



**DIRECTORATE OF
ONLINE EDUCATION**

(A unit of Manipal Academy of Higher Education, Manipal)



MANIPAL

ACADEMY of HIGHER EDUCATION

(Institution of Eminence Deemed to be University)

**WELCOME TO THE
UNIVERSITY
OF INSPIRED
LEARNING**

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Course Financial Reporting & Statement Analysis

Topic Financial Reporting

Faculty Ujwal M S



Overview of the Course Curriculum

Segment 1: Financial Reporting

Introduction to Financial Report, Theory base of Accounting (Conceptual & Regulatory Framework), Financial Statements, Users of Financial Information

Segment 2: Accounting Process-Part I

Double-Entry Framework, General Journal, General Ledger, Trial Balance.

Segment 3: Accounting Process-Part II

Accrual Adjustments, Statements, Cash Flow Statement



Overview of the Course Curriculum

Segment 4: Assets

Cash, Receivables, Inventory, Long-Lived Assets, Investments and Acquisitions

Segment 5: Liabilities and Equity

Current Liabilities, Non-Current Liabilities, Equity

Segment 6: Statement Analysis

Common -Size Analysis, Profitability Analysis, Risk Analysis, Accounting Quality Analysis.



Webinar 1: Financial Reporting



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Overview of Topics

1

Introduction to Accounting – Features & Objectives

2

Theory base of Accounting

3

Financial Statements

4

Users of Financial Information



Learning Objectives

At the end of this session, you will be able to:

Describe the Features & Objectives of Accounting

Understand Accounting Principles

Demonstrate the Financial Statements

Identify the Users of Financial Information



INTRODUCTION TO ACCOUNTING

ACCOUNTING:

The American Institute of Certified Public Accountants,

'Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money transactions and events which are, in part at least, of financial character and interpreting the results thereof'.





INTRODUCTION TO ACCOUNTING

FEATURES OF ACCOUNTING:

Identifying

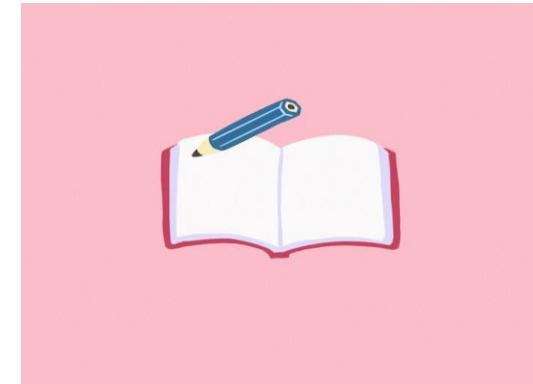


Measuring

Classifying



Recording





INTRODUCTION TO ACCOUNTING

FEATURES OF ACCOUNTING:

Summarising



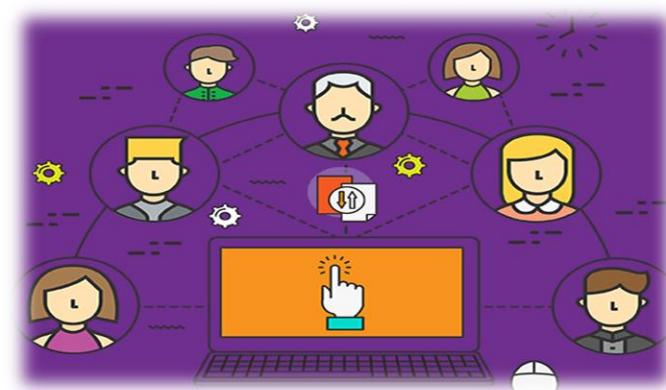
Analysing



Interpretation



Communicating





INTRODUCTION TO ACCOUNTING

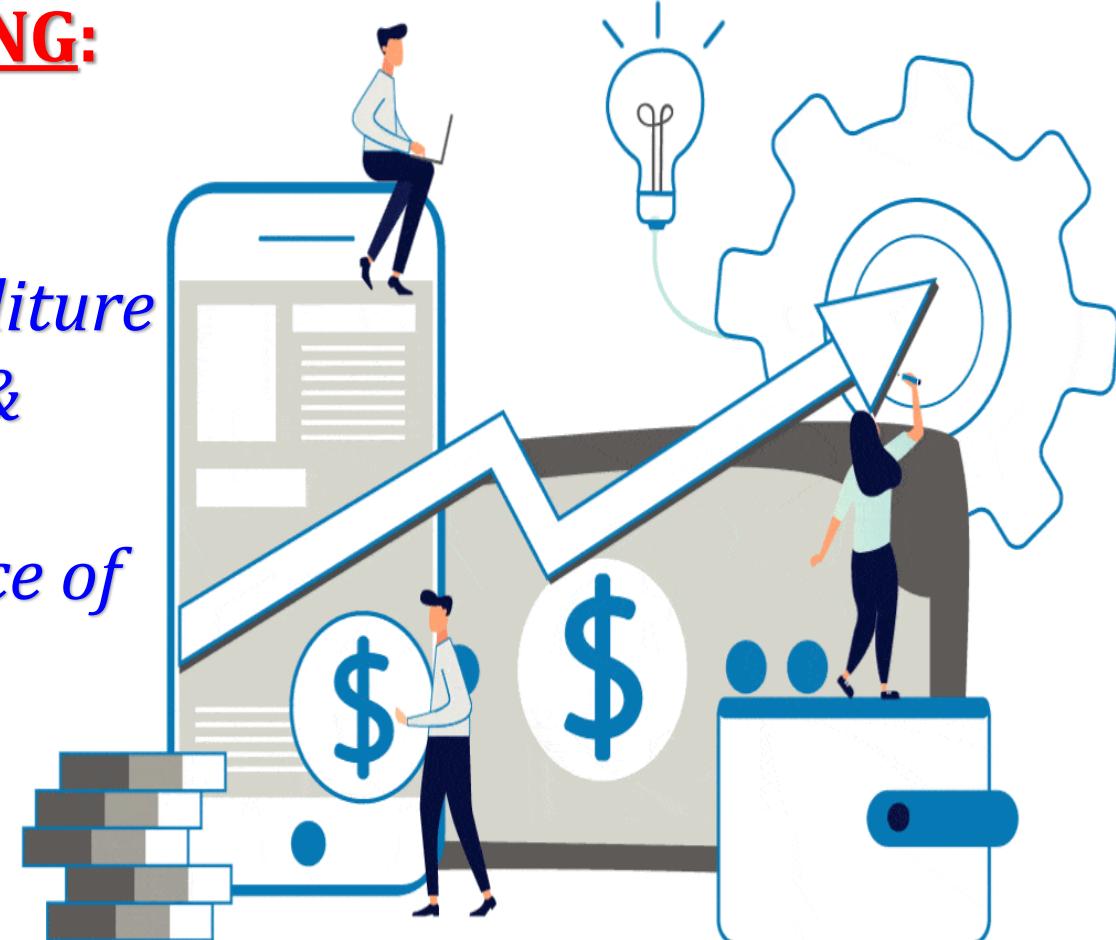
ACCOUNTING CYCLE



INTRODUCTION TO ACCOUNTING

OBJECTIVES/IMPORTANCE OF ACCOUNTING:

- ❖ *Maintain proper records*
- ❖ *Know sources of revenue & items of expenditure*
- ❖ *Ascertainment of amount due to business & due from business*
- ❖ *Ensuring effective control over performance of business*
- ❖ *Prevention of errors & frauds*
- ❖ *Ascertain profit/loss*
- ❖ *Ascertainment of financial position*
- ❖ *Making financial information available for the public*





Components In The Financial Report

Corporate review information

Operations review information

Financial review information

Financial statements

Notes to the financial statements

External auditor's report

Selected unaudited financial data

Stock market data





Audit Report

The outcome of the audit process is an audit report. In that report, the auditor expresses an opinion about the fairness of the financial statements.

It may be:

- » ***A Clean Opinion***
- » ***A Qualified Opinion***
- » ***An Adverse Opinion***





THEORY BASE OF ACCOUNTING

GAAP
**(Generally accepted
accounting principles)**



FASB
**(Financial Accounting
Standards Board)**

IFRS (International Financial Reporting Standards)

IAS (International Accounting Standards)



ACCOUNTING PRINCIPLES

They are rules of action or broad guidelines to be adopted by accountants for the preparation of accounts & for the presentation of financial statements.

Traditionally Accounting Principles have been classified as:

- ***Accounting Concepts.***

- ***Accounting Conventions.***



THEORY BASE OF ACCOUNTING

ACCOUNTING CONCEPTS

“It includes those basic assumptions & conditions on which the accounting is based”.

Different Accounting Concepts:

1. Business entity concept/Separate entity/Accounting entity concept.

OWNERS

BUSINESS

2. Going concern concept/Concept of continuity.

ASSETS & LIABILITIES

LONG TERM & SHORT TERM



Accounting concepts

3. Money measurement concept/Common denomination concept.

PRACTICAL MEASUREMENT

4. Cost concept/Historical Cost concept.

ASSETS → COST PRICE



THEORY BASE OF ACCOUNTING

Accounting concepts

5. Dual aspect concept/Accounting equation concept.

RECEIVING OF BENEFIT OR GIVING OF BENEFIT OF THE SAME VALUE

6. Accounting period concept/Periodicity of accounts .

(CALENDAR/FINANCIAL YEAR



QUARTERLY/HALF YEARLY/YEARLY)



THEORY BASE OF ACCOUNTING

Accounting concepts

7. Revenue Realisation concept/ Revenue recognition concept.

RECOGNITION OF REVENUE

**REVENUE EARNED DURING ACCOUNTING YEAR MAY NOT BE SAME AS CASH RECEIVED ON
THAT YEAR**

8. Accrual concept.

RECOGNITION OF BOTH REVENUE & EXPENDITURE.



THEORY BASE OF ACCOUNTING

Accounting concepts

9. Matching concept.

(DIFFERENCE BETWEEN REVENUE & EXPENDITURE REPRESENTS THE PROFIT/LOSS)

10. Objective evidence concept.

PROPER DOCUMENTARY EVIDENCES



THEORY BASE OF ACCOUNTING

ACCOUNTING CONVENTIONS

“ They are the customs & traditions which are followed by the accountants as a guide in the preparation of financial statement of the business “

Different Accounting Conventions:

1. Convention of Conservatism.

(CLOSING STOCK AT COST/MARKET PRICE, PROVISION FOR DEBTORS)

2. Convention of Consistency.

POLICY OF CONSISTENCY WILL FACILITATE COMPARISON.



THEORY BASE OF ACCOUNTING

Accounting Conventions:

3. Convention of Disclosure.

STATEMENTS ARE MEANT FOR THE USE OF VARIOUS PARTIES

4. Convention of Materiality.

**SIGNIFICANT INFORMATION - DISCLOSED
DEPENDS UPON THE QUANTUM OF MONEY INVOLVED**



FINANCIAL STATEMENTS

The goal of journalizing, posting to the ledgers, and preparing the trial balance is to gather the information necessary to produce the financial statements.

The time period concept requires companies produce the financial statements on a regular basis over the same time interval, such as a month or year.

Most of the amounts on these statements are copied directly from the trial balance, and then appropriate calculations and summary amounts are also displayed.

Relevant financial information is presented in a structured manner and in a form easy to understand.

Structured manner and in a form easy to understand relevant financial information is presented in a





FINANCIAL STATEMENTS

INCOME STATEMENTS

STATEMENT OF CHANGES IN EQUITY

BALANCE SHEET

CASH FLOW STATEMENT





FINANCIAL STATEMENTS

INCOME STATEMENTS



Revenue - Expenses = Net income or Net loss





FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

PROFITS



RETAINED EARNINGS





FINANCIAL STATEMENTS

BALANCE SHEET

ASSETS, LIABILITIES, AND CAPITAL (SHAREHOLDERS EQUITY)





FINANCIAL STATEMENTS - BASIC ACCOUNTING EQUATION

Illustration:

X commenced business with ₹.50,000.

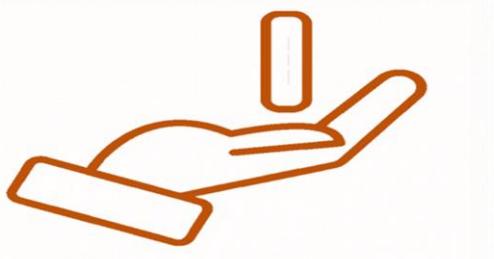
CAPITAL = ASSETS

50,000 = 50,000 (*cash*)

X purchased goods for ₹.20,000.

CAPITAL = ASSETS

50,000 = 30,000 (*cash*) + 20,000 (*goods/stock*)





FINANCIAL STATEMENTS - BASIC ACCOUNTING EQUATION

X purchased goods for ₹.20,000.

CAPITAL = ASSETS

$$50,000 = 30,000 \text{ (cash)} + 20,000 \text{ (goods/stock)}$$

X purchased ₹.10,000 worth of goods from Y on credit.

CAPITAL + LIABILITIES = ASSETS

$$50,000 + 10,000 = 30,000 \text{ (cash)} + 30,000 \text{ (goods/stock)}$$

$$\underline{60,000 = 60,000}$$

From this illustration, it is seen that total of capital & liabilities are always equal to total asset.

Accounting equation \Rightarrow

TOTAL ASSETS = CAPITAL (*Shareholders Equity*) + LIABILITIES

FINANCIAL STATEMENTS

CASH FLOW STATEMENT



Operating Activities



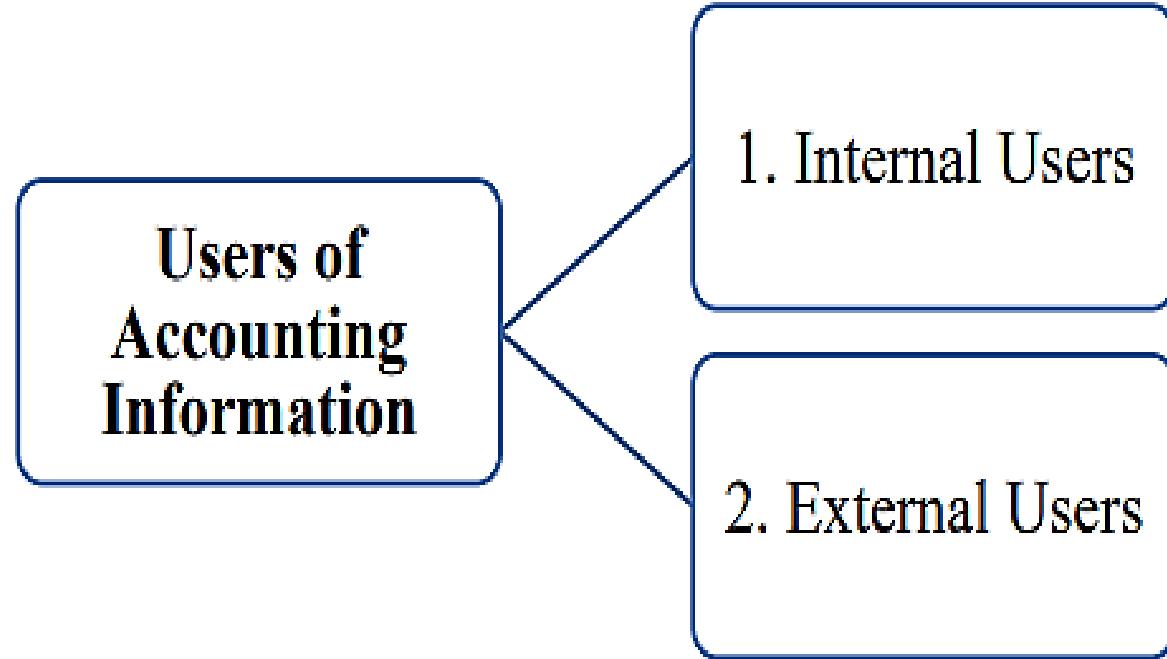
Investing Activities



Financing Activities



USERS OF ACCOUNTING/FINANCIAL INFORMATION





USERS OF ACCOUNTING/FINANCIAL INFORMATION

1) Internal Users - *Internal users are that individual who runs, manages and operates the daily activities of the inside area of an organization.*

a. Shareholders - To get the financial performance and financial position of the business.

b. Management- To make business decisions and to compare performance with past performance to achieve a goal.

c. Employees - To know about the profitability of the business made because their salaries and bonuses rely on the position and performance of the business.



USERS OF ACCOUNTING/FINANCIAL INFORMATION

2) External Users – *External users are those individuals who take interest in the account information of an organization but they are not part of the organization's administrative process.*

a. Investors – To know about the safety of investment and to see the progress of the business.

b. Creditors and Financial Institutions - To analyse the company's financial position and liquidity before making a loan to the company. To make sure about the future creditworthiness of the business.

c. Customers - To know the Current position of business, profitability, and liquidity.



Summary

Key points discussed in this session:

- *Basic Introduction of accounting*
- *The Accounting base for Financial reporting*
- *Brief introduction to Financial statements*
- *Users of Financial Information*



Important Questions

Question 1: *Components of a Financial Report*

Question 2: *Standard for Accounting Policies, methods & procedures*

Question 3: *Qualitative Characteristics of Accounting Information*

Question 4: *Audit Report*

Question 5: *Users of Financial Information*



References

E - Book References:

- ❖ <https://open.umn.edu/opentextbooks/textbooks/financial-accounting>
- ❖ <https://open.umn.edu/opentextbooks/textbooks/principles-of-financial-accounting>