

VICTORIA UNIVERSITY  
OF BANGLADESH

FINAL EXAMINATION

SUB.: FINANCIAL ACCOUNTING -1

SUB. CODE: ACT 110

SEMESTER: FALL 2023

SUBMITTED BY: EASHA MONI

PROGRAM: BTHM

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BATCH: 55<sup>TH</sup>

## Answer to the question no 04

1. **Proprietary Ratio:** Proprietary Ratio=Equity/Total Assets

Equity=Assets–Liabilities

Total Assets=Cash+Goodwill+Stock+Accounts Receivable+Prepaid Insurance

Liabilities=Accounts Payable + Accrued Expenses

Proprietary Ratio=  $(1,80,000+1,50,000+40,000+40,000+6,10,000) - (1,08,000+2,30,000+2,30,000+16,000+26,000) / 1,80,000+1,50,000+40,000+40,000+6,10,000$

Proprietary Ratio=1,30,000/4,20,000

Proprietary Ratio≈0.3095

2. **Acid-Test Ratio (Quick Ratio):**

Acid-Test Ratio=Current Assets–Stock/Current Liabilities

Current Assets= Cash + Accounts Receivable + Prepaid Insurance

Acid-Test Ratio =  $(1,80,000+40,000+40,000)$

$-40,000 / 108,000+2,30,000+2,30,000+16,000+26,000$

Acid-Test Ratio=2,60,000/4,10,000

Acid-Test Ratio≈0.6341

## Answer to the question no 02

### cash-flow statement:

A cash flow statement is a financial statement that provides a summary of the cash inflows and outflows of a business or entity over a specific period of time. It is a crucial financial report because it helps stakeholders, such as investors, creditors, and management, understand how well a company manages its cash and cash equivalents. The cash flow statement is divided into three main sections: operating activities, investing activities, and financing activities.

Here are the steps involved in preparing a cash flow statement:

### Operating Activities:

Receipts from Customers: Start with the net income from the income statement and adjust for non-cash items like depreciation and amortization.

Payments to Suppliers and Employees: Consider cash payments for operating expenses, such as raw materials, utilities, and employee salaries.

Interest and Income Tax Payments: Include cash payments for interest on loans and income taxes.

Changes in Working Capital: Adjust for changes in current assets (like accounts receivable and inventory) and current liabilities (like accounts payable). Changes in working capital directly impact cash flow.

The formula for operating cash flow is:

$$\text{Operating Cash Flow} = \text{Net Income} + \text{Non-cash Expenses} - \text{Changes in Working Capital}$$

### **Investing Activities:**

Capital Expenditures: Include cash payments for the purchase of property, plant, equipment, or other long-term assets.

Proceeds from Asset Sales: Account for cash received from selling assets.

Investment in Securities: Consider cash used for purchasing stocks, bonds, or other investments.

The formula for investing cash flow is:

$$\text{Investing Cash Flow} = \text{Cash from Asset Sales} - \text{Capital Expenditures} - \text{Investment in Securities}$$

### **Financing Activities:**

Debt Issued or Repaid: Include cash received from issuing debt and cash paid for repaying debt.

Equity Transactions: Consider cash received from issuing stock and cash paid for stock repurchases.

Dividends Paid: Account for cash paid to shareholders as dividends.

The formula for financing cash flow is:

$$\text{Financing Cash Flow} = \text{Debt Issued} + \text{Equity Transactions} - \text{Dividends Paid}$$

### **Net Cash Flow:**

Sum the operating, investing, and financing cash flows to determine the net change in cash for the period.

$$\text{Net Cash Flow} = \text{Operating Cash Flow} + \text{Investing Cash Flow} + \text{Financing Cash}$$

### **Cash and Cash Equivalents at the Beginning and End:**

Report the beginning and ending balances of cash and cash equivalents.

The formula for the ending cash balance is:

Ending Cash Balance = Beginning Cash Balance + Net Cash

The cash flow statement provides valuable insights into a company's ability to generate cash, meet its obligations, and invest in future growth. It complements the income statement and balance sheet, offering a comprehensive view of a company's financial health.

## **Answer to the question no 01**

### **1.Current ratio**

The current ratio is a financial metric that measures a company's ability to cover its short-term liabilities with its short-term assets. It is a liquidity ratio that provides insight into a company's short-term financial health and its ability to meet its immediate obligations. The formula for calculating the current ratio is:

Current Ratio=Current Assets/Current Liabilities

Here, "Current Assets" include cash, accounts receivable, inventory, and other assets that are expected to be converted into cash or used up within one year. "Current Liabilities" encompass obligations due within the next 12 months, such as accounts payable, short-term debt, and accrued expenses.

#### **Interpretation:**

-A current ratio greater than 1 indicates that a company has more current assets than current liabilities, suggesting it may have sufficient liquidity to meet its short-term obligations.

-A current ratio less than 1 implies that the company may face challenges in covering its short-term liabilities with its existing short-term assets.

While a higher current ratio may signify strong liquidity, an excessively high ratio might indicate inefficient use of resources.

It's important to note that the current ratio is just one measure of a company's financial health and should be considered alongside other financial metrics for a comprehensive analysis.

Additionally, industries may have different norms for what constitutes a healthy current ratio, so comparisons with industry benchmarks are often useful.

### **2.Debt-to-equity ratio**

The debt-to-equity ratio is a financial metric that provides insight into a company's capital structure and financial leverage. It measures the proportion of a company's financing that comes from debt compared to equity. The formula for calculating the debt-to-equity ratio is:

Debt-to-Equity Ratio=Total Debt/Shareholders' Equity

Here, "Total Debt" includes all of a company's interest-bearing liabilities, such as long-term debt and short-term debt. "Shareholders' Equity" represents the residual interest in the assets of the company after deducting its liabilities.

**Interpretation:**

-A higher debt-to-equity ratio indicates a higher level of financial leverage and suggests that the company relies more on debt financing. While this can amplify returns on equity, it also increases financial risk.

-A lower debt-to-equity ratio implies a lower level of financial leverage and indicates a greater reliance on equity for financing, which may be considered less risky.

Investors and analysts use the debt-to-equity ratio to assess a company's financial risk, solvency, and overall financial health. It's important to consider industry norms and benchmarks when interpreting this ratio, as different industries may have different acceptable levels of leverage.

While a higher debt-to-equity ratio may boost returns during periods of growth, it can also pose challenges during economic downturns when servicing debt becomes more difficult. Therefore, it's crucial to analyze the debt-to-equity ratio in conjunction with other financial metrics and industry standards for a comprehensive understanding of a company's financial position.

**3.Accounts payable turnover ratio:**

The accounts payable turnover ratio is a financial metric that assesses a company's efficiency in managing its short-term liabilities, specifically its accounts payable. It measures how many times, on average, a company pays its accounts payable during a given period. The formula for calculating the accounts payable turnover ratio is:

Accounts Payable Turnover Ratio=Net Credit Purchases/Average Accounts Payable

Here, "Net Credit Purchases" represent the total credit purchases made by the company during a period, and "Average Accounts Payable" is the average balance of accounts payable over the same period.

**Interpretation:**

-A higher accounts payable turnover ratio indicates that the company is efficiently managing its accounts payable by paying them more frequently. This may suggest effective working capital management and positive supplier relationships.

-A lower ratio could imply that the company takes longer to pay its accounts payable, which may indicate a less efficient use of working capital.

It's important to note that the accounts payable turnover ratio should be considered in the context of the industry and business practices. Some industries naturally have longer or shorter payment cycles, and the ratio should be compared to industry benchmarks.

In addition to the turnover ratio, analysts may also look at the average payment period, which is the reciprocal of the turnover ratio. It represents the average number of days it takes for a company to pay its accounts payable.

Overall, the accounts payable turnover ratio provides valuable insights into a company's liquidity, cash management, and relationships with suppliers, offering a perspective on the efficiency of its working capital cycle.

#### **4. Return on Assets (ROA)**

Return on Assets (ROA) is a financial ratio that measures a company's ability to generate profit from its assets. It provides insights into how efficiently a company utilizes its assets to generate earnings.

ROA is expressed as a percentage and is calculated using the following formula:

$$\text{ROA} = \text{Net Income} / \text{Average Total Assets} \times 100$$

Where:

-Net Income is the company's net profit after taxes.

-Average Total Assets is the average value of a company's total assets over a specific period.

#### **Interpretation:**

-A higher ROA indicates that a company is more efficient in generating earnings from its assets, reflecting effective asset utilization.

-A lower ROA suggests that the company may be less efficient in converting its assets into profits.

It's crucial to consider industry benchmarks and compare ROA to competitors or the company's historical performance, as different industries may have varying levels of asset intensity. A higher ROA doesn't necessarily mean a company is more profitable; it could be due to high leverage. Therefore, ROA is often used in conjunction with other financial ratios for a more comprehensive analysis.

Improving ROA can be achieved by increasing net income, reducing expenses, or more efficiently managing and utilizing assets. The ratio is a valuable tool for investors, analysts, and management to assess a company's operational efficiency and overall financial performance.

## **5.Inventory Turnover Ratio**

The Inventory Turnover Ratio is a financial metric that measures how efficiently a company manages its inventory by assessing the number of times it sells and replaces its average inventory over a specific period. This ratio provides insights into inventory management practices and helps evaluate the effectiveness of a company's sales strategy.

The formula for calculating the Inventory Turnover Ratio is:

Inventory Turnover Ratio=Cost of Goods Sold (COGS)/Average Inventory

Where:

-COGS represents the total cost of goods sold during a specific period.

-Average Inventory is the average value of inventory over the same period.

### **Interpretation:**

-A higher inventory turnover ratio indicates that the company is selling and replacing its inventory more frequently, suggesting efficient inventory management and potentially faster cash conversion.

-A lower ratio may suggest slow-moving inventory, overstocking, or challenges in selling products, which can tie up capital and impact liquidity.

It's important to consider industry benchmarks and compare the inventory turnover ratio to historical performance or competitors within the same industry. Different industries may have varying norms for inventory turnover due to differences in product types, demand patterns, and production cycles.

A high inventory turnover ratio is generally favorable, but it's essential to strike a balance between efficient inventory management and maintaining adequate stock levels to meet customer demand. Monitoring changes in the ratio over time helps businesses adjust their inventory strategies and optimize working capital.