Unit 1 (Introduction to Stock Market - 1)

Need to invest

1. Investing gives your money the opportunity to earn more money through things like stocks, bonds, or real estate.
2. Over time, your investment can potentially grow, allowing you to have more money in the future.
3. Inflation is when the cost of goods and services goes up over time, meaning your money can buy less in the future.
4. By investing, you have a chance to earn returns that outpace inflation, helping your money maintain its purchasing power.
5. Whether it's saving for retirement, buying a house, or funding your child's education, investing can help you reach your financial goals faster than just saving money in a bank account.
6. Some investments, like rental properties or dividend-paying stocks, can provide you with regular income without requiring you to actively work for it.

SEBI

1. SEBI stands for the Securities and Exchange Board of India. It's the regulatory body responsible for overseeing the securities markets in India. Here are some key functions of SEBI
2. SEBI regulates the securities markets in India to ensure fair and transparent trading practices.
3. It formulates rules and regulations for various participants in the market, such as stock exchanges, brokers, and listed companies.
4. SEBI works to protect the interests of investors by ensuring that they are provided with accurate and timely information about investments.
5. It aims to enhance market liquidity, efficiency, and transparency.
6. SEBI has the authority to investigate and take enforcement actions against violations of securities laws.
7. It imposes penalties and sanctions on individuals and entities found guilty of market manipulation, insider trading, or other misconduct.

RBI

The Reserve Bank of India (RBI) is the central banking institution of India. It's responsible for regulating the country's monetary policy, issuing currency, and overseeing the banking sector.

1. One of the primary functions of the RBI is to formulate and implement monetary policy to achieve price stability and economic growth.
2. The RBI is the sole authority responsible for issuing currency notes and coins in India.
3. It manages the supply of currency in circulation and ensures the availability of an adequate amount of currency to meet the demand of the public.
4. It intervenes in the foreign exchange market to stabilize the exchange rate and maintain the external value of the Indian rupee.
5. The RBI regulates and supervises the banking sector in India to maintain financial stability and protect the interests of depositors.

Stock Broker

1. A stock broker is a licensed financial professional who facilitates the buying and selling of stocks, bonds, mutual funds, and other securities on behalf of investors.
2. They act as intermediaries between buyers and sellers in financial markets.
3. Stock brokers can work for brokerage firms, investment banks, or independently.
4. They execute trades based on the instructions of their clients and provide advice and guidance on investment decisions.
5. They may also offer additional services such as portfolio management, investment research, and financial planning
6. Stock brokers must be knowledgeable about the financial markets, various investment products, and regulatory requirements.
7. They typically earn commissions or fees based on the volume or value of trades they execute for their clients.

Financial intermediaries

Financial intermediaries play a crucial role in the economy by facilitating the flow of funds between savers and borrowers. They bridge the gap between those who have excess funds (savers) and those who need funds (borrowers). Here are some common types of financial intermediaries:

1. Banks: They accept deposits from individuals and businesses and provide loans and other financial services such as checking and savings accounts,

2. Insurance Companies: Insurance companies collect premiums from individuals and businesses in exchange for providing insurance coverage against various risks such as life, health, property, and liability.

3. Pension Funds: Pension funds manage retirement savings on behalf of individuals or employees of organizations.

4. Mutual Funds: Mutual funds pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities.

Demat Account

1. The Demat full form stands for a Dematerialised Account.

2. Demat is a form of an online portfolio that holds a customer's shares and other securities.

3.It/ has negated the necessity of holding and trading physical share certificates.
4. A Demat account is used to hold shares and securities in an electronic (dematerialised) format.
5. These accounts can also be used to create a portfolio of one's bonds, ETFs, mutual funds, and similar stock market assets.
6. It provides quick & easy access to all your investments and statements through net banking.
7. It uses quick & easy methods to receive dividends, interest or refunds.
8. It is all auto-credited in the account.
9. It also uses Electronic Clearing Service (ECS) for updating investors' accounts with stock splits, bonus issues, rights, public issues, etc.

IPO

1. An IPO is an initial public offering, in which shares of a private company are made available to the public for the first time.

2. An IPO allows a company to raise equity capital from public investors.

3. The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors.

4. Meanwhile, it also allows public investors to participate in the offering.

5. Companies must meet requirements by exchanges and the Securities and Exchange Commission (SEC) to hold an IPO.

6. Companies hire investment banks to market, gauge demand, set the IPO price and date, and more.

Minimum Criteria for IPO

1. Minimum equity capital: Rs. 5 crores
2. Minimum float: 20% of the company's shares must be available for public trading
3. Profitability: The company must have made profits in at least two years
4. Age: The company must have existed for at least three years
5. Paid-up capital: At least Rs. 10 crores
6. Capitalization: At least Rs. 25 crores, calculated by multiplying the issue price by the number of equity shares issued after the IPO
7. Legal and financial requirements: A SEBI-registered Merchant Banker must audit the financial statements.

Undersubscribed

1. "Undersubscribed" refers to a situation in which the demand for an issue of securities such as an initial public offering (IPO) or another offering of securities is less than the number of shares issued.

2. Undersubscribed offerings are often a matter of overpricing the securities for sale or on account of poor marketing of the securities to potential investors.

3. Undersubscribed (underbooked) refers to an issue of securities where demand does not meet the available supply.

4. An undersubscribed IPO is typically a negative signal as it suggests that people are not eager to invest in the company's issue or that it has not been marketed well.

5. Underbooking can also arise if the issuer sets the offering price too high.

Investment Banks

1. Investment banking is a type of banking that organizes large, complex financial transactions such as mergers or initial public offering (IPO) underwriting.

2. These banks may raise money for companies in a variety of ways, including underwriting the issuance of new securities for a corporation, municipality, or other institution.

3. They may manage a corporation's IPO.

4. Investment banks also provide advice in mergers, acquisitions, and reorganizations.

5. In essence, investment bankers are experts who have their fingers on the pulse of the current investment climate.

6. They help their clients navigate the complex world of high finance.

7.Investment bankers work with corporations, governments, and other groups. They plan and manage the financial aspects of large projects.

Unit 2 (Introduction to Stock Market - 2)

Stock Market

1. It is a place where shares of pubic listed companies are traded.
2. The primary market is where companies float shares to the general public in an initial public offering (IPO) to raise capital.
3. Once new securities have been sold in the primary market, they are traded in the secondary market—where one investor buys shares from another investor at the prevailing market price or at whatever price both the buyer and seller agree upon.
4. The secondary market or the stock exchanges are regulated by the regulatory authority.
5. In India, the secondary and primary markets are governed by the Security and Exchange Board of India (SEBI).
6. India's premier stock exchanges are the Bombay Stock Exchange and the National Stock Exchange.

Forces That Move Stock Prices

1. Stock prices are driven by a variety of factors, but ultimately the price at any given moment is due to the supply and demand at that point in time in the market.

2. Fundamental factors drive stock prices based on a company's earnings and profitability from producing and selling goods and services.

3. Technical factors relate to a stock's price history in the market pertaining to chart patterns, momentum, and behavioral factors of traders and investors.

4. Company-specific news, such as product launches, mergers and acquisitions, management changes, and legal or regulatory developments, can cause fluctuations in stock prices.

5. Geopolitical events, natural disasters, and other global developments can impact investor confidence and risk perceptions, leading to fluctuations in stock prices.

CAGR

1. The compound annual growth rate is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

2. The compounded annual growth rate (CAGR) is one of the most accurate ways to calculate and determine returns for anything that can rise or fall in value over time.

3. It measures a smoothed rate of return.

4. Investors can compare the CAGR of two or more alternatives to evaluate how well one stock performed against other stocks in a peer group or a market index.

How to Calculate Compound Annual Growth Rate (CAGR)

$$CAGR = \left(\left(\frac{EV}{BV} \right)^{\frac{1}{n}} - 1 \right) \times 100$$

where:

EV = Ending value

BV = Beginning value

n = Number of years

To calculate the CAGR of an investment:

1. Divide the value of an investment at the end of the period by its value at beginning of that period.
2. Raise the result to an exponent of one divided by the number of years.
3. Subtract one from the subsequent result.
4. Multiply by 100 to convert the answer into a percentage.

settlement procedure

1. The Bombay Stock Exchange (BSE) uses a rolling settlement system, which means that trades are settled within one business day of the trade date (T+1).

2. The settlement cycle has three phases: trade date, pay-in, and pay-out. During the pay-in phase, buyers pay the funds for the securities they have purchased.

3. During the pay-out phase, sellers receive the funds for the securities they have sold.

4. The BSE lists the dates of the various settlement activities on the settlement calendar, which it creates in advance and sends to market participants.

5. The settlement date is important for investors who want to receive dividends.

6. The investor must receive the settlement before the company's record date for allocating dividends.

Functions of the Stock Exchange

Liquidity: Ensuring that securities can be converted into cash when needed.

Capital formation: Helping companies raise funds through initial public. offerings (IPOs), secondary offerings, rights shares, and bonus shares.

Price discovery: Using transparent trading mechanisms to enable price discovery.

Listing: Listing securities issued by companies.

Pricing: Fixing the prices of stocks traded on the exchange.

Foreign investments: Bringing in foreign investments.

Economic management: Managing and building the economy.

Investments: Bringing in investments.

Derivatives

1. Derivatives are financial contracts, set between two or more parties, that derive their value from an underlying asset, group of assets, or benchmark.

2. A derivative can trade on an exchange or over-the-counter.

3. Prices for derivatives derive from fluctuations in the underlying asset.

4. Derivatives are usually leveraged instruments, which increases their potential risks and rewards.

5. Common derivatives include futures contracts, forwards, options, and swaps.

6. There are four main types of derivatives:

- Options

Give the buyer the right to buy or sell an asset at a specific price within a certain time period.

- Futures

Standardized contracts that allow the holder to buy or sell an asset at an agreed price on a specific date.

- Forwards

Similar to futures contracts, but over-the-counter products that are not regulated.

- Swaps

Involve two holders exchanging financial obligations.

Why are derivatives risky investments?

1. Derivatives are generally considered riskier than stocks because of their leverage, which can amplify gains and losses.

2. Derivatives are based on the price of another asset, making them difficult to value.

3. You may not be able to find a buyer for your derivative instrument when you want to sell it.

4. This risk is typically higher for less commonly traded instruments, such as options and forwards.

5. One party fails to fulfill an agreement despite their willingness to do so due to unforeseen circumstances. This risk occurs in international trade usually.

6. The prices follow the commodity, this leads to volatility for futures and options.

7. The underlying asset's value keeps changing according to market conditions

8. Commissions and fees can erode profits, especially for frequent traders.

Stock Market Index

1. A stock market index is a statistical tool that reflects the changes in the financial markets.

2. The indices are indicators that reflect the performance of a certain segment of the market or the market as a whole.

3. Each share market index measures the price movement and the performance of the shares that constitute that index.

4. This essentially means that the performance of any stock market index is directly proportional to the performance of the underlying stocks that make up the index.

5. In simpler terms, if the prices of the stocks in an index goes up, that index, as a whole, also goes up.

Types Of Stock Market Indices

1. Benchmark indices such as *BSE* Sensex and *NSE Nifty*.
2. Broader indices such as *Nifty 50* and BSE 100.
3. Indices created based on the market capitalization of companies, such as BSE Midcap and BSE Smallcap.
4. Sector-specific indices like Nifty FMCG, Nifty Bank Index, CNX IT, and S&P BSE Oil and Gas.

Free-float market capitalization

1. Free-float market capitalization is a method of calculating a company's valuation that only considers the number of outstanding shares that are publicly held.

2. This method excludes privately-owned shares, such as those owned by trusts, government bodies, and promoters.

3. Free-float market capitalization is calculated by multiplying the share price by the number of outstanding shares that are publicly traded.

4. For example, if a company XYZ has 60,000 publicly traded shares, while 40,000 are held by promoters and family members, and the market price is ₹50 per stock, the total market capitalization is ₹50 lakh, but the free-float market capitalization is ₹30 lakh.

5. Free-float market capitalization is a useful financial metric tool that investors use to make informed investment decisions.

Bull Market

1. A bull market is the condition of a financial market in which prices are rising or are expected to rise. '

2. The term "bull market" is most often used to refer to the stock market but can be applied to anything that is traded, such as bonds, real estate, currencies, and commodities.

3. Bull markets tend to last for months or even years.

4. A bull market is a period of time in financial markets when the price of an asset or security rises continuously.

5. The commonly accepted definition of a bull market is when stock prices rise by 20%.

6. usually characterized by strong economic growth, low unemployment, and high investor confidence.

Bear market

1. Bear markets occur when prices in a market decline by more than 20%, often accompanied by negative investor sentiment and declining economic prospects.

2. The causes of a bear market often vary, but in general, a weak or slowing or sluggish economy, bursting market bubbles, pandemics, wars and drastic paradigm shifts in the economy such as shifting to an online economy, are all factors that might cause a bear market.

3. The signs of a weak or slowing economy are typically low employment, low disposable income, weak productivity, and a drop in business profits.

4. Bear markets can last for multiple years or just several weeks.

5. A secular bear market can last anywhere from 10 to 20 years and is characterized by below-average returns on a sustained basis.

Long Position and Short Position

1. When someone takes a long position in the stock market, it means they're buying a stock with the expectation that its price will go up in the future.

2. In other words, they're betting on the stock's value to increase over time.

3. When you're in a long position, you profit if the stock's price rises because you can sell it for more than you paid for it.

4. On the flip side, taking a short position means you're betting against a stock.

5. You borrow shares from a broker and sell them immediately, hoping that the stock's price will fall in the future.

6. If it does, you can buy back the shares at a lower price, return them to the broker, and pocket the difference.

7. Essentially, you're selling high and buying low, but in reverse order.

Unit 3 (Introduction to Stock Market - 3)

dividend

1. A dividend is the distribution of a company's earnings to its shareholders and is determined by the company's board of directors. 2. Dividends are often distributed quarterly and may be paid out as cash or in the form of reinvestment in additional stock.
3. The dividend yield is the dividend per share and is expressed as dividend/price as a percentage of a company's share price, such as 2.5%.
4. Common shareholders of dividend-paying companies are eligible to receive a distribution as long as they own the stock before the ex-dividend date.
5. Dividend payments and amounts are determined by a company's board of directors.
6. The dividend yield is the dividend per share, and expressed as a percentage of a company's share price.

Bonus shares

1. Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns.

2. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

3. The basic principle behind bonus shares is that the total number of shares increases with a constant ratio of number of shares held to the number of shares outstanding.

4. For instance, if Investor A holds 200 shares of a company and a company declares 4:1 bonus, that is for every one share, he gets 4 shares for free.

5. That is total 800 shares for free and his total holding will increase to 1000 shares.

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stock split

1. A stock split happens when a company increases the number of its shares to boost the stock's liquidity.

2. Although the number of shares outstanding increases by a specific multiple, the total dollar value of all shares outstanding remains the same because a split does not fundamentally change the company's value.

3. The most common split ratios are 2:1 or 3:1.

4. This means for every share held before the split, each stockholder will have two or three shares, respectively, after the split.

5. A company elects to perform a stock split to intentionally lower the price of a single share, making the company's stock more affordable without losing value.

Right Shares

1. The existing shareholders have the first right to subscribe to the shares that a company may be wanting to issue for raising capital.

2. If approved by shareholders, they are offered new shares in proportion of their holding.

3. This type of issue is known as rights issue.

4. An individual shareholder may subscribe for all or some of the rights or may decline the issue.

5. This will obviously affect his holding ratio.

6. A share holder can also sell some of his rights in order to buy another so as to maintain his absolute holding.

7. Shareholders can buy new shares at a discount for a certain period.

8. With a rights issue, because more shares are issued to the market, the stock price is diluted and will likely go down.

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buyback of Shares

1. Share or stock buyback is the practice where companies decide to purchase their own share from their existing shareholders either through a tender offer or through an open market.

2. In such a situation, the price of concerning shares is higher than the prevailing market price.

3. When companies decide to opt for the open market mechanism to repurchase shares, they can do so through the secondary market.

4. Alternatively, it can be looked at as a means to reward existing shareholders other than offering timely dividends.

5. It is a Tax-effective Rewarding Option.

6. Regardless, certain companies may resort to this practice when their stock valuation decreases. It is mainly done to prevent their capital from eroding further.

Repo Rate

1. The Repo Rate is the interest rate at which the Reserve Bank of India (RBI) loans money to commercial banks.

2. Repo Rate full form is Repurchase Agreement or Repurchasing Option.

3. Banks obtain loans from the Reserve Bank of India (RBI) by selling qualifying securities.

4. The repo rate is utilized by the Indian central bank to restrict the flow of money in the market.

5. When the market is impacted by inflation, the RBI raises the repo rate.

6. An increased repo rate means that banks borrowing money from the central bank during this period will have to pay more interest. 7. This inhibits banks from borrowing money, reducing the amount of money in the market and helping to negate inflation.

8. In the event of a recession, RBI repo rates are also reduced.

Cash Reserve Ratio (CRR)

1. Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank.

2. CRR is set according to the guidelines of the central bank of a country.

3. The amount specified as the CRR is held in cash and cash equivalents, is stored in bank vaults or parked with the Reserve Bank of India.

4. The aim here is to ensure that banks do not run out of cash to meet the payment demands of their depositors.

5. CRR is a crucial monetary policy tool and is used for controlling money supply in an economy.

Wholesale Price Index (WPI)

1. The WPI indicates the movement in prices of goods at the bulk level.

2. It portraits the price increase or decrease when they are sold to stockists or resellers rather than the end users.

3. Data collection for constructing WPI is relatively easier and hence it is a convenient tool to calculate inflation.

4. However the inflation measured here is at an institutional level and does not necessarily describe the inflation experienced by the end users.

Consumer Price Index (CPI)

1. CPI is based on the prices payable by the end users.

2. For a consumer, CPI inflation is what really matters.

3. Its construction takes into account consumption into various categories and sub categories across urban and rural areas.

4. Each of these categories is represented by a group index and the CPI index is a composition of several internal indices.

5. The calculation of CPI is quite elaborated and detailed with data collected from several parts in the country.

6. It is one of the most critical measures for studying the economy of the country.

Inflation

1. Inflation is a rise in prices, which can be translated as the decline of purchasing power over time.

2. The rate at which purchasing power drops can be reflected in the average price increase of a basket of selected goods and services over some time.

3. The rise in prices, which is often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

4. Inflation is sometimes classified into three types: demand-pull inflation, cost-push inflation, and built-in inflation.

5. The most commonly used inflation indexes are the Consumer Price Index and the Wholesale Price Index.

6. Inflation can be viewed positively or negatively depending on the individual viewpoint and rate of change.

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5 corporate actions and their impact on stock market

1. Buyback of Shares:

-A buyback reduces the number of outstanding shares, which can increase earnings per share (EPS) and improve financial ratios like return on equity (ROE). This can often lead to an increase in the stock price as investors perceive the company as more valuable on a per-share basis.

2. Rights Shares:

Rights shares give existing shareholders the right to purchase additional shares at a discounted price. This can dilute the ownership of existing shareholders but can also raise capital for the company, which can be used for expansion or debt reduction.

3. Splitting of Shares:

A stock split increases the number of outstanding shares while proportionally decreasing the stock price per share. This makes the shares more affordable to retail investors but does not change the overall value of the company.

4. Bonus Shares:

Bonus shares are additional shares distributed to existing shareholders in proportion to their current holdings, typically as a reward for loyalty or to improve liquidity.

5. Dividends:

Dividends are cash payments made to shareholders from the company's profits. They provide income to investors and can signal the company's financial health and stability.

Unit 4 (Fundamental Analysis- 1)

DIRECTORS’ REPORT

1. Director’s Report is a document that provides an overview of a company’s operations, financial performance, and prospects.
2. It aims to provide stakeholders with a clear and accurate picture of the company’s performance and options, which can help build trust and confidence.
3. The board of directors report may also provide information on the company’s corporate governance practices and any risks or challenges it faces.
4. In addition, the word typically includes information on the company’s strategic objectives, financial performance, sales and marketing activities, capital expenditures, and significant events during the reporting period.

Annual report

1. An annual report is a document that public corporations must provide annually to shareholders that describes their operations and financial conditions.

2. The front part of the report often contains an impressive combination of graphics, photos, and an accompanying narrative, all of which chronicle the company's activities over the past year and may also make forecasts about the future of the company.

3. The back part of the report contains detailed financial and operational information.

4. Registered mutual funds must also distribute a full annual report to their shareholders each year.

5. It was not until legislation was enacted after the stock market crash of 1929 that the annual report became a regular component of corporate financial reporting.

Auditor's report

1. An auditor's report is a written letter from an auditor that expresses their opinion on whether a company's financial statements comply with generally accepted accounting principles (GAAP) and are free from material misstatement.

2. The report also informs stakeholders about the auditor's opinion on the financial statements' fairness and accuracy.

3. There are four types of audit reports: Unqualified Audit Opinion, Qualified Opinion, Disclaimer of Opinion, and Adverse Opinion.

4. An adverse opinion is issued if the financial statements were materially misstated.

5. This misstatement may be due to an error, but it can also indicate that management engaged in reporting fraud.

How to read Annual report

An annual report contains information on a company's progress and achievements. Here are some sections to read:

1.Company/ profile:
This section answers questions about the company.

2.Vision/ and mission statements:
This section includes the company's values, goals, and vision and mission statements.

3.Products and financial highlights:
This section includes an overview of the company's products and financial highlights from the last 5–10 years.

4. Cash flow statements:
This section explains the amount of cash that comes in and goes out of the company, which gives a clear picture of the company's financial activity.

5.Risk factors:
This section describes potential risks that may affect the company's business and financial performance.

6.Stockholder information:
This section provides information about the company's shares, dividends, shareholders, and other information about market equity.

7. Financial performance:
This section includes growth in sales and profit over the last four to six quarters.

Unit 5 (Fundamental Analysis- 2)

Assets

1. An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.
2. Assets are reported on a company's balance sheet.
3. They are bought or created to increase a firm's value or benefit the firm's operations.
4. An asset is something that may generate cash flow, reduce expenses or improve sales, regardless of whether it's manufacturing equipment or a patent.
5. Assets can be classified as current, fixed, financial, or intangible.
6. For example, buildings and land are fixed assets, while machines help produce goods that bring in revenue, making them assets.

Liabilities

1. A liability is something a person or company owes, usually a sum of money.

2. Liabilities are settled over time through the transfer of economic benefits including money, goods, or services.

3. liabilities include loans, accounts payable, mortgages, deferred revenues, bonds, warranties, and accrued expenses.

4. Liability can also mean a legal or regulatory risk or obligation.

5. In accounting, companies book liabilities in opposition to assets.

6. Current liabilities are a company's short-term financial obligations that are due within one year or a normal operating cycle (e.g. accounts payable).

7. Long-term (non-current) liabilities are obligations listed on the balance sheet not due for more than a year.

Income and Expenditure

1.Income and expenditure refer to the money coming in and going out of a person's or organization's finances.

2. Income typically includes earnings from employment, investments, and other sources, while expenditure encompasses spending on goods, services, bills, and other financial obligations.

3. Managing these effectively is crucial for financial stability and planning.

4. Expenditure can be categorized into fixed expenses (such as rent or mortgage payments, insurance premiums, and loan repayments) and variable expenses (like groceries, utilities, entertainment, and discretionary spending).

5. Income can be categorised as salary from employment, profits from business activities, interest and dividends from investments, rental income from properties, and any other sources of earnings.

Depreciation

1.Depreciation is an accounting practice used to spread the cost of a tangible or physical asset over its useful life.

2. Depreciation represents how much of the asset's value has been used up in any given time period.

3. Companies depreciate assets for both tax and accounting purposes and have several different methods to choose from.

4. Depreciation allows businesses to spread the cost of physical assets (such as a piece of machinery or a fleet of cars) over a period of years for accounting and tax purposes.

5. There are several different depreciation methods, including straight-line and various forms of accelerated depreciation.

Causes of Depreciation

1. By Constant Use: The constant use of any asset by a business causes wear and tear, which causes a decrease in the value of those assets.

2. By Passing of Time: The value of assets also decreases when an asset is exposed to forces of nature like wind, rain, etc., even if it is not put to any use.

3. By Obsolescence: An existing asset can become outdated in some time due to technological changes, improvements in production methods, changes in market demand, etc.

4. By Expiration of Legal Rights: There are some assets that are used in the business for a certain time period. Example: Patents, Copyrights, Lease, etc.

5. By Accident: Assets can be destroyed due to some abnormal factors, such as earthquakes, floods, etc.

STRAIGHT LINE METHOD OF DEPRECIATION

1. In finance, a straight-line basis is a method for calculating depreciation and amortization.

2. It is calculated by subtracting an asset's salvage value from its current value and dividing the result by the number of years until it reaches its salvage value.

3. If the results of calculating the basis were graphed, it would appear as a straight line, hence the name.

4. The straight-line basis is the simplest way to determine the loss of value of an asset over time.

5. It is most useful when an asset's value decreases steadily over time at around the same rate.

6. Use the following formula to calculate depreciation using the straight-line basis:

Straight Line Basis = (Purchase Price of Asset - Salvage Value) / Estimated Useful Life of Asset

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REDUCING BALANCE METHOD OF DEPRECIATION

1.The declining balance method is an accelerated depreciation system of recording larger depreciation expenses during the earlier years of an asset's useful life and recording smaller depreciation expenses during the asset's later years.

2. This technique is useful for recording the depreciation of computers, cell phones, and other high-technology products that rapidly become obsolete.

3. The declining balance technique represents the opposite of the straight-line depreciation method, which is more suitable for assets whose book value steadily drops over time.

4. Accelerated depreciation methods like the reducing balance method can provide tax benefits by allowing companies to write off a larger portion of the asset's cost in the earlier years of its useful life.

5. the formula for calculating depreciation using the reducing balance method is:

Depreciation Expense = Book Value at Beginning of Period × Depreciation Rate

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straight-line method vs reducing balance method

1. Calculation Method:

- Straight-Line Method: Depreciation is calculated by dividing the asset's cost by its expected useful life.

- Reducing Balance Method: Depreciation is calculated by applying a fixed percentage to the remaining book value of the asset each period.

2. Depreciation Pattern:

- Straight-Line Method: Depreciation expense remains constant throughout the asset's useful life.
- Reducing Balance Method: Depreciation expense decreases over time since it's based on the decreasing book value of the asset.

3. Rate of Depreciation:

- Straight-Line Method: The depreciation rate is constant and is calculated as 1 divided by the useful life of the asset.
- Reducing Balance Method: The depreciation rate is usually higher in the earlier years of the asset's life and decreases over time.

4. Tax Implications:

- Straight-Line Method: Provides a consistent tax deduction each year.
- Reducing Balance Method: Allows for larger deductions in the earlier years, providing more tax benefits initially.

5. Use Cases:

- Straight-Line Method: Often used for assets that depreciate evenly over time, such as buildings or furniture.
- Reducing Balance Method: Preferred for assets that lose value more rapidly in the earlier years, such as technology equipment or vehicles.

Equity share capital

1. Equity share capital, also known as share capital, is the money a company raises by selling shares to investors.

2. It's a fundamental part of a company's capital structure that allows companies to raise funds from the public for business expansion, research and development, debt repayment, and operational needs.

3. Equity share capital is also crucial for a company's growth and financial stability, as it provides the necessary funds for operations and expansions without incurring debt.

4. Equity share capital gives investors ownership in a company, and gives them the right to dividends and voting.

5. Investors can benefit from this by receiving dividends, voting rights, and potential appreciation in value as the company grows over time.

Share premium

1. Share premium is the difference between the nominal value of a company's shares and the actual price paid by shareholders.

2. It's also known as additional paid-in capital, contributed surplus, or paid-in capital in excess of par value.

3. Share premium is calculated by subtracting the par value of shares offered for sale from the share issue price.

4. It can play a significant role in a company's capital structure, as it contributes to equity and debt financing proportions.

5. When a company issues shares at a premium, it increases the equity portion of its capital structure, which can strengthen the company's financial position and attract potential investors.

6. Share premium is not a trading profit, so it is not distributed to shareholders.

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revaluation reserve

1. A revaluation reserve is a line item on a balance sheet that shows the difference between the fair market value and book value of an asset.

2. It's used to account for value fluctuations in long-term assets, such as properties, plant, estate, and technology.

3. The reserve is used when an appraisal shows that the asset's carrying value has changed.

4. The formula for calculating a revaluation reserve is:

```
Revaluation Reserve = Market value of the asset - book value of the
asset
```

5. If the market value is higher than the book value, the reserve is positive.
6. If the market value is lower than the book value, the reserve is negative.

RETAINED EARNINGS RESERVE

1. Retained earnings (RE) are the portion of a company's profits that are not distributed to shareholders as dividends.

2. Instead, they are reserved for reinvestment back into the business.

3. RE are also known as earnings surplus and represent reserve money.

4. RE can be used for future growth and operations of the business.

5. They are typically reinvested back into the business to pay for projects such as: Buying new equipment and machines, Spending on research and development, New warehouses, and Fixed asset purchases.

6. Reserves are a part of a company's profits that have been kept aside to strengthen the business financial position in the future, and fulfill losses.

Non-current assets

1. Non-current assets are long-term investments that a company owns and uses to generate value over an extended period. They are also known as fixed assets.

2. Non-current assets are typically illiquid, meaning they can't easily be converted into cash.

3. They are valued at cost, less depreciation, while current assets are most often valued at market prices.

4. Examples of non-current assets include:

Investments, Intellectual property, Real estate, Equipment, Land, Property, Plant and equipment (PP&E), and Trademarks.

5. Non-current assets can be tangible or intangible.

6. Tangible assets are physical properties that a company owns and are necessary for its core business operations.

7. Examples of intangible assets include: goodwill, brand names, patents, licenses, and customer lists.

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current asset

1. In accounting, a current asset is an asset that a business expects to sell, consume, or exhaust within the current fiscal year. Current assets are also known as liquid assets.

2. Current assets are essential for a company's day-to-day operations.

3. They are a company's quick cash reserve, ready to cover short-term bills or expenses.

4. The Current Assets account is important because it demonstrates a company's short-term liquidity and ability to pay its short-term obligations.

5. Current assets include cash, cash equivalents, accounts receivable, stock inventory, marketable securities, pre-paid liabilities, and other liquid assets.

---

equity

1. In finance, equity is the amount of money an asset owner would receive after selling the asset and paying off any debts associated with it.

2. For example, if a home is worth $200,000 and the owner has a $50,000 mortgage, the equity in the home would be $150,000.

3. Equity is measured by subtracting liabilities from the value of the assets owned.

4. For example, home equity is the difference between the home's value and the amount owed on the mortgage.

5. Home equity increases as the mortgage is paid down or local housing prices rise.

6. Equity can also refer to private equity, shareholder equity and brand equity.

Cost of sales

1. Cost of sales (COS) is the amount a business spends on products purchased from suppliers for resale.

2. It is also known as cost of goods sold (COGS).

3. COS is a key indicator of profitability and is used by businesses to set competitive prices.

4. It includes the following costs: Raw materials, Labor, Direct purchases, Employee wages, and Shipping costs.

5. The formula for COS is:

```
Beginning Inventory + Purchases - Ending Inventory = Cost of Sales
```

6. For example, if a business has $35,000 in inventory at the beginning of a quarter and spends $15,000 on raw materials, wages, and delivery costs, their COS for the quarter is $43,000.

Finance income

1. Finance income is the amount of income associated with interest and other financing activities of an entity.

2. It also includes revenue generated by temporary surplus cash invested in short-term investments and marketable securities.

3. Finance income is usually not in alignment with taxable income reported in income tax returns.

4. Net financial income is the total revenues and profits minus costs and losses of interest, participations, and dividends.

5. Examples of finance income include: Interest income, Net gain or loss recognized in profit or loss, Results of financial investments, and Gain on sale of assets.

6. Finance income or gain on sale of assets are shown as separate line items as they do not form part of the normal operating activities of an entity.

Financial expenses

1. Financial expenses are costs that come from borrowing money from creditors or lenders, and are outside of a company's core business.

2. Examples of financial expenses include: Interest on borrowed money, Loan origination fees, Accrued income agreed with clients, and Currency losses.

3. Financial expenses are recognized in the income statement when they occur, not when the cash flow happens.

4. Financial expenses can also include: Commissions, Fees, Discounts, Prepayment fees, Premiums, and Charges.

---

tax expense

1. The tax expense is the amount of money that a business or other entity has determined is owed in taxes based on standard business accounting rules.

2. This charge is reported on the business's income statement. The tax payable is the actual amount owed in taxes based on the rules of the tax code.

3. Tax expenses are the total amount of taxes owed by an individual, corporation, or other entity to a taxing authority.

4. Income tax expense is calculated by multiplying taxable income by the effective tax rate.

5. Other taxes may be levied against an asset's value, such as property or estate taxes.

Types of profit

1. The three main types of profit are gross profit, operating profit, and net profit. These types of profit are found on the income statement.

2. Here are the formulas for calculating operating profit and net profit margin:

```
Operating profit: Operating profit = Gross Profit – Operating Expenses

Net profit margin: Net profit margin = ({Revenue – COGS – operating
expenses – other expenses – Taxes – Interest} ÷ revenue) × 100
```

3. Understanding the differences between gross, operating, and net profit can help businesses make informed decisions.

Cash Flow Statement

1. A cash flow statement tracks the inflow and outflow of cash, providing insights into a company's financial health and operational efficiency.

2. The CFS measures how well a company manages its cash position, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses.

3. As one of the three main financial statements, the CFS complements the balance sheet and the income statement.

4. The main components of the CFS are cash from three areas: Operating activities, investing activities, and financing activities.

5. The two methods of calculating cash flow are the direct method and the indirect method.

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interest cover ratios

1. The interest coverage ratio (ICR) is a financial metric that measures a company's ability to pay its debts.

2. It's also known as the times interest earned (TIE) ratio.

3. The ICR is calculated by dividing a company's earnings before interest and taxes (EBIT) by the total amount of interest expense on all of its outstanding debts. The formula is:

Interest Coverage Ratio = Company's EBIT + non-cash expenses / Company's interest expenses for the same period

4. A higher ICR means that a company is more likely to be able to pay its debts.

5. A lower ICR may be unattractive to investors because it may mean the company is not poised for growth.

---

asset coverage ratio

1. The asset coverage ratio (ACR) is a financial metric that measures a company's ability to cover its debts and obligations with its available assets.

2. It's calculated using the following formula:

```
ACR=((TotalAssets-IntangibleAssets)-(CurrentLiabilities-Short-termDebt))/TotalDebt
```

3. The numerator excludes intangible assets because they can't be easily valued or sold.
4. Current liabilities are short-term financial obligations that are owed to suppliers. Short-term debt is not included because it's not an interest-bearing liability.
5. A higher asset coverage ratio indicates lower financial risk for the borrower.
6. A company with a high ACR is considered to be less risky than a company with a low ACR.

ASSET PRIORITY PERCENTAGES

1. Asset priority is a value between 1 and 10 that indicates how critical a site asset is to the organization.

2. A value of 1 indicates the lowest level of importance, while a value of 10 is absolutely critical. Asset priority determines the urgency of vulnerabilities found on an asset, and flags assets that need the greatest or least scrutiny.

3. The final risk rating for a vulnerability is determined by combining the impact and the likelihood.

4. Therefore, a company with a high asset coverage ratio is considered to be less risky than a company with a low asset coverage ratio.

CAPITAL GEARING RATIO

1. A gearing ratio is a financial ratio that compares some form of capital or owner equity to funds borrowed by the company.

2. Gearing is a measurement of a company's financial leverage.

3. As such, the gearing ratio is one of the most popular methods of evaluating a company's financial fitness.

4. Net gearing is the most common type of gearing ratio and is calculated by dividing the total debt by the total shareholders' equity.

5. An optimal gearing ratio is primarily determined by the individual company relative to other companies within the same industry.

Income gearing ratio

1. The income gearing ratio, also known as the fixed charge coverage ratio or interest coverage ratio, is a financial metric used to evaluate a company's ability to cover its fixed charges, such as interest expenses and lease payments, with its operating income.

2. It's calculated by dividing the earnings before interest and taxes (EBIT) by the total fixed charges.

3. The formula for the income gearing ratio is:

```
Income Gearing Ratio = EBIT / Total Fixed Charges
```

4. A higher income gearing ratio indicates a stronger ability to cover fixed charges with operating income, implying a lower risk of financial distress.
5. Conversely, a lower ratio may signal financial vulnerability, as the company may struggle to meet its fixed obligations from its operational earnings.

Earnings per share

1. Earnings per share (EPS) is a key financial metric used to measure a company's profitability on a per-share basis.

2. It represents the portion of a company's profit allocated to each outstanding share of common stock.

3. EPS is calculated by dividing the net income attributable to common shareholders by the average number of outstanding shares over a specific period, typically a quarter or a year.

4. The formula for calculating earnings per share is:

```
EPS=  Net Income−Preferred Dividends / Weighted Average Number of Common Shares Outstanding
```

5. Higher EPS indicates greater profitability on a per-share basis, which may be favorable for investors.

DIVIDEND YIELD

1. Dividend yield is a financial ratio that indicates the annual dividend income as a percentage of the current market price per share. 2. It's a measure used by investors to evaluate the attractiveness of owning a particular dividend-paying stock.

3. The formula for dividend yield is:

Dividend Yield= (Annual Dividend per Share / Market Price per Share) ×100%

In this formula:

4. Annual Dividend per Share refers to the total dividends paid out over the course of a year divided by the number of shares outstanding.

5. Market Price per Share is the current trading price of a single share of the company's stock.

6. A higher dividend yield suggests a higher return on investment from dividends relative to the current share price, making the stock potentially more attractive to income-oriented investors.

Current Ratio

1. The current ratio is a liquidity ratio

that measures a company's ability to meet its short-term obligations.

2. It's also known as the working capital ratio.

3. The current ratio is calculated by dividing a company's current assets by its current liabilities:

```
Current Ratio = Current Assets / Current Liabilities
```

4. An asset is considered current if it can be converted into cash within a year or less.
5. Current liabilities are obligations expected to be paid within one year.
6. A current ratio of more than 1 suggests financial well-being for the company.
7. As a general rule of thumb, a current ratio in the range of 1.5 to 3.0 is considered healthy.
8. The current ratio is used by accountants and finance professionals to understand a company's financial health.

```
Quick Ratio = Liquid Assets / Current Liabilities
```

Unit 7 (Technical Analysis - 1)

Unit 8 (Technical Analysis - 2)

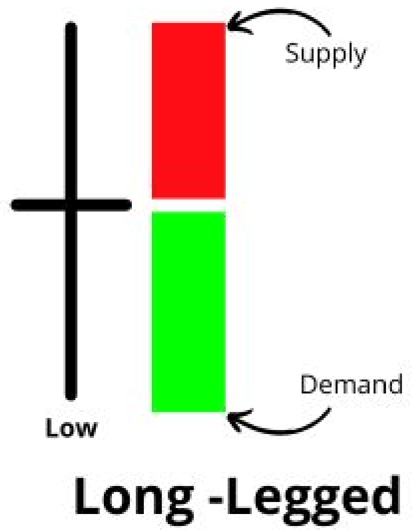
History of Japanese candlestick

1. Japanese candlestick patterns originated in Japan in the 17th century for use in the rice futures market.
2. Munehisa Homma, a Japanese rice trader, is often credited with developing the early principles of candlestick charting.
3. He used candlestick charts to track the price movement of rice and to analyze supply, demand, and market psychology.
4. For example, if prices rose sharply on high trading volume, it could indicate strong demand for rice relative to its supply, potentially leading to higher prices in the f1uture.
5. Conversely, if prices fell despite high trading volume, it might suggest an oversupply of rice or waning demand, signaling potential price declines.

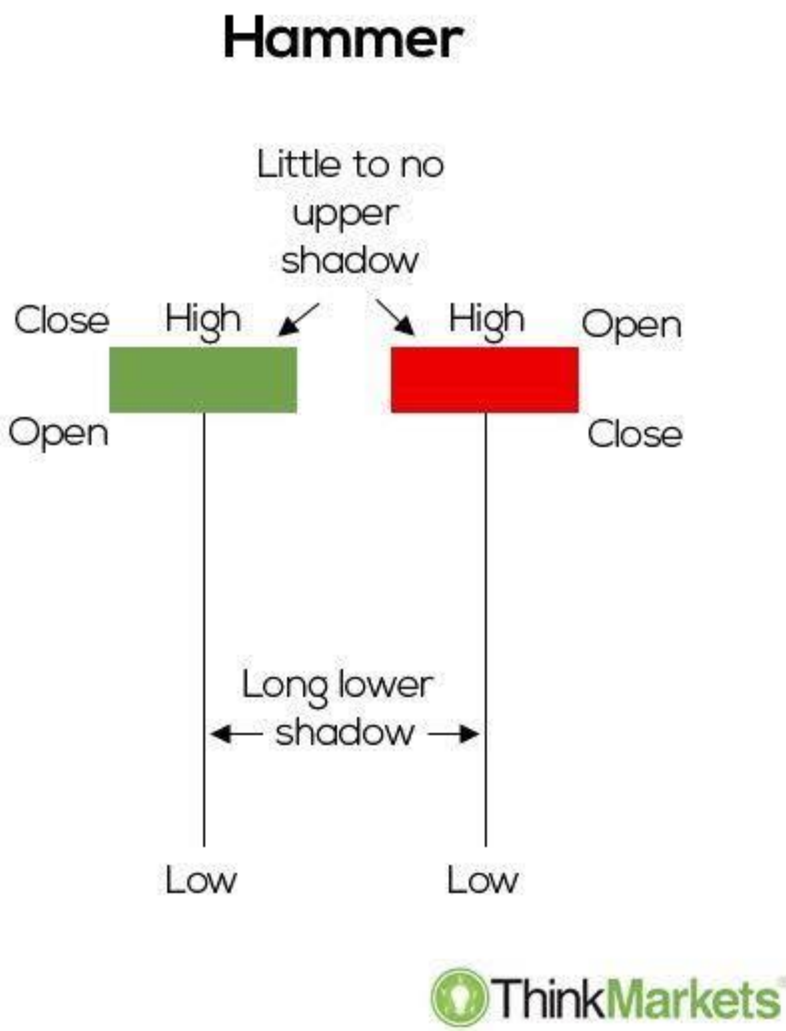
Single Candlestick pattern

A single candlestick pattern is a specific formation that consists of just one candle on a price chart. These patterns provide valuable insights into market sentiment and potential price movements. Here are a few examples of single candlestick patterns:

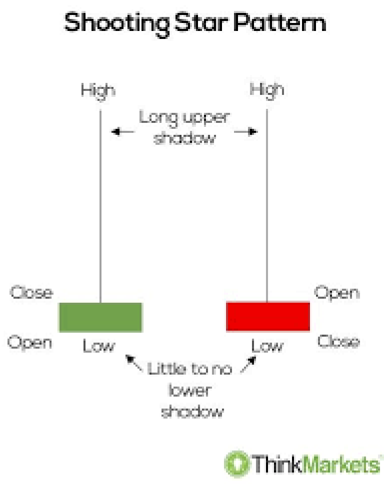
1. Doji: A doji is a candlestick pattern characterized by a small body with wicks on both ends that are roughly equal in length. It indicates indecision in the market, with neither buyers nor sellers able to gain control. A doji often suggests a potential reversal or a period of consolidation.

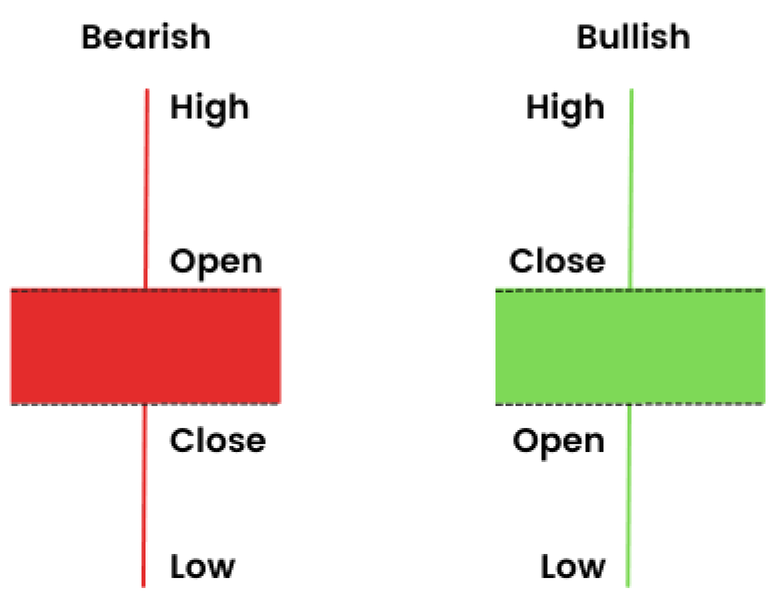


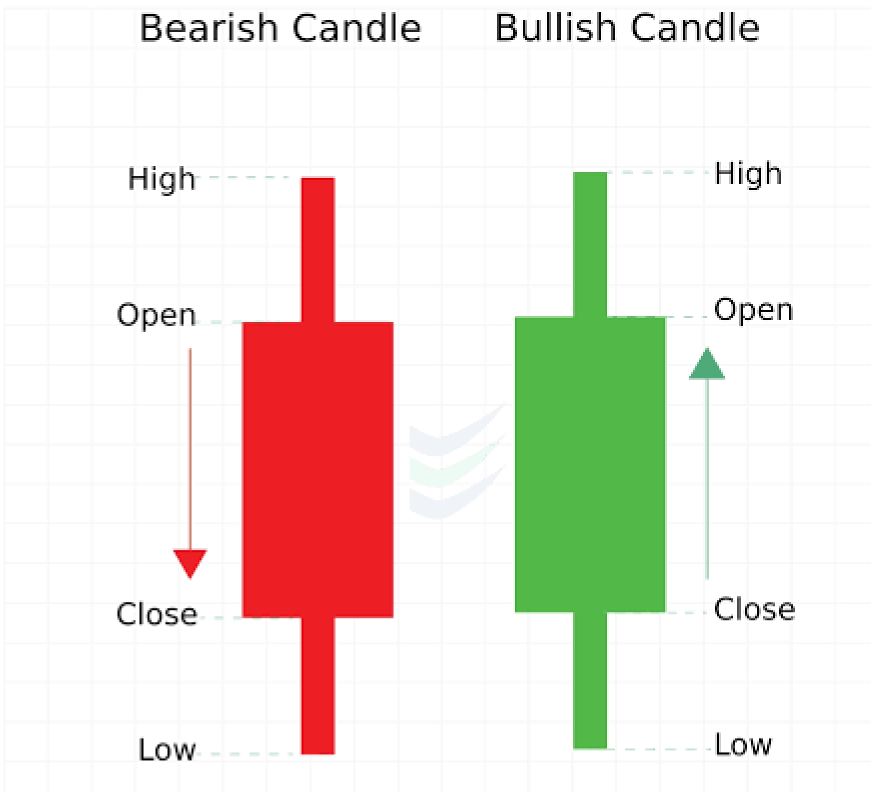
2. Hammer:The hammer candlestick has a small body at the top and a long lower shadow (wick). It looks like a hammer.It appears after a series of declining candles (downtrend).: The long lower shadow indicates that the price dropped significantly during the trading period but then recovered to close near the opening price. This recovery suggests that buyers are stepping in and that the downtrend may be losing strength.

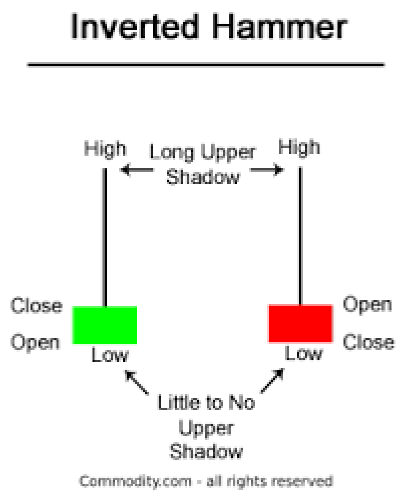


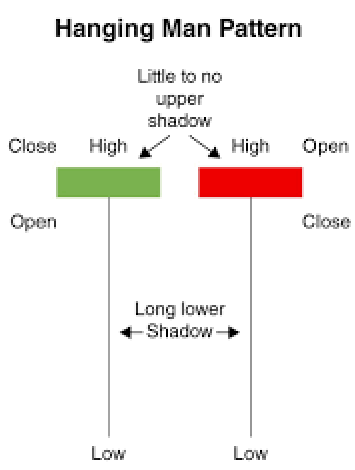
3. Shooting Star: A shooting star is a bearish reversal pattern that forms at the top of an uptrend. It has a small body near the bottom of the candlestick and a long upper wick, resembling a shooting star. This pattern indicates that buyers pushed the price higher during the session, but sellers stepped in to push it back down, suggesting a potential reversal in trend.

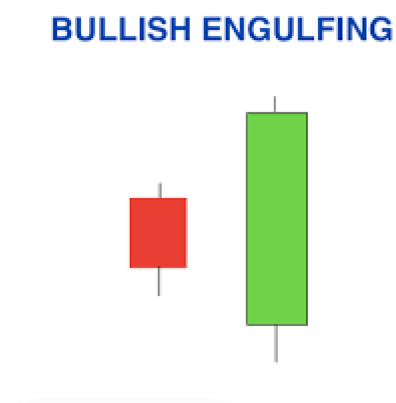

Shooting Star Pattern
High
High
Long upper
shadow
Close
Open
Open
Close
Low
Low
Little to no
lower
shadow
ThinkMarkets

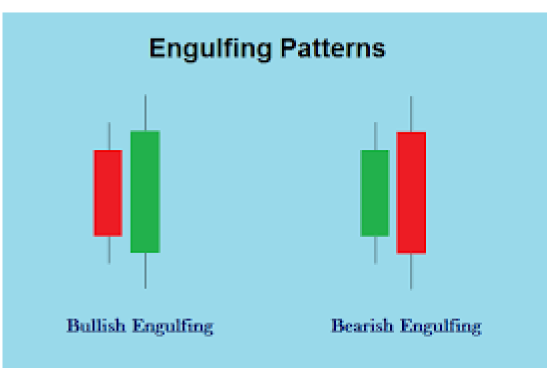

Bearish
Bullish
High
High
Open
Close
Close
Open
Low
Low

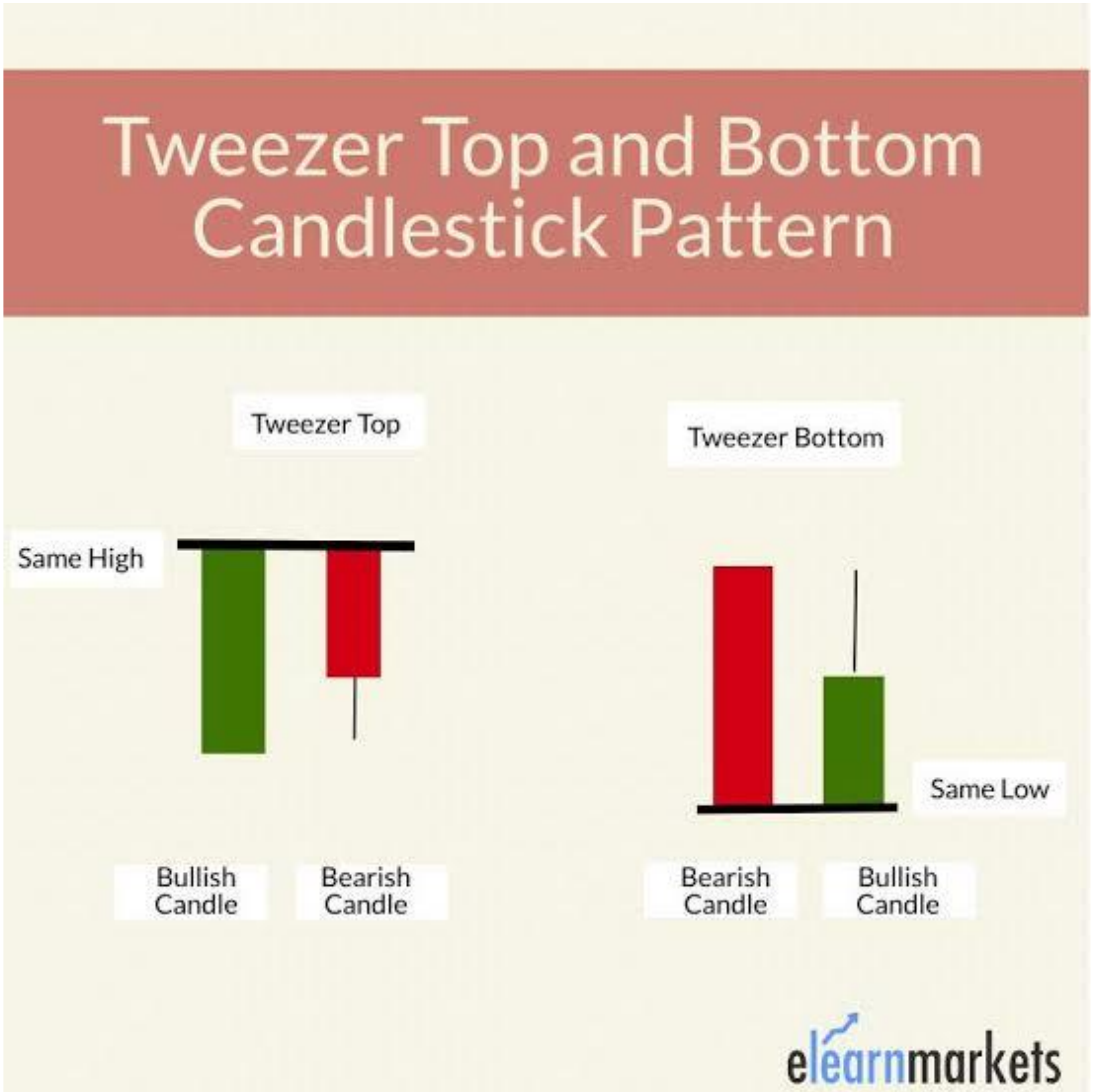

Bearish Candle
Bullish Candle
High
Open
Close
Low
High
Open
Close
Low


Inverted Hammer
High
Long Upper Shadow
High
Close
Open
Low
Open
Close
Low
Little to No Upper Shadow
Commodity.com - all rights reserved

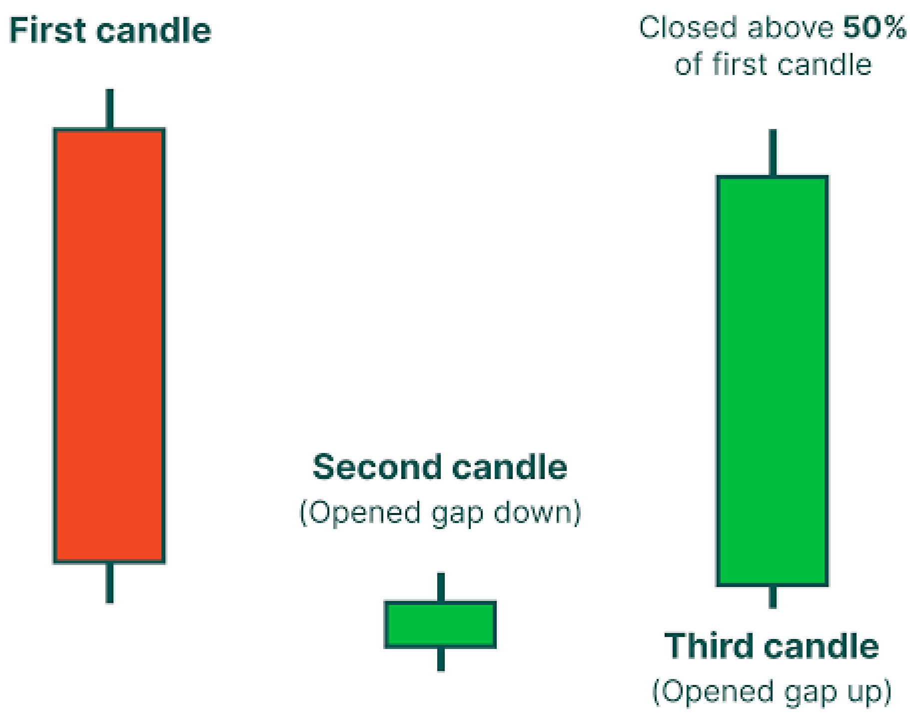

Hanging Man Pattern
Little to no upper shadow
Close
High
High
Open
Open
Close
Long lower Shadow
Low
Low


BULLISH ENGULFING

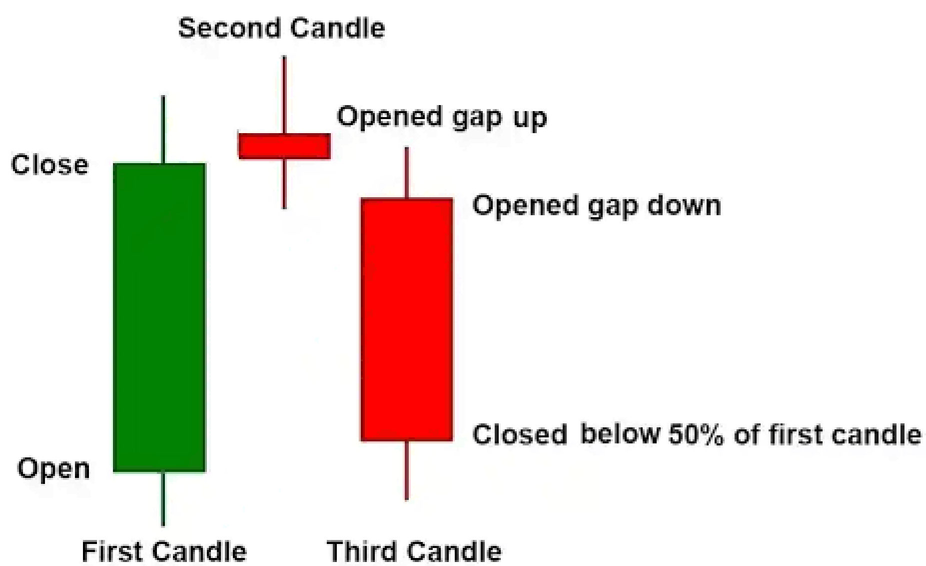

Engulfing Patterns
Bullish Engulfing
Bearish Engulfing

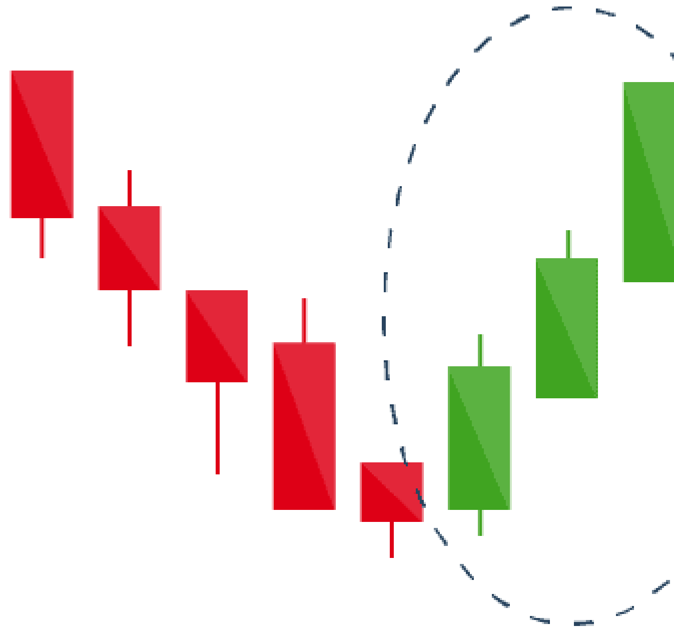

Tweezer Top and Bottom
Candlestick Pattern
Tweezer Top
Tweezer Bottom
Same High
Same Low
Bullish
Candle
Bearish
Candle
Bearish
Candle
Bullish
Candle
elearnmarkets

Morning Star

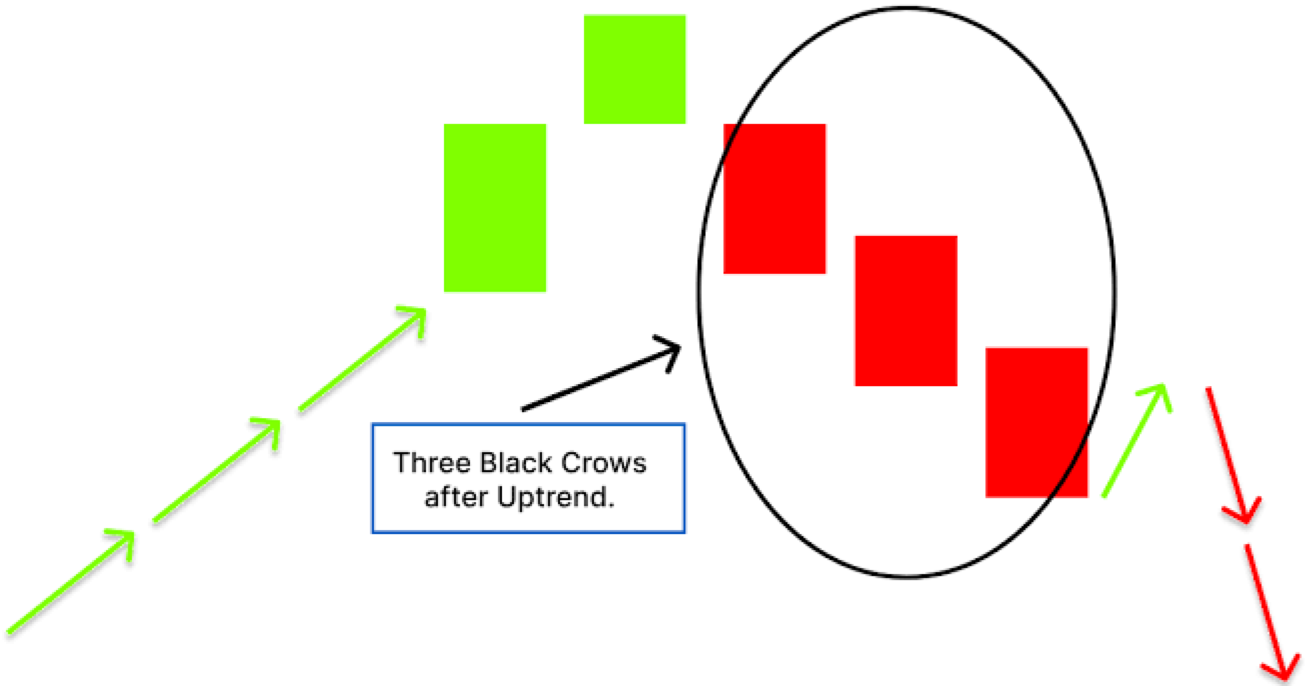


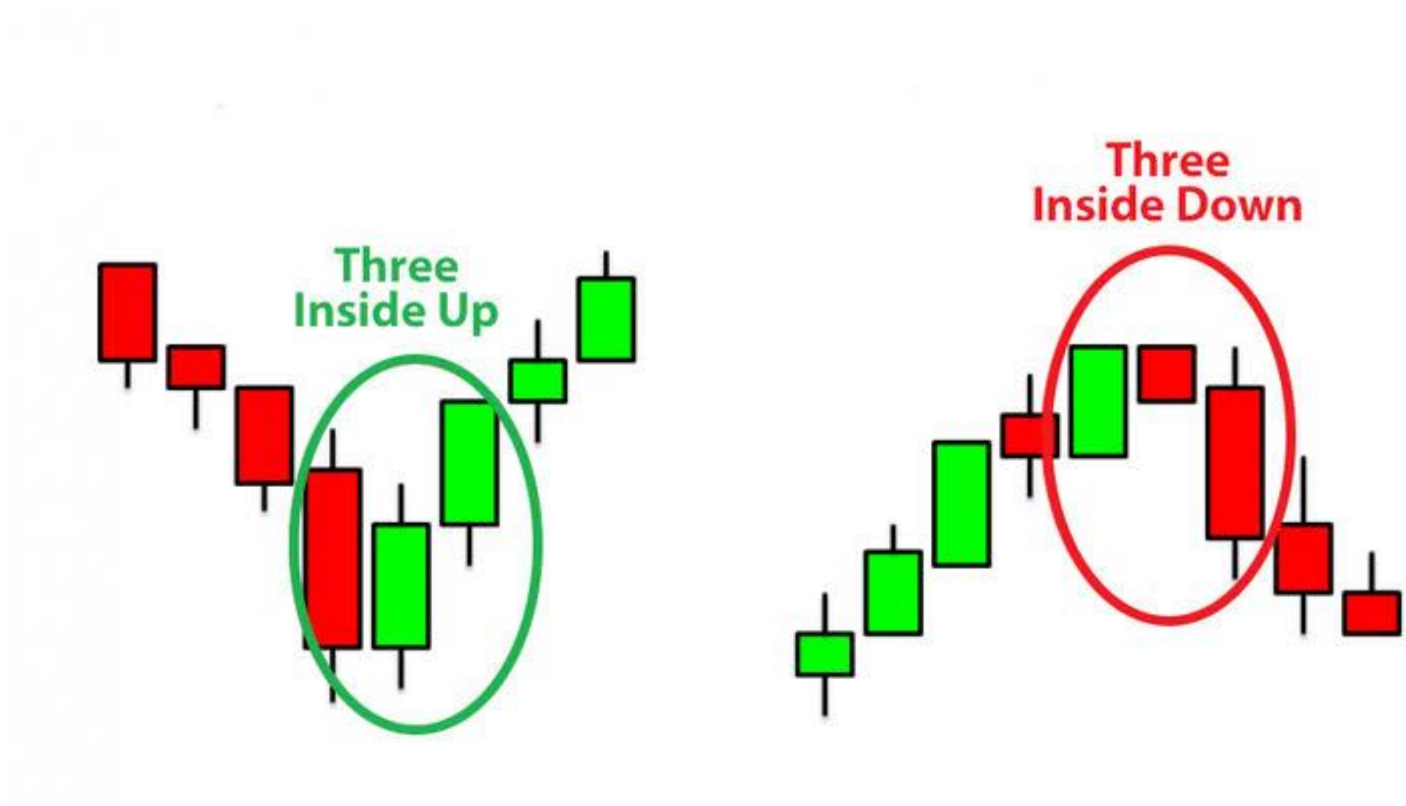
Evening Star





Three Black Crows




Three
Inside Up
Three
Inside Down

Unit 9 (Technical Analysis - 3)

RSI = 100 - (100/1 + RS). RS is calculated as RS = Average Gain / Average Loss.

Unit 10 (Markets and Taxation)

Unit 10

Note: The following screenshots are from the E-book "Finance and Investment Skills." The data in the book is from 2016. In 2024, there have been various changes in the Indian tax system, such as withdrawing the age-based tax brackets and replacing them with a constant tax rate based on income regardless of age. Therefore, when writing the answers in the exam, please mention whether you are using the 2016 tax data from the book or the current tax system.

INCOME TAX RATES BELOW 60 AGE

Net income range	*Income-tax rates*	*Education C*
Up to Rs. 2,50,000	*Nil*	*Nil*
Rs. 2,50,000 – Rs. 5,00,000	5% of (total income *minus* Rs. 2,50,000) [*]	2% of incom
Rs. 5,00,000 – Rs. 10,00,000	Rs. 12,500 + 20% of (total income *minus* Rs. 5,00,000)	2% of incom
Above Rs. 10,00,000	Rs. 1,12,500 + 30% of (total income *minus* Rs. 10,00,000)	2% of incom

Income tax between 60-80 years old

Net income range	*Income-tax rates*	*Education Cess*	*Secondary and higher Education Cess*
Up to Rs. 3,00,000	*Nil*	*Nil*	*Nil*
Rs. 3,00,000 – Rs. 5,00,000	5% of (total income *minus* Rs. 3,00,000) [*]	2% of income-tax	1% of income-tax
Rs. 5,00,000 – Rs. 10,00,000	Rs. 10,000 + 20% of (total income *minus* Rs. 5,00,000)	2% of income-tax	1% of income-tax
Above Rs. 10,00,000	Rs. 1,10,000 + 30% of (total income *minus* Rs. 10,00,000)	2% of income-tax	1% of income-tax

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Income tax above 80 years old

Net income range	*Income-tax rates*	*Education Cess*	*Secondary and higher Education Cess*
Up to Rs. 5,00,000	*Nil*	*Nil*	*Nil*
Rs. 5,00,000 – Rs. 10,00,000	20% of (total income *minus* Rs. 5,00,000)	2% of income-tax	1% of income-tax
Above Rs. 10,00,000	Rs. 1,00,000 + 30% of (total income *minus* Rs. 10,00,000)	2% of income-tax	1% of income-tax

ITR forms

1. In India, Income Tax Return (ITR) forms are documents that taxpayers use to report their income and tax liability to the Income Tax Department.

2. There are several types of ITR forms, each designed for different types of taxpayers and income sources.

3. In India, there are several types of Income Tax Return (ITR) forms, each designed for different categories of taxpayers and sources of income:

- ITR-1 (Sahaj): For individuals with income from salaries, one house property, other sources (excluding lottery and horse race), and having total income up to Rs. 50 lakh.
- ITR-2: For individuals and Hindu Undivided Families (HUFs) not having income from profits and gains of business or profession.
- ITR-3: For individuals and HUFs having income from profits and gains of business or profession.
- ITR-4 (Sugam): For individuals, HUFs, and firms (other than LLPs) having presumptive income from business and profession.
