"ACCOUNTING RATIO"

1. **What is Accounting Ratio?**
   Accounting ratio is the comparison of two or more financial data which are used for analyzing the financial statements of companies. They provide a way of expressing the relationship between one accounting data to another and are the basis of ratio analysis.

2. **What is Ratio Analysis? Discuss its significance or Importance?**
   Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio Analysis is done to analyze the Company's financial status and trend of the company's results over a period of years.

   Significance or Importance of Ratio Analysis are explained below:

   Ratio analysis helps in analyzing the financial statements of a business concern. With the help of ratio analysis, we interpret the numbers from the balance sheet and income statements.

   1. Helps in Understanding the Profitability of the Company: Ratio analysis help to determine how profitable a firm is. Return on Assets and Return on Equity helps to understand the ability of the firm to generate earnings.

   2. Analysis of Operational Efficiency of the Firms: It measures a company's capability to generate income by using the assets. Certain ratios help us to analyze the degree of efficiency of the firms.

   3. Helps in Identifying the Business Risks of the Firm: One of the most important reasons to use ratio analysis is that it helps in understanding the business risk of the firm. Calculating the leverages (Financial Leverage and Operating Leverages) helps the firm understand the business risk,

4. To Compare the Performance of the Firms: The main use of ratio analysis is that the strengths and weaknesses of each firm can be compared. The ratios can also be compared to the firm's previous ratio and will help to analyze whether progress has been made by the company.

5. Liquidity of the Firms: Liquidity determines whether the company can pay its short- term obligations or not**.**

"CASH FLOW STATEMENT"

1. **What is Cash flow statement?**
   Cash flow statement is a statement which shows inflows and outflows of the cash and cash equivalents in a business organisation. This statement is usually prepared by companies which comes as a tool in the hands of users of financial information to know about the sources and uses of cash and cash equivalents of an enterprise over a period of time from various activities of an enterprise.
   A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities.

2. **What are the benefits of Cash flow Statement? Discuss.**
   The primary objective of cash flow statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.

Cash flow statement provides the following benefits:

a) Assessing the ability of the enterprise to generate cash and cash equivalents: Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.

b) Comparability of the reporting of operating performance: It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

c) Balancing its cash inflow and cash outflow: It also helps in balancing its cash inflow and cash outflow, keeping in response to changing condition.

d) Evaluate changes in net assets of an enterprise: A cash flow statement when used along with other financial statements provides information that enables users to evaluate changes in net assets of an enterprise.

Cash and Cash Equivalents

As per AS-3, 'Cash' comprises cash in hand and demand deposits with banks, and 'Cash equivalents' means short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Classification of Activities for the Preparation of Cash Flow Statement

As per AS-3, these activities are to be classified into three categories: (1) operating, (2) investing, and (3) financing activities

Operating activities are the activities that constitute the primary or main activities of an enterprise. For example, for a company manufacturing garments, operating activities are procurement of raw material, incurrence of manufacturing expenses, sale of garments, etc.

Cash Inflows from operating activities:

1. Cash receipts from sale of goods and the rendering of services.
2. Cash receipts from royalties, fees, commissions and other revenues.

Cash Outflows from operating activities

1. Cash payments to suppliers for goods and services.
2. Cash payments to and on behalf of the employees.

3. Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.

Cash from Investing Activities:
As per AS-3, investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long term investment are also investing activities.

Cash from Financing Activities:
As the name suggests, financing activities relate to long-term funds or capital of an enterprise, e.g., cash proceeds from issue of equity shares, debentures, raising long-term bank loans, repayment of bank loan, etc.