Salesian Journal of Humanities & Social Sciences, Vol. VI, No. 1 (May 2015)
ISSN: 0976-1861 | DOI: 10.51818/SJHSS.06.2015.102-104 | Page No: 102-104 | Section: Book Reviews

Understanding Balance Sheet by Prof. Dr. Satish B. Mathur, Macmillan India Limited, 2005, 231 pages, Rs.165, ISBN 1403-92811-8, ISBN 9781403928115.

Uma Chettri is presently working in a public sector bank. She has done her M.Com from University of North Bengal. She has qualified U.G.C. NET for Lecturership in Commerce. She is interested in topics related to banking and finance.

Satish B Mathur was a former Professor in Indian Institute of Management (IIML), Lucknow (1996-2003). He mentors Mathur Management Consultants (MMC), Lucknow. He was a Senior Member of the Faculty at the Administrative Staff College of India (ASCI), Hyderabad (1988-95), and a Senior Executive with the State Bank of India (1961-88).

Professor M. Dubey, IFS is an MA (Economics), Gold medallist, Patna University and former Foreign Secretary, Government of India.

The author has tried to give the basic ideas and concepts of the various components of balance sheet and utilizing them for the interpretation of financial position of the company. He has presented substantial examples and explained the concepts.

The first chapter gives the introduction on various financial statements like balance sheet, profit and loss account and sources and application of Fund statement. The author describes the Balance sheet as a 'static picture' of the financial position of a company on a specific date and warns the possibility of 'window dressing'. Thus, such statement should be supported by related documents like schedules, notes, auditor's report and director's report.

The second chapter explains the 'basic concepts and conventions' used in framing the balance sheet and profit and loss account. Generally six concepts are followed in framing balance sheet and five concepts in framing the profit and loss account. Balance sheet can be presented vertically or horizontally.

The dissection of Balance sheet starts in the third chapter. Liability and asset are the two main component of balance sheet. Liability, which the author calls 'sources of fund', comprises of share capital, reserve and surplus, secured loans, unsecured loans and current liabilities in order of their permanency. Share capital can be divided into equity and preference shares. The equity shareholders are the owners of the company and share the profit or loss of the company. He then describes the concept of equity capital which consists of authorised capital, issued capital, subscribed and paid-up capital and other terms related to it.

As for the preference shares he mentions its types with their specific features. Reserve and surplus is the portion of net profit that has not been distributed. Then the next item can be secured loans -loans backed by charge on some tangible assets. Term loans, working capital loans and debenture capital are the types of secured loan found in the liability side of the final accounts, he mentions. Next he writes about unsecured loans-loans having no charge against

Salesian Journal of Humanities & Social Sciences, Vol. VI, No. 1 (May 2015)
ISSN: 0976-1861 | DOI: 10.51818/SJHSS.06.2015.102-104 | Page No: 102-104 | Section: Book Reviews

any tangible assets. Public deposits, loans from promoters, inter-corporate loans, loans from commercial banks and term-lending institutions are some of the examples the author has given. The last item remains current liabilities and provisions. Perfect demarcation is made by author among these two items. He points current liabilities as items of payment which are payable within one year from the date of balance sheet and items which are due for payment within twelve months from the date of balance sheet but have not been paid so far are provisions. Examples, provision for taxes, dividends, bad debts etc.

Fixed asset is the first item that the author enlists from the asset side of balance sheet. Fixed asset are the items that helps in generating income for the business directly or indirectly. As for the investment he classifies it into long-term and short-term investment. Current assets form an important component in asset column. They are the items which are intended for sale. He also mentions about quick asset which is current asset excluding inventories. And finally fictitious assets, items of expenditure which have not been taken into account.

After balance sheet, profit and loss account is taken in the fourth chapter. He enlists the items of profit and loss account. The account contains all the income and expenses incurred during a particular period and discloses the profit earned or loss incurred. The author explains various items that appear in the profit and loss account in sequence. Firstly the net sales, which is the amount of total sales less the amount of sales return, commission, and discount paid, etc. Secondly, cost of goods sold/cost of production which is the total cost incurred for manufacturing the goods for sale. It comprises of material cost, labour cost and other overheads. With the difference in net sales and cost of production we obtain gross profit/loss. Thirdly he mentions about operating expenses-expense incurred during the process of business activities.

The difference of gross profit and operating expenses is termed as operating profit/loss. With the adjustment of non-operating surplus/deficit, surplus/deficit arising from sources other than company's main line of business, against operating profit/loss we obtain profit before interest and taxes (PBIT). Now to obtain profit after tax (PAT), the author directs to subtract interest and taxes from PBIT. And this amount of PAT is finally allocated as dividend to preference and equity shareholders and some amount transferred to reserves in profit and loss appropriation account. The author draws the attention to the difference between profit calculated from such account and cash profit. Cash profit excludes the amount of depreciation which is considered a non-cash transaction. The author explains the whole process of profit calculation with a simple example.

Rather than studying the amounts in balance sheet, proper analysis of financial performance of the organisation can be done through the technique of ratio analysis. In the fifth chapter the author has presented various ratios that can be indicator of financial performance of an organisation. Financial qualities like liquidity, profitability, leverage, turnover and earning capacity can be very well analysed with the ratios. This ratio is composed of different components of balance sheet. As for liquidity the author mentions about current ratio, which is current asset÷current liabilities. This ratio denotes the company's ability to pay back its short-terms debts and dues in time. Profitability ratio can be PBIT÷sales*100, which denotes the profit

Salesian Journal of Humanities & Social Sciences, Vol. VI, No. 1 (May 2015)
ISSN: 0976-1861 | DOI: 10.51818/SJHSS.06.2015.102-104 | Page No: 102-104| Section: Book Reviews

earning capacity of a business firm. Leverage ratio can be debt-equity ratio, which shows the mixture of debt and owner's fund.

In the sixth and seventh chapter the author has taken two companies namely BAL (Balaji Automobiles Limited) and ANNL (Ayah Niryat Nigam Limited). Their past year's profit and loss account and the balance sheet have been taken to analyse various ratios. After such analysis he has suggested some measures for improving their financial ratios and ultimately financial performance.

After balance sheet and profit and loss account the author now comes to sources and application of funds statement in the eighth chapter. Here he classifies the items of balance sheet as sources or application of fund. Sources of fund means, the method by which fund can be raised and utilised in a business. According to the author liabilities are the sources of fund. So the fund in an organisation can be increased with increase in liabilities or decrease in assets. As for the application of fund he mentions that assets are the application (uses) of fund. There is use of funds if there is increase in assets or decrease in liabilities. The author lays the importance of this statement in making comparison with past statements and comparing the status and position of various items of the balance sheet.

The author tries to strike the cord in the final chapter by helping the readers in making managerial decisions. He discusses about BEP(Break-Even Point)-the point where companies have no profit or loss or CVP(Cost-Volume-Profit) analysis which are important tools and techniques for making decisions related to volume of production, sales revenue, make or buy decision, profit projection and product pricing decision. It is an important tool for planning the business activity.