SAP BPC

Accounting and Financial Concepts

Capgemini

Course Objective

What to expect from this training:
Accounting and Financial Concepts

1. Accounting Concepts
   a. Types of Accounts
   b. Golden rules of Accounting
   c. Ledger , AP and AR

2. Financial Statements
   a. Profit & Loss Statement
   b. Balance sheet
   c. Cash Flow Statement

3. Planning , Budgeting and Forecasting overview

4. Consolidation overview

Accounting Concepts

Accounting

- Financial Accounting
- Management Accounting

Financial Accounting

Financial accounting is the periodic reporting of a company's financial position and the results of operations to external parties through financial statements

Management Accounting

Management accounting emphasizes the preparation and analysis of accounting information within the organization.

Types of Accounts

All the accounts used in an organizational accounting system are divided into three kinds/ types. Every account head should be capable of being classified under one of the three kinds/types.

Personal Accounts

The elements or accounts which represent persons and organizations. E.g.. Mrs Vimla a/c, M/s Bharat & Co a/c, Capital a/c, Bank a/c etc.

Real Accounts

The elements or accounts which represent tangible aspects. E.g. Cash a/c, Goods/Stock a/c, Furniture a/c. etc.

Personal and Real Accounts are further classified as either Assets, Liabilities or Equities

Nominal Accounts

The elements or accounts which represent expenses, losses, incomes, gains. E.g. Salaries a/c, Interest Received a/c, Loss on Sale of Asset a/c. etc.

Nominal Accounts are further classified as either Income or Expenses.

The Golden Rules Of Accounting

Debit The Receiver, Credit The Giver	This principle is used in case of Personal Accounts. When a person gives something to the organisation, it becomes an inflow and therefore the person must be credit in the books of accounts. The converse of this is also true, which is why the receiver needs to be debited.
Debit What Comes in , Credit What Goes out	This principle is applied in case of Real Accounts. Real accounts involve machinery, land and building etc. They have a debit balance by default. Thus when you debit what comes in, you are adding to the existing account balance. This is exactly what needs to be done. Similarly when you credit what goes out, you are reducing the account balance when a tangible asset goes out of the organisation.
Debit All Expenses And Losses , Credit all incomes and Gains	This rule is applied when the account in question is a Nominal Account. The capital of the company is a liability. Therefore it has a default credit balance. When you credit all incomes and gains, you increase the capital and by debiting expenses and losses, you decrease the capital. This is exactly what needs to be done for the system to stay in balance.

Some basic Definitions

A ledger is the principal book or computer file for recording and totaling economic transactions measured in terms of a monetary unit of account by account type, with debits and credits in separate columns and a beginning monetary balance and ending monetary balance for each account.

Definition of 'Accounts Payable'

Definition: When a company purchases goods on credit which needs to be paid back in a short period of time. It is known as Accounts Payable. It is treated as a liability and comes under the head 'current liabilities'. Accounts Payable is a short-term debt payment which needs to be paid to avoid default

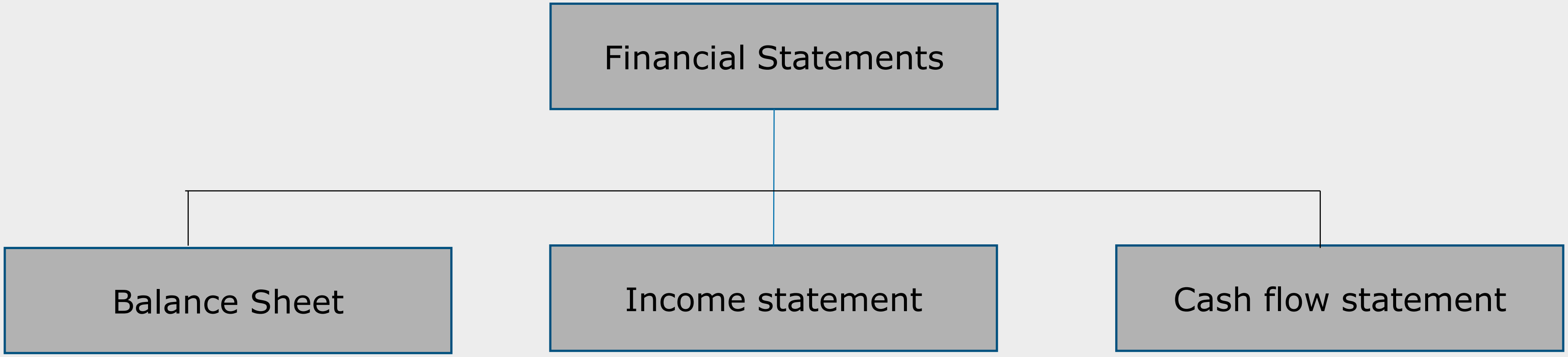
Definition of 'Accounts Receivable'

Definition: Accounts Receivable(AR) is the proceeds or payment which the company will receive from its customers who have purchased its goods &services on credit. Usually The credit period is short ranging from few days to months Or in some cases maybe a year.

Financial Statements

- A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity.

- Relevant Financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis.



Profit & Loss Account Statements

Also known as profit & loss (P&L), this is a summary of income and expenses over a specific period, typically a month, quarter or year. It compares results to a similar period, such as the one immediately preceding or a year earlier.

Key Elements

- Revenue
- Cost of goods sold
- Operating Expenses &taxes

Sample Company, Inc.	Profit & Loss Statement	August 2012
Operating Revenue		
Product sales		$12,000
Service sales		3,000
Total Operating Revenue		**15,000**
Operating Expenses		
Cost of goods sold		7,000
Gross Profit		**8,000**
Overhead		
Rent		1,500
Insurance		250
Office supplies		150
Utilities		100
Total Overhead		**2,000**
Operating Income		**6,000**
Other Income (Expenses)		
Loan interest		(500)
Earnings Before Income Taxes		**5,500**
Income Taxes		**500**
Net Earnings		**$ 5,000**

Balance Sheet

Unlike the P & L, which reports results over a specific period of time, the balance sheet is a snapshot of your company's assets and liabilities on a certain date.

Key Elements

- Assets
- Liabilities
- Equity

Assets		Liabilities		
Cash	$ 25,000	Accounts payable	$ 50,000	
Accounts receivable	50,000	Loans payable	125,000	
Inventories	35,000	Total liabilities		$175,000
Land	125,000	**Stockholders' equity**		
Buildings	400,000	Capital stock	$120,000	
Equipment	250,000	Retained earnings	600,000	
Other assets	10,000	Total stockholders' equity		720,000
Total assets	$895,000	Total liabilities and equity		$895,000

Cash Flow Statement

The reports changes in your cash position during the reporting period, including cash flow Generated (or burned) from operations, from investing (such as purchasing capital equipment) and from financing (such as borrowing funds or selling stock).

Key Elements

- Operating
- Investing
- Financing

Cash Flow Statement
For the Year Ended December 31, 2011 (000s)

Cash Flows From Operating Activities	
Net income	397
Depreciation and amortization	318
Unrealized gain on marketable securities	(12)
Decrease (increase) in deferred taxes	(44)
Net increase (decrease) in receivables, inventories, prepaids, payables	(97)
Total Cash Flows From Operating Activities	**562**
Cash Flows From Investing Activities	
Purchase of machinery, equipment, and improvements	(203)
Decrease (increase) in employee advances	(60)
Proceeds from the sale of marketable securities	22
Purchase of marketable securities	(90)
Decrease (increase) in notes receivable	(45)
Decrease (increase) in deposits	(12)
Total Cash Flows From Investing Activities	**427**
Cash Flows From Financing Activities	
New short-term borrowings	0
Repayment of short-term borrowings	(1,021)
Repayment of long-term borrowings	0
Total Cash Flows From Financing Activities	**(1,021)**
Net Increase in Cash and Cash Equivalents	**(886)**
Cash and Cash Equivalents, Beginning	1,367
Cash and Cash Equivalents, Ending	481

Types of Planning

What is planning? What are the different types of Planning and Importance of Planning?

Planning provides the overall venue and process for stating the direction and financial objectives of an organization. Most companies put together an annual plan that is part of the larger strategic plan of the company, usually covering three to five years. This is where the senior executives lay out their vision for what is possible.

The overall planning picture commonly is comprised of two or three main components:

1. Strategic Plans: Set overall long-range goals and objectives. Often, both are qualitative and quantitative in nature.

2. Long-Range Plans: Typically set financial targets over a three to 10-year horizon-the quantified financial plan for the strategic plan above.

3. Annual Plans: This is the first year of the long-range plan and provides the high level targets to guide the budget.

Budgeting

Budgeting supplies the execution path for the plans with a detailed, operational and short-term view. Whereas planning provides "what is possible," budgets outline "what is expected" from the business, based on the approved annual plan.

The budgeting process is broadly focussed on the following major components:

1. Sales/Gross Margin Budgets
2. Capital Expenditure Budgets
3. Headcount Budgets
4. Operating Expense Budgets.

Forecasting

Forecasts typically use actual performance data to project the remainder of the current year's performance (rolling forecasts are the same concept but reset expectations for some predefined future period, usually 12 to 18 months). Forecasts are focused on what is happening from a revenue and income statement perspective.

There are three general forecasting methodologies:

1. Tops-Down Forecasting: Primarily focused on current demand and operational conditions translated into revenue predictions.

2. Bottoms-Up Forecasting: Rely on business managers to enter current and specific line item details per the revenue budget.

3. Hybrid: A combination of the above two methodologies, e.g., a tops-down focus coupled with a bottoms-up proportional allocation.

Three PBF Process Components

Three PBF process components defined:

1. **Strategic Planning**: A component of the planning use case in the original PBF breakdown. The strategic planning process quantifies the vision of the company and helps management determines what is possible. Information is at a very high level, is driver and scenario-focused, incorporates full financial statement impacts and produces the long-range plan. Analysis is most powerful here when external drivers are included at the higher levels (i.e. Long-Range or Strategic Plan levels) and the lower levels (i.e. Budgets or Operational Plans) are integrated to shape the outputs

2. **Financial Planning**: Has a role in building the budget and the forecast and in general terms, is the top-down version of the budget. The output from the financial plan is the input to the operational plan. Scenario analysis, stress testing, working capital and re-forecasting of the full financial statements are the key use cases.

3. **Operational Planning**: The B in PBF and focuses on what is expected while highlighting the accountability in the detailed cost structure. The operational plan is also the basis for the allocation of the top-down financial plans and is at the lowest level of detail.

Consolidation

What is Consolidation & why it is required?

Major corporations need to understand how to consolidate financial statements in order to accurately represent financial results for investors and other business purposes. When one creates an empire, a financial statement is a reflection of financial results for all bought entities, as well as for original company assets. When the parent company acquires stocks, its subsidiary maintains its own separate accounting records. However, the parent company still controls the subsidiary, so it doesn't operate independently. Because of this, the parent company will consolidate financial statements to present its own financial operations, as well as the subsidiaries of financial operations.

When preparing consolidated financial statements:

1. We are replacing the cost of the investment in the holding entity's accounts with the fair value of the assets and liabilities of the subsidiary.

2. Goodwill is likely to arise on acquisition. Shares purchased at the market price may not reflect the fair value of the assets and liabilities of the subsidiary . Any difference between the amount paid and the value of assets is goodwill.

3. There must be no double counting. All items that relate to transfers within the group must be eliminated on consolidation.

People matter, results count.

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