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

Ouestion 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 forcasting
- (d) To detect financial irregularities

▼ Answer

Answer: (d) To detect financial irregularities





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

▼ Answer

Answer: (d) To detect financial irregularities

Ouestion 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

Ouestion 4.

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

- (a) It helps to compare the figures of atlest 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

Ouestion 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

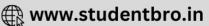
Question 10.

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:

Ouestion 11.

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

▼ Answer

Answer: False

Ouestion 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

Ouestion 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

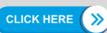




Answer: False
Question 17. Financial statements do not reflect price level changes.
▼ Answer
Answer: True
Question 18. Statement showing the pay roll in a company is one of the tool for the analysis of financial statements.
▼ Answer
Answer: False
Question 19. Comparative financial statements represent 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

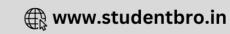
Answer: Financial Statements
Question 23. analysis is conducted by those who do not have access to the detailed records of an enterprise.
▼ Answer
Answer: External
Question 24 refers to the comparison of financial statements within an enterprise.
▼ Answer
Answer: Intra-firm comparison
Question 25. Preparation 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
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.

