Accounting financial analysis

Finance

Accounting/Financial analysis

Case Cash Flow ment Net Income 5 Depreciation Expense 5 Increase in Inventories -15 Increase inAccounts Receivable

-20

Increase in Accounts Payable

2

Increase in Accrued Expenses Payable

7

Cash flow from Operating Activities

-21

Investing Activities

Additions to PPE (44+5)

-49

Cash flow from Investing Activities

-49

Financing Activities

Notes Payable

36

Common Stock

30

Cash flow from Financing Activities

66

Cash Closing Balance

1

To: Managing Director

From: Chief Accountant

Subject: Discrepancy in Net Income and Closing Cash Balance

Date: 12 March, 2012

The company has successfully managed to earn net income $5 million but the overall liquidity position of the company is still quite depressing as the closing cash balance of the company remained at $1million. There are various reasons for such discrepancy which include the inclusion of non-cash expense of depreciation which increased the net income as the company did not pay any cash disbursement in this regard. At the same time, the company invested too much in its current assets due to which the cash of the company blocked in those current assets. These are the two main reasons due to which there is a considerable difference in the net income and cash position of the company. In such case, the company is not in a position to pay dividends to its shareholders.

Case 2

1. Wal-Mart did not report any of its liability with respect to operating leases in its balance sheet as on 31, January 2011.

2. Wal-Mart reported its liability with respect to capital leases in its balance sheet as on 31, January 2011. The amount of capital leases is $3, 486 (336+3150) in total combining both current portion and non-current portion of the liability.

3. Wal-Mart did not report any of its assets with respect to operating leases in its balance sheet as on 31, January 2011.

4. Wal-Mart reported its assets with respect to capital leases in its balance sheet as on 31, January 2011. The amount of capital leased assets is $2, 780.

5. The following is the computation for the present value of the operating lease commitments.

Years

Operating Lease

Interest Rate (5%)

Present Value

2012

1, 406

0. 95238

1, 339. 05

2013

1, 336

0. 90703

1, 211. 79

2014

1, 271

0. 86384

1, 097. 94

2015

1, 205

0. 82270

991. 36

2016

1, 120

0. 78353

877. 55

Thereafter

7, 785

0. 74622

5, 809. 29

Present Value of Operating Lease Commitments

14, 123

11, 326. 97

6.

Liabilities

109416

Long Term Debt

40692

Total Assets

180663

Liabilities to Asset Ratio

109416

=

60. 56%

180663

Long Term Debt Ratio

40692

=

22. 52%

180663

7.

Liabilities

120, 743

Long Term Debt

52, 019

Total Assets

191, 990

Liabilities to Asset Ratio

120, 743

=

62. 89%

191, 990

Long Term Debt Ratio

52, 019

=

27. 09%

191, 990

8. Without capitalizing the operating leases, it can be noticed that the company’s leverage position is quite better as its Liabilities to Asset Ratio is 60. 56% and Long-term Debt Ratio is 22. 52%. But f the operating leases are to be capitalized, then both these ratios will increase substantially and will become 62. 89% and 27. 09% respectively.

Work Cited

“ Cash flow from Operating Activities.” Stock 300., n. d. Web. 12 March 2012.