

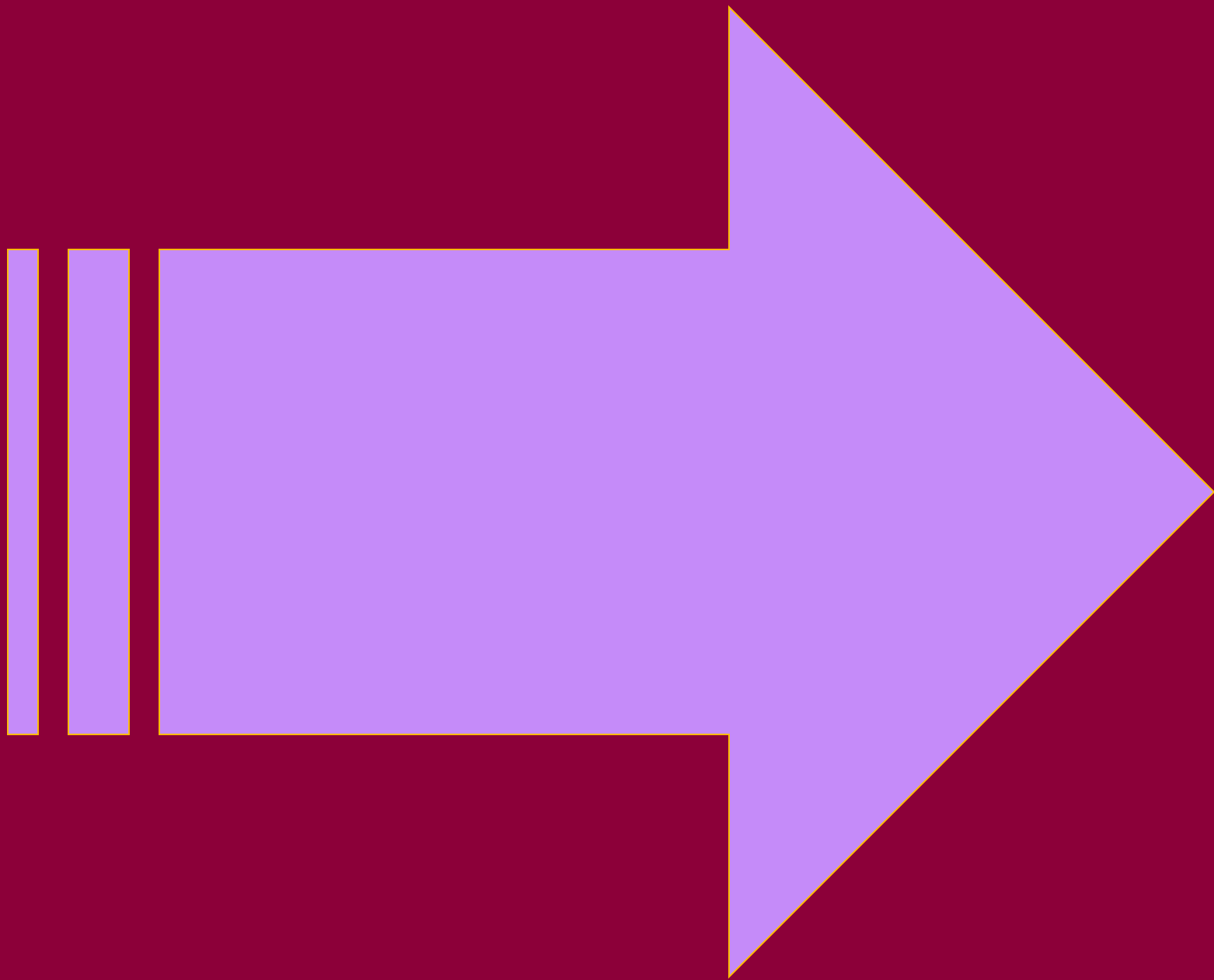


Introducing ... “Accounting & Finance”



Prepared by *Ram Kumar Kakani*

The views
expressed herein
are personal





What is 'Capital' ...



- Finance obtained by a firm
- Three types
- Interest free capital (often, strings attached)
 - ... current liabilities
- Debt capital
 - ... long-term liabilities
- Risk capital
 - ... owners equity





CARTOONSTOCK
 Search ID: T
 ROYST

“Sorry, but that does not make you a risk-taker”



“I call my invention ‘The Wheel,’ but so far I’ve been unable to attract any venture capital.”

■ November 1, 2004



© 2007 Tribune Media Services, Inc. All rights reserved.

3/29

“Let’s change our strategy. You start fetching the paper, and I’ll handle the investments.”





How Did Finance Get Here?

(adapted from <http://ssrn.com/abstract=905867>)

- Till 1800 AD: Industrial revolution and joint stock firms concept
- 1800-1900: ↑ size of business unit, ↑ capex level, ↑ separation of ownership from management
- 1900-1950: ↑ competition, ↑ entry of retail investors
- 1950-2000: ↑ research, ↑ competition in finance world, ↑ technology/communication
- 2000-2017: ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence variety
↓ risk & uncertainty awareness

How Did Finance Get Here?

<http://ssrn.com/abstract=905867>

- Till 1800 AD: Industrial revolution and joint stock firms concept led to
 - *Double Entry Accounting & Bookkeeping*
- 1800-1900: ↑ size of business unit, ↑ capex level, & ↑ separation of ownership from management meant introduction of
 - *Intermediaries, Stock and Commodity Exchanges*
 - *Financial Reporting Procedures, Management Accounting Systems*
 - *Debentures, Convertibles, & Preference Shares*

How Did Finance Get Here?

(<http://ssrn.com/abstract=905867>)

- 1900-1950: ↑ Competition and Entry of Retail Investors led to
 - *Financial Analysis, Budgeting & Standard Costing*
 - *Common Stock Exchanges*
- 1950-2000: ↑ Research, ↑ Competition in Finance, ↑ Technology/ Communication meant
 - *Theories – Random Walk, Portfolio, Market Efficiency, MM's Capital Structure and Dividend*
 - *Models – CAPM, Option Pricing, Fama-French*
 - *Derivatives, Swaps, ESOP, LBO, Securitization, EVA, ABC, SCM, MVA, Hedge Funds, ...*

How Did Finance Get Here?

<http://ssrn.com/abstract=905867>

- 2000-2017: ↑ Research (Commercial), ↑ Player size & type of competition in Finance, ↑ Technology/Communication ↑ external communication (quantity), ↑ IQ, ↓ internal communication, ↓ intelligence type, ↓ risk & uncertainty fortitude
 - *PE, VC, Interest in Trading (Quantitative type); Increasing chance of systemic issues; IFRS, Narrower Formats, Compliance Norms, Behavioral Finance, Wider Variety of Quantified Risk Models, Niche Fields (AIM, MFI, SWF, Islamic Fin., etc.), Niche Products (ETFs, REITs, etc.)*



Agency Concept

Modern Corporation

Shareholders

Management

There exists a **SEPARATION**
between owners and managers.

Ownership Vs Management

Differences in Information

- Stock prices and returns
- Issues of shares and other securities
- Dividends
- Financing

Different Objectives

- Management Vs stockholders
- Top management Vs operating management
- Stockholders Vs banks and lenders





“Finance” – Is it Difficult?

- Look from a business perspective
 - Look from the perspective of long-term investing (or owning) ... say, (relatively) successful communities ... Bohra, Gujarati, Jews, Malabari Muslim, Marwari, Parsi, Punjabi Khatri, Syrian Catholic)
 - ➔ Understand ‘practical economics’ and ‘pursuing prospects’
 - ➔ Caution: These communities also have some limitations
 - **Motivated, Opportunist, Calculative & largely Practical**
- Appreciate jargons
 - Read business newspapers + (if needed) web-search
 - Read books and journals + Access databases
 - Exchange views ➔ Simultaneous updating
- Don't switch-off
 - Unlearn & Avoid Prejudiced Mindset
 - Concentrate

Typical Mental Blocks

- “I Can’t” mindset
 - Easily give it up
- Brahminical mindset
 - We should never do transactions on credit
- Islamic mindset
 - We should never charge interest to loans
- Bengali mindset
 - Earning money is bad
- Engineers mindset
 - Look for standard algorithms
- Commerce / Accountant mindset
 - Cannot come out of rules & regulations



Typical Mental Blocks

- Sarkari Babu mindset
 - Play safe
 - Don't stretch (or, move to zone of discomfort)
- Single Child mindset
 - Just order (to your guardians) and it will be done
- Google-Dada/Didi mindset
 - Everything in this world can be web-searched (and the first 1-2 links are the 'Bhagwat Gita' for them)
 - Plus severe "Copy Paste" Addiction
- Experienced mindset
 - Why should we read? We know everything?¹⁹



Thank You



Acknowledgements:

- ❖ External: Shri Avinash Ghalke (XL BM 06), Shri Anoop Bhatia (XL BM 07), Shri Jay Mehta (XL BM 06), Shri D Rama Rao (IIMC 96), Ms Prajna Ojha (XL BM 06) and Shri Syed Shabbirul Haque (IIMC 97)
- ❖ Internal: XL Faculty Members Profs Sabyasachi Sengupta, Pitabas Mohanty, Uday Damodaran, and Santosh Sangem