Victoria University of Bangladesh

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ACT 214

Ans. to the Q. No - 1

(i) Current ratio: The current ratio is a liquidity ratio that measures a company's ability to pay its short-term obligations. It is calculated by dividing a company's current assets by its current liabilities. A current ratio of greater than 1 indicates that the company has sufficient assets to cover its liabilities. A current ratio of less than 1, however, indicates that the company may strugle to pay its short-term debts and considered a warning sign.

(ii) Debt to equity ratio: The debt-to equity-ratio is a financial leverage. It is calculated by dividing a company's total debt by its total equity. The ratio shows the proportion of a companys financing that comes from debt versus equity. A high debt to equity ratio indicates that a company is highly leveraged and may be taking on too much debt relative to its equity based. This can increase the companys risk and make it more vulnerable to economic downturn.

(iii) Account payable ratio : The accounts payable ratio is a financial metric that measures a company's ability to pay its short-term debts to suppliers. It is calculated by dividing a company's accounts payable by its average daily purchases. A high accounts payable ratio indicates that a company is taking a long time to pay its suppliers, which can strain relationship and damage the company's reputation. On the other hand, a low accounts payable ratio can indicate that a

company is paying its suppliers too quickly which can reduce its liquidity and make it more vulnerable to short term cash flow problems.

(iv) ROA : ROA, or Return on Assets, is a financial ratio that measures the profitability of a company in relation to its total assets. It is calculated by dividing a company's net income by its total assets. ROA indicates how efficiently a company is using its assets to generate profit expressed as a percentage.

A high ROA indicates that a company is generating a high return on its assets, while a low ROA indicates that a company is not effectively using its assets to generate profit.

(v) Inventory turnover ratio: The inventory turnover ratio is a financial metric that measures a company's efficiently in managing its ~~turnover~~ inventory. It is calculated by dividing the cost of goods sold by the average inventory value. The inventory turnover

ratio indicates that how many times
a company has sold and replaced its
stock of goods during given period.
A high inventory turnover ratio
indicates that a company is efficiently
selling and managing its inventory,
while a low ratio may indicate
that the company is holding too
much inventory or not efficiently
selling its goods.

Ans. to the Q No-2

A cash flow statement is a financial documents that reports the inflow and outflow of cash within a company over a specific period of time, usually over course of a quarter or a year. This purpose of the cash flow statement is to give investors and stockholders an understanding of a company's liquidity solvency and ability to generate positive cash flows.

Steps of cash flow statement:

1. Start with cash on hand at the beginning of the period.

2. Add any cash received from operating activities such as sales, collections on accounts receivable, and interest and dividends received.

3. Deduct any cash payments made for operating expenses such as salaries, rent and utilities.

4. Add any cash received from investing activities such as the sale

of fixed assets or investments.

5. Deduct any cash payments made for investing activities such as the purchase of fixed assets or investments.

6. Add any cash received from financing activities such as loans or issuing of bonds.

7. Deduct any cash payments made for financing activities such as the repayment of loans or payment of dividends to shareholders.

8. Subtract the total cash outflow from the total cash inflow to determine the change in cash balance for the period.

9. Record the ending cash balance, which will become the starting cash balance for the next period.

Ans. to the Q. No – 4 :

(a)

$$\text{Proprietory ratio} = \frac{\text{Equity Capital}}{\text{Total assets}}$$

Here, equity shareholder funds:

= equity + Preference share – Debt

= 200,000 + 180,000 – 150,000

= $ 230,000

Total asset = $ 610,000

$$\therefore \text{Proprietory ratio} = \frac{\$\ 230{,}000}{\$\ 610{,}000}$$

= 0.38 : 1

(b) : Acid test Ratio = $\frac{\text{Quik assets}}{\text{quik liability}}$

Quik assets = cash + account receivable ~~+ stock~~ − Prepaid insurance

= 108,000 + 16,000 − 26,000

= $98,000

Quik liabilities = Debt + account payable + accrued exp. exec

= 150,000 + 40000 + 40,000

= $ 230,000

∴ Acid test ratio = $\frac{98,000}{230,000}$

= 0.42 %

Ans to the Q. No - 3

Compute cash- iflows

Particulars	2021	2020	2019
Sales			