ROHINI

COLLEGE OF ENGINEERING & TECHNOLOGY

UNIT - IV

FINANCING AND ACCOUNTING.

Finance:

* finance is a key input of Production, distribution and development.

* Life - blood of industry and is a Pre-requiste for accelerating the process of industrial development.

Need for Financial Planning:

* finance is one of the important Prerequisites to start an enterprise.

* financing an enterprise - whether large (or) small is a critical elements for source is business.

* The decision taken by the ~~employment~~ entrepreneur well in advance regarding the future financial aspects of his/her

enterprise is called "financial planning".

financial planning deals with the Present decision in terms of financial aspects of an enterprise.

Entrepreneur capital is arranged from two sources;

a) Internal Sources

b) External Sources.

Internal Sources - own money ⇒ Equity.

External Sources - financial institutions and Commercial banks etc.

Financial Needs

- Basis of extent of Performance
  - fixed Capital
  - Working Capital
- Basic of Period of use
  - Long term Capital
  - Short term Capital

a) Fixed Capital – Land, building, Machinery, equipment, furniture etc.

b) Working Capital – Goods, Materials, debtors etc.

c) Long-Term Capital – money whose repayment is arranged for more than five years in future.

d) Short-term Capital – Repaid within one year.

Sources of finance:

* The various sources from which an enterprise can raise the required fund could broadly be classified into two sources.

* They are,

a) Internal sources:

b) External sources:

Internal Sources:

* This source is raised by the entrepreneur himself.

* The internal sources of financing arrived from owner's capital known equity, deposits, loans given by the owners, the partners, the directors, as the case may be, to the enterprise.

a) Retained Profit
b) Controlling working capital
c) Sale of Assets.

External Sources:

The sources of finance raised through external sources other than internal sources are,

a) Increasing trade credit.
b) factoring overdraft
c) Grants
d) Venture capital
e) Debentures
f) Share issues
g) owners
h) Securing Bank loans
i) Leasing.

If we now lump both the sources together, these can broadly be classified as follows;

1. Personal funds (or) Equity Capital
2. Loans from relatives and friends
3. Mortgage loans.
4. Term loans
5. Subsidaries.

Term loans:

The loans which are taken for a definite Period of time are called "term loans".

Term loans

- Short term loans
- Long term loans.

Short term loans:

* Short-term finance is ~~obta~~ rangi for a period upto one year.

* These are required to meet the day-to-day business requirements.

* In other words, short term finance is obtained to meet the working capital requirements of the enterprise.

Short-term finance

- Commericial Bank
- Public Deposits
- Trade Credits
- factoring
- Discounting of Bills
- Bank Over draft
- Accrued Account.
- Advances from customers

g term loans:

Explain

It is obtained for the period ranging from 5 to 10 years.

* It is raised for the purchase of fixed asset which includes the following,

* Land and Site Development.
* Building and Civil works.
* Plant and Machinery
* Installation Expenses.
* Miscellaneous fixed assets, Comprising Vehicles, furnitures and fixtures, Officer equipment and So on.

* Term loans (or) long term loans are also required for expansion of productive Capacity by replacing (or) adding to the existing equipment.

The following are the sources of term loans;

:- Debentures and any whether Con

* Issue of Shares
* Issue of Debentures
* Loans from financial Institutions.
* Loans from Commericial Banks
* Public Deposits
* Retention of Profits.

1. Share:

Share is unit into which the total capital of a Company is divided.

a) Preference Shares

b) Equity Shares

2. Debentures:

* Methods of raising term loans from the public.

* A debenture is an instrument acknowledging a debt by a Company to a Person (or) Persons.

"Debentures includes debenture stock, bonds and any other securities of the company whether constituting a charge on the company's assets (or) not".

Difference between share and debentures:

1. Representation:

Share - portion of capital

Debenture - Portion of debt of a company.

2. Status:

Shareholder - member of the company

Debenture - creditor of the company

3. Return:

Share holder - Paid dividend

Debentures - Paid Interest

4. Right of Control:

Share holder - have a right to control the company

Debentures - doesn't have any rights.

5. Repayment:

* Debentures are normally issued for a specified period after which they are repaid

* Repayment is not possible in shares.

6. Purchase:

* Company cannot purchase its own share from market.

* Debenture can purchase its own debentures and cancel them.

7. Order of Repayment:

Debenture - get Priority in payment,

share - get payment for all claims.

pital Structure :

* It is the ratio between debt and equity Capital (ie) debt - equity ratio.

* Capital Structure means the Permanent financing of the enterprise represented Primarily by long-term Sources of funds.

Factor Determining Capital structure :-

1. Nature of Business
2. Size of the Enterprise
3. Trading on Equity
4. Cash flows.
5. Purpose of financing
6. Provision for future.

financial Institutions:

* finance is one of the essential requi... of any enterprise before setting up their units they need to know various type and extent of their financial requirements.

* To provide financial assistance to entrepreneur the government has set up a number of special financial institution besides commercial banks.

* financial institution can be classified into the basis of loan rendering to entrepreneur for their development.

1. Commercial Bank
2. Other financial Institutions.

Financial Institution.

- Commercial Bank
- Other financial Institutions
  - All India financial Institution
    1. Industrial Development Bank of India (IDBI)
    2. Industrial finance Corporation of India Ltd (IFCI).
    3. Industrial Credit and Investment Corporation of India (ICICI)
    4. Industrial Reconstruction Bank of India (IRBI).
    5. Life Insurance Corporation of India (LIC)
    6. United Trust of India (UTI)
    7. Small Industries Development Bank of India (SIDBI)
    8. Small Industrial Development Corporation (SIDCO)
    9. Export -Import Bank of India (EXIM Bank).
  - State level Institutions
    1. State financial Corporation (SFC)
    2. State Industrial and Investment Corporations.

Management of Working Capital :-

Working capital is that amount of funds which is required to carry out the day to day operations of an enterprise.

These operations consists of Primarily such items as raw materials Semi-Processed goals, goods, finished Products, Short term investments.

Concept of Working Capital:

They are;

a) Gross Working Capital

b) Net working Capital.

a) Gross Working Capital:

It is the amount of funds

invested in the various Components of Current assets.

Gross working Capital = Total Current assets.

b) Net Working Capital:

* It is the difference between Current assets and Current liabilities.

* The Concept of net working Capital is enable to firm to determine how much amount is left for operational requirements.

Current Asset includes;

1. Cash in hand and at bank.
2. Bill receivables.
3. Closing stock.
4. Short-term investments
5. Prepaid expenses.

Current liabilities includes;

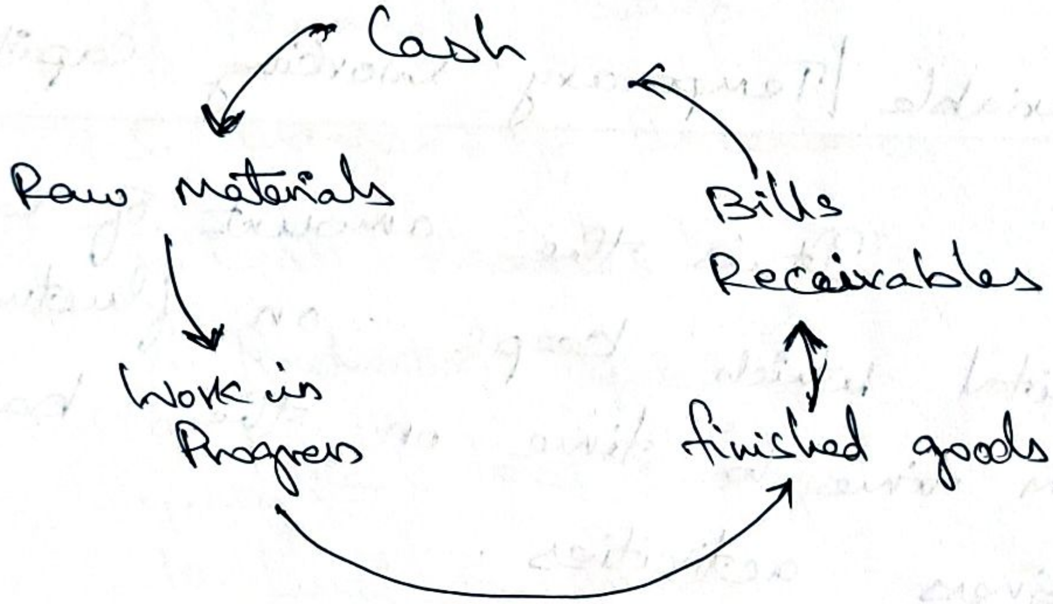
1. Sundry Creditors.
2. Bills Payable.
3. Outstanding expenses.
4. Bank overdraft
5. Dividend Payable.
6. Provision for taxation.

* Networking capital may be Positive (or) negative. When the current assets exceeds current liabilities, the working capital is Positive.

* If current liabilities exceeds the current assets, the working capital is negative.

perating Cycle:

"The average time intervening between the acquisition of materials (or) Services entering the Process and final cash realization".



Types of Working Capital:

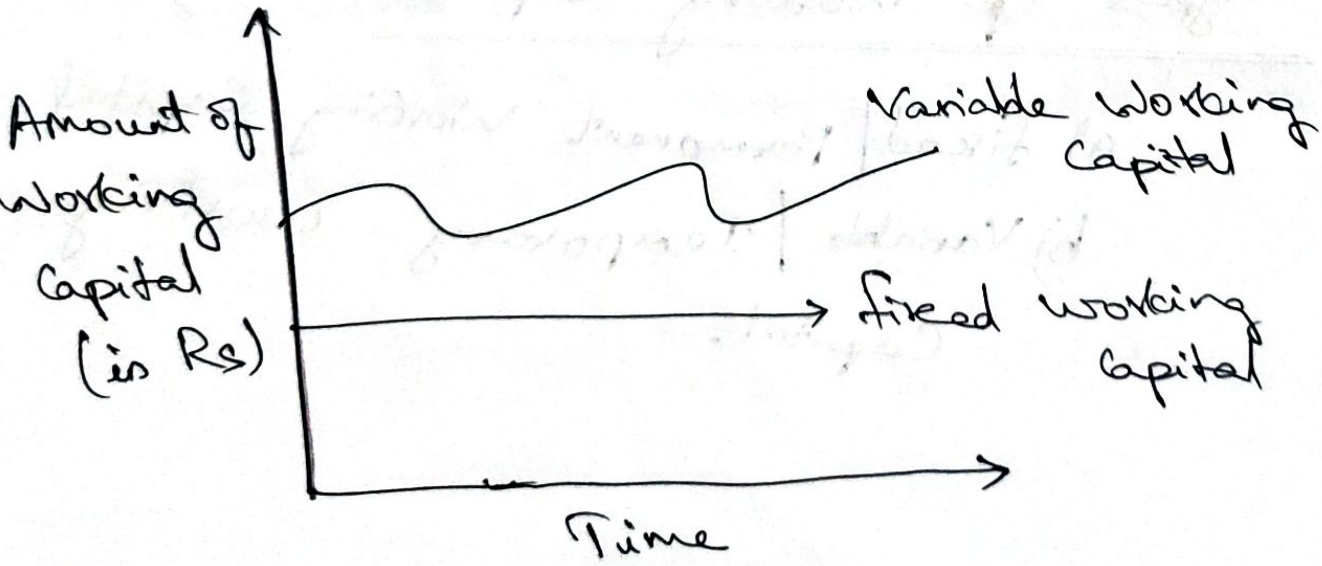
a) fixed / Permanent Working Capital
b) Variable / Temporary Working Capital.

1. Fixed / Permanent Working Capital:

It is the minimum amount of working capital required to ensure effective utilisation of fixed assets and support the normal operation of the business.

2. Variable / Temporary Working Capital:

It is the amount of working capital which keeps on fluctuating from time to time on the basis of business activities.



actor Determining Working Capital:

1. Nature of Business
2. Nature of Industry
3. Terms of Credit.
3. Seasonal fluctuations.
4. Volume of Sales.
5. Turnover of Inventories
6. Cash Reserves
8. Production cycle
9. Price level changes
10. Level of Taxes
11. Growth and Expansion of Business
12. Operational and ~~Expansions~~ financial ~~of~~ Efficiency.

Sources of Working Capital:

1. Loans from Commercial Banks.
2. Ploughing back of Profits (or) Self financing.

3. Provision for taxation.

4. Bank credit and overdraft.

5. Trade credit

6. Accrual accounts.

7. Advances.

8. Discounting bills of exchange.

Working Capital Management:

* It is an integral part of overall Corporate management.

* It refers to the excess of Current assets over Current liabilities.

* It is concerned with the administration of all Current assets and Current liabilities.

* It also have a great impact on the structural health of the organisation.

sting:

* Cost is used very often in our day-to day affairs.

* Cost is the amount, measured in money; of cash expended (or) other Property transferred capital stock issued, Services performed, (or) liability incurred; in consideration of goods (or) services received (or) to be received.

* Costing is the process of determining the cost of doing something.

* Costing is the study of the expenses incurred in manufacturing a Product and conducting a business in a such a manner that the expense are analysed and classified so as to enable the actual cost of

any Particular Process (or) unit of to be determined with a minimum of error".

Methods of Costing:-

1. Job Costing
2. Contract Costing
3. Batch Costing
4. Multiple Costing
5. Process Costing
6. Single output (or) Unit Costing.
7. Operation Costing → operator
8. Operating Costing
9. Departmental Costing.

Types of Costing:

The cost may be allocated on the basis of actual cost incurred (or) cost may be assigned on a Standard cost basis.

* A System of Cost accounting implies that there is a planned and Co-ordinated arrangement of all matters relating to costing.

The following are the systems, generally;

1. Historical Costing – Initial stage cost.
2. Standard Costing – Pre-determined Cost.
3. Uniform Costing – followed by trade Associations.
4. Marginal Costing – Variable for Direct Costing.
5. Opportunity Costing – Expected (or) Benefited Costing.

Cost Classification:

They are classified as,

1. Nature (or) Element.
2. Variability
3. Controlability
4. Direct and Indirect Costs
5. functions of Companies
6. Capital and Revenue.
7. Normality costs.

Elements of Cost:

They are as follows,

1. Direct Material Cost,
2. Direct Wages,
3. Direct | chargeable Expenses,
4. Indirect Materials
5. Indirect Labour,
6. Indirect Expenses,
7. Overheads.

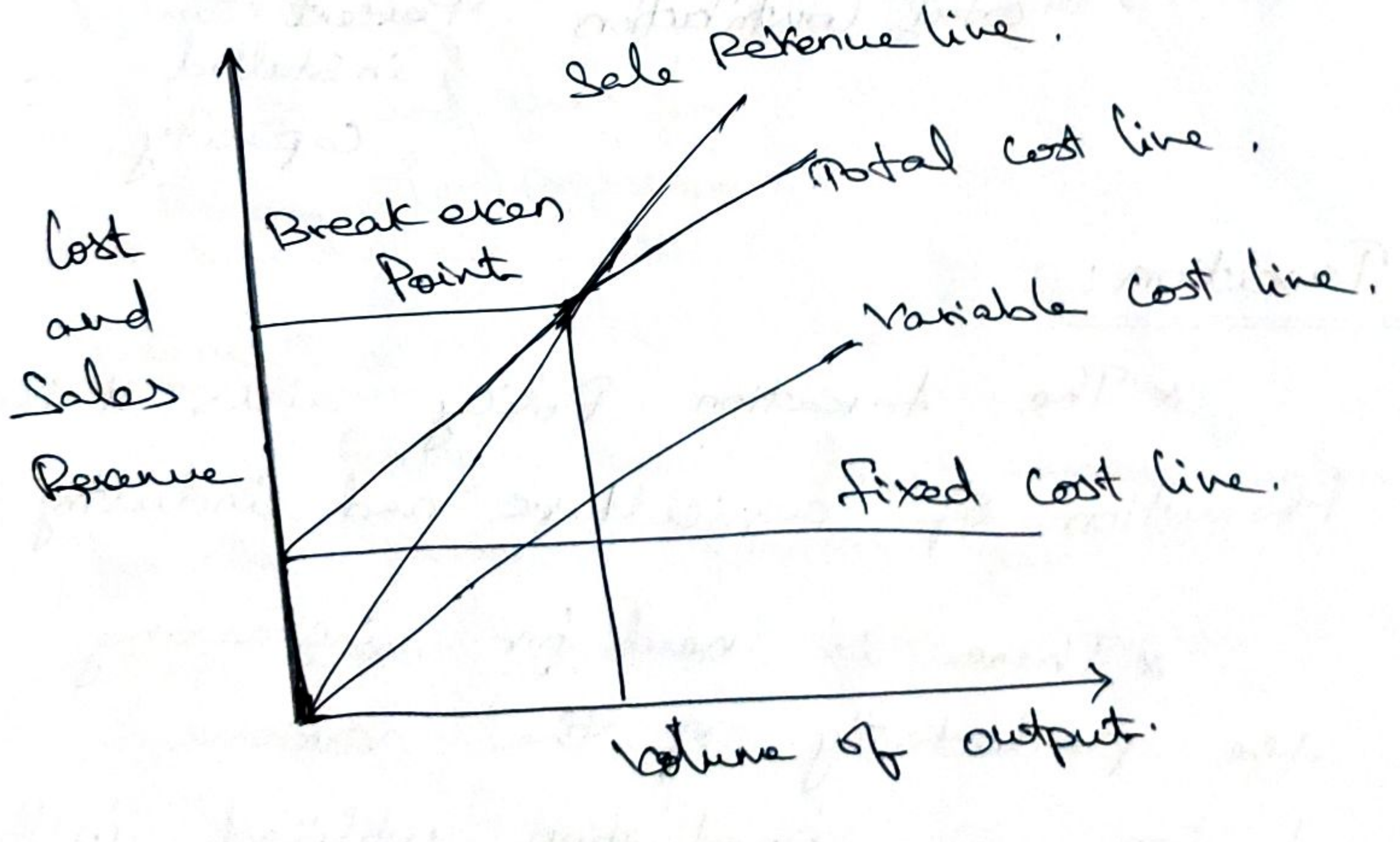
Break-Even Analysis:

* Break even point is an important measure being used by the proponents and banks in deciding the viability of a new Project, especially in respect of manufacturing activities.

* This technique is useful in dealing with a new project (or) a new activity of the existing unit.

* The break-even point establishes the level of output, production which exactly break the costs and revenues.

* The break-even analysis also determines the margin of safety.



(ii) BEP in terms of Sales

$$\text{Break even Analysis} = \frac{\text{fixed Cost}}{\text{Total Contribution}} \times \text{Total of}$$

$$\text{Total Sales} = \text{Total Variable Cost} + \text{Total Contribution}$$

(iii) BEP interms of Capacity utilization:

$$BEP = \frac{\text{Total fixed Cost}}{\text{Total Contribution}} \times \text{Production interms of Percent to installed Capacity.}$$

Taxation:

* The taxation Policy aims at the Promotion of agriculture and industry.

* There is need for increasing the productivity of the various factors of production utilised in the

industrial advancement of the Country.

Taxations benefits related to,

a) Income Tax

b) Excise Duty.

c) Sales Tax.

Taxation

Direct Tax

a) Income Tax (salary)

b) Wealth Tax

c) Profits and gains from Business (or) profession.

Indirect Tax.

a) Excise Duty

b) Sales Tax.

Income Tax:

Every Person, whose taxable income for the precious financial year exceeds the minimum taxable limit is liable to government.

Basis of Charges of Income Tax:

a) Income tax is an annual tax in income.

b) Income of previous year is taxable in the ~~next~~ following assessment year.

c) Tax rate are fixed by the annual finance act.

d) Tax is charged on ~~total~~ income of every persons.

Income from salaries:

Salary includes the following amounts received by an employee from his employee, during the previous year.

a) Wages
b) Encashment of earned leave
c) Any annuity (or) Pension.
d) Provident fund
e) Compensation for Retirement.

ii) one from Wealth:

Annual value (ie) rent (or) revenue received from any building (or) land which is attached to the building of which assesse is the owner and which is not used for the purpose of assesse own business (or) Profession is charged to tax under income from house Property.

Income from Profits and gains of Business/Profession:

Profits and gain of business (or) Profession.

* The Profits and gain of any business which was carried on by the assesse at any time during the Previous year.

*Income derived by a trade, Profession (or) similar association from specific Performed for its member.

Capital Gains:

The tax is to be levied on any Profit (or) gain accuring on the transfer of a capital assets. Capital assets refer to Property of any kind held by the assesse.

Income from other Sources:

The other Sources of income which are deducted to income tax are;

a) Casual Income
b) Insurance Commission.
c) Family Pension.
d) Interest to loan.
e) Income from undisclosed Sources
f) Agricultural Income.
g) Interest received on delayed refund.

Sales Tax:

* Sale Tax is an indirect Tax

* It is levy on purchase and sale of goods in India.

* Sales Tax is levied under authority of both central legislation and state government. (ie) Central sale Tax, Local sales Tax. [CGST, SGST].

Types of Sales Taxation in India:

- Sales Tax
  - Selective sales Tax
    - Single Point
    - Multiple Point
  - General Sales Tax
    - Single Point
    - Multiple Point.

a) **Selective Sale Tax:**

It is imposed on the sale on few selection Commodities singled for the purpose of taxation.

b) **General Sales Tax:**

It is imposed by the government on the sale of all commidities except whose which may be specially exempted by the government.

c) **Single point Sales Taxation:**

Single point Sales Tax means that is imposed at only one point between Production of goods and their sale to a Customer.

d) **Multiple - Point Sale Taxation:**

This ~~tax~~ means that sales tax is leived at all stages of the sale a Commodity (ie) tax will be levied and collected, whenever goods are sold are Purchased, at every Point of Sale.

Excise Duties:

Excise Duties may be defined as " a tax (or) duty on home Produced goods either at some stage of Production (or) before their sale of domestic consumers".

* Excise duty is any duty (or) tax levied upon the manufacture (or) Sale (or) Consumption of commodities within the country.

Kind of Excise Duties:

a) Additional Duties of Excise/goods of Special things: as,

* sugar, tobacco, textile etc.

b) Mineral oils Excise duties;

* Motor spirit, kerosene, refined diesel etc.

c) Cess (or) excise duties:

* Coal and coke, iron ore, tea etc

They hav credi *

Packages and Incentives available to SSI Units:

1. The unit which have turnover upto 100 lakhs need not get registration for central Excise purposes and pay Duty.

2. Duty for a month is paid on the 15th of next month.

3. Return are filled by SSI units on a quarterly basis by 20th day of the close of the quarter.

4. Audit of SSI unit is done once in 2 years.

5. They have the option to avail Cenvat Credit after the turnover has crossed the limit of 100 lakhs.

6. SSI unit to avail Concession under excise law need not be registered with the director of Industries in any state.

7. SSI units should use invoice/ Bills/ Challans with serial number and excise Control code number. [ECC code].

8. Central Excise Inspector Can visit SSI unit only with the prior specific approval of Assistant Commission for a Specific Purpose.

9. Taxable products like cotton fabrics manufacturer by handloom are

exempt from duty without any

10. If the SSI Manufacture has more than one factory, the turnover of all factories is liable to be clubbed for calculating the SSI exemption limit of 100/300 lakh.

11. Special cells are created at Commissionrate levels to assist and advise SSI units about their Problems and to furnish classification of rate of duty.