

Question 1: 1) Chapter 4, Fill in the blanks #2

Cash Flow Items	Starting Cash Balance	Cash Flow from Operating Activities	Cash flow from Investing Activities	Cash Flow From Financing Activities	Ending Cash Balance
Current Year	618	146	(8)	13	769
Previous Year	554	65	(8)	7	618

2) Discussion Question #5

Balance Sheet and Liquidity:

- Liquidity refers to a firm's ability to meet its short-term loans and obligations and also speed at which all assets can be liquidated into cash.
- Items on balance sheet are listed in order of liquidity. For Example: Cash, which is most liquid, is listed first followed by marketable securities, accounts receivable, inventory and finally fixed assets. The faster an item can be turned to cash, the higher up it is in the balance sheet.
- Liquidity can be gauged through various ratios and other values, which can be calculated based on the items present in the Balance Sheet.

Item	Formula	Description
Current Ratio	Current assets / Current liabilities	It describes the firm's ability to meet its current liabilities with the help of current assets. Higher the ratio better is the liquidity.
Quick ratio	Current assets – Inventories) / Current liabilities	It is more refined than current ratio. It describes the firm's capability to meet its current liabilities with its most liquid assets (which does not include inventory).
Working Capital	Current Assets – Current Liabilities	This number should be positive for company to be liquid.
Cash Conversion Cycle	(Accounts Receivable/ Total Sales on Credit)* Number of Days of Sales	This refers to the number of days it takes a firm to receive payment after making a sale. It should be low.

However, to check whether a company has enough cash, it is important to look at the cash flow statement as the company may have a lot of income without having enough cash to go around in the business.

3) Chapter 4, Numerical Problem # 2

The cash flow statement for Pragati Export Limited can be summarised as: -

Particulars	Amount (Rs. Lakhs)
Cash Flow from Operating Activities	
Net Profit	500
Sale of Land	(15)
Depreciation of plant and equipment	5
Receipts of dividend and interests	(10)
Changes in Working Capital	
Increase in Accounts Receivable	(100)
Decrease in Inventory	30

Decrease in Prepaid Rent	3
Increase in Advance from Customers	50
Increase in Salaries Payable	7
Decrease in Accounts Payable	(100)
Net Cash from Operating Activities	370
Cash Flow from Investing Activities	
Purchase of Investment Securities	(500)
Sale of Land	55
Receipts of Dividends and Interest	10
Net Cash from Investing Activities	(435)
Cash Flow from Financing Activities	
Issue of common stock for cash	100
Payment of cash dividends	(15)
Repayment of loan	(50)
Net Cash from Financing Activities	35
Net Decrease in cash and cash equivalents	(30)

A decrease in cash and cash equivalents for the current year suggests that Pragati Exports Limited is definitely facing a cash crunch.

Question 2: Identify the list of clearly visible non-Cash Items in the Profit & Loss Statement of your Allocated Company's Annual Report. Please add your quick comments (if any)

Item	Comment
Depreciation and amortization expense	According to Note 2a, From the current year, the management has re-estimated useful lives and residual values of all its fixed assets.
Deferred tax charge	Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred tax assets and deferred taxes relate to the same taxable entity and the same taxation authority.

Question 3: From your allocated company annual report – identify five biggest 'Cash Inflow' and 'Cash Outflow' items in the Cash Flow Statement over last two years Comment on changes in these

- Outflow - Purchase of Investment.**
 Company reduced its spending on buying investments. It could be a step to cut costs by the company to utilize the money in other verticals.
- Inflow - Proceeds from sale of Non-Trade investments.**
 The proceeds reduced, meaning the returns on their investments in different shares, debentures etc. have reduced.
- Inflow - Availment of buyer's credit.**
 The amount has increased indicating the credit from importing items from other countries has increased.
- Outflow - Repayment of buyer's credit.**
 The buyer's credit repayment has nearly halved indicating that the company paid off its pending 'letter of comfort'.
- Inflow - Net proceeds from short-term borrowings.**
 The amount has nearly tripled in the current year meaning the company has taken a high number of short-term loans to increase the cash inflow.