

10/4/18

Financial statements

1. Income statement
2. Financial position statement
3. Profit & Loss statement
4. Cash flow statement

Financial management, Ratio Analysis

What are the main tasks of Financial management & why is it imp.?

- 1) Financial ~~planning~~ planning
- 2) Obtaining sufficient funds at min. cost
- 3) Utilisation of funds.
- 4) Capital budgeting decision & dividend decision
- 5) Liquidity decision
- 6) Working capital management
- 7) Maximisation of wealth.

1. Liquidity Ratio

- short term

- long term

$$2. \text{Current Ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

Current assets include stocks, short term investments, debtors, receivables, bank & cash amount.

current liabilities include creditors, outstanding wages, bank overdraft and other expenses.

3. Quick Ratio / Acid Test Ratio / Liquid Ratio

$$= \frac{\text{Total current assets} - \text{stocks} - \text{prepaid expenses}}{\text{Total current liabilities}}$$

$$\text{Working capital} = \text{Total current assets} - \text{total current liabilities}$$

<u>Liabilities</u>		<u>Assets</u>	
Capital	300	Plant & Equip.	65
Gen. reserves	55	Land & Building	200
P&L credit bal.	7	Cash	1
Loan	65	Bills Receivable	100
Debentures	35	Govt. bond stock	25
Bank o/p	38	stocks	128
Sundry creditors	26	Prepaid expenses	1
Provision of tax	9	Goodwill	30
Proposed dividend	15		

Find out the current ratio and quick ratio.

A:

$$\text{current ratio} = \frac{128 + 25 + 100 + 1 + 1}{26 + 38 + 9 + 15} = \frac{255}{88} = 2.89$$

Not good. Industry standard is 2:1.

$$\text{Quick Ratio} = \frac{255 - 128 - 1 - 25}{88} = 1.147$$

Not good. Industry standard is 1:1.

$$\# \text{ Quick Ratio} = \frac{\text{current assets} - \text{stock}}{\text{current liabilities} - \text{Bank overdraft}}$$

4. $\frac{\text{Debt} - \text{equity Ratio}}{\text{from outside liabilities (loan, debentures)}}$