



Financial Plan

Trading Account

(For the year ended...)

Dr.

Cr.

Particulars	Amount	Particulars	Amount
To Opening stock	Xxx	By Sales	xxx
To Purchases	xxx	Less: Return Inwards	<u>(xxx)</u>
Less: Return Outwards	<u>(xxx)</u>	By Closing stock	Xxx
To Wages	Xxx	By Gross Loss	Xxx
To Carriage Inwards	Xxx		
To Freight Inwards/cartage	Xxx		
To Gross Profit c/d	Xxx		
	<u>xxx</u>		<u>xxx</u>

Profit & Loss Account

(For the year ended...)

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Gross loss b/d	Xxx	By Gross Profit b/d	Xxx
To Salaries	Xxx	By Discount Received	Xxx
To Office rent, rates and taxes	Xxx	By Commission Received	Xxx
To Printing & stationery	Xxx	By Bank Interest	Xxx
To Telephone expenses	Xxx	By Rent received	Xxx
To Postage & telegram	Xxx	By Dividend on shares	Xxx
To Discount Allowed	Xxx	By Interest earned on debentures	Xxx
To Insurance	Xxx	By Profit on sale of asset	Xxx
To Audit Fees	Xxx	By Net loss	Xxx
To Electricity charges	Xxx		
To Repairs & renewals	Xxx		
To Depreciation	Xxx		
To Advertisement	Xxx		
To Carriage Outwards	Xxx		
To Bad Debts	Xxx		
To Provision for Bad debts	Xxx		
To Selling commission	Xxx		
To Bank Charges	Xxx		
To Interest on loans	Xxx		
To Loss on sale of asset	Xxx		
To Net Profit	Xxx		
	xxx		xxx

NAME OF THE ORGANIZATION
BALANCE SHEET

-----Date-----

Liabilities	\$	Assets	\$
Capital fund	XXXX	Building	XXXX
Add: Surplus	XXXX	Less: Depreciation	XXXX
Subscription received in advance	XXXX	Furniture	XXXX
Outstanding wages	XXXX	Less: Depreciation	XXXX
Outstanding salaries	XXXX	Sports equipment	XXXX
		Less: Depreciation	XXXX
		Subscription receivable	XXXX
		Prepaid rent	XXXX
		Cash	XXXX
Total liabilities	XXXX	Total assets	XXXX

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- In a Business Organisation Cash is generated from any or a combination of more than one of the following activities
 - Operating Activities
 - Investing Activities
 - Financing Activities

Operating Activities

- Operating Activities include the following:
- Cash received from Sale of Goods and Services
- Cash received from Fees, Commission and Royalties etc.
- Cash paid to Suppliers for goods and services
- Cash paid to and on behalf of employees

Cash from
Operating Activities

Cash Inflow

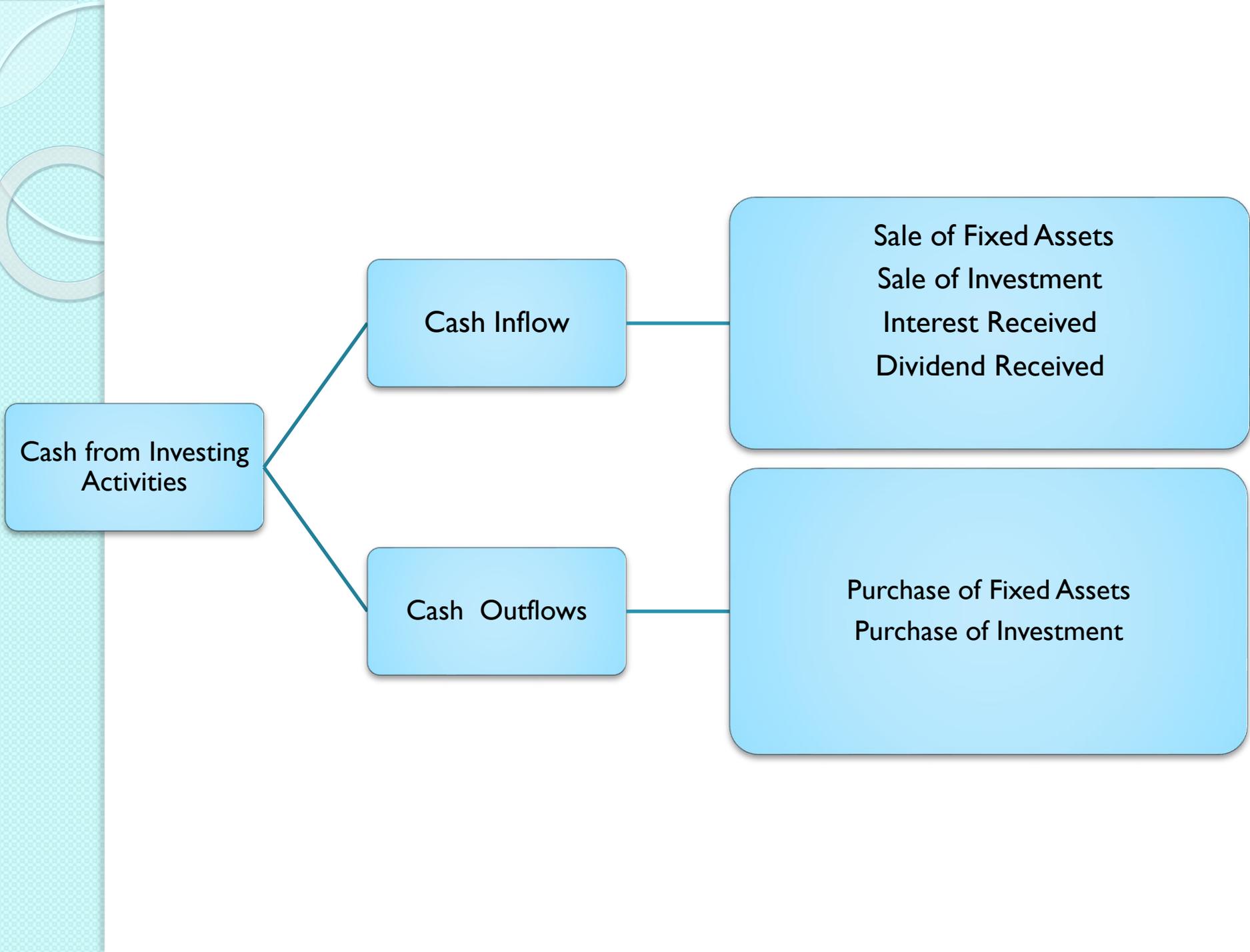
Cash Sale
Cash Received from Debtors
Cash from Commission and fees
Royalty and other revenues

Cash Outflows

Cash Purchases
Payment to Creditors
Cash Operating Expenses
Payment of Wages
Income Tax

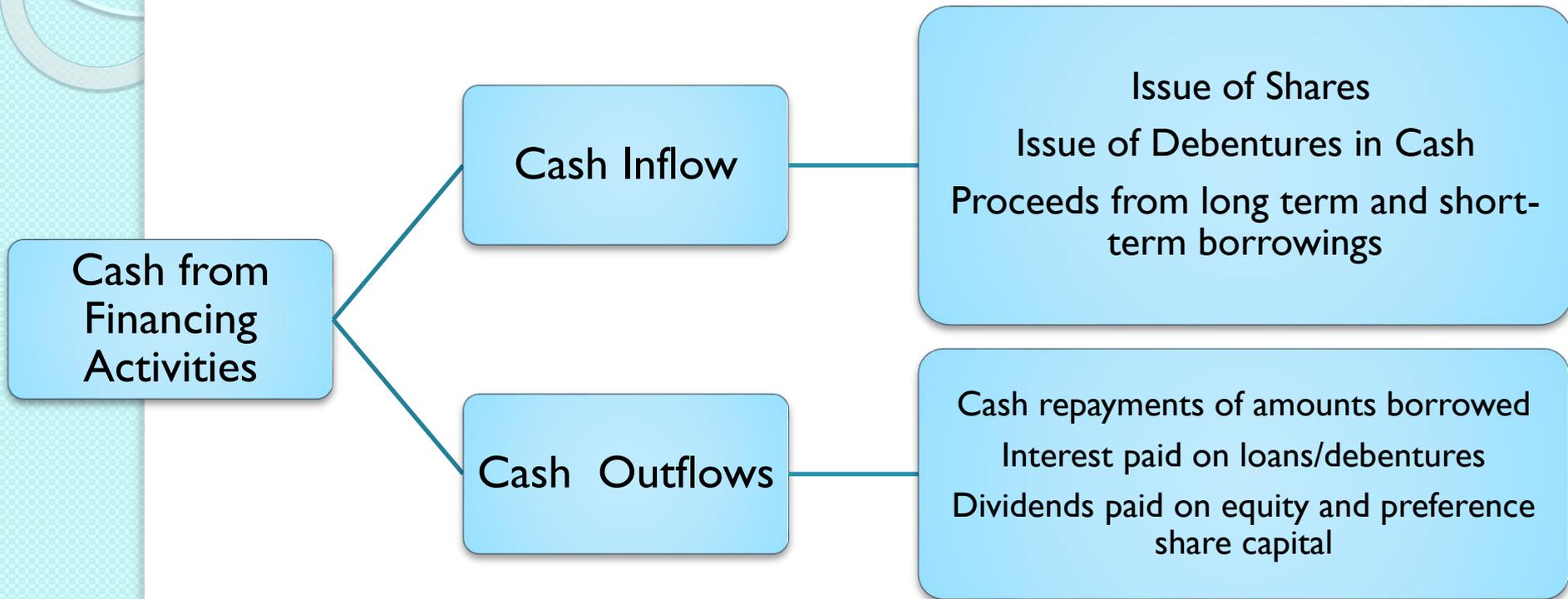
Investing Activities

- Cash flows from Investing Activities include the following:
- Cash paid for purchase of fixed assets
- Cash received from sale of fixed assets
- Cash paid for purchase of shares and debentures
- Cash received from the sale of Shares and debentures
- Cash loans and Advances



Financing Activities

- Cash proceeds from the issue of shares and Debentures
- Repayment of borrowed funds in Cash



Statement of Cash Flows

Statement of XYZ company for the year end 20XX

	Year - 20XX	Previous Year
Cash flows from operating activities		
Cash receipts from customers	XXX	XXX
Cash paid to suppliers and employees	XXX	XXX
Cash generated from operations	XXX	XXX
Net cash from operating activities	XXX	XXX
Cash flows from investing activities	XXX	XXX
Business acquisitions, net of cash acquired	XXX	XXX
Purchase of property, plant and equipment	XXX	XXX
Net cash used in investing activities	XXX	XXX
Cash flows from financing activities	XXX	XXX
Proceeds from issue of share capital	XXX	XXX
Proceeds from long-term borrowings	XXX	XXX
Payment of long-term borrowings	XXX	XXX
Net cash used in financing activities	XXX	XXX
Net increase in cash and cash equivalents	XXX	XXX
Cash and cash equivalents at beginning of period	XXX	XXX
Cash and cash equivalents at end of period	XXX	XXX



Budgeting and Budgetary Control

- A Budget is defined as a “ Comprehensive and Co-ordinated plan, expressed in financial terms,for the operations and resources of an enterprise for some specified period in the future.”
- According to the definition the essential elements of a budget are as follows:
 - i) Plan
 - ii) Operations and Resources
 - iii) Financial Terms
 - iv) Specified Future Period,
 - v) Comprehensiveness ,and
 - vi) Co-ordination

Types of Budgets

- A Budget normally consists of the following three types:
 - i) Operating Budget
 - ii) Financial Budget, and
 - iii) Special Decision Budget

Operating Budget

- The Operating Budget has the following Components
 - i) Sales Budget
 - ii) Production Budget
 - iii) Purchase Budget
 - iv) Direct Labour Budget
 - v) Manufacturing Expenses Budget
 - vi) Administrative and Selling Expenses Budget

Financial Budget

- The Financial Budget has the following Components
 - i) Budgeted Income Statement
 - ii) Budgeted Balance Sheet
 - iv) Cash Budget

Special Decision Budget

It includes

- Flexible Budget

Types of Financial Ratios

- Liquidity ratios
- Leverage ratios
- Activity ratios
- Profitability ratios

LIQUIDITY RATIOS

- **Liquidity ratios** measure a firm's ability to meet its current obligations.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$$

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Marketable securities}}{\text{Current liabilities}}$$

LEVERAGE RATIOS

- To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated.
- These ratios indicate mix of funds provided by owners and lenders.

$$\begin{aligned}\text{Debt ratio} &= \frac{\text{Total debt (TD)}}{\text{Total debt (TD) + Net worth (NW)}} \\ &= \frac{\text{Total debt (TD)}}{\text{Capital employed (CE)}}\end{aligned}$$

$$\text{Debt-Equity ratio} = \frac{\text{Total debt (TD)}}{\text{Net worth (NW)}}$$

ACTIVITY RATIOS

- ▶ **Activity ratios** are employed to evaluate the efficiency with which the firm manages and utilizes its assets.
- ▶ These ratios are also called **turnover ratios** because they indicate the speed with which assets are being converted or turned over into sales.
- ▶ Activity ratios, thus, involve a relationship between sales and assets.

Inventory Turnover and Debtors Turnover

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

$$\text{Debtors turnover} = \frac{\text{Credit sales}}{\text{Average debtors}}$$

PROFITABILITY RATIOS

- The profitability ratios are calculated to measure the operating efficiency of the company.
- Generally, two major types of profitability ratios are calculated:
 1. profitability in relation to sales
 2. profitability in relation to investment.


$$\begin{aligned}\text{Gross profit margin} &= \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} \\ &= \frac{\text{Gross profit}}{\text{Sales}}\end{aligned}$$

$$\text{Net profit margin} = \frac{\text{Profit after tax}}{\text{Sales}}$$

$$\text{Net profit margin} = \frac{\text{EBIT}(1 - T)}{\text{Sales}} = \frac{\text{NOPAT}}{\text{Sales}}$$

Cont...

$$\text{EPS} = \frac{\text{Profit after tax}}{\text{Number of shares outstanding}}$$

$$\text{Price-earnings ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}} = \frac{\text{MV}}{\text{EPS}}$$

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock	99,000	By Sales	8,50,000
To Purchases	5,45,250	By Closing Stock	1,49,000
To Wages	14,250		
To Gross Profit C/d	3,40,000		
	9,99,000		9,99,000
To Administrative Expenses	1,50,000	By Gross Profit B/d	3,40,000
To Selling Expenses	30,000	By Interest	3,000
To Finance Charges	15,000	By Profit on sale of Investment	6,000
To Loss on Sale of Assets	4,000		
To Net Profit C/d	1,50,000		
	3,49,000		3,49,000

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital	2,00,000	Buildings	1,50,000
Reserves	90,000	Machine _{ry}	80,000
P/L Account	89,000	Stock	1,49,000
Sundry Creditors	15,000	Debtors	75,000
Bills Payable	10,000	Cash	30,000
Tax Payable	18,000	Bills Receivable	10,000
Outstanding Expenses	5,000	Prepaid Expenses	5,000
Bank Overdraft	22,000	Marketable Securities	50,000
Debentures	60,000		
Mortgage Loan	40,000		
	5,49,000		5,49,000

From the above mentioned information find out the following Ratios:

- Current Ratio
- Liquid Ratio
- Cash Ratio
- Debt-Equity Ratio
- Gross Profit Ratio
- Net Profit Ratio