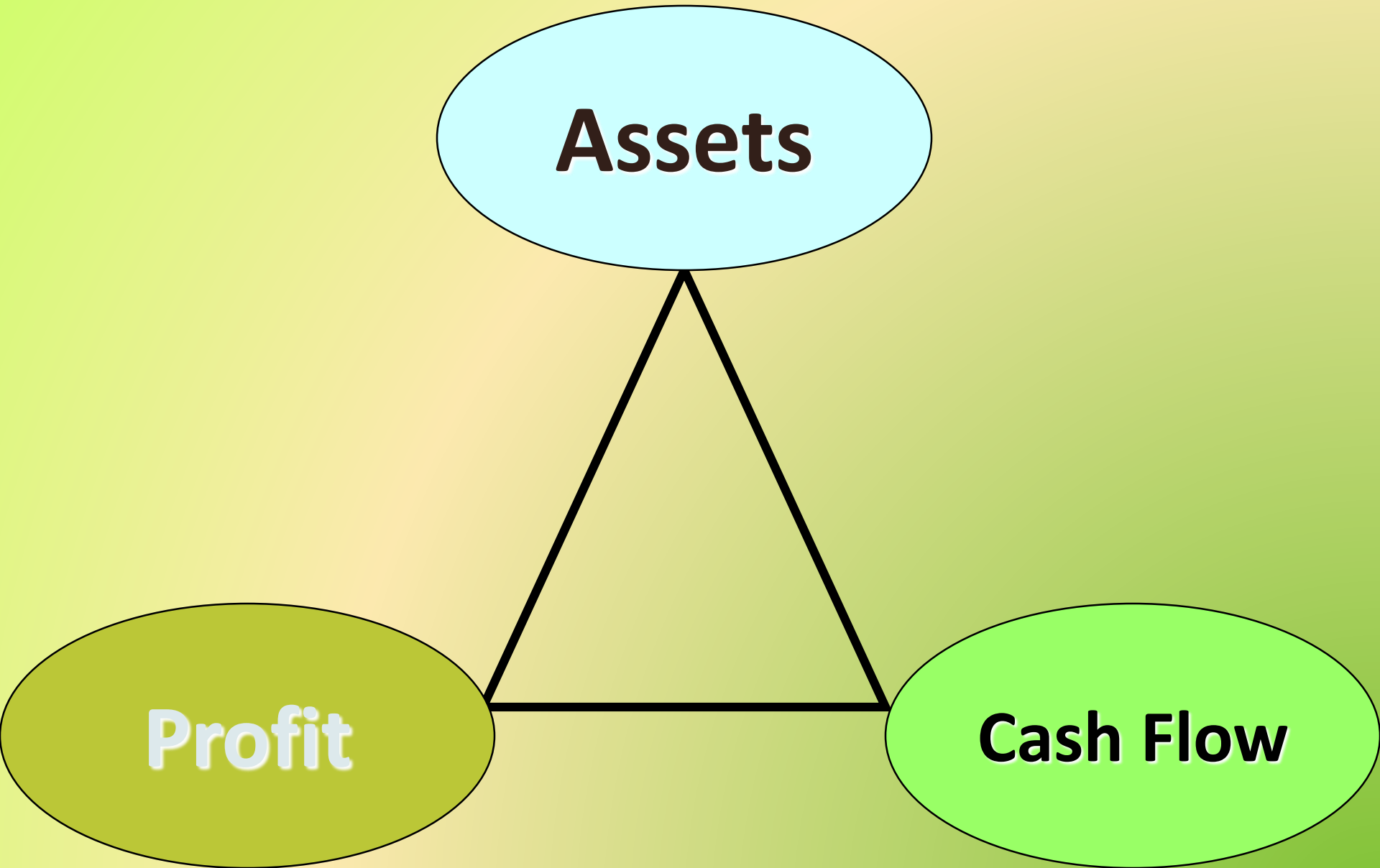
PROFIT

PROSPERITY

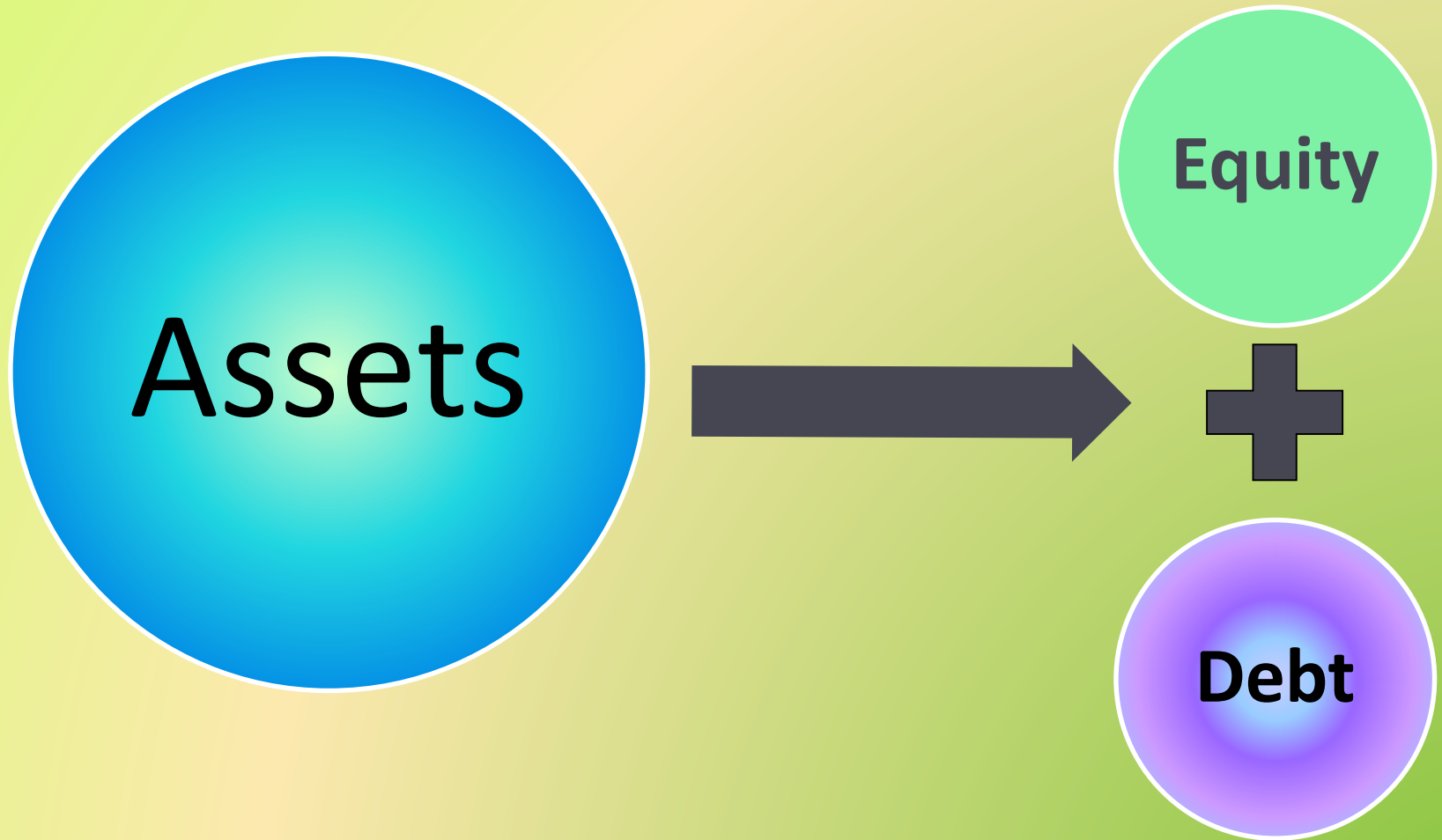


PROFIT  
GROWTH

# Numbers that Drive Business



# Assets - Creation



# Asset Creation

SOURCE OF FUNDS

Assets

=

Debt

+

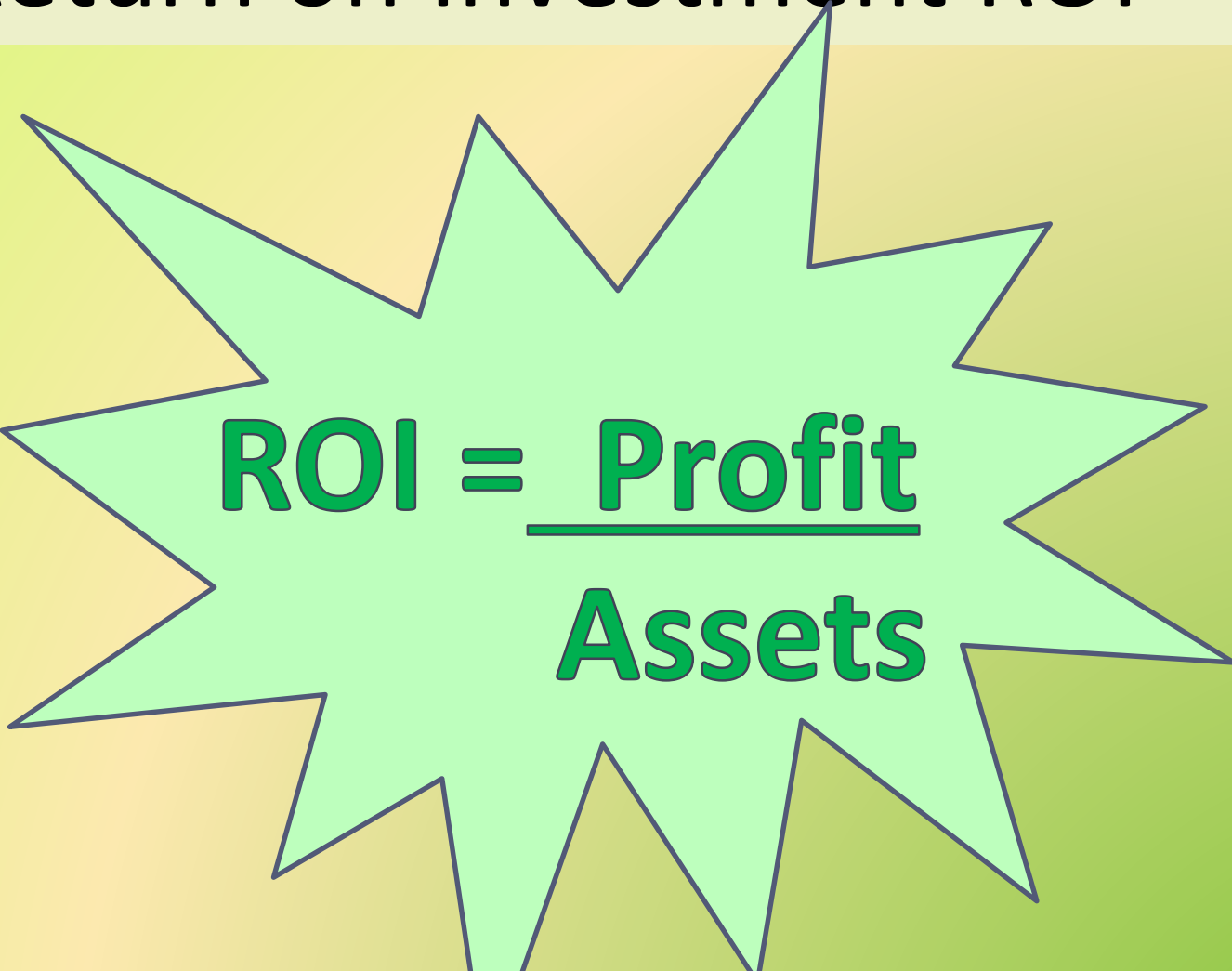
Equity

Equity Share  
Capital

Retained  
Earnings

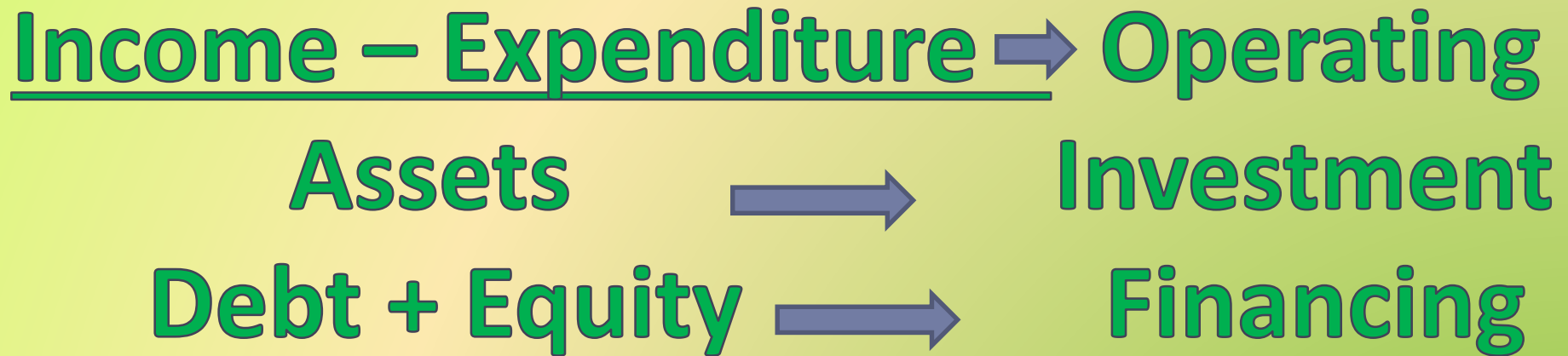
Income –  
Expenditure

# Return on Investment ROI


$$\text{ROI} = \frac{\text{Profit}}{\text{Assets}}$$

Return on Investment ROI  
measures profitability of the assets

# Managerial Decisions drive Profitability





# Managerial Decisions

## FINANCING DECISIONS

- Raising **FUNDS** to acquire **ASSETS**

## INVESTMENT DECISIONS

- Acquiring **ASSETS** to operate the business

## OPERATING DECISIONS

- Operating **ASSETS** to generate **INCOME**

**BALANCE SHEET**

**Financing &  
Investment  
Decisions**

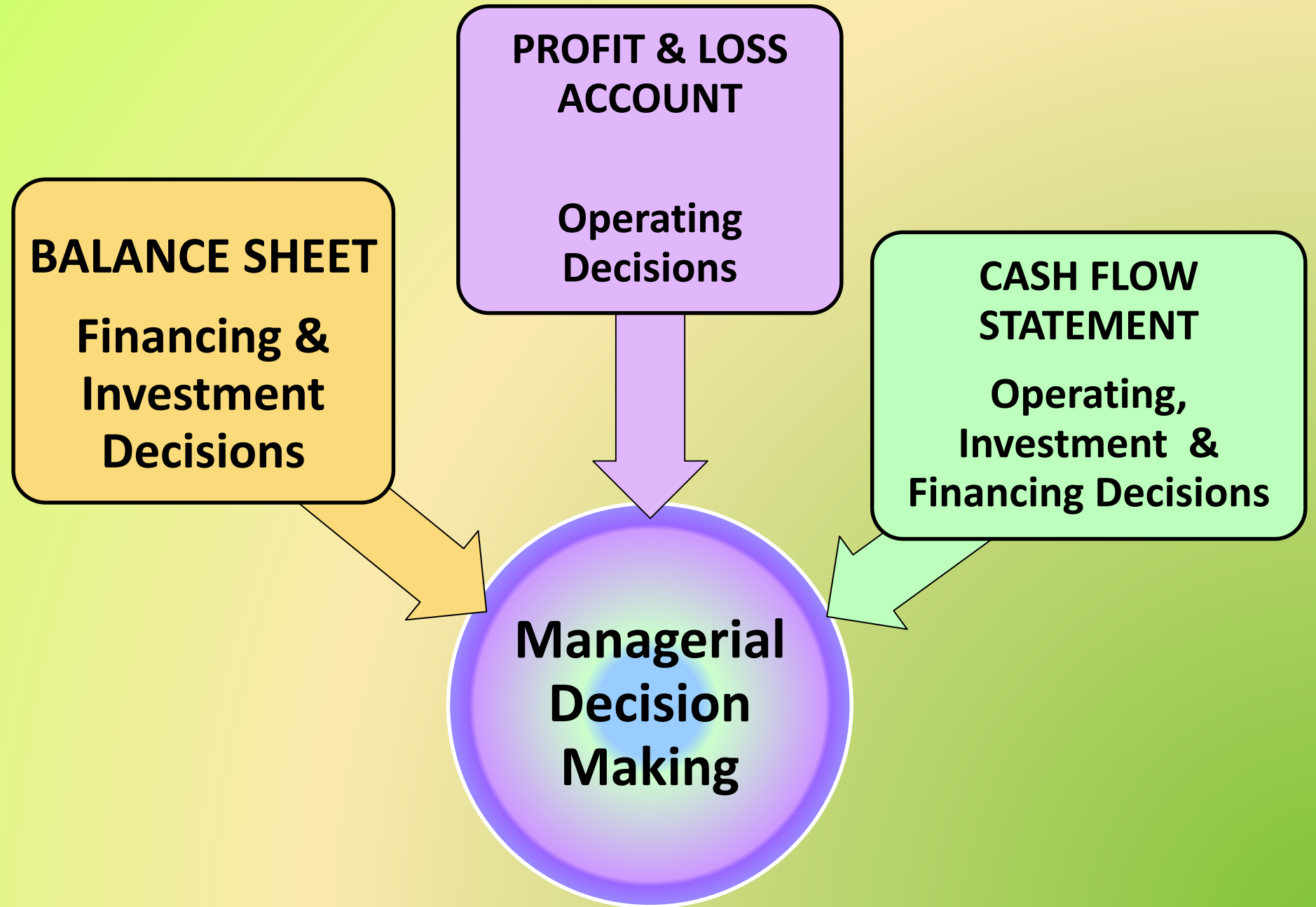
**PROFIT & LOSS  
ACCOUNT**

**Operating  
Decisions**

**CASH FLOW  
STATEMENT**

**Operating,  
Investment &  
Financing Decisions**

**Managerial  
Decision  
Making**



# BALANCE SHEET AS ON 31/3/2022

Financing  
Decisions

Investment  
Decisions

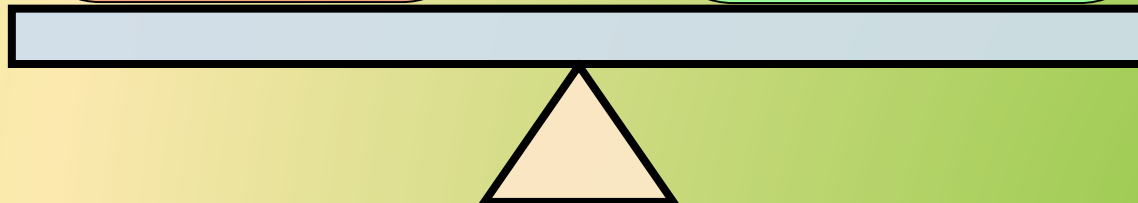
Equity



Debt



Assets



# BALANCE SHEET AS ON 31/3/2022

Financing  
Decisions

Investment  
Decisions

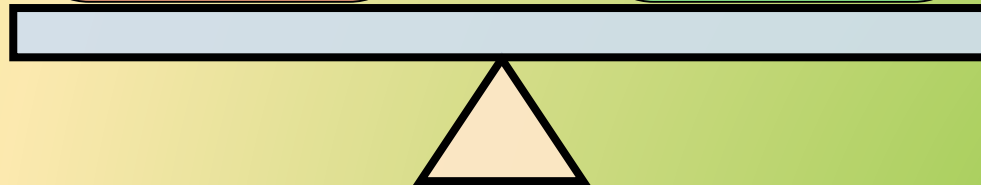
Equity



Liabilities



Assets



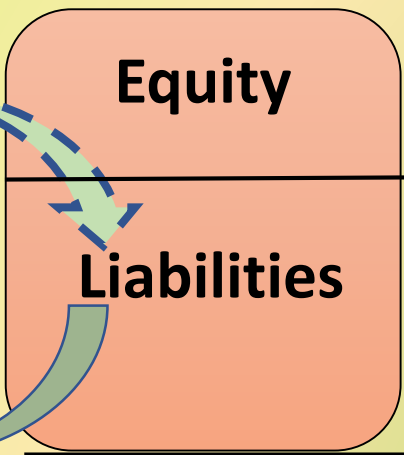
# ASSETS VS LIABILITIES

Future Reduced Cash Inflows

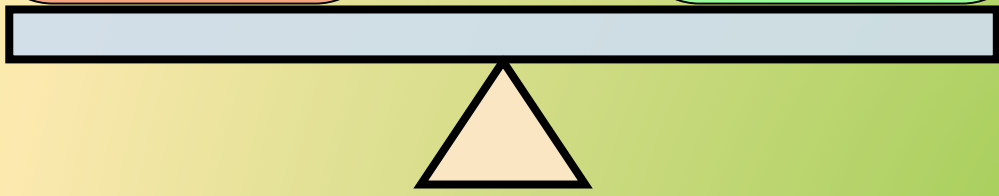
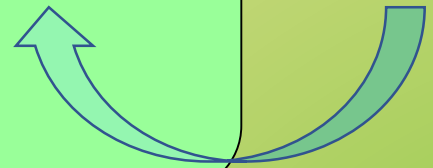
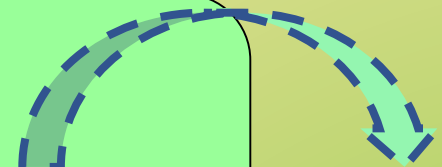
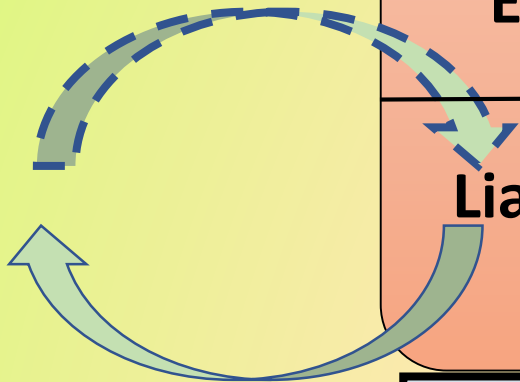
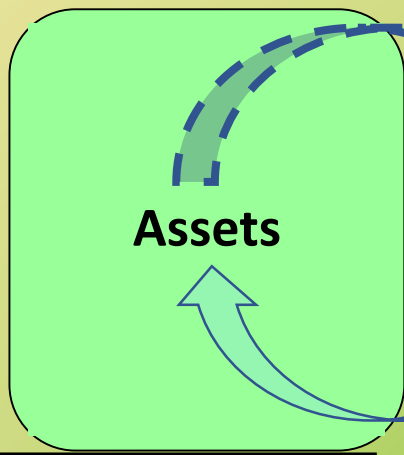
Future Reduced Cash Outflows

Future Cash Outflows

Future Cash Inflows



=




# ASSETS - DEFINITION

- **Probable future economic benefits**
- **Future cash inflow or reduced cash outflow**



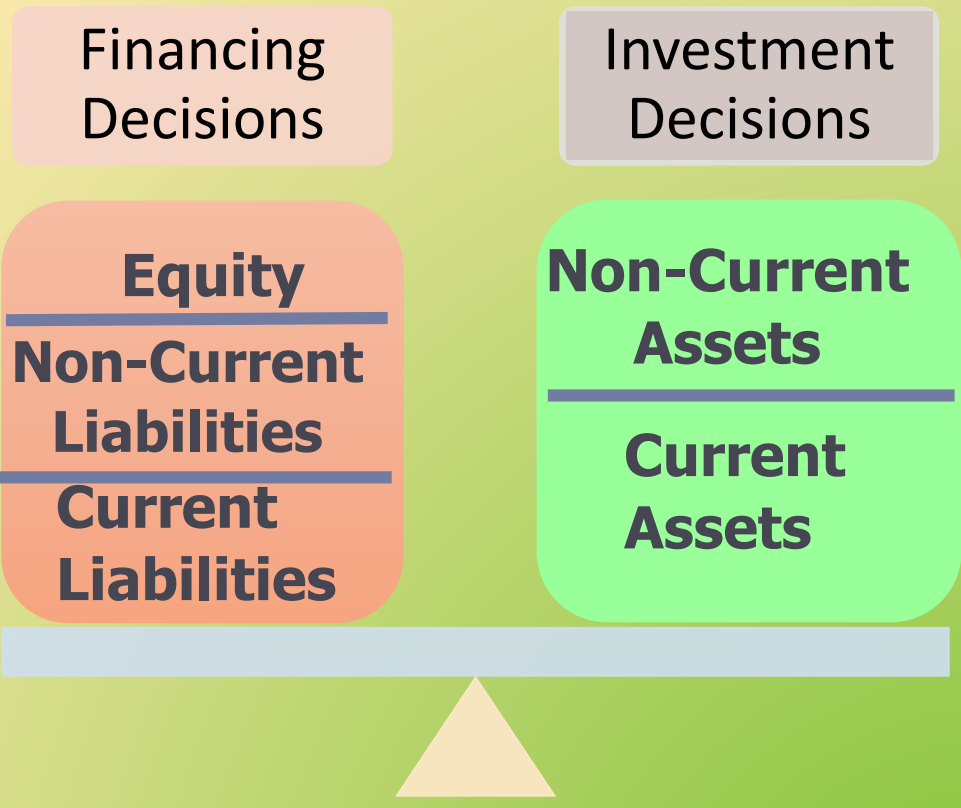
## **Liabilities: Definition**

- Probable future sacrifices of economic benefits arising from present obligations
  
  - Future cash outflows or reduced inflows
- 

# RISK ON A BALANCE SHEET



RISK





# BALANCE SHEET

Financing  
Decisions

Investment  
Decisions

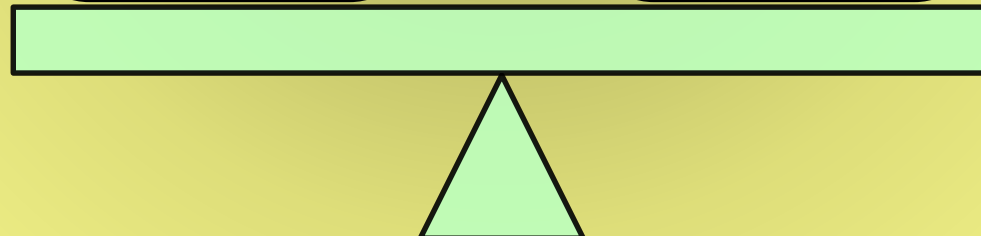
Equity

Non-Current  
Assets

Non Current  
Liabilities

Current  
Assets

Current  
Liabilities



# Current Liabilities vs Non- Current Liabilities

31<sup>st</sup> March, 2021

31<sup>st</sup> March 2022

## CURRENT LIABILITIES

Liabilities falling due after  
1.4.2021 upto 31/3/2022

## NON-CURRENT LIABILITIES

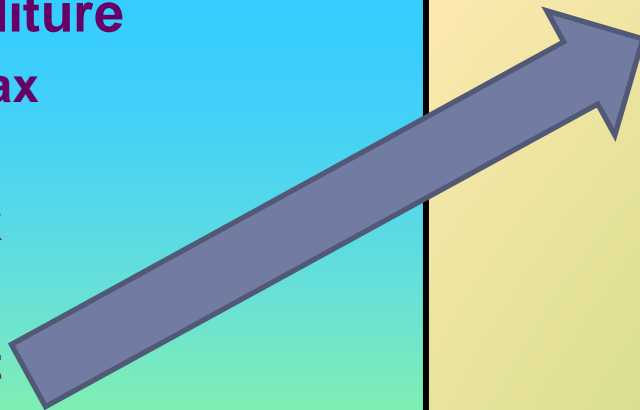
Liabilities falling due  
after 31/3/2022

# Linking Financial Statements

Profit & Loss Account
Income
Less: Expenditure
Profit before Tax
Less: Tax
Profit After Tax
Less: Dividend
Retained Profit

Balance Sheet	
Equity & Liabilities	Assets
Equity Capital	Non-Current Assets
Other Equity	
Retained Profit	
Non-Current Liabilities	Current Assets
Current Liabilities	Cash

Cash Flow Statement
Opening cash balance
Operating
Investment
Financing
Closing Cash Balance



# Forest Development Corporation-Balance Sheet

## EQUITY & LIABILITIES

## ASSETS

EQUITY & LIABILITIES				ASSETS				
		AS on 31st March	2019	2020	AS ON 31.3	2019	2020	
EQUITY	<b>EQUITY</b>	Rs in lakhs			<b>NON-CURRENT ASSETS</b>	Rs in LAKHS		
	Equity Share Capital		32,312.35	32,312.35		Property, Plant & Equipment - Gross	3,846.52	4,050.88
	Other Equity					Less: Accumulated Depreciation	-1,733.40	-1,942.36
	Capital Reserve		56,544.08	60,742.34		Property, Plant & Equipment - Net	2,113.12	2,108.52
	Retained Earnings		78,075.50	78,966.73		Capital Work in Progress	2.55	2.19
	Other Reserves					Biological Assets	104,173.50	111,783.57
	<b>Total Other Equity</b>		<b>134,619.58</b>	<b>139,709.07</b>		Financial Assets		
	<b>TOTAL EQUITY</b>		<b>166,931.93</b>	<b>172,021.42</b>		Investments		
						Loans	256.60	575.76
						Deferred Tax assets (net)	36.03	13.53
NON CURRENT LIABILITIES	<b>LIABILITIES</b>				Other Non-Current Assets	29,446.85	29,183.37	
	Non Current Liabilities				<b>Total Non Current Assets</b>	<b>136,028.65</b>	<b>143,666.94</b>	
	<b>Total Non Current Liabilities</b>		<b>-</b>	<b>-</b>				
CURRENT LIABILITIES	<b>Current Liabilities</b>				<b>CURRENT ASSETS</b>	<b>Current Assets</b>		
	Financial Liabilities					Inventories	12,594.98	14,714.78
	Trade Payables		23.83	23.53		Financial Assets		
	Other Current Liabilities		22,827.96	27,589.36		Trade Receivables	4,116.24	4,396.56
	Provisions					Cash and Cash Equivalents	7,242.34	4,238.45
	<b>Total Current Liabilities</b>		<b>22,851.79</b>	<b>27,612.89</b>		Bank Balances	26,960.26	26,825.01
	<b>TOTAL LIABILITIES</b>		<b>22,851.79</b>	<b>27,612.89</b>		Loans	731.29	2,285.45
	<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>189,783.72</b>	<b>199,634.31</b>		Other Financial Assets	821.72	854.26
				Other Current Assets	880.21	746.27		
				Current Tax Assets	408.03	1,906.59		
				<b>Total Current Assets</b>	<b>53,755.07</b>	<b>55,967.37</b>		
				<b>Total Assets</b>	<b>189,783.72</b>	<b>199,634.31</b>		

# VST Industries Ltd - Balance Sheet

As on 31 March	2018	2019	2020	2021	2022
Rs in crores					
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	15.44	15.44	15.44	15.44	15.44
<b>Total Share Capital</b>	<b>15.44</b>	<b>15.44</b>	<b>15.44</b>	<b>15.44</b>	<b>15.44</b>
<b>Other Equity</b>					
Reserves and Surplus	566.65	648.59	771.64	925	1,058.85
<b>Other Equity</b>	<b>566.65</b>	<b>648.59</b>	<b>771.64</b>	<b>925</b>	<b>1,058.85</b>
<b>Total Shareholders Funds</b>	<b>582.09</b>	<b>664.03</b>	<b>787.09</b>	<b>940.44</b>	<b>1,074.30</b>
<b>NON-CURRENT LIABILITIES</b>					
Long Term Provisions	14.15	18.5	19.85	22.08	22.96
<b>Total Non-Current Liabilities</b>	<b>14.15</b>	<b>18.5</b>	<b>19.85</b>	<b>22.08</b>	<b>22.96</b>
<b>CURRENT LIABILITIES</b>					
Trade Payables	58.09	83.01	142.83	131.46	103.41
Other Current Liabilities	409.8	441.31	447.26	391.81	389.96
<b>Total Current Liabilities</b>	<b>467.89</b>	<b>524.32</b>	<b>590.1</b>	<b>523.27</b>	<b>493.37</b>
<b>Total Equity And Liabilities</b>	<b>1,064.13</b>	<b>1,206.85</b>	<b>1,397.04</b>	<b>1,485.79</b>	<b>1,590.63</b>

# VST Industries Ltd - Balance Sheet

<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Property, Plant & Equipment	195.06	213.34	187.05	172.73	194.95
Intangible Assets	0.01	0.07	0.05	0.04	0.02
Capital Work-In-Progress	34.22	0.3	12.65	33.25	10.44
<b>Total Fixed Assets</b>	<b>229.3</b>	<b>213.71</b>	<b>199.75</b>	<b>206.01</b>	<b>205.42</b>
Non-Current Investments	2.03	2.26	1.79	2.7	203.05
Deferred Tax Assets [Net]	24.82	31.01	26.4	25.24	21.60
Long Term Loans And Advances	0.15	0.13	0.12	0.09	0.08
Other Non-Current Assets	3	1.14	5.22	1.01	18.45
<b>Total Non-Current Assets</b>	<b>259.28</b>	<b>248.25</b>	<b>233.28</b>	<b>235.06</b>	<b>448.6</b>
<b>CURRENT ASSETS</b>					
Current Investments	414.1	573.06	751.2	884.43	767.61
Inventories	252.87	281.85	297.74	297.18	295.63
Trade Receivables	27.33	14.32	15.37	15.21	33.3
Cash And Cash Equivalentents	37.59	36.86	37.45	20.83	15.41
Short Term Loans And Advances	0.02	0.01	0.01	0.02	0.38
OtherCurrentAssets	72.94	52.5	61.98	33.06	29.7
<b>Total Current Assets</b>	<b>804.85</b>	<b>958.6</b>	<b>1,163.75</b>	<b>1,250.73</b>	<b>1,142.03</b>
<b>Total Assets</b>	<b>1,064.13</b>	<b>1,206.85</b>	<b>1,397.04</b>	<b>1,485.79</b>	<b>1,590.63</b>

# PROFIT & LOSS ACCOUNT

**Income**

**MINUS**

**Expenditure**

**EQUALS TO**

**Profit**

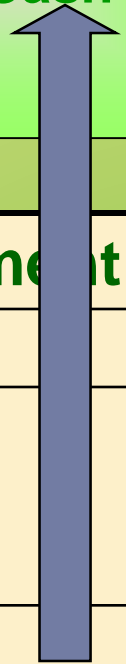
Operating Decisions

# in the Financial Statements

<b>Profit &amp; Loss Account</b>	
<b>Income</b>	
Revenue from Operations	
Other Income	
<b>Expenses</b>	
Cost of Material consumed	
Manufacturing Expenses	
Employee Expenses	
Selling Expenses	
Gen & Admin Expenses	
<b>EBITDA</b>	
Less: Depreciation	
<b>EBIT or Operating Profit or PBIT</b>	
Less: Interest	
<b>Profit before Tax</b>	
Less: Tax	
<b>Profit After Tax</b>	
Less: Dividend	
<b>Retained Profit</b>	

<b>Balance Sheet</b>	
<b>Equity &amp; Liabilities</b>	<b>Assets</b>
Equity Capital	Non Current Assets
Other Equity	
Non Current Liabilities	Current Assets
Current Liabilities	Cash

<b>Cash Flow Statement</b>	
Opening cash balance	
Operating	
Investment	
Financing	
Closing Cash Balance	



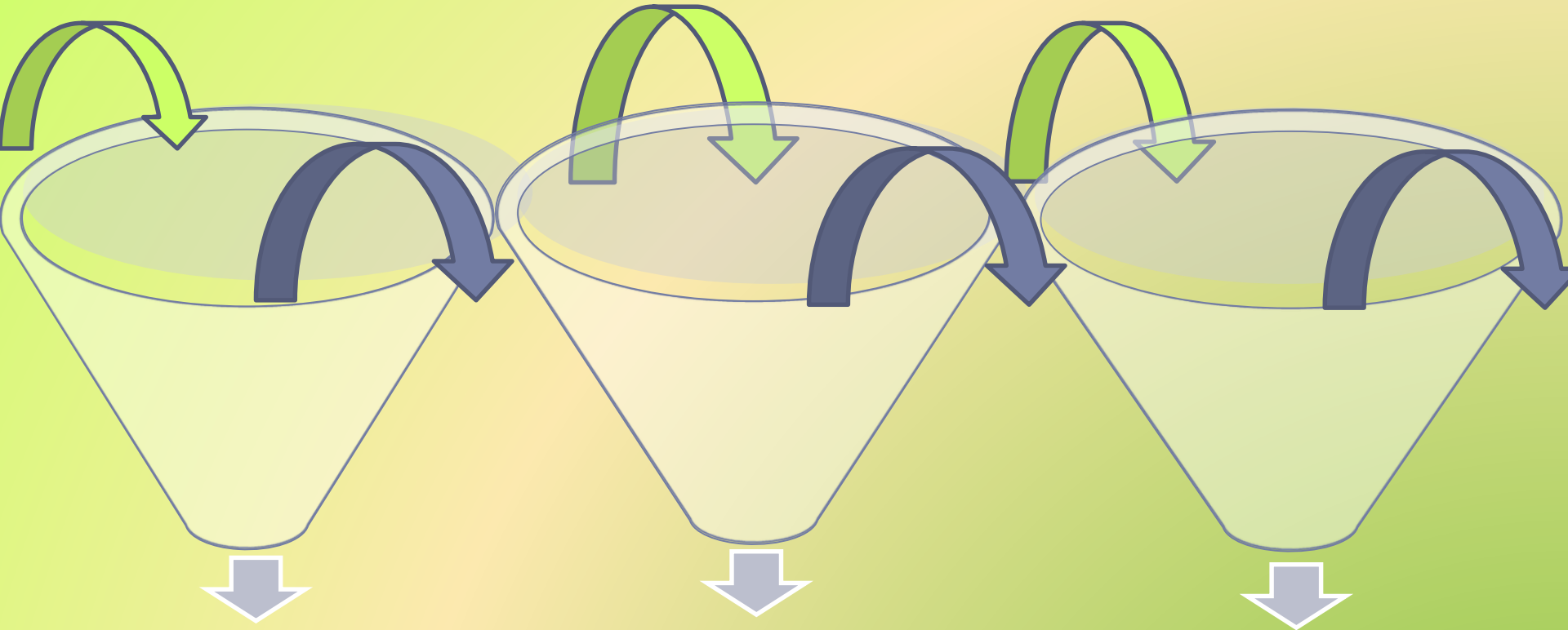


# Profit & Loss Account – Forest Development Corporation

		FOR THE YEAR ENDED 31 Mar	2019	2020
<b>OPERATING</b>	<b>INCOME</b>		Rs in lakhs	
	Revenue from Operations		21,681.66	15,729.91
	Other Operating Revenue			
	Other Income		3,506.28	2,735.56
	<b>TOTAL INCOME</b>		<b>25,187.94</b>	<b>18,465.47</b>
	<b>EXPENDITURE</b>			
	Cost of Materials Consumed		10,231.64	12,020.00
	Stock Adjustment		-879.30	-137.32
	Repairs & Maintenance		204.54	639.02
	Employee Remuneration		1,033.07	899.67
	Other Expenses		603.90	235.50
	Admin Expenses			
	<b>TOTAL EXPENDITURE</b>		<b>11,193.85</b>	<b>13,656.87</b>
	<b>PROFIT BEFORE DEPRECIATION &amp; AMORTISATION, INTEREST AND TAX</b>		<b>13,994.09</b>	<b>4,808.60</b>
	Less : Depreciation & Amortisation		20.48	19.54
	<b>PROFIT BEFORE INTEREST AND TAX</b>		<b>13,973.61</b>	<b>4,789.06</b>
	Less: Interest			
	<b>PROFIT BEFORE TAX</b>		<b>13,973.61</b>	<b>4,789.06</b>
Less : Provision for Tax				
Current Tax		3,275.00	1,050.00	
Deferred Tax		-3.12	22.50	
<b>PROFIT AFTER TAX</b>		<b>10,701.73</b>	<b>3,716.56</b>	

<b>VST Industries</b>					
<b>For the year ended 31st March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Rs in crores</b>					
<b>INCOME</b>					
<b>Revenue From Operations [Gross]</b>	<b>1,357.48</b>	<b>1,182.71</b>	<b>1,369.12</b>	<b>1,471.70</b>	<b>1,559.12</b>
Less: Excise/Sevice Tax/Other Levies	411.06	85.1	131.07	361.91	382.5
<b>Revenue From Operations [Net]</b>	<b>946.42</b>	<b>1,097.61</b>	<b>1,238.05</b>	<b>1,109.79</b>	<b>1,176.62</b>
Other Operating Revenues	1.16	1.40	1.30	1.19	1.55
<b>Total Operating Revenues</b>	<b>947.58</b>	<b>1,099.01</b>	<b>1,239.35</b>	<b>1,110.98</b>	<b>1,178.17</b>
Other Income	23.81	38.9	47.36	41.79	46.67
<b>Total Income</b>	<b>971.39</b>	<b>1,137.91</b>	<b>1,286.71</b>	<b>1,152.77</b>	<b>1,224.84</b>
<b>EXPENSES</b>					
Cost of Materials Consumed	463.24	559.64	600.15	477.15	516.26
Changes In Inventories	7.05	-9.47	-1.6	1.75	-2.76
Employee Benefit Expenses	89.2	92.26	102.42	114.42	116.35
Depreciation And Amortisation Expenses	39.16	41.35	41.76	35.07	30.1
Other Expenses	93.27	103.46	123.73	107.07	136.68
<b>Total Expenses</b>	<b>691.92</b>	<b>787.24</b>	<b>866.46</b>	<b>735.47</b>	<b>796.63</b>
<b>Profit/Loss Before Tax</b>	<b>279.45</b>	<b>350.67</b>	<b>420.25</b>	<b>417.3</b>	<b>428.21</b>
<b>Less: Provision for Tax</b>					
Current Tax	99.56	130.76	110.86	105.86	104.18
Deferred Tax	-2	-6.93	5.3	0.65	3.8
<b>Total Tax Expenses</b>	<b>97.56</b>	<b>123.83</b>	<b>116.16</b>	<b>106.51</b>	<b>107.98</b>
<b>Profit After Tax</b>	<b>181.89</b>	<b>226.84</b>	<b>304.09</b>	<b>310.79</b>	<b>320.23</b>

# CASH FLOW STATEMENT



## FINANCING

- Cash Inflows minus Cash Outflows = Net Cash Flow

## INVESTMENT

- Cash Inflows minus Cash Outflows = Net Cash Flow

## OPERATING

- Cash Inflows minus Cash Outflows = Net Cash Flow

# Connecting Management Decisions with ROI

## FINANCING DECISIONS

Sources of Invested Capital  
-Debt  
-Equity



## INVESTMENT DECISIONS

Assets  
-Tangible Assets  
- Intangible Assets  
- Financial Assets



## OPERATING DECISIONS

Income  
Revenue  
Expenditure

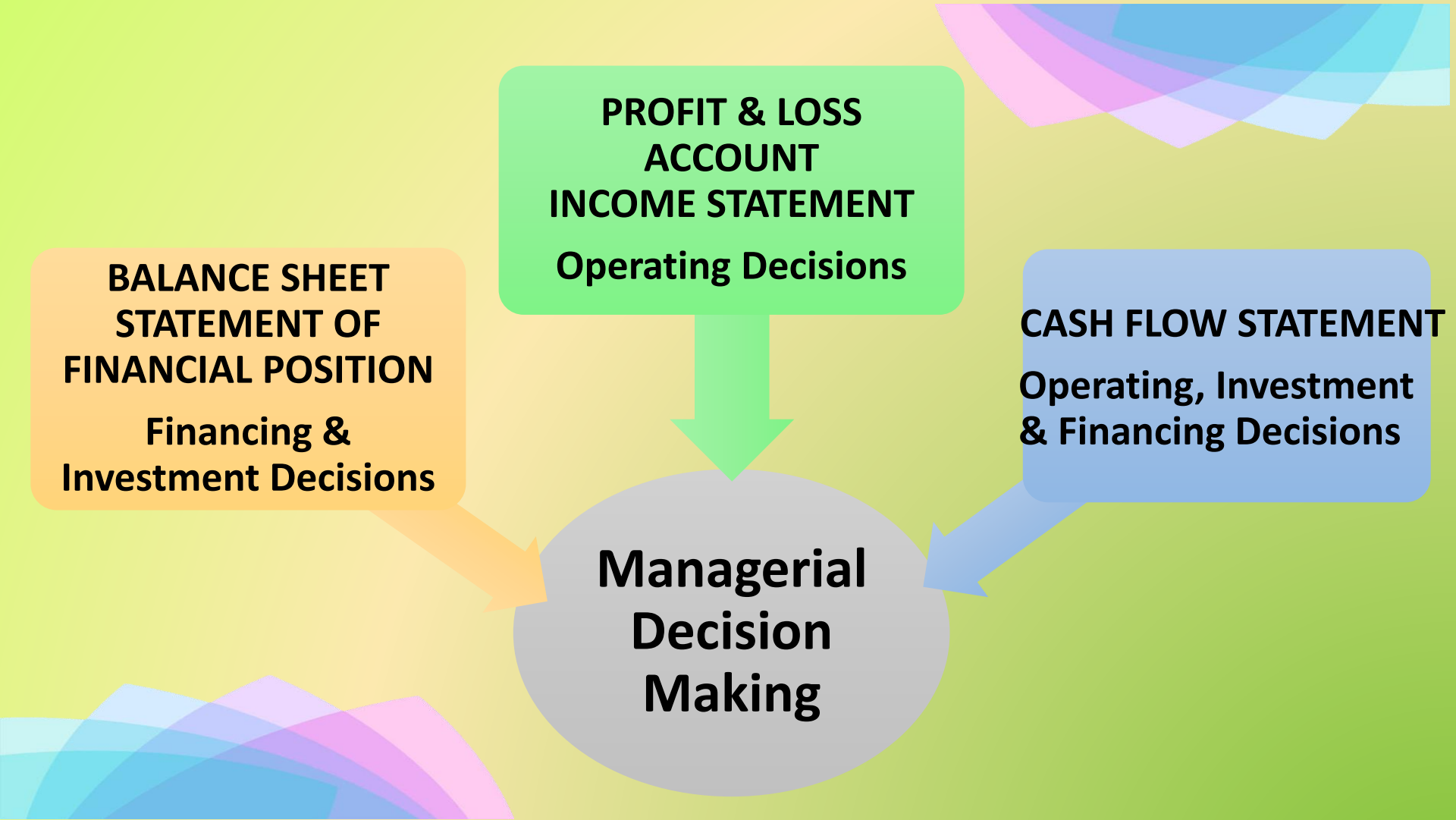
$$\text{ROIC} = \frac{\text{PROFIT BEFORE INTEREST AFTER TAX}}{\text{DEBT} + \text{EQUITY}}$$

**PROFIT & LOSS  
ACCOUNT  
INCOME STATEMENT**  
Operating Decisions

**BALANCE SHEET  
STATEMENT OF  
FINANCIAL POSITION**  
Financing &  
Investment Decisions

**CASH FLOW STATEMENT**  
Operating, Investment  
& Financing Decisions

**Managerial  
Decision  
Making**

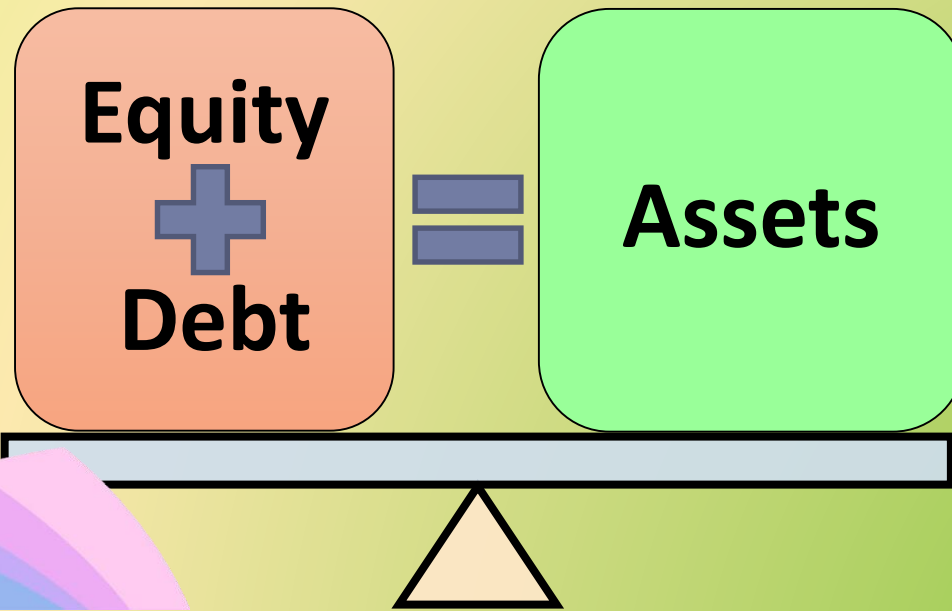


# BALANCE SHEET or STATEMENT OF FINANCIAL POSITION

AS ON 31/3/2021

Financing Decisions

Investment Decisions



# BALANCE SHEET AS ON 31/3/2021

Financing  
Decisions

Investment  
Decisions

