



ACCOUNTS

NCERT - NCERT ACCOUNTS(HINGLISH)

ANALYSIS OF FINANCIAL STATEMENTS

Illustration

1. Convert the following statement of profit and loss into the comparative statement of

profit and loss of BCR Co .Ltd:

<i>Particulars</i>	<i>Note</i>	<i>2015-16</i>	<i>2016-17</i>
	<i>No.</i>	<i>Rs.</i>	<i>Rs.</i>
(i) Revenue from operations		60,00,000	75,00,000
(ii) Other incomes		1,50,000	1,20,000
(iii) Expenses		44,00,000	50,60,000
(iv) Income tax		35%	40%



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2. From the following statement of profit and loss of Madhu Co. Ltd. Prepare comparative statement of profit and loss for the year

ended March 31,2016 and 2017:

<i>Particulars</i>	<i>Note No.</i>	<i>2015-16</i>	<i>2016-17</i>
		<i>Rs.</i>	<i>Rs.</i>
Revenue from operations		16,00,000	20,00,000
Employee benefit expenses		8,00,000	10,00,000
Other expenses		2,00,000	1,00,000
Tax rate 40 %			



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3. The following are the Balance Sheets of J. Ltd. As at March 31,2016 and 2017. Prepare a

Comparative balance sheet.

Particulars	Note No.	March 31, 2017 (Rs.)	March 31, 2016 (Rs.)
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		20,00,000	15,00,000
b) Reserve and surplus		3,00,000	4,00,000
2. Non-current Liabilities			
Long-term borrowings		9,00,000	6,00,000
3. Current liabilities			
Trade payables		3,00,000	2,00,000
Total		35,00,000	27,00,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
- Tangible assets		20,00,000	15,00,000
- Intangible assets		9,00,000	6,00,000
2. Current assets			
- Inventories		3,00,000	4,00,000
- Cash and cash equivalents		3,00,000	2,00,000
Total		35,00,000	27,00,000



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4. From the following Balance Sheets of Amrit Limited as at March 31, 2016 and 2017, prepare

a comparative balance sheet:

Particulars	Note No.	March 31, 2017 (Rs.)	March 31, 2016 (Rs.)
I. Equity and Liabilities			
1. Shareholders' Funds			
a) Share capital		20,00,000	15,00,000
b) Reserve and surplus		13,00,000	14,00,000
2. Non-current Liabilities			
Long-term borrowings		19,00,000	16,00,000
3. Current liabilities			
Trade payables		3,00,000	2,00,000
Total		55,00,000	47,00,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
- Tangible assets		20,00,000	15,00,000
- Intangible assets		19,00,000	16,00,000
2. Current assets			
- Inventories		13,00,000	14,00,000
- Cash and Cash Equivalents		3,00,000	2,00,000
Total		55,00,000	47,00,000



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5. From the following information, prepare a Common size Income Statement for the year

ended March 31,2016 and March 31, 2017:

<i>Particulars</i>	<i>2016-17</i>	<i>2015-16</i>
	Rs.	Rs.
Net sales	18,00,000	25,00,000
Cost of good sold.	10,00,000	12,00,000
Operating expenses	80,000	1,20,000
Non-operating expenses	12,000	15,000
Depreciation	20,000	40,000
Wages	10,000	20,000



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6. From the following information, prepare Common size statement of profit and loss for the year ended March 31, 2016 and March 31,2017:

Particulars	2015-16	2016-17
	Rs.	Rs.
Revenue from operations	25,00,000	20,00,000
Other income	3,25,000	2,50,000

Employee benefit expenses	8,25,000	4,50,000
Other expenses	2,00,000	1,00,000
Income tax (% of the profit before tax)	30%	20%



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7. Prepare common size Balance Sheet of XRI Ltd. From the following information:

Particulars	Note No.	March 31, 2016	March 31, 2017
I. Equity and Liabilities			
1. Shareholders' Fund			
a) Share capital		15,00,000	12,00,000
b) Reserves and surplus		5,00,000	5,00,000
2. Non-current liabilities			
Long-term borrowings		6,00,000	5,00,000
3. Current liabilities			
Trade Payable		15,50,000	10,50,000
Total		41,50,000	32,50,000
II. Assets			
1. Non-current assets			
a) Fixed assets			
- Tangible asset			
Plant & machinery		14,00,000	8,00,000
- Intangible assets			
Goodwill		16,00,000	12,00,000
b) Non-current investments		10,00,000	10,00,000
2. Current assets			
Inventories		1,50,000	2,50,000
Total		41,50,000	32,50,000



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Test Your Understanding I

1. Analysis simply means _____ data.



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2. Interpretation means _____ data.



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3. Comparative analysis is also known as _____ analysis.



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4. Common size analysis is also known as _____ analysis.



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5. The analysis of actual movement of money inflow and outflow in an organisation is called _____ analysis.



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Test Your Understanding li

1. The financial statements of a business enterprise include:

Option1 Balance sheet

Option2 Statement of Profit and loss account

Option3 Cash flow statement

Option4 All the above

A. Balance sheet

B. Statement of Profit and loss account

C. Cash flow statement

D. All the above

Answer: D



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2. The most commonly used tools for financial analysis are:

Option1 Horizontal analysis

Option2 Vertical analysis

Option3 Ratio analysis

Option4 All the above

A. Horizontal analysis

B. Vertical analysis

C. Ratio analysis

D. All the above

Answer: D



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3. An Annual Report is issued by a company to its:

Option1 Director

Option2 Auditors

Option3 Shareholders

Option4 Management

A. Director

B. Auditors

C. Shareholders

D. Management

Answer: C



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4. Balance Sheet provides information about financial position of the enterprise:

Option1 At a point in time

Option2 Over a period of time

Option3 For a period of time

Option4 None of the above

A. At a point in time

B. Over a period of time

C. For a period of time

D. None of the above

Answer: A



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5. Comparative statements are also known as:

Option1 Dynamic analysis

Option2 Horizontal analysis

Option3 Vertical analysis

Option4 External analysis

A. Dynamic analysis

B. Horizontal analysis

C. Vertical analysis

D. External analysis

Answer: B



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Test Your Understanding iii

1. The financial statements of a business enterprise include cash flow statement



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2. Comparative statements are the form of horizontal analysis.



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3. Common size statements and financial ratios are the two tools employed in vertical analysis.



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4. Ratio analysis establishes relationship between two financial statements.



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5. Ratio analysis is a tool for analysing the financial statements of any enterprise.



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6. Financial analysis is used only by the creditors.



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7. Statement of profit and loss account shows the operating performance of an enterprise for a period of time.



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8. Financial analysis helps an analyst to arrive at a decision.



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9. Cash flow statement is a tool of financial statement analysis.



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10. In a Common size statement each item is expressed as a percentage of some common base.



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1. List the techniques of Financial Statement Analysis.



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2. Distinguish between Vertical and Horizontal Analysis of financial data .



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3. State the meaning of Analysis and Interpretation.



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4. State the importance of Financial Analysis?



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5. What are Comparative Financial Statements?



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6. What do you mean by Common Size Statements?



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7. Describe the different techniques of financial analysis and explain the limitations of financial analysis.



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8. Explain the usefulness of trend percentages in interpretation of financial performance of a company.



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9. What is the importance of comparative statements? Illustrate your answer with particular reference to comparative income statement.



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10. What do you understand by analysis and interpretation of financial statements? Discuss its importance.



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11. Explain how common size statements are prepared giving an example.



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Numerical Questions

1. Following are the balance sheets of Alpha Ltd., as at March 31, 2016

Particulars	March 31, 2016 Rs.	March 31, 2017 Rs.
I. Equity and Liabilities		
Equity share capital	2,00,000	4,00,000
Reserves and surplus	1,00,000	1,50,000
Long-term borrowings	2,00,000	3,00,000
Short-term borrowings	50,000	70,000
Trade payables	30,000	60,000
Short-term provisions	20,000	10,000
Other current liabilities	20,000	30,000
Total	6,20,000	10,20,000
II. Assets		
Fixed assets	2,00,000	5,00,000
Non-current investments	1,00,000	1,25,000
Current investments	60,000	80,000

Inventories	1,35,000	1,55,000
Trade receivables	60,000	90,000
Short term loans and advances	40,000	60,000
Cash at bank	25,000	10,000
Total	6,20,000	10,20,000

Your are required to prepare a Comparative Balance Sheet.



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2. Following are the balance sheets of Beta Ltd. At March 31,2017 and 2017:

Particulars	March 31,	March 31,
	2017	2016
	(Rs.)	(Rs.)
I. Equity and Liabilities		
Equity share capital	4,00,000	3,00,000
Reserves and surplus	1,50,000	1,00,000
Loan from IDBI	3,00,000	1,00,000
Short-term borrowings	70,000	50,000
Trade payables	60,000	30,000
Short-term provisions	10,000	20,000
Other current liabilities	1,10,000	1,00,000
Total	11,00,000	7,00,000
II. Assets		
Fixed assets	4,00,000	2,20,000
Non-current investments	2,25,000	1,00,000
Current investments	80,000	60,000
Stock	1,05,000	90,000
Trade receivables	90,000	60,000
Short-term loans and advances	1,00,000	85,000
Cash and cash equivalents	1,00,000	85,000
Total	11,00,000	7,00,000



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3. Prepare Comparative Statement of profit and loss from the following information :

<i>Particulars</i>	<i>2016-17</i> <i>(Rs.)</i>	<i>2015-16</i> <i>(Rs.)</i>
Freight Outward	20,000	10,000
Wages (office)	10,000	5,000
Manufacturing Expenses	50,000	20,000

Stock adjustment	(60,000)	30,000
Cash purchases	80,000	60,000
Credit purchases	60,000	20,000
Returns inward	8,000	4,000
Gross profit	(30,000)	90,000
Carriage outward	20,000	10,000
Machinery	3,00,000	2,00,000
10% depreciation on machinery	10,000	5,000
Interest on short-term loans	20,000	20,000
10% debentures	20,000	10,000
Profit on sale of furniture	20,000	10,000
Loss on sale of office car	90,000	60,000
Tax rate	40%	50%



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4. Prepare Comparative Statement of Profit and Loss the following information:

Particulars	2015-16	2016-17
	(Rs.)	(Rs.)
Manufacturing expenses	35,000	80,000
Opening stock	30,000	60% of closing stock
Sales	9,60,000	4,50,000
Returns outward	4,000 (out of credit purchase)	6,000 (out of cash purchase)
Closing stock	150% of opening stock	1,00,000
Credit purchases	1,50,000	150% of cash purchase
Cash purchases	80% of credit purchases	40,000
Carriage outward	10,000	30,000
Building	1,00,000	2,00,000
Depreciation on building	20%	10%
Interest on bank overdraft	5,000	-
10% debentures	2,00,000	20,00,000
Profit on sale of copyright	10,000	20,000
Loss on sale of personal car	10,000	20,000
Other operating expenses	20,000	10,000
Tax rate	50%	40%



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5. Prepare a Common size statement of profit and loss of Shefali Ltd. With the help of

following information:

<i>Particulars</i>	<i>2015-16</i>	<i>2016-17</i>
	<i>(Rs.)</i>	<i>(Rs.)</i>
Revenue from operations	6,00,000	8,00,00
Indirect expense	25% of gross profit	25% of gross profit
Cost of revenue from operations	4,28,000	7,28,000
Other incomes	10,000	12,000
Income tax	30%	30%



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6. Prepare a Common size balance sheet from the following balance sheet of Aditya Ltd. And

Anjali Ltd:

Particulars	Aditya Ltd.	Anjali Ltd.
	Rs.	Rs.
I. Equity and Liabilities		
a) Equity share capital	6,00,000	8,00,000
b) Reserves and surplus	3,00,000	2,50,000
c) Current liabilities	1,00,000	1,50,000
Total	10,00,000	12,00,000
II. Assets		
a) Fixed assets	4,00,000	7,00,000
b) Current assets	6,00,000	5,00,000
Total	1,00,0000	12,00,000



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