

UNIT 5

INTRODUCTION TO FINANCIAL STATEMENT ANALYSIS

What is a Financial statement?

- An organised statement which is prepared to know operating performance, financial position, disposal of surplus and movement of short-term assets, cash position and total fund position of the business is known as **Financial Statement** .

NATURE

- ❑ Summarised statement of financial activities
- ❑ Statement of net margin, income and assets and liabilities position
- ❑ It exhibits the financial position of the firm on the basis of book values
- ❑ Prepared at the end of every accounting period
- ❑ It follows fundamental principles, concepts and conventions

COMPONENTS

- Income statement
- Balance sheet
- Statement of retained earnings
- Working capital statement
- Fund flow
- Cash flow

FINANCIAL STATEMENT ANALYSIS

Analysis of Financial Statements is a systematic process of analysing and evaluating the relationship between related items of financial statements. The objective of this process is to understand financial position (i.e., liquidity, solvency, and profitability), operational efficiency and growth potential of the business.

NECESSITY

- ✓ Measurement Of Profitability
- ✓ Interest Of Parties
- ✓ Accounting Quality
- ✓ Adequacy Of Cash Flow
- ✓ Financial Flexibility
- ✓ Screening, Diagnostic And Analytical Tool
- ✓ Analysis Of Environment

TOOLS OF FINANCIAL STATEMENT ANALYSIS

- ✓ Comparative Financial Statements
- ✓ Common Size Financial Statements
- ✓ Trend Percentage Analysis
- ✓ Ratio Analysis
- ✓ Statement Of Change In Working Capital
- ✓ Cash Flow Statement
- ✓ Fund Flow Statement

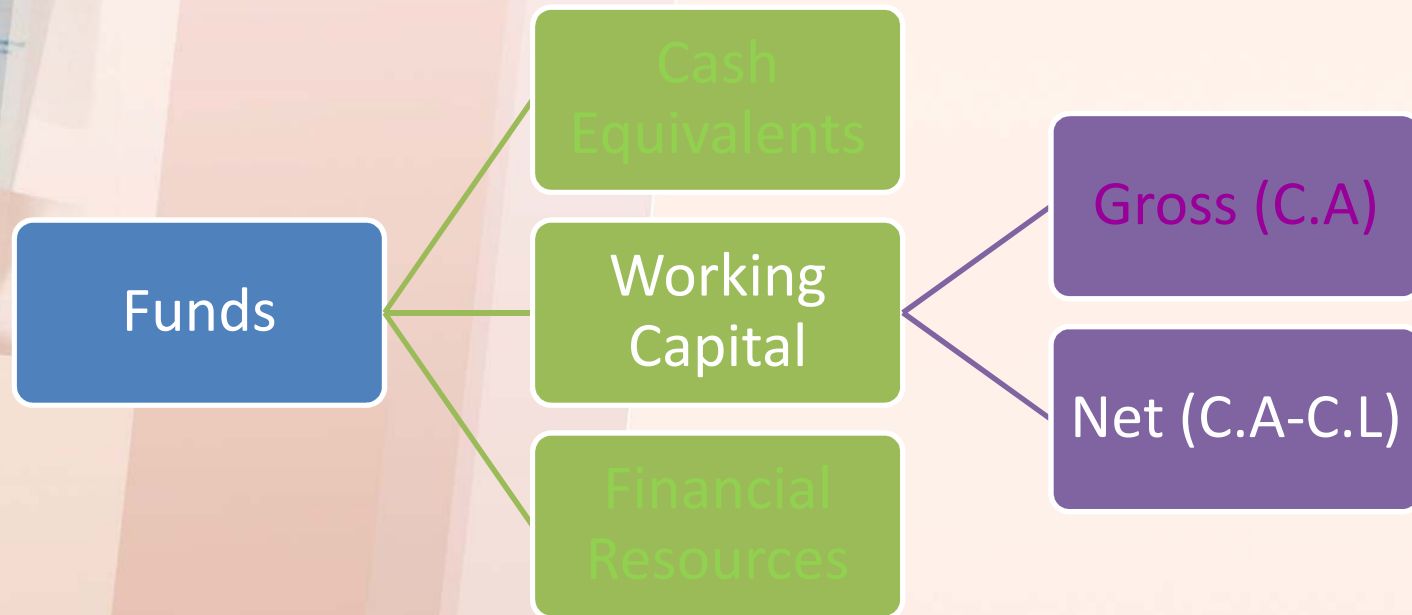


FUNDS FLOW STATEMENT

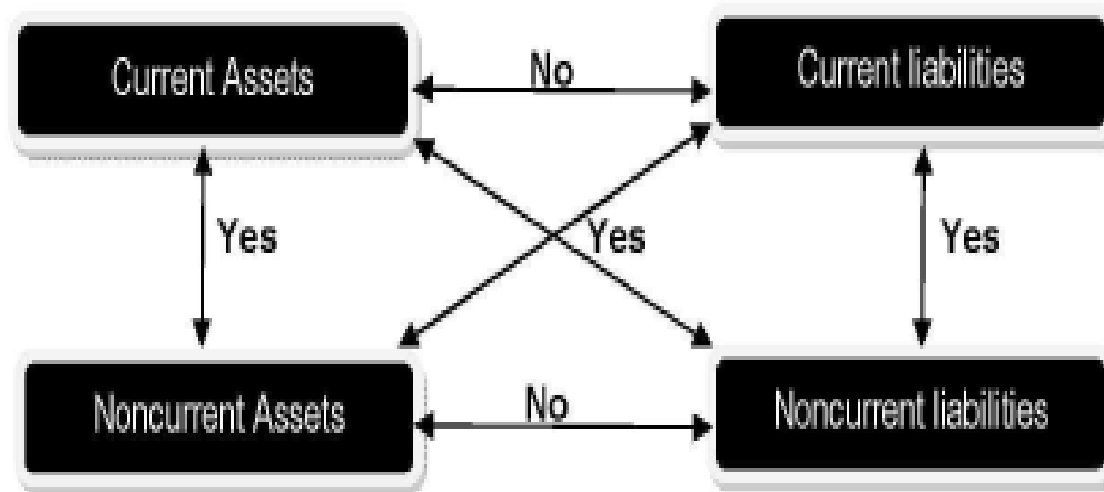
Meaning of Funds



Meaning of Funds



Flow of Funds





FUND FLOW STATEMENT

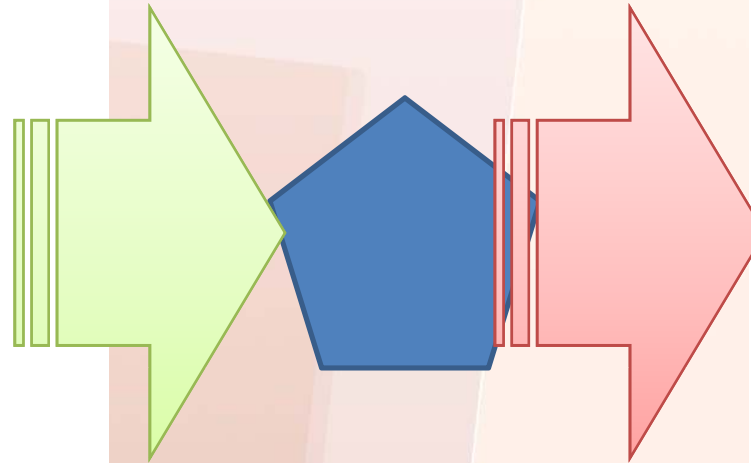
*It is a statement which ascertaining the changes in **financial** position of an enterprise between two periods*

- It serves as **supplementary** financial information to the users
- It summarizes the **resources made available** to finance the activities of an enterprise and the **uses** to which such resources have been put for a **particular period**.



Sources of Funds

- (i) Issue of share capital.
- (ii) Funds from business operations
- (iii) Issue of debentures or long term loans.
- (iv) Sale of fixed assets or long term investments.
- (v) Non-trading income.
- (vi) Decrease in working capital.
- (vii) Any other increase in liability and decrease in asset.
- (viii) Premium on Issue of Shares/Debentures**



Application of Funds

- (i) Redemption of preference share capital.
- (ii) Redemption of debentures.
- (iii) Repayment of long-term loans.
- (iv) Purchase of fixed assets or long term investments.
- (v) Payment of dividends and tax. ★
- (vi) Any other non-trading payment.
- (vii) Funds lost through business operations.
- (viii) Increase in working capital.
- (ix) Any other decrease in liability and increase in asset.
- (x) Premium on redemption of preference shares/debentures**

Steps for Preparation of Fund Flow Statement

Step 1 → Preparation of Statement of Changes in Working Capital

- Increase in CA → Increase in WC
- Decrease in CA → Decrease in WC
- Increase in CL → Decrease in WC
- Decrease in CL → Increase in WC

PARTICULARS	Prev Yr	Current Yr	Effect on WC	
			Increase	Decrease
Current Assets (A):				
.....				
.....				
Current Liabilities(B):				
.....				
.....				
Net Working Capital (A-B)				
Change in Working Capital				

Steps for Preparation of Funds Flow Statement

Step 2 → Ascertaining Funds from Operations

Statement showing Funds from Operations

Net Income

Additions

1. Depreciation of fixed assets
2. Amortization of intangible and deferred charges (i.e. amortization of goodwill, trademarks, patent rights, copyright, discount on issue of shares and debentures, on redemption of preference shares and debentures, preliminary expenses, etc.)
3. Amortization of loss on sale of investments
4. Amortization of loss on sale of fixed assets
5. Losses from other non-operating items
6. Tax provision (created out of current profit)
7. Proposed dividend
8. Transfer to reserve

Subtraction

1. Deferred credit (other than the portion already charged to Profit and Loss A/c)
2. Profit on sale of investment
3. Profit on sale of fixed assets
4. Any subsidy credited to P & L A/c.
5. Any written back reserve and provision.

Adjusted Profit & Loss Account

Dr.	Cr.
To, Non-Op Exp	By, Balance b/f <i>(Op. P&L)</i>
To, Loss of Funds <i>(balancing fig)</i>	By, Non-Op Incomes/Gains
To, Balance c/f <i>(Cl. P&L)</i>	By, Funds from Operations <i>(balancing fig)</i>



Steps for Preparation of Funds Flow Statement

Step 3 → Ascertaining Changes in Non-current Assets & Liabilities

By opening respective accounts

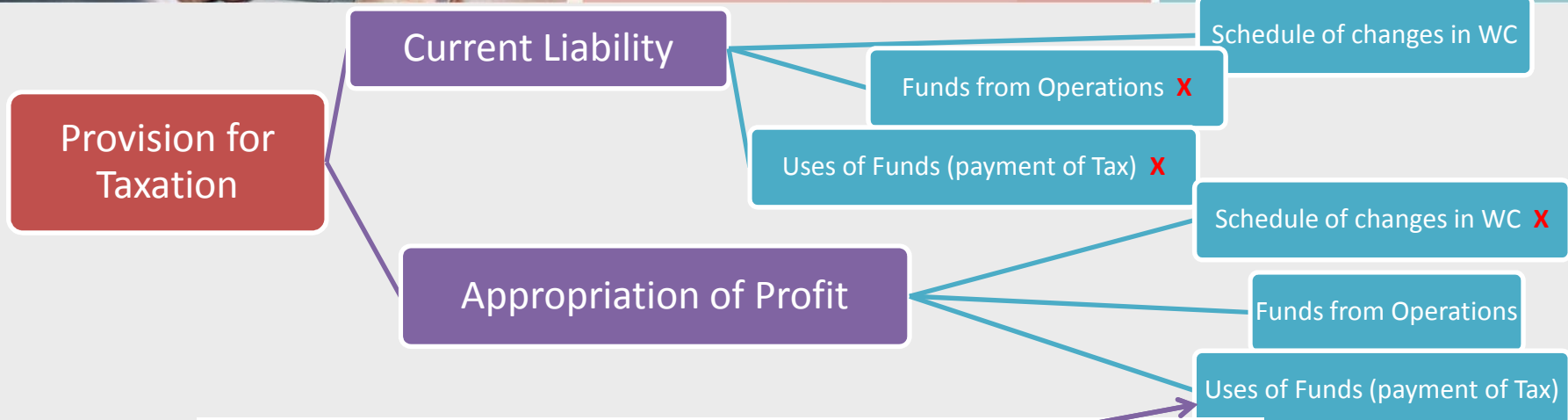


Steps for Preparation of Funds Flow Statement

Step 4 → Preparation of Funds Flow Statement

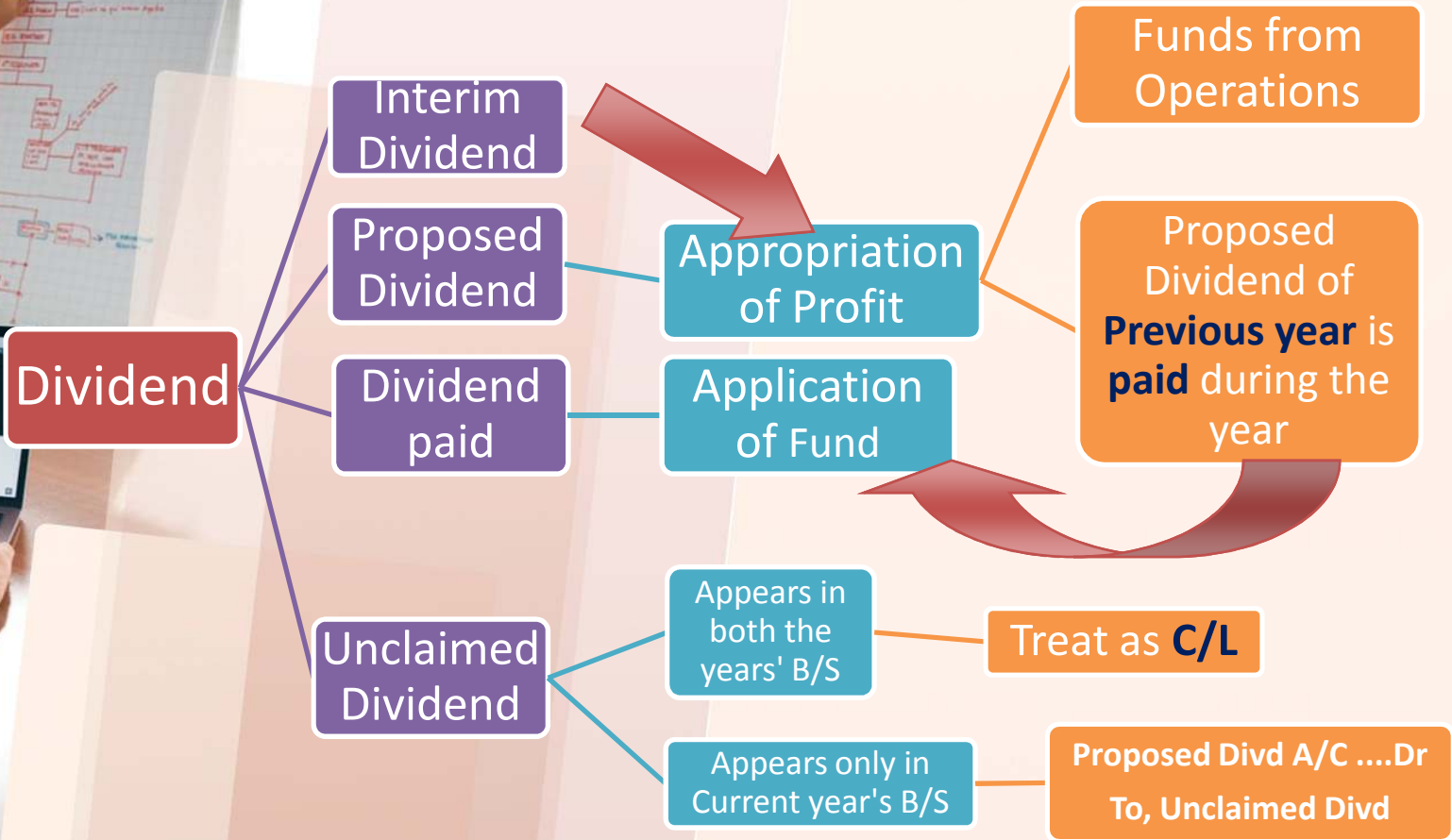
SOURCES	APPLICATIONS
Issue of Share Capital Issue of Debentures Loans Raised Sale of Fixed Assets Sale of Investments Dividends Received on Investments Any Other Non-trading Receipts	Redemption of Pref. Share Capital Redemption of Debentures Buy-back of Equity Shares Payment of Long-term Loans Purchase of Fixed Assets Purchase of Investments Payment of Dividend Payment of Tax
* Net Decrease in Working Capital *	* Net Increase in Working Capital *
** Funds from Operations **	** Loss of Funds from Operations **

Treatment of some Special Items



Provision for Taxation

	-		-
To Cash (Payment of tax)	-	By balance b/d	-
(Balancing figure)		By P & L a/c (current year's provision)	-
To balance c/d	-		
	-		-





Thank You

FINANCIAL MANAGEMENT





Managerial activity which is concerned with planning and controlling of the firm's resources. It is concerned with efficient acquisition and allocation of funds with an objective to make profit for the owners.

- Procurement/ Acquisition of Funds
- Effective Utilisation of Funds

Procurement/ Acquisition of Funds

- What are the available sources of funds?
- Relevant cost of procurement



Effective Utilisation of Funds

- Utilisation of Fixed Assets
- Utilisation of Working Capital



Functions of Financial Management

[A] Decision Making

- Where to get money from?
Financing Decisions
- Where to invest the money?
Investment Decisions
- How much to distribute amongst the shareholders to keep them satisfied? *Dividend Decisions*

[B] Financial Analysis & Control

- *Setting Parameters as per plan*
- *Measurement of Actual*
- *Comparison between parameter & actual*
- *Finding out reasons of deviation*

[C] Increasing Productivity

[D] Short Term Finance Decisions

OBJECTIVES OF FINANCIAL MANAGEMENT

*It is generally agreed that the financial objective of the firm should be the **maximisation of owners' economic welfare.***

- ✓ Profit maximisation
- ✓ Value or Wealth maximisation



PROFIT MAXIMISATION

- Profit is an yardstick of economic efficiency
- Capital is a scarce material

Financial manager should use these capital funds in the most efficient manner for achieving the profit maximisation.



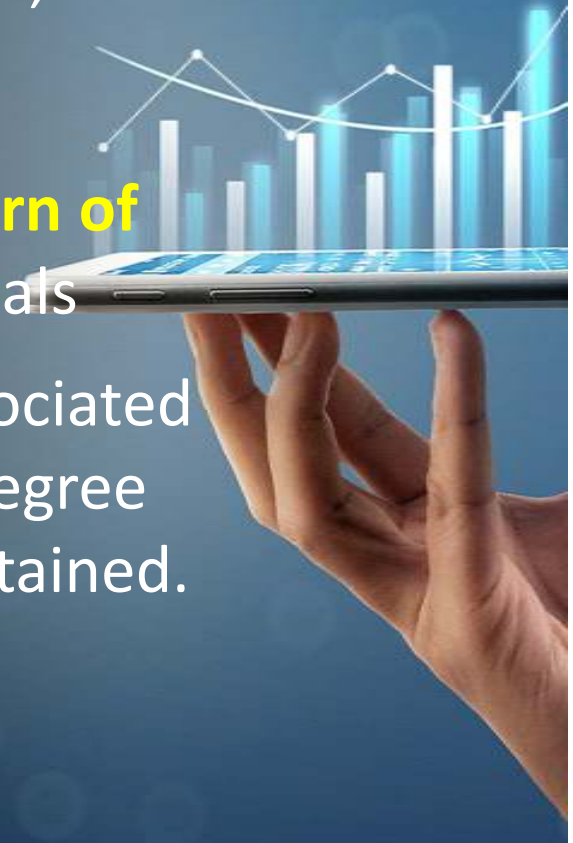
- **Vague and ambiguous term >>>**

it is amenable to different interpretations, like, profit before tax or after tax, total profit or rate of return, etc.

- **Ignores the differences in the time pattern of the cash inflows** from investment proposals

- **Ignores the quality aspect of benefits** associated with a financial course of action >>> the degree of certainty with which benefits can be obtained.

- **Short Term & Narrow Concept**



Appropriate operational decision criteria

- must be precise and exact;
- should consider both quality and quantity dimension of the receipts/benefits;
- should be based on the bigger the better principle; and
- should recognise the time value of money.



Value or Wealth maximisation

*the management should seek to maximise
the present value of the **expected
returns of the firm***

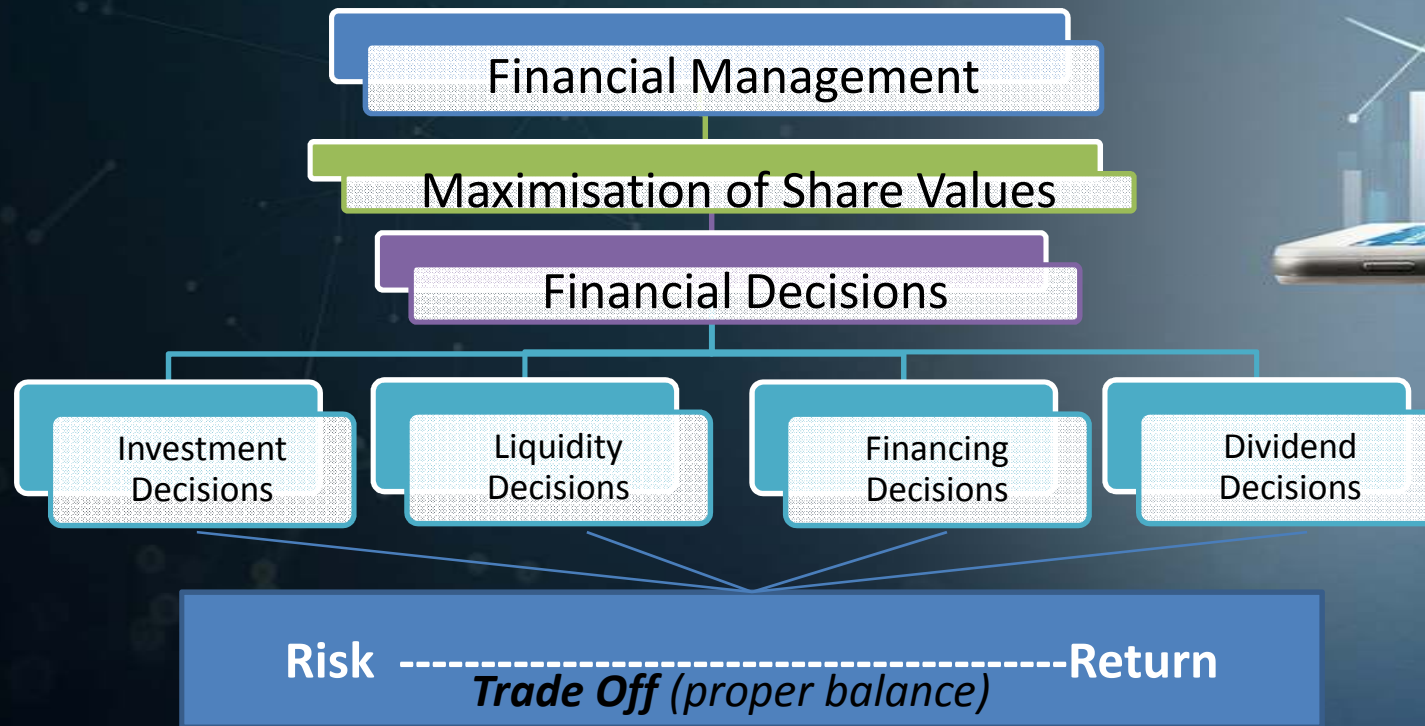
Wealth = Present Value of Benefits –
Present Value of Costs



- ✓ Cash Flow Approach
- ✓ Cost-Benefit Analysis
- ✓ Application of Time Value of Money



Value of the Firm = Number of Shares x Market Price of Shares



Return = Risk Free Rate + Risk Premium







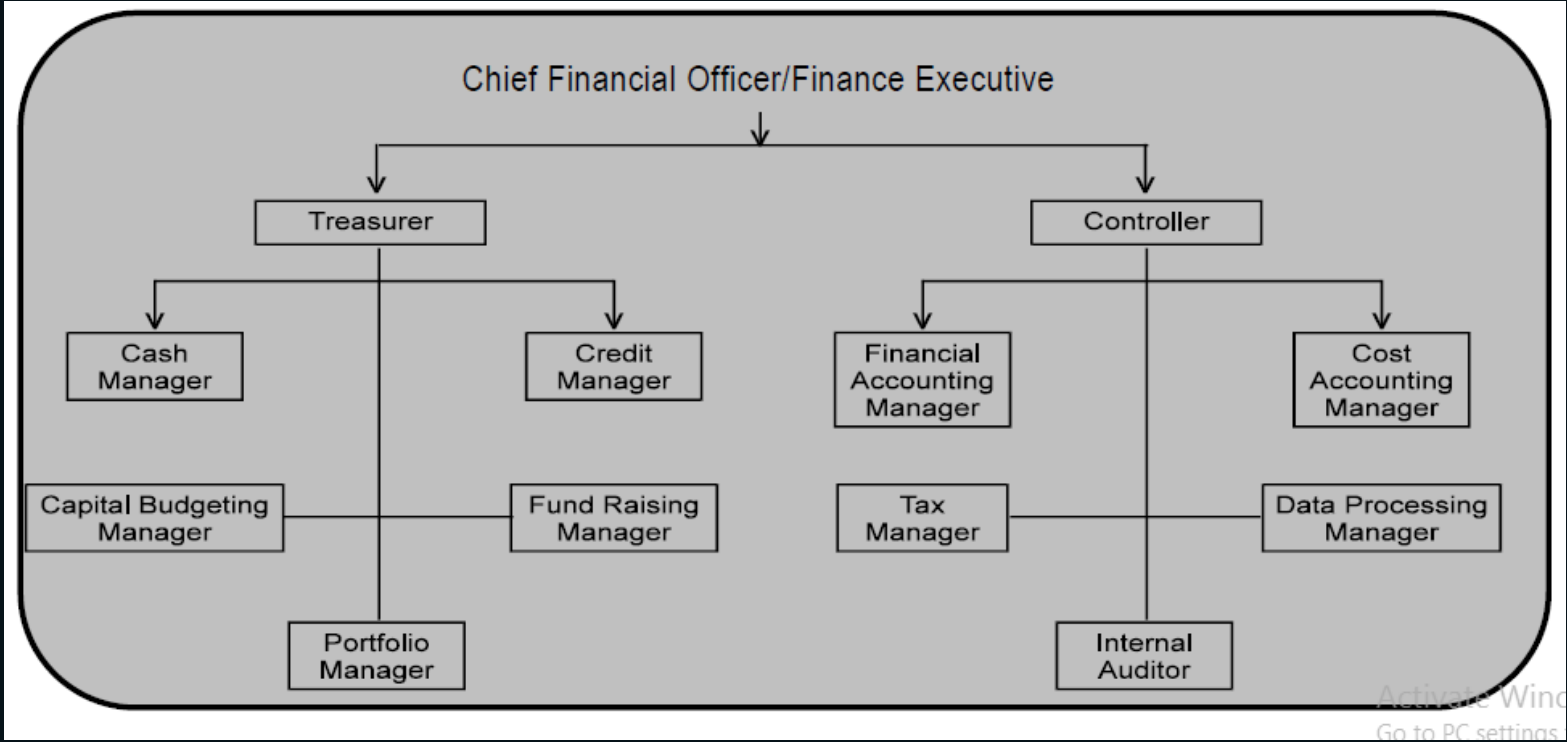
AGENCY COST

Costs incurred in an attempt to push agents (managers) to act in principal's (shareholders') best interest.

- Direct Contracting Costs
- Monitoring Costs
- Loss of Wealth due to unresolved agency problems

RESOLUTIONS

- Imposing Negative Covenants
- Aligning interests of managers with the interest of shareholders (**managerial compensation**)
- Effective Monitoring





Thank You

UNIT III: E-FILING OF INCOME TAX RETURNS

Persons liable to file income tax return

As per income tax laws, ITR must be mandatorily filed if a resident individual's total income (gross total income) during the financial year exceeds the basic exemption limit **before** various deductions available for various investments and expenses under chapter VIA (which comprises Section 80C to 80 U) . The basic exemption limit for an individual depends on his/her age. For FY 2019-20, the basic exemption limit is as follows:

Age of an individual	Basic exemption limit (Rs)
Below 60 years of age	2,50,000
Between 60 and 80 years of age (Senior citizen)	3,00,000
80 years and above (Super Citizen)	5,00,000

Mandatory filing of income tax returns when gross total income does not exceed basic exemption limit

The Income-tax Act, 1961 amended via the Finance Act, 2019 make ITR filing mandatory in certain cases, even if the gross total income does not exceed the exemption limits as mentioned above, if:

- a) Individual has spent an amount or aggregate of amounts exceeding Rs 2 lakh for himself/herself or any other person for travel to a foreign country;
- b) Individual has deposited an amount or aggregate of amounts exceeding Rs 1 crore in one or more current accounts maintained with a bank or co-operative bank;
- c) Individual has paid electricity bill exceeding Rs 1 lakh in a single bill or on aggregate basis during the financial year;
- d) Ordinarily resident individual having income from foreign countries and/or assets in foreign countries and/or having signing authority in any account outside India; and

e) If an individual's gross total income exceeds the exemption limit before claiming tax exemption on capital gains under section 54, 54B, 54D, 54EC, 54F, 54G, 54GA or 54GB.

Advantages of filing of income tax returns

- 1. Easy Loan Approval**
- 2. Claim Tax Refund**
- 3. Income & Address Proof**
- 4. Quick Visa Processing**
- 5. Carry Forward the Losses**
- 6. Avoid Penalty and Prosecution**

Due dates for filing returns of income

Under the Explanation 2 to Section 139(1), the due dates for furnishing returns of income are as under :

- a. Where the assessee is a company: 30th September of the assessment year
- b. Where the assessee is a person (other than a company whose accounts are required to be audited under any law): 30th September of the assessment year
- c. Where the assessee is a working partner of a firm, whose accounts are required to be audited under any law: 30th September of the assessment year
- d. Assessee who is required to furnish a report u/s 92E, i.e, assessee having international transactions: 30th November of the assessment year
- e. Any other assessee : 31st July of the assessment year

Applicability of Form ITR-1 for A.Y. 2021-22 / F.Y 2020-21

Form ITR-1 (Sahaj) is for Individuals being a Resident (other than not ordinarily resident) having total income upto Rs. 50 lakhs, having Income from Salaries, one house property, other sources (Interest, etc.), and agricultural income up to Rs. 5,000. This form is **not** for an individual who-

- a) has assets (including financial interest in an entity) located outside India; or
- b) has signing authority in any account located outside India; or

- c) has income from any source outside India; or
- d) is a Director in any company; or
- e) has held any unlisted equity share at any time during the previous year; or
- f) owns more than one house property, the income of which is chargeable under the head “Income from House Property”; or
- g) has income under the head “Income from Other Sources” in the nature of:-
 - (i) winnings from lottery;
 - (ii) activity of owning and maintaining race horses;
 - (iii) income taxable at special rates under Section 115BBDA or Section 115BBE; or
- h) has any brought forward loss or loss to be carried forward under any head of income; or
- i) is assessable for the whole or any part of the income on which tax has been deducted at source in the hands of a person other than the assessee.

Different modes of submission of returns

Return Forms can be filed with the Income-tax Department in any of the following ways:

- (i)** By furnishing the return in a paper form physically
 - An individual of the age of eighty years or more at any time during the previous year, and
 - An individual or HUF whose income does not exceed Rs 5 lakhs and who has not claimed any refund in the return of income

The Income Tax Department will issue an acknowledgement at the time of submission of physical paper return.

- (ii)** by furnishing the return electronically under digital signature;
- (iii)** by transmitting the data in the return electronically under electronic verification code [through net banking/aadhaar OTP/Bank Account details];

(iv) by transmitting the data in the return electronically and thereafter submitting the verification of the return in Return Form ITR-V

The taxpayer should take two printed copies of Form ITR-V. One copy of ITR-V, duly signed by the taxpayer, is to be sent (within the period specified in this regard, i.e., 120 days) by ordinary post or speed post to "Income-tax Department – CPC, Post Bag No. 1, Electronic City Post Office, Bangalore-560100 (Karnataka)". The other copy may be retained by the taxpayer for his record.

(v) e-File the Income Tax Return through an e-Return Intermediary (ERI) with or without Digital Signature Certificate (DSC). "Electronic Furnishing of Return of Income Scheme, 2007" enables authorized intermediaries to electronically file Income Tax returns on behalf of the taxpayers. This scheme is available to any taxpayer who is assessed or assessable to tax.

Person	Condition	Mode of Furnishing return
Individual/ HUF	Accounts are required to be audited.	Electronically with digital signature.
	Accounts are not required to be audited.	a. Electronically with digital signature b. Transmitting the data electronically under electronic verification code (EVC) c. Transmitting the data electronically and thereafter submitting the Form ITR-V

What is e-filing of tax returns?

E-filing or electronic filing is the process of submitting tax returns and incidental tax-related matters over the Internet using tax preparation software.

Mandatory e-filing of return

Following individual taxpayers shall file their return of income only through e-filing mode:

- Where accounts are required to be audited under section 44AB [the return is required to be e-Filed under digital signature (DSC)];
- Where the above is not applicable and
 - The return is furnished in ITR - 3 or in ITR - 4 or in ITR - 7; or
 - The individual/HUF being a resident (other than not ordinarily resident) has Assets, including financial interest in any entity, located outside India, or signing authority in any account located outside India, or income from any source outside India;
 - Any relief in respect of tax paid outside India under section 90 or 90A or deduction under section 91 is claimed.
 - Where an assessee is required to furnish an Audit Report specified under sections 10(23C) (iv), 10(23C) (v), 10(23C) (vi), 10(23C) (via), 10A, 10AA, 12A(1) (b), 44AB, 44DA, 50B, 80 - IA, 80 - IB, 80 - IC, 80 - ID, 80JJAA, 80LA, 92E, 115JB, 115VW or give a notice under section 11(2)(a) shall e-File the same. These Audit Reports are to be e-Filed and any person required to obtain these Audit Reports are required to e - File the return.
- **Total income exceeds five lakh rupees or any refund is claimed [other than Super Senior Citizen (an individual of the age of 80 years or more at anytime during the previous year) furnishing ITR1 or ITR2]**

In cases where accounts are not required to be audited under section 44AB, the return is required to be e - Filed using any one of the three manners namely i) Digital Signature Certificate (DSC) or ii) Electronic Verification Code (EVC), or iii) Verification of the return in Form ITR - V.

Website for Filing Income Tax Return

Search for: income tax portal-----

<https://www.incometax.gov.in/iec/foportal/>

REGISTRATION PROCESS FOR INDIVIDUAL USER

Go to Income tax Directorate website (<https://www.incometax.gov.in/iec/foportal/>)



Click on Register-----Register as "Taxpayer"/"Others" -----Enter PAN-----Validate-----
Confirm "Individual Taxpayer (Yes/No)"-----Continue



Step 1> Enter **Basic Details** : Surname, Middle Name, First Name, Date of Birth, Gender,
Residential Status -----Continue



Step 2> Enter **Contact Details** ---- Landline Number, **Primary Mobile Number**, Secondary
Mobile Number, **Primary Email ID**, Secondary Email ID), Address of Individual (**Country**,
Flat/Door/Building, Road/Block/Sector, **Pin Code**, **Area/Locality**, **Post Office**,
District/City, **State**) -----Continue

OTP1 will be sent to primary mobile number and OTP2 to primary email ID which are
required to complete the registration process.

Enter the OTPs -----Continue



Step 3> Verify Details ---- check if the details are correct or click edit if need to change any
detail entered in previous steps -----Click **Confirm**



Step 4> Set **Password** (password is case-sensitive, needs to be within **8-14 characters**, a
combination of **upper and lower case** letters **without space**, must contain atleast **one**
alphabet, one number and one special character), confirm the password, set **Personalised**
Message (maximum 25 characters) which will be shown and need to be confirmed every time
while logging in to e-filing website after registration -----**Register**

[fields written in red colour indicate mandatory fields]