From: Vidyadhar Phadke

Course Title: Finance for engineers – (I)

Course Code:

Course Outcome [CO]

CO 1	Students will be able to identify & differentiate Capital Expenditure, Revenue expenditure, cost, profit & cash flow
CO 2	Students will be able to apply principles and techniques of accounting and will be able to prepare Trial Balance, Profit and loss account & Balance sheet for proprietary business
CO 3	Students will be able to integrate accounting information & Costing information for evaluation & interpretation.
CO 4	Students will be able to relate financial and cost accounting information for planning, decision making and control
CO 5	Students will be able to read & understand corporate financial statements

Number of Credits: 2

Pre-Requisite Knowledge: Base level course, no pre-requisites required.

Course Outline

Sr. No.	Topic	No. of hrs.
1	**Introduction to Accounting:** Meaning & Scope of Financial Accounting, nature of business transactions, basic elements of financial accounting	2
2	**Accounting concepts and conventions**: Accounting principles, concepts and assumptions, Generally accepted accounting principles (GAAP) & IFRS	2
3	Accounting Process: Double entry system, Accounting Equation, Process (Journal entries, Ledger & Trial balance). Cash Systems and accounting on accrual basis. Preparation of Trading & profit & loss account And Balance sheet of non-corporate business entities	6
4	**Depreciation -** Useful life, methods for calculating depreciation	2

5	**Inventory –** Valuation	2
6	**Read & interpret Corporate Financial Statements** as per Schedule III of Companies Act 2013, to read Auditors, Directors' Report, Corporate Governance Reports, Standalone Statements**.**	4
7	**To read and understand Cash flow Statement**	2
8	Basics of cost accounting, terms – Direct & Indirect cost, Overheads, CVP Analysis	4
	Total	24

Pedagogy:

1. Lectures and PPTs
2. Use of Excel tools for preparation of final accounts
3. Case Study in the form of Annual Reports of companies.

Evaluation Methods:

(i) T-1 & T-2 in the form of Assignment. [20 + 20 Marks]
(ii) Final written examination: 60 Marks

Books Recommended:

1. Accounting for Managers – C Rama Gopal (2012), Accounting for Management , New Age International Publishers
2. Management Accounting – Dr. Mahesh Kulkarni, Dr. Suhas Mahajan [Nirali Prakashan]

Capital, revenue or deferred revenue expenditure.

- Carriage of Rs. 7,500 paid for machinery purchased and installed should be treated as a Capital Expenditure.
- Expenses incurred for Labour Welfare Centre should be treated as a Capital Expenditure.
- Payment of wages for building a new office extension should be treated as a Capital Expenditure.
- Loss on sale of fixtures Rs. (2,500 – 1,600) = Rs. 900 should be treated as a Capital Loss. The cost of new fixtures and carriage thereon should be treated as a Capital Expenditure because the fixture will be used for a long period. So Rs. (4,000+100) the cost of new fixture will be Rs. 4,100.
- Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.
- Repairing cost of second hand car should be treated as a Capital Expenditure because it will benefit the business for more than one accounting year.
- Repairing and carriage totalling Rs. 55000 for second hand machine should be treated as a Capital Expenditure.
- Customs duty paid on import of machinery to be treated as a Capital Expenditure. However, import duty paid for raw materials should be treated as a Revenue Expenditure.
- Interest paid during pre-construction period to be treated as a Capital Expenditure.
- Rs. 40,000 (50,000 – Rs. 10,000) received from issue of shares will be treated as a Capital Receipt. The premium of Rs. 10,000 should be treated as a Capital Profit.
- Cost of land Rs. 60,000 to be treated as Capital Expenditure and land revenue of Rs. 500 to be treated as Revenue Expenditure.
- Rs. 10,000 incurred in connection with obtaining a license for starting the factory is a Capital
- Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- Rs. 1,000 incurred for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.
- Rs. 5,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
- Rs. 2,000 incurred for defending the title to the firm’s assets is a Revenue Expenditure.
- Rs. 10,000 incurred on advertising is to be treated as a Revenue Expenditure. [As per As-26]
- Cost of construction of Factory shed of Rs. 1,00,000 is a Capital Expenditure, similarly cost of construction of small huts for storing building materials is also a Capital Expenditure.
- The redecoration expenses of Rs. 6,000 shall be treated as a Revenue Expenditure.
- The installation of a new Coffee - Making Machine is a Capital Expenditure because it is the acquisition of an asset.
- Rs. 15,000 spent for the extension of club dressing room is a Capital Expenditure because it creates an asset of a permanent nature.

Accounting Standards

AS 1: Accounting Policies

As per As 1, the fundamental accounting assumptions are: Going Concern, Consistency and Accruals

Illustration:

Explain the methods/criteria for the selection and application of Accounting Policies.

Solution:

The major considerations governing the selection and application of accounting policies are:

Prudence

In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised, though not necessarily in cash. Provision is made for all known liabilities and losses, even though the amount cannot be determined with certainty, and represents only a best estimate in the light of available information.

Substance over form

The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

Materiality

Financial statements should disclose all "material" items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements.

AS-2 Valuation of Inventories