

# MGT 211: Accounting for Financial Analysis

Full Marks: 100  
Pass Marks: 35

Lecture hours: 150

## Course Objectives

The objectives of the course are to provide the students with the knowledge required to analyze financial statement for decision making including long-term investment decisions.

The course further attempts to provide sound knowledge required for higher studies in capital planning, analysis of financial statement and investment decisions.

## Course Description

This course contains company, conceptual and theoretical foundation, financial statement of the company, analysis of financial statement for a company, company growth, merger, combination and liquidation, depreciation and its effect in financial statement of a company, price level changes, long-term planning – capital budgeting.

## Course Details

### Unit 1: Company: Conceptual and theoretical foundation

LH 8

- Meaning, concept, types, and features of Public Limited Company
- Advantages and Privileges of Public Limited Company
- Memorandum of Association, Article of Association and Prospects
- Concept and types of Share Capital of the company

### Unit 2: Financial Statement of the Company

LH 25

- Meaning, concept, features, objectives and importance of company financial statement
- Meaning, importance, objectives, contents and preparation of worksheet based Income Statement and Balance Sheet (in vertical form) as per Company Act and Mandatory Standards (Nepal Accounting Standard)
- Meaning, objectives, importance, contents and preparation of Cash Flow Statement under direct and indirect approach based on Company Act and Mandatory Standards (Nepal Accounting Standard)
- Meaning and concept of Value Added and its application, and concept, advantages, contents and preparation of Value Added statement showing Value Added generated and applied.

### Unit 3: Analysis of Financial Statement of a Company

LH 14

Meaning, importance and objectives of financial statement analysis, internationally accepted standard and financial statement, ratio analysis-concept, uses, importance and limitations, types of ratios-computation and interpretation: liquidity, leverage, activity / turnover, profitability and earning evaluation ratio for evaluating the financial performance of the company.

### Unit 4: Company Growth, Merger, Combination and Liquidation

LH 40

- Company expansion through Amalgamation and Absorption: meaning and concept, Purchase consideration – Concept and Determination.
- Accounting treatment in the Books of both Purchasing and Vendor Company
- Preparation of Balance Sheet by Purchasing Company
- Internal Reconstruction: Meaning, importance, need and accounting treatment and balance sheet after reconstruction
- Expansion through Subsidiary Companies (Holding Company)
  - o Concept of Holding and Subsidiary Company, preparation of Consolidated Balance Sheet by Holding Company after due consideration of:
  - o Pre-acquisition and post-acquisition profit, Minority Interest, Cost of Control/Goodwill or Capital Reserve, Revaluation of assets, Dividend from Subsidiary Company, Inter Company debt and unrealized profit.

- Corporate Liquidation: Concept and reasons for liquidation, procedures of winding up as per Company Act. Liquidator's Final Statement of Account: meaning, contents and preparation showing amount realized from assets realized.

### **Unit 5: Depreciation and its Effect in Financial Statement of a Company**

**LH 22**

- Depreciation – Concept and need
- Accounting treatment under following Method of Depreciation – Original Cost Method, Diminishing Balance Method, Revaluation Method, Machine Hour Rate Method, Annuity Method, Depreciation Fund Method, Insurance Policy Method, and Sum of Year Digit Method and Change of Depreciation Method and their effects.

### **Unit 6: Price Level Changes**

**LH 18**

- Concept of Price Level Changes – Inflation and Deflation
- Current Purchasing Power-accounting: Concept and Preparation of Financial Statements after Price Level Adjustments.
- Current Cost Accounting: Concept and determination
  - o Current Replacement Cost, Net Realizable Value of assets
  - o Depreciation Adjustment
  - o Holding Gains
  - o Inventory Adjustment
  - o Cost of Sales Adjustment
  - o Monetary Working Capital Adjustment
  - o Gearing Adjustment
  - o Current Cost Reserve
- Preparation of:
  - o Current Cost Profit and Loss Account
  - o Current Cost Balance Sheet

### **Unit 7: Long-term Planning – Capital Budgeting**

**LH 23**

- Capital Budgeting: Concept and need
- Types of investment Proposals: Mutually Related Project, Mutually Exclusive Project, New Project, Replacement, Diversification, Expansion, Research and Development, Miscellaneous
- Estimation of Cash Flow:
  - o Net Investment Cost of New Project
  - o Differential Net Investment for replacement and mutually exclusive projects
  - o Annual Net Cash Flow: Differential Net Cash Flow and Net Cash Flow for New Project
  - o Net Cash Flow for Final Year: non-operating and including annual cash flow after tax
- Methods of evaluation of investment proposal:
  - o Non-discounted Cash Flow Method
    - Playback Period
    - Average Rate of Return
  - o Discounted Cash Flow Method
    - Net Present Value
    - Profitability Index
    - Internal Rate of Return
    - Selection of Project based on profitability
- Determination of financing mix
  - o Leverage – its meaning and types
  - o Financial Leverage and effect on the shareholder's return: effect on EBIT and EPS
  - o Analysis of alternative financial plan EBIT – EPS analysis

### **Basic Books**

Gupta, R.L. & Radhaswamy, M., *Advanced Accounting*, New Delhi: S. Chand and Sons.  
Van Horne, *Financial Management and Policy*, New Delhi: Prentice Hall of India  
Pandey, I.M., *Financial Management*, New Delhi: Bikash Publishing House.

### **Reference Books**

Munankarmi, S.P., *Accounting for Financial Analysis and Planning*, Kathmandu: Samjhana Publication House.  
Koirala, Y.R. & et.al, *Accounting for Financial Analysis and Planning*, Kathmandu: Ashmita Publication.  
Shrestha, B.P. & Singh, Y.M., *Accounting for Financial Analysis and Planning*, Kathmandu: Buddha Academy  
Publication House,  
Dangol, R.M., *Accounting for Financial Analysis and Planning*, Kathmandu: Taleju Publishing House,  
Upadhyay, J.P. & Dahal, R., *Accounting for Financial Analysis and Planning*, Kathmandu:  
Khanal Publication.  
Shukla, S.M., Grewal, T.S. & Gupta, S.P., *Advanced Accounting*, Agra: Sahitya Bhawan  
Shukla, S.M. Grewal, T.S. & Gupta, S.P. *Advanced Accounts*, New Delhi: S. Chand and Co.  
Khan, M.Y. & Jain, P.K. *Financial Management: Text and Problems*, New Delhi: Tata McGraw Hill Co.

