Twitter Thread by Intrinsic Compounding

Intrinsic Compounding
@soicfinance

The Basics of a Balance Sheet explained from scratch ■■■■

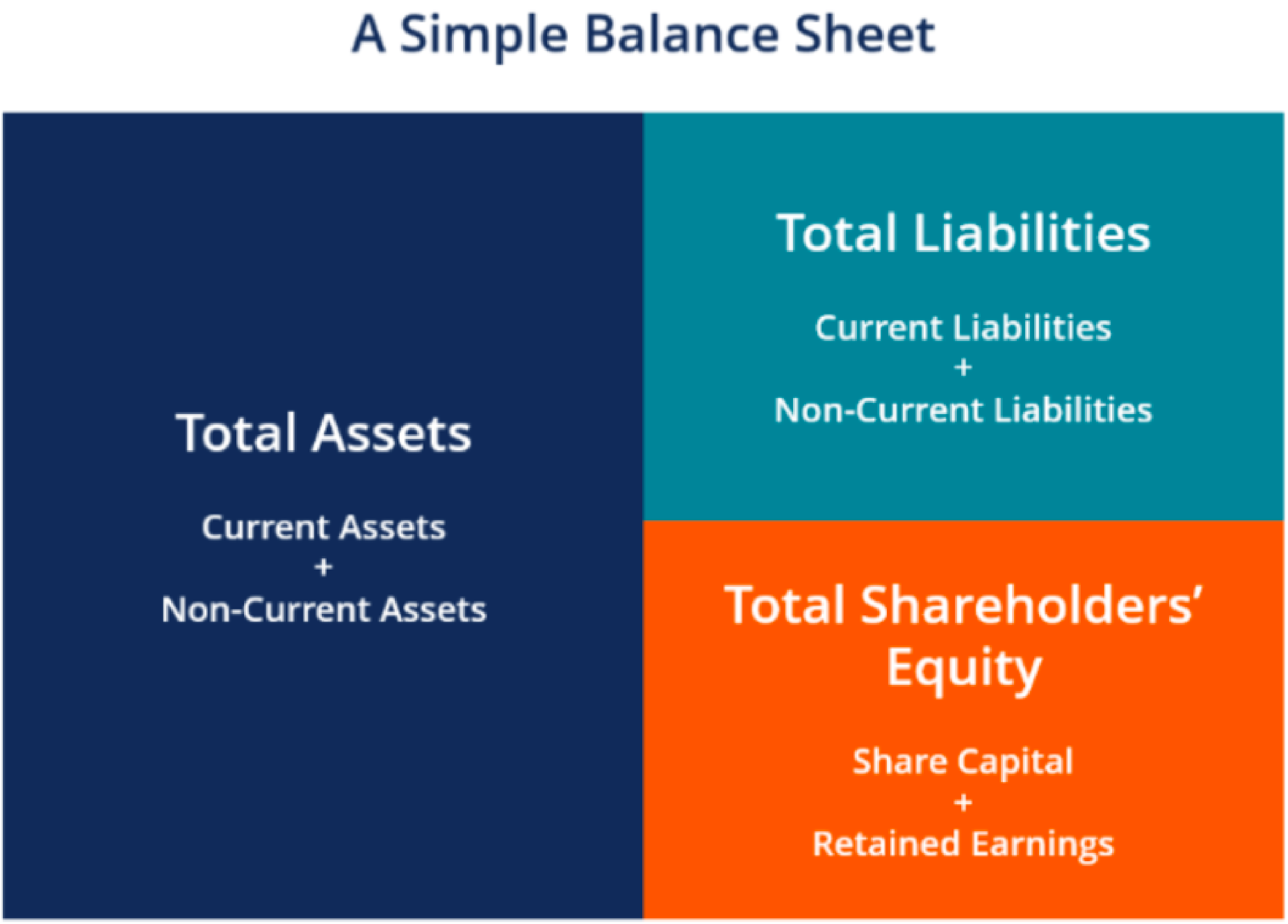
In this thread we will talk about -

1. What is Balance Sheet
2. How Balance Sheet is made?
3. Each line items of Balance Sheet
4. Why it is important

Retweet for max reach!

What is a Balance Sheet:

The balance sheet displays the company's total assets and how the assets are financed, either through debt or equity. It gives an idea of the financial health of an organization. It is like a snapshot of the financial position at a specified time.



Balance sheet consists of 3 components:

1■Assets
2■Equity
3■Liabilities

The balance sheet is based on the fundamental equation: Assets = Equity + Liabilities.

This is also the golden rule of Finance!

Now let's dig into each line item on the Balance sheet and understand why the Balance sheet always tallies.

Let's see how actual balance sheet looks like:

Balance Sheet as at March 31, 2022

(All amounts in crore rupees except for share data or as otherwise stated)

Particulars	Notes	March 31, 2022	March 31, 2021
ASSETS			
Non-current assets			
Property, plant and equipment	3	2,082.49	1,768.22
Right-of-use assets	40A	93.19	40.94
Capital work-in-progress	3	755.03	324.17
Intangible assets	4	10.55	8.88
Financial assets			
Investments	5A	361.72	318.89
Other financial assets	5C	46.22	39.60
Income tax assets (net)	16A	0.71	0.71
Other non-current assets	7A	54.05	82.33
Total non-current assets		**3,403.96**	**2,583.74**
Current assets			
Inventories	8	1,688.70	1,533.52
Financial assets			
Trade receivables	9	1,269.15	1,279.82
Cash and cash equivalents	10A	40.33	38.78
Other balances with banks	10B	0.23	-
Loans	5B	88.75	44.85
Other financial assets	5C	1.81	38.76
Other current assets	7B	115.60	105.72
Total current assets		**3,204.57**	**3,041.45**
Total assets		**6,608.53**	**5,625.19**
EQUITY AND LIABILITIES			
Equity			
Equity share capital	11	107.47	107.32
Other equity		3,280.74	2,604.92
Total equity		**3,388.21**	**2,712.24**
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	13A	549.67	382.64
Lease liabilities	40A	29.50	19.87
Provisions	15A	69.79	60.10
Deferred tax liability (net)	6	70.23	26.87
Other non-current liabilities	14A	67.03	71.84
Total non-current liabilities		**786.22**	**561.32**
Current liabilities			
Financial liabilities			
Borrowings	13B	1,069.99	1,006.88
Trade payables			
- total outstanding dues of micro enterprises and small enterprises	13C	75.63	32.41
- total outstanding dues of creditors other than micro enterprises and small enterprises	13C	773.60	1,126.13
Lease liabilities	40A	3.94	1.87
Other financial liabilities	13D	287.77	87.35
Other current liabilities	14B	179.33	72.70
Provisions	15B	15.78	12.27
Income tax liabilities (net)	16B	28.06	12.02
Total current liabilities		**2,434.10**	**2,351.63**
Total – equity and liabilities		**6,608.53**	**5,625.19**
Summary of significant accounting policies	2.2		

The accompanying notes are an integral part of the financial statements.

As per our report of even date

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
ICAI Firm Registration Number: 117366W/W-100018

For and on behalf of the Board of Directors
LAURUS LABS LIMITED

The first part of the BS is Assets.

Assets are those resources or things which the company owns. They can be divided into current as well as non-current assets or long term assets.

Non-current assets: Assets which cannot be easily converted to cash. Like buildings, machinery.

Current assets: Assets which can be easily converted into cash within a duration of one year. Examples are short-term deposits, marketable securities, and stock.

The first line item of Non-current assets is Property, Plant & Equipment (PP&E), PP&E captures the company's tangible fixed assets. Tangible assets are those which can be seen and felt. They have physical form.

The line item is recorded net of accumulated depreciation. PP&E is classified into different types of assets, like Land, Building, Office Equipment, Vehicles, computers etc. All PP&E are depreciable except for Land.

3. Property, plant and equipment

Particulars	Freehold land	Buildings	Plant and equipment	Furniture and fixtures	Computers	Vehicles	Total Property, plant and equipment
Gross carrying value							
As at March 31, 2020	**92.17**	**683.60**	**1,420.38**	**42.79**	**17.39**	**15.67**	**2,272.00**
Additions	31.80	52.56	222.34	3.09	2.50	6.61	318.90
Disposals	-	-	(0.10)	-	-	(4.36)	(4.46)
As at March 31, 2021	**123.97**	**736.16**	**1,642.62**	**45.88**	**19.89**	**17.92**	**2,586.44**
Additions	46.89	93.62	383.65	3.31	7.78	8.86	544.11
Disposals	-	-	(0.48)	-	-	(4.98)	(5.46)
As at March 31, 2022	**170.86**	**829.78**	**2,025.79**	**49.19**	**27.67**	**21.80**	**3,125.09**
Depreciation							
As at March 31, 2020	**-**	**100.94**	**494.25**	**17.68**	**10.63**	**6.95**	**630.45**
Charge for the year	-	30.15	150.25	3.92	2.96	3.82	191.10
Disposals	-	-	(0.03)	-	-	(3.30)	(3.33)
As at March 31, 2021	**-**	**131.09**	**644.47**	**21.60**	**13.59**	**7.47**	**818.22**
Charge for the year	-	33.60	182.83	4.00	3.35	4.88	228.66
Disposals	-	-	(0.42)	-	-	(3.86)	(4.28)
As at March 31, 2022	**-**	**164.69**	**826.88**	**25.60**	**16.94**	**8.49**	**1,042.60**
Net carrying value							
As at March 31, 2020	**92.17**	**582.66**	**926.13**	**25.11**	**6.76**	**8.72**	**1,641.55**
As at March 31, 2021	**123.97**	**605.07**	**998.15**	**24.28**	**6.30**	**10.45**	**1,768.22**
As at March 31, 2022	**170.86**	**665.09**	**1,198.91**	**23.59**	**10.73**	**13.31**	**2,082.49**

The next line item is Capital Work in Progress (CWIP): Those assets which are in the construction phase or are being built are termed as CWIP. These assets will move to PP&E once construction is completed.

(2) Capital work-in-progress (CWIP) ageing schedule:

For the year ended March 31, 2022

Particulars	Amount in CWIP for a period of				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
Projects in progress	672.69	80.76	1.58	-	755.03
Projects temporarily suspended	-	-	-	-	-

For the year ended March 31, 2021

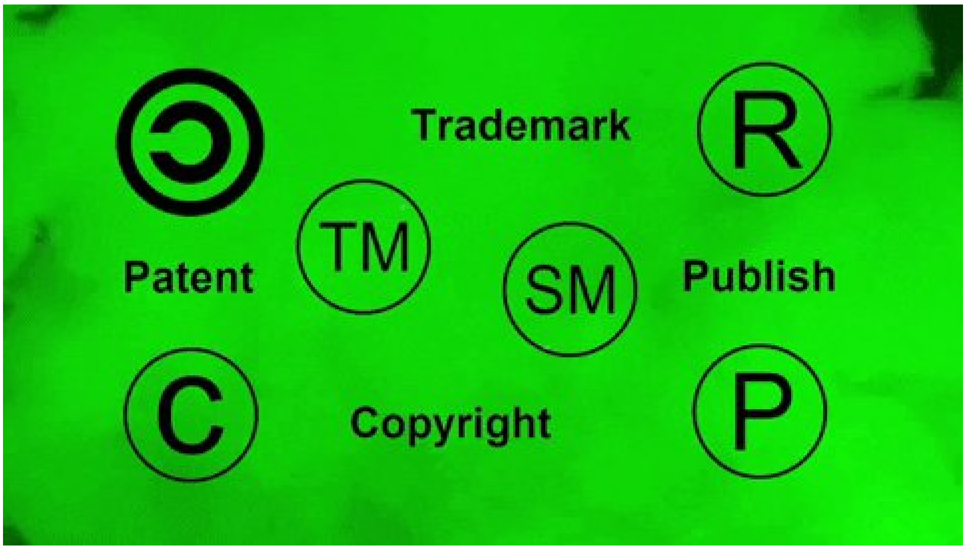
Particulars	Amount in CWIP for a period of				
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
Projects in progress	321.05	3.12	-	-	324.17
Projects temporarily suspended	-	-	-	-	-

There is no CWIP whose completion is overdue or has exceeded its cost compared to its initial plan

High CWIP as % of PPE can also be used as a screening filter for selecting companies, as high CWIP will eventually mean a company is adding a new plant and will generate more revenue in the near future.

The other item is Intangible Assets

This line item includes all of the company's intangible fixed assets, which may or may not be identifiable. Intangible assets include patents, licences, brand, software and goodwill.



It also includes Goodwill due to acquisition of another company, for example Company A buys Company B for 100 cr. But value of net asset of Company B is 80 cr then remaining 20 cr is goodwill and it will be shown under goodwill in Company A balance sheet.

Investors needs to be careful in companies where intangible assets as % of total assets is high because valuations of intangible assets are done on the basis of assumptions.

The management can easily fool the investors by doing acquisition at high cost & record goodwill in books

Let's understand it with an example of a US based company Teladoc Health. Teladoc is pioneer in virtual doctor visits. If we look at the financials of the company it has goodwill in his books which is more than 80% of total assets of the company.

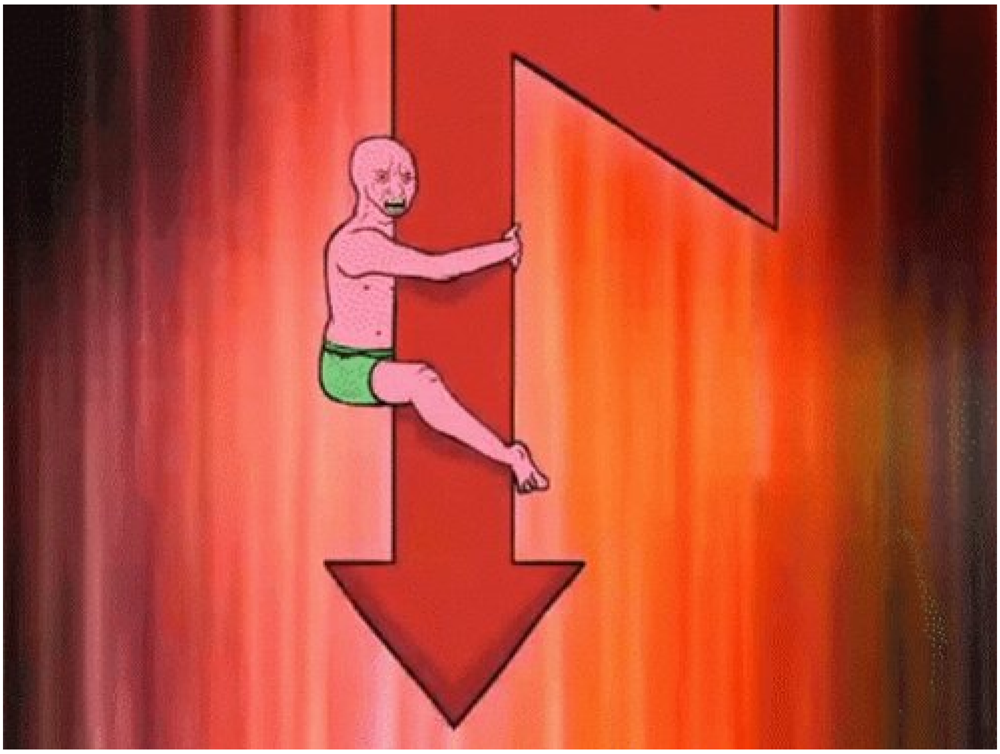
TELADOC HEALTH, INC.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 893,480	$ 733,324
Short-term investments	2,537	53,245
Accounts receivable, net of provision of $12,384 and $6,412, respectively	168,956	169,281
Inventories	73,079	56,498
Prepaid expenses and other current assets	87,387	47,259
Total current assets	1,225,439	1,059,607
Property and equipment, net	27,234	28,551
Goodwill	14,504,174	14,581,255
Intangible assets, net	1,910,278	2,020,864
Operating lease - right-of-use assets	46,780	46,647
Other assets	20,703	18,357
Total assets	$ 17,734,608	$ 17,755,281

In March 2022, it has written off $6.6 billion of goodwill which was in the books due to company's acquisition of remote health monitoring company Livongo. The share price of the company has fallen by more than 50% from the date of results.



Another such example from the Indian market is Quess Corp, if we look into its financials in FY2019 the company has total intangible assets of INR 1435 cr which is more than 28% of its Total Assets.

Consolidated Balance Sheet

as at 31 March 2019

(Amount in INR lakhs)

Particulars	Note	As at 31 March 2019	As at 31 March 2018
ASSETS			
Non-current assets			
Property, plant and equipment	3	23,544.26	23,249.12
Capital work-in-progress	3	33.71	18.87
Goodwill	4	117,686.43	109,593.33
Other intangible assets	5	24,405.39	30,320.77
Intangible assets under development	5	1,437.80	215.79
Investments in equity accounted investees	6	8,832.74	8,578.78
Financial assets			
Investments	6	165.50	297.74
Loans	7	24,243.29	5,150.58
Other financial assets	8	8,032.24	5,258.21
Deferred tax assets (net)	9	19,264.59	15,556.23
Income tax assets (net)	9	31,195.31	20,918.27
Other non-current assets	10	1,831.03	1,792.41
Total non-current assets		**260,672.29**	**220,950.10**
Current assets			
Inventories	11	2,208.18	849.45
Financial assets			
Investments	12	3,846.82	19,740.20
Trade receivables	13	91,319.04	92,067.85
Cash and cash equivalents	14	50,477.39	56,611.15
Bank balances other than cash and cash equivalents above	15	8,072.35	27,040.22
Loans	16	3,797.30	17,431.63
Unbilled revenue	17	70,321.95	47,287.46
Other financial assets	18	219.51	1,724.37
Other current assets	19	10,232.50	6,160.90
Total current assets		**240,495.04**	**268,913.23**
Total Assets		**501,167.33**	**489,863.33**

Then if we move a year forward then they have also done the impairment of goodwill in exceptional items and written off 660 cr of goodwill from balance sheet in FY2020.

Consolidated Statement of Profit and Loss

for the year ended 31 March 2020

(Amount in INR millions except per share data)

Particulars	Note	For the year ended 31 March 2020	31 March 2019
Income			
Revenue from operations	33	109,914.82	85,269.93
Other income	34	510.89	712.26
Total income		**110,425.71**	**85,982.19**
Expenses			
Cost of material and stores and spare parts consumed	35	2,670.55	2,624.05
Employee benefit expenses	36	90,634.38	67,132.12
Finance costs	37	1,668.01	1,143.99
Depreciation and amortisation expense	38	2,486.07	1,231.50
Other expenses	39	10,031.87	10,867.98
Total expenses		**107,490.88**	**82,999.64**
Profit before share of profit/(loss) of equity accounted investees, exceptional items and income tax		**2,934.83**	**2,982.55**
Share of profit/(loss) of equity accounted investees (net of income tax)	6	(138.33)	(88.09)
Profit/(loss) before exceptional items and tax		**2,796.50**	**2,894.46**
Exceptional items (Impairment of goodwill, intangibles and loans to associates)	40	6,640.52	-
(Loss)/profit before tax		**(3,844.02)**	**2,894.46**
Tax (expense)/credit			
Current tax: Minimum Alternative Tax ('MAT') for the year	9	(335.14)	(806.53)
Tax relating to earlier years	9	(2.76)	(38.40)
Deferred tax (including MAT credit entitlement)	9	(136.86)	515.96
Total tax expense		**(474.76)**	**(328.97)**
(Loss)/Profit for the year		**(4,318.78)**	**2,565.49**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement losses on defined benefit plans	49	(143.80)	(34.65)
Share of other comprehensive income of equity accounted investees (net of income tax)	6	(36.81)	16.24
Income tax relating to items that will not be reclassified to profit or loss	9	34.82	18.43
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translating financial statements of foreign operations		243.23	63.44
Other comprehensive income for the year, net of income tax		**97.44**	**63.46**
Total comprehensive (loss)/income for the year		**(4,221.34)**	**2,628.95**

The next line is Investments - All those investments which are held by the company, it includes investment in equity, debt, bonds, debenture, etc. It has 2 parts

1■Non current Investments - If holding for more than 1 year

2■Current Investments - If holding for less than 1 year

For example, PI Industries has done acquisition of some companies so that will be shown here under Non- current investments.

7 FINANCIAL ASSETS

7(a) NON-CURRENT INVESTMENTS

	As at March 31, 2021		As at March 31, 2020	
Investment in equity instruments (fully paid up)				
Unquoted shares				
Investment in equity instruments of wholly-owned subsidiary companies at Cost				
a) PILL Finance & Investment Limited	4		4	
3,60,000 (March 31, 2020 : 3,60,000) Equity Shares of ₹ 10 each fully paid				
b) PI Life Science Research Limited	104		104	
14,97,325 (March 31, 2020 : 14,97,325) Equity Shares of ₹ 10 each fully paid				
c) Isagro (Asia) Agro Chemicals Pvt. Limited	2,945		2,945	
14,862,903 (March 31, 2020 :14,862,903) Equity Shares of ₹ 10 each fully paid *				
d) Jivagro Limited	1,489		1,489	
148,829,030 (March 31, 2020 :200,00) Equity Shares of ₹ 10 each fully paid*				
e) PI Japan Company Limited	2		2	
100 (March 31, 2020 : 100) Equity Shares of ₹ 18,600 each fully paid - (JPY 50,000 each)				
f) PI Enzachem Private Limited	0		-	
10,000 (March 31, 2020 :NIL) Equity Shares of ₹ 10 each fully paid				
g) PI Fermachem Private Limited	0		-	
10,000 (March 31, 2020 :NIL) Equity Shares of ₹ 10 each fully paid				
		4,544		**4,544**
TOTAL		**4,544**		**4,544**
Aggregate amount of un-quoted investments		**4,544**		**4,544**
Aggregate amount of impairment in the value of investments		-		-

The next item is Other Financial Assets■■

It includes loans and advances which includes loans to related parties or loans to employees, it also covers deposits to govt authorities or security deposits for leases. It also includes advances given to suppliers.

B. Loans

Particulars	March 31, 2022	March 31, 2021
Current (unsecured, considered good unless otherwise stated)		
Other loans		
- Loans to employees	0.53	0.63
- Loans to related party*(Refer note no. 33)	88.22	44.22
Total	**88.75**	**44.85**

*Percentage to the total loans 99.4% (March 31, 2021: 98.6%)

C. Other financial assets

Particulars	March 31, 2022	March 31, 2021
Non-current (unsecured, considered good unless stated otherwise)		
Security deposits	25.71	19.09
Export and other incentives receivable *	20.51	20.51
Total	**46.22**	**39.60**
Current (unsecured, considered good unless stated otherwise)		
Export and other incentives receivable *	-	38.40
Insurance claim receivable	-	0.26
Derivative financial instruments - asset	1.81	0.10
Total	**1.81**	**38.76**

With these we complete the non-current assets section. Now, let’s move towards Current Assets

The first line item here is Inventories, which is the closing stock of finished goods, raw materials and work in progress.

8. Inventories

Particulars	March 31, 2022	March 31, 2021
(At lower of cost and net realisable value)		
Raw materials [including port stock and stock-in-transit ₹ 113.57 (March 31, 2021: ₹193.39)]	547.35	614.58
Work-in-progress	594.65	443.41
Finished goods	491.62	424.24
Stores, spares and packing materials	55.08	51.29
Total	**1,688.70**	**1,533.52**

The other item is trade receivables■■

It includes the balance of all sales revenue on credit, net of any allowances for doubtful accounts. As an investor we need to carefully check the inventory days & debtor days and compare the same within the industry.

9. Trade receivables

Particulars	March 31, 2022	March 31, 2021
Unsecured		
Considered good	1,246.60	1,259.93
Receivable from related parties (Refer note no. 33)	22.55	19.89
Credit impaired	0.30	0.35
	1,269.45	**1,280.17**
Less: Allowance for doubtful debts	(0.30)	(0.35)
Total	**1,269.15**	**1,279.82**

The last item on the Assets side is Cash & cash equivalents, it includes the cash in hand, bank balances and deposits with maturities less than 3 months. High balance in current account or cash in hand for a long period of time might be suspicious (Hint:- Satyam Scam)

12. CASH AND CASH EQUIVALENTS

₹ in Crores

	As at March 31, 2021	As at March 31, 2020
(a) Cash on hand	0.05	0.14
(b) Balances with banks		
In Current accounts	0.38	1.50
In EEFC Accounts	1.56	0.46
In Cash Credit Accounts	1.07	-
Total	**3.06**	**2.10**

With these now let’s move to other part of Balance Sheet i.e, Equity & Liabilities. As we discussed above Assets = Equity + Liabilities.

Meaning of Equity

Equity consists of 2 components

1■Equity Share Capital

2■Other Equity

Equity is also known as the Net Worth of the company

Equity Share Capital■■

It is the amount raised by the company at its face value. This is the value of funds that shareholders have invested in the company.

Share capital = No. of shares x Face value

For example, you started a new company say XYZ Ltd. today with investment of Rs. 1 Lakh and company issued 10,000 shares with face value of Rs. 10 each. Then in such case my share capital will be 1 lakh.

After 5 years co has launched its IPO and issued 1 lakh shares at a share price of 500 then here my face value will be 10 & securities premium (part of other equity) will be 490. Share capital will increase by 10 lakhs (1 lakh shares x Rs 10) and 490 lakhs will be in other equity

b) Other equity

Particulars	Reserves and surplus				Other comprehensive income		Total
	Capital reserve	Securities premium	Share based payments reserve	Retained Earnings	Effective portion of cash flow hedge	Re-measurement gains or losses on employee defined benefit plans	
As at March 31, 2020	**1.79**	**685.20**	**4.63**	**1,031.88**	**(9.40)**	**(5.21)**	**1,708.89**
Profit for the year	-	-	-	956.11	-	-	956.11
Expense arising from equity-settled share-based payment transactions	-	-	2.89	-	-	-	2.89
Transferred from stock options outstanding	-	9.57	(2.62)	-	-	-	6.95
Dividend on equity shares	-	-	-	(75.04)	-	-	(75.04)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	9.40	-	9.40
Remeasurement on net defined benefit liability, net of tax	-	-	-	-	-	(4.28)	(4.28)
As at March 31, 2021	**1.79**	**694.77**	**4.90**	**1,912.95**	**-**	**(9.49)**	**2,604.92**
Profit for the year	-	-	-	750.09	-	-	750.09
Expense arising from equity-settled share-based payment transactions	-	-	6.64	-	-	-	6.64
Transferred from stock options outstanding	-	6.55	(2.40)	-	-	-	4.15
Dividend on equity shares	-	-	-	(85.86)	-	-	(85.86)
Remeasurement on net defined benefit liability, net of tax	-	-	-	-	-	0.80	0.80
As at March 31, 2022	**1.79**	**701.32**	**9.14**	**2,577.18**	**-**	**(8.69)**	**3,280.74**

Note that the share capital of a company doesn't change on the basis of market price of share. It is always calculated on the basis of FV.

We like the companies where equity dilution is less. Equity dilution means raising money by issue of equity shares via QIP, Rights, ESOP.

However, in some industries like Banking and Finance. Since, these are leveraged entities, their Share capital will keep increasing over a period of time due to dilution.

As for Bank and Financials

Equity=Growth Capital+Safety Capital to abide by the regulatory norms!

The next component is Other Equity, it consist of following:
1■Retained Earnings
2■General Reserve
3■Securities Premium

Retained earnings are the accumulated profits of the company since inception. Basically net profit or loss in P&L will be transferred to retained earnings.

17. OTHER EQUITY

₹ in Crores

	As at March 31, 2021	As at March 31, 2020
Reserves & Surplus		
(a) Retained Earnings	1,288.07	934.73
(b) General Reserve	93.90	93.90
(c) Capital Reserve	0.71	0.71
(d) Capital Redemption Reserve	0.15	0.15
(e) Securities Premium	434.17	434.17
Reserves Representing Unrealised Gains/(Losses)		
(f) Equity Instruments through Other Comprehensive Income	0.47	0.39
Total	**1,817.47**	**1,464.05**

The next item here is the General Reserve■■

It is reserve created by the company for safety purpose like any loss due to contingencies like fire or any other loss.

Securities Premium■
It is the amount received by the company on issue of shares at price above face value.

As discussed in above example of share capital where we issues shares at 500, in that case my securities premium will be 490 per share.

In reserves investors needs to be careful if there is any event like writing off the provisions directly from reserves rather than P&L account.

Yes Bank in Q4 FY2022 has created a provision of 630 cr on few borrowers account. Normally all these provision should be charged to P&L so that Net Profit can show the correct picture but here they charged only 150 cr in P&L and remaining they directly reduced from reserves.

This is an example of Aggressive accounting■■■■

Yes Bank Limited
April 30, 2022

Kunal Shah: Sure lastly in terms of this three-borrower sort of accounts so this has been directly taken from reserves Rs.475 odd Crores kind of a note?

Niranjan Banodkar: So Kunal the requirement is that it needs to be taken in one fourth in one quarter and the balance three fourth you can rate over the remaining three quarters, which is what is getting spilled over to next year so we will take it in FY2023 so about Rs.150 Crores we have already taken in Q4.

Kunal Shah: So Rs.475 Crores is the gross number and we have considered Rs.150 odd Crores in the net worth at this moment and there will be further which will come in FY2023?

Niranjan Banodkar: Small correction we have taken Rs.633 Crores let us say is the total provisioning required of which about Rs.160 Crores is something we have taken in Q4. The balance Rs.475 Crores is being detected directly from reserves and surplus which means the entire Rs.630 Crores provisioning has been adjusted in the capex, but the P&L has had a Rs.150 Crores impact.

Kunal Shah: Okay so one fourth impact in P&L and three fourth impact taken from reserves?

Niranjan Banodkar: That is right.

We have seen the same in one pharma company as well where they didn’t charged the foreign currency losses in P&L rather they deducted it from reserves.

Investors should be very careful in such companies where they are artificially inflating the profits of the company.

Now the component of the Balance Sheet is Liabilities. In simple words Liabilities are the dues of the company.

These are also classified in 2 parts■

■Non current liabilities - Dues which are payable after 12 months
■Current Liabilities - Dues payable within 12 months

The first line item in Non-current liabilities is Long term Borrowing, these are loans and other financial obligations which are payable to banks or other institutions.

There are 2 types of borrowings■
1■Secured - It means these loans are against some asset pledged to the bank.

18. NON-CURRENT BORROWINGS

₹ in Crores

	As at March 31, 2021	As at March 31, 2020
Term Loans from Banks at amortised cost		
Secured	-	30.00
Sub-Total	-	30.00
Less:		
Current maturities of Non-Current Borrowings disclosed under "Other Current Financial Liabilities" (Refer Note 23 (a))	-	30.00
Total	**-**	**-**

Secured Term Loans:-

Term loan from Banks are secured by first pari passu charge by way of hypothecation of all existing movable property, plant and equipment and mortgage of immovable properties of the Company.

Repayment Schedule:-

Rate of interest of Rupee loan from Banks are in the range of MCLR plus 0.00% to 1.40% p.a. and is repayable on monthly/quarterly basis with last instalment payable from April, 2020 to March, 2026. The same has been repaid during current financial year.

2■Unsecured - These are loans which don't require collateral; these are generally from related parties like loans from directors.

The next line item is Lease Liabilities,

It is one of the most important area which many investors miss while analysing companies.

Lease liability is the new concept from FY2020 with the adoption of new Accounting standard Ind AS 116: Leases. Previously the lease rentals which we pay is directly charged to P&L accounts & there was no requirement of creating lease liability and Right of Use Asset (ROU Asset).

But with the introduction of Ind AS 116 now all leases are to be recognized in the balance sheet as an Asset and Liability. The lease liability is measured at present value of lease payments to be made over lease term.

On the lease liability we will charge interest which will be reflected in P&L. With liability we will also create an asset called ROU Asset and it will depreciated over a period of lease term.

Lease=Long term debt=Liabilities

ROU=Assets

Thus, it balances!!

Net impact of the above change■

Profit & Loss Statement - Increase in EBITDA (no lease rentals) but consequent decrease in initial years in net profit (higher depreciation & interest cost).

Balance Sheet - Increase in Assets & Liabilities

Let’s understand the impact of this new standard on books of Jubilant Foodworks as they have many stores on leases and this industry along with aviation, real estate, hotel and retail is highly impacted.

They have shown P&L as per the IND AS 116 adjustments■■

To the extent the performance of the current period is not comparable with previous period results, the reconciliation of above effect on statement of profit and loss for the quarter and year ended 31st March, 2020 are as under:

₹ in lakhs

Adjustments to increase/ (decrease) in net profit	Year ended March 31, 2020 comparable basis	Changes due to Ind AS 116 increase/ (decrease)	Year ended March 31, 2020 as reported
Other Income	**6,792.18**	169.37	**6,961.55**
Rent	**38,489.89**	(30,117.25)	**8,372.64**
Other Expenses	**119,101.52**	(297.10)	**118,804.42**
Depreciation and amortisation expense	**16,895.81**	18,331.91	**35,227.72**
Finance cost	**16.16**	16,507.34	**16,523.50**
Profit before tax	**44,534.15**	**(4,255.53)**	**40,278.62**
Less: Tax expense	**9,843.68**	2,555.05	**12,398.73**
Profit after tax	**34,690.47**	**(6,810.58)**	**27,879.89**

Their Rent expenses has been reduced drastically from 385 cr to 84 cr and depreciation and finance cost has increased due to dep on ROU asset and interest on lease liability.

The next item we will discuss is Provisions

These are the amount the company has provided for future obligations like gratuity payable to employees or leave encashment for employees, warranty claims that can arise in future These are also bifurcated between current & non current

16 PROVISIONS

	Non- Current		Current	
	As at March 31, 2021	As at March 31, 2020	As at March 31, 2021	As at March 31, 2020
Provision for employee benefits				
Long term compensated absences	-	-	185	157
Gratuity (Refer Note no. 30)	96	124	6	7
	96	124	191	164
Provisions for legal claims	-	-	265	260
TOTAL	96	124	456	424

Deferred Tax Liabilities/ Assets:

First understand what is the need of deferred tax. So as we know company prepares book of accounts as per Companies Act whereas they need to pay tax as per Income Tax Act, in both these acts there are some differences which leads to DTA or DTL.

Say a company purchased an asset of 1 lakh as per co act they can charge dep @ 20% so dep in books will be 20k. But as per IT Act they can charge dep only @ 15% so dep will be 15k only which leads to difference of 5k. Now assuming tax rate is 30% so there will be DTA of 1500.

And the opposite of this creates the Deferred Tax liabilities!

At the end of the day, taxes are always paid as per the Income Tax Act :)

The last line item in Balance Sheet is Trade Payables which is amount payable to suppliers for example, if we purchased any raw material on credit then it will be shown here.

Here companies are required to show trade payables in 2 parts
1■Dues to MSME
2■Dues to others

15(c) TRADE PAYABLES

	As at March 31, 2021	As at March 31, 2020
Trade payables		
-Due to micro and small enterprises (Refer Note 36)	319	83
-Other trade payables	7,641	5,826
TOTAL	7,960	5,909

Thank you so much for reading!

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