

Financial Accounting

Assignment 2: Profit And Loss

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Assigned Company Name: Fermenta Biotech Limited (FBL)

1. Summarized income statement equation for the last two years (in Rs. Crores) & Comments:

A) Income Statement of FY1617 and FY1516:

Equation: Total Revenue – Total Expense = Net Income (Loss) for the Period (PBT)

FY	Total Revenue	Total Expenses	PBT	Tax Expenses	PAT
FY1617	161.5	149.4	11.8	2.2	9.6
FY1516	149.8	133.7	16.1	4.3	11.8
% Change	8%	12%	-27%	-48%	-19%

B) Comments: On comparing the income statements of FY1617 with FY1516, it is clear that even though the Total Revenue has increased by 8%, the Net Income (PBT) has decreased by 27% due to a 12% increase in Total Expenses. The rise in Total Expenses is mainly contributed by the Cost of Materials Consumed to manufacture the products sold. The effect of decrease in Net Income (PBT) on Profit After Tax (PAT) has reduced due to a 48% fall observed in Tax Expenses incurred by the Company during FY1617.

2. Five biggest items as part of the “sales/revenue/income” and “expenses/dividends/deductions”:

A) 5 Big Items:

Topic	Particulars	Mar-17	Mar-16	Net Change	% of Total Income/Expense
Income	Gross sales	160.8	150.0	7%	99.5%
Expense	Cost of material consumed	76.0	62.8	21%	50.7%
Expense	Other expenses	48.1	38.3	25%	32.1%
Expense	Employee benefit expense	22.6	20.4	11%	15.1%
Expense	Depreciation and amortization	7.0	6.5	6%	4.6%

B) Comments:

- Gross Sales: 99.5% of the income is contributed by Gross Sales and remaining is done by Other Income.
- Cost of material consumed: As FBL is a manufacturing company, the cost of materials Consumed contributes to over 50% of the Expenses in the Income Statement.
- Other Expenses: A big portion of bad debt is anticipated by FBL as the provision for doubtful debt and advances (net) has increased by 4234% from ₹0.1 Cr (FY1516) to ₹4.3 Cr (FY1617).
- Employee Benefit Expenses: An increase in gratuity (165%) & staff welfare expenses (31%) are the major contributors to the net change in this category.
- Depreciation & Amortization: As FBL has acquired a new property, plant and equipment in FY1617, we can see an increase in the depreciation amount (12%).

3. One item that is probably missing and mention one item that you have found interesting:

- Missing Item: **Extra Ordinary Items** which are strategic in nature, for example: income that could comprise of earnings from selling a land or a division of the firm is missing from the profit and loss statement.
- Interesting Item: Under **Total Tax Expense**, a 48% dip is observed in FY1617 (₹2.2 Cr) as compared to FY1516 (₹4.3 Cr). This decrease is largely contributed by Deferred Tax Charge which goes to show

that benefits received from the government for pharmaceutical businesses have improved tremendously from last financial year.

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