B.Com Honours | Semester II | Calicut University

Accounting and Finance for Entrepreneurs

Course Code: COM2MN101 • Module 3 Notes

1. Financial Analysis, Budgeting, and Business Taxation

Evaluating operational health and managing compliance are continuous responsibilities for a business founder. This module covers startup ratio analysis, budgeting methods, cost of capital, business taxation structures (GST and Income Tax), and tax planning strategies.

Ratio Analysis for Startups

Ratios allow entrepreneurs and investors to compare financial performance over time:

Category	Key Ratio Formula	Operational Interpretation
Liquidity	Current Ratio = Current Assets / Current Liabilities	Measures ability to pay short-term obligations (target: > 1.5).
Profitability	Gross Profit Margin = (Gross Profit / Revenue) x 100	Measures efficiency of product manufacturing or service delivery.
Solvency	Debt-to-Equity Ratio = Total Debt / Shareholder Equity	Measures proportion of debt financing relative to equity cushion.

Budgeting: Operating, Cash, and Capital

A budget is a quantitative financial plan for a future period. Entrepreneurs maintain three main types of budgets:

- **Operating Budget:** Details day-to-day projected revenues and operational expenses (salaries, advertising).
- **Cash Budget:** Chronological forecast of cash inflows and outflows, critical to prevent running out of money.
- **Capital Budget:** Plans long-term investments in major assets (machinery, property, software platforms).

Cost of Financing

Cost of Financing is the return rate lenders or investors require to provide capital to the startup. The cost of debt depends on market interest rates, startup credit profile, collateral pledge, and restrictive covenants. The cost of equity is higher because equity investors bear the highest risk of business failure.

Basics of Business Taxation: Income Tax and GST

Entrepreneurs must navigate two main tax categories:

1. Corporate Income Tax

Tax on net business profits. In India, domestic startup companies enjoy reduced tax rates (15% to 22% depending on incorporation dates and exemptions). Filing Income Tax Returns (ITR) annually is mandatory.

2. Goods & Services Tax (GST)

Indirect consumption tax. Requires monthly or quarterly GST return filings. Businesses can claim **Input Tax Credit (ITC)**—deducted GST paid on business inputs from output GST liability on sales.

Tax Planning Strategies

Entrepreneurs utilize legal tax planning to minimize cash outflow: claiming depreciation on business assets, utilizing start-up tax holidays (e.g., Section 80-IAC deduction for 3 consecutive years), and deducting business setup and R&D expenses from taxable income.