

## STATEMENT ANALYSIS

Q. 1. What is Analysis of Financial Statements?

Ans. Analysis of Financial Statements is systematic process of identifying the financial strengths and weaknesses of the firm by establishing the relationship between the items of the Balance Sheet and Statement of Profit and Loss.

Q. 2. State any two objectives of Analysis of Financial Statements.

Ans. Objectives of Analysis of Financial Statements are:

- (i) To assess the financial stability of an enterprise.
- (ii) To measure the enterprise's short-term and long-term solvency.
- (iii) To measure the enterprise's operating efficiency and profitability.
- (iv) To compare intra-firm position and inter-firm position.
- (v) To assess the future prospects of the enterprise.

Q. 3. State any two advantages of Analysis of Financial Statements.

Ans. Advantages of Analysis of Financial Statements are:

- (i) *Assessing the Profitability:* Analysis of Financial Statements helps in assessing the present earning capacity of the business. It is also helpful in forecasting its future earning capacity.
- (ii) *Assessing the Efficiency:* Analysis of Financial Statements helps in assessing the efficiency as well as the inefficiency of the management.

Q. 4. State any two limitations of the Analysis of Financial Statements.

Ans. Limitations of Analysis of Financial Statements are:

- (i) *Ignores Price Level Changes:* Financial analysis fails to disclose current net worth of the enterprise since it is based on financial statements, which are merely a record of the historical facts.
- (ii) *Window Dressing:* The term window dressing means manipulation of accounts to conceal vital facts and presentation of the Financial Statements so as to show a position better than what it actually is. On account of such a situation, financial analysis cannot be a definite indicator of good management.

Q. 5. State how qualitative aspects are ignored in financial Statement Analysis.

Ans. Since the financial statements are confined to the monetary matters only, the quality elements like quality of product, efficiency of management are ignored while carrying out the analysis of financial statements.

Q. 6. Give any two differences between horizontal analysis and vertical analysis of financial statements.

(ISC 2018)

Ans. Difference between Horizontal Analysis and Vertical Analysis

Basis	Horizontal Analysis	Vertical Analysis
1. Period	It requires comparative financial statements of two or more accounting periods.	It requires a financial statement of one period.
2. Usefulness.	It is generally used for Time Series Analysis.	It is generally used for Cross-sectional Analysis.

## 2. COMPARATIVE STATEMENTS

Q. 1. What is meant by Comparative Financial Statements?

Ans. Comparative Financial Statements are tools of financial analysis that show change in each item of the Financial Statements in both absolute amount and percentage terms, taking the item in preceding accounting period as base. This tool or technique of financial analysis is used for *intra-firm* as well as *inter-firm* analysis.

Q. 2. Name any two commonly used tools for comparison of financial statements.

(ISC Specimen Question Paper 2017)

Ans. (i) Comparative Statements

(ii) Common-size Statements

(iii) Ratio Analysis

(iv) Cash Flow Statement.

Q. 3. State the purposes served by study of Comparative Financial Statements.

Ans. Purposes of Comparative Financial Statements are:

(i) To know the nature of changes influencing financial position.

(ii) To know the weaknesses and strengths about liquidity, profitability and solvency of the enterprise.

(iii) To facilitate forecasting and planning.

Q. 4. What is the meaning of Comparative Income Statement?

Ans. Comparative Income Statement is the *Horizontal Analysis* of income statement in which each item of Revenue and Expenses is analysed horizontally of two or more accounting periods. This statement shows: (i) Revenue and Expenses in absolute values; (ii) Changes in revenue and expenses in absolute values; and (iii) percentage changes in revenue and expenses.

Q. 5. What is the objective of preparing Comparative Income Statement?

Ans. The objective of preparing Comparative Income Statement is to analyse the changes in items of incomes and expenses for two or more accounting periods.

Q. 6. For what purposes Comparative Financial Statements are prepared?

Ans. Comparative Financial Statements are prepared for inter-firm and intra-firm comparison.

Q. 7. What is a Comparative Balance Sheet?

(ISC Specimen Question Paper 2015)

Ans. Comparative Balance Sheet is the horizontal analysis of Balance Sheet in which each item of Equity and Liabilities and Assets is analysed for two or more accounting periods.

Q. 8. What is the main objective of preparing Comparative Balance Sheet?

Ans. The main objective of preparing Comparative Balance Sheet is to analyse the changes in the financial position of an enterprise.

Q. 9. Give any two advantages of a Comparative Balance Sheet.

(ISC Specimen Question Paper 2018)

Ans. Two advantages of a Comparative Balance Sheet are:

(i) *Emphasis on changes*: In a Balance Sheet, the emphasis is on status, whereas in a Comparative Balance Sheet the emphasis is on change.

(ii) *Facilitates Planning*: Comparative Balance Sheet helps determining trends of Assets, Equity and Liabilities which in turn helps in planning.

Q. 10. **What is meant by Common-size Financial Statement?**

Ans. *Common-size Financial Statement* is the vertical analysis of Financial Statement in which figures are converted into percentage to a common base, i.e., Revenue from Operations (Net Sales) for Income Statement and Total Assets/Total of Equity and Liabilities for Balance Sheet.

Q. 11. **What is meant by Common-size Income Statement or Common-size Statement of Profit and Loss?**

Ans. It is that statement in which Revenue from Operations (Net Sales) is taken as 100 and values of other items of Statement of Profit and Loss are expressed as percentage of Revenue from Operations.

Q. 12. **What is the objective of Common-size Income Statement or Common-size Statement of Profit and Loss?**

Ans. The objective is to analyse change in individual items of Income Statement and study the trend in various items of revenue and expenses.

Q. 13. **What is a Common-size Balance Sheet?**

Ans. *Common-size Balance Sheet* is the Vertical Analysis of Balance Sheet which shows the percentage relation of each asset/liability to total assets/total of equity and liabilities. (ISC 2016)

Q. 14. **What is the objective of Common-size Balance Sheet?**

Ans. The objective of Common-size Balance Sheet is to analyse change in individual items of Balance Sheet and study the trend of different items of assets, equity and liabilities.

Q. 15. **Which item is assumed to be 100 in case of Common-size Income Statement?**

Ans. The amount of Revenue from Operations or Net Sales is assumed to be 100 in case of Common-size Income Statement.

Q. 16. **Which item is assumed to be 100 in case of Common-size Balance Sheet?**

Ans. Total Assets or Total of Equity and Liabilities is assumed to be 100 in case of Common-size Balance Sheet.

Q. 17. **Give any two objectives of preparing Common-Size Statements.** (ISC 2015)

Ans. (i) To analyse the change in each item of the Statement as a percentage to a common base.

(ii) To determine the trend of different items of the statement.

**Illustration 3.** From the following information, prepare Comparative Balance Sheet of Lovely Ltd.:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds</b>			
(a) Share Capital (Equity)		25,00,000	25,00,000
(b) Reserves and Surplus		6,00,000	5,00,000
<b>2. Non-Current Liabilities</b>			
Long-term Borrowings		15,00,000	15,00,000
<b>3. Current Liabilities</b>			
(a) Short-term Borrowings (Bank Overdraft)		2,40,000	2,25,000
(b) Trade Payables		2,25,000	2,00,000
(c) Other Current Liabilities		55,000	50,000
(d) Short-term Provisions		30,000	25,000
<b>Total</b>		<b>51,50,000</b>	<b>50,00,000</b>
<b>II. ASSETS</b>			
<b>1. Non-Current Assets</b>			
(a) Fixed Assets (Tangible Assets)		36,00,000	30,00,000
(b) Non-Current Investments		5,00,000	5,00,000
<b>2. Current Assets</b>			
(a) Inventories		5,50,000	7,50,000
(b) Trade Receivables		3,00,000	5,00,000
(c) Cash and Bank Balances		1,75,000	1,50,000
(d) Other Current Assets		25,000	1,00,000
<b>Total</b>		<b>51,50,000</b>	<b>50,00,000</b>

**Solution:**

Lovely Ltd.

COMPARATIVE BALANCE SHEET as at 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)	Absolute Change (Increase/ Decrease) (₹)	Percentage Change (Increase/ Decrease) (%)
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital (Equity)		25,00,000	25,00,000	...	...
(b) Reserves and Surplus		6,00,000	5,00,000	1,00,000	20.00
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		15,00,000	15,00,000	...	...
<b>3. Current Liabilities</b>					
(a) Short-term Borrowings		2,40,000	2,25,000	15,000	6.67
(b) Trade Payables		2,25,000	2,00,000	25,000	12.50
(c) Other Current Liabilities		55,000	50,000	5,000	10.00
(d) Short-term Provisions		30,000	25,000	5,000	20.00
<b>Total</b>		<b>51,50,000</b>	<b>50,00,000</b>	<b>1,50,000</b>	<b>3.00</b>
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
(a) Fixed Assets:					
Tangible Assets		36,00,000	30,00,000	6,00,000	20.00
(b) Non-Current Investments		5,00,000	5,00,000	...	...
<b>2. Current Assets</b>					
(a) Inventories		5,50,000	7,50,000	(2,00,000)	(26.67)
(b) Trade Receivables		3,00,000	5,00,000	(2,00,000)	(40.00)
(c) Cash and Bank Balances		1,75,000	1,50,000	25,000	16.67
(d) Other Current Assets		25,000	1,00,000	(75,000)	(75.00)
<b>Total</b>		<b>51,50,000</b>	<b>50,00,000</b>	<b>1,50,000</b>	<b>3.00</b>

## Illustration 12.

From the following Statement of Profit and Loss of Vaio Ltd., prepare Comparative Income Statement (Comparative Statement of Profit and Loss):

STATEMENT OF PROFIT AND LOSS for the years ended 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. Revenue from Operations (Net Sales)		20,00,000	15,00,000
II. Other Income		75,000	55,000
III. Total Revenue (I + II)		20,75,000	15,55,000
IV. Expenses:			
(a) Purchases of Stock-in-Trade		13,80,000	9,00,000
(b) Change in Inventories of Stock-in-Trade		(25,000)	1,00,000
(c) Employees Benefit Expenses		1,50,000	1,25,000
(d) Finance Costs		15,000	12,000
(e) Depreciation and Amortisation Expense		3,200	3,500
(f) Other Expenses		7,800	7,500
Total Expenses		15,31,000	11,48,000
V. Profit before Tax (III - IV)		5,44,000	4,07,000
VI. Less: Tax		1,15,000	1,00,000
VII. Profit after tax (V - VI)		4,29,000	3,07,000

## Solution:

## Vaio Ltd.

## COMPARATIVE INCOME STATEMENT OR COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 ₹	31st March, 2018 ₹	Absolute Change (Increase/Decrease) ₹	Percentage Change (Increase/Decrease) %
I. Revenue from Operations		20,00,000	15,00,000	5,00,000	33.33
II. Other Income		75,000	55,000	20,000	36.36
III. Total Income		20,75,000	15,55,000	5,20,000	33.44
IV. Expenses					
Purchases of Stock-in-Trade		13,80,000	9,00,000	4,80,000	53.33
Change in Inventories of Stock-in-Trade		(25,000)	1,00,000	(1,25,000)	(125.00)
Employees Benefit Expenses		1,50,000	1,25,000	25,000	20.00
Finance Costs		15,000	12,000	3,000	25.00
Depreciation and Amortisation Expense		3,200	3,500	(300)	(8.57)
Other Expenses		7,800	7,500	300	4.00
Total Expenses		15,31,000	11,48,000	3,83,000	33.36
V. Profit before Tax (III - IV)		5,44,000	4,07,000	1,37,000	33.66
VI. Less: Tax		1,15,000	1,00,000	15,000	15.00
VII. Profit after Tax (V - VI)		4,29,000	3,07,000	1,22,000	39.74

Illustration 15. ✓✓

Prepare Common-size Balance Sheet of Emm Kay Ltd. from the following data:

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Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Share Capital—Equity	5,00,000	5,00,000
—Preference	3,00,000	1,00,000
Reserves and Surplus	3,50,000	2,50,000
10% Debentures	4,00,000	3,00,000
Trade Payables	50,000	50,000
Trade Receivables	4,00,000	2,00,000
Cash and Bank Balances	2,00,000	2,00,000
Land and Building	10,00,000	8,00,000

2.20

**Solution:**

**Emm Kay Ltd.**  
COMMON-SIZE BALANCE SHEET  
as at 31st March, 2019 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2019 (₹)	31st March, 2018 (₹)	31st March, 2019 (%)	31st March, 2018 (%)
<b>I. EQUITY AND LIABILITIES</b>					
<b>1. Shareholders' Funds</b>					
(a) Share Capital			5,00,000	31.25	41.67
— Equity Share Capital		5,00,000	1,00,000	18.75	8.33
— Preference Share Capital		3,00,000	2,50,000	21.88	20.83
(b) Reserves and Surplus		3,50,000			
			3,00,000	25.00	25.00
<b>2. Non-Current Liabilities</b>					
Long-term Borrowings		4,00,000			
			50,000	3.12	4.17
<b>3. Current Liabilities</b>					
Trade Payables		50,000	50,000		
			12,00,000	100.00	100.00
<b>Total</b>		16,00,000	12,00,000		
<b>II. ASSETS</b>					
<b>1. Non-Current Assets</b>					
Fixed Assets:					
Tangible		10,00,000	8,00,000	62.50	66.67
<b>2. Current Assets</b>					
(a) Trade Receivables		4,00,000	2,00,000	25.00	16.67
(b) Cash and Bank Balances		2,00,000	2,00,000	12.50	16.66
			12,00,000	100.00	100.00
<b>Total</b>		16,00,000	12,00,000		