



# SIMPLE IS BETTER

## SIMPLE IS BETTER – ISSUE -9 – OUR LIFE AND INVESTMENT - 3

We have seen profit and loss statement in issue 8. Now, in the current issue, I am going to discuss on the balance sheet. The balance sheet is another important financial statement which is essential for analysing the financial strength of the person and of the company.

*“A Balance Sheet is a statement of the financial position of a business which states the assets, liabilities, and owners' equity at a particular point in time. In other words, the balance sheet illustrates your business's net worth.”* – The Balance

Basically, balance sheet having three broader parts 1) Equity, 2) Liabilities and 3) Assets

### Format of balance sheet of an organization

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Share capital .....		Fixed assets	
Add: net profit/less: net loss .....		Land & building	.....
Less: drawings .....	.....	Plant & machinery	.....
Long-term liabilities		Furniture & fixtures	.....
Debentures	.....	Vehicles	.....
Loans & advances from banks	.....	Goodwill	.....
Other loans & advances	.....	Investments	.....
Current liabilities		Current assets, loans & advances	
Sundry creditors	.....	Sundry debtors	.....
Bills payable	.....	Cash in hand	.....
Bank overdraft	.....	Cash at bank	.....
Outstanding expenses	.....	Bills receivable	.....
Income received in advance	.....	Prepaid expenses	.....
Provisions		Closing stock	.....
For taxation	.....		
For dividend	.....		
	.....		.....

Equity and liabilities are also known as a source of fund. And assets are known as an application of funds.

We collect fund from different sources and deploy it for purchasing some long-term assets or short-term assets.

Let me start with detail discussions on balance sheet and we try to understand the balance sheet of the company with an example of the balance of an individual person.

## 1) Sources of fund

The first part of the balance sheet is a source of capital. From where we can get the fund.

### A) Shareholders' funds

Shareholders' fund having two parts 1) Share capital and 2) Reserves & surplus

Particulars	Note No.	As at March 31, 2016	As at March 31, 2015
<b>I Equity and Liabilities</b>			
<b>1 Shareholders' funds</b>			
(a) Share capital	3	39.94	39.94
(b) Reserves and surplus	4	7,912.74	6,500.06

#### Share capital

The share capital is the portion of a corporation's equity that has been obtained by the issue of shares in the corporation to a shareholder.

This is as like the fund, which we get from our parents, family members as a gift fund which we can utilize for our purpose.

#### Reserve and surplus

*“Reserve means a provision for a specific purpose. There are lots of unknown expenditures which can occur in current year or in future. To meet such type of expenses the business firm has to make the reserves.” - Learn Accounts*

*“Surplus is the credit balance of the profit and loss account after providing for dividends, bonus, provision for taxation and general reserves etc. Surplus profit may also be earmarked for special purposes such as reserves for obsolescence of plant and machinery.” - Learn Accounts*

Both reserve and surplus are created from the savings of the company. Means this created after meeting all expenses and distribution of income to the partners of the company.

Similarly, with our life, after meeting all our expenses, we left with the net profit. And from that net profit, we provide funds to our family members as a gift (like the dividends, bonus, etc.). And Remaining balance, we transfer it to our saving account (means the surplus carried forward from the balance sheet).

From that surplus, we also kept few amounts of the fund as a reserve for meeting an upcoming uncertainty of the life such as an emergency fund (for illness, accident, etc.), unforeseen expenses, upcoming future expenses, etc.

#### **Shareholder's capital + Reserve and Surplus = Shareholder's Fund**

Shareholders fund is the owners own fund, which can be generated from the business or given by the partner of the business. Like our lives, our savings from the salary and gifted us from our family members.

**B) Non-current liabilities**

3 Non - current liabilities			
(a) Long - term borrowings	5	145.98	12.00
(b) Other long - terms liabilities	6	34.89	31.33

*“Noncurrent liabilities are long-term financial obligations listed on a company’s balance sheet that are not due within the present accounting year, such as long-term borrowing, bonds payable and long-term lease obligations.” - Investopedia*

Many a time, we take a loan which is not due within a year such as a home loan, car loan, student loan etc.

Similarly, the company also takes the loan for the plant & machinery, building construction, vehicle loan, etc. which are not due within a particular financial year.

**C) Current liabilities**

4 Current liabilities			
(a) Short- term borrowings	9	84.06	88.00
(b) Trade payables	10		
(i) Total outstanding dues of micro enterprises and small enterprises		-	-
(ii) Total outstanding dues of creditors other than micro enterprises and small enterprises		2,791.70	2,713.09

*“Current liabilities are a company's debts or obligations that are due within one year, appearing on the company's balance sheet and include short term debt, accounts payable, accrued liabilities and other debts.” - Investopedia*

**Short term borrowings** are due within a year such as 6-9 EMIs for mobile phone, laptop, electronic equipment, home appliances, etc.

Similarly, the company takes a loan for the matching their working capital, meeting short term obligations, etc.

**Trade payables** are those from whom we have purchased a grain, vegetables, milk, etc. and we must make payment to them within a year.

Similarly, the company also purchases a raw material, goods, services, etc. for which they need to make payment within a year.

We have seen that which are the sources of funding available and we can able to collect funds from those sources. Now, let me try to explain the application of the collected funds.

**2) Application of fund**

This is the second part of the balance sheet which indicates where company uses the collected fund.

Application of fund having a two broader categories – 1) Non-current Assets and 2) Current Assets

**A) Non-current Assets**

<b>1</b>	<b>Non - current assets</b>			
(a)	Fixed assets	13		
	(i) Tangible assets		3,907.02	2,850.86
	(ii) Intangible assets		129.07	101.42
	(iii) Capital work-in-progress		330.78	315.12
	(iv) Intangible assets under development		322.59	404.08
(b)	Non- current investments	14	945.26	821.15

*“Noncurrent assets are company long-term investments where the full value will not be realized within the accounting year. Examples of noncurrent assets include investments in other companies, intangible assets such as goodwill, brand recognition and intellectual property, and property, plant and equipment.” - Investopedia*

**Fixed Assets**

Fixed assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment.

We purchase assets which we use for the longest period, such as home, land, vehicles, etc.

And similarly, the company also purchases land, building, plant & machinery, vehicles, computers, etc which they use for the more than a year.

**Non-current investments**

These investments are made for the longest period and not get released in the year.

We have made an investment in equity shares, mutual fund, bank FDs, corporate FDs, etc. for the longest period and will not be going to realize into a year. And we get a dividend, interest, etc. as an income.

	Units as at March 31, 2016	Units as at March 31, 2015	As at March 31, 2016		As at March 31, 2015	
			Current	Non Current	Current	Non Current
<b>Long Term Investments (At cost unless otherwise stated)</b>						
<b>Trade</b>						
<b>Investment in equity instruments</b>						
<b>Unquoted</b>						
<b>of Associates</b>						
Erik Buell Racing Inc	9,686	9,686	-	150.09	-	150.09
Convertible Preferred stock series A Equity Shares of USD 0.01 each						
Cost of acquisition (including Goodwill ₹ 119.65 crores)			-	150.09	-	150.09
Less: Provision for diminution/ amortisation			-	(150.09)	-	(150.09)

	Units as at March 31, 2016	Units as at March 31, 2015	As at March 31, 2016		As at March 31, 2015	
			Current	Non Current	Current	Non Current
<b>Quoted</b>						
<b>Face Value of ₹ 1000 each</b>						
12.25% Muthoot Finance Limited- Maturity-14.09.2016	500,000	500,000	49.79	-	-	49.79
7.34% HUDCO -Maturity-16.02.2023	250,000	250,000	-	25.00	-	25.00
7.18% IRFC -Maturity-19.02.2023	250,000	250,000	-	25.00	-	25.00
8.18% NHPC Tax Free Bonds- Maturity-02.11.2023	161,050	161,050	-	16.10	-	16.10
8.51% HUDCO Tax Free Bonds- Maturity-13.01.2024	250,000	250,000	-	25.00	-	25.00
8.18% PFC Tax Free Bonds- Maturity-16.11.2023	323,890	323,890	-	32.39	-	32.39
<b>Face Value of ₹ 1,00,000 each</b>						
6.70% IRFC Bonds -Maturity-08.03.2020	1,500	1,500	-	15.23	-	15.23

Similarly, the company also makes a long-term investment in the group companies, equity shares of other companies, mutual fund, bond, corporate FDs, etc. and which will not be going to realize into the year. And the company also gets a dividend, interest, etc. as an income.

## B) Current Assets

<b>2 Current assets</b>			
(a) Current investments	14	3,249.15	2,297.35
(b) Inventories	17	761.99	861.39
(c) Trade receivables	18	1,282.08	1,371.82
(d) Cash and cash equivalents	19	179.09	215.78
(e) Short - term loans and advances	20	535.12	573.41

## Current investments

These investments the company has made which is expected to be converted into cash within one year.

	Units as at March 31, 2016	Units as at March 31, 2015	As at March 31, 2016		As at March 31, 2015	
			Current	Non Current	Current	Non Current
<b>DHFL Pramerica Mutual Fund(Formerly Deutsche Mutual Fund)</b>						
Short Term Floating Rate Fund-Direct Plan Bonus(Formerly Treasury Fund-Investment-Direct Plan Bonus)	9,238,367	9,238,367	9.19	-	9.19	-
Short Maturity Fund Direct Plan-Annual Bonus	4,614,440	4,614,440	6.67	-	6.67	-
Ultra Short Term Fund-Direct Plan-Annual Bonus	8,868,007	8,868,007	8.83	-	8.83	-
Low Duration Fund Direct Plan-Annual Bonus (Formerly Cash Opportunities Fund-Direct Plan-Annual Bonus)	10,389,886	10,389,886	10.17	-	10.17	-
Arbitrage Fund-Direct Plan-Growth	-	19,761,318	-	-	20.08	-

We park our excess fund into the liquid fund, short term FD which we need to convert into the cash within a year.

Similarly, the company also park their short-term fund into the liquid fund, short term investment instruments, etc.

### Inventories

*“Inventory is the raw materials, work-in-process products and finished goods that are the portion of a business's assets that are ready or will be ready for sale.” – Investopedia*

We purchase a grain, vegetables, milk, fruits, etc., which we use it as food. These are as similar as an inventory of the company.

Particulars	As at March 31, 2016	As at March 31, 2015
Raw materials and components	376.23	513.44
Goods in transit of raw materials and components	13.57	38.25
Work in progress	28.09	31.60
Finished goods		
Two wheelers	182.91	148.50
Goods in transit of two wheelers	11.27	2.76
Spare parts	54.66	44.21
Stores and spares	75.53	64.23
Loose tools	19.73	18.40
<b>Total</b>	<b>761.99</b>	<b>861.39</b>

The company also has an inventory of raw material, finished goods, spare parts which can sell and keep business continue. Food is an essential for our living and inventories are essential for the life of the business.

### Trade receivables

*“Trade receivables are amounts billed by a business to its customers when it delivers goods or services to them in the ordinary course of business.” – Accounting tools*

The fund, which is pending to receive in a year for the delivery of some services.

Similarly, the company has sold its products and services and payment from customers is still pending which is known as a trade receivable.

### Cash and bank balance

Surplus cash, which we kept in the savings account or cash comes from selling off any assets.

Similarly, the company has cash with their current accounts, or any investment/assets they sold off & cash generated from that transaction.

### Loan and advances

When a business firm gives any loan to its employees or to its sister concerns or to its directors then this loan is shown on the asset side of the balance sheet because it is recoverable in future as per the terms of conditions of loans given.

*“Advances are given for purposes against which either goods are to be received by company or services are to be received in near future. For example, advance may be given to the supplier of goods or services.” – Learn Accounts*

If we have given a loan to anyone, friends, relatives, etc. that is known as a loan and if we have made any advance payment then that is known as an advance.

Similarly, the company has given a loan to relative parties, employees, etc. and make an advance payment is known as a loan and advances.

If this loan and advances get settled within a year, then it will fall under the short-term loan and advances. And if will not be going to settle within a year, then fall under long term loan and advances.

So that first we collect funds from the different sources and then we deploy that fund to the different assets. If we carefully understand, then we are also experiencing every part of the balance sheet in our life which is as like the balance sheet of the company.



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**Disclaimer**

Above article is just my perception, and perception can be wrong. For me, my perception can be right but for others, it might be wrong.

**I am Grateful to**

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*As a founder of Lucky Idiot; My mission through “**Lucky Idiot**” is to educate novice investors and to distribute learning to more and more people in a simple manner.*

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