Victoria University of Bangladesh

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ACT 214

Ans. to the Q. No - 1

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often ~~ad~~ audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. For profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity.

Financial statement provide a picture of the performance, financial position and cash flows of a business. These documents are used by the investment community, lenders, creditors and management to evaluate an entity. There are four main types of financial statement.

1. Income statement
2. Balance sheet.
3. Cash flows
4. Changes in equaity.

Ans. to the Q. No (2)

The balance sheet: One of the financial statements is the balance sheet. It shows an entity's assets, liabilities and stockholder's equity as of the report date:

The income statement: Another financial statement is the income statement. It shows the results of an entity's operations and financial activities for the reporting period. Its general structure is to begin with all revenues generated, from which the cost of goods sold is subtracted and then all selling, general and administrative expenses.

The statement of cash flows: The final financial statement is the statement of cash flows. It shows changes in an entity's cash flows during the reporting period. These cash flows are divided into cash flows from operating activities, investing activities and Financial activities.

The full set of financial statement is expected when a business is reporting the results for a full fiscal year.

The statement of changes in equity:

The statement of changes in equity documents all changes in equity during the reporting period. These changes include the issuance or purchase of shares, dividends issued, and profit or losses.

These are the categories of financial statements.

~~Fiscal year~~ .

Ans. to the Q. No - 3

(ii) Current Ratio : The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and othe payables. The current ratio is sometimes called the working capital ratio.

(ii) Liquidity Ratio: Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay of current debt obligations without raising external capital. Liquidity ratios measures a company's ability to pay debt obligations and its mergin of safty through the calculations ~~and its margin of safety throu~~ of metrics including the current ratio, quick ratio and operating cash flow ratio.

Ans. to the Q. No. 4

$$\text{Liquidity Ratio} = \frac{\text{Quick assets}}{\text{Immediate Liabilities}}$$

Here,

Quick assets :

Current asset = ~~500,000~~ cash + eneentory + Accounts Recievable + Prepaid insurance

~~Less :~~

= 108000 + 130,000 + 16,000 + 16,000

= ~~180,000~~ (current asset)
270,000 \$

Less : = (Inventories + prepaid Insurance)

= 130,000 + 16,000

= 146,000

Quick assets = (~~180,000~~ 270,000 - 146000)

= ~~34,000 \$~~ 124,000 \$

Immediate liability = creditors + accrued expenses

= 50,000 + 20,000

= 70,000 $

$$\text{Liquidity ratio} = \frac{\overset{124,000}{\cancel{34,002}}}{70,000}$$

= .48 Time on

0.48 : 1

$$\text{Liquidity ratio} = \frac{124,000}{70,000}$$

= 1.78 Time on

1.78 : 1

Ans.

Ans. to the Q. No - 3

Working capital = Current assets - current liabilities

Current asset:

cash = 108,000

Inventories = 130,000

Acc. Receivable = 16,000

Prepaid Insurance = 16,000

= 270,000 $

Current liability :

creditor = 50,000

accrued exp. = 20,000

= 70,000 $

Working capital = 270,000 - 70,000

= 200,000 $

Ans.