



Q3. State the meaning of Analysis and Interpretation.

Solution:

Analysis and interpretation refers to a critical and detailed examination of financial statements. The main purpose of analysis and interpretation is to present financial data in a manner which is easily understandable and self-explanatory. This not only helps accounting users to assess the financial performance of the business over a period of time but also helps them in decision making and policy and financial designing process.

Vaibhavi Ltd. Comparative Statement as on 31 March 2013 and 2014

Particulars	2012-13	2013-14	Absolute Change	% Change
Sales	1,00,000	1,50,000	50,000	50
Less: Cost of Goods Sold	60,000	78,000	18,000	30
Gross Profit	40,000	72,000	32,000	80
Less: Operating Expenses:				
Office and Administrative Exp.	8,000	10,000	2,000	25
Selling and Distribution Exp.	5,000	6,000	1,000	20
Operating Profit	27,000	56,000	29,000	107.4
Add: Other Income	3,000	4,800	1,800	60
Less: Non-operating Expenses	4,000	4,800	800	20
Profit Before Interest and Tax	26,000	56,000	30,000	115.38
Interest	2,000	1,800	(200)	(10)
Profit before Tax	24,000	54,200	30,200	125.83
Less: 50% Income Tax	12,000	27,100	15,100	125.83

$$\text{Percentage Change} = \frac{\text{Absolute Change}}{\text{Base Year of 2012 - 13}}$$

Interpretation:

1. Sales of the company has increased by 50% during the year 2013-14, whereas the cost of goods sold has also increased but at a lesser rate. From this, we can conclude that the company has followed an efficient sales strategy, consequent of which the gross profit of the company has increased by 80% compared to the previous year (2012-13).
2. In 2013-14, operating expenses have also increased, but on the contrary, operating profit has increased at a higher rate than the rate of operating expenses.
3. Profit before interest and tax has also increased by 115.38% during these two years. This indicates the improvement in the operating efficiency of the company.

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