

## Birla 3M Limited<sup>1</sup>

Birla 3M was established in the year 1987 and was in the business of manufacturing telecommunication components, healthcare products, electrical products and pressure sensitive tapes. The company had collaboration and strategic investments from 3M Corporation, which was set up almost a century ago in the United States. The company is divided into four business sectors comprising of:

1. Commercial and consumer goods
2. Industrial electrical and electronic goods
3. Information and imaging technology
4. Life sciences.

The company had posted an excellent growth in the year 2000, by focussing on its core technological strengths. The balance sheet as on 31<sup>st</sup> December 1999 is given in Exhibit 1. During the year, the company had posted an impressive sales turnover of Rs.2,084,706<sup>2</sup> (assume that all sales were on credit). The details of cash receipts of the company during the year is given below:

Details	Amount (Rs)
Interest received (after Tax deducted at source, Rs.255)	4,351
Commission received	2,245
Export incentives	1,437
Miscellaneous income	87
Bad debts written off in the past years, recovered	2,108
Proceeds from sale of fixed assets (Gross value Rs.5,544 and accumulated depreciation Rs.1,394)	2,801
Receipts from debtors	1,955,394
Secured loans from financial institutions	51,215
Unsecured loans taken from banks	110,000
<b>Total</b>	<b>2,129,638</b>

The following are the details of other transactions during the year:

### 1. Purchases and Inventory

Details:	Purchases (Amount Rs.)	Closing Stock (Amount Rs)
Finished goods <sup>3</sup>	1,054,428	229,423
Raw material	266,626	60,889
Stores and spares and packing material	30,679	9,352
Work in process		14,136

Assume that all purchases were usually made on credit.

<sup>1</sup> Prepared by Professor M S Sriram, based on published annual report of the company. Some items have been reclassified for purposes of clarity and simplicity. The author would like to thank Profs. Ramesh Gupta and Shailesh Gandhi for useful inputs on the case.

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<sup>2</sup> All figures in the case are in thousands.

<sup>3</sup> Includes Closing Stock of goods manufactured and finished goods purchased.

The following items were fully paid for in cash during the year:

Details	Amount (Rs.)
Power fuel and water	13,957
Salaries, wages and bonus – Manufacturing	60,069
Salaries - Administrative	81,600
Rent, rates and taxes - Manufacturing	61,468
Repairs – plant and machinery	4,846
Repairs- others	8,256
Communication, travel and conveyance	54,898
Insurance and legal charges	23,606
Advertisement and sales promotion	47,118
Other sundry expenses	61,836
Interest to banks	32,359
Excise duty paid	95,743
Advance tax paid to Income tax department	90,326
Payments to creditors	1,292,051
Purchase of freehold land	3,022
Improvements to land	27,554
Purchase of fixed assets	198,559

The following adjustments were to be considered:

Provision for doubtful debts to be created	8,567
Write off of bad debts	2,382
Balance of advance excise duty at the end of the year	16,421
Depreciation for the year – land improvements	2,342
Depreciation of other fixed assets	45,208
Write off of Miscellaneous expenditure for the year	501
Interest payable	8,285
Taxation to be provided for the year	92,938

Apart from the above transactions, the company had transferred Rs.7,467 of capital work in progress to the fixed assets on completion of work. During the year as per the lease-cum-sale agreement entered with the Government of Karnataka, Rs.4,785 worth of leasehold land was transferred to freehold land. This amount was paid for a few years ago when the land was originally taken on lease and the title was transferred to the company during the year.

You are required to work out the following:

1. The income statement for the year ended 31 December 2000
2. The balance sheet as on that date.
3. Ledger accounts to show calculations that are not shown in the income statement.

## Exhibit 1

<b>Birla 3M Limited</b>			
<b>Balance sheet as at 31st December, 1999</b>			
<b>Particulars</b>	<b>Amount (Rs)</b>		
<b>Sources of Funds:</b>			
<i>Shareholders' Funds</i>			
Share capital 11265070 Equity Shares of Rs.10 each			112,650
<i>Reserves and Surplus</i>			
Capital reserve		2,000	
Share premium account		94,990	
Investment allowance reserve		1,225	
Balance in Profit and Loss account		239,564	337,779
<i>Loan Funds</i>			
Secured loans from financial institutions		1,102	
Unsecured loans from banks		270,000	271,102
<b>Total</b>			<b>721,531</b>
<b>Application of Funds</b>			
<i>Fixed Assets</i>			
Leasehold land			32,639
Improvements to leasehold land		4,422	
Less Accumulated depreciation		776	3,646
<i>Other Fixed Assets</i>			
Gross block		338,435	
Accumulated depreciation		153,181	185,254
Capital work in progress			7,641
<i>Investments</i>			
			16
<i>Net Current Assets</i>			
Inventories			
Raw material	49,535		
Work in process	8,489		
Finished goods	175,077		
Stores, spares and packing materials	8,179	241,279	
Sundry debtors	402,595		
Less provision for doubtful debts	2,990	399,605	
Cash		90,207	
Advance Excise duty		19,918	
Advance Income tax		90,951	
<i>Total Current Assets</i>		841,960	
<i>Less Current Liabilities and Provisions</i>			
Trade creditors	253,916		
Provision for Tax	96,335	350,251	491,709
<i>Miscellaneous Expenditure</i>			
			626
<b>Total</b>			<b>721,531</b>