



Q6. What do you mean by Common Size Statements?

Solution:

A common size statement represents the relationship between various items of financial statements and some common items (Net Sales and Total of Balance Sheet) in terms of percentage. Various items of trading and profit and loss account such as cost of goods sold, non-operating incomes and expenses are expressed in terms of percentage of net sales. Likewise, different items of the Balance Sheet such as Fixed Assets, Current Assets, Share Capital etc. are expressed in terms of percentage of Total of Balance Sheet. These percentage figures are easily comparable with those of previous years (i.e. intra-firm comparison) and with the figures of other firms in the same industry (i.e. inter-firm comparison) as well. Analyses based on these statements are commonly known as Vertical Analyses.

Commonly prepared common size statements are

1. Common Size Balance Sheet
2. Common Size Income Statement

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