

Financial Accounting & Analysis

Unit 1 – Introduction to Financial Accounting

Dr. Sadaf Hashmi

Start with Why?



Accounting is possibly the most boring subject in the world. It also could be the most confusing. But if you want to be rich, long term, it could be the most important subject.

Robert Kiyosaki

QuoteNova.net

Session Guide & ...lines

Faculty - Dr. SADAF HASHMI

- Ph.D – Finance, Narsee Monjee Alumni.
- 12+ experience as a Academician, Corporate Trainer and Entrepreneur.
- **Certified SAP- FI Trainer – NMIMS.**



SESSION GUIDELINES:

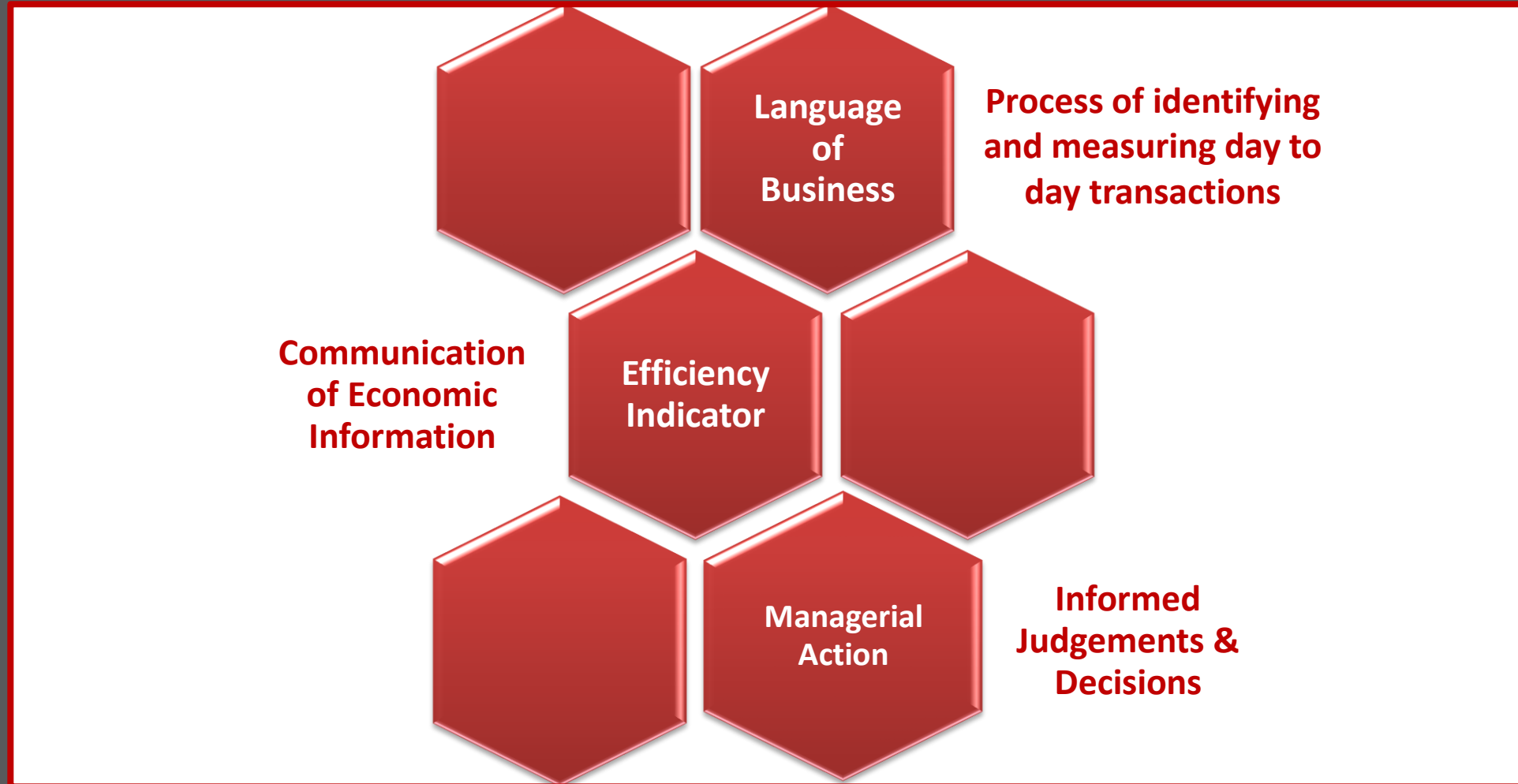
1. Revise regularly
2. Read current industry news
3. Correlate theory with practical examples
4. Ask relevant queries
5. Focus on understanding concepts.

Overview: Financial Accounting & Analysis

It involves **preparation** and **investigation** of Financial Statements by internal and external stakeholders.



Step 1: What is Accounting?



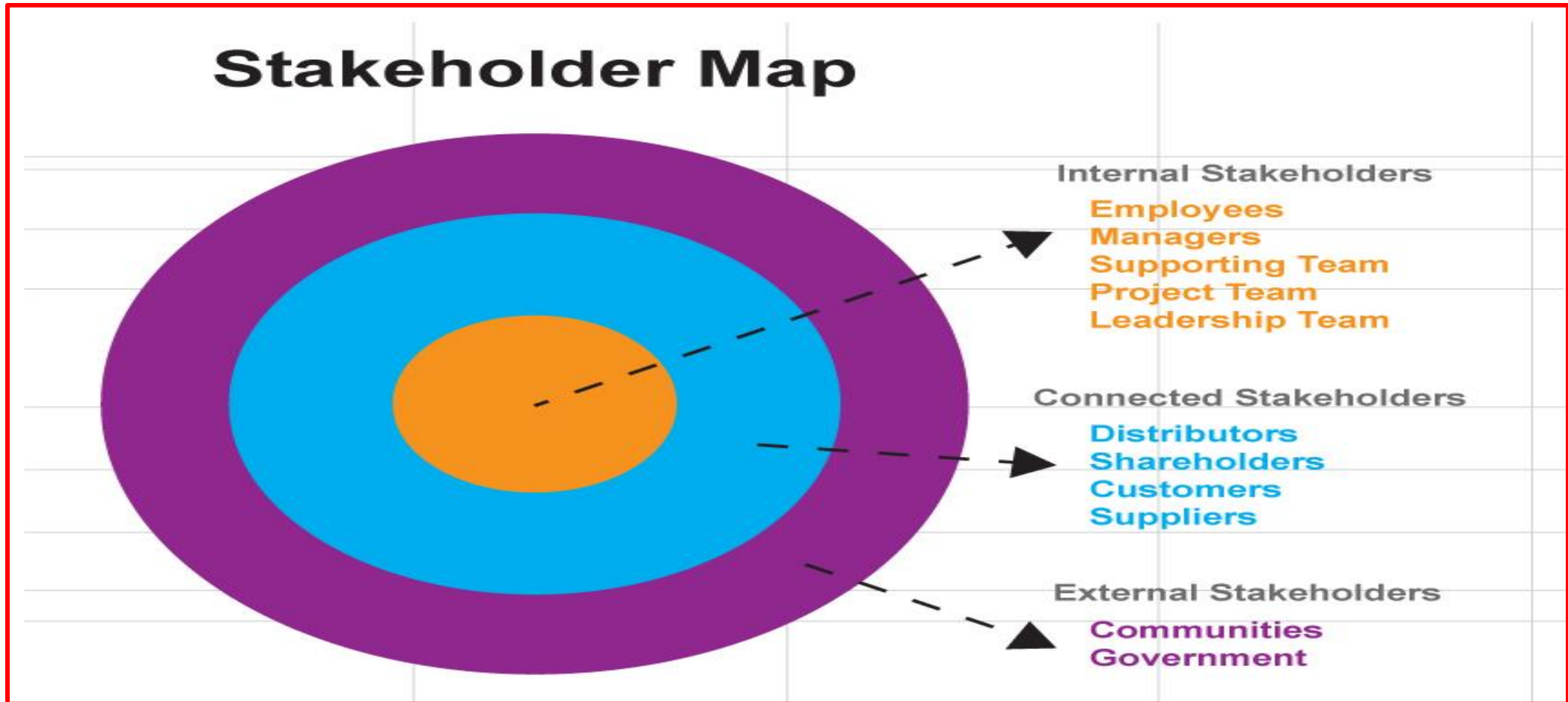
Step 2: Why do we need to study Accounting?

CAT MODEL

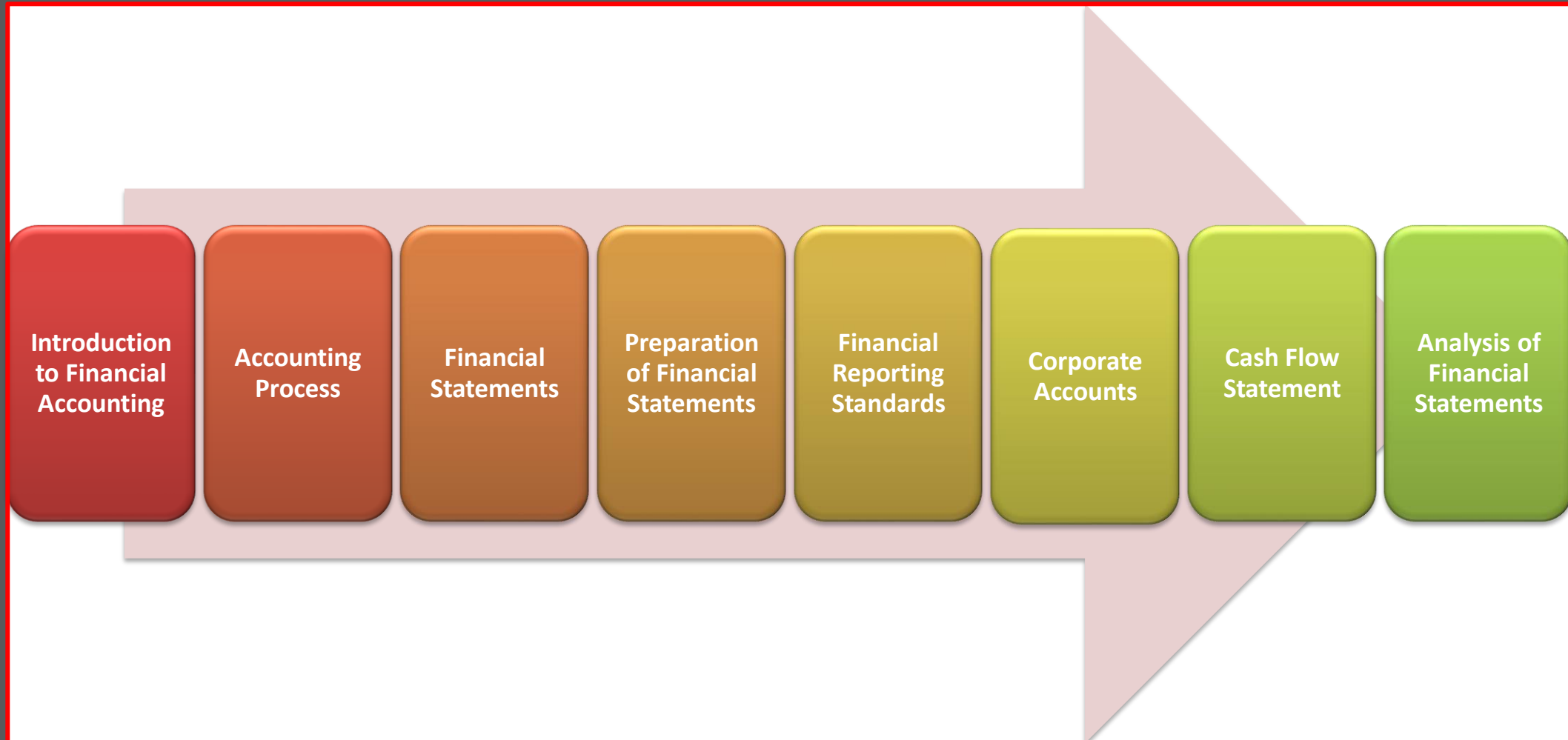
- ❖ Communicate with stakeholders
- ❖ Analyze
- ❖ Take Action



Step 3: Who are the Stakeholders?



Step 4: What do we need to study in Accounting?



Step 5: Application of Accounting Information

1. To assess the survival and stability of business
2. To forecast future growth
3. To define targets for expansion and diversification
4. Intra and Inter-firm comparison
5. To build investors confidence.



Learning Outcomes

- ✓ Understand the role of accounting information in making economic decisions.
- ✓ Identify the users and uses of accounting information.
- ✓ Understand the subfields of accounting and their relevance.
- ✓ Explain different accounting terms.
- ✓ Describe the contents and purpose of different financial statements
- ✓ Understand the purpose of generally accepted accounting principles

Reliance Retail to buy out Subway India for Rs 1,488-1,860 crore: Report

Subway has been looking to streamline its India business by collaborating with local partners to do away with the current regional master franchisees and individual networks.

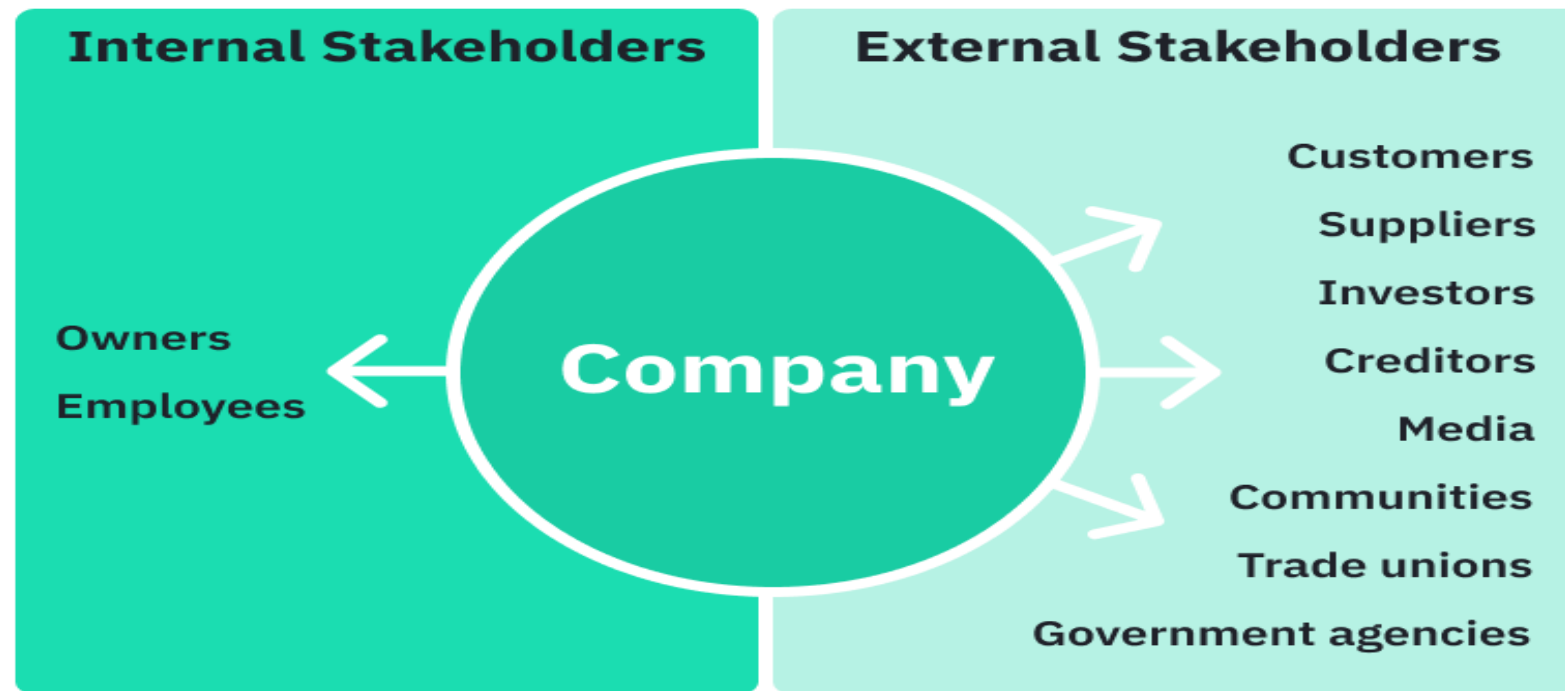


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Users of Accounting Information

Types of Stakeholders



ActiveCampaign >

Uses of Accounting Information

1. Owners & Employees – **Continuity, expansion and diversification .**
2. Customers – **Sustainability and expansion.**
3. Lenders & FIs – **Repayment of debt**
4. Investors – **Growth & expansion**
5. Creditors – **Short term solvency**
6. Government – **tax payments**
7. Society – **environmental conservation and societal benefits**

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What are the types/branches/divisions of Accounting?

Financial Accounting

Cost Accounting

Management Accounting

Understanding sub-fields of Accounting

Financial Accounting

- Recording, summarization of day to day transactions.
- Preparation of financial statements – Income Statement, Balance Sheet and Cash Flow Statement.

Cost Accounting

- Costing of products – computation of total cost and profit margins
- Checking for cost deviations
- Budgeting

Management Accounting

- Decision making based on financial reporting.
- Survival and Growth strategies
- Expansion and diversification of existing business.

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What are the elements/ components/ pillars of Financial Accounting?

Expense

- Cost
- Outflow of Cash

Revenue

- Income
- Inflow of Cash
- Topline

ASSET

- Economic resource
- ability to generate income

LIABILITY

- Obligations of business
- Items due or to be paid in future

EQUITY

- Owned capital
- Shareholder's funds, net worth

ASSETS

- ❑ Ability to generate present and future income or cash flows for the business organization - Economic resource
- ❑ Add value/strength to the financial position of the company.
- ❑ Current & Non-current assets (tangible & intangible).
- ❑ Short term or long term.



LIABILITIES

- ❑ Obligations on the business to be paid/ settled in future.
- ❑ Generate outflows for the business.
- ❑ Claims on business assets.
- ❑ Short term or long term.



EQUITY/ SHAREHOLDER'S FUNDS

- ❑ Money/ funds invested by owners, investors in business
- ❑ Foundation capital
- ❑ Includes equity share capital and retained earnings.



The diagram illustrates the Owner's Equity Formula. On the left, the text "Owner's Equity Formula" is accompanied by a calculator icon. In the center is an equals sign. To the right of the equals sign is the formula "Total Assets – Total Liabilities". Above "Total Assets" is a dollar sign icon, and below it is a bar chart icon. The entire diagram is enclosed in a double-bordered box.

$$\text{Owner's Equity Formula} = \text{Total Assets} - \text{Total Liabilities}$$

REVENUE

- **Revenue or Topline:** Inflow of cash in the business in the form of sale of goods/services.

- **Other Incomes:**
 - Brokerage
 - Commission
 - Royalties
 - Dividends, interest



EXPENSES

CAPEX vs OPEX



Periodic Expenditure

Capital expenses include the purchase of fixed assets, such as new buildings or business equipment, upgrades to existing facilities, and the acquisition of intangible assets, such as patents.

CapEx



OpEx



Daily Expenditure.

Operating expenses are much easier to understand conceptually than capital expenses since they are part of the day-to-day operations. All operating expenses are recorded on a company's income statement as expenses in the period when they were incurred

Other Accounting Terms

➤ Goods

Items manufactured or processed by business for earning revenue/resale.

➤ Debtors

A customer who has purchased goods on credit and owes an amount to be paid to the business.

➤ Creditors

A supplier/party/company to whom money is owed.



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Understanding Financial Statements

What is a Financial Statement?

A financial statement shows you where a company's money came from, where it went and where it is now.¹



Balance
Sheet



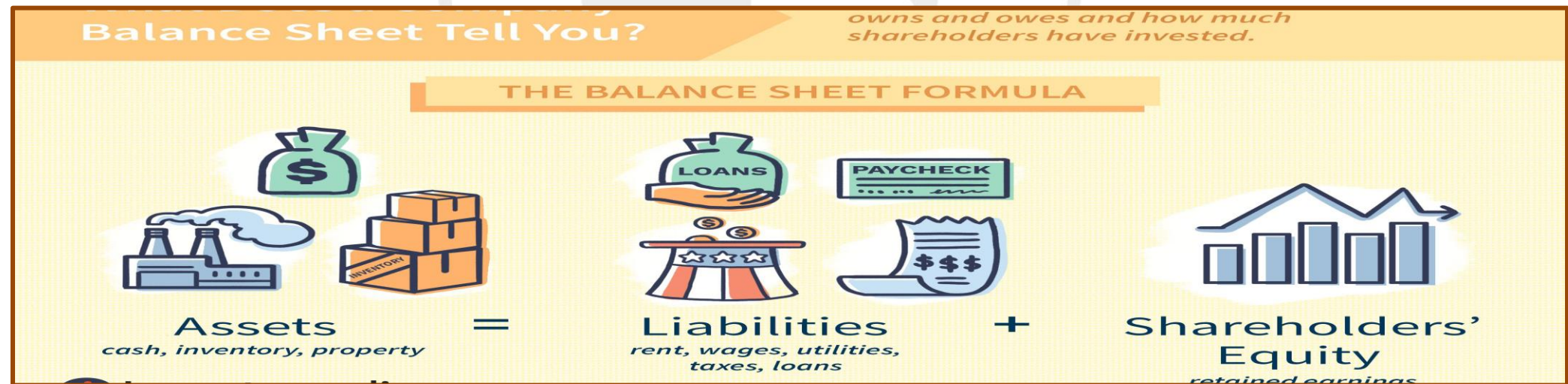
Income
Statement



Cash Flow
Statement

Balance Sheet

- ❑ Reports the **Financial Position** of the business at the end of the accounting year i.e 31st March every year.
- ❑ Indicates the financial strengths/weaknesses in business.



Income Statement

- ❑ Report of the profits/losses earned by the business in a financial year.
- ❑ Collection of operating expenses made by the business in a financial year.
- ❑ Matches expenses with the incomes – **Matching Concept**



**Net Income
Formula**



= Total Revenues - Total Expenses



Cash Flow Statement

- Indicates the inflows and outflows of cash during an accounting period.
- All inflows and outflows are classified into the following three activities:
 1. Cash flow from Operating Activity
 2. Cash flow from Investing Activity
 3. Cash flow from Financing Activity



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Understanding GAAP

- ❑ GAAP stands for **Generally Accepted Accounting Principles**.
- ❑ **Guidelines for recording business transactions and preparation of financial statements.**
- ❑ **Ease of inter-firm comparison**
- ❑ Sources of GAAP include Companies Act 2013, Indian Accounting standards and pronouncements of the accounting profession.



Advantages of Financial Accounting

Maintaining Business Records

Preparing Financial Statement

Comparing results

Providing information to interested groups

Providing legal evidences

Helping in decision making

Limitations of Financial Accounting

- ☐ Provides only **historical information**
- ☐ Does not account for future projections and estimates
- ☐ Does not account for aspects important to business but cannot be measured or quantified viz. Management competency, human resources etc.
- ☐ Window Dressing, Secret Reserves.
- ☐ Inflation

RECAP

- ❑ Accounting is a very important and old concept in business management. Accounting has become synonymous with the “language of business”.
- ❑ With the expansion of the market and the size of the business organisations, the shareholders, creditors, suppliers, potential buyers and various government agencies seek to get the financial disclosure of the organisation.
- ❑ In today’s business world, accounting plays the crucial role of providing important financial information to the interested parties.
- ❑ Financial accounting refers to the process of systematic recording of financial transactions aimed at preparing profit and loss account and balance sheet.

Thank you



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