

Analysis of Financial Statements

Multiple Choice Questions (MCQs):

Question 1.

Which of the following is not recognized as tool for the analysis of financial statements?

- (a) Cash Flow Statement
- (b) Funds Flow Statement
- (c) Trend Analysis
- (d) Statement showing distribution of dividends

▼ [Answer](#)

Answer: (d) Statement showing distribution of dividends

Question 2.

Which of the following is the objective of comparative statement?

- (a) To making data simple
- (b) To make data comparative
- (c) To help in forecasting
- (d) To detect financial irregularities

▼ [Answer](#)

Answer: (d) To detect financial irregularities



- (c) To help in forecasting
- (d) To detect financial irregularities

▼ [Answer](#)

Answer: (d) To detect financial irregularities

Question 3.

Which of the following is not a tool of financial statement analysis?

- (a) Cash Flow Statement
- (b) Statement showing distribution of dividend
- (c) Ratio Analysis
- (d) Comparative Financial Statements

▼ [Answer](#)

Answer: (b) Statement showing distribution of dividend

Question 4.

Which of the following objectives is not met by comparative statement of Profit and Loss?

- (a) It helps to compare the figures of atleast two years
- (b) It helps to assess absolute changes
- (c) It helps to know the changes in the financial position
- (d) It helps to know the percent changes in the statement of Profit and Loss

▼ [Answer](#)

Answer: (c) It helps to know the changes in the financial position

Question 5.

Financial analysis can be done with which of the following tool?

- (a) Ratio Analysis
- (b) Cash Flow Statement
- (c) Comparative Statements
- (d) All of the above

▼ [Answer](#)

Answer: (d) All of the above

Question 6.

Analysis of financial statements for two or more years is known as

- (a) Horizontal analysis
- (b) External analysis
- (c) Vertical analysis
- (d) Internal analysis

▼ [Answer](#)

Answer: (a) Horizontal analysis

Question 7.

Which of the following is not an objective of financial statement analysis?

- (a) Efficiency of the Management
- (b) Price Level Changes
- (c) Profitability of the Enterprise
- (d) Solvency of the Enterprise

▼ [Answer](#)

Answer: (b) Price Level Changes

Question 8.

Who of the following has no financial interest in the analysis of financial statements?

- (a) Management
- (b) Debtor
- (c) Creditor
- (d) Investor

▼ [Answer](#)

Answer: (b) Debtor

Question 9.

Who has the interest in long-term solvency position of the firm?

- (a) Creditors
- (b) Bankers providing overdraft facilities
- (c) Financial Institutions
- (d) Short-term money lenders

▼ [Answer](#)

Answer: (c) Financial Institutions

Question 10.

Which of the following is not a limitation in the analysis of financial statements?

- (a) Ignores Price Level Changes
- (b) Window Dressing
- (c) Financial performance of the firm
- (d) Bias of the Analyst

▼ [Answer](#)



Answer: (c) Financial performance of the firm

State whether the following statements are true or false:

Question 11.

Comparative financial statements reflect changes in the items in absolute amount only.

▼ [Answer](#)

Answer: False

Question 12.

Comparative Financial Statements are prepared at the end a financial year.

▼ [Answer](#)

Answer: True

Question 13.

Shareholders are interested to know short-term financial position of an enterprise.

▼ [Answer](#)

Answer: False

Question 14.

Compression of financial statements of two or more years of the same firm is known as inter-firm comparison.

▼ [Answer](#)

Answer: False

Question 15.

Manipulation of accounts is known as window dressing.

▼ [Answer](#)

Answer: True

Question 16.

Both quantitative and well as qualitative aspects are ignored in the analysis of financial statements.

▼ [Answer](#)



Answer: False

Question 17.

Financial statements do not reflect price level changes.

▼ [Answer](#)

Answer: True

Question 18.

Statement showing the pay roll in a company is one of the tool for the analysis of financial statements.

▼ [Answer](#)

Answer: False

Question 19.

Comparative financial statements represent the date for two or more years.

▼ [Answer](#)

Answer: True

Question 20.

Comparative Statement of Profit and Loss reflects changes in the financial position of an enterprise.

▼ [Answer](#)

Answer: False

[Fill in the blanks with correct word:](#)

Question 21.

Financial statement analysis is the post-mortem of the business _____.

▼ [Answer](#)

Answer: transactions

Question 22.

Comparative financial statements mean a comparative study of _____ of an enterprise for two or more years.

▼ [Answer](#)

Answer: Financial Statements

Question 23.

_____ analysis is conducted by those who do not have access to the detailed records of an enterprise.

▼ [Answer](#)

Answer: External

Question 24.

_____ refers to the comparison of financial statements within an enterprise.

▼ [Answer](#)

Answer: Intra-firm comparison

Question 25.

Preparation of financial statements are _____ in nature.

▼ [Answer](#)

Answer: Historical

Question 26.

When the financial statements of two or more enterprises are compared, it is known as _____.

▼ [Answer](#)

Answer: Inter-firm comparison

Question 27.

In _____ statement, components of balance sheets are compared with the total of balance sheet.

▼ [Answer](#)

Answer: Common size balance sheet

Question 28.

Absolute changes in the comparative financial statements are found by comparing current year figure with _____ year's figure.

▼ [Answer](#)

Answer: Previous

Question 29.

The items of comparative income statement are converted into percentage by taking _____ as base.

▼ [Answer](#)

Answer: Revenue from Operations

Question 30.

Cash Flow Statement reflects _____ and _____ of cash and cash equivalents during an accounting year.

▼ [Answer](#)

Answer: Inflows, outflows

One word Questions:

Question 31.

State any one limitation of Financial Statement Analysis. (CBSE Compartment Delhi 2014, 2015)

▼ [Answer](#)

Answer: Historical Analysis of financial Statement.

Question 32.

State any one objective of analysis of financial statements. (CBSE Compartment Delhi 2014)

▼ [Answer](#)

Answer: To measure earning capacity of business.

Question 33.

State the type of Financial Statement Analysis in which figures of the same items of various years are compared.

▼ [Answer](#)

Answer: Horizontal analysis.

Question 34.

Which type of financial statement analysis helps a company to establish the relationship between different items financial statement of a same year?

▼ [Answer](#)



Answer: Vertical analysis.

Question 35.

“One of the objectives of Financial Statement Analysis is to assess solvency of business”. What does the term ‘solvency’ mean here ?

▼ [Answer](#)

Answer: Solvency means ability to pay the debts.

