DEPARTMENT OF BUSINESS MANAGEMENT

PREFACE

Course : **MBA I Year I SEM**
Academic Year : **2016-17**
Name of the Subject : **FINANCIAL ACCOUNTING AND ANALYSIS**
Prescribed Textbook : **DHANESH K. KHATRI – Financial Accounting and Analysis**
Nature of the Subject : **Common Paper**

(Students must read text book. Faculty is free to choose any other cases)

Course Aim: The aim of accounting is to provide the information that is needed for sound economic decision making. The main purpose is to provide information about firm's performance to external parties such as investors, creditors, bankers, researchers and Government Agencies. It has become an important part of young people's education and citizens in various roles in the societies and business of all types.

Learning Objective: To prepare, understand, interpret and analyse financial statements with confidence. To appreciate and use financial statements as means of business communication.

Unit-I

Introduction to Accounting: Importance, Objectives and principles, GAAP- Accounting Concepts and Conventions; Double entry system- recording business transactions- Classification of accounts- Accounting cycle- Users of accounting information.

Objective: The objective of the study is to know the basic principles upon which the accounting is based and its importance.

Outcomes: It helps to understand the principles of accounting and enables students to prepare and analyse the books of accounts.

Overview: In all activities (whether business activities or non-business activities) and in all organizations (whether business organizations like a manufacturing entity or trading entity or non-business organizations like schools, colleges, hospitals, libraries, clubs, temples, political parties) which require money and other economic resources, accounting is required to account for these resources. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function. Accounting as a discipline was introduced to have permanent and systematic record of business transactions. This would help a business person to record all relevant business transactions, to ascertain the profit earned during a particular period and finally evaluate the financial position of his/ her business.

This unit explains the accounting principles, concepts, conventions and accounting rules to be followed to record the transactions.

Unit-II

The Accounting Process: Overview, Books of Original record; Journal, Ledger, Trial balance, classification of capital and revenue expenses, final accounts with adjustments. Cash books and other Subsidiary books.

Objective: To apply the theoretical principles studied in the previous unit while preparing the final accounts and to understand the nature and concept of types of expenses, types of cash books and subsidiary books.

Outcomes: After pursuing this unit students will come to know the preparation and maintenance of final accounts, cash books and subsidiary books.

Overview: This lesson helps in understanding the nature of direct expenses, indirect expenses to prepare the trading account, profit & Loss account and the financial statement (Balance sheet).

In business you incur expenditure on two types of items:

1. Routine items like stationery, postage, repairs, salaries, etc., where the benefit is available for a short period, and
2. Fixed assets like machinery, building, furniture, etc., whose benefit is available over a number of years.

In accounting terminology the first category of expenditure is called revenue expenditure and the second one is called capital expenditure.

Unit-III

Depreciation: Concept- Depreciation of Fixed Assets- Methods of Depreciation- their impact on measurement of business Accounting- Straight Line method, Written down Value method (Problems).
Shares and Debentures: Entries for issue of shares, forfeiture- Issue of shares at Discount and premium. Issue and Redemption of Debentures.

Objective: The objective of the study is to know the concept of Depreciation and its types. To learn the entries for issue of shares, forfeiture and redemption of shares.
Outcomes: Enables students to understand the nature of fixed assets and preparation of depreciation account, valuation of assets, assets account, shares issued and allotted etc.,

Overview: This lesson explains the various methods of Depreciation, Selection of Depreciation Methods, Changing the Depreciation Method, Disposal of Depreciable Assets.

Depreciation is the decrease in the value of the asset because of its continuous usage, wear and tear, lapse of time, obsolescence etc. These costs or expenses or periodic write offs are known by different names for different category of assets which will be explained in detail in this unit.

A “share” has been defined by the Indian Companies Act, under sec.2(46) as “A share is the share in the Capital of the Company”.

TYPES OF SHARES: Company can issue two types of shares - Equity and Preference.

(a) Equity Shares: Equity shares means that part of the share capital which is not a Preference share capital. It means all such shares which are not Preference shares. Equity shares are also called as Ordinary Shares.

(b) Preference Shares: Preference shares are those shares which fulfil both the following two conditions:

(i) They carry preferential share right in respect of dividend at a fixed rate,

(ii) They also carry preferential right in regard to payment of capital on winding up of the company.

Journal entries related to the issue of shares will be discussed in this unit.

Unit-IV

Financial Analysis- I: Statement of changes in Working Capital, Funds from Operations, Paid costs and unpaid costs. Preparation and analysis of cash flow statement and funds flow statement.

Objective: The objective of the study is to know the importance of working capital, cash flows and fund flows in the business operations.

Out come: By the end of this unit student will learn the preparation of statement of changes in working capital, cash flow statement and funds flow statement.

Overview: A cash flow statement, when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the

ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.
The term "Fund" refers to Cash, to Cash Equivalents or to Working Capital and all financial resources which are used in business. These total resources of a concern are in the form of men, materials, money, plant and equipments and others. In a broader meaning the word "Fund" refers to Working Capital. The Working Capital indicates the difference between current assets and current liabilities. The term working capital may be :
(a) Gross Working Capital and
(b) Net Working Capital.

Unit-V

Financial Analysis- II: Analysis and interpretation of financial statements from investor and company point of view, horizontal analysis and vertical analysis of company, financial statements. Liquidity, leverage, solvency and profitability ratios- Du Pont Chart – Accounting standards issued by ICAI-IFRS-creative-window Dressing and limitations of financial statements. Accounting packages: Importance, uses, introduction to Tally- features.

Objective: The objective of the study is to know the analysis and interpretation of financial statements of a real time companies. To understand the usage of accounting packages in the present electronic world.

Out Come: At the end of this chapter student will be able to analyze the financial statements of the company with various tools viz. common size, comparative analysis and ratio analysis.

Overview: Financial statements are formal records of the financial activities of a business, person, or other entity and provide an overview of a business or per son's financial condition in both short and long term. They give an accurate picture of a company's condition and operating results in a condensed form. Financial statements are used as a management tool primarily by company executives and investor's in assessing the overall position and operating results of the company. Analysis and interpretation of financial statements help in determining the liquidity position, long term solvency, financial viability and Profitability of a firm. Ratio analysis shows whether the company is improving or deteriorating in past years. Moreover, Comparison of different aspects of all the firms can be done effectively with this. It helps the clients to decide in which firm the risk is less or in which one they should invest so that maximum benefit can be earned.

The main purpose of this chapter is to provide an overview of the use of ratios in the analysis of the statements of comprehensive income and financial position Ratios describe the relationship between different items in the financial statements. Obviously, we could calculate hundreds of ratios from a set of financial statements; the expertise lies in knowing which ratios provide relevant information.

Section – A	Section – B	Section - C
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