ID 16576

subject Financial Reporting Analysis

Question No # 3

Four basic Financial statement:-

A complete set of financial statement is used to give readers an overview of financial results and condition of a business. The financial statements are comprised of four basic reports which are as follows:

Income statement:-

The income statement is one of the most important financial statement because of its indication of profits, Its timely reporting, and its classification of revenues and expenses.

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The income statement is one the major financial statements used to analyze a company. The other important documents are the balance sheet, the cashflow statement and statement of shareholder's equity. The income statement used to give a summary of the company's revenues and expenses over a specific period of time. This information is used to determine the total profit or loss to the company over the stated accounting period.

The income statement is important because it clearly states whether a company is making a profit. The total revenues & expenses of a company are listed on its income statement. Subtracting the expenses from revenues provides the total profit during the given accounting period, usually a year or a quarter of a year. A company must consistently be making a long-term profit for it to be considered

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a good investment choice. this information can only be found on the income statement

Balance sheet :-

The purpose of a balance sheet is to give interested parties an idea of the company's financial position, in addition to displaying what the company owns and owes. It is important that all investors know how to use analyze and read a balance sheet. A balance sheet may give insight or reason to invest in a stock. Through this document, you can analyze and monitor some of your company's financial indicators, sometimes with the help of other documents. This balance sheet shows an instrument used for analysis & decision making.

Retained Earning statement:

A statement of retained earning indicates the total owner's equity in the business at a specific period in time. The owner's equity is simply calculated by subtracting the

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firm's total assets from its total liabilities. This basic statement is important to a varriety of sharlholders, including the shareholder, the board of directors, potential investors and crediters.

Statement of cashflow:-

The cashflow report is important because it inform the reader of the business cash position. For a business to be successful, It must have sufficient cash at all times. The importance of cash flow statement is that it is used to measure the company or organization positions.

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Question No # 1

IAS 2 Inventories:

IAS2 inventeries provides guidance for determining the cost of inventories and the subsequent recognition of the costs as an expense, including any write-down to net realisable value. It also provides guiadance on the cost formulas that are used to assign cost to inventories. Inventories are measured at lower of cost and net realisable value. Net realisable value is the measured selling price in the ordinary course of business less the estimated costs necessary to make the sale.

- specific identifaction of cost for items of inventory that are not ordinarily interchangable
- The first-in first-out or weighted average cost formula for items that are ordinarily interchangable (generally large quantities of individually insignificant items).

When inventories are sold, the carring amount

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of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

IAS 7 Statement of cashflow

IAS 7 prescribes how to present information in a statement of cash flows about how an entity cash and cash equivalents changed during the period. cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amount of cash and that are subject to an insignificant risk of changes in value.

The statement classifies cash flow during a period into cash flows from operating, investing and financing activities:

operating activities are the principal revenue producing activities of the entity and other activities. An entity reports cash flows flow operating activities using either:

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IAS 38- Accounting for Research and developement:

Requires immediate write-off method for research expenditures

Development costs should be immediate written off unless project meets specific criteria

If project meets criteria, capitalize and amortize

Amortization periods are reviewed recognition of impairment losses apply

IAS 18- Revenue :-

IAS 18- Revenue addresses when to recognise and how to measure revenue. Revenue is the gross inflow of economic benefits during the period arising from the course of the ordinary activities of an entity other than increases relating to contributions from equity participants. IAS 18 applies to accounting for revenue arising from the following transaction and events

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- the sale of goods
- the rendering of services
- the use by otherof entity assets yielding interest, royalties and dividends.

Revenue is recognised when it is probable that future economic benefits will flow to the entity and those benefits can be measured reliably. It also practical guidance future economic benefits will flow to the entity and those benefit can be measured reliably. Revenue is also measured at the fair value of the consideration received or receivable.

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Question No # 2

Importance of IFRS

1. A business can be present its financial statements on the same basis as its foreign competitor, making comparisons easier.

2. Companies with subsidiaries in countries that require or permit IFRS may be able to use one accounting language company-wide

3. companies may be need to convert to IFRS if they are subsidiary of a foreign company that use IFRS, or if they have a foreign invester that must use IFRS.

4. capital market regulators must be aware of only one set of accounting standards and the compaines will experience efficiency in raising capital and reduced information processing cost

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Concept of IFRS:-

The concept of international Financial Reporting standards are most commonly accepted definition of IFRS are:

IFRS are a set of accounting standards promulgated by the international Accounting standards Board (IASB), an international standard-setting body based in London. The IASB places emphasis on developing standards based on sound clearly stated principales from which interpretation is neccessary. This contrast with sets of standards like U.S generally accepted accounting principles (GAAP), the national accounting standards of the united states, which contain significantly more application guidance

IFRS 13 -

IFRS 13 defines fair value, sets out a framwork for measoring fair value, and requires &

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disclosures about fair value measurement.

It applies when another standard required or permits fair value measurement or disclosures about fair value measurement (and measurement based on fair value, such as fair value less costs to sell), except in specified circumstances in which other standards govrn. For example, IFRS 13 does not specify the measurement and disclosure requirements for share-based payment transaction, leases or impairment of assets Nor. does it established disclosure requirement fair values related to employee benefits and retirement plans. when measuring fair value an entity use the assumption that market participants would use when Pricing the asset or the liability under current market conditions, Including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

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IFRS 10 - Consolidated Financial statement

IFRS 10 establishes principles for presenting and preparing consolidated financial statements when an entity controls one or more other entities. IFRS 10 :

- Requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements
- Defines the principle of control and establishes control as the basis for consolidation
- Set out how to apply the principle of control to identify whether an investor controls an investee
- Sets out the accounting requirements for the ~~Principle~~ preparation of consolidation financial statements

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Defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

Consolidation financial statements are financial statements that present the assets, liabilities equity, income, expenses and cash flows of a parent and its subsidiaries as those of a single economic entity.

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Question No # 4

Liquidity Analysis:

Liquidity ratio are used by financial analysts to evaluate the financial soundness of a company These ratios measure a company's ability to repay both short-term and long-term debt obligation. Liquidity to repay used to determine the riskiness of a firm to decide whether to extend credit to the firm

Current Ratio:

The current ration known as the working capital ratio, measures the ability of a business to meet its short-term obligation that are due within a year. The current ratio looks at how a company can maximize the liquidty of its current assets to settle its debt obligation

Formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

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Quick Ratio:

The quick Ratio also known as the acid-test ratio measure the ability of a business to pay its short term liabilities by having assets that are already convertible into cash. These assets are cash marketable securities, and account receivable. These assets are considered quick assets because they can be quickly and easily converted into cash.

Formula:

$$\text{Quick Ratio} = \frac{\text{Cash + Marketable Securities + Accounts Receivable}}{\text{Current Liabilities}}$$

Cash Ratio:-

The cash Ratio, sometimes referred to as the cash asset ratio, measures a company's ability to pay off its short-term debt obligation with cash and cash equivalents. cash equivalent are assets that can be converted quickly into cash & are subject to minimal level risk.

Formula:

$$\text{Cash Ration} = \frac{\text{Cash and Cash Equivalents}}{\text{current liabilities}}$$

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Defensive interval Ratio

The defensive interval ratio also known as the basic defense interval ratio, indicates how many days a company can operate without needing to tap into capital sources aside from its current assets.

Formula:-

$$\text{Defensive interval Ratio} = \frac{\text{Current Assets}}{\text{Daily expenditure}}$$

Activity Ratio:-

Activity Ratio, also known as asset utilization ratio or operating efficiency ratio, measure how efficiently a company performs its daily tasks such as managing its various assets. They generally combine income statemnt information in the numerator and balance sheet information in the denominator.

Accounts Receivable Days:

Accounts receivable days are the number of days on average that it takes a company to collect

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on credit sales from its customers. This formula is derived by using the previously mentioned accounts receivable turn over ratio.

Formula:-

$$\text{Accounts Receivable Days} = \frac{\text{Number of Days}}{\text{Accounts Receivable Turnover Ratio}}$$

Inventory Turnover Ratio:

The inventory Turnover ratio measures how many times a business sells and replaces its stock of goods in a given period of time. This ratio looks at cost of goods sold relative to average inventory in the period

Formula:-

$$\text{Inventory Turnover Ratio} = \frac{\text{cost of Good sold}}{\text{Average Inventory}}$$

Accounts Receivable Turnover Ratio:-

The accounts receivable turnover ratio. sometimes known as the debtor's turnover ratio, measures The number of times over a specific period that a Company collects its average account receivable,

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~~Account Rece~~

Formula :-

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Net Credit sales}}{\text{Average Account Receivable}}$$

Asset Turnover Ratio :-

The asset turnove ratio also known as the total asset turnover ratio, measures how efficient a company uses it assets to generate sales. This ratio looks at how many dollars in sales is generated per dollar of total assets that the company owns

Formula:

$$\text{Asset Turnover Ratio} = \frac{\text{Net sales}}{\text{Average total Assets}}$$

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