



SHORT ANSWER TYPE QUESTIONS

Q1. State the meaning of financial Statement analysis?

Solution: 'Financial Statement Analysis' refers to a critical and detailed examination of the financial statements of a company in order to understand the data contained in it. It helps to identify and understand the financial strengths and weaknesses of a business so that financial results can be drawn.

Q2. What are limitations of financial analysis?

Solution:

Limitation of financial statements:

1. Ignores Changes in Price Level

The financial analysis neglects changes in the price level. The figures of different years are taken on nominal values and not in real terms.

2. Misleading and Wrong Information

The financial analysis fails to disclose the change in the accounting procedures and practices. Thus, they may provide wrong and misleading information.

3. Interim and Final Picture

The financial analysis provides incomplete information as it shows only the interim report. It fails to give the final and holistic picture.

4. Ignores Qualitative and Non-monetary Aspects

Only the monetary aspect is revealed in financial analysis. In other words, information which can be expressed only in monetary terms is considered. The analysis fails to disclose managerial efficiency, growth prospects and other non-operational efficiency of a business.

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