



Finance for Non-Finance People

Third Edition

Sandeep Goel

Finance for Non-Finance People

This book makes sense of the finance world from a non-finance perspective. It introduces, explains and demystifies essential ideas of business finance to those who do not have a financial background or training. The book delineates the financial workings of businesses and offers an overview of financial management in a global context. The volume:

- Discusses fundamental concepts and applications of accounting and finance at the global level.
- Contains effective tools for financial analysis, communication, monitoring and resource allocation.
- Provides important instructional aids such as figures, tables, illustrations and real-world corporate case studies to facilitate learning.
- Is concise in form yet comprehensive in content, delivering in-depth coverage of the five key constituents and entire gamut of the finance domain – *financial accounting, cost accounting, financial management, financial markets* and *tax planning*.
- Is thoroughly updated with the latest concepts, international corporate practices, recent trends and current data with a vivid visual impact for a pleasurable reading and learning experience.

Lucid, accessible and comprehensive, this third edition is a revised version in accordance with the current finance laws, practices and data. A guide to building financial acumen and literacy, it will be a useful resource for executive and management development programmes (EDPs & MDPs) oriented towards business managers and management students, including MBA programmes, and allied disciplines of commerce, finance, economics and others. It will also benefit business executives, corporate heads, entrepreneurs, government officials, academicians of business and allied disciplines, as well as those who deal with finance or financial matters in their daily lives.

Sandeep Goel is a Professor of Accounting and Finance and Corporate Governance at the Management Development Institute (MDI) Gurgaon, India. He holds three decades of rich industry and academic experience, and is an accomplished Forensic Accounting, Fraud Risk Management and Corporate Governance professional.



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About the author

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He holds three decades of industry and academic experience across various organisations and institutions of repute, including the Shri Ram Group, the University of Delhi and MDI Gurgaon, India. He also has hands on experience in the family business in business compliance and financial management functions. Besides, he is an accomplished *Forensic Accounting, Fraud Risk Management* and *Corporate Governance Professional*.

He sits as an Independent Director on the Board of Machino Plastics Ltd., Gurugram, a Suzuki JV. He is a Visiting Professor to the Faculty of Management, University of Lodz, Poland and Aix-Marseille Graduate School of Management – IAE Aix-Marseille University, France. He offers a popular program, 'Finance for Non-Finance Executives' to senior executives and managers across the corporate and other organisations every year at MDI.

He has got an extensive international experience in different parts of the world, including the U.S., Europe, Canada and Asia. His cross-national research and training experience includes Duke University, Durham, United States; Sapienza University of Rome, Italy; Frankfurt School of Finance and Management, Germany; and Ontario College for Research and Development, University of Toronto, Canada.

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(Bhutan), UltraTech Cements, ONGC, IOCL, Jindal, LIC, BEL, IGL, TIL, Ester Industries and Armed Forces. He has conducted and delivered over 500 MDPs/Training Programs at senior and mid-levels dealing with financial and management skills, and trained more than 10,000 officials and executives of GoI, PSUs and Private Corporate over the years. These mainly include *Finance for Non-Finance Executives, Forensic Analytics, Fraud Risk Management, Independent Director's and Corporate Governance and Enhancing Financial Skills Using Excel*. He has executed a number of consultancy assignments on financial management, accounting application and corporate governance, the major ones include *Assessment of Employees for Promotion Exercise* for IFCI Ltd., *Evaluation of Bid* for Municipal Corporation Gurugram, *Corporate Governance* for IOCL, *Feasibility Study for Increasing Coin Production* at SPMCIL, *Financial Management* of Bata, *Accounting Application for SAP Professionals* of Ester Industries and *Financial Leadership* of TIL.

He is a prolific writer and has authored more than 14 books, including highly acclaimed books *Financial Management Practices in India* (2016) and *Financial Statements Analysis: Cases from Corporate India* (2014), and published over 75 research articles in national and international journals of repute. His cases have been published by *Ivey Publishing*, and cross-listed in *Harvard Business Review Publishing, Asia Case Research Centre and Emerald Emerging Markets Case Studies*.

His interest areas are *Financial Reporting and Analysis, Corporate Finance, Forensic Accounting, Fraud Risk Management and Corporate Governance*. He has been the Financial Columnist to 'Purchase' (A Publication of Indian Purchase.com).

He has been conferred with Award for Excellence in Teaching, 2023-24, 2015–16 and Award for Excellence in Research, 2015–16 at MDI.

Preface

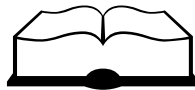
The third edition

I take this opportunity to thank everyone for the overwhelming response to the previous editions of this book. This has motivated me to come out with the third premium edition. This third premium edition is a completely revised and thoroughly updated edition, with current trends, regulations and data analysis. New material has been added for the enrichment of the book. The basic organisational structure, topical coverage, readability, and useful instructional cases and examples that marked the success of the earlier editions have been retained.

- Specifically, a new Chapter on the ‘Accounting Process’ in [Part II](#) has been introduced.
- There is also the addition of the topic on statement of cash flows preparation and presentation in [Chapter 5](#).
- [Chapter 21](#) has been refined for both old and present income tax regimes in India.

Further, all chapters have been thoroughly updated and formatted, with the inclusion of learning objectives to reflect the cutting edge of current trends and practices in the finance domain nationally and internationally. The book provides helpful new approaches, expanded coverage and enhanced pedagogy anchored by a state-of-the-art integrated learning process.

I hope that these enhancements will offer increased value to the book.



Understanding your organisation’s financial health is the fundamental aspect of managerial decision-making and control. A good manager is one who is able to (i) analyse financial performance trends and (ii) make a suitable decision in time and adjust planned and forecasted actions to avoid various risks. This is where ‘financial proficiency and efficiency’

becomes essential at all levels of business and in all types of organisations across the globe.

Imagine a northwest regional sales head's reaction to being asked about budgets for his region for the next quarter by his country head. Please remember that he comes from the humanities side of academics! Until now, he was relying on his immediate assistant, but unfortunately this time the assistant was on leave. He was asking himself, 'How does one make a budget?'

Explore another situation faced by the director of operations in a multinational company (MNC) where he has been promoted to the CEO. However, he was not happy. To date, he was just concerned with the technical side of the business. Suddenly, he was finding himself in an alien land because he now must make decisions for the entire company, including the financial decisions. One thing he has been running away from all his life was 'Finance'.

In both these situations, one thing is common: 'finance is an inevitable part of business'. Finance is not only essential but an exciting area of management that every executive should discover and explore in depth.

Objective

The book will help to develop not only an understanding of the concepts of accounting and finance, but, most importantly, to enable the managers to use it as an effective tool for financial communication, monitoring, analysis and resource allocation.

It helps to answer questions, like:

- What are the accounting nuances of managing a business organisation?
- What financial statements are prepared and analysed as a part of financial reporting?
- How can financial statements be used for investment decision-making?
- How is the cost of a product or service determined and controlled?
- How is cost accounting information utilised for managerial decision-making and control?
- What are the nitty-gritty involved in financial decision-making, such as launching a new product, buying a new asset, acquiring another company and financing the firm's investments?
- How should the firm be managed to increase the wealth of shareholders?
- What decisions must managers make to manage the business operations for value-based management?
- What could be the business and personal implications of financial markets operating in the country?
- How can taxes be planned at a personal and corporate level to ensure sound tax administration?

Features

Various aids like figures, tables, illustrations and case studies have been included in the book to facilitate learning. The cases of real-world corporate organisations have been analysed and discussed from diverse sectors. These companies have global operations, so they will be of immense use to international readers. All these features will make the book more interesting and useful to readers.

The book is a thoroughly updated edition containing current concepts, corporate practices, recent trends and current data. An attempt has been made to cover every possible aspect of finance in depth.

Highlights

- Thoroughly updated comprehensive chapters
- Current data analysis
- Self-contained chapters
- Global concepts and practices
- Corporate case studies
- Current data
- Solved problems
- Summary points
- Key terms

Target audience

‘Almost everything boils down to finance’, as the adage goes. In light of the universal requirement of finance, the present book is an attempt to meet the needs of business executives, corporate heads, entrepreneurs, government officers, teachers, researchers and, of course, students and anyone who deals with finance and financial matters in the daily course of their work. In nutshell, this book is for everyone who is not a finance expert but wants to learn finance, and also for people with finance background who would like to refresh and revive their concepts and apply them better for much more meaningful decision-making in various walks of life. This book is one single platform wherein you will find answers to all your queries.

- It is for everyone who wants to learn finance.
- This book is equally useful to people with a finance background for advance learning.
- The book is perfectly designed for basic courses in accounting and finance at graduate and undergraduate level in B-schools and universities.
- The book can also be a good substitute for, or a helpful complement to, the main textbook in advanced courses in finance.

- It is a tailor-made key resource for executive and management development programs (EDPs and MDPs) oriented towards business managers, including MBA programs.
- This book will provide a solution in finance to those students and learners who are struggling to enhance their financial knowledge for advanced finance courses, the managers who are having sleepless nights on account of lack of financial acumen, the entrepreneurs who have to bear the tantrums of their accountant for every accounting need and the potential investors who dream of investing in stocks one day. This book is an attempt to improve financial acumen and communication.

It is highly recommended for courses and programs, such as:

Courses

- *Financial Accounting*
- *Financial Reporting & Analysis/Financial Statements Analysis*
- *Financial & Management Accounting*
- *Fundamentals of Financial Management/Corporate Finance*

Programs

- *Finance for Non-Finance Executives*
- *Finance for Managers*
- *Finance Literacy/Finance Acumen*

Organisation of the book

The book has been divided into six parts. It has been logically sequenced to facilitate better connectivity and learning among the readers. Most chapters are self-contained and can be read independently of the others.

Part I, 'Introduction', provides an overview of different forms of business organisations operating in different parts of the world, including India.

Part II, 'Financial accounting and analysis', explains accounting fundamentals, processes and principles. Recognising that executives often approach financial problems from a limited perspective, corporate financial statements and various accounting tools, such as ratio analysis used for analysing the financial performance of a business, are discussed in detail.

Part III, 'Cost accounting and management', discusses the cost accounting concepts and techniques for cost determination, control and managerial decision-making in an organisation.

Part IV, 'Financial management', is a complete manual on the financial management process of a business organisation. It demonstrates how managers should make sound financial decisions to maximise the firm's value. It builds on the time value concepts of compounding and discounting and

covers the key areas of financial management, such as capital budgeting, sources of finance, working capital management and dividend policy.

Part V, 'Financial markets', discusses the financial markets in India, their constituents and instruments, including mutual funds.

Part VI, 'Tax planning', covers the taxation of an individual and business. It discusses direct taxation, the income tax in India.

This book will build up your finance acumen, which is essential for professional growth and success. This is a perfect blend of theory and practice. An attempt has been to keep the book simple in nature yet comprehensive in approach. I am confident that the readers will find this book truly valuable in terms of its quality and presentation. Any constructive comments and suggestions for future improvement of the book are highly appreciated and welcome at sandeepgoel18@rediffmail.com.

Happy learning!

Acknowledgements

This book has emerged from decades of rich experience of imparting financial knowledge and skills to thousands of students and participants at different levels of corporate entities and organisations. At this moment, I take the opportunity to express my gratitude to each one of those whose inspiring queries and questions have motivated me to pen down this single-window 'book' where they can quench their thirst about finance.

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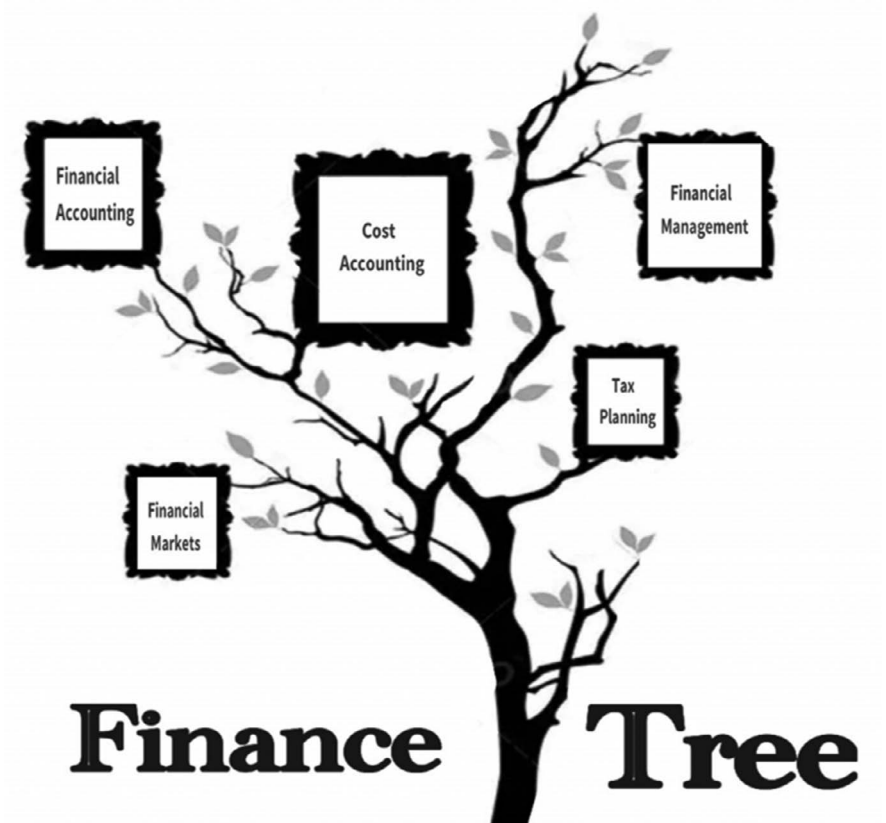
Abbreviations

ACP	Average collection period
ADR	American depositary receipt
AHP	Average holding period
AICPA	American Institute of Certified Public Accountants
AMC	Asset management companies
AMFI	Association of Mutual Funds in India
AMT	Alternate minimum tax
A/P	Accounts payable
APP	Average payment period
A/R	Accounts receivable
ARR	Accounting rate of return
ASB	Accounting Standards Board
ATR	Assets turnover ratio
BC	Benefit-cost ratio
BEL	Bharat Electronics Ltd.
BHEL	Bharat Heavy Electricals Limited
BIS	Bank for International Settlements
BoP	Balance of payments
BSE	Bombay Stock Exchange
BV	Book value per share
CA/FA	Current assets/fixed assets ratio
CAR	Capital adequacy ratio
CASA	Current and saving accounts ratio
CBDT	Central Board of Direct Taxes
CCIL	Clearing Corporation of India Ltd.
CFF	Net cash flow from financing activities
CFI	Net cash flow from investing activities
CFO	Net cash flow from operating activities
CII	Confederation of Indian Industry
CIMA	Chartered Institute of Management Accountants
COCE	Cost of capital employed
COD	Certificate of deposit
COGS	Cost of goods sold

CP	Commercial paper
CRR	Cash reserve ratio
C/S	Contribution/sales ratio
CSR	Corporate social responsibility
CTR	Creditors turnover ratio
CVP	Cost-volume-profit analysis
CWIP	Capital work in progress
DCF	Discounted cash flow
D/E	Debt-equity ratio
DFL	Degree of financial leverage
DOL	Degree of operating leverage
D/P	Dividend payout ratio
DPS	Dividend per share
DR	Depository receipt
DSCR	Debt service coverage ratio
D/Y	Dividend yield ratio
DTR	Debtors turnover ratio
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax and depreciation and amortisation
EBIT-EPS	Earnings before interest and tax – earnings per share
EBT	Earnings before taxes
ELSS	Equity linked saving schemes
EPS	Earnings per share
FASB	Financial Accounting Standards Board
FDI	Foreign direct investment
FEDAI	Foreign Exchange Dealers' Association of India
FII	Foreign institutional investors
FMCG	Fast-moving consumer goods
FV	Future value
GAAP	Generally accepted accounting principles
GAIL	Gas Authority of India Limited
GCPL	Godrej Consumer Products Ltd.
GDR	Global depository receipts
G-Secs	Government securities
GSFC	Gujarat State Fertilizers & Chemicals Ltd. (formerly Gujarat State Fertiliser Company)
GST	Goods and Services Tax
HUF	Hindu undivided family
HUL	Hindustan Unilever Ltd.
IASB	International Accounting Standards Board
ICD	Inter-corporate deposit
ICR	Interest coverage ratio
IFFCO	Indian Farmers Fertilisers Cooperative Limited
IFRS	International financial reporting standards

Ind AS	Indian accounting standard
IPO	Initial public offering
IRDA	Insurance Regulatory and Development Authority
IRR	Internal rate of return
ITR	Inventory turnover ratio
JV	Joint venture
Kwh	Kilowatt hour
LIC	Life Insurance Corporation of India
LLP	Limited liability partnership
MAT	Minimum alternate tax
MCA	Ministry of Corporate Affairs
MD	Managing director
MNC	Multi-national corporations
MSIL	Maruti Suzuki India Ltd.
MV	Market value
NAV	Net asset value
NIM	New issue market
NOPAT	Net operating profit after tax
NPA	Non-performing asset
NPV	Net present value
NSE	National Stock Exchange of India Limited
OECD	Organisation for Economic Co-operation and Development
OPC	One-person company
OTC	Over-the-counter
PAN	Permanent account number
PAT	Profit after taxes
P/B	Price to book ratio
PBDT	Profit before depreciation and tax
PBP	Payback period
PBT	Profit before taxes
P/E	Price to earnings ratio
PFRDA	Pension Fund Regulatory and Development Authority
PGCIL	Power Grid Corporation of India Ltd.
PI	Profitability index
PSU	Public sector undertaking
PV	Present value
P/V	Profit volume ratio
RBI	Reserve Bank of India
RCA	Rupee cost averaging
RIL	Reliance Industries Ltd.
ROCE	Return on capital employed
ROE	Return on equity
ROI	Return on investment
RONW	Return on net worth
SAIL	Steel Authority of India Limited

SBI	State Bank of India
SEBI	Securities and Exchange Board of India
SENSEX	Sensitive index
SFC	State finance corporations
SIDBI	Small Industries Development Bank of India
SIP	Systematic investment plan
SLM	Straight-line method
SLR	Statutory liquidity ratio
SWM	Shareholders' wealth maximisation
TAN	Tax deduction and collection account number
T-Bill	Treasury bill
TML	Tata Motors Ltd.
TVM	Time value of money
UTI	Unit Trust of India
WACC	Weighted average cost of capital
WCTR	Working capital turnover ratio
WDM	Wholesale debt market
WDV	Written-down value method
ZBB	Zero-based budgeting



Finance Tree

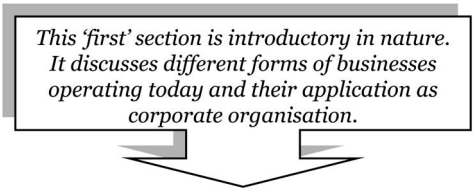
-Courtesy: Maanya Goel

Part I

Introduction

The secret of business is to know something that nobody else knows.

—Aristotle Onassis



*This 'first' section is introductory in nature.
It discusses different forms of businesses
operating today and their application as
corporate organisation.*



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