Unit 3

<u>Accounting</u>: It is the means of collecting, summarising and reporting in monetary terms, information about the business.

Financial accounting: Financial accounting deals with the maintenance of books of accounts with a view to ascertain the profitability and the financial status of the business.

<u>Financing</u> :-

It is the process of providing funds for business activities, making purchases, or investing. Financial institutions, such as banks, are in the business of providing capital to businesses, consumers, and investors to help them achieve their goals.

Financing is defined as the process of acquiring capital and making financial decisions for a new venture or startup. When starting a company, entrepreneurs dedicate a majority of their time securing the funding to make their vision a reality.

What is the importance of financing in entrepreneurship?

Importance:- Financial planning allows entrepreneurs to estimate the quantity and the timing of money needed to start their venture and keep it running.
common sources of financing?

The common financing sources used in developing economies can be classified into four categories: Family and Friends, Equity Providers, Debt Providers and Institutional Investors.

Transaction: A transaction is a stimulus from one person and a related response from the another.
Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.

The seven steps in the accounting cycle are as follows:

- Identifying and Analysing Business Transactions.
- Posting Transactions in Journals.
- Posting from Journal to Ledger.
- Recording adjusting entries.
- Preparing the adjusted trial balance.
- Preparing financial statements.
- Post-Closing Trial Balance.

<u>Preparation of Balance Sheet</u>

A balance sheet, which is frequently used in accounting, can be used by business owners with valuable information about their company's financial health.

Step 1: Determine the balance sheet date and period

A balance sheet is intended to display all of your company's assets, liabilities, and shareholders' equity on a single day of the year or throughout a specified period. The majority of businesses, particularly those that are publicly listed, will report every quarter. When this is the case, the reporting date is normally the last day of the quarter. Companies may alternatively opt to generate monthly balance sheets, in which case they would report on the last day of each month. Companies that report on an annual basis will often select December 31st as their reporting date, however, any date can be used.

Step 2: Determine the Assets

After determining your reporting date and period, you must total your assets as of that date and period. To make this section more actionable, arrange them in order of liquidity. More liquid assets, such as cash and accounts receivable, are prioritised, whereas illiquid assets, such as inventories, are prioritised last. After you've listed your current assets, you'll need to mention your non-current (long-term) ones. Remember to list non-monetary assets as well.

Step 3. Determine Your Liabilities

After the description of numerous asset categories. Similarly, you must identify liabilities. Then, list current liabilities, which include Accounts payable, Accrued costs, and Deferred income. After listing current liabilities, you must include non-current liabilities, such as deferred revenue and long-term debt.

Step 4. Determine Shareholders' Equity

Determine your company's retained earnings, working capital, and total shareholders' equity. This computation may get more complex if it is publicly traded, depending on the different forms of shares issued. This area of the balance sheet contains common line items such as common stock, preferred stock, and so on.

Step 5. Make the sum of Total Liabilities and Total Shareholders' Equity and compare it to Total Assets

To ensure the balance sheet is balanced, total assets must be compared to total liabilities plus equity. To do so, sum the liabilities and shareholders' equity together. You've done the balance correctly if your liabilities + equity = assets. If not, you may need to go back and evaluate your sheet.

The objective of Preparing a Balance Sheet

- It is important to understand why you should have a balance sheet, whether you are a business owner or just establishing one. Balance sheets can be used to:
- Showcase your company's current financial situation.
- Keep a record of your debits and credits.
- Assess the worth and status of all assets and liabilities.
- Determine the amount of capital owing to the owner at the end of the financial year.
- Use as a reference if there is a need for a loan.
- Understand the company's liquidity pattern and profit/loss status.
- Evaluate the business's strengths and shortcomings and use them as a guideline for developing policies and goals for the company.

Who is responsible for the preparation of the balance sheet?

Depending on the company, many parties may be responsible for preparing the balance sheet. The balance sheet for a small privately held firm may be completed by the owner or by a company bookkeeper. They may be prepared internally by a mid-size private business and then reviewed by an external accountant.
Public enterprises, on the other hand, are required to have external audits performed by public accountants and to keep their accounts to a far higher level. These firms' balance sheets and other financial statements must be prepared following Generally Accepted Accounting Principles (GAAP) and Indian Accounting Standards (IND AS)

Assessment of Economic Viability

The main method for assessment of economic viability of a project is a Cost-Benefit Analysis (CBA). Costs and benefits are expressed as far as possible in monetary terms so that they can be compared on an equal level. A project is assessed as economically viable if the project benefits exceed the project costs.

An assessment of economic viability is an evaluation of the various economic effects that may result from the implementation of a particular project. This assessment will help decision makers decide whether a project is feasible or not.

Assessing economic viability is informed by financial analysis and the main tool which is usually used for this is cost benefit analysis (CBA). This involves expressing costs and benefits in monetary terms to allow comparisons to be made. But other non-financial benefits may also be explored. If at the end of the exercise the benefits exceed the costs, the project may be considered to be economically viable.

For example, assessing the economic viability of a stadium might include both direct and indirect considerations such as:

- The total cost of the project.
- Will the project secure adequate financing?
- Will profits cover operating costs over the project's lifetime?
- Uplift in local land and property values.
- Potential new jobs created in the community.
- Impacts such as increased congestion, noise, dust and so on.
- Local opposition to the scheme and possible disruption.
- How sustainable is the project?
- Will climate change threaten the building?
- Will it be flexible enough to adjust to future changes, regulations, ownership, user needs?

Depending on the size of the project, the economic viability analyses may also examine regional, national or global implications.

Economic viability typically evaluates a project concept, ie, at the plan-making stage and before implementation. However, it may also assess the ongoing viability of an existing project / building etc.

Decision-making :

It process is a series of steps taken by an individual to determine the best option or course of action to meet their needs. In a business context, it is a set of steps taken by managers in an enterprise to determine the planned path for business initiatives and to set specific actions in motion.

- Step 1: Identify the decision. ...
- Step 2: Gather relevant information. ...
- Step 3: Identify the alternatives. ...
- Step 4: Weigh the evidence. ...
- Step 5: Choose among alternatives.

There are three types of decision in business:

- strategic.
- tactical.
- operational.

Expected costs :

It represent the estimation of, for example, a purchased item's cost that you record before you receive the invoice for the item. You can post expected cost to inventory and to the general ledger.

How do you calculate expected cost?

How do you calculate expected cost?

EC = MC * P(x)/100

1. Where EC is the Expected Cost ($)
2. MC is the maximum cost ($)
3. P(x) is the probability of cost (%)

Estimated cost is the projection of the amount of costs that will be incurred to build a product or construct something. This amount is derived as part of the capital budgeting process for an internal project, or as part of a sales bid when attempting to sell to a customer.

Production Planning

Production planning is required for scheduling, dispatch, inspection, quality management, inventory management, supply management and equipment management. Production control ensures that production team can achieve required production target, optimum utilization of resources, quality management and cost savings.

Planning and control are an essential ingredient for success of an operation unit. The benefits of production planning and control are as follows:

- It ensures that optimum utilization of production capacity is achieved, by proper scheduling of the machine items which reduces the idle time as well as over use.
- It ensures that inventory level are maintained at optimum levels at all time, i.e. there is no over-stocking or under-stocking.
- It also ensures that production time is kept at optimum level and thereby increasing the turnover time.
- Since it overlooks all aspects of production, quality of final product is always maintained.

Production planning is one part of production planning and control dealing with basic concepts of what to produce, when to produce, how much to produce, etc. It involves taking a long-term view at overall production planning. Therefore, objectives of production planning are as follows:

- To ensure right quantity and quality of raw material, equipment, etc. are available during times of production.
- To ensure capacity utilization is in tune with forecast demand at all the time.

A well thought production planning ensures that overall production process is streamlined providing following benefits:

- Organization can deliver a product in a timely and regular manner.
- Supplier are informed will in advance for the requirement of raw materials.
- It reduces investment in inventory.
- It reduces overall production cost by driving in efficiency.

Production planning takes care of two basic strategies' product planning and process planning. Production planning is done at three different time dependent levels i.e. long-range planning dealing with facility planning, capital investment, location planning, etc.; medium-range planning deals with demand forecast and capacity planning and lastly short term planning dealing with day to day operations.

Production Control

Production control looks to utilize different type of control techniques to achieve optimum performance out of the production system as to achieve overall production planning targets. Therefore, objectives of production control are as follows:

- Regulate inventory management
- Organize the production schedules
- Optimum utilization of resources and production process

The advantages of robust production control are as follows:

- Ensure a smooth flow of all production processes
- Ensure production cost savings thereby improving the bottom line
- Control wastage of resources
- It maintains standard of quality through the production life cycle.

Production control cannot be same across all the organization. Production control is dependent upon the following factors:

- Nature of production(job oriented, service oriented, etc.)
- Nature of operation
- Size of operation

Production planning and control are essential for customer delight and overall success of an organization.

The Steps in Production Planning and Control are Given Below

- Planning
- Routing
- Scheduling
- Loading
- Dispatching
- Follow-up

What is Quality Control?

Quality is said to be the performance of the product as per the commitments. Quality control is the process of setting standards and tests to ensure that a product or service is correctly done. Most organizations have a particular Quality Control or Quality Assurance department that provides the set of standards required to be followed for each product.

Quality control relies on product testing as checking a product gives an accurate picture of the end product quality.

-Methods of quality control:-

-Difference between quality control and inventory control.