

Analysis of Financial Statements

CHAPTER - 12

TOOLS FOR FINANCIAL ANALYSIS

Tools of Financial Analysis: Financial statements contain absolute figures of assets, liabilities, revenues, expenses and profit or loss of an enterprise. They do not reveal the earning capacity, liquidity and financial soundness of the enterprise. They are not readily understandable to users. Hence, they are analysed to present them in simple and understandable form. Various tools or devices employed for analysing the financial statements are as follows:

1. Comparative Statement Analysis.
2. Common Size Statement Analysis.
3. Trend Analysis.
4. Ratio Analysis.
5. Cash Flow Analysis.
6. Fund Flow Statement
7. Break-even point analysis

1. Comparative Statement Analysis: Comparative statements compares financial numbers at two points of time and helps in deriving meaningful conclusions regarding the changes in financial positions and operating results and to enable the reader to understand the significance of such changes.

Such comparison of Financial Statements is accomplished by setting up a Balance Sheet and Profit and Loss Account side by side and studying the changes that have occurred in the individual figure therein from year to year and over the years. Thus, Comparative

Statements are those which summarise and present relating data for a number of years incorporating therein the changes in individuals items of Financial Statements. This analysis is also known as Horizontal Analysis.

- 2. Common Size Statement Analysis:** These Statements indicate the relationship of different items of Financial Statements with some common item by expressing each item as a percentage of the common item. The percent thus calculated can be easily compared with the corresponding percentages of some other firms, as the number is brought to a common base. This analysis is also known as 'Vertical Analysis'.
- 3. Trend Analysis:** It is a technique of studying several Financial Statements over a series of years. Using the previous years' data of a business enterprise, trend analysis can be done to observe the percentage changes over time in the selected data. Trend analysis is important because, with its long-run view, it may point to basic changes in the nature of the business. By looking at a trend in a particular ratio, one may find whether the ratio is falling, rising, or remaining relatively constant.
- 4. Ratio Analysis:** Accounting ratios measure the comparative significance of the individual items of the

income and position statements. It is possible to assess the profitability, solvency, and efficiency of an enterprise through the techniques of ratio analysis.

5. **Cash Flow Analysis:** It refers to the analysis of the actual movement of cash in and out of an organization. Cash Flow Statements is prepared to project the manner in which the cash received has been utilized during an accounting year. It is a statement, which shows the sources of cash receipts and also the purposes for which payments are made. Thus, it summarises the causes for the changes in the cash position of a business enterprise between the dates of two Balance Sheets.
6. **Fund Flow Statement:** A fund flow statement is designed to show the changes in the assets, liabilities and capital of the firm between the dates of the two balance sheets. It indicates the causes of changes in the working capital of an enterprise during the year. It also discloses the sources from which funds were obtained by the enterprise and the specific uses to which such funds were applied.
7. **Break Even Point Analysis:** Break even Point is the point where total costs are exactly equal to the total sales. At this point, there is neither any profit nor any loss. It can also be termed as 'No-profit-No-Loss' point.

Comparative Statements: In order to estimate the future progress of a firm, it is necessary to look into its past performance. For this purpose, it becomes essential to make comparative study of financial statements for two or more years.

When financial figures of two or more years are placed side-by-side to facilitate comparison, these are called 'Comparative Financial Statements'. Such statements do not only show the absolute figures of various years but also provide for columns to indicate the increase or decrease in these figures from one year to another. In addition, these statements may also show the change from one year to another in percentage form. Such comparative statements

Advantages of Comparative Balance Sheet

- (i) A single year's balance sheet shows only the balances of accounts on a particular date, whereas the comparative balance sheet shows not only the balances of accounts as on different dates but also the extent of increase or decrease in various items of balance sheet.
- (ii) In a single year's balance sheet the focus is on status, whereas in a Comparative balance sheet emphasis is on change.
- (iii) A comparative balance sheet is more useful in comparison to a single year's balance sheet, because it enables a financial analyst to study the nature, size and direction of change, i.e., increase or decrease in various items of balance sheet. As such, it may be used to study the trends in business concern.

are of great value in forming the opinion regarding the progress of the enterprise. When financial statements of two or more years of the same firm are presented and compared, it is known as inter-period comparison or intra firm comparison. When financial statements of two or more years of the same firm are presented and compared, it is known as inter-period comparison or intra-firm comparison. When financial statements of two or more firms are compared over a number of years, this is known as inter-firm comparison.

Purpose or Utility or Importance of Comparative Statements

- (i) **To make the data simpler and more understandable:** The main aim of preparing comparative financial statements is to put the data for a number of years in simpler and comparable form. When data for a number of years are put side-by-side a comparison becomes easier and it becomes simpler to draw conclusions about the operating results and financial health of the concern.
- (ii) **To indicate the trend:** Comparative financial statements indicate the trend of change by putting the figures of production, revenue from operations, expenses and profits etc. for a number of years side-by-side. For example, if revenue from operations are increasing over the years along with increase in profit margins, it is an indication of healthy trend of the growth of the business
- (iii) **To indicate the strong points and weak points of the concern:** Comparison of financial statements for a number of years may also indicate the strong points and weak points of the firm. Management can then investigate and find out the reasons for the weaknesses of the concern and can take corrective measures.
- (iv) **To compare the firm's performance with the average performance of the industry:** Comparative financial statements help a business unit to compare its performance with the average performance of the industry (i.e., all the firms in the same business).
- (v) **To help in forecasting:** Comparative study of the changes in the key figures over a period helps the management in forecasting the profitability and financial soundness of the business.

- (iv) The Comparative Balance Sheet is a connecting link between the Statement of Profit & Loss and the Balance Sheet, because the statement of profit & loss presents the result of operating activities of a business, whereas the Comparative balance sheet shows the effect of operating activities on its assets, liabilities and capital.

COMPARATIVE BALANCE SHEET
as at 31st March 2016 and 2017

Particulars	Note No.	31.3.2016	31.3.2017	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	(B - A) = C	C/A × 100 = D
		₹	₹	₹	%
I. EQUITY AND LIABILITIES:					
(1) Shareholder's Funds					
(a) Share Capital	
(b) Reserve and Surplus	
(2) Non Current Liabilities :					
(a) Long term Borrowings	
(b) Long term Provisions	
(3) Current Liabilities :					
(a) Short term Borrowings	
(b) Trade Payables	
(c) Other Current Liabilities	
(d) Short-term Provisions	
TOTAL	
II. ASSETS:					
(1) Non Current Assets:					
(a) Fixed Assets:					
(i) Tangible Assets	
(ii) Intangible Assets	
(b) Non-Current Investments	
(c) Long-term Loans and advances	
(2) Current Assets:					
(a) Current investments	
(b) Inventories	
(c) Trade Receivables	
(d) Cash and Cash Equivalents	
(e) Short-term loans and advances	
(f) Other Current Assets	
TOTAL	

Comparative Statement of Profit and Loss

Statement of Profit and Loss shows the net profit or net loss of that year. A comparative statement of profit and loss shows the net profit for a number of years so that changes in absolute data in terms of money as well as percentages may be known. Comparative statement of profit and loss provides the following informations:

- (i) Rate of increase or decrease in revenue from operations.
- (ii) Rate of increase or decrease in cost of materials consumed.
- (iii) Rate of increase or decrease in incomes and expenses.
- (iv) Rate of increase or decrease in net profit.

Objective of Comparative Statement of Profit and Loss

- (i) To facilitate comparison of various items income and expenditure for two or more years.
- (ii) To analyse the increase or decrease in the income and expenditure in terms of rupee and also in percentage from one year to another.
- (iii) To analyse the increase or decrease in the profits of the enterprise.
- (iv) To help in forecasting the profitability of the business concern.

COMPARATIVE STATEMENT OF PROFIT & LOSS
for the years ended 31st March 2016 and 2017

Particulars	Note No.	2015-16	2016-17	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	(B - A = C)	C/A × 100 = D
		₹	₹	₹	%
I. Revenue from Operations	
II. Add : Other Incomes	
III. Total Revenue I + II	
IV. Less : Expenses					
Cost of Materials Consumed	
Purchase of Stock-in Trade	
Changes in Inventories of Finished Goods, Work- Goods, Work- in-Progress and Stock- In-Trade	
Employee Benefit Expenses	
Finance Costs	
Depreciation and Amortization Exp.	
Other Expenses	
Total Expenses	
V. Profit before Tax (III - IV)	
VI. Less : Tax	
VII. Profit after tax (V - VI)	

Common Size Statements

Common Size statements are those in which individual figures are converted into percentages to some common base. Percentage of each individual item shows its relation to its respective total. This type of analysis is called Vertical Analysis since each accounting variable is analysed vertically. Common size statements may be prepared for balance sheet as well as statement of profit and loss.

Common size statements comprise of the following items

- (i) Absolute figures of individual items of Statement of Profit & Loss and Balance Sheet for two or more successive periods, and
- (ii) Percentage to some common base Normally the figure of revenue from operations is taken as a base for the Statement of Profit & Loss items and the total of assets or equity & liabilities is taken as a base for the Balance Sheet items

Purpose or Utility of Common Size Statements

- (i) **To present the change in various items in relation to revenue from operations, total assets or total liabilities:** One of the major drawbacks of comparative financial statements is that they do not present the change in various items in relation to revenue from operations, total assets or total-equity & liabilities. This drawback is removed through the preparation of common size statements
- (ii) **To establish a relationship:** Over a period, a relationship is established between various items of the

statement of profit & loss to revenue from operations and various items of balance sheet to total assets or total equity & liabilities. Significant conclusions can be drawn by studying the change in such a relationship. For example, if over the years it is established that cost of materials consumed constitute 40% of revenue from operations, an increase in this percentage will need immediate attention.

(iii) **To provide for a common base for comparison:**

Common size statements provide for a common base for comparison. Financial statements of different firms can be converted into uniform common-size format irrespective of the size of individual items. Hence, they facilitate the comparison of profitability and financial position of two or more businesses over a period of time.

Meaning of Common Size Balance Sheet

A common size balance sheet is a statement in which total of assets or equity & liabilities is assumed to be equal to 100 and all the figures are expressed as percentage of the total. In other words, each asset is expressed as percentage to total assets and each item of equity & liability is expressed as percentage to total equity & liabilities.

Purpose or Utility of Common Size Balance Sheet

- (i) To analyse changes in individual items of balance sheet.
- (ii) To establish the trend in various items of assets and liabilities.

- (iii) To judge the relative financial soundness for different enterprises belonging to the same industry by preparing their common size balance sheets for different periods.
- (iv) To assess the financial strategy adopted by different enterprises belonging to the same industry

Form of Common Size Balance Sheet

The form of Common Size Balance Sheet consists of five columns.

- (i) First column for items of Balance Sheet.
- (ii) Second column for amounts of different items of assets and equity & liabilities of previous year's balance sheet.
- (iii) Third column for amounts of different items of assets and equity & liabilities of current year's balance sheet.
- (iv) Fourth column for percentage of different items of previous year's assets and equity & liabilities to total assets/liabilities of previous year which are taken as 100.
- (v) Fifth column for percentage of different items of current year's assets and liabilities to total assets/liabilities of current year, which are taken as 100.

COMMON SIZE BALANCE SHEET as at 31st March, 2016 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31.3.2016	31.3.2017	31.3.2016	31.3.2017
		₹	₹	%	%
I. EQUITY AND LIABILITIES:					
1. Shareholder's Funds					
(a) Share Capital	
(b) Reserve & Surplus	
2. Non-Current Liabilities					
(a) Long term Borrowings	
(b) Long term Provisions	
3. Current Liabilities					
(a) Short-term Borrowings	
(b) Trade Payables	
(c) Other Current liabilities	
(d) Short-term provisions	
TOTAL		100	100
II. Assets					
1. Non-Current Assets					
(a) Fixed Assets					
(i) Tangible Assets	
(ii) Intangible Assets	
(b) Non-Current Investments	
(c) Long-Term Loans and Advances	
2. Current Assets					
(a) Current Investments	
(b) Inventories	
(c) Trade Receivables	
(d) Cash and Cash Equivalents	
(e) Short-term loans and advances	
(f) Other Current Assets	
TOTAL		100	100

Preparation of Common Size Statement of Profit and Loss

A common size Statement of Profit and Loss is a statement in which the figure of revenue from operations is assumed to be equal to 100 and all other figures are expressed as percentage of revenue from operations.

Purpose or Utility of Common Size Statement of Profit and Loss

- (i) To establish a relationship between individual items of statement of profit and loss and revenue from operations.

- (ii) To analyse changes in individual items of statement of profit and loss in relationship to revenue from operations.
 (iii) To judge the relative efficiency of cost items of the two or more firms belonging to same industry.

Form of Common Size Statement of Profit & Loss consists of five columns

- (i) First Column for items of Statement of Profit and Loss.
 (ii) Second Column for amounts of different items (i.e Income/Expenses) of Statement of Profit & Loss for the previous year.
 (iii) Third Column for amounts of different items (ie. Income/Expenses) of Statement of Profit & Loss for the current year.
 (iv) Fourth Column for percentage of different items of statement of profit & loss for the year to revenue from operations of the previous year, which are taken at 100.
 (v) Fifth Column for percentage of different items of statement of profit & loss for the current year to revenue from operations of the current year, which are taken at 100.

COMMON SIZE STATEMENT OF PROFIT & LOSS for the year ended 31st March, 2016 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2015-16	2016-17	2015-16	2016-17
1. Revenue from Operations		₹ ...	₹ ...	% 100	% 100
II. Add : Other Income	
III. Total Revenue (I + II)	
IV. Less : Expenses:					
Cost of Materials Consumed	
Purchase of Stock in Trade	
Changes in Inventories of Finished Goods, work in Progress and Stock in Trade	
Employee Benefit Exp.	
Finance Costs	
Depreciation and amortization Exp.	
Other Expenses	
Total Expenses	
V. Profit before Tax (III – IV)	
VI. Less : Tax	
VII. Profit after tax (V – VI)	

Trend Analysis

Trend Analysis are very useful in making comparative study of the financial statements for a number of years. These indicate the direction of movement over a long time and help an analyst of financial statements to form an opinion as to whether favourable or unfavourable tendencies have developed. This helps in future forecasts of various items.

For calculating trend percentages any year may be taken as the base year. Each item of base year is assumed to be equal to 100 and on that basis percentage of each item of each year is calculated. For example:

	2014	2015	2016	2017
Revenue from Operations	2,00,000	2,50,000	2,80,000	3,00,000

Trend percentages

Assuming 2014 as base year	100	125	140	150
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Trend percentages have been calculated as follows:

$$2015 : \frac{2,50,000}{2,00,000} \times 100 = 125$$

$$2016 : \frac{2,80,000}{2,00,000} \times 100 = 140$$

$$2017 : \frac{3,00,000}{2,00,000} \times 100 = 150$$

Solved Examples

Q1. N Ltd. was in the business of manufacturing plastic bags. The company decided to manufacture low cost jute bags instead of plastic bags. Following are the Balance Sheets of N Ltd. as at 31st March, 2017 and 2016.

Particulars	Note No.	31.3.2017	31.3.2016
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I. EQUITY AND LIABILITIES:		₹	₹
Shareholder's Funds:			
(a) Share Capital		10,00,000	5,00,000
(b) Reserves and Surplus		2,00,000	3,00,000
Non-Current Liabilities			
Long term Borrowings		8,00,000	5,00,000
Current Liabilities			
Trade Payables		4,00,000	2,00,000
	TOTAL	24,00,000	15,00,000
II. ASSETS:			
Non Current Assets			
Fixed Assets:			
(i) Tangible Assets		14,00,000	8,00,000
(ii) Intangible Assets		3,00,000	2,00,000
Current Assets			
(a) Inventories		5,00,000	4,00,000
(b) Cash and Cash Equivalents		2,00,000	1,00,000
	TOTAL	24,00,000	15,00,000

You are required to Prepare a Comparative Balance Sheet

SOLUTION:

**COMPARATIVE BALANCE SHEET OF N LTD.
as at 31st March, 2016 and 2017**

Particulars	Note No.	31.3.2016	31.3.2017	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
I. EQUITY AND LIABILITIES:		A	B	(B - A = C)	C/A × 100 = D
(1) Shareholder's Funds:		₹	₹	₹	%
(a) Share Capital		5,00,000	10,00,000	5,00,000	100.00 ⁽¹⁾
(b) Reserve and Surplus		3,00,000	2,00,000	(1,00,000)	(33.33) ⁽²⁾
(2) Non Current Liabilities:					
Long term Borrowings		5,00,000	8,00,000	3,00,000	60.00
(3) Current Liabilities:					
Trade Payables		2,00,000	4,00,000	2,00,000	100.00
TOTAL		15,00,000	24,00,000	9,00,000	60.00
II. ASSETS					
(1) Non Current Assets:					
Fixed Assets					
(i) Tangible Assets		8,00,000	14,00,000	6,00,000	75.00
(ii) Intangible Assets		2,00,000	3,00,000	1,00,000	50.00
(2) Current Assets:					
(a) Inventories		4,00,000	5,00,000	1,00,000	25.00
(b) Cash and Cash Equivalents		1,00,000	2,00,000	1,00,000	100.00
TOTAL		15,00,000	24,00,000	9,00,000	60.00

Q2. Prepare a Comparative Statement of Profit & Loss from the following:

	31 st March, 2016	31 st March, 2017
	₹	₹
Revenue from Operations	10,00,000	12,50,000

Cost of Materials Consumed	5,00,000	6,50,000
Other Expenses	50,000	60,000

Interest on investments @ ₹30,000 each year.

SOLUTION:

COMPARATIVE STATEMENT OF PROFIT & LOSS
for the years ended 31st March 2016 and 2017

Particulars	Note No.	2015-16	2016-17	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	(B - A = C)	C/A × 100 = D
		₹	₹	₹	%
I. Revenue from Operations		10,00,000	12,50,000	2,50,000	25.00
II. Add : Other Incomes		30,000	30,000	--	--
III. Less : Expenses		10,30,000	12,80,000	2,50,000	24.27
Cost of Materials Consumed		5,00,000	6,50,000	1,50,000	30.00
Other Expenses		50,000	60,000	10,000	20.00
Total Expenses		5,50,000	7,10,000	1,60,000	29.09
V. Profit before tax (III - IV)		4,80,000	5,70,000	90,000	18.75

Q3. Automobiles Ltd. was in the business of manufacturing Motorbikes. It decided to provide hearing aids and tricycles free of cost to physically challenged people. Following information is related to Automobiles Ltd. (₹ in Lakhs)

Particulars	31.3.2017	31.3.2016
	₹	₹
Equity Share Capital	16.00	16.00
Preference Share Capital	2.00	2.00
Reserves and Surplus	5.40	4.00
Non-Current Liabilities	14.40	14.00
Current Liabilities	7.20	4.00
Non-Current Assets	30.60	28.00
Current Assets	14.40	12.00

You are required to Prepare a Common Size Balance Sheet.

SOLUTION:

AUTOMOBILES LTD.
COMMON SIZE BALANCE SHEET
as at 31.3.2016 and 31.3.2017

(₹ in Lakhs)

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		2016	2017	2016	2017
		₹	₹	%	%
I. EQUITY AND LIABILITIES:					
(1) Shareholder's Funds					
(a) Share Capital	1	18.00	18.00	45 ⁽ⁱ⁾	40 ^(iv)
(b) Reserves & Surplus		4.00	5.40	10 ⁽ⁱⁱ⁾	12 ^(v)
(2) Non-Current Liabilities		14.00	14.40	35 ⁽ⁱⁱⁱ⁾	32 ^(vi)
(3) Current Liabilities		4.00	7.20	10	16
		40.00	45.00	100	100
II. ASSETS:					
(1) Non-Current Assets		28.00	30.60	70	68
(2) Current Assets		12.00	14.40	30	32
		40.00	45.00	100	100

Working Notes:

	2016	2017
(1) Share Capital:		
Equity Share Capital	16.00	16.00
Preference Share Capital	<u>2.00</u>	<u>2.00</u>
	<u>18.00</u>	<u>18.00</u>

(2) All percentages will be calculated on the basis of total of Balance Sheet.

Hence, in 2016 percentages will be based on ₹40 Lakhs.

in 2017 percentages will be on ₹45 Lakhs.

Thus, (i) $\frac{18}{40} \times 100 = 45\%$ (iv) $\frac{18}{45} \times 100 = 40\%$

(ii) $\frac{4}{40} \times 100 = 10\%$ (v) $\frac{5.40}{45} \times 100 = 12\%$

(iii) $\frac{14}{40} \times 100 = 35\%$ (vi) $\frac{14.40}{45} \times 100 = 32\%$

Q4. Rama Ltd., a Company manufacturing high quality sanitary equipments decided to appoint instructors to impart free training to the youth of the city so that they may get suitable employment in various industrial units. Following information is derived from the books of the Company:

Particulars	31.3.2017	31.3.2016
	₹	₹
Revenue from Operations	12,00,000	10,00,000
Cost of Materials Consumed	6,60,000	6,00,000
Employee Benefit Expenses	1,20,000	1,20,000
Other Expenses	96,000	50,000

You are required to Prepare a Common Size Statement of Profit & Loss

SOLUTION:

RAMA Ltd.
COMMON SIZE STATEMENT OF PROFIT & LOSS
for the years ended 31st March 2016 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2015-16	2016-17	2015-16	2016-17
		₹	₹	%	%
I. Revenue from Operations		10,00,000	12,00,000	100	100
II. Less : Expenses:					
Cost of Materials Consumed		6,00,000	6,60,000	60 ⁽¹⁾	55 ⁽⁴⁾
Employee Benefit Exp.		1,20,000	1,20,000	12 ⁽²⁾	10 ⁽⁵⁾
Other Expenses		50,000	96,000	5 ⁽³⁾	8 ⁽⁶⁾
Total Expenses		7,70,000	8,76,000	77	73
III. Profit before Tax (I -- II)		2,30,000	3,24,000	23	27

All percentages will be calculated on the basis of Revenue from Operations. Calculation of percentages is as follows:

Year 2015-16

Year 2016-17

Notes: (1) $\frac{6,00,000}{10,00,000} \times 100 = 60\%$

(4) $\frac{6,60,000}{12,00,000} \times 100 = 55\%$

(2) $\frac{1,20,000}{10,00,000} \times 100 = 12\%$

(5) $\frac{1,20,000}{12,00,000} \times 100 = 10\%$

(3) $\frac{50,000}{10,00,000} \times 100 = 5\%$

(6) $\frac{96,000}{12,00,000} \times 100 = 8\%$

and so on.

Q5. Calculate the trend percentage from the following information taking year ending 2014 as the base year:

Current Assets	As on 31 st March			
	2014	2015	2016	2017
Inventory	1,00,000	1,30,000	1,50,000	1,70,000
Trade Receivables	50,000	65,000	75,000	95,000
Cash and Cash Equivalents	10,000	12,000	14,000	17,500
Other Current Assets	40,000	28,000	36,000	48,000

Solution:

Current Assets	Absolute Amounts				Trend Percentages			
	2014	2015	2016	2017	2014	2015	2016	2017
Inventory	1,00,000	1,30,000	1,50,000	1,70,000	100	130	150	170
Trade Receivables	50,000	65,000	75,000	95,000	100	130	150	190
Cash and Cash Equivalents	10,000	12,000	14,000	17,500	100	120	140	175
Other Current Assets	40,000	28,000	36,000	48,000	100	70	90	120

Inventory	1,00,000	1,30,000	1,50,000	1,70,000	100	130	150	170
Trade Receivables	50,000	65,000	75,000	95,000	100	130	150	190
Cash and Cash Equivalents	10,000	12,000	14,000	17,500	100	120	140	175
Other Current Assets	40,000	28,000	36,000	48,000	100	70	90	120
	2,00,000	2,35,000	2,75,000	3,30,500	100	117.5	137.5	165.25

QUESTIONS FOR PRACTICE

MCQ

1. Which of the following is not a tool of financial analysis?
 - (a) Comparative statement
 - (b) Common size statement
 - (c) Statement of profit and loss
 - (d) Cash flow statement

3. In comparative statements, percentage change can be calculated with the help of which of the following formula?
 - (a) $\frac{\text{Absolute Change} \times 100}{\text{Amount of Previous year}}$
 - (b) $\frac{\text{Absolute Change} \times 100}{\text{Amount of Current year}}$
 - (c) $\frac{\text{Absolute Change} \times 100}{\text{Amount of total profit}}$
 - (d) None of these

4. Long-term borrowings of a firm on 31st March, 2021 was ₹5,00,000 and ₹8,00,000 on 31st March, 2022. What will be the absolute change and percentage change in comparative balance sheet?
 - (a) ₹4,00,000, 80% respectively
 - (b) ₹3,00,000, 60% respectively
 - (c) ₹5,00,000, 35% respectively
 - (d) ₹8,00,000, 25% respectively

5. In common Size Income Statement, percentage of various items is expressed as a percentage of :
 - (a) Revenue from Operations
 - (b) Total Revenue
 - (c) Net Profit before Tax
 - (d) None of these

6. Revenue from operations on 31st March, 2020 was ₹15,00,000 and on 31st March, 2019 was ₹12,00,000, then what will be the percentage change in revenue from operations?

2. Which of the following is not an objective of comparative statement analysis?
 - (a) To compare with other firms and industrial data
 - (b) To judge the financial instability
 - (c) To indicate the trend
 - (d) Understand complex data in simplified manner

7. Cost of material consumed was ₹ 6,00,000 in 2019-20 and total revenue from operations was 10,00,000, then percentage of cost of material consumed to total revenue from operations is
 - (a) 60%
 - (b) 30%
 - (c) 25%
 - (d) 18%

8. Tangible assets are ₹4,00,000 on 31st March, 2019 and intangible assets are ₹2,00,000. Total assets of the firm are ₹10,00,000, then what will be the percentage of tangible assets to total assets?
 - (a) 48%
 - (b) 50%
 - (c) 40%
 - (d) 32%

9. Which item is assumed to be 100 while preparing common size statement of profit and loss?
 - (a) Finance costs
 - (b) Cost of revenue from operations
 - (c) Revenue from operations
 - (d) None of these

10. Match the following.

Column -I	Column -II
------------------	-------------------

A. Common Size Balance Sheet	(i) Compare the assets and liabilities of current year with that of previous year
B. Comparative Balance Sheet	(ii) Depicts the percentage relation of each assets/

	liability to total assets/total of equity and liabilities
C. Common Size Statement of Profit and Loss	(iii) Revenue from operations is to be assumed to be 100 and other values of revenue and expenses are expressed as a percentage of revenue from operations.

A B C

- (a) (i) (ii) (iii)
 (b) (ii) (i) (iii)
 (c) (i) (iii) (ii)
 (d) (ii) (i) (iii)

11. If shareholders' fund of Grow Ltd. was ₹4,00,000 in 31st December, 2019 and ₹5,00,000 in 31st December, 2020, then what is the percentage change in shareholders' fund?
 (a) 10%
 (b) 25%
 (c) 30%
 (d) Data insufficient
12. If shareholders' fund of XYZ Ltd. was ₹10,00,000, long-term borrowings was ₹1,40,000 and trade payable was ₹3,60,000, then what will be the percentage of shareholders' fund to the total liabilities side of balance sheet?
 (a) 70%
 (b) 33.33%

- (c) 66.66%
 (d) Data insufficient

Direction (Q. Nos. 13 to 15) There are two statements marked as Assertion (a) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- (a) Both Assertion (a) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 (b) Both Assertion (a) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
 (c) Assertion (a) is true, but Reason (R) is false
 (d) Assertion (a) is false, but Reason (R) is true

13. **Assertion (a)** In a common size statement each item is expressed as a percentage of some common base.
Reason (R) It Common size Balance sheet each item is stated as a percentage of the fixed assets and in income statement as a percentage of revenue from operations.
14. **Assertion (a)** For calculating trend percentages can be taken as 'base year'.
Reason (R) In trend analysis each item of the base year is assumed to be 100 and on that basis the the percentage of each item is calculated.
15. **Assertion (a)** If share capital is ₹9,00,000 and reserve and surplus is ₹2,00,000, then shareholders' funds will be ₹11,00,000.
Reason (R) Total revenue (gross sales) is the summation of cash sales and credit sales.

SUBJECTIVE QUESTIONS

- How can 'Analysis of Historical Records' be considered a limitation of Comparative Statements?
- Why are common size statements also known as 100% statements?
- If a company has total equity and liabilities of worth ₹9,00,000 and shareholders' funds of ₹3,00,000, then find out the percentage of shareholders' funds to total equity and liabilities?
- From the following "Statement of Profit and Loss" for the year ended 31st March, 2013, prepare a 'Comparative Statement of Profit and Loss' of Good Services Ltd.:

Particulars	Note No.	2012-13 (₹)	2012-13 (₹)
Revenue from Operations		20,00,000	15,00,000
Other Income		10,00,000	4,00,000
Expenses		21,00,000	15,00,000

Rate of Income tax was 50%.

- From the following Statement of Profit and Loss of Suntrack Ltd., for the years ended 31st March, 2011 and 2012, prepare a 'Comparative Statement of Profit and Loss':

Particulars	2011-12 (₹)	2010-11 (₹)
Revenue from Operations	20,00,000	12,00,000
Other Income	12,00,000	9,00,000
Expenses	13,00,000	10,00,000

6. From the following information, prepare a Comparative Statement of Profit and Loss of Y Ltd. for the years ended 31st March, 2014 and 2015:

Particulars	31 st March, 2015 (₹)	31 st March, 2015 (₹)
Revenue from Operations	₹20,00,000	₹10,00,000
Cost of Materials Consumed	₹15,00,000	₹6,00,000
Other Expenses	12% of Cost of Material Consumed	10% of Cost of Material Consumed
Income Tax	40%	30%

7. Following is the Income Statement of Raj Ltd. for the year ended 31st March, 2017:

Particulars	Note No.	(₹)
Revenue from Operations		2,00,000
Other Incomes		15,000
Total Revenue		2,15,000
Expenses:		
Cost of Materials Consumed		1,10,000
Other Expenses		5,000
Total Expenses		1,15,000
Tax		40,000

Prepare a Common Size Statement of Profit and Loss of Raj Ltd. for the year ended 31st March, 2017.

8. From the following information given below, prepare a Comparative Statement of Profit and Loss.

Particulars	31 st March, 2017 (₹)	31 st March, 2016 (₹)
Revenue from Operations	4,00,000	3,00,000
Sales Return	2,00,000	1,00,000
Cost of materials consumed	50% of sales	60% of sales
Administrative Expenses	10% on Gross Profit	20% on Gross Profit
Income Tax	40%	30%

9. From the following information, prepare a Comparative Statement of Profit and Loss for the year 2016-2017.

Particulars	2016-17 (₹)	2015-15 (₹)
Revenue from operations	8,50,000	7,00,000
Materials Consumed	4,20,000	3,30,000
Manufacturing and Office Expenses	2,60,000	2,40,000
Other Income	30,000	30,000

Other Information:

- (i) Income tax is calculated @50%.
(ii) Manufacturing expenses are 50% of the total of that category.

10. With the help of the following information obtained from the books of Raj Silk Mills, prepare a Comparative Statement of Profit and Loss for the year ended 31.3.2017:

Particulars	Note No.	31 st March, 2017	31 st March, 2016
Revenue from Operations		300% of cost of Material Consumed	200% of cost of Material Consumed
Cost of Materials Consumed		₹12,00,000	₹10,00,000
Other Expenses		20% of cost of Material Consumed	10% of cost of Material Consumed
Tax		50%	50%

HOMEWORK

MCQ

Direction: Read the following case study and answer the question no. 1 to 4 on the basis of the same. The motto of 'Pharma Ltd' a company engaged in the manufacturing of low-cost generic medicines, is 'Healthy India'. Its management and employees are hardworking, honest and motivated. The net profit of the company doubled during the year ended 31st March, 2019. Encouraged by its performance, the company decided to pay bonus to all employees at double the rate than last year. Following is the comparative statement of profit and loss of the company for the years ended 31st March, 2018 and 2019.

Pharma Ltd.
Comparative Statement of Profit and Loss
For the year ended 31st March, 2018 and 2019

Particulars	Note No.	2017-18(₹)	2018-19(₹)
Revenue from Operations		20,00,000	30,00,000
(-) Employee Benefit Expenses		(12,00,000)	(14,00,000)
Profit before Tax		8,00,000	16,00,000
(-) Tax at 25% rate		(2,00,000)	(4,00,000)
Profit after Tax		6,00,000	12,00,000

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. The financial condition of company from 2017-2018 to 2018-19 has
 (a) improved (b) worsen
 (c) No change (d) None of these 2. What is the percentage of Profit after tax to Revenue from Operations in the year 2018-19?
 (a) 50% (b) 40%
 (c) 60% (d) 80% 3. Tax liability by
 (a) decreased, ₹4,00,000 (b) decreased, ₹2,00,000
 (c) increased, ₹4,00,000 (d) increased, ₹2,00,000 4. If the tax rate is increased by 15% in 2018-19, then what will be the absolute change in profit after tax?
 (a) ₹6,40,000 (b) ₹9,60,000
 (c) ₹3,60,000 (d) ₹5,00,000 5. If the Total Assets of a firm are ₹8,20,000 and its fixed assets are ₹5,74,000, what will be percentage of current assets to total assets?
 (a) 45% (b) 25%
 (c) 30% (d) 25% 6. A company's working capital is ₹10 lakhs (Negative Balance) in the year I. It became ₹15 lakhs (Positive Balance) in the Year II. What is the percentage of change?
 (a) 150% (b) 100%
 (c) 250% (d) 50% | <ol style="list-style-type: none"> 7. The objective of Common-size-Statement of Profit and Loss is :
 (a) To check the arithmetic accuracy
 (b) To judge the financial soundness
 (c) To establish relationship between revenue from operations and other items of Statement of Profit and Loss
 (d) All of these 8. Revenue from Operations ₹5,00,000; Gross profit Ratio 30%; Indirect expense is 10% of Gross profit and Income tax is 40%. What will be the amount of Profit after tax?
 (a) ₹1,30,000 (b) ₹81,000
 (c) ₹92,000 (d) ₹75,000 9. The objective of Trend Analysis is :
 (a) To make comparative statement of the financial statements for a number of years.
 (b) To indicate the direction of movement.
 (c) To help in forecasts of various items.
 (d) All of these 10. If net revenue from operations of a firm are ₹12,00,000; gross profit is ₹3,00,000 and operating expenses are 60,000, what will be percentage of operating cost on net revenue from operations?
 (a) 95% (b) 85%
 (c) 80% (d) 75% 11. Which of the following expresses all items of financial statements as a percentage of such common base?
 (a) Trend Analysis |
|--|--|

- (b) Comparative Statements
(c) Common Size Statements
(d) Cash Flow Statement
12. In a Common Size Balance Sheet, which figure is assumed to be equal to 100?
(a) Shareholder's Funds (b) Equity and Liabilities
(c) Non-Current Assets (d) Current Assets
13. Which of the following cannot be identified with the Comparative Statement of Profit and Loss?
(a) Rate of increase or decrease in revenue from operations
(b) Rate of increase or decrease of trade receivables
(c) Rate of increase or decrease of incomes and expenses
(d) Rate of increase or decrease in net profit
14. _____ is the point where total costs are exactly equal to total sales.
(a) Break Even Point (b) No Profit point
(c) No Loss point (d) None of these
15. Comparative Balance Sheet :
(a) Provides a summarized view of the operations of the firm
(b) Presents the financial position of the firm
(c) Presents the changes in various items of balance sheet
(d) None of the above

SUBJECTIVE QUESTIONS

1. Prepare a Comparative Statement of Profit and Loss from the following details:

Particulars	Note No.	31.03.2013	31.03.2012
Revenue from Operations		30,00,000	20,00,000
Other income (% of Revenue from Operations)		15%	20%
Expenses (% of Operating Revenue)		60%	50%

2. From the following Statement of Profit and Loss for the year ended 31st March, 2016, prepare Common Size Statement of Profit and Loss:

Particulars	Note No.	31st March, 2016 (₹)	31st March, 2015 (₹)
I. Revenue from Operations		6,25,000	5,00,000
II. Expenses:			
Purchase of Stock-in-Trade		4,35,000	3,60,000
Changes in Inventories of Stock-in-Trade		(10,000)	15,000
Employees Benefit Expenses		15,000	10,000
Depreciation and Amortisation		25,000	15,000
Total Expenses		4,65,000	4,00,000
III. Profit before Tax (I – II)		1,60,000	1,00,000
IV. Less: Tax @ 40%		64,000	40,000
V. Profit after Tax (III – IV)		96,000	60,000

3. From the following information, prepare Comparative Balance Sheet of X Ltd.:

Particulars	31st March, 2017 (₹)	31st March, 2016 (₹)
Share Capital	25,00,000	25,00,000
Reserves and Surplus	6,00,000	10,00,000
Long-term Borrowings	16,00,000	15,00,000
Current Liabilities	5,00,000	4,50,000
Fixed Assets	35,00,000	25,00,000
Investments (Non-Current)	10,50,000	15,00,000
Current Assets	6,50,000	14,50,000

4. From the following Balance Sheets of Megha Textile Ltd., prepare a Comparative Balance Sheet.

Balance Sheet
as at 31st March, 2016 and 2017

Particulars	Note No.	2017 (₹)	2016 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		20,00,000	10,00,000
(b) Reserves and Surplus		4,00,000	6,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings		16,00,000	10,00,000
3. Current Liabilities			
(a) Short-term Borrowings		8,00,000	4,00,000
Total		48,00,000	30,00,000
II. ASSETS			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets		30,00,000	20,00,000
2. Current Assets			
(a) Inventories		8,00,000	4,00,000
(b) Cash and Cash Equivalents		10,00,000	6,00,000
Total		48,00,000	30,00,000

5. Prepare a Common Size Balance Sheet and comment on the financial position of M Ltd. and N Ltd. The Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2017 are given below:

Particulars	Note No.	M Ltd. (₹)	N. Ltd. (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
Share Capital		6,00,000	8,00,000
2. Non-current Liabilities			
Long-term Borrowings		4,00,000	6,00,000
3. Current Liabilities			
Trade Payables		2,00,000	1,00,000
Total		12,00,000	15,00,000
II. ASSETS			
1. Non-Current Assets			
Fixed Assets			
(i) Tangible Assets		5,00,000	6,00,000
(ii) Intangible Assets		3,00,000	2,00,000
2. Current Assets			
Cash and Cash Equivalents		4,00,000	7,00,000
Total		12,00,000	15,00,000

6.

Unique Ltd.
Comparative Statement of Profit and Loss
for the years ended 31st March, 2018 and 2019

Particulars	Note No.	31 st March, 2018	31 st March, 2019	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		(₹)	(₹)		
		A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations		8,40,000	16,00,000	.....	.....
II. Expenses:					
(a) Purchases of Stock-in-Trade		5,00,000	.....	4,00,000	80.00

(b) Change in Inventories of Stock-in-Trade	1,00,000	1,00,000	--	--
(c) Other Expenses	60,000	80,000	20,000	.....
Total Expenses	6,60,000	.....	4,20,000	63.64
III. Profit before Tax (I – II)	1,80,000	5,20,000	.....	.....
IV. Less: Tax	54,000	1,56,000	.....	.....
V. Profit after Tax (III – IV)	1,26,000	3,64,000	.....	.....

Complete the above Comparative Statement of Profit and Loss for the year ended 31st March, 2018 and 2019.

7. Following is the Comparative Balance Sheets of Sara Textile Ltd. You are required to complete the missing values:

Comparative Balance Sheet of Sara Textile Ltd.

as at 31st March, 2016 and 2017

Particulars	Note No.	2016 (₹)	2017 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		2,50,000	5,00,000	.....	.....
(b) Reserves and Surplus		1,50,000	1,00,000	.....	.....
2. Non-Current Liabilities					
(a) Long-term Borrowings		2,50,000	4,00,000	.....	.....
3. Current Liabilities					
(a) Short-term Borrowings		1,00,000	2,00,000	.....	.....
Total		7,50,000	12,00,000	.....	.....
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets					
(i) Tangible Assets		5,00,000	7,50,000	.....	.....
2. Current Assets					
(a) Inventories		1,00,000	2,00,000	.....	.....
(b) Cash and Cash Equivalents		1,50,000	2,50,000	.....	.....
Total		7,50,000	12,00,000	.....	.....

8. You are provided with common size income statement of ALX Ltd. with missing information. You are required to fill in the blanks:

Common Size Statement of Profit and Loss
for the years ended 31st March, 2016 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2016 (₹)	2017 (₹)	2016 (%)	2017 (%)
I. Revenue from Operations		3,12,500	100.00	100.00
II. Expenses:					
Purchase of Stock in Trade		1,80,000	.....	72.00	69.60
Changes in Inventories of Stock-in-Trade		7,500	(5,000)	.....	.....
Employees Benefit Expenses		7,500	2.00	.....
Depreciation and Amortisation Expenses		7,500	.....	.....	4.00
Total Expenses		2,00,000	2,32,500	.....	.....
III. Profit before Tax (I – II)		50,000	80,000	.....	.....
IV. Less: Tax @ 40%		8.00	10.24
V. Profit after Tax (III – IV)	

9. Following is the Common Size Statement of Profit and Loss of Pure and True Software Ltd. You are required to complete the missing values:

Common Size Statement of Profit and Loss
for the years ended 2015 and 2016

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2015 (₹)	2016 (₹)	2015 (%)	2016 (%)
I. Revenue from Operations		4,00,000	5,00,000	.....	.....
II. Expenses:					
Cost of Material Consumed		3,00,000	3,40,000	.....	.....
Other Expenses		20,000	32,000	.....	.....
III. Profit before Tax (I – II)		80,000	1,28,000	.....	.....
IV. Less: Tax @ 50%		40,000	64,000	.....	.....
V. Profit After Tax (III – IV)		40,000	64,000	.....	.....

10.

Rahul Ltd.
Comparative Balance Sheet
as at 31st March, 2018 and 2019

Particulars	Note No.	31 st March, 2018 (₹)	31 st March, 2017 (₹)	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital:					
Equity Share Capital		6,00,000	.....	1,20,000	20.00
(b) Reserves and Surplus		2,40,000	3,00,000	.....	25.00
2. Non-Current Liabilities:					
Long-term Borrowings		3,40,000	5,10,000	.....	50.00
3. Current Liabilities					
Trade Payables		3,00,000	.....	(60,000)	(20.00)
Total		14,80,000	17,70,000	2,90,000	19.60
II. ASSETS					
1. Non-Current Assets					
Fixed Assets:					
(i) Tangible Assets		10,00,000	13,00,000	3,00,000	30.00
(ii) Intangible Assets		2,00,000	.....	--	--
2. Current Assets					
(a) Trade Receivables		2,40,000	2,50,000	.....	.....
(b) Cash and Cash Equivalents		40,000	20,000	(20,000)	.....
Total		14,80,000	17,70,000	.....	19.60

Complete the above Comparative Balance Sheet as at 31st March, 2018 and 2019.

SOLUTION FOR PRACTICE QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (c)
2. (b)
3. (a)
4. (b)

5. (a)
6. (d) Required Percentage = $\frac{3,00,000}{12,00,000} \times 100 = 25\%$
7. (a) Required Percentage = $\frac{6,00,000}{10,00,000} \times 100 = 60\%$

8. (c) Required percentage = $\frac{4,00,000}{10,00,000} \times 100 = 40\%$
 9. (c)
 10. (d)
 11. (b) Required Percentage = $\frac{1,00,000}{4,00,000} \times 100 = 25\%$

12. (c)
 13. (c)
 14. (b)
 15. (b)

SOLUTIONS FOR SUBJECTIVE QUESTIONS

- Comparative Statements provide an analysis of past financial statements. It is not reflective of future which is more relevant and useful.
- Common size statements are also known as 100% statements because in these statements, all items are expressed as percentage of the base item which is 100.
- Shareholders' funds are 33.33% of total equity and liabilities.

4. **Comparative Statement of Profit and Loss**
for the years ended 31st March, 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations		15,00,000	20,00,000	5,00,000	33.33
II. Other Income		4,00,000	10,00,000	6,00,000	150
III. Total Revenue (I + II)		19,00,000	30,00,000	11,00,000	57.89
IV. Expenses		15,00,000	21,00,000	6,00,000	40
V. Profit before tax (III - IV)		4,00,000	9,00,000	5,00,000	125
VI. Income Tax @ 50%		2,00,000	4,50,000	2,50,000	125
VII. Profit after tax (V - VI)		2,00,000	4,50,000	2,50,000	125

5. **Comparative Statement of Profit and Loss**
For the years ending 31st March, 2011 and 2012

Particulars	Note No.	Absolute Amounts (₹)		Absolute Change (₹)	Percentage Change (%)
		2010-11	2011-12		
		A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations		12,00,000	20,00,000	8,00,000	66.67
II. Other Incomes		9,00,000	12,00,000	3,00,000	33.33
III. Total Revenue (I + II)		21,00,000	32,00,000	11,00,000	52.38
IV. Expenses		10,00,000	13,00,000	3,00,000	30.00
V. Net Profit (III - IV)		11,00,000	19,00,000	8,00,000	72.73

6. **Comparative Statement of Profit and Loss**
for the years ended 31st March, 2014 and 2015

Particulars	31 st March 2014 (₹)	31 st March 2015 (₹)	Absolute Change (₹)	Percentage Change (%)
	A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations	10,00,000	20,00,000	10,00,000	100.00
II. Expenses				

(a) Cost of Materials Consumed	6,00,000	15,00,000	9,00,000	150.00
(b) Other Expenses	60,000	1,80,000	1,20,000	200.00
Total Expenses	6,60,000	16,80,000	10,20,000	154.55
III. Net Profit before Tax (I - II)	3,40,000	3,20,000	(20,000)	(5.88)
IV. Less: Tax	1,02,000	1,28,000	26,000	25.49
V. Net Profit after tax (III - IV)	2,38,000	1,92,000	(46,000)	(19.33)

7.

Common Size Statement of Profit and Loss
for the year ended 31st March, 2017

Particulars	Note No.	Absolute Amount (₹)	Percentage of Revenue from Operations (%)
I. Revenue from operations		2,00,000	100.00
II. Other Income		15,000	7.5
III. Total Revenue (I + II)		2,15,000	107.50
IV. Expenses			
Cost of Materials Consumed		1,10,000	55.00
Other Expenses		5,000	2.50
Total Expenses		1,15,000	57.50
V. Profit before Tax (III - IV)		1,00,000	50.00
VI. Tax paid		40,000	20.00
VII. Profit after Tax (V - VI)		60,000	30.00

Note: All the Percentages have been calculated on the basis of revenue from operations.

8.

Comparative Statement of Profit and Loss
for the years ended 31st March, 2016 and 2017

Particulars	Note No.	31.03.2016	31.03.2017	Absolute Change (₹)	Percentage Change (%)
		(₹)	(₹)	(B - A) = C	C/A × 100 = D
		A	B		
I. Revenue from Operations (Net)		2,00,000	2,00,000	--	--
II. Other Income		-	-	--	--
III. Total Revenue (I + II)		2,00,000	2,00,000	--	--
IV. Expenses					
(a) Cost of Materials Consumed		1,20,000	1,00,000	(20,000)	(16.67)
(b) Other Expenses		16,000	10,000	(6,000)	(37.50)
Total Expenses		1,36,000	1,10,000	(26,000)	(19.12)
V. Profit before Tax (III - IV)		64,000	90,000	26,000	40.63
VI. Tax @ 40%		25,600	36,000	10,400	40.63
VII. Profit after Tax (V - VI)		38,400	54,000	15,600	40.63

Working Note:

Particulars	2016(₹)	2017(₹)
Revenue from Operations	3,00,000	4,00,000
Less: Sales Return	1,00,000	2,00,000
Revenue from Operations (Net)	2,00,000	2,00,000
Less: Cost of materials consumed	1,20,000	1,00,000
Gross Profit	80,000	1,00,000
Administrative Expenses	20% on Gross Profit 16,000	10% on Gross Profit 10,000

9.

Comparative Statement of Profit and Loss
for the years ended 31st March, 2016 and 2017

Particulars	Note No.	2015-16(₹)	2016-17	Absolute Change (₹)	Percentage Change (%)
		A	B			(B - A) = C	C/A × 100 = D
I. Revenue from Operations		7,00,000	8,50,000	1,50,000	21.43
II. Other Income		30,000	30,000	-	-
III. Total Revenue (I + II)		7,30,000	8,80,000	1,50,000	20.55
IV. Expenses					
(a) Cost of Materials Consumed		3,30,000	4,20,000	90,000	27.27
(b) Manufacturing Expenses		1,20,000	1,30,000	10,000	8.33
(c) Other Expenses		1,20,000	1,30,000	10,000	8.33
Total Expenses		5,70,000	6,80,000	1,10,000	19.30
V. Profit before Tax (III - IV)		1,60,000	2,00,000	40,000	25.00
VI. Tax @ 40%		80,000	1,00,000	20,000	25.00
VII. Profit after Tax (V - VI)		80,000	1,00,000	20,000	25.00

10.

Comparative Statement of Profit and Loss
For the years ended 31st March, 2016 and 2017

Particulars	Note No.	31.03.2016	31.03.2017	Absolute Change (₹)	Percentage Change (%)
		A	B			(B - A) = C	C/A × 100 = D
I. Revenue from Operations (Net)		20,00,000	36,00,000	16,00,000	80.00
IV. Expenses					
Cost of Materials Consumed		10,00,000	12,00,000	2,00,000	20.00
(b) Other Expenses		1,00,000	2,40,000	1,40,000	140.00
Total Expenses		11,00,000	14,40,000	3,40,000	30.90
V. Profit before Tax (III - IV)		9,00,000	21,60,000	12,60,000	140.00
VI. Tax @ 40%		4,50,000	10,80,000	6,30,000	140.00
VII. Profit after Tax (V - VI)		4,50,000	10,80,000	6,30,000	140.00

SOLUTION FOR HOMEWORK QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (a)
2. (b)
3. (d)
4. (c)
5. (c)
6. (c)
7. (c)
8. (b) Gross profit = 30% of 1,50,000 = ₹1,50,000
Net profit before tax = 1,50,000 - 10% of 1,50,000 = ₹1,35,000

9. (d) Net Profit after Tax = 1,35,000 - 40% of 1,35,000 = ₹81,000
10. (c) Required Percentage = $\frac{9,00,000+60,000}{12,00,000} \times 100 = 80\%$
11. (c)
12. (b)
13. (b)
14. (a)
15. (c)

SOLUTIONS FOR SUBJECTIVE QUESTIONS

1.

Comparative Statement of Profit and Loss for the years ended 31st March, 2012 and 2013

Particulars	Note No.	31.03.2012	31.03.2013	Absolute	Percentage
		(₹)	(₹)	Change (₹)	Change (%)
		A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations		20,00,000	30,00,000	10,00,000	50
II. Other Income		4,00,000	4,50,000	50,000	12.5
III. Total Revenue (I + II)		24,00,000	34,50,000	10,50,000	43.75
IV. Expenses		10,00,000	18,00,000	8,00,000	80
V. Profit before Tax (III - IV)		14,00,000	16,50,000	2,50,000	17.85

2.

Common Size Statement of Profit and Loss for the years ended 31st March, 2015 and 2016

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2015 (₹)	2016 (₹)	2015 (%)	2016 (%)
I. Revenue from Operations		5,00,000	6,25,000	100.00	100.00
II. Expenses:					
Purchase of Stock in Trade		3,60,000	4,35,000	72.00	69.60
Changes in Inventories of Stock-in-Trade		15,000	(10,000)	3.00	(1.60)
Employees Benefit Expenses		10,000	15,000	2.00	2.40
Depreciation and Amortisation Expenses		15,000	25,000	3.00	4.00
Total Expenses		4,00,000	4,65,000	80.00	74.40
III. Profit before Tax (I - II)		1,00,000	1,60,000	20.00	25.60
IV. Tax @ 40%		40,000	64,000	8.00	10.24
V. Profit after Tax (III - IV)		60,000	96,000	12.00	15.36

3.

Comparative Balance Sheet of X Ltd. for the years ended 31st March, 2016 and 2017

Particulars	31 st March, 2016 (₹)	31 st March, 2017 (₹)	Absolute	Percentage
	A	B	Change (₹)	Change (%)
			C = B - A	$\frac{C}{A} \times 100 = D$
I. EQUITY AND LIABILITIES:				
1. Shareholders' Funds				
(a) Share Capital	25,00,000	25,00,000	—	—
(b) Reserves and Surplus	10,00,000	6,00,000	(4,00,000)	(40)
2. Non-Current Liabilities				
(a) Long term Borrowings	15,00,000	16,00,000	1,00,000	6.67
3. Current Liabilities	4,50,000	5,00,000	50,000	11.11
Total	54,50,000	52,00,000	(2,50,000)	(4.58)
II. ASSETS:				
1. Non-Current Assets				
(a) Fixed Assets	25,00,000	35,00,000	10,00,000	40
(b) Non-Current Investments	15,00,000	10,50,000	(4,50,000)	(30)
2. Current Assets	14,50,000	6,50,000	(8,00,000)	(55.17)
Total	54,50,000	52,00,000	(2,50,000)	(4.58)

4.

**Comparative Balance Sheet of Megha Textile Ltd.
as at 31st March, 2016 and 2017**

Particulars	Note No.	2016 (₹)	2017 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B - A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		10,00,000	20,00,000	10,00,000	100.00
(b) Reserves and Surplus		6,00,000	4,00,000	(2,00,000)	(33.33)
2. Non-Current Liabilities					
(a) Long-term Borrowings		10,00,000	16,00,000	6,00,000	60.00
3. Current Liabilities					
(a) Short-term Borrowings		4,00,000	8,00,000	4,00,000	100.00
Total		30,00,000	48,00,000	18,00,000	60.00
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets					
(i) Tangible Assets		20,00,000	30,00,000	10,00,000	50.00
2. Current Assets					
(a) Inventories		4,00,000	8,00,000	4,00,000	100.00
(b) Cash and Cash Equivalents		6,00,000	10,00,000	4,00,000	66.66
Total		30,00,000	48,00,000	18,00,000	60.00

5.

**Common Size Balance Sheet of M Ltd. and N Ltd.
as at 31st March, 2017**

Particulars	Note No.	M Ltd.		N Ltd.	
		(₹)	% of Total	(₹)	% of Total
I. EQUITY AND LIABILITIES:					
1. Shareholders' Funds					
Share Capital		6,00,000	50.00	8,00,000	53.33
2. Non-Current Liabilities					
Long-term Borrowings		4,00,000	33.33	6,00,000	40.00
3. Current Liabilities					
Trade payables		2,00,000	16.67	1,00,000	6.67
Total		12,00,000	100.00	15,00,000	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets					
(i) Tangible Assets		5,00,000	41.67	6,00,000	40.00
(ii) Intangible Assets		3,00,000	25.00	2,00,000	13.33
2. Current Assets					
Cash and Cash equivalents		4,00,000	33.33	7,00,000	46.67
Total		12,00,000	100.00	15,00,000	100.00

6.

**Unique Ltd.
Comparative Statement of Profit and Loss
for the years ended 31st March, 2018 and 2019**

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2019 (₹)	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		A	B	(B - A) = C	C/A × 100 = D
I. Revenue from Operations		8,40,000	16,00,000	7,60,000	90.48
II. Expenses:					
(a) Purchases of Stock-in-Trade		5,00,000	9,00,000	4,00,000	80.00
(b) Change in Inventories of Stock-in-Trade		1,00,000	1,00,000	--	--
(c) Other Expenses		60,000	80,000	20,000	33.33

Total Expenses	6,60,000	10,80,000	4,20,000	63.64
III. Profit before Tax (I – II)	1,80,000	5,20,000	3,40,000	188.89
IV. Less: Tax	54,000	1,56,000	1,02,000	188.89
V. Profit after Tax (III – IV)	1,26,000	3,64,000	2,38,000	188.89

7.

**Comparative Balance Sheet of Sara Textile Ltd.
as at 31st March, 2016 and 2017**

Particulars	Note No.	2016 (₹)	2017 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		2,50,000	5,00,000	2,50,000	100.00
(b) Reserves and Surplus		1,50,000	1,00,000	(50,000)	(33.33)
2. Non-Current Liabilities					
(a) Long-term Borrowings		2,50,000	4,00,000	1,50,000	60.00
3. Current Liabilities					
(a) Short-term Borrowings		1,00,000	2,00,000	1,00,000	100.00
Total		7,50,000	12,00,000	4,50,000	60.00
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets					
(i) Tangible Assets		5,00,000	7,50,000	2,50,000	50.00
2. Current Assets					
(a) Inventories		1,00,000	2,00,000	1,00,000	100.00
(b) Cash and Cash Equivalents		1,50,000	2,50,000	1,00,000	66.67
Total		7,50,000	12,00,000	4,50,000	60.00

8.

**Common Size Statement of Profit and Loss
for the years ended 31st March, 2016 and 2017**

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2016 (₹)	2017 (₹)	2016 (%)	2017 (%)
I. Revenue from Operations		2,50,000	3,12,500	100.00	100.00
II. Expenses:					
Purchase of Stock in Trade		1,80,000	2,17,500	72.00	69.60
Changes in Inventories of Stock-in-Trade		7,500	(5,000)	3.00	(1.60)
Employees Benefit Expenses		5,000	7,500	2.00	2.40
Depreciation and Amortisation Expenses		7,500	12,500	3.00	4.00
Total Expenses		2,00,000	2,32,500	80.00	74.40
III. Profit before Tax (I – II)		50,000	80,000	20.00	25.60
IV. Less: Tax @ 40%		20,000	32,000	8.00	10.24
V. Profit after Tax (III – IV)		30,000	48,000	12.00	15.36

9.

Common Size Statement of Profit and Loss
for the years ended 2015 and 2016

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2015 (₹)	2016 (₹)	2015 (%)	2016 (%)
I. Revenue from Operations		4,00,000	5,00,000	100	100
II. Expenses:					
Cost of Material Consumed		3,00,000	3,40,000	75	68.0
Other Expenses		20,000	32,000	5	6.4
III. Profit before Tax (I – II)		80,000	1,28,000	20	25.6
IV. Less: Tax @ 50%		40,000	64,000	10	12.8
V. Profit After Tax (III – IV)		40,000	64,000	10	12.8

10.

Rahul Ltd.
Comparative Balance Sheet
as at 31st March, 2018 and 2019

Particulars	Note No.	31 st March, 2018	31 st March, 2019	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
		(₹)	(₹)	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital:					
Equity Share Capital		6,00,000	7,20,000	1,20,000	20.00
(b) Reserves and Surplus		2,40,000	3,00,000	60,000	25.00
2. Non-Current Liabilities					
Long-term Borrowings		3,40,000	5,10,000	1,70,000	50.00
3. Current Liabilities					
Trade Payables		3,00,000	2,40,000	(60,000)	(20.00)
Total		14,80,000	17,70,000	2,90,000	19.60
II. ASSETS					
1. Non-Current Assets					
Fixed Assets:					
(i) Tangible Assets		10,00,000	13,00,000	3,00,000	30.00
(ii) Intangible Assets		2,00,000	2,00,000	--	--
2. Current Assets					
(a) Trade Receivables		2,40,000	2,50,000	10,000	4.17
(b) Cash and Cash Equivalents		40,000	20,000	(20,000)	(50.00)
Total		14,80,000	17,70,000	2,90,000	19.60