MBA 1ST SEMESTAR

SUBJECT : (FINANCIAL ACCOUNTING AND ANALYSIS)

PAPER CODE: MBPC1003

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SYLLABUS:

Module-I: Introduction to Accounting: Accounting as a language and need for Accounting, Basic Terminologies of Accounting. External and Internal users of Accounting Information, Accounting concepts and conventions, Accounting cycle, Accounting Equations, Nature of GAAP, Need for Accounting Standards, Limitations of Accounting, Ethical Issues in Accounting, Mechanics of Accounting: Introduction, Classification, Double Entry System, Preparing Journal, Subsidiary books, Ledger, preparation of Trial Balance.

Module- II: Preparation of Financial Statements: Income statement and Balance Sheet, Corporate Accounts: Share and Share Capital, Issue of Shares, Payment in installment, Buyback of shares, Debentures and Bonds, understanding Corporate Income statement and Balance Sheet as presented in the Annual Reports of companies.

Module-III: Financial Statement Analysis: Analysis and interpretation of Financing Statements, Common size statement, Comparative statement analysis, Trend analysis, Ratio Analysis, Cash Flow Analysis as per IND AS 7.

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F.A.A - Financial Accounting Analysis

Module - I

* Introduction of Accounting :-

Accounting is the Process of recording, Summarizing, analyzing, and reporting financial information about a business or organisation. It is the Process of measuring, recording, clasifying, Summarizing, the data of "finance".

* Father of A/c - "Luca Pacioli"

* Need of Accounting :-

Accounting is the Process of consolidating financial information to make it clean and, understandable, for those involved in owning a company such as Stake-holder and share holder.

* User of Accounting :-

There are "two" types of user in accounting.

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External user :- Thes user are individual, or groups outside, the business entity. (i) Investor, (ii) creditors, (iii) Suppliers, and (iv) regulatory agencies.

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Internal user:- Internal user of accounting information are individuals within a business organization, who use, financial data for decision-making and (i) operation, (ii) owners (iii) managers and (iv) employees.

* Accounting concept and conventaion :- In accounting there are '5' types of "Ac" concept,

(i) Business entity concept.
(ii) Going concern concept.
(iii) Money measurement, concept.
(iv) Accounting period. concept.
and (v) The cost concept.

* Accounting cycle :- The accounting cycle. is a saystematic process business follow to record, repord financial transaction, standing with identifying. transactions and ending with preparing financial statement and closing the books for a periods.

* The "8" steps in the Accounting cycle:-

(i) Step :1 → Identifying & recording transaction.
(ii) Step -2 → Preparing "journal" entries.

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(iii) Step-3 → Posting the general "Ledger".

(iv) Step-4 → Generating unadjusted trial balance report.

(v) Step-5 → Preparing work sheet.

(vi) Step-6 → Preparing adjusting entries.

(vii) Step-7 → Generating financial statements.

(viii) Step-8 → Closing the books.

* Accounting Equation :-

The fundamental, accounting equation, also, called, the balancesheet, equation, is the foundation for the double-entry bookkeeping system and the cornerstone, of accounting science.

The Principle that a company's assets are equal to the sum of it's "liabities" and "equity".

* Nature of GAAP :- (Generally Accepted Accounting Principle)

The "GAAP" refers to the fundamental characteristics and purpose of the accounting, rules and standard that guide, financial, reporting.

It's use only in "USA".

(i) Standardization. (ii) Authoritative (iii) Principle-Based. (iv) Transparency and Accuracy (v) Legal and Ethical complians-

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* Need of Accounting Standard.

Accounting Standards are essential for ensuring the financial reporting, is clean, consistent, reliable, and comparable.

(i) Uniformity in financial statements.
(ii) comparability.
(iii) Transparency and credibility.
(iv) compliance and Regulation.
(v) Prevents Manipulation.
(vi) Global Acceptance.

* Limitation of Accounting:

The accounting hase some limitation, they are,

(i) Based on Historical cost.
(ii) Ignores Qualitative, Information.
(iii) Posibility of window dressing.
(iv) Estimates and judgements.
(v) Incomplete Picture.
(vi) Inflation not considered.

* Ethical issues of Account:

The term "Ethical issues arise when account's face conflict between doing what is right and pressures to manipulate financial information.

The key "ethical" concerns —

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Ethical concern —

(1) Financial Misstatement / Fraud.

(2) Manipulation of Earning.

(3) Conflict of Interest.

(4) Lack of Transparency.

(5) Insider Trading.

(6) Breach of conflict.

(7) Tax Evasion.

* How to Adress the issues?

- Strong internal control.
- Regular Audit and transparency.
- Encouraging whistleblowing.

* What is Double entry system?

The double entry system is a method of book-keeping where every transaction affects at least two accounts → one "debit" and one "credit".

"with equal amount".

* Features of Double entry system :-

(1) Dual effect
- (a) Debit (Dr)
- (b) credit (Cr)

② Accounting equation method :

$\boxed{\text{Assets} = \text{Liabilities} + \text{capital}}$

③ Accuracy and completeness.

④ Every "debit" has a corresponding "credit".

Ex ① Buying goods for cash :

Purchase A/c		Dr
	To cash A/c	Cr

* Preparing of Journal :

The word "journal" has been derived from the French word "Jour" which means "day".

There fore the "journal" means a 'daily record'.

It is called a book of original entry because every business transaction is first recorded in this book.

In case of small business, journal is the only book of original entry.

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* Need of journal :-

① Convenient recording of the transactions.

② Maintaining and preserving the identity of the transaction

③ Ascertaining the true nature of transactions with the help of narrations.

④ Maintaining ~~Perm~~ permanent record of information.

* Function of journal :-

(1) To maintain the identity of each transaction as a permanent source of information.

② To arrange transaction chronologically in order of data.

* Source of documents for writing journal :-

① Invoice → It's Activies when sells activity happen.

② Cash Receipt :- when cash received.

③ Counter-foil or pay in slip :- It's issues by the "Bank".

④ Cheque :- It's also take a place on the process of payment or recived of money.

⑤ Cash Memo :- when the sales are based on the cash.

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* Format of Journal

Date	Particular	L.F	Debit (Amount)	Credit (Amount)
2025 Jan-1	Machinery A/c Dr. To Cash A/c (Being Purchase of machinery for cash)		5,000	5,000

* Ledger Book :

Ledger is a Principal or Primary books of accounts. It's contains the all accounts (Assets, Liabilities, capital, revenue, and expenses) to which the transaction recorded in the books of original entry are "transferred" (Posted).

* Format of Ledger :

Dr. Cr.

Date.	Particular	J.F	Amount	Date	Particular	J.F	Amount
	To Name the Credit, Account in the journal.		₹		By Name of the Debit Account in journal		₹

* Preparation of Trial Balance

A Trial Balance is a financial report that lists all the "debits" and "credit" balance, in a company's accounts at a specific time.

* Purpose of Making :

Ensures that "debits" equal "Credits" and identifies errors.

Format of 'TB' :

No	Ledger Accounts	L F	Debit Amount	Credit Amount

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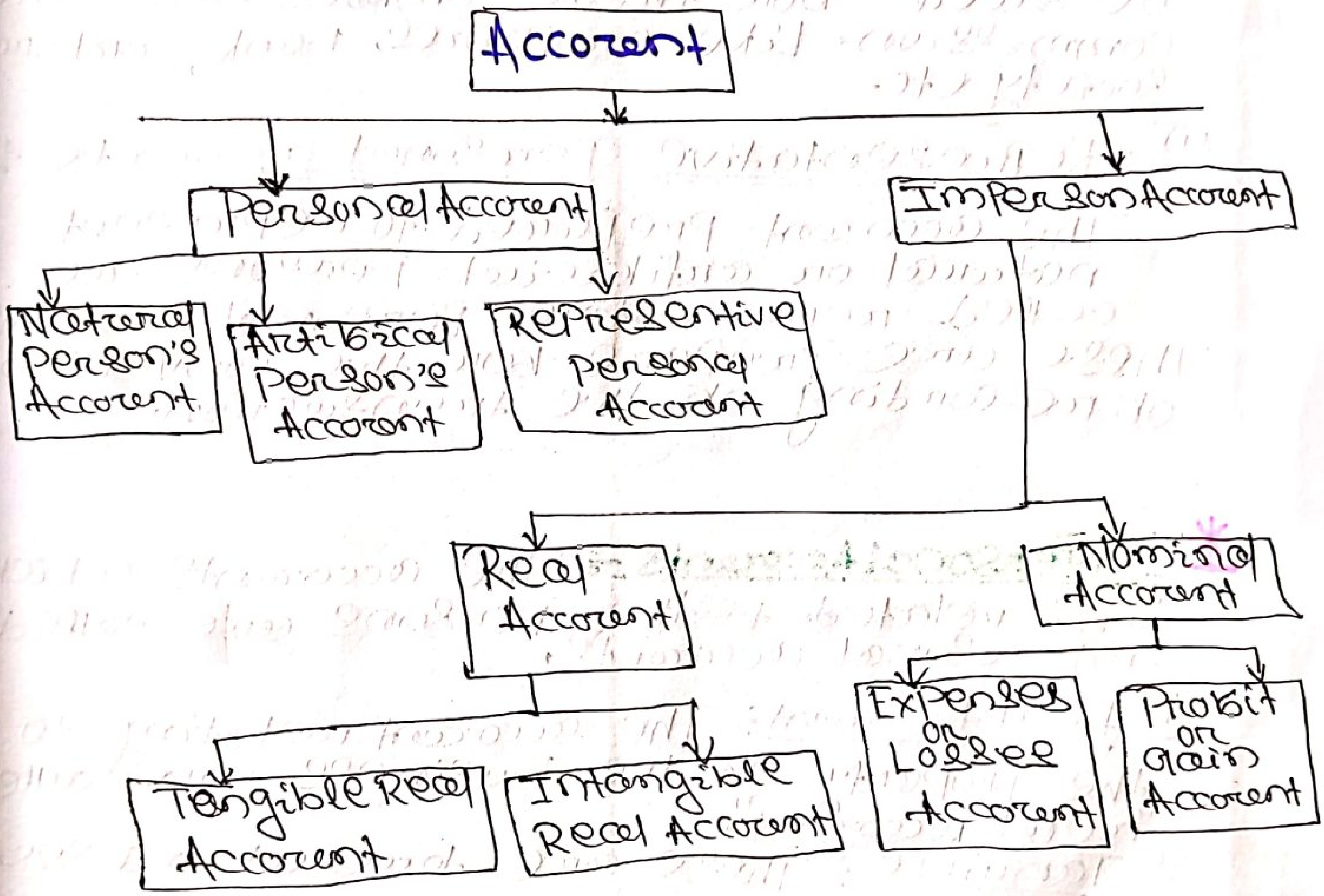
Accounting : Account *

* **Account** : Account is a date-wise summary of transactions relating to persons, property or expenses and incomes. It has two sides. Left hand side of the account is called "debit" side and right hand side is called "credit" side. The transactions of similar nature are recorded at one place which is called an "Account". It's have



* **Personal Account** : The Account of the person with whom various transactions are entered into, such as credit sale, credit purchases, sales return, purchase return, cash or cheques recived and issued are known as "Personal Account".

The Personal Accourent are :-

(i) Natural Personal accourents :- The accourents of the persons made of bles and bones are called a "natural Pers accounting". Like S.R. Accourent, Bikash A/ etc.

(ii) - Artificial personal accourents :-
The persons are not made of ble and bones but treated as persons in the eyes of law. They can see an be sued for their ommissions and commission. Like companies, bank, corpor Society etc.

(iii) - Representative Personal accourents :
The accourent prepared to represent natural or artificial persons are called representive personal accoun These are prepare for the convenie of re-cording of the transaction.

* Impersonal Accourents :- The accourents whic do not related to the persons are calle impersonal accourents.

① Real Accourent :- The accourent relating to the proparty of the business are call "real accourent".

ⓐ Tangible :- These are touched and see like, building, Land, Furniture etc.

ⓑ Intangible :- These are not touched and seen but can felt or used li Goodwill, patentright, copy right. etc.

② Nominal accourents :- The accourents of losses, expenses, incomes or g are known as nominal accourents. Rent accourent, Loss by theft accourent, e

Accounting Terminologies

* **Debtor** :- The person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations is called debtor. The debtor are collectively called "Sundry Debtors" or "Total Debtors". The total amount of sundry debtors due is called "Book Debts".

* **Creditor** :- The person to whom amounts is Owend [redacted] by the enterprise on account of goods purchased or services availed or in respect of contractual obligations is called "creditors". The creditors are collectively called "Sundry creditors" or "Total creditors" or "Trade creditors".

* **Debit** :- The left hand side of any account is called debit side. The word debit have no other meaning in accounting. "Debit" is abbreviated as "Dr". In accounting "debit" do not mean "debtor".

* **Credit** :- The right hand side of any account is called credit side. The word credit have no other meaning in accounting. "Credit" is abbreviated as "Cr". In accounting "credit" do not mean "creditor".

* **Capital** :- It is the value of items invested by the propritor into business. It may be in cash or in kind.

* **Goods** :- It implies all those articles which have been purchased by the enterprise for sales in the usual course of business. It also raw material for further processing.

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* **Purchases :** The purchases of raw materials for production or purchase of finished goods for sales is called as "Purchases". The term "Purchase" is used for the purchase of goods and not for the purchases of assets when assets purchased assets accou is opend.

* **Purchases return : or Return out**

It is the part of the goods purchase which is returned to the seller.
The reason of returns may be supply o defective goods, goods not as per specifi-cations or any other reason. In the ord to calculate net purchases of busines purchase returns is deducted from purchase. Purchase return is also known as "Return outward" because o goods are going out from the busine to the suppliers.

* **Stock :** The goods left unsold at the end of the accounting period is calle Closing stock. The stock may be of raw material, work-in-progress or finished goods. The closing stock of one accounting period will become the opening stock of the accounting period.

(31.03. year – Account close.
1.04. year – Account open.)

Accounting period.

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* **Sales :-** For the sales of finished goods, the term "Sales" is used. It may be cash sales or credit sales. When an assets is sold, the assets account is creditede and not the sales account. When goods are sold at a discount, sales is credited with net amount after deducting trade discount.

* **Sales return or Return Inward :-**

It is that part of goods sold, which is returned by the customer to us. The reason of return may be excessive, unspecified or supply of deffective goods etc. In order to calculate net sales of the business, sales return is deducted from sales. Sales return is also known as "Return Inward" because the goods are coming back in the business from the customers.

* **Discount :-** A types of concession in payment intended for increasing sales or get payment earlier is known as discount.
Two types of "discount".
1. - **Cash discount** :- Cash discount denotes a type of discount for ensuring prompt payment.
2. - **Trade discount** :- Trade discount is a types of discount on marked price allowed with the objective of increased sales.

* **Books of Accounts** :- The books in which business transactions are recorded are called as book of accounts. Books are accounted may be in the form of journal, ledger, purchase book, sales book and cash book.

* **Expenditure** : Expenditure is the amount incurred for recurring or non-recurring business transaction. Any payment made for the receipt of the benifits is called "expenditure".

The non-recurring payment may be for the purchase of assets or for improving the quantity of fixed assets.

The recurring payment may be for acquiring the goods or services or other routine expenses. It has '3' catagories.

① **Revenue Expenditure** : The amount for the purchase of goods or services which are consumed during the current period is called revenue expenditure. This is the amount incurred for meeting day to day expenses.

All the payments of recurring nature, such as, salaries, rent, insurance, carriage, freight, advertisement etc. are known as "expenses or Revenue expenditure"

② **Capital Expenditure** : The payment made for the purchase of assets from which the benefit will be derived in future is called capital expenditure.

It is a non-recurring payment for the purchases of, Land, building, machinery computer etc. for the business.

③ **Defferred Revenue expenditure** : A heavy expenditure of revenue nature incurred having the effect of generating income over a number of years is classified as defered revenue expenditure.

Like "Advertisement"

* **Bad Debts** ÷ The amount which a debtor fails to pay and there is no hope of repayment is termed as bad debt. Bad debt arise on amount of death, insolvency or collapse of financial position of the debtors.

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* Financial Accounting *

① * Current Assets :- ($\pm$ Dr. / Cr.)

1. Cash in hand.
2. Cash at bank.
3. Bills reciveable.
4. Debtors. / Sundry Debtors.
5. Prepaid expenses.
6. Stock.
7. Outstanding income,
8. Short term investment.

② * Fixed Assets :- ($\pm$ Dr. / Cr.) And ③ Fictitious Assets

Fixed Assets

1. Furniture.
2. Building.
3. Land.
4. Motervechile.
5. Plant and machinery.
6. Good will.
7. Paten.
8. Trade Mark.
9. Copy right
10. Long term Investment.

Fictitious Assets

1. Expenses on issue of shares or debentures. by to company.
2. Discount of shares or debentures.
3. Under writing commission. etc.

:- Equity :-

In broader sense, the term equity refers to all claims or rights against the assets of the enterprise. For every assets of the business, some one has paid for it or the amount is payable to someone for this. The amount payable to such persons is called equity.

* Financial Accounting *

* Assets *

* **Assets** : An "assets" is any owned physical object (tangible) or right (intangible), having a money value. In other words, assets are economic resources which are owned by a business and from which future economic benefits are expected to ~~bolo~~ flow to the enterprise.

Eric L. Kohler : "An assets is any physical object (tangible) or right (intangible) having a money [redacted] value.

* **Classification of Assets** :

Types of Assets
- Fixed Assets
  - Tangible fixed assets
  - Intangible fixed assets
- Current Assets
- Fictitious Assets

* [redacted] (1) **Fixed Assets** : It refers to those assets which have been purchase by the enterprise for long term used and not for resale in the ordinary course of business. The benefits from fixed assets is drived over a long period.

Fixed assets are two types :

(i) **Tangible fixed assets** : It refersh to those fixed assets which can be touched and seen. These may included movable assets.

* Financial Accounting * (5)

* Liabilities *

* **Liabilities** :- It refersh to an amount owing by one person (a debtor) to another (a creditor) payable in money, goods or services. In general, liabilities are financial obligations to outside parties arising from events that have already happened.

R.N Anthony :- "In general, liabilities are obligation to outside parties arising from event that already happend.

* **Classification of Liabilities** :-

Types of Liabilities
- Current Liabilities
- Fixed Liabilities
- Contingent Liabilities

* ① **Current Liabilities** :- It refersh to those liabilities which fall due for payment in a relatively short period (normally within one year). These are also known as short-term liabilities. For example :- creditors, bills payable, short term loans, outstanding expenses, etc.

* ② **Fixed Liabilities** :- It refers to the long term liabilities which are payable after a period of one year. These are also known as 'long term liabilities'. For example :- Long-term loans, Public deposite, debenture, etc.

* ③ **Contingent Liabilities** :- It refersh to ~~long term~~ the amounts which may or may not become payble in future.

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* What is the Financial Statment?

Financial Statments are formal records of the financial activities and Position of a business, Person, or the other entity.

The main financial Statments include:

① Income Statment (P&L)

- Show a company's revenue and expenses over a specific period.
- Purpose to determine like the company made a "Profit or Loss."
- Key components: Revenue, cost of goods sold (COGS) Gross Profit, operating expenses, Net income.

② Balance Sheet: (Statment of Financial Position)

- Shows the company's Assets, liabities, and equity at a specific point in time.
- Purpose to Provide a snapshort of financial health.
- Equations ⇒ Assets = (Liabilities + equity)

③ Cash flow Statment:

- Shows the Inflow and Outflows of cash over a period.
- Divided Into: Operating activities (ii) Investing (iii) Financing Activities.

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• Purpose: To understand the cash management, and liquidity.

(4) Statment of Changes in Equity or (Statment of Retained Earning):

• Shows changes in the company's equity during the reporting period.

• Includes: Retained earning, share capital, dividend, and other equity changes.

* Income Statment and Balancesheet: (Also called P&L Statment)

To show the company's performance over a period basically, how much (P&L) it made.

Sections:

• Revenue (sales) — Money earned from selling goods or services.

• Cost of goods sold: Direct costs of producing goods/services.

• Gross Profit: ⇒ (Revenue − COGS)

• Operating expenses: Costs to run the business (salaries, rent, etc).

• Operating Income: (Gross Profit − Operating expenses)

• Net Income: (Profit) = what's left after all expenses, taxes, and interest.

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* Balance Sheet Statement of Financial Position :

• **Purpose** :-
To show what a company owns and owes at a specific point in time, - like a snap shot of it's financial "health".

• **Structure** :-
It's based on the formula.

* ⇒ $\boxed{\text{Assets} = \text{Liabilities} + \text{Equity}}$

• **Section** :-

• Assets ⇒ What a company owns.
  (i) Current Assets :-
  (cash, Inventory)
  (ii) Non-Current Assets :-
  (Property, equipment)

• Liabities :- ⇒ What a company owes.
  (i) Current Liabities.
  (due within a year, like account's payable)
  (ii) Non-Current Liabities :-
  (Long term debt)

• Equity :- Owner's interest in the business
  * Retained earning. capital invested, etc.

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* Corporate Accounts :-

A corporate Account is a type of financial or business account that is registered in the name of a company or corporation, rather than an individual.

It's commonly used for managing business finance separately from personal finance.

* There are different types of content :-

① Corporate Bank Account :-

used by the companies to handel income, expenses, Payroll and other financial transaction. It can be a checking or saving account specifically for business use.

② Corporate Trading or Investment Account -

opened by a company to trade or in-vest in stock, bonds or others financial instrument, under the business name.

③ Corporate Account Services :-

Some companies set up corporate account with services periods (Airlines, hotels, software services) to manage billing get discounts, or streamline expenses for employees.

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* Common Corporate Account Type :

There are some types discores :

① Current / Checking Account :

- Purpose : For managing everyday business transaction, such as receiving, Payments and, Paying bills.

- Featrures : Allow frequent deposits and withdrawals, often with higher transaction fees, then Personal accounts.

② Saving Account :

- Purpose : For saving funds and earning interest, with some restrictions on withdrawals and transfers.

- Features : Offer higher interest rates then Personal savings accounts, allowing business to earn more on their saving.

③ Money Market Accounts (MMA) :

- Purpose : Fore business that hold large sums of money and want to increase earning on those funds.

- Featrures : Offer higher interest rates than many business saving accounts, but with some restrictions on withdrawals and transfer.

(4) Merchant Accounts :

- **Purpose** : For businesses that need to accept electronic payments from customers, such as credit and debit cards, mobile payment, and digital wallets.
- **Features** : Allow businesses to process online and in-person transaction.

* Share :

A Share represents a unit of ownership in a company.

When you own a share, you own a small part of that company.

- Reciving dividends (a portion of the company's profit).
- voting at Shareholder meeting.
- Sharing in the company's assets, if it is wound up.

* Share capital :

Share capital is the total amount of money a company has raised by issuing Share to Shareholder.

It reflect the funds a company has recived from investors in exchange for ownership (Share).

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* There are few types of share capital-

(1) → Authorized share capital: The maximum amounts a company is allowed to raise through share.

(2) Issued share capital: The portion of authorized capital that has actually been issued to shareholder.

(3) Paid-up share capital: The amount that shareholder have actually paid for there share.

* Issues of share: It's generally refers to the issuance of share by a company. This happen when a company decides to raise capital by offering ownership in the form of share to investors.

• Involves of Issuing of share:

(1) Types of share Issues:

• Initial Public offering (IPO) : First time share issue to the public.

• Follow-on Public offer (FPO) : Additional share issued after an (IPO).

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- Rights Issue: Offered to existing share-holder at a discounted Price.
- Bonus Issue: Free additional share given to existing share holders.
- Private Placement: Share issued to selected investors or institutions.
- Preferential Allotment: Share issued to a specific group at a pre-agreed Price.

* Why companies Issues Share?

- To raise capital for expansion or debt repayment.
- To Improve liquidity.
- To bring in Strategic investors or Partners.

* Implications for Investors:

- Dilution of ownership if more share are issued.
- Opportunity to invest in a growing business.

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* What is Buyback of Share?

It also known as share "repurchase" is when a company buys back it's own share, from the existing shareholders, usually at a primium to the market price.

It reduces the number of outstanding share in the market.

* Why "Buyback" happen in a company?

1. Return excess of cash to shareholders.
2. Increase share value (Fewer share = higher earning per share)
3. Support share price during a down-trend.
4. Prevent hostile takeovers by reducing the number of share available.

* Methods of Buyback:

1. Tender offer: company offer to buy share at a fixed price directly from shareholders.
2. Open market purchases: company buy shares from the open market over time.
3. Book-building process: used for large buybacks. Price is discovered through bids.

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* Effect of Buy back :

* Positive :

① Boosts earning per share (EPS).

② Sends a positive signal to the market.

* Negative :

① Reduces cash reserves.

② can be used to manipulate (EPS).

* Payment in Investment :

In investment, payment, generally refers to the transfer of money to acquire or settle an investment. Depending on the context, it can mean a few different things.

① Initial Investment Payment - The amount of money an investor pay to buy an asset (e.g. stock, bonds, real estate, etc).

② Ongoing Investment Payments :- Regular, contribution made to an investment. account (e.g. monthly contributions to a mutual fund or retirement Account)

③ Income from Investment : This included dividend interest payment, or rental income that an investor recive from there investment.

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(4) Final Payment on Redemption.

When an Investment matures (like a bond) the investor may receive a lump-sum payment representing the return of Principle plus any earned interest.

* What is Debenture:

A debenture is a type of long-term debt instrument used by companies to borrow money from the public or investors. It's kind of like an IOU.

Here's a simple breakdown.

* Key Features of Debenture:

(i) Debt Instrument: It's a loan taken by a company, not ownership like share.

(ii) Fixed rent: The company promises to pay regular interest (called a "coupon") to the debenture holder.

(iii) Repayment: The Principle amount is repaid a fixed future date (called maturity).

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(4) No collateral (usually): Many debentures are unsecured, meaning they aren't backed by specific assets - just the creditworthiness of the issuer. Some can be secured.

* What is Bunds:

Bunds are "German government bonds - they're essentially loans investors give to the "German government in exchange for regular interest payments and the return of principal at maturity.

* Key Points:

(i) Issued by: The Federal Republic of Germany.

(ii) Type: Long-term debt securities typically (10 to 30 year)

(iii) Purpose: To finance government spending

(iv) Interest: Usually pays a fixed rate, (called a coupon) annually or semi-annually.

(v) Safety: considered one of the safest investment in "europe due to germany's strong credit rating.

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Balancesheet :

Array report :

A Balancesheet is a financial statement that shows a company's financial position at a specific point in time. It summarizes what the company "owns" what it "owes" and the "owner's equity".

* Income Statement :

An Income Statement also called a "P&L" Statement.
Shows a company's financial performance over a specific period (like a (month, quarter or year)

* Structure of an Income Statement :

1. Revenue (sales) : Total income earned from selling goods or services.
2. Cost of goods sold : COGS
3. Gross Profit = $\boxed{\text{Revenue} - \text{COGS}}$
4. Operating expenses = Indirect costs like (salaries, rent, marketing).
5. Operating Profit : $\boxed{\text{EBIT}}$ → (Earning Before Interest and Tax.)
6. Other Income/Expenses.
7. Net Profit before Tax.
   → operating Profit + other income − other expenses.

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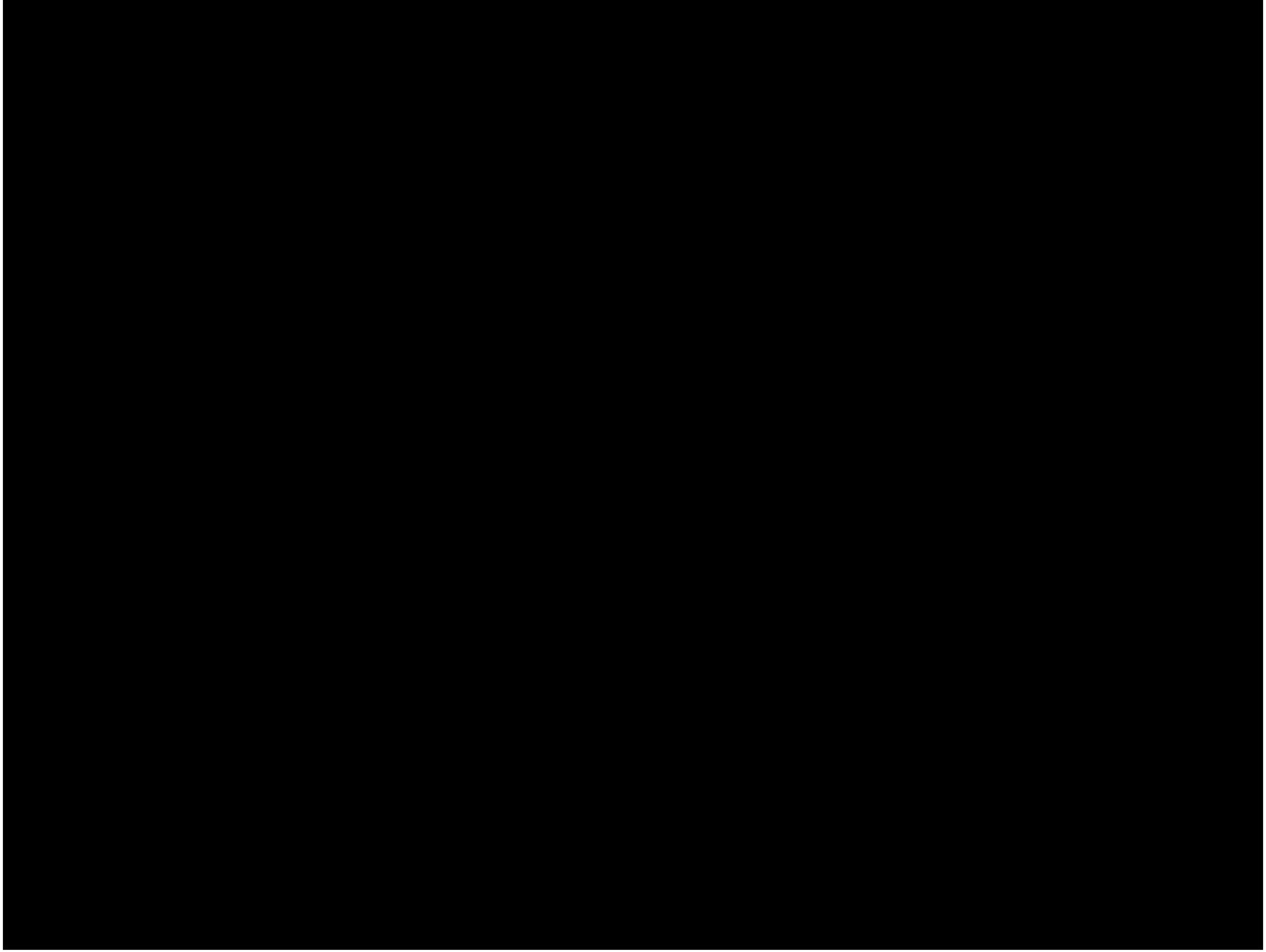

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** Cash Flow Statement * * (25)

Meaning :

Cash flow means inflow and out-flow of "cash and cash equivalents" during the specified period of time in three segments.

Objective :

As it is form part of financial Statments member can get the position of company.

Classification of activities in cash flow Statment :

Operating activities	Investing Activities	Financing Activities
▲ Principle revenue Producing activities. ▲ Activities other then investing and financing activities.	▲ Acquisition and disposal of long term assets. ▲ Other investment not included in cash equivalents.	▲ Results in changes in size and composition of owners capital.

*** Operating activities :**

Cash Inflow

1. Cash sale.
2. Recived from debtor.
3. Commission and fees.
4. Royalties.

Cash outflow

1. Cash Purchases
2. Payment to (Cr)
3. Payment of wages and salaries.
4. Cash operating.

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* Investing activities :-

Cash Inflow

1. Sale of fixed assets, Investment
2. Interest/dividend recived.

Cash outflow

1. Purchases fixed assets, Investment.
2. Loans and advance made to third Parties

* Financing activities :-

Cash Inflow

1. Issue of shares debentures for cash.
2. Proceeds from long term/ Short term borrowing.

Cash outflow

1. Repayment of loan
2. Redemption of debentures/ Preference share.
3. Interest/ dividend paid

Special Attention :-

a. Foregin currency transaction — effect of exchange rate in cash and cash equivalents be reported as a separa Part of the reconciliation.

b. Extraordinary items: cash flows should be classified as a rising from operati investing or financing activities as appropriate.

c. Acquisition and disposals of subsidiar ies and other business units.
The aggregate cash flows should be classified as investing activities.

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* Note Points :-

1. No-cash transaction should not be disclosed in cash flow Statment.
2. For financial enterprises - Interest and dividends are operating activities.

* Net Basis Reporting :

Cash receipts and Payments on behalf of customer.
Items of quick turnover, short, maturity and large amounts.

Government grant

- Related to capital Project
  - Investing activity.
- Related to new Project
  - Financial activity.

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Cash Flow Statment

Operating Activities

Investing Activities

Financing Activities

Operating Activities

Cash Inflow

Direct Method

Cash recived from Custumer = xxxx
Add - Other operating income = xxx
Less = Cash Expense = xxx
Less = Tax Paid = xxx
xxxx

Cash Outflow

Indirected Method

Profit before tax = xxx
Add : Non Cash expense ditrone = xxx
Less : Non cash income = xxx
Add : Non operating expenses = xxx
Less : Non operating Income = xxxx
Operating Profit = xx xx
Add : decrease in C.A
Less : Increase in C.L
Less : Decrease in C.L
Add : Increase in C.A
Operating cash before tax = xxx
Less = Tax Paid = xxx
operating cash flow = xxx
Calculation of PBT :
Difference in P&L A/c (closing - opening)
Add : Transferred to reserve form P&L
Add : Proposed dividend
Add : dividend distribution = xxx
Add : Provision for tax

PBT = xxx

PBT = xxx

Investing Activities / Financing Activities

Cash Inflow

Cash Outflow

Cash Recepite Less - cash Payment = xxx

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* SAPM *

** RISK * PORTFOLIO (MGIT) * ①

Q. What is risk?

Risk :-

Risk is defined in financial terms as the chance that an outcome or investment's actual gains will differ from an expected outcome or "return". Risk includes the Posibility of losing some or all of an original investment.

It's important to keep in mind that higher risk doesn't automatically equate to higher returns.

The risk-return tradeoff only indicates that higher risk investment have the posibility of higher returns - but there are no guarantees.

On the lower-risk side of the spectrum is the risk-free-rate of return the theoretical rate of return of an investment with zero risk.

It represent the interest you would expect from an absolutely risk-free investment over a specific period of time. In theory, the risk-free rate of returns is the minimum return you would expect for any investment because you wouldn't accept additional risk unless the potential rate of return is greater then the risk free rate.

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The Basics of Risk:

Everyone is exposed to some type of risk every day-whether it's from driving, walking down the street, investing, capital planning, or something else.

A Investor's Personality, lifestyle, and age are some of the top factors to consider for individual investment management and risk purposes.

Each investor has unique risk profile that determines their willingness and ability to withstand risk.

In general, as investment risk rise, investors expect higher returns to compensate for taking those risks.

A fundamental idea in finance is the relationship between risk and return. The greater the amount of risks investor is willing to take, the greater the potential return.

Two types of risks

Some of the risk investors assume is peculiar to the individual stocks in their portfolios - For example, a company's earnings may plummet because of a wildcat strike.

On the other hand, because stock prices and returns move to some extent in tandem even investors holding widely diversified portfolios are exposed to the risk inherent in the overall performance of the stock market.

So we can divide a security's total risk into "unsystematic risk" the portion peculiar to the company that can be diversified away and "systematic risk", the nondiversifiable portion that is related to the movement of the stock market and is therefore unavoidable.

Unsystematic risk factor :

A company's technical wizard is killed in an auto accident.

Revolution in a foreign country halts shipments of an important product ingredient.

A lower-cost foreign competitor unexpectedly enters to a company's product market.

Oil is discovered on a company's property.

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Systematic risk factors :-

Oil Producing countries institute a boycott.

Congress votes a massive tax cut.

The federal reserve steps up it's restrictive monetary Policy.

Long-term interest rates rise precipitously.

- ## Non-Systematic Risk :

- The return from a security sometimes varies because of certain factor affecting only the company issuing such security.

  Example are : Laborer Strike, Management efficiency etc.

- When variability of returns occurs because of such firm specific factors, it is known as non systematic risk.

Correlation :

- To measure the relationship between return of securities.
- $Cor_{xy} = \frac{Cov_{xy}}{SD_x SD_y}$
- The correlation coefficient ranges between -1 to $+1$
- The diversification has benefits when correlation between returns of assets is less than 1.

Risk :

- Risk refers to dispersion of a variable.
- It is measured by variance or SD.
- variance is the sum of squares of the deviations of actual returns from average returns.
  - $\text{variance} = \Sigma (R_i - \bar{R})^2$
  - $SD = (\text{variance}^2)^{1/2}$

Expected rate of return :

- It is the weighted average of all possible returns multiplied by their repective probabilities.
- $E(R) = R_1 P_1 + R_2 P_2 + \ldots\ldots + R_n P_n$
- $E(R) = \sum_{i=1}^{n} R_i P_i$

  where R_i is the outcome & P_i is the probability of occurrence of i.

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- variance is the sum of squares of the deviations of actual return from expected returns weighted by the associated Probabilities.

- variance $= \sum_{i=1}^{n} (R_i - E(R))^{2} * P_i$

- $SD = (\text{variance}^2)^{1/2}$

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Risk & Return Analysis :-

- Return on security (single asset)
- Return = dividend + capital gain rate.
- $R = \frac{D_1 + (P_1 - P_0)}{P_0}$
- WHERE R = Rate of return in year

  D_1 = Dividend per share in year

  P_0 = Price of share in the begining of the year.

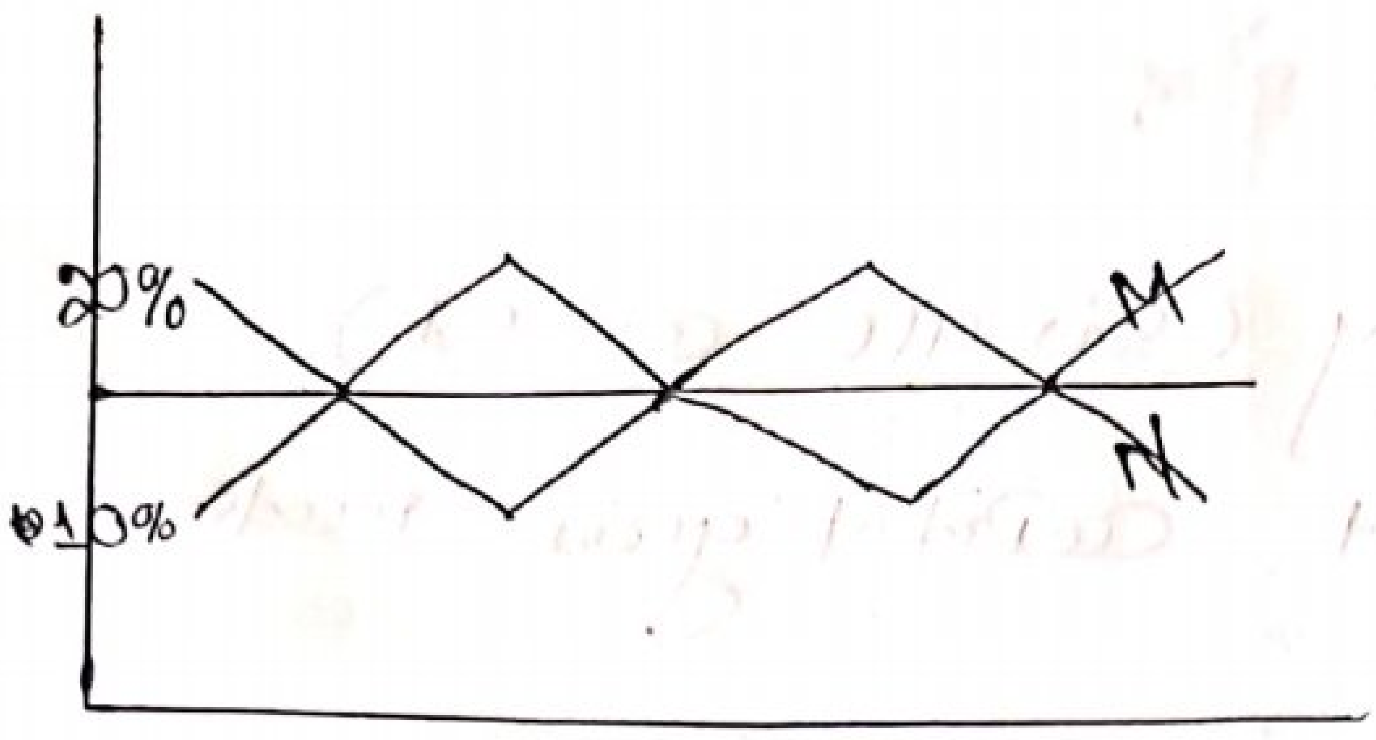
  P_1 = Price of the share in the end of the year.

Portfolio risk - two asset :-

- Since the securities associated in a portfolio are associated with each other, portfolio risk is associated with covariance between return of securities.
- $\text{Covariance}_{xy} = \sum_{i=1}^{n} (R_{xi} - E(R_x))(R_{yi} - E(R_y))^* P_i$

Diversification of Risk :-

- We have seen that total risk of an individual security is measured by the standard deviation (σ). Which can be divided into two parts i.e systematic risk and unsystematic risk.
- Total Risk (σ) = systematic risk + unsystematic risk.



- Figure: 2
- If $r = -1$ (Perfectly negatively correlated) risk is completely eliminated ($\sigma = 0$)
- If $r = 1$, risk can not be diversified away
- If $r = r < 1$ risk will be diversified away to some extent.

Two Important Findings:

- More number of securities will reduce portfolio risk.
- Securities should not be perfectly correlated
- only to increase the number of securities in the portfolio will not diversify the risk. Securities are to be selected carefully.
- If two securities returns are less than perfectly correlated, an investor gains through diversification.
- If two securities 'M' and 'N' are perfectly negatively correlated, total risk will reduce to zero.
- Suppose return are as follows

	t_1	t_2	t_3	t_4
M	10%	20%	10%	20%
N	20%	10%	20%	10%
Mean Return	15%	15%	15%	15%

Riskless Securities :

While it is true that no investment is fully free of all possible risks, certain securities have so little practical risk that they are considered risk-free or riskless.

Riskless securities often form baseline for analyzing and measuring risk.

These types of investments offer an expected rate of return with very little or no risk. Oftentimes, all types of investors will look to these securities for preserving emergency saving or for "holding" assets that need to be immediately accessible.

Example :

Riskless investments and securities include "certificates of deposits" (CDs), government money market accounts and US. Treasury bills.

The 30-day US Treasury bills is generally viwed as the baseline, risk-free security for financial risks.

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