

## Financial Statements and Analysis

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1. Comparative Financial Statement is an example of
  1. Horizontal analysis
  2. Vertical Analysis
  3. Internal Analysis
  4. External analysis
2. Name the items under Shareholder's Fund is comprised of company's balance sheet.
  1. Money received against share warrant
  2. All of these
  3. Share Capital
  4. Reserves and Surplus
3. Salaries outstanding ₹ 55,000 will be record in the balance sheet under .....
1. Other Current Liabilities
  2. Short term borrowings
  3. Other Current Assets
  4. Non-current Liabilities
4. Computer software is shown under the \_\_\_\_\_
  1. Fixed intangible Assets
  2. Fictitious Assets
  3. Fixed Tangible Assets
  4. Current Assets
5. An asset shall be classified as current when it satisfies any of the following criteria
  1. It is part of fixed assets
  2. It is an old asset in the firm
  3. It is not the part of business
  4. It is expected to be realized within a year
6. Why Taxation Authorities and Employees are interested in financial statement analysis?
7. Name the major headings under which the equity and liabilities side of a company's Balance Sheet is organized and presented.
8. Name any five tools of Financial Statement Analysis.

9. What is meant by Fund?
10. State the significance of analysis of financial statements to 'top management'.
11. Prepare the Common size Balance Sheet and comment on the financial position of K Ltd. and L Ltd. The Balance Sheets of K Ltd. and L Ltd. as at 31.3.2012 are given below:

Particulars	Note No.	K Ltd.		L Ltd.	
		Figures as at the end of the current reporting period	Figures as at the end of the previous reporting period	Figures as at the end of the current reporting period	Figures as at the end of the previous reporting period
<b>I. EQUITY AND LIABILITIES</b>					
Shareholder's Funds					
Share Capital:		3,00,000		4,00,000	
Issued and paid up		2,00,000		3,00,000	
Reserves and Surplus					
Current liabilities					
Short – term Borrowings:		1,00,000		50,000	
		6,00,000		7,50,000	
<b>II. ASSETS</b>					
Non – Current Assets					
Fixed Assets		4,00,000		4,00,000	
Current Assets		2,00,000		3,50,000	

Particulars	Note No.	K Ltd.		L Ltd.	
		6,00,000		7,50,000	

12. Prepare Common-size Statement of Profit and Loss from the following for the year ended 31st March 2013.

Particulars	(Rs.)
Revenue from Operations	21,00,000
Cost of Materials Consumed	9,90,000
Other Expenses	3,90,000
Interest on investment	80,000
Tax Payable	50%

13. Balance Sheets of Blue Bell Ltd. as at 31st March 2013 and 2012 are given below :

#### Balance Sheet

as at 31st March 2013 and 2012

	Particulars	31st March 2013 Amount (Rs)	31st March 2012 Amount (Rs)
I.	<b>EQUITY AND LIABILITIES</b>		
	<b>1. Shareholders' Funds Share Capital</b>		
	Share Capital	3,44,000	4,26,000
	<b>2. Non-Current Liabilities</b>		
	Long-term Borrowings	4,38,000	6,96,000
	<b>3. Current Liabilities</b>	78,000	2,98,000
		<b>8,60,000</b>	<b>14,20,000</b>
II.	<b>ASSETS</b>		
	<b>1. Non-Current Assets</b>		
	(a) Fixed Assets	4,30,000	5,68,000
	(b) Investments	4,000	6,000
	<b>2. Current assets</b>	4,26,000	8,46,000

	Particulars	31st March 2013 Amount (Rs)	31st March 2012 Amount (Rs)
		8,60,000	14,20,000

Prepare Comparative Balance Sheet showing percentage changes from 2012 to 2013.

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### Answer

1.

1. Horizontal analysis, **Explanation:** Comparative financial statement is an example of Horizontal analysis because it requires comparative financial statements of two or more accounting periods.

2. All of these, **Explanation:** Shareholders fund is divided into the following parts: Share Capital Reserves and Surplus  
Money received against share warrant

1. Other Current Liabilities

**Explanation:** It is a short term liability payable within one year.

1. Fixed intangible Assets

**Explanation:** Computer software is an intangible asset because it is an identifiable non-monetary asset without physical substance.

4. It is expected to be realized within a year

**Explanation:** The life of current assets are less than a year. They gets converted into cash and they keeps rotating several times in a year. Their balance is fluctuating, not fixed. Examples of current assets are, inventories, cash and cash equipments, trade receivables, etc.

2. Employees are interested in the company's profitability and stability. They are after the ability of the company to pay salaries and provide employee benefits. They may also be interested in its financial position and performance to assess company expansion possibilities and career development opportunities. The financial statements of a business provide a formal record of its financial activities. Financial statements are important to tax authorities to ensure the accuracy of taxes and additional duties declared and paid by the company.

3. **BALANCE SHEET(HEADS ON EQUITY AND LIABILITIES SIDE)**

Particulars	Note No.	Rs.
<b>I. EQUITY AND LIABILITIES</b>		
1. Shareholder's funds		
2. Share Application money pending allotment		
3. Non-Current Liabilities		

4. Current Liabilities		
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1. Ratio Analysis.
2. Trend Percentages.
3. Capital Budgeting.
4. Fund Flow Statement.
5. Cash Flow Statement.

4. It is represented by earmarked investments.
5. Financial statement analysis enables the 'Top management' to analyze the overall business efficiency. It provides better information for planning, budgeting and controlling of the business operations in future.
6. **Common Size Balance Sheet of K Ltd. and L Ltd.**  
as at 31.3.2012

Particulars	Note No.	K Ltd.		L Ltd.	
		Amount (Rs)	% of Total	Amount (Rs)	% of Total
<b>I. EQUITY AND LIABILITIES</b>					
Shareholder's Funds					
Share Capital:		3,00,000	50	4,00,000	53.3
Issued and paid up		2,00,000	33.3	3,00,000	40
Reserves and Surplus					
Current liabilities					
Short – term Borrowings:		1,00,000	16.7	50,000	6.7
		<b>6,00,000</b>	100	<b>7,50,000</b>	100
<b>II. ASSETS</b>					
Non – Current Assets					
Fixed Assets		4,00,000	66.7	4,00,000	53.3
Current Assets		2,00,000	33.3	3,50,000	46.7
		<b>6,00,000</b>	100	<b>7,50,000</b>	100

7. **COMMON-SIZE STATEMENT OF PROFIT AND LOSS**

for the year ended 31st March 2013

	Particulars	Absolute Amount (Rs.)	(%) of Revenue from Operations
I.	Revenue from Operations	21,00,000	100.00
	Other Income (Interest on Investment)	80,000	3.91
	<b>Total Revenue</b>	<b>21,80,000</b>	103.81
II.	Expenses		
	(a) Costs of Materials Consumed	9,90,000	47.14
	(b) Other Expense	3,90,000	18.57
	<b>Total Expenses</b>	<b>13,80,000</b>	19.05
III.	<b>Net Profit before tax(I – II)</b>	<b>8,00,000</b>	38.09
	Less: tax	4,00,000	19.05
IV.	<b>Net Profit after tax</b>	<b>4,00,000</b>	19.05

8. A common size income statement is an income statement in which each account is expressed as a percentage of the value of sales. It is used for vertical analysis, in which each line item in a financial statement is listed as a percentage of a base figure within the statement, to make comparisons easier.

9. **Comparative Balance Sheet**

as at 31st March 2012 and 2013

	Particulars	31st March 2013 Amount (Rs.)	31st March 2012 Amount (Rs.)	Absolute Change (Increase/Decrease) Amount (Rs)	Percentage Change (Increase/Decrease) (%)
I.	<b>EQUITY AND LIABILITIES</b>				
	<b>1. Shareholders' Funds Share Capital</b>				
	Share Capital	3,44,000	4,26,000	(82,000)	(19.2)

	Particulars	31st March 2013 Amount (Rs.)	31st March 2012 Amount (Rs.)	Absolute Change (Increase/Decrease)Amount (Rs)	Percentage Change (Increase/Decrease) (%)
	<b>2. Non-Current Liabilities</b>				
	Long-term Borrowings	4,38,000	6,96,000	(2,58,000)	(37.1)
	<b>3. Current Liabilities</b>	78,000	2,98,000	(2,20,000)	(73.8)
		<b>8,60,000</b>	<b>14,20,000</b>	<b>(5,60,000)</b>	<b>(39.4)</b>
II.	<b>ASSETS</b>				
	<b>1. Non-Current Assets</b>				
	(a) Fixed Assets	4,30,000	5,68,000	(1,38,000)	(24.3)
	(b) Investments	4,000	6,000	(2,000)	(33.3)
	<b>2. Current assets</b>	4,26,000	8,46,000	(4,20,000)	(49.6)
		<b>8,60,000</b>	<b>14,20,000</b>	<b>(5,60,000)</b>	<b>(39.4)</b>

10. A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholder's equity as of multiple points in time. A comparative balance sheet usually has two columns of amounts that appear to the right of the account titles or other descriptions such as Cash and Cash Equivalents, Accounts Receivable, Accounts Payable, etc. A comparative balance sheet analysis is a method of analyzing a company's balance sheet over time to identify changes and trends.