

Chapter-9

Important Questions Part-1

Financial Statements and Analysis

1. **List the major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a company as per Schedule VI Part I to the Companies Act 1956.**

Ans. The major heads under which the 'Equity and Liabilities' are presented in the Balance Sheet of a company as per Schedule VI Part I to the Companies Act 1956, are listed below:

- A. Shareholders Funds
- B. Share Application Money pending allotment
- C. Non-Current liabilities
- D. Current Liabilities

2. **List any three items than can be shown as 'Contingent Liabilities' in a company's balance sheet.**

Ans.

- 1. Claims against the company not acknowledged as debt
- 2. Guarantees given by the Company
- 3. Arrears of fixed cumulative dividends (on preference shares)

3. **List the major heads under which the assets are presented in the Balance Sheet of a company as per Schedule VI part I of the Companies Act 1956.**

Ans. The Major heads under which the Assets are presented in the Balance Sheet of company as per Schedule VI Part I of the Companies Act 1956, are listed below:

- i. Non-current Assets
- ii. Current Assets

4. **Name the sub-heads under the head (a) 'Shareholders Funds' and (b) 'Non-current liabilities as per Schedule VI Part 1 of the Balance Sheet.**

Ans. (a) The sub-heads under 'Shareholders Funds' are

(b) The sub-heads under ' Non-current liabilities' are

- i. Share Capital
- ii. Reserves and surplus



- iii. Money received against Share Warrants
- iv. Long-term Borrowings
- v. Deferred Tax Liabilities (Net)
- vi. Other Long-term Liabilities
- vii. Long-term Provisions

5. Name the sub-heads under the head 'Non-current assets' in the Balance Sheet under Schedule-VI of the Indian Companies Act, 1956.

Ans. The sub-heads under 'Non-current assets' are

- a. Fixed Assets
- b. Non-Current Investments
- c. Deferred Tax Assets (Net)
- d. Long-term loans and advances
- e. Other Non-current Assets

6. List the items which are presented under the major head „Current Assets" as per Revised Schedule VI Part I of the Companies Act 1956.

Ans. The items which are presented under the major head „Current Assets" as per Revised Schedule VI Part I of the Companies Act 1956, are given below:

- a. Current investments
- b. Inventories
- c. Trade receivables
- d. Cash and cash equivalents
- e. Short-term loans and advances.
- f. Other current assets.

7. Under what heads and sub-heads will the following items appear in the Balance Sheet of a company as per Revised Schedule VI Part 1 of the Companies Act 1956?

- i. **Debentures;**
- ii. **Loose tools;**
- iii. **Calls-in-advance**

Ans.

- i. Debentures: Major Head is Non-current liabilities, Sub-head is Long term borrowings
- ii. Loose tools: Major Head is Current Assets, Sub-head is Inventories
- iii. Calls-in-advance: Major Head is Current Liabilities, Sub-head is other current



Liabilities

8. **Enumerate any three items of Current Assets and any three items of Current Liabilities included in each of these major headings as Schedule VI Part 1 of the Companies Act, 1956.**

Ans.

Current Assets	Current Liabilities
1. Current Investments	1. Short Borrowings
2. Inventories	2. Trade Payables
3. Trade Receivables	3. Other Current Liabilities

Analysis of Financial Statements

1. **What is meant by Analysis of Financial Statement?**

Ans. 'Financial Statement Analysis' means analysis and interpretation of the Financial Statements of a company. The main purpose of Financial Analysis is to know the strengths and weaknesses of the business by analyzing the Financial Statements.

2. **Why are the financial institutions interested in analyzing financial statements?**

Ans. Analysis of financial statements provides important information to the financial institutions i.e. financial position, administrative efficiency and profit earning capacity etc. On the basis of which financial institutions may decide to provide financial help to the firm.

3. **State any one limitation of financial statement analysis.**

Ans. The most serious limitation is adoption of historic cost concept for recording various assets irrespective of subsequent change in their prices.

4. **How is 'Window Dressing' a limitation of financial statement analysis?**

Ans. Sometimes, financial statements prepared by the accountants are not true and faithful or may be manipulated by the accountants. When accounts are manipulated and present the Financial Statements to show the better position of the business than the actual position, it is known as window dressing. In such a situation results provided by the Financial Statement is not true and fair and does not show the actual financial position of the business.

5. **State the interest of investors in the analysis of financial statements.**

Ans. It is only after getting a detailed information about the profitability of the concern that investors take decisions regarding investment to be made in that particular business.



Accounting information is of great use to them in this connection. Investors are interested in the profitability, financial position, stability and future prospectus of business.

6. **State the significance of analysis of financial statement to ‘Top Management’.**

Ans. Financial analysis is helpful for the management for planning and controlling purposes. Through the financial analysis, management can take important decisions to improve the efficiency and thereby increase the profits of the enterprise.

7. **How does ‘Subjectivity’ become a limitation of Financial Statement Analysis?**

Ans. Subjectivity means personal judgment; financial Statements of a business unit are framed by the accountants according to their own personal judgments and abilities. Hence the Financial Statements based on personal judgments records only ‘approximations’ and not ‘authoritative’.

8. **Give any two advantages of analysis of financial statements.**

Ans. 1. Helpful to know the profitability: Financial Statement Analysis is helpful to know the profitability of the business and its ability to earn income and sustain growth in both short-term and long-term. A company's degree of profitability is usually based on the Balance Sheet and income statement (Statement of Profit & Loss), which reports on the company's results of operations.

2. Solvency – Investors and Creditors are very much interested in knowing the solvency of the business and its ability to pay its obligation.

9. **Why Taxation Authorities and Employees are interested in financial statement analysis?**

Ans. Employees: Employees are very much interested in the financial analysis of the financial statements. Financial analysis helps them to know the profitability of the business. Good results of the business activities as revealed by financial records provide a great satisfaction to employees as their bread and butter depend on these results. In those business concerns in which profit sharing schemes are introduced, employees become very much interested in knowing how the profit has been ascertained.

Taxation Authorities: Taxation authorities also need accounting information for the proper assessment of tax liability. They are interest in the profits of the business so that they can collect tax properly.



Important Questions Part-2

Financial Statement Analysis

QUESTIONS: 01 MARKS

1. How would you show the following two items in a company's Balance Sheet as at 31st March, 2012 as per the requirement of Schedule VI:

General Reserve (Since 31st March, 2011) Rs. 3,00,000, Statement of Profit and Loss (Debit Balance) for 2011-12 Rs. 2,00,000.

Ans.

Balance Sheet

As at 31st march, 2012

Equity and Liabilities	Note No.	Rs.
Shareholders' fund		
Reserve and Surplus	1	1,00,000
Notes to Accounts:		
Reserve and Surplus		
General Reserve(1st April, 2011)		3,00,000
Less: Statement of Profit and Loss(Dr. Balance)		2,00,000
		1,00,000

2. Under Which main headings and sub-headings of Equity and Liabilities of the balance sheet as per the Revised Schedule VI of a company will you classify the following items:
 - i. Proposed dividend.
 - ii. Fixed Deposit from Public

Ans.

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Sr. No.	Items	Main-Heading	Sub-Heading
i.	Proposed dividend	Current-Liabilities	Short-term provision
ii.	Fixed deposit from Public	Non-current liabilities	Long term borrowing

3. **State any two items which are shown under the head 'Investment' in a company balance sheet.**

Ans.

(i) Government Securities.

(ii) Sinking Fund Investment.

4. **How is analysis of Financial statements suffered from the limitation of window dressing?**

Ans. Analysis of financial statements is affected from the limitation of window dressing as companies hide Some vital information or show items at incorrect value to portray better profitability and financial Position of the business, for example the company may overvalue closing stock to show higher profits.

5. **What is the interest of Shareholders in the analysis of Financial Statements?**

Ans.

(i) They want to judge the present and future earning capacity of the business.

(ii) They want to judge the safety of their investment.

6. **Name two tools of Financial Analysis?**

Ans.

1. Comparative Financial Statements.

2. Ratio Analysis etc.

7. **What is Horizontal Analysis?**

Ans: The analysis which is made to review and compare the financial statements of two or more then two Years is called Horizontal Analysis.

8. **Give the example of Horizontal Analysis.**

Ans. Comparative Financial Statement.

9. **What is Vertical Analysis?**

Ans: The Analysis which is made to review the financial statements of one particular year only is called Vertical Analysis.

10. **Give the example of Vertical Analysis?**

Ans. Ratio Analysis.

3 MARKS

1. **Give the Main Heading and Sub- Heading of Equity and Liabilities of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.**

Ans.

2. EQUITY AND LIABILITIES
(5) Shareholders' Funds
(d) Share Capital
(e) Reserves and Surplus
(f) Money received against share warrants
(6) Share Applications Money Pending Allotment
(7) Non-Current Liabilities
(e) Long-term borrowings
(f) Deferred tax liabilities(Net)
(g) Other Long-term Liabilities
(h) Long-term provisions
(8) Current Liabilities
(e) Short-term borrowings
(f) Trade payables
(g) Other current liabilities
(h) Short-term provisions
TOTAL

2. **Give the Main Heading and Sub- Heading of Assets of the Balance sheet of a company as per the Revised Schedule VI of the companies Act.1956.**

Ans. ASSETS

- (1) Non-Current Assets
- (a) Fixed Assets
- i. Tangible Assets
- ii. Intangible assets
- iii. Capital work-in progress
- iv. Intangible assets under development



- b. Non-current investments
- c. Deferred tax assets (net)
- d. Long-term loans and advances
- e. Other non-current assets

(2) Current Assets

- a. Current investments
- b. Inventories
- c. Trade receivables
- d. Cash and cash equivalents
- e. Short-term loans and advances
- f. Other current assets

3. **Rearrange the following items under assets according to Revised or New Schedule VI:**

Ans.

- a. **Livestock**
- b. **Loose Tools.**
- c. **Goodwill**
- d. **Trademarks**
- e. **Bills Receivable**
- f. **Debtors**
- g. **Land**
- h. **Leasehold**
- i. **Stock-in-Trade**
- j. **Stores and Spare Parts**
- k. **Vehicles**
- l. **Cash at Bank**
- m. **Work in Progress(Machinery)**
- n. **Interest accrued on Investment**
- o. **Furniture**
- p. **Advance to Subsidiaries**
- q. **Cash in Hand**



- r. **Plant**
 - s. **Deposits with electricity supply company.**
 - t. Fixed Assets(Tangible): Livestock, Land, Leasehold, furniture, vehicles and plant
 - u. Capital Work-in-progress: Work in progress(Machinery)
 - v. Fixed Assets(Intangible): Goodwill and Trademarks
 - w. Inventories: Loose Tools, Stock-in-Trade, Stores and Spare Parts.
 - x. Trade Receivables: Bill Receivables, Debtors
 - y. Cash and Cash Equivalents: Cash at Bank, Cash in Hand
 - z. Long term Loans and Advances: Advance to Subsidiaries, Deposits with Electricity Supply Company.
 - aa. Other Current Assets: Interest Accrued on Investments.
4. **List any three items that can be shown as contingent Liabilities in a company's Balance sheet.**

Ans:

- 1. Claims against the Company not acknowledged as debts.
 - 2. Uncalled Liability on partly paid shares.
 - 3. Arrears of Dividend on Cumulative preference shares.108
5. **How is a Company's balance sheet different from that of a Partnership firm? Give Two point only**

Ans.

- i. For company's Balance Sheet there are two standard forms prescribed under the companies Act.1956 .Whereas, there is no standard form prescribed under the Indian partnership Act,1932 for a partnership Firms balance sheet.
- ii. In case of a company's Balance sheet previous year's figures are required to be given whereas it is not so in the case of a partnership firms balance sheet.

4 MARKS

1. **Prepare Comparative and Common Size income statement from the following information for the year's ended march 31, 2008 and 2009.**

Particulars	2008(Rs.)	2009(Rs.)
1.Net Sales	8,00,000	10,00,000

2.Cost of Goods Sold	60% of sales	60% of sales
3.Indirect Expenses	10% of Gross profit	10% of Gross Profit
4.Income Tax rate	50%	60%

Ans.

Comparative Income statement:

articular	2008 amount	2009 amount	Change in amount	Change in Percentage
Net Sales	8,00,000	10,00,000	2,00,000	25%
Less: C.O.G.S.	4,80,000	6,00,000	1,20,000	25%
Gross Profit	3,20,000	4,00,000	80,000	25%
Less: Indirect Expenses	32,000	40,000	8,000	25%
Operating Profit/ PBT	2,88,000	3,60,000	72,000	25%
Less: tax	1,44,000	2,16,000	72,000	50%
Profit after tax	1,44,.000	1,44,000	-----	-----

Common Size Income statement

Particular	2008 amount	2009 amount	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
Net Sales	8,00,000	10,00,000	100%	100%
Less: C.O.G.S.	4,80,000	6,00,000	60%	60%
Gross Profit	3,20,000	4,00,000	40%	40%
Less: IndirectExpenses	32,000	40,000	4%	4%
Operating Profit/ PBT	2,88,000	3,60,000	36%	36%
Less: tax	1,44,000	2,16,000	18%	21.6%
Profit after tax	1,44,.000	1,44,000	18%	14.4%



Important Questions Part-3

Financial statements of a company

1: Under which major sub-heading the following items will be placed in the Balance Sheet of a Company as per Schedule-VI, Part I of the Companies Act, 1956 :

(i)Accrued Incomes

(ii)Loose Tools

(iii)Provision for employees benefits

(iv)Unpaid dividend

(v)Short-term loans

(vi)Long-term loans

Solution :

Item	Sub-heading
Accrued Incomes	Other Current Assets
Loose tools	Inventories
Provision for Employees benefits	Long-term provisions
Unpaid Dividends	Other Current Liabilities
Short-term loans	Short-term borrowings/Short-term loans and advances
Long-term loans	Long-term borrowings/Long-term loans and advances

2: List the items which are shown under the heading, 'Current As-sets' in the Balance Sheet of a company as per provisions of Schedule VI, of the Companies Act, 1956.

Solution :



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- (a) Current Investments
 - (b) Inventories
 - (c) Trade Receivables
 - (d) Cash and cash equivalents
 - (e) Short-term loans and advances
 - (f) Other Current Assets
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3: Name the major headings under which the equity and liabilities side of a company's Balance Sheet is organized and presented.

Solution :

The major headings on the Equity and Liabilities side are :

- I. Shareholder's funds
 - II. Share Application money pending allotment
 - III. Non Current Liabilities
 - IV. Current Liabilities
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4: List the items that are included under Inventories.

Solution :

- (i) Raw materials
- (ii) Work-in-progress
- (iii) Finished goods
- (iv) Stock-in-trade
- (v) Stores and spares
- (vi) Loose tools



Important Questions Part-4

Financial Statements and Analysis

1: Prepare a 'Common Size Balance Sheet' on the basis of the inform motion given in the Balance Sheet of Z Ltd. As at 31st March 2015.

Particulars	Note No.	31-3-2015 Rs.
1. EQUITY AND LIABILITIES		
(1) Shareholders' funds		6,00,000
(a) Share capital		1,00,000
(b) Reserves and surplus		2,50,000
(2) Non-current Liabilities		50,000
(a) Long-term borrowings		
(3) Current liabilities		10,00,000
(a) Trade payables		
Total		
II. ASSETS		6,50,000
(1) Non-current assets		1,50,000
(a) Fixed assets		70,000
(i) Tangible Assets		50,000
(b) Non-current investments		80,000
(2) Current Assets		
(a) Inventories		
(b) Trade receivables		
(c) Cash and cash equivalents		10,00,000
Total		

Solution:

Common Size Balance Sheet of Z Ltd.



As at 31st March, 2015

Particulars	Note No.	Absolute Amount Rs.	Percent age of Balance Sheet Total
1. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital		6,00,000	60%
(b) Reserves and surplus		1,00,000	10%
(2) Non-current Liabilities		2,50,000	25%
(a) Long-term borrowings		50,000	5%
(3) Current liabilities			
(a) Trade payable			
Total		10,00,000	100%
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets		6,50,000	65%
(i) Tangible Assets		1,50,000	15%
(b) Non-current investments		70,000	7%
(2) Current Assets		50,000	5%
(a) Inventories		80,000	8%
(b) Trade receivables			
(c) Cash and cash equivalents			
Total		10,00,000	100%

2: From the following information for the years ended on 31st March, 2014 and 2015, prepare a 'Comparative Statement of Profit & Loss' of Beta Ltd.

Particulars	Note No.	2014 - 2015	2013 - 2014
Revenue from operations		7,00,000	5,00,000
Expenses		4,50,000	3,75,000



Other incomes		75,000	1,00,000
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Rate of Income Tax was 50%

Solution :

Comparative Statement of Profit and Loss of Beta Ltd for the years ended

31st March, 2014 and 2015

Particulars	Note No.	2014 - 2015	2013 - 2014	Absolute change	Change in in % age
Revenue from operations		5,00,000	7,00,000	2,00,000	40%
Add : Other Incomes		1,00,000	75,000	(25,000)	(25%)
Total Revenue		6,00,000	7,75,000	1,75,000	29.17%
Less : Expenses		3,75,000	4,50,000	75,000	20%
Profit before tax		2,25,000	3,25,000	1,00,000	44.44%
Less : Tax @ 50%		1,12,500	1,62,500	50,000	44.44%
Profit after tax					

3: Prepare a Comparative Income Statement and Common Size Statement of Profit and Loss from the following information :

Particulars	31st March	31st March
	2014	2015
Revenue from operations (% of cost of Material Concerned)	125%	140%
Cost of Material Consumed	2,40,000	2,50,000
Other expenses (% of Revenue from Operations)	10%	12%
Other Income	15,000	20,000
Tax Rate	30%	30%



Solution :

Common Size Statement of Profit and Loss

For the years ended on 31st March, 2014 and 2015

Particulars	Absolute	Amounts	Percentage of Revenue from Operations (Net Sales)	
	2014 (Rs.)	2015 (Rs.)	2014%	2015%
I. Revenue from operations	3,00,000	3,50,000	100.00	100.00
II. Add : Other Incomes	15,000	20,000	5.00	5.71
III. Total Revenue(I+II)	3,15,000	3,70,0000	105.00	105.71
IV. Expenses	2,40,000	2,50,000	80.00	71.43
a. Cost of Material Consumed	30,000	42,000	10.00	12.00
b. Other expenses				
Total Expenses	2,70,000	2,92,000	90.00	83.43
V. Profit before tax (III-IV)	45,000	78,000	15.00	22.28
Less : Tax @ 50%	(13,500)	(23,400)	(4.50)	(6.69)
VI. Profit after tax	31,500	54,600	10.50	15.59

COMPARATIVE INCOME STATEMENT

For the years ended on 31st March, 2014 and 2015

Particulars	Absolute	Amounts	Absolute Change	Percentage Change
	2014 (Rs.)	2015 (Rs.)	(Rs.)	%
I. Revenue from operations	3,00,000	3,50,000	50,000	16.67
II. Add : Other Incomes	15,000	20,000	5,000	33.33
III. Total Revenue(I+II)	3,15,000	3,70,0000	105.00	17.46
IV. Expenses				



c. Cost of Material Consumed	2,40,000	2,50,000	10,000	4.16
d. Other expenses	30,000	42,000	12,000	40.00
Total Expenses				
V. Profit before tax (III-IV)	2,70,000	2,92,000	90.00	8.15
Less : Income Tax	45,000	78,000	33,000	73.33
VI. Profit after tax	(13,500)	(23,400)	(9,900)	73.33
	31,500	54,600	23,100	73.33

4: Fill in the missing information in the following comparative statement of profit and loss.

Comparative Statement of Profit and Loss for the year ended 31st March 2014 and 2015

Particulars	Note No.	Absolute	Amounts	Absolute Change	Percentage Change
I. Revenue from operations		---	-----	---	---
II. Add : Other Incomes		---	---	---	---
III. Total Revenue(I+II)		---	---	---	---
IV. Expenses:		---	6,00,000	2,00,000	---
e. Cost of Material Consumed		25,000	---	---	60,000
f. Other expenses		---	---	---	---
Total Expenses		---	---	---	---
V. Profit before tax (III-IV)		60,000	75,000	---	---
Less : Income Tax @ 30 %		---	---	---	---
VI. Profit after tax					

Solution :



Comparative Statement of Profit and Loss

For the years ended on 31st March, 2014 and 2015

Particulars	Note No.	2013-14 (Rs.)	2014-15 (Rs.)	Absolute Change (Rs.)	Percentage Change %
I. Revenue from operations		6,00,000	8,00,000	2,00,000	33.33%
II. Add : Other Incomes		25,000	90,000	65,000	260%
III. Total Revenue(I+II)		6,25,000	8,90,000	2,65,000	42.4%
IV. Expenses:					
g. Cost of Material Consumed		4,00,000	6,00,000	2,00,000	50%
h. Other expenses		25,000	40,000	15,000	60%
Total Expenses		4,25,000	6,40,000	2,15,000	50.59%
V. Profit before tax (III-IV)		2,00,000	2,50,000	50,000	25%
Less : Income Tax @ 30 %		60,000	75,000	15,000	25%
VI. Profit after tax		1,40,000	1,75,000	35,000	25%

