**Internal assignment (April 2022 Examination)**

**Financial Accounting and Analysis**

**1. Analyse the following transactions for Surprise Ltd. using the concept of Accounting Equation comprising of Assets, Liabilities and Equity**

**1.Commenced business with cash of ₹ 5,00,000.**

**2. Purchased equipment for cash ₹ 2,00,000.**

**3. Purchased furniture worth ₹50,000 on credit from IndiMart.**

**4. Purchased raw materials for ₹25,000 against cash from XYZ Suppliers.**

**5. Deposited cash of ₹ 1,25,000 in the current account.**

**6. Sold goods for ₹75,000 and received a cheque against the same.**

**Answer 1**

**An accounting transaction** is a business activity or event that causes a measurable change in the accounting equation. An exchange of cash for merchandise is a transaction that affect the financials. Merely placing an order for goods is not a recordable transaction because no exchange has taken place.

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**2. Cash flow statement complements the income statement and the balance sheet summarizing all cash inflows and outflow transactions in the company within the given financial year. However, there are two different methods of preparing the cash flow statement – direct and indirect. Enlist the differences between Direct and Indirect method of cash flow statement**

**Answer 2**

**INTRODUCTION**

The statement of cash flows, or the cash flow statement, is a financial statement that summarizes the amount of cash and cash equivalents inflows and outflows. Like the income statement, it also measures the performance of a company over a period of time. However, it differs because it is not as easily manipulated by the timing of non-cash transactions.

For example, the income statement includes depreciation,

**3. Following information is available for Companies Ace Ltd. and Pace Ltd.: (₹ in lacs)**

|  |  |  |
| --- | --- | --- |
| **Particulars**  | **Ace Ltd.**  | **Pace Ltd.**  |
| **Long term Debt**  | **625**  | **700**  |
| **Equity**  | **2100**  | **2850**  |
| **Current assets**  | **450**  | **550**  |
| **Current liabilities**  | **300**  | **375**  |
| **Net Profit**  | **115**  | **178**  |
| **Revenue (net)**  | **355**  | **452**  |

**a. Compute Debt-equity ratio, current ratio for both companies.**

**b. If face value of equity shares of both companies ₹10 each, calculate the Earnings per share ratio for both companies, advising which company is recommended for investment.**

**Answer 3**

**Ratio analysis** is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues that affects success of company, such as its liquidity, efficiency of operations, and profitability. This type of analysis is particularly useful to analysts outside of a business like investors and banks, since their primary source of information about an organization is its financial statements. Ratio analysis is less useful to corporate insiders that is the business owners.

**Earnings per share (EPS)** is