MANIPAL UNIVERSITY JAIPUR
University under Section 2(f) of the UGC Act

Centre of Distance and Online Education

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SEMESTER	**III**
COURSE CODE & NAME	**DCM2105 & FINANCIAL STATEMENT INTERPRETATION**
PROGRAM	**B.COM**

SET-1

1.a) Discuss the significance of financial statement analysis. Mention types of financial statements Analysis are there?

Importance of Financial Statement Analysis

Financial statement analysis plays a critical role in determining a company's financial performance, well-being, and future. Its significance lies in:

Decision-Making: Assists management in making sound decisions regarding investments, cost management, and expansion.

Investor Confidence: Assists investors in gauging a company's profitability and stability.

Creditworthiness: Lenders use financial statements to assess the company's creditworthiness.

Regulatory Compliance: Assists in regulatory compliance with legal and financial obligations.

Comparative Analysis: Assists in comparisons of performance across periods and peers.

Types of Financial Statement Analysis

Horizontal Analysis: Compares financial data across periods to track trends.

Vertical Analysis: Presents financial items as a percentage of a base figure for the same period.

Ratio Analysis: Uses financial ratios to analyze liquidity, profitability, and solvency.

Cash Flow Analysis: Examines cash inflows and outflows to establish liquidity and financial flexibility.

Trend Analysis: Examines trends over time to forecast future financial performance.

b) Prepare Income Statement for Year ended 31st Dec 2023 from the below information as per schedule III of companies Act 2013.

Gross Revenue	Rs 1,000,000
Purchase of Raw material	Rs 5,60,000
Opening Raw material	Rs 2,00,000
Closing of raw material	Rs 60,000
Depreciation	Rs 25,000
Selling expenses	Rs 5,000
Retirement benefit expense	Rs 50,000
Salary expense	Rs 70,000

Office equipment (life less than 1 year) Rs 50,000

Interest expense Rs 7,000

Tax Expenses Rs 45000

Extra ordinary Expenses Rs 60,000

Particulars	Amount Rs.
Revenue from Operations	10,00,000
Total Revenue	10,00,000
Expenses:	
Cost of Raw Material Consumed	7,00,000
(Opening Stock + Purchases - Closing Stock)	2,00,000+5,60,000-60,000
Depreciation	25,000
Selling Expenses	5,000
Retirement Benefit Expenses	50,000
Salary Expense	70,000
Office Equipment (Expensed)	50,000
Interest Expense	7,000
Extraordinary Expenses	60,000
Total Expenses	9,67,000
Profit Before Tax	33,000
Tax Expense	45,000
Net Profit/(Loss) for the Year	12,000 Loss

2) From Income Statement for the Year Ended December 31,2023 (in Rs.). Determine Cash from operating activity.

Revenue **Expenses**

Sales Rs. 5,00,000 Cost of Goods Sold Rs. 2,00,000

Other Revenues Rs. 50,000 Operating Expenses Rs. 1,00,000

Interest Expense Rs. 10,000

Tax Expense Rs. 20,000

Net Income Rs. 2,20,000

Additional Information:

Depreciation Expense: Rs. 30,000

Changes in Working Capital:

Increase in Accounts Receivable: Rs. 10,000

Decrease in Inventory: (Rs. 5,000)

Increase in Accounts Payable: Rs. 8,000

Increase in Accrued Expenses: Rs. 3,000

Particulars	Amount Rs.
Net Income	2,20,000
Add:	
Depriciation	30,000
Decrease in Inventory	5,000
Increase in Accounts Payable	8,000
Increase in Accrued Expenses	3,000
Less:	
Increase in Accounts Receivable	10,000

Cash Flow from Operating Activities = Rs. 2,56,000

a) Prepare a schedule for changes in the working capital from the Balance sheet data given below:

	Dec 2023 (Rs.)	**Dec 2024 (Rs.)**
Capital & Liabilities:		
Share Capital	6,00,000	7,50,000
Trade creditors	2,12,000	1,40,000
Profit & Loss A/c	28,000	62,000
	8,40,000	**9,52,000**
Assets:		
Machinery	140,000	2,00,000
Stock-in-trade	2,42,000	2,72,000
Debtors	3,62,000	3,40,000
Cash	96,000	1,40,000
Total	**8,40,000**	**9,52,000**

Particulars	Dec 2023 (Rs)	Dec 2024 (Rs)	Increase in W/C	Decrease in W/C
Current Assets				
Stock-in-trade	2,42,000	2,72,000	30,000	
Debtors	3,62,000	3,40,000		**22,000**
Cash	96,000	1,40,000	44,000	
Total A	7,00,000	7,52,000	-	-
Current Liabilities				
Trade Creditors	2,12,000	1,40,000		72,000
Total B	2,12,000	1,40,000		
Working Capital (A – B)	4,88,000	6,12,000	1,24,000	

Working Capital increased by Rs. 1,24,000 due to a net increase in current assets and a decrease in current liabilities.

(B)

Current ratio = 2.8:1

Acid-Test ratio = 1.5 :1

Working capital = Rs.162000

Find out:

a) Current assets

b) Current Liabilities

c) Liquid assets

From the Working Capital formula:

Working Capital = Current Assets − Current Liabilities

Given, Working Capital = Rs. 1,62,000
Current Ratio = 2.8:1

Current Assets/Current Liabilities = 2.8

Current Assets = 2.8x

2.8x – x = 1,62,000

1.8x = 1,62,000

X = 1,62,000/1.8 = 90,0000

Current Liabilities = Rs. 90,000

Current Assets = 2.8 × 90,000 = 2,52,000

Liquid Assets = 1.5 × 90,000 = 1,35,000

SET-2

a) Perform a trend analysis for ABC co. over a five-year period (2018-2022) for sales, expenses, and net income to understand the relationships between these components.

Year	Sales	Expenses	Net Income
2018	Rs. 800,000	Rs. 600,000	Rs. 200,000
2019	Rs. 850,000	Rs. 620,000	Rs. 230,000
2020	Rs. 780,000	Rs. 640,000	Rs. 140,000
2021	Rs. 920,000	Rs. 700,000	Rs. 220,000
2022	Rs. 950,000	Rs. 720,000	Rs. 230,000

Trend Index = (Value in Given Year/Value in Base year) × 100

Year	Sales (Rs.)	Sales Index	Expenses (Rs.)	Expenses Index	Net Income (Rs.)	Net Income Index
2018	800,000	100%	600,000	100%	200,000	100%
2019	850,000	106.25%	620,000	103.33%	230,000	115.00%
2020	780,000	97.50%	640,000	106.67%	140,000	70.00%
2021	920,000	115.00%	700,000	116.67%	220,000	110.00%
2022	950,000	118.75%	720,000	120.00%	230,000	115.00%

Analysis & Interpretation:

Sales showed an overall increasing trend, except for a dip in 2020.

Expenses consistently increased, reaching 120% of the 2018 level by 2022.

Net Income fluctuated, dropping to 70% in 2020 but recovering in later years.

b) ₹ 2,00,000 is the cost of revenue from operations, inventory turnover is 8 times, stock at the beginning is 1.5 times of the stock at the end. Calculate the value of opening and closing stock.

Inventory Turnover Ratio = Cost of Revenue from Operations/Average Stock

8=2,00,000/average stock

Average Stock = 2,00,000/8 = 25,000

Opening Stock = 1.5 x Closing Stock

Opening Stock = 1.5x

Closing Stock:

1.5x+x/2 = 25,000

2.5x/2 = 25,000

2.5x = 50,000

X = 20,000

Opening Stock = 1.5 x 20,000 = 30,000

Opening Stock = 30,000

Closing Stock = 20,000

5.a) State different techniques of Earnings Management.

Earnings management refers to the deliberate distortion of financial information to achieve desired financial results. Some of the typical techniques include:

Income Smoothing: Expenses or revenues are manipulated to reduce fluctuations in earnings, and they are made appear stable over the long term.

Cookie Jar Reserves: In good times, expenses are exaggerated to create reserves that will be drawn upon in future periods in order to add to earnings.

Big Bath Accounting: Big write-offs or losses are incurred in one period so that the future periods' financial results appear stronger.

Revenue Recognition Manipulation: Revenue is accelerated (early revenue recognition) or delayed to the next period.

Expense Manipulation: Expenses are delayed to maximize current period profit or accelerated to shift profits to future periods.

Changing Depreciation Methods: Depreciation methods or assumptions (e.g., asset lives) are switched to impact reported profits.

Off-Balance Sheet Financing: Some expenses or obligations are not accounted for in the balance sheet so that the company appears in better financial shape.

b) Explain different methods used for Financial Forecasting.

Financial forecasting helps businesses predict future financial performance. Common methods include:

Qualitative Methods:

Delphi Method: Collecting expert opinions and aggregating forecasts.

Market Research: Gathering data from customers and industry trends to predict sales and financial performance.

Quantitative Methods:

Time Series Analysis: Using historical data to identify trends and patterns for future projections.

Regression Analysis: Establishing relationships between financial variables to forecast future outcomes.

Percentage of Sales Method: Estimating financial figures (e.g., expenses, assets) as a percentage of projected sales.

Moving Averages: Smoothing out fluctuations in financial data to identify long-term trends.
Hybrid Methods:

Combining qualitative and quantitative techniques to improve forecast accuracy.

6) Comparative Balance Sheet:

Percentage Change = (Change in Amount/2023 Value) ×100

Liabilities Side

Particulars	2023 (Rs.)	2024 (Rs.)	Absolute Change	% Change
Equity Share Capital	6,00,000	8,00,000	+2,00,000	+33.33%
Reserves & Surplus	3,30,000	2,22,000	-1,08,000	-32.73%
Debentures	2,00,000	3,00,000	+1,00,000	+50.00%

Long-term Loans on Mortgage	1,50,000	2,00,000	+50,000	+33.33%
Bills Payable	50,000	45,000	-5,000	-10.00%
Sundry Creditors	1,00,000	1,20,000	+20,000	+20.00%
Other Current Liabilities	5,000	10,000	+5,000	+100.00%
Total Liabilities	14,35,000	**16,97,000**	2,62,000	18.26%

Assets Side

Particulars	2023 (₹)	**2024 (₹)**	Absolute Change (₹)	% Change
Land & Buildings	3,70,000	2,70,000	-1,00,000	-27.03%
Plant & Machinery	4,00,000	6,00,000	+2,00,000	+50.00%
Furniture & Fixtures	20,000	25,000	+5,000	+25.00%
Other Fixed Assets	25,000	30,000	+5,000	+20.00%
Cash in Hand & Bank	20,000	80,000	+60,000	+300.00%
Bills Receivable	1,50,000	90,000	-60,000	-40.00%
Sundry Debtors	2,00,000	2,50,000	+50,000	+25.00%
Stock	2,50,000	3,50,000	+1,00,000	+40.00%
Prepaid Expenses	-	2,000	+2,000	-
Total Assets	14,35,000	16,97,000	+2,62,000	+18.26%

Increase in Equity Capital:

The equity share capital increased by ₹2,00,000 (+33.33%), which means that the company issued more shares, probably to raise funds for expansion.
Decrease in Reserves & Surplus:

A decrease of ₹1,08,000 (-32.73%) indicates that the company used the reserves, probably for dividend distribution, reinvestment, or covering losses.

Increase in Debt Financing:

Debentures increased by ₹1,00,000 (+50.00%), and long-term loans increased by ₹50,000 (+33.33%), which means that the company depended more on external borrowing.
Fixed Assets Reallocation:

Land & Buildings has reduced by ₹1,00,000 (-27.03%), while Plant & Machinery has increased by ₹2,00,000 (+50.00%).
It may indicate the company sold some property and used the funds for machinery. The company could be expanding or upgrading its operations.

Increase in Working Capital:

Cash and bank balances have improved considerably at 300%. It enhances liquidity.
Stock has increased by 40%. This can indicate business growth.
Sundry debtors increased (+25%) which might indicate higher sales but could also raise concerns about collection efficiency.

Reduction in Bills Receivable (-40%):
A positive sign as it implies improved collection from customers, strengthening the short-term liquidity position.
Higher Current Liabilities:

Sundry creditors rose by ₹20,000 (+20%) and other current liabilities doubled, indicating increased short-term obligations.