ACCOUNTING FOR FINANCIAL ANALYSIS AND PLANNING

Course No.: ACC
Nature of the Course:

Full Marks: 100
Pass Marks: 35
Lecturer hours: 150

Course Objectives
The objectives of the course are to provide the students with the knowledge required to analyze financial statement for decision making including long-term investment decisions.

The course further attempts to provide sound knowledge required for higher studies in capital planning, analysis of financial statement and investment decisions.

Contents

Unit 1: Company: Conceptual and theoretical foundation
- Meaning, concept, types, and features of Public Limited Company
- Advantages and Privileges of Public Limited Company
- Memorandum of Association
- Concept and types of Share Capital of the company

Unit 2: Financial Statement of the Company
- Meaning, concept, features, objectives and importance of company financial statement
- Meaning, importance, objectives, contents and preparation of worksheet based Income Statement and Balance sheet (in vertical form) as per Company Act and Mandatory standards
- Meaning, objectives, importance, contents and preparation of Cash Flow Statement under direct and indirect approach based on company Act and Mandatory Standards
- Meaning and concept of Value Added and its application, and concept, advantages, contents and preparation of value added statement showing value added generated and applied

Unit 3: Analysis of Financial Statement of a Company
- Meaning, importance and objectives of financial statement analysis, internationally accepted standard and financial statement, Ratio analysis-concept, uses, importance and limitations, types of ratios-computation and interpretation: liquidity, leverage, activity / turnover, profitability and earning evaluation ratio for evaluating the financial performance of the company.

Unit 4: Company Growth, Merger, Combination and Liquidation
- Company expansion through Amalgamation and Absorption: meaning and concept Purchase consideration – Concept and Determination
- Accounting treatment in the Books of both Purchasing and Vendor Company
- Preparation of Balance Sheet by Purchasing Company
- Internal Reconstruction: Meaning, importance, need and accounting treatment and balance sheet after reconstruction
- Expansion through Subsidiary companies (Holding Company)
  - Concept of Holding and Subsidiary Company, preparation of Consolidated Balance Sheet by holding company after due consideration of:
Pre-acquisition and post-acquisition profit, Minority Interest, Cost of Control/Goodwill or Capital Reserve, Revaluation of assets, Dividend from Subsidiary Company, Inter Company debt and unrealized profit.

✓ Corporate Liquidation: Concept and reasons for liquidation, procedures of winding up as per company Act. Liquidator's Final statement of account: meaning, contents and preparation showing amount realized from assets realized.

Unit 5: Depreciation and its Effect in Financial Statement of a Company  
✓ Depreciation – Concept and need

Unit 6: Price Level Changes  
✓ Concept of Price Level Changes – Inflation and Deflation
✓ Current Cost Accounting: Concept and determination
  • Current Replacement Cost, Net Realizable Value of assets
  • Depreciation Adjustment
  • Holding Gains
  • Cost of Sales Adjustment
  • Monetary Working Capital Adjustment
  • Gearing Adjustment
  • Current Cost Reserve
✓ Preparation of:
  • Current Cost Profit and Loss Account
  • Current Cost Balance Sheet

Unit 7: Long-term Planning – Capital Budgeting  
✓ Capital Budgeting: Concept and Need
✓ Types of investment Proposals: Mutually Related Project, Mutually Exclusive Project, New Project, Replacement, Diversification, Expansion, Research and Development, Miscellaneous
✓ Estimation of Cash Flow:
  • Net Investment Cost of New Project
  • Differential Net Investment for replacement and mutually exclusive projects
  • Annual Net Cash Flow: Differential Net Cash Flow and Net Cash Flow for New Project
  • Net Cash Flow for Final Year: non-operating and including annual cash flow after tax
✓ Methods of evaluation of investment proposal:
  • Non-discounted Cash Flow Method
    o Playback Period
    o Average Rate of Return
  • Discounted Cash Flow Method
    o Net Present Value
    o Profitability Index
    o Internal Rate of Return
- Selection of Project based on profitability
  - Determination of financing mix
    - Leverage – its meaning and types
    - Financial Leverage and effect on the shareholder’s return: effect on EBIT and EPS
    - Analysis of alternative financial plan EBIT – EPS analysis

**Basic Books**

**Reference Books**