Victoria University of Bangladesh

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Course Title : Financial accounting 2

Course Code: ACT 214

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Ans to the question no.1

i.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 other payables.

ii.Debt to equity Ratio:

Debt-to-equity (D/E) ratio is used to evaluate a company’s financial leverage and is calculated by dividing a company’s total liabilities by its shareholder equity. D/E 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.

iii.Accounts payable ratio:

Accounts payable ratios are designed to measure the operational efficiency of a payables department, as well as its ability to pay suppliers in a timely manner. The operational efficiency ratios

are monitored internally as a management function, while the ability to pay is of more interest to outside analysts, who are judging the creditworthiness of a company.

iv.Return on Assets (ROA):

The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is in relation to its total assets. Corporate management, analysts, and investors can use ROA to determine how efficiently a company uses its assets to generate a profit.

v.Inventory Turnover Ratio:

The inventory turnover ratio, also known as the stock turnover ratio, is an efficiency ratio that measures how efficiently inventory is managed. The inventory turnover ratio formula is equal to the cost of goods sold divided by total or average inventory to show how many times inventory is “turned” or sold during a period. The ratio can be used to determine if there are excessive inventory levels compared to sales.

Ans to the question no.2

A cash flow statement is a financial statement that outlines the cash inflows and outflows for a specific period of business activities. A cash flow statement is used to track how much money enters and exits a business.

Here are five steps to create cash flow statemen.

1. Determine the Starting Balance:

The first step in preparing a cash flow statement is calculating the initial amount of cash and cash equivalents at the beginning of the reporting period. This figure can be found on the income statement for the same accounting period.

When using the indirect approach to calculate cash flow from operating activities, the starting cash balance is required. However, the direct method does not necessitate this information.

2. Calculate Cash Flow from Operating Activities:
Once step 1 done, a company need to calculate cash flow from operating activities. This step is

crucial because it reveals how much cash a company generated from its operations.

Cash flow from operations are calculated using either the direct or indirect method. Direct method is a straightforward process that involves taking all the cash collections from operations and subtracting all the cash disbursements from operations. Whereas, indirect method requires to start with net income from the income statement (see step one above) and make adjustments to "undo" the impact of the accruals made during the reporting period.

3. Calculate Cash Flow from Investing Activities:

This component of the cash flow statement describes the cash flows associated with the purchase and sale of long-term assets such as property, facilities, and equipment. This section solely discusses investing actions that involve free cash rather than debt.

4. Calculate Cash Flow from Financing Activity:

The cash inflows and outflows connected to financing activities are examined in the third section of the cash flow statement. This includes cash flows from both debt and equity financing, as well as cash flows from raising funds and repaying loans to investors and creditors. This section includes dividends paid when using GAAP, which may be included in the operational section when utilizing IFRS standards.

5. Determine the Ending Balance:

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. A positive net cash flow indicates a company had more cash flowing into it than out of it, while a negative net cash flow indicates it spent more than it earned.

Ans to the Q.No-4

a) Proprietary ratio :

$$\text{Proprietary ratio} = \frac{\text{Stock holder equity}}{\text{Total asset} - \text{Intangible asset}}$$

$$= \frac{2,00,000 + 1,80,000}{6,10,000 - 2,30,000}$$

$$= \frac{3,80,000}{3,80,000}$$

$$= 1:1$$

b)

$$\text{Acid test ratio} = \frac{\text{Liquid asset}}{\text{Current liabilities}}$$

$$= \frac{3,80,000 - 26,000}{80,000}$$

$$= \frac{3,54,000}{80,000}$$

$$= 4.425:1$$