

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

## Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	1413 Code
Course Name:	Financial Accounting
Class:	B.Com/AD
Total Credit Hours	3
Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

**نوٹ:** ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

## Assignment 2

### Q.1 (a) What are the reasons for declaring a stock dividend? How are small and large stock dividends recorded?

#### Reasons for Declaring a Stock Dividend:

A stock dividend is a distribution of additional shares of a company's own common stock to existing shareholders, without any payment from them. The main reasons for declaring a stock dividend are:

1. **To conserve cash:** When a company has sufficient retained earnings but limited cash resources, it may issue a stock dividend instead of a cash dividend to reward shareholders without depleting cash.
2. **To reduce the market price per share:** A stock dividend increases the number of shares outstanding, which typically lowers the market price per share. This makes the shares more affordable to small investors and increases trading activity.
3. **To signal future profitability:** Management may declare a stock dividend to signal confidence in the company's future earnings and growth prospects. It indicates that retained earnings are being reinvested for expansion.
4. **To capitalize retained earnings:** A stock dividend transfers a portion of retained earnings to paid-in capital. This "capitalization" of retained earnings may be desired for legal or contractual reasons (e.g., to meet requirements for future cash dividends).
5. **To provide evidence of continued operations:** A stock dividend reassures shareholders that the company is performing well and is expected to continue profitable operations.
6. **To satisfy shareholder expectations:** Some shareholders expect regular dividends. When cash is not available, a stock dividend can serve as a substitute to maintain shareholder satisfaction.
7. **To avoid dividend cuts:** If the company wants to reduce cash outflow but does not want to cut the cash dividend rate per share, a stock dividend can be declared in addition to a small cash dividend.

#### Recording Small vs. Large Stock Dividends:

The accounting treatment differs based on the size of the stock dividend relative to the number of shares outstanding.

- **Small Stock Dividend (less than 20–25% of outstanding shares):** A small stock dividend is recorded at the **market value** of the shares issued. The rationale is that a small dividend is not likely to cause a significant drop in market price, so the market price is used.



Journal entry:

- Debit: Retained Earnings (at market value: number of shares × market price per share)
- Credit: Common Stock (at par value: number of shares × par value)
- Credit: Paid-in Capital in Excess of Par Value (the difference)
- **Large Stock Dividend (more than 20–25% of outstanding shares):** A large stock dividend is recorded at the **par value** (or stated value) of the shares. The market price may drop significantly, so conservatism suggests using par value.

Journal entry:

- Debit: Retained Earnings (at par value: number of shares × par value)
- Credit: Common Stock (same amount)

**Example:** A company has 100,000 shares of Rs. 10 par value common stock outstanding. It declares a 10% stock dividend (10,000 shares). Market price is Rs. 25 per share.

- Small stock dividend entry:
  - Retained Earnings (10,000 × Rs. 25) = Rs. 250,000
  - Common Stock (10,000 × Rs. 10) = Rs. 100,000
  - Paid-in Capital in Excess of Par = Rs. 150,000

If it declares a 30% stock dividend (30,000 shares), it would be a large stock dividend (recorded at par):

- Retained Earnings (30,000 × Rs. 10) = Rs. 300,000
- Common Stock = Rs. 300,000

---

**Q.1 (b) On July 1, 2025, Jones Corporation, a new corporation, issued 40,000 shares of its common stock to finance a corporate headquarters building. The building has a fair market value of Rs. 1,200,000 and a book value of Rs. 800,000. Because Jones is a new corporation, it is not possible to establish a market value for its common stock. Prepare journal entries to record the issuance of stock for the building, assuming the following conditions: (1) the par value of the stock is Rs. 10 per share; (2) the stock is no-par stock; and (3) the stock has a stated value of Rs. 4 per share.**



## تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

When a company issues stock for non-cash assets, the asset received is recorded at its fair market value if that can be reliably determined. If the stock has a known market value, that value is used. But here, the stock's market value is not established, so the fair market value of the building (Rs. 1,200,000) is used to record the transaction.

### Condition (1): Par value Rs. 10 per share

Total shares issued = 40,000

Par value per share = Rs. 10

Total par value = 40,000 × Rs. 10 = Rs. 400,000

Building fair value = Rs. 1,200,000

Excess over par = Rs. 1,200,000 – Rs. 400,000 = Rs. 800,000 (Premium)

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
July 1, 2025	Building	1,200,000	
	Common Stock (Rs. 10 par)		400,000
	Paid-in Capital in Excess of Par – Common Stock		800,000
	(Issued 40,000 shares for building)		

### Condition (2): No-par stock

When stock has no par value, the entire proceeds (here, fair value of building) is credited to the Common Stock account.

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
July 1, 2025	Building	1,200,000	
	Common Stock (no-par)		1,200,000
	(Issued 40,000 no-par shares for building)		

### Condition (3): Stated value Rs. 4 per share

Stated value is a legal minimum value assigned to no-par stock. The stated value is treated like par value. The excess over stated value is credited to "Paid-in Capital in Excess of Stated Value".

Stated value per share = Rs. 4

Total stated value = 40,000 × Rs. 4 = Rs. 160,000

Building fair value = Rs. 1,200,000

Excess over stated value = Rs. 1,200,000 – Rs. 160,000 = Rs. 1,040,000

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
July 1, 2025	Building	1,200,000	



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

	Common Stock (Rs. 4 stated value)		160,000
	Paid-in Capital in Excess of Stated Value – Common Stock		1,040,000
	(Issued 40,000 shares of Rs. 4 stated value for building)		

**Q.2. On March 1, 2026, Fast Freight Company sold Rs. 400,000 of its 9 percent, 20-year bonds at 109.9. The semiannual interest payment dates are March 1 and September 1. The market interest rate is 8 percent. The firm's fiscal year ends August 31. Prepare entries in journal form to record the sale of the bonds on March 1, the accrual of interest and amortization of premium on August 31, and the first interest payment on September 1. Use an effective interest method to amortize the premium.**

**Given data:**

- Face value of bonds = Rs. 400,000
- Contract rate = 9% per annum (semiannual = 4.5%)
- Sold at 109.9 (i.e., 109.9% of face value)
- Selling price = Rs. 400,000 × 109.9% = Rs. 439,600
- Premium on bonds = Rs. 439,600 – Rs. 400,000 = Rs. 39,600
- Market rate (effective rate) = 8% per annum (semiannual = 4%)
- Interest payment dates: March 1 and September 1
- Fiscal year end: August 31
- Maturity: 20 years (40 semiannual periods)

**Effective interest method:** Interest expense is computed as carrying value × market rate per period. Cash interest paid is face value × contract rate per period. The difference amortizes the premium.

**Step 1: Sale of bonds on March 1, 2026**

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
March 1, 2026	Cash	439,600	
	Bonds Payable		400,000
	Premium on Bonds Payable		39,600



	(To record issuance of bonds at 109.9)		
--	--	--	--

### Step 2: Accrual of interest and amortization of premium on August 31, 2026

Period from March 1 to August 31 = 6 months (one semiannual period). The first interest payment date is September 1, so on August 31 (fiscal year end), we need to accrue interest expense and amortize premium for the 6-month period.

- Cash interest to be paid on September 1 = Rs. 400,000 × 9% × 6/12 = Rs. 18,000
- Carrying value of bonds at March 1 = Rs. 439,600
- Market interest rate per semiannual period = 4%
- Interest expense for the period = Rs. 439,600 × 4% = Rs. 17,584
- Premium amortization for the period = Cash interest – Interest expense = Rs. 18,000 – Rs. 17,584 = Rs. 416

Accrual entry on August 31 (since interest will be paid next day, we can either record accrued interest payable or directly record the payment on Sept 1. Proper accrual at year end before payment):

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
August 31, 2026	Interest Expense	17,584	
	Premium on Bonds Payable	416	
	Interest Payable		18,000
	(To accrue interest and amortize premium for 6 months)		

Alternatively, some companies record the payment on Sept 1 and then adjust for accruals. But to follow the requirement, we record the accrual at year end.

### Step 3: First interest payment on September 1, 2026

On September 1, the accrued interest payable is paid. Since we already recorded the interest expense and premium amortization, the payment clears the liability.

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
September 1, 2026	Interest Payable	18,000	
	Cash		18,000
	(To record payment of semiannual interest)		

**Note:** The amortization schedule continues for each subsequent period. The carrying value after the first period will be Rs. 439,600 – Rs. 416 = Rs. 439,184. Next period's interest expense will be calculated on this new carrying value.



**Q.3. Describe the methods of preparing a cash flow statement and identify the list that follows itemizes Furlong Corporation's transactions, each as (a) an operating activity, (b) an investing activity, (c) a financing activity, (d) a noncash transaction, or (e) none of the above.**

**Methods of Preparing a Cash Flow Statement:**

The cash flow statement reports cash inflows and outflows during a period, classified into operating, investing, and financing activities. According to IAS-7, there are two methods for preparing the **operating activities** section:

**1. Direct Method:**

- This method reports major classes of gross cash receipts and gross cash payments from operating activities.
- Common cash inflows: Cash received from customers, interest and dividends received.
- Common cash outflows: Cash paid to suppliers, employees, for interest, and for taxes.
- The direct method provides more detailed information about specific sources and uses of cash.
- It is preferred by IAS-7 but less commonly used because it requires detailed records.

**2. Indirect Method:**

- This method starts with net income (accrual basis) and adjusts for:
  - Non-cash items (e.g., depreciation, amortization, bad debts)
  - Changes in working capital accounts (inventory, receivables, payables)
  - Gains or losses on disposal of assets
- The result is net cash flow from operating activities.
- The indirect method is more widely used because it is easier to prepare from existing financial statements and reconciles net income to cash flow.

**Investing and Financing Activities:** These sections are presented similarly under both methods. Investing activities include purchases and sales of long-term assets and investments. Financing activities include transactions with owners and creditors (issuance of stock, borrowing, repayment of debt, payment of dividends, purchase of treasury stock).

**Classification of Transactions for Furlong Corporation:**

Transaction	Classification	Explanation
-------------	----------------	-------------



1. Sold land	(b) Investing activity	Sale of long-term asset (land) generates cash inflow from investing activities.
2. Declared and paid a cash dividend	(c) Financing activity	Dividend payment to shareholders is a return on equity financing.
3. Paid interest	(a) Operating activity	Interest paid is part of the cost of financing operations; it is included in operating activities under both IFRS and GAAP (though some may classify under financing, but standard is operating).
4. Issued common stock for plant assets	(d) Noncash transaction	Stock issued in exchange for plant assets does not involve cash. It is reported as a noncash investing and financing activity in a separate schedule or note.
5. Issued preferred stock	(c) Financing activity	Issuance of preferred stock for cash is a financing activity cash inflow.
6. Borrowed cash on a bank loan	(c) Financing activity	Borrowing cash increases cash via financing activity.

**Note:** Noncash transactions (like #4) are not reported in the main cash flow statement but are disclosed separately in a note or supplementary schedule.

**Q.4. The Life Saving Drugs Manufacturing Company Ltd was established in 2016 with an authorized capital of 500,000 Common Stocks of Rs. 100 each. The Company issued 400,000 Common Stocks during July 2017 at a premium of Rs. 30 each. During July 2018, some technical and marketing staff were recruited, to whom, apart from a salary package, the purchase of Stock Options of 20,000 shares at Rs. 150 each over a period of three years was also granted. The market price of shares of the company fluctuated from time to time and by the end of May 2021, the prevailing price touched the ceiling of Rs. 165 each. All the employees exercised the Stock options as committed by the company.**



**Required:**

**a) Record all the above transactions in the accounting and memorandum record of the company.**

**Transaction 1: Authorization of capital (memorandum only) – no journal entry.**

**Transaction 2: Issuance of 400,000 Common Stocks at a premium of Rs. 30 each in July 2017.**

Face value per share = Rs. 100

Premium per share = Rs. 30

Issue price per share = Rs. 130

Total cash received = 400,000 × Rs. 130 = Rs. 52,000,000

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
July 2017	Cash	52,000,000	
	Common Stock Capital (400,000 × Rs. 100)		40,000,000
	Premium on Common Stock (400,000 × Rs. 30)		12,000,000
	(Issued 400,000 shares at Rs. 130 each)		

**Transaction 3: Granting of Stock Options to employees in July 2018.**

At the date of grant, no journal entry is recorded. Only a memorandum record (note) is made that 20,000 stock options at an exercise price of Rs. 150 per share have been granted to employees, exercisable over three years (until July 2021).

**Transaction 4: The stock options become exercisable and are exercised by all employees by end of May 2021.**

When the market price (Rs. 165) exceeds the exercise price (Rs. 150), employees exercise their options. The company issues 20,000 shares at Rs. 150 each (exercise price). At this point, the options are exercised; the company receives cash and issues shares.

Cash received = 20,000 × Rs. 150 = Rs. 3,000,000

Par value per share = Rs. 100

Total par value = 20,000 × Rs. 100 = Rs. 2,000,000

Premium on issue = Rs. 3,000,000 – Rs. 2,000,000 = Rs. 1,000,000

Journal entry on exercise of options:

Date	Account Titles and Explanation	Debit (Rs.)	Credit (Rs.)
May 2021	Cash	3,000,000	



تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Common Stock Capital	2,000,000
Premium on Common Stock	1,000,000
(Issued 20,000 shares upon exercise of stock options)	

**Memorandum record:** Remove the granted options from the memorandum records.

**Note:** Under IFRS, if the stock options were granted as employee compensation, the company should recognize an expense over the vesting period (three years) based on fair value of options. However, the problem does not provide fair value information, so we record only the exercise transaction as above. For completeness, if fair value at grant date was, say, Rs. X per option, the company would have recorded:

- Debit: Staff Salaries Expense (over three years)
  - Credit: Stock Option Obligation (or Paid-in Capital – Stock Options)
- Then upon exercise, the obligation is transferred to Common Stock and Premium.

Since the problem does not provide fair value, we assume the direct method used.

**b) Present the equity section of the balance sheet of the company as at 30 June, 2021.**

Assume that the company had no other transactions affecting equity after the share issuance in 2017 and the option exercise in 2021. Also assume that retained earnings are nil (or not given). The equity section will include:

- Authorized capital: 500,000 common shares of Rs. 100 each.
- Issued and subscribed capital:
  - 400,000 shares issued in 2017
  - 20,000 shares issued on exercise of options in 2021
  - Total issued shares = 420,000 shares

**Equity Section as at June 30, 2021:**

Particulars	Amount (Rs.)
<b>Authorized Capital:</b>	
500,000 Common Shares of Rs. 100 each	50,000,000
<b>Issued, Subscribed and Paid-up Capital:</b>	
420,000 Common Shares of Rs. 100 each fully paid	42,000,000
<b>Add: Premium on Common Stock</b>	
From initial issuance (400,000 shares at Rs. 30)	12,000,000
From option exercise (20,000 shares at Rs. 50 premium)	1,000,000



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

Total Premium	13,000,000
<b>Total Shareholders' Equity</b>	<b>55,000,000</b>

(If any retained earnings existed, they would be added after premium.)

**Q.5 a. Describe the objectives of the analysis of financial statements. Also explain with presumptive data about the horizontal analysis of the income statement and balance sheet of a trading enterprise and comment on each item of it.**

**Objectives of Analysis of Financial Statements:**

Financial statement analysis is the process of evaluating the financial performance and position of a business to assist users in decision-making. The main objectives are:

1. **To assess profitability:** Determine whether the company is generating sufficient profit from its operations, and evaluate trends in gross profit, operating profit, and net profit.
2. **To evaluate liquidity:** Analyze the company's ability to meet short-term obligations, using ratios like current ratio, acid-test ratio, and working capital.
3. **To measure solvency and financial stability:** Assess the long-term viability and ability to meet long-term debts using debt-to-equity ratio, interest coverage ratio, etc.
4. **To analyze operational efficiency:** Evaluate how effectively assets are being utilized to generate sales and profits (e.g., inventory turnover, receivables turnover).
5. **To identify trends and patterns:** Compare financial data over multiple periods to detect growth, decline, or cyclical patterns.
6. **To compare with industry benchmarks:** Determine the company's relative performance against competitors or industry averages.
7. **To support investment and credit decisions:** Provide information to investors, creditors, and other stakeholders for decisions about buying, selling, or lending.
8. **To detect weaknesses and strengths:** Identify areas needing improvement (e.g., excess inventory, slow collections) and strengths to leverage.
9. **To ensure compliance and transparency:** Verify that financial statements conform to accounting standards and fairly represent the company's position.

**Horizontal Analysis with Presumptive Data:**



## تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Horizontal analysis (also called trend analysis) compares financial statement items across two or more years, calculating both the absolute change (in rupees) and the percentage change. The base year is set as 100%, and subsequent years are expressed as percentages of the base year.

### Presumptive Income Statement Data (Rs. in thousands):

Item	Year 2023	Year 2024	Absolute Change	Percentage Change
Sales Revenue	1,000	1,200	+200	+20%
Cost of Goods Sold	600	740	+140	+23.3%
Gross Profit	400	460	+60	+15%
Operating Expenses	200	220	+20	+10%
Operating Income	200	240	+40	+20%
Net Income	140	168	+28	+20%

### Comments on Income Statement Horizontal Analysis:

- Sales increased by 20%, indicating higher demand or better marketing.
- Cost of goods sold increased by 23.3%, which is higher than sales growth, resulting in gross profit margin declining from 40% to 38.3% ( $400/1000=40%$ ;  $460/1200=38.3%$ ). This suggests increased cost of purchases or inefficiency.
- Operating expenses increased only 10%, slower than sales growth, showing good cost control.
- Net income increased 20%, matching sales growth, but the gross profit margin contraction is a concern.

### Presumptive Balance Sheet Data (Rs. in thousands):

Item	2023	2024	Absolute Change	% Change
Cash	100	150	+50	+50%
Accounts Receivable	200	250	+50	+25%
Inventory	300	350	+50	+16.7%
Total Current Assets	600	750	+150	+25%
Fixed Assets (net)	400	450	+50	+12.5%
<b>Total Assets</b>	1,000	1,200	+200	+20%
Accounts Payable	150	200	+50	+33.3%
Long-term Debt	300	300	0	0%
Total Equity	550	700	+150	+27.3%
<b>Total Liab. &amp; Equity</b>	1,000	1,200	+200	+20%



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

### Comments on Balance Sheet Horizontal Analysis:

- Cash increased by 50%, a positive liquidity signal.
- Accounts receivable increased 25%, slightly higher than sales growth (20%), indicating slower collection.
- Inventory increased 16.7%, less than sales growth, suggesting better inventory management.
- Total assets grew 20%, matching sales growth.
- Accounts payable increased 33.3%, meaning the company is using supplier credit more heavily – may be a sign of cash flow pressure or good trade terms.
- Equity increased 27.3% due to retained earnings from net income.
- Overall, the company is growing, but the increase in receivables and payables warrants monitoring.

### Q.5 b. The following financial data was extracted from the financial statements of three consecutive years of Arshad Trading Corporation: (20)

	2023	2024	2025
Sales	Rs.2,500,000	Rs.2,600,000	Rs.2,400,000
Cost of Sales	2,000,000	2,100,000	1,900,000
Current assets	1,200,000	1,300,000	1,200,000
Current liabilities	950,000	1,050,000	1,000,000
Inventories	650,000	700,000	600,000
Accounts Receivables	320,000	400,000	350,000
Prepaid expenses	20,000	25,000	30,000

**Required: Compute the following ratios for the years 2024 and 2025 and comment on each to ascertain liquidity analysis.**

**Note:** Ratios for 2024 and 2025 are computed. For accounts receivable and inventory ratios, we need average figures. Since beginning of 2024 is same as ending of 2023, we compute using given end-of-year figures as proxies, or averages where possible.

#### (a) Working Capital

Working Capital = Current Assets – Current Liabilities



## تمام کلاسز کی حل شدہ مشقیں [MrPakistani](#) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

- **2024:** Rs. 1,300,000 – Rs. 1,050,000 = Rs. 250,000
- **2025:** Rs. 1,200,000 – Rs. 1,000,000 = Rs. 200,000

**Comment:** Working capital decreased from Rs. 250,000 in 2024 to Rs. 200,000 in 2025. Although both years show positive working capital, the decline indicates a slight weakening of short-term financial flexibility. The company has enough current assets to cover current liabilities, but the cushion has shrunk.

### (b) Current Ratio

Current Ratio = Current Assets / Current Liabilities

- **2024:** 1,300,000 / 1,050,000 = 1.238 or 123.8%
- **2025:** 1,200,000 / 1,000,000 = 1.200 or 120.0%

**Comment:** The current ratio decreased from 1.24 to 1.20. A ratio of 2.0 (200%) is generally considered safe, but acceptable levels vary by industry. Here the ratio is below 1.5, indicating that the company may have difficulty meeting short-term obligations if all liabilities become due at once. The downward trend is a concern. Management should take steps to increase current assets or reduce current liabilities.

### (c) Acid Test Ratio (Quick Ratio)

Acid Test Ratio = (Current Assets – Inventories – Prepaid Expenses) / Current Liabilities

- **2024:** (1,300,000 – 700,000 – 25,000) / 1,050,000 = 575,000 / 1,050,000 = 0.548 or 54.8%
- **2025:** (1,200,000 – 600,000 – 30,000) / 1,000,000 = 570,000 / 1,000,000 = 0.570 or 57.0%

**Comment:** The acid test ratio improved slightly from 0.55 to 0.57 but remains very low. The ideal quick ratio is around 1.0 (100%). This indicates that the company relies heavily on inventory to meet liabilities; without selling inventory, it cannot pay current debts. The company faces liquidity risk.

### (d) Days' Sales in Receivables

Days' Sales in Receivables = (Average Accounts Receivable / Credit Sales) × 365

Assume all sales are on credit. Average receivables:

- For 2024: (Receivables 2023 + 2024)/2 = (320,000 + 400,000)/2 = 360,000
- For 2025: (400,000 + 350,000)/2 = 375,000
- **2024:** (360,000 / 2,600,000) × 365 = 0.13846 × 365 = 50.5 days
- **2025:** (375,000 / 2,400,000) × 365 = 0.15625 × 365 = 57.0 days



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔



تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

## (h) Operating Cycle

Operating Cycle = Days' Sales in Receivables + Days' Sales in Inventories

- **2024:** 50.5 days + 121.7 days = 172.2 days
- **2025:** 57.0 days + 115.3 days = 172.3 days

**Comment:** The operating cycle remained stable at about 172 days. This means it takes nearly six months from purchasing inventory to collecting cash from customers. A long operating cycle ties up capital and increases financing needs. The company should aim to reduce both the collection period (by faster collections) and the inventory holding period (by quicker sales and better inventory management). The lack of improvement in 2025 is a concern.

**Overall Conclusion on Liquidity:** The liquidity position of Arshad Trading Corporation is weak. Current and acid test ratios are below standard benchmarks. The operating cycle is very long, and receivables collection is slowing. While inventory management improved slightly, overall liquidity declined from 2024 to 2025. The company needs immediate attention to improve collections, reduce inventory, and possibly arrange additional short-term financing to meet obligations.



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](https://www.whatsapp.com/channel/00299a61111111111111)