

# PRACTICE AND SYSTEM OF FINANCIAL ACCOUNTING IN CORPORATE SECTOR - A STUDY

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## ABSTRACT:

The concept of corporate financial accounting is used to maintain the financial accounting of a business. The main goal of financial accounting techniques opted by the businesses and firms is to estimate and then increase the firm's value. The corporate financial accounting deals with the policies or financial issues that are associated with attaining the financial goal of the firm. The accounting decisions taken by the firms include decisions regarding investment, capital formation, merger and acquisition and dividend distribution amongst the shareholders. The corporate financial accounting maintains the balance sheet valuation of the firm's assets and liabilities. The managers of the firm take necessary decisions to increase the values of shares while increasing the value of the firm.

The equity values of the firm are observed at different points in time and the financial decisions that are taken by the management can be judged effectively on that ground. The fundamental way of measuring the equity value of a company is done by subtracting the liabilities from the assets in the balance sheet.

But it is often seen that the book value of the firm's equity value don't find resemblance in the real life. This is because the assets of the firm are recorded in the balance sheet at historical rate that may be different from the present market value and also because some assets of the firm such as trademarks, patents, talented managers and loyal customers are not included in the balance sheet. Hence we can say that the balance sheet method is simple but is not accurate.

Determining the future flow of cash is another way to measure the value of the firm. A model to evaluate the firm is designed on cash flow giving a better picture of the effectiveness of the financial decisions.

Key words:- corporate financial accounting maintains the balance sheet valuation of the firm's

## Introduction:

### Overview of Pattern of Corporate Financing in India

The pattern of corporate financing in India has been different throughout its economic history. The outline of corporate financing in India has been determined by the economic rules and regulations that operate at different points of time. Pattern of Corporate Financing in India from 1960 to 1990

During the 30-year period in Indian economy ranging from 1960 to 1990 the stress of Indian economy was on public finance. There were a lot of rules and regulations regarding various economic issues like rates of interest and many more. During the middle part of the decade of 80s there was some change in the Indian economic scenario. The performance of the capital markets in India improved. Certain measures that helped in this positive change include the following: Partial Relaxation of the Indian Industrial Sphere

Advent of a Debenture Market

Presentation of an Economic Policy for a Long Term

### Pattern of Corporate Financing in India from 1990 onwards

After 1992 a lot of reforms have been made in the capital markets of India. The performance of the stock markets of India was remarkable in the 1990s. This was keeping with the healthy state of the Indian economy in and around that time.

All this altered the trend of corporate financing in India. The dependency on banks for loans or other financial assistance reduced to a significant extent. The equity capital that was gained from the capital markets came up as a suitable alternative for them.

The Gross Domestic Product of India rose steadily in this period. The Gross Domestic Product went up by about 4.3% in 1992-93. The Gross Domestic Product of India again increased by almost 2% in the year 1995-96. The growth rate of the Gross Domestic Product of India has been impressive in the recent years.

### Role of Banking Sector in Pattern of Corporate Financing in India

The banking sector of India has played an important role in the context of the development of Indian economy. The banks of India have been doing well with the distribution of funds and monetary resources for the purpose of the development of India's economy.

### Overview of Corporate Finance Online

Corporate finance online means the corporate finance services provided by leading international banks through the Internet. With the arrival of the Internet facilities, corporate finance online services have replaced the offline corporate finance services.

Due to its comprehensive coverage and customer-friendly features, corporate finance online is becoming increasingly popular over the passage of time.

## Advantages of Corporate Finance Online

The online corporate finance services are extremely convenient from the point of view of the consumers. The online corporate finance methods are generally less expensive compared to the offline services.

The other important benefit of the online corporate finance services is that they are extremely time efficient. The consumers who want to avail the corporate finance services from a leading bank can now visit the official website of these banks and receive any information they need. The consumers no longer need to be physically present in these banks in order to gather any information or complete any formality for that matter.

Now it is also easier to carry on transactions with the banks because of the Internet.

## Banks and Online Corporate Finance

The leading international banks are presently offering their clients the opportunity of availing online corporate finance services. The main aim behind such a move is to reach out to the clients on a global scale. The basic idea is to cater to more people around the world.

Internet makes it easier for these banks to increase their client base and establish themselves as leaders in the world of corporate finance.

## Educational Perspective of Corporate Finance Online

With the gradual increase of the importance of corporate finance for the business entities of the world a lot of graduates are trying to get a degree on corporate finance through the distance learning courses that are available on the Internet. Pattern of Corporate Financing in India Overview of Pattern of Corporate Financing in India The pattern of corporate financing in India has been different throughout its economic history. The outline of corporate financing in India has been determined by the economic rules and regulations that operate at different points of time.

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### Risk Analysis in Capital Budgeting

Capital budgeting is used to ascertain the requirements of the long-term investments of a company. Examples of long-term investments are those required for replacement of equipments and machinery, purchase of new equipments and machinery, new products, and new business premises or factory buildings, as well as those required for R&D plans. The different techniques used for capital budgeting include:

Profitability index

Net present value

Modified Internal Rate of Return

Equivalent annuity

Internal Rate of Return

Besides these methods, other methods that are used include Return on Investment (ROI), Accounting Rate of Return (ARR), Discounted Payback Period and Payback Period.

The different types of risks that are faced by entrepreneurs regarding capital budgeting are the following:

Corporate risk

International risk

Stand-alone risk

Competitive risk

## Market risk

Project specific risk

Industry specific risk

Methods of Risk Analysis in Capital Budgeting :

The following methods are used for Risk Analysis in Capital Budgeting:

Sensitivity Analysis:

This is also known as a “what if analysis”. Because of the uncertainty of the future, if an entrepreneur wants to know about the feasibility of a project in variable quantities, for example investments or sales change from the anticipated value, sensitivity analysis can be a useful method. This is calculated in terms of NPV, or net present value.

Scenario Analysis:

In the case of scenario analysis, the focus is on the deviation of a number of interconnected variables. It is different from sensitivity analysis, which usually concentrates on the change in one particular variable at a specific point of time.

Break Even Analysis:

The Break Even Analysis allows a company to determine the minimum production and sales amounts for a project to avoid losing money. The lowest possible quantity at which no loss occurs is called the break-even point. The break-even point can be delineated both in financial or accounting terms.

Hillier Model:

In particular situations, the anticipated NPV and the standard deviation of NPV can be incurred with the help of analytical derivation. This was first realized by F.S. Hillier. There are situations where correlation between cash flows is either complete or nonexistent.

Simulation Analysis: Simulation analysis is utilized for formulating the probability analysis for a criterion of merit with the help of random blending of variable values that carry a relationship with the selected criterion.

Decision Tree Analysis: The principal steps of decision tree analysis are the definition of the decision tree and the assessment of the alternatives.

Corporate Risk Analysis: Corporate risk analysis focuses on the analysis of risk that may influence the project in terms of the entire cash flow of the firm. The corporate risk of a project refers to its share of the total risk of a company.

**Risk Management:** Risk management focuses on factors such as pricing strategy, fixed and variable costs, sequential investment, insurance, financial leverage, long term arrangements, derivatives, strategic alliance and improvement of information.

### Sources and Perspective of Risk

There are different sources and perspective of risk in case of capital budgeting. The finance manager has the responsibility of handling the various types of risk that are involved in the capital budgeting process so that the company does not face any challenge in the long term.

The principal risks that are faced by the finance managers with regards to capital budgeting are the following:

**Project specific risk:** This type of risk may arise from decreased cash flow or income of a company in comparison to the anticipated cash flow or income due to some fault of the management.

**Industry specific risk:** Unanticipated scientific and industrial modifications and regulative amendments for a particular industry where the project originates may lead to this type of risk.

**International risk:** This type of risk may result from political risk and foreign exchange rate risk, which influences the cash flows or income of an international project

**Competitive risk:** Unexpected activities from competitors may result in this type of risk and this can impact the project's cash flows and revenues

**Market risk:** Unforeseen developments in macroeconomic elements, for example interest rate, the GDP growth rate, as well as inflation affect every type of project, though to different magnitude.

### Perspectives of risk:

A project can be looked at from three separate perspectives and they are the following:

**Firm risk:** Firm risk is also known as corporate risk. This denotes a share of all the risks of a firm contributed by a particular project

**Stand-alone risk:** This refers to the risk of a project at the time it is considered in isolation.

**Market risk:** This is a type of risk, which is taken into consideration from the standpoint of a diversified investor. This risk is also known as systematic risk.

As the principal objective of a company is the maximization of shareholder value, the ultimately important factor is the risk that is inflicted on the shareholders by the project. In case the shareholders are comprehensively diversified, the most suitable measurement method of risk is the market

## Sensitivity Analysis

Sensitivity analysis demonstrates model output changes according to model input variations. A model is regarded a sensitive model with regards to an input if altering the variable input modifies the model output. The variability of the output (numeric or in any other form) may be quantitatively or qualitatively allocated to various origins of input variances.

A mathematical model can be outlined with the help of a number of input elements, set of equations, variable quantities, and other parameters, that are targeted to describe the procedure being used. Inputs are associated with a large number of origins of uncertainty and these involve erroneous measurements, lack of data, as well as inadequate comprehension of the propelling forces and procedures.

The models have to satisfy or fulfill the characteristic intrinsic variance of the arrangement, for example, the happening of random events. Sensitivity analysis and uncertainty analysis provide logical devices for portraying the uncertainties related to a model.

Sensitivity analysis is utilized for ascertaining the following: The quality of model explanation

Similarity of the model with the procedure in consideration.

The elements that largely contribute to the variation in output.

The domain in the space of input elements for which the variability of the model is the highest.

Unstable and optimal domains in the area of elements for application in an ensuing calibration survey.

Mutual or reciprocal action between elements

Sensitivity analysis has become quite common for the following domains:

Risk analysis

Signal processing

Financial applications

Neural networks

There are various processes for carrying out sensitivity analysis and uncertainty analysis. The most fundamental method used for sensitivity analysis is based on sampling. The values are taken from the input element distributions. Usually, sensitivity analysis and uncertainty analysis are carried out in combination with help from probability distribution.

The different steps involved are as follows:

Defining the target function and choosing the input of interest.

Allotment of a distribution function to the chosen elements

Producing a matrix of inputs with the help of distribution by a suitable design.

Assessing the model and calculating the target function distribution.

Choosing a technique for evaluating the impact or comparative weight of every input element on the target function.

### Decision Tree Analysis

Decision Tree Analysis provides a tool to study and decide on various choices available at a given point of time.

It uses models of decisions which help to study the possibility of an occurrence of a particular consequence.

Decision Tree Analysis also studies the cost of resources, utilities, and the chances of event outcomes.

When there are several options to choose from, Decision Tree Analysis can be a wise alternative to choose and judge, among the various options available. They give a structure or model that effectively investigates various probable outcomes of each option.

Decision Tree Analysis also helps to design a balanced and rational picture of rewards and risks, that are associated with each possible optional action. There are some rules associated with use of Decision Tree Analysis. For instance, when a business needs to make a decision on two courses of action, the decision is represented in a small square drawn at the left of a piece of paper.

Each possible and probable solution is written on the right hand side of the paper, along lines drawn from the square. At the end of the lines, the results are considered. It should be noted that the lines should be drawn keeping distance from one another, so that no problem arise later.

### Conclusion:

The results can be either decisions or uncertain decisions. If the result considered is a decision, then another square is drawn and the same process is followed again. If the result is an uncertain decision, then it is noted by a circle in the decision tree. The decision is written above the circle or square. The possible outcomes resulting from the circle are also represented by drawing lines. The entire process is repeated until the final outcomes of the decision are reached. Evaluation of Decision Tree Analysis is carried out by assigning cash value against each possible result or outcome. After working out the outcome values and assessing the probability of each result and outcome, the value in keeping a particular decision is calculated.

With proper application of Decision Tree Analysis techniques, the best possible option that is required to develop a new service or new product can be obtained. It also gives the best decision depending on the available information, and gives a framework for calculating the outcome values.



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