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Ans 3 c

a financial prospective, but neither method gives an indication of whether the difference is possitive or negative. For example, suppose a company's current ratio is increasing over time. It could mean that the company had been facing liquidity problems in the past and is rectifying those problems, it could mean the company has become less effecient in managing its current accounts. Similar arguments could be made for a peer group comparison. A company with a current ratio lower than its peer could be more effecient at managing its current accounts, or it could be facing liquidity problems. Neither Analysis methods tell us whether a ratio is good or bad, both simply show that something is different and tells us where to look.

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Ans 3/

Peer group Analysis involves comparing the financial ratios and operating performance of a particular firm to a set of peer group firms in the same industry or line of business. Comparing a firm to its peer allows the financial manager to evaluate whether some aspects of the firm's operations, finances or investment activities are out of line with the norm, thereby providing some guidance on appropriate actions to take to adjust these ratios if appropriate. Both allow an investigation into what is different about a company from

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Ans 3c

Two basic Methods of Analyzing Financial Ratios.

Time trend analysis gives a picture of changes in the company's financial situation over time. Comparing a farm itself over time allows the financial manager to evaluate whether some aspects of the firm's operations, finances or investment activities have changed.

It helps in Identifying the areas where the firm has undergone any changes, if any. It helps management in identifying whether the areas of firm's operations, finances or investments have changed.

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Ans 24 Part (b)

enough profit to compensate owners, the values of shares will plummet.

Every business needs a strong bottom line to ~~and~~ remain viable, but strong bottom line is not possible without a healthy top line.

Your top line looks at your ability to effectively market & sell your services and bottom line looks at your ability to effectively manage your operation.

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Ans 2c Part (b)

The bottom line refers to a company's net income, which is presented at the bottom of the income statement.

Management can increase bottom line by enacting strategies to increase revenues or decrease expense

Net income, or bottom line can be retained for future use in the business, distributed in the forms of dividends or used to repurchase shares of outstanding stock.

Shareholders look at the bottom line closely because it's a source of compensation to shareholders of the company and if a company cannot generate

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Ans 2) Part (a)

with the cash inflows and outflows for the period, particularly as it relates to transactions occuring at the beginning or end of the period.

Part (b)

The bottom line number shows the change in the cash balance on the balance Sheet.

As such, it is not a useful number for analyzing a company.

The bottom line number is likely to be "net increase/decrease in cash and cash equalents".

The bottom line reports that overall change in the company's cash and its equivalents ((the assets that can be immediately converted into cash)

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Ans 2 Part (a)

Why might the revenue and cost figures shown on a standard income statement not represent the actual cash inflows & outflows that occured during a period?

Because recognition and matching principles in financial accounting call for revenues and the cost associated with producing those revenues to be booked when the revenues process is essentially complete, not necessarily when cash is collected or bills are paid.

Note: That this way is not necessarily correct, it's the way accountant have chosen to do it

* Generally Accepted Accounting Principles require the use of accural accounting instead of cash basis accounting. So revenue and expense on the income statement does not exactly line up

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Ans 1c

Managers should not focus on the current stock value because doing so will lead to an overemph-asis on short term profits at the expense of long term profits.

Current stock value reflects risk, timing and magnitude of all future cash flows, both short term and long term. Under this assumption, then the statement is false.

Stock price fundamentally is based on ~~the~~ all the expected cash flows of the firm be it in the short run, medium run or long run. A share price today is nothing but present value of all the future flows the firm will generate.

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