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Subject : Financial Reporting And Analysis

Q#1) As a financial analyst we always consider IAS as very important accord for decision making, while considering the concept, please briefly introduce the following IAS how they are important for us. IAS 2 inventories, IAS 7 statement of cash flows, IAS 38 accounting for research and development activities, IAS 18 revenue.

Ans#1) International Accounting Standards (IAS) are older accounting standards issued by the international accounting standards board (IASB), an independent international standard selling body based in London. The IAS were replaced in 2001 by International Financial Reporting Standards ( IFRS).

International accounting is a subset of accounting that considers international accounting standards when balancing books.

Currently, the United States, Japan, and China are the only major capital markets without an IFRS mandate. IAS were the first international accounting standards that were issued by the International Accounting Standards Committee(IASC), formed in 1933. The goal, then, as it remains today was to make it easier to compare businesses amount the world, increase transparency and trust in financial reporting, and foster globe trade and investment.

Globally comparable accounting standards promote transparency, accountability, and efficiency in financial markets around the world. This enables the investors and other market particpitants to make informed economic decisions about investment opportunities and risk and improves capital allocation. Universal Standards also significantly reduce reporting and regulatory costs, especially for companies with international operations and subsidiaries in multiple countries.

IAS 2 inventories contains the requirements on how to account for most types of inventory. The standard requires inventories inventories to be measured at the lower of cost and net realisable value (NRV) and outlines acceptable methods of determining costs, including specific identification ( in some cases), first in first out and weighted average cost. A revised version of IAS 2 was issued in December 2003 and applies to annual periods beginning on or after 1st January 2005.

IAS 7 statement of cash flows requires 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 later two categories generally presented on a gross basis.

IAS 7 was reissued in December 1992, retitled in September 2007, and is operative for financial statements covering periods beginning on or after 1st January 1994. The objective of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalent of an entity by means of a statement of cash flows.

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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 meeting the relevant recognition criteria are initially measured at cost, subsequently measured at cost or using the revaluation model, and amortized on a systematic basis over their useful lives. IAS 38 was revised in March 2004 and applies to intangible assets acquired in on or after 31 March 2004, or otherwise to other intangible assets for annual beginning on or after March 2004.

IAS 18 revenue outlines the accounting requirements for when to recognize revenue from sale of goals, rendering of services and for interest, royalties and dividents. Revenue is measured at the fair value of the considerations received or recievable and recognized when prescribed conditions are met, which depends on the nature of the revnenue. IAS 18 was revised in December 1993 and is operative for basis beginning on or after 1st January 1995.

Q#2) International Financing recording standards are always playing vital role in financial analysis. Introduce the importance and concepts of IFRS and explain how the following IFRS deals with different financial elements, IFRS 10 consolidated Financial Statements, IFRS 13 Fair value measurement.

Ans#2) International Financial Reporting Standards (IFRS) set common rules so that financial statements can be consistent, transparent and comparable around the world. IFRS are issued by the International Accounting Standards Boards (IASB). They specify how companies must maintain and report their accounts, defining types of transactions and other events with financial impacts. IFRS were established to create a common accounting language, so that business and their financial statements can be consistent and reliable from company to company and country to country.

IFRS are designed to bring consistency to accounting language, practices, and statements, and to help businesses and investors make educated financial analysis and decisions. The IFRS foundation set the standards to bring transparency, accountablilty, and efficiency to financial markets around the world, fostering trust, growth and long term financial stability in the global economy. Companies benefit from risks because investors are most likely to put money into a company if the company’s businesses practices are transparent.

IFRS covers a wide range of accounting activities. There are certain aspects of businesses practice for which IFRS set mandatory rules.

Statement of financial position : This is also known as a balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.

Statement of comprehensive income : This can take form of one statement, or it can be separated into a profit and loss statement and a statement of other income, including property and equipment.

Statement of changes in equity : Also known as statement of retained earnings, this documents the company’s change in earnings, or profit for the given financial report.

Statement of cash flows : This report summarizes the company’s financial transactions in the given period, separating cash flows into operation, investing, and financing.

IFRS 10 consolidated financial statements outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investor.

IFRS 10 was issued in May 2011 and applies to annual reports beginning on or after 1st January 2013. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated statements when an entity controls one or more other entities.

IFRS 13 Fair value measurement : applies to IFRS, that require or permit fair value measurement or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an exit price motion and uses a uses a fair value hierarchy which results in market based, rather than entity specific, measurement.

IFRS 13 was originally issued in May 2011 and applies to annual periods beginning on or after 1st January 2013.

IFRS defines fair value sets out in a single IFRS. A framework for measuring fair value requires disclosures about fair value measurements.

Q#3) While going for any financial analysis, financial statements are considered as important elements. Please explain the importance of four basic financial statements in financial analysis, income statement, balance sheet, statement of retained earnings, and statement of cash flow.

Ans#3) A company’s financial statements provide vital information about its financial health. These statements are compiled based on day to day bookkeeping that tracks funds flowing in and out of the business. The information the statement provides often benchmarks and feedback that help the company make minor adjustments and also determine its overall direction. Financial statements are useful for making decisions regarding expansion and financing. They also figure into marketing decisions, provides data indicating which aspects of company operations

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Provide the best return on investment.

Financial statements are very important as it accurately reflects business performance and financial performance and financial position of a company. Additionally, its helps all stakeholders including management, investors, financial analysis etc to evalualte and take suitable economic decisions by comparing past and current performance and therefore predict future performance and growth of the company.

Income statement : An income statement is one of the three important financial statements used for reporting a company’s financial performance over a specified accounting period, with the after two statements being the balance sheet, and the statement of cash flows. Also known as the profit and loss statement or the statement of revenue and expense, the income statement primarily focuses on the company’s revenue, and expense during a particular period.

Mathematically : Net income : (Revenue + Gains ) – (Expenses + Losses)

Though the main purpose of an income statement is to convey details of profitability and business activities of the company to the stakeholders, it also provides detail insights into the company’s internal for comparison across different businesses and sectors. Such statements are also prepared more frequently at the department and segment levels to gain deeper insights by the company management for checking the progress of various operations throughout the year, though such intend to the company.

Balance sheet : A balance sheet is a financial statement that reports a company’s assets, liabilities and shareholders equity at a specified point in time, and provides a basic for computing rates of return and evaluating its capital structure. It is a financial statement that provides 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 statements such as the income statement and statement of cash flows in conducting fundamental analysis or calculating financial ratios.

Mathematically : Assets : Liabilities + shareholders equity

Statement of retained earnings : The statement of retained earnings, is a financial statement that outlines the changes in retained earnings for a company over a specified period. This statement reconciles the beginning and ending retained earnings for the period, using information such as net income from the other financial statements, and is used by analysts to understand how corporate profits are utilized. The statement of retained earnings, is also known as a statement of

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Owner’s equity, and equity statement or a statement of shareholders equity. It is prepared in accordance wit generally accepted accounting principles (GAAP).

Statement of cash flows : Is one of the key financial statements that report the cash generated and spent during a specific period of time. The statement of cash flows acts as a bridge between the income statement and balance sheet by showing mainly moved in and out of the business.

Q#4) Financial statements analysis is very important for any business activity while considering any financial decision making keeping in views the concept for financial statement analysis, please explain the different techniques that we use to adopt for doing liquidity analysis and activity analysis with its calculation formulas.

Ans#4) The first step in liquidity analysis is to calculate the company’s current ratio. The ratio shows how many times over the firm can pay its current debt obligations based on its assets. Current usually means a short period of lease than twelve months.

The formula is :

Current Ratio : Current assets/current liabilities

Activity analysis : Identification and description of activities in an organization, and evaluation of their impact on its operation. Activity analysis determines what activities are executed how many people perform the activities, how much time they spend on them, how much and which resources are consumed, what operational data bend reflects the performance of activities and of what value the activities are to the organization. This analysis is accomplished through direct observations, interviews, questionaires, and review of the work records.

Following are the type of activity ratios and there formulas:

Accounts recievable turnover ratio : Revenue/Average costs

Merchandise inventory turnover ratio : Cost of assets/ Average

Total Asset turnover ratio : Revenue/Average total cost

Net fixed asset turnover ratio : Revenue/ Average net fixed asset