



**Financial Literacy 360 Degree
endeavour for Learners**

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MODULE : 3

This module explains the subject matter in user friendly language with a practical approach. Each module is a mix of theory, practical scenarios and videos. A set of questions and activities will help learners to test their understanding of the subject matter.

After completion of each module, you are advised to submit your feedback and suggestions as it will help us to improve and increase the potential learning ratio.

MODULE: 3

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Meaning of Finance

The word 'Finance' originated from the Latin 'Finis' which means 'end' or 'finish'. This word is adapted in 18th century. O. Ferrel and Geoffery Hirt have defined finance as an activity to obtain money and effective decisions. According to authors Khan and Jain, finance is the art and science of managing money. In general, finance means managing money. When we discuss about finance it means decision about money; whether it's related business or personal perspective.



Business Finance and Personal Finance

Precisely, business finance refers to the money used for business activities. On the other hand money used by an individual to fulfill his own needs is known as personal finance. In both the cases one needs to take crucial decisions for managing money. Each and every financial decision is governed by certain rules and regulations laid down by the country. Hence you need money for business finance as well as for personal finance. Let's understand the sources which help to generate\ earn money.



Sources of Finance

Personal Finance

- Earned money
- Inherited money
- Investment money
- Gifted money

Business Finance

- Personal money
- Love money
- Angel money
- Government grants
- Bank loan
- Investment money

Financial Accounting

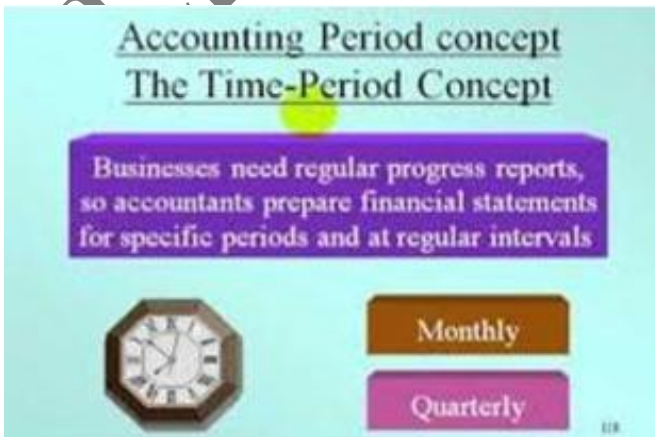
Finance and Accounting terms are two sides of the same coin. In Accounting terms, finance refers to earning, generating, borrowing or lending money. On the other hand accounting refers to communication, analyzing, and collecting financial data. Financial decisions are taken by an individual or businesses based on the accounting reports. These accounting reports are prepared by qualified financial professionals as per the accounting standards. Let's understand both aspects, i.e. finance and accounting in business World.

FINANCE & ACCOUNTING



Accounting Period

You may have noticed the word “period’ in the financial accounting definition. Let’s understand what is accounting period? It is a specific time period, during which an organization or an individual prepares its internal and external accounts. Internal financial reports are prepared by an organization on a monthly or quarterly basis External reporting system can be maintained based on a calendar year or fiscal year under the Companies Act and Banking Regulation Act.



Fiscal Year vs Calendar Year

Fiscal Year

- It is a period of twelve months. For example in India it starts from April 1 and ends on March 31 of the following year. India was ruled by Britishers. They adopted the said financial year to align with the system followed in their country. It is also known as a budget year.

Calendar Year

- It is a period of twelve months starting from January 1 and ends on 31st December. It is considered as conventional accounting system.

Businesses around the World follows following accounting period -

- 1st January to 31st December
- 1st April to 31st March
- 1st July to 30th June
- 1st October to 30th September

Financial Accounting Period Followed in various countries

Accounting Period	Countries
1st January to 31st December	Brazil, China, Germany , Portugal, Russia, Sweden
1st April to 31st March	Hongkong, India, South Africa, United Kingdom
1st July to 30th June	Australia, Egypt, Bangladesh, Nepal, Pakistan,
1st October to 30th September	United States (fedral), Thailand, Costa Rica

Decision Making

As we understand that the purpose of financial and accounting is to take appropriate decisions timely. In order to undertake financial accounting process, you need to address following key areas-

- Data recording - Keep a record of finance related transactions in systematic order.
- Data classification - Classify and analyze data as per accounting heads. For example debit and credit.
- Data summarization - Arrange data in a format which will fulfill user requirements. For example income statement, Profit and Loss statement.
- Data Interpretation - Explanation of data helps user to take accurate and timely decisions. For example appropriate time for product launch, investment decisions.

Key Terms

Debit	It's an expense or an amount of money paid from your account. Since the money is deducted, balance of money will reduce.
Credit	It's an amount of money added to your account. Hence the balance of money will increase as per the amount.
Love Money	An amount of money borrowed from family or friends on an agreement.
Angel Money	An amount of money pooled by high net worth individuals or organizations for investing in business start ups.

Key Terms

Loan Money	An amount of money borrowed from banks and financial institutions. Borrowed money has to be repaid by the borrower with interest amount.
Government Grant	It's an award of financial assistance in the form of money by the government authorities with no expectations of repayment.

Evaluate your learning

1. Financial Accounting is a process can be used by stakeholders of an organization to take decisions related to their job. (true/false)
2. Differentiate between business finance and personal finance.
3. Explain following keywords:
Love money, Inherited money, Angel money, Loan money, Government grant, Investment money

Activity

1. List organizations that have adopted following accounting period:

1 st January to 31 st December Organization Name -
1 st April to 31 st March Organization Name -
1 st July to 30 th June Organization Name -
1 st October to 30 th September Organization Name -

