Q # 1

(a)

Discuss the Importance of keeping record through financial statements for any business.

IMPORTANCE OF FINANCIAL STATEMENTS :~

Financial statements are important because they contain significant information about a company's financial health,

THERE ARE THREE BASIC FINANCIAL STATEMENTS.

1 THE BALANCE SHEET :-

The balance sheet describes the assets, liabilities, and equity of the firm at a specific point in a time (Assets are the (tangible or Intangible) things that a firm owns, Liabilities are the firm debts, equity is the differanle between what the firms owns and what it owes to others.

2) THE INCOM STATEMENT:-

The Incom statement Summarizes the results of the firm's operation over a period of time.
The incom statement tell· us the total revenues and expenses for the time period and also Contains Several different measures of the accounting profits earned by the firm.
Typically Incom statements are prepared for different time periods usually Monthly; Quarterly, Annually.

3) THE STATEMENT OF CASH FLOWS:-

The statement of cashflows outlines the sources of the firm's cash inflows and shows where the cash outflows went, Activities that bring cash into the firm are refferred to as sources of cash while those that take cash out of the firm are referred to as uses of cash.

Q # 1

(b)

Prepare the balance sheet from the data used in the accounting cycle for Paul's Guitar shop.

Accounts Payables	49,000
Retained Earnings	11,950
Inventory	39,800
Accrued expences	450
Common Stock	10,000
Cash	32,800
Prepaid Rent	1,000
Longterm liabilities	99,500
Unearned Revenues	1,000
Longterm Assets	98,000
Accounts Recievable	300

ASSETS

CURRENT ASSETS:
Inventry — 39,800
Cash — 32,800
Prepaid rent — 1000
Account Recievable — 300
Longterm liabilitis — 98,000

Liabilities

CURRENT LIABILITIES:~
Account Payable — 49,000
Account expenses — 450
Unearned revenues — 1,000
Longterm liabilities — 99,500

EQUITY :~

Retained earning — 11950
Common stock — 10,000

$\boxed{171,900}$

Q#2

In 2003 Inc. a hardware retail company sold 10,000 units of its product at average price of $400 per unit, operating expenses Including 50% selling and 50% administrative expenses for XYZ inc. in 2003 were $2000,000 in debt outstanding throught all of 2003. This debt carried an average interest rate of 10 percent finally XYZ tax rate was 40% XYZ fiscal year runs from January 1 from december 31. Given this information construct XYZ 2003 incom statement.

Solution :~

Solution

Sales 1000units x400 per unit

= 4000000

operating expenses

Selling expenses = 200000 } = 400000

administrative expenses = 200000

EBIT = 4000000 = 400000

= 3600000

Less interest expenses = 200000

earning after interest = 3400000

Less tax 40% = 1360000

Net profit after interest tax

= 2040000

Q # 3

From the balance sheet construct in Q 1 calculate the following ratios for Paul guitar shop.

a) Current Ratio
b) Liquidity Ratio

a) CURRENT RATIO =

$$\frac{\text{current Assets}}{\text{current liabilities}}$$

$$= \frac{73900}{50450}$$

$$\boxed{= 1.46}$$

b) Liquidity Ratio

$$= \frac{\text{current Assets} - }{\text{current liabilities}}$$

$$= \frac{73900 - 39800}{50450}$$

$$\boxed{= 0.676}$$

From the data given in Q2 Calculate the following ratios, for XYZ inc.

a) GROSS PROFIT RATIO
b) OPERATING RATIO

a) GROSS PROFIT RATIO :~

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Page. 12

Gross Profit Ratio = $\frac{\text{Cost of goods Sold} \times 100}{\text{Sales}}$

Gross Profit = Sales – cost of good sold

= 400000 – 200000

= 200,000

Sales = Gross Sales – sales return

Return

= 400000 – 0

= 400,000

Gross profit ratio = $\frac{\text{Gross Profit} \times 100}{\text{Net Sales}}$

= $\frac{200{,}000 \times 100}{400{,}000}$

= 0.5 × 100

= 50. Ans

b) operating Profit Ratios =

$$\frac{\text{operation cost} \times 100}{\text{Net Sales}}$$

operating cost = Cost of good sold + Administrative expenses + Selling and Distribution expenses.

Net sales = Sales - Sales return

operating cost = 200,000 + 200,000 + 200,000

= 600,000

Net sales = 400,000 - 0

= 400,000

Operating Profit Ratios = $\frac{\text{Operating cost} \times 100}{\text{Net Sales}}$

$= \frac{600,000 \times 100}{400,000}$

$= 1.5 \times 100$

$\boxed{= 150}$

Q # 4 what is capital budgetig
(a) discuss its Amportance

CAPITAL BUDGETING :~

Capital budgetig refers to process we use to make decision concerning invesment in long term assets of firm
The general idea is the capital or longtem funds raised by the funds are used to invest in asset that will enable the firm to generates revenues several years into the future

IMPORTANCE :~

Importance :-

Capital budgeting decisions impact the firm for several years, They must be carefully planned. A bad decision can have a significant effect on the firm's future operations, In addition the timming of the decision is important, Many capital budgeting projects take years to implement, If firm do not plan accordingly, they might find that the timing of capital budgeting decision is too late Thus costly with respect to competition.

Q # 4 Page. 18

b) Mr. XYZ owns a car rental Company planning to start a new route XYZ think the project heaving initial cost of RS. 1000000 should have payback period of 5 years following are the projected Net cash flows

Year	Cashflow (RS)
0	1000000
1	150000
2	200000
3	250000
4	300000
5	3500000

Q # 4(b) Page. 12

Payback Period

	Cashflows	~~Cummulative cash flow~~ Cummulative cash flow
0	1000000	
1	150000	850000
2	200000	650000
3 →	250000	400000
4	300000	100000
5	350000	250000

Q5 with help of data given in question(4) Find the Net present value of project

Additional required data:~

Terminal cash flow is Rs. 6000000

Discounted rate is 12%

Solution

Page. 19

Q5 Net Present Value

	Cashflow	Factor 12%	NPV
0	1000000	1	1000000
1	150000	0.893	133929
2	200000	0.797	159438
3	250000	0.711	177945
4	300000	0.635	190655
5	350000	0.567	198601
6	600000	0.567	340458

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