Victoria University of Bangladesh

Mid Assignment, Fall Semester 2022

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Batch: 46th

Course Title: FINANCIAL ACCOUNTING 2

Course code : ACT 214

Program : BBA

ACT-214

Ans: to: the: Q: no: 1

(i) **Current ratio:** This ratio compares a company's current assets to its current liabilities, testing whether it sustainably balances assets, financing and liabilities. Typically, the current ratio is used as a general metric of financial health since it shows a company's ability to pay off short-term debts.

(ii) **Debt to equity ratio:** The debt to equity ratio (D/E ratio) shows how much debt a company has compared to its assets. It is found by dividing a company's total debt by total shareholder equity. A higher D/E ratio means the company may have a harder time covering its liabilites.

iii) Accounts payable ratio: The accounts payable turnover ratio measures how quickly a business makes payments to creditors and suppliers 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 ~~pr~~ period.

iv) ROA: Return on assets (ROA) is a measure of how efficiently a company uses the assets it owns to generate profits. Managers, analysts and investors use ROA to evaluate a company's financial health.

v) Inventory turnover ratio:

Inventory turnover is a financial ratio showing how many times a

company turned over its inventory relative to its cost of goods sold (COGS) in a given period. A company can then divide the days in the period, typically a fiscal year, by the inventory turnover ratio to calculate how many days it takes to sell its inventory on average.

Ans: to the: Q: NO: 2

A cash flow statement tells you how much cash is entering and leaving your business in a given period. A long with balance sheets and income statement, it's one of the three most important financial statements for managing your small business accounting and making sure you have enough cash to keep operating.

How To Prepare a Cash Flow Statement

Determine the starting Balance → Calculate Cash Flow from Operating Activities → Calculate Cash Flow From Investing Activities → Calculate Cash Flow From Financing Activities → Determine the Ending Balance.

① Determine the starting Balance:

The first step in preparing a cash Flow statement is determining the starting balance of cash and cash equivalents at the beginning 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 cash a company generated from its operations.

③ **Calculate Cash Flow from Investing Activities:**

After calculating cash flows from operating activities you need to calculate cash flows 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 investing activities involving free cash not debt.

4: Calculate Cash Flow From Financing Activity:

The third section of the cash flow statement examines cash inflows and outflows 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 investors and creditors.

5 Determine the Ending Balance:

One 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.

Ans: to: the: Q: NO: 4

Requirement (a)

Proprietory ratio = $\frac{\text{Equity share holders fund}}{\text{Total assets}}$

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

$= 0.4$

Here,

Equity share holders Fund:

Equity	2,00,000
Add: Preference Share	1,80,000
	3,80,000
Less: Debt	(1,50,000)
	2,30,000

Requirement: (b)

Acid test ratio = $\frac{\text{Quick Assets}}{\text{current liabilites}}$

$= \frac{360,000}{230,000}$

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

Here,

Quick Assets =

current Assets − Inventory − Prepaid expense

$= (108,000 + 230,000 + 16000 + 26000) - 0 - 0$

$= 380,000$

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

$= 230,000$