

Analysis of Financial Statements

1. From the given information, calculate : (2024)

(a) Quick Ratio

(b) Inventory Turnover Ratio

Particulars	Amount (₹)
Current Assets	4,00,000
Inventory	1,00,000
Current Liabilities	2,00,000
Net Profit Before Tax	7,20,000
Revenue from Operations	10,00,000
Gross Profit Ratio 20%	

Ans.

$$(a) \text{ Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\begin{aligned} \text{Quick assets} &= \text{Current Assets} - \text{Inventory} \\ &= 4,00,000 - 1,00,000 \\ &= ₹3,00,000 \end{aligned}$$

$$\text{Quick Ratio} = \frac{3,00,000}{2,00,000} = 1.5:1$$

$$(b) \text{ Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\begin{aligned} \text{Cost of Revenue from Operation} &= \text{Revenue from Operations} - \text{Gross Profit} \\ &= 10,00,000 - 2,00,000 \\ &= ₹ 8,00,000 \end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{8,00,000}{1,00,000} = 8 \text{ times}$$

2. From the following information, calculate 'Cash Flows From Operating Activities': (2024)

Particulars	Amount (₹)
Surplus i.e. Balance in Statement of Profit and Loss	6,28,000
Provision for Tax	1,50,000
Proposed Dividend for the previous year	72,000
Depreciation	1,40,000
Loss on Sale of Machinery	30,000
Gain on Sale of Investments	20,000
Dividend Received on Investments	6,000
Increase in Current Liabilities	1,61,000
Increase in Current Assets (other than cash and cash equivalents)	6,00,000
Decrease in Current Liabilities	64,000
Income Tax Paid	1,18,000

Ans.

Cash Flows from Operating Activities

Particulars	Details	Amount
	₹	₹
Net Profit before Tax and Extraordinary items	8,50,000	
Adjustments for Non- Cash and Non- operating items		
Add: Depreciation		
Loss on Sale of Machinery	1,40,000	
	30,000	
Less: Gain on Sale of Investments	(20,000)	
Dividend Received on Investments	<u>(6,000)</u>	
Operating profit before Working Capital changes	9,94,000	
Add: Increase in Current Liabilities		
Less: Increase in Current Assets	1,61,000	
Decrease in Current Liabilities	(6,00,000)	
Cash generated from operations	<u>(64,000)</u>	
Less: Income Tax paid	4,91,000	
Net cash inflows from Operating Activities	<u>(1,18,000)</u>	3,73,000

Calculation of Net Profit before Tax and Extraordinary items

Surplus	=	6,28,000
+ Provision for Tax	=	1,50,000
+ Proposed Dividend	=	<u>72,000</u>
		<u>8,50,000</u>

Previous Years' CBSE Board Questions

4.3 Objectives of Financial Analysis

SA II (3/4 marks)

1. Explain briefly any four objectives or 'Analysis of Financial Statements'. (Delhi 2019) R
2. One of the objectives of 'Financial Statement Analysis' is to identify the reasons for change in the financial positions of the enterprise. State two more objectives of this analysis. (Delhi 2016)

OR

One of the objectives of 'Financial Statement Analysis' is to judge the ability of the firm to repay its debt and assessing the short term as well as the long term liquidity position of the firm. State two more objectives of this analysis. (AI 2016) U

4.4 Tools of Financial Analysis

MCQ

3. Which of the following is a tool of Analysis of Financial Statements?
 - (a) Statement of Profit and Loss
 - (b) Ratio Analysis
 - (c) Balance Sheet
 - (d) Notes to Accounts(2023) R

VSA (1 mark)

4. Horizontal analysis is also known as _____ analysis. (2021 C)

4.5 Comparative Statements

SA II (3/4 marks)

5. Prepare a comparative statement of Profit and Loss from the following information extracted from the statement of Profit and Loss for the year ended 31st March, 2017 and 2018.

Particulars	2017-18	2016-17
Revenue from operations	(₹) 12,00,000	(₹) 10,00,000
Other income (% of Revenue from operations)	25%	25%
Employee benefit expenses (% of total Revenue)	40%	30%
Tax Rate	40%	40%

(Delhi 2019)

6. From the following information, prepare a Common Size Statement of Profit and Loss of Ashoka Ltd :

Particulars	2016-17 Amount ₹	2017-18 Amount ₹
Revenue from operations	20,00,000	10,00,000
Other income	2,00,000	50,000
Cost of materials consumed	6% of revenue from operations	50% of revenue from operations
Employee benefit expenses	1,40,000	80,000
Tax rate	30%	30%

(AI 2019)

7. Following is the Statement of Profit and Loss of Sun India Ltd. for the year ended 31st March, 2015.

Particulars	Note No.	31-3-2015 (₹)	31-3-2014 (₹)
Revenue from Operations		25,00,000	20,00,000
Other Income		1,00,000	5,00,000
Employee benefit-expenses		60% of total Revenue	50% of total Revenue
Other expenses		10% of employee benefit expenses	20% of employee benefit expenses
Tax Rate		50%	40%

The motto of Sun India Ltd. is to produce and supply green energy in the rural areas of India. It has also taken up a project of constructing a road that will pass through five villages, so that these villages could be connected to the nearby town.

You are required to prepare a comparative Statement of Profit and Loss of Sun India Ltd. from the given Statement of Profit and loss. Also identify any two values that the company wishes to convey to the society. (Delhi 2016)

8. Following is the statement of Profit and Loss of Moon India Ltd. for the year ended 31st March, 2015 :

Particulars	Note No.	31-3-2015 (₹)	31-3-2014 (₹)
Revenue from Operations		50,00,000	40,00,000
Other Income		2,00,000	10,00,000
Employee benefit-expenses		60% of total Revenue	50% of total Revenue
Other expenses		10% of employee benefit expenses	20% of employee benefit expenses
Tax Rate		50%	40%

The motto of Moon India Ltd. is to produce and distribute green energy in the backward areas of India. It has also taken up a project of giving vocational training to the girls belonging to the backward areas of Rajasthan.

You are required to prepare a comparative Statement of Profit and Loss of Moon India Ltd. from the given Statement of Profit and Loss and also Identify any two values that the company wishes to convey to the society. (AI 2016)

9. From the following 'Statement of Profit and Loss' for year ended 31st March, 2013 prepare a 'Comparative Statement of Profit and Loss' of Good Services Ltd. :

Particulars	Note No.	2012-13 (₹)	2011-12 (₹)
Revenue from Operations		20,00,000	15,00,000
Other Income		10,00,000	4,00,000
Expenses		21,00,000	15,00,000

Rate of Income tax was 50%.

(Delhi 2014)

10. From the following Statement of Profit and Loss of Fenox Ltd. for the year ended 31st March, 2013, prepare a comparative Statement of Profit and Loss :

Particulars	Note No.	2012-13 (₹)	2011-12 (₹)
Revenue from Operations		8,00,000	6,00,000
Other Income		1,00,000	50,000
Expenses		5,00,000	4,00,000

Rate of income tax 40%.

(AI 2014)

4.6 Common Size Statements

SA II (3/4 marks)

11. Prepare a common size Balance Sheet of KJ Ltd. from the following information.


Particulars	Note No.	31.3.2017 (₹)	31.3.2016 (₹)
I - Equity and Liabilities :			
1. Shareholder's Funds		8,00,000	4,00,000
2. Non-Current Liabilities		5,00,000	2,00,000
3. Current Liabilities		3,00,000	2,00,000
Total		16,00,000	8,00,000
II - Assets :			
1. Non-Current Assets		10,00,000	5,00,000
2. Current Assets		6,00,000	3,00,000
Total		16,00,000	8,00,000

(2018)

4.7 Limitations of Financial Analysis

MCQ

12. Which of the following is not a limitation of financial analysis?
 (a) It does not consider price level changes

- (b) It is just a study of interim reports
 (c) It may be misleading without the knowledge of the changes in accounting procedures followed by a firm
 (d) It identifies the reasons for change in the financial position of the firm (2021 C) 

Detailed SOLUTIONS

Previous Years' CBSE Board Questions

- Objectives of 'Financial Statements Analysis'
 - Assessing the earning capacity or profitability
 - Assessing the managerial efficiency
 - Assessing the short term and the long-term solvency of the enterprise
 - Inter-firm comparison.

- (i) To determine operating efficiency with which resources are utilised in generating revenue.

- (ii) To determine profitability with respect to sales and investments.

Related Theory

There are two main approaches for the analysis of financial statements, which are (i) Horizontal analysis and vertical analysis. Horizontal analysis is also known as time series analysis or dynamic analysis.

- Comparative Statement of Profit and Loss for the years ended 31st March 2017 and 31st March 2018.

Particulars	2016-17 (₹)	2017-18 (₹)	Absolute Increase/ Decrease	Percentage Increase/ Decrease
Revenue from operations	10,00,000	12,00,000	2,00,000	20
Add other income	2,50,000	3,00,000	50,000	20
Total Revenue	12,50,000	15,00,000	2,50,000	20
Less Employee benefit expenses	3,75,000	6,00,000	2,25,000	60
Profit before Tax	8,75,000	9,00,000	25,000	2.86
Less Tax	3,50,000	3,60,000	10,000	2.86
Profit after Tax	5,25,000	5,40,000	15,000	2.86

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Particulars	Absolute	Accounts	% of Revenue	
	2016-17	2017-18	2016-17(%)	2017-18(%)
I. Revenue from operations	20,00,000	10,00,000	100	100
II. Other Income	2,00,000	50,000	10	5
III. Total Income	22,00,000	10,50,000	110	105
IV. Expenses Cost of Material Consumed	12,00,000	5,00,000	60	50
Employees benefit Exp.	1,40,000	80,000	7	8
Total Expenses	13,40,000	5,80,000	67	58
V. Profit before tax (III - IV)	8,60,000	4,70,000	43	47
VI. Tax	(2,58,000)	(1,41,000)	12.9	14.1
VII. Profit after tax (V - VI)	6,02,000	3,29,000	30.1	32.9

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Comparative Income Statement

For the period 2014 and 2015

Particulars	Note No.	31-3-2014	31-3-2015	Absolute Change	Percentage Change (%)
1. Revenue from Operations		20,00,000	25,00,000	5,00,000	25.00
2. Other Income		5,00,000	1,00,000	(4,00,000)	(80.00)
3. Total Revenue		25,00,000	26,00,000	1,00,000	4.00
4. Expenses					
Employee Benefit Exp.		12,50,000	15,60,000	3,10,000	24.80
Other Expenses		2,50,000	1,56,000	(94,000)	(37.60)
Total Expenses		15,00,000	17,16,000	2,16,000	14.40
5. Profit before Tax (3-4)		10,00,000	8,84,000	(1,16,000)	(11.60)
Less : Income Tax		4,00,000	4,42,000	42,000	10.50
6. Profit after Tax		6,00,000	4,42,000	(1,58,000)	(26.30)

The Values conveyed by the company

- (i) Providing Employment Opportunities. (ii) Rural upliftment.

8. **Comparative Statement Profit and Loss A/c**
for the year ended March 31, 2014 and 2015

Particulars	31-3-2014 (₹)	31-3-2015 (₹)	Absolute Change (₹)	% age Change
1. Revenue from Operations	40,00,000	50,00,000	10,00,000	25.00
2. Other Income	10,00,000	2,00,000	(8,00,000)	(80.00)
3. Total Revenue (1 + 2)	50,00,000	52,00,000	2,00,000	4.00
4. Expenses				
Employee Benefit Exp.	25,00,000	31,20,000	6,20,000	24.80
Other Expenses	5,00,000	3,12,000	(1,88,000)	(37.60)
Total Expenses	30,00,000	34,32,000	4,32,000	14.40
5. Profit before Tax (3 - 4)	20,00,000	17,68,000	(2,32,000)	(11.60)
Less : Income Tax	8,00,000	8,84,000	84,000	10.50
6. Profit after Tax	12,00,000	8,84,000	(3,16,000)	(26.33)

The value conveyed by the company as follows :

- (i) Rural upliftment. (ii) Helping girls to get the employment.

9. **Comparative Statement of Profit and Loss**
for the year ended 31st March, 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (₹)	% age Change
1. Revenue from Operations		15,00,000	20,00,000	5,00,000	33.33%
Add : Other Income		4,00,000	10,00,000	6,00,000	150%
Total Revenue		19,00,000	30,00,000	11,00,000	57.89%
Less : Expenses		15,00,000	21,00,000	6,00,000	40%
Profit before Tax		4,00,000	9,00,000	5,00,000	125%
Less : Tax @ 50%		2,00,000	4,50,000	2,50,000	125%
Profit after Tax		2,00,000	4,50,000	2,50,000	125%

10. **Comparative Statement of Profit and Loss**
for the year ended 31st March 2012 and 2013

(A) Particulars	(B) 2011-12 (₹)	(C) 2012-13 (₹)	D = C - B Absolute Change (₹)	E = D × 100/B Proportionate Change %
I. Revenue from operations	6,00,000	8,00,000	2,00,000	33.33%
II. Other Income	50,000	1,00,000	50,000	100%
III. Total Revenue (I + II)	6,50,000	9,00,000	2,50,000	38.46%
IV. Total Expenses	4,00,000	5,00,000	1,00,000	25%
V. Profit before Tax (III - IV)	2,50,000	4,00,000	1,50,000	60%
VI. Less : Tax @ 40%	1,00,000	1,60,000	(60,000)	60%
VII. Profit after Tax	1,50,000	2,40,000	90,000	60%

11.

Common size B/S KJ Ltd.
As at 31st March, 2016 and 2017

Particulars	Note No.	Absolute 31.3.2016 (₹)	Amounts 31.3.2017 (₹)	Percentage of balance sheet 31.3.2016 %	Total 31.3.2017 %
I Equity and Liabilities					
1. Shareholder's funds		4,00,000	8,00,000	50	50
2. Non current liabilities		2,00,000	5,00,000	25	31.25
3. Current liabilities.		2,00,000	3,00,000	25	18.75
Total		<u>8,00,000</u>	<u>16,00,000</u>	<u>100</u>	<u>100.00</u>
II Assets :					
1. Non-current Assets		5,00,000	10,00,000	62.5	62.5
2. Current Assets		3,00,000	6,00,000	37.5	37.5
Total		<u>8,00,000</u>	<u>16,00,000</u>	<u>100.00</u>	<u>100.00</u>

12 (d) : It identifies the reasons for change in the financial position of the firm

