

# BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI

II Semester 2019-20

## Course Handout

Date: January 6, 2020

In addition to part -I (General Handout for all courses appended to the time table) this portion gives further specific details regarding the course.

**Course No.** : ECON F212

**Course Title** : FUNDAMENTALS OF FINANCE & ACCOUNTING

**Instructor-in-charge** : Prof. Niranjan Swain, niranjanswain@hyderabad.bits-pilani.ac.in

**Instructor** : Dr. Nagaraju Thota, nagaraju@hyderabad.bits-pilani.ac.in

### 1. Scope and Objective:

This course is an introduction to the reporting system used by businesses to convey financial information to users external to the enterprise and the basics of financial markets and financial management. In the first part of the course, primary emphasis will be on understanding the financial reports that are the end products of the accounting system- what they tell us about a business enterprise. The accounting principles, conventions and concepts underlying financial reporting will be examined with the objective of developing ability to interpret and analyze financial statements. The second part will emphasize the financial markets; financial institutions, financial market reforms; primary and secondary markets and sources of investment information.

### 2. Text Books:

TB1: Horngren, Sundem, Elliott and Philbrick, "Introduction to Financial Accounting", Pearson Education India Ltd., 9<sup>th</sup> edition, 2008.

TB2: Anthony Saunders and Marcia Millon Cornet, "Financial Markets and Institutions", 6th Edition

TB3: Bhole, L.M. and Jitendra Mahakud, "Financial Institutions & Markets: Structure, Growth and Innovations" Tata McGraw Hill, 5th edition, 2009

### Ref. Books:

R1: Gitman, "Principles of Managerial Finance," Pearson Education, 10<sup>th</sup> Ed, 2004

R2: Fabozzi, "Foundations of Financial Markets & Institutions," Pearson, 3<sup>rd</sup> ed., 2004

R3: Pathak, Indian Financial System," Pearson Education, 2<sup>nd</sup> ed., 2008.

R4: Mishkin, F.S., Eakins, S.G., Jayakumar, T. and Pattnaik, R.K, "Financial Markets and Institutions", Eighth edition

Course Plan :

	Topics	No. of Lectures	Chapter in the Text Book
<b>Accounting Module</b>			
1	Introduction to Accounting : Types and significance	3	Ch.1, TB1
2	Accounting Rules and Concepts - Rationale	4	Ch.1, TB1
3	Recording transactions and preparing financial statements – Statement of Income & Expenditure,	6	Ch.3, TB1

	Statement of Sources & Application of Fund, and Funds Flow Statement		
4	Financial Reporting and Analysis: Inventories and Long-lived Assets	3	Ch.7, TB1
5	Evaluating Quality of Financial Reports	2	Study material
6	Cost Analysis for Performance Improvement - Understanding different cost concepts, Behaviour (variable & super variable costs) and their relevance in day-to-day business activities;	2	Study material
7	Financial Statement Analysis and Interpretation	4	Ch.12, TB1 and Additional Study material
	<b>Finance Module</b>		
8	Introduction to Financial System, Securities and markets	2	TB1: Ch1
9	Interest rates and their role in valuation – term structure Of interest rates- yield curves	4	TB2: Ch2 & 3, TB3: Ch27 & 28 R4. 3,4, & 5
10	Indian Financial System: Instruments (Features and behavior, uses ), Markets and Players	7	TB2: 5, 6 & 8, TB3: Ch16,17,18,19,22 & 23
11	Introduction to foreign exchange market	2	TB2 Ch9 TB3: Ch25 R4: Ch14 & 15
12	Introduction to financial derivatives	2	TB2: Ch10 TB3: Ch 24
	<b>TOTAL</b>	<b>41</b>	

### **Key Takeaway from Accounting Module:**

#### **Introduction to Accounting - Types and significance:**

- Accounting is essential if an organization wants to grow its business in a way that can be measured and predicted. Having a system of tracking business' assets, liabilities, and income lets organization to make smart, informed business decisions based on the past performance and present financial health of your company. In view of this, students will be able to understand the concept and types of accounting and their relevance both from internal and external stakeholders' perspectives.

#### **Accounting Rules and Concepts - Rationale:**

- The accounting concepts and principles are important for accountants, as they need to abide by them every time they involve in analyzing, recording, summarizing, reporting and interpreting financial transactions of a business. ... GAAP is based on the core following principles. In this module, students will be able to appreciate rationale behind accounting concepts and in absence what could be potential distortion in financial reporting practices.

#### **Recording transactions and preparing financial statements:**

- The financial reporting focuses on the role of financial accounting principles and processes in creating and reporting an organization's financial statements. In this module, students will be able to use financial accounting principles to create and/or process an organization's financial statements and understand how and why transactions are recorded and reported. Hence, students will have appreciation of impact of financial reporting on financial statements.

### **Financial Reporting and Analysis: Inventories and Long-lived Assets**

Assets generate revenue and involve cost (fixed and variable). Operating efficiency of an organization depends on how effectively assets (resources) are utilized. **Studying inventories will enable students to:**

- distinguish between costs included in inventories and costs recognized as expenses in the period in which they are incurred;
- describe different inventory valuation methods (cost formulas);
- calculate and compare cost of sales, gross profit, and ending inventory using different inventory valuation methods and using perpetual and periodic inventory systems;
- calculate and explain how inflation and deflation of inventory costs affect the financial statements and ratios of companies that use different inventory valuation methods;
- explain LIFO reserve and LIFO liquidation and their effects on financial statements and ratios; f convert a company's reported financial statements from LIFO to FIFO for purposes of comparison;
- describe the measurement of inventory at the lower of cost and net realizable value;
- describe implications of valuing inventory at net realizable value for financial statements and ratios;
- describe the financial statement presentation of and disclosures relating to inventories;
- explain issues that analysts should consider when examining a company's inventory disclosures and other sources of information;
- calculate and compare ratios of companies, including companies that use different inventory methods;
- analyze and compare the financial statements of companies, including companies that use different inventory methods.

#### **Studying long-lived assets, students should be able to:**

- distinguish between costs that are capitalized and costs that are expensed in the period in which they are incurred;
- compare the financial reporting of the following types of intangible assets: purchased, internally developed, acquired in a business combination;
- explain and evaluate how capitalizing versus expensing costs in the period in which they are incurred affects financial statements and ratios;
- describe the different depreciation methods for property, plant, and equipment and calculate depreciation expense;
- describe how the choice of depreciation method and assumptions concerning useful life and residual value affect depreciation expense, financial statements, and ratios;

- describe the different amortization methods for intangible assets with finite lives and calculate amortization expense;
- describe how the choice of amortization method and assumptions concerning useful life and residual value affect amortization expense, financial statements, and ratios;
- describe the revaluation model;
- explain the impairment of property, plant, and equipment and intangible assets;
- explain the derecognition of property, plant, and equipment and intangible assets;
- explain and evaluate how impairment, revaluation, and derecognition of property, plant, and equipment and intangible assets affect financial statements and ratios;
- describe the financial statement presentation of and disclosures relating to property, plant, and equipment and intangible assets;
- analyze and interpret financial statement disclosures regarding property, plant, and equipment and intangible assets;
- compare the financial reporting of investment property with that of property, plant, and equipment;
- explain and evaluate how leasing rather than purchasing assets affects financial statements and ratios;
- explain and evaluate how finance leases and operating leases affect financial statements and ratios from the perspective of both the lessor and the lessee.

**Evaluating Quality of Financial Reports: This module will enable students to:**

- understand the use of a conceptual framework for assessing the quality of a company's reports;
- understand potential problems that affect the quality of financial reports;
- describe and understand how to evaluate the quality of a company's financial reports;
- describe indicators of earnings quality and explaining mean reversion in earnings and how the accruals component of earnings affects the speed of mean reversion;
- evaluate the earnings quality of a company and describe indicators of cash flow quality; and
- describe indicators of quality of cash flow and balance sheet, and evaluate the cash flow and balance sheet quality of a company;

**Cost Analysis for Performance Improvement: This module will equip students to**

- understand various cost concepts and their significance;
- appreciate the significance of various functions/departments;
- understand how different activities drive cost across of an organisation; and
- identify and measure the cost of doing various activities.

**Financial Statement Analysis: This module will enable students to:**

- read and understand the financial statement viz. balance sheet, income statement and statement of funds flows of your company;
- redesign the income statement for better analysis and management reporting purpose;

- appreciate the importance of book profit and net operating cash flow in today's business i.e. liquidity versus profitability;
- understand and analyse the impact of accounts receivables on working capital requirement.
- analyse financial performance and position of an organization, do comparative and industry analysis using various financial and non-financial ratios.

**Key Takeaway from Finance Module:**

- Importance of financial markets and institutions in modern economy
- Various financial instruments – characteristics, risks and factors affecting the returns
- How to trade in various securities
- Role of banks and other financial institutions like insurance companies and investment banks with special focus on India
- Indian debt markets – trend and challenges
- Evolution of the Indian capital (Primary and secondary) market.
- Structure of the Indian foreign exchange market - Devaluation, depreciation, and appreciation of the currency; Currency convertibility and its prerequisites and the dangers of currency convertibility.
- Financial innovation and role of derivatives in risk management

**4. Evaluation Scheme:**

Component	Duration	Weightage	Date & Time	Nature of Component
Mid Sem Test	90 Minutes	30	1/3 11.00 - 12.30 PM	CB = 30
Quiz		25 +5		<b>CB+ OB</b>
<b>Assignment (Financial Statement Analysis &amp; Interpretation, and Financial Markets)</b>		<b>10</b>		CB
Comprehensive Examination	3 Hours	25+5	03/05 FN	CB +OB

**5. Chamber Consultation Hour:** With prior appointment plus Tuesday and Thursday 3 to 4 PM; K229).

**6. Notices:** Notices concerning the course will be displayed on Econ/fin or on LTC notice boards.

**7. Academic Honesty and Integrity Policy:** Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

**Assignment**

Details will be communicated through CMS.

**Instructor In-Charge  
ECON F212**