

Financial Reporting and Analysis

Sanjay Dhamija



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Preface

TO THE FIRST EDITION

Financial Reporting is fast emerging as an important tool to convey information about the financial performance and health of an organization. Well structured financial reports help various stakeholders in their economic decision making and result in optimum allocation of resources. Financial reporting also helps in improving the corporate governance standards in the country. Analysis of the information contained in financial reports is an important skill for today's managers.

It gives me immense pleasure in presenting a book on Financial Reporting and Analysis specifically designed for the students of B. Com / BBA and BBS. The book comprehensively covers the syllabus of B. Com (H) of Delhi University as well as other Universities.

The first three chapters of the book defines the landscape of financial reporting with focus on meaning, importance and limitation of financial reporting. The conceptual framework of financial reporting is covered in detail. The importance of accounting standards and convergence of Indian accounting standards with the International Financial Reporting Standards is discussed.

The next five chapters focus of the key financial statements. The Statement of Profit and Loss, the Balance Sheet, the Statement of Change in Equity and Cash Flow Statements are covered in detail. The requirements of the Companies Act, 2013 and relevant accounting standards have been covered.

Chapter 9 and 10 focus on disclosure requirements. Disclosures as required under the Companies Act, 2013, Listing Agreement and some of the accounting standards have been explained. In addition, disclosures on the websites by the companies and voluntary disclosures being made by companies in the Annual Reports are covered.

The next three chapters focus on the analysis of financial statements. Various techniques viz. comparative financial statements, common size financial statements, indexed financial statements and ratio analysis have been covered with suitable examples. The application of these techniques to carry out inter-period and inter-firm comparison on actual companies has been explained.

The last three chapters cover some of the emerging trends in financial reporting. Emerging areas like e-commerce business, integrated reporting and value added statement are discussed.

I am sure that the readers will appreciate the effort. I shall be pleased to receive your comments and suggestions.

With Best Wishes,
SANJAY DHAMIJA

Department of Commerce, University of Delhi

Course : B.com (Hons) Semester : 6th

Subject : Financial Reporting and Analysis, Paper No. : BCH 6.4 (a)

Unit I – Basics of Financial Reporting

- Purpose of financial reporting
- Users of Financial reports
- Conceptual Framework of financial reporting (Objectives, qualitative features, standards)

Unit II Understanding Financial Statements

- Structure of financial statements:
- Introduction, statements of Financial Position (Balance Sheet), Statement of Earnings (Profit and Loss Statement), Cash Flow Statement AS-3
- Additional Disclosure Statements
- Overview
- Need for Additional Statements
- Auditor's Report
- Director's Report
- Disclosure in Corporate Governance Report with reference to Board of Directors, Audit Committee, Remuneration Committee, Grievance Committee, General Body Meeting and other disclosures

Unit III – Elements of Financial Statements

- AS-2 Valuation of inventories
- AS-9 Revenue Recognition
- AS-10 Accounting for Fixed Asset
- AS-22 Accounting for taxes on Income
- AS-26 Accounting for Intangible Assets
- AS-19 Leases

Unit IV: Analysis and Interpretation of Financial Statements

- Ratio Analysis
- Liquidity
- Solvency
- Activity
- Profitability Analysis
- Comparative and Common Size Analysis (Vertical and Horizontal Analysis)
- Expanded Analysis
- Financial Ratios used in Annual Reports
- Management use of Financial Analysis
- Graphing Financial Information

Unit V: Accounting Standards in India and IFRS

- Introduction of Indian Accounting Standards
- Concept of accounting standard meaning of accounting standard
- Nature of accounting standard
- Objectives of accounting standards
- Advantages of accounting standards
- Disadvantages of accounting standards
- Accounting standard board in India
- Applicability of Indian Accounting standards
- Procedure for issuing accounting standard in India
- AS-1 Disclosure of Accounting policies

(Only Overview of IFRS)

- IFRS (1 to 8)
- IFRS 1 First Time adoption of IFRS
- IFRS 2 Share Based payment
- IFRS 3 Business Combination
- IFRS 4 Insurance Contract
- IFRS 5 Non Current Asset held for sale and Discontinued operation
- IFRS6 Exploration for and evaluation of Mineral Assets
- IFRS 7 Financial Instruments
- IFRS 8 Operating Segment
- US GAAP, Financial Accounting Standard Board
- Difference between GAAP and IFRS
- Comparison between Indian Accounting standards and IFRS
- List of IAS
- Indian IFRS
- Need and convergence towards Global Standard
- Benefit of convergence to IFRS in India

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The book presents the subject matter in a lucid and readable style so that students will be able to understand and appreciate the otherwise difficult and complicated subject. Twenty-five solved illustrations have been included to illustrate and reinforce the understanding of the relevant reporting principles.

- Key aspects of financial reporting have been discussed in a logical sequence.
- Very strong analytical perspective – how to use financial reporting information as a manager and as an analyst.
- More than 150 unsolved problems and nearly 50 assignment questions at the chapter end to encourage the students to test their understanding.
- The book is well illustrated with diagram & tables.
- Reporting requirements under the Companies Act, 2013 including Schedule III of the Act have been covered.
- In view of convergences of Indian accounting standards with IFRS, suitable reference has been drawn in each chapter to the new accounting standards (Ind AS) announced by the Ministry of Corporate Affairs.
- Emerging issues in financial reporting, viz. accounting for e-commerce, integrated reporting and value added statements have been suitably covered.



Sanjay Dhamija currently is Professor at the International Management Institute, New Delhi. He is a doctorate in finance and a Fellow Member of the Institute of Company Secretaries of India (FCS) and of the Institute of Cost Accountants of India (FCMA). He did his M Com from Delhi School of Economics and LLB from Delhi University. He is also a Chartered Financial Analyst from ICAI. Prof Dhamija has attended workshops at Harvard Business School, Wharton Business School and Robert H Smith School of Business.

Professor Dhamija has over 34 years of rich experience both in industry and academia. He worked in industry in senior positions for over 16 years. Since 2003 he is in academics having worked with ICAI Business School and Management Development Institute (MDI) before joining IMI in 2009. He was awarded for 'Excellence in Teaching' at MDI and as 'Best Trainer' at IMI. He was recognized as the 'Best Teacher in Financial Management' at 17th Dewang Mehta Business School Awards. He also received the award for the 'Best Case in finance, economics, business and political environment' at the 40th Anniversary Case Conference of the Case Center, UK held at IIM-Bangalore.

He has handled a number of consulting and training assignments for organizations in Government sector, public sector and private sector. He also regularly conducts popular programs on 'Finance for Non Finance Executives' and 'Understanding and Analysis of Financial Statements'. He has authored books in the areas of company law, business laws, financial management, financial derivatives, financial accounting & analysis and corporate governance.



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