



**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)



# **Women & Young Members Excellence Committee**

*Organises*

**यशस्विनी - An IDOL- Live Webinar**



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# BALANCE SHEET ANALYSIS

## INTERPRETATION OF FINANCIAL RISK

LAKSHMI R RAO

## WHY DO WE NEED TO ANALYSE BALANCE SHEET

- BALANCE SHEET ANALYSIS IS REQUIRED FOR UNDERSTANDING OF A COMPANY'S FINANCIAL HEALTH AND PERFORMANCE :

- IT EMPOWERS INVESTORS TO MAKE DECISIONS
- IT HELPS LENDERS TO TAKE DECISIONS
- HELPS USERS LIKE GOVT. REGULATORS FOR DECISION MAKING
- HELPS COMPETITORS

ANALYSIS HELPS INTERPRET A COMPANY'S FINANCIAL RISKS BY EXAMINING ITS ASSETS, LIABILITIES, AND EQUITY, ALLOWING STAKEHOLDERS TO ASSESS LIQUIDITY, SOLVENCY, AND OVERALL FINANCIAL HEALTH, AND MAKE INFORMED DECISIONS.



## NEGATIVE APPROACH

- THE NEGATIVE CONCEPTION DESCRIBES RISK AS A THREAT OF POTENTIAL LOSS.

## POSITIVE APPROACH

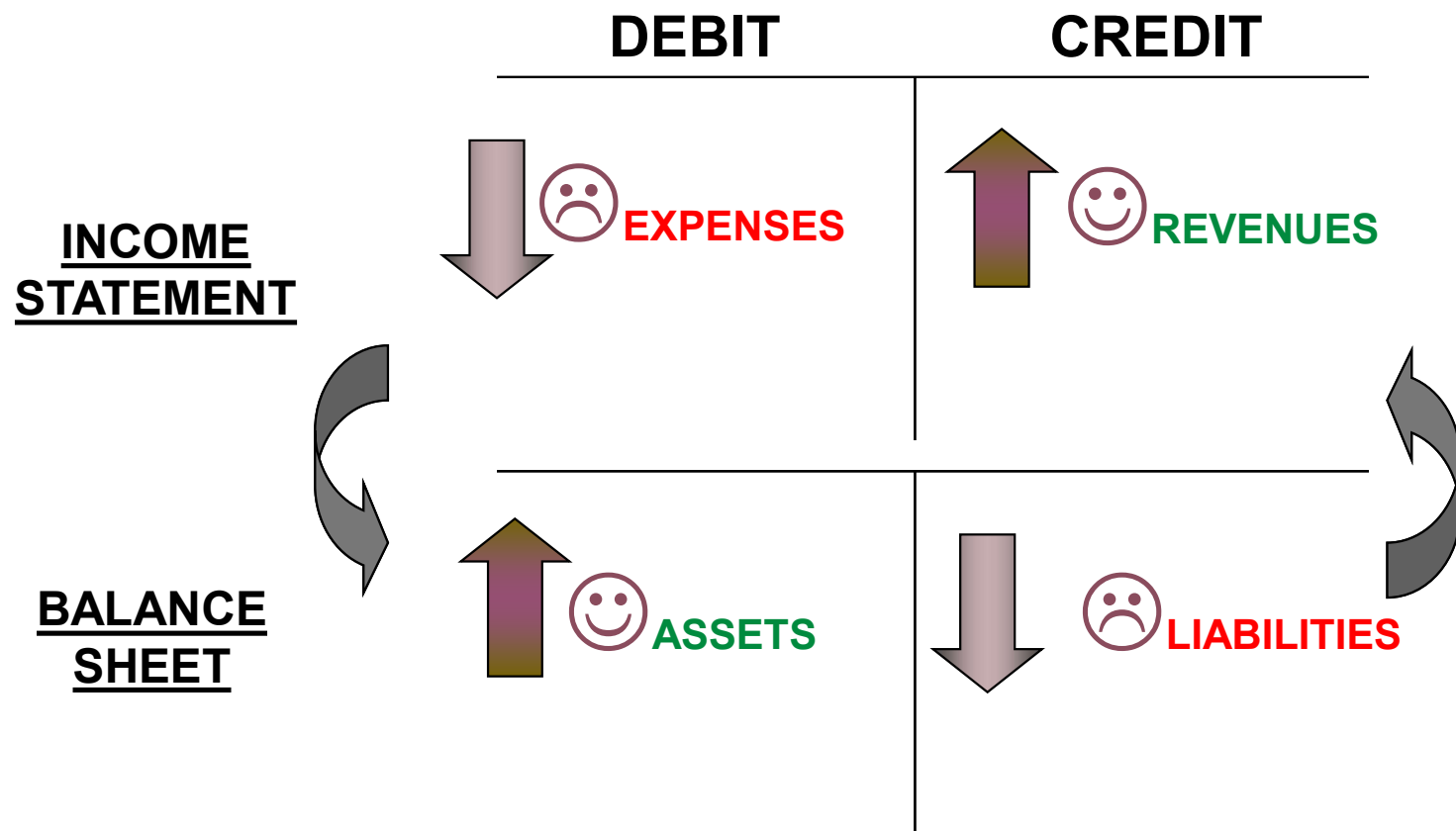
- TO MINIMISE THE POTENTIAL LOSS
- AVOID RISKY ACTIONS IN ORDER TO STABILIZE THE SITUATION OF THE COMPANY\
- NOT ONLY TRY TO MINIMIZE THE LOSS, BUT ALSO TRY TO TAKE ADVANTAGE OF THE UNDERTAKEN RISK AND IMPROVE THE FINANCIAL AFFAIRS

## NEUTRAL CONCEPTION

- THE NEUTRAL CONCEPT SUGGESTS THAT RISK IS NOT ONLY THREAT BUT ALSO AN OPPORTUNITY.

SO THE RISK MEANS THE POSSIBILITY OF OBTAINING RESULTS DIFFERENT THAN EXPECTED

# The Accounting Equation - A schematic explanation of how Errors and Manipulations arise



# Balance Sheet As At March 31, 2022

Rs in Lakhs

	Note No.	As at March 31, 2022	As at March 31, 2021
<b>ASSETS</b>			
<b>1. Non-Current Assets</b>			
Property, Plant and Equipment	2	17,931.98	22,255.86
Capital Work-in-Progress	2	41,296.80	41,296.80
Intangible Assets	2	2,227.00	2,227.00
Other Non-Current Assets	3	662.35	689.63
Financial Assets			
Investments	4	6,365.00	-
<b>Total Non-Current Assets</b>		<b>68,483.13</b>	<b>66,469.28</b>
<b>2. Current Assets</b>			
Financial Assets			
Investments	5	23,712.53	648.28
Trade Receivables	6	60.22	60.22
Cash and Cash Equivalents	7	63.12	32.43
Bank Balances Other Than The Above	8	1.49	1.49
Other Financial Assets	9	20,727.80	19,948.23
<b>Total Current Assets</b>		<b>44,565.16</b>	<b>20,690.66</b>

Note No. 2 - Property, Plant & Equipment

S.NO.	PARTICULARS	GROSS BLOCK			DEPRECIATION BLOCK			Loss on Imparement of Fixed assets	NET BLOCK	
		COST AS ON 01.04.2020	ADDITIONS DURING THE YEAR	TOTAL AS ON 31.03.2021	UPTO 01.04.2020	FOR THE PERIOD 31ST MAR 2021	UPTO 31.03.2021		NET CARRYING AMOUNT AS ON 31.03.2021	NET CARRYING AMOUNT AS ON 01.04.2020
1	(I)Tangible Assets									
	Building & Improvements	3.34	-	3.34	-	-	-	-	3.34	3.34
2	Leasehold Improvements & Furniture Fittings									
		40,698.58	-	40,698.58	21,663.88	2,157.63	23,821.51	-	16,877.06	19,034.70
3	Plant & Equipments	7,042.19	-	7,042.19	3,220.88	306.05	3,526.93	-	3,515.26	3,821.31
4	Office Equipments	2,365.97	-	2,365.97	1,894.20	249.74	2,143.94	-	222.03	471.78
5	IT Equipments	19,113.33	-	19,113.33	15,205.46	2,269.71	17,475.17	-	1,638.15	3,907.86
	<b>TOTAL</b>	<b>69,223.41</b>	<b>-</b>	<b>69,223.41</b>	<b>41,984.42</b>	<b>4,983.13</b>	<b>46,967.55</b>	<b>-</b>	<b>22,255.86</b>	<b>27,238.99</b>
	(II) Intangible assets									
	Previous Year									
1	Brands	2,227.00	-	2,227.00	-	-	-	-	2,227.00	2,227.00
	<b>TOTAL</b>	<b>2,227.00</b>	<b>-</b>	<b>2,227.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,227.00</b>	<b>2,227.00</b>



## TYPES OF FINANCIAL RISKS

1. Financial risk is a type of threat that can result in a loss of **CAPITAL** to stakeholders
2. Are everywhere and impact us in several different ways and sizes
3. One should be aware of all the financial risks and understanding the threats and protecting yourself
4. This won't remove the risk, but it will definitely minimise their harm



# WHY UNDERSTANDING FINANCIAL RISKS ARE IMPORTANT

1. THE POSSIBILITY OF DEFAULT ON ADVANCES BUT MAY ALSO EXPERIENCE FAILURE IN REPAYMENTS WHICH CAUSES A FINANCIAL BURDEN ON THE BANKS (LENDERS).
2. THAT COULD JEOPARDISE THEIR INCOME OR ABILITY TO GIVE FRESH ADVANCES
3. THE POSSIBILITY OF SECTORS OR LARGE CORPORATIONS DEFAULTING RESULTING IN WIPE OFF OF HUGE INCOME AND ADVANCES

# HOW TO UNDERSTAND FINANCIAL RISKS

## FROM INTERNAL FACTORS OF THE COMPANY

- THE INTERNAL FACTORS ARE THE DEVELOPMENTS WITHIN THE COMPANY
- THE INTERNAL FACTORS CAN BE UNDERSTOOD BY ANALYSING THE FINANCIAL STATEMENTS, ANNUAL RETURNS, DIRECTORS REPORTS, NOTES TO ACCOUNTS, AUDITORS REPORTS, FILINGS WITH ROC, STOCK STATEMENTS ETC

## FROM EXTERNAL FACTORS OF THE COMPANY

- EXTERNAL FACTORS ARE THE POLITICAL, ECONOMIC OR SOCIAL CONDITIONS THAT AFFECT A COMPANY'S PERFORMANCE, SUCH AS ECONOMIC CRISES, EXCHANGE RATE INSTABILITY, VARIATIONS IN AN INDUSTRY



# HOW TO UNDERSTAND FINANCIAL STATEMENTS

UNDERSTANDING THE EXTERNAL FACTORS EFFECTING FINANCIAL STATEMENTS

- CANCELLATION OF 2G / COAL LICENCES / US TARIFF
- ANY CHANGES IN GOVT NOTIFICATIONS EFFECTING THE COMPANY TOP LINE
- ANY INDIRECT OR DIRECT EFFECT ON FINANCIALS DUE TO CHANGES IN GOVT POLICY

EARLY EFFECT OF THESE CHANGES

- STOCK MARKETS
- DEMAND SUPPLY
- STOCK STATEMENTS SUBMITTED TO BANKS
- TRANSACTION VOLUMES IN THE CC / CURRENT ACCOUNTS MAINTAINED WITH THE LENDERS

# HOW TO UNDERSTAND FINANCIAL RISKS

contd...

## ANALYSIS OF BALANCE SHEET

EVERY INCREASE IN LIABILITY IS NOT NECESSERILY HAVE EQUAL INCREASE IN ASSETS

EXAMPLE : UNPAID INTEREST ( LIABILITY ) DOES NOT INCREASE ANY ASSET IN BALANCE SHEET.

EVERY INCREASE IN ASSET IS NOT NECESSERILY HAVE EQUAL INCREASE IN LIABILITIES

EXAMPLE : DEBTORS CONVERTED TO LOANS AND ADVANCES ( BOTH HAS EFFECT IN ASSETS SIDE )



# HOW TO UNDERSTAND FINANCIAL STATEMENTS

## NON CASH FLOW TRANSACTIONS

- REQUIRE TO IDENTIFY THE NON CASH FLOW TRANSACTIONS WHICH HAS EFFECT IN THE BALANCE SHEET
- DEFERRED REVENUE EXPENDITURE / ASSET ARE SUCH TRANSACTIONS
- INCREASE IN BORROWING DUE TO RESTRUCTURING ETC
- INVOKED BG / LC

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# HOW TO UNDERSTAND FINANCIAL STATEMENTS

## OLD CASH FLOWS BUT EFFECT GIVEN NOW :

- ASSET WRITE OFFS – CWIP / DEBTORS / LOANS AND ADVANCES GIVEN ARE GENERALLY WRITTEN OFF ( THESE ARE CASH FLOWS- WRITING OFF MAY INVOLVE DIVERSION OR SIPHONING OFF
- WRITE OFF OF UNSECURED LOANS / ICDS
- CONVERSION OF ONE PARTY LIABILITY TO ANOTHER THROUGH JOURNAL ENTRIES



# Common Pitfalls to Avoid When Conducting Balance Sheet Analysis for Credit Risk Assessment

- **SURFACE-LEVEL ANALYSIS:** DON'T RELY ON NUMBERS ALONE WITHOUT INVESTIGATING UNDERLYING FACTORS AND TRENDS
- **IGNORING QUALITATIVE FACTORS:** TAKE INTO ACCOUNT INDUSTRY TRENDS, MARKET CONDITIONS, AND MANAGEMENT CAPABILITIES
- **NEGLECTING CONTEXT:** CONSIDER INDUSTRY NORMS, GROWTH STAGE, AND UNIQUE CIRCUMSTANCES
- **OVERLOOKING OFF-BALANCE-SHEET ITEMS:** VALIDATE LEASE OBLIGATIONS, CONTINGENT LIABILITIES, AND CONTRACTUAL OBLIGATIONS
- **OUTDATED OR INCORRECT INFORMATION:** FOR ACCURATE ANALYSIS, DATA SHOULD BE UPDATED AND VERIFIED REGULARLY
- **INCOMPLETE FINANCIAL PICTURE:** COMPLEMENT BALANCE SHEET ANALYSIS WITH OTHER FINANCIAL STATEMENTS IF THE PICTURE IS INCOMPLETE
- **DISREGARDING FUTURE PROSPECTS:** CONSIDER GROWTH POTENTIAL AND ADAPTABILITY TO CHANGING MARKET CONDITIONS INSTEAD OF FUTURE PROSPECTS

# Balance Sheet Analysis Evolved in Recent Years With the Rise of Fintech and Automation

THE BALANCE SHEET'S INTEGRATION WITH ARTIFICIAL INTELLIGENCE (AI) AND MACHINE LEARNING ALGORITHMS HAS FURTHER ENHANCED ITS ABILITY TO DETECT PATTERNS, IDENTIFY ANOMALIES, AND MAKE DATA-DRIVEN PREDICTIONS. ALL IN ALL, THIS HAS ENHANCED THE DEPTH AND PRECISION OF BALANCE SHEET ANALYSIS.

THIS IS HOW ONE COULD ACCESS THE ANALYSIS EASILY IN THE SEARCH ENGINES AND IN BROKERS' WEBSITES ETC



The background is a solid blue gradient. Overlaid on this are numerous thin, white, curved lines that flow from the left side towards the right, creating a sense of motion and depth. These lines vary in density and curvature, some forming larger, more defined waves while others are more subtle.

ANY QUESTIONS ?

THANK YOU