



# FINANCE

## - UNLOCKED -



FINANCE  
UNLOCKED



FINANCE  
UNIVERSITY



FINANCE  
HANDBOOK



YEAR 2024

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FINANCE



FINANCE



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# **Introduction**

## **Welcome to "Finance Unlocked"**

The Department of Finance at **ITM Skill University** is proud to present "**Finance Unlocked**," an interactive eBook for the year **2024**. Designed for digital learners, this handbook serves as a visually enriched guide to mastering essential finance concepts.

## **What's Inside "Finance Unlocked"**

This eBook enhances your learning experience by focusing on:

- **Flowcharts:** Interactive visuals that simplify complex financial processes.
- **Images:** High-quality graphics for better understanding.
- **Tables:** Well-structured data for quick reference and comparison.
- **Lists of Resources:** Curated websites that provide additional knowledge on finance and related domains.
- **Glossaries:** Easy access to key terminologies in finance, banking, and financial markets.

## **Purpose of "Finance Unlocked"**

This eBook aims to deliver a concise, engaging, and user-friendly resource for finance students and professionals. It avoids lengthy explanations, instead offering information in a format optimized for online and on-the-go learning. Whether you're preparing for exams or exploring career opportunities, "**Finance Unlocked**" is tailored to meet your needs.

## **Why Choose This eBook?**

- **Portability:** Access it anytime, anywhere on your device.
- **Interactive Features:** Clickable links, embedded visuals, and seamless navigation.
- **Eco-Friendly:** A digital-first approach to sustainable learning.

## **Acknowledgments**

We extend our gratitude to the faculty, contributors, and designers who made "**Finance Unlocked**" a reality. Their collaborative efforts have resulted in an innovative and impactful digital learning tool.

## **Let's Begin Your Journey**

Explore "**Finance Unlocked**" and unlock your potential in finance. This eBook is your digital key to success in academic and professional pursuits.

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Below Table shows Scope of financial subjects which is designed as a quick reference guide, the table serves as a roadmap for students and professionals to identify critical areas of learning and their relevance in real- world scenarios. Whether it's mastering the fundamentals of accounting, delving into the complexities of financial markets, or exploring the innovations of FinTech, this compilation aims to connect theoretical knowledge with practical applications, preparing readers for academic excellence and professional success.

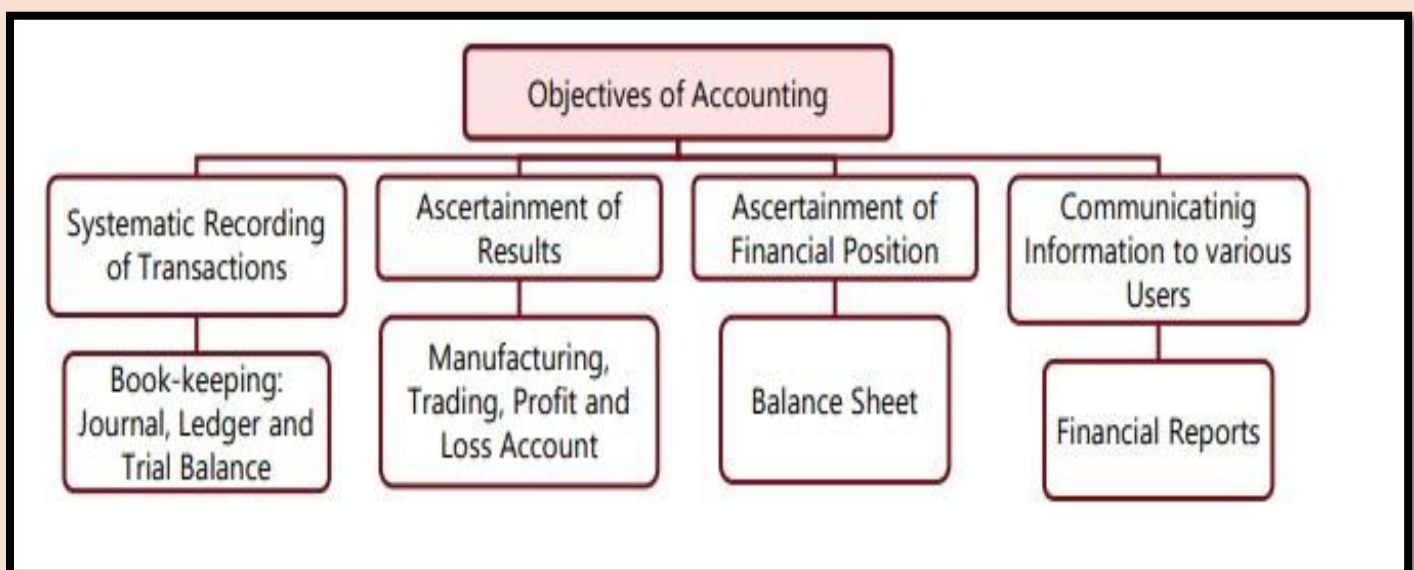
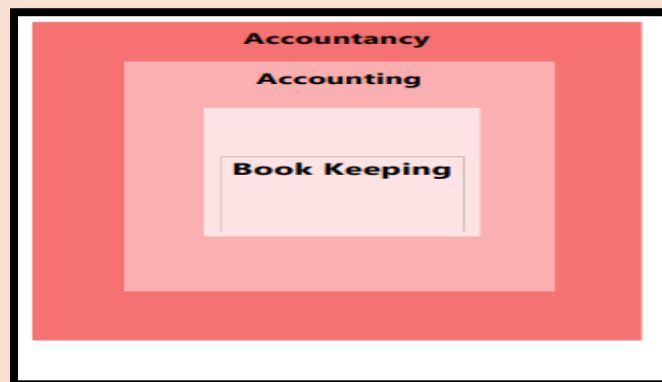
Subject	Important Topics	Scope
<b>Financial Accounting</b>	Journal Entries	Prepares financial reports for decision making. Evaluates financial performance and ensures compliance.
	Ledger and Trial Balance	
	Financial Statements	
	Depreciation Accounting	
<b>Management Accounting</b>	Budgeting	Focuses on cost control and decision making for internal management.
	Cost Accounting	
	Variance Analysis	
	Activity Based Costing (ABC)	
<b>Cost Accounting</b>	Cost Classification	Helps determine the cost of production and assists in pricing, profitability, and cost control strategies.
	Overhead Allocation	
	Marginal Costing	
	Job and Process Costing	
<b>Corporate Finance</b>	Capital Structure	Maximizes shareholder value by managing resources effectively.
	Dividend Policy	
	Working Capital Management	
	Cost of Capital	
<b>Investment Analysis</b>	Risk and Return	Equips students for investment evaluation and wealth management roles.
	Portfolio Management	
	Equity and Debt Instruments	
	Derivative Strategies	
<b>Financial Markets</b>	Stock Exchanges	Prepares students for careers in trading, broking, or regulatory roles in financial markets.
	Money Markets	
	Capital Markets	
	Bond Markets	
<b>International Finance</b>	Exchange Rate Mechanisms	Offers insights into crossborder financial flows and multinational corporation finance.
	Foreign Direct Investment (FDI)	
	Global Capital Markets	

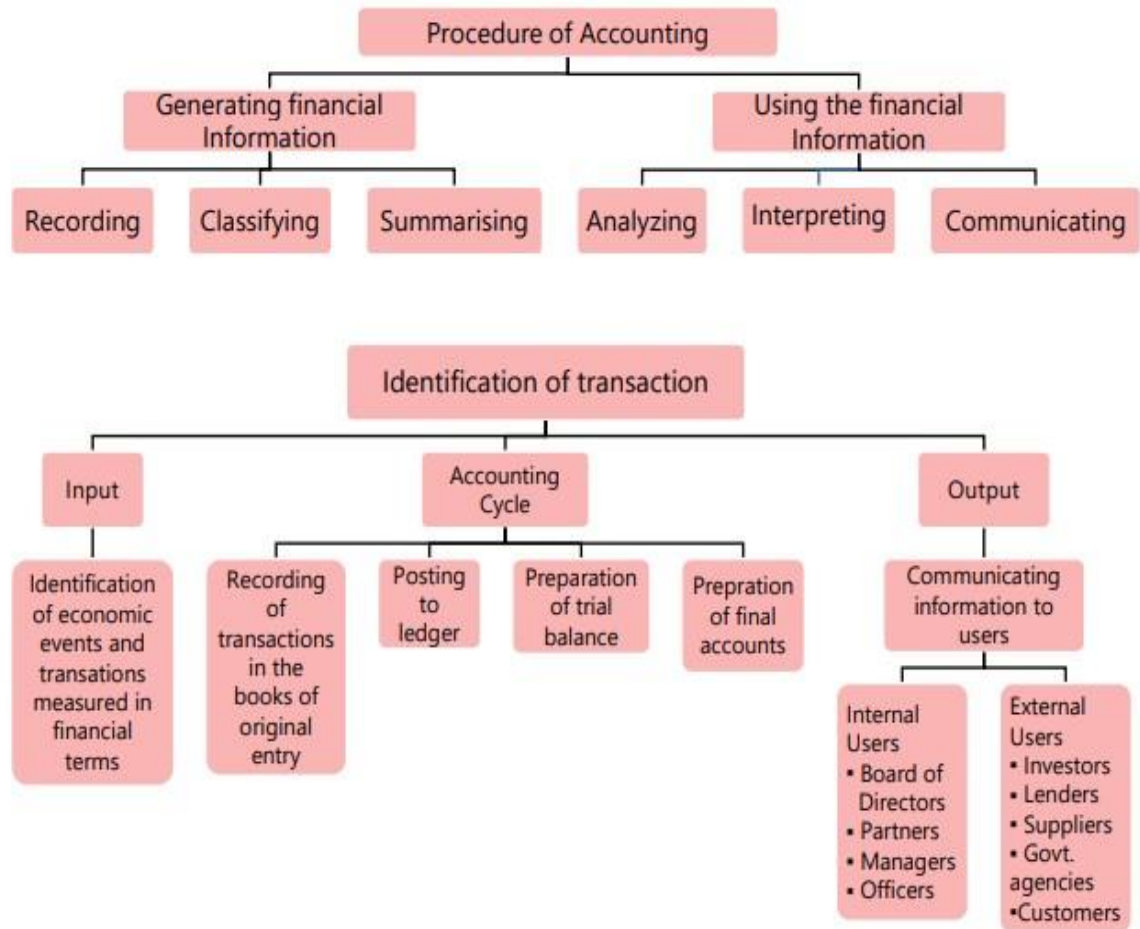


<b>Banking and Finance</b>	Retail Banking	Focuses on credit analysis, banking operations, and risk management.
	Commercial Banking	
	Basel Norms	
	NonPerforming Assets (NPAs)	
<b>Investment Banking</b>	Mergers and Acquisitions (M&A)	Prepares students for roles in financial advisory, capital raising, and transaction structuring.
	Valuation Techniques	
	IPO Process	
	Leveraged Buyouts (LBOs)	
<b>Risk Management</b>	Credit Risk	Focuses on identifying and mitigating risks in financial institutions.
	Market Risk	
	Operational Risk	
	Hedging Techniques	
<b>Taxation</b>	Direct Taxes (Income Tax)	Prepares for careers in tax consultancy or corporate tax compliance.
	Indirect Taxes (GST)	
	Tax Planning	
	Corporate Taxation	
<b>Financial Modelling</b>	Excel Based Modelling	Develops practical skills for creating financial projections and valuations.
	DCF Analysis	
	Sensitivity and Scenario Analysis	
<b>Econometrics</b>	Regression Analysis	Applies statistical techniques for financial decision making and market analysis.
	Time Series Analysis	
	Risk Forecasting	
<b>Financial Reporting</b>	IFRS (International Financial Reporting Standards)	Ensures compliance with global and local financial reporting standards.
	IND AS (Indian Accounting Standards)	
<b>Behavioral Finance</b>	Investor Psychology	Explores how psychological factors influence investment decisions and market behavior.
	Market Anomalies	
	Decision Biases	
<b>Corporate Governance</b>	Board Structures	Focuses on ethical business practices and regulatory compliance.
	Executive Compensation	
	Stakeholder Rights	
<b>Derivatives and Risk Management</b>	Futures and Options	Equips students with skills to trade and manage risks in derivative markets.
	Swaps and Forwards	
	Risk Hedging	

<b>Insurance and Risk Management</b>	Principles of Insurance	Prepares for roles in insurance operations, actuarial science, and claims management.
	Life and General Insurance	
	Underwriting and Claims	
<b>International Trade and Finance</b>	Trade Finance Instruments	Focuses on financing international trade transactions and regulatory requirements.
	Export Import Procedures	
	Letter of Credit	
<b>Financial Laws and Regulations</b>	Securities Laws (SEBI Act)	Ensures compliance with financial laws and prepares students for legal advisory roles.
	Banking Regulations (RBI Guidelines)	
	Anti Money Laundering (AML)	
<b>Forensic Accounting</b>	Fraud Detection	Prepares students for roles in fraud investigation and forensic auditing.
	Financial Statement Analysis	
	Investigative Accounting	
<b>Wealth Management</b>	Estate Planning	Equips students with skills to manage personal and corporate wealth.
	Retirement Planning	
	Financial Advisory	
<b>Alternative Investments</b>	Real Estate Investments	Provides expertise in nontraditional investment strategies.
	Private Equity	
	Hedge Funds	
<b>Sustainable Finance</b>	ESG (Environmental, Social, Governance) Investing	Prepares for roles in socially responsible investing and green finance initiatives.
	Green Bonds	
	Corporate Social Responsibility	
<b>FinTech (Financial Technology)</b>	Blockchain Technology	Focuses on technological advancements in financial services.
	Digital Payments	Prepares for careers in tech driven banking, payments, or analytics.
	Cryptocurrencies	
	Rob Advisors	
	AI in Finance	

This section of Accounting presents a series of comprehensive charts that visually illustrate key aspects of **Accounting**. These charts cover the **procedure of accounting**, from recording to reporting, as well as the **identification of accounts** essential for transaction classification. Additionally, they highlight the **objectives of accounting**, the foundational **principles**, and the core **concepts and conventions** that guide accurate and standardized financial practices. Designed for clarity and ease of understanding, these visual aids provide a structured approach to mastering fundamental accounting concepts, making complex topics accessible and actionable





Key Differences	Capital Expenditure	Revenue Expenditure
Period of benefit	Any expenditure incurred to provide a benefit over a long-term period is capital expenditure.	Any expenditure incurred to provide a benefit during the current period is revenue expenditure.

Enhancement vs Maintenance	Capital expenditure is incurred for the purpose of increasing the capacity of the business. Alternatively, it also includes an expenditure to reduce the costs of the business.	Revenue expenditure is incurred to maintain the earning capacity of the business.
Examples	Purchase of machine, car, furniture, etc.	Repairs and maintenance, salary of accounting staff, etc.



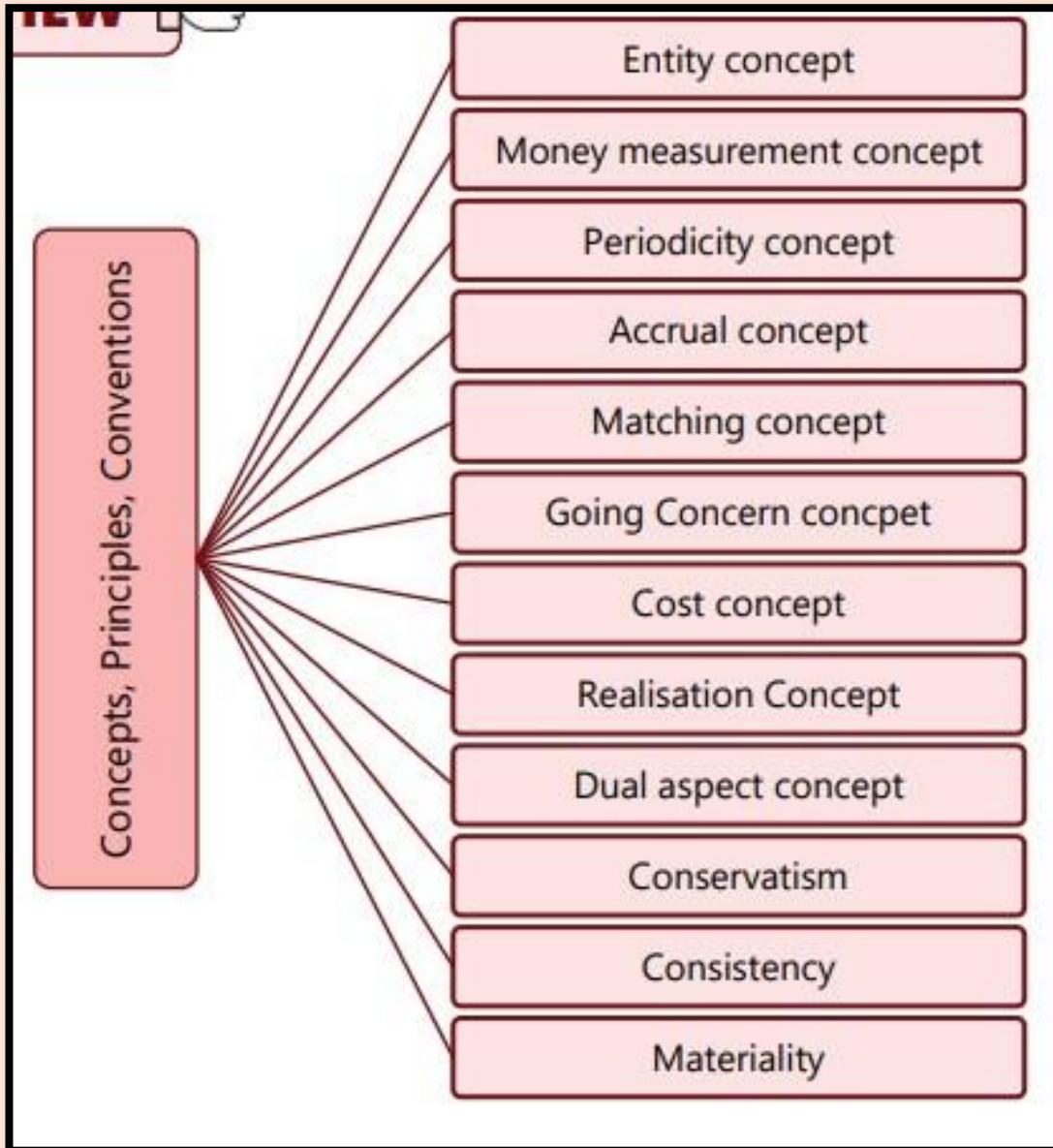
S. No.	Book-keeping	Accounting
1.	It is a process concerned with recording of transactions.	It is a process concerned with summarising of the recorded transactions.
2.	It constitutes as a base for accounting.	It is considered as a language of the business.
3.	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book-keeping records.
4.	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5.	There is no sub-field of book-keeping.	It has several sub-fields like financial accounting, management accounting etc.
6.	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

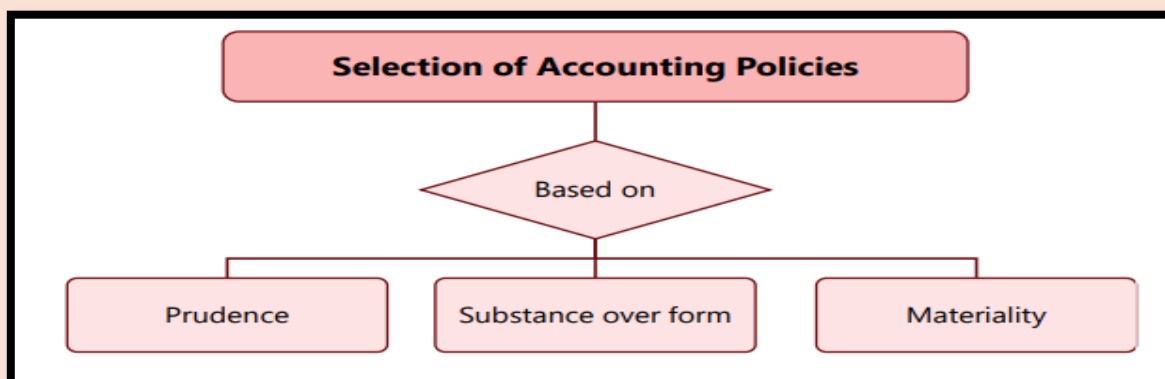
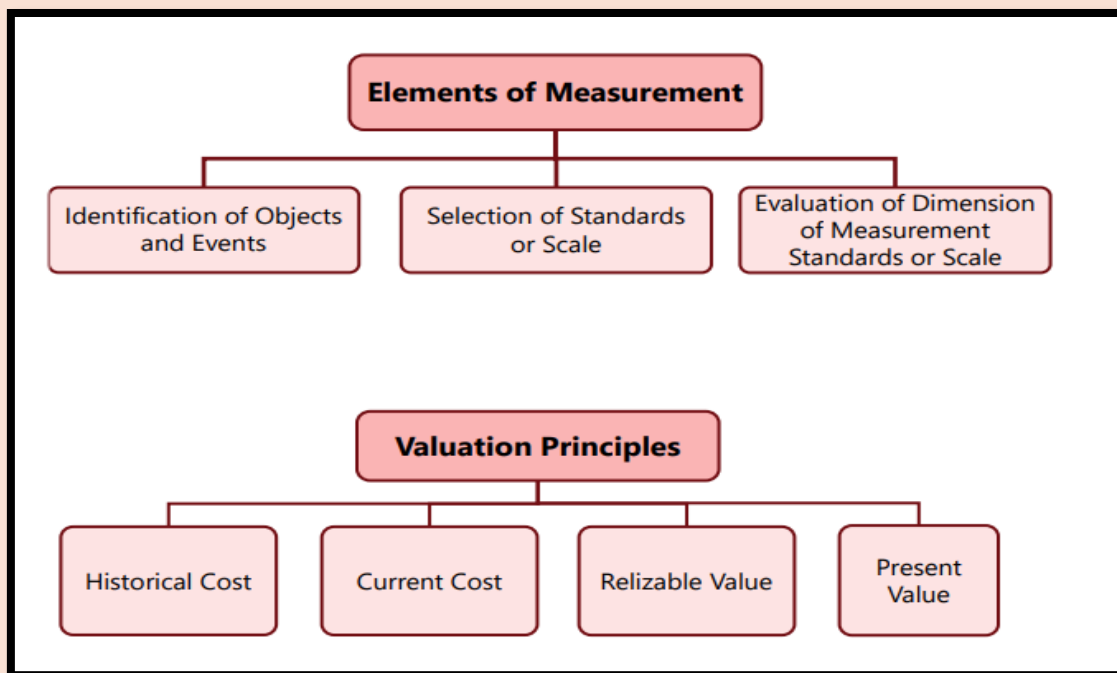
### Contingent Asset

A possible asset arises from past events and their existence will be confirmed only after occurrence or non-occurrence of one or more uncertain future events.

### Contingent Liability

A possible obligation arising from past events and may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.





	<b>Provision</b>	<b>Contingent liability</b>
(1)	Provision is a present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallise depending on the occurrence or non-occurrence of one or more uncertain future events.
(2)	A provision meets the recognition criteria.	A contingent liability fails to meet the same.
(3)	Provision is recognised when (a) an enterprise has a present obligation arising from past events; an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligations will require outflow of economic benefits, or the amount cannot be reliably estimated.
(4)	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognises a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

**Accounting Standards deal with the issues of**

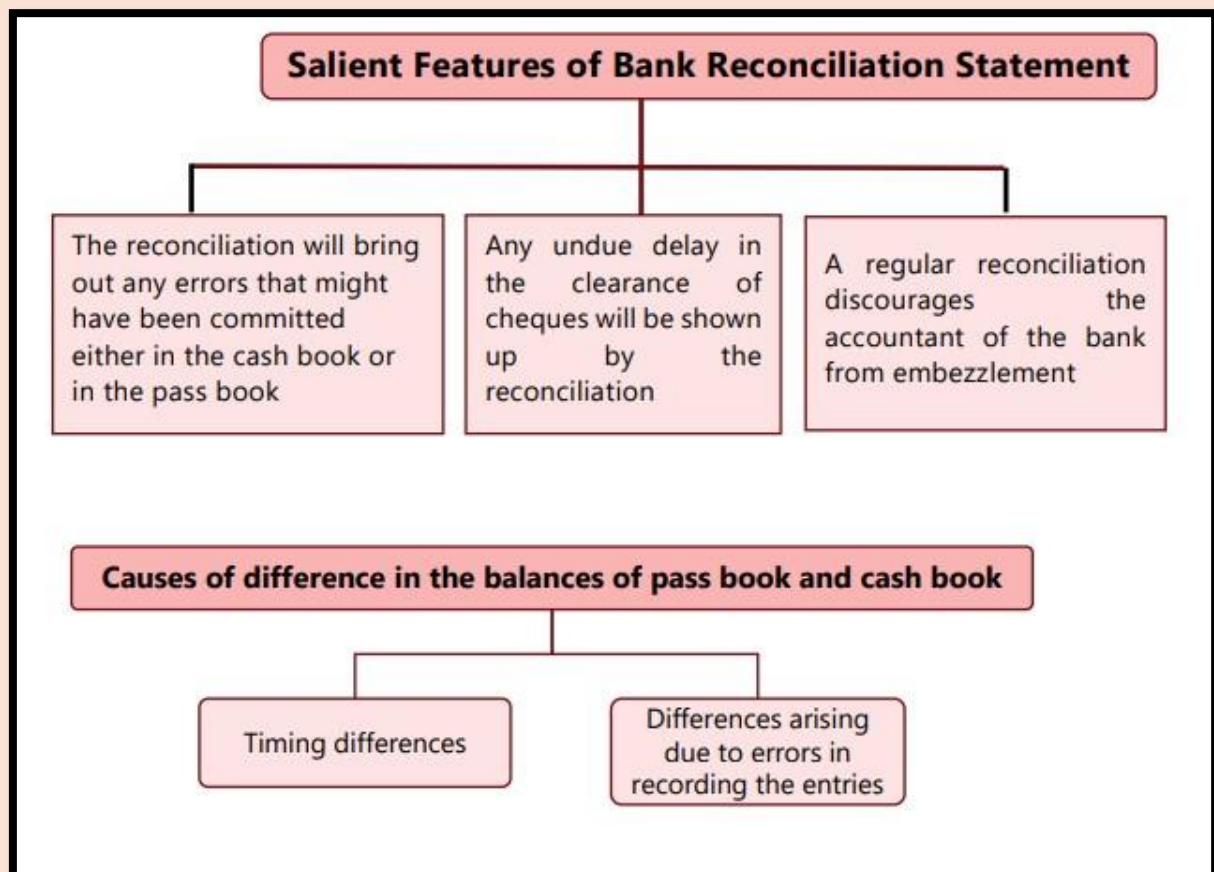
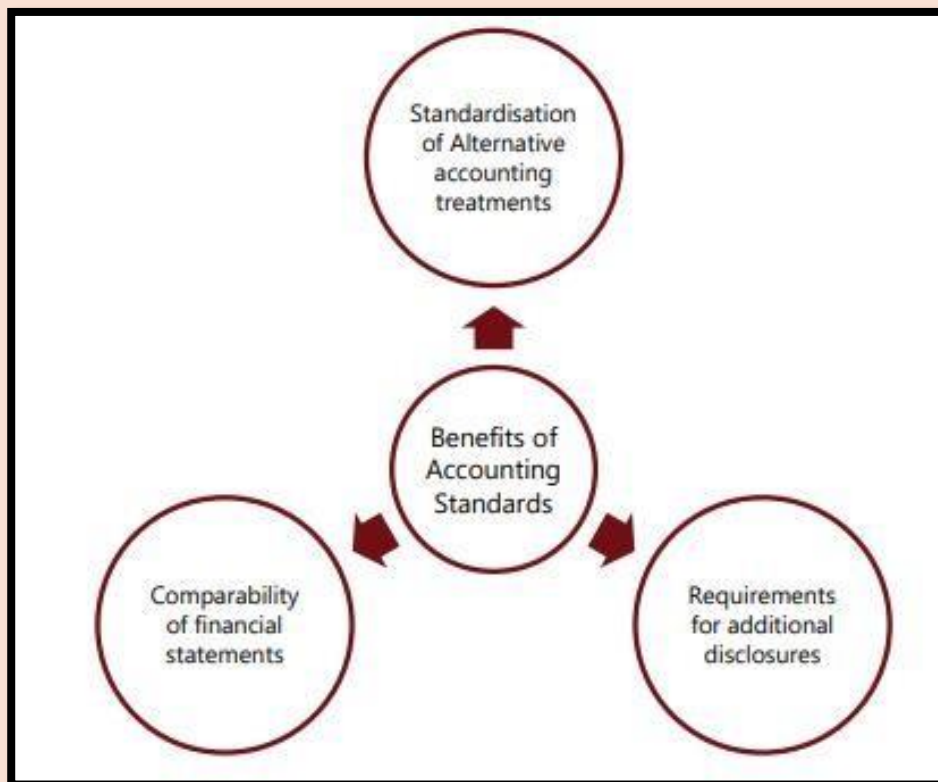
Recognition of  
events and  
transactions

Measurement  
of transactions  
and events

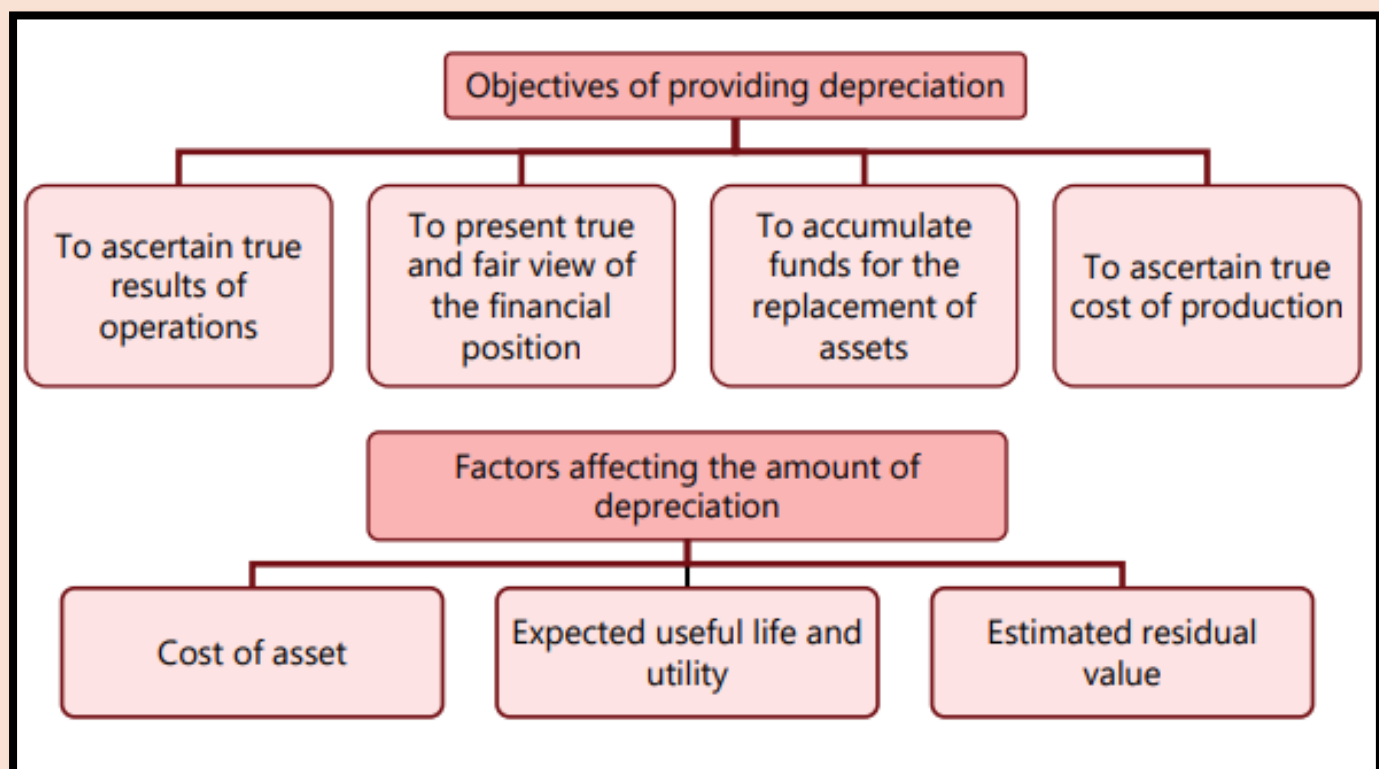
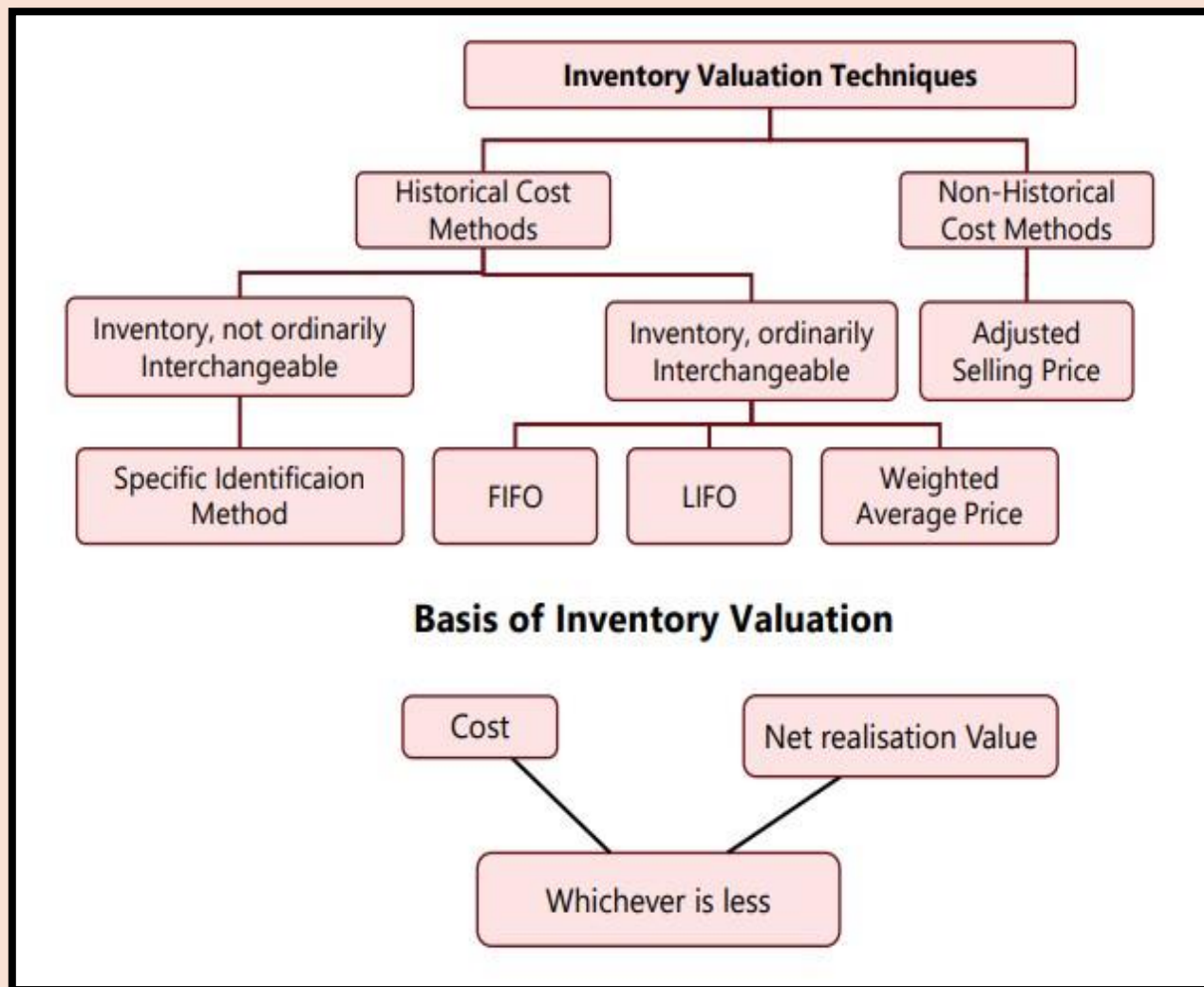
Presentation of  
transactions  
and events

Disclosure  
requirements

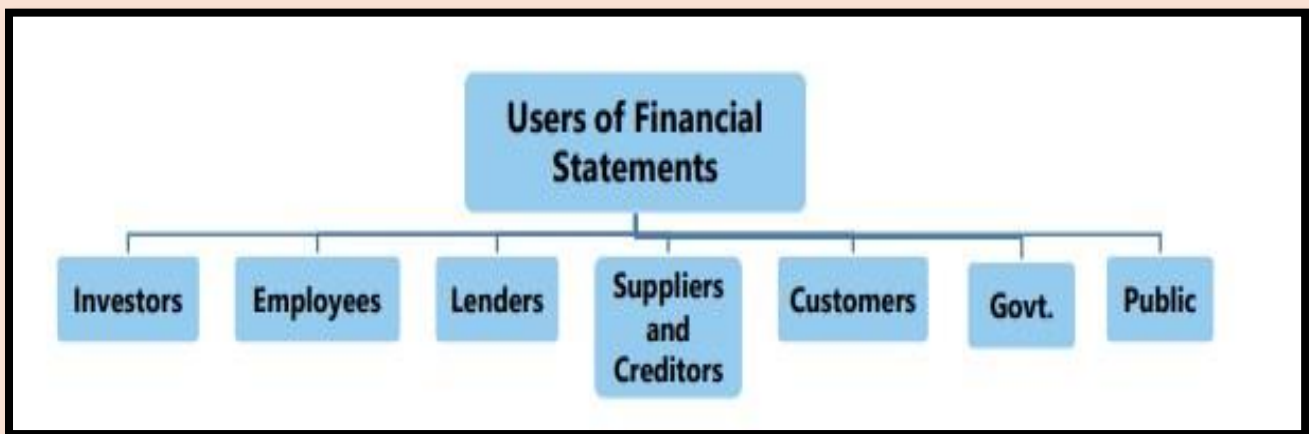






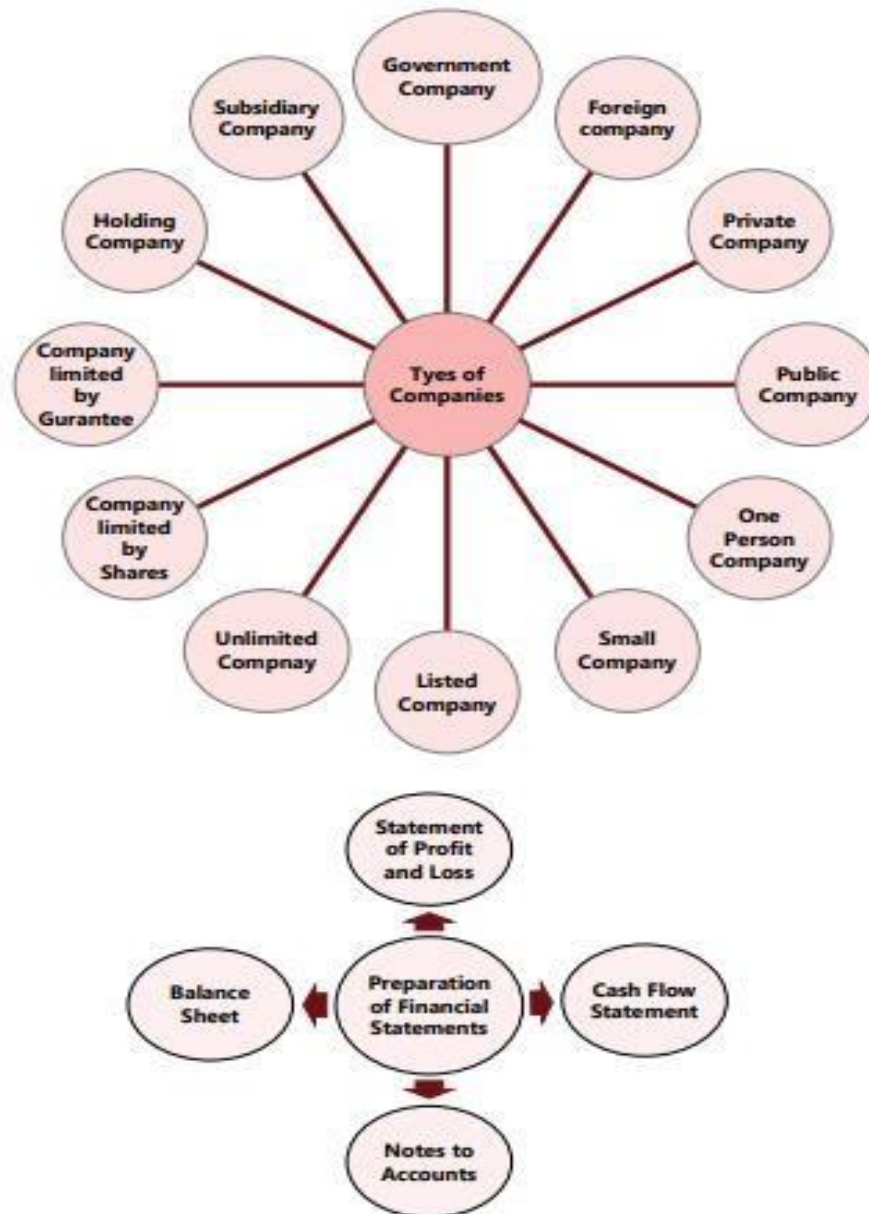


The **Financial Accounting** charts provide a comprehensive visual explanation of the key processes involved in the preparation of financial statements, including the **balance sheet**, **income statement**, and **cash flow statement**. These charts break down the procedure of accounting from **journal entries** to **trial balances**, helping users understand how financial data is recorded, classified, and summarized. Key accounting principles and concepts, such as **double-entry bookkeeping**, **accrual accounting**, and **matching principle**, are visually presented to enhance clarity and retention.

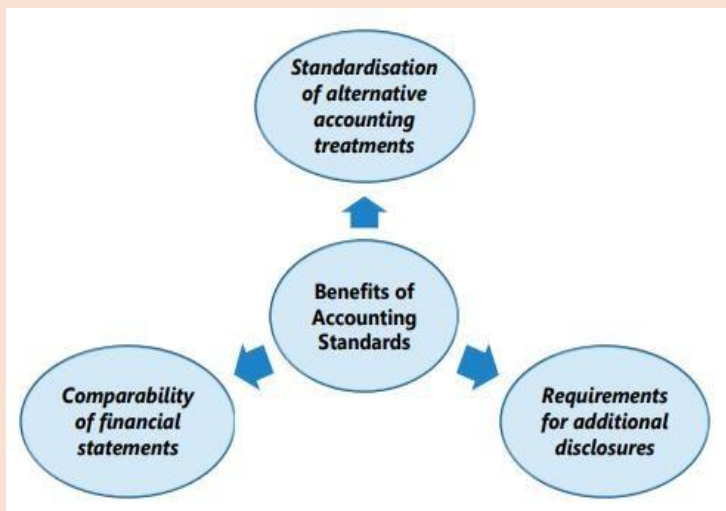


Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
1. Closing stock	Balance Sheet – Asset Side	(a) Trading A/c – Credit Side
		(b) Balance Sheet – Asset Side
2. Outstanding Expenses	Balance Sheet – Liability Side	(a) Trading/Profit & Loss A/c Debit Side. Add to the concerned expenses.
		(b) Balance Sheet – Liability Side
3. Prepaid Expenses	Balance Sheet – Asset Side	(a) Trading/Profit & Loss A/c Debit Side. Deduct from the concerned expense.
		(b) Balance Sheet - Asset
4. Income Outstanding	Balance Sheet – Asset Side	(a) Profit & Loss A/c – Credit Side. Add to the concerned income.
		(b) Balance Sheet – Asset Side.
5. Incomes Received in Advance	Balance Sheet – Liability Side	(a) Profit & Loss A/c – Credit Side. Deduct from concerned income.
		(b) Balance Sheet – Liability Side
6. Bad Debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from debtors .
7. Provision for Bad or Doubtful debts	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side. Deduct from Debtors after additional bad debts, if any.
		(a) Profit & Loss A/c – Debit Side.

8. Provision for Discount on Debtors	Balance Sheet – Asset Side Deduct from Debtors.	(b) Balance Sheet – Asset Side. Deduct from debtors after providing for provision for bad debts
9. Depreciation	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Asset Side. Deduct from Respective Asset.
10. Interest on Capital	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Liability Side. Add to Capital.
11. Interest on Drawings	Profit & Loss A/c – Credit Side	(a) Profit & Loss A/c – Credit Side. (b) Balance Sheet – Liability Side. Deduct from Capital.
12. Loss by Fire	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side (with full amount of loss) (b) Profit & Loss A/c – Debit Side (Actual loss, if any) [adjusted with insurance claim if any] (c) Balance Sheet – Asset Side (with insurance claim admitted by Insurance Co.)
13. Goods withdrawn for personal use	Trading A/c - Credit Side	(a) Trading A/c – Credit Side or Deduct from Purchases. (b) Balance Sheet – Liability Side (Deduct from Capital as Drawings)
14. Goods Distributed as free Samples	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side or Deduct from Purchases (b) Profit & Loss A/c – Debit Side
15. Sale of Goods on Approval Basis, approval not yet received	Usually it is not given in Trial Balance	(a) Trading A/c – Credit Side. Deduct from Sales the selling price of goods sold and add to stock at cost price. (b) Balance Sheet – Asset Side. Deduct from Debtors the selling price of such sales and show the cost price of such sales along with closing stock.

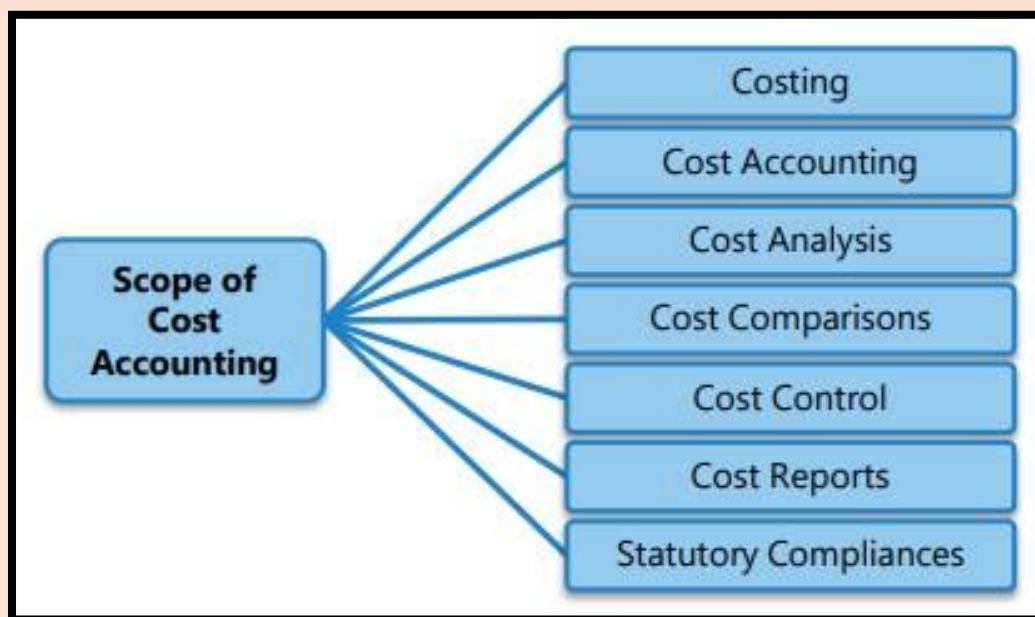
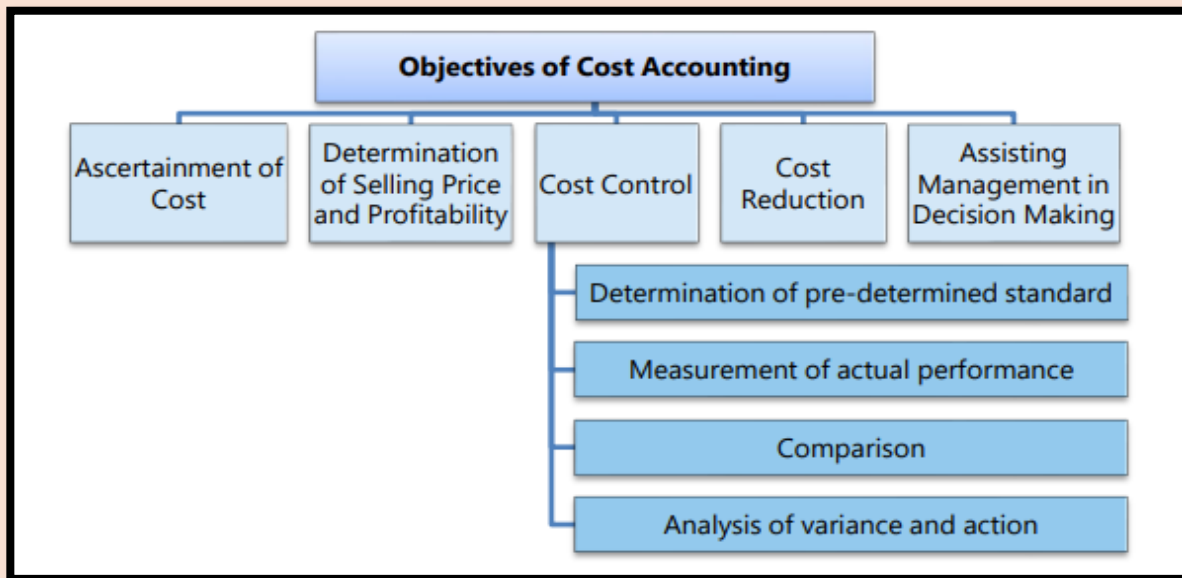


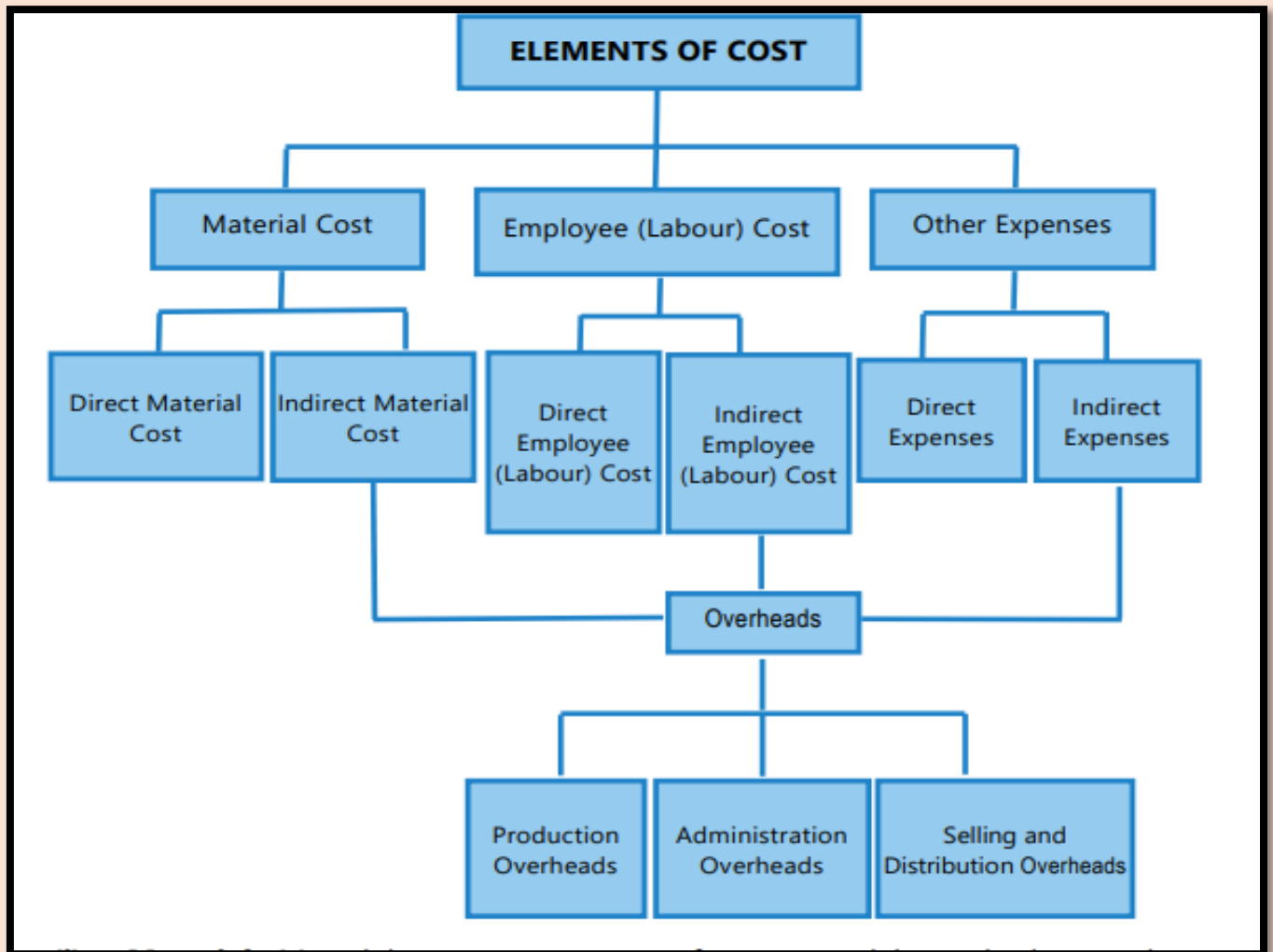




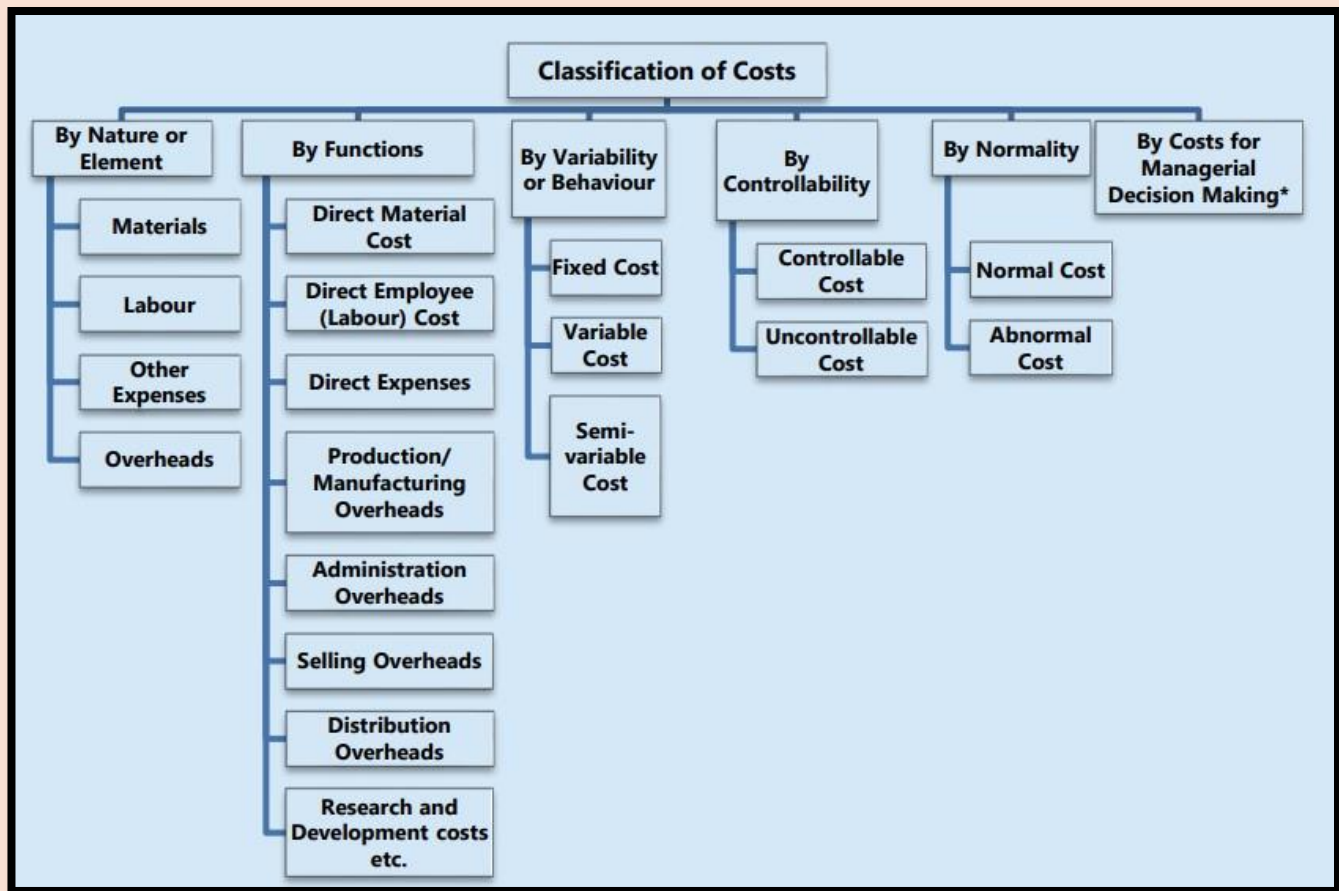
## Cost Accounting

The charts on Cost Accounting provide a detailed representation of cost classification, allocation, and control mechanisms. They illustrate how costs are calculated, helping businesses determine product pricing, manage expenditures, and enhance profitability. Key topics such as marginal costing and job order costing are also explained visually to simplify understanding





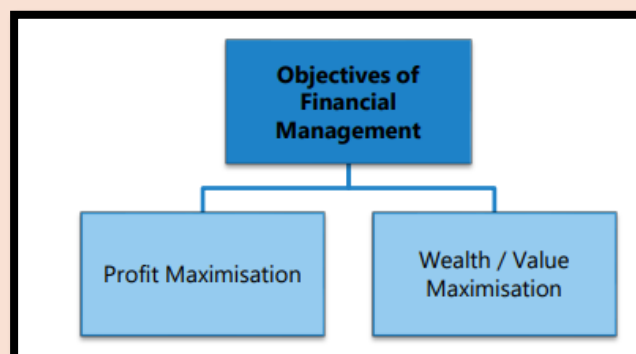
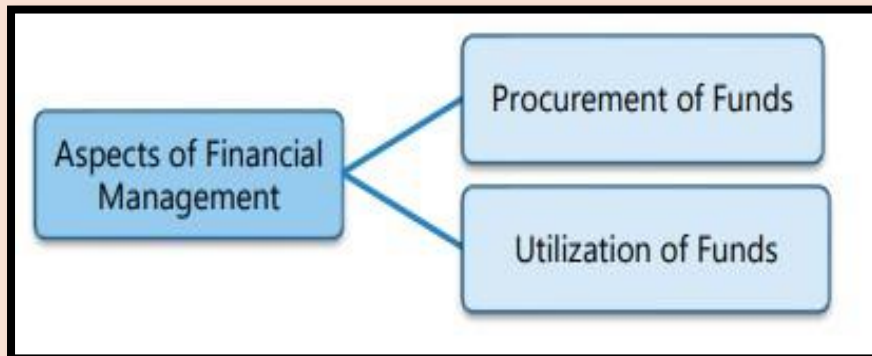


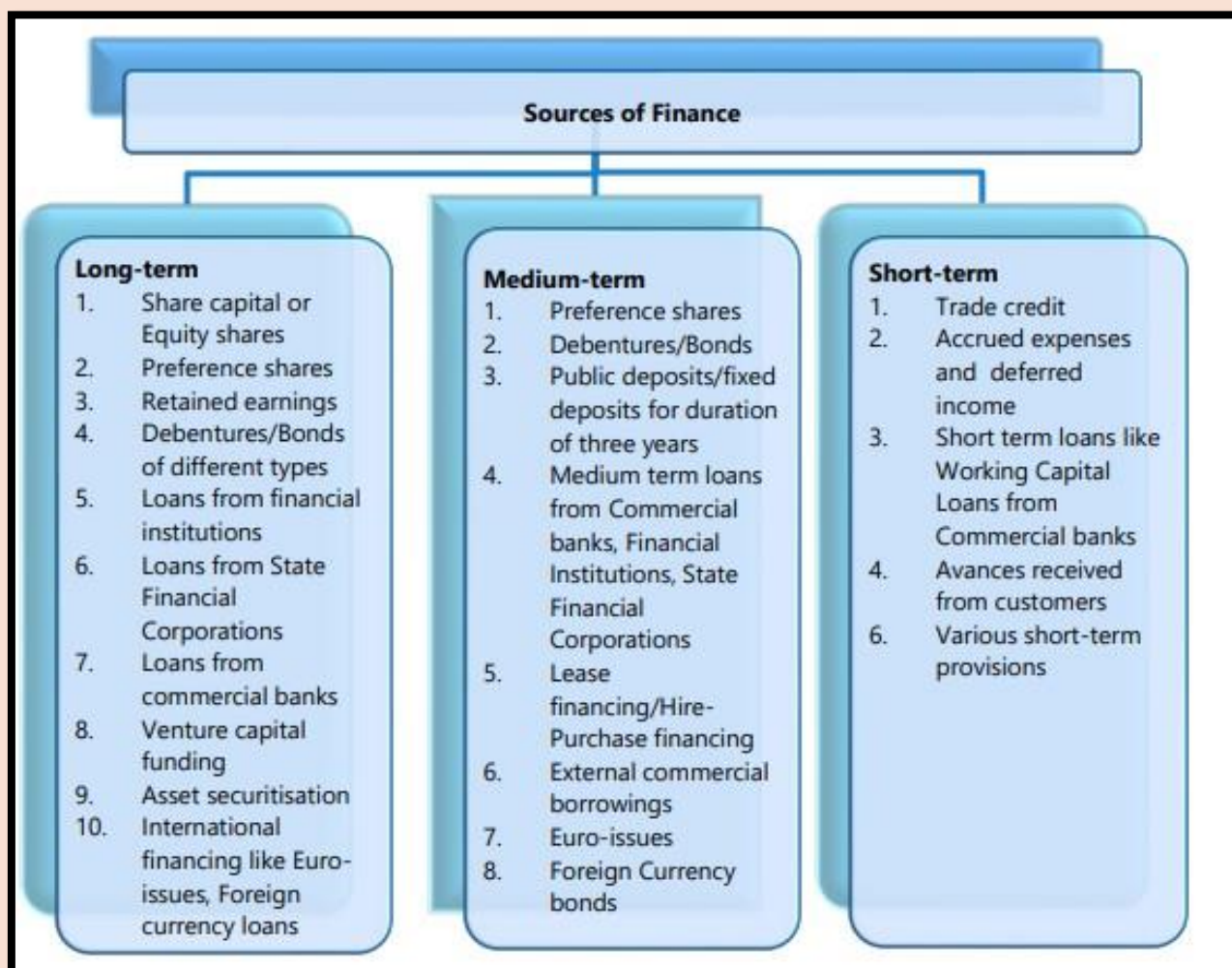


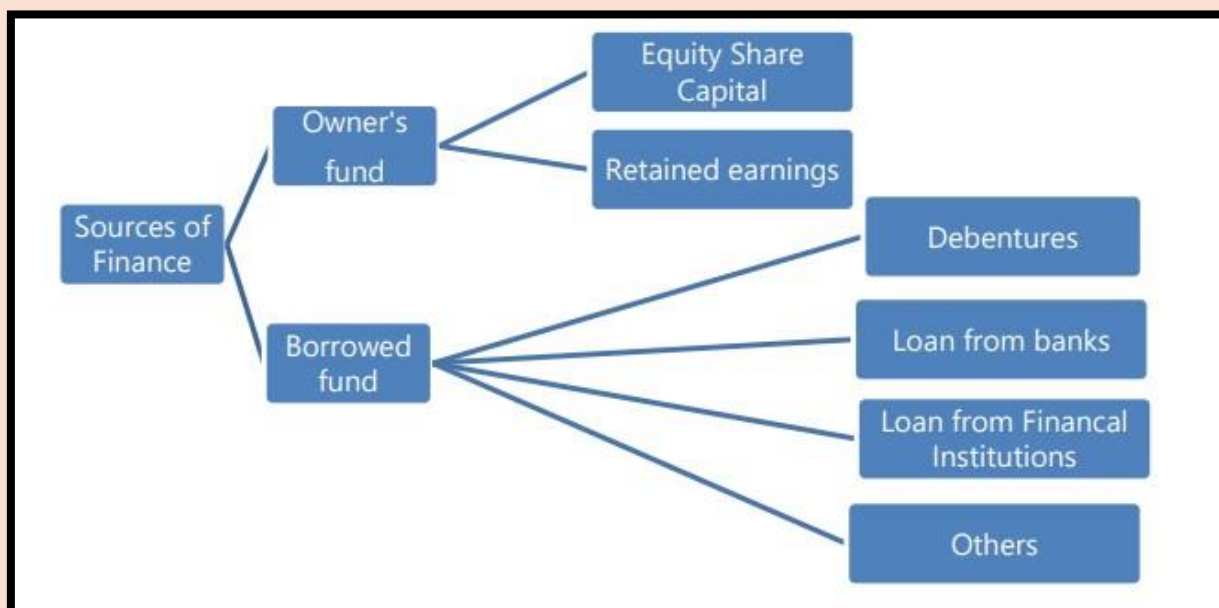
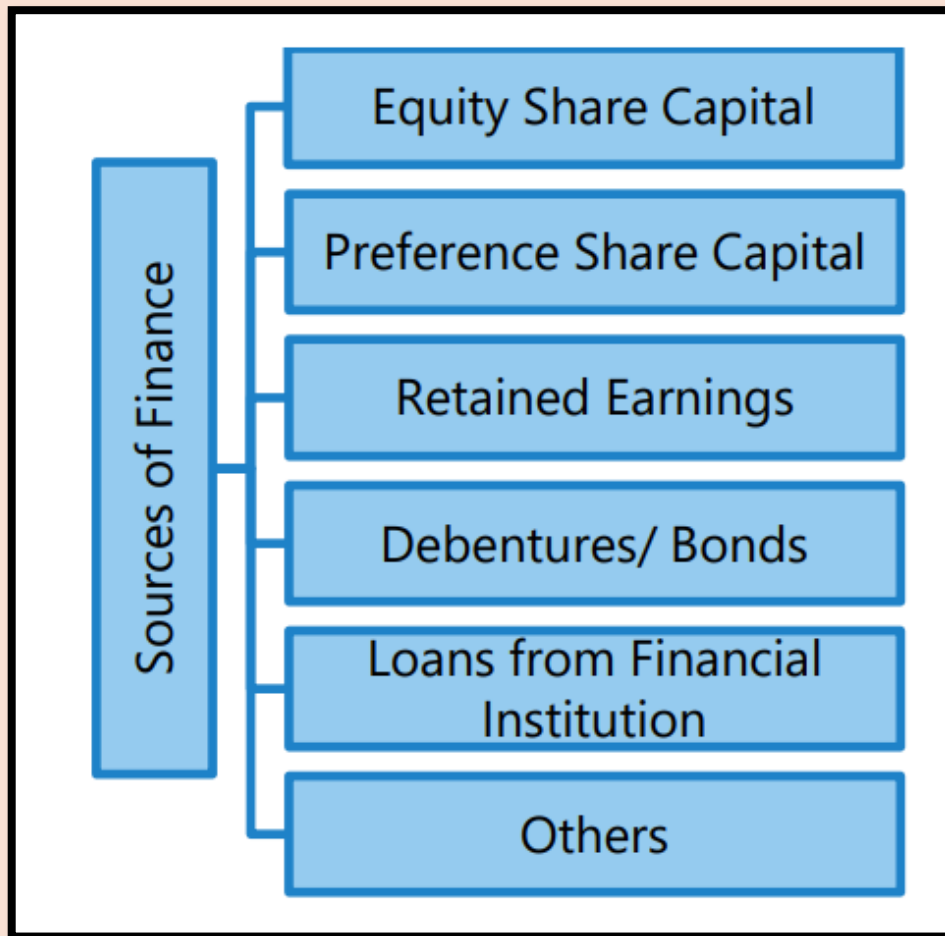


## Financial Management

The charts for Financial Management explain the principles behind financial decision-making, including topics like capital structure, dividend policies, and working capital management. These charts provide a roadmap to managing an organization's financial health and achieving long-term goals by balancing risk and return.



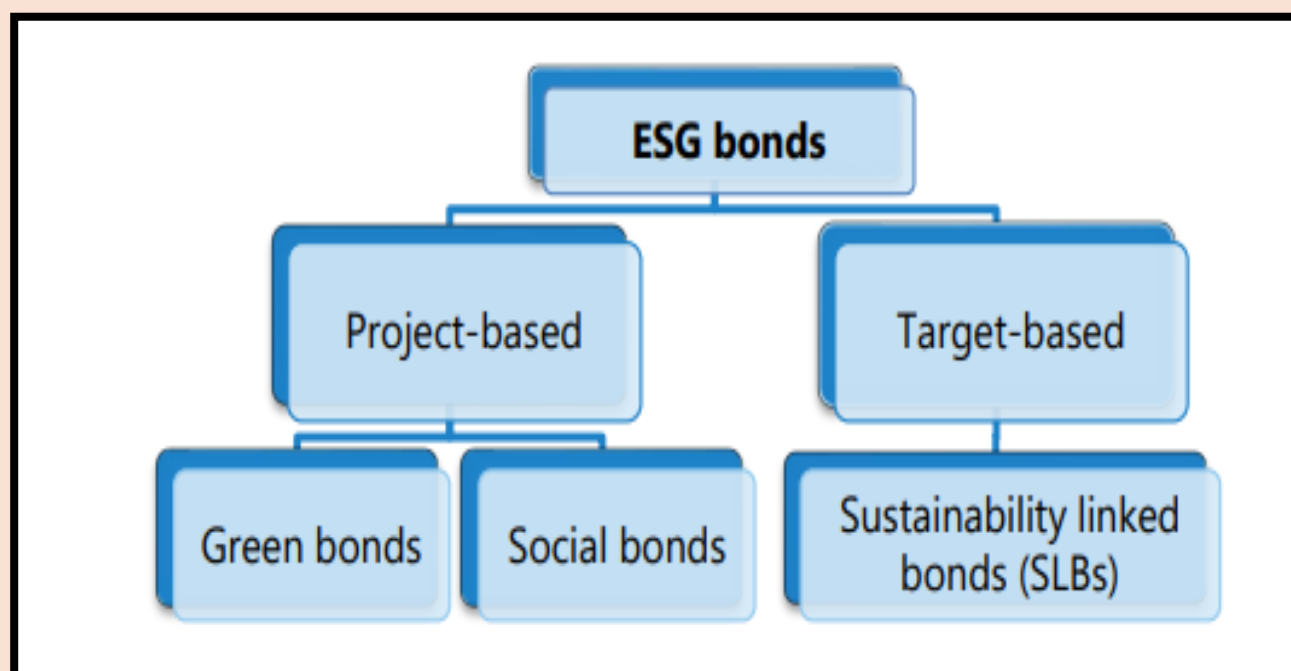




Sl. No.	Type of Preference Shares	Salient Features
1	Cumulative	Arrear Dividend will accumulate.
2	Non-cumulative	No right to arrear dividend.
3	Redeemable	Redemption should be done.
4	Participating	Can participate in the surplus which remains after payment to equity shareholders.
5	Non-Participating	Cannot participate in the surplus after payment of fixed rate of Dividend.
6	Convertible	Option of converting into equity Shares.

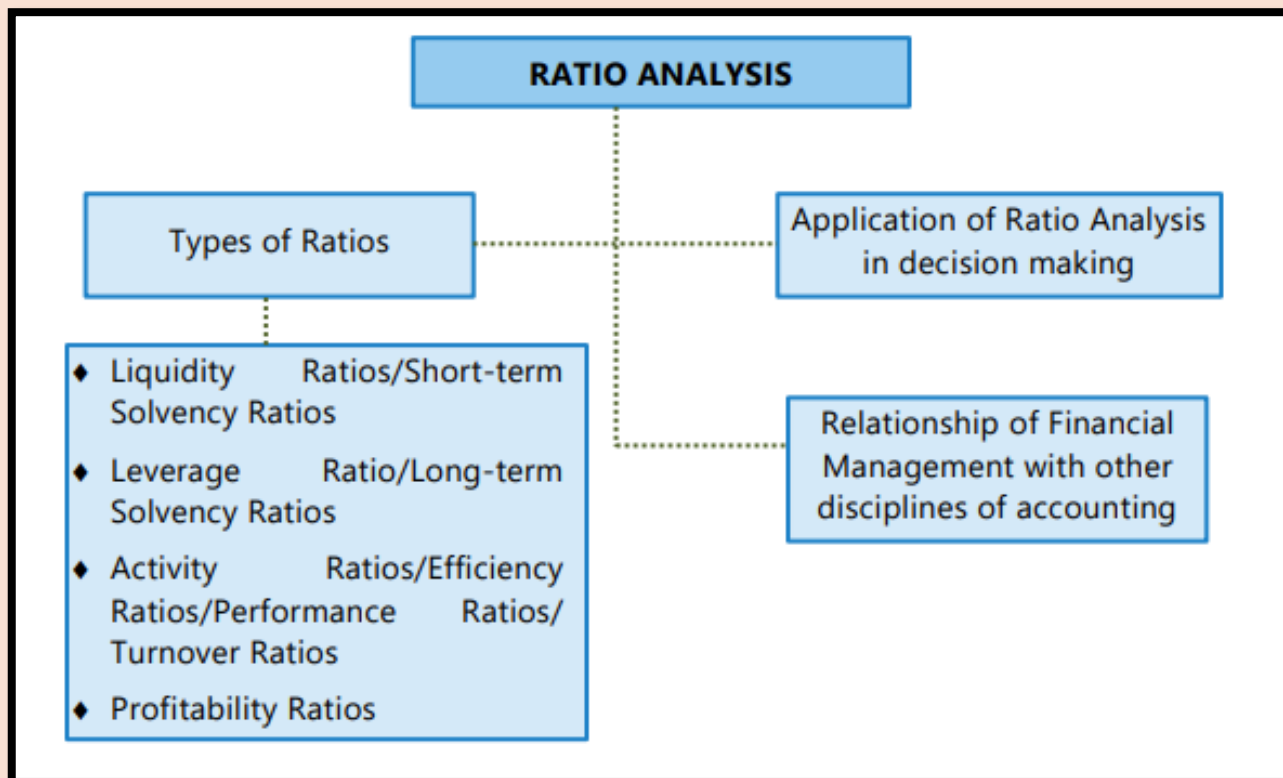
Sl. No.	Basis of Distinction	Equity Share	Preference Share
1	Dividend payment	Equity Dividend is paid after preference dividend.	Payment of preference dividend is preferred over equity dividend.
2	Rate of dividend	Fluctuating	Fixed
3	Convertibility	Not convertible	Convertible
4	Voting rights	Equity shareholders enjoy full voting rights.	They have very limited voting rights.

Sl. No.	Type of Debenture	Salient Feature
1	Bearer	Transferable like negotiable instruments
2	Registered	Interest payable to registered person
3	Mortgage	Secured by a charge on Asset(s)
4	Naked or simple	Unsecured
5	Redeemable	Repaid after a certain period
6	Non-Redeemable	Not repayable





Financial Lease		Operating Lease
1.	The risk and reward incident to ownership are passed on to the lessee. The lessor only remains the legal owner of the asset.	The lessee is only provided the use of the asset for a certain time. Risk incident to ownership belong wholly to the lessor.
2.	The lessee bears the risk of obsolescence.	The lessor bears the risk of obsolescence.
3.	The lessor is interested in his rentals and not in the asset. He must get his principal back along with interest. Therefore, the lease is non-cancellable by either party.	As the lessor does not have difficulty in leasing the same asset to other willing lessee, the lease is kept cancelable by the lessor.
4.	The lessor enters into the transaction only as financier. He does not bear the cost of repairs, maintenance or operations.	Usually, the lessor bears cost of repairs, maintenance or operations.
5.	The lease is usually full payout, that is, the single lease repays the cost of the asset together with the interest.	The lease is usually non-payout, since the lessor expects to lease the same asset over and over again to several users.



S.No.	Users	Objectives	Ratios used in general
1.	Shareholders	Being owners of the organisation they are interested to know about profitability and growth of the organization	Mainly Profitability Ratios [In particular Earning per share (EPS), Dividend per share (DPS), Price Earnings (P/E), Dividend Payout ratio (DP)]
2.	Investors	They are interested to	♦ Profitability Ratios

		know overall financial health of the organisation particularly future perspective of the organisations.	<ul style="list-style-type: none"> <li>♦ Capital structure Ratios</li> <li>♦ Solvency Ratios</li> <li>♦ Turnover Ratios</li> </ul>
3.	Lenders	They will keep an eye on the safety perspective of their money lent to the organisation	<ul style="list-style-type: none"> <li>♦ Coverage Ratios</li> <li>♦ Solvency Ratios</li> <li>♦ Turnover Ratios</li> <li>♦ Profitability Ratios</li> </ul>
4.	Creditors	They are interested to know liability position of the organisation particularly in short term. Creditors would like to know whether the organisation will be able to pay the amount on due date.	<ul style="list-style-type: none"> <li>♦ Liquidity Ratios</li> <li>♦ Short term solvency Ratios/ Liquidity Ratios</li> </ul>
5.	Employees	They will be interested to know the overall financial wealth of the organisation and compare it with competitor company.	<ul style="list-style-type: none"> <li>♦ Liquidity Ratios</li> <li>♦ Long terms solvency Ratios</li> <li>♦ Profitability Ratios</li> <li>♦ Return on investment</li> </ul>

6.	Regulator / Government	They will analyse the financial statements to determine taxations and other details payable to the government.	<ul style="list-style-type: none"> <li>Profitability Ratios</li> </ul>
7.	Managers		
	(a) Production Managers	They are interested to know about data regarding input output, production quantities etc.	<ul style="list-style-type: none"> <li>Input output Ratio</li> <li>Raw material consumption ratio.</li> </ul>
	(b) Sales Managers	Data related to units sold for various years, other associated figures and predicted future sales figure will be an area of interest for them	<ul style="list-style-type: none"> <li>Turnover ratios (basically receivable turnover ratio)</li> <li>Expenses Ratios</li> </ul>
	(c) Financial Manager	They are interested to know various ratios for their future predictions of financial requirement.	<ul style="list-style-type: none"> <li>Profitability Ratios (particularly related to Return on investment)</li> <li>Turnover ratios</li> <li>Capital Structure Ratios</li> </ul>

	(d) Chief Executive/ General Manager	They will try to assess the complete perspective of the company, starting from Sales, Finance, Inventory, Human resources, Production etc.	<ul style="list-style-type: none"> <li>◆ All Ratios</li> </ul>
8.	Different Industry		
	(a) Telecom		<ul style="list-style-type: none"> <li>◆ Ratio related to 'call'</li> <li>◆ Revenue and expenses per customer</li> </ul>
	(b) Bank	Finance Manager/ Analyst will calculate ratios of their company and compare it with Industry norms.	<ul style="list-style-type: none"> <li>◆ Loan to deposit Ratios</li> <li>◆ Operating expenses and income ratios</li> </ul>
	(c) Hotel		<ul style="list-style-type: none"> <li>◆ Room occupancy ratio</li> <li>◆ Bed occupancy Ratios</li> </ul>
	(d) Transport		<ul style="list-style-type: none"> <li>◆ Passenger-kilometre</li> <li>◆ Operating cost-per passenger kilometre</li> </ul>



Ratio	Formulae	Interpretation
<b>Liquidity Ratio</b>		
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	A simple measure that estimates whether the business can pay short term debts. Ideal ratio is 2.
Quick Ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	It measures the ability to meet current debt immediately. Ideal ratio is 1.
Cash Ratio	$\frac{\left( \text{Cash and Bank balances} + \text{Marketable Securities} \right)}{\text{Current Liabilities}}$	It measures absolute liquidity of the business.
Basic Defense Interval Ratio	$\frac{\left( \text{Cash and Bank balances} + \text{Net Reveivables} + \text{Marketable Securities} \right)}{\text{Opearing Expenses} + \text{No. of days}}$	It measures the ability of the business to meet regular cash expenditures.
Net Working Capital	$\text{Current Assets} - \text{Current Liabilities}$	It is a measure of cash flow to determine the ability of business to survive financial crisis.
<b>Capital Structure Ratio</b>		
Equity Ratio	$\frac{\text{Shareholders' Equity}}{\text{Net Assets}}$	It indicates owner's fund in companies to total fund invested.
Debt Ratio	$\frac{\text{Total Debt}}{\text{Net Assets}}$	It is an indicator of use of outside funds.
Debt to equity Ratio	$\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$	It indicates the composition of capital structure in terms of debt and equity.

Debt to Total Assets Ratio	$\frac{\text{Total Debt}}{\text{Total Assets}}$	It measures how much of total assets is financed by the debt.
Capital Gearing Ratio	$\frac{\text{Preference Share Capital + Debentures + Other Borrowed funds}}{\text{Equity Share Capital + Reserves \& Surplus - Losses}}$	It shows the proportion of fixed interest bearing capital to equity shareholders' fund. It also signifies the advantage of financial leverage to the equity shareholder.
Proprietary Ratio	$\frac{\text{Proprietary Fund}}{\text{Total Assets}}$	It measures the proportion of total assets financed by shareholders.
<b>Coverage Ratios</b>		
Debt Service Coverage Ratio (DSCR)	$\frac{\text{Earnings available for debt services}}{\text{Interest + Instalments}}$	It measures the ability to meet the commitment of various debt services like interest, instalment etc. Ideal ratio is 2.
Interest Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest}}$	It measures the ability of the business to meet interest obligations. Ideal ratio is > 1.
Preference Dividend Coverage Ratio	$\frac{\text{Net Profit / Earning after taxes (EAT)}}{\text{Preference dividend liability}}$	It measures the ability to pay the preference shareholders' dividend. Ideal ratio is > 1.
Fixed Charges Coverage Ratio	$\frac{\text{EBIT + Depreciation}}{\text{Interest + Repayment of loan}}$	This ratio shows how many times the cash flow before interest and taxes covers all fixed financing charges. The ideal ratio is > 1.
<b>Activity Ratio/ Efficiency Ratio/ Performance Ratio/ Turnover Ratio</b>		
Total Asset Turnover Ratio	$\frac{\text{Sales / Cost of Goods Sold}}{\text{Average Total Assets}}$	A measure of total asset utilisation. It helps to answer the question, 'What

		sales are being generated by each rupee's worth of assets invested in the business?
Fixed Assets Turnover Ratio	$\frac{\text{Sales / Cost of Goods Sold}}{\text{Fixed Assets}}$	This ratio is about fixed asset capacity. A reducing sales or profit being generated from each rupee invested in fixed assets may indicate overcapacity or poorer-performing equipment.
Capital Turnover Ratio	$\frac{\text{Sales / Cost of Goods Sold}}{\text{Net Assets}}$	This indicates the firm's ability to generate sales per rupee of long term investment.
Working Capital Turnover Ratio	$\frac{\text{Sales / COGS}}{\text{Working Capital}}$	It measures the efficiency of the firm to use working capital.
Inventory Turnover Ratio	$\frac{\text{COGS / Sales}}{\text{Average Inventory}}$	It measures the efficiency of the firm to manage its inventory.
Debtors Turnover Ratio	$\frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$	It measures the efficiency at which firm is managing its receivables.
Receivables (Debtors') Velocity	$\frac{\text{Average Accounts Receivables}}{\text{Average Daily Credit Sales}}$	It measures the velocity of collection of receivables.
Payables Turnover Ratio	$\frac{\text{Annual Net Credit Purchases}}{\text{Average Accounts Payables}}$	It measures how fast a company makes payment to its creditors.
Payables Velocity	$\frac{\text{Average Accounts Payable}}{\text{Average Daily Credit Purchases}}$	It measures the velocity of payment of payables.

Gross Profit Ratio	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	This ratio tells us something about the business's ability consistently to control its production costs or to manage the margins it makes on products it buys and sells.
Net Profit Ratio	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	It measures the relationship between net profit and sales of the business.
Operating Profit Ratio	$\frac{\text{Operating Profit}}{\text{Sales}} \times 100$	It measures operating performance of business.
<b>Expenses Ratio</b>		
Cost of Goods Sold (COGS) Ratio	$\frac{\text{COGS}}{\text{Sales}} \times 100$	It measures portion of a particular expenses in comparison to sales.
Operating Expenses Ratio	$\frac{\text{Administrative exp. + Selling \& Distribution Overhead}}{\text{Sales}}$	
Operating Ratio	$\frac{\text{COGS} + \text{Operating expenses}}{\text{Sales}} \times 100$	
Financial Expenses Ratio	$\frac{\text{Financial expenses}}{\text{Sales}} \times 100$	
<b>Profitability Ratios related to Overall Return on Assets/ Investments</b>		
Return on Investment (ROI)	$\frac{\text{Return / Profit / Earnings}}{\text{Investments}} \times 100$	It measures overall return of the business on investment/ equity funds/capital employed/ assets.
Return on Assets (ROA)	$\frac{\text{Net Profit after taxes}}{\text{Average total assets}}$	It measures net profit per rupee of average total assets/average tangible assets/average fixed assets.

Return on Capital Employed ROCE (Pre-tax)	$\frac{\text{EBIT}}{\text{Capital Employed}} \times 100$	It measures overall earnings (either pre-tax or post tax) on total capital employed.
Return on Capital Employed ROCE (Post-tax)	$\frac{\text{EBIT} (1-t)}{\text{Capital Employed}} \times 100$	It indicates earnings available to equity shareholders in comparison to equity shareholders' net worth.
Return on Equity (ROE)	$\frac{\left( \frac{\text{Net Profit after taxes - Preference dividend (if any)}}{\text{Net worth}} \right)}{\text{Equity shareholders' fund}} \times 100$	

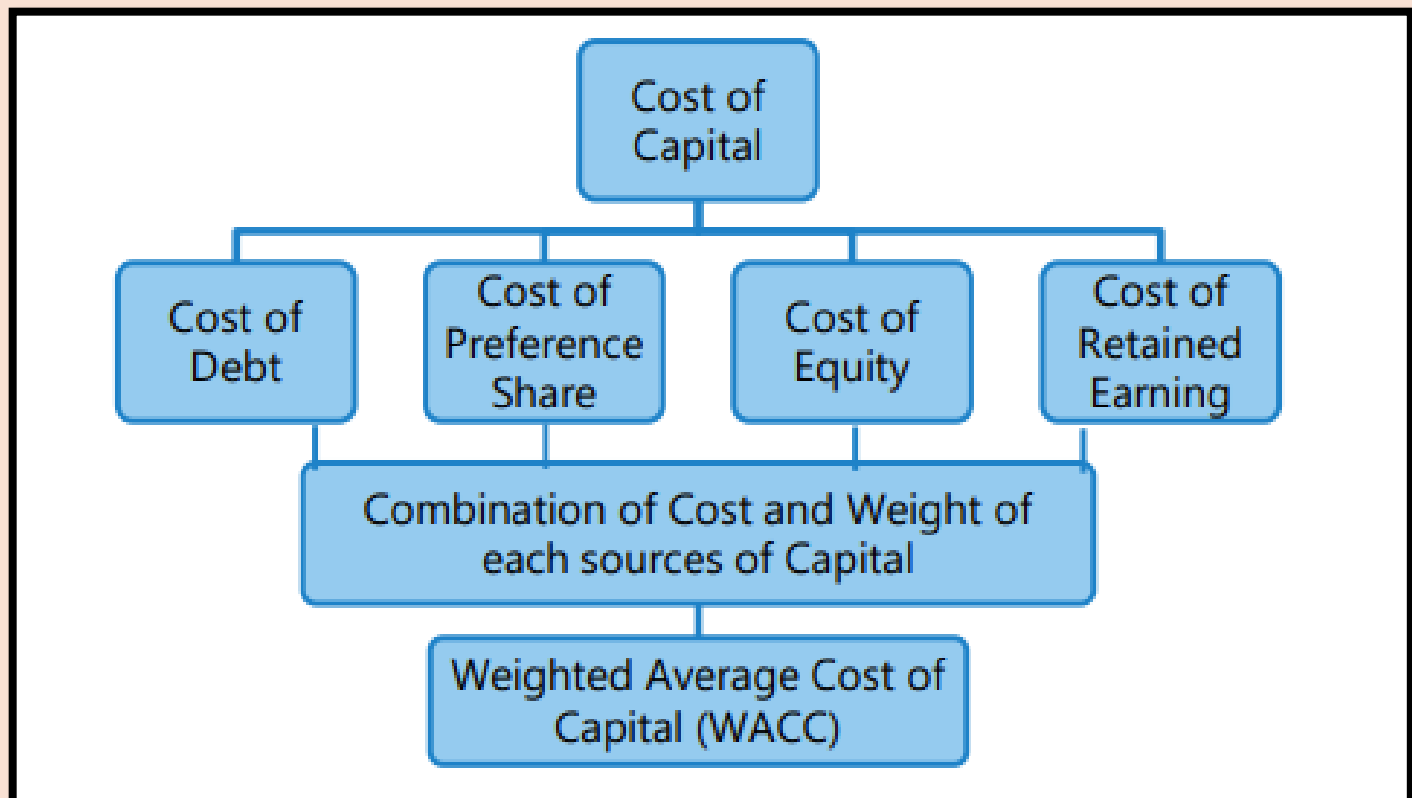
#### Profitability Ratios Required for Analysis from Owner's Point of View

Earnings per Share (EPS)	$\frac{\text{Net profit available to equity shareholders}}{\text{Number of equity shares outstanding}}$	EPS measures the overall profit generated for each share in existence over a particular period.
Dividend per Share (DPS)	$\frac{\text{Dividend paid to equity shareholders}}{\text{Number of equity shares outstanding}}$	Proportion of profit distributed per equity share.
Dividend payout Ratio (DP)	$\frac{\text{Dividend per equity share}}{\text{Earning per Share (EPS)}}$	It shows % of EPS paid as dividend and retained earnings.

#### Profitability Ratios related to market/ valuation/ Investors

Price-Earnings per Share (P/E Ratio)	$\frac{\text{Market Price per Share (MPS)}}{\text{Earning per Share (EPS)}}$	At any time, the P/E ratio is an indication of how highly the market "rates" or "values" a business. A P/E ratio is best viewed in the context of a sector or market average to get a feel for relative value and stock market pricing.
Dividend Yield	$\frac{\text{Dividend} \pm \text{Change in share price}}{\text{Initial share price}} \times 100$	It measures dividend paid based on market price of shares.

	OR $\frac{\text{Dividend per Share (DPS)}}{\text{Market Price per Share (MPS)}} \times 100$	
Earnings Yield	$\frac{\text{Earnings per Share (EPS)}}{\text{Market Price per Share (MPS)}} \times 100$	It is the relationship of earning per share and market value of shares.
Market Value /Book Value per Share	$\frac{\text{Market value per share}}{\text{Book value per share}}$	It indicates market response of the shareholders' investment.
Q Ratio	$\frac{\text{Market Value of equity and liabilities}}{\text{Estimated replacement cost of assets}}$	It measures market value of equity as well as debt in comparison to all assets at their replacement cost.





## Capital Structure Decision

### Capital Structure Theories

- Net Income (NI) Approach
- Traditional Approach
- Net Operating Income (NOI) Approach
- Modigliani-Miller (MM) Approach
- Trade-off Theory
- Pecking Order Theory

### Designing an Optimal Capital Structure

#### EBIT- EPS-MPS Analysis

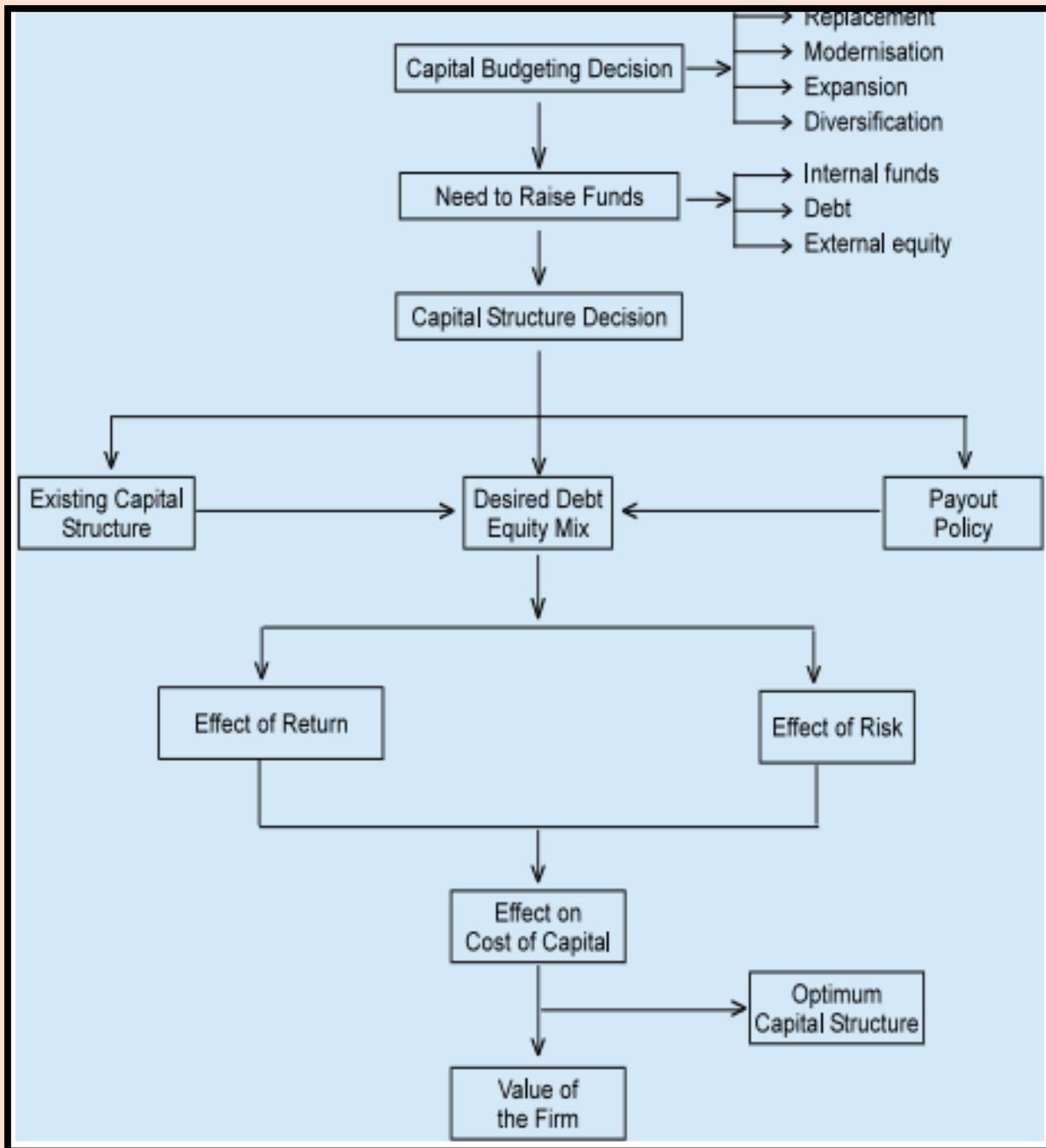
Cost of Equity

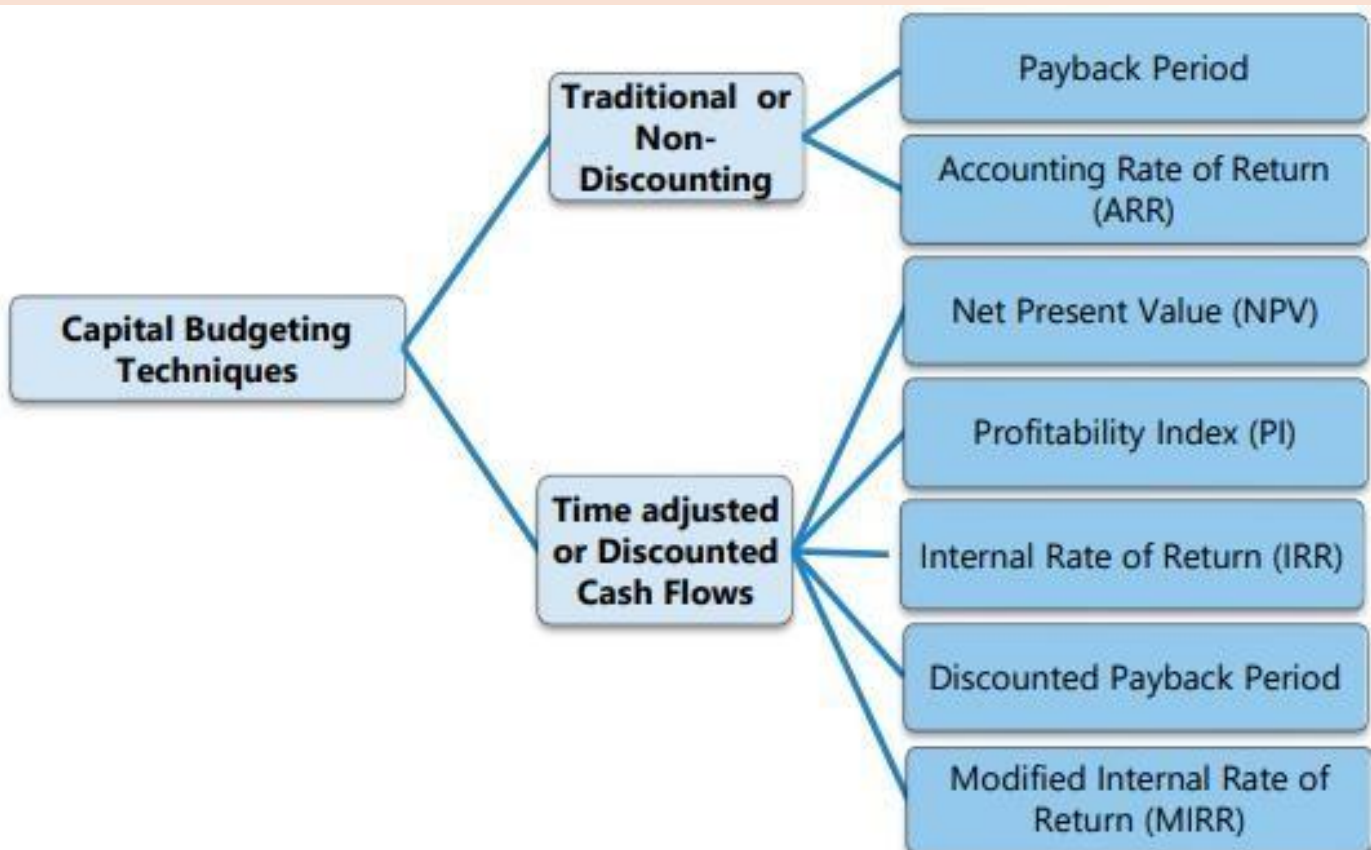
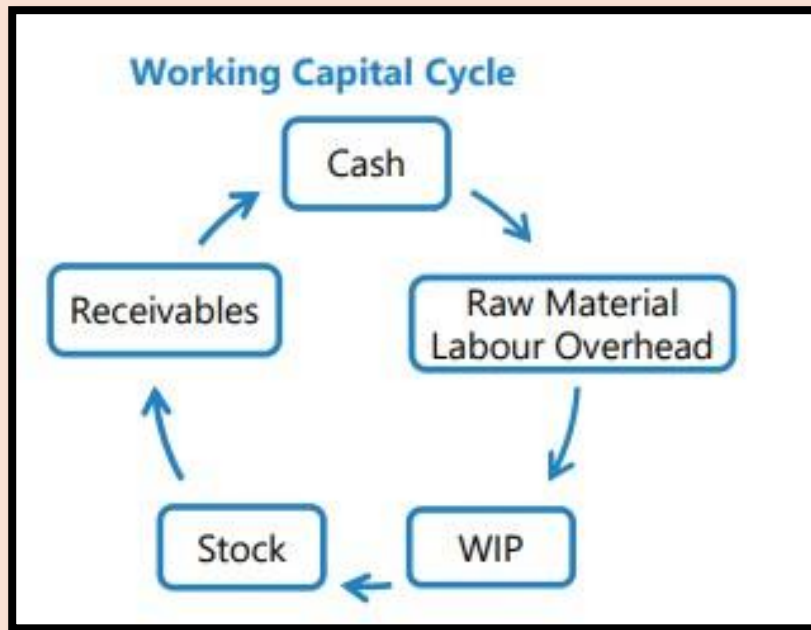
Cost of Retained  
Earnings

Weighted Average  
Cost of Capital  
(WACC)

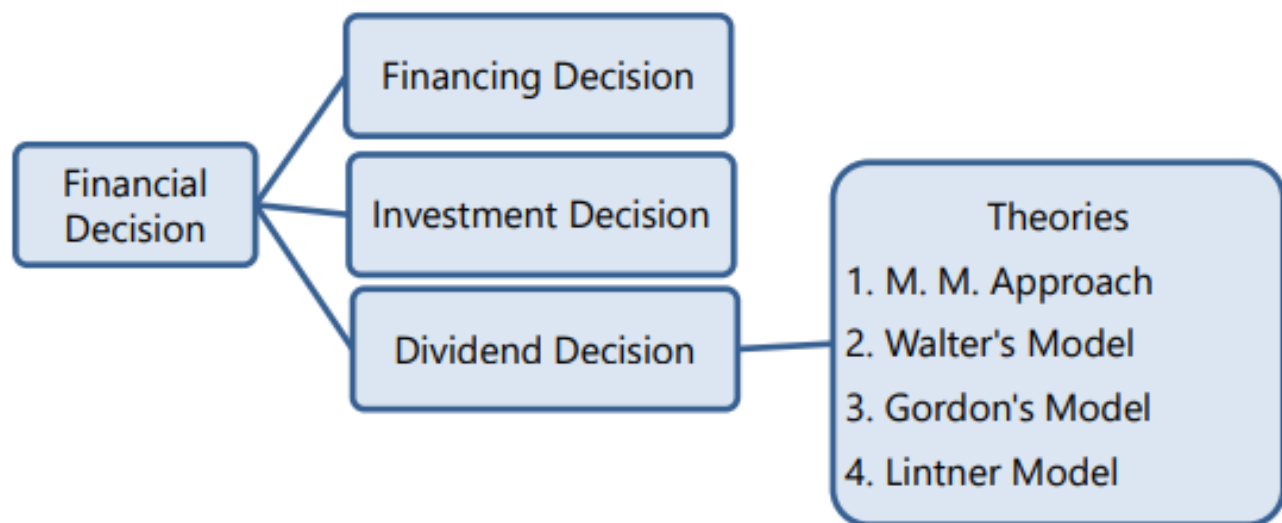
Cost of Preference  
Share Capital

Cost of Long  
Term Debt





Techniques		For Independent Project	For Mutually Exclusive Projects
Non-Discounted	Pay Back	(i) When Payback period $\leq$ Maximum Acceptable Payback period: <b>Accepted</b> (ii) When Payback period $>$ Maximum Acceptable Payback period: <b>Rejected</b>	Project with least Payback period should be selected
	Accounting Rate of Return (ARR)	(i) When $ARR \geq$ Minimum Acceptable Rate of Return: <b>Accepted</b> (ii) When $ARR <$ Minimum Acceptable Rate of Return: <b>Rejected</b>	Project with the maximum ARR should be selected.
Discounted	Net Present Value (NPV)	(i) When $NPV \geq 0$ : <b>Accepted</b> (ii) When $NPV < 0$ : <b>Rejected</b>	Project with the highest positive NPV should be selected
	Profitability Index (PI)	(i) When $PI \geq 1$ : <b>Accepted</b> (ii) When $PI < 1$ : <b>Rejected</b>	When Net Present Value is same project with Highest PI should be selected
	Internal Rate of Return (IRR)	(i) When $IRR \geq K$ : <b>Accepted</b> (ii) When $IRR < K$ : <b>Rejected</b>	Project with the maximum IRR should be selected



$$\text{Payback Period} = \frac{\text{Total initial capital investment}}{\text{Annual expected after-tax net cash flow}}$$

$$\text{Payback Reciprocal} = \frac{\text{Average Annual cash in flow}}{\text{Initial investment}}$$

$$\text{Accounting rate of return (ARR)} = \frac{\text{Average annual net income}}{\text{Investment}}$$

#### Net Present Value Technique (NPV):

Net present value = Present value of cash inflows - Present value of cash outflows

$$\text{Or, NPV} = \left( \frac{C_1}{(1+k)} + \frac{C_2}{(1+k)^2} + \frac{C_3}{(1+k)^3} + \dots + \frac{C_n}{(1+k)^n} \right) - I$$

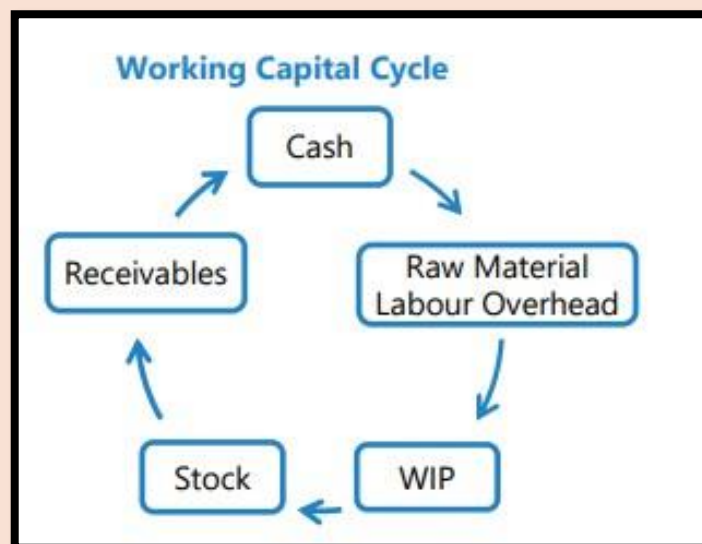
#### Profitability Index /Desirability Factor/Present Value Index Method (PI):

$$\text{Profitability Index (PI)} = \frac{\text{Sum of discounted cash in flows}}{\text{Initial cash outlay or Total discounted cash outflow (as the case may)}}$$

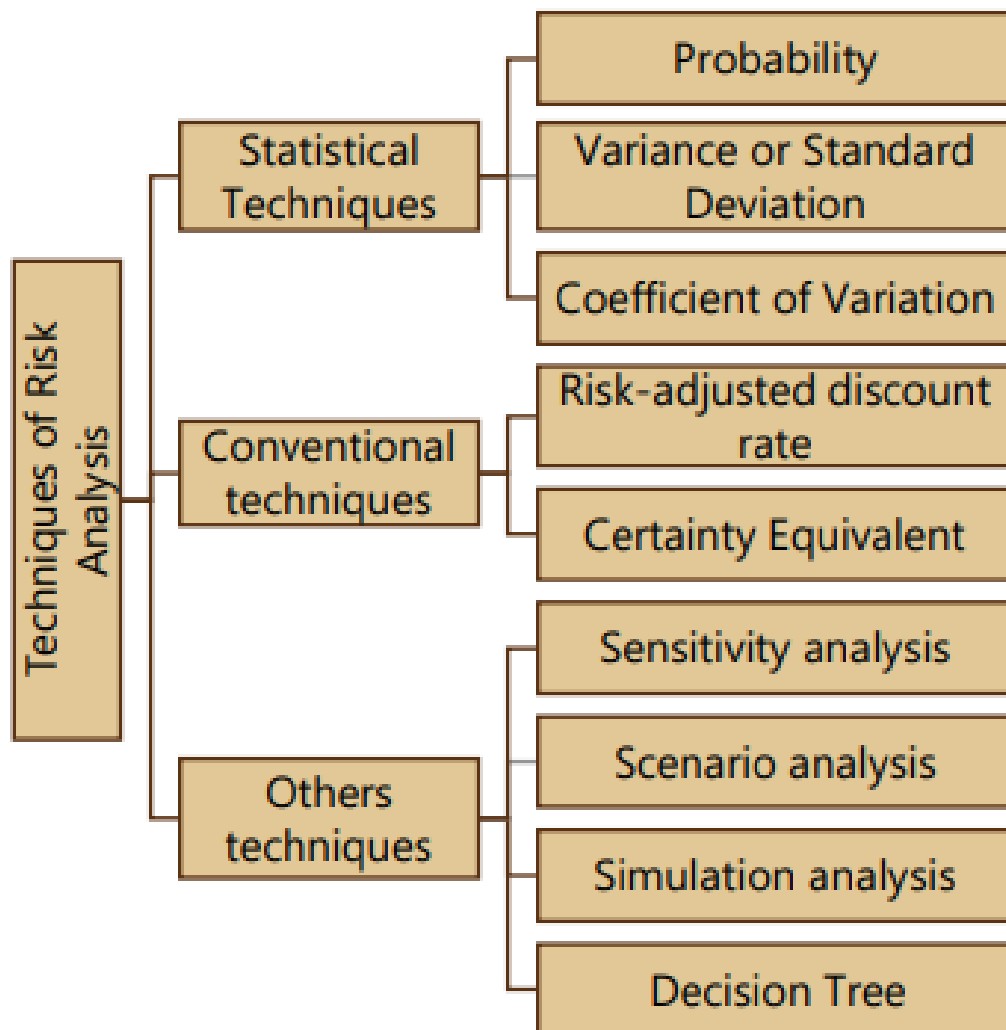
#### Internal Rate of Return Method (IRR):

$$\text{LR} + \frac{\text{NPV at LR}}{\text{NPV at LR} - \text{NPV at HR}} \times (\text{HR} - \text{LR})$$

**Modified Internal Rate of Return (MIRR):** All cash flows, apart from the initial investment, are brought to the terminal value using an appropriate discount rate (usually the Cost of Capital).

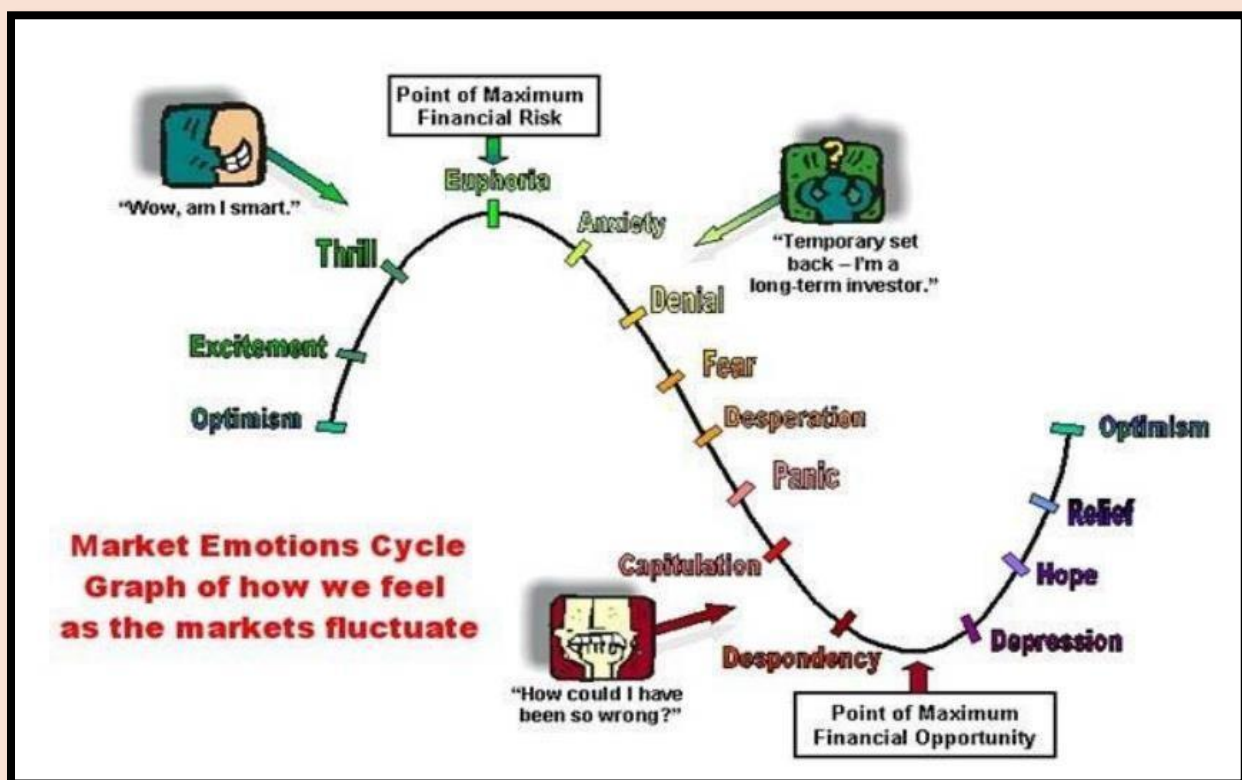
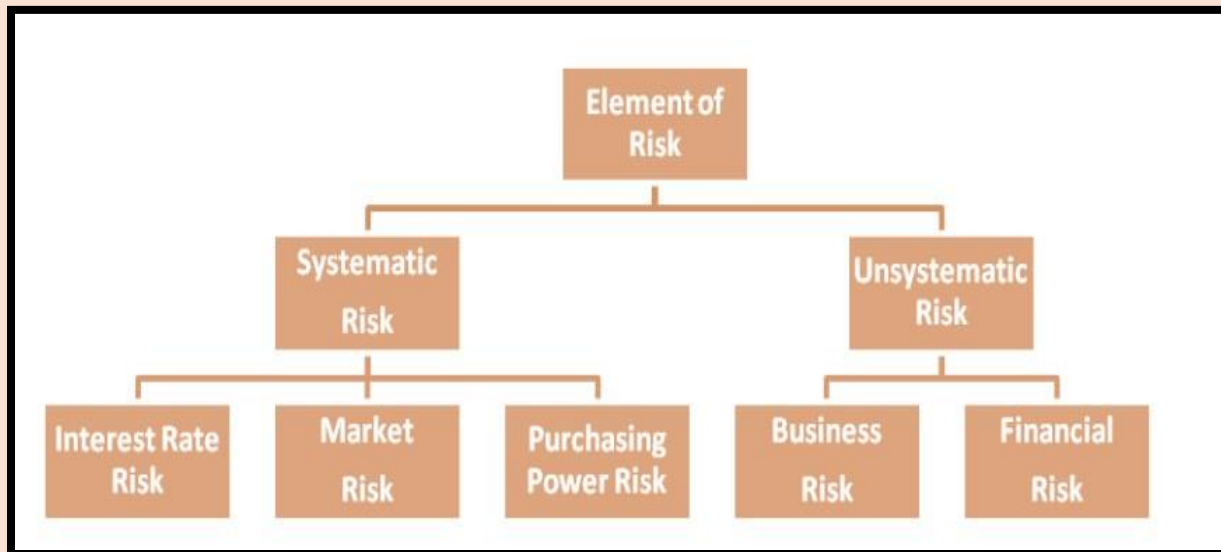


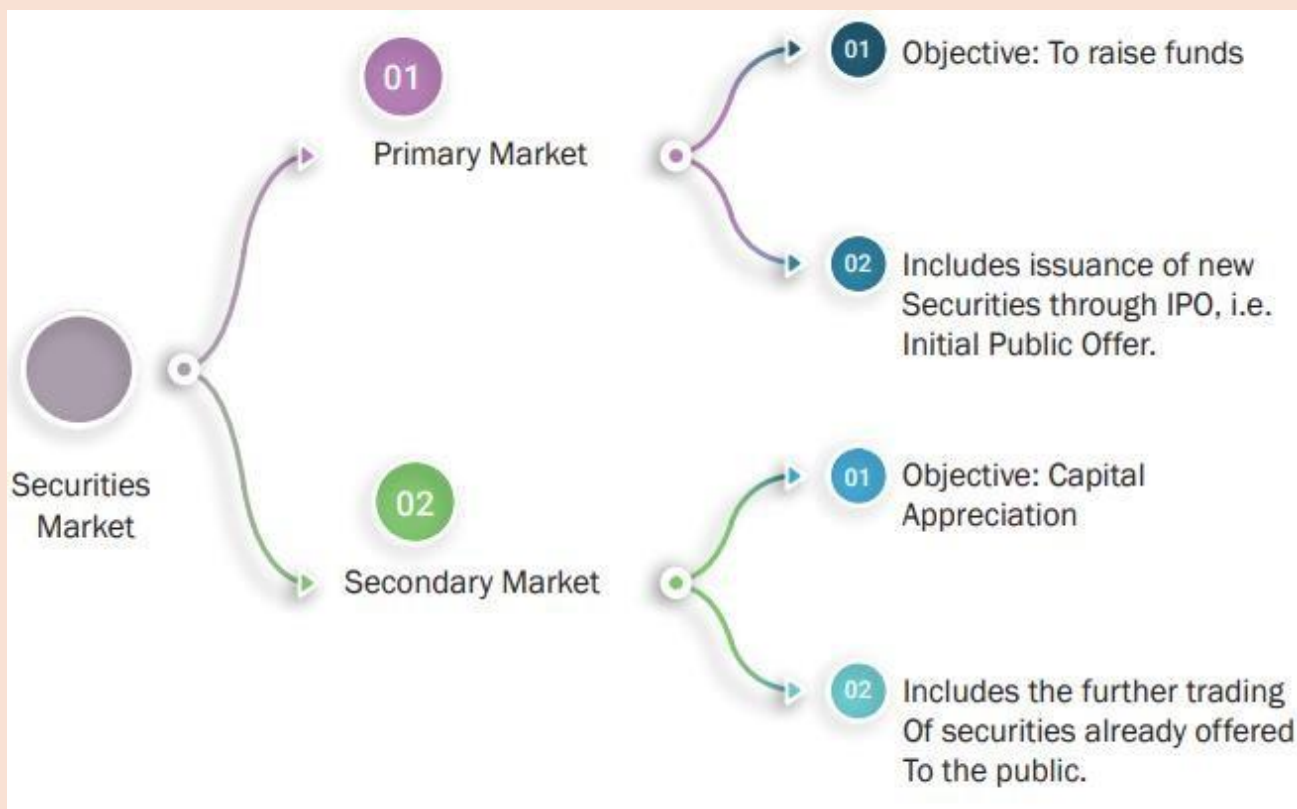




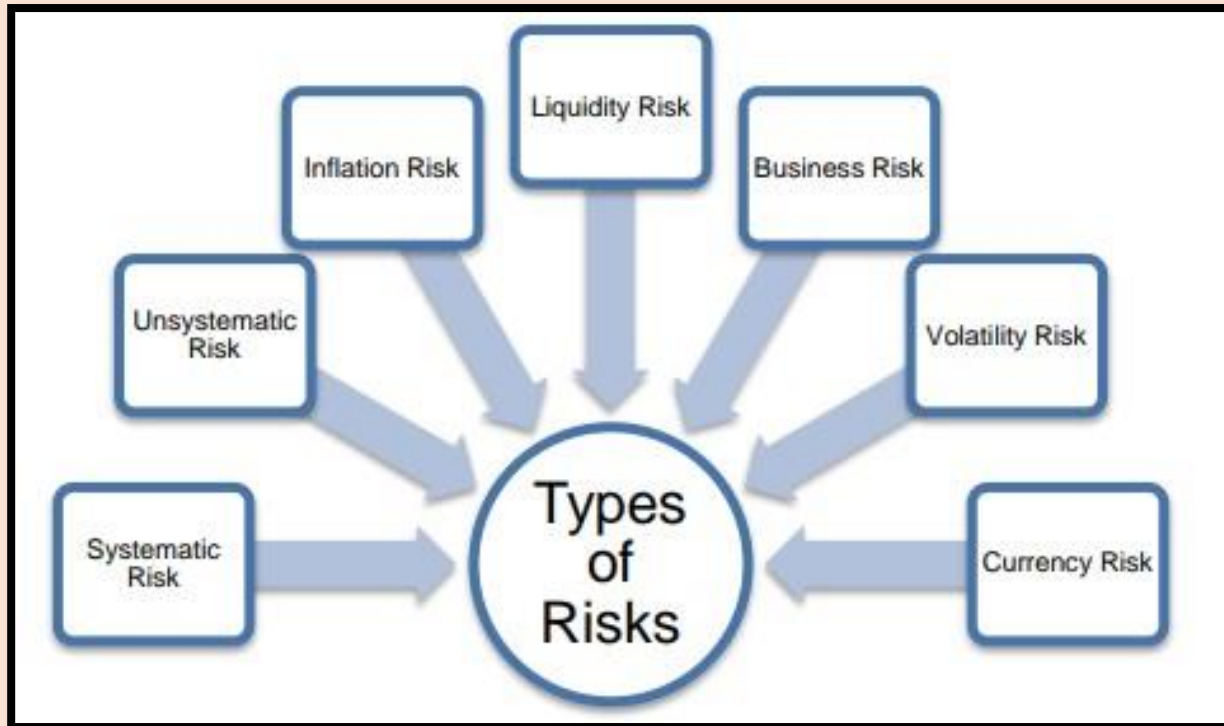
## Financial Markets

In the Financial Markets charts, we cover the different types of markets—such as money markets, capital markets, and foreign exchange markets—illustrating their roles in the economy. These charts help explain how securities are traded, how market participants interact, and how various factors influence the movement of financial assets.





	Savings in Bank Accounts	Investment in Fixed Deposits and other financial products
<b>Meaning</b>	A portion of one's income which is not used for expenses.	Putting your money in various investment products to make money grow.
<b>Purpose</b>	Savings are made to maintain liquidity to meet short term or urgent requirements.	Investments are made to make the money grow by creating assets that can generate income in the future/increase value of assets.
<b>Risk</b>	Low or negligible	Depends upon the asset in which investment is done.
<b>Liquidity</b>	Highly liquid	Comparatively less liquid



The following table summarizes the approaches to risk management.

Approach	Explanation
Speculation	Taking risk (more formally called “trading”) It results in the possibility of a positive return (i.e. profit) or a negative return (i.e. loss) in future
Hedging	You are already exposed to risk and hedging substantially reduces that risk and locks in the future return at a known level.
Insurance	You are already exposed to risk and insurance selectively eliminates the negative return but retains the positive return. It has an explicit upfront cost, and requires a particular derivative called option to implement it.
Diversification	It reduces both return and risk but in such a way that risk is reduced more than return so that risk is minimized per unit return (or, alternately, return is maximized per unit risk).

The following table summarizes the key feature of four generic types of derivatives.

Generic derivative	Key feature	Market
Forward	To buy or sell the underlying asset with cash for settlement on a future date. Customized contract.	OTC
Futures	To buy or sell the underlying asset with cash for settlement on a future date. Standardized contract.	Exchange
Swap	To buy or sell returns from the underlying asset with returns from other underlying asset / cash over a period	Mainly OTC
Option	A right to buy or sell on underlying with cash for settlement on a future date	OTC and Exchange

Different kind of derivatives based on underlying

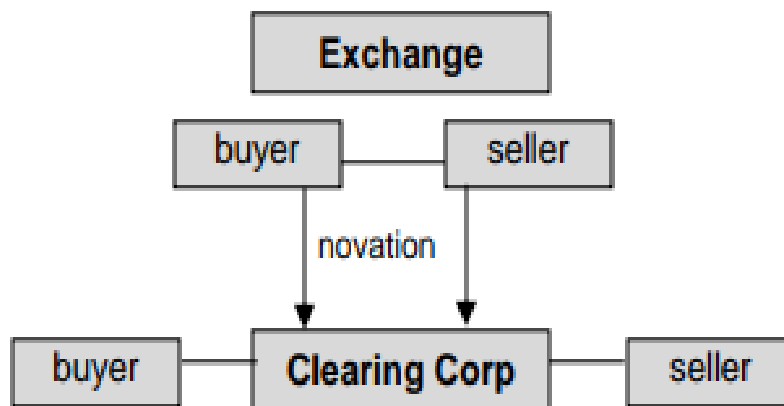
Underlying	Derivatives			
	Forward	Futures	Swap	Option
Interest Rate & Interest Rate Instrument	Forward Rate Agreement and Bond forward	Interest rate & Bond futures	Interest rate swap	Interest rate and Bond option
Equity & Equity Indices	Equity forward	Equity futures	Equity swap	Equity option
Currency Pairs	FX forward / Currency forward	FX futures / Currency futures	FX swap and Currency swap	FX option / Currency option
Commodity	Commodity forward	Commodity futures	Commodity swap	Commodity option

Debt Funds	Return	Risk	Liquidity
Liquid fund	Low	Low	High
Gilt fund	Medium	Low	High
Long Term Debt fund	Medium	Medium	High
Credit Risk fund	High	High	High





Role of Exchange is to bring a buyer and seller together and enable a trade between them



Role of Clearing Corporation is to settle trade with trade guarantee by becoming CCP

**Table 1.1 Investment avenues classified under different asset categories**

<b>Equity</b>	<b>Fixed Income</b>
<ul style="list-style-type: none"><li>• Blue-chip Companies</li><li>• Mid-sized companies</li><li>• Small-sized companies</li><li>• Unlisted Companies</li><li>• Foreign Stocks</li><li>• Equity Mutual Funds</li><li>• Exchange Traded Funds</li><li>• Index Funds</li></ul>	<ul style="list-style-type: none"><li>• Fixed deposit with a bank</li><li>• Recurring deposit with a bank</li><li>• Endowment Policies</li><li>• Money back Policies</li><li>• Public Provident Fund</li><li>• Sukanya Samruddhi Yojana (SSY)</li><li>• Senior Citizens' Savings Scheme (SCSS)</li><li>• Post office Monthly Income Scheme</li><li>• Recurring deposit with a post office</li><li>• Company fixed deposit</li><li>• Debentures/bonds</li><li>• Debt Mutual Funds</li></ul>
<b>Real Estate/Infrastructure</b>	<b>Commodities</b>
Physical Asset <ul style="list-style-type: none"><li>• Residential/ Commercial</li></ul> Financial Asset <ul style="list-style-type: none"><li>• Real Estate Mutual Funds (REMF)</li><li>• Real Estate Investment Trusts (REIT)</li><li>• Infrastructure Investment Trust (InvIT)</li></ul>	<ul style="list-style-type: none"><li>• Gold</li><li>• Silver</li><li>• Gold Funds</li><li>• Commodity ETFs</li></ul>
<b>Hybrid asset classes</b>	<b>Others</b>
<ul style="list-style-type: none"><li>• Hybrid Mutual funds or Multi Asset Fund</li></ul>	<ul style="list-style-type: none"><li>• Rare coins</li><li>• Art</li><li>• Rare stamps</li></ul>

These are some of the popular equity indices in India:

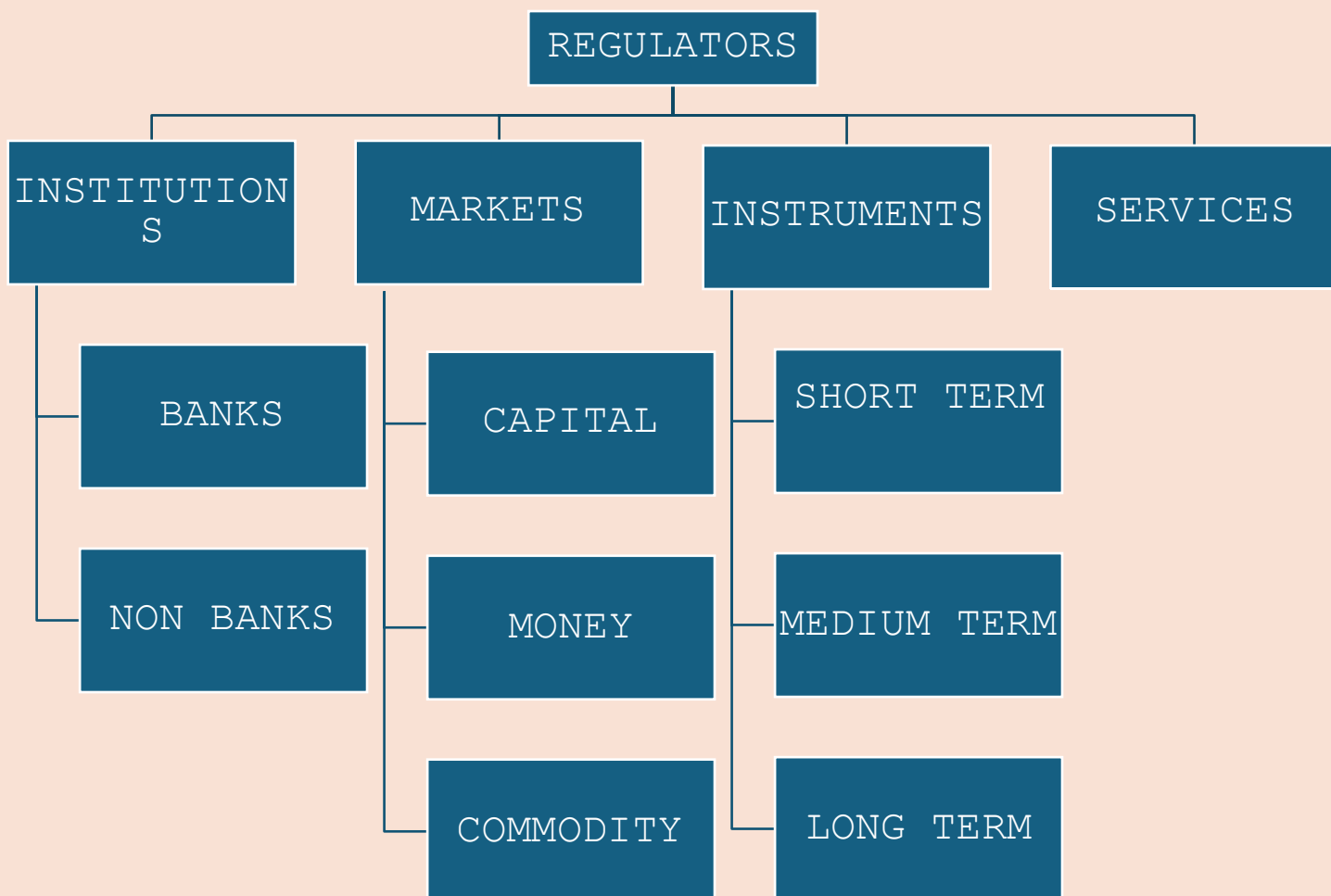
<ul style="list-style-type: none"> <li>• S&amp;P BSE Sensex</li> <li>• S&amp;P BSE Sensex Next 50</li> <li>• S&amp;P BSE 100</li> <li>• S&amp;P BSE 200</li> <li>• S&amp;P BSE 500</li> </ul>	<ul style="list-style-type: none"> <li>• Nifty 50</li> <li>• Nifty Next 50</li> <li>• Nifty 100</li> <li>• Nifty 200</li> <li>• Nifty 500</li> </ul>	<ul style="list-style-type: none"> <li>• SX 40</li> </ul>
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**Table 5.4: Asset classes offered by Pension Fund Managers (PFMs) for investment**

Equity (E)	Invests predominantly in Equity market instruments.
Corporate Debt (C)	Invests in Bonds issued by Public Sector Undertakings (PSUs), Public Financial Institutions (PFIs), Infrastructure Companies and Money Market Instruments.
Government Securities (G)	Invests in Securities issued by Central Government, State Governments and Money Market Instruments.
Alternative Investments (A)	Invests in instruments such as Commercial Mortgaged Backed Securities (CMBS), Real Estate Investment Trust (REITS), Alternative Investment Funds (AIFs), Infrastructure Investment Trusts (InvITs) etc.

## Financial Laws and Regulations

The Financial Laws and Regulations charts detail the critical legal frameworks, including securities laws, banking regulations, and anti-money laundering (AML) policies. These visuals help clarify the legal environment in which financial institutions operate, ensuring compliance and protecting the interests of investors and stakeholders.



## **Regulators**

- 1. Ministry of Finance (MoF)**
- 2. Reserve Bank of India (RBI)**
- 3. Securities and Exchange Board of India (SEBI)**
- 4. Pension Fund Regulatory and Development Authority (PFRDA)**
- 5. Insurance Regulatory and Development Authority of India (IRDA)**
- 6. Ministry of Corporate Affairs**

**Profiles: Policy-making, Research, Banking supervision, Risk analysis, Legal advisory, Regulatory compliance, Policy Analysis, Legal enforcement, Cyber Security, Policy Development, Policy research etc.,**

**Source:**<https://dea.gov.in>

BANK GROUP	NO. OF BANKS
SBI	01
NATIONALISED BANKS	11
DEVELOPMENT BANKS	04
PRIVATE SECTOR BANKS	21
LOCAL AREA BANKS (LABS)	02
SMALL FINANCE BANKS (SFBS)	11
Payments Banks (PBs)	06
FOREIGN BANKS	44
REGIONAL RURAL BANKS	43
STATE CO OPERATIVE BANKS	34

Source:

<https://www.rbi.org.in/commonperson/English/Scripts/BanksInIndia.aspx>

## **Glossary of common Accounting-related Terminology**

### **Acceptance**

The drawee's signed assent on bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.

### **Accounting policies**

Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.

### **Accrual**

Recognition of revenues and costs as they are earned or incurred (and not as money is received or paid). It includes recognition of transactions relating to assets and liabilities as they occur irrespective of the actual receipts or payments.

### **Accrual/Mercantile Basis of Accounting**

The method of recording transactions by which *revenues*, *costs*, *assets* and *liabilities* are reflected in the accounts in the period in which they accrue. The 'accrual basis of accounting' includes considerations relating to *deferrals*, *allocations*, *depreciation* and *amortisation*. This basis is also referred to as *mercantile basis of accounting*.

### **Accrued Asset**

A developing but not yet enforceable claim against another person which accumulates with the passage of time or the rendering of service or otherwise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

### **Accrued Expense**

An expense which has been incurred in an accounting period but for which no enforceable claim has become due in that period against the enterprise. It may arise from the purchase of services (including the use of money) which at the date of accounting have been only partly performed, and are not yet billable.

### **Accrued Liability**

A developing but not yet enforceable claim by another person which accumulates with the passage of time or the receipt of service or otherwise. It may arise from the purchase of services (including the use of money) which at the date of accounting have.

### **Accrued Revenue**

*Revenue* which has been earned in an accounting period but in respect of which no enforceable claim has become due in that period by the enterprise. It may arise from the rendering of services (including the use of money) which at the date of accounting have been partly performed, and are not yet billable.

### **Accumulated Depletion**

The total to date of the periodic depletion charges on wasting assets.

### **Accumulated Depreciation**



The total to date of the periodic depreciation charges on depreciable assets.

### **Advance**

Payment made on account of, but before completion of, a contract, or before acquisition of goods or receipt of services.

### **Amortised Value**

The *amortizable* amount less any portion already provided by way of *amortization*.

### **Annual Report**

The information provided annually by the management of an enterprise to the owners and other interested persons concerning its operations and financial position. It includes the information statutorily required, e.g., in the case of a company, the *balance sheet*, *profit and loss statement* and notes on accounts, the *auditor's report* thereon, and the report of the Board of Directors. It also includes other information voluntarily provided e.g., *value added statement*, graphs, charts, etc.

### **Appropriation Account**

An account sometimes included as a separate section of the *profit and loss statement* showing application of *profits* towards *dividends*, *reserves*, etc.

### **Assets**

Tangible objects or intangible rights owned by an enterprise and carrying probable future benefits.

### **Authorised Share Capital**

The number and par value, of each class of shares that an enterprise may issue in accordance with its instrument of incorporation. This is sometimes referred to as **nominal share capital**.

### **Average Cost**

The cost of an item at a point of time as determined by applying an average of the cost of all items of the same nature over a period. When weightages are also applied in the computation, it is termed as **weighted average cost**.

### **Bad Debts**

Debts owed to an enterprise which are considered to be irrecoverable.

### **Balance Sheet**

A statement of the financial position of an enterprise as at a given date, which exhibits its *assets*, *liabilities*, *capital*, *reserves* and other account balances at their respective *book values*.

### **Bill of Exchange**

An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.

### **Bonus Shares**

Shares allotted by capitalization of the reserves or surplus of a corporate enterprise.

### **Book Value**

The amount at which an item appears in the books of account or financial statements. It does not refer to any particular basis on which the amount is determined e.g., cost, replacement value, etc.

### **Borrowing costs**

Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

### **Bond/Debenture**

A formal document constituting acknowledgment of a debt by an enterprise usually given under its common seal and normally containing provisions regarding payment of interest, repayment of principal and security, if any. It is transferable in the appropriate manner.

### **Call**

A demand pursuant to terms of issue to pay a part or whole of the balance remaining payable on shares or *debentures* after allotment.

## **IV**

### **Called-up Share Capital**

That part of the subscribed share capital which shareholders have been required to pay.

### **Capital**

Generally refers to the amount invested in an enterprise by its owners e.g. *paid-up share capital* in a corporate enterprise. It is also used to refer to the interest of owners in the assets of an enterprise.

### **Capital Assets**

*Assets*, including *investments* not held for sale, conversion or consumption in the ordinary course of business.

### **Capital Commitment**

Future *liability* for capital expenditure in respect of which contracts have been made.

### **Capital Employed**

The finances deployed by an enterprise in its *net fixed assets*, *investments* and *working capital*. Capital employed in an operation may, however, exclude *investments* made outside that operation.

### **Capital Profit/Capital Loss**

Excess of the proceeds realised from the sale, transfer, or exchange of the whole or a part of a capital asset over its cost. When the result of this computation is negative, it is referred to as **capital loss**.

### **Capital Reserve**

A *reserve* of a corporate enterprise which is not available for distribution as *dividend*.

### **Capital Work-in-progress**

*Expenditure* on *capital assets* which are in the process of construction or completion.

### **Cash**

Cash comprises cash on hand and demand deposits with banks

### **Cash equivalents**

Cash equivalents are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Cash Basis of Accounting**

The method of recording transactions by which *revenues* and *costs* and *assets* and *liabilities* are reflected in the accounts in the period in which actual receipts or actual payments are made.

### **Cash Discount**

A reduction granted by a supplier from the invoiced price in consideration of immediate payment or payment within a stipulated period.

### **Cash Profit**

The *net profit* as increased by non-cash costs, such as *depreciation*, *amortization*, etc. When the result of the computation is negative, it is termed as **cash loss**.

### **Carrying amount**

Carrying amount is the amount at which an asset is recognized in the balance sheet, net of any accumulated amortization and accumulated impairment losses thereon.

### **Charge**

An encumbrance on an asset to secure an indebtedness or other obligations. It may be fixed or floating.

### **Cheque**

A *bill* of exchange drawn upon a specified banker and not expressed to be payable otherwise than on demand.

### **Collateral Security**

Security which is given in addition to the principal security against the same *liability* or obligation.

### **Consignment Account**

Consignment Account relates to account dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former.

### **Costs of disposal**

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

### **Contingency**

A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

### **Contingent Asset**

An *asset* the existence, ownership or value of which may be known or determined only on the occurrence or non-occurrence of one or more uncertain future events.

### **Contingent Liability**

An obligation relating to an existing condition or situation which may arise in future depending on the occurrence or non-occurrence of one or more uncertain future events.

### **Contra Account**

One or two or more accounts which partially or wholly off-set another or other accounts.

### **Cost**

The amount of *expenditure* incurred on or attributable to a specified article, product or activity.

### **Cost of Purchase**

The purchase price including duties and taxes, freight inwards and other *expenditure* directly attributable to acquisition, less *trade discounts*, rebates, duty drawbacks, and subsidies in respect of such purchase.

### **Cost of Goods Sold**

The cost of goods sold during an accounting period. In manufacturing operations, it includes (i) cost of materials; (ii) labour and factory overheads; selling and administrative expenses are normally excluded.

### **Conversion Cost**

Cost incurred to convert raw materials or components into finished or semi-finished products. This normally includes costs which are specifically attributable to units of production, i.e., direct labour, direct expenses and subcontracted work, and production overheads as applicable in accordance with either the *direct cost* or *absorption costing method*. Production overheads exclude expenses which relate to general administration, finance, selling and distribution.

### **Convertible Debenture**

A *debenture* which gives the holder a right to its conversion, wholly or partly, in shares in accordance with the terms of issue.\

### **Cumulative Dividend**

A *dividend* payable on *cumulative preference shares* which, if unpaid, accumulates as a claim against the earnings of a corporate enterprise, before any distribution is made to the other shareholders.

### **Cumulative Preference Shares**

A class of preference shares entitled to payment of *cumulative dividends*. Preference shares are always deemed to be cumulative, unless they are expressly made non-cumulative.

### **Current Assets**

Cash and other assets that are expected to be converted into cash or consumed in the production of goods or rendering of services in the normal course of business.

### **Current Liability**

*Liability* including loans, deposits and bank overdraft which falls due for payment in a relatively short period, normally not more than twelve months.

**Deferral**

Postponement of recognition of a revenue or expense after its related receipt or payment (or incurrence of a *liability*) to a subsequent period to which it applies. Common examples of deferrals include prepaid rent and taxes, unearned subscriptions received in advance by newspapers and magazine selling companies, etc.

**Deficiency**

The excess of *liabilities* over *assets* of an enterprise at a given date. The debit balance in the *profit and loss statement*.

**Deficit**

The debit balance in the profit and loss statement.

**Depletion**

A measure of exhaustion of a wasting asset represented by periodic write off of cost or other substituted value.

**Depreciation**

Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is predetermined.

### Depreciable amount

Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

### Depreciable assets

Depreciable assets are assets which

- (i) are expected to be used during more than one accounting period; and
- (ii) have a limited useful life; and
- (iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

### Depreciation Method

Any method of calculating depreciation for an accounting period.

### Depreciation Rate

A percentage applied to the historical cost or the substituted amount of a *depreciable asset* (or in case of *diminishing balance method*, the historical cost or the substituted amount less *accumulated depreciation*).

### Diminishing Balance Method

A method under which the periodic charge for *depreciation* of an *asset* is computed by applying a fixed percentage to its historical cost or substituted amount less *accumulated depreciation* (net book value). This is also referred to as **written down value method**.

### Discount

A reduction from a list price, quoted price or invoiced price. It also refers to the price for obtaining payment on a bill before its maturity.

### Dividend

A distribution to shareholders out of profits or reserves available for this purpose.

### Entity Concept

The view of the relationship between the accounting entity and its owners which regards the entity as a separate person, distinct and apart from its owners.

### Equity Share

A share which is not a preference share. Also sometimes called **ordinary share**.

### **Exchange difference**

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

### **Expenditure**

Incurring a *liability*, disbursement of cash or transfer of property for the purpose of obtaining *assets*, goods or services.

### **Expense**

A cost relating to the operations of an accounting period or to the *revenue* earned during the period or the benefits of which do not extend beyond that period.

### **Expired Cost**

That portion of an *expenditure* from which no further benefit is expected. Also termed as **expense**. **Extraordinary**

### **items**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

### **Fair value**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

### **Fair Market Value**

The price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

### **First Charge**

A *charge* having priority over other charges.

### **First In, First Out (FIFO)**

Computation of the cost of items sold or consumed during a period as though they were sold or consumed in order of their acquisition.

### **Fixed asset**

Asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.



**Fixed Cost**

That cost of production which by its very nature remains relatively unaffected in a defined period of time by variations in the volume of production.

**Fixed Deposit**

Deposit for a specified period and at specified rate of interest.

**Fixed or Specific Charge**

A *charge* which attaches to a particular *asset* which is identified when the charge is created, and the identity of the *asset* does not change during the subsistence of the *charge*.

**Floating Charge**

A general *charge* on some or all *assets* of an enterprise which are not attached to specific *assets* and are given as security against a debt.

**Financial Instrument**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity shares of another enterprise.

**Foreign currency**

Foreign currency is a currency other than the reporting currency of an enterprise.

**Forfeited Share**

A share to which title is lost by a member for non-payment of call money or default in fulfilling any engagement between members or expulsion of members where the articles specifically provide therefor.

**Free Reserve**

A *reserve* the utilization of which is not restricted in any manner.

**Functional Classification**

A system of classification of *expenses* and *revenues* and the corresponding *assets* and *liabilities* to each function or activity, rather than by reference to their nature.

**Fund**

An account usually of the nature of a *reserve* or a *provision* which is represented by specifically earmarked *assets*.

## **Fundamental Accounting Assumptions**

Basic accounting assumptions which underlie the preparation and presentation of financial statements. They are *going concern*, consistency and *accrual*. Usually, they are not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

### **Gain**

A monetary benefit, *profit* or advantage resulting from a transaction or group of transactions.

### **General Reserve**

A *revenue reserve* which is not earmarked for a specific purpose.

### **Going Concern Assumption**

An accounting assumption according to which an enterprise is viewed as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.

### **Goodwill**

An *intangible asset* arising from business connections or trade name or reputation of an enterprise.

### **Gross Margin or Gross Profit**

The excess of the proceeds of goods sold and services rendered during a period over their *cost*, before taking into account administration, selling, distribution and financing expenses. When the result of this computation is negative it is referred to as **gross loss**.

### **Government**

Government refers to government, government agencies and similar bodies whether local, national or international.

### **Government grants**

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.

### **Gross book value**

Gross book value of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.

### **Income and Expenditure Statement**

A financial statement, often prepared by non-profit making enterprises like clubs, associations etc. to present their *revenues* and *expenses* for an accounting period and to show the excess

of *revenues* over *expenses* (or vice versa) for that period. It is similar to profit and loss statement and is also called **revenue and expense statement**.

### **Intangible Asset**

Asset which does not have a physical identity e.g. *goodwill*, patents, copyright etc.

**Inventories** are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

### **Investment**

Expenditure on assets held to earn interest, income, profit or other benefits.

### **Investments**

Assets held not for operational purposes or for rendering services i.e. assets other than *fixed assets* or *current assets* (e.g. securities, shares, *debentures*, immovable properties).

### **Issued Share Capital**

That portion of the *authorized share capital* which has actually been offered for subscription. This includes any *bonus shares* allotted by the corporate enterprise.

### **Joint venture**

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

### **Last In, First Out (LIFO)**

Computation of the cost of items sold or consumed during a period on the basis that the items last acquired were sold or consumed first.

### **Liability**

The financial obligation of an enterprise other than owners' funds.

### **Lien**

Right of one person to satisfy a claim against another by holding or retaining possession of that other's *assets*/property.

### **Long-term Liability**

Liability which does not fall due for payment in a relatively short period, i.e., normally a period not more than twelve months.

### **Lease**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

### **Materiality**

An accounting concept according to which all relatively important and relevant items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements are disclosed in the financial statements.

### **Mortgage**

A transfer of interest in specific immovable property for the purpose of securing a loan advanced, or to be advanced, an existing or future debt or the performance of an engagement which may give rise to a pecuniary *liability*. The security is redeemed when the loan is repaid or the debt discharged or the obligations performed.

### **Net Assets/Shareholders' funds/Net Worth**

The excess of the *book value* of *assets* (other than *fictitious assets*) of an enterprise over its *liabilities*. This is also referred to as **net worth** or **shareholders' funds**.**Net**

### **Fixed Assets**

Fixed assets less accumulated depreciation thereon up-to-date.

### **Net Profit/Net loss**

The excess of *revenue* over *expenses* during a particular accounting period. When the result of this computation is negative, it is referred to as **net loss**. The net profit may be shown before or after tax.

### **Net realizable value**

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Obsolescence**

Diminution in the value of an asset by reason of its becoming out-of date or less useful due to technological changes, improvement in production methods, change in market demand for the product or service output of the asset, or legal or other restrictions.

### **Operating Profit**

The *net profit* arising from the normal operations and activities of an enterprise without taking account of extraneous transactions and expenses of a purely financial nature.

### **Paid-up Share Capital**

That part of the *subscribed share capital* for which consideration in cash or otherwise has been received. This includes *bonus shares* allotted by the corporate enterprise.

### **Preference Share Capital**

That part of the *share capital* of a corporate enterprise which enjoys preferential rights in respect of payments of fixed *dividend* and repayment of *capital*. Preference shares may also have full or partial participating rights in surplus profits or surplus capital.

### **Preliminary Expenses**

Expenses relating to the formation of an enterprise. These include legal, accounting and share issue expenses incurred for formation of the enterprise.

### **Prepaid Expense**

Payment for expense in an accounting period, the benefit for which will accrue in the subsequent accounting period(s).

### **Prime Cost**

The total *cost* of direct materials, direct wages and other direct production expenses.

### **Prior Period Item**

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

### **Profit/Loss**

A general term for the excess of *revenue* over related *cost*. When the result of this computation is negative it is referred to as **loss**.

### **Profit and Loss Account**

A financial statement which presents the *revenues* and *expenses* of an enterprise for an accounting period and shows the excess of *revenues* over *expenses* (or vice versa). It is also known as **profit and loss account**.

### **Promissory Note**

An instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

### **Provision**

An amount written off or retained by way of providing for *depreciation* or diminution in value of assets or retained by way of providing for any known *liability* the amount of which cannot be determined with substantial accuracy.

### **Provision for Doubtful Debts**

A *provision* made for debts considered doubtful of recovery.

### **Prudence**

A concept of care and caution used in accounting according to which (in view of the uncertainty attached to future events) *profits* are not anticipated, but recognised only when realised, though not necessarily in cash. Under this concept, *provision* is made for all known *liabilities* and losses, even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

### **Redeemable Preference Share**

The preference share that is repayable either after a fixed or determinable period or at anytime decided by the management (by giving due notice), under certain conditions prescribed by the instrument of incorporation or the terms of issue.

### **Redemption**

Repayment as per given terms normally used in connection with preference shares and debentures.

### **Reserve**

The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than a *provision* for *depreciation* or diminution in the value of assets or for a known *liability*. The reserves are primarily of two types: *capital reserves* and *revenue reserves*.

### **Revaluation Reserve**

A *reserve* created on the revaluation of *assets* or *net assets* of an enterprise represented by the surplus of the estimated replacement cost or estimated market values over the *book values* thereof.

### **Residual value**

Residual value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

### **Revenue/Income**

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

### **Revenue Reserve**

Any reserve other than a capital reserve.

### **Right Share**

An allotment of shares on the issue of fresh *capital* by a corporate enterprise to which a shareholder is entitled on payment, by virtue of his holding certain shares in the enterprise in proportion to the number of shares already held by him. (Shares allotted to certain categories of *debenture* holders pursuant to the rights enjoyed by them are sometimes called right shares)

### **Sales Turnover/Gross Turnover/Gross Sales**

The aggregate amount for which sales are effected or services rendered by an enterprise. The terms **gross turnover** and **net turnover** (or **gross sales** and **net sales**) are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts.

### **Secured Loan**

Loan secured wholly or partly against an asset.

### **Share Capital**

Aggregate amount of money paid or credited as paid on the shares and/ or stocks of a corporate enterprise.

### **Share Discount**

The excess of the face value of shares over their issue price.

### **Shareholders' Equity**

The interest of the shareholders in the *net assets* of a corporate enterprise. However, in the case of liquidation it is represented by the residual assets after meeting prior claims.



### Share Issue Expenses

Costs incurred in connection with the issue and allotment of shares. These include legal and professional fees, advertising expenses, printing costs, underwriting commission, brokerage, and also expenses in connection with the issue of prospectus and allotment of shares.

### Share warrants

Share warrants or options are financial instruments that give the holder the right to acquire equity shares.

### Securities Premium

The excess of the issue price of shares over their face value.

### Sinking Fund

A *fund* created for the repayment of a *liability* or for the replacement of an asset.

### Straight Line Method

The method under which the periodic charge for *depreciation* is computed by dividing the *depreciable amount* of a *depreciable asset* by the estimated number of years of its useful life.

### Subscribed Share Capital

That portion of the *issued share capital* which has actually been subscribed and allotted. This includes any *bonus shares* allotted by the corporate enterprise.

### Substance over Form

An accounting concept according to which the substance and not merely the legal form of transactions and events governs their accounting treatment and presentation in financial statements.

### Sundry Creditors / Trade Creditors/Trade payables

Amount owed by an enterprise on account of goods purchased or services received or in respect of contractual obligations. Also termed as **trade creditors** or **account payables** or **Trade payables**.

### Sundry Debtors / Trade Debtors/ Trade Receivables

Person from whom amounts are due for goods sold or services rendered or in respect of contractual obligations. Also termed as **debtors**, **trade debtors**, **account receivables**, **trade receivables**.

### Surplus

Credit balance in the *profit and loss statement* after providing for proposed appropriations, e.g., *dividend* or *reserve*

### **Glossary of common Financial Markets-related terminology**

<b>Term</b>	<b>Definition</b>
Stock Market	A platform where shares of publicly traded companies are bought and sold.
Bond	A fixed-income instrument representing a loan made by an investor to a borrower, usually corporate or governmental.
Equity	Ownership interest in a company, typically represented by shares of stock.
Derivative	A financial contract whose value is derived from an underlying asset such as stocks, bonds, or commodities.
Mutual Fund	An investment vehicle pooling funds from multiple investors to invest in securities like stocks and bonds.
Exchange-Traded Fund (ETF)	A fund that tracks an index, commodity, or sector, traded like a stock on an exchange.
Market Capitalization	The total value of a company's shares, calculated as share price multiplied by the number of outstanding shares.
Initial Public Offering (IPO)	The process by which a private company offers its shares to the public for the first time.
Liquidity	The ease with which an asset can be converted into cash without affecting its market price.
Market Order	An instruction to buy or sell a security immediately at the best available current price.
Limit Order	An instruction to buy or sell a security at a specific price or better.
Short Selling	The practice of selling borrowed securities with the intent to buy them back later at a lower price.
Bull Market	A market condition where prices are rising or are expected to rise.
Bear Market	A market condition where prices are falling or are expected to fall.
Blue Chip Stocks	Shares of well-established, financially stable, and large companies with a history of reliable performance.
Index	A statistical measure of the performance of a group of stocks, such as the S&P 500 or Nifty 50.
Yield	The earnings generated on an investment over a specific period, expressed as a percentage of its cost.
Spread	The difference between the bid (buy) and ask (sell) prices of a security or asset.
Volatility	A statistical measure of the dispersion of returns for a given security or market index, indicating risk.
Arbitrage	The simultaneous purchase and sale of an asset to profit from price differences in different markets.
Hedging	A risk management strategy used to offset potential losses in investments by taking an opposite position.
Market Depth	The measure of a market's ability to absorb large orders without affecting the price significantly.
Securities	Financial instruments that represent an ownership position (stocks), a creditor relationship (bonds), or rights to ownership (derivatives).
Commodities	Physical goods such as gold, oil, or agricultural products traded on commodities markets.

Forex (Foreign Exchange)	The global market for trading currencies, determining exchange rates between currencies.
Margin Trading	Borrowing funds from a broker to trade securities, with the securities serving as collateral for the loan.
Circuit Breaker	A mechanism to halt trading temporarily if the market moves too sharply, to prevent panic selling.
Block Deal	A trade of a large quantity of shares between two parties at a mutually agreed price, usually outside the open market.
Sector Rotation	The practice of moving investments from one industry sector to another based on market conditions or trends.
Liquidity Ratio	A measure of a company's ability to pay off its short-term obligations with its liquid assets.
Stop-Loss Order	An order to sell a security when its price falls to a specific level, used to limit potential losses.
Over-the-Counter (OTC)	A decentralized market where trading is done directly between two parties without a central exchange.
Options	A derivative contract giving the buyer the right, but not the obligation, to buy or sell an asset at a predetermined price before a certain date.
Futures Contract	A standardized agreement to buy or sell an asset at a specific price on a specific date in the future.
Beta	A measure of a stock's volatility relative to the overall market; a beta of 1 indicates the stock moves with the market.
Alpha	A measure of an investment's performance relative to a benchmark index.
Capital Gain	The profit from selling an asset for more than its purchase price.
Dividend	A portion of a company's earnings distributed to shareholders.
Yield Curve	A graphical representation of the relationship between interest rates and the maturity of debt securities.

## **Glossary of common Banking-related terminology**

<b>Term</b>	<b>Definition</b>
Account Holder	An individual or entity that owns a bank account.
Automated Teller Machine (ATM)	A machine that allows bank customers to perform basic banking transactions like withdrawals and deposits.
Balance Sheet	A financial statement showing a bank's assets, liabilities, and equity at a specific point in time.
Bank Reconciliation	The process of matching the entries in the bank's records with the customer's account records.
Basel Norms	International banking regulations established by the Basel Committee on Banking Supervision to promote financial stability.
Certificate of Deposit (CD)	A time deposit with a fixed maturity and interest rate, issued by a bank.
Clearing House	An intermediary organization that facilitates the settlement of transactions between banks.
Collateral	An asset pledged by a borrower to secure a loan, which can be seized by the lender if the borrower defaults.
Credit Risk	The risk that a borrower will fail to meet their obligations.
Current Account	A type of deposit account primarily used by businesses for frequent and high-volume transactions.
Deposit Insurance	Protection provided to depositors by agencies like DICGC in India, ensuring compensation if the bank fails.
Electronic Funds Transfer (EFT)	A system of transferring money electronically between banks or accounts.
Equated Monthly Installment (EMI)	A fixed monthly payment made by a borrower to repay a loan.
Floating Rate	An interest rate that varies with market conditions, often tied to a benchmark rate like LIBOR.
Fixed Deposit (FD)	A financial instrument where a sum of money is deposited for a fixed period at a fixed interest rate.
Foreign Exchange (Forex)	The global market for trading currencies.
Home Loan	A loan provided by a bank to purchase, construct, or renovate a house.
Interest Rate	The percentage charged by a lender to a borrower for the use of money.
Know Your Customer (KYC)	A process through which banks verify the identity and address of their customers to prevent fraud and money laundering.
Loan-to-Value Ratio (LTV)	The ratio of a loan amount to the value of the collateral securing the loan, expressed as a percentage.
Minimum Balance	The minimum amount of money that must be maintained in a bank account to avoid penalties.
Net Interest Margin (NIM)	The difference between the interest income generated by a bank and the amount of interest paid to its lenders.
Non-Performing Asset (NPA)	A loan or advance for which the principal or interest payment remains overdue for 90 days or more.

Overdraft	A facility allowing account holders to withdraw more money than their account balance, up to a specified limit.
Prime Lending Rate (PLR)	The interest rate at which a bank lends to its most creditworthy customers.
Recurring Deposit (RD)	A deposit scheme where individuals can deposit a fixed amount regularly and earn interest.
Reserve Bank of India (RBI)	India's central bank, responsible for regulating the monetary and banking system in the country.
Retail Banking	Banking services provided to individual consumers, including savings accounts, loans, and credit cards.
Standing Instruction	A directive given by an account holder to their bank to make regular payments of a fixed amount.
Savings Account	A deposit account offered by banks that earns interest on the balance maintained.
Secured Loan	A loan backed by collateral, reducing the lender's risk.
SWIFT Code	A unique identification code for banks, used in international money transfers.
Term Loan	A loan provided for a fixed tenure, usually used for purchasing assets or funding large projects.
Transaction Fee	A charge levied by the bank for conducting a specific transaction, such as an ATM withdrawal or transfer.
Universal Banking	A banking model where banks offer a wide range of financial services, including investment, insurance, and retail banking.
Unsecured Loan	A loan granted without any collateral, based on the borrower's creditworthiness.
Wholesale Banking	Banking services provided to large corporations, institutions, and governments.
Zero Balance Account	A type of savings account with no minimum balance requirement.

## Websites of Educational Platforms

1. **Coursera**  
<https://www.coursera.org>
  2. **edX**  
<https://www.edx.org>
  3. **Khan Academy**  
<https://www.khanacademy.org>
  4. **Udemy**  
<https://www.udemy.com>
  5. **Skillshare**  
<https://www.skillshare.com>
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## Financial News and Updates

6. **Investopedia**  
<https://www.investopedia.com>
  7. **Economic Times**  
<https://economictimes.indiatimes.com>
  8. **Bloomberg**  
<https://www.bloomberg.com>
  9. **Reuters**  
<https://www.reuters.com/finance>
  10. **CNBC**  
<https://www.cnbc.com>
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## Accounting-Specific Resources

11. **AccountingCoach**  
<https://www.accountingcoach.com>
  12. **American Institute of CPAs (AICPA)**  
<https://www.aicpa.org>
  13. **Institute of Chartered Accountants of India (ICAI)**  
<https://www.icai.org>
  14. **Corporate Finance Institute (CFI)**  
<https://corporatefinanceinstitute.com>
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## Financial Data and Analysis

15. **Yahoo Finance**  
<https://finance.yahoo.com>

- 16. Morningstar**  
<https://www.morningstar.com>
  - 17. Trading Economics**  
<https://tradingeconomics.com>
  - 18. MarketWatch**  
<https://www.marketwatch.com>
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## Regulations and Standards

- 19. Securities and Exchange Board of India (SEBI)**  
<https://www.sebi.gov.in>
  - 20. Reserve Bank of India (RBI)**  
<https://www.rbi.org.in>
  - 21. IFRS Foundation**  
<https://www.ifrs.org>
  - 22. Financial Accounting Standards Board (FASB)**  
<https://www.fasb.org>
- 

## Tools and Resources

- 23. QuickBooks**  
<https://quickbooks.intuit.com>
- 24. Zoho Books**  
<https://www.zoho.com/books>
- 25. Xero**  
<https://www.xero.com>



### **Finance-themed pick-up lines**

Are you a bank loan? Because you've got my interest!"

"You must be an asset because you're adding value to my life."

"Are you a balance sheet? Because you're perfectly balanced in my heart."

"You and I must be a perfect hedge because I can't see any risk with you."

"Are you a stock? Because I'm ready to invest all my time in you."

"I'd never short-sell you because your value just keeps increasing!"

"Are you compound interest? Because my feelings for you keep growing exponentially."

"Do you believe in market efficiency? Because you've got all the right signals."

"Are you a dividend? Because you're paying off in so many ways!"

"You must be a blue-chip stock because you're safe, reliable, and my top choice."

"Are you liquidity? Because my heart flows freely when I'm with you."

"Is your name ROI? Because you're the return I've been waiting for."

"You must be a financial model because you're absolutely flawless."

"Are you a cryptocurrency? Because I'd hold onto you through all the volatility."

"You and I together could be a great merger—100% synerg



