Monday

ACCOUNTING -

Definition:

Accounting is basically a process in which we gather data and on that basis we take informed financial decisions.

(i) Transaction → (ii) Record → (iii) Classification →

Record ↓ (Journal Entries)

Classification ↓ (ledger)

(iv) Summary → (v) Analyse → (vi) Decision

Summary: Trial Balance, final A/c

Analyse: Cost, Management, Financial

Cost ↓ Cost effective

Management ↓ Investment decision

Dr	Ramesh A/c		Cr
To Sales	1,00,000	By Cash	70,000
			30,000

Dr	Sunil A/c		Cr
To Sales	1,00,000	By Cash	70,000
			30,000

[Debtors - 60,000]

Journal Entries -

It helps to standardise accounting of the business.

[misc - miscellaneous]

PAGE No.
DATE 15/7/23

Saturday

SYLLABUS

- Financial Products
  - Saving, time value of money, financial discipline
  - Compounding
  - Insurance
  - 5C's
  - Othermisc topics
- Financial Planning And Management
  - Financial planning
  - Other misc topics
  - SMART Goals
  - Financial transactions & frauds.
  - Tax Structure

* Module - 1 Financial Product

Introduction to financial literacy -

Financial literacy is the possesion of the set of skills and knowledge that allows an individual to make informed and effective decision with all their finances/ financial resource. It is the education and understanding of knowing how money is spent, made, saved as well as invested. These decisions includes how to generate, invest, spend and save money.

• Importance of Financial Literacy

1. Understanding governmental financial policies.
2. Cope up with cyclical changes of market.
3. Aware about various sources of finance.
4. Involvement in financial market.

22/7/23

- ## Importance of Savings and Investments

1. Our standard of living depends on our productivity.
2. Our productivity depends on the availability of human capital, physical capital, natural resource and technology.
3. Improvement in our standard of living requires increase in the above resource.
4. And that in turn requires saving and investment.

- ## Time Value of Money

It basically refers to decrease in the value of money over the period of time.
Eg:- The amount of ₹100 will not buy me the same product after several years. Hence, in order to cope up with this decrease in the value we require investment.

- ## Formula's

1. Amount = Principle + Interest

2. $\text{Interest} = P\left[(1+i)^n - 1\right]$

3. $\text{Future Value} = P(1+i)^n$

- Questions

1. What will be the Future Value (FV) of ₹10,000 @ 5% after 2 years compounded anually.

Solⁿ:- $i = 5\% = \frac{5}{100} = 0.05\%$

$\boxed{i = 0.05\%}$

$P = 10,000$, $n = 2$ years

$\therefore FV = PV(1+i)^n$

$= 10,000\,(1+0.05)^2$

$= 10,000\,(1.05)^2$

$= 10,000 \times (1.1025)$

$= ₹\,11025/-$

2. What will be the FV of ₹10,000 @ 5% after 2 years compounded half yearly (bi-annually).

$\left(0.05 \times \frac{1}{2} = \frac{0.05}{2} = 0.025\right)$

Solⁿ:- $\left[\text{Formula} - i = \frac{r}{100} \times \frac{6}{12}\right]$ $i = 5\%$, $i = \frac{5}{100} \times \frac{6}{12} = \underline{0.025\%}$

$P = ₹10,000$, $n = 2$ years

$\therefore FV = PV(1+i)^n$

$= 10,000\,(1+0.025)^4$

$= 10,000\,(1.1038)$

$= ₹11,038/-$

Analysis -

From the above two examples we can clearly see that when we were receiving interest annually we got in total ₹11,025, however when the method of interest changed from annually to half yearly we re received

PAGE No.
DATE / /

₹13 in access. This is known as power of compounding.

3. Calculate interest on ₹20,000 for 6 months @15 % p.a.

Solⁿ:- Simple Interest $= \frac{P \times N \times R}{100}$

$= \frac{20{,}000 \times \frac{6}{12} \times 15}{100}$

$= \frac{1{,}50{,}000}{100}$

$= 1{,}500$

$\therefore$ Interest = ₹1,500

24/7/23

4. An invested value of 9,800 for 7years at rate of interest @10 % p.a. Find future value.

Solⁿ:- $FV = PV(1+i)^n$

$= 9{,}800\,(1+0.1)^7$

$= 9{,}800\,(1.1)^7$

$= 9{,}800\,(1.9487)$

$=$ ₹19,097.43

5. An invested value 10,600/- for 9 years @12 % p.a. Find Future Value.

Solⁿ:- $FV = P(1+i)^n$

$FV = 10{,}600\,(1+0.12)^9$

$FV = 10{,}600\,(1.12)^9$

$= 10{,}600\,(2.773)$

$=$ ₹29,394.634

PAGE No.
DATE / /

6. Amount of ₹7,800 received after 6 years @9% p.a. Calculate the value of investment.

Soln:- $FV = PV(1+i)^n$

$7,800 = PV(1+0.09)^6$

$7,800 = PV(1.09)^6$

$7,800 = PV(1.6771)$

$PV = \frac{1.6771}{7800}$

$= ₹4,650.89$

7. An invested value ₹10,600 for 9 years @12% p.a. Find future value (compounded half yearly)

Soln:- $FV = PV(1+i)^n$ $\rightarrow \frac{12}{100} = 0.12 = \frac{0.12}{2} = 0.06$

$= 10,600(1+0.06)^{18} \rightarrow 9 \times 2 = 18$

$= 10,600(1.06)^{18}$

$= 10,600(2.8543)$

$= ₹30,255.99 \quad = ₹30,256$ (approx)

8. An invested value ₹10,600 for 9 years @10% Find Future Value (Compounded quaterly)

Soln:- $FV = PV(1+i)^n$

$FV = 10,600(1+0.025)^{36}$

$= 10,600(1.025)^{36}$

$= 10,600(2.43)$

$= ₹25,784.87$

Note: we have assumed that rate of interest is @10% p.a.

9. The amount received is ₹40,000 after 10 years @10%. [Compounded quaterly] You are required to find the amount of investment.

Solⁿ:- Note: we have assumed that rate of interest is @ 10% p.a.

$FV = PV(1+i)^n$

$40,000 = PV(1+0.025)^{40}$

$40,000 = PV(1.025)^{40}$

$40,000 = PV(2.685)^{40}$

$PV = ₹14,897.22$

5 C's of Credit

Capital   Character   Condition   Collateral   Capacity

Credit Standards also called as guidelines to lend money is used to analyse and approve loans as well as protect both the lender and the borrower from the excessive risk. There are basically 5 C's i.e. Capital, character, condition, collateral and Capacity.

1. Character -

When making lending decisions character can be defined as customer willingness and determination to repay the money regardless of unforeseeable

activity. Character includes qualities such as honesty, co-operation with the lender, openness, integrity and self-discipline.
An applicants character can be defined on the basis of following points:
(1) Credit history (2) Production Process
(3) Risk Management (4) Planning for the future
(5) Marketing plans & practices (6) Resolve to do what is needed

2. Capital -
Capital refers to customers financial position and progress, assets, quality, Liquidity and dept structure. The analysis of these factors involve historical and current Balancesheet. Lender will evaluate customers financial position has improved or deteriorated over the time.

3. Capacity -
Capacity is the ability of an individual or operations to generate sufficient earning to cover up their current dept obligations, repay any new dept. This is often determined by calculating capital dept repayment capacity (CDRC)
(1) CDRC = Net Income + depreciation expense + interest expense from term dept

(2) $$\text{CDRC}(\%) = \frac{\text{CDRC}}{\text{Total dept}} \times 100$$

4. <u>Collateral-</u>

Collateral is the property the customer pledges to the lender to secure their loan. For most operating and all equipments, live stock and land loans collateral is required. Collateral must be evaluated to ensure that an adequate margin exists and that collateral is marketable.

5. <u>Conditions -</u>

Conditions relate to the purpose of the loan as well as other items the lender has control over for eg: loan amount, use of fund, terms of repayment etc. Lenders may in certain circumstances add additional requirement or restrictions with respect to the loan.

5/8/23

- <u>Investment Opportunities And Financial Products</u>

Investing can be seen complicated. Afterall there are many different types of investment in which we can put our money.

<u>Different types of investments are:</u>

1. <u>Shares -</u>

A share is exactly or the name implies, i.e. share in the company. As a shareholder you own part of the company including its assets as well as responsibility for liabilities. If you own share ~~share~~ of the company you are liable for the risk involved in the business on the other hand, this risk is compensated by the way of dividend. The share price is not set by the authority or any other institution (government) it is basically decided on the demand and supply of such shares in the market.

2. Fixed Income Securities -

A fixed income security basically refers to that type of investment which pay us fixed returns. Example of such securities are Fixed Deposit, Government bonds, Recurring deposit, PPF, Post office saving schemes etc.

3. Property -

A lot of people invest in property whethere by buying land or in investing in the property such as building. This type of investment usually gives return in long run. Fund manager also invest in properties. They won't often buy properties directly, although they might do depending on the nature of their investment fund. They might also invest in other funds that specializes in property investing known as real estate investment trust.

4. Commodities -

A commodity is a natural resource that can be processed and sold. Commodities that are tracked in the financial market includes agricultural goods, metals and minerals. There are several ways to consider investing in commodities. One way is to purchase varying amount of physical raw commodities. This isn't the most favourable option for institutional investors, as you can invest through the use of future contracts.

PAGE No.
DATE / /

7|8|23

5. Liquid Funds -

Most investment funds have an allocation to cash or other liquid investments, but this does not mean that the manager is keeping heavy amount of funds under this type of investment. This type of investments is also known as money market or liquid fund. Liquidity means how easy it is to sell a particular asset. Liquid funds have two uses : (i) They can be used to protect the value of your money when other assets such as shares or bonds behaving unpredictably.
(ii) They form a part of reserves from which the manager can buy other types of assets.

6. Private Credit -

Private credit is a type of loan under which investor and the borrower negotiate directly. The word private refers to the type of investment where the borrower doesn't have to be a private company.

12|8|23

→ Power of Compounding

Power of Compounding is a concept based on the calculation of interest under compounded method. Compound Interest is basically a calculation of interest in which is calculated on the amount of principal plus all previous interest. In short it results into interest on interest.

PAGE No.
DATE / /

- Formula

$$\text{Amount} = P\left(1+\frac{r}{100}\right)^n$$

where,
P = principal
r = rate of interest
n = no. of times interest is paid

Examples -
1. Deposit amount ₹10,000 interest @ 8% p.a compounded qua terly, time period.

Solⁿ:-

$$\text{Amt} = P\left(1+\frac{r}{100}\right)^n$$

$$= 10,000\left(1+\frac{8}{100}\times\frac{1}{4}\right)$$

$$= 10,000\,(1+0.02)^{40}$$

$$= 10,000\,(2.2080)$$

$$= 20,806.85$$

- Importance
1. It gives depositor an incentive to invest money rather than withdrawing it often.
2. Like depositors it also gives an incentive to banks and other financial Institutions to give loan.
3. Credid card overdue payments are charged monthly at compounding rate 30% - 35%.

- **Rule of 72.**

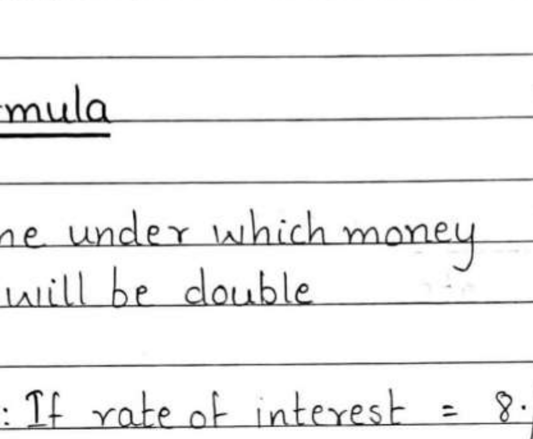
1. It can be used to determine the time that will be taken to double the sum of money provided interest rate is known.
2. It can also be used to determine the rate of return required to double the amount in certain fixed period.

- **Formula**

1. Time under which money will be double $= \dfrac{72}{\text{rate of return}}$

eg: If rate of interest = 8% p.a.
Time required to double money $= \dfrac{72}{8}$

$= 9$ years



If 5000 was invested with an annual growth rate of 10% the original investment would double to 10,000. After 7.2 years 10,000 doubles to 20,000. Later on that 20,000 will double into 40,000 after 7.2 years.

PAGE No. DATE / /

- **Rule of 72 v/s Rule of 69**

1. As interest rate increases rule of 72 gives less precised number.
2. However, rule of 69 can be used to any interest rate.
3. Rule of 72 is ideal when rate of interest is between 6% - 10%.

- **Formula**

$$\text{Rule of } 69 = \frac{69}{\text{interest rate}} + 0.35$$

14/8/23

→ **Insurance**

- Difference between life insurance and General Insurance.

	Life Insurance	General Insurance
1.	Life insurance can be understood as the insurance contracts in which the life risk of an individual is covered.	1. General Insurance refers to the contract of insurance under which it includes various types of Insurance such as fire, marine, motor etc. but not life of an individual.
2.	It is a form of investment.	2. It is a form of contract of ~~e~~ indemnity.

PAGE No.
DATE / /

3. Incase of life insurance it is usually taken for long term.	3. Incase of general insurance it is usually taken for short term.
4. Insurable amount is paid either on the occurence of certain event or at the end of maturity.	4. The insurable amount is paid or loss in reimbursed only on the occurence of uncertain events.
5. It can be done for any value based on the premium the policy holder is willing to pay.	5. The amount payable under general Insurance is confined upto the amount of actual Loss.
6. Life Insurance has a component in savings.	6. General Insurance has no such savings components.

• Types of Life Insurance

1. **Whole Life Insurance** - Under this type of Insurance the amount of policy is paid only on the death of the insured to his nominee.

2. **Term life Insurance** - In term life insurance the policy amount is paid to the nominee if the insured passes away before the expiry of the specified term or the insured himself on the maturity of the term.

3. **Annuity Plans** - When the term of the policy expires the payment of the policy amount is paid to the holder periodically, as long as insured is alive.

19/8/23

- <u>Different types of General Insurance</u>

1. <u>Fire Insurance</u> - The insurance covers the risk of Loss to the property due to fire. For eg: If Mr. A have taken fire insurance on goods he will be beneficiary for getting claim if in case his goods is destroyed by fire. (partially or wholly).

2. <u>Marine Insurance</u> - The insurance covers the risk associated with loss due to marine adventure like sinking, stranding and collision of the ship, causedof the ship/ cargo.

3. <u>Health Insurance</u> - It covers the risk of the health of the policy holder or his/her family due to accident or disease.

4. <u>House Insurance</u> - The Insurance of a house property and its content comes under this category. The Insurance of vehicle is covered under motor insurance. It has been further segregated into two parts i.e two wheeler insurance and four wheeler insurance.

- <u>What is NPS ? Its advantage and disadvantage.</u>

National Pension Scheme is designed to give a way for all citizens of India to contribute towards pension and enjoy pension benefits during their old age retirement.

PAGE No.
DATE / /

NPS is managed by pension fund regulatory and development authority. The apex body established by Government of India to regulate and develop the pension sector in India.

- Keypoints-

(i) To provide old age income
(ii) Reasonable market based return over the long term.
(iii) Extending old age security coverage to all citizens.

21/8/23

- Advantages of NPS

(i) Flexibility to invest in equity as well as government bonds and corporate bonds.
(ii) Low cost product.
(iii) In addition to 80c additional tax exemption of Rs 50,000 is available.
(iv) Can delay the withdrawal of corpus by upto 10 years.

- Disadvantages of NPS

(i) The corpus is not fully tax free. only 40% of the corpus can be withdrawn tax free upon retirement.
(ii) At the time of retirement a minimum of 40% of the corpus needs to be invested in annuity scheme.
(iii) Unlike EPF where employer contribution upto 12% of basic salary and dearness allowance in tax exempted, however in case of NPS employees

contribution upto 10% is exempted.

* Risk Return Analysis

The concept of risk and return analysis is integral to the process of investing and finance. All financial decision involves some risk. One may expect to get return of 15% p.a on his investment but the risk of 'not able to achieve' 15% return will always be there. Return is simply a reward for investing.

The objective of risk and return analysis is to maximise the return by creating and calculating risk and return. For eg: In case of working capital management the less inventory you keep the higher expected return as less of an money is locked as assets. But you also have a increased risk of running out of raw material when you actually need it. Thus all companies tries very hard to maintain minimum inventory as possible without affecting smooth production.

(1) Civil Cases

Land & Property	Family Matters	Recovery of money	Other matter
66.2%	10%	48%	15.8%

(2) Financial Planning Pyramid

Wealth distribution

Wealth creation

Wealth Protection

(3) If Estate Planning is not done

The Hindu Succession Act, 1956	Indian Succession Act, 1925	Mohammedan Personal Law
Hindu, Buddhist, Jain, Sikhs	Christian, Jews, Parsis	Muslims

PAGE No.
DATE / /

- **What is Estate Planning?**

The term Estate Planning refers to preparation of task that serve to manage individuals. financial situation in the event of their incapacitation or death.

The Planning includes the bequest of assets to heirs and the settlement of estate taxes and debts, along with other considerations like the guardianship of minor and pets.

- **Importance of Estate Planning**

1. Estate Planning involves determing how an individuals asset will be preserved, managed and distributed after the death or in the event they become incapacitated.

2. Estate planning includes making a Will, setting up trust or naming an executor or beneficiaries.

3. A will is a legal document that provides instruction on how an individual property and custody of minor children (if any) should be handled after the death.

4. Estate planning can and should be used by anyone not just by ultra-rich person.

PAGE No.
DATE / /

- Difference between Estate Planning and Will.

Estate planning is an action plan that individuals use to determine what happens to their assets and obligation while they are alive and after they die.
A will on the other hand is a legal document that outlines how assets are distributed; who takes care of minor children and pets, and any other wishes after an individual dies.

- Other points

Section A of the Hindu Succession Act, 1956 -
If a Hindu man dies without a will then his property would be distributed - * Firstly, among Class I heirs (specified in the schedule).
* Secondly, if there is no Class I heir then among Class II heirs (specified in the schedule).
* Thirdly, If there is no class I or class II heir's then among the agnates of the deceased.
* lastly, if there is no agnates then among the cognates.

- Nomination and Important aspects of Investment

★ Introduction -
Every time you fill up a form for an investment whether it is fixed deposit or insurance or share or mutual fund or even opening a Bank A/c there will be a separate section that will mention the information relating to nominee. This column is often left blank by many investors but this should not be done.

★ What is nomination?
Nomination is a facility that enables a Deposit account holder, investor to nominate an individual who can claim the proceeds of the deposit account investment or content of the safe deposit holder, post the demise of the account holder.

★ Why to nominate someone? (Importance of nomination)

1. Incase of unfortunate event of one's death, those who are near ones goes through a very painful and difficult time of coping up with the losses. To add to this, whether we like it or not financial security and means is necessary for surviving of the close ones.
2. All financial institutions have standard and simpler process for setting up the process of death claims, where nomination is clearly mentioned in the account or not.
3. In the absence of nomination process of setting

PAGE No.
DATE / /

death claim requires list of documents, for eg: a death certificate, succession certificate, a will or court order.

4. Although it may sound simpler but it ends up drawing a long period of time in real life and it is not a situation in which you would want to put your near one's who are already in emotional situation.

★ Points to remember while doing nomination.

1. Mention the full name, age, address, and your relationship with the nominee.
2. Do not write the nomination in favour of "wife" and "chidren" as a class, give their specific name and particulars existing at the time of nomination.
3. When in case there is more than one nominee you should also mention the share percentage.
4. If the nominee is a minor appoint a person who is a major as an appointee giving his full name, age, address and relationship to the nominee.

PAGE No.
DATE 2/9/23

★ Risk and Return analysis (continued...)

- Graphical relation between risk and return -
  The co-relation between financial risk and return is fairly simple to comprehend. The risk of choosing a particular investment is directly proportional to the returns. Therefore, selecting a high risk investment can give higher profits and vice a versa.

- Types of Risk -

1. Market Risk - It is also called systematic risk and it ~~is~~ arises due to various factors like economic and political problems. They have huge impact on the investment.

2. Specific Risk - They are related mostly to company itself. They may be controlled through diversification and monitoring.

3. Credit Risk - This is related to credit worthiness of the company. If the financial condition of the business is good it will be able to meet its current and future obligations. This will head to good credit rating. Credit risk is the result of deteriorating financial help of the company.

4. Liquidity Risk - This is the result of the business not being able to earn good revenue to meet

PAGE No.
DATE / /

its financial obligation and maintain high working capital.

5. Inflation - The inflation leads to erosion of the value of investment and cashflow in future.