

# BOOK-2

## CHAPTER-4

### FINANCIAL STATEMENT ANALYSIS

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#### Section A: One Mark Questions

##### I. Fill in the blanks

1. The term analysis means simplification of .....
2. Interpretation means explaining the ..... and significance of the data.
3. Comparative analysis is also known as ..... analysis.
4. Common size analysis is also known as ..... analysis.
5. Common Size Statement is also known as .....
6. The term 'financial analysis' includes both 'analysis and .....'
7. Analysis is useless without .....
8. Interpretation without analysis is.....
9. The statement showing the profitability and financial position for different periods of time in a comparative form is known as.....
10. The statement which indicate the relationship of different items of financial statement with a common item is called.....
11. It is possible to assess the profitability, solvency and efficiency through the technique of..... analysis
12. Analysis of actual movement of cash into and out of an organization is called.....
13. Inter-firm comparison or comparison of the company's position with the related industry as a whole is possible with the help of .....
14. Percentage of each asset to the total assets is shown in ..... Balance Sheet.
15. Analysis and interpretation are ..... to each other

##### II. Multiple Choice Questions:

1. The financial statements of a business enterprise include :
  - a) Balance sheet
  - b) Statement of Profit and Loss.
  - c) Cash flow statement
  - d) All the above.
2. The most commonly used tools for financial analysis are
  - a) Horizontal Analysis
  - b) Vertical Analysis
  - c) Ratio Analysis
  - d) All the above
3. An annual report is issued by a company to its
  - a) Directors
  - b) Auditors
  - c) Share holders
  - d) None of the above

4. Comparative statement are also known as
  - a) Dynamic Analysis
  - b) Horizontal Analysis
  - c) Vertical Analysis
  - d) External Analysis
5. Common Size Statements are also known as:
  - a) Dynamic Analysis
  - b) Vertical Analysis
  - c) Horizontal Analysis
  - d) External Analysis
6. Percentage of each liability to the total liabilities is shown in:
  - a) Common Size Balance Sheet
  - b) Comparative Balance Sheet
  - c) Both the above
  - d) None of the above
7. Balance Sheet provides information about financial position of the enterprise:
  - a) At a point in time
  - b) Over a period of time
  - c) For a period of time
  - d) None of the above
8. Comparative Statement shows the changes during the year:
  - a) in absolute terms
  - b) in relative terms
  - c) both the above
  - d) none of the above
9. Common Size Statements are useful in comparison of:
  - a) Intra-firm for the same or several years
  - b) Inter-firm over different years
  - c) Both (a) & (b) above
  - d) None of the above
10. Financial Analysis can be undertaken by:
  - a) Management
  - b) Parties outside the firm
  - c) Both the above
  - d) None of the above

### **III. True or False type questions :**

1. The Financial Statements of a business enterprise include Cash Flow Statement.
2. Comparative Statements are the form of Horizontal Analysis.
3. Common Size Statements and Financial Ratios are the two tools employed in Vertical Analysis.
4. Financial Analysis is used only by the creditors.
5. Financial Analysis helps an analyst to arrive at a decision.
6. In a Common Size Statement, each item is expressed as a percentage of same common base.
7. The difference between the inflow and outflow of cash is the net cash flow.
8. The flow of cash into the business is called positive cashflow of financial statements.
9. Financial Analysis can be undertaken by management or by parties outside the firm.
10. Financial data will be comparative only when same accounting principles are used.

11. Non-monetary aspects are ignored in financial analysis.
12. Financial analysis does not consider price level changes.
13. Items of expenditure are shown as a percentage of the net revenue from operations in Common Size Income Statement

#### **IV. Very Short Answer Type Questions:**

1. What do you mean by Financial Statement Analysis ?
2. State any one object of Financial Statement Analysis.
3. State any one technique of Financial Statement Analysis.
4. State any one user of Financial Analysis.
5. What is Vertical Analysis ?
6. What is Horizontal Analysis ?
7. State any one importance of Financial analysis.
8. State any one limitation of Financial Analysis.
9. Give the meaning of analysis
10. Give the meaning of interpretation

#### **Section-B Two Marks Questions:**

1. What do you mean by Financial Statement Analysis?
2. Give the meaning of Analysis and Interpretation of Financial Statements
3. List any two techniques of Financial Statement Analysis.
4. Distinguish between Vertical and Horizontal Analysis of Financial Data.
5. What are Comparative Financial Statements?
6. What do you mean by Common Size Statements?
7. State any two importance of Financial Statement Analysis.
8. State any two objectives of Financial Statement Analysis.
9. State any two users of Financial Statement Analysis.
10. State any two limitations of Financial Statement Analysis.
11. Give the Absolute increase and Percentage increase for the following:

	<b>Previous Year</b>	<b>Current Year</b>
	₹	₹
Revenue from operations	60,000	75,000

12. Give the formula for percentage change in Comparative Statement.
13. Distinguish between vertical & horizontal analysis of financial data.
14. State the importance of Comparative Statements
15. State the importance of Common Size Statements

## Section-D 12: Marks Questions:

### Problems on Comparative Income Statement

1. From the following information of Sangvi Company Ltd., Prepare a Comparative Income Statement for the years 2016 and 2017

Particulars	2016 ₹	2017 ₹
Revenue from Operations	7,25,000	8,15,000
Less : Sales Returns	25,000	15,000
	<b>7,00,000</b>	<b>8,00,000</b>
Other Revenue Income	1,200	1,200
<b>Total Revenue (A)</b>	<b>7,01,200</b>	<b>8,08,000</b>
Less : Employees benefit Expenses	5,95,000	6,15,000
Depreciation	12,700	12,500
Financial Expenses	23,000	24,000
Other Expenses	1,500	2,000
<b>Total Expenses (B)</b>	<b>6,32,200</b>	<b>6,53,500</b>
<b>Profit Before Tax{C=A-B}</b>	<b>69,000</b>	<b>1,54,000</b>

2. From the following information, prepare Comparative Statement of Profit and Loss for the year ending 31st March 2016 and 31st March 2017 of Raju Co.Ltd.,

Particulars	31-32016 ₹	31-32017 ₹
Revenue from Operations	8,00,000	9,00,000
Other Income	20,000	40,000
Employees Benefit Expenses	1,00,000	1,20,000
Cost of Materials consumed	4,00,000	5,00,000
Financial Cost	30,000	20,000
Depreciation	70,000	70,000
Other Expenses	20,000	30,000
Income tax	30%	30%

## Problems on Common Size Income Statement

- 1) From the following information prepare Common Size Income Statement :

Particulars	31-3-2016 ₹	31-3-2017 ₹
Net Revenue from Operations	60,000	86,000
Other Income	300	400
<b>Total Revenue (A)</b>	<b>60,300</b>	<b>86,400</b>
Cost of Materials consumed	18,000	20,000
Employee Benefit Expenses	9,000	10,000
Financial Expenses	3,000	3,400
Other Expenses	6,000	6,600
<b>Total Expenses (B)</b>	<b>36,000</b>	<b>40,000</b>
Income Tax (C)	4,000	6,000
<b>Net Profit {A-(B+C)}</b>	<b>20,300</b>	<b>40,400</b>

- 2) From the following information, prepare Common Size Statement of Profit and Loss for the year ending 31st March 2016 and 31st March 2017.

Particulars	31-3-2016 ₹	31-3-2017 ₹
Revenue from Operations	5,00,000	4,00,000
Other Income	20,000	10,000
Cost of Materials consumed	3,00,000	2,00,000
Employees Benefit expenses	60,000	40,000
Financial Cost	10,000	15,000
Depreciation	20,000	25,000
Other Expenses	40,000	30,000
Tax Rate	40%	40%

## Problems on Comparative Balance Sheet.

- 1) The followings are the Balance Sheets of Alpha Ltd., as at March 31st 2016 and 2017.

Particulars	March 31 <sup>st</sup> 2016 ₹	March 31 <sup>st</sup> 2017 ₹
I. Equity and Liabilities :		
Equity Share Capital	2,00,000	4,00,000
Reserves and Surplus	1,00,000	1,50,000
Long Term Loans	2,00,000	3,00,000
Current Liabilities	1,20,000	1,70,000
<b>Total</b>	<b>6,20,000</b>	<b>10,20,000</b>
II. Assets :		
Fixed Assets	2,00,000	5,00,000
Non-current Investment	1,00,000	1,25,000
Current Assets	2,55,000	3,25,000
Term Loan and Advances	65,000	70,000
<b>Total</b>	<b>6,20,000</b>	<b>10,20,000</b>

You are required to prepare a Comparative Balance Sheet.

2. From the following information, Prepare Comparative Position Statement (Balance Sheet)

Particulars	31-3-2016 ₹	31-3-2-17 ₹
Share Capital	4,00,000	5,00,000
General Reserve	50,000	60,000
Secured Loans	15,000	20,000
Current Liabilities	50,000	70,000
Buildings	2,00,000	2,50,000
Machinery	1,50,000	2,00,000
Stock	1,00,000	1,10,000
Trade Receivables	65,000	90,000

### Problems on Common Size Balance Sheet

1. From the following Balance sheet of Rajesh Exports Ltd., as on 31-3-2016 and 31-3-2017, prepare Common Size Balance Sheet.

#### Balance Sheet as on 31-3-2016 and 2017

Liabilities	31-3-2016 ₹	31-3-2017 ₹	Assets	31-3-2016 ₹	31-3-2017 ₹
Equity Share Capital	5,00,000	6,00,000	Buildings	3,00,000	4,00,000
Reserves & Surplus	3,00,000	3,50,000	Machinery	2,50,000	3,00,000
Debentures	4,00,000	3,00,000	Goodwill	2,00,000	2,50,000
Current Liabilities	2,50,000	3,25,000	Current Assets	7,00,000	6,25,000
	<b>14,50,000</b>	<b>15,75,000</b>		<b>14,50,000</b>	<b>15,75,000</b>

2. From the following Balance sheet of Karnataka Company Ltd., prepare Common Size Balance Sheet as on 31-3-2016 and 31-3-2017.

**Balance Sheet as on 31-3-2016 and 31-3-2017**

<b>Particulars</b>	<b>31-3-2016</b> ₹	<b>31-3-2017</b> ₹
<b>Equity and Liabilities :</b>		
<b>1. Shareholders fund:</b>		
Share capital	8,50,000	10,00,000
Reserves & Surplus	1,00,000	50,000
<b>2. Non Current Liabilities :</b>	--	-
Long term borrowings	4,50,000	5,75,000
<b>3. Current Liabilities :</b>	-	-
Short term borrowings	1,50,000	2,25,000
<b>Total</b>	<b>15,50,000</b>	<b>18,50,000</b>
<b>Assets :</b>		
<b>Non Current Assets :</b>		
Tangible Assets	7,50,000	9,00,000
Intangible Assets	4,00,000	4,50,000
<b>Current Assets :</b>		
Inventories	1,00,000	2,00,000
Other Current Assets	3,00,000	3,00,000
<b>Total</b>	<b>15,50,000</b>	<b>18,50,000</b>

- 3) From the following Balance Sheets of Indian Industries Ltd., prepare Common size Balance Sheet.

<b>Particulars</b>	<b>31-3-2016</b> ₹	<b>31-3-2017</b> ₹
Share Capital	2,00,000	2,50,000
Reserve	1,00,000	1,50,000
Long term loans	2,00,000	1,00,000
Trade Payable	3,00,000	4,00,000
<b>Total</b>	<b>8,00,000</b>	<b>9,00,000</b>
Building	2,00,000	2,50,000
Plant	2,00,000	2,50,000
Inventory	3,50,000	3,25,000
Cash & Cash Equivalent	50,000	75,000
<b>Total</b>	<b>8,00,000</b>	<b>9,00,000</b>

3. The following is the Balance sheet of Sun Star Co., Ltd., as on 31-3-2016 and 31-3-2017. Prepare Comparative Balance Sheet.

**Balance Sheet**

<b>Liabilities</b>	<b>31-3-2016</b>	<b>31-3-2017</b>	<b>Assets</b>	<b>31-3-2016</b>	<b>31-3-2017</b>
	₹	₹		₹	₹
Share Capital	5,50,000	10,50,000	Fixed Assets	5,00,000	10,00,000
Reserves Fund	2,00,000	2,50,000	Investments	2,00,000	2,50,000
Long Term Loans	1,00,000	2,50,000	Inventory	2,25,000	3,35,000
Trade Payable	1,50,000	3,00,000	Current Assets	75,000	2,75,000
<b>Total</b>	<b>10,00,000</b>	<b>18,50,000</b>	<b>Total</b>	<b>10,00,000</b>	<b>18,50,000</b>

**Section - E: Practical Oriented Questions**

1. Prepare Comparative Statement of Profit & Loss with five imaginary figures.
2. Prepare Common Size Statement of Profit and Loss with five imaginary figures.

**Key Answers:**

**I. Fill in the Blanks:**

1. Simplification of financial data
2. Meaning and significance of the data
3. Horizontal analysis
4. Vertical analysis
5. Component Percentage Statement
6. Interpretation
7. Interpretation
8. Difficult
9. Comparative statement
10. Common size statement
11. Ratio
12. Cash flow
13. Common Size
14. Common Size
15. Complimentary

**II. Multiple choice questions:**

- |        |         |        |        |
|--------|---------|--------|--------|
| 1. (d) | 2. (d)  | 3. (c) | 4. (b) |
| 5. (c) | 6. (a)  | 7. (c) | 8. (a) |
| 9. (c) | 10. (c) |        |        |

**III. True or False:**

- |           |          |          |          |
|-----------|----------|----------|----------|
| 1. False  | 2. True  | 3. True  | 4. False |
| 5. True   | 6. True  | 7. True  | 8. True  |
| 9. True   | 10. True | 11. True | 12. True |
| 13. False |          |          |          |

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