All Victoria University of Bangladesh

Mid Term Assessment

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COURSE CODE : ACT 214

COURSE TITLE : FINANCIAL ACCOUNTING - 2

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Course title: Financial Accounting-2
Course code: Act 214

Ans: to the q. no. (1)

Current ratio: The current ratio is a liquidity ratio that measure a companys ability to pay short-team 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 other payables.

A current ratio that is in line with the industry average or

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or slightly higher is generally considered acceptable. A current ration that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ration compared with its peer group, it indicates that management may not be using its assets effic-

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

exam:- current assets = \$ 6,9~~4~~5k

current liabilities = \$ 3,750k

Current ratio = 1.85

Debt to equity ratio:- Debt to equity ratio is used to evaluate a company financial leverage and is calculated by dividing a company's total liabilities by its shareholder equity.

Ratio is an important metric in corporate finance. It is a measure of the degree to which a company is financing its operations with debt rather than its own resources. Debt-to-equity ratio is a particular type of gearing ratio.

* Debt-to-equity ratio compares a company's total liabilities with

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its shareholder equity and can be used to assess the extent of its reliance on debt.

* ratio vary by industry and are best used to compare direct competitors or to measure change in the company's reliance on debt over time.

* Among similar companies, a higher ratio suggests more risk, while a particularly low one may indicate that a business is not taking advantage of debt financing to expand.

* investors will often modify the ratio consider only long term.

$$\text{Debt/equity} = \frac{\text{total Liabilities}}{\text{total Shareholders.}}$$

Account payable ratio:

The accounts payable turnover ratio measure how quickly a business makes payment to creditors and suppleirs that extend lines of credit. Accounting professionals quantify the ratio by calculating the average number of times the company pays its AP balances during a specified time period. On a companys balance sheet, the accounts payable turnover ratio is a key indicator of its liquidity and

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how it is managing cash flow.

* A higher accounts payable ratio indicates that a company pays its bills in a shorter amount of time than those with a lower ratio.

* Low AP ratios could signal that a company is struggling to pay its bills, but that is not always the case. It could be using its cash strategically.

* Business that rely on lines of credit typically benefit from a higher ratio because supplier and lenders use this metric to gauge the risk they owe

ROA: ROA means return on assets. ROA is a measure of how efficiently a company uses the assets it owns to generate profits.

what is ROA, the term return on assets ROA refers to a financial ration that indicates how profitable a company is in relation to its total assets.

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

corporate management, analysts, and investors can use ROA to determine how efficiently a

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Company uses its assets to generate a profit.

The metric is commonly expressed as a percentage by using a company's net income and its average assets. A higher ROA means a company is more efficient and productive at managing its balance

* Return on Assets is a metric that indicates a company's profitability in relation to its total assets.
* ROA can be used by management analysts, and investors to determine whether a company uses its assets efficiently to generate a profit.

Inventory turnover ratio

The inventory turnover ratio is the number of times a company has sold and replenished its inventory over a specific amount of time. The formula can also be used to calculate the number of days it will take to sell the inventory on hand.

The higher level of inventory turnover causes the company to be better in selling merchandise so that it will increase operating profit and ultimately will increase net income. Net income indicates the profitability of the company

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In essence, inventory turnover is your average yearly inventory. It shows how many times your business has sold and replaced inventory during a given period of time. This figure is important because it allows businesses to frame their financial footsteps.

Inventory turnover Ratio = $\frac{\text{Cost of goods sold}}{\text{Average Inventories}}$

The inventory turnover ratio formula is equal to the cost of goods sold divided by total

Ans: to the Q.N: (3)

(2) Cash Flow statement:

A financial statement that aggregates a company's cash inflows and outflows from operations, investing and financing over a set period of time.

A cash flow statement provides data regarding all cash inflows that a company receives from its ongoing operations and external investment sources. The cash flow statement includes cash made by the business through operations, investment, and

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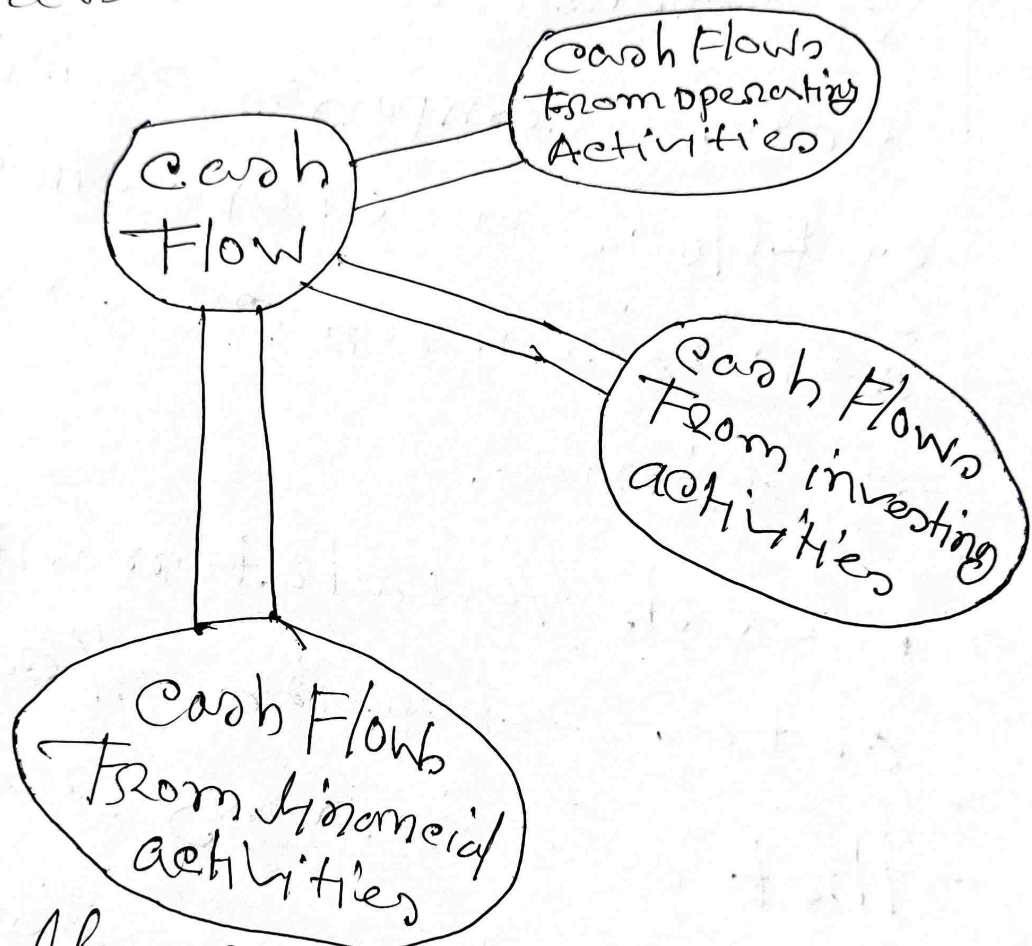
Financing the sum of which is called net cash flow. statement or cash flows



Cash flow from operations is comprised of expenditures made as part of the ordinary course of operations. example: of these cash outflow are payroll, the cost of goods sold, rent and utilities. Cash outflows can vary

* Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses.
* potential lenders or creditors who want a clear picture of a company ability to repay.
* Potential lenders or creditors who want a clear picture of a company's ability to repay
* potential investors, who need to judge whether the company is financially sound.
* company Directors, who are responsible for the governance of the

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company does not trade
while insolvent.

* Shareholders of the company

* potential employees or contractors who need to know whether the company will be able to afford compensation.

Explain steps of cash flow statement

A typical cash flow statement comprise three sections: cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. there two methods of producing a statement of cash flows,

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(1) **Determine the starting balance**

The first step in preparing a cash flow statement is determine the starting balance of cash and cash equivalents at the begining of the reporting period. This value can be found on the income statement of the same accounting period.

(2) **Calculate cash flow from operating Activities:** One you have your starting balance, you need to calculate cash flow from operating activities. This step is crucial because it reveals how much

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cash a company generates from its operations.
Cash flow from operating are calculated using either the direct or indirect method.

③ **calculate cash flow from Investing Activities:** After calculating cash flows from operating activities you need to calculate cash flow from investing activities. this section of the cash flow statement details cash flows related to the buying and selling of long-term assets like property, facilities and equipment. keep in mind that this section only includes inves

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(7) Calculate Cash flow from financial Activity: The third section of the cash flow statement examines cash flow and out flows related to financing activities. This includes cash flows from both debt and equity financing cash flows associated with raising cash and paying back debts to invest and creditors.

When using Gaap this section also includes dividends paid, which may be included in the operating section when using IFRS standards. Interest paid is included in the operating section under Gaap but sometimes in the financing section under

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⑤ Determine the ending Balance

once cash flows generated from the three main types of business activities are accounted for, you can determine the ending balance of cash and cash equivalents at the close of the reporting period. the change in net cash for the period is equal to the sum of cash flows from operating, investing and financing activities. this value shows the total amount of cash a company gained or lost during the reporting period.

Ans: the Q. N. (4)

Requirement (a)

Proprietary ratio = $\frac{\text{Equity shareholders Fund}}{\text{total assets}}$

$= \frac{2,30,000}{610,000}$

$= 0.4$

Here,

Equity shareholders Fund:

Equity	200,000
Add: preference Share	180,000
	380,000
Less: Debt	(150,000)
	2,30,000

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Requirement (b)

Acid-test ratio $= \frac{\text{Quick Assets}}{\text{Current liabilities}}$

$= \frac{380,000}{230,000}$

$= 1.65:1$ or $1.7:1$

Here,

Quick Assets =

Current Assets − Inventory − prepaid expense

$= (108,000 + 230,000 + 16,000 + 26,000) - 0 - 0$

$= 380,000$

Current liabilities $= 150,000 + 40,000 + 40,000$

$= 230,000$