

+2 Accountancy

Solution Book

8. Financial Statement Analysis

TEXTBOOK SELF-EXAMINATION QUESTIONS SOLVED

I. Choose the correct answer.

1. Which of the following statements is not true?

- (a) Notes and schedules also form part of financial statements.
- (b) The tools of financial statement analysis include common-size statement
- (c) Trend analysis refers to the study of movement of figures for one year
- (d) The common-size statements show the relationship of various items with some common base, expressed as percentage of the common base

Ans. (c) Trend analysis refers to the study of movement of figures for one year

2. Balance sheet provides information about the financial position of a business concern
- (a) Over a period of time (b) As on a particular date
(c) For a period of time (d) For the accounting period

Ans. (b) As on a particular date

3. Which of the following tools of financial statement analysis is suitable when data relating to several years are to be analysed?
- (a) Cash flow statement (b) Common size statement
(c) Comparative statement (d) Trend analysis

Ans. (d) Trend analysis

4. The financial statements do not exhibit
- (a) Non-monetary data (b) Past data (c) Short term data (d) Long term data

Ans. (a) Non-monetary data

5. Which of the following is not a tool of financial statement analysis?
- (a) Trend analysis (b) Common size statement
(c) Comparative statement (d) Standard costing

Ans. (d) Standard costing

6. The term 'fund' refers to
- (a) Current liabilities (b) Working capital (c) Fixed assets (d) Non-current assets

Ans. (b) Working capital

7. Which of the following statements is not true?
- (a) All the limitations of financial statements are applicable to financial statement analysis also.
(b) Financial statement analysis is only the means and not an end.
(c) Expert knowledge is not required in analysing the financial statements.
(d) Interpretation of the analysed data involves personal judgement.

Ans. (c) Expert knowledge is not required in analysing the financial statements

8. A limited company's sales has increased from ₹ 1,25,000 to ₹ 1,50,000. How does this appear in comparative income statement?
- (a) + 20 % (b) + 120 % (c) - 120 % (d) - 20 %

Ans. (a) + 20 %

9. In a common-size balance sheet, if the percentage of non-current assets is 75, what would be the percentage of current assets?
- (a) 175 (b) 125 (c) 25 (d) 100

Ans. (c) 25

10. Expenses of a business for the first year were ₹ 80,000. In the second year, it was increased to ₹ 88,000. What is the trend percentage in the second year?
- (a) 10 % (b) 110 % (c) 90 % (d) 11%

Ans. (b) 110 %

II. Very Short Answer Questions:**1. What are financial statements?**

Ans. Financial statements are the statements prepared by the business concerns at the end of the accounting period to ascertain the operating results and the financial position.

2. List the tools of financial statement analysis.

Ans. (i) Comparative Statement
(ii) Common Size Statement
(iii) Trend Analysis
(iv) Funds Flow Analysis
(v) Cash Flow Analysis

3. What is working capital?

Ans. Working capital statement or schedule of changes in working is prepared to disclose net changes in working capitals on two specific dates (generally two balance sheet dates). It is prepared from current assets and current liabilities.

Working Capital = Current Assets – Current Liabilities

4. When is trend analysis preferred to other tools?

Ans. Trend analysis discloses the changes in financial and operating data between specific periods when data for more than two years are to be analyzed. It may be difficult to use comparative statement.

III. Short Answer Questions:**1. 'Financial statements are prepared based on the past data'. Explain how this is a limitation?**

Ans. The nature of financial statement is historical. Past cannot be the index of future and cannot be cent percent basis for future estimation, forecasting, budgeting and planning.

2. Write a short note on cash flow analysis.

Ans. Cash flow analysis concerned with preparation of cash flow statement which shows the inflow and outflow of cash and cash equivalents in a given period of time.

Cash includes cash in hand and demand deposit with banks. Cash equivalents denotes short term investments which can be realised easily within a short period of time without much loss in value. Cash flow analysis helps in assessing the liquidity and solvency of a business concern.

3. Briefly explain any three limitations of financial statements.

Ans. 1. Lack of qualitative information: Qualitative information, that is non-monetary information is also important for business decisions. For e.g. Efficiency of the employees and efficiency of the management. But this is ignored in financial statements.

2. Record of historical data: Financial statement are prepared based on historical data. They

may not reflect the current position.

3. Ignores price level changes: Adjustments for price level changes are not made in the financial statements. Hence financial statements may not reveal the current position.

4. Explain the steps involved in preparing comparative statements.

Ans. Following are the steps to be followed in preparation of comparative statement.

(i) Column 1: In this column, particulars of items of income statements or balance sheet are written.

(ii) Column 2: Enter absolute amount of year 1.

(iii) Column 3: Enter absolute amount of year 2.

(iv) Column 4: Show the difference in amounts between year 1 and year 2. If there is an increase in year 2, put plus sign and there is a decrease put minus sign.

(v) Column 5: Show percentage increase or decrease of the difference amount shown in column 4 by dividing the amount shown in column 4 (absolute amount of increase or decrease) by column 2 (year 1 amount)

$$\text{Percentage increase (or) decrease} = \frac{\text{Absolute amount of Increase/decrease}}{\text{Year 1 amount}} \times 100$$

5. Explain the procedure for preparing common-size statement.

Ans. Common-size statements can be prepared with three columns. Following are the steps to be followed in preparation of common-size statement.

(i) Column 1. In this column, particulars of items of income statement or balance sheet are written.

(ii) Column 2. Enter absolute amount.

(iii) Column 3. Choose a common base as 100. For e.g. Revenue from operations can be taken as the base for income statement and total of balance sheet can be taken as the base for balance sheet. Work out the percentage for all the items of column 2 in terms of the common base and enter them in column 3.

IV Exercises:

1. From the following particulars, prepare comparative income statement of Arul Ltd.

Particulars	2015-16 ₹	2016-17 ₹
Revenue from operations	50,000	60,000
Other income	10,000	30,000
Expenses	40,000	50,000

**Comparative Income Statement Analysis of Arul Ltd.
for the year ended 31.3.2016 to 31.3.2017**

Particular	2015-16	2016-17	Absolutement of Increase (+) (or) decrease (-)	Percentage Increase (+) Decrease (-)
	₹	₹	₹	
Revenue from operation	50,000	60,000	+10,000	+20
Add: Other income	10,000	30,000	-20,000	-200
Total Revenue	60,000	90,000	+30,000	+50
Less: Expenses	40,000	50,000	-10,000	-25%
Profit before tax	20,000	40,000	20,000	+25%

2. From the following particulars, prepare comparative income statement of Barani Ltd.

Particulars	2016-17 ₹	2017-18 ₹
Revenue from operations	30,000	45,000
Other income	4,000	6,000
Expenses	10,000	15,000
Income tax	30%	30%

**Comparative Income Statement of Barani Ltd.
for the year ended 31st March 2017 to 31st March 2018**

Particulars	2016-17	2017-18	Absolute Assets of Increase (+) (or) decrease (-)	Percentage Increase (+) Decrease (-)
	₹	₹	₹	
Revenue from operation	30,000	45,000	+15,000	+50
Add: Other income	4,000	6,000	+2,000	+50
Total Revenue	34,000	51,000	+17,000	50
Less: Expenses	10,000	15,000	+5,000	50
Profit before tax	24,000	36,000	+12,000	50
Less: Income tax 30%	7,200	10,800	+3,600	50
Profit after tax	16,800	25,200	+8,400	50

3. From the following particulars, prepare comparative income statement of Daniel Ltd.

Particulars	2015-16 ₹	2016-17 ₹
Revenue from operations	40,000	50,000
Operating expenses	25,000	27,500
Income tax (% of the profit before tax)	30	30

**Comparative Income Statement of Daniel Ltd.
for the year ended 31st March 2016 to 31st March 2017**

Particular	2015-16 ₹	2016-17 ₹	Absolute amount of Increase (+) (or) decrease (-) ₹	Percentage Increase (+) (or) Decrease (-)
Revenue from operation	40,000	50,000	+10,000	25
Less: Operating Expenses	25,000	27,500	+2,500	10
Profit before tax	15,000	22,500	+7,500	50
Less: Income tax 30%	4,500	6,750	+2,250	50
Profit after tax	10,500	15,750	+5,250	50

4. From the following particulars, prepare comparative statement of financial position of Muthu Ltd.

Particulars	31 st March, 2017 ₹	31 st March, 2018 ₹
I EQUITY AND LIABILITIES		
Shareholders' Fund	4,00,000	4,40,000
Non-current liabilities	1,50,000	1,65,000
Current liabilities	75,000	82,500
Total	6,25,000	6,87,500
II ASSETS		
Non-current assets	5,00,000	6,00,000
Current assets	1,25,000	87,500
Total	6,25,000	6,87,500

**Comparative Balance Sheet of Muthu Ltd.
as on 31st March 2017 to 31st March 2018**

Particular	31.3.2017 ₹	31.3.2018 ₹	Absolute of Assets of Increase (+) (or) decrease (-) ₹	Percentage Increase (+) Decrease (-)
I Equity and Liabilities				
1. Shareholders' Fund				
(a) Share Capital	4,00,000	4,40,000	40,000	10
(b) Non-Current Liabilities	1,50,000	1,65,000	15,000	10
(c) Current Liabilities	75,000	82,500	7,500	10
	6,25,000	6,87,500	62,500	10
II Assets				
(a) Non-Current Assets	5,00,000	6,00,000	1,00,000	20
(b) Current Assets	1,25,000	87,500	-37,500	30
	6,25,000	6,87,500	62,500	10

5. From the following particulars, prepare comparative statement of financial position of Kala Ltd.

Particulars	31 st March, 2017 ₹	31 st March, 2018 ₹
I EQUITY AND LIABILITIES		
1. Shareholders' Fund		
(a) Share capital	3,00,000	3,60,000
(b) Reserves and surplus	50,000	50,000
2. Non-current liabilities		
Long-term borrowings	50,000	40,000
3. Current liabilities		
Trade payables	20,000	12,000
Total	4,20,000	4,62,000
II ASSETS		
1. Non-current assets		
(a) Fixed assets	2,50,000	2,90,000
(b) Non-current investments	50,000	40,000

2. Current assets		
Inventories	80,000	1,00,000
Cash and cash equivalents	40,000	32,000
Total	4,20,000	4,62,000

**Comparative Balance Sheet of Kala Ltd. as on
31st March 2017 and 31st March 2018**

Particulars	31.3.2017 ₹	31.3.2018 ₹	Absolute amount of Increase (+) decrease (-) ₹	Percentage Increase (+) (or) Decrease (-)
I Equity and Liabilities				
1. Shareholders' Fund				
(a) Share Capital	3,00,000	3,60,000	60,000	20
(b) Reserves and Surplus	50,000	50,000	-	Nil
2. Non-Current Liabilities	50,000	40,000	10,000	20
Long term borrowings				
3. Current Liabilities	20,000	12,000	-8,000	40%
Trade Payable				
	4,20,000	4,62,000	42,000	10%
II Assets				
1. Non-Current Assets				
(a) Fixed Assets	2,50,000	2,90,000	40,000	16
(b) Non-Current Investment	50,000	40,000	-10,000	20
2. Current Assets				
Inventories	80,000	1,00,000	20,000	25
Cash and Cash equivalents	40,000	32,000	-8,000	20
	4,20,000	4,62,000	42,000	10

6. Prepare common-size income statement for the following particulars of Raja Ltd. for the year ended 31st March, 2017.

Particulars	2016-17
	₹
Revenue from operations	4,50,000
Other income	67,500
Expenses	1,35,000

Common-Size Statement of Raja Ltd. as on 31st March 2017

Particulars	Absolute amount ₹	Percentage of Revenue from Operators
Revenue from Operations	4,00,000	100
Add: Other Income	67,500	15
Total Revenue	5,17,500	115
Less: Expenses	13,500	30
Profit before Tax	3,82,500	85

7. From the following particulars of Maria Ltd. and Kala Ltd. prepare a common-size income statement for the year ended 31st March, 2019.

Particulars	Maria Ltd	Kala Ltd
	₹	₹
Revenue from operations	1,00,000	2,00,000
Other income	10,000	30,000
Expenses	70,000	1,20,000

Common Size Income statement for the year ended 31st March 2019

Particulars	Maria Ltd.		Kala Ltd.	
	Absolute Amount	Percentage Revenue from Operation	Absolute Amount	Percentage of Revenue from Operation
Revenue from operations	1,00,000	100%	2,00,000	100%
Add: Other Income	10,000	10%	30,000	15%
Total Revenue	1,10,000	110%	2,30,000	115%
Less: Expenses	70,000	70%	1,20,000	60%
Profit before tax	40,000	40%	1,10,000	55%

8. Prepare common-size income statement for the following particulars of Sam Ltd.

Particulars	2015-16	2016-17
	₹	₹
Revenue from operations	4,00,000	5,00,000
Other income	80,000	50,000
Expenses	2,40,000	2,50,000
Income tax	30%	30%

Common Size Income statement of Sam Ltd.

Particulars	2015-2016		2016-2017	
	Absolute Amount	Percentage of Revenue from Operation	Absolute Amount	Percentage of Revenue from Operation
Revenue from operation	4,00,000	100	5,00,000	100
Add: Other Income	80,000	20	50,000	10
Total Revenue	4,80,000	120	5,50,000	110
Less: Expenses	2,40,000	60	2,50,000	50
Profit before tax	2,40,000	60	3,00,000	50
Less: Income Tax 30%	72,000	18	90,000	18
Profit after Tax	1,68,000	42	2,10,000	42

9. Prepare Common-size balance sheet of Meena Ltd. as on 31st March, 2018.

Particulars	31 st March 2018
	₹
I EQUITY AND LIABILITIES	
Shareholders' funds	2,00,000
Non-current liabilities	1,60,000
Current liabilities	40,000
Total	4,00,000
II ASSETS	
Non-current assets	3,00,000
Current assets	1,00,000
Total	4,00,000

Common Size Balance sheet of Meena Ltd. on 31st March 18

Particulars	Absolute Amount	Percentage of Total Assets
I EQUITY AND LIABILITIES		
Shareholders' funds	2,00,000	50
Non-current liabilities	1,60,000	40
Current liabilities	40,000	10
Total	4,00,000	100

II ASSETS		
Non-current assets	3,00,000	75
Current assets	1,00,000	25
Total	4,00,000	100

10. Prepare common-size statement of financial position for the following particulars of Rani Ltd.

Particulars	31 st March, 2016	31 st March, 2017
	₹	₹
I EQUITY AND LIABILITIES		
Shareholders' Fund	5,40,000	6,00,000
Non-current liabilities	2,70,000	2,50,000
Current liabilities	90,000	1,50,000
Total	9,00,000	10,00,000
II ASSETS		
Non-current assets	7,20,000	8,00,000
Current assets	1,80,000	2,00,000
Total	9,00,000	10,00,000

Common Size Balance sheet of Rani Ltd. as on
31st March 2016 to 31st March 2017

Particulars	31 st March 2016		31 st March 2017	
	Absolute Amount	Percentage of Total Assets	Absolute Amount	Percentage of Total Assets
I EQUITY AND LIABILITIES				
Shareholders' Fund	5,40,000	60	6,00,000	60
Non-current liabilities	2,70,000	30	2,50,000	25
Current liabilities	90,000	10	1,50,000	15
Total	9,00,000	100	10,00,000	100
II ASSETS				
Non-current assets	7,20,000	80	8,00,000	80
Current assets	1,80,000	20	2,00,000	20
Total	9,00,000	100	10,00,000	100

11. Prepare common-size statement of financial position for the following particulars of Yasmin Ltd. and Sakthi Ltd.

Particulars	Yasmin Ltd. ₹	Sakthi Ltd. ₹
I EQUITY AND LIABILITIES		
1. Shareholders' Fund		
(a) Share capital	2,00,000	3,00,000
(b) Reserves and surplus	50,000	60,000
2. Non-current liabilities		
Long-term borrowings	1,50,000	1,80,000
3. Current liabilities		
Trade payables	1,00,000	60,000
Total	5,00,000	6,00,000
II ASSETS		
1. Non-current assets		
(a) Fixed assets	2,00,000	3,00,000
(b) Non-current investments	50,000	1,20,000
2. Current assets		
Inventories	2,00,000	90,000
Cash and cash equivalents	50,000	90,000
Total	5,00,000	6,00,000

Common Size statement of Balance sheet

Particulars	Yasmin Ltd.		Sakthi Ltd.	
	Absolute Amount	Percentage of Total Assets	Absolute Amount	Percentage of Total Assets
I EQUITY AND LIABILITIES				
1. Shareholders' Fund				
(a) Share Capital	2,00,000	40	3,00,000	50
(b) Reserve and Surplus	50,000	10	60,000	10
2. Non-current liabilities				
Long Term borrowings	1,50,000	30	1,80,000	30
3. Current liabilities				
Trade Payable	1,00,000	20	60,000	10
Total	5,00,000	100	6,00,000	100

II ASSETS				
1) Non-current assets				
(a) Fixed assets	2,00,000	40	3,00,000	50
(b) Non-Current Investment	50,000	10	1,20,000	20
2) Current Assets				
(a) Inventories	2,00,000	40	90,000	15
(b) Cash and cash equivalents	50,000	10	90,000	15
Total	5,00,000	100	5,00,000	100

12. From the following particulars, calculate the trend percentages of Kala Ltd.

Particulars	₹ in thousands		
	2015-16	2016-17	2017-18
Revenue from operations	400	500	600
Other income	100	150	200
Expenses	200	290	350

Trend Analysis of Kala Ltd

Trend Percentage

Particulars	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue from operations	400	500	600	100	125	150
Add: Other Incomes	100	150	200	100	150	200
Total revenue	500	650	800	100	130	160
Less: Expenses	200	290	350	100	145	175
Profit	300	360	450	100	120	150

13. From the following particulars, calculate the Trend percentages of Kavitha Ltd.

Particulars	₹ in thousands		
	2015-16	2016-17	2017-18
Revenue from operations	100	125	150
Other income	20	25	30
Expenses	100	120	80
Income tax	30%	30%	30%

Trend Percentage of Kavitha Ltd (in thousands)

Particulars	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue from operations	100	125	150	100	125	150
Add: Other Income	20	25	30	100	125	150
Total Income	120	150	180	100	120	150
Less: Expenses	100	120	80	100	120	80
Profit before Tax	20	30	100	100	150	500
Less: Income Tax 30%	6	9	30	100	150	500
Profit after Tax	14	21	70	100	150	500

14. From the following particulars, calculate the trend percentages of Kumar Ltd.

Particulars	₹ in thousands		
	2015-16	2016-17	2017-18
Revenue from operations	300	270	150
Other income	50	80	60
Expenses	250	200	125
Income tax %	40	40	40

Trend Percentage of Kumar Ltd
(in thousands ₹)

Particulars	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
Revenue from operations	300	270	150	100	90	50
Add: Other Incomes	50	80	60	100	160	120
Total Revenue	350	350	210	100	100	60
Less: Expenses	250	200	125	100	80	50
Profit before Tax	100	150	85	100	150	85
Income Tax 40%	40	60	34	100	150	85
Profit after Tax	60	90	51	100	150	85

15. From the following particulars, calculate the trend percentages of Anu Ltd.

Particulars	₹ in thousands		
	Year 1	Year 2	Year 3
I EQUITY AND LIABILITIES			
Shareholders' Fund	500	550	600
Non-current liabilities	200	250	240
Current liabilities	100	80	120
Total	800	880	960

II ASSETS			
Non-current assets	600	720	780
Current assets	200	160	180
Total	800	880	960

Trend Percentage of Anu Ltd (In Thousands)

Particulars	I Year	II Year	III Year	I Year	II Year	III Year
I EQUITY AND LIABILITIES						
Shareholders' Fund	500	550	600	100	110	120
Non-current liabilities	200	250	240	100	125	120
Current liabilities	100	80	120	100	80	120
Total	800	880	960	100	110	120
II ASSETS						
Non-current assets	600	720	780	100	120	130
Current assets	200	160	180	100	80	90
Total	800	880	960	100	110	120

16. From the following particulars, calculate the trend percentages of Babu Ltd.

Particulars	₹ in thousands		
	Year 1	Year 2	Year 3
I EQUITY AND LIABILITIES			
1. Shareholders' Fund			
(a) Share capital	100	127	106
(b) Reserves and surplus	30	30	45
2. Non-current liabilities			
Long-term borrowings	70	77	84
3. Current liabilities			
Trade payables	20	30	40
Total	220	264	275
II ASSETS			
1. Non-current assets			
(a) Fixed assets	100	118	103
(b) Non-current investments	40	50	60
2. Current assets			
(a) Inventories	60	66	72
(b) Cash and cash equivalents	20	30	40
Total	220	264	275

Trend Percentage of Babu Ltd.
(In Thousands)

Particulars	I Year	II Year	III Year	I Year	II Year	III Year
I EQUITY AND LIABILITIES						
1) Shareholders' Fund						
(a) Share Capital	100	127	106	100	127	106
(b) Reserve and Surplus	30	30	45	100	100	150
2) Non-current liabilities						
Long Term borrowings	70	77	84	100	110	120
3) Current liabilities						
Trade Payable	20	30	40	100	150	200
	220	264	275	100	120	125
II ASSETS						
1) Non-current assets						
(a) Fixed assets	100	118	103	100	118	103
(b) Non-Current Investment	40	50	60	100	125	150
2) Current Assets						
(a) Inventories	60	66	72	100	110	120
(b) Cash and cash equivalents	20	30	40	100	150	200
Total	220	264	275	100	120	125