



Covering all the

Basic Financial Fundamentals

MUST LEARN!!



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Assets

Assets are resources owned by a business or individual that hold economic value and are expected to provide future benefits.

Current Assets are assets that are expected to be converted into cash, sold, or used up within one year or one operating cycle

- Cash
- Money market funds
- Treasury bills
- Accounts receivables (Money owed to the business by customers for sales made on credit.)
- Prepaid expenses (Payments made in advance for expenses that will be incurred in the future)
- Inventory
- Stocks
- Bonds
- Mutual funds

Non-Current Assets, also known as long-term or fixed assets. These assets provide value to a company over a long period (typically beyond one year).

- Property, Plant, and Equipment
- Land
- Investments
- Natural Resources (Oil fields, mining deposits)

Intangible assets are non-physical resources that provide significant value to a business.

- GoodWill
- Patents
- Copy rights
- Trade marks
- Franchise Agreements

Operating Expenses

Costs required to run a company's core business operations on a daily basis

Selling Expenses, these are directly related to the selling of products or services.

- Advertising costs
- Sales promotions (Discounts, Coupons, offers)
- Sales commission
- Shipping and delivery costs

Administrative Expenses, These expenses support the overall management of the business but are not directly tied to the production of goods or services

- Salaries and Wages for employees
- Office Supplies, like paper, pens, and other materials needed for daily operations.
- Electricity, water, heating, and cooling of the office space.
- Professional Fees
- Rent or Lease Payments

COGS (Cost of goods sold)

COGS represents the direct costs related to the production of the goods sold by a company

- Wages, salaries for production workers, assembly workers
- Raw materials costs
- Manufacturing costs
- Packaging costs

$\text{COGS} = \text{Opening inventory} + \text{Purchases} - \text{Closing Inventory}$

Non-operating expenses

Costs that are not directly related to a company's core business operations.

- Interest expense on bonds, Loans
- Taxes
- Depreciation and Amortization

Liabilities

Burden and obligations of a business to settle debts and other financial commitments.

Current liabilities are short-term financial obligations that are due within one year or within the operating cycle of the business.

- Accounts payable
- Loans and borrowings that need to be repaid within a year
- Expenses that have been incurred but not yet paid, such as wages, interest, and taxes.

Long-term liabilities are obligations that are not due to be settled within one year or the operating cycle

- Long-Term Debt
- Deferred Tax Liabilities
- Pension Obligations
- Lease Obligations

Contingent liabilities are potential obligations that may arise in the future depending on the outcome of uncertain events.

- Lawsuits
- Product Warranties

Operating Income

- Income we get after cutting COGS, Operating expenses from the total revenue.
- It is also known as EBIT (Earnings before income tax).
- Income generated from the core business operations.

Non Operating Income

Income generated from activities not directly related to the core operations of the business.

- Investment Income
- Rental Income
- Gains from Asset Sales

Gross profit is the amount of money a company makes from its sales after deducting the cost of goods sold (COGS). $\text{Gross Profit} = \text{Revenue} - \text{Cost of Goods Sold (COGS)}$

Net income, also known as net profit or net earnings, is the total profit of a company after all expenses, including operating expenses, interest, taxes, and non-operating costs, have been deducted from total revenue.

Cash Flow is the movement of money in and out of a business, indicating its liquidity and operational efficiency.

Balance Sheet is a financial statement that summarizes a company's assets, liabilities, and equity at a specific point in time.

Income Statement is a financial statement that shows a company's revenues and expenses over a specific period, ultimately leading to net income.

Cash Flow Statement is a financial statement that provides an overview of cash inflows and outflows from operating, investing, and financing activities.

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