NAME Abdul Mateen

I.D 16686

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Sir Naveed Azeem Saib

Paper Financial Reporting & Analysis

Exam Final

Q1

Background

IAS International Accounting standard are older accounting standard issued by the International Accounting standard Board an independent international standard-setting body based in london The IAS were replaced in 2001 by (IFRS)

IAS 2

provides guidance for determining the cost of inventories and the subsequent recognition of the Cost as an expense including any write-down to net realisable value. It also provides guidance on the cost formula that are used to assign costs to inventories Inventories are measured at the lower cost and net realisble value.

Scope Inventories include assets held for sale in the ordinary course of business (finished goods) assets in the production process for sale in the ordinary Course of business (work in process) and material and supplies that are consumed in production (raw material)

overview

IAS 7 statement of cash Flows required an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities, investing activities with the latter two categories generally presented on a gross basis.

IAS 7 was reissued in December 1992 retitled 1992 in september 2007 and is operative statements covering periods begining on or after 1 january 1994.

Objective of IAS 7

The objective of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period according to operating, investing and financing activities.

Fundamental principle in IAS 7

All entities that prepare financial statements in conformity with IFRS are required to present a statement of cash flows (IAS 7)

The statement of cash flows analyses changes in cash and cash equivalents during a period

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IAS38 Accounting for Research and Development

Overview

IAS 38 Intangible Assets outlines the accounting requirements for intangible assets which are non-monetary assets which are without physical substance and identifiable. Intangible assets are meeting the relevent recognition creteria are initially measured at cost

Subsequently measured at cost or using the revaluation model and amortised on a systematic basis over their useful lives.

Objective

The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another IFRS The standard requires an entity to recognized an intangible assets if any creteria are meet the standard require how to measure the carrying amount of intangible assets and require certain disclosures regarding intangible assets.

IAS 38 applies to all intangible assets other than financial assets, exploration and evaluation assets

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IAS 18 Review

IAS 18 Revenue outlines the accounting requirements for when to recognise revenue from the sale of goods rendering of services and for interest royalties and dividend. Revenue is measured at the fair value of the Consideration received or receivable and recognized when prescribed. Condition are meet which depend on the nature of the revenue.

IAS 18 was reissued in December 1993 and is operative for periods begining on after 1 January 1995

objective of IAS 18

The objective of IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transaction and events.

Revenue should be measured at the fair value of the Consideration received [IAS 18.9]

An exchange for goods or services of a similar nature and value is not regarded as transaction that generates revenue.

However exchange for dissimilar items are regarded as a transaction that generates revenue [IAS 18.12].

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Q2 Introduction of [IFRS]

International financial Reporting standards set common rules so that financial statements Can be consistent, transparent and comparable around the world. IFRS are issued by the International Accounting standards Board. They specify how Companies must maintain and report their accounting defining types of transaction and other events with with financial impact. IFRS were established to creat a common accounting language so that business and their financial statements can be consistent reliable from company to company and country to country

Understanding IFRS designed to bring consistency to accounting language practices and statements and to help business and investors make educated financial analysis & decisions the IFRS Foundation sets the standard to bring transperency accountability & efficiency to financial markets around the world. fostering trust growth and long-term financial stability in the global economy.

Important IFRS are used in at least 120 countries as of march 2018 including those in the (EU) and many Asian and South America but U.S (GAAP)

IFRS 10

Overview

IFRS 10 replaces the part of IAS 27 Consolidated and separate financial statements that addresses accounting for subsidiaries on consolidation. what remain in IAS 27 after the implemenation of IFRS 10 is the accounting treatment for subsidiaries jointly controlled entities and associates in their separates financial statemen

the Aim of IFRS 10 is to establish a single control model that is applied to all entities including special purpose entities. The changes require those dealing with the implementation of IFRS 10 to exercise significiant judgement to determine which entities are deemed to be controlled.

Objective of the standard

the objective of IFRS 10 as set out in the standard is to establish principles for the presentation and preparation of consolidated financial statements

Scope of the standard

if all the following conditions met a parent need not present consolidated financial statements.

its debt or equity instrument are not traded in a public market.

It didnot file nor is in the process of filling financial statements for the purpose of issuing instruments in a public market.

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Overview IFRS 13

IFRS 13 is a new standard that defines fair value sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset a liability or an entity own equity instrument is measured at fair value. Rather the measurement and disclosure requirement of IFRS 13 apply when another IFRS require or permits the item to measured at fair value.

The project was carried out jointly with FASB As a result of Concurrent changes approved by the FASB to Topic 820.

Scope

IFRS 13 applies to all transaction and balance with the exception of share based payment transaction accounted for under IFRS 2, share based payment and leasing transaction within the scope of IAS 17 Leases.

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Financial statements

Financial statements are used by investors, market analysts and Creditors to evaluate a company financial ~~statement~~ health and earning potential The three major financial statement reports are the balance sheet, income statement and statement of Cash flows.

Financial statements are written records that convey the business activities and the financial performance of a Company. Financial Statement are often audited by government agencies accountants; firms, etc to ensure accuracy and for tax finacing or investing purposes financial statements include

(a) Balance sheet
(b) Income statement
(c) Cash Flow statement

Income statement

An income statement is one of the three important financial statements used for reporting a company financial performance over a specific accounting period.

with the other two key statements being the balance sheet and the statement of cash flows Also known as the profit & loss statement or the statement of revenue & expense the income statement primarly focuses on the company revenue & expenses during a particular period.

The income statement is an important part of a company performance reports that must be submitted to the (SEC). the income statement focuses on four key items revenue, expenses, gains & losses. It doesnot differentiate between cash & non cash recept the focus in the standard format is to calculate the profit income at each subhead of revenue and operating expenses and then account for mandatory taxes interest and other non recurring one time events to arrive at the net income that is applicable to common stock. An income statement provides valuable insights into various aspects of a business. It include a company operation the efficiency of its managment the possible leaky areas that may be eroding profits and whether the company is performing in line with industry peers

Balance sheet

Balance sheet is a financial statement that report a Company assets liabilities and shareholders equity at a specefic point in time and provide a basis for computing rates of return and evaluating its Capital structure. Its is a financial statement that provide a snapshot of what a Company owns and owes as well as the amount invested by shareholders.

The balance sheet is used alongside other important financial statement such as the income statement and statement of cash flow in conducting fundamental analysis or calculating financial ratios.

A balance sheet is a financial statement that reports a Company - assets liabilities and shareholders equity

Fundamental analysts use balance sheets in Conjunction with other financial statements to Calculate financial Ratio.

Retained Earning

RE is the amount of net income left over for the business after it has paid out dividends to its shareholder. A business generates earing that can be positive (profit) or negative (loss). Positive profit give lot of room to the business owner or the Company management to utilized the surplus money earned.

Often this profit is paid out to shareholders but it can also be re-invested back into the company for growth purposes. The money not paid to shareholder counts as retained earings

RE Tells Us

when a company generates surplus income a portion of the long-term shareholder may expect some regular income in the form of dividend as a reward for putting money in the company. Traders who look for short-term gains may also prefer getting divident payments that offers instant gains. A growth focused Company may not pay dividend at all or pay very small amounts as it may prefer to use the retained earing to finance expansion activities.

Cash Flow statement

the statement of Cash flow is a financial statement that summarize the amount of Cash & Cash equalients and leaving a Company. The Cash flow statement measure how well a company generates Cash to pay its debt obligations and fund its operating expenses.

The Cash Flow statement Complements the balance sheet & income statement and is a mandatory part of a company financial reports since 1987.

Cash Flow statement importance

allows investors to understand how a company operations are running where its money is comming from and how money is being spent

The CFS is important since it help investors determine whether a company is on a solid finacial footing.

Creditors can use the CFS to determine how much Cash is avaible for the company to fund its operating expenses and pay its debts

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Q4 Financial Statement Analysis

is the process of analyzing a company financial statements for decesion making purpose External stakeholder use it to understand the overall health of an organization as well as to evaluate financial performance and business value Internal Constituents use it as a monitoring tool for managing the finance

Analysis of Liquidity

Liquidity ratios play a key role in assessing the short term financial position of a business Commercial banks and other short-term creditors are generally interested in such an analysis However management can employ these ratio to ascertain efficiently they utilized the working working capital in the business. shareholder and debentures holders and long-term creditors can use these ratio to assess the prospects of dividend and interest payments.

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Principle Liquidity Ratios

Current Ratio

defined as the ratio of current assets to Current liabilities. It is also know as working Capital Ratio or 2:1 Ratio

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

Total current assets Rs 125000
Total Current liabilities 75000

$$\text{Current Ratio} = \frac{125000}{75,000} = 1.67 \text{ or } 5:3$$

Interpretation

From the above ratio it is clear that for every rupee worth of current liabilities there are current obligations even by just realizing 60% of its current assets.

Current Ratio is an index of the firm financial stability i.e an index of technical solvency and an index of the strength of working Capital which means excess of current assets over Current liabilities

Activity Ratio

An Activity ratio is a type of financial metric that indicates how efficiently a company is leveraging the assets on its balance sheet to generate Revenue and cash. Commonly reffered to as efficiency ratio activity ratio help analyst to gauge how a company handles inventory managment which is key to its operation fluidity and overall fiscal health.

Activity ratio can be subdivided into merchandise inventory turnover ratio total assets turnover ratios return on equity measurement and a spectrum of other metrics.

Understanding Activity Ratios

Activity ratios are most useful when employed to compare two competing business within the same industry to determine how a particular company stacks up amongst its peers.

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Activity Ratio Sub Categories

A/c Receivable Ratio

Deteimens an entity ability to collect money from its Customer.

$$\frac{\text{Total Cd sales}}{\text{Divide by averge account recebale}}$$

Merchandise Inventory Turnover Ratio

Turnover ratio measures how often the inventory balance is sold during an account period

Return on Equity

measure the revenue raised from shareholder equity

$$\frac{\text{net income}}{\text{outstanding stock share in the market}}$$

Asset Turn over Ratio

Amount of Revenue generates by company per daller of Assets

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