

BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI

II Semester 2018-19

Course Handout

07-01-2019

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 : Dr. Niranjan Swain

Instructor : Dr. Thota Nagaraju

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 market reforms; primary and secondary markets; sources of investment information; portfolio selection, preliminary concepts of financial management etc.

2. Text Books:

TB1: Horngren, Sundem, Elliott and Philbrick, "Introduction to Financial Accounting", Pearson Education India Ltd., 9th 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, 10th Ed, 2004

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

R3: Pathak, Indian Financial System," Pearson Education, 2nd ed., 2008.

Course Plan :

	Topics	No. of Lectures	Chapter in the Text Book
Finance Module			
1	Introduction to Financial System, Securities, markets & analysis	3	Ch.1,Ch.2, TB2,
2	Indian Financial System: Instruments (Features and behavior, uses), Markets and Players	4	Ch. 3 , 4,5 6,7, Ch. 16, 17, 18,& 19 ,
3	Risk and return of securities - Debt and Equity	5	Ch.10,11,12,13 &14
4	Basics of Foreign Exchange Market	2	Ch. 25 TB 2

Accounting Module			
5	Introduction to Accounting : Types and significance	3	Ch.1, TB1
6	Accounting Rules and Concepts - Rationale	2	Ch.1, TB1
7	Recording transactions and preparing financial statements – Statement of Income & Expenditure, Statement of Sources & Application of Fund, and Funds Flow Statement	6	Ch.3, TB1
8	Financial Reporting and Analysis: Inventories and Long-lived Assets	3	Ch.7, TB1
9	Employee Compensation: Post-Employment and Share-Based	2	Study material
10	Financial Disclosure – Multinational Operations	2	Study material
11	Evaluating Quality of Financial Reports	2	Study material
12	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
13	Financial Statement Analysis and Interpretation	4	Ch.12, TB1 and Additional Study material
	TOTAL	40	

Key Takeaway from Finance Module:

Indian Financial System:

- Reserve Bank of Indian (RBI) and its functions; Monetary and Credit policies in India; Repo rates and reverse repo rates.
- Structure of the indigenous Indian banking system; Household sector dominance in the aggregate savings; Cash credit and overdrafts.
- The structure of the Indian commercial banking system and Evolution of Non-Bank Financial Intermediaries in India.
- Reasons for the expansion of the debt market in India; SEBI and its role in the Indian capital market development; Evolution of the Indian capital (Primary and secondary) market.
- Evolution and performance of Small Savings, Provident Fund and Pension Funds, Insurance. Companies, UTI and Mutual Funds in India.
- Inter-bank call market and development of the call money market in India; Call rate in India; Call rate vs bank rate and Reasons of call rate volatility.
- Nature and characteristics of the Treasury (such as 91, 182 and 364 days) Bills in India; Limitations of the Indian Treasury Bill market.
- Evolution of the Indian Commercial Bill Markets and characteristics of a well-developed Bill Markets; Factors behind the underdevelopment of the Bills markets in India.
- Evolution, development and performance of the Indian Commercial Paper (CPs) and Certificate of Deposits (CDs); Commercial Paper (CPs) and Certificate of

Deposits (CDs) markets: Size and interest rates; RBI initiatives to further develop the Commercial Paper (CPs) and Certificate of Deposits (CDs) markets in India.

- Structure of the Indian foreign exchange market; Risk management (Tools) in the Indian foreign exchange market; Foreign exchange market efficiency, exchange rate determinants and types of the exchange rates; Devaluation, depreciation, and appreciation of the currency; Currency convertibility and its prerequisites and the dangers of currency convertibility.
- Foreign Exchange Reserve Management in India; Capital Account Convertibility and its implications on Indian Economy.

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.

Employee Compensation: Post-Employment and Share-Based:

Objective of an organization is to maximize its stakeholders' wealth by retaining and rewarding employees. This module will enable students to:

- understand types of post-employment benefit plans and implications for financial reports;
- calculate measures of a defined benefit pension obligation and net pension liability (or asset);
- explain and calculate how adjusting for items of pension and other post-employment benefits that are reported in the notes to the financial statements affects financial statements and ratio;
- interpret pension plan note disclosure including cash flow related information;
- explain issues associated with accounting for share-based compensation; and
- understand how accounting for stock grants and stock options affects financial statements, and the importance of companies' assumptions in valuing these grants and options.

Financial Disclosure – Multinational Operations: This module will enable students to:

- distinguish among presentation (reporting) currency, functional currency, and local currency;
- describe foreign currency transaction exposure, including accounting for disclosures about foreign currency transaction gains and losses;
- analyze how changes in exchange rates affect the translated sales of the subsidiary and parent company;
- compare the current rate method and temporal method, evaluate how each affects the parent company's balance sheet and income statement, and determine which method is appropriate in various scenarios;
- analyze how multinational operations affects a company's effective tax rate; and
- analyze how currency fluctuations potentially affect financial result, given a company's countries of operation.

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.

4. Evaluation Scheme:

Component	Duration	Weightage	Date & Time	Nature of Component
Mid Sem Test	90 Minutes	30	12/3 3.30 - 5.00 PM	CB = 20, OB = 10
Assignment (Financial Statement Analysis & Interpretation, and Financial Markets)		10		Open Book
Quiz		20		CB
Comprehensive Examination	3 Hours	40	04/05 AN	CB

5. Chamber Consultation Hour: With prior appointment (TBA).

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

Instructor In-Charge
ECON F212