

# **DISTILLATION**

**Field of  
Finance**

## Foundational conceptual tool-kit

- Language of accounts.
- Accrual versus cash method of accounting.
- Difference between stock (Assets / Liabilities ) and flow (Income / Expense) heads of accounts.
- Types of costs.
- Working capital.
- Difference between true liabilities & capital / surplus / reserves.
- Understanding credit instruments.

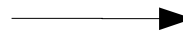
**Field of  
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### **Crafting skills**

- No fear of numbers.
- Ease and comfort with use of excel.
- Ability to organise and engage with large data sets.
- Ability to look at trees as well as the forest at the same time (analysis + synthesis).

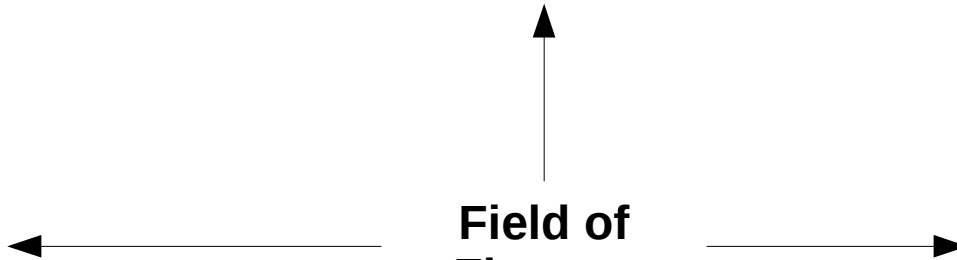
## Temperamental qualities

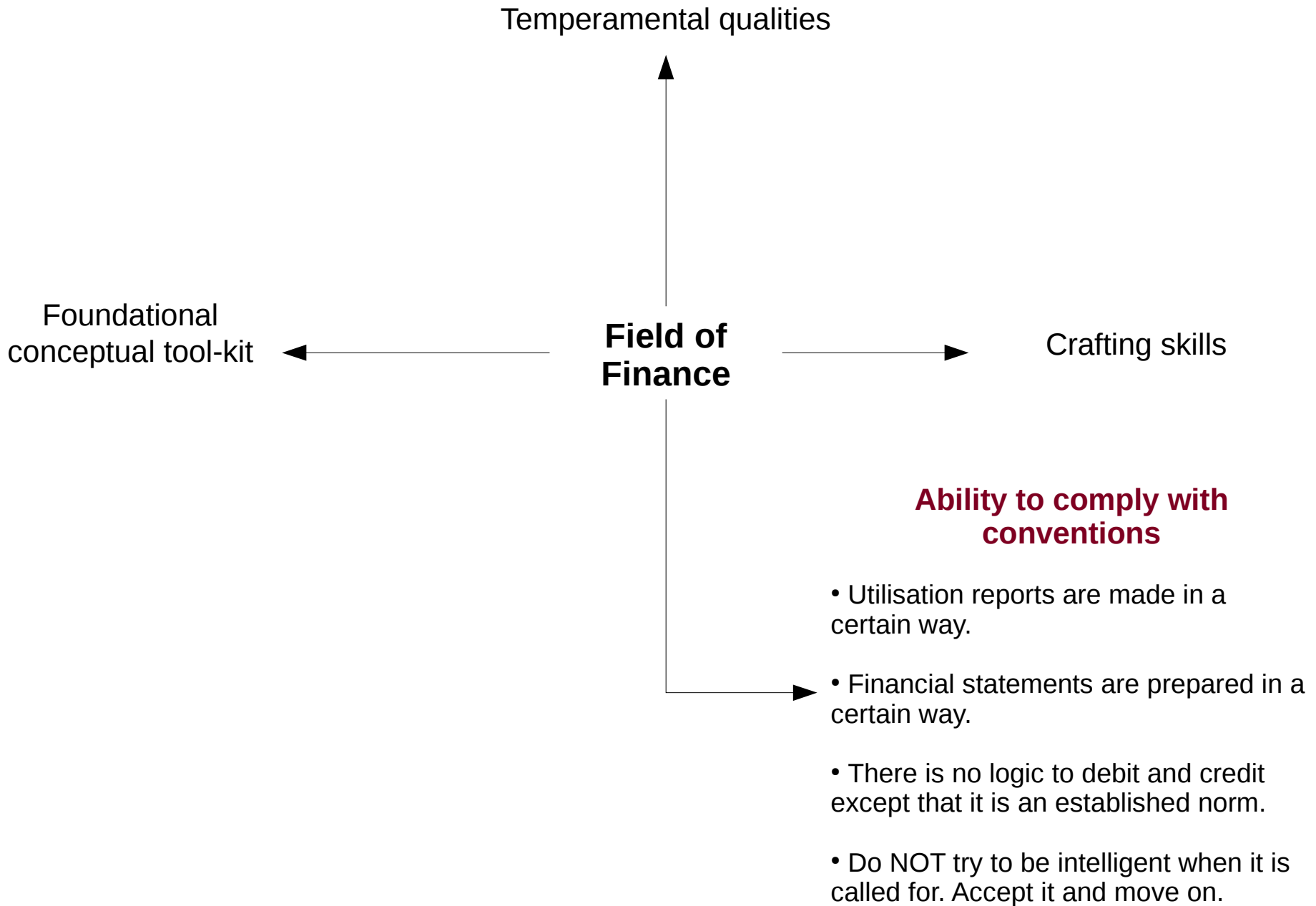
- Caution and attention to detail: there are major costs to making minor errors.
- Look at what the numbers are telling you rather than what you want the numbers to tell you.
- Ability to concentrate for an extended period of time.

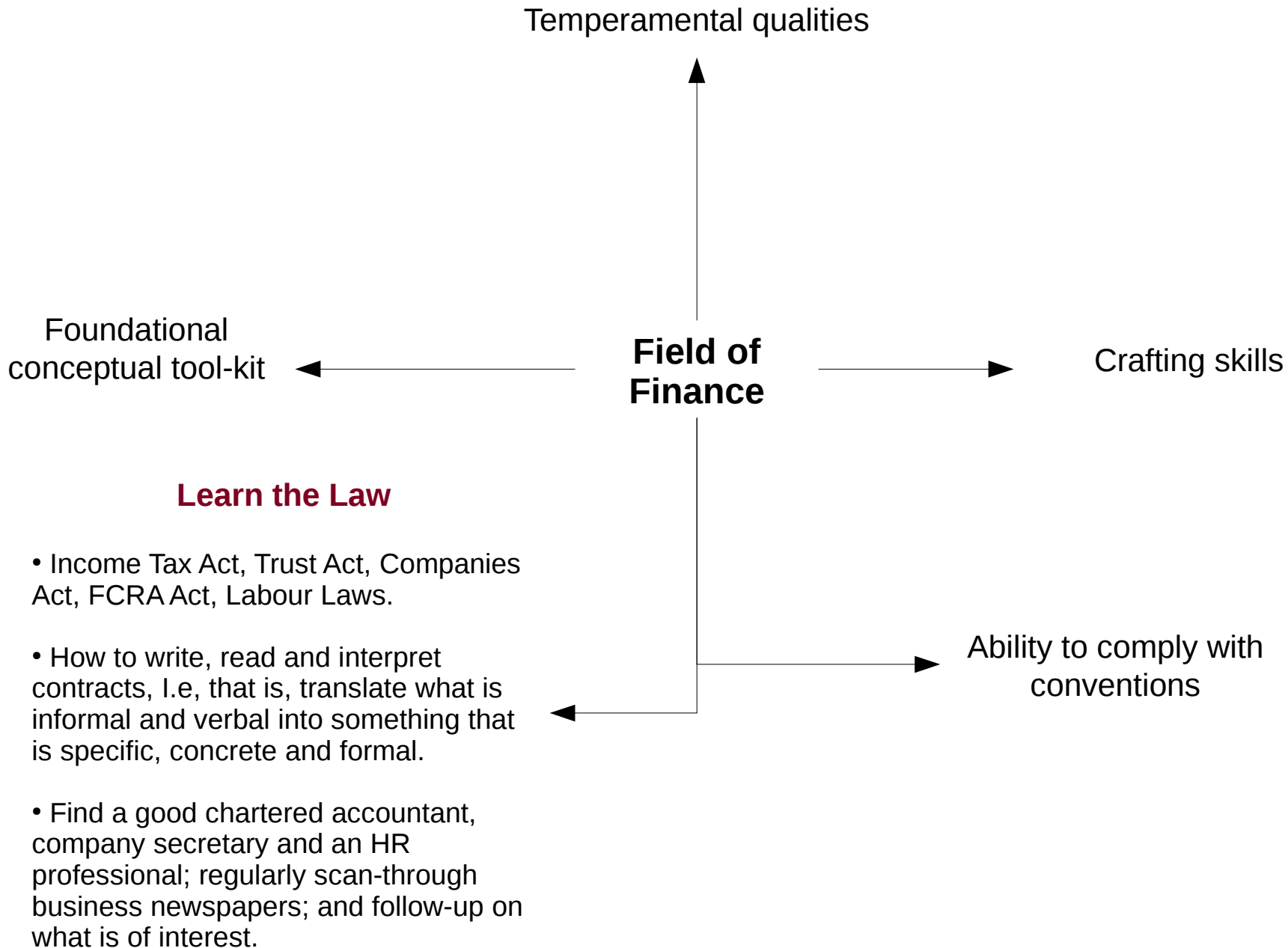
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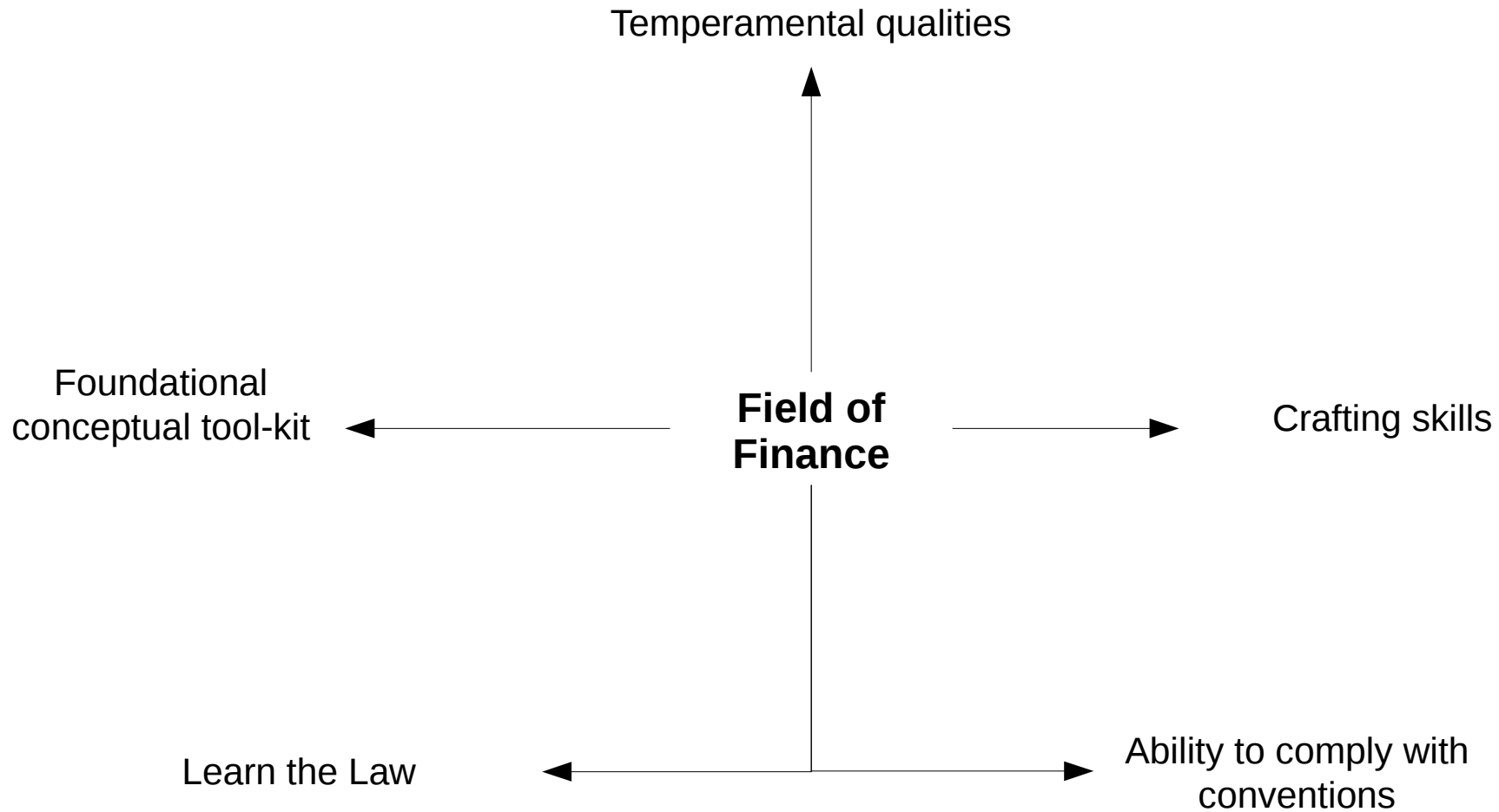
Crafting skills







# DISTILLATION



- Compensation exercise = skill + temperament + Labour law provisions.
- Project utilisation exercise = skill + temperament + conventions
- Social enterprise model = skill + temperament + concepts of financial statements.
- Credit cash flow = skill + temperament + credit concepts.

**DETOUR**

Finance is **not** a technical discipline driven a by specialised body of knowledge.

It is, at heart, a skillful way to think about our daily economic reality.

It is about carrying out economic actions with the help of the language of accounts.

Finance is in equal measure about human psychology and human rationality.

Numbers are a help in making decisions, they are **not** the decision. Do not take them as the only truth. They are one part of the truth.

The decision you make at any point of time is a function of three things: your ignorance + your circumstances + the world you find yourself in.

Finance can help with the first, your psychology will help you with the other two.

Financial thinking is one of the three pre-requisites to be a good manager.

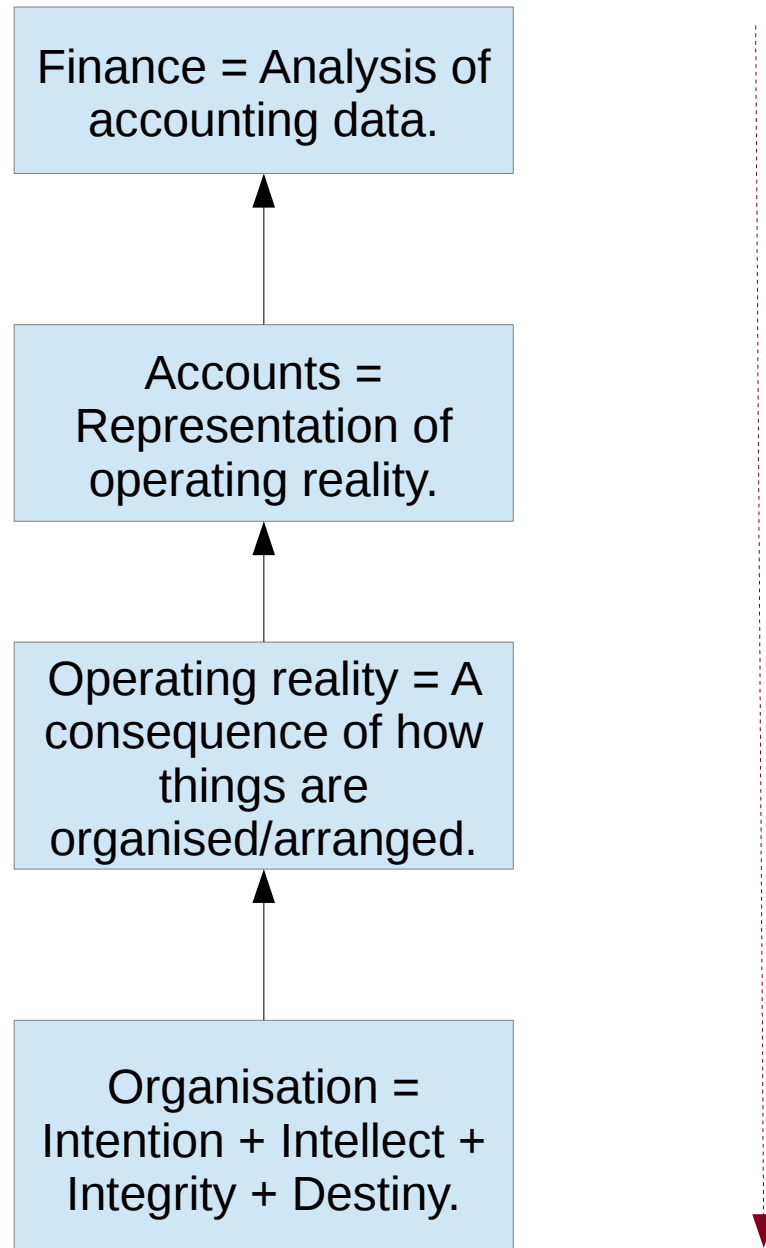
The other two are: how to work constructively along-side other people and how to remain a person of integrity through the pains and pleasures of life.

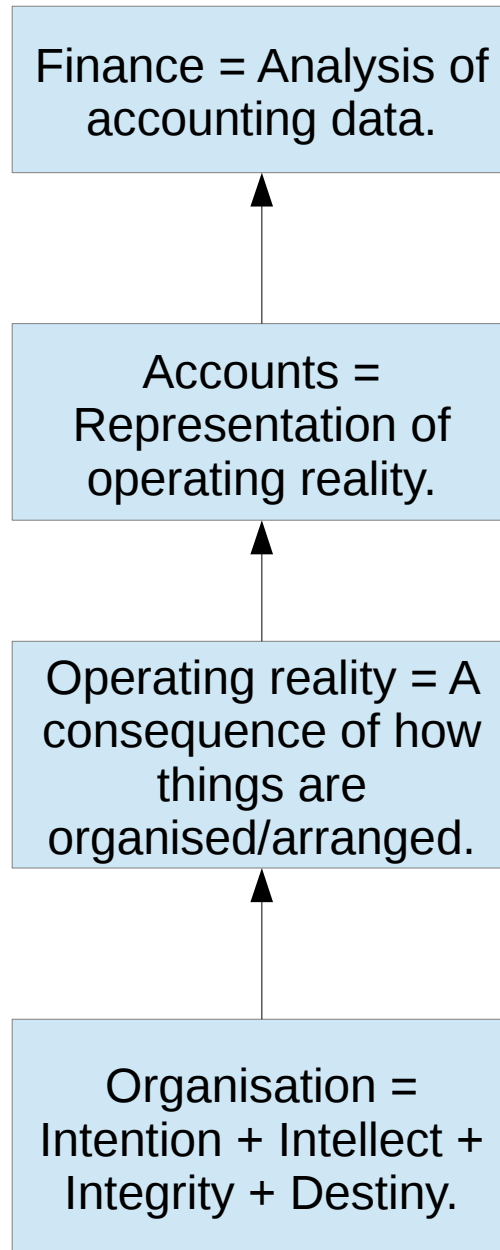
## SUGGESTED NEXT STEPS

- Complete the exercises if you have not, or revisit those parts you have not understood or found difficult.
- Improve your conceptual understanding of accounting: revisit the notes on accounts that were shared in the class and read financial statements of both for and non-profit organisations.
- Increase your familiarity with economics by engaging in the day to day happenings through reading newspapers, journals, following select commentators.
- Avoid engaging with too much of economic or financial academic theory. It will most likely lead you further and further away from common-sense.
- Those who are keen on sharpening their financial thinking would at some point need to engage with the field of investments and investment analysis because it is populated by some very deep thinkers and highly skilled practitioners.

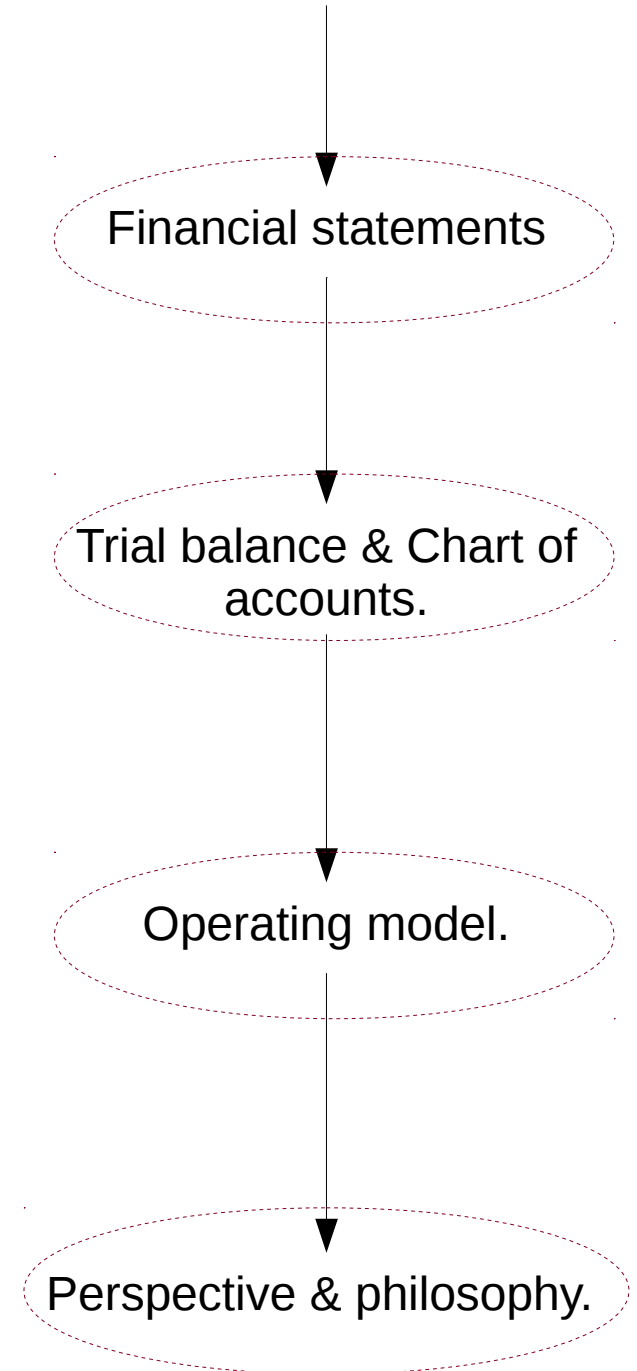
**WHAT IS ITS USE FOR AN ENTREPRENEUR?**

# REPRESENTATION OF UNDERLYING REALITY.





## Chain of inference.



# LESSONS FOR AN ENTREPRENEUR

- Take ownership of your own financial statements: they are not the job of your accountant or your CA.
- Take accountability for money: whether your own or someone else's. It is easy to raise money selling dreams, difficult to answer for it after spending it. Capital is scarce, respect it.
- Do something because it is right, not because it will make you money. But do something which is right in a way that will be profitable.
- Finance will help you with the second. A sense of purpose with the first.
- Do not take an executive action to make the books of accounts look 'nice'. Do not try to hide past errors; instead, let them be reflected in financial statements, own upto the mistakes and move on. It is ok to lose money by making honest mistakes, it is never ok to hide your losses.
- Spend time in building things, designing them, organising them and bringing something of use to society over long-term. Do not do things for petty financial gains.
- Be frugal most of the times, but occassionally spend when you must. For this, learn to differentiate between an expense and an investment.