Financial Management deals with ***raising the funds, effective utilization*** *and* ***management of assets.***

Objective of FM:

1. ***Profit maximization –*** *purpose of any company is to earn profit.*
2. ***Wealth maximization –*** *increase market value(branding) in market.*
3. ***Maintenance of liquid asset***
4. ***Fair return of shareholder***

What is Capital?: ***The term capital refers to the total investment of the company in terms of money and assets***. There are two types of capital.

1. **Fixed capital** : capital needed to purchase for long term like: land, building, machinery
2. **Working capital**: capital need to buy day to day transactions of the business like raw material, wages to workers etc.

FIXED CAPITAL

Sources of Raising Capital: *A company can raise fund through internally and externally. A new company generally may not raise fund internally and they can raise fund externally by issuing share, debentures and loan. An existing company (well established) can raise fund by internally and externally both.*

Types of Sources:

1. Internal source: raise fund inside the organization.

- Personal fund : owner invest their own money in company with no interest rate
- Depreciation provisions: Depreciation provisions represent the maintenance of capital stock to replace the existing machinery when it becomes uneconomical to use. It is major source of internally generate fund
- Deferred taxation: use tax money throughout the year and paid all amount at end of financial year.
- Retained equity earning: This implies retaining of earning of shareholder for internal reinvestment

2 External Source: raise fund from outside the organization.

External Source

Long term	**medium Term**	**Short Term**	**Special Institution**
more than 3 to 5 years	between 1 and 3 years	Less than 1 year	
Bank Loan	Bank Loan	Trade credit	Industrial financial corporation
Share	Hire purchase	credit facilities	State financial corporation
Debentures	Sale and lease back		Industrial development corporation
Corporate bonds	Equipment leasing		insurance company
Public deposits			

Shares: Funds are collected by issuing shares to public.

- Smallest division of the company's capital is known as shares.
- The shares are offered for sale in the open market, i.e. stock market to raise capital for the company.
- The rate on which the shares are offered is known as share price.
- It represents the portion of ownership of the shareholder in the company.
- The shareholders are entitled to the dividend (if any) declared by the company on the shares.

The shares are broadly divided into two major categories:

- **Equity Shares:** The shares which carry voting rights on which the rate of dividend is not fixed. They are irredeemable in nature. In the event of winding up of the company equity, shares are repaid after the payment of all the liabilities.
- **Preference Shares** The shares which do not carry voting rights, but the rate of dividend is fixed. They are redeemable in nature. In the event of winding up of the company, preference shares are repaid before equity shares.

Debenture: A **debenture** is a debt instrument used by the companies to raise money for medium to long term at a specified rate of interest. The capital raised by the company is the borrowed capital; that is why the debenture holders are the creditors of the company.

COMPARISON	SHARES	DEBENTURES
Meaning	The shares are the owned funds of the company.	The debentures are the borrowed funds of the company.
What is it?	Shares represent the capital of the company.	Debentures represent the debt of the company.
Holder	The holder of shares is known as shareholder.	The holder of debentures is known as debenture holder.
Status of Holders	Owners	Creditors
Form of Return	Shareholders get the dividend.	Debenture holders get the interest.
Payment of return	Dividend can be paid to shareholders only out of profits.	Interest can be paid to debenture holders even if there is no profit.
Voting Rights	The holders of shares have voting rights.	The holders of debentures do not have any voting rights.
Conversion	Shares can never be converted into debentures.	Debentures can be converted into shares.
Repayment	Shares are repaid after the payment of all the liabilities.	Debentures get priority over shares, and so they are repaid before shares.

Budgets: is the financial plan of the next year. Or we can say ***that forecast of company's income and expense for coming year***.

Budgeting: is an art of budget making.

Types of Budget:

	Budgets	
Fixed budget		**Financial budget**
Variable budget		* Production budget
		* Labor budget
		* Sales budget
		* Material and Purchase budget
		* Cash budget

Fixed Budget: certain fixed type of expenditures e.g land, machine, Rand D etc.
Variable Budget: due to uncertainly in business, we kept some money to meet that demand.
Financial budget: Finance manager collect budget from all department and make master budget from company.

Accounts (Financial Statement) : i) Profit and Loss Statement ii) balance Sheet

Profit and Loss account statement: The *profit & loss statement* summarizes the revenues and expenses generated by the company over the entire reporting period. The profit & loss statement is also known as the income statement,
The basic equation on which a profit & loss statement is based is Revenues – Expenses = Profit.
All companies need to generate revenue to stand in business and market. Revenues are used to pay expenses, interest and taxes.

Profit & Loss Statement for Company XYZ, Inc. *for the year ended December 31, 2016*

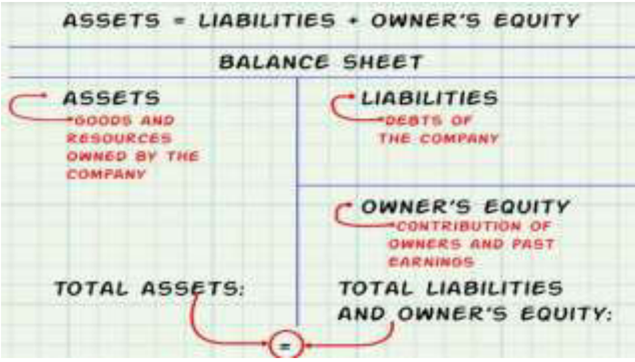
Total Revenue	10,00,000	
Cost of Goods Sold	(2,00,000)	(money get after selling all goods)
Gross Profit	8,00,000	

Operating Expenses

Salaries	3,00,000
Rent	1,00,000
Utilities	50,000
Depreciation	50,000
Total Operating Expenses	5,00,000

Net Income   (operating expense – Profit)   =   3,00,000
Number of Shares Outstanding   30,000
Earnings Per Share (EPS)   10.00

Balance Sheet: A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. A balance sheet shows financial status (health) of the company at any given item. It has **Assets, liabilities** and **Shareholder** (owners) **equity**
The balance sheet formula is Assets = Liabilities + Shareholders' Equity

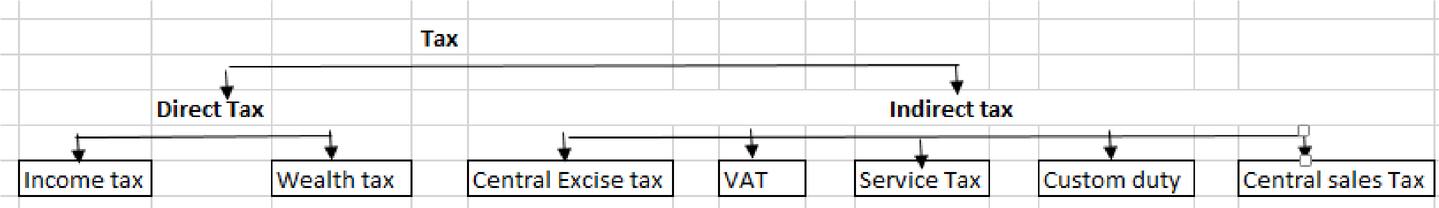


The balance sheets has the two side, on left side there is **assets** and right side there is **liabilities plus shareholders' equity**. In Balance sheet both right and left side must balance, hence called **balance sheet**.

Asset : Assets are the resources of the business. Assets are the resources that belong to the company. E.g properties, machine, land, cash, patents.
Liabilities: A liability is a debt that a company must pay to creditors. Liability represents what the company has to pay others.
Type of Liabilities:
Current Liabilities: Debts which was expected to be settled within 1 year.(e.g short term loan)
Fixed Liabilities: Debts for long term loans are known as Fixed Liabilities.

Introduction of taxes: tax if fee charged by a government on a product, income or activity. Government use tax money for infrastructure development (rail, roads, bridges ,flyover ,airport, dam, irrigation, education,health, space research satellite etc.)

Direct tax: If tax is charged directly on personal or corporate income. e.g income tax and wealth tax
Indirect tax: If tax is charged on the price of good or service called Indirect tax. E.g VAT, service,custom,central sales tax



Central Sales Tax (CST) is a tax on sales of goods levied by the Central Government of India. **CST** is applicable only in the case of inter-state sales and not on sales made within the state or import/export of sales.

VAT: Tax should be levied on the 'value added' at each stage and not on the gross sale price. Basic difference between VAT and CST is i) VAT is payable only on 'value addition' at each stage where as CST is payable on total value of goods.
ii)VAT is applicable for inside the state where as CST is for between state.
Example 1: "A" in Maharashtra sells and delivers goods to "B" in Gujarat.   – Central Sales Tax
Example 2: "X" in Maharashtra delivers goods to "Y" in Maharashtra. – VAT is applicable.

Custom Duty : tax imposed by government for the goods which is imported from the other countries.
Custom duties are of two types   a)Import duties   & b) Export duties

Service Tax: Tax payable on services provided by service provider. Ex. Service tax to telephone, insurance, stock.

Excise tax: tax payable on goods manufactured or produced in India. Total excise duty is 12.36% (including Duty rate is 12% , education cess 2% and secondary and higher education cesss of 1%)

Unit 5: Financial Management

OBJECTIVES:

- After studying this lesson, student shall be able to:
  1. Explain the meaning, objectives and functions of financial management;
  2. Understand the terms such as Capital, finance, loan, shares and debentures;
  3. Classify various financial ratios;
  4. Compare bookkeeping and accountancy;
  5. Understand the rules of debit and credit for personal, real and nominal accounts;
  6. Explain the process of journalizing and draw journal as per format;

Financial Management:

- Any business cannot be successful unless there is no money/finance to run the business.
- Hence financial management is defined as ***"a part of management which is concerned with raising funds to run the business."***

Objectives and Functions of Financial Management:

1. Raising finance and funds.
2. Finding various sources of funds.
3. Investing funds in either fixed assets or current assets.
4. Managing fixed assets.
5. Managing working capital.
6. Control on cash.
7. Keeping record about use of finance.
8. Records about profit and loss of business.
9. Increase profit.

CAPITAL

- Initially when money is invested in business, it is known as capital.
- To commence any kind of business the first and the foremost requirement of the businessmen is the required amount of capital with him.
- Production without capital is not possible.
- As blood is required to keep heart working, capital is required to start and run the business.
- Capital is needed for purchasing fixed assets, purchasing raw materials and to meet day to day expenses.

TYPES OF CAPITAL:

- Depending on the purpose of using the capital the capital is classified as
  a) **Fixed capital**
  b) **Working capital.**

Fixed capital:

- It is the money required for getting fixed assets such as land, building, equipments, etc. is known as fixed capital.
- Fixed capital cannot be disposed off without breaking the business.
- Some firms need very less fixed capital investment while few of them like manufacturing industries require more fixed capital investment.

WORKING CAPITAL:

- It is the money required to meet the expenditure for day to day working of the business.
- E.g. Wages of workers, advertising, promotion etc.
- Working capital is the difference between current assets and current liabilities.
- Working capital ensures smooth and efficient business operations without interruptions.

FINANCE: -

- Finance means money or funds.
- To start the business, business organisations requires capital but to keep the business running the business organisations requires finance and various funds.
- Small scale industries have little problems of finance as compared to large scale industries.
- This is because small scale industries follow either individual ownership or partnership business, while large scale industries comprises of Joint stock company.
- Funds are raised from various sources by business organisations.
- They invest them in either fixed assets or current assets and earn profit out of them for purpose of conducting business operations.

METHODS OF RAISING CAPITAL:

- **Finance can be raised from -**
  1) Shares
  2) Debentures
  3) Loans from Financial institutions
  4) Deposits
  5) Retained earnings

SHARES AND ITS TYPES

- A share is a basic unit in which the total requirement of capital is divided.
- Shares are issued for raising funds. Shareholders are paid dividend every year depending upon the performance of industry.
- Shares are classified as:
  1) **Preference shares and**
  2) **Equity shares**
  3) **Deferred shares.**

Types Of Shares:

1) **Preference shares:**
   - Enjoy first preference in getting dividends, they get fixed dividend and it is not dependent on the profit earned.
   - There is small risk of investing in preference shares.
2) **Equity shares:**
   - Have second claim to receive dividend. Equity share holder enjoys profit earned by company.
   - Also the dividend paid on equity shares is variable, it depends upon profit earned.
   - There is high risk of investing in equity shares.
3) **Deferred shares:**
   - Get last preference in getting dividend.

DEBENTURES

- A debenture is a loan to the company at fixed rate of interest.
- It is a document which evidences the loan made to the company.
- Company invites public to buy debentures. Profit or no-profit, public will get their interest.
- Debenture holders do not get ownership, they only get the interest.
- Debenture holders are called as the creditors of the company.
- They do not pose any threat to the existing control of the company.

THE TYPES OF DEBENTURES ARE :

1) **Registered V/s Bearer debentures,**
2) **Secured V/s Unsecured**
3) **Redeemable V/s Non redeemable**
4) **Convertible V/s non convertible.**
   - Debenture holders do not have any control over the affairs of the company.
   - Debenture holder does not enjoy any right of voting, while shareholders are allowed to vote and attend company's meeting.
   - Debentures can be converted into shares as per the terms of issue of debentures.

LOAN/FINANCE FROM BANK:

- Banks provide capital in the form of loan of required amount and for required period of time.
- Banks are the prime sources of providing financial assistance.
- Bank does not directly provide the loan.
- The bank provides loan against some security.
- The security may be in any form such as mortgage to property (like land, building, machinery) or possession of goods and inventories.
- Finance is not only available in terms of loan but there are facilities like Cash credit also, where each client is sanctioned for one year and can be renewed from year to year.
- This finance provided by bank is utilized by various business organisations to run the business and earn profit out of it.
- The various banks that lend loans are Bank of Baroda, State Bank of India, Bank of Maharashtra etc.
- These are commercial banks unlike of the financial institutions whose purpose is to serve the society.

Financial institutions:

- Financial institutions provide industrial finance for economic development of country.
- They are not developed for commercial motive.
- They provide funds at reasonable rate of interest.
- Their main motive is developing small scale sectors.
- These banks provide funds at appropriate rate of interest, i.e. not as high rate of interest as the commercial banks charge.
- They are developed to assist backward areas, small scale sectors, export oriented industries, etc.
- They assist industries like fertilizers, pharmaceuticals, mining, shipping, hotels, generation of electricity, fishing, manufacturing and preservation of goods, etc,

FINANCIAL INSTITUTIONS:

- Under Indian constitution following financial institutions have been formed:
  1) Industrial development Bank of India (IDBI)
  2) Industrial Finance Corporation of India (IFCI)
  3) State Financial corporation (SFC)
  4) Unit Trust of India (UTI)
  5) Life Insurance Corporation (LIC)
  6) Industrial Credit and Investment Corporation of India (ICICI)

FINANCIAL RATIOS:

- Financial ratio is a technique for judging the financial strength of a business.
- They provide the following information:
  1) What rate of profit you are earning in the business?
  2) What is the margin of profit?
  3) Would the company be able to pay money due to firm?
  4) How fast the customers pay money to firm? Etc.

A) LIQUIDITY RATIOS:

- Reflects firm's ability to meet scheduled short-term obligations.
- For the firm to remain alive, it must pay its bills as they become due. Liquidity ratios measure the extent to which the firm can meet its immediate obligations.
- Current ratio (Working capital ratio) is a liquidity ratio:

$$Current \quad Raitio = \frac{Current \quad Assets}{Current \quad Liabilitie \quad s}$$

- Current assets include cash, bank balances, marketable securities (like stocks and bonds) accounts receivable and inventory.
- Current liabilities include bank loans, tax to be paid, expenses etc.
- If the value of current ration of high, it indicates that firm is liquid and in good position to meet its current obligations.

B) LEVERAGE RATIOS:

- Measures the contribution of financing by owners compared with financing provided by the outsiders.
- It indicates to what extent the firm has financed its investments in borrowing.
- Leverage ratios show how much debt the firm has used to finance its investments.

Debt-equity ratio:

- Debt includes long term and short term debts in form of mortgages, bills or debentures.
- Equity consists of preference shares, equity shares, capital reserves, retained earnings.

$$\text{Debt} - \text{equity ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{\text{Outsider's funds}}{\text{Shareholder's funds}}$$

C) Activity ratios:

- Activity ratios measure how well the firm is managing various classes of assets (like inventory and fixed assets).
- These are called as turnover ratios because they show how rapidly assets are being converted into sales.
- High turnover indicates that assets are managed well by company.
- Fixed assets turnover ratio:

$$Fixed \quad assets \quad turnover = \frac{Sales}{Fixed \quad Assets}$$

- It is sales divided by fixed assets. It measures how well the firm uses its long term assets.
- It indicates the sales per rupee of investment in fixed assets.
- A higher utilization indicates effective utilization of fixed assets such as plant and machinery.

D) PROFITABILITY RATIOS:

- They indicate the financial result of business.
- It reflects profitability of firm.
- Profit margin describes how well a rupee of sales is squeezed by the firm into profit.

$$P\ rofit \quad magin = \frac{Net \quad Income}{Net \quad Sales}$$

Book keeping and Accounting:

- ***Book keeping :***
- If a person has to carry on business he has to deal with various business transactions such as receiving or giving cash, purchase or sales of goods, lend or borrow money etc.
- All such transactions need to be recorded simple manner so at any time businessman comes to know status of business.
- Thus, book-keeping is a scientific method of recording day to day business transactions in words and figures in the book of accounts.
- It show correctly and clearly the financial position of a business.

- Definition of book keeping-Book keeping may be defined as the art and science of recording all the dealings related to money ,goods and services in a systematic manner so that any information pertaining to the business can be easily supplied to the management or the owner of the concern.

ACCOUNTING:

- ***Accountancy :***
- Accountancy is an act or recording, classifying, summarizing and reporting business transactions.
- It interpret their effect on the business affairs.
- It is art and science of recording business transactions in a methodical manner
- It helps to show the business position at a particular instant of time and success or loss or business during a specific period of time.

Unit 5: Financial Management

ACCOUNTING TERMINOLOGY:

- Assets-Assets are the resources of the business enterprises e.g. Properties ,equipments, stock, debtors and cash etc.
- Types-1) Current assets e.g. Cash in hand, cash in bank, investement, debtors,accounts receivable,all inventores etc2)Fixed assets e.g.land ,building, equipments machinery,furniture,transport vehicles
- Liabilities- Meaning of liabilities is “something that someone is responsible for”
- Types-1) Current Liabilities- e.g.bank overdraft,short term loans,trade credit,wages of employee,rent.

ACCOUNTING TERMINOLOGY:

- 2)Fixed Liabilities-e.g.Owner capitals,long term loans,long term debts,bonde,debentures.

A) Assets And Liabilities:

- Properties that are owned by business and have monetary value are called as assets.
- Current assets include cash and other assets which can be converted into cash within a short period.
- Fixed assets such as Land, building, equipment, furniture, machinery, etc
- Liabilities are the debts to be paid to the outsiders by the business. Such as loans taken by business, bank overdraft, bills payable, debentures payable, expenses payable, employee wages etc.
- Current liability: Debts which are to be repaid within a short period (1 year or less) are known as current liabilities. Income taxes payable, short term loans, rent payable etc. are current liabilities.
- Fixed liability: Debts which are to be paid in more than a year are fixed liabilities. E.g. long term loans, mortgage payable, owners capital etc.

B) Transactions:

- A transaction means an exchange of things or services between the two parties.
- A transaction may be monetary or non-monetary transaction.

C) Trade discount:

- If a publisher usually allows 10 to 15 percent discount to the library for on purchase of books.
- This discount is trade discount.

D) Creditor and Debtor:

- Creditor is a person who supplies finance to other i.e. he has to get money from the others.
- Debtor is a person (or a firm) who owes money to others (creditors) i.e. he has to pay money to others.

E) Turnover:

- Turnover means the sales income (Credit and Cash) of a business during a given period.

F) Commission:

- The remuneration given by a firm to a person for the services provided by him to the firm is called as commission.

G) Cash Trade and Credit trade:

- When the goods are purchased and sold on cash only, it is known as cash trade.
- When the goods are purchased or sold on credit, it is called as credit trade.

H) Journal:

- It is a book of original entry.
- All the daily transactions are recorded within this book in the chronological order (i.e. in an order in which the events takes place).
- **Rules of Journalizing:**
- For personal accounts, debit the account of person receiving and credit the account of person giving.
- For nominal accounts, debit the account of expenses and losses, and credit account of income and gains.

H) Ledger:

- It is the book of accounts.
- It includes all the different heads of accounts of persons, assets, incomes and expenditures.
- It is a main book.
- Hence you can say that all transactions from the journal are classified and sorted out, and entered in a book called Ledger.
- Thus there is a separate page for records of cash, purchase, sales, expenses, each customer and for each firm.
- The ledger is split into two halves, the debit (Dr) side being on the left and the credit (Cr) side on the right.
- Ledger is used to summarize transactions and to prepare the financial statements like balance sheet and profit and loss account.

- **Ledger Posting:**
- Transactions originally recorded in journal are also to be recorded in ledger under different heads.
- This act of recording transactions of journal in the ledger is called posting.

I) Bad Debt:

- A debt which becomes irrecoverable due to some reasons is called as bad debt.
- For example, if the debtor dies without leaving any property behind, the debt given to him cannot be recovered.

J) Drawing:

- It is the withdrawal of money by the owner from his business for his personal use.

SYSTEMS OF BOOK-KEEPING:

- There are two systems of book-keeping:
- **Single entry system:**
- Single entry system records only one side of the transaction and hence it does not provide information about a transaction.
- Under this system only cash transactions are recorded in cash book and personal accounts of debtors and creditors are maintained.
- Impersonal accounts and nominal accounts are ignored.
- Trading account, Profit and loss account and balance sheet cannot be prepared with the help of this system.

- **Double entry system:**
- Double entry system records both sides of transaction:
  - 1) Credit side
  - 2) Debit side.
- According to the principle of double entry system for every business two parties must be involved.
- Every debit has equal credit on the opposite side.
- The double entry book-keeping can be successfully used in every kind of business such as manufacturing, wholesale, retail, large scale, small scale, individual ownership, partnership, joint stock company etc.

ADVANTAGES OF DOUBLE ENTRY SYSTEM :

- It provides complete information of the business transaction since debit and credit sides are noted down.
- Trading account, profit and loss account, and balance sheet can be prepared with this system.
- Comparison of various items, such as purchases, sales, income, expenses etc of the current year can be made with those of the last year to know the business trend.
- Any error made in recording the transactions can be easily traced on and corrected.
- A possibility of fraud is reduced.

ACCOUNT:

- An account is summarized record of business transactions relating to persons, properties, expenses, losses, incomes, gains, etc.

A) Personal Accounts:

- The account of individuals, firms, shops and establishments, institutions, companies are called as personal accounts.
- The examples of personal accounts are: Ramesh’s account, Cusrow Wadia college account, Pune University account, Bank of Maharashtra account, Hotel Sun & Sand account.
- Rule for Personal account is: “Debit the receiver, Credit the giver.”
- E.g. Transaction says:”Sold 20 computers to Irfan for Rs 500000.” Since Irfan (Personal account) is the receiver of the goods, his account is to be debited.

B) Real accounts:

- The account of properties and assets are Real accounts.
- These accounts indicate the values of various assets held by the business.
- The example of Real accounts can be: Cash account, Goods account etc.
- The rule for Real account is: “Debit what comes in; Credit what goes out.”
- E.g. Transaction says: “Purchased computer accessories worth Rs 40000.”
- Since a computer accessory (real account) is an asset and it is coming in the business, debit the computer accessories account.

C) Nominal accounts:

- The account of expenses & losses and income & gains are called as nominal accounts.
- Example: Wages account: Wages are given to workers so it is expense/loss hence it becomes nominal account.
- Rent and taxes account is a nominal account because Rent and tax both are to be paid from the business income.
- It is a loss so it becomes nominal account.
- Rule for nominal account: “Debit expenses & losses, Credit incomes and gains. Debit that which goes out, credit that which comes in”.
- E.g. Transaction says: “Paid office salaries Rs. 5000.” Office salary is a nominal account which indicates expenses (in other words loss). So debit office Salaries account.

Financial Statement : Balance Sheet

Objectives

In this lecture you will learn the following

- Introduction.
- Balance Sheet.
- Elements of Balance Sheet.

Financial Statement : Balance Sheet

Financial statements are records that provide an information of an individual's, organization's, or business' financial status.
They are normally prepared general or specific purposes.

General purpose Financial Statement examples
- Balance Sheet.
- Profit and Loss A/c.
- Cash Flow Statement.
- Fund Flow Statement.
- Segment Revenue Report.

Specific purpose Financial Statement examples
- Departmental Budget.
- Computation prepared for Income Tax Purpose.

FINANCIAL STATEMENT : BALANCE SHEET

Balance Sheet

Balance Sheet portrays value of economic resources controlled by an enterprises and the way they are financed.

A balance sheet or statement of financial position is a summary of the financial balances of an entity on a particular point of time. i.e. summary of organization's assets, liabilities and equity as of a specific date.

Balance Sheet (Format)

Liabilities	Rs.	Assets	Rs.
Owners Fund	XX	Fixed Assets	XX
Non Current Liabilities	XX	Non current Investments	XX
Current Liabilities	XX	Current Assets	XX

Every balance sheet shall give a true and fair view of state of affairs of the company as at the end of financial year.

Financial Statement : Balance Sheet

	Particulars (format as per revised Schedule VI)	As at	As at
		31st Mar 2011	31st Mar 2010
I.	**EQUITY AND LIABILITIES**		
1	**Shareholder's Funds**		
	(a) Share Capital	-	-
	(b) Reserves and Surplus	-	-
	(c) Money received against Share Warrants	-	-
2	**Share Application Money pending allotment**	-	-
3	**Non-Current Liabilities**		
	(a) Long-Term Borrowings	-	-
	(b) Deferred Tax Liabilities (Net)	-	-
	(c) Other Long Term Liabilities	-	-
	(d) Long-Term Provisions	-	-
4	**Current Liabilities**		
	(a) Short-Term Borrowings	-	-
	(b) Trade Payables	-	-
	(c) Other Current Liabilities	-	-
	(d) Short-Term Provisions	-	-
	TOTAL	-	-

FINANCIAL STATEMENT : BALANCE SHEET

	TOTAL	-	-
II.	**ASSETS**		
1	**Non-Current Assets**		
	(a) Fixed Assets		
	(i) Tangible Assets	-	-
	(ii) Intangible Assets	-	-
	(iii) Capital work-in-progress	-	-
	(iv) Intangible assets under development	-	-
	(b) Non-Current Investments	-	-
	(c) Deferred Tax Assets (Net)	-	-
	(d) Long-Term Loans and Advances	-	-
	(e) Other Non-Current Assets	-	-
2	**Current Assets**		
	(a) Current Investments	-	-
	(b) Inventories	-	-
	(c) Trade Receivables	-	-
	(d) Cash and Cash Equivalents	-	-
	(e) Short-Term Loans and Advances	-	-
	(f) Other Current Assets	-	-
	TOTAL	-	-

FINANCIAL STATEMENT : BALANCE SHEET

Elements of Balance Sheet

- Assets.
- Liabilities.
- Owners Fund.

Assets

- Probable future economic benefit.
- What is owned or controlled.

  Examples
  - Cash.
  - Land and Building.
  - Investments.
  - Machinery.

- An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
- Resource must have a cost or value that can be measured reliably.

Financial Statement : Balance Sheet

Lecture 1 : Financial Statement : Balance Sheet

Types of assets

- Fixed Assets.
- Current Assets.
- Investments.

Financial Statement : Balance Sheet

Liabilities

- A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to the result in an outflow of a resource embodying economic benefits.
- A liability is an existing obligation based on the evidence available on balance sheet date.
- A liability is recognised when outflow of economic resources in settlement of present obligation can be anticipated and the value of outflow can be reliably measured.

Financial Statement : Balance Sheet

Long-Term Liabilities

- Long-term liabilities are a company's debts or obligations that are to be repaid or performed beyond one year.

  Source of fund

  Examples:
- Bank Loan.
- Loan from Financial Institution.
- Debentures.

Current Liabilities

- Current liabilities are a company's debts or obligations that are to be repaid or performed within one year.
  - Emerge from normal business.
  - Examples:
    - Creditors (Accounts Payable).
    - Outstanding Expenses.
    - Interest accrued but not due on Loan.
    - Provision for Tax.
    - Bank Overdraft.

Financial Statement : Balance Sheet

Provision:

Provision means any amount retained by way of providing for any known liability of which amount can not be determined with substantial accuracy.

Provision refers to an amount set aside for meeting claims which are admissible but the amount whereof has not been confirmed.

Examples

- Provision for payment of electricity charges (but bill is not yet received).
- Provision for taxes (till final amount is assessed by authorities.).
- Provision for bonus.
- Amount set aside for writing off bad debts.

FINANCIAL STATEMENT : BALANCE SHEET

Contingent Liability

Contingent liability can be defined as

a. a **possible** obligation that arises from past events and the existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

b. a **present** obligation that arises from past events but is not recognised because:

    i. it is not probable that an outflow of resources consisting economic benefits will be required to settle the obligation or

    ii. a reliable estimate of the amount of the obligation cannot be made.

Owners Fund

Owners fund is defined as residual interest of an enterprises after deducting all its liabilities.

Owners fund is the excess of aggregate assets of an enterprises over its aggregate liabilities.

FINANCIAL STATEMENT : BALANCE SHEET

Vertical Format of Balance Sheet

Sources of Funds	**Rs.**	**Rs.**
Owners Fund		XX
Borrowing Funds		
Secured Loan	XX	
Unsecured Loan	XX	XX
Total Capital Employed		XX

Application of Fund	**Rs.**	**Rs.**
Fixed Assets		XX
Investments		XX
Working Capital		
Current Assets	XX	
Current Liabilities	(XX)	
Net Working Capital		XX
Total Assets Employed		XX

Financial Statement : Balance Sheet

Exercise 1

1. On January 2, owners invest Rs.15,000 in ShriRam Company to begin the business.
2. On January 3, ShriRam Company borrows Rs. 10,000 from DhanLakshmi Bank.
3. On January 5, ShriRam Company purchases Rs. 18,000 of inventory from suppliers. Payment due on Jan 8.
4. On January 9, ShriRam Company sells inventory that cost Rs. 6,000 for Rs. 8,000 in cash.
5. On January 10, ShriRam Company pays for inventory purchased on January 5.
6. On January 12, ShriRam Company sells inventory that cost Rs. 5,000 for Rs. 6,000, on account. Payment will be received on January 31.
7. On January 31, ShriRam Company collects the account receivable and puts in bank.

Prepare Balance sheet of the concern after each transaction.

1. On January 2, owners invest Rs.15,000 in ShriRam Company to begin the business.

ShriRam Company Balance Sheet January 2, Year 1			
Liabilities		**Assets**	
Capital	15,000	Bank	15,000
Total	15,000	Total	15,000

Financial Statement : Balance Sheet

2. On January 3, ShriRam Company borrows Rs. 10,000 from DhanLakshmi Bank.

ShriRam Company Balance Sheet January 3, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	25,000
DhanLakshmi Bank Loan	10,000		
Total	25,000	Total	25,000

3. On January 5, ShriRam Company purchases Rs. 18,000 of inventory from suppliers, on account Payment due on January 8

ShriRam Company Balance Sheet January 5, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	25,000
DhanLakshmi Bank Loan	10,000	Inventory	18,000
Accounts Payable/Creditors	18,000		
Total	43,000	Total	43,000

Financial Statement : Balance Sheet

4. On January 9, ShriRam Company sells inventory that cost Rs. 6,000 for Rs. 8,000 in

ShriRam Company Balance Sheet January 9, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	33,000
Reserves	2,000	Inventory	12,000
DhanLakshmi Bank Loan	10,000		
Creditors	18,000		
Total	45,000	Total	45,000

5. On January 10, ShriRam Company pays for inventory purchased on January 5.

ShriRam Company Balance Sheet January 10, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	15,000
Reserves	2,000	Inventory	12,000
DhanLakshmi Bank Loan	10,000		
Creditors	Nil		
Total	27,000	Total	27,000

Financial Statement : Balance Sheet

6. On January 12, ShriRam Company sells inventory that cost Rs. 5,000 for Rs. 6,0
   Payment will be received on January 31.

ShriRam Company Balance Sheet January 12, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	15,000
Reserves	3,000	Inventory	7,000
DhanLakshmi Bank Loan	10,000	Debtors	6,000
Total	28,000	Total	28,000

7. On January 31, ShriRam Company collects the debtors and puts in bank.

ShriRam Company Balance Sheet January 31, Year 1			
Liabilities		**Assets**	
Paid-up capital	15,000	Bank	21,000
Reserves	3,000	Inventory	7,000

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Objectives

In this lecture you will learn the following

- Profit and Loss Account.
- Elements of P & L A/c.
- Entity Concept.
- Accrual Basis of Accounting.
- Matching Concept.
- Prepaid Expenses & Outstanding Expenses.
- Realisation Concept.

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Profit and Loss Account

Profit and loss account discloses the result of the working of an entity during the accounting year.

Profit and loss account measures the income generated by the entity.

Elements of Profit and Loss Account

- Income.
- Expenses.

Financial Statement : Profit and Loss Account

Profit & Loss A/c (Simple Format)

Particulars	**Amount**
Sales	XX
Cost of Goods Sold	(XX)
Gross Profit	XX
Other Expenses	(XX)
Tax	(XX)
Net Profit	XX

	Particulars	**Year Ended**	**Year Ended**
	(format as per revised schedule VI)	**31st Mar 2011**	**31st Mar 2010**
I.	Revenue from Operations	-	-
II.	Other Incomes	-	-
III.	Total Revenue (I + II)	-	-
IV.	Expenses:		
	Cost of Materials Consumed	-	-
	Purchases of Stock-in-Trade	-	-
	Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	-	-
	Employee Benefit Expenses	-	-
	Finance Costs	-	-
	Depreciation and Amortization Expense	-	-
	Total Expenses	-	-

Financial Statement : Profit and Loss Account

	Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade	-	-
	Employee Benefit Expenses	-	-
	Finance Costs	-	-
	Depreciation and Amortization Expense	-	-
	Total Expenses	-	-
V.	Profit before Exceptional and Extraordinary Items and Tax (III – IV)	-	-
VI.	Exceptional Items	-	-
VII.	Profit before Extraordinary Items and Tax (V – VI)	-	-
VIII.	Extra Ordinary Items	-	-
IX.	Profit before Tax (VII – VIII)	-	-
X.	Tax Expense:		
	(1) Current tax	-	-
	(2) Deferred Tax	-	-
XI.	Profit/ (Loss) for the period from Continuing	-	-
	Operations (IX – X)		
XII.	Profit/Loss from Discontinuing Operations	-	-
XIII.	Tax Expense of Discontinuing Operations	-	-
XIV.	Profit/(Loss) from Discontinuing Operations (after Tax)	-	-
	(XII – XIII)		
XV.	Profit/ (Loss) for the Period (XI + XIV)	-	-

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Income

Income is the increase in economic benefits during the accounting period in the form of inflows or enhancement of asset or decreases of the liability. The definition of income encompasses revenue and gains.

- Revenue is an income that arises in the ordinary course of activities. e.g. sales.
- Gains are income, which may or may not arises in the ordinary course of activities. e.g. profit on sale of fixed asset.

Expenses

Expense is the decrease in economic benefits during the accounting period in the form of outflows or depletion of asset or incurrence of the liability.

- Expense arises in the ordinary course of activities. e.g. wages.
- Losses may or may not arises in the ordinary course of activities. e.g. loss on sale of fixed asset.

Financial Statement : Profit and Loss Account

Profit & Loss A/c (Detailed Format)

Particulars	Amount
Sales	XX
Operating Expenses	(XX)
Operating Profit	XX
Non-Operating Income	XX
Non-Operating Expense	(XX)
Profit before Interest and Tax	XX
Interest	(XX)
Profit before Tax	XX
Tax	(XX)
Profit after Tax	XX

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Operating Profit

Operating activities are principal revenue producing activities of the enterprise.
Operating profit is the figure obtained after subtracting personnel, depreciation and other expenses.
Operating profit is the surplus generated by the operations.

Profit before Interest & Tax

The company irrespective of method of financing, earns this amount. The only other expense to be met at this stage, is the interest expense.

This is the measure of the operational efficiency of the company. This is usually referred as Earnings before Interest and Tax.

Profit before Tax

Profit before Tax is the surplus after meeting all expenses, including interest.
This is the profit available to company as a result of both its operating as well as financing performance.

Profit after Tax

Profit after Tax is the net amount of surplus earned by the company during the accounting period.
This is the amount available to the company for appropriation. This amount can either distributed to owners or retained in the business as retained earning. Not distributing the profit to owners increases the owners investment in the business.

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Exercise 1

In Padmanabham and co. following transaction took place during year 2009-10.

- Goods costing Rs. 1,40,000 purchased for cash.
- Padmanabham paid General expenses of Rs. 4,800.
- Salaries of Rs. 25,500 paid to office staff.
- Padmanabham sales on credit for two month. Total credit sales during year is Rs. 1,40,500 (cost: 90,000) and remaining goods were sold at cash to retail traders for cash at Rs. 69,000.
- Printing and stationary expense were Rs. 5,000 and Telephone expenses were Rs. 18,000.
- Padmanabham paid salary of Apr 2010, Rs. 2,000 in advance to one employee.
- Padmanabham paid Rs. 50,000 towards Bank of Baroda loan, of which Rs. 5,000 was interest component.
- Rs. 3,000 paid as tax.

Prepare profit and loss A/c from the given information of year 2009-10.

Financial Statement : Profit and Loss Account

Lecture 2 : Financial Statement : Profit and Loss Account

Exercise 1

Profit and Loss A/c for year ended 31 March 2010	
Particulars	**Amount**
Cash Sales	69,000
Credit Sales	1,40,500
Total Sales	2,09,500
Cost of goods sold	(1,40,000)
Operating Profit	69,500
General Expenses	(4,800)
Salary Expenses	(25,500)
Printing and Stationary Expenses	(5,000)
Telephone Expenses	(18,000)
Profit Before Interest and Tax	16,200
Interest	(5,000)
Profit Before Tax	11,200
Tax	(3,000)
Net profit after Tax	**8,200**

Financial Statement : Profit and Loss Account

UNIT NO:- 4 FINANCIAL MANAGEMENT

4.1 FINANCE AND ITS DEFINITION

In general term finance means management of money for your expenses.

• In broad term finance is the science of funds management. Finance includes saving money and often includes lending money.

• The general areas of finance are business finance, personal finance, and public finance.

• Finance is also a money budget management. The field of finance deals with how money is spent and budgeted. It also deals the concepts of time, money and risk and how they are interrelated.

• Finance is used by individuals as personal finance, by governments as public finance, by businesses as corporate finance, as well as by a wide variety of organizations including schools and non-profit organizations. Finance is the need of the today world economy.

FINANCE:

• FINANCE is the life-blood of business. Without finance neither any business can be started nor successfully is run .Finance needed to promote or establish business, acquire fixed assets, make necessary investigations, develop product keep man and machines at work, encourage management to make progress and create values.

FINANCIAL MANAGEMENT:

• FINANCIAL MANAGEMENT is one of the functional area of management. It refer to that part of the management activity which is concerned with the planning and controlling of firms financial resources.
Financial management refers to the strategic **planning**, organising, directing, and controlling of **financial** undertakings in an organisation or an institute. It also includes applying **management** principles to the **financial** assets of an organisation, while also playing an important part in fiscal **management**.

Basic Concept of Financial Management:

In simple concept financial management means, if you save me today – I will save you tomorrow. In this competitive era, funds are acquired from several sources. The procurement of these funds has always been reckoned as a stumbling block. The characterization of funds procured from different sources varies in terms of cost, risk, management and control. A smart manager will know that the funds should be procured at minimum cost, at a balanced risk and control factors.

Proper analysis of utilization of those procured funds is the job of a financial manager. He is responsible for informing the firm or an individual that whether or not their funds are optimally allocated. To accomplish this task, the financial manager is expected to be knowledgeable, tactful and witty. He should understand the demands and requirement of the individual or the firm and should come up with some strategically rationalized plan so that the latter one can enjoy optimally.

Financial Management Example-1:
You are planning to take a business loan to purchase a new space for your business office. – Here it is advisable to take a real estate advisor and you need to check whether the valuation after 20 years or more will be higher than renting it or not. Also you need to consult financial department whether investing 20% of funds in down payment and taking 80% business loan will give good returns on investment or not. Many times there are cases where, renting can be more economical than purchasing, regardless of whether you're leasing a property, software or renting a vehicle.

TYPES OF FINANCE

• There are mainly two type of finance found in the current economy.

1. Personal finance
In this finance decisions may involve paying for education, financing durable goods such as real estate and cars, buying insurance, e.g. health and property insurance, investing and saving for retirement. Personal financial decisions may also involve paying for a loan, or debt obligations.

2. Corporate finance
It is the task of providing the funds for a corporation's activities. Corporate finance can easily categorized in two category.
A. Short term finance which generally involves balancing risk and profitability, while attempting to maximize an entity's wealth and the value of its stock.

B. Long term funds are provided by ownership equity and long-term credit, often in the form of bonds. The balance between these forms the company's capital structure. Short-term funding or working capital is mostly provided by banks extending a line of credit.

Types of Financial Management

1. Treasury and Capital Budget Management:
Capital budgeting is the planning procedure used to decide if a company's fixed assets, for example, new plant, new machinery; new research projects are worth of allocating funds through the organization capitalization structure (equity, debt or profit earnings). Numerous formal strategies are utilized in capital budgeting, For example: Profitability index, Payback period, Net present value, Real options valuation, accounting rate of return, internal rate of return, Equivalent annual cost and more. These management teams are likewise accountable for raising funds and investing funds. In the event that an organization merge with another organization or expands, team will facilitate the financial needs for merger or expansion.

2. Capital Structure Management:
In corporate finance, capital structure is the manner in which a company finances through a mix of debt or equity securities. Debt financing comes as bond issues, while equity comes from retained earnings or as a stock. Short-term debt financing, for example, working capital necessities is likewise viewed as a major aspect of the capital structure. Here financial management team is responsible for capital structure of a company's short-term debts, long-term debts, equities, preferred stocks and more. At the point when team refer to capital structure, they are probably considering a company's debt-to-equity ratio, which gives understanding into how healthy organization is financially or how risky organization is financially.

3. Working Capital Management:
Working capital management of an organization refers to managing bookkeeping methodology and accounting strategies intended to keep track of current assets, current liabilities, cash flow, inventory turnover ratio, working capital ratio and much more. The

basic role of working capital management is to ensure the organization dependably keeps up adequate liquid cash to meet its short-term debts and operational cost. This is one of the types of financial management where team need to maintain working capital management to smoother company's operational cycle, and also to improve the company's earnings.

OBJECTIVES OF FINANACIAL MANAGEMENT

Objectives of financial management The objective of financial management are considered usually at two levels –at macro level and micro level. three primary objectives are commonly explained as the Objective of financial management- Maximization of profits Maximization of return Maximization of wealth

Maximization of profits :
• Maximization of profits Profit earning is the main aim of every economic activity. Profit maximization simply means maximizing the income of the firm . Economist are of the view that profits can be maximized when the difference of total revenue over total cost is maximum, or in other words total revenue is greater than the total cost.

Maximization of return :
• Maximization of return Some authorities on financial management conclude that maximization of return provide a basic guideline by which financial decision should be evaluated .

Maximization of wealth :
• Maximization of wealth According to proof Solomon Ezra of stand ford university , the ultimate goal of financial management should be the maximization of the owners wealth. The value of corporate wealth may be interpreted in terms of the value of the company's total assets. The finance should attempt to maximize the value of the enterprise to its shareholders. Value is represented by the market price of the company's common stock

FUNCTIONS OF FINANCIAL MANAGEMENT

- To Make Finance Availability At Minimum Rate Of Intrest.
- To Help In Deciding Cost, Selling Price Of product.
- To Prepare Annual Budget, For Each Department And Overall For Organization As Whole.
- To Monitor Day To Day Financial Transaction Of Firm.
- To Allocate Funds For New Unit Or Development.
- To Critically Monitor Financial Ratio Of Company.
- To Anticipate Future Capital Requirement Of Business.

Functions of Financial Management:
Here we are going to focus on some of the key functions of financial management notes and will discuss in few lines to understand them.

1. Liquidity Functions:
Looking for adequate liquidity to hold out the business strategies, each financial manager should perform some primary tasks. Firstly, raising funds, the company gets funding from various source of funds. At different periods some various source of funds is going to be a lot

more desirable. Secondly, forecasting cash flows, your day-to-day businesses need to get that the company to invest their bills easily. This will be mainly one matter of matching funding inflows against cash outflows. That the firm needs to be capable forecast your sources of funds plus timing to cash inflows from clients and use them towards suppliers and lenders payments.

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2. Capital Requirement Estimation:
Finance manager or supervisor need to make estimation with regards to funds / capital requirement of an organization. This particular depends after profits, expected cost, policies, rules and future programs. Estimations is one of an important functions of financial management. Estimations have to be made in a sufficient manner through which it can improve earning potential of a company.

3. Capital Composition:
When the estimation of capital requirement have been completed. Your finance plan with respect to capital structure need to be determined. This involves long-term as well as short-term debt **equity research** and analysis. It will mostly depend after each proportion concerning equity capital, which a company is actually possessing and additional required funds that have to be raised from external parties.

4. Selecting a Source of Funds:
To raise additional funds and to be obtained those funds, the best organization has many options. For example:

- Issue of debentures as well as shares.
- Loan to be taken from **financial institutions** or banks.
- Public deposits to be drawn just like at as a type of **bonds**. Choices of factor are determined by general demerits and merits concerning each source of funds and at each stage of company.

5. Price Control:
Many large companies possess comprehensive cost-**accounting** systems to monitor expenditure in areas for the company's functions of financial management. Information are fed right into a software system every day. In addition, computer systems are also designed to highlight statistical important facts on tasks and activities to be displayed for a monitor.

6. Pricing:
Some of the relevant decisions taken within company include the costs established for the items, services and products. Each philosophy then approach to pricing rules are important elements in company's advertising efforts, brand and then sales. Determination of the appropriate worth is the best joint decision concerning marketing manager provides insight to just how varying worth will likely affect demand within the market and company's competitive position. Each financial supervisor can supply insight about changes in expenditures at different levels of manufacturing and the **revenue** margins necessary to carry on the business successfully.

7. Capital Investment:
Finance manager is needed in order to choose allocation of funds entering into profitable ventures to ensure that there is an **investment** protection as well as a regular returns on investment is available. 8. Managing Funds: Funds can be seen as liquid assets of the company. The term funds contains funding held by your company, cash given by a company, funds borrowed by a company and funds gained by acquisitions of preferred stocks and equity stocks. Into the functions of financial management, your financial manager or supervisor acts as one specialized officer of a company. That the manager is responsible for allocating funds and tracking the sufficient funds available for a company to perform its business smoothly.

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9. Distribution of Income:
The net revenues decision need to be established simply by finance supervisor. This can be done in two functions of financial management for an organization. Firstly by declaring dividend, It includes determining their rate of dividends along with bonus if any. Second by retaining income, the amount maintains to-be determined that upon expansion, innovation or any diversification plans of an organization.

10. Financial Control:
The finance manager not only need to build strategy to raise funds, allocate funds and make use of the funds, but he even need to build techniques and methods to work on financial control of funds. This can be complete thru some techniques just like ratio analysis, financial forecasting, pricing, cost control and much more.

4.2 Capital Generation

CAPITAL

• Capital Is The Life-Blood Of Business Enterprise.
• Capital In Its Meaning, Covers All The Elements Like Money,Land, Machinery, Materials And Tools Etc. Which AreEssential Factors To Start An Enterprise.

• Capital Is The Measure Of The Amount Of Resources Of An Enteprise.
• Capital Develops Products, Keeps Workers And MachinesAt Work, Encourages Management To Make Progress AndCreate Value.

TYPES OF CAPITAL

1. Fixed Capital:
For Running An Industry, Two Types Of Capital Are Needed.One For Purchasing Fixed Assets. Fixed Capital Is Associated WithLong Term Assets. Fixed Capital Like, Land, Building, Equipments And Machinery, Tools, And Furniture. Etc.

1. Working or Current Capital:
Once Fixed Assets Have Been Purchased, The Enterprise NeedTo Meet Its Day To Day Needs And Expenditure. These Working Capital Or Current Capital Such As :
- Purchase Of Raw Material and Supplies.
- Payment Of Employee Wages.
- Advertisement And Selling Expenses.
- Equipment And Plant Maintenance Cost.
- TrnasportationAnd Shipping Exenses.
- Organization Expenses. Etc

SOURCES OF WORKING CAPITAL

• There Are Three (3) Types Of Working Capital Requirement:
1. Long Term Financing Requirement: In Long Term FinancingFollowing Are The Sources Which Can Tapped By The FinancialManager.
- Loan From Financial Institutions.
- Accepting Public Deposits.
- Issue Of Additional Equity Shares.
- Raising Funds by Internal Financing.

1. Short Term Financing : These Sources Include
- Short Term Bank Loans.
- Commercial Papers.
- Cash Credit.
- Overdraft Bills Discount Etc.

1. Spontaneous Financing:
- Trade Credit
- Outstanding Expenses.

4.3 BUDGET AND BUDGETING

• **Definition:** A **budget** is a financial document used to project future income and expenses. The budgeting process may be carried out by individuals or by companies to estimate whether the person/company can continue to operate with its projected income and expenses.
• A budget may be prepared simply using paper and pencil, or on computer using a spreadsheet program like Excel, or with a financial application like Quicken or QuickBooks.
• The process for preparing a monthly budget includes:

• Listing of all sources of monthly income
• Listing of all required, fixed expenses, like rent/mortgage, utilities, phone, Listing of other possible and variable expenses.
• **Budgeting**
• **Definition:** Establishing a planned level of expenditures, usually at a fairly detailed level. A company may plan and maintain a budget on either an accrual or a cash basis. Business budgeting is one of the most powerful financial tools available to any small-business owner. Put simply, maintaining a good short- and long-range financial plan enables you to control your cash flow instead of having it control you

4.3 TYPES OF BUDGETS

• **Types Of Budget**
• Sales Budget
•Production Budget
•Purchase Budget
• Expenditure Budgets
•Cash Budget
• Master Budget
• Zero Base Budget
•Flexible Budget

• **Sales Budget**
• Sales budget is a functional budget. The product wise as well as regional break up of sales estimates are incorporated in the sales budget. The sales budget begins with the previous year actual and incorporates the likely changes.

• **Production Budget**
• The production budget is prepared based on the sales estimate incorporated in the sales budget. The adjustments with respect to the opening and closing stock positions that are policy decisions of the business are then made to prepare the production budget.

• **Purchase Budget**
• The purchase budget is another functional budget that estimates the purchase requirement of materials utilized in the production process. The purchase budget is based on the production budget and the standard material consumption requirement for the production estimates.

Expenditure Budgets
• Expenditure budgets may be drafted as fixed / flexible budgets.
• A fixed budget is one which is prepared keeping in mind one level of activity. It is Defined as one which is designed to remain unchanged irrespective of the level of activity attained.
Flexible budgets are prepared where the nature In contrast, flexible budget is one which is designed to change in relation of business is such that it is difficult to predict the demand/sale of goods.
• **Zero Base Budget**
• An illustration of a long term budget is the Zero base budget. Zero Base Budgeting process looks at requirements/ plans a new each year irrespective of project continuity. These are necessarily long term project budget• **Cash Budget**

• A cash budget consolidates all the cash inflows and outflows for the business. The cash budget is also a functional budget. The cash budget helps the business to plan the project purchases as well as to provide for the loan requirements. The cash budgets also help in defining the repayment plans for short and long term loans of the business.

• Master Budget
• The overall or master budget summarizes the other functional budgets. Consolidating the functional budgets, an income and expenditure budget and Budgeted balance sheet are prepared. The master budget is usually a one-year Budget expressing the expected asset position and capital and liability positions for The projected year.
• Master Budget – Income Statement
• Particulars January February March Total
• Sales 12000 15000 10000 37000
Less: cost of goods sold 5000 7000 4300 16300
Factory overheads 2000 2000 2000 6000
Administrative overheads 1000 1000 1000 3000
Selling overheads 500 600 400 1500
• Net profit 3500 4400 2300 10200

4.4 Accounts

An **account** is a record in an accounting system that tracks the financial activities of a specific asset, liability, equity, revenue, or expense. ... Each individual **account** is stored in the general ledger and used to prepare the financial statements at the end of an accounting period.

What is Account example?
In accounting, an **account** is a record in the general ledger that is used to sort and store transactions. For **example**, companies will have a Cash **account** in which to record every transaction that increases or decreases the company's cash.
In accounting, an **account** is a record in the general ledger that is used to sort and store transactions. For **example**, companies will have a Cash **account** in which to record every transaction that increases or decreases the company's cash.

Types Of Bank Accounts
whether you are a housewife or a college student, a business owner or a business house, a retired professional or Indian living abroad, not having a bank account is unimaginable. Based on the purpose, frequency of transaction, and location of the account-holder, banks offer a bouquet of bank accounts to choose from. Here is a list of some of the **types of bank accounts in India**.

1. Current account
A current account is a deposit account for traders, business owners, and entrepreneurs, who need to make and receive payments more often than others. These accounts hold more liquid deposits with no limit on the number of transactions per day. Current accounts allowoverdraft facility, that is withdrawing more than what is currently available in the account. Also, unlike savings accounts, where you earn some interest, these are zero-interest bearing accounts**.** You need to maintain a minimum balance to be able to operate current accounts.

2. Savings account

A savings bank account is a regular deposit account, where you earn a minimum rate of interest. Here, the number of transactions you can make each month is capped. Banks offer a variety of Savings Accounts based on the type of depositor, features of the product, age or purpose of holding the account, and so on.

.There are regular savings accounts, savings accounts for children, senior citizens or women, institutional savings accounts, family savings accounts, and so many more.

You have the option to pick from a range of savings products. There are zero-balance savings accounts and also advanced ones with features like auto sweep, debit cards, bill payments and cross-product benefits.

A cross-product benefit is when you have a savings account with a bank and get to avail special offers on opening a second account such as a demat account.

3. Salary account

Among the different types of **bank accounts**, your salary account is the one you have opened as per the tie-up between your employer and the bank. This is the account, where salaries of every employee are credited to at the beginning of the pay cycle. Employees can pick their type of salary account based on the features they want. The bank, where you have a salary account, also maintains reimbursement accounts; this is where your allowances and reimbursements are credited to.

4. Fixed deposit account

To park your funds and earn a decent rate of interest on it, there are **different types of accounts** like fixed deposits and recurring deposits.

A fixed deposit (FD) account allows you to earn a fixed rate of interest for keeping a certain sum of money locked in for a given time, that is until the FD matures. FDs range between a maturity period of seven days to 10 years. The rate of interest you earn on FDs will vary depending on the tenure of the FD. Generally, you cannot withdraw money from an FD before it matures. Some banks offer a premature withdrawal facility. But in that case, the interest rate you earn is lower.

5. Recurring deposit account

A recurring deposit (RD) has a fixed tenure. You need to invest a fixed sum of money in it regularly -- every month or once a quarter -- to earn interest. Unlike FDs, where you need to make a lump sum deposit, the sum you need to invest here is smaller and more frequent. You cannot change the tenure of the RD and the amount to be invested each month or quarter. Even in the case of RDs, you face a penalty in the form of a lower interest rate for premature withdrawal. The maturity period of an RD could range between six months to 10 years.

6. NRI accounts

There are **different types of bank accounts** for Indians or Indian-origin people living overseas. These accounts are called overseas accounts. They include two types of savings accounts and fixed deposits -- NRO or non-resident ordinary and NRE or non-resident external accounts. Banks also offer foreign currency non-resident fixed deposit accounts. Let us quickly see the **various types of bank accounts** for NRIs-

DIFFERENT LIABILITIES:

• On the other side of the balance sheet are the liabilities. These are the financial Obligations a company owes to outside parties. Like assets, they can be both Current and long-term.

• Long-term liabilities are debts and other non-debt financial obligations, which Are due after a period of at least one year from the date of the balance sheet.

• Current liabilities are the company's liabilities which will come due, or must be Paid, within one year. This is comprised of both shorter term borrowings, such As accounts payables, along with the current portion of longer term borrowing, Such as the latest interest payment on a 10-year loan.

Profit and loss account

• An official quarterly or annual financial document published by a public company, showing earnings,
Expenses and net profit. Net income is determined from this financial report by subtracting total
Expenses from total revenue. The profit and loss statement and the balance sheet are the two major
Financial reports that every public company publishes. The difference between this statement and the
Balance sheet deals with the periods of time that each one represents. The profit and loss statement
Shows transactions over a given period of time (usually quarterly or annually), whereas the balance
Sheet gives snapshot holdings on a specific date. Also called income statement or earnings report.

What is a profit and loss account?

•Shows business performance over a specific period of time.

•Records incomings (revenue from sales) and outgoings (cost of sales plus overheads and expenses) to show whether a profit or loss has been made.

•Shows a summary of invoices that have been raised, or sales income that has been generated, including an estimate of work in progress but not yet invoiced.

•Includes purchases made from suppliers for goods or raw materials, and an estimate of cost for goods/raw materials used but not yet paid

• 1. Annual Accounts

• Accounts are required to be prepared annually, and may also be prepared for other periods, for example monthly or quarterly.

• A major purpose of preparing accounts is to be able to monitor the progress of the business. Thus accounts may need to be prepared more frequently than once a year if the business is not going to founder. The management needs to monitor the sales and Costs to make sure that the company is paying its way, and hopefully making a profit. If The profits appear to be down on a previous quarter, then action may need to be taken to Find out why this happened, and remedy the situation in the future.

• If the business has already borrowed money from the bank, or is wishing to do so, then The bank will probably want to see the accounts. The bank is lending its money to the Business and wants to be sure that it is a sound investment. If the bank is not happy With the accounts it may choose not to give the business loan facilities, or perhaps Increase its borrowing charges. Furthermore, the bank wants to be certain that the Business is under sound financial management, and that good records are being kept for This purpose.
• The business is required to annually present its accounts to the Inland Revenue for tax purposes. Should any tax due be not paid on time, or incorrectly, the Inland Revenue can choose to fine the business. In addition, companies are required to file their accounts at Companies House, where they are open for public inspection

• 2. The Profit & Loss Account:
• The profit and loss account shows the profit that the business makes. This is also known as the "Trading, Profit and Loss Account". It is made up of the following components:
• • Sales
• • Direct Costs
• • Gross Profit
• • Indirect Costs
• • Net Profit
• • Taxation
• • Director's Drawings
• • Investment in Business.
Balance sheet
• Balance Sheet
• What Does Balance Sheet Mean?
A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.
The balance sheet must follow the following formula:
Assets = Liabilities + Shareholders' Equity
• A balance sheet, also known as a "statement of financial position", reveals a company's assets, liabilities and owners' equity (net worth). The balance sheet, together with the income statement and cash flow statement, make up the cornerstone of any company's financial statements.
How the balance sheet works
• If you are a shareholder of a company, it is important that you understand how the balance sheet is structured, how to analyze it and how to read it.
• The balance sheet is divided into two parts that, based on the following equation, must equal (or balance out) each other. The main formula behind balance sheets is:
• assets = liabilities + shareholders' equity
This means that assets, or the means used to operate the company, are balanced by a company's financial obligations along with the equity investment brought into the company and its retained earnings.
Assets are what a company uses to operate its business, while its liabilities and equity are two sources that support these assets. Owners' equity, referred to as shareholders' equity in a publicly traded company, is the amount of money initially invested into the company plus any retained earnings, and it represents a source of funding for the

business.
It is important to note, that a balance sheet is a snapshot of the company's financial position at a single point in time.

• TYPES OF ASSETS :

• Current assets

Current assets have a life span of one year or less, meaning they can be converted easily into cash. Such assets classes are: cash and cash equivalents, accounts receivable and inventory. Cash, the most fundamental of current assets, also includes non-restricted bank accounts and checks.

• Cash equivalents are very safe assets that can be are readily converted into cash such as US Treasuries. Accounts receivable consists of the short-term obligations owed to the company by
its clients. Companies often sell products or services to customers on credit, which then are held in this account until they are paid off by the clients.

• Lastly, inventory represents the raw materials, work-in-progress goods and the company's finished goods. Depending on the company, the exact makeup of the inventory account will differ. For example, a manufacturing firm will carry a large amount of raw materials, while a retail firm caries none. The makeup of a retailers inventory typically consists of goods purchased from manufacturers and wholesalers.

• Non-current assets

Non-current assets, are those assets that are not turned into cash easily, expected to be turned into cash within a year and/or have a life-span of over a year. They can refer to tangible assets
such as machinery, computers, buildings and land.

• Non-current assets also can be intangible assets, such as goodwill, patents or copyright. While
these assets are not physical in nature, they are often the resources that can make or break a company - the value of a brand name, for instance, should not be underestimated.

• Depreciation is calculated and deducted from most of these assets, which represents the economic cost of the asset over its useful life.

4.5 Taxes

The money that you have to pay to the government so that it can provide public services
It is a charge or burden laid upon persons or the property for the support of a Government. Government decided the rates and the items on which **tax** will be charged, like income **tax**, GST, etc. **Tax** can be defined in very **simple words** as the government's revenue or source of income.

Taxes in India are of two types

Be it an individual or any business/organization, all have to pay the respective taxes in various forms. These taxes are further subcategorized into direct and indirect taxes depending on the manner in which they are paid to the taxation authorities. Let us delve deeper into both types of tax in detail:

Direct Tax

- The definition of direct tax is hidden in its name which implies that this tax is paid directly to the government by the taxpayer
- The general examples of this type of tax in India are Income Tax and Wealth Tax.
- From the government's perspective, estimating tax earnings from direct taxes is relatively easy as it bears a direct correlation to the income or wealth of the registered taxpayers.

Indirect Tax

- Indirect taxes are slightly different from direct taxes and the collection method is also a bit different. These taxes are consumption-based that are applied to goods or services when they are bought and sold.
- The indirect tax payment is received by the government from the seller of goods/services.
- The seller, in turn, passes the tax on to the end-user i.e. buyer of the good/service.
- Thus the name indirect tax as the end-user of the good/service does not pay the tax directly to the government.
- Some general examples of indirect tax include sales tax, Goods and Services Tax (GST), Value Added Tax (VAT), etc.

Proportional Tax

A proportional tax is an income tax system that levies the same percentage tax to everyone regardless of income. A proportional tax is the same for low, middle, and high-income taxpayers. Proportional taxes are sometimes referred to as flat taxes.

In contrast, a progressive tax or marginal tax system adjusts tax rates progressively by income. Low-income earners are taxed at a lower rate than high-income earners.

KEY TAKEAWAYS

- A proportional tax system, also referred to as a flat tax system, assesses the same tax rate on everyone regardless of income or wealth.
- Proportional taxation is intended to create greater equality between marginal tax rates and average tax rates paid.
- Proponents of proportional taxes believe they stimulate the economy by encouraging people to spend more and work more because there is no tax penalty for earning more.

Example of Proportional Taxes

In a proportional tax system, all taxpayers are required to pay the same percentage of their income in taxes. For example, if the rate is set at 20%, a taxpayer earning $10,000 pays $2,000 and a taxpayer earning $50,000 pays $10,000. Similarly, a person earning $1 million pay $200,00

Progressive Tax

A **progressive tax** is a **tax** in which the **tax** rate increases as the taxable amount increases. The term **progressive** refers to the way the **tax** rate progresses from low to high, with the result that a taxpayer's average **tax** rate is less than the person's marginal **tax** rate.ould pay $200,00

Customs duty Tax

Customs duty refers to the **tax** imposed on goods when they are transported across international borders. In simple terms, it is the **tax** that is levied on **import** and export of goods. The government uses this **duty** to raise its revenues, safeguard domestic industries, and regulate movement of goods.

'Customs Duty' refers to the tax imposed on the goods when they are transported across the international borders. The objective behind levying customs duty is to safeguard each nation's economy, jobs, environment, residents, etc., by regulating the movement of goods, especially prohibited and restrictive goods, in and out of any country.

Income tax

Income tax is a direct **tax** that a government levies on the **income** of its citizens.

... **Income** does not only **mean** money earned in the form of **salary**. It also includes **income** from house property, profits from business, gains from profession (such as bonus), capital gains **income**, and '**income** from other sources'.

Income Tax is a **tax** you pay directly to the government basis your **income** or profit. **Income tax** is collected by the Government of India. **Taxes** are of two types - direct **tax** and indirect **tax**. Direct **tax** is the **tax** paid by you on your **income** directly to the government and is levied on profits and **income**.

Income tax in India is a direct tax on the income or earnings in a financial year. Below are some types of incomes and their taxation rules in India:

- **Income from salary/pension:** This includes basic salary, taxable allowances, perquisites, and profit in lieu of salary, as well as pension received by the person who himself/herself has retired from the service. Incomes from salary and pension are included in the computation of taxable income.
- **Income from business/profession:** This includes actual and presumptive incomes from business and professions that individuals do in their personal capacity and is added to taxable income after adjustment of the deductions allowed.
- **Income from house property:** An income tax assesses can own one or more house properties. These house properties can be self-occupied or rented out or even vacant. This head describes the rules relating to such ownership. The rules under this head describe how rent from one or more house properties is to be treated for the purpose of calculation of taxable income. It also describes how interest on home loan is to be accounted for in the case of self-occupied, rented out and vacant properties. An income tax assessee can claim certain deductions such as municipal taxes and a standard deduction for house maintenance in certain cases. The final net income or loss under this head is then added to or deducted from the income from the other heads.
- **Income from other sources:** This includes incomes like interest from a savings account, fixed deposits (FDs), family pension etc, which are included in the taxable income.

- **Income from Lottery, Betting, and Race Horse etc:** Such incomes are included in the total income, but excluded from taxable income as different tax rates are applicable on these types of income.
- **Capital Gain:** Capital gains arise at the time of selling capital assets like gold, house properties, stocks, securities, mutual fund units etc. Depending on the types of capital assets and the period of holding, gains on the sale of such assets are categorised as short-term and long-term capital gains. Although capital gains are part of income tax, they are not added to taxable income, because except short-term capital gains on the sale of debt funds, other gains are taxed at different rates.

Service tax

Service tax was an indirect **tax** levied by the government on **services** offered by **service** providers. ... **Service tax** was paid to the government in exchange for different **services** received from **service** providers.

The single **GST** subsumed several taxes and levies, which **included** central excise duty, **services tax**, additional customs duty, surcharges, state-level value added **tax** and Octopi. ... **GST** is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or **services**.

Service tax is a type of indirect **Tax** that you are liable to pay to the government once you consume the taxable **services** offered by different **service** providers such as restaurants, cab **services**, hotels, travel agents, cable providers etc.

Service tax is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. It is categorized under Indirect Tax and came into existence under the Finance Act, 1994.

What is service tax?

Service tax in India is an important form of indirect tax. The Central Board of Excise and Customs (CBEC) has the responsibility of collecting the levy in different states in India. It is not imposed in the state of Jammu and Kashmir. Currently, the rate is 10%. It is a type of indirect duty levied on particular services that are categorized as taxable services. The responsibility of paying this kind of levy lies on the service provider. This duty can't be levied on services that are not included in the specified list. Over last one or two years, the domain of service tax been broadened to include new services. The goal behind imposing service tax in India is to lower the extent of concentration of taxation on business and industry without compelling the government to find the middle ground on the revenue requirements

Taxed Services

Since the time of its inception in 1994-1995, only three services were liable to be taxed. From that time, the Government of India has introduced almost 100 categories under its ambit, which include the following:

Traveling agencies (road. air, and railway services)
Telecommunication
Management consultants
Architects
Credit rating agencies
Colleges, universities, and schools
Broadcasting services (television and radio)
Market research analyst
Authorized service stations
Banking and other financial services

Cargo and shipping
Export import unit
Hospitals and health care providers/services
Telegraph services
Maintenance and repair services
Storage and warehousing services
Retail stores
Franchise owner
Packaging services
Transportation of goods
Cable operators
The Traditional System of Levying Tax

- **First Point Tax** - Avoid cascading effect but Govt. loses its control on last point sales with added value – leakage of revenue due to various tax management in the subsequent sales after First Point.
- **Next Point Tax** (especially for banded goods)-Burden of tax is shifted to the next point
- **Last Point Tax**- Govt. gets revenue on value addition upto last point but loses its control on origin of

Manufacture- possibility for leakage of revenue / escaped taxation – Not popular with Govt.

Value-added tax (VAT)

A **value-added tax** (**VAT**) is a consumption **tax** placed on a product whenever **value** is **added** at each stage of the supply chain, from production to the point of sale. The amount of **VAT** that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed.

Value-added tax (**VAT**) is a type of indirect **tax** levied on goods and services for **value added** at every point of production or distribution cycle, starting from raw materials and going all the way to the final retail purchase. ... Because the consumer bears the entire **tax**, **VAT** is also a consumption **tax**.

The main characteristics of value-added tax (VAT) are stated as follows:

1. The VAT is a form of indirect taxation. It is charged on the value of imports but It is not charged on the value of exports.

It is a comprehensive tax imposed by a standard ratio at a single rate in the whole country, although some countries apply multiple ratios.

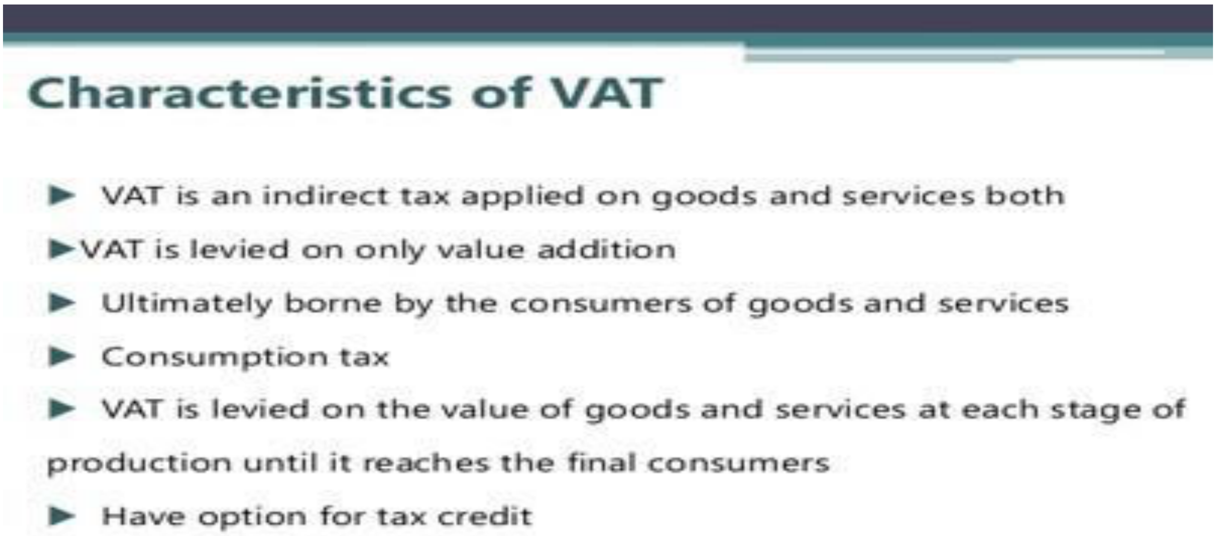
2. The VAT is a broad-based tax as it covers the value added to each commodity by a firm during all stages of production and distribution. It applies to both manufactured goods.

3. A VAT is based on a value-added principle. Value-added can be obtained either by adding payments to factors of production (i.e., wages+rent+interest+profit) or deducting the cost of inputs from sales revenue.

4. It is a substitute for sales tax, hotel tax, contract tax, and entertainment tax. It is a multipoint sales tax that helps set off for tax paid on purchases.

5. It is based on a self-assessment system and provides the facility of tax credit and tax refunds. It is a general tax levied on all goods and services, whether they are manufactured locally or imported.

6. It avoids cascading effect existed in sales tax and contains a catch-up effect. It is a tax that involves the state taking part in its issuance, in the context of its financial policy, to stimulate investment and attract capital.



Goods and Services Tax

What is **GST** in India? **GST** is known as the Goods and Services **Tax**. It is an indirect **tax** which has replaced many indirect **taxes** in India such as the excise duty, VAT, services **tax**, etc.

Goods and Services **Tax** (**GST**) **GST** subsumed as many as 17 different **indirect taxes** in India like Service **Tax**, Central Excise, State VAT, and more. It is a single, comprehensive, **indirect tax** which is imposed on all the goods and services as per the **tax** slabs laid by the **GST** council.

The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

KEY TAKEAWAYS

- The goods and services tax (GST) is a tax on goods and services sold domestically for consumption.
- The tax is included in the final price and paid by consumers at point of sale and passed to the government by the seller.
- The GST is a common tax used by the majority of countries globally.
- The GST is usually taxed as a single rate across a nation.

The three types of GST are
CGST or Central Goods and Services Tax,
SGST or State Goods and Services Tax,
IGST or Integrated Goods Services Tax,
UGST or Union Goods and Services Tax.