

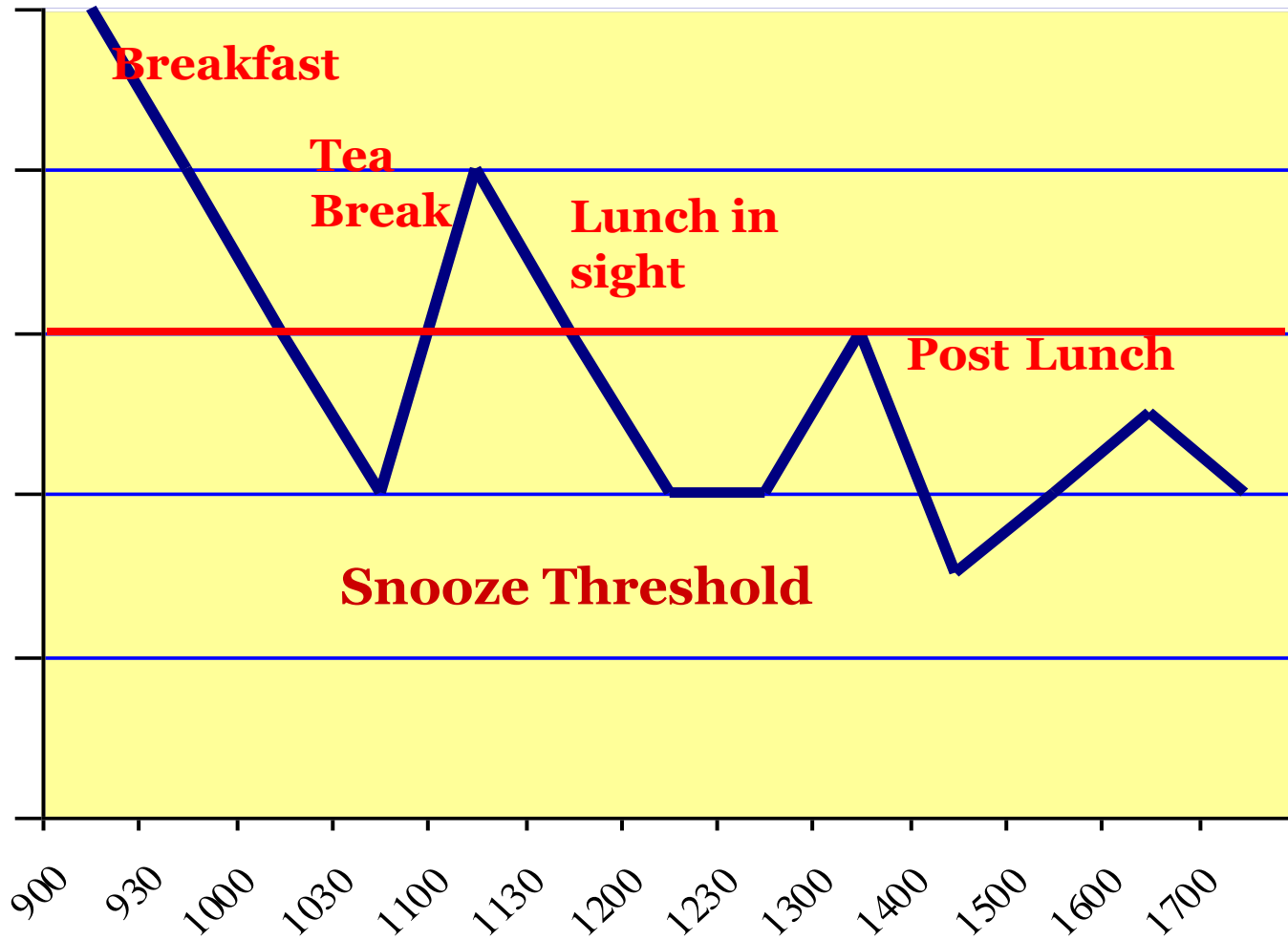
Understanding the Financial Position of an Organisation

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Attention levels during a Day like this



Structure of the Session

- Managerial Decisions
- Financial Statements – Components & Relationships
- Balance Sheet or Statement of Financial position
- Income Statement or Profit & Loss Account
- Cash Flow Statement

Learning Outcomes

- Demonstrate knowledge of accounting terminology, accounting principles and concepts
- Identify the connection between managerial decisions and the financial statements
- Understand and interpret the informational content of financial statements



Financial Management

- Measure business activities
- Process this information into reports
- Communicate the results to decision makers

Information for Decision Making

LEVELS OF FINANCIAL INFORMATION

COMPANY

**FINANCIAL
ACCOUNTING**

**CONTROL UNITS
(SBU)**

**MANAGERIAL
ACCOUNTING**

PRODUCTS

**COST
ACCOUNTING**

MIS

Decision Makers and their information needs

1. Who Are The Organization's Decision Makers?
2. What Decisions Do They Take?
3. What Information Do They Need?

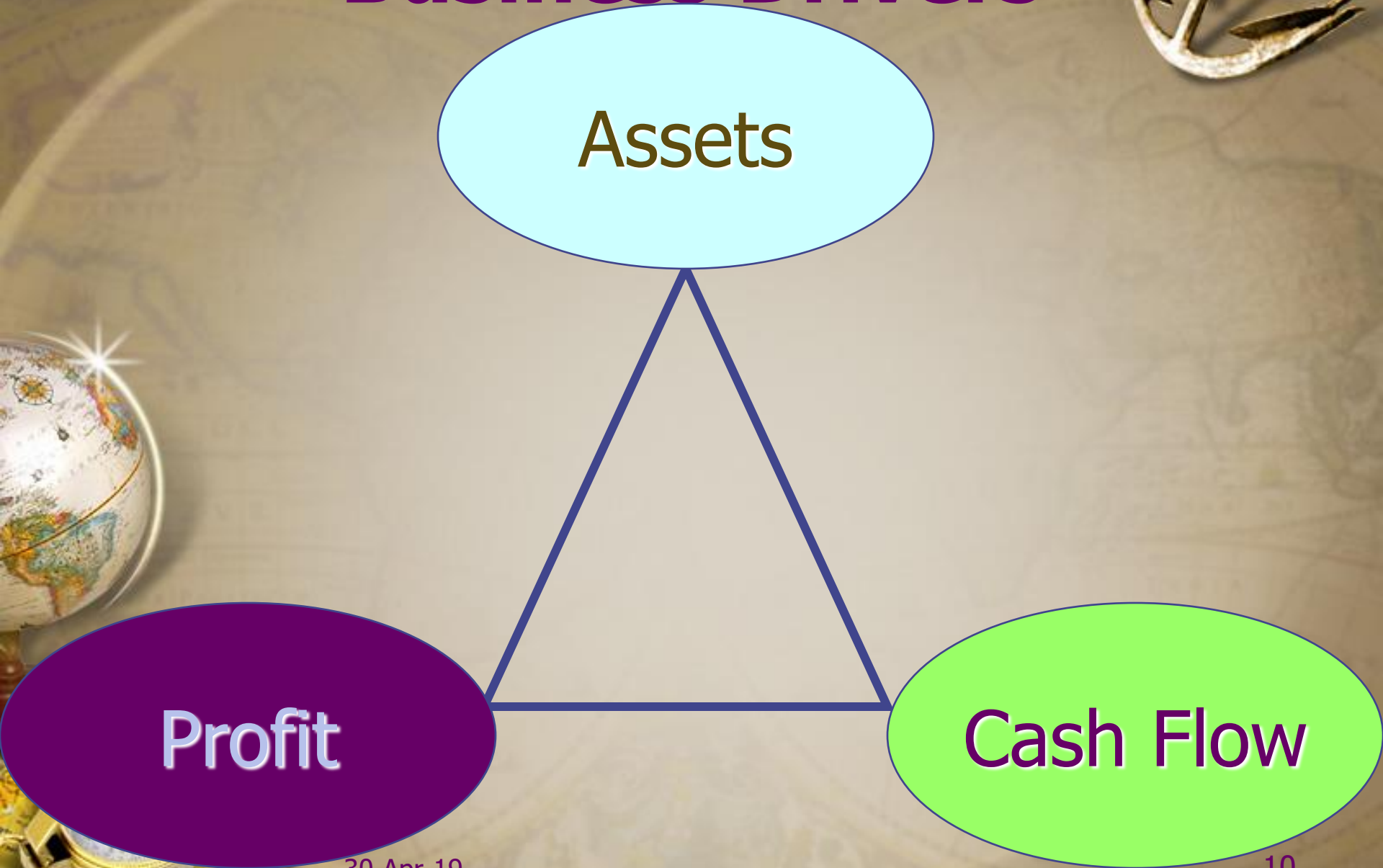
Business Activities and Information Needs



Financial Accounting vs Management Accounting

- **Financial accounting** provides information for external purposes
- **Management accounting** generates confidential information for internal decision makers

Business Drivers



THE F-I-O MODEL

- ❶ FINANCING - the process of raising **FUNDS** for the business
- ❷ INVESTING - the process of acquiring **ASSETS** to operate the business
- ❸ OPERATING - using **ASSETS** to generate income

“THE SCORECARDS”

STATEMENT OF FINANCIAL POSITION OR

BALANCE SHEET – Statement of financial position at a point in time

- Shows how the funds are raised & how the funds are utilised

• STATEMENT OF INCOME OR PROFIT &

LOSS ACCOUNT – income and expenditure over a period of time

- Shows the results of operations

• CASH FLOW STATEMENT – puts the

operations on a cash basis

- Shows inflows and outflows of cash

Balance Sheet Equation

Owners' Liabilities = Shareholders' Equity	Assets
Outsiders' Liabilities	

Assets = Liabilities

Assets = Outsiders' Liabilities + Shareholders' Equity

**Examples: Loan, Cars, Machinery, Land,
Equity Capital, Cash, Inventory, Payables**

Balance Sheet



Shows financial position of an enterprise at a particular point in time

A “snapshot”

Generally Accepted Accounting Principles (GAAP)

- Set of convention, rules and procedures necessary to define accepted accounting practice at a particular time.
 - Recognition
 - Measurement – timing and value
 - Disclosures

Generally Accepted Accounting Principles

Set of convention, rules and procedures necessary to define accepted accounting practice at a particular time.


- Recognition
- Measurement – timing and value
- Disclosures



Characteristics of Financial Information

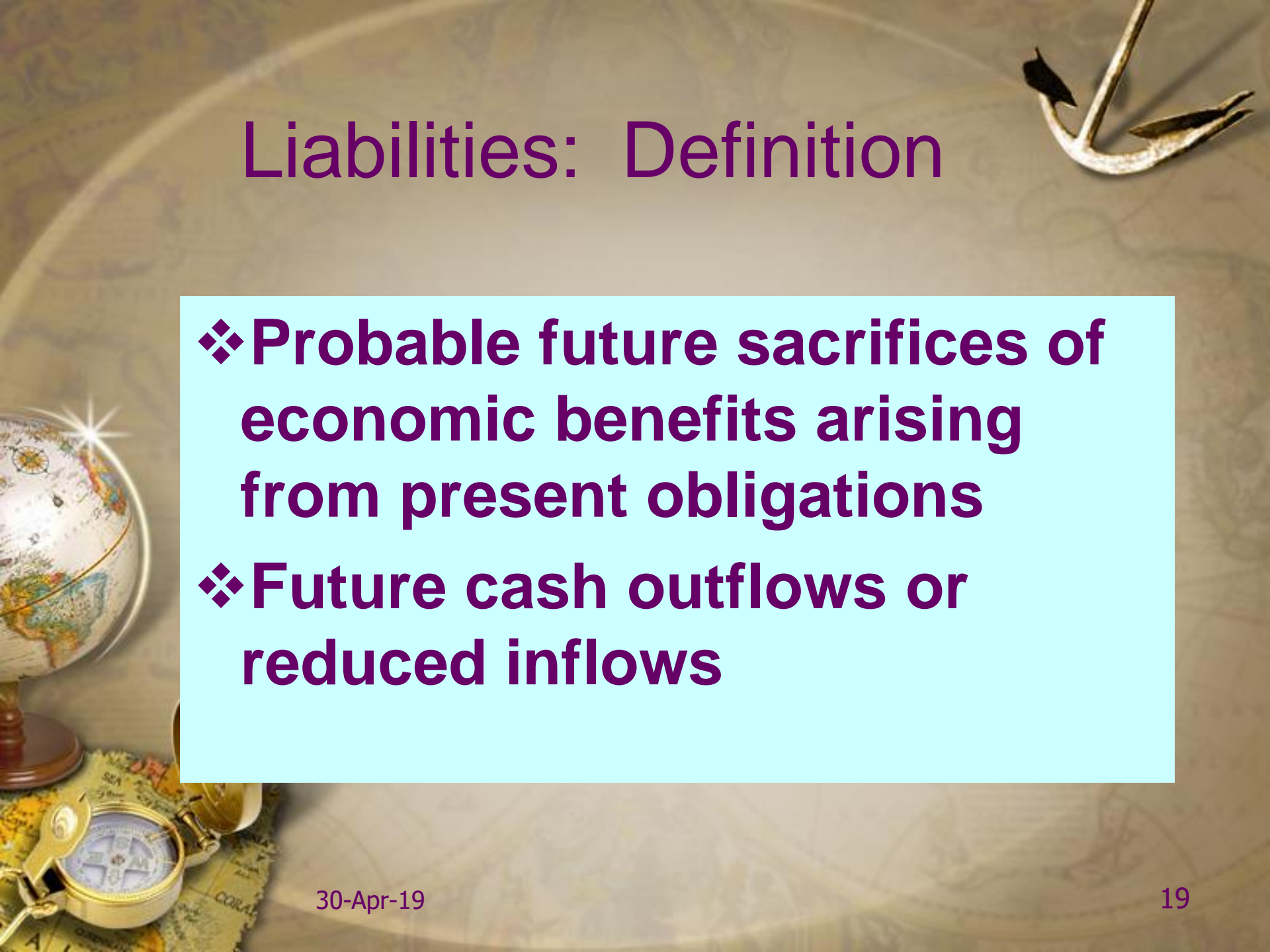
- 🌐 Relevance – user interest
- 🌐 Reliability – error or biases
- 🌐 Comparability and consistency – across time and firms
- 🌐 Timing – Frequency of reporting

Assets: Definition



- ⑩ Probable future economic benefits
- ⑩ Future cash inflow or reduced cash outflow

Liabilities: Definition



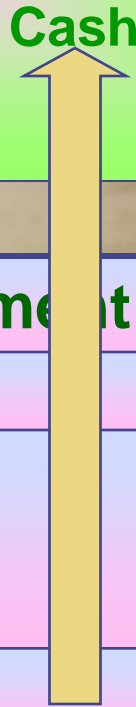
- ❖ Probable future sacrifices of economic benefits arising from present obligations
- ❖ Future cash outflows or reduced inflows

in the Financial Statements

Profit & Loss Account
Income
Sales
Other Income
Expenses
Raw Material consumed
Manufacturing Expenses
Employee Expenses
Selling Expenses
Gen & Admin Expenses
EBITDA
Less: Depreciation
EBIT
Less: Interest
Profit before Tax
Less: Tax
Profit After Tax
Less: Dividend
Retained Profit

Balance Sheet	
Liabilities	Assets
Equity Capital	Non Current Assets
Reserves & surplus	
Non Current Liabilities	Current Assets
Current Liabilities	Cash

Cash Flow Statement
Opening cash balance
Operating
Investment
Financing
Closing Cash Balance



NOTE-3: INTANGIBLE ASSETS

Current Year

		Right of Way	Licenses	Computer Software
GROSS BLOCK	Gross Block as at 01.04.2017	259.51	757.38	72.17
	Additions during the year	41.46	26.08	26.34
	Transfers from Intangible Assets under Development	18.82	0.23	21.49
	Disposals/ Deductions / Transfers / Reclassifications	(0.24)	(0.39)	(0.52)
	Gross Block as at 31.03.2018	319.55	783.3	119.48
	AMORTISATION	Amortisation as at 01.04.2017	0.52	65.45
Amortisation during the year		2.47	40.83	29.14
Disposals/ Deductions / Transfers / Reclassifications		-	0.26	(0.34)
Amortisation as at 31.03.2018		2.99	106.54	73.13
Net Block as at 31.03.2018		316.56	676.76	46.35

Underlying Assumptions and Principles

- **Separate Entity** - accounting information is prepared for this entity which is separate from the owners
- **Cost** - goods, services, and resources are recorded in the accounting record at their actual purchase price
- **Going Concern** - the accounting entity will remain active into the foreseeable future
- **Stable Monetary Unit** - the impact of inflation/deflation is ignored when preparing financial information

Current liabilities

- Debts/Obligations that are due to be paid within one year or within the entity's operating cycle if longer than a year
- Include Trade Payable, Security Deposits, Unearned Revenue, Interest Payable, and Income Tax Payable

Current Assets

- Expected to be converted to cash, sold, or consumed during the next 12 months or within the business's normal operating cycle if longer than a year
- Include Cash, Trade Receivables, Inventory and Prepaid Expenses

Non Current Assets

- Are all assets that are not classified as current assets. They are not held for sale, but rather are used to operate the business
- Tangible and Intangible
- Include Plant and Machinery, Land, Buildings, Furniture & Fixtures, Vehicles

The background of the slide features a light-colored, textured surface with faint, circular patterns. In the top right corner, there is a small, detailed illustration of a ship's anchor. In the bottom left corner, there is a composite image showing a globe on a wooden stand, a brass compass with its lid open, and a portion of a nautical chart with the word 'CORAL' visible.

Non current liabilities

- Are all liabilities that are not classified as current
- Include - Long Term Loans

The Accounting Equation

Assets equals Equity plus Liabilities

$$A = L + E$$

Business Transactions and the Accounting Equation

1. Initial investment by owners Rs 250,000
2. Borrowed Rs 100,000 from the bank at 8% interest
3. Purchased delivery truck for Rs 40,000
4. Purchased inventory for Rs 125,000 for cash
5. Purchased inventory for Rs 75,000 on credit
6. Sales of Rs 150,000 on credit
7. Cost of inventory sold Rs 100,000
8. Collected from customers Rs 125,000
9. Paid suppliers Rs 10,000
10. Received advance of Rs 50,000 from customers
11. Paid Rs 15,000 towards operating expenses
12. Paid salary advance of Rs 25,000
13. Interest was unpaid
14. Truck to be depreciated over 4 years