

Chapter 1

Financial Accounting and Entrepreneurial Set Up

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Introduction

Providing the conditions for positively youth development is a responsibility shared by families, schools, and communities. Youth empowerment can be defined as a process where people gain the ability and authority to make informed decisions and implement change in their own lives and the lives of other people. It is a means of encouraging youths to do great things for themselves and as youths, you are at the centre of absolute strength. You think big, hope for the best and envision a better tomorrow, therefore making continuous efforts to turn your dreams into reality. According to the global organization (UN) reports, Nigerian youth migrants in Europe and America are three times more than migrants from other West African Country. This report also added that the migration rate of the youth was 32 percent in 1999, compared to less than 15 percent for non-youth populations. It was estimated that by the end of 2012, over 50 percent of the youths in Nigeria will be residing in foreign countries where job opportunities are easier to come by. This is including the massive migration rate of Nigerians to Canada and other foreign countries since 2017, if not more, Olusola, (2019).

Professionalism in accounting education is increasingly been compromised by companies who are constantly dreaming up *ways* of cutting cost and hence continuing to be competitive. Also students of accounting education from most tertiary institutions are not provided with adequate curriculum to obtain the required professional skills. Therefore accounting training given to students must be able to produce the kind of professional in demand today to meet the competition in the labour market. Lack of strong workforce with the required skills and capacity is caused partly by redundancies and gaps in the accountancy curriculum, and inadequate resources, either human or financial, to make sufficient improvement.

The problem of cost accounting curriculum is that it is expensive and more of professionalism, problem of entrepreneurial set ups and business start ups. Financial accounting curriculum is not well utilized as a result of professionalism.

Financial Accounting

Financial accounting is the field of accounting concerned with the summary, analysis and reporting of financial transactions related to a business. This involves the preparation of financial statements available for public use, the Wharton school, (2018). According www.freshbooks.com/hub, financial accounting is the process of recording, summarizing and reporting a company's business transactions through financial statements. These statement are: the income statement, the balance sheet, the cash flow statement and the statement of retained earnings. Financial accounting utilizes a series of established accounting principles. The selection of accounting principles to use during the course of financial accounting depends on the regulatory and reporting requirements the business faces. For U.S. public companies, businesses are required to perform financial accounting in accordance with generally accepted accounting principles (GAAP).The establishment of these accounting principles is to provide consistent information to investors, creditors, regulators, and tax authorities. Financial Accounting follows the either the accrual basis or the cash basis of accounting. Nonprofits, corporations, and small businesses use financial accountants. Financial reporting occurs

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through the use of financial statements in five distinct areas. The financial statements used in financial accounting present the five main classifications of financial data: revenues, expenses, assets, liabilities and equity. Revenues and expenses are accounted for and reported on the income statement. They can include everything from R&D to payroll. International public companies also frequently report financial statements in accordance with International Financial Reporting Standards. Financial accounting results in the determination of net income at the bottom of the income statement. Assets, liabilities and equity accounts are reported on the balance sheet. The balance sheet utilizes financial accounting to report ownership of the company's future economic benefits. Financial accounting may be performed using either the accrual method, cash method or a combination of the two. Accrual accounting entails recording transactions when the transactions have occurred and the revenue is recognizable. Cash accounting entails recording transactions only upon the exchange of cash. Revenue is only recorded upon the receipt of payment, and expenses are only recorded upon the payment of the obligation. The key difference between financial and managerial accounting is that financial accounting aims at providing information to parties outside the organization, whereas managerial accounting information is aimed at helping managers within the organization make decisions. Financial statement preparation using accounting principles is most relevant to regulatory organizations and financial institutions. Because there are numerous accounting rules that do not translate well into business operation management, different accounting rules and procedures are utilized by internal management for internal business analysis. The most common accounting designation demonstrating an ability to perform financial accounting within the United States is the Certified Public Accountant (CPA) license. Outside of the United States, holders of the Chartered Accountant (A) license demonstrate the ability as well. The Certified Management Accountant (CMA) designation is more demonstrative of an ability to perform internal management functions than financial accounting.

Indicators of Financial accounting as used in the study include the following:

1. Financial Statement Analysis: according Kenton, (2021), financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes. External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value. Internal constituents use it as a monitoring tool for managing the finances. Financial statement analysis is used by internal and external stakeholders to evaluate business performance and value.

Financial accounting calls for all companies to create a balance sheet, income statement, and cash flow statement which form the basis for financial statement analysis, Kindness (2021).

Horizontal, vertical, and ratio analysis are three techniques analysts use when analyzing financial statements. The financial statements of a company record important financial data on every aspect of a business's activities. As such, they can be evaluated on the basis of past, current, and projected performance. In general, financial statements are centered around generally accepted accounting principles (GAAP) in the U.S. These principles require a company to create and maintain three main financial statements: the balance sheet, the income statement, and the cash flow statement. Public companies have stricter standards for financial statement reporting. Public companies must follow GAAP which requires accrual accounting. Private companies have greater flexibility in their financial statement preparation and also have the option to use either accrual or cash accounting. Several techniques are commonly used as part of financial statement analysis. Three of the most important techniques include horizontal analysis, vertical analysis, and ratio analysis. Horizontal analysis compares data horizontally, by analyzing values of line items across two or more years. Vertical analysis looks at the vertical effects line items have on other parts of the business and also the business's proportions. Ratio analysis uses important ratio metrics to calculate statistical relationships, Munichello, (2021). Financial statements of any organization have their types. Companies use the balance sheet, income statement, and cash flow statement to manage the operations of their business and also to provide transparency to their stakeholders. All three statements are interconnected and create different views of a company's activities and

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performance. The balance sheet is a report of a company's financial worth in terms of book value. It is broken into three parts to include a company's assets, liabilities, and shareholders' equity. Short-term assets such as cash and accounts receivable can tell a lot about a company's operational efficiency, liabilities include the company's expense arrangements and the debt capital it is paying off, and shareholder's equity includes details on equity capital investments and retained earnings from periodic net income. The balance sheet must balance assets and liabilities to equal shareholder's equity. This figure is considered a company's book value and serves as an important performance metric that increases or decreases with the financial activities of a company, Kindness, (2021). The income statement breaks down the revenue a company earns against the expenses involved in its business to provide a bottom line, meaning the net profit or loss. The income statement is broken into three parts which help to analyze business efficiency at three different points. It begins with revenue and the direct costs associated with revenue to identify gross profit. It then moves to operating profit, which subtracts indirect expenses such as marketing costs, general costs, and depreciation. Finally, after deducting interest and taxes, the net income is reached. Basic analysis of the income statement usually involves the calculation of gross profit margin, operating profit margin, and net profit margin which each divide profit by revenue. Profit margin helps to show where company costs are low or high at different points of the operations. The cash flow statement provides an overview of the company's cash flows from operating activities, investing activities, and financing activities. Net income is carried over to the cash flow statement where it is included as the top line item for operating activities. Like its title, investing activities include cash flows involved with firm wide investments. The financing activities section includes cash flow from both debt and equity financing. The bottom line shows how much cash a company has available.

Companies and analysts also use free cash flow statements and other valuation statements to analyze the value of a company. Free cash flow statements arrive at a net present value by discounting the free cash flow a company is estimated to generate over time. Private companies may keep a valuation statement as they progress toward potentially going public.

Financial statements are maintained by companies daily and used internally for business management to assess financial performance. In general, both internal and external stakeholders use the same corporate finance methodologies for maintaining business activities and evaluating overall financial performance. When doing comprehensive financial statement analysis, analysts typically use multiple years of data to facilitate horizontal analysis. Each financial statement is also analyzed with vertical analysis to understand how different categories of the statement are influencing results. Finally, ratio analysis can be used to isolate some performance metrics in each statement and also bring together data points across statements collectively.

Some of the most common ratio metrics are:

Balancesheet: asset turnover, quick ratio, receivables turnover, days to sales, debt to assets, and debt to equity.

Incomestatement: gross profit margin, operating profit margin, net profit margin, tax ratio efficiency, and interest coverage.

CashFlow: Cash and earnings before interest, taxes, depreciation, and amortization (EBITDA).

These metrics may be shown on a per-share basis. **Comprehensive:** Return on assets (ROA) and return on equity (ROE). Financial statement analysis is the process of evaluating a company's performance or value through a company's balance sheet, income statement, or statement of cash flows. By using a number of techniques such as horizontal, vertical, or ratio analysis, investors may develop a more nuanced picture of a company's financial profile. There are different types of financial statement analysis. Most often, analysts will use three main techniques for analyzing a company's financial statements. First, horizontal analysis involves comparing historical data. Usually, the purpose of horizontal analysis is to detect growth trends across different time periods. Second, vertical analysis compares items on a financial statement in relation to each other. For instance, an expense item could be expressed as a percentage of company sales. Finally, ratio analysis, a central part of fundamental equity analysis, compares line-item data. P/E

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ratios, earnings per share, or dividend yield are examples of ratio analysis. An Example of Financial Statement Analysis, an analyst may first look at a number of ratios on a company's income statement to determine how efficiently it generates profits and shareholder value. For instance, gross profit margin will show the difference between revenues and the cost of goods sold. If the company has a higher gross profit margin than its competitors, this may indicate a positive sign for the company. At the same time, the analyst may observe that the gross profit margin has been increasing over nine fiscal periods, applying a horizontal analysis to the company operating trends.

Financial ratio: Financial ratio analysis is the technique of comparing the relationship (or ratio) between two or more items of financial data from a company's financial statements. It is mainly used as a way of making fair comparisons across time and between different companies or industries.

Financial ratio analysis is generally used in six main areas. These are: liquidity, coverage, solvency, profitability and efficiency market prospects.

It's important to keep in mind that financial ratios can only be interpreted fairly if the financial statements on which they are based are prepared according to the same set of accounting standards. This ensures that the underlying general ledger accounts always relate to the same line items in the financial statements.

An overview of key financial ratio analysis

Here is a quick guide to the main types of financial ratio analysis and the key financial ratios used in them.

Liquidity

Liquidity analysis is used to analyse a company's abilities to meet its immediate debt obligations out of its current assets. The two key financial ratios used to analyse liquidity are:

Current ratio = current assets divided by current liabilities

Quick ratio = (current assets minus inventory) divided by current liabilities

The current ratio is also known as the working capital ratio and the quick ratio is also known as the acid test ratio.

Coverage

Coverage analysis is used to analyse a company's ability to pay interest, fees and charges on its debts but not the underlying capital obligations. The two key financial ratios used to analyse solvency are:

Times-interest-earned ratio = earnings before interest and taxes divided by interest expense

Debt-service-coverage ratio = net operating income divided by total debt service charges

Solvency

Solvency analysis is used to analyse a company's ability to pay off all the debt it currently holds with its income, assets and equity. The two key financial ratios used to analyse solvency are:

Total -debt ratio = total liabilities divided by total assets

Debt-to-equity ratio = total liabilities divided by (total assets minus total liabilities)

Profitability

Profitability analysis is used to analyse a company's ability to make money from its goods and services. The four key financial ratios used to analyse profitability are:

Net profit margin = net income divided by sales

Return on total assets = net income divided by assets

Basic earning power = EBIT divided by total assets

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Return on equity = net income divided by common equity

Efficiency

Efficiency analysis is used to analyse how hard a business is working its assets on behalf of its owners. The four key financial ratios used to analyse efficiency are:

Inventory-turnover ratio = sales divided by inventory

Days-sales outstanding = accounts receivable divided by average sales per -assets-turnover ratio = sales divided by net fixed assets

Total-assets-turnover ratio = sales divided by total assets Day-sales outstanding is also known as the average collection period.

Market prospects

Market prospects analysis is generally only undertaken for publicly traded companies. It is generally used to determine the likely prospects of different investment options.

There are numerous financial ratios used to calculate market prospects. Key ones include:

Price-earnings ratio = stock price per share divided by earnings per share

Price-cash-flow ratio = stock price divided by cash flow per share

Market-book ratio = stock price divided by book value per share

Dividend yield = dividend divided by share price

Earnings-per-share = profit divided by number of outstanding shares

Dividend-payout ratio = dividend per share divided by earnings per share or dividends divided by net income

Limitations of financial ratio analysis: Financial ratio analysis is quantitative rather than qualitative. It, therefore, does not address certain factors which can play a huge role in determining a company's prospects. For example, it cannot analyse the quality of their management. This means that, although financial ratio analysis can be hugely useful, it only tells part of the story.

Liquidity Ratio: A type of financial ratio used to determine a company's ability to pay its short-term debt obligations. Home > Resources > Knowledge > Finance > Liquidity Ratio What is a Liquidity Ratio? A liquidity ratio is a type of financial ratio used to determine a company's ability to pay its short term debt obligations. The metric helps determine if a company can use its current, or liquid, assets to cover its current liabilities. Three liquidity ratios are commonly used - the current ratio, quick ratio, and cash ratio. In each of the liquidity ratios, the current liabilities amount is placed in the denominator of the equation, and the liquid assets amount is placed in the numerator. Given the structure of the ratio, with assets on top and liabilities on the bottom, ratios above 1.0 are sought after. A ratio of 1 means that a company can exactly pay off all its current liabilities with its current assets. A ratio of less than 1 (e.g., 0.75) would imply that a company is not able to satisfy its current liabilities. A ratio greater than 1 (e.g., 2.0) would imply that a company is able to satisfy its current bills. In fact, a ratio of 2.0 means that a company can cover its current liabilities two times over. A ratio of 3.0 would mean they could cover their current liabilities three times over, and so forth. A liquidity ratio is used to determine a company's ability to pay its short-term debt obligations. The three main liquidity ratios are the current ratio, quick ratio, and cash ratio. When analyzing a company, investors and creditors want to see a company with liquidity ratios above 1.0. A company with healthy liquidity ratios is more likely to be approved for credit.

Liquidity ratios have their types,

Current Ratio = Current Assets / Current Liabilities

The current ratio is the simplest liquidity ratio to calculate and interpret.

Anyone can easily find the current assets and current liabilities line items on a company's balance sheet. Divide current assets by current liabilities, and you will arrive at the current ratio.

Quick Ratio = (Cash + Accounts Receivables + Marketable Securities) / Current Liabilities

The quick ratio is a stricter test of liquidity than the current ratio. Both are similar in the sense that current assets is the numerator, and current liabilities is the denominator.

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However, the quick ratio only considers certain current assets. It considers more liquid assets such as cash, accounts receivables, and marketable securities. It leaves out current assets such as inventory and prepaid expenses because the two are less liquid. So, the quick ratio is more of a true test of a company's ability to cover its short-term obligations.

Cash Ratio = $(\text{Cash} + \text{Marketable Securities}) / \text{Current Liabilities}$

The cash ratio takes the test of liquidity even further. This ratio only considers a company's most liquid assets - cash and marketable securities. They are the assets that are most readily available to a company to pay short-term obligations. In terms of how strict the tests of liquidity are, you can view the current ratio, quick ratio, and cash ratio as easy, medium, and hard. It is important to note that, since the three ratios vary by what is used in the numerator of the equation, an acceptable ratio will differ between the three. It is logical because the cash ratio only considers cash and marketable securities in the numerator, whereas the current ratio considers all current assets. Therefore, an acceptable current ratio will be higher than an acceptable quick ratio. Both will be higher than an acceptable cash ratio. For example, a company may have a current ratio of 3.9, a quick ratio of 1.9, and a cash ratio of 0.94. All three may be considered healthy by analysts and investors, depending on the company. Liquidity ratio is of great importance to an organization, it helps to determine the ability to cover short-term obligations.

Liquidity ratios are important to investors and creditors to determine if a company can cover their short-term obligations, and to what degree. A ratio of 1 is better than a ratio of less than 1, but it isn't ideal.

Creditors and investors like to see higher liquidity ratios, such as 2 or 3. The higher the ratio is, the more likely a company is able to pay its short-term bills. A ratio of less than 1 means the company faces a negative working capital and can be experiencing a liquidity crisis.

To determine creditworthiness, creditors analyze liquidity ratios when deciding whether or not they should extend credit to a company. They want to be sure that the company they lend to has the ability to pay them back. Any hint of financial instability may disqualify a company from obtaining loans. To determine investment worthiness, for investors, they will analyze a company using liquidity ratios to ensure that a company is financially healthy and worthy of their investment. Working capital issues will put restraints on the rest of the business as well. A company needs to be able to pay its short-term bills with some leeway.

Low liquidity ratios raise a red flag, but "the higher, the better" is only true to a certain extent. At some point, investors will question why a company's liquidity ratios are so high. Yes, a company with a liquidity ratio of 8.5 will be able to confidently pay its short-term bills, but investors may deem such a ratio excessive. An abnormally high ratio means the company holds a large amount of liquid assets. For example, if a company's cash ratio was 8.5, investors and analysts may consider that too high. The company holds too much cash on hand, which isn't earning anything more than the interest the bank offers to hold their cash. It can be argued that the company should allocate the cash amount towards other initiatives and investments that can achieve a higher return.

With liquidity ratios, there is a balance between a company being able to safely cover its bills and improper capital allocation. Capital should be allocated in the best way to increase the value of the firm for shareholders.

Entrepreneurial Set Ups

The term "startup" refers to a company in the first stages of operations. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. These companies generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists, Harroch, (2018)

A startup is a company that's in the initial stages of business.

Until the business gets off the ground, a startup is often financed by its founders and may attempt to attract outside investment.

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The many funding sources for startups include family and friends, venture capitalists, crowd funding, and loans.

Startups must also consider where they'll do business and their legal structure.

Startups come with high risk as failure is very possible but they can also be very unique places to work with great benefits, a focus on innovation, and great opportunities to learn.

Understanding Startups

Startups are companies or ventures that are focused on a single product or service that the founders want to bring to market. These companies typically don't have a fully developed business model and, more crucially, lack adequate capital to move onto the next phase of business. Most of these companies are initially funded by their founders.

Many startups turn to others for more funding: family, friends, and venture capitalists. Silicon Valley is known for its strong venture capitalist community and is a popular destination for startups, but is also widely considered the most demanding arena.

Startups can use seed capital to invest in research and to develop their business plans. Market research helps determine the demand for a product or service, while a comprehensive business plan outlines the company's mission statement, vision, and goals, as well as management and marketing strategies.

Examples of Startups; Dotcoms were a common startup in the 1990s. Venture capital was extremely easy to obtain during this time due to a frenzy among investors to speculate on the emergence of these new businesses. Unfortunately, most of these Internet startups eventually went bust due to major flaws in their business plans, such as lacking a path to sustainable revenue. However, a handful of companies survived when the dotcom bubble burst. Both Amazon (AMZN) and eBay (EBAY) are examples.

The first few years are very important for startups—a period during which entrepreneurs should concentrate on raising capital and developing a business model.

Many startups fail within the first few years. That's why this initial period is important. Entrepreneurs need to find money, create a business model and business plan, hire key personnel, work out intricate details such as equity stakes for partners and investors, and plan for the long run. Many of today's most successful companies—Microsoft (MSFT), Apple (AAPL), and Facebook (FB), to name a few—began as startups and ended up becoming publicly traded companies.

Special Considerations Location

Startups must decide whether their business is conducted online, in an office or home office, or in a store. The location depends on the product or service being offered. For example, a technology startup selling virtual reality hardware may need a physical storefront to give customers a face-to-face demonstration of the product's complex features.

Legal Structure

Startups need to consider what legal structure best fits their entity. A sole proprietorship is suited for a founder who is also the key employee of a business. Partnerships are a viable legal structure for businesses that consist of several people who have joint ownership, and they're also fairly straightforward to establish. Personal liability can be reduced by registering a startup as a limited liability company (LLC).

Startups often raise funds by turning to family and friends or by using venture capitalists. This is a group of professional investors that specialize in funding startups. Crowdfunding has become a viable way for many people to get access to the cash they need to move forward in the business process. The entrepreneur sets up a crowd funding page online, allowing people who believe in the company to donate money.

RECOMMENDATIONS

Based on the conclusion of the study, the following recommendations are made:

1. Nigerian University Commission should establish a viable curriculum that will promote youths of business education through job creation.

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2. Financial accounting should be thought effectively in tertiary institutions for business start ups.
3. Tertiary institution should always review lecturers' workload distribution on a periodic basis to ensure equitable distribution of tasks to lecturers and help to make them more productive in delivering the accounting education curriculum. Nigerian University Commission through tertiary institution should conduct periodic review of accounting education curriculum with a view to update them in tertiary institutions in Rivers State.

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