**Financial Reporting & Analysis – I**

**1. You have recently joined a start-up that is in the health food segment as a Management Trainee. Your manager has provided you with financial statements for 2 years and has asked you to use the tool of ratios to analyze and compare the performance of the company for the 2 years.**

**Accordingly, you are required to calculate key ratios depicting – liquidity, efficiency, profitability, and solvency and comment on the performance of the company for the 2 years.**

**Statement of Profit and Loss**

|  |  |  |
| --- | --- | --- |
|  |  | **( Rs in Lakhs)** |
| **Particulars** | **2022** | **2021** |
| **Sales** | **1800.00** | **1000.00** |
| **Less:** |  |  |
| **Cost of Goods sold** | **670.00** | **400.00** |
| **Operating Expenses** | **170.00** | **80.00** |
| **Depreciation** | **400.00** | **240.00** |
| **Interest** | **260.00** | **120.00** |
| **Profit before tax** | **300.00** | **160.00** |
| **Tax** | **90.00** | **48.00** |
| **Profit after tax** | **210.00** | **112.00** |

**Please check the table below**

|  |  |  |
| --- | --- | --- |
| **Balance Sheet** |  | **( Rs in Lakhs)** |
| **Particulars** | **2022** | **2021** |
| **Equity & Liabilities** |  |  |
| **Equity Share Capital** | **3000.00** | **2000.00** |
| **Retained Earnings** | **410.00** | **200.00** |
| **Non-Current Liabilities** |  |  |
| **12% Debentures** | **2000.00** | **1000.00** |
| **Term loan** | **200.00** | **0.00** |
| **Current Liabilities** |  |  |
| **Working capital loan** | **402.00** | **400.00** |
| **Trade payables** | **80.00** | **90.00** |
| **Total** | **6092.00** | **3690.00** |
| **Assets** |  |  |
| **Non-Current Assets** |  |  |
| **Property Plant and Equipment** | **4000.00** | **2400.00** |
| **Accumulated depreciation** | **640.00** | **240.00** |
| **Net Property Plant and Equipment** | **3360.00** | **2160.00** |
| **Patents** | **892.00** | **520.00** |
| **Current Assets** |  |  |
| **Inventories** | **160.00** | **100.00** |
| **Accounts Receivables** | **300.00** | **200.00** |
| **Cash & Bank** | **1380.00** | **710.00** |
| **Total** | **6092.00** | **3690.00** |

**(10 Marks)**

**Introduction**

Financial ratios and metrics are very important to identify a company's financial health and wellness. These kinds of ratios and financial metrics are very much appropriate to a team of different stakeholders of the organization. The prominent individuals of the financial ratios of the organization are the financiers of the organization. For them, the financial ratios and metrics are among the most valuable devices to establish the financial wellness of the organization, and in this manner, they will be able to identify whether or not their financial investment will be safe or otherwise. In addition to this, the supervisor of the company, with the help of such ratios and

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**2. As a Financial Analyst you are entrusted with the task of analyzing the cash flow statement of StarTrek Ltd.**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Amount** |
| **Cash flow from Operations** |  |  |
| **Net Profit before tax** |  | **400000** |
| **Add: Depreciation** | **145600** |  |
| **Add: Interest** | **22500** |  |
| **Less: Profit on Sale of Machinery** | **(10000)** | **158100** |
| **Cash Flow from operations before working  capital changes** |  | **558100** |
| **Increase in Inventories** | **(94620)** |  |
| **Increase in Receivables** | **(100000)** |  |
| **Increase in Payables** | **67270** | **(127350)** |
| **Cash Flow from operations before tax** |  | **430750** |
| **Less: Income tax paid**  |  | **(120000)** |
| **Net Cash Flows from Operating Activities(A)** |  | **310750** |
| **Cash Flows from investing activities** |  |  |
| **Proceeds from the sale of machinery**  | **40000** |  |
| **Purchase of Plant and Machinery** | **(640750)** |  |
| **Purchase of Investments** | **(250000)** |  |
| **Net Cash Flows from Investing Activities (B)** |  | **(850750)** |
| **Cash Flow from financing activities** |  |  |
| **Interest paid** | **(22500)** |  |
| **Term loan taken** | **270000** |  |
| **Dividend paid** | **(157500)** |  |
| **Equity share capital issued** | **200000** |  |
| **Debenture issued** | **250000** |  |
| **Net Cash Flows from Financing Activities (C)** |  | **540000** |
| **Net Increase in Cash and Cash Equivalents  (A)+(B)+(C)** |  | **0** |
| **Cash and Cash Equivalents at the beginning  of the year** |  | **15000** |
| **Cash and Cash Equivalents at the end of the  year** |  | **15000** |

**Analyze the cash flow statement with reference to the following:**

**1) Ability of the operating cash flows to service providers of capital**

**2) Financing the acquisition of fixed Assets.**

**3) Financial Flexibility**

**4) Whether the company will be able to sustain the existing rate of dividend for the next year. The share capital at the beginning of the year is Rs 10, 00,000.**

**5) Comment on the “Free Cash Flows” available with the company. (10 Marks)**

# Introduction

Cash flow is among the most vital elements of any kind of company. A company incapable of generating ample cash flow for its procedures will likely go bankrupt in the future and face issues connected to liquidity and gearing. As cash is essential as it is required for the transmission of day-to-day activities of the company in an optimum and desired way. The details of the business's operations connecting to cash can be founded in the company's cash flow statement, which outlines the cash inflow and discharges that occur from various activities of the

**3.a. Electro-waves ltd sells ‘Ear-pods'. The cost of the finished product-( per unit) as per the accounting records is Rs 16,000, the estimated selling price is Rs 17,000 and the estimated selling expenses are Rs 1500. At what amount should the finished product be valued at the end of the accounting period? State the accounting principle and the value at which the stock should be recorded. (5 Marks)**

**Introduction**

Measuring the inventory at the right price is one of the essential things that organizations require. To compute the company's net worth in a reliable way, recording the supply is vital. The supply should be measured with the aid of the concepts authorized by the global accounting criteria. Order to supply the right monetary photo of the organization to the stakeholders is very crucial.

**3.b. A company purchased Machinery for Rs 4,00,000 with an estimated useful life of 10 years and an estimated residual value of Rs 20,000. It follows the straight-line method for charging depreciation. At the end of the three years, the management revised the Machinery’s remaining useful life to five years and residual value to Rs 15,000. What will be the depreciation expense for the 4th year? Why is it relevant to review the estimates of ‘useful life’ and ‘residual value’ of the fixed assets at the end of each year? (5 Marks)**

**Introduction**

One of the main parts of a service is its set assets, and the business needs to record its fixed possessions at a satisfactory worth. As though the set properties won't be tape-recorded at the best worth, it will prompt material mistakes, and the actual monetary picture of the association